BANCA D'ITALIA

# ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1993

ABRIDGED REPORT
FOR THE YEAR
1992

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# THE WORLD ECONOMY

## RECENT DEVELOPMENTS AND ECONOMIC POLICIES IN THE INDUSTRIAL COUNTRIES

### *Recent developments*

Output in the United States grew by 2.1 per cent in 1992 following the previous year's decline of 1.2 per cent (Table 1). Growth was sustained by domestic demand, while the 0.4 per cent fall in the contribution from the external sector was caused principally by the strong rise of almost 10 per cent in imports compared with growth of 6.3 per cent in exports, only slightly above that of the previous year.

In Japan the pace of growth of GNP fell sharply from 4.1 per cent in 1991 to 1.5 per cent last year, reflecting the pronounced slowdown in domestic demand; approximately two thirds of this growth was due to the foreign component. Investment fell by 1.1 per cent; the decline was more marked in the second half-year, partly on account of the shortage of credit caused by the banks' balance-sheet problems. Industrial output contracted by 5.5 per cent, the largest fall since the recession that followed the first oil crisis.

Growth also slowed down markedly in the Western regions of Germany, with GNP falling sharply in the second half of the year, on account of the adverse effects of high real interest rates, the waning of the initial impetus of unification and the weakness of exports, which were affected by the stagnation in world demand and the appreciation of the Deutschemark. The business confidence indicator deteriorated dramatically from September onwards and at the end of the year it plummeted to the lowest levels recorded since the early eighties.

Economic trends in Eastern Germany were mixed last year. Manufacturing output, which had fallen by more than 30 per cent in 1991, recorded a further decline of about 2.5 per cent; by contrast, the construction industry, which was bolstered by public investment in infrastructures, increased by 9 per cent.

Table 1

**DEMAND AND GROSS PRODUCT**
**IN THE LEADING INDUSTRIAL COUNTRIES**
*(constant prices; annualized percentage changes over preceding period)*

| | 1990 | 1991 | 1992 | 1992 | |
|---|---|---|---|---|---|
| | | | | H1 | H2 |
| **United States** | | | | | |
| Domestic demand (1) | 0.4 | –1.8 | 2.5 | 2.3 | 4.0 |
| Foreign demand (2) | 0.5 | 0.6 | –0.4 | –0.3 | –0.7 |
| Gross product | 0.8 | –1.2 | 2.1 | 2.0 | 3.3 |
| **Japan** | | | | | |
| Domestic demand (1) | 5.1 | 2.7 | 0.6 | 1.6 | –2.0 |
| Foreign demand (2) | –0.3 | 1.4 | 0.9 | 1.0 | 1.0 |
| Gross product | 4.8 | 4.1 | 1.5 | 2.6 | –1.1 |
| **Germany** | | | | | |
| Domestic demand (1) | .... | 3.9 | 2.1 | .... | .... |
| Foreign demand (2) | .... | –3.2 | –1.0 | .... | .... |
| Gross product | .... | 0.7 | 1.1 | .... | .... |
| *of which:* | | | | | |
| ***Western Regions*** | | | | | |
| *Domestic demand (1)* | *5.1* | 3.1 | *1.2* | *4.9* | *–2.7* |
| *Foreign demand (2)* | *0.1* | *0.6* | *–0.7* | *–2.2* | .. |
| *Gross product* | *5.0* | *3.6* | *0.5* | *2.4* | *–2.6* |
| **France** | | | | | |
| Domestic demand (1) | 3.0 | 0.5 | 0.5 | 0.2 | 0.3 |
| Foreign demand (2) | –0.3 | 0.2 | 0.9 | 1.4 | –0.1 |
| Gross product | 2.7 | 0.7 | 1.3 | 1.7 | 0.2 |
| **Italy** | | | | | |
| Domestic demand (1) | 2.5 | 1.9 | 1.0 | 2.0 | –3.2 |
| Foreign demand (2) | –0.5 | –0.7 | –0.1 | –0.4 | 2.1 |
| Gross product | 2.1 | 1.3 | 0.9 | 1.7 | –1.3 |
| **United Kingdom** | | | | | |
| Domestic demand (1) | –0.5 | –3.2 | 0.5 | 0.9 | 0.5 |
| Foreign demand (2) | 1.0 | 1.1 | –1.1 | –2.3 | 0.1 |
| Gross product | 0.5 | –2.2 | –0.6 | –1.4 | 0.6 |
| **Canada** | | | | | |
| Domestic demand (1) | –1.0 | –1.1 | 0.2 | –1.4 | 0.9 |
| Foreign demand (2) | 0.6 | –0.6 | 0.7 | 1.7 | 0.6 |
| Gross product | –0.5 | –1.7 | 0.9 | 0.2 | 1.5 |
| **Total for the seven leading industrial countries** | | | | | |
| Domestic demand (1) | 1.8 | –0.1 | 1.7 | 1.7 | 1.4 |
| Foreign demand (2) | 0.2 | 0.6 | –0.1 | 0.2 | –0.3 |
| Gross product | 2.1 | 0.5 | 1.6 | 1.9 | 1.1 |
| **EC** | | | | | |
| Domestic demand (1) | 2.8 | 1.3 | 1.5 | 1.4 | 0.4 |
| Foreign demand (2) | –0.1 | 0.1 | –0.2 | 0.2 | –0.3 |
| Gross product | 2.8 | 1.4 | 1.3 | 1.6 | 0.1 |

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

In the United Kingdom output contracted for the second year in succession, although there was a slight recovery in the second half of the year. The stagnation of private consumption was attributable mainly to the financial fragility of many households which was exacerbated by the continuing fall in property values and by real interest rates that until September were at historically high levels. In France GDP grew by 1.3 per cent, compared with 0.7 per cent in 1991. In the first half of the year economic activity was boosted by the substantial improvement in net exports generated by the gains in competitiveness that had accumulated in the previous two years.

The persistent stagnation of productive activity affected the labour market. The unemployment rate continued to rise almost everywhere; between the end of 1991 and December 1992 it rose by 1.5 points in the United Kingdom and Spain, by about 1 point in Canada and half a point in France; only in the United States did it fall slightly, declining from the peak of last June to the levels prevailing at the beginning of the year. In Germany unemployment stood at 8.1 per cent at the end of the year, compared with 7.2 per cent in December 1991; the situation is particularly serious in the Eastern regions, where there are now more than one million unemployed, or about 14 per cent of the labour force.

In the EC as a whole the unemployment rate rose from 9.0 per cent in January 1992 to 10.3 per cent in December, a figure close to that recorded in the mid-eighties and corresponding to about 17 million unemployed.

Inflation, which had slowed down appreciably in the course of 1991, remained low last year, tempered by the weakness of economic activity and the generally moderate rise in unit labour costs and the prices of energy and raw materials. In the industrial countries as a whole consumer prices increased by 3.2 per cent during the year; the rise was particularly small in Canada, Japan and France. In the United Kingdom and Italy consumer price inflation slowed down considerably in the course of the year, the twelve-month rate falling from 4.1 to 2.6 per cent and from 6.1 to 4.7 per cent respectively between January and December. Inflation accelerated only in Western Germany, rising from an annual average of 3.5 per cent in 1991 to one of 4.0 per cent last year; on a twelve-month basis, however, it slowed down slightly during the year, falling from 4.0 per cent in January to 3.7 per cent in December. The main factor was the acceleration in wages, which rose by about 7 per cent in the manufacturing sector. In the Eastern Under the cost-of-living index rose by 11.1 per cent, chiefly as a reflection of higher rents and prices for energy products; the process of adapting prices to the levels prevailing in the Western Under continued.

In March 1993 inflation was running at a twelve-month rate of 3.1 per cent in the United States, 1.2 per cent in Japan and 3.5 per cent in the EC. In the United Kingdom it fell further, to 1.9 per cent, or 3.5 per cent if mortgage interest payments are excluded. In Italy the cost-of-living index rose by 4.2 per cent, the same as the twelve-month rate of increase in prices in the Western regions of Germany, where the slight acceleration in relation to the average for 1992 was due principally to the 1 point increase in VAT rates on 1 January 1993.

## *Economic policies*

*Monetary policies.* — The monetary policy divergence between the three leading industrial countries widened further in 1992. In the United States the hesitancy of the recovery in economic activity and the slowdown in the growth of the monetary aggregates during the second quarter persuaded the Federal Reserve to lower the federal funds rate from 3.8 in April to about 3 per cent in September; in July the discount rate was reduced by half of one percentage point to 3 per cent, its lowest level for thirty years. In the same month the banks reduced the prime rate on short-term loans by the same amount to 6 per cent. Between the spring and September yields on 3-month Treasury bills declined by more than 1 percentage point to less than 3 per cent (Figure 1).

In Japan, where monetary conditions had begun to ease in mid-1991, there was a continued trend in this direction, fostered by the pronounced slowdown in growth and the steep rise in banks' non-performing loans. The discount rate was lowered in April and July by a total of 1.25 percentage points to 3.25 per cent; this encouraged a decline in short-term rates, which in December stood at 3.8 per cent, more than two points lower than at the end of 1991.

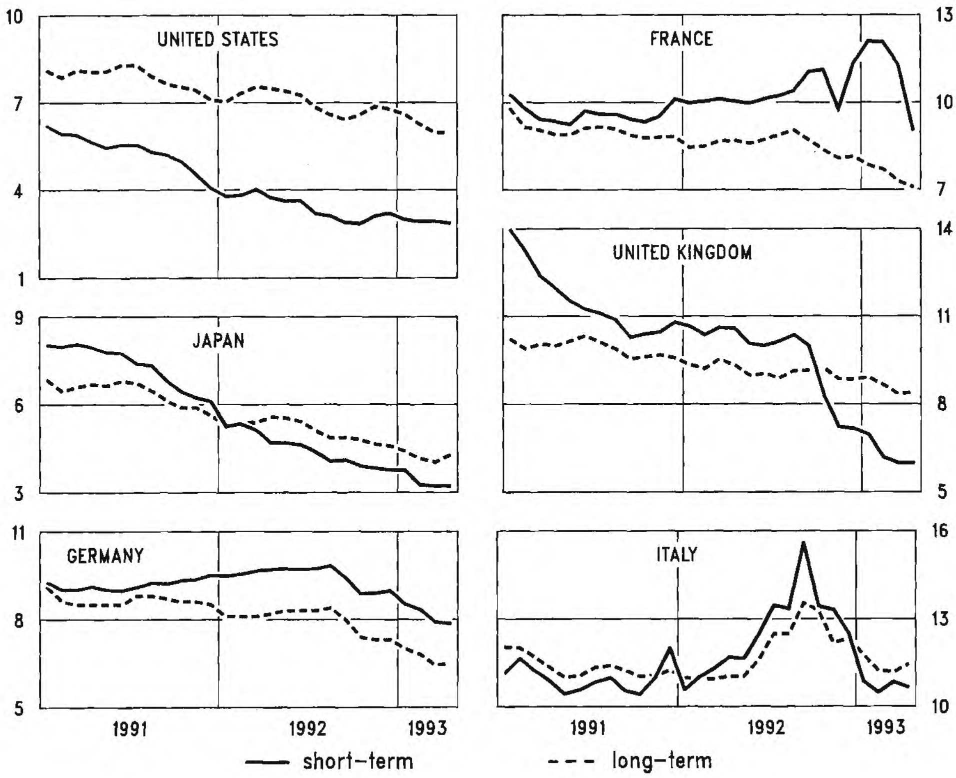
In Germany the Bundesbank's decision in July to raise the discount rate to 8.75 per cent — the highest level since the Second World War — only slightly accentuated the rise in short-term interest rates that had been under way since the beginning of the year. They stood at 9.8 per cent in August but then fell to 8.9 per cent in October in reaction to the reduction of 0.5 per cent in the discount rate and 0.25 per cent in the lombard rate decided on 14 September, in conjunction with the realignment of the lira's central rate.

Interest rates remained broadly stable in the other ERM countries until the beginning of June. Monetary conditions were tightened in the summer to counter the continuing strong downward pressure on currencies. Following the suspension of sterling from the Exchange Rate Mechanism on 17 September, the UK monetary authorities reduced the base rate in several stages from 12 per cent to 7 per cent in mid-November, thus encouraging a gradual decline in short-term market rates from 10.6 to 7.0 per cent over the same period. This reduction, which was facilitated by the low ratio of the public debt to GDP, reflected the need to stimulate economic activity and, above all, to alleviate the extremely heavy debt burden on households. After a period of calm from mid-October to mid-November, renewed tensions in the EMS led the authorities of the ERM countries to tighten monetary conditions, though to varying degrees and at different times; the conflict between the exchange rate constraint and the domestic needs of the various economies was thus exacerbated.

Figure 1

**SHORT AND LONG-TERM INTEREST RATES**

*(monthly averages)*




In the first few months of 1993 monetary conditions were generally eased. US interest rates, especially the long-term rates, declined again in response to expectations of more moderate price increases and the curbing of the public sector deficit, as envisaged in the new Administration's economic programme. In Japan the reduction of the discount rate to 2.5 per cent at the beginning of February encouraged a similar decline in market rates. German interest rates, both short and long-term, fell gradually by about one point. On 4 February the lombard rate was lowered by 0.5 points and the discount rate by 0.25 points in conjunction with the reaching of agreement on renewal of the public sector's labour contract, which limits wage increases to 3 per cent in 1993. The discount rate was reduced again by a further 0.5 per cent in March and by 0.25 per cent in April, when the lombard rate was also lowered by 0.5 per cent.

In France the optimism that greeted the new Government's programme made possible gradual reductions in the reference rates. In the United Kingdom the further lowering of the base rate at the end of January, to 6 per cent, its lowest level for the last fifteen years, spurred a new fall in short-term yields.

The growth in the monetary aggregates continued to slow down in the leading industrial countries except Germany. The rapid expansion in the German money supply reflected portfolio adjustments in favour of short-term assets and high credit demand in the Eastern regions; in the autumn it was also sustained by massive currency inflows.

In the United States, Japan and the United Kingdom the slowdown in money supply growth continued to reflect portfolio switching in favour of long-term assets in view of a steepening of the positive slope of the yield curve; it was also affected by a slowdown in lending, due in part to the continuing cautious attitude on the part of the banks. The spread between lending and borrowing rates widened in all three countries; in the United States and the United Kingdom this helped the banks to strengthen their capital bases. In Japan, where the volume of bad loans and the downturn in the share market magnified fears for the stability of the financial system, bank profits fell by nearly 50 per cent over the year.

*Fiscal policies.* — On the basis of the standardized definitions used by international economic organizations, the aggregate general government deficit of the leading industrial countries increased from 2.4 to 3.6 per cent of their gross product; this was attributable partly to the working of built-in stabilizers and, in some countries, partly to the moderately expansionary stance of fiscal policy.

In the United States the federal budget deficit totaled $290 billion, or 4.9 per cent of GDP, against $269 billion, or 4.8 per cent, the previous year. As in the past, the public finances benefited from the surplus of the social security system, which amounted to $52 billion.

The economic downturn and the measures to stimulate the economy led to a deterioration of the public finances in Japan. The central government deficit rose from 0.3 per cent of GNP in 1991 to 1.6 per cent; the general government surplus, which includes the substantial surpluses of the social security system, declined from 3.0 to 1.8 per cent of GNP.

In Germany the restrictive fiscal stance helped to curb the imbalances of the public finances, despite the slowdown in growth and the continuing financial burden associated with unification. The general government deficit plus the borrowing requirements of the funds established to finance unification grew from DM 110 to 115-120 billion, thus remaining unchanged at 3.9 per cent of GNP. However, if one includes borrowing by the Treuhandanstalt, the Post Office and the State Railways, totalling DM 57 billion (compared with DM 37 billion in 1991), the deficit of the enlarged public sector rose from DM 145 to about DM 175 billion, or from 5.1 to 5.8 per cent of GNP, the highest figure since 1976.

In France the state sector deficit increased from FF 130 to 230 billion (from 1.9 to 3.2 per cent of GDP) compared with a target of FF 90 billion. In the United Kingdom the severity of the recession and the stimulatory fiscal measures led to a marked rise in the public sector borrowing requirement, from 2.4 per cent of GDP in 1991 to 5.8 per cent; the PSBR had stood at zero in 1990. Public spending rose by 9.8 per cent, whereas revenue remained virtually unchanged.

International organizations predict a further slight deterioration in public finances in 1993, especially in Europe and Japan, on account of the continuing weakness of economic activity. In the United States the new Administration estimates that the deficit will increase slightly to around $ 310 billion. Expenditure on defence will decrease, but the resumption of payments to cover the losses of the savings and loans associations (which should nonetheless be lower than forecast on account of the unexpected improvement in banks' profits in 1992) and expenditure on health care will contribute to the increase in the deficit.

As in 1991, the Japanese authorities have introduced a supplementary budget for the financial year 1993-94, amounting to 13 billion yen, or 2.8 per cent of GNP, which provides for increases in public investment and in subsidized credit to households and small firms.

In Germany the general government borrowing requirement is expected to rise to DM 135-140 billion, or 4.3 per cent of GNP, on account of the recession. Revenue is expected to fall, despite the additional income from higher VAT and the withholding tax on investment income that came into effect this year; the deficit of the social security system is also expected to widen further. The borrowing requirements of the Post Office, the State Railways and the Treuhandanstalt will remain high and when the latter is wound up at the end of 1994 the state will inherit its debts, which it is thought will then amount to DM 250 billion, or about 7 per cent of GNP.

# THE INTERNATIONAL FOREIGN EXCHANGE AND FINANCIAL MARKETS

*The exchange rates of the dollar, the yen and the Deutschemark*

Last year saw a continuation of the exchange rate fluctuations among the three leading currencies that have accompanied the divergence of cyclical conditions and economic policies between their respective countries since 1990. In the second and third quarters the dollar depreciated by around 10 per cent against the yen and by 14 per cent against the Deutschemark, reaching a historical minimum in September in both nominal and real effective terms. The decline in US interest rates, which was encouraged by the Federal Reserve to support the economic recovery, and the contemporaneous tightening of monetary conditions in Germany to counter domestic inflationary pressures, caused a widening in the short-term interest rate differential between dollar and Deutschemark assets; the spread reached a thirty-year high of nearly seven percentage points at the beginning of September, prompting investors to switch into the latter. The differential between US and Japanese interest rates remained broadly stable but the demand for yen-denominated assets increased, owing primarily to expectations of an upturn in the Japanese economy following the announcement of stimulatory fiscal measures.

In the fourth quarter of 1992 renewed signs of a sustained recovery in economic activity in the United States and an expectation that the decline in short-term interest rates had come to an end, induced investors to switch back into dollar-denominated assets; between October 1992 and March 1993 the dollar appreciated by about 14 per cent vis-à-vis the Deutschemark. On the other hand, the US currency continued to depreciate against the yen, falling by 3 per cent, and recorded a new historical low in March, largely in reaction to the widening Japanese trade surplus.

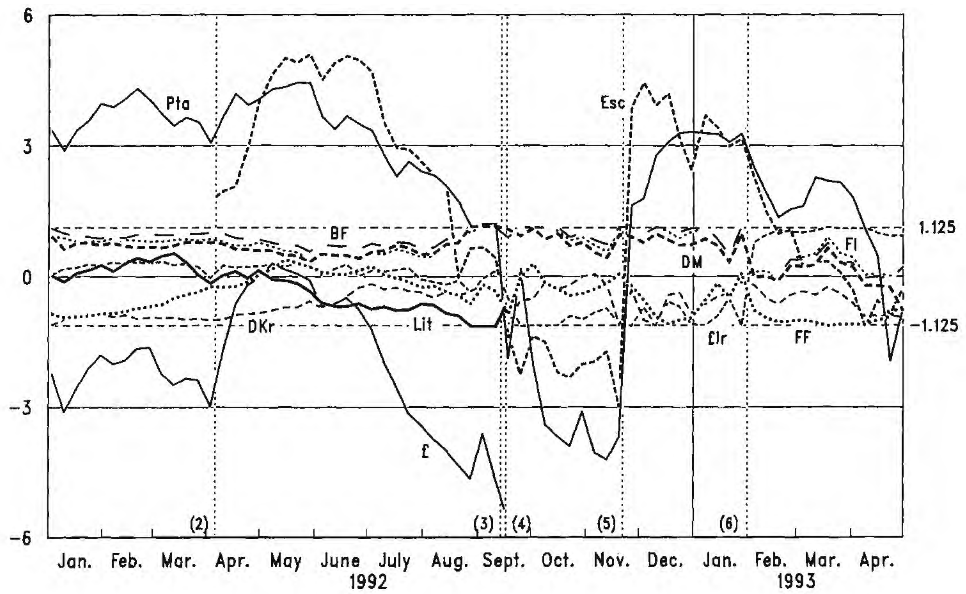
In December last year the real effective exchange rate of the dollar based on the producer prices of manufactures was 2.4 per cent lower than the average for 1987, the year in which the monetary authorities began to take coordinated action to prevent excessive exchange rate divergences among the leading currencies. The yen and the Deutschemark, by contrast, had appreciated by 2.7 and 6.5 per cent respectively; the appreciation of the latter was primarily due to its strengthening vis-à-vis a number of European currencies.

### *The European Monetary System*

After more than five years of relative stability, from the summer of 1992 onwards the European Monetary System was subjected to the most intense strains encountered since its inception, reflecting the persistence of disequilibria between the member countries and the problems associated with the process of economic and monetary union in the Community. In the space of only five months there were four realignments (on 14 and 17 September, 23 November and 1 February 1993), the lira and the pound sterling withdrew from participation in the ERM (from 17 September) and there were repeated bouts of severe turbulence that continued into the early part of this year (Figure 2); a further realignment involving the peseta and the escudo was carried out on 14 May.

Figure 2

**POSITION OF THE CURRENCIES WITHIN THE FLUCTUATION BAND (1)**




(1) On 6 April 1992 the Portuguese escudo entered the ERM. — (2) On 14 September the central rate of the lira was devalued by 7 per cent. — (3) On 17 September the pound sterling was suspended from the Exchange Rate Mechanism, the central rate of the peseta was devalued by 5 per cent and Italy temporarily suspended compulsory intervention. — (4) On 23 November the central rates of the escudo and the peseta were devalued by 6 per cent. — (5) On 1 February 1993 the central rate of the Irish punt was devalued by 10 per cent.

The degree of convergence between the Community economies has increased since 1987, but significant disparities remain. Although narrower, inflation differentials persist, causing a rise in the real exchange rates of the currencies of countries with the highest inflation, and imbalances in the public finances have not been sufficiently corrected. In addition, differences in economic policy objectives have emerged in the wake of German unification. In Germany the expansion of the public sector deficit to finance transfers to the Eastern regions and the rapid increase in wages caused inflationary pressures, prompting the authorities to raise interest rates sharply. In the majority of the other EC countries, the slowing down of economic activity and, for some, the decrease in inflation to levels below that obtaining in Germany made it difficult to sustain the high interest rates consistent with the exchange rate link with the Deutschemark.

Until May 1992 the exchange rates of the ERM currencies remained stable and the markets did not anticipate any imminent realignment. The commitment of the European countries to economic and monetary union had convinced the markets that the countries whose economies had not yet met the convergence criteria would take the necessary corrective measures. The short-term interest rate differentials vis-à-vis the Deutschemark narrowed and in some cases were eliminated.

The behaviour of the markets changed radically from June onwards following the negative result of the Danish referendum on the Maastricht Treaty and in view of increasing uncertainty about the outcome of the French referendum scheduled for 20 September; expectations of a possible realignment in the central rates of the currencies of divergent countries began to develop. The tensions within the EMS were exacerbated by exchange rate turmoil outside the Community, sparked primarily by the depreciation of the dollar and associated with the instability of the Scandinavian currencies. The additional tightening of the German monetary stance in July accentuated the contrast with the economic policy objectives of the other EC countries.

The change in market expectations gave rise to capital movements on an unaccustomed scale, driving several currencies towards their respective intervention rates. The monetary authorities of the countries whose currencies were under downward pressure made use of all the instruments envisaged by the Basle-Nyborg Agreement, raising interest rates to exceptionally high levels and carrying out interventions of unprecedented size. In some countries restrictions on capital movements were temporarily reintroduced.

The defence of exchange rate parities was of limited effectiveness: the levels to which some countries were forced to raise interest rates in order to stem the outflow of capital were unsustainable beyond the very short term, especially given the difficult economic situation and high levels of public and private sector debt. The markets' perception of insufficient coordination between the monetary authorities and disagreement over the appropriateness of the central parities was sustained by conflicting public statements and the disjointed manner in which the realignments were effected.

The tensions which had initially affected the countries whose economies were still partly in need of adjustment spread to those with sound fundamentals. The defence of the French franc and the Danish krone involved coordinated action, including concerted intramarginal intervention that went beyond the usual instruments contemplated by the Basle-Nyborg Agreement. By contrast, the burden of defending the exchange rate of the Irish punt fell mainly on the authorities of that country; the high interest rates necessary could not be sustained for any extended period and the punt was devalued in February.

The pattern of nominal exchange rates that resulted from the four realignments and the fluctuations of the lira and the pound sterling gave rise to a substantial modification of real effective exchange rates within the Community. In December the real exchange rate of the lira, based on the producer prices of manufactures, was 11.6 per cent lower than in June 1992. In relation to the 1987 average, the lira had depreciated by about 9.5 per cent while the Deutschemark and the French franc had appreciated by 5.3 and 1.3 per cent respectively; the pound sterling and the peseta had depreciated by 6.7 and 4.9 per cent respectively with reference to the dates of their entry into the ERM (October 1990 and June 1989).

### *The currency crisis and international financial integration*

The crisis that beset the foreign exchange markets last year occurred against a background of growing international financial integration, where the high degree of capital mobility, the spread of innovative financial instruments, especially for the hedging of exchange risk, and advances in information technology have increased the scope for investors to operate in different markets and to change their strategies rapidly. On 30 April the Group of Ten published a report, based in part on the findings of interviews conducted with leading market participants, on the working of the international capital markets and the implications for economic policy.

In the last few years the total value of investors' holdings of foreign shares has increased considerably, as have the size and liquidity of the foreign exchange markets. The worldwide volume of foreign exchange transactions is estimated to have tripled between 1986 and 1992, with daily turnover reaching nearly $900 billion.

As long as markets expected further convergence among the European economies and exchange rate stability within the EMS, international portfolio diversification generated large-scale capital inflows into the ERM countries with the highest nominal interest rates. The sudden reversal of expectations in the summer of 1992 led to massive outflows that generated powerful tensions in foreign exchange markets. The volume of trading surged, reaching peaks of three times the normal turnover in the middle of September. The liquidity of the spot foreign exchange markets generally remained satisfactory, partly owing to massive central bank intervention, although bid-ask spreads widened. In the middle of September, at the height of the currency crisis, two-way forward quotations and swaps were virtually impossible to obtain for sterling and lire.

### *The international financial markets in 1992*

The events in the foreign exchange markets in the second half of the year were accompanied by an increase in activity in the international financial markets. Gross lending in the capital markets rose, partly as a result of the issues made by governments to replace the reserves spent during the currency crisis. Net international bank lending, including interbank loans, rose by $285 billion in the third quarter, after falling by $110 billion in the first half.

From August onwards the yields on long-term securities denominated in Deutschemarks declined, despite the large increase in issues; by March 1993 they had fallen to 6.5 per cent, taking them below the level prevailing before the unification of Germany and reflecting expectations of slower growth and a reduction in inflationary pressures. The negative slope of the German yield curve became even steeper in the last part of 1992 and the early part of this year.

Examination of the yield curve for DM-denominated assets over the last thirty years shows that its slope is closely related to the rate of inflation and the level of economic activity in Germany. In the periods of greatest inflationary pressure — especially in 1969, 1973 and 1981 (when inflation reached peaks of around 7 per cent) — the restrictive monetary policy pursued by the Bundesbank caused short-term interest rates to rise and produced an inverted yield curve. By contrast, in the periods of recession — such as

1967-68, 1975 and 1982-83 — the curve had a positive slope, even when inflation remained above the rate judged to be compatible with the objective of price stability. In the last two years, however, the previous pattern has been broken: even though the German economy has progressively weakened and now gone into recession, and with inflation running at around 4 per cent, short-term interest rates have remained above those at the long end of the market.

In the United States long-term yields came down more slowly than short-term rates last year, reflecting the lag with which inflationary expectations have abated and the persistence of concern about the US budget deficit. However, by March of this year long-term rates were down to around 6 per cent, the lowest level for twenty years.

# CENTRAL AND EASTERN EUROPE
# AND THE DEVELOPING COUNTRIES

### *Russia*

The economic situation in Russia continued to deteriorate as a result of political, institutional and administrative disorder and the only partial implementation of the stabilization programme begun at the end of 1991. Nevertheless, substantial progress was made in the liberalization of economic activity, in particular prices, and a wide-ranging privatization programme was launched. As in the other countries of the former USSR, the difficulty Russia has encountered in radically transforming its economic system has been aggravated by the breakdown of productive, trade and monetary relationships within the area.

In August 1992 Russia received a standby loan of some $1 billion from the International Monetary Fund to support the stabilization programme. However, serious obstacles to the implementation of the programme were encountered in the second half of the year owing to the failure to gain approval for important fiscal measures and the difficulty of curbing central bank credit. After an initial surge following the extensive liberalization of prices in January 1992, inflation decelerated until August but turned upwards again in the last part of the year; the monthly rise in the consumer price index reached 25-30 per cent in the first few months of 1993. The rouble depreciated sharply in the second half of 1992 and the early part of this year, with the exchange rate falling from 162 per dollar at the end of July 1992 to 415 at the end of December and 823 at the end of April this year.

In 1992, the balance of payments deficit with countries outside the area of the former Soviet Union came to $12.7 billion, while the current account recorded a deficit of $4.3 billion. By contrast, the trade balance showed an estimated surplus of $3.1 billion. There was an increase in outflows of bank capital and in the deficit on errors and omissions, which probably reflected the illegal export of capital.

Major structural reforms were begun, but implementation is proceeding more slowly than expected. Last summer, the system of multiple exchange rates for the rouble was abolished and in October the law establishing the convertibility of the rouble for current account transactions by residents was approved but is not yet fully in force. Moreover, imports continue to be highly subsidized and exports of such important products as energy, wood and metals remain subject to quotas. Most prices had been liberalized by the end of the year except those of energy, certain food products, public transport and communications and residential rents. About 4 per cent of apartments were privatized, as were more than 24,000 out of a total of 200,000 small and medium-sized enterprises in industry and the services sector, and about 150,000 private agricultural enterprises were created. The transformation of 6,500 large enterprises into joint stock companies was begun; they will be privatized primarily through the free distribution of negotiable vouchers with a face value of 10,000 roubles each to the general public. The issue of the vouchers is already at an advanced stage.

In 1992, the cost of servicing the medium and long-term foreign debt of the former USSR amounted to more than $15 billion. On the basis of the memorandum of understanding signed with creditors at the end of 1991, Russia and all the other countries of the former Union were jointly liable for payment of this sum; in fact, only Russia made any payments and these were much less than the amount due, causing total arrears to increase by $7 billion to about $12 billion. To tackle the problem, the Russian authorities agreed with the other states of the former Union to assume responsibility for the debts of the entire Soviet Union and to acquire all its real and financial assets abroad. At the end of last year, the foreign debt of the former USSR in convertible currencies totaled $77.7 billion.

At last April's meeting of the ministers of the Group of Seven countries in Tokyo, a financial assistance programme for Russia was announced to help finance the balance of payments and support the transition to a market economy. The ministers also declared their intention to open wider their own markets to Russian exports and to support Russia's application to join GATT.

### *The other countries of Central and Eastern Europe*

Cyclical conditions in the other countries of Central and Eastern Europe are still very difficult, despite some signs of improvement. The contraction in output slowed down in all of the countries and inflation declined, except in Romania and Albania, but remained quite high.

Western countries' support for the reform process resulted in the partial opening of their markets and the granting of substantial financial resources. Romania and Bulgaria recently followed the lead of Poland, Hungary and the former Czechoslovakia in signing Association Agreements with the

European Community, and EFTA concluded free trade agreements with all five countries. Between 1990 and 1992 the international organizations (the IMF, the World Bank and the EBRD), the EC and the Group of 24 countries allocated some $40 billion for the five countries in the form of loans to support reforms and the balance of payments. The main beneficiaries were Poland and Hungary, which received respectively 32 and 28 per cent of the total resources committed.

Between the beginning of 1990 and April 1991, five Central and Eastern European countries (Bulgaria, Czechoslovakia, Poland, Romania and Hungary) launched stabilization and reform programmes agreed with and financed by the IMF and the World Bank; more than two years later, it is possible to take stock of the results achieved. Considerable progress has been made in curbing inflation, reducing current account deficits, liberalizing prices and foreign trade, privatization and reforming tax and banking systems. Nevertheless, the programmes have not prevented national income from declining by much more than had been expected, which has interfered with the implementation of the programmes and caused a widening of public sector budget deficits. The overshooting of budgetary targets led to the suspension of the IMF programmes with Poland in September 1991 and Hungary in May 1992.

The five countries made significant progress with privatization, moving most rapidly with regard to small enterprises in the services and distributive sectors. Greater difficulty was encountered with medium-sized and large firms owing to valuation problems, uncertainty about property rights and the scarcity of capital. Irrecoverable loans, a legacy of the planned economy, are proving a serious obstacle to reform and privatization by weighing down the balance sheets of enterprises and banks and distorting the allocation of credit, thereby penalizing the healthiest enterprises. In 1992 they represented around 30 per cent of banks' assets in Poland and Bulgaria and 15-20 per cent in Hungary and the former Czechoslovakia.

### *The developing countries*

The growth in output in the developing countries rose to 6.1 per cent in 1992, the highest rate in ten years. Greater openness to foreign trade, privatization and the reduction in public sector budget deficits and foreign debt facilitated the process of capital accumulation in many countries, financed both by increased domestic saving and inflows of foreign investment. The development of intra-regional trade provided a stimulus to exports. The decline in dollar interest rates reduced the transfer of resources for debt servicing, partly offsetting the effects of the deterioration in the terms of trade.

The Middle East recorded a marked increase in output (9.9 per cent), especially in Kuwait, Iran, Iraq and Turkey. Output rose by 7.9 per cent in the Asian developing countries, with particularly high growth rates being recorded in China (12.8 per cent) and the South-East Asian countries. In this region, the now well-advanced newly industrialized economies, which recorded growth of around 5 per cent last year, have been joined by three other rapidly expanding economies: Indonesia, Malaysia and Thailand, whose GDP rose by 6.0, 8.7 and 7.5 per cent respectively in 1992.

In Latin America, output grew by 2.3 per cent in 1992, just enough to produce an increase in per capita GDP. In Brasil, political instability prevented the implementation of the stabilization programme agreed with the IMF; output fell by 0.9 per cent and inflation accelerated to around 1,000 per cent. By contrast, growth continued and inflation eased in Argentina, Chile, Mexico, Uruguay and Venezuela as a result of restructuring programmes and reforms that facilitated an increase in domestic saving and an inflow of capital from abroad. In Africa, drought, civil war and political instability caused output to stagnate, thereby accentuating, for a third successive year, the decline in per capita income, which contracted by nearly 2 per cent. Exports decreased in value terms owing to the fall in prices for non-oil commodities.

The total foreign debt of the developing countries was virtually unchanged in 1992 at around $1.39 trillion. In proportion to exports, however, it decreased from 127 to about 120 per cent; the most significant improvements were recorded in Latin America and Asia, where the ratio decreased by about 8 and 5 points respectively as a result of debt reduction measures agreed with creditors and an increase in exports. Major new agreements for the reduction of bank debt were concluded during the year, the most important being those with the Philippines and Argentina; in addition, Brazil reached agreement in principal on the restructuring of $45 billion of its debt with banks. Since 1987, the year debt reduction strategies were introduced, agreements have been reached involving $116 billion of bank debt owed by thirteen countries, mainly in the middle-income group; the reduction of debt servicing amounts to more than $50 billion at current value.

In 1992, official creditors belonging to the Paris Club concluded restructuring agreements with 18 countries, mostly from Africa; they involved debt of around $20 billion, with Brazil alone accounting for $10 billion. Six low-income countries benefited from restructuring on highly favourable terms, reducing the current value of their debt servicing by 50 per cent.

## THE BALANCE OF PAYMENTS, WORLD TRADE AND THE SINGLE EUROPEAN MARKET

### *The balance of payments*

Cyclical divergences accentuated the current account imbalances of the leading industrial countries; the deficits of the United States and Germany widened and the Japanese surplus increased, as did the deficit for the industrial countries as a whole. Their rising demand for resources reduces the funds available and increases the prospective cost of foreign credit for the developing countries.

The US trade deficit began to rise again last year for the first time since 1987, increasing from $73 to 96 billion. The deterioration vis-à-vis the other industrial countries was substantial; the deficit with Japan widened to $50 billion and the surplus with Western European countries fell to $3 billion, reflecting the recovery in economic activity in the United States and the recession in Japan and Western Europe. The current account deficit increased from $3.7 billion in 1991 to $62 billion last year, or 1.0 per cent of GDP; in 1991, however, the United States had benefited from transfers of $42 billion from the allies in connection with the Gulf conflict. The US surplus on capital movements rose to $31 billion, owing partly to the large reduction in US banks' foreign assets in the first half of the year; the surplus on official capital movements increased to $44 billion.

Japan's trade surplus widened to $133 billion, rising markedly in relation to all areas. The appreciation of the yen contributed to an 8 per cent rise in the dollar value of exports, while the weakness of domestic demand and the decline in the prices of raw materials led to a fall of more than 2 per cent in imports. The current account surplus rose to a historical peak of $118 billion, equal to 3.2 per cent of GDP.

The German trade surplus increased slightly to $31 billion, boosted by an improvement in the terms of trade. The deepening of the recession and the waning of the effects of unification on domestic demand halted the growth in the volume of imports; export growth was hampered by the weakness of external demand and the real appreciation of the Deutschemark. The current account deficit widened to $25 billion, largely as a result of the reduction in net investment income, as high domestic interest rates caused a pronounced rise in interest payments. The deficit was more than offset by net inflows of $57 billion in short-term capital and $33 billion in long-term capital, attracted by high interest rates and, especially from September onwards, by expectations of a revaluation of the Deutschemark vis-à-vis the other European currencies; the net inflow of long-term capital was the first since 1986. Excluding exchange rate adjustments, the Bundesbank's net external assets increased by $43 billion as a result of the massive interventions within the European Monetary System in September.

The aggregate current account deficit of the developing countries came to $78 billion, which was financed by inflows of foreign direct investment totaling $36 billion and by an increase of $69 billion in their foreign indebtedness. Inflows of portfolio investment to a number of Latin American and Asian countries have grown phenomenally in the last three years, owing to the repatriation of flight capital and the private sector's renewed access to international capital markets.

### *International commerce and trade policies*

The pace of world trade quickened in 1992 after three successive years of deceleration. Measured as an average of import and export volumes, trade increased by 4.2 per cent, almost two percentage points more than the previous year, mainly as a result of a growth in trade by the developing countries and North America. Trade in services increased by 7.3 per cent in value terms, with strong growth in the transport and tourism sectors, and now accounts for over 20 per cent of total trade.

Exports from developing countries accelerated for the second year in succession, rising by 8.4 per cent in volume, as against 7.7 per cent in 1991. In Asia the foreign sales of the newly industrialized economies slowed down slightly, but China's exports continued to gather pace.

The developing countries' terms of trade deteriorated slightly owing to the stagnation in the prices of raw materials; those of the oil-exporting countries in particular are now less than half the peak recorded in 1981.

After six years of negotiations, the Uruguay Round is proceeding with difficulty, although some progress has been made. Last November the dispute between the EC and the United States over agricultural products was finally resolved by a bilateral agreement to reduce export subsidies, the volume of subsidized exports and support for farm incomes. Negotiations concerning the reduction of import duties on industrial products also made some headway, although differences remain between the EC and the United States regarding the scale and product distribution of the cuts. There is also continued disagreement among the industrial countries and between these and the developing countries as regards the liberalization of trade in services, the protection of intellectual property rights and the reinforcement of GATT's surveillance functions through the creation of a multilateral trade organization.

A rapid conclusion to the Uruguay Round is of decisive importance for world economic recovery. The failure of the talks would heighten protectionist pressures and discourage the liberalization of foreign trade that has been taking place in a growing number of developing countries.

The United States and the EC have recently taken unilateral retaliatory action or adopted bilateral export restraint agreements on a sectorial basis in an attempt to resolve trade disputes, as they did during the eighties. Although they do not openly contravene the provisions of the GATT, such measures profoundly weaken the principles of multilateralism and non-discrimination that underlie the agreement.

The trend towards the regionalization of trade, which resumed during the eighties, grew stronger in 1992 with the conclusion of new regional trade liberalization agreements. Provided they do not become an obstacle to multilateral negotiations, these agreements can be regarded favourably. In the past their indirect benefits have spread beyond the region directly concerned owing to their positive long-term effects on growth. Moreover, they have permitted the liberalization of sectors such as services, where it has not yet been possible to reach agreement in the Uruguay Round.

### *The Single European Market*

The Single European Market came into effect on 1 January 1993, marking the realization of a project already prefigured in the Treaty of Rome. The objective was laid down by the Single European Act of 1987, whereby the European Community countries formally committed themselves to creating an area without internal frontiers by the end of 1992 within which the free movement of goods, people, services and capital is ensured. To facilitate this aim, it was agreed that much of the necessary legislation would be approved by qualified majority voting.

On the whole, much has been achieved. All restrictions on the movement of goods, capital and banking services have been removed. Among the measures still to be completed, the most important regards frontier checks on individuals, to which the Commission has given top priority; the liberalization of public procurement and the harmonization of company law also remain to be completed. Although measures in some areas are behind schedule, the process that has been set in motion has already helped to produce greater competition within the Community.

The Single Market project is composed of a series of legislative measures intended to eliminate technical, physical and fiscal barriers within the Community. As regards the removal of technical barriers — such as differing technical standards, obstacles to the provision of services and the free movement of labour and capital — progress has been uneven in the various sectors.

The elimination of physical barriers in the form of frontier checks on individuals and goods has been achieved only for goods, which have circulated without any customs formalities since the beginning of 1993. Identity checks for travelers have not yet been removed; except for the United Kingdom, Denmark and Ireland, the Community countries have signed an agreement providing for controls to be abolished at land frontiers by 1 July of this year and at airports by 1 December.

In the field of fiscal barriers, the Commission's White Paper set as its objective the harmonization of indirect taxes (VAT and excise duties) and the subsequent abolition of customs checks at frontiers. The latter were effectively eliminated in January and replaced by a system for the exchange of data between national tax administrations to enable them to cross-check the declarations of importers in their own country with those of exporters in the other member states. As regards VAT, the Community countries have decided not to switch immediately to the taxation of goods in the country of origin, opting instead for a transitional system modeled on the one proposed for excise duties, where the tax is charged in the country of destination. Minimum tax rates or, in some cases, ranges have been established, thus allowing greater latitude than originally contemplated. In particular, a standard rate of not less than 15 per cent has been set, with the possibility of applying lower rates to certain categories of goods.

With regard to direct taxation, harmonization of the taxation of company income, which was not contemplated in the Single Market programme, and income from financial assets is of great importance if distortions of capital movements within the Community are to be avoided; however, attempts at harmonization have not met with success so far.

# THE ITALIAN ECONOMY

## SUMMARY OF DEVELOPMENTS AND THE SHORT-TERM OUTLOOK

***The results for the year***

In the second half of 1992 the slowdown in economic activity turned into recession. The average annual rate of GDP growth fell to below 1 per cent, compared with 1.3 per cent a year earlier, and remained lower than that for the industrial countries as a group (Table 2). Whereas the slowdown in 1991 had been determined by the sharp deceleration in foreign demand and, to a lesser extent, in investment, last year it was primarily due to the decline in the rate of growth of domestic demand, from 1.9 to 1 per cent, and particularly of households' consumption. The contribution of net exports of goods and services to GDP growth, which had been negative in 1990 and even more so in 1991, was virtually neutral last year.

Households' consumption grew at an average real rate of 1.8 per cent, which was half a point less than in 1991 and lower than in any year since 1983, at the trough of the previous recession. It continued to expand in the first half of the year despite the further slowdown of the economy, but declined rapidly thereafter in connection with the erosion of households' confidence. The failure of the expected cyclical upturn to materialize fueled growing pessimism regarding the outlook for employment. The tensions in the foreign exchange and securities markets and the increasing uncertainty they engendered had an adverse effect on income expectations; in combination with the supplementary fiscal measures, they thus depressed households' spending. During the year households' real disposable incomes rose by 1.6 per cent despite a decline of 1 per cent in gross earnings at constant prices, half of which was attributable to the fall in salaried employment. If losses in the value of households' net financial wealth due to inflation are taken into account when calculating income, households' propensity to consume fell from 87.1 per cent in 1991 to 86.5 per cent last year.

Gross fixed investment at constant prices fell by 1.4 per cent, after recording weak growth in 1991. An important factor was the notable decline in fixed capital expenditure by medium-sized and large industrial firms, which were influenced both by the heightened uncertainty regarding the outlook for demand and by liquidity problems. After four years of expansion, investment in buildings declined by 1.8 per cent, primarily because of a further, sharp fall in investment in non-residential buildings. Net of depreciation as estimated in the national accounts, the fall in total fixed investment amounted to 8.8 per cent. In relation to GDP, gross fixed investment continued to decline from the cyclical peak recorded in 1990.

Table 2

**RESOURCES AND USES OF INCOME**

*(percentage changes)*

| | 1991 | | 1992 | |
|---|---|---|---|---|
| | Value at constant prices | Deflators | Value at constant prices | Deflators |
| **Resources** | | | | |
| Gross domestic product | 1.3 | 7.4 | 0.9 | 4.7 |
| Imports of goods and services | 2.9 | –0.4 | 4.6 | 1.3 |
| *of which: goods* | *4.4* | *–0.8* | *3.6* | *–0.5* |
| **Uses** | | | | |
| Domestic demand | 1.9 | 6.6 | 1.0 | 4.5 |
| Households' consumption | 2.3 | 6.8 | 1.8 | 5.4 |
| Collective consumption | 1.5 | 7.8 | 1.1 | 4.2 |
| Gross capital formation | 1.1 | 4.9 | –1.3 | 1.5 |
| *of which: fixed investment* | *0.6* | *5.3* | *–1.4* | *3.7* |
| *in machinery, equipment and transport equipment* | *–0.1* | *2.4* | *–1.1* | *2.1* |
| *in buildings* | *1.4* | *8.0* | *–1.8* | *5.2* |
| Exports of goods and services | 0.3 | 2.5 | 5.0 | 1.6 |
| *of which: goods* | *1.6* | *1.9* | *4.3* | *0.2* |
| *Memorandum item:* | | | | |
| Growth in GDP at constant prices attributable to change in stocks (1) | 0.1 | | (. .) | |

Suorce: Istat.
(1) Includes statistical discrepancies.

The impact of the weakness of domestic demand on production varied from sector to sector. Industrial value added at current prices fell by 0.4 per cent, the same result as in 1991; as the index of industrial production shows, the decline was concentrated in the second half of the year. The only slightly larger contraction of 0.5 per cent in manufacturing industry was due largely to the pronounced fall in the production of transport equipment for the second consecutive year. Market services bucked the trend, with value added growing by 2.6 per cent in real terms, compared with 1.8 per cent in 1991. However, this acceleration was entirely attributable to the growth in the banking and insurance sector, provisionally estimated at 11.9 per cent. Excluding banking and insurance, the increase in the value added of market services was smaller than in 1991 (1.6 compared with 1.8 per cent), despite the considerable growth of transport and communications services, primarily in connection with the modernization and expansion of telephone services.

Employment fell by around 200,000 standard labour units, the first such decline since the early seventies and the third in the post-war period. As in the two years 1971-72, the reduction in total employment appears to have been determined not only by a drop in agricultural employment (90,000 units in 1992), but also by a combination of business recession and reorganization.

In manufacturing, where employment fell by another 170,000 standard labour units after having declined by 120,000 the previous year, the dominant factor appears to be the lagged effects of the downturn that began in 1990; given the absence of signs of a revival of investment, the size of the increase in per capita output (3.1 per cent on average for the year, as against 1.9 per cent in 1990 and 1991) is not yet an indication that a new round of restructuring has begun. In market services, by contrast, there are signs of changes in the structure of production. Between 1980 and 1991 the growth in the sector's demand for labour, which increased almost continuously from the end of the sixties onwards, amounted to more than 2,500,000 units and far outweighed the fall in employment in manufacturing (around 1,000,000 units up to 1987) and agriculture (750,000 units). Together with the growing demand for labour in general government, this led to a continuous increase in the number of standard labour units employed in the economy as a whole, which rose at an average rate of 130,000 units per year over the period in question. In 1992 the expansion of employment in market services came to a halt and a contraction is likely to have occurred in the second half of the year. This could reflect measures to create more efficient organizational structures and a greater responsiveness of service companies to cyclical and market developments.

Evaluation of the impact of the lower demand for labour on the unemployment rate is complicated by the far-reaching improvements introduced by Istat in its labour force survey questionnaire. The principal change is the adoption of a more restrictive criterion to determine whether a person is looking for work and brings the definition of unemployment more closely into line with that used in the other Community countries. The resulting official unemployment rate (9.6 per cent in October and 9.5 per cent in January of this year) is appreciably lower than the previous measurements (11 per cent, according to the July 1992 survey). It compares with an annual average unemployment rate of 9.4 per cent in the Community and one of 6.8 per cent in the seven leading industrial countries last year.

After remaining more or less steady at a rate above 6 per cent for three years, consumer price inflation came down gradually but significantly in 1992, falling to an annual, seasonally adjusted rate of around 4 per cent in the fourth quarter. Both the cost-of-living index and the consumer price deflator showed an average annual rise of 5.4 per cent. The consumer price inflation differential between Italy and the three EC countries with the lowest inflation narrowed from 3.7 to 2.9 percentage points. The slowdown in the GDP implicit price deflator shows that the decline in the inflation rate is attributable to domestic factors, which until the spring of this year helped to offset the upward pressure on prices caused by the considerable depreciation of the lira since the currency crisis of last September.

The rise in unit labour costs slowed down markedly, from 7.5 to 3.5 per cent in manufacturing and from 8.8 to 3.7 per cent in market services, reflecting not only the larger growth in productivity but also the slowdown in wages and salaries due to the waning of the effects of the 1991 contract renewals and the elimination of automatic adjustments under the *scala mobile.* In contrast to the notable deceleration in unit labour costs and total input prices, the annual rise in the producer prices of goods and services declined only slightly, by 0.3 and 1.3 percentage points respectively.

Two additional factors relating to the setting of final prices by firms may also have influenced the slowdown in consumer price inflation. First, the slowdown and subsequent fall in households' spending curbed upward price adjustments, but more importantly the mechanism governing the formation of expectations appears to have changed. The December 1991 agreement between the Government and the two sides of industry "on urgent measures to combat inflation", which took note of the non-renewal of the *scala mobile,* and the July 1992 "protocol of understanding", in which the parties agreed to eliminate the old system of wage indexation and sanctioned the suspension of company-level wage negotiations until the end of 1993, introduced considerable uncertainty regarding the intensity of the wage-price spiral and discouraged firms from taking unilateral measures to anticipate its effects.

In the closing months of the year the change in expectations of wage growth certainly played an important role in preventing the depreciation of the lira from producing a corresponding jump in domestic prices, as had happened under similar circumstances in the past. This result was also partly due to the simultaneous fall in the dollar prices of raw materials and the decision of foreign firms to raise the lira prices of their exports to Italy to a very limited extent: seasonally adjusted, the average unit value in lire of imported manufactures was only 7 per cent higher in December than in August.

The deficit on the current account of the balance of payments deteriorated further both in absolute terms and as a percentage of GDP, continuing a tendency that has been under way since 1987: in 1992 it rose by 6.1 trillion lire to 32.7 trillion (2.2 per cent of GDP). As in previous years, the rise in the deficit stemmed primarily from an increase in the net outflow of investment income, which rose from 20 to 25.6 trillion lire. This was accompanied by a contraction in the surplus on foreign travel that was larger than the medium-term average but presumably included outward capital movements by residents during the currency crisis that were not recorded as such. The reduction in the deficit on transfer payments, particularly vis-à-vis the EC, from 2.6 to 1.2 trillion lire, limited the total deficit on invisibles to 35.8 trillion.

The trade account on a *fob-fob* basis improved appreciably, showing a surplus of 3.1 trillion lire, as against a deficit of almost 1 trillion in 1991. In contrast with the previous year, the improvement in the terms of trade (by more than 1 percentage point) was accompanied by one in the flows of trade at constant prices as a result of the slowdown in imports, especially in the second half of the year, and the modest recovery in exports. In the fourth quarter the weakness of world demand limited the expansionary effects on exports of the depreciation of the lira, despite the fact that Italian firms had only partly adjusted their export prices to the lira's lower exchange rate.

Capital movements gave rise to a net inflow of 11.8 trillion lire, considerably less than in the two preceding years. As the momentum generated by exchange liberalization and the lira's entry to the narrow band of the EMS gradually dissipated, inflows of non-bank capital slowed down markedly even before the currency crisis in September. By contrast, inflows of bank capital remained substantial in the first half of the year, particularly in foreign currency, in view of expectations of exchange rate stability and interest rate differentials that encouraged fund-raising abroad. In September the devaluation of the lira following the suspension of interventions within the Exchange Rate Mechanism and the ensuing destabilization of exchange rate expectations led to a massive repayment of foreign liabilities, which continued for several months. In the fourth quarter the partial repatriation of non-bank capital and the Bank of Italy's use of foreign currency swaps enabled the official reserves to recover by 26.5 trillion lire (net of exchange rate and valuation adjustments) from the low levels they had reached in September.

### *The short-term outlook*

Signs of a revival in foreign demand gathered strength during the winter, as reflected both in firms' expectations of the future level of exports and in the trade balance, which improved appreciably in January and February, although this result cannot be confirmed until the new system for recording intra-Comunity trade has settled down.

The pick-up in exports has not been sufficiently strong so far to alter the general tone of the economy: the recession has therefore extended into the opening months of this year. In the first quarter industrial production remained at the very low level recorded in the fourth quarter of 1992; data on electricity consumption in April and May do not point to a recovery in production levels. In March, however, industrial firms reported an improvement in their current and expected orders resulting not only from a rise in foreign demand but also from the first signs of a revival of domestic demand.

In January both employment and the unemployment rate were at the same levels as in October. According to the sample survey conducted by the Bank of Italy in the first few weeks of 1992, industrial firms with more than 50 employees expect their workforces to contract by a further 2.9 per cent by December and fixed capital expenditure at constant prices to fall by 8.3 per cent year on year.

In the first few months of 1993 the slowdown in per capita labour costs, the weakness of domestic demand and rationalization in the distribution sector continued to limit the extent to which the effects of the depreciation of the lira were passed through to prices. In the first two months of the year the twelve-month rate of increase in industrial output prices is estimated to have exceeded 3.5 per cent, compared with 1.9 per cent in September, owing mainly to the acceleration in the prices of imported inputs. The increase in export prices (4.6 per cent over the year to December 1992, the latest month for which data are available) was larger than that in the prices of goods for the domestic market (3 per cent in February). The twelve-month rise in the cost of living fell from 4.8 per cent in December to 4.2 per cent in April, its lowest level since the mid-eighties.

# DOMESTIC DEMAND

### *Households' consumption*

Households' domestic consumption rose by 1.8 per cent in real terms (7.3 per cent at current prices); this was half a point less than in 1991 but twice the rate of growth in GDP (Table 3). National final consumption, which includes spending by residents abroad, showed a larger increase: 2.2 per cent in real terms and 7.7 per cent at current prices, compared with respectively 2.2 and 9.2 per cent in 1991.

Table 3

**HOUSEHOLDS' DOMESTIC CONSUMPTION**

*(at 1985 prices; percentage changes)*

| | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|
| Non-durable goods | 1.7 | 1.4 | 1.8 | 1.1 |
| Semi-durable goods | 4.4 | 3.4 | 2.7 | 2.2 |
| Durable goods | 9.4 | 0.8 | 3.3 | 2.5 |
| *of which: furniture, carpets, electrical household appliances and household equipment* | *7.2* | *1.4* | *6.0* | *1.5* |
| *therapeutic equipment and goods, photographic equipment and musical instruments, radio and television receiving sets and record players* | *13.0* | *−10.3* | *2.0* | *0.3* |
| *transport equipment* | *8.7* | *0.7* | *0.6* | *1.8* |
| *precious and costume jewellery* | *11.9* | *9.4* | *5.1* | *7.1* |
| Services | 2.7 | 3.7 | 2.2 | 2.0 |
| **Total** | **3.5** | **2.5** | **2.3** | **1.8** |

Source: Istat.

Private consumption only partly reflected the increase in disposable income. In the second half of the year, with the turbulence in the foreign exchange and securities markets and the deterioration in the climate of confidence, consumer spending was also affected by the less favourable expectations regarding income and the market value of financial wealth.

Over the year households' disposable income grew by an average of 7 per cent at current prices and 1.6 per cent in real terms, respectively 2 and

0.5 points less than in 1991 (Table 4). Nominal income was boosted by the acceleration in the growth of both net interest income, from 12.0 to 17.3 per cent, mainly owing to the rise in yields on financial assets, and social benefits, from 9.2 to 11.3 per cent. On the other hand, it was moderated by the small growth in income from self-employment and non-interest investment income (5.7 per cent, or 4.3 points less than in 1991) and in gross domestic earnings (4.4 per cent). Four fifths of the pronounced deceleration of almost 5 percentage points in the latter was attributable to the slowdown in wages and salaries and one fifth to the fall in employment.

Consumers' spending capacity was curtailed by a number of tax measures that are not considered in calculating disposable income for national accounts purposes, namely the 0.6 per cent tax on bank balances at 9 July, the 0.3 per cent tax on buildings and the condonation of personal and local income tax liabilities in respect of income from buildings not reported prior to 1992. The total disbursement involved can be estimated at 1.3 per cent of annual disposable income, but it was only partly reflected in a fall in consumption owing to the one-off nature of the measures.

Table 4

**SOURCES AND USES OF HOUSEHOLDS' GROSS DISPOSABLE INCOME**

*(percentage changes and percentages; at current prices unless otherwise specified)*

| | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|
| Gross domestic earnings | 7.8 | 12.1 | 9.2 | 4.4 |
| Entrepreneurial income, dividends and other income from capital | 8.4 | 9.0 | 10.0 | 5.7 |
| Net interest income | 26.2 | 21.4 | 12.0 | 17.3 |
| Social security benefits | 10.9 | 13.7 | 9.2 | 11.3 |
| Income taxes (–) | 11.0 | 12.1 | 9.4 | 8.4 |
| **Gross disposable income** | **10.3** | **11.6** | **9.1** | **7.0** |
| at 1985 prices (1) | 3.6 | 5.4 | 2.1 | 1.6 |
| Average propensity to consume (2) | 81.6 | 79.7 | 79.8 | 80.3 |
| Adjusted average propensity to consume (3) | 87.7 | 86.0 | 87.1 | 86.5 |

Source: Based on Istat data.

(1) Deflated using the implicit price deflator of households' national consumption. – (2) National final consumption as a percentage of consumer households' disposable income. – (3) National final consumption as a percentage of households' disposable income adjusted for inflation. The adjustment was effected by subtracting from gross disposable income the estimated loss of purchasing power on households' net holdings of domestic and foreign financial assets at the beginning of each period (excluding shares) and on the variation therein over the period.

The pattern of consumer spending over the year reflected the deterioration in the climate of confidence. The worsening of the recession and the pronounced instability that developed in the foreign exchange and government securities markets bred growing pessimism about the short-term outlook for the economy; this pessimism reached a peak in

September when the lira was devalued. After growing by 0.6 per cent between the fourth quarter of 1991 and the first quarter of 1992 and then by 0.5 per cent in the second quarter, consumption fell by 0.1 per cent in both the third and the fourth quarters.

Households' expectations and spending plans were influenced by a variety of factors. The cyclical downturn at the end of the first half led to a sharp rise in expectations of unemployment. The resulting reduction in expected income led consumers to reduce their current expenditure.

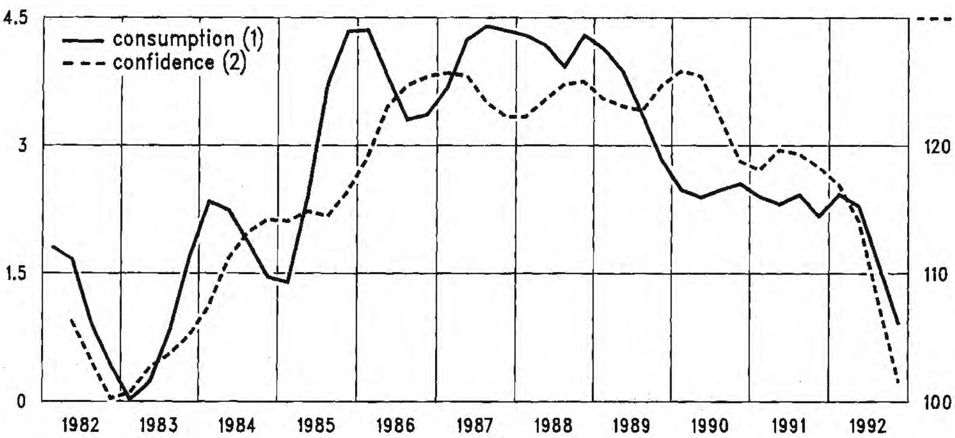
Households' consumer spending plans were also set back by the interaction between the currency crisis and expectations of further fiscal stabilization measures: the fear that the package adopted in July, which failed to reassure the foreign exchange markets about the prospects for a rapid adjustment of the public finances, would be followed by more severe measures depressed households' expectations regarding their net disposable income.

Doubts as to which sources of income would be subjected to taxation and fear that government securities would be involved increased uncertainty as to the expected capital value of financial wealth and led to a rush to reallocate portfolios. The ensuing fall in the prices of government securities reduced the current value of financial assets, prompting households to take corrective action.

The index of households' confidence, which is a summary gauge of consumers' expectations and uncertainty, fell sharply during the year, plunged in September in conjunction with the crisis of the lira, and in October reached its lowest level since 1982. Consumption followed a similar path (Figure 3).

Figure 3

**HOUSEHOLDS' FINAL CONSUMPTION AND CONFIDENCE**




(1) Source: Istat. Percentage changes on the year-earlier three-month period. – (2) Source: Isco. Index, 1980=100. Centred moving average (three terms).

## *Investment*

After eight consecutive years of growth culminating in a 0.6 per cent rise in 1991, gross fixed investment at constant prices fell by 1.4 per cent (Table 5); at current prices there was a small increase of 2.2 per cent, 3.8 percentage points less than in the previous year. The variation in stocks of raw materials, semi-finished goods and finished products, which also includes the statistical discrepancies in the national accounts, was basically unchanged in real terms, so that total investment increased by 0.1 per cent in nominal terms but decreased by 1.3 per cent at constant prices.

Table 5

**FIXED INVESTMENT**
*(at 1985 prices)*

| | Percentage change | | | As a percentage of GDP | | |
|---|---|---|---|---|---|---|
| | 1990 | 1991 | 1992 | 1990 | 1991 | 1992 |
| Construction | 3.5 | 1.4 | –1.8 | 10.5 | 10.6 | 10.3 |
| *of which: residential buildings* | *2.8* | *3.1* | *0.6* | *5.3* | *5.4* | *5.4* |
| *non-residential buildings and public works* | *4.1* | *–0.2* | *–4.2* | *5.2* | *5.2* | *4.9* |
| Machinery, equipment and sundry products | 4.4 | 1.6 | –0.9 | 9.2 | 9.2 | 9.1 |
| Transport equipment | 2.8 | –6.7 | –1.9 | 2.4 | 2.2 | 2.1 |
| *of which: motor vehicles* | *–0.1* | *–5.0* | *–1.7* | *1.9* | *1.8* | *1.7* |
| *other* | *16.4* | *–13.4* | *–2.9* | *0.5* | *0.4* | *0.4* |
| **Total gross fixed investment** | **3.8** | **0.6** | **–1.4** | **22.1** | **22.0** | **21.5** |
| Total excluding residential buildings | 4.1 | –0.1 | –2.1 | 16.8 | 16.6 | 16.1 |
| Total excluding construction | 4.1 | –0.1 | –1.1 | 11.6 | 11.4 | 11.2 |
| **Total net fixed investment** (1) | **3.5** | **–3.6** | **–8.8** | **10.6** | **10.1** | **9.2** |

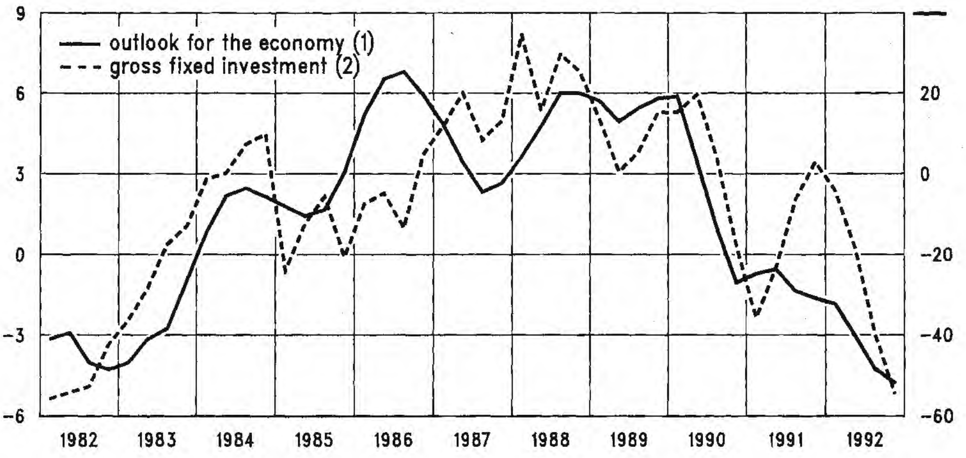
Source: Based on Istat data.
(1) The ratio is calculated with reference to GDP excluding depreciation.

*Gross fixed investment.* — The fall in investment spending led to a further and more marked reduction in the ratio of gross fixed investment to GDP at constant prices. After exceeding 22 per cent in 1990, when the strong expansion of the second half of the eighties peaked, gross fixed investment's share of GDP faltered in 1991 and fell by 0.5 percentage points last year (Table 5). The pattern in Italy was similar to that in the other leading industrial countries — especially France and Japan — except for Germany, where investment continued to grow, albeit more slowly than in 1991. Net of depreciation, the 3.6 per cent decline in fixed investment at constant prices in 1991 was followed by a further fall of 8.8 per cent.

The slowdown in capital spending, aimed at adjusting the capital stock to less ambitious production plans, became more pronounced during the year. Firms' decisions to scale back their desired capital stock were influenced by current developments. The gap between available and utilized capacity widened as cyclical conditions worsened: at the end of the year the capacity utilization rate was at its lowest level since the middle of 1982. In the goods and market services sectors the average ratio of profit to value added was almost 1 percentage point lower in the three years that ended in 1992 than in the preceding three years; in industry, the ratio fell by more than 4 percentage points to 31.8 per cent, a level similar to that prevailing in the second half of the seventies. The fall in internally generated funds and the rise in interest rates in the summer further affected capital spending.

Figure 4

**GROSS FIXED INVESTMENT AND BUSINESS OPINION OF THE OUTLOOK 3 TO 4 MONTHS AHEAD**




(1) Source: Isco. Centred moving average (three terms) of the difference between positive replies ("favourable") and negative replies ("unfavourable") to ISCO-ME surveys of businnessmen. – (2) Source: Istat. Rate of growth calculated at 1985 prices.

In 1992 the indicator of businessmen's views of the short-term outlook for the economy fell to its lowest level for ten years (Figure 4). The moderate optimism that marked the first quarter gave way to a rapid deterioration in business sentiment as the economic crisis deepened and political uncertainty grew more acute. This was immediately reflected in firms' investment plans, and the output of machinery, equipment and transport equipment began to fall. Gross fixed investment, which had grown by 2.4 per cent in the first quarter of 1992 compared with the same quarter of 1991, stagnated in the second quarter and fell by respectively 3 and 5.2 per cent in the third and fourth quarters of the year.

All the main components of gross fixed investment contracted to some extent. Spending on transport equipment fell by 1.9 per cent at constant prices, while that on machinery, equipment and sundry products fell by 0.9 per cent. After four years of expansion, investment in construction declined by 1.8 per cent (Table 5). This result is attributable to the continuing decline in investment in non-residential buildings (including civil engineering projects), which fell by 4.2 per cent; in the second half of the year it also reflected the judicial investigations involving government officials. Investment in residential buildings rose by only 0.6 per cent, 2.5 percentage points less than in 1991.

Capital spending by public enterprises increased in nominal terms by 2.3 per cent, nearly 8 percentage points less than in 1991. The financial difficulties of the state holding companies and the launch of programmes aimed at modifying their ownership contributed to the pronounced slowdown.

*Stocks.* — The variation in stocks of raw materials, semi-finished goods and finished products amounted to 4,415 billion lire at current prices, which was about half that recorded in 1991. At constant prices this item remained virtually unchanged at around 1.2 per cent of GDP.

## DOMESTIC SUPPLY

### *Agriculture*

The gross marketable output of the agricultural sector (including forestry and fisheries) increased by 0.5 per cent in volume compared with 5.7 per cent in 1991, but declined in value as prices fell by about 3 per cent (Table 6), owing in part to the reform of the European Community's agricultural policy. The slowdown in volume growth was attributable entirely to the normal alternation in the two-year cycle of olive production.

Table 6

**MARKETABLE OUTPUT AND VALUE ADDED OF AGRICULTURE, FORESTRY AND FISHERIES**

| | 1992 (billions of lire) | Percentage changes | | | |
|---|---|---|---|---|---|
| | | Volume | | Prices | |
| | | 91/90 | 92/91 | 91/90 | 92/91 |
| Marketable output (1) | 63,071 | 5.7 | 0.5 | 4.7 | –2.9 |
| *Crops: cereals, oil seeds, vegetables, etc.* | *21,303* | *1.9* | *1.1* | *7.1* | *–5.0* |
| *orchards and vineyards* | *15,730* | *24.5* | *–0.9* | *4.7* | *–7.7* |
| *Livestock* | *22,663* | *–0.3* | *0.9* | *0.8* | *2.1* |
| *Forestry products* | *756* | *1.4* | *6.7* | *12.0* | *–0.6* |
| *Fishery products* | *2,619* | *6.2* | *–2.7* | *2.6* | *6.8* |
| Intermediate inputs (2) (–) | 17,318 | 1.7 | –1.5 | 1.5 | 1.3 |
| Production subsidies (3) (+) | 5,946 | 19.3 | –8.3 | –1.8 | 17.6 |
| Value added at factor cost | 51,699 | 8.4 | 0.5 | 5.2 | –2.5 |

Source: *Relazione generale sulla situazione economica del paese.*
(1) Net of indirect taxation. – (2) Seeds, animal feedstuffs, fertilizers, pesticides, power and fuel and other goods and services. – (3) For volume, includes the products eligible for subsidies.

Agricultural imports contracted last year while the volume of exports rose sharply, so that despite a deterioration in the terms of trade of more than 6 per cent the deficit on trade in foodstuffs narrowed by about 8 per cent to just over 17.4 trillion lire.

For three decades the decline in the economic importance of agriculture and of farm incomes has been attenuated by price support under Community and domestic agricultural policy. These subsidies have been gradually reduced, but it was not until last year that they were sharply curtailed in connection with sweeping reform of the EC farm programme to switch resources towards structural and social cohesion policies and the intensification of global negotiations in the framework of GATT.

The reform of the Common Agricultural Policy will significantly alter the composition of agricultural production, as was clearly evident last year. The largest reductions in output will be in those products that account for most of the present overproduction and on which the Community's financial commitment has been concentrated (cereals, oil seeds, dairy products, beef and lamb). Italy's quota of production in these sectors, about 15 per cent, is less than half that of France but comparable in size, if not in composition, to those of the United Kingdom and Germany. One effect of the new CAP will be to strengthen the position of the more competitive, industrial-scale farms and gradually to drive marginal farms out of the market. However, these small farmers will receive compensation in the form of transfer payments, partly in exchange for performing land management and conservation functions. Marginal producers are more common in Italy, where farms tend to be smaller than the European average and to use less advanced methods, especially in the South.

The lagged effect of the currency crisis in September on the value of the "green" lira raised the EC's intervention prices in lire, which would otherwise have remained unchanged. At the same time, the increase in the lira value of Community transfers to Italian farmers and the slackness of demand helped curb final market prices.

### *Industry*

Industrial production declined in 1992 for the second consecutive year. Real value added at factor cost fell by 0.4 per cent, following a 0.1 per cent decrease in 1991 (Table 7).

Industrial output contracted for most of the year. The effects of the short-lived recovery that had begun in the second half of 1991 had dissipated by the end of the first quarter, and seasonally adjusted daily output declined from March until the end of the year. The trend in output reflected a progressive fall in both domestic and foreign demand. The Isco indicators of business opinion consistently signaled gloomy short-term expectations on the part of enterprises. At the end of the year the index of industrial production was at its lowest level since the beginning of the current downturn. The data for the first quarter of 1993, together with forecasts for April and May based on electricity consumption, indicate that the fall in output has come to a halt.

Table 7

**VALUE ADDED OF INDUSTRY AT FACTOR COST**

| | 1992 (billions of lire) | Percentage changes | | | |
|---|---|---|---|---|---|
| | | Volume | | Prices | |
| | | 91/90 | 92/91 | 91/90 | 92/91 |
| **Industry excluding construction** | **336,258** | **–0.4** | **–0.3** | **3.4** | **2.3** |
| Manufactured goods | 300,266 | –0.6 | –0.5 | 2.9 | 1.8 |
| Energy products | 35,992 | 1.2 | 1.0 | 7.5 | 6.4 |
| **Construction and public works** | **87,915** | **1.3** | **–0.9** | **8.1** | **6.1** |
| **Total** | **424,173** | **–0.1** | **–0.4** | **4.3** | **3.0** |

Source: *Relazione generale sulla situazione economica del paese.*

One indicator of the extent to which the manufacturing recession has spread is the proportion of sectors of industry (excluding construction) in which output is below the previous cyclical peak. After improving throughout 1991, this indicator suddenly began to deteriorate again in early 1992. The industries in which the contraction in output was greatest included agricultural and industrial machinery, transport equipment and electrical equipment, with decreases of 7.8, 5.2 and 4.8 per cent respectively.

Disaggregating output according to economic purpose, the production of investment goods decreased by an annual average of 5 per cent, that of intermediate goods was roughly unchanged and that of consumer goods grew by 1.5 per cent. Developments in the course of the year also varied between sectors. In the first part of the year the contraction in productive activity involved only investment goods and consumer durables, but in the second half it spread to the other consumer goods industries as well.

The slowdown was reflected in lower capacity utilization. The index of capacity utilization calculated by the Bank of Italy for industry excluding construction registered three consecutive declines, falling from 93.3 per cent in the first quarter to 88.5 per cent in the fourth. In the investment goods sector the index declined from 85.4 to 80.3 per cent.

The opportunities opened up in the latter part of the year by the devaluation of the lira and the prospects of the privatization of large sections of state-owned industry came at a time when Italian firms were awaiting developments and revising their investment plans. Some industries, such as transport equipment and chemicals, are obviously suffering from a structural lack of competitiveness, as substantial sectoral trade deficits coincide with declining levels of activity. In the chemical industry, in particular, there is an increasingly urgent need for radical restructuring.

### *Services*

The value added of market services increased by 2.6 per cent in 1992 at constant prices, compared with 1.8 per cent in 1991 (Table 8). Net of the exceptionally rapid increase in credit and insurance, however, the growth of value added in the sector slowed down slightly to 1.6 per cent. The value added of non-market services also increased, albeit less substantially (0.7 per cent).

Table 8

**VALUE ADDED OF MARKET SERVICES AT FACTOR COST**

| | 1992 (billions of lire) | Percentage changes | | | |
|---|---|---|---|---|---|
| | | Volume | | Prices | |
| | | 91/90 | 92/91 | 91/90 | 92/91 |
| Wholesale and retail trade ......... | 231,236 | 1.5 | 0.7 | 7.9 | 4.9 |
| Lodging and catering .............. | 45,953 | 0.4 | –1.5 | 7.8 | 7.6 |
| Transport ........................ | 82,061 | 1.5 | 1.2 | 7.6 | 1.4 |
| Communications ................. | 27,180 | 7.7 | 9.4 | 7.8 | 5.5 |
| Credit and insurance .............. | 77,771 | 0.9 | 11.9 | 5.3 | 11.1 |
| Other market services ............. | 186,185 | 2.1 | 2.0 | 8.3 | 8.5 |
| Renting of buildings ............... | 114,498 | 1.7 | 2.3 | 9.7 | 8.2 |
| **Total . . .** | **764,884** | **1.8** | **2.6** | **7.9** | **6.5** |

Source: Istat.

In a year of rapid growth in credit intermediation in connection with the currency crisis in September, the exceptionally high estimate for the growth in value added in the credit and insurance sector (11.9 per cent at constant prices and 23.0 per cent at current prices) is explained by a substantial rise in non-interest income (which in the national accounts includes the gross proceeds of swaps with customers) and by the widening of the spread between lending and borrowing rates owing to the need for larger allocations to provisions for bad and doubtful debts and to cover valuation losses on securities.

The reduction in domestic demand, and in particular the contraction of private consumer spending, adversely affected several service industries. Value added at constant prices declined by 1.5 per cent in lodging and catering and by 2.2 per cent in auxiliary transport services, while in wholesale and retail trade services, recovery services, and market health care services growth slowed sharply to 0.7, 1.0 and 1.4 per cent respectively. Service industries that proved less vulnerable to the cyclical downturn included communications, which continued to expand rapidly (9.4 per cent) and maritime and air transport, which recorded growth of 4.8 per cent, after stagnating in 1991.

Restructuring and concentration aimed at exploiting economies of scale continued in the distribution sector. The trend towards large stores and a parallel decline in the number of self-employed as a proportion of total employment in the sector, which had already been evident for some years, became more pronounced in 1992, as payroll employment rose by 15,000 and self-employment contracted by 43,000, or 1.5 per cent. On an annual average basis, labour productivity increased by 1.4 per cent, a countercyclical development that had not occurred during the previous recession in 1981-83.

In labour-intensive service industries, per capita value added tends to vary widely between firms and by more than in manufacturing. This dispersion is the cumulative result of several distinctive features of their organization: greater variability in the combination of production factors and greater flexibility in their utilization, greater variety of structural conditions in their markets and, finally, the greater sensitivity of service enterprises' productivity to local shocks, which cannot be accommodated by building up or running down stocks.

Among the firms reporting to the Company Accounts Clearing House, the coefficient of variation of value added per employee was 41.5 per cent in the engineering industry, 52.7 per cent in textiles and 59.8 per cent in food processing. For labour-intensive service industries in which a significant number of firms were represented, the coefficient was 74.8 per cent for the wholesale trade (excluding repair services and those of commercial intermediaries), 69.7 per cent for the retail trade and 91.1 per cent for lodging and catering (excluding railway sleeping cars and auxiliary services).

*The new status of the railways.* — Since the mid-eighties the efficiency and comparative cost of rail transport have improved as a result of the change in the legal status of the State Railways, the increase in the economic and environmental costs of road transport and the near-saturation of Italy's road transport network.

Until 1985 the State Railways were an autonomous government agency, but they were not an independent legal entity and were administered by a management council chaired by the Minister of Transport. The pursuit of social objectives through the provision of subsidized fares for certain categories of passenger and the requirement to maintain a service on little-used lines led to operating losses, which were met by the state. Law 210 of 1985 transformed the State Railways into a public corporation, thereby drawing a distinction between the role of the Government and that of the administration of the agency, and in August 1992 the Interministerial Committee for Economic Planning approved the transformation of the railways into a limited company pursuant to Law 359. The railways have thus attained complete financial and managerial independence, and in the future the new company's relations with the state will be governed solely by special planning agreements.

Despite the worsening congestion of the road transport system, satisfactory links between the railways and other transport modes have not yet been developed. The improvement in the efficiency of the railways, which should be fostered by the change in their legal status, should result in a redistribution of transport demand if it is accompanied by indirect taxation of some of the negative externalities associated with road transport.

### *The energy balance*

The further slowdown in the growth of economic activity affected energy demand, which expanded by only 0.4 per cent to 167.5 million TOE, the smallest increase registered since the recession of the early eighties. However, considering that the relatively mild winter made it possible to save between 1 and 2 million TOE, there would have been scope for an actual decline in the total primary energy requirement (Table 9). A slight fall in energy prices encouraged less frugal energy habits than in the past.

Imports of crude oil and refined petroleum products increased substantially (by 5.0 per cent), the principal uses being the rebuilding of stocks, electricity generation and motor vehicle fuel. As a result, Italy's oil dependency increased to more than 56 per cent of the total primary energy requirement, reversing the almost uninterrupted downward trend of the past twenty years.

By country of origin there was little change in the sources of Italy's main primary energy imports, except for the sharp recovery in shipments of crude oil from the former Soviet Union, which exceeded the levels obtaining before the plunge in output registered in the last few years.

Table 9

**ENERGY BALANCE**
*(millions of TOE)*

| | Solid fuels | | Natural gas | | Oil | | Electricity | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1991 | 1992 | 1991 | 1992 | 1991 | 1992 | 1991 | 1992 |
| **Primary energy requirement and supply** ... | **15.1** | **13.7** | **41.5** | **41.2** | **91.7** | **94.0** | **18.5** | **18.6** | **166.8** | **167.5** |
| *of which: domestic output* | 1.3 | 1.2 | 14.1 | 14.7 | 4.3 | 4.4 | 10.8 | 10.8 | 30.5 | 31.1 |
| *net imports* ... | 13.9 | 12.8 | 27.6 | 28.5 | 84.9 | 89.6 | 7.7 | 7.8 | 134.1 | 138.7 |
| **Final consumption** (1) | **6.2** | **6.1** | **33.4** | **33.3** | **63.9** | **63.4** | **48.3** | **49.1** | **151.8** | **151.9** |
| *of which: industry* ..... | 5.1 | 5.0 | 13.1 | 13.9 | 7.8 | 6.8 | 24.6 | 24.3 | 50.6 | 50.0 |
| *transport* ..... | — | — | 0.2 | 0.2 | 34.7 | 36.2 | 1.5 | 1.5 | 36.4 | 37.9 |
| *residential, services and agriculture* ..... | 0.9 | 0.9 | 18.3 | 17.8 | 12.6 | 11.8 | 22.3 | 23.3 | 54.1 | 53.8 |

Source: Based on *Relazione generale sulla situazione economica del paese.*
(1) Final consumption is different from the primary energy requirement as a consequence of the transformation of primary energy into electricity and the consumption and losses of the energy sector.

The pattern of final energy consumption confirmed the increasing incidence of transport, whose energy use actually accelerated, growing by 4.1 per cent as against 2.8 per cent in 1991. Industrial uses declined by 1.1 per cent, about the same as in 1991, and energy consumption in the residential, services and agricultural sectors also declined. The growing energy requirements of the services sector and the spread of increasingly energy-intensive lifestyles were more than offset by the decreased consumption of oil and gas for heating,

## EMPLOYMENT, WAGES AND PRICES

### *Employment*

*Labour demand and productivity.* — Total employment declined by 0.9 per cent year on year (or by the equivalent of more than 200,000 full-time workers) as a result of the slowdown in the growth in output and the continued repercussions of the considerable increase in labour costs in the preceding two years. One must go back twenty or thirty years (to 1971-72 and the period from 1962 to 1966) to find a comparable decline in employment. In the last recession in the early eighties, the growth in total employment came to a halt in 1981 but resumed in the next two years, even before productive activity had begun to recover. A contributory factor was the rapid growth of the services sector, which led to a marked reduction in labour productivity throughout that period.

Sectoral employment trends must be analyzed with care owing to changes in the methodology used for labour force surveys, which provide much of the information on which the national accounts estimates are based. The fall in the demand for labour in manufacturing appears to have been more pronounced than in 1991 and no longer to have been offset by the growth in the market services sector, where there appears to have been no increase in employment for the first time in twenty years. Around half of the reduction in total employment and almost all the decline in self-employment was attributable to agriculture. The overall contraction in the number of self-employed (1.7 per cent) was thus more pronounced owing to developments in the agricultural sector (Table 10).

Labour productivity, which had risen slightly in the preceding two years, showed a more pronounced improvement in both industry and market services in 1992. Even excluding the credit and insurance sector, which recorded an exceptionally large increase in value added, productivity in market services increased by 1.5 per cent, compared with a decline of 0.2 per cent in 1991, and appears to have benefited from the restructuring that has begun in that sector.

The growth in labour productivity was only slightly higher in industry, although here too it was larger than in 1991 (2.0 per cent, compared with 1.1

per cent). The overall improvement was reduced by the performance of the construction sector, where value added and productivity fell by 0.9 and 1.7 per cent respectively. The fall in productivity was due partly to a shift in the composition of expenditure on construction, as projects with a lower average labour intensity, such as public works, accounted for a smaller proportion of the total. In manufacturing industry, by contrast, the small productivity gains of the preceding two years gave way to a more substantial improvement, despite a further decline in output. The continuing recession probably induced many firms not to postpone the necessary adjustments in their workforce any longer. As a result, employment declined more sharply than in 1991 (by 3.5 per cent, compared with 2.4 per cent), more than wiping out the modest increases recorded over the three years from 1987 to 1989.

Table 10

**EMPLOYMENT**

*(standard labour units; percentage changes on previous year and percentage shares of total)*

| | Total employment | | | | Employees | | | |
|---|---|---|---|---|---|---|---|---|
| | 1990 | 1991 | 1992 | 1992 (1) | 1990 | 1991 | 1992 | 1992 (1) |
| **Agriculture** | **–1.8** | **0.1** | **–4.2** | **9.5** | **–0.8** | **–4.0** | **1.5** | **4.4** |
| **Industry** | **0.5** | **–1.2** | **–2.4** | **29.1** | **0.6** | **–1.9** | **–2.9** | **34.2** |
| *fuel and power products* | *0.4* | *–1.0* | *–2.9* | *0.8* | *0.4* | *–1.0* | *–2.9* | *1.2* |
| *manufacturing* | .. | *–2.4* | *–3.5* | *21.2* | *0.1* | *–2.7* | *–3.9* | *26.0* |
| *industry excluding construction* | .. | *–2.3* | *–3.4* | *22.0* | *0.1* | *–2.6* | *–3.9* | *27.2* |
| *construction* | *2.2* | *2.5* | *0.9* | *7.1* | *2.8* | *1.2* | *0.8* | *7.0* |
| **Market services** | **1.6** | **2.1** | .. | **43.0** | **2.2** | **2.9** | **0.3** | **34.5** |
| *distributive trades, lodging and catering* | *1.0* | *1.6* | *–0.5* | *21.5* | *2.1* | *1.8* | *0.7* | *13.4* |
| *transport and communications* | *–0.4* | *0.4* | *–0.1* | *6.4* | *–0.4* | *0.2* | *–1.0* | *7.4* |
| *credit and insurance* | *2.1* | *2.6* | *1.8* | *1.8* | *2.1* | *2.6* | *1.9* | *2.7* |
| *other market services* | *3.8* | *3.7* | *0.7* | *13.2* | *4.4* | *6.1* | *0.3* | *11.1* |
| **Goods and market services** | **0.8** | **0.7** | **–1.3** | **81.7** | **1.3** | **0.2** | **–1.1** | **73.2** |
| **Non-market services** | **0.7** | **1.2** | **1.2** | **18.3** | **0.7** | **1.2** | **1.2** | **26.8** |
| **Total** | **0.8** | **0.8** | **–0.9** | **100.0** | **1.1** | **0.4** | **–0.5** | **100.0** |

Source: Istat.
(1) Percentage share of total.

Part of the fall in the number of equivalent full-time workers employed in industry was reflected in an increase in the number of hours compensated by the Wage Supplementation Fund. However, in industry excluding construction the increase was smaller than in 1991 (17.7 per cent, compared with 22.5 per cent), in particular as regards ordinary benefits, which rose by

27.8 per cent, compared with 87.8 per cent in 1991. The overall slowdown was attributable partly to the fact that the continuation of the recession forced many firms to dismiss workers previously receiving benefits. The new redundancy instruments introduced by Law 223 of 23 July 1991, in particular the mobility procedure, probably also had an effect. At the end of 1992 wage supplementation covered about 250,000 equivalent full-time workers; the rising trend was confirmed in the first few months of 1993.

*The supply of labour.* — As mentioned above, the far-reaching changes in the methodology and definitions used for the quarterly labour force survey make it difficult to evaluate the effects of cyclical developments on unemployment and the supply of labour. Moreover, the postponement of the April 1992 survey to May due to the holding of the general parliamentary elections further clouded the identification of seasonal factors.

The labour force survey of last October was the first in which a new questionnaire and new definitions were used. The lower age limit for persons considered as being "of working age" has been raised from 14 to 15 years and two important methodological innovations have been introduced regarding the classification of employed persons and the definition of "job-seekers". The new questionnaire requires the interviewer to record the branch of economic activity and profession of employed persons in much greater detail than in the past, giving rise to the above-mentioned problems in comparing disaggregated sectoral data over time. Job-seekers are now defined as persons without work during the week of the survey who took at least one concrete step to seek work in the thirty days preceding the interview; previously it had been sufficient to indicate one action to seek work in the preceding six months (or two years in the case of persons registered with the state employment service and those taking part in competitions for public sector employment).

Under the new definition, which is closer to that used in the majority of other industrial countries, the number of job-seekers and the labour force are smaller than indicated by earlier surveys. The unemployment rate was calculated at 9.6 per cent on the basis of the October survey and 9.5 per cent on the basis of the survey conducted in January (Table 11). However, the size of the discrepancy between the North and the South of the country did not change and young people, particularly those living in the South, continue to account for the bulk of the unemployed.

The downward revision of the number of job-seekers appears to be smaller than would have been obtained by simply adapting the old questionnaire to the new definition. The interviewee's attention is now focused on action taken in the last month. Moreover, actions to seek employment are recorded in greater detail, particularly as regards participation in public competitions; the wider range of alternatives listed in the new questionnaire may have prompted respondents to indicate job-seeking activities that had not been considered in past surveys. Complete comparability with past developments is therefore not possible, not only as regards the unemployment rate calculated on the basis of the new definition of job-seekers but also the rate that could be calculated by removing the one-month time limit on the actions taken into consideration.

Table 11

**UNEMPLOYMENT AND PARTICIPATION RATES BY SEX AND GEOGRAPHICAL AREA**

*(percentages)*

| | Centre and North | | | South | | | Italy | | |
|---|---|---|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| | | | | | *Unemployment rates* | | | | |
| Average 1991 . . | 3.9 | 10.4 | 6.5 | 14.1 | 31.6 | 19.9 | 7.5 | 16.8 | 10.9 |
| October 1991 . . | 4.1 | 10.8 | 6.7 | 14.0 | 30.9 | 19.6 | 7.6 | 16.8 | 11.0 |
| July 1992 . . . . . . | 4.2 | 10.6 | 6.7 | 13.8 | 30.5 | 19.4 | 7.6 | 16.6 | 11.0 |
| October 1992 (1) | 4.2 | 10.0 | 6.4 | 12.3 | 24.3 | 16.2 | 7.0 | 14.1 | 9.6 |
| | | | | | *Labour force participation rates* | | | | |
| Average 1991 . . | 56.3 | 33.8 | 44.7 | 52.4 | 25.3 | 38.6 | 54.9 | 30.7 | 42.4 |
| October 1991 . . | 56.4 | 33.9 | 44.8 | 52.8 | 25.1 | 38.7 | 55.1 | 30.7 | 42.6 |
| July 1992 . . . . . . | 56.1 | 33.9 | 44.6 | 52.5 | 25.5 | 38.7 | 54.7 | 30.8 | 42.5 |
| October 1992 (1) | 54.9 | 33.0 | 43.6 | 49.7 | 22.9 | 36.1 | 53.0 | 29.3 | 40.8 |

Source: Based on Istat data *(Indagine sulle forze di lavoro)*.
(1) New definition.

Istat has produced estimates of the unemployment rate based on the old definition of job-seekers, which make it possible to form an approximate picture of the developments in the course of the year. They indicate that unemployment rose by an annual average of about half a percentage point in 1992, from 10.9 to 11.5 per cent. The increase was concentrated among persons who had previously had a job and in the more industrialized regions. The data on the supply of labour appear to confirm that the phase of rapid growth observed throughout the past decade, which had been due partly to demographic factors, is now over.

### *Industrial relations and wages*

*Collective bargaining and industrial disputes.* — Industrial relations were dominated by the progress of the negotiations on the cost of labour and wage reform. The agreement reached on 31 July 1992 led to the definitive abolition of the *scala mobile* wage indexation mechanism, which was partially replaced by a lump-sum payment of 20,000 lire per month for 1993, and the suspension of supplementary wage bargaining at company level for 1992 and 1993.

As regards the establishment of a new wage bargaining system, the agreement limited itself to defining two guidelines, which recommend distinct and non-overlapping timetables and spheres of competence for two possible bargaining levels, and the partial safeguarding of the purchasing power of salaries between the expiry of one agreement and the conclusion of the next. Given the distance that separates the positions adopted by the two sides, the wording of the agreement was left vague with regard to each bargaining level's sphere of competence and does not even lay down the frequency of bargaining rounds. Both sides have re-affirmed their initial positions at the negotiations, which are still under way. The trade union confederations maintain that national industry-wide contracts should be retained and the practice of supplementary wage bargaining at company or area level extended, partly in order to reinforce the link between workers and unions. To render the two levels compatible, the interval between successive national bargaining rounds would have to continue to be fairly long and to be supplemented by procedures for monitoring and safeguarding the purchasing power of salaries. Confindustria, on the other hand, considers national and company-level bargaining to be alternatives and not complementary, and seems inclined to prefer the former.

In contrast to the previous two years, the private sector was not involved in any major contract renewals in 1992. Supplementary company-level wage bargaining was limited, even before the agreement of 31 July. No contracts were renewed in the public sector.

*Wages and labour costs.* — The growth in earnings per full-time equivalent worker slowed down substantially in 1992, decelerating more markedly than the rate of inflation. For the economy as a whole, earnings growth came to 4.9 per cent, compared with 8.8 per cent the previous year; real earnings contracted by 0.2 per cent after growing by 2.2 per cent in 1991. The deceleration was due partly to the waning of the effects of previous years' contract renewals as well as the freeze on supplementary wage bargaining from July onwards and the elimination of the *scala mobile* wage increases for May and November (Table 12).

Table 12

**LABOUR COSTS AND PRODUCTIVITY**

*(percentage changes)*

| | Value added at factor cost (1) | Total standard labour units | Output per standard labour unit | Earnings per standard labour unit (employees) | Labour costs | Unit labour costs |
|---|---|---|---|---|---|---|
| | | | *Total* (2) | | | |
| 1989 .......... | 3.1 | 0.1 | 3.1 | 7.1 | 8.8 | 5.6 |
| 1990 .......... | 2.1 | 0.8 | 1.3 | 10.9 | 11.0 | 9.6 |
| 1991 .......... | 1.3 | 0.8 | 0.5 | 8.8 | 8.7 | 8.2 |
| 1992 .......... | 1.2 | –0.9 | 2.1 | 4.9 | 5.7 | 3.5 |
| | | | *Agriculture* | | | |
| 1989 .......... | 1.3 | –5.0 | 6.6 | 5.5 | 5.6 | –1.0 |
| 1990 .......... | –3.3 | –1.8 | –1.5 | 4.9 | 5.5 | 7.0 |
| 1991 .......... | 8.4 | 0.1 | 8.4 | 6.5 | 6.1 | –2.1 |
| 1992 .......... | 0.5 | –4.2 | 4.9 | 9.8 | 9.8 | 4.7 |
| | | | *Manufacturing industry* | | | |
| 1989 .......... | 3.8 | 0.5 | 3.3 | 7.2 | 10.2 | 6.7 |
| 1990 .......... | 2.0 | . . | 2.0 | 8.2 | 9.0 | 6.8 |
| 1991 .......... | –0.6 | –2.4 | 1.8 | 9.5 | 9.4 | 7.5 |
| 1992 .......... | –0.5 | –3.5 | 3.1 | 6.0 | 6.7 | 3.5 |
| | | | *Construction* | | | |
| 1989 .......... | 3.5 | –0.7 | 4.3 | 8.3 | 9.8 | 5.3 |
| 1990 .......... | 2.5 | 2.2 | 0.3 | 10.2 | 10.9 | 10.5 |
| 1991 .......... | 1.3 | 2.5 | –1.2 | 9.3 | 9.6 | 10.9 |
| 1992 .......... | –0.9 | 0.9 | –1.7 | 3.4 | 3.7 | 5.6 |
| | | | *Market services* (2) | | | |
| 1989 .......... | 3.6 | 1.0 | 2.5 | 7.5 | 8.7 | 6.1 |
| 1990 .......... | 3.0 | 1.6 | 1.3 | 8.1 | 8.6 | 7.2 |
| 1991 .......... | 1.8 | 2.1 | –0.4 | 9.1 | 8.4 | 8.8 |
| 1992 .......... | 2.6 | . . | 2.6 | 5.8 | 6.5 | 3.7 |

Source: Based on Istat data.
(1) At 1985 prices; including imputed output of bank services. – (2) Excluding rental of buildings.

The most pronounced slowdown in earnings occurred in the construction industry, where wage growth fell from 9.3 to 3.4 per cent following the large rise granted in the national contract in 1991, and in general government, where the freeze on wage negotiations was a contributory factor in the deceleration from 7.8 to 2.8 per cent. The rate of increase also slowed down from 9.5 to 6.0 per cent in manufacturing industry and from 9.1 to 5.8 per cent in market services, although it was still higher than the average for the economy as a whole. As a result of the almost total freeze on supplementary wage bargaining and the worsening economic climate, which limited wage drift and overtime working, effective earnings growth in all sectors was virtually identical to the increase in contractual wages.

Unit labour costs in manufacturing industry rose by 3.5 per cent. This was a pronounced deceleration compared with the recent past, with growth rates of just under 7 per cent being recorded in 1989 and 1990 and 7.5 per cent in 1991. A similar result was recorded in market services; excluding the credit and insurance sector, unit labour costs increased by 4.5 per cent in 1992. The slowdown was partly due to the gradual resumption of more rapid productivity growth, but the principal factor was the deceleration in the growth of nominal wages.

### *Prices*

Inflation, as measured by the consumer price deflator for households, decreased from 6.8 to 5.4 per cent in 1992. The deceleration was gradual, although more pronounced in the second half of the year: the twelve-month rate of increase in the consumer price index declined from 6.1 per cent in January to 4.7 per cent in December. The fall in the prices of raw materials on world markets throughout the year and the stability of the exchange rate until the summer played a significant role in containing inflation, but domestic factors were primarily responsible for the slowdown. The GDP price deflator rose by an annual average of 4.7 per cent, nearly 3 points less than in 1991.

The differential in consumer price inflation between Italy and the other EC countries narrowed. With respect to the ERM countries as a whole, the year-on-year reduction was equal to 1 percentage point (decreasing from 3.0 to 2.0 per cent). There was also convergence with the three countries with the lowest inflation.

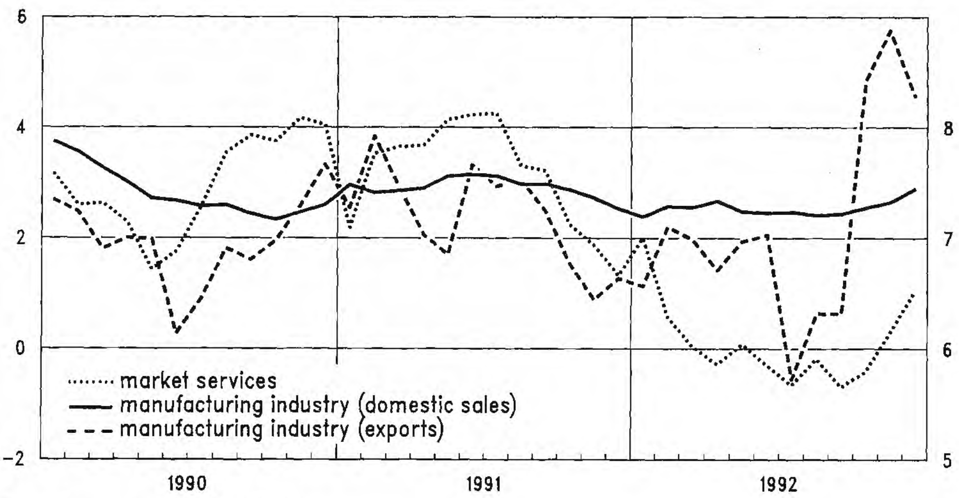
The substantial depreciation of the lira during the autumn did not halt the decline in consumer price inflation. A number of factors, some transitory and some more enduring, contributed to curbing the rise in consumer prices.

One factor was the decrease in the foreign currency prices of raw materials; between August and December the general dollar price index fell by more than 6 points, while that for energy products decreased by more than 8 points. As regards manufactures, the average lira unit values of imports rose by 7 per cent between August and December in seasonally adjusted terms, equal to less than half the depreciation of the lira over the same period. Producers exporting to Italy accepted a larger temporary narrowing of their profit margins than in similar circumstances in the past; this may partly reflect the profitable situation these companies enjoyed in recent years and uncertainty as to the level at which the exchange rate of the lira will stabilize. Another contributory factor was the emergence of keen competition for a share of the Italian market, which is currently in the midst of a cyclical contraction but is still strategically important on account of its size and potential. Domestic manufacturers also limited the rise in the prices they charge in Italy, while export prices accelerated by 4 percentage points between August and December; the recovery of profit margins on exports, which had been eroded considerably over the preceding three years, may have prompted companies producing for both the domestic and foreign markets to moderate domestic price increases. Over the same period, the twelve-month rate of increase in the output prices of manufactured goods for the Italian market accelerated by only half a point (Figure 5).

Figure 5

**OUTPUT PRICES**

*(percentage changes on corresponding period of previous year)*




Source: Based on Istat, OECD and Eni data.

Domestic cyclical conditions may have curbed inflation to a greater extent than in previous downturns. In conjunction with the abolition of the safety net provided by wage indexation and fears of future restrictive fiscal measures, the slowdown in economic activity may have induced households to be more careful and selective in their spending, even at unchanged levels of expenditure.

An essential factor in keeping domestic price inflation low was the deceleration of unit labour costs, which is guaranteed to last until the end of 1993 by the July agreement between the Government, the unions and the employers' organizations. The abolition of the wage indexation mechanism has altered the characteristics of the wage-price spiral and made it more difficult for individual enterprises to predict how quickly and fully exogenous inflationary pressures will be passed on to wages and competitors' prices. It has therefore become more risky for them to anticipate such variations by raising their own prices. This factor and the continuation of a restrictive monetary stance have helped shift expectations in a non-inflationary direction.

Table 13

**UNIT COSTS AND FINAL PRICES IN MANUFACTURING AND MARKET SERVICES**

*(percentage changes on previous year)*

| Components (1) | Manufacturing | | Market services (2) | |
|---|---|---|---|---|
| | 1991 | 1992 | 1991 | 1992 |
| **Input prices:** | **4.6** | **2.0** | **5.2** | **2.4** |
| Domestic (3) | 7.5 | 3.3 | 5.7 | 2.0 |
| *energy* | *8.6* | *0.1* | *9.3* | *–0.2* |
| *services* | *8.0* | *4.3* | — | — |
| *manufactures* | — | — | *3.5* | *2.4* |
| Imports | –0.7 | –0.5 | 2.8 | 5.1 |
| *energy* | *–3.1* | *–9.0* | *–5.3* | *–9.1* |
| *industrial materials* | *–0.3* | *–0.6* | *3.1* | *3.3* |
| **Unit labour costs** | **7.5** | **3.5** | **8.8** | **3.7** |
| **Variable unit costs** (4) | **6.0** | **2.8** | **8.1** | **3.5** |
| **Output prices:** | **2.8** | **2.5** | **7.6** | **6.3** |
| Domestic | 2.9 | 2.6 | — | — |
| Exports | 2.4 | 2.2 | — | — |

Source: Based on Istat data.

(1) In manufacturing, domestic inputs account for 57.5 per cent of total inputs. which make up 50.1 per cent of variable unit costs. In market services the two shares are 83.9 and 21.7 per cent respectively. – (2) Excluding the renting of premises. – (3) Weighting net of intrasectoral transactions. – (4) Calculated at fixed weights derived from the input-output tables for 1988. at 1980 prices.

The sharp deceleration in the prices of food products was decisive in curbing inflation, especially in the second half of the year, accounting for about half of the slowdown in the cost of living between last summer and April 1993. Food prices reflected the plentiful supply of fresh and unprocessed products (Table 14); the reorganization that has begun to take place in the commercial distribution network and which has been at its most intense in this market segment also appears to have played a part.

Table 14

**PRICES OF FOOD PRODUCTS**

*(percentage changes on corresponding period of previous year)*

| | 1991 | 1992 | | | | |
|---|---|---|---|---|---|---|
| | | Year | Q1 | Q2 | Q3 | Q4 |
| Producer prices (1) | 3.4 | 4.8 | 5.0 | 5.2 | 4.7 | 4.4 |
| Average unit value of imports (1) | 0.8 | 1.9 | –0.6 | 2.0 | 0.3 | 5.8 |
| Wholesale prices (1) | 7.9 | 2.0 | 5.9 | 3.6 | 0.4 | –1.2 |
| *processed* | *5.2* | *5.7* | *8.1* | *7.2* | *4.9* | *3.4* |
| *unprocessed* | *10.9* | *–1.9* | *3.6* | *–0.3* | *–4.7* | *–6.1* |
| Consumer prices | 6.6 | 5.0 | 6.4 | 5.6 | 4.4 | 3.5 |
| *processed* | *6.3* | *4.8* | *5.9* | *5.4* | *4.9* | *4.7* |
| *unprocessed* | *7.0* | *5.4* | *7.5* | *6.7* | *4.6* | *2.8* |

Source: Based on Istat data.
(1) Food products included in final consumer goods.

*The distribution of income and profit margins*

The share of labour income in the value added of manufacturing industry and market services decreased by 0.7 points, thus bringing to a halt the narrowing of gross profit margins recorded in the three previous years with the beginning of the downturn.

## THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

The current account deficit increased by 6.1 trillion lire to about 32.7 trillion in 1992 (Table 15), rising from 1.9 to 2.2 per cent of GDP. An improvement of 4 trillion lire in the trade balance was outweighed by an increase in the deficit on all of the main invisible items; as in previous years, the widening of the deficit on investment income was particularly large, with net outflows now accounting for more than three quarters of the total current account deficit.

Table 15

**CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS**
*(billions of lire)*

| | 1990 | 1991 | 1992 |
|---|---|---|---|
| **Goods** | **431** | **–923** | **3,053** |
| Goods *cif-fob* | –14,188 | –16,018 | –12,675 |
| **Invisibles** | **–1,.213** | **–25,675** | **–35,787** |
| **Services** | **590** | **1,439** | **–2,970** |
| Transport | –3,831 | –3,510 | –4,774 |
| Foreign travel | 7,083 | 8,402 | 6,067 |
| Other | –2,662 | –3,453 | –4,263 |
| **Income** | **–15,501** | **–19,635** | **–25,553** |
| Investment income | –16,000 | –19,992 | –25,638 |
| Income from labour | 499 | 357 | 85 |
| **Unrequited transfers** | **–3,302** | **–7,479** | **–7,264** |
| Private | 1,001 | –1,696 | –2,267 |
| Remittances | 1,416 | 966 | 636 |
| Other | –415 | –2,662 | –2,903 |
| Public | –4,303 | –5,783 | –4,997 |
| On EC accounts | –1,377 | –2,610 | –1,156 |
| Development aid | –1,453 | –1,603 | –1,756 |
| Other | –1,473 | –1,570 | –2,085 |
| **Total** | **–17,782** | **–26,598** | **–32,734** |

### *Merchandise trade*

The *fob fob* balance on merchandise trade, which had shown a small deficit over the two years 1990 and 1991, recorded a surplus of 3.05 trillion lire last year. The terms of trade improved by 1.3 percentage points and volume changes were also in Italy's favour, with the ratio of exports to imports at constant prices rising by 0.4 per cent (Table 16).

Table 16

**MERCHANDISE TRADE**

*(seasonally adjusted, percentage changes on corresponding period of previous year)*

| | 1991 | 1992 | | | | |
|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Year |
| **Account prices** | | | | | | |
| Exports | 3.1 | 3.8 | –4.0 | 3.2 | 2.0 | 4.6 |
| Imports | 3.7 | 2.8 | 0.7 | –4.7 | 3.3 | 2.8 |
| Exports/imports (1) | –0.6 | 1.0 | –4.7 | 8.4 | –1.3 | 1.8 |
| **Average unit values** (2) | | | | | | |
| Exports | 2.9 | 0.6 | –0.6 | –0.2 | 3.9 | 0.7 |
| Imports | –0.8 | 0.9 | 1.0 | –1.9 | 3.1 | –0.6 |
| Terms of trade (1) | 3.7 | –0.3 | –1.5 | 1.7 | 0.8 | 1.3 |
| **At constant prices** | | | | | | |
| Exports | 0.1 | 3.2 | –3.5 | 3.5 | –1.9 | 3.8 |
| Imports | 4.4 | 1.8 | –0.3 | –3.0 | 0.2 | 3.4 |
| Exports/imports (1) | –4.1 | 1.4 | –3.2 | 6.7 | –2.1 | 0.4 |

Source: Based on Istat data.
(1) Ratio of exports to imports. – (2) Obtained as a residual, with values and volumes seasonally adjusted separately.

The volume of imports increased by 3.4 per cent, compared with a rise of 4.4 per cent in 1991; the deceleration became more pronounced as the year progressed, mirroring the weakening of domestic demand. The volume of exports increased by 3.8 per cent after stagnating in 1991. In the first few months of the year export growth was stimulated by a slight recovery in world demand. Caught between the progressive slowdown in domestic demand and the continued slackness of demand in the other Community countries, Italian businesses turned to more dynamic markets, such as the United States and some of the countries in the Middle and Far East. Italy's share of exports by the industrial countries, which had been declining since the mid-eighties, recorded a small increase over the low level of 1991.

The average unit value of imports decreased by 0.6 per cent year on year, while that of exports rose 0.7 per cent. Import prices remained virtually unchanged during the first three quarters, continuing a tendency that had begun in 1991. The depreciation of the dollar, which was at its most pronounced during the summer, reinforced the effects of the fall in the dollar prices of energy products, while the slight decrease in the effective exchange rate of the lira with respect to the currencies of the countries accounting for most of Italy's imports of manufactures offset the decline in the foreign currency prices of manufactured goods (Table 17). Over the same period, the differential between the rate of increase in domestic output prices and that in export prices widened, signaling fiercer competition abroad.

Table 17

**MAIN COMPONENTS OF THE AVERAGE UNIT VALUES OF MERCHANDISE IMPORTS**

*(percentage changes on previous year)*

| | 1991 | 1992 | | | | |
|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Year |
| Average unit value of manufactures in exporters' currencies | –0.6 | –1.0 | 0.0 | –1.0 | –6.5 | –2.7 |
| Effective exchange rate of the lira (1) | –1.2 | .. | –0.4 | –1.1 | –11.1 | –3.7 |
| Average unit value of energy products in dollars | –5.9 | –12.0 | 4.3 | 3.3 | –5.1 | –9.0 |
| Average unit value of other raw materials in dollars | –7.3 | –0.9 | 0.7 | 3.8 | –14.5 | –4.0 |
| Lira/dollar exchange rate | 3.5 | –0.4 | –0.1 | –6.9 | 20.2 | –0.6 |

Sources: Based on Istat, OECD and IMF data.
(1) Vis-à-vis the currencies of the countries that account for most of Italy's imports of manufactures. A minus sign indicates a depreciation of the lira.

The depreciation of the lira in the last quarter radically changed competitive conditions. The nominal effective exchange rate fell by 11.3 per cent with respect to the previous quarter and by 12.2 per cent compared with the corresponding period of 1991. The real exchange rate, based on the producer prices of manufactures, declined by more than 10 per cent compared with the third quarter; the depreciation in relation to the EC currencies was 9.4 per cent. Italian exporters of manufactures used most of the wide margin provided by the fall in the nominal exchange rate to improve their competitiveness, raising lira prices by only 4.1 per cent in relation to the previous quarter (by 5.8 per cent with respect to the last quarter of 1991). Manufacturers abroad also raised the lira prices charged in the Italian market by considerably less than the change in the exchange rate; the fall of 6.5 per cent in their foreign currency prices reflected pricing policies aimed at defending market shares. The improved competitiveness of domestic producers, especially on foreign markets, began to be reflected in import and export volumes in the first few months of 1993.

The deficit on trade with the EC countries widened by about 3.4 trillion lire to 10 trillion in 1992. In the second half of the year it stabilized at the same level as in the corresponding period of 1991 owing to a sharp slowdown in imports from Germany and France. Exports to the United States increased by 5.8 per cent in value terms, benefiting from the revival of demand in that country; as imports from the United States simultaneously contracted, the bilateral trade surplus increased by 1.3 trillion lire. The decline in the world prices of crude oil contributed to a fall of 11.4 per cent in imports from OPEC countries; the accompanying increase in exports reduced the deficit with these countries by 3.2 trillion lire. The deficit on trade with Eastern European countries fell by 1.3 trillion lire owing to the exceptional growth of 34 per cent in Italian exports to the area.

Since 1 January 1993, merchandise trade among the EC countries has been recorded by means of the Intrastat statistical system owing to the elimination of customs controls at internal frontiers as a consequence of the completion of the Single European Market. In Italy, as in the other countries of the Community, the problems encountered with the launch of the new system have seriously delayed the compilation of data on intra-Community trade.

In the first two months of 1993 trade with other EC countries showed a surplus of nearly 1.6 trillion lire, compared with a deficit of 3 trillion lire in the corresponding period of 1992. The sharp underlying fall in imports (17.6 per cent) was due largely to the reporting delay allowed to firms under present tax law.

In value terms, trade with non-EC countries showed a pronounced improvement in the first three months of the year. Here, however, the reduction of the deficit from 3.3 trillion lire in the first quarter of 1992 to just over 500 billion was due to strong export growth (24.4 per cent), which far outpaced the growth in imports (9.7 per cent). The seasonally adjusted trade surplus with non-EC countries came to 2.3 trillion lire, 1.5 trillion lire more than in the previous quarter.

### *Invisibles*

The invisibles account of the balance of payments (services, investment income and unrequited transfers) recorded a deficit of nearly 35.8 trillion lire in 1992, or 10.1 trillion more than in 1991. Invisibles now account for more than 40 per cent of total current account transactions.

The surplus on foreign travel declined from 8.4 to 6.1 trillion. The rate of growth in expenditure was faster than the long-term trend. The size of the increase presumably reflected the inclusion of capital exports by residents during the currency crisis, which were not recorded as such owing to the lack of information concerning their precise nature. Receipts also began to increase again after stagnating in 1991. Seasonally adjusted figures reveal the positive effect of the depreciation of the lira on spending by foreign visitors and on the number of foreigners entering Italy in the fourth quarter (Table 18). The depreciation also affected Italians' spending abroad, as can be inferred from the pronounced slowdown in expenditure in the latter part of the year.

Table 18

**FOREIGN TRAVEL**

*(seasonally adjusted where not otherwise specified; percentage changes on the corresponding period of the previous year)*

| | 1991 | 1992 | | | | |
|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Year |
| **Foreign travellers in Italy** | | | | | | |
| Receipts at current prices ...... | –3.4 | –1.5 | 1.1 | –7.4 | 37.9 | 15.7 |
| Receipts at constant prices (1) .. | –8.8 | –2.9 | –0.3 | –8.1 | 36.5 | 9.9 |
| Visitors entering Italy ........... | –14.9 | 2.1 | –3.1 | –2.4 | 9.7 | –2.4 |
| Real exchange rate of the lira (2) . | 1.1 | 0.4 | –0.2 | –1.2 | –10.0 | –2.3 |
| **Italian travellers abroad** | | | | | | |
| Espenditure at current prices .... | –12.8 | –16.0 | 34.3 | 20.1 | 12.0 | 40.9 |
| Expenditure at constant prices (1) | –17.1 | –17.3 | 32.2 | 18.7 | 1.6 | 30.4 |
| Real exchanges rate of the lira (2) | 0.5 | 0.5 | –0.3 | –0.4 | –9.3 | –1.9 |

Sources: Based on OECD, IMF and Istat data.
(1) 1985=100. – (2) Unadjusted data; based on consumer prices in the countries that are the main providers of tourist services; a minus sign indicates an increase in competitiveness.

The deficit on business services rose only slightly, from 2.7 to about 2.8 trillion lire, giving rise to a small improvement in relation to total trade flows of this kind. More than 60 per cent of transactions consisted of transfers of technology; the technology balance, which relates to trade in patents, licences, know-how and similar services, recorded a deficit of 1.2 trillion lire in 1992, only marginally less than in 1991.

In relation to GDP, the technology balance improved compared with 1991, thus continuing the trend of recent years; however, the size of the variation is still too small to constitute a significant reduction in Italy's dependence on imported technology.

Net outflows of investment income came to 25.6 trillion lire (1.7 per cent of GDP), compared with about 20 trillion lire in 1991 (1.4 per cent). Although gross interest payments increased more slowly than in 1991, they continued to rise at a rapid rate (24.2 per cent) and increased from 13.0 to 14.8 per cent of total current account payments; interest income rose by 1 percentage point in relation to total current account receipts, reflecting an increase of 21 per cent in this item. The current account deficit contributed to the growth in net outflows by increasing net external indebtedness. The imbalance worsened during the year owing to the steady widening of interest rate differentials in relation to the lira, the currency in which the bulk of Italy's liabilities are denominated.

Unrequited transfers recorded a deficit of 7.3 trillion lire, equal to 0.5 per cent of GDP and only slightly less than the shortfall of 7.5 trillion lire recorded in 1991. Net outflows on account of private transfers rose by 600 billion to 2.3 trillion, but the deterioration was more than offset by the decline in the deficit on official transfer payments. The surplus on emigrants' remittances fell by 300 billion lire, continuing the downward trend of the last eight years. Remittances by foreign workers in Italy are still small (200 billion lire, as against 100 billion in 1991), although they probably continue to be significantly underestimated.

The deficit on unrequited official transfers came to almost 5 trillion lire in 1992, as against 5.8 trillion the previous year. The net contribution to the Community budget decreased by 1.4 trillion lire to 1.2 trillion, owing to lower VAT payments and the increase in subsidies from the European Regional Development Fund. The decline in net transfers to the European Community more than offset the increase in those to foreign countries and other international organizations. Development aid contributions, which had decreased in 1990, rose to 2.4 trillion lire in 1991 and increased further to 2.6 trillion lire last year.

# CAPITAL FLOWS AND THE EXCHANGE RATE

The international integration of Italy's financial markets continued in 1992. Gross capital inflows and outflows rose by almost 50 per cent over the year to 2,750 trillion lire. In the eighties the ratio of total financial transactions with foreign counterparties to GDP had averaged less than 70 per cent, but in the nineties it has risen sharply, jumping to 92 per cent in 1990, 131 per cent in 1991 and 182 per cent last year.

Table 19

**CAPITAL FLOWS (1)**

*(net flows in billions of lire)*

| | 1991 | 1992 | 1992 | | | |
|---|---|---|---|---|---|---|
| | | | Jan.-May | June-Aug. | Sept. | Oct.-Dec. |
| **Non-bank capital** .......... | **–10,594** | **–13,521** | **–21,537** | **–21,403** | **–640** | **30,059** |
| Italian capital .............. | –48,339 | –40,568 | –39,084 | –24,571 | 212 | 22,875 |
| Direct investment .......... | –9,089 | –7,338 | –5,305 | –903 | –156 | –974 |
| *of which: real estate* ..... | *–812* | *–397* | *–203* | *–143* | *–48* | *–3* |
| Portfolio investment ........ | –30,789 | –24,152 | –30,622 | –20,278 | 388 | 26,360 |
| Loans .................... | –7,671 | –5,882 | –1,390 | –2,367 | –335 | –1,790 |
| Trade credit ............... | –790 | –3,196 | –1,767 | –1,023 | 315 | –721 |
| Foreign capital .............. | 37,745 | 27,047 | 17,547 | 3,168 | –852 | 7,184 |
| Direct investment . | 3,078 | 3,895 | 1,179 | 707 | 334 | 1,675 |
| *of which: real estate* ..... | *–74* | *9* | *–56* | *–65* | *–16* | *146* |
| Portfolio investment ........ | 23,228 | 12,788 | 3,998 | 2,182 | –921 | 7,529 |
| Loans .................... | 13,409 | 9,076 | 9,735 | 2,357 | –1,676 | –1,340 |
| Trade credit ...... | –1,970 | 1,288 | 2,635 | –2,078 | 1,411 | –680 |
| **Bank capital** .............. | **39,369** | **25,303** | **35,202** | **15,105** | **–25,881** | **877** |
| Banks .......... | 26,167 | 27,713 | 33,829 | 16,845 | –23,811 | 850 |
| Special credit institutions ... | 13,202 | –2,410 | 1,373 | –1,740 | –2,070 | 27 |
| **Total** .................... | **28,775** | **11,782** | **13,665** | **–6,298** | **–26,521** | **30,936** |
| *Memorandum items:* | | | | | | |
| Current account balance . | –26,598 | –32,734 | –17,240 | –3,973 | –4,963 | –6,558 |
| Errors and omissions .... | –10,748 | –11,596 | –2,725 | –12,584 | 1,626 | 2,087 |
| Change in official reserves (2) ........... | 8,571 | 32,548 | 6,300 | 22,855 | 29,858 | –26,465 |

(1) Italian and foreign capital flows reflect changes in residents' external assets and liabilities respectively. – (2) Net of valuation adjustments. A minus sign indicates an increase in reserves.

Capital movements gave rise to net inflows of around 11.8 trillion lire last year, compared with 28.8 trillion in 1991 (Table 19). Net inflows via resident credit institutions totaled 25.3 trillion lire, compared with 39.4 trillion the previous year. Movements of non-bank capital, by contrast, gave rise to net outflows of 13.5 trillion lire, against 10.6 trillion in 1991. After decreasing by 8.6 trillion lire in 1991, the official reserves fell by more than 32.5 trillion lire after adjustment for variations in exchange rates and the price of gold. Given the current account deficit of 32.7 trillion lire, the residual errors and omissions item showed an outflow of 11.6 trillion lire.

### *Developments during the year*

The pattern of capital flows in 1992 closely mirrored the phases in the lira crisis in the exchange markets. During the first five months of the year net inflows followed the pattern that had emerged in 1991: inflows of foreign non-bank capital declined but were still appreciable (more than 17.5 trillion lire), while outflows of Italian non-bank capital increased to around 39.1 trillion lire; capital inflows via resident banks were steady and substantial, totaling 35.2 trillion lire. The official reserves fell by a modest 6.3 trillion lire, but the lira remained at or above the centre of the EMS fluctuation band for most of the period.

At the beginning of June tensions developed in the government securities market, owing partly to the political crisis. The rejection of the Maastricht Treaty in the Danish referendum on 2 June cast a shadow over the prospects for European monetary union, which the markets had regarded as providing some guarantee for the adjustment of Italy's public finances. Capital flows began to change in June and investors became even more cautious in July, so that in the course of these two months net inflows of foreign non-bank capital contracted rapidly and eventually ceased altogether. Net outflows of Italian capital intensified, doubling in each of the two months. The demand for foreign currency loans by Italian firms, many of which continued to expect the lira to remain broadly stable, and the lifting of the reserve requirement on foreign currency fund-raising in May 1991 ensured continued inflows of bank capital, but not on a sufficient scale to prevent a heavy outflow of reserves, amounting to almost 18.3 trillion lire. The pressures on the lira were also exacerbated by events in the international currency markets, which were affected by the widening divergence between the monetary policy of the United States, which was oriented towards expansion, and that of Germany, where the stance was becoming more restrictive. In August a brief revival of confidence in Italy in the wake of the agreement on labour costs and the usual seasonal slowdown in market activity halted the net outflow of non-bank capital.

Pressure on the EMS currencies built up again at the end of August with the approach of the French referendum on ratification of the Maastricht Treaty. On 28 August the governments of the EC countries publicly announced that they would not realign their central parities, and on 5 September they reaffirmed this commitment. The downgrading of Italian government securities in foreign currency put further pressure on the lira, which moved to the lower margin of the fluctuation band.

Speculative attacks on the lira in the first few days of September triggered compulsory bilateral intervention at the margin, as envisaged in the European exchange rate agreements. On 4 September, against a background of increasing uncertainty about the implementation of adequate measures to curb the budget deficit, the discount rate was raised to 15 per cent; exchange market intervention intensified, while in the financial market the prices of securities declined. On 13 September serious and widespread turbulence in the currency markets prompted the Italian and German authorities to propose a general realignment of central rates, to which the Bundesbank would have responded by significantly easing its interest rate policy. Italy was the only country to agree to change the central parity of its currency against the Deutschemark, devaluing the lira by 7 per cent. On the following Monday, 14 September, the Bundesbank decided to lower its lombard rate by a quarter of a percentage point and its discount rate by half a point. A substantial volume of funds flowed back into Italy that day, but the inflow ceased on the fifteenth. On 16 September the British authorities responded to unprecedented market pressure by suspending the pound from the ERM; the Italian Government also announced the suspension of interventions in support of the lira, and the Spanish authorities devalued the peseta by 5 per cent.

The severity of the September crisis caused official reserves worth 29.9 trillion lire to be spent in the market. Around two thirds of this amount (14 billion ecus) was met by recourse to the very short-term financing facility of the EMS. The Bank for International Settlements also opened a credit line in Deutschemarks for the Italian monetary authorities; about DM 3 billion of this was taken up, equivalent to 2.3 trillion lire at the average exchange rates for the first half of the month.

The small net outflow of non-bank capital during September, amounting to little more than 600 billion lire, was presumably the result of flows in opposite directions before and after the devaluation: in the first half of the month there was a shift in portfolio composition towards foreign assets, due in part to the perception of increased risk on Italian government paper; a large portion of these funds subsequently returned to Italy. By contrast, substantial outflows of bank capital, amounting to 25.9 trillion lire, were recorded during the month, mostly during the first twenty days. Banks alone reduced their net external foreign currency liabilities by 21.7 trillion lire at constant exchange rates, partly by repaying liabilities and partly by increasing their assets; less than 5.7 trillion lire of the contraction was matched by a decline in their net domestic assets denominated in foreign currency. Their combined spot and forward foreign exchange position, adjusted for exchange rate effects, changed only slightly.

The repayments of net foreign currency liabilities by the Italian banking system in September were probably due primarily to a contraction in the international supply of interbank deposits and greater selectivity on the part of depositors; Italian banks were particularly penalized, probably on account of adverse international reaction to the Federconsorzi and EFIM affairs. Moreover, it became more profitable for Italian banks to engage in arbitrage in the weeks preceding the devaluation of the lira, when the strength of foreign demand for lire from investors taking short positions in the currency drove up Eurolira interest rates.

The pressure on the lira eased slightly in the fourth quarter following the introduction of supplementary fiscal measures. The lira depreciated by 3 per cent between 16 and 21 September and by a further 9.5 per cent between 21 September and 6 October to reach a rate of 927 against the Deutschemark; it rallied in the next few days and did not rise above the 900 level again until the end of December. Wide interest rate differentials, though not as great as at the height of the currency crisis, stimulated inflows of foreign non-bank capital amounting to 7.2 trillion lire and the repatriation of Italian capital totaling 22.9 trillion lire.

In mid-December the Bank of Italy repaid the drawings made three months earlier under the very short-term financing facility, mainly by concluding foreign currency swaps with Italian banks. At the end of 1992 these outstanding operations amounted to 31.7 trillion lire and offset outflows of bank capital caused by the desire of many banks to reduce their external foreign currency positions. In the fourth quarter the official reserves recovered by 26.5 trillion lire. The substantial volume of official reserves consumed during the currency crisis had reduced the central bank's net external assets to about 32.9 trillion lire, compared with 108.6 trillion lire a year earlier. At the end of April 1993 they totaled around 67.9 trillion lire, or 36.3 trillion net of gold reserves.

### *Movements of non-bank capital*

As in 1990 and 1991, portfolio investment was the fastest growing component of non-bank capital movements and determined the overall outcome. Total inflows and outflows came to almost 1,800 trillion lire; the increase in gross flows was very large (107.2 per cent by comparison with 1991), although smaller than in the two preceding years.

Foreign portfolio investment gave rise to net inflows of 12.8 trillion lire, 10.4 trillion less than in 1991. The bulk occurred in the last quarter of the year. Net foreign purchases of Italian government securities declined to about 1.7 trillion lire (Table 20). The contraction in the net figure was accompanied by an expansion in gross flows, which more than doubled: total inflows and outflows rose from 344.6 trillion lire in 1991 to 897 trillion last year. The decline in net inflows was particularly marked in the case of purchases of Treasury bonds, which had been in brisk demand after the launch of futures contracts on such securities on some European stock exchanges in September 1991, while net inflows in respect of Treasury option certificates gave way to a small net outflow. In the ecu-denominated segment, net purchases of Treasury credit certificates amounting to almost 1.4 trillion lire were partially offset by net sales of Treasury bills.

Table 20

**FOREIGN PORTFOLIO INVESTMENT**

*(flows in billions of lire)*

| | 1991 | | | 1992 | | |
|---|---|---|---|---|---|---|
| | Investment | Disinvestment | Balance | Investment | Disinvestment | Balance |
| **Government securities** | **181,903** | **162,673** | **19,230** | **449,310** | **447,646** | **1,664** |
| Treasury bills | 3,438 | 3,178 | 260 | 3,600 | 3,544 | 56 |
| Treasury bonds | 101,949 | 93,776 | 8,173 | 287,754 | 285,674 | 2,080 |
| Ecu Treasury bills | 1,575 | 1,340 | 235 | 1,204 | 2,470 | –1,266 |
| Ecu Treasury certificates | 7,976 | 7,391 | 585 | 19,382 | 18,019 | 1,363 |
| Treasury credit certificates | 25,006 | 23,084 | 1,922 | 56,973 | 56,643 | 330 |
| Treasury option certificates | 27,760 | 25,446 | 2,314 | 66,205 | 66,608 | –403 |
| Other | 14,199 | 8,458 | 5,741 | 14,192 | 14,688 | –496 |
| of which: *Issues of the Italian Republic* (1) | *14,173* | *8,399* | *5,774* | *12,950* | *13,447* | *–497* |
| **Listed bonds** | **11,550** | **7,684** | **3,866** | **3,981** | **3,477** | **504** |
| **Listed shares** | **21,004** | **21,268** | **–264** | **12,780** | **13,015** | **–235** |
| **Other securities** | **5,074** | **4,678** | **396** | **99** | **104** | **–5** |
| **Other financial instruments** | **—** | **—** | **—** | **1,174** | **2,668** | **–1,494** |
| **Amounts not allocated** | **—** | **—** | **—** | **43,491** | **31,137** | **12,354** |
| **Total** | **219,531** | **196,303** | **23,228** | **510,835** | **498,047** | **12,788** |

(1) Purchases and sales by non-residents.

Gross external transactions in government securities, which had increased extremely rapidly in the last four months of 1991, continued to rise until May, when they exceeded 100 trillion lire. They declined between June and September, reflecting increasing uncertainty surrounding these securities abroad as well as in the domestic market, but picked up again in October once the worst of the currency crisis was over and fears of a financial crisis had subsided. In the last quarter the narrowing of interest rate differentials and continued uncertainty about the exchange rate of the lira prompted foreign investors to make net sales of government securities worth 2.2 trillion lire.

Net outflows of Italian portfolio investment amounted to almost 24.2 trillion lire, around one third less than in 1991 on account of substantial net inflows during the last quarter totaling 26.4 trillion lire. This reversal in the direction of flows suggests that Italian investors were hoping to make gains on foreign currency assets as a result of the lira's devaluation. Gross outflows on account of payments to current accounts and deposits abroad more than doubled, from 23.2 to 58 trillion lire; net outflows totaled 4.4 trillion lire.

The net inflow of foreign loans was less than in 1991, during the first five months of which the reserve requirement on banks' net foreign currency fund-raising had still been in force, making it more advantageous to borrow from banks' foreign branches. Private loans from abroad generated inflows of 144.3 trillion lire, compared with 156.9 trillion in 1991. As in the past, private firms in the services sector, and financial companies in particular, were the main borrowers. Net of repayments, the inflow of foreign private loans fell to 7.1 trillion lire. The increase in the inflow of foreign public loans was attributable to the bank loan of DM 3 billion raised by the Italian Government on the German market in December and repaid following the issue of Italian Republic bonds in February 1993. The fall in net Italian lending to non-residents was concentrated in the private sector, where disbursements net of redemptions fell from 5.8 trillion lire in 1991 to 4 trillion last year.

The depreciation of the lire in the last four months of 1992 increased the lira value of Italy's net foreign debt. According to the latest available data and estimates, the revaluation of outstanding assets and liabilities was more pronounced in the case of assets, as a larger proportion is denominated in foreign currencies. However, this effect was outweighed by the greater absolute volume of liabilities.

# PUBLIC FINANCES

## *The results for the year*

The adjustment of the public finances has made little headway in the last few years. The budget deficit remained virtually unchanged in relation to GDP, primarily owing to the progressive decline in the level of economic activity. The supplementary budget measures introduced during the year curbed the underlying tendency for expenditure and deficits to increase, especially interest payments, which were affected by the rise in interest rates associated with the turbulence in domestic and international financial markets.

Even though the corrective measures were more far-reaching than in previous years, the public sector borrowing requirement continued to grow in 1992, rising from 157.2 to 167.1 trillion lire net of the settlement of past debts, and from 11 to 11.1 per cent of GDP (Tables 21 and all). The borrowing requirement of the more narrowly defined state sector followed a similar pattern, rising from 152.3 to 163.1 trillion and from 10.7 to 10.8 per cent of GDP.

Table 21

**PUBLIC SECTOR BORROWING REQUIREMENT**

*(billions of lire)*

| | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|
| A = Total borrowing requirement | 133,467 | 146,054 | 161,205 | 167,947 |
| *as a percentage of GDP* | *11.2* | *11.1* | *11.3* | *11.1* |
| B = A minus settlements of past debts | 132,867 | 143,054 | 157,205 | 167,147 |
| *as a percentage of GDP* | *11.1* | *10.9* | *11.0* | *11.1* |
| C = B minus interest payments | 24,968 | 15,618 | 9,840 | –6,247 |
| *as a percentage of GDP* | *2.1* | *1.2* | *0.7* | *–0.4* |
| D = C plus withholding tax on income from government securities | 31,736 | 24,774 | 21,678 | 9,874 |
| *as a percentage of GDP* | *2.7* | *1.9* | *1.5* | *0.7* |

These balances were far in excess of the targets published in official documents. The overshoot for the state sector was just over 35 trillion lire, of which 17 trillion represented the shortfall compared with the planned surplus net of interest payments and the remaining 18 trillion unforeseen interest payments.

It was already clear in the early months of the year that the original target of 127.8 trillion lire would be exceeded. In the Treasury Minister's quarterly report on the borrowing requirement submitted to Parliament in March, the state sector borrowing requirement was estimated at 150 trillion lire, or 160 trillion on the basis of a more conservative forecast of revenue. On 11 July the newly formed Government introduced a supplementary budget whose effects were officially estimated to be on the order of 30 trillion lire. The aim was to reduce the borrowing requirement by 15 trillion lire compared with the March forecast; the revenue measures were expected to yield an additional 16 trillion and the expenditure measures to save 7 trillion, while privatization proceeds were forecast to amount to 7 trillion, compared with the earlier estimate of 15 trillion. At the same time the objective for the state sector was raised to 150 trillion. The package nonetheless failed to ease the tension that had built up in the foreign exchange and financial markets. The Government responded by bringing forward the implementation of some of the 1993 budget measures. On 19 September, following the realignment of the lira and its withdrawal from the Exchange Rate Mechanism, the Government promulgated Decree Law 384 containing a series of major fiscal provisions. The economic slowdown and the turbulence in the financial markets inflated the borrowing requirement still further, so that the target was raised to 155 trillion at the end of September, primarily to reflect the additional rise in interest payments. The increase in the borrowing requirement that can be attributed to the failure of the economy to grow in 1991 and 1992 as fast as had been forecast in September 1991 was on the order of 13 trillion lire.

The fiscal measures for the year made it possible to reduce the borrowing requirement by 60 trillion lire compared with its value on a current programmes basis, a correction equivalent to 4 per cent of GDP. The corresponding figures for 1991 and 1990 were respectively 3.2 and 1.8 per cent. However, the proportion of the adjustment attributable to temporary measures was larger than in 1991, rising from a third to roughly a half.

The additional receipts amounted to around 38 trillion lire and the reduction in expenditure to 22 trillion. The main tax measures were a condonation scheme for direct and indirect taxes, one-off capital levies on buildings and bank and post office deposits, the compulsory revaluation of company-owned buildings, a one percentage point increase in the personal income tax rates for all income brackets except the first two, the reintroduction of the 1989 limits for the brackets in question, an increase in personal income tax instalments and some indirect taxes.

On the expenditure side the most important measures concerned the recruitment of public employees and their wages and salaries, producing a total saving of around 9 trillion lire for the public sector. Other measures included an increase in patient contributions towards medical costs, reductions in purchases of goods and services and subsidies to enterprises, a freeze on some budget allocations, curbs on the spending of other public entities by curtailing their funding and the suppression of the November cost-of-living increase in pensions.

Table 22

**MAIN INDICATORS OF PUBLIC SECTOR FINANCES**

*(as a percentage of GDP)*

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| Tax and social security receipts (1) ............. | 36.0 | 35.1 | 34.9 | 35.2 | 36.0 | 36.5 | 38.2 | 38.7 | 39.7 | 41.8 |
| Total public sector expenditure (2) .......... | 50.5 | 50.3 | 51.2 | 51.0 | 50.9 | 51.0 | 52.1 | 53.3 | 54.0 | 55.9 |
| *of which: interest payments* | *7.6* | *8.2* | *8.2* | *8.6* | *8.1* | *8.3* | *9.0* | *9.7* | *10.3* | *11.5* |

(1) Including revenues attributable to the EC and direct tax receipts allocated to capital account. – (2) Net of settlements of past debts.

The net indebtedness of the public sector (comprising the indebtedness of general government drawn from the national accounts, that of the autonomous government agencies not included in general government and that of the State Railways) rose by less than the borrowing requirement, which includes financial transactions; the aggregate increased from 151.3 to 155.7 trillion lire but decreased from 10.6 to 10.3 per cent of GDP (Table 22). The net indebtedness attributable to general government, which is the reference aggregate for the procedures established in the Maastricht Treaty for monitoring "excessive deficits", fell from 146.1 to 143.3 trillion lire and from 10.2 to 9.5 per cent of GDP. The divergence between these two aggregates was due primarily to the sharp rise in the needs of the State Railways, which were met by raising funds directly in the market and drawing on their liquid balances with the Treasury.

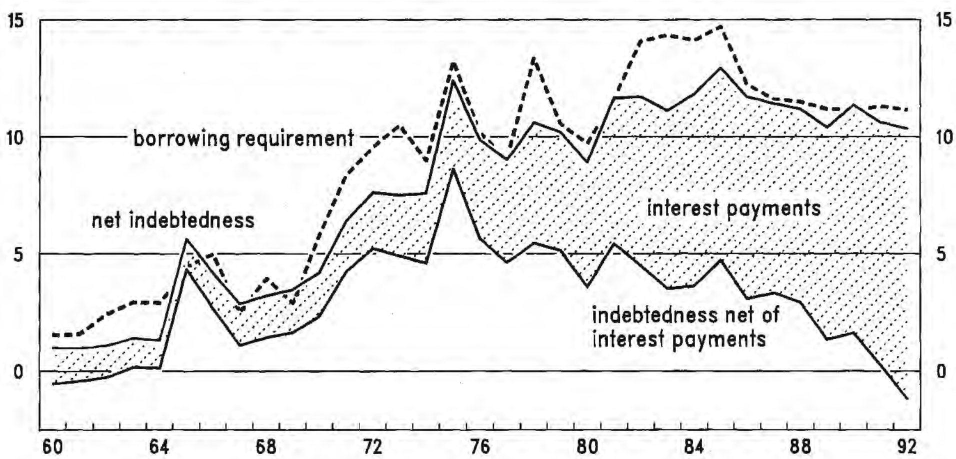
Fiscal policy had a mildly expansionary impact last year. The public sector balances grew at almost the same rate as consumer prices; they nonetheless outpaced prices when they are adjusted for the effects of temporary budget measures, which contributed more to the overall correction than in 1991. When account is taken not only of the changes in revenue and expenditure in real terms but also of the loss of purchasing power of the public debt, the impact of fiscal policy was somewhat more expansionary.

Last year's improvement in the balance net of interest payments was larger than those of the two previous years: the primary deficit of 15.6 trillion lire recorded in 1990 was reduced to 9.8 trillion in 1991 and replaced by a primary surplus on the order of 6.2 trillion in 1992, the first for thirty years. The corresponding ratios to GDP were respectively 1.2, 0.7 and 0.4 per cent (Figure 6). Yet again the improvement was due to the increase in tax receipts and social security contributions, which rose by more than two percentage points in relation to GDP. Most of the growth stemmed from an increase in direct taxes, which rose from 14.7 to 16.5 per cent of GDP, while indirect taxes remained virtually unchanged at 12 per cent of GDP.

Figure 6

**PUBLIC SECTOR BORROWING REQUIREMENT AND INDEBTEDNESS**

*(as a percentage of GDP)*




On the other hand, public expenditure net of interest payments and financial items increased by 0.7 percentage points in relation to GDP. Excluding financial transactions, public expenditure rose from 770.6 trillion lire in 1991 to 841.8 trillion last year and from 54 to 55.9 per cent of GDP. Interest payments increased from 147.4 to 173.4 trillion lire and from 10.3 to 11.5 per cent of GDP. About two thirds of the 17.7 per cent increase in this item can be attributed to the growth in the debt and the remainder to the rise in interest rates and the greater recourse to Treasury bills, the interest on which is recorded at issue.

Spending on social security benefits made the next largest contribution to the growth in current expenditure; this item rose from 18.3 to 19.1 per cent of GDP, primarily as a result of a 12.7 per cent increase in expenditure on pensions owing to cost-of-living increases and the rise in the number of beneficiaries. Payments by the Wage Supplementation Fund and unemployment benefits increased by 9.8 per cent in connection with the slowdown in economic activity. By contrast, expenditure on wages and salaries (including actual social security contributions) rose by 3.9 per cent.

The public sector debt grew from 1,318.2 trillion lire at the end of 1990 to 1,485.1 trillion in December 1991 and to 1,673.6 trillion at the end of last year. There was also an acceleration in its growth in relation to GDP, with the ratio rising from 100.5 to 104.1 per cent and then to 111 per cent last year (Table a12). The general government debt showed a similar pattern in this period. The acceleration reflected both the widening of the gap between interest rates and the rate of growth in GDP and the depreciation of the lira, which increased the lira value of the part of the debt denominated in foreign currencies. The proportion of the public debt consisting of foreign debt depends on how the latter is defined; at the end of the year debt issued abroad amounted to 3.7 per cent of the total, debt held by non-residents to 6.1 per cent and debt denominated in foreign currency to 6 per cent. The corresponding figures in 1991 were respectively 3.7, 6 and 5.5 per cent.

The main balances of Italy's public finances, both including and excluding interest payments, continued to draw closer into line with those observed in the other leading Community countries primarily owing to the increase in the budget deficits of some of these countries. Most of the member states are less constrained by the size of the public debt and were therefore able to respond to the slowdown in economic activity by allowing built-in stabilizers to operate and, in some cases, by adopting discretionary measures.

### *Fiscal policy for 1993*

On 30 September 1992 the Government fixed the objective for this year's borrowing requirement at 150 trillion lire, corresponding to 9.3 per cent of forecast GDP. The surplus to be achieved net of interest payments was set at 50 trillion lire, or 3.1 per cent of GDP.

The impact of the budget for 1993 was estimated at 93 trillion lire. On the revenue side, the Government stated its intention of keeping tax receipts and social security contributions unchanged in relation to GDP by replacing last year's one-off measures with permanent levies; on the expenditure side, it aimed to produce a substantial reduction in the non-interest disbursements of the state sector in relation to GDP.

To achieve these results, the Government introduced some of the budget measures in Decree Law 384 of 19 September 1992 and the rest in the

Finance Bill and other bills tabled in Parliament. The budget measures were all approved by the end of December. They were expected to generate 44.4 trillion lire of additional revenue and 41.9 trillion of expenditure savings, plus privatization proceeds of 7 trillion. In the same period provision was made for structural reforms; Law 421 of 23 October defined the scope of these reforms and gave the Government power to carry them out. The implementing legislative decrees regarding social security, health services and local finances were issued before the end of the year, and that dealing with public employment in February 1993.

This year's budget stands out from those of the last few years for the scale of the adjustment (estimated officially at almost 6 per cent of GDP), the size of the spending cuts and the greater recourse to measures producing permanent effects. It is also notable for the way in which it dovetails with the structural reforms that represent a first step towards slowing the growth in the expenditure of the four sectors mentioned above in the medium and long term and improving the efficiency of central and local government.

The downturn in the economy in the first few months of the year nonetheless led the Government to revise the estimate of GDP growth; the 1.5 per cent figure forecast in September 1992 was replaced by a forecast of between zero and 0.5 per cent. The report on the borrowing requirement submitted to Parliament on 26 March indicated that the deterioration in macroeconomic conditions would reduce the primary surplus by 12.5 trillion lire on the assumption of 0.5 per cent growth in GDP.

The Government accordingly estimated that the primary state sector surplus would amount to 24.5 trillion lire, although achieving this result depended on the receipts from the minimum tax and asset sales being as forecast. After reducing the forecast for interest payments from 200 to 191.5 trillion in view of the fall in interest rates in the early months of the year, the Government estimated that the borrowing requirement for 1993 would amount to 167 trillion.

Supplementary budget measures amounting to 12.4 trillion lire were introduced on 22 May to offset the rise in the borrowing requirement due to factors other than the slowdown in economic activity. This will meet the conditions for the granting of the second instalment of the loan of Ecu 8 billion granted by the EC in January. As a result, the primary surplus should amount to 37 trillion lire and the state sector borrowing requirement to just under 155 trillion. Of fundamental importance is the link with the medium-term budget strategy that will be set out in the Finance Bill for 1994, which is to be brought forward and submitted to Parliament in July.

# THE MONEY AND FINANCIAL MARKETS

## THE OVERALL FRAMEWORK AND MONETARY POLICY

In a year marked by exchange rate instability within the EMS from the late spring onwards, Italian monetary policy was directed initially towards defending the lira's central rate in the Exchange Rate Mechanism; from mid-September onwards, when this objective had to be abandoned owing to the pressure on the lira, the actions of the Bank of Italy were aimed at countering the inflationary implications of the devaluation while at the same time permitting a gradual restoration of more relaxed monetary conditions.

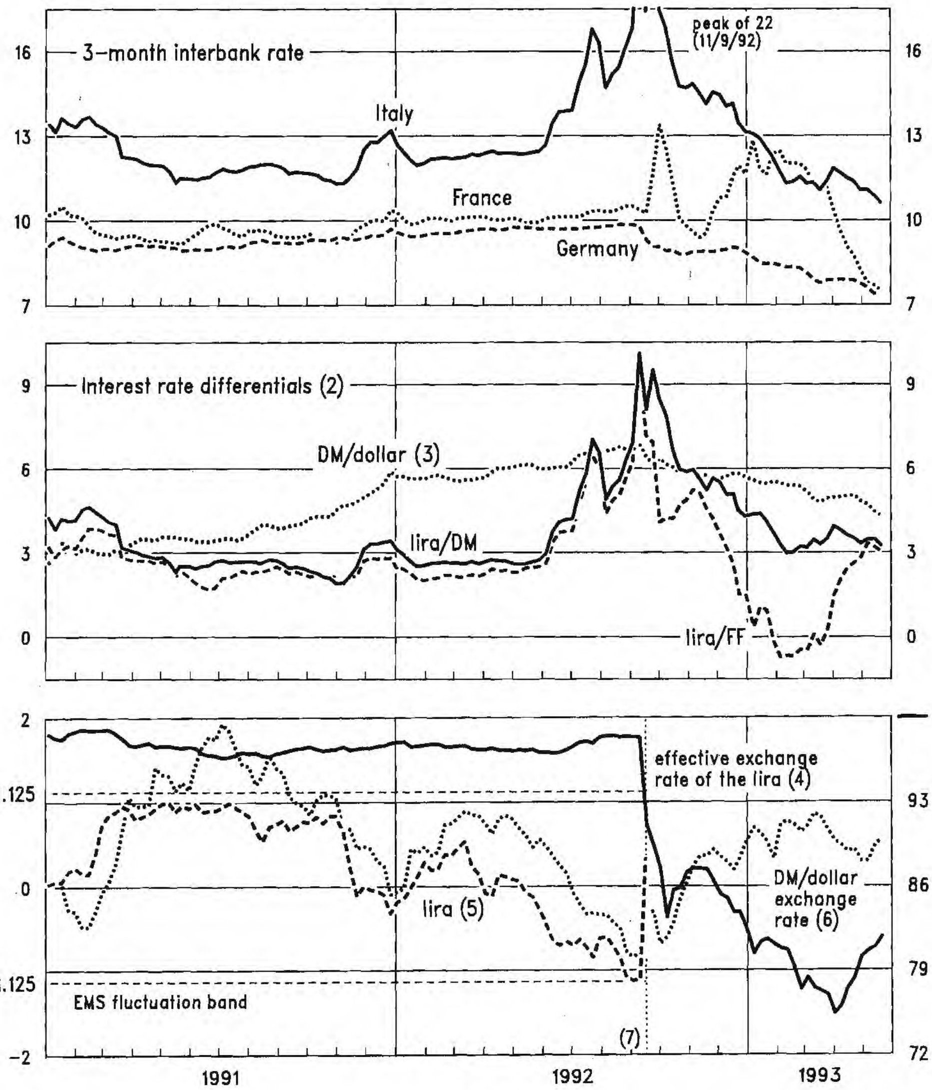
Official interest rates and money market rates remained stable in the first five months of the year. The lira fell below the centre of the fluctuation band in April and again in May, reflecting the appreciation of the Deutschemark against the dollar (Figure 7). Mounting uncertainty caused by domestic economic and political developments prompted investors to increase the liquidity of their financial assets; in the spring the rate of growth of the M2 money supply exceeded the upper limit of the 5-7 per cent target range.

The outcome of the Danish referendum on the Maastricht Treaty at the beginning of June provoked a sudden and pronounced change in monetary conditions in Europe. The uncertainty clouding the prospects for monetary union created pressure on the weakest currencies; outside the Deutschemark area, a greater part of the burden of defending the ERM parities fell on monetary policy. The Bank of Italy sought to counteract the tensions by using all the instruments available within the framework of a market-oriented monetary and exchange rate policy, namely the exchange rate flexibility permitted by the EMS fluctuation band, exchange market intervention, a tightening of bank liquidity and variations in official rates.

Figure 7

**INTEREST RATES AND EXCHANGE RATES** (1)

*(percentages and indices)*



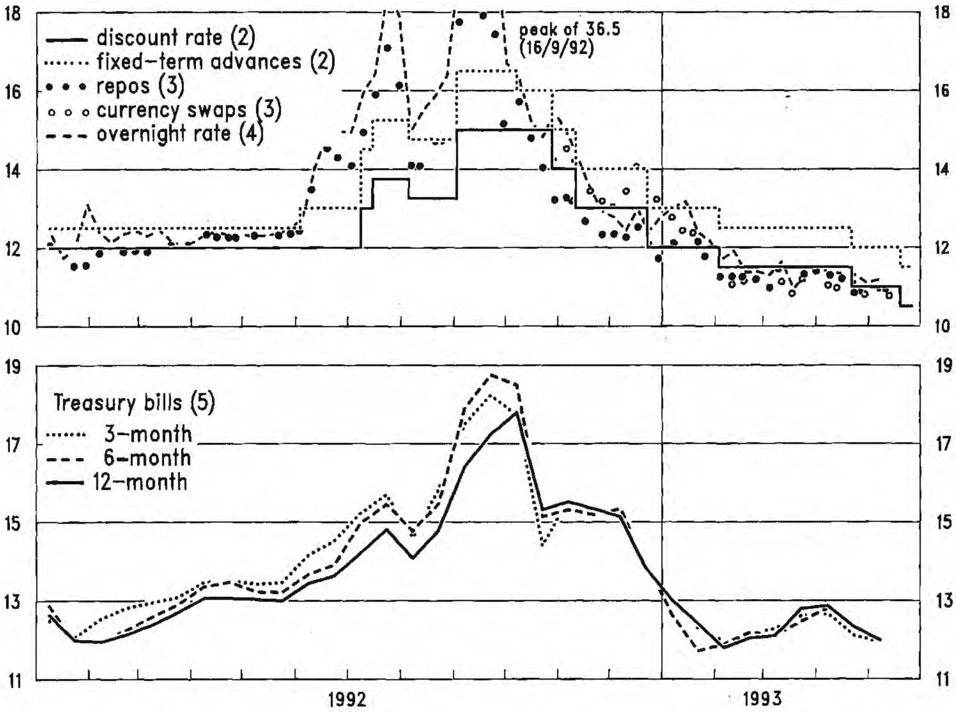

(1) Weekly averages of daily data. – (2) Difference between the 3-month interbank rate and the equivalent foreign rate. – (3) For the dollar, rate on 3-month Treasury bills. – (4) Nominal effective exchange rate vis-à-vis the currencies of Italy's 14 leading trading partners (index, 1987=100). – (5) Percentage deviations from the centre of the band. – (6) Deviation from the average for the first week of January 1991. – (7) Suspension of compulsory exchange market intervention by the Bank of Italy (17/9/92).

The increase in the rate on fixed-term advances from 12.5 to 13 per cent on 4 June was followed by a series of changes in official rates, culminating in an increase in the discount rate to 15 per cent and in the rate on fixed-term advances to 16.5 per cent on 4 September (Figure 8); the overnight interbank rate rose to 22 per cent in the first ten days of September and exceeded 30 per cent on the eleventh. On the screen-based market for government securities, the price of fixed rate paper fell by 5.5 per cent in June and July; to ensure that the issuing arrangements were sufficiently flexible in this situation, the auction floor price was suspended for medium and long-term securities from the end of July onwards. Outflows of foreign exchange continued until the end of July, despite the severe restriction of liquidity through domestic channels; after a pause encouraged by the package of fiscal measures adopted by the new Government and the agreement on labour costs between the two sides of industry, the outflow resumed in the final week of August, in conjunction with a renewed weakening of the dollar, and gained momentum at the beginning of September.

Figure 8

**OFFICIAL INTEREST RATES AND MONEY MARKET RATES** (1)

*(percentages)*




(1) Weekly averages of daily data; for Treasury bills, twice-monthly data. – (2) End-of-week data. – (3) Average of marginal rates on operations effected during the week. – (4) Weekly average of bid-ask prices. – (5) Average tender rates, gross of withholding tax.

Domestic and international factors combined to undermine the effectiveness of the monetary policy in defence of the lira. The divergence of the public accounts for 1992 from the objectives set in the Finance Law and agreed with the European Community and, above all, the uncertainty surrounding the 1993 budget eroded investor confidence in the feasibility of sustaining the exchange rate by means of monetary policy alone. Market sentiment, particularly abroad, was also adversely affected by a rating agency's decision to downgrade Italian public debt and by the procedures announced in August for the liquidation of EFIM. The approach of the French referendum on the Maastricht Treaty, which generated expectations of an imminent currency realignment and hence led operators to take open positions in Deutschemarks despite wide interest rate differentials, played a crucial role in creating tensions within the ERM. Finally, the signals coming from the Bundesbank, which continued to intervene in the open market at unchanged rates until a few days before the realignment of 13 September, indicated the unwillingness of the German central bank to deviate from its domestic objectives in order to help buttress the ERM.

The contacts at Community level, which intensified at the end of August, only produced the statement by the EC Heads of Government on 28 August that the parity grid would remain unchanged, a position reaffirmed on 5 September at the informal meeting of the Council of Economic and Financial Ministers in Bath; the conviction prevailed that a realignment would prejudice the result of the French referendum. In the days that followed, however, the joint foreign exchange interventions by the Bank of Italy and the Bundesbank reached an amount that was considered unsustainable from the point of view of monetary stability in Germany. The Italian and German Governments therefore decided on 13 September to propose a 3.5 per cent rise in the Deutschemark's central rates and an equivalent reduction in those of the lira, and a lowering of German interest rates. The size of the latter would depend on the extent of the overall realignment and hence on the consequent effective appreciation of the Deutschemark. The proposal was not accepted by the other Community countries, which decided not to change their currencies' respective parities against the Deutschemark, with the result that the Bundesbank only reduced the lombard rate by 0.25 percentage points and the discount rate by half a point. Far from abating, the speculative pressure spread to the entire EMS. On 16 September the United Kingdom suspended sterling from the ERM; on 17 September Italy announced the suspension of interventions in defence of the lira and the Spanish peseta was devalued by 5 per cent. In the following days the rapid depreciation of the lira made the prospect of a swift return to the ERM more remote; on 6 October the lira traded at 927 to the Deutschemark, as against an average of 760 in August.

Worrying signs of a deterioration in Italy's monetary and financial situation emerged immediately after the floating of the lira. The prices of fixed rate government securities on the secondary market began to fluctuate widely at the end of September, hitting a low on 7 October. The behaviour of the secondary market affected the outcome of new issues: the overall borrowing requirement of 34 trillion lire in September and October was financed by issuing more than 16 trillion lire of Treasury bills and creating 18 trillion of monetary base, mainly through overdrafts on the Treasury's current account with the Bank of Italy; net issues of medium and long-term securities were virtually nil. Investors' nervousness was reflected in unusually large withdrawals from bank accounts, making it necessary on 30 September for the Governor of the Bank of Italy to call formally on the banks to reassure their customers. In September the volume of notes and coin in circulation was around 3 trillion lire higher than the normal seasonal level.

During this period the Bank of Italy had to reconcile two conflicting objectives: on the one hand, to normalize the monetary situation by bringing short-term rates down to a level consistent with the change in the lira's exchange rate and with the cyclical slowdown of the economy, and on the other to avoid giving the market reason to believe that the inflationary pressures fueled by the depreciation of the currency would be accommodated. A sudden easing of monetary conditions could have become an autonomous cause of inflation, particularly through its impact on expectations, and could have hindered rather than helped the reduction in longer-term interest rates, as indicated by the negative correlation between the latter and the lira exchange rate. The necessary reduction in money market rates could only be effected gradually, as information on the slowdown in inflation and the budget's progress through Parliament became available.

The first step in reducing official rates was taken on 8 October, when the premium on fixed-term advances was lowered by half a point. On 23 October, after the rapid parliamentary approval of the enabling law on health care, public employment, social security and local authority finance, the Bank of Italy decided to cut official rates by 1 percentage point. At the same time, interbank lira fund-raising abroad was exempted from reserve requirements in order to promote the integration of the domestic money market with the Eurolira market, which had grown in size and importance in the preceding months. The Bank also announced that it would monitor the lira lending of banks and special credit institutions and called on them to keep the growth in lira lending from November to March within ceilings set for each of the two categories of intermediary. The intention was first to give quantitative indications that would reinforce the message of stringency already implicit in the gradualness of the decline in official rates, and secondly, in view of the unstable conditions still prevailing in the financial and foreign exchange markets, to prevent lending from fueling excessive price increases or speculative operations against the lira that would impede the reduction in rates. At a time when credit growth was slowing down spontaneously, the monitoring procedure did not hinder the normal financing of productive activity, as shown by the fact that lending remained well within the ceilings. The setting of an unchanged target range of 5-7 per cent for the growth of M2 in 1993 signaled to the market that the anti-inflationary monetary policy stance would be maintained in the medium term.

The gradual lowering of official and market rates continued in the last two months of the year. Official rates were reduced by 1 percentage point on 12 November and by a further point on 22 December; the overnight rate and that on three-month Treasury bills, which had been respectively 15.5 and 13.4 per cent in October, fell to 12.8 and 12.2 per cent at the end of the year. The gradual easing of liquidity conditions was achieved through open market operations, the range of which was extended on 27 October by the introduction of foreign currency swaps.

During the year monetary base grew by 7.1 per cent, compared with 9.7 per cent in 1991 (Table 23). This result reflected two contrasting developments: the acceleration in the volume of notes and coin in circulation in the second half, which caused the aggregate to increase by 11.8 per cent for the year as a whole, and the slowdown in the growth of bank reserves to 4.2 per cent. In the second half of the year bank reserves were affected by the tightening of liquidity and the abrupt deceleration in the demand for bank deposits. Monetary base destruction on a very large scale through the external sector was partly offset by open market operations, while for the third successive year the Treasury did not contribute to liquidity creation. However, the difficult market conditions forced the Treasury to increase the liquidity of the securities it offered; Treasury bonds declined from 67.5 to 24.6 per cent of the net issue volume, while the proportion of other government securities, primarily Treasury bills and Treasury credit certificates, increased accordingly.

Table 23

**MONETARY BASE AND MONEY SUPPLY (1)**

*(percentage changes)*

| | 1991 | 1992 | | | | 1993 |
|---|---|---|---|---|---|---|
| | December | March | June | September | December | March (2) |
| Notes and coin | 10.9 | 8.2 | 8.5 | 13.9 | 11.8 | 13.7 |
| Bank reserves (3) | 8.9 | 6.2 | 8.1 | 4.6 | 4.2 | 6.5 |
| Monetary base (3) | 9.7 | 7.0 | 8.3 | 8.1 | 7.1 | 9.1 |
| Money supply (M2) | 8.3 | 8.2 | 9.3 | 6.9 | 5.9 | 6.2 |

(1) Percentage changes on corresponding month of previous year. Notes and coin, bank reserves and monetary base are calculated as averages of daily figures for the maintenance period of compulsory reserves (from the 15th of each month to the 14th of the following month), money supply as the average in the calendar quarter ending in the month indicated. – (2) Provisional. – (3) Adjusted for changes in the compulsory reserve ratio.

The expansion in the monetary aggregates fluctuated in the course of the year. In the first half M2 grew at an annual rate of 8.9 per cent, exceeding the upper limit of the target range; increased investor preference for liquid assets and diversification according to issuer led to a steep rise in certificates of deposit. Money supply growth slowed down sharply during the summer owing to a number of factors, including the large increase in interest rate differentials between government securities and bank deposits, the monetary effects of the balance-of-payments deficit and the fears generated by the tax on bank deposits levied in July. Calculated on the basis of three-month averages, the annual growth of M2 was 5.9 per cent, close to the middle of the target range. Brisk demand for CDs and securities repurchase agreements boosted the growth in liquid assets to 10.7 per cent, higher than that in total financial assets, which expanded by 7.1 per cent, 4 percentage points less than in 1991 (Table 24).

Table 24

**CREDIT, MONEY AND FINANCIAL ASSETS (1)**

| | Finance to the non-state sector | | Total credit | | M1 | M2 | Liquid assets | Financial assets |
|---|---|---|---|---|---|---|---|---|
| | Domestic | (2) | Domestic | (2) | (3) | (3) | (3) | (4) |
| | *Percentage change* (5) | | | | | | | |
| 1989 ....... | 18.3 | 19.9 | 14.8 | 15.8 | 6.3 | 7.6 | 12.4 | 13.9 |
| 1990 ....... | 15.5 | 18.1 | 12.9 | 14.6 | 9.2 | 9.6 | 9.4 | 11.6 |
| 1991 ....... | 14.0 | 13.7 | 12.6 | 12.6 | 9.0 | 8.3 | 11.9 | 11.1 |
| 1992 ....... | 6.9 | 6.9 | 9.8 | 9.4 | 2.9 | 5.9 | 10.7 | 7.1 |
| | *As a percentage of GDP* | | | | | | | |
| 1989 ....... | 51.5 | 57.2 | 138.3 | 146.8 | 32.2 | 54.9 | 86.3 | 126.7 |
| 1990 ....... | 54.0 | 62.4 | 142.6 | 154.2 | 32.0 | 54.5 | 87.5 | 130.8 |
| 1991 ....... | 56.8 | 65.9 | 148.9 | 161.8 | 31.6 | 54.1 | 88.7 | 134.7 |
| 1992 ....... | 60.9 | 70.6 | 159.1 | 172.5 | 31.9 | 55.1 | 94.1 | 139.1 |

(1) End-of-period data except for the monetary aggregates (average data). – (2) Including foreign loans and purchases of bonds by non-residents. – (3) The figure for 1989 is adjusted for the effect of strikes by bank personnel. – (4) Domestic, excluding shares. – (5) From December to December; for M1 and M2, averages for the fourth quarter.

The slower growth in financial assets reflected not only the balance-of-payments deficit but also the deceleration in lending associated with the slowdown in productive activity and the sharp increase in bank lending rates; total finance to the non-state sector, including foreign loans and non-residents' purchases of bonds, grew by 6.9 per cent, as against 13.7 per cent in 1991. Total credit, including finance to the state sector, rose by 9.4 per cent, compared with 12.6 per cent the previous year.

The activity of credit intermediaries was greatly affected by the performance of the foreign exchange and financial markets, as well as by the effect of the recession on asset quality. Bank lending rates rose promptly during the summer in response to the tightening of monetary conditions, but they adjusted more slowly to the reduction in rates during the final part of the year. This behaviour was partly determined by the capital losses that credit institutions were incurring on their securities portfolios and by the prudential measures they adopted in the face of the increase in bad debts, which rose from 6.5 to 7.2 per cent of total lira loans during the year. The annualized rate of growth in banks' lira lending in relation to the level recorded at the beginning of the year declined from 10.7 to 4.3 per cent between June and December; the slowdown was equally pronounced for the special credit institutions, with the twelve-month rate of growth falling from 14.3 per cent in June to 9.4 per cent in December. Interest rates on the liabilities side changed little, except for those on certificates of deposit; the shift towards CDs, which rose from 20.5 to 25.9 per cent of total deposits, accentuated the increase in the average cost of funds due to the general rise in interest rates.

During the summer the widening of interest rate differentials between lira and foreign currency loans led intermediaries to increase their foreign indebtedness considerably and at the same time to step up their foreign currency lending to residents. This tendency was reversed in September, and capital outflows via the banking system continued in the following months. For the year as a whole, the available data indicate that the banks hedged nearly all of their debtor position in foreign currency against exchange risk, mainly by granting foreign currency loans to residents and partly through forward foreign exchange transactions and currency swaps.

The turbulence in the foreign exchange market in the second half of the year emphasized the stability and efficiency attained by the money and securities markets, particularly those segments created recently. On the screen-based market for government securities, the prices of Treasury bonds fell by 7.5 per cent and those of Treasury credit certificates by 7.9 per cent between the end of May and mid-September, but recovered over the next five months. The average bid-offer spread widened considerably during the summer to a maximum of 4 percentage points on 16 September, then narrowed to 30 basis points in mid-November, compared with an average spread of 5 basis points in May 1992. Average daily turnover fell to a low of 3.9 trillion lire in August, but picked up in the following months. The moderate fluctuations in the yields on ten-year Treasury bonds compared with those on short-term paper are a sign not only of the relative stability of long-run expectations regarding yields but also of the depth of the secondary market, which allows large swings in the net demand for securities to be absorbed without excessive price fluctuations. The smooth functioning of the screen-based market for interbank deposits and the payments clearing system was not disturbed by the large increase in the volume of transactions they handled in 1992.

The Italian Futures Market (MIF) began operations on 11 September, using the same telematic network as the secondary spot market. It made a promising start, with turnover in the first few months already comparable to that on similar contracts quoted on LIFFE in London. The initial success of MIF creates the conditions for increasing the number and types of contracts listed, which should shortly include options on government securities and futures on interbank deposits.

### *Central bank operations and the control of monetary base*

*The overall results.* — The composition of monetary base creation was significantly affected by tensions in the foreign exchange and government securities markets.

The external sector, net of foreign currency swaps, absorbed 61.8 trillion lire of monetary base, 44.9 trillion in the third quarter alone (Table 25). As in 1990 and 1991, the contribution of the Treasury was negative, destroying 2.7 trillion lire, even though the public sector borrowing requirement of 163.1 trillion lire was 30 trillion above the target set in the Finance Law for 1992. The favourable conditions in the government securities market until the end of May and increased reliance on short-term and floating rate paper in the second part of the year enabled the Treasury to place very large net issues totaling 147.5 trillion. Other non-monetary sources of finance, chiefly post office deposits, amounted to 18.3 trillion. From July onwards the fall in the demand for government securities obliged the Treasury to make substantial drawings of just over 21 trillion lire on its overdraft facility with the central bank.

Securities repurchase agreements continued to be the main instrument for regulating the monetary base, flanked by foreign currency swaps from October onwards.

The Bank of Italy limited its intervention in the primary government securities market, even at the times of most sharply declining demand. Net redemptions of government paper totaled 9.9 trillion lire during the year. Intervention to smooth sharp variations in the prices of government securities took the form of net outright purchases amounting to 24.5 trillion lire in the open market.

Substantial refinancing was provided to the banking system. When the rate on fixed-term advances was lower than short-term interbank rates, the Bank controlled the monetary base by rationing supply.

The temporary financing of the banking system by the central bank reached a peak of 71.6 trillion lire in December (Figure 9). It began to decline in February 1993 in connection with the reduction in the compulsory reserve ratio in February and March, which released some 35 trillion lire.

Table 25

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

| | 1990 (2) | 1991 | 1992 Year | 1992 Quarters I | II | III | IV | 1993 1st qtr. (3) |
|---|---|---|---|---|---|---|---|---|
| **External sector** | **15,458** | **–8,674** | **–32,591** | **–731** | **–13,370** | **–44,892** | **26,402** | **974** |
| *of which: foreign currency swaps* | — | — | *29,249* | — | — | — | *29,249* | *–537* |
| **Treasury** | **–1,384** | **–9,458** | **–2,696** | **–5,491** | **–17,372** | **26,258** | **–6,092** | **2,110** |
| Borrowing requirement | 145,208 | 152,344 | 163,134 | 41,160 | 31,573 | 37,441 | 52,960 | 50,057 |
| Primary market | –114,648 | –137,532 | –147,515 | –45,608 | –50,172 | –10,711 | –41,024 | –43,817 |
| Treasury bills | –39,335 | –21,685 | –50,266 | –3,582 | –11,856 | –9,025 | –25,802 | –9,994 |
| Treasury credit certificates | –59,193 | –13,684 | –60,632 | –18,031 | –23,460 | –8,726 | –10,415 | –6,269 |
| Treasury bonds | 9,013 | –85,410 | –37,094 | –19,425 | –10,419 | 1,783 | –9,034 | –33,044 |
| Other securities | –25,133 | –16,753 | 477 | –4,570 | –4,437 | 5,256 | 4,227 | 5,490 |
| *of which: securities issued to fund debts* | *4,581* | — | — | — | — | — | — | — |
| Other financing (4) | –31,944 | –24,270 | –18,316 | –1,043 | 1,228 | –473 | –18,028 | –4,129 |
| **Open market** (5) | **2,392** | **27,173** | **42,781** | **7,896** | **21,853** | **7,555** | **5,478** | **–26,640** |
| *of which: repurchase agreements* | *2,299* | *17,499* | *18,306* | *7,085* | *15,832* | *–2,705* | *–1,906* | *–26,534* |
| **Refinancing** | **1,260** | **2,664** | **122** | **–6,585** | **11,429** | **12,464** | **–17,187** | **–6,908** |
| **Other sectors** (6) | **–4,027** | **–583** | **858** | **–3,609** | **3,621** | **–2,662** | **3,507** | **–903** |
| **Total** (6) | **13,700** | **11,121** | **8,473** | **–8,519** | **6,161** | **–1,276** | **12,108** | **–31,366** |
| **Notes and coin** | **1,805** | **6,906** | **9,263** | **–4,025** | **1,350** | **4,756** | **7,181** | **–3,634** |
| **Bank reserves** (6) | **11,895** | **4,215** | **–789** | **–4,495** | **4,811** | **–6,032** | **4,927** | **–27,733** |
| Deposits with the Bank of Italy, | 10,745 | 3,645 | 113 | –2,237 | 4,789 | –5,820 | 3,382 | –27,016 |
| *of which: compulsory reserves* (7) | *13,026* | *3,424* | *1,012* | *–119* | *2,549* | *–6,281* | *4,863* | *–28,631* |
| Other items (8) | 1,150 | 570 | –902 | –2,258 | 23 | –212 | 1,545 | –716 |

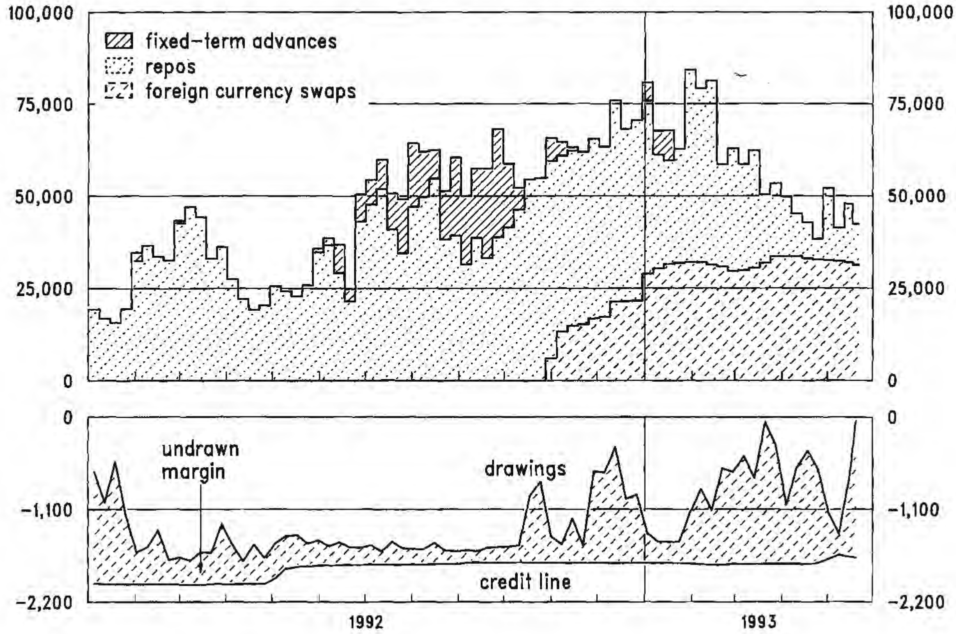
(1) Rounding may cause discrepancies in totals. – (2) The figures were distorted by bank strikes in the last quarter of 1989. – (3) Provisional. – (4) PO deposits, foreign loans granted by banks and special credit institutions to autonomous government agencies, deposits of social security institutions with the Treasury and surety deposits lodged with the Deposits and Loans Fund. – (5) Excludes securities purchased with advances under the Ministerial Decree of 27.9.1974. – (6) The data have been adjusted to exclude the growth in banks' deposits with the Bank of Italy caused by the method of recording monthly stock exchange settlements. – (7) From October 1990 onwards, average reserve requirement for the maintenance period; until May 1991, includes compulsory reserves on net foreign currency fund-raising. – (8) Vault cash and undrawn ordinary advance facilities.

Calculated on end-of-period data, monetary base expanded by 8.5 trillion lire during the year. The volume of notes and coin in circulation increased by 9.3 trillion; despite the slowdown in economic activity, this was 2.4 trillion lire more than the growth registered in 1991.

Figure 9

**BANK OF ITALY FINANCING OF THE BANKING SYSTEM (1)**

*(stocks in billions of lire)*




(1) Weekly averages of daily data.

### *The early months of 1993 and the prospects for the rest of the year*

Market conditions improved in January, owing in part to the success of the Treasury's DM-denominated bond issue and the receipt of a European Community loan. On 3 February, against a background of declining medium-term interest rates, the Bank of Italy lowered the discount rate from 12 to 11.5 per cent; almost simultaneously, the Bundesbank reduced its discount and Lombard rates by 0.25 and 0.5 points to 8 and 9 per cent respectively.

The lira came under severe pressure from late February until the beginning of April. At the end of March the lira/DM interest rate differential on three-month interbank funds was 4 percentage points, one point more than a month earlier.

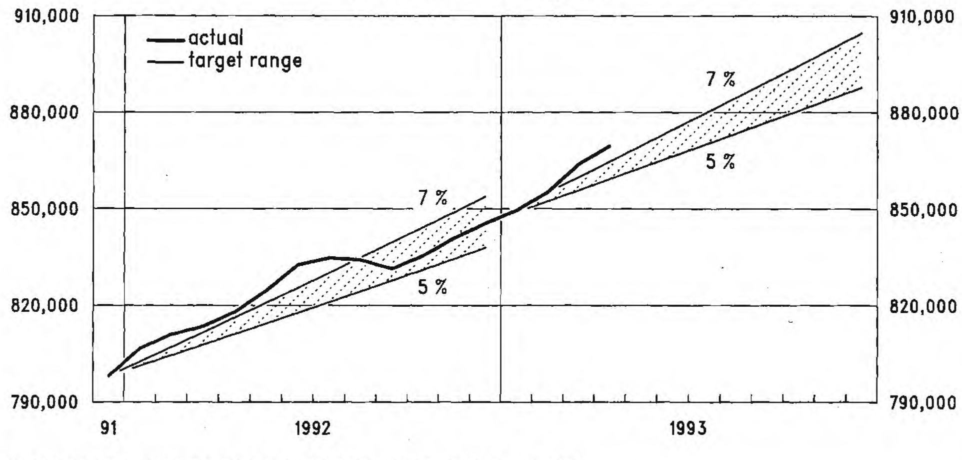
In April the reduction in interest rates in other European countries and an improvement in expectations caused the lira to appreciate sharply. On 22 April the Bank of Italy lowered the official discount rate by half a point to 11 per cent, duplicating the reduction in the Bundesbank's lombard rate. In the course of the month, three-month interbank rates declined by nearly a percentage point to 11.1 per cent.

In the quarter ending in April the money supply was 6.3 per cent higher than in the same period of 1992. The annualized rate of growth since the beginning of the year was 8.8 per cent, as against a target range of 5 to 7 per cent (Figure 10). The growth in M2 was due partly to a reduction in the banks' fund-raising by means of repurchase agreements, which was made riskier by the volatility of securities prices. With the demand for credit slackening markedly, the resumption of the growth in bank deposits was accompanied by a reduction in the foreign liabilities of the banking system. In April domestic finance to the non-state sector was only 4.4 per cent higher than a year earlier, one of the lowest rates of growth in the last twenty years. The expansion of credit continued to be impeded by high interest rates and the slowdown in economic activity.

Figure 10

**M2 MONEY SUPPLY** (1)

*(stocks in billions of lire)*




(1) Averages for the quarters ending in the reference months, seasonally adjusted.

The exchange rate of the lira rose further in May and was only marginally affected by another downgrading of Italy's foreign debt by a rating agency and the tensions within the EMS, which resulted in the devaluation of the peseta and the escudo on 13 May. The downward movement of interest rates gathered momentum; the demand for government securities was buoyant both at issue and on the secondary market.

On 20 May the Bank lowered the discount rate by a further half point to 10.5 per cent. This action, which paralleled similar decisions in other European countries, shadowed the downward movement of the entire range of domestic interest rates.

The objective of monetary policy remains that of curbing inflation, particularly by adhering to the planned level of monetary expansion. The target range of 5 to 7 per cent for M2 growth is consistent with the macroeconomic scenario approved by the Interministerial Committee for Economic Planning last September, which projected a budget deficit of 150 trillion lire and average inflation of 4.5 per cent in 1993. The money supply objective could prove difficult to achieve if the public shows a renewed propensity to diversify its financial assets and the banks intensify their efforts to rebuild their portfolios of government securities and to reduce their foreign indebtedness by stepping up domestic fund-raising. Monetary growth could also be inflated by the repatriation of capital from abroad and by investors' growing appetite for certificates of deposit.

# BANKING

The weak state of economic activity and the rise in both nominal and real bank lending rates as a result of the monetary tightening in defence of the lira caused demand for loans to slow down sharply over the year. The expansion in credit was also curbed by banks' continuing to pursue the policy of increasing the share of securities in their balance sheets that they had adopted in the last part of 1991 following the substantial reduction of the last few years. Banks were affected by the slow growth of deposits and the increased uncertainty surrounding fund-raising, as well as by the turbulence in the financial markets and the downgrading of Italian borrowers in international markets. They responded to these developments by quickly reducing their dependence on foreign sources of funds.

Table 26

**BANK DEPOSITS AND LOANS**
*(12-month percentage rates of change)*

| | 1989 | 1990 | 1991 | | | | 1992 | | | | 1993 Mar. (7) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Mar. | June | Sept. | Dec. | Mar. | June | Sept. | Dec. | |
| **Deposits** (1) | | | | | | | | | | | |
| End of period | 8.0 | 11.2 | 8.6 | 9.1 | 7.9 | 9.1 | 9.2 | 9.1 | 6.0 | 3.6 | 5.7 |
| Monthly average (2) | 8.0 | 9.2 | 8.6 | 8.8 | 6.2 | 8.5 | 7.3 | 9.2 | 4.4 | 3.0 | 5.5 |
| Current account deposits (1) | | | | | | | | | | | |
| End of period | 7.9 | 11.4 | 7.6 | 8.7 | 8.1 | 11.6 | 11.0 | 9.9 | 4.6 | –1.0 | 0.4 |
| Monthly average (2) | 7.3 | 8.8 | 7.5 | 7.9 | 5.0 | 10.2 | 7.9 | 9.9 | 2.6 | –2.3 | 0.6 |
| **Net foreign liabilities** (3) | **22.1** | **6.8** | **–5.1** | **33.5** | **63.1** | **47.9** | **105.5** | **78.6** | **40.7** | **30.3** | **–19.3** |
| **Securities** (4) | **–2.0** | **–3.9** | **–0.3** | **6.4** | **12.2** | **27.1** | **48.0** | **60.2** | **49.5** | **25.2** | **15.4** |
| *Government securities* (4) | *–0.3* | *–0.6* | *4.7* | *17.2* | *23.8* | *40.7* | *74.8* | *82.2* | *64.1* | *32.4* | *22.4* |
| **Loans** (5) | **21.7** | **17.4** | **15.1** | **15.9** | **17.8** | **14.9** | **17.8** | **15.4** | **13.4** | **8.2** | **5.6** |
| *Memorandum item:* | | | | | | | | | | | |
| Total loans (5)(6) | 23.1 | 19.9 | 19.2 | 16.7 | 15.9 | 13.3 | 13.7 | 13.0 | 12.2 | 8.3 | 5.2 |

(1) Figures for December 1989 are adjusted for strikes in the banking sector. – (2) Until August 1990, estimates based on centred monthly averages of data for 10-day periods. From September 1990, data are based on automated prudential returns. – (3) The foreign currency component is net of exchange rate adjustments. – (4) Net of the effect of the funding of bank loans, repurchase agreements with the Bank of Italy and operations under the Ministerial Decree of 27.9.1974. – (5) Including investments in funded bank loans. The foreign currency component is valued net of exchange rate adjustments. – (6) Loans granted by domestic and foreign branches. – (7) Provisional.

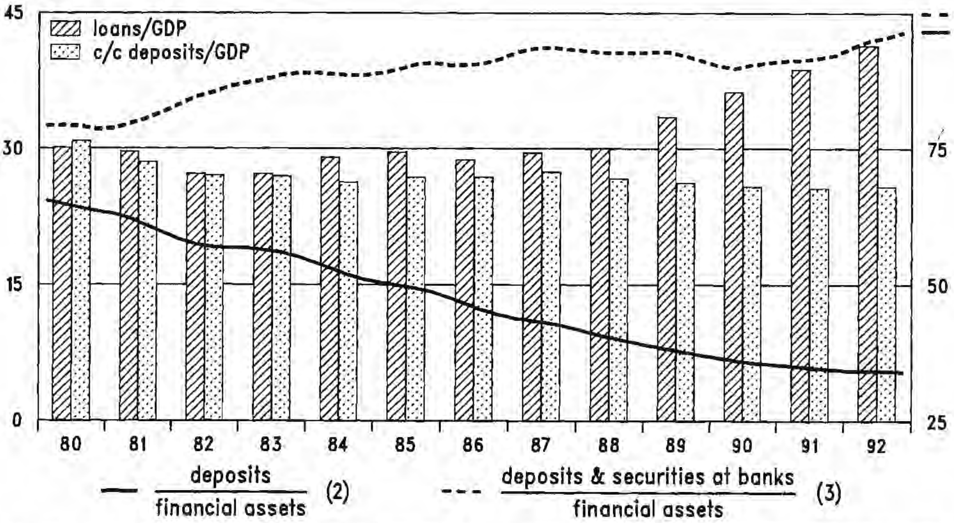
After four years of rapid growth, bank lending rose in line with GDP in 1992. The sharp deceleration began in the second half of the year and continued in the first quarter of 1993 (Table 26). Despite the slowdown in bank lending, there does not appear to have been a credit crunch comparable to those triggered in other industrial countries by falls in the prices of securities and real estate.

Fund-raising was influenced by the uncertainty that was triggered by the levying of a tax on deposits in July and which grew increasingly pronounced until the first few days of October. The reduction in current and savings account deposits was offset by increased sales of certificates of deposit, but the growth in total deposits nonetheless fell to a historically low level of 3 per cent. On average for the year current account deposits remained unchanged in relation to GDP, while total deposits continued to decline as a share of total financial assets (Figure 11).

Figure 11

**BANKING INTERMEDIATION INDICES (1)**

*(percentages)*




(1) Ratios to GDP are based on annual averages; other ratios are between average stocks in the twelve months ending in the reference quarter. – (2) Ratio of the non-state sector's bank deposits to the non-state sector's domestic financial assets net of shares. – (3) The numerator includes the non-state sector's securities deposited with banks for safe custody or administration.

Between June and September the average interest rate on lira loans rose by 4.3 percentage points, a rise that was only slightly larger than the increase in the rate on fixed-term advances. The adjustment to the subsequent reductions in official rates was slow, although in line with the pattern shown on comparable occasions in the past, such as the spring of 1986.

In a period marked by falling prices for government securities and pronounced volatility, banks expanded their portfolios and encouraged customers to invest in government paper by way of repurchase agreements, which continued to increase even after the introduction of a withholding tax in September. The tight liquidity conditions and wide fluctuations in interest rates did not jeopardize the working of the interbank market and turnover on the screen-based market rose even though bid-ask spreads widened.

Until June Italian banks had considerable recourse to foreign fund-raising to make good the continuing shortfall between their lending and domestic deposits. In addition to using such funds to increase their foreign currency loans to residents, banks engaged in currency switching operations in which the exchange rate risk was normally hedged. Following the lira's withdrawal from the ERM, they redeemed very large volumes of foreign liabilities.

### *Lending*

Net of exchange rate adjustments, loans to resident customers grew by 46.9 trillion lire, or 8.2 per cent. Those granted by Italian banks' foreign branches increased by 2.8 trillion, or 10.8 per cent. Residents' total indebtedness to Italian banks thus rose by 8.3 per cent, or 5 percentage points less than in 1991. The sharp deceleration, which took place in the second half of the year as cyclical conditions deteriorated, carried over to 1993 and in March the twelve-month increase in lending to residents was 5.2 per cent (Table 26).

The slowdown in the demand for credit reflected the downturn in GDP, the fall in investment and profits, and continued pessimism about the prospects for a recovery in production. However, banks' more cautious lending policies also contributed, especially in the second half of the year. In December the twelve-month increase in credit facilities was 1.1 per cent, as against 13.1 per cent in December 1991. The proportion of facilities actually drawn accordingly rose from 55.8 to 60.3 per cent. The proportion of loans granted at or below the prime rate fell from 38.6 per cent in May to 16.8 per cent at the end of the year, in line with the pronounced slowdown in lending to financial companies.

Lira loans to residents from the domestic and foreign branches of Italian banks rose by 24.5 trillion lire, or 4.8 per cent, compared with 14.5 per cent in 1991. The slowdown began in April, was temporarily interrupted in September, and then became increasingly pronounced in the following months. Foreign currency loans offset the slowdown to some extent, rising strongly in the first part of the year and continuing to grow after the devaluation of the lira. Net of exchange rate adjustments, such loans increased by 25.2 trillion lire, or 31.1 per cent, the highest rate since the mid-eighties.

*Bad and doubtful debts*. — The cyclical downturn caused a deterioration in the quality of banks' loan portfolios, with bad and doubtful debts rising by 4.8 trillion lire, or 14.8 per cent. On an average annual basis they rose from 6.9 to 7.1 per cent of total loans. The loans classified as bad and doubtful debts during the year amounted to around 17.9 trillion lire, or 17.2 per cent more than in 1991. Non-performing loans grew by 4.7 trillion lire, or more than 50 per cent; two thirds of the increase occurred in the second half of the year in relation to the difficulties of enterprises in the private sector.

***Treasury management and securities portfolios***

On the basis of balance sheet valuations and including net sales under central bank and customer repos, banks' securities portfolios expanded by 65.5 trillion lire, or 25.2 per cent, compared with 55.3 trillion and 27.1 per cent in 1991. The proportion of securities involved in repos rose further, confirming the tendency for banks to manage their portfolios more actively. The share of government securities rose from 78.9 to 83.2 per cent as a result of purchases of Treasury bonds. The growth in banks' securities portfolios slowed down in the early part of this year; in March the twelve-month increase was 41.2 trillion lire, as against 85.2 trillion in March 1992.

Temporary domestic sales of all securities, regardless of issuer and currency denomination, increased by 46 trillion lire, and the operations outstanding at the end of the year totaled 95.5 trillion. The introduction in September of a 12.5 per cent withholding tax on the capital gains arising from repos did not hurt their growth in the following months, but there was a significant slowdown in the first quarter of this year.

The improvements made in the procedures for the settlement of interbank payments led to a further reduction, from 31.4 to 20 per cent, in the proportion of domestic interbank lira liabilities consisting of correspondent current account deposits. By contrast, the share of time deposits rose from 37 to 50.9 per cent owing to the increase in the volume of such operations on the screen-based interbank market. Total average turnover on this market rose from 12.5 trillion lire in the first quarter of 1992 to 19.5 trillion in the first quarter of this year. Between December 1991 and December 1992 the average turnover in time deposits with a maturity of one week or more rose from 0.8 to 2.1 trillion lire and from 7.2 to 11.1 per cent of the total.

The abolition in November of the reserve requirement with respect to non-resident banks' fund-raising in lire removed an important asymmetry in the mechanism for transmitting monetary policy impulses from domestic money market rates to those in the Eurolira market. The cost of holding reserves had discouraged Italian banks from borrowing in lire from non-resident banks, causing the adjustment of Eurolira rates to tight domestic liquidity conditions to be sticky. Following the abolition of the reserve requirement, the link between domestic interbank rates and Eurolira rates became closer.

### *Deposits*

On the basis of average monthly figures, residents' bank deposits in lire grew by 21 trillion, or 3 per cent, over the year, compared with an increase of 54.5 trillion, or 8.5 per cent, in 1991 (Table 26). The ratio of bank deposits to total domestic financial assets decreased slightly, falling from 34.4 to 34 per cent (Figure 11).

Current account deposits declined by 8.9 trillion lire, or 2.3 per cent, compared with an increase of 36 trillion, or 10.2 per cent, in 1991.

Certificates of deposit increased by 47.5 trillion lire, or 30.9 per cent, as against an expansion of 34.1 trillion, or 28.6 per cent, in 1991. On an annual average basis their share of total deposits rose to 25.1 per cent, an increase of more than four percentage points. The lower tax rates applicable to certificates of deposit with initial maturities of 18 months or more resulted in their average share of total CDs rising by more than twelve percentage points to 54.2 per cent.

### *International business*

The growth in banks' volume of domestic business matched that in their foreign fund-raising even more closely than in the past. The net funds raised by banks from non-residents amounted to 24.7 trillion lire net of exchange rate adjustments, with the rate of growth slowing from 47.9 to 30.3 per cent (Table 26). After rising strongly until June, in parallel with the growing imbalance between domestic loans and deposits, the volume of such fund-raising then stabilized. In September banks started to make very substantial net redemptions, which totaled 22.6 trillion lire in that month alone.

Foreign currency fund-raising, most of which was effected abroad, had involved banks in currency transformation serving to finance the increase in their lira assets, mainly in the domestic market. The outstanding amount of such operations peaked at around 36.5 trillion lire at the end of June, since when the total has declined continuously, with sharp falls in September and November last year and in February of this year; in March the total was down to around 3.3 trillion. The exchange risk associated with these operations was mostly hedged. The reduction in fund-raising abroad also reflected the increase in the cost of Italian banks' foreign currency borrowing, partly as a result of the lowering of their international credit rating.

***Profit and loss accounts***

Banks' results were considerably influenced by special, albeit temporary, factors. The difference between the speed with which lending and deposit rates reacted to changes in the official rates caused the average spread between the return on lending and the cost of funds to widen from 8.06 to 9.19 percentage points. On the other hand, the results were depressed by the decrease in income from securities and foreign exchange trading and by the revaluation losses in respect of their securities portfolios. Net interest income rose by 20.2 per cent; including non-interest income, the increase was only 11 per cent (Table 27). Gross income declined from 5.05 to 4.87 per cent of total resources.

The decrease in operating expenses from 3.37 to 3.27 per cent of total resources was due to the curbing of staff costs, which grew by 9.5 per cent but declined in relation to total resources from 2.24 to 2.13 per cent. Accentuating a long-term trend, the share of non-staff costs in total operating costs rose from 34 to 34.9 per cent. The opening of new branches resulted in the largest increases being in the depreciation of buildings, which was also boosted by revaluations, and in rental expenses. The number of employees increased by 1,200, as against 5,100 in 1991, but there was a reduction of around 500, or 0.4 per cent, in the number employed by "major" banks.

While banks' net income rose by 9.8 per cent, their profits before tax declined by 12.6 per cent, falling from 1.04 to 0.79 per cent of total resources. This was due to the reduction in extraordinary income owing primarily to the rise in revaluation losses on securities, from 0.4 to 3.2 trillion lire. The increase in the rate of corporate income tax contributed to the 24.9 per cent reduction in net profits, which accordingly fell from 0.56 to 0.37 per cent of total resources. The need to remunerate shareholders, heightened by the transformation of public sector banks into limited companies, resulted in dividends rising from 35.8 to 58.1 per cent of net profits.

Table 27

## PROFIT AND LOSS ACCOUNTS OF THE BANKS (1)

| | 1989 | 1990 | 1991 | 1992 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|
| | *As a % of total resources* | | | | *Percentage changes* | | | |
| Interest income | 9.07 | 9.25 | 9.22 | 9.76 | 15.3 | 11.3 | 6.9 | 22.0 |
| Interest expenses | 5.48 | 5.53 | 5.45 | 5.82 | 18.6 | 10.2 | 5.6 | 23.2 |
| **Net interest income** | **3.59** | **3.72** | **3.77** | **3.94** | **10.6** | **13.0** | **8.9** | **20.2** |
| Non-interest income | 1.18 | 1.26 | 1.28 | 0.93 | 1.1 | 16.1 | 9.2 | –15.9 |
| *Securities trading* | *0.53* | *0.66* | *0.66* | *0.43* | *–6.5* | *36.5* | *6.4* | *–25.2* |
| *Other services* | *0.59* | *0.52* | *0.54* | *0.45* | *9.5* | *–2.7* | *11.9* | *–4.1* |
| **Gross income** | **4.77** | **4.98** | **5.05** | **4.87** | **8.1** | **13.8** | **9.0** | **11.0** |
| Operating expenses | 3.12 | 3.20 | 3.37 | 3.27 | 9.7 | 12.1 | 13.0 | 11.6 |
| *Staff costs* | *2.10* | *2.14* | *2.24* | *2.13* | *8.5* | *11.5* | *12.2* | *9.5* |
| **Net income** | **1.65** | **1.78** | **1.68** | **1.60** | **5.3** | **16.9** | **1.7** | **9.8** |
| Net allocations to provisions | 0.66 | 0.69 | 0.66 | 0.64 | –0.4 | 13.8 | 2.5 | 12.2 |
| *For loan losses* | *0.42* | *0.46* | *0.40* | *0.38* | *15.0* | *19.2* | *–5.1* | *7.3* |
| Extraordinary income | –0.05 | –0.01 | 0.02 | –0.17 | (*) | –71.4 | (*) | (*) |
| *Revaluation deficits on securities* | *–0.13* | *–0.06* | *–0.03* | *–0.22* | *75.4* | *–50.8* | *–39.0* | *659.1* |
| **Profit before tax** | **0.94** | **1.08** | **1.04** | **0.79** | **3.1** | **23.3** | **4.0** | **–12.6** |
| Tax | 0.48 | 0.47 | 0.48 | 0.42 | 13.1 | 6.4 | 9.8 | 1.7 |
| **Net profit** | **0.46** | **0.61** | **0.56** | **0.37** | **–5.5** | **40.8** | **–0.4** | **–24.9** |
| Dividends | 0.17 | 0.19 | 0.20 | 0.21 | 8.2 | 16.8 | 14.4 | 22.4 |
| | *Other data* | | | | | | | |
| | *Amounts* | | | | *Percentage changes* | | | |
| Total resources *(in billions of lire)* | 1,066,655 | 1,165,039 | 1,252,267 | 1,442,542 | 12.3 | 9.2 | 7.5 | 15.2 |
| Number of employees | 315,194 | 320,873 | 326,771 | 327,992 | –0.8 | 1.8 | 1.8 | 0.4 |
| Total resources per employee *(in millions of lire)* | | | | | | | | |
| At current prices | 3,384 | 3,631 | 3,832 | 4,398 | 13.2 | 7.3 | 5.5 | 14.8 |
| At constant prices (2) | 4,024 | 4,069 | 4,036 | 4,398 | 6.2 | 1.1 | –0.8 | 9.0 |
| Costs per employee *(in millions of lire)* | | | | | | | | |
| At current prices | 71.0 | 77.8 | 86.0 | 93.8 | 9.4 | 9.5 | 10.5 | 9.1 |
| At constant prices (2) | 84.5 | 87.2 | 90.5 | 93.8 | 2.6 | 3.2 | 3.8 | 3.6 |

(1) Excluding central credit institutions and rural and artisans' banks. Rounding may cause discrepancies in totals. The figures for the last year in the table are provisional. – (2) Deflated using the index of consumer prices (1992 = 100). – (*) Not material.

# SPECIAL CREDIT INSTITUTIONS
# AND OTHER FINANCIAL INTERMEDIARIES

## *Special credit institutions*

The recession and the rise in interest rates led to a slowdown in lending by the special credit institutions, which became more pronounced in the second half of the year. Widespread uncertainty in the financial markets and competition from banks in the issue of CDs caused the growth in the institutions' fund-raising to decelerate. The widening of the spread between lending and borrowing rates did not prevent a deterioration in profitability.

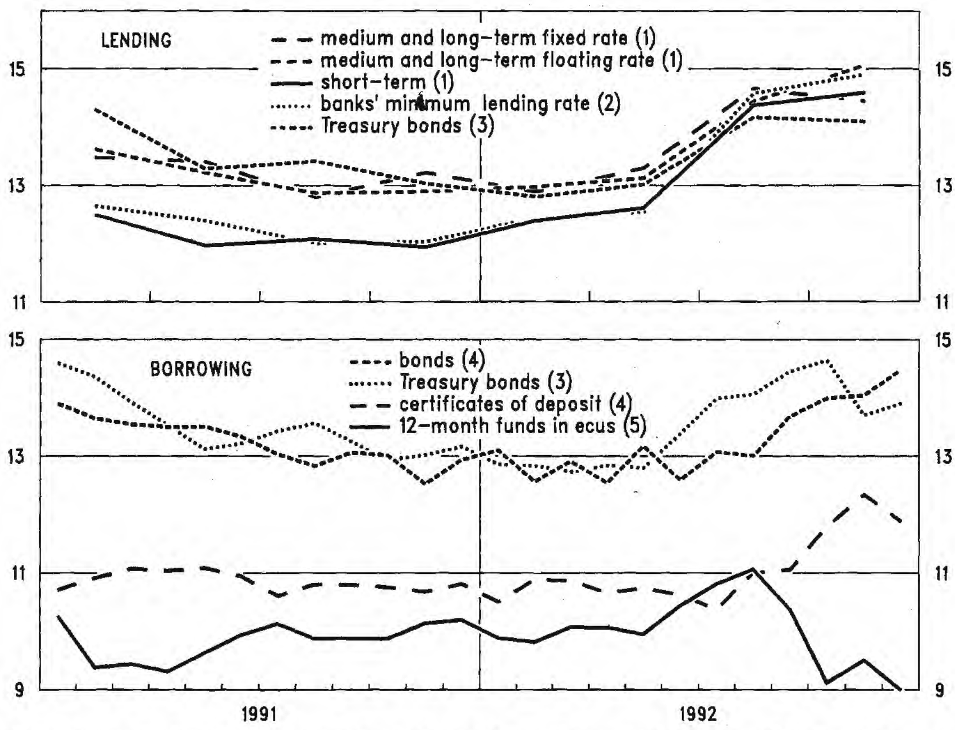
The slower growth in lending reflected a contraction in capital expenditure by firms and reduced demand for credit both from financial companies, particularly in leasing and factoring, and from general government. The increase in lending for real estate and building purposes slackened perceptibly for the first time since 1985; the slowdown, which was concentrated in the last four months of the year, was influenced by the introduction of central bank monitoring of credit institutions' lira assets on 23 October. The growth in subsidized credit continued to decelerate.

During the summer the institutions raised their lending rates promptly in response to the increase in official and market rates (Figure 12). They adjusted their borrowing rates to a lesser extent, but unlike the banks they continued to raise them in the final part of the year owing to increased difficulty in attracting funds; in September the Bank of Italy raised the maximum rates that the institutions may pay on bonds and CDs by 1 percentage point to respectively 15 and 14.25 per cent.

Bond issues diminished from August onwards and issues of CDs grew at the slowest rate since their introduction in the early eighties. Fund-raising in foreign currency, while remaining the principal source of funds, slowed down for the second consecutive year owing to the deterioration in the standing of Italian borrowers in international markets and, after September, the volatility of the lira, which increased the cost of covering exchange risk. Claims on non-residents increased in the last few months of the year. The institutions' treasury policies varied; their aggregate securities portfolio declined, owing to disposals by several large institutions.

Figure 12

**INTEREST RATES**




(1) Quarterly average of rates on unsubsidized loans granted during the quarter by special credit institutions. – (2) Average of 10-day data. – (3) Gross yield on Treasury bonds with residual maturity of 6-9 years; average of daily data. – (4) Gross yield on fixed rate issues by special credit institutions; monthly average. – (5) Euromarket rates.

These developments in the institutions' activity occurred against the background of a far-reaching restructuring of the special credit system, which is still under way. The further progress with the transformation of public credit institutions pursuant to Laws 218/1990 and 175/1991 reduced the number of special credit institutions to 47 at the end of last year, compared with 65 in 1991 and 92 in 1990. Eighteen of the remaining institutions operate in more than one sector of medium and long-term lending. Banks' special credit sections have either been transformed into limited companies belonging to multifunctional groups or incorporated into the controlling bank. As a result, ten major publicly-controlled banks now operate as universal banks.

With the transposition of the Community's Second Banking Directive into Italian law, the distinction between banks and special credit institutions has been eliminated with effect from 1 January of this year. In keeping with the principle of despecialization as regards the duration and type of lending, all credit institutions can now perform operations previously restricted to specific categories of intermediary. The special credit institutions can respond to the growing competition from banks by taking advantage of the wider operational scope permitted by the regulatory changes; in particular, they will be able to offer current accounts. Allowing the institutions to raise funds in the same way as banks means that they will have to be brought within the scope of reserve requirements by means of a decree issued by the Treasury Minister.

*Lending.* — Net of exchange rate adjustments, domestic lending rose by 25 trillion lire, or 8.1 per cent (Table 28), the lowest rate of increase since the mid-seventies. The twelve-month rate of growth remained high until July, when it was 13 per cent, but diminished thereafter, reflecting the worsening of the economic downturn, the rise in interest rates and, in November and December, the monitoring of lira lending.

Table 28

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

| | 1988 | 1989 | 1990 | 1991 | 1992 | | | | | 1993 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | YEAR | Q1 | Q2 | Q3 | Q4 | Q1 (2) |
| Industrial | 15.8 | 19.3 | 16.3 | 11.9 | 6.0 | 10.9 | 9.6 | 3.8 | 0.6 | 1.3 |
| *short-term* | *13.1* | *22.5* | *13.7* | *–10.4* | *–12.2* | *–12.3* | *–1.1* | *9.0* | *–36.2* | *–19.8* |
| Public works | 5.7 | 13.5 | 17.8 | 15.0 | 10.6 | 21.4 | 7.7 | –1.7 | 14.6 | 28.5 |
| Real estate and building | 18.8 | 17.7 | 18.0 | 18.4 | 12.5 | 18.5 | 19.5 | 7.4 | 5.2 | 7.8 |
| Agricultural | 13.7 | 8.5 | 8.5 | 3.8 | –0.4 | 5.3 | 11.4 | –5.1 | –11.2 | –4.0 |
| **Total** | **15.5** | **17.8** | **16.3** | **13.5** | **8.1** | **13.9** | **12.5** | **3.7** | **2.7** | **5.8** |
| *subsidized* | *9.3* | *15.1* | *5.3* | *5.7* | *1.2* | *8.4* | *3.2* | *–0.8* | *–5.7* | *8.6* |

(1) As from December 1992, the definition of special credit no longer includes certain categories of funds administered on behalf of public agencies. The growth rates are adjusted to take this statistical discontinuity into account. Quarterly rates are seasonally adjusted and annualized. Foreign currency lending is net of exchange rate adjustments. – (2) Provisional.

Unlike the banks, the special credit institutions recorded a pronounced deceleration in their foreign currency lending to residents; net of exchange rate adjustments, it rose by 900 billion lire, or 1.7 per cent, as agàinst 5.3 trillion lire and 11.2 per cent in 1991. The slowdown began in the early part of the year but was temporarily reversed in July and August following the rise in interest rates on lira loans and the spread of expectations among firms that the Italian currency would remain stable. Following the suspension of interventions to defend the lira's central rate within the ERM, the flow of foreign currency credit diminished sharply, notwithstanding the monitoring of lira lending.

Subsidized lending increased by 900 billion lire, or 1.2 per cent, as against 5.7 per cent in 1991; as a proportion of the institutions' lending to residents, it fell still further from the historic low recorded in 1991, to stand at 20.2 per cent.

The slowdown in the growth of special credit affected the various categories of borrower to differing degrees. Disbursements to general government institutions rose by 13.4 per cent, compared with 20.8 per cent in 1991. Credit to non-financial companies expanded by 10.5 per cent (11.5 per cent in 1991); the deceleration was mainly in lending to manufacturing firms, the growth of which slowed down from 6.1 to 4.8 per cent. Lending to firms providing market services, a sector which had a lagged response to the recession, was less affected, rising by 13.7 per cent compared with 14.8 per cent in 1991. Lending to financial companies contracted by 0.6 per cent, whereas in 1991 it had grown by 4.9 per cent.

The deterioration in the economic situation caused the institutions' bad debts to increase by 18.6 per cent on an annual average basis to stand at more than 17 trillion lire in December, compared with a rise of 16.4 per cent in 1991; as a ratio to outstanding loans, they rose from 4.6 to 4.9 per cent. In the real estate and building sector, bad debts increased by 15.7 per cent, as against 14.3 per cent in 1991, to nearly 9 trillion lire; in proportion to lending they remained at about the same level as in recent years, at 7.8 per cent.

Real estate and building credit increased by 12.5 per cent, net of exchange rate adjustments, as against 18.4 per cent in 1991 (Table 28). The twelve-month growth rate remained high during the first half of the year, peaking in July at 20.3 per cent. The subsequent reduction can be largely attributed to the contraction in foreign currency lending. In 1992 as a whole, lira lending to the real estate sector increased by 12.1 trillion lire, or 16.4 per cent, as against 9.6 trillion and 15 per cent in 1991, while foreign currency lending declined by 400 billion lire, or 1.9 per cent, compared with growth of 5 trillion lire and 32.6 per cent the preceding year.

*Fund-raising and the management of securities portfolios.* - The institutions' outstanding bonds increased by 13.2 trillion lire, or 8.6 per cent, compared with a rise of 12.7 per cent in 1991. Issuing activity was brisk in the first half of the year, slowed down sharply in the third quarter and recovered slightly in the fourth, reflecting the raising of the maximum permitted interest rate in September. In accordance with their practice since 1988, the institutions concentrated on floating rate issues to accommodate the climate of uncertainty and the possible emergence of interest rate risk. Since the beginning of 1992 the value of floating rate bonds in issue has exceeded that of fixed rate paper, whereas in 1987 it had amounted to only half the latter.

The volume of CDs in circulation increased by 4.6 trillion lire, or 6.4 per cent, as against 11.8 per cent in 1991, and their share of total fund-raising declined for the third consecutive year. The slowdown began in August, owing partly to intensifying competition from banks.

Net of exchange rate adjustments, the institutions' liabilities in foreign currency and external lire increased by 13.7 trillion lire, or 15 per cent, compared with 22.3 per cent in 1991. Despite the slower growth, they accounted for 42 per cent of total fund-raising. The differential between domestic and Euromarket interest rates widened in the latter part of the year (Figure 12).

Securities portfolios contracted by 1 trillion lire as a result of disposals in the second half by some major institutions. Holdings of government securities declined by 2.5 trillion lire, mainly on account of a decrease in Treasury credit certificates, which constitute the largest component (Table a17).

*Profit and loss accounts.* — Net interest income increased by 10.7 per cent, a faster rate of growth than in recent years, but declined from 1.87 to 1.84 per cent of total resources (Table 29). The widening of the spread between the institutions' average lending rate and the unit cost of funds raised domestically was counterbalanced by the rise in the cost of fund-raising abroad and the increase in non-performing loans. The relative contraction in net interest income also reflected the decline in own funds in relation to total resources.

In relative terms, gross income declined more sharply than net interest income, falling from 1.87 to 1.74 per cent of total resources, owing to net losses of 400 billion lire on services. The institutions lost more than 300 billion lire on foreign exchange and foreign securities transactions, while earnings on trading in domestic securities slumped from 300 to less than 50 billion lire.

The decline in gross income affected net income, which fell from 1.10 to 0.98 per cent of total resources, while operating expenses remained more or less stationary in relative terms. The staff costs ratio declined marginally; a further reduction in personnel from 13,350 to 13,250 was accompanied by a slight acceleration in costs per employee. Total resources per employee grew more slowly than in 1991.

Allocations to loan loss provisions increased by 7.7 per cent, a sharp slowdown from the rise of 20.5 per cent recorded in 1991. Net profit slipped from 1.6 to 1.5 trillion lire, declining from 0.43 to 0.36 per cent of total resources and from 4.5 to 4.2 per cent of own funds.

Table 29

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

| | 1989 | 1990 | 1991 | 1992 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|
| | *As a percentage of total resources* (2) | | | | *Percentage rates of increase* | | | |
| Interest income | 11.18 | 11.51 | 11.18 | 11.47 | 14.6 | 17.7 | 11.4 | 15.3 |
| Interest expenses | 9.05 | 9.46 | 9.31 | 9.63 | 15.9 | 19.5 | 12.9 | 16.2 |
| **Net interest income** | **2.13** | **2.05** | **1.87** | **1.84** | **9.3** | **9.8** | **4.6** | **10.7** |
| Non-interest income | –0.01 | 0.09 | .. | –0.10 | –77.5 | (*) | –94.7 | (*) |
| *securities trading* | *0.02* | *0.05* | *0.08* | *0.01* | *–14.4* | *146.7* | *77.1* | *–85.1* |
| **Gross income** | **2.12** | **2.14** | **1.87** | **1.74** | **11.2** | **15.0** | **0.6** | **4.3** |
| Operating expenses | 0.87 | 0.84 | 0.77 | 0.76 | 5.5 | 9.7 | 5.7 | 10.3 |
| *staff costs* | *0.47* | *0.48* | *0.44* | *0.42* | *4.0* | *16.6* | *5.8* | *6.3* |
| **Net income** | **1.25** | **1.30** | **1.10** | **0.98** | **15.4** | **18.6** | **–2.8** | **0.2** |
| Depreciation & allocations to provisions | 0.48 | 0.47 | 0.50 | 0.48 | 14.9 | 12.4 | 21.1 | 7.3 |
| *loan loss provisions* | *0.42* | *0.36* | *0.38* | *0.36* | *14.3* | *–0.5* | *20.5* | *7.7* |
| Extraordinary income | 0.14 | –0.09 | 0.13 | 0.16 | –9.7 | –174.3 | (*) | 37.5 |
| **Profit before tax** | **0.91** | **0.74** | **0.73** | **0.66** | **10.9** | **–8.3** | **14.3** | **1.9** |
| Tax | 0.35 | 0.27 | 0.30 | 0.30 | 23.4 | –10.2 | 24.7 | 12.0 |
| **Net profit** | **0.56** | **0.47** | **0.43** | **0.36** | **4.4** | **–7.3** | **8.1** | **–5.2** |
| Dividends | 0.13 | 0.15 | 0.12 | 0.11 | 6.1 | 33.9 | –8.2 | 6.7 |
| | *Other data* | | | | | | | |
| | *Amounts* | | | | *Percentage rates of increase* | | | |
| Total resources (2) *(billions of lire)* | 285,416 | 326,214 | 374,284 | 420,198 | 12.2 | 14.3 | 14.7 | 12.3 |
| Number of employees | 13,721 | 13,483 | 13,361 | 13,242 | 6.5 | –1.7 | –0.9 | –0.9 |
| *Total resources per employee (millions of lire)* | | | | | | | | |
| in nominal terms | 20,801 | 24,194 | 28,013 | 31,732 | 7.9 | 16.3 | 15.8 | 13.3 |
| at constant prices (3) | 24,733 | 27,113 | 29,502 | 31,732 | 1.2 | 9.6 | 8.8 | 7.6 |
| Staff costs per employee *(millions of lire)* | | | | | | | | |
| in nominal terms | 97.7 | 116.0 | 123.8 | 132.8 | 5.3 | 18.6 | 6.8 | 7.3 |
| at constant prices (3) | 116.1 | 129.9 | 130.4 | 132.8 | –1.2 | 11.8 | 0.4 | 1.9 |

(1) The figures may have been affected by the incorporation of special credit sections into their parent banks. The data for 1992 are provisional. – (2) As from December 1992, certain categories of funds administered merely as a service on behalf of public agencies are no longer included in total resources. The data are adlusted to take account of this statistical discontinuity. – (3) Deflated using the cost-of-living index (1982=100). – (*) Cannot be calculated.

### *Other intermediaries*

*Leasing companies.* — The economic downturn and the decline in industrial investment led to a sharp slowdown in the growth of leasing business, following the less pronounced deceleration recorded in 1991. Net of leasing rentals, the credit implicit in outstanding contracts increased by 1.1 trillion lire to 40.8 trillion, a rise of 2.7 per cent compared with growth of 17.3 per cent in 1991 and 27.6 per cent in 1990. New contracts worth 18.8 trillion lire were signed during the year, compared with 21.6 trillion in 1991.

The recession resulted in a further increase in bad debts, which rose from 4.1 to 4.9 per cent of the value of outstanding contracts; at 2 trillion lire, these items amounted to 57.2 per cent of the companies' own funds, as against 48.6 per cent in 1991.

*Factoring companies.* — The growing liquidity requirements of firms, the curtailment of lending by credit institutions and the monitoring of the volume of their lira loans helped generate a modest pickup in factoring business. The value of acquired claims rose by 7.3 per cent, compared with 5.5 per cent in 1991, to more than 41 trillion lire. Nevertheless, the rate of growth remained well below that recorded in the second half of the eighties.

*Consumer credit.* — The decline in households' propensity to borrow and the greater attention intermediaries paid to credit quality resulted in a reduction of 1.1 trillion lire in consumer lending, or 3.2 per cent, compared with an increase of 7.2 per cent in 1991. The reduction affected all consumer credit intermediaries, and particularly specialized finance companies, whose lending contracted by 4 per cent. Consumer credit granted by banks, which accounts for 60 per cent of all consumer credit, declined by 2.7 per cent and was one of the components of bank lending to show the most pronounced change. As a result of the credit institutions' more restrictive lending policies, loans to consumer credit companies contracted by 800 billion lire, or 8.1 per cent, compared with an increase of 2.7 per cent in 1991. The interest rates on such loans rose by about 3.5 percentage points.

# INSTITUTIONAL INVESTORS

The total resources of institutional investors — investment funds, portfolio management services, securities firms, pension funds and insurance companies — rose from 309.7 to 354.8 trillion lire in 1992, an increase of 14.6 per cent that was largely due to interest income on bonds and government securities. Their share of total financial assets grew to 5.2 per cent, which is nonetheless considerably lower than the level in the other leading countries. In the second half of the year the instability in the financial and foreign exchange markets caused their growth to slow down, with the result that net fund-raising for the year fell to 27.6 trillion lire, compared with 33.9 trillion in 1991.

The slowdown in fund-raising prompted investment fund management companies to enhance the range and flexibility of products offered and to initiate further mergers. The strong demand for endowment-type policies led banks to strengthen their agreements with insurance companies for the marketing of policies through bank branches.

Investment funds' net assets rose by a moderate 8 per cent, as against 18.6 per cent in 1991, to a total of 60.7 trillion lire; with the lira weak, savers' preferences swung towards funds whose portfolios reflected greater international diversification. Portfolio management services continued to grow, although more slowly; whereas five years ago their managed assets were equal to those of the investment funds, now they are nearly twice as large. Portfolio management services provided by banks accounted for 75.9 per cent of net fund-raising last year. Insurance companies' technical reserves rose to 107.7 trillion lire, an increase of 21.5 per cent, with faster growth in the life sector.

Last year saw further progress in the harmonization of legislation concerning access to the insurance markets in the European Community and prudential supervision. In particular, the adoption by the EC Council of new Directives on both life and non-life insurance has widened the scope for providing insurance services within the Community on the basis of home-country authorization.

With the enactment of Legislative Decree 124 on pension funds on 21 April 1993, the Government has taken a first important step to foster the development of supplementary pension plans in the medium term. The measure could have beneficial effects on the entire Italian financial market.

At the end of 1991 the assets of the pension funds administered by bodies other than INPS amounted to 76.2 trillion lire. Those of funds operated by credit institutions, for which 1992 data are available, grew by 13 per cent.

At the end of the first year of activity of securities firms, there were 291 firms authorized and 204 in operation, an excessive number in relation to the size of the domestic stock market and in the light of the experience of financial systems similar in structure to the Italian market.

### *Investment funds*

Net fund-raising by Italian investment funds fell to 700 billion lire, compared with 5.3 trillion in 1991 (Table 30), as a result of the considerable growth in redemptions, from 16.5 to 26 trillion lire, and the smaller increase in subscriptions. The funds' net assets rose from 56.2 to 60.7 trillion lire, owing mainly to capital gains; their share of the total financial assets of the non-state sector remained unchanged at 2.7 per cent.

Table 30

**NET ASSETS OF ITALIAN INVESTMENT FUNDS**

*(billions of lire)*

| | Net assets | Net fund-raising | | Dividends paid | | Capital gains | | Net assets | |
|---|---|---|---|---|---|---|---|---|---|
| | December 1990 | 1991 | 1992 | 1991 | 1992 | 1991 | 1992 | December 1991 | December 1992 |
| Bond-based . | 19,781 | 9,638 | 4,064 | 983 | 1,133 | 2,644 | 3,767 | 31,080 | 37,778 |
| Mixed ....... | 13,129 | –2,392 | –1,902 | 36 | 26 | 879 | 380 | 11,580 | 10,032 |
| Share-based . | 14,469 | –1,933 | –1,428 | 9 | 10 | 1,004 | 760 | 13,531 | 12,853 |
| **Total** ... | **47,379** | **5,313** | **734** | **1,028** | **1,169** | **4,527** | **4,907** | **56,191** | **60,663** |

In the first four months of this year net fund-raising amounted to 3.7 trillion lire, compared with 4.4 trillion in the same period in 1991. At the end of April net assets totaled 67.8 trillion lire.

The decline in share prices in the first three quarters of the year was one of the causes of net redemptions of 1.4 trillion lire for share-based funds and 1.9 trillion lire for mixed funds, continuing a tendency that had emerged in 1991; these funds' share of the total net assets of Italian investment funds fell from 44.6 to 37.7 per cent. The substantial net subscriptions of 6.9 trillion lire recorded by bond-based funds between January and June, which reflected the firm prices for government securities, were partly offset by net redemptions of 2.8 trillion in the second half of the year. By contrast, the exchange rate problems benefited funds with internationally diversified portfolios: the 57 investment funds that hold at least half of their assets in the form of foreign securities recorded net subscriptions roughly twice as large as those of the sector as a whole.

With the growth in bank deposits slowing down, the heightened competition in the market for low-risk financial assets weakened the link between banks and investment funds. At the end of the year banks held equity interests in 33 of the 54 fund management companies, controlling around two thirds of the funds in operation and 48.6 per cent of their total net assets, as against 53.3 per cent at the end of 1991. Subscriptions taken through bank branches fell from 33.4 to 30.3 per cent of the total for all funds and from 38 to 34.2 per cent for bond-based funds in particular.

The modest growth of the sector prompted fund management companies to seek to increase their market shares through mergers; at a time of falling subscription commissions, this strategy also permitted operational structures to be rationalized and economies of scale to be achieved. The reduction in the concentration of market shares abated: at the end of last year the five largest companies held 39.9 per cent of the total assets under management, as against 41 per cent a year earlier and 46.3 per cent at the end of 1990.

The growth of bond-based funds was reflected in net purchases of bonds and government securities totaling 1.5 trillion lire; funds made net disposals of shares, although on a limited scale. Net purchases of foreign securities amounted to a considerable 3 trillion lire and were stimulated by the phase of foreign exchange instability. As a result of securities transactions and movements in market prices, the proportion of the total portfolio consisting of government securities fell from 59.1 to 57.4 per cent and that of Italian shares from 16.1 to 11.7 per cent, while foreign securities rose from 16.2 to 24.8 per cent. Treasury credit certificates were the most commonly held Italian government securities.

The decline in the prices of listed shares contributed to a fall of 5.2 per cent in the index of the value of share-based fund units and one of 3.6 per cent in that of mixed funds, while bond-based funds offered an average yield of 11.3 per cent. By way of comparison, the average net ex post yields on Treasury bonds and Treasury credit certificates listed on the Milan Stock Exchange were 9.8 and 10.4 per cent respectively.

The fluctuations in securities prices and exchange rates caused an exceptional increase in the dispersion and variability of individual funds' results. In the twelve months ending in April 1993 yields ranged from —9.1 to 61.9 per cent on share-based and mixed funds and from 6.6 to 35.8 per cent on bond-based funds. Yield variability was highest among the former.

### *Securities firms and portfolio management services*

*Securities firms.* — The first securities firms began operations in 1992 pursuant to Law 1 of 2 January 1991. By the end of April of this year 297 firms had been granted authorization (including 71 in which credit institutions held shares) and 249 were operating. In particular, authorization to engage in securities trading for own account and on behalf of third parties had been granted to 175 firms, of which 141 were operational.

At the end of the year the firms' own securities portfolios were very modest, amounting to 1.1 trillion lire. Government securities accounted for nearly three quarters of the total, while only a small proportion consisted of shares.

The large number of securities firms in business was reflected in the high level of competition in the sector and limited its profitability. The net management commissions earned by a sample of firms that were in operation from January 1992 onwards and which accounted for one third of the sector's total own funds at the end of the year amounted to around 0.6 per cent of the value of managed funds. Margins on securities trading were also narrow, with net earnings from trading on behalf of third parties equal to 0.1 per cent of the value of such transactions.

Securities trading by the firms and banks, like that by investment funds, was stimulated by the wide fluctuations in prices.

The newness of statistical reporting of securities intermediation and the different ways in which such transactions can be effected do not allow comparison of the volume of trades handled by the banks and securities firms with the total turnover on the share and bond markets. However, some indications can be obtained by comparing the volume of trades performed by each category of intermediary.

Banks' trades in government securities on own account were almost twelve times those of securities firms; the ratio for trades on customer account was around four to one. Securities firms played a more prominent role in the share market, where they carried out almost half of all trades made on own account and 93.2 per cent of those on behalf of third parties; with certain exceptions, the latter are their exclusive preserve. Around half of the total transactions by securities firms were carried out by subsidiaries of credit institutions.

*Portfolio management services.* — The value of the assets entrusted to portfolio management services continued to expand as in previous years, rising to 105.3 trillion lire (Table 31). Net fund-raising remained substantial, even if lower than in 1991, and amounted to 8.7 trillion lire; its uneven growth in the course of the year was similar to that recorded by investment funds. At the end of 1992 the total portfolio managed by the services consisted largely of government securities (71.5 per cent) and lira bonds (11.6 per cent), while Italian shares were only 2.5 per cent. Bonds and government securities also accounted for the lion's share of foreign currency securities, which represented 6.5 per cent of the total portfolio.

Table 31

**ASSETS OF PORTFOLIO MANAGEMENT SERVICES** (1)

*(billions of lire)*

| | December 1991 (2) | 1992 | | | | March 1993 (3) |
|---|---|---|---|---|---|---|
| | | March (2) | June | September | December | |
| **Italian securities** | **85,289** | **92,579** | **89,707** | **88,296** | **90,111** | **90,469** |
| Government securities | 67,419 | 74,855 | 73,206 | 73,081 | 75,307 | 75,437 |
| Bonds | 14,206 | 14,257 | 13,588 | 12,967 | 12,210 | 12,244 |
| Shares | 3,664 | 3,467 | 2,913 | 2,248 | 2,594 | 2,788 |
| **Foreign currency securities** | **3,723** | **4,691** | **5,182** | **7,034** | **6,997** | **8,718** |
| Bonds (4) | 3,480 | 4,461 | 5,036 | 6,859 | 6,802 | 8,495 |
| Shares | 243 | 230 | 146 | 175 | 195 | 223 |
| **Total assets** | **92,824** | **101,298** | **102,057** | **103,125** | **105,329** | **106,224** |
| *of which: banks* (5) | *80,583* | *89,295* | *85,228* | *85,591* | *87,027* | *87,619* |
| *securities firms* | — | .... | *2,936* | *2,905* | *3,092* | *4,940* |
| *trust companies and commission dealers* (6) | .... | .... | *13,893* | *14,629* | *15,210* | *13,665* |
| *Memorandum item:* **Net fund-raising** *(7)* | **14,891** | **6,926** | **3,968** | **–747** | **–1,399** | **–1,651** |
| *of which: banks* (5) | *13,666* | *6,543* | *3,291* | *–1,519* | *–1,672* | *–1,828* |
| *securities firms* | — | .... | *203* | *179* | *254* | *381* |
| *trust companies and commission dealers* (6) | .... | .... | *474* | *593* | *19* | *–204* |

(1) The data for periods prior to June 1992 are only partly comparable with those for subsequent periods owing to the changes introduced by Law 1/1991 and those in the statistical reporting requirements. – (2) Services performed by banks, banks' associated or subsidiary companies and a sample of non-bank firms. – (3) Provisional. – (4) Includes foreign government securities. – (5) Services performed directly by banks. – (6) The figures for 1993 only refer to trust companies. – (7) Flows in the year or quarter ending in the month indicated.

Law 1/1991 restricts the activity of portfolio management to banks, securities firms and trust companies, although its transitional provisions also allowed commission dealers to provide such services until last December. Banks and securities firms can only engage in portfolio management in the name of and on behalf of third parties, while trust companies operate in their own name and on behalf of third parties. The changes introduced by the new legislation and those in statistical reporting requirements make the data on assets managed prior to June 1992 only partly comparable with those for subsequent periods.

### *Insurance companies and pension funds*

*Insurance companies.* — The premium income of insurance companies amounted to 33 trillion lire in the casualty sector and 12.3 trillion in the life sector. Total premium income continued to grow at a sustained pace, though slowing down slightly to 14.2 per cent, compared with 16.3 per cent in 1991. The fastest growth in the casualty sector, which expanded by 13.3 per cent overall, was in professional liability and indemnity insurance and transport insurance, while the 16.5 per cent growth in the life sector was largely due to ordinary policies. Total technical reserves rose from 88.6 to 107.7 trillion lire, with the life sector's share rising to 58.1 per cent (Table 32).

Table 32

**INSURANCE COMPANIES: MAIN ASSETS AND LIABILITIES**

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

| | Main assets | | | | Total assets | Technical reserves (3) | Net worth | Memorandum item: premium income (4) |
|---|---|---|---|---|---|---|---|---|
| | Deposits and cash | Securities (1) | Mortgages & annuities (2) | Real estate | | | | |
| | *Life sector* | | | | | | | |
| 1991 ........ | 1,647 | 46,615 | 3,279 | 9,182 | 82,182 | 49,718 | 13,134 | 10,581 |
| 1992 (5) ..... | 1,974 | 58,103 | 2,690 | 9,674 | 100,172 | 62,553 | 14,173 | 12,327 |
| | *Casualty sector* | | | | | | | |
| 1991 ........ | 2,458 | 36,307 | 264 | 10,297 | 82,574 | 38,885 | 17,984 | 29,158 |
| 1992 (5) ..... | 2,230 | 40,646 | 807 | 11,133 | 95,063 | 45,125 | 20,446 | 33,049 |
| | *Total* | | | | | | | |
| 1991 ........ | 4,105 | 82,922 | 3,543 | 19,479 | 164,756 | 88,603 | 31,118 | 39,739 |
| 1992 (5) ..... | 4,204 | 98,749 | 3,497 | 20,807 | 195,235 | 107,678 | 34,619 | 45,376 |

(1) In lire and foreign currency, including participations. – (2) Net of corresponding liabilities. – (3) Net of reinsurance. – (4) Direct domestic. – (5) Partly estimated.

As in 1991, the largest growth in insurance companies' assets occurred in securities, which rose from 82.9 to 98.7 trillion lire. Total assets increased from 164.8 to 195.2 trillion and net worth rose to 34.6 trillion. Public sector securities increased from 50.2 to 52.2 per cent of the companies' total portfolio (Table 33).

The large growth in premium income and the investment strategies pursued by the companies increased the insurance industry's importance in the Italian financial market. The insurance companies' securities portfolio accounted for 2.2 per cent of the total financial assets of the non-state sector at the end of 1985; by the end of last year this share had doubled.

Table 33

**INSURANCE COMPANIES: SECURITIES PORTFOLIO**

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

| | Public sector | | | | Special credit institu-tions (1) | Enter-prises and public bodies | Shares | Foreign currency securities | Invest-ment fund units | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | Trea-sury bills | Treasury credit certifi-cates | Trea-sury bonds | Other | | | | | | |
| | | | | | *Life sector* | | | | | |
| 1991 ... | 335 | 17,162 | 4,679 | 4,759 | 8,332 | 3,357 | 3,261 | 4,631 | 99 | 46,615 |
| 1992 (2) | 349 | 20,836 | 9,182 | 4,904 | 9,892 | 3,210 | 3,389 | 6,198 | 143 | 58,103 |
| | | | | | *Casualty sector* | | | | | |
| 1991 ... | 797 | 10,679 | 1,802 | 1,399 | 6,594 | 1,512 | 8,273 | 5,211 | 40 | 36,307 |
| 1992 (2) | 48 | 12,464 | 2,147 | 1,638 | 6,536 | 2,140 | 9,151 | 6,464 | 58 | 40,646 |
| | | | | | *Total* | | | | | |
| 1991 ... | 1,132 | 27,841 | 6,481 | 6,158 | 14,926 | 4,869 | 11,534 | 9,842 | 139 | 82,922 |
| 1992 (2) | 397 | 33,300 | 11,329 | 6,542 | 16,428 | 5,350 | 12,540 | 12,662 | 201 | 98,749 |

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

*Pension funds.* — Legislative Decree 124/1993 on pension funds was issued in April of this year. The decree identifies staff severance pay provisions as one of the chief sources of finance for pension funds.

The largest existing pension funds are those established by the credit sector and those managed by a number of public and professional bodies. They are designed either to supplement or take the place of INPS pensions and are generally set up on a funded basis.

At the end of 1991 the total reserves of the pension funds amounted to 76.2 trillion lire. The 18 largest non-INPS funds held 54.8 trillion and the funds operated by credit institutions 21.4 trillion (Table 34). The composition of the funds' portfolios appeared to be extremely cautious; at the end of 1991 deposits, government securities and bonds accounted for respectively 19.2, 31.7 and 7.5 per cent of the total and real estate for around one third, while the proportion of Italian shares remained small, at 2 per cent.

Table 34

**PENSION FUNDS: MAIN ASSETS**

*(balance sheet values at end of 1991 in billions of lire)*

| | 18 largest non-INPS funds (1) | Credit sector funds (2) | Total |
|---|---|---|---|
| Cash and deposits | 13,558 | 1,070 | 14,628 |
| Government securities | 14,150 | 9,998 | 24,148 |
| Bonds | 3,132 | 2,557 | 5,689 |
| Shares | 31 | 1,456 | 1,487 |
| Foreign currency securities | — | 287 | 287 |
| Other financial assets | 5,045 | 1,203 | 6,248 |
| Real estate | 18,884 | 4,838 | 23,722 |
| **Total assets** | **54,800** | **21,409** | **76,209** |

(1) Mainly set up on a funded basis. – (2) Asset composition partially estimated.

The credit sector funds, for which figures for 1992 are available, increased their reserves by 3 trillion lire to a total of 24.4 trillion. Compared with the aggregate pension fund portfolio, that of the credit sector funds was conspicuous for the modest proportion of real estate assets and deposits (22.4 and 9.7 per cent respectively) and the higher percentage of both government securities (48.3 per cent) and shares (5.8 per cent).

## THE SECURITIES MARKET

Last year was marked by heightened instability in securities markets. Demand for government securities contracted sharply during the summer, when expectations of a change in the lira's central rate and nervousness about possible extraordinary measures regarding the public debt prompted an acceleration in portfolio adjustment in favour of foreign assets. The substantial fall in prices on the secondary market affected new issues and unsettled the foreign exchange market, intermittently arousing fears of a financial crisis. Interest rate differentials vis-à-vis the Deutschemark increased to peaks of more than 10 percentage points on 3-month funds and 5 points on 10-year bonds, after tax. In the autumn the implementation of the supplementary budget measures and the gradual relaxation of the restrictive monetary stance fostered a recovery in the demand for securities. In the first few months of this year short-term yields returned to the levels recorded before the crisis, but expectations of higher inflation delayed a corresponding decline in long-term rates until May. The increase in the proportion of the public debt in the form of fixed rate lira instruments, which came to a halt in 1992, has resumed in recent months.

The breadth and depth that the secondary market in government securities has now attained ensured continuity of trading last year, and turnover was substantial even at the times of greatest tension. Uncertainty lent impetus to the development of markets in derivative instruments, such as options, futures and swaps for hedging interest rate and exchange rate risk. The turnover on the Italian Futures Market, which came into operation on 11 September, rapidly reached the level of LIFFE trading in contracts on Italian securities, which had begun a year earlier.

The performance of the share market changed dramatically during the year. The decline in share prices and turnover continued until the early autumn, adversely affecting corporate fund-raising on the official equity market. From October onwards, both prices and market volume recovered significantly, thanks to expectations of lower interest rates, the abolition of capital gains tax on securities and the Government's initial commitments with regard to privatization. The expansion was facilitated by the modernization of the market carried out in recent years, with the completion of the regulatory framework and the launch of continuous auction trading in a first group of shares. However, the implementation of a number of other reforms is behind schedule, including the extension of continuous trading to a wider range of shares, the replacement of monthly settlement by daily settlement and the development of derivative instruments for hedging in the share market.

### *Bonds and government securities*

*Supply.* — Net issues of bonds and government securities totaled 143.8 trillion lire in 1992, 3.1 trillion less than in 1991, and declined from 10.3 to 9.5 per cent of GDP. The contraction was due to a fall of 12.4 trillion lire in net bond issues by special credit institutions, firms and public corporations, which was only partly offset by an increase of 9.3 trillion in net government issues. Gross issues totaled 912.3 trillion lire, an increase of 45.8 trillion with respect to 1991 (Table 35). Government issues accounted for 881.7 trillion, 55.6 trillion more than a year earlier. An increase in the proportion of short-term paper affected the average maturity of the public debt, which declined to 2 years and 10 months at the end of the year after having lengthened to more than 3 years in May.

Net issues of Treasury bills and Treasury credit certificates accounted for 76.8 per cent of total government issues during the year, compared with 18.2 per cent in 1991, while the share of Treasury bonds fell from 67.5 to 24.6 per cent. Net issues of ecu-denominated securities made up 1.8 per cent of the total, whereas in 1991 there had been net redemptions. At the end of the year the stock of outstanding foreign currency securities, including Republic of Italy issues on the Euromarket, amounted to 5.5 per cent of the bond component of the public debt, as against 5.7 per cent in 1991.

The need to ensure that issue terms adjusted promptly to those prevailing on the secondary market at a time of great price volatility led the authorities to abolish the floor price in the auctions of medium and long-term paper from August onwards. The resulting increase in the flexibility of allotment rates encouraged subscriptions. In the year as a whole Treasury bills were oversubscribed by an average of 25 per cent and Treasury bonds and credit certificates by 65 and 83 per cent respectively.

The contraction in net private sector bond issues was attributable to the pronounced decline in the net issues of the special credit institutions from 15.9 to 10.8 trillion lire and net redemptions of bonds of firms and public corporations totaling 3.5 trillion lire, compared with net issues of 3.8 trillion in 1991.

The downgrading of many Italian issuers made it more difficult to raise funds abroad. Gross bond issues abroad by residents and their subsidiaries fell from $11.1 to 6.5 billion. After a break of almost two years, the Treasury returned to the Euromarket in January 1993 with Italy's first Deutschemark bond issue. The DM 5 billion loan offered an issue yield of 7.25 per cent, just under 50 basis points higher than German issues of comparable maturity.

Table 35

**BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS**

| | Gross issues | | Net issues | | Stocks | |
|---|---|---|---|---|---|---|
| | 1991 | 1992 | 1991 | 1992 | Dec. 1991 | Dec. 1992 |
| | *billions of lire* | | | | | |
| **Public sector** | **826,101** | **881,720** | **127,133** | **136,437** | **1,170,199** | **1,311,259** |
| *Treasury bills* | *602,421* | *675,055* | *13,894* | *44,731* | *343,147* | *387,879* |
| *Treasury credit certificates* | *99,000* | *83,426* | *9,268* | *60,024* | *433,811* | *495,924* |
| *Treasury bonds* | *93,010* | *95,519* | *85,784* | *33,576* | *250,952* | *287,072* |
| *Treasury option certificates* | *23,000* | *14,500* | *22,923* | *3,848* | *66,375* | *70,245* |
| *Ecu Treasury credit certificates* | *3,680* | *4,759* | *1,775* | *520* | *39,866* | *40,322* |
| *Other* | *4,990* | *8,461* | *–6,511* | *–6,262* | *36,048* | *29,817* |
| **Special credit institutions** | **32,307** | **29,022** | **15,939** | **10,848** | **153,730** | **165,757** |
| **Firms and public corporations** | **8,062** | **1,518** | **3,812** | **–3,464** | **37,981** | **34,525** |
| **Total** | **866,470** | **912,260** | **146,884** | **143,821** | **1,361,910** | **1,511,541** |
| | *percentage composition* (1) | | | | | |
| **Public sector** | **95.3** | **96.7** | **86.6** | **94.9** | **85.9** | **86.7** |
| *Treasury bills* | *72.9* | *76.6* | *10.9* | *32.8* | *29.3* | *29.6* |
| *Treasury credit certificates* | *12.0* | *9.5* | *7.3* | *44.0* | *37.1* | *37.8* |
| *Treasury bonds* | *11.3* | *10.8* | *67.5* | *24.6* | *21.4* | *21.9* |
| *Treasury option certificates* | *2.8* | *1.6* | *18.0* | *2.8* | *5.7* | *5.4* |
| *Ecu Treasury credit certificates* | *0.4* | *0.5* | *1.4* | *0.4* | *3.4* | *3.1* |
| *Other* | *0.6* | *1.0* | *–5.1* | *–4.6* | *3.1* | *2.2* |
| **Special credit institutions** | **3.8** | **3.2** | **10.8** | **7.5** | **11.3** | **11.0** |
| **Firms and public corporations** | **0.9** | **0.1** | **2.6** | **–2.4** | **2.8** | **2.3** |
| **Total** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| *as a percentage of GDP* | *60.7* | *60.5* | *10.3* | *9.5* | *95.5* | *100.3* |

(1) The percentage composition of public sector securities refers to the total of such securities.

Net lira issues on the Eurobond market declined from 12.3 to 9.1 trillion lire, owing in part to the abolition of tax exemption on residents' purchases of the bonds of international organizations in September. The situation improved in early 1993; net issues totaling 4.4 trillion lire in the first four months of the year brought the stock of lira-denominated Eurobonds to 41.5 trillion lire at the end of April.

*Demand.* — Residents' net subscriptions of government securities rose from 113.7 to 134.3 trillion lire (Table 36); those by the non-banking sector, excluding securities acquired from banks under repurchase agreements, declined from 58.8 to 56.4 trillion, or from 46.3 to 41.3 per cent of net issues. Net purchases by investment funds, insurance companies and social security institutions totaled 12.6 trillion lire, a decrease of 5.7 trillion with respect to 1991. Residents' net purchases of foreign securities declined by 6.6 trillion to 24.2 trillion lire in 1992 owing to substantial disinvestment in the fourth quarter.

Table 36

**BONDS AND GOVERNMENT SECURITIES: NET ISSUES ACCORDING TO SUBSCRIBER**

*(billions of lire)*

| | Public sector | | | | | | Special credit institutions, (1) firms and public bodies | Total |
|---|---|---|---|---|---|---|---|---|
| | Treasury bills | Treasury credit certificates | Treasury bonds | Treasury certificates in ecus | Other | Total | | |
| **1991** | | | | | | | | |
| BI-UIC (2) | –3,711 | –8,335 | 9,246 | –192 | 694 | –2,298 | –130 | –2,428 |
| Banks (2) | 3,139 | 6,014 | 18,230 | 360 | 681 | 28,424 | –3,270 | 25,154 |
| *Securities repurchase agreements with customers* (3) | *–392* | *22,810* | *4,247* | *522* | *1,535* | *28,722* | *1,528* | *30,250* |
| Special credit institutions | –165 | 796 | 325 | — | 301 | 1,257 | –1,388 | –131 |
| Social security institutions | –559 | –1,376 | 1,660 | 376 | 2,064 | 2,165 | 1,249 | 3,414 |
| Insurance companies | 779 | 3,925 | 3,392 | –18 | 943 | 9,021 | 2,495 | 11,516 |
| Investment funds | –1,228 | 2,368 | 4,439 | –34 | 1,554 | 7,099 | –373 | 6,726 |
| External (4) | 260 | 1,922 | 8,173 | 585 | 2,516 | 13,456 | 3,866 | 17,322 |
| Other | 15,379 | 3,954 | 40,319 | 698 | 7,659 | 68,009 | 17,302 | 85,311 |
| **Total** | **13,894** | **9,268** | **85,784** | **1,775** | **16,412** | **127,133** | **19,751** | **146,884** |
| **1992** | | | | | | | | |
| BI-UIC (2) | –9,304 | 2,011 | 21,153 | 135 | 821 | 14,816 | –93 | 14,723 |
| Banks (2) | –4,546 | 14,580 | 19,021 | –810 | 5,626 | 33,871 | –1,390 | 32,481 |
| *Securities repurchase agreements with customers* (3) | *3,237* | *18,636* | *5,376* | *703* | *1,256* | *29,208* | *2,540* | *31,748* |
| Special credit institutions | –389 | –2,006 | –16 | — | –112 | –2,523 | 1,452 | –1,071 |
| Social security institutions | 618 | 865 | –24 | 11 | –947 | 523 | –23 | 500 |
| Insurance companies | –789 | 5,459 | 4,847 | 316 | 70 | 9,902 | 2,151 | 12,053 |
| Investment funds | 419 | –494 | 959 | –10 | 1,259 | 2,133 | –633 | 1,500 |
| External (4) | 56 | 330 | 2,080 | 1,363 | –1,668 | 2,161 | 504 | 2,665 |
| Other | 58,666 | 39,279 | –14,444 | –485 | –7,462 | 75,554 | 5,416 | 80,970 |
| **Total** | **44,731** | **60,024** | **33,576** | **520** | **–2,413** | **136,437** | **7,384** | **143,821** |

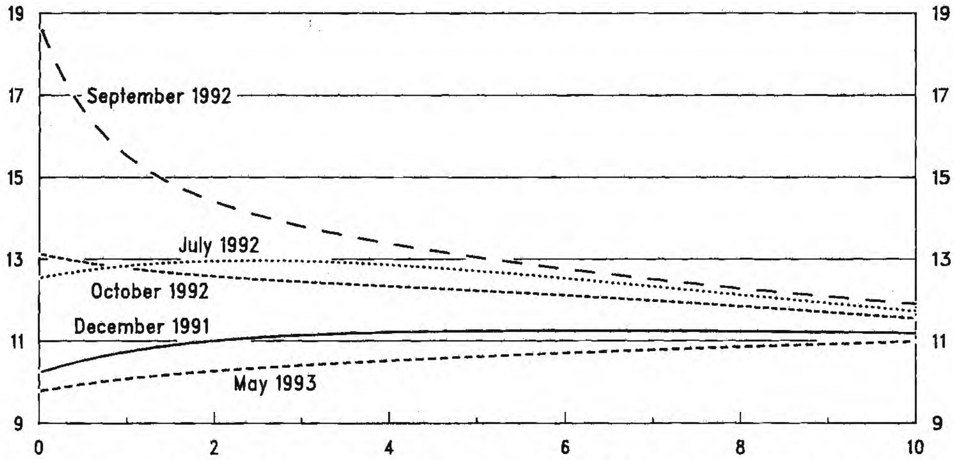
(1) Excluding certificates of deposit. - (2) Net of repurchase agreements with the Bank of Italy and operations under the Ministerial Decree of 27.9.1974. - (3) Variations in temporary sales of securities, net of temporary purchases. - (4) The total for the public sector relates only to government securities.

*Interest rates and the secondary market in Italian government securities.* — The volatility of short-term interest rates and expectations as to their behaviour over the medium term caused pronounced changes in the level and slope of the yield curve in the course of the year (Figure 13). The modest rise in short-term yields between January and May did not affect long-term rates (Figure 14). From June onwards, however, the increase spread to 10-year bonds as expectations of interest rate convergence within Europe faded; at the same time the tightening of monetary conditions drove up short-term rates, inverting the yield curve.

Figure 13

**YIELD CURVES** (1)

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

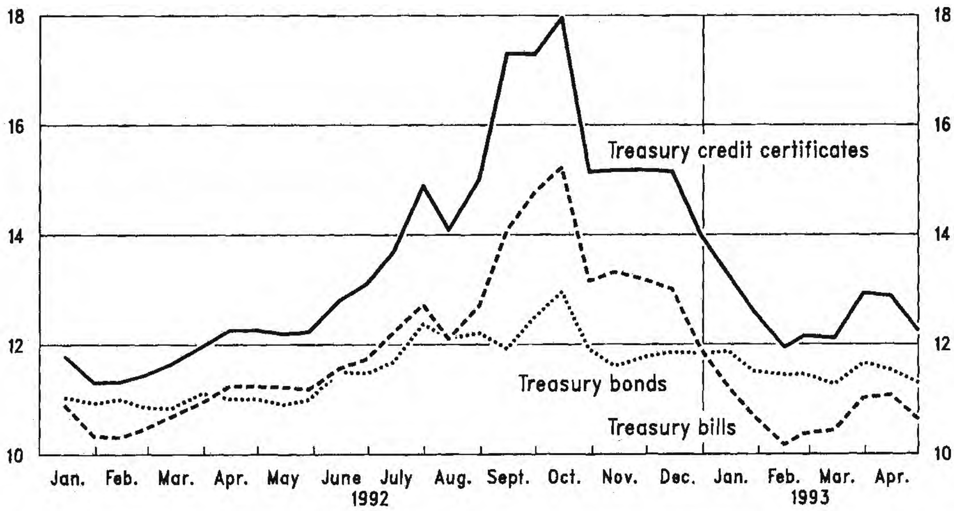



(1) Percentage yields on zero-coupon bonds net of withholding tax, plotted against their maturity in years on the x-axis.

Figure 14

**NET YIELDS ON TREASURY BONDS, CREDIT CERTIFICATES AND BILLS** (1)

*(half-monthly data; percentages)*



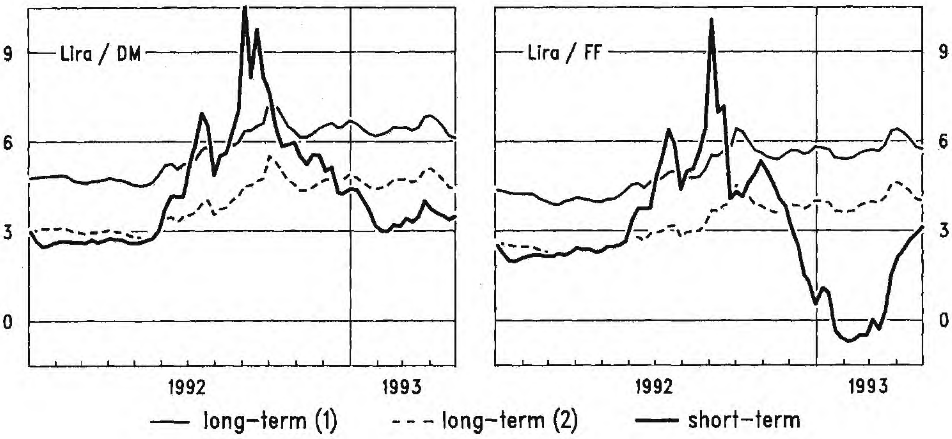

(1) For Treasury bonds, average end-of-period yields on ten-year issues listed on the screen-based market; for Treasury credit certificates, average end-of-period yields of issues listed on the Milan Stock Exchange; for Treasury bills, average tender yields on 12-month bills.

After the currency crisis short-term yields declined steadily, but those at longer term were affected by uncertainty about inflation, so that the yield on 10-year bonds did not return to its May 1992 value until the second half of May 1993.

Figure 15

**SHORT AND LONG-TERM LIRA/DM**
**AND LIRA/FF YIELD DIFFERENTIALS**

*(percentages)*

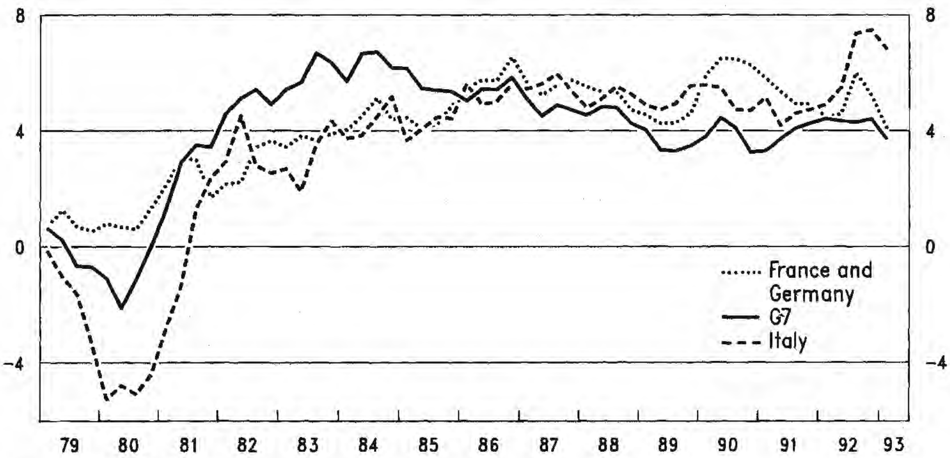



(1) Before tax. – (2) Net of withholding tax in the case of lira yields.

Figure 16

**REAL LONG-TERM YIELDS**
**IN G-7 COUNTRIES AND IN ITALY (1)**

*(quarterly data)*



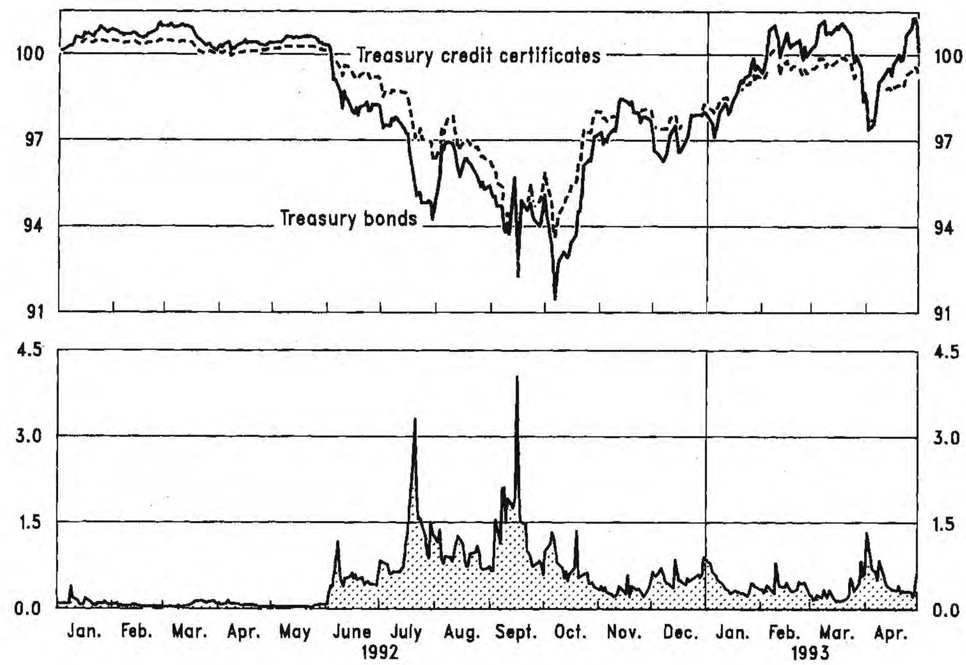

Sources: Bank of Italy and IMF.
(1) Nominal yields (quarterly averages), deflated using the rate of consumer price inflation recorded in the year ending in the quarter in question. For Italy, the average yield on Treasury bonds with a residual term of more than one year, from September 1986 onwards net of withholding tax (initially 6.25 per cent, 12.5 per cent from September 1987 onwards); for the other major industrial countries, gross yields on medium and long-term government bonds. The average rate for the seven leading countries, which includes the rate for Italy, and the average rate for Germany and France are weighted on the basis of gross domestic product converted at purchasing power parities.

Yield differentials between long-term lira securities and comparable DM or French franc instruments remained wider than they had been before the crisis. At the end of April 1993 the after-tax differentials were 4.4 and 4 percentage points, respectively 1.3 and 1.4 points more than they had been at the end of May 1992 (Figure 15). These differentials also reflect the cost to foreign investors of the slowness of the Italian procedure for refunding withholding tax.

Figure 17

**SCREEN-BASED MARKET: EX COUPON PRICE INDICES AND AVERAGE BID-OFFER SPREAD**

*(31 December 1991=100; percentages)*




The trend in real medium and long-term interest rates on lira securities differed sharply between the first and second halves of the eighties (Figure 16). In the first part of the decade, after two years of negative real interest rates, Italy introduced monetary and exchange rate policies that brought lira rates closer to those of the other major economies. From 1987 onwards Italian real interest rates were on average about one percentage point higher than the average for the Group of Seven countries and in line with comparable French and German rates. In mid-1992 the sharp rise in nominal lira interest rates in connection with the currency crisis led to a significant widening of the real long-term interest rate differentials in relation both to the G7 average and to Germany and France.

The screen-based secondary market ensured continuity of trading even at the times of greatest strain. Despite a widening of the average daily bid-offer spread on Treasury bonds from 6 basis points in the first five months of 1992 to 124 basis points in September and that on Treasury credit certificates from 8 to 158 basis points (Figure 17), daily turnover remained substantial, contracting only from 8 to 4.6 trillion lire over the same period. In the first four months of 1993 the spread on medium and long-term lira securities averaged 40 basis points and turnover was comparable to that recorded in the same period a year earlier.

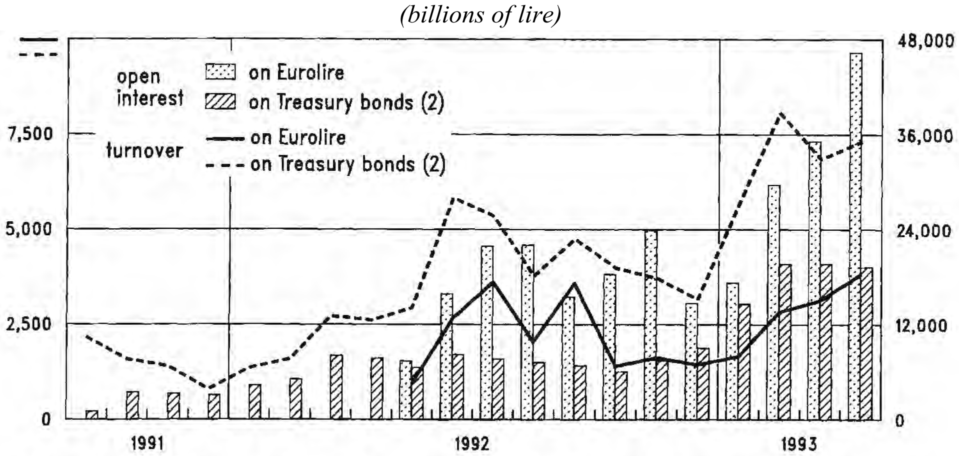
### *The market in derivative instruments*

In general, the volume of derivative instruments traded on official markets increased substantially, the only exception being stock options, the development of which has been inhibited by the delay in completing the modernization of the Milan Stock Exchange where they are traded. Among products traded on unregulated markets, there was considerable growth in the volume of interest rate and currency swaps, fostered by the increasing international integration of capital markets. Since September 1992 futures contracts on Italian Treasury bonds have been traded on two markets, LIFFE in London and the Italian Futures Market (MIF), which uses the same trading network as the screen-based spot market in government securities.

Figure 18

**FUTURES MARKET: TURNOVER AND OPEN INTEREST** (1)

*(billions of lire)*




(1) Right-hand scale: open interest; left-hand scale: average daily turnover. – (2) Total of contracts traded on MIF and LIFFE.

From the very outset, the volume of transactions on MIF has represented a high percentage of the turnover on LIFFE in contracts on Italian securities. In September 1992 the average daily turnover of contracts on 10-year bonds on MIF was 57 per cent of that on LIFFE. In December the volume of trading on the Italian market exceeded that on LIFFE in comparable contracts, subsequently declining to 72 per cent in April 1993. However, including contracts on bonds with a residual maturity of between 3.5 and 5 years, which were launched in December, the average daily turnover on MIF was consistently higher than that on LIFFE from December onwards.

The open interest in 10-year bond futures on MIF, measured in terms of the value of outstanding contracts, rose steadily to 4.8 trillion lire in February 1993 before falling back to 4.3 trillion in April, compared with open interest of 8.5 trillion lire in equivalent contracts on LIFFE. The open interest in bonds with the shorter residual maturity grew even more rapidly, rising to 6.4 trillion lire in April.

In May 1992 LIFFE began trading in 3-month Eurolira futures (Figure 18). The open interest in these instruments at the end of the month is larger in proportion to turnover than is the case with Treasury bond futures. At the end of April 1993 open positions totaled 46.4 trillion lire, 2.4 times the open interest on Treasury bonds on MIF and LIFFE combined.

### *Shares*

*Supply and demand.* — General economic conditions and market uncertainty adversely affected new share issues, which basically came to a halt between August and October. Issues by listed companies fell from 5.8 trillion lire in 1991 to 3.3 trillion last year, the lowest level since 1988 (Table 37). As in previous years, issues by unlisted companies nonetheless continued to grow, rising from 15 to 17.3 trillion lire. Total share issues therefore amounted to 20.7 trillion lire, roughly the same as in 1991. The capitalization of the Milan Stock Exchange at the end of the year stood at 187.6 trillion lire, with Italian shares accounting for 169.5 trillion of the total, 7.8 trillion less than at the end of 1991.

Demand for shares was weak on the part of both foreign and domestic investors. Italian portfolio management services, investment funds and insurance companies reduced the proportion of shares in their portfolios. Investment funds' holdings of Italian shares fell from 16.1 to 11.7 per cent of their total portfolio and declined in value from 8.3 to 6.6 trillion lire as a result of the fall in prices and the disposals made to meet the wave of redemptions in the second half of the year. Insurance companies' investments in Italian shares fell from 13.9 to 12.7 per cent of their total securities portfolio, despite rising in value from 11.5 to 12.5 trillion lire. At the end of the year the total value of the shares held by institutional investors on own account and on behalf of third parties was close to 14 per cent of the capitalization of the Milan Stock Exchange, not very different from the ratio at the end of 1991.

Table 37

**GROSS SHARE ISSUES**

| | Billions of lire | | | | Percentage composition | | | |
|---|---|---|---|---|---|---|---|---|
| | 1989 | 1990 | 1991 | 1992 | 1989 | 1990 | 1991 | 1992 |
| **Listed companies** .... | **8,225** | **10,778** | **5,844** | **3,347** | **41.4** | **43.5** | **28.0** | **16.2** |
| State-controlled ..... | 2,079 | 2,441 | 1,208 | 268 | 10.5 | 9.9 | 5.8 | 1.3 |
| Private sector ....... | 6,146 | 8,337 | 4,636 | 3,079 | 30.9 | 33.6 | 22.2 | 14.9 |
| **Unlisted companies** .. | **11,632** | **13,999** | **15,044** | **17,321** | **58.6** | **56.5** | **72.0** | **83.8** |
| State-controlled ..... | 3,828 | 2,959 | 3,896 | 4,563 | 19.3 | 11.9 | 18.6 | 22.1 |
| Private sector ....... | 7,804 | 11,040 | 11,148 | 12,758 | 39.3 | 44.6 | 53.4 | 61.7 |
| **Total** ..... | **19,857** | **24,777** | **20,888** | **20,668** | **100.0** | **100.0** | **100.0** | **100.0** |
| State-controlled ..... | 5,907 | 5,400 | 5,104 | 4,831 | 29.7 | 21.8 | 24.4 | 23.4 |
| Private sector ....... | 13,950 | 19,377 | 15,784 | 15,837 | 70.3 | 78.2 | 75.6 | 76.6 |

*Share prices.* — The fall in prices that had begun in mid-1991 lasted until the end of September 1992; the market subsequently picked up, albeit with wide fluctuations, and continued to rise in the early part of this year (Figure 19). During 1992 as a whole, the Milan Stock Exchange Index fell by 11.7 per cent; in the first four months of 1993 it rose by 17.8 per cent. The downturn in share prices during the summer was common to all the major European exchanges; the London and Paris markets nonetheless recorded gains of respectively 14.8 and 1.6 per cent for the year as a whole, while the Frankfurt exchange showed a loss of 5.8 per cent.

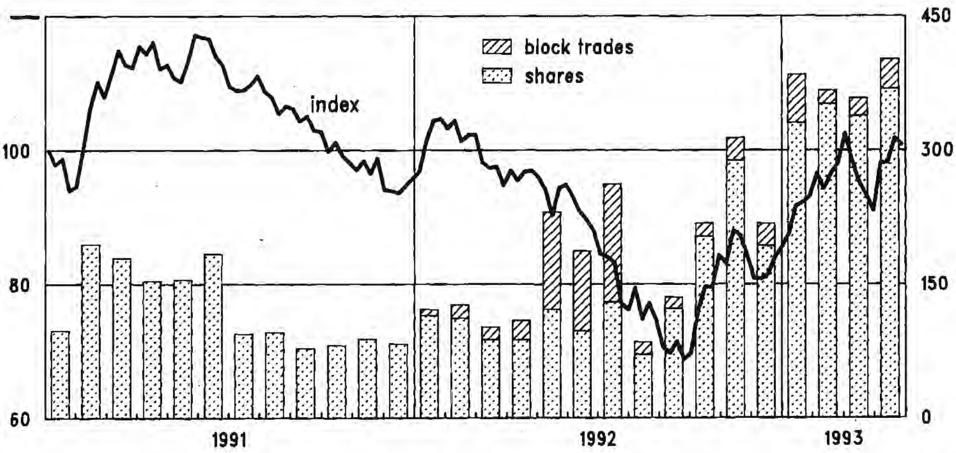
Corporate profitability declined for the second consecutive year. The profits of a sample of 156 listed firms, representing 76 per cent of the market's capitalization, fell by 22 per cent last year after declining by 32 per cent in 1991. As a result, the ratio of their market capitalization to their net profits rose from 25 to 30.

*Market activity.* — After diminishing for two years, turnover on the Milan Stock Exchange showed signs of recovery last year, rising from 31 to

34.7 trillion lire (45 trillion including block trades). The turning point came in September, when the easing of uncertainty and the fall in interest rates were accompanied by a twofold increase in average daily turnover from around 100 billion lire in the period from January to August to 200 billion in the last four months of the year.

Figure 19

**INDEX OF SHARE PRICES AND DAILY TURNOVER ON THE MILAN STOCK EXCHANGE** (1)




(1) Historical value of the Milan Stock Exchange Index, 31/12/90=100 (left-hand scale); turnover in billions of lire (right-hand scale). Block trades have been recorded since January 1992.

The growth in activity was also stimulated by an improvement in the efficiency of the Milan market in relation to that of the London exchange. The progressive implementation of the measures adopted in the last two years to modernize the Italian stock market has enhanced its competitiveness. Of particular importance has been the changeover from the open-outcry call auction system to a screen-based continuous auction market, which was initially introduced for 5 shares and extended to 35 in the course of the year. Despite technical difficulties that have slowed its development, the new system has significantly favoured the growth of trading, with turnover in the shares admitted to continuous trading rising from 28.7 per cent of total turnover in Milan in the first half of 1991 to 35.3 per cent in the first half of last year. The Milan Stock Exchange has thus been able to recapture business from the SEAQ system of London's International Stock Exchange: between the first half of 1991 and the same period in 1992, for the Italian shares listed on both markets the ratio of turnover on SEAQ to that in Milan fell from 1.26 to 0.80 for shares admitted to continuous trading and from 0.81 to 0.68 for those traded in the call auction. The number of shares admitted to continuous trading was increased to 39 on 20 April 1993 with the listing of four securities of three companies included in the Government's privatization plan, namely Credito Italiano, Nuovo Pignone and SME.

## HOUSEHOLDS AND ENTERPRISES

### *Financial balances*

The decline in households' financial saving recorded in the past few years accelerated in 1992, with the ratio to GDP falling by nearly 2 percentage points, from 13.4 to 11.6 per cent (Table 38). The deterioration in the economic climate was reflected in an increase in the financial deficit of firms from 5.3 to 6 per cent of GDP. Measured in relation to the same aggregate, the financial deficit of general government decreased from 10.8 to 10.6 per cent, while the deficit on the current account of the balance of payments rose from 1.9 to 2.2 per cent.

Table 38

**FINANCIAL BALANCES**

| | Households | Enterprises | General government (1) | Rest of the world | Households | Enterprises | General government (1) | Rest of the world |
|---|---|---|---|---|---|---|---|---|
| | *(billions of lire)* | | | | *(as a percentage of GDP)* | | | |
| 1990 ... | 193,082 | −105,939 | −135,191 | 17,782 | 14.7 | −8.1 | −10.3 | 1.4 |
| 1991 ... | 191,230 | −75,931 | −154,234 | 26,598 | 13.4 | −5.3 | −10.8 | 1.9 |
| 1992 ... | 174,644 | −90,807 | −159,045 | 32,734 | 11.6 | −6.0 | −10.6 | 2.2 |

Source: *Conti finanziari.*
(1) Consolidated. The financial balance for general government shown here differs from net indebtedness. The discrepancy is due to different accounting procedures for some of the items. In particular, the health spending item in the financial accounts refers to cash disbursements by the Treasury, while the national accounts are calculated on an accruals basis; furthermore, transfers to the State Railways in the national accounts comprise only the funds appropriated in the state sector budget, while the financial accounts also include cash disbursements by the Treasury.

Despite the considerable debt of general government, the overall indebtedness of the Italian economy is not particularly high when compared with that of other countries (Table 39). Households and enterprises do not have a heavy burden of debt; households' indebtedness is equal to 22.4 per cent of GDP, roughly half the level in France (46.2 per cent) and less than one third that in the United Kingdom (75 per cent). The data for Germany are affected by the exclusion of sole proprietors, who in other countries count as part of the household sector; the indebtedness of consumer households alone is slightly lower in Italy than in Germany (11 per cent, compared with 11.5 per cent). In relation to GDP, the outstanding debt of Italian enterprises is higher only than that of firms in the United Kingdom; net of financial assets, it stands at 41 per cent, compared with 22.3 per cent in the United Kingdom, 40.2 per cent in France and 64.3 per cent in Germany.

Table 39

**FINANCIAL LIABILITIES OF DOMESTIC BORROWERS** (1)

*(as a percentage of GDP; 1991)*

| | Households (a) | Enterprises | | Total (d)=(a) + (b) | General government (e) | Total (f)=(d)+(e) |
|---|---|---|---|---|---|---|
| | | (b) | (c) (2) | | | |
| France ........... | 46.2 | 74.0 | 40.2 | 120.2 | 46.0 | 166.2 |
| Germany (3) ..... | 11.5 | 116.6 | 64.3 | 128.1 | 44.8 | 172.9 |
| Italy ............. | 22.4 | 58.7 | 41.0 | 81.1 | 111.8 | 192.9 |
| United Kingdom ... | 75.0 | 49.4 | 22.3 | 124.4 | 47.9 | 172.3 |

Sources: Italy: Bank of Italy, *Conti finanziari;* United Kingdom: *United Kingdom National Accounts;* other countries: OECD, *Financial Statistics, Part 2.*

(1) Net of shares. The data are not consolidated for intra-sectoral transactions. – (2) Financial liabilities net of corresponding assets. – (3) The figures for enterprises include sole proprietors, who are included in the household sector in the other countries.

### *Households' financial saving and debt*

A combination of slower growth in disposable income, one-off fiscal measures and uncertainty associated with the currency crisis gave rise to a sizable contraction in households' net investment in financial assets, which totaled 200.8 trillion lire, about 26 trillion less than in 1991 (Table 40). Net of shares, their financial assets rose by 9.6 per cent, as against 12.4 per cent in 1991. Liabilities grew by 26.5 trillion lire, 10.3 trillion less than in 1991; the percentage increase amounted to 8.3 per cent, compared with 13 per cent the previous year.

There was a significant shift in the composition of households' portfolios away from bank deposits and towards shares and government securities, especially short-term paper. Bank deposits increased by 31.2 trillion lire, as against 59.6 trillion in 1991; their rate of growth thus fell by more than half, from 10.2 to 4.9 per cent. By contrast, households' net purchases of government securities, including those involved in repurchase agreements, amounted to 81.8 trillion lire, as against 69.6 trillion in 1991. The aggregate rise was the sum of an increase of 57.5 trillion lire in short-term securities and 24.3 trillion in medium and long-term securities, compared with 16.4 and 53.2 trillion respectively in 1991.

Table 40

**FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS** (1)

*(billions of lire)*

| | Stocks | | Flows | | |
|---|---|---|---|---|---|
| | 1991 | 1992 | 1990 | 1991 | 1992 |
| Cash | 69,082 | 77,483 | 1,726 | 6,237 | 8,400 |
| Transferable sight deposits | 331,569 | 331,330 | 33,654 | 41,877 | –800 |
| Other deposits | 507,580 | 553,959 | 55,345 | 37,181 | 46,042 |
| *bank* | *310,762* | *343,135* | *28,477* | *17,715* | *32,037* |
| *postal* | *127,362* | *136,901* | *14,083* | *12,686* | *9,540* |
| Short-term securities | 293,541 | 350,997 | 32,194 | 17,127 | 57,543 |
| Medium and long-term securities | 474,080 | 502,507 | 63,302 | 71,907 | 30,019 |
| *government* | *393,448* | *417,771* | *53,810* | *53,200* | *24,324* |
| Investment fund units | 56,191 | 60,663 | 829 | 5,315 | 732 |
| Shares and participations | 483,678 | 544,571 | 11,719 | 4,900 | 6,398 |
| External assets (2) | 76,185 | 88,828 | 4,297 | 16,075 | 12,643 |
| Other (3) | 215,336 | 257,197 | 22,476 | 25,988 | 39,861 |
| **Total assets** | **2,507,243** | **2,765,534** | **225,541** | **226,607** | **200,838** |
| Short-term loans | 108,315 | 117,837 | 10,176 | 10,923 | 7,197 |
| *banks* | *103,746* | *113,134* | *9,705* | *10,727* | *7,080* |
| Medium and long-term loans | 154,140 | 166,122 | 18,571 | 20,189 | 11,649 |
| *banks* | *66,427* | *71,322* | *7,103* | *9,431* | *4,790* |
| *special credit institutions* | *69,550* | *77,001* | *8,551* | *9,016* | *7,223* |
| Other (4) | 57,533 | 65,352 | 5,425 | 5,723 | 7,817 |
| **Total liabilities** | **319,988** | **349,180** | **34,172** | **36,836** | **26,534** |

Source: *Conti finanziari.*
(1) Rounding may cause discrepancies in totals. – (2) Short-term securities, bonds, shares and participations issued by non-residents and units in foreign investment funds. – (3) Insurance companies' technical reserves, equity in severance pay and pension funds, and sundry minor items. – (4) Loans from leasing companies, consumer credit from financial companies and sundry minor items.

Purchases of foreign financial assets were very large in the first nine months of the year, totaling 20.6 trillion lire. By contrast, there were net sales of 7.9 trillion lire in the last quarter in the wake of Italy's withdrawal from the ERM; flows for the year as a whole were thus 3.4 trillion lire less than the 16.1 trillion recorded in 1991. Despite the downturn in the stock market, investment in shares and participations revived, increasing from 4.9 to 6.4 trillion lire.

### *The financing of enterprises and their liquidity*

In view of a narrowing of profit margins, a reduction in the scope for self-financing and widespread uncertainty about the outlook for domestic and external demand, firms cut back sharply on investment, which declined in real terms for the first time in eight years, limited their borrowing and ran down their holdings of financial assets. The flow of financing totaled 85 trillion lire, 19.3 trillion less than in the previous year (Table 41). Net of shares, liabilities increased by 8.7 per cent, as against 11.6 per cent in 1991. As with households, the most pronounced slowdown was in medium and long-term credit, with the rate of growth declining from 17.3 to 9.8 per cent; short-term credit increased by 8.4 per cent, as against 10.2 per cent in 1991. However, lending by credit institutions remained stable as a share of total financing, at around 55 per cent.

Net redemptions of bonds totaling 2 trillion lire occurred last year, in contrast to net issues of 1.2 trillion in 1991; the volume of shares purchased by residents declined from 9.7 to 8.6 trillion lire.

Firms' external liabilities continued to increase rapidly, although not at the pace of previous years. The total flow came to 15.5 trillion lire, about 3 trillion less than in 1991 and half the total recorded in 1990. Foreign loans were the most dynamic item, increasing by 10 trillion lire, while non-residents' net purchases of Italian shares fell by more than half, from 7.6 to 3.6 trillion lire.

The recession, combined with the climate of extreme uncertainty in the second half of the year, induced firms to liquidate large quantities of financial assets; during the year they reduced their holdings by 5.8 trillion lire, compared with net purchases of 28.4 trillion in 1991 (Table 41). Holdings of government securities decreased by 8.7 trillion lire as a result of large sales of medium and long-term securities, mainly in the second half of the year. Bank deposits and external assets decreased by 2.9 and 1.5 per cent respectively.

In view of the downturn in economic activity, the decline in borrowing did not halt the rise that had begun in 1989 in the ratio of corporate debt to value added, which increased from 63.7 to 68 per cent. Net financial costs also rose, from 5.6 to 6.7 per cent of value added. Although profit margins remained virtually unchanged owing to the deceleration in labour costs, self-financing decreased by enough to cause a significant fall in the proportion of investment financed internally.

Table 41

**FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES** (1)
*(billions of lire)*

| | Stocks | | Flows | | |
|---|---|---|---|---|---|
| | 1991 | 1992 | 1990 | 1991 | 1992 |
| Cash | 7,106 | 7,978 | 172 | 645 | 873 |
| Transferable sight deposits | 83,560 | 82,888 | –467 | 2,836 | –1,439 |
| *bank* | *76,666* | *74,627* | *1,068* | *3,707* | *–2,804* |
| Other deposits | 3,432 | 4,228 | 630 | 225 | 717 |
| *bank* | *2,337* | *2,934* | *459* | *68* | *517* |
| Short-term securities | 3,712 | 4,500 | 25 | –433 | 791 |
| Medium and long-term securities | 60,074 | 50,469 | 7,525 | 6,633 | –10,058 |
| *government* | *53,578* | *44,242* | *5,963* | *5,725* | *–9,510* |
| Shares and participations | 215,942 | 245,298 | 4,568 | 1,948 | 2,748 |
| External assets | 108,530 | 106,855 | 19,174 | 15,592 | –1,675 |
| Other (2) | 15,240 | 17,469 | 969 | 939 | 2,229 |
| **Total assets** | **497,597** | **519,512** | **32,597** | **28,386** | **–5,814** |
| **Domestic liabilities** | **1,331,281** | **1,483,445** | **107,574** | **85,887** | **69,461** |
| Short-term loans (3) | 356,625 | 402,354 | 52,272 | 32,954 | 29,882 |
| *banks* (4) | *308,533* | *353,667* | *42,867* | *34,012* | *29,542* |
| *special credit institutions* | *22,540* | *20,484* | *3,989* | *–2,225* | *–2,312* |
| Medium and long-term loans (5) | 213,020 | 238,224 | 27,999 | 31,457 | 20,971 |
| *banks* (4) | *15,942* | *18,505* | *2,150* | *3,964* | *1,956* |
| *special credit institutions* | *145,903* | *166,904* | *18,846* | *21,333* | *17,374* |
| Bonds | 41,938 | 39,955 | 2,643 | 1,241 | –1991 |
| Shares and participations | 626,879 | 698,085 | 17,113 | 9,666 | 8,601 |
| Other | 92,819 | 104,827 | 7,546 | 10,569 | 11,998 |
| **External liabilities** | **180,163** | **191,462** | **30,963** | **18,430** | **15,532** |
| Net trade credits | 32,537 | 33,825 | 4,876 | –1,970 | 1,288 |
| Foreign loans | 90,853 | 102,121 | 21,397 | 10,930 | 9,977 |
| Bonds | 9,981 | 10,601 | –481 | 1,918 | 620 |
| Shares and participations | 46,792 | 44,916 | 5,171 | 7,552 | 3,647 |
| **Total liabilities** | **1,511,444** | **1,674,907** | **138,537** | **104,317** | **84,992** |

Source: *Conti Finanziari.*
(1) Rounding may cause discrepancies in totals. – (2) Includes insurance companies' technical reserves and sundry minor items. – (3) Includes finance from factoring companies. – (4) Flows adjusted for exchange rate variations and consolidations of past debts. – (5) Includes finance from leasing companies.

*The composition of corporate liabilities and the form and ownership of enterprises: a comparison with selected EC countries*

Italian enterprises occupy a middle position by comparison with certain other Community countries as regards indebtedness. In 1991 debt accounted for 47.3 per cent of firms' total financial liabilities in Italy, compared with 72.8 per cent in Germany, 70.6 per cent in Spain, 32.1 per cent in France and 21.7 per cent in the United Kingdom. There are more marked differences between Italy and the other EC countries in other structural aspects, such as the legal form adopted by businesses, their propensity to obtain a listing on the stock market and the degree of concentration in firms' ownership.

By international standards, Italy has a high proportion of sole proprietors and relatively few limited companies (primarily *società per azioni* and *società a responsabilità limitata;* Table 42). According to census data, sole proprietors represent 81.3 per cent of all businesses in Italy, compared with 77.3, 68.2 and 39.8 per cent in Germany, France and the United Kingdom respectively. Limited companies, on the other hand, constitute 4.7 per cent of the total in Italy, compared with 12.9 per cent in Germany, 14.8 per cent in France and 33 per cent in the United Kingdom. This pattern of business structures is only partly due to the prevalence of small businesses in Italy; only 4.2 per cent of firms with less than 50 employees are in the form of a limited company in Italy, as against 11.7 per cent in Germany and 14 per cent in France.

Table 42

LEGAL FORM OF ENTERPRISES IN SELECTED EC COUNTRIES (1)

| | Italy | | France | | Germany | | United Kingdom | |
|---|---|---|---|---|---|---|---|---|
| | Thousands | % share | Thousands | % share | Thousands | % share | Thousands | % share |
| Sole proprietors .... | 2,316 | 81.3 | 1,889 | 68.2 | 1,622 | 77.3 | 603 | 39.8 |
| Partnerships ....... | 182 | 6.4 | 116 | 4.2 | 190 | 9.1 | 383 | 25.3 |
| Limited companies . | 135 | 4.7 | 410 | 14.8 | 271 | 12.9 | 500 | 33.0 |
| S.p.a. ........... | 38 | 1.3 | 127 | 4.6 | 3 | 0.1 | .... | .... |
| S.r.l. ............ | 97 | 3.4 | 283 | 10.2 | 268 | 12.8 | .... | .... |
| Other ............. | 215 | 7.6 | 352 | 12.8 | 14 | 0.7 | 28 | 1.9 |
| **Total** ... | **2,848** | **100.0** | **2,767** | **100.0** | **2,097** | **100.0** | **1,514** | **100.0** |

Sources: Italy: Istat, *6º censimento generale dell'Industria, del commercio, dei servizi e dell'artigianato,* 1985, second volume; Germany: Statistisches Bundesamt, *Unternehmen un Arbeitsstätten,* Fachserie 2, 1990; United Kingdom: Central Statistical Office, *Size Analysis of United Kingdom Business,* 1985; France: Insee, *Annuaire statistique de la France*, volume 86, 1981.

(1) Rounding may cause discrepancies in totals.

The preference for business structures other than the limited company helps explain the small size of the stock market in Italy. In 1992, market capitalization of listed companies equaled 11.2 per cent of GDP in Italy, compared with 25.9 per cent in France, 19.2 per cent in Germany and 101.2 per cent in the United Kingdom. Even among limited companies, there is a low propensity in Italy to seek a listing on the stock exchange: only about 26 per cent of the capital of companies that meet the size requirement for admission to the stock exchange (a net worth of 10 billion lire) is actually listed. A cross-country comparison cannot be made in this instance for lack of appropriate data.

As noted in last year's Annual Report, the pattern of business ownership according to sector reveals the relatively important role of households in Italy and the more limited part played by institutional investors. However, sample surveys show that within the household sector itself ownership is much more concentrated in Italy than it is in other countries, with about 6 per cent of Italian households reporting they own shares, as against 14 per cent in France and 12 per cent in Germany, the only other EC countries for which comparable data are available. In the United States 19 per cent of households own shares. The high concentration of ownership in Italy is confirmed by data from the Company Accounts Data Service, which show that on average the three largest shareholders own 71 per cent of the equity in listed *società per azioni,* 91 per cent in unlisted companies of the same kind and 99 per cent in *società a responsabilità limitata.*

# THE PAYMENT SYSTEM

Activity aimed at improving the efficiency, integration and security of payments systems continued in Italy last year.

The trends in the utilization of payment instruments observed in Italy and the other industrial countries were confirmed, with a further decline in the use of bank cheques and substantial growth in electronic payment and collection orders. The reorganization of the procedures for the exchange and settlement of bank cheques and bankers' drafts became fully operational during the year. Under a new interbank agreement reached early this year time limits have been established for making the funds of honoured cheques available to customers. In the field of payment and collection orders, the banking system adopted measures to improve the quality of the services supplied to final customers.

Last year saw substantial growth in the gross volume of interbank payment flows settled in central bank money thanks to the efficiency attained by the Bank of Italy's clearing and settlement systems. The ratio of such flows to GDP rose from around 15 to 22 and was four times the value for 1988, when the reform of the payment system was launched. The surge in the flows handled by the clearing systems and the related risk implications prompted the Bank to draw up a medium-term plan to strengthen the measures ensuring the finality of payments, in line with the orientation that is emerging at the international level. The plan will improve the balance between the various settlement channels by promoting the direct use of accounts with the central bank for large-value transfers.

The control of risks connected with transactions in the financial markets was strengthened by the implementation of the regulatory framework provided for in Law 1 of 2 January 1991. This included the start of operations by the Clearing and Guarantee House, which is responsible for risk management in the spot and derivatives markets, and the National Guarantee Fund set up to protect customers' claims.

*Domestic and international cooperation.* — Cooperation on projects for the development of payment systems was vigorously pursued at both the domestic and the international levels.

In Italy, collaboration between the Bank of Italy and bank and non-bank operators focused on improving the payment services provided to final users. To this end, steps were taken to verify the degree of customer satisfaction with the services offered and bring new needs to light. In January of this year the Bank of Italy, the Italian Bankers' Association and Confindustria set up an Observatory on the payment system as a forum for the joint examination of businesses' needs in the field of payment services.

Within the framework of the Interbank Convention on Automation (CIPA), the Bank of Italy promoted initiatives to find out whether the interbank procedures activated in recent years had improved banking services to the extent desired and whether they meet the current needs of final users. For this purpose the Italian Bankers' Association recently undertook a sample survey to evaluate economic operators' satisfaction with payment services.

Similarly, the need to ensure effective compliance with the transparency rules for banking services led the Italian Bankers' Association, with encouragement from the Bank of Italy, to promote the creation of specific offices for the examination of complaints and the resolution of disputes between banks and their customers. A new interbank body — the Banking Ombudsman will be competent to decide on the merit of cases that are not settled through banks' complaints departments.

In view of the strategic importance of technological infrastructure for the working of payment systems and the improvement of services, substantial progress was made in implementing the 1991 CIPA "memorandum of understanding" on the development of the national interbank network. The Interbank Company for Automation (SIA) assumed responsibility for running the carrier services for interbank transactions and disposed of its interests in the design, building and management of standardized and competitive interbank procedures, while maintaining its role as manager of applications that concern the system as a whole.

At the Community level, cooperation was pursued within the Committee of Governors and at the initiative of the Commission. The importance of the problems addressed led the European Parliament to adopt two resolutions with regard to payment systems, primarily in connection with the need to protect consumers and safeguard the principles of competition.

The Ad Hoc Working Group on EC Payment Systems completed its work and in its final Report identified guidelines that have served as a basis for the new Working Group set up by the Committee of Governors in May 1992. The new Group is studying the interventions needed to facilitate cross-border payments within the single market and to encourage national payment systems to converge on a configuration consistent with the exigencies of the third phase of Economic and Monetary Union. In particular, the Group will specify the role to be played by central banks in the field of large-value payments, since from the outset of the third phase of EMU they will need an integrated system for large-value payments so as to ensure the linkage of member states' money and financial markets and the possibility of conducting a single monetary policy.

With the aim of encouraging the adoption of measures to strengthen consumer protection, the Commission, acting on the suggestions contained in a report on payment systems published in March 1992, promoted the creation of a group of experts on the legal problems of the payment system. Moreover, with the aim of reducing costs and increasing the participation of smaller banks in the market in cross-border retail payment services, the Commission has sponsored a project to link member states' payment systems and replace the current procedures for handling cross-border credit transfers.

### *Retail payment instruments and services*

Cashless payments increased in 1992 by around 2 per cent in number and by 5 per cent in value. The economic downturn caused the growth in such transactions to slow down in 1991 and 1992 compared with the previous three years, when they had grown on average by 5 per cent a year in number and 16 per cent in value.

*Legal tender.* — The stock of currency grew by 12.1 per cent, compared with 10.3 per cent on average for the previous three years. The ratio of currency to GDP rose from 5.3 to 5.6 per cent, close to the average for the leading industrial countries.

*Bank payment instruments.* — The growth in payments made via the banking system was similar to that recorded in 1991. The share of cheques in the number of bank payments declined further from 62 to 60 per cent, with a corresponding rise from 38 to 40 per cent in that of payment and collection orders, which were increasingly processed using automated procedures (Table 43).

Payments made by bank cheques and bankers' drafts declined in number by 2.1 per cent, as against 3.2 per cent in 1991, but rose in value by 2.7 per cent, compared with 1.1 per cent in 1991. The number of cheques remained broadly unchanged, while that of bankers' drafts declined by 6.7 per cent.

Table 43

**BANK PAYMENT INSTRUMENTS IN 1992 (1)**

| | Number | | | | Value | | | |
|---|---|---|---|---|---|---|---|---|
| | Thousands | % | Percentage change 1991/1990 | Percentage change 1992/1991 | Billions of lire | % | Percentage change 1991/1990 | Percentage change 1992/1991 |
| **Cheques** ......... | **633,456** | **60.1** | **–3.2** | **–2.1** | **1,886,591** | **28.3** | **1.1** | **2.7** |
| Bank cheques (2) .. | 443,712 | 42.1 | –2.0 | 0.1 | 1,356,976 | 20.4 | –0.7 | 3.2 |
| Bankers' drafts .... | 189,744 | 18.0 | –5.6 | –6.7 | 529,615 | 8.0 | 5.9 | 1.5 |
| **Payment and collection orders** | **420,934** | **39.9** | **9.0** | **7.3** | **4,829,332** | **71.7** | **7.3** | **5.2** |
| Payment orders (3) | 171,791 | 16.3 | 8.7 | 6.6 | 4,284,995 | 63.5 | 7.0 | 5.3 |
| *of which:* | | | | | | | | |
| *paperless* ........ | *48,804* | *4.6* | *17.0* | *12.7* | *118,011* | *1.8* | *27.7* | *20.5* |
| Collection orders | 236,462 | 22.4 | 9.1 | 6.2 | 541,811 | 8.1 | 9.6 | 7.0 |
| *of which:* | | | | | | | | |
| *paperless* ........ | *164,650* | *15.6* | *18.2* | *14.1* | *323,504* | *4.9* | *20.1* | *17.4* |
| *Direct debits* ... | 68,993 | 6.5 | 25.3 | 19.8 | 73,741 | 1.1 | 31.7 | 23.2 |
| *Riba and Mav* .. | 95,657 | 9.1 | 13.0 | 10.4 | 249,762 | 3.8 | 16.8 | 15.8 |
| Transactions at POS terminals ........ | 12,681 | 1.2 | 55.8 | 48.8 | 2,526 | – | 89.8 | 46.3 |
| **Total** ... | **1,054,391** | **100.0** | **1.2** | **1.5** | **6,715,924** | **100.0** | **5.5** | **4.6** |

(1) Based on a sample of banks that account for about 80 per ent of bank current account deposits. – (2) Excludes cheques for cash withdrawals at bank counters. – (3) Excludes payment orders executed otherwise than by crediting the beneficiary's account (mostly by issuing banker's drafts) and account debits and credits in connection with securities transactions, respectively 1,700 and 1,500 trillion lire.

The overhaul of the interbank circuit for out-of-town cheques and bankers' drafts was completed in February 1992 with universal participation in the cheque truncation procedure. As a result of the reform about 90 per cent of all out-of-town cheques and 75 per cent of local ones were exchanged through procedures that have a time limit for the return of "unpaid" items and hence allow funds to be made available to customers within a fixed number of days.

Payment and collection orders increased by 7 per cent in number and 5 per cent in value, or less than in 1991. Paperless orders were the fastest-growing component and rose from 51 to 54 per cent of the total (Table 43).

Further changes were made in the interbank handling of payment and collection orders to improve the quality of customer services and rationalize exchange and settlement methods. September saw the introduction of the collection orders procedure, which allows Riba electronic bank receipts and May notified payments to be exchanged through the retail clearing subsystem and creditor firms to be promptly informed of the outcome of collections. In addition, progress was made in preparing the new procedures for the exchange and settlement of payment orders via the clearing system: low-value orders will be taken into the retail subsystem, while large-value and external lira orders will be handled by the wholesale subsystem.

*Payment cards.* — The debit and credit cards in issue grew by 15 per cent to around 16 million, while the number of transactions rose by 17.9 per cent. This was far below the average for the previous three years of around 50 per cent, which reflected the initial success of cards; the slowdown last year was also due to the limited growth in consumer spending.

The use of Bancomat debit cards continued to expand rapidly, growing by 48.8 per cent, partly as a result of the large increase in the number of POS terminals from 45,711 to 62,251. The share of debit cards in total card payments accordingly rose from 13 to 17 per cent, at the expense of credit cards, the use of which grew by 13 per cent.

*Postal payment instruments.* — Transactions by means of postal payment instruments increased by 4.4 per cent in number and 6.7 per cent in value. There was a further fall of 5.7 per cent in the number of payments by special series cheques, owing to the growth in the direct crediting of state pensions and annuities to beneficiaries' bank accounts. By contrast, inpayments to current accounts rose by more than 5 per cent in both number and value, primarily as a result of payments arising from tax measures adopted by the Government.

The Coordinating Group set up by the Postal Administration, the Italian Bankers' Association and the Bank of Italy continued to promote the integration between the postal and banking circuits. The technical and operational adjustments needed to permit bank cheques to be accepted for payment at post offices are being defined; in addition, work has begun for the introduction of direct funds transfers between the two circuits.

### *The interbank exchange and settlement circuit*

*The interbank payment system.* — The interbank payments handled by the Bank of Italy's clearing and settlement systems increased by 45.5 per cent to 32,000 trillion lire, or 22 times GDP. Most of the growth was in clearing and reflected the substantial increase in arbitrage operations between markets. The imbalance between payments sent for clearing and those settled directly on banks' centralized accounts with the Bank of Italy (gross settlement) remained large (Table 44).

There was a further contraction in bilateral interbank settlements outside the systems administered by the Bank of Italy. Correspondent account liabilities fell by 3.7 trillion lire to 14.3 trillion, compared with an average of more than 30 trillion lire in 1988 before the launch of the payment system reforms.

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 to be settled in central bank maney *(a+b)* / PIL |
|---|---|---|---|---|
| | *Gross flows (a)* | Multilateral balances | | |
| 1990 | 16,240.7 | 1,286.2 | 1,634.4 | 13.7 |
| 1991 | 20,377.4 | 1,585.6 | 1,650.5 | 15.5 |
| 1992 | 29,053.2 | 2,411.4 | 3,004.4 | 22.1 |

Sources: Based on Bank of Italy, Interbank Company for Automation (SIA) and Istat data.
(1) Transactions of the Bank of Italy, the Provincial Departments of the Bank of Italy acting for the Treasury and the Postal Administration. – (2) Transactions net of clearing balances and giro transfers.

*The clearing system.* — The value of the payment items handled by the Bank's clearing systems rose by 42 per cent to 29,100 trillion lire (Table 45). The largest increase was recorded by the electronic memoranda procedure, but the wholesale SIPS procedure for payments in external lire and the settlement of foreign exchange transactions remained the most impo rtant. The launch of the collection orders procedure in September 1992 brought an increase in retail transactions, although their share of the total continued to be small.

The number of direct participants in the clearing system remained virtually unchanged both overall, with more than 290 participants, and in the individual subsystems. Specifically, there were 29 direct participants in the new collection orders procedure.

Table 45

**FLOW OF FUNDS THROUGH THE CLEARING SYSTEM**

*(amounts in trillions of lire)*

| | Local clearing | Retail system (1) | Wholesale system | | Total flows (4) *(a)* | Balances *(b)* | Balances/ Total flows *(b/a)**100 |
|---|---|---|---|---|---|---|---|
| | | | Memoranda (2) | SIPS (3) | | | |
| 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 | 5,647.4 | 16,240.7 | 1,286.2 | 7.9 |
| 1991 ............ | 5,696.8 | 75.4 | 6,331.7 | 8,273.5 | 20,377.4 | 1,585.6 | 7.8 |
| 1992 ............ | 6,345.6 | 262.7 | 10,450.3 | 11,994.6 | 29,053.2 | 2,411.4 | 8.3 |
| 1992 – 1st qtr. .. | 1,566.7 | 53.8 | 2,094.8 | 2,564.8 | 6,280.1 | 531.4 | 8.5 |
| – 2nd " ... | 1,560.1 | 67.8 | 2,513.8 | 2,935.2 | 7,076.9 | 543.6 | 7.7 |
| – 3rd " ... | 1,465.2 | 66.1 | 2,779.7 | 3,485.6 | 7,796.6 | 621.9 | 8.0 |
| – 4th " ... | 1,753.6 | 75.0 | 3,062.0 | 3,009.0 | 7,899.6 | 714.5 | 9.0 |
| 1993 – 1st qtr. .. | 1,192.6 | 67.2 | 3,848.1 | 3,286.4 | 8,394.3 | 677.4 | 8.1 |

Sources: Interbank Company for Automation (SIA) and Bank of Italy.
(1) The Bancomat procedure was initiated on 29 November 1989 and cheque truncation on 26 March 1990. – (2) The "electronic memoranda" procedure was initiated on 11 July 1989. – (3) Initiated on 19 July 1989. – (4) Includes the balances of the Bank of Italy, its provincial Treasury departments and the Postal Administration.

*Centralized reserve and advance accounts.* — Interbank payments settled on reserve accounts rose by more than two thirds to 5,400 trillion lire (Table 46). This reflected the increase of more than 50 per cent in multilateral clearing balances and the growth in Bank of Italy credits, which more than doubled. Amounts debited and credited directly by banks came to more than 433 trillion lire, or almost three times the 1991 total.

The increase in the proportion of compulsory reserves that can be mobilized from 3 to 5 per cent was accompanied by a rise in the average utilization rate from 0.7 to 1.2 per cent; maximum daily utilization was more than double the average rate. The further increase in the mobilization ratio to 7 per cent when the reserve ratio was reduced on 15 February 1993 did not lead to significant changes in the utilization of reserves.

*The risks associated with clearing systems.* — The large increase in the volumes handled by clearing systems in the last few years has led central banks to pay closer attention to risk control policies.

In common with the other industrial countries, Italy has planned a series of measures. The goal in the medium-term is to encourage more extensive use of direct settlement on reserve accounts, especially for wholesale transactions, since by its nature this procedure reduces systemic risk. The development of the existing gross settlement system will nonetheless have to be carried out gradually so as to minimize the impact on banks' operating procedures. It will also be necessary to increase the flexibility of the instruments available to the central bank for meeting banks' intraday treasury requirements. In this connection, a decree issued by the Minister of the Treasury on 5 February 1993 empowered the Bank of Italy to raise the proportion of reserves banks can mobilize on an intraday basis beyond the 7 per cent limit.

Table 46

**FUND TRANSFERS THROUGH BANK'S CENTRALIZED ACCOUNTS** (1)

*(trillions of lire)*

| | Total flows | of which: Direct debiting and crediting – Interbank giro transfers | Intra-bank giro transfers | Total | Multilateral clearing balance (2) |
|---|---|---|---|---|---|
| 1990 | 2,863.6 | 25.8 | 39.8 | 65.6 | 1,138.2 |
| 1991 | 3,227.2 | 36.8 | 122.2 | 159.0 | 1,417.2 |
| 1992 | 5,413.8 | 98.1 | 335.0 | 433.1 | 2,205.7 |
| 1992 – 1st qtr. | 1,071.2 | 13.5 | 54.1 | 67.6 | 476.0 |
| 2nd " | 1,208.3 | 17.3 | 78.9 | 96.2 | 491.3 |
| 3rd " | 1,596.3 | 42.3 | 153.1 | 195.4 | 559.8 |
| 4th " | 1,538.0 | 25.0 | 48.9 | 73.9 | 678.6 |
| 1993 – 1st qtr. | 1,199.6 | 13.5 | 32.1 | 45.6 | 593.7 |

(1) Up to 14 October 1990 the figures refer to the centralized reserve and advance accounts. Subsequently the quarters refer to the maintenance period (from the 15th of one month to the 14th of the next). – (2) Balance due by banks alone.

As regards the existing structure of the interbank payment system, the Bank of Italy took a series of regulatory and operational steps to reduce the probability of crises in the clearing system. Pursuant to a decree issued by the Minister of the Treasury on 7 May 1991, the Bank issued regulations governing participation in the clearing system. In line with the principles enunciated at the Community level, the Bank has also begun to identify the technical, organizational and capital requirements for direct and indirect participants in the various clearing subsystems. Indirect participants will only be involved in the exchange of information and the computation of the bilateral balances, delegating settlement to a direct participant, who will be responsible in the event of default.

At the operational level, the control of risk within the clearing system currently involves the Bank of Italy monitoring each participant's position in the final part of the day. The Bank has warned participants on a number of occasions of the danger of excessively large clearing imbalances, pointing out that cooperation on risk control can minimize costs. The Management Committee of the screen-based interbank deposit market accordingly set up a working group to develop measures to control exposures in this market, where settlement is primarily via the electronic memoranda procedure. The group recommended a three-pronged approach: the creation of a system to monitor each participant's debit position with reference to a set of indicators; the setting of limits on multilateral debit positions on the basis of common standards; and the establishment of procedures to control participants' compliance with these limits.

### *Clearing and settlement of securities transactions*

*Securities settlement.* — The value of the securities handled through the clearing houses increased by more than 35 per cent to 4,200 trillion lire. The rise was due to the growth in government securities trading, the value of which rose by 39 per cent; the share of this sector also increased, rising from 95 to 97 per cent of the total. By contrast, the value of share and bond settlements declined by 16 and 12 per cent respectively.

On 31 December 1992 the time limit laid down by Law 1/1991 for commission dealers to be registered as securities firms expired. Most of these intermediaries continued business in this new form, in some cases by merging with existing firms; the membership of the securities settlement system changed accordingly.

In conformity with the provisions of Law 1/1991 concerning market organization, on 1 February 1993 the Stock Exchange Council began its activity; under the new legislation, this body is to perform the tasks formerly entrusted to the local stock exchange authorities. The participation of securities market operators and institutions confers particular importance on the role the Council is to play in organizing the stock market and promoting its development.

*The centralized management of government securities.* — The proportion of government securities centralized in accounts with the Bank of Italy increased by 1 percentage point to around 98 per cent at the end of the year, when the corresponding nominal value was 1,300 trillion lire.

Reflecting the growing internationalization of financial activity, the nominal value of the lira-denominated government securities held for non-residents by Cedel and Euroclear almost doubled, rising to 6 trillion lire; Treasury bills and certificates in ecus deposited with the two institutions amounted to 6.7 trillion ecu, or 22 per cent of the total outstanding.

*Monte Titoli S.p.A.* — Monte Titoli continued its efforts to foster the centralization of securites, with the number of depositors rising from 460 to 512; the total includes 124 securities firms and 188 credit institutions. This was coupled with a large increase in the electronic transmission of operating instructions between Monte Titoli and depositors.

At the end of the year the nominal value of the securities deposited with Monte Titoli was about 104 trillion, a rise of more than 6 per cent compared with 1991. The increase in the proportion of centralized shares was reflected in a sizable reduction in the physical transfer of securities, which declined as a proportion of final monthly settlement balances to less than 1 per cent in the last part of 1992.

*Risk control measures.* — Last year saw the implementation of the risk control measures provided for in Law 1/1991; the measures are designed to limit the insolvency risks to which market participants and their customers are exposed. Owing to the diverse nature of these risks, responsibility for administering the controls has been shared among different institutions. In general, the Clearing and Guarantee House referred to in Article 22 of the Law is responsible for avoiding the settlement risk associated with the activities of intermediaries, while the National Guarantee Fund referred to in Article 15 is responsible for customer protection with reference to claims on securities firms.

The competence of the Clearing House extends to both cash and derivatives markets, but the guarantee function is performed differently. For derivatives, the House is an integral part of the market and ensures the completion of transactions, acting as the counterparty of each participant, while for stocks it simply manages a fund made up of participants' contributions to be used in the event of default. Although they are managed by the same body, the two guarantee mechanisms are completely separate in legislative, operational and accounting terms in order to prevent common guarantees from propagating risks.

The Clearing and Guarantee House is also entrusted with managing the system ensuring monthly settlements; its activation last September was a major step in the modernization of the Italian share market. The introduction of this mechanism prevents cases of insolvency from compromising the regular completion of monthly settlements and avoids the risk of deadlines not being respected, something that tarnished the image of the stock exchange in the past.

The implementation of these guarantee mechanisms permits attention to be focused on making the changes needed to have a modern stock exchange in line with international standards. One of the most important of these changes is the switch to cash trading based on "three-day" rolling settlement. The Bank of Italy, the Consob and securities traders opted for this solution some time ago, expecting to make the change by the beginning of 1993; failure to satisfy all the necessary conditions caused the starting date to be postponed. However, the need — made all the more urgent by international competition — to contain settlement risks and ensure efficient market conditions requires that the delay be as short as possible. A task force to plan and direct the necessary interventions was accordingly set up in February at the initiative of the Bank of Italy and the Consob. This body, coordinated by the Consob and with the participation of all the interested parties, will also monitor compliance with the deadlines that are established.

# SUPERVISORY ACTIVITY

## *The legislative framework*

Legislative Decree 481 of 14 December 1992 transposed the Second EEC Banking Directive and concluded the process of modernizing Italian law on banking. The codified law that is being prepared in accordance with the powers delegated to the Government in the 1991 Community Legislation Implementation Law will reorder the legislative framework in this field.

The broad scope of the delegated powers allowed the Government not only to give effect to the provisions of the Directive but also to remove provisions of Italian law that were not compatible with the principles and criteria underlying the Community legislation. Insofar as it is based on the principles of minimum harmonization, mutual recognition and home country control, the Directive implies a gradual convergence of the legal systems in force with the aim of fostering conditions of competitive equality for all the credit institutions operating in the single market. In Italy's case, this objective coincided with that of completing the process, already under way, of institutional, operational and maturity despecialization, as well as that of rationalizing and strengthening the instruments available for supervisory purposes.

The legislative decree reduces the number of legal categories of credit institution and lifts all the related operational restrictions, confirms the choice of the limited company as the only legal form that is suited to banking enterprises, leaves bankers free to choose the areas in which to operate and the organizational model to adopt, gives universal banking recognition in Italian law and permits credit intermediaries to engage not only in banking but also in all the other financial activities subject to mutual recognition, provides for uniform fund-raising conditions so as to enable all credit institutions to use the whole range of instruments available and standardizes the regulatory framework for prudential supervision, information monitoring and inspections.

The system of prudential controls is designed to be neutral with respect to the organizational model adopted and the range of operations undertaken. In addition to the Second Banking Directive, the system of prudential supervision adopted is based on Directive 92/30/EEC on the supervision of credit institutions on a consolidated basis, transposed by Legislative Decree 528 of 30 December 1992.

The incorporation of the Second Banking Directive into Italian law has given renewed impetus to the process of bringing Italy's regulatory system into line with the rules governing the single market, following the adoption in 1992 of the regulations on banks' annual accounts and consolidated accounts provided for in Directive 86/635/EEC. Instructions concerning establishment, eligible activities and supervision have been issued for the credit institutions of other Community countries operating in Italy. The new system of control has led supervisory authorities in the Community to establish bilateral agreements defining the methods and procedures for cooperating on the supervision of foreign branches.

As regards the control of the ownership of credit institutions, which is also dealt with in Legislative Decree 481/1992, the Interministerial Committee for Credit and Savings laid down thresholds beyond which changes in equity interests in credit institutions have to be authorized by the Bank of Italy.

The issue, in January 1992, of the legislative decrees transposing Directives 85/611/EEC and 88/220/EEC on undertakings for collective investment in transferable securities (UCITS) made it necessary to carry out a general revision of the regulations in this field based on the principle of ensuring equal competitive conditions for Italian and other Community undertakings.

In a decree issued on 12 May 1992, the Minister of the Treasury enacted the provisions implementing the law on the transfer of title to accounts receivable. Accordingly, the Bank of Italy set up the register of factoring companies.

The aim of intensifying competition and protecting the weaker contractual party in financial transactions was pursued both through Law 154 of 17 February 1992 on the transparency of banking and other financial products and services and through the adoption of provisions on consumer credit. The related implementing regulations took account of the need to limit the additional costs borne by customers.

The requirement that suspect transactions be reported to the law enforcement authorities is the key element in the cooperation that the financial system is required to provide under Law 197 of 5 July 1991 on preventing the use of the financial system for money laundering purposes. With the aim of facilitating compliance with the law, the Bank of Italy, with the help of the Italian Bankers' Association, prepared and distributed a document containing operational guidelines. In November the Bank of Italy and the Italian Foreign Exchange Office initiated an inspection programme covering 400 bank branches in the regions of the Mezzogiorno where organized crime is most widespread.

### *Supervision of credit activity*

*Establishment and concentration.* — Five new cooperative banks were authorized last year, together with eight rural and artisans' banks and three foreign banks. In addition, three new institutions were authorized in the medium and long-term credit sector.

As a result of the restructurings carried out under Law 218/1990, there are no longer any savings banks or first-class pledge banks engaged in banking business under public law.

Forty-three mergers were authorized last year and the amalgamation of three major banks resulted in the creation of a credit institution, Banca di Roma, that is one of the largest in Italy. Last year also saw the introduction of the register for banking groups.

Table 47

**THE ITALIAN BANKING SYSTEM**

| | At end-1991 | | Changes in 1992 | | | At end-1992 | |
|---|---|---|---|---|---|---|---|
| | | | Bank | | | | |
| | No. of banks | No. of branches (1) | New | Closed | Trans-ferred (Law 218/90) | No. of banks | No. of branches (1) |
| Limited company banks | (2) 187 | 13,682 | 52 | –14 | –48 | (3) 177 | 14,769 |
| Cooperative banks .. | 103 | 3,432 | 5 | –5 | –1 | 102 | 3,866 |
| Rural and artisans' banks (4) ......... | 710 | 1,907 | 11 | –21 | – | 700 | 2,093 |
| Branches of foreign banks ............ | 38 | 52 | 3 | –1 | – | 40 | 52 |
| Central credit institutions ............. | 5 | 7 | – | – | – | 5 | (5) 9 |
| **Total ...** | **1,043** | **19,080** | **71** | **–41** | **–49** | **1,024** | **20,789** |

(1) Branches located in Italy. – (2) The figure includes three public-law banks, three banks of national interest and 45 savings and first-class pledge banks. – (3) The figure includes Monte dei Paschi di Siena. – (4) The item includes two second-class pledge banks. – (5) The figure includes two institutions that were previously excluded.

*Branch networks.* — The number of authorized branches rose by around 1,700, or more than 25 per cent, primarily as a result of the expansion of larger banks. The ratio of authorizations granted to applications received rose from 69.7 to 77.7 per cent. The supervisory authorities assessed the compatibility of the growth in individual banks' networks with the latter's self-financing and capital adequacy. Restrictive criteria were adopted for institutions with prudential problems. From March 1990, when the regulations governing branch networks were liberalized, to the end of last year the number of branches increased by around 5,200, or more than one third.

*Prudential and on-site controls.* — Activity in the prudential field was concerned with the strength of banks' capital and organizational structures, their ownership and the corporate structure of banking groups. Credit institutions were invited to increase their own funds by raising capital and pursuing more careful dividend policies so as to raise profitability and reinforce the defences against overall risk. To reduce the riskiness of loan portfolios banks were stimulated to improve their organizational structures and thereby enhance the efficiency of their credit rating procedures and internal controls. Analyses were made to determine the impact on credit institutions of the difficult conditions in financial markets at the end of the year and of the crises affecting important industrial and financial groups.

A total of 179 credit institutions were inspected last year, compared with 198 in 1991. In line with the application of the principle of home country control, increased emphasis was placed on the supervision of Italian banks' foreign branches and seven were inspected. The results of the inspections concluded during the year indicated that most banks were in a satisfactory position as regards their capital adequacy, profitability and liquidity. The situation with respect to the quality of banks' loan portfolios and their organizational structures was less favourable.

*Competition.* — In its capacity as the anti-trust authority for the banking industry, the Bank of Italy, independently of the prudential assessment it makes, examines proposed mergers and cooperation agreements to ensure that they do not result in a restriction of competition. It is also responsible for investigating behaviour that could constitute abuse of a dominant position.

The Bank of Italy was notified of 67 amalgamations during the year. In one case, the takeover of Isveimer by Banco di Napoli, the examination of the effects of the proposed operation was initiated in accordance with Article

16 of Law 287/1990 and is still under way. In the early months of this year the Bank examined the proposal to amalgamate Banco di Sardegna, Banca Popolare di Sassari and other small units located respectively at Samatzai and Pimentel. The operation was approved subject to certain conditions designed to attenuate its effect on competition in the areas concerned.

Two investigations into interbank agreements were initiated in the early part of this year; the first concerns Banca Carige and Cassa di risparmio di Savona and the other Cariplo and some savings bank foundations in central Italy. To conclude, the Bank of Italy has started to investigate Monte dei Paschi di Siena for having allegedly abused its dominant position under a government tax collection concession.

### *The state of the banking industry*

*Capital adequacy, self-financing and external sources.* — On the basis of the definition adopted for supervisory purposes, banks' capital showed an increase of 6.7 trillion lire over the year to the end of February, which takes account of the close of the 1992 financial year. Self-financing contributed 3.7 trillion lire, virtually unchanged compared with the previous year.

The strength of the capital bases of Italian banks was confirmed: at the end of the 1992 the solvency ratio for the system as a whole was 11.9 per cent, which was well above the minimum requirement of 8 per cent. The capital strength of the system is also high by international standards: on the basis of an exercise conducted by the EC, the consolidated solvency ratio in 1991 was 10.7 per cent, or half a percentage point above the Community average. Moreover, the share of the total capital consisting of core capital, the components that are internationally recognized as being the most solid and stable, was on the order of 80 per cent.

*Credit risk.* — Last year the aggregate of bad debts, non-performing loans and overdue instalments increased by 22 per cent, rising from 59.8 to 73.2 trillion lire.

The problems in manufacturing industry were reflected in the sharp deterioration in the quality of the claims on businesses located in the North-West of the country. The ratio of bad debts to total loans nonetheless remained higher in the South of Italy in every sector and in nearly every branch of economic activity. The most pronounced deterioration in loan quality occurred for the larger banks, which have a higher proportion of holding companies and manufacturing firms among their customers. They also tend to be more exposed to the risk inherent in a higher level of loan concentration with respect to individual customers.

Disbursements of loans abroad increased in lira terms by 17 per cent and there was a small increase in the share going to non-OECD countries, which are generally more risky.

*Market and foreign exchange risks.* — The prospect of prudential rules on market risk being enacted in Italy provided the stimulus for an exercise to test the exposure of credit institutions to interest rate and exchange rate risk with respect to their total on- and off-balance-sheet assets and liabilities.

The exposure to interest rate risk of the banking system as a whole is relatively low, amounting to 3.7 per cent of supervisory capital at the end of 1992. The distribution by individual institution shows considerable bunching at very low levels of risk but also a sizable proportion of banks with exposures significantly above average. As regards exchange rate risk, the banking system's exposure at the end of the year was less than 40 trillion lire. On the assumption that 8 per cent of the risk has to be backed by own funds, around 2 per cent of the banks' supervisory capital would be required for this purpose.

### *Securities investment business and investment funds*

At the end of March 1993 there were 287 securities firms in the register provided for in Law 1/1991. Italian and foreign banks either controlled or were the main shareholders in respectively 53 and 12 of these firms. Thirty-two firms were authorized to engage in the full range of activities in the securities field. The activities in which only a relatively small proportion of the firms that had been authorized were actually engaged were the placement of securities, portfolio management and door-to-door selling, all of which require a higher degree of specialization and a more complex organizational structure. At the end of March the register of authorized firms included 69 trust companies, of which 59 were operational.

Of the 968 credit institutions authorized by the Bank of Italy in accordance with Article 16 of Law 1/1991, 910 were engaged in at least one form of securities investment business at the end of March. The conditions in the market and the requirements applicable to securities investment activities, especially as regards separate organizational structures and accounting systems, led not a few smaller banks to renounce some of the authorizations they had been granted and to limit their activity to the collection of orders.

The adjustment of supervisory instruments to the new organization of the market is proceeding with the gradualness required in the present phase of consolidation.

The Minister of the Treasury authorized 44 new investment funds in 1992, taking the total number of authorized funds to 329. At the end of the year there were 255 funds in operation, of which 99 were share-based, 97 bond-based and 59 mixed. At the same date there were 60 registered management companies, compared with 61 at the end of 1991. Last year also saw 5 companies complete the authorization procedure for the marketing in Italy of units of foreign UCITS qualifying for mutual recognition; the number of such companies, all based in Luxembourg, accordingly rose to 19.

Investment funds' net assets expanded in 1992, confirming the upturn that had taken place in 1991. Government securities continued to be the most important component in fund portfolios, amounting to 58.5 per cent of the total at the end of the year. There was nonetheless a substantial increase in the share of foreign securities, which rose from 14.8 to 22.8 per cent of the total between the fourth quarter of 1991 and the fourth quarter of 1992, partly as a result of the devaluation of the lira.

# THE GOVERNOR'S CONCLUDING REMARKS

To Guido Carli, who died in April, the Bank of Italy owes its transformation into a modern central bank. His contribution to the activity of this institution, as Director General from 1959 to 1960 and as Governor from 1960 to 1975, was part of five decades of uninterrupted service to the nation.

From the period of reconstruction onwards, Carli was a committed advocate of Italy being an open country, a full participant on the international stage and a founder member of a united Europe.

During the period of Carli's governorship, Italy completed the transition from an agricultural to an industrial economy.

He actively promoted research, encouraging the Bank's Research Department to introduce modern theories and techniques of economic and monetary analysis, which fitted in well with the tradition established by Paolo Baffi.

In the early sixties the Italian economy was subject to severe internal and external shocks. Monetary stability and industrial relations came under strain simultaneously. From 1964 onwards the trade-off between inflation and employment was a central issue of economic policy. The public sector deficit emerged as another major problem in the early seventies. The international monetary system created at Bretton Woods began to crumble in the early years of that decade.

Carli responded to the challenge of these events by using the classical instruments of monetary policy and introducing new ones. He involved young people in the study and implementation of monetary and economic policy measures.

Those in the Bank who were privileged to work with him benefited from his extraordinary analytical and decision-making ability. From the very beginning of his governorship his openmindedness and modernizing vision led him to initiate a far-reaching programme to renew the Bank's human, material and technological resources. Unforgettably generous with his time, he engaged in a continual dialogue with young members of the staff, who were selected solely on their academic and professional merit. He helped to form a class of future leaders.

Carli fought tirelessly against attitudes and institutions that could hinder the working of a free economy. In the high positions he held after leaving the Bank he remained committed to guiding the Italian economy along the path of modernization.

As Treasury Minister, Carli strove, to ensure that the concept of privatization took root in Italy; he negotiated and signed the Treaty of Maastricht. The restoration of sound public finances was denied even to Carli, who understood better than anyone the urgency of action in this domain. He made a decisive contribution to completing the transformation of the banking and financial system. His last act for the Bank of Italy, which he cherished, and for his country was to ensure that the central bank was granted full powers to set official interest rates.

Carlo Azeglio Ciampi resigned as Governor of the Bank of Italy on 29 April to assume the higher responsibility of leading the Government during one of the most difficult periods in the history of the Italian Republic. To respond to the call for political renewal at a time when the economy is in difficulty requires exceptional personal skills, intelligence, independence and international prestige.

In Dr. Ciampi, the combination of these characteristics is the fruit of deep learning coupled with moral and intellectual discipline.

When Dr. Ciampi entered the Bank of Italy in 1946 he already possessed a wide and varied range of knowledge and experience. His career within the Bank took him from the provincial offices to the Research Department, to the position of Secretary General and to the Directorate. In October 1979 he was appointed Governor in succession to Paolo Baffi, at a difficult time in the history of the Bank and the Italian economy. In his first Report, presented on 31 May 1980, he noted that "the events that preceded Paolo Baffi's resignation as Governor leave us with another, no less demanding responsibility. They have given substance to the twofold misgiving that in Italy the scope for individuals of great competence, moral integrity and respect for the established institutions has become more confined, and that the tradition of central bank efficiency and autonomy may be undermined. We are conscious that it is also one of the Bank's tasks to dispel these misgivings through its own conduct."

Under Dr. Ciampi's guidance, the Bank of Italy dispelled those misgivings.

On the domestic front, the monetary policy of the eighties was developed further along the lines charted and pursued by his two predecessors; on the external front, the path followed was that of joining the European Monetary System, which had already been decided. This decision was interpreted and implemented with great determination. There was a firm conviction that the economy needed not so much a temporary improvement in the balance of payments as the removal of the structural constraints that hampered it.

The Bank's achievements under Dr. Ciampi were substantial in the areas most directly influenced by its policies. Inflation was brought under control in a few years, notwithstanding the strength of the dollar and the persistence of exceptionally high oil prices.

The restructuring of industry, the stabilization of expectations and the reduction of inflation coincided with a long period of expanding production; the benefits accrued to employment, which never fell during the last decade. More recently, as the notion of a united Europe acquired new momentum, Dr. Ciampi promoted it with great personal commitment and idealism. He linked it with the need to overcome once and for all the unsolved problems afflicting Italy, primarily the failure to restore budgetary discipline.

Decisive progress was made in rewriting the monetary constitution, for which Dr. Ciampi called insistently and clearly from the very start of his governorship. The functional separation between monetary policy and budgetary policy was confirmed in practice and sanctioned by law; the money and financial markets were developed; the effectiveness of monetary policy was enhanced; and greater emphasis was placed on market forces rather than administrative measures. A similar approach was followed in transforming the structure of the banking and financial systems, without detriment to their stability, which has its foundations in the efficiency and solidity of intermediaries.

The Bank of Italy will shortly celebrate the hundredth anniversary of its foundation. Through all the events that have shaped Italy's history, one distinctive feature has marked the activity of the Bank, namely its unswerving commitment to the sole aim of serving the nation by performing its assigned tasks and exercising the autonomy laid down in its statutes.

Today's economy is profoundly different from that of one hundred years ago; it is open to Europe and the world and its financial markets are complex and in continual evolution. In this setting the Bank has the resources — first and foremost the moral and professional resources of the persons who work for it — to continue to fulfil its responsibilities in the regulation of credit and money.

To mark the centenary, the Bank has been engaged for some time in a wide-ranging programme of research, not in order to chronicle its own history, but to enable scholars and the general public to gain further insight into its activities in the economic and financial spheres over the last hundred years, both at home and abroad. This initiative will be flanked by others of a broader cultural and social nature. They have the common aim of celebrating the institution's centenary with a call for the Bank to remain firmly committed to pursuing the interests of the nation and the common good.

## *The world economy*

The economies of the industrial countries are passing through a period marked by cyclical uncertainty and rising unemployment, especially in Europe as regards the latter. The growth in output in the OECD countries amounted to 1.5 per cent in 1992 and will remain weak in 1993. Inflation, which averaged just over 3 per cent last year, continues to decline in a number of countries.

Uncorrected financial disequilibria and exchange rate tensions contributed to the difficulties encountered in stimulating a resumption of growth. In Germany the monetary policy stance was kept restrictive for fear of a rise in inflation. By contrast, the authorities in the United States and Japan gradually eased monetary conditions; in North America economic activity revived in the final part of the year.

This combination of circumstances nurtured the factors that led to the laceration of the European Monetary System, which in turn exacerbated the cyclical downturn.

### *The crisis in the European Monetary System*

Following a long period of stability that began in 1987, five realignments were effected within the EMS from last September onwards; the participation of the lira and the pound sterling in the Exchange Rate Mechanism was suspended and the Scandinavian countries severed the link between their currencies and the ecu. Central bank intervention on an unprecedented scale and sharp increases in interest rates were not sufficient to stem speculative capital movements and fluctuations in exchange rates.

The currency crisis confirmed the difficulty of managing a system of fixed but adjustable exchange rates in the presence of high capital mobility whenever there is insufficient convergence between economies and, above all, when the coordination of economic and monetary policies operates badly.

The disparities in the economic policy priorities of the EC countries had been growing more pronounced since the end of 1991. In Germany, the problems associated with unification proved to be greater than expected; the widening of the budget deficit and the acceleration in wage growth induced the Bundesbank to tighten monetary conditions. The exchange rate link with the Deutschemark became increasingly burdensome for the countries suffering from a cumulative loss of competitiveness and disequilibria in their public finances; it was also a constraint on the economies where inflation was lower than in Germany.

Until the middle of 1992 the prospect of European Monetary Union, which had been reinforced by the conclusion of the Maastricht Treaty, had lent stability to exchange rates and led the markets to believe that the countries whose economies had not yet met the convergence criteria would take the necessary corrective measures. The uncertainty that emerged during the summer as to the future of Monetary Union exposed the fragility of the EMS. The market reacted swiftly and forcefully; the direction of the large capital flows that had previously been attracted to countries with high interest rates was reversed. The divergence of monetary conditions between the United States and Germany added to the difficulties, provoking a pronounced depreciation of the dollar, whose value fell to a historical low in September in both nominal and real terms.

The Report on International Capital Movements and Foreign Exchange Markets, which was compiled under Italian chairmanship for the Group of Ten, places the foreign exchange turbulence in the context of the profound changes in the size and structure of international financial markets that have occurred in recent years. The total amount of foreign securities held by residents of the United States, Japan and Europe has reached $2.5 trillion. The volume of foreign exchange transactions has tripled since the mid-eighties and now totals nearly $900 billion per day, and there has been rapid growth in forward markets and in the use of derivative instruments. Institutional investors, such as investment funds and pension funds, are playing an ever more important role in the management of savings and foreign assets; in the United States and the United Kingdom the volume of funds managed by such institutions exceeds the gross national product.

These developments have benefited the international allocation of financial resources; however, the risk of instability associated with variations in exchange rates and interest rates has increased significantly. The solution lies not in the reimposition of restrictions on the movement of capital, but in greater coordination of monetary and fiscal policies among the leading countries. This is an essential condition for maintaining order in the markets, whatever the exchange rate regime. To limit the risk assumed by financial institutions, which could develop into systemic risk, the Report recommends the adoption of prudential measures regarding capital adequacy, the use of derivative instruments and payment and clearing systems.

An integrated European Community with a fully implemented internal market requires stable exchange rates. What is needed is not so much a modification of the rules of the EMS as the full cooperation they envisage and presuppose; this was lacking during the recent crisis. The proper functioning of the system depends on the sense of responsibility of member countries individually and on their common commitment. A country's monetary policy may not be sufficient to defend the exchange rate; it must be supported by sound public finances and a rate of nominal income growth that preserves the competitiveness of the economy. Moreover, some degree of collective management of the system is essential for assessing the suitability of exchange rates, agreeing necessary adjustments and defending the parities considered appropriate.

Ratification of the Treaty on European Union should strengthen the coordination of monetary policies and instruments. The European Monetary Institute will be called upon to perform this important task; its establishment represents the next institutional step towards Economic and Monetary Union.

*The economic situation*

The recovery in the United States, which began in the second half of last year under the stimulus of a monetary policy that had been expansionary for some time, is still not fully established, and economic activity in Japan and the European Community is weak. In Germany, output in the Western regions is expected to decrease by around 2 per cent in 1993, while the expansion in the Eastern regions is sustained by massive public transfers and is accompanied by strong upward pressure on prices.

The cyclical disparity among the leading industrial countries is reflected in larger current account imbalances. The structural nature of the US deficit has been confirmed; the shortfall is forecast to rise from $60 billion in 1992 to almost $100 billion this year. The trade deficit with Japan increased and the surplus with the European Community narrowed. The Japanese current account surplus rose to $118 billion in 1992.

Inflation declined in the industrial countries as a group, partly as a result of low prices for energy products and other raw materials. The rate of increase in consumer prices in the European Community was 3.4 per cent in April this year.

The economic problems facing the republics that came into being after the dissolution of the Soviet Union remain severe and are associated with the breakdown of civil society and with political instability. The programme of assistance agreed with the Group of Seven countries and the international financial organizations may help sustain the reforms now taking place in Russia.

In the United States, Japan, the United Kingdom and Sweden, the recession has been prolonged by the difficult financial situation of businesses and households, albeit at different times and with differing intensity. The large volume of debt accumulated in the last ten years at interest rates that are still high in real terms has caused a contraction in planned investment and consumption. The deterioration of creditworthiness and the consequent need to restructure balance sheets and limit risk have prompted banks to curb lending, which has slowed down the transmission of the easier monetary conditions to the economy.

Despite the recovery, the growth in employment has been hesitant even in the United States. In many sectors, however, innovation and restructuring are being translated into productivity gains and may sustain a more stable expansion of the economy in the future.

In the European Community, employment in industry is declining and job creation in the services sector appears to be waning. At the end of 1992 the unemployment rate was 2 percentage points higher than in 1990; it is expected to continue rising this year and to reach the highest level since the mid-eighties. The number of unemployed now stands at 17 million. The increase in unemployment in the Community reflects lower competitiveness and slower economic growth compared with Japan and less flexible labour regulations and costs compared with the United States.

After growing more slowly for three years, international trade in manufactures picked up in 1992, expanding by 5 per cent; the impetus came from North America and the developing countries in Asia and Latin America. The Chinese economy, in particular, continued to grow rapidly as output increased by 13 per cent and imports by more than 20 per cent in volume terms.

The future of world trade is clouded by the uncertainty surrounding the outcome of the Uruguay Round negotiations and the recent escalation of trade disputes between the principal economic areas. A decisive injection of further liberalization would contribute to world economic recovery, benefiting above all the developing countries and the industrial countries themselves; it would help the international economy to overcome the present condition of underemployment in which it might otherwise linger.

The return to sustained growth requires the leading industrial countries to honour the commitments that they confirmed at the recent meetings in Washington. In the United States the proposals for structural correction of the budget deficit submitted to Congress by the new Administration are essential in order to consolidate and accelerate the decline in long-term interest rates. In Japan, where there is a surplus of saving over investment and the public debt is small, the expansionary measures announced by the Government must be implemented in full.

Economic policy presents greater complexity in Germany and in Europe in general, where budget deficits and public debt are limiting the scope for fiscal stimulation of demand. Net of cyclical effects, the budgetary position has worsened in the last three years, reversing the previous improvements. The risk of further structural deterioration must be avoided; indeed, resolute action is necessary to restore sound public finances. Such action will benefit the allocation of resources and the availability of savings to finance productive investment. It will lend momentum to the decline in interest rates that has been glimpsed and is now possible, especially in the case of long-term rates.

### *The Italian economy*

The year since the previous Annual General Meeting has been marked by tumultuous events. The country could not avoid the trauma of a sharp devaluation of the currency and came to the brink of financial instability.

In brief, the economic results for 1992 consisted in a deceleration in the growth of output to 0.9 per cent, a reduction in inflation by one percentage point to 5.3 per cent and a widening of the deficit on the current account of the balance of payments to 2.2 per cent of GDP.

These figures fail to convey the prevailing impression of the situation of the Italian economy between last summer and the first few months of this year, namely that it was hanging in the balance between the stagnation of output, with the risk of a resurgence of inflation, and the first stirrings of a recovery. This precarious condition was the product of a loss of confidence among entrepreneurs, consumers and savers caused by social and political events.

*The currency crisis*

By the time of the parliamentary and presidential elections in the spring of 1992, the Italian economy was in a weakened state owing to delay in implementing economic policy measures. The "management of the economy" had become an urgent issue.

The excessive growth in public expenditure, the wastefulness and poor quality of some services and the inefficiency of the tax system reflect the more general problems in the governance of the country and the operation of the public institutions.

As awareness of these failings spread, the unfavourable assessment by economic agents was reinforced and radicalized to the point where it became a blanket judgment on the country as a whole.

Last May the Bank of Italy chose to make a detailed contribution to the examination of the problems and to the design of an economic strategy. It described and quantified measures of immediate but enduring effect that needed to be taken with regard to the public finances and incomes policy. The suggested action was consistent with Government pronouncements and based on analyses and prescriptions that had been debated at length in political and academic circles.

An econometric exercise showed the way in which the economy could be diverted from a course that risked leading to a major crisis and set on the path of stable growth, albeit after an unavoidable period of adjustment. This integrated set of measures, combined with the economy's capacity for production and saving, would have given the markets sufficient confidence in the Italian economy and its development. If necessary, the lira's central rate in the EMS might have been realigned at a later stage in order to compensate for any loss of competitiveness not offset by productivity gains.

Time was of the essence. The lira came under heavy pressure in early June following the negative outcome of the Danish referendum on the Maastricht Treaty, and strains developed in the financial market. Even before the month had ended, institutional and foreign investors had begun to sell Italian government securities and the net inflow of capital had given way to an outflow. Any failure of the market in government securities, even a limited one, could have had devastating repercussions on the foreign exchange market.

The Bank of Italy used the instruments at its disposal to defend the lira and check the decline in confidence. Interest rates were raised and monetary base creation was restricted; the growth of the money supply was curbed and kept appreciably below the 7 per cent ceiling for 1992 previously indicated to the Interministerial Committee for Economic Planning.

The new Government began to act with full powers on 4 July; in that month it enacted a package of measures to reduce the budget deficit by 30 trillion lire. It confirmed that exchange rate stability was the cornerstone of the policy of economic adjustment, a stance endorsed by the Bank of Italy. It announced its intention to proceed with the privatization of state-owned assets. The guidelines for the reform of major public expenditure programmes were set out and embodied in a draft enabling law.

At the end of July, with the intercession of the Government, an agreement was reached between employers and trade unions. The significance of the agreement was immediately apparent, although its far-reaching importance did not fully emerge until later. By reducing the disparity in wage growth between the public and private sectors and abolishing the *scala mobile,* it offered the prospect of wage moderation, to the advantage of competitiveness.

Delays in the implementation of budgetary measures, the political and institutional complexities of the budgetary process and certain actions that proved inadvisable made it impossible to change market expectations.

The Bank of Italy, which was committed to defending the exchange rate, entered a race against time, on the assumption that the necessary budgetary measures would shortly be enacted. The markets viewed the date of the French referendum as a test of the strength of the European Monetary System. The member states of the Community feared that a realignment of central rates might jeopardize the outcome of the referendum and believed they could defend the EMS simply by means of the public and formal declarations made on 28 August and 5 September reasserting their resolve to keep central rates unchanged.

The task of safeguarding the lira was left to monetary and exchange rate policy. Exchange market intervention intensified from 24 August onwards. On 4 September the official discount rate was raised to 15 per cent and the rate on fixed-term advances to 16.5 per cent; monetary base was rationed. The overnight rate rose to more than 30 per cent, but even at these rates the demand for liquidity in the market was not fully satisfied.

Restrictions on capital movements were ruled out, as they would have violated the established policy of relying on market instruments to control the foreign exchange situation. Such measures would have been ineffectual in any case, given the changed economic and institutional context and the existence of very large markets and innovative financial instruments.

On 12 September, recognizing the gravity of the crisis, the Italian and German authorities decided to request an adjustment of the central rate between their currencies and to propose that the other members undertake a broader realignment, which would have been accompanied by a significant reduction in German interest rates. The failure of some governments to acknowledge that the crisis threatened the system as a whole prevented this opportunity from being seized. In the event, the realignment decided on 13 September affected only the central rate of the lira, and German interest rates were reduced by no more than half a point.

When the markets reopened, funds totaling more than $3.5 billion flowed back to Italy, while pressure on sterling intensified. On 16 September, despite repeated increases in interest rates, outflows from the British market amounted to tens of billions of dollars. In the wake of the difficulties affecting sterling, market turbulence spread to the lira and the peseta. The pound was withdrawn from the Exchange Rate Mechanism; a similar decision was taken with regard to the lira, and the peseta was devalued. Sterling declined rapidly against the Deutschemark, depreciating by 14 per cent between 16 September and the beginning of October.

Intervention in support of the lira between the beginning of June and mid-September totaled $48 billion. Even after the Maastricht Treaty had been approved in the French referendum, albeit by a slender margin, the EMS continued to be subject to severe strains. Speculation focused on the French franc, forcing repeated intervention on a massive scale. The systemic nature of the crisis was confirmed.

Treasury bills worth 3.3 trillion lire had remained unsold at the auction at the end of August. In September, while the Government was finalizing its budgetary proposals, fears of extraordinary financial measures began to spread. The stock of government securities held by non-bank investors declined by more than 11 trillion lire owing to the non-renewal of maturing paper and sales on the secondary market. At the end of the month unsubstantiated rumours of extraordinary measures affected bank deposits as well, and there was a wave of cash withdrawals. The Bank of Italy called on the banks to reassure their customers and supported their actions to that end.

The sequence of events threatened to trigger a financial crisis. The uncertainty did not relate to the soundness of the banking system, but if the fears had taken root, especially those relating to public debt instruments, confidence in bank money would also have been undermined, with further repercussions on the exchange rate and on prices.

Between mid-September and mid-October the progress of the public finance measures announced on 17 September, the soundness of the banking system, the professionalism of dealers and the revival of investor confidence countered the impending crisis. Within the space of a few weeks market conditions favourable to investment in government securities had been restored.

Thanks to its depth and efficiency, the secondary market in government securities withstood the shock, albeit at the cost of exceptionally wide and rapid price fluctuations. Until May 1992 the prices of ten-year Treasury bonds had been relatively steady at between 98 and 99; in early October they plunged to 87 before recovering to 95 in November. Last week the bonds were again trading at around 99. Nominal after-tax yields on Treasury bills rose from 11 per cent in the spring of 1992 to 15.6 per cent in September and then eased to 12.1 per cent in December. At the latest auction they fell to below 10 per cent, the lowest level in four years.

The Italian futures market in government securities came into operation on 11 September, in accordance with long-standing plans. Far from being impeded or overwhelmed by the incipient crisis, the fledgling market developed rapidly and helped stabilize expectations.

The liquidity of the government securities market remained satisfactory at all times. The interventions by the Bank of Italy at critical moments were limited in amount. The market ensured continuity of trading for both Italian and foreign intermediaries and, indirectly, for the millions of savers who had placed their trust in Italian government securities.

Immediately after its withdrawal from the fluctuation band of the EMS, the lira depreciated rapidly in a foreign exchange market that had become thinner and less liquid owing to the heightened perception of exchange risk. In the first week of October the lira traded at 927 to the Deutschemark, compared with 750 in May. In October and again in November there were renewed inflows of non-bank capital, which more than offset the reduction in the banking system's external liabilities. As tensions within the EMS eased, the lira/DM exchange rate improved to about 850.

The lira again came under pressure from mid-November onwards in connection with renewed turbulence on the European scene. As the political climate in Italy deteriorated, the lira depreciated steadily against the Deutschemark to reach nearly 1,000 at the beginning of April. It subsequently regained some of the lost ground, so that last Friday it stood at 922 to the mark. The foreign exchange reserves have been replenished by more than $22 billion since mid-September, largely as a result of foreign currency swaps.

Households' consumption has declined since the foreign exchange tensions of last summer; on an annual average basis, it is very unlikely to show any increase this year compared with 1992. Among durable consumer goods, the fall in car purchases has been particularly pronounced, and comparable to the one that followed the first oil crisis; a similar tendency can be observed in the other main European markets.

The fall in investment will be larger this year than last. The level of economic activity is being sustained by the boost that the depreciation of the lira has given to exports, which will grow far more rapidly than world demand.

Industrial output declined by an annual average of half a percentage point in 1992; during the first five months of 1993 it stagnated at the depressed level recorded at the end of last year.

The continuing fall in investment, the rise in labour costs in the three years between 1989 and 1991 and the uncertain prospects for growth in Italy and abroad have affected the demand for labour. For the first time in many years there has been a sharp contraction in employment: in the twelve months to January 1993 total employment fell by no less than 380,000, or nearly 2 percentage points. The contraction was very rapid during the second half of 1992 but now seems to be slowing down, although no sign of a reversal of the trend is yet evident.

As I have already mentioned, the indications from the export front augur well for economic activity. The available data show that the value of Italian exports to countries outside the Community was almost 30 per cent higher in the first four months of this year than in the same period of 1992. Italian products have also strengthened their position in the domestic market. The improvement in the trade balance and the recovery in Italian exports' share of the world market reflect the fall in domestic demand and the gain in competitiveness.

For the first time since the decline in the price of oil in 1986, the current account of the balance of payments should show a marked improvement in 1993 and could be in balance in 1994. The lower exchange rate of the lira offers an opportunity that the economy and economic policymakers must grasp. It can be the springboard for restoring the growth in output. The gain in competitiveness will produce lasting benefits if it is not canceled out by higher inflation; it must not lessen the commitment to improve Italian manufacturing industry's specialization in international trade. In goods with a high research and development content, Italy has by far the largest trade deficit among the leading industrial countries.

Reassuring signs are discernible in the performance of consumer prices. Their twelve-month rate of increase slowed down from 5.3 per cent in August to 4 per cent in May, notwithstanding the depreciation of the lira. The containment of inflation is attributable not only to the monetary policy stance, but also to the weakness of domestic demand, the decline in the foreign currency prices of imported goods and wage moderation.

The determining factor has been the decision of the two sides of industry not to entrust the protection of wages and salaries to the workings of the wage-price spiral.

Following the withdrawal of the lira from the Exchange Rate Mechanism, interest rates were reduced in conjunction with the implementation of the budget measures, the revival of confidence in the government securities market and the verification that the growth in credit and money was not forming a vicious circle with currency depreciation and price inflation.

The official discount rate was progressively reduced in six stages to 10.5 per cent. An important factor in the transition from the situation of greatest tension to the more relaxed market conditions that now prevail was the informal monitoring of lending, which was carried out until the end of March with the collaboration of the banking system.

At the beginning of February the Minister of the Treasury issued a decree to reduce compulsory reserves in respect of bank deposits by around 35 trillion lire, with the result that the effective average reserve ratio declined from 18 to 13 per cent. The rate of interest on reserve deposits averages around 6 per cent.

Initially, the cost of bank credit was slow to respond to the easing of money market conditions. Lending rates have adjusted more rapidly since the turn of the year, with minimum rates coming down to levels that are among the lowest for a decade. A more general reduction in firms' interest expenses is impeded by the deterioration in loan quality and the downward rigidity of deposit rates, which needs to be eliminated.

In the first half of the eighties real interest rates on medium and long-term securities in Italy were well below the average for the other six leading industrial countries. From the second half of the decade until the height of the crisis last summer, real rates in Italy were broadly in line with those in the other leading countries, or a little higher.

The real cost of money is currently higher in Italy, owing partly to the increased risk premiums that are a legacy of the crisis. In a situation of international integration, which enhances efficiency and opens up new possibilities for corporate financing, the scope for the further reduction in interest rates that the state of the economy requires is limited by the level of rates in the other industrial countries.

Action to regulate the nominal volume of credit and money, contain the budget deficit and limit the aggregate amount of debt and financial assets remains decisive for the purposes of continuing the process of disinflation and stabilizing the foreign exchange market.

The withdrawal of the lira from the ERM cannot be allowed to lead to wide and protracted exchange rate fluctuations. In a fully open economy such as ours, they raise the cost of foreign transactions, transmit instability to the financial market and increase the risks inherent in investment decisions. Full confidence must be restored in the markets in order that the lira may re-enter the ERM. The programmes for adjusting the public finances and reducing the public debt in relation to GDP, which are also conditions for the loan agreed with the European Community in January, must be implemented to ensure the credibility of economic policy action and avert the risk of financial instability.

With the aim of keeping this year's budget outturn in line with the objectives stated in the Report on the Borrowing Requirement in March, the Government has adopted corrective measures amounting to 12.4 trillion lire, half of which is to come from additional tax revenue and the remainder from spending cuts and funds deposited on the centralized Treasury account. Net of interest payments, the state sector should therefore achieve a budget surplus of at least 37 trillion lire, compared with 8 trillion in 1992; the overall deficit should be limited to 155 trillion lire, compared with 163 trillion last year.

The presentation of the Finance Bill for 1994 will be brought forward to July. It is essential that measures be taken to reduce the borrowing requirement in absolute terms in 1994 and subsequent years, with the objective of reversing the growth of the public debt in relation to GDP within a period of three years. Increasing surpluses net of interest payments will have to continue to be achieved until the deficit on current account has been eliminated.

It is necessary to press ahead with the policy of containing wages and salaries and the other main components of public expenditure. There is an urgent need to restore the efficiency of spending on public works and on the procurement of goods and services and to relieve it of improper charges. The incidence of taxation will have to be consolidated for taxpayers; it may increase at the macroeconomic level, partly as a result of necessary measures to eliminate tax evasion and avoidance. By reducing government borrowing in the market, the decline in the deficit will be reflected in lower interest payments as a result of the smaller risk premium and the lower cost of the debt.

The containment of wage growth in the private sector must be confirmed: this will first halt and subsequently reverse the decline in employment.

Principles and rules need to be defined that will avoid excessive industrial disputes and ensure flexibility in the use and cost of labour, taking account of the general condition of the economy, the state of firms and regional differences. A diversification of labour costs does not necessarily imply that real income in the less advantaged areas, where the cost of living is lower, will be less than in the rest of the country.

Over the medium term, regional policy must seek not to provide financial compensation for the productivity gap arising from environmental problems but to eliminate its causes by means that include investment in infrastructure. In the less developed regions the high rate of unemployment among young people interacts with the deterioration in the social environment, Throughout the country the Bank of Italy, in conjunction with the state authorities and the banking system, is engaged in combating money laundering and preventing the exploitation of the financial sector by organized crime.

The ultimate measure of economic and social development will be the growth of employment. The resumption of lasting economic growth in Italy cannot be achieved unless a similar recovery takes place in the rest of Europe and in the other industrial countries.

The downward rigidity of long-term interest rates, which remain at high levels net of expected inflation, cannot but be a cause for concern in the Community during a phase of economic stagnation or actual recession. Italy can contribute to a reduction in interest rates first and foremost by redressing its public finances and halting the growth of the public debt.

### *A financial system at the service of enterprises*

The distinguishing features of Italy's financial system are a large public debt, of which half is held by households, a low level of household debt and a lower ratio of total financial assets to GDP than in the other advanced economies. Italy has the highest level of public debt among the seven most industrialized countries and the lowest level of household debt, equal to 22 per cent of GDP. In all the other countries except Germany, household debt is equal to or larger than the public debt.

The revision of the methodology for compiling the financial accounts of the economy recently carried out by the Research Department does not show the corporate sector to be undercapitalized. On the other hand, capital does not circulate in the market and thus escapes the appraisal and selection performed by financial operators.

There is a striking contrast between the financial and economic aspects of the public and private sectors. In order to meet its funding requirements, the state can count on a market in public debt securities that is one of the most efficient in the world, whereas enterprises do not have a market to which they can turn to finance their strategies.

The high saving rate in Italy and the volume and composition of real and financial wealth suggest that there is ample scope for the development of finance oriented towards enterprises and private investment.

The international openness of Italy's financial system has increased considerably. Nonetheless, at the end of 1991 residents' holdings of foreign assets amounted to 8.5 per cent of their total financial assets, compared with values of between 12 and 23 per cent for France, Germany and the United Kingdom.

International financial integration can be expected to continue. In the first two decades following the Second World War agriculture and manufacturing industry were opened to trade and their productive structures were transformed accordingly. In the last five years the process of integration has involved the financial sector; it has become a permanent feature of our economy and law.

### *The management of the public debt*

The objective of reducing the state sector borrowing requirement cannot be achieved by applying simple formulae. The surplus net of interest payments will have to rise to the level needed to halt the growth in the ratio of the public debt to GDP.

Only the part of interest payments that relates to an increase in the public debt in real terms constitutes a charge on the resources of the public sector, but this does not mean that the nominal component is unimportant; high nominal interest rates inflate the borrowing requirement, hamper the management of the debt and, in conjunction with the inflation from which they stem, damage Italy's standing in financial markets.

We have never ceased to look for ways in which efficient debt management can contribute to the adjustment of the public finances. In this respect the last twenty years can be divided into three periods. The creation of a primary market for short-term government paper in the second half of the seventies in response to the inflation induced by the first oil crisis was followed by a period of heavy recourse to floating rate paper, which made it possible to lengthen the average maturity of the debt and reduce the risk of instability associated with its frequent renewal. In recent years the issue of fixed rate bonds has diversified the market and increased the manoeuvrability of monetary policy by insulating the cost of the debt from fluctuations in short-term interest rates. Other types of security have been tried, but they have not been a lasting success with investors. The outstanding debt is divided almost equally between the three main categories of security.

The prospect of budgetary adjustment, the possibility of a decline in European interest rates and the lira's lower exchange rates have led to consideration being given to increased borrowing in the international market and the indexation of government securities to foreign currencies. The success of a debt management policy along these lines depends to an even greater extent on the outcome of the measures to redress the economy.

The planned further rise in the budget surplus net of interest payments over the next few years would create a virtuous circle by fostering a decline in nominal interest rates to the levels prevailing abroad. The ensuing reduction in interest payments in the second half of the nineties would restore the flexibility of the budget. Simulations indicate that a fall in inflation and interest rates would help produce a rapid decline in the ratio of the borrowing requirement to GDP and that the ratio would reach a very low level by the end of the decade. There would be some advantage in issuing a larger volume of securities indexed to foreign currencies, but this would not have a decisive influence on the trend in the public finances.

Any form of coercive action with respect to the public debt would be iniquitous and fraught with danger; in practice, any such action would be impracticable, given the widespread possession of government securities and the growth and integration of the financial markets. Only an increase in the primary surplus combined with careful management, in a context of falling inflation, can reduce the burden of the public debt and fully restore the confidence of market participants and, above all, of savers.

A source of monetary base creation that is at present beyond the control of the central bank will be eliminated by the reform of the Treasury's current account with the Bank of Italy. The reform bill, which was recently reintroduced in Parliament, also provides for compulsory bank reserves to move more strictly into the ambit of monetary policy instruments.

### *The stock exchange and the banking system*

The growth of an economy and the full employment of its human and material resources are underpinned by the working of efficient capital markets at the service of corporate finance.

The markets in goods and services provide indications about the validity of the choices firms made in the past and their ability to produce at competitive prices, but well organized capital markets are indispensable in order to screen today's choices, which are directed to the more or less distant future. Such markets make it possible to foster new opportunities for growth and, when necessary, to modify the ownership or simply the control of firms.

Those who control and manage firms and those who finance them share a common interest, but they are also dialectically counterposed: the former seek to exercise their command function to the full, while the latter seek to obtain the highest possible return on their investment.

In Italy the control of a large part of the productive system in public ownership is not subject to screening by the market. In the private sector, and not only among small and medium-sized firms, the prevalence of forms of ownership based on securities that are not traded has ensured stability of control but has often hindered the raising of equity capital to finance expansion. Only 5 per cent of Italian businesses are organized as companies, compared with 13 per cent in Germany and 15 per cent in France; in turn, about 6 per cent of Italian households own shares, compared with 12 per cent in Germany, 14 per cent in France and much higher percentages in the Anglo-Saxon countries. The inadequacy of the market becomes evident at critical moments in a firm's life, when its management, production decisions and strategies have to be scrutinized.

Over the years Italian industry has had considerable recourse to public sector support, especially in times of difficulty, benefiting from the transfer of unprofitable companies to the public sector, state aid and special incentives for debt consolidation arrangements. These forms of subrogation have protected output and employment, but they have also imposed a burden on the public finances and diminished the role of financial institutions. Entrepreneurs and the financial community will now have to find ways to overcome difficulties by themselves.

Within the financial system there is a need for greater complementarity between credit intermediaries and the share market. It is in the nature of banking that credit institutions should play an active role in all of the three interconnected aspects of corporate finance: credit, consultancy and equity capital. Even when banks do not acquire direct interests, their assessment of firms' creditworthiness involves the appraisal of entrepreneurial ability and can help to determine corporate control; banks can use the knowledge acquired in their day-to-day relations with firms to advise them on the restructuring of their liabilities, the raising of debt and equity capital, and the search for investors in connection with the reorganization of ownership.

The task of strengthening firms' capital structures, achieving more widely spread ownership and ensuring its renewal falls primarily to the stock exchange. Banks can play a supporting role with their corporate advisory services and the underwriting and marketing of share issues. They will have to assist smaller firms on a broader front, helping them with financial management, fostering their growth and, where appropriate, preparing them for market flotation.

The emergence of institutional investors able to play an active role in the companies in which they have interests, coupled with the effects of the legislation on the disclosure of information, is likely to increase the demand for shares, including that of households, whose willingness to invest in the stock market is influenced by their confidence in its proper working and in the effectiveness of the protection afforded to small shareholders. The Bank of Italy is collaborating with the Consob on these matters.

The Bank will recommend that the Interministerial Committee for Credit and Savings adopt provisions allowing banks to acquire interests in non-financial companies, thereby completing the range of operations they can undertake in the field of corporate finance. The size of the shareholding a bank can acquire in a company will be determined by reference to the bank's capital, organizational structure, profitability and the quality of its operations. A similar procedure will be followed to broaden the scope for listed firms to issue debt instruments in the market. Unlisted companies will be required to employ the services of supervised intermediaries to place their securities.

Together with the other competent authorities and with the cooperation of securities firms, the Bank of Italy will promote a study of the feasibility of creating an efficient secondary market in corporate bonds, based on the experience gained with the market in government securities.

The implementation of the privatization programme laid down in Law 359 of 1992 will provide important impetus for the transformation of private sector financing and will put it to the test for the first time. If this programme is really to contribute to improving the decision-making and efficiency of both private and public industry, as it is expected to do, ownership structures will have to be created that are both stable and open to renewal, and exposed to scrutiny by investors who have the instruments and expertise required to perform this role.

Banks must not serve as shareholders of last resort nor convert the debts of lame-duck firms into shares. Companies that offer the prospect of a return to profitability should be assisted by introducing differential tax treatment aimed at fostering recovery, rather than reviving the temporary subsidies paid in the past.

Permanent arrangements could be introduced for the deferment of tax liabilities in connection with debt restructuring linked to the reorganization of production, almost as though the tax authorities were making an investment. The reorganization plans would have to be agreed between firms and their creditors within the framework of a clearly defined procedure for corporate rehabilitation. Similarly, it may prove necessary to review the existing bankruptcy procedures in order to overcome the limitations that have emerged as regards the possibility of salvaging corporate activities that are still viable.

### *Risk and profitability in the banking system*

Greater attention is being paid at the international level to the problem of financial fragility, following the serious episodes of instability that have occurred in several countries in recent years. Caught by the cyclical slowdown at a time of high interest rates, sizable parts of the banking systems in the United States, Japan and Scandinavia have run into difficulties that have sometimes entailed heavy costs for the public finances.

Studies of the experience of the countries belonging to the European Community confirm that the insolvency of borrowers is still the main cause of banks' difficulties. Market risks have nonetheless triggered crisis situations, especially among smaller intermediaries lacking adequate organizational arrangements.

Taken as a whole, the Italian financial system has remained unscathed by the instability that has affected other countries. The cases of insolvency among securities firms have been on a minor scale. New markets have been created that have contributed to the stability of the financial system; mechanisms have also been established to guarantee the execution of contracts and thus ensure smooth trading.

Despite the large increase in lending, banks have achieved capital ratios that are above the international average; their off-balance-sheet business is mostly in connection with their traditional lending activity and the breakdown of their assets and liabilities by maturity and type of instrument shows that they are relatively sheltered from fluctuations in interest rates and exchange rates.

New challenges await the Italian banking system. The reorganization of public enterprises will affect their position as borrowers. The Community legislation on large credit exposures will oblige banks to reconsider their lending to major public and private sector customers. In accordance with the procedures developed in international fora and on the basis of several years of experience with solvency ratios, prudential controls will be extended to other aspects of risk. The growing complexity of banking, which is a consequence of despecialization, requires credit institutions to make more effective use of the instruments and information that are available for assessing market risk and borrowers' solvency and for treasury management.

Since the law on the reorganization of public sector banks came into effect, 67 mergers have taken place, reducing the number of banks in operation by 75. Competition is spurring the weaker members of the system, which are unable to cope with the forces at work in the market, to look for new solutions by linking up with their stronger brethren.

Such selection is likely to make the system more robust. The expansion of the most efficient banks should be achieved primarily through amalgamation. A similar trend towards greater rationalization can also be discerned among securities firms, where the level of operating costs will make it difficult for all of today's 200 or so firms to stay in business, notwithstanding the prospect of an increase in turnover.

The monitoring of developments in these fields by the Bank of Italy is conducted partly in connection with the performance of the tasks it has been assigned by the Anti-trust Law. The action it has taken, which is described in the body of the Report, benefited from cooperation with the Anti-trust Authority and the competent bodies of the European Community.

There is scope for reducing the cost of banks' fund-raising by accentuating interest rate differentiation according to whether deposits are held for transaction purposes or as a store of value. Compared with other countries, Italy is conspicuous for the high average balance on current accounts and their very large total value. An efficient secondary market in certificates of deposit would probably make fund-raising costs more flexible. As regards banking services, apart from the need for correct pricing, it will be necessary to improve their quality, hold down the cost of provision and develop appropriate marketing policies. The success of the current expansion of branch networks also depends on banks' ability to broaden the range of services they supply to customers. Direct and indirect staff costs consume a larger proportion of banks' gross income than in other leading countries. Some aspects of the sector's wage agreements, including the very fact that there are several, encourage leapfrogging, limit the effectiveness of incentives and hinder mobility.

The transformation of the banking system stands to gain from a better balance between competition and cooperation. Closer cooperation in fields such as training, wage bargaining and the standardization of procedures and products would not limit the scope for competition; on the contrary, action to promote the definition of the rules of the market and the spread of information leads to a more rapid improvement in the efficiency of the system. A shift in the composition of balance sheets, new patterns of costs and prices, and effective competition will improve the quality of customer service and reduce the cost of corporate credit.

The economies of the industrial countries are not fully exploiting the resources at their disposal; employment and growth are suffering as a consequence. A wide-ranging reorganization of economic activity is taking place, prompted partly by the cyclical slowdown, and at the same time the worldwide distribution of production is changing, albeit slowly and gradually. It is becoming increasingly obvious that goods embodying even intermediate technology can be produced in countries and areas where the cost of labour is a fraction of that in the developed countries.

In the late eighties the shortcomings of budgetary and incomes policies placed difficult and sometimes contradictory demands on monetary management in many countries. This had an adverse effect on economic activity, generated balance-of-payments disequilibria, speculative capital movements and exchange rate strains, and has left a legacy of high real long-term interest rates that are above current and projected rates of economic growth.

The Italian economy, which is highly integrated into the European and world economies, is being affected by the weakness of the international economic cycle, the fall in investment and the crisis of the European Monetary System. It continues to be afflicted by problems of its own caused by the size of the budget deficit and the public debt, the unsatisfactory quality and efficiency of public expenditure and the deficiencies in public services.

This year growth in Italy will be no faster than the modest rate recorded in 1992; the country's good export performance may revive economic activity in the latter part of the year and improve the prospects for 1994.

It is essential that the competitive gains deriving from the depreciation of the lira should not be canceled out by inflation.The annual rate of increase in consumer prices has fallen to 4 per cent, the lowest level for a quarter of a century, aided by the weakness of domestic and foreign demand, the non-accommodating monetary stance and, most important of all, the slowdown in labour costs.

The prevention of a resurgence of inflation is the primary objective of the central bank, pursued in parallel with fiscal and incomes policies, which are the responsibility of the Government and the two sides of industry.

A fundamental reform of the public finances in the fields of social security, health, local finances and public employment was set in train in the budget for 1993. The quantitative objectives it lays down must be achieved.

The efforts to restore sound public finances must be continued in 1994 and subsequent years. Some of the measures the Government is preparing to take are designed to offset the expenditure and revenue trends deriving from current legislation that lead to a growth in the borrowing requirement. The package of measures as a whole must reduce the deficits in absolute terms in order to reverse the rising trend in the ratio of the public debt to national income over a three-year period.

If such a reversal is no longer a prospect, interest rates, which we have reduced with difficulty to less abnormal levels, will tend to rise and the virtuous sequence of stable prices, export growth, investment growth and rising employment will be jeopardized.

Widespread corruption in dealings between the corporate and public sectors have inflated public expenditure, hindered the proper functioning of the market and obstructed the selection of the best suppliers and products. The scale of this improper impost, which ultimately falls on the public, and the consequent distortion of the allocation of resources are proving to be of appalling dimensions.

The eradication of these practices may have the temporary effect of depressing economic activity, but it will rapidly produce benefits in terms of the working of market mechanisms, more profitable use of the resources our economy possesses and faster growth.

Decision-making processes made more efficient by the new political and institutional arrangements that society has requested and new forms of popular representation in Parliament and in local authorities will make a crucial contribution to monitoring the volume and transparency of public expenditure, improving its quality and rationalizing the tax system.

The control of labour costs, flexible employment practices, an adequate supply of labour with appropriate skills, improved labour productivity and stronger employee identification with the objective of development, not only in macroeconomic terms but also at the level of the sector and the firm, must be combined with a revival of business confidence and entrepreneurial drive. The growth in output and employment is based on investment, primarily by business. It is for the state and the public authorities to provide efficient services and to promote cost-effective investment in infrastructure and other public projects, which do not necessarily have to be publicly owned or financed.

All of these steps are essential to bring our economy out of the downward spiral of low output, declining investment, stagnating consumption and consequent unemployment; they will enable it to participate fully in the international recovery. The restructuring that is now taking place in all the major economies is increasing productivity and laying the foundations for stable growth.

International capital movements on a scale that was not seen until a few years ago are raising new problems for the monetary system, which can be tackled only through international cooperation.

In Europe, the single market came into effect this year; it provides the basis for pursuing more stable exchange rate relationships within the European Monetary System. Initiatives aimed at fostering the recovery in economic activity and employment in the Community are to be considered at the forthcoming Council of Heads of State and Government in Copenhagen in June. The development and prosperity of the nations that make up the Community is the ultimate objective, the *raison d'être,* of cooperation and integration in accordance with the original spirit of the Treaty of Rome.

Both the non-inflationary reduction of real interest rates and economic development call for effective economic policy coordination, not just at Community level but among all the leading industrial countries, and further trade liberalization.

Conscious of the scope of its actions but also of the limitations to which it is subject and of the national and international context in which it operates, the Bank of Italy will continue to perform its tasks of regulating credit, money and interest rates. It will promote the efficiency and diversification of financial markets, to the benefit of enterprises. It will continue to foster the modernization of the banking system and its international openness, in accordance with the policy initiated and pursued with great determination by Governor Ciampi.

I would like to adopt an expression that is dear to him: "it is up to us". Businessmen, bankers and organized labour are all called upon to contribute to the economic and social advance of the country, each acting in their own sphere and in complete autonomy.

Fully aware of the scale and seriousness of the problems facing us, but also of the underlying strength of the economy, the efficiency of the institution I have the honour to lead and the civil motivation and professionalism of those who work for it, the Bank will continue in a spirit of public service to perform the tasks with which it is entrusted.

# STATISTICAL APPENDIX

## LIST OF TABLES

## SOURCES AND USES OF INCOME

*(billions of lire*

| | National | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Sources | | | | | | | | Total |
| | Agriculture, forestry and fisheries (1) | Industry (1) | Market services (1) | Imputed output of bank services (–) | Non-market services (1) | Indirect taxes on imports | GDP | Imports of good and services | |
| 1983 | 37,876 | 272,373 | 349,076 | 31,905 | 100,034 | 41,917 | 769,370 | 157,903 | 927,273 |
| 1984 | 36,046 | 278,805 | 363,061 | 32,352 | 101,430 | 43,046 | 790,036 | 177,317 | 967,353 |
| 1985 | 36,327 | 284,939 | 375,923 | 34,373 | 103,109 | 44,655 | 810,580 | 184,290 | 994,870 |
| 1986 | 37,027 | 292,348 | 389,358 | 35,587 | 104,747 | 46,369 | 834,262 | 189,629 | 1,023,891 |
| 1987 | 38,412 | 301,974 | 402,607 | 36,888 | 105,794 | 48,523 | 860,422 | 206,957 | 1,067,379 |
| 1988 | 37,177 | 319,451 | 419,192 | 38,813 | 107,223 | 51,167 | 895,397 | 220,960 | 1,116,357 |
| 1989 | 37,608 | 330,697 | 433,528 | 41,800 | 108,197 | 53,484 | 921,714 | 237,667 | 1,159,381 |
| 1990 | 36,509 | 338,321 | 446,162 | 43,704 | 109,281 | 54,818 | 941,387 | 256,785 | 1,198,172 |
| 1991 | 39,237 | 337,910 | 453,986 | 44,410 | 110,298 | 56,160 | 953,181 | 264,337 | 1,217,518 |
| 1992 | 39,745 | 336,095 | 466,138 | 47,866 | 111,112 | 56,813 | 962,037 | 276,405 | 1,238,442 |
| 1988 – I | 9,225 | 78,871 | 103,248 | 9,445 | 26,689 | 12,585 | 221,172 | 52,293 | 273,465 |
| II | 9,312 | 79,585 | 104,464 | 9,679 | 26,777 | 12,701 | 223,163 | 54,290 | 277,453 |
| III | 9,240 | 80,762 | 105,193 | 9,795 | 26,849 | 12,827 | 225,077 | 56,130 | 281,207 |
| IV | 9,397 | 80,234 | 106,287 | 9,894 | 26,908 | 13,054 | 225,985 | 58,247 | 284,232 |
| 1989 – I | 9,329 | 81,385 | 106,845 | 10,092 | 26,964 | 13,208 | 227,639 | 58,520 | 286,159 |
| II | 9,356 | 81,925 | 107,795 | 10,363 | 27,040 | 13,331 | 229,084 | 59,022 | 288,105 |
| III | 9,546 | 84,119 | 108,689 | 10,604 | 27,068 | 13,413 | 232,231 | 59,708 | 291,939 |
| IV | 9,377 | 83,268 | 110,199 | 10,740 | 27,125 | 13,532 | 232,761 | 60,417 | 293,178 |
| 1990 – I | 9,087 | 84,740 | 110,625 | 10,794 | 27,215 | 13,608 | 234,480 | 62,847 | 297,327 |
| II | 9,167 | 84,175 | 110,911 | 10,924 | 27,294 | 13,678 | 234,300 | 64,267 | 298,568 |
| III | 9,334 | 85,073 | 112,326 | 10,991 | 27,354 | 13,713 | 236,810 | 64,766 | 301,576 |
| IV | 8,921 | 84,333 | 112,300 | 10,995 | 27,418 | 13,819 | 235,797 | 64,904 | 300,701 |
| 1991 – I | 9,499 | 84,588 | 112,281 | 10,927 | 27,467 | 13,868 | 236,776 | 64,595 | 301,371 |
| II | 9,919 | 84,445 | 112,999 | 10,991 | 27,540 | 13,993 | 237,905 | 65,719 | 303,624 |
| III | 10,014 | 84,089 | 114,001 | 11,128 | 27,611 | 14,107 | 238,694 | 66,536 | 305,229 |
| IV | 9,805 | 84,788 | 114,705 | 11,364 | 27,680 | 14,192 | 239,806 | 67,488 | 307,294 |
| 1992 – I | 9,955 | 85,259 | 115,474 | 11,570 | 27,725 | 14,250 | 241,094 | 70,398 | 311,492 |
| II | 9,926 | 84,883 | 116,554 | 11,878 | 27,766 | 14,247 | 241,499 | 69,155 | 310,653 |
| III | 10,659 | 82,918 | 116,945 | 12,114 | 27,800 | 14,201 | 240,408 | 69,863 | 310,271 |
| IV | 9,206 | 83,035 | 117,165 | 12,304 | 27,821 | 14,114 | 239,036 | 66,989 | 306,025 |

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

Table al

**AND HOUSEHOLDS' CONSUMPTION**
*at 1985 prices)*

| accounts | | | | | | Households' domestic consumption | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Uses | | | | | | By type of consumption | | | | By type of good | |
| Buildings and public works | Machinery, equipment and vehicles | Households' consumption | Collective consumption | Change in stocks | Exports of goods and services | Non-durable | Semi-durable | Durable | Services | Food | Non-food |
| 90,651 | 70,092 | 483,621 | 128,159 | 3,897 | 150,853 | 183,764 | 91,268 | 47,349 | 161,240 | 115,979 | 206,403 |
| 89,920 | 76,596 | 493,167 | 131,082 | 12,902 | 163,686 | 185,479 | 92,714 | 49,870 | 165,104 | 116,750 | 211,313 |
| 89,457 | 78,136 | 507,806 | 135,502 | 14,965 | 169,004 | 188,360 | 95,854 | 54,633 | 168,959 | 117,268 | 221,579 |
| 91,193 | 80,111 | 526,618 | 138,977 | 13,834 | 173,158 | 192,503 | 99,529 | 59,058 | 175,529 | 118,104 | 232,985 |
| 90,519 | 89,355 | 548,576 | 143,762 | 13,856 | 181,311 | 196,847 | 105,655 | 64,235 | 181,840 | 119,811 | 246,925 |
| 92,631 | 99,734 | 571,453 | 147,833 | 13,579 | 191,127 | 200,205 | 112,304 | 71,804 | 187,140 | 121,229 | 263,084 |
| 96,003 | 104,661 | 591,686 | 149,071 | 10,102 | 207,858 | 203,675 | 117,243 | 78,545 | 192,223 | 121,993 | 277,470 |
| 99,320 | 108,908 | 606,345 | 150,856 | 10,342 | 222,401 | 206,516 | 121,224 | 79,187 | 199,418 | 122,402 | 284,525 |
| 100,753 | 108,803 | 620,445 | 153,077 | 11,458 | 222,982 | 210,201 | 124,516 | 81,835 | 203,893 | 122,928 | 293,624 |
| 98,984 | 107,580 | 631,644 | 154,699 | 11,473 | 234,062 | 212,497 | 127,302 | 83,891 | 207,954 | 123,333 | 300,357 |
| 23,151 | 24,310 | 140,626 | 36,724 | 4,379 | 44,276 | 49,577 | 27,295 | 17,352 | 46,403 | 30,268 | 63,955 |
| 23,136 | 24,685 | 142,147 | 36,929 | 1,539 | 49,017 | 49,869 | 27,913 | 17,700 | 46,665 | 30,320 | 65,162 |
| 23,251 | 25,019 | 143,401 | 36,964 | 4,455 | 48,115 | 50,180 | 28,277 | 18,107 | 46,838 | 30,287 | 66,276 |
| 23,093 | 25,720 | 145,279 | 37,216 | 3,205 | 49,719 | 50,579 | 28,820 | 18,645 | 47,235 | 30,354 | 67,690 |
| 23,995 | 25,857 | 146,440 | 37,220 | 3,288 | 49,359 | 50,682 | 29,040 | 19,157 | 47,560 | 30,351 | 68,529 |
| 23,589 | 25,711 | 147,646 | 37,234 | 1,316 | 52,610 | 50,907 | 29,364 | 19,471 | 47,904 | 30,452 | 69,290 |
| 23,969 | 26,150 | 148,216 | 37,263 | 3,372 | 52,968 | 50,977 | 29,268 | 19,900 | 48,072 | 30,576 | 69,568 |
| 24,450 | 26,943 | 149,384 | 37,354 | 2,126 | 52,921 | 51,109 | 29,571 | 20,017 | 48,688 | 30,614 | 70,083 |
| 24,993 | 27,502 | 150,074 | 37,488 | 4,119 | 53,151 | 51,204 | 29,740 | 19,863 | 49,267 | 30,482 | 70,326 |
| 24,861 | 27,370 | 151,176 | 37,652 | 1,554 | 55,953 | 51,558 | 30,154 | 19,599 | 49,865 | 30,550 | 70,761 |
| 24,676 | 27,264 | 151,895 | 37,769 | 3,674 | 56,298 | 51,721 | 30,416 | 19,780 | 49,978 | 30,602 | 71,315 |
| 24,789 | 26,772 | 153,200 | 37,947 | 995 | 56,999 | 52,034 | 30,913 | 19,945 | 50,308 | 30,768 | 72,124 |
| 24,874 | 26,389 | 153,676 | 38,035 | 1,595 | 56,802 | 52,074 | 30,916 | 20,163 | 50,522 | 30,769 | 72,384 |
| 25,264 | 26,688 | 154,668 | 38,285 | 3,713 | 55,006 | 52,470 | 31,043 | 20,306 | 50,850 | 30,757 | 73,062 |
| 25,404 | 27,605 | 155,578 | 38,348 | 3,173 | 55,121 | 52,710 | 31,105 | 20,659 | 51,103 | 30,671 | 73,804 |
| 25,210 | 28,121 | 156,523 | 38,408 | 2,977 | 56,054 | 52,946 | 31,452 | 20,708 | 51,417 | 30,731 | 74,375 |
| 24,945 | 27,530 | 157,407 | 38,464 | 3,966 | 59,180 | 53,278 | 31,746 | 20,721 | 51,662 | 30,905 | 74,840 |
| 24,883 | 27,184 | 158,206 | 38,636 | 5,110 | 56,633 | 53,346 | 31,906 | 20,938 | 52,017 | 30,926 | 75,264 |
| 24,739 | 26,703 | 158,068 | 38,795 | 2,614 | 59,352 | 52,987 | 31,813 | 21,181 | 52,087 | 30,761 | 75,220 |
| 24,416 | 26,164 | 157,963 | 38,804 | –218 | 58,896 | 52,886 | 31,837 | 21,051 | 52,189 | 30,741 | 75,032 |

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

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Unit labour costs** *(current lire per thousand lire of value added at 1985 prices)* | | | | | | | | | |
| **Market goods and services** (1) | **592.1** | **643.9** | **695.6** | **728.9** | **759.1** | **788.1** | **832.0** | **893.0** | **965.9** | **1,000.8** |
| Agriculture, forestry and fisheries | 766.7 | 862.7 | 916.4 | 940.0 | 943.1 | 1,008.3 | 998.5 | 1,068.8 | 1,046.4 | 1,095.4 |
| Industry | 561.9 | 593.3 | 637.4 | 665.8 | 684.4 | 703.4 | 748.9 | 805.3 | 870.7 | 906.7 |
| *Excluding construction* | *562.2* | *592.7* | *633.5* | *656.8* | *672.6* | *687.7* | *733.8* | *784.4* | *842.1* | *872.7* |
| *Energy products* | *274.4* | *310.8* | *349.7* | *366.0* | *387.1* | *410.5* | *437.3* | *474.5* | *505.7* | *534.8* |
| *Manufactures* | *595.9* | *624.2* | *664.0* | *688.6* | *703.3* | *715.5* | *763.2* | *815.4* | *876.3* | *907.1* |
| *Construction* | *537.6* | *567.6* | *621.4* | *673.0* | *699.1* | *738.9* | *778.1* | *860.2* | *953.8* | *1,006.8* |
| Services (1) | 560.0 | 617.5 | 673.6 | 708.1 | 749.5 | 786.5 | 834.4 | 894.5 | 972.8 | 1,009.0 |
| *Distributive trades, lodging & catering* | *481.6* | *545.8* | *614.2* | *645.8* | *684.4* | *706.6* | *749.0* | *805.7* | *879.6* | *929.2* |
| *Transport & communications* | *607.9* | *641.8* | *673.1* | *687.5* | *714.9* | *718.7* | *760.0* | *792.2* | *839.1* | *860.1* |
| *Finance and insurance* | *512.5* | *555.4* | *580.2* | *599.4* | *658.0* | *681.8* | *704.7* | *759.3* | *829.3* | *810.3* |
| *Miscellaneous services* | *493.6* | *558.8* | *624.2* | *673.6* | *711.1* | *794.8* | *857.6* | *929.9* | *1,029.9* | *1,075.9* |
| **Non-market services** | **802.3** | **897.2** | **982.5** | **1,061.5** | **1,167.6** | **1,296.8** | **1,391.3** | **1,615.4** | **1,752.3** | **1,829.6** |
| General government | 803.3 | 899.1 | 982.3 | 1,063.9 | 1,170.7 | 1,302.2 | 1,390.7 | 1,621.5 | 1,756.1 | 1,829.8 |
| **Total** (1) | **625.2** | **682.6** | **738.2** | **778.6** | **819.4** | **862.2** | **910.3** | **997.5** | **1,078.9** | **1,117.0** |
| | **Value added at factor cost per full-time equivalent worker** *(thousands of lire at 1985 prices)* | | | | | | | | | |
| **Market goods and services** (1) | **32,784.1** | **33,748.9** | **34,496.3** | **35,238.8** | **36,441.9** | **37,896.5** | **39,234.9** | **39,818.0** | **40,067.6** | **41,114.3** |
| Agriculture, forestry and fisheries | 14,885.4 | 14,427.3 | 15,204.0 | 15,508.4 | 16,534.8 | 16,747.2 | 17,856.9 | 17,597.2 | 19,069.9 | 20,006.1 |
| Industry | 34,882.3 | 37,547.2 | 38,948.9 | 40,083.1 | 41,923.5 | 44,064.7 | 45,615.2 | 46,386.1 | 46,888.6 | 47,827.8 |
| *Excluding construction* | *36,456.2* | *39,684.6* | *41,380.7* | *42,681.2* | *44,834.6* | *47,295.2* | *48,844.8* | *49,889.6* | *50,860.0* | *52,499.3* |
| *Energy products* | *120,560.3* | *119,653.0* | *118,159.7* | *122,195.0* | *123,216.4* | *125,331.3* | *130,891.9* | *135,081.2* | *138,067.7* | *143,604.2* |
| *Manufactures* | *33,527.7* | *36,725.2* | *38,459.2* | *39,592.1* | *41,701.4* | *44,223.5* | *45,679.1* | *46,589.0* | *47,432.7* | *48,896.8* |
| *Construction* | *29,953.9* | *30,746.3* | *31,200.1* | *31,749.9* | *32,562.8* | *33,510.6* | *34,943.4* | *35,057.9* | *34,646.9* | *34,044.1* |
| Services (1) | 36,822.6 | 36,636.6 | 36,589.1 | 37,098.9 | 37,778.3 | 38,760.4 | 39,726.7 | 40,247.7 | 40,102.1 | 41,156.0 |
| *Distributive trades, lodging & catering* | *32,522.3* | *32,324.5* | *32,301.8* | *32,594.4* | *33,317.8* | *34,594.2* | *35,522.7* | *35,869.0* | *35,760.0* | *36,099.9* |
| *Transport & communications* | *40,110.1* | *41,606.4* | *43,286.2* | *43,949.8* | *44,668.2* | *47,217.3* | *48,995.6* | *50,986.1* | *52,237.8* | *53,957.7* |
| *Finance and insurance* | *91,348.0* | *90,297.3* | *93,859.0* | *100,081.4* | *98,367.2* | *101,826.5* | *105,143.7* | *107,821.7* | *106,007.4* | *116,489.4* |
| *Miscellaneous services* | *34,272.7* | *33,618.3* | *32,305.4* | *32,313.9* | *33,257.8* | *32,565.7* | *32,707.7* | *32,639.8* | *32,121.5* | *32,532.9* |
| **Non-market services** | **25,769.3** | **25,614.9** | **25,533.4** | **25,729.4** | **25,619.7** | **25,545.1** | **25,630.0** | **25,703.5** | **25,644.1** | **25,532.4** |
| General government | 28,133.2 | 27,938.3 | 27,917.9 | 28,067.8 | 27,893.2 | 27,803.7 | 27,896.8 | 28,067.6 | 28,123.8 | 28,165.4 |
| **Total** (1) | **31,564.3** | **32,311.8** | **32,895.7** | **33,539.8** | **34,488.5** | **35,649.6** | **36,747.2** | **37,239.3** | **37,422.1** | **38,197.0** |

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 | | |
| 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 ....... | 119.6 | 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 ....... | 122.2 | 154.1 | 107.3 | 125.4 | 125.2 | 105.0 | 123.2 | 115.7 | 116.8 | 111.0 | 117.3 | 116.5 | 117.1 | 117.8 |
| 1991 ....... | 110.7 | 157.0 | 105.7 | 118.0 | 124.3 | 105.3 | 123.8 | 115.8 | 109.9 | 109.9 | 115.5 | 114.3 | 114.2 | 115.4 |
| 1992 ....... | 104.8 | 150.1 | 100.8 | 112.1 | 122.2 | 108.0 | 126.7 | 117.5 | 107.8 | 107.9 | 115.9 | 114.2 | 113.3 | 114.7 |
| 1986 – I .. | 103.3 | 111.0 | 103.9 | 104.8 | 102.0 | 100.5 | 104.5 | 102.2 | 102.3 | 104.1 | 102.4 | 102.6 | 102.9 | 102.9 |
| II .. | 104.3 | 129.4 | 99.5 | 108.0 | 104.0 | 100.2 | 102.7 | 101.9 | 100.1 | 102.0 | 102.4 | 102.1 | 103.0 | 102.9 |
| III .. | 102.9 | 138.1 | 97.3 | 108.1 | 106.1 | 100.3 | 101.2 | 101.9 | 100.0 | 101.8 | 102.8 | 102.4 | 103.1 | 103.6 |
| IV .. | 103.3 | 150.8 | 110.6 | 112.9 | 110.3 | 101.5 | 103.3 | 104.1 | 102.8 | 103.4 | 104.1 | 103.9 | 104.5 | 105.1 |
| 1987 – I .. | 103.4 | 122.9 | 108.1 | 107.6 | 113.0 | 99.8 | 105.7 | 104.7 | 98.6 | 106.8 | 105.6 | 105.1 | 105.0 | 105.3 |
| II .. | 107.6 | 126.2 | 114.7 | 112.1 | 115.9 | 101.1 | 107.1 | 106.4 | 103.1 | 109.5 | 109.3 | 108.7 | 107.5 | 108.4 |
| III .. | 106.7 | 118.8 | 104.1 | 108.4 | 113.6 | 97.0 | 111.6 | 105.7 | 102.8 | 108.2 | 108.3 | 107.7 | 107.1 | 107.7 |
| IV .. | 109.2 | 135.8 | 103.8 | 113.0 | 115.8 | 98.6 | 111.0 | 106.6 | 103.7 | 109.0 | 110.2 | 109.4 | 108.8 | 109.2 |
| 1988 – I .. | 111.5 | 146.2 | 107.8 | 117.0 | 119.3 | 102.9 | 114.1 | 110.3 | 107.5 | 110.1 | 113.3 | 112.4 | 112.2 | 112.6 |
| II .. | 114.1 | 152.5 | 102.7 | 119.0 | 120.4 | 101.1 | 115.6 | 110.3 | 106.1 | 107.7 | 114.0 | 112.4 | 113.0 | 113.1 |
| III .. | 116.8 | 153.9 | 109.5 | 122.1 | 124.0 | 104.1 | 115.1 | 112.3 | 109.3 | 106.2 | 115.7 | 113.9 | 114.5 | 114.6 |
| IV .. | 116.5 | 149.9 | 104.7 | 120.5 | 127.1 | 103.1 | 117.3 | 113.3 | 110.5 | 109.3 | 117.5 | 115.8 | 115.7 | 116.1 |
| 1989 – I .. | 117.3 | 145.7 | 107.3 | 120.6 | 125.9 | 101.8 | 116.4 | 112.1 | 113.5 | 109.9 | 116.5 | 115.4 | 115.2 | 115.7 |
| II .. | 117.9 | 137.9 | 107.0 | 119.6 | 126.6 | 104.8 | 118.5 | 114.3 | 114.7 | 111.8 | 116.7 | 115.9 | 116.4 | 116.4 |
| III .. | 119.0 | 155.0 | 111.0 | 124.0 | 127.2 | 109.8 | 118.1 | 116.5 | 116.1 | 113.7 | 120.1 | 119.0 | 117.9 | 118.2 |
| IV .. | 124.0 | 153.7 | 116.7 | 128.1 | 128.7 | 104.9 | 120.6 | 115.5 | 118.7 | 117.4 | 120.0 | 119.6 | 120.2 | 120.2 |
| 1990 – I .. | 124.5 | 154.7 | 105.5 | 126.7 | 125.0 | 103.7 | 120.6 | 114.2 | 118.7 | 109.6 | 117.5 | 116.7 | 117.7 | 118.2 |
| II .. | 123.6 | 151.8 | 114.7 | 127.1 | 124.8 | 104.0 | 121.3 | 114.5 | 119.2 | 110.1 | 117.0 | 116.4 | 117.2 | 118.1 |
| III .. | 122.3 | 158.0 | 106.0 | 125.9 | 130.3 | 105.5 | 125.9 | 117.9 | 115.9 | 113.6 | 119.9 | 118.8 | 118.0 | 118.7 |
| IV .. | 118.5 | 152.1 | 102.8 | 121.8 | 120.7 | 106.9 | 125.2 | 116.2 | 113.3 | 110.8 | 114.8 | 114.2 | 115.5 | 116.2 |
| 1991 – I .. | 113.8 | 153.4 | 107.9 | 119.8 | 123.9 | 105.8 | 124.6 | 116.2 | 109.8 | 112.5 | 115.1 | 114.3 | 114.8 | 115.6 |
| II .. | 112.1 | 167.4 | 100.0 | 119.8 | 124.4 | 103.8 | 122.3 | 114.7 | 110.9 | 109.8 | 115.6 | 114.4 | 114.1 | 115.4 |
| III .. | 109.6 | 155.4 | 110.9 | 117.9 | 124.4 | 103.8 | 124.2 | 115.3 | 109.6 | 108.6 | 114.4 | 113.3 | 113.5 | 114.6 |
| IV .. | 107.2 | 151.6 | 103.9 | 114.5 | 124.4 | 107.9 | 124.0 | 117.1 | 109.4 | 108.7 | 117.1 | 115.3 | 114.6 | 115.8 |
| 1992 – I .. | 108.3 | 155.8 | 104.2 | 116.0 | 125.4 | 108.8 | 126.8 | 118.6 | 110.3 | 109.5 | 118.4 | 116.5 | 116.1 | 116.6 |
| II .. | 105.7 | 151.0 | 103.6 | 113.3 | 123.4 | 109.1 | 128.5 | 118.9 | 107.4 | 109.8 | 117.5 | 115.6 | 115.1 | 116.2 |
| III .. | 103.8 | 147.1 | 97.9 | 110.5 | 119.7 | 108.6 | 124.9 | 116.6 | 107.6 | 106.1 | 114.6 | 112.9 | 111.8 | 113.8 |
| IV .. | 101.4 | 146.5 | 97.6 | 108.7 | 120.3 | 105.7 | 126.7 | 116.1 | 105.7 | 106.0 | 113.3 | 111.7 | 110.3 | 112.2 |

Source: Based on Istat data.

Table a4

## CONSUMER PRICES FOR THE POPULATION AS A WHOLE (1)

*(indices, 1990 = 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 |
| 1983 ............ | 62.7 | 65.4 | 66.1 | 65.8 | 56.6 | 59.1 | 62.6 | 64.0 | 58.6 | 68.2 | 58.2 | 58.6 |
| 1984 ............ | 69.5 | 71.3 | 73.0 | 72.3 | 64.1 | 65.8 | 73.1 | 70.1 | 65.3 | 75.4 | 64.7 | 65.2 |
| 1985 ............ | 75.9 | 77.5 | 79.2 | 78.5 | 70.8 | 72.9 | 78.4 | 76.3 | 74.6 | 80.8 | 71.1 | 71.9 |
| 1986 ............ | 80.3 | 81.8 | 82.2 | 82.0 | 77.1 | 78.9 | 78.9 | 81.2 | 78.0 | 84.2 | 77.5 | 77.9 |
| 1987 ............ | 84.1 | 85.3 | 85.8 | 85.6 | 81.3 | 84.2 | 81.3 | 85.3 | 81.9 | 87.1 | 80.9 | 83.2 |
| 1988 ............ | 88.4 | 88.6 | 89.9 | 89.3 | 86.6 | 89.1 | 85.3 | 89.4 | 85.8 | 90.7 | 87.3 | 88.3 |
| 1989 ............ | 93.9 | 94.2 | 94.5 | 94.3 | 93.2 | 94.5 | 90.7 | 95.0 | 93.9 | 95.0 | 92.9 | 94.2 |
| 1990 ............ | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1991 ............ | 106.4 | 106.7 | 105.4 | 105.8 | 107.5 | 105.4 | 108.8 | 105.7 | 106.1 | 105.7 | 105.6 | 106.9 |
| 1992 ............ | 111.9 | 111.9 | 109.3 | 110.2 | 115.5 | 110.9 | 113.4 | 110.7 | 111.8 | 110.9 | 111.6 | 113.5 |
| 1988 – I ....... | 86.9 | 87.3 | 88.4 | 88.0 | 84.8 | 87.3 | 83.7 | 87.9 | 84.0 | 89.7 | 85.6 | 86.5 |
| II ....... | 87.8 | 88.0 | 89.3 | 88.7 | 86.0 | 88.5 | 84.5 | 88.9 | 85.1 | 90.3 | 86.4 | 88.0 |
| III ....... | 88.6 | 88.8 | 90.3 | 90.0 | 86.8 | 89.0 | 85.7 | 89.7 | 85.7 | 91.2 | 87.2 | 88.8 |
| IV ....... | 90.2 | 90.4 | 91.5 | 91.1 | 88.6 | 91.3 | 87.5 | 91.2 | 88.3 | 91.6 | 89.9 | 90.0 |
| 1989 – I ....... | 92.0 | 92.2 | 92.7 | 92.5 | 91.0 | 92.4 | 88.6 | 92.9 | 91.6 | 93.2 | 91.7 | 92.0 |
| II ....... | 93.5 | 93.8 | 93.8 | 93.8 | 92.8 | 93.9 | 89.4 | 94.5 | 93.8 | 94.5 | 92.6 | 93.9 |
| III ....... | 94.3 | 94.6 | 94.5 | 94.6 | 93.8 | 94.6 | 90.2 | 95.6 | 84.6 | 95.4 | 93.1 | 95.0 |
| IV ....... | 95.9 | 96.0 | 96.7 | 96.4 | 95.1 | 97.2 | 94.5 | 96.9 | 95.3 | 96.9 | 94.1 | 96.1 |
| 1990 – I ....... | 97.9 | 97.9 | 98.1 | 98.0 | 97.8 | 98.1 | 97.1 | 98.2 | 97.0 | 98.3 | 98.4 | 98.0 |
| II ....... | 99.1 | 99.5 | 98.8 | 99.1 | 99.3 | 99.4 | 98.0 | 99.6 | 99.3 | 99.0 | 98.9 | 99.3 |
| III ....... | 100.5 | 100.8 | 100.2 | 100.4 | 100.7 | 100.0 | 100.0 | 100.4 | 110.9 | 100.5 | 100.4 | 100.7 |
| IV ....... | 102.4 | 102.0 | 103.0 | 102.5 | 102.2 | 102.5 | 105.2 | 101.8 | 102.6 | 102.1 | 102.2 | 102.2 |
| 1991 – I ....... | 104.2 | 104.2 | 104.0 | 104.0 | 104.5 | 103.2 | 108.6 | 103.6 | 103.5 | 103.6 | 103.6 | 104.3 |
| II ....... | 105.7 | 106.0 | 104.8 | 105.2 | 106.6 | 104.9 | 107.7 | 105.3 | 105.5 | 105.0 | 104.4 | 106.4 |
| III ....... | 106.9 | 107.4 | 105.5 | 106.2 | 108.6 | 105.5 | 108.2 | 106.3 | 106.6 | 106.3 | 106.6 | 107.8 |
| IV ....... | 108.6 | 109.0 | 107.1 | 107.8 | 110.3 | 107.9 | 110.8 | 107.7 | 108.6 | 107.9 | 107.6 | 109.0 |
| 1992 – I ....... | 110.2 | 110.8 | 107.9 | 108.8 | 112.9 | 108.9 | 112.5 | 108.9 | 119.3 | 108.7 | 110.7 | 111.0 |
| II ....... | 111.4 | 112.0 | 108.9 | 109.9 | 114.6 | 110.4 | 112.9 | 110.3 | 110.7 | 110.3 | 111.1 | 112.8 |
| III ....... | 112.3 | 112.2 | 109.5 | 110.4 | 116.3 | 111.0 | 113.3 | 111.2 | 112.3 | 111.7 | 112.0 | 114.1 |
| IV ....... | 113.7 | 112.8 | 110.8 | 111.5 | 118.2 | 113.1 | 114.9 | 112.5 | 115.0 | 112.8 | 112.7 | 115.9 |

Source: Based on Istat data.

(1) The indices have been rebased as necessary using the conversion factors prepared by Istat.

Table a5

## CONSUMER PRICES FOR WORKER AND EMPLOYEE HOUSEHOLDS (1)

*(indices, 1992 = 100)*

| | Overall index (2) | Categories of expenditure | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Food | Clothing | Electricity & other fuels | Housing | Household goods | Medical care and health | Transport & commu-nications | Recreation, entertainment, education & cultural services | Other goods & services |
| 1983 ............ | 56.4 | 58.9 | 53.7 | 66.4 | 48.0 | .... | .... | .... | .... | .... |
| 1984 ............ | 62.4 | 64.4 | 59.6 | 73.8 | 59.0 | .... | .... | .... | .... | .... |
| 1985 ............ | 67.7 | 69.9 | 65.4 | 80.5 | 62.1 | .... | .... | .... | .... | .... |
| 1986 ............ | 71.8 | 73.6 | 70.9 | 75.7 | 67.4 | .... | .... | .... | .... | .... |
| 1987 ............ | 75.2 | 76.5 | 75.5 | 75.6 | 71.8 | .... | .... | .... | .... | .... |
| 1988 ............ | 78.9 | 79.6 | 79.9 | 78.7 | 76.5 | .... | .... | .... | .... | .... |
| 1989 ............ | 84.1 | 84.5 | 84.9 | 83.3 | 81.4 | 84.7 | 84.0 | 87.2 | 83.1 | 82.1 |
| 1990 ............ | 89.2 | 89.5 | 89.9 | 94.7 | 87.2 | 89.5 | 87.7 | 91.3 | 87.4 | 87.4 |
| 1991 ............ | 95.0 | 95.7 | 94.8 | 99.4 | 93.6 | 94.9 | 92.9 | 96.4 | 93.7 | 93.7 |
| 1992 ............ | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1988 – I ........ | 77.5 | 78.3 | 78.2 | 77.2 | 74.7 | .... | .... | .... | .... | .... |
| II ........ | 78.3 | 78.8 | 79.4 | 77.9 | 76.0 | .... | .... | .... | .... | .... |
| III ........ | 79.1 | 79.8 | 79.8 | 79.3 | 76.7 | .... | .... | .... | .... | .... |
| IV ........ | 80.7 | 81.3 | 82.2 | 80.5 | 78.6 | .... | .... | .... | .... | .... |
| 1989 – I ........ | 82.3 | 82.7 | 83.0 | 81.3 | 79.6 | 82.9 | 81.9 | 85.3 | 81.9 | 80.0 |
| II ........ | 83.7 | 84.2 | 84.3 | 81.7 | 80.7 | 84.3 | 83.8 | 86.8 | 82.7 | 81.7 |
| III ........ | 84.5 | 84.9 | 84.8 | 82.7 | 81.3 | 85.3 | 84.7 | 87.6 | 83.3 | 82.8 |
| IV ........ | 86.0 | 86.1 | 87.5 | 87.7 | 83.8 | 86.4 | 85.4 | 88.9 | 84.5 | 83.9 |
| 1990 – I ........ | 87.4 | 87.5 | 88.2 | 91.5 | 85.7 | 87.9 | 86.2 | 90.0 | 85.4 | 85.6 |
| II ........ | 88.4 | 88.9 | 89.4 | 91.8 | 86.5 | 89.1 | 87.5 | 90.5 | 86.1 | 86.8 |
| III ........ | 89.6 | 90.1 | 89.8 | 94.1 | 87.2 | 89.7 | 88.2 | 92.0 | 87.9 | 88.0 |
| IV ........ | 91.4 | 91.5 | 92.1 | 101.2 | 89.4 | 91.4 | 89.2 | 92.8 | 90.4 | 89.4 |
| 1991 – I ........ | 93.2 | 93.4 | 92.8 | 103.3 | 90.4 | 93.0 | 91.2 | 94.9 | 92.2 | 91.4 |
| II ........ | 94.4 | 95.1 | 94.2 | 97.7 | 92.5 | 94.4 | 92.7 | 96.1 | 93.2 | 93.2 |
| III ........ | 95.3 | 96.4 | 94.9 | 96.6 | 94.4 | 95.4 | 93.3 | 96.7 | 93.7 | 94.4 |
| IV ........ | 97.0 | 97.9 | 97.3 | 99.9 | 97.0 | 96.8 | 94.4 | 97.8 | 95.7 | 95.6 |
| 1992 – I ........ | 98.4 | 99.2 | 98.2 | 100.0 | 98.4 | 98.1 | 95.3 | 98.1 | 98.8 | 97.6 |
| II ........ | 99.6 | 100.1 | 99.3 | 99.6 | 99.4 | 99.6 | 96.7 | 99.8 | 99.3 | 99.5 |
| III ........ | 100.3 | 100.1 | 100.1 | 99.4 | 100.0 | 100.6 | 102.4 | 100.8 | 99.8 | 100.6 |
| IV ........ | 101.6 | 100.7 | 101.9 | 100.9 | 102.3 | 101.7 | 105.6 | 101.3 | 101.9 | 102.2 |
| 1993 – I ........ | 102.6 | 100.9 | 102.5 | 102.2 | 103.5 | 102.7 | 107.3 | 103.3 | 101.9 | 103.8 |

(1) The indices have been rebased using the conversion factors prepared by Istat. – (2) From February 1992 onwards the index does not include tobacco producrts.

## WHOLESALE PRICES
*(indices, 1990=100)*

| | Overall index | Final consumer goods | | | Final capital goods | Raw materials and intermediate goods | | |
|---|---|---|---|---|---|---|---|---|
| | | Durable | Non-durable | Total | | Energy | Non-energy | Total |
| 1989 | 93.1 | 96.8 | 94.0 | 94.6 | 94.8 | 85.7 | 96.6 | 92.3 |
| 1990 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1991 | 105.2 | 104.5 | 107.7 | 107.0 | 104.1 | 107.0 | 102.9 | 104.5 |
| 1992 | 107.4 | 110.3 | 111.9 | 111.6 | 107.5 | 107.0 | 104.8 | 105.7 |
| 1989 – I | 91.2 | 96.4 | 92.3 | 93.1 | 93.1 | 81.8 | 95.7 | 90.3 |
| II | 92.7 | 96.4 | 93.2 | 93.9 | 94.7 | 85.2 | 96.5 | 92.1 |
| III | 92.8 | 96.5 | 94.4 | 94.8 | 95.1 | 84.1 | 96.6 | 91.7 |
| IV | 95.7 | 98.0 | 96.2 | 96.6 | 96.3 | 91.4 | 97.8 | 95.3 |
| 1990 – I | 97.1 | 99.3 | 98.0 | 98.3 | 98.4 | 92.9 | 98.8 | 96.5 |
| II | 97.0 | 99.0 | 99.4 | 99.3 | 99.7 | 90.2 | 99.5 | 95.9 |
| III | 100.8 | 100.6 | 99.9 | 100.0 | 100.6 | 102.7 | 100.1 | 101.1 |
| IV | 105.2 | 101.0 | 102.6 | 102.3 | 101.5 | 114.3 | 101.8 | 106.7 |
| 1991 – I | 105.4 | 102.4 | 105.7 | 104.9 | 103.4 | 111.0 | 102.4 | 105.7 |
| II | 104.3 | 103.8 | 106.7 | 106.0 | 104.1 | 104.3 | 103.1 | 103.6 |
| III | 104.8 | 105.3 | 107.7 | 107.2 | 104.4 | 105.3 | 102.9 | 103.8 |
| IV | 106.3 | 106.7 | 110.7 | 109.8 | 104.8 | 107.3 | 103.4 | 104.9 |
| 1992 – I | 106.3 | 108.4 | 112.0 | 111.2 | 106.4 | 104.3 | 104.3 | 104.3 |
| II | 107.1 | 109.9 | 112.3 | 111.8 | 107.4 | 106.0 | 104.8 | 105.2 |
| III | 106.6 | 110.2 | 111.0 | 110.8 | 107.7 | 106.0 | 103.9 | 104.7 |
| IV | 109.5 | 112.5 | 112.5 | 112.5 | 108.5 | 111.8 | 106.1 | 108.4 |

Source: Based on Istat data.

Table a7

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

*(indices, 1987 = 100)*

| | 14 industrial countries | EC | Germany | France | UK | Belgium | Netherlands | US |
|---|---|---|---|---|---|---|---|---|
| 1983 | 96.2 | 99.8 | 101.5 | 105.0 | 91.8 | 92.3 | 92.1 | 71.3 |
| 1984 | 97.0 | 102.0 | 105.2 | 106.1 | 94.1 | 94.0 | 93.6 | 66.7 |
| 1985 | 95.3 | 100.1 | 105.0 | 101.8 | 90.9 | 92.1 | 94.5 | 65.6 |
| 1986 | 98.0 | 99.8 | 101.4 | 99.1 | 98.0 | 98.0 | 99.6 | 86.9 |
| 1987 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 1988 | 97.3 | 97.5 | 98.6 | 98.4 | 90.2 | 99.4 | 98.9 | 99.2 |
| 1989 | 99.6 | 100.4 | 102.2 | 101.5 | 93.4 | 100.0 | 101.2 | 94.5 |
| 1990 | 103.5 | 102.0 | 103.6 | 102.3 | 97.2 | 101.4 | 104.6 | 109.0 |
| 1991 | 104.3 | 103.3 | 104.3 | 106.1 | 92.8 | 104.8 | 107.0 | 108.6 |
| 1992 | 101.8 | 99.7 | 99.6 | 101.9 | 92.2 | 101.8 | 104.8 | 110.9 |
| 1986 – I | 96.1 | 98.4 | 101.7 | 96.9 | 94.7 | 94.9 | 97.0 | 79.7 |
| II | 96.5 | 98.6 | 101.1 | 98.8 | 91.7 | 96.5 | 98.8 | 83.7 |
| III | 98.6 | 100.3 | 101.3 | 100.1 | 99.0 | 99.6 | 100.5 | 90.5 |
| IV | 100.8 | 101.9 | 101.7 | 100.7 | 106.5 | 101.0 | 102.0 | 93.7 |
| 1987 – I | 101.0 | 101.1 | 100.4 | 100.7 | 105.1 | 99.9 | 100.7 | 99.5 |
| II | 99.5 | 99.6 | 99.7 | 99.7 | 99.0 | 99.2 | 99.7 | 99.8 |
| III | 99.5 | 99.7 | 100.1 | 99.7 | 98.7 | 99.8 | 99.5 | 97.1 |
| IV | 99.9 | 99.4 | 99.6 | 99.8 | 97.0 | 101.0 | 100.0 | 104.0 |
| 1988 – I | 98.6 | 98.2 | 98.7 | 98.4 | 94.4 | 100.5 | 99.3 | 104.3 |
| II | 97.1 | 97.0 | 98.1 | 98.0 | 89.2 | 99.5 | 98.6 | 101.2 |
| III | 96.2 | 97.1 | 98.4 | 98.1 | 88.7 | 98.8 | 98.8 | 92.8 |
| IV | 97.2 | 97.5 | 99.0 | 99.0 | 88.5 | 98.7 | 98.9 | 98.3 |
| 1989 – I | 97.8 | 98.5 | 100.6 | 100.1 | 88.4 | 99.4 | 99.4 | 95.0 |
| II | 98.5 | 99.8 | 101.7 | 101.1 | 91.7 | 99.5 | 100.0 | 91.1 |
| III | 100.5 | 101.5 | 103.6 | 102.6 | 94.4 | 100.7 | 102.6 | 93.5 |
| IV | 101.5 | 101.7 | 102.8 | 102.4 | 99.2 | 100.3 | 102.9 | 98.4 |
| 1990 – I | 103.1 | 102.2 | 103.1 | 102.2 | 100.5 | 101.7 | 104.3 | 104.5 |
| II | 103.8 | 102.5 | 104.0 | 102.1 | 99.4 | 102.1 | 105.8 | 106.9 |
| III | 103.6 | 101.7 | 104.0 | 102.4 | 94.0 | 100.8 | 104.8 | 111.0 |
| IV | 103.6 | 101.7 | 103.2 | 102.8 | 94.6 | 100.9 | 103.7 | 113.6 |
| 1991 – I | 105.2 | 103.2 | 104.4 | 105.5 | 94.1 | 104.5 | 106.1 | 115.9 |
| II | 103.9 | 103.7 | 105.2 | 106.2 | 91.9 | 105.0 | 108.1 | 104.5 |
| III | 103.6 | 103.1 | 104.0 | 106.2 | 92.1 | 104.9 | 106.9 | 103.5 |
| IV | 104.5 | 103.1 | 103.6 | 106.4 | 93.0 | 104.6 | 107.0 | 110.5 |
| 1992 – I | 105.0 | 103.5 | 103.9 | 106.4 | 92.9 | 105.8 | 108.3 | 112.2 |
| II | 104.6 | 102.7 | 103.5 | 105.5 | 90.7 | 105.1 | 108.1 | 111.7 |
| III | 104.2 | 101.2 | 101.0 | 103.7 | 92.3 | 103.5 | 106.8 | 119.3 |
| IV | 93.4 | 91.7 | 90.1 | 92.1 | 93.0 | 92.7 | 96.0 | 100.3 |

Sources: Based on Istat, OECD and IMF data.

## MAIN ITEMS OF THE BALANCE OF

*(billions*

| | Current account | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Goods (*fob*) | | | | | | Invisibles (2) | | Current account balance (2) | |
| | Imports | | Exports | | Balance | | Balance | | | |
| | Unadjusted | Seasonally adjusted | Unadjusted | Seasonally adjusted | Unadjusted | Seasonally adjusted | Unadjusted | Seasonally adjusted | Unadjusted | Seasonally adjusted |
| 1983 . . . . . . . . . . . . | 113,162 | | 109,449 | | –3,713 | | 6,335 | | 2,622 | |
| 1984 . . . . . . . . . . . . | 139,884 | | 129,630 | | –10,254 | | 6,212 | | –4,042 | |
| 1985 . . . . . . . . . . . . | 156,444 | | 144,516 | | –11,928 | | 5,090 | | –6,838 | |
| 1986 . . . . . . . . . . . . | 137,446 | | 143,729 | | 6,283 | | –2,644 | | 3,639 | |
| 1987 . . . . . . . . . . . . | 150,684 | | 150,292 | | –392 | | –1,674 | | –2,066 | |
| 1988 . . . . . . . . . . . . | 167,318 | | 165,817 | | –1,501 | | –6,122 | | –7,623 | |
| 1989 . . . . . . . . . . . . | 195,105 | | 192,149 | | –2,956 | | –12,186 | | –15,142 | |
| 1990 . . . . . . . . . . . . | 202,354 | | 202,785 | | 431 | | –18,213 | | –17,782 | |
| 1991 . . . . . . . . . . . . | 209,828 | | 208,905 | | –923 | | –25,675 | | –26,598 | |
| 1992 . . . . . . . . . . . . | 215,748 | | 218,801 | | 3,053 | | –35,787 | | –32,734 | |
| 1988 – I . . . . . . . . . . . | 38,970 | 37,656 | 35,087 | 37,172 | –3,883 | –484 | –2,591 | –1,027 | –6,474 | –1,511 |
| II . . . . . . . . . . | 42,646 | 41,279 | 43,405 | 41,896 | 759 | 617 | 183 | –1,011 | 942 | –394 |
| III . . . . . . . . . . | 38,856 | 43,007 | 40,171 | 42,222 | 1,315 | –785 | –1,411 | –2,381 | –96 | –3,166 |
| IV . . . . . . . . . . | 46,846 | 45,376 | 47,154 | 44,527 | 308 | –849 | –2,303 | –1,703 | –1,995 | –2,552 |
| 1989 – I . . . . . . . . . . . | 48,743 | 47,301 | 42,717 | 45,502 | –6,026 | –1,799 | –5,101 | –3,015 | –11,127 | –4,814 |
| II . . . . . . . . . . | 51,441 | 49,555 | 50,469 | 48,431 | –972 | –1,124 | –832 | –2,383 | –1,804 | –3,507 |
| III . . . . . . . . . . | 43,917 | 49,017 | 46,232 | 48,703 | 2,315 | –314 | –2,388 | –3,135 | –73 | –3,449 |
| IV . . . . . . . . . . | 51,004 | 49,232 | 52,731 | 49,513 | 1,727 | 281 | –3,865 | –3,653 | –2,138 | –3,372 |
| 1990 – I . . . . . . . . . . . | 52,306 | 50,838 | 46,909 | 49,878 | –5,397 | –960 | –6,112 | –4,236 | –11,509 | –5,196 |
| II . . . . . . . . . . | 51,573 | 49,594 | 53,150 | 50,803 | 1,577 | 1,209 | –4,309 | –6,440 | –2,732 | –5,231 |
| III . . . . . . . . . . | 44,062 | 49,497 | 47,553 | 50,524 | 3,491 | 1,027 | –2,792 | –3,195 | 699 | –2,168 |
| IV . . . . . . . . . . | 54,413 | 52,425 | 55,173 | 51,580 | 760 | –845 | –5,000 | –4,342 | –4,240 | –5,187 |
| 1991 – I . . . . . . . . . . . | 52,357 | 50,973 | 49,623 | 52,446 | –2,734 | 1,473 | –6,590 | –4,151 | –9,324 | –2,678 |
| II . . . . . . . . . . | 55,023 | 52,931 | 53,860 | 51,559 | –1,163 | –1,372 | –4,824 | –6,590 | –5,987 | –7,962 |
| III . . . . . . . . . . | 47,543 | 52,987 | 48,454 | 51,709 | 911 | –1,278 | –5,864 | –6,007 | –4,953 | –7,285 |
| IV . . . . . . . . . . | 54,905 | 52,937 | 56,968 | 53,191 | 2,063 | 254 | –8,397 | –8,927 | –6,334 | –8,673 |
| 1992 – I . . . . . . . . . . . | 56,157 | 54,631 | 52,462 | 55,277 | –3,695 | 646 | –7,911 | –5,754 | –11,606 | –5,108 |
| II . . . . . . . . . . | 56,702 | 54,831 | 55,240 | 53,004 | –1,462 | –1,827 | –5,430 | –7,643 | –6,892 | –9,470 |
| III . . . . . . . . . . | 47,191 | 52,387 | 51,309 | 54,707 | 4,118 | 2,320 | –11,796 | –11,908 | –7,678 | –9,588 |
| IV . . . . . . . . . . | 55,698 | 53,899 | 59,790 | 55,813 | 4,092 | 1,914 | –10,650 | –10,482 | –6,558 | –8,568 |

(1) Rounding may cause discrepancies in totals. – (2) New series. – (3) New series for short-term trade credits. – (4) Changes in official reserves are given net of valuation adjustments. A minus

**PAYMENTS ON A TRANSACTIONS BASIS** (1)

| Capital movements | | | | | | Errors and omissions | Changes in official reserves (4) |
|---|---|---|---|---|---|---|---|
| Non-banking | | | | Banking | Capital account balance | | |
| Investment | Lending | Trade and other credits (3) | Total | | | | |
| –1,065 | 3,200 | –1,538 | 597 | 4,994 | 5,591 | 574 | –8,787 |
| –1,026 | 2,410 | –1,031 | 353 | 5,138 | 5,491 | 3,746 | –5,195 |
| –713 | 4,743 | 2,511 | 6,541 | –5,299 | 1,242 | –8,055 | 13,651 |
| –5,542 | 2,842 | –17 | –2,717 | 6,454 | 3,737 | –3,887 | –3,489 |
| –7,277 | 10,957 | 1,950 | 5,630 | 5,573 | 11,203 | –2,362 | –6,775 |
| 2,159 | 8,914 | 356 | 11,429 | 10,224 | 21,653 | –3,124 | –10,906 |
| 4,813 | 18,145 | –3,760 | 19,198 | 14,979 | 34,177 | –3,649 | –15,386 |
| –1,857 | 31,416 | –392 | 29,167 | 22,976 | 52,143 | –19,205 | –15,156 |
| –13,572 | 5,738 | –2,760 | –10,594 | 39,369 | 28,775 | –10,748 | 8,571 |
| –14,807 | 3,194 | –1,908 | –13,521 | 25,303 | 11,782 | –11,596 | 32,548 |
| 749 | 3,163 | 128 | 4,040 | 1,888 | 5,928 | 2,958 | –2,412 |
| –537 | 511 | –461 | –487 | 2,807 | 2,320 | –3,802 | 540 |
| 1,396 | 4,572 | –152 | 5,816 | –1,399 | 4,417 | –1,037 | –3,284 |
| 551 | 668 | 841 | 2,060 | 6,928 | 8,988 | –1,243 | –5,750 |
| –763 | 6,117 | 328 | 5,682 | 11,285 | 16,967 | 1,146 | –6,986 |
| 4,337 | 5,921 | –1,487 | 8,771 | –856 | 7,915 | –1,947 | –4,164 |
| 4,940 | 5,136 | 177 | 10,253 | 2,237 | 12,490 | –4,209 | –8,208 |
| –3,701 | 971 | –2,778 | –5,508 | 2,313 | –3,195 | 1,361 | 3,972 |
| –4,502 | 10,689 | 1,369 | 7,556 | 9,968 | 17,524 | –112 | –5,903 |
| 7,573 | 10,966 | 1,700 | 20,239 | 4,748 | 24,987 | –6,794 | –15,461 |
| –6,055 | 13,259 | –1,801 | 5,403 | –2,790 | 2,613 | –1,169 | –2,143 |
| 1,127 | –3,498 | –1,660 | –4,031 | 11,050 | 7,019 | –11,130 | 8,351 |
| –6,051 | 23,407 | –1,108 | 16,248 | 3,048 | 19,296 | –2,194 | –7,778 |
| –3,279 | –7,212 | 141 | –10,350 | 16,761 | 6,411 | –2,548 | 2,124 |
| –3,933 | –3,890 | –761 | –8,584 | 12,725 | 4,141 | –724 | 1,536 |
| –309 | –6,567 | –1,032 | –7,908 | 6,835 | –1,073 | –5,282 | 12,689 |
| –21,522 | 6,842 | –1,371 | –16,051 | 23,284 | 7,233 | 3,681 | 692 |
| –12,161 | –1,709 | 1,663 | –12,207 | 18,356 | 6,149 | –12,646 | 13,389 |
| –15,714 | 1,191 | –799 | –15,322 | –17,214 | –32,536 | –4,718 | 44,932 |
| 34,590 | –3,130 | –1,401 | 30,059 | 877 | 30,936 | 2,087 | –26,465 |

sign indicates an increase in assets or a decrease in liabilities.

# ITALY'S EXTERNAL POSITION

*(trillions of lire)*

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | **124,867** | **160,241** | **174,577** | **185,223** | **193,644** | **227,232** | **282,239** | **325,345** | **392,377** | **508,609** |
| **Non-bank capital** | **65,241** | **87,621** | **93,341** | **106,689** | **119,205** | **135,745** | **167,769** | **209,639** | **267,631** | **354,368** |
| Investments | 23,063 | 36,863 | 42,749 | 57,273 | 62,115 | 84,679 | 107,533 | 139,477 | 191,099 | 266,080 |
| Direct | 16,608 | 27,868 | 30,221 | 37,806 | 40,549 | 52,780 | 59,122 | 68,018 | 81,034 | 103,455 |
| International organizations | 2,099 | 2,510 | 2,358 | 2,386 | 2,745 | 3,903 | 3,903 | 3,304 | 3,672 | 4,020 |
| Property | 411 | 463 | 501 | 519 | 519 | 685 | 868 | 1,307 | 5,186 | 6,715 |
| Other | 14,098 | 24,895 | 27,362 | 34,901 | 37,285 | 48,192 | 54,351 | 63,407 | 72,176 | 92,720 |
| Portfolio | 6,455 | 8,995 | 12,528 | 19,467 | 21,566 | 31,899 | 48,411 | 71,459 | 110,065 | 162,625 |
| Loans | 7,910 | 10,573 | 12,007 | 12,841 | 14,040 | 8,742 | 14,013 | 18,671 | 24,251 | 32,811 |
| Public | 2,345 | 3,747 | 4,932 | 5,980 | 7,356 | 6,584 | 9,836 | 11,160 | 12,791 | 15,722 |
| Private | 5,565 | 6,826 | 7,075 | 6,861 | 6,684 | 2,158 | 4,177 | 7,511 | 11,460 | 17,089 |
| Trade credits | 34,268 | 40,185 | 38,585 | 36,575 | 43,050 | 42,324 | 46,223 | 51,491 | 52,281 | 55,477 |
| Short-term | 20,664 | 26,246 | 26,168 | 24,011 | 23,645 | 23,779 | 26,777 | 29,795 | 28,785 | 29,544 |
| Medium and long-term | 13,604 | 13,939 | 12,417 | 12,564 | 19,405 | 18,545 | 19,446 | 21,696 | 23,496 | 25,933 |
| **Bank capital** | **59,626** | **72,620** | **81,236** | **78,534** | **74,439** | **91,487** | **114,470** | **115,706** | **124,746** | **154,241** |
| Banks | 59,626 | 72,620 | 81,236 | 78,534 | 74,439 | 83,276 | 105,414 | 104,954 | 111,021 | 136,239 |
| Special credit institutions | – | – | – | – | – | 8,211 | 9,056 | 10,752 | 13,725 | 18,002 |
| **LIABILITIES** | **186,987** | **232,332** | **254,118** | **260,509** | **279,870** | **336,319** | **434,973** | **525,577** | **608,558** | **749,368** |
| **Non-bank capital** | **106,004** | **130,404** | **148,392** | **152,478** | **170,482** | **167,530** | **229,226** | **296,272** | **332,565** | **390,853** |
| Investments | 19,492 | 28,788 | 42,959 | 49,312 | 49,758 | 71,072 | 105,495 | 128,065 | 175,828 | 204,648 |
| Direct | 13,361 | 23,794 | 33,485 | 36,574 | 38,529 | 50,310 | 64,715 | 67,806 | 70,878 | 73,489 |
| International organizations | 1,213 | 1,405 | 1,633 | 1,869 | 1,869 | 2,148 | 1,964 | 2,274 | 2,194 | 2,203 |
| Other | 12,148 | 22,389 | 31,852 | 34,705 | 36,660 | 48,162 | 62,751 | 65,532 | 68,684 | 71,286 |
| Portfolio | 6,131 | 4,994 | 9,474 | 12,738 | 11,229 | 20,762 | 40,780 | 60,259 | 104,950 | 131,159 |
| Loans | 67,223 | 78,600 | 81,340 | 79,972 | 92,855 | 67,386 | 94,100 | 133,700 | 124,200 | 152,380 |
| Public | 32,330 | 41,133 | 47,620 | 48,352 | 56,293 | 40,094 | 47,900 | 53,319 | 29,400 | 37,000 |
| Private | 34,893 | 37,467 | 33,720 | 31,620 | 36,562 | 27,292 | 46,200 | 80,381 | 94,800 | 115,380 |
| Trade credits | 19,289 | 23,016 | 24,093 | 23,194 | 27,869 | 29,072 | 29,631 | 34,507 | 32,537 | 33,825 |
| Short-term | 17,464 | 20,499 | 21,912 | 20,897 | 22,959 | 24,240 | 24,928 | 29,754 | 27,764 | 29,009 |
| Medium and long-term | 1,825 | 2,517 | 2,181 | 2,297 | 4,910 | 4,832 | 4,703 | 4,753 | 4,773 | 4,816 |
| **Bank capital** | **80,983** | **101,928** | **105,726** | **108,031** | **109,388** | **168,789** | **205,747** | **229,305** | **275,993** | **358,515** |
| Banks | 80,983 | 101,928 | 105,726 | 108,031 | 109,388 | 129,445 | 156,952 | 161,605 | 192,009 | 262,810 |
| Special credit institutions | – | – | – | – | – | 39,344 | 48,795 | 67,700 | 83,984 | 95,705 |
| **NET POSITION** (excluding the central bank) | **–62,120** | **–72,091** | **–79,541** | **–75,286** | **–86,226** | **–109,087** | **–152,734** | **–200,232** | **–216,181** | **–240,759** |
| Non-bank capital | –40,763 | –42,783 | –55,051 | –45,789 | –51,277 | –31,785 | –61,457 | –86,633 | –64,934 | –36,485 |
| Bank capital | –21,357 | –29,308 | –24,490 | –29,497 | –34,949 | –77,302 | –91,277 | –113,599 | –151,247 | –204,274 |
| **CENTRAL BANK** | | | | | | | | | | |
| Assets | 78,110 | 83,409 | 66,709 | 62,857 | 75,589 | 84,201 | 94,814 | 104,928 | 95,913 | 76,539 |
| of which: *gold* | *43,399* | *41,887* | *39,530* | *35,203* | *39,812* | *37,242* | *33,663* | *30,579* | *29,288* | *29,944* |
| Liabilities | 2,073 | 1,596 | 1,500 | 1,446 | 1,292 | 1,426 | 1,573 | 1,529 | 1,575 | 9,240 |
| **Net position** | **76,037** | **81,813** | **65,209** | **61,411** | **74,297** | **82,775** | **93,241** | **103,399** | **94,338** | **67,299** |
| **OVERALL NET POSITION (including the central bank)** | **13,917** | **9,722** | **–14,332** | **–13,875** | **–11,929** | **–26,312** | **–59,493** | **–96,833** | **–121,843** | **–173,460** |
| **Excluding central bank gold from the assets** | **–29,482** | **–32,165** | **–53,862** | **–49,078** | **–51,741** | **–63,554** | **–93,156** | **–127,412** | **–151,131** | **–203,404** |

## CONSOLIDATED ACCOUNTS OF THE PUBLIC SECTOR
*(billions of lire)*

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | | | |
| **Current revenue** .......... | **256,646** | **287,501** | **325,147** | **366,673** | **402,318** | **449,663** | **513,179** | **571,387** | **639,789** | **709,169** |
| Direct taxes ............. | 83,918 | 93,347 | 106,324 | 116,439 | 131,679 | 147,328 | 172,585 | 190,080 | 209,139 | 248,615 |
| Indirect taxes ........... | 59,398 | 67,821 | 72,722 | 81,774 | 93,296 | 109,092 | 124,610 | 139,749 | 159,977 | 169,420 |
| Social security contributions | | | | | | | | | | |
| Actual ................. | 79,126 | 86,955 | 97,114 | 111,378 | 120,988 | 133,353 | 149,754 | 168,953 | 187,192 | 200,185 |
| Imputed ............... | 9,712 | 11,567 | 13,116 | 14,120 | 14,773 | 16,028 | 17,718 | 20,356 | 22,812 | 26,173 |
| Income from capital ...... | 3,651 | 4,157 | 5,564 | 6,348 | 5,783 | 5,432 | 5,658 | 5,687 | 6,208 | 6,283 |
| Sales of goods and services | 11,927 | 14,059 | 16,364 | 18,990 | 20,014 | 21,565 | 24,624 | 25,924 | 28,738 | 31,476 |
| Other .................. | 8,914 | 9,595 | 13,943 | 17,624 | 15,785 | 16,865 | 18,230 | 20,638 | 25,723 | 27,017 |
| **Capital account revenue** ... | **913** | **1,309** | **1,400** | **1,604** | **1,377** | **1,575** | **1,843** | **2,148** | **2,319** | **3,102** |
| **Total revenue** ... | **257,559** | **288,810** | **326,547** | **368,277** | **403,695** | **451,238** | **515,022** | **573,535** | **642,108** | **712,271** |
| **EXPENDITURE** | | | | | | | | | | |
| **Current expenditure** ....... | **294,539** | **336,908** | **383,498** | **427,275** | **465,723** | **519,129** | **580,068** | **656,860** | **729,100** | **802,331** |
| Compensation of employees | 88,296 | 99,834 | 111,084 | 121,561 | 135,416 | 151,472 | 162,534 | 188,878 | 205,801 | 216,279 |
| Intermediate consumption . | 32,420 | 38,388 | 45,247 | 49,030 | 54,934 | 61,372 | 64,833 | 70,063 | 75,937 | 82,116 |
| Social services ........... | 109,355 | 121,556 | 139,055 | 154,826 | 170,500 | 189,065 | 209,963 | 238,585 | 261,359 | 288,488 |
| Subsidies to firms ........ | 11,485 | 12,094 | 14,168 | 16,268 | 17,013 | 16,545 | 20,167 | 19,332 | 22,652 | 23,810 |
| Interest payments ........ | 48,029 | 59,340 | 66,348 | 77,500 | 79,299 | 90,117 | 107,899 | 127,436 | 147,365 | 173,394 |
| Other .................. | 4,954 | 5,696 | 7,596 | 8,090 | 8,561 | 10,588 | 14,672 | 12,566 | 15,986 | 18,244 |
| **Capital account expenditure** | **33,316** | **37,682** | **47,773** | **46,212** | **50,141** | **54,142** | **58,955** | **65,565** | **64,294** | **65,622** |
| Gross investment ......... | 27,165 | 31,160 | 34,877 | 37,464 | 41,255 | 44,273 | 47,703 | 50,250 | 52,461 | 55,250 |
| Investment grants ........ | 5,884 | 6,042 | 7,388 | 7,972 | 8,197 | 9,305 | 10,193 | 11,278 | 10,322 | 9,307 |
| Other .................. | 267 | 480 | 5,508 | 776 | 689 | 564 | 1,059 | 4,037 | 1,511 | 1,065 |
| **Total expenditure** .... | **327,855** | **374,590** | **431,271** | **473,487** | **515,864** | **573,271** | **639,023** | **722,425** | **793,394** | **867,953** |
| **Deficit on current account** . | **–37,893** | **–49,407** | **–58,351** | **–60,602** | **–63,405** | **–69,466** | **–66,889** | **–85,473** | **–89,311** | **–93,162** |
| **Total deficit** .... | **–70,296** | **–85,780** | **–104,724** | **–105,210** | **–112,169** | **–122,033** | **–124,001** | **–148,890** | **–151,286** | **–155,682** |

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

Table all

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

*(billions of lire)*

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| Medium and long-term securities (2) | 68,769 | 62,407 | 92,419 | 85,004 | 53,674 | 58,918 | 57,766 | 67,863 | 110,404 | 90,978 |
| of which: *BI-UIC and credit institutions* | *35,732* | *22,421* | *40,992* | *10,268* | *4,818* | *4,579* | *–1,854* | *–10,987* | *28,227* | *59,576* |
| *other holders* | *33,037* | *39,986* | *51,427* | *74,736* | *48,856* | *54,339* | *59,620* | *78,850* | *82,177* | *31,402* |
| Treasury bills, in lire and ecus (2) | 10,961 | 8,890 | 13,140 | 9,771 | 27,724 | 42,667 | 42,739 | 40,331 | 12,151 | 45,843 |
| of which: *BI-UIC and credit institutions* | *–4,845* | *–12,694* | *–3,172* | *5,338* | *–8,868* | *–7,966* | *–2,558* | *9,544* | *–901* | *–13,422* |
| *other holders* | *15,806* | *21,584* | *16,312* | *4,433* | *36,592* | *50,633* | *45,297* | *30,787* | *13,052* | *59,265* |
| Post Office funds | 4,939 | 6,365 | 9,067 | 11,267 | 12,917 | 10,996 | 15,364 | 12,717 | 11,694 | 10,980 |
| Lending by credit institutions (2) | 5,744 | 8,830 | –2,211 | 1,530 | 3,428 | 4,886 | 7,302 | 7,268 | 18,827 | 12,616 |
| *central government bodies* | *–139* | *10* | *–89* | *–198* | *–96* | *1,300* | *1,198* | *1,147* | *1,749* | *1,340* |
| *social security institutions* | *225* | *755* | *–2,203* | *66* | *470* | *545* | *–684* | *3* | *40* | *703* |
| *local authorities* | *3,486* | *6,769* | *281* | *1,013* | *1,429* | *1,028* | *2,991* | *4,104* | *12,123* | *3,399* |
| *autonomous government agencies* | *2,059* | *1,315* | *–307* | *597* | *1,611* | *1,908* | *3,715* | *1,871* | *4,272* | *6,460* |
| *municipal enterprises* | *113* | *–19* | *107* | *52* | *14* | *105* | *82* | *144* | *644* | *714* |
| Other borrowing from BI-UIC | –1,125 | 13,288 | 3,689 | 1,673 | 10,224 | 3,704 | 1,835 | 2,811 | 2,472 | 7,116 |
| Other domestic debt | 209 | 232 | 58 | 24 | 144 | 137 | 101 | 188 | 173 | 263 |
| Foreign debt | 1,298 | 2,353 | 3,031 | 872 | 6,029 | 4,188 | 8,359 | 14,876 | 5,484 | 151 |
| **PUBLIC SECTOR BORROWING REQUIREMENT** | **90,794** | **102,365** | **119,193** | **110,140** | **114,140** | **125,496** | **133,467** | **146,054** | **161,205** | **167,947** |
| *Borrowing requirement net of settlements of past debts* | *90,794* | *102,365* | *112,693* | *109,690* | *113,890* | *125,446* | *132,867* | *143,054* | *157,205* | *167,147* |
| **Financing of ENEL** | **2,138** | **1,765** | **1,115** | **77** | **1,335** | **46** | **2,446** | **1,203** | **2,351** | **690** |
| of which: *bond issues* | *1,081* | *1,045* | *669* | *1,289* | *1,507* | *261* | *1,262* | *90* | *1,316* | *–434* |
| *loans from credit institutions* | *–309* | *1,022* | *182* | *–666* | *–262* | *633* | *1,462* | *1,321* | *1,605* | *1,648* |
| *borrowing abroad* | *1,366* | *–302* | *264* | *–546* | *90* | *–848* | *–278* | *–208* | *–570* | *–524* |
| **BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR** | **92,932** | **104,130** | **120,308** | **110,217** | **115,475** | **125,542** | **135,913** | **147,257** | **163,556** | **168,637** |

(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.

## THE PUBLIC DEBT (1)

*(face value: billions of lire and percentage composition)*

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| | *Amounts outstanding* | | | | | | | | | |
| Medium and long-term securities, excluding BI portfolio (2) .......... | 149,876 | 207,892 | 294,961 | 374,454 | 429,752 | 483,510 | 534,483 | 616,535 | 711,722 | 772,809 |
| *of which: held by credit institutions* | *82,690* | *98,699* | *131,449* | *133,719* | *137,753* | *138,332* | *128,843* | *124,066* | *130,345* | *155,728* |
| Ecu and lira Treasury bills, excluding BI portfolio (2) .................. | 137,772 | 152,691 | 150,814 | 159,187 | 191,427 | 239,318 | 284,821 | 319,111 | 334,914 | 385,957 |
| *of which: held by credit institutions* | *51,544* | *44,879* | *26,689* | *30,624* | *26,271* | *23,579* | *24,003* | *27,342* | *30,137* | *20,999* |
| Post Office funds ................ | 44,261 | 50,626 | 59,693 | 70,960 | 83,877 | 94,873 | 110,237 | 122,954 | 134,648 | 145,628 |
| Lending by credit institutions (2) .... | 29,800 | 38,630 | 36,418 | 37,948 | 41,376 | 45,535 | 52,837 | 60,105 | 78,932 | 91,548 |
| *central government bodies ........* | *2,689* | *2,699* | *2,609* | *2,411* | *2,315* | *3,614* | *4,813* | *5,959* | *7,709* | *9,049* |
| *social security institutions .........* | *1,680* | *2,435* | *232* | *298* | *768* | *1,348* | *664* | *666* | *706* | *1,409* |
| *local authorities ................* | *21,345* | *28,114* | *28,395* | *29,408* | *30,837* | *31,025* | *34,016* | *38,120* | *50,243* | *53,642* |
| *autonomous government agencies .* | *3,570* | *4,885* | *4,578* | *5,175* | *6,785* | *8,694* | *12,409* | *14,280* | *18,552* | *25,011* |
| *municipal enterprises ...........* | *516* | *497* | *605* | *657* | *671* | *853* | *935* | *1,079* | *1,723* | *2,437* |
| Other domestic debt .............. | 2,147 | 2,379 | 2,437 | 2,461 | 2,606 | 2,743 | 2,844 | 3,032 | 3,205 | 3,468 |
| Foreign debt ..................... | 12,545 | 16,408 | 18,435 | 17,619 | 23,536 | 28,763 | 35,116 | 48,756 | 54,797 | 64,719 |
| **Sub-total ...** | **376,401** | **468,626** | **562,758** | **662,629** | **772,574** | **894,741** | **1,020,339** | **1,170,492** | **1,318,218** | **1,464,129** |
| Borrowing from BI-UIC ........... | 79,630 | 92,863 | 120,286 | 130,954 | 137,968 | 140,522 | 147,474 | 147,752 | 166,923 | 209,445 |
| *of which: medium and long-term securities ...........* | *30,393* | *36,367* | *45,083* | *52,681* | *53,975* | *58,104* | *66,203* | *57,462* | *77,854* | *117,535* |
| *Ecu and lira Treasury bills* | *12,670* | *6,641* | *21,658* | *23,056* | *18,551* | *13,273* | *10,291* | *16,498* | *12,805* | *8,530* |
| *overdraft on BI account ..* | *23,288* | *41,842* | *48,182* | *52,707* | *61,981* | *66,312* | *68,154* | *71,063* | *73,074* | *80,780* |
| *other .................* | *13,280* | *8,013* | *5,363* | *2,511* | *3,461* | *2,834* | *2,826* | *2,729* | *3,190* | *2,600* |
| **Total ...** | **456,031** | **561,489** | **683,044** | **793,583** | **910,542** | **1,035,263** | **1,167,813** | **1,318,244** | **1,485,141** | **1,673,574** |
| *of which: general government ....* | *443,260* | *545,906* | *666,890* | *776,285* | *890,085* | *1,011,047* | *1,140,420* | *1,283,301* | *1,446,806* | *1,628,399* |
| | *Percentage composition* | | | | | | | | | |
| Medium and long-term securities, excluding BI portfolio ........... | 32.9 | 37.0 | 43.2 | 47.2 | 47.2 | 46.7 | 45.8 | 46.8 | 47.9 | 46.2 |
| Ecu and lira Treasury bills, excluding BI portfolio .................... | 30.2 | 27.2 | 22.1 | 20.1 | 21.0 | 23.1 | 24.4 | 24.2 | 22.6 | 23.0 |
| Post Office funds ................ | 9.7 | 9.0 | 8.7 | 8.9 | 9.2 | 9.1 | 9.4 | 9.3 | 9.1 | 8.7 |
| Lending by credit institutions ....... | 6.5 | 6.9 | 5.3 | 4.8 | 4.5 | 4.4 | 4.5 | 4.6 | 5.3 | 5.5 |
| Other domestic debt .............. | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 |
| Foreign debt ..................... | 2.7 | 2.9 | 2.7 | 2.2 | 2.6 | 2.8 | 3.0 | 3.7 | 3.7 | 3.9 |
| Borrowing from BI-UIC ........... | 17.5 | 16.6 | 17.6 | 16.5 | 15.2 | 13.6 | 12.6 | 11.2 | 11.2 | 12.5 |

(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.

## STATE SECTOR REVENUE, EXPENDITURE AND BORROWING REQUIREMENT

*(billions of lire)*

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|---|---|---|---|---|
| **REVENUE** | | | | | | | | | | |
| **Direct taxes** | **78,244** | **86,689** | **98,807** | **111,606** | **124,686** | **139,997** | **160,474** | **178,985** | **196,515** | **234,798** |
| *of which: personal income tax* | *46,546* | *51,072* | *61,852* | *66,746* | *74,091* | *87,619* | *95,918* | *108,299* | *119,089* | *131,811* |
| *corporate income tax* | *5,457* | *8,117* | *9,173* | *12,090* | *15,018* | *13,495* | *16,966* | *17,216* | *16,884* | *17,678* |
| *local income tax* | *7,635* | *8,027* | *10,555* | *13,800* | *16,618* | *16,633* | *20,146* | *21,625* | *20,060* | *18,244* |
| *withholding tax on interest income* | *10,642* | *15,618* | *13,910* | *15,729* | *15,679* | *18,197* | *22,719* | *27,710* | *31,059* | *35,902* |
| **Indirect taxes** | **65,725** | **74,326** | **79,291** | **90,902** | **100,536** | **117,852** | **133,674** | **151,765** | **170,648** | **185,343** |
| *of which: value added tax* | *36,081* | *41,882* | *44,912* | *48,050* | *52,963* | *62,020* | *71,796* | *79,051* | *88,847* | *89,799* |
| *other business taxes (stamp duties, duties on government concessions, etc.)* | *9,504* | *11,065* | *12,544* | *14,484* | *16,163* | *20,304* | *21,432* | *24,782* | *26,440* | *31,315* |
| *excise duty on oil products* | *11,585* | *13,014* | *13,653* | *19,198* | *21,796* | *24,359* | *25,904* | *30,840* | *33,680* | *37,188* |
| *excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)* | *1,295* | *1,315* | *1,177* | *1,308* | *1,373* | *1,886* | *3,316* | *5,053* | *7,840* | *9,352* |
| *tax on tobacco consumption* | *3,732* | *4,134* | *4,399* | *5,127* | *5,095* | *5,507* | *5,841* | *6,127* | *6,390* | *6,531* |
| **Total net tax revenue** | **143,969** | **161,015** | **178,098** | **202,508** | **225,222** | **257,849** | **294,148** | **330,750** | **367,163** | **420,141** |
| EC levies | 4,111 | 4,539 | 4,895 | 6,992 | 7,819 | 8,634 | 8,829 | 9,476 | 10,550 | 11,344 |
| Sales of goods and services (1) | 9,932 | 11,920 | 14,478 | 15,611 | 16,694 | 15,941 | 18,311 | 21,369 | 23,413 | 24,985 |
| | .... | .... | .... | .... | .... | .... | *9.029* | *10.932* | *12.133* | *12.986* |
| Health care and other social security contributions | 19,256 | 24,245 | 28,448 | 33,067 | 33,648 | 38,219 | 47,746 | 53,403 | 61,198 | 57,635 |
| Other income (1) | 9,253 | 10,262 | 12,801 | 17,669 | 15,697 | 15,793 | 16,694 | 16,633 | 20,751 | 21,421 |
| | .... | .... | .... | .... | .... | .... | *16.333* | *16.827* | *20.236* | *20.641* |
| **Total net receipts** (1) | **186,521** | **211,981** | **238,720** | **275,847** | **299,080** | **336,436** | **385,728** | **431,631** | **483,075** | **535,526** |
| | .... | .... | .... | .... | .... | .... | *376.085* | *421.388* | *471.280* | *522.747* |

| | 1988 | 1989 | | 1990 | | 1991 | | 1992 | |
|---|---|---|---|---|---|---|---|---|---|
| | | (2) | (3) | (2) | (3) | (2) | (3) | (2) | (3) |
| **EXPENDITURE** | | | | | | | | | |
| Wages and salaries | 76,901 | 82,288 | 73,984 | 94,558 | 86,098 | 101,813 | 92,432 | 106,205 | 96,493 |
| Pensions | 20,983 | 23,547 | 20,039 | 26,929 | 23,254 | 30,133 | 26,213 | 34,532 | 30,121 |
| Purchases of goods and services | 26,471 | 27,790 | 21,368 | 27,653 | 20,599 | 29,765 | 22,423 | 31,766 | 23,753 |
| Interest payments | 87,796 | 105,610 | 103,089 | 125,917 | 123,133 | 144,919 | 141,178 | 171,306 | 167,445 |
| Direct investment | 16,345 | 17,800 | 11,024 | 19,160 | 13,070 | 19,774 | 14,458 | 23,538 | 13,645 |
| Loans and shareholdings (net) | 11,852 | 14,148 | 13,915 | 11,784 | 11,477 | 7,540 | 7,402 | 8,374 | 8,247 |
| *of which: local authorities* | 8,507 | 10,578 | 10,578 | 10,696 | 10,696 | 4,820 | 4,820 | 3,507 | 3,507 |
| *financial institutions* | 2,536 | 2,730 | 2,730 | 1,803 | 1,803 | 2,103 | 2,103 | 1,617 | 1,617 |
| *public enterprises* | 257 | 257 | 257 | 125 | 125 | 635 | 635 | 650 | 650 |
| Disbursements to: regions | 80,044 | 90,274 | 90,274 | 94,096 | 94,096 | 113,174 | 113,174 | 120,663 | 120,663 |
| *of which: health care (on current account)* | 54,315 | 61,146 | 61,146 | 65,712 | 65,712 | 81,320 | 81,320 | 83,028 | 83,028 |
| provinces and communes | 34,971 | 36,210 | 36,210 | 38,719 | 38,719 | 43,441 | 43,441 | 40,460 | 40,460 |
| social security institutions | 42,648 | 53,878 | 53,592 | 62,593 | 62,302 | 67,055 | 66,749 | 73,821 | 73,237 |
| State Railways, Monopolies, and Telephone Company | – | – | 15,062 | – | 11,115 | – | 15,515 | – | 19,889 |
| enterprises | 18,554 | 19,359 | 19,346 | 18,641 | 18,632 | 20,977 | 20,967 | 23,281 | 23,268 |
| households | 11,740 | 13,734 | 13,724 | 15,164 | 15,154 | 14,740 | 14,725 | 17,286 | 17,266 |
| other | 16,414 | 16,767 | 16,763 | 16,984 | 16,983 | 20,127 | 20,122 | 21,822 | 21,813 |
| Other expenditure | 16,628 | 17,723 | 17,403 | 20,059 | 19,633 | 21,961 | 21,929 | 25,606 | 25,464 |
| **Total expenditure** | **461,347** | **519,128** | **505,793** | **572,257** | **554,265** | **635,419** | **620,728** | **698,660** | **681,764** |
| **BORROWING REQUIREMENT** | **–124,911** | **–133,400** | **–129,708** | **–140,626** | **–132,877** | **–152,344** | **–149,448** | **–163,134** | **–159,017** |

Source: Based on data from *Relazione generale sulla situazione economica del paese* and *Rendiconto generale dell'amministrazione dello Stato.*
(1) Figures in italics exclude the State Railways, Monopolies and Telephone Company. – (2) On the basis of the traditional definition of the state sector. – (3) On the basis of the new definition of the state sector, which excludes the State Railways, Monopolies and Telephone Company.

## SOURCES AND USES OF MONETARY BASE (1)
(changes in billions of lire)

| | Sources: Foreign sector | Sources: of which: currency swaps | Sources: Treasury: Current account with the Bank of Italy | Sources: Treasury: Net subscriptions of government securities at issue | Sources: Treasury: Other (2) | Sources: Treasury: Total | Sources: Open market operations (3) | Sources: Refinancing | Sources: Other sectors (4) | Total monetary base (4) | Uses: Currency | Uses: Bank reserves: Deposits with BI (4) (5) | Uses: Bank reserves: Deposits with BI: of which: comp. res. (6) | Uses: Bank reserves: Other (7) | Uses: Bank reserves: Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1983 ...... | 8,840 | – | –8,622 | 27,166 | 7,579 | 26,123 | –21,609 | –3 | –747 | 12,604 | 4,079 | 8,370 | 9,092 | 155 | 8,525 |
| 1984 ...... | 5,141 | – | 18,555 | 1,644 | –5,159 | 15,039 | –5,012 | –218 | –1,104 | 13,846 | 3,851 | 8,930 | 8,855 | 1,065 | 9,995 |
| 1985 ...... | –13,677 | – | 6,340 | 25,269 | –2,611 | 28,999 | –1,480 | 5,880 | –646 | 19,076 | 4,004 | 14,832 | 12,213 | 239 | 15,072 |
| 1986 ...... | 3,543 | – | 4,525 | 11,129 | –2,837 | 12,817 | –1,823 | –4,334 | –1,004 | 9,199 | 3,140 | 6,686 | 9,022 | –626 | 6,060 |
| 1987 ...... | 6,756 | – | 9,274 | 12,851 | 1,050 | 23,176 | –14,004 | –729 | –1,252 | 13,947 | 4,382 | 8,956 | 8,740 | 608 | 9,565 |
| 1988 ...... | 10,947 | – | 4,331 | 9,572 | –555 | 13,349 | –10,601 | –30 | –709 | 12,956 | 4,449 | 8,770 | 9,444 | –264 | 8,507 |
| 1989 ...... | 14,971 | – | 1,842 | 6,551 | 57 | 8,450 | –2,106 | 1,203 | –2,042 | 20,475 | 10,477 | 9,746 | 9,567 | 252 | 9,998 |
| 1990 ...... | 15,458 | – | 2,909 | –4,283 | –9 | –1,384 | 2,392 | 1,260 | –4,027 | 13,700 | 1,805 | 10,745 | 13,026 | 1,150 | 11,895 |
| 1991 ...... | –8,674 | – | 2,010 | –12,028 | 560 | –9,458 | 27,173 | 2,664 | –583 | 11,121 | 6,906 | 3,645 | 3,424 | 570 | 4,215 |
| 1992 ...... | –32,591 | 29,249 | 7,706 | –9,914 | –488 | –2,696 | 42,781 | 122 | 858 | 8,473 | 9,263 | 113 | 1,012 | –902 | –789 |
| 1991 – Jan. | –837 | – | 777 | –3,063 | 77 | –2,209 | 5,148 | –2,612 | –20 | –529 | –3,396 | 4,801 | 2,847 | –1,934 | 2,867 |
| Feb. | 2,397 | – | –7,581 | 14 | –321 | –7,888 | 6,408 | 2,924 | –788 | 3,052 | 251 | 3,351 | 4,920 | –550 | 2,801 |
| Mar. | 5,994 | – | 5,405 | –1,608 | 784 | 4,580 | –4,098 | –3,049 | –1,280 | 2,147 | 2,468 | –2,713 | –3,270 | 2,392 | –321 |
| Apr. | –600 | – | 5,126 | –1,277 | –158 | 3,691 | –5,396 | 37 | –987 | –3,254 | –2,761 | –1,253 | –1,594 | 760 | –493 |
| May | –1,225 | – | 4,189 | –864 | –1,397 | 1,928 | –191 | 102 | 154 | 768 | 467 | 894 | –319 | –594 | 300 |
| June | –131 | – | –16,802 | –2,614 | 855 | –18,562 | 7,820 | 297 | 2,975 | –7,601 | 2,417 | –8,427 | –4,858 | –1,590 | –10,018 |
| July | –802 | – | 3,733 | 890 | –208 | 4,416 | 2,094 | 1,024 | –293 | 6,439 | 2,075 | 3,064 | –1,286 | 1,299 | 4,364 |
| Aug. | –1,085 | – | –347 | –2,186 | 145 | –2,388 | 2,217 | –1,597 | –360 | –3,212 | –2,263 | 321 | 2,140 | –1,270 | –949 |
| Sept. | 331 | – | 7,830 | –1,096 | –178 | 6,556 | –6,401 | –856 | –1,698 | –2,068 | 395 | –2,855 | –1,089 | 392 | –2,463 |
| Oct. | –1,150 | – | 4,699 | –158 | 485 | 5,027 | 2,226 | 7 | –1,384 | 4,726 | –69 | 4,221 | 1,604 | 574 | 4,795 |
| Nov. | –3,826 | – | –3,018 | 1,002 | 13 | –2,003 | 7,829 | 952 | 371 | 3,322 | 1,904 | 2,897 | 2,836 | –1,478 | 1,418 |
| Dec. | –7,740 | – | –2,001 | –1,068 | 463 | –2,607 | 9,516 | 5,435 | 2,727 | 7,331 | 5,417 | –654 | 1,494 | 2,568 | 1,914 |
| 1992 – Jan. | –613 | – | –4,197 | –697 | –620 | –5,513 | 6,786 | –5,938 | –728 | –6,007 | –4,222 | 907 | 1,857 | –2,691 | –1,784 |
| Feb. | 751 | – | –2,121 | –2,698 | –53 | –4,872 | 11,886 | –510 | –580 | 6,677 | –480 | 7,326 | 6,388 | –170 | 7,156 |
| Mar. | –868 | – | 5,366 | –1,354 | 882 | 4,894 | –10,777 | –137 | –2,301 | –9,190 | 677 | –10,470 | –8,364 | 604 | –9,867 |
| Apr. | –4,515 | – | 15,970 | –1,154 | –1,116 | 13,700 | –7,062 | –204 | –751 | 1,167 | 964 | 581 | –1,318 | –379 | 203 |
| May | –1,055 | – | –6,955 | –2,245 | –474 | –9,674 | 13,653 | 730 | 434 | 4,088 | 1,354 | 2,887 | 3,585 | –153 | 2,734 |
| June | –7,800 | – | –21,791 | –601 | 994 | –21,398 | 15,262 | 10,903 | 3,939 | 906 | –968 | 1,320 | 282 | 554 | 1,874 |
| July | –10,492 | – | 9,285 | –296 | 26 | 9,016 | 6,671 | 2,941 | –1,474 | 6,661 | 5,536 | 1,577 | –926 | –452 | 1,125 |
| Aug. | –4,516 | – | 93 | –178 | 196 | 111 | –13,466 | 9,136 | –708 | –9,444 | –3,500 | –6,466 | –713 | 522 | –5,943 |
| Sept. | –29,884 | – | 17,512 | –133 | –246 | 17,132 | 14,350 | 388 | –480 | 1,507 | 2,721 | –931 | –4,642 | –283 | –1,214 |
| Oct. | 10,064 | 13,072 | 645 | –236 | 492 | 900 | 6,180 | –16,385 | 305 | 1,064 | 299 | 781 | 1,130 | –17 | 764 |
| Nov. | 3,425 | 3,438 | 5,814 | –428 | –436 | 4,949 | 7,105 | –7,751 | –163 | 7,565 | 1,245 | 3,837 | 4,670 | 2,482 | 6,320 |
| Dec. | 12,912 | 12,738 | –11,914 | 106 | –133 | –11,941 | –7,807 | 6,950 | 3,365 | 3,479 | 5,636 | –1,237 | –937 | –920 | –2,157 |

(1) Rounding may cause discrepancies in totals. – (2) State notes and coins, PO instruments for encashment, rediscounted compulsory stockpiling bills, sundry services on behalf of the state, other BI-UIC financing less banknotes held by the Treasury. – (3) Excludes securities purchased with advances under the Ministerial Decree of 27.9.1974. – (4) The series has been adjusted for the growth in bank funds with the Bank of Italy attributable to the procedures for recording monthly stock exchange settlements. – (5) Until September 1990 includes banks' compulsory and free deposits, non-interest-bearing deposits against excess lending (until August 1988) and backing for cashiers. From October 1990 onward includes the balance on reserve accounts, banks' compulsory reserves against net foreign currency deposit (until May 1991), the deposits of banks not subject to the reserve requirement and backing for cashiers' cheques. – (6) From October 1990 onwards average reserve requirement in the maintenance period (15th of the month indicated. – 14th of the following month) and, until May 1991, compulsory reserves against net foreign currency deposits. – (7) 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 (2) | of which: compulsory reserve (3) | Lending | Securities | Bad debts & protested bills | Shares & equity partecipa-tions | Interbank accounts (4) | Accounts with special credit institutions (4) | of which: savings certificates | External assets |
| 1983 – Dec. ...... | 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 | 8,521 | 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 – " ....... | 116,814 | 111,361 | 427,183 | 200,395 | 26,166 | 19,600 | 104,171 | 10,420 | 2,911 | 100,608 |
| 1990 – " ....... | 128,781 | 124,310 | 495,922 | 191,051 | 28,267 | 21,484 | 82,414 | 9,327 | 2,159 | 103,099 |
| 1991 – Jan. ....... | 131,411 | 127,168 | 489,750 | 158,285 | 28,798 | 21,190 | 59,418 | 8,054 | 2,121 | 98,091 |
| Feb. ...... | 134,339 | 131,986 | 487,993 | 148,607 | 29,072 | 21,388 | 59,078 | 7,654 | 2,147 | 98,493 |
| Mar. ....... | 133,983 | 128,756 | 486,099 | 152,406 | 29,329 | 20,569 | 59,016 | 8,484 | 2,346 | 106,278 |
| Apr. ....... | 133,485 | 127,221 | 493,553 | 155,648 | 29,642 | 20,845 | 55,951 | 8,408 | 2,285 | 97,537 |
| May ....... | 133,653 | 126,858 | 501,091 | 157,369 | 29,953 | 21,350 | 62,712 | 8,269 | 2,292 | 100,809 |
| June ....... | 123,864 | 122,010 | 515,554 | 163,235 | 30,090 | 21,573 | 58,214 | 9,653 | 2,292 | 105,451 |
| July ....... | 128,150 | 120,754 | 533,150 | 153,509 | 31,106 | 22,437 | 52,756 | 8,391 | 2,184 | 99,105 |
| Aug. ...... | 127,138 | 123,014 | 521,585 | 157,620 | 31,828 | 22,100 | 53,597 | 7,341 | 2,180 | 95,977 |
| Sept. ...... | 124,728 | 121,804 | 524,411 | 170,517 | 32,892 | 22,664 | 64,787 | 7,826 | 2,255 | 99,817 |
| Oct. ....... | 129,492 | 123,420 | 534,208 | 173,762 | 33,620 | 22,897 | 65,958 | 8,189 | 2,303 | 100,268 |
| Nov. ...... | 130,896 | 126,240 | 539,349 | 174,842 | 33,728 | 23,332 | 66,713 | 10,114 | 2,924 | 103,813 |
| Dec. ...... | 132,952 | 127,762 | 569,693 | 196,776 | 32,613 | 32,121 | 82,428 | 10,890 | 3,048 | 106,560 |
| 1992 – Jan. ....... | 131,038 | 129,593 | 568,981 | 156,944 | 33,093 | 31,046 | 56,627 | 10,292 | 2,934 | 98,451 |
| Feb. ...... | 138,167 | 135,915 | 568,868 | 151,244 | 33,407 | 31,157 | 66,150 | 10,027 | 2,913 | 91,781 |
| Mar. ....... | 128,376 | 127,598 | 572,371 | 182,803 | 33,829 | 31,121 | 77,699 | 10,961 | 2,961 | 96,217 |
| Apr. ....... | 128,537 | 126,283 | 576,898 | 197,945 | 34,241 | 31,181 | 85,994 | 11,250 | 2,623 | 94,433 |
| May ....... | 131,296 | 129,860 | 573,193 | 200,135 | 34,624 | 33,061 | 88,384 | 11,905 | 2,780 | 95,237 |
| June ...... | 133,145 | 130,132 | 592,937 | 205,395 | 34,617 | 32,665 | 91,431 | 13,132 | 2,661 | 94,946 |
| July ....... | 134,216 | 129,199 | 603,000 | 182,648 | 35,321 | 33,891 | 89,001 | 13,417 | 2,913 | 91,961 |
| Aug. ...... | 128,361 | 128,503 | 591,141 | 191,728 | 35,793 | 34,457 | 83,963 | 13,203 | 3,116 | 87,906 |
| Sept. ...... | 127,090 | 123,889 | 606,941 | 195,573 | 36,603 | 35,800 | 95,439 | 14,486 | 3,251 | 111,722 |
| Oct. ....... | 127,803 | 125,007 | 604,300 | 182,977 | 37,288 | 35,736 | 97,945 | 15,355 | 2,991 | 112,239 |
| Nov. ...... | 134,163 | 129,651 | 607,285 | 175,354 | 37,962 | 36,381 | 112,839 | 15,451 | 2,990 | 116,769 |
| Dec. ...... | 132,003 | 128,728 | 637,814 | 211,787 | 37,431 | 36,290 | 136,229 | 19,092 | 3,222 | 122,534 |
| 1993 – Jan. ....... | 134,284 | 130,773 | 636,782 | 169,299 | 38,391 | 35,768 | 108,984 | 17,544 | 2,960 | 106,899 |
| Feb. ...... | 115,818 | 111,295 | 637,859 | 185,150 | 39,047 | 35,865 | 112,658 | 17,343 | 2,408 | 124,832 |
| Mar. ....... | 104,521 | 100,428 | 634,630 | 213,589 | 39,946 | 35,785 | 115,941 | 16,089 | 2,479 | 127,233 |
| Apr. (8) .... | 106,942 | 100,598 | 632,530 | 216,789 | .... | .... | .... | .... | .... | .... |

(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) Own funds plus sundry provisions: loans loss establishments. – (8) Provisional.

**AND LIABILITIES** (1)
*of lire)*

| Liabilities | | | | | | | | | Memorandum | |
|---|---|---|---|---|---|---|---|---|---|---|
| Deposits | Other domestic funds (5) | Lending by BI-UIC (6) | Interbank accounts (4) | Accounts with special credit institutions (4) | Funds raised abroad | of which: non-residents' deposits | Equity capital (7) | Other items | Loan guarantees | |
| 368,389 | 3,588 | 6,351 | 87,760 | 5,301 | 77,122 | 3,272 | 36,789 | 549 | 54,181 | ..... Dec. – 1983 |
| 411,862 | 4,968 | 2,866 | 95,624 | 4,623 | 100,149 | 3,985 | 44,295 | 7,364 | 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 |
| 625,348 | 4,442 | 6,298 | 119,609 | 6,337 | 152,955 | 11,089 | 87,468 | 2,900 | 118,901 | ..... " – 1989 |
| 686,279 | 5,821 | 7,563 | 89,751 | 7,141 | 158,081 | 15,286 | 95,695 | 10,014 | 135,335 | ..... " – 1990 |
| 651,555 | 6,180 | 4,928 | 65,023 | 7,030 | 154,082 | 14,477 | 107,155 | –956 | 135,527 | ..... Jan. – 1991 |
| 645,493 | 6,041 | 7,854 | 62,968 | 6,604 | 153,542 | 14,052 | 106,285 | –2,163 | 132,433 | ..... Feb. |
| 649,293 | 6,165 | 4,812 | 65,193 | 7,433 | 159,075 | 15,749 | 107,661 | –3,468 | 132,880 | ..... Mar. |
| 654,699 | 5,873 | 4,854 | 60,626 | 6,271 | 152,083 | 15,612 | 108,032 | 2,631 | 133,804 | ..... Apr. |
| 646,501 | 5,618 | 4,959 | 67,156 | 4,222 | 161,650 | 15,667 | 107,904 | 17,196 | 131,777 | ..... May |
| 662,288 | 5,564 | 5,262 | 65,818 | 5,807 | 175,485 | 16,435 | 108,144 | –734 | 131,715 | ..... June |
| 657,645 | 5,809 | 6,283 | 59,125 | 5,462 | 175,407 | 17,589 | 110,353 | 8,520 | 132,063 | ..... July |
| 653,919 | 6,132 | 4,652 | 59,419 | 5,740 | 175,740 | 17,924 | 109,787 | 1,797 | 131,900 | ..... Aug. |
| 669,422 | 6,351 | 3,815 | 70,064 | 6,591 | 177,029 | 17,036 | 109,772 | 4,598 | 130,680 | ..... Sept. |
| 675,988 | 6,466 | 2,366 | 70,620 | 5,457 | 180,753 | 18,010 | 110,241 | 16,503 | 132,108 | ..... Oct. |
| 675,888 | 6,821 | 3,340 | 71,047 | 6,259 | 186,883 | 17,448 | 110,288 | 22,261 | 131,803 | ..... Nov. |
| 748,800 | 7,024 | 8,826 | 88,022 | 7,780 | 187,942 | 18,389 | 126,499 | –10,860 | 129,719 | ..... Dec. |
| 698,558 | 7,703 | 2,822 | 62,465 | 7,790 | 186,786 | 18,634 | 140,925 | –20,577 | 132,795 | ..... Jan. – 1992 |
| 696,763 | 7,574 | 2,311 | 72,090 | 7,994 | 188,574 | 19,992 | 143,439 | –27,944 | 135,466 | ..... Feb. |
| 708,798 | 7,603 | 2,179 | 82,690 | 7,695 | 204,532 | 21,457 | 145,858 | –25,978 | 136,495 | ..... Mar. |
| 714,012 | 7,643 | 2,008 | 92,577 | 6,131 | 209,672 | 20,892 | 146,598 | –18,162 | 138,439 | ..... Apr. |
| 714,561 | 7,581 | 2,701 | 95,547 | 5,842 | 213,060 | 20,282 | 148,051 | –19,508 | 138,602 | ..... May |
| 722,569 | 7,851 | 13,608 | 98,370 | 7,341 | 218,115 | 20,735 | 148,798 | –18,384 | 136,959 | ..... June |
| 697,692 | 9,594 | 16,549 | 96,157 | 7,332 | 218,411 | 19,396 | 149,986 | –12,266 | 135,494 | ..... July |
| 689,740 | 9,898 | 25,679 | 89,872 | 6,219 | 213,915 | 17,628 | 150,970 | –19,741 | 135,207 | ..... Aug. |
| 709,697 | 14,326 | 26,045 | 101,633 | 6,482 | 233,944 | 17,067 | 152,020 | –20,493 | 139,260 | ..... Sept. |
| 712,324 | 13,522 | 9,672 | 102,326 | 5,505 | 232,954 | 17,980 | 152,671 | –15,331 | 140,637 | ..... Oct. |
| 708,851 | 13,099 | 1,919 | 116,644 | 5,976 | 238,075 | 19,097 | 153,333 | –1,693 | 142,944 | ..... Nov. |
| 775,946 | 12,887 | 8,870 | 141,229 | 7,476 | 253,805 | 21,190 | 153,534 | –20,567 | 141,854 | ..... Dec. |
| 735,944 | 14,525 | 1,899 | 113,517 | 7,620 | 238,441 | 19,873 | 166,022 | –30,017 | 143,310 | ..... Jan. – 1993 |
| 737,997 | 14,746 | 1,921 | 119,652 | 7,581 | 248,778 | 19,408 | 165,312 | –27,415 | 145,049 | ..... Feb. |
| 749,167 | 15,203 | 1,963 | 121,704 | 6,033 | 256,133 | 21,030 | 163,326 | –25,795 | 148,640 | ..... Mar. |
| 751,467 | .... | 1,907 | .... | .... | .... | .... | .... | .... | .... | .. (8) Apr. |

cheques. Based in part on Bank of Italy accounting data. – (3) From October 1990 based on Bank of Italy accounting data. – (4) Correspondent accounts are stated as liquidity balances. –
provisions, provisions under Law 787/1978, Article 3, and unearmarked general provisions. From December 1991 onwards, includes the subordinated debt of domestic and foreign

## BANKS' PROFIT AND LOSS ACCOUNTS
*(in billions*

| | Interest received | | | | | Interest paid | | | | Net interest income (a) | Non-interest income (b) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | | | of which: securities transactions |
| | | | | | | | | | | | | *Limited company* |
| 1988 . . . | 5,090 | 35,369 | 18,039 | 4,260 | 7,407 | 29,236 | 244 | 4,944 | 7,283 | 28,458 | 10,937 | 5,451 |
| 1989 . . . | 5,299 | 42,609 | 17,247 | 4,719 | 11,426 | 33,364 | 219 | 5,086 | 11,150 | 31,480 | 10,834 | 4,801 |
| 1990 . . . | 6,262 | 49,018 | 16,546 | 4,700 | 13,662 | 36,564 | 230 | 5,014 | 12,839 | 35,541 | 12,671 | 6,786 |
| 1991 . . . | 6,821 | 55,712 | 15,465 | 4,360 | 13,985 | 39,145 | 243 | 4,392 | 13,780 | 38,783 | 13,633 | 7,030 |
| 1992 (3) | 7,167 | 69,175 | 17,374 | 6,859 | 16,288 | 45,430 | 974 | 7,152 | 16,903 | 46,405 | 11,204 | 5,209 |
| | | | | | | | | | | | | *Cooperative* |
| 1988 . . . | 1,025 | 7,321 | 3,203 | 1,270 | 842 | 6,190 | 19 | 537 | 770 | 6,144 | 1,507 | 599 |
| 1989 . . . | 1,135 | 8,832 | 3,100 | 1,295 | 1,133 | 6,934 | 21 | 651 | 1,066 | 6,822 | 1,805 | 859 |
| 1990 . . . | 1,310 | 10,321 | 3,227 | 1,246 | 1,467 | 7,766 | 20 | 757 | 1,281 | 7,747 | 1,998 | 938 |
| 1991 . . . | 1,396 | 11,612 | 3,187 | 1,113 | 1,552 | 8,393 | 22 | 688 | 1,404 | 8,353 | 2,386 | 1,185 |
| 1992 (3) | 1,594 | 14,833 | 3,688 | 1,452 | 2,080 | 10,124 | 60 | 1,195 | 2,039 | 10,229 | 2,261 | 939 |
| | | | | | | | | | | | | *Main rural* |
| 1988 . . . | 3 | 213 | 185 | 48 | . . | 249 | . . | 5 | . . | 195 | 31 | 13 |
| 1989 . . . | 5 | 255 | 191 | 67 | 3 | 274 | . . | 6 | 2 | 239 | 32 | 16 |
| 1990 . . . | 7 | 297 | 202 | 69 | 5 | 298 | . . | 6 | 3 | 272 | 50 | 34 |
| 1991 . . . | 10 | 361 | 211 | 78 | 7 | 333 | . . | 6 | 5 | 322 | 72 | 50 |
| 1992 (3) | 13 | 456 | 232 | 87 | 9 | 398 | . . | 8 | 7 | 383 | 68 | 42 |
| | | | | | | | | | | | | *Central credit* |
| 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 | 371 | 108 | 33 |
| 1990 . . . | 14 | 572 | 749 | 954 | 193 | 43 | 11 | 1,718 | 209 | 500 | 177 | 83 |
| 1991 . . . | 17 | 557 | 815 | 752 | 218 | 44 | 11 | 1,511 | 268 | 525 | 199 | 74 |
| 1992 (3) | 17 | 578 | 792 | 865 | 360 | 63 | 63 | 1,490 | 466 | 529 | 91 | 14 |
| | | | | | | | | | | | | *Private sector* |
| *1988 . . .* | *1,505* | *11,362* | *4,655* | *1,378* | *2,008* | *8,566* | *42* | *1,880* | *2,081* | *8,337* | *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 . . .* | *1,890* | *15,463* | *4,020* | *1,372* | *3,143* | *10,559* | *43* | *1,776* | *3,072* | *10,439* | *3,584* | *2,186* |
| *1991 . . .* | *2,107* | *18,021* | *4,361* | *1,262* | *3,141* | *11,939* | *56* | *1,506* | *3,208* | *12,182* | *3,983* | *2,310* |
| *1992 (3)* | *1,859* | *18,340* | *4,464* | *2,197* | *3,997* | *11,394* | *339* | *2,272* | *4,530* | *12,321* | *2,631* | *2,024* |
| | | | | | | | | | | | | *Branches of* |
| *1988 . . .* | *16* | *827* | *273* | *145* | *612* | *61* | *. .* | *885* | *725* | *202* | *153* | *20* |
| *1989 . . .* | *17* | *541* | *263* | *193* | *651* | *61* | *1* | *620* | *815* | *169* | *122* | *40* |
| *1990 . . .* | *22* | *666* | *262* | *91* | *632* | *49* | *1* | *660* | *775* | *189* | *229* | *355* |
| *1991 . . .* | *27* | *561* | *411* | *99* | *440* | *47* | *2* | *508* | *724* | *256* | *166* | *160* |
| *1992 (3)* | *30* | *1,040* | *654* | *756* | *1,041* | *147* | *154* | *719* | *1,542* | *959* | *–335* | *594* |

(1) Rounding may cause discrepancies in totals. – (2) The classification adopted is different from that used in previous years. Branches of foreign banks are a subdivision of private sector banks,

**BY CATEGORY OF BANK** (1) (2)
*of lire)*

| of which: other services | Gross income (c)= (a)+(b) | Operating expenses (d) | of which: staff costs | Net income (e)=(c)-(d) | Allocations to provisions (net) (f) | of which: for loan losses | Extraordinary income (g) | Taxes (h) | Net profit (e)-(f)+ (g)-(h) | Total resources | Number of staff | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *banks* | | | | | | | | | | | | |
| 4,842 | 39,395 | 25,733 | 17,644 | 13,662 | 6,255 | 3,448 | 178 | 3,499 | 4,086 | 805,440 | 270,699 | ... 1988 |
| 5,405 | 42,315 | 28,231 | 19,136 | 14,084 | 6,102 | 3,854 | –356 | 3,973 | 3,652 | 902,372 | 267,051 | ... 1989 |
| 5,148 | 48,212 | 31,459 | 21,149 | 16,753 | 6,935 | 4,687 | –203 | 4,121 | 5,493 | 982,430 | 271,088 | ... 1990 |
| 5,752 | 52,416 | 35,551 | 23,780 | 16,865 | 6,854 | 4,260 | 66 | 4,643 | 5,433 | 1,054,180 | 275,050 | ... 1991 |
| 5,365 | 57,609 | 39,444 | 25,871 | 18,164 | 7,637 | 4,618 | –2,064 | 4,584 | 3,879 | 1,212,858 | 273,206 | (3) 1992 |
| *banks* | | | | | | | | | | | | |
| 818 | 7,651 | 4,548 | 2,974 | 3,104 | 838 | 431 | –55 | 1,033 | 1,178 | 144,410 | 47,003 | ... 1988 |
| 845 | 8,627 | 5,043 | 3,253 | 3,584 | 964 | 611 | –136 | 1,156 | 1,328 | 164,283 | 48,143 | ... 1989 |
| 930 | 9,746 | 5,845 | 3,815 | 3,900 | 1,108 | 635 | 63 | 1,336 | 1,519 | 182,610 | 49,785 | ... 1990 |
| 1,049 | 10,739 | 6,599 | 4,242 | 4,140 | 1,388 | 789 | 143 | 1,347 | 1,547 | 195,765 | 50,921 | ... 1991 |
| 1,159 | 12,490 | 7,582 | 4,821 | 4,909 | 1,608 | 801 | –426 | 1,511 | 1,365 | 227,356 | 53,986 | (3) 1992 |
| *banks* | | | | | | | | | | | | |
| 17 | 226 | 131 | 83 | 95 | 9 | 7 | –7 | 2 | 77 | 4,184 | 1,341 | ... 1988 |
| 15 | 270 | 145 | 91 | 125 | 12 | 9 | –9 | 2 | 102 | 4,760 | 1,407 | ... 1989 |
| 15 | 321 | 175 | 112 | 147 | 16 | 11 | 5 | 5 | 131 | 5,307 | 1,535 | ... 1990 |
| 21 | 394 | 221 | 136 | 173 | 23 | 17 | 1 | 6 | 144 | 6,054 | 1,722 | ... 1991 |
| 25 | 451 | 263 | 162 | 188 | 26 | 19 | –3 | 15 | 144 | 6,952 | 1,832 | (3) 1992 |
| *institutions* | | | | | | | | | | | | |
| 45 | 477 | 150 | 44 | 327 | 195 | 71 | 45 | 45 | 131 | 24,698 | 1,473 | ... 1988 |
| 67 | 479 | 261 | 116 | 219 | 184 | 147 | 77 | 35 | 76 | 23,945 | 1,532 | ... 1989 |
| 82 | 678 | 310 | 131 | 367 | 196 | 109 | 90 | 135 | 127 | 25,684 | 1,544 | ... 1990 |
| 110 | 724 | 366 | 186 | 358 | 197 | 176 | 71 | 100 | 132 | 24,651 | 1,631 | ... 1991 |
| 62 | 621 | 385 | 188 | 236 | 162 | 90 | 74 | 75 | 73 | 26,780 | 1,656 | (3) 1992 |
| *banks* | | | | | | | | | | | | |
| *1,342* | *11,029* | *7,439* | *4,852* | *3,591* | *1,279* | *747* | *21* | *1,060* | *1,273* | *233,553* | *73,992* | ... *1988* |
| *1,409* | *12,146* | *8,087* | *5,204* | *4,059* | *1,329* | *861* | *–72* | *1,264* | *1,394* | *257,039* | *74,067* | ... *1989* |
| *1,306* | *14,023* | *8,989* | *5,782* | *5,034* | *1,695* | *1,247* | *–144* | *1,455* | *1,741* | *277,089* | *74,609* | ... *1990* |
| *1,566* | *16,164* | *10,500* | *6,721* | *5,665* | *2,140* | *1,166* | *–251* | *1,550* | *1,724* | *318,766* | *77,812* | ... *1991* |
| *496* | *14,952* | *10,036* | *6,149* | *4,916* | *1,914* | *1,184* | *–315* | *1,496* | *1,190* | *343,485* | *65,610* | (3) *1992* |
| *foreign banks* | | | | | | | | | | | | |
| *133* | *355* | *361* | *182* | *–6* | *49* | *35* | *32* | *12* | *–35* | *23,332* | *2,242* | ... *1988* |
| *83* | *291* | *294* | *157* | *–3* | *56* | *39* | *31* | *17* | *–44* | *23,634* | *1,698* | ... *1989* |
| *–130* | *419* | *327* | *177* | *91* | *62* | *47* | *28* | *31* | *26* | *19,833* | *1,690* | ... *1990* |
| *1* | *422* | *321* | *181* | *100* | *72* | *55* | *44* | *53* | *20* | *20,802* | *1,722* | ... *1991* |
| *–929* | *624* | *514* | *233* | *110* | *76* | *58* | *4* | *53* | *–14* | *32,644* | *1,593* | (3) *1992* |

which in turn are a subdivision of limited company banks. The banks that did not send in profit and loss account returns are excluded. – (3) Provisional.

## ASSETS AND LIABILITIES OF THE

*(billions*

| | ASSETS | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cash and deposits (1) | Loans | | | | | Loans on behalf of the Treasury (2) | Own portfolio (4) | | | Total |
| | | Domestic (2) (3) | Financing of stockpiling | Foreign | | Total | | Govern-ment securities | Bonds | Shares and partecipa-tions | |
| | | | | Buyer credits | Credit to residents | | | | | | |
| 1983 – Dec. ......... | 5,197 | 108,767 | 727 | 4,321 | 372 | 114,187 | 9,120 | 11,409 | 2,354 | 2,025 | 144,292 |
| 1984 – " ........... | 4,964 | 124,589 | 766 | 4,214 | 371 | 129,940 | 8,159 | 15,023 | 2,119 | 2,422 | 162,627 |
| 1985 – " ........... | 4,601 | 135,291 | 806 | 3,543 | 238 | 139,878 | 7,145 | 16,441 | 2,619 | 2,775 | 173,459 |
| 1986 – " ........... | 4,574 | 152,162 | 855 | 2,961 | 226 | 156,204 | 6,089 | 14,511 | 1,940 | 3,450 | 186,768 |
| 1987 – " ........... | 5,159 | 172,714 | 891 | 4,064 | 297 | 177,966 | 5,036 | 10,411 | 4,836 | 3,682 | 207,090 |
| 1988 – " ........... | 5,461 | 199,504 | 940 | 4,123 | 551 | 205,118 | 3,879 | 12,335 | 4,544 | 4,529 | 235,866 |
| 1989 – " ........... | 5,099 | 234,853 | 990 | 4,344 | 1,281 | 241,468 | 2,791 | 9,709 | 4,166 | 5,247 | 268,480 |
| 1990 – " ........... | 5,504 | 273,241 | 1,041 | 5,476 | 1,311 | 281,069 | 1,708 | 11,149 | 4,760 | 6,516 | 310,706 |
| 1991 – Jan. ......... | 7,217 | 273,822 | 1,041 | 5,366 | 1,420 | 281,649 | 1,309 | 11,874 | 4,824 | 6,502 | 313,375 |
| Feb. ......... | 6,363 | 277,812 | 1,041 | 5,425 | 1,524 | 285,802 | 1,309 | 11,151 | 5,150 | 6,490 | 316,265 |
| Mar. ......... | 7,599 | 281,698 | 1,060 | 5,895 | 1,421 | 290,074 | 1,309 | 11,845 | 4,246 | 6,589 | 321,662 |
| Apr. ......... | 7,025 | 284,547 | 1,060 | 5,955 | 1,474 | 293,036 | 1,309 | 12,311 | 5,019 | 6,636 | 325,336 |
| May ......... | 5,096 | 288,322 | 1,060 | 6,025 | 1,430 | 296,837 | 1,309 | 12,850 | 4,655 | 6,634 | 327,381 |
| June ......... | 5,386 | 287,543 | 1,076 | 6,177 | 1,421 | 296,217 | 963 | 13,975 | 4,463 | 5,854 | 326,858 |
| July ......... | 5,458 | 292,589 | 1,076 | 6,098 | 1,661 | 301,424 | 963 | 16,060 | 4,342 | 5,851 | 334,098 |
| Aug. ......... | 6,090 | 295,790 | 1,076 | 6,143 | 1,634 | 304,643 | 963 | 15,767 | 3,866 | 5,850 | 337,179 |
| Sept. ........ | 6,977 | 297,013 | 1,080 | 6,249 | 1,801 | 306,143 | 963 | 15,901 | 3,906 | 5,773 | 339,663 |
| Oct. ......... | 5,544 | 300,715 | 1,080 | 6,299 | 1,833 | 309,927 | 963 | 16,175 | 3,710 | 5,774 | 342,093 |
| Nov. ......... | 6,499 | 305,698 | 1,080 | 6,242 | 1,829 | 314,849 | 963 | 15,311 | 3,596 | 6,071 | 347,289 |
| Dec. ......... | 7,362 | 310,195 | 1,104 | 6,097 | 1,903 | 319,299 | 963 | 12,665 | 3,114 | 6,183 | 349,586 |
| 1992 – Jan. ......... | 8,176 | 312,668 | 1,104 | 6,364 | 1,926 | 322,062 | 737 | 13,120 | 3,184 | 6,181 | 353,460 |
| Feb. ......... | 9,215 | 315,629 | 1,104 | 6,395 | 1,948 | 325,076 | 737 | 13,729 | 3,762 | 6,178 | 358,697 |
| Mar. ......... | 8,618 | 320,393 | 1,125 | 6,283 | 1,868 | 329,669 | 737 | 14,822 | 3,975 | 5,828 | 363,649 |
| Apr. ......... | 6,893 | 324,170 | 1,125 | 6,461 | 1,892 | 333,648 | 737 | 14,719 | 3,868 | 5,828 | 365,693 |
| May ......... | 5,781 | 328,475 | 1,125 | 6,424 | 1,885 | 337,909 | 737 | 13,327 | 3,833 | 5,809 | 367,396 |
| June ......... | 6,262 | 325,757 | 1,157 | 6,449 | 1,974 | 335,337 | 474 | 13,756 | 4,573 | 5,776 | 366,178 |
| July ......... | 5,701 | 329,900 | 1,157 | 6,426 | 1981 | 339,464 | 474 | 13,809 | 4,826 | 5,759 | 370,033 |
| Aug. ......... | 6,370 | 331,080 | 1,157 | 6,370 | 1,948 | 340,555 | 474 | 13,003 | 5,076 | 5,520 | 370,998 |
| Sept. ........ | 6,232 | 333,338 | 1,167 | 6,990 | 2,120 | 343,615 | 474 | 11,170 | 5,104 | 6,582 | 373,177 |
| Oct. ......... | 5,101 | 334,959 | 1,167 | 7,190 | 2,181 | 345,497 | 474 | 10,657 | 4,783 | 6,581 | 373,093 |
| Nov. ......... | 5,407 | 337,099 | 1,167 | 7,535 | 2,268 | 348,069 | 474 | 9,783 | 4,698 | 6,581 | 375,012 |
| Dec. ......... | 5,911 | 342,757 | 1,160 | 7,879 | 2,506 | 354,302 | 458 | 10,192 | 4,601 | 5,998 | 381,462 |
| 1993 – Jan. (10) ..... | 5,508 | 344,212 | 1,160 | 8,256 | 2,214 | 355,842 | 318 | 10,385 | 4,639 | 5,919 | 382,611 |
| Feb. (10) ..... | 6,556 | 347,081 | 1,160 | 8,802 | 2,303 | 359,346 | 318 | 11,980 | 4,539 | 5,917 | 388,656 |
| Mar. (10) ..... | .... | 350,425 | .... | .... | .... | .... | .... | .... | .... | .... | .... |

(1) Including liquid funds in foreign currencies. The volume of deposits with the Bank of Italy is derived from the accounts of that institution. – (2) The item "Loans on behalf of the Treasury" December 1992 have been adjusted to correct for the statistical break caused by the transfer to memorandum accounts of some funds managed on behalf of public bodies. – (4) Including (7) Includes external lira liabilities and compensatory loans in foreign currency deposited with the Bank of Italy. – (8) Paid-up capital and reserves. – (9) Special current accounts for agricultural

## SPECIAL CREDIT INSTITUTIONS
*of lire)*

| LIABILITIES | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bonds | | Certifi-cates of deposits (5) | Redis-counts | Short-term financing | Public funds (3) | *Medio-credito centrale* funds (6) | Foreign liabilities (7) | Equity capital (8) | Other (9) | Total | |
| On behalf of the Treasury | Other | | | | | | | | | | |
| 9,120 | 85,134 | 19,264 | 818 | 4,540 | 2,083 | 2,436 | 15,137 | 12,612 | 31 | 151,175 | .......... Dec. – 1983 |
| 8,159 | 89,554 | 23,480 | 941 | 5,620 | 2,173 | 2,422 | 19,620 | 15,322 | 46 | 167,337 | .......... " – 1984 |
| 7,145 | 95,022 | 25,549 | 889 | 6,626 | 2,370 | 2,521 | 22,058 | 18,105 | 43 | 180,328 | .......... " – 1985 |
| 6,089 | 102,193 | 28,258 | 943 | 6,362 | 3,112 | 2,538 | 24,268 | 21,225 | 74 | 195,062 | .......... " – 1986 |
| 5,036 | 113,681 | 30,878 | 1,069 | 6,517 | 3,672 | 3,038 | 29,997 | 23,609 | 71 | 217,568 | .......... " – 1987 |
| 3,949 | 121,239 | 43,837 | 1,112 | 7,547 | 3,869 | 3,541 | 36,548 | 25,957 | 56 | 247,655 | .......... " – 1988 |
| 2,863 | 129,578 | 52,804 | 1,175 | 8,703 | 4,362 | 4,237 | 52,535 | 28,480 | 36 | 284,773 | .......... " – 1989 |
| 1,759 | 135,790 | 64,836 | 1,240 | 9,338 | 3,712 | 4,149 | 73,945 | 30,868 | 38 | 325,675 | .......... " – 1990 |
| 1,339 | 136,455 | 64,629 | 1,240 | 8,728 | 3,739 | 4,158 | 74,135 | 30,868 | 38 | 325,329 | .......... Jan. – 1991 |
| 1,320 | 137,999 | 65,166 | 1,240 | 7,212 | 3,719 | 4,176 | 76,404 | 30,868 | 38 | 328,142 | .......... Feb. |
| 1,318 | 138,674 | 65,435 | 1,174 | 7,648 | 3,695 | 4,034 | 80,347 | 32,209 | 15 | 334,549 | .......... Mar. |
| 1,318 | 141,058 | 66,188 | 1,174 | 7,863 | 3,666 | 4,127 | 83,485 | 32,209 | 15 | 341,103 | .......... Apr. |
| 1,316 | 142,256 | 66,206 | 1,174 | 8,824 | 3,642 | 4,144 | 83,598 | 32,209 | 15 | 343,384 | .......... May |
| 1,316 | 142,886 | 68,438 | 1,254 | 8,586 | 3,646 | 4,198 | 85,024 | 33,212 | 44 | 348,604 | .......... June |
| 1,006 | 143,413 | 68,394 | 1,254 | 9,082 | 3,638 | 4,237 | 85,573 | 33,212 | 44 | 349,853 | .......... July |
| 991 | 145,046 | 69,208 | 1,254 | 7,662 | 3,412 | 4,318 | 86,285 | 33,212 | 44 | 351,432 | .......... Aug. |
| 984 | 146,838 | 69,108 | 1,208 | 7,786 | 3,635 | 4,126 | 86,849 | 33,409 | 29 | 353,972 | .......... Sept. |
| 984 | 148,524 | 69,779 | 1,208 | 6,683 | 3,638 | 4,217 | 88,329 | 33,409 | 29 | 356,800 | .......... Oct. |
| 981 | 151,075 | 70,233 | 1,208 | 7,899 | 3,574 | 4,275 | 89,610 | 33,409 | 29 | 362,293 | .......... Nov. |
| 976 | 153,053 | 72,505 | 1,242 | 8,309 | 3,618 | 4,103 | 91,330 | 36,013 | 46 | 371,195 | .......... Dec. |
| 765 | 152,498 | 73,010 | 1,242 | 9,303 | 3,547 | 4,140 | 91,729 | 36,013 | 46 | 372,293 | .......... Jan. – 1992 |
| 750 | 155,790 | 73,449 | 1,242 | 8,411 | 3,560 | 4,151 | 93,108 | 36,013 | 46 | 376,520 | .......... Feb. |
| 748 | 158,600 | 73,646 | 1,293 | 8,455 | 3,434 | 3,913 | 94,688 | 37,219 | 22 | 382,018 | .......... Mar. |
| 748 | 160,707 | 74,097 | 1,293 | 8,191 | 3,464 | 4,079 | 96,456 | 37,219 | 22 | 386,276 | .......... Apr. |
| 747 | 161,581 | 74,321 | 1,293 | 8,733 | 3,412 | 4,087 | 96,651 | 37,219 | 22 | 388,066 | .......... May |
| 583 | 163,451 | 75,216 | 1,314 | 9,354 | 3,365 | 4,117 | 96,736 | 36,256 | 23 | 390,415 | .......... June |
| 583 | 162,217 | 75,469 | 1,314 | 9,000 | 3,444 | 4,175 | 98,334 | 36,256 | 23 | 390,815 | .......... July |
| 516 | 162,299 | 75,306 | 1,314 | 8,306 | 3,389 | 4,342 | 99,418 | 36,256 | 23 | 391,169 | .......... Aug. |
| 498 | 162,558 | 74,236 | 1,286 | 9,135 | 2,982 | 4,173 | 104,627 | 35,992 | 25 | 395,512 | .......... Sept. |
| 484 | 162,449 | 74,247 | 1,286 | 10,056 | 2,934 | 4,198 | 104,997 | 35,992 | 25 | 396,668 | .......... Oct. |
| 483 | 164,176 | 74,766 | 1,286 | 10,000 | 2,904 | 4,208 | 106,709 | 35,992 | 25 | 400,549 | .......... Nov. |
| 483 | 166,223 | 77,145 | 1,300 | 11,624 | 2,461 | 4,180 | 112,866 | 36,401 | 24 | 412,707 | .......... Dec. |
| 340 | 166,177 | 78,352 | 1,300 | 11,936 | 2,505 | 4,276 | 112,529 | 36,401 | 24 | 413,840 | ...... (10) Jan. – 1993 |
| 332 | 167,948 | 80,976 | 1,300 | 11,340 | 2,526 | 4,317 | 115,965 | 36,401 | 24 | 421,129 | ...... (10) Feb. |
| .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | ...... (10) Mar. |

comprises only operations financed by "bonds on behalf of the Treasury"; the remainder is included in the item "domestic loans". – (3) The figures for domestic loans and public funds prior to securities in foreign currencies. – (5) Includes savings certificates and other medium-term deposits. – (6) Includes the proceeds of bond issues disbursed to special credit institutions. – credit and current accounts of stockpiling agencies. – (10) Provisional.

*(billions*

| | Bonds and | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public sector | | | | | | | | | | | | |
| | Government securities | | | | | | | | | | Autono-mous govern-ment agencies and State Railways | Crediop on behalf of Treasury | Total (4) |
| | Treasury bills (2) | Treasury bills in ecus | Floating rate Treasury credit certificates | Treasury bonds | Treasury certificates in ecus | Treasury discount certificates | Treasury option certificates | Ordinary certificates (3) | Other | Total | | | |
| | | | | | | | | | | | | | **Gross** |
| 1985 .... | 256,281 | – | 97,209 | 17,288 | 3,602 | – | – | 8,213 | 2,195 | 384,788 | 2,500 | – | *387,288* |
| 1986 .... | 265,866 | – | 79,255 | 53,276 | 2,360 | – | – | – | – | 400,757 | 2,500 | – | *403,257* |
| 1987 .... | 316,111 | 2,311 | 55,480 | 19,020 | 2,231 | 5,049 | – | 5,555 | – | 405,757 | 2,000 | – | *407,757* |
| 1988 .... | 409,411 | 7,289 | 27,350 | 75,383 | 11,167 | – | 594 | 697 | – | 531,891 | 1,000 | – | *532,891* |
| 1989 .... | 498,553 | 11,313 | 21,300 | 41,100 | 9,025 | – | 15,620 | 635 | – | 597,545 | 1,000 | – | *598,545* |
| 1990 .... | 559,196 | 6,109 | 75,538 | 74,460 | 8,017 | – | 27,161 | 4,582 | – | 755,062 | 3,200 | – | *758,262* |
| 1991 .... | 602,421 | 4,989 | 99,000 | 93,010 | 3,680 | – | 23,000 | – | – | 826,101 | – | – | *826,101* |
| 1992 .... | 675,055 | 6,961 | 83,426 | 95,519 | 4,759 | – | 14,500 | – | – | 880,220 | 1,500 | – | *881,720* |
| | | | | | | | | | | | | | **Re** |
| 1985 .... | 243,100 | – | 17,100 | 13,000 | – | – | – | 1,444 | 1,950 | 276,594 | 284 | 1,014 | *277,942* |
| 1986 .... | 256,169 | – | 25,150 | 17,750 | – | – | – | 1,436 | 1,746 | 302,251 | 625 | 1,056 | *303,968* |
| 1987 .... | 290,940 | – | 19,680 | 5,269 | – | – | – | 1,419 | 1,272 | 318,579 | 469 | 1,053 | *320,138* |
| 1988 .... | 373,136 | 1,551 | 35,000 | 14,787 | – | – | – | 1,254 | 476 | 426,203 | 671 | 1,087 | *427,998* |
| 1989 .... | 458,775 | 8,049 | – | 13,236 | 1,592 | – | – | 938 | 2,663 | 485,253 | 2,069 | 1,083 | *488,423* |
| 1990 .... | 514,557 | 10,180 | 20,017 | 85,716 | 822 | – | – | 4,225 | 470 | 635,987 | 582 | 1,098 | *637,688* |
| 1991 .... | 588,527 | 7,242 | 88,275 | 4,846 | 2,009 | 1,411 | – | 1,398 | 487 | 694,195 | 160 | 782 | *695,156* |
| 1992 .... | 630,323 | 4,989 | 21,313 | 59,399 | 4,302 | – | 10,630 | 6,774 | 262 | 737,992 | 2,160 | 493 | *740,660* |
| | | | | | | | | | | | | | **Premiums, discounts** |
| 1985 .... | – | – | 1,542 | 315 | – | – | – | – | – | 1,857 | – | – | *1,857* |
| 1986 .... | – | – | 571 | 501 | – | – | – | – | – | 1,072 | 477 | – | *1,549* |
| 1987 .... | – | – | 532 | 213 | – | 1,241 | – | – | – | 1,986 | 5 | – | *1,991* |
| 1988 .... | – | – | 199 | 815 | – | – | 30 | – | – | 1,043 | – | – | *1,043* |
| 1989 .... | – | – | 384 | 858 | – | – | 284 | – | – | 1,527 | 7 | – | *1,534* |
| 1990 .... | – | – | 1,307 | 2,091 | –67 | – | 483 | – | – | 3,814 | 7 | – | *3,821* |
| 1991 .... | – | – | 1,457 | 2,381 | –104 | – | 77 | – | – | 3,812 | – | – | *3,812* |
| 1992 .... | – | 29 | 2,089 | 2,544 | –62 | – | 23 | – | – | 4,623 | – | – | *4,623* |
| | | | | | | | | | | | | | **Net** |
| 1985 .... | 13,181 | – | 78,567 | 3,973 | 3,602 | – | – | 6,769 | 245 | 106,337 | 2,216 | –1,014 | *107,489* |
| 1986 .... | 9,697 | – | 53,534 | 35,025 | 2,360 | – | – | –1,436 | –1,746 | 97,434 | 1,398 | –1,056 | *97,740* |
| 1987 .... | 25,171 | 2,311 | 35,268 | 13,538 | 2,231 | 3,808 | – | 4,136 | –1,272 | 85,192 | 1,526 | –1,053 | *85,628* |
| 1988 .... | 36,275 | 5,738 | –7,849 | 59,781 | 11,167 | – | 564 | –557 | –475 | 104,645 | 329 | –1,087 | *103,850* |
| 1989 .... | 39,778 | 3,264 | 20,916 | 27,006 | 7,434 | – | 15,336 | –303 | –2,663 | 110,766 | –1,076 | –1,083 | *108,588* |
| 1990 .... | 44,640 | –4,071 | 54,214 | –13,347 | 7,262 | – | 26,678 | 357 | –470 | 115,262 | 2,611 | –1,098 | *116,753* |
| 1991 .... | 13,894 | –2,253 | 9,268 | 85,784 | 1,775 | –1,411 | 22,923 | –1,398 | –487 | 128,094 | –160 | –782 | *127,133* |
| 1992 .... | 44,731 | 1,943 | 60,024 | 33,576 | 520 | – | 3,848 | –6,774 | –262 | 137,606 | –660 | –493 | *136,437* |
| | | | | | | | | | | | | | **Cou** |
| 1985 .... | 21,297 | – | 27,456 | 5,040 | 541 | – | – | 946 | 678 | 55,958 | 702 | 639 | *57,317* |
| 1986 .... | 18,387 | – | 38,514 | 5,789 | 882 | – | – | 1,225 | 761 | 65,558 | 877 | 557 | *67,007* |
| 1987 .... | 18,775 | – | 36,958 | 8,477 | 1,082 | – | – | 1,157 | 589 | 67,038 | 889 | 470 | *68,410* |
| 1988 .... | 24,426 | – | 37,980 | 10,032 | 1,308 | 245 | – | 1,639 | 486 | 76,116 | 1,256 | 359 | *77,741* |
| 1989 .... | 31,697 | – | 38,486 | 16,752 | 2,230 | 256 | 279 | 1,523 | 461 | 91,684 | 1,021 | 275 | *92,987* |
| 1990 .... | 36,051 | – | 45,879 | 20,086 | 2,921 | 277 | 2,961 | 1,752 | 164 | 110,091 | 1,005 | 190 | *111,291* |
| 1991 .... | 38,484 | – | 52,102 | 23,553 | 3,777 | 306 | 6,395 | 1,566 | 141 | 126,324 | 1,252 | 111 | *127,691* |
| 1992 .... | 46,676 | – | 57,255 | 32,673 | 4,115 | 221 | 9,075 | 1,414 | 121 | 151,550 | 1,274 | 60 | *152,886* |

(1) Rounding may cause discrepancies in totals. – (2) For these securities the net issues are obtained by deducting redemptions from gross issues. – (3) Ordinary certifictes comprise the securities agencies and firms differs from the sum of the individual components by the amount of bond issues by *Autostrade*-IRI.

## ;ROSS AND NET ISSUES OF SECURITIES

| ;evernment securities | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Special credit institutions | | | Government agencies and firms | | | | | | | |
| Industrial | Public works | Real estate | Total | ENEL | IRI ENI EFIM | Private firms | International institutions | Total (5) | Total bonds & government securities | Shares | |
| **issues** | | | | | | | | | | | |
| 8,487 | 1,322 | 5,253 | *15,062* | 2,777 | 998 | 1,148 | 550 | *5,473* | *407,823* | 14,977 | ....... 1985 |
| 10,535 | 922 | 7,182 | *18,639* | 2,780 | 4,396 | 1,617 | 821 | *9,614* | *431,510* | 23,792 | ....... 1986 |
| 12,230 | 1,345 | 11,524 | *25,099* | 2,741 | 2,850 | 1,342 | 450 | *7,383* | *440,239* | 13,383 | ....... 1987 |
| 9,463 | 1,557 | 10,769 | *21,789* | 1,693 | 1,617 | 1,335 | 550 | *5,195* | *559,875* | 10,839 | ....... 1988 |
| 10,706 | 578 | 10,084 | *21,368* | 2,661 | 200 | 1,036 | 300 | *4,197* | *624,110* | 19,857 | ....... 1989 |
| 9,401 | 3,381 | 9,582 | *22,364* | 1,085 | – | 515 | 200 | *1,800* | *782,426* | 24,777 | ....... 1990 |
| 12,354 | 5,160 | 14,793 | *32,307* | 2,253 | 4,902 | 507 | 400 | *8,062* | *866,470* | 20,888 | ....... 1991 |
| 9,683 | 4,107 | 15,232 | *29,022* | 1,108 | – | 290 | – | *1,518* | *912,260* | 20,668 | ....... 1992 |
| **demptions** | | | | | | | | | | | |
| 6,737 | 761 | 2,282 | *9,780* | 2,108 | 561 | 463 | 32 | *3,268* | *290,990* | – | ....... 1985 |
| 7,183 | 1,086 | 3,360 | *11,629* | 1,469 | 1,182 | 699 | 55 | *3,503* | *319,100* | – | ....... 1986 |
| 7,235 | 1,345 | 4,965 | *13,545* | 1,214 | 1,040 | 906 | 96 | *3,318* | *337,001* | – | ....... 1987 |
| 7,336 | 1,374 | 4,843 | *13,553* | 1,418 | 1,742 | 1,159 | 95 | *4,470* | *446,021* | – | ....... 1988 |
| 6,914 | 1,453 | 4,620 | *12,987* | 1,377 | 1,220 | 1,430 | 84 | *4,139* | *505,549* | – | ....... 1989 |
| 9,344 | 1,173 | 5,022 | *15,539* | 960 | 1,594 | 1,700 | 80 | *4,353* | *657,580* | – | ....... 1990 |
| 9,257 | 1,141 | 5,721 | *16,119* | 921 | 1,772 | 1,350 | 163 | *4,226* | *715,501* | – | ....... 1991 |
| 9,434 | 1,245 | 6,316 | *16,995* | 1,533 | 1,796 | 1,220 | 424 | *4,973* | *762,629* | – | ....... 1992 |
| **and double counting** | | | | | | | | | | | |
| 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 |
| 158 | 28 | 63 | *250* | 17 | – | – | 7 | *24* | *4,085* | 2,525 | ....... 1991 |
| 243 | 10 | 926 | *1,179* | 9 | – | – | – | *9* | *5,810* | 4,474 | ....... 1992 |
| **issues** | | | | | | | | | | | |
| 1,678 | 554 | 2,946 | *5,178* | 669 | 437 | 685 | 509 | *2,196* | *114,863* | 12,220 | ....... 1985 |
| 3,230 | –173 | 3,748 | *6,805* | 1,289 | 3,214 | 917 | 749 | *6,071* | *110,616* | 18,872 | ....... 1986 |
| 4,870 | –14 | 6,156 | *11,012* | 1,507 | 1,809 | 435 | 348 | *4,037* | *100,677* | 10,433 | ....... 1987 |
| 2,012 | 177 | 5,777 | *7,966* | 262 | –124 | 176 | 452 | *709* | *112,525* | 9,697 | ....... 1988 |
| 3,680 | –882 | 5,407 | *8,205* | 1,262 | –1,020 | –393 | 213 | *35* | *116,828* | 18,369 | ....... 1989 |
| –703 | 2,185 | 4,504 | *5,985* | 90 | –1,594 | –1,185 | 117 | *–2,592* | *120,147* | 21,246 | ....... 1990 |
| 2,939 | 3,991 | 9,009 | *15,939* | 1,315 | 3,130 | –843 | 230 | *3,812* | *146,884* | 18,363 | ....... 1991 |
| 6 | 2,852 | 7,990 | *10,848* | –434 | –1,796 | –930 | –424 | *–3,464* | *143,821* | 16,194 | ....... 1992 |
| **pons** | | | | | | | | | | | |
| 5,032 | 1,913 | 5,275 | *12,220* | 1,594 | 919 | 623 | 25 | *3,185* | *72,722* | | ....... 1985 |
| 5,146 | 1,919 | 5,678 | *12,743* | 1,606 | 1,302 | 670 | 89 | *3,684* | *83,434* | | ....... 1986 |
| 5,039 | 1,755 | 5,820 | *12,614* | 1,422 | 1,178 | 600 | 163 | *3,374* | *84,398* | | ....... 1987 |
| 5,391 | 1,763 | 6,643 | *13,797* | 1,706 | 1,318 | 600 | 213 | *3,846* | *95,384* | | ....... 1988 |
| 5,388 | 1,939 | 7,424 | *14,751* | 1,613 | 1,327 | 700 | 249 | *3,893* | *111,631* | | ....... 1989 |
| 5,825 | 1,848 | 8,182 | *15,855* | 1,869 | 1,309 | 500 | 273 | *3,954* | *131,100* | | ....... 1990 |
| 5,786 | 2,223 | 8,809 | *16,818* | 1,898 | 1,276 | 400 | 275 | *3,850* | *148,359* | | ....... 1991 |
| .... | .... | .... | *19,455* | 1,899 | 1,507 | 350 | 315 | *4,071* | *176,412* | | ....... 1992 |

issued by the Treasury to fund debts. – (4) The total for the public sector differs from the sum of the individual components by the amount of bond issues by local authorities. – (5) The total for government

Table a19

## INTEREST RATES OF BANK OF ITALY OPERATIONS

| | Official | | | | |
|---|---|---|---|---|---|
| | Current account (1) | | Bill discounting | | Ordinary advances |
| | Excess reserves | Compulsory reserves (2) | Ordinary bills (base rate) | Agricultural working credits | |
| From: 6 Dec. 1979 | 0.50 | 5.50 | 15.00 | 7.00 | 15.00 |
| 29 Sept. 1980 | " | " | 16.50 | " | 16.50 |
| 23 Mar. 1981 | " | " | 19.00 | 9.50 | 19.00 |
| 25 Aug. 1982 | " | " | 18.00 | " | 18.00 |
| 11 Apr. 1983 | " | " | 17.00 | 9.00 | 17.00 |
| 16 Feb. 1984 | " | " | 16.00 | 8.50 | 16.00 |
| 7 May 1984 | " | " | 15.50 | " | 15.50 |
| 4 Sept. 1984 | " | " | 16.50 | " | 16.50 |
| 4 Jan. 1985 | " | " | 15.50 | " | 15.50 |
| 8 Nov. 1985 | " | " | 15.00 | 8.00 | 15.00 |
| 22 Mar. 1986 | " | " | 14.00 | 7.50 | 14.00 |
| 25 Apr. 1986 | " | " | 13.00 | 7.00 | 13.00 |
| 27 May 1986 | " | " | 12.00 | 6.50 | 12.00 |
| 14 Mar. 1987 | " | " | 11.50 | " | 11.50 |
| 28 Aug. 1987 | " | " | 12.00 | " | 12.00 |
| 26 Aug. 1988 | " | " | 12.50 | " | 12.50 |
| 6 Mar. 1989 | " | " | 13.50 | " | 13.50 |
| 21 May 1990 | " | " | 12.50 | " | 12.50 |
| 13 May 1991 | " | " | 11.50 | 6.00 | 11.50 |
| 23 Dec. 1991 | " | " | 12.00 | " | 12.00 |
| 6 July 1992 | " | " | 13.00 | " | 13.00 |
| 17 July 1992 | " | " | 13.75 | " | 13.75 |
| 4 Aug. 1992 | " | " | 13.25 | " | 13.25 |
| 4 Sept. 1992 | " | " | 15.00 | " | 15.00 |
| 26 Oct. 1992 | " | " | 14.00 | " | 14.00 |
| 13 Nov. 1992 | " | " | 13.00 | " | 13.00 |
| 23 Dec. 1992 | " | " | 12.00 | " | 12.00 |
| 4 Feb. 1993 | " | " | 11.50 | " | 11.50 |
| 23 Apr. 1993 | " | " | 11.00 | " | 11.00 |
| 21 May 1993 | " | " | 10.50 | " | 10.50 |

| | | Fixed term advances (3) | Temporary operations (4) | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Securities repos | | | | Currency swaps | |
| | | | Purchases | | Sales | | Purchases | |
| | | | Minimum | Average | Maximum | Average | Minimum | Average |
| 1991 - | Jan. | 13.04 | 11.67 | 11.97 | 12.38 | 12.28 | – | – |
| | Feb. | 12.86 | 11.78 | 11.97 | 15.00 | 14.15 | – | – |
| | Mar. | 13.05 | 10.72 | 10.92 | – | – | – | – |
| | Apr. | – | 10.23 | 10.40 | – | – | – | – |
| | May | 11.50 | 10.03 | 10.10 | – | – | – | – |
| | June | 11.50 | 10.03 | 10.07 | – | – | – | – |
| | July | 11.50 | 10.06 | 10.11 | – | – | – | – |
| | Aug. | 11.50 | 10.08 | 10.14 | – | – | – | – |
| | Sept. | 11.50 | 10.16 | 10.20 | – | – | – | – |
| | Oct. | 11.50 | 10.50 | 10.68 | – | – | – | – |
| | Nov. | 12.00 | 11.46 | 11.54 | – | – | – | – |
| | Dec. | 12.50 | 12.44 | 12.63 | – | – | – | – |
| 1992 - | Jan. | 12.50 | 11.76 | 11.94 | – | – | – | – |
| | Feb. | 12.50 | 11.88 | 11.96 | – | – | – | – |
| | Mar. | 12.50 | 11.96 | 12.02 | – | – | – | – |
| | Apr. | 12.50 | 12.28 | 12.31 | – | – | – | – |
| | May | 12.50 | 12.31 | 12.33 | – | – | – | – |
| | June | 13.00 | 13.91 | 14.02 | – | – | – | – |
| | July | 15.25 | 15.61 | 15.81 | – | – | – | – |
| | Aug. | 14.75 | 14.43 | 14.58 | – | – | – | – |
| | Sept. | 16.50 | 17.49 | 18.06 | – | – | – | – |
| | Oct. | 15.00 | 14.44 | 14.58 | – | – | 14.24 | 14.28 |
| | Nov. | 14.00 | 12.80 | 12.92 | – | – | 13.83 | 13.92 |
| | Dec. | 13.00 | 12.21 | 12.33 | – | – | 13.33 | 13.47 |
| 1993 - | Jan. | 13.00 | 12.06 | 12.14 | – | – | 12.29 | 12.35 |
| | Feb. | 12.50 | 11.23 | 11.31 | – | – | 11.11 | 11.14 |
| | Mar. | 12.50 | 11.23 | 11.27 | – | – | 11.09 | 11.13 |
| | Apr. | 12.00 | 11.13 | 11.18 | – | – | 11.09 | 11.13 |

(1) Current accounts of banks, social security institutions, insurance companies, central credit institutions, special credit institutions and public corporations. – (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) Until April 1991, weighted average rate on actual operations; end-of-period data thereafter. 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 is fixed by the Bank of Italy in accordance with the requirements of monetary control. – (4) Average of allotment rates on operations during the month.

# MONEY MARKET AND BANK INTEREST RATES (1)

| | Treasury bill yields (2) | | | | Bank interest rates | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Interbank accounts (3) (4) | Interbank operations | | | Deposits (3) | | Loans (3) | | Certificates of deposit (3) | | ABI prime rate (7) |
| | 3-month bills | 6-month bills | 12-month bills | Average | | Over-night (5) | 3-month (5) | 3-month Eurolira (6) | Maximum | Average | Minimum | Average | 6-month | 12-month | |
| 1983 | 17.83 | 17.77 | 18.05 | 17.89 | 18.31 | .... | .... | 18.10 | 17.62 | .... | 19.44 | .... | .... | .... | 19.19 |
| 1984 | 15.30 | 15.29 | 15.43 | 15.37 | 17.27 | .... | .... | 15.62 | 16.14 | .... | 17.64 | .... | .... | .... | 17.67 |
| 1985 | 13.86 | 13.73 | 13.63 | 13.71 | 15.25 | .... | .... | 13.77 | 14.48 | .... | 16.36 | .... | .... | .... | 16.65 |
| 1986 | 11.93 | 11.46 | 11.15 | 11.40 | 13.39 | .... | .... | 12.69 | 11.97 | 8.88 | 14.08 | 15.93 | 11.98 | 11.99 | 14.18 |
| 1987 | 11.07 | 10.74 | 10.55 | 10.73 | 11.33 | 8.40 | .... | 10.79 | 9.93 | 7.01 | 12.06 | 13.58 | 9.87 | 9.81 | 12.74 |
| 1988 | 11.17 | 11.06 | 11.17 | 11.13 | 10.82 | 10.17 | .... | 10.79 | 9.51 | 6.69 | 12.11 | 13.57 | 9.88 | 10.02 | 12.76 |
| 1989 | 12.65 | 12.55 | 12.55 | 12.58 | 12.62 | 11.97 | 12.63 | 12.01 | 9.79 | 6.92 | 12.91 | 14.21 | 10.35 | 10.31 | 13.83 |
| 1990 | 12.28 | 12.33 | 12.53 | 12.38 | 11.98 | 10.92 | 12.10 | 11.63 | 9.72 | 6.79 | 12.66 | 14.08 | 10.62 | 10.55 | 13.35 |
| 1991 | 12.66 | 12.53 | 12.39 | 12.54 | 12.03 | 11.84 | 12.21 | 11.52 | 9.65 | 6.64 | 12.27 | 13.89 | 10.42 | 10.40 | 12.84 |
| 1992 | 14.48 | 14.38 | 14.02 | 14.32 | 14.36 | 14.38 | 14.02 | 13.48 | 10.59 | 7.11 | 13.61 | 15.77 | 11.20 | 10.75 | 14.36 |
| 1991 – Jan. | 12.88 | 13.17 | 12.97 | 13.01 | 13.20 | 13.24 | 13.39 | 12.13 | 9.76 | 6.83 | 12.47 | 14.01 | 10.53 | 10.53 | 13.13 |
| Feb. | 13.44 | 13.22 | 13.17 | 13.27 | 13.35 | 13.79 | 13.52 | 12.17 | 9.85 | 6.89 | 12.68 | 14.24 | 10.57 | 10.52 | 13.50 |
| Mar. | 12.96 | 12.67 | 12.61 | 12.75 | 13.15 | 12.55 | 12.64 | 11.86 | 9.92 | 6.94 | 12.79 | 14.28 | 10.59 | 10.59 | 13.50 |
| Apr. | 12.54 | 12.33 | 12.12 | 12.34 | 12.45 | 11.41 | 12.04 | 11.39 | 9.88 | 6.87 | 12.67 | 14.22 | 10.53 | 10.56 | 13.38 |
| May | 12.03 | 11.82 | 11.82 | 11.90 | 11.74 | 11.28 | 11.57 | 11.06 | 9.66 | 6.65 | 12.43 | 14.10 | 10.43 | 10.49 | 12.63 |
| June | 12.20 | 11.77 | 11.89 | 11.95 | 11.36 | 11.46 | 11.56 | 11.06 | 9.44 | 6.34 | 12.08 | 13.73 | 10.21 | 10.26 | 12.50 |
| July | 12.49 | 12.34 | 12.03 | 12.31 | 11.27 | 11.31 | 11.81 | 11.18 | 9.45 | 6.42 | 11.97 | 13.59 | 10.21 | 10.29 | 12.50 |
| Aug. | 12.69 | 12.91 | 12.27 | 12.67 | 11.51 | 11.63 | 11.97 | 11.41 | 9.47 | 6.44 | 12.01 | 13.66 | 10.24 | 10.28 | 12.50 |
| Sept. | 12.16 | 12.45 | 12.44 | 12.35 | 11.43 | 10.63 | 11.75 | 11.25 | 9.50 | 6.48 | 12.04 | 13.72 | 10.37 | 10.32 | 12.50 |
| Oct. | 12.01 | 12.06 | 12.07 | 12.05 | 11.31 | 11.05 | 11.50 | 11.08 | 9.57 | 6.54 | 12.00 | 13.68 | 10.46 | 10.35 | 12.50 |
| Nov. | 12.69 | 12.31 | 12.42 | 12.49 | 11.30 | 11.48 | 11.82 | 11.34 | 9.60 | 6.58 | 11.99 | 13.64 | 10.46 | 10.27 | 12.50 |
| Dec. | 13.85 | 13.27 | 12.86 | 13.36 | 12.25 | 12.30 | 12.92 | 12.28 | 9.67 | 6.67 | 12.12 | 13.83 | 10.46 | 10.29 | 13.00 |
| 1992 – Jan. | 12.19 | 12.21 | 12.15 | 12.18 | 12.36 | 12.26 | 12.15 | 11.71 | 9.76 | 6.78 | 12.43 | 14.13 | 10.49 | 10.34 | 13.00 |
| Feb. | 12.73 | 12.17 | 12.09 | 12.32 | 12.42 | 12.33 | 12.21 | 11.76 | 9.80 | 6.80 | 12.45 | 14.14 | 10.48 | 10.38 | 13.00 |
| Mar. | 13.05 | 12.82 | 12.62 | 12.83 | 12.45 | 12.24 | 12.30 | 11.86 | 9.80 | 6.84 | 12.43 | 14.07 | 10.49 | 10.38 | 13.00 |
| Apr. | 13.49 | 13.43 | 13.06 | 13.35 | 12.53 | 12.31 | 12.41 | 11.93 | 9.84 | 6.89 | 12.46 | 14.16 | 10.49 | 10.38 | 13.13 |
| May | 13.45 | 13.21 | 13.00 | 13.24 | 12.69 | 12.37 | 12.41 | 11.98 | 9.86 | 6.93 | 12.49 | 14.28 | 10.49 | 10.34 | 13.13 |
| June | 14.42 | 13.85 | 13.59 | 14.00 | 13.58 | 14.23 | 13.46 | 12.98 | 10.01 | 6.95 | 12.68 | 14.56 | 10.45 | 10.31 | 14.00 |
| July | 15.56 | 15.32 | 14.69 | 15.24 | 15.86 | 16.90 | 15.64 | 15.11 | 10.37 | 7.03 | 13.86 | 15.88 | 10.67 | 10.40 | 15.75 |
| Aug. | 15.43 | 15.24 | 14.62 | 15.16 | 15.96 | 15.78 | 15.43 | 14.83 | 10.78 | 7.14 | 14.38 | 16.77 | 11.13 | 10.60 | 15.38 |
| Sept. | 18.05 | 18.52 | 17.02 | 17.98 | 20.21 | 22.06 | 18.22 | 16.98 | 11.46 | 7.33 | 15.50 | 17.87 | 12.05 | 11.16 | 17.00 |
| Oct. | 15.52 | 16.14 | 15.92 | 15.85 | 16.35 | 15.54 | 15.58 | 14.85 | 11.95 | 7.61 | 15.70 | 18.56 | 12.82 | 11.67 | 16.25 |
| Nov. | 15.37 | 15.23 | 15.40 | 15.33 | 14.32 | 13.87 | 14.50 | 14.15 | 11.90 | 7.57 | 14.81 | 17.90 | 12.53 | 11.56 | 14.75 |
| Dec. | 14.45 | 14.35 | 14.10 | 14.33 | 13.58 | 12.68 | 13.87 | 13.59 | 11.56 | 7.41 | 14.20 | 16.92 | 12.26 | 11.47 | 14.00 |
| 1993 – Jan. | 12.52 | 11.98 | 12.59 | 12.38 | 13.30 | 12.68 | 12.67 | 12.40 | 11.09 | 7.17 | 13.38 | 16.22 | 11.82 | 11.16 | 13.63 |
| Feb. | 12.09 | 12.08 | 11.97 | 12.05 | 12.34 | 11.59 | 11.49 | 11.21 | 10.54 | 6.90 | 12.70 | 15.64 | 11.13 | 10.69 | 12.75 |
| Mar. | 12.51 | 12.37 | 12.62 | 12.50 | 11.85 | 11.30 | 11.34 | 11.07 | 10.30 | 6.85 | 12.26 | 15.02 | 10.73 | 10.43 | 12.63 |
| Apr. | 12.30 | 12.54 | 12.48 | 12.43 | 11.78 | 11.30 | 11.46 | 11.16 | 10.15 | 6.87 | 12.10 | 14.67 | 10.50 | 10.26 | 12.38 |

(1) Before tax; annual figures are the average of monthly values. – (2) Weighted average of allotment rates; for 3 and 6-month bills, compounded. – (3) Monthly average of rates reported at 10-day intervals. Average rates are the weighted average of rates on individual positions weighted with the relevant balances. – (4) Maximum rate applied to the lira sight deposits of resident credit institutions with a debit balance of more than 1 billion lire. – (5) Monthly average of the rates recorded daily on the screen-based interbank deposit market. – (6) Monthly average of the bid rates recorded daily on lira interbank deposits in London. – (7) The monthly data refer to the end of the month in question.

## 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 | Real estate credit institutions | State enterprises | Total |
| 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 |
| 1991 | 11.78 | 9.02 | 11.19 | 5.50 | 11.37 | 11.63 | 11.46 | 11.29 | 11.19 |
| 1992 | 13.70 | 8.95 | 11.46 | 6.84 | 11.90 | 12.04 | 11.51 | 12.28 | 11.73 |
| 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 |
| May | 11.28 | 8.61 | 10.98 | 5.29 | 10.99 | 11.43 | 11.60 | 10.86 | 10.87 |
| June | 11.09 | 8.74 | 11.03 | 5.03 | 11.06 | 11.24 | 11.22 | 10.89 | 10.74 |
| July | 11.38 | 8.93 | 11.17 | 5.06 | 11.33 | 11.37 | 11.21 | 10.97 | 10.84 |
| Aug. | 11.62 | 9.07 | 11.22 | 5.53 | 11.41 | 11.46 | 11.29 | 11.04 | 10.92 |
| Sept. | 11.73 | 8.99 | 11.15 | 5.39 | 11.24 | 11.51 | 11.15 | 11.10 | 11.08 |
| Oct. | 11.53 | 8.85 | 11.00 | 5.12 | 11.02 | 11.24 | 10.96 | 11.01 | 10.93 |
| Nov. | 11.48 | 8.98 | 11.01 | 4.92 | 11.06 | 11.21 | 11.02 | 11.04 | 10.92 |
| Dec. | 11.92 | 8.93 | 11.12 | 5.00 | 11.25 | 11.43 | 11.18 | 11.14 | 11.08 |
| 1992 – Jan. | 11.72 | 8.51 | 10.96 | 4.90 | 10.98 | 11.14 | 11.05 | 10.93 | 10.80 |
| Feb. | 11.34 | 8.66 | 10.94 | 5.03 | 10.93 | 11.07 | 10.86 | 10.90 | 10.75 |
| Mar. | 11.67 | 8.63 | 10.96 | 5.49 | 10.94 | 11.14 | 10.82 | 11.00 | 10.80 |
| Apr. | 12.18 | 8.67 | 11.04 | 5.92 | 11.05 | 11.11 | 10.58 | 11.04 | 10.76 |
| May | 12.22 | 8.78 | 11.06 | 6.00 | 11.04 | 11.24 | 10.63 | 11.17 | 10.88 |
| June | 12.73 | 8.89 | 11.34 | 6.10 | 11.61 | 11.60 | 10.99 | 11.73 | 11.26 |
| July | 13.96 | 8.70 | 11.80 | 6.73 | 12.49 | 12.15 | 11.33 | 12.28 | 11.86 |
| Aug. | 14.38 | 8.82 | 11.83 | 7.27 | 12.48 | 12.38 | 11.54 | 12.94 | 12.10 |
| Sept. | 16.77 | 9.39 | 12.37 | 9.90 | 13.54 | 13.81 | 12.35 | 15.08 | 13.66 |
| Oct. | 17.23 | 10.11 | 12.10 | 8.63 | 13.28 | 13.24 | 12.66 | 14.05 | 12.96 |
| Nov. | 15.20 | 9.42 | 11.57 | 7.95 | 12.16 | 12.76 | 12.80 | 13.13 | 12.40 |
| Dec. | 15.00 | 8.87 | 11.62 | 8.15 | 12.31 | 12.86 | 12.54 | 13.07 | 12.48 |
| 1993 – Jan. | 13.27 | 7.89 | 11.26 | 7.88 | 11.75 | 12.08 | 12.70 | 12.10 | 12.05 |
| Feb. | 12.18 | 7.33 | 10.94 | 7.80 | 11.22 | 11.83 | 12.28 | 11.49 | 11.71 |
| Mar. | 12.25 | 7.74 | 10.88 | 9.09 | 11.17 | 11.71 | 12.07 | 11.30 | 11.55 |
| Apr. | 12.79 | 7.85 | 11.00 | 6.29 | 11.44 | 11.62 | 11.96 | 11.72 | 11.37 |

## M2 AND ITS COUNTERPARTS (1)

*(changes in billions of lire)*

| | M2 (2) | Counterparts | | | | |
|---|---|---|---|---|---|---|
| | | Official reserves (3) | Banks' net foreign position | Credit to the non-state sector (4) | Credit to the state sector (5) | Other (6) |
| 1983 | 50.486 | 8.840 | –4.994 | 24.845 | 32.489 | –10.693 |
| 1984 | 49.737 | 5.141 | –5.138 | 39.245 | 17.562 | –7.073 |
| 1985 | 50.844 | –13.677 | 5.299 | 35.848 | 43.579 | –20.204 |
| 1986 | 45.291 | 3.543 | –6.454 | 29.969 | 20.198 | –1.965 |
| 1987 | 42.720 | 6.756 | –5.573 | 26.694 | 15.843 | –1.000 |
| 1988 | 46.271 | 10.947 | –10.224 | 51.725 | –342 | –5.834 |
| 1989 | 74.544 | 14.971 | –5.529 | 78.647 | 4.071 | –17.616 |
| 1990 | 63.597 | 15.458 | –5.400 | 73.371 | 3.147 | –22.980 |
| 1991 | 76.113 | –8.674 | –26.167 | 78.495 | 31.298 | 1.161 |
| 1992 | 41.795 | –32.591 | –27.713 | 53.550 | 58.509 | –9.959 |
| 1991 – Jan. | –38.779 | –837 | 999 | –5.782 | –26.644 | –6.515 |
| Feb. | –5.886 | 2.397 | 2.434 | –1.482 | –10.775 | 1.541 |
| Mar. | 5.635 | 5.994 | –657 | –2.934 | 2.549 | 682 |
| Apr. | 1.157 | –600 | 865 | 7.536 | 2.001 | –8.646 |
| May | –6.092 | –1.226 | –4.983 | 8.245 | 5.541 | –13.670 |
| June | 18.873 | –131 | –9.771 | 13.648 | –4.459 | 19.586 |
| July | –3.468 | –801 | –7.901 | 19.229 | –409 | –13.586 |
| Aug. | –8.019 | –1.085 | –1.304 | –11.180 | 4.823 | 726 |
| Sept. | 18.930 | 331 | –1.127 | 5.097 | 13.388 | 1.242 |
| Oct. | 7.022 | –1.150 | –3.587 | 10.264 | 12.001 | –10.506 |
| Nov. | 5.385 | –3.826 | –1.192 | 5.443 | 6.980 | –2.020 |
| Dec. | 81.356 | –7.740 | 57 | 30.410 | 26.301 | 32.328 |
| 1992 – Jan. | –57.160 | –613 | –5.709 | –1.058 | –32.406 | –17.373 |
| Feb. | –3.689 | 751 | –7.069 | –142 | 758 | 2.013 |
| Mar. | 12.838 | –868 | –10.084 | 4.226 | 23.996 | –4.432 |
| Apr. | 5.199 | –4.515 | –7.206 | 5.847 | 21.520 | –10.446 |
| May | 4.462 | –1.055 | –3.761 | –3.125 | 6.845 | 5.557 |
| June | 8.410 | –7.800 | –7.129 | 20.946 | –3.312 | 5.706 |
| July | –16.777 | –10.492 | –7.494 | 11.312 | –3.678 | –6.425 |
| Aug. | –14.983 | –4.516 | –2.222 | –10.912 | –3.156 | 5.823 |
| Sept. | 29.132 | –29.884 | 23.811 | 3.785 | 32.215 | –795 |
| Oct. | 1.869 | 10.064 | 1.737 | –2.113 | –2.580 | –5.239 |
| Nov. | –815 | 3.425 | 2.404 | 542 | 4.238 | –11.424 |
| Dec. | 73.309 | 12.912 | –4.991 | 24.242 | 14.069 | 27.077 |
| 1993 – Jan. | –41.676 | –739 | 1.700 | –2.284 | –26.527 | –13.826 |
| Feb. | –465 | –2.933 | 12.059 | –4.852 | 1.760 | –6.499 |
| Mar. | 10.104 | 4.646 | 914 | –5.190 | 11.072 | –1.338 |

(1) Rounding may cause discrepancies in totals. – (2) Domestic money supply of the non-state sector; end-of-period data. – (3) The figures differ slightly from those recorded in the balance of payments owing to the use of different valuation methods for certain items of the BI-UIC foreign position. – (4) Banks' assets vis-à-vis the non-state sector. – (5) Assets vis-à-vis the state sector held by banks and the Bank of Italy. – (6) Financing of special credit institutions by banks and the Bank of Italy, monetary base creation by "other sectors", capital and residual items in bank's balance sheets.

**THE MONKS**
*(stocks in billion,*

| | END-OF-PERIOD | | | | | |
|---|---|---|---|---|---|---|
| | Notes and coin | Sight deposits (2) | | Other assets (3) | Total: M1 | Bank certificates of deposit |
| | | Banks | Post Office | | | |
| 1983 – Dec. ........ | 37,341 | 196,667 | 7,120 | 8,721 | 249,849 | 3,257 |
| 1984 – " ......... | 41,192 | 221,733 | 7,438 | 10,048 | 280,411 | 7,547 |
| 1985 – " ......... | 45,196 | 244,048 | 8,761 | 12,304 | 310,310 | 13,309 |
| 1986 – " ......... | 48,336 | 275,242 | 9,440 | 11,280 | 344,298 | 21,465 |
| 1987 – " ......... | 52,718 | 297,245 | 10,213 | 11,609 | 371,785 | 31,876 |
| 1988 – " ......... | 57,167 | 323,319 | 7,696 | 12,200 | 400,381 | 55,866 |
| 1989 – " ......... | 67,644 | 356,073 | 9,388 | 18,681 | 451,785 | 86,014 |
| 1990 – " ......... | 69,449 | 388,016 | 7,824 | 17,068 | 482,358 | 119,333 |
| 1991 – Jan. ........ | 66,052 | 355,544 | 8,458 | 14,430 | 444,485 | 124,105 |
| Feb. ........ | 66,303 | 349,049 | 8,493 | 14,460 | 438,306 | 126,487 |
| Mar. ........ | 68,771 | 352,953 | 7,948 | 14,026 | 443,698 | 128,926 |
| Apr. ........ | 66,010 | 357,825 | 7,396 | 14,098 | 445,329 | 130,240 |
| May ........ | 66,477 | 349,156 | 7,800 | 15,309 | 438,742 | 133,309 |
| June ........ | 68,894 | 362,596 | 7,668 | 16,650 | 455,808 | 134,765 |
| July ........ | 70,969 | 358,952 | 7,018 | 15,486 | 452,425 | 137,406 |
| Aug. ........ | 68,707 | 355,117 | 7,266 | 12,109 | 443,198 | 139,837 |
| Sept. ....... | 69,102 | 368,664 | 7,445 | 14,698 | 459,908 | 143,373 |
| Oct. ........ | 69,033 | 371,889 | 7,014 | 16,224 | 464,160 | 148,371 |
| Nov. ........ | 70,937 | 371,127 | 6,897 | 18,398 | 467,359 | 150,943 |
| Dec. ........ | 76,354 | 434,733 | 6,986 | 19,429 | 537,503 | 153,433 |
| 1992 – Jan. ........ | 72,132 | 384,901 | 9,132 | 14,304 | 480,469 | 160,400 |
| Feb. ........ | 71,652 | 382,075 | 7,629 | 14,253 | 475,609 | 164,353 |
| Mar. ........ | 72,330 | 391,686 | 7,807 | 14,481 | 486,303 | 168,471 |
| Apr. ........ | 73,294 | 394,286 | 6,414 | 14,238 | 488,232 | 172,311 |
| May ........ | 74,648 | 393,525 | 7,439 | 15,027 | 490,639 | 175,026 |
| June ........ | 73,680 | 400,613 | 8,082 | 16,414 | 498,790 | 177,382 |
| July ........ | 79,216 | 379,062 | 8,507 | 17,378 | 484,163 | 177,348 |
| Aug. ........ | 75,715 | 372,379 | 9,038 | 12,027 | 469,160 | 177,485 |
| Sept. ....... | 78,436 | 390,057 | 9,375 | 15,275 | 493,142 | 183,305 |
| Oct. ........ | 78,736 | 383,199 | 9,184 | 15,116 | 486,236 | 193,099 |
| Nov. ........ | 79,981 | 376,743 | 7,942 | 17,419 | 482,085 | 196,925 |
| Dec. ........ | 85,617 | 434,011 | 8,407 | 16,011 | 544,046 | 200,755 |
| 1993 – Jan. ........ | 82,528 | 394,832 | 10,498 | 14,652 | 502,511 | 203,448 |
| Feb. ........ | 81,200 | 392,746 | 9,612 | 14,309 | 497,868 | 209,607 |
| Mar. ........ | 81,980 | 398,147 | 8,787 | 13,808 | 502,723 | 217,613 |

(1) The money supply of the non-state sector. M2 corresponds to the "harmonized" definition of M3 within the EC. Rounding may cause discrepancies in totals. – (2) Demand deposits in lire and foreign currency. – (5) Including the deposits of the non-state sector whit the foreign branches of Italy banks. – (6) For notes and coin, deposits and banker's drafts, averages of daily data; for

Table a23

**SUPPLY** (1)

| DATA | | | | AVERAGE DATA | | | |
|---|---|---|---|---|---|---|---|
| Bank savings deposits (4) | Postal savings accounts | Total: M2 | Extended M2 (5) | M1 (6) | M2 (6) | Extended M2 (5) (6) | |
| 167,968 | 7,913 | 428,986 | 429,469 | .... | .... | .... | .... Dec. – 1983 |
| 182,201 | 8,565 | 478,723 | 479,137 | .... | .... | .... | ..... " – 1984 |
| 196,443 | 9,506 | 529,568 | 529,991 | 289,262 | 496,028 | 496,647 | ..... " – 1985 |
| 198,049 | 11,047 | 574,859 | 575,234 | 325,503 | 548,856 | 549,234 | ..... " – 1986 |
| 200,485 | 13,434 | 617,579 | 617,900 | 350,845 | 588,218 | 588,589 | ..... " – 1987 |
| 191,231 | 16,372 | 663,850 | 664,509 | 376,337 | 633,041 | 633,750 | ..... " – 1988 |
| 180,862 | 19,733 | 738,395 | 739,476 | 415,018 | 695,759 | 696,758 | ..... " – 1989 |
| 176,712 | 23,589 | 801,991 | 804,307 | 442,427 | 752,409 | 754,683 | ..... " – 1990 |
| 170,874 | 23,749 | 763,213 | 767,495 | 453,351 | 771,227 | 774,526 | ...... Jan. – 1991 |
| 168,495 | 24,039 | 757,326 | 760,337 | 440,022 | 758,303 | 761,950 | ...... Feb. |
| 166,128 | 24,208 | 762,961 | 766,507 | 438,470 | 757,030 | 760,309 | ...... Mar. |
| 164,228 | 24,322 | 764,118 | 767,305 | 441,007 | 759,173 | 762,540 | ...... Apr. |
| 161,660 | 24,315 | 758,026 | 761,151 | 444,410 | 764,570 | 767,727 | ...... May |
| 161,960 | 24,366 | 776,899 | 779,738 | 439,854 | 759,087 | 762,070 | ...... June |
| 159,132 | 24,468 | 773,431 | 776,632 | 448,178 | 768,550 | 771,571 | ...... July |
| 157,676 | 24,701 | 765,412 | 768,628 | 442,412 | 763,409 | 766,618 | ...... Aug. |
| 156,316 | 24,745 | 784,342 | 787,784 | 448,687 | 770,771 | 774,100 | ...... Sept. |
| 153,924 | 24,909 | 791,364 | 794,807 | 457,540 | 782,341 | 785,784 | ...... Oct. |
| 153,356 | 25,090 | 796,748 | 800,257 | 465,504 | 793,388 | 796,864 | ...... Nov. |
| 160,244 | 26,923 | 878,104 | 881,818 | 488,696 | 820,521 | 824,132 | ...... Dec. |
| 152,905 | 27,170 | 820,944 | 824,540 | 503,835 | 844,029 | 847,684 | ...... Jan. – 1992 |
| 149,839 | 27,454 | 817,255 | 821,724 | 475,078 | 816,088 | 820,121 | ...... Feb. |
| 147,594 | 27,726 | 830,093 | 835,292 | 471,018 | 813,188 | 818,022 | ...... Mar. |
| 146,845 | 27,904 | 835,292 | 841,326 | 484,373 | 830,011 | 835,628 | ...... Apr. |
| 146,111 | 27,978 | 839,754 | 846,638 | 486,038 | 833,896 | 840,354 | ...... May |
| 144,126 | 27,866 | 848,164 | 854,545 | 483,749 | 832,166 | 838,798 | ...... June |
| 142,228 | 27,649 | 831,388 | 837,608 | 481,803 | 830,390 | 836,691 | ...... July |
| 142,044 | 27,716 | 816,405 | 822,615 | 466,574 | 813,107 | 819,322 | ...... Aug. |
| 141,566 | 27,524 | 845,536 | 852,755 | 471,843 | 818,245 | 824,960 | ...... Sept. |
| 140,705 | 27,366 | 847,405 | 854,696 | 483,360 | 840,092 | 847,347 | ...... Oct. |
| 140,179 | 27,402 | 846,591 | 851,567 | 477,958 | 840,032 | 846,165 | ...... Nov. |
| 145,881 | 29,218 | 919,899 | 924,982 | 491,454 | 857,262 | 862,292 | ...... Dec. |
| 143,263 | 29,002 | 878,223 | 883,709 | 515,131 | 890,020 | 895,304 | ...... Jan. – 1993 |
| 141,068 | 29,215 | 877,758 | 882,800 | 490,015 | 867,311 | 872,575 | ...... Feb. |
| 138,235 | 29,291 | 887,862 | 892,692 | 487,788 | 868,406 | 873,342 | ...... Mar. |

foreign currency. – (3) Banker's drafts issued by the Bank of Italy and other credit institutions and deposits with the Treasury. – (4) Savings accounts and tied current account deposits in lire and the other items, two-period moving averages of end-of-month data.

**CRI**
*(end-of-period stock*

| | Finance to the non-state sector | | | | |
|---|---|---|---|---|---|
| | From banks (2) | From special credit institutions (2) | Bonds placed domestically | Total domestic finance | Foreign finance (3) |
| 1983 – Dec. | 184,878 | 104,231 | 21,324 | 310,433 | 53,131 |
| 1984 – " | 223,063 | 118,717 | 23,194 | 364,974 | 57,640 |
| 1985 – " | 251,462 | 129,806 | 24,841 | 406,109 | 55,364 |
| 1986 – " | 273,872 | 145,924 | 30,150 | 449,946 | 52,244 |
| 1987 – " | 296,271 | 165,679 | 33,804 | 495,754 | 56,124 |
| 1988 – " | 349,334 | 190,199 | 34,053 | 573,586 | 55,710 |
| 1989 – " | 425,055 | 219,650 | 32,215 | 676,920 | 83,601 |
| 1990 – " | 493,256 | 255,317 | 28,005 | 776,577 | 119,567 |
| 1991 – Jan. | 487,121 | 256,066 | 27,592 | 770,779 | 120,591 |
| Feb. | 485,397 | 258,459 | 29,825 | 773,682 | 129,090 |
| Mar. | 483,838 | 262,359 | 29,880 | 776,078 | 134,362 |
| Apr. | 491,260 | 265,143 | 29,615 | 786,018 | 136,392 |
| May | 498,886 | 269,118 | 29,371 | 797,375 | 134,316 |
| June | 513,408 | 267,837 | 30,065 | 811,310 | 129,046 |
| July | 531,020 | 272,517 | 29,139 | 832,675 | 128,769 |
| Aug. | 519,456 | 275,651 | 28,843 | 823,950 | 128,872 |
| Sept. | 522,231 | 275,569 | 29,772 | 827,572 | 128,574 |
| Oct. | 532,041 | 279,363 | 29,416 | 840,820 | 131,550 |
| Nov. | 537,180 | 284,377 | 29,915 | 851,471 | 132,180 |
| Dec. | 567,165 | 287,595 | 30,717 | 885,477 | 128,338 |
| 1992 – Jan. | 566,231 | 289,188 | 30,610 | 886,029 | 134,880 |
| Feb. | 566,209 | 292,166 | 30,020 | 888,395 | 138,385 |
| Mar. | 569,697 | 295,682 | 29,882 | 895,261 | 140,140 |
| Apr. | 574,288 | 299,433 | 29,714 | 903,436 | 142,790 |
| May | 570,602 | 303,231 | 29,431 | 903,264 | 145,423 |
| June | 590,319 | 300,348 | 29,053 | 919,719 | 145,144 |
| July | 600,474 | 304,746 | 28,250 | 933,470 | 148,477 |
| Aug. | 588,560 | 305,930 | 28,282 | 922,772 | 152,603 |
| Sept. | 604,243 | 307,634 | 28,323 | 940,199 | 152,624 |
| Oct. | 601,556 | 309,849 | 28,289 | 939,693 | 158,718 |
| Nov. | 604,585 | 311,920 | 28,459 | 944,964 | 155,157 |
| Dec. | 635,076 | 312,432 | 27,514 | 975,021 | 156,675 |
| 1993 – Jan. | 634,023 | 311,564 | 27,300 | 972,887 | 160,610 |
| Feb. | 635,125 | 314,192 | 26,794 | 976,111 | 158,626 |
| Mar. | 631,596 | 317,018 | 26,689 | 975,303 | 159,844 |

(1) Rounding may cause discrepancies in totals. From December 1992 onwards, "special credit" no longer includes certain categories of funds administered on behalf of government agancies; on bonds are partially estimated and may be subject to revision. – (4) Domestic state sector debt at face value, net of non-state sector debt held by Deposits and Loans Fund. – (5) Foreign debt

***DIT (1)***

| | Finance to the state sector | | | Credit | | |
|---|---|---|---|---|---|---|
| Total finance | Domestic finance (4) | Foreign finance (5) | Total | Total domestic (6) | Total (7) | |
| 363,564 | 421,197 | 12,505 | 433,702 | 731,631 | 797,266 | ........ Dec. – 1983 |
| 422,614 | 516,195 | 16,285 | 532,480 | 881,168 | 955,094 | ......... " – 1984 |
| 461,472 | 639,234 | 18,205 | 657,438 | 1,045,342 | 1,118,911 | ......... " – 1985 |
| 502,190 | 750,681 | 17,379 | 768,060 | 1,200,627 | 1,270,250 | ......... " – 1986 |
| 551,878 | 861,899 | 23,322 | 885,221 | 1,357,652 | 1,437,099 | ......... " – 1987 |
| 629,296 | 984,049 | 28,586 | 1,012,635 | 1,557,635 | 1,641,931 | ......... " – 1988 |
| 760,521 | 1,111,315 | 34,979 | 1,146,294 | 1,788,235 | 1,906,815 | ......... " – 1989 |
| 896,144 | 1,247,105 | 48,656 | 1,295,761 | 2,023,683 | 2,191,906 | ......... " – 1990 |
| 891,370 | 1,253,032 | 48,689 | 1,301,721 | 2,023,811 | 2,193,091 | ......... Jan. – 1991 |
| 902,772 | 1,259,466 | 51,381 | 1,310,847 | 2,033,148 | 2,213,619 | ......... Feb. |
| 910,440 | 1,276,057 | 57,166 | 1,333,223 | 2,052,135 | 2,243,663 | ......... Mar. |
| 922,411 | 1,292,827 | 57,230 | 1,350,057 | 2,078,845 | 2,272,467 | ......... Apr. |
| 931,691 | 1,309,673 | 56,600 | 1,366,273 | 2,107,048 | 2,297,964 | ......... May |
| 940,356 | 1,301,646 | 57,777 | 1,359,423 | 2,112,956 | 2,299,778 | ......... June |
| 961,444 | 1,314,073 | 56,793 | 1,370,866 | 2,146,749 | 2,332,310 | ......... July |
| 952,822 | 1,326,471 | 56,904 | 1,383,375 | 2,150,421 | 2,336,197 | ......... Aug. |
| 956,146 | 1,350,110 | 55,497 | 1,405,607 | 2,177,681 | 2,361,753 | ......... Sept. |
| 972,370 | 1,370,358 | 55,827 | 1,426,185 | 2,211,178 | 2,398,555 | ......... Oct. |
| 983,652 | 1,384,815 | 55,566 | 1,440,381 | 2,236,287 | 2,424,033 | ......... Nov. |
| 1,013,815 | 1,399,068 | 54,720 | 1,453,788 | 2,284,545 | 2,467,604 | ......... Dec. |
| 1,020,909 | 1,405,259 | 55,598 | 1,460,857 | 2,291,289 | 2,481,766 | ......... Jan. – 1992 |
| 1,026,780 | 1,415,765 | 54,583 | 1,470,348 | 2,304,160 | 2,497,128 | ......... Feb. |
| 1,035,401 | 1,441,937 | 55,120 | 1,497,057 | 2,337,198 | 2,532,458 | ......... Mar. |
| 1,046,226 | 1,465,390 | 54,625 | 1,520,085 | 2,368,825 | 2,566,310 | ......... Apr. |
| 1,048,687 | 1,484,606 | 53,739 | 1,538,345 | 2,387,870 | 2,587,032 | ......... May |
| 1,064,863 | 1,475,566 | 53,110 | 1,528,677 | 2,395,285 | 2,593,540 | ......... June |
| 1,081,947 | 1,490,314 | 52,479 | 1,542,793 | 2,423,783 | 2,624,740 | ......... July |
| 1,075,375 | 1,492,947 | 52,066 | 1,545,013 | 2,415,719 | 2,620,388 | ......... Aug. |
| 1,092,823 | 1,517,712 | 58,402 | 1,576,114 | 2,457,911 | 2,668,937 | ......... Sept. |
| 1,098,412 | 1,531,371 | 58,507 | 1,589,879 | 2,471,064 | 2,688,290 | ......... Oct. |
| 1,100,121 | 1,556,084 | 59,786 | 1,615,870 | 2,501,048 | 2,715,991 | ......... Nov. |
| 1,131,697 | 1,572,911 | 64,653 | 1,637,563 | 2,547,932 | 2,769,260 | ......... Dec. |
| 1,133,496 | 1,584,658 | 64,761 | 1,649,419 | 2,557,544 | 2,782,915 | ......... Jan. – 1993 |
| 1,134,738 | 1,598,804 | 69,246 | 1,668,050 | 2,574,916 | 2,802,788 | ......... Feb. |
| 1,135,147 | 1,624,343 | 74,283 | 1,698,627 | 2,599,646 | 2,833,774 | ......... Mar. |

previous data have been adjusted to eliminate the discontinuity. – (2) In lire and in foreign currency. – (3) Foreign loans and bonds issues by the non-state sector held by non-residents. The data of the state sector at face value. – (6) Domestic finance to the non-state sector and the state sector. – (7) Domestic and foreign finance to the non-state sector and the state sector.

# THE BANK'S CAPITAL AND RESERVES

*Capital.* — The transformation of some of the publicly-owned credit institutions participating in the capital of the Bank of Italy into companies limited by shares as part of restructuring plans drawn up in accordance with Law 218/1990 and Legislative Decree 356/1990, which was mentioned in the previous Annual Report, continued in the second half of 1992. In the course of the year the consequent changes in the Bank's share register were made pursuant to the Presidential Decree of 6 March 1992 approving the amendment to Article 3 of the Bank's Statutes, which includes this form of company among those eligible to hold shares in the Bank of Italy. The distribution of the Bank's shares at 31 December 1992 therefore differed from that of the previous year.

| | at 31 December 1991 | | | at 31 December 1992 | | |
|---|---|---|---|---|---|---|
| | Number | Shares held | Votes | Number | Shares held | Votes |
| | *Shareholders with voting rights* | | | | | |
| Savings banks and pledge banks ...... | 75 | 177,930 | 469 | 8 | 4,866 | 32 |
| Public law credit institutions ......... | 7 | 54,500 | 137 | 2 | 16,000 | 40 |
| Banks of national interest ............ | 3 | 21,000 | 54 | 2 | 16,000 | 40 |
| Companies limited by shares engaging in banking activities (Art. 1 of Legislative Decree 356/1990) ................ | | | | 72 | 216,566 | 544 |
| Social security institutions ........... | 1 | 15,000 | 34 | 1 | 15,000 | 34 |
| Insurance companies ............... | 7 | 31,500 | 91 | 7 | 31,500 | 91 |
| | 93 | 299,930 | 785 | 92 | 299,932 | 781 |
| | *Shareholders without voting rights* | | | | | |
| Savings banks and pledge banks ...... | 8 | 70 | | 2 | 44 | |
| Companies limited by shares engaging in banking activities (Art. 1 of Legislative Decree 356/1990) ................ | | | | 5 | 24 | |
| | 8 | 70 | | 7 | 68 | |
| Total ... | 101 | 300,000 | | 99 | 300,000 | |

*Reserves.* – The changes in the ordinary and extraordinary reserve funds during 1992 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 1991 ....... | | 1,740,603,396,585 | 1,877,302,492,118 |
| increase: | due to appropriation of 20 per cent of profits for the year 1991 ........ | 174,853,415,862 | 174,853,415,862 |
| | due to income received in 1992 from investment of reserves ............... | 226,335,721,175 | 249,026,832,308 |
| decrease: | due to distribution to shareholders of a part of the income accruing in the course of 1991 (Article 56 of the Statutes) ......... | 1,419,236,931 | 1,534,563,069 |
| Balance at 31 December 1992 ....... | | 2,140,373,296,691 | 2,299,648,177,219 |

# BALANCE SHEET
# AND PROFIT AND LOSS ACCOUNT

# BALANCE SHEET

AMOUNTS IN LIRE

## ASSETS

| | | | | |
|---|---|---|---|---|
| **GOLD** | | | | |
| I on hand | | | 1,994,750,858,697 | |
| II on deposit abroad | | | 19,724,642,002,716 | 21,719,392,861,413 |
| **GOLD CREDITS (EMCF)** | | | | 7,485,857,792,735 |
| **CASH ON HAND** | | | | 5,390,504,735 |
| **DISCOUNTS AND ADVANCES** | | | | |
| I portfolio discounts: | | | | |
| — ordinary bills | | 216,863,860,903 | | |
| — stockpiling bills | | 2,748,720,377,535 | 2,965,584,238,438 | |
| II advances: | | | | |
| — current account | | 1,335,847,432,164 | | |
| — fixed term | | 7,047,960,754,750 | | |
| — under Treasury Decree of 27.9.1974 | | — | 8,383,808,186,914 | |
| III deferred payments in the clearing system | | | — | 11,349,392,425,352 |
| **BILLS FOR COLLECTION WITH CORRESPONDENTS** | | | | — |
| **EXTERNAL ASSETS IN FOREIGN CURRENCIES** | | | | |
| I ecus | | | 1,945,808,761,766 | |
| II other: | | | | |
| — banknotes and foreign currency bills | | 2,606,381,896 | | |
| — current accounts with correspondents | | 612,206,126,080 | | |
| — time deposits | | 28,818,142,803,020 | | |
| — other | | 917,419,446,287 | 30,350,374,757,283 | 32,296,183,519,049 |
| **DOLLAR CREDIT (EMCF)** | | | | 3,523,286,890,798 |
| **ECU CREDIT (EMCF) FOR SHORT-TERM FACILITIES** | | | | — |
| **ITALIAN FOREIGN EXCHANGE OFFICE (UIC)** | | | | |
| I current accounts | | | 6,711,174,915,392 | |
| II special accounts | | | 5,438,577,503,218 | 12,149,752,418,610 |
| **EXTRAORDINARY ADVANCE TO THE TREASURY** | | | | — |
| **TREASURY CURRENT ACCOUNT** | | | | 80,779,689,778,612 |
| **SUNDRY CLAIMS ON THE GOVERNMENT** | | | | 615,279,206,593 |
| **SECURITIES** | | | | |
| I government and government-guaranteed securities: | | | | |
| — freely available | | 112,970,849,941,693 | | |
| — investment of statutory reserves | | 3,450,792,524,587 | | |
| — investment of staff severance pay and pension funds | | 2,283,520,023,769 | 118,705,162,490,049 | |
| II securities of companies and agencies: | | | | |
| — investment of statutory reserves | | 125,614,415,198 | | |
| — investment of staff severance pay and pension funds | | 615,159,550,878 | 740,773,966,076 | |
| III shareholdings and participations: | | | | |
| — in subsidiary companies and agencies | | | | |
| *investment of statutory reserves* | 294,453,894 | | | |
| *investment of staff severance pay and pension funds* | 161,758,584,006 | 162,053,037,900 | | |
| — in associated companies and agencies | | | | |
| *investment of statutory reserves* | 26,946,715,622 | | | |
| *investment of staff severance pay and pension funds* | 5,723,750,933 | 32,670,466,555 | | |
| — in other companies and agencies | | | | |
| *investment of statutory reserves* | 472,553,797,164 | | | |
| *investment of staff severance pay and pension funds* | 603,713,797,117 | 1,076,267,594,281 | 1,270,991,098,736 | 120,716,927,554,861 |
| | | | *carried forward . . .* | 290,641,152,952,758 |

## AT 31 DECEMBER 1992

NINETY-NINTH YEAR

### LIABILITES

| | | |
|---|---|---|
| **NOTES IN CIRCULATION** | | 89,222,069,381,000 |
| **BI DRAFTS** | | 1,303,091,710,037 |
| **OTHER SIGHT LIABILITIES** | | |
| I transfer orders | — | |
| II other | 3,232,077,560 | 3,232,077,560 |
| **RESERVE DEPOSITS ON CURRENT ACCOUNT** | | |
| I credit institutions subject to the compulsory reserve requirement | 127,398,373,735,299 | |
| II other entities | 201,322,560,620 | 127,599,696,295,919 |
| **OTHER COMPULSORY DEPOSITS** | | |
| I compulsory bank reserves against foreign currency deposits | — | |
| II collateral for the issue of bankers' drafts and guaranteed personal cheques | 210,310,592 | |
| III tied deposits in relation to investment abroad | — | |
| IV in respect of companies in the process of incorporation | 1,155,279,579 | |
| V other | 18,624,301,448 | 19,989,891,619 |
| **OTHER DEPOSITS ON CURRENT ACCOUNT** | | 47,334,103,254 |
| **TIED DEPOSITS ON CURRENT ACCOUNT** | | — |
| **DEPOSITS FOR CASH DEPARTMENT SERVICES** | | 278,848,348 |
| **EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC** | | 5,438,577,503,218 |
| **EXTERNAL LIABILITIES** | | |
| I deposits in foreign currencies | 36,844,569,369 | |
| II external accounts in lire | 168,119,542,188 | |
| III other | 3,483,328,893,838 | 3,688,293,005,395 |
| **ECU LIABILITIES (EMCF)** | | 11,009,144,683,533 |
| **ECU LIABILITIES (EMCF) FOR SHORT-TERM FACILITIES** | | 4,032,484,800,000 |
| **SUNDRY LIABILITIES TOWARDS THE GOVERNMENT** | | 911,604,028,392 |
| **SUNDRY PROVISIONS** | | |
| I for gold price fluctuations (under Decree Law 867/1976 and Art. 104 (1b) of the codified income tax law | 25,443,257,494,099 | |
| 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 | 2,880,060,009,224 | |
| V for exchange rate adjustments (under Art. 104 (1c) of the codified income tax law) | 3,335,853,960,326 | |
| VI for diminution in value of securities | 5,738,394,015,390 | |
| VII for contingent losses | 2,803,006,748,480 | |
| VIII for insurance cover | 936,691,685,925 | |
| IX for building works | 2,243,801,851,969 | |
| X for renewal of equipment | 841,250,000,000 | |
| XI for taxation | 711,460,016,745 | |
| XII for staff severance pay and pensions | 5,145,936,431,186 | |
| XIII for grants to BI pensioners and their surviving dependants | 1,647,616,067 | |
| XIV for severance pay to contract staff under Law 297/1982 | 1,240,537,609 | |
| XV for effect of wage negotiations on staff costs for 1991 | — | 51,518,314,821,499 |
| | *carried forward . . .* | 294,794,111,149,774 |

# BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

| | | | |
|---|---|---|---|
| | | *brought forward* | 290,641,152,952,758 |
| **UIC ENDOWMENT FUND** | | | 500,000,000,000 |
| **REAL PROPERTY** | | | |
| I Bank premises | | 3,280,933,132,769 | |
| II investment of staff severance pay and pension funds | | 574,912,229,389 | 3,855,845,362,158 |
| **OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS** | | | 32,546,761,817 |
| **FURNITURE AND EQUIPMENT** | | | |
| I furniture and fittings | | 134,937,912,102 | |
| II equipment | | 314,825,515,736 | |
| III coins and collections | | 830,720,088 | 450,594,147,926 |
| **SUNDRY ITEMS** | | | |
| I banknotes in production | | 10,000,263,692 | |
| II procedures, studies and designs of the technical departments: | | | |
| — completed | 56,186,810,432 | | |
| — in preparation | 40,168,919,353 | 96,355,729,785 | |
| III deferred charges | | 23,439,607,670 | |
| IV sundry debtors | | 537,518,023,608 | |
| V other | | 3,146,094,680,224 | 3,813,408,304,979 |
| **ACCRUED INCOME** | | | 5,724,951,581,951 |
| **PREPAID EXPENSES** | | | 2,319,531,158 |
| | | | 305,020,818,642,747 |
| **MEMORANDUM ACCOUNTS** | | | |
| I Securities and other valuables: | | | |
| — held as collateral | 11,034,447,735,919 | | |
| — other | 1,682,813,738,002,508 | 1,693,848,185,738,427 | |
| II Depositaries of securities and valuables: | | | |
| — domestic | 512,940,778,172 | | |
| — foreign | 7,465,278,433,305 | 7,978,219,211,477 | |
| III Unused overdraft facilities | | 410,254,504,853 | |
| IV Debtors for securities, exchange and lire receivable (BI forward sales): | | | |
| — securities | 43,299,360,000,000 | | |
| — internal correspondents | — | | |
| — external correspondents | 39,158,199,765,630 | 82,457,559,765,630 | |
| V Securities, exchange and lire receivable (BI forward purchases): | | | |
| — securities | 215,000,000,000 | | |
| — foreign currencies and lire | 5,376,265,068,492 | 5,591,265,068,492 | |
| VI Orders suspense accounts: | | | |
| — purchases of foreign currencies | — | | |
| — lire in respect of sales of foreign currencies | 160,210,000,000 | | |
| — purchases of securities | — | | |
| — lire in respect of sales of securities | — | 160,210,000,000 | |
| VII Exchequer for depreciation allowances | | 3,106,922,009 | 1,790,448,801,210,888 |
| | | **TOTAL . . .** | **2,095,469,619,853,635** |

*Audited and found correct. - Rome, 27 April 1993*

**THE AUDITORS**
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

## LIABILITIES

| | | | |
|---|---|---|---|
| *brought forward . . .* | | | 294,794,111,149,774 |
| **ACCUMULATED DEPRECIATION OF PROPERTY** | | | 769,776,818,269 |
| **ACCUMULATED DEPRECIATION OF FURNITURE AND FITTINGS** | | | 120,340,755,656 |
| **ACCUMULATED DEPRECIATION OF EQUIPMENT** | | | 244,679,919,355 |
| **ACCUMULATED DEPRECIATION (Art. 67 (3) of the codified income tax law)** | | | 23,598,970,058 |
| **ACCUMULATED DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGNS OF THE TECHNICAL DEPARTMENTS** | | | 24,646,677,939 |
| **ACCUMULATED DEPRECIATION OF DEFERRED CHARGES** | | | 10,572,876,130 |
| **SUNDRY ITEMS** | | | |
| I sundry creditors | | 76,416,181,851 | |
| II other | | 741,061,167,660 | 817,477,349,511 |
| **ACCRUED EXPENSES** | | | 411,174,891,896 |
| **DEFERRED INCOME** | | | 535,079,363,491 |
| **CAPITAL** | | 300,000,000 | |
| **ORDINARY RESERVE FUND** | | 2,140,373,296,691 | |
| **EXTRAORDINARY RESERVE FUND** | | 2,299,648,177,219 | 4,440,321,473,910 |
| **REVALUATION SURPLUS RESERVE UNDER LAW 72/1983** | | | 1,304,000,000,000 |
| **REVALUATION SURPLUS RESERVE UNDER LAW 408/1990** | | | 1,278,970,875,346 |
| **REVALUATION SURPLUS RESERVE UNDER LAW 413/1991** | | | 32,766,651,690 |
| **PROVISION FOR TAX UNDER LAW 413/1991** | | | — |
| **NET PROFIT FOR DISTRIBUTION** | | | 213,300,869,722 |
| | | | 305,020,818,642,747 |
| **MEMORANDUM ACCOUNTS** | | | |
| I Depositors of securities and other valuables | | 1,693,848,185,738,427 | |
| II Securities and valuables on deposit | | 7,978,219,211,477 | |
| III Holders of unused overdraft facilities | | 410,254,504,853 | |
| IV Securities, exchange and lire for delivery (BI forward sales): | | | |
| — securities | 43,299,360,000,000 | | |
| — foreign currencies and lire | 39,158,199,765,630 | 82,457,559,765,630 | |
| V Creditors for securities, exchange and lire for delivery (BI forward purchases): | | | |
| — securities | 215,000,000,000 | | |
| — internal correspondents | — | | |
| — external correspondents | 5,376,265,068,492 | 5,591,265,068,492 | |
| VI Order suspense accounts: | | | |
| — lire in respect of purchases of foreign currencies | — | | |
| — sales of foreign currencies | 160,210,000,000 | | |
| — lire in respect of purchases of securities | — | | |
| — sales of securities | — | 160,210,000,000 | |
| VII Depreciation allowances | | 3,106,922,009 | 1,790,448,801,210,888 |
| **TOTAL . . .** | | | **2,095,469,619,853,635** |

THE ACCOUNTANT GENERAL

LUIGI GIANNOCCOLI

THE GOVERNOR

CARLO AZEGLIO CIAMPI

# PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

| | | | |
|---|---|---|---|
| **COSTS OF ADMINISTRATION** | | | |
| central and local boards | | 1,843,534,796 | |
| staff: | | | |
| wages and salaries and related costs | 1,021,131,443,151 | | |
| pensions and severance payments | 359,315,646,206 | 1,380,447,089,357 | |
| professional services | | 176,308,497,287 | |
| other | | 237,048,561,450 | 1,795,647,682,890 |
| **TAXES AND DUTIES** | | | |
| stamp duty on the circulation of banknotes and demand drafts | | — | |
| other taxes and duties: | | | |
| current year | 124,471,226,848 | | |
| previous years | 2,355,749,746,000 | 2,480,220,972,848 | 2,480,220,972,848 |
| **INTEREST PAID** | | | |
| on compulsory bank reserves | | 8,108,117,394,569 | |
| other | | 883,625,619,855 | 8,991,743,014,424 |
| **EXPENDITURE ON SECURITIES TRANSACTIONS** | | | 132,939,107 |
| **EXPENDITURE ON FOREIGN TRANSACTIONS** | | | 152,080,392 |
| **LOSSES ON SECURITIES** | | | — |
| **LOSSES ON FOREIGN EXCHANGE** | | | 4,394,458,488,789 |
| **LOSSES ON SUNDRY FINANCIAL TRANSACTIONS** | | | — |
| **LOSSES ON THE DISPOSAL OF ASSETS** | | | 13,941,949 |
| **CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES** | | | 2,144,379,562 |
| **TECHNICAL DEPARTMENTS – INITIAL STOCKS** | | | 45,950,531,853 |
| **EXPENDITURE ON TRANSACTIONS WITH THE TREASURY** | | | 2,481,146,895,000 |
| **VALUATION LOSSES** | | | |
| on securities | | 1,170,725,468,566 | |
| on foreign exchange | | — | |
| on other assets | | — | 1,170,725,468,566 |
| **DEPRECIATION** | | | |
| of buildings | | 84,490,280,942 | |
| of furniture and fittings | | 13,205,216,971 | |
| of equipment | | 54,232,584,571 | |
| of the procedures, studies and designs of the technical departments | | 24,799,730,713 | |
| of deferred charges | | 8,667,901,271 | |
| other | | 39,111,814 | 185,434,826,282 |
| **APPROPRIATION OF INVESTMENT INCOME TO RESERVES** | | | |
| to ordinary reserve fund | | 226,335,721,175 | |
| to extraordinary reserve fund | | 249,026,832,308 | 475,362,553,483 |
| | | *carried forward...* | 22,023,133,775,145 |

## INCOME AND PROFITS

| | | | | |
|---|---|---|---|---|
| **INTEREST RECEIVED** | | | | |
| on discounts and advances: | | | | |
| ordinary portfolio discounts | | 19,234,065,134 | | |
| stockpiling portfolio discounts | | 26,579,901,756 | | |
| advances | | 950,135,093,289 | 995,949,060,179 | |
| on lending to the Treasury | | | 846,195,238,110 | |
| on lending to the UIC | | | 2,681,095,945,369 | |
| on lending abroad | | | 539,977,613,469 | |
| other | | | 34,850,856,456 | 5,098,068,713,583 |
| **INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES** | | | | |
| *freely available* | | | | |
| interest-bearing: | | | | |
| Treasury bills | 1,132,446,750,668 | | | |
| variable rate Treasury credit certificates | 5,410,920,728,523 | | | |
| other government securities | 5,929,747,661,947 | 12,473,115,141,138 | | |
| government-guaranteed securities | | 8,870,465,167 | 12,481,985,606,305 | |
| *investment of reserves and staff severance pay and pension funds* | | | | |
| interest-bearing: | | | | |
| government and government-guaranteed securities | 677,307,758,336 | | | |
| other securities | 76,732,165,579 | 754,039,923,915 | | |
| from investments in: | | | | |
| subsidiary companies and bodies | 6,446,878,868 | | | |
| associated companies and bodies | 9,931,334,024 | | | |
| other companies and bodies | 60,601,547,621 | 76,979,760,513 | 831,019,684,428 | 13,313,005,290,733 |
| **INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND** | | | | 76,257,785,500 |
| **SECURITIES ISSUE DISCOUNTS** | | | | 583,052,314,387 |
| **PROFITS ON SECURITIES** | | | | 813,223,594,749 |
| **PROFITS ON FOREIGN EXCHANGE** | | | | — |
| **PROFITS ON SUNDRY FINANCIAL TRANSACTIONS** | | | | 13,681,378,333 |
| **COMMISSIONS AND OTHER FINANCIAL REVENUES** | | | | 261,097,444,657 |
| **INCOME FROM REAL PROPERTY** | | | | 18,338,829,231 |
| **PROFITS FROM THE DISPOSAL OF:** | | | | |
| real property | | | — | |
| other property | | | 1,571,319,627 | 1,571,319,627 |
| **CAPITALIZATION OF DEFERRED CHARGES** | | | | 14,179,868,241 |
| **TECHNICAL DEPARTMENTS - FINAL STOCKS** | | | | 59,221,808,882 |
| **TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR** | | | | 20,891,541,291 |
| **VALUATION GAINS** | | | | |
| on securities | | | — | |
| on foreign exchange | | | — | |
| on other assets | | | — | — |
| | | | *carried forward . . .* | 20,272,589,889,214 |

## PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

| EXPENDITURE AND LOSSES | | |
|---|---|---|
| | *brought forward . . .* | 22,023,133,775,145 |
| **ALLOCATIONS TO PROVISIONS** | | |
| for losses on bill portfolio | — | |
| for diminution in value of foreign exchange | — | |
| for diminution in value of securities | 640,000,000,000 | |
| for contingent losses | — | |
| for insurance cover | 10,000,000,000 | |
| for building works | 100,000,000,000 | |
| for renewal of equipment | 30,000,000,000 | |
| for taxation | 200,000,000,000 | |
| for staff severance pay and pensions | 745,281,616,255 | |
| for grants to BI pensioners and their surviving dependants | 51,307,560 | |
| for severance pay of contract staff under Law 297/1982 | 201,822,354 | |
| for effect of wage negotiations on staff costs for 1991 | — | 1,725,534,746,169 |
| **NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES** | | 2,930,158,323 |
| | | 23,751,598,679,637 |
| **NET PROFIT** | | 213,300,869,722 |
| | **TOTAL . . .** | **23,964,899,549,359** |

| APPROPRIATION |
|---|
| **TO ORDINARY RESERVE FUND** |
| **TO EXTRAORDINARY RESERVE FUND** |
| **TO SHAREHOLDERS** |
| **TO THE TREASURY** |

*Audited and found correct. - Rome, 27 April 1993*

**THE AUDITORS**
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

| INCOME AND PROFITS | | |
|---|---|---|
| | *brought forward . . .* | 20,272,589,889,214 |
| **WITHDRAWALS FROM PROVISIONS** | | |
| for losses on bill portfolio | — | |
| for diminution in value of foreign exchange | — | |
| for diminution in value of securities | 1,170,725,468,566 | |
| for contingent losses | — | |
| for insurance cover | — | |
| for building works | 84,490,280,942 | |
| for renewal of equipment | — | |
| for taxation | 2,355,749,746,000 | |
| for staff severance pay and pensions | — | |
| for grants to BI pensioners and their surviving dependants | 120,521,500 | |
| for severance pay of contract staff under Law 297/1982 | 25,117,192 | |
| for effect of wage negotiations on staff costs for 1991 | 80,000,000,000 | 3,691,111,134,200 |
| **NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS** | | 1,198,525,945 |
| | **TOTAL . . .** | **23,964,899,549,359** |

| OF PROFIT | |
|---|---|
| | 42,660,173,944 |
| | 42,660,173,944 |
| | 30,000,000 |
| | 127,950,521,834 |
| **TOTAL . . .** | **213,300,869,722** |

THE ACCOUNTANT GENERAL

LUIGI GIANNOCCOLI

THE GOVERNOR

CARLO AZEGLIO CIAMPI

# ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1992

## 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 |

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Francesco CONTI
Gaetano DI MARZO*
Angelo FERRATI
Paolo Emilio FERRERI*
Callisto GEROLIMICH COSULICH
Giuseppe GIOIA
Paolo LATERZA
Rosolino ORLANDO*
Giovanni Battista PARODI*
Gavino PIRRI
Giulio PONZELLINI
Mario SARDELLA

* Member of the Executive Committee

## BOARD OF AUDITORS

Domenico AMODEO
Mario CATTANEO
Vittorio CODA
Arnaldo MAURI
Franco Gaetano SCOCA

## ALTERNATES

Raffaele D'ORIANO
Piergaetano MARCHETTI

## CENTRAL MANAGERS

| | |
|---|---|
| Giorgio SANGIORGIO | – CHIEF LEGAL ADVISER |
| 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 |
| Carlo SANTINI | – CENTRAL MANAGER FOR CENTRAL BANK OPERATIONS |

LIST OF ABBREVIATIONS

| | | |
|---|---|---|
| ABI | – | *Associazione bancaria italiana*<br>Italian Bankers' Association |
| ANAS | – | *Azienda nazionale autonoma delle strade statali*<br>State Road Agency |
| ANIA | – | *Associazione nazionale fra le imprese assicuratrici*<br>National Association of Insurance Companies |
| BI | – | *Banca d'Italia*<br>Bank of Italy |
| CIPA | – | *Convenzione interbancaria per i problemi dell'automazione*<br>Interbank Convention on Automation |
| Confindustria | – | *Confederazione generale dell'industria italiana*<br>Confederation of Italian Industry |
| Consob | – | *Commissione nazionale per le società e la borsa*<br>Companies and Stock Exchange Commission |
| EFIM | – | *Ente partecipazioni e finanziamento industria manifatturiera*<br>Shareholding and Financing Agency for Manufacturing Industry |
| Enel | – | *Ente nazionale energia elettrica*<br>National Electricity Agency |
| ENI | – | *Ente nazionale idrocarburi*<br>National Hydrocarbon Agency |
| ILOR | – | *Imposta locale sui redditi*<br>Local income tax |
| INA | – | *Istituto nazionale assicurazioni*<br>National Insurance Institute |
| INPS | – | *Istituto nazionale per la previdenza sociale*<br>National Social Security Institute |
| INVIM | – | *Imposta nazionale sul valore immobiliare*<br>Capital gains tax on property |
| IRI | – | *Istituto per la ricostruzione industriale*<br>Institute for Industrial Reconstruction |
| IRPEF | – | *Imposta sul reddito delle persone fisiche*<br>Personal income tax |
| IRPEG | – | *Imposta sul reddito delle persone giuridiche*<br>Corporate income tax |
| Isco | – | *Istituto nazionale per lo studio della congiuntura*<br>National Institute for the Study of the Economic Situation |
| Istat | – | *Istituto nazionale di statistica*<br>National Institute of Statistics |
| SACE | – | *Sezione speciale per l'assicurazione del credito all'esportazione*<br>Export Credit Insurance Agency |
| UIC | – | *Ufficio italiano dei cambi*<br>Italian Foreign Exchange Office |

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