BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1994

ABRIDGED REPORT
FOR THE YEAR
1993

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Recent developments

Output in the United States expanded by 3.0 per cent last year, compared with 2.6 per cent in 1992 (Table 1). The growth, which was particularly rapid in the second half of the year, was stimulated by domestic demand, which drew strength from a significant improvement in the financial condition of households and in corporate profitability. Consumer spending on durable goods increased by 7.3 per cent and investment in machinery by 16.2 per cent. The external sector's negative contribution to growth worsened to 0.9 percentage points.

In Japan output more or less stagnated, after 18 years of uninterrupted growth at an average rate of about 4 per cent per year. An increase in public expenditure on consumption and investment was offset by a sharp decline of about 7 per cent in private sector investment. The contribution of the external sector was also negative, owing mainly to the substantial appreciation of the yen, with the nominal effective exchange rate rising by nearly 17 per cent between January and December. Industrial production contracted for the second consecutive year, falling by 4.2 per cent following the 5.7 per cent decline registered in 1992.

Economic activity in the countries of the European Union declined by 0.3 per cent, the first such contraction since 1975.

In the western regions of Germany output fell by 2.5 per cent, the most serious downturn since the Second World War. In the eastern part of the country gross product increased by 7.1 per cent, following growth of 9.7 per cent in 1992. Manufacturing output, which had fallen by more than 30 per cent in the previous two years, rose by 8.7 per cent. Construction activity increased by 12.2 per cent, thanks to public infrastructure investment and subsidized credit.

Table 1

DEMAND AND GROSS PRODUCT IN THE LEADING INDUSTRIAL COUNTRIES

(constant prices; annualized percentage changes over preceding period)

	1991	1992	1993	1993	
				H1	H2
United States					
Domestic demand (1)	–1.4	2.9	3.8	3.3	4.3
Net exports (2)	0.7	–0.3	–0.9	–1.1	–0.7
GDP	–0.7	2.6	3.0	2.3	3.6
Japan					
Domestic demand (1)	2.9	0.4	0.3	1.3	0.3
Net exports (2)	1.4	1.0	–0.3	–0.5	–1.1
GNP	4.3	1.4	0.1	0.8	–0.8
Germany					
Domestic demand (1)	4.7	2.7	–1.4	....	....
Net exports (2)	–3.1	–0.6	0.2	....	....
GDP	1.5	2.1	–1.2	....	....
of which:					
Western regions					
Domestic demand (1)	*3.6*	*1.2*	*–2.6*	*–4.1*	*–0.1*
Net exports (2)	*1.0*	*–0.5*	..	..	*0.3*
GNP	*4.3*	*0.6*	*–2.5*	*–3.8*	*0.2*
France					
Domestic demand (1)	0.5	0.4	–1.3	–2.6	–0.2
Net exports (2)	0.2	1.0	0.6	0.7	1.3
GDP	0.7	1.4	–0.7	–2.0	1.0
Italy					
Domestic demand (1)	1.9	0.8	–5.0	–7.9	..
Net exports (2)	–0.8	–0.1	4.6	7.7	0.3
GDP	1.2	0.7	–0.7	–0.7	0.3
United Kingdom					
Domestic demand (1)	–3.4	0.3	2.0	1.3	3.7
Net exports (2)	1.2	–0.9	–0.2	0.6	–1.2
GDP	–2.2	–0.6	1.9	1.9	2.5
Canada					
Domestic demand (1)	–1.0	–0.1	1.8	3.0	2.0
Net exports (2)	–0.6	0.8	0.5	–0.1	0.8
GDP	–1.7	0.7	2.4	3.0	2.8
Total for the seven leading industrial countries					
Domestic demand (1)	0.1	1.6	1.3	0.8	2.3
Net exports (2)	0.7	0.1	..	0.2	..
GDP	0.8	1.7	1.4	0.9	2.2
EU					
Domestic demand (1)	1.2	0.9	–1.6	–3.1	0.4
Net exports (2)	0.3	–0.1	1.3	2.1	0.9
GDP	1.5	0.9	–0.3	–0.9	1.3

Sources: IMF, OECD and national statistics.

(1) Including changes in stocks. – (2) Contribution of the external sector to the increase in gross product, in percentage points.

In France GDP declined by 0.7 per cent, the sharpest contraction since the Second World War. Economic activity was affected by the weakness of consumer spending and investment, especially the latter, which had already decreased in the preceding two years and showed a further decline of 5.0 per cent in 1993.

The only major European country to record growth in GDP was the United Kingdom, with an increase of 1.9 per cent following two years of contraction. The recovery was sustained by consumer spending, which benefited from a reduction in households' debt, thanks to falling interest rates and a recovery in property values.

The problems of the labour market came increasingly to the fore in all the industrial countries, especially those in recession, where the employment picture deteriorated severely. In the twelve months ending in December 1993 the unemployment rate declined only in the United States and the United Kingdom, where it fell by about 1 percentage point to 6.4 and 9.9 per cent respectively. Nonetheless, unemployment in the United Kingdom is still more than 4 points higher than the minimum recorded during the previous cyclical expansion. The reduction in unemployment in the United States was primarily the result of the creation of more than 2.3 million jobs, but even this substantial gain was less than those recorded during previous recoveries.

By contrast, unemployment rose in Japan and even more sharply in continental Europe. In Germany the rate increased from 8.0 per cent in January to 9.6 per cent at the end of the year; it stood at 16.2 per cent in the eastern regions, representing 1.2 million job seekers, compared with 2.5 million in the western part of the country, the largest number since the immediate postwar period. In France, Italy and Spain unemployment rates rose by 1.7, 1.9 and 2.2 points respectively to 12.2, 11.3 and 23.9 per cent. Total employment in the EU fell by 1.8 per cent during the year, with the loss of some 700,000 jobs in Italy, 600,000 in western Germany, more than 400,000 in Spain and 250,000 in France.

Inflation diminished further in 1993 from the already low rates recorded the previous year, owing to a fall in energy and raw materials prices and, in Japan and continental Europe, the slackness of demand. For the industrial countries as a group the rise in consumer prices slowed to an annual average of 2.8 per cent, compared with 3.2 per cent in 1992; in the EU the decline was from 4.2 to 3.4 per cent. Inflation was particularly low in Japan (1.3 per cent), the United Kingdom (1.6 per cent), Canada (1.9 per cent) and France (2.1 per cent). In the United States, despite the acceleration in economic growth, price inflation slowed during the year from 3.3 per cent in January to 2.7 per cent in December. In western Germany inflation decreased from 4.4 to 3.7

per cent; the reduction was less than had been expected, chiefly on account of a rapid rise in rents and in service prices.

Inflation continued to ease in the United States and France in the first few months of 1994, with twelve-month rates of 2.4 and 1.7 per cent respectively being recorded in April. In western Germany it declined to 3.1 per cent in the same month, despite an increase in indirect taxes that took effect at the beginning of the year. In Italy the cost-of-living index registered a twelve-month increase of 4.1 per cent in April.

Economic policies

Monetary policies. — The US discount rate, which had been reduced to 3 per cent in July 1992, its lowest level in thirty years, remained unchanged throughout 1993 and the rate on federal funds fluctuated around that level. The yield on three-month Treasury bills also remained at 3 per cent (Figure 1).

In Japan there was a further pronounced relaxation of monetary conditions in order to alleviate the financial strain not only on firms but also on banks, which bore the heavy cost of increasing bad debts. Between February and September the discount rate was reduced by 1.5 points to a post-war low of 1.75 per cent, which encouraged a comparable decline in the 3-month interbank rate from 3.8 per cent in January to 2.1 per cent in December. The banks' prime rate was lowered in stages from 4.5 to 3.0 per cent while deposit rates decreased less sharply, from 2.6 to 1.7 per cent. The widening of the spread between borrowing and lending rates that had been under way since 1990 thus came to a halt.

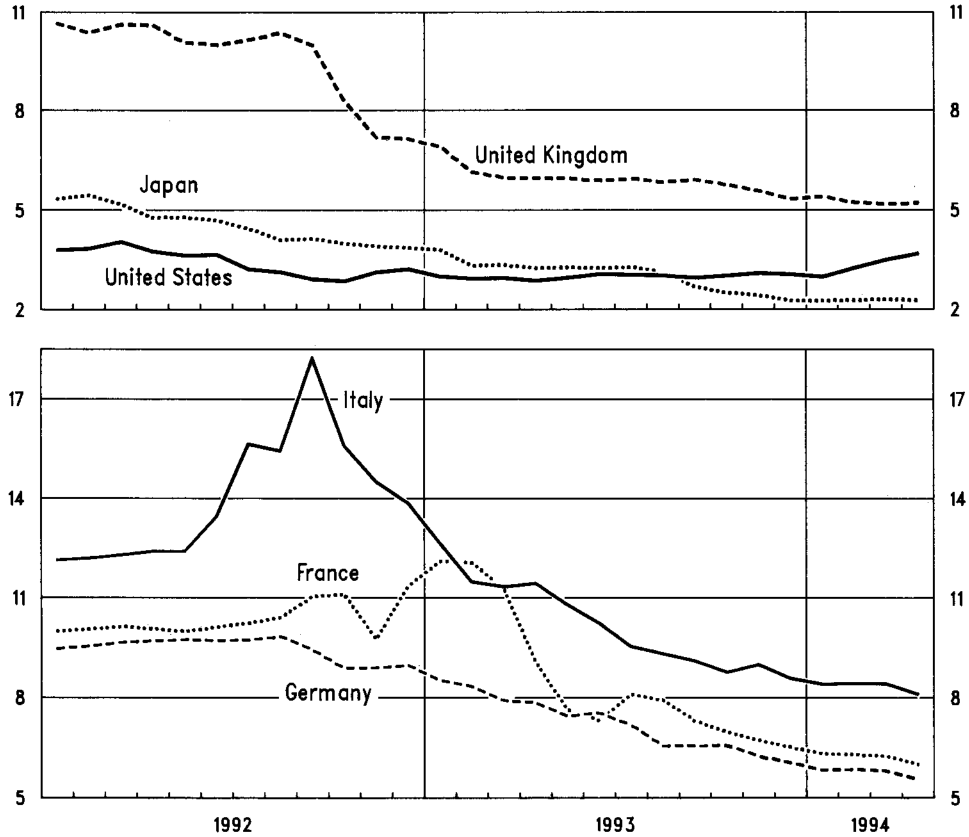
In Germany the reduction of official interest rates that began in September 1992 continued, albeit discontinuously. Between January and October the discount and lombard rates were lowered respectively from 8.25 to 5.75 per cent and from 9.5 to 6.75 per cent. Over the same period the rate on repurchase agreements was reduced from 8.75 to 6.4 per cent. Under the influence of the reduction in official rates, short-term money market rates fell from 8.5 per cent in January to 6.1 per cent in December.

Monetary policy in the United Kingdom was directed towards consolidating the economic recovery, as price pressures remained modest. The base rate was reduced from 7 to 5.5 per cent in two steps in January and November, prompting an almost identical decline in short-term money market rates. In the ERM countries the downward movement in interest rates that had begun in the autumn of 1992 was abruptly halted by currency unrest within the EMS at the beginning of the year and on an even larger scale in July. The decline in short-term yields resumed after the widening of the fluctuation bands on 2 August, so that by December differentials vis-à-vis the Deutschemark were considerably narrower than at the beginning of the year: 0.5 percentage points in France, 2.8 in Spain, 1.3 in Denmark and 0.2 in Ireland.

Figure 1

SHORT-TERM INTEREST RATES (1)

(monthly averages)



Sources: National bulletins, IMF and OECD.

(1) United States: rate on 3-month Treasury bills; Canada: rate on 3-month Treasury bills (end of period); Japan: rate on 2-month commercial bills; Germany, France and United Kingdom: 3-month interbank rate; Italy: weighted average 3-month interbank rate.

During the first few months of 1994 monetary policy stances in the United States, Japan and Germany diverged once again, but bond prices fell sharply everywhere. Even though consumer price inflation was below 3 per cent, the swift reduction in idle capacity prompted the Federal Reserve to reverse the relaxation of monetary conditions that had began in 1989 in order to stifle potential inflationary pressures. Between early February and mid-May the federal funds rate was raised in several stages by a total of 1.25 points to 4.25 per cent, while the discount rate was increased from 3 to 3.5 per cent in May. Yields on 3-month Treasury bills and government bonds consequently rose. In Europe the easing of monetary conditions continued, albeit extremely gradually. In February the British authorities lowered the base rate to 5.25 per cent, the lowest level for sixteen years. Between early February and mid-May the Bundesbank reduced the discount rate by 1.25 points to 4.5 per cent and the lombard rate by 0.75 points to 6.0 per cent. The rate on repurchase agreements was lowered by only 0.65 points over the same period, to 5.35 per cent. The Bank of France brought down its intervention rate by 0.7 points, from 6.2 per cent at the beginning of the year to 5.5 per cent in mid-May.

The expansion of the monetary aggregates in the leading industrial countries last year again only loosely reflected the growth in nominal output. In Germany the money supply grew by 7.5 per cent, compared with a nominal increase in GDP of just under 3 per cent; as a result, for the third consecutive year Germany overshot its money supply growth target, which had been set at 4.5-6.5 per cent.

Monetary growth in Japan accelerated slightly compared with 1992 but remained very slow, just 1.6 per cent for M2 plus certificates of deposit. An important contributory factor was the further slowdown in credit growth, whose twelve-month rate of increase fell from about 3 per cent in January to 1 per cent in December. In the second half of the year finance to the private sector actually contracted for the first time.

In the United States the growth in the reference aggregates (0.5 per cent for M3 and 1.3 per cent for M2) was far less than that in nominal GDP, which increased by about 6 per cent, and near the bottom of the target ranges of 0-4 and 1-5 per cent respectively; this confirms the instability of the relation between money supply growth and the increase in nominal output that has been evident since the turn of the decade.

Fiscal policies. — The aggregate general government deficit of the leading industrial countries widened from 3.7 per cent of GDP in 1992 to 3.9 per cent last year. The public finances worsened everywhere except in the United States, where the economy was expanding, and in Italy, which was still in recession. In Germany the budgetary effects of the cyclical downturn were partly offset by restrictive fiscal measures. In Japan, France and the United Kingdom the fiscal policy stance was expansionary.

The US federal budget deficit came to $255 billion (4.0 per cent of GDP), compared with $290 billion in 1992 (4.9 per cent). The public finances benefited from the surplus of the social security system ($45 billion, against $50 billion the previous year) and from receipts of $28 billion in connection with the liquidation of the assets of thrift institutions. Net of these two items, the deficit decreased much less markedly, from $338 to 328 billion.

In Japan, the recession and the stimulatory measures introduced in the course of the year caused a significant deterioration in the public accounts. The central government deficit rose from 2.2 to 2.6 per cent of GNP. The surplus of general government, which benefits from the substantial surplus of the social security system, fell from 1.8 to 0.3 per cent of GNP.

In Germany the economic downturn produced a substantial worsening of the budget imbalances, in both the narrow and broad definitions. The federal government deficit rose from DM 40 to 68 billion, or from 1.3 to 2.2 per cent of GDP, and that of general government from DM 79 to 102 billion, or from 2.6 to 3.3 per cent. Public transfers to the eastern regions rose from DM 150 billion to more than DM 160 billion, the equivalent of 56 per cent of those regions' GDP and 5.1 per cent of that of the entire country.

In France the effect of built-in stabilizers and discretionary spending measures significantly aggravated budget disequilibria. The state sector deficit increased from 3.2 to 4.7 per cent of GDP and that of general government from 3.9 to 5.7 per cent. In the United Kingdom there was a perceptible deterioration, due entirely to discretionary measures; the public sector borrowing requirement rose from 6.0 to 7.8 per cent of GDP, whereas in 1990 it had been nil.

International organizations forecast a slight improvement in the public finances in 1994 in all the leading industrial countries except Japan and France. The expected improvement is ascribed to the implementation of medium-term financial adjustment plans that have already been approved and to a modest recovery of economic activity in Europe.

According to estimates from the US Administration, the United States' federal budget deficit for the current fiscal year, which ends in September, will decline further to about $235 billion, or 3.5 per cent of GDP. Last September the Administration unveiled a plan for reform of the health care system designed to extend coverage to the 38 million Americans who currently lack it and to curb rising health care costs. The effects of the programme will begin to be felt in 1995.

In February of this year the Japanese Government introduced a new programme of measures to stimulate the economy, the fourth since August 1992. The package, which has already won parliamentary approval, involves a total of more than 15 trillion yen, or 3.2 per cent of GNP. It includes 4 trillion yen in additional public investment and, for the first time, reductions in direct taxation amounting to an estimated 5.8 trillion yen. The tax cuts will come into effect in the second half of the year and in all likelihood will be extended to 1995.

In Germany the restrictive fiscal stance should make it possible to hold the budget deficits at the various levels of government constant in absolute terms, with a slight reduction in proportion to GDP.

In France the general government deficit is expected to increase from 5.7 to 6.1 per cent of GDP in 1994, owing mainly to the stimulatory measures passed at the beginning of the year.

The UK authorities have launched a medium-term financial adjustment programme that should reduce the public sector borrowing requirement from 7.8 to 5.5 per cent of GDP this year.

THE INTERNATIONAL FOREIGN EXCHANGE AND FINANCIAL MARKETS

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

The behaviour of the three leading currencies in 1993 only partly reflected the divergence of the cyclical position of the United States vis-à-vis those of Japan and Germany. The nominal effective exchange rate of the dollar rose by barely 0.9 per cent over the year, primarily as a result of the opposite movements of the Deutschemark and the yen, with the former depreciating by 7.5 per cent and the latter appreciating by 12.7 per cent against the dollar. These movements were influenced by contrasting factors: on the one hand, the cyclical divergence was accompanied by a shift in short-term interest rate differentials in favour of the dollar, and on the other the parallel widening of Japan's current account surplus and the United States' deficit reinforced the markets' perception of the structural nature of these imbalances and hence their expectations of an appreciation of the yen.

In December 1993 the real effective exchange rate of the dollar was virtually unchanged from the previous December and around 10 per cent lower than in 1980, the last year when the US balance of payments was in surplus; that of the yen was 13.5 per cent higher over the year and more than 40 per cent higher than in 1980. The price competitiveness of the European Union countries as a group improved by 7.4 per cent, attracting demand from regions where cyclical conditions are more favourable; the overall improvement compared with 1980 amounted to around 10 per cent.

As well as displaying the broad tendencies described above, exchange rates fluctuated widely last year, primarily on account of a change in expectations regarding the stance of monetary policy. The year opened with a continued appreciation of the dollar, which had begun to strengthen the previous autumn, partly owing to the decline in interest rates in Germany and Japan. Between February and August, however, exchange rate developments were dominated by accumulating evidence of the seriousness of the trade imbalances and uncertainty about both the pace of the economic recovery in the United States and the outlook for a further fall in interest rates in Germany. During this period the yen appreciated by around 17 per cent against the dollar to reach a new historical high, while the Deutschemark behaved more erratically. In the autumn the acceleration of activity in the

United States encouraged an appreciation of the dollar against the Deutschemark and the yen, although the currency recovered only part of the ground it had previously lost against the yen. In February 1994 the dollar weakened again in connection with the rekindling of the trade dispute between the United States and Japan and continued uncertainty regarding the orientation of German monetary policy.

The European Monetary System

The crisis that rocked the European Monetary System from the summer of 1992 onwards carried over into the first half of 1993 in conjunction with massive capital movements. The steps taken to defend central rates proved insufficient to counter the pressure of the markets, and on 2 August 1993 the monetary authorities of the member countries decided to widen the fluctuation band from ±2.25 to ±15 per cent while leaving central rates unchanged. Subsequently, the reduction in interest rates in Germany and the decision of the other countries' monetary authorities not to sever the link with German monetary policy favoured a return to greater exchange rate stability.

With the exception of the Dutch guilder, the currencies participating in the Exchange Rate Mechanism came under pressure in the first few months of 1993. A period of temporary stability ensued in May and June, but confirmation of the deteriorating economic situation in Europe at the beginning of July strengthened the perception of a conflict between the exchange rate constraint and domestic objectives, which required interest rates to be lowered in order to aid recovery. The dilemma was exacerbated by the slowness of the relaxation in monetary conditions in Germany owing to persistent worries about inflation and the rapid growth in the money supply.

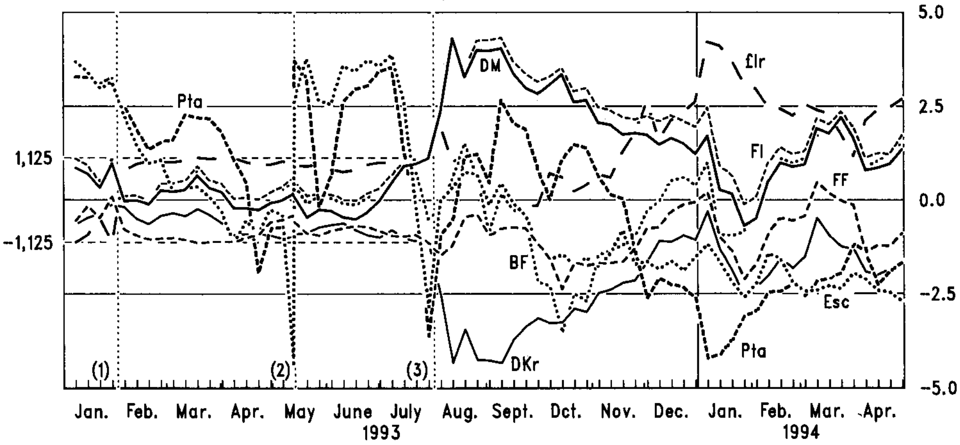
In the face of such a severe currency crisis, repeated use of the instruments for defending exchange rates was unable to stem the massive international flows of funds. Exploitation of the fluctuation margins within the band and substantial intervention amounting to more than $100 billion between January and July failed to produce lasting stabilizing effects. Nor did the increases in interest rates ease the pressure on the weak currencies; indeed, they sometimes proved counterproductive, since the markets considered them unsustainable in unfavourable economic conditions. The System's credibility had been dented by the episodic manner in which central rates had been changed, with five realignments being carried out since the onset of the crisis, bowing to market pressure in each case. The markets therefore interpreted the Bundesbank's failure to reduce the discount rate on 29 July as a symptom of insufficient coordination among the monetary authorities and intensified their selling of weak currencies.

The widening of the band was followed by a depreciation of the currencies that had been under speculative pressure; compared with the lower limit of the previous narrow band, the French franc depreciated by more than 3 per cent against the Deutschemark, the Danish krone by around 6 per cent and the Belgian franc by almost 4 per cent (Figure 2). Interest rates in France, Denmark and Belgium were lowered with extreme caution and, contrary to market expectations, they remained anchored to German rates despite the persistence of adverse economic conditions and lower inflation than in Germany. The authorities thus signaled their intention to continue to give priority to the objective of exchange rate stability.

Figure 2

POSITION OF THE ERM CURRENCIES WITHIN THE FLUCTUATION BAND

(end-of-week data)



(1) On 1 February the central rate of the Irish punt was devalued by 10 per cent. – (2) On 14 May the central rates of the peseta and the escudo were devalued by respectively 8 and 6.5 per cent. – (3) On 2 August the fluctuation margins for all currencies were widened to 15 per cent.

In general, European currencies did not strengthen against the Deutschemark until after the two-step reduction in German official rates on 9 September and 21 October, which attenuated the conflict in the other countries between the domestic and external objectives of monetary policy. By increasing the exchange risk within the margins and making it more symmetrical, the widening of the fluctuation band discouraged the renewal of speculative attacks and fostered the restoration of exchange rate stability. In late 1993 and early 1994 the French franc, the Belgian franc and the Danish krone re-entered the previous narrow band vis-à-vis the Deutschemark.

The second of the three stages of Economic and Monetary Union began on 1 January 1994 in accordance with the Treaty of Maastricht, which entered into force in November 1993 after ratification by the member states. From the institutional point of view, the most significant aspect of the second stage is the establishment of the European Monetary Institute, which is to promote the attainment of the economic, technical and institutional conditions for transition to the third and final stage of EMU.

The international financial markets

Against the background of the slowdown in inflation and the weakness of economic activity in all the leading industrial countries except the United States and the United Kingdom, the decline in bond yields that had been under way since 1990 continued last year. The average annual decrease of 1.5 percentage points was accompanied by a significant convergence of the levels in the various European countries. In the United States the very rapid growth in economic activity caused yields to rise again in October.

In the United Kingdom, Japan and the United States the yield curve continued to display the positive slope typical of periods of relatively easy monetary conditions. In Germany and France the decline in yields was accompanied by significant changes in the shape of the curve: the inverted curve across the entire maturity spectrum that obtained at the beginning of the year gradually gave way to one with a negative slope for maturities of up to around three years and a positive slope at the longer end.

Between the beginning of February and the end of March the Federal Reserve pushed up short-term interest rates by around half a percentage point. The markets viewed this as a sign of greater inflationary risk and a possible harbinger of further monetary tightening. The increase in short-term rates amplified as it was transmitted across the entire term structure of interest rates. Notwithstanding the weakness of economic activity in Europe and Japan, the fall in the prices of long-term US securities spread rapidly to the other leading economies; the correlation between the price movements of bonds denominated in the leading currencies increased, reflecting the integration of financial markets and the unified management of the different foreign currency components of portfolios. Between the beginning of January and the end of March long-term yields rose on average by nearly one percentage point to stand at 6.2 per cent in Germany, 3.9 per cent in Japan, 6.5 per cent in France, 7.6 per cent in the United Kingdom and 9.3 per cent in Italy. Expectations regarding cyclical and economic policy developments in the various countries contributed to the decline in bond prices. The further tightening of monetary conditions in the United States in

April and May, which had been partly discounted by the markets, was accompanied by a modest rise in bond yields and a less marked correlation between price movements in securities denominated in the leading currencies.

During 1993 the rise in bond prices and expectations of an improvement in the general economic situation were paralleled by a rise in share prices in the principal markets. The increase was particularly large in Europe, while in the United States share prices were boosted in the final part of the year by evidence of more sustained economic growth; in Japan, by contrast, the strong recovery of share prices in the early part of the year (26 per cent to the end of August) was eroded from September onwards in conjunction with the renewed deterioration in the state of the economy. In January and February 1994 the markets remained relatively stable, except in Japan. Subsequently, the rise in bond yields across the board adversely affected the share markets everywhere except in Italy.

In the first three quarters of 1993 the growth in international bank lending, excluding interbank loans, slowed down from the rapid rate recorded in the second half of 1992. Including interbank items, the volume outstanding at the end of the year was nonetheless very high, amounting to around $7,600 billion, equal to roughly half the gross product of the seven leading industrial countries.

Activity in the international financial markets continued to expand rapidly last year. Gross bond issues amounted to $481 billion, an increase of 44 per cent over the year; 14.5 per cent of the total was in floating rate bonds and 8 per cent in convertible bonds and bonds with warrants.

The large growth in international issues is part of a far-reaching transformation of the financial markets, the salient features of which are the closer integration of national markets (for example, more than half of the DM-denominated securities issued in 1993 were taken up outside Germany), the very considerable growth in market turnover (the average daily turnover in international bonds exceeded $100 billion, double the figure for the beginning of 1992), and the rapid expansion in derivative instruments such as options, futures and swaps (at the end of 1992 outstanding interest rate and currency swaps amounted to $4,700 billion).

In accordance with the structural evolution of the financial markets, major progress was made last year in the internationalization of the lira. Eurolira bond issues almost doubled from the previous year to nearly 20 trillion lire. There was also further growth in secondary-market trading of these issues, with turnover rising significantly both in absolute terms (to a daily average of 1 trillion lire in the fourth quarter of 1993) and in relation to the volume in issue. The elimination of the remaining authorization requirements in January 1994 gave further impetus to issues, which totaled 7.9 trillion lire in the first quarter of the year.

WORLD TRADE AND THE BALANCE OF PAYMENTS

World trade

The volume of world trade grew by barely 2.4 per cent in 1993, around two percentage points less than in 1992; trade in services continued to expand and is now equivalent to about 29 per cent of merchandise trade. In the United States export growth slowed down by about 2 percentage points and imports accelerated by 1 point. In Japan foreign sales fell by nearly 2 per cent, while imports began to rise again, increasing by 4.2 per cent despite a fall in domestic demand, owing to the considerable loss of competitiveness over the last three years. The contraction in international trade was particularly marked in Europe, where imports decreased by 7.1 per cent and exports by 1.8 per cent. Trade continued to expand vigorously in the developing countries, however; exports rose by 8.6 per cent in volume terms, the fastest rate in the last five years, with the largest rises being recorded in Asia and Latin America. Imports increased by about 9 per cent, as import growth in the Asian countries accelerated to more than 11 per cent.

The new GATT treaty was signed in Marrakesh on 15 April 1994. It should come into force in 1995 and will take full effect over the next ten years. The agreement makes agriculture, textiles and clothing subject to multilateral rules for the first time in the history of the GATT and also covers trade in services and the protection of intellectual property rights.

The North American Free Trade Agreement between Canada, Mexico and the United States and the treaty establishing the European Economic Area between the European Union and EFTA excluding Switzerland came into force on 1 January 1994. The EU also concluded association agreements with Bulgaria and Romania in 1993 to add to those already reached with Poland, the Czech Republic, Slovakia and Hungary.

The balance of payments and the net external positions of the industrial countries

In 1993 continued cyclical divergences exacerbated the current account imbalances of the United States and Japan, which also include a large structural component; in contrast, the European Union's deficit was eliminated. The US current account deficit increased from about $66 to 109 billion, equal to 1.7 per cent of GDP, with a substantial deterioration vis-à-vis the EU and Japan. The trade deficit rose to about $133 billion, mainly owing to an increase in imports, which grew by 12 per cent in volume terms. Trade in services continued to show a surplus, equal to about $56 billion, but the traditional surplus on investment income dwindled to almost nothing. Japan's current account surplus rose to more than $130 billion, or 3.1 per cent of GNP, following increases in the trade surplus (to more than $140 billion) and in the surplus on investment income.

The aggregate current account of the EU countries, which recorded a deficit of about $67 billion in 1992, is estimated to have shown a small surplus last year as a result of the recession and the gains in competitiveness achieved by some countries. All of the major EU countries saw an improvement; Germany's deficit narrowed from more than $25 billion to about $22 billion and that of the United Kingdom from more than $18 billion to about $16 billion. In Italy a deficit of $28 billion in 1992 gave way to a surplus of about $11 billion, while the French surplus rose from about $4 billion to more than $10 billion.

Capital movements in respect of direct and portfolio investment to and from the United States increased sharply in 1993. Nevertheless, for the fourth successive year net inflows of private capital were insufficient to offset the current account deficit. Net inflows of official capital amounted to nearly $70 billion, mainly in the form of purchases of dollars by foreign monetary authorities. In Japan net official claims on the rest of the world increased by more than $23 billion, whereas Germany recorded a net decrease of the same amount, largely owing to the repayment of foreign currency loans granted to other EMS countries in the summer of 1992. Inflows of portfolio investment to Western Europe, mostly in the form of long-term capital, were unusually large; the bulk of the investment went to Germany (more than $126 billion) and Italy (about $52 billion); the United States and Japan recorded net outflows of around $22 and 63 billion respectively.

The net external positions of the leading industrial countries have changed significantly since the beginning of the eighties owing to the cumulative current account imbalances. The US current account deficit increased considerably during the eighties, reaching a peak of 3.7 per cent of GDP in 1987 before declining to below 2 per cent of GDP in subsequent years.

As a result, the United States' net external position deteriorated rapidly. In 1980 the country was still the world's largest creditor, with net assets of about $390 billion, or more than 14 per cent of GDP. By the mid-eighties, a period that coincided with the depreciation of the dollar, it had already become a net debtor, and at the end of 1992 its net liabilities totaled between $520 and 630 billion (equal to 8.5 and 10.5 per cent of GDP respectively), depending on the valuation method adopted. Even on the more conservative estimate to take account of measurement problems and differences in methods of calculation, the United States is now the world's largest debtor nation.

By contrast, the net creditor positions of Japan and Germany increased substantially during the eighties, in parallel with an appreciation of their currencies. In the case of Japan, which is now the world's principal creditor, net assets increased from about $12 billion in 1980 (equal to 1.1 per cent of GNP) to more than $500 billion in 1992 (14 per cent of GNP). Germany's net assets rose from about $52 billion in 1980 (nearly 7 per cent of GDP) to a peak of more than $360 billion in 1990 (about 20 per cent of GDP); the current account deficits recorded since unification have reduced the country's net asset position by about 4 percentage points in relation to GDP.

An analysis of the composition of the three countries' external positions reveals that bank claims on non-residents are the predominant asset in each case, representing about one third of the total, followed by direct investment for the United States, portfolio investment for Japan and private loans and trade credit for Germany. Bank liabilities are the principal debtor item for all three countries, representing 28 per cent of liabilities for the United States, 37 per cent for Germany and 45 per cent for Japan; these are followed by government securities in Germany and private sector securities in the United States and Japan. Maturity transformation is nil in Germany, where the share of short-term assets and liabilities is identical, while the United States and Japan tend to hold short-term liabilities and long-term assets, with the share of short-term liabilities exceeding that of short-term assets by 10 percentage points. As regards the currency composition, the external position of the United States is denominated almost entirely in dollars owing to the international role of the US currency, leaving the United States immune to exchange rate risk. The proportion of foreign currency assets and liabilities is significantly larger in Japan and Germany, however; in Germany, for which complete figures are available, about 20 per cent of liabilities and 50 per cent of assets are denominated in foreign currency.

THE DEVELOPING COUNTRIES AND CENTRAL AND EASTERN EUROPE

The developing countries

The economies of the developing countries grew by an average of about 6 per cent last year, despite the slowdown in demand from the industrial nations and a deterioration in the terms of trade, the third in as many years. Growth was fueled chiefly by domestic demand and the expansion in trade among developing countries themselves, particularly in Asia.

Output in the Asian developing countries grew by 8.4 per cent, and by more than 7 per cent in per capita terms. In the newly industrialized economies, which comprise South Korea, Hong Kong, Singapore and Taiwan, GDP rose by about 6 per cent. Growth in the Asian developing countries was stimulated principally by an increase in exports of around 10 per cent in both volume and value, and facilitated by macroeconomic policies geared towards economic stabilization. The average inflation rate for the area remained below 10 per cent and is falling in most countries; in the NIEs it slowed down further to less than 5 per cent. The average public sector deficit for the continent has now been less than 3 per cent of GDP for 4 years.

In Latin America the rate of growth in output rose above 3 per cent in 1993. Nonetheless, leaving aside Brazil, where GDP growth accelerated to 5 per cent and inflation exceeded 2,000 per cent, the rate of growth in the leading countries of the region slowed down owing to the weakening of world demand and the deterioration in the terms of trade. In the Middle Eastern countries growth declined on average to 4.7 per cent; the oil-exporting countries of the region were affected particularly by the fall in crude oil prices.

In Africa the growth of GDP was again small last year, around 1 per cent, which was insufficient to produce any increase in per capita income. The continent's per capita GDP fell by 1.5 per cent, bringing the decline since 1975 to about 10 per cent. The economic situation remains especially precarious in the sub-Saharan region, where a population of more than 540 million has an average annual per capita income of barely $530.

The current account deficit of the developing countries totaled more than $100 billion last year. Net capital inflows of just under $150 billion made it possible to finance the deficit and to accumulate substantial official reserves. Lending to these countries has increased considerably in the last few years, with the bulk being directed towards middle-income economies in Asia and Latin America; net flows to low-income countries, in contrast, have remained unchanged since the eighties.

Russia and the other countries of Central and Eastern Europe

The parlous state of the Russian economy confirms the difficulty of the transition to a market system in such a complex country. Political uncertainty and institutional conflicts prevented steady progress with macroeconomic stabilization and structural reform; there was a further substantial contraction in GDP and inflation remained extremely high. Official lenders continued to provide considerable financial resources, with total disbursements amounting to about $15 billion in 1992 and $23 billion last year. In both years the bulk of the funds was made available under bilateral agreements with Western governments in the form of export credits, subsidized loans and gifts totaling $20 billion and by rescheduling payments of $15 billion on external debt. Lending by multilateral institutions, in contrast, was less than forecast owing to Russia's difficulties in meeting its commitments towards the IMF; lending by the IMF amounted to $2.5 billion and that by the World Bank to $0.5 billion. After arduous negotiations, the Russian Government and central bank finally agreed a new economic recovery programme with the IMF in March 1994; among other things, the plan envisages restrictive fiscal measures involving the equivalent of about 2 per cent of GDP. The IMF subsequently granted a loan of about $1.5 billion as part of the Systemic Transformation Facility (STF), which should in turn pave the way for new lending by other multilateral organizations and Western governments.

The Baltic states have made significant progress towards economic stabilization through a combination of rigorous fiscal policies and structural reforms. In most of the other states of the former USSR high inflation has gone hand in hand with a steady decline in production. The economic situation of all of these countries has been exacerbated by the raising of the prices of imports from Russia to market levels and the decline in loans previously granted by the Russian Government.

Economic conditions in Central Europe generally improved. National income rose by 4.0 per cent in Poland, by 0.5 per cent in the Czech Republic and by 11.0 per cent in Albania; output declined further in the remaining countries, albeit by less than in previous years. Assisted by the reduction in budget deficits, inflation generally slowed down, although it remained high; in no country did it fall below an annual rate of 20 per cent. The weakness of world demand and the recovery in domestic production led to an increase in the area's current account deficit to more than $6 billion. The privatization of state enterprises continued, mainly involving small and medium-sized firms in the services sector, while major obstacles hindered the sale of large industrial undertakings.

In the three years from 1991 to 1993 multilateral financial organizations and Western governments lent about $12 billion to the countries of Central and Eastern Europe, equivalent to about 3 per cent of the area's GDP. Private investment totaled around $17 billion and finance in the form of the rescheduling or cancellation of loans from private and official lenders came to more than $12 billion.

Foreign debt

The debtor position of the developing countries has continued to improve in the last few years. The recent agreement between Brazil and its creditor banks marks the completion of debt restructuring programmes by the major developing countries affected by the debt crisis of the eighties, thereby substantially reducing their debt burden; the strengthening of the balance sheets of the leading banks has reduced systemic risk. The poorest countries, most of which are in Africa, nonetheless continue to bear a heavy debt burden. Last year the foreign debt and debt servicing of the developing countries as a whole was unchanged in relation to their foreign exchange earnings and well below the values reached at the peak of the debt crisis in the mid-eighties.

Initiatives to reduce or restructure the debt of the most heavily indebted countries continued last year. Argentina completed a major operation with creditor banks that reduced debt and debt service payments by the equivalent of more than $9 billion in present value terms, out of a total of $19 billion in loans subject to restructuring. In April 1994 Brazil reached agreement with creditor banks to reschedule loans amounting to more than $50 billion, equal to about 80 per cent of the country's total bank borrowing. In 1993 and the early months of this year the Paris Club creditors concluded agreements with 12 countries to restructure debt totaling $4 billion, of which about $2 billion was owed by Peru. In April 1993 official creditors granted Russia a moratorium on payments of $15 billion due that year.

THE ITALIAN ECONOMY

SUMMARY OF DEVELOPMENTS AND THE SHORT-TERM OUTLOOK

The results for the year: recession and economic policy

Italy's gross domestic product declined by 0.7 per cent in 1993, the first contraction since 1975 (Table 2). Employment decreased by an annual average of 2.8 per cent, the steepest fall in Italian postwar history. The deepening of the recession at a time of continued decline in world economic activity was attributable in part to the reaction of consumer and business spending to the grave financial crisis of late 1992 and the rigorous economic measures it necessitated. Nevertheless, Italy not only succeeded in reducing the budget deficit but also achieved results that are unprecedented at a time of recession, in terms of an improvement in the balance of payments, the start of restructuring in the services sector, a widening of profit margins and a reduction in inflation.

In industry, the present recession is the the longest since the Second World War, having lasted for more than four years, compared with two or three years in previous cycles (Figure 3). The recession triggered by the world economic slowdown worsened in the course of 1992 and spread to the rest of the economy; in the summer of that year the external factors were compounded by a sudden weakening of households' confidence concerning the prospects for employment and incomes and the value of financial assets. The uncertainty about the economy's financial stability caused by the foreign exchange crisis of September and the restrictive fiscal measures that inevitably ensued further depressed consumer confidence and had a highly detrimental effect on firm' expectations. As a result, domestic demand contracted by 5 per cent in 1993, whereas in the rest of Europe it declined by only about 1 per cent.

The only precedent for a fall in demand of this magnitude is to be found in the 1975 recession following the first oil shock. As well as being due to different causes, the present recession differs from the earlier one on two essential counts. First, on this occasion the impact on economic activity has been greatly mitigated by the growth of exports, which expanded by 10 per cent. Secondly, in 1975 the recovery in world economic activity and the immediate switch to an expansionary domestic economic policy allowed domestic demand to rebound swiftly, so that in less than a year it was back at pre-recession levels, whereas today the recovery appears to be proceeding more slowly.

Table 2

RESOURCES AND USES OF INCOME

(percentage changes)

	1992		1993	
	Value at constant prices	Deflators	Value at constant prices	Deflators
Resources				
Gross domestic product	0.7	4.5	–0.7	4.4
Imports of goods and services	4.6	1.5	–7.3	12.0
of which: goods	*3.4*	*–0.5*	*–9.2*	*10.0*
Uses				
Domestic demand	0.8	4.3	–5.0	5.8
Households' consumption	1.4	5.3	–2.1	4.8
Collective consumption	1.0	4.8	0.8	3.6
Gross capital formation (1)	–0.8	0.6	–17.5	9.5
of which: fixed investment	*–2.0*	*3.8*	*–11.1*	*4.6*
in machinery, equipment and transport equipment	*–1.9*	*2.3*	*–15.6*	*5.1*
in buildings	*–2.1*	*5.2*	*–6.2*	*3.2*
Exports of goods and services	5.0	1.6	10.0	10.4
of which: goods	*4.2*	*0.3*	*8.4*	*10.9*
Memorandum item:				
Growth in GDP at constant prices attributable to change in stocks (1)	0.3	—	–1.6	—

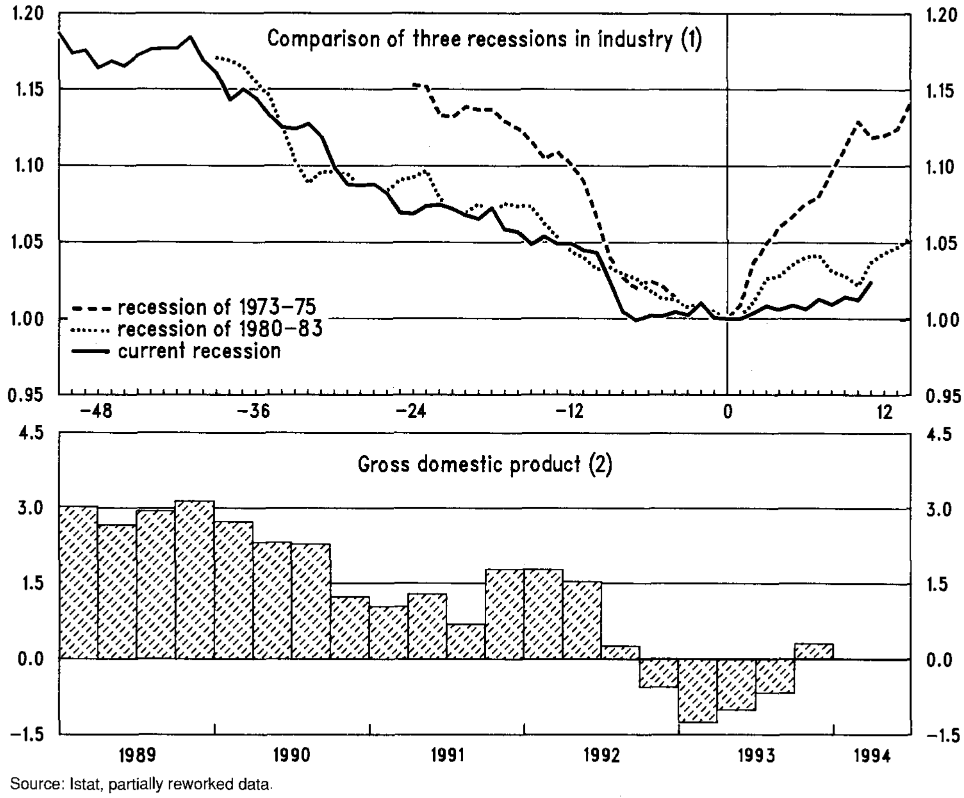
Source: Istat.
(1) Includes statistical discrepancies.

The recession affected all components of domestic demand. Households' real domestic consumption declined by 2.1 per cent; national final consumption, which excludes spending in Italy by non-residents and includes residents' spending abroad, fell by 3.0 per cent. The deterioration in consumer confidence and a 5.2 per cent fall in real disposable income (due to a decline in the number of persons employed, a decrease in real per capita earnings and an increase in taxation) were among the contributory factors.

There was also a sharp decrease in gross capital formation, affecting both fixed investment, which fell by 11.1 per cent, and stocks. Firms postponed planned investment in view of the climate of uncertainty, the narrowing of profit margins for four consecutive years and the high level of real interest rates. Not until the final months of 1993 did the exceptional growth in export demand and an improvement in borrowing conditions permit a recovery, albeit largely confined to the export sector. The overall decline in investment also reflected a sharp contraction in expenditure on public works (16 per cent in real terms according to national accounts estimates) as a result of judicial investigations and budgetary measures. Liquidity strains and the earlier overestimation of demand prompted firms to reduce stocks. As estimated in the national accounts, in which stocks include the statistical discrepancy between the sources and uses of income, destocking accounted for 1.6 percentage points of the decline in GDP.

Figure 3

THE ECONOMIC CYCLE



Source: Istat, partially reworked data.

(1) Industrial production adjusted for the trend component; indices with base of 1 in the trough month. – (2) Percentage change from corresponding quarter of the previous year.

Industrial production declined by 2.4 per cent, while the output of the market services sector increased by 1.3 per cent; if banking and insurance are excluded, however, even services recorded nil growth. The contraction was particularly severe in the transport equipment industry and in industries producing mainly for the domestic market. The acceleration in export demand prevented a fall in the output of more internationally oriented sectors.

The economic policy priority last year was to maintain stable macroeconomic conditions, thereby reassuring businesses and markets that the fundamental readjustment of the economy would continue and be made more effective by means of legislative and regulatory reform and changes in practices and conduct. Fiscal policy, in particular, though taking account of the deepening recession, could not be allowed to deviate from the rigorous course of adjustment adopted at the height of the currency crisis without the risk of severe repercussions in the foreign exchange, money and financial markets. Net general government borrowing had been reduced from 10.2 per cent of GDP in 1991 to 9.5 per cent in 1992, and remained at that level in 1993. A rise in interest expenditure was offset by a substantial increase in the primary budget surplus from 1.9 to 2.5 per cent of GDP. Though falling short of the official target, in a year of declining real GDP this result nonetheless indicates the severity of the restrictive fiscal stance, which was unequaled in the other industrial countries, even those similarly engaged in adjusting their public finances.

The fact that Italy came close to achieving the target for the public sector borrowing requirement, and did so chiefly by cutting expenditure, was important in sustaining the confidence of international financial markets in the country's ability to correct its disequilibria. The launch of the privatization programme also served this purpose, as well as the long-term objective of improving the overall efficiency of the economy. Once the privatization procedures had been decided, a timetable was prepared in which precedence was given to the disposal of enterprises most likely to be well received by the market. Between August 1993 and March 1994 banking and industrial enterprises employing 50,000 people were transferred to private ownership. The privatization strategy and some of the techniques and regulatory arrangements provoked debate, but the operations provided the domestic and international observers with tangible evidence of the real political will and technical ability to implement the policy. Moreover, the privatizations helped promote efficiency in the enterprises remaining in public ownership.

There is a growing awareness that the public sector must contribute to the efficiency and international competitiveness of the economy by raising its own productivity. Regulations accompanying the Finance Law for 1994 build on the provisions regarding public employment laid down in an enabling law of October 1992; they outline a reform of the public administration aimed at rationalizing administrative structures, streamlining decision-making, giving operational units greater autonomy and tightening checks and accounting controls. The reform will benefit the country at large and improve the economic climate, but the speed at which it is implemented will depend on the determination to change or induce change in organizational arrangements, internal rules, operating practices and managerial conduct.

Fiscal policy was constrained by the conflicting demands of the recession and financial adjustment, while policy regarding resource allocation was driven by the urgent need to restore the power of market forces and principles of efficiency over large parts of the economy and public administration. Incomes policy proved to be the key to enabling the economy to cope with the consequences of the currency crisis and the broader crisis of confidence.

Past experience suggested that the depreciation of the lira by about one fifth and the loss of more than one million jobs between July 1992 and January 1994, both of which were without precedent in the postwar period, might have caused a dangerous drift into stagflation.

The agreement reached between employers, the trade unions and the Government in July 1993 was a substantial step forward in the reform process initiated by the agreement of July 1992. At that time the two sides of industry had ratified the abolition of the wage indexation mechanism and established the principle that collective bargaining should be conducted at "distinct and non-overlapping" levels. The 1993 agreement defines the procedures for collective wage bargaining, taking account of economic compatibility and the wider interests of society. To this end unions and employers undertook to behave in a manner consistent with the anti-inflation targets and programmes that would be established by the Government and to monitor compliance in special "incomes policy sessions". In this way wage bargaining can serve to counter inflation in advance rather than compensate for it afterwards, which may fuel it further. The viability of the new arrangements has already been tested successfully with the conclusion of the wage agreement in the chemical industry; the renewal of contracts with other major groups of workers, including metalworkers, and the resumption of company-level negotiations will further demonstrate its durability.

The loss of jobs continued throughout the year and intensified in the South. In January 1994 employment in the region was 5.3 per cent lower than a year earlier, compared with a fall of 3.5 per cent in the Centre and North. These figures reflect the extremely sharp fall in industrial employment (by 12.1 per cent in the South and 4.0 per cent in the Centre and North) due to restructuring by large state-owned corporations. The services sector was more in step with industry than in past recessions; whereas during the downturn of the early eighties an increase in employment in market services had compensated for the loss of jobs in industry, in 1993 employment in services contracted by 2.2 per cent, compared with a fall of 4.1 per cent in industry. One contributory factor may have been the beginning of a long overdue restructuring in the distributive trades and lodging and catering, prompted partly by higher taxes and contributions for the self-employed.

Despite the recession, labour productivity increased by 1.8 per cent in industry and by 3.6 per cent in services; in combination with the pronounced slowdown in wage growth, this enabled firms to widen their profit margins, a remarkable feat in the midst of recession. Equally extraordinary was the fact that it was achieved without causing an acceleration in inflation. In spite of a further sharp fall in world raw materials prices, the lira prices of imported inputs rose steeply between the currency crisis and April 1993, producing an annual rate of increase in 1993 of about 16 per cent for industry and 19 per cent for market services. Consumer prices, on the other hand, remained broadly stable; the seasonally adjusted twelve—month rate of increase in the cost-of-living index accelerated only slightly in the spring, and then immediately fell back to around 4 per cent. The annual average increase worked out at 4.2 per cent.

In a context of depressed domestic demand, the profound changes in wage bargaining behaviour and rules helped to offset the external price shock. The agreements on labour costs provided a framework within which labour and management could settle the conflict over income distribution without triggering a wage-price spiral. Combined with the gain in productivity stemming from the heightened cyclical responsiveness of the demand for labour, the agreements halted the rise in unit labour costs in services and limited it to 2 per cent in industry. As a result, the annual average increase in producer prices in the services sector decelerated from 6 to 5 per cent, while in industry the increase of 6 per cent was due largely to the rise in export prices, as the increase in domestic prices remained at about 4 per cent.

Monetary and credit policy was used alongside incomes policy to help prevent a resurgence of inflation. While every opportunity was exploited to reduce interest rates from the peaks recorded in the autumn of 1992, monetary policy was constantly directed towards countering the inflationary effects of the depreciation of the lira and preventing the recurrence of instability in the foreign exchange and financial markets. Official interest rates and short-term money market rates came down by 4.5 percentage points during 1993, narrowing the differential in relation to German rates to 1.8 points. Long-term rates declined by 4.7 points in nominal terms and by 4.2 points in real terms.

The most conspicuous manifestation of the changes that occurred last year was in the balance of payments. The current account had worsened every year since the oil counter-shock in 1986, so that by 1992 it was showing a deficit equal to 2.3 per cent of GDP, but in 1993 it swung abruptly in the opposite direction to record a surplus equal to 1.2 per cent of GDP. The improvement, which once again was comparable only to the turnaround between 1974 and 1975, can be ascribed to at least four factors: the marked contrast between the sharp decline in real domestic demand and the continued, albeit slower growth in world trade; the increase in Italian producers' shares of both domestic and foreign markets owing to the gain in competitiveness made possible by the depreciation of the currency and price moderation; the fall in the dollar prices of raw materials, which largely offset the effect of the depreciation of the lira on the trade balance; and the decline in net interest payments abroad as a result of lower interest rates and a reduction in Italy's net foreign debt, which diminished from 11.6 per cent of GDP at the end of 1992 to 9.6 per cent a year later.

The current account surplus of about 18 trillion lire was accompanied by net capital inflows of some 10.8 trillion. This overall figure conceals contrasting movements in bank and non-bank capital; there were substantial net inflows of 64.2 trillion lire in non-bank capital, compared with net outflows of 14.7 trillion in 1992, while resident banks generated capital outflows of 53.5 trillion lire and thus reduced the large net external debtor position they had accumulated in previous years.

The cyclical situation and the short-term outlook

Economic activity began to improve towards the end of 1993. The cyclical indicators point to recovery, although they disagree as to the intensity of the upturn. The pick-up in economic activity is not generating price pressures for the moment; it is being sustained by the recovery in domestic demand from the deeply depressed level recorded in late 1992 and early 1993. Exports, which bolstered production throughout 1993, are continuing to grow.

The latest data on industrial production show that output is not keeping pace with demand. According to the assessments of industrial firms regarding current and expected orders, both export and domestic demand are fairly brisk. Since last summer business surveys have indicated that stocks of finished products are below the levels considered normal.

Households' consumption may now pick up somewhat, thanks to growth in disposable incomes and improved expectations regarding the outlook for incomes and employment. Indicators of households' confidence based on opinion polls reveal a change in trend since the end of the year, with a pronounced improvement in March and April. Fixed investment is also expected to support economic activity. However, the sample survey of the investment plans of industrial firms with more than 50 employees conducted by the Bank of Italy at the beginning of this year suggests that the recovery in capital spending will be cautious. Investment in construction could be stimulated by a resumption of civil engineering projects: the nominal value of public works projects will be moderated by the greater attention paid to price, but the volume of work undertaken could increase, with priority being given to infrastructure projects that improve efficiency and competitiveness. Finally, output could be stimulated by the rebuilding of adequate stocks of finished goods.

According to the trade data available so far for 1994, foreign demand continues to be buoyant. The value of merchandise exports to countries outside the European Union was more than 24 per cent higher in the first quarter than in the corresponding period of 1993, suggesting a respectable increase in volume terms as well. Exports to the EU also rose in January, but only by 6.7 per cent compared with a year earlier. The recovery in world trade is tending to take over from last year's substantial gains in price competitiveness as the main factor behind the growth in market shares. Imports are also rising, fueled by the growth in domestic demand, but the net contribution of foreign trade to the expansion of domestic activity remains positive. The balance of payments on current account may improve further this year, thanks partly to the contribution of invisibles and particularly to interest payments on the net foreign debt.

Only a strong and sustained recovery in output can halt the fall in employment that has been under way since 1992 and produce a clear reversal of trend; this is not likely to occur before the end of 1994, however.

Prices continued to slow down in April, when the cost-of-living index rose by less than 0.3 percentage points on a seasonally adjusted basis; the annualized rate of increase was slightly more than 3 per cent. The twelve-month rise was still 4.1 per cent, a slight deceleration compared with the rate of 4.2 per cent in the first three months of the year. Data on consumer prices for the population as a whole, which are available up to December 1993, show that the twelve-month rate of increase in the prices of goods and services not subject to regulation, which now account for almost 90 per cent of the basket for this index, has been slowing down markedly since last summer, particularly as regards services and manufactured goods.

The inflation differential vis-à-vis the European countries with the lowest inflation has narrowed over the last twelve months, but it is still around 2.5 points, compared with 3.6 points in June 1993. Provided there are no fresh inflationary impulses from abroad, the further narrowing of the differential in the months ahead will depend on the resilience and consolidation of the new system of wage bargaining.

DOMESTIC DEMAND

Households' consumption

Last year households' domestic consumption contracted in real terms for the first time since the Second World War, falling by 2.1 per cent (Table 3); national final consumption, which includes spending by residents abroad but excludes non-residents' spending in Italy, showed an even larger decline of 3 per cent.

Table 3

HOUSEHOLDS' DOMESTIC CONSUMPTION
(at 1985 prices; percentage changes)

	1990	1991	1992	1993
Non-durable goods	1.4	2.0	0.6	0.1
Semi-durable goods	3.4	3.8	1.9	–3.9
Durable goods	0.8	3.1	1.6	–10.3
of which: furniture, carpets, electrical household appliances and household equipment	*1.4*	*5.4*	*–1.5*	*–6.7*
therapeutic equipment and goods, photographic equipment and musical instruments, radio and television receiving sets and record players	*–10.3*	*1.1*	*2.3*	*–4.1*
transport equipment	*0.7*	*0.6*	*1.6*	*–21.5*
precious and costume jewellery	*9.4*	*5.5*	*6.4*	*–1.1*
Services	3.7	2.8	1.6	..
Total	**2.5**	**2.7**	**1.4**	**–2.1**

Source: Istat.

The decline in consumption was concentrated in the last two quarters of 1992 and the first two of 1993. It thus began in conjunction with the crisis of confidence and the emergence of expectations of a permanent reduction in future income. These expectations were borne out by the actual fall in disposable income throughout 1993, which in turn stemmed partly from the decline in consumption.

Over the year households' real disposable income fell by an average of 5.2 per cent, whereas in 1992 it had grown by 1 per cent (the figures are respectively minus 4.5 and plus 2.4 per cent after adjustment for the effect of inflation on households' net financial assets; Table 4). The bulk of the change last year was due to the halt in the nominal growth of total gross earnings resulting from a small rise in per capita wages and salaries and a fall in employment; in addition, nominal self-employment income net of social security contributions decreased by 2.6 percent. Together, the changes in these two components accounted for roughly three quarters of the decline in real disposable income. Almost 1 percentage point of the decline was attributable to the growth in income and wealth taxes (10.7 per cent); the figure rises to around 1.5 points if municipal property tax is included (for national accounts purposes, this is considered an indirect tax and affects disposable income by reducing actual or imputed income from the rental of buildings). The negative contribution of the public sector to the variation in disposable income was amplified by the pronounced deceleration in the growth in social benefits, which slowed from 11.6 to 4.7 per cent at current prices. Disposable income was also curtailed by the reduction in interest rates during the year and the slowdown in households' net investment in financial assets in 1992: the growth in households' nominal net interest income decreased from 17.9 per cent in 1992 to 5.8 per cent last year. Even at current prices households' gross disposable income fell by 0.3 per cent, a negative swing of 6.5 percentage points compared with 1992.

Table 4

SOURCES AND USES OF HOUSEHOLDS' GROSS DISPOSABLE INCOME

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

	1990	1991	1992	1993
Wages and salaries	11.7	8.8	4.1	..
Self-employment income net of social security contributions	7.2	10.9	1.3	–2.6
Dividends and other income from capital (1)	11.3	11.9	11.9	..
Net interest income	15.0	13.9	17.9	5.8
Social security benefits	13.6	9.2	11.6	4.7
Income taxes (–)	10.8	10.1	10.6	10.7
Gross disposable income	**11.2**	**9.9**	**6.2**	**–0.3**
at 1985 prices (2)	**5.1**	**2.8**	**1.0**	**–5.2**
Average propensity to consume (3)	79.9	79.8	80.4	82.2
Adjusted average propensity to consume (4)	85.8	86.3	85.8	87.1

Source: Based on Istat data.

(1) Including actual and imputed income from the rental of buildings net of municipal property tax. – (2) Deflated using the implicit price deflator of households' national consumption. – (3) National final consumption as a percentage of households' disposable income. – (4) 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 expected loss of purchasing power on households' net holdings of domestic and foreign financial assets (excluding shares).

Large though it was, the fall in disposable income cannot explain the downturn in consumer spending, in that the decline in consumption emerged in the second half of 1992 whereas income did not begin to contract significantly until after the turn of the year. Moreover, if consumers had considered the fall in income to be cyclical and hence not likely to have substantial effects on permanent income, as they had in similar circumstances in the past, its impact on consumption would have been greatly reduced.

A variety of concurrent factors may have produced this cyclically atypical consumption pattern. The pronounced uncertainty concerning Italy's economic situation and the ultimate outcome of the currency crisis, which reached its climax in September and October 1992, may have altered consumers' behaviour, prompting them to adopt more prudent standards than those that had governed spending plans in the eighties. It is also likely that consumers revised their expectations of future income downwards in the second half of 1992 in the light of three considerations: the recognition midway through the year that the economy had not yet turned the corner and indeed that the recession would deepen in the autumn with major, protracted repercussions on income and employment; secondly, the growing conviction that the tax measures adopted that summer were insufficient and that more severe measures lay in store; and thirdly, the potential capital losses on financial wealth caused by the fall in securities prices.

Spending decreased sharply in the second half of 1992 and continued to diminish in the first half of 1993 as the actual decline in disposable income validated the pessimistic expectations, confirming the fears that the loss of purchasing power would be permanent. In the second half of the year consumer spending stopped falling and subsequently showed signs of picking up, thanks partly to the restoration of stability in the financial markets, which offset the entire previous fall in the prices of government securities, and the slowdown in the decline of disposable income.

Since the fall in consumption preceded that in disposable income, the average propensity to consume decreased in the second half of 1992 but increased last year by nearly 2 percentage points (by 1.3 points if account is taken of the loss of purchasing power on financial assets due to inflation).

After falling by 1.4 percentage points in 1992, the gross national saving rate rebounded by nearly 1 point to 18.5 per cent. The increase derived from the reduction in dis saving by the public sector by 2 points in relation to national disposable income, which more than offset the 1-point fall in the saving rate of the private sector. Net of depreciation, the national saving rate was 7 per cent, compared with 6.1 per cent in 1992.

The reduction in households' real spending involved semi-durable goods (3.9 per cent) and particularly durable goods (10.3 per cent);

purchases of non-durables and services basically stagnated, declining by around 1 percentage point compared with 1992.

Consumption of durable goods fell across the board, including purchases of precious and costume jewellery, which had grown at very rapid rates in the three years ending in 1992. The conspicuous fall in purchases of transport equipment (21.5 per cent) was even larger than that recorded following the first oil crisis in 1974 (14 per cent).

Investment

As in similar cyclical phases, the decline in domestic demand was particularly pronounced in the investment sector. The 11.1 per cent fall in gross fixed investment at constant prices was the largest since the Second World War (Table 5); at current prices, the decline was smaller (7 per cent). Stocks of raw materials, semi-finished goods and finished products diminished considerably (by around 15 trillion lire at constant prices). Accordingly, the fall in total investment was even larger than that in fixed investment (17.5 in real and 9.6 per cent in nominal terms).

Fixed investment. — The ratio of gross fixed investment to GDP at constant prices, which had already been declining since 1991 owing to the slackening of demand and the high level of real interest rates, fell further and more markedly last year, from 21.4 to 19.1 per cent, as the recession tightened its grip (Table 5). Net of depreciation, the decrease was far sharper: a 10 per cent real decline in 1992 was followed by another of more than 34 per cent last year. The principal reasons for the scaling back of capital spending plans were the weakness of firms' expected demand, low capacity utilization and the climate of uncertainty and pessimism engendered by the persistence of the recession in Italy and the rest of Europe. A further impediment to investment was the delicate financial situation of firms, resulting from the large burden of debt accumulated during the previous phase of expansion and the poor level of profits in the early nineties.

In the course of 1993 the preconditions for a gradual revival of capital spending were created. Many firms reversed the squeeze on earnings due to the fall in domestic demand by taking advantage both of the depreciation of the lira, especially in export markets where demand was less depressed, and of the moderation in costs to improve their profit margins. The fall in the cost of money eased the financial burden on firms, while the July agreement between employers and the labour unions curbed the growth in unit labour costs.

Table 5

FIXED INVESTMENT

(at 1985 prices)

	Percentage change			As a percentage of GDP		
	1991	1992	1993	1991	1992	1993
Construction	1.4	–2.1	–6.2	10.6	10.3	9.7
of which: residential buildings	*3.1*	*0.3*	*–0.8*	*5.4*	*5.4*	*5.4*
non-residential buildings and public works	*–0.2*	*–4.6*	*–12.2*	*5.1*	*4.9*	*4.3*
Machinery, equipment and sundry products	1.3	–2.0	–15.3	9.2	9.0	7.6
Transport equipment	–5.5	–1.6	–16.7	2.2	2.1	1.8
of which: motor vehicles	*–3.6*	*–2.5*	*–19.1*	*1.8*	*1.7*	*1.4*
other	*–13.3*	*2.5*	*–6.3*	*0.4*	*0.4*	*0.4*
Total gross fixed investment	**0.6**	**–2.0**	**–11.1**	**22.0**	**21.4**	**19.1**
Total excluding residential buildings	–0.2	–2.8	–14.6	16.6	16.0	13.7
Total excluding construction	–0.1	–1.9	–15.6	11.4	11.1	9.4
Total net fixed investment (1)	**–3.7**	**–10.0**	**–34.4**	**10.1**	**9.0**	**6.0**

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

The fall in investment was steepest in the first two quarters of 1993, with declines of more than 11 per cent compared with the previous year. Subsequently, the contraction abated appreciably and capital spending in the fourth quarter was 0.4 per cent higher than in the third, the first quarterly rise in two years. These tendencies are confirmed by the indicator of business opinion of the short-term outlook for the economy; though remaining at low levels, business confidence improved slowly but steadily in the first half of the year and more markedly in the second.

The downswing involved all the components of gross spending on capital goods. Purchases of machinery, equipment and transport equipment fell by more than 15 per cent (Table 5). For goods such as office machines, precision instruments and sundry products the decline reflected the general contraction of economic activity; for others, such as transport equipment and agricultural and industrial machinery, it continued the negative cycle that had begun in the early nineties.

Investment in construction declined by 6.2 per cent in real terms, accelerating the contraction that had begun in 1992. While investment in residential buildings diminished by 0.8 per cent and remained unchanged in relation to GDP, that in non-residential buildings and civil engineering projects fell by more than 12 per cent. Capital spending by state-controlled companies was reduced by 21.2 per cent in nominal terms, owing both to the recession and to restrictive fiscal policies.

Stocks. — The slowdown in production was accompanied by pronounced destocking. Firms' stocks of raw materials, semi-finished goods and finished products decreased at constant prices by 3.68 trillion lire, as against an increase of 11.41 trillion in 1992; these figures include the statistical discrepancy between the national accounts' estimates of supply and demand. The variation in stocks curtailed GDP growth by 1.6 percentage points, which was less, however, than the corresponding impact in the two preceding recessions (4.3 points in 1975 and 1.7 in 1981). In response to the abrupt fall in current demand in the second half of 1992 firms had cut back production only gradually, allowing stocks to build up. From the beginning of 1993 onwards, however, their realization of the severity and persistence of the recession led them to deplete stocks rapidly in order to adjust to the lower levels of expected demand. Both national accounts data and the Isco indicators show the sudden diminution in stocks; firms continued to destock in the final part of the year, drawing down inventories of final goods to satisfy the hesitant recovery of demand.

DOMESTIC SUPPLY

Agriculture

The real value added of the agricultural sector fell by 2.9 per cent in 1993, compared with an increase of 1.1 per cent in 1992 (Table 6). The impact of unseasonable weather on farm incomes was softened by the European Union's Common Agricultural Policy.

The prices of agricultural products declined by an average of more than 2 per cent. However, the depreciation of the lira caused a significant rise in prices for sectors receiving support under the CAP and those whose prices are linked to the dollar. In addition, the revaluation of the "green" ecu led to a sharp increase in the lira value of agricultural production subsidies, which rose by 22.8 per cent (Table 6). The EU's agrimonetary mechanism thus helped limit the consequences of what would otherwise have been a year of severe recession in agriculture.

The institutional framework of agricultural policy was significantly revised during the year in the wake of a referendum abolishing the Ministry of Agriculture; the sector will now be managed jointly by the Government and the regions.

Table 6

MARKETABLE OUTPUT AND VALUE ADDED OF AGRICULTURE, FORESTRY AND FISHERIES

	1993 (billions of lire)	Percentage changes			
		Volume		Prices	
		92/91	93/92	92/91	93/92
Marketable output (1)	62,597	1.2	–2.6	–2.0	0.4
Crops: cereals, oil seeds, vegetables, etc.	*20,708*	*0.4*	*–5.1*	*–3.0*	*1.0*
orchards and vineyards	*14,937*	*2.7*	*–3.3*	*–7.4*	*–5.9*
Livestock	*23,610*	*1.3*	*0.2*	*1.9*	*4.4*
Forestry products	*786*	*8.1*	..	*1.0*	*1.0*
Fishery products	*2,556*	*–3.3*	*–2.0*	*7.1*	*–0.1*
Intermediate inputs (2) (–)	18,189	–1.4	–1.4	1.3	6.4
Production subsidies (3) (+)	7,456	–11.7	0.4	26.3	22.3
Value added at factor cost	51,864	1.1	–2.9	–0.9	1.3

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.

Industry

The downward trend in industrial activity that has been under way since 1989 reached its low point in 1993, with real value added at factor cost contracting by 2.4 per cent, as against an increase of 0.2 per cent the previous year.

The scope offered by the depreciation of the lira for Italian firms to set competitive prices and increase their market shares at home and abroad did not make up for the fall in domestic demand. Industrial output fell by 2.5 per cent in 1993, according to the new Istat index of industrial production. The twelve-month rate of decline gradually eased during the year.

Activity in the construction industry slackened markedly, with value added at factor cost falling by 4.6 per cent at constant prices (Table 7). The decrease was caused by the sharp decline in investment (6.2 per cent), especially for public works (14.5 per cent), where activity was dampened by the combined effects of the budget measures of the last few years and the widely publicized cases of corruption involving the sector. The temporizing by public sector bodies does not appear to have eased even after the enactment of a new law governing public works contracts, owing to the many uncertainties surrounding its implementation.

Table 7

VALUE ADDED OF INDUSTRY AT FACTOR COST

	1993 (billions of lire)	Percentage changes			
		Volume		Prices	
		92/91	93/92	92/91	93/92
Industry excluding construction	**347,534**	**0.5**	**–1.9**	**2.5**	**3.3**
Manufactured goods	305,865	0.2	–2.1	1.6	2.9
Energy products	41,669	2.9	–0.4	9.7	5.7
Construction and public works	**86,599**	**–0.9**	**–4.6**	**5.8**	**3.5**
Total ...	**434,133**	**0.2**	**–2.4**	**3.1**	**3.2**

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

The recovery of international competitiveness and its effects on industry. — The depreciation of the lira and the cyclical disparities between Italy and the other countries had opposite effects on export-oriented firms and those that concentrate on the domestic market.

The recovery of foreign demand primarily rewarded the mature export industries, which cover a large proportion of the firms for which price is an important competitive factor, while bringing fewer benefits to the high technology sectors, where non-price factors play a more important role. For a number of industries distinguished by large economies of scale and in which firms thus tend to be larger (steel, basic chemicals and synthetic fibres and paper products), the depreciation of the lira mitigated the consequences of the structural difficulties encountered in recent years, which have been characterized by excess supply on world markets.

The greater impact of the recession on industries not oriented towards exports contributed to regional disparities in the level of economic activity. In the South, where foreign trade accounted for about 8 per cent of output in 1992, as against 28 per cent in the Centre and North, the growth in exports compensated for only a small fraction of the fall in domestic demand. Moreover, the downturn in the construction industry was especially pronounced in the South, where its role in the local economy is particularly important. The slowdown in the construction of public works and new industrial plant is also attributable to the stagnation of transfer payments to the regions following the reform of regional development policy introduced by Legislative Decree 96 of 3 April 1993.

The energy balance. — According to a statistical reconstruction of the national energy balance, the fall in economic activity reduced the primary energy requirement by 1.4 per cent (Table 8). This was the first decline since the 1980-83 recession, when the contraction of the economy was accompanied by a large rise in the prices of primary energy products. The energy intensity of the economy declined by 0.7 per cent, while Italy's energy dependency decreased from 81.3 per cent in 1992 to 80.5 per cent last year.

Table 8

ENERGY BALANCE

(millions of TOE)

	Solid fuels		Natural gas		Oil		Electricity		Total	
	1992	1993	1992	1993	1992	1993	1992	1993	1992	1993
Primary energy requirement and supply ...	**13.6**	**11.6**	**41.1**	**42.2**	**94.9**	**92.8**	**18.6**	**19.3**	**168.2**	**165.9**
of which: domestic output	*1.4*	*1.3*	*14.7*	*15.9*	*4.5*	*4.6*	*10.8*	*10.6*	*31.4*	*32.4*
net imports ...	*12.3*	*10.1*	*28.3*	*26.7*	*90.4*	*86.4*	*7.8*	*8.7*	*138.8*	*131.9*
Final consumption (1)	**6.5**	**5.8**	**32.7**	**33.8**	**64.5**	**62.4**	**49.1**	**49.4**	**152.8**	**151.4**
of which: industry	*5.3*	*4.7*	*13.4*	*13.7*	*6.9*	*6.0*	*24.6*	*24.0*	*50.2*	*48.4*
transport	—	—	*0.2*	*0.2*	*36.2*	*36.5*	*1.5*	*1.5*	*37.9*	*38.2*
residential, services and agriculture	*1.0*	*0.9*	*17.6*	*18.8*	*11.5*	*10.5*	*23.0*	*23.8*	*53.1*	*54.0*

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.

Services

The market services sector as a whole felt the impact of the deterioration in economic conditions in 1993: the growth in its value added at factor cost decelerated further at constant prices, from 1.9 per cent in 1992 to 1.3 per cent last year (Table 9). The aggregate figures reflect the exceptional performance of the credit and insurance sector in terms of volume growth and price reductions.

Table 9

VALUE ADDED OF MARKET SERVICES AT FACTOR COST

	1993 (billions of lire)	Percentage changes			
		Volume		Prices	
		92/91	93/92	92/91	93/92
Wholesale and retail trade	234,156	1.1	–1.7	3.4	3.4
Lodging and catering	47,363	–1.0	–3.8	8.2	6.2
Transport	89,671	1.7	1.5	–0.1	8.9
Communications	29,362	12.4	11.8	3.9	–4.8
Credit and insurance	75,515	5.1	12.9	6.5	–4.6
Other market services	187,451	0.2	–0.6	7.9	4.8
Renting of buildings	117,962	2.5	0.9	10.0	–0.3
Total ...	**781,480**	**1.9**	**1.3**	**5.5**	**2.5**

Source: Istat.

In addition to credit and insurance, output expanded rapidly in communications (11.8 per cent) and maritime and air transport (6.5 per cent), where firms benefited from gains in competitiveness deriving from the depreciation of the lira.

Value added at constant prices declined moderately in the remaining service industries. The fall of 0.6 per cent in "Other market services" is attributable to the slowdown in business services, which are more sensitive to cyclical conditions, while output in consumer services was unchanged. Value added decreased by 3.8 per cent at constant prices in lodging and catering, reflecting a fall of 1.7 per cent in foreigners' overnight stays in the first ten months of 1993 compared with a year earlier. That in wholesale and retail trade contracted by 1.7 per cent, owing to the reduction in households' and businesses' demand for goods. The value added of the distribution sector consequently fell.

Since the mid-eighties the distributive trades have been involved in far-reaching restructuring, which intensified last year. Concentration in the sector has increased, with the number of marginal enterprises declining and the share of sales by large stores rising.

The concentration of distribution to take advantage of economies of scale and scope follows a pattern already well established in other European countries. The reasons why Italy has begun to catch up in this respect are varied and include the implementation of measures to liberalize the sector, a rise in the tax burden on small firms and the sharp slowdown in household consumption. These factors combined in 1993 to accelerate the reorganization.

Privatizations

The programme for the privatization of publicly-owned enterprises began to be put into effect in 1993. The disposals helped sustain the markets' confidence in the Government's efforts to redress the public finances and fostered greater efficiency in the stock exchange and the newly-privatized companies. During the year important reorganizational measures were carried out in public sector enterprises with the aim of improving their operating efficiency and rectifying their financial situation, not least as a prelude to privatization. In terms of the number of operations completed or initiated and the resources involved, the privatization measures adopted last year and in the first few months of 1994 far exceed the results achieved in the preceding years.

The privatization programme entered its operational phase with the IRI group selling its 62 per cent controlling interests in Italgel (for 437 billion lire) and Cirio-Bertolli-De Rica (310 billion) on 6 August and 7 October. On 8 December Credito Italiano was privatized in a well-received public offer that raised 1,829 billion lire for IRI. On 1 March 1994 Banca Commerciale Italiana was sold by way of a public offer for a total of 2,891 billion lire. In each case IRI retained just over 3 per cent of the capital, which will be allotted to subscribers who hold their shares for at least three years. These operations were accompanied by the disposal of a large number of real estate assets and minority interests (in STET and Banca di Roma, for example), which raised several hundred billion lire. In November, the state-owned steel group was reorganized into three new companies that will be either privatized or liquidated; Ilva Laminati Piani and Acciai Speciali Terni are to be sold by public auction. In March of this year the boards of directors of Sip, Italcable, Intel, Telespazio and Sirm approved plans for these companies to be merged into Sip in preparation for the formation of Telecom Italia, a single provider of telecommunications services that will be controlled by STET; the timetable and procedures for privatizing the latter have also been established. At the same time, the general meeting of IRI approved the liquidation of Iritecna, the parent company of its plant engineering division. Plans for a new auction for the disposal of Sme (Autogrill and Supermercati GS) are well advanced.

In the autumn of 1992 the ENI group accelerated its programme for the disposal of smaller companies, equity interests and real estate worth several hundred billion lire. The sale of its controlling interest in Nuovo Pignone for 1.1 trillion lire to a consortium of Italian and foreign companies was set in train in December 1993 and is still being finalized.

The Efim group was placed in liquidation and then formally dissolved by Law 33 of 17 February 1993. The liquidator sold SIV, a glass company, to a British group and Techint for about 210 billion lire and transferred Oto-Melara, Officine Galileo, Agusta and other defence industry firms to IRI's Finmeccanica group; the liquidator also began to restructure the group's railway engineering interests, which include Breda Costruzioni Ferroviarie.

As regards the Treasury's direct shareholdings, in February of this year 33 per cent of IMI was sold by public offer for about 2.2 trillion lire, reducing the Treasury's interest to about 22.5 per cent; the Treasury will sell its residual interest in the coming months. Preliminary work has been carried out for the privatization of BNL and INA and the first steps have been taken in the privatization of Enel S.p.A., including a revision of rates, renewal of the company's concession and selection of the financial advisors who will coordinate the sale.

The transformation of public enterprises such as the State Monopolies into limited companies continued. These steps were accompanied by a number of measures regarding the regulation and liberalization of services. In addition to monitoring the planning contract with Enel, concluding new planning and service contracts with the State Railways and revising RAI's broadcasting licence, the Government abolished the compulsory reinsurance of life insurance policies and opened the mobile telephony market to a second private sector group.

The legislative authority granted to the Government to establish a new Regulatory Authority for public services will open the way for important innovations in the setting of public service charges, the monitoring of service quality and the terms governing access to network infrastructure. Such changes are a necessary condition for the privatization of the large companies that operate service networks.

Helped by declining interest rates and measures such as the extension of the suspension of capital gains tax, the stock market exploited the opportunity offered by privatizations to encourage wider share ownership. It will be possible to consolidate and build on these results once there is a sufficient number of financial institutions capable of permanently monitoring company ownership and changes have been made in company law, bylaws and the instruments for protecting the rights of small investors.

The public finances benefited indirectly from the privatization programme in terms of the restored confidence of the domestic and international markets. Direct receipts from the disposals came only in 1994 with the privatization of IMI, while massive resources were invested in restoring the financial condition of public enterprises.

In terms of allocative efficiency, privatization also induced the enterprises that remain in the public sector to implement restructuring programmes; this led to a sharp fall in investment and staffing levels, with a consequent improvement in financial conditions and productivity.

EMPLOYMENT, WAGES AND PRICES

Employment and unemployment

Labour demand and productivity. — Total employment contracted by 2.8 per cent in 1993, or the equivalent of 650,000 full-time workers. The fall was steeper and swifter than those recorded in earlier recessions. Excluding the farm sector, with its secular decline in the use of labour, total employment actually continued to grow during the recession of the early eighties, thanks to the increase in jobs in services; in 1971 it stagnated but did not decrease; in 1965-66 there was a cumulative reduction of 2.1 per cent.

First in industry and then in services, the use of labour was affected by the protracted cyclical slowdown, culminating in recession; the further deceleration in labour costs had no appreciable impact on employment. For the economy as a whole labour productivity grew faster than in 1992 (2.5 as against 2.1 per cent). Productivity in manufacturing slowed down by 1.3 points but nonetheless increased by 2.8 per cent last year, while value added fell by 2.1 per cent after growing by 0.2 per cent in 1992.

The link between changes in output and in employment appears to have tightened, possibly suggesting increased flexibility. Several extraordinary developments were superimposed on these general tendencies. One was the sharp decline of 3.4 per cent in self-employment, where marginal activities were discouraged by higher tax and social contribution levies; in contrast to previous recessions, self-employment fell even as a share of total employment. A second factor was the long-postponed restructuring undertaken in several branches, especially in the services sector (Table 10).

Employment diminished in all parts of the country. In 1992 the contraction had been larger in the Centre and North than in the South (1.0 and 0.4 per cent respectively); last year it was more severe in the South (4.4 per cent, against 2.4 per cent in the rest of Italy). An initial reconstruction of the employment series in the labour force survey between July 1991 and January 1994 reveals a seasonally adjusted decline of some 800,000 in the number of persons employed in the Centre and North and 450,000 in the South (5.4 and 7.1 per cent respectively).

Nationwide, the fall in employment during this phase of the cycle has more than erased the gains recorded in the second half of the eighties. In the Centre and North the expansion had been substantial and almost uninterrupted since 1983-84, following the decline of 1981-82, which was much less pronounced than the present one; in the South the increase had been smaller and restricted to the final part of the decade.

In large industrial firms the share of overtime diminished from 4.9 to 4.4 per cent of total man-hours, bringing the total decline since the cyclical peak in 1989 to 1.2 percentage points. However, this was still 1 point higher than the average for the seventies as estimated in the previous survey of plants with more than 500 workers, indicating that recourse to overtime is structurally greater today.

Table 10

EMPLOYMENT

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

	Total employment				Employees			
	share (1)	1991	1992	1993	share (1)	1991	1992	1993
Agriculture	**8.8**	**0.1**	**–4.7**	**–6.9**	**4.2**	**–3.9**	**0.5**	**–8.6**
Industry	**28.6**	**–0.8**	**–2.5**	**–4.1**	**32.7**	**–1.4**	**–3.2**	**–5.2**
fuel and power products	*0.8*	*–0.9*	*–1.8*	*–4.1*	*1.2*	*–0.9*	*–1.8*	*–4.2*
manufacturing	*20.4*	*–1.9*	*–3.7*	*–4.8*	*24.6*	*–2.2*	*–4.3*	*–5.4*
industry excluding construction	*21.2*	*–1.9*	*–3.6*	*–4.8*	*25.7*	*–2.1*	*–4.2*	*–5.4*
construction	*7.4*	*2.9*	*1.1*	*–2.1*	*7.0*	*1.8*	*0.7*	*–4.3*
Market services	**43.5**	**2.0**	**–0.1**	**–2.2**	**35.3**	**2.9**	**0.8**	**–1.1**
distributive trades, lodging and catering	*21.7*	*1.5*	*–0.2*	*–2.3*	*13.9*	*1.8*	*1.9*	*–0.2*
transport and communications	*6.4*	*0.4*	*–0.4*	*–2.0*	*7.4*	*0.3*	*–0.9*	*–1.5*
credit and insurance	*1.9*	*2.7*	*1.1*	*0.2*	*2.8*	*2.7*	*1.1*	*0.2*
other market services	*13.3*	*3.5*	*..*	*–2.5*	*11.2*	*6.3*	*0.4*	*–2.3*
Goods and market services	**80.8**	**0.7**	**–1.5**	**–3.4**	**72.2**	**0.4**	**–1.1**	**–3.4**
Non-market services	**19.2**	**1.1**	**1.2**	**–0.2**	**27.8**	**1.1**	**1.2**	**–0.2**
Total	**100.0**	**0.8**	**–1.0**	**–2.8**	**100.0**	**0.6**	**–0.5**	**–2.6**

Source: Istat.
(1) Percentage share of total in 1993.

The large-scale use of overtime signals the persistence of significant rigidity in the management of regular working time and is connected with the high incidence of second jobs and the low incidence of part-time work within the Italian labour market. Only 5.5 per cent of the persons employed in 1991 held part-time positions, compared with the European average of 15.1 per cent. The disparity is due largely to the female component: excluding the self-employed and unpaid family workers, who are particularly numerous in Italy, the gap for wage and salary earners alone widens to 22 percentage points (9.7 per cent in Italy, against the European average of 31.7 per cent). In the entire period since 1980, the most dynamic component of Italian employment has been second jobs, which in 1993 accounted for 9.2 per cent of total labour input in industry and the market services.

The decline in the number of full-time equivalent workers employed in industry was only partially reflected in the increase in the number of hours compensated by the Wage Supplementation Fund. In industry excluding construction the year-on-year rise in benefit hours came to 21.3 per cent, following rises of 22.5 and 17.7 per cent in 1991 and 1992; on a seasonally adjusted basis the number of benefit hours diminished in the second half of 1993, a tendency that carried over into the first few months of 1994 and reflected the decline in ordinary benefits, which are more sensitive to the business cycle. The increase in wage supplementation has been less pronounced than in the recession of the early eighties; however, the initial level in 1989-90 was higher than that of 1979-80, especially for extraordinary benefits.

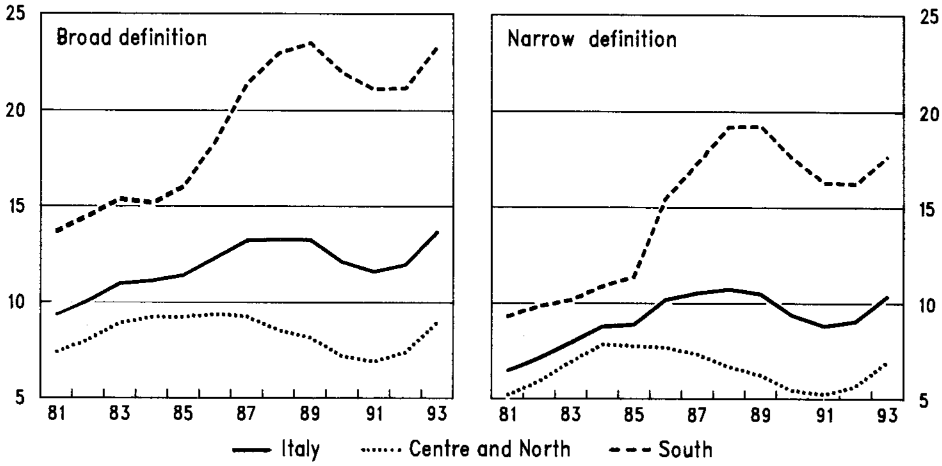
One factor limiting recourse to wage supplementation was the availability of new redundancy instruments, and in particular the mobility procedure introduced by Law 223 of 23 July 1991, which provides for the formal termination of the employment relationship. The framework put in place by Law 223/1991 separated income support for redundant workers from the process of corporate restructuring. However, there was still discrimination between workers covered by specific programmes, primarily wage supplementation and mobility, and those eligible only for ordinary unemployment benefits, i.e. workers in small industrial enterprises and virtually the entire services sector. Over the past two years the worsening recession and the need to reconsider these disparities prompted considerable legislative activity. Law 236 of 19 July 1993 reinforced the tendency to apply the mobility procedure as a continuation of wage supplementation. The scope of both instruments was broadened. Among other things, provision was made for greater recourse to "extended mobility", under which redundant workers continue to receive a mobility allowance until they are eligible for a retirement pension. In addition, the existing provisions for "solidarity contracts" were strengthened. At the same time, individually dismissed employees of small firms were also given the possibility of enrolling in the mobility lists, but without the allowance. In October 1993 such workers accounted for 9.2 per cent of the 187,000 registrants (but only 0.6 per cent in the South, where the programme is ineffective as a channel for re-employment).

The supply of labour and unemployment. — The study of labour supply developments in 1993 is greatly complicated by the modification of the labour force survey in October 1992. Estimates aligned with the most recent general census and incorporating the changes in the survey questionnaire, in the definitions and in the methods of verifying the consistency of sample data are only available from that date onwards.

The average unemployment rate for 1993 was 10.4 per cent according to the official definition and 13.7 per cent by a broader definition that includes persons whose most recent job search action occurred more than a month before the interview (Figure 4). A preliminary reconstruction of the past series for the latter indicates an increase of 1.7 points compared with 1992, while the number of persons in work declined by 2.9 per cent (total employment, measured in standard units, declined by 2.8 per cent, as noted).

Figure 4

UNEMPLOYMENT RATE: RECONSTRUCTED SERIES



Source: Based on Istat data.

Industrial relations and wages

Collective bargaining and industrial disputes. — Following the agreement in July 1992 ratifying the abolition of the *scala mobile,* in July 1993 the two sides of industry formulated guidelines for a new collective bargaining system. Temporary wage indexation is envisaged only in cases of stalled negotiations and is designed to hasten their conclusion. It gives partial coverage based on Government inflation targets, not on past inflation.

The agreement of unions and employers on the need to proceed with disinflation and adopt the Government's inflation target as the main standard for the rise in nominal incomes played a major role in preventing a rekindling of inflation in the wake of the lira's depreciation. The accord reiterated the commitment of the two sides and the Government to hold periodic meetings prior to the deadlines for the formulation of economic and fiscal policy programmes, without prejudice to the distinction between the powers and duties of the economic policy authorities and the responsibilities of unions and employers.

The system of industrial relations instituted by the July 1993 agreement retains two levels of collective bargaining but requires that they differ in timing and scope. The national industry-wide agreement will revise minimum contractual wages every two years with reference to "programmed" inflation rates, while the normative portion of the contract, which is to establish the timing and set the bargaining items for company or local-level negotiations, will have a duration of four years. This decentralized bargaining, also to take place every four years, should turn on forms of profit-sharing, still largely untested, and not involve items already covered in the national wage agreements. The planned changes in social security contribution rules to provide incentives for profit-sharing schemes have not yet been finalized, owing partly to the difficulty of verifying that such agreements truly constitute profit-sharing, which is essential to prevent avoidance of social security tax obligations. Nevertheless, the incidence of decentralized bargaining on overall earnings could increase, resulting in closer correspondence between employees' earnings and firms' profitability, even in the short term.

The final definition of the new industrial relations framework will have to await the conclusion of the current bargaining round, as many national contracts expire in 1994. Only two industries have renewed their collective bargaining agreements subsequent to the incomes policy agreement and consistent with it: paper and paper products, in July 1993, and chemicals in March of this year.

Wages and labour costs. — For the economy as a whole, gross earnings per full-time equivalent worker rose by 3.1 per cent, with a further slowdown that exceeded that in consumer prices; as a result the fall in real terms increased from 0.2 per cent in 1992 to 1.3 per cent last year (Table 11).

Real earnings net of income taxes and social security contributions declined even more sharply. For a typical worker earning the average non-farm wage for the private sector and subject to current tax and contribution rules, the loss of purchasing power since 1991 ranged between 2.2 and 2.4 per cent, depending on the number of dependents; the cumulative decline in average gross earnings was 1.0 per cent. The bulk of the restriction due to tax and contribution increases came in late 1992 and early 1993.

Table 11

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)			
1990	2.1	0.9	1.3	10.5	10.7	9.4
1991	1.2	0.8	0.4	8.6	8.5	8.0
1992	1.1	–1.0	2.1	4.9	5.7	3.5
1993	–0.4	–2.8	2.5	3.1	3.7	1.2
			Agriculture			
1990	–3.3	–1.8	–1.5	4.9	5.5	7.0
1991	8.2	0.1	8.1	6.5	6.1	–1.9
1992	1.1	–4.7	6.0	9.8	9.8	3.6
1993	–2.9	–6.9	4.4	5.1	4.9	0.6
			Manufacturing industry			
1990	2.0	0.4	1.6	7.7	8.5	6.8
1991	–0.2	–1.9	1.8	9.5	9.3	7.4
1992	0.2	–3.7	4.1	6.7	7.0	2.8
1993	–2.1	–4.8	2.8	3.9	4.5	1.6
			Construction			
1990	2.5	2.2	0.3	10.2	11.0	10.6
1991	1.2	2.9	–1.7	8.0	8.0	9.8
1992	–0.9	1.1	–2.0	4.2	4.7	6.8
1993	–4.6	–2.1	–2.6	0.1	0.3	3.0
			Market services (2)			
1990	3.0	1.6	1.3	7.5	8.0	6.6
1991	1.5	2.0	–0.5	8.8	8.2	8.8
1992	1.8	–0.1	1.9	5.2	6.0	4.1
1993	1.3	–2.2	3.6	2.7	3.5	–0.1

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

The increase in total labour costs was larger than that in gross earnings (4.5 as against 3.9 per cent in manufacturing, 3.5 as against 2.7 per cent in market services). The rise in unit labour costs nonetheless decelerated from 2.8 to 1.6 per cent in manufacturing and from 3.6 to 0.7 per cent in the private sector as a whole. The slowdown was more pronounced than the average for the other industrial countries. One contributory factor was the stability of labour costs in market services (a decline of 0.1 per cent, compared with growth of 4.1 per cent in 1992 and 8.8 per cent in 1991), reflecting both the exceptional performance attributed in the national accounts to the banking and insurance sector and restructuring in the transport and communications sector. Although less rapid than in 1992, the rise in unit labour costs was larger in the distributive trades and lodging and catering (3.9 per cent, against 4.4 per cent in 1992) and in sundry services (1.9 per cent, against 3.7 per cent).

Prices

Inflation continued to abate in 1993. The year-on-year rise in the consumer price deflator for households diminished from 5.3 to 4.8 per cent, the best result since the early seventies. The rise in the overall consumer price index was slightly smaller (4.5 per cent, compared with 5.2 per cent in 1992), more than half the difference being accounted for by the sharp increase in the prices of tobacco products, which are not in this index's basket. More moderate still was the rise in the "cost-of-living" index (4.2 per cent, as against 5.4 per cent in 1992).

The large fall in the nominal effective exchange rate of the lira (16.4 per cent on average for the year and 23.7 per cent between August 1992 and December 1993) prevented a more pronounced slowdown in prices but did not touch off the feared inflationary spiral. The inflationary impulses of the currency's depreciation were neutralized above all by wage moderation stemming from incomes policy and the recession. The contraction of demand set limits to the widening of profit margins in the domestic market.

In manufacturing the curbing of unit labour costs counteracted the increased cost of other inputs, which rose by 7.8 per cent, compared with 1.8 per cent in 1992, owing chiefly to the higher lira prices of imported inputs, despite the moderating effect of the decline in the dollar prices of the main raw materials. Overall, variable unit costs rose by 4.7 per cent, compared with 2.3 per cent in 1992. Output prices rose by an average of 6.0 per cent, 3.5 points more than in 1992. Export and domestic market prices followed a similar rising pattern during the year, but the amplitude of their variations differed: domestic prices accelerated by about 1.5 points, from 2.6 to 3.9 per cent on average for the year, and export prices by nearly 10 points, from 2.2 to 11.6 per cent. The latter accounted for the improvement in the average profit margin in manufacturing.

The increase in the implicit GDP deflator, which is affected by the behaviour of export prices, diminished only marginally, from 4.5 to 4.4 per cent. The deceleration in the consumption deflator, including collective consumption, was countered by a faster rise in the implicit prices of investment goods (from 3.8 to 4.6 per cent overall, and from 2.3 to 5.1 per cent excluding construction), in which the incidence of imports is greater.

Even the lira prices of imported manufactures did not fully reflect the depreciation: they rose by 12.5 per cent on average for the year; in December 1993 they were 16.3 per cent higher than in August 1992, on a seasonally adjusted basis.

Contingent factors also helped to contain inflationary pressures. The prices of food products slowed down by more than 3 points to an average annual increase of 2.2 per cent, thanks in large measure to the favourable trend in the prices of unprocessed products, which declined by 0.5 per cent. The containment of public service charges, which rose by 2.8 per cent compared with 6.1 per cent in 1992, also played an important role, especially in the quarters immediately following the lira's devaluation.

With the depreciation of the lira, the differential between price trends for goods and for services — excluding food and energy products, whose prices are more heavily influenced by raw materials costs — narrowed to 1 percentage point, compared with 2.6 points in 1991 and 3.8 in 1992. The prices of non-food and non-energy goods rose faster (4.6 per cent, as against 3.8 per cent in 1992), owing to the scope for domestic producers to raise prices as a result of the lira's depreciation and the increased cost of imports. Service prices, by contrast, slowed down further (from 7.3 to 6.1 per cent in the unregulated sectors), more as a result of the containment of unit costs, labour costs in particular, than as a direct effect of the fall in domestic demand.

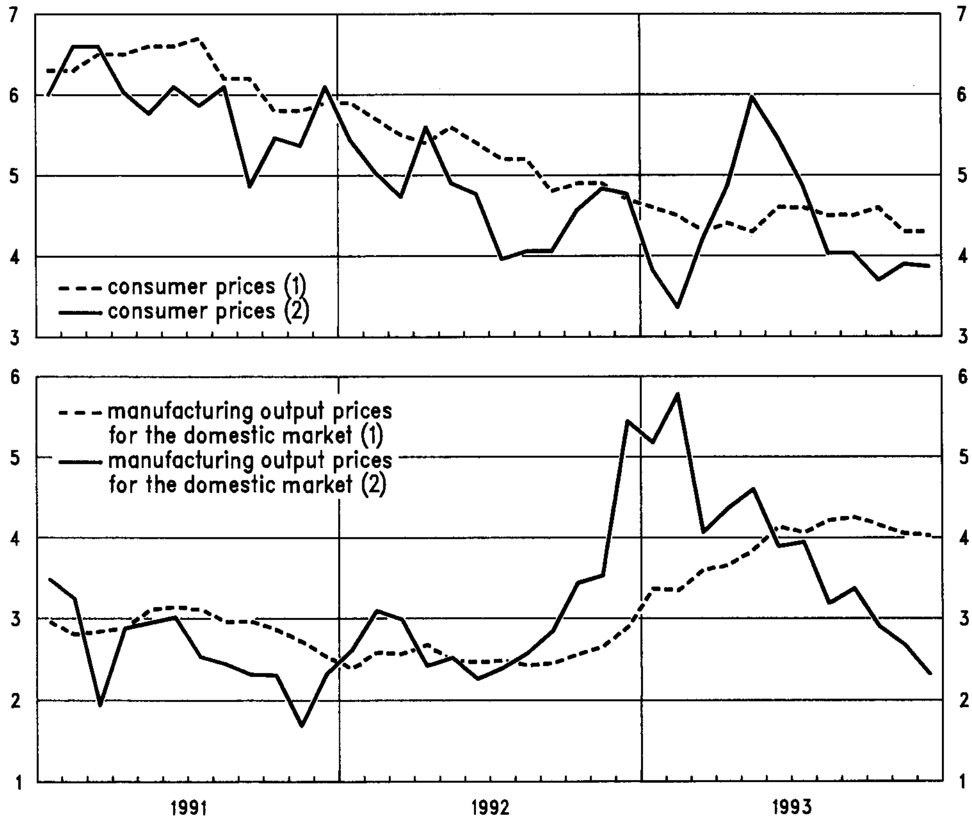
The effects of devaluation were evident in the evolution of producer and consumer prices in the course of the year. The seasonally adjusted annualized rate of increase in consumer prices rose from an average of 4.0 per cent in the first quarter to 5.0 per cent in the second, held at 4.8 per cent in the third quarter and then came back down to 3.9 per cent at the end of the year (Figure 5).

Italy's consumer price inflation differential with respect to the rest of the European Union remained unchanged at an average of 1.3 points; vis-à-vis the three lowest-inflation countries it was 3.1 points, compared with 3.0 in 1992.

Figure 5

OUTPUT AND CONSUMER PRICES

(percentage changes)



Source: Based on Istat data.

(1) Change from corresponding month of the previous year. – (2) Change from previous month on a seasonally adjusted annual basis (three-term moving average).

The distribution of income and profit margins

The improvement in profit margins that had begun in 1992, though scarcely perceptible in the average figure for that year, was consolidated in 1993. The share of labour income in the value added of industry and market services declined by 1.7 percentage points.

The widening of profit margins in manufacturing (by 0.9 percentage points on average for the year) was particularly significant, in that it ran counter to the usual procyclical pattern. This result can be ascribed to the trends noted earlier, namely wage moderation and the advances in productivity. However, the overall improvement conceals widely contrasting developments in different industries. In those where demand fell steeply, such as transport equipment, profit margins narrowed further, even though per capita labour costs were stable. The more domestically oriented industries also felt the influence of the poor economic situation, which affected both output prices and productivity, and their margins narrowed by almost 1 percentage point. The overall growth in average profit margins was accounted for by the industries that were able to exploit the leeway provided by the depreciation of the lira.

THE BALANCE OF PAYMENTS ON CURRENT ACCOUNT

According to provisional figures, the current account of the balance of payments showed a surplus of 17,985 billion lire in 1993, compared with a deficit of 34,225 billion the previous year (Table 12). The swing in terms of GDP amounted to 3.5 percentage points (passing from —2.3 to +1.2 per cent), and was second only to the turnaround of 4.1 per cent recorded in 1975 (Figure 6). Most of the improvement was attributable to merchandise trade, where the surplus increased by nearly 47.3 trillion lire with respect to 1992.

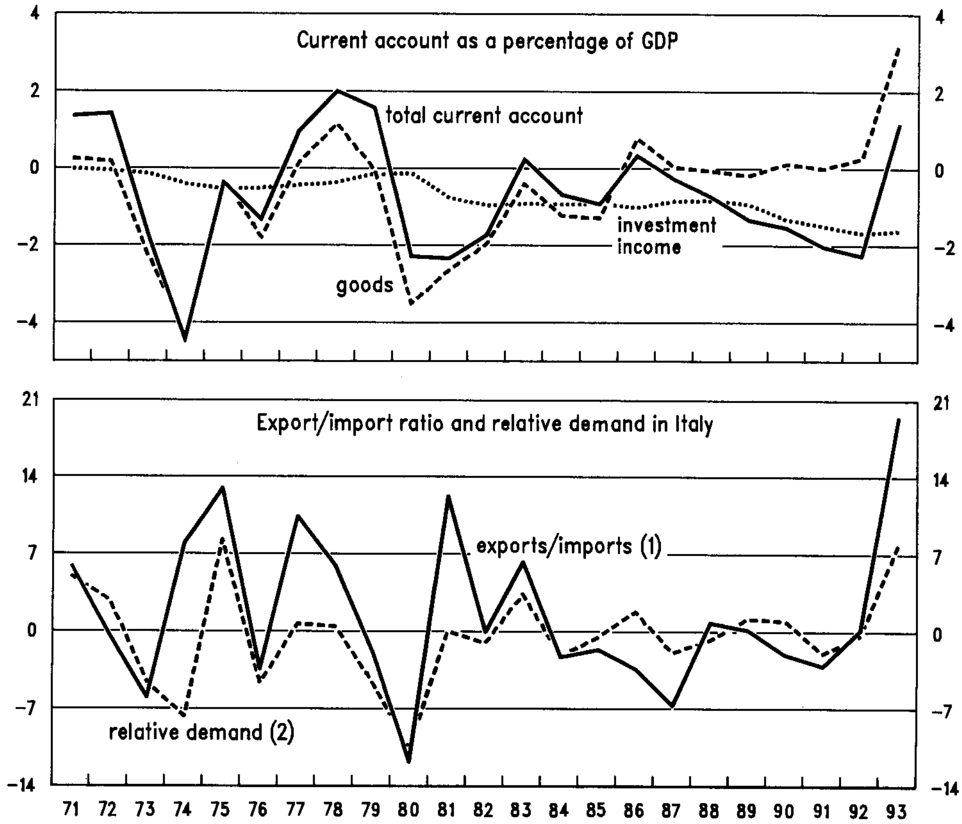
Table 12

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

	1991	1992	1993
Goods *(fob-fob)*	**–238**	**3,852**	**51,106**
Invisibles	**–20,099**	**–38,077**	**–33,121**
Services and income	**–21,729**	**–31,185**	**–24,655**
Services	–330	–5,715	980
Transport	–4,738	–7,278	–5,601
Foreign travel	8,402	5,923	12,555
Other	–3,994	–4,360	–5,974
Income	–21,399	–25,470	–25,635
Income from labour	270	94	–111
Investment income	–21,669	–25,564	–25,524
Unrequited transfers	**–7,370**	**–6,892**	**–8,466**
Private	–344	–556	724
Remittances	1,009	653	677
Other	–1,353	–1,209	47
Public	–7,026	–6,336	–9,190
On EU accounts	–2,610	–1,156	–4,482
Other	–4,416	–5,180	–4,708
Total	**–29,337**	**–34,225**	**17,985**

Figure 6

THE CURRENT ACCOUNT,
MERCHANDISE TRADE AND RELATIVE DEMAND
(percentages)



Source: Based in part on Istat, OECD and IMF data.
(1) At constant prices. – (2) Ratio of the index of domestic demand in OECD countries (excluding Italy) and the index of domestic demand in Italy, at constant prices (1985=100).

The *fob fob* trade surplus rose to more than 51.1 trillion lire in 1993, equal to 3.3 per cent of GDP (as against 0.3 per cent in 1992). With intra-EU trade now recorded in accordance with the new Intrastat statistical system, the *cif-fob* trade balance showed an overall surplus of 32,789 billion lire, compared with a deficit of 12,674 billion the previous year. Exports rose by 20.8 per cent at current prices, while imports were virtually unchanged.

The remarkable improvement in the *cif-fob* trade balance reflected changes in trade volumes (Table 13). The average export/import ratio at constant prices rose from 96.2 to 116.5 per cent in response to improved competitiveness and the weakening of Italian domestic demand in relation to demand in Italy's principal trading partners (Figure 6).

The real exchange rate, based on the producer prices of manufactures weighted to take account of competition in all markets, fell by an annual average of 13.3 per cent. The depreciation vis-à-vis the EU countries came to 12.0 per cent.

The annual average fall of 17.8 per cent in the nominal effective exchange rate weighted by reference to exports was not entirely reflected in lower export prices in foreign currency, as Italian firms used part of the depreciation to widen their profit margins on foreign sales. The average unit value of manufactured exports rose by 11.5 per cent in lira terms after stagnating in 1992; there was therefore a wide disparity between the rate of increase in export prices and that in the prices of goods for the domestic market (Figure 7). The fall in domestic demand in Italy forced foreign manufacturers to reduce their foreign currency prices in order to limit the rise in lira prices, which increased by 12.5 per cent, and protect market share. The decline in the dollar prices of raw materials (by 8.6 per cent for energy products and 11.3 per cent for other raw materials) helped to contain the overall rise in the average unit value in lire of imports to 11.7 per cent (0.6 per cent in 1992). The rise in the lira prices of both imports and exports occurred mainly in the first half of 1993. The terms of trade worsened only slightly, by 0.3 per cent.

Table 13

MERCHANDISE TRADE

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

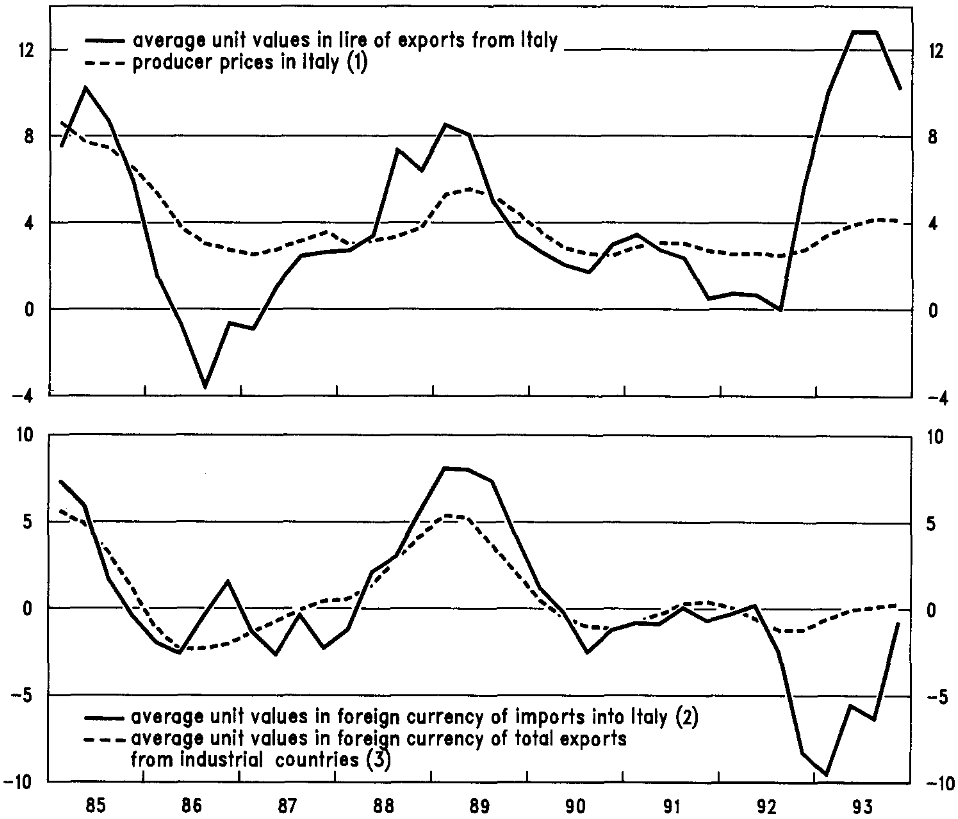
	1992	1993				
		Q1	Q2	Q3	Q4	Year
At current prices						
Exports	4.6	11.7	2.0	4.0	3.6	20.8
Imports	2.8	–1.7	1.5	–0.1	1.1	0.1
Exports/imports	1.6	13.9	0.2	4.5	2.0	20.7
Average unit values (2)						
Exports	0.8	5.6	2.4	1.3	–0.4	11.4
Imports	–0.6	8.0	1.0	0.1	..	11.7
Terms of trade (1)	1.4	–2.2	1.4	1.2	–0.4	–0.3
At constant prices						
Exports	3.8	5.6	–0.3	2.6	4.1	8.5
Imports	3.4	–9.0	0.6	–0.2	1.1	–10.4
Exports/imports	0.3	16.5	–1.2	3.3	2.4	21.1

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

Figure 7

INDICATORS OF THE PRICING POLICIES OF ITALIAN AND FOREIGN MANUFACTURERS

(percentage changes)



Source: Based on Istat, OECD and IMF data.

(1) Manufactures produced for the domestic market. – (2) Expressed in the currencies of the leading exporters of manufactures to Italy. – (3) Refers to the 14 countries included in the indicator of the real exchange rate of the lira.

Imports declined by 10.4 per cent in volume terms in 1993, reflecting the contraction of 5.0 per cent in domestic demand and the fall of 12.5 per cent in the real exchange rate of the lira weighted by reference to imports. Export volumes increased by 8.5 per cent, compared with 3.8 per cent in 1992. The easing of the pressure of domestic demand on production and the gain in competitiveness caused Italian exports to grow far more rapidly than world trade, which increased by 2.6 per cent, thus increasing Italy's market share at constant prices.

Merchandise trade with the other EU countries showed a surplus of 12,444 billion lire in 1993, compared with a deficit of 9,949 billion the previous year. Exports rose by 11.6 per cent in value terms, while imports contracted sharply, by 5.7 per cent. Trade with Germany showed the greatest improvement, with a swing of more than 12 trillion lire in Italy's favour.

Significant improvements were also recorded in trade with France and the United Kingdom.

Faced with continuing cyclical difficulties in European countries, Italian exporters rapidly turned to more dynamic markets. The proportion of trade transacted with non-EU countries increased by nearly 4 percentage points from 41.8 to 45.7 per cent, giving rise to a surplus of 20,345 billion lire, compared with a deficit of 2,725 billion in 1992. More than one fifth of the improvement was attributable to trade with the United States. The surplus with the Latin American countries increased by 3,771 billion lire and that with the NIEs and China increased by more than 6.7 trillion lire.

Invisibles

The invisible items of the balance of payments (services, investment income and unrequited transfers) recorded a deficit of 33,121 billion lire in 1993, about 5 trillion less than in 1992.

After declining for eight years, the surplus on foreign travel began to rise again, increasing from 5,923 billion lire in 1992 (equal to 0.4 per cent of GDP, the lowest level since the early seventies) to 12,555 billion last year (0.8 per cent of GDP). Expenditure declined by 1.1 per cent after having risen by 54.4 per cent in 1992, an increase that had presumably included capital exports by residents during the currency crisis. As well as reflecting a return to more normal levels following the overestimate in 1992, the fall was a consequence of the decrease in households' disposable incomes and the real depreciation of the lira. The proportion of domestic consumption spent on foreign travel, which had steadily increased since the mid-eighties, fell by almost 1 percentage point last year.

Spending by foreign tourists in Italy continued to increase at the same pace as in the previous year, rising by 22.6 per cent at current prices and 17.5 per cent at constant prices. The stimulatory effect of the depreciation of the lira on visitors' expenditure was dampened by the unfavourable economic climate in most of the countries from which they came.

The deficit on business services increased by more than 800 billion lire to 4,172 billion. The sector has shown a structural deficit for years, reflecting the incomplete modernization of the "advanced" services sector in Italy and, more generally, the backwardness of Italy's national system of innovation compared with those of the leading industrial countries. In 1992 Italian investment in research and development was equal to 1.4 per cent of GDP, as against 2.7 per cent in the United States, 2.9 per cent in Japan and 2.6 per cent in Germany.

Net outflows of investment income came to 25,524 billion lire, compared with 25,564 billion in 1992; in relation to GDP, the deficit narrowed slightly from 1.7 to 1.6 per cent. Gross interest payments increased more slowly than in 1992, decelerating from 27.2 to 23.6 per cent, while gross receipts increased by 43.1 per cent, compared with a rise of 35.9 per cent in 1992. The contraction in the deficit on investment income was due to the decrease in net foreign liabilities, the universal reduction in interest rates and especially the narrowing of interest rate differentials vis-à-vis the other major currencies.

Unrequited transfers recorded a deficit of 8,466 billion lire, equal to 0.5 per cent of GDP, compared with one of 6,892 billion in 1992. The increase in net outflows on account of official transfers, from 6,336 to 9,190 billion lire, outweighed the improvement in the balance on private transfers caused by the sharp rise in pension payments to residents from foreign social security institutions from 1,408 to 2,244 billion lire, an increase of 59.3 per cent. The traditional surplus on workers' remittances remained at the low level recorded in 1992. Remittances by foreign workers in Italy are still small, although they are probably underestimated; they nevertheless increased by 22.1 per cent in 1993.

CAPITAL FLOWS AND THE EXCHANGE RATE

There were substantial net inflows of non-bank capital in 1993, particularly on account of portfolio investment; net outflows of bank capital were almost as large, however, so that there was an overall net inflow of 10.8 trillion lire. With the current account recording a surplus of 18 trillion lire and the central bank's net assets increasing by 2.2 trillion after adjustment for variations in exchange rates and the price of gold, errors and omissions showed an outflow of 26.5 trillion lire (Table 14).

Table 14

SUMMARY OF THE BALANCE OF PAYMENTS
(billions of lire)

	1991	1992	1993
Goods	–238	3,852	51,106
Invisible items	–29,099	–38,077	–33,121
Total current account	**–29,337**	**–34,225**	**17,985**
Non-bank capital	–10,310	–14,651	64,241
Bank capital	39,369	25,303	–53,486
Total capital flows	**29,059**	**10,652**	**10,755**
Errors and omissions	–8,293	–8,975	–26,534
Changes in official reserves (1)	**8,571**	**32,548**	**–2,206**

(1) At constant exchange rates and gold prices. A minus sign indicates an increase in reserves.

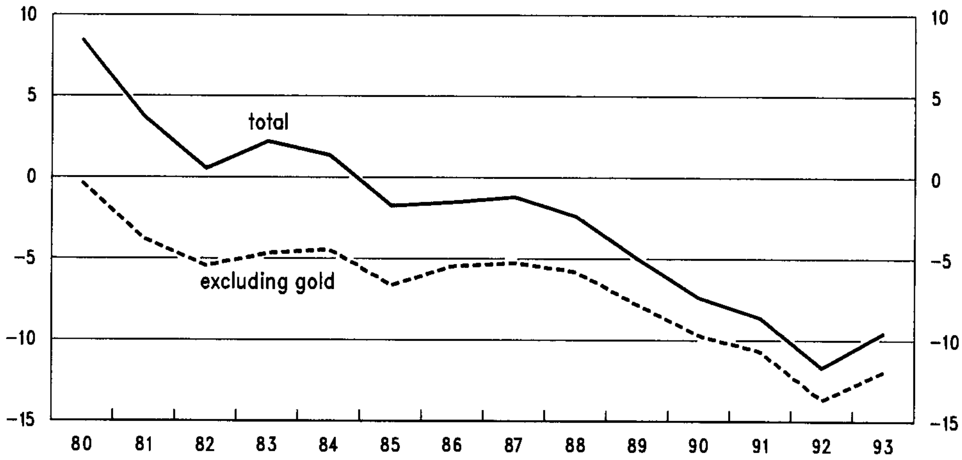
The almost continuous reduction in interest rate differentials between the lira and the leading currencies was accompanied by a decline in the nominal effective exchange rate of the lira. The narrowing of differentials reflected the easing of monetary conditions in Italy, in line with developments in international markets. The depreciation of the lira was due in part to lingering adverse exchange rate expectations due to uncertainty about the continuation of efforts to reduce the budget deficit over the medium term. The expectation of a more immediate reduction in interest rates nonetheless led to a substantial inflow of foreign capital, albeit hedged against exchange risks.

Italy's net external position improved significantly for the first time since 1983. At year-end prices and exchange rates, net liabilities fell from 175.2 trillion lire in 1992 to 149.5 trillion in 1993, a decline of about 26.7 trillion lire, and from 11.6 to 9.6 per cent of GDP (Figure 8).

Figure 8

ITALY'S NET EXTERNAL POSITION

(as a percentage of GDP)



Non-bank capital

Inflows and outflows of non-bank capital continued to grow rapidly, with gross flows almost double those of 1992. Portfolio investment, the annual total for which was inflated by high turnover, alone amounted to almost three times the value of GDP.

The substantial net inflow of foreign portfolio investment (96.9 trillion lire, compared with 13 trillion in 1992 and 23.2 trillion in 1991) was fueled by expectations of capital gains in connection with the likely reduction in interest rates from the much higher level reached during the currency crisis in the autumn of 1992 (Table 15). A fairly large part of the gross flows connected with these operations was financed by assigning securities to resident banks under repurchase agreements or by borrowing in the Eurolira market to hedge the exchange risk.

As in previous years, the bulk of inward portfolio investment went into government securities, with a preference for fixed-rate paper for the reasons stated above. Net purchases of Treasury bonds amounted to about 54.8 trillion lire, compared with 2.1 trillion in 1992; aggregate purchases and sales were equal to more than 80 per cent of total inflows and outflows of foreign portfolio investment, against 57 per cent in 1992 (Table 16).

The Treasury returned to the international markets in 1993 with several Italian Republic issues amounting to 18.1 trillion lire net of redemptions.

Portfolio investment abroad by residents gave rise to a net outflow of 14.9 trillion lire, little more than half the figure for 1992. The net inflows of the first quarter, which were the result of the realization of residual exchange rate gains stemming from the depreciation of the lira, gave way to outflows that gradually stabilized at the average level recorded in the two years before the currency crisis.

Table 15

CAPITAL MOVEMENTS

(net flows in billions of lire)

	1992	1993	1993			
			Q1	Q2	Q3	Q4
Non-bank capital	**–14,651**	**64,241**	**27,065**	**15,273**	**12,761**	**9,142**
Italian capital	–41,835	–39,650	–5,269	–8,786	–7,708	–17,887
Direct investment	–7,328	–11,364	–5,418	–2,569	–1,890	–1,487
of which: real estate	*–399*	*–419*	*–135*	*–100*	*–78*	*–106*
Portfolio investment	–24,364	–14,875	3,247	–1,144	–6,759	–10,219
Loans	–6,181	–4,844	–265	–2,574	–272	–1,733
Trade credit	–3,962	–8,567	–2,833	–2,499	1,213	–4,448
Foreign capital	27,184	103,891	32,334	24,059	20,469	27,029
Direct investment	3,955	5,895	1,641	1,360	1,035	1,859
of which: real estate	*10*	*268*	*6*	*88*	*126*	*48*
Portfolio investment	12,955	96,893	24,238	23,672	22,393	26,590
Loans	9,113	399	5,615	–1,308	–1,130	–2,778
Trade credit	1,161	704	840	335	–1,829	1,358
Bank capital	**25,303**	**–53,486**	**–13,231**	**–15,815**	**–11,693**	**–12,747**
Banks accepting short-term funds	27,713	–50,572	–14,422	–14,968	–13,399	–7,783
Banks accepting medium and long-term funds	–2,410	–2,914	1,191	–847	1,706	–4,964
Total	**10,652**	**10,755**	**13,834**	**–542**	**1,068**	**–3,605**

The continuing recession in the industrial countries had a dampening effect on direct investment in Italy. Gross inflows were slightly lower than in 1992, but the net inflow rose to almost 5.9 trillion lire on account of the considerable fall in disinvestment. Purchases of new shareholdings in foreign firms by Italian investors rose slightly, from 22.3 to 23.8 trillion lire, while disposals declined more sharply, so that net outflows rose to 10.5 trillion lire.

Inflows and outflows of foreign loans were essentially in equilibrium. Private loans generated a net outflow of about 1.1 trillion lire, much of which was due to the decline in foreign currency lending to residents by the foreign branches of Italian banks. The net inflow of 1.5 trillion lire on account of public loans reflected primarily the disbursement of the first two tranches of the loan from the European Union in March and November, amounting to more than 7.6 trillion lire, and repayment of the bank loan of DM 3 trillion granted in December 1992.

Table 16

FOREIGN PORTFOLIO INVESTMENT IN ITALY

(flows in billions of lire)

	1992			1993		
	Investment	Disinvest-ment	Balance	Investment	Disinvest-ment	Balance
Government securities	**449,358**	**447,694**	**1,664**	**1,915,656**	**1,833,469**	**82,187**
Treasury bills	3,600	3,544	56	19,679	18,328	1,351
Treasury bonds	287,755	285,674	2,081	1,573,506	1,518,733	54,773
Ecu Treasury bills	1,204	2,470	−1,266	3,859	4,143	−284
Ecu Treasury certificates	19,381	18,018	1,363	17,750	15,974	1,776
Treasury credit certificates	57,022	56,692	330	85,850	86,868	−1,018
Discounted Treasury certificates	1	19	−18	108	84	24
Index-linked Treasury certificates	342	307	35	..	..	..
Treasury option certificates	66,205	66,608	−403	181,615	174,419	7,196
Other	898	915	−17	..	4	−4
Issues of the Italian Republic	*12,950*	*13,447*	*−497*	*33,289*	*14,916*	*18,373*
Investment fund units	20	10	10	42	3	39
Listed bonds	4,004	3,477	527	2,909	2,488	421
Listed shares	13,000	13,017	−17	34,263	27,722	6,541
Other securities	197	119	78	1,506	943	563
Other financial instruments	1,183	2,669	−1,486	1,484	2,344	−860
Deposits	654	767	−113	2,248	2,375	−127
Derivative instruments	809	871	−62	1,526	1,720	−194
Amounts not allocated	43,491	31,137	12,354	19,082	10,759	8,323
Total	**512,716**	**499,761**	**12,955**	**1,978,716**	**1,881,823**	**96,893**

Bank capital, official reserves and the exchange rate

Since the currency crisis of September 1992 movements of funds by resident banks have given rise to almost continuous net capital outflows. In 1993 they reached a total of 53.5 trillion lire, nearly all of which was attributable to banks accepting short-term funds, whose external indebtedness at current exchange rates thus fell to 88.6 trillion lire at the end of the year, almost 38 trillion lire less than a year earlier.

The bulk of the net outflows by banks accepting short-term funds stemmed from foreign currency transactions; a contraction of 44.5 trillion lire in liabilities, net of exchange rate variations, was only partly offset by a decline of 3.3 trillion lire in assets. The decrease in liabilities reflected a reduction of about 34.2 trillion lire in domestic foreign currency assets, due partly to the general cyclical weakening of the demand for corporate credit but primarily to a more acute awareness of exchange risk on the part of customers in the wake of the currency crisis.

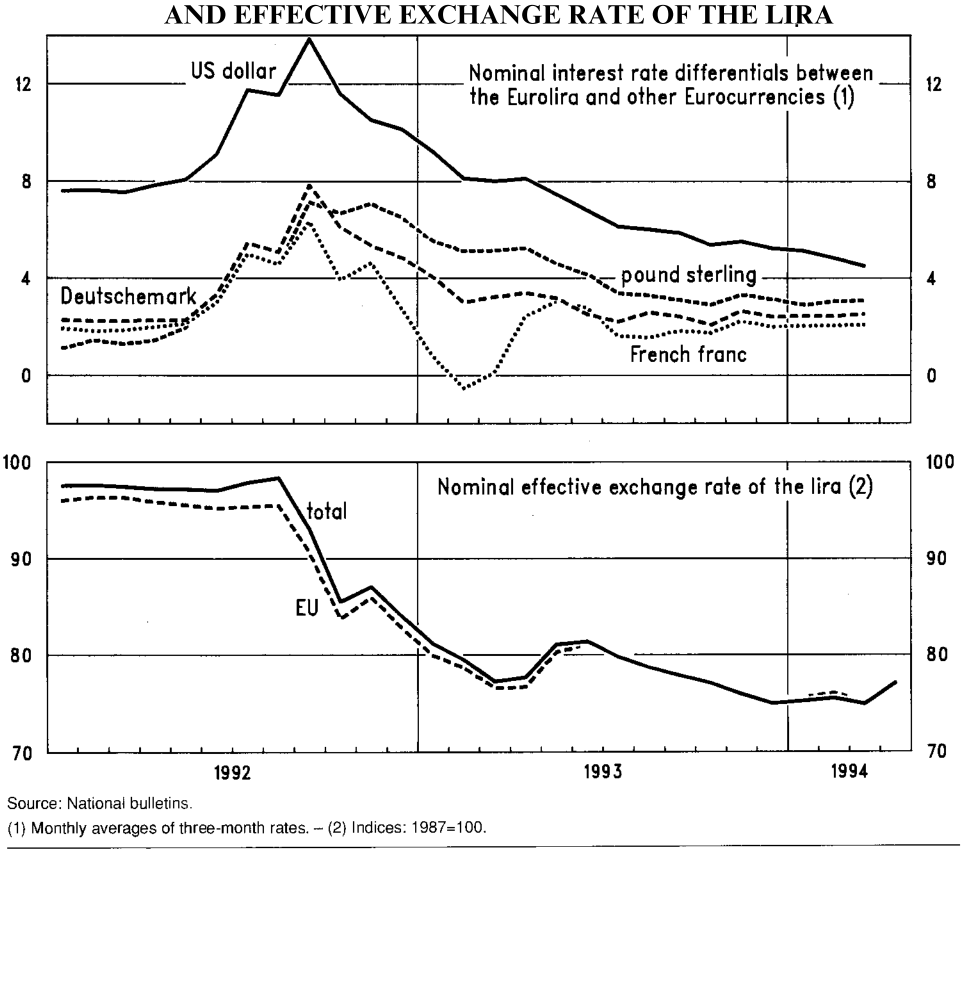
Banks accepting short-term funds took forward positions against lire to limit their spot foreign currency exposure; together with the net positions arising out of domestic currency swaps, these transactions kept their year-end long spot and forward foreign currency position down to 4.5 trillion lire.

Their net external position in lire also improved by nearly 9.4 trillion lire. Their assets and liabilities increased by 25.5 and 16.1 trillion lire respectively, in line with the growth in operations in the Eurolira market by resident banks. The increase in assets was partly in response to the demand for lira loans from foreign investors to finance purchases of Italian securities.

The lira depreciated by 7.6 per cent in nominal effective terms during 1993; the depreciation between August 1992 and December 1993 amounted to 23.8 per cent (Figure 9). The official reserves increased by 2.2 trillion lire net of exchange rate and valuation adjustments.

Figure 9

NOMINAL INTEREST RATE DIFFERENTIALS BETWEEN THE EUROLIRA AND OTHER EUROCURRENCIES AND EFFECTIVE EXCHANGE RATE OF THE LIRA



Source: National bulletins.

(1) Monthly averages of three-month rates. – (2) Indices: 1987=100.

The lira strengthened briefly in the second quarter of the year but resumed its depreciation in the summer, while the narrowing of short-term interest rate differentials vis-à-vis the leading currencies came to a halt. At the end of the year the differential vis-à-vis the Deutschemark was 2.4 percentage points and that vis-à-vis the dollar 5.2 points, compared with figures of 4.1 and 9.2 percentage points respectively in January 1993.

The substantial proportion of the inflow of portfolio investment that was hedged agaist exchange risk is an indication of the continuing uncertainty surrounding the lira, which is corroborated by the reduction in foreign currency lending to residents by Italian banks and the simultaneous net repayment of external foreign currency liabilities. Nonetheless, the narrowing of interest rate differentials in favour of the lira signals a gradual reduction in the risk premium the market expects for lira assets, despite a further depreciation of the currency.

Developments during the early months of 1994

The available information on the first quarter of 1994 is still extremely approximate owing to the introduction of new accounting criteria, which affected the quality of the data collected by operators. Recalculation of the statistics on the basis of the previous criteria for the purposes of comparison reveals a change in relation to 1993, in that there were substantial net inflows of bank capital in lire and net outflows of portfolio investment by non-residents. The latter were only partially offset by net inflows of some 4.6 trillion lire in January generated by the issue of a yen-denominated loan on behalf of the Italian Republic in the European and US markets.

In the first quarter of this year the lira did not depreciate further in nominal effective terms; in March the currency was trading at 1,668 lire against the US dollar and 986 against the Deutschemark, close to the levels recorded in December. In April it showed signs of appreciating after political uncertainties had been reduced by the elections; in the third week of May the exchange rates of the lira vis-à-vis the same two currencies were respectively 1,594 and 958 lire.

Net of valuation adjustments, the official reserves increased by 4,258 billion lire in the first quarter of this year 1994.

PUBLIC FINANCES

The results for the year

In 1993 the public finances reflected the opposing effects of the recession on the one hand and incisive budgetary measures on the other. Net borrowing by general government did not increase as a percentage of GDP, in contrast to developments in the other leading European countries, and the surplus net of interest payments grew in relation to output; the fall in interest rates created the conditions for reducing the cost of servicing the public debt this year. However, notwithstanding the marked decline in public investment, the results for the year still fell short of the objectives.

The public sector borrowing requirement net of settlements of past debts diminished from 167.5 trillion lire in 1992 to 164.8 trillion last year and from 11.1 to 10.6 per cent of GDP (Tables 17 and all). The state sector borrowing requirement, which in the new definition of the sector excludes autonomous government agencies and bodies transformed into limited companies, fell more substantially, from 158.9 to 153.6 trillion lire and from 10.6 to 9.8 per cent of GDP. The primary surplus of the public sector grew fourfold and that of the state sector tripled. After the slower progress in previous years, the adjustment of the public finances therefore gathered momentum in a year of severe recession. Nonetheless, the objectives fixed in the Forecasting and Planning Report of September 1992 were not achieved.

The Government's budget for 1993, which was based on the old definition of the state sector, aimed to keep the borrowing requirement down to 150 trillion lire and set a target of 50 trillion for the primary surplus. On this basis, and taking account of the financial effects of balances held by the Treasury in respect of loans that the regions had raised to settle the past debts of local health units, the borrowing requirement can be estimated to have overshot the target by around 10 trillion lire and the primary surplus to have fallen short by around 24 trillion.

The increase in the borrowing requirement was due to the weaker than expected performance of the economy, delays in carrying out planned sales of state assets and the shortfall in the effects of corrective measures, offset partly by a reduction in interest payments and other net expenditure savings, including those connected with the decline in public investment and VAT refunds.

Table 17

PUBLIC SECTOR AND GENERAL GOVERNMENT BORROWING REQUIREMENT

(billions of lire)

	1990	1991	1992	1993
Public sector				
A = Total borrowing requirement	146,054	161,067	168,311	176,822
as a percentage of GDP	*11.1*	*11.3*	*11.2*	*11.3*
B = A minus settlements of past debts	143,054	157,067	167,511	164,822
as a percentage of GDP	*10.9*	*11.0*	*11.1*	*10.6*
C = B minus interest payments	15,344	9,232	–6,770	–24,853
as a percentage of GDP	*1.2*	*0.6*	*–0.5*	*–1.6*
D = C plus withholding tax on income from government securities	24,500	21,070	9,351	–7,355
as a percentage of GDP	*1.9*	*1.5*	*0.6*	*–0.5*
General government				
E = Total borrowing requirement	138,306	157,659	162,563	180,001
as a percentage of GDP	*10.5*	*11.0*	*10.8*	*11.5*
F = E minus settlements of past debts	135,306	153,659	161,763	168,001
as a percentage of GDP	*10.3*	*10.7*	*10.8*	*10.8*
G = F minus interest payments	8,962	7,780	–10,380	–18,932
as a percentage of GDP	*0.7*	*0.5*	*–0.7*	*–1.2*
H = G plus withholding tax on income from government securities	18,118	19,618	5,741	–1,434
as a percentage of GDP	*1.4*	*1.4*	*0.4*	*–0.1*

The targets were revised during the year in the light of the decline in economic activity and the unfavourable monthly trend in the borrowing requirement, and action was formulated to achieve them. In particular, the supplementary budget package introduced in May involved a correction of 12.5 trillion lire, divided more or less equally between revenue-raising measures and spending cuts. The European Union monitored the progress of the public finances, since disbursement of the Ecu 8 billion loan that Italy had requested after the currency crisis of 1992 was conditional on Italy's achieving the objectives indicated in September, adjusted for unforeseen changes in macroeconomic conditions. The first two tranches of the loan (7.37 trillion lire) were paid to the Treasury in March and November.

Fiscal policy was broadly restrictive in 1993. The adjustment measures were equivalent to around 5 per cent of GDP (following adjustments of 4 per cent in 1992, 3.2 per cent in 1991 and 1.8 per cent in 1990) and more than offset the effects of the automatic stabilizers and the tendency for expenditure to rise, thus reducing the deficits compared with the previous year. Moreover, the supplementary package had a stronger impact on income expectations than in the past, since it relied less on temporary measures; the enactment of significant reforms regarding pensions, health services, public employment and local authority finance, which will produce long-term effects, had a similar influence.

Table 18

MAIN INDICATORS OF GENERAL GOVERNMENT FINANCES
(as a percentage of GDP)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Tax and social security receipts (1)	35.0	34.9	35.2	36.0	36.5	38.2	38.7	39.6	41.9	42.9
Total public sector expenditure (2)	48.8	49.4	49.6	49.2	49.3	50.4	51.8	52.4	54.2	55.0
of which: interest payments	*8.0*	*8.0*	*8.5*	*7.9*	*8.1*	*8.9*	*9.6*	*10.2*	*11.4*	*12.0*
Deficit on current account	6.8	6.8	6.7	6.1	6.0	5.3	6.1	5.8	5.5	5.2
Net borrowing (2)	11.6	12.0	11.6	11.0	10.7	9.9	10.7	10.2	9.5	9.0
Net borrowing excluding interest payments (2)	3.6	4.0	3.1	3.0	2.6	1.0	1.1	..	–1.9	–3.0

(1) Including revenues attributable to the EU and capital taxes. – (2) Net of settlements of past debts.

Net of settlements of past debts, the general government borrowing requirement remained unchanged at 10.8 per cent of GDP. The primary deficit equivalent to 0.5 per cent of GDP in 1991 gave way to surpluses of 0.7 per cent in 1992 and 1.2 per cent in 1993. The improvement is still evident if withholding tax on income from government securities is excluded, although the deficit is not eliminated until 1993 (Table 17).

Tax and social security receipts (broadly defined, including revenues attributable to the EU and capital taxes) rose by a further percentage point in relation to GDP, to stand at 42.9 per cent (Table 18). The increase was mainly in indirect taxes, which rose from 12.0 to 12.8 per cent of GDP, and to a lesser extent in social security contributions, which increased from 13.3 to 13.5 per cent; direct taxes remained unchanged at 16.8 per cent of GDP.

It should be noted that in the national accounts the receipts from the municipal property tax (except for the portion attributable to building sites) are included among indirect taxes; the ratio of indirect taxation to GDP falls if taxes are analyzed on the basis of the definitions used for the state sector accounts.

General government expenditure net of financial transactions and settlements of past debts grew last year from 815.2 to 858.1 trillion lire and from 54.2 to 55.0 per cent of GDP. The increase was due in almost equal measure to interest payments and other current expenditure, which rose respectively from 11.4 to 12.0 per cent and from 38.5 to 38.9 per cent of GDP. By contrast, capital expenditure (net of repayments of past tax credits) continued to diminish as a proportion of GDP, declining from 4.3 to 4.1 per cent; in particular, investment spending fell from 45.1 to 41.2 trillion lire, a decline of 8.7 per cent, continuing the tendency that emerged in 1992.

The public sector debt (defined in accordance with international convention as the amount of debt actually issued, excluding expenditure arrears and entitlements that will become debt in the future) grew to 1,863 trillion lire at the end of 1993, or 119.4 per cent of GDP, as against 111.3 per cent a year earlier. Similarly, the general government debt and the state sector debt rose to respectively 116.6 and 113.4 per cent of GDP (Table al 2). As in 1992, the increase was due partly to the discrepancy between interest rates and the rate of growth in GDP and the depreciation of the lira against the currencies in which part of Italy's public debt is denominated. In 1993 the proportion of the total debt represented by medium and long-term securities held by the market rose from 46.1 to 49.8 per cent, while that represented by Treasury bills in lire and ecus fell from 23.0 to 20.9 per cent and the share held by the Bank of Italy and the Italian Foreign Exchange Office decreased from 12.5 to 10.2 per cent. The average residual maturity of public debt securities rose to three years in December 1993, its highest level for five years, and continued to lengthen in the first few months of 1994.

Debt issued abroad rose from 3.9 to 4.6 per cent of the total in 1993; the share denominated in foreign currency increased from 6.2 to 7.2 per cent. Sizable amounts were issued in Deutschemark, yen, dollars (particularly the $5.5 billion global bond) and ecus (primarily the European Union loan to Italy). Foreign investors showed a lively interest in Italian government paper in 1993, making net purchases of lira-denominated securities amounting to around 62.3 trillion lire. The share of the debt held by non-residents is estimated to have risen from 6.3 to 10.5 per cent. Recently, their interest has been heightened by the more rapid reimbursement of withholding tax, in compliance with international agreements on double taxation.

Fiscal policy for 1994

The agenda for 1994 comprises not only fiscal measures proper but also the launch of a far-reaching reform of general government and an intensification of the privatization programme.

The Economic and Financial Planning Document for the three years from 1994 to 1996, which was presented in July, set targets of 144.2 billion lire for the 1994 state sector borrowing requirement and 31.8 trillion for the primary surplus, equivalent to 8.7 and 1.9 per cent of GDP respectively. These objectives were confirmed in the Government Forecasting and Planning Report published in September. There will therefore be a virtual pause in the adjustment of the public finances that was begun in previous years. Acceptance of this option was justified by the need to avoid aggravating the already unfavourable economic situation and to offset the sizable loss of revenue due to the expiry of temporary measures contained in previous budgets. It was estimated that the tax burden would decrease by around 1.3 percentage points of GDP in 1994 in the absence of additional measures.

The Planning Document fixed the objective for the state sector primary surplus at 2.7 per cent of GDP for 1995 and 3.6 per cent for 1996. Thanks in part to the expected decline in interest payments, the overall borrowing requirement should diminish first to 7.4 and then to 5.8 per cent of GDP. The debt should stop growing in relation to GDP in 1996, one year later than foreseen in the previous Planning Document. The projections presuppose rigorous conduct on the part of public administrators at all levels and full implementation of the reforms of local authority finance and health care that were enacted at the end of 1992.

In September the Government presented a budgetary package amounting to some 31 trillion lire in order to achieve the stated objectives for 1994. As approved by Parliament in December, the budget is expected to reduce public sector expenditure by 25.5 trillion lire and increase net receipts by 5.5 trillion; in addition, it should produce 7.5 trillion lire of savings on interest payments as a result of its positive effect on the rates on new issues of government securities. In keeping with the guidelines of the Planning Document, emphasis was placed primarily on expenditure through measures concerning public employment, pensions, health services and transfers to public sector firms and entities. Measures regarding the renegotiation of supply contracts, the revision of the procedures for purchasing goods and services and controlling public investment are also expected to bring significant savings.

On the revenue side, it was decided not to replace all of the receipts lost as a result of the expiry of temporary measures. The budget provided for gross additional revenue of 12 trillion lire, part of which was applied to offset fiscal drag and reduce taxes on owner-occupied primary residences. The composition of revenue was shifted in favour of indirect taxes, primarily through measures concerning VAT and taxes on oil products. The package also contained a series of provisions to curb tax avoidance and simplify the tax system.

The planned correction is smaller than that carried out in the two preceding years, particularly on the expenditure side. Achieving the objectives thus depends to a considerable extent on the ordinary management of public expenditure, backed by a radical overhaul of the working of general government. To this end the Government drafted a set of far-reaching measures aimed at streamlining procedures, rationalizing the structures of central government departments, increasing the autonomy of local authorities and introducing methods for verifying the efficiency of public sector bodies.

In the report on the borrowing requirement submitted to Parliament at the end of March, the Government indicated that the economy may not perform as well as originally forecast or the budget measures prove fully effective. The primary surplus for 1994 was now expected to amount to 9.9 trillion lire; the deterioration is due largely to the downward revision of the estimate for real GDP at a time of negligible growth in Europe.

By contrast, the sharp fall in interest rates on new issues of government securities in late 1993 had a positive impact on the outlook for interest expenditure. The figure of 176 trillion lire given in the Forecasting and Planning Report was therefore reduced by 7 trillion lire. The Government estimated that the state sector borrowing requirement would amount to 159 trillion; accordingly, its ratio to GDP would remain basically unchanged from the 9.8 per cent level recorded in 1993.

THE MONEY AND FINANCIAL MARKETS

OVERALL DEVELOPMENTS AND MONETARY POLICY

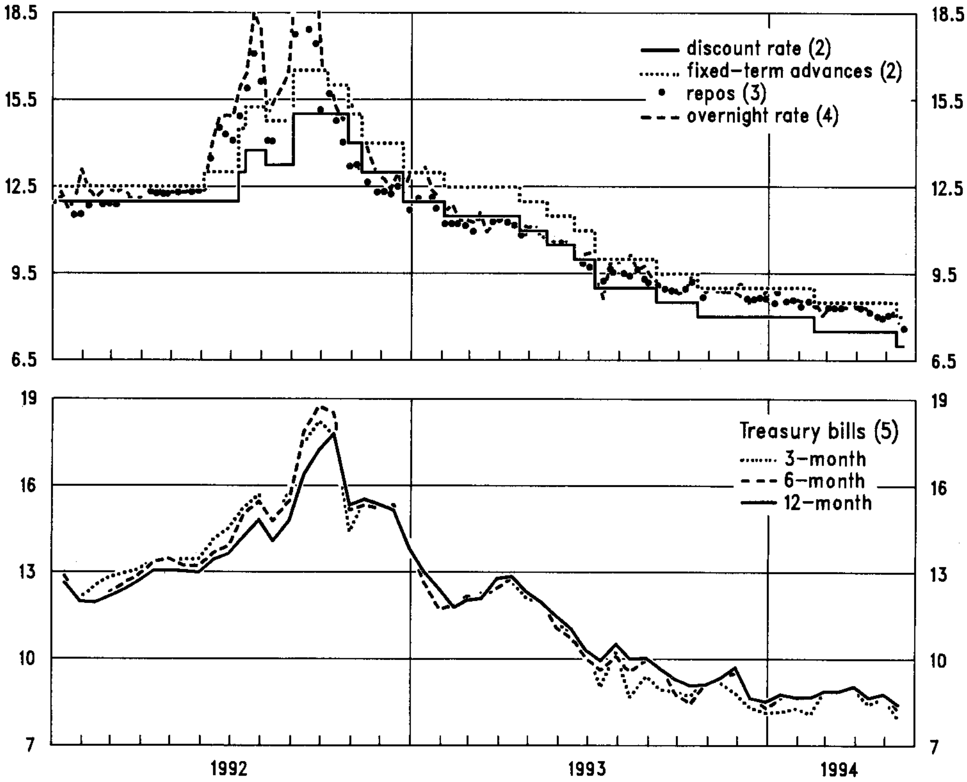
The moderate pace of inflation despite the depreciation of the lira, the economic recession and the swift recovery in the balance of payments enabled the Bank of Italy to engineer a reduction in short-term interest rates last year through open market operations and cuts in official rates. The reduction was brought about gradually in order to avoid reviving inflationary expectations, counteract the weakness of the lira and maintain orderly conditions in the foreign exchange and financial markets. This controlled reduction permitted a parallel decline in long-term interest rates. Official interest rates were lowered by 4 percentage points during the year, bringing the discount rate down to 8 per cent and the rate on fixed-term advances to 9 per cent (Figure 10). The pre-tax tender rate on 3-month Treasury bills fell from 14.1 to 8.1 per cent; the gross yield on 10-year Treasury bonds in the secondary market declined from 13.5 to 8.8 per cent. The banks' average lending rate declined by nearly 5 points to 12.0 per cent.

After fourteen years of participation in the Exchange Rate Mechanism of the EMS, monetary policy was conducted against the background of a floating exchange rate in 1993. The anti-inflationary stance was not altered, but there was a change in the significance of the short-term indicators and the weight attached to them. In the recent economic cycle the impact of exchange rate variations on domestic prices differed in timing and intensity compared with past experience. Financial innovation and the turbulence in the financial markets over the past two years demonstrated the wisdom of considering a broad range of indicative variables for the purposes of monetary policy. Greater attention was paid to the monetary aggregates, which in recent years have displayed a sufficiently stable correlation with nominal economic growth and interest rates. The Bank continues to announce target growth rates for M2, but in view of the recent changes in the composition of this aggregate it also monitors the Divisia index, in which the components are weighted by degree of liquidity. In future, greater importance may be attached to bank lending as a short-term indicator, provided there is a slowdown in the structural change that has occured in both the demand for and the supply of credit in the past decade. The growth of the secondary market in government securities, which was attributable in part to increased activity by professional investors, enhanced the information value of the yield curve.

Figure 10

OFFICIAL INTEREST RATES AND MONEY MARKET RATES (1)

(percentages)



(1) Weekly data; for Treasury bills, twice-monthly data. – (2) End-of-week data. – (3) Average of marginal rates on operations effected during the week. The peak of 20.2 per cent in the second week of September 1992 is off the graph. – (4) Weekly average of daily quotes on the screen-based interbank market. The peak of 25.8 per cent in the third week of September 1992 is off the graph. – (5) Average compound tender rates, gross of withholding tax.

At the beginning of February, official rates were reduced by half a point. In the two following months the banks' compulsory reserve ratios were lowered, releasing 34 trillion lire of liquidity. The impact on the monetary base was offset by a corresponding reduction in repurchase agreements with the banking system. The lowering of interest rates had to be managed with especial care at that time because of the weakness of the lira due to political uncertainty. In April an improvement in expectations and a further decline in interest rates elsewhere in Europe permitted another half-point reduction in official rates. Over the first four months of the year yields on Treasury bills declined by 1.7 points and those on 10-year bonds by 0.6 points; the average bank lending rate fell from 16.9 to 14.7 per cent.

Between April and early July, particularly favourable conditions enabled Italy to bring interest rates down more quickly than the other European countries. In the second quarter the lira appreciated by 8.2 per cent against the Deutschemark, strengthening almost to 900 lire per DM. The lira benefited not only from the greater political stability resulting from the formation of the new Government but also from encouraging inflation figures. As the months passed, it became increasingly clear that the depreciation of the lira was having only a modest impact on domestic costs and prices, at least in the short term. The 12-month rise in the cost-of-living index fell to 4.0 per cent in May, the lowest figure recorded since 1969. Both the official interest rates were lowered by half a percentage point in May and again in June. They were reduced by a further point in early July following the conclusion of the new agreement on labour costs, bringing the discount rate down to 9 per cent and that on fixed-term advances to 10 per cent. Between mid-April and mid-July the gross yields on Treasury bills at issue and on 10-year bonds in the secondary market declined by 3.3 and 2.1 points respectively. Interest rate differentials vis-à-vis the Deutschemark narrowed by 1.5 percentage points on 3-month funds and 2 points on 10-year paper (Figure 11).

An acceleration in monetary growth, the rate of which was more than a percentage point above the 5-7 per cent target range in the second quarter, was judged acceptable, as it was due partly to substantial inflows of non-bank capital. Moreover, the increase in the demand for certificates of deposit at 18 months or more fostered by the lowering of the reserve ratio reduced the degree of liquidity of M2. In the second quarter the Divisia index averaged 7.7 per cent higher than at the beginning of the year.

Throughout the first half of the year the decline in long-term yields was sustained by very large purchases of government securities by foreign investors, who took up 61 per cent of net Treasury issues representing 78 per cent of the borrowing requirement, mainly in the form of medium and long-term fixed rate paper. This inward investment, which was initially effected largely by banks but later involved European and non-European final investors as well, was prompted mainly by the prospect of capital gains. Around mid-year the Treasury bond price index registered annualized rates of increase of around 50 per cent. A large proportion of non-residents' securities positions was financed by short-term lira borrowing in a variety of forms, so that the resulting decline in yields was not accompanied by corresponding upward pressure on the exchange rate.

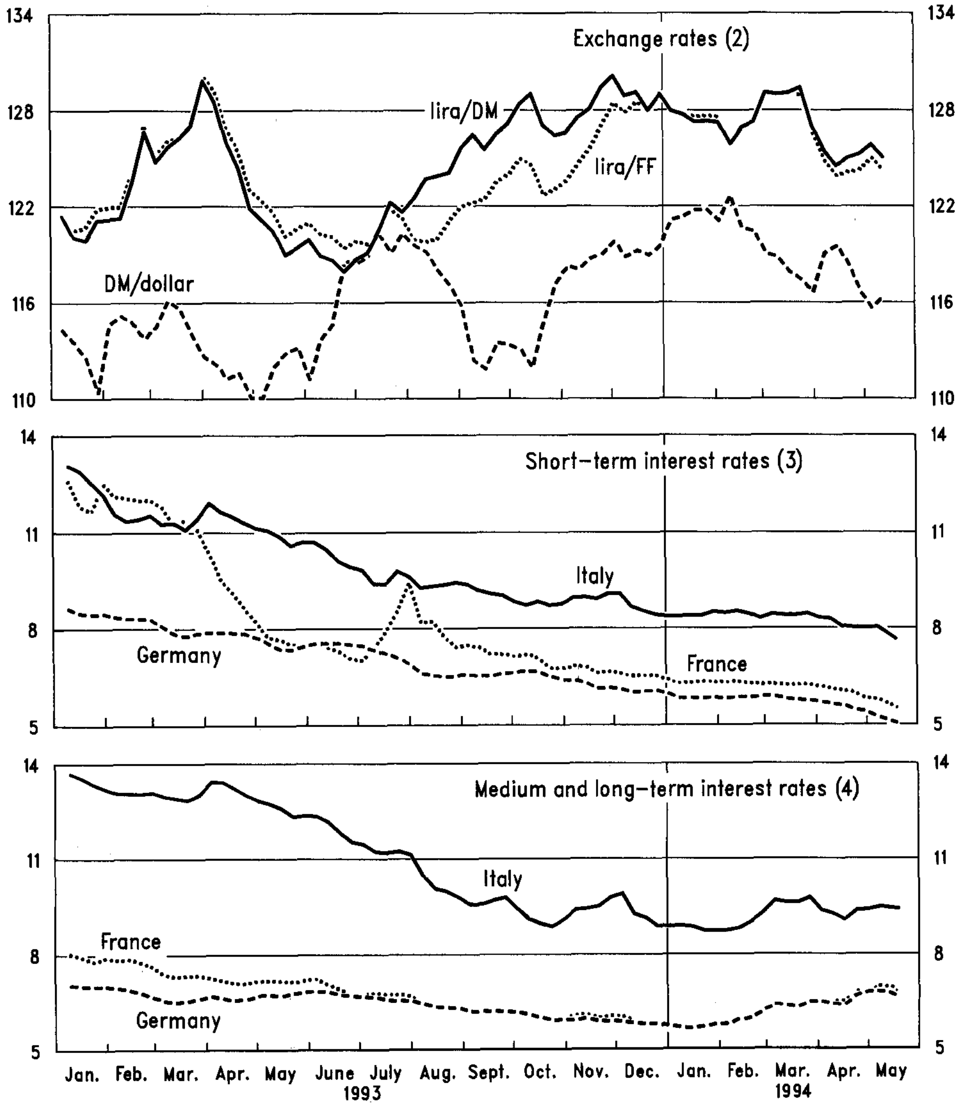
In July the currency was affected by the renewed instability within the EMS. The severe pressure on the French franc spread to the lira, which depreciated by 1.3 per cent against the other Community currencies. The

Bank of Italy tightened liquidity, with the result that the overnight rate, fixed-term advances (10 per cent). The tighter money-market conditions had only a marginal impact on longer-term rates; after a brief pause in July, the yield on 10-year Treasury bonds continued to decline and by the end of August was lower than that on bills (9.5 per cent against 9.8 per cent, gross of withholding tax). In the months that followed, shorter-term interbank rates came back down but were kept mainly in the upper part of the range between the two official rates, partly in order to support the lira. The growth of M2 slowed down and the Divisia index showed an even more pronounced deceleration.

Figure 11

EXCHANGE RATES AND INTEREST RATES (1)

(indices and percentages)



(1) Weekly averages of daily data. – (2) Indices, base 11.9.1992 = 100; a rise in the index indicates a decline in the exchange rate. – (3) Interbank rates on 3-month funds. – (4) Average gross yield on the screen-based market of Treasury bonds with a residual maturity of between 9 and 10 years and yields on 10-year French and German securities.

In September and October the official rates were twice lowered by half a percentage point. The reductions, which coincided with similar action by the Bundesbank and other European central banks, were made possible by the moderate pace of inflation, which remained at the low level achieved in the spring. Liquidity management remained prudent, however, in view of the weakness of the lira, which was accentuated in late October by uncertainty relating to the approaching municipal elections. In December an improvement in the foreign exchange picture allowed monetary conditions to be eased again. The decline in short-term interest rates swiftly spread to other maturities. Between September and December the 3-month interbank rate declined by 1 percentage point and the yield on 10-year Treasury bonds by 0.7 points.

Table 19

CREDIT, MONEY AND FINANCIAL ASSETS

	Finance to the non-state sector		Total credit		Mi	M2	Liquid assets	Financial assets
	Domestic	(1)	Domestic	(1)				(2)
				Percentage change (3)				
1990	.... 16.0	18.0	13.1	14.5	9.2	9.6	9.4	12.6
1991	.... 14.0	14.0	12.6	12.7	9.0	8.3	11.6	1206
1992	.... 7.0	7.3	9.8	9.7	3.0	6.0	10.9	8.1
1993	.... 1.7	1.3	6.4	6.4	7.0	7.9	2.7	7.0
				As a percentage of GDP (4)				
1990	.... 53.6	60.2	142.2	152.1	32.0	54.5	87.5	135.2
1991	.... 56.3	64.3	148.2	160.1	31.5	54.0	88.5	141.3
1992	.... 60.6	68.4	159.1	170.5	32.0	55.2	94.2	149.1
1993	.... 64.8	73.1	168.5	180.8	32.3	57.1	99.0	155.5

(1) Including foreign loans and purchases of bonds by non-resident. - (2) Net of shares. - (3) For M1 and M2, averages for the fourth quarter; for the aggregates, end-of period data. - (4) Average annual data.

The growth of M2, on the basis of a comparison of fourth-quarter averages, came to 7.9 per cent in 1993 (Table 19). This slight overshooting of the 5-7 per cent target range was due partly to the significant fall in Treasury bill yields, but also to the return of capital from abroad and the inducements offered by banks to attract funds (Table 20). For much of the year the fastest-growing components of M2 were the least liquid; certificates of deposit with a maturity of 18 months or longer accounted for 62 per cent of the overall expansion. The M1 aggregate, which excludes them, grew by 7.0 per cent.

Table 20

M2 AND ITS COUNTERPARTS

(changes in billions of lire)

	1992	1993
M2	42,894	63,906
Counterparts:		
Domestic	113,125	44,332
Credit to the non-state sector	53,737	–964
Credit to the state sector	59,338	45,296
External	–60,304	53,136
Net foreign position of banks accepting short-term funds	–27,713	50,572
Net external position of BI-UIC	–32,591	2,564
Other	–9,927	–33,562

Total financial assets grew by 7.0 per cent, which was 1.1 points or 12.9 trillion lire less than in 1992. Lending to the non-state sector slowed down appreciably, rising by only 1.3 per cent, compared with 7.3 per cent in 1992, owing both to the slackening of demand and to greater prudence on the part of the banks at a time of increasing loan risk. Credit to the state sector amounted to 161.0 trillion lire, compared with 163.2 trillion in 1992. The growth in total credit slowed down from 9.7 to 6.4 cent.

The transposition of the Second Banking Directive and the entry into force of the 1993 Banking Law on 1 January 1994 ended the legal distinction between banks and special credit institutions, which are now both designated as "banks". However, in view of the differences in statistical data and the operational specialization that still remain, some of the activities of banks accepting short-term funds (institutions previously classified as "banks", excluding their special credit sections) will continue to be analyzed separately from those of banks accepting only medium and long-term funds (the former "special credit institutions", including the banks' special credit sections).

There was a marked divergence between the behaviour of the deposits of banks accepting short-term funds and that of their lending. With lending stagnant, the growth in deposits financed the repayment of the banks' foreign debt and, towards the end of the year, an expansion in their securities portfolios.

The growth of deposits was stimulated by a comparative improvement in the average remuneration paid on them; although deposit rates declined substantially, the negative differential with respect to after-tax yields on Treasury bills narrowed from 6.2 percentage points at the end of 1992 to 3.7 points. The proportion of total funds raised by issuing CDs continued to rise, from 26 to 28 per cent. After the first quarter there was especially rapid growth in certificates at 18 months or more, prompted by the lowering of the reserve ratio for such instruments from 22.5 to 10 per cent. On the assets side, the lending of banks accepting short-term funds contracted by 1.2 per cent. The share of foreign currency loans, which had risen to more than 18 per cent of the total in 1992, fell to 15 per cent last year. The banking system's total lending increased by 2.0 per cent, reflecting the faster growth of lending by banks accepting only longer-term funds. Much of their lending was to local authorities and social security institutions, partly in connection with debt restructuring and consolidation.

The reduction in the banks' net external debt that had begun in the final months of 1992 continued throughout 1993. According to balance-of-payments figures, at the end of the year banks accepting short-term funds had external debt of 88.6 trillion lire, compared with 126.6 trillion in 1992. At constant exchange rates, the debt was reduced even more sharply, by 50.6 trillion. Most of the improvement involved foreign currency positions, but there was also a reduction of 9.4 trillion in the external position in lire, through which Italian banks helped finance non-residents' subscriptions of government securities. Including net temporary purchases of securities from customers, banks accepting short-term funds increased their securities portfolios by 48.3 trillion lire, the entire increase coming in the last four months of the year.

The securities market benefited from expectations of falling interest rates. Pre-tax yields on 10-year bonds in the secondary market declined by 4.7 percentage points to 8.8 per cent, compared with reductions of 1.4 points in Germany and 2.4 points in France to 5.7 and 5.6 per cent respectively. The favourable climate for investment in bonds and foreign investors' preferences for such securities made it posible to increase the proportion of longer-term Treasury issues. Bonds accounted for 82 per cent of total net issues of government securities, compared with 24 per cent in 1992. In November the Treasury launched its first 30-year fixed rate bond; in the first five months its gross issue yield was on average 65 basis points higher than that on 10-year bonds.

Trading volume on the screen-based secondary market in government securities continued to grow, with a year-on-year rise of 23 per cent compared with one of 35 per cent in 1992. However, the operational efficiency of the market did not increase in step with the needs and expertise of its participants, as demonstrated by the increased turnover in parallel over-the-counter markets. In order to restore the competitiveness of the official market, the authorities, in concert with dealers, recently adopted a set of measures to eliminate fiscal distortions and improve the working of the market.

The decline in yields across the maturity spectrum benefited share prices. The Milan Stock Exchange Index gained 37.4 per cent during the year, after falling by 11.7 per cent in 1992. This provided a favourable environment both for privatization issues and for reform of the market itself. Modernization took two forms: the extension of continuous screen-based trading to the entire list, which was completed in April 1994, and five-day rolling settlement, which was introduced this year for an initial group of shares. The screen-based system permitted an enormous increase in trading volume in 1993 and especially in the first few months of 1994. The strong performance of the securities markets helped the investment funds, whose net fund-raising of 33.5 trillion lire accounted for nearly 23 per cent of the increase in the financial assets of the non-state sector, a value close to the historic high recorded in 1986.

Central bank operations and the control of monetary base

Measured in terms of year-end data, monetary base contracted by 19.5 trillion lire in 1993, compared with an expansion of 8.5 trillion in 1992. The decline was due entirely to the release of compulsory reserves in February and March, as a result of which the average reserve ratio declined from 17.8 to 13.4 per cent. Adjusted for this effect, monetary base expanded by 7.2 per cent, comparable to the growth recorded the previous year (Table 21).

Table 21

MONETARY BASE AND MONEY SUPPLY (1)
(percentage changes)

	1992	1993				1994
	December	March	June	September	December	March (2)
Notes and coin	11.8	13.7	11.5	5.9	4.7	6.3
Bank reserves (3)	4.2	6.5	5.8	8.9	9.0	5.7
Monetary base (3)	7.1	9.1	7.9	7.7	7.2	5.9
Money supply (M2)	6.0	6.3	6.0	7.8	7.9	7.6

(1) Percentage changes on corresponding month of previous year, 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.

In February 1993 the Minister of the Treasury issued a decree revising the reserve requirement in order to enhance the international competitiveness of Italian banks, which are subject to more onerous requirements than their counterparts abroad, and to foster a reduction in lending rates. The reserve ratio, which was previously 22.5 per cent for all types of funds, was lowered to 10 per cent on certificates of deposit at 18 months or more and 17.5 per cent on all other funds. In July, following the lowering of the official discount rate and the resulting decline in market rates, the interest rate on reserve deposits against CDs was lowered from 8.5 to 6.5 per cent with effect from September; that on other reserve deposits remained unchanged at 5.5 per cent. Finally, Law 483 of 26 November 1993 recognized compulsory reserve deposits as an instrument of monetary policy and empowered the Bank of Italy to adjust the reserve requirements within predetermined limits. The overall cost of compulsory reserves, calculated in relation to the yield on Treasury bills, now stands at 0.4 per cent of deposits and other borrowed funds; prior to last year's measures it was 1.1 per cent.

The external sector created 2.6 trillion lire of monetary base last year, whereas in 1992 it had destroyed 32.6 trillion (Table 22). Net of foreign currency swaps, the foreign exchange inflow came to 4.6 trillion lire, compared with outflows of more than 60 trillion in 1992.

As in the previous three years, central bank operations with the Treasury resulted in a net destruction of monetary base, amounting to 3.4 trillion lire. Excluding settlements of past debts, the Treasury's borrowing requirement of 153.6 trillion was less than net security issues on the market of 130.1 trillion and other non-monetary sources of finance totaling 26.9 trillion, consisting largely in the proceeds of Republic of Italy bond issues on international markets. As a result, the Treasury made net deposits of 4.6 trillion lire on its current account with the Bank of Italy instead of net drawings as in previous years.

Pursuant to Article 104 of the Treaty on European Union, Law 483 prohibits the monetary financing of the government budget deficit. Accordingly, the Treasury's current account with the central bank has been replaced by a "Treasury payments account" that provides flexibility in cash management but cannot be used for permanent financing of the deficit.

Net of the acquisition of government paper worth 30.7 trillion lire to fund the new payments account, Bank of Italy purchases in the primary government securities market fell to a historic low of 2 trillion lire, 0.4 trillion more than redemptions.

On the secondary market the Bank intervened mainly to smooth price fluctuations. In the course of the year it made net sales of securities with a face value of 18.4 trillion lire, compared with net purchases of 26.9 trillion in 1992.

Table 22

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

	1991	1992	1993 Year	1993 Quarters I	II	III	IV	1994 1st qtr. (2)
External sector	**–8,674**	**–32,591**	**2,564**	**1,256**	**–556**	**4,445**	**–2,581**	**4,258**
of which: foreign currency swaps	–	*29,249*	*–2,055*	*–537*	*–1,518*	–	–	–
Treasury payments accounts (3) **and other BI-UIC operations with the Treasury** (4)	**–9,458**	**–2,696**	**–3,378**	**2,110**	**–26,445**	**10,218**	**10,740**	**–11,760**
Borrowing requirement (5)	149,310	158,892	163,124	50,317	16,670	42,571	53,566	41,684
Market subscription	–137,732	–148,203	–139,652	–43,807	–39,232	–26,913	–29,701	–46,134
Treasury bills	–21,685	–50,266	–6,028	–9,994	–7,716	5,883	5,799	–1,890
Treasury credit certificates	–13,684	–60,632	–10,480	–6,269	–4,821	530	80	–2,244
Treasury bonds	–85,410	–37,094	–117,666	–33,044	–26,173	–30,804	–27,646	–46,675
Other securities	–16,953	211	–5,477	5,500	–522	–2,522	–7,934	4,676
of which: securities issued to fund debts	–	–	*9,541*	–	–	*2,858*	*6,683*	–
Other financing (6)	–21,036	–13,385	–26,850	–4,401	–3,883	–5,440	–13,126	–7,310
Open market (7)	**27,172**	**42,781**	**–14,098**	**–26,640**	**24,550**	**–10,825**	**–1,184**	**14,036**
of which: repurchase agreements (8)	*17,499*	*18,306*	*1,933*	*–26,534*	*28,431*	*–6,294*	*6,330*	*3,403*
Refinancing	**2,664**	**108**	**–6,451**	**–6,910**	**–136**	**57**	**538**	**–128**
Other sectors	**–583**	**858**	**1,903**	**–1,169**	**1,854**	**–2,394**	**3,612**	**–2,677**
Total	**11,121**	**8,460**	**–19,460**	**–31,353**	**–733**	**1,501**	**11,125**	**3,729**
Notes and coin	**6,906**	**9,263**	**4,152**	**–3,620**	**–169**	**1,511**	**6,430**	**–1,214**
Bank reserves	**4,215**	**–803**	**–23,612**	**–27,733**	**–564**	**–10**	**4,695**	**4,943**
Deposits with the Bank of Italy	3,646	113	–23,594	–27,016	–861	655	3,628	5,774
of which: compulsory reserves (9)	*3,424*	*1,012*	*–24,131*	*–28,626*	*1,351*	*–2,544*	*5,688*	*3,061*
Other items (10)	570	–916	–18	–717	297	–665	1,067	–831

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Until December 1993, recourse to the current account with the Bank of Italy; from January 1994, use of the "Treasury payments account". – (4) Net purchases of government securities at issue by BI-UIC, state notes and coin and other minor items. – (5) Including settlements of past debts; reference is to the new definition of the state sector, which excludes the railways, the state monopolies and the telephone service; the aggregate is net of the proceeds of disposals. – (6) PO deposits, foreign loans granted by banks to the state sector, deposits of social security institutions with the Treasury and surety deposits lodged with the Deposits and Loans Fund. – (7) Excludes securities purchased with advances under the Ministerial Decree of 27.9.1974. – (8) At face value. – (9) Average reserve requirement for the maintenance period; until May 1991 includes compulsory reserves on net foreign currency fund-raising. – (10) Vault cash and undrawn ordinary advance facilities.

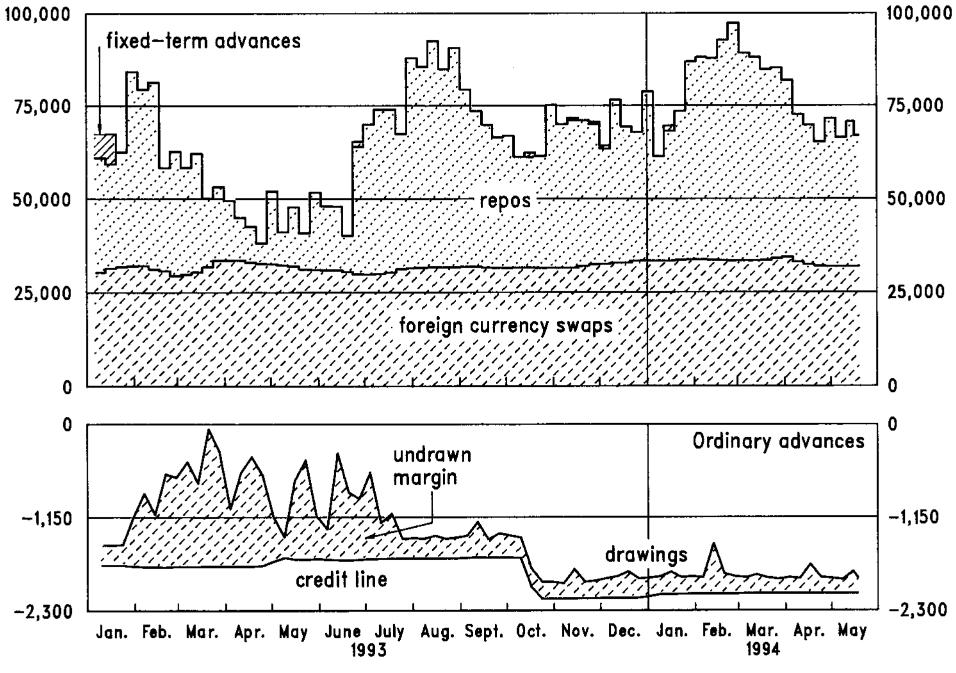
The Bank provided financing to the system by means of repurchase agreements for a net amount of 1.9 trillion lire. This reduction of more than 16 trillion compared with 1992 reflected the release of bank reserves early in the year.

Adjusted for exchange rate variations, foreign currency swaps absorbed 2.1 trillion lire of monetary base. Introduced in October 1992, the swaps have facilitated the task of monetary control by broadening the range of instruments for obtaining central bank finance. Despite the release of compulsory reserves, temporary financing of the banking system again reached very high levels last year, with a peak of more than 94 trillion lire in August (Figure 12).

Figure 12

BANK OF ITALY FINANCING OF THE BANKING SYSTEM (1)

(stocks in billions of lire)



(1) Weekly averages of daily data.

At a time of declining interest rates, the Bank made very limited use of fixed-term advances, which accounted for only 3.4 per cent of total gross financing to the banking system, compared with 30.0 per cent in 1992.

On the uses side, notes and coin in circulation grew by only 4.2 trillion lire, compared with 9.3 trillion in 1992. This reflected both the recession-related slowdown in transactions and the resolution of the uncertainties that had fueled the demand for cash in late 1992.

Net of the effect of the lowering of the reserve ratio, bank reserves grew by 9.0 per cent during the year, compared with 4.2 per cent in 1992. On the same basis, compulsory reserve deposits increased by 11.2 trillion lire, compared with 5 trillion.

Developments in 1994

The tensions that emerged at the beginning of February in the international financial markets were exacerbated in Italy by uncertainty in the run-up to the parliamentary elections, which were to be held in late March. On the eve of the vote long-term interest rates were 1.1 percentage points higher than at the end of January, against increases of 0.8 points in the United States, Germany and France. Only in the United Kingdom was there a sharper rise (1.7 points). The pre-tax yield differential between Italian Treasury bonds and equivalent German paper widened to 3.4 points.

On 17 February the Bank of Italy reduced the official discount rate by half a point to 7.5 per cent, following a similar decision by the German monetary authorities. The repo and interbank rates did not decline to the same extent. Between mid-February and the end of March short-term rates came close to those on fixed-term advances (Figure 10).

In April the lira appreciated against the leading currencies. Interest rates behaved differently according to maturity. Money market rates declined by about half a point to 8 per cent, whereas medium and long-term rates fluctuated; the gross yield on 10-year bonds fell by about 0.8 points in the first half of the month to 9.0 per cent but then rose by 0.4 points after the Federal Reserve raised its federal funds target rate on 15 April, reflecting the weakness of the US bond market. In contrast to the pre-election period, long-term rates rose less sharply in Italy than in most of the other European countries. The lira's long-term interest rate differentials fell to historic lows: vis-à-vis the Deutschemark the gap closed to about 2.6 percentage points.

The reduction in the discount rate from 7.5 to 7 per cent on 11 May at the same time as similar decisions were taken by other European central banks mainly affected short-term interest rates. Interbank rates fell by about 40 basis points, remaining just above the mid-point of the range defined by the new official rates. The positive slope of the yield curve steepened, as in the other leading European money markets.

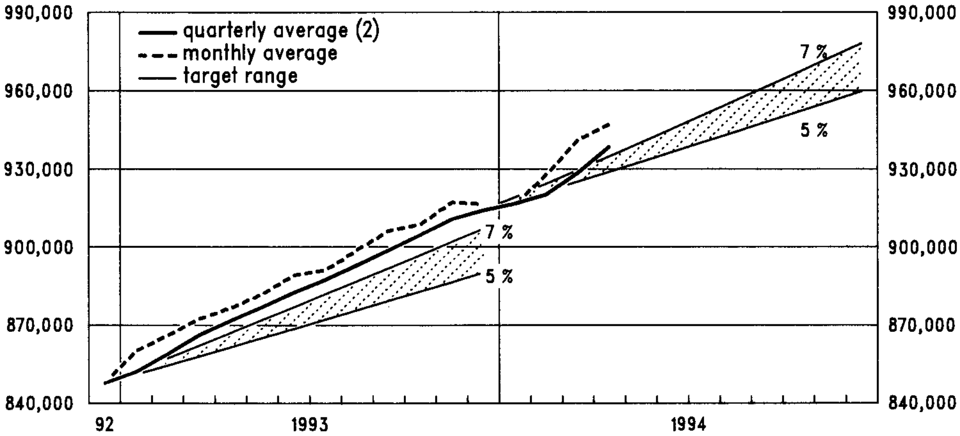
The M2 money supply displayed heightened variability in the first few months of the year (Figure 13). It grew only slightly in January, but during the period of pronounced uncertainty and slack demand for securities in

February and March it increased strongly, owing primarily to the rapid expansion of current account deposits. In April the pace of growth slowed to 7.9 per cent on a seasonally adjusted annual basis, compared with 19.0 per cent in March. The rate of growth since the beginning of the year was 8.3 per cent, against the target range of 5-7 per cent.

Figure 13

M2 MONEY SUPPLY(1)

(stocks in billions of lire)



(1) Seasonally adjusted. – (2) Average for the quarter ending in the reference month.

On 27 May the Bank of Italy adopted a significant reform of the reserve requirement. Under the new arrangements all categories of bank will be treated equally. Certificates of deposit for terms of 18 months or more will be exempt, in accordance with the explicit provisions of Law 483/1993. The marginal reserve ratio will be 15 per cent of the change in the funds subject to the requirement from July onwards, and the first 200 billion lire of deposits will be exempted. The effects of this release of reserves on monetary base will be neutralized by the calibration of repurchase agreements, which will reduce the banking system's indebtedness with the central bank.

BANKS AND OTHER CREDIT INTERMEDIARIES

The grave recession led to a sharp contraction in lending and a rise in credit risk. Banks responded by adopting an especially prudent approach to the granting of new credit, the setting of lending rates and the choice of lending instruments and counterparties, as the slowdown had an unequal impact on the various sectors of the economy. Helped by the decline in yields on government securities, credit institutions also made greater recourse to domestic fund-raising, especially longer-term instruments and more stable deposits, so as to repay foreign liabilities and build up their liquidity. Notwithstanding a decline in net interest income, the banks' sizable capital gains on securities offset loan losses and strengthened their capital bases.

There was a contraction in credit lines granted by banks accepting short-term funds. They maintained a wider differential between the average lending rate and official and money market rates than before the tightening of monetary conditions in the summer of 1992 (Figure 14). The proportion of loans granted at or below the prime rate declined and that of lending backed by greater security than overdrafts increased. By expanding medium and long-term lending more rapidly than short-term credit, banks encouraged a lengthening of the maturity of firms' liabilities; in several cases they also participated in financial restructuring plans to reduce firms' debts. The contraction in short-term credit as a proportion of total bank lending had also occurred in previous recessions; the margin between interest rates on overdrafts and those on better secured forms of credit had widened then too, but bank rates had not diverged from official rates to the same extent (Figure 15).

The banks' increased discrimination in lending was evident in the lower interest rates and greater volume of credit granted to borrowers in the sectors which benefited most from the depreciation of the lira or which are less vulnerable to cyclical conditions. During the currency crisis in 1992, the credit squeeze initially had a greater impact on larger firms. The differential between lending rates for firms with credit facilities of less than 500 million lire (mainly small companies) and those borrowing more than 50 billion lire was narrowed from 4.4 points in 1991 to 3.7 points in the third quarter of 1992 and averaged 4 points in 1993 (Figure 16).

Figure 14

INTEREST RATES AND INTEREST RATE DIFFERENTIALS

(percentages and percentage points)

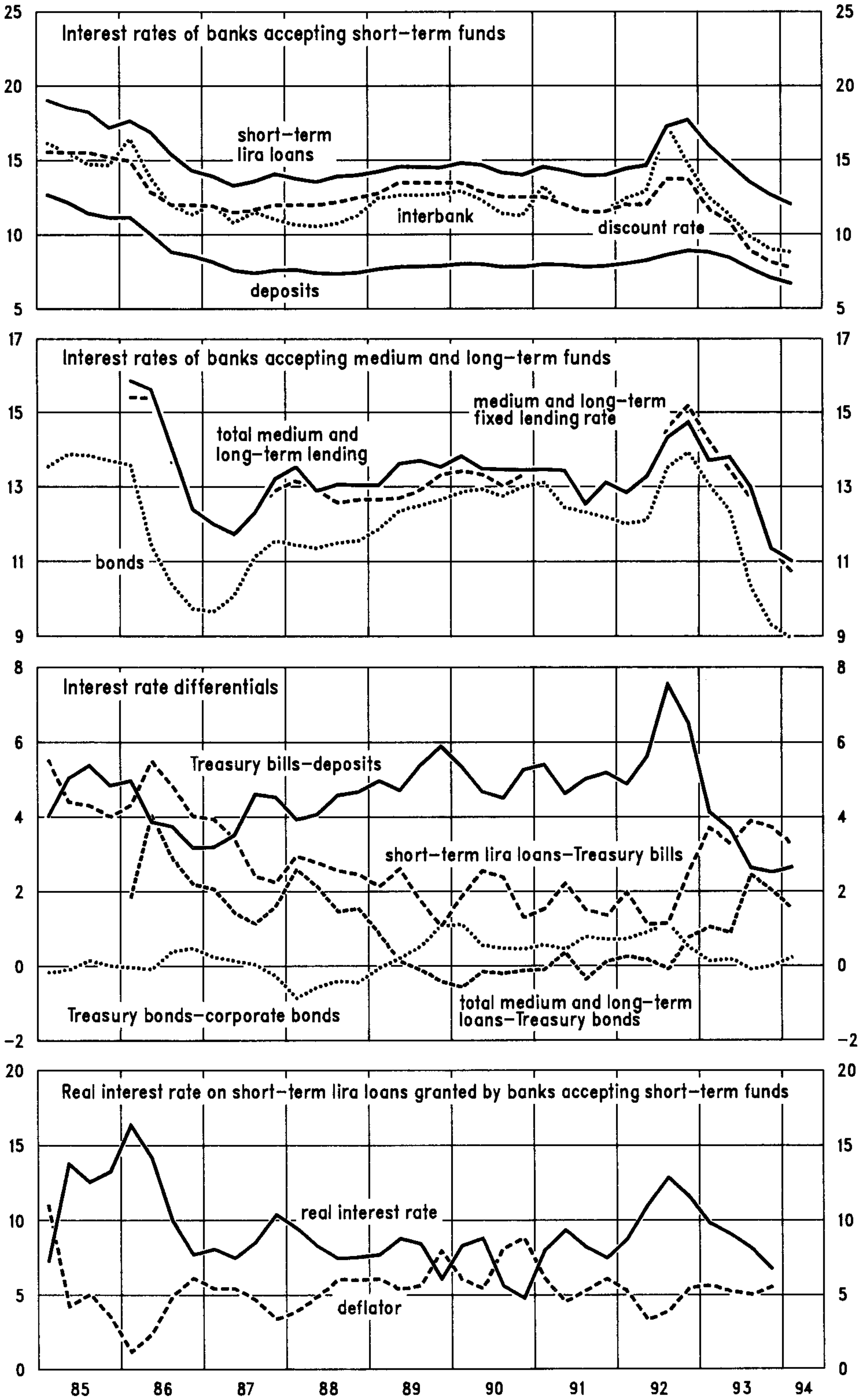
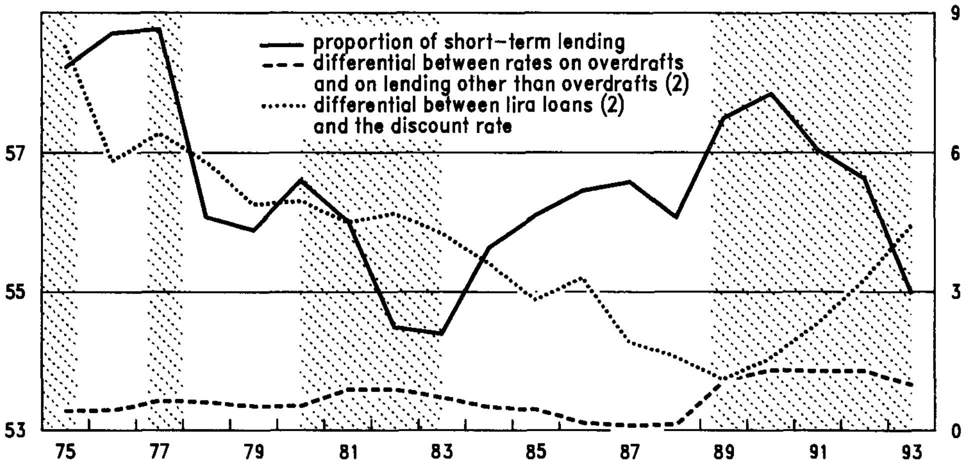


Figure 15

PROPORTION OF SHORT-TERM LENDING BY BANKS AND INTEREST RATE DIFFERENTIALS (1)

(average annual percentages)



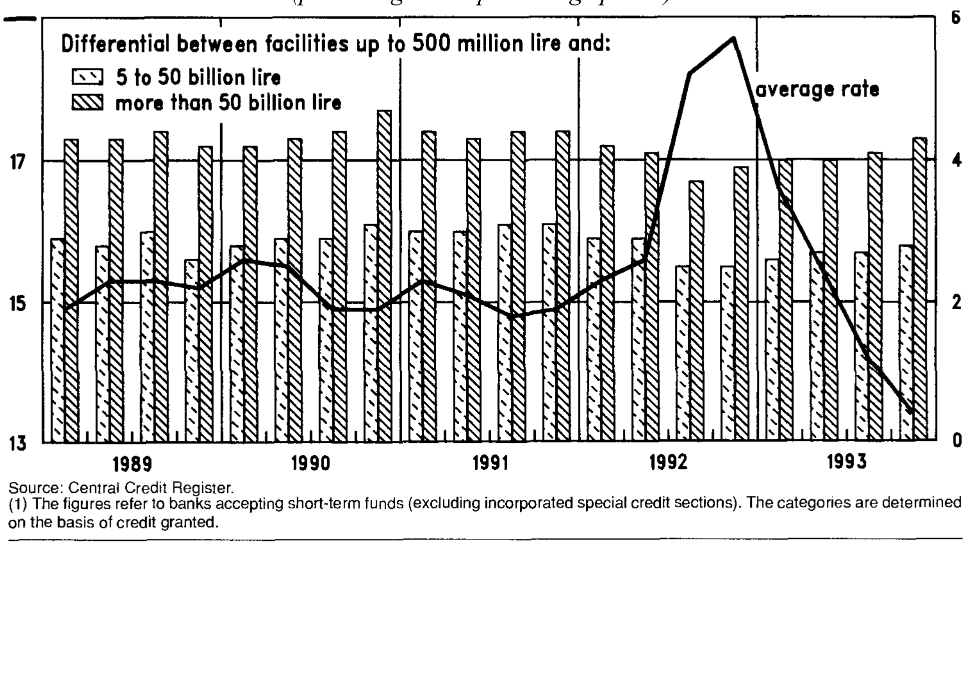
(1) The shaded areas represent periods of recession in industry. – (2) The figures refer to banks accepting short-term funds (excluding incorporated special credit sections); source: Central Credit Register.

Despite the substantial fall in real lending rates from the peaks recorded in 1992 (Figure 14), the rate of growth in total bank lending slowed down from 8.3 to 2.4 per cent in 1993, largely owing to the decline in foreign currency lending, which contracted by 21.8 per cent net of exchange rate adjustments (Table 23). Including the large sums allocated in respect of bad and doubtful debts, lending grew by 3.8 per cent, compared with 8.7 per cent the previous year. The ratio of bank lending to GDP remained virtually unchanged after a long period of growth.

Figure 16

INTEREST RATES ON LENDING TO FIRMS AND DIFFERENTIALS ACCORDING TO SIZE OF CREDIT FACILITY (1)

(percentages and percentage points)



Source: Central Credit Register.
(1) The figures refer to banks accepting short-term funds (excluding incorporated special credit sections). The categories are determined on the basis of credit granted.

Table 23

DEPOSITS, LOANS AND NET FOREIGN LIABILITIES OF THE BANKS

(12-month percentage rates of change)

	1990	1991	1992 Mar.	1992 June	1992 Sept.	1992 Dec.	1993 Mar.	1993 June	1993 Sept.	1993 Dec.	1994 Mar. (6)
Fund-raising											
Deposits with banks accepting short-term funds (averages) (1) .	9.2	8.5	7.3	9.2	4.4	3.0	5.5	5.0	9.3	8.7	8.6
Certificates of deposit and bonds of banks accepting medium and long-term funds (end-of-period data)	10.0	12.4	13.8	12.9	9.7	7.9	8.5	8.0	11.0	13.6	
Net foreign liabilities (2) (3)	25.2	34.7	50.5	44.9	21.3	16.7	–6.5	–24.2	–20.9	–26.2	
of which: banks accepting short-term funds	*10.5*	*46.2*	*95.2*	*80.8*	*40.6*	*34.2*	*–9.4*	*–36.5*	*–36.0*	*–40.0*	
Securities (4)											
New definition	–3.4	23.9	43.6	51.1	40.2	19.4	9.4	–1.8	0.8	6.4	
Old definition	–5.5	2.8	19.8	23.4	11.4	6.5	15.2	2.8	19.6	24.2	
of which: government securities											
new definitions	*–0.2*	*35.9*	*65.1*	*69.7*	*52.4*	*23.5*	*11.2*	*–1.4*	*4.4*	*12.2*	
old definitions	*–3.6*	*7.9*	*36.6*	*33.6*	*13.9*	*8.7*	*25.5*	*8.2*	*35.8*	*38.5*	
Loans (3) (5)	17.1	14.3	16.3	14.7	12.5	8.3	6.0	4.5	3.2	2.4	1.6
of which: banks accepting short-term funds	*17.4*	*14.9*	*17.8*	*15.4*	*13.4*	*8.2*	*5.5*	*3.1*	*0.0*	*–1.2*	*–2.7*
banks accepting medium and long-term funds	*16.4*	*13.5*	*13.8*	*13.5*	*10.7*	*8.1*	*6.2*	*6.3*	*8.1*	*8.4*	*9.0*

(1) 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. – (2) Figures from foreign exchange statistical reports. – (3) The foreign currency component is net of exchange rate adjustments. - (4) Net of public securities issued to repay loans. – (5) Including public securities issued to repay loans. – (6) Provisional figures.

The banks sought to increase the volume of funds handled; they were assisted in this regard by the rapid growth in the number of branches in recent years.

The differential between Treasury bill rates and deposit rates narrowed considerably, and bank deposits began to grow again at a faster rate than nominal GDP. Fund-raising by banks accepting medium and long-term funds increased even more rapidly. The ratio of banks' liabilities to total domestic financial assets held by the non-state sector rose slightly. The former special credit institutions made greater recourse to bonds than certificates of deposit, while banks accepting short-term funds further increased their issues of CDs, especially those at medium and long term, which since March 1993 have been subject to a lower reserve requirement.

Banks' securities portfolios expanded considerably, despite the sales made in the first few months of 1993, which generated large profits. The rise in domestic fund-raising and the fall in foreign currency lending enabled the banks to reduce their net foreign debtor position by 53.5 trillion lire net of exchange rate adjustments; this pronounced decline was the product of a reduction in liabilities and an increase of 28 trillion lire in lira lending to non-residents, which had been negligible in the past.

The difficult economic situation had an impact on banks' profits, reducing interest income as a consequence of the increase in non-performing loans and the interest rate reductions granted as part of debt restructuring plans; banks had to make larger allocations to provisions for bad and doubtful debts. The net interest income of banks accepting short-term funds declined, but their net income rose considerably, thanks to substantial capital gains on securities and a reduction in operating costs. For banks accepting medium and long-term funds, the increase in the volume of lending partially offset narrower interest rate spreads. Their lower capital gains on securities, owing to differences in the composition of their portfolios by comparison with those of banks accepting short-term funds, and the continued rapid rise in operating costs limited the increase in their pre-tax profits, which declined in relation to total assets.

The amendment of reserve requirements by the Bank of Italy on 27 May 1994, which will come into force in July of this year, extends the requirement to the special credit institutions and the rural and artisans' banks (now called "mutual banks"), thus providing equal competitive conditions for the different categories of bank. Under the new regulations, the marginal reserve ratio will be 15 per cent and the first 200 billion lire in deposits will be exempt, thus taking some 70 small banks out of the purview of the requirement, while 55 mutual banks will be subject to the requirement for the first time, but only for funds raised after the measure comes into force. As reserves must be set aside only against increases in deposits of the types subject to the requirement, funds held against longer-term certificates of deposit will be gradually released.

BANKS ACCEPTING SHORT-TERM FUNDS

Lending

Net of debt consolidation and exchange rate adjustments, outstanding loans by resident banks accepting short-term funds decreased by 7.5 trillion lire, or 1.2 per cent, compared with an increase of 8.2 per cent in 1992 (Table 23). Discounting the increase in bad and doubtful debts, the aggregate expanded by 0.3 per cent in 1993. Lending to residents by the foreign branches of Italian banks contracted by 5.3 trillion lire, or 16.4 per cent. Residents' total indebtedness to Italian banks accepting short-term funds fell by 1.9 per cent.

The contraction in lending occurred mainly in foreign currency loans, which decreased by 39.4 trillion lire, or 30.2 per cent, net of exchange rate adjustments; this compares with an increase of 31.4 per cent in 1992. The decline in foreign currency lending was partly attributable to concern about exchange risk and the narrowing of differentials between domestic and foreign interest rates.

Lira loans to residents from the domestic and foreign branches of Italian banks rose by 26.6 trillion lire, or 4.9 per cent, compared with 4.8 per cent in 1992.

The banks contributed to the many debt restructuring plans initiated during the year by agreeing revised terms for roughly 60 trillion lire in loans. The operations were limited to businesses with good prospects of recovery, assessed on the basis of objective criteria. The restructuring plans provide for a reduction in firms' financial costs by lengthening maturities, lowering interest rates and transforming a portion of the debt into equity.

Net of exchange rate adjustments, credit granted decreased by 1.2 per cent. The proportion of facilities actually drawn rose by half a point with respect to 1992 to stand at 61.4 per cent. The share of loans granted at or below the prime rate declined from 31.1 to 23.0 per cent.

Bad and doubtful debts. — The growth in bad and doubtful debts, which had been accelerating since 1991, quickened further in 1993. In December they stood at 47.2 trillion lire, a rise of 26.0 per cent over the year. The deterioration does not appear to have run its course: "non-performing" loans — loans at a stage that has often preceded the initiation of bankruptcy proceedings — more than doubled from 14.6 trillion lire in December 1992 to 31 trillion in 1993; in March 1994 bad debts rose to 8.4 per cent of total loans.

As in the recession of the early eighties, the rise in bad debts mainly involved borrowers who had drawn a large proportion of their credit, industrial firms and financial companies, and firms predominantly in the North. Three industries that did not experience a fall in output — energy, food products and paper — saw no significant change in the ratio of bad debts to loans. The services sector recorded a larger than usual rise in bad debts, which increased from 4.2 per cent of loans at the end of 1991 to 6.0 per cent in 1993.

Treasury management and securities portfolios

In 1993 the securities portfolios of banks accepting short-term funds grew by 48.3 trillion lire, or 22.8 per cent, compared with 15 trillion and 7.6 per cent in 1992. However, when calculated on the basis of the new definition of securities portfolios in accordance with the EU Directive on banks' annual accounts, which includes temporary sales of securities and excludes temporary purchases, the increase was negligible, 7.9 trillion lire, or 2.5 per cent, and far smaller than in 1992, when portfolios had increased by 56.1 trillion, or 21.5 per cent.

The growth in the securities portfolio was in large part due to an increase in short-term paper, which accounted for 19.8 per cent of the total portfolio at the end of 1993, compared with 9.2 per cent in 1992. Short-dated securities increased by 41.9 trillion lire during the year, whereas they had remained unchanged in 1992. Banks' holdings of Treasury credit certificates and other bonds declined by 29.6 and 10.3 trillion lire respectively, compared with increases of 32.4 and 2.1 trillion the previous year. Holdings of Treasury bonds rose by 6.3 trillion, compared with 21 trillion in 1992.

Business in repurchase agreements was influenced by two opposing trends: sales declined, partly owing to the imposition of withholding tax in September 1992, while purchases accelerated sharply, boosted by a rise in transactions with non-residents.

Outstanding temporary sales of securities to ordinary customers fell by 1.2 trillion lire last year, compared with an increase of 45.9 trillion in 1992, and primarily involved fixed rate securities. There was an appreciable fall of 13 trillion lire in sales to residents in the second half of the year. Outstanding temporary purchases of lira securities from residents rose by 9.5 trillion lire, while those from non-residents increased by 21.6 trillion; non-resident customers used these operations to cover the exchange risk on purchases of lira-denominated securities.

The interbank market. — As a result of the improvements made in the payment system, the proportion of interbank liabilities held on correspondent accounts continued to decline, falling to 15.4 per cent of total interbank lira liabilities in 1993, compared with 18.2 per cent in 1992 and 34.0 per cent in 1990. Conversely, the share of time deposits rose to 49.3 per cent, up from 46.6 per cent in 1992 and 24.2 per cent in 1990.

Average daily turnover on the screen-based interbank market continued to grow, rising from 15.1 to 20.5 trillion lire. The bulk of trading continued to be in overnight and tomorrow-next funds, which represented respectively 63 and 16 per cent of total transactions. Average turnover for maturities of more than one week rose to 1.1 trillion lire in 1993, compared with 900 billion in 1992 and 500 billion in 1991.

Deposits

On the basis of average monthly figures, residents' bank deposits in lire increased by 61.8 trillion lire, or 8.7 per cent, compared with a rise of 21 trillion, or 3.0 per cent, in 1992 (Table 23). The ratio of deposits to total domestic financial assets was unchanged at 33.6 per cent. An increasing proportion of banks' funds was in the form of current account deposits, which began to rise again after contracting in 1992, and longer-term certificates of deposit, which receive favourable treatment under tax legislation and the rules governing compulsory reserves.

The growth in bank deposits accelerated in the early part of 1993 in conjunction with the pronounced decline in official and money market interest rates, the attainment of a current account surplus and the easing of the tensions that had prevailed in late 1992; the rate of increase remained high for the rest of the year. Banks reduced their deposit rates by considerably less than the fall in money market rates. The differential between net yields on 6-month Treasury bills and the rate on CDs of the same maturity narrowed from 3.8 to 2.1 percentage points in the course of the year; the margin between the average yield on Treasury bills and the average rate on deposits other than CDs fell by half to stand at 3.6 points in December, the lowest level since 1985 (Figure 14).

Based on monthly averages of daily figures, current account deposits increased by 33.8 trillion lire, or 8.9 per cent, compared with a decline of 8.9 trillion, or 2.3 per cent, the previous year.

Certificates of deposit again grew strongly, although less rapidly than in 1992, increasing by 33.8 trillion lire (16.8 per cent), compared with 47.5

trillion (30.9 per cent) the previous year. Their share of total deposits rose from 25.1 to 29.3 per cent. Certificates of deposit with maturities of 18 months or more increased from 54.2 to 60.1 per cent of total CDs; half of the CDs of this category had an initial maturity of 18 months.

Profit and loss accounts

The net interest income of banks accepting short-term funds amounted to 53.8 trillion lire, equal to 3.22 per cent of total assets, a decline from the high levels recorded in 1992 (Table 24). A number of factors contributed to the contraction. The average spread between the banks' return on lending and the cost of funds narrowed by 1.3 percentage points to 7.9 points, the lowest figure in twenty years. Lira loans, which generate the highest returns, declined as a proportion of total interest-bearing funds from 41.0 to 39.0 per cent. Returns were also affected by interest rate reductions granted in connection with debt restructuring agreements with firms in difficulty. The large increase in bad and doubtful debts also reduced income, with forgone earnings totaling an estimated 1 trillion lire on the basis of average lending rates. The sizable reduction in reserve requirements helped cushion the impact of these developments.

Realized capital gains caused an exceptional increase in profits on securities trading to 13.2 trillion lire, or 0.79 per cent of total assets, offsetting the decline in income from interest-earning activities. Gross income rose from 4.51 to 4.71 per cent of total assets.

The banks intensified their efforts to curb operating expenses, which rose by only 7.2 per cent, owing mainly to a slowdown in staff costs. The latter increased by 3.1 per cent, compared with 9.8 per cent in 1992, as a result of the small rise in the number of employees (by 1,900, or 0.6 per cent) and continued slow growth in wages, which increased by 1.8 per cent in nominal terms and fell by 2.5 per cent in real terms.

The containment of the rise in costs contributed to a considerable increase of 30.7 per cent in net income, which rose from 1.50 to 1.81 per cent of total assets.

Pre-tax profits totaled 16.4 trillion lire, an increase of 46.8 per cent. Because of higher taxation, however, net profit rose by only 14.4 per cent and was equal to 0.35 per cent of total assets, compared with 0.32 per cent in 1992.

Table 24

PROFIT AND LOSS ACCOUNTS OF BANKS ACCEPTING SHORT-TERM FUNDS (EXCLUDING INCORPORATED SPECIAL CREDIT SECTIONS) (1)

	1990	1991	1992 Old definition	1992 New definition	1993	1991	1992	1993
	As a percentage of total assets					*Percentage changes*		
Net interest income	**3.72**	**3.77**	**3.93**	**3.60**	**3.22**	**8.9**	**19.7**	**–0.8**
Non-interest income	1.26	1.28	0.93	0.91	1.49	9.2	–16.0	77.0
securities trading	*0.66*	*0.66*	*0.43*	*0.39*	*0.79*	*6.4*	*–25.2*	*120.7*
other services	*0.52*	*0.54*	*0.46*	*0.47*	*0.63*	*11.8*	*–3.5*	*46.1*
Gross income	**4.98**	**5.05**	**4.86**	**4.51**	**4.71**	**9.0**	**10.7**	**15.2**
Operating expenses	3.20	3.37	3.26	3.01	2.90	13.0	11.4	7.2
staff costs	*2.14*	*2.24*	*2.14*	*1.96*	*1.81*	*12.2*	*9.8*	*3.1*
Net income	**1.78**	**1.68**	**1.60**	**1.50**	**1.81**	**1.7**	**9.2**	**30.7**
Value adjustments, readjustments and allocations to provisions	0.70	0.64	0.81	0.78	0.82	1.6	45.5	15.6
loan losses	*0.42*	*0.46*	*0.37*	*0.34*	*0.66*	*–5.1*	*6.9*	*109.5*
valutation gains/losses on securities	*–0.6*	*–0.03*	*–0.17*	*–0.20*	*–0.01*	*–39.0*	(3)	*–95.9*
Profit before tax	**1.08**	**1.04**	**0.79**	**0.71**	**0.98**	**3.9**	**–13.4**	**46.8**
Tax	0.47	0.48	0.43	0.39	0.64	9.5	3.6	73.7
Net profit	**0.61**	**0.56**	**0.36**	**0.32**	**0.35**	**–0.4**	**–28.0**	**14.4**
Dividends	0.19	0.20	0.21	0.19	0.16	14.5	22.1	–10.0
	Other data							
	Amounts					*Percentage changes*		
Total assets *(billions of lire)*	1,165,039	1,252,267	1,442,522	1,571,258	1,731,415	9.4	21.3	10.2
Number of employees	320,873	326,771	327,834	327,834	329,757	1.8	0.3	0.6
Total assets per employee *(millions of lire)* at current prices	3,631	3,832	4,400	4,793	5,251	7.4	20.9	9.6
at constant prices (2)	3,631	3,605	3,939	4,291	4,499	–0.7	15.0	4.9
Staff costs per employee *(millions of lire)* at current prices	77.8	86.0	94.0	94.0	95.8	10.5	9.4	1.8
at constant prices (2)	77.8	80.9	84.2	84.2	82.1	4.0	4.1	–2.5

(1) Excluding central credit institutions and mutual banks. Rounding may cause discrepancies in totals. The figures for the 1993 are provisional. The new rules for the preparation of banks' annual accounts cause breaks in the profitability indicators: total assets have increased owing to the inclusion of temporary sales of securities; costs and income relating to repos and net income from derivative contracts written for hedging purposes have been included in net interest income; a number of income items previously set against operating expenses have been included in gross income; some operating costs have been reclassified as provisions; finally, provisions for value adjustments have been eliminated, leaving only prudential provisions. The profit and loss accounts for 1992, which have been reclassified using the new criteria, are only partially comparable, as detailed information on income from repos is not available. - (2) Deflated using the consumer price index (1990=100). – (3) Not material.

BANKS ACCEPTING MEDIUM AND LONG-TERM FUNDS

Lending

Net of exchange rate adjustments, lending to residents by banks accepting medium and long-term funds rose by 28.8 trillion lire, or 8.4 per cent in 1993 (Table 23). Lira lending increased by 11.9 per cent, compared with 9.4 per cent in 1992, whereas foreign currency lending contracted by 4.7 trillion, or 7.8 per cent, after having increased by 1.3 per cent the previous year. The volume of subsidized credit was virtually unchanged and therefore continued to decline as a proportion of total lending, falling to 18.5 per cent, as against 29.1 per cent in 1986.

Faced with a pronounced deterioration in loan quality, the banks did not reduce their lending rates by as much as the decline in official and long-term market rates. Nevertheless, the downward stickiness of rates was not as great as that for banks accepting short-term funds: in the last quarter of 1993, the differential between rates on medium and long-term loans and yields on Treasury bonds was on average only 1.9 points larger than in mid-1992, compared with a increase of 2.6 points in the differential between rates on short-term loans and Treasury bills.

The growth in lending to non-financial companies decelerated sharply to 3.2 per cent, although this was still larger than the increase in lending by banks accepting short-term funds. Only lending to construction firms defied the general trend. Credit to industrial firms fell by 3.5 per cent, compared with an increase of 5.1 per cent in 1992.

The recession caused the value of loan applications to decline by a further 9.4 per cent, after having fallen by 4.5 per cent in 1992. Disaggregated data, which are available for industrial credit only, show that the largest declines were in applications from industry (12.8 per cent) and services other than transport and telecommunications (25.8 per cent).

The sharp rise in credit to firms in the building and public works sectors, which increased by 18.9 per cent compared with 16.4 per cent in 1992, partly reflected the financial difficulties of these firms. Subsidized lending to the building industry and to finance exports increased.

As with banks accepting short-term funds, the deepening of the recession was reflected in a marked deterioration in loan quality. Bad and doubtful debts increased by 5.7 trillion lire, or 33.1 per cent, rising from 5.0

to 6.1 per cent of total lending. The increase in the level of risk was due in part to the sharp rise of 11.5 trillion lire in loans more than six months in arrears, which are considered separately from bad and doubtful debts.

Fund-raising and the management of securities portfolios

The twelve-month rate of growth in domestic and foreign fund-raising increased to 10.9 per cent at the end of 1993, almost double the rate recorded a year earlier. The acceleration was attributable partly to interest rate policies. Rates on the certificates of deposit and bonds issued by banks of this kind were slow to fall in 1993, making them more attractive than other financial instruments.

These banks made sizable issues of bonds, reinforcing the trend that had emerged in recent years. Bonds in issue increased by 16.5 per cent in 1993, and in March 1994 the twelve-month rate of growth accelerated further to 19.7 per cent. Floating rate securities were still the preferred instrument, albeit to a slightly smaller extent than in 1992, representing three quarters of new issues and 55.3 per cent of outstanding bonds.

Fund-raising abroad, a significant source of funds before the currency crisis, decreased by 2.4 trillion lire, or 2.5 per cent, net of exchange rate adjustments.

With fund-raising increasing more rapidly than lending, securities portfolios expanded. According to the traditional definition, which excludes temporary sales under repos but includes temporary purchases, holdings of securities grew by 6.6 trillion lire, compared with a contraction of 1.1 trillion in 1992, and their ratio to lending rose from 4.5 to 5.8 per cent.

Profit and loss accounts

Net interest income increased by 9.6 per cent to 8.1 trillion lire, but declined slightly as a proportion of total assets to 1.77 per cent (Table 25). The deceleration was less than that recorded by banks accepting short-term funds, owing to more rapid growth in lending and differences in the behaviour of short and long-term interest rates. Gross income increased by 10.4 per cent but declined to 1.67 per cent of total assets, compared with 1.73 per cent in 1992.

Table 25

PROFIT AND LOSS ACCOUNTS OF BANKS ACCEPTING MEDIUM AND LONG-TERM FUNDS (INCLUDING SPECIAL CREDIT SECTIONS) (1)

	1990	1991	1992 Old definition	1992 New definition	1993	1991	1992	1993
	As a percentage of total assets (2)					*Percentage changes*		
Net interest income	**2.05**	**1.87**	**1.84**	**1.83**	**1.77**	**4.6**	**10.4**	**9.6**
Non-interest income	0.09	. .	–0.10	–0.10	–0.09	–94.7	(4)	2.9
securities trading	*0.05*	*0.08*	*0.01*	*0.01*	*0.11*	*77.1*	*–85.1*	(4)
Gross income	**2.14**	**1.87**	**1.74**	**1.73**	**1.67**	**0.6**	**3.9**	**10.4**
Operating expenses	0.84	0.77	0.76	0.75	0.69	5.7	10.3	10.9
staff costs	*0.48*	*0.44*	*0.42*	*0.43*	*0.41*	*5.8*	*9.5*	*3.8*
Net income	**1.30**	**1.10**	**0.98**	**0.98**	**0.98**	**–2.8**	**–0.5**	**10.0**
Value adjustments, readjustments and allocations to provisions	0.56	0.37	0.32	0.31	0.27	–24.8	–4.0	–64.3
loan losses	*0.36*	*0.38*	*0.36*	*0.36*	*0.18*	*20.5*	*8.0*	*–45.4*
Profit before tax	**0.74**	**0.73**	**0.66**	**0.67**	**0.71**	**14.3**	**1.3**	**18.8**
Tax	0.27	0.30	0.30	0.30	0.37	24.7	12.8	35.2
Net profit	**0.47**	**0.43**	**0.36**	**0.37**	**0.34**	**8.1**	**–6.6**	**3.4**
Dividends	0.15	0.12	0.11	0.11	0.13	–8.2	6.7	23.1
	Other data							
	Amounts					*Percentage changes*		
Total assets (2) *(billions of lire)*	326,214	374,284	420,198	423,394	456,898	14.7	12.3	11.3
Number of employees	13,483	13,361	13,242	13,242	12,954	–0.9	–0.9	–1.0
Total assets per employee (millions of lire)								
at current prices	24,195	28,013	31,732	31,974	35,271	15.8	13.3	10.3
at constant prices (3)	24,195	26,353	28,409	28,625	30,224	8.9	7.8	5.6
Staff costs per employee (*millions of lire*)								
at current prices	116.0	123.8	136.8	136.8	144.0	6.8	10.5	5.2
at constant prices (3)	116.0	116.5	122.5	122.5	123.4	0.5	5.2	0.7

(1) The figures may have been affected by the incorporation of special credit sections into their parent banks. The data for 1993 are provisional. – (2) As from December 1992, certain categories of funds administered merely as service on behalf of public agencies are no longer included in total assets. The data are adjusted to take account of this statistical break. – (3) Deflated using the consumer price index (1990=100). – (4) Not material.

Operating expenses rose by 10.9 per cent, compared with 10.3 per cent the previous year, mainly owing to higher non-staff costs. Net income amounted to 0.98 per cent of total assets, the same as in 1992. Pre-tax profit rose by 18.8 per cent, but higher taxes reduced the growth in net profit to 3.4 per cent, a rise of 1.6 trillion lire.

Other credit intermediaries

Leasing companies. - Net of leasing rentals, the credit implicit in outstanding contracts decreased by 200 billion lire, or 0.6 per cent, compared with a rise of 1.1 trillion in 1992. New contracts worth 17.6 trillion lire were signed during the year, compared with 18.8 trillion in 1992. A number of leasing companies were taken over by credit institutions, which began to offer leasing services directly to customers.

The average rate of interest on contracts signed during the year declined by 0.7 points to 16.0 per cent, the level recorded in 1991. A comparison of the price conditions offered by leasing firms and banks accepting medium and long-term funds reveals differences in interest rate movements. The differential between the interest rate on leasing contracts for machinery and vehicles and the average rate on industrial credit widened by about 0.5 points to 4 points, whereas that between the rate on real estate leasing operations and the average rate on real estate loans narrowed from 1 to 0.8 points.

Factoring companies. - Activity in the factoring sector declined in 1993, with the stock of acquired claims falling by 6.4 per cent to 38.4 trillion lire. The flow of claims, which represents the volume of business during the year, also diminished. The decline in turnover was accompanied by a deterioration in asset quality. Bad and doubtful debts increased by nearly 45 per cent to stand at 1.4 trillion lire at the end of 1993 and rose from 2.3 to 3.6 per cent of total acquired claims.

Consumer credit. - Outstanding consumer credit - which does not include household mortgages - declined by 5.9 per cent to 32.5 trillion lire in 1993. The reduction occurred both in credit granted by banks, which fell by 6.3 per cent, and that provided by specialized finance companies, which declined by 5.4 per cent.

Consumer credit companies increased the proportion of lending not directly linked to the purchase of goods to 29.1 per cent of total credit, a rise of 10 percentage points compared with 1992. Loans for the purchase of vehicles mirrored the fall in vehicle sales, contracting sharply to 50.3 per cent of purchase-related credit, compared with 57 per cent in 1992.

INSTITUTIONAL INVESTORS

The rise in securities prices in 1993 facilitated fund-raising by institutional investors — investment funds, portfolio management services, insurance companies and pension funds. Their net fund-raising increased from 27.5 to 60 trillion lire in 1993, equal to 30.0 per cent of the growth in households' financial assets, compared with 15.5 per cent the previous year. Investment funds and portfolio management services accounted for more than three quarters of the total, as against just over one third in 1992. Institutional investors' net assets grew by 30.9 per cent to 472.3 trillion lire at the end of the year, rising from 14.5 to 16.7 per cent as a proportion of households' financial assets. Almost 45 per cent of the growth was produced by the rise in securities prices.

The decline in yields on government paper prompted households to turn to financial instruments that could take advantage of the rise in securities prices, the weakness of the lira and the shift in government issues towards longer-term fixed rate bonds. Investment funds performed particularly well, taking riskier positions in spot markets and exploiting the opportunities for hedging in forward markets. This helped to attract fresh subscriptions, and net fund-raising totaled a very substantial 32.4 trillion lire after being virtually stagnant the previous year. At the end of April 1994 their net assets amounted to 136.3 trillion lire, not far from the figure of almost 159 trillion for portfolio management services at the same date. The funds' share of total household financial assets topped the previous peak of 4.5 per cent recorded at the end of 1986 to stand at 4.7 per cent (Table 26). This is slightly higher than the corresponding figure in Germany and similar to that in the United Kingdom but just one quarter of the ratio in France and the United States.

Table 26

INSTITUTIONAL INVESTORS: NET ASSETS AS A PERCENTAGE SHARE OF HOUSEHOLDS' FINANCIAL ASSETS

(end-of-period data)

	1986	1989	1990	1992	1993	1994 (1)
Investment funds	4.5	2.7	2.3	2.4	3.9	4.7
Portfolio management services	3.3	3.0	3.2	4.2	5.0	5.4
Insurance companies	2.4	3.4	3.7	4.3	4.3	–
Pension funds	–	–	0.6	3.2	2.9	–

(1) April; partly estimated.

Banks made a decisive contribution to the recovery of investment fund subscriptions in 1993. The share of total net assets attributable to the funds managed by companies in which banks hold equity interests rose from 49 to 61 per cent.

During the year Parliament approved laws instituting closed-end securities investment funds and real estate funds.

At the beginning of July 1994, with the full transposition of the EEC Third Insurance Directive, the liberalization of the Italian insurance market and creation of the single European market in insurance should be complete. The restrictions on the freedom of establishment and the freedom to provide insurance services will be eliminated within the EU, and regulated premium rates, first and foremost those for civil liability automobile insurance, will be abolished. Finally, since the beginning of the year private insurance companies have no longer been legally required to reinsure a part of their premiums with the National Insurance Institute.

Securities investment funds

Italian securities investment funds' net fund-raising for the year rose from 0.7 to 33.5 trillion lire (Table 27). Net assets grew from 49.4 to 110.1 trillion lire, as the funds also achieved a large increase in capital gains (17.5 trillion, against 4.9 trillion in 1992), which was primarily due to the rise in bond prices and, to a lesser extent, the rapid appreciation of shares. Together with the growth from 1.2 to 1.5 trillion lire in dividends paid, these capital gains boosted the overall index of the value of fund units by 26.0 per cent, compared with a rise of just under 10 per cent in 1992 (Figure 17). The index of capitalization of bond-based funds increased slightly less than that of Treasury bonds (20.0 and 23.9 per cent respectively), while the rise in the index of capitalization of share-based funds was similar to that registered by the MIB share index (37.8 and 38.7 per cent respectively). The average monthly variability of fund yields was smaller than that prevailing in the financial market. In particular, yields on bond-based funds were less variable than those on Treasury bonds and credit certificates, and yields on share-based funds less variable than those on shares.

Net fund-raising grew fourfold between the first and second halves of the year. The favourable trend carried into 1994, with net fund-raising in the first four months totaling 25.8 trillion lire, compared with 20 trillion in the last four months of 1993.

Table 27

NET ASSETS OF ITALIAN INVESTMENT FUNDS (1)

(billions of lire)

	Net fund-raising		Dividends paid		Capital gains		Net assets (2)		
	1992	1993	1992	1993	1992	1993	December 1991	December 1992	December 1993
Bond-based	4,064	26,752	1,133	1,532	3,767	9,031	31,080	37,778	72,029
linked to current accounts	*–16*	*13,055*	*11*	*32*	*1,276*	*2,864*	*10,915*	*12,164*	*28,051*
Mixed	–1,902	597	26	13	380	2,851	11,580	10,032	13,467
Share-based	–1,428	6,113	10	4	760	5,635	13,531	12,853	24,597
Total ..	**734**	**33,462**	**1,169**	**1,549**	**4,907**	**17,517**	**56,191**	**60,663**	**110,093**

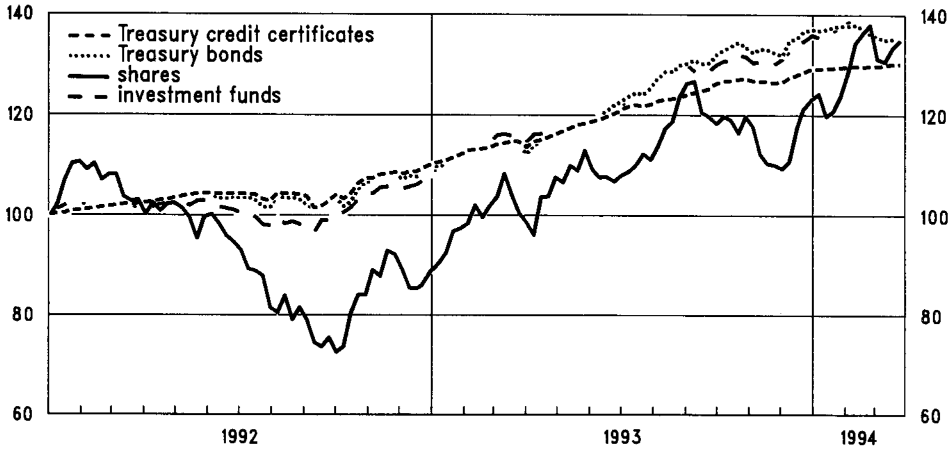
(1) Changes of category at the end of a year take effect from the following year. – (2) The change in net assets is equal to net fund-raising plus capital gains minus dividends paid.

Bond-based funds accounted for almost 80 per cent of total net fund-raising; slightly less than half of this, or 13.1 trillion lire, was attributable to funds linked to bank current accounts, which had recorded net redemptions in 1992. Share-based funds accounted for almost all of the remaining 20 per cent, while mixed funds remained basically in balance after recording net redemptions of 1.9 trillion in 1992.

Figure 17

SECURITIES MARKET: INDICES OF CAPITALIZATION (1)

(31 December 1991 = 100; end-of-week data)



(1) Refers to the economic value of the instrument, taking account of capital gains (or losses) and accrued dividends and interest, on the assumption that these are reinvested; for shares the index is the MIB, which excludes dividends.

The share of bonds and government securities in investment funds' total portfolio diminished from 62 to 53 per cent. The portion consisting of fixed income securities doubled to 24 per cent by the end of the year. More than half of the increase (almost 7 percentage points, or 6.9 trillion lire) was due to net purchases of ten and thirty-year Treasury bonds, with investment funds taking up 15 per cent of total net issues. The proportion of shares in the portfolio rose from 11 to 13 per cent, thanks to the rise in prices and net purchases amounting to 2.2 trillion. As the uncertainty over the lira's exchange rate favoured funds with greater international diversification, net purchases of foreign securities grew from 3.0 to 15.1 trillion lire. The share of foreign securities in the total portfolio rose to a historic high of 35 per cent, 10 percentage points more than at the end of 1992, with bonds accounting for around seven tenths of the growth.

Portfolio management services and securities firms

Portfolio management services. — Net fund-raising by portfolio management services amounted to 13.7 trillion lire, compared with 8.7 trillion in 1992 (Table 28). The growth in the value of the assets entrusted to portfolio management services, which increased from 106.1 to 142.9 trillion lire, was less than that in the net assets of investment funds in both absolute and percentage terms. This tendency continued in the first quarter of 1994, during which portfolio management services' net fund-raising of 11.9 trillion lire amounted to just under 55 per cent of the corresponding figure for investment funds. A contributory factor may have been that the increase of 22 per cent in the value of the services' portfolio, adjusted to exclude the effects of net fund-raising, was 4 percentage points less than the average ex post yield achieved by investment funds in the same period. Part of the difference is due to the smaller proportion of the services' portfolio consisting of fixed income securities and particularly Treasury bonds (12 per cent), foreign securities (10 per cent) and shares (3 per cent). This portfolio composition prevented the services from taking full advantage of the opportunities offered by the rise in securities prices and the depreciation of the lira.

At the end of 1993, 82 per cent of the services' total portfolio was managed by banks; however, this was 2 points less than at the end of the previous year, as the banks lost ground to securities firms, whose portfolio is closer in composition to that of investment funds.

Securities firms. — At the end 1993 securities firms' own securities portfolios amounted to 8.9 trillion lire, compared with 1.1 trillion at the end of 1992, their first year of operation. Around 1.7 trillion of the increase was due to the transformation of commission dealers into securities firms at the beginning of the year. At the end of the year more than 80 per cent of the firms' total portfolio consisted of government securities, while the remaining 20 per cent was almost equally divided between bonds and foreign currency securities; just over a quarter of the portfolio was financed through repurchase agreements and similar operations.

Table 28

ASSETS OF PORTFOLIO MANAGEMENT SERVICES

(billions of lire)

	December 1992	1993				March 1994 (1)
		March	June	September	December	
Italian securities	**90,763**	**91,451**	**99,002**	**107,238**	**116,595**	**125,298**
Government securities	75,566	76,240	82,936	89,718	97,173	103,497
Bonds (2)	12,574	12,374	12,519	13,383	14,849	15,805
Shares	2,623	2,837	3,547	4,137	4,573	5,996
Foreign currency securities	**6,983**	**8,845**	**8,704**	**10,534**	**13,576**	**14,704**
Bonds (3)	6,787	8,618	8,326	10,078	12,687	13,539
Shares	196	227	378	456	889	1,165
Total assets	**106,129**	**110,509**	**116,537**	**127,713**	**142,929**	**156,420**
of which: banks (4)	*87,753*	*90,780*	*95,698*	*104,877*	*117,457*	*128,655*
securities firms	*4,210*	*5,159*	*5,591*	*6,482*	*7,641*	*8,726*
trust companies and commission dealers (5)	*14,166*	*14,570*	*15,248*	*16,354*	*17,831*	*19,039*
Memorandum item:						
Net fund-raising (6)	**–1,375**	**–1,608**	**1,788**	**4,956**	**8,118**	**11,905**
of which: banks (4)	*–1,649*	*–1,808*	*322*	*3,801*	*6,547*	*9,849*
securities firms	*279*	*390*	*84*	*691*	*441*	*586*
trust companies and commission dealers (5)	*–5*	*–190*	*1,382*	*464*	*1,130*	*1,470*

(1) Provisional. – (2) Includes certificates of deposit with a maturity of more than 18 months. – (3) Includes foreign government securities. – (4) Services performed directly by banks. – (5) The figures from 1993 onwards only refer to trust companies. – (6) Flows in the quarter ending in the month indicated.

The number of securities firms increased from 199 to 238 during the year. Activity was largely concentrated in a handful of firms. The large number of firms probably curbed the margins on securities business notwithstanding the increased demand for services. Net management commissions amounted to around 0.6 per cent of the value of managed funds, while net earnings from trading on behalf of customers were equal to around 0.4 per cent of the value of such transactions.

Firms engaged in securities trading primarily on customer account; their volume of business in this sector was more than 50 per cent larger than that of the banks. They played a preponderant and growing role in the share market, effecting around 60 per cent of all trades made on own account and almost 95 per cent of those on customer account, compared with 50 and 93 per cent respectively in 1992.

Insurance companies and pension funds

Insurance companies. — The domestic premium income of insurance companies amounted to 35.1 trillion lire in the casualty sector and 15.1 trillion in the life sector (Table 29). The overall growth in premium income slowed down appreciably from 14.1 to 10.7 per cent, reflecting the impact of the recession on the casualty sector; the deceleration was sharpest for automobile insurance and accident and sickness insurance. By contrast, growth in premium income in the life sector accelerated from 18.2 to 20.9 per cent. Group policies, which account for around 20 per cent of the entire sector, expanded twice as rapidly as in 1992, owing in part to the growing recourse of banks and firms to group endowment-type policies as an alternative to direct management of a supplementary pension fund.

Table 29

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)	Loans & annuities (2)	Real estate				
				Life sector				
1992	2,050	58,507	2,766	9,407	99,492	62,402	14,419	12,508
1993 (5)	1,904	73,778	1,878	12,643	121,359	70,205	23,351	15,123
				Casualty sector				
1992	2,324	41,554	976	10,822	94,463	45,437	19,490	32,845
1993 (5)	2,519	47,270	626	11,106	104,309	51,592	19,763	35,110
				Total				
1992	4,374	100,061	3,742	20,229	193,955	107,839	33,909	45,353
1993 (5)	4,423	121,048	2,504	23,749	225,668	121,797	43,114	50,233

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

Total technical reserves rose from 107.8 to 121.8 trillion lire and net worth increased by 9.2 trillion lire to 43.1 trillion (Table 29). The substantial growth in net worth was concentrated almost entirely in the life sector and was partly attributable to the effects on companies' balance sheets of the compulsory revaluation of buildings provided for in fiscal measures accompanying the Finance Law for 1992. Share issues rose from 1.95 to 2.15 trillion lire.

Table 30

INSURANCE COMPANIES: SECURITIES PORTFOLIO
(end-of-period balance sheet values in billions of lire)

	Public sector					Banks accepting medium and long-term funds (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	Total						
						Life sector					
1992 ..	376	21,070	9,370	4,832	35,648	9,719	3,376	3,339	6,317	108	58,507
1993 (2)	632	21,093	17,484	3,731	42,940	12,541	3,530	5,451	8,970	346	73,778
						Casualty sector					
1992 ..	128	12,404	2,354	1,528	16,414	6,869	1,854	8,985	7,377	55	41,554
1993 (2)	325	11,522	6,533	555	18,935	7,911	1,672	9,928	8,757	67	47,270
						Total					
1992 ..	504	33,474	11,724	6,360	52,062	16,588	5,230	12,324	13,694	163	100,061
1993 (2)	957	32,615	24,017	4,286	61,875	20,452	5,202	15,379	17,727	413	121,048

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

As in 1992, the fastest-growing component of insurance companies' assets was securities, which increased from 100.1 to 121.0 trillion lire (Table 30). Considerable growth was also recorded in real estate assets (17.4 per cent), reflecting the impact of the fiscal measures mentioned above, whereas the value of outstanding loans diminished. The overall composition of insurance companies' securities portfolio did not differ substantially from that of investment funds. The share of public sector securities remained stable at 51 per cent, while the proportion of corporate bonds fell by around 1 percentage point and that of foreign currency securities rose by nearly 1 point to 15 per cent. Among government securities, the proportion of fixed rate paper grew by more than 8 percentage points, with a corresponding fall in that of variable rate securities.

Pension funds. - At the end of 1992, the most recent year for which complete data are available, the total assets of the largest non-INPS pension funds set up by public and professional bodies amounted to 61.9 trillion lire, an increase of more than 2.5 trillion from a year earlier (Table 31). The resources of pension funds operated by credit institutions totaled 19.1 trillion, about 10 per cent less than a year earlier; the decline was partly attributable to the transformation of some pension funds into endowment policies, mainly group contracts, managed by insurance companies.

Table 31

PENSION FUNDS: MAIN ASSETS

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

	1991			1992			1993
	18 largest non-INPS funds (1)	Credit sector funds (2)	Total	18 largest non-INPS funds (1)	Credit sector funds (2)	Total	Credit sector funds (2)
Cash and deposits	13,345	1,070	14,415	13,377	811	14,188	840
Government securities	14,150	9,998	24,148	14,070	10,232	24,302	11,591
Bonds	3,132	2,557	5,689	3,311	1,241	4,552	1,134
Shares	31	1,456	1,487	33	1,305	1,338	1,435
Foreign currency securities ...	–	287	287	13	598	611	858
Loans and other financial assets	9,792	1,203	10,995	10,423	887	11,310	939
Real estate	18,889	4,838	23,727	20,649	3,991	24,640	4,655
Total assets	**59,339**	**21,409**	**80,748**	**61,876**	**19,065**	**80,941**	**21,452**

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

Real estate and government securities each accounted for around 30 per cent of pension funds' total assets; the former represented one third of the assets of the major non-INPS funds and the latter more than half of those held by the credit sector funds. Loans, mainly by the non-INPS funds to local authorities, and other financial assets amounted to 14 per cent of the total. Shareholdings accounted for less than 2 per cent of the aggregate pension fund portfolio and foreign securities for less than 1 per cent; these components pertained almost entirely to the credit sector funds, where they accounted for respectively 7 and 4 per cent of the total.

The credit sector funds, for which figures for 1993 are available, increased their reserves by 12.5 per cent. The composition of their portfolio did not change significantly from the previous year.

THE SECURITIES MARKET

The Italian financial market responded positively to the decline in long-term interest rates that occurred in all of the leading industrial countries. Long-term yields in Italy, which had risen to extremely high levels in the autumn of 1992, fell in response to a restoration of confidence, more favourable inflation expectations and substantial purchases of securities by foreign investors. The differential between gross yields on 10-year bonds denominated in lire and Deutschemark narrowed from 6.4 to 3.1 percentage points in 1993 and fell to 2.6 points at the end of April 1994.

The Treasury was able to resume its policy of increasing the proportion of the public debt in longer-term fixed rate securities. Although this reduces the benefits from declining interest rates, it also reduces the frequency of renewals and the impact of interest rate variations on the cost of the debt.

The high level of activity by foreign investors, including large institutional investors, fostered growth in the market in derivative products in lire, which permit more effective risk management. Spot transactions in government securities outside the screen-based network increased. In order to improve the efficiency and liquidity of the latter, the Minister of the Treasury issued a decree in February containing reforms that will be implemented during 1994.

The decline in interest rates and expectations of improved profitability, owing in part to the recovery in exports, helped to boost share prices; this facilitated the raising of equity capital and the disposal of state shareholdings. Further progress in the modernization of the stock exchange, with the extension of continuous trading to all listed shares, increased the efficiency and transparency of share dealing, the daily turnover of which rose from 140 billion lire in 1992 to 970 billion in the first four months of 1994.

Bonds and government securities

Supply. — Net issues of bonds and government securities totaled 189.9 trillion lire. The increase of 46 trillion with respect to 1992 was attributable to a rise of 29.5 trillion lire in government issues, 15.4 trillion in issues by banks accepting medium and long-term funds (special credit institutions) and 1.1 trillion in corporate issues (Table 32). Both public and private issuers made greater use of fixed rate securities, which were favoured by investors owing to expectations of lower interest rates.

Table 32

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS

	Gross issues		Net issues		Stocks	
	1992	1993	1992	1993	Dec. 1992	Dec. 1993
			billions of lire			
Public sector	**881,720**	**989,322**	**136,437**	**165,984**	**1,311,259**	**1,478,345**
Treasury bills	675,055	737,345	44,731	6,480	387,879	394,358
Treasury credit certificates (1)	83,426	56,000	60,024	20,698	495,924	517,537
Treasury bonds (1)	95,519	166,452	33,576	138,485	287,072	426,003
Treasury option certificates	14,500	–	3,848	–7,041	70,245	63,204
Ecu Treasury credit certificates	4,759	12,838	520	1,763	40,322	41,862
Other	8,461	16,687	–6,262	5,599	29,817	35,381
Banks accepting medium and long-term funds	**29,022**	**44,185**	**10,848**	**26,213**	**165,757**	**192,335**
Firms (2)	**1,518**	**4,950**	**–3,464**	**–2,341**	**34,526**	**32,201**
Total	**912,260**	**1,038,457**	**143,821**	**189,856**	**1,511,542**	**1,702,881**
			percentage composition			
Public sector (3)	**96.7**	**95.3**	**94.9**	**87.4**	**86.7**	**86.8**
Treasury bills	76.6	74.5	32.8	3.9	29.6	26.7
Treasury credit certificates	9.5	5.7	44.0	12.5	37.8	35.0
Treasury bonds	10.8	16.8	24.6	83.4	21.9	28.8
Treasury option certificates	1.6	–	2.8	–4.2	5.4	4.3
Ecu Treasury credit certificates	0.5	1.3	0.4	1.1	3.1	2.8
Other	1.0	1.7	–4.6	3.3	2.2	2.4
Banks accepting medium and long-term funds	**3.2**	**4.3**	**7.5**	**13.8**	**11.0**	**11.3**
Firms (2)	**0.1**	**0.4**	**–2.4**	**–1.2**	**2.3**	**1.9**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
as a percentage of GDP	*60.6*	*66.6*	*9.5*	*12.2*	*100.3*	*109.2*

(1) The figures for 1993 include the Treasury credit certificates (10,085 billion lire) and Treasury bonds (20,585 billion lire) issued to finance the new Treasury payments account. – (2) Includes former public corporations (IRI and ENI) and Enel. – (3) The percentages shown for the components are ratios to the total of public sector securities.

The residual maturity of government securities, which had shortened as a result of the crisis in 1992, rose to nearly 3 years and 4 months in April 1994, the highest level since April 1988. The cost of the debt is less sensitive to interest rate fluctuations than it was then, owing to an increase in the proportion of medium and long-term fixed rate securities from 18 to 39 per cent. The Treasury also diversified the currencies of issue; in December 1993 6.8 per cent of outstanding securities were denominated in foreign currencies, compared with 5.9 per cent at the end of 1992.

Italy issued its first 30-year bond in November; the range of maturities available now matches that offered by more developed markets abroad. The volume of 30-year bonds in issue at the end of April 1994 was 10 trillion lire; on average, issue yields were 65 basis points higher than those on 10-year bonds, similar to the differential in the French and US markets.

The Treasury resumed issuing foreign currency bonds abroad after a break of two years. Securities totaling 23.3 trillion lire were issued in yen, dollars and, for the first time, Deutschemark. The dollar issues included the 30-year bonds. Efforts were made to rationalize the structure of the dollar-denominated debt by offering new securities in exchange for less liquid issues. In addition, a global dollar bond was floated.

Net bond issues by banks accepting medium and long-term funds, which had contracted sharply in 1992, increased from 10.8 to 26.2 trillion lire last year. Issuers made greater use of fixed rate securities and concentrated issues in the second half of the year, after most of the decline in long-term interest rates had occurred. Direct recourse to the market by firms, predominantly public enterprises, amounted to 5 trillion lire, of which 3.8 trillion involved issues by Enel, ENI and SIP.

After having recovered strongly in 1992, lira issues on the Eurobond market increased substantially in late 1993 and the first few months of this year in conjunction with the termination of the issue coordination procedure and its replacement by a notification system, which facilitated simultaneous issues. Gross Eurolira issues amounted to 19.6 trillion lire in 1993, compared with 10.5 trillion the previous year; issues in the first four months of 1994 totaled 11 trillion lire.

Demand. — Demand for securities remained high throughout the year, with that for fixed rate securities intensifying in the second half. The oversubscription of government securities increased across the board, rising from 65 to 81 per cent for Treasury bonds, from 83 to 106 per cent for Treasury credit certificates and from 25 to 34 per cent for Treasury bills.

The increase in activity by professional investors, particularly non-residents, contributed to the strength of demand, especially for higher-risk fixed rate securities. Foreign investors made net purchases of bonds and government securities totaling 99.6 trillion lire (9.7 trillion in 1992), partly financed through repurchase agreements with resident banks amounting to 35.4 trillion, compared with 7 trillion in 1992 (Table 33). By contrast, there was a pronounced decline in residents' subscriptions, which fell from 134.1 to 90.3 trillion lire, reflecting a reduction in net purchases by banks and the Bank of Italy from 66.9 to 37.3 trillion lire and by other residents from 67.2 to 53 trillion.

Table 33

NET PURCHASES OF BONDS AND GOVERNMENT SECURITIES (1)

(billions of lire)

	Public sector						Banks accepting medium and long-term funds and firms	Total
	Treasury bills	Treasury credit certifi-cates	Treasury bonds	Treasury certifi-cates in ecus	Other	Total		
1992								
BI-UIC (2)	–9,308	1,775	21,153	135	821	14,576	–93	14,483
(memorandum item: securities repurchase agreements) (3)	*5,034*	*7,786*	*3,071*	–	*2,406*	*18,297*	–	*18,297*
Banks accepting short-term funds	–1,177	29,518	21,045	–1,457	5,859	53,787	1,471	55,258
(memorandum item: securities repurchase agreements) (3)	*–7,970*	*–22,717*	*–5,173*	*637*	*–2,684*	*–37,907*	*–2,746*	*–40,653*
Banks accepting medium and long-term funds	–389	–3,374	–476	–	–63	–4,301	1,451	–2,850
Social security institutions (4)	618	856	–24	11	–948	513	–23	490
Insurance companies (4)	–674	5,633	5,243	–	195	10,396	2,190	12,586
Investment funds	419	–494	959	–10	1,259	2,133	–633	1,500
Non-residents (4)	56	330	2,081	1,363	–1,669	2,161	527	2,688
(memorandum item: securities repurchase agreements) (3)								*–7,010*
Memorandum item: **Net issues**	**44,731**	**60,024**	**33,576**	**520**	**–2,413**	**136,437**	**7,384**	**143,821**
1993								
BI-UIC (2)	239	4,629	8,422	–62	–1,634	11,594	–37	11,557
(memorandum item: securities repurchase agreements) (3)	*2,737*	*–9,015*	*12,841*	–	*–1,313*	*5,250*	–	*5,250*
Banks accepting short-term funds	41,877	–15,876	6,265	815	–12,402	20,679	–8,237	12,442
(memorandum item: securities repurchase agreements) (3)	*–8,841*	*21,359*	*17,606*	*–735*	*7,930*	*37,319*	*–573*	*36,746*
Banks accepting medium and long-term funds	1,921	5,577	6,396	–	119	14,012	–688	13,324
Social security institutions (4)	133	1,026	–175	–374	–246	364	193	557
Insurance companies (4)	464	–723	12,293	–14	–714	11,306	3,837	15,143
Investment funds	995	–1,420	18,239	76	–283	17,607	–564	17,043
Non-residents (4)	1,351	–1,018	54,773	1,776	6,932	63,814	421	64,235
(memorandum item: securities repurchase agreements) (3)								*–35,352*
Memorandum item: **Net issues**	**6,480**	**20,698**	**138,485**	**1,763**	**–1,442**	**165,984**	**23,872**	**189,856**

(1) Outright purchases unless otherwise indicated. Excluding certificates of deposit. Treasury bills at face value – (2) The figures for 1993 include the Treasury credit certificates (10,085 billion lire) and Treasury bonds (20,585 billion lire) issued to finance the new Treasury payments account. – (3) Purchases net of sales. For the Bank of Italy, repurchase agreements in 1992 are shown at face value, while those in 1993 are shown at balance-sheet value. – (4) Net purchases including temporary purchases.

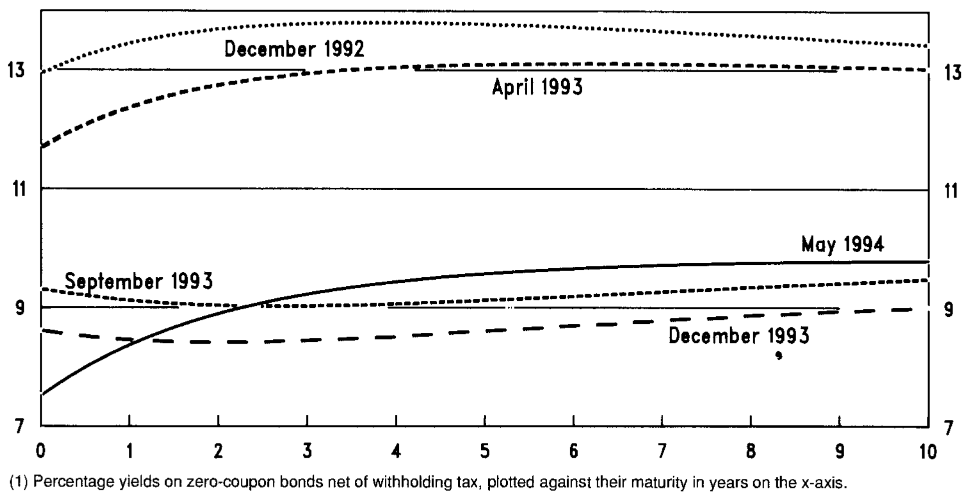
The gradual decline in the share of government securities taken up by households and businesses and the increase in purchases by institutional investors continued in 1993. The proportion of government securities held directly by resident final investors decreased from a peak of 67 per cent in 1990 to 54 per cent last year, while that held by resident institutional investors (investment funds, insurance companies and portfolio management services) and foreign investors rose from 12 to 24 per cent of outstanding securities. Purchases by non-residents were boosted further by the introduction of procedures for the swifter reimbursement of withholding tax to foreign investors. In the past, uncertainty as to the time needed to obtain refunds, which had made it difficult to determine the final yield on Italian government securities, had put a brake on investment by non-residents.

Interest rates. — The decline in interest rates in 1993 affected all maturities to the same degree, shifting the entire yield curve downwards. From the end of 1993 to mid-May of this year the curve had a slightly positive slope, in line with that in other industrial countries (Figure 18).

Figure 18

YIELD CURVES (1)

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



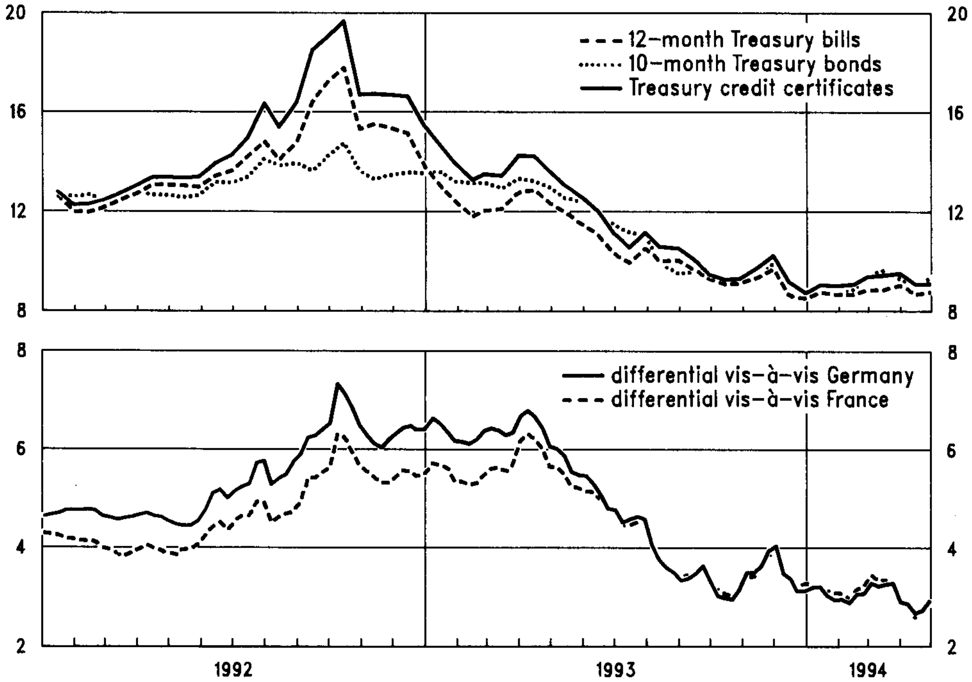
(1) Percentage yields on zero-coupon bonds net of withholding tax, plotted against their maturity in years on the x-axis.

The fall in long-term rates was interrupted only in April and November, the periods of greatest political uncertainty, and was only slightly affected by the turbulence in the foreign exchange market last summer. Yields to maturity on 10-year bonds decreased by 4.7 percentage points to a record low, while rates on 12-month Treasury bills fell by 5.3 points.

Yield differentials between long-term lira securities and similar instruments in the major European currencies declined from the levels prevailing before the currency crisis in 1992 (Figure 19). The reduction was partly attributable to an improvement in the market's perception of government issues, as reflected in a decline from about 80 to 40 basis points in the yield differential between Italian government securities denominated in foreign currencies (ecu, US dollars and Deutschemark) and comparable instruments issued by other sovereign borrowers or international organizations.

Figure 19

GOVERNMENT SECURITIES: GROSS YIELDS AND LONG-TERM DIFFERENTIALS WITH GERMANY AND FRANCE (1)



(1) For Treasury bills, average tender yields on 12-month bills; for Treasury bonds and Treasury credit certificates, average yields on the same date on the secondary market; for yield differentials, average gross yield on Treasury bonds with a residual maturity of between 9 and 10 years listed on the screen-based market and yields on comparable French and German securities.

Real long-term yields returned to the levels of the mid-eighties, encouraged by a parallel decline in the major EU countries, notwithstanding the constraints imposed by the public debt. Real long-term rates are nevertheless still high, both in historical terms and compared with previous recessions.

The secondary market in government securities. — The bid-offer spread on medium and long-term issues traded on the screen-based secondary market in government securities averaged 21 basis points in 1993, a wider margin than before the 1992 currency crisis for all types of security. One of the reasons was increased price volatility, which for Treasury bonds with a residual maturity of between 9 and 10 years was more than ten times as great as in the first five months of 1992.

The screen-based market was less successful in attracting business in 1993, as reflected by the increasing use of unregulated over-the-counter markets by foreign investors; in particular, block trading took place predominantly in London. The Minister of the Treasury and the Bank of Italy therefore took steps to enhance the efficiency, liquidity and transparency of the screen-based market. The measures, which were embodied in a Ministerial Decree of 24 February 1994, gave foreign investors easier access to the market, redefined the obligations and privileges of primary dealers by creating a new sub-category designated as "specialists in government securities" and widened the range of products and services offered by the screen-based market and the Italian Futures Market (MIF). As a preliminary step, tax-related obstacles to the growth of the market were removed in December 1993 by abolishing the stamp duty on transactions in government securities on regulated markets and introducing more flexible rules on the treatment of companies' securities portfolios. The new regulations had a beneficial effect on turnover, which increased from a daily average of 8.3 trillion lire in the last quarter of 1993 to one of 14 trillion in the first quarter of 1994.

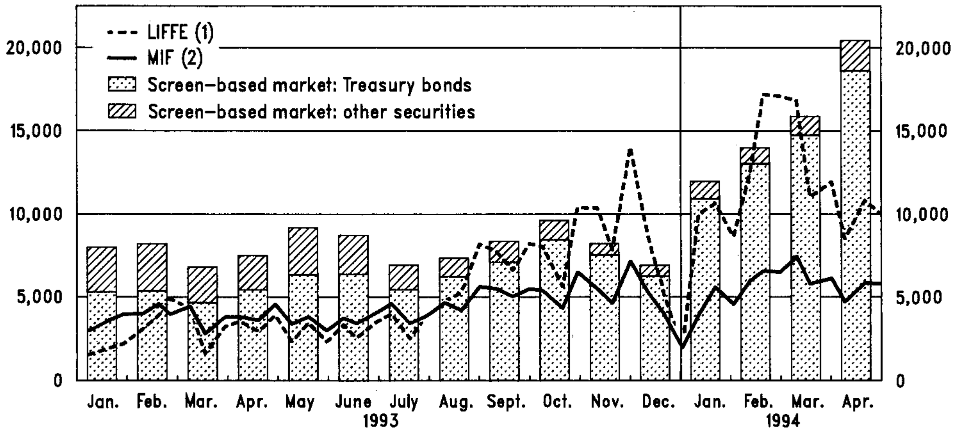
The markets in derivative instruments

The increased volume of long-dated fixed rate government securities in circulation and the pronounced decline in yields led to rapid growth in the markets for derivative products written on government securities and lira interest rates. In particular, the volume of futures contracts on Treasury bonds was boosted by the growing demand for hedging instruments and the taking of large speculative positions in anticipation of a rise in securities prices. The growth in Eurolira futures and interest rate swaps also appears to have been linked to the need to hedge the financing of positions in government securities taken by foreign investors.

Trading in Treasury bond futures increased by 172 per cent on MIF between the start of trading in the fourth quarter of 1992 and the corresponding period of 1993, but by 349 per cent on LIFFE over the same period. MIF's share fell from 64 to 37 per cent of the total volume of trades on the two markets between January 1993 and April 1994 (Figure 20).

Figure 20

GOVERNMENT SECURITIES:
TURNOVER ON THE SPOT AND FUTURES MARKETS
(average daily turnover in billions of lire)

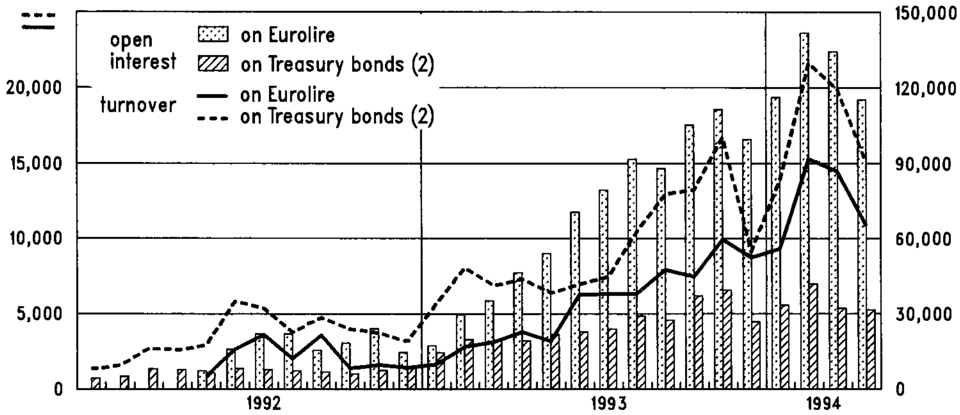


(1) Contracts on long-term Treasury bonds. – (2) Contracts on medium and long-term Treasury bonds.

The volume of Eurolira futures traded on LIFFE also rose sharply in 1993; the open interest increased by 575 per cent, while the daily trading volume averaged 5.7 trillion lire, compared with 2.2 trillion between May 1992, when trading began, and December of the same year (Figure 21). Interest rate swaps increased by 155 per cent between the first half of 1992 and the corresponding period of the following year.

Figure 21

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.

Shares

Supply and demand. — Gross share issues on the official market nearly tripled in volume last year, increasing from 3.3 to 9.8 trillion lire, whereas issues by unlisted companies decreased from 17.3 to 16 trillion lire (Table 34). The number of listed companies increased by only four, one of which had graduated from the second market, compared with 5 new listings in 1992. The capitalization of the Milan Stock Exchange increased by 37 per cent to stand at 232 trillion lire at the end of 1993; the number of listed foreign companies increased from three to four and their capitalization rose from 26.6 to 56.4 trillion lire.

Table 34

GROSS SHARE ISSUES

	Billions of lire				Percentage composition			
	1990	1991	1992	1993	1990	1991	1992	1993
Listed companies	**10,778**	**5,844**	**3,347**	**9,789**	***43.5***	***28.0***	***16.2***	***38.0***
State-controlled	2,441	1,208	268	874	*9.9*	*5.8*	*1.3*	*3.4*
Private sector	8,337	4,636	3,079	8,915	*33.6*	*22.2*	*14.9*	*34.6*
Unlisted companies ..	**13,999**	**15,044**	**17,321**	**15,998**	***56.5***	***72.0***	***83.8***	***62.0***
State-controlled	2,959	3,896	4,563	3,974	*11.9*	*18.6*	*22.1*	*15.4*
Private sector	11,040	11,148	12,758	12,024	*44.6*	*53.4*	*61.7*	*46.6*
Total	**24,777**	**20,888**	**20,668**	**25,787**	***100.0***	***100.0***	***100.0***	***100.0***
State-controlled	5,400	5,104	4,831	4,848	*21.8*	*24.4*	*23.4*	*18.8*
Private sector	19,377	15,784	15,837	20,939	*78.2*	*75.6*	*76.6*	*81.2*

Both foreign and domestic demand for shares increased. On the domestic front, there was especially rapid growth in the volume of shares held by investment funds and portfolio management services, which expanded by 82 per cent, or 45 percentage points more than the rise in the Milan Stock Exchange Index.

The response to the privatizations of Credito Italiano, IMI and Banca Commerciale Italiana clearly demonstrated the interest of domestic non-institutional investors in equities; demand for these issues exceeded the number of shares on offer by factors of 5.9, 4.0 and 6.5 respectively.

Foreign investors played a much more prominent role, with their net purchases of listed shares rising from virtually nil in 1992 to 5.8 trillion lire last year, equal to 6 per cent of total net portfolio investment in Italy. Their renewed interest in the Italian market was confirmed by their participation in the Government's privatization programme through portfolio investment, the acquisition of outright control, as in the case of Italgel and Nuovo Pignone, and membership of controlling syndicates, as in Credito Italiano and Banca Commerciale Italiana. The proportion of shares in Credito Italiano and Banca Commerciale allotted to foreign investors amounted to 40 and 30 per cent respectively; in the case of IMI the proportion was 45.7 per cent.

Share prices. — Despite factors peculiar to Italy, such as the financial restructuring of large public and private industrial groups, share prices behaved in much the same way as in the other major European stock markets. The Milan Stock Exchange Index rose by 37 per cent during the year, compared with 33 per cent in France, 41 per cent in Germany and 23 per cent in the United Kingdom, reflecting similarities in cyclical conditions and interest rate trends. Share prices continued to increase in the first four months of 1994, with the stock exchange index rising by 30 per cent.

In the six months ending in March 1994 the prices of shares in companies that have been or are to be privatized rose by 11 percentage points more than the increase in the stock exchange index, thanks to the acquisition of controlling stakes in the market and the restructuring of some of the firms in question.

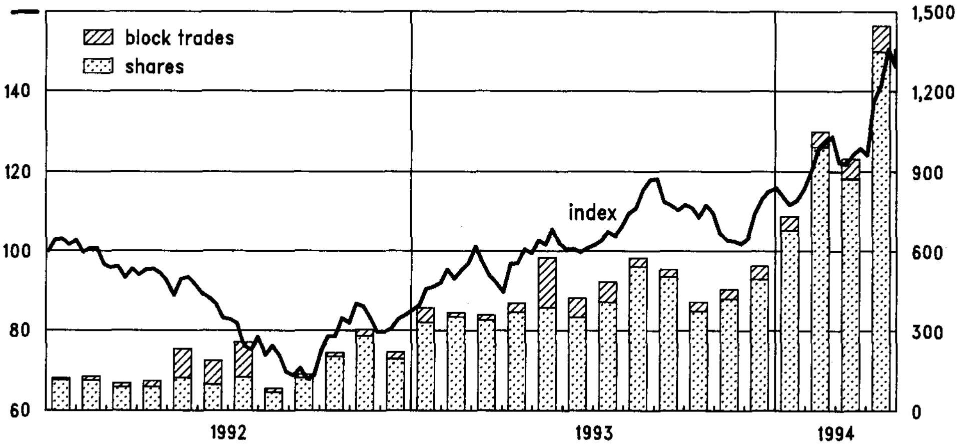
Listed companies reported higher profits following two years of sharp decline. Based on a survey of 130 firms representing 76 per cent of the stock exchange's capitalization and for which earnings information is available, net profits rose by 9.5 per cent in 1993, compared with a fall of 38.4 per cent in 1992. Owing to the sharp increase in share prices, the ratio of their capitalization to net profits rose from 41 to 57.

Market activity. — Turnover on the Milan Stock Exchange tripled in 1993, rising from 34.7 to 103.5 trillion lire, with average daily turnover increasing from 136 to 406 billion lire (Figure 22). The growth continued in the first four months of 1994, taking average daily turnover to 974 billion lire. The number of transactions rose by 2.4 times in 1993 and by 2.6 times between the first four months of 1993 and the same period of this year.

The rise in turnover may have been related to the extension of continuous trading from 39 shares in April 1993 to all listed shares in April 1994 and the revival of foreign interest in the Italian stock market. The improved competitiveness of the stock exchange was reflected in the increase in transactions on the Milan exchange in shares that are also listed on SEAQ; the ratio of the turnover of such securities in London to that in Milan declined from 89 to 62 per cent in 1993.

Figure 22

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



(1) Historical value of the Milan Stock Exchange Index, 31/12/91=100 (left-hand scale); turnover in billions of lire (right-hand scale).

Five-day settlement of trades was introduced for an initial group of 47 shares in January of this year. The results of the first three months of trading appear to indicate that the change from monthly settlement had a positive effect on the volume of transactions in these shares, which increased at a more rapid rate than overall market turnover.

HOUSEHOLDS AND ENTERPRISES

Financial balances were affected by the length and nature of the recession. The decline in investment and the improvement in profitability reduced the financial deficit of firms from 5.0 to 1.2 per cent of GDP (Table 35). Together with increased recourse to the equity market, this enabled firms to stabilize their financial debt in relation to value added. The financial balance of households, including producer households, rose from 10.4 to 12.3 per cent of GDP, reflecting renewed confidence in the performance of the securities markets and the difficulties in the housing sector, while the financial deficit of general government increased from 10.4 to 10.9 per cent of GDP.

Table 35

FINANCIAL BALANCES

	Households	Enterprises	General government (1)	Rest of the world	Remaining sectors (2)	Households	Enterprises	General government (1)	Rest of the world
	(billions of lire)					(as percentage of GDP)			
1990 ...	191,664	–110,608	–134,948	20,378	–33,514	14.6	–8.4	–10.3	1.6
1991 ...	196,044	–83,437	–153,981	29,337	–12,037	13.7	–5.8	–10.8	2.1
1992 ...	155,862	–75,940	–156,046	34,225	–41,909	10.4	–5.0	–10.4	2.3
1993 ...	191,907	–18,959	–170,775	–17,985	–15,812	12.31	–1.2	–10.9	–1.2

Source: *Conti finanziari.*
(1) Consolidated. – (2) Includes credit institutions, insurance companies and unclassified items.

The financial balance and debt of households

The financial surplus of households increased from 155.9 to 191.9 trillion lire as a result of an increase in the flow of financial assets from 182.7 to 208.6 trillion lire and a reduction in that of liabilities from 26.8 to 16.7 trillion lire (Table 36). In evaluating this growth, however, it should be borne in mind that a number of exceptional factors had led to a marked slowdown in the flow of financial assets in the second half of 1992, causing the sector's financial surplus to decline by the equivalent of 1.4 per cent of GDP.

Table 36

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (1)

(billions of lire)

	Stocks		Flows		
	1992	1993	1991	1992	1993
Cash	77,487	81,292	6,237	8,405	3,804
Transferable sight deposits	331,329	349,532	41,877	–801	17,767
Other deposits	553,288	602,834	37,202	45,350	49,292
bank	*342,964*	*372,081*	*17,715*	*31,866*	*28,863*
postal	*136,402*	*149,776*	*12,708*	*9,018*	*13,375*
Short-term securities	350,893	317,744	17,127	57,442	–32,960
Medium and long-term securities	499,538	587,710	72,329	26,921	79,115
government	*414,788*	*465,570*	*53,632*	*21,180*	*50,782*
Investment fund units	60,663	110,093	5,315	732	33,462
Shares and participations	513,043	658,986	9,611	7,624	19,572
External assets (2)	84,825	88,372	16,595	7,416	3,547
Other (3)	243,916	278,936	26,697	29,612	35,021
Total assets	**2,714,983**	**3,075,499**	**232,990**	**182,701**	**208,620**
Short-term loans	116,040	117,406	10,824	6,932	302
banks accepting short-term funds	*111,341*	*112,198*	*10,628*	*6,818*	*–211*
Medium and long-term loans	165,992	171,987	20,189	11,520	5,957
banks accepting short-term funds	*71,320*	*74,501*	*9,431*	*4,788*	*3,087*
banks accepting medium and long-term funds	*77,005*	*81,777*	*9,016*	*7,227*	*4,829*
Other (4)	68,015	78,469	5,933	8,387	10,454
Total liabilities	**350,048**	**367,862**	**36,946**	**26,839**	**16,713**

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.

The recovery in the financial balance last year was accompanied by a marked change in composition. Bank deposits increased by 46.6 trillion lire, compared with 31.1 trillion in 1992, as a result of the recovery in sight deposits after the sharp contraction of the previous year; their rate of growth rose from 4.9 to 7.0 per cent. The flow of postal deposits increased from 9.0 to 13.4 trillion lire. The decline in interest rates, the return to a positively sloped yield curve and the resumption of orderly trading in the securities market after the crisis of 1992 led households to increase their investments in financial instruments. They therefore made net purchases of medium and long-term bonds worth 79.1 trillion lire and investment fund units totaling 33.5 trillion, compared with 26.9 and 0.7 trillion lire respectively in 1992, while making net disposals of short-term paper amounting to 33 trillion lire, compared with net purchases of 57.4 trillion in 1992. Investment in shares and participations amounted to 19.6 trillion lire, more than double the previous year's figure of 7.6 trillion. The demand for pension and life assurance products led to an increase of 14.4 per cent in other financial assets, compared with 13.8 per cent in 1992; this item comprises primarily the technical reserves of insurance companies and pension funds.

The steep decline in purchases of durable goods was reflected in a fall of 10.1 trillion lire in the flow of households' financial liabilities; flows of short-term loans declined more sharply, from 6.9 to 0.3 trillion lire. The ratio of households' debt to disposable income increased from 28.2 to 29.7 per cent, while that for consumer households alone rose from 14.3 to 15.1 per cent.

The financing of enterprises and their liquidity

The abrupt fall in expenditure on fixed capital and stocks and the increase in self-financing enabled firms to reduce their financial deficit from 75.9 to 19 trillion lire. The depreciation of the lira and the smallness of the increase in labour costs allowed firms to widen their profit margins.

The flow of liabilities contracted by one third to 58.1 trillion lire (Table 37). Net of shares, there was an increase of 1.9 per cent, about 6 percentage points less than in 1992.

The high level of debt accumulated in recent years and the restructuring of firms in difficulty led companies to replace short-term loans with longer-term finance and to strengthen their capital base. Net repayments of short-term debt amounting to 16.4 trillion lire (compared with net borrowing of 30.1 trillion lire in 1992) were thus partially offset by an increase in medium and long-term borrowing from 21.3 to 26.7 trillion lire, the growth rate of which accelerated from 10.0 to 11.2 per cent. Fund-raising in the domestic equity market, which was encouraged partly by the rise in share prices, amounted to 31.6 trillion lire, almost three times the total for 1992 (10.7 trillion lire).

The sharp reduction in the flow of external liabilities, from 12.6 to 6.3 trillion lire, was due entirely to the change in foreign loans, which switched from net borrowing of 7.2 trillion lire in 1992 to net repayments of 3.7 trillion, while purchases of shares by non-residents more than doubled, from 3.6 to 8.5 trillion lire.

Table 37

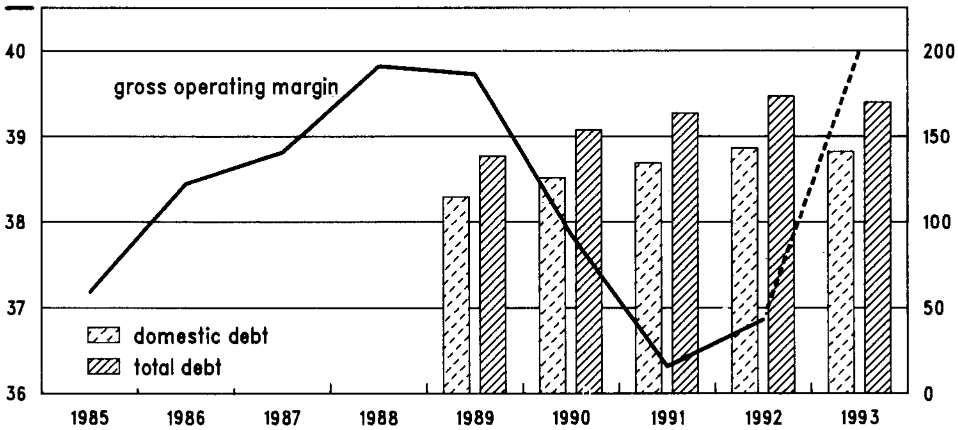
FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES (1)
(billions of lire)

	Stocks		Flows		
	1992	1993	1991	1992	1993
Cash	7,979	8,370	645	873	391
Transferable sight deposits	84,001	91,639	2,866	–356	7,183
bank	*74,628*	*83,117*	*3,707*	*–2,803*	*8,033*
Other deposits	4,219	5,371	225	707	1,117
bank	*2,934*	*3,934*	*68*	*517*	*965*
Short-term securities	4,499	4,141	–433	790	–357
Medium and long-term securities	49,975	53,985	6,707	–10,378	3,436
government	*43,744*	*45,396*	*5,799*	*–9,861*	*1,653*
Shares and participations	230,785	239,295	3,664	3,553	8,804
External assets	118,046	134,249	15,283	10,954	15,986
Other (2)	16,836	19,384	939	1,596	2,547
Total assets	**516,339**	**556,434**	**29,896**	**7,741**	**39,107**
Domestic liabilities	**1,391,435**	**1,497,280**	**93,439**	**71,039**	**51,789**
Short-term loans (3)	403,682	396,372	33,028	30,062	–16,356
banks accepting short-term funds (4)	*355,010*	*351,933*	*34,086*	*29,737*	*–12,007*
banks accepting medium and long-term funds	*20,468*	*17,261*	*–2,225*	*–2,328*	*–3,323*
Medium and long-term loans (5)	238,518	268,385	31,425	21,255	26,747
banks accepting short-term funds (4)	*18,547*	*25,357*	*3,964*	*1,956*	*5,305*
banks accepting medium and long-term funds	*167,228*	*184,686*	*21,333*	*17,698*	*15,843*
Bonds	41,420	35,484	1,241	–526	–5,953
Shares and participations	605,181	678,655	17,970	10,697	31,613
Other	102,634	118,383	9,775	9,551	15,738
External liabilities	**190,546**	**215,901**	**19,894**	**12,641**	**6,276**
Net trade credits	35,672	36,376	–506	1,161	704
Foreign loans	99,347	96,825	10,930	7,203	–3,740
Bonds	10,611	11,355	1,918	630	730
Shares and participations	44,916	71,345	7,552	3,647	8,582
Total liabilities	**1,581,981**	**1,713,181**	**113,333**	**83,681**	**58,065**

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.

Figure 23

CORPORATE DEBT AND GROSS OPERATING MARGINS AS A PERCENTAGE OF VALUE ADDED (1)

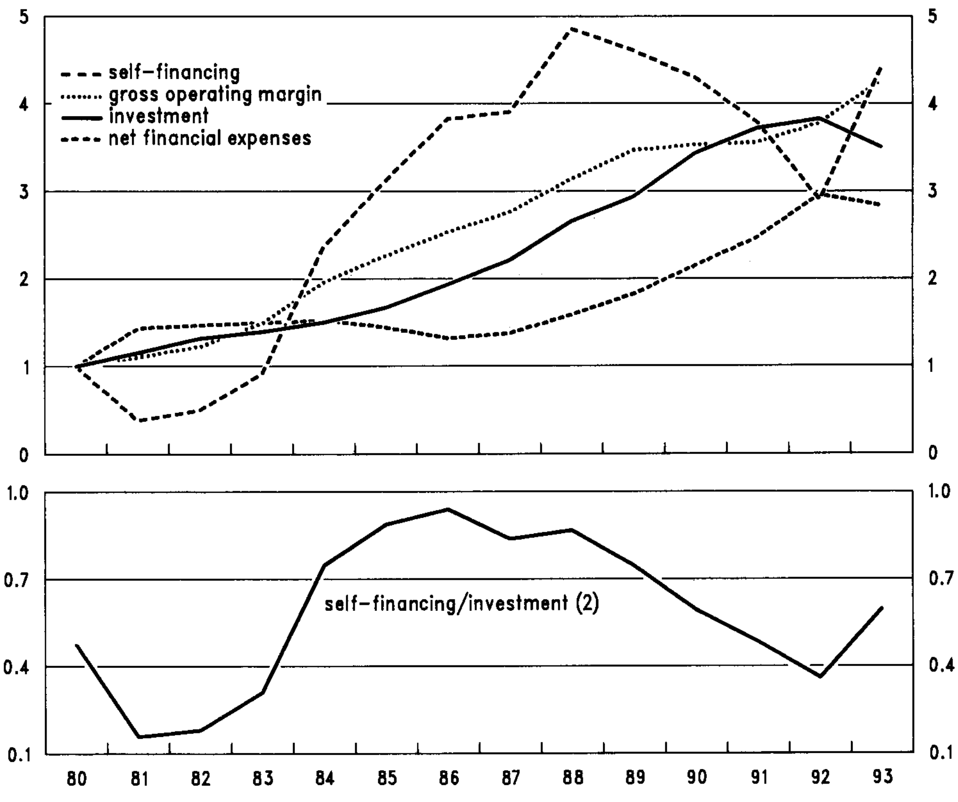


(1) Estimates based on Istat and Bank of Italy data. Domestic debt consists of bank loans and corporate bonds. Total debt includes finance from non-resident banks in the form of loans and non-share portfolio investment.

Figure 24

THE BORROWING REQUIREMENT OF FIRMS *(1)*

(1980=1)



(1) Estimates based on Istat and Bank of Italy data. – (2) Ratio of self-financing to gross fixed investment in billions of lire.

With economic activity and investment stagnating, the improvement in profit margins encouraged firms to increase their holdings of financial assets. As in the case of households, the increase occurred mainly in bank deposits and medium and long-term securities; their bank deposits grew by 9.6 trillion lire, whereas in 1992 they had contracted by 2.3 trillion, and they purchased medium and long-term securities worth 3.4 trillion lire, contrasting with substantial sales in 1992.

The estimates for last year indicate that gross profit margins increased by more than in 1992. The rise of 3 percentage points in gross operating margins to 40.0 per cent (Figure 23) and the decline in net financial expenses from 15.9 to 14.7 per cent of value added were reflected in an increase in self-financing and a rise in the proportion of total investment financed internally (Figure 24).

The ratio of financial debt to value added fell slightly last year to 162.7 per cent, compared with 166.1 per cent in 1992.

The development of the financial system

By international standards, Italy's financial system is small in relation to the real economy, with ample scope for the growth and consolidation of existing financial markets and the creation of new ones.

Table 38

FINANCIAL INTERRELATIONS RATIOS IN THE LEADING INDUSTRIAL COUNTRIES

	Total economy					Households			
	1965	1978	1989	1991	1992	1977 (1)	1989	1991	1992
Italy (2)	0.85	1.04	0.87	0.89	0.88	0.32	0.61	0.62	0.58
France	1.24	0.83	1.16	1.04	1.03	0.37	0.49	0.44	0.43
Germany	0.92	0.89	1.04	1.07	....	0.45	0.48	0.48	....
United Kingdom .	1.50	1.11	1.68	1.80	2.13	0.90	0.71	0.79	0.92
United States ...	1.28	0.99	1.28	1.43	....	1.25	1.30	1.36	....
Japan	0.81	1.02	1.10	1.05	1.09	0.54	0.58	0.60	0.64

(1) Data for France relate to 1976, for the United Kingdom and the United States to 1975. – (2) For Italy the data on households do not include sole proprietorships.

At the end of 1991 the financial interrelations ratio (FIR), which is the ratio of the total stock of financial assets to real wealth, was 0.9 for Italy, compared with around 1 for Germany, France and Japan and about 2 for the United Kingdom and United States (Table 38). Italy's lower "financial intensity" by comparison with the latter two economies can be explained partly by Italian households' preference for real rather than financial assets. This may owe something to the lesser role played in Italy by non-bank intermediaries such as investment funds, insurance companies, pension funds and financial enterprises. The propensity to hold financial assets would increase if the financial system offered a wider range of investment opportunities.

FIR rates have remained comparatively stable over the last thirty years in all countries except Japan and the United Kingdom, suggesting that no further convergence has taken place since the sixties.

The shift in households' preferences from real to financial assets in the last ten years appears to have been associated with the growth in the public debt, the reduction of inflation from the high rates that prevailed in the seventies and early eighties, and the increase in real interest rates.

In 1991, the last year for which comparable data are available, fixed rate securities accounted for about one quarter of the gross value of financial instruments in Italy, similar to the figure for the United States but much higher than those for France (12.4 per cent) and Germany (15.3 per cent); the figures for Japan and the United Kingdom were even lower, at 8.2 and 5.2 per cent respectively. Deposits represented just under 30 per cent of the total in five of the countries considered, including Italy, and only 13.9 per cent in the United States. The proportion in the form of loans, most of which were granted by financial institutions, was about 25 per cent in Italy, France and the United States, whereas in Germany and Japan it exceeded 30 per cent. The percentage of shares and participations was higher in France, at 34.3 per cent, but broadly similar in four of the other countries, at around 18 per cent, with Germany recording the lowest value (10.5 per cent).

THE PAYMENT SYSTEM

The recession caused an appreciable slowdown of the growth in the use of both cash and cashless payment instruments. Large-value interbank payments via the Bank of Italy's clearing and settlement systems nonetheless continued to increase rapidly, rising by 34.5 per cent to a value 28 times that of GDP.

The Bank of Italy has drawn up a comprehensive plan for reform of the interbank settlement systems in order to raise security and efficiency, exploit the opportunities presented by new technology and improve the services provided to final users. The plan will operate on two fronts; first, to improve the security of clearing operations, and secondly to develop the system for the real-time gross settlement of payments via accounts at the Bank of Italy. These measures, which accord with the guidelines set by the Committee of central bank governors of the EC countries, will foster a more balanced relationship between the gross settlement and clearing systems and raise overall efficiency. Under Article 146 of the codified Banking Law, the Bank of Italy has responsibility not only for ensuring the proper functioning of networks, procedures and instruments but also for the supervision of the payment system for the purpose of containing risk. The same Article authorizes the Bank to issue regulations to ensure the efficiency and stability of clearing and settlement systems.

The volume of securities handled by the clearing system increased by about 130 per cent last year, owing largely to the good performance of the financial market. Another contributory factor was the extension of screen-based trading to all shares, thereby making price formation more transparent, improving the working of the market and raising competitiveness. The most significant measure with regard to risk limitation was the introduction of five-day settlement for an initial group of shares in which turnover is low.

As regards system infrastructure, the basic architecture of the national interbank network was completed.

Initiatives to enhance the quality and security of payment services provided to final users were launched in cooperation with the Italian Bankers' Association within the framework of the Interbank Convention on

Automation (CIPA). The Observatory on the payment system set up by the Italian Bankers' Association and the Bank of Italy in January 1993 as a forum for the joint examination of the needs of businesses in the field of bank payment services also made a significant contribution in this regard.

The new interbank agreement promoted by the Italian Bankers' Association, which enables banks to credit inpayments to customers' accounts more quickly, came into force in July 1993.

International cooperation

Cooperation between the central banks of European Union countries continued within the Working Group on EC Payment Systems, which drew up five reports aimed at implementing the guidelines adopted by the central banks within the Committee of Governors. The first Report, covering cooperation between member countries in the oversight of payment systems, was referred to in last year's Annual Report. The second, which was approved in September 1993, deals with the minimum common features that domestic systems for large-value interbank payments must have in order to ensure the orderly transfer of funds within the Single Market and avoid competitive distortions. The document lays down ten principles concerning critical aspects that need to be harmonized, including regulations for system access, risk control measures, legal issues, technical features, pricing policies and the operating hours of the settlement services provided by the central banks.

The third Report deals with the creation of a settlement system geared to the needs of the third stage of Monetary Union. It states that a single payment system based on gross settlement and managed by the European System of Central Banks (ESCB) will be indispensable for the implementation of a common monetary policy and the smooth transfer of funds between member countries. In line with the principle of operational decentralization adopted for the ESCB, the new settlement network will be created by interlinking the domestic systems on a gross basis. In the fourth and fifth Reports the Working Group informed the Committee of Governors of the results of the oversight of the ecu clearing and settlement system and, in conjunction with the Ecu Banking Association and the BIS, defined a series of measures to increase the stability of the system by monitoring intraday exposures, reviewing access criteria and introducing new mechanisms for the management of collateral.

The European Commission also launched initiatives with regard to European payment systems, focusing on the efficiency of services and the protection of consumers involved in retail payments. In addition, it supported the proposed centralized exchange of information on cross-border low-value payments (the ACH project).

Cooperation among the central banks of the Group of Ten countries also produced significant results last year. The Working Group on "delivery versus payment" mechanisms addressed the issues associated with the settlement of cross-border securities transactions in order to examine the monetary policy implications of the growth of international trading and the concentration of settlement functions. At the same time the Committee on Payment and Settlement Systems published a Report entitled "Central Bank Payment and Settlement Services with respect to Cross-Border and Multi-Currency Transactions".

Retail payment instruments and services

Cashless payments increased in value by only 2 per cent in 1993, compared with 5 per cent in 1992; the overall number of payments remained stable, although there was a shift in composition. The number of cheques and collection orders declined by 8 and 2 per cent respectively, while transactions carried out by means of bank and postal payment orders increased. Payment card transactions grew by 9 per cent, an appreciable slowdown in comparison with previous years.

The use of cash. — Notes and coin in circulation grew by 4.8 per cent, compared with 12.1 per cent the previous year. The slowdown reflected not only the weakness of economic activity but also an easing of the uncertainty that had led to a substantial increase in the demand for cash at the end of 1992.

Bank payment instruments and payment cards. — Payments made via the banking system declined by 4.2 per cent in number, while remaining more or less unchanged in value. There was a shift in their composition towards payment and collection orders and transactions via POS terminals (Table 39).

The number of personal cheques and bankers' drafts declined by 8 per cent, while the value of such payments fell by 4.6 per cent.

Almost all personal cheques and bankers' drafts are now exchanged via the clearing houses or are truncated; progress in this direction was facilitated by the new interbank agreement promoted by ABI in July 1993, which requires member banks to adopt these procedures for all cheques. The new practices allow improved control of negotiation risk and enable banks to credit funds to their customers more quickly. In April of this year the banks began to notify customers of the value dating terms for cheques paid in to their accounts and for direct debits.

Table 39

BANK PAYMENT INSTRUMENTS IN 1993 (1)

	Number				Value			
	Thousands	% composition	Percentage change		Billions of lire	% composition	Percentage change	
			1992/1991	1993/1992			1992/1991	1993/1992
Cheques	**582,726**	**57.7**	**–2.1**	**–8.0**	**1,799,811**	**27.0**	**2.7**	**–4.6**
Personal cheques (2)	412,098	40.8	0.1	–7.1	1,276,955	19.2	3.2	–5.9
Bankers' drafts	170,628	16.9	–6.7	–10.1	522,856	7.8	1.5	–1.3
Payment and collection orders	**427,568**	**42.3**	**7.3**	**1.6**	**4,868,328**	**73.0**	**5.2**	**2.4**
Payment orders (3)	177,527	17.5	6.6	3.3	4,323,708	64.8	5.3	2.7
of which:								
paperless	*51,952*	*5.1*	*12.7*	*6.5*	*126,147*	*1.9*	*20.5*	*6.9*
Collection orders	232,267	23.0	6.2	–1.8	541,222	8.1	7.0	–0.1
of which:								
paperless	*173,133*	*17.1*	*14.1*	*5.2*	354,493	*5.3*	*17.4*	*9.6*
Direct debits .	73,227	7.2	19.8	6.1	89,095	1.3	23.2	20.8
Riba and Mav	99,906	9.9	10.4	4.4	265,398	4.0	15.8	6.3
Transactions at POS terminals	17,774	1.8	48.8	40.2	3,398	0.1	46.3	34.5
Total ...	**1,010,294**	**100.0**	**1.5**	**–4.2**	**6,668,139**	**100.0**	**4.6**	**0.4**

(1) Based on a sample of banks that account for about 80 per cent of bank current 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 bankers' drafts) and debits and credits to customers' accounts in connection with securities transactions, amounting to respectively 2,500 and 2,300 trillion lire.

The number of payment cards in issue rose by 5.3 per cent, compared with 15.1 per cent in 1992, to a total of 17 million. Payment operations increased by 9 per cent in number and by 9.5 per cent in value, a substantially slower rate of growth than in 1992. Transactions via POS terminals showed the fastest increase, rising by 40.2 per cent. Nevertheless, the use of payment cards continues to be more limited in Italy than in most other countries.

Credit transfers rose by 3.3 per cent in number and by 2.7 per cent in value, while the number of collection orders declined slightly. The share of paperless transfers continued to grow, rising from 53 to 55 per cent of the total. Work on the design and development of new interbank procedures for handling credit transfers and direct debits continued, with a view to improving the overall efficiency of the payment system.

One of the important objectives of the activities of the Bank of Italy, ABI and CIPA in the payments field was to measure the efficiency of banking services and ensure that the benefits deriving from the new procedures were being passed on to customers. The studies they commissioned revealed, among other things, that the conditions for the supply of banking services were far from transparent and still heavily influenced by value dating and that the level of product promotion is inadequate.

Postal payment instruments. — Postal payments, which tend to be recurrent transactions, increased by 5.4 per cent in number and 13.9 per cent in value; part of the growth reflected payments in connection with new taxes.

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 34.5 per cent last year to more than 43,000 trillion lire (Table 40). As a result of the reform of the payment system in 1989, payments settled via the central bank have increased from 6 to 28 times GDP; however, this is still below the average for EU member countries, which was 32 times GDP in 1992.

The growth recorded in 1993 was due entirely to payments passing through the clearing systems, particularly the sub-systems handling large-value transactions; by contrast, payments settled directly via banks' centralized accounts with the Bank of Italy declined slightly.

Table 40

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

	Clearing (1)		Settlement on centralized accounts with the central bank (2) *(b)*	Total transactions settled in central bank money *(a+b)* / GDP
	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
1993	40,475.9	2,725.8	2,625.8	27.6

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 intrabank transfers.

Measured in terms of liabilities on banks' correspondent accounts, the value of interbank payments settled on a bilateral basis remained broadly unchanged.

The clearing system. — Thanks to the growth in the volume of wholesale operations via the SIPS and electronic memoranda procedures, the value of payment items handled by the clearing systems amounted to 40,500 trillion lire last year, an increase of 39.3 per cent over 1992 (Table 41). At the retail level, the completion of connections to the direct debits procedure doubled the total value of operations handled by this sub-system.

Table 41

FLOW OF FUNDS THROUGH THE CLEARING SYSTEM
(amounts in trillions of lire)

	Local clearing	Retail system (1)	Wholesale system		Total flows *(a)*	Multilateral balances (4) *(b)*	Balances/ Total flows *(b/a)*.100
			Memoranda (2)	SIPS (3)			
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
1993	4,622.3	492.3	17,067.6	18,293.7	40,475.9	2,724.8	6.7
1993 – 1st qtr. ..	1,192.6	67.2	3,848.1	3,286.4	8,394.3	677.4	8.1
2nd "	1,144.4	98.0	4,040.3	3,998.6	9,281.3	609.5	6.6
3rd "	1,109.5	161.1	4,415.6	5,123.8	10,810.0	752.0	7.0
4th "	1,175.8	166.0	4,763.6	5,884.9	11,990.3	685.9	5.7
1994 – 1st qtr. ..	1,107.3	165.0	4,917.3	6,728.2	12,917.8	728.3	5.6

Source: Interbank Company for Automation (SIA) and Bank of Italy.
(1) The Bancomat procedure was initiated on 29 November 1989, cheque truncation on 26 March 1990 and direct debits on 14 September 1992. – (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.

The number of direct participants in the clearing system remained unchanged at about 300, although membership of SIPS increased slightly to 115 on 31 March 1994.

Although total flows increased substantially, the final balances settled on banks' centralized accounts with the Bank of Italy were almost the same as in 1992. The steady decline in the ratio of balances to total flows reflects increased efficiency in the banking system's use of central bank money.

Centralized reserve and advance accounts. — The volume of payments settled via centralized accounts at the Bank of Italy decreased by 2.1 per cent last year to 5,300 trillion lire. The decline was due to a fall in the number of intrabank transfers, which in 1992 had been used chiefly to extinguish fixed-term advances.

The raising of the proportion of compulsory reserves that can be mobilized from 5 to 7 per cent in February 1993 was reflected in a slight increase in the utilization rate compared with the previous period.

Balances arising from domestic clearing operations failed to be settled via centralized accounts on 204 occasions last year, less than a quarter of the number in 1992. The average delay in covering defaults was around 20 minutes, similar to that recorded the previous year. In order to encourage banks to reduce the delay, at the end of December the Bank of Italy introduced a rising scale of penalties for failure to cover balances on the interbank network; in particular, it raised the penalty for delays exceeding thirty minutes.

Limiting financial risk. — The reform of the payment system implemented in 1989 has altered the nature of the risks to which banks are exposed. The replacement of bilateral settlement via banks' correspondent accounts by multilateral clearing has reduced counterparty risk, but at the same time it has increased systemic risk stemming from the possible knock-on effects of the failure of a participant to settle at the end of the day.

The strengthening of security requirements for the clearing system will be undertaken gradually, since the launch of the new gross settlement system will reduce the importance of the clearing system. Possible measures in this regard could include: all-day monitoring of each participant's bilateral and multilateral exposures, particularly in the sub-systems for large-value payments; the introduction of "warning thresholds" for the maximum multilateral debit positions of individual participants and the depositing of initial collateral in proportion to the threshold; and measures to ensure compliance with self-regulatory rules governing risks arising in the screen-based interbank deposit market.

The plan to develop a gross settlement system envisages: increased intraday utilization of compulsory reserves, so that virtually all banks subject to the requirement would be able to meet their liquidity needs without incurring excessive costs; an intraday overdraft facility collateralized by securities, intended to meet residual requirements; the establishment of a queuing system for payments that cannot be met immediately; bringing forward central bank payments to the banking system to the beginning of the working day; a comprehensive state-of-the-art information system to supply data on balances in reserve accounts and payments awaiting settlement. In order to ensure that the new system functions properly, penalties will be applied to discourage banks from failing to repay intraday funds from the Bank of Italy.

Clearing and settlement of securities transactions

Securities settlement. — The volume of securities handled by the clearing houses rose by about 130 per cent last year to 9 trillion lire, reflecting the healthy performance of the various segments of the financial market. Settlements of government securities and shares rose in equal measure, so that the composition of the aggregate remained unchanged, with government paper accounting for 96.9 per cent of the total, shares for 2.5 per cent and bonds for 0.6 per cent.

There was a marked change in the distribution of settlements according to type of investor. The substantial rise in the proportion of securities transactions involving banks and securities firms was matched by a decline in the share involving brokers, which was less than half the 1992 figure.

The centralized management of government securities. — At the end of 1993 the volume of government securities centralized in accounts with the Bank of Italy rose slightly to 1,400 trillion lire, equal to more than 98 per cent of the total in circulation.

The growing interest in Italian government securities on the part of foreign investors caused the volume held at the Bank of Italy by Cedel and Euroclear on behalf of non-residents to rise from 6 trillion lire in 1992 to 20.8 trillion at the end of last year.

The daily volume of transactions settled on centralized securities accounts averaged 31.7 trillion lire at nominal value, more than double the figure for 1992, owing partly to the large increase in trading in unregulated markets.

Monte Titoli S.p.A. — The technical and organizational measures to strengthen the structure of the securities market gave fresh impetus to the centralization of securities at Monte Titoli last year.

At the end of 1993 the nominal value of all securities deposited with Monte Titoli was about 116 trillion lire, a rise of more than 11 per cent compared with 1992, while that of centralized shares amounted to 34.4 trillion lire, or 51 per cent of total listed shares, compared with 44 per cent in 1992.

Reforms in progress. — The authorities, intermediaries and bodies responsible for the operation of the market continued to implement the strategy laid down in previous years, which is aimed at increasing the efficiency of settlement and trading procedures and reducing settlement risk.

To this end, trading on the screen-based market was progressively extended to all shares, warrants and convertible bonds, an operation that was launched in the second half of 1993 and completed in April 1994.

The most significant innovation with regard to risk control was the adoption of five-day rolling settlement for transactions in shares. The shortening of the interval between trading and settlement is one means of containing financial risk. However, since it does not entirely eliminate the possibility of insolvency, the introduction of rolling settlement was accompanied by the establishment of a guarantee fund managed by the Clearing and Guarantee House to ensure the settlement of operations.

The creation of the guarantee fund widens the responsibilities of the Clearing and Guarantee House; by virtue of the role assigned to it by the Law on securities firms, it is the linchpin of the guarantee systems for the various segments of the securities market, which are designed to protect dealers against counterparty risk and to ensure continuity of the settlement procedures.

It is important for the further development of the securities market that the search for greater efficiency continues to be accompanied by measures to counter settlement risk, which must be introduced gradually in view of the complexity of the issues involved. In the short term the existing settlement procedures will be improved by establishing further guarantee mechanisms that take account of the characteristics of the various markets in which securities are traded. At a later stage a gross settlement system will be created as part of the gradual process of bringing market structures into line with those in other countries.

SUPERVISORY ACTIVITY

The legislative framework

The 1993 Banking Law. — The 1993 Banking Law, consisting of 162 articles divided into nine titles, replaces some 1,400 earlier provisions; it completes the enactment of the institutional, operational and maturity despecialization of the Italian banking system and ensures the consistency of supervisory controls and intermediaries' range of operations with the single market framework.

The Law establishes general principles and assigns powers, while referring matters of technical detail to secondary legislation. It has accordingly been accompanied by a large body of implementing regulations.

The new code states the objectives to be pursued by the credit authorities, directing them to exercise their powers having regard to the sound and prudent management of the institutions subject to supervision, to the overall stability, efficiency and competitiveness of the financial system and to compliance with the provisions concerning credit. Supervisory activity is to be carried out in harmony with the provisions of the European Union.

The Law embodies the traditional concept of banking as accepting funds from the public and granting credit; confirms the general restriction of fund-raising on a public basis to banks, while permitting non-banks to raise funds directly from the public subject to set rules and limits; and reaffirms the entrepreneurial nature of banking by establishing the limited company as the standard legal form.

The objective nature of the requirements for authorization to engage in banking is confirmed and the procedure simplified, with a single order replacing the two authorizations formerly needed (to set up a bank and to commence activity).

EU banks may operate in Italy subject to mutual recognition. The establishment of a non-EU bank's first branch in Italy must be authorized by a decree of the Minister of the Treasury, in agreement with the Minister for Foreign Affairs, after consulting the Bank of Italy.

The opening of branches of Italian banks is liberalized, although the Bank of Italy retains the power to veto branch openings for reasons pertaining to individual banks' organizational structure or financial situation.

The rules governing equity interests in banks are based on two fundamental principles: first, separation between banks and non-financial firms, aimed at safeguarding banks' independence in assessing credit-worthiness; and second, sound and prudent management, taken over from the Second Banking Directive as a criterion for authorization by the Bank of Italy.

The implementing regulations regarding both medium and long-term lending and fund-raising by way of securities have been issued. Banks may now offer their customers support in a variety of markets, using the most appropriate funding instruments and financing techniques. However, in view of the financial imbalances that may be created by joint management of assets and liabilities of differing maturities and entry into certain sectors of activity, such as medium and long-term credit to enterprises, these matters are regulated.

On the liabilities side, the regulations permit banks to issue bonds, certificates of deposit and savings certificates; for the sake of trasparency in customer relationships, minimum standard features for these instruments have been set. Standardization does not preclude instruments with different features, provided they are distinguished by a different name.

The Banking Law assigns supervisory regulation jointly to the Interministerial Committee for Credit and Savings and the Bank of Italy. The supervisory arrangements are compatible with institutional, operational and maturity despecialization and reflect the banks' right to choose the group or universal bank model or an intermediate solution. The scope of regulation includes not only capital adequacy, risk concentration and permissible holdings, but also banks' organization and internal controls.

Banks may acquire interests in non-financial undertakings. "Specialized" banks — that is so say leading institutions whose liabilities structure is particularly stable and whose bylaws preclude the acceptance of sight deposits — may avail themselves of this option within the limits laid down by the Second Banking Directive.

The new regulations on risk concentration implement EEC Directive 92/121 of 21 December 1992, reaffirming the validity of prudential rules to prevent excessive concentration of risk and limit the total amount of large exposures.

The transposition of European Union legislation has enriched the battery of instruments at the disposal of the supervisory authorities for the prevention of crisis situations. The Bank of Italy is empowered to order the closure of branches or prohibit new transactions for violation of laws, administrative provisions or bylaws, for management irregularities or, in the case of branches of non-EU banks, for insufficiency of funds.

The Banking Law also provides a comprehensive framework disciplining financial intermediaries and establishing the model of supervision to which they are subject. The pursuit of financial activity on a public basis is restricted to financial intermediaries, defined as persons that engage in the activities of acquiring holdings, granting loans in whatever form, providing money transmission services or trading in foreign exchange.

The new legislation establishes the system of public control of securities issues and offers, for the purpose of ensuring the stability of the market. In accordance with criteria fixed by the Interministerial Committee for Credit and Savings in relation to the amount and characteristics of the securities involved, the Bank of Italy may defer or prohibit issues exceeding a limit that it shall establish, which must in any case be greater than 10 billion lire. Government securities, securities investment fund units and now shares too are exempted from these controls.

Closed-end securities investment funds. — Law 344 of 14 August 1993 introduced closed-end securities investment funds in Italy, with the aim of fostering the flow of risk capital to unlisted companies. A substantial portion of such funds' resources must be invested in unlisted equity securities and related convertible bonds or bonds with warrants. Early this year the Treasury Minister and the Bank of Italy issued the implementing measures provided for in the Law.

Closed-end real estate investment funds. —Real estate investment funds were added to the ranks of collective investment undertakings in Italy by Law 86 of 25 January 1994. The resources of each fund must be invested in real estate, real rights to such property and, up to a maximum of 50 per cent, controlling interests in unlisted companies that engage exclusively in real estate business.

The structure of the financial system

Banking groups and banks. — At 31 December 1993 the Italian banking system consisted of 91 banking groups — comprising 197 banks (145 of them Italian) and 594 other companies — and 892 solo banks. The total of 1,037 Italian-registered banks represented a decline of 36, as 23 new banks opened and 59 closed during the year (Table 42).

Many though not all of the larger banks, which in the last decade had adopted the group structure, are now tending to merge their subsidiaries into the bank proper. This effort to realize the organizational model that best corresponds to strategic objectives has been accompanied by intense repositioning in the market through mergers, amalgamations and acquisitions of substantial interests.

Table 42

THE ITALIAN BANKING SYSTEM

	At end-1992		Changes in 1993		At end-1993	
			Banks			
	No. of banks	No. of branches in Italy	New	Closed	No. of banks	No. of branches in Italy
Limited company banks accepting short-term funds (1)	177	14,769	4	–7	174	15,826
Limited company banks accepting medium and long-term funds (2) .	49	120	1	–4	46	124
Cooperative banks (*banche popolari*)	102	3,866	2	–4	100	3,896
Mutual banks (*banche di credito cooperativo*)	700	2,093	14	–43	671	2,226
Central credit institutions	5	9	–	–	5	11
Branches of foreign banks	40	52	2	–1	41	50
Total	**1,073**	**20,909**	**23**	**–59**	**1,037**	**22,133**

(1) The item includes Monte dei Paschi di Siena. – (2) The item includes the former special credit institutions which retain public-law status.

The shareholder base of the former public-law banks that have been converted into limited companies continued to broaden in 1993. Of the 77 savings banks, all of them now limited companies, only 23 are still wholly owned by their respective foundations.

Investors' interest in the banking industry was fully evident on the occasion of the privatization of three large institutions. The public offers for the sale of Credito Italiano, IMI and B anca Commerciale Italiana drew applications for 8.8 billion shares, compared with the 1.6 billion offered. The proceeds amounted to 6.87 trillion lire, equivalent to roughly one third of total net share issues in 1993.

Eight more public-law banks were turned into limited companies in 1993 and the first few months of 1994. Now only three former special credit institutions and Monte dei Paschi di Siena still have public-law status.

At the end of 1993 there were 22,133 bank branches in Italy; the supervisory authorities approved the opening of around 1,200 bank branches during the year after assessing the compatibility of the expansion with the respective banks' self-financing and capital adequacy.

Italian banks' foreign branches and banking subsidiaries numbered 170 at the end of 1993, two fewer than a year earlier, and included 61 branches and 28 subsidiaries in the European Union. There were 50 foreign bank branches in Italy: 23 branches of EU banks, 21 branches of banks based in non-EU Group of Ten countries and 6 branches of banks based in other countries. In addition, 9 banking subsidiaries of foreign banks were operating, including 2 of banks from outside both the EU and the G-10.

The application of home-country control eliminated the operating constraints related to supervisory capital and thus favoured the expansion of lending by the Italian branches of EU banks, which grew by 60 per cent last year, or more than 5.5 trillion lire.

Investment funds. — There were 57 registered investment fund management companies at the end of 1993, compared with 60 a year earlier; the 52 companies that were operational managed a total of 292 funds, including 118 share-based funds, 58 mixed funds and 116 bond-based and money market funds. During the year 96 new funds were authorized, of which 72 are specialized in foreign investment.

Securities firms and trust companies. — At the end of 1993 there were 267 registered securities firms, of which 238 were operational; the number of firms increased by 33 during the year, with 66 new registrations and 33 closures. There were 59 registered trust companies, of which 54 were operational; during the year 4 new trust companies were registered while 15 were closed. The changes in registrations indicate that the sector is still in flux two years after the entry into force of Law 1/1991. The adjustment process is also proceeding via the reorganization of operations: 14 securities firms have relinquished authorizations they had been granted, while 30 have expanded their range of activity.

Financial intermediaries. — At 20 May 1994, the special register of financial intermediaries subject to supervision by the Bank of Italy listed 242 companies. Nearly all (226) engage in the granting of finance, including leasing, factoring, consumer and mortgage credit, while 8 carry on merchant banking activity and 8 issue and manage credit cards.

The state of the banking industry

Credit risk. — The quality of Italian banks' loan portfolios deteriorated markedly in the course of the year. Bad debts rose to 67 trillion lire, or by 27.6 per cent compared with 16.8 per cent in 1992, and grew from 5 to around 6 per cent of total loans. In addition, non-performing loans increased to more than 54 trillion lire, partly on account of banks' greater rigour in recognizing transactions with firms in temporary difficulty. The ratio of bad debts to both total loans and banks' capital was similar to the figures recorded during previous recessions.

Country risk. — In 1993 Italian banks' loan disbursements to non-OECD countries, which are generally riskier, increased by 13 per cent at current exchange rates; more than half of the growth was attributable to exchange rate variations. The stock of such loans not guaranteed by OECD countries or residents, and hence subject to special supervisory provisions, rose to 13.4 trillion lire at the end of the year.

In June new, more detailed rules went into effect concerning prudential value adjustments for country risk to be deducted from supervisory capital; these rules are closer to the standards applied by the other leading industrial countries. The amount of such adjustments rose from about 3.7 trillion lire at the end of 1992 to 4.5 trillion at the end of last year.

Maturity transformation and market risks. — The banking risk inherent in maturity mismatching did not change significantly compared with 1992. Liabilities with residual maturity of more than 18 months increased by 14 per cent and the corresponding assets by 12 per cent. According to standard international methodology based on misalignment between the interest rate revision dates on banks' assets and liabilities, the banking system's exposure to interest rate risk was 4.2 per cent of supervisory capital. This figure indicates the losses the banks would incur if interest rates rose by 1 percentage point.

Italian banks' exposure to exchange risk also remained broadly unchanged in 1993. On the assumption that 8 per cent of such risk must be backed by own funds, in line with an international agreement whose application is imminent, this exposure would take up about 3.5 trillion lire of own funds or 2 per cent of the banks' supervisory capital.

Capital adequacy. — In facing a period of difficult economic conditions, Italian banks were sustained by solid capital bases, which were further strengthened last year as a result of banks' recourse to the capital market, operating profit and the increase in low-risk assets.

The consolidated solvency ratio for the Italian banking system was 10.9 per cent at the end of 1992, slightly above the European Union average of 10.6 per cent and well above the minimum requirement of 8 per cent. Moreover, among Italian banking groups the weight of the higher quality core capital components was substantial: 9 per cent of total risk assets and 84 per cent of capital as defined for supervisory purposes.

On a non-consolidated basis, the average solvency coefficient of the Italian banking system at the end of 1993 was 12.5 per cent, nearly one point higher than at the end of 1992. As a group, Italian banks thus had excess capital of 59.8 trillion lire with respect to the minimum requirements, compared with 49.8 trillion at the end of 1992; fifteen banks recorded capital shortfalls totaling 400 billion lire.

Valued using the data from February 1994 in order to incorporate the provisional annual accounts for 1993, the supervisory capital of the Italian banking system increased last year by 6.4 per cent, or 10 trillion lire, to 166.2 trillion lire. Self-financing contributed 1.6 trillion lire of the increase, 2 trillion less than in 1992 despite a substantial improvement in operating profit.

Securities market intermediaries

Investment fund management companies. — The improvement in investment funds' net fund-raising and portfolio performance was reflected in the results of the management companies. Gross operating profit, before allocations to provisions, depreciation and year-end accounting adjustments in general, amounted to some 270 billion lire, 65 per cent more than in 1992. The companies' gross operating profit rose from 23 to 38 per cent of own funds net of retained profits for 1993.

Securities firms and trust companies. — Italian securities firms' results improved significantly in 1993 thanks to the growth in their volume of business and the good performance of the securities markets. Operating profit, gross of depreciation and other year-end adjustments, rose to 538 billion lire, compared with 128 billion in 1992. The increase was due to a large increase in income, especially from securities trading. Profitability improved accordingly, with gross operating profit rising to 23 per cent of own funds, nearly double the ratio for the previous year.

Trust companies turned in results that were broadly comparable to those of 1992, with gross profit of 22 billion lire. The average commission charged was also in line with that of the previous year.

Banking supervision

Prudential supervision. — Last year Italian credit institutions had to contend with economic recession while still in the midst of a far-reaching systemic transformation. The increased riskiness of the banks' assets compounded the longer-run problems connected with changes in the competitive relations among intermediaries, the modification of the overall legislative and regulatory framework and the external opening of the Italian market.

The actual emergence of crises was limited by the capital strengthening that has been under way for a number of years. Intervention by the supervisory authorities prevented the situation in some particularly troubled banks from deteriorating so far as to necessitate crisis procedures. In addition to removing the causes of the difficulties, these actions were also directed towards restoring the market credibility of the banks involved, with the twofold aim of averting the sort of general crisis of confidence that may originate from the difficulties of even a single institution, especially if it is a large one, and avoiding any drastic interruption of financial support to productive activity.

Many of the restructuring operations involved amalgamations or the acquisition of equity interests by banks which, on the basis of their own independent assessment, were prepared to undertake the reorganization. In especially severe crises, the supervisory authorities act as coordinator; it is up to the market to identifty the most appropriate solutions.

An unusually large number of actions were taken in 1993 to call banks' attention to the deterioration in the quality of loans and the need for remedial measures to improve the assessment of creditworthiness, the monitoring of loan performance and the recovery of credits. Higher solvency ratios were imposed on 16 credit institutions during the year, generally because of a worsening of their credit risk. On 31 December a total of 57 banks were subject to solvency ratios higher than the minimum requirement.

The supervisory authorities intervened vis-à-vis the banks whose operating costs were higher than the average or incompatible with their profit-and-loss situation. The increase in non-performing financial assets made the adoption of appropriate corrective measures more urgent in cases where costs were particularly rigid.

With a view to ensuring an orderly transition to the new supervisory regime prescribed by the transposition of the Second Banking Directive, the Italian authorities defined the framework for cooperation with other European Union national authorities through memoranda of understanding and increased the frequency of on-site inspections at the EU branches of Italian banks. Inspections, sometimes restricted to selected aspects of activity, were carried out at six branches, representing 15 per cent of the total assets of Italian bank branches operating in other EU member countries.

On-site controls. — A total of 174 inspections were concluded last year, 51 of them carried over from 1992 and the other 123 initiated and completed in 1993. The overall evaluation was satisfactory for only half of the banks inspected, a result that reflects the inherent bias of the sample as well as the difficulties of the productive economy, which caused a deterioration in the quality of banks' assets. In any case, the banks' position was satisfactory as regards capital adequacy and slightly improved from the standpoint of profitability.

The judgment on capital adequacy, profitability and liquidity was favourable for 65.5 per cent of the banks inspected. Analyses of the balance sheet position found that 64.9 per cent were in satisfactory condition, with sound and adequate own funds.

The judgment on the quality of loan portfolios was for the most part unfavourable. The chief reasons were the increase in bad debts, which exceeded 6 per cent of lending in 61.4 per cent of the banks inspected, compared with 53.2 per cent in 1992; the size of expected loan losses, which averaged 3.3 per cent of lending, compared with 2.3 per cent in the 1992 sample and 1.6 per cent in 1991; and the total of bad debts, non-performing loans and overdue instalments, which amounted to 15 per cent of the inspected banks' lending. The findings with regard to organizational structures were critical in a good number of cases.

Crisis procedures. — In 1993 three banks were placed under special administration and six such procedures were terminated; five banks were still under special administration at the end of the year. All of the procedures initiated during the year involved rural and artisans' banks (now called "mutual banks"); two were invoked for grave administrative irregularities and the third for serious capital losses as well.

Four banks were placed in compulsory administrative liquidation and two liquidations concluded in 1993. At the end of the year a total of nine banks were in compulsory liquidation. In the procedures initiated during the year, the liquidated institutions' assets and liabilities were transferred immediately to other banks, with no interruption of operations.

Supervision of securities intermediaries

The alignment of Italian legislation with the EU harmonization provisions has prepared the ground for enhanced competition in the investment fund sector by placing Italian and foreign funds on a substantially equal footing and generally easing operational constraints. Investment fund management companies have modified fund rules in order to exploit the new opportunities. Last year 294 applications to amend rules were approved; while supporting the aims of fund managers, supervisory activity was directed towards protecting the interests of subscribers, as the weaker party.

During the year the Treasury Ministry authorized the sale of units of 18 "harmonized" UCITS in Italy; seven have already commenced marketing.

At the end of the year there were 112 securities firms authorized to engage in activities involving position risk (proprietary trading and underwriting). These firms are required to comply with a capital standard fixed as the ratio of supervisory capital to an indicator of the risks implicit in their positions in securities and similar instruments. Overall, the securities firms in question satisfied the capital adequacy requirement.

Securities firms whose activity does not involve position risk, as well as trust companies, are subject to less stringent capital requirements; in the great majority of cases their supervisory capital complied with the prudential minimum.

Last year eight securities firms and five trust companies were suspended from the register and temporarily entrusted to a special administrator; these measures were needed to put a stop to irregular practices involving the violation of law, regulations and contracts. By the end of April 1994 twelve of these firms had been definitively removed from the register and one reinstated following reorganization of its management. In addition, three firms that had been suspended in 1992 were removed from the register in 1993.

Transparency and competition

Public notice requirements and the rules on contracts and customer notification help to promote competition in the market by prompting intermediaries to focus their competitive efforts on the quality of services and operational efficiency. The Bank of Italy is entrusted with verifying compliance on the part of banks and financial intermediaries.

Following the publication in July 1993 of a report of the European Commission on the transparency and quality of execution of cross-border payments effected by a sample of European banks, the Bank of Italy checked the Italian banks mentioned in the report for compliance with the rules on notice and found no substantial violations.

As the anti-trust authority for the banking industry, the Bank of Italy examines proposed mergers and cooperation agreements to ensure that they do not result in a restriction of free and fair competition and investigates behaviour that could constitute abuse of a dominant position.

Last year the Bank was notified of 44 amalgamations, compared with 54 in 1991 and 67 in 1992. Sixteen of these operations were between banks and 28 between a bank or a company belonging to a banking group and a financial company or a firm engaged in an activity instrumental to banking.

In ten cases no action was taken inasmuch they fell outside the scope of Italy's anti-trust law (eight because they involved companies belonging to the same banking group and hence not independent for the purposes of the law). Of the remaining 34 cases, 28 involved the acquisition of control of firms or branches of firms, four concerned mergers and two the formation of concentrative joint ventures. None of these operations was found to be harmful to competition. During the year the Bank of Italy also completed the examination of two amalgamation plans that had been submitted at the end of 1992.

Nine cooperation agreements were examined during the year and none found to be restrictive of competition. Five were horizontal agreements (between firms operating in the same product market), three were vertical agreements (between firms situated at different stages of the same production process), and one was a joint venture involving elements of both types of agreement.

The Bank of Italy initiated an investigation of the Interbank Agreements and Uniform Banking Rules promoted by the Italian Bankers' Association, which under the criteria adopted by the European Commission are to be considered agreements whether or not they entail substantial legal obligations for the banks that are party to them.

To conclude, the Bank of Italy opened an investigation of a bank for allegedly abusing its dominant position under a government tax collection concession in connection with prearranged tax payment orders. While the investigation was in course the bank revised the procedures in such a way as to ensure equal treatment of customers and restore competitive conditions between banks.

THE GOVERNOR'S CONCLUDING REMARKS

Ladies and Gentlemen,

The Bank of Italy completed its first hundred years in 1993. The high regard in which the institution is held was demonstrated by the participation of the President of the Republic, the highest civil, military and religious personalities of the country, academics and representatives of banking and business at the official celebrations last December. The presence of the governors of the central banks of the leading countries testified to the esteem of the international financial community.

The results of research into the history of the Bank of Italy were presented at a symposium preceding the official ceremony. The purpose of the series of historical publications is to make documents and information available to those seeking to write the economic history of our country.

The Bank has established a Foundation to provide assistance to the Bank's pensioners and the spouses and children of members of the staff in cases of grave adversity. The Bank will also support the creation of an international centre for paediatric neuro-oncology and a project in favour of the Italian Leukaemia Association.

The adaptation of the Bank's organizational structure to changes in the external environment continued last year.

The reorganization of the Banking Supervision Departments in 1991 both reflected and stimulated the changes in the performance of their functions, which have become more complex on account of the increase in competition, the opening-up of markets and financial innovation. Further measures are being taken to improve the resources deployed in overseeing the efficiency and stability of the banking and financial system, especially the quality of human resources.

The modernization of payment services has long been directed towards making cashless payment instruments easier and more rapid to use and improving the efficiency and reliability of the interbank payment system.

Measures to safeguard the circulation of money and the quality of banknotes, which are the form of money most commonly used by the general public, remain a fundamental responsibility. Working procedures have been reorganized and the latest technology introduced, thereby eliminating the capacity and flexibility constraints on banknote production. Worn notes are not being replaced quickly enough. Action has been taken to improve the quality of notes in circulation; the cooperation of the banks has been sought in this regard, and we are certain that it will be fruitful.

The importance attached to relations with users of our services and the specific features of our network lay behind the project to overhaul the technical facilities and organization of the Bank's branches. One of the key aspects of the reform of accounting operations was the complete automation of counter services, an innovation that will have a positive effect on the organization of work as well as bringing advantages for users. Twelve districts have been defined on the basis of operational criteria, and the branches in the provincial capitals have been given responsibility for the local coordination of banking supervision, economic analysis and staff training.

Today as in the past hundred years, the Bank can successfully pursue the general interests entrusted to it, thanks to the diligent commitment of staff of every rank and grade, who are conscious of the Bank's heritage in the form of service to the nation, intellectual independence and efficiency.

I wish to express my sincere thanks and appreciation to all members of the staff for their dedication to the Bank and to the country.

This May Lamberto Dini was appointed to the high office of Treasury Minister in the new Government. He has therefore left the post of Director General that he had occupied since October 1979.

The wealth of expertise that Mr. Dini brought to the Bank of Italy, especially on complex issues of international finance, was the result of academic study and twenty years' experience at the International Monetary Fund, where he had become Executive Director for Italy.

During the years he spent at the Bank of Italy, Mr. Dini's qualities were deployed to the benefit of the Bank and the country, especially in the fora for international financial cooperation. He was Italy's Alternate Governor at the International Monetary Fund and the Inter-American Development Bank and a Member of the Monetary Committee of the European Community; in 1993 he became Vice-Chairman of the Board of Directors of the Bank for International Settlements.

In the demanding post of Chairman of the Committee of Alternates of the Group of Ten, which he occupied from 1981 onwards, Mr. Dini put his name to documents of the highest importance on the problems of the international institutions and international finance.

We owe him profound gratitude for the care he exercised in the management of the internal affairs of the Bank. His positive attitude accelerated the changes in organization and administration. In Lamberto Dini, the commitment of the guardian of the public good is combined with an entrepreneurial dynamism, which during his years here were coupled with a generous understanding of the human side of those who perform their daily work in the Bank.

I wish to extend to him my warmest thanks and my best wishes for success in his new post. The traditional close cooperation between the Treasury and the Bank of Italy cannot fail to be strengthened, with beneficial effects on the attainment of their respective institutional objectives.

Vincenzo Desario was appointed Deputy Director General in June 1993. He had been Central Director for Banking Supervision since 1983. He brings to the Directorate the experience of more than thirty years' work in the Bank.

The world economy

Economic and financial disequilibria

During 1993 and the first few months of this year the financial and foreign exchange markets were again dominated by the serious imbalances that have prevailed for so long between the major economic and monetary areas, within which there remain pronounced disequilibria between savings formation and savings demand and between the demand for and supply of credit. Transfers of long-term capital were substantial and flows of bank funds intensified.

In the United States the deficit on the current account of the balance of payments, which has persisted since 1982, widened last year to $109 billion, compared with $66 billion in 1992. The deterioration was attributable to the recovery in demand and investment at a time when economic activity in Japan and Europe was stagnating. The net foreign debt of the United States, which was a creditor country until the mid-eighties, rose to about $600 billion, or almost 10 per cent of gross domestic product. The private sector's propensity to save remains extremely low; that of households is no more than 5 per cent of disposable income. The public sector continues to absorb a high proportion of savings; the budget deficit amounted to $255 billion in 1993.

The deficit on the current account of the balance of payments was accompanied by substantial outflows of capital, encouraged by the expansionary monetary policy and expectations of interest rate reductions in Europe.

The imbalance in the United States' external accounts is partly mirrored in Japan's current account surplus, which totaled $131 billion last year, against $118 billion in 1992. About half of last year's surplus was reinvested abroad in long-term securities. Households' saving remains particularly high. The low level of short-term interest rates, the decline in economic activity and the state of the public finances encouraged the outflow of funds, countering the upward pressure on the yen. Net external assets have risen rapidly over the last fifteen years, despite the loss of competitiveness due to the strong appreciation of the currency; today they exceed $600 billion, equal to 15 per cent of the country's gross national product.

In Germany, notwithstanding the continued weakness of economic activity, the monetary authorities kept interest rates comparatively high in the face of a deterioration in the public finances and strong demand for credit in the eastern regions. Inflows of long-term capital were substantial, greatly exceeding the current account deficit, owing partly to the underlying soundness of the German economy. United Germany has preserved much of the net asset position vis-à-vis the rest of the world that West Germany had accumulated since the fifties; it now stands at around 14 per cent of GDP, compared with more than 20 per cent in 1990.

The current account deficit of the European Union, which amounted to about $67 billion in 1992, was eliminated last year, owing partly to the cyclical weakness of the economy. The pegging of currencies to the Deutschemark had caused a gradual but continuous erosion of the area's competitiveness since 1987. Between 1992 and 1993 the depreciation of the pound sterling and the lira, followed by that of other currencies, produced an improvement of 9 per cent in the area's average competitiveness.

In the long run the value of a currency reflects the economy's growth prospects and potential, its competitiveness and its foreign debtor or creditor position. The domestic and external values of a currency influence one another and tend to converge over the long term.

The correction of the economies' underlying imbalances calls for the operation of market forces to be supplemented by economic policies that are well balanced, incisive and more closely coordinated at the international level. When budgetary, structural and incomes policies are inadequate, domestic costs and prices can be curbed by means of monetary policy, but only with difficulty and at great sacrifice.

In the second half of the eighties, and most notably from 1988 onwards, prices were affected by the cyclical expansion in the industrial countries. Monetary policy was tightened. In the United States short-term interest rates rose to almost 9 per cent at the beginning of 1989. In Germany, where they had fallen below 4 per cent, they stood at more than 8 per cent by the end of that year. The increase in interest rates was even larger in the United Kingdom and Canada, and appreciable in France and Italy.

The restrictive monetary stance in the Anglo-Saxon countries adversely affected economic activity between 1989 and 1990; after about a year it significantly curbed the rise in prices.

German unification had a profound impact on economic developments in continental Europe. Economic events in Germany initially prolonged the expansionary phase of the cycle, but high interest rates, exchange rate tensions and the crisis within the European Monetary System subsequently contributed to a decline in demand and economic activity.

Monetary policies were effective in containing price increases in most of the industrial countries. Inflation has come down in recent months to 2.4 per cent in the United States, 1.3 per cent in Japan, 2.9 per cent in the western regions of Germany and 1.7 per cent in France; in Italy it is still around 4 per cent.

However, output and investment have declined. In 1993 output fell by 1.2 per cent in united Germany and by 0.7 per cent in France and Italy. Investment contracted by 5 per cent in France and by 11 per cent in Italy, where it declined to its lowest level since the Second World War as a percentage of output.

The problems of employment have become a serious cause for concern everywhere. The number of unemployed in the OECD area rose to 34 million last year.

The economic recovery under way in the Anglo-Saxon countries since 1992 has begun to take up the slack in the labour market. The situation remains grave in the European Union. In 1990 the unemployment rate was just over 8 per cent, which may be considered the structural component of unemployment that is unlikely to be reduced by economic recovery alone. By the end of 1993 the rate had risen to 11.4 per cent; the increase can be reversed by an expansion in investment and a return to normal levels of economic activity.

The economic situation in the industrial countries as a whole was reflected in a slowdown in the growth of world trade to 2.4 per cent and a fall in the prices of raw materials; world trade would have stagnated had it not been for the increase in production and trade in the developing countries.

Interest rates

Monetary policy in the United States, which had been made less restrictive in mid-1989, became decidedly expansionary in the years that followed, with the discount rate declining to 3 per cent in mid-1992. Japan also reduced its discount rate, to 3.25 per cent in 1992 and 1.75 per cent in September 1993. In Europe the relaxation of monetary policy began after the crisis in the European Monetary System and the withdrawal of the pound sterling and the lira from the Exchange Rate Mechanism in September 1992.

Until the summer of 1993 France and the other remaining participants in the ERM encountered increasing problems in maintaining the central rates. They responded by raising interest rates and intervening on an exceptionally large scale in support of the currencies in difficulty. These measures were insufficient to withstand the pressure, and on 2 August the margins of fluctuation were widened to 15 per cent. Only limited use was made of the new wider band, however. The Deutschemark appreciated temporarily; the gradual decline in interest rates then resumed. By early 1994 nominal short-term rates in nearly all the countries were significantly lower than at any time in the previous decade.

Long-term interest rates were high everywhere during the eighties, even when adjusted for inflation expectations. In nominal terms they began to fall in 1990-91, in close conjunction with the slowdown in inflation, the downturn in economic activity and the change in monetary policy stance. In real terms, however, they remained high and continued to exceed the rates of economic growth, squeezing corporate profit margins, raising the cost of the public debt and increasing budget deficits.

In the Anglo-Saxon countries and Japan short-term rates were brought well below those at long term. In Germany, France and Italy the inverted yield curve that is characteristic of tight monetary conditions prevailed for some time longer.

The decline in long-term yields accelerated during 1993, and at times it was excessively rapid. The rise in bond prices was amplified by the activities of international securities traders, who financed their substantial purchases by borrowing in the currencies that had become most plentiful and least costly. The process was partly self-propelled, engendering investor expectations of a further decline in yields.

The rise in bond prices ceased in the United States in mid-October, when the possibility of an adjustment in monetary policy was first perceived. The sharp acceleration in US economic growth at the beginning of 1994 made a change in the Federal Reserve's stance a certainty, prompted by fears of a resurgence of inflation and of an excessive rise in securities prices. The decline in bond prices gathered momentum and spread to the rest of the industrial countries; it became disorderly in early March when the release of figures on the growth in the German money supply aroused fears that the gradual easing of monetary conditions in Europe would come to a halt.

At the end of February long-term yields were between 60 and 110 basis points higher than the lows recorded at the beginning of the year; the size of the increases appeared to be largely independent of the initial level of interest rates in the respective countries. In two months nearly half of the progress made in the whole of 1993 was undone.

At their meeting in early March at the Bank for International Settlements, the central bank Governors of the Group of Ten specifically examined the behaviour of interest rates and the activities of intermediaries, who had first accentuated the rise in bond prices and then caused them to fall by making a sudden portfolio adjustment.

Faced with the transmission of higher long term interest rates from the United States to Europe, the Council of the European Monetary Institute reaffirmed at its March meeting the intention to continue to make prudent reductions in interest rates in line with fundamental developments in the various economies.

Yields on long-term securities have risen further in the United States and are now higher than at the end of 1992. The rate on ten-year bonds is around 7 per cent. The yield curve has steepened, probably in response to investors' expectations of more rapid economic growth and higher inflation.

By contrast, all the European countries have continued to make substantial reductions in official interest rates, with further adjustments recently in Germany, Italy and elsewhere. In the United States the discount rate was raised to 3.5 per cent in mid-May, but the beneficial effect on the financial markets was short-lived; subsequently, securities prices fell. In keeping with the cyclical difference between Europe and the United States, there continues to be a divergence in short-term interest rate trends and a contrast in monetary policy stance; European long-term interest rates are still being influenced by movements in US rates.

The outlook

The cyclical disparities that have been evident of late among the industrial countries seem likely to diminish but not disappear, producing only a limited adjustment of the payments imbalances between the major areas; these imbalances are a source of uncertainty about exchange rates and interest rates and potentially harmful to free trade in goods and services.

The countries of Central and Eastern Europe, which are engaged in the difficult transition to a market economy, are still wrestling with a deep and widespread crisis. Their population numbers more than 400 million, and yet their output, which declined drastically in recent years, is now no more than a third of that of the European Union. These countries represent an immense untapped reserve of demand and growth, especially for the European economy. In the emerging economies, especially those in Asia, growth continues at a rapid pace.

In the OECD countries inflation is still declining. Economic expansion is well under way in the United States, accompanied by an increase in employment. The recovery is clearly discernible in the United Kingdom and Canada, albeit proceeding more slowly. It is still weak in continental Europe; the growth in output forecast for 1994 may prove insufficient to generate additional employment.

If the recovery in Europe is to strengthen, the conditions for a reduction in long-term interest rates must be created by pursuing rigorous fiscal policies and maintaining wage moderation.

Signs of a revival in economic activity have yet to appear in Japan. Stimulus to domestic demand from the public sector and measures to increase access to the Japanese market are necessary preconditions for eliminating imbalances in international economic relations and placing the recovery in the industrial economies on a sounder footing.

The Italian economy

Over the past decade Italian economic policy was of necessity centred on monetary control owing to the shortcomings of fiscal and incomes policies.

For many years, high interest rates made it possible to maintain a stable exchange rate, thus reducing inflation. Excessive budget deficits and wage increases that outstripped productivity gains prevented interest rates from declining to the levels prevailing in other countries; this itself further increased public expenditure and debt and depressed investment. The balance of payments remained in deficit, and by the end of 1992 Italy's net debtor position with the rest of the world amounted to more than 11 per cent of GDP.

The last two years have witnessed a reversal of the trend in the public finances and a pronounced moderation of wage growth.

The balance of payments

At the beginning of 1993 the external value of the lira was 17 per cent lower than in the previous August; in the course of the year the currency depreciated by 7 per cent.

The depreciation benefited exports, which had already begun to rise sharply in the second half of 1992. They increased in volume by 8.5 per cent during the year, while imports fell by 10.4 per cent. Export manufacturers enjoyed considerably wider profit margins, as their lira prices rose by an average of 11.4 per cent.

The almost continuous sequence of balance-of-payments deficits since 1980 was broken. The current account, which had recorded a deficit of 34 trillion lire in 1992, closed with a surplus of 18 trillion lire last year.

Since the mid-eighties both Italian investment abroad and foreign investment in Italy have increased significantly. Outward investment has generally been at longer term, while inward investment has consisted largely of bank capital. The net external foreign currency liabilities of Italian banks rose from the equivalent of 3 per cent of GDP in 1985 to 8 per cent in the summer of 1992.

There were substantial capital inflows in the last few months of 1992 as funds that had left the country during the currency crisis in the summer were repatriated. Foreign currency swaps by the Bank of Italy partially replenished the official reserves.

In 1993 and the first few months of 1994 the current account surplus and large-scale foreign investment in Italian securities allowed the banks substantially to reduce their net foreign currency debtor position, which diminished from $115 billion in August 1992 to $62 billion at the end of April of this year.

In view of the reduction in the cost of credit, foreign investors financed a significant portion of their securities purchases by borrowing in lire from Italian banks or in international markets, thus limiting their exchange risk. The share of lira-denominated assets in their portfolios increased, contributing to the development of the Eurolira market.

The reduction in the banks' foreign currency indebtedness vis-à-vis non-residents was one of the causes of the depreciation of the lira last year. Italy's overall external position improved significantly for the first time in a decade, with net foreign debt declining from 175 trillion lire at the end of 1992 to 150 trillion, or 9.6 per cent of GDP. A further reduction should occur this year, owing to the expected current account surplus. The improvement needs to continue in the coming years in order to underpin the currency.

Investment and employment

The strong growth in exports in 1993 was not sufficient to offset the weakening of domestic demand and enable output to recover from the level to which it had fallen at the end of the previous year.

The contraction in demand, which had begun in the second half of 1992, reflected the prospect of an increase in unemployment, the fiscal measures that had been announced and fears of a financial crisis. The restrictive monetary stance, which was accentuated as the strains increased within the exchange rate mechanism, also played a role. Households' efforts to increase their saving led to a further reduction in aggregate demand, aggravating the fall in output.

Real household consumption declined by 3 per cent in 1993 and disposable income by 5 per cent. Fixed investment fell by 11 per cent.

The significant reduction in jobs that had begun in the second half of 1992 owing to the slowdown in economic activity and the deterioration of expectations accelerated in the early months of last year. Macroeconomic forecasts, announcements of retrenchment by major industrial groups and the difficulties facing a number of industries worldwide indicated that the contraction in employment would continue throughout the year and was likely to spread to medium-sized and small businesses. Restructuring also began to occur in the services sector, which in the past had continuously created jobs, even in times of recession.

The decline in employment first affected the regions of the North and Centre. A similar development could also be expected in the South, where it would exacerbate the already high rate of youth unemployment and have adverse social repercussions.

The extent of the reduction in employment was seriously underestimated by several official bodies, owing in part to statistical difficulties and uncertainties. Nevertheless, the problem was recognized and faced.

The agreement on labour costs signed in July 1993 demonstrates a keen awareness of the significance of the employment problem. It is a fundamental prerequisite for reducing inflation expectations. On several occasions we have emphasized its crucial importance for Italy's international competitiveness and for reducing unemployment in the future.

The gratifying output and earnings performance of exporters, who are located mainly in the North-East and Centre, and the increasing difficulties of government suppliers and contractors have amplified intersectoral and interregional divergences. The contraction in output and the loss of jobs are especially pronounced in the South.

Public works activity was checked above all by the revelation of a series of cases of bribery and corruption, which are now under investigation. Public works investment had already declined in 1992, and the available figures indicate a further fall last year, estimated at 16 per cent in real terms. Only part of the funds lent by international organizations and the reduced volume of loans from the Deposits and Loans Fund has actually been spent.

The new law on public procurement is designed first and foremost to ensure competition in the award of contracts. It requires contractors to submit a comprehensive initial plan to prevent unwarranted cost overruns in the course of the project. The law needs to be completed by issuing the implementing regulations. A swift revival of activity in this sector is important for economic recovery and employment; that was the purpose of the recent Cabinet decision in this regard. It remains essential that the standards of transparency and rectitude which underlie the law be attained.

Italy has less infrastructure than the European average. Compared with the more highly developed countries of the European Union, the overall difference is estimated at about one third, but the discrepancy is even greater in the worst endowed regions of the South.

Economic development cannot be generated by infrastructure investment alone, but orderly development is impossible without it. Private capital can help finance infrastructure projects where charges are to be levied for their use; the involvement of the public authorities remains indispensable to evaluate the costs and benefits of projects and to regulate their use.

During the currency crisis in the summer of 1992 interest rates on three-month Treasury bills rose to more than 18 per cent and short-term funds were strictly rationed by the Bank of Italy. The securities market and the money market continued to function normally, even in these extreme conditions, ensuring continuity of trading and correctly transmitting the signals and impulses originating from the central bank.

Monetary conditions were eased after the crisis had passed, but only gradually; they remained very restrictive until the early months of 1993. In order to give the markets a precise quantitative indication, the ordinary instruments of monetary control were supplemented from November 1992 to March 1993 by mechanisms for limiting and monitoring the expansion of credit; lending was not to exceed a volume compatible with production forecasts and the progressive slowdown in inflation. The objective was to prevent the depreciation of the lira from having an impact on prices and incomes, thereby triggering an inflationary spiral that would have necessitated further action, with more serious consequences for economic activity.

The rise in interest rates and the restriction of credit, which were required to contain inflation, affected the already depressed level of economic activity.

The agreement of July 1992 on labour costs and the weakness of domestic demand contributed significantly to curbing inflation. The month-to-month rise in prices was moderate during the first quarter of 1993; it accelerated in the second, reflecting the increase in the lira prices of imported goods, but the deterioration proved to be temporary. Consumer prices rose by 4.3 per cent between December 1992 and December 1993. In the following months the twelve-month increase in the cost of living remained at around 4 per cent.

The moderation of inflation was assisted by the growing conviction that prices would continue to slow down. The programmes framed by the Government and the new agreement on labour costs strengthened expectations of price stability.

The system for monitoring the growth of credit had made it possible to reduce official interest rates even before the end of 1992: the rate on fixed-term advances fell from 16.5 per cent in September 1992 to 13 per cent at the end of the year and 12 per cent in April 1993; over the same period the discount rate was lowered from 15 to 11 per cent.

With inflation slowing down and the balance of payments showing a marked improvement, monetary policy could be directed towards relieving the difficult situation of firms and alleviating unemployment by progressively reducing the cost of money.

Interest rate differentials vis-à-vis Germany and France narrowed appreciably. Official rates were reduced by half a point in May and again in June. In July the discount rate and the rate on advances were lowered by a full point in conjunction with the signing of the agreement on labour costs.

In contrast with events in other European countries in connection with the turbulence in the foreign exchange markets last summer, in Italy the downward movement of official rates was not reversed. The tensions were absorbed by liquidity control, exchange rate flexibility and temporary increases in market rates.

Further reductions in the discount rate and the rate on advances in the autumn of 1993 and early 1994 brought them to their current levels of 7 and 8 per cent respectively. There was a parallel decline of 7.5 percentage points in the banks' average lending rate between October 1992 and April 1994; at its current level of 11.2 per cent it is 3 points lower than in the period immediately preceding the crisis. The difference in relation to official and money market rates is wider than it was then, mainly owing to the increased riskiness of banks' assets.

The narrowing of the interest rate differential between Italy and the other European countries fostered a reduction in the banks' external debtor position denominated in foreign currency.

The effective exchange rate of the lira fluctuated widely in 1993. In real terms it was very depressed in the second half of the year, even by comparison with 1987. The limited depth of the lira market and the activities of international dealers disposed to take positions in foreign currency contributed to the variability of the exchange rate. In the first few months of this year the undervaluation of the lira diminished slightly.

The money supply grew by 7.9 per cent in 1993. The expansion was due largely to the growth in the less liquid components, consisting of certificates of deposit; by contrast, there was a steady slowdown in bank lending.

The weakness of the demand for credit justified and to an extent necessitated the policy of reducing official rates and set the parameters for the regulation of market liquidity.

Total finance to the non-state sector grew by a little more than 1 per cent in 1993. The deceleration of 6 percentage points compared with the previous year was due initially to the recession and the fall in investment; subsequently it also reflected the improvement in firms' profit margins.

The public finances

Notwithstanding the adverse economic conditions, further progress was made last year in redressing the public finances. The total state sector borrowing requirement fell from 10.6 to 9.8 per cent of gross domestic product; the surplus net of interest payments rose from 0.6 to 1.8 per cent of GDP.

The progress achieved was less than had been planned, however. Excluding loans deposited with the Treasury, the borrowing requirement overshot the ceiling set in September 1992 by more than 10 trillion lire. The surplus net of interest payments was 24 trillion lire less than the original target. The recession and the failure to carry out the sales of state assets that had been included in forecast revenue contributed to the shortfall.

The innovations introduced in parallel with the budgets for 1993 and 1994 will make it possible to moderate the growth in expenditure and rationalize the public sector.

Unless additional measures are taken, these innovations cannot ensure that expenditure and revenue trends are compatible with a significant reduction in the absorption of savings by the public sector and with the objective of first halting and then reversing the growth in the public debt.

An analysis of the outlook for the public finances must begin with an examination of the underlying tendencies of the main categories of expenditure and revenue.

The ratio of public expenditure to GDP rose from 55.8 per cent in 1992 to 57.2 per cent in 1993; interest on the public debt accounts for 12 percentage points of this figure. The ratio was roughly 50 per cent in Germany, Spain and Portugal and 55 per cent in France, and ranged between 57 and 63 per cent in the Netherlands, Belgium and Denmark. In relation to GDP, overall expenditure and revenue are much lower in the United States, the United Kingdom and Japan, primarily because of the smaller expenditure of the public social security and health care systems.

By international standards, expenditure in Italy is not out of line in the areas of general public services, defence and public order, education, health and welfare; it is higher than the average not only for interest payments but also for pensions, particularly from the standpoint of future outlays.

The public pension system as it now stands was designed at a time when national income was growing rapidly and the age structure of the population was more favourable than today; contributions are now manifestly insufficient to cover benefits. The reform introduced in December 1992 considerably reduced the imbalance between benefits and contributions by gradually raising the age of retirement, lengthening the reference period for computing pensionable earnings and limiting the automatic adjustment of pensions to prices by excluding the indexation of benefits to real wages. Assuming that the link between benefits and rises in real wages is not restored, the savings in expenditure will increase and are estimated by the National Social Security Institute at 25 per cent over 15 years. However, in the absence of corrective measures, the improper burdens placed on the system and the relatively generous criteria for awarding pensions will cause expenditure to continue to grow more rapidly than national income in the years to come.

An international comparison of the size of the public pension system in relation to that of the economy can be obtained by computing the present discounted value of future benefits payable on the basis of existing entitlements. According to estimates by the OECD, the ratio of the resulting value to gross domestic product is 2.2 in France, 1.6 in Germany, the United Kingdom and Japan, and 1.2 in Canada and the United States. In Italy the present value of future commitments fell to 2.4 times GDP following the 1992 reform; according to national statistical sources, the ratio had previously been 3.

The capital that in theory would have to be earmarked to cover current commitments on a funded basis would be equal to around half the national wealth; it is therefore inevitable that benefits will continue to be paid out of current contributions. The growing imbalances in the pension system need to be rectified by further limiting pensions, albeit gradually, and encouraging widespread recourse to a funded supplementary pension system that can enable workers to achieve the desired level of retirement income.

At the macroeconomic level, the combination of a funded scheme with a pay-as-you-go system initially entails an effort to ensure the accumulation of additional savings; appropriate tax treatment is indispensable to this end.

In 1993 the tax burden rose to 44 per cent of gross domestic product, similar to the level in France and Germany; the figure is around 50 per cent in the Netherlands, Belgium and Denmark. After increasing last year, the ratio in Italy will decline by more than one percentage point owing to the expiry of temporary tax-raising measures that yielded revenue of 25 trillion lire a year. The tax rates on households' and individuals' incomes are among the highest by international standards. The rates of tax on corporate income are also high, but account has to be taken of exemptions and allowances, which are particularly large in Italy.

The comparison of tax rates and the average ratio of taxation to GDP confirms the magnitude of tax avoidance and evasion. Measures to rationalize and redistribute the tax burden may be appropriate, but it is essential first to improve the effectiveness of tax assessment and collection, in order to reduce the scale of evasion substantially and permit rates for honest taxpayers to be lowered.

Scope for appropriate measures to support investment, small and medium-sized enterprises and employment must be created by making budgetary savings and bringing tax evaders back into the net. In the present circumstances, reducing the overall tax burden would lead to an increase in the deficit and more rapid growth in the public debt.

In the past, too much reliance has been placed on temporary measures to adjust the imbalances in the public finances. The reduction of the deficit must be based on a configuration of spending procedures that will correct the systematic tendency for expenditure in some sectors to outstrip the growth in national income.

Reducing the ratio of the public debt to national income remains the key to lessening the cost of public borrowing and expanding the room for the growth of private initiative and investment.

The recovery

The trough of the economic cycle was reached in the third quarter of last year; in the fourth quarter GDP was slightly higher both in relation to the preceding quarter and compared with a year earlier. Investment showed signs of reviving after the steep decline that lasted until the summer, but capital spending on construction was still diminishing.

In the first few months of 1994 the data on domestic as well as foreign orders continued to indicate rising demand.

The stability of labour costs, the reduction in interest rates and the depreciation of the lira have led to wider profit margins for the corporate sector.

Export industries are increasing their sales, with the best results being recorded by firms oriented towards the sectors of the American market in which demand is expanding. Exports to the newly industrialized and developing countries have also increased. These areas offer outlets for capital goods and durable consumer goods that are superior to competing products in terms of quality and better meet the needs of purchasers.

Exports will continue to perform well in 1994, permitting a further increase in the current account surplus.

Consolidation of the positions that have been gained in international markets requires a constant commitment to improving the quality of products and developing innovative ones; a new phase of investment is needed, including investment to expand productive capacity, in order to increase productivity and employment.

If the recovery in domestic demand were to lead mainly to higher consumption, the Italian economy would again face the risk of more rapid inflation and balance-of-payments difficulties in the not too distant future.

In this delicate transitional phase and during the foreseeable expansion of economic activity, it is necessary to persevere with policies aimed at further curbing the budget deficit and reducing inflation. An unduly rapid and consumption-led recovery would require immediate adjustments in fiscal policy.

While continuing to sustain economic activity and employment, the central bank is taking care to prevent cost and price pressures from developing. If the behaviour of the economy were incompatible with a non-inflationary recovery, monetary policy would necessarily address the objective of slowing down the rise in prices through a return to higher interest rates.

The banking system and the financial markets

This is a particularly important juncture on account of the changes occurring in the economy and in resource allocation, and in view of the contribution that the banking and financial system can and must provide.

The 1993 Banking Law, which came into force on 1 January 1994, codifies the provisions contained in the 1936 Banking Law and the many measures that had updated and supplemented it, especially in the last decade. The Italian banking system has been brought into line with the Second Banking Directive of the European Economic Community by eliminating the operational and maturity specialization that was at the heart of the previous regime.

Supervisory powers are exercised having regard to the sound and prudent management of intermediaries, competition and the stability and efficiency of the banking system. The purpose of bank capital is to safeguard the stability of the institution and serve as a yardstick by which to measure its operational capacity.

Between June 1993 and March 1994 the Interministerial Committee for Credit and Savings, which is chaired by the Minister of the Treasury, took the necessary decisions to permit the new operational opportunities opened up by the Law to be exploited without delay.

Banks have been given wider scope for medium and long-term lending, the issue of bonds and investment in non-financial enterprises, while firms have been granted increased access to the capital market.

The legislation modifies the form and range of banking intermediation; it promotes the development of a deep and efficient securities market able to supplement the financing of the economy by the banks.

The changes in the structure of the banking system and the supervisory activities performed in the course of the year are described in the Annual Report.

The economic cycle and the capital situation of the banks

Lower company profits, increased corporate indebtedness and higher interest charges characterized the situation facing banks at the beginning of 1993.

In 1992 the Company Accounts Data Service held information on some 34,000 non-financial enterprises, which are the recipients of about half of total bank lending to firms. Of these, no fewer than 8,000 reported operating profits that were insufficient to cover their interest charges; in 1993 a quarter of their indebtedness was under strain owing to liquidity or solvency problems. A number of large industrial groups experienced particularly severe difficulties and the adverse situation also began to affect firms in the services sector.

The deteriorating condition of the corporate sector was reflected in an increase in the risk attaching to bank loans. Bad and doubtful debts were equal to 6.2 per cent of total lending at the end of 1993, rising to 7 per cent in March of this year. This is a high level, but not out of line with previous peaks.

Bad and doubtful debts will continue to increase for some time, owing to the lag with which borrowers' difficulties are reflected in banks' balance sheets. Nevertheless, the outlook for firms is clearly improving: heightened competitiveness, the slow rise in labour costs, the reduction in interest rates and the first signs of economic recovery promise greater profitability and sounder corporate finances.

The increase in credit risk is not a purely Italian phenomenon. The banking systems in the United Kingdom and the United States are slowly overcoming the difficulties of recent years; in France, Germany and Spain there are signs of a deterioration in the quality of bank assets in connection with the recession.

In Italy the strengthening of banks' capital bases since the previous recession, from 15.9 per cent of loans in 1983 to 19.4 per cent today, has enhanced their ability to cover losses. In March 1994 bad and doubtful debts amounted to 37 per cent of own funds, close to the highest levels recorded in the early eighties.

Banks were able to facilitate the restructuring of the liabilities of industrial groups in difficulty by lengthening loan maturities, lowering interest rates and waiving part of the arrears of interest. The supervisory authorities examined four plans providing for the partial conversion of debt into equity capital. In respect of loans amounting to about 26 trillion lire, banks acquired shareholdings valued at 2.4 trillion lire, wrote off about 1.4 trillion lire against profits for 1993 and foresee further write-offs with a present value of not more than 1 trillion lire in subsequent years. Other debt restructuring plans involve firms with about 34 trillion lire in debts to Italian banks.

The ability of banks to continue to support fundamentally sound undertakings when times are bad and to finance investment once recovery has begun depends on their profitability and capital base. After declining in 1992, operating profits improved in 1993, rising from 1.38 to 1.63 per cent of total assets, thanks to capital gains on securities trading and the containment of operating costs. Much of the result was erased by loan losses and higher taxes.

It is easier for banks in the form of limited companies to raise equity capital; the market provided virtually all of the 10,020 billion lire in new capital as calculated for supervisory purposes, a rise of 6.4 per cent with respect to the previous year.

The capitalization of the Italian banking system is in line with the average for the other leading countries. The number of banks that failed to meet the minimum capital requirement fell from 19 to 15 last year, and the total capital shortfall decreased from 750 to 400 billion lire; the excess capital held by banks satisfying the requirement rose from 50 to 60 trillion lire.

A crisis at a bank has more severe secondary effects than the failure of any other enterprise, owing to the typically high ratio of loans to capital. Such a crisis may even have repercussions for economically sound undertakings financed by the bank. The protection of savings and good management of the economy require that performing loans, which usually far outweigh bad debts, be safeguarded even if the credit institution cannot be saved; viable loans must be transferred to banks with the capital and management abilities to use them to best advantage. The resolution of the crisis does not prevent the total or partial loss of capital, the replacement of the directors and the prosecution of those who may be responsible.

Intervention by the supervisory authorities is aimed at preventing crises from spreading to other intermediaries. Each such operation moves the system towards a structure that is stronger and better suited to the needs of the economy, but without being part of a predetermined plan for bank amalgamations.

The larger the bank involved, the more difficult it is to arrange a merger. In 1993 and early 1994 the absorption of troubled banks by other institutions involved larger undertakings than in the past; an estimated 4 per cent of the Italian banking sector was placed under sounder management. In some cases transfers of ownership took the form of the sale of parts of an institution or components of a group. Financial support was also sought from a plurality of banks to cover the lengthy process of restructuring.

The new operational opportunities

The new banking legislation should help create more unified, better informed and more stable relationships between banks and individual firms or groups.

The prospect of increased access to the capital market by non-financial enterprises makes it all the more important for banks to have a thorough knowledge of the structure of the groups with which they deal.

The ramified, international and at times extremely complex organization of some industrial groups makes it more difficult for intermediaries to know the final destination of credit and hinders the accurate appraisal of firms' finances; this should prompt banks to seek the information necessary to limit the concentration of risks.

Most industrial concerns with more than 100 employees belong to a group. In collaboration with the Bank of Italy, Consob is planning to organize information on shareholdings in a manner that will be useful for those who require it, and especially for banks in connection with their lending operations.

The widespread practice of borrowing from more than one credit institution is only partly attributable to the small average size of Italian banks. It may help spread credit risk and enhance competition, but the fact that most firms do not have a principal bank reduces the credit system's ability to exert a degree of discipline over enterprises that is consistent with the total volume of lending.

The greater scope for banks to hold shares in non-financial enterprises and to provide long-term finance should help them acquire more detailed information on investment plans and prompt them to improve the assessment of creditworthiness.

The volume of shares that banks may acquire, given the size of their capital and their existing investments, amounts to about 39 trillion lire. The increase in long-term assets permitted by the regulations totals 150 trillion lire. The non-financial enterprises covered by the Company Accounts Data Service have fixed assets worth about 50 trillion lire financed by debt that is formally at short term.

A significant number of banks have sufficient capital to take full advantage of the opportunities offered by the Banking Law. Appropriate professional resources and organizational structures are necessary. The opening of the Italian economy to foreign competition and the greater finance Italian businesses will require during the period of development and profound transformation that must take place in the coming years demand an adequate response from the banking system.

The financial markets

The gain in competitiveness associated with the depreciation of the lira offered firms the opportunity to eliminate accumulated competitive disadvantages by making new investment. The restructuring carried out in the last decade, which concentrated largely on process innovation, enabled firms to maintain their positions in traditional sectors but did not improve the position of high technology industries.

Endemic lags and cyclical factors combined to produce the present generally unsatisfactory financial situation of businesses large and small, despite an improvement in the last year.

Sustained investment in fixed capital and research calls for a flexible and efficient financial system. The market offers firms a competitive environment in which to seek capital; at the same time it provides an assessment of their efficiency by assigning them a market value.

Banking continues to play a crucial role, which cannot be limited to ordinary lending but must also include corporate finance and advisory services. Without well-developed financial markets, cyclical downturns and structural change may have especially serious repercussions on the stability of individual banks and much of the banking system. Greater recourse to the capital market in addition to bank credit gives firms a better balanced financial structure and spreads risk more widely through the flexibility provided by variations in securities prices. In order to ensure that investors have a substantial and lasting commitment to the enterprises they finance, they must be assured of adequate long-term returns; firms must implement policies of transparency and disclosure, which are also necessary to achieve higher levels of efficiency.

The capital market in Italy has made considerable progress. The ratio of Italian firms' market capitalization to gross domestic product rose from 6 per cent in the early eighties to 15 per cent in 1993. However, international comparisons confirm that Italy still lags behind other economies, even those in which banks play a major role.

The contribution of risk capital to the financing of firms in Italy is no less than in the other leading economies; the peculiarity of the Italian situation lies in the limited role of the official market. Listed companies accounted for 15 per cent of the total net worth of non-financial enterprises in 1992. A large number of companies satisfy Consob's minimum requirements for admission to the stock exchange: 1,700 of the non-financial enterprises covered by the Company Accounts Data Service, including 600 medium-to-large firms, with a total net worth of more than 55 trillion lire.

The privatization of publicly-owned assets is an important element in raising the efficiency of the economy; it is also an opportunity to increase the breadth and quality of the official market. Sound companies with good earnings prospects should attract large numbers of small investors.

The development of the capital market, and especially the equity market, may be boosted by the spread of funded supplementary pension schemes, which invest the contributions they receive. Pension funds will encourage capital formation by generating large and steady flows of savings and will facilitate the reallocation of households' wealth towards longer-term financial assets.

The banks can make a decisive contribution to the development of the financial market by exploiting the scope offered by the new legislation. Intermediaries have important functions to perform in connection with the greater opportunities for firms to issue debt securities: bringing profitable firms to the market, organizing issues and their placement with customers and guaranteeing the securities of unlisted companies.

A broad and robust market will be a source of funds for the banks themselves as they seek to strengthen their capital bases.

The ratio of total financial assets to gross domestic product has risen only slightly in Italy in recent decades. The financial assets held by households and businesses were equivalent to about twice GDP in 1992, similar to the figure for Germany. In the same year, the ratio was nearly four times GDP in Japan and more than three times GDP in France, the United States and the United Kingdom.

There is considerable room for growth, as the ownership of shares in firms directly or through intermediaries is still limited and the volume of private bonds in issue is small; the value of real estate directly owned by households is especially large. Financial intermediation can be expected to intensify in response to the increased circulation of the various forms of wealth.

The Bank of Italy has taken an active role in the organization of the markets most closely related to its responsibilities for monetary control. It has collaborated with the Treasury and Consob in developing a broader and more efficient market for private securities.

In the last twenty years the international capital markets and the financial sector in general have recorded a considerable rise in the volume of business, accompanied by the emergence of new market participants and instruments. These developments have permitted better risk management and fostered the creation of highly liquid markets; however, they have also provided ample scope for speculative activity. They pose new problems for the supervision of the banking system, on which the other markets are ultimately based, and that of other intermediaries and the markets themselves.

In view of competition from more advanced economies in a regime of completely free capital movements, Italy must raise the quality of its financial services substantially. The development of a complex financial industry requires considerable investment in organization and human capital. Success in facing this challenge can only redound to the advantage of the Italian economy as a whole.

Ladies and Gentlemen,

The difficulties encountered by the industrial economies in recent years are the result of far-reaching changes in the organization and composition of production.

Monetary policy has been more decisive in repressing inflation, in the light of the damage the latter has caused in the past and as a reflection of changes in intellectual approach. In the late eighties and early nineties monetary policy was instrumental in regaining control over prices, but because of the deficiencies of other economic policies it left a legacy of high interest rates. The scale of budget deficits and, above all, the increase in debt constrained the conduct of monetary policy, thereby contributing to the high level of interest rates. The already large number of persons without work was swollen by a substantial element of cyclical unemployment.

The imbalances between the different areas of the world economy have become more pronounced; monetary policies alone cannot correct them, even if they are actively pursued at national level and coordinated internationally. Exchange rate adjustments between the leading currencies have been substantial, but not sufficient to eliminate the imbalances. On occasion, exchange rate movements have become disorderly and have adversely affected national policies, especially in small and medium-sized countries.

There is an urgent need for a profound re-examination of the relationship between monetary, structural and budgetary policies at national level, and between economic policies at international level. Closer coordination is necessary to improve the utilization of labour, plant and potential savings and to counteract cyclical variations generated by market forces.

The recent world trade agreement, which brought the long-running Uruguay Round of negotiations to a close, offers the prospect of further substantial improvements in efficiency; its implementation also makes it necessary to tackle the problems of restructuring in sectors where competitiveness is weakest.

The European Union's White Paper on growth and employment calls for substantial investment in infrastructure, improvements in the allocation mechanisms of the labour market and full implementation of the single market; if promptly implemented, it could help reduce cyclical unemployment, as well as having an impact over the medium term.

The trade agreement and the European Union's plan could strengthen and prolong the recovery in Europe, which is still weak.

Nineteen ninety-three was a doubly difficult year for the Italian economy. The cyclical and structural problems due to developments in the world economy were compounded by domestic problems arising from the need to make large adjustments in the public finances and prevent the depreciation of the lira from affecting prices.

The fall in the exchange rate could have caused an upsurge in domestic inflation. In a country that has been afflicted by inflation many times in the past, this would have damaged the performance of the economy for years to come; it would have led to a renewed rise in interest rates, created the risk of a financial crisis, seriously harmed the public finances and undermined the stability of businesses and banks.

The scale of the public finance measures and the severity of the monetary restrictions prevented a rekindling of inflation and thus allowed the slowdown in prices to continue. The new agreement on labour costs and the depressed state of consumer spending had a positive effect.

The cost of the crisis and of the subsequent stabilization measures was high; the contraction in households' consumption, disposable income and saving and the fall in investment were without precedent in Italy over the past four decades. The distribution and size of the fall in employment confirm that the cost of the crisis and the reduction in living standards are heavily concentrated in the poorer regions of the country and among certain social groups.

Had the economic measures I have described not been taken, the harm to the economy would have been greater.

Looking to the future, the profound changes of the past year and the crisis itself can be viewed as an opportunity to adjust the major aggregates of our economy and initiate a period of growth.

The economic problems that could re-emerge if the growth in demand were predominantly consumption-led, and hence once again had an adverse effect on the balance of payments and inflation, and the need to tackle them by means of resolute fiscal and monetary measures, make it essential to ensure that the recovery, which is already well under way in the export sector, spreads to private and public capital formation as well.

Continued efforts to balance the budget, a favourable export performance and a reduction in the country's external debt are fundamental preconditions for channeling savings into productive investment, stimulating a lasting economic recovery and consolidating the value of the currency.

The maintenance of wage restraint, which has been confirmed in the pronouncements of trade union and political representatives, remains essential to prolonging the period of stability in unit labour costs; it could reduce inflation, which has not yet been eradicated from our economy, to the lowest levels in Europe.

Correct credit allocation by the banks performs a crucial role in non-inflationary growth. If the purchasing power generated by lending translates into productive activities and investment that increase the supply of useful goods, monetary expansion will not have a harmful effect; indeed, it will reduce inflation.

The recent lowering of reserve requirements is a further contribution to reducing the cost of corporate credit, particularly that of longer-term borrowing and investment finance and especially for small and medium-sized firms with a higher labour intensity.

Unemployment in some regions of southern Italy has reached levels similar to those experienced in the immediate postwar period. Unemployment is now less bearable owing to the differences in economic and social status between those in work and those who feel excluded from all opportunities for productive employment. Prolonged unemployment among the young is an enormous waste of human resources and has detrimental effects on the social structure and on the sense of participation in society and community life, and in extreme cases provides recruits for organized crime.

The ultimate purpose of the economy can only be to permit all those able to contribute their labour to participate in the creation of national wealth.

Our nation has the entrepreneurs and labour necessary to achieve sustained growth, and our saving rate is among the highest in the world. New investment is needed to release the potential saving inherent in the underutilization of resources. A transfer of funds amounting to only a few percentage points of national income from the current budget deficit to investment would substantially increase the stock of productive capital.

A resumption in public works projects would contribute to the recovery in investment and employment. Even in the more prosperous parts of the country, let alone the less developed areas, there is a long-standing need for an increase in infrastructure, with which Italy is poorly endowed by comparison with its competitors in Europe. In this domain, the improper use of public money has borne all too heavily on the level, quality and efficiency of public expenditure. The principles and guidelines underlying standards of good conduct and the selection of projects itself must be based entirely on appropriate procedures established by authorities whose sole objective is to serve the common good.

Acting exclusively in the national interest, the Bank of Italy remains vigilant to prevent any erosion of the value of the currency with the aim of contributing to the orderly development of the economy.

Bank deposits constitute a large proportion of the money supply. The soundness of this component of money, both domestically and externally, is assessed in terms of the quality of the loans they finance. Banking supervision, which the new Banking Law has made more consistent with the needs of the economy, is designed to ensure that lending is conducted in accordance with the principles of efficient resource allocation and directed towards sustaining output.

The Bank traditionally combines its tasks in the fields of monetary policy and banking supervision with analysis and advice to foster the growth of the economy and the development of society. In all the international organizations and bodies in which it is represented, the Bank plays its full part in seeking to promote the growth of the world economy, in which Italy is ever more closely integrated.

STATISTICAL APPENDIX

LIST OF TABLES

(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 goods and services	
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	39,159	339,047	452,882	44,951	110,252	56,297	952,686	265,534	1,218,220
1992	40,054	339,991	461,110	49,224	111,084	56,799	959,814	277,803	1,237,617
1993	38,787	332,907	467,008	50,974	111,360	54,358	953,446	257,611	1,211,057
1989 – I	9,371	81,390	107,055	10,145	26,965	13,223	227,860	58,564	286,424
II	9,099	82,159	107,786	10,333	27,041	13,348	229,100	59,415	288,515
III	9,571	83,613	108,642	10,614	27,068	13,409	231,690	59,681	291,371
IV	9,566	83,535	110,045	10,708	27,123	13,503	233,064	60,007	293,071
1990 – I	9,388	84,006	110,691	10,813	27,219	13,584	234,075	62,613	296,689
II	9,242	84,140	110,930	10,881	27,299	13,672	234,402	64,237	298,639
III	9,579	85,041	112,281	11,004	27,354	13,722	236,973	64,682	301,655
IV	8,300	85,134	112,260	11,006	27,409	13,839	235,937	65,252	301,189
1991 – I	9,689	84,212	112,243	11,010	27,466	13,917	236,518	64,981	301,499
II	9,872	84,270	112,802	11,081	27,530	14,030	237,423	66,376	303,799
III	9,619	84,875	113,705	11,311	27,594	14,128	238,609	66,780	305,389
IV	9,979	85,690	114,132	11,549	27,662	14,222	240,135	67,398	307,533
1992 – I	9,984	85,918	114,669	11,888	27,708	14,331	240,721	70,290	311,012
II	9,932	85,890	115,342	12,172	27,753	14,328	241,073	69,809	310,882
III	10,225	84,003	115,526	12,497	27,793	14,187	239,237	69,984	309,221
IV	9,913	84,180	115,573	12,667	27,831	13,953	238,783	67,719	306,502
1993 – I	9,710	83,178	115,999	12,699	27,853	13,644	237,684	64,055	301,739
II	9,632	83,624	116,688	12,700	27,853	13,536	238,633	63,746	302,380
III	9,470	82,347	117,182	12,788	27,842	13,561	237,614	64,682	302,296
IV	9,976	83,758	117,139	12,786	27,812	13,616	239,514	65,128	304,642

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

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
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
100,743	108,782	623,015	153,207	8,933	223,540	210,560	125,842	81,670	204,943	122,928	295,144
98,643	106,667	631,457	154,665	11,410	234,775	211,924	128,292	83,001	208,240	123,324	299,893
92,529	90,027	617,964	155,854	–3,680	258,363	212,045	123,340	74,417	208,162	123,138	286,664
24,011	25,777	146,625	37,145	3,614	49,253	50,782	29,097	19,183	47,564	30,366	68,695
23,590	25,686	147,681	37,252	1,649	52,657	50,921	29,280	19,599	47,880	30,451	69,350
23,956	26,152	148,228	37,281	2,841	52,913	50,931	29,314	19,839	48,144	30,562	69,522
24,447	27,046	149,152	37,393	1,999	53,034	51,042	29,552	19,923	48,635	30,614	69,902
25,016	27,693	149,870	37,472	3,542	53,096	51,218	29,698	19,781	49,173	30,499	70,198
24,877	27,396	151,103	37,633	1,434	56,197	51,549	30,125	19,657	49,772	30,560	70,770
24,666	27,096	151,999	37,812	3,877	56,205	51,701	30,451	19,771	50,077	30,598	71,325
24,761	26,723	153,373	37,939	1,490	56,903	52,048	30,951	19,979	50,396	30,745	72,232
24,904	26,450	154,318	38,103	730	56,994	52,233	31,180	20,218	50,687	30,764	72,866
25,243	26,987	155,273	38,265	2,734	55,297	52,555	31,305	20,320	51,093	30,735	73,445
25,393	27,619	156,191	38,368	2,993	54,826	52,765	31,488	20,528	51,409	30,669	74,113
25,203	27,727	157,233	38,471	2,475	56,423	53,007	31,869	20,603	51,754	30,759	74,720
25,091	27,583	158,327	38,511	2,906	58,593	53,196	32,304	20,825	52,003	30,878	75,447
24,840	27,308	158,952	38,610	4,277	56,896	53,165	32,436	21,117	52,234	30,929	75,788
24,538	26,518	157,883	38,731	1,780	59,771	52,900	32,003	20,887	52,093	30,806	74,984
24,174	25,258	156,295	38,813	2,447	59,515	52,663	31,548	20,173	51,911	30,711	73,673
23,520	23,306	154,399	38,898	–2,577	64,194	52,607	30,956	19,040	51,797	30,609	71,993
23,273	22,183	153,984	38,950	374	63,617	52,886	30,680	18,387	52,030	30,730	71,223
22,998	22,049	154,456	39,007	–1,678	65,465	53,187	30,709	18,422	52,137	30,872	71,446
22,738	22,489	155,126	38,999	201	65,088	53,366	30,995	18,568	52,197	30,927	72,001

Table a2

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

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
	Unit labour costs *(current lire per thousand lire of value added at 1985 prices)*									
Market goods and services (1)	**643.9**	**695.6**	**728.9**	**759.1**	**787.7**	**831.1**	**889.6**	**961.4**	**995.7**	**1,002.2**
Agriculture, forestry and fisheries	862.7	916.4	940.0	943.1	1,008.3	998.3	1,068.7	1,048.5	1,086.0	1,092.1
Industry	593.3	637.4	665.8	684.4	703.1	748.0	804.4	868.3	899.7	916.2
Excluding construction	*592.7*	*633.5*	*656.8*	*672.6*	*687.3*	*732.9*	*783.6*	*841.1*	*864.2*	*875.7*
Energy products	*310.8*	*349.7*	*366.0*	*387.1*	*410.5*	*437.3*	*475.0*	*509.2*	*524.3*	*517.8*
Manufactures	*624.2*	*664.0*	*688.6*	*703.3*	*715.1*	*762.3*	*814.4*	*874.7*	*899.3*	*913.6*
Construction	*567.6*	*621.4*	*673.0*	*699.1*	*738.9*	*778.1*	*860.8*	*945.2*	*1,009.4*	*1,039.2*
Services (1)	617.5	673.6	708.1	749.5	786.5	834.4	889.8	967.7	1,007.0	1,006.1
Distributive trades, lodging & catering	*545.8*	*614.2*	*645.8*	*684.4*	*706.7*	*749.0*	*806.5*	*880.3*	*918.9*	*954.4*
Transport & communications	*641.8*	*673.1*	*687.5*	*714.9*	*718.7*	*760.0*	*792.6*	*838.5*	*850.0*	*810.7*
Finance and insurance	*555.4*	*580.2*	*599.4*	*658.0*	*681.8*	*704.7*	*734.2*	*793.2*	*847.5*	*781.6*
Miscellaneous services	*558.8*	*624.2*	*673.6*	*711.1*	*794.8*	*857.6*	*930.7*	*1,039.4*	*1,077.8*	*1,098.5*
Non-market services	**897.2**	**982.5**	**1,061.5**	**1,167.6**	**1,296.8**	**1,391.3**	**1,615.4**	**1,749.2**	**1,827.0**	**1,879.8**
General government	899.1	982.3	1,063.9	1,170.7	1,302.2	1,390.7	1,621.5	1,752.6	1,829.7	1,879.2
Total (1)	**682.6**	**738.2**	**778.6**	**819.4**	**861.9**	**909.6**	**995.0**	**1,075.0**	**1,112.8**	**1,125.9**
	Value added at factor cost per full-time equivalent worker *(thousands of lire at 1985 prices)*									
Market goods and services (1)	**33,748.9**	**34,496.3**	**35,238.8**	**36,441.9**	**37,867.3**	**39,161.4**	**39,700.9**	**39,920.5**	**40,972.6**	**42,223.1**
Agriculture, forestry and fisheries	14,427.3	15,204.0	15,508.4	16,534.8	16,747.2	17,855.3	17,596.4	19,029.9	20,176.4	21,054.4
Industry	37,547.2	38,948.9	40,083.1	41,923.5	43,966.8	45,380.3	46,010.8	46,473.0	47,771.3	48,613.9
Excluding construction	*39,684.6*	*41,380.7*	*42,681.2*	*44,834.6*	*47,159.8*	*48,519.6*	*49,365.3*	*50,327.1*	*52,485.8*	*54,059.5*
Energy products	*119,653.0*	*118,159.7*	*122,195.0*	*123,216.4*	*125,142.9*	*130,625.6*	*134,671.1*	*138,008.2*	*144,571.0*	*150,162.7*
Manufactures	*36,725.2*	*38,459.2*	*39,592.1*	*41,701.4*	*44,094.6*	*45,366.9*	*46,085.9*	*46,921.2*	*48,837.0*	*50,223.2*
Construction	*30,746.3*	*31,200.1*	*31,749.9*	*32,562.8*	*33,506.4*	*34,939.0*	*35,051.4*	*34,466.7*	*33,776.5*	*32,897.6*
Services (1)	36,636.6	36,589.1	37,098.9	37,778.3	38,763.2	39,728.3	40,249.4	40,060.1	40,821.6	42,290.5
Distributive trades, lodging & catering	*32,324.5*	*32,301.8*	*32,594.4*	*33,317.8*	*34,598.4*	*35,525.6*	*35,872.6*	*35,781.4*	*36,128.9*	*36,228.5*
Transport & communications	*41,606.4*	*43,286.2*	*43,949.8*	*44,668.2*	*47,217.3*	*48,995.6*	*50,979.2*	*52,128.0*	*54,545.9*	*57,905.9*
Finance and insurance	*90,297.3*	*93,859.0*	*100,081.4*	*98,367.2*	*101,826.5*	*105,143.7*	*107,821.7*	*107,005.3*	*111,266.8*	*125,470.9*
Miscellaneous services	*33,618.3*	*32,305.4*	*32,313.9*	*33,257.8*	*32,566.9*	*32,707.7*	*32,640.9*	*31,824.4*	*31,876.1*	*32,514.1*
Non-market services	**25,614.9**	**25,533.4**	**25,729.4**	**25,619.7**	**25,545.1**	**25,630.0**	**25,703.5**	**25,647.8**	**25,546.5**	**25,663.1**
General government	27,938.3	27,917.9	28,067.8	27,893.2	27,803.7	27,896.8	28,067.6	28,133.3	28,125.5	28,257.8
Total (1)	**32,311.8**	**32,895.7**	**33,539.8**	**34,488.5**	**35,627.0**	**36,690.9**	**37,149.7**	**37,311.4**	**38,090.9**	**39,046.5**

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	Aggregate index
	For industry	Transport equipment	Multi-sector	Total	Durable	Semi-durable	Non-durable	Total	For industry	For consumer goods	Mixed purpose	Total		
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	116.7	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	115.6	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
1993	101.3	125.3	106.9	106.4	120.5	108.2	125.2	116.7	97.6	102.0	113.5	110.6	109.6	111.4
1987 – I	103.4	122.9	108.2	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	114.8	112.0	115.9	101.1	107.1	106.4	103.1	109.5	109.3	108.7	107.5	108.4
III ...	106.8	118.7	104.0	108.4	113.6	97.0	111.6	105.7	102.7	108.2	108.3	107.7	107.1	107.7
IV ...	109.2	135.8	103.9	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	107.9	117.0	119.3	102.9	114.1	110.3	107.5	110.1	113.3	112.4	112.2	112.6
II ...	114.0	152.6	102.7	118.9	120.4	101.1	115.6	110.3	106.1	107.7	113.9	112.4	113.0	113.1
III ...	116.8	153.8	109.5	122.1	124.0	104.1	115.1	112.3	109.3	106.2	115.7	114.0	114.5	114.6
IV ...	116.6	149.9	104.7	120.5	127.1	103.1	117.3	113.3	110.5	109.3	117.4	115.8	115.7	116.1
1989 – I	117.2	145.9	107.5	120.7	126.0	101.8	116.3	112.1	113.7	109.9	116.5	115.4	115.2	115.7
II	117.8	137.8	107.3	119.6	126.6	104.8	118.5	114.3	114.7	111.8	116.7	115.9	116.4	116.4
III ...	118.9	154.9	110.4	123.8	127.1	109.8	118.2	116.5	116.1	113.8	120.1	119.0	117.9	118.2
IV ...	124.3	153.7	116.9	128.2	128.6	104.9	120.5	115.5	118.6	117.4	120.0	119.5	120.1	120.2
1990 – I	124.4	155.4	105.6	126.8	125.0	103.7	120.5	114.1	119.0	109.5	117.5	116.7	117.7	118.2
II	123.5	151.8	115.0	127.1	124.9	104.0	121.2	114.5	119.3	110.2	116.9	116.4	117.1	118.1
III ...	122.1	157.9	104.5	125.5	130.3	105.4	126.0	117.9	115.9	113.6	120.0	118.8	118.0	118.6
IV ...	118.9	151.4	103.9	122.2	120.6	107.0	125.2	116.2	112.9	110.7	114.8	114.1	115.6	116.2
1991 – I	113.7	155.1	107.5	120.0	124.0	105.6	124.1	116.0	110.6	112.4	114.9	114.2	114.6	115.8
II	111.6	167.2	101.3	119.7	124.8	103.7	122.5	114.8	111.2	109.9	115.6	114.5	114.2	115.4
III ...	109.6	155.4	107.3	117.3	124.3	103.9	124.4	115.4	109.1	108.9	114.7	113.5	113.6	114.6
IV ...	107.9	150.2	106.6	115.1	124.0	108.1	124.3	117.1	108.7	108.4	117.0	115.2	114.6	115.7
1992 – I	108.3	158.4	103.2	116.3	125.6	108.8	125.4	118.2	111.7	109.2	118.1	116.4	115.7	116.9
II	104.7	151.4	105.2	113.0	124.2	108.9	129.0	119.1	108.2	109.9	117.6	115.7	115.1	116.2
III ...	104.0	146.8	95.0	110.0	119.4	108.7	125.2	116.7	106.6	106.7	115.0	113.2	111.9	113.8
IV ...	102.2	143.8	99.8	109.1	119.5	105.8	127.3	116.1	104.7	105.7	113.1	111.4	110.6	112.1
1993 – I	101.9	129.3	108.3	107.8	118.9	107.3	128.4	117.0	99.0	103.4	113.6	110.9	110.0	111.9
II	103.0	127.5	103.6	107.4	118.8	107.7	124.4	115.9	97.7	101.3	112.9	110.0	109.0	110.8
III ...	100.4	124.7	108.5	106.0	121.9	108.2	124.7	116.9	98.4	101.3	113.2	110.4	109.8	111.6
IV ...	99.8	119.6	107.3	104.5	122.3	109.7	123.5	117.2	95.1	101.8	114.4	111.0	109.6	111.4

Source: Based on Istat data.

Table a4

CONSUMER PRICES FOR THE POPULATION AS A WHOLE

(percentage changes on corresponding period) (1)

	Overall index *(100.0)*	Goods				Services *(34.7)*	Other than food						
		Food *(21.5)*	Non-food non-energy *(37.8)*	Energy *(6.0)*	Total *(65.3)*		Clothing & footwear *(11.0)*	Housing, fuel & electricity *(7.7)*	Furniture, furnish-ings, etc. *(10.8)*	Medical care and health *(6.9)*	Transport & commu-nications *(13.7)*	Recreation, enter-tainment, education & cultural services *(10.1)*	Other goods & services *(18.3)*
1984	10.8	9.1	10.4	10.4	9.8	13.3	11.3	16.8	9.5	11.4	10.7	11.2	11.2
1985	9.2	8.6	9.2	6.0	8.6	10.4	10.8	7.3	8.9	14.2	7.1	9.9	10.3
1986	5.9	5.5	5.5	–5.0	4.5	8.9	8.3	0.6	6.4	4.6	4.3	9.0	8.3
1987	4.7	4.3	5.5	0.3	4.3	5.5	6.6	3.1	5.1	5.0	3.4	4.4	6.7
1988	5.0	3.9	4.9	4.1	4.4	6.4	5.8	4.9	4.7	4.7	4.2	7.9	6.2
1989	6.3	6.3	5.2	4.5	5.6	7.7	6.1	6.3	6.2	9.5	4.7	6.4	6.7
1990	6.5	6.2	4.6	11.4	6.0	7.3	5.8	10.3	5.3	6.5	5.3	7.7	6.1
1991	6.3	6.6	4.6	9.0	5.8	7.2	5.4	8.8	5.7	6.1	5.7	5.6	6.9
1992	5.2	5.3	3.8	0.9	3.9	7.6	5.2	4.2	4.7	5.4	4.9	5.7	13.9
1993	4.5	2.2	4.6	4.5	3.7	5.6	3.8	5.2	4.5	6.9	4.7	3.4	–1.5
1989 – I	5.9	5.7	5.1	3.5	5.2	7.3	5.9	5.9	5.7	9.0	3.9	7.1	6.3
II	6.5	6.6	5.3	3.5	5.7	7.9	6.1	5.8	6.3	10.3	4.6	7.2	6.7
III	6.4	6.5	5.0	3.3	5.5	8.2	6.2	5.3	6.6	10.4	4.5	6.7	6.9
IV	6.3	6.2	5.2	7.7	5.9	7.3	6.4	8.0	6.2	8.0	5.8	4.7	6.9
1990 – I	6.5	6.1	5.0	9.8	5.9	7.5	6.2	9.6	5.8	5.9	5.5	7.4	6.5
II	6.1	6.1	4.4	9.6	5.7	7.0	5.9	9.6	5.4	5.9	4.7	6.9	5.8
III	6.5	6.5	4.5	12.4	6.2	7.3	5.7	10.7	5.0	6.7	5.4	7.8	6.0
IV	6.7	6.2	4.7	13.7	6.3	7.4	5.4	11.3	5.1	7.7	5.3	8.6	6.3
1991 – I	6.4	6.4	4.4	14.8	6.1	6.6	5.2	11.9	5.5	6.7	5.1	5.2	6.4
II	6.5	6.6	5.0	11.8	6.2	7.2	5.5	10.0	5.7	6.2	5.8	5.6	7.1
III	6.4	6.6	4.8	7.6	5.6	7.6	5.5	8.4	5.9	5.6	4.9	6.2	7.1
IV	5.9	6.9	4.3	2.7	4.9	7.6	5.3	5.3	5.7	5.8	4.3	5.4	6.7
1992 – I	5.7	6.6	4.1	–0.7	4.4	7.9	5.5	3.6	5.1	5.6	4.0	6.8	6.5
II	5.5	6.0	3.8	1.8	4.2	7.5	5.2	4.8	4.7	4.9	4.4	6.4	6.0
III	5.1	4.8	3.7	1.7	3.7	7.3	5.2	4.7	4.6	5.3	4.8	5.1	5.8
IV	4.8	3.8	3.7	0.9	3.3	7.2	4.8	3.7	4.5	5.8	4.8	4.6	6.4
1993 – I	4.4	2.1	4.4	2.3	3.4	6.2	4.4	3.6	4.5	7.8	5.8	2.9	6.0
II	4.4	1.8	4.5	4.7	3.6	5.9	4.0	5.4	4.6	7.9	5.4	3.0	5.9
III	4.6	2.2	4.9	6.2	4.1	5.4	3.9	5.9	4.6	7.0	5.7	3.9	5.9
IV	4.4	2.6	4.7	5.0	4.0	5.1	3.2	5.9	4.3	5.0	6.3	3.8	5.3

Source: Based on Istat data.
(1) Weightings are shown in brackets (1990=100).

Table a5

CONSUMER PRICES FOR WORKER AND EMPLOYEE HOUSEHOLDS

(percentage changes on corresponding period) (1)

	Overall index *(100.0)*	Categories of expenditure								
		Food *(20.9)*	Clothing *(11.5)*	Electricity & other fuels *(4.0)*	Housing *(5.4)*	Household goods *(11.4)*	Medical care and health *(2.4)*	Transport & commu-nications *(14.5)*	Recreation, entertainment, education & cultural services *(11.7)*	Other goods & services *(18.2)*
1984	10.6	9.1	10.9	11.1	23.0	....	....	....	....	....
1985	8.6	8.5	9.7	9.0	5.3	....	....	....	....	....
1986	6.1	5.3	8.4	–6.0	8.5	....	....	....	....	....
1987	4.6	4.1	6.5	–0.1	6.5	....	....	....	....	....
1988	5.0	4.0	5.8	4.2	6.6	....	....	....	....	....
1989	6.6	6.2	6.2	5.8	6.3	....	....	....	....	....
1990	6.1	5.9	5.9	13.6	7.2	5.6	4.5	4.7	5.2	6.5
1991	6.4	6.9	5.5	5.0	7.3	6.1	5.9	5.6	7.1	7.1
1992	5.4	4.8	5.5	0.6	6.9	5.4	7.6	3.7	6.7	6.7
1993	4.2	2.1	3.7	4.4	6.3	4.1	7.7	5.4	2.7	6.0
1989 – I	6.1	5.6	6.1	5.2	6.6	....	....	....	....	....
II	6.8	6.7	6.1	4.9	6.1	....	....	....	....	....
III	6.8	6.4	6.3	4.3	6.0	....	....	....	....	....
IV	6.6	6.0	6.6	8.9	6.7	....	....	....	....	....
1990 – I	6.2	5.8	6.3	12.6	7.7	6.0	5.3	5.4	4.3	6.9
II	5.7	5.6	6.0	12.3	7.2	5.6	4.4	4.2	4.1	6.2
III	6.1	6.1	5.8	13.8	7.3	5.2	4.1	4.9	5.5	6.3
IV	6.4	6.2	5.2	15.5	6.8	5.8	4.5	4.4	7.0	6.6
1991 – I	6.6	6.8	5.3	12.9	5.5	5.9	5.8	5.4	8.0	6.8
II	6.8	6.9	5.4	6.5	6.9	6.0	5.9	6.2	8.2	7.5
III	6.4	7.0	5.7	2.6	8.2	6.3	5.8	5.2	6.6	7.3
IV	6.1	7.0	5.7	–1.3	8.5	5.9	5.9	5.4	5.8	6.9
1992 – I	5.6	6.2	5.8	–3.1	8.9	5.4	4.5	3.5	7.1	6.8
II	5.5	5.2	5.5	1.9	7.5	5.6	4.3	3.8	6.6	6.8
III	5.2	3.9	5.5	3.0	5.9	5.5	9.7	4.2	6.5	6.5
IV	4.8	2.9	4.7	1.0	5.4	5.0	11.8	3.5	6.5	7.0
1993 – I	4.3	1.7	4.3	2.2	5.2	4.7	12.6	5.2	3.1	6.3
II	4.1	1.6	4.0	5.0	5.9	4.1	11.2	4.7	3.0	5.9
III	4.3	2.4	3.6	5.9	6.8	3.9	5.3	5.5	3.0	6.1
IV	4.1	2.7	3.2	4.8	7.3	3.6	2.4	6.3	1.7	5.5
1994 – I	4.2	3.3	3.0	6.3	7.9	3.5	1.0	6.0	2.3	5.1

(1) Weightings are shown in brackets (1992=100).

WHOLESALE PRICES

(percentage changes on corresponding period) (1)

	Overall index (100.0)	Final consumer goods					Final capital goods (5.3)	Raw materials and intermediate goods		
		Durable (6.0)	Semi-durable (5.7)	Non-durable (16.0)	of which: food (14.1)	Total (27.7)		Energy (26.1)	Non-energy (40.9)	Total (67.0)
1990	7.4	3.2	9.5	5.3	5.1	5.7	5.5	16.8	3.5	8.3
1991	5.2	4.6	7.8	7.7	7.9	7.0	4.1	7.0	2.9	4.5
1992	2.1	5.5	8.7	2.3	2.1	4.3	3.3	0.0	1.8	1.1
1993	5.1	7.0	6.9	0.6	–0.1	3.3	3.6	8.6	4.4	6.1
1990 – I	6.4	3.0	10.3	4.8	4.6	5.5	5.7	13.5	3.3	6.9
II	4.6	2.6	9.5	5.6	5.1	5.7	5.2	5.8	3.1	4.1
III	8.6	4.2	8.7	4.9	4.9	5.5	5.8	22.0	3.6	10.2
IV	9.9	3.1	9.4	5.7	5.7	5.9	5.3	25.0	4.1	11.9
1991 – I	8.5	3.1	8.0	7.8	7.5	6.8	5.1	19.5	3.6	9.6
II	7.5	4.9	7.7	7.2	7.6	6.8	4.4	15.7	3.6	8.0
III	4.0	4.7	8.1	7.7	8.1	7.1	3.8	2.5	2.8	2.7
IV	1.1	5.6	7.5	7.9	8.2	7.3	3.3	–6.1	1.6	–1.6
1992 – I	0.9	5.9	8.2	5.2	5.9	6.0	3.0	–6.0	1.9	–1.4
II	2.7	5.9	9.0	3.9	3.6	5.4	3.2	1.6	1.6	1.6
III	1.7	4.6	8.6	1.1	0.3	3.4	3.2	0.6	1.0	0.9
IV	3.0	5.5	8.7	–0.9	–1.2	2.5	3.6	4.3	2.6	3.3
1993 – I	4.6	5.6	7.6	–1.0	–1.9	2.2	3.1	9.3	3.6	5.8
II	5.2	6.6	7.6	–0.3	–1.2	2.8	3.5	9.1	4.6	6.4
III	6.3	8.2	7.5	1.6	1.3	4.3	3.7	11.0	5.0	7.4
IV	4.5	7.7	5.1	2.2	1.6	4.1	4.1	5.3	4.3	4.7

Source: Based on Istat data.
(1) Weightings are shown in brackets (1990=100).

Table a7

ITALY'S REAL EFFECTIVE EXCHANGE RATES BASED ON THE PRODUCER PRICES OF MANUFACTURES (1)

(averages; indices, 1987 = 100)

	14 industrial countries	EU	Germany	France	UK	Belgium	Netherlands	US
1984	97.0	102.0	105.4	106.2	93.6	94.0	93.6	66.7
1985	95.3	100.1	105.0	101.8	90.7	92.1	94.4	65.6
1986	98.0	99.8	101.5	99.1	97.8	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	90.4	99.4	98.8	99.2
1989	99.6	100.5	102.2	101.6	94.0	100.0	101.2	94.5
1990	103.6	102.1	103.6	102.4	97.9	101.4	104.6	109.0
1991	104.1	103.0	104.1	105.0	93.6	104.7	107.0	108.6
1992	101.7	99.7	99.5	101.4	93.3	101.7	104.7	110.8
1993	88.2	87.7	86.0	88.6	85.9	90.7	91.5	89.2
1987 – I	101.0	101.1	100.5	100.8	105.1	99.9	100.7	99.5
II	99.5	99.6	99.7	99.7	98.9	99.2	99.7	99.8
III	99.5	99.7	100.1	99.7	98.8	99.8	99.5	97.1
IV	99.9	99.4	99.6	99.7	97.1	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	89.3	99.5	98.6	101.2
III	96.2	97.1	98.4	98.0	88.9	98.8	98.8	92.8
IV	97.3	97.6	99.0	99.0	89.0	98.7	98.5	98.3
1989 – I	97.9	98.6	100.6	100.3	88.8	99.4	99.4	95.0
II	98.5	99.8	101.7	101.1	92.1	99.5	100.0	91.1
III	100.5	101.6	103.7	102.5	95.1	100.7	102.6	93.5
IV	101.6	101.8	102.8	102.5	100.0	100.3	102.9	98.4
1990 – I	103.2	102.3	103.1	102.4	101.3	101.7	104.3	104.5
II	103.9	102.6	104.0	102.3	100.0	102.1	105.8	106.9
III	103.7	101.9	103.9	102.5	94.8	100.8	104.8	111.0
IV	103.6	101.6	103.2	102.3	95.4	101.2	103.7	113.6
1991 – I	105.1	103.0	104.3	104.7	94.7	104.5	106.1	115.9
II	103.7	103.3	105.0	105.1	92.6	105.0	108.1	104.5
III	103.4	102.9	103.9	105.1	93.0	104.9	106.9	103.5
IV	104.2	102.8	103.5	105.1	94.0	104.5	106.9	110.4
1992 – I	104.9	103.2	103.7	105.6	93.8	105.6	108.3	112.2
II	104.5	102.5	103.3	104.8	91.6	105.0	108.0	111.6
III	104.1	101.1	100.9	103.0	93.5	103.4	106.8	119.2
IV	93.4	91.8	90.0	92.1	94.2	92.8	95.6	100.3
1993 – I	87.9	86.9	85.2	87.3	89.0	89.1	90.5	89.8
II	89.7	88.9	87.6	89.3	87.5	91.1	92.9	92.5
III	88.8	88.9	86.8	90.4	84.9	92.4	92.8	88.8
IV	86.1	86.1	84.2	87.3	82.3	90.2	89.9	85.8

Sources: Based on Istat, OECD and IMF data.
(1) Rounding may cause discrepancies between quarterly and annual 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
1984	139,884		130,836		–9,048		3,993		–5,055	
1985	156,444		145,889		–10,555		2,940		–7,615	
1986	137,446		144,461		7,015		–3,994		3,021	
1987	150,684		150,881		197		–3,067		–2,870	
1988	167,318		166,379		–939		–7,321		–8,260	
1989	195,105		192,797		–2,308		–13,897		–16,205	
1990	202,109		203,515		1,406		–21,784		–20,378	
1991	209,969		209,731		–238		–29,099		–29,337	
1992	215,583		219,435		3,852		–38,077		–34,225	
1993	213,980		265,086		51,106		–33,121		17,985	
1989 – I	48,744	47,367	42,805	45,486	–5,939	–1,881	–5,407	–3,974	–11,346	–5,797
II	51,439	49,350	50,688	48,559	–751	–791	–1,496	–2,836	–2,247	–4,038
III	43,917	49,062	46,410	48,836	2,493	–226	–2,263	–3,458	230	–3,302
IV	51,005	49,326	52,894	49,916	1,889	590	–4,731	–3,629	–2,842	–3,068
1990 – I	52,189	50,804	47,104	49,829	–5,085	–975	–6,880	–5,634	–11,965	–6,240
II	51,586	49,393	53,321	50,791	1,735	1,398	–4,684	–6,180	–2,949	–5,022
III	44,020	49,351	47,709	50,673	3,689	1,322	–3,569	–4,606	120	–2,924
IV	54,314	52,561	55,381	52,222	1,067	–339	–6,651	–5,364	–5,584	–6,192
1991 – I	52,417	51,083	49,860	52,258	–2,557	1,175	–6,862	–5,669	–9,419	–3,778
II	55,165	52,787	54,073	51,503	–1,092	–1,283	–6,209	–7,560	–7,301	–9,308
III	47,482	52,784	48,629	51,942	1,147	–841	–6,904	–7,831	–5,757	–8,527
IV	54,905	53,315	57,169	54,026	2,264	711	–9,124	–8,039	–6,860	–7,724
1992 – I	55,943	54,469	52,614	54,747	–3,329	278	–8,533	–7,718	–11,862	–6,352
II	56,838	54,792	55,403	52,858	–1,435	–1,934	–6,322	–7,822	–7,757	–9,862
III	47,440	52,411	51,473	55,027	4,033	2,616	–11,593	–12,412	–7,560	–9,776
IV	55,362	53,911	59,945	56,803	4,583	2,892	–11,629	–10,125	–7,046	–8,235
1993 – I	54,454	52,605	61,273	63,433	6,819	10,828	–8,732	–8,006	–1,913	4,094
II	55,923	53,584	67,495	64,695	11,573	11,111	–8,260	–9,929	3,313	987
III	47,643	53,482	63,216	67,275	15,573	13,793	–9,546	–10,138	6,027	4,056
IV	55,960	54,309	73,101	69,683	17,141	15,374	–6,583	–5,048	10,558	8,848

(1) Rounding may cause discrepancies in totals. – (2) New series. – (3) From 1992 onwards, new series for short-term trade credits. – (4) Changes in official reserves are given net of valuation

PAYMENTS ONA TRANSACTIONS BASIS(1)
of lire)

Capital movements						Errors and omissions	Changes in official reserves (4)
Non-banking				Banking	Capital account balance		
Investment	Lending	Trade and other credits (3)	Total				
–1,026	2,410	–1,031	353	5,138	5,491	4,759	–5,195
–713	4,743	2,511	6,541	–5,299	1,242	–7,278	13,651
–5,542	2,842	–17	–2,717	6,454	3,737	–3,269	–3,489
–7,274	10,957	1,950	5,633	5,573	11,206	–1,561	–6,775
2,142	8,914	356	11,412	10,224	21,636	–2,470	–10,906
4,739	18,127	–3,760	19,106	14,979	34,085	–2,494	–15,386
–1,805	31,443	–449	29,189	22,976	52,165	–16,631	–15,156
–13,675	5,713	–2,348	–10,310	39,369	29,059	–8,293	8,571
–14,782	2,932	–2,801	–14,651	25,303	10,652	–8,975	32,548
76,549	–4,445	–7,863	64,241	–53,486	10,755	–26,534	–2,206
–765	6,120	328	5,683	11,285	16,968	1,364	–6,986
4,312	5,907	–1,487	8,732	–856	7,876	–1,465	–4,164
4,909	5,134	177	10,220	2,237	12,457	–4,479	–8,208
–3,717	966	–2,778	–5,529	2,313	–3,216	2,086	3,972
–4,526	10,665	1,302	7,441	9,968	17,409	459	–5,903
7,557	10,966	1,510	20,033	4,748	24,781	–6,371	–15,461
–6,066	13,248	–2,018	5,164	–2,790	2,374	–351	–2,143
1,230	–3,436	–1,243	–3,449	11,050	7,601	–10,368	8,351
–6,023	23,405	–1,021	16,361	3,048	19,409	–2,212	–7,778
–3,247	–7,209	223	–10,233	16,761	6,528	–1,351	2,124
–3,958	–3,929	–492	–8,379	12,725	4,346	–125	1,536
–447	–6,554	–1,058	–8,059	6,835	–1,224	–4,605	12,689
–21,739	6,937	–1,156	–15,958	23,284	7,326	3,844	692
–11,884	–1,919	1,389	–12,414	18,356	5,942	–11,574	13,389
–16,012	1,026	–1,056	–16,042	–17,214	–33,256	–4,116	44,932
34,853	–3,112	–1,978	29,763	877	30,640	2,871	–26,465
23,708	5,350	–1,993	27,065	–13,231	13,834	–11,078	–843
21,319	–3,882	–2,164	15,273	–15,815	–542	–3,218	447
14,779	–1,402	–616	12,761	–11,693	1,068	–2,648	–4,447
16,743	–4,511	–3,090	9,142	–12,747	–3,605	–9,590	2,637

adjustments. A minus sign indicates an increase in assets or a decrease in liabilities.

Table a9

ITALY'S EXTERNAL POSITION

(billions of lire)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
ASSETS	**160,241**	**174,577**	**185,223**	**193,644**	**227,232**	**282,239**	**325,362**	**392,520**	**508,758**	**658,635**
Non-bank capital	**87,621**	**93,341**	**106,689**	**119,205**	**135,745**	**167,769**	**209,656**	**267,774**	**354,517**	**465,262**
Investments	36,863	42,749	57,273	62,115	84,679	107,533	139,477	191,099	266,128	361,572
Direct	27,868	30,221	37,806	40,549	52,780	59,122	68,018	81,034	103,503	138,138
International organizations	2,510	2,358	2,386	2,745	3,903	3,903	3,304	3,672	4,068	4,550
Property	463	501	519	519	685	868	1,307	5,186	6,715	7,847
Other	24,895	27,362	34,901	37,285	48,192	54,351	63,407	72,176	92,720	125,741
Portfolio	8,995	12,528	19,467	21,566	31,899	48,411	71,459	110,065	162,625	223,434
Loans	10,573	12,007	12,841	14,040	8,742	14,013	18,671	23,325	30,543	37,277
Public	3,747	4,932	5,980	7,356	6,584	9,836	11,160	12,791	15,722	18,694
Private	6,826	7,075	6,861	6,684	2,158	4,177	7,511	10,534	14,821	18,583
Trade credits	40,185	38,585	36,575	43,050	42,324	46,223	51,508	53,350	57,846	66,413
Short-term	26,246	26,168	24,011	23,645	23,779	26,777	29,812	29,854	30,862	35,912
Medium and long-term	13,939	12,417	12,564	19,405	18,545	19,446	21,696	23,496	26,984	30,501
Bank capital	**72,620**	**81,236**	**78,534**	**74,439**	**91,487**	**114,470**	**115,706**	**124,746**	**154,241**	**193,373**
Banks accepting short-term funds	72,620	81,236	78,534	74,439	83,276	105,414	104,954	111,021	136,239	173,168
Bank accepting medium and long-term funds	–	–	–	–	8,211	9,056	10,752	13,725	18,002	20,205
LIABILITIES	**232,332**	**254,118**	**260,509**	**279,870**	**336,319**	**434,973**	**525,599**	**610,044**	**751,215**	**892,074**
Non-bank capital	**130,404**	**148,392**	**152,478**	**170,482**	**167,530**	**229,226**	**296,294**	**334,051**	**392,700**	**527,270**
Investments	28,788	42,959	49,312	49,758	71,072	105,495	128,065	175,828	204,648	335,099
Direct	23,794	33,485	36,574	38,529	50,310	64,715	67,806	70,878	73,489	91,929
International organizations	1,405	1,633	1,869	1,869	2,148	1,964	2,274	2,194	2,203	2,471
Other	22,389	31,852	34,705	36,660	48,162	62,751	65,532	68,684	71,286	89,458
Portfolio	4,994	9,474	12,738	11,229	20,762	40,780	60,259	104,950	131,159	243,170
Loans	78,600	81,340	79,972	92,855	67,386	94,100	133,700	124,200	152,380	155,795
Public	41,133	47,620	48,352	56,293	40,094	47,900	53,319	29,400	37,000	41,000
Private	37,467	33,720	31,620	36,562	27,292	46,200	80,381	94,800	115,380	114,795
Trade credits	23,016	24,093	23,194	27,869	29,072	29,631	34,529	34,023	35,672	36,376
Short-term	20,499	21,912	20,897	22,959	24,240	24,928	29,776	29,250	30,589	31,129
Medium and long-term	2,517	2,181	2,297	4,910	4,832	4,703	4,753	4,773	5,083	5,247
Bank capital	**101,928**	**105,726**	**108,031**	**109,388**	**168,789**	**205,747**	**229,305**	**275,993**	**358,515**	**364,804**
Banks accepting short-term funds	101,928	105,726	108,031	109,388	129,445	156,952	161,605	192,009	262,810	261,817
Bank accepting medium and long-term funds	–	–	–	–	39,344	48,795	67,700	83,984	95,705	102,987
NET POSITION (excluding the central bank)	**–72,091**	**–79,541**	**–75,286**	**–86,226**	**–109,087**	**–152,734**	**–200,237**	**–217,524**	**–242,457**	**–233,439**
Non-bank capital	–42,783	–55,051	–45,789	–51,277	–31,785	–61,457	–86,638	–66,277	–38,183	–62,008
Bank capital	–29,308	–24,490	–29,497	–34,949	–77,302	–91,277	–113,599	–151,247	–204,274	–171,431
CENTRAL BANK										
Assets	83,409	66,709	62,857	75,589	84,201	94,814	104,928	95,913	76,539	86,566
of which: *gold*	*41,887*	*39,530*	*35,203*	*39,812*	*37,242*	*33,663*	*30,579*	*29,288*	*29,944*	*36,910*
Liabilities	1,596	1,500	1,446	1,292	1,426	1,573	1,529	1,575	9,240	2,629
Net position	**81,813**	**65,209**	**61,411**	**74,297**	**82,775**	**93,241**	**103,399**	**94,338**	**67,299**	**83,937**
OVERALL NET POSITION (including the central bank)	**9,722**	**–14,332**	**–13,875**	**–11,929**	**–26,312**	**–59,493**	**–96,838**	**–123,186**	**–175,158**	**–149,502**
Excluding central bank gold from the assets	**–32,165**	**–53,862**	**–49,078**	**–51,741**	**–63,554**	**–93,156**	**–127,417**	**–152,474**	**–205,102**	**–186,412**

Table a10

CONSOLIDATED ACCOUNTS OF THE PUBLIC SECTOR

(billions of lire)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
REVENUE										
Current revenue	**287,501**	**325,147**	**366,673**	**402,318**	**449,663**	**513,182**	**571,703**	**640,293**	**712,062**	**756,307**
Direct taxes	93,347	106,324	116,439	131,679	147,328	172,585	190,103	209,201	249,115	260,237
Indirect taxes	67,821	72,722	81,774	93,296	109,092	124,610	139,749	159,808	169,899	187,266
Social security contributions										
Actual	86,955	97,114	111,378	120,988	133,353	149,754	168,953	187,193	199,831	210,788
Imputed	11,567	13,116	14,120	14,773	16,028	17,718	20,356	22,761	26,366	28,053
Income from capital	4,157	5,564	6,348	5,783	5,432	5,661	5,712	6,413	6,395	6,281
Sales of goods and services	14,059	16,364	18,990	20,014	21,565	24,624	25,924	28,451	31,104	29,628
Other	9,595	13,943	17,624	15,785	16,865	18,230	20,906	26,466	29,352	34,054
Capital account revenue	**1,309**	**1,400**	**1,604**	**1,377**	**1,575**	**1,843**	**2,148**	**2,258**	**3,078**	**4,508**
Total revenue	**288,810**	**326,547**	**368,277**	**403,695**	**451,238**	**515,025**	**573,851**	**642,551**	**715,140**	**760,815**
EXPENDITURE										
Current expenditure	**336,908**	**383,498**	**427,275**	**465,723**	**519,129**	**580,071**	**656,737**	**729,086**	**805,280**	**847,768**
Compensation of employees	99,834	111,084	121,561	135,416	151,472	162,534	188,878	205,508	215,875	221,957
Intermediate consumption	38,388	45,247	49,030	54,934	61,372	64,833	70,063	76,170	83,307	87,905
Social services	121,556	139,055	154,826	170,500	189,065	209,963	238,585	261,320	290,526	301,620
Subsidies to firms	12,094	14,168	16,268	17,013	16,545	20,167	19,332	22,715	24,117	24,880
Interest payments	59,340	66,348	77,500	79,299	90,117	107,902	127,710	147,835	174,281	189,675
Other	5,696	7,596	8,090	8,561	10,558	14,672	12,169	15,538	17,174	21,731
Capital account expenditure	**37,682**	**47,773**	**46,212**	**50,141**	**54,142**	**58,955**	**65,972**	**64,850**	**62,604**	**66,185**
Gross investment	31,160	34,877	37,464	41,255	44,273	47,703	50,250	52,703	52,293	46,221
Investment grants	6,042	7,388	7,972	8,197	9,305	10,193	11,384	10,014	8,550	10,586
Other	480	5,508	776	689	564	1,059	4,338	2,133	1,761	9,378
Total expenditure	**374,590**	**431,271**	**473,487**	**515,864**	**573,271**	**639,026**	**722,709**	**793,936**	**867,884**	**913,953**
Deficit on current account	**–49,407**	**–58,351**	**–60,602**	**–63,405**	**–69,466**	**–66,889**	**–85,034**	**–88,793**	**–93,218**	**–91,461**
Total deficit	**–85,780**	**–104,724**	**–105,210**	**–112,169**	**–122,033**	**–124,001**	**–148,858**	**–151,385**	**–152,744**	**–153,138**

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

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT(1)

(billions of lire)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Medium and long-term securities (2)	62,407	92,419	85,004	53,674	58,918	57,766	67,863	110,404	90,978	163,225
of which: BI-UIC and banks	*22,421*	*40,992*	*10,267*	*4,818*	*4,579*	*–1,854*	*–10,987*	*28,227*	*59,610*	*44,752*
other holders	*39,986*	*51,427*	*74,736*	*48,856*	*54,339*	*59,620*	*78,850*	*82,177*	*31,368*	*118,473*
Treasury bills, in lire and ecus (2)	8,890	13,140	9,771	27,723	42,667	42,739	40,331	12,151	45,843	5,390
of which: BI-UIC and banks	*–12,693*	*–3,172*	*5,338*	*–8,868*	*–7,966*	*–2,558*	*9,544*	*–902*	*–13,432*	*38,902*
other holders	*21,584*	*16,312*	*4,433*	*36,591*	*50,633*	*45,297*	*30,787*	*13,052*	*59,275*	*–33,511*
Post Office funds	6,365	9,067	11,267	12,917	10,996	15,364	12,717	11,746	11,414	13,913
Lending by banks (2)	8,830	–2,211	1,530	3,428	5,286	7,302	7,268	18,637	12,556	16,307
central government bodies	*10*	*–89*	*–198*	*–96*	*1,300*	*1,198*	*1,147*	*1,559*	*790*	*–329*
social security institutions	*755*	*–2,203*	*66*	*470*	*545*	*–684*	*3*	*40*	*703*	*–1,054*
local authorities	*6,769*	*281*	*1,013*	*1,429*	*1,028*	*2,991*	*4,104*	*12,123*	*3,689*	*17,163*
autonomous government agencies	*1,315*	*–307*	*597*	*1,611*	*2,308*	*3,715*	*1,871*	*4,272*	*6,660*	*679*
municipal enterprises	*–19*	*107*	*52*	*14*	*105*	*82*	*144*	*644*	*714*	*–153*
Other borrowing from BI-UIC	13,288	3,689	1,673	10,224	3,704	1,835	2,811	2,472	7,116	–34,512
Other domestic debt	232	58	24	144	137	101	188	173	254	140
Foreign debt	2,353	3,031	872	6,029	4,188	8,359	14,876	5,484	151	12,359
PUBLIC SECTOR BORROWING REQUIREMENT	**102,365**	**119,193**	**110,140**	**114,140**	**125,896**	**133,467**	**146,054**	**161,067**	**168,311**	**176,822**
of which: general government borrowing requirement	*100,015*	*117,471*	*108,609*	*110,935*	*121,899*	*129,668*	*138,306*	*157,659*	*162,563*	*180,001*
Public sector borrowing requirement net of settlements of past debts	102,365	112,693	109,690	113,890	125,846	132,867	143,054	157,067	167,511	164,822
Financing of ENEL	**1,765**	**1,115**	**77**	**1,335**	**46**	**2,446**	**1,203**	**2,351**	**690**	**734**
of which: bond issues	*1,045*	*669*	*1,289*	*1,507*	*261*	*1,262*	*90*	*1,316*	*–434*	*–1,872*
loans from banks	*1,022*	*182*	*–666*	*–262*	*633*	*1,462*	*1,321*	*1,605*	*1,648*	*3,024*
borrowing abroad	*–302*	*264*	*–546*	*90*	*–848*	*–278*	*–208*	*–570*	*–524*	*–418*
BORROWING REQUIREMENT OF THE ENLARGED PUBLIC SECTOR	**104,130**	**120,308**	**110,217**	**115,475**	**125,942**	**135,913**	**147,257**	**163,418**	**169,001**	**177,556**

(1) Rounding may cause discrepancies in totals. – (2) Methodological changes in the banking statistics introduced as from 31 December 1988 have resulted in a break in the series.

THE PUBLIC DEBT (1)

(face value: billions of lire and percentage composition)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
					Amounts outstanding					
Medium and long-term securities, excluding BI portfolio (2)	207,892	294,961	374,454	429,752	483,509	534,483	616,535	711,721	772,809	927,587
of which: held by banks	*98,699*	*131,449*	*133,719*	*137,753*	*138,332*	*128,843*	*124,066*	*133,345*	*155,768*	*172,752*
Ecu and lira Treasury bills, excluding BI portfolio (2)	152,691	150,814	159,187	191,427	239,318	284,821	319,111	334,914	385,957	388,886
of which: held by banks	*44,879*	*26,689*	*30,624*	*26,271*	*23,579*	*24,002*	*27,342*	*30,137*	*20,988*	*56,679*
Post Office funds	50,626	59,693	70,960	83,877	94,873	110,237	122,954	134,700	146,114	160,027
Lending by banks (2)	38,630	36,418	37,948	41,376	46,083	53,386	60,654	79,481	92,774	107,546
central government bodies	*2,699*	*2,609*	*2,411*	*2,315*	*3,614*	*4,813*	*5,960*	*7,518*	*8,309*	*7,980*
social security institutions	*2,435*	*232*	*298*	*768*	*1,348*	*664*	*666*	*706*	*1,409*	*711*
local authorities	*28,114*	*28,395*	*29,408*	*30,837*	*31,025*	*34,016*	*38,120*	*50,433*	*54,659*	*69,422*
autonomous government agencies	*4,885*	*4,578*	*5,175*	*6,785*	*9,243*	*12,958*	*14,829*	*19,101*	*26,360*	*27,539*
municipal enterprises	*497*	*605*	*657*	*671*	*853*	*935*	*1,079*	*1,723*	*2,037*	*1,894*
Other domestic debt	2,379	2,437	2,461	2,606	2,743	2,844	3,032	3,205	3,458	3,599
Foreign debt	16,408	18,435	17,618	23,536	28,763	35,116	48,899	54,798	64,719	85,410
Sub-total	**468,626**	**562,758**	**662,628**	**772,574**	**895,289**	**1,020,887**	**1,171,184**	**1,318,819**	**1,465,831**	**1,673,054**
Borrowing from BI-UIC	92,863	120,286	130,955	137,968	140,523	147,474	147,752	166,923	209,445	189,883
of which: medium and long-term securities	*36,367*	*45,083*	*52,681*	*53,975*	*58,104*	*66,203*	*57,462*	*77,854*	*117,535*	*129,349*
Ecu and lira Treasury bills	*6,641*	*21,658*	*23,056*	*18,551*	*13,273*	*10,290*	*16,498*	*12,805*	*8,530*	*11,666*
overdraft on BI account	*41,842*	*48,182*	*52,707*	*61,981*	*66,312*	*68,155*	*71,063*	*73,074*	*80,780*	*76,206*
other	*8,013*	*5,363*	*2,511*	*3,461*	*2,834*	*2,826*	*2,729*	*3,190*	*2,600*	*–27,338*
Total	**561,489**	**683,044**	**793,583**	**910,542**	**1,035,812**	**1,168,361**	**1,318,936**	**1,485,742**	**1,675,276**	**1,862,937**
General government debt	545,906	666,890	776,285	890,085	1,011,047	1,140,420	1,283,444	1,446,858	1,629,153	1,818,264
General government debt (3)	547,265	667,943	777,605	891,180	1,011,977	1,141,501	1,284,433	1,447,954	1,630,198	1,850,771
					Percentage composition					
Medium and long-term securities, excluding BI portfolio	37.0	43.2	47.2	47.2	46.7	45.8	46.8	47.9	46.1	49.8
Ecu and lira Treasury bills, excluding BI portfolio	27.2	22.1	20.1	21.0	23.1	24.4	24.2	22.5	23.0	20.9
Post Office funds	9.0	8.7	8.9	9.2	9.1	9.4	9.3	9.1	8.7	8.6
Lending by banks	6.9	5.3	4.8	4.5	4.4	4.6	4.6	5.4	5.6	5.7
Other domestic debt	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Foreign debt	2.9	2.7	2.2	2.6	2.8	3.0	3.7	3.7	3.9	4.6
Borrowing from BI-UIC	16.6	17,.6	16.5	15.2	13.6	12.6	11.2	11.2	12.5	10.2

(1) Rounding may cause discrepancies in totals. – (2) Methodological changes in the banking statistics introduced as from 31 December 1988 have resulted in a break in the series. – (3) In accordance with the methodological principles laid down in Council Regulation (EC) No. 3605/93.

STATE SECTOR REVENUE, EXPENDITURE AND BORROWING REQUIREMENT

(billions of lire)

	1989	1990	1991	1992	1993
REVENUE					
Direct taxes	**160,474**	**178,985**	**196,515**	**234,773**	**245,193**
of which: personal income tax	*95,918*	*108,299*	*119,089*	*131,801*	*149,465*
corporate income tax	*16,966*	*17,216*	*16,884*	*17,675*	*21,473*
local income tax	*20,146*	*21,625*	*20,060*	*18,253*	*15,617*
withholding tax on interest income	*22,719*	*27,710*	*31,059*	*35,903*	*38,868*
Indirect taxes	**133,674**	**151,765**	**170,648**	**185,360**	**182,931**
of which: value added tax	*71,796*	*79,051*	*88,847*	*89,843*	*88,565*
other business taxes (stamp duties, duties on government concessions, etc.)	*21,432*	*24,782*	*26,440*	*31,337*	*30,531*
excise duty on oil products	*25,904*	*30,840*	*33,680*	*37,191*	*37,315*
excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	*3,316*	*5,053*	*7,840*	*9,344*	*9,024*
tax on tobacco consumption	*5,841*	*6,127*	*6,390*	*6,531*	*8,373*
Total net tax revenue	**294,148**	**330,750**	**367,163**	**420,133**	**428,124**
EU levies	8,829	9,476	10,550	11,345	11,729
Sales of goods and services (1)	9,029	10,932	12,133	12,867	14,680
	18,311	*21,369*	*23,413*	*24,985*	....
Health care and other social security contributions	47,746	53,403	61,198	56,817	56,742
Other income (1)	16,333	17,925	21,616	23,565	32,972
	16,694	*16,633*	*20,751*	*21,421*	....
Total net receipts (1)	**376,085**	**422,486**	**472,660**	**524,727**	**544,247**
	385,728	*431,631*	*483,075*	*534,701*	....
	1989	1990	1991	1992	1993
EXPENDITURE (2)					
Wages and salaries	73,984	86,098	92,432	95,828	99,926
Pensions	20,039	23,254	26,213	30,122	32,227
Purchases of goods and services	21,368	20,599	22,423	24,520	27,399
Interest payments	103,089	123,136	141,181	167,452	181,601
Direct investment	11,024	13,070	14,458	13,804	14,511
Loans and shareholdings (net)	13,915	11,928	7,449	7,391	8,438
of which: local authorities	*10,578*	*10,696*	*4,820*	*3,825*	*3,308*
banks	*2,730*	*1,803*	*2,103*	*1,616*	*3,000*
public enterprises	*257*	*125*	*635*	*650*	–
Disbursements to: regions	90,274	94,096	113,174	120,860	108,224
of which: health care (on current account)	*61,146*	*65,712*	*81,320*	*83,028*	*86,527*
provinces and communes	36,210	38,719	43,441	40,443	35,288
social security institutions	53,592	62,302	66,749	73,547	69,271
state railways, monopolies, and telephone service	15,062	11,115	15,515	20,027	25,940
enterprises	19,346	19,276	22,597	25,229	24,292
households	13,724	15,154	14,725	17,266	19,629
other	16,763	16,983	19,822	22,432	29,072
Other expenditure	17,403	19,633	21,791	24,698	22,013
Total expenditure	**505,793**	**555,363**	**621,970**	**683,619**	**697,831**
BORROWING REQUIREMENT	**–130,162**	**–137,459**	**–149,310**	**–158,892**	**–163,124**

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

(1) Figures in italics are based on the old definition of the state sector, which includes the state railways, monopolies and telephone service. For 1993, the item "Other income" includes revenue of 7,800 billion lire from municipal property tax. – (2) On the basis of the new definition of the state sector.

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

	Sources								Uses				
	Foreign sector		Treasury current account with the Bank of Italy (3)	Other BI-UIC operations with the Treasury (4)	Open market operations (5)	Refi-nancing	Other sectors	Total	Currency	Bank reserves			
										Deposits with BI			
	(2)	of which: currency swaps								(6)	of which: comp. res. (7)	Other (8)	Total
1984	5,141	–	18,555	–3,516	–5,012	–218	–1,104	13,846	3,851	8,930	8,855	1,065	9,995
1985	–13,677	–	6,340	22,659	–1,480	5,880	–646	19,076	4,004	14,832	12,213	240	15,072
1986	3,543	–	4,525	8,292	–1,823	–4,334	–1,004	9,199	3,140	6,686	9,022	–626	6,060
1987	6,756	–	9,274	13,902	–14,004	–729	–1,252	13,947	4,382	8,956	8,740	609	9,565
1988	10,947	–	4,331	9,018	–10,601	–30	–709	12,956	4,449	8,770	9,444	–264	8,507
1989	14,971	–	1,842	6,608	–2,106	1,203	–2,042	20,475	10,477	9,746	9,567	252	9,998
1990	15,458	–	2,909	–4,292	2,392	1,260	–4,027	13,700	1,805	10,745	13,026	1,150	11,896
1991	–8,674	–	2,011	–11,468	27,172	2,664	–583	11,121	6,906	3,646	3,424	570	4,215
1992	–32,591	29,249	7,706	–10,402	42,781	108	858	8,460	9,263	113	1,012	–916	–803
1993	2,564	–2,055	–4,574	1,196	–14,098	–6,451	1,903	–19,460	4,152	–23,594	–24,131	–18	–23,612
1992 – Jan.	–613	–	–4,197	–1,317	6,786	–5,938	–728	–6,006	–4,222	908	1,857	–2,691	–1,784
Feb.	751	–	–2,121	–2,751	11,886	–510	–580	6,676	–480	7,326	6,388	–170	7,156
Mar.	–868	–	5,367	–473	–10,777	–137	–2,301	–9,190	677	–10,470	–8,364	604	–9,867
Apr.	–4,515	–	15,970	–2,270	–7,062	–204	–751	1,167	964	581	–1,318	–379	203
May	–1,055	–	–6,955	–2,718	13,653	730	434	4,088	1,354	2,887	3,585	–153	2,734
June	–7,800	–	–21,791	393	15,262	10,903	3,939	907	–968	1,320	282	554	1,874
July	–10,492	–	9,285	–270	6,671	2,941	–1,474	6,661	5,536	1,577	–926	–452	1,125
Aug.	–4,516	–	93	18	–13,466	9,123	–708	–9,457	–3,500	–6,466	–713	509	–5,956
Sept.	–29,884	–	17,512	–380	14,350	388	–480	1,506	2,721	–931	–4,642	–283	–1,214
Oct.	10,064	13,072	645	256	6,180	–16,385	305	1,064	300	781	1,130	–17	764
Nov.	3,425	3,438	5,814	–865	7,105	–7,753	–163	7,563	1,245	3,837	4,670	2,481	6,318
Dec.	12,912	12,738	–11,914	–27	–7,807	6,951	3,365	3,480	5,636	–1,237	–937	–919	–2,156
1993 – Jan.	–600	–	–2,607	90	7,957	–6,972	1,295	–838	–3,077	3,275	2,055	–1,036	2,239
Feb.	–2,878	–3,097	–3,587	422	–13,169	24	–933	–20,121	–1,325	–19,186	–19,707	390	–18,796
Mar.	4,734	2,561	6,557	1,236	–21,427	38	–1,531	–10,394	782	–11,105	–10,974	–71	–11,176
Apr.	–3,283	–768	3,648	–622	2,866	–100	–70	2,440	204	2,939	163	–703	2,236
May	6	–	2,596	–303	421	–11	–2,241	468	1,016	–1,405	1,127	857	–548
June	2,721	–751	–32,824	1,060	21,263	–26	4,165	–3,641	–1,389	–2,395	61	143	–2,252
July	–1,230	–	–3,749	83	7,530	628	–31	3,231	4,269	–91	–1,180	–947	–1,038
Aug.	–1,985	–	2,160	231	–2,206	–611	–611	–3,022	–3,968	678	184	268	946
Sept.	7,661	–	11,695	–203	–16,149	40	–1,753	1,292	1,210	68	–1,549	14	82
Oct.	–2,820	–	8,233	–140	–5,308	629	–942	–348	672	–409	1,949	–612	–1,020
Nov.	2,476	–	8,162	–27	–2,282	658	1,152	10,139	1,053	7,650	2,545	1,435	9,085
Dec.	–2,237	–	–4,859	–629	6,407	–750	3,403	1,335	4,704	–3,614	1,194	245	–3,370
1994 – Jan. (9)	5,134	–	–17,732	–621	12,036	–231	–172	–1,586	–3,598	2,543	1,052	–531	2,012
Feb. (9)	1,411	–	–5,743	–877	7,400	–17	–976	1,199	–694	2,126	5,185	–233	1,893
Mar. (9)	–2,287	–	12,909	304	–5,400	120	–1,530	4,116	3,078	1,105	–3,176	–67	1,038

(1) Rounding may cause discrepancies in totals. – (2) Variation in the net external position of BI-UIC, net of exchange rate adjustments. – (3) Until December 1993, recourse to the Treasury current account; from January 1994 onwards, use of the "Treasury payments account". In February 1994 the proceeds of the privatization of IMI were credited to this account. – (4) Net purchases of government securities at issue by BI-UIC, state notes and coin in circulation or held by the Bank of Italy, PO instruments for collection, rediscounted compulsory stockpiling bills, sundry services on behalf of the state, other BI-UIC financing less banknotes held by the Treasury. – (5) Excludes securities purchased with advances under the Ministerial Decree of 27.9.1974. – (6) Until September 1990 includes banks' compulsory and free deposits, non-interest-bearing deposits against excess lending (until August 1988) and backing for cashiers' cheques. From October 1990 onwards includes the balance on reserve accounts, banks' compulsory reserves against net foreign currency deposits (until May 1991), the deposits of banks not subject to the reserve requirement and backing for cashiers' cheques. – (7) From October 1990 onwards average reserve requirement in the maintenance period (15th of the month indicated – 14th of the following month) and, until May 1991, compulsory reserves against net foreign currency deposits. – (8) Vault cash and undrawn margin on ordinary advance facility; until December 1988 includes deposits with the Treasury and undiscounted stockpiling finance bills. – (9) Provisional.

BANKS' ASSETS

(billions

	Assets							
	Bank reserves	Lending	Securities	Bad debts & protested bills	Reverse repurchase agreements	Shares & equity participations	Interbank accounts	External assets
1989 – Dec.	116,895	662,811	224,628	37,200	4,353	24,029	116,797	110,370
1990 – "	128,921	770,561	221,493	40,492	5,075	26,348	95,018	116,102
1991 – "	133,056	880,933	274,235	47,199	14,373	37,551	97,583	124,901
1992 – Jan.	131,152	883,132	262,025	47,861	19,267	36,511	72,138	118,891
Feb.	138,229	886,284	270,895	48,253	21,858	36,723	82,443	113,238
Mar.	128,432	894,788	284,421	48,802	23,259	36,071	94,356	118,162
Apr.	128,598	903,034	292,104	49,555	25,981	36,169	101,566	119,765
May	131,405	903,533	306,953	50,213	28,746	37,939	103,214	124,275
June	133,309	920,381	326,825	50,165	30,144	37,743	108,048	122,199
July	134,324	935,007	320,278	51,158	28,437	38,980	105,135	121,528
Aug.	128,469	924,694	313,620	51,694	29,550	39,300	100,354	117,740
Sept.	127,187	943,143	322,477	52,699	25,179	40,904	112,859	146,238
Oct.	127,855	941,978	314,908	54,159	23,762	40,839	115,377	147,067
Nov.	134,212	946,974	314,280	55,514	21,948	41,496	130,549	153,957
Dec.	132,065	982,992	327,513	54,729	16,427	41,763	157,849	165,187
1993 – Jan.	134,339	984,040	306,831	55,998	16,628	41,250	129,269	155,353
Feb.	115,881	988,618	312,390	56,736	14,366	41,370	134,006	176,717
Mar.	104,575	989,432	311,370	57,750	16,194	41,330	136,393	184,731
Apr.	106,897	990,515	317,194	59,337	18,068	41,818	134,467	173,276
May	106,396	981,682	314,888	61,294	22,025	41,603	138,241	180,835
June	104,102	994,616	321,174	61,536	23,732	40,909	145,702	188,379
July	103,084	1,008,601	314,920	62,973	21,536	40,945	133,868	194,986
Aug.	104,085	1,000,429	316,028	64,501	21,048	41,038	140,324	212,808
Sept.	104,094	995,114	325,161	65,418	25,727	40,996	142,325	204,590
Oct.	103,186	1,001,212	338,376	67,908	25,438	41,903	146,016	203,799
Nov.	112,112	1,000,829	341,023	69,644	26,078	42,404	151,822	216,183
Dec.	108,626	1,021,650	349,770	70,185	27,792	43,427	171,104	229,057

(1) Rounding may cause discrepancies in totals.

Table a15

AND LIABILITIES (1)
of lire)

Liabilities									
Deposits	Bonds	Other domestic funds	Lending by BI-UIC	Repurchase agreements	Interbank accounts	Funds raised abroad	Capital and reserves	Other items	
678,150	129,641	13,076	6,334	11,953	133,963	205,534	115,834	2,598	.... Dec. – 1989
753,054	135,872	13,720	7,600	19,837	105,370	232,106	126,562	9,889	...... " – 1990
823,460	153,174	14,791	8,858	78,156	103,403	279,783	162,498	–14,292	...... " – 1991
774,488	152,619	15,427	2,847	112,119	78,880	279,324	176,925	–21,652	..... Jan. – 1992
773,055	155,914	15,315	2,329	129,092	87,924	282,560	179,439	–27,705	...... Feb.
785,295	158,724	14,972	2,189	112,247	98,249	300,184	183,077	–26,645	..... Mar.
791,360	160,831	15,209	2,016	111,664	106,339	306,926	183,817	–21,390	..... Apr.
791,995	161,705	15,103	2,705	131,576	109,494	310,829	185,270	–22,398	..... May
801,330	163,633	15,357	13,610	144,350	114,477	315,858	185,054	–24,855	..... June
778,192	162,398	17,236	16,568	159,797	111,878	318,566	186,242	–16,030	..... July
770,219	162,480	17,653	25,715	146,247	103,765	314,697	187,226	–22,581	..... Aug.
793,373	162,739	21,506	26,098	149,868	116,699	339,710	188,010	–27,317	..... Sept.
795,475	162,635	20,678	9,730	155,032	117,347	338,907	188,661	–22,520	..... Oct.
792,069	164,362	20,264	1,981	162,929	132,555	346,009	189,323	–10,562	..... Nov.
861,143	166,407	19,552	8,936	138,035	159,320	367,496	189,993	–32,357	..... Dec.
824,224	166,357	21,294	1,944	166,242	132,107	351,962	202,421	–42,841	..... Jan. – 1993
829,614	168,143	21,578	1,944	155,012	137,528	366,430	201,700	–41,865	...... Feb.
842,156	170,129	22,419	1,964	128,835	138,373	375,518	201,308	–38,927	..... Mar.
846,771	171,929	21,923	1,908	133,391	135,716	351,794	198,887	–20,746	..... Apr.
849,770	173,041	21,370	1,848	140,973	140,204	348,101	199,395	–27,738	..... May
857,726	175,058	21,424	1,825	151,738	149,320	348,956	200,641	–26,540	..... June
843,739	176,831	21,710	2,447	161,129	135,640	352,419	201,871	–14,874	..... July
848,530	178,913	22,829	1,849	167,703	142,802	358,489	202,041	–22,896	..... Aug.
868,439	180,808	22,772	1,895	143,690	147,178	355,635	203,064	–20,056	..... Sept.
872,202	187,012	21,703	2,648	150,307	146,929	357,373	203,961	–14,296	..... Oct.
870,430	191,087	22,841	3,357	153,022	154,855	367,804	205,511	–8,813	..... Nov.
931,030	194,113	23,483	2,722	142,945	179,086	369,979	206,017	–27,763	..... Dec.

PROFIT AND LOSS ACCOUNTS OF BANKS ACCEPTING SHORT-TERM FUNDS

(in billions

	Interest receveid						Interest paid						
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities	Accounts with credit institutions	Repurchase agreements	Foreign currency assets	Domestic deposits in lire	BI-UIC financing	Accounts with credit institutions	Repurchase agreements	Bonds and subordi-nated liabilities	Foreign currency liabilities	Derivative hedging contracts (net)
													Limited company
1989 ...	5,299	42,609	17,247	4,719	....	11,426	33,364	219	5,086	....	....	11,150	....
1990 ...	6,262	49,018	16,546	4,700	....	13,662	36,564	230	5,014	....	....	12,839	....
1991 ...	6,821	55,712	15,465	4,360	....	13,985	39,145	243	4,392	....	....	13,780	....
1992 ...	7,155	68,936	17,356	6,854	....	16,296	45,177	973	7,136	....	178	16,903	....
1992 (2)	7,155	68,936	17,356	6,854	....	16,296	45,177	973	7,136	....	178	16,903	....
1993 (3)	5,535	61,492	25,143	5,904	4,749	15,988	42,312	154	6,331	9,925	512	15,147	–602
													Cooperative
1989 ...	1,135	8,832	3,100	1,295	....	1,133	6,934	21	651	....	....	1,066	....
1990 ...	1,310	10,321	3,227	1,246	....	1,467	7,766	20	757	....	....	1,281	....
1991 ...	1,396	11,612	3,187	1,113	....	1,552	8,393	22	688	....	....	1,404	....
1992 ...	1,594	14,822	3,688	1,452	....	2,080	10,124	60	1,177	....	1	2,057	....
1992 (2)	1,594	14,822	3,688	1,452	....	2,080	10,124	60	1,177	....	1	2,057	....
1993 (3)	1,225	13,788	5,695	1,540	590	2,065	10,016	19	977	1,872	12	1,772	–216
													Main mutual
1989 ...	5	255	191	67	....	3	274	,,	6	....	....	2	....
1990 ...	7	297	202	69	....	5	298	,,	6	....	....	3	....
1991 ...	10	361	211	78	....	7	333	,,	6	....	....	5	....
1992 ...	13	454	232	87	....	9	398	,,	8	....	....	7	....
1992 (2)	13	454	232	87	....	9	398	,,	8	....	....	7	....
1993 (3)	15	465	428	90	5	11	424	,,	8	137	,,	11	,,
													Central credit
1989 ...	12	572	786	898	....	109	35	15	1,821	....	....	134	....
1990 ...	14	572	749	954	....	193	43	11	1,718	....	....	209	....
1991 ...	17	557	815	752	....	218	44	11	1,511	....	....	268	....
1992 ...	17	578	792	865	....	360	62	63	1,490	....	1	466	....
1992 (2)	17	578	792	865	....	360	62	63	1,490	....	1	466	....
1993 (3)	23	432	949	704	87	535	57	38	1,329	201	12	482	–33
													Private sector
1989 ...	*1,683*	*13,323*	*4,484*	*1,398*	....	*2,720*	*9,674*	*45*	*1,731*	....	....	*2,808*	....
1990 ...	*1,890*	*15,463*	*4,020*	*1,372*	....	*3,143*	*10,559*	*43*	*1,776*	....	....	*3,072*	....
1991 ...	*2,107*	*18,021*	*4,361*	*1,262*	....	*3,141*	*11,939*	*56*	*1,506*	....	....	*3,208*	....
1992 ...	*1,859*	*18,200*	*4,464*	*2,197*	....	*3,997*	*11,377*	*339*	*2,267*	....	*17*	*4,530*	....
1992 (2)	*1,859*	*18,200*	*4,464*	*2,197*	....	*3,997*	*11,377*	*339*	*2,267*	....	*17*	*4,530*	....
1993 (3)	*1,260*	*14,768*	*5,970*	*1,576*	*2,007*	*3,726*	*9,696*	*40*	*2,194*	*2,885*	*6*	*4,203*	*–382*
													Branches of
1989 ...	*17*	*541*	*263*	*193*	....	*651*	*61*	*1*	*620*	....	....	*815*	....
1990 ...	*22*	*666*	*262*	*91*	....	*632*	*49*	*1*	*660*	....	....	*775*	....
1991 ...	*27*	*561*	*411*	*99*	....	*440*	*47*	*2*	*508*	....	....	*724*	....
1992 ...	*30*	*978*	*654*	*756*	....	*1,041*	*147*	*154*	*719*	....	....	*1,542*	....
1992 (2)	*30*	*978*	*654*	*756*	....	*1,041*	*147*	*154*	*719*	....	....	*1,542*	....
1993 (3)	*21*	*1,046*	*623*	*264*	*187*	*897*	*55*	*7*	*969*	*152*	....	*1,444*	*–393*

(1) Branches of foreign banks are a subdivision of private sector banks, which in turn are a subdivision of limited company banks. Rounding may cause discrepancies in totals. – (2) The items comparability with the 1993 figures. – (3) Provisional.

(EXCLUDING MERGED SPECIAL CREDIT SECTIONS) BY CATEGORY OF BANK(1)

of lire)

Net interest income (a)	Net non-interest income (b)	of which: securities transactions	of which: other services	Gross income (c)= (a)+(b)	Operating expenses (d)	of which: staff costs	Operating income (e)=(c)-(d)	Value adjustments and re-adjustments and allocations to provisions (f)	of which: for loan losses	Taxes (g)	Net profit (e)-(f)-(g)	Total resources	Number of staff
banks													
31,480	10,834	4,801	5,405	42,315	28,231	19,136	14,084	6,458	3,854	3,973	3,652	902,372	267,051
35,541	12,671	6,786	5,148	48,212	31,459	21,149	16,753	7,138	4,687	4,121	5,493	982,430	271,088
38,790	13,627	7,030	5,752	52,416	35,551	23,780	16,872	6,795	4,260	4,643	5,433	1,054,180	275,050
46,229	11,216	5,207	5,381	57,445	39,326	25,871	18,120	9,700	4,607	4,679	3,741	1,217,675	273,098
46,229	11,926	5,207	6,091	58,155	39,516	25,871	18,640	10,220	4,607	4,679	3,741	1,217,675	273,098
43,828	20,791	10,948	8,878	64,619	40,361	25,320	24,258	11,180	8,708	8,444	4,635	1,400,358	259,024
banks *(banche popolari)*													
6,822	1,805	859	845	8,627	5,043	3,253	3,584	1,100	611	1,156	1,328	164,283	48,143
7,747	1,998	938	930	9,746	5,845	3,815	3,900	1,046	635	1,336	1,519	182,610	49,785
8,353	2,386	1,185	1,049	10,739	6,599	4,242	4,140	1,261	789	1,332	1,547	195,765	50,921
10,218	2,239	939	1,177	12,457	7,641	4,881	4,816	2,022	790	1,511	1,283	228,022	53,936
10,218	2,423	939	1,361	12,641	7,770	4,881	4,871	2,077	790	1,511	1,283	228,022	53,936
10,019	4,063	2,241	1,720	14,082	8,160	4,916	5,922	2,449	2,123	2,167	1,305	272,057	54,673
banks *(banche di credito cooperativo)*													
239	32	16	15	270	145	91	125	21	9	2	102	4,760	1,407
272	50	34	15	321	175	112	147	11	11	5	131	5,307	1,535
322	72	50	21	394	221	136	173	22	17	6	144	6,054	1,722
382	68	42	25	449	261	162	188	28	19	15	144	6,998	1,832
382	75	42	32	456	268	162	188	28	19	15	144	6,998	1,832
433	104	59	43	536	301	175	235	14	20	12	209	9,275	1,941
institutions													
371	108	33	67	479	261	116	219	108	147	35	76	23,945	1,532
500	177	83	82	678	310	131	367	106	109	135	127	25,684	1,544
525	199	74	110	724	366	186	358	125	176	100	132	24,651	1,631
529	91	14	62	621	385	188	236	88	90	75	73	26,957	1,656
529	97	14	68	627	391	188	236	88	90	75	73	26,957	1,656
577	438	268	158	1,015	433	194	582	198	172	159	225	33,743	1,681
banks													
9,350	*2,796*	*1,310*	*1,409*	*12,146*	*8,087*	*5,204*	*4,059*	*1,401*	*861*	*1,264*	*1,394*	*257,039*	*74,067*
10,439	*3,584*	*2,186*	*1,306*	*14,023*	*8,989*	*5,782*	*5,034*	*1,838*	*1,247*	*1,455*	*1,741*	*277,089*	*74,609*
12,189	*3,983*	*2,310*	*1,566*	*16,172*	*10,500*	*6,721*	*5,672*	*2,398*	*1,166*	*1,550*	*1,724*	*318,766*	*77,812*
12,186	*2,626*	*2,024*	*491*	*14,812*	*10,036*	*6,158*	*4,776*	*2,220*	*1,179*	*1,504*	*1,052*	*344,870*	*65,945*
12,186	*2,853*	*2,024*	*718*	*15,039*	*10,136*	*6,158*	*4,903*	*2,347*	*1,179*	*1,504*	*1,052*	*344,870*	*65,945*
9,901	*5,297*	*2,869*	*2,059*	*15,198*	*9,489*	*5,666*	*5,710*	*2,569*	*2,370*	*1,955*	*1,185*	*376,370*	*64,715*
foreign banks													
169	*122*	*40*	*83*	*291*	*294*	*157*	*–3*	*25*	*39*	*17*	*–44*	*23,634*	*1,698*
189	*229*	*355*	*–130*	*419*	*327*	*177*	*91*	*34*	*47*	*31*	*26*	*19,833*	*1,690*
256	*166*	*160*	*1*	*422*	*321*	*181*	*100*	*28*	*55*	*53*	*20*	*20,802*	*1,722*
897	*–335*	*595*	*–929*	*563*	*513*	*233*	*49*	*70*	*56*	*53*	*–74*	*32,955*	*1,650*
897	*–335*	*595*	*–929*	*563*	*513*	*233*	*49*	*70*	*56*	*53*	*–74*	*32,955*	*1,650*
19	*834*	*717*	*–129*	*853*	*411*	*201*	*442*	*68*	*146*	*193*	*181*	*49,403*	*1,423*

relating to net non-interest income, other income from services, operating expenses, and value adjustments and re-adjustments and allocations to provisions have been reworked to permit partial

ASSETS AND LIABILITIES OF BANKS

(billions

	ASSETS										
	Cash and deposits	Loans					Loans on behalf of the Treasury (1)	Own portfolio			Repurchase agreements
		Domestic (1) (2)	Financing of stockpiling	Foreign		Total		Govern-ment securities	Bonds	Shares and participa-tions	
				Buyer credits	Credit to residents						
1984 – Dec.	4,964	124,589	766	4,214	371	129,940	8,159	15,023	2,119	2,422	....
1985 – "	4,601	135,291	806	3,543	238	139,878	7,145	16,441	2,619	2,775	....
1986 – "	4,574	152,162	855	2,961	226	156,204	6,089	14,511	1,940	3,450	....
1987 – "	5,159	172,714	891	4,064	297	177,966	5,036	10,411	4,836	3,682	....
1988 – "	5,461	199,504	940	4,123	551	205,118	3,879	12,335	4,544	4,529	....
1989 – "	5,099	234,853	990	4,344	1,281	241,468	2,791	9,709	4,166	5,247	3,123
1990 – "	5,504	273,241	1,041	5,476	1,311	281,069	1,708	11,149	4,760	6,516	3,750
1991 – "	7,362	310,195	1,104	6,097	1,903	319,299	963	12,665	3,114	6,183	5,059
1992 – Jan.	8,176	312,668	1,104	6,364	1,927	322,063	737	11,197	3,184	5,424	4,982
Feb.	9,215	315,629	1,104	6,395	1,948	325,076	737	11,956	3,762	5,421	4,905
Mar.	8,618	320,393	1,125	6,283	1,869	329,670	737	13,200	3,974	4,988	4,828
Apr.	6,893	324,170	1,125	6,461	1,892	333,648	737	12,333	3,868	4,988	5,879
May	5,781	328,475	1,125	6,424	1,885	337,909	737	10,177	3,833	4,969	6,929
June	6,262	325,757	1,157	6,449	1,974	335,337	474	9,842	4,574	5,076	7,980
July	5,701	329,900	1,157	6,426	1,981	339,464	474	10,075	4,826	5,059	7,547
Aug.	6,370	331,080	1,157	6,370	1,948	340,555	474	9,450	5,076	5,076	7,113
Sept.	6,232	333,338	1,167	6,990	2,120	343,615	474	7,798	5,103	5,102	6,680
Oct.	5,101	334,959	1,167	7,190	2,181	345,497	474	7,103	4,783	5,101	6,232
Nov.	5,300	337,099	1,167	7,535	2,268	348,069	474	6,485	4,696	5,101	5,784
Dec.	5,921	342,757	1,160	7,879	2,506	354,302	458	6,277	4,602	5,076	5,336
1993 – Jan.	5,505	344,179	1,160	8,256	2,214	355,809	318	7,454	4,369	4,997	4,754
Feb.	6,565	347,048	1,160	8,802	2,303	359,313	318	10,249	4,540	4,995	4,172
Mar.	6,982	350,595	1,176	8,824	2,315	362,910	318	13,242	4,461	5,115	3,590
Apr.	6,417	352,767	1,176	8,505	2,162	364,610	318	14,888	4,326	5,115	4,399
May	6,239	355,611	1,176	8,396	2,127	367,310	318	14,993	4,118	5,050	5,207
June	7,281	354,172	1,376	8,460	2,008	366,016	159	11,479	4,226	4,912	6,016
July	8,598	358,939	1,376	9,125	2,074	371,514	159	16,762	4,115	4,912	5,868
Aug.	6,491	363,816	1,376	9,250	2,090	376,532	159	16,267	3,716	4,912	5,719
Sept.	6,282	365,417	1,212	9,107	2,153	377,889	159	19,979	4,050	4,695	5,571
Oct.	7,509	369,431	1,212	9,258	2,268	382,169	159	20,466	3,787	4,688	6,250
Nov.	6,363	373,963	1,212	9,597	2,349	387,121	159	19,524	3,886	4,675	6,930
Dec.	6,849	375,648	1,244	9,330	2,352	388,574	151	20,026	4,033	4,907	7,610
1994 – Jan.	8,339	376,241	....	9,114	2,389	388,988	105	18,977	4,020	4,904	....
Feb.	7,440	379,380	....	9,249	2,483	392,356	105	20,814	3,890	4,903	....
Mar. (3)	....	381,897	....	....	....	....	....	....	....	....	....

(1) The item "Loans on behalf of the Treasury" comprises only operations financed by "bonds on behalf of the Treasury"; the remainder is included in the item "domestic loans". – (2) The figures behalf of public bodies. – (3) Provisional.

ACCEPTING MEDIUM AND LONG-TERM FUNDS
of lire)

LIABILITIES											
Bonds											
On behalf of the Treasury	Other	Certificates of deposit	Rediscounts	Short-term financing	Public funds (2)	*Mediocredito centrale* funds	Repurchase agreements	Foreign liabilities	Equity capital	Balance of other items	
8,159	89,554	23,480	941	5,620	2,173	2,422	....	19,620	15,322	–4,664	.... Dec. – 1984
7,145	95,022	25,549	889	6,626	2,370	2,521	....	22,058	18,105	–6,826	.... " – 1985
6,089	102,193	28,258	943	6,362	3,112	2,538	....	24,268	21,225	–8,220	.... " – 1986
5,036	113,681	30,878	1,069	6,517	3,672	3,038	....	29,997	23,609	–10,407	.... " – 1987
3,949	121,239	43,837	1,112	7,547	3,869	3,541	....	36,548	25,957	–11,733	.... " – 1988
2,863	129,578	52,804	1,175	8,703	4,362	4,237	1,429	52,535	28,480	–14,563	.... " – 1989
1,759	135,790	64,836	1,240	9,338	3,712	4,149	1,779	73,945	30,868	–12,960	.... " – 1990
976	153,053	72,505	1,242	8,309	3,618	4,103	2,986	91,330	36,013	–19,490	.... " – 1991
765	152,498	73,010	1,242	9,335	3,547	4,140	3,059	91,729	35,999	–19,561	.... Jan. – 1992
750	155,790	73,449	1,242	8,549	3,560	4,151	3,132	93,108	35,999	–18,658	.... Feb.
748	158,600	73,646	1,293	8,455	3,434	3,913	3,206	94,688	37,219	–19,187	.... Mar.
748	160,707	74,097	1,293	8,221	3,464	4,079	3,492	96,456	37,219	–21,430	.... Apr.
747	161,581	74,321	1,293	8,696	3,412	4,087	3,779	96,651	37,219	–21,451	.... May
583	163,451	75,216	1,297	9,354	3,365	4,117	4,066	96,736	36,256	–24,896	.... June
583	162,217	75,469	1,297	8,978	3,444	4,175	3,813	98,334	36,256	–21,420	.... July
516	162,299	75,306	1,297	8,262	3,389	4,342	3,560	99,418	36,256	–20,531	.... Aug.
498	162,558	74,236	1,270	9,140	2,982	4,173	3,307	104,627	35,990	–23,777	.... Sept.
484	162,449	74,247	1,270	10,073	2,934	4,198	2,678	104,997	35,990	–25,029	.... Oct.
483	164,176	74,740	1,270	10,492	2,904	4,209	2,049	106,709	35,990	–27,113	.... Nov.
483	166,223	77,145	1,287	11,683	2,461	4,180	1,420	112,866	36,401	–32,177	.... Dec.
340	166,172	78,352	1,287	12,047	2,470	4,276	1,871	112,529	36,401	–32,269	.... Jan. – 1993
332	167,958	80,973	1,287	11,366	2,491	4,317	2,321	115,965	36,401	–33,259	.... Feb.
330	169,943	82,032	1,344	11,273	3,046	4,123	2,771	118,481	37,712	–34,437	.... Mar.
330	171,744	82,283	1,344	12,005	3,006	4,349	3,618	116,999	37,712	–33,317	.... Apr.
330	172,856	82,689	1,344	12,531	3,173	4,206	4,464	117,451	37,712	–33,521	.... May
330	174,832	82,905	1,543	13,547	3,518	4,213	5,311	115,516	38,346	–39,972	.... June
191	176,586	82,890	1,543	12,301	3,680	4,242	6,478	118,547	38,346	–32,876	.... July
179	178,668	81,806	1,543	12,997	3,647	4,252	7,645	118,950	38,346	–34,237	.... Aug.
174	180,563	82,238	1,364	13,664	3,329	3,914	8,812	119,358	38,501	–33,292	.... Sept.
174	186,587	82,426	1,364	14,339	3,292	3,947	9,264	119,516	38,501	–34,382	.... Oct.
174	190,656	81,645	1,364	15,653	3,210	4,042	9,716	120,657	38,501	–36,960	.... Nov.
174	193,663	82,820	1,411	18,450	3,910	4,057	10,169	118,478	39,725	–40,707	.... Dec.
107	198,598	85,299	1,411	14,481	3,825	3,754	....	118,253	39,725	....	.... Jan. – 1994
107	201,236	82,277	1,411	15,565	3,758	3,776	....	117,968	39,725	....	.... Feb.
....	....	....	....	....	....	....	....	....	....	....	.... Mar. (3)

for domestic loans and public funds prior to December 1992 have been adjusted to correct for the statistical break caused by the transfer to memorandum accounts of some funds managed on

(billions

	Bonds and government									
	Public sector									
	Government securities									
	Treasury bills	Treasury bills in ecus	Floating rate Treasury credit certificates (2)	Treasury bonds (2)	Treasury certificates in ecus	Treasury discount certificates	Treasury option certificates	Ordinary certificates (3)	Other	Total
										Gross
1986	265,866	–	79,255	53,276	2,360	–	–	–	–	400,757
1987	316,111	2,311	55,480	19,020	2,231	5,049	–	5,555	–	405,757
1988	409,411	7,289	27,350	75,383	11,167	–	594	697	–	531,891
1989	498,553	11,313	21,300	41,100	9,025	–	15,620	635	–	597,545
1990	559,196	6,109	75,538	74,460	8,017	–	27,161	4,582	–	755,062
1991	602,421	4,989	99,000	93,010	3,680	–	23,000	–	–	826,101
1992	675,055	6,961	83,426	95,519	4,759	–	14,500	–	–	880,220
1993	737,345	7,145	56,000	166,452	12,838	–	–	7,370	2,170	989,322
										Re
1986	256,169	–	25,150	17,750	–	–	–	1,436	1,746	302,251
1987	290,940	–	19,680	5,269	–	–	–	1,419	1,272	318,579
1988	373,136	1,551	35,000	14,787	–	–	–	1,254	476	426,203
1989	458,775	8,049	–	13,236	1,592	–	–	938	2,663	485,253
1990	514,557	10,180	20,017	85,716	822	–	–	4,225	470	635,987
1991	588,527	7,242	88,275	4,846	2,009	1,411	–	1,398	487	694,195
1992	630,323	4,989	21,313	59,399	4,302	–	10,630	6,774	262	737,992
1993	730,866	6,961	34,387	27,521	11,299	–	7,041	572	1,270	819,917
										Premiums, discounts
1986	–	–	571	501	–	–	–	–	–	1,072
1987	–	–	532	213	–	1,241	–	–	–	1,986
1988	–	–	199	815	–	–	30	–	–	1,043
1989	–	–	384	858	–	–	284	–	–	1,527
1990	–	–	1,307	2,091	–67	–	483	–	–	3,814
1991	–	–	1,457	2,381	–104	–	77	–	–	3,812
1992	–	29	2,089	2,544	–62	–	23	–	–	4,623
1993	–	–35	915	446	–224	–	–	–	–	1,102
										Net
1986	9,697	–	53,534	35,025	2,360	–	–	–1,436	–1,746	97,434
1987	25,171	2,311	35,268	13,538	2,231	3,808	–	4,136	–1,272	85,192
1988	36,275	5,738	–7,849	59,781	11,167	–	564	–557	–475	104,645
1989	39,778	3,264	20,916	27,006	7,434	–	15,336	–303	–2,663	110,766
1990	44,640	–4,071	54,214	–13,347	7,262	–	26,678	357	–470	115,262
1991	13,894	–2,253	9,268	85,784	1,775	–1,411	22,923	–1,398	–487	128,094
1992	44,731	1,943	60,024	33,576	520	–	3,848	–6,774	–262	137,606
1993	6,480	219	20,698	138,485	1,763	–	–7,041	6,798	901	168,303
										Cou
1986	18,387	–	38,514	5,789	882	–	–	1,225	761	65,558
1987	18,775	–	36,958	8,477	1,082	–	–	1,157	589	67,038
1988	24,426	141	37,980	10,032	1,308	245	–	1,639	486	76,257
1989	31,697	655	38,486	16,752	2,230	256	279	1,523	461	92,339
1990	36,051	1,067	45,879	20,086	2,921	277	2,961	1,752	164	111,158
1991	38,484	891	52,102	23,553	3,777	306	6,395	1,566	141	127,215
1992	46,676	581	57,255	32,673	4,115	221	9,075	1,414	121	152,131
1993	40,960	897	69,167	39,417	4,852	211	8,205	740	138	164,587

(1) Rounding may cause discrepancies in totals. – (2) The 1993 issues include Treasury credit certificates amounting to 10,085 billion lire and Treasury bonds totaling 20,585 billion lire placed the sum of the individual components by the amount of bond issues by local authorities. – (5) The total for firms and international institutions differs from the sum of the individual components

GROSS AND NET ISSUES OF SECURITIES(1)

of lire)

securities											
				Firms and international institutions							
Autonomous government agencies and State Railways	Crediop on behalf of Treasury	Total (4)	Banks accepting medium and long-term funds	ENEL	IRI ENI EFIM	Private firms	International institutions	Total (5)	Total bonds & government securities	Shares	
issues											
2,500	–	*403,257*	*18,639*	2,780	4,396	1,617	821	*9,614*	*431,510*	23,792	 1986
2,000	–	*407,757*	*25,099*	2,741	2,850	1,342	450	*7,383*	*440,239*	13,383	 1987
1,000	–	*532,891*	*21,789*	1,693	1,617	1,335	550	*5,195*	*559,875*	10,839	 1988
1,000	–	*598,545*	*21,368*	2,661	200	1,036	300	*4,197*	*624,110*	19,857	 1989
3,200	–	*758,262*	*22,364*	1,085	–	515	200	*1,800*	*782,426*	24,777	 1990
–	–	*826,101*	*32,307*	2,253	4,902	507	400	*8,062*	*866,470*	20,888	 1991
1,500	–	*881,720*	*29,022*	1,108	–	290	–	*1,518*	*912,260*	20,668	 1992
–	–	*989,322*	*44,185*	2,111	1,000	1,289	–	*4,950*	*1,038,457*	25,787	 1993
demptions											
625	1,056	*303,968*	*11,629*	1,469	1,182	699	55	*3,503*	*319,100*	–	 1986
469	1,053	*320,138*	*13,545*	1,214	1,040	906	96	*3,318*	*337,001*	–	 1987
671	1,087	*427,998*	*13,553*	1,418	1,742	1,159	95	*4,470*	*446,021*	–	 1988
2,069	1,083	*488,423*	*12,987*	1,377	1,220	1,430	84	*4,139*	*505,549*	–	 1989
582	1,098	*637,688*	*15,539*	960	1,594	1,700	80	*4,353*	*657,580*	–	 1990
160	782	*695,156*	*16,119*	921	1,772	1,350	163	*4,226*	*715,501*	–	 1991
2,160	493	*740,660*	*16,995*	1,533	1,796	1,220	424	*4,973*	*762,629*	–	 1992
2,000	309	*822,236*	*17,606*	3,966	1,775	930	603	*7,274*	*847,117*	–	 1993
and double counting											
477	–	*1,549*	*205*	22	–	1	17	*40*	*1,794*	4,920	 1986
5	–	*1,991*	*542*	20	1	1	6	*28*	*2,561*	2,950	 1987
–	–	*1,043*	*270*	13	–	–	3	*16*	*1,329*	1,142	 1988
7	–	*1,534*	*176*	22	–	–	2	*24*	*1,734*	1,488	 1989
7	–	*3,821*	*839*	35	–	–	3	*38*	*4,698*	3,531	 1990
–	–	*3,812*	*250*	17	–	–	7	*24*	*4,085*	2,525	 1991
–	–	*4,623*	*1,179*	9	–	–	–	*9*	*5,811*	4,474	 1992
–	–	*1,102*	*365*	17	–	–	–	*17*	*1,484*	5,510	 1993
issues											
1,398	–1,056	*97,740*	*6,805*	1,289	3,214	917	749	*6,071*	*110,616*	18,872	 1986
1,526	–1,053	*85,628*	*11,012*	1,507	1,809	435	348	*4,037*	*100,677*	10,433	 1987
329	–1,087	*103,850*	*7,966*	262	–124	176	452	*709*	*112,525*	9,697	 1988
–1,076	–1,083	*108,588*	*8,205*	1,262	–1,020	–393	213	*35*	*116,828*	18,369	 1989
2,611	–1,098	*116,753*	*5,985*	90	–1,594	–1,185	117	*–2,592*	*120,147*	21,246	 1990
–160	–782	*127,133*	*15,939*	1,316	3,131	–843	230	*3,813*	*146,884*	18,363	 1991
–660	–493	*136,437*	*10,848*	–434	–1,796	–930	–424	*–3,464*	*143,821*	16,194	 1992
–2,000	–309	*165,984*	*26,213*	–1,872	–775	359	–603	*–2,341*	*189,856*	20,277	 1993
pons											
877	577	*67,007*	*12,743*	1,606	1,302	670	89	*3,684*	*83,434*		 1986
889	470	*68,410*	*12,614*	1,422	1,178	600	163	*3,374*	*84,398*		 1987
1,256	359	*77,882*	*13,797*	1,706	1,318	600	213	*3,846*	*95,525*		 1988
1,021	275	*93,642*	*14,751*	1,613	1,327	700	249	*3,893*	*112,286*		 1989
1,005	190	*112,358*	*15,855*	1,869	1,309	500	273	*3,954*	*132,167*		 1990
1,252	111	*128,582*	*16,828*	1,898	1,276	400	281	*3,855*	*149,265*		 1991
1,274	60	*153,467*	*19,431*	1,899	1,507	350	315	*4,071*	*176,969*		 1992
1,487	27	*166,102*	*20,474*	2,464	1,405	370	261	*4,500*	*191,076*		 1993

with the Bank of Italy to finance the new Treasury payments account. – (3) Includes securities issued by the Treasury to consolidate past debts. – (4) The total for the public sector differs from by the amount of bond issues by *Autostrade*-IRI.

INTEREST RATES ON BANK OF ITALY OPERATIONS

	Official					
	Current account (1)		Bill discounting		Advances	
	Excess reserves	Compulsory reserves (2)	Ordinary bills	Agricultural working credits	Ordinary (base rate)	Surcharge (3)
From: 16 Feb. 1984	0.50	5.50	16.00	7.00	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	0
26 Nov. 1991	"	"	"	"	"	0.50
23 Dec. 1991	"	"	12.00	"	12.00	"
5 June 1992	"	"	"	"	"	1.00
6 July 1992	"	"	13.00	"	13.00	1.50
17 July 1992	"	"	13.75	"	13.75	"
4 Aug. 1992	"	"	13.25	"	13.25	"
4 Sept. 1992	"	"	15.00	"	15.00	"
9 Oct. 1992	"	"	"	"	"	1.00
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	"
14 June 1993	"	"	10.00	5.5	10.00	"
6 July 1993	"	"	9.00	"	9.00	"
10 Sept. 1993	"	"	8.50	"	8.50	"
22 Oct. 1993	"	"	8.00	"	8.00	"
18 Feb. 1994	"	"	7.50	"	7.50	"
12 May 1994	"	"	7.00	"	7.00	"

	Fixed-term advances (4)	Temporary operations (5)					
		Securities repos				Currency swaps	
		Purchases		Sales		Purchases	
		Minimum	Average	Maximum	Average	Minimum	Average
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	–	–	13.84	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	–	–	10.98	11.02
May	11.50	10.75	10.78	–	–	10.63	10.67
June	11.00	10.08	10.18	–	–	10.05	10.08
July	10.00	9.34	9.42	–	–	9.47	9.50
Aug.	10.00	9.41	9.51	–	–	9.17	9.20
Sept.	9.50	8.97	9.03	–	–	8.84	8.86
Oct.	9.00	9.01	9.06	–	–	8.59	8.61
Nov.	9.00	8.98	9.03	–	–	8.80	8.82
Dec.	9.00	8.73	8.81	–	–	8.51	8.53
1994 - Jan.	9.00	8.57	8.62	–	–	8.34	8.36
Feb.	8.50	8.39	8.46	–	–	8.42	8.44
Mar.	8.50	8.37	8.39	–	–	8.27	8.29
Apr.	8.50	8.11	8.15	–	–	8.00	8.02

(1) Current accounts of banks, social security institutions, insurance companies 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. The Decree of 4 July 1993 reduced the interest rate on reserves in respect of certificates eligible for higher remuneration to 6.5 per cent with effect from the reserve maintenance period beginning on 15 September 1993. – (3) Set by the Bank of Italy in accordance with the requirements of monetary control and added to the base rate to determine the rate on fixed-term advances. Until 12 May 1991 the surcharge increased with the frequency of recourse to fixed-term advances. – (4) End-of-period data. See note 3 for method of determination. – (5) Average of allotment rates on operations during the month.

INTEREST RATES: THE MONEY MARKET AND BANKS ACCEPTING SHORT-TERM FUNDS (1)

	Treasury bill yields (2)				Bank interest rates										
					Interbank accounts (3) (4)	Interbank operations			Deposits			Loans (3)		6-month 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 (3)	Average excluding CDs (3)	Total average	Minimum	Average		
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	14.18
1987	11.07	10.74	10.55	10.73	11.33	8.40	....	10.79	9.93	7.01	7.12	12.06	13.58	9.87	12.74
1988	11.17	11.06	11.17	11.13	10.82	10.17	....	10.79	9.51	6.69	6.89	12.11	13.57	9.88	12.76
1989	12.65	12.55	12.55	12.58	12.62	11.97	12.63	12.01	9.80	6.93	7.30	12.92	14.21	10.35	13.83
1990	12.28	12.33	12.53	12.38	11.98	10.93	12.10	11.63	9.73	6.80	7.39	12.66	14.08	10.62	13.35
1991	12.66	12.53	12.39	12.54	12.03	11.83	12.21	11.52	9.65	6.64	7.38	12.27	13.89	10.42	12.84
1992	14.48	14.38	14.02	14.32	14.36	14.38	14.02	13.48	10.59	7.11	7.92	13.61	15.77	11.20	14.36
1993	10.47	10.52	10.74	10.58	10.66	10.25	10.20	9.96	9.19	6.12	7.36	11.14	13.86	9.30	11.40
1992 – Jan. .	12.19	12.21	12.15	12.18	12.36	12.26	12.15	11.71	9.76	6.78	7.51	12.43	14.13	10.49	13.00
Feb. .	12.73	12.17	12.09	12.32	12.42	12.32	12.21	11.76	9.80	6.80	7.59	12.45	14.14	10.48	13.00
Mar. .	13.05	12.82	12.62	12.83	12.45	12.24	12.30	11.86	9.80	6.84	7.64	12.43	14.07	10.49	13.00
Apr. .	13.49	13.43	13.06	13.35	12.53	12.31	12.41	11.93	9.84	6.89	7.68	12.46	14.16	10.49	13.13
May .	13.45	13.21	13.00	13.24	12.69	12.37	12.41	11.98	9.86	6.93	7.72	12.49	14.28	10.49	13.13
June .	14.42	13.85	13.59	14.00	13.58	14.23	13.46	12.98	10.01	6.95	7.75	12.68	14.56	10.45	14.00
July .	15.56	15.32	14.69	15.24	15.86	16.90	15.64	15.11	10.37	7.03	7.82	13.86	15.88	10.67	15.75
Aug. .	15.43	15.24	14.62	15.16	15.96	15.78	15.43	14.83	10.78	7.14	7.94	14.38	16.77	11.13	15.38
Sept.	18.05	18.52	17.02	17.98	20.21	22.12	18.22	16.98	11.46	7.33	8.12	15.50	17.87	12.05	17.00
Oct. .	15.52	16.15	15.92	15.85	16.35	15.51	15.58	14.85	11.95	7.61	8.43	15.70	18.56	12.82	16.25
Nov. .	15.37	15.23	15.40	15.33	14.32	13.87	14.50	14.15	11.90	7.57	8.48	14.81	17.91	12.53	14.75
Dec. .	14.45	14.35	14.10	14.33	13.58	12.72	13.85	13.59	11.56	7.41	8.40	14.20	16.93	12.26	14.00
1993 – Jan. .	12.52	11.98	12.59	12.38	13.30	12.68	12.67	12.40	11.09	7.17	8.24	13.38	16.23	11.82	13.63
Feb. .	12.08	12.08	11.97	12.05	12.34	11.58	11.50	11.21	10.54	6.90	8.11	12.70	15.65	11.13	12.75
Mar. .	12.51	12.37	12.62	12.50	11.85	11.31	11.35	11.07	10.30	6.85	8.07	12.26	15.03	10.73	12.63
Apr. .	12.30	12.54	12.48	12.43	11.78	11.29	11.45	11.16	10.15	6.87	8.01	12.10	14.68	10.50	12.38
May .	11.51	11.36	11.64	11.49	11.33	10.80	10.81	10.53	9.68	6.58	7.80	11.74	14.36	10.08	11.88
June .	10.62	10.23	10.51	10.46	10.81	10.37	10.25	9.96	9.27	6.30	7.59	11.31	13.94	9.57	11.63
July .	9.88	9.95	10.37	10.05	9.99	9.48	9.54	9.27	8.71	5.83	7.17	10.73	13.56	8.75	10.88
Aug. .	9.18	9.84	10.03	9.71	10.11	9.83	9.33	9.10	8.48	5.59	6.94	10.44	13.18	8.26	10.88
Sept.	8.86	9.03	9.40	9.10	9.46	9.06	9.11	8.93	8.33	5.52	6.81	10.10	12.90	8.09	10.38
Oct. .	9.11	8.95	9.11	9.06	9.11	9.08	8.78	8.59	8.12	5.35	6.62	9.79	12.55	7.79	10.00
Nov. .	8.90	9.46	9.59	9.37	9.03	8.87	9.01	8.83	7.84	5.19	6.45	9.56	12.28	7.48	9.88
Dec. .	8.18	8.40	8.54	8.38	8.85	8.67	8.59	8.40	7.78	5.27	6.45	9.62	11.99	7.40	9.88
1994 – Jan. .	8.26	8.70	8.69	8.59	8.96	8.66	8.42	8.24	7.64	5.27	6.35	9.57	11.73	7.29	9.88
Feb. .	8.66	8.83	8.81	8.78	8.84	8.41	8.45	8.23	7.48	5.12	6.25	9.46	11.60	7.11	9.38
Mar. .	8.91	8.96	9.00	8.96	8.59	8.32	8.42	8.22	7.25	4.91	6.04	9.18	11.36	6.90	9.38
Apr. .	8.60	8.75	8.75	8.71	8.52	8.17	8.11	7.92	7.16	4.94	5.99	9.05	11.20	6.80	9.13

(1) Before tax; annual figures are the average of monthly values. – (2) Average of allotment rates at public auctions, before deduction of withholding tax; 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) Weighted monthly average of the bid and offer rates recorded daily on the screen-based interbank deposits 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	Treasury bonds	Straight bonds			
					Industrial credit institutions	Real estate credit institutions	State enterprises	Total
1984	16.98	11.51	–	15.60	14.82	15.86	14.55	14.93
1985	14.68	9.89	–	13.71	13.08	13.19	12.62	12.95
1986	12.41	8.52	–	11.47	10.56	11.10	9.96	10.56
1987	10.66	8.43	–	10.58	10.13	10.10	9.59	9.95
1988	11.25	8.11	–	10.54	10.87	10.85	10.78	10.39
1989	12.71	9.34	–	11.61	11.61	11.69	11.74	11.17
1990	12.31	10.19	10.67	11.87	12.03	12.15	12.17	11.77
1991	11.78	9.05	11.52	11.37	11.63	11.46	11.29	11.12
1992	13.70	9.00	11.22	11.90	12.04	11.51	12.28	11.65
1993	10.55	6.57	11.51	9.60	10.10	10.70	10.16	9.98
1992 – Jan.	11.72	8.55	10.96	10.98	11.14	11.05	10.93	10.69
Feb.	11.35	8.70	10.95	10.93	11.07	10.86	10.90	10.65
Mar.	11.67	8.67	10.97	10.94	11.14	10.82	11.00	10.73
Apr.	12.17	8.73	11.04	11.05	11.11	10.58	11.04	10.71
May	12.22	8.84	11.06	11.04	11.24	10.63	11.17	10.82
June	12.72	8.94	11.36	11.61	11.60	10.99	11.73	11.25
July	13.94	8.75	11.89	12.49	12.15	11.33	12.28	11.81
Aug.	14.40	8.87	11.91	12.48	12.38	11.54	12.94	12.01
Sept.	16.76	9.44	12.49	13.54	13.81	12.35	15.08	13.58
Oct.	17.22	10.18	12.21	13.28	13.24	12.66	14.05	12.90
Nov.	15.21	9.43	11.60	12.16	12.76	12.80	13.13	12.35
Dec.	15.01	8.85	11.64	12.31	12.86	12.54	13.07	12.35
1993 – Jan.	13.29	7.96	11.26	11.75	12.08	12.70	12.10	11.89
Feb.	12.19	7.37	10.93	11.22	11.83	12.28	11.49	11.55
Mar.	12.23	7.78	10.88	11.17	11.71	12.07	11.30	11.38
Apr.	12.78	7.90	10.99	11.44	11.62	11.96	11.85	11.35
May	11.76	7.63	10.62	10.74	11.20	11.79	11.15	11.00
June	10.77	7.76	10.16	10.14	10.72	11.42	10.58	10.54
July	9.71	5.90	9.31	9.31	9.72	10.55	9.39	9.63
Aug.	9.58	4.89	8.44	8.37	9.14	10.08	9.16	9.12
Sept.	9.00	5.86	8.15	8.05	8.58	9.23	9.13	8.67
Oct.	8.25	5.36	7.58	7.52	7.95	8.67	8.50	8.07
Nov.	8.72	5.15	7.96	7.94	8.36	8.72	8.95	8.39
Dec.	8.35	5.27	7.62	7.58	8.26	8.90	8.29	8.22
1994 – Jan.	7.94	4.66	7.20	7.21	7.67	8.44	7.73	7.69
Feb.	8.10	5.02	7.35	7.38	7.82	8.29	7.92	7.96
Mar.	8.41	4.87	8.03	8.03	8.03	8.33	8.63	8.12
Apr.	8.14	5.96	7.75	7.80	7.94	8.24	8.57	8.05

M2 AND ITS COUNTERPARTS (1)
(changes in billions of lire)

	M2 (2)	COUNTERPARTS				
		Net external position of BI-UIC (3)	Net external position of banks accepting short-term funds	Credit to the non-state sector (4)	Credit to the state sector (5)	Other (6)
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	78,671	4,071	–17,640
1990	63,597	15,458	–5,400	73,400	3,148	–23,009
1991	76,144	–8,674	–26,167	78,533	31,330	1,123
1992	42,894	–32,591	–27,713	53,737	59,388	–9,927
1993	63,906	2,564	50,572	–964	45,296	–33,562
1992 – Jan.	–57,360	–613	–5,709	–797	–32,431	–17,809
Feb.	–3,682	751	–7,069	–87	768	1,955
Mar.	12,990	–868	–10,084	4,225	24,069	–4,433
Apr.	5,262	–4,515	–7,206	5,848	21,579	–10,444
May	4,525	–1,055	–3,761	–3,175	6,906	5,611
June	8,469	–7,800	–7,129	20,968	–3,285	5,716
July	–16,689	–10,492	–7,494	11,714	–3,656	–6,761
Aug.	–14,997	–4,516	–2,222	–11,215	–3,179	6,135
Sept.	29,436	–29,884	23,811	3,609	32,344	–445
Oct.	1,886	10,064	1,737	–2,102	–2,568	–5,246
Nov.	–746	3,425	2,404	664	4,245	–11,484
Dec.	73,883	12,912	–4,991	24,085	14,597	27,280
1993 – Jan.	–41,834	–600	1,663	–1,828	–26,244	–14,825
Feb.	–1,036	–2,878	13,051	–4,901	1,169	–7,476
Mar.	10,001	4,734	–292	–5,868	11,123	304
Apr.	5,967	–3,283	4,179	6,383	9,564	–10,876
May	3,410	6	6,455	–9,772	3,100	3,621
June	6,611	2,721	4,334	12,491	–15,130	2,195
July	–7,609	–1,230	4,962	7,221	–3,830	–14,732
Aug.	–3,863	–1,985	11,644	–14,378	–309	1,166
Sept.	21,871	7,661	–3,207	–7,820	28,745	–3,508
Oct.	3,942	–2,820	–5,040	3,206	14,030	–5,434
Nov.	2,239	2,476	2,568	–6,808	10,517	–6,513
Dec.	64,207	–2,237	10,255	21,111	12,562	22,516

(1) Rounding may cause discrepancies in totals. – (2) Domestic money supply of the non-state sector; end-of-period data. – (3) Net of exchange rate adjustments. – (4) Claims of banks accepting short-term funds on the non-state sector. – (5) Claims of banks accepting short-term funds and the Bank of Italy on the state sector. – (6) Lending by banks accepting short-term funds and the Bank of Italy to other banks, monetary base creation by "other sectors", capital items and residual items in the balance sheets of banks accepting short-term funds.

(stocks in billions

	END-OF-PERIOD					
	Notes and coin	Sight deposits (2)		Other assets (3)	Total: M1	Certificates of deposit of banks accepting short-term funds
		Banks accepting short-term funds	Post Office			
1984 – Dec.	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	7,825	17,068	482,358	119,333
1991 – "	76,354	434,733	7,017	19,429	537,534	153,433
1992 – Jan.	72,132	384,901	9,125	14,304	480,462	160,224
Feb.	71,652	382,075	7,616	14,253	475,596	164,174
Mar.	72,330	391,686	7,860	14,481	486,356	168,289
Apr.	73,294	394,286	6,520	14,238	488,338	172,133
May	74,648	393,525	7,507	15,027	490,707	174,851
June	73,680	400,613	8,295	16,414	499,003	177,240
July	79,216	379,062	8,733	17,378	484,389	177,271
Aug.	75,715	372,379	9,288	12,027	469,411	177,416
Sept.	78,436	390,057	9,789	15,275	493,556	183,412
Oct.	78,736	383,199	9,620	15,116	486,672	193,211
Nov.	79,981	376,740	8,435	17,419	482,575	197,104
Dec.	85,617	434,011	9,519	16,011	545,158	200,945
1993 – Jan.	82,540	396,171	11,323	14,648	504,682	203,520
Feb.	81,215	393,837	10,178	14,305	499,535	209,656
Mar.	81,997	399,168	9,208	14,101	504,474	217,464
Apr.	82,201	401,496	10,334	13,259	507,291	221,167
May	83,216	403,690	10,270	12,647	509,823	223,666
June	81,828	410,865	11,114	13,196	517,002	225,841
July	86,096	395,470	11,285	15,646	508,497	227,561
Aug.	82,129	400,188	9,848	10,689	502,853	228,480
Sept.	83,339	415,554	9,910	12,686	521,489	230,519
Oct.	84,011	416,300	9,954	12,921	523,187	231,689
Nov.	85,064	413,783	9,627	15,942	524,415	232,895
Dec.	89,769	464,160	9,783	14,760	578,472	234,845
1994 – Jan.	86,170	428,077	12,739	13,575	540,561	238,832
Feb.	85,476	434,083	12,371	11,582	543,512	241,134
Mar.	88,553	447,495	11,290	13,203	560,542	241,937

(1) Money held by the non-state sector. M2 corresponds to the "harmonized" definition of M3 within the EU. Rounding may cause discrepancies in totals. – (2) Demand deposits in lire and foreign currency. – (5) Including the deposits of the non-state sector with the foreign branches of Italian banks. – (6) For notes and coin, deposits and banker's drafts, averages of daily data;

SUPPLY (1)

of lire)

DATA				AVERAGE DATA			
Savings deposits of banks accepting short-term funds (4)	Postal savings accounts	Total: M2	Extended M2 (5)	M1 (6)	M2 (6)	Extended M2 (5) (6)	
182,201	8,565	478,723	479,137	....	....	....	..... Dec. – 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	801,992	804,307	442,428	752,409	754,683	.... " – 1990
160,244	26,924	878,136	881,850	488,712	820,537	824,148	.... " – 1991
152,905	27,184	820,775	824,371	503,847	843,960	847,615	...... Jan. – 1992
149,839	27,483	817,093	821,562	475,068	815,923	819,955	...... Feb.
147,594	27,762	830,002	835,201	471,038	813,061	817,895	...... Mar.
146,845	27,947	835,263	841,297	484,453	829,950	835,567	...... Apr.
146,111	28,119	839,788	846,672	486,125	833,898	840,357	...... May
144,126	27,889	848,257	854,593	483,890	832,229	838,839	...... June
142,228	27,681	831,568	837,790	482,023	830,527	836,806	...... July
142,044	27,700	816,571	822,926	466,812	813,280	819,569	...... Aug.
141,566	27,474	846,007	853,381	472,175	818,564	825,428	...... Sept.
140,705	27,305	847,892	855,292	483,789	840,575	847,962	...... Oct.
140,176	27,292	847,147	852,792	478,459	840,611	847,133	...... Nov.
145,881	29,046	921,030	926,175	492,292	858,139	863,534	...... Dec.
143,265	29,061	880,528	886,121	516,701	891,665	897,034	...... Jan. – 1993
141,094	29,208	879,491	884,775	492,121	869,514	874,952	...... Feb.
138,215	29,339	889,492	894,513	489,994	870,663	875,815	...... Mar.
137,611	29,390	895,459	900,450	495,189	880,161	885,167	...... Apr.
135,964	29,416	898,870	903,029	498,627	886,148	890,724	...... May
133,639	28,998	905,481	910,384	499,465	884,414	888,946	...... June
133,263	28,551	897,872	902,497	501,190	887,173	891,937	...... July
133,418	29,257	894,009	898,493	493,389	879,784	884,339	...... Aug.
134,464	29,409	915,880	920,764	502,459	891,495	896,180	...... Sept.
135,457	29,489	919,822	924,860	511,473	903,510	908,472	...... Oct.
134,925	29,826	922,061	927,227	519,737	914,050	919,153	...... Nov.
142,117	30,833	986,268	992,654	529,879	925,952	931,728	...... Dec.
138,644	32,033	950,070	955,684	548,910	954,368	960,369	...... Jan. – 1994
137,131	32,059	953,836	959,228	528,710	934,627	940,130	...... Feb.
137,478	32,097	972,054	977,749	536,562	943,127	948,670	...... 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 for the other items, two-period moving averages of end-of-month data.

	Finance to the non-state sector				
	From banks accepting short-term funds (2)	From banks accepting medium and long-term funds (2)	Bonds placed domestically	Total domestic finance	Foreign finance (3)
1984 – Dec.	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	25,719	565,252	51,036
1989 – "	425,055	219,650	25,425	670,130	69,091
1990 – "	493,256	255,317	23,212	771,784	95,288
1991 – "	567,165	287,785	24,875	879,824	109,006
1992 – Jan.	566,231	289,378	24,796	880,406	114,013
Feb.	566,209	292,356	23,848	882,414	115,571
Mar.	569,697	296,172	23,762	889,632	115,703
Apr.	574,288	299,923	23,658	897,870	115,687
May	570,602	303,821	23,548	897,971	116,682
June	590,319	301,138	23,166	914,623	114,542
July	600,474	305,536	22,346	928,356	116,761
Aug.	588,560	306,720	22,333	917,613	118,359
Sept.	604,243	308,374	22,255	934,872	118,993
Oct.	601,556	310,589	22,158	934,302	123,559
Nov.	604,584	312,660	22,274	939,518	120,413
Dec.	635,069	313,672	21,209	969,949	120,230
1993 – Jan.	635,568	331,053	38,871	1,005,493	129,556
Feb.	636,720	333,891	38,611	1,009,222	132,145
Mar.	632,951	337,726	38,695	1,009,372	130,558
Apr.	631,970	339,139	36,852	1,007,961	128,948
May	620,283	342,210	36,563	999,055	130,334
June	634,361	341,671	35,773	1,011,805	130,339
July	643,328	346,162	36,298	1,025,788	131,954
Aug.	629,790	351,008	33,804	1,014,602	131,727
Sept.	621,869	353,676	33,841	1,009,386	129,700
Oct.	624,260	357,888	34,524	1,016,672	127,999
Nov.	619,594	361,400	34,816	1,015,810	126,615
Dec.	638,347	365,783	33,464	1,037,594	124,318
1994 – Jan.	629,094	364,105	34,966	1,028,165	123,682
Feb.	623,619	366,354	34,152	1,024,125	121,878
Mar.	611,804	367,622	33,627	1,013,052	120,800

(1) Rounding may cause discrepancies in totals. – (2) In lire and in foreign currency. – (3) Foreign loans and bonds. – (4) Domestic debt at face value, net of non-state sector bonds held the state sector.

Table a24

DIT (1)
in billions of lire)

Total finance	Finance to the state sector: Domestic finance (4)	Finance to the state sector: Foreign finance (5)	Finance to the state sector: Total	Credit: Total domestic (6)	Credit: Total (7)	
422,614	516,195	16,285	532,480	881,168	955,094	.... Dec. – 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
616,288	984,598	28,586	1,013,184	1,549,850	1,629,472	.... " – 1988
739,221	1,111,864	34,979	1,146,843	1,781,944	1,886,064	.... " – 1989
867,072	1,247,655	48,799	1,296,453	2,019,439	2,163,525	.... " – 1990
988,830	1,399,479	54,720	1,454,199	2,279,304	2,443,030	.... " – 1991
994,418	1,405,871	55,598	1,461,468	2,286,276	2,455,887	.... Jan. – 1992
997,984	1,416,376	54,583	1,470,959	2,298,790	2,468,943	.... Feb.
1,005,335	1,442,748	55,120	1,497,868	2,332,380	2,503,203	.... Mar.
1,013,557	1,466,201	54,695	1,520,896	2,364,071	2,534,453	.... Apr.
1,014,653	1,485,317	53,739	1,539,056	2,383,289	2,553,710	.... May
1,029,165	1,476,078	53,110	1,529,188	2,390,700	2,558,353	.... June
1,045,117	1,490,825	52,479	1,543,304	2,419,181	2,588,421	.... July
1,035,972	1,493,459	52,066	1,545,524	2,411,072	2,581,496	.... Aug.
1,053,865	1,518,773	58,402	1,577,175	2,453,645	2,631,040	.... Sept.
1,057,861	1,532,432	58,507	1,590,939	2,466,734	2,648,800	.... Oct.
1,059,931	1,557,145	59,786	1,616,931	2,496,663	2,676,862	.... Nov.
1,090,179	1,573,996	64,653	1,638,649	2,543,946	2,728,828	.... Dec.
1,135,049	1,555,459	64,757	1,607,505	2,560,952	2,742,555	.... Jan. – 1993
1,141,367	1,566,418	69,104	1,622,448	2,575,640	2,763,815	.... Feb.
1,139,929	1,593,381	74,249	1,654,459	2,602,753	2,794,388	.... Mar.
1,136,909	1,613,061	68,677	1,669,849	2,621,022	2,806,758	.... Apr.
1,129,389	1,629,009	68,440	1,685,690	2,628,064	2,815,079	.... May
1,142,144	1,604,387	72,923	1,665,711	2,616,192	2,807,855	.... June
1,157,742	1,612,734	73,477	1,674,474	2,638,522	2,832,215	.... July
1,146,329	1,619,543	74,633	1,682,415	2,634,145	2,828,744	.... Aug.
1,139,086	1,640,890	82,502	1,711,599	2,650,276	2,850,685	.... Sept.
1,144,671	1,658,324	82,391	1,728,627	2,674,996	2,873,299	.... Oct.
1,142,425	1,679,789	86,853	1,754,412	2,695,599	2,896,837	.... Nov.
1,161,912	1,696,134	85,355	1,769,218	2,733,728	2,931,130	.... Dec.
1,151,847	1,693,669	89,707	1,771,185	2,721,834	2,923,032	.... Jan. – 1994
1,146,003	1,705,994	89,377	1,783,032	2,730,118	2,929,035	.... Feb.
1,133,852	1,732,294	85,310	1,805,537	2,745,346	2,939,389	.... Mar.

by Deposits and Loans Fund. – (5) Foreign debt 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 BANK'S CAPITAL AND RESERVES

Capital. — The transformation of 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, Legislative Decree 356/1990 and Law 489/1993 continued in 1993. This led to an increase in the number of shares held by this form of company, as shown in the following table:

	at 31 December 1992			at 31 December 1993		
	Number	Shares held	Votes	Number	Shares held	Votes
	Shareholders with voting rights					
Savings banks and pledge banks	8	4,866	32	2	1,445	10
Public law credit institutions	2	16,000	40	1	7,500	19
Banks of national interest	2	16,000	40	2	16,000	40
Companies limited by shares engaging in banking activities (Art. 1 of Legislative Decree 356/1990)	72	216,566	544	79	228,487	585
Social security institutions	1	15,000	34	1	15,000	34
Insurance companies	7	31,500	91	7	31,500	91
	92	299,932	781	92	299,932	779
	Shareholders without voting rights					
Savings banks and pledge banks	2	44		1	36	
Companies limited by shares engaging in banking activities (Art. 1 of Legislative Decree 356/1990)	5	24		6	32	
	7	68		7	68	
Total ...	99	300,000		99	300,000	

Reserves. — The changes in the ordinary and extraordinary reserve funds during 1993 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 1992		2,140,373,296,691	2,299,648,177,219
increase:	due to appropriation of 20 per cent of profits for the year 1992	42,660,173,944	42,660,173,944
	due to income received in 1993 from investment of reserves	268,918,230,882	309,801,725,631
decrease:	due to distribution to shareholders of a part of the income accruing in the course of 1992 (Article 56 of the Statutes)	1,740,504,342	1,877,195,658
Balance at 31 December 1993		2,450,211,197,175	2,650,232,881,136

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

GOLD				
I on hand			2,458,848,797,044	
II on deposit abroad			24,313,769,335,667	26,772,618,132,711
GOLD CREDITS				9,227,514,477,935
CASH ON HAND				4,937,360,820
DISCOUNTS AND ADVANCES				
I portfolio discounts:				
— ordinary bills		263,640,422,236		
— stockpiling bills		2,893,753,129,387	3,157,393,551,623	
II advances:				
— current account		1,884,694,024,885		
— fixed term		199,996,500,000		
— under Treasury Decree of 27.9.1974		—	2,084,690,524,885	
III deferred payments in the clearing system			—	5,242,084,076,508
BILLS FOR COLLECTION WITH CORRESPONDENTS				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ecus			7,172,485,478,513	
II other:				
— banknotes and foreign currency bills		4,004,257,949		
— current accounts with correspondents		3,124,085,805,017		
— time deposits		725,276,520,270		
— other		4,737,373,515,667	8,590,740,098,903	15,763,225,577,416
DOLLAR CREDIT				7,672,426,536,565
ECU CREDIT FOR SHORT-TERM FACILITIES				—
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current accounts (debtor balance)			27,648,680,612,364	
II special accounts			6,944,593,180,914	34,593,273,793,278
TREASURY CURRENT ACCOUNT (debtor balance)				76,205,756,347,862
SUNDRY CLAIMS ON THE GOVERNMENT				438,077,450,249
SECURITIES				
I government and government-guaranteed securities:				
— freely available marketable securities		128,701,493,702,633		
— investment of statutory reserves		3,911,724,461,912		
— investment of staff severance pay and pension funds		2,913,984,600,310	135,527,202,764,855	
II securities of companies and agencies:				
— investment of statutory reserves		129,865,397,358		
— investment of staff severance pay and pension funds		583,535,352,590	713,400,749,948	
III shareholdings and participations:				
— in subsidiary companies and agencies				
a) investment of statutory reserves	301,256,572			
b) investment of staff severance pay and pension funds	173,731,459,593	174,032,716,165		
— in associated companies and agencies				
a) investment of statutory reserves	25,105,483,226			
b) investment of staff severance pay and pension funds	5,723,750,933	30,829,234,159		
— in other companies and agencies				
a) investment of statutory reserves	545,440,647,570			
b) investment of staff severance pay and pension funds	708,845,071,703	1,254,285,719,273	1,459,147,669,597	137,699,751,184,400
carried forward . . .				313,619,664,937,744

LIABILITIES

NOTES IN CIRCULATION		93,507,777,422,000
BI DRAFTS		1,222,661,054,944
OTHER SIGHT LIABILITIES		
I transfer orders	—	
II other	136,044,727	136,044,727
RESERVE DEPOSITS ON CURRENT ACCOUNT		
I credit institutions subject to the compulsory reserve requirement	103,791,094,964,573	
II other entities	128,930,085,565	103,920,025,050,138
OTHER COMPULSORY DEPOSITS		
I compulsory bank reserves against foreign currency deposits	—	
II collateral for the issue of bankers' drafts and guaranteed personal cheques	213,448,491	
III tied deposits in relation to investment abroad	—	
IV in respect of companies in the process of incorporation	710,541,346	
V other	27,325,990,341	28,249,980,178
OTHER DEPOSITS ON CURRENT ACCOUNT		64,001,183,094
TIED DEPOSITS ON CURRENT ACCOUNT		—
DEPOSITS FOR CASH DEPARTMENT SERVICES		218,364,473
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC		6,944,593,180,914
EXTERNAL LIABILITIES		
I deposits in foreign currencies	811,512,027,650	
II external accounts in lire	171,836,172,949	
III other	—	983,348,200,599
ECU LIABILITIES		16,899,941,014,500
ECU LIABILITIES FOR SHORT-TERM FACILITIES		—
TREASURY PAYMENTS ACCOUNT		30,670,000,000,000
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT		1,208,532,510,113
SUNDRY PROVISIONS		
I for gold price fluctuations (under Decree Law 867/1976 and Art. 104 (1b) of the codified income tax law)	32,238,139,450,597	
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	3,170,059,865,788	
V for exchange rate adjustments (under Art. 104 (1c) of the codified income tax law)	1,909,383,190,146	
VI for diminution in value of securities	7,322,814,246,990	
VII for contingent losses	2,803,006,748,480	
VIII for insurance cover	969,691,685,925	
IX for building works	2,343,801,851,969	
X for renewal of equipment	891,250,000,000	
XI for taxation	3,566,659,465,745	
XII for staff severance pay and pensions	5,458,207,900,630	
XIII for grants to BI pensioners and their surviving dependants	1,902,168,838	
XIV for severance pay to contract staff under Law 297/1982	1,420,938,068	62,112,051,967,655
	carried forward . . .	317,561,535,973,335

AMOUNTS IN LIRE

ASSETS

brought forward . . .			313,619,664,937,744
UIC ENDOWMENT FUND			500,000,000,000
REAL PROPERTY			
I Bank premises		3,402,780,078,065	
II investment of staff severance pay and pension funds		578,832,693,345	3,981,612,771,410
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS			13,138,169,936
FURNITURE AND EQUIPMENT			
I furniture and fittings		148,999,435,280	
II equipment		300,554,024,985	
III coins and collections		847,220,088	450,400,680,353
SUNDRY ITEMS			
I banknotes in production		22,383,423,182	
II procedures, studies and designs of the technical departments:			
— completed	89,791,768,071		
— in preparation	48,923,710,721	138,715,478,792	
III deferred charges		24,813,108,587	
IV sundry debtors		3,320,217,299,486	
V other		2,053,848,476,935	5,559,977,786,982
ACCRUED INCOME			4,795,812,885,535
PREPAID EXPENSES			3,444,099,090
			328,924,051,331,050
MEMORANDUM ACCOUNTS			
I Securities and other valuables:			
— held as collateral	2,845,565,173,419		
— other	1,954,848,436,715,495	1,957,694,001,888,914	
II Depositaries of securities and valuables:			
— domestic	636,820,270,136		
— foreign	14,189,708,385,305	14,826,528,655,441	
III Unused overdraft facilities		228,548,825,307	
IV Debtors for securities, exchange and lire receivable (BI forward sales):			
— securities	42,550,000,000,000		
— internal correspondents	—		
— external correspondents	38,532,236,285,207	81,082,236,285,207	
V Securities, exchange and lire receivable (BI forward purchases):			
— securities	130,000,000,000		
— foreign currencies and lire	28,480,841,718,759	28,610,841,718,759	
VI Orders suspense accounts:			
— purchases of foreign currencies	—		
— lire in respect of sales of foreign currencies	—		
— purchases of securities	1,543,524,663		
— lire in respect of sales of securities	1,343,148,467	2,886,673,130	2,082,445,044,046,758
TOTAL . . .			**2,411,369,095,377,808**

Audited and found correct. — Rome, 28 April 1994

THE AUDITORS
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

LIABILITIES

brought forward . . .			317,561,535,973,335
ACCUMULATED DEPRECIATION OF PROPERTY			855,396,958,852
ACCUMULATED DEPRECIATION OF FURNITURE AND FITTINGS			129,586,623,062
ACCUMULATED DEPRECIATION OF EQUIPMENT			245,783,945,767
ACCUMULATED DEPRECIATION (Art. 67) (3) of the codified income tax law)			27,471,760,070
ACCUMULATED DEPRECIATION OF THE PROCEDURES, STUDIES AND DESIGNS OF THE TECHNICAL DEPARTMENTS			42,706,006,106
ACCUMULATED DEPRECIATION OF DEFERRED CHARGES			12,310,476,959
SUNDRY ITEMS			
I sundry creditors		78,873,154,895	
II other		681,909,475,675	760,782,630,570
ACCRUED EXPENSES			287,449,401,206
DEFERRED INCOME			554,616,797,526
CAPITAL		300,000,000	
ORDINARY RESERVE FUND		2,450,211,197,175	
EXTRAORDINARY RESERVE FUND		2,650,232,881,136	5,100,744,078,311
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
NET PROFIT FOR DISTRIBUTION			729,929,152,250
			328,924,051,331,050
MEMORANDUM ACCOUNTS			
I Depositors of securities and other valuables		1,957,694,001,888,914	
II Securities and valuables on deposit		14,826,528,655,441	
III Holders of unused overdraft facilities		228,548,825,307	
IV Securities, exchange and lire for delivery (BI forward sales):			
— securities	42,550,000,000,000		
— foreign currencies and lire	38,532,236,285,207	81,082,236,285,207	
V Creditors for securities, exchange and lire for delivery (BI forward purchases):			
— securities	130,000,000,000		
— internal correspondents	—		
— external correspondents	28,480,841,718,759	28,610,841,718,759	
VI Order suspense accounts:			
— lire in respect of purchases of foreign currencies	—		
— sales of foreign currencies	—		
— lire in respect of purchases of securities	1,543,524,663		
— sales of securities	1,343,148,467	2,886,673,130	2,082,445,044,046,758
TOTAL . . .			**2,411,369,095,377,808**

THE ACCOUNTANT GENERAL

VINCENZO PONTOLILLO

THE GOVERNOR

ANTONIO FAZIO

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

COSTS OF ADMINISTRATION			
central and local boards		6,755,938,364	
staff:			
wages and salaries and related costs	1,055,269,791,096		
pensions and severance payments	441,744,575,158	1,497,014,366,254	
professional services		182,202,083,672	
other		296,493,311,806	1,982,465,700,096
TAXES AND DUTIES			
stamp duty on the circulation of banknotes and demand drafts		55,904,917,500	
taxes on income for the year		2,886,185,479,000	
other		232,697,545,976	3,174,787,942,476
INTEREST PAID			
on compulsory bank reserves		6,502,100,843,736	
other		1,122,733,797,680	7,624,834,641,416
EXPENDITURE ON SECURITIES TRANSACTIONS			164,367,026
EXPENDITURE ON FOREIGN TRANSACTIONS			214,404,524
LOSSES ON SECURITIES			569,195,106,539
LOSSES ON FOREIGN EXCHANGE			—
LOSSES ON SUNDRY FINANCIAL TRANSACTIONS			—
LOSSES ON THE DISPOSAL OF ASSETS			688,716,302
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES			2,861,915,063
TECHNICAL DEPARTMENTS – INITIAL STOCKS			59,221,808,882
EXPENDITURE ON TRANSACTIONS WITH THE TREASURY			2,273,349,863,000
VALUATION LOSSES			
on securities		—	
on foreign exchange		—	
other		—	—
DEPRECIATION			
of buildings		89,492,930,595	
of furniture and fittings		12,031,632,673	
of equipment		49,939,641,774	
of the procedures, studies and designs of the technical departments		35,087,373,225	
of deferred charges		10,368,043,591	
other		14,461,832	196,934,083,690
APPROPRIATION OF INVESTMENT INCOME TO RESERVES			
to ordinary reserve fund		268,918,230,882	
to extraordinary reserve fund		309,801,725,631	578,719,956,513
		carried forward . . .	16,463,438,505,527

INCOME AND PROFITS

INTEREST RECEIVED				
on discounts and advances:				
ordinary portfolio discounts		17,327,853,121		
stockpiling portfolio discounts		28,242,148,075		
advances		174,952,583,076	220,522,584,272	
on lending to the Treasury			787,359,295,890	
on lending to the UIC			1,087,893,784,487	
on lending abroad			957,473,205,509	
other			28,565,887,586	3,081,814,757,744
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
interest-bearing:				
Treasury bills	621,250,269,945			
variable rate Treasury credit certificates	4,425,640,808,494			
other government securities	7,598,002,157,118	12,644,893,235,557		
government-guaranteed securities		1,783,553,500	12,646,676,789,057	
investment of reserves and staff severance pay and pension funds				
interest-bearing:				
government and government-guaranteed securities	876,843,962,501			
other securities	72,067,527,145	948,911,489,646		
from investments in:				
subsidiary companies and bodies	3,861,450,094			
associated companies and bodies	13,726,663,670			
other companies and bodies	56,505,757,603	74,093,871,367	1,023,005,361,013	13,669,682,150,070
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND				362,248,745,009
SECURITIES ISSUE DISCOUNTS				701,379,899,949
PROFITS ON SECURITIES				—
PROFITS ON FOREIGN EXCHANGE				1,368,006,586,866
carried forward . . .				19,183,132,139,638

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

brought forward . . .		16,463,438,505,527
ALLOCATIONS TO PROVISIONS		
for losses on bill portfolio	—	
for diminution in value of foreign exchange	290,000,000,000	
for diminution in value of securities	1,600,000,000,000	
for contingent losses	—	
for insurance cover	33,000,000,000	
for building works	100,000,000,000	
for renewal of equipment	50,000,000,000	
for taxation	—	
for staff severance pay and pensions	312,271,469,444	
for grants to BI pensioners and their surviving dependants	372,795,271	
for severance pay of contract staff under Law 297/1982	252,208,923	2,385,896,473,638
NON-OPERATING LOSSES AND EXTRAORDINARY CHARGES		49,374,934,587
		18,898,709,913,752
NET PROFIT		729,929,152,250
TOTAL . . .		**19,628,639,066,002**

APPROPRIATION

TO ORDINARY RESERVE FUND ....

TO EXTRAORDINARY RESERVE FUND ....

TO SHAREHOLDERS ....

TO THE TREASURY ....

Audited and found correct. — Rome, 28 April 1994

THE AUDITORS
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

INCOME AND PROFITS		
brought forward...		19,183,132,139,638
PROFITS ON SUNDRY FINANCIAL TRANSACTIONS		26,695,151,667
COMMISSIONS AND OTHER FINANCIAL REVENUES		272,643,806,980
INCOME FROM REAL PROPERTY		18,773,683,458
PROFITS FROM THE DISPOSAL OF:		
real property	—	
other property	2,839,117,345	2,839,117,345
CAPITALIZATION OF DEFERRED CHARGES		10,065,610,346
TECHNICAL DEPARTMENTS - FINAL STOCKS		80,019,944,147
TECHNICAL DEPARTMENTS - PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR		29,559,542,141
VALUATION GAINS		
on securities	—	
on foreign exchange	—	
on other assets	—	—
NON-OPERATING PROFITS AND EXTRAORDINARY EARNINGS		4,910,070,280
TOTAL...		**19,628,639,066,002**

OF PROFIT	
	145,985,830,450
	145,985,830,450
	30,000,000
	437,927,491,350
TOTAL...	**729,929,152,250**

THE ACCOUNTANT GENERAL

VINCENZO PONTOLILLO

THE GOVERNOR

ANTONIO FAZIO

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1993

DIRECTORATE

Antonio FAZIO – Governor and chairman of the board of directors
Lamberto DINI – Director general
Tommaso PADOA-SCHIOPPA – Deputy director general
Vincenzo DESARIO – Deputy director general and secretary to the board

BOARD OF DIRECTORS

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Francesco CONTI
Gaetano DI MARZO*
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Paolo Emilio FERRERI*
Callisto GEROLIMICH COSULICH
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Paolo LATERZA
Rinaldo MARSANO
Rosolino ORLANDO*
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
Antonio FINOCCHIARO – Secretary general
Pierluigi CIOCCA – Central manager for economic research
Luigi GIANNOCCOLI – Central manager for property and purchasing
Giorgio MAYDA – Inspector general
Alfio NOTO – Central manager with responsibility for the Milan branch
Roberto MORI – Central manager for note issue
Carlo SANTINI – Central manager for central bank operations
Vincenzo PONTOLILLO – Accountant general
Bruno BIANCHI – Central manager for banking supervision

LIST OF ABBREVIATIONS

ABI – *Associazione bancaria italiana*
Italian Bankers' Association

ANAS – *Azienda nazionale autonoma delle strade statali*
State Road Agency

ANIA – *Associazione nazionale fra le imprese assicuratrici*
National Association of Insurance Companies

BI – *Banca d'Italia*
Bank of Italy

CIPA – *Convenzione interbancaria per i problemi dell'automazione*
Interbank Convention on Automation

Confindustria – *Confederazione generale dell'industria italiana*
Confederation of Italian Industry

Consob – *Commissione nazionale per le società e la borsa*
Companies and Stock Exchange Commission

EFIM – *Ente partecipazioni e finanziamento industria manifatturiera*
Shareholding and Financing Agency for Manufacturing Industry

Enel – *Ente nazionale energia elettrica*
National Electricity Agency

ENI – *Ente nazionale idrocarburi*
National Hydrocarbon Agency

ILOR – *Imposta locale sui redditi*
Local income tax

INA – *Istituto nazionale assicurazioni*
National Insurance Institute

INPS – *Istituto nazionale per la previdenza sociale*
National Social Security Institute

INVIM – *Imposta nazionale sul valore immobiliare*
Capital gains tax on property

IRI – *Istituto per la ricostruzione industriale*
Institute for Industrial Reconstruction

IRPEF – *Imposta sul reddito delle persone fisiche*
Personal income tax

IRPEG – *Imposta sul reddito delle persone giuridiche*
Corporate income tax

Isco – *Istituto nazionale per lo studio della congiuntura*
National Institute for the Study of the Economic Situation

Istat – *Istituto nazionale di statistica*
National Institute of Statistics

SACE – *Sezione speciale per l'assicurazione del credito all'esportazione*
Export Credit Insurance Agency

UIC – *Ufficio italiano dei cambi*
Italian Foreign Exchange Office

Printed by the
Printing Office of the Banca d'Italia
Rome, July 1994