BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1995

ABRIDGED REPORT
FOR THE YEAR
1994

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RECENT DEVELOPMENTS AND ECONOMIC POLICIES IN THE INDUSTRIAL COUNTRIES

The economic recovery in the leading industrial countries

The economy of the United States continued to grow in 1994, with output rising by 4.1 per cent compared with 3.1 per cent the previous year (Table 1). Domestic demand increased by 4.7 per cent, led by investment in machinery and equipment, which rose by 17.6 per cent thanks to good demand prospects and strong profits, and by spending on consumer durables, which grew by 8.5 per cent. The external sector's contribution to growth remained negative.

Japan emerged late and hesitantly from the recession. Output rose by only 0.5 per cent last year, after having declined slightly in 1993. The external sector made a negative contribution of 0.5 percentage points owing to the appreciation of the yen. Private consumption, which was stimulated by an income tax reduction approved in mid-year, increased by 2.2 per cent. Investment fell for the third consecutive year owing to the existence of substantial idle capacity and the transfer of production abroad, a trend that was accentuated by the loss in competitiveness.

The recovery in the European Union strengthened, with annual growth averaging 2.7 per cent. In Germany output increased by 2.9 per cent, after contracting by 1.1 per cent in 1993. The growth of 1.7 per cent in the western regions of the country was fueled by expenditure on investment and the rebuilding of stocks. The expansion in activity in the eastern regions gathered momentum; manufacturing output increased by more than 20 per cent, and by December had virtually regained the level prevailing at the time of unification. In the United Kingdom the recovery that had begun in the second half of 1992 gained strength. Growth accelerated to 3.8 per cent, thanks partly to a positive contribution of 0.6 percentage points from the external sector. In France output increased by 2.7 per cent, fueled by domestic demand. Italy and Spain recorded growth rates of 2.2 and 2.0 per cent respectively.

Table 1

DEMAND AND GROSS PRODUCT
IN THE LEADING INDUSTRIAL COUNTRIES (1)
(annualized percentage changes over preceding period)

	1992	1993	1994	1994 H1	1994 H2
United States					
Domestic demand (2)	2.5	3.9	4.7	5.1	4.4
Net exports (3)	–0.3	–0.8	–0.7	–0.9	–0.2
GDP	2.3	3.1	4.1	4.2	4.3
Japan					
Domestic demand (2)	0.3	–0.1	1.0	1.0	1.5
Net exports (3)	1.0	–0.2	–0.5	..	–0.6
GNP	1.3	–0.2	0.5	0.9	0.9
Germany					
Domestic demand (2)	3.0	–1.2	2.6	....	....
Net exports (3)	–0.8	..	0.2	....	....
GDP	2.2	–1.1	2.9	....	....
of which:					
Western regions					
Domestic demand (2)	1.0	–2.2	1.9	1.1	3.8
Net exports (3)	..	–0.2	–0.1	0.7	–1.1
GNP	0.9	–2.3	1.7	1.8	2.4
France					
Domestic demand (2)	0.4	–2.4	2.8	4.7	3.6
Net exports (3)	1.0	0.9	–0.2	–1.3	–0.1
GDP	1.3	–1.5	2.7	3.3	3.6
Italy					
Domestic demand (2)	0.8	–5.5	1.9	2.5	4.8
Net exports (3)	–0.1	4.6	0.3	0.3	–1.1
GDP	0.7	–1.2	2.2	2.8	3.7
United Kingdom					
Domestic demand (2)	0.3	2.1	3.1	3.6	2.0
Net exports (3)	–0.9	..	0.6	0.3	1.8
GDP	–0.5	2.2	3.8	4.0	3.8
Canada					
Domestic demand (2)	0.2	1.8	3.0	3.6	2.4
Net exports (3)	0.4	0.3	1.4	1.1	3.4
GDP	0.6	2.2	4.5	4.8	5.9
Total for the seven leading industrial countries					
Domestic demand (2)	1.5	1.3	3.2	3.8	3.1
Net exports (3)	0.1	..	–0.3	–0.4	..
GDP	1.5	1.3	3.0	3.4	3.3
EU					
Domestic demand (2)	0.6	–1.7	2.4	3.3	2.7
Net exports (3)	0.2	1.2	0.3	0.1	0.2
GDP	0.8	–0.5	2.7	3.4	2.9

Sources: OECD and national statistics.
(1) At constant prices. – (2) Including changes in stocks. – (3) Contribution of the external sector to the increase in gross product, in percentage points.

The quickening of economie activity resulted in only a slight improvement in the labour market, which was more pronounced in the countries where the recovery was more advanced. Unemployment rates fell in the United States, the United Kingdom and Canada to 5.4, 8.6 and 9.6 per cent respectively in December. In the European Union as a whole the rate remained above 11 per cent, despite declining in the second half of the year. In December it stood at 9.2, 12.4 and 23.9 per cent in Germany, France and Spain; in Italy it rose to 12.0 per cent in the first quarter of 1995.

Unit labour costs in manufacturing decreased in ali the main industrial economies last year, reflecting wage moderation and large productivity gains. As a consequence of this and the prudent stance adopted by the monetary authorities, further progress was achieved in reducing inflation in spite of the economie recovery and a rise in the prices of non-energy raw materials. In the industrial countries as a whole year-on-year consumer price inflation declined to 2.3 per cent; in the EU it slowed down from 3.4 in 1993 to 3.1 per cent last year. In the United States the twelve-month rate of increase in consumer prices fell to 2.3 per cent in May but then rose slightly to stand at 2.7 per cent in December.

Economie policies

Fiscal policies. — The aggregate generali government deficit of the industrial countries decreased from 4.4 to 3.9 per cent of GDP in 1994. The public finances improved in ali the countries except Japan, thanks to the economie recovery and restrictive budgetary measures. The adjustment was not sufficient to halt the increase in gross debt, which rose from 68 to about 70 per cent of GDP in the industrial countries as a group.

The US federai budget deficit was reduced to $203 billion, or 3.1 per cent of GDP, compared with $255 billion (4.2 per cent) in 1993. The surplus of the social security system increased from $45 to 57 billion. The main factor in the improvement in the public finances was the cyclical expansion, which produced a 9 per cent rise in revenue.

In Japan the weakness of economie activity and the effect of the stimulatory measures caused the generai government deficit to increase from 1.4 to 3.4 per cent of GDP; net of the surplus of the social security system, it rose from 5.2 to 6.9 per cent. Excluding financial assets, chief among them being those of the social security system, the public debt increased to 81.8 per cent of GDP, compared with 67.7 per cent at the onset of the recession in 1991.

The generai government deficit of the EU countries decreased only slightly, from 6.3 to 5.5 per cent of GDP. The public debt rose to 68 per cent of GDP, compared with 56 per cent in 1991.

In Germany the adjustment of the public finances proceeded apace, with the generai government deficit being reduced from 3.3 to 2.7 per cent of GDP. A number of cuts were made in social and defence expenditure in addition to the freezing of administrative and staff expenditure in the public sector. On the revenue side, social security contributions and the excise duty on fuel oil were increased.

In France the generai government deficit remained more or less unchanged at 6.0 per cent of GDP. The positive effects of the economic recovery were partly offset by measures to stimulate consumer spending, in particular incentives for purchases of motor vehicles and tax reductions. In the United Kingdom the restrictive measures contained in the budget passed at the end of 1993 and the strength of the economic upturn resulted in a reduction of the generai government deficit from 7.9 to 6.9 per cent of GDP.

International economic organizations forecast an improvement in the public finances in 1995 in all the industrial countries except Japan. The generai government deficit should diminish from 3.9 to 3.5 per cent of GDP. Cyclically adjusted, the reduction will amount to only 0.2 percentage points. The public debt is expected to increase again, to 72.6 per cent of aggregate GDP.

The US Administration estimates that the federai budget deficit for the 1995 fiscal year, which ends in September, will decline to $192.5 billion (2.7 per cent of GDP) and remain at about the same absolute level the following year. The improvement is ascribed to measures introduced in 1993, under which overall discretionary spending should decline by 6 per cent in real terms between 1993 and 1996.

In Japan the generai government deficit is expected to increase further this year to 3.8 per cent of GDP, reflecting the continuing sluggishness of the economy and the effects of the stimulatory measures introduced at the end of 1994 and the beginning of 1995.

The public finances in Germany will be affected this year by the transfer of the liabilities of the agencies responsible for financing unification to the federai budget. The restrictive measures that carne into effect at the beginning of the year should nevertheless permit a slight reduction of the generai government deficit to 2.3 per cent of GDP.

The generai government deficits of France and the United Kingdom are also expected to decline, to 4.7 and 3.7 per cent of GDP respectively. In

France the improvement will be due to the strengthening of the recovery and increases in indirect taxation, while in the United Kingdom it will come from further reductions in govemment expenditure and higher excise duties on some consumer goods.

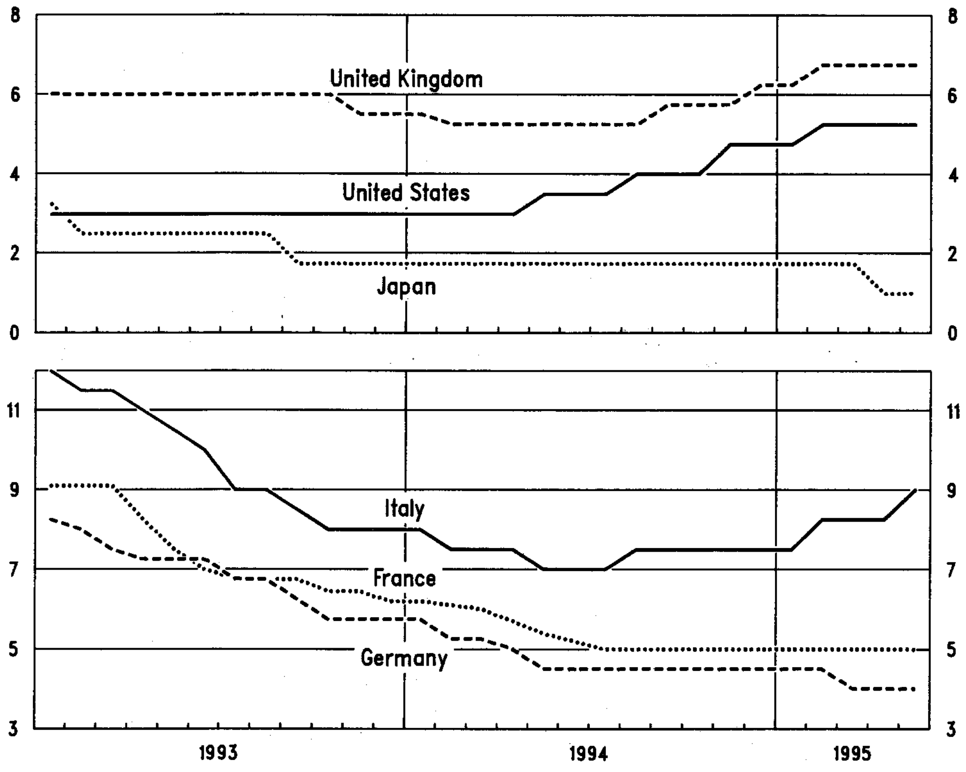
Monetary policies. — The monetary policies of the three major industrial countries diverged in 1994. In the United States the monetary stance was made progressively more restrictive, in Japan official interest rates were kept unchanged at historically low levels, and in Germany the graduai reduction in official rates was halted in the second half of the year.

Between the beginning of February and the end of November the Federal Reserve induced repeated increases in the federai funds rate, causing it to rise progressively from 3.0 to 5.5 per cent. The discount rate remained unchanged at 3 per cent until mid-May but was then raised three times to stand at 4.75 per cent at the end of the year (Figure 1). These increases were fully reflected in the yield on three-month Treasury bills.

Figure 1

OFFICIAL INTEREST RATES (1)

(end-of-period monthly data; percentages)



(1) For the United Kingdom, base rate; for France, the intervention rate; for other countries, the discount rate.

Japan maintained an expansionary monetary policy stance throughout the year to foster economic recovery and strengthen the capitai position and earnings of the banks. Until Aprii 1995 the discount rate remained at the leve! of 1.75 per cent to which it had been reduced in September 1993.

In Germany the discount and lombard rates were gradually lowered, to stand at 4.5 and 6.0 per cent in the middle of May 1994, but no further change in official rates was made until the end of March 1995 in view of the pick-up in economic activity.

In the first half of 1994 the other ERM countries geared their monetary policies towards fostering a decline in short-term interest rates. Subsequently they confirmed the primacy of exchange rate stability as a policy objective by keeping their interest rates above those in Germany. Between the beginning of February and the end of July the Bank of France lowered its intervention rate to 5 per cent.

In Italy and Sweden monetary conditions were tightened from the summer onwards as signs of accelerating price inflation began to appear. In the United Kingdom the base rate was raised in September and again in December, to stand at 6.25 per cent, in order to counter a deterioration in expectations.

In the major industrial countries, the increase in the money supply averaged just over 3 per cent in 1994 as a whole, compared with nominal GDP growth of 5 per cent. Apart from factors specific to particular countries, this development was due to the increasingly positive slope of the yield curve, which became especially steep in Europe and which favoured a shift of funds towards longer-term assets.

In the United States the M2 and M3 aggregates greve by only 1.0 and 1.4 per cent respectively, dose to the bottom of their reference ranges of 1-5 and 0-4 per cent.

Monetary growth in Japan accelerated slightly to 2.9 per cent in the case of M2 plus certificates of deposit, compared with 1.4 per cent in 1993, reflecting increased transaction requirements due to the recovery in economic activity, however modest. Monetary growth continued to be adversely affected by a further slowdown in bank lending, which in December was 0.2 per cent lower than a year earlier.

The German money supply expanded by 5.7 per cent, thus remaining within the target range of 4-6 per cent after overshooting for three consecutive years.

In the first few months of 1995 the scene has been dominated by exchange market turbulence, which has also affected the EMS. At the beginning of February the US discount and federal funds rates were raised to 5.25 and 6.0 per cent respectively, whereas both Germany and Japan reduced their official interest rates to stem the dramatic appreciation of their currencies; at the end of March the Bundesbank lowered the discount rate to 4 per cent, and in mid-April Japan cut its discount rate to 1 per cent, the lowest rate recorded in any of the leading industrial countries cince the end of the Second World War.

Several ERM countries raised interest rates to curb speculative pressures. The British, Italian and Swedish authorities also increased their official rates to counter the inflationary risk inherent in the pronounced depreciation of their currencies.

THE INTERNATIONAL FINANCIAL MARKETS AND EXCHANGE RATES

The international financial markets

Long-term interest rates showed a rapid and pronounced increase in all the leading industrial countries in 1994. They peaked in November and then began to come down slowly in the first few months of this year; in the United States, Germany and Japan the peak levels were respectively 2.6, 2 and 1.6 percentage points higher than the lows recorded in late 1993 or early 1994, while in France and the United Kingdom they were 2.5 points higher.

In the United States the decline in bond prices that had begun in the autumn of 1993 accelerated from February onwards as a result of the reversal of the monetary policy stance. The markets were initially uncertain as to the intensity of the restrictive action intended by the Federal Reserve and the form it would take; it was eventually implemented by means of seven increases in short-term rates within the space of twelve months. Nor did the markets immediately understand its pre-emptive nature; inflationary fears revived and the risk premium rose. The fall in bond prices spread to Japan and Europe, and in many countries was even more pronounced, despite the reassuring figures on inflation, the weakness of the Japanese economy and the uncertain outlook for recovery in Europe; it was exacerbated by massive sales of bonds as many investors sought to offset capitai losses on speculative positions in dollar-denominated securities.

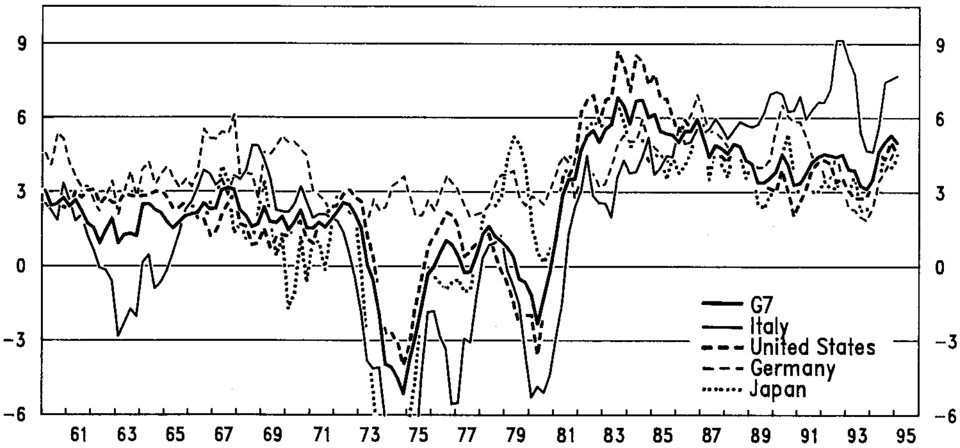
In Europe, the rise in interest rates was accompanied by a widening of differentials with Germany, which increased from 50 to 130 basis points for the United Kingdom and from zero to 60 for France between December 1993 and April 1995; this primarily reflected differences in the size of the increase in the premium for inflation risk.

The conspicuous rise in long-term interest rates in the leading economies occurred without there having been any acceleration in prices or worsening in medium-term inflation forecasts. It therefore translated finto an increase in real rates to unusually high levels that were above those recorded both in the second half of the eighties and over the very long term (Figure 2).

The increase in long-term rates came to a halt when US short-term rates rose in November; they then began to decline, falling more markedly after the tightening of monetary policy by the Federal Reserve in February 1995 and the easing by the Bundesbank at the end of March. Between November and Aprii long-term rates came down by 90 basis points in the United States, 50 in Germany and 130 in Japan.

Figure 2

REAL LONG-TERM INTEREST RATES IN THE LEADING INDUSTRIAL COUNTRIES (1)



(1) Nominal yields are deflated using the rate of increase in consumer prices in the preceding twelve months. The interest rate and price index series for the seven countries as a whole are constructed as weighted geometric averages of the component series; the weights are determined on the basis of GDP (for interest rates) and private consumption (for consumer prices) converted at the purchasing power parities calculated by the OECD. As the Japanese interest rate series begins with the third quarter of 1966, up to that date the G7 rate is calculated as the weighted average of the rates in the other six countries.

The yield curve in the United States had a smooth positive slope for much of the year. However, its shape changed significantly from November onwards as a result of the fall in medium and long-term yields and the rise in short-term rates, reflecting a strengthening of the market view that the authorities could effectively curb inflationary pressures, provided they tightened monetary policy further. In Europe the yield curve took on a steeper positive slope than in the United States, as the increase in long-term rates in all the leading countries contrasted with a progressive relaxation of monetary policy in many European countries.

In 1994 the markets in derivative instruments grew even more vigorously; according to provisional statistics, more than one billion contracts were traded on the stock exchanges, an annual increase of 45 per cent, compared with 20 per cent in the two preceding years.

The decline in bond prices and their consideratile volatility were reflected in a contraction in the volume of international issues, which totaled \$427 billion in 1994, 11.2 per cent less than in the previous year; however, net issues increased slightly, from \$176 to 203 billion.

International bank lending, excluding interbank loans, grew by around $180 billion over the year despite a contraction of $15 billion in the second quarter, which can be ascribed to the closing of foreign currency positions that had been taken during the currency crisis of 1992-93. At the end of December the volume of international bank loans outstanding amounted to $4.2 trillion; the figure is twice as large if interbank loans are included.

The exchange rates of the dollar, the yen and the Deutsche Mark

The persistence of substantial net external creditor positions in Japan and Germany had a decisive influence on the behaviour of the yen and the Deutsche Mark in 1994. Despite the relaxed monetary policy stance in these two countries, the effective exchange rate of the yen rose by 9.7 per cent and that of the Deutsche Mark by 3 per cent.

The appreciation of the two currencies against the dollar was even more pronounced — 12.5 and 11 per cent respectively — despite the shift in short-term interest rate differentials in favour of the US currency, partly as a result of the tightening of monetary conditions by the Federal Reserve. The size of the current account deficit and the consequent growth in the external debt of the United States strengthened the markets' conviction that a depreciation of the dollar was necessary to correct these imbalances. The dollar fell sharply in response to a worsening of the difficulties in the trade negotiations with Japan and the publication of data confirming the scale of the US current account deficit; it rallied briefly when the Federal Reserve took restrictive monetary measures that had not been anticipated by the markets. Although the dollar weakened markedly against the other two leading currencies, it depreciated by only 4.9 per cent in effective terms owing to its appreciation vis-à-vis the currencies of important trading partners such as Canada, which accounts for around one fifth of US foreign trade.

The effects of the movements in nominai exchange rates on the competitive positions of the three principal economic areas were mitigated by the behaviour of producer prices, which diminished in Japan and increased by more in the United States than in Europe. Over the year, the price competitiveness of the United States therefore improved by 3.9 per cent, while that of the EU countries and Japan deteriorated by only 1.8 and 2.7 per cent respectively.

In the first few months of 1995 the depreciation of the dollar became more pronounced, in part because of the financial crisis in Mexico and the worsening of the US current account deficit. Despite a further shift in short-term interest rate differentials in its favour, the dollar fell to record lows of DM 1.34 on 8 March and 79.7 yen on 19 Aprii; by the end of Aprii it had depreciated in effettive terms by more than 9 per cent cince the beginning of the year. It subsequently strengthened, albeit amidst persistent uncertainty.

During the periods of most rapid depreciation of the dollar, the Bank of Japan and occasionally the centrai banks of the other industrial countries intervened in the foreign exchange markets. However, the effects proved to be limited and temporary in the absence of consensus on the exchange rate levels compatible with the orderly reduction of the current account imbalances of the United States and Japan.

The European Monetary System

In 1994 the European Monetary System experienced a period of relative stability, thanks to the strengthening of the economie recovery, the cautious but progressive relaxation of monetary conditions in Germany and the widening of the fluctuation margins to 15 per cent, which discouraged the repetition of speculative attacks. One of the key factors was the decision of the central banks of the countries belonging to the Exchange Rate Mechanism to keep short-term interest rates anchored to those in Germany, notwithstanding the greater room for manoeuvre permitted by the wider fluctuation band. This emphasized the central banks' determination to give priority to exchange rate stability.

Following the return of the French frane, the Belgian frane and the Danish krone within the previous narrow band by the end of January 1994, the exchange rates of the ERM currencies recorded only modest fluctuations. Tensions occasionally resurfaced and were countered by temporarily exploiting the wider fluctuation margins and, on occasion, by fostering a rise in short-term market interest rates; only the Portuguese central bank resorted to temporary increases in officiai rates.

However, the differences in the size of the increase in bond yields, especially after the decline in German short-term rates had begun to slow down in May, indicated the persistente of latent instability within the EMS. At times the markets saw the economie recovery itself as a potential source of exchange rate tension, in that it could have necessitated monetary tightening in some countries earlier than in others.

From the beginning of 1995 onwards, the more pronounced decline in the dollar and the progressive appreciation of the Deutsche Mark against the other European currencies generateti turbulence that affected nearly ali the currencies in the System and led to the devaluation of the peseta and the escudo on 6 March. This action, which was not justified by the need to restore competitiveness, brought only partial relief for the two currencies. It also failed to eliminate the tensions in the rest of the System: the French franc and the Irish pound weakened considerably, falling to new lows against the Deutsche Mark, while the Belgian franc and the Danish krone were engulfed by waves of speculation. The centrai banks resorted to exchange market intervention as well as sharp increases in interest rates: compared with the end of January, short-term differentials with Germany widened by more than 3 percentage points in France, 1.1 in Spain, 1.9 in Denmark, 1.5 in Belgium and 2 in Portugal. More settled conditions returned only following the cut in Germany's official discount rate on 30 March; nevertheless, at the end of Aprii short-term interest rate differentials vis-à-vis the Deutsche Mark stili exceeded the averages for 1994 by 280 basis points in France, 30 in Belgium, 130 in Denmark, 200 in Spain and 40 in Portugal.

The weakness of the dollar also had repercussions on the European currencies not participating in the ERM, which depreciated sharply against the Deutsche Mark. In particuiar, the pound sterling reached new lows in Aprii 1995, falling by 14.7 per cent against the Deutsche Mark and by 7.3 per cent in nominai effective terms with respect to the beginning of 1994.

On 1 January 1995 Austria, Finland and Sweden joined the European Union. The Finnish markka and, to a greater extent, the Swedish krona suffered bouts of acute weakness against the Deutsche Mark, particularly in the summer of 1994 and the opening months of this year. By contrast, the Austrian schilling remained pegged to the Deutsche Mark, in accordane with a policy that has been pursued since the beginning of the eighties. Austria joined the ERM on 9 January.

WORLD TRADE AND THE BALANCE OF PAYMENTS

World trade

World trade grew vigorously in 1994, partly owing to the recovery in the industrial countries. Merchandise trade expanded by 9.4 per cent in volume, the largest rise since 1976. In the United States strong domestic demand and the depreciation of the dollar were reflected in increases of 15 and 11.4 per cent in the volume of imports and exports respectively. In the European Union import and export volumes rose by respectively 7.4 and 9.5 per cent, after having contracted in 1993. In Japan the rise in the real effective exchange rate of the yen stimulated imports, which increased by 13.7 per cent in volume, and curbed exports, which grew by 1.7 per cent.

Exports by developing countries grew by more than 10 per cent in volume, the largest rise since 1988. The greatest increases were recorded in Asia (13.4 per cent) and Latin America (9.4 per cent).

There was a barely perceptible improvement in the terms of trade of the industrial countries in 1994, while those of the developing countries as a whole deteriorated for the fourth consecutive year. However, the terms of trade of those exporting non-oil raw materials improved by 2.9 per cent as a result of the rapid rise in the prices of such commodities. The increase in non-oil commodity prices, which began in the second half of 1993 and continued throughout 1994 and early 1995, nevertheless offset only part of the declive recorded since the beginning of the eighties. The improvement is attributable to the recovery in economie activity in the industrial countries and, in a number of cases, a reduction in supply caused by poor weather conditions.

The liberalization of world trade continued in 1994 and was reinforced by the establishment of the World Trade Organization (WTO). Nevertheless, difficult trade disputes remain unresolved, especially that between the United States and Japan over motor vehicles. Further regional trade agreements carne into force last year, mainly between developing countries; they will contribute to the liberalization and development of trade to the extent that they adhere to the principles of the multilateral trade system. Liberalization was extended to services as well as goods. In December 1994 Japan reached a bilateral agreement with the United States for the progressive opening of its markets in insurance, bonds and pension funds. A number of developing countries in Asia have recently eased restrictions in their banking sectors. In addition, multilateral negotiations on the liberalization of maritime transport and financial, professional and management services are continuing.

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

The gravity of the external imbalance of the United States was confirmed last year. The current account deficit widened further to $156 billion, owing largely to an increase in the trade deficit to a record of $166 billion and a deterioration in the balance on investment incorre, which turned negative for the first time to show a deficit of about $15 billion. The trade deficit with the European Union, Japan and China worsened, with the largest deterioration occurring in trade in motor vehicles. On the basis of current exchange rates and economie policies, the leading international institutions forecast that the US current account deficit will remain at the high level of more than 2 per cent of GDP beyond the turn of the century.

The Japanese current account surplus declined slightly to $129 billion, equal to 2.8 per cent of GDP; it was the first time since 1990 that it had not increased. The trade surplus rose slightly to $146 billion, owing entirely to the improvement in the terms of trade.

The current account surplus of the European Union is estimated to have increased to about $27 billion in 1994. Large surpluses were recorded in Italy, France, Belgium, the Netherlands, Denmark and Ireland. The deficit of the United Kingdom was eliminated, while that of Germany increased from $15 to 23 billion, chiefly owing to the decline in the surplus on investment incorre.

In 1994 the current account deficit of the United States was mainly financed by net inflows of private capitai totaling $147 billion, the largest such flow ever recorded. In Japan net outflows of private capital reached $113 billion, including $49 billion of portfolio investment. Japanese banks recorded net outflows of about $23 billion owing to a recovery in foreign lending after a long period of contraction in their operations on the international interbank market. In Germany the large net inflows of portfolio investment recorded in the early nineties carne to a halt; the inflow in excess of $100 billion in 1993 gave way to an outflow of about $15 billion. By contrast, bank capital movements registered an inflow of about $68 billion.

The cumulative effect of the current account imbalances of the United States and Japan has been to increase the absolute size of their net external positions. The net foreign debt of the United States is estimated to have risen to $710 billion at the end of 1994, equal to 10.6 per cent of GDP. The United States had net assets of $390 billion in 1980, which gave way to net liabilities in the second half of the eighties. Japan's net creditor position has increased steadily for many years, rising from $11 billion at the end of 1980 to $690 billion at the end of 1994. In Germany, by contrast, recent current account deficits have significantly reduced the large creditor position built up in the post-war period. Net assets have fallen to less than $200 billion, about half the amount held in 1990 at the time of unification.

THE DEVELOPING COUNTRIES
AND CENTRAL AND EASTERN EUROPE

The developing countries

The developing countries maintained a rate of growth in GDP in excess of 6 per cent last year, dose to the high levels recorded in 1993. They benefited from the recovery in output in the industrial countries, higher prices for non-oil raw materials, and progress with economie stabilization and structural reform. In some countries, however, the persistence of domestic and external imbalances at a time of increasing international integration and capital mobility led to a decline or even reversal of the substantial inflows of foreign capital recorded in recent years, thereby adversely affecting exchange rates and growth. This was particularly true of Mexico, which suffered a serious currency and financial crisis at the end of 1994.

As in previous years, Asian economies continued to expand rapidly, recording an average growth of more than 8 per cent. The growth in GDP accelerateti further in the newly industrialized economies, where it exceeded 7 per cent, and in India and Pakistan, where far-reaching structural reforms have been under way for some years. In some Asian countries, however, the rapid rate of expansion was accompanied by price pressures. The acceleration in inflation was particularly marked in China, where it exceeded 20 per cent, obliging the authorities to reimpose price controls on some goods. Fueled by domestic demand, GDP in that country grew by about 12 per cent; although lower than in 1993, this was stili well above the rate of growth in productive potential.

In Latin America the growth in output rose from 3.2 to 4.6 per cent. Inflation slowed down almost everywhere. Only Venezuela recorded a fall in GDP, which declined by more than 3 per cent, while inflation rose in the wake of the banking and currency crisis of early 1994. The currency crisis in Mexico at the dose of the year had repercussions on the financial and foreign exchange markets of major countries in the region, leading to increases in interest rates and the introduction of restrictive fiscal measures.

In the Middle East the rate of growth fell to 0.7 per cent last year on account of slower growth in the oil-exporting countries and the recession in

Turkey following the financial crisis in the first half of the year. Jordan, Israel and Syria, whose exports are more diversified and which benefited from the launch of the peace process in the region, were able to record stronger growth, averaging more than 5 per cent.

In Africa GDP grew by 2.7 per cent, the highest rate of increase since 1989 but stili insufficient to raise per capita incorre. Output in the sub-Saharan region rose by 2.3 per cent, compared with 1.6 per cent in 1993, aided by higher prices for raw materials, particularly beverages, cotton and metals, and the realignment of exchange rates.

Russia and Central and Eastern Europe

In Russia GDP contracted by a further 15 per cent last year, mostly on account of a fall of more than 25 per cent in fixed investment. According to officiai figures, GDP has almost halved since 1989, but other indicators, which take the unofficial economy finto account, paint a less dramatic picture of the decline; retail sales, which contracted in 1991 and 1992, are reported to have picked up since then. Russia made considerable progress towards macroeconomic stabilization in the first half of 1994, with the monthly inflation rate falling to 4 per cent in August, but the failure to achieve budgetary targets in the second half of the year led to a serious currency crisis in October and a resurgence of inflation. Monetary policy was tightened towards the end of the year: between October and January 1995 the central bank raised its refinancing rate to over 500 per cent. Inflation rose to a monthly rate of 18 per cent in January of this year but then began to slow down; by March it had fallen to about 12 per cent.

In March 1995 Russia agreed a new adjustment programme with the IMF, supported by a stand-by loan of about $6 billion. The programme, which aims to reduce the monthly rise in prices to 1 per cent by the end of 1995, provides for revenue measures to halve the federai budget deficit to about 6 per cent of GDP in 1995 and a strict monetary policy based on the prohibition of direct central-bank financing of the Treasury.

Progress with reforms and macroeconomic stabilization brought an improvement in economic performance in almost ali the Central European and Baltic economies. In 1994 the Czech Republic, Slovakia, Hungary, Croatia and the three Baltic countries recorded positive rates of growth, thus joining Poland, Romania, Slovenia and Albania, where GDP had already increased in 1993. The recovery was stimulated by domestic demand and strong growth in exports, especially to the EU. In 1994 export receipts rose by about 50 per cent in Slovakia and the Baltic countries and by between 10 and 30 per cent in the Czech Republic, Poland and Hungary.

Inflation declined throughout the area. It fell to a low of around 10 per cent in the Czech Republic and Slovakia but remains above 100 per cent in Romania, Lithuania and Bulgaria. The external imbalances of many countries decreased last year, with Poland, Slovakia, Bulgaria and Romania recording an improvement on their current accounts. Capital inflows increased substantially in the Czech Republic, Slovakia and the Baltic states. Hungary's external imbalance is a cause for concern; approximately one third of the current account deficit, which was unchanged from the previous year at 9.5 per cent of GDP, was financed by short-term capitai inflows. In March of this year the Government adopted measures to reduce the budget deficit and devalued the forint.

Some progress in the reform process was achieved in Belorus, Ukraine and the trans-Caucasian and centrai Asian republics that were formerly part of the USSR, but the pronounced decline in production continued, partly on account of problems with energy supplies and trade within the area of the former USSR. Inflation in almost all of these countries remains extremely high, near to or above 1,000 per cent. Ukraine and Belorus recently embarked upon adjustment programmes with financial support from the IMF, the EU and the other leading industrial countries.

THE ITALIAN ECONOMY

SUMMARY OF DEVELOPMENTS AND THE SHORT-TERM OUTLOOK

The results for the year

The economic recovery that had begun at the end of 1993 strengthened in 1994, giving rise to an annual average increase of 2.2 per cent in GDP at constant prices (Table 2). Notwithstanding the depreciation of the lira by about 20 per cent in nominai terms against the currencies of Italy 's principal trading partners in 1993 and 1994, the annual average rate of increase in consumer prices declined. Inflation nevertheless remains about 1.5 percentage points higher than in the European countries with more statile currencies.

As in 1993, events in the Italian economy were affected by the large variation in relative prices occasioned by the fall in the exchange rate and wage moderation, which produced a far-reaching reallocation of resources and income and boosted exports and investment. Export growth accelerated from 9.4 to 10.9 per cent, thanks partly to the recovery in world trade. The revival in investment in machinery, equipment and transport equipment, which rose by 5.3 per cent, was accompanied by stockbuilding and a slight recovery in household consumption. The growth in total demand also caused imports of goods and services to rise by 9.8 per cent, after having fallen in 1993. The current account surplus nevertheless increased further to 1.5 per cent of GDP. Italy 's net foreign debt continued to decrease, falling from 9.4 to 7.2 per cent of GDP. In keeping with the weakening of the link between economic recovery and the demand for labour in the leading industrial countries, the upturn has yet to have an impact on employment, which continued to decline even in manufacturing industry, where the rise in output was most pronounced, thus accentuating the already consideratile gain in labour productivity.

The annual inflation rate fell from 4.5 to 4 per cent in terms of the consumer price index and from 4.8 to 4.7 per cent as measured by the national accounts deflator of households' domestic consumption, which takes account of imputed rents on owner-occupied housing and the prices of tobacco products. The monthly rate of increase continued to diminish during the first half of the year: the twelve-month change in the cost-of-living index fell from 4.2 per cent in January to 3.6 per cent in July, owing principally to the continued weakness of domestic demand in relation to productive capacity, the restrictiveness of monetary policy, the very moderate growth in wages and the slowdown in the prices of services made possible by productivity gains resulting from the far-reaching restructuring that had begun in 1993.

Table 2

RESOURCES AND USES OF INCOME

(percentage changes)

	1993		1994	
	Value at constant prices	Deflators	Value at constant prices	Deflators
Resources				
Gross domestic product	−1.2	4.3	2.2	3.6
Imports of goods and services	−7.8	11.0	9.8	5.7
of which: goods	*−8.5*	*9.7*	*9.9*	*5.3*
Uses				
Domestic demand	−5.5	5.6	1.9	3.9
Households' consumption	−2.5	4.8	1.6	4.7
Collective consumption	0.7	2.7	..	2.6
Gross capital formation (1)	−18.3	9.0	4.4	2.6
of which: fixed investment	*−13.1*	*4.9*	−0.1	*3.0*
in machinery, equipment and transport equipment	*−19.3*	*5.2*	*5.3*	*3.6*
in buildings	*−6.3*	*3.2*	*−5.2*	*3.4*
Exports of goods and services	9.4	9.9	10.9	3.5
of which: goods	*9.1*	*11.3*	*10.9*	*3.3*
Memorandum item:				
Growth in GDP at constant prices attributable to change in stocks (1)	−1.4	–	0.8	–

Source: Istat.
(1) Includes statistical discrepancies.

Gross per capita earnings rose by an annual average of 2.8 per cent; in real terms they fell by 1.2 per cent after having declined by 1.3 per cent in 1993. The small nominai increase, the lowest in twenty years, was almost entirely attributable to wage increases agreed at national level, with no impetus coming from company-level bargaining. This reflects the effectiveness of the incomes policy ratified in 1993 and the persistence of high unemployment. Labour costs per employee in manufacturing industry rose by 3.9 per cent; the sharp rise in productivity (6.8 per cent) caused unit labour costs to decrease by 2.7 per cent.

The twelve-month rate of increase in the cost of living acceleratetì from 3.6 per cent in July to 4.1 per cent in December; net of tax, it rose from 3.3 to 3.8 per cent. The deterioration was due to the rise in the lira prices of imported inputs and especially the upturn in demand and industrial activity.

The acceleration in the prices of imported inputs during the year reflected the rise in the dollar prices of non-oil raw materiale associated with the recovery in world economie activity. The twelve-month rate of increase in the prices of all manufacturing inputs rose from around 3 per cent in the spring to 5.5 per cent in December. Thanks to the steady decline in unit labour costs, the year-on-year rise in industry's unit variatile costs amounted to only a few tenths of a point, accelerating from 0.4 to 0.8 per cent between the second and fourth quarters.

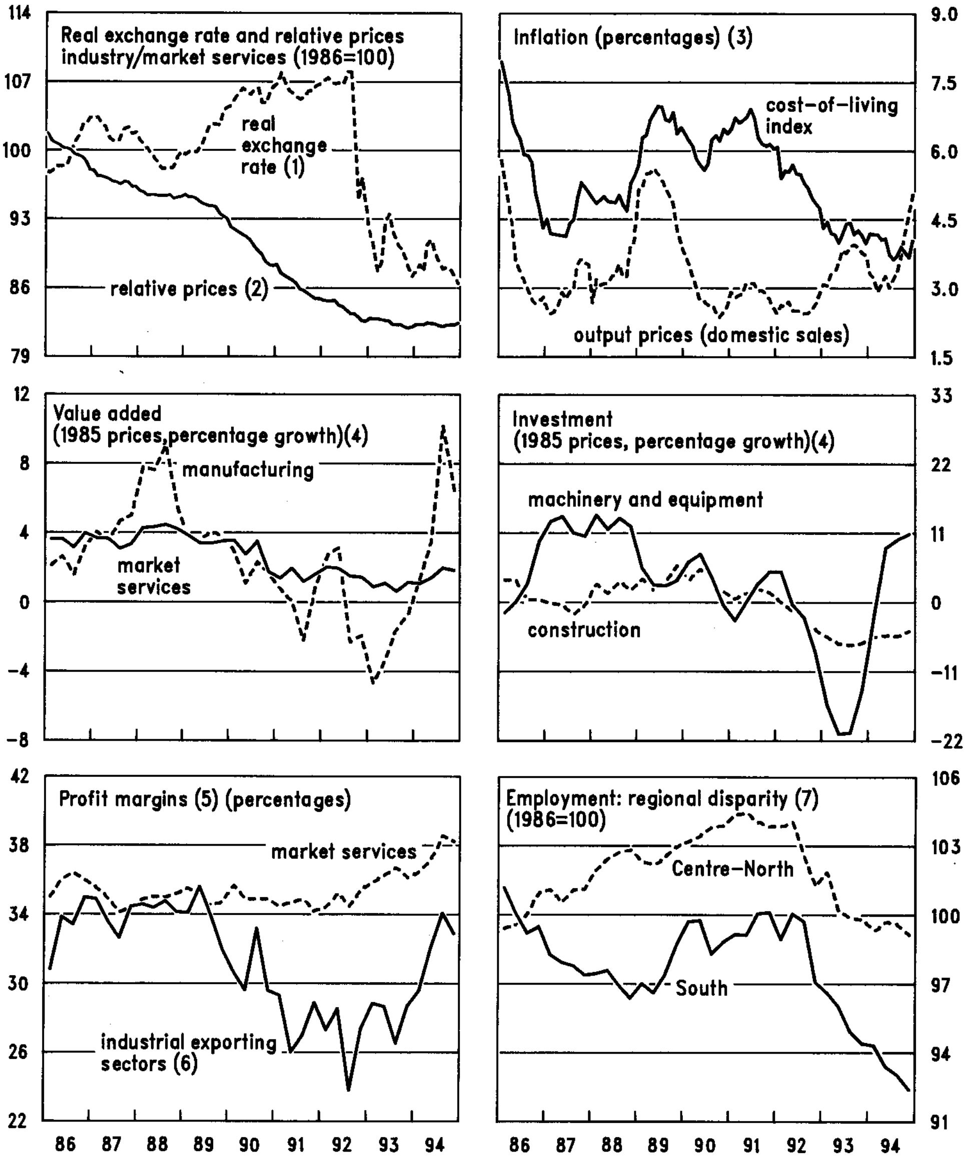
Domestic output prices accelerated much more rapidly than variatile costs, rising from 3.1 to 4.6 per cent over the same period. The pace of the economic upturn affected firms' pricing policies: from the end of the winter onwards daily industrial production rose by a monthly average of 1.3 per cent and the capacity utilization rate approached the peak levels recorded during the previous expansionary phase. Industrial profit margins recovered rapidly; having fallen from 37 to 30 per cent of value added between the end of 1988 and the end of 1992, they rose to 35 per cent at the end of 1994. They increased even more markedly in exporting industries and almost equaled the record levels recorded in 1987 and 1988 (Figure 3).

The recovery in industrial profitability can be ascribed to the direct and indirect effects of the fall in the exchange rate: direct in that it eased the constraints imposed by international competition and indirect in that it fueled the economie upturn. With respect to 1992, the cumulative rise of the producer prices of manufactures in 1993 and 1994 amounted to 9.5 per cent in view of the depreciation of the lira and the stability of unit labour costs. This allowed scope for a widening of profit margins, but the rise in prices was less than the depreciation of the lira, so that the price competitiveness of Italian goods in leading export markets improved by an average of 15 percentage points. The profit margins of private sector service enterprises, which operate primarily in the domestic market, were squeezed by the halt in the improvement in their prices in relation to those of manufactured goods, which are internationally traded.

The consideratile improvement in competitiveness and the strengthening of the international recovery continued to give strong impetus to exports in 1994, thus sustaining economie growth. Merchandise imports, which had declined by 8.5 per cent in 1993, rose rapidly owing to the growth in demand. The trade surplus nevertheless increased from 0.3 per cent of GDP in 1992 to 3.5 per cent in 1994 and the improvement was reflected in the current account, which swung from a deficit of 2.3 per cent of GDP in 1992 to a surplus of 1.5 per cent in 1994 (25 trillion lire). An increase in the deficit on transport services associated with the growth in imports was offset by a large rise in the surplus on tourism. Net interest payments on Italy 's foreign debt, which had declined slightly in 1993 for the first time since the oil countershock, fell further owing to the cumulative effect of current account surpluses in 1993 and 1994 (43 trillion lire).

Figure 3

THE EXCHANGE RATE, INFLATION AND THE ECONOMIC CYCLE



Source: Based on Istat data.

(1) Ratio of Italian industrial output prices to average industrial output prices in the leading industrial countries expressed in lire. – (2) Ratio of domestic output prices of manufactures to domestic output prices of market services. – (3) Percentage change on corresponding month of the previous year. – (4) Percentage change on corresponding quarter of the previous year. – (5) Gross operating profit as a percentage of value added. – (6) Sectors exporting more than 20 per cent of output. – (7) Labour force less the estimated number of equivalent workers receiving wage supplementation.

The exceptional growth in exports in 1994 was not immediately reflected in the level of capital formation, which was checked by continued uncertainty about the medium-term outlook for the economy. From mid-1993 onwards gross fixed investment remained below the level that might have been expected in the light of past behaviour. A survey of a sample of manufacturing companies confirms the adverse effect of increased variability in expected demand growth on investment plans. It was presumably this factor, together with the difficulty of forecasting the exchange rate of the lira over the medium and long term, that prompted firms to meet the increase in orders by using their existing fixed capital and labour more intensively. This tendency was corroborated by a rapid increase in the capacity utilization rate and was the reason for the signs of an acceleration in investment in the final months of the year.

After declining sharply in 1993, national consumption grew by 0.9 per cent in real terms, while domestic consumption, which includes consumption by non-residents in Italy and excludes that by residents abroad, rose by 1.6 per cent. As usual, consumer durables showed the greatest sensitivity to cyclical changes. Adjusted for the effects of inflation on the purchasing power of net financial wealth, real disposable income in the private sector increased by 1.9 per cent, chiefly owing to the pronounced rise in corporate profits. The private sector 's propensity to save therefore rose, offsetting the decline recorded in 1993. Consumer households' disposable income continued to run counter to the cyclical trend, contracting in real terms for the second consecutive year, albeit less rapidly (1.6 per cent, compared with 6.6 per cent with respect to 1992; including the loss of purchasing power of net financial assets, the decline was 1.3 per cent). By contrast with the situation in 1993, the fall was cushioned by income redistribution by the state. The increase in disbursements of social security benefits and the lagged decline in tax receipts in response to the recession limited the fall in disposable income, which would otherwise have diminished by 3 per cent. The decline that did occur was partly due to the contraction in real earnings caused by the fall in employment and the decrease in per capita earnings. The reduction in the annual average yield on financial assets by comparison with 1993 and the smallness of the growth in portfolios squeezed households' interest income, contributing to the contraction in disposable income.

The recovery in productive activity did not prevent a further decline in employment, which fell by an average of 1.6 per cent in terms of standard labour units after falling by 2.6 per cent the previous year. The contraction was sharpest in agriculture and construction (3.8 and 3.5 per cent respectively) but also affected private services (1.3 per cent) and industry excluding construction (1.5 per cent). The decline in the services sector reflected the restructuring that has been under way in the last few years.

Employment in public services (transport and communications) continued to contract sharply as planned work-force reductions were implemented. Restructuring in the services sector further loosened the macroeconomic link between the level of economic activity and the demand for labour, which had already been weakened in the preceding cycle by the restructuring of industrial plant.

The decline in industrial employment, which is now in its fourth year, slowed down significantly in the manufacturing sector (1.4 per cent, compared with 4.4 per cent in 1993), where many indicators showed that the contraction was coming to a halt during the year. The number of persons receiving wage supplementation fell and overtime working increased considerably; Isco business surveys revealed expectations of an increase in employment. An extension of the range of fixed-term contracts and more widespread use of those that already exist could further stimulate the demand for labour.

The supply of labour also diminished, albeit by less than the previous year owing to the easing of the discouragement effect in view of the economic recovery. The decline only partly offset the fall in labour demand, causing the unemployment rate to rise to a record high of 11.3 per cent, one point more than in 1993. There was a widening of the disparity between the rate in the South (19.2 per cent) and that in the Centre and North (7.6 per cent), where imbalances between demand and supply continue to affect the labour market.

The benefits the Italian economy was able to derive from the pronounced and unsought depreciation of the lira stand out in any overall assessment of 1994: the recovery that finally got under way had virtuous features, net external debt began to decline, firms were able to bolster weak profit and loss accounts and balance sheets and the inflationary effects of the depreciation were small. The fundamental strength of the economy, wage restraint within the framework of the new agreements between trade unions and employers, the restrictive effect of monetary policy on domestic demand and the measures taken at the trough of the recession to readjust the public finances all contributed in this regard. The benefits were not achieved without cost, however: the modest acceleration in prices in the second half of the year revived inflationary expectations and the recovery in profit margins was accompanied by a marked decline in real wages. The shift in the relative prices of goods produced for the domestic market and for export benefited the South less than the rest of the country, thus compounding the structural lags that have long affected economic activity in this area. The economic recovery was weaker in the South than in the Centre and North owing to the smaller role of industry, the Tesser penetration of foreign markets by Southern industrial firms, the particularly large role of the construction sector, which did not benefit from the recovery, and the effect of restructuring and manpower reductions at many industrial factories. The effect on employment was particularly severe in the South, with the loss of an additional 150,000 jobs between the fourth quarter of 1993 and the fourth quarter of 1994, bringing the total loss since the end of 1991 to more than 500,000.

The effects of changes in relative prices did not affect the behaviour of domestic and international investors as much as the difficulties encountered in restoring sound public finances and the uncertainties about the generai situation of the country. With bond markets around the world in retreat, there was diminished interest in the Italian financial market. After the rapid increase of recent years, the rate of growth in capital flows fell by almost two thirds. Capital movements showed a net outflow for the first time since the liberalization of foreign exchange transactions (22.5 trillion lire, compared with net inflows of 14.8 trillion in 1993). There was a net outflow of 44.1 trillion lire in non-bank capítal, as against net inflows of almost 100 trillion the previous year; by contrast, operations by resident banks generated a net inflow of 21.6 trillion, compared with a net outflow of 84.6 trillion in 1993.

Both residents and non-residents contributed to the net outflow of non-bank capital. Portfolio investment by residents gave rise to net outflows of more than 52 trillion lire (10 trillion in 1993), half of which occurred in the first quarter. Non-residents' net purchases of Italian financial assets, mainly government securities, decreased significantly, as expectations of capital gains evaporated in the spring of 1994 when the anticipated further decline in Italian interest rates failed to materialize. The repayment of lira loans that foreign investors had obtained from resident banks in 1993 to hedge the exchange risk on purchases of lira-denominated securities contributed to the inflow of bank capital, which was also boosted in the latter part of the year by the repayment of foreign currency loans taken out by resident customers.

The current economie situation and the short-term outlook

Economic activity remained strong in the first few months of 1995. The rise in prices accelerated.

In Aprii the twelve-month rate of increase in the cost of living reached 5.2 per cent, 1.1 percentage points more than in December. Excluding the increase in indirect taxes in February and seasonal factors, the annualized monthly rate rose to an average of more than 4.5 per cent in March and April. The acceleration in the early months of the year followed the rise in producer prices observed since mid-1994. The prices of manufactured goods for the home market continued to accelerate, recording a twelve-month rate of increase of 7 per cent in March. Inflation expectations continued to deteriorate, although less markedly in March.

The resurgence of inflation was accompanied by rapid growth in industrial production. In the first quarter average daily output was 8.8 per cent higher than a year earlier but only 0.1 per cent above the level of the previous quarter, when the average rate was affected by the exceptional increase in production in December. Although expectations regarding orders and production 3-4 months ahead showed signs of deteriorating in January and February, the number of firms reporting a high level of current orders continued to increase. At the beginning of 1995 industrial production was increasingly sustained by sectors producing capitai goods.

The growth in imports, which occurred mainly in capitai and intermediate goods, accelerated to a year-on-year rate of 23.6 per cent in the first two months of the year, outstripping the stili brisk growth in exports (20.2 per cent). The trade surplus accordingly declined from 3.2 to 2.5 trillion lire; trade with the EU countries, which had recorded a surplus of 1 trillion lire in the first two months of 1994, showed a deficit of 300 billion lire. In the first quarter the surplus on trade with non-EU countries was slightly higher than a year earlier, rising from 4.3 to 4.5 trillion lire.

There was a large net outflow of non-bank capital in the first three months of 1995 (15.1 trillion lire). Substantial net purchases of Italian securities by non-residents in the last quarter of 1994 (mainly variatile rate securities and the Republic of Italy loan issued in November) gave way to net sales of nearly 8 trillion lire. Residents continued to generate net ouflows on a similar scale to those recorded in previous quarters (6.3 trillion). After adjustment for exchange rate differences, there were net inflows of 6.2 trillion lire via resident banks, mainly in foreign currency; the spot and forward foreign exchange position was broadly unchanged. Excluding trade credit, capital movements recorded a net outflow of 8.9 trillion lire. Net of exchange rate and valuation adjustments, the official reserves declined by 11.3 trillion lire, with half the declive occurring in March.

In the first few months of this year the lira depreciated sharply in nominai effective terms against the currencies of Italy's main trading partners. In March the depreciation in relation to December was 10.9 per cent; in April the declive against the Deutsche Mark reached 16.1 per cent, while that against the dollar was smaller (4.8 per cent). The lira strengthened in May.

According to the Bank of Italy's sample survey of manufacturing firms, gross fixed investment in machinery and buildings planned for 1995 is 15 per cent higher in real terms than actual expenditure in 1994. A third of this investment is intended to increase capacity, compared with a quarter in 1992 and 1993. The growth in investment is expected to exceed 20 per cent in the case of firms whose capacity utilization rose in 1994. The effect on employment should be significant; even excluding changes in recourse to wage supplementation, the number of persons in employment is expected to rise by about 1 per cent in firms where capacity utilization has increased, and to stop falling in industry as a whole. If planned investment is implemented, the rise in the capacity utilization rate would come to a halt towards the end of 1995. This would help consideràbly in easing the pressure on prices and have a calming effect on the forthcoming round of wage negotiations.

The average rate of growth in GDP could exceed 3 per cent this year. An acceleration in domestic demand, especially that for machinery and equipment, would combine with continued strong export demand. The growth in consumption is being held back by the restrictive stance of budgetary policy. Firm pursuit of the budget adjustment objective remains the key to correcting the decline in the effective exchange rate, which was especially pronounced in February and March. With monetary policy remaining restrictive, the appreciation of the lira and the moderation of consumption and nominai incomes should cause inflation to abate by the end of the year.

DOMESTIC DEMAND

Households' consumption

Households' domestic consumption grew in real terms by 1.6 per cent last year. Spending on durable and semi-durable goods, which is more sensitive to the business cycle, increased by 2.3 per cent, after having contracted by 7.5 per cent in 1993; expenditure on non-durables remained unchanged for the second consecutive year. The increase in non-residents' consumption in Italy, which was stimulated by the depreciation of the lira, contributed about half a percentage point to the growth in domestic consumption. National consumption, which excludes non-residents' spending in Italy but includes spending by residents' abroad, grew by 0.9 per cent (Table 3).

Table 3

HOUSEHOLDS' CONSUMPTION
(at 1985 prices; percentage changes)

	1991	1992	1993	1994
Non-durable goods	2.0	0.7	..	..
Semi-durable goods	3.8	1.5	–4.4	2.6
Durable goods	3.1	1.1	–12.2	1.9
of which: furniture, carpets, electrical household appliances and household equipment	*5.4*	*–2.0*	*–6.6*	*5.2*
therapeutic equipment and goods, photographic equipment and musical instruments, radio and television receiving sets and record players	*1.1*	*1.6*	*–4.1*	*4.5*
transport equipment	*0.6*	*1.2*	*–27.5*	*1.2*
precious and costume jewellery	*5.5*	*6.0*	*–0.2*	*–3.6*
Services	2.8	1.2	–0.1	2.6
Total domestic consumption	**2.7**	**1.1**	**–2.5**	**1.6**
Residents' consumption abroad (+)	–17.8	32.1	–15.7	–9.9
Non-residents' consumption in Italy (–)	–8.9	10.0	16.6	14.1
Total national consumption	**2.6**	**1.5**	**–3.4**	**0.9**

Source: Istat.

Table 4

GROSS DISPOSABLE INCOME AND AVERAGE PROPENSITY TO CONSUME OF THE PRIVATE SECTOR (1)

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

	1991	1992	1993	1994
Consumer households	9.9	6.7	–0.1	3.1
Non-financial enterprises, banks and insurance institutions (1)	–4.8	3.3	9.7	33.6
Gross disposable income of the private sector	**8.1**	**6.3**	**0.9**	**6.6**
at 1985 prices	1.1	0.9	–4.1	1.8
at 1985 prices, adjusted (2)	1.5	1.9	–4.0	1.9
Average propensity to consume	**71.5**	**71.9**	**72.4**	**71.8**
Adjusted average propensity to consume (2)	75.5	75.1	75.6	74.9

Source: Based on Istat data.
(1) Including the Bank of Italy. – (2) Disposable income is adjusted by subtracting the estimated loss of purchasing power on net holdings of domestic and foreign financial assets.

Domestic consumption, which had begun to pick up in the second half of 1993 after four successive quarters of decline, grew at a rapid annual rate of 2.4 per cent in the first half of 1994. The recovery faltered in the third quarter and the annual rate of growth fell below 1 per cent in the fourth. In the second half of the year households' propensity to consume may have been affected by renewed uncertainty about future income.

The private sector's real disposable income, adjusted for the effect of inflation on the sector's net financial assets, increased over the year by an average of 1.9 per cent, whereas in 1993 it had fallen by 4 per cent (Table 4). Setting national consumption in relation to real disposable income shows that the average propensity to consume diminished, whereas it had risen in 1993. Private sector saving grew in nominai terms by 8.9 per cent, while national saving grew by 10.8 per cent and rose from 18.4 to 19.3 per cent of national income (Table 5).

Table 5

GROSS SAVING AND INVESTMENT

(percentages of gross national disposable income)

	1971-1980	1981-1990	1991	1992	1993	1994
General government saving	–3.9	–6.0	–5.6	–7.0	–4.9	–4.9
Private sector saving	29.4	27.5	24.6	24.6	23.3	24.2
Gross national saving	25.5	21.5	19.0	17.6	18.4	19.3
Gross investment	25.7	22.3	20.9	19.9	17.2	17.4
Memorandum item:						
balance of trade in goods and services (1)	–0.2	–0.8	–1.9	–2.3	1.2	1.9

Source: Based on Istat data.
(1) ESA.

The national accounts aggregate "Consumer households' gross disposable income", which excludes retained earnings, grew by 3.1 per cent at current prices but fell by 1.6 per cent in real terms (by 1.3 per cent after adjusting for the effects of inflation on net financial assets); this was in addition to the decline recorded in 1993 (Table 6).

The rate of growth in consumer households' nominai disposable income primarily reflected the moderate rise in income from salaried employment. Total gross wages and salaries increased by 1 per cent, which was more than 3.5 percentage points less than the change in the national consumption deflator. As in 1993, the aggregate was affected especially by the fall in employment, which was accompanied by a small rise in per capita earnings. By contrast, total income from self-employment increased by 3.6 per cent, despite a sizable decline in the number of self-employed. A second factor that contributed significantly to curbing consumer households' nominai income was the reduction of 11.1 per cent in net interest income, due mainly to the marked fall in average yields.

Table 6

SOURCES OF CONSUMER HOUSEHOLDS' GROSS DISPOSABLE INCOME (1)

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

	1991	1992	1993	1994
Wages and salaries	8.8	4.3	–0.4	1.0
Self-employment income net of social security contributions	10.9	2.0	–1.3	3.6
Dividends and other income from capital	11.8	13.6	2.1	9.2
Net interest income	13.9	19.0	5.2	–11.1
Social security benefits	9.2	11.5	4.5	5.2
Income taxes (–)	10.1	10.7	10.9	–3.7
Gross disposable income	9.9	6.7	–0.1	3.1
at 1985 prices (2)	2.8	1.3	–5.0	–1.6
at 1985 prices, adjusted (3)	3.4	2.5	–5.1	–1.3

Source: Based on Istat data.

(1) Consumer households include private non-profit institutions. – (2) Deflated using the implicit price deflator of households' national consumption. – (3) The adjustment was effected by subtracting from gross disposable income the estimated loss of purchasing power on consumer households' net holdings of domestic and foreign financial assets (excluding shares).

In contrast with the previous year, income and wealth taxes diminished, as the tax bases contracted while tax rates remained unchanged. On the other hand, social security benefits grew more rapidly than they had in 1993.

It is reasonable to assume that the shift in the relative importance of the main components of total disposable income was accompanied by significant changes in the distribution of income among households. This hypothesis is corroborated by the findings of the latest survey of household income and wealth, conducted by the Bank of Italy among a sample of around 8,000 households representing the entire national population. The data, which relate to 1993, indicate a pronounced tendency towards increasing inequality of income. The Gini index rose from 0.325 in 1991 to 0.366 in 1993, reflecting the widening gap between high and low-income households.

Investment

Gross fixed investment remained basically unchanged last year in real terms, a further decrease in investment in construction being offset by an increase in expenditure on machinery and equipment (Table 7). At 1985 prices the ratio of investment to GDP fell to 18.4 per cent, the lowest level since the early fifties. Stocks of raw materials, semi-finished goods and finished products rose sharply (by 11.04 trillion lire at current prices and 8.01 trillion at 1985 prices), whereas in 1993 they had diminished. Including the change in stocks, investment greve by 4.4 per cent in volume and 7.2 per cent in value.

Table 7

FIXED INVESTMENT
(at 1985prices)

	Percentage change			As a percentage of GDP		
	1992	1993	1994	1992	1993	1994
Construction	–2.1	–6.3	–5.2	10.3	9.7	9.0
of which: residential buildings	*0.2*	*–0.9*	*–2.2*	*5.4*	*5.4*	*5.2*
non-residential buildings and public works	*–4.6*	*–12.4*	*–9.0*	*4.9*	*4.3*	*3.8*
Machinery, equipment and sundry products	–1.6	–18.0	6.8	9.0	7.5	7.8
Transport equipment	–0.3	–24.7	–1.4	2.2	1.7	1.6
of which: motor vehicles	*–1.5*	*–29.1*	*1.5*	*1.8*	*1.3*	*1.3*
other	*5.0*	*–5.9*	*–10.5*	*0.4*	*0.4*	*0.3*
Total gross fixed investment	**–1.7**	**–13.1**	**–0.1**	**21.5**	**18.9**	**18.4**
Total excluding residential buildings	–2.4	–17.2	0.7	16.0	13.4	13.3
Total excluding construction	–1.3	–19.3	5.3	11.2	9.1	9.4
Total net fixed investment (1)	**–9.3**	**–39.2**	**–6.2**	**9.1**	**5.6**	**5.2**

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

Fixed investment. — The disappointing results for fixed investment in 1994 are attributable entirely to the continued contraction of activity in the construction sector. The growth in GDP only attenuated the decline in investment in construction, which had fallen sharply in 1993 and decreased by a further 5.2 per cent in real terms last year, reflecting a decline of 2.2 per cent in residential building and one of 9 per cent in non-residential building and public works; according to national accounts estimates, investment in public works contracted by 10.3 per cent at constant prices.

Purchases of equipment, machinery and transport equipment increased last year by 5.3 per cent at 1985 prices; however, investment in transport equipment alone diminished by 1.4 per cent, notwithstanding the increase of 1.5 per cent in purchases of motor vehicles.

Net of depreciation, fixed investment contracted further, albeit by much less than in the previous year (6.2 per cent, as against 39.2 per cent in 1993), continuing to reflect the abundant spare capacity available when the economy carne out of recession in late 1993.

Investment was held back in 1994 by firms' uncertainty about the intensity and duration of the revival in demand, particularly in the first half of the year.

The behaviour of the usual factors (the level of demand, interest rates, profits) does not completely explain the downturn in investment in the part three years. Capital spending was influenced by changes in uncertainty with regard to demand and production costs, not least on account of exchange rate fluctuations. The results of the Bank of Italy 's investment survey indicate that uncertainty has a perceptible adverse effect on investment decisione. Firms may cancel or postpone planned investment because of doubts about the outlook for demand; one cause may be the difficulty of determining the timing of the cyclical upswing. Uncertainty is less of a constraint for firms that have easier access to the market in used capital goods and can therefore remedy an investment decision that has proved to have been a mistake.

In the fourth quarter of 1994 gross fixed investment increased at an annual rate of 6.1 per cent with respect to the previous quarter, thanks to the growth of 13.9 per cent in spending on equipment, machinery and transport equipment; investment in construction continued to contract, but the decline of 2 per cent was the smallest in the last three years, the first sign of a possible reversal of the trend. The economic expansion that has been under way in Italy and Europe for more than a year has bolstered confidence in the prospects of growth, while the appreciable improvement in profit margins and the progressive reduction in spare capacity have created the premises for a vigorous recovery of investment in 1995.

Stocks. — According to national accounts data, the variation in stocks of raw materials, semi-finished goods and finished products, valued at 1985 prices, contributed 0.8 percentage points to the growth of GDP.

The reduction in stocks that had begun in 1993 continued in the first quarter of last year, probably because of firms' doubts about the strength of the recovery. In the second half of 1994, and particularly in the fourth quarter, high rates of production were accompanied by appreciable stockbuilding, particularly to replenish inventories of raw materials and semi-finished goods. This appears to be confirmed both by the increase in imports and by the results of the Isco business surveys.

DOMESTIC SUPPLY

Goods

In 1994 value added at factor cost grew by 3.4 per cent in industry and remained unchanged in agriculture, forestry and fisheries, whereas in 1993 it had declined by 3.0 and 1.6 per cent respectively. Within the industrial sector, the best results were achieved by manufacturing (Table 8).

Given the strength of foreign demand, the growth in output was much more pronounced in the Centre and North than in the South on account of differences in the structure of production and in the propensity to export.

Table 8

VALVE ADDED OF INDUSTRY AT FACTOR COST

	1994 (billions of lire)	Percentage changes			
		Volume		Prices	
		1993	1994	1993	1994
Industry excluding construction	**375,616**	**–2.4**	**5.1**	**3.2**	**3.2**
Manufactured goods	329,347	–2.6	5.3	2.9	2.7
Energy products	46,269	–0.2	3.2	5.6	7.6
Construction and public works	**84,479**	**–5.8**	**–4.6**	**2.8**	**4.2**
Total	**460,095**	**–3.0**	**3.4**	**3.0**	**3.1**

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

Agriculture. — The sector was affected by adverse weather conditions for the second consecutive year. Demand and prices rose (Table 9). The graduai reform of the European Union's common agricultural policy, which reduces interference in price formation, went some way towards re-establishing market forces as the determinant of farmers' production decisione.

Manufacturing industry. — The growth in foreign and domestic demand enabled manufacturers to expand production. Output grew by an average of 5.1 per cent in 1994, or by 6.2 per cent after adjustment for the smaller number of working days. The pace of production accelerateti during the year: average daily output on a twelve-month basis rose by 3.0 per cent in the first half-year and by 9.8 per cent in the second.

Table 9

MARKETABLE OUTPUT AND VALVE ADDED OF AGRICULTURE, FORESTRY AND FISHERIES

	1994 (billions of lire)	Percentage changes			
		Volume		Prices	
		1993	1994	1993	1994
Marketable output (1)	64,692	–1.9	–0.1	0.7	2.4
Crops: cereals, oil seeds, vegetables, etc.	*21,684*	*–3.9*	*2.5*	*1.9*	*. .*
orchards and vineyards	*15,352*	*–2.3*	*–5.5*	*–5.6*	*7.2*
Livestock	*24,074*	*. .*	*0.7*	*4.4*	*1.4*
Forestry products	*870*	*–0.5*	*6.3*	*2.1*	*3.6*
Fishery products	*2,712*	*1.2*	*0.3*	*–2.7*	*5.2*
Intermediate inputs (2) (–)	18.207	–2.2	–0.9	6.7	1.5
Production subsidies (3) (+)	7.078	–0.2	–2.7	27.2	–3.5
Value added at factor cost	**53.563**	**–1.6**	**. .**	**1.8**	**1.7**

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.

The particularly brisk growth in foreign demand benefited the Centre and North, where the more export-oriented firms are concentrated. The ratio of exports to GDP in that part of the country is four times that in the South. The Southern regions were adversely affected by the difficulties in the implementation of the new programme of state assistance for depressed areas. The new system of incentives for private investment remained in abeyance until the European Commission issued its decision on 1 March 1995 regarding the measures taken in this respect by the Italian Government.

The growth in output was achieved by increasing plant utilization, working hours and productivity per hour. Calculated according to the Wharton method, the capacity utilization rate rose by 6.4 points in the exporting sectors and by 2.5 points elsewhere.

Energy. — Domestic production of energy from primary sources (notably gas, oil and hydroelectricity) increased by 6.2 per cent last year. Energy imports contracted for the first time since 1986, despite a substantial rise of 2.9 per cent in electricity consumption. The overall demand for energy for industrial, residential and transport purposes also declined, albeit slightly, owing to price increases and the mild winter, which resulted in lower consumption of heating fuel.

In 1994 and the first few months of 1995 the Government and Parliament drew up plans for the regulation, liberalization and privatization of the electricity sector. Law 474 of 30 July 1994 makes the privatization of public utilities subject to a number of conditions, including the establishment of regulatory authorities. A bili for this purpose was tabled at Parliament's own initiative and approved by the Senate on 14 March 1995. As well as laying down generai provisions regarding charges and standards of service, the bili envisages separate accounting for the generation, transmission and distribution of electricity "as though managed by separate enterprises".

Construction. — The further decrease of 4.6 per cent in building activity last year brought the cumulative declive in the sector's value added since 1991 to 11 per cent. Last year's contraction was attributable chiefly to a fall of 9.0 per cent in non-residential building and public works; activity in the latter fieid, which has declined by about 24 per cent in the last four years, was severely affected by the climate of legislative uncertainty caused by the start and then suspension of the reform of the procedures regulating public works contracts. The fall in activity was more pronounced in the South.

Services

The market services sector, which is more domestically oriented than industry, recorded a moderate recovery: value added at factor cost increased by 1.6 per cent at constant prices, more than half a point above the figure for 1993 (Table 10).

The growth in activity was greatest in those branches of the services sector providing support for industrial activities. The economie recovery boosted the demand for transport, with the result that value added rose by 5.2 per cent in maritime and air transport, by 4.4 per cent in other forms of transport and by 3.1 per cent in related activities. Freight traffic for all the main sectors of the economy increased rapidly in the first nine months of the year, with increases of 11.4 per cent in railway freight, 7.3 per cent in maritime transport, 4.6 per cent in road transport and 2.0 per cent in air freight.

Value added in the wholesale and retail trades, excluding recovery and repair services, grew by 2.4 per cent last year. The concentration of retail distribution continued, albeit at a slower pace.

Table 10

VALUE ADDED OF MARKET SERVICES AT FACTOR COST

	1994 (billions of lire)	Percentage changes			
		Volume		Prices	
		1993	1994	1993	1994
Wholesale and retail trade	249,460	–1.6	2.5	4.1	3.4
Lodging and catering	49,083	–5.1	1.5	4.6	5.0
Transport	96,017	0.4	4.2	8.1	5.6
Communications	28,546	7.2	5.7	–5.7	–3.4
Credit and insurance	72,540	15.7	–4.3	–4.7	–1.9
Other market services	195,775	–1.7	1.0	5.3	4.2
Renting of buildings	132,566	0.8	1.6	0.9	8.9
Total	**823,987**	**0.9**	**1.6**	**2.8**	**4.0**

Source: Istat.
(1) Includes repair services.

Business services. — Despite the severe impact of the recent recession on business services, the growth of the branch since the beginning of the eighties is nothing less than exceptional. The latest census data show that between 1981 and 1991 the sector created 853,000 jobs, egual to more than 60 per cent of those lost in manufacturing. Over the same period value added rose at an average annual rate of 4.1 per cent, double that recorded by manufacturing industry. The switch from producing services in-house to purchasing them in the market was not the only factor; the demand for inputs of services also rose owing to the technological and organizational changes necessitated by the management of more complex production processes, the increasing exchange of information and keener competition in wider and more differentiated markets. Between 1981 and 1991 the number of persons employed grew at an average annual rate of 13.3 per cent in information technology, 5.6 per cent in the professione, 5.1 per cent in financial services and 4.0 per cent in research and development.

According to census data, the demand for services appears to be directly correlated to company size; it is highest in the more technologically advanced sectors and in those where a high proportion of firms have more than one site or are newly established. Services that firms prefer to purchase in the market rather than produce in-house include those that are more technical and specialized, such as legal and financial services, information technology, marketing and advertising.

Public enterprises and privatization

An intensive reorganization of the structure and operations of publicly-owned enterprises has been taking piace in recent years, both among those competing with other firms and those operating as authorized monopolies. Since 1992 market discipline has been extended to a growing number of sectors by changing the legal status of numerous public enterprises, abolishing the Ministry for State Shareholdings, dissolving EFIM, amending the legislative and regulatory framework for certain activities and privatizing a number of enterprises (Table 11).

Table 11

MAIN PRIVATIZATIONS IN ITALY BETWEEN JANUARY 1993 AND APRIL 1995

	Group (sector)	Number of employees (1)	Method of sale	Percentage sold	Remaining public holding at 31.3.95 (%) (2)	Completion date of sale	Net proceeds (3)
Italgel	IRI: ex-SME (Food)	1,655 (1992)	Auction	62.00	0.37	6.8.93	437
Cirio-Bertolli-De Rica	IRI: ex-SME (Food)	1,653 (1992)	Auction	62.00	0.58	7.10.93	310
Credito Italiano	IRI (Banking)	17,536 (1992)	Offer for sale	67.00	1.99	8.12.93	1,829
SIV	EFIM (Glass)	3,822 (1993)	Auction	100.00	–	21.12.93	210
IMI	(Banking)	917 (1993)	Offer for sale	33.00	27.82	1.2.94	2,180
Banca Commerciale Italiana	IRI (Banking)	22,234 (1993)	Offer for sale	54.00	2.02	1.3.94	2,891
Nuovo Pignone	ENI (Mechanical engineering)	5,157	Auction	69.33	20.25	23.5.94	713
INA	(Insurance)	4,600 (1993)	Offer for sale	47.25	52.75	28.6.94	4,530
Acciai Speciali Terni	IRI (Steel)	4,500 (1994)	Auction	100.00	–	23.12.94	600
SME	IRI (Food, distribution)	16,725 (1993)	Auction	32.00	30.12	23.12.94	704
Ilva Laminati Piani ..	IRI (Steel)	17,971 (1994)	Auction	100.00	–	1.3.95	(4)1,800
Enichem Augusta ..	ENI (Chemicals)	1,123 (1993)	Auction	70.00	14.25	18.4.95	300

Sources: R&S (various years) company balance sheets, Consob, *Privatizzazioni, mercato azionario e governo dell'impresa*, 1994, financial press.
(1) Average. – (2) For all the companies the figure coincides with the proportion of ordinary capital, since no preference shares exist. – (3) Billions of lire. – (4) Corresponds to the net payment by Gruppo Riva on the assumption that the shares are transferred at the end of May 1995 (the price is the sum of 1,463 billion lire plus 70 billion lire per month from January 1995 onwards). IRI did not relinquish its right to the 1994 dividend of 700 billion lire.

The regulatory framework for privatizations was completed in 1994 with the passage of Law 474/94, the generai provisions of which lay down the procedures for disposal by means of private sale or public offer for sale. The disposal of state shareholdings in defence contractors and public utilities is conditional on the creation of independent organizations to regulate charges and standards of service. The statutes of public companies operating in these sectors must give the Minister of the Treasury special powers similar to those accorded by the "golden share" in the United Kingdom enabling him to approve the entry of new shareholders and to veto decisione to dissolve the company or make certain other amendments to their statutes. The law also enables public sector banks, insurance companies, defence contractors and public utilities to limit the number of shares that may be held by any one individual or group. These limits would lapse in the event of a take-over bid aimed at acquiring the majority of shares bearing voting rights at ordinary generai meetings. Law 474/94 safeguards minority shareholders by providing for directory to be elected on the basis of lists, with at least one fifth of the seats on the board being reserved for candidates proposed by minority shareholders, and by allowing elections to be conducted by post. The financial interests of minority shareholders are also protected by the requirement that persons concluding any kind of voting or consultation agreement that would enable them to exercise dominant influence make a take-over bid.

THE LABOUR MARKET

Employment

Labour demand and productivity. — Total employment, measured in standard labour units, contracted by an average of 1.6 per cent in 1994. The rise in output only attenuateti the decline by 1 percentage point compared with that registered in 1993 (Table 12). Productivity growth in the private sector as a whole rose by nearly 2 points, from 2.4 to 4.2 per cent. This was more than in the mid-eighties, when large productivity gains in industry had been partially offset by a continuing deterioration in services, but less than at the same point of economic cycles in the seventies, when output fluctuated more widely but employment varied little. Last year's strong cyclical recovery had its greatest impact on labour productivity in the manufacturing sector, which rose by 6.8 per cent, compared with 1.9 per cent in 1993. It was not until the end of the year that firms began to indicate an intention to take on additional staff as the scope for more intensive utilization of the workforce steadily diminished. In market services the employment impact of the growth in output was limited by the restructuring that is stili in progress in a number of branches, in particular distribution, transportation and communications. In addition, there was a sharp decline of 3.5 per cent in employment in construction and one of 3.8 per cent in agriculture. General government had no compensating effect; here employment fell by 0.7 per cent, compared with a reduction of 0.5 per cent in 1993 and an average annual increase of 0.4 per cent from 1989 to 1992.

In the early stages of a recovery it is normal for both industrial and non-industrial firms to seek to use labour more intensively before increasing employment. On this occasion, however, this tendency was accentuated by the contrast between the high degree of flexibility firms have now achieved in their internai organization and in the use of labour and the continued rigidity of the regulations on the hiring and dismissal of staff and on part-time, fixed-term and temporary employment. A survey conducted in 1994 found that Italian industry was no different from its counterparts in the rest of Europe as regards the occasional recourse to working at night or on Sundays and Saturdays. The restrictions on occasional night working, which is virtually non-existent in Italy compared with a European Union average of 2 per cent, are offset by rates of recourse to Sunday and Saturday working of 2 and 7 per cent in Italy, compared with EU averages of 2 and 5 per cent. However, only 1 per cent of Italian employees work part-time, compared with an EU average of 3 per cent.

As the scope for the more intensive use of labour diminished and growth prospects strengthened, firms began to plan for some increase in employment. At the end of 1994 Isco's quarterly survey of manufacturing firms showed that on balance more firms expected to increase manning levels than to reduce them. The Bank of Italy 's animai investment survey reached similar conclusions. Moreover, optimism appears to have spread to less export-oriented firms, in contrast to the findings for last year; there was a significant correlation between planned increases in employment in 1995 and the degree of capacity utilization in 1994.

Table 12

EMPLOYMENT

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

	Total employment				Salaried employment			
	(1)	1992	1993	1994	(1)	1992	1993	1994
Agriculture	**8.5**	**–4.7**	**–7.3**	**–3.8**	**4.1**	**0.4**	**–9.2**	**–3.9**
Industry	**28.5**	**–2.5**	**–3.7**	**–2.0**	**32.7**	**–3.2**	**–4.8**	**–1.9**
fuel and power products	*0.8*	*–1.8*	*–4.2*	*–3.1*	*1.2*	*–1.8*	*–4.2*	*–3.1*
manufacturing	*20.5*	*–3.7*	*–4.4*	*–1.4*	*24.8*	*–4.3*	*–5.1*	*–1.1*
industry excluding construction	*21.3*	*–3.6*	*–4.4*	*–1.5*	*26.0*	*–4.2*	*–5.0*	*–1.2*
construction	*7.2*	*1.1*	*–1.8*	*–3.5*	*6.8*	*0.7*	*–4.2*	*–4.6*
Market services	**43.6**	**–0.2**	**–1.8**	**–1.3**	**35.2**	**0.7**	**–1.0**	**–2.1**
distributive trades, lodging and catering	*21.8*	*–0.2*	*–2.2*	*–1.3*	*14.0*	*1.9*	*–0.5*	*–1.1*
transport and communications	*6.4*	*–0.8*	*–0.9*	*–2.6*	*7.3*	*–1.1*	*–0.8*	*–3.5*
credit and insurance	*2.0*	*1.1*	..	*–0.6*	*2.8*	*1.1*	..	*–0.6*
other market services	*13.5*	..	*–1.9*	*–0.8*	*11.1*	*0.4*	*–1.9*	*–2.7*
Goods and market services	**80.7**	**–1.5**	**–3.1**	**–1.8**	**72.0**	**–1.2**	**–3.3**	**–2.1**
Non-market services	**19.3**	**1.1**	**–0.4**	**–0.4**	**28.0**	**1.1**	**–0.4**	**–0.4**
Total	**100.0**	**–1.0**	**–2.6**	**–1.6**	**100.0**	**–0.5**	**–2.5**	**–1.7**

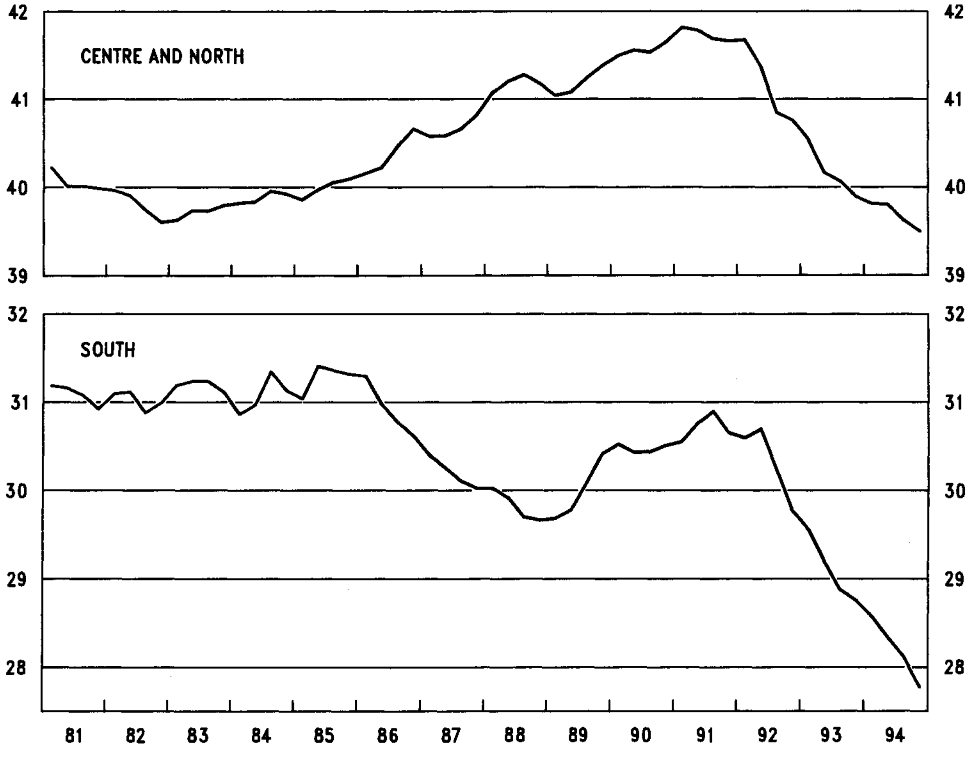
Source: Based on Istat data.
(1) Percentage share of total in 1994.

Geographical disparitier. — The divergence in employment trends between North and South that had already been evident in 1993 worsened last year. According to labour force surveys, the number of persons employed in the Centre and North declined by 100,000 between January 1994 and January 1995, or by 0.7 per cent (compared with 1.3 per cent on average for 1994), but this was almost entirely offset by the number of workers coming off wage supplementation; the decline in the South, by contrast, was 225,000, or 3.9 per cent (2.6 per cent on average for the year). The widening of the gap was due partly to the different sectoral composition of employment in the two areas. The South, which has more than a third of the population but generates only a quarter of GDP, stili has a large agricultural sector (accounting for 13.6 per cent of total employment in 1994, compared with 5.5 per cent in the Centre and North), which is in secular decline, and relatively few firms oriented towards markets outside the area, in particular manufacturing and tourism, both of which are now recovering more strongly.

Figure 4

EMPLOYED POPULATION AS SHARE OF TOTAL POPULATION (1)

(reconstructed data, seasonally adjusted; percentages)



Source: Based on Istat data.

The supply of labour and unemployment

The labour force. — In parallel with the decline in employment, the labour force continued to contract. The participation rate for the population age 15 or over fell from 48.4 per cent in October 1992 to 47.4 per cent two years later. This was equivalent to the withdrawal of 185,000 persons from the labour market, a quarter of the decline in employment over the same period.

Among women, the cyclical discouraged worker effect was almost offset by the underlying rise in labour market participation, especially in the central age-groups. The decline in participation rates was more pronounced for men, as the cyclical reduction reinforced a longer-term downward trend, mainly among the young and the elderly. Between October 1992 and October 1993 the decline was concentrated among the youngest men, but in the following twelve months the proportion of older men involved also increased, with substantial numbers leaving the labour market permanently, presumably in connection with the temporary and partial lifting of the freeze on long-service pensions last summer. In the North the fall in participation rates was mainly in the oldest and youngest age-groups, while in the South it was more evenly spread.

Unemployment. — The unemployment rate according to the official definition averaged 11.3 per cent last year, 1.1 points higher than in 1993. The increase did not affect the traditional differences according to sex, age and region.

In the northern part of the country unemployment continues to be concentrated among women and young people, who are disadvantaged by the institutional and regulatory rigidities mentioned above, and in particular by the shortcomings of the rules on part-time and fixed-term employment. In the South the more generai problem of inadeguate economic development is superimposed on the defects and rigidity of the labour market; unemployment is extremely high even among adult men, reaching more than three times the rates registered in the Centre and North. The overt unemployment rate for young people and women in the South is held down partly by the discouraged worker effect, which limits their labour market participation.

In the Centre and North a sharp decline in the number of new entrants to the labour force in the second half of the eighties had helped reduce the unemployment rate for young people; the graduai introduction of more flexible employment rules, especially the establishment of the trainee contract, also had a beneficiai effect. The continuation of the above demographic trend could give rise to a similar improvement in the near future. Coupled with declining participation rates among older age-groups, it might lead to a labour shortage in that part of the country. By the end of 1994 the index of the degree of difficulty in recruiting manpower, which can be derived from Isco's surveys of industrial firms, had nearly regained the leve) recorded in 1989.

Industrial relations and wages

Industrial relations. — A number of national industry-wide contracts were signed last year in keeping with the guidelines established by the incomes policy agreements of July 1992 and July 1993. The proposals for reform of the pension system were a cause of tension. In order to bring forward the savings to be produced by the changes in pensions enacted in 1992 and 1993, the finance bili originally included provisions that would have affected the benefits of workers approaching retirement age. The difficulties inherent in measures affecting what were considered to be vested rights were compounded by fears on the part of the trade unions that the Government's approach implied rejection of the concertation practised in the recent past. Strong resistance therefore developed during the autumn, and it was only on 1 December, on the eve of a generai strike called by the trade unions, that agreement was reached to defer the matter to legislation to be enacted by the end of June. The actual design of the reform has been the subject of continuous meetings between the new Government and business and labour organizations in the last few months.

Decentralized bargaining did not play an important role last year. Company-level settlements had increased in scope during the eighties, reflecting the desire of employers for greater flexibility in wages and work organization and the fragmentation of workers' interests, which were thus more difficult to represent uniformly at national level. The recent practice of predetermining wage increases on the basis of agreed incomes policy has somewhat curbed this tendency, reinforcing the trade unions' traditionally centralized conduct of industrial relations, despite the fact that one of the objectives of the agreements was to strengthen the trend towards decentralization.

Wages and labour costs. — The successful implementation of the incomes policy agreement, which was facilitated by the slack in the labour market, stabilized nominai wage behaviour, rendering it immune to current price trends. For the economy as a whole, gross earnings per full-time equivalent worker rose by 2.8 per cent; in real terms they declined for the second consecutive year (by 1.2 per cent, as against 1.3 per cent in 1993 and zero growth in 1992).

For a typical worker with gross earnings equal to the average for the non-farm private sector, the decline in real pay net of fax and social security contributions carne to 0.8 per cent (compared with 1.5 per cent in 1993), and the tax wedge widened further by about half a point. The increases in tax allowances provided only partial compensation for fiscal drag and primarily benefited workers in the lower tax brackets.

In the absence of cost-of-living indexation and synchronized bargaining among different sectors, the dispersion of wage trends increased. The coefficient of variation for 30 branches in the non-farm private sector rose from about 15 per cent in 1991 to 47 per cent in 1993, when wage increases were largely those determined by the contracts signed in 1990-91. However, it fell to 28 per cent in 1994, reflecting the larger number of agreements reached during the year and their common reference to the incomes policy agreements.

Table 13

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 (salaried employment)	Labour costs	Unit labour costs
			Total (2)			
1991	1.2	0.8	0.4	8.6	8.5	8.0
1992	1.0	–1.0	2.0	5.1	5.8	3.7
1993	–0.7	–2.6	2.0	3.1	3.6	1.6
1994	2.0	–1.6	3.6	2.8	3.4	–0.1
			Agriculture			
1991	8.2	0.1	8.1	6.5	6.1	–1.9
1992	1.1	–4.7	6.0	9.8	9.8	3.5
1993	–1.6	–7.3	6.1	5.2	5.0	–1.1
1994	..	–3.8	4.0	0.2	..	–3.8
			Manufacturing industry			
1991	–0.2	–1.9	1.8	9.5	9.3	7.4
1992	0.4	–3.7	4.3	7.3	7.3	2.9
1993	–2.6	–4.4	1.9	4.0	4.6	2.6
1994	5.3	–1.4	6.8	3.8	3.9	–2.7
			Construction			
1991	1.2	2.9	–1.7	8.0	8.0	9.8
1992	–0.9	1.1	–2.0	5.8	6.1	8.2
1993	–5.8	–1.8	–4.1	1.5	1.1	5.4
1994	–4.6	–3.5	–1.1	3.1	2.8	3.9
			Market services (2)			
1991	1.5	2.0	–0.5	8.8	8.2	8.8
1992	1.5	–0.2	1.7	5.2	5.9	4.2
1993	1.0	–1.8	2.9	3.5	3.9	1.0
1994	1.6	–1.3	2.9	3.7	3.9	0.9

Source: Based on Istat data.

(1) At 1985 prices; including imputed output of bank services. – (2) Excluding rental of buildings.

The surveys of households' income and wealth conducted by the Bank of Italy indicate a significant widening of the dispersion in annual wages and salaries net of tax and contributions between 1991 and 1993 (Table 14). The increase, which was the largest since 1977, was comparable in magnitude to the reduction that had occurred between 1987 and 1989, thus bringing the overall dispersion back to the levels of the early eighties and slightly below that recorded in 1977. The increase in dispersion was due not to pronounced changes in average wage differentials between different demographic and social groups but to greater wage dispersion within each group.

Table 14

DISPERSION OF ANNUAL WAGES AND SALARIES, NET OF TAX AND SOCIAL SECURITY CONTRIBUTIONS

Indicator	1977	1982	1987	1989	1991	1993
Mean logarithmic deviation	0.162	0.151	0.132	0.084	0.095	0.136
Gini index	0.267	0.246	0.242	0.206	0.216	0.247
Decile ratio	4.00	3.74	3.54	2.43	2.64	3.56
Quintile ratio	2.00	1.97	1.81	1.69	1.79	1.89

Source: Based on data in Banca d'Italia, *Indagine sui bilanci delle famiglie*, various years.

Per capita labour costs, including employers' social security contributions, rose by 3.9 per cent in market services and manufacturing industry; this was only marginally more than the increase in earnings. Contribution relief for manufacturers in the South was reduced further.

Thanks to the surge in productivity growth, unit labour costs in manufacturing industry declined by 2.7 per cent, a swing of more than 5 percentage points. The rise in the market services sector was comparable to that recorded the previous year (0.9 as against 1.0 per cent).

PRICES

As in the three previous years, inflation declined in 1994 on an annual average basis, despite the further depreciation of the lira. The improvement was aided by wage moderation, large productivity gains in nearly all sectors and a slowdown in input prices. In the first few months of the year most businessmen still expected prices to slow down.

Price developments during the year can be divided finto two distinct phases, however, as inflation did not declive further after the summer. Expectations of an increase in inflation set in, fueled by the fall in the effective exchange rate of the lira and the strengthening of domestic demand. The rise in international commodity prices exerted pressure on producer prices.

The tendency for prices to accelerate, which became more pronounced in the opening months of 1995, was countered by monetary measures as soon as it appeared in the indicatore of expectations.

The recovery of demand and the stability of unit labour costs enabled firms to widen their profit margins in 1994; income distribution shifted appreciably in favour of capital.

Consumer prices

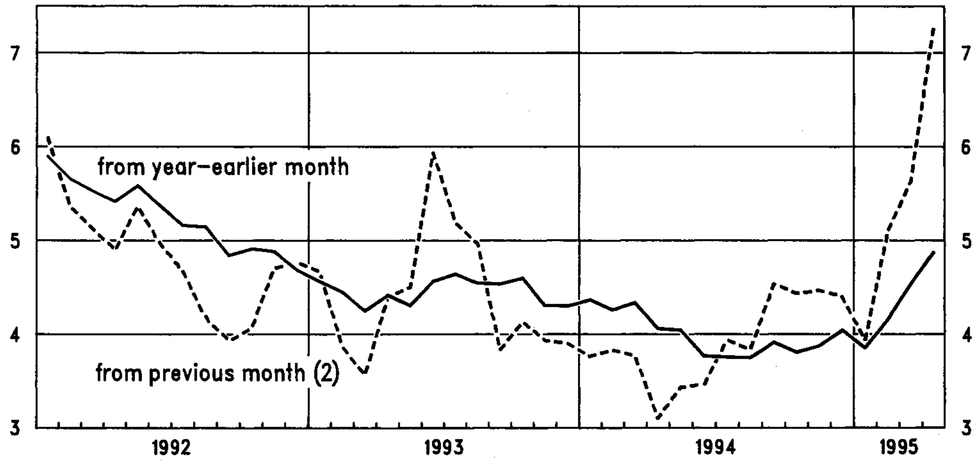
The generai index of consumer prices rose by an average of 4 per cent in 1994, compared with 4.5 per cent in 1993, overshooting the target inflation rate by 0.5 percentage points; the increase was the smallest since 1969. The deceleration was particularly marked in the early part of the year (Figure 5). The twelve-month rate of increase declined from 4.4 per cent in January to 3.8 per cent between June and August; it edged up to 4 per cent at the end of the year.

The annualized and seasonally adjusted monthly increases in consumer prices were in the vicinity of 3.5 per cent in the spring; they exceeded 4 per cent in the last few months of the year.

Figure 5

CONSUMER PRICES (1)

(percentage changes)



Source: Based on Istat data.

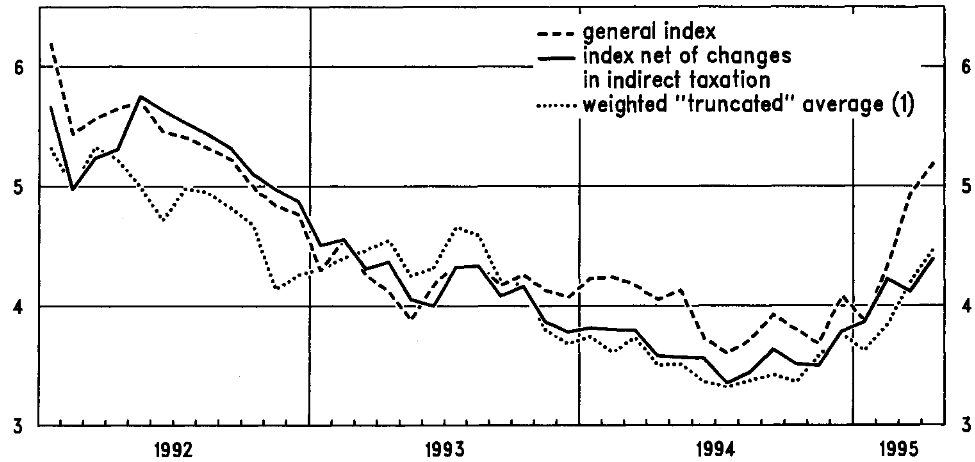
(1) Overall index of consumer prices. The latest figures are estimated on the basis of the cost-of-living index. – (2) Seasonally adjusted and annualized. Moving averages of 3 terms ending in the month indicated.

There were differences in the behaviour of the various components of the consumer price index. Food prices accelerateti, rising by 3.5 per cent over the year, compared with an increase of 2.2 per cent in 1993. By contrast, the rate of increase in the prices of non-food and non-energy products declined from 4.6 to 3.8 per cent and that in the prices of services from 5.6 to 4.4 per cent. Among the latter, the prices of services subject to official control rose more rapidly than they had in 1993, whereas unregulated prices slowed down sharply.

Figure 6

COST-OF-LIVING INDEX

(percentage changes on corresponding month of previous year)



Source: Based on Istat data.

(1) Weighted average of percentage changes in the individual items of the cost-of-living index, excluding those in the first and last deciles of the distribution of those changes. The weights are derived from the cost-of-living index and are standardized so that for each month they sum to unity.

The consumer price deflator for households rose by 4.7 per cent, compared with 4.8 per cent in 1993. The difference between the increase in the deflator and that in the consumer price index was due almost entirely to the different weighting of rents.

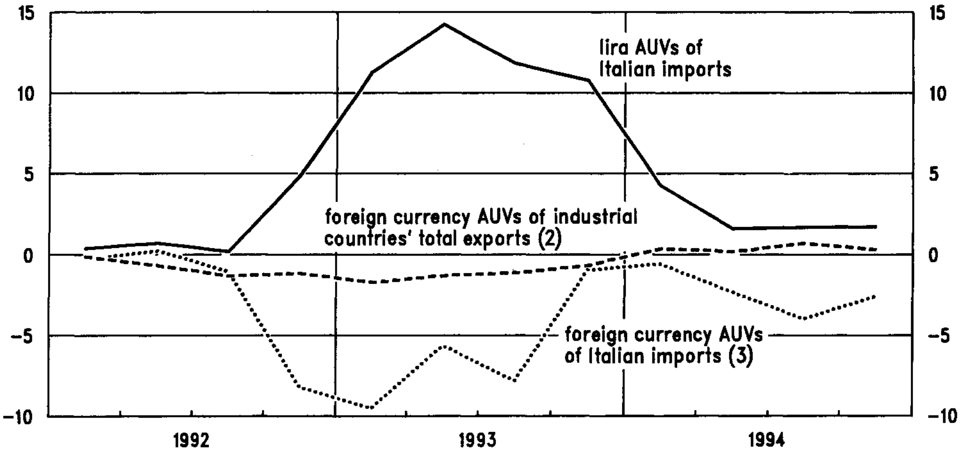
The cost-of-living index rose by 3.9 per cent, in line with the increase in consumer prices (Figure 6). The acceleration in the second half of the year picked up further in early 1995: the year-on-year increase amounted to 4.4 per cent in the first quarter of 1995, compared with 3.8 per cent in the preceding quarter. In March and Aprii the index was respectively 4.9 and 5.2 per cent higher than a year earlier: the figures for these two months, and particularly that for March, were affected by the increase in VAT rates decided by the Government in February. Net of changes in indirect taxation, the twelve-month rise in the index averaged more than 4 per cent in March and Aprii; in 1994 as a whole it had averaged 3.6 per cent.

Both the fall in the annua) average rate of consumer price inflation in 1994 and the rise during the year are clearly evident from the "trend" indicators of inflation, calculated on the basis of the cost-of-living index. These indicators do not take account of extreme variations in individua) prices, which can cause sharp fluctuations in the generai index.

Figure 7

INDICATORS OF THE PRICING POLICIES OF FOREIGN MANUFACTURERS (1)

(percentage changes on corresponding quarter of previous year)



Source: based on Istat, OECD and IFM data.
(1) Average unit values (AUVs) of internationally traded manufactures. – (2) The 14 countries considered in the calculation of the real exchange rate of the lira. – (3) Expressed in the currencies of the leading countries from which Italy imports manufactures.

Figure 6 includes a "truncated" average, in other words the weighted average of the twelve-month percentage changes in the prices of the componente of the cost-of-living basket, obtained by excluding the first and last deciles of the distribution. In 1994 this measure rose by 3.5 per cent, 0.4

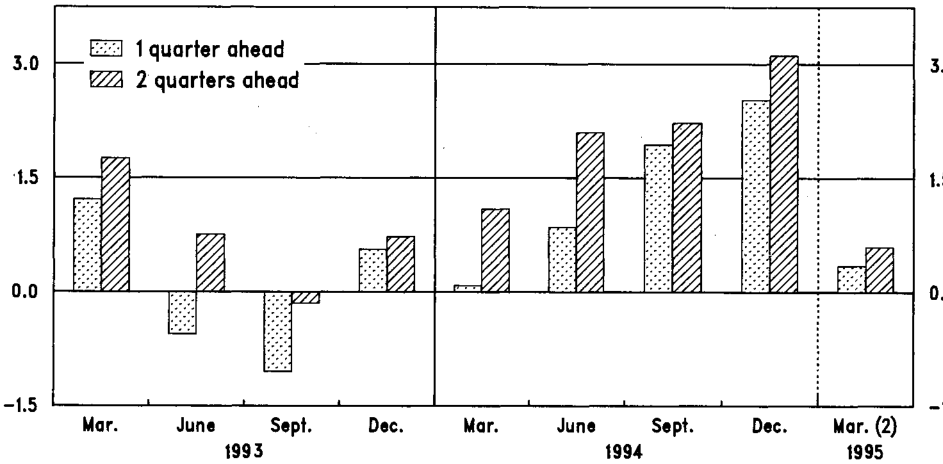
percentage points less than the cost-of-living index. It too accelerated in the second half of the year. In the first quarter of 1995 it showed a year-on-year increase of 3.9 per cent, compared with that of 4.4 per cent in the generai index.

Notwithstanding the depreciation of the lira against the leading currencies by an average of 4.6 per cent in 1994, the rise in the lira prices of imported final goods was very small, only 0.7 per cent. The prices of imported consumer goods alone fell by 0.4 per cent and their effect on the deflator of final consumption was virtually neutral. Exporters to Italy again narrowed their profit margins in order to retain market share (Figure 7); this presumably reflected their conviction that the depreciation of the lira might be partly reversed.

Figure 8

EXPECTATIONS OF A CHANGE IN THE INFLATION RATE ONE OR TWO QUARTERS AHEAD ACCORDING TO THE FORUM-MONDO ECONOMICO SURVEYS (1)

(percentage points)



Sources: Based on Istat and Forum-Mondo Economico data.
(1) Difference between the expected annualized rate of change in consumer prices with respect to the current quarter and the seasonally adjusted rate actually recorded in the current quarter. – (2) Difference between the expected rate of change in consumer prices with respect to the corresponding quarter of the previous year and that actually recorded by the cost-of-living index. The values are not directly comparable with those for previous quarters owing to changes in the survey questionnaire.

The halt in the decline in consumer price inflation was anticipated by businessmen. In June the panel of businessmen and experts interviewed for the Forum-Mondo Economico survey began to forecast an acceleration in prices during the second half of the year (Figure 8). Inflation expectations worsened in the subsequent surveys. The most recent survey was conducted in March 1995 after the questionnaire had been significantly revised, so that comparisons with earlier findings must be treated with caution. It indicates expectations of a further acceleration in inflation, but less pronounced than in the recent past.

Input costs and producer prices

The producer prices of manufactured goods for the domestic market increased by an average of 3.6 per cent last year, the same as in 1993 (Table 15). Here too price developments can be divided into two phases. Domestic output prices slowed down markedly until the spring of 1994, with their twelve-month rate of increase falling to 2.9 per cent in March. They then began to pick up again ahead of the acceleration in consumer prices, so that by December the rate had risen to 5.1 per cent (Figure 9). The seasonally adjusted, annualized monthly rate of increase shows an even more pronounced change in direction, rising by more than 4 percentage points between February and June and by another 2 points during the rest of the year.

Table 15

UNIT COSTS AND FINAL PRICES IN MANUFACTURING AND MARKET SERVICES

(percentage changes)

Components (1)	Manufacturing		Market services (2)	
	1993	1994	1993	1994
Input prices	**8.2**	**4.1**	**6.1**	**3.9**
Domestic (3)	4.2	3.4	4.0	3.6
energy	*5.9*	*4.7*	*6.2*	*3.3*
services	*4.7*	*3.0*	—	—
manufactures	—	—	*3.5*	*3.6*
Foreign	16.4	5.6	18.5	5.6
energy	*16.6*	*0.9*	*14.6*	*0.4*
industrial raw materials	*12.1*	*11.9*	*9.8*	*3.7*
Unit labour costs	**2.6**	**–2.7**	**1.0**	**0.9**
Unit variable costs (4)	**5.4**	**0.7**	**1.8**	**1.4**
Output prices	**5.0**	**3.5**	**5.3**	**4.1**
Domestic	3.6	3.6	—	—
Export	8.7	3.2	—	—

Source: Based on Istat data.
(1) In manufacturing, domestic inputs represent 57.5 per cent of total inputs, which account for 50.1 per cent of total unit variable costs; in market services, the corresponding figures are 78.3 and 21.7 per cent. – (2) Excluding the renting of buildings. – (3) Weighted net of intra-sectoral transactions. – (4) Calculated on the basis of fixed weights derived from the input-output table for 1988, at 1980 prices.

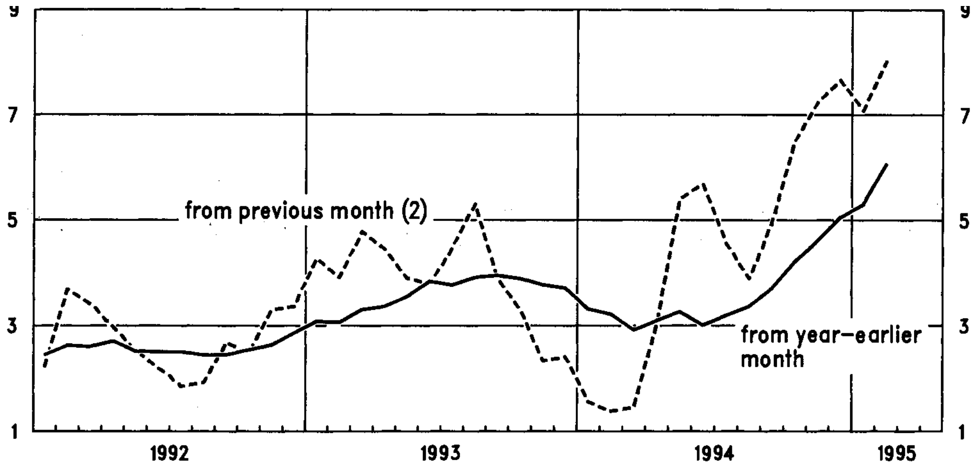
As measured by the Confindustria index, the dollar prices of raw materials other than energy increased by 22.4 per cent in 1994 under the impetus of the worldwide recovery. The corresponding lira index, the weighting of which reflects the share of raw materials in Italy 's foreign trade, rose by 23.4 per cent.

The effects of the rise in the prices of industrial raw materials were offset by the fall in unit labour costs in the manufacturing sector. Wage settlements were moderate, in keeping with the agreement on incomes policy and adverse conditions in the labour market. The lack of large wage claims was accompanied by substantial productivity gains resulting from the revival in economic activity and restructuring in some branches of the services sector.

Figure 9

PRODUCER PRICES OF MANUFACTURES FOR THE DOMESTIC MARKET (1)

(percentage changes)



Sources: Based on Istat, OECD and ENI data.
(1) Excluding intra-sectoral transactions. – (2) Seasonally adjusted and annualized. Moving averages.

Even though costs remained broadly statile, producer prices accelerated significantly in the course of the year. This would probably not have happened but for the change in business expectations and the firmly established recovery in demand.

Income distribution according to economic function

The revival in domestic demand, wage restraint and the large increase in productivity led to an appreciable rise in profits in 1994. The share of labour income in the value added of the goods and market services sector, calculated by attributing to the self-employed the same per capita income as wage and salary earners, fell from 68.1 to 65.9 per cent (Table 16). Significant changes in income distribution occurred in all the main sectors of the economy except the construction industry, where productivity diminished. The share of labour income fell by around 4 percentage points in manufacturing and by 1.3 points in market services.

Table 16

DISTRIBUTION OF INCOME BY SECTOR

(percentages and percentage changes)

	Labour income as share of value added (1)			Changes 1994/1993			
	1992	1993	1994	Real income from salaried employ-ment (2)	Labour input per unit of output (3)	Relative prices (4)	Share of labour income
Agriculture, forestry and fisheries	**88.8**	**86.0**	**81.6**	**–2.9**	**–3.8**	**–1.3**	**–5.4**
Industry	**67.4**	**67.4**	**64.4**	**0.9**	**–5.2**	0.1	**–4.5**
Excluding construction	*66.7*	*66.1*	*62.4*	*0.9*	*–6.3*	*0.2*	*–5.5*
Energy products	*36.5*	*33.9*	*31.4*	*2.8*	*–6.1*	*4.4*	*–7.5*
Manufactures	*70.3*	*70.1*	*66.4*	*0.8*	*–6.4*	*–0.4*	*–5.3*
Construction	*67.0*	*68.6*	*68.5*	*–0.3*	*1.1*	*1.1*	*–0.2*
Market services (5)	**65.1**	**63.7**	**62.4**	**0.8**	**–2.9**	**0.1**	**–2.1**
Goods and market services (5)	**69.1**	**68.1**	**65.9**	**0.8**	**–4.0**	..	**–3.2**

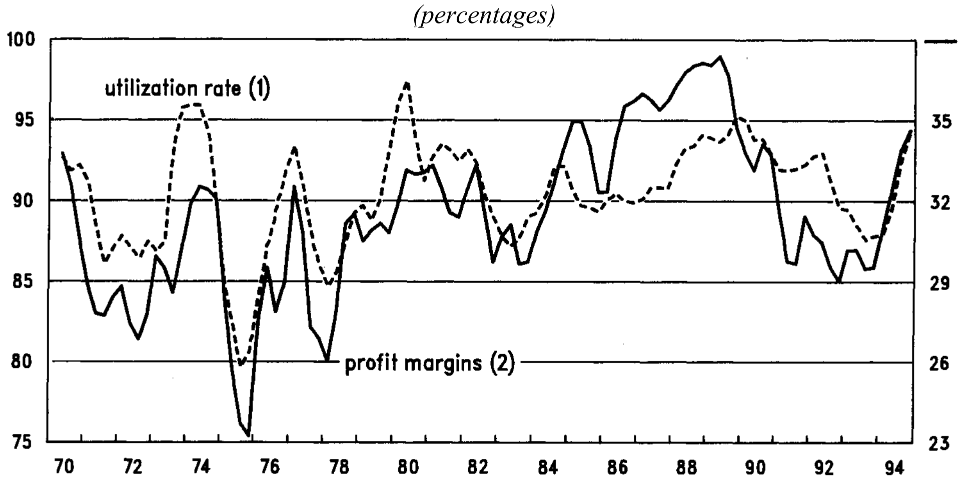
Source: Based on Istat data.

(1) Obtained by multiplying the share of income from salaried employment by the ratio of total employment to salaried employment; value added is at factor cost and includes the imputed output of banking services. – (2) Ratio of per capita income from salaried employment of each branch to the implicit value added deflator of market goods and services at factor cost. – (3) Ratio of total standard labour units to value added of each branch at factor cost at 1985 prices. – (4) Ratio of the implicit value added deflator of each branch at factor cost to that of market goods and services. – (5) Excluding the renting of buildings.

Figure 10

PROFIT MARGINS AND CAPACITY UTILIZATION IN MANUFACTURING INDUSTRY

(percentages)



Source: Based on Istat data.
(1) Calculated according to the Warton method. Moving averages of two terms. – (2) Gross profits as a percentage of the value added of manufacturing industry, calculated by attributing to the self-employed the same per capita income as salaried employees. Moving averages of two terms.

The large shift in incorre distribution in manufacturing was due to the 6.8 per cent growth in labour productivity and the improvement in domestic demand, which enabled firms to raise their prices — the deflator of manufacturing value added rose by 2.7 per cent— while benefiting from a 2.7 per cent decline in unit labour costs. Profits growth is normal during cyclical recoveries: Figure 10 shows a clear positive correlation between profit margins and the capacity utilization rate in industry. In the current phase of the economic cycle, a further widening of profit margins would create the risk of a wage-price spirai even in the absence of formai wage indexation.

THE BALANCE OF PAYMENTS
AND THE EXCHANGE RATE OF THE LIRA

According to provisional figures, the current account of the balance of payments showed a surplus of 25,012 billion lire in 1994. This was equivalent to 1.5 per cent of GDP and 7,188 billion more than in 1993 (Table 17). Most of the improvement was attributable to merchandise trade. The current account surplus made it possible to reduce Italy's net external debt from 145,360 to 117,635 billion lire. Bank and non-bank capitai movements produced a net outflow of 22,483 billion lire, while the official reserves rose by 3,309 billion at constant exchange rates and gold prices. A small surplus of 780 billion lire was recorded under errors and omissione.

Table 17

BALANCE OF PAYMENTS
(billions of lire)

	1992	1993	1994
Current account	**–34,225**	**17,824**	**25,012**
Goods	3,852	51,989	56,999
Invisibles	–38,077	–34,165	–31,987
Capital movements	**10,317**	**14,801**	**–22,483**
Non-bank capital	–1,870	99,390	–44,077
Bank capital	12,187	–84,589	21,594
Errors and omissions	**–8,640**	**–30,419**	**780**
Change in official reserves (1)	**32,548**	**–2,206**	**–3,309**

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

Merchandise trade

The trade surplus on a *fob-fob* basis increased by around 5,000 billion lire to 56,999 billion, rising from 3.4 to 3.5 per cent of GDP. On a *cif-fob* basis it rose from 33,223 to 35,432 billion.

The average unit values of exports and imports in lire increased by 3.6 and 4.0 per cent respectively (Table 18), whereas in 1993 they had risen by 11.4 and 11.7 per cent respectively following the depreciation of the lira at the end of 1992. The terms of trade worsened only slightly, by 0.3 per cent.

Table 18

MERCHANDISE TRADE,*CIF-FOB*

(percentage changes)

	1992	1993	1994
Exports			
At current prices	4.6	21.3	14.7
Average unit values	0.8	11.4	3.6
At constant prices	3.8	8.9	10.7
Imports			
At current prices	2.8	0.4	15.9
Average unit values	–0.6	11.7	4.0
At constant prices	3.4	–10.2	11.4
Exports/imports			
At current prices	1.7	20.5	–0.9
Average unit values	1.4	–0.4	–0.3
At constant prices	0.3	20.9	–0.7
Memorandum items:			
Real exchange rate of the lira (1)	–2.2	–13.4	–2.0
Weighted global demand (2)	1.6	–4.0	5.0
World trade (3)	5.4	3.8	8.9

Sources: Based on IMF, OECD and Istat data.
(1) Calculated on the basis of the producer prices of manufactures. – (2) Exports of goods and services and domestic demand, including change in stocks, weighted according to import content. – (3) Average of the annual growth in world imports and exports.

As in 1993, exporters of manufactures used part of the fall in the nominai exchange rate to improve their price competitiveness, reducing their foreign currency prices by 1.6 per cent. The increase of 3.3 per cent in the average unit value in lire of manufactured exports was therefore not only smaller than the decline in the exchange rate but also less than the rise in domestic producer prices (3.6 per cent). The relative profitability of exports accordingly stabilized at the high level of the previous year.

The small rise in domestic prices in Italy led foreign suppliers of manufactures to pass only part of the further appreciation of their currencies on to their lira prices so as to defend their shares of the Italian market. While the export unit values of Italy 's competitors did not change significantly overall when expressed in their respective currencies, those they obtained in Italy fell by a further 2.4 per cent. Consequently, their lira prices rose slightly less than domestic producer prices, which in the fourth quarter of 1994 were 9.7 per cent above the average for the first eight months of 1992; over the same period the average unit value in lire of imports of industrial products rose by 19.3 per cent.

The further small decline of 2.5 per cent in the dollar prices of energy products in 1994 was outweighed by the increase in those of other raw materials, so that the rise in the average unit value in lire of total imports amounted to 4 per cent.

Exports grew by 10.7 per cent in volume terms, compared with 8.9 per cent in 1993, boosted by the large gain in competitiveness in foreign markets in 1993 and the smaller one recorded last year. The rate of increase therefore again exceeded that in world trade (8.9 per cent). In 1993 the growth in exports had been held back by the stagnation of Italy's traditional markets, notably by the decline in imports by Germany, France and Spain. The recovery in these markets last year enabled exporters to take advantage of the gains in competitiveness arising from the previous year's depreciation of the lira. At constant prices Italy's share of world trade in manufactures rose further, by around one tenth of a percentage point, compared with about half a point in 1993; at current prices it remained unchanged.

After falling by 10.2 per cent in volume terms in 1993, imports rose by 11.4 per cent. They responded rapidly to the recovery in aggregate demand, especially that arising from investment in machinery and equipment and from exports, which have a pronounced tendency to generate imports. The stimulus from the growth of 5.0 per cent in domestic demand does not appear to have been attenuated by the lagged effects of the 11.7 per cent fall in the real import-weighted exchange rate of the lira in 1993 or by the further deterioration of 1.1 per cent last year.

Merchandise trade with the other EU countries showed a surplus of 11,130 billion lire on a *cif-fob* basis, compared with 12,890 billion in 1993. Exports to the EU rose by 14.6 per cent, 2.1 percentage points more than in 1993. Preliminary estimates indicate that Italy's share of Community markets rose slightly at current prices. However, the growth in exports was accompanied by an even larger increase in imports, which rose by 17.4 per cent.

Trade with non-EU countries gave rise to a surplus of 24,302 billion lire, an increase of nearly 4,000 billion. Three quarters of the improvement was attributable to trade with the United States, which saw Italian exports grow by 15.6 per cent, partly owing to the expansion in US domestic demand. The rest of the improvement carne primarily from trade with the newly industrialized Asian countries.

Invisibles

The invisible items of the balance of payments (services, investment income and unrequited transfers) recorded a deficit of 31,987 billion lire, about 2,200 billion less than in 1993 (Table 19).

Table 19

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

(billions of lire)

	1992	1993	1994
Current account	**–34,225**	**17,824**	**25,012**
Goods	**3,852**	**51,989**	**56,999**
Invisibles	**–38,077**	**–34,165**	**–31,987**
Services	–5,715	–33	1,845
Transport	–7,278	–6,612	–9,530
Travel	5,923	12,555	18,821
Other services	–4,360	–5,976	–7,446
Construction services	1,754	1,957	2,347
Communications	–328	–308	–515
Trade-related and financial services	–2,659	–3,259	–4,260
Insurance services	–285	96	174
Personal services	–1,169	–1,545	–1,410
Business services	–3,455	–4,172	–4,257
Government services	886	538	553
Other	896	717	–78
Income	–25,470	–25,638	–24,540
Investment income	–25,564	–25,525	–24,696
Compensation of employees	94	–113	156
Transfers	–6,892	–8,494	–9,292
Private	–556	724	–46
Workers' remittances	653	677	394
Other	–1,209	47	–440
Public	–6,336	–9,218	–9,246
From/to EU	–1,156	–4,512	–4,844
Other	–5,180	–4,706	–4,402

The surplus on foreign travel rose from 12,555 to 18,821 billion lire and from 0.8 to 1.1 per cent of GDP, benefiting especially from the improvement in the price competitiveness of Italy 's tourist services. The increase in the surplus was primarily due to the fall of 11.7 per cent in expenditure abroad. The proportion of national consumption spent on foreign travel declined from 2.3 to 1.9 per cent, thus returning to the level obtaining immediately before the removal of exchange controls. Despite slowing down slightly, spending by foreign tourists in Italy rose by a further 10.6 per cent, a reflection of the appreciable recovery in the number of overnight stays by foreigners.

The deficit on transport services increased by more than 2,900 billion lire, rising from 6,612 to 9,530 billion or 0.6 per cent of GDP. Most of the deterioration was attributable to maritime services in connection with the growth in merchandise imports, which are mainly carried by foreign ships. There may also have been a shortage of capacity in the Italian fleet. The deficit on other services rose from 5,976 to 7,446 billion lire. This heading includes a series of items that are in structural deficit and largely unaffected by changes in relative prices.

The net outflow of investment income fell from 25,525 to 24,696 billion lire and from 1.65 to 1.5 per cent of GDP. The decline in the deficit was coupled with a reduction in Italy 's net external debt as a result of the large current account surplus recorded for the second consecutive year. The improvement was smaller than it might have been owing to the generai increase in interest rates and, above all, the widening of the differential between lira rates and those on the other major currencies in the second half of the year, since lira-denominated instruments make up a larger proportion of liabilities than assets.

The deficit on unrequited transfers increased from 8,494 to 9,292 billion lire, or 0.6 per cent of GDP. The rise was almost entirely due to the deterioration of 770 billion in private transfers.

Capital movements

Capital movements gave rise to a net outflow of 22,483 billion lire in 1994 (Table 20). The international integration of Italy 's financial system continued, albeit at a slower pace than in previous years. Gross financial flows grew by 24.5 per cent to more than 5,000 trillion lire, compared with an increase of 67.8 per cent in 1993.

Non-resident investors and resident non-banks generated a net outflow of around 44,000 billion lire, as agaínst a net ínflow of nearly 100,000 billion in 1993. The change in the direction of the flow was the result of a large increase in net portfolio investment abroad by residents and a decline in non-residents' purchases of Italian securities.

There was a net outflow of 52,135 billion lire on account of Italian portfolio investment abroad, compared with a net inflow of 10,095 billion in 1993. The bulk of the outflow, 41,483 billion, occurred in the first quarter. After a pause in the second, outflows returned to the monthly average level recorded since the removal of exchange controls. The more liquid components, namely time and current account deposits, amounted to 8,831 billion lire and accounted for more than 16 per cent of the total outflow.

Table 20

CAPITAL MOVEMENTS

(netflows in billions of lire)

	1993	1994	1994			
			Q1	Q2	Q3	Q4
Non-bank capital	**99,390**	**–44,077**	**–928**	**–27,375**	**–21,661**	**5,887**
Italian capital	–9,952	–83,965	–49,519	–8,206	–10,698	–15,542
Direct investment	–11,364	–8,238	–1,699	–3,042	–1,365	–2,132
of which: *real estate*	*–419*	*–303*	*–116*	*–87*	*–34*	*–66*
Portfolio investment	10,095	–52,135	–41,483	1,863	–6,850	–5,665
Loans	–5,076	–13,548	–3,965	–3,704	–3,065	–2,814
Trade credit (1)	–3,607	–10,044	–2,372	–3,323	582	–4,931
Foreign capital	109,342	39,888	48,591	–19,169	–10,963	21,429
Direct investment	5,895	3,606	1,534	1,220	209	643
of which: *real estate*	*268*	*88*	*21*	*24*	*14*	*29*
Portfolio investment	103,390	43,871	49,361	–21,021	–6,411	21,942
Loans	607	–14,279	–4,283	–2,556	–3,321	–4,119
Trade credit (1)	–550	6,690	1,979	3,188	–1,440	2,963
Bank capital	**–84,589**	**21,594**	**–2,464**	**19,906**	**14,874**	**–10,722**
Total	**14,801**	**–22,483**	**–3,392**	**–7,469**	**–6,787**	**–4,835**

(1) For 1994 partly estimated.

Foreign portfolio investment in Italy generated a net inflow of 43,871 billion lire, compared with one of 103,390 billion in 1993. The high level of inflows recorded in 1993 was maintained in the first two months of the year, when foreign investors made net investments of more than 51,000 billion lire in anticipation of further capitai gains. The reversal of these expectations led to disinvestment in the following months; in March there was a net outflow for the first time since September 1992, and in the eight months from March to October the net outflow amounted to more than 31,000 billion lire. In the last two months of the year foreign investors returned to the Italian market, purchasing mainly variatile rate securities. As in the previous year, part of the purchases was financed in lire under repurchase agreements with Italian banks. The subsequent sales were therefore accompanied by the repayment of the associateti financing, with the result that the part covered by repurchase agreements did not affect supply and demand in the Italian foreign exchange market.

As in previous years, the bulk of inward portfolio investment went into government securities (Table 21). Net purchases of lira-denominated paper amounted to 23,447 billion lire; including those of foreign currency securities, there was a net inflow of 41,778 billion lire. Net purchases of Republic of Italy bonds amounted to 15,273 billion lire.

Table 21

FOREIGN PORTFOLIO INVESTMENT IN ITALY

(flows in billions of lire)

	1993	1994	1994			
			Q1	Q2	Q3	Q4
Government securities	88,876	41,778	44,758	–15,511	–6,613	19,144
Treasury bills	*1,351*	*1,130*	*2,429*	*–1,199*	*–67*	*–33*
Treasury bonds	*56,019*	*–3,560*	*29,222*	*–16,921*	*–14,023*	*–1,838*
Ecu Treasury bills	*–285*	*–1,535*	*–381*	*–182*	*–354*	*–618*
Ecu Treasury certificates	*1,776*	*4,593*	*1,683*	*897*	*577*	*1,436*
Treasury credit certificates	*–114*	*20,152*	*2,705*	*792*	*5,126*	*11,529*
Discounted Treasury certificates	*25*	. .	. .	. .	. .	. .
Treasury option certificates	*11,734*	*5,545*	*4,695*	*1,377*	*–3,939*	*3,412*
Other	*–4*	*180*	*–21*	. .	. .	*201*
Republic of Italy issues (1)	*18,374*	*15,273*	*4,426*	*–275*	*6,067*	*5,055*
Investment fund units	40	21	3	12	6	. .
Listed bonds	421	–2	–9	38	36	–67
Listed shares	6,541	–1,862	6,738	–6,262	–1,641	–697
Other securities	560	335	454	–440	164	157
Deposits	–148	983	137	235	349	262
Derivative instruments	–210	20	–18	–26	–7	71
Other financial instruments	–860	3,948	644	404	681	2,219
Amounts not allocated (2)	8,170	–1,350	–3,346	529	614	853
Total	**103,390**	**43,871**	**49,361**	**–21,021**	**–6,411**	**21,942**

(1) Purchases and sales by non-residents. – (2) Unspecified financial investments, including transactions of less than 20 million lire settled via Italian banks.

Outward direct investment remained substantial, giving rise to a net outflow of 8,238 billion lire, compared with one of 11,364 billion in 1993. The slight slowdown in the expansion of Italian firms abroad was presumably due in part to the increase in the cost of acquiring foreign companies caused by the depreciation of the lira; it was the result of both a reduction in acquisitions and an increase in disposals.

Uncertainty among foreign investors concerning the medium-term outlook for the Italian economy damped inward direct investment, despite the opportunities offered by the depreciation of the lira and the privatization programme. Their net acquisitions of Italian companies consequently declined from 5,895 to 3,606 billion lire.

Gross flows of foreign loans contracted by 34.5 per cent, continuing the downward trend of recent years. Redemptions exceeded new loans by 14,279 billion lire; the public sector repaid around 3,000 billion lire and borrowed only just over 100 billion.

Italian loans to non-residents gave rise to a net outflow of 13,548 billion lire. The increase compared with the previous year was almost entirely attributable to a net outflow of 8,099 billion recorded by the banking and insurance sector, mostly in connection with repurchase agreements on Italian securities entered into by Italian securities firms.

Trade credit granted by Italian residents increased by 29,691 billion lire; net of repayments, the outflow rose to 10,044 billion, outpacing the growth in exports. Trade credit granted by foreigners businesses increased in line with the growth in imports and gave rise to a net inflow of 6,690 billion.

In the wake of the foreign exchange crisis in 1992 and throughout 1993 Italian banks had reduced their external liabilities denominated in foreign currency as customers repaid foreign currency loans. At the same time they had increased their external assets denominated in lire by financing foreign investors' purchases of Italian government securities. In 1994 this pattern was reversed: at constant exchange rates and securities prices, banks' external assets denominated in lire fell by 30,847 billion, while their external foreign currency assets increased by only 9,253 billion and their net domestic foreign currency assets fell by 25,279 billion. At the end of the year their net foreign debt amounted to 153,247 billion lire, compared with 127,208 billion at the end of 1993.

Banks matched the change in their spot foreign currency exposure by entering into forward contracts, including domestic currency swaps. At the end of the year they had an overall long foreign exchange position of 2,022 billion lire, including loans indexed to exchange rates, most of which had been granted by former special credit institutions; at the end of 1993 they had had a short position amounting to 2,746 billion lire.

Bank capitai flows alternated during the year. In January banks increased their lira-denominated external assets by nearly 18,000 billion lire. In the following months sales of Italian securities by foreign investors were accompanied by net repayments of lira loans to non-residents, in part through the closure of repurchase agreements. In November and December inflows of foreign portfolio investment were again accompanied by an improvement in the banks' net external position in lire. Their external position in foreign currency showed little change in the first nine months of the year and then improved significantly in the last quarter as a result of a substantial rise in their net assets.

The official reserves rose by 3,309 billion lire net of exchange rate and valuation adjustments. Republic of Italy issues denominated in dollars, marks and yen contributed to the increase of about 4,400 billion in holdings of convertible currencies.

Italy's external position

At the end of 1994 Italy 's net external liabilities amounted to 117,635 billion lire, nearly 28,000 billion less than a year earlier (Table a9). The depreciation of the lira and the changes in securities prices had only a small overall impact on Italy's net external position, the change in which corresponded almost exactly to the current account surplus. The ratio of net external debt to GDP fell by more than two percentage points, from 9.4 to 7.2 per cent, equal to the level recorded in 1989.

In the last four years residents' total external assets almost doubled in lira terms, rising from around 430,000 to 841,000 billion lire. As a proportion of total financial assets they rose from 7.9 per cent at the end of 1990 to 10.1 per cent at the end of last year, but this is stili below the level in the other leading European countries. Italy's external liabilities also increased considerably, rising from 527,000 billion lire in 1990 to just under 1,000 trillion last year. As a proportion of total financial liabilities they rose from 9.7 to 11.5 per cent, which is dose to the level in Germany and France. At the end of 1994 about three quarters of the external assets of residents, excluding the centrai bank, were denominated in foreign currency; by contrast, foreign currency liabilities accounted for less than a third of Italy 's total external liabilities. At 31 December 1994 the official reserves amounted to 91,436 billion lire at current exchange rates, of which 41,338 billion consisted of gold and 39,197 billion of convertible currencies. Most of the currency holdings (32,129 billion) derived from swaps with Italian banks.

The decrease in the net external debt in the last two years was the result of opposite movements in the external positions of the state sector on the one hand and households and enterprises on the other (Table 22). While the state sector increased its net external liabilities, households boosted their net external assets to more than 150,000 billion lire at the end of last year, partly through their holdings of investment fund units. Enterprises reduced their net external liabilities (which by convention include their foreign currency liabilities to Italian banks, on the assumption that their demand for foreign currency leads banks to raise foreign currency abroad), so that by the end of the year they had fallen to less than 140,000 billion lire. Since 1992 the banks' net external position, excluding foreign currency liabilities matched by domestic loans, has tended to remain in balance, albeit subject to large fluctuations.

Table 22

NET EXTERNAL POSITION BY SECTOR: DATA RECLASSIFIED ACCORDING TO ORIGIN OF THE DEMAND FOR FOREIGN FUNDS

(end-of-period stocks in trillions of lire)

	State sector	Central bank	Banks			Non-bank private sector							Overall total
			Accepting short-term funds	Accepting medium & long-term funds	Total	Households & investment funds	Non-financial enterprises			Other enterprises	Unallocated	Total	
							Short-term	Medium & long-term	Total				
1990 ..	–57	103	–2	–57	–59	58	–118	–14	–132	9	–19	–84	–97
1991 ..	–77	94	–12	–70	–82	82	–138	–8	–146	21	–15	–58	–123
1992 ..	–101	35	33	–66	–33	104	–197	–3	–200	36	–5	–65	–164
1993 ..	–208	50	85	–73	12	140	–171	–6	–177	39	–1	1	–145
1994 ..	–233	59	30	–69	–39	151	–135	–4	–139	56	27	95	–118

Methodological note: Data on the overall net position of the country and that of the banks are derived from the balance of payments and those on the other items from the flow-of-funds accounts; moreover, stocks are valued at current exchange rates and the liabilities of the state sector at market prices, not face value. The amounts shown in the column "Unallocated" include the statistical discrepancy between the two systems of accounts. The net positions of the central bank and of banks accepting short-term funds exclude foreign currency swaps between the central bank and the banks. The banks' net position also excludes amounts with a counterpart in the net domestic position in foreign currency, which are deducted directly from the figures for "Non-financial enterprises". Data are rounded to the nearest 1 trillion lire.

The exchange rate of the lira

The depreciation of the lira last year was less marked than in 1993, but in nominai effective terms it nonetheless amounted to 3.9 per cent. There was a further sharp fall in the middle of February of this year, followed by a partial recovery from the end of Aprii onwards. On 15 May the nominai effective exchange rate was 6.2 per cent lower than at the end of December 1994 and 31.2 per cent lower than in August 1992.

There were two distinct phases last year. In the first five months the lira appreciated against the currencies of Italy 's main trading partners, showing a larger rise against the dollar than against the currencies of the Deutsche

Mark bloc. From March onwards, the slope of the yield curve, which until then had reflected expectations of a reduction in interest rates, gradually steepened and inward portfolio investment turned negative.

The interest rate differential with respect to the other leading industrial countries, which had narrowed from the first quarter of 1993 onwards, began to widen again in May. Tensions also developed in domestic and international financial markets in connection with the weakness of the dollar against the yen and the mark. On 18 July the exchange rate of the lira rose above 1,000 lire to the mark for the first time. On 11 August the Bank of Italy raised the discount rate from 7 to 7.5 per cent in response to signs of a revival of inflation. After a period of adjustment, the lira stabilized temporarily against the other leading currencies. However, the differential between the yields on long-term government securities and those on Eurolira bonds widened, indicating a deterioration in Italy 's credit rating. From the end of November onwards, uncertainty about the domestic political outlook offset the effects of the recovery in inward investment. The lira began to lose ground again against the other leading currencies.

In the middle of February 1995 the tensions in international financial markets due to the weakness of the dollar, coupled with uncertainty about the scale of budgetary adjustment, were accompanied by a sharp depreciation of the lira. The increase in officiai rates on 21 February signaled a further tightening of domestic monetary conditions. After reaching a low of 1,275 lire to the mark on 17 March, the lira began to recover at the end of April, and by the middle of May had regained its level of late February; the improvement was due partly to the easing of tensions in international foreign exchange markets and the tabling of the pension reform bill.

PUBLIC FINANCES

The results for the year

In 1994 the adjustment of the public finances marked time (Table 23): while interest payments decreased substantially, the different primary surpluses were smaller; net of the outlays in connection with the settlement of past debts of local health units, they were basically statile in relation to GDP. Both revenue and expenditure declined in relation to GDP (Figure 11). Total expenditure fell in absolute terms for the first time in forty years and its growth net of interest payments slowed significantly; in particular, the rate of increase in the general government aggregate fell from 5.7 per cent in 1993 to 1.3 per cent last year. The slowdown reflected both the fact that the budgetary measures adopted were heavily biased towards expenditure savings and other factors that mainly affected capitai spending, such as the fears engendered by the judicial enquiries finto the tendering activities of generai government and the uncertainty caused by the numerous changes made to the relevant law during the year. The fall in outlays was accompanied by a decline in revenue, which had previously increased without interruption since the fifties. Tax and social security receipts fell from 43.4 to 40.6 per cent of GDP (Table 24). The reversal of the rising trend of revenue was due both to the decision not to replace all of the receipts in 1993 from temporary measures introduced in earlier years and to the development of the business cycle in 1993-94.

The original objectives for the public finances were not achieved. Even when they were set in September 1993 they had reflected concern that economic growth would be limited. In March, the worse-than-expected performance of the economy in 1993 and the ineffectiveness of some expenditure cuts were seen to be causing the public finances to diverge from the official objectives; however, fear that cyclical conditions would remain unfavourable led to the decision not to make an additional budgetary correction, in contrast with the policy followed in previous years. During the summer measures were adopted to underpin employment and the recovery, which had begun at the end of 1993 and subsequently turned out to be stronger than forecast.

Table 23

PUBLIC SECTOR, GENERAL GOVERNMENT AND STATE SECTOR BORROWING REQUIREMENTS

(billions of lire)

	1991	1992	1993	1994
Public sector				
A = Total borrowing requirement	163,090	167,707	177,397	165,717
as a percentage of GDP	*11.4*	*11.2*	*11.4*	*10.1*
B = A minus settlements of past debts (1)	159,090	166,907	166,597	164,717
as a percentage of GDP	*11.1*	*11.1*	*10.7*	*10.0*
C = B minus interest payments	11,236	–6,930	–23,933	–12,802
as a percentage of GDP	*0.8*	*–0.5*	*–1.5*	*–0.8*
General government				
D = Total borrowing requirement	159,097	162,872	178,174	158,711
as a percentage of GDP	*11.1*	*10.8*	*11.5*	*9.7*
E = D minus settlements of past debts (1)	155,097	162,072	167,374	157,711
as a percentage of GDP	*10.9*	*10.8*	*10.8*	*9.6*
F = E minus interest payments	9,199	–9,627	–20,379	–17,902
as a percentage of GDP	*0.6*	*–0.6*	*–1.3*	*–1.1*
State sector (new definition)				
G = Total borrowing requirement	148,279	159,771	164,938	156,235
as a percentage of GDP	*10.4*	*10.6*	*10.6*	*9.5*
H = G minus settlements of past debts (1)	150,306	159,740	154,101	155,713
as a percentage of GDP	*10.5*	*10.6*	*9.9*	*9.5*
I = H minus interest payments	7,421	–8,729	–28,704	–17,873
as a percentage of GDP	*0.5*	*–0.6*	*–1.9*	*–1.1*
Memorandum item:				
Withholding tax on income from government securities as a percentage of GDP	0.8	1.1	1.1	1.0

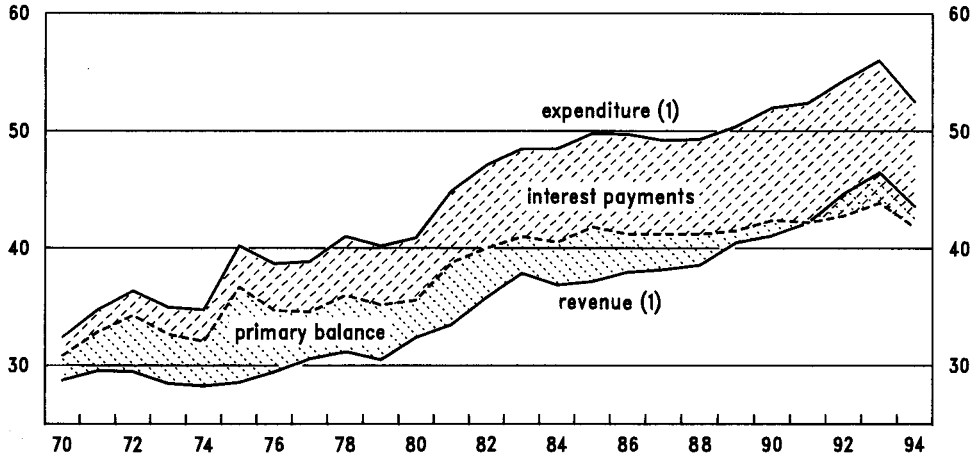
(1) Also excludes privatization proceeds amounting to 2.1 billion lire in 1991 and 5.92 billion in 1994.

Net of settlements of past debts and the proceeds of privatizations, the generai government borrowing requirement diminished from 167.4 trillion lire in 1993 to 157.7 trillion last year and from 10.8 to 9.6 per cent of GDP. The improvement reflects the large reduction in interest payments, from 187.75 to 175.6 trillion lire and from 10.9 to 9.2 per cent of the average outstanding debt in each year. The primary surplus declined from 20.4 to 17.9 trillion lire and from 1.3 to 1.1 per cent of GDP. However, excluding the effects of the settlement of local health units' past debts, the primary surplus rose slightly in relation to GDP.

Figure 11

GENERAL GOVERNMENT REVENUE AND EXPENDITURE

(as a percentage of GDP)



(1) Excluding imputed social contributions.

The procedure for monitoring excessive deficits provided for in the Treaty on European Union refers to generai government net borrowing. This differs from the borrowing requirement in that it excludes financial transactions and drawings by former autonomous government agencies on their Treasury accounts in excess of the transfers included in the budget. Such drawings fell by around 8 trillion lire compared with 1993; net borrowing accordingly decreased less than the borrowing requirement, declining from 148.1 to 147.1 trillion lire and from 9.6 to 9 per cent of GDP. When settlements of past debts are excluded, net borrowing increased by more than 3 trillion lire (Tables 24 and a 1 2).

Most of the other EU countries have primary surpluses, but in 1994 Germany and Italy were the only leading industrial countries to do so (respectively 1.0 and 1.7 per cent of GDP). Excluding interest payments, generai government net borrowing amounted to 0.1 per cent of output in the United States, 0.3 per cent in Canada, 2.2 per cent in France, 2.9 per cent in Japan and 3.6 per cent in the United Kingdom.

The effect of generai government expenditure and revenue on aggregate demand was highly restrictive in 1993 but is likely to have been slightly expansionary last year. The impact of the decline in collective consumption and public investment was probably more than offset by the effects of the increase in transfers to households and, above ali, of the fall in direct taxes. Since the rate of inflation decreased slightly between 1993 and 1994, the loss of purchasing power of the public debt was virtually unchanged.

Table 24

MAIN INDICATORS OF GENERAL GOVERNMENT FINANCES

(as percentage of GDP)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Tax and social security receipts (1)	34.9	35.2	36.0	36.5	38.2	38.7	39.6	42.0	43.4	40.6
Total expenditure (2)	49.4	49.6	49.2	49.3	50.4	51.8	52.4	54.3	55.6	52.4
of which: interest payments	*8.0*	*8.5*	*7.9*	*8.1*	*8.9*	*9.6*	*10.2*	*11.4*	*12.1*	*10.7*
Deficit on current account .	6.8	6.7	6.1	6.0	5.3	6.1	5.8	5.4	4.9	5.4
Net borrowing (2)	12.0	11.6	11.0	10.7	9.9	10.7	10.2	9.5	9.1	8.8
Net borrowing excluding interest payments (2) .	4.0	3.1	3.0	2.6	1.0	1.1	..	–1.9	–3.0	–1.9

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

General government debt increased from 1,819.1 to 1,992.1 trillion lire. As a ratio to GDP, it rose from 117.3 to 121.4 per cent, which was much less than in the two previous years, when it had risen by around 9 percentage points in 1993 and 7 points in 1992; the improvement reflected the favourable interest rate developments and the growth in output (Table al3). Factors contributing to the growth in the debt included issue discounts of around 9.5 trillion lire, settlements of past debts of 6.4 trillion and the depreciation of the lira, which increased the foreign currency component by around 3 trillion lire. The growth was curbed, instead, by privatization proceeds of 5.9 trillion lire, of which 4.3 trillion in respect of INA and 1.6 trillion in respect of IMI.

In contrast with the method adopted for the national accounts, the rules established by the European Union provide for the debt to be calculated without deducting the Treasury's claims on the centrai bank from its total liabilities. Since the balance on the Treasury's accounts with the Bank of Italy rose last year, the debt showed larger growth on this basis, rising from 1,851.6 to 2,057.8 trillion lire and from 119.4 to 125.4 per cent of GDP.

The balance on the Treasury payments account rose to 58 trillion lire at the end of the year and the sinking fund for government securities amounted to around 6 trillion. The average residual maturity of public debt securities, excluding the long-term paper issued to the Bank of Italy to extinguish the Treasury 's former current account, lengthened from a little more than two years and eleven months in December 1993 to three years and one month at the end of last year.

General government debt issued abroad rose from 73.1 to 83.1 trillion lire and from 4 to 4.2 per cent of the total, while that denominated in foreign currency rose from 120.3 to 134.8 trillion lire and from 6.6 to 6.8 per cent of the total. Specifically, several Republic of Italy issues were made, mostly denominated in yen. Even though the debt held by non-residents has increased in recent years, notably in 1993, it is stili a relatively small proportion of the total (around 13 per cent).

Excluding the transactions of the former autonomous government agencies producing market goods and services, settlements of past debts and privatization proceeds, the state sector borrowing requirement grew by around 1.6 trillion lire to 155.7 trillion; in relation to GDP it declined from 9.9 to 9.5 per cent. Interest payments diminished from 182.8 to 173.6 trillion lire, but this was accompanied by a fall in the primary surplus from 28.7 to 17.9 trillion and from 1.9 to 1.1 per cent of GDP; however, net of the outlays in connection with the settlement of local health units' past debts, the primary surplus was basically statile.

The 1993 Economic and Financial Planning Document and the Forecasting and Planning Report for 1994 set targets for the state sector borrowing requirement and primary surplus in 1994 of respectively 144.2 and 31.8 trillion lire. The borrowing requirement overshot by around 11.5 trillion, while the primary surplus fell short by nearly 14 trillion. About half the divergence can be attributed to the difference between the actual performance of the economy in 1993 and that postulated in September when the budget forecasts were prepared. The rest was due to the failure of the budget measures to achieve the expected adjustment and to a shortfall in revenue, which were only offset in part by the unexpected reduction in capital expenditure.

The budget provided for spending cuts of around 26 trillion lire and a net increase of 5 trillion in revenue, following the decision not to replace all of the receipts lost as a result of the expiry of temporary measures adopted in earlier years. The budget was thus marked by a preponderance of measures on the expenditure side, designed to rationalize spending and reorganize the working of generai government.

The Economic and Financial Planning Document presented in July 1994 foresaw additional measures amounting to 5 trillion lire to supplement the budget adopted at the end of 1993. In the event, the only measure to be enacted was the condonation of building offences, which brought in some 3 trillion lire during the year. At the same time the objectives for 1994 were revised: the target for the borrowing requirement was raised from 144.2 to 154 trillion lire and that for the primary surplus lowered from 31.8 to 16 trillion.

Fiscal policy for 1995

The planning document presented in July 1994 set targets for the state sector borrowing requirement and primary surplus in 1995 of respectively 8 and 2 per cent of GDP, with reference to the definition of the sector excluding all the former autonomous government agencies. The decrease in the public debt in relation to GDP was forecast to begin in 1996.

In order to achieve these objectives, an adjustment of around 45 trillion lire was considered necessary in 1995, to be followed by further adjustments of respectively 35 and 16 trillion in 1996 and 1997. Privatization proceeds were expected to amount to 10 trillion lire in each of the three years; these do not affect the borrowing requirement since they are credited to the sinking fund for government securities to be used to reduce the stock of debt.

The Finance Bill and accompanying provisions provided for a budgetary adjustment on the order of 48 trillion lire, of which 27 trillion in the form of reductions in expenditure. The correction was forecast to result in a saving of around 2 trillion lire in interest payments. Most of the additional revenue was to come from temporary measures (the tax conciliation procedure and the condonation schemes for building and social contributions offences), which were expected to generate receipts of around 18 trillion lire. The expenditure measures concentrated mainly on reducing outlays for health services, transfers, financial transactions and pensions. Following the agreement of 1 December between the Government and the trade unions, it was decided to remove most of the pension reform measures from the budget and to include them in a separate bill to be approved by 30 June 1995.

The postponement of the reform of the pension system, albeit only for six months, contributed to the deterioration in market confidence, which was reflected in a further rise in interest rates on government securities. The additional corrective measures introduced by decree law in February, and approved by Parliament without significant amendments, are expected to yield more than 21 trillion lire, of which about three quarters will stem from permanent increases in tax and social security receipts.

The quarterly report on the borrowing requirement and the report on the economy presented in Aprii by the Ministers of the Treasury and the Budget updated the forecasts for 1995 in the light of the changes in macroeconomic conditions, the further rise in interest rates in the first quarter of the year and the effects of the February measures. The target for the state sector borrowing requirement was reset at 134 trillion lire and that for the sector's primary surplus raised to 58 trillion, equal to 7.6 and 3.3 per cent of GDP respectively.

The objective for the borrowing requirement of the state sector assumes growth in current expenditure net of interest payments in line with the target rate of inflation, a substantial increase in capitai outlays (in part to offset their fall in 1994) and a rise of around one percentage point in the ratio of tax and social security receipts to GDP.

It is officially estimated that the budget measures in piace and the rapid growth in GDP will make it possible for the downturn in the ratio of the public debt to GDP to occur this year instead of next. A contribution to this result will come from the implementation of the programme of privatizations. In addition, the imbalances associated with the pension system have been tackled in draft legislation tabled by the Government in May. On the other hand, there is some uncertainty about the outcome of the tax conciliation procedure and the building offences condonation scheme.

MONETARY POLICY AND THE MONEY AND FINANCIAL MARKETS

THE OVERALL PICTURE

The Bank of Italy reinforced its restrictive monetary policy stance in 1994 in view of the risk of an intensification of inflationary pressures. Short-term interest rates rose appreciably from May onwards; the discount rate was increased by half a percentage point in August 1994 and by three quarters of a point in February and again in May of this year. There was a pronounced slowdown in the monetary aggregates, whose annual rates of growth were the lowest in recent decades. The M2 money supply grew by 3.1 per cent, compared with 7.9 per cent in 1993. The expansion in bank deposits was curtailed in part by the behaviour of the banks, which were induced to hold down deposit rates by the stagnation in loan demand, the increase in credit risk and the deterioration in profitability.

In the context of floating exchange rates, the instability of expectations caused by shifting perceptions of the political situation and of the prospects for budgetary correction had repercussions on the financial markets and on the currency. In the second half of the year and especially in the early months of 1995, the depreciation of the lira was far larger than could be plausibly justified by the economic fundamentals. The pass-through of the depreciation to domestic prices was curbed not only by the restrictive stance of monetary policy, but also by the availability of spare plant capacity and the effectiveness of the incomes policy agreements of 1992 and 1993. In the current phase of economic growth the risk of inflation has heightened, and its intensity depends on market expectations concerning economic policy and the stability of financial conditions. The Bank of Italy has increased the attention it pays to all the real and monetary variables that can promptly signal the development of inflationary pressures and provide indications of price expectations, which have a crucial influence on the behaviour of inflation.

The monetary policy indicatore

The monetary aggregates — monetary base and the money supply, which are interlinked via the reserve requirement — remain an indispensable point of reference for the centrai bank. Econometric analysis has confirmed that they bear a statile medium-term correlation with nominai GDP growth. The slowdown in the aggregates in 1994 was related to the large rise in interest rates on savings instruments that are alternatives to bank deposits and reflected the banks' more cautious approach to the setting of deposit rates: whereas the average yield on Treasury bills rose by nearly 2 percentage points between May and December, the average interest rate on bank deposits fell by 0.4 points over the same period. Broader aggregates covering liquid assets as a whole can provide useful information when substitution between money and other short-term assets occurs; in 1994 these aggregates slowed down as well, albeit to a lesser extent than the money supply.

The links between bank lending and aggregate spending and, more generally, between the credit variables and the economie cycle have weakened considerably since the abolition of credit controls; during the current phase of the cycle they have been further loosened by firms ' increased self-financing capacity and their propensity to hold foreign assets. Lending to the non-state sector remained broadly unchanged over the last two years; only in recent months has it picked up. The credit markets give important indications about the transmission of monetary policy; their significane is greater in economies with numerous small enterprises and banks and where private capitai markets are stili underdeveloped, as is the case in Italy.

In recent years the growth of the Italian securities markets and the spread of derivative instruments have increased the information that can be gleaned in the markets about changes in inflation expectations. The yield curve, and particularly its medium and long-term segments, embodies the inflation expectations prevailing in the financial markets together with the other factors that determine yields, namely expected real rates and the premiums for the various types of risk. Estimates of the impact of individuai factors are subject to uncertainty and should be treated with caution. Nevertheless, the recent behaviour of long-term interest rates accords with other evidence from real as well as monetary variables that points to a significant increase in inflation expectations in the course of 1994.

Until May, long-term interest rates in Italy moved in parallel with those in the other leading countries. Thereafter, the differential between Eurolira rates — which are not influenced by the market's assessment of the Italian Treasury's creditworthiness — and the corresponding Euromark rates widened appreciably in conjunction with the weakening of the lira in the foreign exchange markets and the rise in inflation expectations revealed by sample surveys. The increase in implied volatility evident in the prices of Italian Treasury bond and foreign exchange options during the summer also suggests the possibility of an increase in the premium for uncertainty about the outlook for inflation and the lira.

Developments in 1994

In the early months of the year money market rates continued to edge downwards, although they remained higher than in the other leading industrial countries. The decline was aided by the half-point reduction in the discount rate and the rate on fixed-term advances on 17 February following a similar move by the Bundesbank. After the Federal Reserve tightened monetary conditions in February, Italian long-term interest rates rose, in parallel with those in all the principal bond markets; however, in the first four months of the year the differentials with the corresponding rates in Deutsche Mark narrowed by almost half a percentage point to a low of 2.5 points. Inflation remained very moderate during this period: producer prices rose at an annual rate of 2.1 per cent in the first quarter, while expectations of consumer price developments did not change significantly. In May, at the same time as other European central banks were taking similar action, the Bank of Italy lowered its official rates by half a point, reducing the discount rate to 7 per cent and the rate on fixed-term advances to 8 per cent; around the middle of the month interbank rates reached a low of about 7.5 per cent.

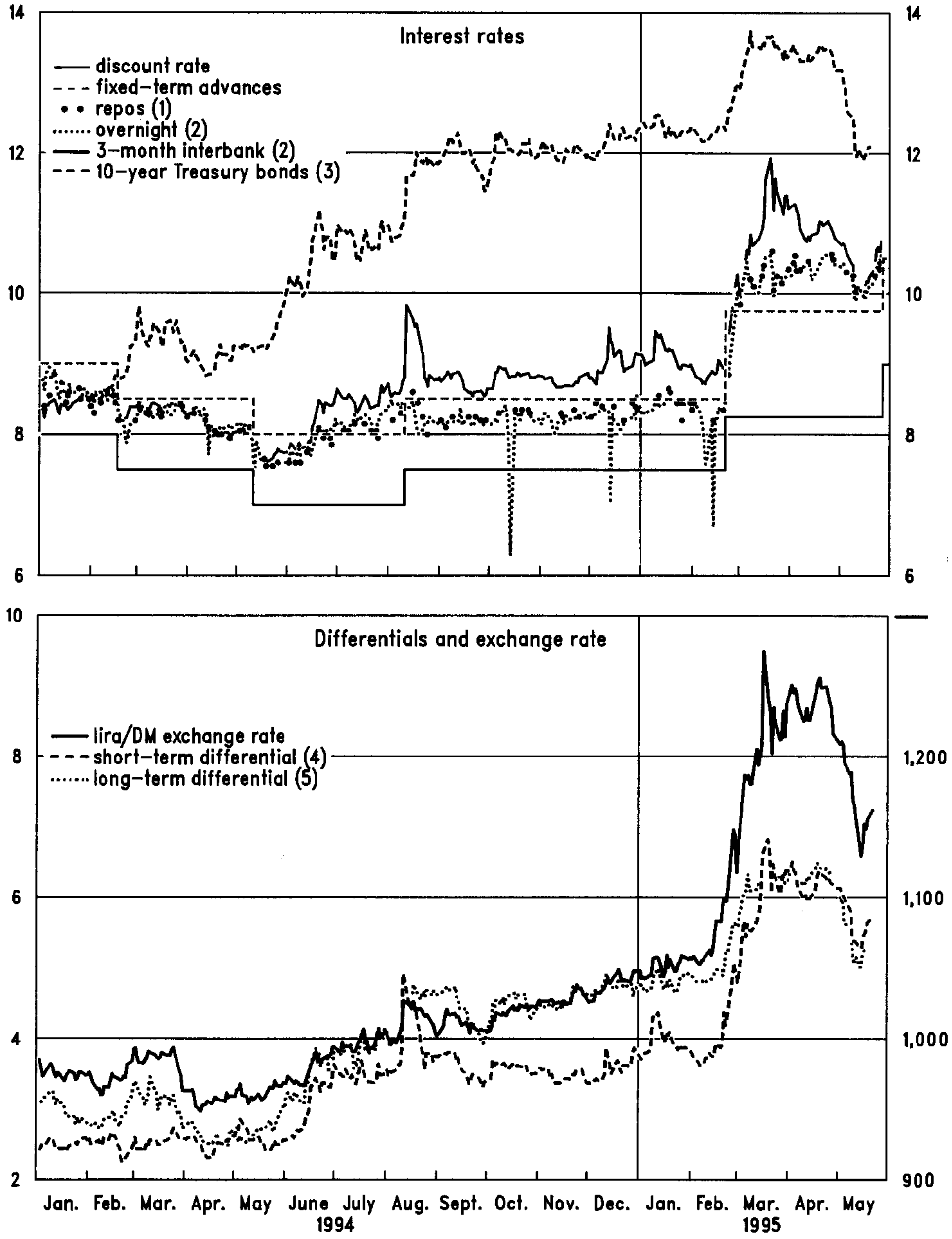
From June onwards, a combination of many domestic factors caused the financial situation to deteriorate. The markets reacted adversely to the ruling of the Constitutional Court concerning subsidized minimum pensions, considering that it would eventually piace a sizable burden on the budget. On the inflation front, the rate of increase in industrial output prices acceleratеti to an average of 4.2 per cent in the second quarter, double the figure for the previous quarter; at the same time, expectations of an acceleration in consumer prices increased. This was accompanied by a weakening of the lira and further, larger rise in long-term interest rates both in absolute terms and with respect to those in other countries. From mid-June onwards the central bank greatly restricted the supply of monetary base. The rate on Bank of Italy repurchase agreements rose dose to that on fixed-term advances and in July exceeded it; the 3-month interbank rate remained statile at around 8.5 per cent (Figure 12).

On 11 August, after the release of updated figures on producer prices and the further depreciation of the lira had reinforced fears of a resurgence in inflation, the Bank raised the discount rate and the rate on fixed-term advances by half a percentage point to respectively 7.5 and 8.5 per cent.

In recent years, the liberalization of the credit markets, the high international mobility of capitai and the flexibility of the exchange rate have enhanced the importance of expectations in the transmission of monetary policy and increased the need for pre-emptive measures to ward off inflation.

Figure 12

INTEREST RATES, YIELD DIFFERENTIALS WITH GERMANY AND THE LIRA/DM EXCHANGE RATE



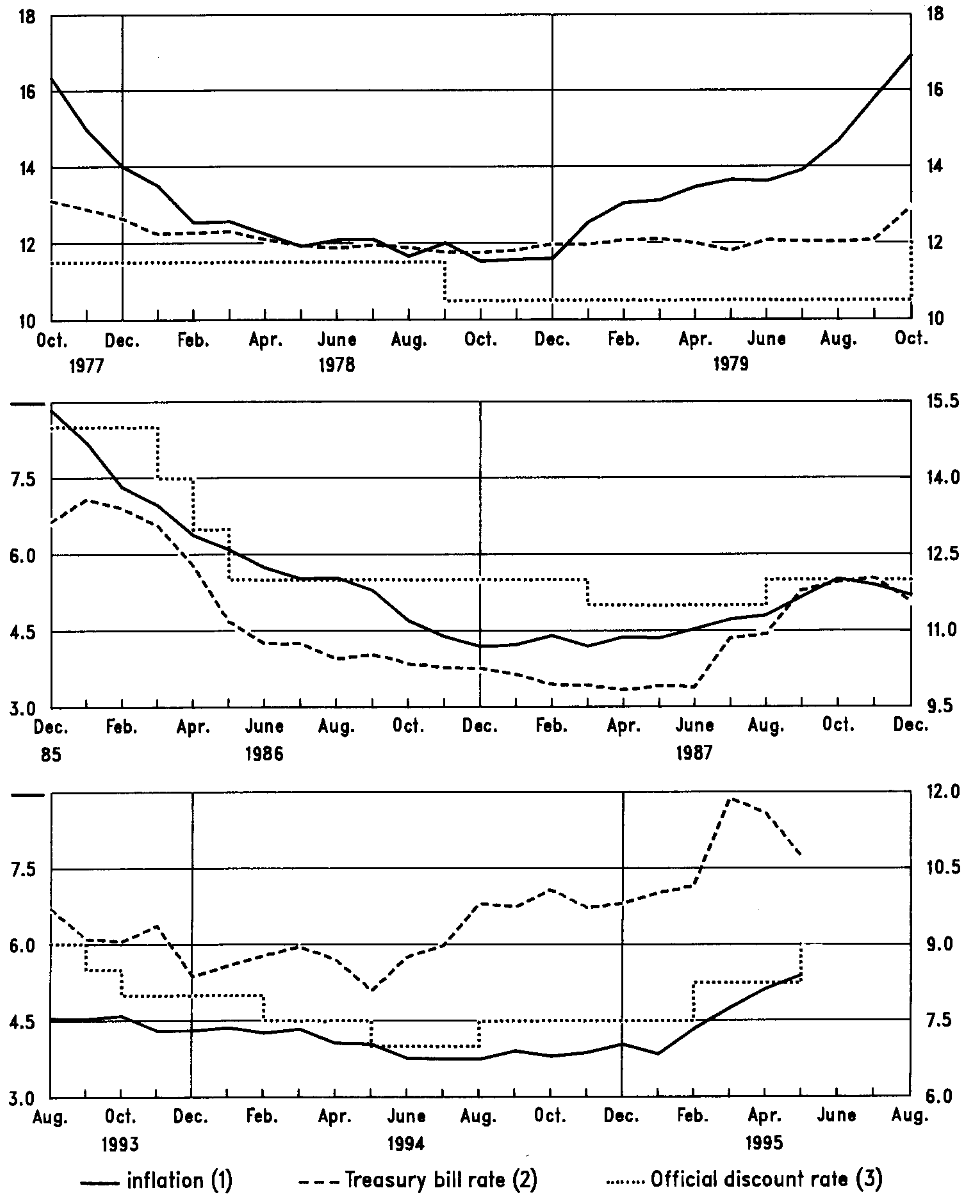
(1) Marginal allotment rate. – (2) Rate on the interbank deposit market. – (3) Yield on the benchmark bond on the screen-based market in government securities. – (4) Difference in percentage points between 3-month LIBOR in lire and Deutsche Mark. – (5) Difference in percentage points between the yield on 10-year benchmark Italian Treasury bonds and that on corresponding German securities.

Comparison of the movements in official rates and short-term interest rates at the time of the last three upturns in consumer price inflation (in October 1978, December 1986 and August 1994) shows that the tightening of monetary conditions was timely last year (Figure 13). In 1979 the increase in interest rates occurred almost a year after the rise in inflation, the lag being due in part to the fact that direct credit controls were stili in use as an instrument of monetary policy. In 1986-87 there was a delay of around four months between the reversal of the trend in inflation and that in Treasury bili rates, which were stili directly influenced by the setting of auction floor prices. In 1994 the increase in officiai rates and Treasury bili rates occurred before consumer prices accelerated.

Figure 13

THE DISCOUNT RATE AND TREASURY BILL RATES IN THREE INFLATIONARY CYCLES

(percentages)



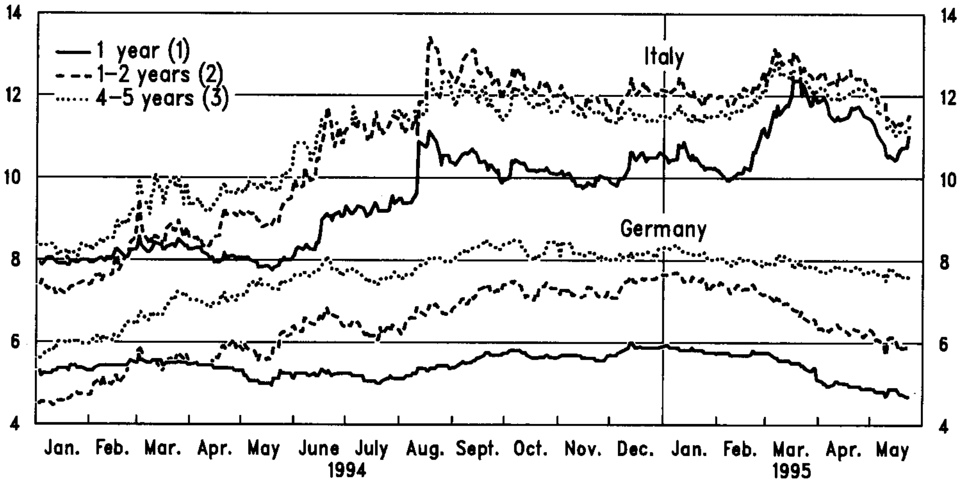
(1) Rate of increase in consumer prices over the previous twelve months; the figures for the last two months are estimated on the basis of the cost-of-living index. – (2) Average pre-tax allotment rate in the auctions held during the month. – (3) End-of-month data.

In the ensuing months the monetary policy stance remained consistent with the new level of official rates. After an initial period of adjustment, the markets generally reacted favourably to the tightening: the forward interest rates implicit in medium-term Eurolira rates gradually declined both in absolute terms and in relation to the corresponding Euromark rates (Figure 14). However, in the second half of the year continued uncertainty about the outlook with regard to the public finances, fueled partly by disputes over the reform of the pension system, contributed to the emergence of a premium for the specific risk on long-term Italian government securities: the difference between the lira/DM yield differential on government securities and that on Eurocurrency swaps, which had almost disappeared in the early months of the year following the reform of the procedures for refunding withholding tax to foreign investors, began to increase again in August and stood at 1.1 percentage points in December (Figure 15).

Figure 14

1-YEAR FORWARD RATE IMPLICIT IN EUROLIRA AND EUROMARK RATES

(percentages)



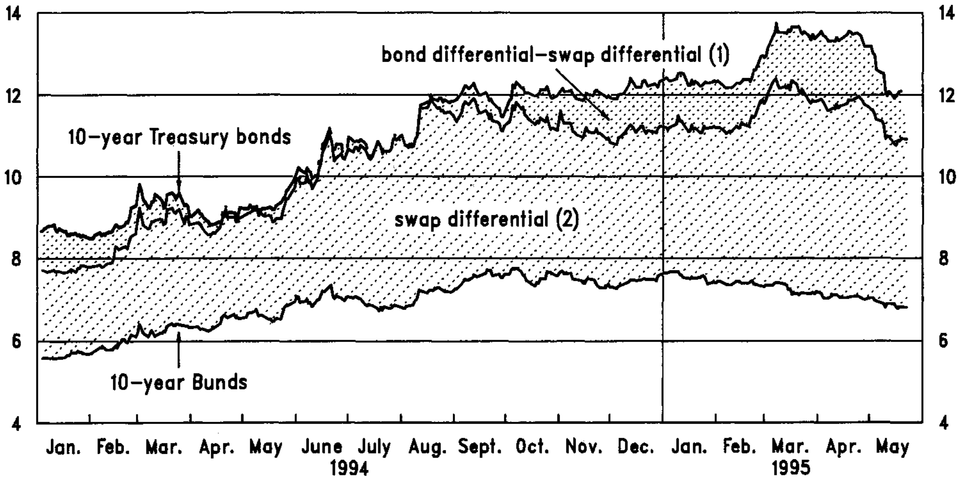
(1) LIBOR. – (2) Calculated on the basis of 1-year LIBOR and the 2-year swap rates. – (3) Calculated on the basis of the 4 and 5-year swap rates.

In the last quarter of 1994 the lira remained weak and interest rate differentials continued to widen; these tendencies avere accentuated in December, in conjunction with the government crisis. At the end of the year the yield on 10-year Italian Treasury bonds stood at 12.3 per cent, 3.7 points more than at the end of 1993, and the differential in relation to the corresponding German securities was 4.7 percentage points, 2.2 points more than the low of 2.5 points recorded in April. The slowdown in the growth of all the main monetary aggregates became more pronounced, owing not only to the increase in the differential between money market and bank deposit rates but also to the monetary effect of large capital outflows.

Figure 15

BREAKDOWN OF THE DIFFERENTIAL BETWEEN 10-YEAR ITALIAN TREASURY BONDS AND BUNDS

(percentages)



(1) Difference between the yield on Italian Treasury bonds and Bunds less the corresponding differential between the swap rates in lire and Deutsche Mark.

The annual growth in M2, measured by comparing fourth-quarter averages, carne to 3.1 per cent, as against 7.9 per cent in 1993 (Table 25). This was 1.9 percentage points below the lower limit of the 5-7 per cent target range. On a seasonally adjusted basis M2 remained practically unchanged in the second half of the year, despite an acceleration in the rate of economie growth; in 1994 as a whole the aggregate contracted in real terms by 1 per cent, the first contraction since 1980 and 1981. The Divisia index, calculated by weighting the components of liquid assets according to their respective degrees of liquidity, rose by 2 per cent, compared with 5.6 per cent in 1993.

Domestic financial assets grew by 6.1 per cent over the year (7.1 per cent in 1993). The growth in total financial assets, which include instruments issued by non-residents, amounted to 7.2 per cent, 1 percentage point more than in 1993.

Total credit expanded by 5.5 per cent, as against 6.8 per cent in 1993. Finance to the non-state sector grew by 2.6 trillion lire (0.2 per cent), compared with 24 trillion (2.1 per cent) in 1993. While remaining the fastest-growing component of total credit, finance to the state sector allo slowed down, thanks to the reduction in the borrowing requirement; it increased by 9 per cent last year, compared with 9.9 per cent in 1993.

The slight growth in households' disposable income and the attendant moderate revival in consumption caused the financial surplus of the household sector to contract sharply from 188.8 trillion lire in 1993 to 146.4 trillion last year. As households traditionally have only modest recourse to borrowing, they offset their reduced saving by markedly cutting back on their investment in financial assets to 166.6 trillion lire, compared with 204.6 trillion in 1993. As regards the composition of their portfolios of financial assets, there was a particularly large change in bank deposits, which fell by 10 trillion lire, whereas in 1993 they had increased by 35.9 trillion.

Table 25

CREDIT, MONEY AND FINANCIAL ASSETS

	Finance to the non-state sector		Total credit		M1	M2	Divisia index	Liquid assets	Financial assets	
	Domestic	(1)	Domestic	(1)					Domestic	(2)
	Percentage change (3)									
1991	13.9	16.2	12.5	13.5	9.0	8.3	8.3	11.6	11.3	12.8
1992	7.2	8.3	10.0	10.1	3.0	6.0	3.8	10.8	7.5	8.2
1993	1.9	2.1	6.5	6.8	7.0	7.9	5.6	2.7	7.1	6.2
1994	0.5	0.2	5.6	5.5	3.9	3.1	2.0	2.3	6.1	7.2
	As a percentage of GDP (4)									
1991	56.5	64.5	148.3	160.1	31.5	54.0	–	88.8	134.6	141.3
1992	60.8	68.7	159.2	170.8	32.0	55.2	–	94.4	140.3	148.9
1993	65.5	74.6	169.7	182.8	32.5	57.4	–	99.8	148.4	157.0
1994	62.6	70.7	170.3	183.0	32.8	57.4	–	95.5	150.2	160.1

(1) Including foreign loans and purchases of bonds by non-residents. – (2) Net of shares. – (3) For M1 and M2, averages for the fourth quarter; for the other aggregates, twelve-month rates calculated on end-of period data. – (4) For the money and credit aggregates, average annual stocks.

The growth in firms' self-financing and the moderate pace of capital spending led to a pronounced decline in the corporate sector 's financial deficit from 36.1 to 7.9 trillion lire. Internally-generated funds helped to reduce firms' debt. In particular, the amount of outstanding domestic and foreign loans to firms diminished by 6.7 trillion lire, whereas in 1993 it had increased by 15.1 trillion.

The activity of the banks was affected throughout the year by the virtual stagnation of loan demand from the private sector and the increased riskiness of loans, which curbed the expansion in the supply of credit. Bad debts grew by 29.9 per cent for the banking system as a whole; calculated with reference to a broader definition that includes all non-performing loans, the rate of increase was roughly half the above figure. The banking system reacted by switching to more highly secured forms of lending and, in the closing months of the year, by rewidening the spread between average lending and deposit rates, which nonetheless narrowed from 6.2 to 5.2 points on an annual average basir. The reduction in the spread, together with large write-downs in the value of loans, caused a marked deterioration in bank profitability in spite of the smallness of the increase in operating costs.

Bank lending remained virtually unchanged over the year, the foreign currency component contracting by 16.8 per cent (net of exchange rate adjustments) and the lira component growing by 4.1 per cent. The share of foreign currency loans in total bank lending fell to 12.8 per cent at the end of 1994; notwithstanding the depreciation of the lira, it was 4.3 percentage points lower than it had been in September 1992 when the lira began to float. The sectoral distribution of credit favoured export industries and generai government. On the liabilities side, the annual growth in the deposits of banks accepting short-term funds decelerated sharply (to 1 per cent, compared with 9 per cent in 1993), owing primarily to the appreciable rise in the yields on Treasury bills and the banks' slowness in adjusting their deposit rates. The deceleration affected all forms of deposit, especially savings deposits and certificates of deposit with a maturity of less than eighteen months.

The foreign business of banks accepting short-term funds was also affected by the repayment of lira loans granted to non-resident investors in 1993 in connection with purchases of Italian government securities.

The weakness of the international bond markets and the factors of instability specific to Italy combined last year to cause a large fall in the prices of medium and long-term government securities. Over the year the prices of securities with a residual maturity of between seven and ten years fell by 17.6 per cent, compared with declines of respectively 11.7 and 11.8 per cent in the prices of equivalent German and US securities. In order to limit the additional interest burden on the public debt at a time of rising medium and long-term interest rates, the Treasury issued a larger proportion of short-term and floating rate paper. In the first few months of this year the Treasury revised the criteria for adjusting the coupon on Treasury credit certificates in order to facilitate risk management on the part of investors, and extended the range of its issues by introducing two-year zero-coupon Treasury certificates.

Activity on the screen-based secondary market in government securities (MTS) benefited from the progressive implementation of the reforms enacted by the Ministerial Decree of 24 February 1994, which introduced the new category of dealers known as "specialists in government securities". The number of dealers of this kind, who are subject to more stringent price-quoting requirements than other primary dealers and whose eligibility is periodically reviewed in the light of their ability to contribute to market liquidity, was originally ten and now stands at sixteen. Apart from fluctuations, total turnover on the MTS rernained at the high level reached in the spring of 1994, even though the decline in prices did not favour a growth in trading volume. Despite greater uncertainty about securities prices, which is also evident in the prices of options, the liquidity of the spot market as reflected in the bid-ask spread increased, especially for less heavily traded securities.

After rising in the first few months of the year, the index of share prices turned downwards; over the year as a whole, however, it showed a gain of 3.3 per cent, which was not an unfavourable result if contrasted with the losses suffered by all the leading stock exchanges abroad except for the Tokyo exchange. During the early part of the year the market was sustained by demand from foreign investors, who continued to increase the proportion of Italian shares in their portfolios. The simultaneous extremely large growth in turnover, which partly subsided in the second half, was also attributable to the privatizations carried out during that period.

The flow of savings entrusted to institutional investors — securities investment funds, portfolio management services, insurance companies, pension funds and securities firms — increased in the early months of the year in connection with the rise in share prices and the continued relatively favourable behaviour of bond prices; fund-raising by share-based investment funds was particularly intense during this period. In the second half of the year the flow of savings weakened. The overall result for the year was not unfavourable, considering that these institutions increased their share of the greatly reduced financial saving of the household sector from 30 to 41 per cent.

The first few months of 1995

In January the Bank maintained its restrictive stance in regulating liquidity. Midway through the month the tensions in the money and financial markets abated temporarily in connection with the formation of the new Government. Three-month interbank rates carne down by more than half a percentage point, declining to 8.7 per cent on 9 February; the prices of medium and long-term securities remained statile. From mid-February onwards the lira was affected by the severe turbulence that swept the international foreign exchange markets following the depreciation of the donar; while in the European Monetary System the tensions that would lead to the realignment of 6 March were growing, the lira lost ground against all the leading currencies.

The weakness of the lira greatly exacerbated existing inflationary pressures, which manifested themselves in a sharp rise in the cost of living in the major cities in February. By increasing officiai rates on 21 February — from 7.5 to 8.25 per cent in the case of the discount rate and from 8.5 to 9.75 per cent in that of the rate on fixed-term advances — the Bank of Italy confirmed that monetary policy continued to be geared towards countering inflation. In the days immediately following the change, yields increased primarily at the shorter end of the maturity spectrum; the ten-year swap rate rose by only a few basis points.

In the weeks following the increase in official rates, the persistent instability in the international foreign exchange markets and renewed uncertainty about the domestic political situation accentuated the weakness of the lira and depressed securities prices further. Between 24 February and the end of March the lira depreciated by 9.6 per cent in effettive terms and by 10.5 per cent against the Deutsche Mark. Over the same period the yield on 10-year Treasury bonds rose by just under 1 percentage point to 13.4 per cent. The Bank of Italy tightened its control of bank liquidity, thus intensifying the restrictive effect of the increase in officiai rates. By rationing the supply of fixed-term advances, it induced short-term interbank rates to move above the corridor demarcated by the officiai rates. The overnight rate, which immediately reflects the degree of tension in the money market, averaged 10.2 per cent in March, with a peak of 10.5 per cent; the rate on Bank of Italy repurchase agreements rose to the same level.

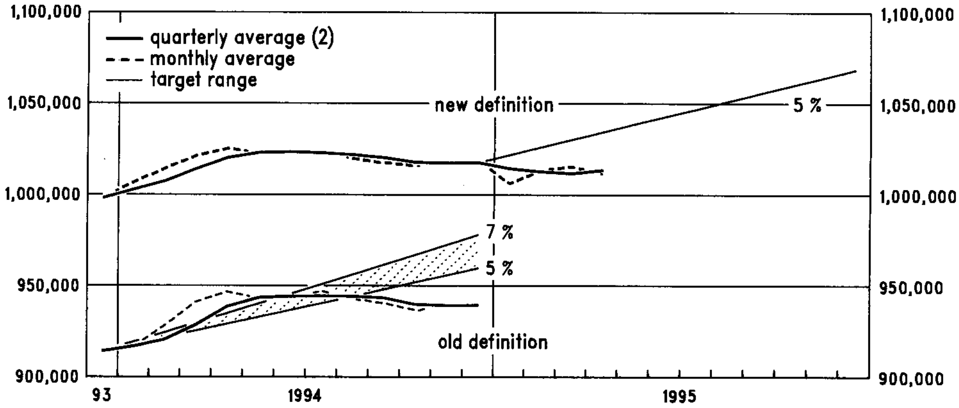
In April the situation in the Italian financial markets improved in response to both international and domestic factors. In Europe, the moderate easing of tension in the Exchange Rate Mechanism after the reduction in the German discount rate led to a universal narrowing of short-term yield differentials vis-à-vis the Deutsche Mark in the first half of the month. In Italy, the approvai of the supplementary budgetary measures in mid-March and the presentation of the Government's pension reform bili in the first half of May fostered an abatement of tension in the securities and foreign exchange markets; however, the improvement was reversed in the second half of the month, against the background of pronounced exchange rate volatility in international markets and the release of new data on producer prices and the cost of living that confirmed the worsening of inflationary pressures.

On 26 May the Bank of Italy raised the discount rate and the rate on fixed-term advances by 0.75 percentage points to respectively 9 and 10.5 per cent. The measure, which accorded with the already restrictive stance of monetary policy, was aimed at combating the risks of inflation in a situation of strong demand, high capacity utilization rates in many sectors and high import costs owing to the prices of raw materials and the undervaluation of the lira.

Figure 16

M2 MONEY SUPPLY (1)

(stocks in billions of lire)



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

In the first four months of 1995 there was a further consideratile contraction in the M2 money supply, calculated on the new definition that includes certificates of deposit issued by banks accepting medium and long-term funds (Figure 16); in April the twelve-month rate of change turned negative by 0.8 percentage points. In contrast with the continuation of the trend in deposits, lending by banks accepting short-term funds picked up; in the first four months of the year their lira loans grew at an annual seasonally adjusted rate of 13.7 per cent, compared with an overall increase of 3.9 per cent in 1994. The improved opportunities for lending, fostered by the economie expansion that is now under way, could increase the banks' willingness to encourage deposit growth in the months ahead. Even if this occurs, the growth in M2 should not overshoot the target rate of 5 per cent set last October, which is compatible with the priority aim of containing inflation.

Central bank operations and the control of monetary base

Both bank reserves and monetary base grew very slowly in 1994. Net of the effects of the changes in the reserve requirement, monetary base expanded by 3.6 per cent, half the rate recorded in 1993 (Table 26); like the money supply, monetary base contracted in real terms (by 0.5 per cent). Bank reserves remained more or less unchanged at their end-1993 level. These tendencies persisted in the opening months of 1995: in the twelve months to the end of April monetary base grew by 1.9 per cent, while,bank reserves contracted by 0.6 per cent.

Table 26

MONETARY BASE AND MONEY SUPPLY (1)

(percentage changes)

	1993 December	1994 March	1994 June	1994 September	1994 December	1995 March (2)
Monetary base (3)	7.2	6.0	6.3	5.5	3.6	1.7
of which: bank reserves (3)	*9.0*	*5.8*	*6.0*	*4.4*	*1.4*	*–0.3*
Money supply (M2)	7.9	7.6	7.5	5.3	3.1	0.2

(1) For monetary base and bank reserves, percentage changes on the corresponding month of the previous year, calculated on the basis of averages of daily data for the reserve maintenance period (from the 15th of each month to the 14th of the following month). For the money supply, percentage changes on the corresponding quarter of the previous year, calculated on the basis of the average for the quarter ending in the month indicated; the figure for March 1995 refers to the new definition of M2, which includes certificates of deposit issued by banks accepting medium and long-term funds. – (2) Provisional. – (3) Adjusted for changes in the compulsory reserve ratio.

The external sector created 3.3 trillion lire of monetary base last year, compared with 2.6 trillion in 1993; net of foreign currency swaps, the inflow of foreign exchange amounted to 4 trillion, similar to the previous year's figure (Table 27). Republic of Italy bond issues on the international capitai markets made a net positive contribution of more than 16 trillion lire to the official reserves, which were drained significantly by repayments of government-guaranteed loans and interest payments on public debt instruments held by non-residents. The latter factors largely account for the fall of 9.5 trillion lire in the officiai reserves, net of exchange rate adjustments, in the first four months of 1995.

The Treasury destroyed 54.7 trillion lire of monetary base last year, compared with 3.4 trillion in 1993. Excluding the Bank of Italy 's transactions in government securities on the primary market — which in 1994 consisted only of redemptions amounting to around 20 trillion lire — and the effects of the transition to the Treasury 's new payments account, the Treasury absorbed 35.4 trillion lire of liquidity, as against 3.7 trillion in 1993. This was reflected in net deposits of 33.3 trillion on the Treasury's accounts with the Bank of Italy, including 5.9 trillion deposited in the sinking fund for government securities that was set up in July 1994. The build-up of the balance on the Treasury's payments account was planned from the beginning of the year in view of the large redemptions of medium and long-term securities falling due in the years ahead. The tensions in the markets did not prevent the orderly financing of the Treasury, which was accomplished by means of net issues of medium and long-term securities and funds from other non-monetary sources of finance amounting to respectively 138 and 34.5 trillion lire and net issues of Treasury bills totaling 19.2 trillion. In the first four months of 1995 the Treasury drew down the balance on its payments account by 7.5 trillion lire, whereas in the same period a year earlier it had made net deposits of 4.6 trillion. Further net drawings may be made in the autumn in connection with short-term fluctuations in the Treasury 's borrowing requirement and the maturing of securities.

Table 27

MONETARY BASE (1)

(changes in billions of lire)

	1993	1994					1995 1st qtr. (2)
		Year	Quarters				
			I	II	III	IV	
External sector	**2,564**	**3,297**	**4,248**	**834**	**–976**	**–809**	**–11,364**
of which: foreign currency swaps	*–2,055*	*–813*	–	*–813*	–	–	–
Treasury	**–3,378**	**–54,743**	**–11,131**	**–22,911**	**–3,585**	**–17,118**	**–3,621**
Borrowing requirement (3)	164,939	162,156	44,035	22,954	41,705	53,461	39,054
(excluding settlements of past debts)	*154,101*	*155,713*	*44,034*	*22,481*	*41,691*	*47,507*	*36,554*
Market purchases of securities	–139,652	–176,475	–46,019	–45,191	–34,263	–51,002	–38,808
Other financing (4)	–28,665	–34,503	–7,555	–673	–6,701	–19,575	–3,867
Privatization proceeds ..	–	–5,921	–1,593	–	–4,326	–2	–
Open market	**–14,098**	**47,451**	**13,897**	**19,688**	**–1,935**	**15,801**	**7,090**
of which: repurchase agreements (5)	*4,738*	*–3,803*	*3,522*	*12,533*	*–20,059*	*202*	*1,431*
Refinancing	**–6,451**	**266**	**–151**	**1,664**	**–1,720**	**473**	**845**
Other sectors	**1,903**	**–6,181**	**–3,163**	**–765**	**–4,287**	**2,034**	**1,275**
Total ...	**–19,460**	**–9,912**	**3,700**	**–1,490**	**–12,503**	**381**	**–5,775**
Notes and coin	**4,152**	**6,452**	**–1,207**	**–1,232**	**2,211**	**6,680**	**–3,781**
Bank reserves	**–23,612**	**–16,364**	**4,907**	**–258**	**–14,714**	**–6,299**	**–1,994**
of which: compulsory reserves (6) ...	*–24,131*	*–13,353*	*3,059*	*1,537*	*–15,300*	*–2,649*	*–4,506*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Including settlements of past debts; reference is to the new definition of the state sector, which excludes the State Railways, Monopolies and Telephone Company; the aggregate is net of the proceeds of privatizations. – (4) PO deposits, foreign loans, bank loans to the state sector, deposits of social security institutions with the Treasury and surety deposits lodged with the Deposits and Loans Fund. – (5) At balance sheet value. – (6) Average reserve requirement for the maintenance period.

In 1994 the Bank of Italy created 47.5 trillion lire of monetary base through open market operations in securities offsetting part of the absorption of liquidity by the Treasury. The level of bank reserves was regulated almost exclusively by means of repurchase agreements, which from February onwards were accompanied by outright sales and purchases of Treasury bills using the multiple price auction method. The Bank 's repurchase agreements resulted in the net destruction of 3.8 trillion lire of monetary base, against net monetary base creation of 4.7 trillion in 1993. The banking system's temporary indebtedness vis-à-vis the centrai bank remained at very high levels throughout the year.

The Bank's outright operations in the secondary market resulted in monetary base creation of around 50 trillion lire. They included 29.6 trillion lire of net purchases of Treasury bills through multiple price auctions for the control of monetary base. This procedure, which was introduced in February 1994 and is available only to primary dealers on the MTS, was used once to sell securities and 27 times for purchases. Outright operations in other securities, primarily Treasury bonds, created around 20 trillion lire of monetary base and helped to reduce the banking system's high level of temporary indebtedness.

HOUSEHOLDS AND ENTERPRISES

The depreciation of the lira and the moderate growth in wages and salaries at a time of rising economic activity caused a substantial redistribution of financial saving in the private sector, with an erosion of the financial balance of households and an improvement in that of enterprises. The financial surplus of households fell from 12.2 to 8.9 per cent of GDP (Table 28), the lowest level in the last twenty years. The increase in corporate self-financing and the late recovery of investment compared with the corresponding phase of earlier cycles helped to reduce the financial deficit of the corporale sector from 2.3 to 0.5 per cent of GDP. Coupled with a large volume of share issues, this enabled firms to reduce their financial debt considerably.

Table 28

FINANCIAL BALANCES

	Households (1)	Enterprises	General government	Rest of the world	Other sectors (2)	Households	Enterprises	General government	Rest of the world	Other sectors (2)
	(billions of lire)					(as a percentage of GDP)				
1990 ...	192,670	−122,832	−132,960	20,378	42,744	14.7	−9.4	−10.1	1.6	3.2
1991 ...	202,032	−98,964	−155,536	29,337	23,131	14.1	−6.9	−10.9	2.1	1.6
1992 ...	194,563	−107,548	−155,916	34,225	34,676	12.9	−7.2	−10.4	2.3	2.4
1993 ...	188,800	−36,079	−165,402	−17,824	30,505	12.2	−2.3	−10.7	−1.1	1.9
1994 ...	146,447	−7,927	−160,537	−25,012	47,029	8.9	−0.5	−9.8	−1.5	2.9

(1) Includes both consumer households and producer households (sole proprietorships). – (2) Includes credit institutions, insurance companies and unclassified items.

The financial balance and debt of households

The recovery in consumption at a time of only moderate growth in disposable incorre contributed to the decline in households' investments in financial assets, which amounted to 166.6 trillion lire, or 38 trillion less than in 1993 (Table 29). Since the accumulation of liabilities increased from 15.8

to 20.1 trillion lire, the sector 's financial surplus diminished from 188.8 to 146.4 trillion. Sole proprietorships (or producer households), which are included in the household sector in the flow-of-funds accounts, moved from near balance in 1993 to a financial deficit of 3.1 trillion lire.

Table 29

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (1)

(billions of lire)

	Stocks		Flows		
	Dec. 1993	Dec. 1994	1992	1993	1994
Cash	81,303	87,074	8,405	3,815	5,772
Transferable sight deposits	349,532	357,766	–801	17,767	8,055
Other deposits	603,035	619,079	45,533	49,310	15,960
bank	*453,058*	*443,143*	*36,332*	*35,917*	*–9,998*
postal	*149,978*	*175,936*	*9,201*	*13,393*	*25,958*
Repos	82,820	69,709	47,172	–5,254	–13,111
Short-term securities	308,349	303,915	54,191	–38,729	–4,281
Medium and long-term securities	548,500	604,917	–4,000	105,945	57,123
government	*431,281*	*471,543*	*–6,960*	*77,352*	*40,262*
Investment fund units	107,087	127,044	722	33,423	25,433
Shares and participations	765,528	748,787	33,645	24,212	16,934
External assets (2)	108,161	116,532	6,456	–7,648	12,579
Other (3)	264,701	306,809	28,481	21,795	42,108
Total assets	**3,219,015**	**3,341,633**	**219,803**	**204,636**	**166,572**
Short-term loans (4)	120,028	117,999	6,342	–359	–2,292
bank	*117,274*	*116,763*	*6,962*	*265*	*–773*
Medium and long-term loans (5)	171,961	184,767	11,471	5,844	12,085
bank	*156,277*	*167,626*	*11,965*	*7,829*	*10,627*
Other (6)	77,294	87,626	7,427	10,351	10,332
Total liabilities	**369,282**	**390,391**	**25,240**	**15,836**	**20,125**

Source: *Conti finanziari.*
(1) Includes both consumer households and producer households (sole proprietorships). Rounding may cause discrepancies in totals. – (2) Short-term securities, bonds, shares and capital parts issued by non-residents and units of foreign investment funds. – (3) Insurance companies' technical reserves, severance pay and pension funds and sundry minor items. – (4) Includes finance provided by factoring companies. – (5) Includes finance provided by leasing companies, consumer credit from financial companies and sundry minor items. – (6) Severance pay, bad debts, and sundry minor items.

Households shifted out of bank deposits and into government and foreign securities last year. The motives for the reallocation included the large rise in yields on government paper, banks' deposit rate policy aimed at holding down their fund-raising costs and expectations that the lira would depreciate. Bank deposits contracted by 1.9 trillion lire, whereas in 1993 they had expanded by 53.7 trillion; by contrast, the flow of postal deposits almost doubled to 26 trillion lire. Households continued to run down their holdings of short-term government securities, especially Treasury bills, with net disinvestments of 4.3 trillion lire, though this was much less than the contraction of 38.8 trillion in 1993. Net purchases of medium and long-term government securities dropped from 77.4 to 40.3 trillion. Households made net acquisitions of foreign assets amounting to 12.6 trillion, compared with net disinvestments of 7.6 trillion in 1993. Over the last two years their foreign portfolio, consisting of assets held both directly and through investment funds, rose from 3.7 to 4.6 per cent of their total financial assets. The large swings in securities prices were partly responsible for the reduction in net purchases of both shares, from 24.2 to 16.9 trillion lire, and investment fund units, from 33.4 to 25.4 trillion. The flow of other financial assets, consisting primarily of the technical reserves of insurance companies and severance pay and pension funds, increased by 15.9 per cent, compared with 9 per cent in 1993, reflecting the demand for pension and life insurance products.

The financial liabilities of consumer households, boosted by the recovery in purchases of durable goods, grew faster than those of producer households. The increase was mainly in the form of medium and long-term debt, which expanded by 8.4 trillion, or 2.2 trillion more than in 1993; consumer households' liabilities rose from 15.4 to 15.9 per cent of their disposable income. The recovery in producer households' capital spending led them to raise 3.7 trillion of additional medium and long-term loans, whereas in 1993 they had made net repayments of 400 billion; at the same time their net repayments of short-term loans amounted to 1.7 trillion.

The financing of enterprises and their liquidity

Self-financing showed a further large increase in 1994, following the improvement in firms' operating margins and the fall in their net financial costs. In view of the lag with which capital expenditure gathered momentum, the resources that became available, together with public investment subsidies, enabled the corporate sector to reduce its financial deficit from 36.1 trillion lire in 1993 to 7.9 trillion last year.

The flow of financial liabilities declined from 71.3 to 56.5 trillion lire (Table 30). Excluding shares, it increased by 2.2 per cent, compared with increases of 2.5 per cent in 1993 and 9.3 per cent in 1992.

Table 30

FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES (1)

(billions of lire)

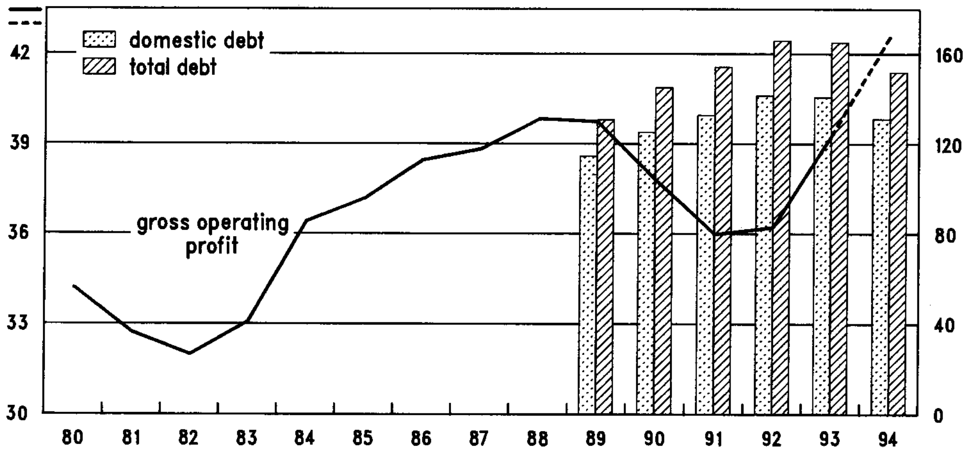
	Stocks		Flows		
	Dec. 1993	Dec. 1994	1992	1993	1994
Cash	8,371	8,966	873	392	595
Transferable sight deposits	91,438	99,167	–538	7,164	7,505
bank	*83,117*	*92,597*	*–2,803*	*8,033*	*9,255*
Other deposits	5,371	5,552	707	1,117	179
bank	*3,971*	*4,053*	*495*	*985*	*61*
Repos	8,688	12,251	16	4,526	3,562
Short-term securities	3,261	3,779	659	–1,052	889
Medium and long-term securities	50,889	53,124	–7,522	2,086	2,104
government	*42,830*	*44,370*	*–7,040*	*203*	*1,540*
Shares and participations	257,549	280,893	14,730	10,032	6,301
External assets	157,113	175,844	11,738	9,726	24,657
Other (2)	18,031	20,768	1,596	1,195	2,737
Total assets	**600,712**	**660,343**	**22,260**	**35,185**	**48,530**
Domestic liabilities	**1,562,797**	**1,619,033**	**108,133**	**59,431**	**51,781**
Short-term loans (3)	397,229	376,492	29,937	–13,884	–22,552
bank	*369,194*	*353,985*	*27,398*	*–15,367*	*–17,024*
Medium and long-term loans (4)	268,286	289,105	21,072	25,963	20,515
bank	*210,043*	*221,937*	*19,472*	*20,463*	*11,590*
Bonds	32,506	35,162	–288	–5,289	2,838
Shares and participations	748,608	784,506	48,007	39,204	33,382
Other (5)	116,168	133,768	9,405	13,437	17,598
External liabilities	**229,305**	**232,767**	**21,675**	**11,833**	**4,676**
net trade credits	*34,687*	*41,377*	*1,190*	*–550*	*6,690*
foreign loans	*108,679*	*99,452*	*16,445*	*3,052*	*–4,630*
bonds	*15,066*	*15,479*	*382*	*773*	*212*
shares and participations	*70,873*	*75,494*	*3,647*	*8,582*	*1,426*
Total liabilities	**1,792,102**	**1,851,800**	**129,808**	**71,264**	**56,457**

Source: *Conti finanziari.*
(1) Non-financial corporate and quasi-corporate enterprises. Rounding may cause discrepancies in totals. – (2) Includes insurance companies' technical reserves and sundry minor items. – (3) Includes finance provided by factoring companies and repo transactions. – (4) Includes finance provided by leasing companies. – (5) Severance pay and pension funds, bad debts, and sundry minor items.

Firms continued to strengthen their financial structures. Partly as a result of the reorganization of firms in difficulty, short-term loans were replaced with longer-term finance, which was increasingly at variable rates. The high level of corporate profitability made equity investments attractive, enabling firms to make large issues of shares. Net repayments of short-term debt accordingly rose from 13.9 to 22.6 trillion lire, while net medium and long-term borrowing and fund-raising in the equity market amounted to 20.5 and 33.4 trillion respectively, compared with 26 and 39.2 trillion in 1993.

Figure 17

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



(1) Non-financial corporate and quasi-corporate enterprises. Estimates based on Istat and Bank of Italy data. The figures for 1994 are provisional. Domestic debt consists of bank loans and corporate bonds. Total debt includes finance from non-residents in the form of loans and non-share portfolio investment.

As in 1993, most of the fall in corporate short-term debt concerned foreign currency loans. In the last two years net repayments of such loans granted by banks accepting short-term funds amounted to 38 trillion lire. Medium and long-term foreign currency loans also contracted, albeit by only around 0.7 trillion.

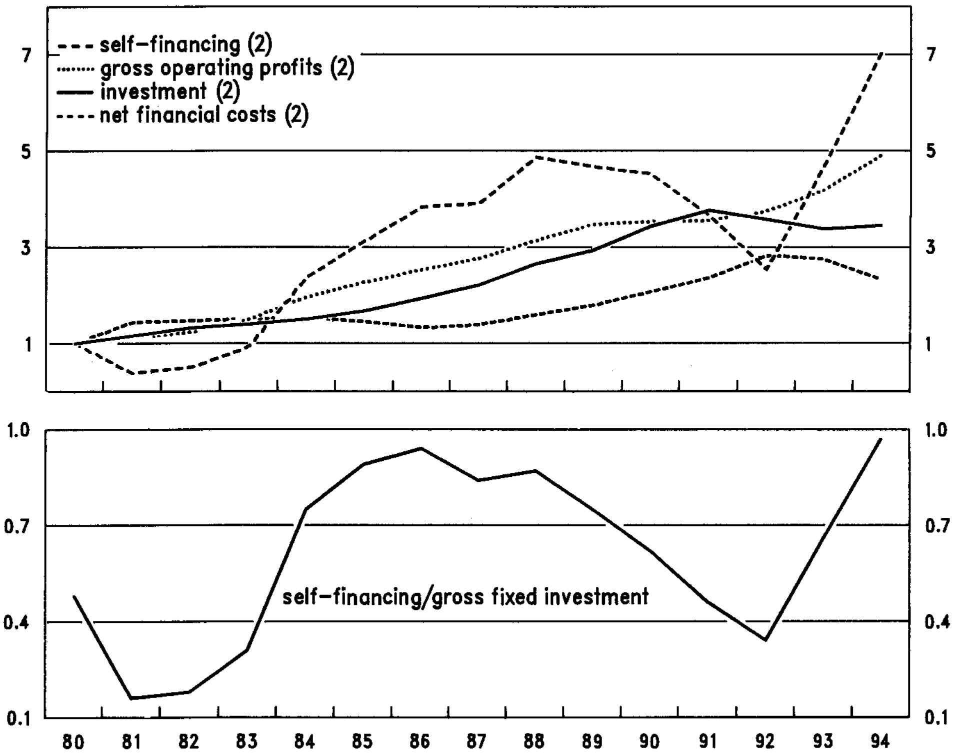
The flow of external liabilities declined from 11.8 to 4.7 trillion lire. This small growth was primarily due to the increase of 6.7 trillion in trade credits, which was only offset in part by net foreign loan repayments of 4.6 trillion.

The flow of firms' financial assets amounted to 48.5 trillion, an increase of 13.3 trillion on the already high level of 1993. In relation to the stock at the end of the previous year, the flow was egual to 8.1 per cent, as against 6.5 per cent in 1993. The largest increase was in the flow of foreign assets, which rose from 9.7 to 24.7 trillion, inclusive of trade credits. These were boosted by the good performance of exports and by expectations that the lira would depreciate. Excluding shares, firms' external assets rose from 35.1 to 37.4 per cent of their stock of financial assets.

The combination of moderate growth in wages and salaries, productivity gains and improved margins on exports following the depreciation of the lira led to a further increase in firms' gross operating profits, which rose by more than three percentage points to 42.6 per cent of value added (Figure 17). This improvement, together with the declive in net financial costs from 14.2 to 11.1 per cent of value added, was reflected in an increase in self-financing and a rise in the proportion of total investment financed internally (Figure 18).

Figure 18

THE BORROWING REQUIREMENT OF FIRMS (1)



(1) Non-financial corporate and quasi-corporate enterprises. Estimates based on Istat and Bank of Italy data. The figures for 1994 are provisional. – (2) Indices, 1980=1.

The reduction in corporate debt and the growth in value added resulted in their ratio declining from 165.2 to 152.1 per cent, which was lower than its value in 1991. At the same time the ratio of debt financing to shareholders' equity fell from 100.3 to 94.8 per cent, compared with 105.7 per cent in 1991.

BANKS AND OTHER CREDIT INTERMEDIARIES

The recession in 1993, the peculiar nature of the present recovery and the fall in the value of government securities combined to produce a poor set of results from the banking sector in 1994. The sharp slowdown in the growth of deposits and lending, the narrowing of the spread between borrowing and lending rates and the pronounced increase in loan write-downs resulted in a substantial fall in profits. Part of the decline was recouped in the first few months of 1995 as the economic recovery gained momentum, loan demand strengthened and the risk attaching to banks assets diminished.

Table 31

BANKS' PRINCIPAL BALANCE-SHEET ITEMS
(12-month percentage rates of change)

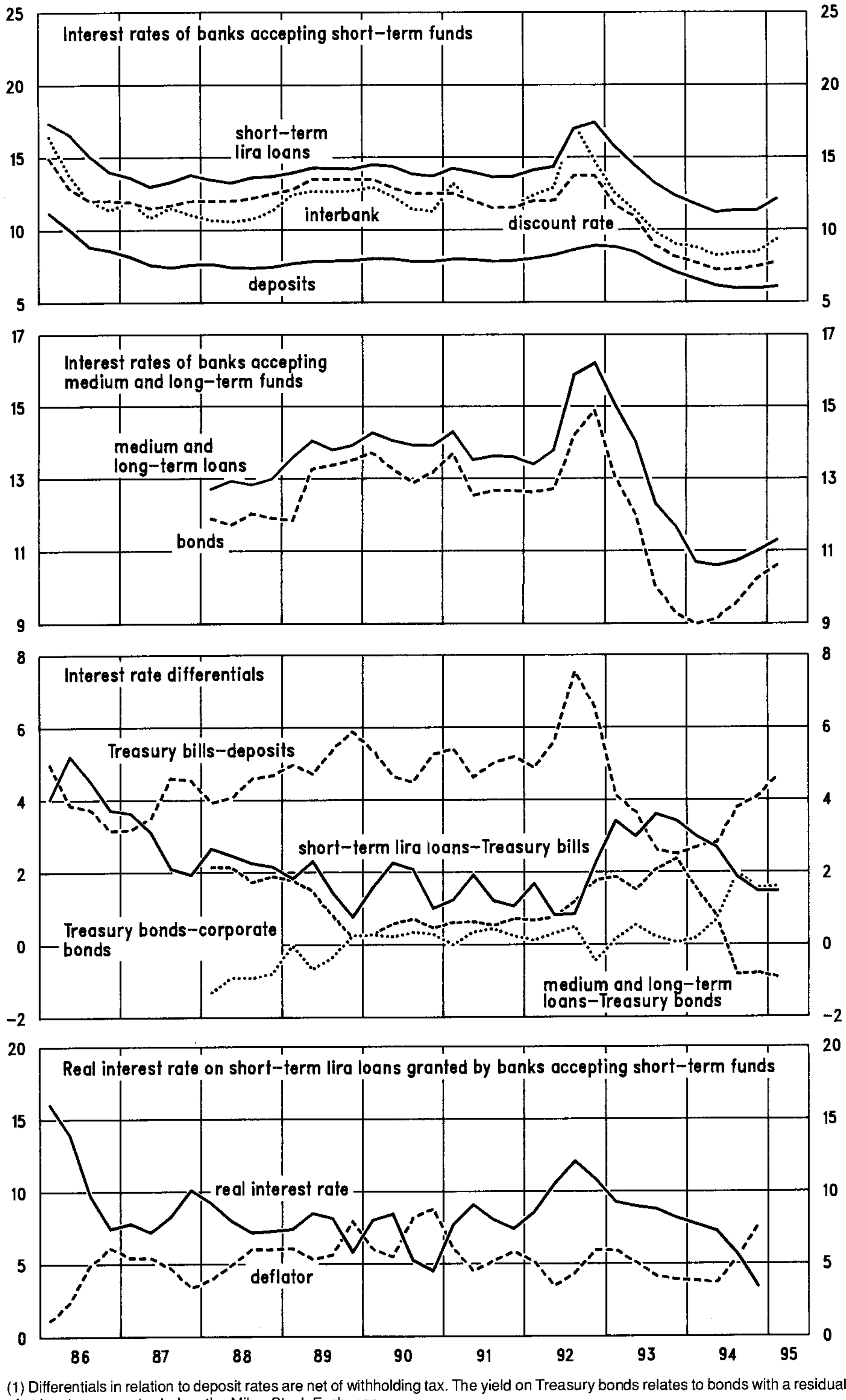
	Dec. 1991	Dec. 1992	1993				1994				1995 Mar. (1)
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	
Assets											
Securities (2)	23.8	19.4	9.5	–1.7	0.8	6.4	17.9	18.8	16.3	9.0	2.2
government securities (2)	*35.9*	*23.5*	*11.2*	*–1.4*	*4.4*	*12.2*	*26.4*	*25.4*	*19.0*	*10.4*	....
Loans (3) (4)	14.3	8.4	6.0	4.5	3.2	2.5	1.7	0.5	0.7	0.9	1.4
short-term (4)	*12.5*	*7.1*	*4.2*	*1.9*	*–1.9*	*–4.0*	*–5.7*	*–7.8*	*–6.0*	*–4.4*	....
medium and long-term	*16.8*	*10.1*	*8.5*	*7.9*	*10.1*	*11.2*	*11.6*	*11.2*	*8.8*	*7.3*	....
Bad debts	16.6	16.0	18.3	22.7	24.1	28.2	32.4	31.5	30.7	29.9	....
Liabilities											
Domestic fund-raising (averages) (5)	9.4	4.2	6.2	5.8	9.6	10.0	9.9	8.2	5.2	2.7	....
Deposits	*8.8*	*3.3*	*5.9*	*5.5*	*9.4*	*8.6*	*7.8*	*5.5*	*2.4*	*0.6*	*–1.1*
current accounts	*10.2*	*–2.3*	*0.6*	*0.3*	*6.2*	*8.9*	*10.5*	*8.8*	*5.6*	*3.2*	*0.5*
medium and long-term CDs	*31.3*	*28.5*	*27.5*	*25.8*	*25.9*	*25.0*	*15.7*	*10.7*	*5.0*	*4.0*	*7.2*
Bonds	*12.4*	*8.7*	*7.5*	*7.0*	*10.6*	*16.5*	*20.1*	*20.9*	*18.3*	*12.1*	....

(1) Provisional data. – (2) Excluding loan conversion securities. – (3) Excluding loans to residents by foreign branches of Italian banks. The foreign currency component is net of exchange rate adjustments. – (4) Including loans converted to securities and settlements of storage agency bills. – (5) For medium and long-term CDs and bonds, average of end-month data for the reference month and the previous month.

Figure 19

INTEREST RATES AND INTEREST RATE DIFFERENTIALS (1)

(percentage points)



(1) Differentials in relation to deposit rates are net of withholding tax. The yield on Treasury bonds relates to bonds with a residual maturity of at least one year traded on the Milan Stock Exchange.

In a year of only moderate growth in investment and substantial corporate self-financing, lending increased by only 0.9 per cent, compared with 2.5 per cent in 1993 (Table 31). It did not pick up until the first four months of 1995, when the twelve-month growth rate rose to 2.3 per cent. In these circumstances banks eased conditions in the loan market somewhat by expanding credit lines more rapidly than the rate of credit drawdown and increasing the proportion of loans granted at rates at or below the prime rate. The real lending rate declined considerably in the course of the year, owing in part to the acceleration in prices and the lag with which lending rates adjust to money market rates (Figure 19). In real terms bank lending contracted by 3.0 per cent in 1994, the largest decrease since the early eighties, and declined from 62.2 to 59.5 per cent of GDP.

The overall performance of lending conceals profound differences according to type of customer, geographical area and maturity. Many firms, especially exporters, were initially able to reduce or limit their bank debt, thanks to their high profits, but subsequently they borrowed to finance investment. For their part, banks were cautious in lending to financial companies and to companies operating in sectors dependent on domestic demand, which remained sluggish, and in particular on public investment, which continued to decline. Despite some deceleration, the growth in lending to general government remained buoyant, largely as a result of the restructuring of the debt of local authorities and other agencies, for which the Treasury provides guarantees.

The divergence in credit behaviour according to economic sector was accompanied to some extent by geographical differentiation, which was reflected in a widening of the differential in lending rates between the South and the Centre-North.

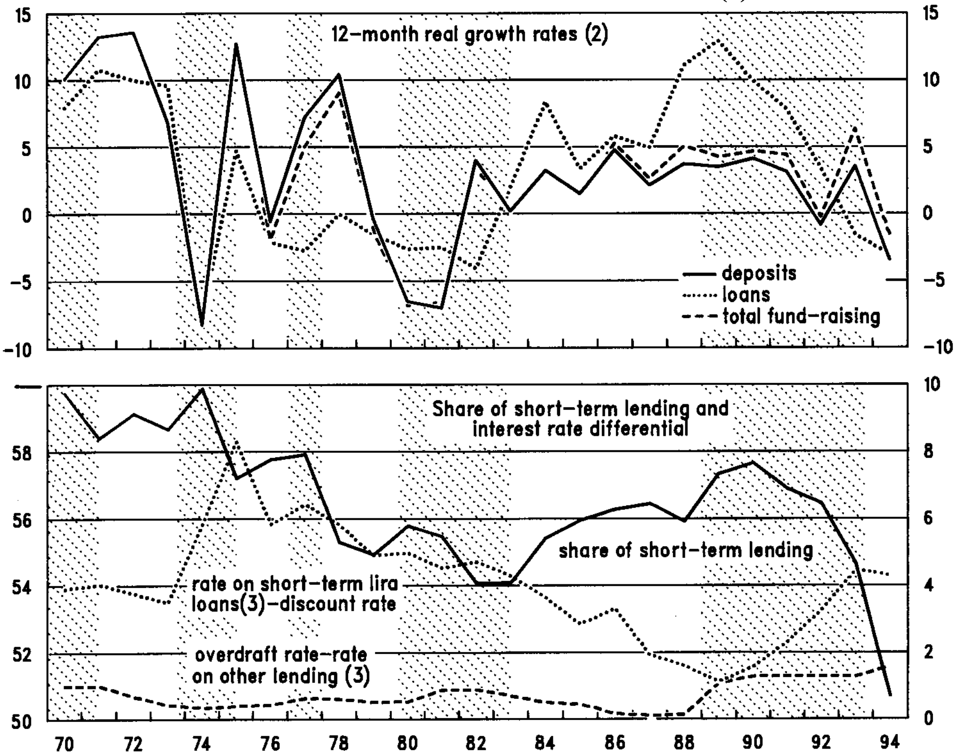
Medium and long-term credit, which is more highly secured, rose by 7.3 per cent. The banks encouraged this trend by widening the differential between overdraft rates and those on other forms of lending (Figure 20), thereby encouraging more profitable firms to continue to adjust the composition of their debt and assisting firms in difficulty. In contrast with the pattern observed in previous recoveries, short-term lending contracted by 4.4 per cent and its share of the total fell from 54.6 to 50.7 per cent. In line with these trends, leasing activity and consumer credit also recovered but not factoring.

The volume of bad and doubtful debts rose above the peaks recorded in previous recoveries, even in relative terms, reaching 8.8 per cent of total loans, compared with 5.7 per cent in 1984.

Given the continued sluggishness of credit activity and the further contraction in short-term lending, banks delayed adjusting their deposit rates to the rise in money market rates. The growth in deposits decelerated sharply, the twelve-month rate of increase falling from 6.5 per cent in May to 0.6 per cent in December (Table 31); over the twelve months ending in April 1995 deposits fell by 2.1 per cent. A number of factors avere involved on the demand ride, including the high yields on government securities, a shift in income distribution from labour to capital — with the related decline in household saving — and an increase in the propensity to hold external rather than domestic financial assets, especially on the part of firms. By contrast, fund-raising through bond issues greve strongly, in keeping with the performance of medium and long-term credit.

Figure 20

VARIATIONS IN BANKING AGGREGATES, MATURITY COMPOSITION AND LENDING RATE DIFFERENTIALS (1)



Source: Central Credit Register.

(1) Shaded areas represent periods of recession in industry. – (2) Deflated using the general cost-of-living index. – (3) For banks accepting short-term funds (excluding the special credit sections they have absorbed).

Foreign operations produced a net inflow of 21.6 trillion lire in 1994, due almost entirely to the reduction of the banks' net creditor position in lire with non-residents, which had increased in 1993 but has now been nearly eliminateti.

As total fund-raising continued to grow more rapidly than lending, the banks' securities portfolios rose by 31.4 trillion lire, compared with 21.1 trillion in 1993. Holdings of short-term paper fell, while those of long-term fixed-rate bonds increased markedly. The decline in bond prices resulted in substantial adjustments to the value of portfolios (about 6.4 trillion lire), which, combined with writedowns of loans, produced a sharp deterioration in profits. Net interest income decreased further, as the spread between average lending and deposit rates narrowed to the smallest differential for fifteen years. Gross income was affected by the steep fall in net profits from securities trading, which outweighed the increase in income from other services. Net income decreased by 27.9 per cent and pre-tax profit by 67.7 per cent.

This year 's Report uses a new classification of banks according to size, which includes the former special credit institutions for the first time. The large number of mergers since 1987, the base year for the previous classification, has led to shifts between size classes and contributed to the increase in the share of total banking intermediation performed by the "major" banks, which are the same eight institutions as in the previous classification.

Lending

Net of loans converted to securities and exchange rate adjustments, lending by resident banks increased by 9.4 trillion lire (0.9 per cent), as a result of a further contraction in their foreign currency lending and a deceleration in the growth of their lira lending. In real terms, their total lending contracted for the first time since the early eighties (Figure 20).

Banks continued to adjust the composition of their loan portfolios by increasing the proportion of medium and long-term lending. Credit of this kind increased by 34.2 trillion lire, or 7.3 per cent, after growing by 11.2 per cent in 1993. This slight slowdown was almost entirely due to the decline in the growth of lending to generai government from 40.0 to 16.3 per cent.

Lending revived in the first few months of 1995, led by lira loans. In April the twelve-month growth rate was 2.3 per cent and the seasonally adjusted annualized rate since the beginning of the year 5.4 per cent. Growth was considerably faster in the case of banks accepting short-term funds, with a twelve-month rate of 3.9 per cent.

Foreign currency lending by resident banks again contracted considerably; net of exchange rate adjustments, the reduction carne to 26.2 trillion lire, or 16.8 per cent. The continued climate of exchange rate uncertainty in the spring and summer and the subsequent significant depreciation of the lira drastically reduced residents' demand for foreign currency loans, which was further diminished by the narrowing of the annual average interest rate differential on domestic currency loans between Italy and the other leading European countries; the differential also decreased in real terms, as measured using the GDP deflator.

Lira lending to residents increased by 35.6 trillion lire, or 4.1 per cent, compared with 7.8 per cent in 1993. The increase in the proportion of medium and long-term credit involved chiefly variatile rate loans and caused a lengthening of the average residual maturity of loans.

The easing of constraints on the supply of bank credit led to a reduction of 2.6 percentage points in annual average short-term rates on lira-denominated loans. The differential with respect to Treasury bills, which had widened in 1993 to its highest value since 1987, decreased last year to the levels prevailing around the turn of the decade (Figure 19).

In the second half of the year the easier conditions in the credit market fostered a modest recovery in lending to industry and producer households, the sectors that have benefited most from the economie upturn. Lending to industry increased by 3.4 per cent after having contracted by 5.4 per cent in 1993. The largest contribution to growth carne from the branches that have profited most from the devaluation of the lira. The recovery in lending did not extend to branches where activity remained sluggish (services, construction and financial companies).

Bad debts. — As in the first half of the eighties, the volume of irrecoverable loans continued to increase substantially even after the recovery in economie activity had begun. Bad and doubtful debts rose by 21 trillion lire in 1994, or 29.9 per cent, compared with the already large increase of 15.5 trillion (28.2 per cent) recorded in 1993. However, data from the Central Credit Register indicates a slowdown of about 3 percentage points in the twelve-month rate of increase in the first quarter of 1995.

By region, the increase in bad debts was more pronounced in the South, where they rose from 12.8 to 16.8 per cent of total lending, more than twice the ratio for the rest of the country. By sector, it was worst among firms in market services and construction and among financial companies.

As in 1993, a significant proportion of credit risk involved medium-sized and large borrowers; 51.4 per cent of net new bad debt was attributable to borrowers who had drawn more than 5 billion lire, compared with 45.8 per cent in 1993. For this group of borrowers, the ratio of bad debts to lending rose to 5.7 per cent, compared with 2.7 per cent in 1992.

Treasury management and securities portfolios

The banks' securities portfolios increased by 31.4 trillion lire during the year, and the ratio of securities to total lending rose from 25.4 to 26.8 per cent.

The growth was the result of net purchases of Treasury bonds totaling 42.3 trillion lire and net disposals of other securities, mainly Treasury credit certificates and short-term paper. The latter fell to 17.9 per cent of the total, stili a historically high value. The proportion of Treasury bonds in the portfolio rose from 21.9 to 31.2 per cent.

Most of the increase in securities portfolios occurred during the first six months of the year, when deposits were stili growing strongly, and was entirely attributable to banks accepting short-term funds; if one excludes the business performed by the special credit sections that have now been absorbed finto the banks themselves, these were the institutions most affected by the weakness of credit demand. By contrast, banks accepting medium and long-term funds reduced their securities portfolios by 6.2 trillion lire.

There was a downturn in repurchase agreements with customers; reverse repos declined by nearly 33 trillion lire and repos by 5.3 trillion, compared with increases of 32.4 and 4.2 trillion respectively in 1993. Reverse repos with customers by banks accepting short-term funds amounted to 93.4 trillion lire at the end of the year, almost ali in lire and with residents. More than 70 per cent of such contracts were with households, but those with non-financial firms increased by nearly 4 trillion lire last year, thus rising from 7 to 12 per cent of the total.

Deposits and borrowed funds

Bank deposits increased by 0.6 per cent to 862.4 trillion lire in 1994, whereas they had risen by 8.6 per cent the previous year (Table 31). They declined in real terms, recording the worst performance since 1981 (Figure 20).

The behaviour of deposits should be seen in the context of the modest growth in the domestic financial assets of the non-state sector, in particular those of households. It also reflects the function of deposits as a short-term buffer with respect to fluctuations in financial wealth. In fact, the ratio of deposits to total domestic financial assets fell to 36.1 per cent, compared with 36.9 per cent at the end of 1993. A significant part of the decline was due to the banks' decision not to adjust their deposit rates fully to market yields on government securities; net of withholding tax, the differential between the yield on Treasury bills and the average deposit rate widened from 2.9 to 4.4 points.

The tendency for deposits to polarize into current accounts on the one hand and certificates of deposit for terms of 18 months or more on the other became more pronounced last year, and the reduction in savings accounts that has been under way since 1988 continued. In response to the revival in consumption, current account balances increased by 3.2 per cent (Table 31) to 26.6 per cent of GDP. At the same time, CDs for terms of less than 18 months decreased by 19.5 per cent, with the sharpest decline being in the maturity range between 6 and 12 months. In line with the shift towards longer-term lending, CDs for terms of 18 months or more increased by 4.0 per cent.

These movements should be viewed in connection with the reform of compulsory reserves, which exempted CDs not redeemable for 18 months or more from the reserve requirement as part of the measures to standardize the treatment of all categories of bank. Together with the reduction of the marginal reserve ratio from 17.5 to 15 per cent, this resulted in a decline in the compulsory reserves of banks accepting short-term funds from 13.1 to 11.3 per cent of their deposits.

After adjusting for exchange rate variations, the foreign currency deposits of banks accepting short-term funds (excluding the special credit sections that have been absorbed into the banks themselves) increased by 100 billion lire, or 1.0 per cent, in line with the growth in lira deposits. At the end of the year they amounted to 14.8 trillion lire.

The overall growth of bonds in issue slowed to 12.1 per cent; the share of floating rate instruments diminished slightly, falling from 55.4 to 54.6 per cent. The outstanding bonds of banks accepting short-term funds increased by 12.4 per cent. The average yield on the bonds of a sample of banks accepting longer-term funds rose over the year by 1.6 percentage points.

Banks accepting short-term funds were authorized to issue straight bonds in January 1994. Previously, except for the special credit sections they have now absorbed, they were only allowed to issue convertible bonds and bonds with warrants. Excluding the aforementioned special credit sections, their total bonds in issue rose last year from 600 billion to 4.2 trillion lire.

Profit and loss accounts

Banks' net interest income dropped by 4.7 trillion lire, or 7.3 per cent, compared with a decline of 0.5 per cent in 1993 (Table 32). The spread between the average rate of return on lira loans and the average cost of domestic lira funds narrowed by 0.7 points to 5.5 percentage points, reflecting the fact that short-term lending rates carne down faster than those on deposits in the first part of the year. Another contributory factor was the shift towards longer maturities, where the spreads are narrower. Interest income continued to be adversely affected by debt restructuring agreements with firms in difficulty. The increase in bad and doubtful debts resulted in a loss of income estimated at nearly 2 trillion lire on the basis of prevailing yields.

Income from securities trading, which had generated very substantial profits in 1993, fell by about 60 per cent. Total non-interest income consequently declined by 19.5 per cent, even though net income from other services increased. Gross income decreased by 10.9 per cent, or from 4.07 to 3.45 per cent of total assets.

The rise in staff costs slowed to 2.0 per cent, as the number of employees fell by 1,600, or 0.5 per cent, and the increase in costs per employee declined from 3.4 to 2.5 per cent. Other operating costs diminished, so that total operating expenses remained virtually unchanged. Net income contracted by 27.9 per cent.

The fall in bond prices resulted in substantial value adjustments to banks' securities portfolios, totaling 6.4 trillion lire. Net of value readjustments, loan writedowns charged to income decreased from the very high level of 1993; allocations to loan loss provisions also diminished. The cost of providing for losses on loans accordingly fell by about one third. Profit before tax contracted from 18.0 to 5.8 trillion lire. The number of banks that made a pretax loss rose from 24 to 47 and the total amount of such losses rose from 1.7 to 4.2 trillion lire. Partly owing to their smaller trading portfolios, the decline in the pretax profit of banks accepting medium and long-term funds was much less severe (27.3 per cent).

Though banks' income tax liabilities fell from 12.6 to 5.4 trillion lire, this was almost exactly equal to their pretax profit, so that net profit was just 0.02 per cent of total assets.

Other credit intermediaries

Leasing companies. — Leasing business started to expand again in 1994. Net of leasing rentals, the credit implicit in outstanding contracts increased

Table 32

PROFIT AND LOSS ACCOUNTS OF BANKS (1)

	1991	1992	1993	1994	1991	1992	1993	1994
	As a percentage of total assets				**Percentage changes**			
Net interest income (a)	**3.23**	**3.21**	**2.88**	**2.54**	**8.2**	**18.4**	**–0.5**	**–7.3**
Non-interest income (b)	**1.04**	**0.74**	**1.19**	**0.91**	**6.3**	**–14.6**	**77.2**	**–19.5**
securities trading	*0.50*	*0.24*	*0.61*	*0.24*	*6.6*	*–41.4*	*175.2*	*–58.2*
services	*0.14*	*0.10*	*0.23*	*0.30*	*–12.6*	*–16.0*	*153.6*	*36.5*
financial operations	*0.16*	*0.15*	*0.13*	*0.14*	*5.7*	*16.5*	*–8.1*	*15.3*
Gross income (c=a+b)	**4.27**	**3.95**	**4.07**	**3.45**	**7.8**	**10.3**	**14.1**	**–10.9**
Operating expenses (d)	**2.78**	**2.61**	**2.50**	**2.37**	**12.6**	**12.0**	**6.1**	**–0.1**
staff costs	*1.81*	*1.67*	*1.57*	*1.52*	*11.8*	*10.1*	*4.2*	*2.0*
Net income (e=c–d)	**1.49**	**1.34**	**1.57**	**1.08**	**–0.3**	**7.3**	**29.8**	**–27.9**
Value adjustments, readjustments and allocations to provisions (f)	**0.55**	**0.64**	**0.77**	**0.83**	**–6.0**	**37.7**	**34.1**	**13.3**
loan losses	*0.51*	*0.49*	*0.70*	*0.47*	*3.9*	*14.1*	*57.6*	*–29.3*
Profit before tax (g=e–f)	**0.94**	**0.70**	**0.80**	**0.25**	**3.5**	**–10.6**	**26.0**	**–67.7**
Tax (h)	**0.42**	**0.37**	**0.56**	**0.23**	**10.9**	**4.8**	**67.5**	**–57.5**
Net profit (g–h)	**0.52**	**0.33**	**0.24**	**0.02**	**–1.9**	**–23.2**	**–20.5**	**–91.7**
Dividends	0.17	0.17	0.15	0.12	9.4	19.7	–5.2	–18.3
	Other data							
	Amounts				**Percentage changes**			
Total assets (*billions of lire*)	1,705,641	2,032,740	2,250,183	2,366,600	10.3	19.2	10.7	5.2
Number of employees	337,441	338,960	340,898	339,297	2.0	0.5	0.6	–0.5
Total assets per employee (*millions of lire*) at current prices	5,055	5,997	6,601	6,975	8.2	18.6	10.1	5.7
at constant prices (2)	4,755	5,369	5,656	5,745	1.8	12.9	5.4	1.6
Staff costs per employee (*millions of lire*) at current prices	92.5	101.4	104.8	107.5	9.7	9.6	3.4	2.5
at constant prices (2)	87.0	90.8	89.8	88.5	3.2	4.3	–1.0	–1.5

(1) Rounding may cause discrepancies in totals. The data for 1994 are provisional. – (2) Deflated using the consumer price index (1990=100).

by 2.8 trillion lire, or 6.9 per cent, compared with a contraction of 200 billion, or 0.6 per cent, in 1993. After two years of decline, the value of new contracts rose by 2.2 trillion, or 12.5 per cent.

The growth of leasing finance resulted in the exposure of leasing companies to the banking system rising to 39.3 trillion lire by the end of the year. Bad and doubtful debts remained at a high level, but began to decline. At the end of 1994 overdue instalments and those subject to recovery proceedings totaled 2.8 trillion lire, compared with 3.3 trillion a year earlier. The average interest rate on new contracts declined by more than 2 points, from 15.8 to 13.4 per cent.

Factoring companies. - In contrast with the other banking-related intermediaries, factoring companies recorded a further decline in their activity. The stock of acquired claims (including bad and doubtful debts) contracted by 3.6 per cent to 30.3 trillion lire, following a fall of 6.4 per cent in 1993.

A number of large bad and doubtful debts were acquired without recourse from banks within the factoring companies' own groups. These operations, which resulted in a perceptible deterioration in asset quality, attenuated the contraction of business volume.

The finance granted to customers decreased by 15.1 per cent, compared with a decline of 2.3 per cent in 1993. At the end of the year the total outstanding was equal to 23.2 trillion lire, while borrowing from the banking system amounted to 16.4 trillion.

Consumer credit. - After two consecutive years of decline, consumer credit staged a modest recovery. The total amount outstanding rose by 3.7 per cent to 33.7 trillion lire, as the result of a further contraction, equal to 1.8 per cent, in consumer credit granted by banks accepting short-term funds and an increase of 12.5 per cent in credit granted by specialized finance companies.

After falling in 1993, the proportion of consumer credit companies' lending that was linked to the purchase of goods rose from 70.9 to 73.4 per cent. The rise was due mainly to the growth in loans for the purchase of vehicles, which accounted for 53.2 per cent of outstanding contracts, compared with 50.3 per cent in 1993.

Bad and doubtful debts remained statile and declined from 7.7 to 7.2 per cent of total outstanding credit. The interest rates charged fell by more than 3.5 percentage points over the year.

INSTITUTIONAL INVESTORS

Last year saw an increase in the share of financial savings entrusted to investment funds, portfolio management services, insurance companies, pension funds and securities firms. After adjusting for flows within the sector, their net fund-raising amounted to 60.4 trillion lire (Table 33), slightly less than the very high figure of 63.7 trillion lire recorded in 1993. Institutional investors' share of the increase in households' financial assets rose from 30 per cent in 1993 to 41 per cent. Portfolio management services recorded the fastest growth and, together with investment funds, accounted for 72 per cent of the savings entrusted to institutional investors, an increase of 1 percentage point compared with the previous year. Insurance companies' share of the flow of financial savings rose from 20 to 26 per cent, while that of pension funds and securities firms trading on own account fell from the already modest figure of 9 per cent to 2 per cent.

Table 33

INSTITUTIONAL INVESTORS: NET FUND-RAISING

(billions of lire)

	1992	1993	1994	Percentage composition		
				1992	1993	1994
Investment funds (1)	–437	31,913	23,667	–1.5	49.9	30.1
Portfolio management services (1)	8,748	13,254	33,775	30.5	20.7	41.9
Insurance companies (2)	19,236	12,699	20,687	67.0	19.9	26.3
Pension funds (2) (3)	193	4,604	830	0.7	7.2	1.1
Securities firms (4)	978	1,449	467	3.4	2.3	0.6
Total	**28,718**	**63,919**	**78,526**	**100.0**	**100.0**	**100.0**
Percentage change	–	*122.6*	*22.9*			
Consolidated total (5)	**28,678**	**63,669**	**60,396**			
Percentage change	–	*122.0*	*–5.1*			

(1) Net fund-raising minus dividends paid. – (2) Change in technical reserves. – (3) The figure for 1994 is estimated. – (4) Change in book value. – (5) Net of flows within the sector.

After accelerating sharply in the first quarter, fund-raising by investment funds and, to a lesser extent, portfolio management services slowed down considerably as turbulence increased in the financial markets;

in both cases the flow turned negative in the fourth quarter. By contrast, the assets managed by insurance companies, which are less affected by fluctuations in the financial markets, grew by 17.2 per cent in 1994, with an acceleration in the second half the year.

Even though the fall in securities prices eroded their value by 2.8 per cent, institutional investors' net assets grew by 11.2 per cent to 526 trillion lire at the end of the year. As a proportion of households' financial assets, they rose from 16 to 17 per cent (Table 34).

Table 34

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

(end-of-period data)

	1986	1989	1990	1992	1993	1994
Investment funds	4.5	2.7	2.3	2.5	3.9	4.2
Portfolio management services	3.3	3.0	3.2	4.0	4.8	5.8
Insurance companies (1)	2.4	3.4	3.7	4.1	4.0	4.0
Pension funds (2)	....	....	0.6	3.1	2.9	2.8
Securities firms (3)	–	–	–	0.0	0.3	0.2
Total ...	**10.2**	**9.1**	**9.8**	**13.8**	**15.9**	**17.0**

(1) Technical reserves, excluding securities entrusted to portfolio management services. – (2) The figure for 1994 is estimated. – (3) Securities firms' own trading portfolios.

Average rates of total return on assets were much lower than in the previous year, especially from the summer onwards, owing to the fall in securities prices. Investment funds, notably those specializing in bonds, were affected most, and their net fund-raising fell from 32.4 to 25.5 trillion lire. The smaller proportion of the assets of portfolio management services in the form of fixed rate securities and shares made them less vulneratile to interest rate risk and equity market volatility. Their fund-raising was consequently less affected by the turbulence in markets and, with new market participants contributing 18 trillion lire, rose from 13.3 to 33.8 trillion. The portfolio management services' share of total household financial assets rose from 4.8 to 5.8 per cent. Securities firms increased their portfolio management business considerably; at the same time they substantially reduced their own holdings of trading securities.

The negative fund-raising by investment funds and portfolio management services in the last part of 1994 continued finto the first quarter of 1995, with net redemptions of 4.3 and 5.2 trillion lire respectively.

The share of savings entrusted to institutional investors directly or indirectly controlled by banks rose from 58 to 65 per cent. The increase was entirely due to the transfer of resources within the sector from insurance companies to portfolio management services, notably new bank entrants to the market. Banks' market share in terms of net assets rose by 2 percentage points to 49 per cent.

Pursuant to the agreement between the trade unions and the Government on the reform of the public pension system, the Government has submitted a bili to Parliament amending the law on supplementary pension plans. The new legai framework will make it possible to overcome the obstacles that have hindered the development of pension funds.

Securities investment funds

The fall in securities prices in the second half of the year had an adverse effect on the sector's net fund-raising. This steadily declined from a very high monthly average of 8.5 trillion lire in the first quarter and Bave way to net monthly redemptions of more than 1 trillion lire in the last four months of the year. In contrast with 1993, most of the inflow went to equity funds, which had net subscriptions totaling 18 trillion lire, compared with 4.1 and 3.4 trillion respectively for bond-based and mixed funds (Table 35).

Table 35

NET ASSETS OF ITALIAN INVESTMENT FUNDS

(billions of lire)

	Net fund-raising		Dividends paid		Capital gains/losses (1)		Net assets (2)		
	1993	1994	1993	1994	1993	1994	December 1992	December 1993	December 1994
Bond-based	26,752	4,071	1,532	1,758	9,031	–1,049	37,778	72,029	73,293
Linked to current accounts	*13,055*	*324*	*32*	*47*	*2,864*	*709*	*12,164*	*28,051*	*29,037*
Mixed	597	3,376	13	30	2,851	1,290	10,032	13,467	18,103
Share-based	6,113	18,008	4	–	5,635	–3,832	12,853	24,597	38,773
Total ..	**33,462**	**25,455**	**1,549**	**1,788**	**17,517**	**–3,591**	**60,663**	**110,093**	**130,169**

(1) Including coupons and interest received and management costs. – (2) The change in net assets is equal to the sum of fund-raising and capital gains (losses) minus dividends paid.

Investment funds' net assets rose by 20.1 trillion lire to 130.2 trillion. However, the increase was less than the value of net subscriptions adjusted for the dividends paid during the year, which was equal to 23.7 trillion. The difference corresponds to the 3.6 trillion of losses recorded under the item capitai gains/losses, which also includes income from securities and management costs. Since these losses exceeded the 1.8 trillion of dividends paid out, investment funds' average rate of total return was negative (-2.3 per cent).

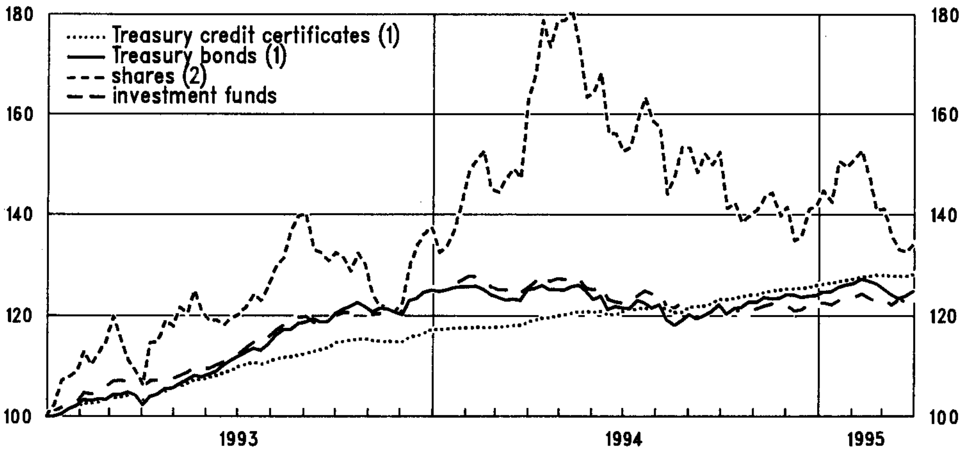
The share of total net assets attributable to fund management companies controlled by banks fell from 60.5 to 58.8 per cent. The sharp rise in the share in 1993 had been due to the rapid growth in fund-raising by funds linked to current accounts, which remained virtually unchanged in 1994. The stagnation appears to have reflected a generai declive in banks' propensity to promote deposit growth.

The rates of total return achieved by investment funds avere widely dispersed in 1994; in contrast with 1993, their correlation with variability was negative on average for bond-based funds. The volatility of securities prices (Figure 21) had an especially large impact on the rates of total return of equity-based funds, which had to cope with swings in the stock market index on the order of 30 per cent; the average return achieved by these funds was minus 3.3 per cent, compared with a rise of 3.3 per cent in the Mib index, which does not include dividend payments on listed shares. Bond-based and mixed funds limited their negative returns to minus 1.2 and 0.9 per cent respectively, compared with an average rise in the indices of total return on government securities of 2.2 per cent, net of the 12.5 per cent withholding tax.

Figure 21

SECURITIES MARKET: INDICES OF TOTAL RETURN

(31 December 1992=100; end-of-week data)



(1) Net of the 12.5 per cent withholding tax. – (2) Mib index.

Net purchases of government securities fell from 17.7 to 12.1 trillion lire. Variable rate securities accounted for about two thirds of purchases, in contrast with 1993, when there had been net sales of such instruments. The share of Treasury bonds in portfolios, which had risen considerably in 1993 in parallel with the sharp fall in interest rates, declined from 24.3 to 18.0 per cent. By contrast, holdings of short-term and variable rate securities denominated in lire (notably Treasury bills and credit certificates) increased by 8.5 trillion lire and from 20.8 to 26.3 per cent of the total portfolio.

Net purchases of Italian shares rose from 2.2 to 8.9 trillion lire. As in 1993, the depreciation of the lira encouraged funds to increase the proportion of securities denominated in foreign currency in their portfolios. However, in contrast with the previous year, they preferred shares to bonds, with net purchases of the former totaling 4.5 trillion lire, compared with only 1.7 trillion for the latter.

Portfolio management services and securities firms

Portfolio management services. — The value of the assets entrusted to the portfolio management arms of banks, securities firms and trust companies rose by 26.6 per cent to 181 trillion lire (Table 36). Nearly half of the rise was attributable to the transfer of assets from the insurance sector when a new bank entrant started operations in the third quarter.

Table 36

ASSETS OF PORTFOLIO MANAGEMENT SERVICES

(end-of-period data; billions of lire)

	December 1993	1994				March 1995 (1)
		March	June	September	December	
Italian securities	**116,595**	**125,506**	**135,775**	**152,811**	**151,202**	**145,452**
Government securities	97,173	103,771	110,771	120,761	119,892	116,410
Bonds (2)	14,849	15,586	16,551	22,970	22,547	20,904
Shares	4,573	6,149	8,606	9,080	8,763	8,138
Foreign currency securities	**13,576**	**14,593**	**13,253**	**12,698**	**13,480**	**17,859**
Bonds (3)	12,687	13,556	12,157	11,681	11,953	16,345
Shares	889	1,037	1,096	1,017	1,527	1,514
Total assets	**142,929**	**157,241**	**165,276**	**182,224**	**180,959**	**177,428**
of which: *banks* (4)	*117,457*	*128,905*	*136,280*	*135,063*	*133,032*	*129,453*
securities firms	*7,641*	*8,948*	*9,460*	*27,646*	*29,073*	*29,905*
trust companies	*17,831*	*19,388*	*19,536*	*19,515*	*18,854*	*18,070*
Memorandum item:						
Net fund-raising (5)	**8,118**	**11,904**	**6,918**	**17,765**	**–2,812**	**–5,197**
of which: *banks* (4)	*6,547*	*9,888*	*6,692*	*–422*	*–3,488*	*–4,620*
securities firms	*441*	*555*	*–400*	*18,139*	*1,347*	*307*
trust companies	*1,130*	*1,461*	*626*	*48*	*–671*	*–884*

(1) Provisional. – (2) Includes certificates of deposit with maturity of more than 18 months. – (3) Includes foreign government securities. – (4) Services performed directy by banks. – (5) Flows in the quarter ending in the month indicated.

The value of net assets under management, adjusted to exclude net fund-raising, increased by an average of 2.8 per cent, a significantly better performance than that of investment funds. The difference was largely due to the smaller proportion of fixed rate securities and shares in the services' portfolios. The various categories of intermediary did not contribute equally to the overall result. The net assets of securities firms increased by 22 per cent and those of banks by 2.4 per cent, whereas those of trust companies declined by 2.2 per cent. In contrast with the management services of banks and trust companies, securities firms were quick to dispose of part of their holdings of fixed rate lira securities and invest in short-term paper and foreign currency securities. This strategy protected their portfolios against capital losses and substantially improved their rates of total return.

Securities firms. — Securities firms' own securities portfolios contracted by 39 per cent to 5.5 trillion lire, mainly owing to the fall in the prices of fixed rate securities but also as a result of disposals of foreign currency securities, which declined from 10 to 8 per cent of firms' total portfolio. The perception that bonds no longer held out the prospect of capital gains arising from reductions in interest rates led securities firms to dose out debt-financed positions; the net value of their outstanding repurchase agreements and *riporti* contracts fell from 2.3 trillion lire at the end of 1993 to 800 billion at the end of the year.

The number of securities firms was virtually unchanged, which suggests that the market has settled down, even though it is stili highly fragmented.

Margins on securities business remained thin: net management commissiona were again around 0.6 per cent of the value of managed funds, while net earnings from trading on behalf of customers were equal to 0.3 per cent of turnover, or slightly less than in 1993.

Trading on own account made the largest contribution to securities firms' income (around 77 per cent), even though their volume of business on behalf of customers was 1.4 times that of banks. Firms again effected the largest number of trades in the equity market; those on own account in Italian shares amounted to nearly 45 per cent of the total number of trades on the Milan Stock Exchange.

Insurance companies and pension funds

Insurance companies. — The domestic premium income of insurance companies amounted to 36.8 trillion lire in the casualty sector and 18.6

trillion in the life sector. The growth in premium income in the casualty sector slowed sharply from 6.9 to 4.8 per cent, responding with a lag to the recession. By contrast, the growth in premium income in the life sector accelerated from 21.1 to 22.9 per cent.

The share of premiums paid via the branches of banks rose from 13 to 16 per cent, following the further increase in the number of agreements for the latter to market life insurance policies.

Total technical reserves rose from 120.5 to 141.2 trillion lire (Table 37). In the life sector the large increase coincided with a rise, to over 70 per cent, in the proportion of policies offering index-linked benefits, which have a substantial financial component.

Total assets increased by 12.3 per cent; the value of the securities portfolio rose by 2.8 per cent and that of real estate by 2.5 per cent.

Table 37

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 items: 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	1,869	75,703	1,884	12,819	121,938	70,893	22,197	15,143
1994 (5)	2,302	72,410	1,705	12,406	140,904	85,621	23,658	18,613
				Casualty sector				
1992	2,324	41,554	976	10,822	94,463	45,437	19,490	32,845
1993	2,294	47,026	1,179	10,804	99,291	49,645	20,575	35,110
1994 (5)	3,354	53,732	2,271	11,810	107,640	55,604	22,314	36,790
				Total				
1992	4,374	100,061	3,742	20,229	193,955	107,839	33,909	45,353
1993	4,163	122,729	3,063	23,623	221,229	120,538	42,772	50,253
1994 (5)	5,656	126,142	3,976	24,216	248,544	141,225	45,972	55,403

(1) In lire and foreign currency, including participations; excluding securities entrusted to portfolio management services. – (2) Net of corresponding liabilities. – (3) Excluding reinsurance. – (4) Direct domestic business. – (5) Partly estimated.

The changes in the composition of insurance companies' securities portfolio, which does not include securities entrusted to portfolio management services, differed from those registered by the other categories of institutional investor (Table 38). The share of government securities grew from 52 to 53 per cent, as a result of the increase in that of Treasury bonds, and that of Italian shares from 12 to 13 per cent, while that of foreign currency securities was unchanged at 15 per cent.

Table 38

INSURANCE COMPANIES: SECURITIES PORTFOLIO (1)

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

	Public sector					Banks accepting medium and long-term funds (2)	Enter-prises and public bodies	Shares	Foreign currency securities	Invest-ment fund units	Total
	Trea-sury bills	Treasury credit certifi-cates	Treasury 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 ...	612	22,508	17,216	4,020	44,356	13,011	3,194	5,898	8,849	395	75,703
1994 (3)	1,018	20,374	20,577	3,189	45,158	9,368	1,521	6,891	9,107	365	72,410
					Casualty sector						
1992 ...	128	12,404	2,354	1,528	16,414	6,869	1,854	8,985	7,377	55	41,554
1993 ...	249	11,296	6,416	1,380	19,341	8,043	1,709	8,769	9,089	75	47,026
1994 (3)	321	12,449	7,626	1,395	21,791	9,081	1,453	11,243	10,035	129	53,732
					Total						
1992 ...	504	33,474	11,724	6,360	52,062	16,588	5,230	12,324	13,694	163	100,061
1993 ...	861	33,804	23,632	5,400	63,697	21,054	4,903	14,667	17,938	470	122,729
1994 (3)	1,339	32,823	28,203	4,584	66,949	18,449	2,974	18,134	19,142	494	126,142

(1) Excluding securities entrusted to portfolio management services. – (2) Including certificates of deposit. – (3) Partly estimated.

Pension funds. — At the end of 1993, the most recent year for which complete data are available, the total assets of the eighteen largest non-INPS pension funds set up by public and professional bodies amounted to 64.1 trillion lire, an increase of 2.2 trillion from a year earlier (Table 39). The assets of pension funds operated by banks rose by 2.4 trillion lire to 21.5 trillion. The share of pension funds in households' financial assets nonetheless declined from 3.1 to 2.9 per cent.

The share of savings managed by pension funds diminished slightly in 1994, despite the start made in 1993 on the reform of supplementary pensions.

Table 39

PENSION FUNDS: MAIN ASSETS

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

	1992			1993			1994
	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	13,377	811	14,188	13,865	840	14,705	408
Government securities	14,070	10,232	24,302	13,186	11,591	24,777	11,187
Bonds	3,311	1,241	4,552	3,105	1,134	4,239	2,189
Shares	33	1,305	1,338	33	1,435	1,468	1,979
Foreign currency securities	13	598	611	13	858	871	533
Loans and other financial assets	10,423	887	11,310	10,816	939	11,755	973
Real estate	20,649	3,991	24,640	23,075	4,655	27,730	5,013
Total assets	**61,876**	**19,065**	**80,941**	**64,093**	**21,452**	**85,545**	**22,282**

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

Real estate accounted for the greater part of the increase in pension fund assets, and its share of the total rose from 30 to 32 per cent, taking it above that of government securities, which fell by one percentage point to 29 per cent.

The reserves of the credit sector funds rose by 800 billion lire in 1994. As regards the composition of their portfolio, the shares of govemment and foreign securities decreased, while those of real estate and lira bonds increased, as did that of shares, which rose from 7 to 9 per cent.

THE SECURITIES MARKET

In a year in which bond prices were weaker and more volatile in Italy than in most of the other leading industrial countries, the size and efficiency of the market for government securities made it possible to maintain orderly trading and allowed the Treasury to meet its funding needs. The rally in share prices until May encouraged listed companies to raise large amounts of equity capital and facilitated the placement of the shares of privatized companies. Even though share prices subsequently fell, they showed a rise over the year, a result that can be considered satisfactory in comparison with the falls on the leading foreign stock markets.

The weakness of government securities prices was partly due to expectations of a deterioration in inflation and the public finances. Financial and political uncertainty increased the premium investors required to hold Italian Treasury securities denominated in lire. The yield on ten-year Treasury bonds rose by 5 percentage points between the end of 1993 and the second half of March 1995, when it was egual to 13.7 per cent and 6.6 percentage points higher than the comparatile figure for German securities. On 26 May 1995 the yield on ten-year BTPs was 12.5 per cent and the differential compared with Bunds egual to 5.8 points.

In the early months of the year the equity market benefited from the prospect of a cyclical improvement in profitability and foreign investors' share of demand rose. From May onwards, the trend reversed as political and financial uncertainty greve: new issues, tumover and prices all fell. Last year was nonetheless a positive one in several respects: share issues rose to a new high of 18 trillion lire and tumover increased by 87 per cent compared with 1993.

Bonds and government securities

Supply. — Excluding the securities placed with the Bank of Italy to consolidate the overdraft on the Treasury's old current account and provide the resources for its new payments account, net issues of bonds and government securities rose by 18.4 trillion lire to 174.2 trillion (Table 40).

Table 40

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS

	Gross issues		Net issues		Stocks	
	1993	1994	1993	1994	Dec. 1993	Dec. 1994
			billions of lire			
Public sector	**958,222**	**935,100**	**131,938**	**154,051**	**1,455,305**	**1,620,938**
Treasury bills	737,345	679,500	6,480	19,154	394,358	413,512
Treasury credit certificates (1)	46,000	60,767	10,613	37,629	507,537	546,104
Treasury bonds (1)	145,452	167,574	117,900	104,458	405,003	517,054
Treasury option certificates	–	–	–7,041	–3,108	63,204	60,096
Ecu Treasury credit certificates	12,838	17,665	–656	2,736	49,524	55,311
Other (2)	16,687	9,594	4,642	–6,818	35,679	28,861
Banks	**44,185**	**43,252**	**26,213**	**22,259**	**192,335**	**214,882**
Firms	**4,950**	**4,285**	**–2,341**	**–2,070**	**32,201**	**30,154**
Total ...	**1,007,457**	**982,637**	**155,810**	**174,240**	**1,679,841**	**1,865,974**
			percentage composition			
Public sector (3)	**95.1**	**95.2**	**84.7**	**88.4**	**86.6**	**86.9**
Treasury bills	76.9	72.7	4.9	12.4	27.1	25.5
Treasury credit certificates (1)	4.8	6.5	8.0	24.4	34.9	33.7
Treasury bonds (1)	15.2	17.9	89.4	67.8	27.8	31.9
Treasury option certificates	–	–	–5.3	–2.0	4.3	3.7
Ecu Treasury credit certificates	1.3	1.9	–0.5	1.8	3.4	3.4
Other (2)	1.8	1.0	3.5	–4.4	2.4	1.8
Banks	**4.4**	**4.4**	**16.8**	**12.8**	**11.5**	**11.5**
Firms	**0.5**	**0.4**	**–1.5**	**–1.2**	**1.9**	**1.6**
Total ...	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
as a percentage of GDP ...	*65.0*	*59.9*	*10.1*	*10.6*	*108.4*	*113.7*

(1) Excludes the Treasury credit certificates with a face value of 10 trillion lire and the Treasury bonds with a face value of 20 trillion lire issued in December 1993 to finance the new Treasury payments account. – (2) Excludes the 76,206 billion lire of securities issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy. – (3) The percentages shown for the various types of government security are ratios to the total of public sector securities.

The rise in yields during the year halted the increase in the proportion of fixed rate paper in net issues of government securities. Notwithstanding the greater variability of interest rates, the increase in the proportion of variatile rate securities made it possible to maintain the residual maturity of the debt at the value reached in the early part of 1994; at the end of the year, excluding the aforementioned long-term securities issued to the Bank of Italy, it was equal to three years, compared with two years and nine months at the end of 1993.

Two innovations regarding govemment securities were introduced at the beginning of this year. In January the mechanism for determining the interest rate on new issues of Treasury credit certificates was modified with the aim of making it easier for investors to manage risk. The reference rate is now that on six-month Treasury bills and the interval between revisiona is equal to the period over which coupons mature, so that they are now brought finto line with market rates more promptly. At the end of February the range of instruments was broadened with the introduction of two-year zero-coupon Treasury certificates.

The Treasury continued its funding in foreign markets last year, with issues denominated in German marks, dollars and yen; net of redemptions, the amount raised was equal to 16.1 trillion lire, compared with net issues of 22.2 trillion in 1993.

The favourable interest rate conditions in the market for Eurolira bonds continued to encourage the supply of such instruments. Gross issues rose from 19.6 trillion lire in 1993 to 27.2 trillion last year and totaled 8.8 trillion in the first quarter of this year.

Demand. — The reduction in foreign investors' demand for govemment securities last year was only partially offset by the increase in the purchases of households and enterprises. The total demand of these sectors fell from 88.8 to 70.8 trillion lire (Table 41). Most of the contraction was due to the fall in their net purchases of Treasury bonds from 88.5 to 38.4 trillion, while their net sales of Treasury bills gave way to a small volume of net purchases. Their net purchases of Treasury credit certificates increased.

Among domestic investors, banks made the largest contribution to demand. Their substantial net purchases of 31.6 trillion lire were mainly the result of net purchases of Treasury bonds totaling 42.3 trillion and were accompanied by a reduction in their temporary operations. The increase of 30.2 trillion in the Bank of Italy's portfolio, excluding the long-term securities referred to earlier, was the result of open market operations in Treasury bonds and bills. Investment funds made smaller net purchases of government securities, partly in response to the heavy pressure of redemptions among bond-based funds, and significantly increased the proportion of short-term and floating rate paper in their portfolios.

Issues in the primary market were regularly oversubscribed, by 81 per cent for medium and long-term securities, which was in line with the figure for 1993, and by 43 per cent for Treasury bills, compared with 26 per cent the previous year.

Table 41

NET PURCHASES OF BONDS AND GOVERNMENT SECURITIES (1)

(billions lire)

	Public sector						Banks and firms	Total
	Treasury bills	Treasury credit certifi-cates (2)	Treasury bonds (2)	Treasury certifi-cates in ecus	Other (3)	Total		
1993								
BI-UIC	239	–5,456	–12,163	–62	–1,634	–19,076	–37	–19,113
Banks	43,798	–10,299	12,661	815	–12,586	34,389	–8,863	25,526
Insurance companies	364	330	10,685	2	–1,186	10,195	3,482	13,677
Investment funds	995	–1,420	18,239	76	–283	17,607	–565	17,042
Other (4)	–38,916	27,458	88,478	–1,487	13,290	88,823	29,855	118,678
Net issues	**6,480**	**10,613**	**117,900**	**–656**	**–2,399**	**131,938**	**23,872**	**155,810**
1994								
BI-UIC	13,895	1,322	16,177	–37	642	31,999	–18	31,981
Banks	–2,729	–4,592	42,330	2,089	–5,445	31,653	2,258	33,911
Insurance companies	628	4,420	2,232	–19	86	7,347	2,856	10,203
Investment funds	4,562	4,762	5,338	–99	–2,298	12,265	354	12,619
Other (4)	2,798	31,717	38,381	802	–2,911	70,787	14,739	85,526
Net issues	**19,154**	**37,629**	**104,458**	**2,736**	**–9,926**	**154,051**	**20,189**	**174,240**

(1) Rounding may cause discrepancies in totals. Outright purchases. Excludes certificates of deposit. Treasury bills at face value. – (2) Excludes the Treasury credit certificates with a face value of 10 trillion lire and the Treasury bonds with a face value of 20 trillion lire issued in December 1993 to finance the new Treasury payments account. – (3) Excludes the 76,206 billion lire of securities issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy. – (4) Includes households, non-residents, enterprises, the Deposits and Loans Fund and social security institutions.

Interest rates. — As in foreign markets, the rise in yields in 1994 started at the long end of the yield curve. The increase in the slope of the curve from May onwards was more pronounced in Italy than abroad, primarily in connection with domestic factors of uncertainty. The ten-year yield differential with respect to the Bund widened to 4 percentage points at the end of July even though the implied volatility increased in both markets (Figure 22).

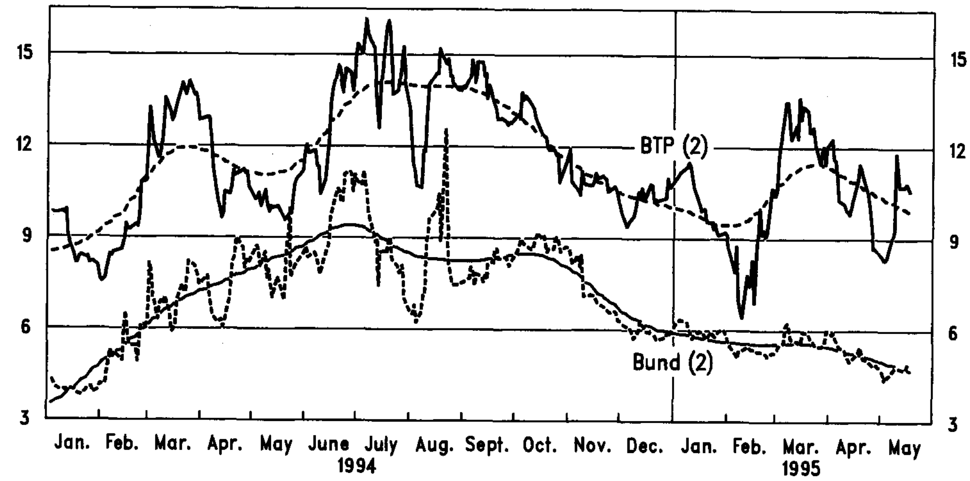
Following the increase in official rates in August, the slope of the yield curve remained relatively statile until the beginning of this year. The whole curve then shifted upwards in February, in response to uncertainty about the political and financial outlook, but return ed to a lower level in April, when expectations of an imminent agreement on the reform of the pension system gathered strength (Figure 23).

The yields on government securities were considerably affected by the fluctuations in the risk premium associated with Italian Treasury securities compared with those attributed to other issuers. Measured as the difference between the yields on medium and long-term Italian government securities and i) those on the securities of other leading issuers and ii) the rates on interest rate swaps, the premium rose steadily from around zero between March and June 1994 to more than one percentage point at the beginning of March 1995, after which it declined. The increase in the risk premium did not occur for the foreign currency bonds issued by the Treasury. For those denominated in German marks, the premium fluctuated between 20 and 40 basis points in 1994 and only in March of this year did it rise to 60 points.

Figure 22

IMPLIED BTP AND BUND VOLATILITY (1)

(per cent, on an annua! basis)



(1) Derived from the options on LIFFE's ten-year BTP and Bund futures. – (2) The trend component was obtained by the Hodrick and Prescott method.

Figure 23

YIELD CURVES (1)

(statistica! basis: Treasury bonds listed on the secondar market)

The secondary market. — The sharp increase in uncertainty regarding interest rates is confirmed by the implied volatility derived from options on futures, which rose from 9.4 per cent in 1993 to 11.8 per cent last year. The average bid-offer spread on the screen-based secondary market (MTS) nonetheless narrowed from 35 to 29 basis points. This can be attributed to the greater efficiency of the screen-based secondary market fostered by the changes introduced in the early part of the year.

The measures adopted in January to increase the depth of the market gave an immediate boost to trading volumes. Average daily turnover nearly doubled, rising from 8 trillion lire in 1993 to 15.5 trillion; in the first four months of this year it rose further to 20.8 trillion. This increase, which coincided with an improvement in the market's overall liquidity, was stimulated both by the abolition of the stamp duty on trades effected on MTS and by the growth in the turnover of some market participants wishing to qualify as "specialists".

The markets in lira-denominated derivatives

The pronounced volatility of lira yields made hedging of interest rate risk all the more necessary and thus fostered a broadening of the range of lira-denominated assets available in the Italian market and on LIFFE. The reduction in foreign investors' holdings of Treasury bonds nonetheless caused the demand for such instruments to diminish during the year.

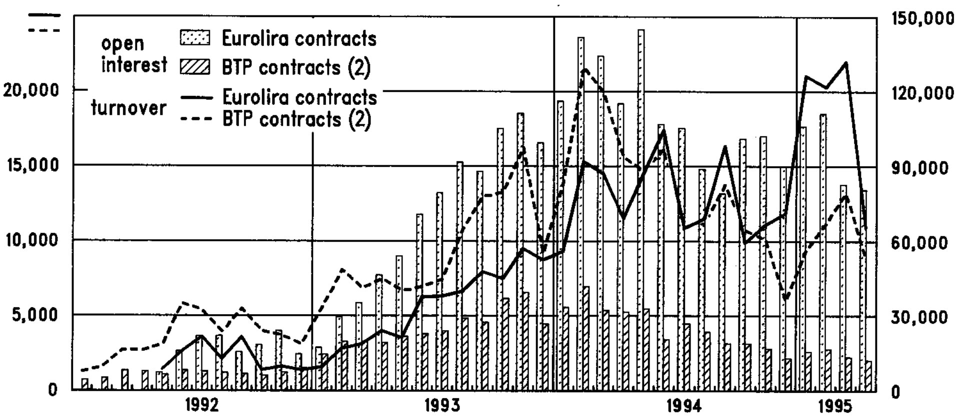
The growth in the market in three-month Eurolira futures on LIFFE was particularly pronounced in 1993 and the early months of 1994, but slowed in the second half of the year (Figure 24). Monthly average turnover nonetheless more than doubled compared with 1993, rising from 120.8 to 270.2 trillion lire; this was the fastest rate of growth of any product traded in London and led to the introduction in May of this year of options on this contract. The markets for Eurolira futures and interest rate swaps were less affected by the fall in foreign demand for fixed interest government securities than that for BTP futures. The open interest in Eurolira contracts is now some ten times that in BTP futures and the turnover in Eurolira futures exceeded that in BTP futures for the first time. The market for interest rate swaps grew in terms of gross flows by 66 per cent between the first six months of 1993 and the first half of 1994, compared with growth of 188 per cent between 1992 and 1993.

Average monthly turnover in ten-year BTP futures on LIFFE and MIF fell from 182.7 trillion lire in the first three months of 1994 to 90.4 trillion in the last quarter; for the year as a whole it was equal to 167 per cent of the turnover in the deliverable BTPs on MTS.

Figure 24

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 on 10-year BTPs traded on MIF and LIFFE.

Two new derivatives were added to the Italian financial market last year: options on government securities futures on 20 May and futures on the stock market index for the thirty most heavily traded shares (Mib 30) on 28 November. The market for options on govern ment securities (MTO) is stil) marked by limited liquidity and low trading volumes, with average monthly turnover of around 2.3 trillion lire last year. By contrast, the volume of business in Mib 30 futures contracts was consideratile, in terms of both turnover and open interest.

The equity market

Supply and demand. — Gross issues in the official market rose to 18.4 trillion lire (Table 42), the highest value for twenty years. Thirteen issues contributed 14.3 trillion to the total. The listing of eight new companies and the transfer to the national market of nine companies that had previously been listed on local markets added 23.6 trillion lire to the capitalization of the market. Total market capitalization rose over the year from 232 to 293.5 trillion lire.

Instititional investors' demand for listed and unlisted shares remains small. Holdings of Italian shares rose from 8.8 to 11.6 per cent of the aggregate portfolio of securities investment funds, insurance companies, pension funds and portfolio management services. With the aim of increasing the public 's demand for shares, Legislative Decree 357/1994 allowed individua) investors to opt for a flat-rate withholding tax of 12.5 per cent on the dividends distributed by listed companies instead of including them in their income tax returns. The large net purchases of foreign investors in the early part of the year (6.7 trillion lire in the first quarter) were subsequently outweighed by net sales, leading to net disinvestment of 1.9 trillion for the year as a whole.

Table 42

GROSS SHARE ISSUES

	Billions of lire					Percentage composition				
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994
State-controlled companies .	2,070	1,084	74	910	2,197	24.2	39.2	1.4	9.3	11.9
Private sector companies .	6,490	1,679	5,082	8,899	16,233	75.8	60.8	98.6	90.7	88.1
Total	**8,560**	**2,763**	**5,156**	**9,809**	**18,430**	**100**	**100**	**100**	**100**	**100**

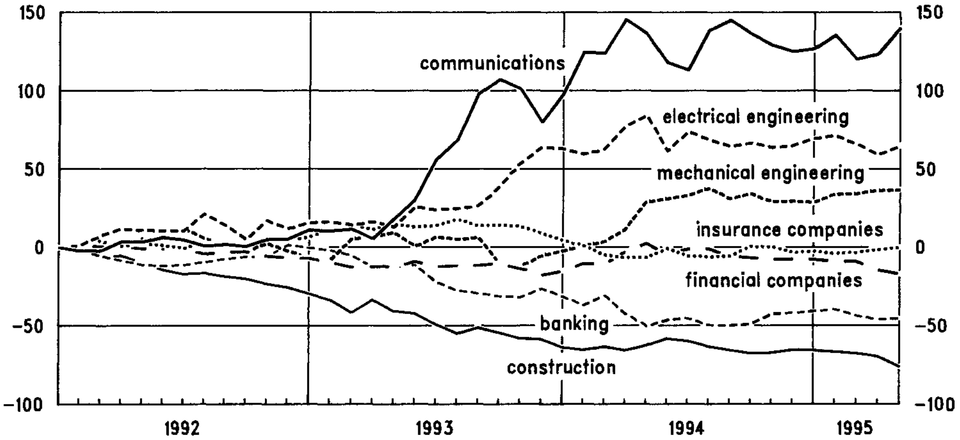
Share prices. — The share price index rose by 3.3 per cent over the year, the result of a rise of 33 per cent up to the middle of May and a fall of 22 per cent over the rest of the year. This performance was nonetheless better than those of the other leading stock exchanges, since share prices fell everywhere except in Tokyo, where the index rose by 8 per cent.

The rise in prices in the first part of the year varied according to the branch of activity (Figure 25): it was above the market average for companies in communications, electrical and mechanical engineering and construction, as well as for financial companies; it was below average for banking and insurance companies. The fall in prices in the rest of the year was common to every sector except communications.

Figure 25

SECTORAL EQUITY MARKET INDICES (1)

(indices of total return)



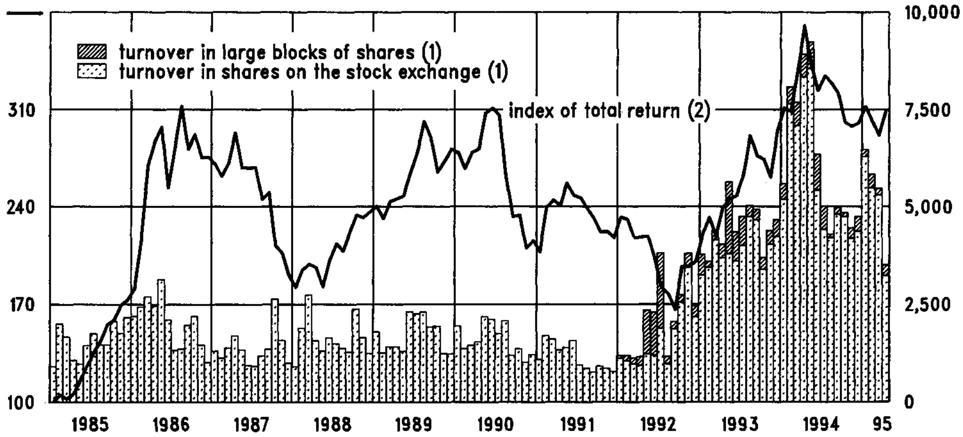
(1) Difference between the sectoral index and the market index; 31 December 1991=100.

Turnover. — Turnover continued to rise in the first part of the year, partly as a result of the growth in trading in the shares of privatized companies and companies that raised new equity capitai. Turnover peaked at 26.1 trillion lire in May and then declined, so that the monthly average for the year was 16.1 trillion, compared with 8.6 trillion in 1993.

The growth in trading of large blocks was less pronounced, with monthly average turnover rising by 7.8 per cent to 1.2 trillion lire. The share of block trading in total turnover continued to decline, falling from 11.5 per cent in 1993 to 7 per cent last year.

Figure 26

SHARES: INDEX OF TOTAL RETURN AND TURNOVER AT CONSTANT PRICES



(1) Right-hand scale, billions of lire. Actual turnover deflated using the stock exchange price index. – (2) Left-hand scale (31 December 1984 = 100).

The competitiveness of the Italian equity market with respect to London does not appear to have changed significantly in 1994: the ratio of the turnover in London of shares that are also listed on SEAQ to that in Milan declined from 62 to 58 per cent.

As part of the reform of the equity market, second market trading was unified with that on the national screen-based system. With the aim of reducing settlement risk, five-day settlement was also introduced last year for a group of shares with a low market capitalization and limited turnover. At the end of the year the new system was in force for 189 of the 326 securities listed, with a market capitalization egual to 20.4 per cent of the total.

THE PAYMENT SYSTEM

The value of payments made with cashless instruments remained virtually unchanged in 1994. Despite slower growth than in 1993, the value of interbank payments through the Bank of Italy's clearing and settlement system rose from 28 to 31 times GDP.

In May 1994 The Bank of Italy presented its plan for the reform of the interbank payment system. The measures will be implemented over the next few years, in accordane with the guidelines for increasing the efficiency and security of the payment systems of the EU countries and preparing Stage III of European Monetary Union.

Under Article 146 of the 1993 Banking Law, the Bank of Italy is responsible for safeguarding the public interest in the regular functioning of the Italian payment system. The instruments necessary for the exercise of the Bank of Italy's supervisory and regulatory powers are being prepared.

The modernization of interbank procedures and the services provided to final users continued to be the focus of cooperation between the central bank and participants in the payment system. As part of the initiatives promoted by the Interbank Convention on Automation (CIPA), a new procedure for the settlement of low-value payment orders was launched in November. The new service reduces the time required to make funds available to customers by permitting the settlement of transactions on accounts held at the Bank of Italy. The need to ensure that customers' have access to a broad range of high-quality payment instruments has prompted the Italian Bankers' Association, the Bank of Italy and CIPA to plan the additional regulatory and procedura) measures needed to improve the acceptability of bank cheques and reduce processing times.

International cooperation

The central banks of the EU and the EMI have drawn up a strategy based on the minimum harmonization of domestic payment systems and the creation of a European gross settlement system (TARGET) for the conduct of the single monetary policy in the third stage of Monetary Union. The Working Group on EU Payment Systems has continued its work in two areas: first, to define the common features of national payment systems in line with the principles laid down by the Committee of Governors regarding access requirements, pricing and risk control policies, infrastructure and technical standards, and operating hours; second, to identify the basic features of the TARGET gross settlement system for the cross-border transfer of funds and the conduct of the single monetary policy.

The progress made in implementing the harmonization principles was reviewed in a Report by the Working Group published in February 1995. The Group concluded that the payment systems of the EU countries only partially adhered to the principles laid down by the Working Group one year earlier. The Report identified a number of priorities to be addressed by the centrai banks and underscored the need for them to study the problems raised by the definition of a common pricing policy for payment services and by remote access to payment systems, i.e. the direct participation of a foreign bank in the payment system of a country in which it does not have either its head office or a locai branch. The most important area of intervention for the EU centrai banks, whose objective is to minimize systemic risk, is the creation of a real-time gross settlement system for large-value payments in every member state. There is also the need to strengthen the legai foundations of netting arrangements and to bring them up to the standards established in the Lamfalussy Report of 1990.

The Working Group's "Report on the TARGET system", approved by the Council of the European Monetary Institute in March 1995 and published on 29 May, sets out the key features of the payment system for the third stage of Monetary Union. The development of an EU-wide real-time gross settlement system should adhere to the three fundamental principles laid down by the Treaty on European Union: efficiency, market orientation and decentralization. Accordingly, the system will connect existing or planned domestic gross settlement systems in the EU countries through a set of common procedures and infrastructures. Countries will be able to preserve the distintive features of their systems as long as these do not jeopardize the conduct of the single monetary policy or give rise to competitive distortions.

The European Commission has prepared a draft directive on cross-border credit transfers and a proposed communication on the application of competition rules to payment systems. The proposed directive establishes, in the absence of agreement between the parties, maximum payment execution times, penalties for delays or failure to execute funds transfers, and transparency requirements for contracts.

International cooperation in the field of payment systems has also proceeded within the framework of the Committee on Payment and Settlement Systems of the Group of Ten countries. Attention has focused on ensuring conditions permitting intermediaries to operate efficiently in markets and payment systems and on the increased risk involved in the settlement of foreign exchange transactions. In addition, the Working Group charged with analyzing the risks associated with the settlement of cross-border securities transactions completed its work. As well as pointing out the main weaknesses, the Group 's Final Report contains recommendations for centrai banks and market participants aimed at enhancing the ability of settlement systems to ensure the finality of transactions.

Retail payment instruments and services

Cashless payments did not increase significantly in 1994, rising by about 1 per cent in both volume and value. In line with the earlier trend, there was a further shift from traditional payment instruments towards services with a larger technological content, partly driven by the growth in ATMs and POS terminals.

The use of cash. — Notes and coin in circulation grew by 7.2 per cent in 1994, compared with 4.8 per cent the previous year. The ratio of currency to GDP was 5.8 per cent at the end of the year, in line with that in 1993 and the average for the leading industrial countries.

Bank payment instruments. — The number of payments made via the banking system continued to decline in 1994, albeit more slowly (Table 43).

The number and value of bank cheques fell by 5 per cent throughout the country (Table 43).

Personal cheques and bankers' drafts are exchanged through interbank procedures connected with the clearing system, but the time it takes banks to credit funds to their customers remains significantly longer than the reorganization of the interbank circuit has made possible. In addition, cheques are still perceived as a risky means of payment and impose higher administrative costs on banks than electronic payment instruments.

The Italian Bankers' Association and the Bank of Italy have drawn up plans aimed at completing the reform of cheque processing procedures. One line of action is intended to boost customer confidence in cheques by introducing measures to prevent persons with a history of uncovered cheques from issuing them and offering banks and firms more detailed information on the quality of payments. A second is directed at rationalizing the structure of the interbank circuit through more extensive use of information technology and a reduction in the number of traditional procedures.

Table 43

BANK PAYMENT INSTRUMENTS IN 1994 (1)

	Number				Value			
	Thousands	% composition	Percentage change		Billions of lire	% composition	Percentage change	
			1993/1992	1994/1993			1993/1992	1994/1993
Cheques	**529,758**	**54.2**	**–8.0**	**–9.1**	**1,732,755**	**25.8**	**–4.6**	**–3.7**
Personal cheques (2)	391,508	40.1	–7.1	–5.0	1,211,770	18.0	–5.9	–5.1
Bankers' drafts (3) .	138,250	14.1	–10.1	–19.0	520,985	7.8	–1.3	–0.4
Payment and collection orders	**447,441**	**45.8**	**1.6**	**4.6**	**4,975,193**	**74.2**	**2.4**	**2.2**
Payment orders (3)	189,459	19.4	3.3	6.7	4,399,707	65.6	2.7	1.8
of which:								
paperless	*59,120*	*6.0*	*6.5*	*13.8*	*147,027*	*2.2*	*6.9*	*16.6*
Collection orders ..	231,887	23.7	–1.8	–0.2	570,543	8.5	–0.1	5.4
of which:								
paperless	*185,351*	*19.0*	*5.2*	*7.1*	*405,652*	*6.0*	*9.6*	*14.4*
Direct debits .	78,733	8.1	6.1	7.5	106,722	1.6	20.8	19.8
Riba and Mav	106,618	10.9	4.4	6.7	298,930	4.5	6.3	12.6
Transactions at POS terminals	26,095	2.7	40.2	46.8	4,943	0.1	34.5	45.5
Total ...	**977,199**	**100.0**	**–4.2**	**–3.3**	**6,707,948**	**100.0**	**0.4**	**0.6**

(1) Based on a sample of banks that account for about 80 per cent of bank current account deposits. – (2) Excludes cheques for cash withdrawals at bank counters. – (3) Includes cheques drawn on funds held awaiting beneficiaries' instructions. – (4) 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 3,100 and 2,600 trillion lire.

The volume of credit transfers and collection orders rose more rapidly than in 1993, by 4.6 per cent, while the rise in value was similar to that of the previous year, reflecting the modest growth in transactions originated by financial companies. The proportion of customer payments made through automated procedures continued to increase, rising from 55 to 58 per cent (Table 43).

In 1994 work began on the reform of the interbank circuit for credit transfers, which will be channeled finto the clearing system through dedicated procedures for each type of payment. The procedures will set maximum payment execution times and customers will be notified of the time actually taken to make their payments. The first procedure to be implemented was that for low-value credit transfers launched in November by CIPA. The project will be completed in the coming months with the launch of procedures for large-value and cross-border credit transfers.

The project for linking the automated clearing houses of a number of European countries, including Italy, is at an advanced stage. It will significantly modify the structure of interbank systems for retail credit transfers between EU countries and permit an improvement in the quality of services offered to customers.

Payment cards. — The volume and value of payments made with credit and debit cards increased by 23 per cent, double the rise in 1993. Sustained by the recovery in consumption, the increase was partly ascribable to the rapid growth in the number of POS terminals, which is now comparable with the average for the leading industrial countries. Nevertheless, the use of payment cards in Italy remains low by intemational standards.

Postal payment instruments. — The growth in postai payments slowed to 4 per cent in volume and to 2.4 per cent in value. This reflected the slower growth in current account inpayments, which was attributable to the reduction in extraordinary taxes compared with 1993, and the graduai increase in the use of direct debits on bank accounts for the payment of utility bilis.

Law 71/1994 launched the process of privatizing the Postai Administration by constituting it as a public economic entity. The reform will involve an internai reorganization, the development of new services and closer integration with the banking circuit; it will also accentuate the distinction between the businesses in which the Postai Administration is a monopoly supplier and those in which it competes with other enterprises.

The interbank exchange and settlement circuit

The interbank payment system. — The value of payments handled by the Bank of Italy 's clearing and settlement system rose to 51,500 trillion lire, more than 31 times GDP (Table 44). However, the rate of increase slowed for the first time since 1989, falling from 33 to 20 per cent. The deceieration was almost entirely attributable to the smallness of the increase in transactions on the screen-based interbank deposit market (MID), which are settled through the Electronic Memoranda clearing subsystem. Moreover, payments settled directly via the banks' centralized accounts with the Bank of Italy were virtually unchanged.

Table 44

CLEARING AND SETTLEMENT OF INTERBANK PAYMENTS

(amounts in trillions of lire)

	Clearing (1)		Settlement on centralized accounts with the central bank (2) *(b)*	Total transactions settled in 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
1994	48,832.0	2,627.2	2,622.5	31.1

Sources: Based on Bank of Italy, Interbank Company for Automation (SIA) and Istat data.
(1) Transactions of the Bank of Italy, its provincial Treasury departments and the Post Office. – (2) Transactions net of clearing balances and intrabank transfers.

The clearing system. — The volume of payment items handled by the clearing system rose by 8,400 trillion lire to 48,800 trillion (Table 45). The final multilateral balances settled on accounts with the Bank of Italy nonetheless declined; as a ratio to total flows they fell from 6.7 to 5.4 per cent, reflecting increased efficiency in the management of interbank payments.

The value of payments channeled through the wholesale clearing sub-system rose until March and then declined, chiefly owing to the contraction in the flow of payments through the SIPS procedure for the settlement of foreign exchange operations and external lira transactions. Flows associated with trade-related transactions were presumably affected when exporters did not convert a large part of their foreign currency receipts into lire, while financial transactions were affected by the decline in the lira debt of non-residents following the reduction in their holdings of Italian govemment securities.

Centralized reserve and advance accounts. — The volume of payments settled on centralized accounts at the Bank of Italy fell by 4.2 per cent to 5,100 trillion lire. This reflected the decline in final multilateral clearing balances, which account for slightly less than half of the total flows settled on the centralized accounts.

Table 45

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
1994	4,255.5	675.7	17,972.2	25,928.6	48,832.0	2,627.2	5.4
1994 – 1st qtr. ..	1,107.3	165.0	4,917.3	6,728.2	12,917.8	728.3	5.6
2nd "....	1,083.9	165.6	4,658.1	6,507.1	12,414.7	643.7	5.2
3rd "....	1,017.4	169.5	4,276.2	6,560.8	12,023.9	660.9	5.5
4th "....	1,046.9	175.6	4,120.6	6,132.5	11,475.6	294.3	5.2
1995 – 1st qtr. ..	948.0	213.3	4,774.6	7,492.4	13,428.3	800.3	6.0

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, direct debits on 14 September 1992 and the "Payment and standing orders" procedure on 2 November 1994. – (2) The "electronic memoranda" procedure was initiated on 11 July 1989; since 2 January 1993 includes the cash balances of the securities settlement system. – (3) Initiated on 19 July 1989. – (4) Includes the balances of the Bank of Italy, its provincial Treasury departments and the Post Office.

The amended rules governing the compulsory reserves, which have been in force since July 1994, did not have a significant impact on the utilization of the reserves for the daily settlement of interbank payments.

A pricing policy designed to discourage delays in covering balances in the National Clearing for bank items was a success in 1994. The number of failures to settle final balances declined from 204 to 161.

Financial risk in the clearing and settlement systems. — The Bank of Italy announced its medium-term strategy for the development of the interbank payment system with the publication of a white paper on interbank payments in May 1994. The plan envisages the reform of the clearing system (BI-COMP) and the development of a real-time gross settlement for interbank payments (BI-REL).

The reform of the clearing system will enhance the security and transparency of existing clearing procedures, especially through the tightening of access requirements, closer monitoring of intraday exposures, the introduction of warning limits for multilateral exposures and the deposit of collateral. The gross settlement system will result in all large-value interbank payments being settled individually on banks' accounts with the Bank of Italy, ensuring the finality of settlement and improving the reliability of payments during the working day.

The steps taken by the Bank of Italy to implement the measures set out in the 1994 white paper took the form of collaboration with the Management Committee of the screen-based interbank market (MID) on a programme for controlling settlement risk and consultation at both the European level and with the Italian banking community on the implementation of the BI-REL project.

Measures to improve risk control in the screen-based interbank deposit market involved the launch of centralized monitoring of participants' settlement obligations. In addition, in the autumn banks filled out on an experimental basis the self-assessment form prepared in collaboration with the Bank of Italy. The self-assessment procedure is intended to determine the level of the warning limits for settlement risk. The measures decided by market participants themselves will be completed with the establishment of a control body with members appointed by market participants, which will monitor their use of the system and intervene in the case of non-compliance with the rules of the self-regulatory regime.

The project for the introduction of real-time gross settlement in Italy reached an important stage in December 1994, when the banking community approved the proposed strategic guidelines.

The architecture of the new system will be characterized by functional specialization, with gross settlement used for large-value payments and the clearing system for retail payments. The distinction between the two circuits will be based on the type of payment sent for settlement. Participation in the BI-REL system will be open to all banks with centralized accounts at the Bank of Italy; participants will have access to central bank intraday liquidity and to the queuing mechanism for payments that temporarily lack cover. The working day has been structured to facilitate the progressive settlement of payments in the queues and the reimbursement of intraday liquidity. The order of priority of queuing payments will be determined according to the type of operation involved, with precedence being given to the settlement of transfers involving the Bank of Italy or the Treasury. The priority of queuing payments within each category will be determined on a first-in-first-out basis.

The BI-REL project is consistent with the recommendations of the Working Group on EU Payment Systems and with the work of the European central banks to harmonize the institutional and technical features of domestic payment systems.

Clearing and settlement of securities transactions

Securities settlement. — The volume of securities handled by the settlement system rose to more than 12,000 trillion lire last year, an increase of about 30 per cent on 1993. The rise was attributable to the increase in settlements of government securities; an additional factor was the increase of more than 63 per cent in share settlements as a result of the strength of the equity market in the first part of the year. The volume of bond settlements declined.

In January 1994 monthly settlement of share transactions was replaced by rolling settlement for an initial group of 50 low-turnover shares, with transactions settled five business days after the trade date; in July the number of shares involved was increased to nearly 200.

In line with the growing centralization of securities trading and settlement procedures, the pricing of securities clearing services was revised in June last year. The old mechanism whereby the costs borne by the individual clearing houses were recouped *ex post* on a locai basis has been replaced by a set of uniform nationwide charges, with penalties to discourage undesired conduct. The measures form part of a broader effort to overhaul the pricing system in the light of the principles laid down at the EU level, which aim at covering costs and providing incentives to use the most innovative payment instruments.

The centralized management of government securities. — At the end of 1994 the government securities centralized in accounts with the Bank of Italy amounted to 1,700 trillion lire. This was egual to 98.6 per cent of the total in circulation, virtually unchanged in comparison with 1993.

The volume of Italian government securities that Cedel and Euroclear held at the Bank of Italy on behalf of non-residents fell slightly, declining from a nominai value of 20.8 trillion lire in 1993 to 18.6 trillion at the end of last year.

Monte Titoli S.p.A. — The good performance of the equity market in the first part of 1994 and government privatizations lent further impetus to the centralization of securities at Monte Titoli. At the end of the year the nominal value of securities deposited with Monte Titoli was 148 trillion lire, a rise of about 28 per cent compared with 1993, while that of centralized shares increased by 48 per cent to 50.7 trillion.

Controlling risk in the securities clearing system. — The measures taken to limit settlement risk in securities transactions have involved: the creation of guarantee systems managed by the Clearing and Guarantee House to ensure the continuity of settlement procedures, with separate mechanisms for the different segments of the securities market; and the shortening of the time required to settle share transactions. In this regard, rolling settlement will be extended to all shares in parallel with the activation of instruments to ensure the liquidity needed for trading under the new system. These will include options on the stock exchange index and individuai securities and a market for securities lending.

However, the extensìon of rolling settlement will also require a radical revision of the "securities allocation procedure", which is activated in the event of a participant failing to deliver securities. Experience has shown that the volume of allocations is greater for trades settled on a five-day rolling basis than for those settled monthly.

The allocation procedure is itself a source of significant risk and consideratile inefficiency. It represents a failure to observe the principle of delivery versus payment, since the deferment of the delivery of securities is not accompanied by a corresponding deferment of payment. Use of the procedure slows down the final stage of settlement and becomes a self-sustaining process if widely adopted.

In 1994 share allocations amounted to 0.75 per cent of the final monthly balances settled at the Milan clearing house, a leve) achieved thanks to the introduction of penalties aimed at curbing use of the procedure.

The Bank of Italy will shortly overhaul the securities allocation procedure in order to limit the risk involved. The structural aspects of the reform, which involve a significant increase in charges for using the procedure and the introduction of a time limit, have already been discussed and agreed with market participants. As in the past, the timetable for implementing the new system will depend on how long it will take to make the other technical and functional changes needed in order to allow intermediaries to adjust gradually to the new market organization and maintain the consistency of the system's overall framework.

SUPERVISORY ACTIVITY

The legislative framework

Provisions implementing the Banking Law. — The process of adapting the regulatory framework to the objectives established by the 1993 Banking Law is essentially complete. The new regulations have gradually widened banks' operational scope, while introducing safeguards designed to limit the level of risk.

The simplification of authorization has enhanced the potential for competition in the banking market. The operational and maturity specialization of banks has been abolished and banks may now lend across the entire maturity spectrum so long as they comply with prudential rules tailored to the new spheres of activity. In order to foster more stable bank-customer relations and expand banks' investment opportunities, banks have been given greater freedom to acquire equity interests in non-financial undertakings. All banks may now raise funds by way of bond issues.

The instruments of prudential supervision have been strengthened in conjunction with the widening of the banks' operational scope, with the aim of inducing them to increase their capitai bases accordingly. In September 1994 new capitai requirements were introduced alongside the capitai adequacy ratio in respect of credit risk; the new ratios referto risks associated with variations in market prices (interest rates, exchange rates and share prices). This harmonized the prudential treatment of market risks for banks and securities firms provided for in Law 1 of 2 January 1991. The main features of the new regulations are consistent with EEC Directive 93/6.

The structure of the financial system

Banking groups and banks. — The reorganization of the banking system gathered momentum last year. There was an increase in the number of amalgamations and further progress in the stili early stages of the transition from predominantly public control to a system in which ownership structures are more responsive to the effects of competition and to the market's assessment of corporate decisione.

The process of concentration has involved both banking groups and solo banks, the total number of which declined from 983 to 945 last year.

The change in group structures has been brought about through acquisitions, mostly of minor banks and groups, and through mergers within groups. There is also a tendency to re-incorporate irto parent banks some of the banking-related activities formerly handled by specialized units. The rationalization of subsidiaries has been directed towards achieving economies of scale, tax benefits and tighter control, especially in weaker sectors.

The number of registered banks declined from 1,037 in 1993 to 1,002 in December 1994 as a result of 68 cancellations and 33 new registrations (Table 46).

Table 46

THE ITALIAN BANKING SYSTEM

	At end-1993		Changes in 1994 – Banks		At end-1994	
	No. of banks	No. of branches in Italy	New registrations	Cancellations	No. of banks	No. of branches in Italy
Limited company banks accepting short-term funds (1)	174	15,826	7	–11	170	16,535
Limited company banks accepting medium and long-term funds (2)	46	124	1	–10	37	119
Cooperative banks (*banche popolari*)	100	3,896	10	–10	100	4,045
Mutual banks (*banche di credito cooperativo*)	671	2,226	9	–34	646	2,343
Central credit institutions	5	11	–	–1	4	8
Branches of foreign banks	41	50	6	–2	45	70
Total	**1,037**	**22,133**	**33**	**–68**	**1,002**	**23,120**

(1) The item includes *Monte dei Paschi di Siena*. – (2) The item includes *Istituto per il credito sportivo*.

Last year there were 31 mergers and acquisitions (excluding those between mutuai banks), the highest number for the last ten years. Two thirds of these involved banks showing severe abnormality; 19 were mergers and 12 were acquisitions of controlling interests. The absorption of small banks by large banks continued, while a tendency for amalgamations between banks of similar size also emerged: four important mergers between provincia) banks were completed last year and others are under way.

The number of banks accepting long-term funds fell from 46 at the end of 1993 to 37 in December 1994 and 36 at the beginning of this year. Since January 1994 six of these have been involved in mergers with similar institutions, giving rise to two new banks; a further six banks belonging to groups have been incorporated finto the parent banks.

At 31 December 1994 there were 23,120 bank branches in Italy, 987 more than a year earlier: a large number of branches (more than 700) stili remain non-operational.

The number of branches of EU banks in Italy grew from 23 to 45 last year. Between 1992 and 1994 the branches and subsidiaries of EU banks increased their share of total lending by banks accepting short-term funds from 2.8 to 4.1 per cent.

The number of Italian branches of banks based in non-EU countries remained unchanged at 25, including 19 branches of banks based in Group of Ten countries. Nine banks under foreign ownership were also active, including 3 owned by non-EU parties.

Italian banks' foreign branches numbered 107, including 56 in the European Union, and subsidiaries totaled 51, of which 28 in EU countries. There has been little change over the last five years in the market share of Italian banks' foreign establishments, which has remained modest in comparison with other industrial countries.

Investment funds. — At 31 December 1994 there were 56 registered investment fund management companies, with 2 new registrations and 3 cancellations during the year. The 53 companies that were operational managed a total of 354 funds; the net assets managed amounted to 130.2 trillion lire at the end of 1994, compared with 110.1 trillion one year earlier. During the year 118 new funds were authorized, compared with 96 in 1993.

Securities firms and trust companies. — At the end of 1994 there were 237 registered securities firms, a decrease of 30 during the year, following 11 new registrations and 41 cancellations, 15 of which were the result of intra-group reorganization. The number of operational securities firms at the end of last year was 227, compared with 238 in 1993.

A total of 51 trust companies were registered at the end of 1994, all of them operational. There were no new registrations during the year, while 8 companies closed.

Financial intermediaries. — At 30 Aprii 1995 the special register of financial intermediaries subject to supervision by the Bank of Italy listed 260 companies. Almost ali of these (243) are engaged in the granting of credit, while the remainder acquire shareholdings or issue and manage credit cards.

The state of the banking industry

Credit risk. — The quality of banks' loan portfolios was adversely affected in 1994 by the poor results of the corporate sector in the previous years. The lag with which firms' problems are reflected in banks' accounts caused a considerable growth in bad debts even after the economic recovery had taken hold.

Bad debts showed an increase of 29.5 per cent, which was similar to that recorded in 1993. At the end of the year they amounted to 90 trillion lire and avere equal to 8 per cent of total loans, compared with 6.3 per cent in 1993 and the previous high of 6.4 per cent in 1987.

Good omens for the quality of credit are offered by the indicator of adjusted bad debts, which provides an estimate of those that will gradually emerge as the banks remedy reporting delays. Between 1990 and the end of 1993 adjusted bad debts had progressively increased from 9 to 34 per cent of those already reported by banks accepting short-term funds; in 1994 the ratio declined to 17 per cent.

The volume of sub-standard loans, that is to say loans to firms that the banks report to be in temporary difficulty, remained unchanged overall at about 54 trillion lire, whereas in 1993 it had more than doubled.

Country risk. — Italian banks' loans to countries other than those belonging to the OECD and not guaranteed by the latter — assets to which the supervisory provisions assign a relatively high risk — fell from 13.4 to 9.2 trillion lire in 1994; the required prudential value adjustments amounted to 2.6 trillion lire, 43 per cent less than at the end of 1993, and declined from 33.8 to 27.9 per cent of total unguaranteed loans.

Market risks. — Banks' exposure to the risk arising from adverse movements in securities prices increased but remained moderate in 1994. Calculated as the losses banks would incur if interest rates rose by 1 percentage point, the banking system's overall exposure to interest rate risk was 5 per cent of supervisory capitai in December 1994, compared with 4 per cent a year earlier.

Banks' exposure to exchange rate risk, measured using the methods that entered into effect at the beginning of this year, remained broadly unchanged in 1994. In December this exposure amounted to roughly 3 trillion lire, or less than 2 per cent of the banking systems' supervisory capital.

Capital adequacy. — In June 1994, the latest date for which figures are available, the Italian banking system's capital base on a consolidated basis was dose to the level recorded in December 1993; the average solvency ratio was 11.7 per cent, compared with 11.1 per cent in June 1993. Capital in excess of the minimum requirements amounted to 53 trillion lire, compared with 51.4 trillion at the end of 1993; ten banks had capital shortfalls totaling around 900 billion lire.

International comparison, which is only possible with reference to December 1993, shows that the consolidated solvency ratio of the Italian banking system was more than half a percentage point higher than the European Union average of 10.9 per cent. Moreover, the proportion of higher quality capitai elements was large, amounting to 85 per cent of own funds and 9.8 per cent of total risk assets.

The average individuai solvency ratio of Italy 's limited company and cooperative banks remained at around 12 per cent in 1994. However, both excesses and shortfalls in respect of the minimum capital requirements increased: the former rose by 800 billion lire to 62.2 trillion, while the latter grew by 400 billion lire to 1.8 trillion and concerned sixteen banks, including several large ones.

The supervisory capital of the Italian banking system, excluding mutuai banks, Italian branches of foreign banks and centrai credit institutions, amounted to 167.2 trillion lire in December 1994, basically unchanged from a year earlier. The increase in supervisory capital from acquisitions of equity capitai and subordinated loans totaling 9.1 trillion lire was offset primarily by losses on loans and revaluation deficits on investment securities, effected in accordance with supervisory regulations. For the first time in many years net incorre did not contribute to the growth of the banks' own funds: in 1994 self-financing was negative by 3.9 trillion, whereas in 1993 it had contributed 2 trillion.

Financial market intermediaries

Investment fund management companies. — Investment fund management companies' operating profit (excluding net financial charges and before allocations to provisions and depreciation) almost doubled in

1994, rising from 315 to 600 billion lire. Average net assets increased by 65 per cent, while operating costs rose by 16 per cent, or less than the increase in net incorre from fees and commissions (fees and commissions receivable less those payable to sales networks), which grew by 55 per cent, from 610 to 950 billion lire. The companies' overall profitability improved: operating profit rose from 44 to 72 per cent of own funds and from 0.40 to 0.46 per cent of average net assets. At the end of the year own funds were equal to 0.65 of net assets.

Securities firms and trust companies. — In a year of considerable uncertainty in financial markets, Italian securities firms and trust companies as a whole matched the results they had achieved in the previous year. Operating profit, gross of depreciation and other year-end adjustments, amounted to 543 billion lire and was equal to 18 per cent of own funds. Around three quarters of the companies recorded a profit.

Italian intermediaries' operations in derivative instruments

Italian banks' and financial intermediaries' derivative contracts outstanding at September 1994 exceeded 1,000 trillion lire, four fifths of which referred to over-the-counter contracts. As for major foreign banks, the notional value of contracts exceeded the total balance sheet assets of some of the Italian banks most active in the sector. For Italian securities firms, derivative contracts outstanding were equal to roughly three times their total balance sheet assets; for investment funds, they amounted to around 3 per cent of total net assets.

Business in derivatives is highly concentrated in a small number of intermediaries, which use virtually all the main types of product. It is becoming increasingly common for intermediaries to use their derivatives portfolios for trading as well as hedging purposes. The profits obtained until now, which are sometimes hard to quantify with precision, do not generally appear to be commensurate with the volume of transactions.

The supervisory authorities have found that the banks have been somewhat slow in extending their risk management systems to derivatives activity, as regards both organizational aspects and risk measurement techniques. The Bank of Italy has widely circulated the derivatives risk management guidelines drawn up by the Basle Committee. When the document was transmitted and in subsequent meetings, banks were requested to review their organizational arrangements and risk measurement methods in the light of the guidelines.

Banking supervision

Prudential supervision. — Supervisory activity gave priority to banks' control of the risks associated with their loan portfolios; the protracted difficulties of many corporate borrowers led the supervisory authorities to be more forceful in urging banks to improve their methods of customer selection, assessment of creditworthiness and monitoring of loan performance.

Higher solvency ratios than the minimum prescribed by regulations were imposed on 34 banks during the year, in almost every case because of abnormal credit risk. At the end of the year a total of 86 banks were subject to this prudential measure.

The significant losses and revaluation deficits recorded on banks' securities portfolios prompted the supervisory authorities to scrutinize more closely the contribution of financial operations to banks' overall activity and the adequacy of banks' instruments for measuring and monitoring market risks.

A considerable part of supervisory activity was devoted to mergers and acquisitions between banks, which were important both for the resolution of numerous problem cases and for the generai reorganization of the banking system. In a growing number of instances plans for business combinations are initiated by the banks concerned rather than at the behest of the supervisory authorities in the face of troubled banks.

With a view to enhancing the effectivess of the indications provided to the banking system, the supervisory authorities have stepped up their meetings with banks' corporate officers and intend to arrive at a regular schedule of technical meetings. Last year such meetings were held with the representatives of 173 banks, compared with 126 in 1993; in addition, the Bank of Italy's branches convened the representatives of 163 banks that are subject to their direct supervision.

Within the framework of cooperation covered by memoranda of understanding, the Italian supervisory authorities met their counterparts in the EU countries where Italian banks are most widely present with branches and subsidiaries. This coordination ensures the practical implementation and effectiveness of the new supervisory regime. The meetings resulted in useful exchanges of information and served to verify the working of the collaboration that has been agreed with regard to on-site inspections.

On-site controls. — A total of 180 inspections were concluded last year, 46 of which had been started in 1993. Though the sample was naturally different from that of the previous year, there was a further declive in the proportion that obtained a satisfactory overall evaluation (from 48 to 33 per cent overall), especially among banks established in the Centre and South.

The findings with regard to banks' balance sheet situation, profitability and liquidity were favourable for 61 per cent of those inspected (66 per cent in 1993), poor for 23 per cent (19 per cent in 1993) and adverse for the remaining 16 per cent.

The prevalently unfavourable assessment of the quality of loan portfolios reflects the high ratios to the inspected banks' total loans of bad debts (10.6 per cent), bad and doubtful debts (22.3 per cent) and expected loan losses (5.3 per cent).

The inspections found widespread weaknesses in organizational structures, notably among the banks based in the South. The most common deficiencies concerned the efficacy of internai controls, the reliability of information systems and the suitability of the organizational model with respect to the chosen market.

Crisis procedures. — Twelve banks were placed under special administration last year, compared with only three in 1993. The procedures initiated in 1994 concerned three cooperative banks, one limited company bank and eight mutuai banks. Last year also saw five banks placed in compulsory administrative liquidation; in all five cases the procedure was accompanied by the transfer of assets and liabilities to other banks, which made it possible to avoid interrupting operations.

Supervision of securities intermediaries

Investment fund management companies. — Last year 117 opinions were issued by the Ministry of the Treasury concerning authorization for the establishment of new investment funds and a total of 285 fund rules were approved, 97 for newly established funds and 188 amending the rules of funds already in operation. The approach taken by the supervisory authorities was to support the proposed innovations in order to enable the companies to face the competition of foreign operators that market their products in Italy. At the same time, in the process of approving fund rules amendments were made to ensure the transparency of the innovations and protect unit-holders as the weaker contracting party.

The funds basically complied with the risk diversification requirements; the divergences recorded in 1994 stemmed mostly from the fluctuations in securities prices and were limited in scale and duration.

Securities firms and trust companies. — Securities firms that engage in activities involving position risk (proprietary trading and underwriting) were found as a group to satisfy the capital adquacy requirement. At the end of 1994 these firms' supervisory capital amounted to 2.05 trillion lire, 15 per cent more than a year earlier, against an exposure to risk of 420 billion lire. Only a few firms failed to satisfy the minimum capital adequacy ratio.

The inspections carried out by the Consob and the Bank of Italy detected numerous cases of organizational deficiency and inadeguate internai controls, business practices diverging from the principles of correctness, diligence and professionality, violations of the rules concern ing conflicts of interest, and instances of activities being performed without due authorization.

During the year the authorities suspended ten securities firms and one trust company. In nine cases the company's administrative bodies were also dissolved and a special administrator appointed. In addition, two securities firms that were already in voluntary liquidation were placed under special administration. By the end of February 1995 nine of the companies affected by these measures had been struck off the register. In addition, four companies that had been subjected to disciplinary measures in 1993 were struck off the register in 1994.

The protection of competition in the banking sector

As the anti-trust authority for the banking industry, the Bank of Italy is responsible for assessing the impact on competition of proposed concentrations and cooperation agreements and prohibiting behaviour that it finds constitutes abuse of a dominant position.

Last year the Bank of Italy was notified of 58 planned concentrations. In two cases an examination was initiated in view of the presumable effects of the operation on the exisiting levels of competition. The findings justified allowing the two proposed operations to go ahead, as the increases in market share involved were relatively small and strong competitors able to offer the full range of banking and financial services were present in the regional and provincial markets concerned.

During the year the Bank of Italy concluded its examination of a number of interbank agreements promoted by the Italian Bankers' Association (ABI) and of the Uniform Banking Rules, for which the Commission of the European Union had disclaimed competence. While the examination was in progress, ABI declared the agreement on "Minimum conditions to be applied for safe deposit boxer" and that on "Minimum conditions to be applied for custody of sealed objects" to be no longer in force. The text of two other agreements, relating to the direct debiting of telephone and gas bills, were subsequently amended by ABI to eliminate the alleged violations. These concerned the indication of the price to be charged to customers for the service and the recommendations designed to orient signatory banks' pricing policies so as to entourage use of the procedure.

The agreements on the "Automated bank receipts procedure" (RiBa) and "Direct interbank relationships" (RID) were found to be restrictive of competition, since their provisions set interbank commissiona for these services. In keeping with the decisions of the EU Commission regarding agreements in the field of payment services, the Bank of Italy authorized the two agreements for a period of five years.

The "Bancomat agreement" and the "Rules governing the Bancomat service" were also found to be restrictive of competition inasmuch as they specified an interbank commission for the service, albeit a ceiling, and required participating banks to set conditions for providing the service to customers on the basis of a model contract prepared by ABI. In this case as well, authorization for five years was granted by way of derogation.

The Bank of Italy concluded the examination in December with a Notice concerning the Uniform Bank Rules, model contracts regulating the terms and conditions of customer banking services and transactions that ABI prepares and distributes to its members. During the examination ABI had proposed substantial amendments to the Uniform Bank Rules. The final Notice ordered further amendments to other clauses specified by the Bank of Italy. Moreover, ABI was required to notify its members that the model contracts are a mere outline, without any binding or recommendatory value.

In 1994 the Bank of Italy continued to crack down on behaviour restrictive of competition in services linked to government tax collection concessions. Following the opening of investigations, three banks revised their procedures for performing the tax collection service so as to ensure egual treatment of all taxpayers.

THE GOVERNOR'S CONCLUDING REMARKS

Ladies and Gentlemen,

As in the past, last year the Bank was involved in the statutory tasks of regulating monetary flows and supervising the banking system, both of which are described at length in the body of the Report, as well as performing internai managerial functions.

The staff of the Bank, both at Head Office and in the branches, played a generous, intelligent and active part in all of these activities. Close attention is paid to professional training for all members of the personnel.

The Bank's participation in the work of international organizations is increasingly important, and our activities under the auspices of the Group of Seven and Group of Ten leading industrialized countries intensified last year. The deliberations of the Basle Committee on Banking Supervision, which is under Italian chairmanship, acquired particular significane in the light of the new problems developing in the international financial markets.

The Bank widened and consolidated its involvement in the activities of the European Monetary Institute.

In its support for the state's efforts to counter organized crime, to which both the economy and the banking and financial system are exposed, the Bank is actively involved in the prevention of illicit activities, particularly money laundering and usury.

The eight new provinces that were created recently are now fully operational. In view of the functions the Bank performs, we believe it is essential to maintain a presence throughout the country to guarantee the provision of adeguate services at local level. At the same time we are examining ways of ensuring that operations meet sound economic criteria.

The construction of the Bank's new administrative centre to the South-East of Rome is the first step in the reorganization of our offices in the capitai.

The layout of the balance sheet has been revised in order to bring it into line with Community rules. The level of information and the modified accounting policies and valuation criteria, which were adopted some time ago, reflect the importance that the Bank attaches to the correctness and transparency of its operations.

Increasing emphasis is being placed on budgeting to ensure that expenditure is consistent with our strategies and the resources available. More cogent methods of cost analysis and control have been introduced.

The professionalism and motivation of the Bank's staff are essential elements in its autonomy and in its ability to satisfy the expectations of the country's institutions and of society. We are confident that ali members of the staff will continue to perform their tasks with the same dedication as in the past and in accordane with the interests of the country.

On 18 October 1994 the Board of Directors held an extraordinary meeting to appoint Vincenzo Desario, Deputy Director General, to the post of Director General.

The vacancy in the Directorate was filled on 23 February 1995 by the appointment of Pierluigi Ciocca, Central Manager for Economic Research, as Deputy Director General.

The world economy

The global market and exchange rates

The pronounced weakness of the lira, especially between February and Aprii of this year, reflected pessimism among Italian and foreign investors about the current and future state of the Italian economy and, more specifically, that of the public finances. The fluctuations of the lira occurred against the background of exchange rate turbulence among the leading currencies of a magnitude and intensity rarely observed in recent decades.

In the early months of this year the effective exchange rate of the yen was, at its peak, 19 per cent higher than in December 1994; the Deutsche Mark showed an appreciation of 7 per cent, while the depreciation of the dollar touched 10 per cent. The variations for the other leading currencies ranged between those for the yen and the donar; in mid-March the exchange rate of the lira was 15 per cent lower than in December 1994.

The turmoil in the foreign exchange markets was accompanied by large fluctuations in the prices of securities.

A world-wide market in securities and foreign exchange has taken shape in the recent past, particularly in the last few years. Within this global market, information circulates swiftly, is often interpreted in an unsophisticated manner and gives rise to massive spot and forward transactions in securities and foreign exchange. Financial techniques that require only modest amounts of liquid funds may accentuate the variability of the results of such operations.

A market of this kind gives economies and states much greater scope for raising finance than was available in the past. At the same time, market participants have become more aware of the risks involved. Rapid price variations reflect assessments of the consistency and adequacy of economic policies.

The wide fluctuations in exchange rates and interest rates are not without negative repercussions on the development of the world economy.

The market brings together economic agents with different time horizons, operational constraints and institutional aims. In a situation of highly volatile exchange rates, their buying and selling pattems may converge in the quest for short-term profits. They lose interest in more modest but enduring gains generated by the growth in real income, by the availability of productive capitai and by the employment of labour, the variables on which the prosperity of nations is founded. Market assessments therefore become highly uniform. Some currencies are seen as safe havens, while others depreciate to an extent that may bear no relation to economic fundamentals; the countries that suffer most are those such as Italy, where some sectors display serious disequilibria.

Operators react to stimuli that are often transitory and to information that is sometimes incomplete. If expectations are slow to adapt to changes in important variables, they may cause wide fluctuations, which may influence and alter the long-term trends on which they are superimposed.

Markets can be self-correcting, however. Over the longer term the underlying factors that govern exchange rates, such as the formation and investment of savings, the growth prospects of the economy and the economic policy stance, will tend to predominate. I dwelt at length on these factors in my remarks on this occasion last year.

Since the mid-seventies the Japanese yen has tripled in value in effective terms in response to a savings propensity that has exceeded even the very high rate of investment and which has resulted in persistent current account surpluses. At the end of last year Japan's net creditor position amounted to $690 billion, equivalent to 15 per cent of GNP. There appears to be no prospect of an imminent reversal of this trend.

The dollar continues to be the predominant settlement currency for world trade. More than half of the reserves of central banks are held in dollars, while the Deutsche Mark and the yen account for 16 and 9 per cent respectively. The value of the dollar has fluctuated considerably: if the average effective exchange rate for 1987 is set at 100, the dollar was worth about 115 in the mid-seventies and 145 in the mid-eighties. A further rapid depreciation occurred last year and in the first few months of 1995, so that the effective exchange rate of the dollar is now 80 per cent of what it was in 1987.

The United States generally had a current account surplus until 1981, but thereafter private saving was insufficient to cover investment and the budget deficit. In the second half of the eighties the rapid growth of the economy and the increase in the budget deficit caused the current account deficit to rise rapidly to almost 4 per cent of GDP; it could be financed relatively easily, however, in view of the dollar 's importance in world finance. The United States' net external position became negative in 1987 and exceeded $700 billion last year, equal to 11 per cent of GDP.

Between the mid-seventies and 1995 the effective exchange rate index of the Deutsche Mark rose from 68 to 113. Much of the increase occurred in the second half of the eighties, when Westem Germany's extemal creditor position rose from $54 to 360 billion, equalling 21 per cent of GDP in 1990. After the unification of Germany, the current account of the balance of payments recorded annual deficits equal to about 1 per cent of GDP and the mark's tendency to appreciate attenuated. Short-term interest rates were kept comparatively high, with the declared intention of curbing inflation. This led to substantial inflows of capital, encouraged by expectations of non-inflationary economic growth and international confidente in the German economy.

Appreciation of the currencies of economies with an external creditor position has an adverse effect on their competitiveness, but on the other hand it increases the scope for controlling economic activities in other countries. The financing role of banks and of the financial markets is also greatly enhanced.

In the long term, the availability of savings helps determine the scope for investment, and hence for economic growth and the maintenance of a balanced and competitive position.

The allocation of savings within each country may be distorted and diverted away from investment by the excessive size of the public sector and the level of debt, including private debt.

In comparatively open economies, variations in the exchange rate will tend to have repercussions on the currency's domestic purchasing power.

The central bank's efforts to control inflation are hindered by the scale of public expenditure, budget deficits and public debt. Restrictive monetary policies bear most heavily on the private sector of the economy; the more statile the level of costs, particularly labour costs, the less the impact on economic activity, investment and employment.

By comparison with other countries, Italy's budget deficit and public debt are especially high, but so too is households' propensity to save. In 1993 and 1994, that is to say since the lira's withdrawal from the European exchange rate mechanism and the start of the adjustment of the public finances, a substantial surplus was recorded on the current account of the balance of payments. By the end of 1994 Italy's net foreign indebtedness had fallen to $72 billion, egual to 7.2 per cent of GDP. The tight monetary stance did not curb production, thanks above all to trends in labour costs.

Interest rates

Persistently high public sector borrowing requirements and public debt, widespread market fears of a shortage of savings in the world economy, especially in major countries, and the markets' perception of difficulties in the intemational coordination of economic policies in an extremely responsive global market in securities and foreign exchange have been at the root of the variability and high level of interest rates over the last decade.

Nominai interest rates have been consistently lower in Japan than in other countries. In the United States they have benefited from the dollar 's status as the leading international currency. In 1994 US monetary policy, which was avowedly geared towards attaining domestic objectives, triggered a generai rise in interest rates in other countries, despite greater price stability than in the past and, in Europe, substantial spare produttive capacity.

By mid-1992 the federai funds rate had fallen to 3 per cent, compared with more than 8 per cent two years earlier. The downward trend was reversed at the beginning of 1994; the Federal Reserve raised the rate in stages to stand at 6 per cent in February of this year.

Long-term interest rates moved in parallel with short-term rates. Yields on medium and long-term government securities in all the leading financial markets, including the Italian market, rose in tandem with those on dollar-denominated securities, increasing by about 2 percentage points on average in the Group of Seven countries in the course of the year.

In the first half of 1994 the European central banks sought to reverse this tendency by reducing the cost of money in order not to impede the recovery, which was stili fragile. However, the reduction in short-term rates was not matched by a decline in long-term rates. The yield curve, which in 1993 had been fiat or, in some cases, inverted, acquired a sharply rising slope everywhere in 1994. Sectors that borrow at short terni nevertheless benefited from the fall in the cost of money, which continued in the first half of the year in Italy and elsewhere.

Underlying these developments were massive capitai movements; in view of the low cost of dollar loans, capitai flowed finto the deep and liquid markets in government securities in the leading European countries in 1992 and even more markedly in 1993. Sudden and substantial sales of securities in early 1994 led to a universal decline in securities prices. The Japanese market witnessed movements similar to those observed in Europe, but nominai yields remained far lower than in the US and European markets; the disparity was less pronounced in real terms.

The current account deficit of the United States continued to generate a substantial supply of dollars. In the three years from 1992 to 1994 the dollar-denominated assets of non-residents with the US banking system increased by $200 billion. Despite outflows of non-bank capitai, the external liabilities of the Japanese banking system decreased owing to Japan's persistent current account surplus.

In the early months of 1995 the supply of dollars and the demand for Deutsche Mark and Japanese yen increased, reflecting substantial portfolio adjustment. Liquid funds in sterling, lire, Canadian dollars and Swedish kronor were caught up in the movement towards currencies regarded as safe havens.

On some occasiona, substantial central bank intervention in the foreign exchange markets only dampened the more erratic movements in exchange rates. The size of the flows was partly reduced by the lowering of official interest rates in Germany and Japan.

Economic developments and prospects

The underlying movements in exchange rates are unaffected by adjustment for inflation. This has important consequences for the geographic distribution of world trade and for activity in the major economie s .

Between 1991 and 1994 the United States' share of exports of manufactures by industrial countries, valued at constant prices, rose from 16.5 to 17.9 per cent, while those of Germany and Japan declined from 19.1 to 17.6 per cent and from 14.6 to 12.7 per cent respectively. Italy's share, which had fallen by 1.5 percentage points between 1985 and 1991, rose from 7.8 to 8.5 per cent. However, the external imbalances of the major countries have not been corrected, owing to divergent trends in domestic demand and hence in the volume of imports.

The world economy as a whole performed well last year. Merchandise trade, which had increased by 3.8 per cent in volume in 1993, grew by 9.4 per cent in 1994 owing to the sustained expansion in the United States and the recovery in Europe. The substantial increase in exports by developing countries again contributed to the growth in trade, which was the largest for almost twenty years.

With unit labour costs falling, inflation slowed down to less than 2.5 per cent in the industrial countries, despite the sharp rise in the prices of raw materiale that are sensitive to cyclical developments.

Output grew by 3 per cent in the industrial countries and by 6 per cent in developing regions. The situation of Central and Eastern European countries improved, thanks partly to the intensification of trade with more advanced economies; the trend is still downwards in the countries that avere formerly members of the Soviet Union, owing partly to continued uncertainty regarding organizational matters and institutions.

The US economy has grown by almost 10 per cent in the last three years, boosted by a strong expansion in investment and by exports. In the European Union, where investment declined until the end of 1993, output increased by only 3 per cent over the same period; the recovery gained momentum in 1994, however, thanks to domestic demand.

Among the major industrial countries, Japan performed less well than expected, and hence did not contribute towards world growth and adjustment of the structure of trade. In the United States the growth in the economy led to an increase in the trade deficit.

In the absence of national policies that impinge directly on the supply of and demand for savings, exchange rate movements are not sufficient to eliminate external imbalances.

Forecasts by international organizations indicate that the industrial countries will continue to perform well in 1995; the slowdown in the United States is expected to be offset by growth in Europe in line with the current trend. World trade is expected to slow down only slightly and inflation to remain low.

There remain grounds for concern, however. High and volatile real interest rates are impeding a continuation of the economic expansion. Current exchange rates could lead to a further redistribution of world trade; this would boost activity in the United States, but it would also check the recovery in Germany and Japan. The current account imbalances among the main economic areas, which are the underlying cause of the unrest in stock markets and currency markets, would remain unresolved. This in turn would adversely affect the prospects for growth in the world economy, and as a result would slow down the reduction in unemployment, which remains at record post-war levels in Europe.

Issues of international cooperation

In the present configuration of the international monetary system, financial activities are spread across a multitude of regions, currencies and instruments beyond the control of individual countries; the regulation of flows of credit and money is becoming a problem and encountering serious limitations. Destabilizing forces may set in, which in the first instance would affect emerging countries.

Doubts are beginning to be raised as to the appropriateness of massive inflows of short-term capital to finance development in these countries; a rapid outflow in response to a change in conditions could endanger the stability not only of individual banks but of entire economies. The effects could spill over onto the financial markets and currencies of more developed countries, given the growing links between the two groups of countries.

Slowly but surely, a willingness to take concrete measures to tackle the problems is developing at national level and through international cooperation.

For cooperation to be lasting and effective, each country, but especially the leading ones, must adopt domestic policies to prevent and correct imbalances that can jeopardize non-inflationary economic growth.

Compatibility between saving and investment should be achieved primarily by means of fiscal policy. There is international agreement about the need for a further reduction in the US budget deficit over the medium term. In order to prevent a slowdown in the world economy, this must be matched by an expansion in output in Japan, led in the first instance by domestic demand and of necessity stimulated by public expenditure, in accordance with the commitments given and confirmed by the Japanese Government.

Efforts to re-establish an area of monetary stability in Europe should be intensified; as an essential precondition, there must be greater convergence between the economies of the Member States of the European Union, especially as regards the adjustment of the public finances, not least in order to facilitate a reduction in interest rates. Orderly monetary conditions in Europe can also contribute to the stability of monetary and financial relations in the world in generai. International institutions and the surveillance performed by the International Monetary Fund can help prevent the risk of instability in emerging countries.

Cooperation among centrai banks is intensifying in the fields of banking supervision and the oversight of financial markets and payment systems. The present situation in the international monetary system is similar to that which faced each country internally in the last century, as institutions and financial markets carne into being and acquired their individua) identities. These developments were highly beneficiai, but they were also the cause of crises and financial instability, which were tackled by adopting specific legislation and through the special role acquired by centrai banks. At the international leve), there appears to be an increasing need for dose coordination among the centrai banks of the leading countries in order to avert the risk of instability not only in individuai banks but also in entire monetary and financial systems.

The Italian economy

The balance of payments and the exchange rate

In 1994 Italy 's merchandise exports totaled 305 trillion lire, an increase of 15 per cent on the previous year, while imports rose by 16 per cent to 248 trillion; the trade surplus rose from 52 to 57 trillion lire. The services account returned to surplus. Net interest payments to non-residents declined for the first time for seven years, falling to 24.7 trillion lire; they had been unchanged in 1993.

The surplus of 25 trillion lire on the current account of the balance of payments compares with one of 18 trillion in 1993 and large deficits in the preceding years. The return to a current account surplus in the last two years was a consequence of the relative weakness of domestic demand and the improved cost and price competitiveness of Italian products.

At the end of last year Italy 's net external debt amounted to 118 trillion lire, equa) to just over 7 per cent of gross domestic product. As recently as

1992 the ratio had been nearly 11 per cent. The persistence of a large current account surplus will eliminate the debt in just a few years. Medium-term projections prepared by the International Monetary Fund indicate that among the seven leading industrial countries only Japan and Italy will record large current account surpluses over the next five years.

Notwithstanding the improvement in Italy 's external balance sheet, the exchange rate of the lira has continued to fall. In 1994, when the dollar depreciated by 10 per cent against the mark, the lira declined by 6 per cent against the German currency. The depreciation became even more pronounced in the early months of this year.

The current account results were overshadowed by capital movements, especially on account of portfolio investment. The demand for foreign exchange against lire exceeded the supply.

In 1993 inward portfolio investment, the bulk of which consisted of purchases of government securities, had given rise to an inflow of foreign capital of 103 trillion lire, of which only part was financed in lire. This had greatly boosted the supply of foreign currency in the Italian foreign exchange market. The inflow continued in January and February 1994. From then until March of this year foreign investors made net sales of Italian securities, except in the last two months of 1994. The pressure these outflows exerted on the exchange rate of the lira was largely offset by the related repayment of bank loans. The reversal of the direction of foreign investment in Italian securities was part of the change in the international financial situation triggered by US monetary policy.

Purchases of foreign securities by Italian investors, which have been taking piace for some time as part of a normal process of portfolio diversification, accelerated last year, giving rise to a net outflow of 52 trillion lire. An additional outflow of 5 trillion was recorded in the early months of this year.

In the two years 1993-94 households made a major contribution to the outflow of capital, in part via investment funds. Enterprises were responsible for net outflows totaling at least 60 trillion lire, generated partly by direct transactions and partly via the banks from which they had obtained foreign currency loans; they invested part of their export proceeds abroad.

It is estimated that at the end of last year some 37 per cent of the corporate sector 's financial assets, excluding shares, consisted of foreign securities and deposits abroad. The corresponding share of households' financial assets was around 3 per cent.

In 1994 as a whole the current account surplus, the state sector's further borrowing abroad and non-residents' purchases of Italian securities were far outweighed by the demand for foreign exchange associated with capital outflows.

The lira strengthened in the first part of 1994, but weakened rapidly again from June onwards. In February and March of this year the declive became precipitous.

The deterioration in the exchange rate was accompanied by a fall in the prices of government securities and shares in the summer of 1994 and to an even greater extent in the early months of 1995. The differential between the yield on ten-year Treasury bonds and that on comparable German securities, which had reached a low of 2.5 percentage points in April 1994, rose to 6.5 points in March of this year.

The outflows of capital, though related to international instability, were fueled by doubts as to whether the adjustment of the public finances would continue.

At times in the last few months there was the danger that a vicious circle of capital flight, currency depreciation, rising inflation and falling securities prices would develop. This risk was averted, partly by means of interventions in support of the lira that blocked the more erratic exchange rate movements. Above all, however, it was the continuation of the adjustment of the public finances, more balanced assessments of the underlying soundness of the economy and the tightening of monetary policy that slowed down the depreciation of the lira and made a recovery possible. The effective exchange rate, which had declined by 4 per cent in 1994, fell by 15 per cent between the beginning of 1995 and the middle of March; yesterday the depreciation since the beginning of the year was 9 per cent.

Economic developments, monetary policy and prices

The depreciation of the lira has made exports more profitable than even exporters themselves had expected. At the same time it has generated inflationary pressures in the economy via import prices and expectations.

Manufacturing industry was the most dynamic sector as regards foreign trade, increasing its exports by 11.5 per cent in volume terms. The firms that took most advantage of the opportunities were those that had focused on product quality and those with consideratile spare capacity. Exports and capacity utilization rates rose to very high levels in the branches producing motor vehicles and machinery, as well as in those making traditional products; sales of intermediate goods and basic materials for industry were also substantial.

Italian industry has always depended heavily on export demand. This link, which is also cyclical, was further reinforced in the last two years by the relative weakness of domestic demand on the one hand and the profitability of exports on the other.

For about ten years the proportion of total manufacturing turnover generated by exports remained around 27 per cent. In 1993 it rose to 31 per cent and in 1994 to 35 per cent. Half of the increase was due to growth in the quantity of goods exported.

Domestic demand and gross domestic product had begun to rise again in the fourth quarter of 1993. The recovery continued and gained momentum in 1994. The domestic stimulus carne from investment in machinery and equipment and expenditure on durable goods. The increase in households' total consumption was smaller than that in GDP and slowed down in the second half of the year. The growth in investment in machinery and equipment continued throughout the year, averaging 6.5 per cent. However, there was a further fall in expenditure on construction. The acceleration in domestic demand caused imports to rise rapidly.

The increase in value added in the economy was accompanied by exceptional productivity gains, especially in manufacturing industry; employment fell.

The improvement in productivity was partly due to a generai framework and climate of industrial relations that permitted a more flexible use of labour.

The rigidities that developed in employment conditions at the beginning of the seventies were equivalent to a reduction in produttive capacity; today's greater flexibility means that production can also be increased by using plant more efficiently.

The rapid rise in output and the sustained growth in domestic and foreign demand have revealed capacity shortages in several sectors and cali for additional investment.

Monetary policy had successfully countered the inflationary pressures caused by the sharp rise in the cost of imports in the first half of 1993. The satisfactory behaviour of domestic prices — in which the agreement on labour costs was a crucial factor, in terms both of its immediate impact and of its effect on expectations — permitted interest rates to be lowered, albeit gradually, thereby fostering the recovery in investment. The reduction in interest rates continued in the first half of 1994.

In June, when the recovery in production appeared to be firmly established, the perception that producer prices and inflation expectations were coming under pressure prompted the Bank of Italy to ration monetary base; money market rates rose above the rate on fixed-term advances. In July the signs that the process of disinflation was about to end were confirmed, even though they had stili not been fully appreciated by the markets or the public.

The Bank took the view that the pressure on prices was attributable to the recovery in domestic demand, the depreciation of the lira and the prospect of supply bottlenecks in some sectors.

At the end of July the Government presented the Economic and Financial Planning Document for the three years 1995-97, which foresaw supplementary budget measures amounting to 5 trillion lire in 1994.

On 1 August, in a parliamentary hearing to comment on the Document, I pointed out the risk of a revival of inflation and reaffirmed the need for clear guidelines to restrain domestic demand by means of budgetary measures.

On 11 August the Bank decided to make an initial increase of half a percentage point in the discount rate and the rate on fixed-term advances.

Since the middle of May the market yield on ten-year Treasury bonds had risen by nearly 2 percentage points and the differential with respect to German securities had widened from 2.6 to 4 points. The tensions in international financial markets were compounded by domestic causes of uncertainty. Italy's markets were more seriously affected than those of other European countries.

After an initial period of adjustment, the increase in official rates curbed the deterioration in the long-term interest rate differential with respect to the other leading markets. The growth in the domestic money supply slowed down considerably.

The Finance Bill for 1995 presented in September provided for a correction of budgetary trends mainly through reductions in expenditure, a large part being in the social security budget. On the other band, interest payments on the public debt were calculated on the assumption of a rapid fall in interest rates. In December the measures relating to long-service pensions were removed from the budget; they were to be redrafted as part of a comprehensive reform of the pension system to be approved by the middle of 1995.

The prospect of tax measures and reform of the pension system, the limited growth in earnings and the continuous rise in the number of unemployed held back consumption.

Total credit expanded by 5.5 per cent in 1994, which was less than the growth in nominai GDP. Among the counterparts, those of a more liquid nature showed a particularly moderate increase. The money supply grew by 3.1 per cent.

Producer prices had already begun to accelerate in the middle of 1994. The rate of increase in consumer prices and the cost of living also rose as the year proceeded, albeit to a lesser extent. The twelve-month rise in the cost-of-living index reached a low of 3.6 per cent in July; by December it had risen to 4.1 per cent.

In 1993 the fall in domestic demand, the deterioration in households' confidente and the wide margin of spare capacity had led firms to trim their domestic profit margins in order to absorb the increase in costs due to the depreciation of the lira. Foreign producers reduced the foreign currency prices of their exports to Italy considerably. The tightening of monetary policy, the stability of labour costs and the increase in productivity made it possible to limit both the duration and the size of the initial price impact of the fall in the exchange rate and to reduce inflation further.

The annual rate of growth in domestic demand rose from 2.6 per cent in the first half of 1994 to 4.9 per cent in the second. The cost of primary and intermediate products continued to rise, driven by the increases in the world market prices of raw materials and the depreciation of the lira. Costs in manufacturing industry accelerated. On the other hand, the downward trend of unit labour costs became more pronounced.

The recovery in demand led to a widening of the margin between industrial firms' domestic prices and their production costs. The share of profits in industry rose to almost the levels of 1988-89, the highest since the early seventies; in the services sector it reached a record high.

At the beginning of this year the deterioration in the outlook for prices led the Bank of Italy to tighten monetary conditions further. On 21 February the discount rate was raised by 0.75 percentage points to 8.25 per cent and the rate on fixed-term advances by 1.25 points to 9.75 per cent.

The tensions that had developed in international foreign exchange markets were compounded by uncertainty regarding parliamentary approvai of the supplementary budget proposals. The lira and the prices of government securities carne under heavy downward pressure, which persisted even after the approvai of the measures in the middle of March. The supply of monetary base to the banking system, which was heavily in debt to the centrai bank, was again rationed. The overnight rate rose to 10.5 per cent.

Market tensions eased at the end of Aprii. The improvement in the prices of long-term securities, which had been under way in the other leading countries since the beginning of the year, spread to Italian government securities as investors perceived a reduction in political tensions. The announcement of the agreement on pensions reform was also a factor. The improvement in the prices of government securities was accompanied by a rise in the effective exchange rate of the lira.

Since the middle of May tensions have reappeared in the securities and foreign exchange markets. The strength of the growth in output and domestic demand was confirmed; credit to the private sector had been expanding again since the early months of the year. In such conditions the higher costs caused by the undervaluation of the lira can more easily be passed on to final prices.

On 26 May the Bank of Italy raised the discount rate and the rate on fixed-term advances by 0.75 percentage points. They now stand at 9 and 10.5 per cent respectively.

Regional disparities and unemployment

About 85 per cent of Italy's manufacturing capacity is located in the northern and centrai regions. The present export-led recovery began in the most industrialized parts of the country and has been strongest there; gross output grew by about 2.5 per cent in the Centre and North last year, as against 1 per cent in the South.

The South is home to more than 35 per cent of the country 's population and just over 30 per cent of the labour force, but generates 25 per cent of national income. In these regions the proportion of persons employed in agriculture, construction, the distributive trades and government is higher than the national average. In 1994 the decline in construction activity for the third consecutive year and the smallness of the recovery in consumer spending again impinged heavily on employment in the South. Between the beginning of 1994 and the beginning of this year the number of persons employed fell by 225,000, or 3.9 per cent. Almost all the jobs lost were in the private sector. The decline in employment in the economy as a whole carne to 1.6 per cent.

The unemployment rate in the Centre and North is 8 per cent, whereas in the South it has reached 21 per cent. The number of persons in work in this part of the country is substantially lower now than at the beginning of the eighties.

Although average unemployment rates are comparatile, the unemployment problem in Italy is radically different in nature to that in other industrial countries, where the geographic disparitier in the structure of the economy are less pronounced and unemployment less concentrated.

In some parts of the Centre and North, where the stimulus to production from exports and investment has been strongest, the economy is operating dose to the full employment level.

In the South the very low labour market participation rate, the large number of people seeking permanent employment and the rapidity with which these two problems worsened in the last two years reveal economic and institutional dysfunctions, which have repercussions on the manner in which society operates.

The labour market must be encouraged to adopt greater flexibility in wages and terms of employment, regional development policy must be overhauled and public infrastructure investment increased. Above all, there is an urgent need for a radical qualitative improvement in the functioning of public administration instìtutìons in the South.

The cyclical recovery in the Italian economy will alleviate unemployment in the southern regions only marginally. Nationwide growth in output and investment will generate the resources and create the conditions for relaunching a development policy for this part of the country.

The agreements reached within the European Union require the elimination of the social security contribution relief that manufacturing firms located in the South have received in recent decades. These subsidies can and must be replaced by an effective, coordinated policy of regional development, with the European Union financing part of the expenditure on infrastructure and investment, including intangible investment.

The average productivity of industrial workers in the South is 20 per cent lower than in the rest of the country. Until now, this competitive disadvantage has been offset by reducing the social contribution component of labour costs.

The situation calls for a wage structure and methods of labour utilization that reduce unit labour costs. Experiments already taking piace in major centres of production have raised productivity by introducing greater flexibility in the use of labour, which has made it possible to utilize plant more intensively.

There is no lack of examples of successful entrepreneurship in the South. We detect a willingness to accept new forms of employment if the business initiatives proposed are sound. The fact that the overwhelming majority of those seeking steady jobs are young people makes the use of these new forms of employment both urgent and feasible.

To a large extent, the lower productivity of manufacturing industry in the South is due to factors beyond the control of the firms concerned: disadvantages in geographical location, the inefficiency of local govemment and shortcomings in basic, productive and social infrastructure.

The amount of public capital available in the South is less than in the more affluent parts of the country and less than the average for the other leading European countries, in some cases by as much as 50 per cent. There are stili shortcomings in transportation, in the water and electricity supply systems, in communications and in some social services.

Public investment has been drastically reduced in recent years. A resumption in capital expenditure could provide cyclical relief as well as having a structural effect. The new rules simplifying and streamlining the procedures for the award of public works contracts are thus welcome. The necessary criteria for selecting, planning and monitoring the implementation of projects, which have yet to be applied, should guarantee correct conduct, ensure that public works meet development needs, and contain costs. Investment need not be financed entirely by the public sector. Private entrepreneurs who recognize the business opportunities in the provision of services for which charges will be levied can also play a role.

Adeguate infrastructure and public investment are necessary prerequisites for economie development, although of themselves they cannot generate such development. The special development assistance scheme has not yet been replaced by coordinated administrative and planning capability, especially at the regional and locai level.

The Community funds that are available have been used late or have remained unspent. It is only recently that steps have been taken to facilitate the use of these funds and a number of instruments introduced to support private investment and the financial adjustment of small and medium-sized firms. Further measures need to be taken, and quickly. A great many projects are stili incomplete. The uptake of loans from international institutions is low for want of fundable projects.

An improvement in political and administrative performance, which seems inescapable, will prevent the Southern problem from recurring in its familiar form. The geographical mobility of labour must be seen as a means of achieving greater flexibility in the efficient allocation of resources; it must not become a cause of social isolation and tension.

Overcoming regional disparitier is the necessary condition for the lasting, sustainable development of the country. The problem of productive employment, in which the question of the growth and equitable distribution of national incorre is largely subsumed, coincider in Italy with that of the economic and social development of the backward areas.

The public finances

In 1994 fiscal policy was directed towards stabilizing the primary budget surplus of the state sector at 32 trillion lire. The budget measures were designed to impinge mainly on expenditure, with around half of the reduction being in capitai spending. It was assumed that interest rates would continue to decline, not only in 1994 but also thereafter. The borrowing requirement was set at 144 trillion lire.

Expenditure was to be curbed not only by reducing budget allocations, but also by rationalizing the structure of central government departments, simplifying procedures, increasing the autonomy of local authorities and assessing the efficiency of public sector agencies. On the revenue side, the authorities did not intend to offset the decline in the tax burden that would result from the expiry of one-off measures adopted in previous years.

Notwithstanding the supplementary measures that were introduced in July, the state sector borrowing requirement amounted to more than 155 trillion lire last year. The primary surplus was 18 trillion lire, 14 trillion less than the target. Tax receipts fell short of the initial forecasts: the ratio of tax and social security receipts to GDP diminished by 2.8 percentage points, compared with the planned reduction of 1.3 points. Capital expenditure was 12.5 trillion lire less than projected.

The slowdown in the activity of government departments and the budgetary cutbacks made in recent years caused public investment to fall: between 1991 and 1994 it declined from 3.3 to 2.3 per cent of GDP.

The Economic and Financial Planning Document for the three years from 1995 to 1997 maintained the objective of halting the growth in the ratio of public debt to GDP by 1996. For 1995 it envisaged an increase in the state sector primary surplus to 2 per cent of GDP and a total borrowing requirement of no more than 139 trillion lire.

The budgetary policy approach for this year and the following two did not reflect the interest rate trend that was beginning to emerge. The progressive improvement in the primary surplus that was needed to achieve the objective hinged on a further reduction in current expenditure in relation to output; the ratio of tax and social security receipts to GDP was kept at the level foreseen for 1994.

In the statement I made to Parliament on 1 August concerning the Document, I pointed out the inadequacy of certain spending cuts, the one-off nature of some of the revenue-raising measures and the uncertainty surrounding the hypothesis that interest rates would decline sharply in the second half of the year.

Further corrective measures were taken in September to compensate for the increase in interest payments, which were stili calculated on the assumption that interest rates would come down rapidly in the final part of the year.

At the joint hearing on budgetary policy for 1995, held on 18 October by the Budget Committees of the Chamber of Deputies and the Senate, I observed that the effectiveness of some of the spending cuts and revenue increases would depend on the manner in which they were implemented. I also remarked that projected interest payments were underestimated by an amount that at the time could be calculated to be equal to just under 1 per cent of GDP.

In February of this year the new Government swiftly introduced a series of corrective measures that focused primarily on the revenue side, and particularly on indirect taxes. As a result, the ratio of tax and social security receipts to GDP will recover by around one percentage point.

The borrowing requirement for the year will be reduced to 7.4 per cent of GDP, below the limit previously set, owing partly to more rapid growth in nominai output than had originally been forecast. The estimates for interest payments in 1995 appear realistic. The ratio of the public debt to GDP could diminish, albeit only slightly.

On the basis of the intentions announced yesterday by the Government, the aims of fiscal policy in 1996 are more ambitious than those indicated in last year's Economic and Financial Planning Document, thanks to the effects of the measures already adopted and the favourable macroeconomic scenario.

The borrowing requirement will be held down to 110 trillion lire, equivalent to 5.8 per cent of GDP. The primary surplus, which is expected to amount to 60 trillion lire this year, will increase to 80 trillion, or 4.3 per cent of GDP. Achievement of these objectives will make it possible to bring down the level of yields on government securities substantially, reduce the cost of the public debt and accelerate the contraction in the borrowing requirement.

A virtuous circle of a diminishing budget deficit, a falling ratio of public debt to GDP and declining interest rates may develop; this would release resources to finance the expansion in productive investment.

Vigorous action to adjust the public finances is equally necessary in order to check the overheating of the economy.

Total public spending amounted to 54.5 per cent of gross domestic product in 1994; the weighted average for all the countries of the European Union is just above 50 per cent. The difference reflects the higher level of interest payments in Italy, which in turn is attributable to larger public debt. The higher expenditure on pensions in Italy is offset by lower spending on other social benefits, and particularly on unemployment benefits.

The bili to reform the public pension system provides for a graduai raising of both the minimum age and the minimum contribution period for long-service pensions, a closer correlation between contributions and benefits as a result of switching from an earnings-based system to one based on contributions, and harmonization of the public employees' pension system with that for the private sector. The package of proposed measures will generate an increase in revenue, largely from contributions which would otherwise have ceased, and during the transitional period will result in annual expenditure savings estimated at 0.3 per cent of GDP.

The transition is too graduai, however. Even when the new system is fully operational, it will continue to be at variance with those of the other leading countries; in particular, it will stili be possible to receive pensions at a lower age, and the ratio of pension to wages will remain higher. Assuming rates of economic growth comparable to those recorded in the past, the replacement ratio for wage and salary earners would be higher than that which the current legislation would eventually provide. No limit is placed on the amount of benefit paid.

As regards tax and social security receipts, it should be noted that the ratio to GDP is lower in Italy than in other European countries with a comparatile ratio of expenditure to GDP. The difference is due not to lower tax rates but to a smaller tax base in relation to national income, which is attributable to various forms of tax evasion and avoidance.

The composition of revenues is also skewed by the excessive incidence of personal income tax. This is the result of past inflation-induced fiscal drag, which was only partly offset by periodic revisions of the tax rates and income brackets.

Given the level of rates of value added tax, receipts from this source are inadeguate: they are the lowest in Europe in relation to GDP. It is estimated that VAT evasion may amount to as much as one third of the tax actually due. A series of indirect indicators also suggest that the evasion and avoidance of tax on the incomes of sole proprietorships and the self-employed are consideratile. It is estimated that the shortfall in revenue due to the various forms of avoidance and evasion is equivalent to a large proportion of the annual budget deficits.

Tax evasion generates economic rents, distortions in income distribution and inefficiency in resource allocation. The scale of this phenomenon is such that the entire economy is adversely affected. It must and can be substantially reduced; significant results can be achieved as early as next year.

Efforts to combat tax evasion require a reorganization of the tax administration along the lines set out by successive Governments in recent years. The limited number of tax audits, the complexity of disputes procedures and the recurrent use of tax condonations impair the effectiveness of the action taken on this front.

The taxation of corporate income in our country is biased in favour of debt financing as opposed to equity financing. It reaches excessive levels for companies that abide by the rules and have no scope for deductions or avoidance; it distorts competition, putting Italian firms at a disadvantage compared with those established in the other countries of the European Union.

On several occasions I have dwelt on the need for comprehensive reform of the taxation of financial assets. In a situation of free capital movement, the disparities of treatment are causing serious distortions in the allocation of savings among the countries of the Union. The Jack of adeguate agreements among the tax authorities facilitates evasion.

The attempts to coordinate national legislation have not produced results so far. The harmonization of the taxation of corporate income is still under examination.

Competition between economies is tending to lessen the tax on assets whose circulation within the Union is subject to fewer obstacles and lower costs.

In the past few years appropriate emphasis has been laid on the curbing of public expenditure, the quality and effectiveness of government measures and administrative efficiency; it is necessary to continue to strive resolutely in this direction. On the other hard, too little attention has been paid to these aspects on the revenue sfide of the public accounts. Even if their initial impact may be modest, the implementation of concrete measures to increase both the volume and the distributive equity of tax revenue is essential for a country that wishes to compete with other and more advanced economies, and that intends to ensure employment and better living standards for its people.

The economic recovery now under way

In last year's Report we described the incipient economic recovery that had begun in the export sector and was spreading to productive investment and to the other components of demand. We feared that consumption would grow excessively, and signaled the danger of a resurgence of inflation.

Many of those tendencies, both positive and negative, have been confirmed in the last twelve months. Although the growth in consumption has remained modest, imports are again rising in connection with the increase in aggregate demand.

Private sector saving remains high by international standards and is sufficient to finance the public sector borrowing requirement as well as private investment. The balance of payments is showing a substantial surplus on current account.

From last summer onwards, a domestic loss of confidence in addition to unfavourable international developments led to a rise in interest rates and a depreciation of the lira.

These factors reappeared even more forcefully at the beginning of this year, when they interacted with the turbulence that had developed in world financial markets. Once again, the exchange rate of the lira and the prices of Italian securities were affected.

The weakening of the lira generated renewed inflationary pressure, which first manifested itself in producer prices. The recovery in domestic demand in combination with the weakness of the lira allowed firms to widen their profit margins considerably, both in industry and in the services sector.

The twelve-month increase in the cost of living, which had fallen to a low of 3.6 per cent in July 1994, rose to 4.9 per cent in March and 5.5 per cent in May. The rise in prices in the last few months can be ascribed partly to changes in indirect taxation, but it also signals the re-emergence of inflationary pressures, including some of domestic origin.

Monetary policy, which was already geared towards containing the expansion of credit and the money supply, was progressively tightened by rationing liquidity to the banks and raising official interest rates.

More recently, it has appeared increasingly likely that inflation will continue to worsen in the coming months. In order to halt the deterioration in expectations, the discount rate has been raised to 9 per cent and the rate on advances to 10.5 per cent.

A slowdown in the monthly rate of increase in prices, after adjustment for the usual seasonal factors, is possible by the end of the summer. The improvement would be reflected in the twelve-month rate some time later.

Inflation can be curbed if demand grows in an orderly manner, firms refrain from widening their profit margins further and wage moderation is maintained.

The annual average rate of consumer price inflation, net of the effect of the increase in indirect taxes, could then be held below 4.5 per cent. It will have to fall below 4 per cent next year.

If price trends over the next few months show a tendency to diverge from the pattern I have just described, we shall not hesitate to tighten credit conditions stili further.

It is essential that the Finance Law for 1996 implement the Government's declared intention of reducing the budget deficit further in continuation of the action initiated in March.

If inflation does slow down, the growth in GDP could exceed 3 per cent this year, one of the highest growth rates in the industrial world, and it will remain rapid in the years to come.

The surplus on the current account of the balance of payments could show a further significant increase. Continued growth in output will also bring about a recovery in employment.

An examination of firms' intentions does indeed show that there is the possibility of a substantial acceleration in productive investment, primarily in industry and especially in small firms. A revival in both public and private investment is needed in the South. This will require on the one hand more efficient public administration and on the other employment conditions that make it economically viable to install productive capacity in that part of the country.

The continuing adjustment of the public finances, the stability of labour costs and the progressive slowdown in producer and consumer price inflation will help bring about a reduction in interest rates, to the advantage of companies' finances and investment.

Italy will be able to return to a sound path of sustained growth.

The banks and the financial system

In an international monetary system characterized by freedom of capital movement and substantial capital flows, changes in the demand for and supply of financial assets have an impact on exchange rates and can cause wide fluctuations in securities prices.

Italy has a particularly high saving ratio. At a time when institutional and private investors are showing increasing interest in investment abroad and in portfolio diversification, it is essential to continue to strengthen our financial market so as to underpin the value of the currency, offer better opportunities for the productive investment of domestic savings and attract foreign investment.

Heightened competition, the reduction in the role of the state in the banking sector and the need to make amends for past omissions are spurring the banks to seek sounder and more efficient structures. The reorganization of bank ownership and branch networks has become more widespread and is proceeding at a rapid pace; it is being entirely driven by the independent initiative of managers and shareholders. The restructuring will strengthen the Italian banking system. The Bank of Italy is firmly committed to ensuring that it is carried out in the proper manner, respects competition and meets the needs of Italy 's widely dispersed productive sector. The difficult economic situation increases that commitment.

Loan quality and the reorganization of the banking system

The improvement in the performance of the corporate sector has not yet been reflected in the average quality of outstanding bank loans.

Company accounts for 1993 already showed an improvement by comparison with the previous year, but they also revealed a dichotomy between exporting firms, which are mainly located in the Centre and North, and others reporting slender operating profits or a loss. More than six thousand of the twenty-nine thousand companies on which the Company Accounts Data Service holds information reported gross operating profits that were insufficient to cover their interest charges; they incurred an overall operating loss of 4.6 trillion lire.

The operating profits of Italian companies as a whole rose in 1994. Their financial deficit, which amounted to 108 trillion lire in 1992 and 36 trillion in 1993, was virtually eliminated in 1994. Credit demand was exceptionally low, while bad and doubtful debts increased by 30 per cent to 90 trillion lire, rising from 6.3 to 8 per cent of total lending.

There was evidence of a deceleration in bad and doubtful debts and a recovery in loan demand in the early months of 1995.

The need to improve loan quality has induced the banks to review their lending criteria and procedures. Many have refined their customer classification methods, which also play a useful role in determining the rate to charge. Organization has been improved to enhance the coordination of information on borrowers.

Comparison with banks in the other countries of the European Union confirms the validity of this approach; it reveals the scope for improvement through more integrated sector analysis as a basis for lending decisione, more detailed examination of group relationships when lending to individual companies, and greater attention to the customer 's earnings prospects.

Less fragmented relationships with borrowers would enable banks to obtain a fuller picture of the situation and plans of firms and to offer them more comprehensive financial assistance. This would ease the financial constraints on corporate investment and limit credit rationing during economic downturns.

The banks have taken up some of the opportunities offered by the new Banking Law. Activities that were previously conducted through specialized companies are now being performed internally. Medium and long-term lending has increased, primarily in connection with the restructuring of the debt of companies in difficulty. The acquisition of equity participations is proceeding slowly.

Banks' operating profits declined from 1.6 to 1.1 per cent of total assets in 1994. The decrease is attributable to a number of factors: the narrowing of the spread between lending and deposit rates, the fall in securities prices and loan losses. Self-financing was negative by 3.9 trillion lire. For banks operating in the South, the recession accentuated the difficulties associated with the increased riskiness of firms, inadeguate loan assessment procedures and cost structures that are often inflexible due to overstaffing.

The banks maintained their capital bases by issuing new shares and subordinated loans; the average ratio of capital to risk-weighted assets remained at about 12 per cent, in line with that in the other leading countries. Capital held in excess of the minimum capital requirement increased to 62.2 trillion lire, while the total shortfall of banks not meeting the requirement rose to 1.8 trillion.

The reduction in bank profitability cannot be blamed entirely on the recession; the economic recovery will allow profits to improve, but not necessarily to previous levels.

The banks stili need to diversify their sources of income and significantly reduce their operating costs. Services provided to customers account for a larger proportion of gross income in the other leading countries than they do in Italy. Italian banks are finding it difficult to develop new services; commissiona averaged 9 per cent of gross income over the last three years, the same as ten years earlier.

Over the past decade banks' operating costs averaged 63 per cent of gross income. Two thirds of the total consisted of staff costs, a high proportion by international standards.

To increase efficiency, measures must be taken to adjust staff composition and size as well as infrastructure to the banks' effective requirements. It is a difficult task, but one that has yielded productivity gains for a number of banks. Delay in adopting such measures will have an adverse effect on profitability.

In recent years the banks have considerably enlarged their branch networks, to the extent that coverage is now nationwide. A period of rationalization should follow. Banks should pay much greater attention to the structure, operational capabilities and profitability of their foreign establishments; the banks appear to be uncertain whether to concentrate on support for the commercia) activities of Italian businesses, interbank operations, intermediation in the leading financial markets or retail banking.

During the recession a larger number of banks found themselves in difficulties, as revealed by Bank of Italy inspections. In the last three years inspections were carried out in 539 banks, selected mainly on the basis of the periodic banking returns; they represented one third of the banking system in terms of the volume of lending. Inadequacies in loan assessment skills, risk control and organizational efficiency were found in 14 per cent of banks with 9 per cent of total lending. Shortcomings of this kind were discovered in 30 per cent of the banks located in the South.

As an adjunct to the analysis of prudential returns and inspections, frequent meetings are held with management to identify and discuss the measures needed to tackle problems and deficiencies. In 1994 the supervisory authorities made 160 formai approaches to banks among the leading three hundred, in which they requested the reorganization of procedures for assessing loans and market risks, the strengthening of capitai bases and in some cases the convening and replacement of governing bodies.

The reorganization that has been set in train in the last few years should enhance competition and help resolve the problems I have described.

In the last five years 89 banks with a combined market share of 16 per cent were merged with other banks or became part of a group; in the preceding five years 53 banks with 4 per cent of total assets had been involved in such operations.

Many of these mergers served to resolve crisis situations. Of the banks that in the last five years showed significant irregularities, 58 merged with other banks; they had accounted for 11 per cent of total lending and 23 per cent of total bad and doubtful debts, for which capital backing was provided in this way.

In the South the number of banks from other regions has increased, to the extent that they now have 40 per cent of the branches. Competition has intensified. In addition to salvaging individuai banks, intervention at a number of southern banks contributed to the introduction of products and management criteria developed in the financially more advanced areas of the country.

As the guarantor of competition in the credit market, the Bank of Italy not only assesses proposed mergers but also systematically scrutinizes operational agreements between banks and presses for the removal of clauses that might be detrimental to competition. As regards the terms and conditions for banking transactions, the Bank considers that the inflexibility and detail of the uniform terms pose a significant obstacle to differentiation in the conditions offered and has requested their amendment. In the case of a number of interbank agreements regarding payment services, the benefit to customers in terms of the speed and efficiency of services justified the granting of authorization for a limited period.

The transformation of public sector banks finto companies limited by shares has almost been completed. As the supervisory authorities have consistently held, the purpose of reducing the role of the public sector in the banking system is to give greater weight to the market's assessment of management strategy. It provides an opportunity to broaden our capital market. It can and must involve a net injection of savings that strengthens the capital base of the banks. The form and timing of public share issues and capital increases must find favour with investors, ensure that those who acquire control are financially sound and guarantee separation between the interests of industry and those of finance.

The capital market

By international standards, the Italian market in government securities is both very large and efficient. Italy 's private capital market, on the other hand, is stili underdeveloped in relation to the economy's capacity for production and saving.

Stock market capitalization remains low: the value of listed firms is egual to 18 per cent of gross domestic product, compared with 33 per cent in France and 110 per cent in the United Kingdom. Many non-financial companies, including large ones, meet the profitability and capitai requirements for listing. Even medium-sized and large corporate groups with one or more companies listed on the stock exchange continue to raise an insufficient proportion of their capital from the public.

The underdevelopment of the market is attributable to factors on both the supply and demand sides.

The demand for equity capitai has been satisfied up to now largely by tapping a narrow circle of investors. Firms will not seek listing, nor will they raise capital in the amount and manner that will make the structure of corporate control more open, if entrepreneurs do not perceive that in the medium term the advantages of greater resources can outweigh the supposed disadvantages of visibility and accountability for their decisions.

The average return on investment in shares in Italy has been broadly in line with that in other industrial countries and in the long run it has been competitive with that on alternative forms of investment. The factors that deter savers are the high variability of returns and the inadeguate protection for small shareholders.

It is the task of the financial institutions to reconcile the needs of firms with those of savers. Their role as shareholders and advisers and in the monitoring of business strategies is stili very limited; the conditions are being created in which it can increase.

The banks can help firms obtain stock market listing, not least by acquiring direct equity interests; the scope for them do to so remains consideratile. An expansion in their activity in this field presupposes and at the same time fosters a deepening of the securities markets, which will make it easier to dispose of shareholdings. The banks will need to develop suitable professional expertise in order to manage this more complex relationship with firms and operate as active shareholders.

The involvement of institutional investors in formulating investment strategies and exercising voting rights requires that their own corporate structure accord with the interests of the savers who have entrusted funds to them.

Institutional investors and banks must have the necessary instruments to represent the interests of savers in the companies in which they hold shares. A legislative proposal now under discussion is designed to extend and regulate the soliciting of proxies for shareholders' meetings; it will have to ensure timely and adeguate disclosure of information to shareholders and competition among various options.

Supplementary funded pension schemes can help to deepen the share and corporate bond markets. The decision to distinguish between the functions of a pension fund and those of its manager requires, in the interests of beneficiaries, that the former be responsible for laying down generai investment guidelines in its agreements with the manager and that the latter be responsible for administering the resources independently. In managing pension funds, specialized intermediaries will have to invest in assets, firms and productive sectors that offer the best prospects for incorre and for preserving capital values.

In the field of investment services, the more active involvement of highly qualified foreign institutions is increasing competition, accelerating the spread of financial innovation and stimulating the drive for efficiency. In the securities markets, the migration of business to financial centres abroad ceased when competition led to a reorganization of the Italian market in order to improve its liquidity and transparency. This required intermediaries to invest in human resources and technology.

The retail and wholesale markets in shares, corporate and government bonds and derivatives carne finto existence at different times and with a diversity of rules, forms of organization and controls that was not always operationally justified. It is now necessary to lay the legislative foundations for a coherent market architecture. The National Companies and Stock

Exchange Commission and the Bank of Italy are working conscientiously towards this objective.

Ladies and Gentlemen,

Last year saw a resumption of growth in the world economy, and especially in the industrial countries; the increase in investment ensures that it will be continuous and sustainable. Nonetheless, the problem of unemployment remains unresolved in many areas and countries, particularly in Europe. Inflation declined further to one of the lowest levels of recent decades, thanks partly to monetary policy but primarily to the slowdown in costs, above all labour costs.

Exchange rates displayed exceptional variability last year, even among the leading currencies; consequently, securities prices and interest rates were also highly volatile.

These developments, which are associated with the substantial expansion in international lending and investment, stem from disequilibria in economic and financial conditions in the leading countries and may be an obstacle to orderly growth in the world economy.

It became evident that economic policy in each country, of whatever size, needs to be geared continuously and credibly towards monetary and financial stability, the containment of public debt and consistent behaviour regarding nominai incomes.

The lira and the Italian financial markets were affected by the international fluctuations in exchange rates and securities prices. Orderly conditions were maintained, however, thanks to the depth of the market in government securities, the strength of the banking system, the restrictive stance of monetary policy and the firm line of incomes policy.

The efficiency of the economy and the savings of the private sector brought the current account of the balance of payments back into surplus, thereby initiating a reduction in the country 's foreign debt.

Corporate profits performed particularly well, reflecting the stability of costs, the rise in productivity and the depreciation of the currency; this must translate into a slowdown in domestic retail prices.

An efficient capital market helps to keep the internai and external value of the currency consistent with the economic fundamentals. The Italian capitai market must develop so that the privatization process can continue in a manner that ensures wider share ownership, adeguate privatization proceeds and the mobilization of genuine private savings.

Recent events have shown that there can be no slackening in the adjustment of the public finances.

In addition to efforts to reduce the budget deficit, there is an increasingly urgent need to examine and tackle the problems of the efficiency and quality of both expenditure and revenue.

Once approved by Parliament, the reduction in the deficit proposed by the Government, together with the commitment displayed by the two sides of industry and the restrictive stance of monetary policy, will help bring down inflation rapidly towards the levels recorded in countries with more stable currencies.

At present, Italy meets all the prerequisites for a further period of stable economic growth, which should also lead to an increase in employment.

The value of the currency in the domestic and international markets reflects both the strengths and the weaknesses of the Italian economy and financial system.

The Bank of Italy carefully monitors and analyzes the factors that play a part in determining the value of the currency. It considers it has a duty to report systematically on the results of its analysis and to give account of its actions. It seeks to maintain the stability of the currency and of the banking system, in accordance with the responsibility conferred upon it by the Constitution and the Banking Law and by virtue of the trust placed in it by the country.

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	
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	340,533	460,718	49,334	110,903	56,780	959,654	277,803	1,237,457
1993	39,348	331,732	465,407	52,616	110,930	53,543	948,344	256,195	1,204,539
1994	39,435	342,838	471,766	50,380	110,989	54,338	968,986	281,184	1,250,170
1990 – I	9,309	83,908	110,820	10,799	27,217	13,606	234,060	62,786	296,846
II	9,226	83,862	111,042	10,941	27,301	13,682	234,172	64,290	298,462
III	9,541	85,816	112,206	10,986	27,356	13,716	237,649	64,413	302,062
IV	8,432	84,735	112,095	10,977	27,407	13,814	235,507	65,296	300,803
1991 – I	9,576	84,586	112,531	11,063	27,475	13,915	237,020	64,966	301,986
II	9,886	84,008	113,002	11,162	27,533	14,043	237,309	66,451	303,761
III	9,694	84,754	113,559	11,273	27,591	14,126	238,451	66,465	304,916
IV	10,002	85,699	113,790	11,452	27,653	14,213	239,905	67,651	307,557
1992 – I	9,839	86,674	114,640	11,827	27,687	14,348	241,361	70,377	311,737
II	9,998	86,097	115,186	12,236	27,718	14,356	241,120	69,999	311,119
III	10,264	83,519	115,405	12,526	27,741	14,181	238,584	69,648	308,232
IV	9,953	84,243	115,487	12,745	27,757	13,895	238,590	67,779	306,369
1993 – I	9,901	83,408	115,909	13,044	27,742	13,544	237,460	64,273	301,733
II	9,769	83,404	116,450	13,237	27,730	13,352	237,467	63,577	301,044
III	9,600	81,709	116,270	13,225	27,726	13,313	235,394	64,261	299,655
IV	10,078	83,211	116,777	13,110	27,732	13,335	238,023	64,084	302,107
1994 – I	10,244	83,381	116,930	12,862	27,762	13,422	238,876	67,155	306,031
II	9,818	85,024	117,817	12,716	27,766	13,522	241,231	68,753	309,984
III	9,721	87,454	118,292	12,467	27,751	13,659	244,410	71,752	316,162
IV	9,652	86,980	118,727	12,335	27,710	13,735	244,468	73,524	317,992

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
89,457	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	99,528	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
98,583	107,335	629,819	154,701	12,244	234,775	212,075	127,671	82,603	207,470	123,324	299,025
92,325	86,584	613,767	155,733	–732	256,862	212,075	122,004	72,495	207,193	123,091	283,483
87,536	91,180	623,636	155,801	7,282	284,735	211,996	125,118	73,860	212,662	123,160	287,814
24,854	27,669	150,050	37,496	3,869	52,906	51,229	29,717	19,877	49,228	30,505	70,317
24,835	27,537	151,171	37,621	1,014	56,284	51,554	30,145	19,715	49,758	30,549	70,865
24,770	27,068	151,953	37,810	4,256	56,206	51,714	30,490	19,709	50,039	30,603	71,311
24,861	26,634	153,170	37,930	1,203	57,005	52,019	30,873	19,886	50,393	30,746	72,032
25,001	26,492	154,436	38,031	1,443	56,584	52,227	31,239	20,202	50,768	30,769	72,899
25,200	27,175	155,462	38,188	2,086	55,649	52,527	31,439	20,372	51,124	30,745	73,593
25,299	27,553	156,178	38,388	2,602	54,896	52,787	31,451	20,523	51,417	30,663	74,098
25,243	27,562	156,940	38,599	2,801	56,411	53,019	31,713	20,573	51,634	30,751	74,554
25,014	27,680	158,117	38,581	4,419	57,926	53,198	32,190	20,877	51,852	30,899	75,366
24,850	27,514	158,641	38,567	4,045	57,501	53,183	32,326	21,144	51,988	30,920	75,733
24,585	26,911	157,456	38,710	816	59,753	52,866	31,926	20,799	51,866	30,777	74,814
24,134	25,231	155,604	38,842	2,963	59,595	52,828	31,229	19,783	51,764	30,728	73,113
23,628	22,819	153,835	38,928	–623	63,147	52,855	30,641	18,694	51,645	30,662	71,528
23,217	21,221	152,945	39,027	1,635	62,999	53,049	30,293	17,871	51,732	30,702	70,511
22,901	21,023	153,052	38,927	–885	64,637	53,047	30,318	17,920	51,767	30,827	70,457
22,580	21,523	153,935	38,851	–859	66,078	53,124	30,752	18,010	52,049	30,899	70,987
22,319	22,008	154,799	38,830	–1,093	69,168	53,088	31,141	18,121	52,450	30,865	71,485
22,000	22,741	155,736	38,907	760	69,840	53,086	31,334	18,301	53,014	30,848	71,874
21,665	22,835	156,385	39,027	3,417	72,833	52,920	31,326	18,664	53,475	30,731	72,180
21,552	23,596	156,715	39,037	4,199	72,894	52,902	31,317	18,774	53,723	30,716	72,276

Table a2

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

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
	Unit labour costs *(current lire per thousand lire of value added at 1985 prices)*									
Market goods and services (1)	**695.6**	**728.9**	**759.1**	**787.7**	**831.1**	**889.6**	**961.4**	**997.6**	**1,013.4**	**1,010.6**
Agriculture, forestry and fisheries	916.4	940.0	943.1	1,008.3	998.3	1,068.7	1,048.5	1,085.6	1,074.0	1,033.1
Industry	637.4	665.8	684.4	703.1	748.0	804.4	868.3	901.8	928.8	914.9
Excluding construction	*633.5*	*656.8*	*672.6*	*687.3*	*732.9*	*783.6*	*841.1*	*864.3*	*883.5*	*861.4*
Energy products	*349.7*	*366.0*	*387.1*	*410.5*	*437.3*	*475.0*	*509.2*	*519.9*	*509.6*	*507.2*
Manufactures	*664.0*	*688.6*	*703.3*	*715.1*	*762.3*	*814.4*	*874.7*	*900.0*	*923.8*	*898.4*
Construction	*621.4*	*673.0*	*699.1*	*738.9*	*778.1*	*860.8*	*945.2*	*1,023.0*	*1,078.4*	*1,120.5*
Services (1)	673.6	708.1	749.5	786.5	834.4	889.8	967.7	1,008.1	1,018.0	1,027.5
Distributive trades, lodging & catering	*614.2*	*645.8*	*684.4*	*706.7*	*749.0*	*806.5*	*880.3*	*913.0*	*963.8*	*961.3*
Transport & communications	*673.1*	*687.5*	*714.9*	*718.7*	*760.0*	*792.6*	*838.5*	*859.2*	*844.1*	*809.1*
Finance and insurance	*580.2*	*599.4*	*658.0*	*681.8*	*704.7*	*734.2*	*793.2*	*843.2*	*736.2*	*809.0*
Miscellaneous services	*624.2*	*673.6*	*711.1*	*794.8*	*857.6*	*930.7*	*1,039.4*	*1,084.3*	*1,140.9*	*1,161.3*
Non-market services	**982.5**	**1,061.5**	**1,167.6**	**1,296.8**	**1,391.3**	**1,615.4**	**1,749.2**	**1,828.5**	**1,865.2**	**1,899.7**
General government	982.3	1,063.9	1,170.7	1,302.2	1,390.7	1,621.5	1,752.6	1,828.2	1,858.9	1,891.3
Total (1)	**738.2**	**778.6**	**819.4**	**861.9**	**909.6**	**995.0**	**1,075.0**	**1,114.4**	**1,132.5**	**1,131.0**
	Value added at factor cost per full-time equivalent worker *(thousands of lire at 1985 prices)*									
Market goods and services (1)	**34,496.3**	**35,238.8**	**36,441.9**	**37,867.3**	**39,161.4**	**39,700.9**	**39,920.5**	**40,952.0**	**41,930.9**	**43,672.5**
Agriculture, forestry and fisheries	15,204.0	15,508.4	16,534.8	16,747.2	17,855.3	17,596.4	19,029.9	20,180.1	21,415.1	22,269.6
Industry	38,948.9	40,083.1	41,923.5	43,966.8	45,380.3	46,010.8	46,473.0	47,837.2	48,215.2	50,879.5
Excluding construction	*41,380.7*	*42,681.2*	*44,834.6*	*47,159.8*	*48,519.6*	*49,365.3*	*50,327.1*	*52,575.0*	*53,689.7*	*57,269.0*
Energy products	*118,159.7*	*122,195.0*	*123,216.4*	*125,142.9*	*130,625.6*	*134,671.1*	*138,008.2*	*144,571.0*	*150,553.4*	*160,280.0*
Manufactures	*38,459.2*	*39,592.1*	*41,701.4*	*44,094.6*	*45,366.9*	*46,085.9*	*46,921.2*	*48,929.8*	*49,842.2*	*53,246.7*
Construction	*31,200.1*	*31,749.9*	*32,562.8*	*33,506.4*	*34,939.0*	*35,051.4*	*34,466.7*	*33,774.9*	*32,394.9*	*32,033.8*
Services (1)	36,589.1	37,098.9	37,778.3	38,763.2	39,728.3	40,249.4	40,060.1	40,736.7	41,903.2	43,138.0
Distributive trades, lodging & catering	*32,301.8*	*32,594.4*	*33,317.8*	*34,598.4*	*35,525.6*	*35,872.6*	*35,781.4*	*36,108.8*	*36,162.4*	*37,505.4*
Transport & communications	*43,286.2*	*43,949.8*	*44,668.2*	*47,217.3*	*48,995.6*	*50,979.2*	*52,128.0*	*54,205.4*	*55,884.8*	*60,002.8*
Finance and insurance	*93,859.0*	*100,081.4*	*98,367.2*	*101,826.5*	*105,143.7*	*107,821.7*	*107,005.3*	*111,408.4*	*128,921.6*	*124,137.6*
Miscellaneous services	*32,305.4*	*32,313.9*	*33,257.8*	*32,566.9*	*32,707.7*	*32,640.9*	*31,824.4*	*31,800.9*	*31,881.3*	*32,485.1*
Non-market services	**25,533.4**	**25,729.4**	**25,619.7**	**25,545.1**	**25,630.0**	**25,703.5**	**25,647.8**	**25,506.7**	**25,620.7**	**25,747.3**
General government	27,917.9	28,067.8	27,893.2	27,803.7	27,896.8	28,067.6	28,133.3	28,123.0	28,287.8	28,471.8
Total (1)	**32,895.7**	**33,539.8**	**34,488.5**	**35,627.0**	**36,690.9**	**37,149.7**	**37,311.4**	**38,066.3**	**38,814.5**	**40,208.1**

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

INDUSTRIAL PRODUCTION BY ECONOMIC PURPOSE

(indices, 1990=-100; seasonally adjusted)

	Final investment goods				Final consumer goods				Intermediate goods				Manufacturing	Aggregate index
	For industry	Transport equipment	Multi-sector	Total	Durable	Semi-durable	Non-durable	Total	For industry	For consumer goods	Mixed purpose	Total		
1985	81.8	64.9	93.2	79.8	79.9	95.2	81.2	86.4	85.7	90.1	85.3	85.8	85.4	84.9
1986	84.6	85.9	95.9	86.5	84.3	95.8	83.5	88.6	86.8	92.6	87.7	88.2	88.3	88.0
1987	87.3	81.7	100.4	88.0	91.5	94.4	88.3	91.5	87.4	97.6	92.4	92.4	91.5	91.4
1988	93.9	97.7	99.0	95.4	98.0	97.9	93.8	96.4	92.8	97.6	98.1	97.5	97.2	96.9
1989	97.8	96.1	103.0	98.2	101.5	100.3	96.1	99.1	99.2	102.0	100.9	100.8	100.3	99.9
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	95.4	94.8	98.3	95.9	99.4	100.0	101.4	100.4	97.5	100.0	99.5	99.4	98.8	99.1
1992	93.6	84.8	95.1	92.1	96.3	100.4	104.7	101.1	96.5	101.3	99.9	99.7	98.4	98.9
1993	93.2	67.9	97.8	88.9	90.6	97.2	104.8	98.7	87.9	98.9	98.9	97.7	95.7	96.5
1994	98.3	67.8	97.3	91.7	100.8	103.6	105.5	103.8	88.4	102.7	104.8	102.8	100.7	101.2
1988 – I	91.1	94.6	100.7	93.2	95.6	98.7	92.4	95.6	92.3	99.2	96.7	96.6	95.9	95.5
II	93.2	99.0	95.6	94.8	96.1	95.9	93.8	95.2	90.9	97.0	97.4	96.7	96.2	95.9
III ...	95.6	99.9	102.3	97.4	98.8	99.1	93.2	96.9	93.4	95.7	98.3	97.5	97.7	97.4
IV ...	95.5	97.5	97.4	96.2	101.6	98.0	95.7	98.0	94.7	98.4	100.1	99.4	99.0	98.7
1989 – I	95.4	93.9	100.5	95.8	101.0	98.1	93.9	97.3	97.4	99.2	99.4	99.2	98.5	98.1
II	96.2	89.9	99.5	95.3	101.1	98.7	95.9	98.3	98.2	100.5	99.7	99.7	99.4	99.1
III ...	97.5	100.7	103.0	98.9	100.9	104.1	96.2	100.5	99.0	102.6	101.7	101.5	100.4	100.0
IV ...	102.1	99.8	109.1	102.6	103.0	100.2	98.3	100.2	102.0	105.6	102.6	102.9	102.8	102.3
1990 – I	102.4	102.9	100.4	102.1	100.8	96.7	97.4	97.8	101.4	98.5	99.7	99.8	100.4	100.2
II	100.3	99.8	109.0	102.0	101.1	100.5	99.8	100.4	101.3	100.2	99.5	99.8	100.4	100.5
III ...	100.3	105.0	92.9	99.7	102.0	101.9	101.8	101.9	99.9	101.6	102.6	102.2	100.7	100.7
IV ...	97.0	92.3	97.7	96.2	96.2	100.9	101.0	99.9	97.3	99.7	98.2	98.3	98.5	98.6
1991 – I	96.3	95.6	98.8	96.7	98.9	100.7	101.3	100.5	96.9	100.2	98.7	98.7	98.6	98.7
II	96.0	96.5	92.4	95.4	100.0	99.2	98.6	99.1	97.9	98.5	99.3	99.0	98.5	98.8
III ...	95.0	92.4	106.8	96.8	99.9	98.8	102.7	100.6	97.4	101.4	99.6	99.6	98.9	99.2
IV ...	94.3	94.6	95.2	94.6	98.9	101.4	103.1	101.5	97.7	100.0	100.6	100.2	99.2	99.6
1992 – I	94.9	91.9	94.8	94.3	99.3	102.1	104.0	102.2	99.7	101.9	101.6	101.4	100.2	100.6
II	93.3	89.1	99.1	93.6	97.7	100.6	106.3	102.2	98.4	103.4	101.2	101.2	99.8	100.2
III ...	93.0	79.4	89.8	89.5	93.3	98.7	103.1	99.2	95.3	100.0	98.9	98.7	96.7	97.4
IV ...	93.3	78.9	96.8	91.0	94.9	100.2	105.4	101.0	92.7	99.9	98.0	97.7	96.8	97.3
1993 – I	94.2	72.7	105.3	92.0	92.2	99.8	108.2	101.4	88.8	99.0	99.3	98.1	96.8	97.5
II	93.9	68.6	92.8	88.4	87.9	97.7	104.2	98.1	87.6	97.6	98.3	97.0	94.9	95.8
III ...	92.3	66.6	101.5	88.8	91.0	96.0	103.4	97.8	88.5	98.8	97.9	97.0	95.4	96.0
IV ...	92.4	63.7	91.5	86.3	91.4	95.3	103.3	97.6	86.8	100.1	100.0	98.6	95.9	96.6
1994 – I	92.0	62.7	88.1	85.1	94.5	98.9	102.7	99.4	87.1	100.6	99.6	98.4	96.1	96.7
II	96.4	66.8	99.8	91.0	101.2	102.9	105.9	103.7	87.2	102.3	103.1	101.2	99.6	100.2
III ...	100.1	70.9	99.8	94.0	102.8	106.3	107.0	105.8	87.9	103.3	107.8	105.1	102.7	103.2
IV ...	104.5	70.8	101.4	96.9	104.8	106.4	106.5	106.1	91.4	104.6	108.8	106.4	104.2	104.8

Source: Based on Istat data.

CAPACITY UTILIZATION RATES IN INDUSTRY

(percentages; 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		
1985	77.6	72.0	97.0	79.1	80.2	93.2	92.3	89.7	84.4	89.4	86.3	86.5	89.5	89.7
1986	80.8	88.9	94.1	84.3	84.0	93.4	92.2	90.7	85.4	90.9	88.1	88.1	90.2	90.5
1987	83.9	81.9	94.1	84.9	90.4	91.6	94.7	92.4	85.9	94.8	91.9	91.6	90.8	91.4
1988	90.7	96.4	91.7	92.0	96.1	94.5	97.7	96.0	91.1	93.7	96.8	95.9	93.7	94.1
1989	95.1	93.2	94.7	94.6	98.8	96.4	97.4	97.4	97.3	96.9	98.6	98.3	94.5	94.8
1990	97.5	96.1	92.0	96.0	96.6	95.7	98.7	97.0	98.0	94.0	96.7	96.5	93.3	93.9
1991	92.6	97.5	91.8	93.4	95.3	95.3	97.6	96.2	95.4	93.1	95.1	94.9	92.1	92.7
1992	90.5	87.9	89.1	89.7	91.6	95.3	98.2	95.6	94.4	93.3	94.4	94.3	91.2	91.9
1993	89.7	70.4	91.6	86.3	85.6	91.9	95.9	92.1	85.9	90.1	92.3	91.4	88.1	89.0
1994	94.2	70.2	91.1	88.9	94.5	97.5	94.3	95.6	86.2	92.7	96.8	95.1	92.0	92.5
1988 – I	87.8	93.8	93.6	89.9	94.0	95.4	97.3	95.7	90.6	95.7	95.7	95.2	93.4	93.8
II	90.0	97.8	88.7	91.5	94.3	92.6	98.1	94.9	89.2	93.3	96.2	95.2	93.0	93.5
III ...	92.4	98.2	94.7	94.0	96.8	95.6	96.8	96.3	91.7	91.8	96.8	95.8	93.8	94.2
IV ...	92.5	95.5	89.9	92.8	99.3	94.4	98.7	97.1	93.0	94.1	98.4	97.4	94.4	94.9
1989 – I	92.5	91.6	92.7	92.3	98.6	94.5	96.3	96.1	95.6	94.6	97.5	97.0	93.4	93.8
II	93.5	87.4	91.5	91.9	98.5	95.0	97.6	96.7	96.3	95.6	97.6	97.3	93.8	94.3
III ...	94.8	97.5	94.5	95.4	98.1	100.0	97.2	98.6	97.1	97.4	99.3	98.9	94.4	94.7
IV ...	99.5	96.2	100.0	98.9	100.0	96.2	98.7	98.0	100.0	100.0	100.0	100.0	96.2	96.5
1990 – I	100.0	98.8	92.1	98.1	97.6	92.7	97.1	95.5	99.4	93.0	96.9	96.7	93.8	94.2
II	97.8	95.4	100.0	97.8	97.7	96.3	98.9	97.6	99.3	94.3	96.4	96.4	93.8	94.3
III ...	97.7	100.0	85.6	95.6	98.5	97.4	100.0	98.6	97.9	95.5	99.1	98.5	93.9	94.4
IV ...	94.4	90.4	90.3	92.7	92.6	96.4	98.8	96.5	95.3	93.4	94.6	94.5	91.9	92.5
1991 – I	93.6	96.2	91.8	93.7	95.0	96.1	98.4	96.8	94.8	93.6	94.8	94.6	91.9	92.5
II	93.3	100.0	86.2	93.1	95.9	94.6	95.1	95.1	95.8	91.8	95.0	94.7	91.8	92.5
III ...	92.1	95.8	100.0	94.5	95.7	94.1	98.5	96.2	95.3	94.3	95.0	95.0	92.2	92.8
IV ...	91.4	98.0	89.2	92.2	95.6	96.5	98.2	96.7	95.6	92.7	95.7	95.3	92.4	92.9
1992 – I	91.9	95.3	88.8	91.9	94.8	97.1	98.5	97.1	97.5	94.2	96.4	96.2	93.2	93.7
II	90.2	92.4	92.8	91.2	93.0	95.6	100.0	96.7	96.2	95.4	95.7	95.7	92.7	93.3
III ...	89.8	82.3	84.1	87.1	88.7	93.6	96.4	93.6	93.2	92.0	93.3	93.1	89.6	90.5
IV ...	90.0	81.8	90.6	88.5	90.0	94.9	98.0	95.0	90.6	91.7	92.2	92.0	89.5	90.1
1993 – I	90.8	75.3	98.6	89.4	87.3	94.4	99.9	95.0	86.8	90.6	93.1	92.1	89.3	90.2
II	90.4	71.1	86.9	85.9	83.1	92.4	95.7	91.6	85.6	89.1	91.9	90.9	87.5	88.4
III ...	88.7	69.0	95.1	86.3	85.9	90.7	94.3	91.1	86.5	90.0	91.3	90.6	87.7	88.4
IV ...	88.8	66.1	85.7	83.7	86.1	89.9	93.7	90.6	84.7	90.9	93.0	91.9	88.0	88.8
1994 – I	88.3	64.9	82.5	82.6	88.9	93.2	92.6	92.0	85.0	91.2	92.3	91.4	88.0	88.7
II	92.4	69.2	93.5	88.1	94.9	96.9	94.9	95.7	85.0	92.4	95.3	93.9	91.1	91.7
III ...	95.9	73.4	93.4	91.0	96.3	100.0	95.3	97.3	85.7	93.1	99.4	97.2	93.7	94.3
IV ...	100.0	73.4	95.0	93.8	98.0	100.0	94.3	97.3	89.1	94.0	100.0	98.1	95.0	95.4

Source: Based on Istat data.

Table a5

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)
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
1994	4.0	3.5	3.8	4.3	3.8	4.4	3.2	5.4	3.3	2.8	5.9	2.9	4.5
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
1994 – I	4.3	3.2	4.2	6.1	4.0	4.8	3.3	6.7	3.9	3.1	6.2	3.5	5.0
II	4.0	3.1	4.0	4.0	3.7	4.5	3.2	5.4	3.3	2.7	6.0	3.4	4.4
III	3.8	3.5	3.4	3.5	3.5	4.3	3.0	5.0	3.1	2.6	5.8	2.2	4.2
IV	3.9	4.1	3.6	3.7	3.7	4.1	3.2	4.8	3.0	3.0	5.3	2.5	4.2

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

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)*
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
1994	3.9	3.4	3.0	4.1	7.1	3.2	1.1	5.8	2.3	4.4
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
II	4.0	3.1	3.0	3.8	7.5	3.2	1.1	6.0	2.2	4.6
III	3.8	3.3	3.0	3.1	6.8	3.1	1.6	5.6	2.2	4.2
IV	3.8	3.8	3.0	3.0	6.3	3.1	0.8	5.4	2.8	4.1
1995 – I	4.4	4.9	3.3	2.1	6.1	3.4	–1.6	6.6	3.3	4.4

Source: Based on Istat data.
(1) Weightings are shown in brackets (1992=100).

Table a7

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
1994	3.8	4.3	4.6	3.5	3.6	3.9	4.0	3.3	4.2	3.7
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
1994 – I	3.9	7.9	4.7	2.8	2.8	4.3	4.4	3.9	3.5	3.7
II	3.1	4.9	4.7	2.9	3.1	3.8	3.9	2.8	2.8	2.8
III	3.7	3.0	4.1	3.6	3.5	3.6	4.1	2.8	4.5	3.8
IV	4.6	1.5	4.8	4.7	5.0	4.0	3.5	3.7	5.8	5.0

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

Table a8

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	USA
1985	95.3	100.0	104.9	101.8	90.7	92.1	94.2	65.5
1986	98.0	99.8	101.4	99.1	97.8	98.0	99.4	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	98.6	99.2
1989	99.6	100.4	102.1	101.6	94.0	100.0	101.1	94.5
1990	103.6	102.1	103.6	102.4	97.9	101.5	104.6	109.0
1991	104.1	103.1	104.2	105.3	93.6	104.7	106.9	108.6
1992	101.9	99.9	99.5	102.2	93.3	101.7	104.7	110.9
1993	88.2	87.9	85.7	89.7	85.7	90.5	91.8	89.0
1994	86.4	86.4	84.3	88.5	82.9	87.0	90.3	88.7
1988 – I	98.6	98.2	98.7	98.4	94.4	100.5	99.5	104.3
II	97.1	97.0	98.1	98.0	89.3	99.5	98.1	101.2
III	96.2	97.1	98.5	98.0	88.9	98.8	98.4	92.9
IV	97.2	97.6	98.9	99.0	89.0	98.7	98.6	98.3
1989 – I	97.8	98.5	100.5	100.2	88.8	99.4	99.3	95.0
II	98.5	99.8	101.7	101.1	92.1	99.5	100.0	91.0
III	100.5	101.6	103.6	102.7	95.1	100.7	102.6	93.5
IV	101.6	101.8	102.8	102.5	100.0	100.3	102.4	98.4
1990 – I	103.2	102.3	103.1	102.4	101.3	101.7	104.2	104.5
II	103.9	102.6	104.1	102.3	100.0	102.1	106.0	106.9
III	103.7	101.8	104.0	102.4	94.8	100.8	105.1	111.0
IV	103.6	101.6	103.1	102.5	95.4	101.2	103.1	113.7
1991 – I	105.1	103.0	104.2	104.9	94.7	104.5	105.7	115.9
II	103.7	103.3	104.9	105.2	92.6	105.0	107.6	104.4
III	103.5	103.0	104.0	105.3	93.1	104.9	107.5	103.5
IV	104.4	103.1	103.5	105.9	94.0	104.5	106.6	110.4
1992 – I	105.0	103.4	103.7	106.3	93.8	105.6	107.8	112.2
II	104.7	102.8	103.3	105.7	91.7	105.0	108.3	111.7
III	104.3	101.3	100.9	103.9	93.5	103.5	107.1	119.3
IV	93.6	92.0	90.0	93.1	94.2	92.8	95.5	100.4
1993 – I	87.9	87.0	85.0	87.8	88.8	88.9	90.8	89.6
II	89.7	89.0	87.4	90.0	87.4	90.9	93.2	92.3
III	89.0	89.1	86.6	91.8	84.7	92.2	93.0	88.6
IV	86.3	86.4	83.9	89.1	82.1	90.0	90.1	85.6
1994 – I	86.0	86.4	84.7	88.5	80.7	88.4	91.2	84.6
II	88.3	88.5	86.5	90.9	84.4	88.9	92.8	89.0
III	86.3	85.9	83.6	87.9	84.1	85.8	89.6	90.5
IV	85.1	84.6	82.6	86.7	82.2	84.9	87.4	90.5

Sources: Baed on national statistics and IMF and OECD data.
(1) Rounding may cause discrepancies between quarterly and annual data.

ITALY'S EXTERNAL POSITION
(billions of lire)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
ASSETS	**174,577**	**185,223**	**193,644**	**227,232**	**282,239**	**325,362**	**392,553**	**527,926**	**681,893**	**747,456**
Non-bank capital	**93,341**	**106,689**	**119,205**	**135,745**	**167,769**	**209,656**	**267,807**	**358,897**	**442,548**	**524,860**
Investments	42,749	57,273	62,115	84,679	107,533	139,477	191,099	268,768	344,346	402,747
Direct	30,221	37,806	40,549	52,780	59,122	68,018	81,034	103,503	138,138	146,072
International organizations	2,358	2,386	2,745	3,903	3,903	3,304	3,672	4,068	4,550	5,084
Property	501	519	519	685	868	1,307	5,186	6,715	7,847	8,442
Other	27,362	34,901	37,285	48,192	54,351	63,407	72,176	92,720	125,741	132,546
Portfolio	12,528	19,467	21,566	31,899	48,411	71,459	110,065	165,265	206,208	256,675
Loans	12,007	12,841	14,040	8,742	14,013	18,671	23,325	32,811	37,277	51,144
Public	4,932	5,980	7,356	6,584	9,836	11,160	12,791	15,722	18,694	21,740
Private	7,075	6,861	6,684	2,158	4,177	7,511	10,534	17,089	18,583	29,404
Trade credits	38,585	36,575	43,050	42,324	46,223	51,508	53,383	57,318	60,925	70,969
Short-term	26,168	24,011	23,645	23,779	26,777	29,812	29,887	30,873	33,101	40,506
Medium and long-term	12,417	12,564	19,405	18,545	19,446	21,696	23,496	26,445	27,824	30,463
Bank capital	**81,236**	**78,534**	**74,439**	**91,487**	**114,470**	**115,706**	**124,746**	**169,029**	**239,345**	**222,596**
LIABILITIES	**254,118**	**260,509**	**279,870**	**336,319**	**434,973**	**525,599**	**610,068**	**759,328**	**911,236**	**956,527**
Non-bank capital	**148,392**	**152,478**	**170,482**	**167,530**	**229,226**	**296,294**	**334,075**	**399,141**	**544,683**	**580,684**
Investments	42,959	49,312	49,758	71,072	105,495	128,065	175,828	220,404	363,538	404,262
Direct	33,485	36,574	38,529	50,310	64,715	67,806	70,878	73,489	91,929	98,398
International organizations	1,633	1,869	1,869	2,148	1,964	2,274	2,194	2,203	2,471	2,558
Other	31,852	34,705	36,660	48,162	62,751	65,532	68,684	71,286	89,458	95,840
Portfolio	9,474	12,738	11,229	20,762	40,780	60,259	104,950	146,915	271,609	305,864
Loans	81,340	79,972	92,855	67,386	94,100	133,700	124,200	143,500	146,458	135,045
Public	47,620	48,352	56,293	40,094	47,900	53,319	29,400	31,740	36,646	35,123
Private	33,720	31,620	36,562	27,292	46,200	80,381	94,800	111,760	109,812	99,922
Trade credits	24,093	23,194	27,869	29,072	29,631	34,529	34,047	35,237	34,687	41,377
Short-term	21,912	20,897	22,959	24,240	24,928	29,776	29,274	30,647	30,276	36,775
Medium and long-term	2,181	2,297	4,910	4,832	4,703	4,753	4,773	4,590	4,411	4,602
Bank capital	**105,726**	**108,031**	**109,388**	**168,789**	**205,747**	**229,305**	**275,993**	**360,187**	**366,553**	**375,843**
NET POSITION (excluding the central bank)	**–79,541**	**–75,286**	**–86,226**	**–109,087**	**–152,734**	**–200,237**	**–217,515**	**–231,402**	**–229,343**	**–209,071**
Non-bank capital	–55,051	–45,789	–51,277	–31,785	–61,457	–86,638	–66,268	–40,244	–102,135	–55,824
Bank capital	–24,490	–29,497	–34,949	–77,302	–91,277	–113,599	–151,247	–191,158	–127,208	–153,247
CENTRAL BANK										
Assets	66,709	62,857	75,589	84,201	94,814	104,928	95,913	76,539	86,566	93,897
of which: *gold*	*39,530*	*35,203*	*39,812*	*37,242*	*33,663*	*30,579*	*29,288*	*29,944*	*36,910*	*41,338*
Liabilities	1,500	1,446	1,292	1,426	1,573	1,529	1,575	9,240	2,629	2,461
Net position	**65,209**	**61,411**	**74,297**	**82,775**	**93,241**	**103,399**	**94,338**	**67,299**	**83,937**	**91,436**
OVERALL NET POSITION (including the central bank)	**–14,332**	**–13,875**	**–11,929**	**–26,312**	**–59,493**	**–96,838**	**–123,177**	**–164,103**	**–145,406**	**–117,635**
Excluding central bank gold from the assets	**–53,862**	**–49,078**	**–51,741**	**–63,554**	**–93,156**	**–127,417**	**–152,465**	**–194,047**	**–182,316**	**–158,973**

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
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	214,224		266,213		51,989		–34,165		17,824	
1994	248,418		305,417		56,999		–31,987		25,012	
1990 – I	52,189	50,820	47,104	49,748	–5,085	–1,072	–6,880	–5,348	–11,965	–6,420
II	51,586	49,408	53,321	50,899	1,735	1,491	–4,684	–6,014	–2,949	–4,523
III	44,020	49,197	47,709	50,633	3,689	1,436	–3,569	–4,632	120	–3,196
IV	54,314	52,683	55,381	52,235	1,067	–449	–6,651	–5,790	–5,584	–6,238
1991 – I	52,417	51,117	49,860	52,014	–2,557	896	–6,862	–5,262	–9,419	–4,366
II	55,165	52,767	54,073	51,776	–1,092	–991	–6,209	–7,187	–7,301	–8,178
III	47,482	52,615	48,629	51,788	1,147	–827	–6,904	–7,502	–5,757	–8,329
IV	54,905	53,470	57,169	54,154	2,264	684	–9,124	–9,148	–6,860	–8,464
1992 – I	55,943	54,421	52,614	54,236	–3,329	–185	–8,533	–7,400	–11,862	–7,585
II	56,838	54,704	55,403	53,318	–1,435	–1,385	–6,322	–8,037	–7,757	–9,422
III	47,440	52,271	51,473	54,723	4,033	2,452	–11,593	–11,646	–7,560	–9,194
IV	55,362	54,187	59,945	57,158	4,583	2,971	–11,629	–10,994	–7,046	–8,023
1993 – I	54,693	52,761	61,452	62,882	6,759	10,120	–9,134	–8,311	–2,375	1,810
II	55,775	53,511	67,631	65,705	11,856	12,194	–8,606	–10,197	3,250	1,997
III	47,788	53,295	63,375	66,943	15,587	13,648	–9,666	–9,176	5,921	4,472
IV	55,968	54,656	73,755	70,683	17,787	16,027	–6,759	–6,481	11,028	9,546
1994 – I	59,211	56,801	71,348	72,144	12,137	15,343	–8,631	–7,419	3,506	7,924
II	62,230	59,462	76,124	73,484	13,894	14,022	–7,864	–9,412	6,030	4,609
III	57,360	64,073	73,853	79,586	16,493	15,513	–8,715	–8,444	7,778	7,069
IV	69,617	68,082	84,092	80,204	14,475	12,122	–6,777	–6,712	7,698	5,410

(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 valutation

PAYMENTS ON A 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				
–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
4,721	18,145	–3,760	19,106	14,979	34,085	–2,494	–15,386
–1,778	31,416	–450	29,188	22,976	52,164	–16,630	–15,156
–13,700	5,738	–2,357	–10,319	39,369	29,050	–8,284	8,571
–2,085	2,960	–2,745	–1,870	12,187	10,317	–8,640	32,548
108,016	–4,469	–4,157	99,390	–84,589	14,801	–30,419	–2,206
–12,896	–27,827	–3,354	–44,077	21,594	–22,483	780	–3,309
–4,538	10,678	1,301	7,441	9,968	17,409	459	–5,903
7,545	10,977	1,510	20,032	4,748	24,780	–6,370	–15,461
–6,058	13,246	–2,018	5,170	–2,790	2,380	–357	–2,143
1,273	–3,485	–1,243	–3,455	11,050	7,595	–10,362	8,351
–6,019	23,403	–1,020	16,364	3,048	19,412	–2,215	–7,778
–3,250	–7,208	222	–10,236	16,761	6,525	–1,348	2,124
–3,979	–3,905	–495	–8,379	12,725	4,346	–125	1,536
–452	–6,552	–1,064	–8,068	6,835	–1,233	–4,596	12,689
–19,702	6,940	–1,155	–13,917	21,187	7,270	3,900	692
–2,936	–1,933	1,404	–3,465	9,288	5,823	–11,455	13,389
–16,737	1,049	–899	–16,587	–16,928	–33,515	–3,857	44,932
37,290	–3,096	–2,095	32,099	–1,360	30,739	2,772	–26,465
18,993	5,295	–1,216	23,072	–8,303	14,769	–11,551	–843
35,690	–3,874	–1,645	30,171	–30,093	78	–3,775	447
13,518	–1,328	224	12,414	–10,461	1,953	–3,427	–4,447
39,815	–4,562	–1,520	33,733	–35,732	–1,999	–11,666	2,637
7,713	–8,248	–393	–928	–2,464	–3,392	4,076	–4,190
–20,980	–6,260	–135	–27,375	19,906	–7,469	2,369	–930
–14,417	–6,386	–858	–21,661	14,874	–6,787	–2,017	1,026
14,788	–6,933	–1,968	5,887	–10,722	–4,835	–3,648	785

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

Table a11

CONSOLIDATED ACCOUNTS OF THE PUBLIC SECTOR

(billions of lire)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
REVENUE										
Current revenue	**325,147**	**366,673**	**402,318**	**449,663**	**513,182**	**571,703**	**640,293**	**712,642**	**761,045**	**756,058**
Direct taxes	106,324	116,439	131,679	147,328	172,585	190,103	209,201	249,276	260,274	246,517
Indirect taxes	72,722	81,774	93,296	109,092	124,610	139,749	159,808	170,533	187,864	191,801
Social security contributions										
Actual	97,114	111,378	120,988	133,353	149,754	168,953	187,193	200,031	212,821	215,860
Imputed	13,116	14,120	14,773	16,028	17,718	20,356	22,761	26,157	27,684	31,179
Income from capital	5,564	6,348	5,783	5,432	5,661	5,712	6,413	6,244	6,570	5,344
Sales of goods and services	16,364	18,990	20,014	21,565	24,624	25,924	28,451	30,956	29,442	28,330
Other	13,943	17,624	15,785	16,865	18,230	20,906	26,466	29,445	36,390	37,081
Capital account revenue	**1,400**	**1,604**	**1,377**	**1,575**	**1,843**	**2,148**	**2,258**	**3,063**	**3,162**	**4,552**
Total revenue	**326,547**	**368,277**	**403,695**	**451,238**	**515,025**	**573,851**	**642,551**	**715,705**	**764,207**	**760,610**
EXPENDITURE										
Current expenditure	**383,498**	**427,275**	**465,723**	**519,129**	**580,071**	**656,737**	**729,110**	**804,305**	**847,812**	**848,945**
Compensation of employees	111,084	121,561	135,416	151,472	162,534	188,878	205,508	215,703	219,472	219,683
Intermediate consumption	45,247	49,030	54,934	61,372	64,833	70,063	76,170	83,292	87,403	89,894
Social services	139,055	154,826	170,500	189,065	209,963	238,585	261,320	290,578	302,671	319,197
Subsidies to firms	14,168	16,268	17,013	16,545	20,167	19,332	22,715	24,454	25,924	24,052
Interest payments	66,348	77,500	79,299	90,117	107,902	127,710	147,854	173,837	190,590	177,519
Other	7,596	8,090	8,561	10,558	14,672	12,169	15,543	16,441	21,752	18,600
Capital account expenditure	**47,773**	**46,212**	**50,141**	**54,142**	**58,955**	**65,972**	**64,850**	**64,222**	**69,121**	**58,786**
Gross investment	34,877	37,464	41,255	44,273	47,703	50,250	52,703	52,591	46,187	42,303
Investment grants	7,388	7,972	8,197	9,305	10,193	11,384	10,014	10,136	13,604	9,337
Other	5,508	776	689	564	1,059	4,338	2,133	1,495	9,330	7,146
Total expenditure	**431,271**	**473,487**	**515,864**	**573,271**	**639,026**	**722,709**	**793,960**	**868,527**	**916,933**	**907,731**
Deficit on current account	**–58,351**	**–60,602**	**–63,405**	**–69,466**	**–66,889**	**–85,034**	**–88,817**	**–91,663**	**–86,767**	**–92,887**
Total deficit	**–104,724**	**–105,210**	**–112,169**	**–122,033**	**–124,001**	**–148,858**	**–151,409**	**–152,822**	**–152,726**	**–147,121**

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

Table a12

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT (1)

(billions of lire)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
GENERAL GOVERNMENT										
Medium and long-term securities (2)	90,796	83,727	52,245	58,667	58,937	63,668	111,982	90,714	164,817	221,728
of which: BI-UIC and banks	*50,692*	*10,328*	*7,753*	*4,662*	*309*	*–9,288*	*56,904*	*73,439*	*553*	*132,270*
other holders	*40,104*	*73,399*	*44,492*	*54,005*	*58,628*	*72,956*	*55,078*	*17,275*	*164,264*	*89,458*
Treasury bills, in lire and ecus (2)	13,140	9,771	27,723	42,667	42,770	40,367	12,155	45,856	5,431	10,795
of which: BI-UIC and banks	*–3,232*	*5,213*	*–8,576*	*–8,095*	*–2,569*	*10,333*	*–1,205*	*–9,936*	*46,584*	*7,290*
other holders	*16,372*	*4,557*	*36,300*	*50,762*	*45,339*	*30,033*	*13,361*	*55,792*	*–41,152*	*3,505*
Post Office funds	9,067	11,267	12,917	10,996	15,364	12,717	11,746	11,415	13,913	24,082
Lending by banks (2)	–1,573	1,155	1,811	2,764	3,017	4,828	15,317	9,227	13,956	4,489
central government bodies	*350*	*76*	*–89*	*1,191*	*710*	*722*	*2,965*	*4,305*	*–253*	*1,837*
social security institutions	*–2,203*	*66*	*470*	*545*	*–684*	*3*	*40*	*703*	*–562*	*1,395*
local authorities	*281*	*1,013*	*1,429*	*1,028*	*2,991*	*4,104*	*12,313*	*4,218*	*14,771*	*1,257*
Other net borrowing from BI-UIC	3,689	1,673	10,224	3,704	1,835	2,811	2,472	7,116	–34,512	–111,718
Other domestic debt	58	24	144	137	101	188	173	254	140	165
Foreign debt	2,794	993	5,870	2,964	7,541	11,993	5,251	–1,709	14,428	9,171
GENERAL GOVERMENT BORROWING REQUIREMENT	**117,971**	**108,609**	**110,935**	**121,899**	**129,565**	**136,572**	**159,097**	**162,872**	**178,174**	**158,711**
Memorandum item: settlements of past debts less privatization proceeds	*6,500*	*500*	*300*	–	*600*	*3,000*	*4,000*	*800*	*10,800*	*1,000*
OTHER PUBLIC SECTOR BODIES										
Total financing	1,222	1,531	3,205	3,997	4,008	7,783	3,993	4,835	–777	7,006
of which: bond issues	*1,624*	*1,277*	*1,429*	*251*	*–1,096*	*2,461*	*250*	*–481*	*–2,021*	*3,864*
bank loans	*–639*	*375*	*1,617*	*2,522*	*4,286*	*2,440*	*3,510*	*3,456*	*3,314*	*2,759*
foreign debt	*237*	*–121*	*159*	*1,224*	*819*	*2,882*	*233*	*1,860*	*–2,070*	*383*
Public sector borrowing requirement	**119,193**	**110,140**	**114,140**	**125,896**	**133,573**	**144,355**	**163,090**	**167,708**	**177,397**	**165,717**
Financing of ENEL	1,115	77	1,335	47	2,446	1,203	2,351	1,738	734	–4,018
of which: bond issues	*669*	*1,289*	*1,507*	*262*	*1,262*	*90*	*1,316*	*–434*	*–1,872*	*–2,060*
bank loans	*182*	*–666*	*–262*	*633*	*1,462*	*1,321*	*1,605*	*1,648*	*3,024*	*–762*
foreign debt	*264*	*–546*	*90*	*–848*	*–278*	*–208*	*–570*	*524*	*–418*	*–1,196*
Borrowing requirement of the enlarged public sector	**120,308**	**110,217**	**115,475**	**125,943**	**136,019**	**145,558**	**165,441**	**169,445**	**178,131**	**161,699**

(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.

Table a13

THE PUBLIC DEBT (1)

(face value: billions of lire and percentage composition)

Voci	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
						Amounts outstanding				
GENERAL GOVERNMENT										
Medium and long-term securities, excluding BI portfolio (2)	291,204	369,274	420,454	473,698	529,186	607,902	722,682	796,898	952,469	1,095,118
of which: held by banks	*131,962*	*134,761*	*138,234*	*140,648*	*131,858*	*128,635*	*180,119*	*234,283*	*211,218*	*262,090*
Treasury bills in lire and ecus, excluding BI portfolio (2)	152,469	162,319	193,023	240,046	287,046	322,605	338,431	394,521	400,228	397,293
of which: held by banks	*28,279*	*33,571*	*27,964*	*24,279*	*26,034*	*31,394*	*33,901*	*33,273*	*79,459*	*73,014*
Post Office funds	59,693	70,960	83,877	94,873	110,237	122,954	134,700	146,115	160,028	184,110
Lending by banks (2)	33,496	34,651	36,462	38,422	41,434	46,262	61,579	70,806	85,117	90,909
central government bodies	*4,870*	*4,946*	*4,857*	*6,048*	*7,094*	*7,815*	*10,780*	*15,085*	*15,188*	*18,328*
social security institutions	*232*	*298*	*768*	*1,348*	*324*	*327*	*367*	*1,070*	*507*	*1,902*
local authorities	*28,395*	*29,408*	*30,837*	*31,025*	*34,016*	*38,120*	*50,433*	*54,651*	*69,422*	*70,679*
Other domestic debt	2,437	2,461	2,606	2,743	2,844	3,032	3,205	3,458	3,599	3,744
Foreign debt	12,006	12,167	17,977	21,872	28,040	39,098	44,828	51,597	73,140	83,126
Total	**551,305**	**651,832**	**754,400**	**871,653**	**998,787**	**1,141,853**	**1,305,425**	**1,463,396**	**1,674,580**	**1,854,300**
Net borrowing from BI-UIC	115,585	124,453	135,686	139,392	141,989	140,016	141,717	165,979	144,484	137,787
of which: medium and long-term securities	*42,037*	*49,311*	*53,289*	*57,702*	*62,788*	*53,030*	*55,971*	*82,426*	*95,044*	*186,333*
Treasury bills in lire and ecus	*20,003*	*19,924*	*16,955*	*12,545*	*8,220*	*13,194*	*9,482*	*173*	*572*	*14,306*
Treasury accounts with BI	*48,182*	*52,707*	*61,981*	*66,312*	*68,155*	*71,063*	*73,074*	*80,780*	*45,536*	*–58,018*
other	*5,363*	*2,511*	*3,461*	*2,834*	*2,826*	*2,729*	*3,190*	*2,600*	*3,332*	*–4,834*
General government debt	**666,890**	**776,286**	**890,085**	**1,011,046**	**1,140,776**	**1,281,870**	**1,447,141**	**1,629,375**	**1,819,064**	**1,992,087**
Treasury claims on BI-UIC	1,053	1,320	1,095	931	1,081	989	1,095	1,405	32,507	65,754
General government debt (EU definition) (3)	**667,943**	**777,606**	**891,180**	**1,011,977**	**1,141,857**	**1,282,859**	**1,448,236**	**1,630,780**	**1,851,571**	**2,057,841**
OTHER PUBLIC SECTOR BODIES										
Total financing	16,154	17,297	20,457	24,765	29,358	36,941	40,335	46,775	47,208	54,423
of which: bond issues	*6,803*	*8,549*	*9,984*	*10,213*	*9,097*	*11,515*	*11,229*	*10,562*	*8,536*	*12,399*
bank loans	*2,922*	*3,297*	*4,914*	*7,662*	*13,185*	*15,625*	*19,136*	*23,092*	*26,402*	*29,161*
foreign debt	*6,429*	*5,451*	*5,559*	*6,890*	*7,075*	*9,801*	*9,970*	*13,122*	*12,270*	*12,864*
Public sector debt	**683,044**	**793,583**	**910,542**	**1,035,811**	**1,170,134**	**1,318,811**	**1,487,476**	**1,676,150**	**1,866,272**	**2,046,510**
						Percentage composition				
PUBLIC SECTOR DEBT										
Medium and long-term securities, excluding BI portfolio	43.6	47.6	47.3	46.7	46.0	47.0	49.3	48.2	51.5	54.1
Treasury bills in lire and ecus, excluding BI portfolio	22.3	20.5	21.2	23.2	24.5	24.5	22.8	23.5	21.4	19.5
Post Office funds	8.7	8.9	9.2	9.2	9.4	9.3	9.1	8.7	8.6	9.0
Lending by banks	5.3	4.8	4.5	4.4	4.7	4.7	5.4	5.6	6.0	5.8
Other domestic debt	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Foreign debt	2.7	2.2	2.6	2.8	3.0	3.7	3.7	3.9	4.6	4.7
Borrowing from BI-UIC	17.0	15.7	14.9	13.4	12.2	10.6	9.5	9.9	7.7	6.7

(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)

	1991	1992	1993	1994
REVENUE				
Direct taxes	**196,515**	**234,773**	**245,532**	**235,100**
of which: personal income tax	*119,089*	*131,801*	*149,488*	*143,862*
corporate income tax	*16,884*	*17,675*	*21,465*	*25,799*
local income tax	*20,060*	*18,253*	*15,615*	*15,825*
withholding tax on interest income	*31,059*	*35,903*	*38,863*	*36,052*
Indirect taxes	**170,648**	**185,360**	**182,448**	**187,853**
of which: value added tax	*88,847*	*89,843*	*88,443*	*92,545*
other business taxes (stamp duties, duties on government concessions, etc.)	*26,440*	*31,337*	*30,202*	*29,237*
excise duty on oil products	*33,680*	*37,191*	*37,315*	*38,995*
excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc.)	*7,840*	*9,344*	*9,024*	*9,463*
tax on tobacco consumption	*6,390*	*6,531*	*8,385*	*9,206*
Total net tax revenue	**367,163**	**420,133**	**427,980**	**422,953**
EU levies	10,550	11,345	11,729	11,971
Sales of goods and services	4,719	4,397	5,618	6,125
Health care and other social security contributions	61,198	57,441	56,437	58,137
Other income (1)	21,512	23,406	32,426	30,832
Total net receipts	**465,142**	**516,722**	**534,190**	**530,018**

	1991	1992	1993	1994
EXPENDITURE				
Wages and salaries	83,351	86,417	87,919	87,905
Pensions	24,987	28,415	30,329	34,020
Purchases of goods and services	20,517	22,848	24,990	25,557
Interest payments	142,885	168,469	182,805	173,586
Direct investment	13,526	12,895	13,293	8,858
Loans and shareholdings (net)	7,272	7,031	8,443	15,663
of which: local authorities	*4,820*	*3,825*	*2,915*	*6,807*
banks	*2,103*	*1,616*	*1,888*	*2,298*
public enterprises	*635*	*650*	–	–
Disbursements to: regions	113,174	120,860	109,633	113,146
of which: health care (on current account)	*81,320*	*83,028*	*86,524*	*93,494*
provinces and communes	43,441	40,443	35,313	29,002
social security institutions	65,645	74,238	69,614	79,220
state railways, monopolies, and telephone service and the post office	19,733	24,201	30,171	25,362
enterprises	22,575	26,372	27,490	21,118
households	14,720	17,151	19,406	20,963
other	19,817	22,681	26,558	25,571
Other expenditure	23,878	24,471	22,357	25,770
Total expenditure	**615,521**	**676,492**	**688,321**	**685,741**
BORROWING REQUIREMENT (2)	–150,379	–159,770	–154,131	–155,723

Source: Based on data from *Relazione generale sulla situazione economica del Paese* and *Rendiconto generale dell'amministrazione dello Stato.* On the basis of the new definition of the state sector which excludes the state railways, monopolies and telephone service as well as the post office.

(1) For 1993, the item "Other income" includes revenue of 7,831 billion lire from municipal property tax; for 1994, it includes around 2,900 billion from the building offences condonation scheme. – (2) Net of bonds issued to settle past debts and of privatization proceeds.

SOURCES AND USES OF MONETARY BASE (1)

(changes in billions of lire)

	Sources								Uses				
	Foreign sector									Bank reserves			
										Deposits with BI			
	(2)	of which: currency swaps	Treasury accounts with the Bank of Italy (3)	Other BI-UIC operations with the Treasury (4)	Open market operations (5)	Refi-nancing	Other sectors	Total	Currency	(6)	of which: comp. res. (7)	Other (8)	Total
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	80	–729	13,046	4,449	8,833	9,444	–236	8,597
1989	14,971	–	1,842	6,608	–2,106	1,190	–2,019	20,486	10,477	9,733	9,567	276	10,009
1990	15,458	–	2,909	–4,292	2,392	1,261	–3,964	13,765	1,805	10,829	13,026	1,131	11,960
1991	–8,674	–	2,011	–11,468	27,172	2,679	–648	11,071	6,906	3,613	3,424	551	4,165
1992	–32,591	29,249	7,706	–10,402	42,781	106	822	8,422	9,263	69	1,012	–909	–840
1993	2,564	–2,055	–4,574	1,196	–14,098	–6,478	1,868	–19,522	4,152	–23,643	–24,131	–30	–23,673
1994	3,297	–813	–33,269	–21,474	47,451	274	–6,154	–9,875	6,452	–16,567	–13,328	240	–16,327
1993 – Jan.	–600	–	–2,607	90	7,957	–7,033	1,351	–843	–3,077	3,263	2,055	–1,029	2,234
Feb.	–2,878	–3,097	–3,587	422	–13,169	56	–954	–20,110	–1,325	–19,175	–19,707	390	–18,785
Mar.	4,734	2,561	6,557	1,236	–21,427	42	–1,544	–10,403	782	–11,113	–10,974	–72	–11,185
Apr.	–3,283	–768	3,648	–622	2,866	–103	–70	2,437	204	2,938	163	–705	2,233
May	5	–	2,596	–303	421	–37	–2,208	474	1,016	–1,402	1,127	860	–542
June	2,721	–751	–32,824	1,060	21,263	–26	4,190	–3,617	–1,389	–2,374	61	146	–2,228
July	–1,230	–	–3,749	83	7,530	655	–93	3,196	4,269	–108	–1,180	–965	–1,073
Aug.	–1,985	–	2,160	231	–2,206	–606	–624	–3,030	–3,968	674	184	263	937
Sept.	7,661	–	11,695	–203	–16,149	32	–1,736	1,300	1,210	74	–1,549	16	90
Oct.	–2,820	–	8,233	–140	–5,308	629	–985	–391	672	–450	1,949	–613	–1,063
Nov.	2,476	–	8,162	–27	–2,282	672	1,131	10,132	1,053	7,644	2,545	1,434	9,079
Dec.	–2,237	–	–4,859	–629	6,407	–759	3,411	1,334	4,704	–3,614	1,194	244	–3,370
1994 – Jan.	5,178	–	–17,732	–499	12,036	–268	–341	–1,625	–3,599	2,530	1,052	–556	1,974
Feb.	1,417	–	–5,743	–408	7,409	–20	–1,456	1,198	–698	2,128	5,186	–232	1,896
Mar.	–2,347	–	12,909	341	–5,548	128	–1,355	4,129	3,091	1,103	–3,177	–65	1,038
Apr.	–235	–813	5,934	–186	–6,225	4	–2,036	–2,744	–1,149	–1,249	1,122	–345	–1,594
May	2,162	–	1,879	–1,755	2,988	–43	–881	4,350	497	2,919	1,740	935	3,853
June	–1,093	–	–26,886	–1,897	22,925	1,701	2,209	–3,042	–580	–2,486	–1,273	24	–2,462
July	3,362	–	–10,035	–608	285	1,012	–1,345	–7,330	5,179	–11,712	–10,130	–797	–12,509
Aug.	–3,218	–	–7,366	–2,873	15,271	–2,795	–360	–1,341	–4,612	3,163	–579	108	3,271
Sept.	–1,119	–	20,921	–3,623	–17,490	70	–2,643	–3,885	1,643	–5,769	–4,642	240	–5,529
Oct.	–5,947	–	11,787	–5,941	63	–25	–108	–171	–293	201	–858	–79	121
Nov.	–2,531	–	7,531	–2,332	365	38	574	3,645	1,581	1,394	–758	671	2,065
Dec.	7,669	–	–26,469	–1,696	15,373	472	1,589	–3,061	5,392	–8,789	–1,011	336	–8,453
1995 – Jan. (9)	–3,727	–	–5,718	–2,815	9,293	–624	682	–2,908	–5,455	3,010	–785	–464	2,547
Feb. (9)	–830	–	–6,068	–2,786	5,328	2,725	–943	–2,574	–994	–1,274	920	–306	–1,580
Mar. (9)	–6,807	–	17,717	–3,951	–7,532	–1,257	1,536	–293	2,668	–2,850	–4,640	–111	–2,961

(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, movements on the Treasury current account; from January 1994 onwards, movements on the "Treasury payments account"; and from December 1994 onwards, includes movements on the "sinking fund for government securities" to which the proceeds of the disposal of Treasury shareholdings have been credited. – (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 banks' deposits with the Deposits and Loans Fund and undiscounted stockpiling finance bills. – (9) Provisional.

INTEREST RATES ON BANK OF ITALY OPERATIONS

	Official							Temporary operations (4)			
	Current account (1)		Bill discounting		Advances			Securities repos		Currency swaps	
	Excess reserves	Compulsory reserves (2)	Ordinary bills	Agricultural working credits	Ordinary (base rate)	Surcharge (3)		Minimum	Average	Minimum	Average
From: 4 Sept. 1984	0.50	5.50	16.50	7.00	16.50	–	1993 - Jan.	12.06	12.14	12.29	12.35
4 Jan. 1985	"	"	15.50	"	15.50	–	Feb.	11.23	11.31	11.11	11.14
8 Nov. 1985	"	"	15.00	8.00	15.00	–	Mar.	11.23	11.27	11.09	11.13
22 Mar. 1986	"	"	14.00	7.50	14.00	–	Apr.	11.13	11.18	10.98	11.02
25 Apr. 1986	"	"	13.00	7.00	13.00	–	May	10.75	10.78	10.63	10.67
27 May 1986	"	"	12.00	6.50	12.00	–	June	10.08	10.18	10.05	10.08
14 Mar. 1987	"	"	11.50	"	11.50	–	July	9.34	9.42	9.47	9.50
28 Aug. 1987	"	"	12.00	"	12.00	–	Aug.	9.41	9.51	9.17	9.20
26 Aug. 1988	"	"	12.50	"	12.50	–	Sept.	8.97	9.03	8.84	8.86
6 Mar. 1989	"	"	13.50	"	13.50	–	Oct.	9.01	9.06	8.59	8.61
21 May 1990	"	"	12.50	"	12.50	–	Nov.	8.98	9.03	8.80	8.82
13 May 1991	"	"	11.50	6.00	11.50	0	Dec.	8.73	8.81	8.51	8.53
26 Nov. 1991	"	"	"	"	"	0.50	1994 - Jan.	8.57	8.62	8.34	8.36
23 Dec. 1991	"	"	12.00	"	12.00	"	Feb.	8.39	8.46	8.42	8.44
5 June 1992	"	"	"	"	"	1.00	Mar.	8.37	8.39	8.27	8.29
6 July 1992	"	"	13.00	"	13.00	1.50	Apr.	8.11	8.15	8.00	8.02
17 July 1992	"	"	13.75	"	13.75	"	May	7.72	7.74	7.53	7.55
4 Aug. 1992	"	"	13.25	"	13.25	"	June	7.83	7.87	7.76	7.78
4 Sept. 1992	"	"	15.00	"	15.00	"	July	8.06	8.10	8.01	8.04
9 Oct. 1992	"	"	"	"	"	1.00	Aug.	8.29	8.33	8.61	8.67
26 Oct. 1992	"	"	14.00	"	14.00	"	Sept.	8.21	8.24	8.45	8.47
13 Nov. 1992	"	"	13.00	"	13.00	"	Oct.	8.33	8.36	8.45	8.47
23 Dec. 1992	"	"	12.00	"	12.00	"	Nov.	8.29	8.31	8.36	8.38
4 Feb. 1993	"	"	11.50	"	11.50	"	Dec.	8.36	8.39	8.65	8.69
23 Apr. 1993	"	"	11.00	"	11.00	"	1995 - Jan.	8.48	8.53	8.71	8.73
21 May 1993	"	"	10.50	"	10.50	"	Feb.	8.44	8.48	8.80	8.82
14 June 1993	"	"	10.00	5.5	10.00	"	Mar.	10.17	10.22	10.50	10.58
6 July 1993	"	"	9.00	"	9.00	"	Apr.	10.45	10.48	10.54	10.56
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	"					
12 Aug. 1994	"	"	7.50	"	7.50	"					
22 Feb. 1995	"	"	8.25	"	8.25	1.50					
29 May 1995	"	"	9.00	"	9.00	"					

(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) Average of allotment rates on operations during the month.

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BANKS' ASSETS

(billions

	Assets							
	Bank reserves	Lending	Securities	Bad debts & protested bills	Reserve repurchase agreements	Shares & equity participations	Interbank accounts	External assets
1989 – Dec.	116,895	667,177	224,628	37,200	4,353	24,029	116,797	110,370
1990 – "	128,921	775,334	221,493	40,492	5,075	26,348	95,018	116,102
1991 – "	133,056	886,244	274,235	47,199	14,373	37,551	97,583	124,901
1992 – "	132,065	989,183	327,513	54,729	16,427	41,763	157,849	165,187
1993 – Jan.	134,339	984,057	306,831	55,869	16,628	41,250	129,269	155,353
Feb.	115,881	988,677	312,390	56,702	14,366	41,370	134,006	176,717
Mar.	104,575	990,378	311,370	57,750	16,194	41,330	136,393	184,731
Apr.	106,897	990,641	317,194	59,144	18,068	41,818	134,467	173,276
May	106,396	981,790	314,888	60,815	22,025	41,603	138,241	180,835
June	104,102	1,000,672	321,174	61,535	23,732	40,909	145,702	188,379
July	103,084	1,008,761	314,920	62,849	21,536	40,945	133,868	194,986
Aug.	104,085	1,000,585	316,028	64,287	21,048	41,038	140,324	212,808
Sept.	104,094	996,077	325,161	65,418	25,727	40,996	142,325	204,590
Oct.	103,186	1,001,353	338,376	67,492	25,438	41,903	146,016	203,799
Nov.	112,112	1,000,953	341,023	69,173	26,078	42,404	151,822	216,182
Dec.	108,626	1,028,446	349,770	70,185	27,792	43,427	171,104	229,057
1994 – Jan.	110,825	1,014,092	346,805	72,703	29,288	41,391	144,831	208,230
Feb.	112,638	1,012,386	355,311	74,619	27,493	41,648	151,234	219,449
Mar.	113,534	1,004,668	368,344	76,468	23,653	43,969	150,933	209,404
Apr.	112,060	1,001,813	372,269	78,543	22,124	44,269	144,949	193,494
May	115,855	998,288	375,882	80,332	19,858	45,085	146,325	196,914
June	113,388	1,014,256	382,668	80,948	17,394	46,513	148,609	196,325
July	101,593	1,012,181	376,486	82,570	18,626	47,369	135,890	184,925
Aug.	104,682	1,005,949	382,561	83,902	17,106	48,096	141,929	188,981
Sept.	99,210	1,004,496	379,390	85,477	16,340	48,437	138,837	181,226
Oct.	99,385	1,006,788	380,841	86,921	15,751	49,195	146,663	185,240
Nov.	101,044	1,006,937	377,764	88,815	16,420	48,976	148,518	182,579
Dec.	92,875	1,040,148	381,181	91,187	16,813	49,899	165,082	201,985
1995 – Jan. (2)	....	1,027,948	375,900	....	....	....	....	....
Feb. (2)	....	1,036,170	377,300	....	....	....	....	....
Mar. (2)	....	1,043,700	....	....	....	....	....	....
Apr. (2)	....	1,049,000	....	....	....	....	....	....

(1) Rounding may cause discrepancies in totals. – (2) Provisional.

Table a17

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	
678,142	129,641	11,976	6,334	11,953	133,963	205,534	115,834	8,073	.... Dec. – 1989
751,263	135,872	12,891	7,600	19,837	105,370	232,106	126,562	17,281	.... " – 1990
821,006	153,174	13,945	8,858	78,156	103,403	279,783	162,498	–5,680	.... " – 1991
852,840	166,407	18,688	8,936	138,035	159,320	367,496	189,993	–17,001	.... " – 1992
814,430	166,357	20,428	1,944	166,242	132,107	351,962	202,421	–32,296	.... Jan. – 1993
819,028	168,143	20,709	1,944	155,012	137,528	366,430	201,700	–30,385	.... Feb.
831,386	170,129	21,612	1,964	128,835	138,373	375,518	201,308	–26,402	.... Mar.
836,478	171,929	21,100	1,908	133,391	135,716	351,794	198,887	–9700	.... Apr.
839,977	173,041	20,541	1,848	140,973	140,204	348,101	199,395	–17,488	.... May
847,763	175,058	20,584	1,825	151,738	149,320	348,956	200,641	–9,680	.... June
833,951	176,831	20,871	2,447	161,129	135,640	352,419	201,871	–4,208	.... July
837,185	178,913	21,982	1,849	167,703	142,802	358,489	202,042	–10,761	.... Aug.
856,327	180,808	22,003	1,895	143,690	147,178	355,635	203,064	–6,213	.... Sept.
861,010	187,012	20,923	2,648	150,307	146,929	357,373	203,961	–2,600	.... Oct.
857,793	191,087	22,043	3,357	153,022	154,855	367,804	205,511	4,276	.... Nov.
919,115	194,113	22,664	2,722	142,945	179,086	369,979	206,017	–8,235	.... Dec.
884,667	199,248	23,275	4,076	161,545	150,866	358,553	209,507	–23,573	.... Jan. – 1994
888,645	202,130	23,813	5,643	171,826	153,003	360,292	212,410	–22,984	.... Feb.
902,404	203,970	24,474	7,352	147,381	154,258	356,403	215,811	–21,079	.... Mar.
895,122	206,869	23,995	7,248	144,090	150,405	347,738	215,354	–21,300	.... Apr.
889,704	209,515	23,035	7,091	145,039	149,651	354,124	215,350	–14,970	.... May
896,276	211,405	23,886	8,655	149,327	155,627	357,562	213,772	–16,410	.... June
871,008	211,485	24,187	8,731	151,520	138,921	358,784	216,173	–21,167	.... July
866,073	212,273	24,470	5,025	160,613	146,729	362,021	217,454	–21,452	.... Aug.
872,267	213,188	24,552	4,166	130,454	143,112	359,992	220,195	–14,512	.... Sept.
871,335	213,230	24,283	4,675	139,948	147,574	356,906	220,661	–7,830	.... Oct.
859,765	214,935	23,780	5,211	140,180	149,529	359,955	221,592	–3,893	.... Nov.
923,019	217,028	23,825	6,173	132,528	166,897	375,716	219,241	–25,256	.... Dec.
881,546	....	....	....	....	....	....	....	....	.. (2) Jan.– 1995
881,157	....	....	....	....	....	....	....	....	.. (2) Feb.
878,600	....	....	....	....	....	....	....	....	.. (2) Mar.
877,900	....	....	....	....	....	....	....	....	.. (2) Apr.

PROFIT AND LOSS ACCOUNTS OF BANKS

(billions

	INTEREST RECEIVABLE						INTEREST PAYABLE						Balance of derivative hedging contracts (2)
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities	Interbank accounts	Repos (2)	Foreign currency assets & claims on non-residents	Domestic deposits in lire	BI-UIC financing	Interbank accounts	Repos (2)	Bonds and subordinated liabilities	Foreign currency liabilities & claims on non-residents	
													Limited company
1991	6,801	89,620	17,396	4,647	....	18,169	47,058	241	5,228	....	16,939	21,633	....
1992	7,213	108,183	19,273	6,641	....	21,361	54,435	820	8,056	....	19,697	26,163	....
1993	5,885	106,146	28,484	6,461	4,574	22,343	55,491	183	7,221	9,819	22,109	25,002	–199
1994 (3)	5,159	92,568	28,074	4,522	2,626	18,535	45,053	185	7,036	9,544	20,665	18,522	–1,206
													of which: banks accepting
1991	*6*	*20,273*	*1,688*	*253*	....	*2,707*	*5,614*	..	*899*	....	*8,291*	*5,963*	....
1992	*8*	*23,617*	*1,833*	*297*	....	*3,707*	*6,202*	..	*1,141*	....	*9,670*	*7,648*	....
1993	*8*	*24,772*	*1,804*	*260*	....	*3,482*	*6,991*	..	*1,061*	....	*10,653*	*6,407*	....
1994 (3)	*15*	*21,502*	*1,973*	*344*	*326*	*3,094*	*5,585*	*36*	*1,917*	*376*	*10,105*	*4,491*	*–673*
													Cooperative banks
1991	1,401	11,621	3,187	1,114	....	1,630	8,414	23	681	....	..	1,468	....
1992	1,529	14,325	3,560	1,413	....	2,056	9,720	60	1,162	....	..	2,045	....
1993	1,210	13,662	5,583	1,544	588	2,079	9,919	19	969	1,821	10	1,809	–217
1994 (3)	1,045	12,061	5,781	1,094	373	1,802	8,291	16	872	1,803	79	1,460	–160
													Main mutual banks
1991	10	361	211	78	....	6	333	..	6	....	..	5	....
1992	13	454	232	87	....	9	398	..	8	....	..	7	....
1993	15	463	427	91	5	12	424	..	8	137	..	11	..
1994 (3)	10	436	363	74	30	14	379	..	5	125	..	10	–1
													Central credit
1991	17	542	804	733	....	218	42	11	1,478	....	..	268	....
1992	17	564	789	843	....	346	60	63	1,450	....	..	466	....
1993	23	424	997	679	87	466	63	38	1,302	201	11	482	–33
1994 (3)	7	316	923	495	5	298	54	37	868	191	12	396	–55
													Branches of
1991	25	565	408	100	....	565	49	2	515	....	..	849	....
1992	28	951	643	708	....	849	42	154	699	....	..	1,493	....
1993	26	1,237	1,079	487	188	1,060	80	9	1,444	152	..	1,842	–438
1994 (3)	25	867	1,103	446	294	1,370	49	7	757	379	..	2,029	–324

(1) Rounding may cause discrepancies in totals. – (2) For the banks accepting medium and long-term funds, the figure is only available for 1994. – (3) Provisional.

BY CATEGORY OF BANK (1)

of lire)

Net interest income (a)	Other net income (b)	Other net income: of which: trading	Other net income: of which: services	Gross income (c)= (a)+(b)	Operating expenses (d)	Operating expenses: of which: staff costs	Operating income (e)=(c)-(d)	Value adjustments and re-adjustments and allocations to provisions (f)	Value adjustments: of which: for loan losses	Taxes (g)	Net profit (e)-(f)-(g)	Total resources	Number of staff
banks													
45,534	14,648	6,920	2,340	60,183	39,503	25,997	20,679	8,068	7,509	5,682	6,930	1,449,224	280,679
53,499	12,703	3,667	2,421	66,202	44,149	28,565	22,053	10,874	8,554	5,898	5,281	1,724,324	281,290
53,869	21,027	11,478	3,746	74,896	46,881	29,786	28,015	14,577	13,268	10,130	3,307	1,896,903	282,061
49,273	17,486	4,811	5,414	66,759	46,599	30,225	20,160	16,770	9,224	4,025	–635	1,967,775	279,833
medium and long-term funds													
4,161	*342*	*303*	*–344*	*4,503*	*1,411*	*843*	*3,092*	*877*	*1,005*	*928*	*1,286*	*247,006*	*7,705*
4,801	*–2*	*–68*	*–383*	*4,799*	*1,566*	*942*	*3,233*	*1,058*	*917*	*1,015*	*1,160*	*268,068*	*7,824*
5,214	*–301*	*414*	*–1,156*	*4,914*	*1,605*	*948*	*3,309*	*989*	*1,960*	*1,345*	*976*	*288,380*	*7,594*
4,069	*673*	*134*	*11*	*4,743*	*1,692*	*1,050*	*3,053*	*1,369*	*1,532*	*1,033*	*653*	*307,646*	*7,551*
(banche popolari)													
8,368	2,576	1,229	655	10,944	6,879	4,285	4,065	1,145	1,003	1,358	1,562	198,843	51,041
9,897	2,462	952	651	12,359	7,667	4,740	4,691	1,881	1,217	1,501	1,310	226,753	51,922
9,905	4,082	2,175	1,003	13,987	8,126	4,897	5,861	2,400	2,166	2,123	1,338	251,459	53,599
9,476	3,432	1,148	1,222	12,908	8,399	5,181	4,508	2,729	1,682	1,098	681	288,787	53,971
(banche di credito cooperativo)													
322	76	50	12	398	225	136	173	22	24	6	144	6,725	1,721
382	76	42	13	457	271	162	187	27	27	15	144	8,238	1,830
433	104	57	19	537	302	176	235	31	25	12	192	9,275	1,941
406	98	30	18	504	332	197	172	62	27	7	103	10,234	2,030
institutions													
514	199	67	65	713	352	159	361	136	172	97	128	26,291	1,535
519	92	–93	107	611	380	175	231	86	131	73	72	29,851	1,536
545	428	181	122	974	482	245	492	206	171	154	132	33,743	1,557
431	347	80	149	779	396	187	382	208	175	76	99	30,939	1,549
foreign banks													
248	177	218	–641	425	324	179	101	20	61	56	26	22,236	1,638
793	–240	407	–1,151	553	489	220	65	69	81	53	–57	41,246	1,599
111	844	–194	14	955	492	234	464	175	172	214	75	58,803	1,740
558	194	–343	269	752	493	261	259	90	39	166	183	67,065	1,914

ASSETS AND LIABILITIES OF BANKS

(billions

	Assets										
	Bank reserves	Loans				Loans on behalf of the Treasury (1)	Securities portfolio			Repos	Interbank accounts
		Domestic (1)	Foreign		Total		Govern-ment securities	Bonds	Shares and equity investments		
			Buyer credits	Loans to non-residents							
1989 – Dec.	152	140,926	4,344	1,280	146,551	2,791	6,500	2,942	3,822	3,123	4,366
1990 – "	182	165,420	5,476	1,311	172,207	1708	6,792	2,622	4,166	3,750	4,582
1991 – "	134	186,570	6,097	1,903	194,570	963	8,530	1,667	4,748	5,059	5,133
1992 – "	74	207,318	7,879	2,506	217,703	458	4,411	1,767	4,821	5,336	4,186
1993 – Jan.	63	205,340	8,256	2,214	215,809	318	5,249	1,789	4,736	4,754	3,238
Feb.	73	207,053	8,802	2,303	218,158	318	7,794	1,696	4,733	4,172	4,403
Mar.	61	209,964	8,824	2,315	221,103	318	10,238	1,654	4,852	3,590	4,735
Apr.	59	209,626	8,505	2,162	220,293	318	11,867	1,556	4,852	4,399	4,490
May	65	211,008	8,396	2,127	221,531	318	11,777	1,496	4,789	5,207	4,572
June	97	212,843	8,460	2,008	223,311	159	8,886	1,474	4,648	6,016	5,387
July	70	212,252	9,125	2,074	223,451	159	13,589	1,809	4,648	5,868	6,138
Aug.	70	214,642	9,250	2,090	225,982	159	13,324	1,687	4,648	5,719	4,609
Sept.	67	215,425	9,107	2,153	226,686	159	17,278	1,741	4,432	5,571	4,212
Oct.	30	215,838	9,258	2,268	227,364	159	17,652	1,508	4,435	6,250	5,586
Nov.	17	217,981	9,597	2,349	229,926	159	16,919	1,684	4,433	6,930	4,377
Dec.	43	221,776	9,330	2,352	233,458	151	17,647	1,843	4,662	7,610	4,733
1994 – Jan.	27	219,989	9,114	2,389	231,492	105	16,607	2,145	4,677	6,840	6,363
Feb.	114	220,624	9,249	2,483	232,356	105	16,084	2,235	4,678	6,069	5,509
Mar.	24	220,935	8,532	2,475	231,943	105	17,213	2,263	4,945	5,299	5,471
Apr.	43	220,096	8,532	2,397	231,026	105	17,362	2,034	4,926	4,393	4,634
May	17	220,405	8,468	4,173	233,047	105	17,723	2,192	4,936	3,488	3,992
June	78	223,224	8,402	3,227	234,852	98	15,416	2,229	4,917	2,582	5,208
July	52	220,217	8,426	3,500	232,143	98	16,162	2,303	4,914	3,182	5,574
Aug.	29	220,733	8,465	5,235	234,434	98	15,146	2,277	4,931	3,783	5,346
Sept.	21	219,931	8,216	4,705	232,852	98	13,493	2,252	5,288	4,383	4,932
Oct.	18	217,594	8,202	3,724	229,520	98	13,676	2,831	5,380	4,353	5,422
Nov.	17	218,300	8,330	4,278	230,907	98	13,560	2,736	5,492	4,323	5,753
Dec.	55	225,293	8,278	3,893	237,464	98	14,058	2,828	6,109	4,293	6,079
1995 – Jan. (2)	....	217,346	....	....	....	....	....	....	....	....	....
Feb. (2)	....	215,922	....	....	....	....	....	....	....	....	....
Mar. (2)	....	216,800	....	....	....	....	....	....	....	....	....
Apr. (2)	....	215,800	....	....	....	....	....	....	....	....	....

(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) Provisional.

ACCEPTING MEDIUM AND LONG-TERM FUNDS

of lire)

Liabilities: Deposits in lire	Deposits in lire: *of which:* certificates of deposit	Bonds: On behalf of the Treasury	Bonds: Other	Interbank accounts	Public funds and *Mediocredito centrale*	Repos	Foreign liabilities	Capital and reserves	Other items	
36,449	35,546	2,863	72,195	4,268	5,865	1,429	39,182	20,178	–12,183	.... Dec. – 1989
44,882	43,681	1,759	72,964	4,747	5,498	1,778	53,772	21,823	–11,214	.... " – 1990
48,957	47,768	976	80,734	3,943	5,340	2,986	65,650	24,510	–12,291	.... " – 1991
50,865	49,829	483	76,986	4,589	5,336	1,420	75,408	25,756	–2,088	.... " – 1992
51,392	50,271	340	76,488	5,625	5,494	1,871	74,738	25,756	–5,746	.... Jan. – 1993
52,754	51,587	332	77,673	5,187	5,571	2,321	77,240	25,756	–5,487	.... Feb.
53,178	52,156	330	78,809	5,438	6,008	2,771	78,504	26,448	–4,936	.... Mar.
53,067	51,849	330	78,880	4,962	6,189	3,618	77,127	26,448	–2,788	.... Apr.
53,173	52,071	330	79,563	4,733	6,207	4,464	78,049	26,448	–3,213	.... May
53,395	51,867	330	80,750	5,265	6,558	5,311	77,095	26,926	–5,659	.... June
53,625	52,620	191	80,750	5,309	6,723	6,478	79,169	26,926	–3,440	.... July
52,545	51,545	179	82,500	5,143	6,700	7,645	78,807	26,926	–4,246	.... Aug.
52,633	51,733	174	83,288	5,077	6,123	8,812	79,117	26,890	–1,970	.... Sept.
52,364	51,282	174	86,705	6,079	6,120	9,264	78,460	26,890	–3,072	.... Oct.
51,464	50,444	174	89,279	7,027	6,171	9,716	78,981	26,890	–5,258	.... Nov.
53,095	51,364	174	90,997	8,353	6,676	10,169	77,080	28,194	–4,591	.... Dec.
55,941	52,012	107	94,520	5,447	6,406	8,776	77,619	28,194	–8,756	.... Jan. – 1994
52,961	51,396	107	96,228	4,670	6,361	7,384	77,158	28,194	–5,914	.... Feb.
52,185	51,008	107	96,250	5,024	6,087	5,991	75,351	29,526	–3,258	.... Mar.
52,349	50,433	107	96,777	7,534	6,087	5,740	74,615	29,526	–8,212	.... Apr.
52,898	50,482	107	98,052	7,540	6,100	5,490	73,587	29,526	–7,799	.... May
52,235	50,169	104	98,826	6,077	6,299	5,239	73,531	30,243	–7,173	.... June
51,684	50,006	100	98,604	5,680	6,767	4,348	73,375	30,243	–6,371	.... July
50,563	48,966	100	99,210	4,558	6,944	3,456	73,476	30,243	–2,508	.... Aug.
50,031	48,637	100	99,622	5,548	6,934	2,565	70,831	30,501	–2,813	.... Sept.
50,107	48,444	100	99,981	5,503	6,936	3,408	70,913	30,501	–6,151	.... Oct.
49,430	48,125	100	99,830	6,141	6,922	4,250	72,085	30,501	–6,372	.... Nov.
50,105	48,331	100	101,741	8,038	7,426	5,092	73,503	32,129	–7,150	.... Dec.
50,202	....	....	....	....	....	....	....	....	....	.... (2) Jan. – 1995
50,343	....	....	....	....	....	....	....	....	....	.... (2) Feb.
49,400	....	....	....	....	....	....	....	....	....	.... (2) Mar.
49,000	....	....	....	....	....	....	....	....	....	.... (2) Apr.

FINANCIAL MARKET:

(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 (4)	Total
										Gross
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
1994	679,500	–	60,767	167,574	17,665	–	–	3,095	78,706	1,007,306
										Re
1987	290,940	–	19,680	5,269	–	–	–	1,419	1,272	318,579
1988	373,136	1,582	35,000	14,787	–	–	–	1,254	476	426,234
1989	458,775	7,949	–	13,236	1,820	–	–	938	2,663	485,381
1990	514,557	10,236	20,017	85,716	927	–	–	4,225	470	636,148
1991	588,527	7,294	88,275	4,846	2,144	1,411	–	1,398	487	694,382
1992	630,323	5,181	21,313	59,399	4,502	–	10,630	6,774	262	738,384
1993	730,866	7,918	34,387	27,521	13,719	–	7,041	572	1,270	823,293
1994	660,347	7,443	22,200	55,523	14,140	3,638	3,108	5,066	158	771,623
										Premiums, discounts
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	–225	–	–	–	–	1,102
1994	–	–	938	7,593	789	–	–	–	–	9,320
										Net
1987	25,171	2,311	35,268	13,538	2,231	3,808	–	4,136	–1,272	85,192
1988	36,275	5,707	–7,849	59,781	11,167	–	564	–557	–475	104,614
1989	39,778	3,363	20,916	27,006	7,205	–	15,336	–303	–2,663	110,638
1990	44,640	–4,127	54,214	–13,347	7,157	–	26,678	357	–470	115,101
1991	13,894	–2,306	9,268	85,784	1,640	–1,411	22,923	–1,398	–487	127,907
1992	44,731	1,751	60,024	33,576	319	–	3,847	–6,774	–261	137,213
1993	6,480	–738	20,698	138,485	–656	–	–7,041	6,798	901	164,927
1994	19,154	–7,443	37,629	104,458	2,736	–3,638	–3,108	–1,972	78,548	226,363
										Cou
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	2,979	277	2,961	1,752	164	111,216
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	4,128	221	9,075	1,414	121	152,144
1993	40,960	897	69,167	39,417	4,852	211	8,205	740	138	164,587
1994	34,958	678	56,696	52,386	4,900	221	7,765	812	247	158,663

(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 in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy. – (5) The total for the public sector differs from the sum of the individual components by – (7) Gross issues of shares for cash with reference to the corresponding stock exchange year.

GROSS AND NET ISSUES OF SECURITIES *(1)*

of lire)

securities										Listed shares (7)	
			Banks	Firms and international institutions					Total bonds & government securities		
Autonomous government agencies and State Railways	Crediop on behalf of Treasury	Total (5)		ENEL	IRI ENI EFIM	Private firms	International institutions	Total (6)			
issues											
2,000	–	*407,757*	*25,099*	2,741	2,850	1,342	450	*7,383*	*440,239*	5,322	 1987
1,000	–	*532,891*	*21,789*	1,693	1,617	1,335	550	*5,195*	*559,875*	3,470	 1988
1,000	–	*598,545*	*21,368*	2,661	200	1,036	300	*4,197*	*624,110*	7,743	 1989
3,200	–	*758,262*	*22,364*	1,085	–	515	200	*1,800*	*782,426*	8,560	 1990
–	–	*826,101*	*32,307*	2,253	4,902	507	400	*8,062*	*866,470*	2,763	 1991
1,500	–	*881,720*	*29,022*	1,108	–	290	–	*1,518*	*912,260*	5,156	 1992
–	–	*989,322*	*44,185*	2,111	1,000	1,289	–	*4,950*	*1,038,457*	9,809	 1993
4,000	–	*1,011,306*	*43,252*	114	–	3,421	650	*4,285*	*1,058,843*	18,430	 1994
demptions											
469	1,053	*320,138*	*13,545*	1,214	1,040	906	96	*3,318*	*337,001*	–	 1987
671	1,087	*428,029*	*13,553*	1,418	1,742	1,159	95	*4,470*	*446,051*	–	 1988
2,069	1,083	*488,552*	*12,987*	1,377	1,220	1,430	84	*4,139*	*505,677*	–	 1989
582	1,098	*637,850*	*15,539*	960	1,594	1,700	80	*4,353*	*657,743*	–	 1990
160	782	*695,344*	*16,119*	921	1,772	1,350	163	*4,226*	*715,689*	–	 1991
2,160	493	*741,053*	*16,995*	1,533	1,796	1,220	424	*4,973*	*763,021*	–	 1992
2,000	309	*825,612*	*17,606*	3,966	1,775	930	603	*7,274*	*850,493*	–	 1993
27	74	*771,731*	*20,705*	2,174	2,669	1,030	460	*6,333*	*798,769*	–	 1994
and double counting											
5	–	*1,991*	*542*	20	1	1	6	*28*	*2,561*	–	 1987
–	–	*1,043*	*270*	13	–	–	3	*16*	*1,329*	–	 1988
7	–	*1,534*	*176*	22	–	–	2	*24*	*1,734*	–	 1989
7	–	*3,821*	*839*	35	–	–	3	*38*	*4,698*	–	 1990
–	–	*3,812*	*250*	17	–	–	7	*24*	*4,085*	–	 1991
–	–	*4,623*	*1,179*	9	–	–	–	*9*	*5,811*	–	 1992
–	–	*1,102*	*365*	17	–	–	–	*17*	*1,484*	–	 1993
–	–	*9,320*	*287*	–	–	–	–	*22*	*9,629*	–	 1994
issues											
1,526	–1,053	*85,628*	*11,012*	1,507	1,809	435	348	*4,037*	*100,677*	–	 1987
329	–1,087	*103,819*	*7,966*	262	–124	176	452	*709*	*112,494*	–	 1988
–1,076	–1,083	*108,460*	*8,205*	1,262	–1,020	–393	213	*35*	*116,699*	–	 1989
2,611	–1,098	*116,592*	*5,985*	90	–1,594	–1,185	117	*–2,592*	*119,985*	–	 1990
–160	–782	*126,946*	*15,939*	1,316	3,131	–843	230	*3,813*	*146,698*	–	 1991
–660	–493	*136,045*	*10,848*	–434	–1,797	–930	–424	*–3,464*	*143,429*	–	 1992
–2,000	–309	*162,608*	*26,213*	–1,872	–775	359	–603	*–2,341*	*186,480*	–	 1993
3,973	–74	*230,257*	*22,259*	–2,060	–2,669	2,391	190	*–2,070*	*250,446*	–	 1994
pons											
889	470	*68,410*	*12,614*	1,422	1,178	....	163	*2,774*	*83,798*	4,715	 1987
1,256	359	*77,882*	*13,796*	1,706	1,318	....	213	*3,246*	*94,924*	5,253	 1988
1,021	275	*93,642*	*14,748*	1,613	1,327	....	249	*3,193*	*111,583*	5,803	 1989
1,005	190	*112,416*	*15,855*	1,869	1,309	....	273	*3,454*	*131,725*	6,929	 1990
1,252	111	*128,582*	*16,828*	1,898	1,276	....	281	*3,456*	*148,866*	6,640	 1991
1,274	60	*153,480*	*19,431*	1,899	1,507	....	315	*3,721*	*176,632*	5,721	 1992
1,487	27	*166,102*	*21,905*	2,464	1,405	....	261	*4,177*	*192,184*	6,337	 1993
1,041	9	*159,713*	*20,393*	1,346	987	....	183	*2,589*	*182,695*	....	 1994

with the Bank of Italy to finance the new Treasury payments account. – (3) Includes securities issued by the Treasury to consolidate past debts. – (4) Includes the 76,206 billion lire of securities issued the amount of bond issues by local authorities. – (6) The total for firms and international institutions differs from the sum of the individual components by the amount of bond issues by *Autostrade*-IRI.

INTEREST RATES: THE MONEY MARKET AND BANKS ACCEPTING SHORT-TERM FUNDS (1)

	Treasury bill yields (2)				Bank interest rates										
						Interbank operations			Deposits (3)				Loans (3)		
	3-month bills	6-month bills	12-month bills	Average	Interbank accounts (3) (4)	Over-night (5)	3-month (5)	3-month Eurolira (6)	Maximum	Current accounts	CDs up to 6-month	Average	Minimum	Average	ABI prime rate (7)
1985	13.86	13.73	13.63	13.71	15.25	....	....	13.77	*14.48*	11.22	*13.82*	....	*16.36*	18.06	16.65
1986	11.93	11.46	11.15	11.40	13.39	....	....	12.69	*11.97*	9.15	*11.98*	....	*14.08*	15.93	14.18
1987	11.07	10.74	10.55	10.73	11.33	8.40	....	10.79	*9.93*	7.28	*9.87*	*7.12*	*12.06*	13.58	12.74
1988	11.17	11.06	11.17	11.13	10.82	10.17	....	10.79	*9.51*	6.96	*9.88*	*6.89*	*12.11*	13.57	12.76
1989	12.65	12.55	12.55	12.58	12.62	11.97	12.63	12.01	9.32	7.26	*10.35*	*7.30*	12.01	14.21	13.83
1990	12.28	12.33	12.53	12.38	11.98	10.93	12.10	11.63	9.57	7.13	*10.62*	*7.39*	11.78	14.08	13.35
1991	12.66	12.53	12.39	12.54	12.03	11.83	12.21	11.52	9.33	6.98	*10.42*	*7.38*	11.35	13.89	12.84
1992	14.48	14.38	14.02	14.32	14.36	14.38	14.02	13.48	9.99	7.46	*11.20*	8.46	12.53	15.77	14.36
1993	10.47	10.52	10.74	10.58	10.66	10.25	10.20	9.96	8.84	6.44	*9.30*	7.62	10.48	13.86	11.40
1994	8.84	9.13	9.50	9.17	8.48	8.20	8.51	8.29	6.97	5.00	*6.88*	5.99	8.35	11.23	9.27
1993 – Jan.	12.52	11.98	12.59	12.38	13.30	12.68	12.67	12.40	10.35	7.52	*11.82*	8.41	12.79	16.23	13.63
Feb.	12.08	12.08	11.97	12.05	12.34	11.58	11.50	11.21	9.90	7.25	*11.13*	8.32	12.17	15.65	12.75
Mar.	12.51	12.37	12.62	12.50	11.85	11.31	11.35	11.07	9.65	7.20	*10.73*	8.29	11.46	15.03	12.63
Apr.	12.30	12.54	12.48	12.43	11.78	11.29	11.45	11.16	9.63	7.21	*10.50*	8.30	11.28	14.68	12.38
May	11.51	11.36	11.64	11.49	11.33	10.80	10.81	10.53	9.22	6.91	*10.08*	8.05	10.99	14.36	11.88
June	10.62	10.23	10.51	10.46	10.81	10.37	10.25	9.96	8.84	6.62	*9.57*	7.84	10.61	13.94	11.63
July	9.88	9.95	10.37	10.05	9.99	9.48	9.54	9.27	8.47	6.16	*8.75*	7.48	10.11	13.56	10.88
Aug.	9.18	9.84	10.03	9.71	10.11	9.83	9.33	9.10	8.23	5.92	*8.26*	7.24	9.74	13.18	10.88
Sept.	8.86	9.03	9.40	9.10	9.46	9.06	9.11	8.93	8.18	5.81	*8.09*	7.09	9.47	12.90	10.38
Oct.	9.11	8.95	9.11	9.06	9.11	9.08	8.78	8.59	8.01	5.63	*7.79*	6.90	9.02	12.55	10.00
Nov.	8.90	9.46	9.59	9.37	9.03	8.87	9.01	8.83	7.78	5.46	*7.48*	6.73	9.07	12.28	9.88
Dec.	8.18	8.40	8.54	8.38	8.85	8.67	8.59	8.40	7.86	5.53	*7.40*	6.74	9.02	11.99	9.88
1994 – Jan.	8.26	8.70	8.69	8.59	8.96	8.66	8.42	8.24	7.65	5.51	*7.29*	6.63	8.79	11.73	9.88
Feb.	8.66	8.83	8.81	8.78	8.84	8.41	8.45	8.23	7.35	5.34	*7.11*	6.50	8.70	11.60	9.38
Mar.	8.91	8.96	9.00	8.96	8.59	8.32	8.42	8.22	7.19	5.13	*6.90*	6.31	8.58	11.36	9.38
Apr.	8.60	8.75	8.75	8.71	8.52	8.17	8.11	7.92	7.27	5.15	*6.80*	6.24	8.42	11.20	9.13
May	8.08	8.04	8.15	8.09	8.17	7.77	7.81	7.62	6.93	4.92	*6.64*	6.02	8.25	11.08	8.88
June	8.67	8.56	9.12	8.76	8.02	7.87	8.11	7.87	6.77	4.72	*6.42*	5.84	7.99	10.80	8.88
July	8.61	8.94	9.37	8.98	8.32	8.19	8.48	8.27	6.79	4.74	*6.40*	5.78	8.03	10.95	8.88
Aug.	9.19	9.77	10.40	9.80	8.54	8.29	8.92	8.69	6.65	4.76	*6.56*	5.72	8.19	11.15	9.38
Sept.	9.16	9.74	10.29	9.73	8.46	8.17	8.72	8.45	6.67	4.84	*6.92*	5.70	8.26	11.32	9.38
Oct.	9.48	9.89	10.68	10.07	8.45	8.16	8.85	8.61	6.69	4.89	*7.13*	5.69	8.31	11.24	9.38
Nov.	9.20	9.60	10.25	9.70	8.42	8.20	8.76	8.52	6.81	4.94	*7.19*	5.70	8.35	11.21	9.38
Dec.	9.28	9.72	10.44	9.81	8.51	8.20	9.04	8.84	6.86	5.01	*7.24*	5.74	8.30	11.12	9.38
1995 – Jan.	9.44	9.90	10.55	10.01	8.75	8.42	9.13	8.93	7.06	5.02	7.54	5.82	8.43	11.23	9.38
Feb.	9.67	10.07	10.61	10.15	8.87	8.39	9.09	8.85	7.09	5.01	7.54	5.89	8.48	11.41	10.00
Mar.	11.62	11.95	12.07	11.87	10.45	10.22	11.01	10.72	7.35	5.14	7.92	5.99	8.87	11.93	10.13
Apr.	11.37	11.59	11.81	11.57	10.73	10.42	10.96	10.73	7.64	5.27	8.16	6.12	9.33	12.44	10.88

(1) Before tax; annual figures are the average of montly values. – (2) Average of tender rates at public auctions, before tax; for 3 and 6-month bills, compounded. – (3) Monthly averages of rates reported at 10-day intervals. The "Average" rates are the weighted average of rates on individual positions weighted with the relevant balances. The figures in italics for "Maximum" deposit rates, deposit rates on "CDs up to 6 months" and "Minimum" lending rates are based on the old definition; those for "Average" deposit rates exclude the data on the former special credit sections. – (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.

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
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	10.67	11.61	11.61	11.69	11.74	11.17
1990	12.31	10.19	11.52	11.87	12.03	12.15	12.17	11.77
1991	11.78	9.05	11.22	11.37	11.63	11.46	11.29	11.12
1992	13.70	9.00	11.51	11.90	12.04	11.51	12.28	11.65
1993	10.55	6.57	9.49	9.60	10.10	10.70	10.16	9.98
1994	8.81	6.45	8.89	8.98	8.95	9.01	8.94	8.96
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
May	7.82	6.23	7.84	7.98	7.97	8.16	8.51	8.11
June	8.11	6.33	8.83	8.92	8.60	8.46	8.71	8.63
July	8.67	7.09	9.23	9.29	8.92	8.74	9.11	8.92
Aug.	9.31	7.65	10.02	10.10	9.53	9.44	10.25	9.59
Sept.	10.01	7.42	10.27	10.38	10.14	9.92	10.33	10.10
Oct.	9.82	7.47	10.12	10.32	10.23	9.74	10.42	10.09
Nov.	9.68	7.10	9.94	10.10	10.23	10.05	9.63	10.05
Dec.	9.67	7.56	10.13	10.27	10.34	10.31	7.44	10.19
1995 – Jan.	9.84	8.10	10.18	10.40	10.07	10.28	7.07	10.05
Feb.	9.67	7.98	10.01	10.31	10.13	9.97	9.55	10.01
Mar.	10.83	9.96	10.95	11.30	10.79	10.37	8.90	10.57
Apr.	11.04	9.61	10.91	11.22	11.09	10.48	8.67	10.71

(stocks in billions

END-OF-PERIOD

	Notes and coin	Sight deposits (2)		Other assets (3)	Total: M1	Short-term CDs (4)	Longer-term CDs (4)
		Banks	Post Office				
1985 – Dec.	45,196	244,048	8,761	12,304	310,310	....	....
1986 – "	48,336	275,242	9,440	11,280	344,298	....	....
1987 – "	52,718	297,686	10,213	11,609	372,225	31,590	25,931
1988 – "	57,167	324,071	7,696	12,200	401,133	44,619	50,112
1989 – "	67,644	356,375	9,388	18,681	452,088	57,568	76,798
1990 – "	69,449	388,409	7,825	17,068	482,751	74,688	105,405
1991 – "	76,354	435,150	7,017	19,429	537,950	81,164	139,457
1992 – "	85,617	434,823	9,337	16,011	545,787	92,390	180,328
1993 – Jan.	82,540	396,919	10,947	14,648	505,053	90,827	185,760
Feb.	81,215	394,565	9,720	14,305	499,805	90,173	195,938
Mar.	81,997	399,997	8,803	14,101	504,899	91,515	203,663
Apr.	82,201	402,157	9,921	13,259	507,538	91,240	207,794
May	83,216	404,337	9,989	12,647	510,189	90,622	210,457
June	81,828	411,627	10,802	13,196	517,452	90,053	213,772
July	86,096	396,229	11,006	15,646	508,977	89,271	217,855
Aug.	82,129	400,902	9,509	10,689	503,229	88,274	219,197
Sept.	83,339	416,327	9,563	12,686	521,915	87,981	221,634
Oct.	84,011	417,100	9,574	12,921	523,607	86,966	223,580
Nov.	85,064	414,616	9,316	15,942	524,937	86,767	224,506
Dec.	89,769	465,071	9,583	14,760	579,182	87,286	226,074
1994 – Jan.	86,169	429,038	12,448	13,571	541,226	87,690	230,966
Feb.	85,472	435,048	10,669	11,632	542,820	87,072	233,361
Mar.	88,562	449,549	9,862	13,836	561,809	87,399	233,471
Apr.	87,413	444,128	9,995	11,808	553,344	84,715	233,290
May	87,910	440,617	10,374	13,095	551,996	82,515	236,232
June	87,329	449,505	9,851	16,623	563,309	79,904	236,925
July	92,508	429,786	9,792	14,309	546,396	77,353	235,349
Aug.	87,896	427,442	9,405	9,289	534,033	76,148	232,730
Sept.	89,541	438,100	9,504	11,977	549,122	74,475	231,461
Oct.	89,248	437,028	9,664	11,739	547,679	73,431	231,930
Nov.	90,829	425,046	9,935	13,149	538,959	72,564	234,163
Dec.	96,221	480,422	7,633	15,702	599,978	71,891	236,936
1995 – Jan.	90,766	....	10,478	13,788	....	....	....
Feb.	89,772	....	9,441	11,809	....	....	....
Mar.	92,440	....	8,853	13,999	....	....	....

(1) Money held by the non-state sector. M2 includes the certificates of deposit issued by the former special credit institutions. Rounding may cause discrepancies in totals. – (2) Demand deposits – (5) Savings accounts and tied current account deposits in lire and foreign currency. – (6) For notes and coin, deposits and banker's drafts, averages of daily data; for the other items, two-period

SUPPLY (1)
of lire)

DATA			AVERAGE DATA (6)				
Savings deposits of banks (5)	Postal savings accounts	Total: M2	M1	M2	M2 net of longer-term CDs (4)	Extended M2	
196,443	9,506	551,132	289,262	516,814	....	517,433	..... Dec. – 1985
198,049	11,047	598,809	325,503	573,171	....	573,549	.... " – 1986
201,359	13,434	644,540	350,845	613,861	588,738	614,231	.... " – 1987
192,167	16,372	704,404	376,337	672,368	623,054	673,077	.... " – 1988
182,090	19,733	788,277	415,018	744,577	668,520	745,576	.... " – 1989
178,384	23,589	864,817	442,428	814,224	709,331	816,497	.... " – 1990
161,798	26,924	947,293	488,712	888,538	750,765	892,149	.... " – 1991
146,967	29,057	994,531	492,082	930,167	751,789	935,563	.... " – 1992
144,935	29,259	955,834	516,422	965,288	782,223	970,658	...... Jan. – 1993
142,499	29,482	957,896	491,703	945,631	754,782	951,069	...... Feb.
139,368	29,569	969,015	489,562	948,847	749,046	953,999	...... Mar.
138,981	29,643	975,195	494,780	959,045	753,317	964,051	...... Apr.
137,953	29,568	978,789	498,279	965,322	756,197	969,898	...... May
135,429	29,207	985,913	499,169	963,886	751,771	968,418	...... June
134,417	28,768	979,287	500,895	967,337	751,523	972,101	...... July
134,491	29,473	974,664	493,080	960,083	741,557	964,638	...... Aug.
135,464	29,630	996,623	502,116	971,451	751,036	976,136	...... Sept.
136,637	29,715	1,000,504	511,110	983,437	760,830	988,398	...... Oct.
135,853	29,957	1,002,020	519,386	993,550	769,507	998,652	...... Nov.
144,091	30,852	1,067,485	529,612	1,005,657	780,367	1,011,434	...... Dec.
142,497	32,442	1,034,822	548,784	1,036,274	807,754	1,042,274	...... Jan. – 1994
138,522	32,907	1,034,682	527,461	1,016,811	784,647	1,022,314	...... Feb.
138,302	33,349	1,054,329	535,140	1,022,932	789,516	1,028,485	...... Mar.
138,273	33,759	1,043,381	546,011	1,033,606	800,225	1,038,807	...... Apr.
134,851	34,039	1,039,633	545,233	1,030,295	795,534	1,035,536	...... May
134,298	34,291	1,048,726	537,255	1,019,824	783,246	1,024,868	...... June
133,717	34,686	1,027,500	541,203	1,023,126	786,989	1,027,371	...... July
132,790	35,328	1,011,028	522,394	1,000,050	766,011	1,004,183	...... Aug.
133,939	35,508	1,024,505	527,405	1,001,159	769,064	1,005,802	...... Sept.
133,218	35,860	1,022,118	533,169	1,006,218	774,523	1,012,102	...... Oct.
132,690	36,530	1,014,906	539,326	1,012,475	779,429	1,019,010	...... Nov.
138,152	38,322	1,085,278	548,265	1,024,423	788,874	1,031,418	...... Dec.
....	39,549	1,041,140	556,943	1,039,499	795,717	1,047,593	...... Jan. – 1995
....	39,769	1,036,009	538,376	1,020,945	772,835	1,029,548	...... Feb.
....	39,846	1,038,762	539,811	1,022,329	771,619	....	...... Mar.

in lire and foreign currency. – (3) Banker's drafts issued by banks and the Bank of Italy and deposits with the Treasury. – (4) Longer-term CDs are those not redeemable for at least 18 months.
moving averages of end-of-month data.

CRE

(end-of-period stocks

	Finance to the non-state sector				
	Short-term bank loans (2)	Medium and long-term bank loans (2)	Bonds placed domestically	Total domestic finance	Foreign finance (3)
1985 – Dec.	225,181	159,277	24,841	409,298	55,364
1986 – "	249,083	173,936	30,150	453,170	52,244
1987 – "	268,623	196,901	33,804	499,327	56,124
1988 – "	318,501	225,330	25,719	569,550	51,036
1989 – "	392,716	257,129	25,638	675,482	68,029
1990 – "	455,671	299,073	23,453	778,197	93,504
1991 – "	513,479	347,827	25,109	886,416	107,686
1992 – "	570,614	386,737	20,510	977,861	128,680
1993 – Jan.	568,719	400,994	37,941	1,007,654	139,090
Feb.	569,397	404,978	37,346	1,011,720	144,686
Mar.	564,786	411,171	37,226	1,013,183	144,463
Apr.	562,531	413,048	35,823	1,011,403	138,633
May	550,175	416,816	35,647	1,002,638	138,640
June	563,219	423,396	34,823	1,021,438	139,152
July	570,899	423,641	35,191	1,029,730	141,637
Aug.	557,660	428,709	32,558	1,018,928	142,354
Sept.	547,817	434,785	32,523	1,015,124	141,248
Oct.	548,603	439,179	33,143	1,020,925	140,594
Nov.	543,525	442,644	33,118	1,019,287	141,931
Dec.	558,817	456,824	31,778	1,047,419	139,560
1994 – Jan.	549,012	450,016	33,874	1,032,901	138,093
Feb.	542,182	455,204	33,396	1,030,782	136,742
Mar.	529,702	459,376	33,210	1,022,287	133,353
Apr.	523,508	461,967	32,188	1,017,664	132,040
May	515,395	466,678	34,286	1,016,359	132,829
June	524,232	472,483	34,401	1,031,116	132,952
July	526,248	468,658	35,213	1,030,119	132,281
Aug.	517,504	471,111	35,348	1,023,963	133,658
Sept.	515,026	472,090	34,726	1,021,841	131,708
Oct.	518,567	472,237	34,276	1,025,081	130,619
Nov.	514,713	475,914	34,065	1,024,692	132,214
Dec.	535,127	486,578	32,646	1,054,351	132,911
1995 – Jan.	....	....	32,646	1,042,152	131,467
Feb.	....	....	32,646	1,050,074	131,930
Mar.	....	....	32,646	1,057,804	130,471

(1) Rounding may cause discrepancies in totals. – (2) In lire and in foreign currency. The figures include overdue instalments and the part of instalments payable consisting of principal; they
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 state sector.

DIT *(1)*
in billions of lire)

	Finance to the state sector			Credit		
Total finance	Domestic finance (4)	Foreign finance (5)	Total	Total domestic (6)	Total (7)	
464,662	636,677	18,205	654,882	1,045,975	1,119,544	.... Dec. – 1985
505,414	749,230	17,379	766,609	1,202,400	1,272,023	..........." – 1986
555,451	860,603	23,322	883,925	1,359,930	1,439,376	..........." – 1987
620,586	983,138	28,586	1,011,724	1,552,688	1,632,310	..........." – 1988
743,511	1,111,284	34,979	1,146,263	1,786,766	1,889,744	..........." – 1989
871,701	1,246,050	48,799	1,294,849	2,024,247	2,166,549	..........." – 1990
994,101	1,396,833	54,720	1,451,553	2,283,248	2,445,654	..........." – 1991
1,106,540	1,572,122	64,653	1,636,774	2,549,983	2,743,315	..........." – 1992
1,146,744	1,553,711	52,046	1,605,757	2,561,365	2,752,501	.... Jan. – 1993
1,156,406	1,564,568	56,030	1,620,599	2,576,289	2,777,004	.... Feb.
1,157,646	1,591,271	61,078	1,652,349	2,604,455	2,809,995	.... Mar.
1,150,036	1,611,246	56,788	1,668,033	2,622,649	2,818,069	.... Apr.
1,141,278	1,627,203	56,681	1,683,884	2,629,841	2,825,162	.... May
1,160,590	1,602,809	61,324	1,664,134	2,624,247	2,824,723	.... June
1,171,368	1,611,534	61,740	1,673,274	2,641,264	2,844,642	.... July
1,161,281	1,617,683	62,872	1,680,555	2,636,611	2,841,837	.... Aug.
1,156,372	1,639,473	70,709	1,710,182	2,654,597	2,866,554	.... Sept.
1,161,519	1,656,957	70,304	1,727,261	2,677,882	2,888,780	.... Oct.
1,161,218	1,678,570	74,623	1,753,193	2,697,857	2,914,411	.... Nov.
1,186,979	1,694,972	73,084	1,768,056	2,742,390	2,955,035	.... Dec.
1,170,994	1,694,250	77,516	1,771,766	2,727,152	2,942,760	.... Jan. – 1994
1,167,524	1,706,820	77,038	1,783,858	2,737,602	2,951,381	.... Feb.
1,155,640	1,733,624	73,243	1,806,868	2,755,912	2,962,508	.... Mar.
1,149,704	1,753,410	71,500	1,824,910	2,771,074	2,974,614	.... Apr.
1,149,188	1,773,788	70,319	1,844,107	2,790,147	2,993,295	.... May
1,164,068	1,760,737	72,070	1,832,807	2,791,853	2,996,875	.... June
1,162,400	1,760,231	77,308	1,837,539	2,790,350	2,999,939	.... July
1,157,621	1,768,681	75,854	1,844,535	2,792,645	3,002,156	.... Aug.
1,153,549	1,799,500	75,239	1,874,739	2,821,341	3,028,289	.... Sept.
1,155,699	1,828,579	73,470	1,902,048	2,853,659	3,057,748	.... Oct.
1,156,906	1,853,260	75,308	1,928,568	2,877,952	3,085,474	.... Nov.
1,187,262	1,854,261	83,084	1,937,345	2,908,612	3,124,607	.... Dec.
1,173,619	1,866,730	82,496	1,949,227	2,908,882	3,122,845	.... Jan. – 1995
1,182,004	1,880,300	87,462	1,967,762	2,930,373	3,149,766	.... Feb.
1,188,275	1,905,480	93,219	1,998,699	2,963,283	3,186,974	.... Mar.

exclude the part of bad debts consisting of principal that has not fallen due. – (3) Foreign loans and bonds. – (4) Domestic debt at face value, net of non-state sector bonds held by Deposits and

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	Credit to the non-state sector (4)	Credit to the state sector (5)	Other (6)
1985	52,148	–13,677	5,299	48,305	53,294	–41,073
1986	46,677	3,543	–6,454	47,121	18,088	–14,621
1987	45,730	6,756	–5,573	47,767	14,613	–17,833
1988	59,865	10,947	–10,224	78,519	1,808	–21,186
1989	83,873	14,971	–14,979	114,465	7,820	–38,403
1990	76,540	15,458	–22,976	112,050	9,065	–37,058
1991	82,476	–8,674	–39,369	122,747	64,059	–56,286
1992	47,238	–32,591	–12,187	78,021	80,697	–66,702
1993	71,608	2,564	84,589	49,933	–905	–64,574
1994	17,794	3,297	–21,594	4,070	34,379	–2,358
1993 – Jan.	–40,043	–600	–3,437	–6,920	–38,062	8,977
Feb.	2,062	–2,878	17,568	–5,567	1,700	–8,760
Mar.	11,118	4,734	–5,828	956	6,366	4,891
Apr.	6,180	–3,283	11,706	10,613	11,901	–24,756
May	3,594	6	9,583	–2,362	–337	–3,296
June	7,125	2,721	8,804	21,524	–28,001	2,076
July	–6,626	–1,230	6,832	2,980	–4,970	–10,238
Aug.	–4,623	–1,985	8,551	–9,979	520	–1,730
Sept.	21,960	7,661	–4,922	1,086	19,450	–1,315
Oct.	3,881	–2,820	2,851	5,571	17,930	–19,652
Nov.	1,516	2,476	18,839	–4,890	11,698	–26,606
Dec.	65,464	–2,237	14,042	36,922	902	15,836
1994 – Jan.	–32,663	5,178	13,580	–26,057	–12,879	–12,484
Feb.	–140	1,417	5,975	–4,532	2,161	–5,161
Mar.	19,648	–2,347	–17,091	144	33,862	5,079
Apr.	–10,949	–235	–7,793	–5,653	14,135	–11,403
May	–3,748	2,162	–3,268	–7,003	2,070	2,292
June	9,093	–1,093	–8,845	16,766	–16,620	18,885
July	–21,127	3,361	–8,602	415	–10,908	–5,493
Aug.	–16,472	–3,218	–116	–6,750	2,578	–8,966
Sept.	13,477	–1,119	–6,156	152	15,911	4,689
Oct.	–2,387	–5,947	–1,145	2,887	9,474	–7,656
Nov.	–7,213	–2,531	8,086	760	9,817	–23,344
Dec.	70,373	7,669	3,781	32,941	–15,222	41,204
1995 – Jan.	–44,138	–3,727	–9,938	....	....	....
Feb.	–5,132	–830	5,591	....	....	....
Mar.	2,754	–6,807	–4,788	....	....	....

(1) M2 includes the certificates of deposit issued by the former special credit institutions. 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 on the non-state sector. – (5) Claims of banks and the Bank of Italy on the state sector. – (6) Repo fund-raising, lending by the Bank of Italy to other banks, monetary base creation by "other sectors", capital items and residual items in the balance sheets of banks.

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

ASSETS

GOLD				
I on hand			2,753,848,913,612	
II on deposit abroad			27,230,811,163,073	29,984,660,076,685
GOLD CLAIMS (EMI)				10,334,584,522,219
CASH ON HAND				3,872,800,493
DISCOUNTS AND ADVANCES				
I bill portfolio			182,406,804,938	
II advances:				
— current account		1,887,459,621,237		
— fixed term		599,377,500,000		
— under Treasury Decree of 27.9.1974		—	2,486,837,121,237	
III deferred payments in the clearing system			—	2,669,243,926,175
BILLS FOR COLLECTION WITH CORRESPONDENTS				—
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ecus			7,391,039,215,156	
II other:				
— banknotes and foreign currency bills		3,527,435,300		
— current accounts with correspondents		3,391,436,533,116		
— time deposits		297,656,869,270		
— other		7,608,660,555,179	11,301,281,392,865	18,692,320,608,021
DOLLAR CLAIMS (EMI)				7,200,481,052,696
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current account (debtor balance)			24,256,545,887,352	
II special accounts			7,439,568,669,148	31,696,114,556,500
SUNDRY CLAIMS ON THE GOVERNMENT				
I suspense account under Art. 6 (2c) of Law 483/1993			–	
II other			20,681,472,826	20,681,472,826
CLAIMS ARISING FROM SECURITIES REPURCHASE AGREEMENTS				44,616,763,100,873
SECURITIES				
I government and government-guaranteed securities:				
— freely available marketable securities		107,968,801,529,123		
— freely available under Law 483/1993		76,205,757,000,000		
— investment of statutory reserves		4,593,116,988,537		
— investment of staff severance pay and pension funds		3,239,198,032,103	192,006,873,549,763	
II securities of companies and agencies:				
— investment of statutory reserves		132,583,315,573		
— investment of staff severance pay and pension funds		560,432,601,857	693,015,917,430	
III shareholdings and participations:				
— in subsidiary companies and agencies				
a) investment of statutory reserves	302,502,276			
b) investment of staff severance pay and pension funds	194,039,528,388	194,342,030,664		
— in associated companies and agencies				
a) investment of statutory reserves	25,166,460,122			
b) investment of staff severance pay and pension funds	5,723,750,933	30,890,211,055		
— in other companies and agencies				
a) investment of statutory reserves	579,153,442,736			
b) investment of staff severance pay and pension funds	723,903,222,671	1,303,056,665,407	1,528,288,907,126	194,228,178,374,319
			carried forward . . .	339,446,900,490,807

LIABILITIES		
NOTES IN CIRCULATION		100,024,826,346,000
BI DRAFTS		1,466,032,734,588
OTHER SIGHT LIABILITIES		
I transfer orders	—	
II other	6,631,696,760	6,631,696,760
RESERVE DEPOSITS ON CURRENT ACCOUNT		
I credit institutions subject to the compulsory reserve requirement	87,287,971,825,474	
II other entities	155,224,941,773	87,443,196,767,247
OTHER COMPULSORY DEPOSITS		
I collateral for the issue of bankers' drafts and guaranteed personal cheques	6,806,861	
II in respect of companies in the process of incorporation	540,562,891	
III other	30,032,943,188	30,580,312,940
OTHER DEPOSITS ON CURRENT ACCOUNT		65,006,712,109
TIED DEPOSITS ON CURRENT ACCOUNT		—
DEPOSITS FOR CASH DEPARTMENT SERVICES		189,409,078
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC		7,439,568,669,148
EXTERNAL LIABILITIES		
I deposits in foreign currencies	582,744,143,834	
II external accounts in lire	204,875,972,126	
III other	—	787,620,115,960
ECU LIABILITIES (EMI)		17,535,065,574,915
ITALIAN FOREIGN EXCHANGE OFFICE - current account (creditor balance)		—
TREASURY PAYMENTS ACCOUNT		58,017,972,742,069
SINKING FUND FOR GOVERNMENT SECURITIES		5,920,563,657,000
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT		997,784,456,976
LIABILITIES ARISING FROM SECURITIES REPURCHASE AGREEMENTS		875,256,815,000
SUNDRY PROVISIONS		
I for gold price fluctuations (under Decree Law 867/1976 and Art.104 (1b) of the income tax code)	36,557,251,438,855	
II for losses ensuing from exchange rate management	1,200,795,276,401	
III for losses on bill portfolio	234,919,178,078	
IV for diminution in value of foreign exchange	3,577,059,865,788	
V for exchange rate adjustments (under Art. 104 (1c) of the income tax code)	1,881,598,340,378	
VI for diminution in value of securities	6,675,248,131,939	
VII for contingent losses	2,803,006,748,480	
VIII for insurance cover	969,691,685,925	
IX for building works	2,423,801,851,969	
X for renewal of equipment	911,250,000,000	
XI for taxation	1,665,973,986,745	
XII for staff severance pay and pensions	5,638,471,988,878	
XIII for grants to BI pensioners and their surviving dependents	1,989,432,477	
XIV for severance pay to contract staff under Law 297/1982	1,628,352,287	
XV for staff costs in respect of wage negotiations covering 1994	103,630,000,000	64,646,316,278,200
	carried forward...	345,256,612,287,990

AMOUNTS IN LIRE

ASSETS

		brought forward . . .	339,446,900,490,807
UIC ENDOWMENT FUND			500,000,000,000
INTANGIBLE FIXED ASSETS (net of amortization)			
I procedures, studies and designs		75,434,075,558	
II other deferred charges		12,016,768,013	87,450,843,571
TANGIBLE FIXED ASSETS			
I buildings - used by the Bank		3,508,774,253,371	
II buildings - staff severance pay and pension fund investments		612,796,189,985	
III furniture and fittings		156,300,080,514	
IV equipment		319,531,527,718	
V coins and collections		944,093,038	
less: accumulated depreciation		1,327,795,860,738	3,270,550,283,888
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUND			15,929,943,996
STOCKS OF THE TECHNICAL DEPARTMENTS			
I procedures, studies and designs in preparation		54,245,548,529	
II banknotes in production		9,596,911,895	
III other		11,094,322,081	74,936,782,505
SUNDRY ITEMS			
I suppliers for payments on account		192,973,878,016	
II sundry debtors:			
— items arising from the former management of stockpiling bills (under Decree Laws 565/1993 and 423/1994, not ratified)	2,893,856,834,669		
— other creditors	1,403,986,989,651	4,297,843,824,320	
III other		3,402,759,597,837	7,893,577,300,173
ACCRUED INCOME			5,060,545,008,713
PREPAID EXPENSES			9,781,552,872
			356,359,672,206,525
MEMORANDUM ACCOUNTS			
I Securities and other valuables		2,179,982,619,970,225	
II Depositaries of securities and valuables		16,992,423,256,268	
III Unused overdraft facilities		143,599,021,480	
IV Debtors for securities, foreign exchange and lire receivable (BI forward sales)		86,144,613,672,965	
V Securities, foreign exchange and lire receivable (BI forward purchases)		31,908,403,890,419	
VI Securities, foreign exchange and lire receivable (order suspense accounts)		888,559,792,046	
VII Debtors for securities, foreign exchange and lire receivable (order suspense accounts)		1,745,513,824,210	2,317,805,733,427,613
		TOTAL . . .	**2,674,165,405,634,138**

Audited and found correct. - Rome, 20 Aprii 1995

THE AUDITORS
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

LIABILITIES

brought forward . . .		345,256,612,287,990
SUNDRY ITEMS		
I sundry creditors	98,568,276,650	
II other	864,788,124,676	963,356,401,326
ACCRUED EXPENSES		379,439,706,797
DEFERRED INCOME		296,099,419,287
CAPITAL		300,000,000
ORDINARY RESERVE		2,879,647,360,924
EXTRAORDINARY RESERVE		3,110,188,510,436
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
RESERVE FOR ACCELERATED DEPRECIATION (under Art. 67 (3) of the income tax code)		31,881,646,078
NET PROFIT FOR DISTRIBUTION		826,409,346,651
		356,359,672,206,525
MEMORANDUM ACCOUNTS		
I Depositors of securities and other valuables	2,179,982,619,970,225	
II Securities and valuables on deposit	16,992,423,256,268	
III Holders of unused overdraft facilities	143,599,021,480	
IV Securities, exchange and lire for delivery (BI forward sales)	86,144,613,672,965	
V Creditors for securities, foreign exchange and lire for delivery (BI forward purchases)	31,908,403,890,419	
VI Creditors for securities, foreign exchange and lire for delivery (order suspense accounts)	888,559,792,046	
VII Securities, foreign exchange and lire for delivery (order suspense accounts)	1,745,513,824,210	2,317,805,733,427,613
TOTAL . . .		**2,674,165,405,634,138**

THE ACCOUNTANT GENERAL
VINCENZO PONTOLILLO

THE GOVERNOR
ANTONIO FAZIO

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

ADMINISTRATIVE COSTS			
central and local boards		3,874,813,925	
staff:			
wages and salaries and related costs	1,085,661,937,782		
pensions and severance payments	421,035,242,536	1,506,697,180,318	
professional services		210,694,788,998	
other		333,151,542,119	2,054,418,325,360
TAXES AND DUTIES			
stamp duty on the circulation of banknotes and BI drafts		83,074,599,800	
taxes on income for the year		983,000,000,000	
other		139,450,859,623	1,205,525,459,423
INTEREST PAID			
on banks' compulsory reserves		5,823,552,595,198	
on Treasury accounts:			
on the Treasury payments account	4,110,230,467,247		
on other accounts	6,224,904,692	4,116,455,371,939	
other		630,020,062,845	10,570,028,029,982
FINANCIAL COSTS ARISING FROM SECURITIES REPURCHASE AGREEMENTS			67,078,237,442
EXPENDITURE ON SECURITES TRANSACTIONS			281,997,675
EXPENDITURE ON FOREIGN TRANSACTIONS			32,697,612
LOSSES ON SECURITIES			—
LOSSES ON FOREIGN EXCHANGE			—
LOSSES ON SUNDRY FINANCIAL TRANSACTIONS			—
LOSSES ON THE DISPOSAL OF ASSETS			
securities		835,970,885	
buildings		—	
other		412,165,761	1,248,136,646
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES			32,815,756,927
TECHNICAL DEPARTMENTS – INITIAL STOCKS			80,019,944,147
EXPENDITURE ON TRANSACTIONS WITH THE TREASURY			2,014,737,856,000
VALUATION LOSSES (1)			
on securities		—	
on foreign exchange		—	
other		—	—
DEPRECIATION			
of buildings		91,265,282,015	
of furniture and fittings		14,502,915,743	
of equipment		48,148,608,452	
of procedures, studies and designs		57,971,295,162	
of other deferred charges		10,906,790,502	
other		302,968,240	223,097,860,114
APPROPRIATION OF INVESTMENT INCOME TO RESERVES			
to the ordinary reserve		285,590,696,244	
to the extraordinary reserve		316,269,435,905	601,860,132,149
		carried forward . . .	16,851,144,433,477

(1) In excess of the related provisions.

FOR THE YEAR 1994 101st YEAR

INCOME AND PROFITS				
INTEREST RECEIVED				
on discounts and advances:				
ordinary portfolio discounts		14,240,716,724		
advances		155,570,638,381	169,811,355,105	
on lending to the UIC			812,329,679,699	
on lending abroad			697,812,286,405	
other			77,413,362,675	1,757,366,683,884
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
interest-bearing:				
Treasury bills	647,264,064,381			
variable rate Treasury credit certificates	2,577,210,161,394			
other government securities	8,242,828,200,214	11,467,302,425,989		
government-guaranteed securities		1,181,250,000	11,468,483,675,989	
investment of reserves and staff severance pay and pension funds				
interest-bearing:				
government and government-guaranteed securities	874,587,762,499			
other securities	57,218,236,526	931,805,999,025		
from investments in:				
subsidiary companies and bodies	4,049,913,200			
associated companies and bodies	15,655,362,962			
other companies and bodies	54,847,180,144	74,552,456,306	1,006,358,455,331	12,474,842,131,320
FINANCIAL REVENUES ARISING FROM SECURITIES REPURCHASE AGREEMENTS				3,777,770,610,452
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND				64,660,559,400
SECURITIES ISSUE DISCOUNTS				461,280,037,008
PROFITS ON SECURITIES				2,081,544,997,297
PROFITS ON FOREIGN EXCHANGE				435,547,095,492
carried forward . . .				21,053,012,114,853

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

brought forward . . .		16,851,144,433,477
ALLOCATIONS TO PROVISIONS		
for losses on bill portfolio	—	
for diminution in value of foreign exchange	407,000,000,000	
for diminution in value of securities	3,000,000,000,000	
for contingent losses	—	
for insurance cover	—	
for building works	80,000,000,000	
for renewal of equipment	20,000,000,000	
for taxation	180,264,088,248	
for staff severance pay and pensions	199,593,639	
for severance pay of contract staff under Law 297/1982	248,148,403	
for staff costs in respect of wage negotiations covering 1994	103,630,000,000	3,791,341,830,290
PRIOR-YEAR ADJUSTMENTS		70,675,074,239
		20,713,161,338,006
NET PROFIT		826,409,346,651
TOTAL . . .		**21,539,570,684,657**

APPROPRIATION

TO THE ORDINARY RESERVE . . . .

TO THE EXTRAORDINARY RESERVE . . . .

TO SHAREHOLDERS . . . .

TO THE TREASURY . . . .

Audited and found correct. — Rome, 20 April 1995

THE AUDITORS
DOMENICO AMODEO
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
FRANCO GAETANO SCOCA

INCOME AND PROFITS		
brought forward . . .		21,053,012,114,853
PROFITS ON SUNDRY FINANCIAL TRANSACTIONS		26,435,525,000
COMMISSIONS, RECOVERIES AND OTHER FINANCIAL INCOME		272,384,290,953
INCOME FROM BUILDINGS		20,073,132,436
PROFIT FROM THE DISPOSAL OF:		
securities	6,470,222,436	
buildings	—	
other property	3,174,165,499	9,644,387,935
CAPITALIZATION OF OTHER DEFERRED CHARGES		10,420,926,887
TECHNICAL DEPARTMENTS – FINAL STOCKS		74,936,782,505
TECHNICAL DEPARTMENTS – PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR		40,506,484,999
VALUATION GAINS		
on securities	5,712,799,387	
on foreign exchange	—	
on other assets	—	5,712,799,387
PRIOR-YEAR ADJUSTMENTS		26,444,239,702
TOTAL . . .		**21,539,570,684,657**

OF PROFIT	
	165,281,869,330
	165,281,869,330
	30,000,000
	495,815,607,991
TOTAL . . .	**826,409,346,651**

THE ACCOUNTANT GENERAL
VINCENZO PONTOLILLO

THE GOVERNOR
ANTONIO FAZIO

NOTES TO THE ACCOUNTS ([1])

The 1994 financial year was marked by important institutional changes: the abolition of the Treasury current account and the simultaneous opening of the Treasury payments account, the creation of a sinking fund for government securities consisting mainly of privatization proceeds, the reform of the compulsory reserve regime and the termination of the rediscounting of agricultural stockpiling bilis.

In line with the Community directives concerning annual accounts, securities repurchase agreements were accounted for as lending or funding operations. In addition, a distinction was introduced between investment securities and trading securities, not least in view of the large amount of securities that were acquired from the Treasury on special conditions and that are not expected to be sold before maturity.

These changes were reflected both in the formats of the annual accounts and in the amounts shown under the main items.

On the assets side there was an increase in holdings of government securities and in lending to banks, in part through securities repurchase agreements, while on the liabilities side there was a large increase in the balance on the Treasury payments account and, owing to the reform of the compulsory reserve regime, an appreciable contraction in deposits by banks. The absorption of liquidity by the Treasury was offset primarily through securities transactions in the secondary market.

The average amount of external assets in foreign currencies was smaller than in the previous year, reflecting, *inter glia,* the continuation of the transfer to the UIC of some of the assets acquired under foreign currency swaps. However, the year-end amount was greater than in 1993 as a result of both larger net acquisitions and the variation in exchange rates. In particular, holdings of Deutsche Marks and dollars increased.

After falling during the early months of the year, interest rates rose from June onwards. Their average level for the year was lower than in 1993.

([1]) This abridged English version of the Bank's annual accounts does not contain all of the information required by the EEC directives concerning companies ' and banks' annual accounts included in the original in Italian.

The combined effects of balance sheet developments and the decline in average interest rates were reflected in the componente of income.

In particular, in contrast with the increase in income from the securities portfolio and securities repurchase agreements, there was a fall in both interest income and profits on external assets, as well as a decline, albeit smaller, in income from the refinancing of banks. As regards expenditure, the appreciable rise in interest payable on the Treasury's accounts was only partly offset by the reduction in interest on banks' compulsory reserve deposits and in expenditure on transactions with the Treasury.

Although administrative costs as a whole remained basically unchanged, reflecting the attention the Bank pays to maximizing efficiency, profit before allocations to provisions and taxes for the year declined from 6,290 billion lire in 1993 to 5,823 billion last year, as the growth in income (1,911 billion lire) was smaller than that in expenditure (2,378 billion).

However, the fall in securities prices resulted in revaluation deficits of 3,648 billion lire and consequently a sizable reduction of around 1,900 billion in taxes on income compared with the previous year. Gross operating profit after taxes are deducted carne to 4,618 billion lire, against 3,116 billion in 1993. The allocation to offset part of the depletion of the provision for diminuition in value of securities caused total allocations to provisions to increase from 2,386 to 3,792 billion lire. Accordingly, net profit for the year amounted to 826 billion, compared with 730 billion in 1993.

Changes in the formats of the annual accounts. — In 1994 the officiai format of the balance sheet was updated. The main revisions with respect to the previous year are as follows:

— repurchase agreements on Italian securities are stated under specific asset and liability items rather than being accounted for under the assets involved in the transactions (securities);

— fixed assets are stated under the specific items *intangible fixed assets* and *tangible fixed assets*. The former, comprising completed procedures, studies and designs and other deferred charges, are stated net of amortization. The latter, comprising buildings, furniture and fittings, equipment, and coins and collections, are shown at cost with the accumulated deprecation to be deducted;

— stocks of the technical departments, relating chiefly to procedures, studies and designs in preparation and to banknotes in production, are now stated under a specific item rather than being included among sundry asset items.

Lastly, investment securities have been increased by the inclusion of the government securities allocated to the Bank in 1994 to convert the overdraft on the Treasury's former current account, under Artide 2 of Law 483 of 26 November 1993. By contrast, the investments in equity securities of the reserves, the staff severance pay provision and pension fund, and the provision for Bank pensioners and their surviving dependants, which do not represent permanent investments, have been transferred to securities not held as financial fixed assets.

Investment securities comprised:

— 84,038 billion lire of government and government-guaranteed securities, comprising the securities allocated to the Bank to convert the overdraft on the Treasury's former current account and the investments in fixed income securities of the reserves, the staff severance pay provision and pension fund, and the provision for Bank pensioners and their surviving dependants;
— 693 billion lire of other fixed income securities;
— 229 billion lire of equity securities.

Changes in valuation methods. — The following changes have been made compared with the previous year:

— for the purpose of calculating the gains and losses on disposals, investment securities are valued at cost rather than according to the LIFO method with annual intervals. Such gains and losses are now included under profits/losses from disposals;
— bonds held as investment securities are valued at the lower of cost and a value adjusted to take account of special circumstances concerning the issuer. In the previous year such securities were valued at the lower of cost, determined according to the LIFO method with annual intervals, and market value, determined on the basis of the arithmetic mean of the prices recorded in the last six months of the year (for unlisted bonds reference was made to the prices of securities with comparatile features);
— amounts written off both investment and trading securities in the previous year are written back, up to the cost of the securities, when the conditions that determined the writeoff no longer obtain.

Had the valuation methods applied in 1993 also been adopted in 1994, the gross operating profit for the year would have amounted to 4,593.3 billion lire, compared with that of 4,617.8 billion actually achieved.

The other methods of valuation remained unchanged. The significant accounting policies adopted are summarized at the end of these notes.

Information on the balance sheet

Gold, external assets and liabilities and cliams on and liabilities towards the UIC. — The value of the Bank's gold (the amount of which remained unchanged at 1,504 tonnes) increased by around 12 per cent (from 26,773 to 29,985 billion lire) as a result of the rise in the price of a fine gram from 17,799.2 to 19,934.7 lire. For the same reason gold claims on the EMI (corresponding to 518 tonnes of gold) increased by 1,107 billion lire.

External assets in foreign currencies increased by a total of 2,929 billion lire. The ecu component increased by 218 billion as a result of the higher exchange rate applied in the last swap of the year (1,946.74, as against 1,854.32 in 1993); the effect of this was partly offset by the declive in the availability of official ecus (71 million ecus). Other external assets increased by 2,711 billion lire, primarily owing to the growth in holdings of foreign currency.

Claims arising from foreign currency swaps totaled $16.5 billion and DM 5 billion. Part of the foreìgn currency acquired by way of temporary operations was again transferred to the UIC ($11.5 billion).

Sundry items on the assets side included the 4 billion lire paid to the EMI in 1994 as a contribution to the Institute's financial resources.

The item *dollar claims on the **EMI*** refers to the amount of US currency receivable at the maturity of the swap entered finto on 11 October 1994 and declined by 472 billion lire as a result of the fall in the exchange rate and the reduction in the quantity of dollars transferred to the EMI under the aforementioned swap. The overall movement in gold and dollar claims on the EMI is equal to the increase in the liabilities item *ecu liabilities towards the **EMI.***

The balance of the asset item *ordinary current account with the UIC* decreased by 3,392 billion lire, while that of the *special accounts with the UIC* increased by 495 billion. The liabilities item *external accounts in lire on behalf of the UIC,* which includes the lira accounts held by the International Monetary Fund, increased by an equal amount.

External liabilities decreased by a total of 195 billion lire.

The Bank's holdings of *government and government-guaranteed securities* amounted to 192,007 billion lire and included 76,206 billion of securities issued to the Bank to convert the Treasury's former current account. Excluding the aforementioned conversion securities, the portfolio included 14,297 billion of Treasury bills, 29,086 billion of Treasury credit certificates and the like, and 72,007 billion of Treasury bonds.

The balance of the *Treasury's payments account* rose from 30,670 billion lire when it was set up at the end of 1993 to 58,018 billion at the end of last year. This large increase was due to the high level of net subscriptions of government securities and the curbing of the state sector borrowing requirement.

The newly created *sinking fund for government securities* amounted to 5,921 billion lire at the end of the year. The fund is to be used to redeem government securities either by way of market purchases or at maturity from 1 January 1995 onwards.

Other claims on and liabilities towards the Treasury. — Sundry claims on the government decreased by 417 billion lire and consisted almost entirely of claims arising from the Bank's role as paying agent for securities denominateti in ecus.

Sundry liabilities towards the government totaled 998 billion lire and consisted mostly of the last instalment of the financial revenues that accrued to the Treasury in 1994 (815 billion, paid in March 1995) and the 125 billion arising from the Bank's role as paying agent for Treasury credit certificates.

Starting in 1994, the item *sundry assets* includes the claim of 2,894 billion lire that arose in connection with the termination of the Bank's rediscounting of stockpiling bills.

Cash on hand, comprising coins and notes issued by the Treasury, amounted to 4 billion lire.

The new items *claims arising from securities repurchase agreements* and *liabilities arising from securities repurchase agreements* amounted to 44,617 and 875 billion lire respectively.

Claims on and liabilities towards banks. — Fixed-term advances increased by 399 billion lire, while *current account advances* were virtually unchanged. The *bili portfolio* declined by 81 billion.

Among the Bank's liabilities towards banks, *reserve deposits on current account* fell by 16,557 billion lire. The amount of these deposits reflects the compulsory reserves that banks have mobilized and the deposits in excess of the reserve requirement.

The reduction in the average amount of compulsory reserves reflects the fall of 3 per cent in the average requirement following the entry finto force in July of the new compulsory reserve regime, which reduced the compulsory reserve ratio from 17.5 to 15 per cent, exempted from the requirement both the first 200 billion lire of deposits and certificates of deposit not redeemable for 18 months or more, and provided for a graduai increase in the proportion of mobilizable reserves.

Banknotes and *Bank of Italy drafts* in circulation increased by 6,517 and 243 billion lire respectively.

Among the other asset items: *intangible fixed assets (net of amortization)* rose from 60 to 87 billion lire (75 billion of completed procedures, studies and projects, and 12 billion of other deferred charges); *tangible fixed assets* (buildings, furniture and fittings, equipment, and coins and collections) rose from 3,201 to 3,271 billion net of depreciation, primarily as a result of 33 billion of purchases of buildings and 107 billion of capitalized restructuring costs; and *accrued income and prepayments* increased by 264 and 7 billion respectively.

On the liabilities sfide: *accrued expenses and deferred income* amounted to 379 and 296 billion lire respectively; *sundry provisions* rose by 2,534 billion as a result, on the one hand, of 3,792 billion of allocations to provisions, 4,319 billion arising from the revaluation of gold and 1,079 set aside to pay the tax for the year, and, on the other, of 6,628 billion of withdrawals from provisions (2,980 billion from the tax provision and 3,648 billion from the provision for losses on securities) and 28 billion arising from the adjustment to holdings of foreign currency on the basis of year-end exchange rates in accordance with Article 104(1c) of the income tax code.

The bank's capital and reserves

Capital. — The distribution of the Bank's shares among the various categories of shareholder is shown below.

SHAREHOLDINGS

	At 31 December 1993			At 31 December 1994		
	Number	Shares held	Votes	Number	Shares held	Votes
Shareholders with voting rights	**90**	**298,487**	**769**	**90**	**298,487**	**769**
Public law credit institutions	1	7,500	19	1	7,500	19
Banks of national interest	2	16,000	40	–	–	–
Limited company banks	79	228,487	585	81	244,487	625
Social security institutions	1	15,000	34	1	15,000	34
Insurance companies	7	31,500	91	7	31,500	91
Shareholders without voting rights ...	**8**	**1,513**	–	**8**	**1,513**	–
Total ...	**98**	**300,000**	**769**	**98**	**300,000**	**769**

Reserves. — The movements in the ordinary and extraordinary reserves in 1994 are shown below.

MOVEMENTS IN THE ORDINARY AND EXTRAORDINARY RESERVES

	Ordinary reserve	Extraordinary reserve
Balance at 31 December 1993	**2,450,211,197,175**	**2,650,232,881,136**
increase:		
due to appropriation of 20 per cent of profits for the year 1993	145,985,830,450	145,985,830,450
due to income received in 1994 from investment of reserves	285,590,696,244	316,269,435,905
decrease:		
due to distribution to shareholders of a part of the income accruing in the course of 1993 (Article 56 of the Statutes)	2,140,362,945	2,299,637,055
Balance at 31 December 1994	**2,879,647,360,924**	**3,110,188,510,436**

Information on the profit and loss account

As a result of the aforementioned changes in the method of accounting for repurchase agreements on domestic securities and other accounting policies, the following profit and loss account items for 1994 are not comparatile with those for 1993: *interest, premiums and dividends on securities; securities issue discounts; profits on securities; profits on disposals; losses on securities; and losses on disposals.*

Total *interest received* decreased by 537.1 billion lire, primarily owing to the falls of:

— 275.6 billion in *interest on lending to UIC;* and

— 259.7 billion in *interest on lending abroad.*

Interest on discounts and advances declined from 192.3 to 169.8 billion lire, almost exclusively as a result of the fall of 44 billion in interest on fixed-term advances.

Interest, premiums and dividends on securities amounted to 12,474.8 billion lire. The interest and premiums on freely available government and government-guaranteed securities amounted to 11,468.5 billion; the average rate of return, excluding the securities issued to the Bank to convert the overdraft on the Treasury's former current account, was equal to 11 per cent. The interest and dividends on the securities acquired for the investment of provisions declined by 16.7 billion, and the average rate of return dropped to 10.6 per cent.

The new *item financial revenues arising from repurchase agreements* amounted to 3,777.8 billion lire and comprised the issue discounts and interest that accrued on the securities acquired and the related price differentials.

Securities issue discounts amounted to 461.3 billion lire and *profits on securities* to 2,081.5 billion.

Income from participation in the UIC endowment fund declined by 297.5 billion lire as a result of the fall in UIC 's net profit from 1,349 billion in 1993 to 159 billion last year.

Profits on foreign exchange fell by 932.5 billion, from 1,368 to 435.5 billion; this result primarily reflected a gain of 583.5 billion on US dollars and a loss of 122.1 billion on Deutsche Marks.

Administrative costs increased by 3.6 per cent; *wages and salaries and related costs* rose by 30.4 billion lire or 2.9 per cent. *Pensions and severance payments* declined by 15.7 and 36.4 billion lire respectively. The emoluments paid to members of the *central and local boards,* including the Board of Directors and the Board of Auditors, declined from 6.8 to 3.8 billion lire.

Taxes and duties fell by 1,969.3 billion lire, primarily owing to the decrease of 1,903.2 billion in taxes on income for the year, which, in turn, was mostly due to the 3,647.6 billion writedown of securities. The stamp duty on the circulation of notes and Bank of Italy drafts increased by 27.2 billion.

Interest paid rose by 2,945.2 billion lire, reflecting, *inter alia,* the increase of 4,110.2 billion in the interest paid on Treasury accounts and the decrease of 678.6 billion in the interest paid on banks' compulsory reserves. The latter result was due to the reform of the compulsory reserve regime having reduced both the average amount of the reserve requirement (from 106,599 to 103,387 billion lire) and the average remuneration (from 6.1 to 5.6 per cent).

The new item *financial costs arising from securities repurchase agreements* amounted to 67.1 billion lire. *Contributions to charities and social and cultural activities* rose from 2.9 to 32.8 billion lire, primarily in connection with the implementation of the initiatives approved on the occasion of the Bank's centenary.

Expenditure on transactions with the Treasury diminished by 258.6 billion lire, reflecting, *inter alfa:*

— the narrowing (from 2.13 to 1.95 percentage points) of the reference rate, based on the differential between the yield on claims on the Treasury and the remuneration of compulsory reserves, as a result of the yield on government securities having fallen more than the rate paid on compulsory reserves; and
— the fall in the reference amount, set equal to the average amount of the reserve requirement.

The item *attribution of investment income to reserves* rose from 578.7 to 601.8 billion lire and comprised the income arising from the investment of the Bank's ordinary and extraordinary reserves, which is attributed to the reserves in accordance with Artide 55 of the Statute.

Allocations to provisions rose from 2,385.9 to 3,791.4 billion lire and were determined on the basis of a prudential assessment of the relevant risks and charges.

Accounting policies

GOLD AND FOREIGN CURRENCY ASSETS:

— gold is stated in accordance with the valuation method established by a Ministerial Decree of 23.3.1979 (which implemented Decree Law 867/1976, ratified as Law 42/1977), whereby the price adopted is that of the last swap of gold for ecus entered into with the EMI. Valuation differences that arise are taken to the provision for gold price fluctuations (under Decree Law 867/1976 and Art. 104(1b) of the income tax code).
— exchange rate gains and losses on foreign currency assets are determined by the application of the LIFO method with annual intervals;
— assets denominated in foreign currency are translated at year-end exchange rates. Deficits with respect to cost are charged to the provision for diminution in value of foreign exchange; surpluses are taken to the provision for exchange rate adjustments (under Art. 104(1c) of the income fax code).

SECURITIES NOT HELD AS FINANCIAL FIXED ASSETS:

— the gains and losses on such securities are determined by the application of the LIFO method with annual intervals;

— listed securities are stated at the lower of cost and market value, determined on the basis of the arithmetic mean of the market prices recorded in the last month of the year;

— unlisted bonds are stated at the lower of cost and market value, determined on the basis of the arithmetic mean of the prices of listed securities with comparatile features recorded in the last month of the years; securities acquired in the last month of the year and those redeemable in the next financial year are not written down;

— unlisted shares are stated at the lower of cost and the corresponding proportion of the shareholders' equity shown in the latest published accounts of the investee company;

— Treasury bills are stated at cost, determined as the face value plus or minus the difference between the interest entered in the books (at the allotment rate) and that actually earned (at the contractual rate).

SECURITIES HELD AS FINANCIAL FIXED ASSETS:

— profits/losses arising from the disposal of such securities are determined on the basis of cost;

— listed and unlisted bonds are stated at cost or written down to take account of special circumstances concerning the issuer;

— listed shares are stated at the lower of cost and market value, determined on the basis of the arithmetic mean of the prices recorded in the last six months of the year;

— unlisted shares are stated at the lower of cost and the corresponding proportion of the shareholders' equity shown in the latest published accounts of the investee company.

Amounts written off securities, whether held as financial fixed assets or otherwise, as a result of the application of the foregoing methods are charged to the provision for losses on securities. For the year ended 31 December 1994, the charge amounted to 3,648 billion lire.

VALUE READJUSTMENTS TO SECURITIES:

— amounts written off securities in the previous year are written back, up to the cost of the securities, when the conditions that determined the writeoff no longer obtain.

ISSUE DISCOUNTS ON SECURITIES:

— For bonds subscribed since 1 December 1983, the issue discount recognized in each year is the portion of the difference between the issue price and the redemption value that accrues during the year. For bonds that will be redeemed in full at maturity, the portion is determined on a straight line basis over the period to the maturity date of the issue; for Treasury discount certificates and securities that will be redeemed over a period, the portion is determined in relation to the features of the issue and varies from year to year.

FUTURES CONTRACTS:

— income in respect of contracts that have been partly or wholly closed out or that have matured is determined by the application of the continuous daily LIFO method;

— contracts are valued at the lower of market value and the originally agreed price for purchases and at the higher of market value and the originally agreed price for sales; negative differentials on purchases and positive differentials on sales are taken to profit and loss account.

INTANGIBLE FIXED ASSETS:

PROCEDURES, STUDIES AND DESIGNS:

— the related capitalized costs are amortized on the basis of the allowances established for tax purposes since these are appropriate in relation to the estimated useful lives of the assets.

OTHER DEFERRED CHARGES:

— software licence fees are amortized on a straight line basis over the period of the licence or, in the case of licences granted for an indeterminate or exceptionally long period, over the estimated useful life of the product, which is taken to be equal to three years;

— costs incurred in installing and enlarging communications networks and lump-sum payments under multi-year contracts are amortized on a straight line basis according to the estimated useful life of the network for the former and the duration of the contract for the latter;

— capitalized costs incurred in the restructuring of rented premises are amortized on a straight line basis over the residuai duration of the contract.

TANGIBLE FIXED ASSETS:

BUILDINGS:

— buildings are stated at cost inclusive of the amounts of revaluations effected under specific laws. Depreciation of the buildings used by the

Bank for its institutional purposes is charged on the basis of the allowances established for tax purposes since these are appropriate in relation to the estimated useful lives of the assets. The same method is adopted for buildings that represent investments of the staff severance pay provision and pension fund and which meet the requirements of Article 40(2) of the income tax code. In 1994 the Bank again took advantage of the possibility of charging accelerated depreciation under Article 67(3) of the income tax code. The amount in excess of the depreciation on an economic basis (4.4 billion lire) was taken to the related reserve.

FURNITURE, FITTINGS AND EQUIPMENT

— furniture, fittings and equipment are stated at cost. Depreciation is charged on a straight line basis using the allowances established for tax purposes since these are appropriate in relation to the estimated useful lives of the assets.

ALLOCATION OF THE NET PROFIT

Pursuant to Articles 54 and 57 of the Statute and after hearing the report of the Board of Auditors, the net profit for 1994 of 826,409,346,651 lire has been allocated as follows (amounts in lire):

as resolved by the Board of Directors:	
- 20 per cent to the ordinary reserve	165,281,869,330
- an amount equal to 6 per cent of the share capital to shareholders	18,000,000
as proposed by the Board of Directors and approved by the Minister of the Treasury:	
- an additional 20 per cent to the extraordinary reserve	165,281,869,330
- an additional amount equal to 4 per cent of the share capital to shareholders	12,000,000
- the remaining amount to the Treasury	495,815,607,991
TOTAL	826,409,346,651

Pursuant to Article 56 of the Statute, the Board of Directors has also proposed the distribution to shareholders - drawing on the interest earned on the ordinary and extraordinary reserves - of an additional 5,100.3 million lire, equal to 1,700.3 per cent of the share capital and to 0.1 per cent of the total reserves at 31 December 1993.

This dividend is to be considered as distributed from the reserves referred to at point 1 of Article 2(6) of Law 649/1983 and is therefore not subject to the additional tax provided for in such law.

Accordingly, the total dividend for 1994 is equal to 5,130.3 million lire, corresponding to 17,101 lire per share.

THE GOVERNOR
Antonio Fazio

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1994

DIRECTORATE

Antonio FAZIO	— GOVERNOR AND CHAIRMAN OF THE BOARD OF DIRECTORS
Vincenzo DESARIO	— DIRECTOR GENERAL
Tommaso PADOA-SCHIOPPA	— DEPUTY DIRECTOR GENERAL

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Mario SARDELLA
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* Member of the Executive Committee

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Franco Gaetano SCOCA

ALTERNATES

Raffaele D'ORIANO
Piergaetano MARCHETTI

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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
Pietro DE VECCHIS	— CHIEF LEGAL ADVISER

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

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