BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY, 1996

ABRIDGED REPORT
FOR THE YEAR
1995

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RECENT DEVELOPMENTS AND ECONOMIC POLICIES IN THE INDUSTRIAL COUNTRIES

Slower growth in the leading industrial countries

In the United States the economic expansion that has been under way for more than four years continued, although GDP growth slowed down to 2.0 per cent (Table 1). The monetary tightening initiated by the Federal Reserve in February 1994 made it possible to bring the increase in output into line with the economy's potential, estimated by the Administration at just above 2 per cent. The slowdown, which was accentuated by destocking, involved both consumer expenditure, which rose by 2.4 per cent, and investment in machinery and equipment, which grew by 10.5 per cent.

In Japan the economy stagnated for the fourth consecutive year, with annual growth of only 0.8 per cent in 1995. The effects of the earthquake that struck the important industrial area of Kobe in January and a further marked appreciation of the yen in the first few months of 1995 resulted in a contraction of GNP in the first half of the year. In subsequent months a more expansionary monetary policy stance, a programme of measures to stimulate the economy and an improvement in confidence fostered a revival of domestic demand.

In the European Union GDP increased by 2.5 per cent, but the vigorous expansion of 1994 slackened considerably, with the year-on-year rate of growth falling from 3.6 per cent in the first quarter to just over 1 per cent in the fourth. The slowdown stemmed from the reduction in stocks following the previous prolonged build-up. In the second half of the year investment was affected noticeably by the rise in real interest rates that had occurred in 1994.

Table 1

DEMAND AND GROSS PRODUCT
IN THE LEADING INDUSTRIAL COUNTRIES
(at constant prices)

	1993	1994	1995	1995	
				H1	H2
United States					
GDP (1)	2.2	3.5	2.0	1.2	2.0
Domestic demand (2) (3)	2.9	4.0	2.1	1.6	1.5
Net exports (3)	–0.7	–0.5	–0.1	–0.4	0.5
Japan					
GNP (1)	0.1	0.5	0.8	–0.4	3.3
Domestic demand (2) (3)	0.1	0.8	1.5	0.1	4.9
Net exports (3)	. .	–0.3	–0.7	–0.5	–1.6
Germany					
GDP (1)	–1.2	3.0	2.1	2.2	0.9
Domestic demand (2) (3)	–1.3	2.9	1.8	1.7	. .
Net exports (3)	0.1	0.1	0.3	0.5	0.9
France					
GDP (1)	–1.3	2.8	2.2	2.4	–0.3
Domestic demand (2) (3)	–2.2	3.0	2.0	1.6	0.6
Net exports (3)	0.9	–0.2	0.2	0.8	–0.9
Italy					
GDP (1)	–1.2	2.1	3.0	2.7	2.7
Domestic demand (2) (3)	–4.6	1.6	2.3	0.8	4.0
Net exports (3)	3.4	0.5	0.7	1.9	–1.3
United Kingdom					
GDP (1)	2.3	3.7	2.4	2.0	1.9
Domestic demand (2) (3)	2.2	2.8	1.7	1.0	2.4
Net exports (3)	0.1	0.9	0.7	1.0	–0.5
Canada					
GDP (1)	2.2	4.6	2.2	1.5	0.6
Domestic demand (2) (3)	1.9	3.5	1.2	2.1	–1.1
Net exports (3)	0.3	1.1	1.0	–0.6	1.7
Total for the seven leading industrial countries					
GDP (1)	1.0	2.8	2.0	1.4	1.9
Domestic demand (2) (3)	1.0	3.0	1.9	1.3	1.9
Net exports (3)	. .	–0.2	0.1	0.1	. .
EU					
GDP (1)	–0.6	2.9	2.5	2.7	0.8
Domestic demand (2) (3)	–1.8	2.6	2.2	1.8	1.6
Net exports (3)	1.2	0.3	0.3	0.9	–0.8

Sources: OECD, European Commission and national statistics.

(1) Annualized percentage changes over the preceding period. – (2) Including changes in stocks. – (3) Contribution to the increase in gross product, in percentage points.

In Germany GDP increased by 2.1 per cent; investment growth of only 1.7 per cent was accompanied by a pronounced slowdown in exports. In France output rose by 2.2 per cent; stagnation in the second half of the year reflected a 2.3 per cent decrease in exports and slower growth in consumer and investment expenditure, both of which rose by less than 1 per cent. Economic activity contracted in the fourth quarter in both countries owing to a fall in domestic demand. Consumer and business confidence, which had been declining since the spring, deteriorated further. In the United Kingdom GDP growth slowed down to 2.4 per cent as a result of weaker foreign demand and a deceleration in consumption. In Italy and Spain the growth in GDP was more sustained, at around 3 per cent, and was fueled by the good performance of exports and investment.

In the current recovery, which began in the first quarter of 1994, the largest contribution to GDP growth in the EU has come from exports of goods and services. Investment has been checked by the rise in real interest rates in 1994, the weakness of consumer spending and the uncertain outlook for foreign demand.

Unemployment remains high, despite the recovery in economic activity. The unemployment rate averaged 6.9 per cent in the leading industrial countries at the end of 1995, slightly higher than at the beginning of the year. Only in the countries where the expansion is now well advanced has there been any appreciable improvement. In Canada and the United Kingdom the unemployment rate, which has been declining since 1993, fell further to 9.4 and 8.0 per cent respectively in December 1995. In the United States it has stabilized at around 5.6 per cent, the level considered consistent with non-inflationary growth.

The unemployment rate in the EU began to rise again in the last quarter, reaching 11.3 per cent in December, barely below the 1994 peak of 11.5 per cent. The increase of 0.6 per cent in the number of jobs was insufficient to have a serious impact on the high level of unemployment (which fell from 19 to about 18 million), owing in part to growth of 0.4 per cent in the labour force. Employment rose by about 1 per cent in France and the United Kingdom. Spain, Sweden, Norway and Finland fared better, with increases of more than 2 per cent, but in Germany and Italy the number of jobs declined by 0.2 and 0.5 per cent respectively.

Inflation in the industrial countries remained at the lowest levels for the past thirty years, thanks to prudent monetary policies, favourable trends in unit labour costs and a slowdown in demand growth. A rise of about 9 per cent in the dollar prices of raw materials was offset by the depreciation of the dollar.

Consumer prices rose by 2.4 per cent in the industrial countries as a whole. In the United States, despite high utilization of resources, inflation remained below 3 per cent. In Japan, deflation was accentuated by the sharp appreciation of the yen in the first few months of the year and the weakness of demand. Producer prices, which have been declining since 1991, were 5.4 per cent lower in December than they had been five years earlier. Consumer prices also diminished, by an annual average of 0.1 per cent.

Consumer price inflation in the European Union was 3.1 per cent. In Germany and France it came down to 1.8 per cent, and in the countries whose currencies depreciated significantly in the early part of the year restrictive monetary policies succeeded in containing the pressure on prices.

Economic policies

Fiscal policies. — The aggregate general government deficit of the industrial countries fell slightly in 1995, from 3.8 to 3.6 per cent of GDP. There was an improvement in all the countries except Germany, where the effects of the weakness of economic activity were more pronounced, and Japan, where budgetary policy was directed towards stimulating the economy. With real interest rates significantly higher than rates of economic growth, the increase in the ratio of public debt to GDP by more than two percentage points to 71 per cent underlines the need for more incisive measures to readjust the public finances.

In the United States the federal budget deficit declined from $203 billion to $164 billion, or 2.3 per cent of GDP, the best result since 1989. The surplus of the social security system increased from $57 billion to $62.4 billion. Excluding net interest payments, the federal budget showed a surplus of $68 billion, equal to 1 per cent of GDP.

In Japan the general government deficit increased further, from 3.6 to 4.2 per cent of GDP (from 7.1 to 7.7 per cent net of the surplus of the social security system) owing to the stagnation of economic activity and stimulatory measures taken in May and September.

The general government deficit of the EU countries fell by only half a point to 5.0 per cent of GDP. The slowdown in activity in the second half of the year dampened the positive effects of restrictive fiscal policies. Public debt rose by 3 percentage points to about 70 per cent of GDP. In Germany the deficit increased from 2.5 to 3.5 per cent of GDP. The ratio of public debt to GDP rose by nearly 8 percentage points to 58 per cent, owing partly to the transfer of the liabilities of the Treuhand agency to the Redemption Fund for Inherited Liabilities, which is included in the federal budget. In France the deficit fell from 5.8 to 5.0 per cent of GDP, thanks primarily to the smallness of the growth in public expenditure (2.1 per cent) and sharp increases in indirect taxes. In the United Kingdom the deficit declined by almost 2 percentage points to 4.7 per cent of GDP but remained higher than the objective of 3.8 per cent, primarily because growth was slower than expected.

According to OECD estimates, the general government deficit of the industrial countries should remain virtually unchanged in 1996, at 3.5 per cent of GDP. The situation is expected to worsen in Japan and Germany and to improve only slightly in the other leading countries.

Under the budget measures approved at the end of April, the federal deficit in the United States should fall further to $154 billion, or 2.1 per cent of GDP. There is still uncertainty about the means of adjusting the public finances owing to continued disagreement between the Administration and Congress over measures to balance the budget by 2002.

In Japan the general government deficit is expected to increase to 4.7 per cent of GDP despite forecasts of a strengthening of the recovery, as the tax concessions introduced in 1994 have been extended to the current fiscal year, entailing a loss of revenue equal to about 1.1 per cent of GDP.

The outlook for the public finances in Germany is highly uncertain owing to the sharp slowdown in activity. According to recent estimates by the EU Commission, which are based on forecast GDP growth of 0.6 per cent, the general government deficit is likely to increase to 4 per cent this year. At the end of April, signs of a further increase in the deficit in view of less favourable growth prospects prompted the German Government to submit a far-reaching readjustment plan for 1997. The proposals provide for overall savings of DM 70 million, of which DM 20 million are to come from savings on social security.

In France the finance law approved last autumn forecast a decline in the deficit to 4 per cent of GDP in 1996 on the assumption of GDP growth of 2.8 per cent. Recent estimates by the EU Commission, which assume a growth rate of only 1.2 per cent, envisage a less marked decline in the deficit to 4.4 per cent. In November 1995 the Government submitted a plan for reform of the social security system to limit the deficit to FF 17 billion this year and produce a surplus of FF 12 billion in 1997.

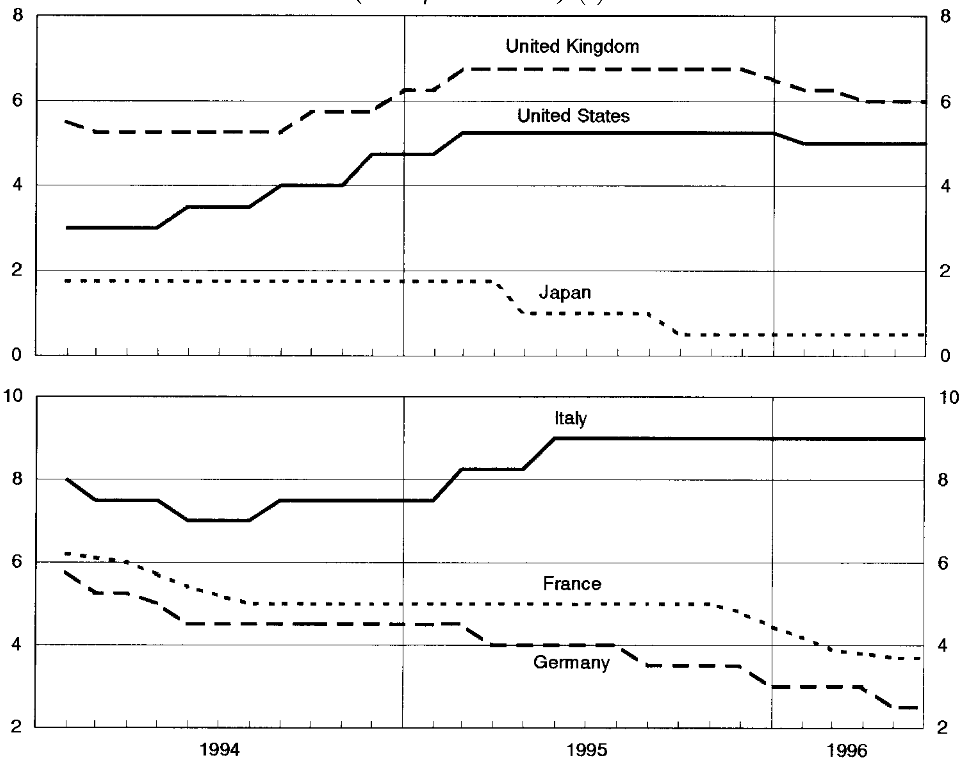
Monetary policies. — During the early months of last year the monetary policies of the United States, Japan and Germany were influenced by turbulence in the foreign exchange markets; official interest rates were raised in the United States and lowered in Japan and Germany, chiefly to counter the depreciation of the dollar. In the second half of the year the restoration of more appropriate exchange rates and the absence of inflationary pressures made it possible to ease monetary policies in order to offset the weakness of economic activity and, in Japan, to foster an improvement in the capitalization and profitability of the banks.

In February 1995 the Federal Reserve in the United States tightened the restrictive stance it had adopted at the beginning of 1994 by raising the discount rate from 4.75 to 5.25 per cent (Figure 1); the federal funds rate rose to 6.0 per cent. The strengthening of the dollar during the summer, the persistence of moderate inflation and a sharper than expected slowdown in economic activity subsequently led the authorities to change tack; between July and December the federal funds rate came down by about half a point.

Figure 1

OFFICIAL INTEREST RATES (1)

(end-of-month data) (2)



(1) For the United Kingdom, base rate; for France, intervention rate; for other countries, discount rate. – (2) For May 1996, last available data.

The Bank of Japan adopted a decidedly expansionary stance. In mid-April, when the appreciation of the yen was greatest, the discount rate was lowered from 1.75 to 1 per cent. The fall in prices and the deepening of the crisis in the banking system prompted a further reduction at the beginning of September to 0.5 per cent, the lowest rate recorded in the leading industrial countries since the Second World War. From July onwards the stimulatory measures were reinforced by substantial injections of liquidity on the interbank market; the overnight rate was held consistently below the discount rate.

In Germany the slowdown in money supply growth, the fall in inflation and the strengthening of the mark enabled the Bundesbank to reduce the discount rate from 4.5 to 3 per cent in three stages in March, August and December. During the year short-term market rates fell from 5.2 to 3.8 per cent.

Monetary policies in the other ERM countries were tightened in the first quarter of 1995 to counter speculative pressure within the EMS but were subsequently eased, except in Spain. The French authorities supported a gradual decline of short-term interest rates, which fell from 8.0 per cent in March to 5.6 per cent in December; over the same period the differential vis-à-vis Germany narrowed by more than one percentage point to 1.7 points.

In the United Kingdom the base rate was increased from 6.25 to 6.75 per cent in February, but monetary conditions were kept unchanged thereafter, despite the slowdown in the economy, in order to curb inflationary pressure generated by the depreciation of sterling. It was not until December that the base rate was lowered slightly, to 6.50 per cent, following the recovery in the exchange rate and a slowdown in inflation in the last quarter. Official interest rates in Italy and Sweden were likewise raised in the first half of the year to counter rising inflation.

The return to more stable conditions in the currency markets and moderate inflation favoured further reductions in official and market interest rates in the first few months of this year. In January the Federal Reserve eased monetary conditions by reducing the discount rate to 5 per cent and the federal funds rate to 5.25 per cent in view of signs of a slowdown in activity. However, the announcement of better-than-expected employment figures from March onwards convinced the markets that monetary conditions would not be eased further.

In Germany the Bundesbank first encouraged a decline in short-term rates to 3.3 per cent, close to the bottom of the "corridor" between the discount and lombard rates. On 19 April it then reduced the latter to 4.5 per cent and the discount rate to 2.5 per cent, a level recorded only once before, in 1988. In France the intervention rate was lowered from 4.45 to 3.7 per cent between the end of 1995 and mid-May. Over the same period the base rate in the United Kingdom was brought down from 6.5 to 6 per cent and in Spain the "marginal" rate was cut from 9 to 7.5 per cent. Reference rates were also lowered in many other EU countries.

The targets announced for 1996 in the leading industrial countries reaffirm the anti-inflationary stance of monetary policy. The Federal Reserve has confirmed ranges of 1-5 and 2-6 per cent for the growth in M2 and M3, which are compatible with increases in nominal income and consumer prices of 4-5 and 2.5-3 per cent respectively. The Bundesbank has set a target range of 4-7 per cent for the growth in M3, consistent with medium-term growth in output and consumer prices of 2.5 and 2 per cent respectively. The Bank of France has set a limit of 2 per cent for consumer price inflation, the same as last year; the objective will be pursued by fostering a stable exchange rate for the franc within the ERM and keeping the growth of M3 below 5 per cent over the medium term.

EXCHANGE RATES
AND THE INTERNATIONAL FINANCIAL MARKETS

The exchange rates of the dollar, the yen and the German mark

In the first four months of 1995 the dollar depreciated by 10 per cent in effective terms and was particularly weak against the German mark and the yen, falling to record lows of DM 1.34 on 8 March and ¥79.7 on 19 April. Its subsequent recovery reduced the effective depreciation to 2.6 per cent at the end of the year. The behaviour of the other two leading currencies was a mirror image of that of the dollar: in April the effective appreciation of the mark and the yen since the beginning of the year reached respectively 6 and 20 per cent, but by December the mark was only 3 per cent higher than a year earlier and the yen was showing a depreciation of 5 per cent.

The decline in the value of the dollar in the early part of the year, which was a period of pronounced turbulence in the foreign exchange markets, fitted into a downward trend that is attributable to the United States' large current account deficits and the consequent increase in the country's external debt. It was also partly due to contingent factors, such as the ramifications of the Mexican financial crisis and the expectation, which proved unfounded, that the end of monetary tightening by the Federal Reserve would be followed by a reduction in interest rate differentials in favour of the dollar.

The return of calmer conditions in the currency markets allowed the dollar to recover during the summer, buoyed by the disappearance of the risk of an economic slowdown in the United States, the easing of monetary conditions in Germany and the start of economic recovery in Japan. The latter, together with the attenuation of the trade disputes between the United States and Japan, improved the prospects for an orderly reduction in Japan's surplus, especially with the United States.

In the first few months of 1996 the expectations of more vigorous economic growth in the United States than in the European Union and of a further increase in the short-term interest rate differential in favour of the United States were reflected in a strengthening of the dollar, which by the end of April had appreciated by 1.5 per cent in effective terms from the beginning of the year to stand at DM 1.53 and Y104.3.

The sharp fall in the value of the dollar in early 1995 was countered by exchange market intervention, principally by the Bank of Japan, which proved to be of limited effectiveness owing to a lack of agreement among the authorities on the exchange rates consistent with an orderly reduction in the external imbalances of the United States and Japan. Intervention met with greater success during the summer, when the central banks of the industrial countries acted in concert and took care to support spontaneous upward movements of the dollar.

The European Monetary System

The depreciation of the dollar at the beginning of the year had repercussions on the exchange rates between the European currencies, generating tension within the Exchange Rate Mechanism of the EMS. With the exception of the Dutch guilder and the Austrian schilling, which joined the ERM on 9 January 1995, all the currencies weakened against the mark despite support from their respective central banks in the form of exchange market intervention and a tightening of liquidity, which caused short-term interest rate differentials vis-à-vis Germany to widen. On 6 March the tensions led to the devaluation of the peseta and the escudo, even though neither Spain nor Portugal had suffered an appreciable loss in competitiveness. The subsequent recovery of the dollar and the fall in German money market rates fostered an appreciation of the other European currencies against the mark and helped to reduce short-term interest rate differentials with Germany; the dispersion of the currencies within the fluctuation band diminished considerably.

At the end of September the temporary weakening of the dollar and uncertainties about European unification gave rise to a fresh bout of exchange rate tensions focusing on the French franc, which fell to FF 3.54 to the mark, as against a central rate of FF 3.35. The tightening of monetary conditions by the Bank of France, the recovery of the dollar and the budgetary measures taken by the French Government helped to bolster the franc, which by the end of November had returned to its level of mid-September. In December the reduction in official interest rates in Germany stimulated an appreciation of most of the European currencies against the mark, a tendency that continued in the first few months of 1996: at the end of April the French franc, the Spanish peseta and the Danish krone were respectively 1.2, 1.8 and 0.4 per cent stronger than at the turn of the year.

The non-ERM currencies were also affected by the changing fortunes of the dollar, weakening against the mark in the early part of 1995 and strengthening thereafter. The maximum depreciation of the pound sterling, the Swedish krona and the lira against the mark amounted to respectively 9, 12 and 18 per cent in relation to their end-1994 exchange rates; by the end of April 1996 sterling had recovered half of its loss of value, while the lira and the Swedish krona showed an appreciation of 2 and 8 per cent respectively.

The international financial markets

Long-term interest rates declined in the leading industrial countries in 1995. The fall amounted to 220, 190 and 180 basis points in the United States, Japan and Germany respectively and averaged 150 basis points in the other European countries. In the United States the fall in yields reflected the markets' conviction that the tightening of monetary conditions by the Federal Reserve had prevented the economy from overheating and initiated a period of non-inflationary growth; in Europe it was in response to the slowdown in growth and the easing of monetary policy, which confirmed the absence of inflationary pressures.

During the period of rising interest rates in 1994, yield differentials between German bonds and those of other European countries widened considerably, owing partly to different increases in inflation risk premiums; in 1995, however, they failed to narrow as yields came down, and in the case of British gilts the differential rose from 100 to 140 basis points.

In December 1995 long-term yields in the United States and Germany were respectively 5.6 and 6.1 per cent, close to the lowest levels of 1993; in Japan they had crossed this threshold to stand at 2.9 per cent. Although they had also come down in Italy, the United Kingdom and France, they remained more than 1 percentage point above the lows of 1993, at 10.9, 7.5 and 6.6 per cent respectively.

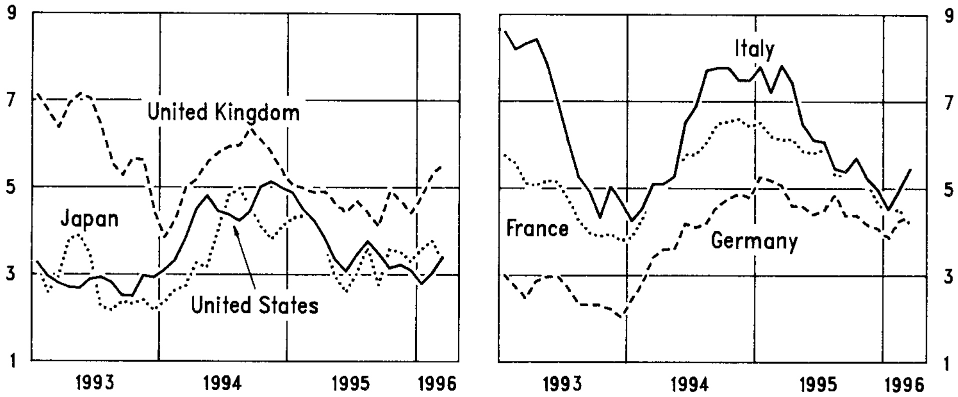
Adjusted for current inflation, long-term yields showed similar falls to those in nominal yields. They nonetheless remain high owing to continued uncertainty, especially about the outlook for the public finances in view of the underlying trends of expenditure and transfer payments. Furthermore, they continue to be higher than economic growth rates; at the end of last year they stood at 4.5 per cent in Europe and around 3 per cent in the United States, where GDP growth was faster (Figure 2).

The easing of monetary conditions fostered a decline in short-term interest rates, which was nonetheless smaller than that at the long end of the market. The yield curve consequently flattened both in the United States and to a lesser extent in Europe. In America the yield differential between 10-year bonds and 3-month Euro-deposits narrowed from 160 to 10 basis points in the course of the year; in Germany it declined by 50 basis points to 220, whereas in Japan it remained unchanged at 230.

Figure 2

REAL LONG-TERM INTEREST RATES (1)

(average monthly data)



(1) Nominal yields are deflated using the rate of increase in consumer prices in the preceding twelve months.

The decline in long-term rates came to a halt in the early weeks of this year. By April rates had risen by around 90 basis points in the United States, 50 in the United Kingdom, 40 in Germany and 30 in Japan. Italy was the only country in which they declined significantly.

The strong performance of stock markets was consistent with expectations of price stability and economic growth. The indices of the leading share markets rose considerably, partly in response to the benefits that indebted companies derived from the reduction in short-term interest rates. The US and UK indices improved the most, rising by 34 and 19 per cent respectively. The bullish trend carried over into the first four months of 1996.

Last year saw a pause in the rapid growth in derivatives business, which had increased at annual rates of almost 40 per cent since the beginning of the nineties. At the end of the year the notional value of interest rate futures and options amounted to $5.9 trillion and $2.7 trillion respectively, only 1.5 and 4.5 per cent higher than at the end of 1994. The slowdown in the use of derivatives is also evident in the reductions of 5 and 8 per cent respectively in the turnover of futures and options on organized exchanges.

International banking activity continued to grow rapidly. Lending increased by $810 billion overall, and by $370 billion if interbank loans are excluded. At the end of the year outstanding loans totaled $7.9 trillion ($4.6 trillion excluding interbank operations). Cross-border deposits also increased considerably, rising to $7.8 trillion, or $1.7 trillion net of interbank business.

WORLD TRADE AND THE BALANCE OF PAYMENTS

World trade

The volume of world trade increased by nearly 9 per cent in 1995, growing more than twice as rapidly as output.

In the United States the deceleration in domestic demand led to a slowdown in the rate of growth of imports, which increased by 9.2 per cent in volume, 2 percentage points less than the average for the last three years, while the depreciation of the dollar stimulated export growth of 10.8 per cent. Japan's foreign trade continued to be affected by the appreciation of the yen: imports rose by 12.4 per cent in volume and exports by only 3.2 per cent. In the European Union the expansion in foreign trade was less vigorous than in 1994, largely because of the slowdown in Germany's trade: owing to the stagnation of domestic demand, the appreciation of the German mark and the weakening of economic activity in the other industrial countries, export growth fell by more than half to 4 per cent and imports increased by less than 1 per cent.

The foreign trade of the developing countries grew by 11.5 per cent. The most dynamic regions were again Asia and Latin America, where exports rose by 13.6 and 11.3 per cent respectively. In Asia imports grew by 15.2 per cent, while in Latin America the slowdown in economic activity reduced the increase to 3 per cent.

The terms of trade of the industrial countries remained unchanged in 1995, with a slight deterioration in the case of the European Union. Among the developing countries, the terms of trade of non-fuel exporters improved marginally as a result of the annual average rise in commodity prices. By contrast, there was a major decline of 7 per cent in the terms of trade of fuel exporters, although the downward trend in crude oil prices that has prevailed for the last four years was reversed in 1995.

The balance of payments

Signs of a reduction in the external imbalances of the leading industrial countries appeared during the year. The US current account deficit amounted to $153 billion, virtually the same as in 1994, although it diminished in the second half of the year. This pattern reflected the decline in the trade deficit in the course of the year on account of the slowdown in the growth of imports; the trade deficit for the year amounted to $175 billion, as against $166 billion in 1994. There was a reduction in the deficit vis-à-vis Asian countries except China, while most of the increase arose on trade with Canada and Mexico.

Japan's current account surplus declined significantly in dollar terms for the first time since 1990, falling from $129 billion to $111 billion and from 2.7 to 2.1 per cent of GNP. The rise in the deficit on services was accompanied by a fall in the surplus on merchandise trade due to the rapid growth in import volumes and a slight worsening of the terms of trade. The trade surplus with the United States declined by more than $9 billion, while that with the European Union remained virtually unchanged; by contrast, the trade surplus with the rest of Asia increased. The appreciation of the yen and the need to mitigate trade tensions with some industrial countries continued to prompt Japanese firms to transfer part of their production abroad, notably to the emerging countries of South-East Asia. This development, together with growing penetration of the domestic market by imports, should help bring about a substantial further reduction in Japan's large trade surplus.

The current account surplus of the European Union rose from $23 billion to around $64 billion, mainly as a result of an increase in the surpluses of France and Italy and a reduction in the deficit of Germany from $22 billion to $17 billion, primarily owing to an increase in its trade surplus.

It is estimated that at the end of last year the net external debtor position of the United States, excluding gold reserves, exceeded $800 billion (11.5 per cent of GDP) as a result of the country's accumulated current account deficits. Japan's net creditor position rose to nearly $750 billion, around 16 per cent of GNP, while Germany's declined slightly to $195 billion, just under 9 per cent of GDP. Among the other leading industrial countries, the external positions of Italy and France continued to improve, with their net debt falling to 5 and 3 per cent of GDP respectively. By contrast, there was a further erosion of the United Kingdom's net creditor position, which fell to around 1.5 per cent of GDP.

Capital movements were again very substantial in 1995. Foreign portfolio investment in government and corporate securities in the United States generated a net inflow of $100 billion. The increase in foreign monetary authorities' holdings of dollar-denominated assets was on the same order. By contrast, Japan recorded a net outflow of private capital of $89 billion, mostly in the form of bank capital and portfolio investment. After the lull in 1994, foreign portfolio investment in Germany recovered strongly, leading to a net inflow for the year of $30 billion.

The flow of US direct foreign investment rose to an all-time high of \$97 billion; direct investment by Germany and the United Kingdom also increased substantially, to \$35 billion and \$38 billion respectively. Similarly, Japanese investment abroad increased to \$22 billion, although this was still well below the level reached in 1990 before the collapse in the values of real and financial assets.

Direct investment has accelerated sharply since the mid-eighties in response to economic globalization, the liberalization of capital movements and, more recently, the opening-up and rapid growth of markets in some developing countries, notably in Asia and Latin America. In the last ten years direct investment has increased at an annual rate of more than 16 per cent, outstripping the growth of world exports of goods and services by nearly 9 percentage points. At the same time there has been a shift in distribution among the various branches of activity: the decline in the share of foreign investment channeled into the oil and mining industries and manufacturing has been matched by an increase in the share going into services, especially in the fields of finance, insurance and business services.

THE DEVELOPING COUNTRIES AND CENTRAL AND EASTERN EUROPE

The developing countries

In 1995 the output of the developing countries grew at a rapid rate of about 6 per cent for the fourth year in succession, although there were regional differences in performance.

In Asia GDP again increased by more than 8 per cent. The slight slowdown compared with 1994 chiefly reflected a decrease in the rate of growth of the Chinese economy from 12 to 10 per cent as a result of a restrictive monetary policy, which brought inflation down from 22 to 15 per cent and produced an improvement in the current account of the balance of payments. In Indonesia, Malaysia and Thailand inflation and current account deficits worsened under the influence of vigorous economic growth stimulated partly by inflows of foreign capital, which countered the effects of policies aimed at curbing domestic demand. In India too the strong recovery of demand led to an increase in the trade deficit, causing the currency to depreciate by more than 15 per cent in the second half of 1995, after nearly two years of substantial stability.

In Latin America the repercussions of the financial crisis in Mexico were contained. Except in Mexico and Argentina, where output contracted by 6.9 and 4.4 per cent respectively, growth amounted to around 4 per cent, compared with about 5 per cent in the preceding year. Inflation was drastically reduced, from more than 200 per cent to around 40 per cent. In Brazil the rate of increase in consumer prices plummeted from about 2,400 to 67 per cent as a result of the stabilization plan launched in July 1994, which included the introduction of a new currency pegged to the dollar. In contrast, the large devaluation of the Mexican peso caused inflation to accelerate from 7 to 35 per cent in that country. The decrease in the current account deficit for the area as a whole from $47 billion to $33 billion conceals significant differences between countries. The rapid reduction in the deficits of Mexico and Argentina contrasted with a substantial deterioration in those of Brazil, Colombia and Peru.

In Africa policies of economic stabilization and reform, combined with an improvement in the terms of trade, paved the way for faster growth, which translated into a slight increase in per capita income for the first time in five years. The recovery did not generate inflationary pressures, but led to an increase in imports and current account deficits.

Russia and Central and Eastern Europe

The recovery in economic activity in Central and Eastern Europe gained momentum, with growth averaging about 5 per cent, nearly two points higher than in 1994. The private sector is now the engine of expansion, with a contribution to GDP ranging from 40 per cent in Romania to 70 per cent in the Czech Republic. In a number of countries domestic demand provided a significant boost to growth, adding to the stimulus imparted by the increase in exports, which was partly fostered by the recovery in trade within the region. In Poland, Slovakia and Albania output increased by more than the average for the area. Growth slowed down slightly in Hungary as a result of the implementation of a rigorous economic stabilization programme. Growth was also moderate in Bulgaria, where reform has yet to take hold. In Romania monetary policy was directed at sustaining the recovery in output. For the area as a whole, the increase in economic activity translated into a deterioration in the balance of payments. In some cases, inflows of foreign capital caused a real appreciation of the currency. At the same time, inflation fell from 46 to 26 per cent.

The Russian economy began to stabilize. The fall in output slowed down significantly for the first time since the start of the reform process, declining from 15 per cent in 1994 to 4 per cent in 1995, and encouraging signs of a recovery emerged towards the end of the year. Although the Government's inflation target was not achieved, the monthly change in consumer prices fell from 18 to 3 per cent. The federal budget deficit was halved as a proportion of GDP and fell below the ceiling of 6 per cent set in the adjustment programme agreed with the IMF, even though revenue in real terms was less than expected. The establishment of an exchange rate fluctuation band of 4,300-4,900 roubles to the dollar in July made a major contribution to stabilization. In November the policy was reaffirmed until June 1996 and the band limits adjusted to 4,550-5,150 roubles. Exports performed strongly, leading to an improvement in the trade and current account surpluses, and inflows of capital were also recorded, especially at short term. These two factors, together with a reduction in the debt service burden as a result of the third restructuring agreement with official creditors of the Paris Club, brought about an increase in the official reserves. Agreement on the restructuring of Russia's debt towards commercial banks was reached in November. In April 1996 a three-year IMF programme was approved to give fresh impetus to structural reform. Progress on this front has been slower than expected, especially as regards privatization and the restructuring of the banking system, whose extreme fragility became fully apparent in 1995. To provide support to the programme, a new agreement was concluded with the Paris Club to reschedule more than $40 billion of foreign debt.

Financial flows

In 1995 net financial flows to the non-industrialized economies rose by nearly 12 per cent after stagnating in the previous year. In contrast to developments at the beginning of the decade, most of the increase was due to a recovery in official lending; as in 1994, the growth in private lending was very small.

The recovery in official long-term lending was accompanied by a sharp rise in net lending by the IMF, which increased from $1.6 billion in 1994 to $17.2 billion in 1995, mainly owing to the considerable financial support extended to Mexico and Russia.

There were differences in the behaviour of the various components of private capital flows. The flow of direct investment continued to rise, so that it now accounts for more than a third of total financing, but there was a further fall in that of portfolio investment, especially in equities, which were affected by the Mexico crisis, the recovery of stock markets in the main industrial countries and a slowdown in growth in a number of Asian countries. An improvement in lending conditions stimulated an increase in commercial bank lending and trade credit, which nevertheless still account for only a small part of overall financing. The geographical concentration of financial flows became more pronounced: more than half of foreign direct investment and portfolio investment in equities went to the South-East Asian economies, while the proportions going to Latin American countries were 20 and 28 per cent respectively. Direct investment in Central and Eastern Europe and the former Soviet Union increased markedly, with their share of the total rising from 8 to about 12 per cent.

THE ITALIAN ECONOMY

SUMMARY OF DEVELOPMENTS AND THE SHORT-TERM OUTLOOK

The results for the year

In 1995 the acceleration in investment and exports stimulated faster growth in Italy than in the other leading industrial economies; towards the end of the year, however, there were clear signs that the pace was slowing. The balance of payments improved further and Italy's net external debt again declined. Notwithstanding the growth in economic activity, the demand for labour increased only marginally, so that unemployment did not come down significantly. In the early months of the year there was a danger that the unjustifiably large depreciation of the lira and the rise in raw materials prices would trigger an inflationary spiral, given the strength of demand and the increase in indirect taxation. The rise in prices was brought down to a more moderate level in the months that followed, thanks to the restrictive stance of monetary policy, continued adherence to the agreements on labour costs and the slowdown in activity. The lira began to appreciate steadily again in the autumn.

GDP grew by 3 per cent, compared with 2.1 per cent in 1994 (Table 2). Exports of goods and services were again the fastest growing component of total demand, rising by nearly 12 per cent, but domestic investment also increased considerably last year. Capital spending on machinery, equipment and transport equipment rose by 11.5 per cent, reflecting favourable business expectations, high corporate profits and tax incentives. The high level of investment, a sizable part of which constituted capital widening, cushioned the impact of the increase in demand on capacity utilization rates.

The distinctive feature of this phase of the cycle so far has been the small growth in households' consumption. Domestic consumption rose by 1.7 per cent and contributed only one third of the total increase in GDP; national consumption, which excludes spending by foreigners in Italy and includes that by Italians abroad, grew by even less, rising by 1.2 per cent. The aggregate was affected by the virtual stagnation of disposable income and pessimism about its future growth.

Table 2

RESOURCES AND USES OF INCOME

(percentage changes)

	1994		1995	
	Values at constant prices	Deflators	Values at constant prices	Deflators
Resources				
Gross domestic product	2.1	3.5	3.0	5.0
Imports of goods and services	8.9	5.2	9.6	11.8
of which: goods	*11.0*	*5.1*	*9.3*	*11.7*
Uses				
Domestic demand	1.6	4.1	2.3	5.3
Households' consumption	1.5	4.6	1.7	5.7
Collective consumption	. .	3.1	–0.5	2.9
Gross capital formation (1)	3.7	3.2	7.4	6.3
of which: fixed investment	*0.2*	*3.2*	5.9	*4.6*
in machinery, equipment and transport equipment	*7.5*	*3.2*	*11.5*	*6.2*
in buildings	*–5.8*	*3.5*	*0.5*	*3.4*
Exports of goods and services	10.5	2.3	11.6	9.6
of which: goods	*13.2*	*2.1*	*10.9*	*10.2*
Memorandum item:				
Growth in GDP at constant prices attributable to change in stocks (1)	0.6	–	0.3	–

Source: Istat.
(1) Includes statistical discrepancies.

Saving by firms, including sole traders, exceeded that by households for the first time since 1960; in relation to gross national disposable income, the one rose to 13.6 per cent while the other fell to 11.7 per cent. The high level of retained profits led to an increase in the saving of the private sector as a whole. Gross national saving has risen from 17.5 to 20.8 per cent of gross national disposable income over the last four years, owing chiefly to the reduction of around 3 percentage points in the corresponding ratio for the general government deficit (Table 3).

Few new jobs were created last year, despite the growth in activity. Employment declined by 0.5 per cent between 1994 and 1995 on an annual average basis; the national accounts show a similar contraction in terms of standard labour units.

Table 3

GROSS SAVING AND INVESTMENT

(as a percentage of gross national disposable income)

	1971-1980	1981-1990	1991	1992	1993	1994	1995
General government saving	–4.6	–6.6	–6.2	–7.6	–5.7	–5.8	–4.5
Private sector saving	30.0	28.1	25.1	25.1	24.0	24.8	25.3
of which: consumer households	*18.6*	*16.4*	*15.9*	*16.0*	*14.2*	*12.6*	*11.7*
Gross national saving	25.4	21.5	18.9	17.5	18.3	19.0	20.8
Gross investment	25.6	22.5	21.1	20.0	17.3	17.5	18.4
Memorandum item: balance of current account transactions with the rest of the world	–0.2	–1.0	–2.2	–2.5	1.0	1.5	2.4

Source: Based on Istat data.

There was a small increase in the number of persons in employment in the course of the year, but not sufficient to have any effect on the level of unemployment. Since the supply of labour increases during the expansionary phase of the cycle, the unemployment rate still stood at more than 12 per cent in January 1996, the same as a year earlier.

On an annual average basis, employment increased only in market services, rising by 0.7 per cent. During the latest expansion the contribution of market services to employment has been positive but smaller than in earlier cycles, presumably because of restructuring in the distribution sector and the weakness of households' demand for services. In industry, including construction, employment fell by 1.3 per cent on an annual average basis, although in the course of the year it rose by 0.8 per cent.

The existing geographic disparities in terms of output became more pronounced during the upturn, as the sector most susceptible to cyclical variations and changes in foreign demand, namely manufacturing, is concentrated in the most developed regions; their procyclical nature was reinforced by the particularly important role played by exports in the present cycle. Similarly, the rapid growth in investment by manufacturing firms was confined to the Centre and North.

As measured by the cost-of-living index, inflation rose from 3.9 per cent in 1994 to 5.4 per cent last year; excluding the effect of increases in indirect taxes, the rise amounted to 4.6 per cent. Developments in early 1995 caused the inflation differential in relation to both France and Germany, unadjusted for changes in indirect taxation, to rise to 3.6 percentage points, compared with 2.3 and 1.3 points respectively in 1994.

The annual average increase in domestic output prices was more than 7 per cent, twice the rate of 1994. The rise in industrial input prices was even higher, owing to a particularly marked acceleration in the twelve-month rate of increase during the summer followed by a slowdown in the autumn.

Per capita labour costs in manufacturing rose by an annual average of over 6 per cent, 2 percentage points more than in 1994. The rapid growth in output per employee due to longer working hours and a rise in hourly productivity nevertheless held down unit labour costs, thus limiting the acceleration in variable unit costs. Manufacturing firms' profit margins in the domestic market increased further from last year's level, itself high by historical standards.

There was a similar acceleration in the rise in per capita labour costs in the economy as a whole, from 3.0 to 5.2 per cent. The increase in gross per capita earnings was less pronounced both in manufacturing and overall; in real terms they fell for the third consecutive year.

The fall in the trade-weighted nominal effective exchange rate of the lira was accompanied by an almost identical rise in the average unit values of exports (8.8 per cent). As a result, exporters' profit margins increased more than margins in the domestic market. The growth in the volume of exports was the largest recorded in the last twenty-five years and faster than the vigorous expansion in world trade, mainly owing to the substantial gains in competitiveness in earlier years, when Italian producers had laid greater importance on increasing market share.

The growth in the trade surplus on an *fob fob* basis, which increased for the third consecutive year to the equivalent of more than 4 per cent of GDP, also reflected the slowdown in the volume of imports. On the other hand, it was held in check by the deterioration in the terms of trade, since the prices of imports rose by nearly 4 percentage points more than export unit values.

The improvement in the trade surplus was accompanied by a reduction in the deficit on invisibles. Consequently, the surplus on the current account of the balance of payments increased further, to nearly 45 trillion lire. Italy's net external debt, at year-end securities prices and exchange rates, fell to 4.7 per cent of GDP at the end of 1995, aided by the fall in share prices in Italy and the rise in those abroad, which outweighed the negative adjustments due to the devaluation of the lira.

Net capital outflows, which had been substantial in 1994, amounted to less than 8 trillion lire last year. However, a considerable part of the large errors and omissions item (33.9 trillion lire) was presumably attributable to the non-reporting of outflows of Italian capital by non-banks. According to data collected by the Italian Foreign Exchange Office, reported net capital inflows by the latter amounted to 50 trillion lire, due mostly to portfolio investment.

The recovery of the lira that began in April paused during the summer but continued with renewed vigour from September onwards; at the end of December the nominal effective depreciation in relation to twelve months earlier had come down to 4.2 per cent.

The first few months of 1996 and the short-term outlook

Economic activity showed signs of slackening from the fourth quarter of 1995 onwards. Industrial production declined by 2.3 per cent between the third and fourth quarters and by a similar amount in the first quarter of this year. The indicators of manufacturing firms' order books and expectations have been falling since the middle of last year; stocks of finished products have been reported to be higher than normal since October. The households' confidence indicator is also clearly deteriorating, albeit with fluctuations that are symptomatic of underlying uncertainty.

The slowdown in activity primarily reflects the decline in the volume of merchandise exports, which fell by 3.7 per cent on a seasonally adjusted basis between the third and fourth quarters of 1995. On the other hand, households' consumption showed no signs of reviving in the first quarter of this year to take over from other components of demand in sustaining growth.

After pausing towards the end of last year, inflation is now showing signs of declining further. The seasonally adjusted annualized monthly rate of increase in the cost-of-living index fell to just over 4 per cent in the first quarter of 1996; in April and May it rose again to between 5 and 6 per cent, owing partly to erratic factors. The rate of consumer price inflation could fall below 3 per cent at the end of 1996 and average less than 4 per cent for the year. Determined budgetary adjustment measures, continued wage restraint and pricing policies aimed more at defending companies' shares of the domestic market are necessary conditions for curbing inflation, in part through their influence on the current and expected exchange rate.

The pronounced downturn in export demand, the still subdued growth in households' consumption and the slowdown in investment will reduce the rate of growth in GDP in 1996, possibly to less than 1.5 per cent.

The recovery in the international business cycle predicted for the second half of the year and a revival in consumption could subsequently allow the economy to return to a higher growth path. Households' spending decisions will benefit from the recovery in the purchasing power of incomes and the reduction in the erosion of the value of net financial assets owing to the slowdown in inflation.

DOMESTIC DEMAND

Households' consumption

Households' final domestic consumption grew in real terms by 1.7 per cent last year, a slight acceleration over the rate of 1.5 per cent in 1994. National consumption, which excludes spending by foreigners in Italy but includes Italians' spending abroad, rose by only 1.2 per cent, compared with 1.0 per cent in 1994 (Table 4).

Table 4

HOUSEHOLDS' CONSUMPTION
(at 1990 prices; percentage changes)

	1992	1993	1994	1995
Non-durable goods	0.9	..	–0.2	0.4
of which: food	*0.3*	*–0.2*	..	*–0.4*
Semi-durable goods	0.8	–4.3	2.7	2.4
Durable goods	3.4	–12.8	0.8	2.0
of which: furniture, carpets, electrical household appliances and household equipment	*–2.0*	*–6.2*	*3.0*	*0.6*
therapeutic equipment and goods, photographic equipment and musical instruments, radio and television receiving sets and record players	*0.8*	*–3.1*	*5.8*	*3.2*
transport equipment	*7.7*	*–28.3*	*–0.1*	*4.0*
precious and costume jewellery	*8.9*	*–2.1*	*–8.1*	*–0.1*
Services	0.5	..	2.7	2.2
Total domestic consumption	**1.0**	**–2.4**	**1.5**	**1.7**
Residents' consumption abroad	44.3	–17.5	–16.6	–6.9
Non-residents' consumption in Italy	16.8	17.2	6.4	10.8
Total national consumption	**1.4**	**–3.4**	**1.0**	**1.2**
Memorandum item: Implicit price deflator of national consumption	5.6	5.4	4.6	5.9

Source: Istat.

Consumption had begun to falter as early as the second half of 1994 following a brief period of relatively brisk growth. It picked up in the second quarter of 1995 but then slowed down again, and in the last three months of the year it contracted. Over the two years 1994-95 consumer spending grew more slowly and contributed less to the recovery than in the first two years of the previous upturns (1976-77 and 1984-85). This distinctive feature of the current cycle is due primarily to the household sector's limited spending capacity (Table 5).

Table 5

GROSS DISPOSABLE INCOME AND AVERAGE PROPENSITY TO CONSUME

(at current prices; percentage changes and percentages)

	1992	1993	1994	1995
Wages and salaries net of employees' social security contributions	4.3	–0.6	1.7	3.4
of which: per capita compensation of employees	*5.8*	*3.7*	*3.0*	*5.4*
total social security contributions (1)	*–0.8*	*–1.5*	*0.2*	*–1.0*
employee labour units	*–0.5*	*–2.7*	*–1.5*	*–0.8*
Self-employment income net of social security contributions	2.0	–1.9	3.5	7.8
of which: per capita self-employment income	*4.8*	*3.3*	*4.5*	*7.5*
total social security contributions (1)	*–0.6*	*–1.8*	*0.5*	*–0.2*
self-employed labour units	*–2.1*	*–3.4*	*–1.5*	*0.4*
Net property income (2)	16.6	3.8	–0.7	10.4
Social security benefits and other net transfers	10.4	4.6	5.7	4.5
Current taxes on income and wealth (–)	10.7	10.9	–3.8	6.4
Gross disposable income of households (3)	**6.8**	**–0.3**	**3.6**	**6.0**
at 1990 prices (4)	1.1	–5.4	–1.0	0.2
at 1990 prices, adjusted for expected inflation (5)	2.0	–4.6	–1.2	0.1
at 1990 prices, adjusted for actual inflation (6)	2.3	–5.9	–0.4	–1.5
Gross disposable income of the private sector	**6.5**	**1.0**	**6.7**	**8.2**
at 1990 prices (4)	0.8	–4.2	2.0	2.2
at 1990 prices, adjusted for expected inflation (5)	1.4	–3.4	1.8	2.2
at 1990 prices, adjusted for actual inflation (6)	1.7	–4.6	2.4	1.0
Households' average propensity to consume (3) (7)	**19.9**	**18.2**	**16.6**	**15.8**
calculated on income adjusted for expected inflation	14.0	13.0	11.1	10.1
calculated on income adjusted for actual inflation	14.6	12.3	11.0	8.6
Average propensity to consume of the private sector (7)	**28.1**	**27.4**	**28.1**	**28.9**
calculated on income adjusted for expected inflation	23.8	23.7	24.3	25.1
calculated on income adjusted for actual inflation	24.1	23.2	24.3	24.2

Source: Based on Istat data.

(1) Change in net wages and salaries and net self-employment incomes attributable to social security contributions, in percentage points; a minus sign indicates an increase in contributions. – (2) Comprises gross operating surplus (primarily actual and imputed rents), net income from land and intangible assets, net interest, dividends and other profits distributed by companies. – (3) Consumer households, including private non-profit institutions. – (4) Deflated using the implicit price deflator of national consumption. – (5) Gross disposable income net of expected losses on net financial assets due to inflation (estimated from the results of the Forum-Mondo Economico survey); deflated using the implicit price deflator of national consumption. – (6) Gross disposable income net of actual losses on net financial assets due to inflation; deflated using the implicit price deflator of national consumption. – (7) Ratio between saving, before deduction of depreciation and net of the change in pension funds, and the gross disposable income of the sector.

Households' gross disposable income at current prices grew by 6.0 per cent overall in 1995, but there were differences in the behaviour of its components. Per capita wages and salaries rose by 5.4 per cent; taking into account the increase in social security contributions and the further fall in the number of employed workers, income from salaried employment rose by 3.4 per cent. Self-employment income grew more rapidly (by 7.8 per cent net of social security contributions), owing to a modest rise in the number of self-employed workers and the smaller increase in social security contributions. The largest contribution to the growth in households' income came from net property income: it grew by 10.4 per cent as a result of corresponding increases in the gross operating surplus and in households' net interest income, which benefited from last year's higher interest rates. Finally, in contrast to 1994, income redistribution by the public sector did not augment the growth in the private sector's income; current taxes on income and wealth, which had diminished in 1994, increased by 6.4 per cent last year, while social security benefits and net transfers grew by 4.5 per cent.

Households' disposable income at constant prices increased by 0.2 per cent. If disposable income were adjusted for the erosion of the value of net financial assets due to expected inflation as measured by the findings of business opinion surveys, the increase would have been 0.1 per cent. The higher actual rate of inflation, however, gave rise to larger than expected *ex post* unrealized capital losses, resulting in a 1.5 per cent decline in adjusted real disposable income. This contraction, the third in as many years, brought households' real disposable income below the 1990 level.

Consequently, the increase in consumption, though modest, caused households' saving to decline as a proportion of gross disposable income for the third consecutive year; in 1995 the ratio fell to 15.8 per cent, around 4 percentage points lower than it had been in 1992.

The reduction in households' propensity to save in the last three years is the result of contrasting factors. Consumption was curbed by the budgetary adjustment measures, the reform of the pension system and persistent pessimism about the outlook for employment.

Only some households will have been able to reduce their planned expenditure in expectation of a smaller growth in income; others had limited scope for retrenchment, and their consumption was determined primarily by current income. Changes in the personal distribution of resources appear to have increased the relative weight of the latter group of households, with adverse effects on the average propensity to save.

The growth in consumption may also have been sustained by the better performance of the gross disposable income of the private sector as a whole, which grew by 8.2 and 2.2 per cent at current and constant prices respectively. This reflected the substantial increase in corporate income (primarily retained earnings), which rose by more than 20 per cent at current prices after having grown by more than 30 per cent in 1994. The behaviour of the gross saving ratio of the private sector therefore contrasts with that of households. Between 1994 and 1995 it remained basically unchanged, if real disposable income is adjusted for actual losses due to inflation; if losses are estimated on the basis of expected inflation, the ratio rose (Table 5).

Investment

The most dynamic component of domestic demand last year was gross fixed investment, which rose by 5.9 per cent at constant prices, owing largely to the increase in expenditure on machinery and equipment (Table 6). Investment in construction stabilized after three years of contraction. At constant prices, gross fixed investment amounted to 17.6 per cent of GDP, higher than the ratio in the two preceding years but still more than 2 percentage points lower than the figure recorded in 1990 (20.3 per cent). Including the change in stocks, which increased for the second consecutive year (by 19.5 trillion lire at current prices and 11.5 trillion at 1990 prices), gross investment increased by 14.2 per cent in value and 7.4 per cent in volume.

Table 6

FIXED INVESTMENT

(at 1990 prices; percentage changes and percentages)

	Percentage change			As a percentage of GDP		
	1993	1994	1995	1993	1994	1995
Construction	–6.3	–5.8	0.5	9.5	8.8	8.6
of which: residential buildings	*–0.7*	*–1.9*	*–1.4*	*5.3*	*5.1*	*4.9*
non-residential buildings and public works	*–12.5*	*–10.8*	*3.2*	*4.2*	*3.7*	*3.7*
Machinery, equipment and sundry products	–18.8	9.1	12.7	6.3	6.8	7.4
Transport equipment	–22.2	1.0	6.3	1.6	1.6	1.6
of which: motor vehicles	*–24.8*	*1.5*	*9.1*	*1.3*	*1.3*	*1.3*
other	*–10.5*	*–1.0*	*–4.7*	*0.3*	*0.3*	*0.3*
Total gross fixed investment	**–12.8**	**0.2**	**5.9**	**17.4**	**17.1**	**17.6**
Total excluding residential buildings	–17.2	1.1	9.0	12.1	12.0	12.7
Total excluding construction	–19.5	7.5	11.5	7.9	8.3	9.0
Total net fixed investment (1)	**–37.8**	**–4.8**	**16.5**	**5.3**	**4.9**	**5.6**

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

Fixed investment. — After the sharp drop in 1992 and 1993, capital spending revived in response to the stimulus of demand, especially from abroad. The margins of spare capacity diminished during the economic recovery, prompting firms to expand their production facilities.

Despite high real long-term interest rates, firms were easily able to finance their substantial investment, thanks to an abundance of retained earnings resulting from the very large growth in profits. The tax incentives provided by Decree Law 357 of 10 June 1994, which was ratified by Law 489 of 8 August 1994, were also a significant factor; the possibility of deducting up to 50 per cent of the year's expenditure on capital goods from taxable income led to a sizable reduction in the user cost of capital, which returned to the levels of the mid-eighties.

Law 489/1994, which was to expire on 31 December 1995, was extended by Law 549/1995 until 30 April of this year, subject to certain conditions. As well as encouraging new investment, it presumably prompted businessmen to bring forward their investment plans in order to take advantage of the temporary opportunity. It therefore probably amplified the cyclical stimuli to capital spending during 1995.

According to the investment survey conducted early this year by the Bank of Italy, gross fixed investment by manufacturing firms with more than 50 employees increased by 18.8 per cent at constant prices in 1995 after three successive years of decline and exceeded the peak reached in 1991. Investment plans were revised upwards during the year by an average of 3.6 per cent; tax incentives for the reinvestment of profits appear to have been the decisive factor. The trend is likely to be reversed again in 1996, as firms' plans indicate that their capital spending will decrease by 7 per cent.

Uncertainty about future demand is one of the factors that typically influence investment plans, but it has less impact on the decisions of firms whose used capital goods are readily salable, allowing them to adjust plans that have proved excessive. The survey shows that the additional capital spending planned by firms of this kind for 1995 had been well above the sample average; their intentions were largely confirmed in the course of the year. Other firms, which had originally been more cautious, invested more than they had intended in view of the strength of demand and the tax exemption of reinvested profits. Among all the firms that invested more than they had expected, 19 per cent indicated the level of demand as a reason for revising their plans. Tax incentives were an even more important consideration, mentioned by around 30 per cent of firms, while almost 45 per cent cited internal organizational factors (the survey allows multiple responses). In the ten years from 1984 to 1993 tax incentives had never been cited by more than 8 per cent; in 1994 the corresponding figure had already risen to 12 per cent, reflecting the introduction of the measures exempting reinvested profits from tax.

The largest increase was in investment in machinery and equipment, which grew even more rapidly than in the previous year, rising by 12.7 per cent at constant prices, compared with 9.1 per cent in 1994; the growth was especially pronounced in the case of metal products (15.2 per cent), agricultural and industrial machinery (14.1 per cent) and office and data processing machines (14.1 per cent). There was also an acceleration in spending on transport equipment, which rose by 6.3 per cent in real terms, an increase of more than 5 percentage points compared with 1994. Investment in machinery, equipment and transport equipment amounted to 9.0 per cent of GDP, the highest ratio among the G7 countries except Japan.

Activity in the construction sector showed signs of recovery. Although the average annual growth in investment was modest (0.5 per cent in volume), it at least marked the end of the deep recession that had begun in 1991. Nevertheless, the value of investment in construction at constant prices was still 7 per cent lower than the average for the last ten years.

Investment in non-residential building and public works increased by 3.2 per cent in real terms; the two components grew by 3.5 and 2.2 per cent respectively. By contrast, investment in residential building declined for the fourth year in succession, falling by 1.4 per cent.

Investment in public works should increase further in 1996, but capital spending by firms could decline sharply. Even in the early part of the year, the gradual waning of the effects of the tax incentives appears to have compounded a stagnation in demand due to a slowdown in exports and the weakness of the recovery in households' consumption. Firms seem to have become more cautious in the face of spreading uncertainty about the domestic and international prospects for growth.

Stocks. — The real change in stocks of raw materials, semi-finished goods and finished products — which in the national accounts includes discrepancies between the estimates of demand and supply — contributed 0.3 percentage points to the growth of GDP in 1995.

There were large fluctuations in the level of stocks during the year. Firms drew down their inventories in the first half to meet brisk consumption, but in the second half the fall in demand, particularly from abroad, led to appreciable stockbuilding, which accounted for nearly all the growth in output during the period (1.3 percentage points of the 1.4 per cent rise in GDP with respect to the first half). This pattern is evident in the Isco indicator of stocks of finished products, which in the first quarter of this year were reported to have reached levels well above those considered normal.

DOMESTIC SUPPLY

Goods

Agriculture. — The value added of agriculture, forestry and fisheries increased by 5.9 per cent in 1995. Following two disappointing years, this positive result is primarily attributable to the very favourable movement in crop prices, which rose by 10.2 per cent. At constant prices, the sector's value added increased by 0.4 per cent (Table 7).

Table 7

VALUE ADDED OF AGRICULTURE AND INDUSTRY AT FACTOR COST

	1995 (billions of lire)	Percentage changes			
		Volume		Prices	
		1994	1995	1994	1995
Agriculture	**57,116**	**0.1**	**0.4**	**2.5**	**5.4**
Industry	**493,955**	**3.0**	**4.6**	**2.8**	**4.2**
Industry excluding construction	405,622	4.7	5.4	2.5	4.6
Manufacturing	358,100	5.0	5.8	1.8	5.1
Energy	47,522	2.6	1.5	8.2	2.4
Construction and public works	88,333	–4.5	1.0	4.5	2.4

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

Italian farmers benefited from the poor crop year in both North America and Europe, particularly in Spain. Italy's principal agricultural exports — fruit and vegetable products, wine, and meat and dairy products — increased by an average of 7.1 per cent in volume and 11.5 per cent in price.

Manufacturing industry. — Manufacturing activity continued to expand in 1995, with value added at factor cost increasing by 5.8 per cent at constant prices, compared with 5.0 per cent in 1994. The growth in value added paralleled that in production, which increased by 5.5 per cent over the year. Average daily output rose by 6.3 per cent, as against 6.5 per cent in 1994.

There was a pronounced accompanying rise in output per employee (7.0 per cent, the largest since the mid-eighties), which was partly the outcome of an increase in average working hours and intensified use of plant without a corresponding increase in the workforce. The capacity utilization rate approached the level recorded at the cyclical peak of 1989.

Production was stimulated both by the strength of foreign demand and by the acceleration in investment, which was reflected in a rise of 14.3 per cent in the output of capital goods (Table a3). The growth in the output of consumer and intermediate goods was much smaller, amounting to 3.2 and 3.9 per cent respectively.

The intense investment activity, which was not confined to industry, led to an expansion in the economy's productive base, but the additional capacity may have been insufficient to compensate for the growth in demand. High plant capacity utilization rates may signal the presence of supply bottlenecks. Estimates based on the input-output tables identify the "critical" branches last year as being those producing mainly intermediate goods: electricity, ferrous and non-ferrous ores and metals, and rubber and plastic products. Bottlenecks also probably occurred in the branches producing office machines and precision instruments. Almost 1 percentage point of the increase in imported goods in 1995 can be attributed to sectoral bottlenecks in manufacturing.

Energy. — After contracting for two years, Italy's overall energy requirement rose by a substantial 4.3 per cent in 1995, owing chiefly to the recovery in industrial output and higher demand for heating. The sector's value added increased by 1.5 per cent in volume and 3.9 per cent at current prices (Table 7).

Domestic output diminished by 3.6 per cent, primarily on account of low rainfall, which reduced hydroelectric production by 12.2 per cent. The shortfall was made up by an increase of 6.5 per cent in net imports of fossil fuels for thermoelectric generation, which increased from 180.7 to 196.3 billion kwh.

Construction. — Following a three-year decline, building activity remained unchanged on average in 1995, although in the course of the year it improved significantly from the low level of the fourth quarter of 1994. Judging from the performance of gross investment, there were appreciable differences between the various branches: residential building fell by a further 1.4 per cent, non-residential building staged a strong recovery, rising by 3.5 per cent, and public works increased by 2.2 per cent.

Services

The low rate of growth in households' consumption dampened the expansion in the services sector; at constant prices, value added at factor cost increased by 2.9 per cent, compared with 2.3 per cent in 1994, or by half the rate recorded in manufacturing industry (Table 8).

Table 8

VALUE ADDED OF MARKET SERVICES AT FACTOR COST

	1995 (billions of lire)	Percentage changes			
		Volume		Prices	
		1994	1995	1994	1995
Wholesale and retail trade (1)	265,773	2.8	2.4	1.8	5.3
Lodging and catering	58,417	2.7	6.9	5.1	4.0
Transport	102,608	3.2	6.4	5.7	–1.0
Communications	31,843	10.2	4.7	–5.1	4.1
Credit and insurance	78,307	–1.5	–2.6	–6.3	13.8
Other market services	209,812	1.3	3.7	4.0	3.9
Renting of buildings	148,253	2.4	1.4	10.7	9.2
Total ...	**895,013**	**2.3**	**2.9**	**3.3**	**5.5**

Source: *Relazione generale sulla situazione economica del Paese.*
(1) Includes repair services.

The increase in activity was greatest in those branches of services that provide direct support for industrial production or benefited from the depreciation of the lira. The latter applied to lodging and catering, whose output increased by 6.9 per cent, as against 2.7 per cent in 1994.

The rise in production, particularly in industry, fueled the growth of demand for transport. Value added rose by 7.3 per cent in inland transport, by 8.6 per cent in maritime and air transport (the highest figure since the early eighties) and by 2.0 per cent in auxiliary transport services. The volume of rail and road freight increased by 8.7 and 5.6 per cent respectively, while air freight traffic diminished by 3.4 per cent and maritime cargo was 10.7 per cent lower in the first seven months of 1995 than a year earlier. Passenger traffic increased by less than freight traffic.

The value added of business services rose by a substantial 5.7 per cent, but the growth in household services was more modest. The wholesale and retail trade recorded an increase of 2.6 per cent in value added, the same as in 1994. The sector's sales index rose by 4.0 per cent at current prices, with a more pronounced increase for large stores (6.6 per cent) than for medium-sized and small outlets (4.0 and 3.6 per cent respectively). The growth was accompanied by a further decline of 0.5 per cent in the number of firms in distribution or repair services, signaling continued concentration within the sector.

Data compiled by the Ministry for Industry show that between 1991 and 1994 the number of shops fell by around 135,000, or by around 6 per cent a year. During the same period the number of supermarkets increased by more than 700, or at a rate of about 7 per cent a year, while that of hypermarkets rose from 130 to 214. The growth in the market shares of large stores accelerated in the early nineties owing to various factors: the stagnation of real take-home pay and the cumulative decline in employment, which affected consumer habits; the increase in competitive pressure from foreign groups, particularly in the discount sector; growing competition in non-food sales, with the advent of chains of large specialist outlets; and the easing of administrative restrictions on the opening of new businesses and on store size.

Regional disparities

The income disparities between the regions of the North and Centre on the one hand and those of the South on the other continued to widen in 1995. According to estimates by the Association for Industrial Development in Southern Italy, GDP growth in the South was around half that in the North (1.7 and 3.5 per cent respectively) and per capita output in the South fell to less than 57 per cent of that in the North and Centre, comparable to the ratio of thirty years ago. Similarly, the disparities in per capita output between provinces are basically the same as they were at the beginning of the seventies. The dispersion of per capita output by province declined sharply from the mid-fifties until the beginning of the seventies, but remained broadly unchanged thereafter. The provinces of the North-East continued to converge slowly with those of the North-West even after 1970; the convergence of those of the South with the rest of the country appears to have come to a halt as early as the mid-seventies.

The difference in the behaviour of the domestic and foreign components of aggregate demand lies at the root of the weaker recovery in activity in the South. The impact of the growth in exports has been modest in the South, owing to the low ratio of exports to total demand in the southern economy. This is not because southern manufacturing firms export a smaller proportion of their output but because they account for a small proportion of the GDP of the South.

Public enterprises and privatization

The privatization of enterprises controlled directly or indirectly by the state continued in 1995 and early 1996 (Table 9). The most important total or partial privatizations are estimated to have had an impact of 9 trillion lire on the state budget, as well as one of around 5 trillion on the balance sheets of the state holding companies and their sub-divisions.

Table 9

MAIN PRIVATIZATIONS IN ITALY BETWEEN JANUARY 1995 AND MAY 1996

	Group (sector)	Number of employees (1)	Method of sale	Percentage sold (2)	Remaining public holding % (2)	Completion date of sale	Gross proceeds (3)
Italtel	Stet-IRI (Telecom equipment)	14,895 (1995)	Auction	40.00	50.00	1.1.95	1,000
Ilva Laminati Piani	IRI (Steel)	17,971 (1994)	Auction	100.00	–	16.3.95	(4) 1,929
Enichem Augusta	ENI (Chemicals)	1,123 (1993)	Auction	70.00	14.25	18.4.95	300
IMI (*2nd tranche*) .	(Banking)	917 (1993)	Auction	(5)19.03	8.07	1.7.95	1,200
SME (*2nd tranche*)	IRI (Food, distribution)	15,218 (1994)	Accep- tance of take-over bid	14.90	15.21	22.8.95	341
INA (*2nd tranche*)	(Insurance)	4,965 (1994)	Auction	18.37	34.38	12.10.95	1,687
ENI	(Energy)	95,164 (1994)	Offer for sale	15.00	85.00	22.11.95	6,299
ISE	IRI (Energy)	156 (1995)	Auction	73.96	–	20.12.95	370
Dalmine	IRI (Steel)	4,677 (1994)	Auction	84.08	–	4.1.96	301
Italimpianti	IRI (Engineering)	1,200 (1995)	Auction	100.00	–	13.3.96	55
Nuova Tirrena	Consap (Insurance)	906 (1995)	Auction	91.00	–	(6)20.3.96	550
SME (*3rd tranche*)	IRI (Food, distribution)	15,218 (1994)	Accep- tance of take-over bid	15.21	–	16.5.96	238

Sources: R&S (various years), company annual accounts (various years), press reports.
(1) Average; for ISE and Nuova Tirrena, year-end data. – (2) Ordinary shares. – (3) Billions of lire. – (4) Includes interest on deferred payments and excludes the 1994 dividend of 585 billion lire, which was received by the vendor. – (5) Includes the shareholding sold by Consap. – (6) The sale will be completed on 1 July 1996 after approval of the annual accounts.

Law 474/1994 made the privatization of public utilities conditional on the establishment of sectoral regulatory authorities. Law 481 of 14 November 1995 set up the regulatory authority for electricity and gas and that for telecommunications. However, operating regulations have been established only for the former; further legislation must be passed for the telecommunications authority, not to mention the other regulatory bodies that have yet to be established. Moreover, the regulations governing the electricity and gas authority are incomplete and there has been delay in their implementation.

Despite the gaps in the regulations, the overall framework of the authorities' powers and functions is set out in the law. Each authority is a collegial body, independent of government and with powers to change many aspects of the regulations, including scales of charges. Their powers are more limited as regards the promotion of competition, which is implicitly left to legislation and other governmental measures.

The favourable economic conditions and the stimulus generated by privatization itself had positive effects on the profitability and debt of the state shareholdings and other public enterprises. The companies that reported the best results, such as Enel, ENI, STET and Autostrade, are among those at the top of the Government's privatization list.

THE LABOUR MARKET

Employment

Labour demand. — After three years of decline, employment began to recover slowly in 1995. The increase was very small, however, and on average for the year employment was still 97,000 standard labour units less than in 1994, a fall of 0.4 per cent (Table 10). Apart from displaying the usual lagged response to changes in output, employment was affected by the uncertain prospects for economic growth, which deteriorated progressively during the year. Although the growth of output in 1994 and 1995 was no less vigorous than at the start of the previous upturn in 1983-84, it proved insufficient to offset the employment impact of extraordinary restructuring and reorganization, which generated substantial productivity gains in some branches of manufacturing and especially in some market services, notably transport and communications and distribution. The economic recovery did not spread to all parts of the country, and employment rose only in the Centre and North, accentuating the disparity with the South.

Table 10

EMPLOYMENT

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

	Total employment				Salaried employment			
	(1)	1993	1994	1995	(1)	1993	1994	1995
Agriculture	**8.2**	**–7.3**	**–4.2**	**–3.5**	**3.9**	**–9.3**	**–5.1**	**–3.8**
Industry	**28.4**	**–4.1**	**–1.6**	**–1.3**	**32.4**	**–5.3**	**–1.3**	**–1.9**
fuel and power products	*0.8*	*–4.1*	*–3.2*	*–4.7*	*1.1*	*–4.1*	*–3.2*	*–4.7*
manufacturing	*20.4*	*–5.0*	*–0.6*	*–1.2*	*24.7*	*–5.7*	*–0.2*	*–1.4*
industry excluding construction	*21.2*	*–4.9*	*–0.7*	*–1.3*	*25.8*	*–5.6*	*–0.3*	*–1.5*
construction	*7.2*	*–1.5*	*–3.9*	*–1.3*	*6.6*	*–3.8*	*–5.2*	*–3.2*
Market services	**44.1**	**–2.1**	**–1.3**	**0.7**	**35.6**	**–0.9**	**–1.9**	**0.1**
distributive trades, lodging and catering	*21.9*	*–2.1*	*–1.5*	*–0.1*	*14.2*	*–0.1*	*–1.0*	*0.3*
transport and communications	*6.3*	*–1.1*	*–2.6*	*–1.5*	*7.2*	*–1.0*	*–3.5*	*–2.2*
credit and insurance	*2.0*	..	*–0.3*	*–1.0*	*2.8*	..	*–0.3*	*–1.0*
other market services	*13.9*	*–3.0*	*–0.4*	*3.3*	*11.4*	*–2.1*	*–2.3*	*1.6*
Goods and market services	**80.7**	**–3.4**	**–1.7**	**–0.5**	**71.9**	**–3.4**	**–1.8**	**–1.0**
Non-market services	**19.3**	**–0.6**	**–0.7**	**–0.4**	**28.1**	**–0.6**	**–0.7**	**–0.4**
Total	**100.0**	**–2.9**	**–1.5**	**–0.4**	**100.0**	**–2.7**	**–1.5**	**–0.8**

Source: Based on Istat data.
(1) Percentage share of total in 1995.

Employment continued to fall in agriculture, with a decline of 66,000 units, or 3.5 per cent, and in construction, although here the reduction was less pronounced than in recent years (1.3 per cent, as against 3.9 per cent in 1994). Employment in industry excluding construction began to recover in the course of the year but showed a further contraction of 1.3 per cent on an annual average basis. Public employment decreased by 0.7 per cent, bringing the cumulative reduction in the number of public employees since 1992 to 89,000. By contrast, employment in market services rose by 65,000 units, or 0.7 per cent.

The overall fall in employment was due to a contraction of 127,000, or 0.8 per cent, in salaried employment, including a sharper decline of 2.2 per cent in non-regular employment. Self-employment rose by 29,000 units, or 0.4 per cent, most of the increase coming in the first half of the year. Nevertheless, self-employment in the distribution sector again contracted, declining by 20,000 units or 0.9 per cent, as the market share of large retailers continued to increase. The latter presumably increased their staff gradually in the course of the year.

In manufacturing industry the growth in output was reflected mainly in reduced recourse to the Wage Supplementation Fund. By early 1995 the number of hours compensated had come down to the full-time worker equivalent of 1 per cent of salaried employment in the sector, about the same as at the previous cyclical peak in 1989. Overtime remained at historically high levels.

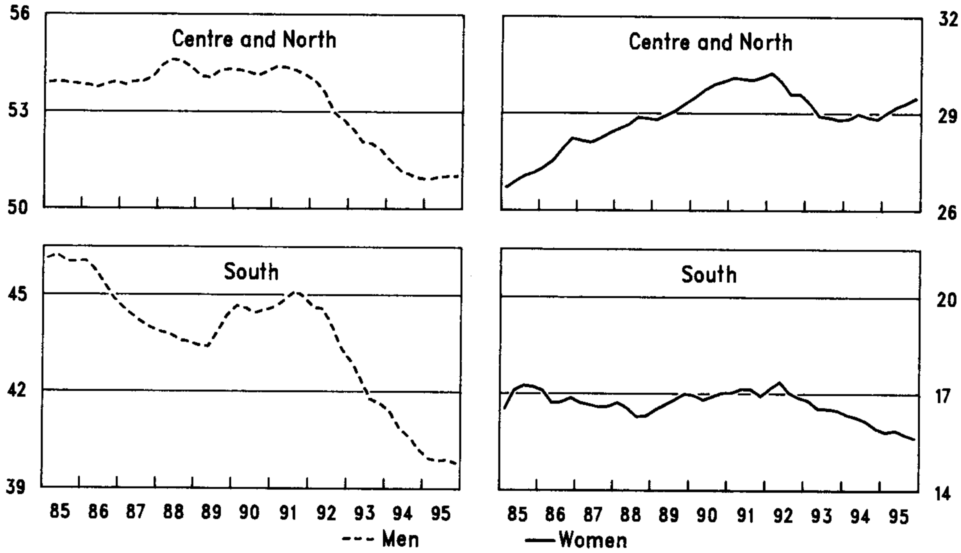
In view of the slowdown in economic activity in late 1995, there is no prospect of a substantial increase in employment in manufacturing this year, even in the Centre and North. Surveys conducted by Isco around the turn of the year found that businesses no longer expect to engage additional staff. The Bank of Italy's survey of manufacturing firms indicates a rise of no more than 0.3 per cent by the end of 1996; a further decline of 0.8 per cent among firms with more than 1,000 employees is expected to offset most of the growth of about 1 per cent among those employing between 50 and 200 workers and 0.6 per cent among those with between 200 and 1,000 workers.

Geographical disparities. — Employment trends accentuated the disparities between the South and the rest of Italy. The interregional differential between annual average employment rates (the ratio of the employed to the total population) widened to 12 percentage points, about one third larger than in 1985. Even in the Centre and North the employment rate has declined perceptibly in recent years, especially for men (Figure 3). After reaching a cyclical low in January, employment began to rise slowly in the Centre and North, with an annual average increase of 0.1 per cent, or 17,000 jobs. In the South, by contrast, it stagnated for most of the year before decreasing sharply again in the fourth quarter, resulting in a year-on-year contraction of 2.2 per cent, or 128,000 jobs.

Figure 3

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 gradual increase in employment during the year did not affect the overall unemployment rate, which showed no sign of falling, as the labour force grew in the areas in which job creation occurred.

While total employment continued to decline on an annual average basis, the overall labour force remained unchanged. In the Centre and North a growth in female employment allowed a resumption of the underlying upward trend in the female labour force, and the female participation rate rose from 32.5 to 33.0 per cent, higher than it had been in 1991 before the onset of recession.

In the South the labour force remained more or less unchanged, so that the decline in employment impinged fully on the unemployment rate, which rose to an annual average of 21.0 per cent. In the Centre and North the male unemployment rate was 5.4 per cent, the same as in 1994. In the North alone the rate actually came down by 0.3 points, from 4.7 to 4.4 per cent. The improvement also involved young people, with the rate for persons under the age of 30 declining from 11.4 to 10.6 per cent.

In most of the industrial countries unemployment is concentrated among the unskilled and poorly educated; the probability of being without work therefore decreases as one's level of educational attainment rises. At first sight, this correlation does not appear to apply in Italy if one considers unemployment rates broken down according to educational qualification (Table 11); in fact, however, the phenomenon is obscured by another factor, namely the very long job search time for young people, who as a group are better educated. The disadvantage of the less educated workers emerges only among those older than 35, whereas in other countries it is detectable from the age of 30 onwards. The lag in job access for young people, especially those with high academic qualifications, is a nationwide phenomenon. In the North and the South alike, the unemployment rate for male university graduates falls by a factor of five between the 30-34 and 35-39 age groups. The overall unemployment disparity between North and South is thus the result not only of the latter's high youth unemployment but also of very high rates for less educated workers over the age of 30.

Table 11

UNEMPLOYMENT RATES ACCORDING TO EDUCATIONAL ATTAINMENT AND GEOGRAPHIC AREA IN 1995

(percentages)

Age group (years)	Centre and North					South				
	Elementary certificate or none	Lower secondary school certificate	Upper secondary school certificate	University degree	Total	Elementary certificate or none	Lower secondary school certificate	Upper secondary school certificate	University degree	Total
					Men					
25-29 ...	11.5	5.9	7.3	22.8	7.8	29.0	24.6	31.2	40.7	28.1
30-34 ...	7.3	3.7	3.3	7.8	4.1	26.4	15.6	13.7	15.0	16.0
35-39 ...	5.7	3.3	1.8	1.6	2.7	18.5	10.9	6.3	3.4	9.6
40-49 ...	3.5	2.1	1.5	1.0	2.1	14.1	6.8	3.0	0.6	7.0
All age groups	3.8	5.5	6.2	4.2	5.4	15.5	18.6	18.0	6.8	16.8
					Total					
25-29 ...	14.5	9.2	10.0	26.8	11.1	32.9	29.6	36.9	47.6	34.0
30-34 ...	11.7	6.2	5.4	9.5	6.4	31.8	20.6	19.5	19.9	21.1
35-39 ...	8.2	5.8	3.5	3.4	4.8	23.7	14.9	10.3	6.2	13.3
40-49 ...	5.3	3.9	2.4	1.4	3.5	17.0	9.1	4.4	1.1	8.7
All age groups	5.2	8.0	9.2	6.5	7.8	17.6	23.3	23.8	10.5	21.0

Source: Based on Istat labour force surveys.

Industrial relations

The industrial relations climate remained cordial, and the periodic meetings between the Government and the two sides of industry continued, both in the special consultative sessions established under the incomes policy agreement of July 1993 and in other fora. Many national wage agreements were concluded without recourse to strikes.

Collective bargaining activity was intensive. In the industrial sector, the signing of agreements covering the textile, food processing and construction industries during the summer brought virtually all national contracts into line with the framework laid down in the 1993 agreement, namely a four-year contract with renegotiation of the wage provisions after two years. The total wage increases agreed were all in line with the Government's target inflation rate.

In the second half of the year the paper, chemical and insurance industries negotiated wage settlements for the last two years of their contracts, providing a test of the effectiveness of the incomes policy agreement. This was the first time that the question of compensation for the discrepancy between actual inflation during the currency of the contract and the target rates that had governed settlements two years earlier had been formally tackled. The unions initially asked for compensation of the entire difference. A variety of solutions were adopted, reflecting sectoral and other differences, thus confirming that the amount of compensation is subject to negotiation, and not automatic. The settlements for the second two-year period also referred explicitly to the Government's inflation targets. In engineering, Italy's largest manufacturing industry, negotiation of the pay element began a few weeks ago with the aim of reaching agreement before the expiry of the first two-year settlement in July. Wage negotiations for the second half of two major contracts in the service sector, covering tourism and the distributive trades, are due to take place in the second half of the year.

Company-level wage bargaining intensified in manufacturing industry, resulting in an increase in earnings by about 1 percentage point more than the rise in national contractual wages.

Wages and labour costs

Wage growth remained moderate last year. In the economy as a whole gross earnings per full-time equivalent worker increased by 4.3 per cent, about 1 point more than in 1994 (Table 12). The acceleration was due partly to increases under existing national agreements, as most of the contracts signed in 1994 provided for increases to run from the beginning of 1995. Above-average increases were recorded in banking and insurance (9.6 per cent) and in communications (6.9 per cent). Earnings in manufacturing rose by 4.5 per cent, owing in part to decentralized bargaining. Below-average increases were recorded in general government (3.7 per cent) and construction (1.4 per cent).

Table 12

LABOUR COSTS AND PRODUCTIVITY

(percentage changes)

	Value added at factor cost (1)	Total standard labour units	Output per standard labour unit	Earnings per standard labour unit (salaried employment)	Labour costs	Unit labour costs
			Total (2)			
1992	0.9	–1.0	2.0	5.2	5.8	3.7
1993	–0.8	–2.9	2.2	3.1	3.7	1.5
1994	2.0	–1.5	3.6	3.2	3.0	–0.6
1995	3.0	–0.4	3.5	4.3	5.2	1.7
			Agriculture			
1992	1.0	–4.7	6.0	9.8	9.8	3.6
1993	–1.4	–7.3	6.4	5.1	5.0	–1.4
1994	0.1	–4.2	4.5	0.2	. .	–4.3
1995	0.4	–3.5	4.0	2.3	2.2	–1.8
			Manufacturing industry			
1992	0.3	–3.7	4.1	7.3	7.2	3.0
1993	–3.4	–5.0	1.6	4.4	5.0	3.3
1994	5.0	–0.6	5.6	3.4	2.1	–3.3
1995	5.8	–1.2	7.0	4.5	6.3	–0.7
			Construction			
1992	–0.4	1.1	–1.5	5.8	6.0	7.7
1993	–5.6	–1.5	–4.2	1.4	1.0	5.4
1994	–4.5	–3.9	–0.6	4.1	3.4	4.0
1995	1.0	–1.3	2.3	1.4	2.5	0.1
			Market services (2)			
1992	1.4	–0.2	1.6	5.3	6.0	4.4
1993	1.0	–2.1	3.2	3.4	4.0	0.8
1994	2.3	–1.3	3.6	4.0	3.2	–0.3
1995	3.1	0.7	2.5	5.1	6.3	3.7

Source: Based on Istat data.

(1) At 1990 prices; including imputed output of bank services. – (2) Excluding rental of buildings.

Consumer price inflation eroded the purchasing power of earnings for the third consecutive year. In the private sector excluding agriculture, gross earnings per full-time equivalent employee rose by 4.6 per cent; net of taxes and social security contributions, the increase came to 4.2 per cent. After taking account of inflation, real net earnings were therefore 0.9 per cent lower than in 1994 and 3.0 per cent below their 1991 level, when the last increase was recorded.

Per capita labour costs rose by more than earnings in 1995, increasing by 6.0 per cent in the goods and market services sector. The difference was due mainly to special payments to regularize social security positions and to the phasing-out of contribution relief for firms in the South.

The moderate growth in earnings and further productivity gains combined to curb unit labour costs, which rose by 1.7 per cent in the economy as a whole (Table 12). In manufacturing industry, unit labour costs declined for the second consecutive year and are now lower than in 1992. Given the behaviour of prices, these trends resulted in a further pronounced widening of profit margins.

PRICES

The Italian economy came under strong inflationary pressure in the second half of 1994 and the first few months of 1995. An acceleration in the prices of raw materials on world markets was followed by a fall in the exchange rate, and consumer prices rose as a result of a large increase in indirect taxes. With aggregate demand still strengthening rapidly, there was a risk of a resurgence of inflation involving price increases by domestic producers, expectations of higher inflation and a spiral of wage increases, price increases and further depreciation of the currency. The danger was averted and inflationary pressures contained, thanks to the highly restrictive monetary stance, continued adherence to the incomes policy and the gradual slowdown of growth in the Italian economy. The lira also recovered during the year.

Consumer prices

Measured in terms of the cost-of-living index, consumer prices rose by an average of 5.4 per cent in 1995, compared with 3.9 per cent in 1994; net of changes in indirect taxation, the rise was 4.6 per cent, compared with 3.6 per cent in 1994. The general index of consumer prices rose by 5.2 per cent in 1995, compared with 4.0 per cent in 1994 (Table a5). The price deflator of households' domestic consumption increased by 5.7 per cent (4.6 per cent in 1994).

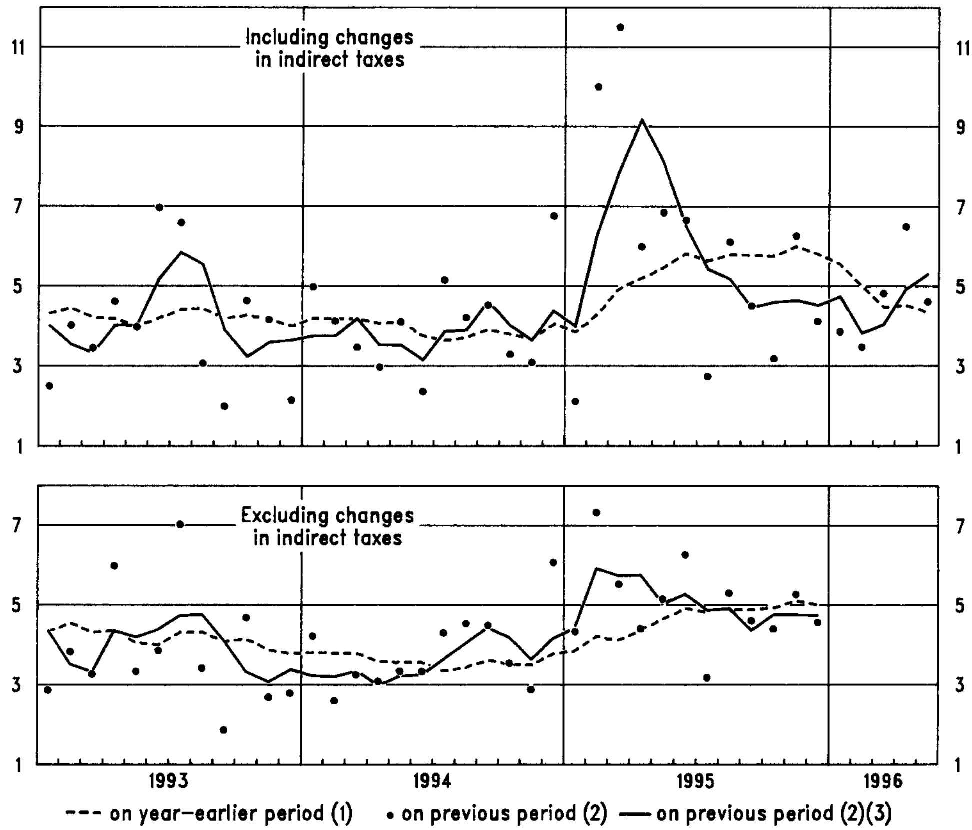
The annualized and seasonally adjusted monthly increase in the cost-of-living index, excluding changes in indirect taxes and the prices of tobacco products, averaged 5.7 per cent in the first quarter and 5.3 per cent in the second, compared with 4.2 per cent in the last quarter of 1994 (Figure 4). The resurgence of inflation followed the sharp depreciation of the lira and the increase in raw materials prices at a time of continued strong growth in domestic demand. Inflation expectations deteriorated, partly owing to fears that the rise in the level of prices caused by the increase in indirect taxes would not be temporary.

Taking account of transactions between sectors, the rise in the dollar prices of raw materials between the spring of 1994 and the spring of 1995 would of itself have caused an increase of just under 1 percentage point in final consumer prices. Similarly, had the depreciation of the lira between May 1994 and the low point reached in March 1995 been permanent — it fell by 26.1 per cent, of which 18 percentage points occurred in February and March 1995 alone — it could have contributed more than 4 percentage points to inflation.

Figure 4

COST OF LIVING

(percentage changes)



Source: Based on Istat data.
(1) Until December 1995, calculated on the index with base year 1992, reset to 100 for the 1995 average; from January 1996, calculated on the index with base year 1995. – (2) Annualized and seasonally adjusted rate using a "modified" index that takes account of the gradualness with which indirect tax increases are passed on to final prices. In order to compare monthly changes in the two indices, a reconciliation factor was estimated between the two series on the basis of the raw monthly change between January and December for the items included in both baskets of goods, aggregated with the new weights. – (3) Moving averages for the 3 months ending in the month indicated.

Just over 0.7 points of the rise in the cost-of-living index between March and May can be attributed to the increase in taxes. The annualized seasonally adjusted monthly increase in the index including changes in indirect taxes was about 11 per cent in March, more than 6 per cent in April and about 7 per cent in May; net of tax changes, it was about 5 per cent.

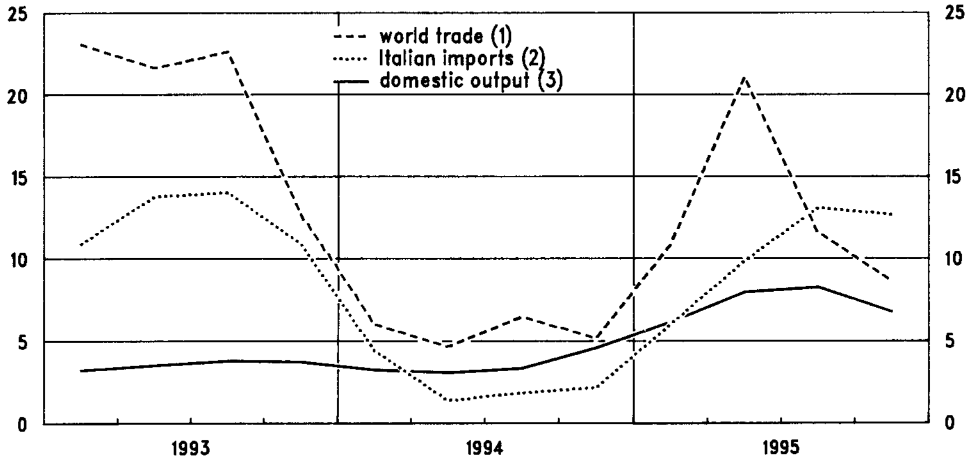
The further tightening of monetary conditions dampened expectations of higher inflation. The weakness of consumer demand and the absence of formal wage indexation mechanisms also helped prevent the feared effects of the tax increases on actual inflation. Monthly inflation rates began to fall in the summer, declining to an annualized seasonally adjusted average of 4.4 per cent net of indirect taxes in the third quarter.

There was a pause in the downward trend of inflation in the autumn. The annualized monthly rise in the cost of living adjusted for indirect taxes remained above 4.5 per cent between October and December owing to the lagged effect of the depreciation of the lira and the strength of economic activity, which was still more vigorous in Italy than abroad. The lira prices of imported manufactures continued to increase rapidly in the second half of 1995, despite the recovery of the lira (Figure 5). The pricing policies of foreign producers were influenced by the strength of growth in Italy compared with the other European countries, exchange rate uncertainty, price increases by Italian firms and the desire to widen profit margins after two years of contraction relative to those in other European markets.

Figure 5

INDICATORS OF THE PRICES OF DOMESTIC AND FOREIGN MANUFACTURED GOODS ON THE ITALIAN MARKET (1)

(percentage changes on year-earlier quarter)



Sources: Based on Istat, OECD and IMF data.
(1) Average unit values of total exports of Italy's 14 leading trading partners, expressed in lire at current exchange rates. Partially estimated. – (2) Average unit values in lire of imported manufactures. – (3) Output prices of Italian manufactures for the domestic market.

Inflation showed fresh signs of abating in the first quarter of 1996. Figures net of changes in indirect taxes are not available, owing to changes in the method of computing the cost-of-living index; however, on a seasonally adjusted basis the annualized monthly change in the index including tax increases declined to an average of just over 4 per cent in the first quarter. In April and May it rose to about 5.5 per cent; increases in the prices of non-bovine meat and oil products were a significant factor, but even without them the index would have risen by more than 4 per cent.

The rise in the prices of the main categories of goods and services did not differ markedly from that in the general index. The twelve-month rates of increase for all the main items rose sharply between the first and second quarters of 1995 (Table 13). They presented a less uniform picture in the second half of the year.

Table 13

COST-OF-LIVING INDEX (1)

(percentage changes on year-earlier period)

	Percentage weights	1994	1995				
		Year	Q1	Q2	Q3	Q4	Year
General index	**100.0**	**3.9**	**4.4**	**5.5**	**5.7**	**5.9**	**5.4**
Food	20.3	3.4	5.1	6.6	6.4	5.9	6.0
unprocessed	*9.1*	*2.1*	*3.3*	*4.5*	*4.7*	*4.5*	*4.2*
Energy products	4.0	4.6	4.1	10.4	8.2	9.5	8.1
Non-food, non-energy products	39.5	3.8	4.0	4.7	5.5	5.8	5.0
Services	22.3	3.9	4.6	5.3	5.2	5.2	5.1
Total goods and services not subject to price controls	**86.1**	**3.8**	**4.4**	**5.6**	**5.8**	**5.8**	**5.4**
Goods subject to price controls (2)	1.5	0.8	–4.6	–6.5	–5.8	–4.5	–5.4
Public utility charges	8.4	3.7	3.9	6.0	6.5	7.0	5.9
Rents	4.0	8.3	7.0	7.5	7.7	7.9	7.5
Total goods and services subject to price controls	**13.9**	**4.8**	**3.9**	**5.1**	**5.5**	**6.0**	**5.1**

Source: Based on Istat data.

(1) Base year 1992=100. – (2) Pharmaceuticals and pasta. For pharmaceuticals, Istat's entire aggregate, about one third of which are not subject to price controls. Drinking water is included among public utility charges.

Developments in the retail sector did not contribute to inflation. Continued restructuring in the sector and the weakness of demand for consumer goods meant that only part of the rise in production costs was passed on to final prices.

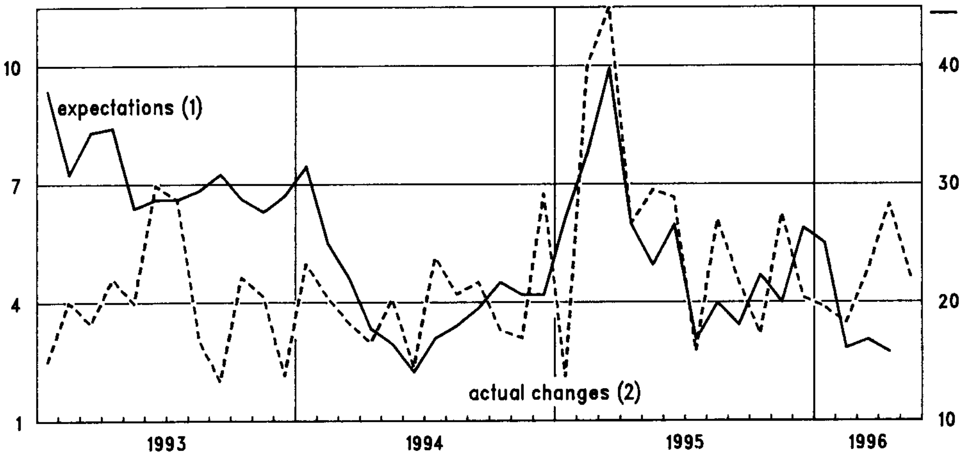
Inflation expectations

The containment of the inflationary pressures that developed in the second half of 1994 and the first part of 1995 is evident from changes in expectations, which mirrored the rises and falls in actual inflation, sometimes anticipating them and sometimes indicating enduring uncertainty about price trends.

Figure 6

EXPECTATIONS OF AN ACCELERATION IN CONSUMER PRICES ACCORDING TO ISCO SURVEYS OF HOUSEHOLDS

(percentages and percentage points; monthly data)



Source: Based on Isco data.
(1) Percentage of households expecting a "higher" rate of increase in prices in the subsequent 12 months. Some aspects of the survey were changed in January 1995. – (2) Percentage change on previous month including changes in indirect taxes; seasonally adjusted and annualized.

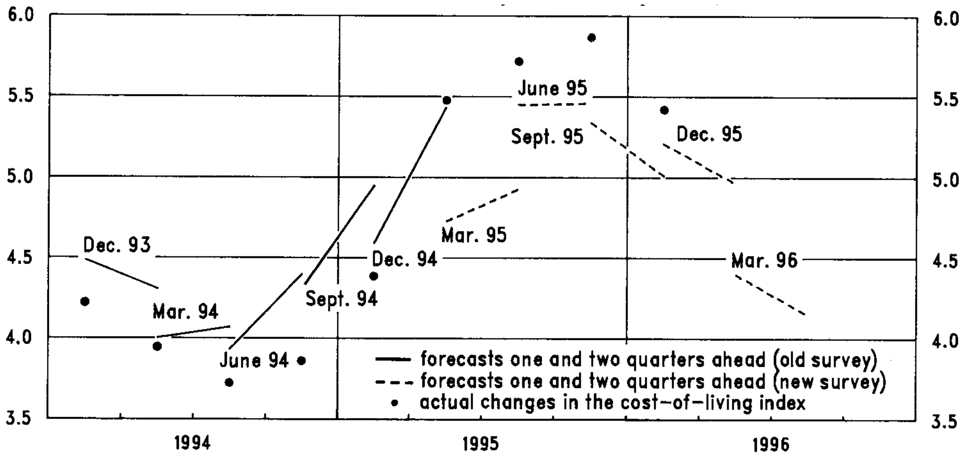
Until around mid-year the Isco monthly survey of households recorded a sharp increase in the percentage of interviewees expecting prices to accelerate in the subsequent twelve months, with a spike in March coinciding with the strongest effects of the increase in indirect taxes. In July the indicator declined to a level close to the minimum recorded in the summer of 1994 (Figure 6). Thereafter the survey showed a gradual increase in the number of households expecting higher inflation, anticipating the halt in the slowdown in prices that occurred in the last quarter of the year. The proportion fell rapidly in the first few months of 1996, in step with the actual behaviour of prices.

The findings of the Forum-ME survey of businessmen were broadly similar, although they must be treated with caution, since the questionnaire was revised for the first survey of the year (Figure 7). From the spring of 1994 onwards businessmen had correctly forecast that inflation would subsequently worsen, and in mid-1995 they came to believe that it would stabilize and then decline at the beginning of this year. The disappointing end-of-year figures prompted a more cautious view of future price developments, with the December survey indicating a slight upward revision of inflation expectations for the first quarter of 1996 compared with those reported three months earlier. However, the March survey revealed stronger expectations of a deceleration in consumer prices. The year-on-year rates expected in the second and third quarters are close to 4 per cent.

Figure 7

FORUM-ME SURVEY OF EXPECTATIONS REGARDING CONSUMER PRICE INFLATION (1)

(percentage changes on year-earlier quarter)



Sources: Based on Istat and Forum-Mondo Economico data.
(1) The survey methodology was changed in March 1995.

Prices and costs in manufacturing industry

Consumer price inflation largely mirrored movements in producer prices, albeit with a lag. Excluding intrasectoral transactions, the prices of manufactured goods for the domestic market rose by an average of 7.3 per cent in 1995, compared with 3.6 per cent in 1994. There was a rapid acceleration in the early months of the year owing to the depreciation of the lira, the rise in the foreign currency prices of raw materials and the continued rapid growth in demand. Seasonally adjusted, the annualized monthly increase averaged 10.1 per cent in the first quarter, with peaks above this level in February and March; in the second quarter the average increase was 8.8 per cent. Inflationary pressures culminated in May, and the rate of increase in the prices of manufactures began to come down rapidly thereafter owing to the easing of demand, the slowdown in the foreign currency prices of raw materials and a partial recovery of the lira. The average monthly rate fell to 4.4 per cent in the third quarter and 1.7 per cent in the fourth.

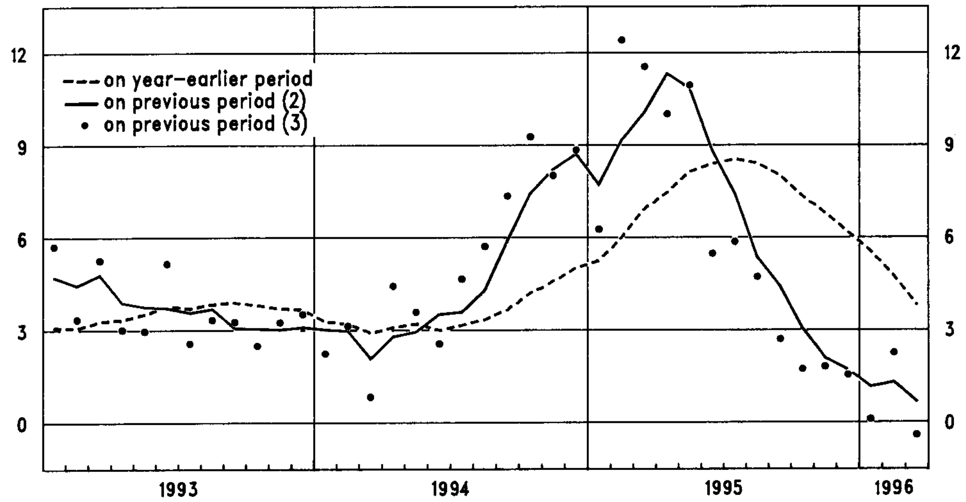
The output prices of manufactures continued to decelerate in the first three months of 1996. The average monthly rate of change was around 1 per cent (Figure 8). The decline has not yet worked fully through to the final prices of consumer goods. In March the Isco monthly survey of manufacturing firms' pricing intentions signaled continued price moderation for the coming months.

The deterioration in the exchange rate also triggered an acceleration in the lira output prices of manufactured exports, which rose by an average of 8.9 per cent in 1995, compared with 3.1 per cent in 1994. Whereas in 1994 the prices of Italian goods on the domestic market had risen by about half a point more than export prices, in 1995 there was a differential of 1.5 points in the opposite direction. In the second half of the year the average unit values of exports continued to increase despite the recovery in the nominal exchange rate.

Figure 8

OUTPUT PRICES OF MANUFACTURES FOR THE DOMESTIC MARKET (1)

(percentage changes)



Source: Based on Istat data.
(1) Bank of Italy indicators excluding intrasectoral transactions. By comparison with the manufacturing aggregate, excludes transportation equipment other than motor vehicles. – (2) Seasonally adjusted and annualized. Moving averages for the 3 months ending in the month indicated. – (3) Seasonally adjusted and annualized.

Owing to the combined effects of the depreciation of the lira and the strengthening of demand, the annual average increase in industrial output prices was 3 points higher than that in unit variable costs, which rose by 4.8 per cent (Table 14). The widening of profit margins, which was similar to the considerable increase recorded in 1994, was primarily the result of a further decline of 0.7 per cent in unit labour costs. The acceleration in the rise in labour costs per employee from 2.1 to 6.3 per cent was partly offset by further substantial gains in productivity, which increased by 7.0 per cent.

A large proportion of the increase in manufacturing costs was attributable to input prices, which rose by an annual average of 9.9 per cent, with domestic input prices increasing by 7.6 per cent and those of foreign inputs by 14.0 per cent. The acceleration occurred primarily at the end of the second quarter and the beginning of the third; the rate of increase in both domestic and foreign input prices declined gradually from the summer onwards.

The international dollar prices of raw materials rose considerably in early 1995. In the first four months of the year Confindustria's general index was 20 percentage points higher than twelve months earlier. The weakening of world demand in the spring led to a fall of 5.1 per cent in the prices of the main commodities between the second and third quarters, but they rose again, by 1.2 and 2.9 per cent respectively, in the last quarter of 1995 and the first quarter of this year, primarily as a result of the increase in oil prices. The impact on consumer prices emerged as early as March and April.

Table 14

UNIT COSTS AND FINAL PRICES IN MANUFACTURING AND MARKET SERVICES

(percentage changes)

Components (1)	Manufacturing (2)		Market services (3)	
	1994	1995	1994	1995
Input prices	**4.0**	**9.9**	**3.8**	**8.7**
Domestic (4)	3.1	7.6	3.6	8.0
energy	*4.7*	*8.2*	*3.3*	*8.0*
services	*2.7*	*6.8*	–	–
manufactures	...	–	*3.7*	*9.1*
Foreign	5.8	14.0	5.3	12.3
energy	*0.9*	*11.1*	*0.4*	*11.5*
industrial raw materials	*11.8*	*20.5*	*5.0*	*11.7*
Unit labour costs	**–3.3**	**–0.7**	**–0.3**	**3.7**
Unit variable costs (5)	**0.3**	**4.8**	**0.4**	**4.6**
Output prices	**3.4**	**7.8**	**3.8**	**5.8**
Domestic	3.6	7.3	3.6	5.8
Export	3.1	8.9	5.7	6.0

Source: Based on Istat data.
(1) Valued at 1988 prices; 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 transportation equipment other than motor vehicles. – (3) Excluding the renting of buildings. – (4) Weighted net of intra sectoral transactions. – (5) Calculated on the basis of fixed weights derived from the input-output table for 1988, at 1980 prices.

For the first time since 1992, foreign manufacturers raised the lira prices of exports to Italy broadly in line with the depreciation of the lira. The average unit value of Italian imports of manufactured goods rose by 12.3 per cent, whereas the lira depreciated by 10.4 per cent and world prices in foreign currency remained more or less stable. By contrast with the previous two years, foreign producers therefore avoided a reduction in their profit margins on the Italian market. The significant increase in Italian producers' domestic prices, especially in the first part of the year, made it easier for importers to pass the effects of the depreciation through to lira prices.

Foreign manufacturers' profit margins in the Italian market began to contract relative to those in other EU markets at the end of 1989 after widening for more than a decade. The decline became more pronounced following the depreciation in 1992.

Income distribution

The expansion of domestic demand, wage restraint and above all the depreciation of the lira led to an increase in gross profits in the economy as a whole for the third year in succession (Table 15). The share of labour income in the value added of the goods and market services sector, calculated by attributing to self-employed workers the same per capita income as employees, fell from 65.9 to 64.2 per cent, a slightly smaller decrease than the previous year. Profit margins are now higher than between 1986 and 1988 in the wake of the oil countershock. The increase was accompanied by a significant rise in retained profits.

Table 15

INCOME DISTRIBUTION BY SECTOR

(percentages and percentage changes)

	Labour income as share of value added (1)			Changes 1995/1994			
	1993	1994	1995	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	**86.4**	**80.7**	**75.1**	**–2.3**	**–3.9**	**0.8**	**–6.8**
Industry	**68.0**	**64.9**	**62.2**	**1.1**	**–5.6**	–0.4	**–4.2**
Excluding construction	*66.8*	*63.2*	*60.1*	*1.6*	*–6.3*	..	*–4.9*
Energy products	*34.1*	*31.3*	*30.7*	*2.5*	*–6.1*	*–2.1*	*–1.7*
Manufactures	*70.9*	*67.3*	*63.6*	*1.6*	*–6.6*	*0.4*	*–5.5*
Construction	*68.4*	*68.0*	*66.5*	*–2.0*	*–2.3*	*–2.1*	*–2.2*
Market services (5)	**63.6**	**62.1**	**61.5**	**1.6**	**–2.4**	**0.2**	**–1.0**
Total	**68.2**	**65.9**	**64.2**	**1.3**	**–3.9**	**..**	**–2.6**

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 goods and market services at factor cost. – (3) Ratio of total standard labour units to value added of each branch at factor cost at 1990 prices. – (4) Ratio of the implicit value added deflator of each branch at factor cost to that of goods and market services. – (5) Excluding the renting of buildings.

The rise in profit margins was largest in manufacturing industry. However, the trend in manufacturing costs and producer prices during the year indicates that the increase is slowing down, in parallel with the deterioration in economic activity and the strengthening of the lira, which have reduced the scope for price increases.

THE BALANCE OF PAYMENTS AND THE EXCHANGE RATE OF THE LIRA

The further substantial increase in the trade surplus contributed to a rise of more than 20 trillion lire in the surplus on the current account of the balance of payments to 44,583 billion last year, equivalent to 2.5 per cent of GDP (Table 16). At the same time Italy's net external debtor position declined from 117,825 to 83,751 billion lire (4.7 per cent of GDP), the third consecutive decrease. Financial flows were extremely variable last year, with total bank and non-bank capital movements recording a net outflow of 7,764 billion lire. Net of exchange rate and valuation adjustments, the official reserves rose by 2,910 billion lire; holdings of convertible currencies increased by less than 1 trillion lire, while those of official ecus rose by almost 2 trillion. The errors and omissions item showed a substantial deficit of 33,909 billion lire, equal to 0.4 per cent of gross transactions on current and capital account.

Table 16

BALANCE OF PAYMENTS
(billions of lire)

	1993	1994	1995
Current account	**17,828**	**24,329**	**44,583**
Goods	51,989	57,193	71,744
Invisibles	–34,161	–32,864	–27,161
Capital movements	**14,799**	**–22,291**	**–7,764**
Non-bank capital	99,388	–43,885	50,338
Bank capital	–84,589	21,594	–58,102
Errors and omissions	**–30,421**	**1,271**	**–33,909**
Change in official reserves (1)	**–2,206**	**–3,309**	**–2,910**

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

Merchandise trade

Merchandise exports and imports at current prices grew at almost identical rates (22.3 and 22.0 per cent respectively), resulting in a further large increase of more than 14.5 trillion lire in the trade surplus on an *fob fob* basis to 71,744 billion lire, equal to 4.0 per cent of GDP, the highest figure for 25 years.

The growth of imports and exports in value terms reflected widely differing price and volume developments. In volume terms, the increase in exports was more than three percentage points higher than that in imports (11.9 and 8.7 per cent respectively), while the terms of trade worsened by 2.7 per cent. This deterioration, the first of any significance since 1992, was caused chiefly by the rapid acceleration in the average unit values of imports, which increased by 12.3 per cent in 1995, compared with 4.0 per cent in 1994 (Table 17).

Table 17

MERCHANDISE TRADE, *CIF-FOB*

(percentage changes)

	1993	1994	1995
Exports			
At current prices	21.3	15.7	22.3
Average unit values	11.4	3.7	9.3
At constant prices	8.9	11.7	11.9
Imports			
At current prices	0.4	16.9	22.0
Average unit values	11.7	4.0	12.3
At constant prices	–10.2	12.4	8.7
Exports/imports			
At current prices	20.6	–0.9	0.1
Average unit values	–0.3	–0.3	–2.7
At constant prices	21.0	–0.6	2.9
Memorandum items:			
Weighted global demand (1)	–3.6	5.1	6.4
World trade (2)	4.0	9.2	8.8

Source: Based on IMF, OECD and Istat data.
(1) Exports of goods and services and domestic demand, including change in stocks, weighted according to import content; the 1995 figure is partly estimated. – (2) Average of the annual growth in world imports and exports.

The lira prices of imports were affected not only by a recovery in the dollar prices of energy products and other raw materials but also by the devaluation of the lira, which was reflected wholly in the lira prices of imported manufactures, whereas in 1993 and 1994 the pass-through had been only partial.

The depreciation of the lira was also incorporated into the average unit values of exports in lire, which rose by 9.3 per cent. Italian exporters opted to increase their unit earnings rather than increase further their price competitiveness in foreign markets. Average unit values continued to rise in the second half of the year, notwithstanding the recovery of the lira and the gradual slowdown in domestic producer prices.

The growth in the volume of exports continued to accelerate in 1995; as in the preceding two years, it far exceeded that in world trade, estimated at 8.8 per cent by the IMF. The further substantial increase in Italy's market shares reflects earlier gains in competitiveness, which offset the adverse effects of slower growth in Italy's main export markets, notably the major economies of continental Europe.

The largest growth in exports was recorded by industries producing metal products, agricultural and industrial machinery, office machines, electrical equipment and motor vehicles. This was the result not only of the recovery in investment in the major industrial countries but also of the pricing policies adopted by enterprises in these industries, which were geared more strongly towards winning market share than those of their European competitors or Italian enterprises in other industries. In contrast, exports of textiles and clothing, leather goods and footwear increased less strongly in 1994, reflecting the weak growth in consumption in Italy's traditional European markets.

Imports rose by 8.7 per cent in volume, compared with 12.4 per cent in 1994. The growth in imports of manufactured goods slowed down more sharply, from 15.0 to 10.5 per cent. The pattern of imports during the year was highly erratic, mainly on account of fluctuations in exchange rates and international commodity prices. In the first quarter, when the lira was depreciating rapidly and the dollar prices of primary products soaring, importers reduced purchases and drew down their stocks, partly in the expectation that these factors would be only temporary. In the following quarter the pressures on the exchange rate and on raw materials prices eased; imports rose at an annual rate of 16.5 per cent, fueled by both foreign and domestic demand, primarily for capital goods in the case of the latter. The rate of growth of imports slowed down gradually in the second half of the year, reflecting the general decline in demand.

Imports consisted mostly of capital goods, such as metal products, agricultural and industrial machinery, office machines and precision instruments, electrical goods, motor vehicles and engines. In the last two years the lira import prices of these products have risen by slightly less than domestic producer prices, contrary to the trend for manufactured goods as a whole. Foreign suppliers were thus able to recover some of the market share that had been badly eroded in 1993 by the combined effects of the recession and the devaluation of the lira.

The increase in the trade surplus at current prices came largely from trade with non-EU countries, which amounted to 7.6 trillion lire on a *cif-fob* basis. There was an improvement in trade with all the main geographical areas except the OPEC countries. Trade with the European Union generated a surplus of 13 trillion lire, only 1.1 trillion more than in 1994.

Invisibles

There was a deficit of 27,161 billion lire on the invisible items of the balance of payments (services, investment income and unrequited transfers), about 5.7 trillion less than in 1994 (Table 18).

Table 18

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

	1993	1994	1995
Current account	**17,828**	**24,329**	**44,583**
Goods	**51,989**	**57,193**	**71,744**
Invisibles	**–34,161**	**–32,864**	**–27,161**
Services	1,299	3,053	2,776
Transport	–6,612	–9,206	–13,614
Travel	12,555	18,821	24,487
Other services	–4,644	–6,562	–8,097
Construction services	1,957	2,347	2,697
Communications	–308	–515	–548
Trade-related and financial services	–1,926	–3,379	–4,457
Insurance services	96	175	872
Personal services	–1,545	–1,410	–1,958
Business services	–4,172	–4,257	–4,091
Government services	537	555	–232
Other	717	–78	–380
Income	–26,958	–26,625	–25,224
Investment income	–26,858	–26,815	–26,377
Compensation of employees	–100	190	1,153
Transfers	–8,502	–9,292	–4,713
Private	724	–24	1,191
Workers' remittances	679	410	161
Other	45	–434	1,030
Public	–9,226	–9,268	–5,904
From/to EU	–4,512	–4,812	–1,966
Other	–4,714	–4,456	–3,938

The surplus on foreign travel rose from 18,821 to 24,487 billion lire and from 1.1 to 1.4 per cent of GDP, benefiting from the continued improvement in the price competitiveness of Italy's tourist services. Receipts increased by 16.7 per cent in nominal terms and by 11.0 per cent at constant prices, compared with 6.4 per cent in 1994. The acceleration was the result of an appreciable increase in per capita spending (8.6 per cent in nominal terms and 3.3 per cent in real terms); by contrast, the rise in overnight stays slowed down from 20.8 to 10.8 per cent. Expenditure by Italian tourists abroad rose by 3.8 per cent at current prices but contracted by a further 8.4 per cent in real terms. Between 1992 and 1995 the proportion of final national consumption spent on foreign travel declined by half a point, from 2.4 to 1.9 per cent.

The deficit on transport services increased by about 4.4 trillion lire, rising from 9,206 to 13,614 billion, or 0.8 per cent of GDP. More than 3 trillion lire of the deterioration was attributable to maritime transport, divided equally between freight and auxiliary services, in connection not only with the higher volume of trade (most of which was carried in foreign vessels) but also with the probable increase in freight rates.

Trade in other services gave rise to a net deficit of 8,097 billion lire, about 1.5 trillion more than in 1994. The increases in the deficits on trade-related and financial services (1,1 trillion lire, attributable mainly to financial services), government services (800 billion) and personal services (especially audiovisual services, 400 billion), outweighed the rise in the surpluses on construction services (350 billion) and insurance services (700 billion). After worsening steadily for four years, the deficit on business services declined slightly, thanks to the reduction in the deficit on trade in intangible technology (patents, licences and technical assistance, amounting to about 900 billion lire).

The net outflow of investment income amounted to 26,377 billion lire, about 500 billion less than in 1994, and declined from 1.6 to 1.5 per cent of GDP. The improvement would have been larger but for the increase in the net outflow of portfolio investment income (more than 1 trillion lire). The smallness of the reduction despite the appreciable contraction in Italy's net external debt was attributable to the widening of interest rate differentials in favour of the lira, since lira-denominated instruments make up a larger proportion of liabilities than assets.

The deficit on unrequited transfers decreased by almost half, from 9,292 to 4,713 billion lire. The improvement was largely attributable to a decline in official transfers, particularly those to the EU, which fell by 2,846 billion lire owing to an increase in the total net receipts of the EU last year, reflecting not only the budgetary contributions from the three new member countries but also the surplus of more than Ecu 6,5 trillion on the 1994 budget, which was carried over to 1995.

Italy's external position

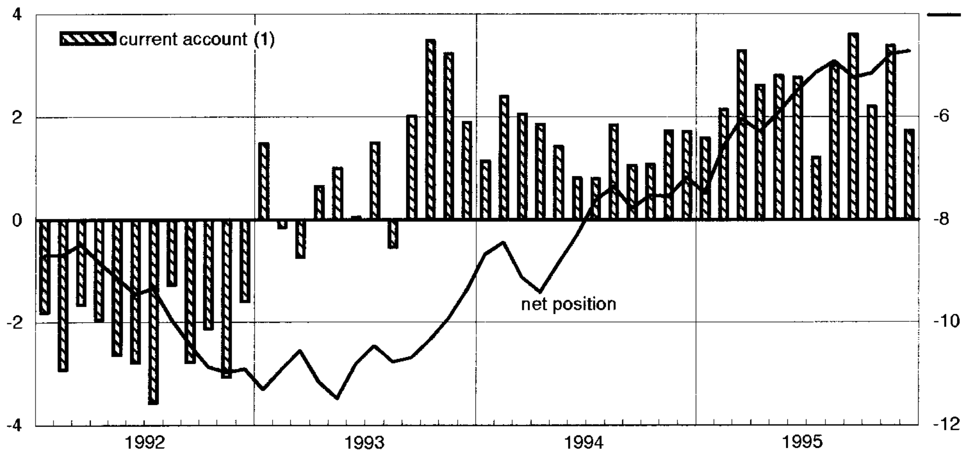
The substantial current account surplus in 1995 reflects an excess of national savings over investment for the third consecutive year, thereby permitting a further reduction in the net external debt accumulated during the eighties.

Italy's net external liabilities declined from 117,825 billion lire at the end of December 1994 to 83,751 billion a year later, a fall of 34,074 billion; as a proportion of GDP they decreased by about two and a half percentage points to 4.7 per cent. The improvement was due not only to the increase in the current account surplus (Figure 9) but also to changes in exchange rates and securities prices; the fall in share prices in Italy and the rise in share prices abroad produced a positive adjustment of more than 23 trillion lire, far larger than the positive adjustment of about 400 billion due to the depreciation of the lira.

Figure 9

BALANCE OF PAYMENTS ON CURRENT ACCOUNT AND ITALY'S NET EXTERNAL POSITION

(as a percentage of GDP)



Source: For GDP data, Istat.
(1) Seasonally adjusted.

The external assets of non-bank residents increased by 70,559 billion lire last year, while their direct liabilities grew by 81,237 billion lire. Their net external position would thus appear to have worsened by 10,678 billion at year-end exchange rates and securities prices (Table a9), but if the data are reclassified according to the origin of the demand for foreign funds — by attributing to non-banks the portion of banks' foreign liabilities that is converted into loans to residents in foreign currency or indexed to foreign currencies, on the assumption that the demand for foreign currency leads banks to raise foreign currency abroad — in reality the net external position of non-bank residents improved by about 25 trillion lire. The size of the improvement was reduced by the large growth of about 65 trillion lire in the state sector's net external liabilities (Table 19).

Table 19

NET EXTERNAL POSITION BY SECTOR: DATA RECLASSIFIED ACCORDING TO ORIGIN OF THE DEMAND FOR FOREIGN FUNDS (1)

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

	State sector	Central bank	Banks	Non-bank private sector					Overall total
				Households & investment funds	Non-financial enterprises	Other enterprises	Unallocated	Total	
1990	–57	103	–27	41	–142	..	–15	–116	–97
1991	–77	94	–44	62	–155	7	–10	–96	–123
1992	–104	36	–9	85	–190	17	1	–87	–164
1993	–216	50	31	127	–172	25	10	–10	–145
1994	–241	59	–24	141	–136	35	48	88	–118
1995	–306	50	–6	156	–111	43	90	178	–84

(1) 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 axchange 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 the banks exclude foreign currency as waps between the central bank and the banks. The banks' net position also excludes amounts with a counterpart in lending to residents in foreign currency (net of deposits) and in lire indexed to foreign currencies, which are deducted directly from the figures for the state and non-bank private sectors.

The net external debtor position of resident banks stood at 108,535 billion lire on 31 December 1995, 44,712 billion less than a year earlier. Their net external liabilities in foreign currency alone fell from 155,841 to 130,513 billion, the level recorded at the end of 1991, while their foreign currency claims on residents declined from 82,209 to 52,613 billion lire.

At the end of last December the net assets of the Bank of Italy amounted to 91,476 billion lire, substantially the same as at the end of the previous year. Convertible foreign currencies and gold amounted to 38,377 billion and 40,257 billion lire respectively and currency swaps with resident banks totaled 41,791 billion.

The international integration of Italy's financial markets continued last year. Gross financial transactions with non-residents rose by 36.3 per cent over the previous year, compared with a rise of 23.3 per cent in 1994. Gross external assets grew by 12.7 per cent to about 949 trillion lire at the end of the year and gross external liabilities by 7.6 per cent to more than 1,032 trillion lire (Table a9). As a proportion of residents' total financial assets and liabilities, they increased to 11,2 and 11,9 per cent respectively. Among the six leading industrial nations, these ratios are surpassed only in the United Kingdom; they are broadly similar to those in France and Germany and higher than those in Japan and the United States.

Capital movements and the exchange rate of the lira

In 1995 transactions on the capital account of the balance of payments gave rise to a modest net outflow of 7,764 billion lire, only slightly more than one third of the 1994 figure (Table 20). The outturn for the year in fact conceals a succession of contrasting movements in foreign financial transactions, particularly as regards portfolio investment, and in the exchange rate of the lira.

Table 20

CAPITAL MOVEMENTS
(net flows in billions of lire)

	1994	1995	1995			
			Q1	Q2	Q3	Q4
Non-bank capital	**–43,885**	**50,338**	**–9,382**	**20,900**	**9,418**	**29,402**
Italian capital	–84,109	–34,856	–10,482	–9,232	–8,138	–7,004
Direct investment	–8,238	–9,337	–1,043	–3,774	–1,650	–2,870
of which: real estate	*–303*	*–422*	*–121*	*–96*	*–98*	*–107*
Portfolio investment	–52,135	–11,865	–4,918	–682	–6,329	64
Loans	–13,548	–4,444	30	–1,499	–2,618	–357
Trade credit (1)	–10,188	–9,210	–4,551	–3,277	2,459	–3,841
Foreign capital	40,224	85,194	1,100	30,132	17,556	36,406
Direct investment	3,606	7,846	1,719	1,362	630	4,135
of which: real estate	*88*	*444*	*34*	*74*	*55*	*281*
Portfolio investment	43,871	61,490	–5,112	17,549	19,507	29,546
Loans	–14,279	9,656	–2,299	10,703	915	337
Trade credit (1)	7,026	6,202	6,792	518	–3,496	2,388
Bank capital	**21,594**	**–58,102**	**4,928**	**–10,389**	**–19,564**	**–33,077**
Total	**–22,291**	**–7,764**	**–4,454**	**10,511**	**–10,146**	**–3,675**

(1) For 1995 partly estimated.

In the first quarter of last year net foreign portfolio disposals amounting to more than 5.1 trillion lire were accompanied by Italian portfolio investment abroad of about 4.9 trillion. The lira depreciated by 13.8 per cent between December 1994 and April 1995 in response to domestic political uncertainty and the sharp decline of the dollar in the wake of the Mexican financial crisis.

From April onwards investors' fears were allayed by the approval of corrective fiscal measures and the reform of the pension system, combined with a monetary stance that was more restrictive in Italy and more expansionary in the rest of Europe. Inflows of foreign portfolio investment revived in the second quarter, amounting to 17.5 trillion lire (almost 7 trillion net of Republic of Italy issues). Moreover, Italian investors reduced their purchases of securities issued by non-residents, so that outflows on account of Italian portfolio investment abroad amounted to little more than 500 billion lire between April and June. The nominal effective exchange rate of the lira benefited from the increase in demand for lira-denominated assets, rising by 5.5 per cent over the same period.

In the following months net foreign portfolio investment remained positive, while Italian portfolio investment abroad fluctuated sharply. The lira continued to appreciate and by mid-September had recovered to a level only 2.5 per cent less than the average for December 1994.

In the second half of September the decline of the dollar and spreading pessimism about Italy's future participation in monetary union were accompanied by portfolio investment abroad of over 4 trillion lire; the lira faltered again, depreciating by 3.4 per cent in one week and remaining around that level until mid-November.

In the last two months of 1995 the strengthening of expectations of a reduction in domestic interest rates led to net foreign portfolio investment in Italy amounting to 29,546 billion lire. At the end of the year the nominal effective exchange rate of the lira against the currencies of Italy's principal trading partners was 4.2 per cent lower than the average for December 1994.

The recovery of the lira that began in mid-November continued until the end of January, despite a change in the direction of portfolio investment in that month. The exchange rate remained substantially unchanged in subsequent weeks, except for a brief dip in mid-February. In the second half of April the lowering of German interest rates, the appreciation of the dollar and the prospects of greater domestic stability in the wake of the parliamentary elections and the formation of the new Government induced a further recovery in the lira, which on 22 May was 7.5 per cent above the average for December 1995 and at its highest level since July 1994.

In 1995 as a whole Italian portfolio investment abroad gave rise to a net outflow of just under 12 trillion lire, compared with one of more than 52 trillion in 1994. Net transfers on deposits and current accounts with foreign banks amounted to little more than 5 trillion lire.

Net inward portfolio investment totaled 61,490 billion lire, compared with 43,871 billion in 1994. More than 80 per cent of purchases (50,137 billion lire) consisted of government securities; Republic of Italy issues gave rise to net inflows of 17,215 billion lire.

Just over 17 trillion lire of the foreign purchases of lira-denominated Italian government securities were hedged against exchange risk by means of repurchase agreements with Italian banks. A further portion may have been covered by borrowing lire from Italian banks without surrendering the securities as collateral; this would explain part of the increase of almost 41 trillion lire in banks' external lira assets. The bulk of transactions were in Treasury bonds and Treasury credit certificates (Table 21).

Table 21

FOREIGN PORTFOLIO INVESTMENT IN ITALY
(flows in billions of lire)

	1994 Year	1995 Year	1995			
			Q1	Q2	Q3	Q4
Government securities	41,777	50,137	−7,818	17,043	16,109	24,803
Treasury bills	*1,130*	*4,982*	*−1,121*	*808*	*2,140*	*3,155*
Treasury bonds	*−3,560*	*12,394*	*−11,407*	*5,846*	*8,553*	*9,402*
Ecu Treasury bills	*−1,535*	..	..	..	..	..
Ecu Treasury certificates	*4,594*	*−1,802*	*−931*	*235*	*−895*	*−211*
Treasury credit certificates	*20,151*	*20,293*	*7,015*	*3,643*	*1,304*	*8,331*
Treasury option certificates	*5,545*	*−3,047*	*−2,115*	*−3,966*	*2,427*	*607*
Other	*179*	*1,073*	*1,177*	*218*	*−324*	2
Republic of Italy issues (1)	*15,273*	*16,244*	*−436*	10,259	*2,904*	3,517
Investment fund units	22	27	3	−1	13	12
Listed bonds	−2	−823	−135	−341	−66	−281
Listed shares	−1,861	8,518	−429	1,074	3,291	4,582
Other securities	335	140	−139	98	133	48
Deposits	982	−12	−3	−5	..	−4
Derivative instruments	20	1,768	419	368	415	566
Other financial instruments	3,948	1,629	419	221	−94	1,083
Amounts not allocated (2)	−1,350	106	2,571	−908	−294	−1,263
Total	**43,871**	**61,490**	**−5,112**	**17,549**	**19,507**	**29,546**

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

Italian direct investment abroad, net of disposals, grew by 13.3 per cent, generating net outflows of 9,337 billion lire. Net foreign direct investment in Italy more than doubled to 7,846 billion lire, owing partly to the opportunities offered by the privatization of several publicly-owned enterprises and partly to the lower cost of purchases as a result of the depreciation of the lira and the low prices of Italian shares.

Italian loans to non-residents, net of repayments, rose to 4,444 billion lire, of which 2,795 billion was paid to Italian exporters by SACE. Net foreign loans gave rise to net inflows of almost 10 trillion lire, attributable entirely to the ecu-denominated Republic of Italy bank loan received in April and May.

The rapid expansion in merchandise trade was reflected in an increase in gross flows of trade credit. Net of repayments, credit extended to non-residents gave rise to outflows of 9,210 billion lire, compared with 10,188 billion in 1994, while credit granted by non-residents generated inflows of 6,202 billion lire, against 7,026 billion in 1994.

PUBLIC FINANCES

The results for the year

For both the state sector and general government, the overall budget deficit contracted in 1995, the primary surplus increased and financial liabilities declined in relation to GDP.

The objectives for the public finances were achieved; the main financial balances came out below the original targets, both in absolute terms and in relation to GDP. The state sector borrowing requirement was substantially lower than in the previous year; net of settlements of past debts and privatization proceeds, it fell from 155.6 to 130.2 trillion lire and from 9.5 to 7.4 per cent of GDP. The sector's primary surplus rose from 1.1 to 3.6 per cent of GDP. Accordingly, the ratio of public debt to GDP diminished for the first time in fifteen years. General government net borrowing — the balance of the sector's income statement used for the European Union's excessive deficit procedure — fell from 148 to 125.5 trillion lire, or 7.1 per cent of GDP.

Both structural and contingent factors contributed to the achievement of these results. The 1995 budgetary measures, which were enacted in several steps, reduced the deficit on a current programmes basis by around 3 per cent of GDP. However, a substantial part of the improvement was attributable to one-off increases in revenue. Overall, the ratio of taxes and social security contributions to GDP remained basically unchanged. The larger-than-expected rises in prices and output boosted both the primary surpluses and the nominal variables against which the public finance aggregates are normally measured. The gradual implementation of reforms affecting major areas of expenditure continued to moderate the rising trend of current outlays and led to a further decline in the ratio of public expenditure to GDP, which had already fallen as a result of the decrease in public investment in relation to GDP in the three preceding years. The early transfer of resources from the EU and the deposit of former autonomous government agencies' funds with the Treasury also had a beneficial effect. These deposits were not large enough to influence the results for 1995 significantly, but they could be withdrawn during 1996, thus aggravating the borrowing requirement.

Although Italy's initial situation was less favourable than that of other countries, it made a larger fiscal adjustment than the other leading EU countries in 1995: in Germany net borrowing actually rose in relation to GDP, while the declines in the ratios for France, the United Kingdom, Spain and the European Union as a whole were smaller than that achieved by Italy. Primary balances show a similar pattern: in France, the United Kingdom and Spain they improved by less than in Italy in relation to GDP, while Germany's ratio deteriorated. In most European countries, however, the ratio of public debt to GDP is much lower than in Italy.

Table 22

GENERAL GOVERNMENT, STATE SECTOR AND PUBLIC SECTOR BORROWING REQUIREMENTS

(billions of lire)

	1992	1993	1994	1995
General government				
Total borrowing requirement	161,652	177,731	160,202	129,880
as a percentage of GDP	*10.8*	*11.5*	*9.8*	*7.3*
Borrowing requirement net of settlements of past debts and privatization proceeds	160,852	166,901	159,680	135,048
as a percentage of GDP	*10.7*	*10.8*	*9.7*	*7.6*
Primary borrowing requirement (1)				
as a percentage of GDP	*–0.7*	*–1.3*	*–1.0*	*–3.6*
State sector (2)				
Total borrowing requirement	156,507	165,358	156,152	124,274
as a percentage of GDP	*10.4*	*10.7*	*9.5*	*7.0*
Borrowing requirement net of settlements of past debts and privatization proceeds (3)	156,476	154,521	155,634	130,247
as a percentage of GDP	*10.4*	*10.0*	*9.5*	*7.4*
Primary borrowing requirement (1) (3)				
as a percentage of GDP	*–0.8*	*–1.7*	*–1.1*	*–3.6*
Public sector				
Total borrowing requirement	166,301	177,445	167,206	133,154
as a percentage of GDP	*11.1*	*11.4*	*10.2*	*7.5*
Borrowing requirement net of settlements of past debts and privatization proceeds	165,501	166,615	166,684	138,322
as a percentage of GDP	*11.0*	*10.7*	*10.2*	*7.8*
Primary borrowing requirement (1)				
as a percentage of GDP	*–0.6*	*–1.5*	*–0.7*	*–3.5*
Memorandum item:				
Withholding tax on income from government securities *as a percentage of GDP*	*1.1*	*1.1*	*1.1*	*1.1*

(1) Borrowing requirement net of settlements of past debts, privatization proceeds and interest payments. – (2) According to the definition used by the Ministry of the Treasury, which excludes ANAS and the other autonomous government agencies. – (3) Also net of receipts of interest and other minor items accruing to the sinking fund for the redemption of government securities.

The general government borrowing requirement fell from 160.2 to 129.9 trillion lire, and from 9.8 to 7.3 per cent of GDP (Table 22). This reflected the fact that settlements of past debts, which increase the borrowing requirement, fell by more than half, while privatization proceeds, which have the opposite effect, rose to over 8.3 trillion. The borrowing requirement of the broader public sector also decreased substantially, partly owing to the improvement in the income statements of the public enterprises producing goods and services, including the State Railways.

General government net borrowing decreased by 22.5 trillion lire, falling from 148 to 125.5 trillion and from 9 to 7.1 per cent of GDP, the sharpest decline since the ratio began to fall in 1991. The reduction in the deficit appears all the more important in that it was produced by a fall in the ratio of expenditure to GDP (from 52.5 to 50.9 per cent excluding settlements of past debts (Table 23 and Figure 10), while the ratio of total revenue to GDP and that of taxes and social security contributions remained unchanged.

Table 23

MAIN INDICATORS OF GENERAL GOVERNMENT FINANCES

(as a percentage of GDP)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Tax and social security receipts (1)	35.2	36.0	36.6	38.2	38.8	39.7	42.0	43.4	40.6	40.6
Total expenditure (2)	49.7	49.2	49.4	50.5	51.9	52.5	54.3	55.6	52.5	50.9
of which: interest payments	*8.5*	*8.0*	*8.2*	*8.9*	*9.6*	*10.2*	*11.4*	*12.1*	*10.7*	*11.2*
Net borrowing (2)	11.7	11.0	10.7	9.9	10.7	10.2	9.5	9.1	8.8	7.1
Deficit on current account	*6.7*	*6.1*	*6.0*	*5.3*	*6.1*	*5.9*	*5.4*	*4.8*	*5.5*	*4.0*
Deficit on capital account (2)	*5.0*	*4.9*	*4.7*	*4.6*	*4.6*	*4.3*	*4.1*	*4.3*	*3.3*	*3.1*
Primary deficit/surplus (–) (3)	3.2	3.0	2.5	1.0	1.1	. .	–1.9	–3.0	–1.9	–4.1

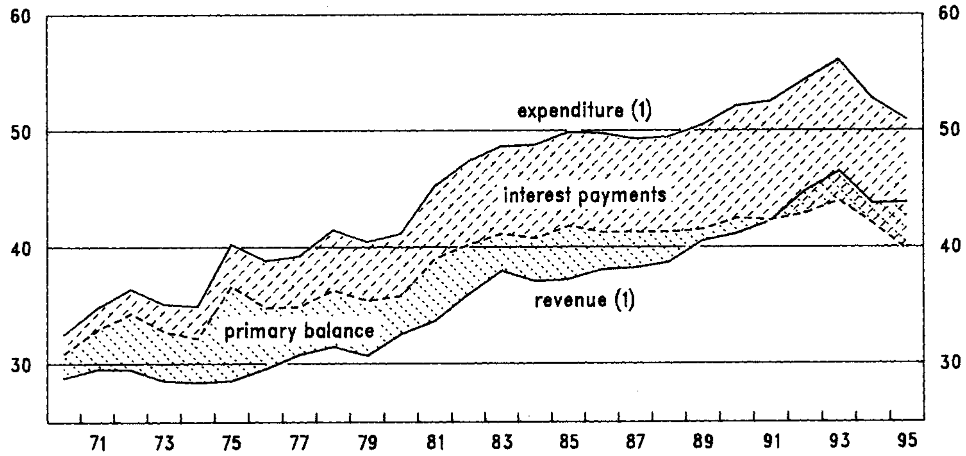
(1) Including revenues attributable to the EU and capital taxes. – (2) Excluding settlements of past debts. – (3) Net borrowing, excluding settlements of past debts and interest payments.

The increase in tax revenue was primarily due to a rise in indirect tax receipts, which were boosted by the supplementary budget measures adopted in February and the strong growth in economic activity. Capital taxes also contributed, with receipts rising by 0.5 per cent of GDP. Consequently, the value of the fiscal ratio used for international comparisons —the ratio to GDP of the sum of direct and indirect taxes (excluding the amount accruing to the EU), social security contributions and capital taxes —rose from 41.7 per cent in 1994 to 41.8 per cent in 1995, compared with an average of 42.3 per cent in the EU excluding Italy (Figure 11).

Figure 10

GENERAL GOVERNMENT REVENUE AND EXPENDITURE

(as a percentage of GDP)



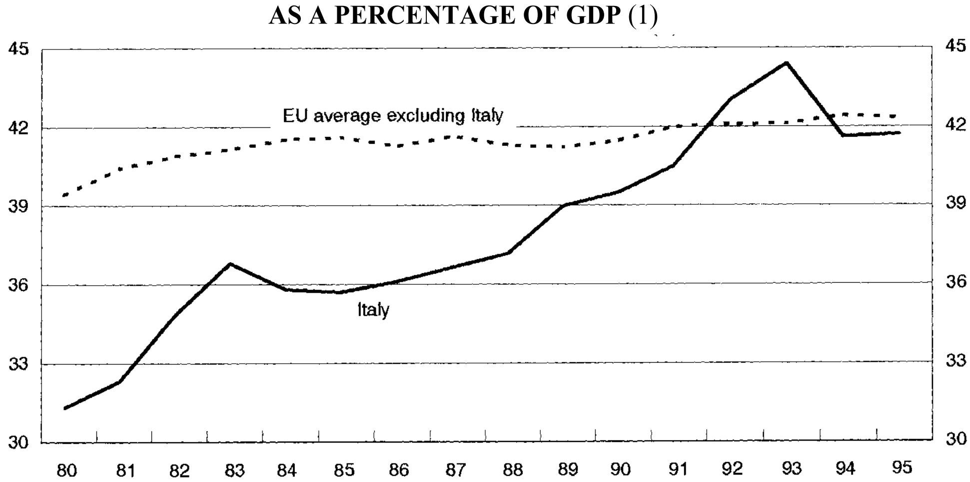
(1) Excluding imputed social security contributions.

From 1980 to 1995 the fiscal ratio calculated gross of imputed social security contributions and capital taxes rose by more than 10 percentage points. At the beginning of the period it was 8 percentage points below the European average, but it gradually rose to exceed that level in 1992 and 1993 before falling just below it in 1994 and 1995.

For the second successive year the growth in expenditure net of interest payments remained below the increase in consumer prices, with the result that the ratio of this aggregate to GDP declined from 41.8 per cent in 1994 to 39.7 per cent in 1995, its lowest value since 1981.

Figure 11

TAX AND SOCIAL SECURITY CONTRIBUTIONS AS A PERCENTAGE OF GDP (1)



Sources: For Italy, based on Istat data; for the EU, Commission of the European Union.

(1) Including imputed social security contributions and capital taxes.

The decrease in general government net borrowing was matched by improvements in the other balances of the sector's income statement: the primary surplus rose from 28 to 72.6 trillion lire and from 1.7 to 4.1 per cent of GDP, and the current deficit declined for the fourth successive year, falling from 93 to 79 trillion.

The outturn for the year appears more favourable than the estimates published in June in the Economic and Financial Planning Document for 1996-98, which for the first time contained figures and targets for general government. The actual figures for the sector's net borrowing and primary surplus were 125.5 and 72.6 trillion lire, compared with estimates of 131.9 and 58.9 trillion.

The size of the budgetary adjustment and the increase of more than 2 percentage points in the general government primary surplus in relation to GDP suggest that the public finances had a restrictive effect on economic activity in 1995.

The composition of the funding of the general government borrowing requirement changed significantly. Despite the increase in sales of fixed rate securities, net issues of medium and long-term securities declined from 90.5 to 70.1 per cent of total funding (excluding the issue of around 76 trillion lire of securities in 1994 in connection with the closure of the Treasury's current account with the Bank of Italy), owing in part to large net redemptions of Treasury credit certificates. Last year the Treasury introduced 2-year zero-coupon certificates; since the related interest is included in the accounts at redemption, this helped to ease the burden of debt servicing. Net redemptions of 800 billion lire of short-term securities and the further increase in the balances on the Treasury's payment account and the sinking fund for the redemption of government securities made a negative contribution to funding. On the other hand, there was a small increase in the share of postal deposits and a substantial rise in that of sales of securities abroad.

The sinking fund for the redemption of government securities, which is held by the Bank of Italy, was set up under Law 432/1993. The Treasury drew on it for the first time last year on two occasions to buy back securities totaling 5.8 trillion lire. The bulk of the Fund's resources consists of the proceeds of sales of shareholdings by the Treasury, which amounted to 8.4 trillion in 1995.

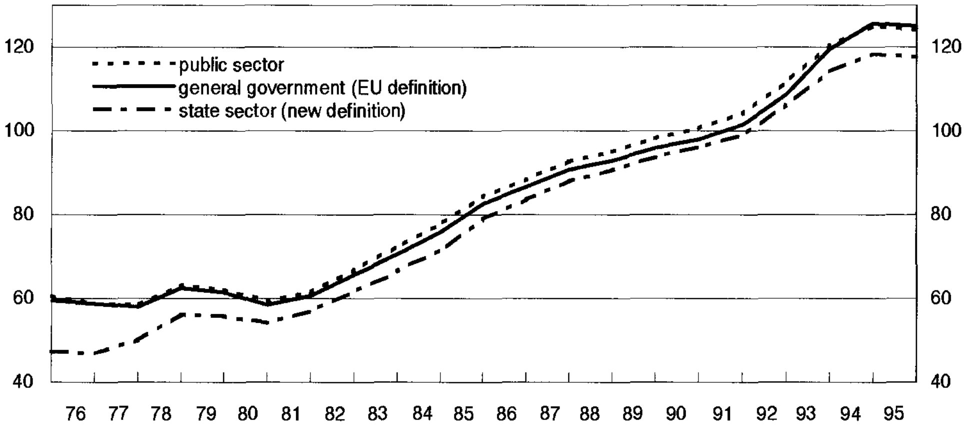
On the basis of all the definitions of liabilities commonly used in analyzing the public finances, the reduction in the borrowing requirement led to a fall in the ratio of public debt to GDP for the first time since 1980 (Figure 12). In particular, general government debt according to the definition used for the EU excessive deficit procedure, which includes

Treasury liabilities that are offset by claims on the central bank, declined by 0.6 percentage points (from 125.5 to 124.9 per cent of GDP).

Figure 12

DEBT OF THE PUBLIC SECTOR, GENERAL GOVERNMENT AND THE STATE SECTOR

(as a percentage of GDP)



The proportion of general government debt issued abroad increased from 4.2 to 5 per cent of the total debt (2,138.1 trillion lire on the basis of the definition which provides for the offsetting of the debit and credit positions of the Treasury with the Bank of Italy), thus accentuating a trend that has been evident for several years. At the end of the year the average residual maturity of the government securities issued in Italy was around three years, virtually the same as at the end of 1994.

Budgetary policy for 1996

The Economic and Financial Planning Document for 1996-98 published in June 1995 set targets of 110.7 and 80.6 trillion lire for general government net borrowing and the sector's primary surplus in 1996, corresponding respectively to 5.9 and 4.3 per cent of GDP; a target of 109.4 trillion was set for the state sector borrowing requirement.

In order to achieve these objectives, a budgetary adjustment of around 32.5 trillion lire was judged to be necessary; this in turn was expected to reduce interest payments by 1.6 trillion. The Finance Bill and the accompanying measures approved by Parliament in December provided for a correction on this order of magnitude; the adjustment was complemented by the provisions of a decree law issued at the end of the year that is still awaiting ratification.

As approved by Parliament, the budget is expected to reduce the general government borrowing requirement by producing expenditure savings of around 10 trillion lire and additional revenue of around 22.5 trillion, of which some 8 trillion would be of a one-off nature and another 5 trillion arise from increases in contributions linked to the reform of the pension system.

The measures on the expenditure side mainly concern the health service and transfer payments on current and capital account. The reduction in transfer payments to local authorities is part of the process of increasing their administrative and revenue-raising powers. In particular, the measures are intended to increase the regions' responsibility for their finances, which previously was severely restricted by the predominance of earmarked transfer payments from central government, and to reduce the overlapping of powers among the various levels of government.

During the passage of the Finance Bill for 1996, doubts were expressed as to whether it was sufficient to achieve the targets; it was also feared that debt servicing would exceed the forecast owing to the high level of interest rates in the second half of 1995. Parliament accordingly inserted a "safeguard clause" requiring the Government to make selective expenditure cuts by 15 May if the Quarterly Report on the Borrowing Requirement revealed any divergence from the objectives.

The Report for the first quarter, which was presented by the Minister of the Treasury in April, estimated that the borrowing requirement would exceed the original estimate by 9.6 trillion lire owing to the shortfall of 0.6 percentage points in GDP growth compared with the September forecast, the failure of interest rates to fall in the second half of 1995 and unforeseen expenditure in connection with reorganizations in the banking sector. Additional increases in the borrowing requirement could stem from the behaviour of interest rates, shortfalls in the revenue produced by the measures to broaden the tax and contribution bases and an acceleration in expenditure on health services and public investment.

The state sector borrowing requirement for the first four months of the year was 15 trillion lire larger than in 1995. In the absence of corrective measures, which need to be adopted without delay, the borrowing requirement in 1996 is likely to be roughly the same as last year.

MONETARY POLICY AND THE MONEY AND FINANCIAL MARKETS

THE OVERALL PICTURE

In the early months of 1995 monetary policy was tightened; the discount rate and the rate on fixed term advances were raised in February and again in May by a total of 1.5 and 2 percentage points respectively, taking them to 9 and 10.5 per cent. Money market rates rose even more sharply owing to the tight control of liquidity through open-market and refinancing operations. The restrictive stance was adopted to counter the intensification of inflationary pressures generated, at a time of strong growth in aggregate demand, by rising international prices of raw materials and manufactures and above all by the depreciation of the lira, which had already been considerable from the middle of 1994 onwards and worsened alarmingly from mid-February. The restrictive policy curbed the growth of the monetary aggregates, which remained almost unchanged in the first half of the year.

From May onwards the lira and the prices of government securities tended to strengthen, albeit with some short-term fluctuation; in the second half of the year the yield differential between 10-year Treasury bonds and the corresponding German securities, which had reached a peak of 6.5 percentage points on 17 March, diminished from 5.7 to 4.9 percentage points, while the effective exchange rate of the lira rose by 6.2 per cent. The easing of the tensions in the international financial markets, the expansionary shift in monetary policy elsewhere in Europe and the first signs of disinflation in Italy contributed to the improvement.

The Bank of Italy maintained its restrictive monetary policy stance in the second half of 1995; short-term interbank rates stayed close to the upper limit of the corridor between the two official rates. On the occasion of its General Meeting last year the Governor had indicated that monetary policy would refer to an average rate of consumer price inflation, net of the effect of indirect taxes, of no more than 4.5 per cent in 1995 and that in 1996 inflation had to fall below 4 per cent. The purpose of maintaining a more stringent stance than was emerging in the rest of Europe was to curb the inflation arising from the undervaluation of the lira and create the conditions for convergence with inflation rates in the other leading EU countries. The positive tendency of the financial markets strengthened in the first few months of 1996; on 24 May the yield differential between 10-year Treasury bonds and Bunds was down to 3.2 percentage points, while the lira had appreciated by 7.5 per cent since the turn of the year.

During 1995 as a whole monetary base and M2 expanded only moderately in nominal terms and contracted in real terms. The behaviour of the money supply reflected not only the tightness of monetary policy but also the conduct of the banks, which were particularly cautious in adjusting deposit rates to the rise in money market rates on account of uncertainty over future credit demand and asset quality. Banks' fund-raising relied more heavily on instruments that were flexible, such as repurchase agreements, or could be issued at favourable rates, such as longer-term CDs. The growth in credit to the non-state sector, although higher than in 1994, remained low; after accelerating in the early part of the year, the rate of expansion began to slacken in the autumn as economic activity slowed down.

The securities markets fluctuated widely last year, but in mid-year a clear underlying tendency for long-term interest rates to decline set in; in the early months of this year the downtrend spread to shorter-term rates as well. In the middle of May 1996 the average yields on Treasury bills and 10-year Treasury bonds were respectively 1.7 and 1.1 percentage points lower than at the end of December and 2.4 and 2.9 percentage points lower than in June 1995. The forward yield curve for short-term Eurolira deposits gradually shifted downwards and became negatively sloped; as far as longer maturities were concerned, the reduction was largest for forward rates between one and three years ahead (Figure 13).

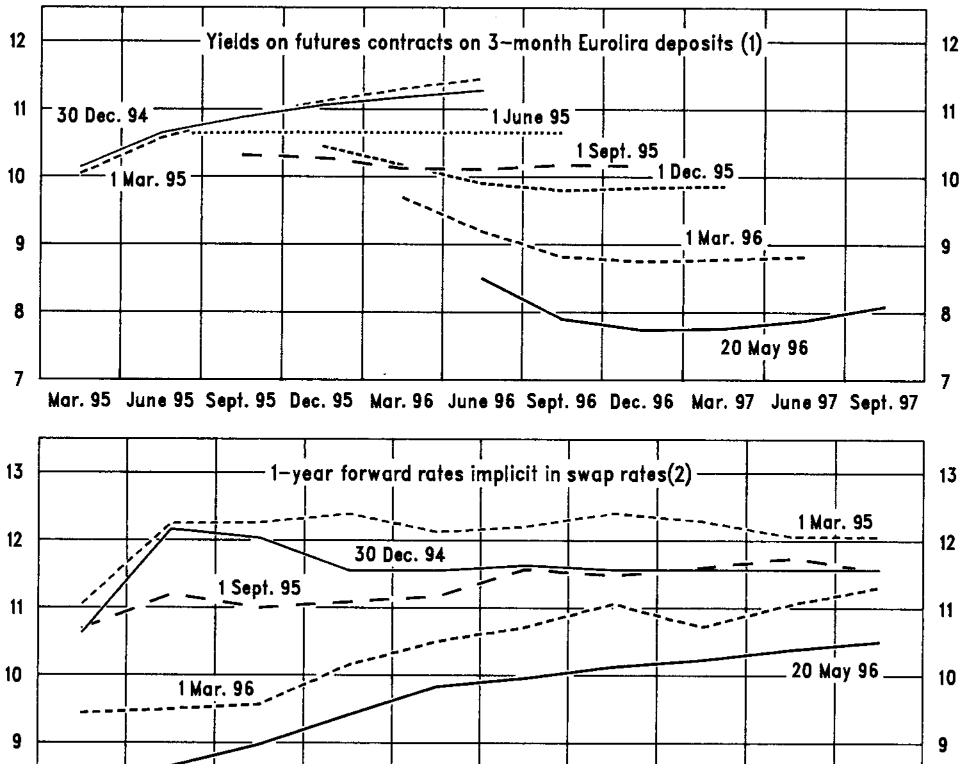
At the end of 1994 the yield curve for futures contracts on 3-month Eurolira deposits was positively sloped; it indicated expectations of a rise in yields by the end of 1995 and a further, more moderate increase in the first half of 1996. Expectations of a monetary tightening were discernible in the other major countries as well, in view of an acceleration in economic activity. The actual behaviour of interest rates during 1995 broadly confirmed these expectations in Italy but not in the other countries, where the economic slowdown led to an easing of monetary conditions.

After the further tightening of monetary policy in February 1995, the yield curve gradually took on a negative slope and shifted downwards; this tendency intensified in the early months of this year. At the beginning of March 1996 the spot rate was around 150 basis points lower than had been expected at the end of 1994. The curve for longer maturities, calculated on the yields implicit in interest rate swaps, also shifted upwards in the first few months of 1995. From April onwards the gradual subsiding of tensions in the financial markets fostered a decline in yields and led to a gradual attenuation in the slope of the curve, which became nearly flat during the summer. In the early months of 1996 the curve recorded a further downward shift, more pronounced for shorter maturities; on 20 May the 1-year forward rate maturing 10 years ahead stood at 10.5 per cent, around 2.2 points above the spot rate.

Figure 13

FORWARD YIELD CURVE

(percentages)



(1) The horizontal axis shows the settlement dates for the futures contracts to which the yields refer. – (2) The horizontal axis shows the period to which the yield refers, expressed in years from the contract date indicated. The first value of each curve is the 1-year spot rate on the contract date.

The exchange rate and securities prices were especially volatile in the first half of last year, reflecting the uncertainty prevailing in financial markets. The prices of lira-denominated assets were influenced both by the bouts of turbulence in the foreign exchange markets and by changing expectations regarding the domestic political situation, budgetary policy and Italy's position in the process of European monetary integration. In these circumstances, the aim of monetary policy was to provide an element of stability by offering households, enterprises and the financial markets a medium-term point of reference that would foster anti-inflationary expectations.

Expectations of inflation can translate into actual inflation by acting on all the main components of price formation: the costs of imported inputs, the cost of labour and profit margins. By orienting expectations monetary policy can influence the inflation rate through an additional channel alongside its more traditional ones of aggregate demand regulation and direct impact on the exchange rate.

Normally, the exchange rate reacts promptly to changes in inflation expectations and risks; its movements help to translate expectations into actual inflation by passing through to domestic prices, primarily via the cost of imported products and the pressure exerted on the prices of producers exposed to international competition. The experience of the last three years suggests that the incorporation of exchange rate movements into prices can be slowed down by the perception that the former are temporary, especially when currency market volatility is high, and by the pricing policies of foreign exporters.

The effect of inflation expectations on wage determination depends on the collective bargaining system. In the current system, which has no provision for automatic cost-of-living adjustments and takes the Government's target inflation rate as the benchmark for national wage bargaining, expectations can influence both national contract settlements, possibly including the recovery of past differences between actual and forecast inflation, and supplementary agreements at company level. Firms' pricing is also affected by inflation expectations even taking exchange rate and wage tendencies as given; recent empirical studies suggest that expectations of a rise in the general price level can prompt companies to adjust their selling prices more rapidly to reflect the increases in labour costs or in the prices of imported inputs.

It is difficult to estimate inflation expectations accurately and thus to measure monetary policy's effect on them. The effectiveness of the central bank's action in this respect may be enhanced if market participants are strongly convinced of its independence and determination to combat inflation. The state of the public finances can exercise an important influence: the ability of monetary policy to affect the market's expectations is greater in the presence of a credible process of fiscal adjustment. Empirical studies of data for Italy appear to confirm the ability of monetary policy to influence inflation expectations as gauged both by surveys and by the yield curve.

Developments in 1995

In January the formation of the new Government had a positive impact on the foreign exchange and financial markets, which relieved the strains that had punctuated the previous year; short-term yields came down, while the prices of medium and long-term securities and the exchange rate held more or less steady during the month (Figures 14 and 15). However, in mid-February the lira slumped, reflecting both the tensions spawned in the international markets by the depreciation of the dollar and the domestic signs of rekindled inflation.

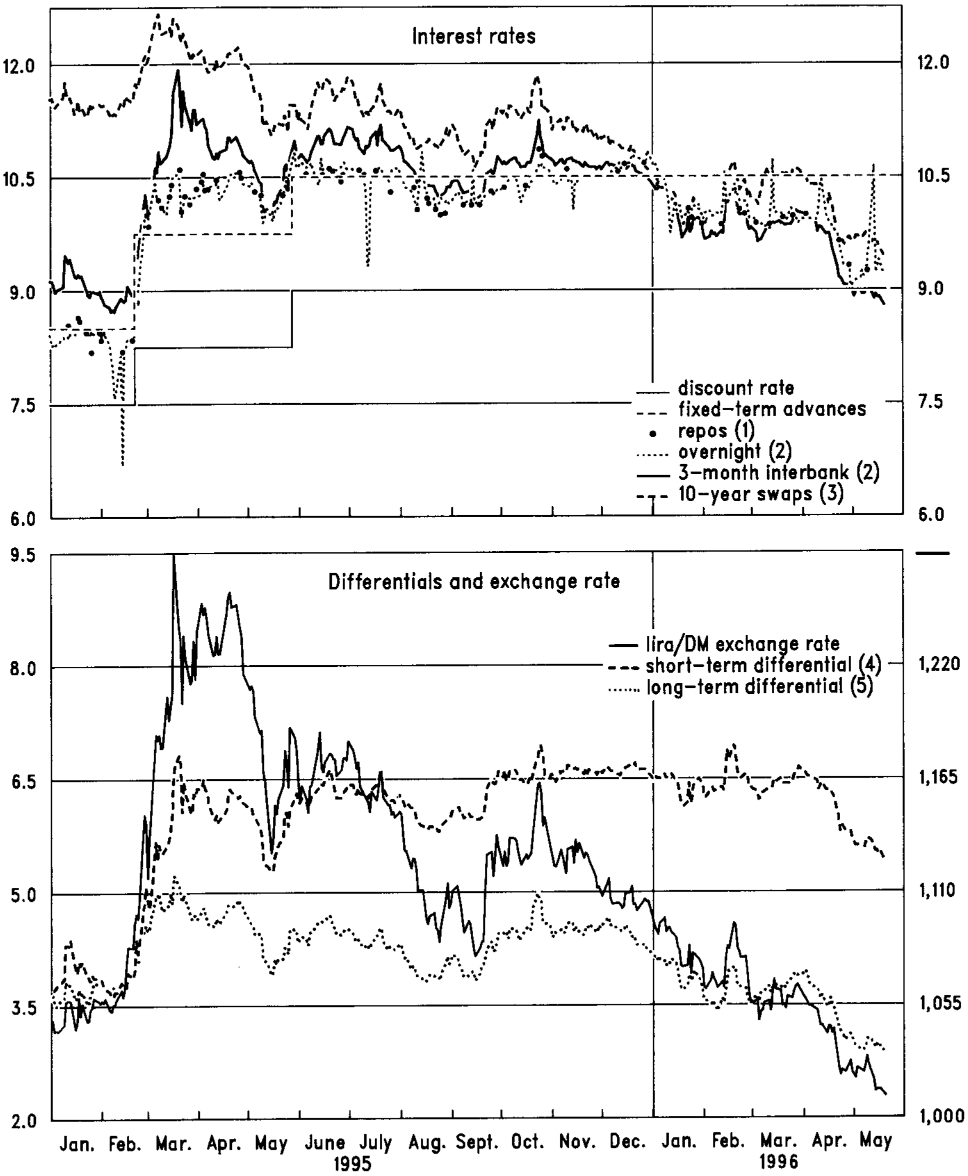
In order to prevent a vicious circle of deteriorating expectations and currency depreciation, which could have fueled the inflationary process further, on 22 February the Bank of Italy raised the discount rate by 75 basis points and the rate on fixed-term advances by 125 to 8.25 and 9.75 per cent respectively. The stringent control of bank liquidity led to an even larger rise in the overnight interbank rate, which reached 10.5 per cent in mid-March.

In the weeks following the increase in official rates, the persistence of instability in the international currency markets and uncertainty about the domestic political situation caused the lira and securities prices to slide further. The lira fell by around 9 per cent in effective terms between the end of February and 17 March; it depreciated by more than 10 per cent against the Deutsche Mark and 5 per cent against the dollar. The simultaneous rise in long-term yields also signaled the increase in inflation expectations: 10-year Eurolira interest rate swaps rose at mid-March to 12.6 per cent, 5.2 percentage points more than the corresponding German rates. The difference between the yield differential with Germany as measured by 10-year government securities and that calculated on the basis of 10-year swaps reached a maximum of 170 basis points in the first few days of April (Figure 16). The weakness of the lira and of government securities was accompanied by net disposals of government paper by foreign investors: between January and March the flow amounted to around 8 trillion lire.

The situation in the financial and foreign exchange markets stabilized in April owing in part to domestic developments — the approval of the supplementary budget at the end of March and the progress achieved by the Government and the social partners towards an agreement on pension system reform, which was reached in mid-May — and in part to the lessening of exchange rate pressures in Europe after the reduction of the discount rate in Germany on 31 March. However, the inflation outlook continued to cause concern, which was fueled in the second half of May by a fresh bout of weakness of the lira and reports indicating an acceleration in producer prices and in the cost of living. At the end of the month the Bank of Italy raised the discount rate and the rate on fixed-term advances a second time, realigning them with market rates at 9 and 10.5 per cent respectively. In the ensuing weeks the regulation of liquidity remained severe: the overnight rate did not fall below 10.6 per cent.

Figure 14

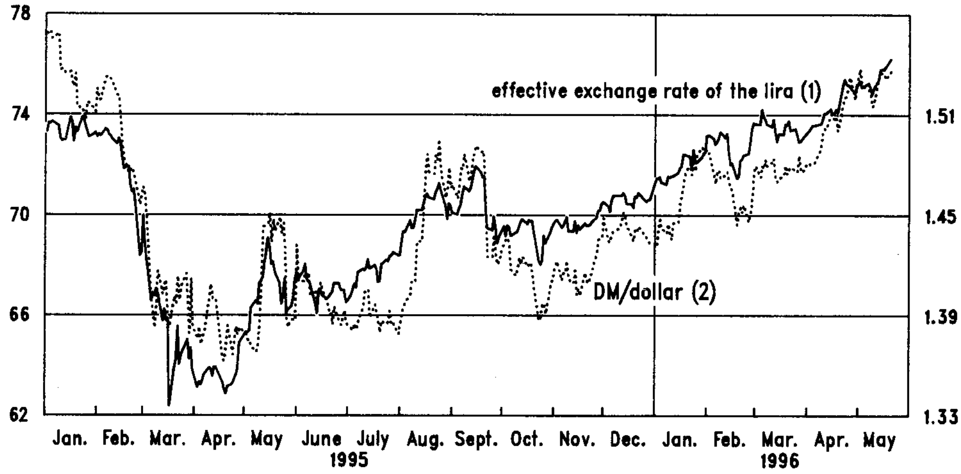
INTEREST RATES, YIELD DIFFERENTIALS WITH GERMANY AND THE LIRA/DM EXCHANGE RATE



(1) Marginal allotment rate. – (2) Rate on the interbank deposit market. – (3) 10-year interest rate swaps on the Euromarket. – (4) Difference in percentage points between 3-month LIBOR in lire and Deutsche Mark. – (5) Difference in percentage points between the 10-year lira and Deutsche Mark swaps rates on the Euromarket.

Figure 15

EFFECTIVE EXCHANGE RATE OF THE LIRA AND THE DM/DOLLAR EXCHANGE RATE

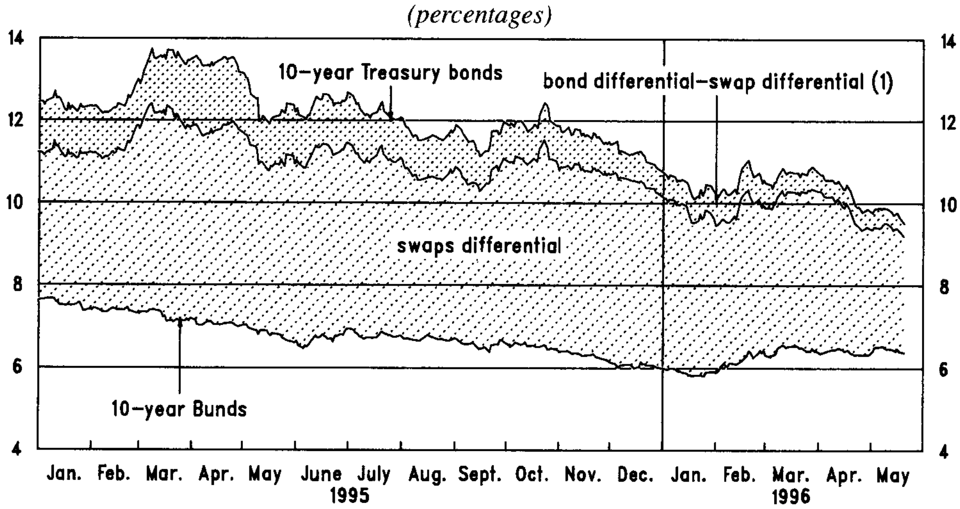


(1) Calculated vis-à-vis the currencies of Italy's 14 principal trading partners; index, 11.9.1992=100. A rise in the index indicates an appreciation of the lira.

Figure 16

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 in Deutsche Mark.

The lira and government securities prices staged a recovery in the middle of July, in the wake of an improvement in expectations regarding consumer prices; the appreciation of the dollar and the emergence of a slowdown in economic activity in several European countries, including Germany, helped to alleviate the pressure on the lira. From the summer onwards foreign portfolio investment resumed and the capital inflow on this account became considerable. The Bank of Italy kept conditions in the money market steady: the overnight rate remained around 10.5 per cent. Between the end of June and the middle of September the effective exchange rate of the lira rose by 8.2 per cent and the yield on long-term Treasury bonds fell by 1.4 percentage points. These favourable tendencies were momentarily interrupted in the second half of September by renewed weakness of the dollar and heightened uncertainty about the timing of Italy's participation in European monetary union; the tensions increased in the second half of October, in part because of emerging elements of domestic political instability.

During the rest of the year the easing of conditions in the international financial markets, following the appreciation of the dollar and the decline in yields in the main European bond markets, favoured a more durable recovery of the Italian currency and government securities prices. The average level of the effective exchange rate of the lira in December, though 4 per cent lower than a year earlier, was 13 per cent above the low recorded in March. Long-term yields in lire in the international markets, expressed in interest rate swaps, were 90 basis points lower than at the end of the previous year and 200 basis points below the March peaks. Monetary policy was kept restrictive, however, with the aim of promoting a speedier abatement of inflation; the Bank of Italy repo rate and the overnight interbank rate stayed close to that on fixed-term advances.

Table 24

MONETARY BASEAND MONEY SUPPLY (1)

(percentage changes)

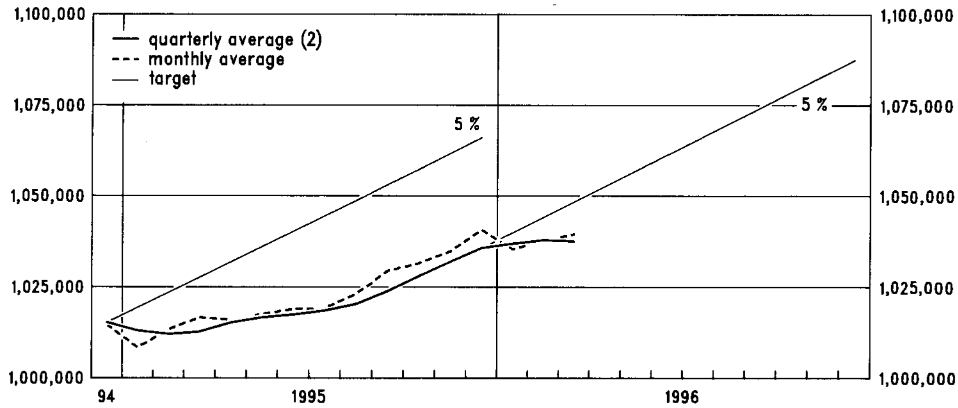
	1994 December	1995 March	1995 June	1995 September	1995 December	1996 March (2)
Monetary base (3)	2.8	1.7	1.3	0.9	1.2	0.5
of which: currency in circulation	*6.4*	*5.6*	*5.5*	*3.0*	*0.8*	*–0.8*
bank reserves (3)	*0.7*	*–0.5*	*–0.9*	*–0.3*	*1.4*	*1.3*
Money supply (M2)	1.9	0.0	–0.5	0.3	1.9	2.5
of which: bank deposits	*1.2*	*–0.5*	*–1.6*	*–1.0*	*0.9*	*2.0*

(1) For monetary base, currency in circulation 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 and bank deposits, 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. – (2) Provisional. – (3) Adjusted for changes in the compulsory reserve ratio.

In 1995 the M2 money supply recorded very limited growth of 1.9 per cent, the same as in 1994 (Table 24) and more than 3 percentage points below the target rate of 5 per cent indicated in October 1994 (Figure 17). The small increase in M2 was due primarily to the behaviour of the most liquid components (current accounts and currency in circulation). The narrower aggregate, Ml, expanded by barely 0.5 per cent, compared with 3.6 per cent in 1994; the ratio of M1 to GDP fell by more than 2 percentage points.

Figure 17

M2 MONEY SUPPLY (1)
(stocks in billions of lire)



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

Among the components of M2, currency in circulation and bank current accounts grew more slowly than the already moderate rates recorded the previous year (calculated as monthly averages, by 2.0 and 1.6 per cent respectively, compared with 6.9 and 2.8 per cent in 1994). By contrast, there was rapid growth in CDs with a maturity of at least 18 months, which was stimulated by the removal of the reserve requirement in July 1994; these expanded by 41.1 trillion lire, as against 10.3 trillion in 1994.

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)									
1992	7.1	8.2	9.9	10.1	3.0	5.9	3.6	10.8	7.6	8.3
1993	1.8	1.9	6.5	6.7	7.0	8.2	5.5	2.7	7.1	6.2
1994	0.9	0.6	5.8	5.7	3.6	1.9	1.8	2.2	6.1	7.1
1995	2.1	2.4	4.4	5.1	0.5	1.9	1.8	6.6	5.5	5.6
	As a percentage of GDP (4)									
1992	60.8	68.6	159.2	170.8	32.1	60.0	–	94.5	140.4	149.0
1993	65.5	74.5	169.7	182.8	32.5	62.5	–	99.8	148.4	157.0
1994	62.7	70.9	170.6	183.3	32.8	62.2	–	95.6	150.4	160.4
1995	59.8	67.5	168.3	181.7	30.4	57.7	–	92.8	149.0	159.6

(1) Including foreign loans and purchases of bonds by non-residents. – (2) Net of shares. – (3) For M1 and M2, year-on-year changes based on 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.

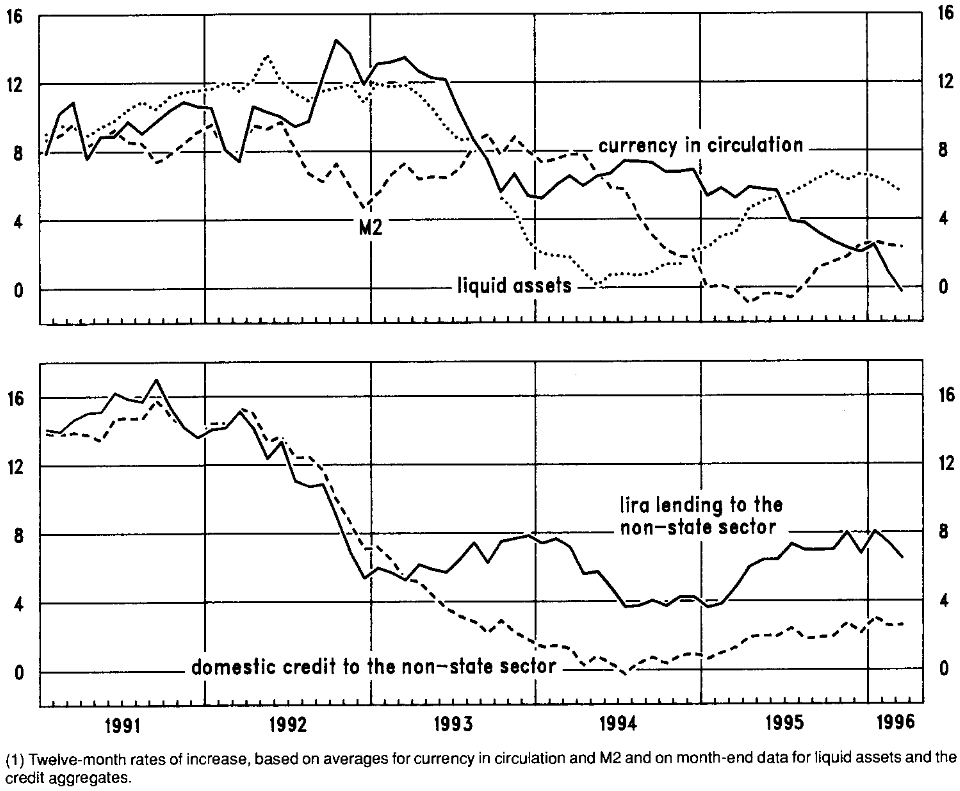
The behaviour of the more liquid components of M2 reflected the restrictive stance of monetary policy, which caused yields on alternative instruments to rise, and a supply policy of the banks marked by caution in adjusting deposit rates upwards in the face of an as yet hesitant revival in lending; the increase in liabilities came through securities repurchase agreements with customers. The expansion of the money supply was also curbed by the modest growth in consumption, which restrained the demand for transaction instruments.

Boosted by the expansion in the components not included in M2, liquid assets grew by 6.6 per cent, compared with 2.2 per cent in 1994 (Figure 18). The overall growth in domestic financial assets of the non-state sector slowed down from 6.1 per cent in 1994 to 5.5 per cent last year (Table 25). Total financial assets expanded by 5.6 per cent, compared with 7.1 per cent in 1994.

Figure 18

MONETARY AND CREDIT AGGREGATES (1)

(percentage changes)



(1) Twelve-month rates of increase, based on averages for currency in circulation and M2 and on month-end data for liquid assets and the credit aggregates.

There was a slight pick-up in domestic finance to the non-state sector, but it continued to grow very slowly (by 2.1 per cent, as against 0.9 per cent in 1994), reflecting the trend in bank lending. Owing to the appreciable reduction in the state sector borrowing requirement, the growth in total credit diminished slightly from 5.7 to 5.1 per cent.

The first few months of 1996

The lira and government securities prices continued to strengthen in the early part of this year. In January long-term Eurolira yields came down by 60 basis points to 10 per cent. The decline was paralleled by a similar movement for all the main European currencies, fostered by the consolidation of signs of a slowdown in activity and of further disinflation in the leading countries, but the reduction was larger for lira yields: the long-term differential with Euromark yields narrowed by more than half a percentage point. In February there was a pause in the lira's recovery and a fresh increase in long-term yields caused by domestic political uncertainty in the weeks preceding the dissolution of Parliament, coupled with the appreciation of the mark against the dollar and the simultaneous rise in long-term yields in the United States and Europe.

In the first quarter of 1996 the growth in M2 slowed down to an average annual rate of 0.6 per cent, seasonally adjusted. Over the same period M1 contracted sharply by 7.5 per cent. The growth in domestic finance to the non-state sector remained moderate (2.1 per cent from the turn of the year).

With the reinforcement of expectations of a moderation of inflation during the rest of the year and above all the prospects of a more stable political framework following the general election, the improvement in the exchange rate of the lira and long-term yields resumed in April. At the international level this was abetted by the reduction in official rates in Germany and other countries, together with a decline in long-term yields in the European markets.

In the first four months of the year the fall in long-term yields on lira-denominated assets was considerable when compared with the behaviour of the corresponding yields in the leading currencies. The 10-year swap rate in lire on the Euromarket decreased by nearly 1 percentage point, against increases of more than 1 percentage point, 56 and 22 basis points for those in dollars, sterling and Deutsche Mark, respectively; the swap rate in pesetas also declined, though more modestly (by 58 basis points). On 15 May the 10-year swap rate in lire stood at 9.6 per cent; the differential with the corresponding DM rate, at 3.0 percentage points, was the narrowest since June 1994. From the beginning of the year to mid-May the effective exchange rate of the lira rose by 7.4 per cent.

The easier conditions prevailing in the foreign exchange and financial markets since the beginning of 1996 were also reflected by money market rates. The overnight interbank rate averaged 10.1 per cent in the first three months of the year and subsequently declined to 9.2 per cent at mid-May. The rate on 3-month interbank deposits fell to about 9.8 per cent in January and then fluctuated around that level until the middle of April, before declining to 8.9 per cent by the middle of May. Although the Bank of Italy partly accommodated the favourable movement of the markets, liquidity control remained oriented to a reduction of inflation.

Central bank operations and the control of monetary base

Monetary base expanded even more slowly last year than in 1994. Calculated on the basis of monthly averages of daily data and adjusted for the changes in the average reserve ratio, its rate of growth diminished from 2.8 to 1.2 per cent; in real terms, it contracted by 4.0 per cent (1.3 per cent in 1994). This was due primarily to a steep drop in the rate of growth in currency in circulation, which fell from 6.4 per cent in 1994 to 0.9 per cent last year, the lowest figure since 1960. The expansion in bank reserves was also very small, though larger than in 1994 (1.4 per cent, compared with 0.7 per cent), reflecting the behaviour of bank deposits. In the first quarter of 1996 the growth in currency in circulation actually turned negative.

In absolute terms, total monetary base declined by 11.9 trillion lire after contracting by 9.9 trillion in 1994 (Table 26). This change was influenced by the release of reserves consequent to the reform of the reserve requirement in May 1994.

The transitional period of the reform ended in January of this year, when the new system was fully phased in. The release of reserves in respect of medium and long-term certificates of deposit, which was spaced out over eighteen months, amounted to 14.6 trillion lire in 1995; in January an additional 3.1 trillion was released. With effect from September 1995, moreover, changes in banks' own funds ceased being deductible from the aggregate subject to the reserve requirement.

The external sector created 2.9 trillion lire of monetary base last year, 0.4 trillion less than in 1994. Net of foreign currency swaps, there was a foreign exchange outflow of 7.7 trillion, as opposed to an inflow of 4.1 trillion in 1994.

As in the preceding years, in 1995 the Treasury destroyed monetary base (amounting to 33.4 trillion, compared with 54.7 trillion in 1994) as a result of redemptions of government securities held by the Bank of Italy (25.1 trillion) and the net deposits on the Treasury's accounts with the Bank. The net deposits on the payments account totaled 5.1 trillion lire. Those on account of the sinking fund for government securities totaled 3.1 trillion lire, compared with 5.9 trillion in 1994.

Table 26

MONETARY BASE (1)

(changes in billions of lire)

	1994	1995					1996
		Year	Quarters				1st qtr. (2)
			I	II	III	IV	
Sources							
Foreign sector	3,297	2,915	–11,543	19,385	–6,558	1,630	105
of which: foreign currency swaps	*–813*	*10,592*	*–*	*9,486*	*–*	*1,107*	*–*
Treasury	–54,743	–33,369	–2,223	–36,565	11,149	–5,730	20,008
Gross borrowing requirement (3)	156,819	126,816	39,839	13,898	42,685	30,394	44,089
Memorandum items:							
settlements of past debts	*6,442*	*3,185*	*2,588*	*81*	*–*	*516*	*–*
privatization proceeds	*–5,921*	*–8,354*	*–2*	*–*	*–913*	*–7,438*	*–*
Market purchases of securities	–176,475	–118,929	–38,732	–28,572	–25,606	–26,019	–22,355
Other financing (4)	–35,088	–46,785	–3,330	–21,892	–5,929	–15,634	–1,798
Buyback of securities	–	5,530	–	–	–	5,530	–
Open market	47,451	15,455	7,090	19,582	–16,228	5,010	–17,555
of which: repos (5)	*–3,802*	*–7,906*	*1,431*	*7,582*	*–18,583*	*1,663*	*–14,601*
Refinancing	238	4,857	863	–1,147	77	5,064	–4,553
Other sectors	–6,154	–1,786	–18	2,587	–5,620	1,265	–4,501
Total	**–9,911**	**–11,928**	**–5,830**	**3,842**	**–17,180**	**7,240**	**–6,497**
Uses							
Currency in circulation	6,452	2,060	–3,567	–246	117	5,756	–5,981
Bank reserves	–16,364	–13,988	–2,263	4,088	–17,297	1,484	–516
of which: compulsory reserves (6)	*–13,332*	*–18,728*	*–4,114*	*–4,299*	*–9,433*	*–881*	*–4,592*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Based on the new definition of the state sector; including settlements of past debts, privatization proceeds and other receipts for the sinking fund for government securities; including former autonomous government agencies not providing market services. Net of these items, the borrowing requirement in 1995 was 130.2 trillion lire. – (4) PO deposits, foreign debt, bank lending to the state sector, deposits of social security institutions with the Treasury, surety deposits with the Deposits and Loans Fund. – (5) At balance sheet value. – (6) Average reserve requirement during the mid-month to mid-month reserve maintenance period.

Monetary base creation by the Bank of Italy through its own operations declined from 46.9 to 30.9 trillion lire. Open market operations created 15.5 trillion of liquidity; foreign currency swaps, net of exchange rate adjustments, created 10.6 trillion of monetary base and refinancing operations 4.9 trillion. Outright purchases of securities in the secondary market diminished from 51.3 to 23.4 trillion; the decline involved both Treasury bonds (from 17.7 to 11.4 trillion) and Treasury bills (from 31.2 to 12.5 trillion). The operations in Treasury bills were carried out prevalently through multiple price auctions, which are similar to repos as an instrument for regulating liquidity. Taking account of redemptions, the Bank's outright holdings of securities fell by 1.7 trillion. Repos resulted in monetary base destruction of 7.9 trillion; the banking system's indebtedness to the Bank of Italy in respect of securities sold under repos amounted to 35.8 trillion at the end of the year.

HOUSEHOLDS AND ENTERPRISES

In a year of rapidly expanding investment, the corporate sector's demand for external finance, which had been nil in 1994, rose to 2.6 per cent of GDP (Table 27). The further growth in self-financing and new share issues in Italy and abroad enabled firms to reduce their debt-equity ratio for the third consecutive year. The financial surplus of households (including sole proprietorships) rose from 7.5 to 9.7 per cent of GDP, although this was still 4.2 percentage points below the level of 1990. The financial deficit of general government declined from 9.6 to 7.6 per cent of GDP, while the surplus of "Other sectors", which includes unclassified items, diminished slightly from 3.6 to 3.0 per cent of GDP.

Table 27

FINANCIAL BALANCES

	Households (1)	Enterprises	General government	Rest of the world	Other sectors (2)	Households (1)	Enterprises	General government	Rest of the world	Other sectors (2)
	(billions of lire)					(as a percentage of GDP)				
1990 ...	181,711	−119,318	−136,157	20,379	53,385	13.9	−9.1	−10.4	1.6	4.0
1991 ...	200,383	−98,316	−158,584	29,339	27,178	14.0	−6.9	−11.1	2.1	1.9
1992 ...	161,298	−78,960	−156,138	35,219	38,581	10.7	−5.3	−10.4	2.3	2.7
1993 ...	181,575	−34,397	−169,534	−17,828	40,184	11.7	−2.2	−10.9	−1.1	2.5
1994 ...	123,278	−781	−156,941	−24,329	58,773	7.5	0.0	−9.6	−1.5	3.6
1995 ...	171,118	−46,845	−135,330	−44,583	55,640	9.7	−2.6	−7.6	−2.5	3.0

Source: Flow-of-funds accounts.
(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

In view of the difficulties in the property market, the rise in short-term yields and the easing of conditions in financial markets following the pronounced volatility of 1994 and early 1995, households increased their investment in financial assets from 143.2 to 198.4 trillion lire (Table 28).

Since the flow of liabilities grew from 19.9 to 27.3 trillion lire, the sector's financial surplus rose from 123.3 to 171.1 trillion. Sole proprietorships, which are included in the household sector in the flow-of-funds accounts, moved from a deficit of 5.5 trillion lire in 1994 to a surplus of 2.3 trillion in 1995.

Table 28

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (1)

(billions of lire)

	Stocks		Flows		
	Dec. 1994	Dec. 1995	1993	1994	1995
Cash	87,075	88,964	3,815	5,772	1,888
Transferable sight deposits	358,130	355,924	17,794	8,448	–2,513
Other deposits	612,411	651,288	47,914	15,049	38,776
bank	*436,458*	*454,268*	*34,511*	*–10,916*	*17,709*
postal	*175,953*	*197,020*	*13,403*	*25,965*	*21,067*
Repos	69,709	100,713	–5,254	–13,111	31,004
Short-term securities	304,229	329,938	–38,142	–3,574	26,343
Medium and long-term securities	603,115	658,700	104,832	58,109	56,064
government	*469,291*	*520,363*	*75,964*	*40,578*	*51,072*
Investment fund units	127,044	123,867	33,423	25,433	–10,517
Shares	553,046	511,664	18,023	4,382	6,701
External assets (2)	116,555	127,774	–7,648	12,579	8,553
Other (3)	294,643	336,734	21,666	30,081	42,090
Total assets	**3,125,956**	**3,285,565**	**196,423**	**143,169**	**198,390**
Short-term loans (4)	117,406	119,819	–123	–2,189	1,933
bank	*116,170*	*118,930*	*501*	*–671*	*2,280*
Medium and long-term loans (5)	185,359	200,365	5,626	12,037	15,027
bank	*168,218*	*181,103*	*7,611*	*10,579*	*12,906*
Other (6)	86,376	96,739	9,344	10,044	10,312
Total liabilities	**389,141**	**416,922**	**14,848**	**19,892**	**27,272**

Source: Flow-of-funds accounts.
(1) Includes both consumer households and producer households (sole proprietorships). Rounding may cause discrepancies in totals. – (2) Short-term securities, bonds, and shares 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.

Bank current accounts, which had increased by 8.4 trillion lire in 1994, contracted by 2.5 trillion lire owing to portfolio adjustment prompted by the considerable widening of the differential between money market and deposit rates. Given the high level of yields, households made net purchases of 26.3 trillion lire of short-term paper, especially Treasury bills, and 31.0 trillion lire of securities under repos, against net disposals of 3.6 and 13.1 trillion in 1994. Medium and long-term postal and bank deposits rose by 21.1 and 17.7

trillion lire respectively (compared with an increase of 26 trillion in the former and a decrease of 10.9 trillion in the latter in 1994), reflecting the rapid growth in certificates of deposit.

Households' investment in liquid assets offering relatively high yields contributed to the reduction in their net purchases of medium and long-term paper, which declined from 58.1 to 56.1 trillion lire after having fallen steeply in 1994. There were net redemptions of investment fund units worth around 10.5 trillion lire, against net purchases amounting to 25.4 trillion the previous year. Net purchases of shares rose from 4.4 to 6.7 trillion lire.

The flow of other financial assets, consisting largely of the technical reserves of insurance companies and severance pay and pension funds, increased from 30.1 to 42.1 trillion lire.

Rising expectations of a recovery by the lira from the spring onwards prompted households to reduce their net acquisitions of foreign assets from 12.6 to 8.6 trillion lire.

The flow of households' financial liabilities amounted to 27.3 trillion lire, an increase of more than 7 trillion compared with 1994. Short-term borrowing, which had declined by 2.2 trillion lire in 1994, grew by 1.9 trillion; this was entirely ascribable to producer households, since consumer households made net repayments of around 0.5 trillion. The recovery in capital spending by producer households and the rise in purchases of durable goods by consumer households contributed to the increase of 15 trillion lire in medium and long-term debt.

The financing of enterprises and their liquidity

Self-financing continued to grow at a sustained pace in 1995, reflecting the further improvement in firms' operating margins; as capital spending also recovered strongly, the proportion of fixed investment financed internally remained virtually unchanged. The corporate sector's financial deficit rose from 0.8 to 46.8 trillion lire owing to a considerable increase in stocks.

Firms continued to strengthen their financial structure. Their debt-equity ratio declined for the third successive year, to approximately 100 per cent; this was lower than at the beginning of the nineties (106 per cent in 1990), before the severe deterioration caused by the recession. Corporate debt fell from 154.0 to 147.0 per cent of value added, likewise approaching the 1990 level (144.9 per cent).

Whereas short-term loans grew by 12.7 trillion lire after two years of net repayments, the year-on-year increase in medium and long-term borrowing diminished from 9.2 to 6.5 per cent and from 24.6 to 19 trillion lire (Table 29); this reflects both a reduction in the number of companies undergoing restructuring and the need for enterprises to have finance promptly available at a time of rapidly increasing investment. New share issues rose from 18.1 to 20.8 trillion lire; the sizable increase in equity fund-raising abroad, from 1.4 to 12.7 trillion lire, was facilitated by the lower cost of Italian shares following the depreciation of the lira.

Table 29

FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES (1)

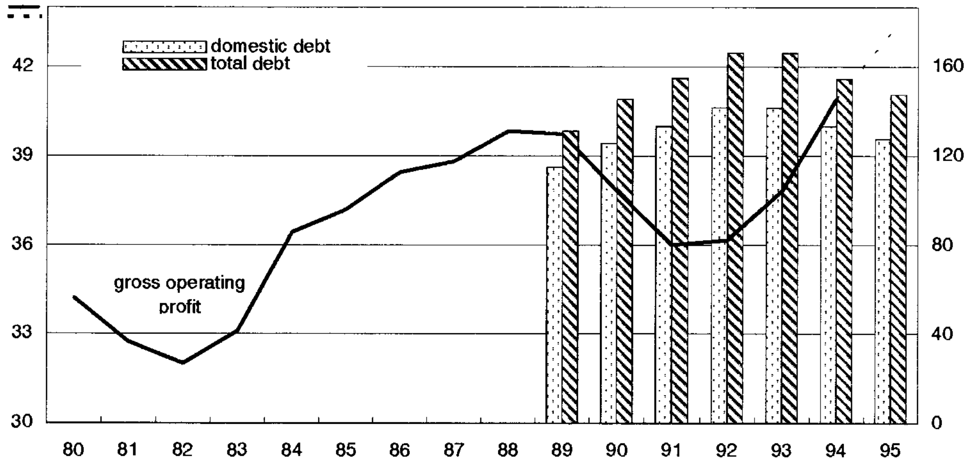
(billions of lire)

	Stocks		Flows		
	Dec. 1994	Dec. 1995	1993	1994	1995
Cash	8,966	9,151	392	596	184
Transferable sight deposits	99,725	99,188	7,082	8,161	–713
bank	*92,845*	*93,118*	*8,053*	*9,501*	*97*
Other deposits	6,407	6,674	1,202	–77	252
bank	*5,021*	*5,169*	*1,070*	*–63*	*134*
Repos	12,251	16,764	4,526	3,562	4,513
Short-term securities	3,785	3,961	–1,043	1,037	208
Medium and long-term securities	52,242	55,507	1,768	1,224	3,416
government	*43,497*	*46,269*	*115*	*915*	*2,772*
Shares	267,942	281,604	8,092	1,982	3,146
External assets	176,001	198,109	9,730	24,801	17,760
Other (2)	19,298	20,778	1,195	1,267	1,480
Total assets	**646,617**	**691,734**	**32,942**	**42,554**	**30,246**
Domestic liabilities	**1,558,032**	**1,645,999**	**55,504**	**38,376**	**51,988**
Short-term loans (3)	376,844	393,100	–14,158	–22,877	12,724
bank	*354,337*	*366,583*	*–15,641*	*–17,350*	*8,714*
Medium and long-term loans (4)	290,989	309,373	25,507	24,589	18,996
bank	*224,239*	*236,987*	*20,007*	*16,083*	*13,359*
Bonds	35,215	30,653	–5,289	2,891	–4,488
Shares and participations	719,356	764,389	31,302	16,644	8,119
Other (5)	135,628	148,485	18,142	17,129	16,638
External liabilities	**233,052**	**252,253**	**11,835**	**4,959**	**25,102**
net trade credits	*41,715*	*47,917*	*–548*	*7,026*	*6,202*
foreign loans	*99,399*	*103,567*	*3,052*	*–4,682*	*5,105*
bonds	*15,479*	*15,301*	*773*	*212*	*–332*
shares	*75,494*	*83,051*	*8,582*	*1,426*	*12,653*
Total liabilities	**1,791,084**	**1,898,253**	**67,339**	**43,335**	**77,090**

Source: Flow-of-funds accounts.
(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.

Figure 19

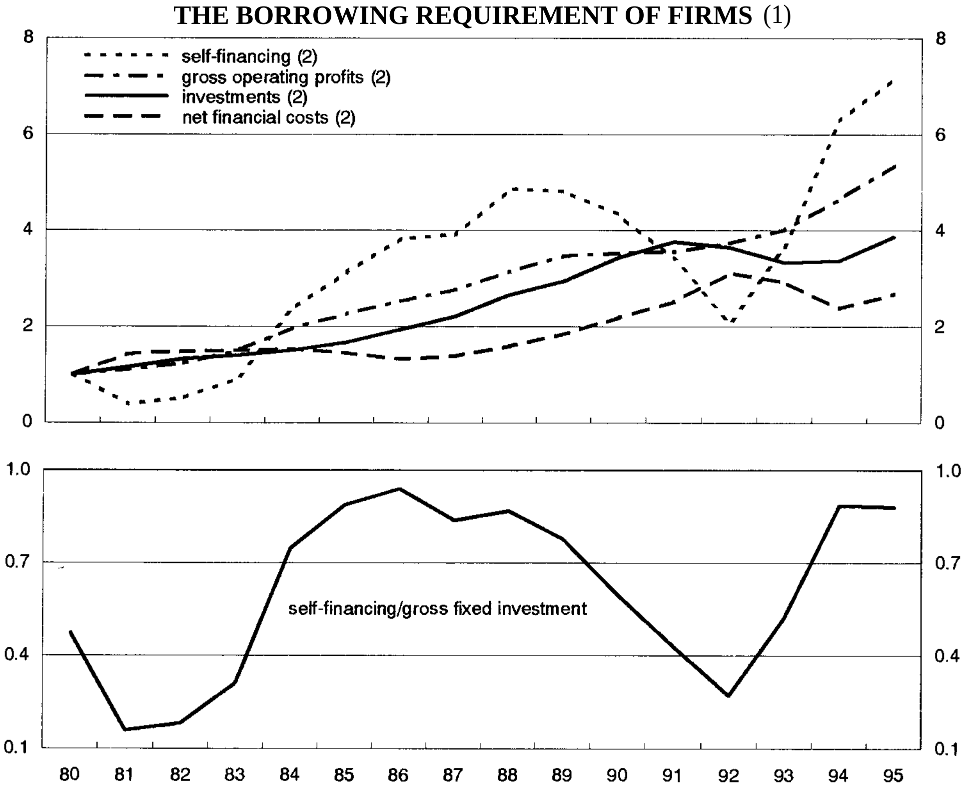
CORPORATE DEBT AND GROSS OPERATING PROFIT AS A PERCENTAGE OF VALUE ADDED (1)



(1) Non-financial corporate and quasi-corporate enterprises. Estimates based on Istat and Bank of Italy data. The figures for 1995 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.

Figure 20

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 1995 are provisional. – (2) Indices, 1980=1.

The flow of external liabilities increased from 5 trillion lire in 1994 to 25.1 trillion last year. This mirrored the growth of 6.2 trillion in trade credits induced by the increase in imports and net foreign loan disbursements of 5.1 trillion, as well as firms' massive recourse to foreign equity markets.

The flow of firms' financial assets decreased from 42.6 to 30.2 trillion lire. Among the most dynamic components were purchases of securities under repos, which increased from 3.6 to 4.5 trillion and shares, which grew from 2.0 to 3.1 trillion; the flow of bank deposits was practically nil, whereas in 1994 it had amounted to 9.4 trillion. The growth in external assets decreased from 24.8 to 17.8 trillion lire but nonetheless remained rapid, particularly as regards trade credits (9.2 trillion, compared with 10.2 trillion in 1994).

The expansion in domestic and foreign demand, large productivity gains and moderate wage growth led to a further increase in firms' gross operating profits, which rose by more than 2 percentage points to 43.1 per cent of value added (Figure 19). Self-financing continued to grow as a consequence of the limited increase in net financial costs, which rose from 11.5 to 11.9 per cent of value added, and in direct taxes. Against the background of a rapid expansion in investment, the proportion of capital expenditure financed with internal resources remained the same as in 1994 (Figure 20).

BANKS AND OTHER CREDIT INTERMEDIARIES

In 1995 banking activity continued to grow slowly in nominal terms and contracted in real terms. The restrictive monetary policy stance, substantial corporate self-financing, especially by exporting firms, and only a modest recovery in economic activity in the South were contributory factors. Lending increased by 2.7 per cent, compared with 1.0 per cent in 1994 (Table 30); in relation to GDP, the volume of outstanding loans contracted for the second year in succession, falling from 61.7 to 59.2 per cent.

Table 30

BANKS' PRINCIPAL BALANCE-SHEET ITEMS

(12-month percentage rates of change)

	Dec. 1992	Dec. 1993	1994				1995				Mar. 1996 (1)
			Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	
Assets											
Securities (2)	19.4	6.4	17.7	18.5	15.3	10.0	1.1	–6.7	–6.4	–8.7	–1.5
government securities (2)	*23.5*	*12.1*	*26.2*	*25.0*	*17.8*	*10.6*	*0.6*	*–8.2*	*–5.9*	*–7.8*	*0.1*
Loans (3) (4)	8.4	2.5	1.9	0.6	0.8	1.0	1.4	2.6	2.5	2.7	2.9
short-term (3) (4)	*7.1*	*–3.9*	*–5.3*	*–7.6*	*–5.9*	*–4.3*	*–0.8*	*3.1*	*2.7*	*3.2*	*1.2*
medium and long-term (3)	*10.1*	*11.2*	*11.6*	*11.2*	*9.0*	*7.3*	*3.9*	*2.0*	*2.3*	*2.1*	*4.7*
Bad debts	16.0	28.2	32.8	31.8	30.9	29.8	27.0	24.3	21.6	21.0	14.6
Liabilities											
Domestic fund-raising (averages) (5)	4.2	10.0	9.9	8.2	5.2	2.7	0.4	–0.9	0.4	1.4	2.2
Deposits (5)	*3.3*	*8.6*	*7.8*	*5.5*	*2.4*	*0.6*	*–1.1*	*–1.7*	*0.3*	*1.7*	*2.3*
current account	*–2.3*	*8.9*	*10.5*	*8.8*	*5.6*	*3.2*	*0.9*	*–1.3*	*–0.3*	*0.6*	*–2.0*
medium and long-term CDs (5)	*28.5*	*25.0*	*15.7*	*10.7*	*5.0*	*4.0*	*4.3*	*6.3*	*12.5*	*16.2*	*21.5*
Bonds (5)	*8.7*	*16.5*	*20.0*	*20.9*	*18.3*	*12.1*	*6.7*	*2.5*	*1.2*	*0.2*	*1.8*
Repurchase agreements	76.9	–1.1	14.0	–2.0	–6.5	–5.5	6.0	13.8	21.2	24.0	13.2

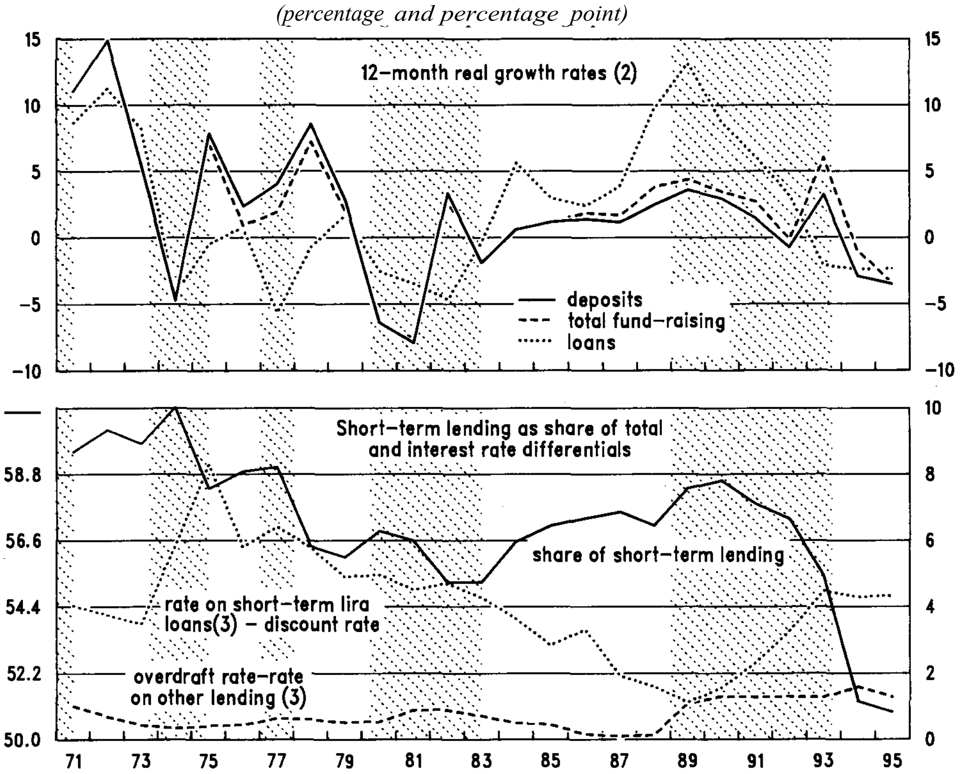
(1) Provisional data. – (2) Excluding loan conversion securities. – (3) The foreign currency component is net of exchange rate adjustments. – (4) Including loans converted into securities and settlements of storage agency bills. – (5) For medium and long-term CDs until 1994 and for bonds for the entire period, average of end-month data for the reference month and the previous month.

Most of the increase in credit occurred in the first half of the year, when the fastest growth was in short-term lending, which is generally used for the interim financing of investment. Medium and long-term lending subsequently recovered, whereas the growth in short-term credit slowed down. On an annual average basis short-term lending declined further as a proportion of total credit; in the last five years its share has fallen from more than 58 per cent to about 51 per cent (Figure 21). An acceleration in lira lending was accompanied by a sharp and continuous decline in foreign currency lending, which now accounts for 9.7 per cent of the total, little more than half the peak recorded three years ago. There was a considerable acceleration in lending by leasing, factoring and consumer credit companies.

Figure 21

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

(percentage and percentage point)



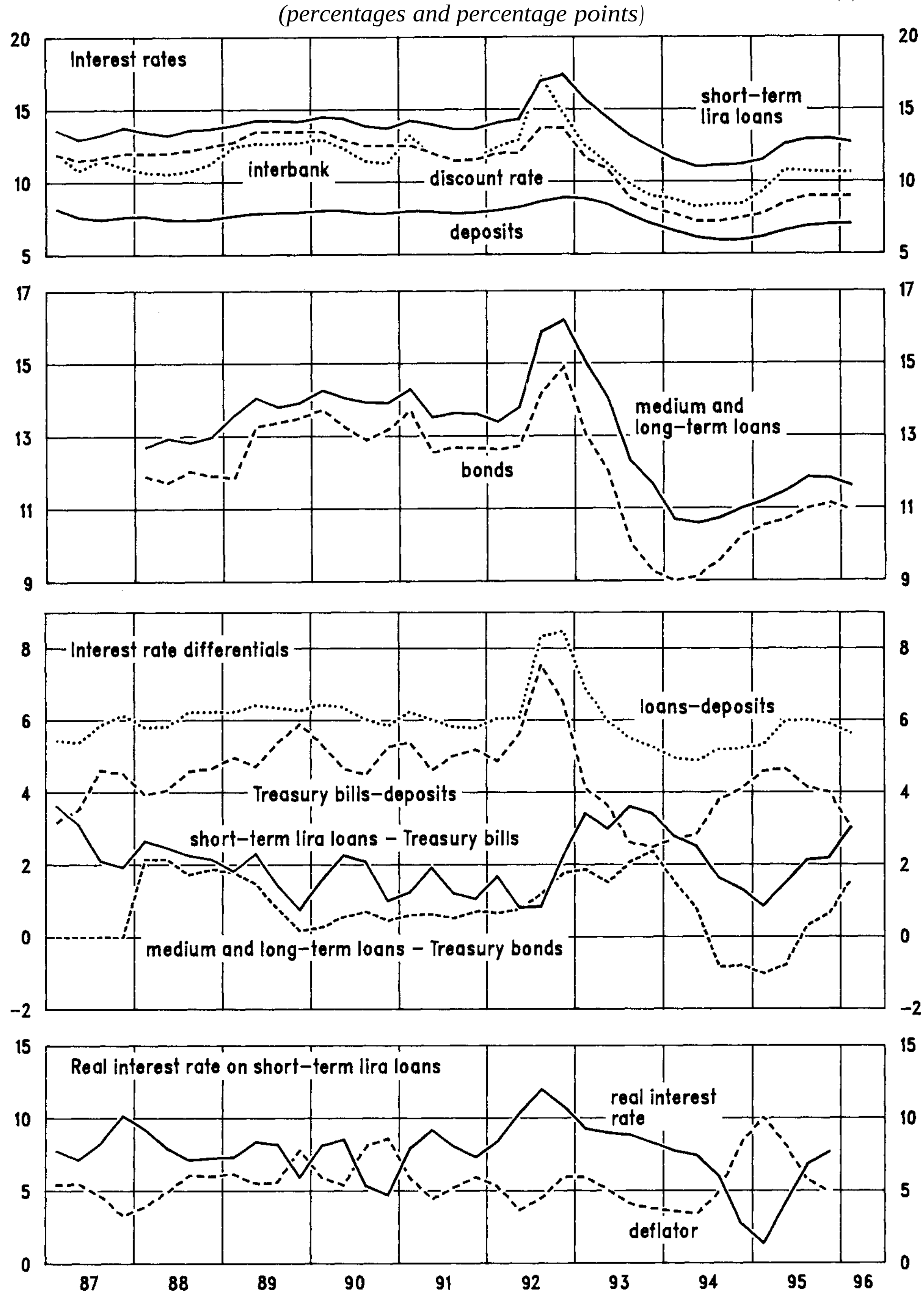
(1) Shaded areas represent periods of recession in industry. – (2) Deflated by applying the GDP price deflator to year-end stocks. – (3) Source: Central Credit Register. Differentials are expressed in percentage points.

Credit conditions eased progressively in 1994 and the first few months of 1995 but became more restrictive thereafter. The short-term lira lending rate rose from 11.1 per cent in December 1994 to 12.9 per cent at the end of 1995, causing the differential with Treasury bill yields to widen (Figure 22). In March and April the short-term rate adjusted quickly to the monetary tightening, rising by about 1 percentage point as credit growth recovered strongly. The differential between the rate on overdrafts and that on other lending, which is generally more highly secured, also remained large.

Figure 22

INTEREST RATES AND INTEREST RATE DIFFERENTIALS (1)

(percentages and percentage points)



(1) The differential between the Treasury bill rate and the deposit rate is net of the difference in tax treatment. The yield on Treasury bonds relates to bonds with a residual maturity of at least one year traded on the Milan Stock Exchange.

Owing to the lingering effects of the last recession and the uneven recovery in the various sectors of the economy, bad and doubtful debts continued to rise rapidly, although the rate of increase declined from 29.8 to

21.0 per cent. The volume of such positions increased to 10.3 per cent of lending excluding bad debts and 9.3 per cent of total lending, compared with 8.8 and 8.1 per cent respectively at the end of 1994. However, the overall rise in irrecoverable loans conceals wide sectoral and regional differences, which worsened in 1995. The rate of increase in industry excluding construction fell sharply, especially in export sectors, but remained high in the services sector and rose in construction. In the Centre and North the ratio of bad debts to total lending stabilized in the second half of 1995 to stand at 7.1 per cent in December; in the South it continued to rise throughout the year, reaching 22.7 per cent in December, more than 4 points higher than a year earlier.

The banks took a cautious approach to fund-raising, adjusting most deposit rates to changes in yields on government securities only partially and with a delay. The differential between the average Treasury bill yield and the average deposit rate thus widened from 3.3 to 4.5 percentage points on an annual average basis. The banks reconciled the need to hold down the average cost of funds with their desire to foster the hesitant recovery in short-term lending by making large temporary sales of securities from their portfolios, thereby restricting the largest increases in rates to the most elastic segments of credit demand. With the volume of medium and long-term certificates of deposit still increasing rapidly, the growth in bond issues decelerated sharply. The various aggregates behaved differently as a result: while deposit growth accelerated from 0.6 to 1.7 per cent, spurred by the growth in CDs, the increase in total fund-raising slowed down; if funds raised through repurchase agreements are included, the rate of increase rose from 2.3 per cent in 1994 to 4.2 per cent.

The dependence of Italian banks on foreign fund-raising is declining. Net foreign liabilities fell by 58.1 trillion lire net of exchange rate adjustments. The reduction in the banks' net external debtor position was a consequence of a marked decline in foreign currency liabilities, in keeping with the fall in foreign currency lending to residents, and an increase in lira claims on non-residents in connection with the recovery in their purchases of Italian government securities.

The recovery in domestic lira lending and claims on non-residents, which was not accompanied by a comparable increase in domestic fund-raising, led to a contraction of 33.8 trillion lire in the banks' securities portfolio. The composition of the portfolio also changed. The share of short-term paper declined, especially at the beginning of 1995, as did that of long-term fixed rate securities owing to sales of Treasury bonds. Conversely, the banks made large purchases of zero coupon Treasury certificates.

The sluggish growth in total assets limited the improvement in net interest income stemming from the increase in lira lending as a share of earning assets and the widening of the spread between the average return on lira loans and the average cost of funds. Partly as a result of the loan losses recorded in 1995 by nearly all banks, especially the large southern institutions, net income increased by only about 7 per cent, while profit before tax rose by 33.3 per cent. Staff costs increased by 2.9 per cent, owing partly to the effects of the 1994-95 labour agreements in the sector; however, the rise was less than the average increase in other operating costs.

Despite the decline in bank lending rates in response to the changes in money market rates, credit demand showed no appreciable sign of accelerating at the beginning of 1996, owing partly to the slowdown in economic activity. In March the twelve-month rate of growth was 2.9 per cent. Deposit growth accelerated slightly to 2.3 per cent, as the fall in yields on securities was not reflected in deposit rates.

Lending

Net of loans converted into securities and exchange rate adjustments, bank lending to residents grew by 27.8 trillion lire, or 2.7 per cent; in 1994 it had increased by 10.3 trillion, or 1.0 per cent. In real terms lending fell for the third consecutive year, declining by 2.3 per cent, similar to the fall in 1994 (Figure 21).

The growth in the aggregate was entirely attributable to lira lending, which increased by 61.1 trillion lire, or 6.7 per cent. Foreign currency lending, on the other hand, declined by 33.3 trillion lire, a larger contraction than in 1994. Its share of total lending has fallen by almost half since 1992 and now stands at 9.7 per cent, the lowest level since foreign exchange transactions were liberalized.

Short-term lending, which had fallen in 1993 and 1994, began to recover in the first half of 1995 and showed an increase of 17.2 trillion lire (3.2 per cent) for the year as a whole. By contrast, the growth in medium and long-term lending decelerated sharply from 7.3 to 2.1 per cent. The annual average share of short-term lending, calculated on the basis of the original contractual maturity of loans, fell slightly (Figure 21).

In 1995 the average rate on short-term lira loans rose by 1.8 percentage points to 12.9 per cent. The differential with the average Treasury bill yield, which stood at 1.3 points at the end of 1994, rose to 2.4 points in December 1995.

The banks maintained a cautious stance in setting credit conditions. The average ratio between credit drawn and credit granted was broadly the same as in 1994 and relatively high. The proportion of loans granted at or below the prime rate rose from 28.7 to 33.4 per cent, but this was still far lower than before the last recession.

With interest rates rising almost uniformly in the different sectors of the economy, most of the acceleration in lending was in credit to non-financial companies and producer households. In December the twelve-month rate of growth in loans to industry excluding construction rose to 9.2 per cent, compared with 3.3 per cent in December 1994. After contracting in 1994, lending to firms producing market services increased by 5.8 per cent. A decline of 1.3 per cent in lending to the construction industry reflected the difficult conditions still affecting the sector.

Lending to financial and insurance companies continued to fall as a consequence of the financial restructuring of public and private-sector holding companies, which significantly reduced their bank debt. The reorganization of banking-related activities within banking groups through the absorption of specialized companies by banks was also a factor.

Lending recovered throughout the country, although the marked geographical differentiation of the previous two years remained. Net of exchange rate variations, loans of more than 80 million lire, which are reported to the Central Credit Register, increased by 5.6 per cent in the Centre and North (10.4 per cent in the North-East) and 1.5 per cent in the South (compared with a decline of 3.3 per cent in 1994).

Some 270 bank mergers and takeovers took place between 1990 and 1995, considerably increasing concentration in the domestic credit market. In 1990 the 10 largest banks had accounted for 28 per cent of domestic lending; at the end of 1995 the figure was 42 per cent. Nevertheless, the increase in concentration among the larger banks did not prevent smaller banks from expanding their market share.

Bad debts. — The volume of bad and doubtful debts rose by 19.2 trillion lire in 1995 (21.0 per cent), compared with 20.9 trillion the previous year (29.8 per cent); the rate of growth thus remained very high, albeit slightly slower than in 1994. At the end of the year, bad and doubtful debts stood at 110.3 trillion lire, equal to 9.3 per cent of total lending, a rise of 1.2 percentage points. Non-performing loans declined by about 6 trillion lire to around 46 trillion. The rise in bad debts slowed further in the first few months of 1996, the twelve-month rate of increase falling to 14.6 per cent in March.

At the end of 1995 the book value of bad debts, calculated by reducing the nominal value of loans by the amount judged to be irrecoverable, amounted to 73.8 trillion lire, an increase of 13.8 trillion (23.0 per cent); the ratio of the book value of bad debts to supervisory capital rose from 35 to 43 per cent.

The slowdown in the growth of bad debts was greatest in the sectors that have benefited most from the economic recovery: in industry, excluding construction, the rate of increase fell from 33.3 to 6.2 per cent. By contrast, bad debts continued to increase rapidly in the construction sector, rising by 51.0 per cent.

In the case of loans of more than 80 million lire to borrowers in the South, the ratio of bad and doubtful debts to total lending rose from 18.2 to 22.7 per cent. In the Centre and North the ratio increased from 6.6 to 7.2 per cent in September before subsequently stabilizing.

Geographical differences in bank interest rates

In March 1996 the Bank of Italy began publication of a quarterly extract of regional data on credit and interest rates from the Statistical Bulletin.

Excluding foreign currency loans and loans to non-residents, the short-term lending rate differential between the South and the Centre-North narrowed from 2.6 to 2.2 percentage points in the first nine months of 1995. One factor may have been the banks' greater caution in lending to borrowers considered to entail higher risk in view of the volume of bad debts and an increase in adverse borrower selection, a common occurrence when interest rates are rising. The magnitude and behaviour of the differential are significantly different, however, if the risk component is deducted. Net of the premium for credit risk, the differential between the two areas — measured on the basis of specific hypotheses about the duration of loan contracts, the length of loan recovery procedures and the amounts recovered, and the probability of receiving full repayment — was about 1 percentage point in 1986. It has shown a clear downward tendency as competitive pressures in the banking system have increased, so that in recent years lending rates excluding the risk premium have not been higher in the South, and have even been lower for small loans.

There were no systematic differences between deposit rates in the South and those in the Centre and North from 1986 to 1995. The average rates were 7.68 and 7.74 per cent respectively. In 1993 and part of 1994 deposit rates were an average of 0.18 points higher in the South. Since the end of 1994 the differential has been in the opposite direction, averaging 0.38 points in 1995.

Treasury management and securities portfolios

The banks' securities portfolios contracted by 33.8 trillion lire, or 8.7 per cent to stand at 352.2 trillion at the end of the year. The proportion of securities in their aggregate portfolio of securities and loans fell from 27.1 to 24.7 per cent. Most of the decline in securities portfolios occurred in the first half of the year in conjunction with a revival in credit demand.

In December government securities accounted for 85.6 per cent of the total portfolio, the largest percentage since 1975. The share of short-term securities fell from 17.7 to 12.6 per cent, while that of Treasury credit certificates rose, although holdings declined by 2.1 trillion lire. By contrast, banks made large purchases of 2-year zero coupon certificates, the stock of which totaled about 10 trillion lire at the end of the year, or 3 per cent of the total. Shareholdings increased by 2.9 trillion lire to 49.5 trillion.

In 1995 there was a sharp rise in purchases and sales of securities under repurchase agreements. Temporary purchases of securities (mainly Treasury credit certificates and Treasury bonds acquired from stock market dealers and financial companies) increased by 17 trillion lire to 56.4 trillion; transactions with residents declined by 2.1 trillion, while those with non-residents nearly doubled to 41.6 trillion. Temporary sales increased by 35.9 trillion lire, or 25.8 per cent, to 175.1 trillion. The large rise is attributable almost entirely to operations with resident non-bank customers.

Deposits and borrowed funds

The average value of bank deposits in lire rose by 1.7 per cent between December 1994 and December 1995, compared with an increase of 0.6 per cent in 1994; at the end of the year deposits amounted to 935.2 trillion lire. The twelve-month increase in total deposits and borrowed funds, which includes the proceeds of bond issues, declined from 2.7 per cent in December 1994 to 1.4 per cent in December 1995. The twelve-month change in deposits was negative until August, when it turned positive. As in 1994, the latter's behaviour reflected the deceleration in the growth of the non-state sector's total financial assets, which fell from 7.1 to 4.8 per cent. Deposits nonetheless continued to contract both as a proportion of financial assets and in real terms (Figure 21).

Current account deposits increased by 0.6 per cent, compared with 3.2 per cent in 1994 (Table 30), declining as a percentage of both GDP and household consumption. One factor contributing to this result was the increase of more than 1 percentage point in the differential between the net rates of return on Treasury bills and current account deposits to an annual average of 5.5 points.

Savings deposits continued their long-term decline, contracting by 12.8 per cent to 118.4 trillion lire. The almost uninterrupted fall under way since 1992 in certificates of deposit with terms of less than 18 months continued, taking the average stock to 67.5 trillion lire or 19.7 per cent of total CDs, compared with 25.3 per cent in 1994. By contrast, instruments not subject to the compulsory reserve requirement rose sharply. CDs with terms of 18 months or more, which have been exempt since June 1994, increased by 16.2 per cent (4 per cent in 1994), lifting the share of CDs in total funds raised to 29.8 per cent; as noted above, the growth in repurchase agreements was even more pronounced. These trends were encouraged by the rise in their relative yields over the year. Net of withholding tax, the yield differential between 12-month Treasury bills and CDs narrowed to 1.7 percentage points, while that between 3-month Treasury bills and repurchase agreements virtually disappeared.

The developments described above, together with the release of funds in connection with the reform of the reserve requirement, caused the average ratio between compulsory reserves and bank deposits to decline to 9.5 per cent.

After rising by 12.1 per cent in 1994, the volume of bonds in issue declined gradually until August and then recovered to reach 216.6 trillion lire at the end of the year, close to the level at the end of 1994. During the year, 10 mainly medium-sized banks accepting short-term funds made their first issues of bonds for a total of 800 billion lire.

The proportion of total deposits and borrowed funds with a term of more than 18 months (primarily bonds and CDs) increased for the eighth consecutive year, rising to 44 per cent.

After stagnating in 1994, foreign currency deposits, adjusted for exchange rate variations, grew by 5.3 trillion lire and 35.4 per cent. The increase only partially offset the fall in net foreign currency funds raised abroad.

Banks' net foreign liabilities declined by 58.1 trillion lire in 1995, compared with an increase of 21.6 trillion the year before. The decline began in the second quarter and grew more pronounced during the rest of the year, with a fall of 33.1 trillion being recorded in the last quarter.

The contraction reflects an increase of about 41 trillion lire in lira-denominated assets and a decline of 45.1 trillion in gross foreign currency liabilities, which was more marked than that in net liabilities (38.7 trillion). At the same time domestic foreign currency lending continued to fall, contracting by 33.3 trillion.

Table 31

PROFIT AND LOSS ACCOUNTS OF BANKS (1)

	1992	1993	1994	1995	1992	1993	1994	1995
	As a percentage of total assets				**Percentage changes**			
Net interest income (a)	**3.20**	**2.90**	**2.54**	**2.70**	**18.4**	**0.1**	**–7.6**	**8.0**
Non-interest income (b)	**0.70**	**1.15**	**0.89**	**0.86**	**–15.9**	**81.4**	**–18.5**	**–1.8**
securities trading	*0.24*	*0.63*	*0.26*	*0.25*	*–41.4*	*183.9*	*–56.6*	*–2.0*
services	*0.10*	*0.23*	*0.30*	*0.27*	*–16.0*	*153.6*	*36.3*	*–8.1*
other financial operations	*0.15*	*0.11*	*0.13*	*0.13*	*16.5*	*–22.1*	*22.6*	*8.0*
Gross income (c=a+b)	**3.90**	**4.05**	**3.44**	**3.56**	**10.3**	**14.7**	**–10.7**	**5.5**
Operating expenses (d)	**2.56**	**2.46**	**2.36**	**2.42**	**12.0**	**6.0**	**0.7**	**4.8**
staff costs (2)	*1.64*	*1.55*	*1.53*	*1.54*	*10.0*	*4.1*	*3.8*	*2.9*
Net income (e=c–d)	**1.34**	**1.59**	**1.08**	**1.13**	**7.3**	**31.2**	**–28.4**	**6.9**
Value adjustments, readjustments and allocations to provisions (f)	**0.64**	**0.78**	**0.80**	**0.78**	**37.8**	**35.0**	**8.3**	**–1.4**
loan losses	*0.49*	*0.73*	*0.51*	*0.68*	*14.1*	*64.0*	*–27.3*	*36.9*
Profit before tax (g=e–f)	**0.70**	**0.81**	**0.28**	**0.36**	**–10.6**	**27.7**	**–63.7**	**30.9**
Tax (h)	**0.37**	**0.56**	**0.23**	**0.33**	**4.8**	**67.6**	**–57.2**	**47.6**
Net profit (g–h)	**0.33**	**0.25**	**0.05**	**0.03**	**–23.2**	**–17.0**	**–78.6**	**–44.8**
Dividends	0.17	0.15	0.12	0.14	19.7	–5.2	–18.2	22.0
	Other data							
	Profit before tax				**Net profit**			
Profit as a percentage of capital and reserves	10.19	11.90	4.02	5.16	4.82	3.64	0.73	0.39
	Amounts				**Percentage changes**			
Total assets *(billions of lire)*	2,035,715	2,249,923	2,365,680	2,409,856	19.2	10.5	5.1	1.9
Number of employees	338,138	339,949	338,937	337,963	0.2	0.5	–0.3	–0.3
Total assets per employee *(millions of lire)* at current prices	6,020	6,618	6,980	7,131	19.0	9.9	5.5	2.2
at constant prices (3)	5,390	5,671	5,749	5,584	13.2	5.2	1.4	–2.9
Staff costs per employee *(milions of lire)* at current prices (2)	100.1	103.6	108.3	111.4	9.9	3.6	4.5	2.9
at constant prices (3)	89.6	88.8	89.2	87.2	4.5	–0.9	0.4	–2.2

(1) Rounding may cause discrepancies in totals. The data for 1995 are provisional. – (2) Salaries, allocations for severance payments and pensions and various benefits for bank staff. The number of bank staff is obtained by deducting tax collection staff and staff seconded to other bodies from the total number of employees and adding employees of other bodies on secondment to the banks in the monthly sample. – (3) Deflated using the consumer price index (1990=100).

Profit and loss accounts

Banks' net interest income increased by 4.8 trillion lire, or 8 per cent, compared with a decline of 7.6 per cent in 1994 (Table 31). Net interest income increased to 2.7 per cent of total assets, only 0.16 percentage points above the historic low recorded in 1994. Net income from securities trading fell by a further 2 per cent after the sharp fall in 1994. Total non-interest income fell by 1.8 per cent; gross income increased by 0.12 percentage points to 3.56 per cent of total assets.

Operating expenses increased by 4.8 per cent, compared with 0.7 per cent in 1994. Staff costs rose by 2.9 per cent, partly owing to the effects of the industry labour contract signed at the end of 1994. With the number of banking staff stable (Table al 9), the average cost per banking employee increased in the same proportion to 111.4 million lire.

Net income increased by 6.9 per cent. Although the balance of value adjustments and readjustments to banks' securities portfolios improved sharply, last year saw larger net writedowns of both equity interests and loans. Adding loan loss provisions to the latter, the cost of bad and doubtful debts rose by about 37 per cent compared with 1994. Profit before tax rose from 6.6 to 8.6 trillion lire. In a sample of 265 banks, 28 made a pretax loss (compared with 46 out of 282 in 1994); in total these losses rose from 4.2 to 6.1 trillion lire and the largest were recorded by banks located in the South, which account for about 13 per cent of total domestic lending. Of the 49 southern banks in the sample, 11 made a total pretax loss of 5.4 trillion lire, with 3 banks accounting for the lion's share.

Banks' income tax liabilities rose by 2.6 trillion lire or 47.6 per cent; their net profit for the year consequently fell by 0.5 trillion or 44.8 per cent.

Other credit intermediaries

Leasing companies. — Leasing business grew vigorously in 1995, reflecting the increase in corporate investment. The credit implicit in outstanding contracts rose from 44.8 to 50.6 trillion lire, an increase of 12.8 per cent. There was a sharp rise in the fourth quarter as the deadline approached for firms to avail themselves of the tax incentives provided for in Law 489/1994 (the so-called Tremonti law).

The rapid growth was only partly financed with bank debt, which rose by 4 per cent; greater recourse was made to self-financing and borrowing from related companies. Bad and doubtful debts (comprising overdue instalments and those subject to recovery proceedings) declined by about 200 billion lire and from 6.4 to 5.9 per cent of outstanding credit. The average interest rate on new contracts was 14.7 per cent.

Factoring companies. — The activity of factoring companies recovered in 1995 after two years of decline. The stock of acquired claims increased by 5.5 trillion lire, or 18.2 per cent, to 35.9 trillion. Claims acquired without recourse rose by 15.3 per cent. The rapid increase in acquired claims was due in part to the entry into the market of new companies belonging to large industrial groups, most of which are listed on the stock exchange.

Bad and doubtful debts declined from 4.9 to 4 per cent of acquired claims. Supervisory capital increased by 10 per cent to just over 1.5 trillion lire. The recovery in activity was not accompanied by an increase in profitability, as companies made a loss of about 30 billion lire after breaking even in 1994. The number of employees rose by around 2 per cent to just under 2,400.

Consumer credit. — Like the other quasi-banking sectors, consumer credit also expanded in 1995. Outstanding loans rose by 2.4 trillion lire to 36.1 trillion, an increase of 7.2 per cent (3.7 per cent in 1994). The rapid growth was due almost entirely to the growth in lending by specialized finance companies, which rose by 2.2 trillion lire or 16 per cent, since there was virtually no change in the activity of banks, which rose by 200 billion lire or 0.9 per cent. The fact that consumer credit companies reduced their average lending rate, whereas banks did not, probably contributed to the difference in their performance.

The proportion of specialized finance companies' lending that was linked to the purchase of goods increased by more than 4 percentage points, primarily owing to the growth in loans for the purchase of vehicles, which account for 55 per cent of the total credit granted by specialized finance companies. The proportion of these companies' total loans with terms of more than 18 months increased from 47 to 57 per cent, while their bad and doubtful debts declined by about 200 billion lire, falling from 7.2 to 4.7 per cent of total outstanding credit.

INSTITUTIONAL INVESTORS

After adjusting for flows within the sector, the net flow of savings to institutional investors decreased markedly in 1995, falling from 71.3 to 27.4 trillion lire (Table 32). In relation to the increase in households' gross financial assets, it declined from 63 to 19 per cent. Inclusive of changes in securities prices, institutional investors' net assets grew by 8.4 per cent to 581.9 trillion lire at the end of the year. As a proportion of households' gross financial assets, they rose from 18.5 to 19.1 per cent (Table 33). The increase in institutional investors' share reflected the growth in savings entrusted to insurance companies and pension funds, which increased their share of the total from 4.3 and 3.3 per cent to 4.9 and 3.5 per cent respectively. By contrast, the proportion managed by investment funds fell from 4.5 to 4.2 per cent.

Table 32

INSTITUTIONAL INVESTORS: NET FUND-RAISING

(billions of lire)

	1993	1994	1995	Percentage composition		
				1993	1994	1995
Investment funds (1)	31,913	23,667	–10,490	49.9	26.5	–32.1
Portfolio management services (1)	13,254	32,875	2,019	20.7	36.7	6.2
Insurance companies (2) (3)	12,699	21,355	31,826	19.9	23.9	97.5
Pension funds (2) (3)	4,604	11,108	8,883	7.2	12.4	27.2
Securities firms (3) (4)	1,449	467	400	2.3	0.5	1.2
Total	**63,919**	**89,472**	**32,638**	**100.0**	**100.0**	**100.0**
Consolidated total (5)	**63,669**	**71,342**	**27,359**			
Memorandum item:						
Total consolidated assets (5)	**467,539**	**537,050**	**581,923**			
Percentage change	*31.1*	*14.9*	*8.4*			

(1) Net fund-raising minus dividends paid. – (2) Change in technical reserves. – (3) The figure for 1995 is estimated. – (4) Change in book value. – (5) Net of flows within the sector.

The performance of institutional investors, especially investment funds and portfolio management services, was affected by the behaviour of the exchange rate, the sharp fluctuations of the Italian bond market and the decline in Italian share prices, which prompted investors to shift their savings into more liquid financial assets and reduce the share of foreign currency assets managed by institutional investors. The net fund-raising of portfolio management services fell from 32.9 trillion lire in 1994, when a new market participant contributed 18 trillion lire to the sector's growth, to 2 trillion in 1995. Investment funds registered net redemptions of 10.5 trillion lire, compared with net subscriptions of 23.7 trillion in 1994. The performance of other institutional investors was more stable: fund-raising by pension funds and securities firms fell slightly, while that by insurance companies, which are less affected by fluctuations in the financial markets, increased from 21.4 to 31.8 trillion lire.

Table 33

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

(end-of-period data)

	1989	1990	1992	1993	1994	1995
Investment funds	2.7	2.3	2.5	4.0	4.5	4.2
Portfolio management services	3.0	3.2	4.0	5.1	6.2	6.3
Insurance companies (1) (2) .	3.4	3.7	4.1	4.3	4.3	4.9
Pension funds (2)	. . . .	0.6	3.1	3.1	3.3	3.5
Securities firms (3)	–	. .	0.0	0.3	0.2	0.2
Total	**9.1**	**9.8**	**13.7**	**16.8**	**18.5**	**19.1**

(1) Technical reserves, excluding securities entrusted to portfolio management services. – (2) The figure for 1995 is estimated. – (3) Securities firms' own trading portfolios.

The rates of return achieved for the year by investment funds and portfolio management services were again broadly similar and better than the modest results of 1994. Among investment funds, the differential between the rate of return earned by bond-based funds and that of other funds widened considerably, largely owing to the rise in Italian and foreign bond prices and the fall in Italian share prices. Nevertheless, portfolio management services and investment funds were able to capture only part of the benefits of the rise in prices, recording lower returns on average than were achievable by investing directly in benchmark financial instruments. The difference did not always reflect a correspondingly lower exposure to risk.

The share of managed savings administered by banks rose further in 1995, primarily owing to the increase in their penetration of the investment fund market that resulted from the acquisition of management companies. The share of investment funds' total net assets attributable to management companies controlled by banks rose from 58.8 to 69.1 per cent.

Fund-raising by institutional investors recovered in the first few months of 1996 in conjunction with the positive performance of the markets. In the first quarter, net fund-raising by investment funds and portfolio management services amounted to nearly 13.6 trillion lire, compared with net redemptions of 9.5 trillion in the first quarter of 1995.

Securities investment funds

In 1995 net redemptions amounting to 10.5 trillion lire were divided almost equally between share-based, bond-based and mixed funds (Table 34). However, net fund-raising was sharply differentiated by currency specialization. Funds investing in foreign securities had net redemptions of 7.7 trillion lire, while those specializing in lira-denominated securities recorded a net outflow of 2.8 trillion lire.

Table 34

NET ASSETS OF ITALIAN INVESTMENT FUNDS

(billions of lire)

	Net fund-raising		Dividends paid		Capital gains/losses (1)		Net assets (2)		
	1994	1995	1994	1995	1994	1995	December 1993	December 1994	December 1995
Bond-based	4,071	–3,223	1,758	1,211	–1,049	7,734	72,029	73,293	76,593
linked to current accounts	*324*	*–1,100*	*47*	*55*	*709*	*2,251*	*28,051*	*29,037*	*30,133*
Mixed	3,376	–3,817	30	10	1,290	1,278	13,467	18,103	15,554
Share-based	18,008	–3,450	..	..	–3,832	–668	24,597	38,773	34,655
Total ...	**25,455**	**–10,490**	**1,788**	**1,221**	**–3,591**	**8,344**	**110,093**	**130,169**	**126,802**

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

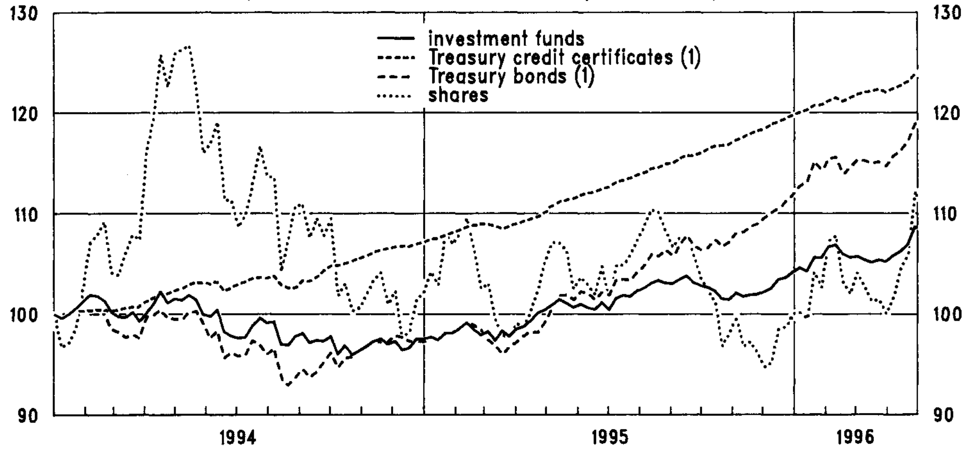
The performance of fund-raising varied over the year. The first half saw a continuation of the negative trend of 1994, when interest rates rose in the early part of the year and bond prices consequently fell. Unlike 1994, however, the decline in net fund-raising was mainly attributable to an increase in redemptions, notably for funds specializing in foreign currency securities.

In the second half of the year fund-raising reflected the contrasting effects of the fall in Italian share prices and the recovery in bond prices (Figure 23). Redemptions were concentrated in the equity sector, while subscriptions to bond-based funds turned up. The return to an overall net inflow towards the end of the year coincided with the stabilization of equity prices and the acceleration in bond prices (Figure 24).

Figure 23

SECURITIES MARKET: INDICES OF TOTAL RETURN

(31 December 1993=100; end-of-week data)



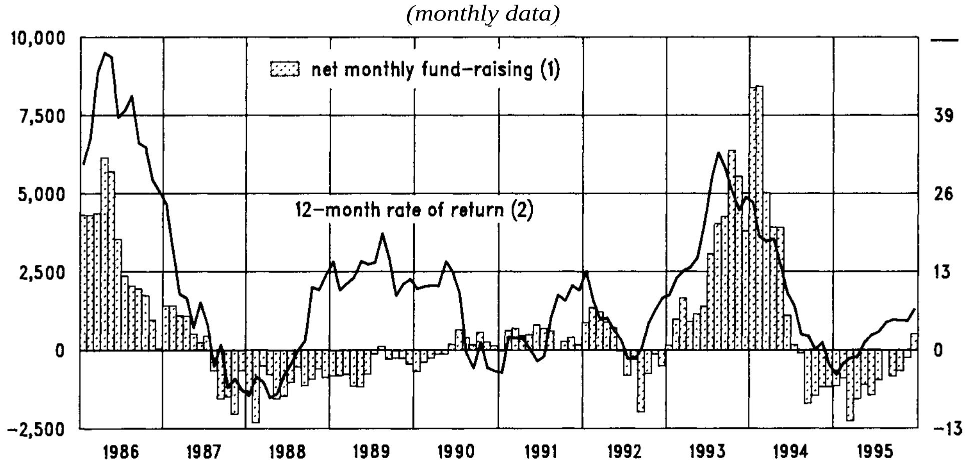
(1) Net of the 12.5 per cent withholding tax.

In 1995 the net assets of investment funds declined by nearly 3.4 trillion lire to 126.8 trillion. The net assets of share-based and mixed funds fell by 6.8 trillion lire, while those of bond-based funds increased by 3.3 trillion lire. Since the decline in fund-raising was broadly similar in the three sectors, the differences in the behaviour of net assets reflected the considerable sectoral disparity underlying the overall average return of 6.8 per cent in 1995. Bond-based funds returned 10.4 per cent on average, outstripping both mixed funds (3.9 per cent) and share-based funds (1.3 per cent). The latter figure was the result of a rate of return of nearly 11.5 per cent on funds

Figure 24

SECURITIES INVESTMENT FUNDS:
RATE OF RETURN AND NET FUND-RAISING

(monthly data)



(1) Left-hand scale in billions of lire. – (2) Right-hand scale in percentages.

specializing in foreign-currency instruments and of minus 2.5 per cent on other funds, which was the rate achievable by investing in a portfolio of representative shares in the Italian stock market.

Investment funds' net purchases of government securities declined by 600 billion lire to 11.4 trillion, of which more than two thirds were carried out in the second half of the year. As in 1994, more than half the net purchases were of short-term and variable rate securities (Treasury bills and Treasury credit certificates). Net purchases of Italian shares were virtually nil in 1995, compared with 8.9 trillion in 1994. The swing for securities denominated in foreign currency was even more pronounced: net purchases of 6.1 trillion lire in 1994 gave way to net sales of almost the same amount, largely owing to the considerable net redemptions registered by funds specializing in foreign securities.

The first closed-end securities investment funds established under Italian law began operations at the end of the year, following the issue of the relevant regulations in March.

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 11.5 trillion lire to 192.4 trillion (Table 35). The increase in assets under management was largely due to the rise in bond prices and, to a lesser degree, the reinvestment of coupon payments; fund-raising contributed only 2 trillion lire.

Adjusted to exclude net fund-raising, the net assets of portfolio management services increased by 5.3 per cent (which approximates the financial return on the assumption that coupon payments are fully reinvested). The aggregate result conceals differences in the performance of the various categories of intermediary. Securities firms recorded the largest average increase (9.3 per cent), followed by trust companies (6.1 per cent) and banks (4.3 per cent). The performance of securities firms can be ascribed to the composition of their portfolio at the beginning of 1995, which was more heavily weighted towards foreign currency and fixed rate securities.

Total net purchases of government securities by portfolio management services amounted to 8.3 trillion lire, of which 4.7 trillion were in Treasury bills and 3.3 trillion in Treasury bonds; the value of Treasury credit certificates and corporate bonds in their portfolios was virtually unchanged. Net sales of lira-denominated bonds totaling 1.9 trillion lire were partly offset by net purchases of foreign currency bonds amounting to 1.3 trillion lire.

Table 35

ASSETS OF PORTFOLIO MANAGEMENT SERVICES

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

	December 1994	1995				March 1996 (1)
		March	June	September	December	
Italian securities	**151,239**	**145,831**	**145,968**	**151,576**	**156,706**	**165,524**
Government securities	119,759	116,871	118,424	123,710	129,422	138,742
of which: BOTs	*7,203*	*9,711*	*10,156*	*11,394*	*11,723*	*12,598*
BTPs	*33,156*	*31,543*	*31,903*	*34,820*	*38,002*	*42,050*
CCTs	*74,370*	*70,635*	*71,475*	*72,135*	*73,242*	*76,992*
other	*5,030*	*4,928*	*4,890*	*5,361*	*6,455*	*7,102*
Bonds	22,700	20,952	19,426	19,118	18,763	18,915
Shares	8,780	8,062	8,118	8,748	8,521	7,867
Foreign currency securities	**13,490**	**13,715**	**15,375**	**15,229**	**15,157**	**16,103**
Bonds	11,955	12,196	13,510	13,043	13,227	13,756
Shares	1,536	1,520	1,866	2,186	1,930	2,347
Total portfolio	**171,112**	**166,121**	**167,518**	**173,735**	**179,612**	**189,913**
Total assets	**180,964**	**176,544**	**178,534**	**185,635**	**192,438**	**202,601**
of which: banks	*133,016*	*128,552*	*129,029*	*131,497*	*135,551*	*142,873*
securities firms	*29,094*	*29,924*	*31,564*	*36,091*	*38,029*	*40,617*
trust companies	*18,854*	*18,068*	*17,941*	*18,047*	*18,858*	*19,111*
Memorandum item: **Net fund-raising**	**–2,803**	**–5,163**	**–1,092**	**4,349**	**3,961**	**7,348**
of which: banks	*–3,485*	*–4,529*	*–1,804*	*1,246*	*2,145*	*5,428*
securities firms	*1,353*	*280*	*1,200*	*3,333*	*1,271*	*1,837*
trust companies	*–671*	*–914*	*–487*	*–230*	*545*	*83*

(1) Provisional.

Securities firms. — The value of securities firms' own trading portfolios increased by 1.2 trillion lire to 6.8 trillion. The growth was fueled by the increase in their holdings of government securities, which were mainly acquired under repurchase agreements; the net value of outstanding repos, including riporti share contracts, rose from 900 billion lire to 2.4 trillion.

The reduction in the pronounced fragmentation of the market over the last few years continued as the number of securities firms declined from 227 to 223.

Gross income from business on behalf of customers remained at the low level of the previous year. Net management commissions were 0.3 per cent of the value of managed funds (including portfolio management services).

Net commissions from trading on behalf of customers were equal to just under 0.3 per cent of turnover, slightly lower than in 1994. Trading on own account made the largest contribution to income (60 per cent), as it had the previous year. Such trading accounted for 46 per cent of trades in the Italian stock market, a small increase on the figure for 1994.

Insurance companies and pension funds

Insurance companies. — In 1995 the premium income of insurance companies amounted to 39.6 trillion lire in the casualty sector and 23.2 trillion in the life sector (Table 36). The rate of growth in premium income in the casualty sector rose from 4.8 per cent in 1994 to 7.8 per cent in last year's improved economic conditions; in the life sector, the growth in premium income accelerated slightly from 22.9 to 24.7 per cent, continuing the trend of the last two years.

Table 36

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 (1)	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	2,271	74,037	1,720	12,376	142,899	87,287	23,604	18,625
1995 (5)	2,219	91,351	1,620	12,156	169,562	111,599	25,322	23,229
				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	3,067	52,063	515	11,612	106,357	54,606	21,422	36,794
1995 (5)	2,812	60,076	186	12,356	118,112	62,121	22,549	39,592
				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	5,338	126,100	2,235	23,988	249,256	141,893	45,026	55,419
1995 (5)	5,031	151,427	1,806	24,512	287,674	173,720	47,871	62,821

(1) In lire and foreign currency; excluding securities entrusted to portfolio management services. – (2) Net of corresponding liabilities. – (3) Excluding reinsurance. – (4) Direct domestic business; since 1995 includes premium income of offices in EU countries. – (5) Partly estimated.

Premiums paid via bank branches increased by 32 per cent as the banks broadened their range of insurance products.

Total technical reserves rose from 141.9 to 173.7 trillion lire. The increase, most of which came in the life sector, reflected the good performance of fund-raising and the returns achieved on policies offering index-linked benefits, which represent nearly 75 per cent of the sector's reserves. Insurance companies' total assets increased by 15.4 per cent as a result of a rise of 20.1 per cent in the value of their securities portfolios, partly offset by falls in their bank deposits and lending.

Table 37

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 (3)	Foreign currency securities (3)	Invest-ment fund units	Total
	BOTs	CCTs	BTPs	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 ...	993	20,980	21,638	2,683	46,294	8,616	2,190	7,073	9,097	767	74,037
1995 (4)	652	29,784	27,825	2,652	60,913	8,283	2,308	9,163	9,429	1,255	91,351
					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 ...	306	11,840	7,872	1,333	21,351	8,828	1,594	10,158	9,989	143	52,063
1995 (4)	653	14,049	8,935	1,929	25,566	8,168	1,809	12,520	11,790	223	60,076
					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 ...	1,299	32,820	29,510	4,016	67,645	17,444	3,784	17,231	19,086	910	126,100
1995 (4)	1,305	43,833	36,760	4,581	86,479	16,451	4,117	21,683	21,219	1,478	151,427

(1) Excluding securities entrusted to portfolio management services. – (2) Including certificates of deposit. – (3) Including equity participations. – (4) Partly estimated.

The changes in the composition of insurance companies' securities portfolios, which does not include securities entrusted to portfolio management services, differed from those registered by the other categories of institutional investor. The share of government securities grew from 53 to 57 per cent as a result of large net purchases of variable rate securities, which increased from 26 to 29 per cent of the total (Table 37); the proportion of fixed rate securities rose by 1 point to 24 per cent, mainly reflecting the rise in their prices. Unlike other institutional investors, insurance companies' net purchases of Italian shares rose from 2.5 trillion lire to almost 5 trillion, while purchases of foreign currency securities totaled about 2 trillion lire, compared with 1 trillion in 1994.

Pension funds. — At the end of 1994, the most recent year for which complete data are available, the total assets of the non-INPS pension funds set up by public and professional bodies amounted to 73 trillion lire, an increase over the year of slightly more than 9 trillion (Table 38). The assets of pension funds run by banks rose by 2.2 trillion lire to 23.6 trillion. The share of pension funds in households' gross financial assets rose slightly to 3.3 per cent. As in the two previous years, real estate accounted for the greater part of the increase in pension fund assets and its share of the total rose from 32 to 39 per cent.

Table 38

PENSION FUNDS: MAIN ASSETS

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

	1993			1994			1995
	Non-INPS funds	Credit sector funds	Total	Non-INPS funds	Credit sector funds	Total	Credit sector funds (1)
Cash and deposits	13,865	840	14,705	14,898	637	15,535	850
Government securities	13,186	11,591	24,777	13,383	11,874	25,257	13,805
Corporate bonds	3,105	1,134	4,239	2,813	1,633	4,446	1,679
Shares	33	1,435	1,468	73	1,657	1,730	1,991
Foreign currency securities	13	858	871	12	758	770	781
Loans and other financial assets	10,816	939	11,755	10,703	1,034	11,737	1,283
Real estate	23,075	4,655	27,730	31,137	6,042	37,179	5,417
Total assets	**64,093**	**21,452**	**85,545**	**73,019**	**23,635**	**96,654**	**25,806**

(1) Provisional.

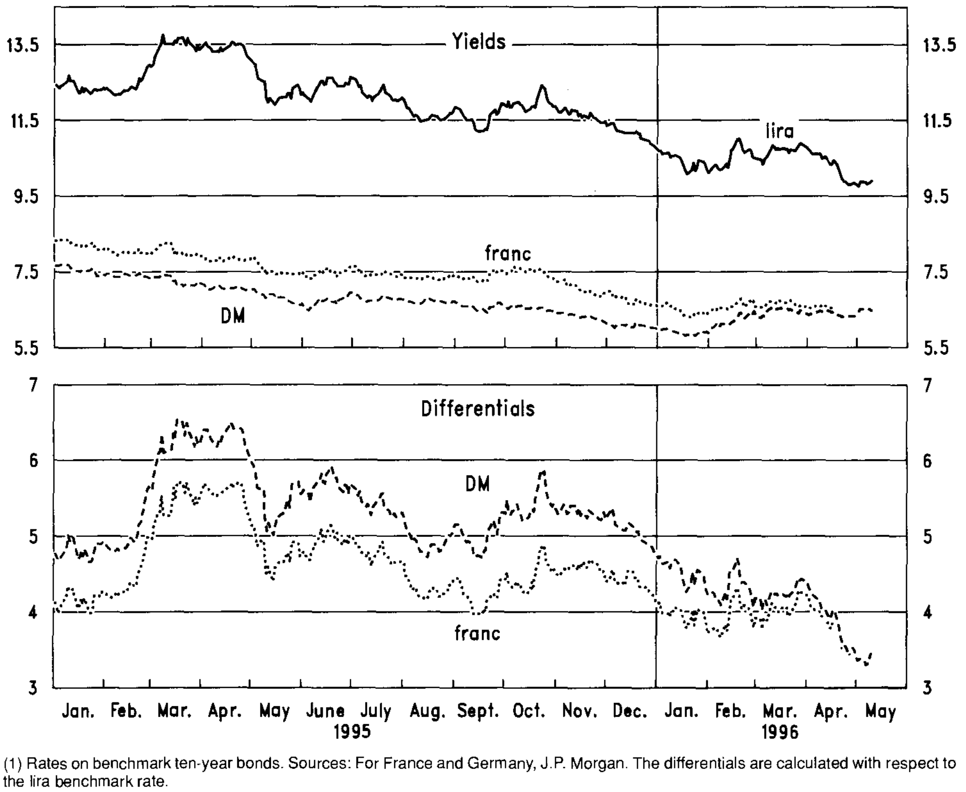
In 1995, the assets of pension funds run by banks, the only sector for which data are available, increased by nearly 2.2 trillion lire. The composition of the portfolio did not change significantly. The share of government securities increased by 3 percentage points to 53 per cent, while that of shares was virtually unchanged; conversely, the share of corporate bonds and real estate declined.

THE SECURITIES MARKET

Italian bond yields declined significantly in the course of 1995, approximately in line with those in the other continental countries. The benchmark yield on 10-year Treasury bonds (BTPs) came down by 150 basis points, compared with a fall of 160 on German Bunds and 10-year French Treasury bonds (Figure 25).

Figure 25

GROSS YIELDS ON GOVERNMENT SECURITIES DENOMINATED IN LIRE, DEUTSCHE MARK AND FRENCH FRANCS (1)



(1) Rates on benchmark ten-year bonds. Sources: For France and Germany, J.P. Morgan. The differentials are calculated with respect to the lira benchmark rate.

The underlying international trend was refracted by factors specific to Italy, where securities market developments diverged from those elsewhere on three occasions in particular. In the first few months of 1995, in concomitance with major turbulence in the foreign exchange markets, the heightened risk of inflation and the uncertainties over the adjustment of the public finances caused a pronounced increase in Italy's interest rate differential. Between the turn of the year and 17 March the difference between 10-year BTPs and Bunds rose by 170 basis points to a high of 6.5 percentage points. After a reduction in May that was consolidated in the ensuing months, the gap grew temporarily in early autumn owing to uncertainties over the stability of the domestic political situation and the emergence of doubts over Italy's prospects with respect to European monetary union. Finally, in the first four months of 1996 the differential between BTPs and Bunds narrowed appreciably, from 4.9 to 3.5 percentage points, thanks to the attenuation of inflation expectations and the market's strengthening anticipation of political stability.

Both the residual maturity and the duration of outstanding government securities remained practically unchanged for the year. There was a shift in the composition of demand by category of investor: banks were net sellers, in contrast to the previous year, while non-residents accounted for about half of total subscriptions, twice as much as in 1994.

In a context of considerable uncertainty, the preference of investors for more liquid instruments particularly penalized the equity market, where price trends diverged from those in the other main industrial countries. Share prices declined by 6.9 per cent in Italy in 1995, whereas they basically held steady in France, showed a modest gain in Germany and rose strongly throughout the year in the UK and the US.

Bonds and government securities

Supply. — Net government issues decreased to 102.9 trillion lire in 1995, compared with 170.1 trillion in 1994. Net issues by banks also contracted sharply. Total net issues of bonds and government securities declined by more than 90 trillion lire, from 190.3 to 99.9 trillion (Table 39).

Short-term government securities (Treasury bills) and the paper indexed to them (Treasury credit certificates) registered net redemptions of 31.3 trillion lire, compared with net issues of 56.8 trillion in 1994. In February 1995 2-year zero-coupon Treasury certificates were launched; issues of this instrument came to 38.3 trillion lire during the year, accounting for 37.2 per cent of total net government issues. The average residual maturity of the public debt did not change significantly, as the reduction in short-term paper was counterbalanced by decreased issues of 10 and 30-year bonds (Figure 26).

Table 39

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS (1)

	Gross issues (2)		Net issues (2)		Stocks (3)	
	1994	1995	1994	1995	Dec. 1994	Dec. 1995
	billions of lire					
Public sector	**953,215**	**1,030,459**	**170,111**	**102,905**	**1,685,265**	**1,805,896**
Treasury bills	*679,500*	*714,250*	*19,155*	*–1,500*	*413,513*	*412,013*
Treasury credit certificates (4)	*60,767*	*121,899*	*37,629*	*–29,781*	*546,104*	*519,086*
Treasury bonds	*167,574*	*118,484*	*104,458*	*95,925*	*517,054*	*619,694*
Zero-coupon Treasury certificates	–	*47,217*	–	*38,299*	–	*47,217*
Ecu Tresury credit certificates	*17,665*	*6,769*	*2,736*	*–8,163*	*55,311*	*48,821*
Republic of Italy issues	*18,115*	*18,675*	*16,059*	*16,927*	*64,327*	*78,829*
Other	*9,594*	*3,165*	*–9,926*	*–8,802*	*88,956*	*80,236*
Banks	**43,252**	**28,355**	**22,259**	**–533**	**214,882**	**214,480**
Firms	**4,285**	**2,080**	**–2,070**	**–2,492**	**30,154**	**27,662**
Total	**1,000,752**	**1,060,894**	**190,300**	**99,880**	**1,930,301**	**2,048,038**
	percentage composition					
Public sector (5)	**95.3**	**97.1**	**89.4**	**103.0**	**87.3**	**88.2**
Treasury bills	*71.3*	*69.3*	*11.3*	*–1.5*	*24.5*	*22.8*
Treasury credit certificates (4)	*6.4*	*11.8*	*22.1*	*–28.9*	*32.4*	*28.8*
Treasury bonds	*17.6*	*11.5*	*61.4*	*93.2*	*30.7*	*34.3*
Zero-coupon Treasury certificates	–	*4.6*	–	*37.2*	–	*2.6*
Ecu Tresury credit certificates	*1.8*	*0.7*	*1.6*	*–7.9*	*3.3*	*2.7*
Republic of Italy issues	*1.9*	*1.8*	*9.4*	*16.4*	*3.8*	*4.4*
Other	*1.0*	*0.3*	*–5.8*	*–8.5*	*5.3*	*4.4*
Banks	**4.3**	**2.7**	**11.7**	**–0.5**	**11.1**	**10.5**
Firms	**0.4**	**0.2**	**–1.1**	**–2.5**	**1.6**	**1.3**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
as a percentage of GDP	*61.1*	*59.9*	*11.6*	*5.6*	*117.8*	*115.6*

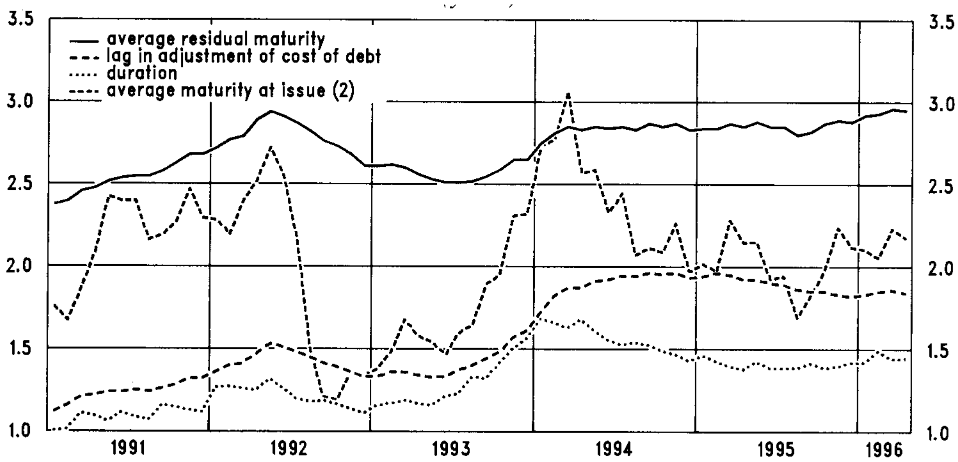
(1) Comprises Italian government securities and the lira issues of other issuers on the Italian market; excludes certificates of deposit. – (2) Excludes the 76,206 billion lire of securities issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy. – (3) Face value. 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 and 31,000 billion issued in December 1993 to fund the Treasury's new payments account. – (4) Includes only variable-coupon certificates. – (5) The percentages shown for the various types of government security are ratios to the total of public sector securities.

The Treasury's net funding in foreign markets, with issues denominated in yen, ecus, German marks and dollars, increased from 16.1 trillion lire in 1994 to 16.9 trillion and from 9.4 to 16.4 per cent of total government issues. Yen-denominated instruments were de-emphasized, falling from 80.4 to 55.0 per cent of gross non-lira issues, in favour of those in marks and dollars, whose shares rose respectively from 6.8 to 11.5 and from 12.8 to 16.9 per cent, and those in ecus, which had not been issued in 1994 but accounted for 16.6 per cent of the total last year.

Figure 26

GOVERNMENT SECURITIES HELD BY THE MARKET: AVERAGE RESIDUAL MATURITY, LAG IN COST ADJUSTMENT AND DURATION(1)

(years)



(1) Excludes securities held by the Bank of Italy. Macaulay's duration. – (2) Three-month centred moving average.

The banks' preference for raising funds by way of certificates of deposit, which had been exempted from the reserve requirement in 1994, was reflected in a large contraction in their bond issues; there were net redemptions of 500 billion lire in 1995, compared with net issues of 22.3 trillion the previous year.

Eurolira bond issues amounted to 19.2 trillion, 29 per cent less than in 1994. The decline was caused by difficulty in placing lira-denominated paper during the first few months of the year and the general stagnation of the Eurobond market owing to the depressing influence of the Mexican crisis on demand for the paper of issuers with less than the top credit ratings. In the first four months of 1996 Eurolira bond issues totaled 11.4 trillion lire.

Demand. — Last year saw a considerable change in the composition of government securities purchasers (Table 40). With net issues down sharply, the net purchases of foreign investors, investment funds and other investors held near their 1994 levels while demand from the banking system fell markedly. In fact, banks made net disposals of bonds and government securities totaling 33.1 trillion lire (of which, 26.5 trillion in the public sector), compared with net purchases of 35.7 trillion in 1994. There was especially heavy disinvestment in Treasury bills, which were partially replaced by zero-coupon certificates.

Table 40

NET PURCHASES OF BONDS AND GOVERNMENT SECURITIES (1)

(billions of lire)

	Public sector						Banks and firms	Total
	Treasury bills	Treasury credit certifi-cates (2)	Treasury bonds	Treasury certifi-cates in ecus	Other (3)	Total		
1994								
BI-UIC	13,895	1,322	16,177	–37	642	31,999	–18	31,981
Banks	–2,642	–3,852	42,897	2,098	–5,067	33,434	2,286	35,720
Insurance companies	587	4,417	3,691	–22	–462	8,211	2,670	10,881
Investment funds	4,562	4,762	5,338	–99	–2,264	12,299	354	12,653
Non-residents	1,130	20,151	–3,560	4,594	19,462	41,777	–2	41,775
Other (4)	1,623	10,829	39,915	–3,798	–6,178	42,391	14,899	57,290
Net issues	**19,155**	**37,629**	**104,458**	**2,736**	**6,133**	**170,111**	**20,189**	**190,300**
1995								
BI-UIC	–10,975	–2,702	11,105	–88	1,004	–1,656	–46	–1,702
Banks	–24,594	–1,104	–13,420	–165	12,740	–26,543	–6,520	–33,063
Insurance companies	–106	11,612	10,645	85	–211	22,025	–2,290	19,735
Investment funds	2,177	4,005	3,731	–3	1,321	11,231	237	11,468
Non-residents	4,982	20,293	12,394	–1,802	14,270	50,137	–823	49,314
Other (4)	27,016	–61,885	71,470	–6,190	17,300	47,711	6,417	54,128
Net issues	**–1,500**	**–29,781**	**95,925**	**–8,163**	**46,424**	**102,905**	**–3,025**	**99,880**

(1) Rounding may cause discrepancies in totals. Outright purchases. Comprises Italian government securities and the lira issues of other issuers on the Italian market; excludes certificates of deposit. – (2) Includes only variable-coupon certificates. – (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. Includes Republic of Italy issues. – (4) Comprises households, enterprises, the Deposits and Loans Fund and social security institutions.

Non-residents, with net purchases of 50.1 trillion lire, took up nearly half of net government issues. Investment funds continued to be large net purchasers of public paper (11.2 trillion lire, compared with 12.3 trillion in 1994) despite very substantial redemptions of their units.

Almost all the government securities offered on the primary market were taken up, and on average for the year issues were oversubscribed by half.

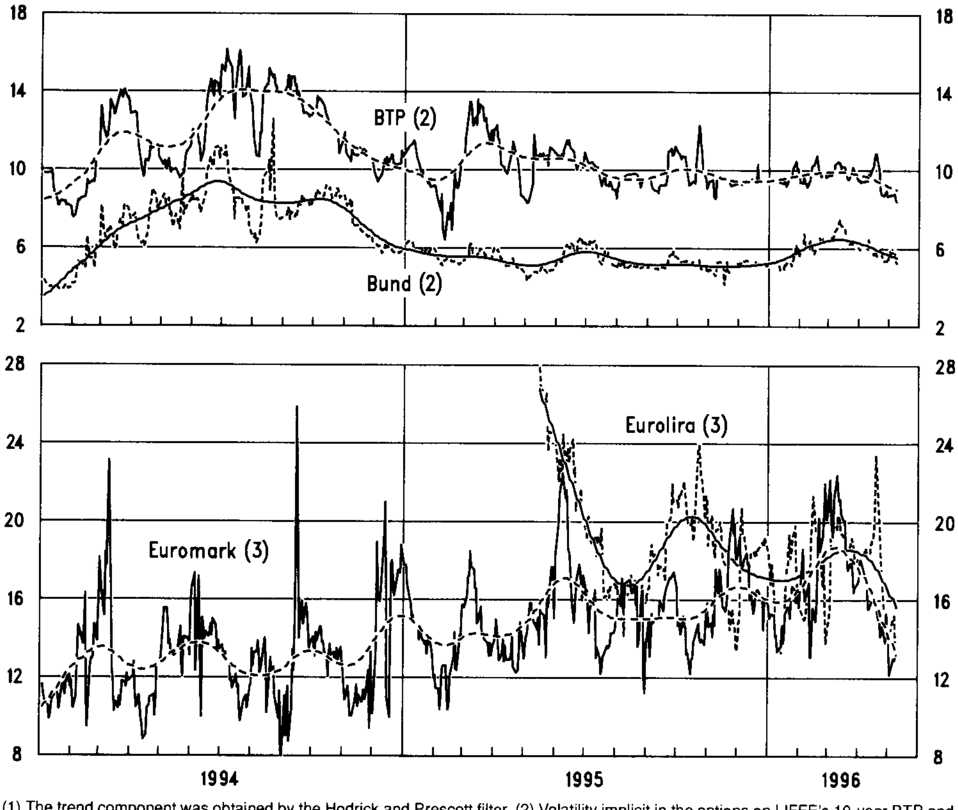
Interest rates. — In the early months of the year, long-term rates in Italy rose sharply while those in Germany declined. The differential between

Italian and German long-term government securities widened to 6.5 percentage points on 17 March. Part of the rise in Italian rates was due to an increase in the risk premium on Italian Treasury securities. This premium, measured as the differential between 10-year Italian and German government bonds net of that between interest rate swaps in the two currencies, reached 1.7 points on 6 April. The differential between the 10-year swap rates, which reflects relative inflation expectations, itself widened to a maximum of 5.2 points on 17 March. During this period the difference in implied volatility between BTPs and Bunds also increased significantly (Figure 27). The rise in yields was most pronounced for money market rates and the longest term securities.

Figure 27

BTP, BUND AND EUROMARKET INTEREST RATE VOLATILITY (1)

(percentage points; annualized)



(1) The trend component was obtained by the Hodrick and Prescott filter. (2) Volatility implicit in the options on LIFFE's 10-year BTP and Bund futures. – (3) Volatility implicit in the options on LIFFE's 3-month Eurolira and Euromark futures.

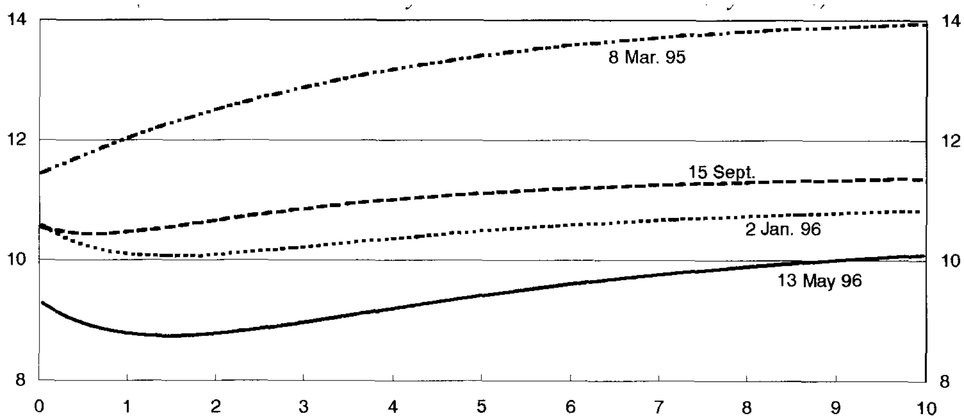
The passage of corrective budget measures at the end of March fostered a decline in long-term Italian interest rates, which occurred more rapidly in the swaps market. In May another transitory increase in the long-term interest rate differential with Germany was accompanied by very high expected volatility in both long-term and short-term Italian yields.

From July onwards an attenuation of inflation expectations encouraged a fall in long-term rates. In September the yield curve flattened, with a slightly negative slope at the short end (Figure 28).

Figure 28

YIELD CURVES (1)

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



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

The narrowing of yield differentials was interrupted in mid-September because of uncertainty about the outlook for Italian participation in European Monetary Union and heightened political tension. From late October onwards, however, long-term yields again decreased more in Italy than in the principal European markets, while the expected volatility of both short and long-term yields abated. At the turn of the year the slope of the yield curve was negative for maturities of up to almost two years.

In the first few months of 1996, notwithstanding a rise in yields in nearly all the leading industrial countries, long-term rates in Italy fell below 10 per cent, albeit with fluctuations, thanks to the progressive reduction of inflation expectations and the stabilization of the political situation.

Overall, the differential with respect to 10-year German securities narrowed by 1.3 percentage points between the beginning of 1995 and April 1996. The prices of BTPs on the screen-based secondary market (MTS) rose by 4.9 per cent in 1995, those of Treasury credit certificates by 1.6 per cent. The prices of BTPs with residual maturities of between seven and ten years showed larger gains, rising by 9.3 per cent over the year.

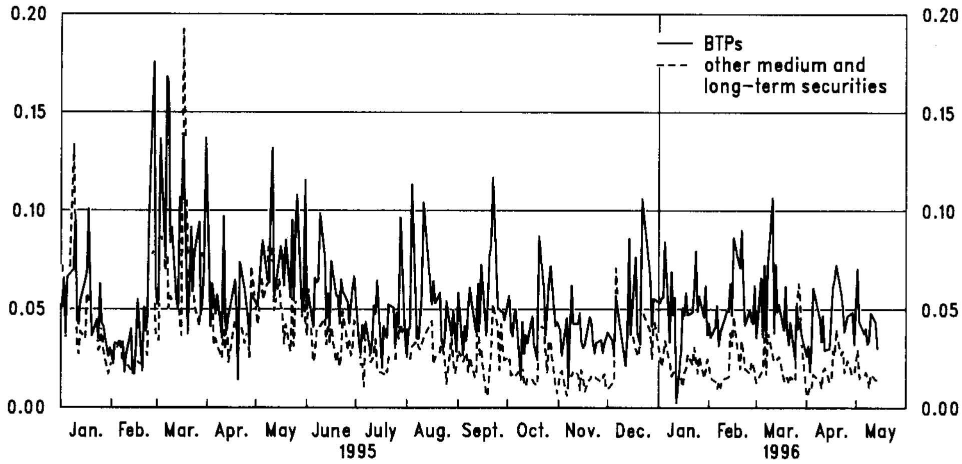
The secondary market. — Turnover in the secondary market in government securities expanded strongly from a daily average of 15.4 trillion lire in 1994 to 26.9 trillion last year. Factors in the growth were the structural improvements brought by the reform of MTS in 1994 and heightened competition prompted by the volume requirements intermediaries must meet to qualify for and maintain the status of primary dealer or specialist.

The average bid-offer spread on MTS diminished considerably during 1995 and the first quarter of 1996 (Figure 29). The spread on BTPS narrowed from 7.3 basis points in 1994 to 5.5 in 1995 and 5.0 in the first quarter of 1996, while that on the other medium and long-term issues decreased from 9.2 to 3.6 basis points and then to 2.2. The reduction in the spread was partly due to the decrease in volatility during the year and the increase in trading volume, which was most pronounced for Treasury credit certificates.

Figure 29

BID-OFFER SPREAD FOR GOVERNMENT SECURITIES ON THE SCREEN-BASED SECONDARY MARKET

(basis points)



Turnover in government securities on the Stock Exchange's screen-based bond market (MOT) increased by 56 per cent, rising from 105.3 trillion to 164.3 trillion last year. In January 1996 Treasury bills were listed for Stock Exchange trading.

The markets in lira-denominated derivatives

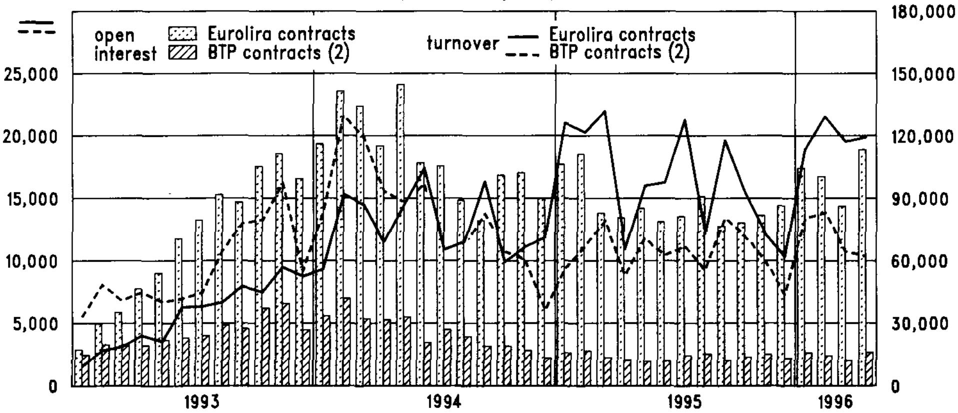
Average daily turnover in BTP futures on LIFFE declined from 9.4 trillion in 1994 to 7.6 trillion lire last year (Figure 30). This may have been due in part to the lower implied volatility of the underlying bonds on the futures market, which limited the profitability of speculative positions and reduced the need for hedging. Volume on the Italian exchange (MIF) fell from 32 per cent of total BTP futures contracts traded on MIF and LIFFE together in 1994 to 26 per cent in 1995. A steep decrease of 75 per cent in trading in 5-year BTP futures on MIF last year continued into 1996.

Pronounced uncertainty over short-term interest rates in Italy and abroad spurred trading in Eurolira futures on LIFFE, which increased by 16 per cent in 1995.

Figure 30

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.

Daily turnover in options on BTP futures on the London exchange did not change greatly, rising from 820 to 890 billion lire. Volume on the Italian options exchange was about 13 per cent of that on LIFFE. Options on 3-month Eurolira futures were introduced in mid-May last year; trading in this instrument expanded sharply in the first four months of 1996, with daily turnover averaging 1.7 trillion lire.

The Italian derivatives exchange (IDEM), which now handles only share-related products, added a number of new contracts in 1995 and early 1996. In November trading in options on the MIB30 share index was launched, and in February 1996 American-style options on five individual listed shares were introduced. In the four months from December 1995 to March 1996, turnover in MIB30 options averaged 1.9 trillion lire.

Average monthly turnover in FIB30 index futures was 13.9 trillion lire in 1995. Total volume reached 9.4 per cent of GDP, as against trading in comparable share index futures equivalent to 39 per cent of GDP in the UK and 34 per cent in Germany.

The equity market

Supply and demand. — Total market capitalization rose by 11 per cent last year to 325.6 trillion lire. Owing to a decline in share prices, the increase was less than the value of the shares of newly listed companies, which amounted to 46.2 trillion lire net of 16 delistings and not counting divestitures.

Falling share prices discouraged new issues. Issues by listed companies decreased by 33 per cent, and those of state-controlled companies virtually ceased (Table 41). The three largest new issues accounted for more than 50 per cent of the total.

Table 41

GROSS ISSUES OF LISTED SHARES

	Billions of lire					Percentage composition				
	1991	1992	1993	1994	1995	1991	1992	1993	1994	1995
State-controlled companies ...	1,017	243	911	2,332	191	22.62	7.21	5.98	17.96	2.21
Private sector companies ...	3,480	3,126	14,319	10,650	8,449	77.38	92.79	94.02	82.04	97.79
Total	**4,497**	**3,369**	**15,230**	**12,982**	**8,640**	**100**	**100**	**100**	**100**	**100**

Investment funds' net purchases of Italian shares (including those of unlisted companies) fell from 8.9 trillion lire in 1994 to 124 billion last year. Banks' net purchases declined from 6.6 trillion to 1.1 trillion. Shares increased as a proportion of the banking and insurance industry pension funds' portfolios, from 10.4 to 10.9 per cent and from 13.7 to 14.3 per cent respectively.

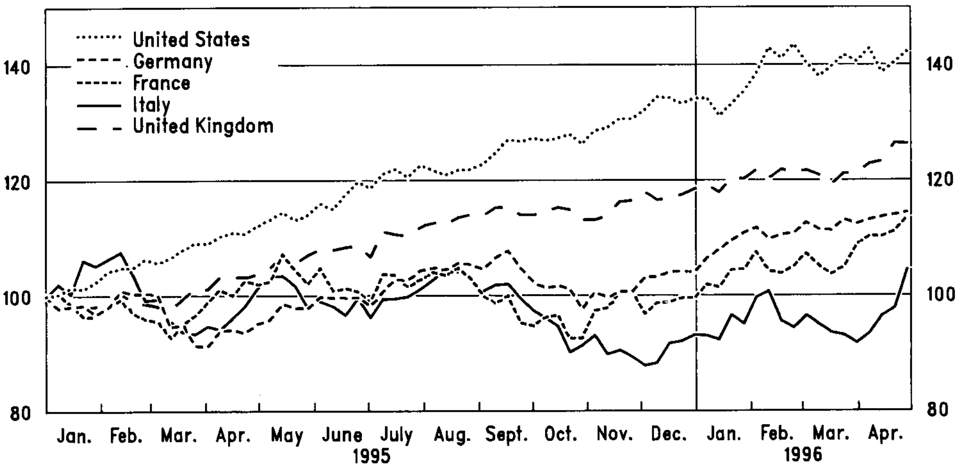
Non-resident investors' demand for listed shares was especially strong despite the poor performance of the market, with net purchases of 8.5 trillion lire, the most since 1992.

Share prices. — After rising faster than those of the other leading industrial countries until mid-February, the Italian share market declined sharply, together with the bond market, until April (Figure 31). A recovery in share prices was favoured in April and May by declining bond yields and good prospects for share investment deriving from the enactment of new rules governing pension funds. A subsequent sharp downturn, around the time of the rise in official interest rates in May, was followed by a rising market, accompanied by declining medium and long-term domestic and international interest rates, until August. In the autumn uncertainty over the passage of the Finance Bill for 1996 and the prospect of a European economic slowdown contributed to another slump. Overall, the MIB30 index lost 6.9 per cent for the year.

Figure 31

INDICES OF INTERNATIONAL SHARE PRICES

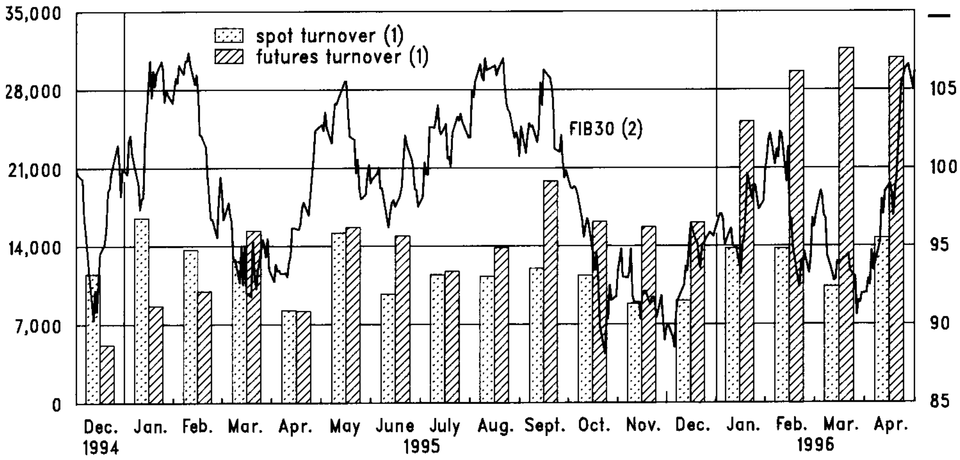
(30 December 1994 = 100)



Turnover — The volume of trading in shares was substantial in January (16.6 trillion lire) but decreased perceptibly during the rest of 1995, resulting in average monthly turnover of 11.7 trillion lire, compared with 16.1 trillion in 1994 (Figure 32). However, trading in MIB30 index futures increased, and in the first quarter of 1996 turnover was more than twice that in the spot market for shares (against a ratio of 57 per cent during the first quarter of trading in the instrument). The growth in futures trading was stimulated in part by the inclusion of the entire list in the five-day rolling settlement procedure, which makes it more costly to hold speculative positions in the spot market. In February 1996 the last 133 securities, accounting for 91 per cent of total market capitalization, went over to the new procedure.

Figure 32

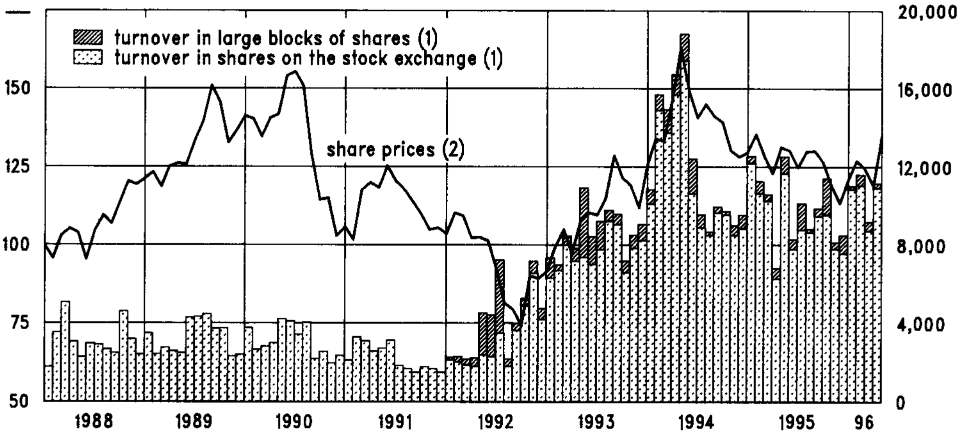
ITALIAN STOCK EXCHANGE:
SPOT AND FORWARD SHARE MARKET



(1) Left-hand scale: monthly value in billions of lire. – (2) Right-hand scale: index, 30 December 1994 = 100.

Figure 33

SHARES: PRICE INDEX AND TURNOVER AT CONSTANT PRICES



(1) Right-hand scale, billions of lire. Actual turnover deflated using the MIB stock exchange price index. – (2) Left-hand scale: MIB index, 31 December 1987 = 100.

Large-block trading averaged 900 billion lire a month in 1995, 22 per cent less than in 1994 (Figure 33). Turnover in the ten most heavily traded shares remained broadly unchanged as a proportion of the total (60 per cent, compared with 56 per cent in 1994).

THE PAYMENT SYSTEM

The value of payments made with cashless instruments increased by 6 per cent in 1995, the largest increase in the last few years. The increase in the value of interbank payments through the Bank of Italy's clearing and settlement system was smaller at 3.7 per cent.

Work continued during the year on the implementation of the new gross settlement system, BI-REL, along the lines laid down in the 1994 White Paper on Interbank Payment Systems and agreed with the banking system. The organizational and technical choices have taken account of the need to prepare for the gradual adoption of the single European currency and limit the impact on banks' operating and accounting procedures.

On 16 February 1996 cash trading was extended to all the shares listed on the stock exchange with settlement taking place five days after the conclusion of contracts. The completion of the new settlement system was accompanied by the start of the markets for securities lending and options on both the stock index and individual shares.

The aims, scope and manner of performing the function of overseeing the payment system entrusted to the Bank of Italy by the 1993 Banking Law have been analyzed in a series of studies. These have confirmed that the payment system is exposed to financial and technical risks on a potentially systemic scale that calls for adequate measures of coordination. This is especially true in the case of the interbank circuit, whose smooth operation requires common rules, clearly-defined standards and shared infrastructure. For the central bank, the objective of promoting the stability and efficiency of the payment system involves issuing regulations, supplying services directly, gathering information and fostering cooperation.

International cooperation

The central banks of the European Union and the European Monetary Institute have broadened the scope of their traditional cooperation concerning the minimum harmonization of domestic payment systems and the creation of an integrated payment system for the third stage of Economic and Monetary Union by adding settlement systems for securities transactions.

The Working Group on EU Payment Systems analyzed the progress made by central banks in the process of adjusting to the minimum harmonization principles established for payment systems in 1993. The Group concluded that the EU countries' payment systems adhered to most, but not all, of the principles. Since the complete application of these principles is one of the conditions for the start of the monetary union, 1 January 1999 was fixed as the deadline for the adjustment of domestic payment systems. In view of the lead time involved in the development of the TARGET gross settlement system, the deadline for the start-up of domestic gross settlement systems was brought forward to the middle of 1997.

Central bank activity in connection with the TARGET project was focused on defining the action to be taken as regards the harmonization of the procedures for the injection of intraday liquidity, operating hours and pricing policies.

Cooperation among the central banks of the Group of Ten countries was intense within the framework of the Committee on Payment and Settlement Systems. In March of this year the Committee published a report on settlement risk in foreign exchange transactions. The report invites central banks, in cooperation with supervisory authorities, to choose the most effective means of persuading banks to take the steps necessary to reduce their exposure to risk. The growing use of collateral to guarantee the fulfilment of obligations led the Committee to study such requirements, with special reference to their costs and benefits and international application.

In August 1995 the ECHO international multilateral clearing system for foreign exchange transactions came into operation with sixteen banks from eight countries clearing transactions in eleven currencies. It is planned to extend participation to banks from more than twenty countries and to clear transactions in twenty-five currencies.

Retail payment instruments and services

Cashless payments in Italy increased in 1995 by 2.4 per cent in volume and by 6.1 per cent in value. This result reflected the upturn in payments via the banking system after two years of decline and the large rise in the use of payment cards.

The use of cash. — Notes and coin in circulation grew by 2.2 per cent in 1995, compared with 7.2 per cent the previous year. The ratio of currency to GDP was 5.5 per cent at the end of the year, down from 5.9 per cent at the end of 1994.

Bank payment instruments. — The number of payments made via the banking system rose by 2.9 per cent and their value by 5.9 per cent (Table 42).

The value of the personal cheques handled rose, as did their number, although to a lesser extent. By contrast, there was a further decline in the number of bankers' drafts.

Table 42

BANK PAYMENT INSTRUMENTS IN 1995 (1)

	Number				Value			
	Thousands	% composition	Percentage change 1994/1993	Percentage change 1995/1994	Billions of lire	% composition	Percentage change 1994/1993	Percentage change 1995/1994
Cheques	**521,883**	**51.9**	**–9.1**	**–1.5**	**1,788,640**	**25.2**	**–3.7**	**3.2**
Personal cheques (2)	394,312	39.2	–5.0	0.7	1,255,822	17.7	–5.1	3.6
Bankers' drafts ...	127,571	12.7	–19.0	–7.7	532,818	7.5	–0.4	2.3
Payment and collection orders	**483,390**	**48.1**	**4.6**	**8.0**	**5,314,710**	**74.8**	**2.2**	**6.8**
Payment orders (3)	197,354	19.6	6.7	4.2	4,656,456	65.6	1.8	5.8
of which:								
paperless	*67,029*	*6.7*	*13.8*	*13.4*	*197,636*	*2.8*	*16.6*	*34.4*
Collection orders ..	248,141	24.7	–0.2	7.0	651,096	9.1	5.4	14.1
of which:								
paperless	*215,375*	*21.4*	*7.1*	*16.2*	*517,252*	*7.2*	*14.4*	*27.5*
Direct debits .	90,913	9.0	7.5	15.5	116,309	1.6	19.8	9.0
Riba and Mav	124,462	12.4	6.7	16.7	400,943	5.6	12.6	34.1
Transactions at POS terminals	37,895	3.8	46.8	45.2	7,158	0.1	45.5	44.8
Total ...	**1,005,273**	**100.0**	**–3.3**	**2.9**	**7,103,350**	**100.0**	**0.6**	**5.9**

(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) 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 3,200 and 2,600 trillion lire.

The aim of enhancing the efficiency of cheque payments is being pursued both through the measures to simplify and modernize the existing interbank procedures being implemented by CIPA and by strengthening the system of safeguards. The measures provide for the introduction by the end of 1996 of the "electronic outcome" procedure, which will allow bad out-of-town cheques to be notified by a message sent on the interbank network. Once it is in full operation, this procedure will make it possible to reduce the time required to notify the outcome of payments from seven to four days and enable banks to make funds available to customers more rapidly.

Credit transfers and collection orders rose by 8 per cent in volume and by 6.8 per cent in value. The reorganization of the interbank circuit for credit transfers proceeded in 1995 with the completion of the low-value procedure and the introduction in December of the large-value procedure.

The reform will be rounded off by the implementation of the procedure for cross-border credit transfers, which will handle transfers of any size denominated in lire to non-resident counterparties; payments passing through the automated clearing houses will also be handled by the procedure. The completion of the reform will make for shorter and more certain execution times for credit transfers and thus contribute to improving the transparency and quality of the services offered to customers.

Payment cards. — The number of debit and credit cards in use rose by 11 per cent, while the growth in both the volume and the value of payments accelerated and exceeded 28 per cent.

ABI is carrying out a project aimed specifically at the definition of measures for the development of debit cards. The Association has identified possible solutions to the obstacles that still hinder the growth of the Bancomat system in domestic payments and highlighted the good income prospects for the banking industry offered by wider use of the system.

Postal payment instruments. — The value of postal payments recorded an increase of 8.2 per cent, which was accompanied by a small decrease of 0.6 per cent in their number.

In March of this year the Italian Postal Administration began to test the use of Bancomat cards for postal payments. The experiment, in which 26 post offices are taking part, follows the decision of the Administration to participate, with the authorization of CIPA, in the national interbank network.

International payments. — Further progress was made last year in the international integration of the various domestic retail payment circuits. Those most actively involved in the process are the credit transfer and payment card circuits, the use of which in cross-border payments has increased substantially in the last few years.

In the case of payment cards, the process has involved both the issue in Italy of debit cards that can be used abroad and the adaptation of Italian ATMs and POS terminals to permit the use of cards issued abroad.

Moreover, at the end of 1995 the Italian Postal Administration adhered to the Eurogiro system, which links the post offices of European countries and Japan to provide cross-border funds transfer services. In addition, links are being created between the Italian clearing system and those of other European countries for the handling of low-value credit transfers.

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 by 3.7 per cent to 53,300 trillion lire, or 30 times GDP (Table 43). For the second successive year the volume of transactions on the screen-based interbank deposit market (MID), which are settled through the Electronic Memoranda clearing subsystem, remained unchanged. The flow of payments through the SIPS procedure for the settlement of foreign exchange and external interbank lira transactions, which together account for more than half the total handled by the clearing system, showed only a small increase.

Table 43

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		
1991	20,377.4	1,585.6	1,650.5	15.4
1992	29,053.2	2,411.4	3,004.4	21.3
1993	40,475.9	2,724.8	2,625.8	27.8
1994	48,832.0	2,627.2	2,622.5	31.4
1995	50,603.1	2,849.0	2,754.5	30.1

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

The liabilities on correspondent current accounts, which are used for bilateral interbank settlements in bank money, remained at the level recorded two years earlier and declined from 15 to 12 per cent of total interbank lira liabilities towards residents.

The clearing system. — The ratio between the final multilateral balances settled on accounts with the Bank of Italy and the total value of payments handled by the clearing system was virtually unchanged at around 5.5 per cent. The total flow of payment items grew by 3.6 per cent to 50,600 trillion lire (Table 44). Three quarters of the growth was due to the increase in the flow through the SIPS procedure. The value of the transactions carried out on behalf of customers remained virtually unchanged.

Table 44

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)			
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
1995	3,574.9	1,243.0	18,408.1	27,377.1	50,603.1	2,849.0	5.6
1995 – 1st qtr. ..	948.0	213.3	4,774.6	7,492.4	13,428.3	800.3	6.0
2nd "	923.6	309.4	4,357.4	6,602.2	12,192.6	685.0	5.6
3rd "	838.7	350.2	4,439.5	6,876.6	12,505.0	709.0	5.7
4th "	864.6	370.1	4,836.6	6,405.9	12,477.2	654.7	5.2
1996 – 1st qtr. ..	819.5	383.6	5,503.1	7,145.1	13,851.3	695.6	5.0

Sources: 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, the collection orders procedure 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.

Centralized reserve and advance accounts. — The value of the payments settled on centralized accounts at the Bank of Italy rose by 6.9 per cent to 5,400 trillion lire. The rise was primarily due to the increase of one third in direct payments. Final mutilateral clearing balances, which account for around 45 per cent of the total flows settled on centralized accounts, rose by 4.5 per cent. On average, the banks subject to the reserve requirement utilized 23.8 per cent of their mobilizable reserves, an increase of 1.5 percentage points compared with the previous year.

The Bank of Italy's pricing policy for payment services. — Since the early nineties the Bank of Italy's pricing policy has sought to ensure a high degree of efficiency and security in the payment system. This has led to the application of higher tariffs for paper-based transactions effected at the Bank's branches under the securities settlement, Electronic Memoranda and centralized lira and securities accounts procedures.

Work continued on the comprehensive revision of the Bank's tariff schedules aimed at gradually ensuring the recovery of the costs it incurs in providing payment services, as recommended by the central banks of the European Union. The new tariff schedule for the clearing of securities transactions introduced in June 1994 was the first application of the policy orientation that emerged in the Union.

Risk limitation measures. — The design of the Bank's real-time gross settlement system (BI-REL) was completed in December and the implementation of the procedure, which takes account of the suggestions of ABI and the banking system, is now under way. The new system will be an integral part of the TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system, which will allow Italian banks to compete for the supply of payment services in the single European currency from the moment it is introduced.

The studies undertaken with the aim of increasing the security of the clearing system (BI-COMP) showed that it would be desirable to carry out a comprehensive survey of the regulatory framework following the launch of the BI-REL system. At the same time it was concluded that the measures adopted for the clearing procedures that will remain in force should ensure the functional autonomy of the retail payments circuit with respect to the securities settlement system.

As part of the policy of reducing clearing risks, testing of the procedure for monitoring settlement risks in the screen-based interbank deposit market was continued. This project, which is in its final stage, is designed to produce a flow of information in the form of daily indicators for six categories of market participant, classified on the basis of the amount of their settlement liabilities.

Clearing and settlement of securities transactions

Securities settlement. — The value of the securities handled by the settlement system rose to more than 15,000 trillion, an increase of over 20 per cent. The increase was almost entirely attributable to the increase in settlements of government securities, which rose by 22.3 per cent, since share settlements fell by 26.9 per cent and bond settlements showed only a marginal increase.

The distribution of settlements by category of market participant did not change significantly: banks accounted for 85.8 per cent of the total value and securities firms for 13.9 per cent, while the share of stockbrokers continued the decline of the last few years and amounted to 0.3 per cent. Last year saw a substantial increase in the share of the branches of foreign banks, which rose from 23 to 30 per cent.

The centralized management of government securities. — At the end of 1995 the government securities centralized in accounts with the Bank of Italy amounted to 1,800 trillion lire, or 99 per cent of the total in circulation. The share of centralized certificates of deposit declined from 68 per cent of the total to around 62 per cent.

The face value of the government securities that Cedel and Euroclear held with the Bank of Italy declined from 18.6 to 12.8 trillion lire. The share of Treasury bonds in these holdings fell from 92 to 81 per cent. The value of centralized securities denominated in ecus fell from 11,000 to 9,850 million ecus, but rose from 40 to 41 per cent of the total of such securities in circulation.

Monte Titoli S.p.A. — Reflecting the process of centralization, the face value of the securities deposited with Monte Titoli rose by 7.2 per cent to 158.65 trillion lire. The component consisting of shares amounted to 59.39 trillion at the end of the year and corresponded to 37.4 per cent of the shares that could be centralized, an increase of around 1.2 per cent. At 452, the number of depositors was basically unchanged compared with the end of 1994.

Increasing financial integration is enhancing the importance of the cross-border links between securities depositaries and markets in the strategies of both authorities and intermediaries. In Italy there appears to be considerable scope for developing the links between the two centralized securities systems and their counterparts abroad. The strategies to be followed will have to take account of the organization of markets that will emerge following the transposition of the Community directive on investment services in the securities field.

The completion of the programme of reforms. — In February of this year one of the major steps in the reform of the stock market was completed with the extension of cash trading to the whole list and the simultaneous launch of the market in options on individual shares.

The date for the extension of cash trading to the most heavily traded shares was fixed by Consob and the Bank of Italy for August after the conditions for ensuring the liquidity of the market had been created, including the development of the share-based derivatives market and the introduction of arrangements for securities lending in line with the requirements of five-day rolling settlement.

As regards derivatives, the stock index futures contract introduced in November 1994 was followed a year later by options on the index and on 19 February 1996, as mentioned above, by the launch of the first six options on individual shares.

As for securities lending, Law 110 of 6 March 1996 promoted the growth of the market by removing the obstacle consisting in the less favourable tax treatment of transactions where the lender was an individual or an investment fund.

Average daily turnover in shares in March and April of this year was slightly less than in the two preceding months but exceeded the figure for the second half of 1995. Daily trading in the futures contract on the stock exchange index in March and April 1996 was more than twice that recorded in the same period in 1995. With the caution called for by the shortness of the period considerd, these results can be seen as providing evidence of the expected shift of short-term speculative business from the main market to the derivatives market.

The Bank of Italy has constantly sought to create conditions that would limit use of the so-called "securities allocation procedure". On the one hand the arrangements for the transfer of securities have been rendered increasingly efficient by replacing physical movements with book-entries at Monte Titoli and on the centralized securities accounts held at the Bank of Italy; on the other, recourse to the procedure has been discouraged by the introduction of penalties.

The procedure is activated at clearing houses in the event of a participant not having securities to deliver at settlement and being unable to borrow them. Basically, it consists in an agreement to defer delivery between the participant who does not have the securities in question and another who is a creditor for the same type of security.

From May 1996 to the end of this year persons seeking to activate the procedure must deposit 20 per cent of the value of the securities with the Bank of Italy. The deposit is redeemed in full if delivery is made within five working days; otherwise a penalty equal to 10 per cent of the deposit is applied for each day of further delay, up to the entire amount of the deposit.

The new rules, which the Bank of Italy and Consob drew up after agreeing the main elements with market participants, are intended to achieve two objectives: to keep the duration of allocations very short, in line with the switch to five-day rolling settlement, and to prevent the procedure from being used improperly as a substitute for borrowing.

The application of the new rules will be accompanied by close monitoring of the use made of the allocation procedure. At the same time market participants are to submit proposals to the Bank of Italy and Consob for alternative mechanisms which will entrust greater responsibility to the market bodies provided for in the forthcoming legislation transposing the Community directive on investment services in the securities field.

SUPERVISORY ACTIVITY

The structure of the financial system

Banking groups and banks. — At the end of last year there were 91 registered banking groups; of the 836 Italian and foreign companies belonging to them, 212 were banks, 173 auxiliary companies and 451 financial companies. Independent banks accounted for only 16 per cent of the total assets of the banking system. In 1995 the number of companies belonging to groups began to rise again; in contrast with the previous year, acquisitions outnumbered the albeit large number of operations aimed at streamlining group structures.

The number of banks operating in Italy at the end of last year was 970, compared with 994 at the end of 1994 (Table 45); most of the decrease concerned mutual banks. Eight new branches of foreign banks were opened and 21 new banks established (including 11 mutual banks), compared with 15 in 1994. Since the coming into force of the 1993 Banking Law, nine financial intermediaries have taken advantage of the new rules on authorizations to engage in banking to establish themselves as banks.

Table 45

THE ITALIAN BANKING SYSTEM

	At end-1994		Changes in 1995 (1) Banks		At end-1995	
	No. of banks	No. of branches in Italy	New registra-tions	Cancella-tions	No. of banks	No. of branches in Italy
Limited company banks accepting short-term funds	170	16,073	12	19	163	16,621
Limited company banks accepting medium and long-term funds (2)	35	96	2	3	34	95
Cooperative banks (*banche popolari*)	95	3,938	8	7	96	4,239
Mutual banks (*banche di credito cooperativo*)	643	2,254	23	47	619	2,379
Central credit and refinancing institutions	6	28	–	–	6	28
Branches of foreign banks	45	70	8	1	52	78
Total	**994**	**22,459**	**53**	**77**	**970**	**23,440**
In the process of opening	8	661			6	600

(1) Includes changes due to the creation of new banks, mergers and changes in institutional category. – (2) The item includes *Istituto per il credito sportivo.*

Mergers and acquisitions. — There were 64 mergers and acquisitions last year, the highest number for ten years; 28 of them involved mutual banks. There was a substantial increase in the number of acquisitions of controlling interests and consequent inclusion of the investee company in the acquiring group: excluding mutual banks, there were 26 such acquisitions in 1995, compared with 12 in the preceding year. By contrast, the number of mergers declined from 19 in 1994 to 10 last year.

As in previous years, banks based in the North were the most active in promoting concentration: 18 of their operations consisted in the acquisition of banks in the same area, 7 of banks in central Italy and another 7 of banks in the South.

There was an increase in mergers and acquistions involving sound and profitable banks, undertaken with a view to improving operational efficiency and strengthening branch networks. Such operations were most prevalent in the Centre and North, where they accounted for 60 per cent of the total in the last two years. Increased concentration in the Centre and North in connection with banks suffering from operational difficulties involved assets equal to about 4 per cent of the total for the area. A sizable part of the southern banking system, accounting for 11 per cent of the area's assets, was absorbed into groups whose parent companies are based in the Centre and North.

Over the last five years the leading seven groups — San Paolo di Torino, Cassa di Risparmio di Roma, Cariplo, Banca Nazionale del Lavoro, Monte dei Paschi di Siena, Credito Italiano and Banca Commerciale Italiana — have increased their total number of branches by 4,252, either through acquisitions of other banks (56 per cent of the increase) or by internal expansion (44 per cent). The proportion of total Italian branches accounted for by the leading seven groups rose over the period by more than 11 percentage points to 35 per cent. These groups' share of the deposits market grew by more than 10 percentage points to 39.6 per cent, while their share of lending increased by more than 8 points to 38.6 per cent.

The strategy of expansion has contributed to the decline in profit margins, on account of the poor state of many of the banks acquired and the long lead time before concentration produces the results expected. For this reason the objective of increasing the volume of assets is now increasingly coupled with that of restoring profitability, so as to achieve returns on investment in line with international standards. The ratio of the seven leading banks' net profits to their capital plus reserves fell from 8.8 per cent in 1990 to 3.1 per cent last year, partly owing to adverse effects of the business cycle.

Branch networks. — The total number of branches increased at a similar pace to that of 1994; at the end of December 1995 there were 23,440, an increase of 981 over December 1994. The numbers of POS installations and ATMs also rose last year, by 36 and 9 per cent respectively.

In recent years many banks have begun to adopt a new strategy for their branch networks, based on introducing new products and extending and redefining their distributive systems. One of the objectives generally pursued is that of developing policies for the supply of comprehensive financial support designed to stabilize and valorize banks' relations with their customers. Banks are making increasing use of financial salesmen, who may either be employees or belong to an independent network; the use of computer and telephone channels is also being developed.

In the range of products on offer, more attention is being paid to managed savings, a segment in which the relationships between banks and financial and insurance companies are particularly close. Numerous banks are increasing the range of insurance products they offer; to this end, they have created joint ventures with insurance companies and signed agreements for the distribution of their products.

At the end of December 1995 Italian banks had a total of 106 foreign branches. In the three-year period 1993-95 twelve new branches were opened — largely by banks not previously present in international markets — and 13 closed, mostly by large banks seeking to rationalize their foreign networks, which continue to be no more than modestly profitable.

The foreign branches of Italian banking groups numbered 54 at the end of last year, compared with 51 a year earlier; 28 are established in EU countries.

The number of branches of EU banks in Italy rose from 45 to 54, while that of banks based in non-EU countries fell from 25 to 24; banks under foreign ownership declined from 9 to 6, including 3 under non-EU ownership.

Since the Second Banking Directive was incorporated in Italian law at the end of 1995, the Bank of Italy has received 68 notifications of intent to offer banking services in Italy from banks based in nine EU countries; 20 of these notifications were received in 1995 and the rest this year.

Investment funds. — At 31 December 1995 there were 59 registered open-end investment fund management companies (UCITs) and two investment companies (SICAVs). The 54 management companies with operational funds managed a total of 459 funds, compared with 354 in 1994; the two SICAVs began operations during the year.

Securities firms and trust companies. — At the end of 1995 there were 282 registered securities firms and trust companies, of which 272 were operational. During the year there were 21 new registrations and 27 cancellations: nine of the latter were owing to companies not taking up their authorizations, ten in connection with intragroup reorganizations, one following the transformation of a firm into a bank and seven as a result of extraordinary measures by the supervisory authorities.

Financial companies. — At the end of last year there were 259 registered financial companies subject to supervision by the Bank of Italy. Most of these companies grant specialized forms of credit and only a few offer a range of financial products.

The state of the banking industry

Credit risk. — The bad debts of the banking system, excluding central credit institutions, mutual banks and the branches of foreign banks, rose to over 109 trillion lire last year and increased by 21.2 per cent, compared with average annual increases of 28.8 per cent in the two preceding years (Table 46). The ratio of bad debts to total loans rose from 7.9 to 9.2 per cent, partly on account of the modest amount of new disbursements. The slowdown in the growth of bad debts continued into the early months of this year and amounted to less than 15 per cent in the twelve months to March 1996.

Table 46

BANKS: BAD AND DOUBTFUL DEBTS AND TOTAL LOANS (1) (2)

(end-of-period amounts in billions of lire)

	Banks accepting short-term funds			Banks accepting medium and long-term funds			Total		
	Bad debts (3)	Doubtful debts (4)	Total loans (5)	Bad debts (3)	Doubtful debts (4)	Total loans (5)	Bad debts (3)	Doubtful debts (4)	Total loans (5)
1992 ..	46,659	19,995	884,918	7,789	4,391	185,346	54,448	24,386	1,070,264
1993 ..	60,026	42,215	916,668	9,795	9,220	197,287	69,821	51,435	1,113,955
1994 ..	77,332	43,322	935,150	12,963	8,637	205,707	90,295	51,959	1,140,857
1995 ..	94,041	39,199	991,404	15,381	6,711	199,183	109,447	45,910	1,190,587

(1) Loans to resident customers of domestic and foreign branches, excluding the branches of foreign banks, central credit institutions and mutual banks. – (2) The classification of banks is that which was in force in 1995; merged banks have been considered as belonging to the category of the bank with which they were merged. Special credit sections not possessing legal personality or absorbed as a result of reorganizations under Law 218/1990 have been included in the category of their parent banks. – (3) Includes protested bills. – (4) For banks accepting medium and long-term funds, the figure refers to the statistical item "loans overdue by more than 6 months". – (5) Includes bad debts and protested bills.

Bad debts owed by customers in the Centre and North of Italy increased by 14.8 per cent last year, half the average annual figure for the two previous years; for banks in the South the growth in this item accelerated slightly to 33 per cent.

The deterioration in the quality of bank lending in the South is due to the nature of the local economy, as well as to the stagnation in consumption, building and public works. All the banks operating in the area registered substantial increases in bad debts.

A further indication of the state of lending is given by "adjusted bad debts", which includes loans that some banks continue to report as outstanding because they are slow to recognize borrowers' real circumstances. This aggregate rose from 8.8 to 10.1 per cent of total loans last year, while the ratio of adjusted to reported bad debts declined slightly, to 117 per cent. Sub-standard loans, in other words loans to borrowers that the banks report to be in temporary difficulty, fell from 53 to 46 trillion lire.

In September 1995 the total of "large exposures" (the sum of the risk-weighted net exposures of each bank or group exceeding 15 per cent of its supervisory capital) amounted to 143.1 trillion lire, or 24 per cent less than twelve months earlier. Large exposures on a consolidated basis in excess of the temporary ceiling of 60 per cent of capital and reserves (which has to be complied with by the end of 1996) fell from 16.1 trillion lire in 1994 to 9.7 trillion lire last year. These overshoots involve 12 groups and banks and 9 borrowers. The total amount in excess of the 40 per cent ceiling, to be complied with by 31 December 1998, declined by 39 per cent.

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 — remained broadly unchanged last year at 7.5 trillion lire. The required prudential value adjustments amounted to 2.2 trillion lire, 60 billion lire less than in 1994.

Maturity transformation and market risks. — Last year the banking system's maturity transformation was reduced by the combined effects of a shortening of the average maturity of assets and a lengthening of that of liabilities. The shortening was the result of net disposals of Treasury bonds and an increase in shorter-term loans, while the lengthening reflected the weak performance of short-term fund-raising, including repurchase agreements, and the strong growth of certificates of deposit with maturities of more than eighteen months, which are exempt from the compulsory reserve requirement.

Following the increase of the two preceding years, last year's reduction in maturity transformation led to a reduction in banks' exposure to interest rate risk, with reference to the whole of their balance sheets. The potential losses that would be incurred if interest rates rose by 1 percentage point fell from 4.4 to 3.3 per cent of supervisory capital for banks accepting short-term funds, which are traditionally the most exposed to this type of risk.

Since the beginning of 1995 Italian banks' exposure to market risks has been subject to capital requirements. The new regulations apply to the exchange rate risk with reference to the whole of their balance sheets and to the risks arising from changes in prices and interest rates with reference to securities not held as financial fixed assets. At the end of 1995 the related charge for the banking system as a whole was equal to 4.1 trillion lire, or 2.1 per cent of supervisory capital.

The banking system's growing derivatives business has given rise to negligible risk owing to the small size of net open positions. The notional value of the securities underlying these operations rose from 974.2 to 1,127.1 trillion lire. More than 80 per cent of the total involved trading in unregulated markets, and about 73 per cent of operations were completed with non-residents.

Profitability and capital adequacy. — The operating profits of the banking system excluding the central credit institutions, mutual banks and branches of foreign banks, rose by 8.7 per cent to 30.4 trillion lire (Table a28). As a ratio to the volume of business, they rose to 1.21 per cent, one of the lowest levels since the war.

The favourable performance of bond prices was reflected in a drastic reduction in the value adjustments to trading securities last year; net extraordinary costs fell from about 6.4 trillion lire to little more than 600 billion. In conjunction with the deterioration in their loan portfolios, banks recorded losses of 15.6 trillion lire last year, an increase of 14.9 per cent compared with 1994. Southern banks accounted for nearly all the increase and their loan losses rose from 3.2 to 5.4 trillion lire.

Direct taxes amounted to 8.4 trillion lire, an increase of more than 2.7 trillion compared with 1994. Thanks to the improvement in the economic situation of many banks, dividends rose by 600 billion lire, or 20.4 per cent.

The banking system's results for the year led to an increase in own funds of 900 billion lire, compared with an erosion of 2 trillion in 1994. Banks in the Centre-North performed markedly better than the average and their self-financing rose from 700 billion lire to 5.7 trillion.

Supervisory capital amounted to 196.5 trillion lire last year, an increase of 9 trillion and 4.8 per cent compared with 1994 (Table a27). The increase was concentrated in banks from the Centre-North, while southern banks recorded a decline of 2.2 trillion lire after taking account of the injection of about 2.9 trillion lire of capital by public-sector shareholders, in accordance with legislative provisions.

In mid-1995 the solvency ratio of the banking system was 12.6 per cent, slightly less than the 12.9 per cent of a year earlier (Table a29). The shortfalls in respect of the minimum capital requirements rose from 1.7 to 3 trillion lire and were concentrated in a few groups; the amounts in excess remained broadly unchanged in comparison with June 1994, at 73.7 trillion lire. The average individual solvency ratio declined during 1995 from 12.4 per cent to 12.1 per cent.

Banking supervision

Analytical tools. — To evaluate the technical situations of banks, the supervisory authorities use analytical models designed to integrate and interpret the information available using criteria that ensure transparency and uniform treatment. New versions were developed in 1994 and introduced last year.

The new models indicated 38 banks with an overall score of 5 (maximum anomaly) and 129 with a score of 4 (pronounced anomaly). These banks accounted for respectively 9 and 15 per cent of the system's total assets. The major supervisory trouble spots were risk and profitability; the banks with scores of 4 and 5 in these areas numbered respectively 301 and 240.

Prudential supervision. — As in the past, follow-up action took the form of letters and meetings with corporate officers, as well as on-site inspections.

Meetings were called both to solicit measures to remedy problem situations and to improve the Bank's knowledge of intermediaries, particularly those in the process of trying out new strategic, organizational or operational solutions. Meetings were held last year with the representatives of 149 banks, compared with 173 in 1994. In the case of banking groups, the meetings provided an opportunity to examine several credit and financial arms of the groups concerned. The Bank of Italy's branches convened the representatives of 177 banks that are subject to their direct supervision, compared with 163 the previous year.

Analyses of credit risk led to more than 280 supervisory interventions. Higher solvency ratios than the minimum prescribed by regulations were imposed on 23 banks, mostly on account of serious anomalies in the granting of loans, while for 2 banks the special ratios were lifted following improvement in the technical situation of the institutions concerned. At 31 December 1995 a total of 91 banks were subject to capital requirements higher than the minimum.

Concentration in the banking industry. — Particular attention was dedicated to recent mergers and acquisitions. The inevitable problems raised by integration call for clearly-defined strategies, determination on the part of management in implementing effective restructuring measures and flexibility in the use of the factors of production. All these aspects were addressed during meetings, together with the importance of managing the delicate amalgamation phase with innovative criteria from the outset, endowing the new organizations with streamlined structures and encouraging the affirmation of values based on the objectives of efficiency and profitability.

The success of these initiatives appears to depend in part on the way way in which businesses are combined, with recent experience indicating that improvements in efficiency and profitability are achieved most rapidly through mergers.

Banks based in Southern Italy. — The crisis that has hit the credit system in the South of Italy in recent years is most clearly revealed by the recent vicissitudes of the largest banks based in the area, most notably Banco di Napoli and Sicilcassa.

In the last two financial years Banco di Napoli has recorded losses of about 4.3 trillion lire. The bank's national importance and traditionally public status, coupled with the fact that its branch network is mostly in Southern Italy and the intensification of competition in the banking sector, have had a variety of negative repercussions. The bank's governing bodies were repeatedly enjoined and cautioned regarding the need to achieve the operational efficiency and reorganization objectives established in the plan to transform the bank into a company limited by shares. In 1994 an inspection of the bank's foreign branches led to a call for a critical review of the bank's international presence. Last year the new governing bodies responded to the Bank of Italy's exhortations by intensifying controls and the supervisory authorities carried out inspections at both Banco di Napoli and its subsidiary Isveimer. The inspections revealed a situation in the bank's loan business that, combined with the existence of a substantial volume of locked-in financial assets, was adversely affecting the bank's economic equilibrium and own funds, making an immediate restructuring inevitable.

Having clarified the technical aspects, the supervisory authorities focused on prompting the implementation of the necessary corrective measures within the framework of a detailed plan for the bank's return to health, which first required a solution to be found to the bank's pressing liquidity and capitalization problems. The liquidity aspect was addressed by a loan of about 2.4 trillion lire disbursed at the beginning of 1996 by the Deposits and Loans Fund and leading Italian banks. Legislative Decree no. 163 of 27 March 1996 (subsequently reiterated) authorized the Ministry of the Treasury to subscribe additional increases in Banco di Napoli's capital up to 2 trillion lire, in cooperation with banks and other institutional investors.

The serious emergency at Sicilcassa, which was placed in special administration by a decree of the Minister of the Treasury on 7 March 1996, had similar causes. The shortcomings in the bank's management resulted in failure to adopt strategies matching the bank's needs, in a chronic failure to remedy the bank's serious organizational weaknesses and in a lending policy effectively geared to bolstering trouble-ridden entrepreneurial groups without the support of proper technical assessments of their creditworthiness. These factors contributed to the large losses that jeopardized the bank's own funds; these are to be replenished in part by the regional government. The bank's internal failings were exacerbated by its operations being virtually confined to Sicily, thus rendering it particularly susceptible to the deep recession afflicting that region's economy.

Other smaller banks in the South have also found themselves in difficulties. The supervisory authorities' many interventions have aimed at avoiding any interruption in the supply of financial services in the areas concerned and at transferring sound credit positions to other banks with the capital resources and organizational capacity to manage them profitably. This approach has led over the last five years to 25 banks located in the South being taken over by others in the Centre and North, compared with 18 such operations in the ten preceding years. Other similar operations are in the process of being implemented.

On-site controls. — Inspections are carried out when supervisory returns reveal technical or capital anomalies calling for more detailed analysis of a bank. Decisions to carry out on-site controls also take account of the interval since the last inspection and the recent reorganization of the system into banking groups. The results of a single year's inspections cannot, therefore, be taken as indicative of the performance of the system as a whole.

A total of 178 inspections were concluded last year, 41 of which had been started in 1994; they concerned 93 banks based in the North, 31 in the Centre and 54 in the South. At 31 December 1994 the total balance sheet assets of these banks had amounted to 438.5 trillion lire, or 19.6 per cent of the total for the banking system.

The results of the inspections carried out last year confirm the downward trend that had emerged in the three years 1992-94 in the number of banks that obtain a satisfactory overall assessment (36.5 per cent, compared with a three-year average of 44.3 per cent). There was a simultaneous increase in the proportion of unfavourable assessments, from 26.2 to 27.5 per cent, notably among banks located in the Centre and South, and in that of intermediate evaluations, which rose to 36.0 per cent of the total number of banks inspected, compared with a three-year average of 29.5 per cent.

Crisis procedures. — Seven banks were placed under special administration last year, while ten procedures were concluded as follows: three banks were placed in compulsory administrative liquidation, five were merged with other credit institutions and in two cases ordinary administration was restored following the acceptance of reorganization plans and a return to regular operating conditions. At the end of the year nine banks were still under special administration.

Five mutual banks were placed under compulsory administrative liquidation last year. In three cases the banks in question had already been placed under special administration, during which the imbalances that emerged in their profitability, financial positions and assets and liabilities showed the crises to be irreversible. In the remaining cases the measures were adopted in the wake of on-site inspections that revealed equally irreversible situations. The procedures were accompanied by the transfer of assets and liabilities to other banks, which in most cases was made possible by the intervention of the mutual banks' Central Guarantee Fund.

Supervision of securities intermediaries

Investment fund management companies. — Where investment fund management companies are concerned, supervision consists in verifying compliance with the objective and subjective requirements for access to and a continued presence in the market and the adequacy of capital in relation to the volume of managed funds. These elements are also taken into consideration in the evaluations communicated to the Minister of the Treasury in connection with applications for authorization to create new investment funds (62 in 1995).

Supervision of investment funds consists, during the establishment stage, in the approval of fund rules and, in the operational stage, in verifying compliance with the provisions regulating investment activities. The supervisory authorities check that the terms of each management company's contracts are consistent with the protection of savers. Last year a total of 100 opinions were issued concerning the establishment of new funds and 223 regarding amendments to the rules of funds already in operation.

Securities firms and trust companies. — With the introduction in 1995 of amendments to the rules of prudential supervision, the information that securities firms and trust companies are required to report to the supervisory authorities was updated and revised.

Last year prudential returns and inspections revealed numerous cases in which organizational shortcomings and inadequate risk control procedures had led to losses. Measures were taken in eighteen cases to remedy situations of capital inadequacy and in twenty-five cases to correct incongruencies in the reporting of risk positions; in eleven cases the governing bodies were advised of the need to strengthen the company's organization and operational profitability.

During the year twelve securities firms and two trust companies were suspended from the register or from engaging in certain kinds of business by the Minister of the Treasury or the Consob (acting in consultation with the Bank of Italy where required) and in each case a special administrator was appointed. A firm already in voluntary liquidation was placed under special administration in consideration of the need to protect the public's savings. At the end of February 1996 nine firms placed under special administration in 1994 and 1995 had been struck off the register.

Financial companies. —Fifteen applications by financial intermediaries for inclusion in the special register referred to in Article 107 of the Banking Law were examined last year, and another four were received in the first four months of this year. Inclusion in the special register calls for compliance with the requirements laid down in the Treasury Minister's Decree of 27 August 1993. In particular, companies must engage exclusively in financial business and must have respected minimum volume of business and maximum debt limits for the last two financial years. In addition, their corporate officers must possess specific requisites of professionality and integrity and their shareholders of integrity.

The protection of competition in the banking sector

The Bank of Italy's investigation of a number of cooperative banks in the Veneto region was triggered by a memorandum of understanding that came to light during an on-site control and which provided for the joint fixing of rates and other contractual conditions as well as for the coordination of branching policies.

THE GOVERNOR'S CONCLUDING REMARKS

Last year the Bank continued to seek greater administrative efficiency and operational effectiveness in the performance of its institutional responsibility to safeguard the currency and maintain financial stability and in the role it plays in national and international bodies.

The Bank's accounting system was refined in order to ensure that it fully meets the growing need for information and monitoring of the Bank's performance. This completes the overhaul of the technical procedures and organization of the branches; it brings about the complete automation of counter services and enhances accounting certainty.

The Bank responded promptly to the new legislation on safety at work by improving its accident prevention measures. A unit was established with specific responsibility for defining and ensuring compliance with the standards for the prevention of occupational accidents; the staff representatives were appointed and the arrangements for the performance of their mandate were defined.

The stability in the size of the Bank's staff in recent years and the containment of expenses testify to the attention paid to operational economy. As a result of the policies pursued, administrative costs have not risen by more than the rate of inflation in the last five years, despite the expansion in the Bank's tasks.

The negotiations on the renewal of labour contracts for the period from 1994 to 1997 concluded with an agreement that strikes a balance between operating requirements and the expectations of the staff. The salary structure was reformed in accordance with principles of rationality, within the limits set by Parliament.

The Report which we now submit to you on the state of the Italian economy, which includes a large section on the banking and financial system, has been prepared by the Research Department and the Banking Supervision Departments, assisted by all the Departments at Head Office and the branches.

The wide-ranging, rigorous and innovative analysis set out in the Report underlies our knowledge of the economy and of the financial system, both domestic and international; it provides guidelines for the regulation of credit and money, for intervention in credit markets and for the definition of market structures.

The staff of the Bank of every grade and rank, whether employed at Head Office or in the branches, are conscious of belonging to an institution whose sole purpose and ambition is to serve the nation.

I wish to express once again my appreciation and gratitude to the members of the staff for the dedication, skill and dignity with which they perform their duties.

The recent formation of the new Government, which succeeded that led by Lamberto Dini, saw the appointment of Carlo Azeglio Ciampi as Minister for the Treasury and the Budget. I send him my warm greetings and wish to express gratitude to him on behalf of myself, the Directorate and all the staff of the Bank for the work he has performed in guiding the Bank and the nation.

I would like to extend my best wishes to Mr Ciampi and Mr Dini as they prepare to perform their tasks in promoting the social advancement of Italy.

The world economy

Exchange rates and interest rates

The exchange rate gyrations following the crisis in Mexico, which had affected the dollar and all the other leading currencies in the first few months of 1995 and contributed to the sharp depreciation of the lira, have now completely abated. The return to orderly conditions is attributable to appropriate monetary and fiscal policies applied within the framework of international cooperation and to more considered assessments by the markets.

In the current situation of global markets and complete freedom of capital flows, instability tends to spread rapidly, causes movements in exchange rates and interest rates that are not always justified by economic performance and has adverse repercussions on investment and growth.

In April 1995 the depreciation of the US dollar by comparison with its level of the preceding December had reached 10 per cent in nominal effective terms; the Canadian dollar, the pound sterling and the lira had also weakened sharply.

The value of the yen had risen by almost 20 per cent; the German mark and the currencies linked to it had also appreciated considerably.

The fall in the value of the lira came several weeks before the movements in other currencies; by the end of February our currency had already depreciated by 7 per cent, despite intervention by the Bank of Italy; conversely, the mark had appreciated by almost 4 per cent. By the middle of March the depreciation of the lira had increased to 15 per cent.

Between February and March there began an exceptionally large and intense flow of capital from the weak currencies into the yen, the mark and the Swiss franc.

The volume of cross-border deposits, which are held largely by banks, increased substantially. After growing by 14 per cent in 1994, they rose sharply in the first three months of 1995 and did not come down again when exchange market tension subsided.

The aggressively expansionary monetary policy stance adopted in Japan from the end of April onwards reduced the appreciation of the yen. Measures were introduced in the summer to encourage investment abroad. The Bank of Japan made massive purchases of dollars and in September reduced the discount rate to 0.5 per cent. The direction of the capital flows that had caused the rapid appreciation of the yen was reversed and an exchange rate adjustment began. At the end of 1995 the value of the yen was 6 per cent lower than a year earlier.

The easing of monetary conditions was less pronounced in Germany; at the end of the year the mark still showed an effective appreciation of 3 per cent. The French franc and the other currencies linked to the mark within the European Monetary System showed a similar trend.

The $50 billion in financial assistance extended to Mexico at the beginning of 1995 by the International Monetary Fund and the US Administration with the support of the other Group of Ten countries contributed to the restoration of more orderly conditions.

The exchange rate of the dollar steadily improved during the second half of the year.

In Italy, the measures to bring the budget deficit down to the planned level, the agreement on reform of the pension system and two increases in the discount rate in February and May altered expectations and laid the foundations for a recovery of the lira. By December the exchange rate had returned to a level similar to that of a year earlier.

Intervention to support the lira had virtually ceased after the crisis in September 1992. It was resumed with determination in March during the period of greatest difficulty for our currency. In the changed economic policy environment, the markets responded positively to the signal from the central bank; the downward trend in the exchange rate was reversed, and the lira began to appreciate.

The very large interventions to support the dollar, which were coordinated among the central banks of the leading countries, contributed to the restoration of more appropriate exchange rates from the summer onwards.

The improvement in the exchange rate of the lira in the second half of the year proceeded in close parallel with the recovery of the dollar. In April and May of this year the lira appreciated further, in connection with substantial inflows of capital.

At present the dollar is worth slightly more than in December 1994, the mark has returned to the level recorded at the end of that year and the yen has fallen by 22 per cent from the peak reached a year ago and is 8 per cent below its level at the end of 1994.

In recent years, and particularly in the first few months of 1995, large exchange rate fluctuations have been accompanied by similar movements in securities prices, especially in countries with weak currencies.

The yield differential between Italian long-term government securities and corresponding US and German paper rose to 660 basis points in March.

The variations in the prices of securities traded on international and national markets gave rise to massive movements of funds seeking short-term gains, which amplified the price fluctuations.

Although subject to wide price variations, the market in Italian government securities continued to operate normally, thanks to its depth.

The more fragile financial systems were destabilized. The crisis in Mexico threatened to spill over to other countries in Latin America and South-East Asia that had previously experienced extremely large capital inflows.

At their meeting in Toronto in February 1995, the Finance Ministers and central bank Governors of the seven leading industrial countries expressed their determination to seek solutions to the new problems posed by liquidity crises of sovereign debtors.

In Halifax in June the Heads of State and Government laid down guidelines for the establishment of procedures to limit the spread of the destabilizing effects of crises and to achieve a better understanding of the associated problems of banking and market supervision.

Over the year as a whole, the monetary policy stance was tightened in the countries whose currencies had suffered a steady and, in some cases, rapid depreciation. In the countries with more stable currencies, the easing of monetary conditions was gradual, except in Japan.

Long-term interest rates remained high despite low inflation, presumably owing to pronounced uncertainty and fundamental disequilibria in some parts of the public finances, especially pensions.

Had the central banks induced a universal reduction in short-term interest rates, they would have risked intensifying inflation expectations; such action would have had a positive initial impact, but it might then have led to even higher market rates, and not only in nominal terms.

The prudent approach of the monetary authorities in the leading countries is rooted in awareness of these risks and the still uncertain prospects for a durable reduction in budget deficits.

The ratio of public debt to output is increasing in the majority of the industrial countries. In the United States, despite major differences regarding the measures to be taken, the two main political parties agree on the need to balance the federal budget early in the next decade. It can be assumed that the level of real long-term interest rates in that country is responding positively not only to the size and liquidity of the financial market but also to the fundamental consensus on the adjustment of the public finances.

The turbulence in the foreign exchange and securities markets was not conducive to holding down the cost of capital. Nor did the large inflows of capital into some emerging economies benefit investment; the rapidity with which the funds were subsequently withdrawn was often a cause of instability.

In all the leading countries, the current level of real yields on long-term securities is significantly higher than the most optimistic forecasts of economic growth.

A reduction in long-term rates hinges on the credible prospect of a consolidation of the public finances; more generally, it requires nationally and internationally coordinated fiscal, monetary, incomes and structural policies that eliminate any expectation of a resurgence in inflation and provide the markets with certainty.

The business cycle and growth

The economic recovery in 1994 was especially rapid in Italy and the other countries of continental Europe. In the latter the expansion petered out during 1995, and activity entered a period of stagnation, if not recession. Growth lasted longer in Italy, persisting until the third quarter of last year.

If the hoped-for upturn that is forecast for the second half of 1996 fails to develop fully, the expansionary phase of the cycle in Europe will have been of modest strength and, above all, of limited duration.

In the United States, where the expansion has been under way for longer, the pace of growth has come back into line with that of productive potential.

Growth has been checked in the countries whose currencies have appreciated the most. In Japan the recovery did not begin until late 1995, after the yen had weakened. In Germany economic conditions have been affected by the pronounced appreciation of the mark and high real long-term interest rates; other major European economies remain competitive, but here too unemployment is still widespread.

The countries whose currencies suffered a sharp, albeit temporary, depreciation have had to contend with inflationary pressures.

Consumption has remained weak, particularly in Europe, reflecting the modest recovery in employment, the limited growth in labour incomes and the restrictive stance of budgetary policies.

Profit margins have reached historically high levels in all the European countries. Notwithstanding the ample resources available for self-financing, investment appears to be flagging everywhere.

The creeping crisis of confidence in some of the leading European economies is casting a shadow over the prospects for growth.

The weakness of the recovery in Europe is part and parcel of a generalized slowdown in activity in the industrial economies: in the nineties their output has risen by an average of less than 2 per cent a year. Growth rates in the emerging countries are at least three times higher; they are especially rapid in some areas of Asia.

The competitiveness of these countries' exports is due to their increasing capacity to combine the use of advanced technology with very low labour costs. Ultimately, it rests on the low standard of living of their population. In a context of global markets, it poses a challenge to the industrial economies to which they must respond, otherwise their growth and employment will decline further.

In recent years the advances in transport and communications, the liberalization of trade and capital movements and the sustained flow of direct investment from the industrial economies have enhanced the developing countries' ability to expand their shares of our markets.

At the same time, these countries support productive activity in the more advanced economies through their demand for industrial goods that they are not yet able to produce in sufficient quantity.

In Europe several important branches of industry and the food and agricultural sector still enjoy the protection of customs barriers that have ensured their viability; the incomes of their workers have been supported, but to the detriment of the cost of living. These forms of protection are destined to disappear.

The structural response of the more affluent economies will have to include product and technological innovation, new ways of organizing production and the development of advanced services.

To strengthen the competitiveness of the industrial countries, it is necessary to limit the relative size of the public sector, which ultimately impinges on firms' labour costs and activity and is thus reflected in the prices of the goods they produce and export.

It is necessary to reconsider the nature and objectives of public intervention in the economy, the boundary between the public and private spheres.

The welfare state was born and developed in Europe; it is an integral part of our culture, one of its basic social values. The defence of the welfare state calls for a reformulation of the criteria governing entitlement to benefits and their size and nature; most of them were established in the post-war years, at a time when economic expansion was rapid, the population young and growth expectations more favourable than they are now.

The equilibrium of public pension systems is becoming a pressing problem everywhere. Expenditure on health services is tending to rise more rapidly than national income, owing mainly to the ageing of the population.

Fully-funded private pension plans that can supplement the benefits provided by public pay-as-you-go schemes are still in their infancy in several countries. The changes to health care systems have only limited the rise in the ratio of health spending to output.

Measures to reduce budget deficits can adversely affect demand and output in the short run. If they form part of a programme of structural adjustment, their repercussions will be more than offset by the positive effects of increased credibility. A consistent, sustained effort will build confidence, stabilize the financial markets and foster economic growth. The short-term impact on demand can be countered by means of long-term measures, including both tangible and intangible investment, to boost the productivity of national economies.

A reshaping of the role of the public sector, wage restraint and greater flexibility for the development of public and private investment require a high degree of political and social cohesion.

International monetary equilibrium

The exchange rate crisis of 1995 confirmed that the equilibrium of financial markets is precarious in a system with fiat currencies, highly mobile capital and economic policies that are not infrequently divergent.

Freedom of movement of capital has increased the opportunities for raising funds; it contributes to more efficient resource allocation worldwide.

Large and persistent disequilibria between the formation and use of savings, between the public and private sectors and between the balance-of-payments positions of the major countries are generating massive transfers of funds seeking higher returns.

Cross-border deposits currently amount to around $8 trillion, more than the GDP of the United States and one and a half times the value of world merchandise exports. Their growth is beyond the direct control of the central banks; their velocity of circulation is considerably increased by the use of derivative instruments.

The problems relating to the stability of financial institutions and markets are being analyzed and confronted by the Basle Committee on Banking Supervision. Risk prevention is based on the definition, application and wider use of prudential measures and supervision; it is pursued by promoting rigorous self-regulation. In this field there is growing cooperation among the authorities responsible for supervising the banking, securities and insurance industries.

The absence of an anchor, a centre of gravity at the international level, deprives markets of a secure point of reference and exposes the system to exchange and interest rate instability and inflationary risks.

The key to stability at the international as well as the domestic level lies in the pursuit of orderly conditions in the formation and utilization of resources within each country and in the establishment of a more direct link between money and the real economy.

The construction of a unified monetary area in Europe can contribute to the creation of a sounder world monetary and financial order. The project is based on compliance with essential parameters of economic performance, first and foremost limits on budget deficits and public debt.

Realization of the project is hindered by the difficult economic situation, which makes it harder for many countries to adhere to the limit for budget deficits.

The balance-of-payments disequilibria of the leading economies are tending to alter relationships between currencies, and they may generate exchange rate tensions within Europe as well.

Italy is endeavouring to meet the conditions for participating in the creation of the single currency; they are valid in themselves and are indispensable for stable growth of the economy.

The return to monetary stability and lower interest rates, which will alleviate the public debt and promote growth, can be brought about only by pursuing fiscal, incomes and monetary policies that reinforce Italy's convergence with the more stable economies.

This is the contribution that Italy can and must make to the development of the economies and markets in Europe and throughout the world.

The Italian economy

The balance of payments and the external position

The current account of the balance of payments showed a surplus of 45 trillion lire in 1995, or 2.5 per cent of gross domestic product.

Italy's net external debt fell to 84 trillion lire at the end of last year, equal to less than 5 per cent of GDP; three years earlier it had stood at 164 trillion lire, or 11 per cent.

After a strong expansion in the previous two years, exports increased by 12 per cent at constant prices and continued to stimulate aggregate demand and output. The prices of export products rose significantly faster than costs; this contributed to the formation of large profits in manufacturing industry.

Imports grew by 10 per cent in volume; an increase of 12 per cent in their lira prices had a considerable impact on costs and inflation.

Exports are now equivalent to a quarter of Italy's gross domestic product, whereas by the end of 1992 they had declined to less than a fifth. Over the last three years they have benefited from the depreciation of the lira and the stability of unit labour costs.

The competitiveness of Italian goods, measured in terms of producer prices, was 19 per cent higher in 1993 than in the first half of 1992.

After a modest further improvement in 1994, competitiveness increased by another 13 points in early 1995. By May of this year it had declined again to just below the average for 1993 owing to the recovery of the lira.

The gain in competitiveness remains particularly large when measured in terms of unit labour costs; on this basis, it is still 5 per cent with respect to the average for 1993.

Sustainable growth in Italy's foreign trade requires that costs and prices be stabilized and the adjustment of the public finances continued.

Italy's good export performance and the improvement in the trade balance in the last three years have benefited from the growth in demand from non-European countries. More than 50 per cent of our exports go to the countries of the European Union; the slowdown in these economies is now affecting sales of Italian products abroad.

Import growth will also be weaker in 1996; the current account surplus will remain large, again amounting to about 2.5 per cent of GDP.

Italy's net external position will approach balance.

Since the complete liberalization of capital movements in the early nineties, the volume of cross-border financial transactions has grown rapidly. In December 1995 the country's external assets and liabilities both stood at about 50 per cent of GDP; the comparable ratios in France and Germany were about 90 and 70 per cent respectively.

Between 1992 and 1995 non-residents' holdings of Italian government securities and other forms of external public debt increased from 100 to 300 trillion lire.

The supply of foreign currency stemming from the current account surplus and from capital inflows was taken up by investors and firms to increase their external assets and reduce their liabilities. Households' net foreign assets exceeded 150 trillion lire; firms and other non-financial operators have moved from net external liabilities of 170 trillion lire in December 1992 to net assets of some 20 trillion.

Since the spring of 1995 capital outflows have been more than offset by the surplus on current account.

The improvement in the overall external financial balance and the net asset position of the private sector eased the pressure of demand for foreign currency and laid the basis for the strengthening of the lira.

Cyclical performance and economic development

In 1995 the Italian economy grew by 3 per cent, a faster rate than in the other industrial countries.

After contracting in 1993, economic activity had expanded vigorously in 1994, led by exports and investment. Output continued to increase strongly until the third quarter of 1995.

Over the last two years the growth of consumption has been modest, and distinctly slower than that of output.

Exports triggered a rapid and sustained increase in investment expenditure involving all branches of manufacturing and all types of enterprise.

After falling sharply in 1993, investment in plant and machinery grew by 7 per cent in 1994; it increased by a further 11 per cent in 1995. In the construction industry the contraction continued until mid-year; signs of recovery then began to emerge.

The introduction of a temporary tax incentive in mid-1994 gave additional impetus to corporate investment, partly by encouraging firms to bring forward the implementation of projects; in many industrial companies, expenditure was higher than originally planned. A large proportion of investment was directed to expanding productive capacity.

The depreciation of the lira and the growth in demand contributed to a redistribution of income in favour of profits. In 1994 the gross disposable income of households increased by 3.6 per cent and that of enterprises by more than 30 per cent. The shift in income distribution continued in 1995, with the two aggregates increasing by 6 and 20 per cent respectively.

Profit margins are now close to the historic highs recorded in the fifties, when the growth in investment and output was exceptionally rapid and prices stable. The widening of profit margins reflects price rises far in excess of the increase in unit costs.

The prospects for growth remain good in the United States, Japan and the United Kingdom. The sluggishness of the continental European economies is now affecting activity in Italy. Output began to decline at the end of 1995 and contracted by a further 2 per cent in the first quarter of 1996.

Even allowing for a rapid recovery in the second half of the year, economic growth in 1996 as a whole is unlikely to reach half the rate recorded in 1995.

A decline in inflation that enhances households' purchasing power and consumer demand could open up the prospect of steadier growth and have a positive effect on investment.

The expansion of activity, which has primarily involved manufacturing industry and the export sector, has not spread to the South; Italy's economic dualism has been accentuated.

Output in the South is barely above the level of 1991, whereas in the North and Centre it has increased by 6 per cent over the same period.

The unemployment rate in the North and Centre is 7.8 per cent, below the average for the European Union.

In large parts of the country, job creation has been boosted by small and medium-sized enterprises characterized by productive creativity, an ability to identify market outlets and flexibility in the organization of labour. The willingness of employees to vary their working hours according to the needs of the firm constitutes a form of worker participation in the fortunes of the enterprise.

In the South the unemployment rate has reached 22 per cent; the number of young people seeking their first job and that of the long-term unemployed have risen further.

The public, productive and social infrastructure of the South is inadequate; some large industrial plants recently established in the area are suffering the consequences.

The termination of the special development programme for Southern Italy has left a vacuum of central and local government initiatives.

Not until last year were procedures instituted to speed up the utilization of funds provided by the European Union for the period from 1994 to 1999, which total ECU 15 billion, or about 30 trillion lire. New investment assistance mechanisms have been activated.

Large and small industrial groups have shown renewed interest in locating factories in the less developed parts of the country. These regions have a reservoir of capable young workers; thanks to the constructive attitude of the national trade unions, they are prepared to accept employment conditions that take due account of external diseconomies.

If the southern economy is to be guided onto a path of stable growth, market forces and private initiative must be flanked by official action to alter the external factors, provide essential public services and, above all, ensure the conditions for orderly civic life.

A decisive qualitative improvement must be made in the *modus operandi* of central and local government. In order to make use of grants from the European Union and loans from international institutions, it is important to restore an ability to plan and execute both large public works and smaller projects.

Countercyclical measures are necessarily geared to the performance of the economy as a whole, which principally reflects developments in the more prosperous regions. A reduction in inflation and a recovery in domestic consumption will bring especially large benefits in the South. A strengthening of the economy of these regions could promote cyclical stability in the North and Centre, thus fostering the growth of the Italian economy as a whole.

The stagnation in output, the weakness of consumption and the crisis in the construction industry are at the root of the difficulties afflicting banks in the South. For some credit institutions, the problems of poor organizational efficiency and high costs have been compounded by a decline in activity in the economic sectors where lending is concentrated.

The measures that have been enacted and the restructuring programmes undertaken are designed to safeguard the value of depositors' savings, create the conditions for a more efficient banking system and prevent the difficulties of these institutions from having further severe repercussions on an already debilitated economy.

Monetary policy and prices

The annualized monthly rate of increase in consumer prices reached a cyclical low of 3 per cent in the middle of 1994.

The possibility of a rekindling of inflation was signaled in June of that year by the rise in the yields on longer-term securities and at the end of July by the expectations revealed in business opinion surveys and by assessments of cyclical conditions. The budget deficit was tending to exceed the objectives. Demand was rising rapidly.

Monetary policy began to take on the restrictive stance that still prevails today. Monetary base creation was curbed; short-term market interest rates began to rise as early as the middle of 1994.

The official discount rate was raised from 7 to 7.5 per cent in August 1994 in order to counter the deterioration in expectations and the intensification of inflationary pressures.

Concern that the budget deficit would overshoot the target for the year increased in subsequent months. The yield on ten-year government securities rose above 12 per cent, the differential with respect to securities denominated in marks widened and inflation expectations deteriorated further.

At the beginning of 1995 the political situation prevented the prompt adoption of measures to correct the imbalances. Towards the end of February the Bank decided to raise the discount rate by a further 0.75 percentage points and the rate on fixed-term advances by 1.25 points. The new Government introduced a substantial package of fiscal measures.

The lira weakened under the influence of the turbulence in foreign exchange markets and the political difficulties at home; inflation accelerated; the increase in indirect tax rates pushed up prices; yields on ten-year government securities rose to nearly 14 per cent.

At the beginning of May the situation in the securities market improved and the lira strengthened, but inflation remained high; expectations deteriorated; market participants and commentators came increasingly to doubt that inflation would slow down in the second half of the year.

Towards the end of the month the Bank decided to tighten monetary conditions further: both the official rates were raised by 0.75 percentage points, to 9 and 10.5 per cent. At last year's Annual Meeting I suggested that there was a possibility of inflation easing before the end of the summer. I announced the Bank's determination to bring the rate below 4 per cent in

1996, thus essentially confirming the target of 3.5 per cent indicated by the Government.

The tightening of monetary and budgetary policy, the halt in the depreciation of the lira and its subsequent recovery reversed the trend of expectations. Securities prices rose; inflation slowed during the summer to an annualized monthly rate of around 4.5 per cent.

During the autumn inflation accelerated again; the Bank considered the desirability of raising official rates again, but was dissuaded from doing so by the steady improvement in expectations signaled by the performance of the exchange rate and long-term interest rates.

In the last few months of 1995, and to an even greater extent in the early months of this year, the maintenance of a wide differential between short-term lira and mark interest rates fostered a decline in long-term rates.

By the end of last year the yield on ten-year government securities had fallen to 10.9 per cent; by May of this year it had declined to 9.7 per cent, with future benefits for interest payments. The differential with respect to comparable German securities, which had risen to 660 basis points in March 1995, had fallen to 480 by the end of the year and yesterday stood at 310. This indicates that the markets expect the inflation differential with Germany to remain on the order of 3 percentage points over the medium term.

The exchange rate of the lira has risen steadily since the autumn.

The underlying conditions in the economy are consistent with a decline in the rate of increase in prices. However, the observed rate of inflation is proving slow to reflect the improvement.

In April and May the monthly rate of increase in consumer prices exceeded 4 per cent on an annual basis, even when random factors are excluded.

Monetary policy continues to be geared to curbing inflation.

In 1997 and subsequent years the rate of increase in prices will have to be close to those in the other leading industrial countries and less than 3 per cent.

This objective calls for consistent budgetary and incomes policies.

Italy's manufacturers and distributors display an inflationary bias when setting producer and retail prices. In many cases this reflects inadequate competition.

Firms' prices and profit margins rise rapidly at times of strong demand and depreciation of the lira; in contrast with other countries, they are resistant to downward movements even when there is a pronounced weakening of demand and a recovery of the exchange rate. The factors that had caused a resurgence of inflation in the spring of last year no longer apply or have changed sign.

Aggregate demand is being weakened primarily by the erosion of consumers' purchasing power and the uncertain outlook for incomes.

This vicious circle, which tends to spread to employment and investment, can and must be broken by halting inflation and, as in other countries, by widespread price reductions.

The public finances and the return to growth

The scale of government debt, the inefficiency of public services and the complexity of the tax system diminish Italy's chances of returning to a path of stable growth.

The size to which the debt has grown drives up interest rates, impedes capital formation, hampers the conduct of monetary policy and exposes the country to the risk of instability arising from turbulence in international markets.

The equilibrium of the financial system and the sustainability of the public debt have been ensured so far by the high level of households' saving.

Various factors, especially those of a demographic nature, are tending to reduce the propensity to save.

On the other hand, there is a growing need to boost investment so as to increase the competitiveness of the economy and permit employment to grow.

Participation in the process of European integration requires a reduction in the public debt; in the immediate future it calls for a decisive curtailment of the borrowing requirement; subsequently it may be necessary to achieve budget surpluses.

Between 1994 and 1995 the ratio of the state sector borrowing requirement to gross domestic product fell from 9.5 to 7.4 per cent and the public debt began to decline in relation to GDP.

This good result is to be attributed in the first instance to the approach adopted in the Finance Law for 1995.

In October 1994 I had pointed out that the target set for the budget deficit would be exceeded by around 1 per cent of GDP owing to the trend in interest payments.

The budgetary adjustment of around 1.2 per cent of GDP introduced by the new Government in February 1995 more than offset the foreseeable overshoot.

The growth in real incomes and the level of inflation, both of which were higher than expected, contributed to the improvement.

The Finance Law for 1996 reaffirmed the objective set in the Economic and Financial Planning Document for 1996-98 of reducing the state sector borrowing requirement to 110 trillion lire, or just under 6 per cent of GDP. It was decided to make adjustments amounting to 32.5 trillion lire, based to a large extent on cuts in transfer payments to public bodies with autonomous spending powers.

Invited by Parliament to present the Bank's assessment of the budget for 1996, I pointed out a number of weaknesses in the corrective measures.

The results for the first few months of this year confirm the Bank's evaluation. Expenditure has risen more rapidly than expected and revenue has been affected by the slowdown in economic activity.

It now appears that the target for the borrowing requirement may be exceeded by more than 1 per cent of GDP; in order to keep the budget deficit on course, it will be necessary to make a larger adjustment than originally envisaged.

The new Economic and Financial Planning Document must set the objectives for the three years from 1997 to 1999. In presenting the Government's programme, the Prime Minister confirmed the objective of reducing the budget deficit to less than 3 per cent of GDP by 1998.

Demanding but credible objectives for this year and next are a necessary condition for the equilibrium of the financial markets and further reductions in interest rates.

The action that must be taken in the short run must be set within a longer-term framework ensuring consistency over time, with which future budgets will also have to conform.

For any given level of the budget deficit, expenditure cuts are more effective in countering the fall in the saving rate. In some fields public intervention can be replaced by private initiative.

On the revenue side it appears essential to reduce the complexity of fiscal obligations and intensify action by the public administration to counter evasion.

The revival of public investment will have only a limited impact on the deficit if it is financed partly by the private sector and use is made of the funds allocated by the European Union for depressed areas.

Imbalances in the public finances cloud the prospects for all the industrial countries; many began to take corrective measures several years ago. The action to restore sound public finances must continue. It is a prerequisite for increasing the efficiency of the economy and meeting the need to make better use of Italy's resources.

Finance and banking

The financial markets

The Italian financial system is undergoing sweeping changes.

A substantial and increasing portion of residents' financial wealth is invested abroad: at the end of last year it amounted to 11 per cent of total assets. As a counterweight, a large volume of foreign savings needs to be invested for the long term in Italy.

The markets are moving towards a situation in which they will be predominantly private-law self-regulating organizations; they will be accessible to all types of operator, both Italian and foreign. Italian intermediaries, and the banks in particular, must improve the operation of market mechanisms and offer a wider range of services.

The Italian market in government securities has achieved a level of efficiency comparable to that found in the other leading industrial countries. Even at times of greatest difficulty, as in the second half of 1992 or the first quarter of last year, trading was orderly and price variations swiftly led to a matching of demand and supply, thereby ensuring continuity of transactions. A deep and liquid market is essential for the proper management and protection of the substantial portion of national savings invested in it.

Private finance has made considerable progress in recent years; nonetheless, the stock exchange is still small and the bond market underdeveloped.

Total bank bonds in circulation amount to 215 trillion lire, only a small proportion of which are listed on official markets; corporate bonds total 27 trillion lire. Savers are investing increasingly in lira bonds issued by foreign companies and banks and by international organizations; securities of this kind worth a total of 12 trillion lire were sold in Italy in 1995, a substantial increase over previous years.

Market efficiency and liquidity are achieved by listing bonds and standardizing their features. For banks, bonds can provide an increasingly large share of resources. In the case of corporate securities, creditworthiness must be assessed by rating agencies.

In relation to GDP, the volume of equity capital raised through the issue of shares has been higher in Italy than in the other leading industrial economies since the beginning of the eighties.

Italy has a multitude of profitable enterprises that are in continual transformation and have growth potential. The stock exchange should be the vehicle for assessing industrial and financial strategies, placing substantial portions of the capital of privatized public enterprises and allocating ownership efficiently.

There are signs that major enterprises are preparing to open up their ownership structures. Dynamic medium-sized firms are enlisting the aid of financial institutions to raise capital from the public.

More effective forms of corporate governance and control are needed, together with full protection of the interests of minority shareholders and wide disclosure of information, along the lines envisaged in the powers granted to the Government to amend the legislation on listed companies.

The tax system should be rendered more neutral in its treatment of different forms of corporate fund-raising in order to facilitate firms' recourse to the stock exchange. It should not impede share trading, and it should encourage companies to seek listing.

The widening and diversification of companies' shareholder bases calls for the resources and expertise of institutional investors and specialized intermediaries. The banks' contribution should consist initially in broadening their lending function, with a view subsequently to bringing enterprises to market.

Until now, the banks have invested in industrial shares mainly for the purpose of restructuring borrowers in financial difficulty; between 1993 and 1995 they acquired participations worth approximately 4 trillion lire, a large portion of which were later sold in the market.

The law of 7 March 1996 introduced new penalties for usury, the main victims of which are households and small retail and artisan businesses. It is often the means whereby organized crime gains a foothold in the productive sector. The problem is one of public order.

The specification of usurious rates of interest for different types of loan is intended to fix an objective yardstick for identifying illicit money-lending. The predetermined limits and their application to regulated intermediaries as well could have the effect of increasing interest rates on small loans and lead to a rationing of credit to marginal weaker customers.

The banks, and particularly local and cooperative banks, are endeavouring to pay more attention to the needs of smaller businesses in order to encourage them to carry out proper financial planning.

Usury cannot be prevented without more widespread awareness of the dangers of borrowing from unauthorized lenders and education in the responsible use of money.

The banks

In the last three years the net profits of Italian banks have fallen to 2 per cent of their capital and reserves, compared with 10 per cent between 1983 and 1992. The sharp decline in net interest income has not been matched by a sufficiently large reduction in operating costs.

The effective rate of taxation of bank profits, which was already high compared with that of non-financial companies and foreign banks, has increased. The new rules on the value adjustment of loans will reduce their overall tax liability.

In recent years the banking systems of the leading industrial countries have suffered crises and undergone fundamental reorganization.

In France and Spain it was necessary to tackle difficulties at major institutions. In Japan the fall in real estate values and the emergence of non-performing loans equivalent to around 8 per cent of GNP gave rise to severe and widespread instability. In the United States, following the crisis among savings and loan associations, the banks recovered their high profitability during the long period of economic expansion.

Overcoming the difficulties has required restructuring and organizational changes to increase productivity and reduce costs. Large injections of public funds have been necessary.

The Italian banking system has been exposed to the forces of change for some time. Administrative constraints that once hindered competition have been removed, and it has increased steadily in the savings market. Banking activities and the supply of services are increasingly open to international competition.

The spread between the average rate of return on lira loans and the average cost of funds has narrowed from 7.6 to 5.8 percentage points since the mid-eighties.

Competition has led to significant changes in the control of banks. In the last ten years there have been 177 mergers and acquisitions of control, excluding those involving minor banks. In terms of total assets, more than a fifth of the system has passed into new ownership. The supply of banking services is becoming less fragmented; the increase in the size of banks is enhancing their competitiveness by raising efficiency.

As the guarantor of competition in the banking sector, the Bank of Italy has scrutinized concentrations to ensure that they do not restrict competition in local markets. The Competition Authority has concurred with the Bank's decisions.

Banking stability is a public good of supreme importance. Deposits have always enjoyed protection in Italy.

The major changes under way at the international level and the increase in competition require that Italian banks review some of their organizational structures, develop new products, enhance the human capital on which their competitiveness ultimately depends and take vigorous action to reduce costs.

Between 1983 and 1992 average staff costs rose at a real annual rate of 2.1 per cent, while the number of employees increased at a rate of 1 per cent.

The banks have taken cost-cutting measures which have been facilitated, as far as staff costs are concerned, by the agreement on incomes policy reached in 1993. Between 1993 and 1995 the number of employees remained virtually unchanged; expenditure on staff fell at an annual rate of 0.9 per cent in real terms.

Labour costs remain higher than in other sectors and higher than in banking in other countries. Greater use must be made of flexible arrangements that reinforce the correlation between pay and company performance measured in terms of income and productivity.

There is an urgent need for banks engaged in the difficult task of restoring their profitability to take the necessary measures to reduce excessive staff levels and staff costs per employee.

The reorganization of the banking system will benefit from the privatization of public sector banks.

The prime objective of transforming public sector banks into joint stock companies was to nurture a profit-oriented culture and strengthen capital bases through recourse to the capital market.

The deterioration in bank balance sheets and the downturn in the stock market have forced the postponement of privatization in a number of cases; in others, the shareholding bodies do not consider it expedient to dispose of their holdings at current prices.

Privatization must continue resolutely, with disposals being appropriately timed to take account of differences in the profitability of banks and the development of market transparency and liquidity. It must be able to attract a steady flow of domestic savings and international investment. The disposal of public sector holdings must provide an opportunity to raise new capital in order to strengthen the banks' capital bases.

Privatization procedures must ensure that the controlling shareholders are identifiable; acquisitions founded solely on borrowed funds make this unclear. Stability in the management of banks must be safeguarded.

These goals can be achieved by reorganizing ownership to combine a broader base of small shareholders with a small group of investors who share responsibility for monitoring strategies. The banking foundations can play a useful role in identifying potential shareholders among institutional investors and non-financial companies.

Between 1992 and 1995 the stagnation of economic activity coincided with a reduction in state transfer payments to the South, including funds for previously approved projects, and with the halt in activity in the construction and public works sector. During that period, about 900 of the 4,800 companies in the South on which the Company Accounts Data Service held information were unable to meet their obligations to the banks. Many sole proprietorships collapsed, especially those operating in the services and construction sectors.

In December 1995 banks based in the South had bad loans equal to 23 per cent of their lending to southern customers; the proportion was 17 per cent for loans granted by banks from other areas of the country, more than twice the level for their lending in the North and Centre.

Average lending rates on loans to southern customers are currently more than 2 percentage points higher than those in the North and Centre.

However, if the amount needed to cover loan losses is deducted, there has been no regional difference for several years. The average cost of funds has been much the same in the different areas of the country for even longer.

At the end of 1995 banks based in the South had outstanding loans of 161 trillion lire, equal to 13 per cent of the total. Loan losses for the year amounted to 5.4 trillion. Eight banks had capital below the supervisory minimum; after taking account of capital injections already approved by the Treasury and local authorities, the overall shortfall amounts to 2.4 trillion lire. Conversely, 263 southern banks have excess capital totaling 6.3 trillion lire.

The activity of the supervisory authorities, which is already intense in the South, has been made even more demanding by the deterioration in economic conditions in the area.

Of the 318 southern banks operating in 1991, 264 were inspected between 1992 and 1995; they accounted for 90 per cent of total lending by southern banks.

On the basis of the inspection findings, banks were invited to rationalize their domestic and foreign networks, reorganize their internal procedures, strengthen their capital bases and, in some cases, make changes in their governing bodies.

The reorganization of the banking system in the South first requires that operating costs be reduced, especially staff costs, which are higher in proportion to total assets than for banks in the North and Centre. Operational efficiency and staff expertise must be increased. The public sector can participate in reorganizations when it is necessary to safeguard the primary role of banks in serving the economy, on condition that restructuring programmes are formulated and responsibility for implementing them is entrusted to capable managers. The prospect of recovery will attract private capital and pave the way for the subsequent sale of the bank.

Economic growth requires an efficient banking system, and vice versa.

Southern Italy is still a rich source of the raw material of banking, namely savings. The banks find it difficult to invest in profitable local ventures. Many banks from economically and financially stronger regions lend a larger proportion of their deposits from the South to borrowers in that area than do the southern banks themselves. This demonstrates that they have identified potential for developing business in southern credit markets and have confidence in the growth of the economy. Their capital and the experience they have gained in dealings with small and medium-sized firms can help foster the development of enterprises in the South.

Fourteen months ago, at the end of March 1995, one German mark was worth 1,237 lire and the yield on ten-year Italian government bonds was 13.5 per cent. Yesterday the mark stood at 1,014 lire and government bonds yielded 9.5 per cent.

The depreciation of the lira and the fall in the prices of government securities were triggered by the conditions prevailing in the world economy, but they were exacerbated by the state of Italy's public finances and by political difficulties at home.

The crisis was overcome thanks to budgetary adjustments, wage restraint and a monetary policy that reduced inflation and stabilized the markets.

The recovery in the exchange rate, which was unprecedented in the recent history of our country, is an indicator of renewed and enhanced confidence in our currency on the part of the international community and markets.

In other major countries that have experienced currency appreciation, the improvement in the exchange rate has been followed by domestic price stability. This effect has proved slow to materialize in Italy.

The path towards a resumption of growth lies in continuing the consolidation of the public finances and curbing inflation. The development of the country, in social as well as economic terms, requires that the unemployed be integrated into productive activities.

Unemployment is concentrated in the South, an area which has a large labour force, especially young people, but is deficient in economic and social infrastructure. The situation calls for investment that raises productivity, labour costs that enhance competitiveness, and full involvement on the part of the state.

The challenge facing our economy is of great moment; it also involves the financial system and the banks. In the next few years the banks must radically alter their *modus operandi*, reduce their costs and place themselves at the service of a growing economy.

The action to consolidate the public finances must be continued with determination. It is necessary in order to reduce the ratio of public debt to GDP, foster a decline in interest rates and create room for investment.

Wage and salary earners have made a decisive contribution to economic stability over the last three years. Profits benefit the economy insofar as they enhance competitiveness and strengthen the industrial base. Continued growth in profits should be achieved not by increasing profit margins but by expanding production.

Money is the focal point of both the strengths and the weaknesses of the country's economy, society and institutions.

To defend the currency is ultimately to defend the wealth and income of the nation.

Monetary stability will enable the Italian economy and Italy to return fully to their rightful place in the international community and in Europe.

In the management of the currency and in the supervision of the banks, we remain resolute in our pursuit of monetary stability, in the conviction that it safeguards prosperity, orderly social relations and participation by all members of society, and especially young people, in the fruits of economic progress.

STATISTICAL APPENDIX

LIST OF TABLES

SOURCES AND USES OF INCOME
(billions of lire

	National								
	Sources								Total
	Agriculture, forestry and fisheries (1)	Industry (1)	Market services (1)	Imputed output of bank services (–)	Non-market services (1)	Indirect taxes on imports	GDP	Imports of goods and services	
1986	44,091	380,170	548,057	48,290	173,452	66,985	1,164,465	179,386	1,343,851
1987	45,278	391,858	568,132	50,694	175,852	70,097	1,200,523	199,832	1,400,355
1988	43,460	412,713	593,001	54,524	178,399	73,917	1,246,966	210,708	1,457,674
1989	43,768	427,331	612,093	57,820	180,269	77,264	1,282,905	229,922	1,512,827
1990	42,133	437,629	630,097	60,721	182,330	79,191	1,310,659	250,301	1,560,960
1991	45,541	437,135	639,197	61,973	184,354	81,328	1,325,582	257,119	1,582,701
1992	46,699	438,644	648,644	68,851	185,910	82,026	1,333,072	271,107	1,604,179
1993	45,987	426,363	654,533	72,540	185,975	77,350	1,317,668	249,092	1,566,760
1994	46,196	438,322	668,411	71,434	185,680	78,499	1,345,674	271,237	1,616,911
1995	46,320	456,347	686,730	69,917	185,770	80,368	1,385,618	297,180	1,682,798
1991 – I	11,181	109,264	158,810	15,239	45,891	20,085	329,992	62,847	392,838
II	11,489	108,447	159,512	15,298	46,010	20,277	330,438	63,989	394,427
III	11,204	109,092	160,149	15,533	46,148	20,411	331,470	64,772	396,242
IV	11,667	110,333	160,726	15,903	46,305	20,555	333,682	65,511	399,194
1992 – I	11,365	111,418	161,007	16,442	46,389	20,703	334,439	69,372	403,810
II	11,593	110,828	162,194	17,039	46,460	20,711	334,747	68,179	402,926
III	12,091	107,736	162,739	17,532	46,512	20,496	332,043	67,293	399,335
IV	11,650	108,662	162,704	17,838	46,549	20,116	331,843	66,264	398,108
1993 – I	11,512	106,997	162,598	17,949	46,535	19,616	329,308	63,005	392,313
II	11,356	107,306	163,789	18,104	46,509	19,331	330,186	62,318	392,504
III	11,317	105,057	163,498	18,200	46,481	19,202	327,354	62,052	389,406
IV	11,803	107,003	164,648	18,287	46,451	19,201	330,820	61,717	392,537
1994 – I	11,967	106,639	165,271	18,025	46,459	19,394	331,705	65,518	397,224
II	11,541	108,736	166,603	17,930	46,442	19,555	334,946	65,876	400,822
III	11,471	111,696	168,035	17,760	46,391	19,714	339,547	68,662	408,209
IV	11,218	111,250	168,502	17,719	46,388	19,836	339,476	71,180	410,656
1995 – I	11,997	113,507	169,845	17,574	46,453	19,926	344,155	72,005	416,160
II	11,451	112,006	171,479	17,510	46,478	20,091	343,994	74,061	418,055
III	11,237	117,164	172,725	17,424	46,458	20,179	350,339	75,495	425,834
IV	11,635	113,670	172,681	17,409	46,381	20,172	347,130	75,619	422,748

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

Table al

AND HOUSEHOLDS' CONSUMPTION
at 1990 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
123,965	96,406	704,096	215,508	14,768	189,108	245,173	129,875	72,373	256,675	151,005	553,091
123,125	106,933	732,745	222,357	17,419	197,776	249,811	138,239	78,319	266,376	153,039	579,706
125,856	120,016	763,563	228,318	10,882	209,039	254,146	147,972	87,140	274,306	154,821	608,742
130,560	126,160	789,062	230,462	8,861	227,722	259,019	154,093	95,051	280,899	155,684	633,378
135,091	130,953	807,987	233,370	10,361	243,198	263,085	156,955	98,220	289,727	156,240	651,747
137,033	131,240	829,642	237,299	6,147	241,340	267,572	162,694	101,534	297,842	156,975	672,667
133,753	129,608	838,324	240,019	7,004	255,471	269,891	164,011	104,951	299,472	157,459	680,865
125,324	104,304	817,890	241,106	–517	278,653	269,787	156,975	91,512	299,616	157,154	660,736
118,008	112,119	830,391	241,078	7,463	307,852	269,239	161,207	92,214	307,731	157,087	673,304
118,640	125,005	844,161	239,806	11,514	343,672	270,435	165,149	94,035	314,543	156,401	687,760
34,041	31,778	205,531	58,835	1,546	61,109	66,336	40,333	25,013	73,847	39,283	166,248
34,321	32,591	206,973	59,151	1,710	59,681	66,718	40,650	25,195	74,410	39,248	167,724
34,421	33,333	207,977	59,507	1,881	59,123	67,038	40,729	25,485	74,725	39,146	168,830
34,250	33,539	209,162	59,807	1,009	61,427	67,479	40,982	25,840	74,860	39,298	169,864
33,879	33,405	210,297	59,871	2,755	63,603	67,692	41,403	26,221	74,981	39,440	170,857
33,704	32,995	210,919	59,927	2,542	62,839	67,704	41,502	26,688	75,025	39,490	171,429
33,378	32,465	209,681	60,063	–25	63,773	67,334	40,948	26,547	74,852	39,305	170,376
32,792	30,743	207,427	60,158	1,731	65,256	67,160	40,159	25,495	74,613	39,224	168,202
32,033	27,292	205,140	60,290	–271	67,828	67,089	39,480	23,965	74,606	39,087	166,053
31,475	25,263	204,109	60,301	2,915	68,443	67,371	39,093	22,815	74,831	39,183	164,926
31,102	25,359	204,030	60,249	–1,250	69,916	67,640	39,054	22,382	74,954	39,411	164,620
30,714	26,391	204,611	60,266	–1,910	72,466	67,688	39,349	22,350	75,225	39,474	165,137
30,282	26,921	205,896	60,310	–387	74,202	67,523	39,815	22,711	75,847	39,395	166,501
29,702	27,679	207,389	60,320	881	74,852	67,446	40,225	23,033	76,684	39,356	168,033
29,201	28,599	208,215	60,245	3,249	78,701	67,151	40,461	23,230	77,372	39,177	169,038
28,823	28,920	208,892	60,203	3,720	80,098	67,119	40,706	23,239	77,827	39,159	169,733
29,247	30,187	209,787	60,112	2,800	84,028	67,332	40,987	23,341	78,127	39,148	170,639
29,378	31,554	211,044	60,015	–1,460	87,525	67,693	41,323	23,514	78,514	39,166	171,878
29,723	31,355	211,767	59,980	6,001	87,009	67,734	41,413	23,702	78,918	39,072	172,695
30,293	31,909	211,563	59,700	4,173	85,110	67,676	41,426	23,478	78,983	39,015	172,548

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

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
					Unit labour costs *(current lire per thousand lire of value added at 1990 prices)*					
Market goods and services (1)	**559.7**	**582.1**	**604.3**	**637.9**	**683.2**	**741.1**	**769.9**	**782.0**	**772.8**	**787.0**
Agriculture, forestry and fisheries	777.1	785.9	846.6	841.3	908.3	882.9	914.9	902.4	863.8	848.4
Industry	536.6	551.7	568.2	603.9	649.9	705.8	733.5	758.9	744.7	743.0
Excluding construction	*538.8*	*551.4*	*565.2*	*601.6*	*643.8*	*696.5*	*716.7*	*736.3*	*713.5*	*710.2*
Energy products	*312.5*	*330.9*	*352.0*	*374.6*	*405.7*	*437.6*	*449.5*	*435.4*	*431.7*	*434.6*
Manufactures	*562.2*	*573.8*	*585.3*	*622.8*	*666.3*	*721.3*	*742.8*	*767.4*	*741.7*	*736.5*
Construction	*504.6*	*524.8*	*553.4*	*584.3*	*645.8*	*709.3*	*764.0*	*804.9*	*836.9*	*838.0*
Services (1)	519.8	548.2	574.4	610.2	651.1	710.2	741.5	747.6	745.1	772.8
Distributive trades, lodging & catering	*481.9*	*509.0*	*526.1*	*557.8*	*599.8*	*655.3*	*680.0*	*710.6*	*706.7*	*729.7*
Transport & communications	*555.1*	*574.3*	*581.3*	*616.0*	*646.4*	*685.3*	*704.5*	*691.6*	*653.1*	*643.3*
Finance and insurance	*481.1*	*522.3*	*529.9*	*555.7*	*580.1*	*635.8*	*675.2*	*592.5*	*625.3*	*691.5*
Miscellaneous services	*435.2*	*460.3*	*510.7*	*549.0*	*595.6*	*665.1*	*694.2*	*726.7*	*735.1*	*771.3*
Non-market services	**641.0**	**702.4**	**779.4**	**835.0**	**968.2**	**1,046.1**	**1,090.8**	**1,110.6**	**1,136.9**	**1,171.9**
General government	637.9	701.0	778.8	830.5	966.6	1,042.6	1,086.2	1,102.8	1,127.8	1,160.2
Total (1)	**576.4**	**606.0**	**638.3**	**674.3**	**737.9**	**799.4**	**829.2**	**842.0**	**837.1**	**851.2**
					Value added at factor cost per full-time equivalent worker *(thousands of lire at 1985 prices)*					
Market goods and services (1)	**45,892.8**	**47,524.4**	**49,356.0**	**51,018.5**	**51,695.9**	**51,900.6**	**53,196.4**	**54,562.8**	**56,850.1**	**59,152.2**
Agriculture, forestry and fisheries	18,758.1	19,842.9	19,945.7	21,186.8	20,702.0	22,598.7	23,946.6	25,480.1	26,625.3	27,695.7
Industry	49,731.8	52,006.2	54,400.0	56,205.2	56,951.2	57,335.8	58,967.3	59,283.3	62,009.0	65,706.9
Excluding construction	*52,035.5*	*54,688.0*	*57,350.3*	*59,115.6*	*60,083.4*	*60,975.7*	*63,576.7*	*64,824.3*	*68,373.9*	*72,983.2*
Energy products	*143,154.7*	*144,123.2*	*145,909.8*	*152,487.3*	*157,656.9*	*161,256.4*	*167,831.5*	*175,008.1*	*185,425.5*	*197,508.8*
Manufactures	*48,495.6*	*51,113.1*	*53,869.4*	*55,530.4*	*56,332.4*	*57,080.3*	*59,445.7*	*60,417.1*	*63,812.9*	*68,305.0*
Construction	*42,342.6*	*43,382.7*	*44,734.8*	*46,524.9*	*46,718.1*	*45,996.8*	*45,286.2*	*43,401.4*	*43,160.3*	*44,163.9*
Services (1)	50,541.0	51,649.4	53,075.6	54,319.9	55,002.5	54,678.0	55,527.9	57,299.1	59,356.0	60,814.2
Distributive trades, lodging & catering	*43,673.4*	*44,800.1*	*46,477.5*	*47,702.2*	*48,232.1*	*48,128.1*	*48,532.1*	*48,807.9*	*50,935.7*	*52,622.8*
Transport & communications	*54,4350.9*	*55,603.4*	*58,383.5*	*60,448.3*	*62,511.6*	*64,034.2*	*66,675.2*	*70,013.7*	*75,506.5*	*81,223.2*
Finance and insurance	*124,694.7*	*123,928.7*	*130,996.0*	*133,325.3*	*136,468.8*	*133,485.4*	*139,124.9*	*160,196.1*	*158,230.0*	*155,693.2*
Miscellaneous services	*50,013.7*	*51,374.4*	*50,686.7*	*51,090.8*	*51,003.0*	*49,783.0*	*49,716.2*	*50,006.0*	*50,863.8*	*51,096.9*
Non-market services	**42,605.7**	**42,585.4**	**42,502.3**	**42,702.6**	**42,885.0**	**42,886.0**	**42,757.6**	**43,011.9**	**43,242.7**	**43,416.4**
General government	46,810.2	46,582.7	46,488.7	46,715.8	47,084.4	47,295.1	47,336.1	47,673.7	48,063.3	48,351.2
Total (1)	**45,305.5**	**46,632.9**	**48,110.0**	**49,500.2**	**50,090.0**	**50,252.7**	**51,246.0**	**52,353.2**	**54,225.6**	**56,114.5**

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				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		
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	98.2	70.0	97.7	92.2	101.4	103.9	105.8	104.1	88.4	102.9	105.1	103.0	100.9	101.5
1995	114.1	79.5	106.6	105.4	108.0	108.4	106.1	107.4	97.3	102.5	109.2	107.0	106.5	106.9
1989 – I . . .	95.3	93.6	101.4	95.8	100.6	98.4	93.7	97.2	96.5	98.6	98.9	98.6	98.0	97.7
II	95.8	89.2	100.0	95.0	100.7	98.2	96.2	98.1	97.8	100.4	99.3	99.3	98.5	98.2
III ...	98.5	102.8	100.4	99.7	101.0	102.3	96.3	99.8	101.0	103.0	101.9	101.9	101.7	101.2
IV ...	101.6	98.7	110.4	102.2	103.8	102.3	98.1	101.2	101.3	105.9	103.4	103.4	102.9	102.5
1990 – I	102.4	103.3	99.3	102.0	100.6	96.9	97.5	98.0	101.0	98.0	99.4	99.4	99.8	99.6
II	98.9	98.8	108.5	100.9	100.7	99.6	100.1	100.0	100.9	100.3	99.2	99.5	99.9	100.0
III ...	102.4	106.2	95.7	101.8	102.3	100.4	101.8	101.4	102.0	102.3	103.2	103.0	101.7	101.6
IV ...	96.3	91.7	96.5	95.4	96.4	103.0	100.5	100.6	96.1	99.4	98.2	98.1	98.6	98.7
1991 – I	96.9	95.7	101.7	97.6	98.8	100.8	101.3	100.6	97.1	99.7	98.5	98.5	98.7	98.8
II	96.0	96.0	94.8	95.8	99.5	98.1	98.9	98.7	98.3	98.8	99.3	99.1	98.4	98.6
III ...	93.8	91.9	102.3	95.1	100.1	98.0	103.0	100.4	97.8	102.1	100.1	100.1	98.8	99.1
IV ...	94.9	95.5	94.4	94.9	99.3	103.2	102.4	102.0	96.7	99.4	100.2	99.8	99.4	99.9
1992 – I	96.0	91.7	96.9	95.3	99.9	103.0	104.5	102.9	100.4	101.9	102.0	101.8	101.1	101.2
II	94.2	89.2	97.5	93.8	97.0	99.5	106.5	101.7	98.8	104.3	101.5	101.6	100.4	100.7
III ...	90.1	78.0	94.4	88.5	92.9	98.2	103.2	98.9	95.2	99.7	99.1	98.7	95.3	96.1
IV ...	94.1	80.5	91.6	90.8	95.4	100.9	104.5	101.1	91.9	99.3	97.2	96.9	96.9	97.4
1993 – I	95.5	72.3	109.0	93.4	92.8	101.1	109.1	102.3	89.4	99.2	99.9	98.7	98.4	98.9
II	95.4	68.6	93.0	89.4	86.9	96.4	104.7	97.5	88.7	98.4	98.5	97.4	95.5	96.4
III ...	88.4	65.3	100.2	86.0	90.6	96.2	102.9	97.5	87.4	98.1	97.9	96.8	93.9	94.7
IV ...	93.5	65.4	89.0	86.7	92.2	95.2	102.4	97.3	86.3	99.8	99.2	97.9	95.2	96.1
1994 – I	92.4	64.5	92.1	86.6	95.8	100.4	104.2	100.9	87.3	101.1	100.4	99.1	97.1	97.5
II	96.8	69.2	101.3	92.0	101.7	101.9	106.8	103.7	87.9	103.5	103.5	101.8	100.2	100.8
III ...	99.9	73.5	99.8	94.4	102.9	108.0	107.2	106.6	87.6	102.6	108.4	105.4	103.0	103.6
IV ...	103.5	72.9	97.5	95.9	105.0	105.3	105.1	105.2	90.7	104.3	108.0	105.7	103.4	104.1
1995 – I	105.4	77.2	95.7	97.6	106.5	106.8	103.2	105.3	93.5	103.0	107.7	105.6	103.6	104.3
II	109.1	77.5	99.1	100.5	108.5	106.0	106.3	106.7	94.8	102.9	108.0	106.0	104.7	105.2
III ...	117.3	82.1	114.3	109.4	108.5	113.4	106.4	109.6	100.1	101.9	112.4	109.7	109.6	109.7
IV ...	124.7	81.4	117.1	114.2	108.3	107.5	108.6	108.1	100.7	102.0	108.5	106.9	108.0	108.3

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		
1986	80.9	90.1	93.7	84.6	83.6	93.1	92.2	90.4	85.5	90.7	87.7	87.8	89.5	89.8
1987	84.0	82.7	93.5	85.1	89.9	91.1	94.7	92.0	86.0	94.6	91.5	91.3	90.0	90.5
1988	90.9	96.6	90.9	92.1	95.4	93.9	97.7	95.6	91.2	93.5	96.2	95.4	92.8	93.1
1989	95.3	92.8	93.6	94.5	98.0	95.6	97.4	96.8	97.4	96.7	98.0	97.8	93.4	93.8
1990	96.9	95.1	90.9	95.2	95.8	94.8	98.7	96.5	98.1	94.4	95.9	96.0	92.1	92.6
1991	90.1	96.1	89.9	91.2	94.5	94.2	97.5	95.5	95.6	94.4	94.1	94.3	90.5	91.2
1992	86.1	89.8	87.5	87.1	90.7	94.0	98.0	94.9	94.7	95.7	93.0	93.5	89.4	90.1
1993	83.7	73.1	89.5	83.0	84.7	90.5	96.1	91.5	86.3	93.3	90.7	90.5	86.2	87.1
1994	86.0	76.8	87.1	84.6	93.9	96.2	97.1	96.0	86.7	97.2	95.0	94.4	90.0	90.7
1995	96.1	88.8	92.3	94.1	99.3	98.6	97.4	98.3	95.5	96.7	97.3	97.1	94.1	94.5
1989 – I	92.5	91.2	92.0	92.1	97.4	94.0	95.9	95.5	94.8	93.9	96.4	96.0	92.1	92.4
II	93.2	86.4	91.0	91.4	97.3	93.8	97.9	96.0	96.0	95.3	96.7	96.4	92.0	92.4
III	95.9	99.0	91.4	95.9	97.4	97.4	97.2	97.4	99.2	97.4	98.9	98.8	94.5	94.7
IV	99.5	94.6	100.0	98.5	100.0	97.3	98.6	98.4	99.5	100.0	100.0	100.0	95.2	95.6
1990 – I	100.0	98.4	89.4	97.4	96.6	92.1	97.1	95.0	99.1	92.5	95.9	95.8	92.1	92.5
II	96.0	93.6	98.5	96.0	96.5	94.5	99.1	96.7	99.0	94.7	95.3	95.6	92.0	92.7
III	98.7	100.0	87.5	96.6	97.9	95.1	100.0	97.6	100.0	96.5	98.8	98.6	93.6	94.0
IV	92.7	88.2	88.0	90.8	92.1	97.3	98.5	96.6	94.4	93.9	93.7	93.8	90.6	91.2
1991 – I	92.2	93.9	92.2	92.5	94.1	95.2	98.3	96.1	95.2	94.0	93.6	93.8	90.5	91.0
II	90.8	96.2	86.4	90.9	94.6	92.5	95.3	94.0	96.4	93.2	94.0	94.1	90.2	90.8
III	88.2	94.1	94.3	90.6	95.1	92.2	98.7	95.3	95.9	96.2	94.4	94.8	90.5	91.1
IV	89.0	100.0	86.7	90.6	94.1	96.9	97.8	96.6	95.0	94.1	94.2	94.3	90.9	91.7
1992 – I	89.0	96.4	88.3	90.2	94.3	96.7	98.9	97.0	98.4	96.0	95.4	95.8	92.1	92.6
II	86.8	94.1	89.4	88.7	91.5	93.2	100.0	95.5	96.9	98.4	94.6	95.3	91.4	91.9
III	82.6	82.7	87.8	83.7	87.5	91.9	96.2	92.6	93.3	94.0	92.0	92.4	86.5	87.6
IV	86.1	85.8	84.6	85.7	89.6	94.2	96.9	94.3	90.3	94.2	90.0	90.6	87.8	88.5
1993 – I	86.3	77.2	100.0	87.5	86.8	94.2	100.0	94.9	87.6	93.3	92.0	91.7	88.7	89.4
II	85.8	73.7	85.2	83.5	81.3	89.8	96.0	90.4	87.0	92.8	90.5	90.4	86.1	87.0
III	79.1	70.5	92.3	80.3	84.7	89.5	94.4	90.4	85.6	92.5	89.6	89.5	84.5	85.4
IV	83.5	71.0	80.6	80.7	86.0	88.4	94.1	90.1	84.9	94.7	90.5	90.4	85.6	86.5
1994 – I	81.5	70.2	82.0	79.6	88.8	93.0	95.4	93.0	85.4	95.0	91.1	91.0	86.7	87.3
II	84.9	75.6	90.7	84.5	94.4	94.4	97.9	95.7	86.2	97.7	93.7	93.4	89.5	90.1
III	87.2	80.7	89.6	86.6	95.4	100.0	98.3	98.3	86.0	96.8	97.8	96.5	91.8	92.6
IV	90.3	80.6	86.0	87.7	97.1	97.2	96.6	97.0	89.2	99.1	97.2	96.6	92.2	92.9
1995 – I	90.7	85.5	82.9	88.2	97.9	98.2	94.5	96.7	91.5	96.6	96.3	95.9	91.7	92.4
II	93.5	86.2	86.4	90.8	100.0	97.6	97.4	98.1	93.0	97.1	96.4	96.2	92.8	93.4
III	100.0	91.8	100.0	98.6	99.8	100.0	97.6	99.0	98.2	96.2	100.0	99.4	97.2	97.3
IV	100.0	91.7	100.0	98.7	99.4	98.7	99.9	99.3	99.1	97.0	96.5	96.8	94.7	95.1

Source: Based on Istat data.

CONSUMER PRICES FOR THE POPULATION AS A WHOLE

(percentage changes on corresponding period) (1)

	Overall index (100.0)	Goods: Food (21.5)	Goods: Non-food non-energy (37.8)	Goods: Energy (6.0)	Goods: Total (65.3)	Services (34.7)	Other than food: Clothing & footwear (11.0)	Other than food: Housing, fuel & electricity (7.7)	Other than food: Furniture, furnishings, etc. (10.8)	Other than food: Medical care and health (6.9)	Other than food: Transport & communications (13.7)	Other than food: Recreation, entertainment, education & cultural services (10.1)	Other than food: Other goods & services (18.3)
1986	5.9	5.5	5.6	–4.8	4.5	8.9	8.3	0.6	6.4	4.6	4.3	9.0	8.3
1987	4.7	4.3	5.6	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	5.1	4.6	5.6	7.7	6.1	6.3	6.2	9.5	4.7	6.4	6.7
1990	6.5	6.2	4.5	11.5	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	4.6	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
1995	5.2	6.1	4.5	6.0	5.2	5.2	4.0	5.6	4.9	1.9	7.4	3.6	5.3
1991 – I	6.4	6.4	4.4	14.9	6.1	6.6	5.2	11.9	5.5	6.7	5.1	5.2	6.4
II	6.5	6.6	4.9	11.9	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	7.5	5.6	7.6	5.5	8.4	5.9	5.6	4.9	6.2	7.1
IV	5.9	6.9	4.4	2.5	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	5.1	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
1995 – I	4.3	5.2	3.7	3.2	4.2	4.5	3.4	4.2	3.7	2.4	5.8	2.7	4.5
II	5.2	6.6	4.3	7.6	5.3	5.1	3.9	5.9	4.6	1.5	7.6	3.4	5.3
III	5.6	6.5	5.0	6.6	5.6	5.6	4.2	6.1	5.2	2.0	8.1	4.2	5.7
IV	5.6	6.0	5.2	6.8	5.6	5.6	4.9	6.0	5.7	1.6	8.2	4.1	5.6

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)*
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
1995	5.4	5.8	3.9	4.6	6.6	4.5	–1.9	8.7	3.9	5.2
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	5.7	6.2	5.8	–3.1	8.9	5.4	4.5	3.5	7.1	6.8
II	5.6	5.2	5.5	1.9	7.5	5.6	4.3	3.8	6.6	6.8
III	5.3	3.9	5.5	3.0	5.9	5.5	9.7	4.2	6.5	6.5
IV	4.9	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
II	5.5	6.4	3.9	5.6	6.3	4.1	–2.5	9.0	4.0	5.4
III	5.7	6.2	4.0	5.6	6.8	4.9	–2.1	9.2	4.3	5.6
IV	5.9	5.8	4.7	5.3	7.0	5.3	–1.4	9.9	4.1	5.5

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)*
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
1995	10.2	6.4	7.8	8.0	8.3	7.6	5.8	10.5	12.5	11.7
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
1995 – I	7.5	2.6	6.4	6.2	6.4	5.4	4.0	6.9	9.7	8.6
II	11.7	5.3	6.8	9.2	9.5	7.8	5.1	13.2	14.4	13.9
III	11.3	7.1	8.0	9.0	9.4	8.3	6.3	10.8	14.2	12.8
IV	10.5	10.5	9.9	7.5	7.8	8.7	7.7	10.9	11.7	11.4

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

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

(averages; indices, 1987 = 100)

	14 industrial countries	EU	United States	Germany	France	UK	Netherlands	Belgium
1986	98.1	99.9	86.9	101.5	99.2	97.9	99.5	98.1
1987	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1988	97.3	97.5	99.2	98.6	98.4	90.4	98.7	99.4
1989	99.7	100.6	94.6	102.3	101.8	94.1	101.2	100.1
1990	103.8	102.2	109.2	103.7	102.5	98.0	104.7	101.6
1991	104.2	103.1	108.6	104.2	105.4	93.6	106.9	104.8
1992	102.0	100.0	111.0	99.6	102.4	93.4	104.8	101.8
1993	88.3	87.9	89.1	85.8	89.7	85.8	91.8	90.6
1994	86.4	86.2	88.7	84.4	88.1	82.9	90.3	87.0
1995	81.6	80.5	91.0	77.9	82.2	82.5	82.8	80.0
1989 – I	97.8	98.6	95.0	100.6	100.2	88.9	99.4	99.5
II	98.7	99.9	91.1	101.8	101.3	92.2	100.1	99.7
III	100.7	101.8	93.6	103.8	102.8	95.3	102.7	100.9
IV	101.7	101.9	98.5	103.0	102.7	100.2	102.5	100.4
1990 – I	103.4	102.5	104.7	103.3	102.7	101.4	104.3	101.9
II	104.1	102.8	107.1	104.2	102.4	100.2	106.2	102.3
III	103.8	102.0	111.2	104.1	102.4	94.9	105.3	101.0
IV	103.7	101.7	113.8	103.3	102.5	95.5	103.2	101.3
1991 – I	105.1	103.1	115.9	104.3	104.9	94.7	105.8	104.6
II	103.7	103.3	104.4	104.9	105.3	92.6	107.6	105.0
III	103.5	103.0	103.5	104.0	105.4	93.1	107.5	104.9
IV	104.4	103.0	110.4	103.5	105.9	94.0	106.5	104.6
1992 – I	105.1	103.5	112.3	103.8	106.5	93.9	107.9	105.7
II	104.8	102.9	111.7	103.4	105.8	91.7	108.4	105.1
III	104.4	101.4	119.4	101.0	104.1	93.6	107.2	103.6
IV	93.8	92.1	100.5	90.1	93.1	94.3	95.6	92.9
1993 – I	88.0	87.1	89.6	85.0	88.0	88.8	90.9	89.0
II	89.7	89.1	92.4	87.5	90.1	87.4	93.3	91.0
III	89.0	89.2	88.7	86.6	91.7	84.8	93.0	92.3
IV	86.4	86.5	85.6	84.0	89.0	82.1	90.1	90.1
1994 – I	86.0	86.4	84.7	84.8	88.2	80.8	91.3	88.4
II	88.3	88.4	89.1	86.5	90.4	84.4	92.8	88.9
III	86.2	85.8	90.6	83.6	87.4	84.2	89.7	85.8
IV	85.1	84.5	90.6	82.7	86.2	82.2	87.5	84.9
1995 – I	81.3	80.4	88.5	77.8	82.6	80.3	82.3	80.5
II	78.0	77.2	88.5	74.2	79.2	80.0	78.8	76.3
III	83.1	81.9	92.7	79.5	83.1	84.4	84.7	81.5
IV	83.8	82.5	94.1	79.9	83.7	85.3	85.7	81.8

Sources: Based 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)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
ASSETS	**185,223**	**193,644**	**227,232**	**282,239**	**325,362**	**392,553**	**527,926**	**681,897**	**747,604**	**852,997**
Non-bank capital	**106,689**	**119,205**	**135,745**	**167,769**	**209,656**	**267,807**	**358,897**	**442,552**	**525,008**	**595,567**
Investments	57,273	62,115	84,679	107,533	139,477	191,099	268,768	344,346	402,747	459,459
Direct	37,806	40,549	52,780	59,122	68,018	81,034	103,503	138,138	146,072	168,492
International organizations	2,386	2,745	3,903	3,903	3,304	3,672	4,068	4,550	5,084	5,497
Property	519	519	685	868	1,307	5,186	6,715	7,847	8,442	9,211
Other	34,901	37,285	48,192	54,351	63,407	72,176	92,720	125,741	132,546	153,784
Portfolio	19,467	21,566	31,899	48,411	71,459	110,065	165,265	206,208	256,675	290,967
Loans	12,841	14,040	8,742	14,013	18,671	23,325	32,811	37,277	51,144	55,781
Public	5,980	7,356	6,584	9,836	11,160	12,791	15,722	18,694	21,740	25,471
Private	6,861	6,684	2,158	4,177	7,511	10,534	17,089	18,583	29,404	30,310
Trade credits	36,575	43,050	42,324	46,223	51,508	53,383	57,318	60,929	71,117	80,327
Short-term	24,011	23,645	23,779	26,777	29,812	29,887	30,873	33,105	40,775	46,661
Medium and long-term	12,564	19,405	18,545	19,446	21,696	23,496	26,445	27,824	30,342	33,666
Bank capital	**78,534**	**74,439**	**91,487**	**114,470**	**115,706**	**124,746**	**169,029**	**239,345**	**222,596**	**257,430**
LIABILITIES	**260,509**	**279,870**	**336,319**	**434,973**	**525,599**	**610,068**	**759,328**	**911,238**	**956,865**	**1,028,224**
Non-bank capital	**152,478**	**170,482**	**167,530**	**229,226**	**296,294**	**334,075**	**399,141**	**544,685**	**581,022**	**662,259**
Investments	49,312	49,758	71,072	105,495	128,065	175,828	220,404	363,538	404,262	478,214
Direct	36,574	38,529	50,310	64,715	67,806	70,878	73,489	91,929	98,398	103,561
International organizations	1,869	1,869	2,148	1,964	2,274	2,194	2,203	2,471	2,558	3,002
Other	34,705	36,660	48,162	62,751	65,532	68,684	71,286	89,458	95,840	100,559
Portfolio	12,738	11,229	20,762	40,780	60,259	104,950	146,915	271,609	305,864	374,653
of which: government securities	*11,394*	*10,755*	*15,607*	*25,162*	*41,637*	*76,390*	*100,464*	*208,060*	*233,641*	*291,708*
BOTs	..	..	*459*	*1,715*	*2,622*	*2,884*	*2,891*	*4,286*	*5,387*	*10,355*
BTPs	*2,615*	*1,673*	*1,636*	*2,409*	*3,986*	*12,355*	*42,964*	*109,504*	*91,428*	*108,221*
CTEs	..	*1,880*	*6,351*	*8,338*	*18,426*	*19,325*	*23,824*	*28,667*	*31,183*	*33,850*
other government securities	*8,779*	*7,202*	*7,161*	*12,700*	*16,603*	*21,356*	*6,572*	*18,447*	*42,623*	*61,823*
Republic of Italy	..	..	..	..	..	*20,470*	*24,213*	*47,156*	*63,020*	*77,459*
Loans	79,972	92,855	67,386	94,100	133,700	124,200	143,500	146,458	135,045	136,128
Public	48,352	56,293	40,094	47,900	53,319	29,400	31,740	36,646	35,123	41,722
Private	31,620	36,562	27,292	46,200	80,381	94,800	111,760	109,812	99,922	94,406
Trade credits	23,194	27,869	29,072	29,631	34,529	34,047	35,237	34,689	41,715	47,917
Short-term	20,897	22,959	24,240	24,928	29,776	29,274	30,647	30,278	37,179	42,490
Medium and long-term	2,297	4,910	4,832	4,703	4,753	4,773	4,590	4,411	4,536	5,427
Bank capital	**108,031**	**109,388**	**168,789**	**205,747**	**229,305**	**275,993**	**360,187**	**366,553**	**375,843**	**365,965**
NET POSITION (excluding the central bank)	**–75,286**	**–86,226**	**–109,087**	**–152,734**	**–200,237**	**–217,515**	**–231,402**	**–229,341**	**–209,261**	**–175,227**
Non-bank capital	–45,789	–51,277	–31,785	–61,457	–86,638	–66,268	–40,244	–102,133	–56,014	–66,692
Bank capital	–29,497	–34,949	–77,302	–91,277	–113,599	–151,247	–191,158	–127,208	–153,247	–108,535
CENTRAL BANK										
Assets	62,857	75,589	84,201	94,814	104,928	95,913	76,539	86,566	93,897	95,593
of which: gold	*35,203*	*39,812*	*37,242*	*33,663*	*30,579*	*29,288*	*29,944*	*36,910*	*41,338*	*40,257*
Liabilities	1,446	1,292	1,426	1,573	1,529	1,575	9,240	2,629	2,461	4,117
Net position	**61,411**	**74,297**	**82,775**	**93,241**	**103,399**	**94,338**	**67,299**	**83,937**	**91,436**	**91,476**
OVERAL NET POSITION (including the central bank)	**–13,875**	**–11,929**	**–26,312**	**–59,493**	**–96,838**	**–123,177**	**–164,103**	**–145,404**	**–117,825**	**–83,751**
Excluding central bank gold from the assets	**–49,078**	**–51,741**	**–63,554**	**–93,156**	**–127,417**	**–152,465**	**–194,047**	**–182,314**	**–159,163**	**–124,008**

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
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		–21,785		–20,379	
1991	209,969		209,731		–238		–29,101		–29,339	
1992	215,583		219,435		3,852		–39,071		–35,219	
1993	214,224		266,213		51,989		–34,161		17,828	
1994	250,853		308,046		57,193		–32,864		24,329	
1995	304,988		376,732		71,744		–27,161		44,583	
1991 – I	52,417	50,941	49,860	51,957	–2,557	1,016	–6,864	–5,590	–9,421	–4,224
II	55,165	52,704	54,073	51,797	–1,092	–907	–6,209	–7,520	–7,301	–8,948
III	47,482	52,885	48,629	51,589	1,147	–1,296	–6,904	–7,565	–5,757	–8,968
IV	54,905	53,439	57,169	54,388	2,264	949	–9,124	–8,427	–6,860	–7,199
1992 – I	55,943	54,358	52,614	54,162	–3,329	–196	–8,534	–7,633	–11,863	–7,444
II	56,838	54,560	55,403	53,348	–1,435	–1,211	–6,322	–7,589	–7,757	–9,146
III	47,440	52,534	51,473	54,395	4,033	1,861	–11,592	–11,859	–7,559	–10,364
IV	55,362	54,131	59,945	57,530	4,583	3,399	–12,623	–11,990	–8,040	–8,265
1993 – I	54,693	52,790	61,452	62,699	6,759	9,909	–9,134	–8,398	–2,375	1,771
II	55,775	53,275	67,631	65,692	11,856	12,417	–8,604	–9,892	3,252	2,276
III	47,788	53,558	63,375	66,452	15,587	12,894	–9,665	–9,366	5,922	3,234
IV	55,968	54,602	73,755	71,370	17,787	16,768	–6,758	–6,506	11,029	10,548
1994 – I	60,150	58,000	73,294	74,137	13,144	16,137	–8,561	–7,716	4,583	8,300
II	63,484	60,385	77,314	74,788	13,830	14,403	–7,769	–8,988	6,061	4,873
III	57,052	63,903	73,789	78,152	16,737	14,248	–9,854	–9,310	6,883	4,771
IV	70,167	68,565	83,649	80,969	13,482	12,404	–6,680	–6,851	6,802	6,386
1995 – I	73,111	70,399	85,988	86,711	12,877	16,312	–6,645	–5,925	6,232	9,745
II	80,261	76,104	98,361	95,037	18,100	18,933	–5,905	–7,193	12,195	10,960
III	71,059	79,935	92,220	97,901	21,161	17,967	–6,748	–5,939	14,413	12,339
IV	80,557	78,550	100,163	97,083	19,606	18,532	–7,863	–8,105	11,743	11,538

(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				
–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	–16,629	–15,156
–13,700	5,738	–2,357	–10,319	39,369	29,050	–8,282	8,571
–2,085	2,960	–2,745	–1,870	12,187	10,317	–7,646	32,548
108,016	–4,469	–4,159	99,388	–84,589	14,799	–30,421	–2,206
–12,896	–27,827	–3,162	–43,885	21,594	–22,291	1,271	–3,309
48,134	5,212	–3,008	50,338	–58,102	–7,764	–33,909	–2,910
–6,019	23,405	–1,020	16,366	3,048	19,414	–2,215	–7,778
–3,250	–7,210	222	–10,238	16,761	6,523	–1,346	2,124
–3,979	–3,897	–495	–8,371	12,725	4,354	–133	1,536
–452	–6,560	–1,064	–8,076	6,835	–1,241	–4,588	12,689
–19,702	6,941	–1,155	–13,916	21,187	7,271	3,900	692
–2,936	–1,934	1,404	–3,466	9,288	5,822	–11,454	13,389
–16,737	1,055	–899	–16,581	–16,928	–33,509	–3,864	44,932
37,290	–3,102	–2,095	32,093	–1,360	30,733	3,772	–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	–3,777	447
13,518	–1,324	225	12,419	–10,461	1,958	–3,433	–4,447
39,815	–4,566	–1,523	33,726	–35,732	–2,006	–11,660	2,637
7,713	–8,270	–520	–1,077	–2,464	–3,541	3,148	–4,190
–20,980	–6,238	–232	–27,450	19,906	–7,544	2,413	–930
–14,417	–6,281	–1,077	–21,775	14,874	–6,901	–1,008	1,026
14,788	–7,038	–1,333	6,417	–10,722	–4,305	–3,282	785
–9,354	–2,269	2,241	–9,382	4,928	–4,454	–13,374	11,596
14,455	9,204	–2,759	20,900	–10,389	10,511	–3,278	–19,428
12,158	–1,703	–1,037	9,418	–19,564	–10,146	–10,835	6,568
30,875	–20	–1,453	29,402	–33,077	–3,675	–6,422	–1,646

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

CONSOLIDATED ACCOUNTS OF THE PUBLIC SECTOR
(billions of lire)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Revenue										
Direct taxes	115,683	130,611	145,720	170,697	189,124	207,054	221,506	250,835	244,943	260,604
Indirect taxes	81,743	93,240	109,076	123,867	139,465	159,022	167,660	186,611	192,258	209,196
Actual social security contributions	111,378	120,988	133,353	149,754	168,953	187,193	200,031	212,816	213,679	229,625
Imputed social security contributions	14,120	14,773	16,028	17,718	20,356	22,761	26,157	27,799	30,631	31,208
Income from capital	6,348	5,783	5,432	5,669	5,718	6,419	6,263	6,563	5,730	8,653
Sales of goods and services	18,990	20,014	21,565	24,624	25,924	28,451	30,956	29,389	26,816	28,209
Other	17,624	15,785	16,865	18,230	20,906	26,466	29,936	36,353	38,418	37,608
Total current revenue	**365,886**	**401,194**	**448,039**	**510,559**	**570,446**	**637,366**	**682,509**	**750,366**	**752,475**	**805,103**
Capital account revenue	2,391	2,501	3,199	4,474	3,411	5,191	33,794	14,124	7,200	15,267
Total revenue	**368,277**	**403,695**	**451,238**	**515,033**	**573,857**	**642,557**	**716,303**	**764,490**	**759,675**	**820,370**
as a percentage of GDP	*41.0*	*41.1*	*41.4*	*43.2*	*43.8*	*45.0*	*47.7*	*49.3*	*46.4*	*46.3*
Expenditure										
Compensation of employees	121,561	135,416	151,472	162,534	188,878	205,508	215,703	219,083	219,862	226,211
Intermediate consumption	49,030	54,934	61,372	64,833	70,063	76,170	83,292	86,729	89,508	89,864
Social services	154,826	170,500	189,065	209,963	238,585	261,320	290,578	302,873	319,442	334,102
Subsidies to firms	16,268	17,013	16,545	20,167	19,332	22,715	24,454	25,496	24,321	13,566
Interest payments	77,500	79,299	90,117	107,910	127,716	147,860	174,143	190,069	178,137	200,546
Other	8,090	8,561	10,558	14,672	12,169	15,543	16,527	21,975	18,836	18,343
Total current expenditure	**427,275**	**465,723**	**519,129**	**580,079**	**656,743**	**729,116**	**804,697**	**846,225**	**850,106**	**882,632**
Gross investment	37,464	41,255	44,273	47,703	50,250	52,703	52,604	46,368	42,489	44,821
Investment grants	7,972	8,197	9,305	10,193	11,384	10,014	10,159	15,975	7,876	14,428
Other	776	689	564	1,059	4,338	2,133	1,497	8,805	7,250	3,235
Total capital account expenditure	**46,212**	**50,141**	**54,142**	**58,955**	**65,972**	**64,850**	**64,260**	**71,148**	**57,615**	**62,484**
Total expenditure	**473,487**	**515,864**	**573,271**	**639,034**	**722,715**	**793,966**	**868,957**	**917,373**	**907,721**	**945,116**
as a percentage of GDP	*52.7*	*52.5*	*52.6*	*53.6*	*55.1*	*55.6*	*57.8*	*59.2*	*55.4*	*53.4*
Deficit on current account	**61,389**	**64,529**	**71,090**	**69,520**	**86,297**	**91,750**	**122,188**	**95,859**	**97,631**	**77,529**
Total deficit	**105,210**	**112,169**	**122,033**	**124,001**	**148,858**	**151,409**	**152,654**	**152,883**	**148,046**	**124,746**
as a percentage of GDP	*11.7*	*11.4*	*11.2*	*10.4*	*11.4*	*10.6*	*10.2*	*9.9*	*9.0*	*7.0*

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

Table a12

FINANCING OF THE PUBLIC SECTOR BORROWING REQUIREMENT (1)
(billions of lire)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
GENERAL GOVERNMENT										
Medium and long-term securities (2)	83,727	52,245	58,667	58,413	63,890	112,491	89,994	164,260	220,984	90,996
of which: BI-UIC and banks	*10,534*	*7,877*	*4,793*	*719*	*–9,140*	*57,157*	*73,430*	*417*	*133,129*	*7,326*
other holders	*73,193*	*44,368*	*53,874*	*57,693*	*73,030*	*55,334*	*16,564*	*163,843*	*87,855*	*83,671*
Treasury bills, in lire and ecus (2)	9,771	27,723	42,667	42,769	40,367	12,155	45,356	5,281	11,443	–820
of which: BI-UIC and banks	*5,211*	*–8,576*	*–8,095*	*–2,569*	*10,333*	*–1,205*	*–9,936*	*46,584*	*7,377*	*–35,561*
other holders	*4,559*	*36,300*	*50,762*	*45,338*	*30,033*	*13,360*	*55,292*	*–41,302*	*4,066*	*34,741*
Post Office funds	11,267	12,917	10,996	15,364	12,717	11,746	11,415	13,821	24,499	20,212
Lending by banks (2)	1,155	1,811	2,764	3,013	4,828	15,317	9,227	14,312	5,792	1,982
central government bodies	*76*	*–88*	*1,192*	*1,045*	*722*	*2,965*	*4,305*	*103*	*3,140*	*–992*
social security institutions	*66*	*470*	*545*	*–1,023*	*3*	*40*	*703*	*–562*	*1,395*	*215*
local authorities	*1,013*	*1,429*	*1,028*	*2,991*	*4,104*	*12,313*	*4,218*	*14,771*	*1,257*	*2,759*
Other net borrowing from BI-UIC	1,673	10,224	3,704	1,835	2,811	2,472	7,116	–34,512	–111,720	–8,440
Other domestic debt	24	144	137	101	188	173	254	140	33	212
Foreign debt	993	5,870	2,964	7,541	11,993	5,251	–1,709	14,428	9,171	25,736
GENERAL GEVERNMENT BORROWING REQUIREMENT	**108,609**	**110,935**	**121,899**	**129,036**	**136,794**	**159,605**	**161,652**	**177,731**	**160,202**	**129,880**
Memorandum item: settlements of past debts less privatization proceeds	*500*	*300*	–	*600*	*3,000*	*4,000*	*800*	*10,830*	*522*	*–5,168*
OTHER PUBLIC SECTOR BODIES										
Total financing	1,531	3,205	3,997	3,981	7,733	3,457	4,649	–285	7,005	3,275
of which: bond issues	*1,277*	*1,429*	*251*	*–1,123*	*2,410*	*–286*	*–667*	*–2,026*	*3,863*	*–1,166*
bank loans	*375*	*1,617*	*2,522*	*4,286*	*2,440*	*3,510*	*3,456*	*3,810*	*2,759*	*4,428*
foreign debt	*–121*	*159*	*1,224*	*819*	*2,882*	*233*	*1,860*	*–2,070*	*383*	*12*
Public sector borrowing requirement	**110,140**	**114,140**	**125,896**	**133,017**	**144,527**	**163,062**	**166,301**	**177,445**	**167,206**	**133,154**
Financing of ENEL	77	1,335	47	2,446	1,203	2,351	1,738	734	–4,018	52
of which: bond issues	*1,289*	*1,507*	*262*	*1,262*	*90*	*1,316*	*–434*	*–1,872*	*–2,060*	*–1,133*
bank loans	*–666*	*–262*	*633*	*1,462*	*1,321*	*1,605*	*1,648*	*3,024*	*–762*	*1,772*
foreign debt	*–546*	*90*	*–848*	*–278*	*–208*	*–570*	*524*	*–418*	*–1,196*	*–587*
Borrowing requirement of the enlarged public sector	**110,217**	**115,475**	**125,943**	**135,463**	**145,730**	**165,413**	**168,039**	**178,179**	**163,188**	**133,206**

(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)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
					Amounts outstanding					
GENERAL GOVERNMENT										
Medium and long-term securities, excluding BI portfolio (2)	369,274	420,454	473,698	528,920	607,889	722,605	796,097	951,104	1,093,066	1,193,182
of which: held by banks	*134,845*	*138,530*	*140,862*	*131,859*	*128,634*	*180,101*	*234,213*	*211,252*	*261,825*	*261,527*
Treasury bills in lire and ecus, excluding BI portfolio (2)	162,319	193,023	240,046	287,046	322,605	338,431	394,021	399,578	397,292	407,457
of which: held by banks	*33,571*	*27,964*	*24,279*	*26,035*	*31,394*	*33,901*	*33,273*	*79,459*	*73,101*	*48,506*
Post Office funds	70,960	83,877	94,873	110,237	122,954	134,700	146,115	159,937	184,436	204,648
Lending by banks (2)	34,651	36,462	38,422	41,434	46,262	61,579	70,806	85,117	90,909	92,891
central government bodies	*4,946*	*4,857*	*6,048*	*7,094*	*7,815*	*10,780*	*15,085*	*15,188*	*18,328*	*17,336*
social security institutions	*298*	*768*	*1,348*	*324*	*327*	*367*	*1,070*	*507*	*1,902*	*2,117*
local authorities	*29,408*	*30,837*	*31,025*	*34,016*	*38,120*	*50,433*	*54,651*	*69,422*	*70,679*	*73,437*
Other domestic debt	2,461	2,606	2,743	2,844	3,032	3,205	3,458	3,599	3,632	3,844
Foreign debt	12,167	17,977	21,872	28,040	39,098	44,828	51,597	73,293	83,257	106,174
Total	**651,832**	**754,399**	**871,653**	**998,521**	**1,141,840**	**1,305,348**	**1,462,095**	**1,672,627**	**1,852,591**	**2,008,195**
Net borrowing from BI-UIC	124,453	135,686	139,393	141,989	140,017	141,717	165,979	144,484	137,787	129,877
of which: medium and long-term securities	*49,311*	*53,289*	*57,702*	*62,788*	*53,030*	*55,971*	*82,426*	*95,044*	*186,333*	*197,841*
Treasury bills in lire and ecus	*19,924*	*16,955*	*12,545*	*8,220*	*13,194*	*9,482*	*173*	*572*	*14,306*	*3,327*
Treasury accounts with BI	*52,707*	*61,981*	*66,312*	*68,155*	*71,063*	*73,074*	*80,780*	*45,536*	*–58,018*	*–63,122*
other	*2,511*	*3,461*	*2,834*	*2,826*	*2,729*	*3,190*	*2,600*	*3,332*	*–4,834*	*–8,169*
General government debt	**776,286**	**890,085**	**1,011,046**	**1,140,511**	**1,281,857**	**1,447,064**	**1,628,074**	**1,817,111**	**1,990,378**	**2,138,072**
Treasury claims on BI-UIC	1,319	1,095	931	1,081	989	1,095	1,406	32,507	65,754	74,184
General government debt (EU definition) (3)	**777,605**	**891,180**	**1,011,977**	**1,141,592**	**1,282,846**	**1,448,159**	**1,629,480**	**1,849,618**	**2,056,131**	**2,212,256**
OTHER PUBLIC SECTOR BODIES										
Total financing	17,297	20,457	24,766	29,358	36,941	40,335	46,275	47,208	54,423	58,312
of which: bond issues	*8,549*	*9,984*	*10,213*	*9,097*	*11,515*	*11,229*	*10,561*	*8,536*	*12,399*	*11,233*
bank loans	*3,297*	*4,914*	*7,663*	*13,186*	*15,625*	*19,136*	*22,592*	*26,402*	*29,161*	*33,589*
foreign debt	*5,451*	*5,559*	*6,890*	*7,075*	*9,801*	*9,970*	*13,122*	*12,270*	*12,864*	*13,491*
Public sector debt	**793,583**	**910,542**	**1,035,812**	**1,169,869**	**1,318,798**	**1,487,399**	**1,674,349**	**1,864,319**	**2,044,801**	**2,196,384**
					Percentage composition					
PUBLIC SECTOR DEBT										
Medium and long-term securities, excluding BI portfolio	47.6	47.3	46.7	46.0	47.0	49.3	48.2	51.5	54.1	54.8
Treasury bills in lire and ecus, excluding BI portfolio	20.5	21.2	23.2	24.5	24.5	22.8	23.5	21.4	19.4	18.6
Post Office funds	8.9	9.2	9.2	9.4	9.3	9.1	8.7	8.6	9.0	9.3
Lending by banks	4.8	4.5	4.4	4.7	4.7	5.4	5.6	6.0	5.9	5.8
Other domestic debt	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Foreign debt	2.2	2.6	2.8	3.0	3.7	3.7	3.9	4.6	4.7	5.4
Borrowing from BI-UIC	15.7	14.9	13.4	12.2	10.6	9.5	9.9	7.7	6.7	5.9

(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 BALANCES

(billions of lire)

	1992	1993	1994	1995
Budget deficit	–110,318	–147,051	–143,768	–121,306
Revenue	*499,612*	*470,685*	*477,160*	*523,340*
Expenditure	*609,930*	*617,736*	*620,928*	*644,646*
Treasury operations	–46,189	–18,308	–12,384	–2,968
of which: with BI-UIC	*563*	*–758*	*8,196*	*2,849*
with Deposits and Loans Fund	*–3,662*	*–7,653*	*–11,918*	*–10,094*
Borrowing requirement	**–156,507**	**–165,358**	**–156,152**	**–124,274**
Revenue	*519,099*	*528,785*	*528,902*	*583,430*
Expenditure	*675,607*	*694,144*	*685,054*	*707,704*
Borrowing requirement excluding settlements of past debts, privatization receipts and other sinking fund receipts	**–156,476**	**–154,521**	**–155,634**	**–130,247**
as a percentage of GDP	*–10.4*	*–10.0*	*–9.5*	*–7.4*

	1992	1993	1994	1995
REVENUE				
Direct taxes	**234,773**	**245,552**	**235,261**	**256,977**
of which: personal income tax	*131,801*	*149,488*	*143,803*	*156,645*
corporate income tax	*17,675*	*21,465*	*25,824*	*26,127*
local income tax	*18,253*	*15,615*	*15,874*	*14,991*
withholding tax on interest income	*35,903*	*38,863*	*36,048*	*34,376*
Indirect taxes	**185,290**	**182,346**	**187,439**	**208,986**
of which: value added tax	*89,773*	*88,361*	*92,411*	*105,675*
other business taxes (stamp duties, duties on government concessions, etc,)	*31,337*	*30,182*	*28,925*	*29,744*
excise duty on oil products	*37,191*	*37,315*	*38,992*	*42,625*
excise duty on other manufactures (spirits, beer, sugar, gas and electricity, methane, etc,)	*9,344*	*9,024*	*9,459*	*10,738*
tax on tobacco consumption	*6,531*	*8,385*	*9,206*	*9,554*
Total tax revenue	**420,063**	**427,898**	**422,700**	**465,963**
EU levies	11,345	11,729	11,972	11,658
Health care and other social security contributions	49,904	9,013	5,241	4,252
Sales of goods and services	4,769	5,891	6,326	5,981
Other income	13,531	16,154	30,921	35,486
Total budget revenue	**499,612**	**470,685**	**477,160**	**523,340**
Health care and other social security contributions	9,631	42,522	45,545	49,954
Other income	9,856	15,578	6,197	10,136
Total revenue	**519,099**	**528,785**	**528,902**	**583,430**

SOURCES AND USES OF MONETARY BASE (1)

(changes in billions of lire)

	Sources: Foreign sector (2)	Sources: Foreign sector, of which: currency swaps	Sources: Treasury accounts with the Bank of Italy (3)	Sources: Other BI-UIC operations with the Treasury (4)	Sources: Open market operations (5)	Sources: Refi-nancing	Sources: Other sectors	Total	Uses: Currency in circulation	Uses: Bank reserves: Deposits with BI (6)	Uses: Bank reserves: Deposits with BI, of which: compul-sory reserves (7)	Uses: Bank reserves: Other (8)	Uses: Bank reserves: Total
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	608	9,565
1988	10,947	–	4,331	9,018	–10,601	80	–728	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	552	4,165
1992	–32,591	29,249	7,706	–10,402	42,781	106	822	8,422	9,263	69	1,012	–909	–841
1993	2,564	–2,055	–4,574	1,196	–14,098	–6,434	1,868	–19,479	4,152	–23,600	–24,131	–30	–23,630
1994	3,297	–813	–33,269	–21,474	47,451	238	–6,154	–9,911	6,452	–16,566	–13,332	202	–16,364
1995	2,915	10,592	–8,195	–25,174	15,455	4,857	–1,786	–11,928	2,060	–15,310	–18,728	1,322	–13,988
1994 – Jan.	5,178	–	–17,732	–499	12,036	–268	–341	–1,626	–3,599	2,530	1,065	–556	1,974
Feb.	1,417	–	–5,743	–408	7,409	–20	–1,456	1,199	–698	2,129	5,173	–232	1,897
Mar.	–2,347	–	12,909	341	–5,548	127	–1,355	4,128	3,090	1,103	–3,139	–65	1,038
Apr.	–235	–813	5,934	–186	–6,225	4	–2,036	–2,743	–1,149	–1,249	1,093	–345	–1,594
May	2,162	–	1,879	–1,755	2,988	–43	–881	4,350	497	2,919	1,744	935	3,853
June	–1,093	–	–26,886	–1,897	22,925	1,700	2,209	–3,043	–580	–2,487	–1,275	24	–2,463
July	3,362	–	–10,035	–608	285	1,013	–1,345	–7,329	5,179	–11,712	–10,137	–797	–12,508
Aug.	–3,218	–	–7,366	–2,873	15,271	–2,795	–360	–1,341	–4,612	3,163	–576	108	3,271
Sept.	–1,119	–	20,921	–3,623	–17,490	70	–2,643	–3,885	1,644	–5,769	–4,646	240	–5,529
Oct.	–5,947	–	11,787	–5,941	63	–25	–108	–170	–292	202	–861	–79	123
Nov.	–2,531	–	7,531	–2,331	365	39	574	3,646	1,581	1,394	–760	671	2,066
Dec.	7,669	–	–26,469	–1,696	15,373	435	1,589	–3,098	5,392	–8,788	–1,012	298	–8,490
1995 – Jan.	–3,741	–	–5,718	–2,534	9,295	–598	370	–2,927	–5,078	2,991	–711	–840	2,151
Feb.	–1,034	–	–6,068	–3,312	5,328	2,719	–217	–2,584	–1,063	–1,265	854	–256	–1,521
Mar.	–6,767	–	17,717	–2,308	–7,533	–1,258	–170	–319	2,574	–2,872	–4,257	–21	–2,893
Apr.	2,046	–	1,607	–3,438	749	–1,337	197	–175	320	–670	–1,675	175	–495
May	3,866	2,932	4,602	–3,689	–11,768	8,085	–902	194	–474	–14	–1,322	682	668
June	13,474	6,553	–34,424	–1,225	30,601	–7,895	3,291	3,823	–92	4,397	–1,303	–482	3,915
July	–255	–	–949	–1,278	–3,954	62	–2,216	–8,590	2,378	–11,840	–3,556	871	–10,968
Aug.	–2,336	–	619	–2,347	3,035	39	–1,624	–2,615	–4,014	2,217	–1,316	–817	1,400
Sept.	–3,967	–	16,166	–1,061	–15,309	–24	–1,780	–5,975	1,753	–7,576	–4,561	–152	–7,728
Oct.	–1,194	–	20,523	–2,006	–12,298	531	–284	5,272	–2,122	7,044	176	350	7,394
Nov.	–2,948	–	12,321	–743	–11,336	1,233	–348	–1,822	2,239	–4,612	–646	552	–4,060
Dec.	5,772	1,107	–34,591	–1,233	28,645	3,300	1,897	3,790	5,639	–3,111	–412	1,261	–1,850
1996 – Jan. (9)	–147	–	5,293	594	–5,778	–4,616	–2,211	–6,865	–6,275	1,290	–1,642	–1,881	–591
Feb. (9)	–1,086	–	1,659	–768	577	37	–643	–223	–2,155	1,808	1,036	124	1932
Mar. (9)	1,338	–	12,858	372	–12,354	25	–1,647	592	2,450	–1,688	–3,986	–169	–1,858

(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 the redemption of government securities" to which the proceeds of the disposal of Treasury shareholdings are 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, claims in respect of 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					
	Current account (1)		Discount		Advances	
	Excess reserves	Compulsory reserves (2)	Ordinary bills	Agricultural working credits	Ordinary (base rate)	Fixed-term (surcharge) (3)
From: 4 Sept. 1984	0.50	5.50	16.50	8.50	16.50	–
4 Jan. 1985	"	"	15.50	"	15.50	–
8 Nov. 1985	"	"	15.00	8.00	15.00	–
22 Mar. 1986	"	"	14.00	7.50	14.00	–
25 Apr. 1986	"	"	13.00	7.00	13.00	–
27 May 1986	"	"	12.00	6.50	12.00	–
14 Mar. 1987	"	"	11.50	"	11.50	–
28 Aug. 1987	"	"	12.00	"	12.00	–
26 Aug. 1988	"	"	12.50	"	12.50	–
6 Mar. 1989	"	"	13.50	"	13.50	–
21 May 1990	"	"	12.50	"	12.50	–
13 May 1991	"	"	11.50	6.00	11.50	0
26 Nov. 1991	"	"	"	"	"	0.50
23 Dec. 1991	"	"	12.00	"	12.00	"
5 June 1992	"	"	"	"	"	1.00
6 July 1992	"	"	13.00	"	13.00	1.50
17 July 1992	"	"	13.75	"	13.75	"
4 Aug. 1992	"	"	13.25	"	13.25	"
4 Sept. 1992	"	"	15.00	"	15.00	"
9 Oct. 1992	"	"	"	"	"	1.00
26 Oct. 1992	"	"	14.00	"	14.00	"
13 Nov. 1992	"	"	13.00	"	13.00	"
23 Dec. 1992	"	"	12.00	"	12.00	"
4 Feb. 1993	"	"	11.50	"	11.50	"
23 Apr. 1993	"	"	11.00	"	11.00	"
21 May 1993	"	"	10.50	"	10.50	"
14 June 1993	"	"	10.00	5.5	10.00	"
6 July 1993	"	"	9.00	"	9.00	"
10 Sept. 1993	"	"	8.50	"	8.50	"
22 Oct. 1993	"	"	8.00	"	8.00	"
18 Feb. 1994	"	"	7.50	"	7.50	"
12 May 1994	"	"	7.00	"	7.00	"
12 Aug. 1994	"	"	7.50	"	7.50	"
22 Feb. 1995	"	"	8.25	"	8.25	1.50
29 May 1995	"	"	9.00	"	9.00	"

	Temporary operations (4)			
	Securities repos		Currency swaps	
	Marginal	Average	Marginal	Average
1994 - Jan.	8.56	8.61	8.34	8.36
Feb.	8.39	8.46	8.42	8.44
Mar.	8.37	8.39	8.27	8.29
Apr.	8.11	8.15	8.00	8.02
May	7.72	7.74	7.53	7.55
June	7.83	7.87	7.76	7.78
July	8.06	8.10	8.01	8.04
Aug.	8.29	8.33	8.61	8.67
Sept.	8.21	8.24	8.45	8.47
Oct.	8.33	8.36	8.45	8.47
Nov.	8.29	8.31	8.36	8.38
Dec.	8.36	8.39	8.65	8.69
1995 - Jan.	8.48	8.53	8.71	8.73
Feb.	8.44	8.48	8.80	8.82
Mar.	10.17	10.22	10.50	10.58
Apr.	10.45	10.48	10.54	10.56
May	10.32	10.35	10.16	10.18
June	10.54	10.58	10.53	10.56
July	10.50	10.55	10.56	10.63
Aug.	10.18	10.20	10.15	10.17
Sept.	10.19	10.21	10.12	10.14
Oct.	10.59	10.62	10.57	10.58
Nov.	10.54	10.57	10.39	10.41
Dec.	10.59	10.65	10.48	10.50
1996 - Jan.	10.07	10.11	10.08	10.11
Feb.	9.98	10.04	9.89	9.90
Mar.	9.93	9.94	9.64	9.65
Apr.	9.66	9.69	9.59	9.61

(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; the rate was reduced to 8.5 per cent in November 1986 and to 6.5 per cent in September 1993. As part of the May 1994 reform of the system, the return on reserves was fixed at 5.5 per cent for all forms of deposit with effect from July 1994. – (3) 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 such refinancing. – (4) Average of the allotment rates on operations during the month.

BANKS' ASSETS

(billions

	Assets								Memorandum item
	Bank reserves	Lending to residents	Securities	Bad debts & protested bills	Repurchase agreements	Shares & equity participations	Interbank accounts	External assets	Bad debts (estimated realizable value)
1990 – Dec.	128,921	775,334	221,493	40,492	3,104	26,348	95,018	116,102	*27,704*
1991 – "	133,056	886,244	274,235	47,199	12,300	37,551	97,583	124,901	*31,879*
1992 – "	132,065	989,183	327,513	54,729	12,511	41,763	157,849	165,187	*33,067*
1993 – "	108,626	1,028,446	349,770	70,185	30,351	43,427	171,104	229,057	*41,197*
1994 – Jan.	110,825	1,014,994	348,596	73,046	29,237	41,390	144,864	209,314	*50,681*
Feb.	112,638	1,013,409	356,436	75,080	27,527	41,680	150,577	218,719	*48,093*
Mar.	113,534	1,005,648	368,730	76,720	23,668	43,969	150,475	208,842	*47,390*
Apr.	112,060	1,001,813	372,146	78,813	22,124	44,269	144,949	193,557	*48,248*
May	115,855	998,289	376,214	80,467	19,864	45,087	146,329	196,951	*48,568*
June	113,388	1,013,955	383,013	81,120	17,399	46,517	148,612	195,756	*51,009*
July	101,593	1,011,948	378,657	82,799	18,625	47,398	135,248	185,151	*52,247*
Aug.	104,682	1,005,905	379,731	84,199	17,106	48,118	142,101	188,850	*53,059*
Sept.	99,210	1,004,475	377,475	85,653	16,298	48,808	139,019	181,173	*53,426*
Oct.	99,385	1,006,701	381,469	87,063	15,719	49,150	146,570	185,196	*55,274*
Nov.	101,044	1,006,929	377,815	88,954	16,420	49,011	148,399	182,589	*57,729*
Dec.	92,888	1,039,792	385,969	91,108	16,846	50,067	165,436	201,953	*59,994*
1995 – Jan.	95,290	1,026,600	374,624	93,278	13,376	47,670	129,340	187,090	*66,799*
Feb.	93,835	1,036,397	373,288	95,056	16,085	47,506	135,134	200,567	*63,112*
Mar.	90,838	1,044,457	373,108	97,464	13,559	46,749	138,237	214,408	*62,894*
Apr.	90,407	1,046,727	371,590	98,815	13,236	52,337	126,802	193,994	*64,348*
May	90,936	1,043,094	359,120	100,005	14,766	52,209	129,237	199,285	*65,997*
June	94,900	1,058,476	357,271	100,819	14,963	52,291	132,948	197,136	*66,752*
July	84,037	1,058,673	346,076	102,127	14,349	53,957	125,926	194,108	*69,786*
Aug.	85,298	1,043,348	346,882	102,742	16,402	54,268	132,944	196,919	*69,060*
Sept.	77,771	1,042,910	353,287	104,175	13,642	55,487	132,386	199,567	*70,351*
Oct.	85,122	1,043,069	345,187	105,562	14,118	55,758	137,513	206,127	*71,731*
Nov.	80,970	1,048,269	345,721	106,015	14,678	55,277	139,736	220,298	*71,944*
Dec.	79,184	1,073,410	352,219	110,269	14,771	51,205	151,979	231,119	*73,797*
1996 – Jan. (2) ...	78,492	1,066,070	351,534	110,768	14,384	55,164	140,306	221,780	*72,312*
Feb. (2) ...	80,532	1,059,928	363,479	111,482	18,434	54,542	145,530	229,732	*69,628*
Mar. (2) ...	78,707	1,059,438	367,583	111,695	18,093	55,039	149,690	222,457	*67,360*

(1) Rounding may cause discrepancies in totals. – (2) Provisional.

AND LIABILITIES (1)
of lire)

Liabilities									*Memorandum item*	
Deposits of residents	Bonds	Other domestic funds	Lending by BI-UIC	Repurchase agreements	Interbank accounts	Funds raised abroad	Capital and reserves	Other items	Supervisory capital	
751,263	135,872	9,533	7,600	21,809	105,370	232,106	126,562	16,697	*103,984*	.... Dec.– 1990
821,006	153,174	10,642	8,858	80,229	103,403	279,783	162,498	–6,523	*129,936*	.... " – 1991
852,840	166,407	15,348	8,936	141,951	159,320	367,496	189,993	–21,492	*155,130*	.... " – 1992
919,115	194,113	19,383	2,722	140,386	179,086	369,979	206,017	165	*167,188*	.... " – 1993
884,667	199,248	20,292	2,434	163,653	151,111	359,949	208,163	–17,252	*167,195*	.... Jan. – 1994
888,648	202,062	20,827	2,359	172,385	151,830	361,749	210,610	–14,406	*167,182*	.... Feb.
902,401	203,970	21,696	2,426	147,822	153,878	356,623	215,798	–13,026	*167,707*	.... Mar.
895,122	206,869	21,180	2,484	144,092	150,361	347,738	215,902	–14,018	*168,065*	.... Apr.
889,704	209,515	20,182	2,488	145,312	149,604	354,175	215,431	–7,354	*167,504*	.... May
896,268	211,405	20,838	4,213	149,424	154,516	357,759	214,855	–9,518	*168,706*	.... June
870,964	211,485	20,941	5,184	152,033	139,278	359,917	216,225	–14,609	*169,839*	.... July
866,072	212,273	21,365	2,374	161,148	146,483	362,106	217,534	–18,661	*169,877*	.... Aug.
872,331	213,188	21,727	2,410	131,268	143,038	360,045	220,232	–12,129	*172,553*	.... Sept.
871,090	213,230	21,416	2,392	140,132	147,623	356,991	220,689	–2,311	*172,897*	.... Oct.
859,757	214,935	20,877	2,400	140,261	150,837	360,845	221,587	–337	*172,622*	.... Nov.
923,371	217,028	20,474	2,834	132,680	166,671	375,663	219,387	–14,049	*173,721*	.... Dec.
879,845	216,421	17,800	2,293	158,250	145,436	367,297	222,787	–42,862	*174,248*	.... Jan. – 1995
880,450	217,286	18,138	4,900	168,925	151,882	382,652	226,648	–53,014	*169,846*	.... Feb.
877,664	216,131	20,795	3,555	156,693	154,167	407,593	230,863	–48,641	*171,504*	.... Mar.
877,909	215,400	20,846	2,291	164,865	150,985	383,687	228,655	–50,731	*170,783*	.... Apr.
870,674	215,714	21,316	10,301	152,487	145,821	371,936	227,366	–26,964	*170,427*	.... May
879,507	215,520	21,613	2,701	170,044	148,063	375,798	228,302	–32,744	*170,987*	.... June
862,253	214,305	21,653	2,669	173,027	140,799	357,013	229,103	–21,569	*172,773*	.... July
858,659	215,323	23,025	2,610	184,466	146,449	343,952	232,717	–28,398	*176,676*	.... Aug.
880,553	215,064	21,524	2,475	159,073	147,395	350,475	233,087	–30,422	*176,662*	.... Sept.
879,603	215,385	22,488	3,144	158,612	148,990	350,047	233,809	–19,622	*176,815*	.... Oct.
868,765	216,050	22,501	4,503	155,082	153,684	346,847	234,498	9,033	*176,874*	.... Nov.
935,199	216,626	22,820	7,989	164,501	166,069	343,580	232,439	–25,067	*171,776*	.... Dec.
895,984	218,591	23,029	3,242	182,324	154,892	343,638	243,920	–27,122	*175,471*	.... (2) Jan. – 1996
895,206	219,658	23,297	3,120	194,754	157,403	350,736	247,147	–27,664	*178,790*	.... (2) Feb.
906,005	221,533	23,551	2,981	177,384	164,951	353,785	248,266	–35,754	*179,269*	.... (2) Mar.

(billions of

	Assets								
	Bank reserves		Lending to residents	Securities	Bad debts & protested bills	Repurchase agreements	Shares and equity participations	Interbank accounts	External assets
		of which: compulsory							
1990 – Dec.	128,781	124,310	609,914	212,079	33,629	1,326	22,182	90,436	106,670
1991 – "	132,952	127,762	699,675	264,038	39,366	9,314	32,802	92,450	113,366
1992 – "	132,003	128,728	781,865	321,336	47,367	11,091	36,942	153,663	148,534
1993 – "	108,616	104,846	806,669	330,281	60,317	20,182	38,765	166,371	211,117
1994 – Jan.	110,810	105,882	795,005	329,843	62,911	22,398	36,713	138,501	191,328
Feb.	112,622	110,997	792,785	338,117	64,660	21,458	37,002	145,068	200,679
Mar.	113,520	107,831	784,713	349,254	66,122	18,369	39,024	145,004	192,639
Apr.	112,024	108,942	781,717	352,749	67,924	17,730	39,343	140,315	177,351
May	115,844	110,673	777,884	356,299	69,189	16,376	40,152	142,337	180,740
June	113,319	109,417	790,031	365,368	69,152	14,817	41,599	143,404	177,594
July	101,550	99,829	791,732	360,192	70,734	15,442	42,484	129,674	166,990
Aug.	104,664	99,280	785,172	362,309	72,080	13,324	43,187	136,755	170,690
Sept.	99,194	94,554	784,544	361,730	73,386	11,915	43,519	134,086	163,485
Oct.	99,372	93,781	789,108	364,962	74,397	11,366	43,771	141,148	167,685
Nov.	101,033	93,020	788,629	361,518	75,795	12,097	43,519	142,646	165,269
Dec.	92,852	92,017	814,499	369,083	77,852	12,553	43,958	159,357	183,892
1995 – Jan.	95,281	91,533	810,462	355,179	79,565	11,654	41,863	120,124	172,647
Feb.	93,818	92,375	819,700	354,524	81,224	14,213	41,845	124,752	184,829
Mar.	90,824	88,159	828,020	354,264	82,369	11,898	40,955	129,744	195,580
Apr.	90,400	86,484	831,475	353,185	83,289	12,104	46,528	119,520	176,547
May	90,927	85,171	828,529	342,266	84,198	14,006	46,396	122,743	182,607
June	94,863	83,871	839,354	341,196	84,871	14,570	46,733	124,183	181,547
July	84,017	80,346	842,479	330,881	85,985	13,771	48,390	117,440	178,810
Aug.	85,276	79,029	826,982	332,092	86,585	15,727	48,739	124,130	180,804
Sept.	77,756	74,285	825,762	339,899	87,825	13,034	50,491	124,858	183,472
Oct.	85,112	74,765	827,254	332,257	88,873	13,458	50,983	129,713	190,177
Nov.	80,955	74,033	832,379	333,706	89,086	13,987	50,556	131,736	204,197
Dec.	79,121	73,611	856,863	341,471	94,888	14,070	46,589	142,980	219,552
1996 – Jan. (2)	78,489	71,945	861,778	341,462	95,214	13,546	50,508	130,393	211,277
Feb. (2)	80,529	72,955	855,526	353,148	95,887	17,112	49,879	136,544	218,367
Mar. (2)	78,705	69,005	853,032	357,977	96,232	16,505	49,930	140,263	209,639

(1) Rounding may cause discrepancies in totals. – (2) Provisional.

Table a18

BANKS ACCEPTING SHORT-TERM FUNDS (1)
lire)

Liabilities									Memorandum item	
Lira deposits of residents	Bonds	Other domestic funds	Lending by BI-UIC	Repurchase agreements	Interbank accounts	Funds raised abroad	Capital and reserves	Other items	Guarantee commitments	
706,381	60,928	7,393	7,563	18,059	100,623	178,335	104,739	20,996	*135,335*	..... Dec. – 1990
772,049	70,375	8,606	8,826	75,170	99,460	214,133	137,988	–2,645	*129,719*	..... " – 1991
801,975	85,456	13,352	8,870	136,615	154,732	292,088	164,237	–24,523	*142,512*	..... " – 1992
866,020	98,292	15,989	2,454	132,776	170,733	292,899	177,823	–14,668	*142,268*	..... " – 1993
828,726	99,824	16,869	2,223	154,877	145,664	282,330	179,969	–22,973	*140,536*	..... Jan. – 1994
835,686	100,811	17,452	2,204	165,002	147,160	284,591	182,416	–22,931	*139,761*	..... Feb.
850,216	102,577	18,387	2,328	141,831	148,853	281,271	186,272	–23,091	*140,659*	..... Mar.
842,773	104,916	17,908	2,341	138,352	142,827	273,123	186,376	–19,463	*142,844*	..... Apr.
836,806	106,266	16,935	2,301	139,822	142,064	280,588	185,905	–11,868	*142,726*	..... May
844,033	107,325	17,587	3,982	144,185	148,438	284,228	184,612	–18,407	*142,530*	..... June
819,280	107,632	17,421	4,981	147,685	133,598	286,542	185,982	–24,325	*143,390*	..... July
815,508	107,877	17,525	2,199	157,691	141,925	288,630	187,291	–30,466	*142,374*	..... Aug.
822,301	108,331	17,618	2,263	128,703	137,490	289,214	189,731	–23,791	*143,718*	..... Sept.
820,983	108,036	17,346	2,251	136,725	142,121	286,078	190,188	–11,919	*143,541*	..... Oct.
810,327	109,644	16,860	2,265	136,011	144,696	288,760	191,086	–9,142	*145,777*	..... Nov.
873,266	109,708	16,386	2,705	127,588	158,633	302,160	187,258	–23,659	*146,040*	..... Dec.
829,995	109,209	17,007	2,174	152,705	129,334	294,786	191,146	–39,579	*146,118*	..... Jan. – 1995
830,741	109,577	17,292	4,824	162,348	135,860	306,960	194,986	–47,683	*149,568*	..... Feb.
828,265	109,284	19,886	3,522	151,025	136,670	331,351	198,614	–44,963	*154,577*	..... Mar.
828,345	109,628	19,942	2,172	159,542	124,356	310,488	196,342	–37,768	*154,561*	..... Apr.
821,267	110,552	20,428	9,947	149,822	127,742	299,778	194,978	–22,842	*155,582*	..... May
829,474	110,512	20,733	2,410	166,872	130,367	302,761	195,859	–31,671	*156,074*	..... June
813,496	110,038	20,780	2,459	170,026	123,048	287,650	196,415	–22,139	*154,391*	..... July
809,809	110,526	21,284	2,486	181,534	128,530	274,941	199,875	–28,649	*154,580*	..... Aug.
831,579	110,389	20,659	2,440	157,557	128,814	281,843	200,257	–30,441	*155,437*	..... Sept.
829,936	110,460	21,697	2,967	157,509	130,381	282,897	200,126	–18,148	*157,014*	..... Oct.
819,213	111,101	21,706	4,187	154,142	133,168	280,540	200,625	11,920	*158,015*	..... Nov.
884,675	114,106	22,044	7,546	163,201	149,040	278,127	203,310	–26,513	*160,106*	..... Dec.
845,689	122,862	22,254	2,937	181,498	138,676	284,158	212,873	–28,280	*161,252*	.. (2) Jan.– 1996
844,142	124,015	22,526	2,955	194,177	140,983	291,505	216,318	–29,629	*159,584*	.. (2) Feb.
854,810	125,251	22,769	2,955	176,986	145,385	293,133	217,237	–36,243	*159,992*	.. (2) Mar.

PROFIT AND LOSS ACCOUNTS OF BANKS

(billions

	Interest recevaible						Interest payable							
	Deposits with BI-UIC & Treasury	Domestic lending in lire	Securities	Interbank accounts	Repos (2)	Claims on non-residents & on residents in foreign currency	Deposits	BI-UIC financing	Interbank accounts	Repos (2)	Bonds and subordinated liabilities	Liabilities to non-residents & to residents in foreign currency	Balance of derivative hedging contracts (2)	Net interest income (a)
														Limited company
1991 ...	6,801	87,731	17,305	4,647	....	20,149	47,058	241	5,228	....	16,939	21,633	....	45,534
1992 ...	7,213	106,168	19,145	6,641	....	23,504	54,435	820	8,056	....	19,701	26,159	....	53,499
1993 ...	5,885	104,132	28,015	6,461	4,574	24,826	55,363	183	7,221	9,819	21,881	24,993	–199	54,234
1994 ...	5,163	92,485	27,494	4,528	2,620	19,154	45,055	185	7,004	9,544	20,756	18,410	–1,247	49,243
1995 (3)	4,239	102,249	28,505	6,308	1,966	22,472	46,616	430	7,727	12,126	23,197	21,523	–1,748	52,372
														Cooperative banks
1991 ...	1,401	11,621	3,181	1,114	....	1,636	8,414	23	681	....	..	1,468	....	8,368
1992 ...	1,529	14,325	3,550	1,413	....	2,066	9,720	60	1,162	....	..	2,045	....	9,897
1993 ...	1,210	13,662	5,556	1,544	588	2,106	9,919	19	969	1,821	10	1,809	–217	9,905
1994 ...	1,045	12,063	5,765	1,094	373	1,818	8,291	16	872	1,803	79	1,460	–160	9,476
1995 (3)	815	15,606	6,383	1,505	289	1,985	9,146	29	1,252	2,592	619	1,600	–273	11,071
														Main mutual banks
1991 ...	10	361	211	78	....	7	333	..	6	....	..	5	....	322
1992 ...	13	454	232	87	....	9	398	..	8	....	..	7	....	382
1993 ...	15	463	427	91	5	12	424	..	8	137	..	11	..	433
1994 ...	10	434	389	74	3	14	379	..	5	124	..	10	–1	404
1995 (3)	12	517	407	86	3	14	393	1	5	162	..	10	–3	466
														Central credit
1991 ...	17	542	803	733	....	218	42	11	1,478	....	..	268	....	514
1992 ...	17	564	774	843	....	360	60	63	1,450	....	..	466	....	519
1993 ...	23	424	927	679	87	535	63	38	1,302	201	11	482	–33	545
1994 ...	7	316	882	495	5	339	54	37	868	191	12	396	–55	431
1995 (3)	24	294	998	598	10	428	65	50	1,141	253	13	433	–9	387
														Branches of
1991 ...	26	576	409	102	....	569	49	2	524	....	..	853	....	254
1992 ...	28	950	630	708	....	863	42	154	699	....	..	1,491	....	793
1993 ...	26	1,237	1,054	615	188	1,080	137	9	1,514	152	..	1,842	–438	108
1994 ...	25	892	1,439	568	386	1,819	49	7	922	872	..	2,354	–315	610
1995 (3)	28	1,199	1,447	795	264	2,737	95	11	1,035	750	..	3,600	–284	696
														Total
1991 ...	8,255	100,831	21,909	6,673	....	22,578	55,894	277	7,917	....	16,939	24,227	....	54,992
1992 ...	8,800	122,461	24,331	9,692	....	26,802	64,655	1,097	11,374	....	19,701	30,168	....	65,090
1993 ...	7,159	119,918	35,980	9,390	5,442	28,559	65,906	249	11,014	12,130	21,902	29,138	–886	65,224
1994 ...	6,250	106,191	35,969	6,758	3,387	23,143	53,828	245	9,671	12,534	20,847	22,630	–1,778	60,164
1995 (3)	5,118	119,865	37,739	9,293	2,531	27,636	56,315	521	11,160	15,882	23,829	27,165	–2,317	64,993

(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 CATEGORYOF BANK (1)

of lire)

Other net income			Gross income (c)=(a)+(b)	Operating expenses		Operating income (e)=(c)–(d)	Value adjustments and re-adjustments and allocations to provisions		Taxes (g)	Net profit (e)–(f)–(g)	Total resources	Number of staff	
(b)	of which: trading	of which: services		(d)	of which: banking staff costs		(f)	of which: for loan losses					of which: banking
banks													
13,964	6,920	2,340	59,499	38,820	25,537	20,679	8,068	7,509	5,682	6,930	1,447,244	280,676	277,102
11,924	3,667	2,421	65,423	43,370	28,040	22,053	10,874	8,554	5,898	5,281	1,713,258	280,451	276,687
20,457	11,082	4,025	74,691	46,035	29,219	28,655	14,702	13,907	10,130	3,823	1,879,437	281,112	277,165
16,948	5,003	5,398	66,191	46,053	30,221	20,138	16,284	10,000	4,040	–185	1,966,214	281,139	276,301
16,638	4,643	5,100	69,010	47,810	30,797	21,200	16,137	14,153	5,962	–900	1,969,378	275,108	271,099
(banche popolari)													
2,519	1,229	655	10,887	6,822	4,281	4,065	1,145	1,003	1,358	1,562	202,755	51,041	50,564
2,400	952	651	12,298	7,606	4,736	4,691	1,881	1,217	1,501	1,310	240,794	51,922	51,433
4,028	2,178	1,003	13,933	8,072	4,893	5,861	2,400	2,166	2,123	1,338	268,665	53,599	53,096
3,392	1,103	1,220	12,868	8,360	5,196	4,507	2,405	1,684	1,098	1,004	289,577	51,861	51,368
3,444	1,057	1,203	14,516	9,226	5,616	5,290	2,452	2,020	1,695	1,143	319,742	57,026	56,584
(banche di credito cooperativo)													
76	50	12	398	225	136	173	22	24	6	144	6,725	1,721	1,719
75	42	13	457	270	162	187	27	27	15	144	8,238	1,830	1,828
104	57	19	537	301	175	235	31	25	12	192	9,275	1,941	1,939
106	34	19	510	332	197	178	62	27	7	109	10,234	2,030	2,030
103	40	20	568	370	213	199	33	31	8	158	10,909	2,100	2,100
institutions													
193	67	65	707	346	161	361	136	172	97	128	26,291	1,535	1,535
85	–93	107	604	373	175	231	86	131	73	72	29,851	1,536	1,536
421	266	122	967	475	247	492	206	171	154	132	33,743	1,557	1,557
342	83	149	773	391	187	382	217	175	67	99	30,939	1,549	1,549
286	122	131	673	404	193	269	109	99	74	85	31,658	1,545	1,545
foreign banks													
174	219	–642	428	327	182	101	20	61	56	26	22,236	1,668	1,668
–243	407	–1,151	550	485	220	65	69	81	53	–57	41,246	1,599	1,599
839	543	14	947	480	234	467	173	172	219	75	58,803	1,740	1,740
265	–102	269	875	548	268	327	–22	53	187	162	67,065	1,909	1,909
199	136	29	896	549	289	347	–51	46	229	169	76,351	1,747	1,747
banks													
16,926	8,485	2,430	71,918	46,539	30,297	25,379	9,391	8,770	7,199	8,789	1,705,251	336,641	332,588
14,241	4,975	2,041	79,331	52,104	33,333	27,227	12,937	10,010	7,540	6,750	2,033,386	337,338	333,083
25,850	14,127	5,183	91,074	55,364	34,769	35,710	17,512	16,441	12,639	5,560	2,249,923	339,949	335,497
21,053	6,122	7,056	81,217	55,684	36,070	25,533	18,947	11,940	5,399	1,188	2,364,029	338,488	333,157
20,670	5,998	6,483	85,662	58,359	37,108	27,304	18,681	16,349	7,968	655	2,408,039	337,526	333,075

(billions

	Bonds and government										
	Public sector										
	Government securities										
	Treasury bills	Treasury bills in ecus	Zero-coupon Treasury certificates	Floating rate Treasury credit certificates (1)	Treasury bonds (1)	Treasury certificates in ecus	Treasury discount certificates	Treasury option certificates	Ordinary certificates (2)	Other (3)	Total
											Gross
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
1995	714,250	–	47,217	121,899	118,484	6,769	–	–	665	2,500	1,011,784
											Re
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	660,346	7,443	–	22,200	55,523	14,140	3,638	3,108	5,067	158	771,624
1995	715,750	–	–	148,917	15,844	14,797	–	10,628	–	118	906,054
											Issue
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	7,592	788	–	–	–	–	9,317
1995	–	–	8,918	2,763	6,715	135	–	–	–	–	18,531
											Net
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	19,155	–7,443	–	37,629	104,458	2,736	–3,638	–3,108	–1,972	78,547	226,363
1995	–1,500	–	38,299	–29,781	95,925	–8,163	–	–10,628	665	2,382	87,198
											Cou
1988	24,426	143	–	38,501	10,032	1,308	245	–	1,503	492	76,650
1989	31,698	654	–	39,011	16,752	2,230	256	280	1,462	466	92,809
1990	36,052	1,072	–	46,444	20,086	2,979	277	2,961	1,433	167	111,471
1991	38,484	879	–	52,724	23,553	3,777	306	6,395	1,566	143	127,827
1992	46,677	566	–	57,883	32,673	4,155	221	9,075	1,414	121	152,785
1993	40,960	893	–	69,212	39,418	4,852	211	8,205	736	101	164,588
1994	34,958	677	–	56,751	52,386	4,920	221	7,765	812	236	158,726
1995	41,250	–	–	58,871	61,277	5,308	–	6,884	1,110	1,326	176,026

(1) The 1993 issues include Treasury credit certificates amounting to 10,000 billion lire and Treasury bonds totaling 21,000 billion lire placed with the Bank of Italy to finance the new Treasury
the Treasury's overdraft on its current account with the Bank of Italy; excludes Republic of Italy loans. – (4) The total for the public sector differs from the sum of the individual components by
– (6) Gross issues of shares for cash with reference to the corresponding stock exchange year. The figure for dividends in 1995 is partly estimated.

Table a20

GROSS AND NET ISSUES OF SECURITIES

of lire)

securities											
				Firms and international institutions							
Autonomous government agencies and State Railways	Crediop on behalf of Treasury	Total (4)	Banks	ENEL	IRI ENI EFIM	Private firms	International institutions	Total (5)	Total bonds & government securities	Listed shares (6)	
issues											
1,000	–	532,891	21,789	1,693	1,617	1,335	550	5,195	559,875	3,198	 1988
1,000	–	598,545	21,368	2,661	200	1,036	300	4,197	624,110	8,323	 1989
3,200	–	758,262	22,364	1,085	–	515	200	1,800	782,426	7,775	 1990
–	–	826,101	32,307	2,253	4,902	507	400	8,062	866,470	4,497	 1991
1,500	–	881,720	29,022	1,108	–	290	–	1,518	912,260	3,368	 1992
–	–	989,322	44,185	2,111	1,000	1,289	–	4,950	1,038,457	15,230	 1993
4,000	–	1,011,306	43,252	114	–	3,421	650	4,285	1,058,843	12,982	 1994
–	–	1,011,784	28,355	117	–	963	1,000	2,080	1,042,219	8,640	 1995
demptions											
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	15,540	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	771,730	20,705	2,174	2,669	1,030	460	6,333	798,768	–	 1994
1,200	19	907,274	28,757	1,250	2,754	103	465	4,572	940,603		 1995
discounts											
–	–	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
–	–	9,317	288	–	–	–	–	22	9,627	–	 1994
–	–	18,531	131	–	–	–	–	–	18,662		 1995
issues											
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	15,938	1,316	3,131	–843	230	3,813	146,697	–	 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	230,258	22,259	–2,060	–2,669	2,391	190	–2,070	250,447	–	 1994
–1,200	–19	85,978	–533	–1,133	–2,754	860	535	–2,492	82,954		 1995
pons											
972	359	77,991	13,805	1,587	1,318	....	213	3,125	94,921	5,253	 1988
1,021	275	94,112	14,747	1,605	1,327	....	249	3,186	112,045	5,803	 1989
1,007	190	112,673	15,855	1,878	1,309	....	273	3,463	131,991	6,929	 1990
1,254	111	129,196	16,827	1,898	1,277	....	281	3,457	149,480	6,640	 1991
1,276	60	154,123	19,458	1,899	1,507	....	315	3,721	177,302	5,721	 1992
1,369	27	165,985	21,669	2,464	1,405	....	261	4,176	191,830	6,328	 1993
1,041	9	159,777	20,385	1,367	952	....	183	2,561	182,723	8,179	 1994
1,114	6	177,146	22,867	1,255	707	....	196	2,221	202,234	8,359	 1995

payments account. – (2) Includes securities issued by the Treasury to consolidate past debts. – (3) Includes the 76,206 billion lire of securities issued in November 1994 to consolidate the amount of bond issues by local authorities. – (5) The total for firms and international institutions differs from the sum of the individual components by the amount of bond issues by *Autostrade*-IRI.

MONEY MARKET AND INTERBANK INTEREST RATES (1)

	Treasury bill yields (2)				Interbank accounts (3)	Interbank operations				
	3-month bills	6-month bills	12-month bills	Average		Overnight (4)	1 month (4)	3 month (4)	12 month (4)	3 month Eurolira (5)
1986	11.93	11.46	11.15	11.40	*13.39*	....	....	....	....	12.69
1987	11.07	10.74	10.55	10.73	*11.33*	8.40	....	....	....	10.79
1988	11.17	11.06	11.17	11.13	*10.82*	10.17	....	....	....	10.79
1989	12.65	12.55	12.55	12.58	12.46	11.97	....	....	....	12.01
1990	12.28	12.33	12.53	12.38	11.83	10.93	11.92	12.10	....	11.63
1991	12.66	12.53	12.39	12.54	11.89	11.83	12.14	12.21	....	11.52
1992	14.48	14.38	14.02	14.32	14.29	14.38	14.42	14.02	....	13.48
1993	10.47	10.52	10.74	10.58	10.59	10.25	10.24	10.20	8.91	9.96
1994	8.84	9.13	9.50	9.17	8.43	8.20	8.33	8.51	9.15	8.29
1995	10.73	10.85	10.96	10.85	10.32	10.07	10.23	10.46	10.95	10.24
1994 – Jan.	8.26	8.70	8.69	8.59	8.91	8.66	8.53	8.42	7.99	8.24
Feb.	8.66	8.83	8.81	8.78	8.74	8.41	8.46	8.45	8.12	8.23
Mar.	8.91	8.96	9.00	8.96	8.51	8.32	8.40	8.42	8.41	8.22
Apr.	8.60	8.75	8.75	8.71	8.46	8.17	8.13	8.11	8.14	7.92
May	8.08	8.04	8.15	8.09	8.09	7.77	7.79	7.81	8.00	7.62
June	8.67	8.56	9.12	8.76	7.96	7.87	7.96	8.11	8.58	7.87
July	8.61	8.94	9.37	8.98	8.28	8.19	8.28	8.48	9.29	8.27
Aug.	9.19	9.77	10.40	9.80	8.52	8.29	8.53	8.92	10.34	8.69
Sept.	9.16	9.74	10.29	9.73	8.40	8.17	8.34	8.72	10.36	8.45
Oct.	9.48	9.89	10.68	10.07	8.41	8.16	8.41	8.85	10.28	8.61
Nov.	9.20	9.60	10.25	9.70	8.38	8.20	8.42	8.76	9.93	8.52
Dec.	9.28	9.72	10.44	9.81	8.45	8.20	8.70	9.04	10.34	8.84
1995 – Jan.	9.44	9.90	10.55	10.01	8.74	8.42	8.73	9.13	10.44	8.93
Feb.	9.67	10.07	10.61	10.15	8.81	8.39	8.73	9.09	10.24	8.85
Mar.	11.62	11.95	12.07	11.87	10.34	10.22	10.65	11.01	11.80	10.72
Apr.	11.37	11.59	11.81	11.57	10.68	10.42	10.57	10.96	11.65	10.73
May	10.63	10.77	10.76	10.72	10.63	10.27	10.33	10.45	10.85	10.26
June	11.14	11.08	11.16	11.12	10.90	10.62	10.76	10.95	11.40	10.67
July	10.99	11.06	11.06	11.04	10.86	10.44	10.64	10.96	11.41	10.76
Aug.	10.57	10.69	10.61	10.62	10.66	10.26	10.31	10.47	10.82	10.29
Sept.	10.82	10.79	10.74	10.78	10.45	10.26	10.31	10.40	10.61	10.22
Oct.	11.13	11.24	11.16	11.18	10.54	10.45	10.57	10.77	10.93	10.55
Nov.	10.76	10.69	10.61	10.69	10.60	10.45	10.57	10.68	10.71	10.51
Dec.	10.56	10.43	10.34	10.44	10.62	10.65	10.64	10.61	10.49	10.43
1996 – Jan.	9.80	9.64	9.47	9.63	10.79	10.20	10.20	10.07	9.80	9.92
Feb.	9.90	9.67	9.60	9.71	10.61	10.14	10.08	9.93	9.68	9.69
Mar.	9.86	9.76	9.63	9.75	10.43	9.99	9.92	9.85	9.41	9.60
Apr.	9.29	9.02	8.87	9.07	....	9.83	9.78	9.62	9.23	9.44

(1) Before tax; annual figures are the average of monthly values. – (2) Average of allotment rates at public auctions, before tax; for 3 and 6-month bills, compounded. – (3) Maximum rate applied to the lira sight deposits of resident banks with a debit balance of more than 1 billion lire, monthly average of the rates reported at 10-day intervals. The figures in italics refer to an earlier sample covering fewer banks. – (4) Weighted monthly average of the bid and offer rates recorded daily on MID. – (5) Monthly average of the bid rates recorded daily on lira interbank deposits in London.

Table a22

BANK INTEREST RATES (1)

	Deposits (2): Average: current accounts	Deposits (2): Overall average	Deposits (2): Maximum (3)	Deposits (2): Certificates of deposit: Overall average	Deposits (2): Certificates of deposit: Maturities up to 6 months (4)	Deposits (2): Certificates of deposit: Maturities from 18 to 24 months (5)	Loans (2): Overall average	Loans (2): Minimum (6)	New medium & long-term loans to enterprises (7)	New medium & long-term loans to consumer households (7)	ABI prime rate (8)
1986	*9.15*	....	*11.97*	....	*11.98*	....	*15.93*	*14.08*	....	....	14.18
1987	*7.28*	*7.12*	*9.93*	....	*9.87*	....	*13.58*	*12.06*	....	....	12.74
1988	*6.96*	*6.89*	*9.51*	....	*9.88*	....	*13.57*	*12.11*	....	....	12.76
1989	7.29	*7.30*	9.33	....	*10.35*	....	14.26	11.95	....	....	13.83
1990	7.15	*7.39*	9.58	....	*10.62*	....	14.09	11.74	....	....	13.35
1991	6.99	*7.38*	9.33	....	*10.42*	....	13.90	11.33	....	....	12.84
1992	7.47	8.55	9.99	....	*11.20*	....	15.76	12.50	....	....	14.36
1993	6.46	7.79	8.86	....	*9.30*	....	13.87	10.51	....	....	11.40
1994	5.02	6.20	7.01	....	*6.88*	....	11.22	8.36	....	....	9.27
1995	5.49	6.45	8.00	8.46	8.37	8.89	12.47	9.60	11.44	13.37	11.03
1994 – Jan.	5.53	6.85	7.68	....	*7.29*	....	11.73	8.81	....	....	9.88
Feb.	5.37	6.73	7.39	....	*7.12*	....	11.60	8.72	....	....	9.38
Mar.	5.15	6.54	7.24	....	*6.90*	....	11.36	8.60	....	....	9.38
Apr.	5.17	6.46	7.31	....	*6.80*	....	11.20	8.44	....	....	9.13
May	4.95	6.26	6.98	....	*6.64*	....	11.07	8.27	....	....	8.88
June	4.74	6.08	6.83	....	*6.42*	....	10.79	8.00	....	....	8.88
July	4.77	6.01	6.84	....	*6.40*	....	10.94	8.04	....	....	8.88
Aug.	4.79	5.95	6.69	....	*6.56*	....	11.14	8.19	....	....	9.38
Sept.	4.87	5.91	6.70	....	*6.92*	....	11.30	8.26	....	....	9.38
Oct.	4.92	5.89	6.71	....	*7.13*	....	11.24	8.32	....	....	9.38
Nov.	4.96	5.88	6.83	....	*7.19*	....	11.20	8.35	....	....	9.38
Dec.	5.03	5.90	6.88	....	*7.24*	....	11.10	8.31	....	....	9.38
1995 – Jan.	5.04	5.92	7.11	....	7.49	....	11.23	8.38	10.65	12.04	9.38
Feb.	5.03	5.98	7.11	7.99	7.58	8.20	11.38	8.45	10.62	12.85	10.00
Mar.	5.15	6.08	7.36	8.06	7.94	8.51	11.89	8.82	10.61	13.23	10.13
Apr.	5.30	6.21	7.65	8.15	8.16	8.70	12.39	9.32	11.57	13.07	10.88
May	5.41	6.33	7.85	8.26	8.26	8.73	12.49	9.60	11.21	13.53	11.38
June	5.54	6.46	8.14	8.36	8.43	8.84	12.85	9.93	11.65	13.50	11.63
July	5.65	6.57	8.36	8.48	8.56	9.01	12.91	10.04	11.84	13.49	11.50
Aug.	5.68	6.65	8.39	8.59	8.58	9.11	12.94	10.08	11.90	13.89	11.50
Sept.	5.71	6.71	8.41	8.69	8.61	9.18	12.87	10.02	11.81	13.74	11.50
Oct.	5.75	6.77	8.45	8.77	8.64	9.17	12.87	10.10	11.87	13.87	11.50
Nov.	5.78	6.81	8.52	8.82	8.67	9.15	13.00	10.24	11.87	13.88	11.50
Dec.	5.86	6.87	8.62	8.86	8.66	9.20	12.88	10.18	11.71	13.35	11.50
1996 – Jan.	5.83	6.88	8.54	8.90	8.53	9.10	12.82	10.13	11.67	13.65	11.50
Feb.	5.70	6.87	8.31	8.91	8.24	8.59	12.73	9.93	11.70	13.62	11.50
Mar.	5.75	6.90	8.40	8.89	8.17	8.46	12.64	9.83	11.49	13.57	11.50

(1) Before tax; annual figures are the average of monthly values. – (2) The rates shown are monthly averages of the rates reported at 10-day intervals. The "Overall average" rates are the weighted average of the rates on individual positions weighted with the relevant balances. The figures in italics refer to an earlier sample covering fewer banks. Until 1989, the figures for "Maximum" deposit rates and "Minimum" lending rates are based on the old definition; those for the "Overall average" deposit rates do not take account of banks' former special credit sections. – (3) Rate applied to the last decile of freely available deposits in lire on current and savings accounts ranked according to the interest rate. – (4) Until 1994, average issue rate of 6-month CDs. – (5) Average issue rate of fixed-rate lira CDs with an original maturity of between 18 and 24 months. – (6) Rate applied to the first decile of short-term loans in lire to enterprises ranked according to the interest rate. – (7) The rates are reported only for the last 10-day period of each month. – (8) The monthly data are end-of-period data.

INTEREST RATES ON SECURITIES
(average values before tax)

	Floating rate Treasury credit certificates	Treasury certificates in ecus	Treasury option certificates	Treasury bonds	Zero-coupon Treasury certificates	Straight bonds		
						Banks	State-controlled enterprises	Total
1986	12.41	8.52	–	11.47	–	10.56	9.96	10.56
1987	10.66	8.43	–	10.58	–	10.13	9.59	9.95
1988	11.25	8.11	–	10.54	–	10.87	10.78	10.39
1989	12.71	9.34	10.67	11.61	–	11.61	11.74	11.17
1990	12.31	10.19	11.52	11.87	–	12.03	12.17	11.77
1991	11.78	9.05	11.22	11.37	–	11.63	11.29	11.12
1992	13.70	9.00	11.51	11.90	–	12.04	12.28	11.65
1993	10.55	6.57	9.49	9.60	–	10.10	10.16	9.98
1994	8.81	6.45	8.89	8.98	–	8.95	8.94	8.96
1995	10.16	7.80	9.97	10.28	10.02	10.35	9.94	10.20
1994 – Jan.	7.94	4.66	7.20	7.21	–	7.67	7.73	7.69
Feb.	8.10	5.02	7.35	7.38	–	7.82	7.92	7.96
Mar.	8.41	4.87	8.03	8.03	–	8.03	8.63	8.12
Apr.	8.14	5.96	7.75	7.80	–	7.94	8.57	8.05
May	7.82	6.23	7.84	7.98	–	7.97	8.51	8.11
June	8.11	6.33	8.83	8.92	–	8.60	8.71	8.63
July	8.67	7.09	9.23	9.29	–	8.92	9.11	8.92
Aug.	9.31	7.65	10.02	10.10	–	9.53	10.25	9.59
Sept.	10.01	7.42	10.27	10.38	–	10.14	10.33	10.10
Oct.	9.82	7.47	10.12	10.32	–	10.23	10.42	10.09
Nov.	9.68	7.10	9.94	10.10	–	10.23	9.63	10.05
Dec.	9.67	7.56	10.13	10.27	–	10.34	7.44	10.19
1995 – Jan.	9.84	8.10	10.18	10.40	–	10.07	7.07	10.05
Feb.	9.67	7.98	10.01	10.31	–	10.13	9.55	10.01
Mar.	10.83	9.96	10.95	11.30	11.19	10.79	8.90	10.57
Apr.	11.04	9.61	10.91	11.22	11.29	11.09	8.67	10.71
May	10.27	9.14	10.11	10.39	10.12	10.72	9.05	10.45
June	10.32	7.91	10.22	10.54	10.28	10.63	9.97	10.40
July	10.31	7.83	10.13	10.39	10.18	10.36	9.05	10.32
Aug.	10.09	7.59	9.67	9.92	9.62	10.16	8.93	10.09
Sept.	9.85	7.20	9.38	9.75	9.35	10.09	6.82	9.92
Oct.	10.14	6.09	9.58	10.01	9.63	10.04	10.09	10.04
Nov.	10.02	5.86	9.40	9.76	9.43	10.16	10.02	10.05
Dec.	9.56	6.29	9.13	9.40	9.15	9.93	9.72	9.78
1996 – Jan.	9.06	5.99	8.46	8.63	8.37	9.18	8.95	9.03
Feb.	8.66	5.61	8.32	8.56	8.25	9.00	8.79	8.87
Mar.	8.91	5.09	8.36	8.69	8.38	9.07	8.83	8.93
Apr.	8.70	5.47	8.12	8.41	8.12	8.94	8.68	8.77

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)
1986	47,934	3,543	–6,454	....	19,464	....
1987	46,804	6,756	–5,573	....	15,709	....
1988	59,865	10,947	–10,224	....	3,613	....
1989	83,873	14,971	–14,979	....	10,010	....
1990	76,540	15,458	–22,976	110,054	11,176	–37,172
1991	82,476	–8,674	–39,369	120,955	66,867	–57,303
1992	47,238	–32,591	–12,187	74,694	82,411	–65,089
1993	71,515	2,564	84,589	54,453	14,027	–84,119
1994	15,924	3,297	–21,594	5,535	30,631	–1,944
1995	28,852	2,915	58,102	39,201	–28,946	–42,419
1994 – Jan.	–32,664	5,178	13,580	–20,045	–14,463	–16,914
Feb.	–137	1,417	5,975	–4,472	3,865	–6,921
Mar.	19,647	–2,347	–17,091	–1,734	33,322	7,496
Apr.	–10,951	–235	–7,793	–5,021	12,981	–10,883
May	–3,747	2,162	–3,268	–4,873	1,709	523
June	8,974	–1,093	–8,845	11,544	–17,267	24,634
July	–21,156	3,361	–8,602	881	–8,304	–8,492
Aug.	–16,429	–3,218	–116	–5,993	1,379	–8,481
Sept.	13,550	–1,119	–6,156	–1,116	14,666	7,275
Oct.	–4,794	–5,947	–1,145	3,406	9,618	–10,726
Nov.	–4,967	–2,531	8,086	132	11,128	–21,781
Dec.	68,597	7,669	3,781	32,825	–18,003	42,326
1995 – Jan.	–46,141	–3,741	–9,938	–19,788	–11,784	–890
Feb.	0	–1,034	6,526	6,544	–12,820	784
Mar.	1,699	–6,767	–1,516	1,355	21,540	–12,912
Apr.	–480	2,046	1,655	3,479	–857	–6,802
May	–4,994	3,866	9,914	2,122	–5,625	–15,271
June	11,154	13,474	–1,180	15,405	–34,041	17,496
July	–16,474	–255	5,401	1,633	–8,881	–14,372
Aug.	–10,485	–2,336	15,506	–10,693	2,637	–15,599
Sept.	26,352	–3,967	–1,343	–2,713	23,294	11,082
Oct.	–2,723	–1,194	4,814	2,323	14,238	–22,904
Nov.	–7,768	–2,948	15,015	7,964	8,343	–36,143
Dec.	78,714	5,772	13,248	31,571	–24,990	53,113
1996 – Jan.	–47,127	–147	–7,473	–6,401	781	–33,886
Feb.	–5,737	–1,086	2,588	–1,749	11,277	–16,767
Mar.	11,842	1,338	–12,356	–2,247	16,770	8,337

(1) The definition of M2 introduced in January 1995 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.

THE MONEY

(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				
1986 – Dec.	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	545,788	92,390	180,328
1993 – "	89,769	465,071	9,481	14,760	579,080	87,286	226,074
1994 – Jan.	86,169	429,037	12,341	13,571	541,119	88,193	230,965
Feb.	85,472	435,050	10,557	11,633	542,711	87,074	233,358
Mar.	88,562	449,550	9,742	13,837	561,691	87,401	233,468
Apr.	87,413	444,128	9,873	11,808	553,222	84,718	233,287
May	87,910	440,617	10,271	13,096	551,893	82,517	236,230
June	87,329	449,505	9,748	16,504	563,086	79,906	236,923
July	92,508	429,741	9,688	14,309	546,247	77,355	235,346
Aug.	87,896	427,440	9,293	9,289	533,919	76,150	232,727
Sept.	89,541	438,194	9,395	11,977	549,106	74,419	231,458
Oct.	89,248	434,760	9,556	11,741	545,306	73,162	231,928
Nov.	90,829	425,043	9,739	13,150	538,760	72,566	234,159
Dec.	96,221	478,258	7,125	15,728	597,332	71,602	236,932
1995 – Jan.	91,143	439,012	10,116	11,840	552,111	77,927	241,657
Feb.	90,080	441,530	8,996	11,587	552,193	75,772	244,663
Mar.	92,654	439,243	8,144	11,799	551,840	75,926	248,335
Apr.	92,974	440,797	7,146	10,406	551,323	73,382	250,427
May	92,500	434,745	8,810	11,318	547,372	72,121	253,343
June	92,407	443,028	8,213	13,505	557,154	69,942	256,630
July	94,786	428,950	8,238	11,491	543,465	68,407	257,576
Aug.	90,772	424,521	8,116	6,958	530,367	66,847	261,557
Sept.	92,525	441,844	8,855	9,796	553,019	65,339	265,794
Oct.	90,403	439,410	8,147	9,110	547,069	65,214	271,097
Nov.	92,641	426,129	7,339	10,805	536,914	64,250	274,929
Dec.	98,281	482,902	7,338	15,971	604,492	63,518	279,114
1996 – Jan.	92,006	437,791	9,435	11,273	550,506	63,713	289,814
Feb.	89,851	432,787	8,452	9,097	540,186	62,959	296,718
Mar.	92,300	440,618	6,803	8,849	548,572	62,035	300,937

(1) Money held by the non-state sector. The definition of M2 introduced in January 1995 includes the certificates of deposit issued by the former special credit institutions. Rounding may cause
are those not redeemable for at least 18 months. – (5) Savings accounts and tied current account deposits in lire and in foreign currency. – (6) For notes and coin, deposits and banker's drafts,

SUPPLY (1)
of lire)

data			Average data (6)				
Savings deposits of banks (5)	Postal savings accounts	Total: M2	M1	M2	M2 net of long-term CDs (4)	Extended M2 (7)	
198,049	11,047	597,736	325,503	573,171	, , , ,	573,549	..... Dec. – 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
144,091	30,861	1,067,391	529,613	1,005,611	780,320	1,011,387	.... " – 1993
141,995	32,456	1,034,728	548,682	1,036,183	807,663	1,042,183	...... Jan. – 1994
138,522	32,926	1,034,591	527,352	1,016,717	784,556	1,022,221	...... Feb.
138,302	33,375	1,054,238	535,026	1,022,841	789,428	1,028,396	...... Mar.
138,273	33,787	1,043,287	545,892	1,033,515	800,137	1,038,717	...... Apr.
134,851	34,050	1,039,540	545,120	1,030,201	795,443	1,035,442	...... May
134,294	34,305	1,048,514	537,592	1,020,176	783,600	1,025,221	...... June
133,714	34,696	1,027,358	541,039	1,022,975	786,841	1,027,219	...... July
132,786	35,346	1,010,929	522,285	999,953	765,916	1,004,110	...... Aug.
133,971	35,525	1,024,479	527,296	1,001,064	768,972	1,005,741	...... Sept.
133,415	35,874	1,019,685	532,027	1,005,089	773,396	1,010,981	...... Oct.
132,687	36,546	1,014,718	538,129	1,011,293	778,249	1,017,835	...... Nov.
138,297	39,152	1,083,316	546,591	1,023,172	787,626	1,030,174	...... Dec.
125,430	40,050	1,037,175	554,501	1,035,994	797,282	1,043,842	...... Jan. – 1995
123,746	40,800	1,037,174	536,450	1,017,916	774,228	1,026,242	...... Feb.
121,315	41,457	1,038,873	538,863	1,020,726	774,385	1,029,630	...... Mar.
121,419	41,842	1,038,393	541,374	1,023,814	775,394	1,033,178	...... Apr.
118,661	41,903	1,033,399	544,380	1,026,350	774,878	1,035,994	...... May
118,816	42,012	1,044,553	535,073	1,016,797	762,011	1,025,963	...... June
116,756	41,875	1,028,079	536,461	1,016,835	761,066	1,025,771	...... July
116,088	42,734	1,017,594	520,608	1,001,823	741,978	1,011,269	...... Aug.
116,920	42,874	1,043,946	528,653	1,013,187	749,461	1,023,538	...... Sept.
114,877	42,965	1,041,222	532,817	1,020,284	752,646	1,030,929	...... Oct.
114,685	42,676	1,033,454	538,601	1,029,321	756,733	1,040,507	...... Nov.
121,047	43,997	1,112,168	553,742	1,048,685	772,048	1,060,087	...... Dec.
116,371	44,638	1,065,041	557,015	1,063,313	779,184	1,075,433	...... Jan. – 1996
114,756	44,686	1,059,305	530,049	1,042,877	750,217	1,056,377	...... Feb.
115,026	44,577	1,071,146	529,600	1,044,687	746,543	1,059,958	...... Mar.

discrepancies in totals. – (2) Demand deposits in lire and in foreign currency. – (3) Banker's drafts issued by banks and the Bank of Italy and deposits with the Treasury. – (4) Long-term CDs averages of daily data; for the other items, two-period moving averages of end-of-month data.

	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)
1986 – Dec.	249,433	179,676	30,150	459,259	52,244
1987 – "	268,968	201,591	33,804	504,363	56,124
1988 – "	319,581	227,649	25,719	572,949	51,036
1989 – "	393,132	258,198	25,638	676,967	68,029
1990 – "	455,998	299,215	23,453	778,666	93,504
1991 – "	513,853	345,842	25,109	884,804	107,686
1992 – "	570,944	383,644	20,510	975,098	128,680
1993 – "	559,308	454,371	31,778	1,045,457	139,560
1994 – Jan.	550,409	448,085	33,874	1,032,367	138,093
Feb.	543,610	453,369	33,396	1,030,375	136,742
Mar.	531,032	458,084	33,209	1,022,325	133,353
Apr.	523,919	461,516	32,188	1,017,624	132,040
May	515,793	466,479	34,286	1,016,558	132,829
June	524,325	473,338	34,401	1,032,064	132,953
July	526,438	469,170	35,265	1,030,872	132,281
Aug.	517,828	471,732	35,399	1,024,960	133,658
Sept.	514,657	472,919	34,776	1,022,352	131,709
Oct.	518,223	472,618	34,326	1,025,167	130,619
Nov.	515,099	475,905	34,117	1,025,121	132,215
Dec.	535,157	488,385	32,699	1,056,241	132,911
1995 – Jan	534,761	475,598	32,850	1,043,208	131,625
Feb.	539,988	480,062	31,117	1,051,167	136,000
Mar.	543,828	484,310	30,650	1,058,788	137,715
Apr.	548,740	481,670	28,960	1,059,370	137,162
May	543,348	482,437	29,264	1,055,050	136,550
June	552,408	488,179	28,929	1,069,515	138,551
July	555,684	484,768	28,805	1,069,257	138,084
Aug.	540,289	484,845	29,081	1,054,215	136,846
Sept.	536,899	487,936	28,977	1,053,813	137,489
Oct.	536,547	489,556	29,437	1,055,540	136,042
Nov.	539,129	492,895	28,816	1,060,841	136,744
Dec.	555,849	500,507	28,136	1,084,493	138,282
1996 – Jan.	552,952	496,666	27,890	1,077,508	139,993
Feb.	544,188	499,087	27,745	1,071,020	140,565
Mar.	538,932	503,753	29,795	1,072,480	139,338

(1) Rounding may cause discrepancies in totals. – (2) In lire and in foreign currency. – (3) Foreign loans and bonds. – (4) At face value. – (5) Domestic finance to the non-state sector and the

Table a26

DIT (1)
in billions of lire)

Total finance	State sector debt (4)	of which: domestic	Credit: Total domestic (5)	Credit: Total (6)	
511,503	766,627	749,248	1,208,507	1,278,130	.... Dec. – 1986
560,487	883,941	860,619	1,364,982	1,444,428	.... " – 1987
623,985	1,011,738	983,152	1,556,101	1,635,723	.... " – 1988
744,996	1,146,277	1,111,298	1,788,265	1,891,273	.... " – 1989
872,170	1,294,860	1,246,062	2,024,728	2,167,030	.... " – 1990
992,489	1,451,563	1,396,843	2,281,647	2,444,052	.... " – 1991
1,103,778	1,636,283	1,571,630	2,546,728	2,740,060	.... " – 1992
1,185,017	1,768,114	1,694,877	2,740,334	2,953,131	.... " – 1993
1,170,460	1,771,671	1,694,156	2,726,523	2,942,131	.... Jan. – 1994
1,167,117	1,783,764	1,706,726	2,737,101	2,950,881	.... Feb.
1,155,679	1,806,783	1,733,540	2,755,865	2,962,462	.... Mar.
1,149,664	1,824,820	1,753,320	2,770,943	2,974,483	.... Apr.
1,149,387	1,844,014	1,773,695	2,790,253	2,993,401	.... May
1,165,017	1,832,702	1,760,632	2,792,696	2,997,719	.... June
1,163,153	1,837,419	1,760,111	2,790,983	3,000,572	.... July
1,158,618	1,844,410	1,768,556	2,793,516	3,003,028	.... Aug.
1,154,061	1,874,614	1,799,375	2,821,727	3,028,675	.... Sept.
1,155,786	1,901,926	1,828,457	2,853,624	3,057,712	.... Oct.
1,157,335	1,928,483	1,853,175	2,878,296	3,085,818	.... Nov.
1,189,152	1,937,996	1,854,782	2,911,023	3,127,149	.... Dec.
1,174,834	1,950,080	1,867,583	2,910,792	3,124,913	.... Jan. – 1995
1,187,167	1,969,945	1,882,483	2,933,650	3,157,112	.... Feb.
1,196,503	2,001,405	1,908,185	2,966,974	3,197,908	.... Mar.
1,196,532	2,018,960	1,922,029	2,981,398	3,215,492	.... Apr.
1,191,600	2,029,573	1,931,275	2,986,324	3,221,172	.... May
1,208,066	2,016,119	1,906,538	2,976,053	3,224,186	.... June
1,207,341	2,018,216	1,910,615	2,979,872	3,225,556	.... July
1,191,061	2,025,895	1,921,343	2,975,557	3,216,956	.... Aug.
1,191,302	2,053,409	1,947,717	3,001,530	3,244,711	.... Sept.
1,191,582	2,075,608	1,968,610	3,024,150	3,267,189	.... Oct.
1,197,585	2,095,614	1,990,492	3,051,333	3,293,199	.... Nov.
1,222,775	2,082,626	1,976,481	3,060,973	3,305,401	.... Dec.
1,217,500	2,091,968	1,987,742	3,065,250	3,309,468	.... Jan. – 1996
1,211,584	2,104,182	2,001,451	3,072,471	3,315,766	.... Feb.
1,211,818	2,124,692	2,019,100	3,091,580	3,336,510	.... Mar.

state sector. – (6) Domestic and foreign finance to the non-state sector and the state sector.

BANKS: SUPERVISORY CAPITAL (1)
(billions of lire)

	Classification by type of bank						Total	Classification by size		Classification by location of head office	
	Limited companies raising short-term funds	Limited companies raising medium and long-term funds	Cooperative banks	Mutual banks	Central credit institutions	Branches of foreign banks (2)		Major, large and medium sized banks	Small and minor banks	Centre-North	South
						December 1994					
Supervisory capital (3)	**118,065**	**27,377**	**26,646**	**11,359**	**2,040**	**1,031**	**186,518**	**133,439**	**53,079**	**166,606**	**19,912**
Primary capital	101,463	24,288	23,049	10,967	1,801	976	162,544	113,626	48,918	146,232	16,312
of which: capital and reserves	*107,788*	*22,135*	*23,135*	*10,796*	*1,778*	*1,029*	*166,661*	*117,777*	*48,884*	*148,104*	*18,557*
provision for general banking risks	*2,406*	*2,512*	*1,089*	*340*	*36*	..	*6,383*	*4,566*	*1,817*	*5,602*	*781*
intangible assets and goodwill	*4,897*	*112*	*582*	*148*	*12*	*24*	*5,775*	*4,892*	*883*	*5,308*	*467*
Suplementary capital	21,659	3,581	4,087	430	418	55	30,230	25,452	4,778	25,966	4,264
of which: subordinated liabilites (4)	*12,267*	*615*	*1,761*	*6*	–	–	*14,649*	*13,283*	*1,366*	*11,687*	*2,962*
revaluation losses on securities	*2,211*	*58*	*280*	*330*	*11*	*2*	*2,892*	*1,980*	*912*	*2,329*	*563*
loan loss provisions (5)	*3,281*	*1,792*	*423*	*432*	*16*	*52*	*5,996*	*4,360*	*1,636*	*4,895*	*1,101*
Equity interests not included in the consolidation	5,057	492	490	38	179	..	6,256	5,639	617	5,592	664
Memorandum item:											
Excess provisions (6)	*165*	*564*	*60*	*94*	–	–	*883*	*448*	*435*	*647*	*236*
						December 1995					
Supervisory capital (3) (7)	**122,625**	**28,503**	**29,274**	**13,044**	**2,056**	**1,023**	**196,525**	**138,325**	**58,200**	**178,803**	**17,722**
Primary capital	103,231	25,339	23,142	12,527	1,872	974	167,085	114,021	53,064	151,758	15,327
of which: capital and reserves	*106,634*	*23,224*	*23,839*	*12,406*	*1,845*	*1,043*	*168,991*	*116,315*	*52,676*	*153,654*	*15,337*
provision for general banking risks	*1,913*	*2,346*	*1,223*	*348*	*42*	..	*5,872*	*3,771*	*2,101*	*5,041*	*831*
intangible assets and goodwill	*4,618*	*115*	*1,315*	*159*	*13*	*26*	*6,246*	*5,346*	*900*	*5,934*	*312*
Suplementary capital	24,678	3,826	7,063	542	418	49	36,576	30,883	5,693	33,299	3,277
of which: subordinated liabilites (4)	*15,656*	*853*	*4,752*	*32*	–	–	*21,293*	*19,066*	*2,227*	*18,769*	*2,524*
revaluation losses on securities	*1,386*	*40*	*217*	*280*	*8*	*3*	*1,934*	*1,158*	*776*	*1,702*	*232*
loan loss provisions (5)	*2,923*	*1,946*	*482*	*491*	*16*	*54*	*5,912*	*4,166*	*1,746*	*5,444*	*468*
Equity interests not included in the consolidation	5,284	662	931	25	234	..	7,136	6,579	557	6,254	882
Memorandum item:											
Excess provisions (6)	*91*	*806*	*31*	*116*	–	–	*1,044*	*517*	*527*	*868*	*176*
						Equity capital raised (8)					
1994	4,876	91	1,534	19	–	26	6,546	4,870	1,676	5,976	570
1995	1,164	43	836	–41	–	–	2,002	1,077	925	1,218	784
of which: first quarter	*475*	–	*51*	*–94*	–	–	*432*	*320*	*112*	*302*	*130*
1996 first quarter (7)	2,919	–	744	9	–	–	3,672	2,935	737	743	2,929

(1) The classifications are those that were in force at the end of 1995; merged banks have been considered as belonging to the category of the bank with which they were merged. – (2) Branches of non-EU banks only. – (3) The figures refer to February of the following year in order to take account of the provisional financial statements for the year. – (4) Includes "hybrid" capital instruments. – (5) Excludes "excess provisions". – (6) Loan loss provisions in excess of 1.25 per cent of risk-weighted assets. – (7) For some banks includes capital contributed by public sector shareholders. – (8) Share issues for cash net of redemptions.

BANKS: CONTRIBUTION OF OPERATIONS TO SUPERVISORY CAPITAL (1)

(billions of lire)

	Classification by type of bank						Total	Classification by size		Classification by location of head office	
	Limited cos. accepting short-term funds	Limited cos. accepting medium and long-term funds	Cooperative banks	Mutual banks	Central credit institutions	Branches of foreign banks		Major, large and medium-sized banks	Small and minor banks	Centre-North	South
						Operating income					
1993	25,187	3,160	6,134	2,173	487	551	37,692	27,349	10,343	33,789	3,903
1994	18,145	2,627	4,728	1,626	382	434	27,942	19,733	8,209	26,090	1,852
1995 (2)	19,367	2,879	5,406	1,966	269	487	30,374	20,783	9,591	28,258	2,116
						Extraordinary expenses, net					
1993	–88	–76	–112	–84	–2	–16	–378	–116	–262	–192	–186
1994	5,645	181	568	308	37	–68	6,671	5,299	1,372	5,576	1,095
1995 (2)	814	221	–207	–64	4	–104	664	1,124	–460	–13	677
						Sundry provisions					
1993	854	–797	354	18	2	29	460	364	96	808	–348
1994	1,280	–583	301	2	3	14	1,017	809	208	1,463	–446
1995 (2)	1,347	–615	509	11	6	23	1,281	1,071	210	1,255	26
						Charges for loan losses					
1993	12,233	1,508	2,386	296	163	128	16,714	13,146	3,568	12,723	3,991
1994	10,413	844	1,883	203	211	20	13,574	11,043	2,531	10,366	3,208
1995 (2)	11,528	1,354	2,192	260	158	102	15,594	12,661	2,933	10,153	5,441
						Taxes (3)					
1993	8,952	1,288	2,284	111	154	262	13,051	9,599	3,452	11,874	1,177
1994	3,138	1,007	1,187	70	67	232	5,701	3,609	2,092	5,192	509
1995 (2)	5,105	1,115	1,728	96	74	297	8,415	5,254	3,161	7,829	586
						Dividends					
1993	2,207	476	864	65	26	–	3,638	2,690	948	3,305	333
1994	1,607	458	771	50	18	28	2,932	2,124	808	2,790	142
1995 (2)	2,031	522	863	64	18	33	3,531	2,533	998	3,372	159
						Increase in supervisory capital					
1993	1,029	760	358	1,768	144	148	4,207	1,666	2,541	5,270	–1,063
1994	–3,938	720	18	993	46	208	–1,953	–3,151	1,198	703	–2,656
1995 (2)	–1,458	282	321	1,599	9	136	889	–1,860	2,749	5,662	–4,773

(1) The figures refer to banks in operation. The classifications are those that were in force at the end of 1995; merged banks have been considered as belonging to the category of the bank with which they were merged. – (2) Provisional data; excludes banks that failed to report income statement data on time. – (3) The figures for 1994 include the tax on net worth where this was charged to income.

BANKS: CAPITAL ADEQUACY (1) (2)

(billions of lire)

	December 1993			December 1994			December 1995 (3)		
	Number of banks	Billion lire	Average solvency ratio	Number of banks	Billion lire	Average solvency ratio	Number of banks	Billion lire	Average solvency ratio
Classification by size									
Major, large and medium-sized banks ...			11.5			11.2			10.8
Excess amounts	57	39,284		53	39,136		51	38,610	
Shortfalls	1	162		5	1,602		6	2,778	
Small and minor banks			20.5			21.2			20.6
Excess amounts	821	29,396		826	32,301		839	35,115	
Shortfalls	6	52		10	146		11	180	
Classification by type of bank									
Limited companies raising short term funds			11.7			11.4			11.0
Excess amounts	156	36,745		148	36,434		153	36,371	
Shortfalls	2	172		12	1,731		10	2,832	
Limited companies raising medium and long-term funds			16.6			16.0			16.2
Excess amounts	30	13,053		33	13,744		28	13,888	
Shortfalls	4	38		1	17		5	116	
Cooperative banks			14.1			14.8			14.7
Excess amounts	83	10,183		89	12,171		93	13,381	
Shortfalls	1	4		0	0		1	2	
Mutual banks			27.2			26.3			25.4
Excess amounts	605	7,461		605	7,849		612	8,934	
Shortfalls	0	0		2	..		1	8	
Central credit institutions			18.7			20.5			18.3
Excess amounts	4	1,238		4	1,239		4	1,151	
Shortfalls	0	0		0	0		0	0	
Classification by location of head office									
Centre-North			13.2			13.1			12.9
Excess amounts	621	61,252		619	65,450		627	67,464	
Shortfalls	5	42		9	1,350		9	597	
South			11.9			11.1			10.3
Excess amounts	257	7,428		260	5,987		263	6,261	
Shortfalls	2	172		6	398		8	2,361	
Banking system as a whole			**13.0**			**12.9**			**12.6**
Excess amounts	**878**	**68,680**		**879**	**71,437**		**890**	**73,725**	
Shortfalls	**7**	**214**		**15**	**1,748**		**17**	**2,958**	

(1) The classifications are those that were in force at the end of 1995; merged banks have been considered as belonging to the category of the bank with which they were merged. Excludes branches of foreign banks. – (2) The limit of 8 per cent of risk-weighted assets was applied regardless of any special capital requirements in force and of the 7 per cent requirement for banks belonging to groups. – (3) Includes the capital charge for market risk.

BALANCE SHEET
AND PROFIT AND LOSS ACCOUNT

BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

GOLD				
I on hand			2,681,825,470,547	
II on deposit abroad			26,518,623,661,526	29,200,449,132,073
GOLD CLAIMS (EMI)				10,064,296,505,959
CASH ON HAND				6,302,915,336
DISCOUNTS AND ADVANCES				
I bill portfolio			213,432,683,208	
II advances:				
— current account		2.569,166,073,373		
— fixed term		4,682,161,165,000		
— under Treasury Decree of 27.9.1974		–	7,251,327,238,373	
III deferred payments in the clearing system			–	7,464,759,921,581
BILLS FOR COLLECTION WITH CORRESPONDENTS				–
EXTERNAL ASSETS IN FOREIGN CURRENCIES				
I ecus			9,600,281,097,057	
II other:				
— banknotes and foreign currency bills		3,346,750,802		
— current accounts with correspondents		1,586,732,088,877		
— time deposits		1,160,997,961,200		
— other		9,337,897,784,632	12,088,974,585,511	21,689,255,682,568
DOLLAR CLAIMS (EMI)				6,377,508,819,441
ITALIAN FOREIGN EXCHANGE OFFICE (UIC)				
I current account			26,232,918,745,617	
II special accounts			7,792,308,847,505	34,025,227,593,122
SUNDRY CLAIMS ON THE GOVERNMENT				
I under Art. 6 (2c) of Law 483/1993			–	
II other			–	–
CLAIMS ARISING FROM SECURITIES REPURCHASE AGREEMENTS				37,041,422,804,378
SECURITIES				
I government and government-guaranteed securities:				
— freely available		107,358,600,031,021		
— freely available under Law 483/1993		76,205,757,000,000		
— investment of statutory reserves		5,610,096,754,640		
— investment of staff severance pay and pension funds		3,366,293,134,174	192,540,746,919,835	
II securities of companies and agencies:				
— investment of statutory reserves		114,902,190,022		
— investment of staff severance pay and pension funds		522,771,519,526	637,673,709,548	
III shareholdings and participations:				
— subsidiaries				
a) investment of statutory reserves	303,488,028			
b) investment of staff severance pay and pension funds	194,591,885,954	194,895,373,982		
— affiliates				
a) investment of statutory reserves	25,355,500,534			
b) investment of staff severance pay and pension funds	5,723,750,933	31,079,251,467		
— other				
a) investment of statutory reserves	810,216,171,302			
b) investment of staff severance pay and pension funds	798,803,966,093	1,609,020,137,395	1,834,994,762,844	195,013,415,392,227
			carried forward . . .	340,882,638,766,685

LIABILITIES

BANKNOTES IN CIRCULATION		103,248,743,103,000
BANK OF ITALY DRAFTS		1,994,043,846,869
OTHER SIGHT LIABILITIES		
I transfer orders	–	
II other	18,449,031	18,449,031
RESERVE DEPOSITS ON CURRENT ACCOUNT		
I credit institutions subject to the compulsory reserve requirement	71,971,597,623,280	
II other entities	92,236,994,742	72,063,834,618,022
OTHER COMPULSORY DEPOSITS		
I collateral for the issue of banker's drafts and guaranteed personal cheques	6,808,792	
II in respect of companies in the process of incorporation	259,592,225	
III other	27,520,455,350	27,786,856,367
OTHER DEPOSITS ON CURRENT ACCOUNT		86,183,562,738
TIED DEPOSITS ON CURRENT ACCOUNT		–
DEPOSITS FOR CASH DEPARTMENT SERVICES		139,169,078
EXTERNAL ACCOUNTS IN LIRE ON BEHALF OF THE UIC		7,792,308,847,505
EXTERNAL LIABILITIES		
I deposits in foreign currencies	144,554,521,011	
II external accounts in lire	124,574,957,808	
III other	2,087,881,647,750	2,357,011,126,569
ECU LIABILITIES (EMI)		16,441,805,325,400
ITALIAN FOREIGN EXCHANGE OFFICE - current account		–
TREASURY PAYMENTS ACCOUNT		63,122,115,377,041
SINKING FUND FOR GOVERNMENT SECURITIES		9,011,651,780,075
SUNDRY LIABILITIES TOWARDS THE GOVERNMENT		1,248,807,466,614
LIABILITIES ARISING FROM SECURITIES REPURCHASE AGREEMENTS		1,205,848,581,400
SUNDRY PROVISIONS		
I for gold price fluctuations (under Decree Law 867/1976 and Art.104 (1b) of the income tax code)	35,502,752,477,983	
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	4,244,057,300,200	
V for exchange rate adjustments (under Art. 104 (1c) of the income tax code)	1,779,330,447,105	
VI for diminution in value of securities	7,914,082,463,759	
VII for contingent losses	2,873,006,748,480	
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	4,180,973,986,745	
XII for staff severance pay and pensions	5,802,217,402,250	
XIII for grants to BI pensioners and their surviving dependents	2,196,714,396	
XIV for severance pay of contract staff under Law 297/1982	1,900,787,987	
XV for staff costs in respect of wage negotiations	245,282,772,000	68,286,259,093,278
	carried forward . . .	346,886,557,202,987

BALANCE SHEET

AMOUNTS IN LIRE

ASSETS

		brought forward . . .	340,882,638,766,685
UIC ENDOWMENT FUND			500,000,000,000
PARTICIPATION IN EMI			199,038,244,011
INTANGIBLE FIXED ASSETS (net of amortization)			
I procedures, studies and designs		95,412,315,321	
II other deferred charges		17,895,952,031	113,308,267,352
TANGIBLE FIXED ASSETS			
I buildings - used by the Bank		3,664,817,987,020	
II buildings - staff severance pay and pension fund investments		627,131,799,603	
III furniture and fittings		169,072,846,465	
IV equipment		366,237,171,491	
V coins and collections		2,244,093,038	
less: ACCUMULATED DEPRECIATION		1,465,285,273,235	3,364,218,624,382
OTHER INVESTMENTS OF STAFF SEVERANCE PAY AND PENSION FUNDS			20,592,833,327
STOCKS OF THE TECHNICAL DEPARTMENTS			
I procedures, studies and designs in preparation		36,387,477,340	
II banknotes in production		7,798,447,719	
III other		9,601,361,079	53,787,286,138
SUNDRY ASSETS			
I suppliers for payments on account		246,056,147,296	
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	3,534,499,159,335	6,428,355,994,004	
III other items		2,563,250,221,569	9,237,662,362,869
ACCRUED INCOME			4,137,315,867,931
PREPAID EXPENSES			13,059,086,056
			358,521,621,338,751
MEMORANDUM ACCOUNTS			
I Securities and other valuables		2,448,064,951,723,243	
II Depositaries of securities and valuables		21,298,532,041,205	
III Unused overdraft facilities		205,955,397,719	
IV Debtors for securities, foreign exchange and lire receivable (BI forward sales)		98,671,835,593,581	
V Securities, foreign exchange and lire receivable (BI forward purchases)		43,649,854,970,260	
VI Securities, foreign exchange and lire receivable (order suspense accounts)		665,015,521,033	
VII Debtors for securities, foreign exchange and lire receivable (order suspense accounts)		1,923,922,763,963	2,614,480,068,011,004
		TOTAL . . .	**2,973,001,689,349,755**

Audited and found correct. - Rome, 30 April 1996

THE AUDITORS
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
MASSIMO STIPO
GIANFRANCO **ZANDA**

LIABILITIES

brought forward . . .		346,886,557,202,987
SUNDRY LIABILITIES		
I sundry creditors	104,651,852,735	
II other	574,101,325,574	678,753,178,309
ACCRUED EXPENSES		366,534,264,102
DEFERRED INCOME		170,345,083,919
CAPITAL		300,000,000
ORDINARY RESERVE		3,400,477,835,370
EXTRAORDINARY RESERVE		3,667,368,516,715
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)		34,293,567,970
NET PROFIT FOR DISTRIBUTION		701,254,162,343
		358,521,621,338,751
MEMORANDUM ACCOUNTS		
I Depositors of securities and other valuables	2,448,064,951,723,243	
II Securities and valuables on deposit	21,298,532,041,205	
III Holders of unused overdraft facilities	205,955,397,719	
IV Securities, foreign exchange and lire for delivery (BI forward sales)	98,671,835,593,581	
V Creditors for securities, foreign exchange and lire for delivery (BI forward purchases)	43,649,854,970,260	
VI Creditors for securities, foreign exchange and lire for delivery (order suspense accounts)	665,015,521,033	
VII Securities, foreign exchange and lire for delivery (order suspense accounts)	1,923,922,763,963	2,614,480,068,011,004
TOTAL . . .		**2,973,001,689,349,755**

THE ACCOUNTANT GENERAL

VINCENZO PONTOLILLO

THE GOVERNOR

ANTONIO FAZIO

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

ADMINISTRATIVE COSTS			
central and local boards		3,636,456,893	
staff:			
wages and salaries and related costs	1,100,828,238,590		
pensions and severance payments	316,121,107,591	1,416,949,346,181	
professional services		212,550,996,970	
other		342,778,078,446	1,975,914,878,490
TAXES AND DUTIES			
stamp duty on the circulation of banknotes and Bank of Italy drafts		131,353,132,400	
taxes on income for the year		3,490,000,000,000	
other		189,212,401,914	3,810,565,534,314
INTEREST PAID			
on banks' compulsory reserves		4,553,172,675,289	
on Treasury accounts:			
on the Treasury payments account	5.249,539,757,243		
on other accounts	756,010,831,045	6,005,550,588,288	
other		651,350,813,737	11,210,074,077,314
FINANCIAL COSTS ARISING FROM SECURITIES REPURCHASE AGREEMENTS			169,594,547,925,
EXPENDITURE ON SECURITIES TRANSACTIONS			359,076,817
EXPENDITURE ON FOREIGN TRANSACTIONS			42,162,563
LOSSES ON SECURITIES			–
LOSSES ON FOREIGN EXCHANGE			25,375,756,074
LOSSES ON SUNDRY FINANCIAL TRANSACTIONS			–
LOSSES ON THE DISPOSAL OF ASSETS			
securities		116,686,024	
buildings		–	
other		2,681,192	119,367,216
CONTRIBUTIONS TO CHARITIES AND SOCIAL AND CULTURAL ACTIVITIES			5,966,897,219
TECHNICAL DEPARTMENTS – INITIAL STOCKS			74,936,782,505
EXPENDITURE ON TRANSACTIONS WITH THE TREASURY			1,421,041,571,000
REVALUATION LOSSES (1)			
on securities		–	
on foreign exchange		–	
other		–	–
DEPRECIATION			
of buildings		89,100,429,483	
of furniture and fittings		13,661,622,532	
of equipment		52,701,524,811	
of procedures, studies and designs		78,961,447,154	
of other deferred charges		12,544,364,858	
other		58,313,875	247,027,702,713
APPROPRIATION OF INVESTMENT INCOME TO RESERVES			
to the ordinary reserve		357,998,747,099	
to the extraordinary reserve		394,548,294,966	752,547,042,065
		carried forward ...	19,693,565,396,215

(1) In excess of the related provisions.

INCOME AND PROFITS

INTEREST RECEIVED				
on discounts and advances:				
bill portfolio		16,065,144,952		
advances		348,802,848,227	364,867,993,179	
on lending to the UIC			1,473,710,982,031	
on lending abroad			1,009,779,459,521	
other			75,431,445,881	2,923,789,880,612
INTEREST, PREMIUMS AND DIVIDENDS ON SECURITIES				
freely available				
interest-bearing:				
Treasury bills	799,930,949,022			
variable rate Treasury credit certificates	2,743,793,421,343			
other government securities	9,387,994,991,809	12,931,719,362,174		
government-guaranteed securities		1,149,750,000	12,932,869,112,174	
investment of reserves and staff severance pay and pension funds				
interest-bearing:				
government and government-guaranteed securities	1,010,204,245,633			
other securities	51,880,017,830	1,062,084,263,463		
from investments in:				
subsidiaries	4,137,218,120			
affiliates	18,786,404,295			
other	72,077,744,187	95,001,366,602	1,157,085,630,065	14,089,954,742,239
FINANCIAL REVENUES ARISING FROM SECURITIES REPURCHASE AGREEMENTS				3,079,920,809,242
INCOME FROM PARTICIPATION IN THE UIC ENDOWMENT FUND				205,935,177,293
SECURITIES ISSUE AND PURCHASE DISCOUNTS/PREMIUMS				640,496,872,977
PROFITS ON SECURITIES				570,518,643,135
PROFITS ON FOREIGN EXCHANGE				–
carried forward . . .				21,510,616,125,498

PROFIT AND LOSS ACCOUNT

AMOUNTS IN LIRE

EXPENDITURE AND LOSSES

brought forward . . .		19,693,565,396,215
ALLOCATIONS TO PROVISIONS		
for losses on bill portfolio	–	
for diminution in value of foreign exchange	667,000,000,000	
for diminution in value of securities	1,400,000,000,000	
for contingent losses	70,000,000,000	
for insurance cover	–	
for building works	–	
for renewal of equipment	–	
for staff severance pay and pensions	163,745,413,372	
for grants to BI pensioners and their surviving dependents	318,581,919	
for severance pay of contract staff under Law 297/1982	291,231,620	
for staff costs in respect of wage negotiations	141,652,772,000	2,443,007,998,911
PRIOR-YEAR ADJUSTMENTS		3,430,025,748
		22,140,003,420,874
NET PROFIT		701,254,162,343
TOTAL . . .		**22,841,257,583,217**

APPROPRIATION

TO THE ORDINARY RESERVE	
TO THE EXTRAORDINARY RESERVE	
TO SHAREHOLDERS	
TO THE TREASURY	

Audited and found correct. - Rome, 30 April 1996

THE AUDITORS
MARIO CATTANEO
VITTORIO CODA
ARNALDO MAURI
MASSIMO STIPO
GIANFRANCO ZANDA

INCOME AND PROFITS		
brought forward . . .		21,510,616,125,498
PROFITS ON SUNDRY FINANCIAL TRANSACTIONS		21,477,710,000
COMMISSIONS, RECOVERIES AND OTHER FINANCIAL INCOME		267,671,443,055
INCOME FROM BUILDINGS		21,908,165,260
PROFITS ON THE DISPOSAL OF:		
securities	2,961,734,134	
buildings	757,389,956	
other property	1,269,338,902	4,988,462,992
CAPITALIZATION OF OTHER DEFERRED CHARGES		18,423,548,876
TECHNICAL DEPARTMENTS – FINAL STOCKS		53,787,286,138
TECHNICAL DEPARTMENTS – PROCEDURES, STUDIES AND DESIGNS COMPLETED DURING THE YEAR		59,594,835,292
REVALUATION GAINS		
on securities	873,149,414,534	
on foreign exchange	–	
on other assets	–	873,149,414,534
PRIOR-YEAR ADJUSTMENTS		9,640,591,572
TOTAL . . .		**22,841,257,583,217**

OF PROFIT	
	140,250,832,469
	140,250,832,469
	30,000,000
	420,722,497,405
TOTAL . . .	**701,254,162,343**

THE ACCOUNTANT GENERAL

VINCENZO PONTOLILLO

THE GOVERNOR

ANTONIO FAZIO

NOTES TO THE ACCOUNTS ([1])

The accounts for 1995 reflect the restrictive stance of monetary policy during the year and the full effects of recent institutional changes and innovations in civil and tax law introduced in connection with the process of European unification.

Over the last few years the composition of the Bank's balance sheet has changed considerably: the share of government securities in total assets has risen, with part of the portfolio consisting of the paper issued to close the Treasury's current account and not remunerated at market rates; the share of deposits made in compliance with the compulsory reserve requirement has diminished, while that of liabilities remunerated at market-related rates has increased.

On the assets side of the accounts for 1995, holdings of securities remained at the high level of the previous year. Lending to banks through securities repurchase agreements decreased, while greater recourse was made to other forms of refinancing, especially fixed-term advances. The balances of the UIC 's current account and foreign currency assets also increased. Purchases of official ecus, made mainly in the second half of the year, were the decisive factor in the latter's growth. Some of the assets acquired under foreign currency swaps were again transferred to the UIC.

On the liabilities side, the 1994 reform of the compulsory reserve regime and the limited growth in deposits led to a decline in the banks' reserve deposits. By contrast, the balances on the Treasury's accounts increased; the sinking fund for the redemption of government securities contributed to this result, despite the withdrawals made during the year for the first buy-back operations. The increase in banknotes in circulation was smaller than in 1994.

As regards the profit and loss account, the average increase in the yields on earning assets was larger than that in the returns paid on liabilities and this, combined with the shift in the composition of assets and liabilities referred to above, boosted the results for the year.

Net operating income before allocations to provisions and taxes on income and net worth rose from 5,698 to 6,739 billion lire. The large increase

([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.

in taxes for the year from 1,080 to 3,595 billion, explained by the substantial revaluation losses recorded on securities in 1994, resulted in the gross operating profit after taxes falling from 4,618 to 3,144 billion. Allocations to provisions declined from 3,792 to 2,443 billion, so that the net profit for the year declined from 826 to 701 billion.

Changes in valuation methods

The valuation methods adopted are unchanged compared with the previous year except for:

— securities not held as financial fixed assets, which are valued by applying the weighted average cost method instead of the LIFO method with annual intervals;

— purchase discounts/premiums on bonds held as financial fixed assets (calculated as the difference between the purchase price and the redemption value), which are now recorded.

In addition, issue discounts accruing during the year are capitalized at the end of the year, net of withholding tax.

The foregoing changes complete the process of bringing the Bank's accounts into line with the innovations in civil and tax law.

Had the valuation methods applied in 1994 also been adopted in 1995, the gross operating profit for the year would have been 185 billion lire less than reported (2,959 billion, compared with 3,144 billion).

The main accounting policies adopted are described at the end of these notes.

Information on the balance sheet

Gold, external assets and liabilities and claims on and liabilities towards the UIC. — The value of the Bank's gold (the amount of which remained unchanged at 1,504 tonnes) decreased by 785 billion lire as a result of the fall in the price of a fine gram from 19,934.7 to 19,413.3 lire. For the same reason gold claims on the EMI (corresponding to the 518 tonnes of gold receivable at the maturity of the quarterly swap entered into on 11 October 1995) decreased by 270 billion lire.

External assets in foreign currencies increased by a total of 2,997 billion lire. The component in ecus increased by 2,209 billion as a result of the higher exchange rate applied in the last swap of the year (2,078.92, as against 1,946.74 in 1994) and the increase of 821 million ecus in the availability of official ecus, which was primarily attributable to the purchase of 2,182 million ecus effected in order to replenish the official ecu reserves. Other external assets in foreign currencies increased by 788 billion lire, primarily owing to the growth in the Bank's holdings of marks and ecus, which was only partly offset by the decline in that of US dollars.

Claims arising from foreign currency swaps increased substantially; those denominated in marks rose from DM 5 billion to DM 12 billion and those in US dollars from $16.5 billion to $18 billion. Part of the foreign currency acquired by way of temporary operations was again transferred to the UIC ($13 billion at the end of the year, compared with $11.5 billion at the end of 1994).

The item *dollar claims on the EMI* refers to the amount of US currency receivable at the maturity of the swap entered into on 11 October 1995 and declined by 823 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 decrease in the liabilities item *ecu liabilities towards the EMI.*

The balance of the *ordinary current account with the UIC* increased by 1,976 billion lire, while that of the *special accounts with the UIC* increased by 353 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.

The new item *participation in EMI* amounted to 199 billion lire at the year-end exchange rate (corresponding to 98 million ecus or 15.85 per cent of EMI's total capital).

The *UIC endowment fund* totaled 500 billion lire.

External liabilities increased by a total of 1,569 billion lire. The subitem *other,* which refers to the position with the Bank for International Settlements, amounted to 2,088 billion lire; deposits in foreign currencies and external accounts in lire amounted to 145 and 124 billion respectively.

The Bank's holdings of *government and government-guaranteed securities* amounted to 192,541 billion lire; excluding the 76,206 billion of securities assigned to the Bank to close the Treasury's former current account, the total was 116,335 billion and included 3,331 billion of Treasury bills, 26,532 billion of Treasury credit certificates and the like, and 85,249 billion of Treasury bonds.

The balance of the *Treasury payments account* rose from 58,018 to 63,122 billion lire.

The *sinking fund for government securities* increased by 3,091 billion lire, primarily as a result of the crediting of privatization proceeds. During the year the fund was used to effect buy—backs totaling 5,827 billion.

Other claims on and liabilities towards the Treasury. The Sundry claims on the government were settled in full during the year. Sundry liabilities towards the government totaled 1,249 billion lire at the end of the year and consisted mostly of the residual 421 billion of financial revenues that accrued to the Treasury in 1995, the 447 billion of interest that accrued on the sinking fund for government securities in the second half of the year and the 273 billion arising from the Bank's role as paying agent for Treasury credit certificates.

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 6 billion lire.

Claims arising from securities repurchase agreements decreased by 7,576 billion lire, while liabilities arising from securities repurchase agreements increased by 331 billion.

The repo claims referred to 5,029 billion of Treasury bills, 14,505 billion of Treasury bonds and 17,507 billion of Treasury credit certificates and other securities; the repo liabilities referred to 1,156 billion of Treasury bonds and 50 billion of Treasury credit certificates and the like.

Claims on and liabilities towards banks. — Fixed-term advances increased by 4,083 billion lire, while current account advances rose by 681 billion and the bill portfolio by 32 billion.

Among the Bank's liabilities towards banks, *reserve deposits on current account* fell by 15,316 billion lire, primarily owing to the further effects of the entry into force in 1994 of the new compulsory reserve regime. The total excludes amounts that have been mobilized and includes any amounts in excess of the reserve requirement. The average amount of compulsory reserves due from banks decreased by 19.9 per cent compared with 1994.

Banknotes and *Bank of Italy drafts* in circulation increased by 3,224 and 528 billion lire respectively.

Among the the *other asset items: intangible fixed assets (net of amortization)* rose from 87 to 113 billion lire (95 billion of completed procedures, studies and projects, and 18 billion of other deferred charges);

tangible fixed assets (buildings, furniture and fittings, equipment, and coins and collections) rose from 3,271 to 3,364 billion net of 1,465 billion of accumulated depreciation. The cost of *buildings* increased by 170 billion lire as a result of 174 billion of purchases and capitalized restructuring costs and 4 billion of sales. The items *furniture and fittings* and *equipment* rose by 13 and 46 billion respectively.

Accrued income and prepaid expenses amounted to 4,137 and 13 billion lire respectively.

On the liabilities side: *accrued expenses* and *deferred income* amounted to 367 and 170 billion lire respectively; *sundry provisions* rose by 3,640 billion as a result, on the one hand, of 2,443 billion of allocations to provisions and 3,595 billion set aside to pay tax for the year, and, on the other, of 1,055 billion arising from the revaluation loss on gold, of 1,241 billion of withdrawals from provisions (1,080 billion from the tax provision and 161 billion from the provision for diminution in value of securities) and 102 billion arising from the reduced amount of unrealized gains on foreign currency holdings included in the provision for exchange rate adjustments under 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 shareholders is shown in the table below.

SHAREHOLDINGS

	At 31 December 1994				At 31 December 1995			
	Number	Shares held (1)	%	Votes	Number	Shares held	%	Votes
Shareholders with voting rights	**90**	**298,487**	**99.5**	**769**	**87**	**299,932**	**100.0**	**770**
Public law credit institutions	1	7,500	2.5	19	–	–	–	–
Limited company banks	81	244,487	81.5	625	79	253,432	84.5	645
Social security institutions	1	15,000	5.0	34	1	15,000	5.0	34
Insurance companies	7	31,500	10.5	91	7	31,500	10.5	91
Shareholders without voting rights	**8**	**1,513**	**0.5**	–	**7**	**68**	..	–
Total	**98**	**300,000**	**100.0**	**769**	**94**	**300,000**	**100.0**	**770**

(1) Face value, 1,000 lire each.

Reserves. — The movements in the ordinary and extraordinary reserves in 1995 are shown in the table below.

MOVEMENTS IN THE ORDINARY AND EXTRAORDINARY RESERVES

	Ordinary reserve	Extraordinary reserve
Balance at 31 December 1994	**2,879,647,360,924**	**3,110,188,510,436**
increase:		
due to appropriation of 20 per cent of profits for the year 1994	165,281,869,330	165,281,869,330
due to income received in 1995 from investment of reserves	357,998,747,099	394,548,294,966
decrease:		
due to distribution to shareholders of a part of the income accruing in the course of 1994 (Article 56 of the Statute	2,450,141,983	2,650,158,017
Balance at 31 December 1995	**3,400,477,835,370**	**3,667,368,516,715**

Information on the profit and loss account

Total *interest received* rose by 1,167 billion lire, primarily owing to the increases of:

— 662 billion in *interest on lending to UIC;* and

— 195 billion in *interest on discounts and advances;* and

— 312 billion in *interest on lending abroad.*

Interest, premiums and dividends on securities increased by 1,615 billion lire. The interest and premiums on freely available government and government-guaranteed securities amounted to 12,933 billion; the average rate of return — excluding the securities assigned to the Bank to convert the overdraft on the Treasury's former current account, which earn interest at the rate of 1 per cent — was equal to 11.4 per cent. The interest and dividends on the securities acquired for the investment of provisions and severance pay and pension funds rose by 150 billion, and the average rate of return to 11.06 per cent.

Financial revenues arising from repurchase agreements declined by 698 billion lire, while the average rate of return on these transactions rose from 8.09 to 9.92 per cent.

Income from participation in the UIC endowment fund increased by 141 billion lire as a result of the rise in UIC 's net profit from 159 billion in 1993 to 724 billion in 1994.

Securities issue and purchase discounts/premiums amounted to 640 billion lire, while *profits on securities,* determined on the basis of their weighted average cost, amounted to 571 billion.

Revaluation gains on securities written down in prior years (primarily in 1994) rose from 6 to 873 billion lire and mostly referred to freely available government securities.

Administrative costs decreased by 78 billion lire (3.8 per cent). *Pensions and severance payments* declined by 7 and 98 billion respectively; *wages and salaries and related costs* rose by 15 billion or 1.4 per cent.

The costs in respect of the *central and local boards,* including the emoluments paid to the members of the Board of Directors and the Board of Auditors, were basically unchanged at 4 billion lire.

Taxes and duties rose by 2,605 billion lire, primarily owing to the increase of 2,507 billion in *taxes on income for the year.* The *stamp duty on the circulation of banknotes and Bank of Italy drafts* increased by 48 billion lire. *Other taxes and duties* increased by 50 billion lire, primarily as a result of the payment of 39 billion of deferred tax on revaluation reserves in accordance with Law 85/1995 and 8 billion of tax on the Bank's net worth.

Interest paid rose by 640 billion lire, primarily owing to the increase of 1,139 billion lire in that on the Treasury payments account and of 721 billion in that on the sinking fund for the redemption of government securities. On the other hand, the *interest paid on compulsory bank reserves* declined by 1,271 billion lire, almost entirely as a result of the decrease, from 103,387 to 82,809 billion, in the average amount of compulsory reserves due from banks.

Financial costs arising from securities repurchase agreements increased by 103 billion lire, rising from 67 to 170 billion.

Losses on foreign exchange amounted to 25 billion lire, compared with profits of 436 billion in 1994. This outcome was determined primarily by losses of 612 billion lire on US dollars, and gains of respectively 521 and 61 billion on German marks and Japanese yen.

Expenditure on transactions with the Treasury declined by 594 billion lire to 1,421 billion, almost entirely as a result of the decrease in the average amount of compulsory reserves due from banks.

The item *attribution of investment income to reserves* rose from 602 to 753 billion lire and comprised the income arising from the investment of the Bank's ordinary and extraordinary reserves, which is attributed to the same in accordance with Article 55 of the Statute.

Allocations to provisions amounted to 2,443 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. Revaluation 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 tax code).

Securities

SECURITIES NOT HELD AS FINANCIAL FIXED ASSETS:

— for the purpose of determining profits and losses, such securities are valued by applying the weighted average cost method;

— the valuation is effected as follows:

a) for listed securities: 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 (the "normal value");

b) for unlisted bonds: at the lower of cost and the "normal value" of listed securities with comparable features; securities acquired in the last month of the year and those redeemable in the next financial year are not written down;

c) for unlisted shares: at the lower of cost and the corresponding proportion of the shareholders' equity shown in the latest published accounts of the investee company;

d) for Treasury bills: 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 rate corresponding to the purchase price.

The cost of listed and unlisted bonds acquired since 1 December 1983 includes the accrued portion of the issue discount (calculated as the difference between the issue price and the redemption value), net of withholding tax.

SECURITIES HELD AS FINANCIAL FIXED ASSETS:

— for the purpose of determining profits and losses on disposals, such securities are valued by applying the specific cost;

— the valuation is effected as follows:

a) for listed and unlisted bonds: at cost or a lower value that takes account of special circumstances concerning the issuer;

b) for listed shares: 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;

c) for unlisted shares: at the lower of cost and the corresponding proportion of the shareholders' equity shown in the latest published accounts of the investee company.

The cost of listed and unlisted bonds includes the accrued portion of the purchase discount/premium (calculated as the difference between the purchase price and the redemption value), net of withholding tax.

Both for securities not held as financial fixed assets and for those held as financial fixed assets:

— amounts written off as a result of the application of the foregoing methods are charged to the *Provision for diminution in value of securities;*

— amounts written off in prior years (starting from 1993) are written back, up to the cost of the securities, when the conditions that determined the writedown no longer obtain.

Intangible fixed assets

PROCEDURES, STUDIES AND DESIGNS:

— are stated at cost, of purchase or production, and 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 stated at cost and 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 residual duration of the contract.

Tangible fixed assets

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 1995 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 (2 billion lire) was taken to the related reserve.

FURNITURE AND FITTINGS AND EQUIPMENT:

— are stated at cost. Depreciation 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.

Stocks of the technical departments

PROCEDURES, STUDIES AND DESIGNS IN PREPARATION

BANKNOTES IN PRODUCTION

OTHER (INVENTORIES):

— are stated at production cost; inventories are valued by applying the LIFO method.

Futures contracts on government securities

— income in respect of contracts that have been partly or wholly closed out or that have matured is determined by applying 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.

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 1995 of 701,254,162,343 lire has been allocated as follows (amounts in lire):

as resolved by the Board of Directors:	
– 20 per cent to the ordinary reserve	140,250,832,469
– 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	140,250,832,469
– an additional amount equal to 4 per cent of the share capital to shareholders	12,000,000
– the remaining amount to the Treasury	420,722,497,405
TOTAL	701,254,162,343

Pursuant to Article 56 of the Statute, the Board of Directors has also proposed the distribution to shareholders – drawing on the income earned on the ordinary and extraordinary reserves – of an additional 5,989.8 million lire, equal to 1,996.6 per cent of the share capital and to 0.1 per cent of the total reserves at 31 December 1994.

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 1995 is equal to 6,019.8 million lire, corresponding to 20,066 lire per share.

THE GOVERNOR
Antonio Fazio

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1995

DIRECTORATE

Antonio FAZIO	– Governor and chairman of the board of directors
Vincenzo DESARIO	– Director general
Tommaso PADOA-SCHIOPPA	– Deputy director general
Pierluigi CIOCCA	– Deputy director general and Secretary to the Board

BOARD OF DIRECTORS

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Francesco CONTI
Giampaolo DE FERRA
Gaetano DI MARZO*
Paolo Emilio FERRERI*
Giuseppe GIOIA
Paolo LATERZA
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Giulio PONZELLINI*
Mario SARDELLA
Alberto ZAPPONINI

* Member of the Executive Committee

BOARD OF AUDITORS

Mario CATTANEO
Vittorio CODA
Arnaldo MAURI

CENTRAL MANAGERS

Antonio FINOCCHIARO	– Secretary general
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 economic research
Vincenzo PONTOLILLO	– Accountant general
Bruno BIANCHI	– Central manager for banking supervision
Pietro DE VECCHIS	– Chief legal adviser
Stefano LO FASO	– Central manager for central bank operations

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 industries 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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