BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY 2000

ABRIDGED REPORT FOR THE YEAR 1999

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THE INTERNATIONAL ECONOMY

Looking back at the nineties

The decade just ended was marked by the emergence of a single, worldwide financial market. The process was driven by the effects produced by the liberalization of capital movements that had begun in the preceding decades and by financial innovation and advances in telecommunications. It led to a pronounced expansion in financial assets in relation to world GDP and wealth, especially for instruments that are not directly controllable by national monetary authorities. The growth in international liquidity accelerated after 1995, partly as a consequence of the easing of monetary conditions in Japan and Germany. Share prices in all the leading markets apart from Japan began an exceptional rise in the same year. In most countries price/earnings ratios are now much higher than the historical average; today’s price levels may be due to investors demanding a much lower risk premium for equity investments and expectations of large increases in future profits.

The integration of the international capital market in the nineties eased the constraints on growth imposed by the availability of domestic savings in many parts of the world; there were nonetheless inefficiencies in the allocation of resources at world level. The national financial markets of numerous emerging countries were developed and opened up; many of these countries became borrowers again after a long period of exclusion from the international capital markets in the wake of the debt crisis of the early eighties. Flows of private capital to the emerging economies, which were virtually non-existent in the eighties, grew considerably, albeit very unevenly, especially as regards portfolio investment and bank credit. Africa and some countries in southern Asia and Latin America nonetheless continue to be excluded from the private capital market and have to rely exclusively on official sources of finance.

The episodes of instability that accompanied the globalization of finance caused economic activity and employment to contract seriously in the countries affected. The banking and foreign exchange crises that succeeded each other in the second half of the decade, ranging from the crisis that hit Mexico and other Latin American countries in 1995 to the more recent crises in Asia, Russia and Brazil, revealed the difficulty of governing a system marked by a high and rising degree of integration among goods and capital markets against a background of independent economic policies. Integration has speeded up the spread of turbulence, not only within a given region but also to geographically distant countries characterized by limited integration and different levels of development, with potentially systemic repercussions.

The need to strengthen the instruments for preventing crises, improve their management and curb their propagation led the international community to embark, after the Mexican crisis, on a far-reaching review of the architecture of the international monetary and financial system. The proposals for its reform, the key aspects of which were outlined at the summit meeting of the Group of Seven countries in Cologne in June 1999, move in three main directions: the role of the international financial institutions; the involvement of the private sector in forestalling and resolving crises; and the strengthening of the regulation and surveillance of markets and financial institutions.

The strategic role of the IMF as the universal guardian of macroeconomic and financial stability and in the prevention of crises was reaffirmed at the annual meetings of the International Monetary Fund and World Bank held in Washington in April 2000. A strengthening of the Fund’s surveillance of individual countries’ financial conditions was advocated and of its action to encourage emerging economies to adopt international standards and codes of good practice. Emphasis was also placed on the importance of the Fund’s role in encouraging transparency and the dissemination of statistics based on standard criteria. The possibility of the Fund arranging medium-term financial assistance was not ruled out, provided it was accompanied by reform programmes. The problems connected with the excessive and inconsistent use of credit lines will have to be addressed by modifying the cost and maturity of operations. The priority objective for the World Bank and Regional Development Banks of implementing poverty-reduction programmes in the poorest countries was also reaffirmed. Agreement was reached on the general principles on which the involvement of the private sector in resolving crises will need to be based; the exact form of private sector involvement will have to be established in the light of the circumstances of each case as assessed by the IMF. In addition, the recommendations contained in the three reports prepared by the working groups set up within the Financial Stability Forum will be implemented. In particular, the recommendations concern the establishment of guidelines for the management of the public debt and the reserves in order to attenuate the destabilizing effects of short-term capital movements, indirect control over the financing of highly-leveraged institutions, and more effective supervisory arrangements for offshore centres.

Ten years ago the economy of the United States was not only in recession but appeared to be ensnared in structural problems. Even though GDP was higher per capita and per employee than anywhere else in the world, productivity had grown at a very sluggish pace in the eighties; the ratio of investment to GDP, already lower than in the other leading industrial economies, had declined in the second half of that decade; the country's leadership in technological innovation was narrowing. Japan, by contrast, had achieved rapid growth in the eighties, driven by exports and investment, in technologically advanced as well as traditional sectors. The rate of increase in productivity had been very high, especially in manufacturing; by the end of the decade expenditure on research and development had outstripped that of the United States in relation to GDP. The European Union was in an intermediate position as regards the level and rate of increase in productivity and the rate of capital accumulation; on the other hand, the ratio to GDP of expenditure on research and development was lower than in the two other economic areas.

The nineties saw a sea change. The US economy recorded exceptional and unexpected results. The expansionary phase that began in the spring of 1991 and is still under way was marked by low inflation, a very large increase in investment and, especially in the second half of the decade, substantial gains in productivity coupled with rapid growth in employment. The underlying cause of the prolonged expansion of the US economy was the widespread adoption of highly productive new technologies, fostered by the acceleration in investment in information technology, which rose to over 30 per cent of the total. According to some observers, the massive drive to invest, rationalize and modernize production facilities raised the potential growth rate of the US economy significantly, to as much as 4 per cent, compared with earlier estimates of 2.25-2.5 per cent. It nonetheless remains questionable whether the rates of increase in productivity recorded in the last four years can be maintained in the medium term.

At the beginning of the nineties the Japanese economy entered a phase of depression from which it is still struggling to emerge. The causes are to be found in: the serious difficulties that beset the banking and financial system after the bursting of the speculative bubble that had driven up share and property prices at the end of the eighties; the hesitancy and tardiness with which economic policy measures to support the economy were taken, especially in the budgetary field; the loss of competitiveness produced by the large rise in the yen in the first half of the decade and growing competition from other Asian countries. The postwar model of development, based on the expansion of exports fuelled by large and continuous gains in productivity, came unstuck. GDP and productivity grew at less than half the rates recorded in the eighties. Capital expenditure stagnated and in 1999 the ratio of private-sector investment to GDP was lower than in the United States. Deflation emerged once more as the most serious threat to an advanced economy.

In Europe the nineties were marked by two events of historical importance: the political and economic unification of Germany in 1990 and the start of the third stage of Economic and Monetary Union on 1 January 1999, with the adoption of the single currency in 11 countries of the European Union. The achievement of a high degree of lasting convergence, in line with the objectives laid down in the Maastricht Treaty, required a commitment on the part of all the EU countries and called for rigorous monetary and budgetary policies. Between 1990 and 1998 the average rate of inflation in the euro-area countries fell from 4.4 to 1.1 per cent; the general government deficit contracted from 4.2 to 2 per cent of GDP. The major efforts made in curbing inflation and consolidating the public finances were accompanied by action to remove the factors of rigidity in the labour market and increase competition in the markets for goods and services, although this was less incisive. Capital expenditure slowed significantly in the first half of the decade and only gathered pace again in the last few years. The growth in economic activity slackened. The rate of increase in productivity fell compared with the eighties and was down by half compared with the seventies.

From the middle of the nineties onwards, the prospect of a vast economically integrated area with a single currency provided the countries of Central and Eastern Europe, engaged in the arduous task of transforming their economies, with a fundamental reference point for the introduction of arrangements consistent with free-market principles. In December 1999 the European Council decided to initiate formal accession negotiations with 10 countries in the area.

Developments in 1999

The easing of monetary conditions in the United States late in 1998 and in Europe early in 1999 to attenuate the recessionary impact of financial crises achieved the desired results. Economic activity strengthened significantly from the middle of 1999 and world GDP increased by 3.3 per cent in 1999, as against 2.5 per cent in 1998, and exceeded the forecasts made by the international organizations a year ago by about one percentage point. Thanks to the monitoring and adaptation of information systems throughout the world and to the precautionary measures taken by the monetary authorities, the transition to the year 2000 had no repercussions on the orderly conduct of economic activity.

The rapid growth of the world economy last year was due above all to the continuing boom in consumption and investment in the United States. The Asian countries hardest hit by the crisis, most notably South Korea, returned to very rapid growth that far exceeded the most optimistic forecasts. In China and India, which together account for more than 15 per cent of world GDP, output continued to grow at a rate of around 7 per cent. In Russia, despite the consequences of the grave financial crisis and the uncertain political situation, economic activity expanded by more than 3 per cent, thanks in part to the rise in oil prices. Only Latin America suffered a significant slowdown, with growth falling from 2.1 to 0.1 per cent. Owing to the loss of competitiveness due to the devaluation of the Brazilian *real* some countries, including Argentina, registered a severe contraction of GDP. In the latter part of the year economic activity in the region staged a recovery, fostered by the improvement in the terms of trade of the countries exporting oil and raw materials and the acceleration in world trade.

The US expansion continued for the ninth consecutive year and early in 2000 became the longest in US economic history. For the third year running GDP increased by more than 4 per cent. Consumption grew even faster, fuelled by the increase in financial wealth consequent on the rising stock market and by household borrowing. The latter rose by nearly 10 per cent, taking the ratio of gross household debt to disposable income to its highest level in a decade. The federal government budget recorded a substantial surplus of 1.4 per cent of GDP, almost double the figure for 1998.

In the euro area, growth slowed from 2.7 to 2.3 per cent, owing to the weakening of domestic demand, especially private consumption. The result for the year was influenced by the stagnation of economic activity in the first half; from the middle of the year onwards growth rates rose well above 3 per cent as production accelerated sharply in response to the easing of monetary conditions, the weakening of the euro and the recovery in world trade. The situation in the labour market improved; however, partly owing to the differences in growth rates, the extent of the improvement varied from country to country. The average unemployment rate for the area remains high, despite falling from 10.4 to 9.6 per cent. Fiscal adjustment continued: the general government budget deficit was reduced from 2 to 1.2 per cent of GDP, mainly as a result of the fall in interest payments and the good performance of revenues.

Although the Japanese economy has emerged from the severe recession of 1998, it has not yet initiated a phase of lasting growth. The massive public investment programme implemented in early 1999 permitted only a very modest increase in GDP for the year. Deflationary pressures, fuelled by the appreciation of the yen, have abated in recent months but have not vanished entirely. At nearly 5 per cent the unemployment rate is unprecedentedly high for Japan and, in view of the methods used in its measurement, this figure is probably an underestimate. Widespread industrial restructuring brought a substantial recovery in corporate profits, especially for medium-sized and large firms, that was reflected in an expansion of private investment in the fourth quarter. However, the sharp appreciation of the yen from the summer onwards could jeopardize the improvement in profitability.

In view of the persistent weakness of private demand and the uncertainty surrounding its prospects, since February 1999 the Japanese monetary authorities' policy has been to keep very-short-term interest rates close to zero. Monetary conditions nonetheless tightened during the year as a result of the appreciation of the yen and the decline in prices, which caused real interest rates to rise.

The acceleration of international economic activity in 1999 fostered a recovery in raw materials prices after they had collapsed in 1998. Between the spring of 1999 and the first ten days of March this year oil prices almost tripled, partly owing to the cohesion of the principal producer countries in maintaining the agreement to limit the supply of crude. The decision taken by OPEC at the end of March to increase production led to a marked reversal of trend; in April the price of oil fell by more than 15 per cent compared with the previous month.

The large rise in oil prices caused inflation to accelerate last year in the United States and Europe. However, other indicators also pointed to an increased risk of inflation. In the United States mounting excess demand caused a further widening of the trade deficit, to 3.7 per cent of GDP; notwithstanding the considerable increase in the labour force, the unemployment rate fell well below the level generally deemed compatible with price stability. In April this year the twelve-month rate of consumer inflation was 3 per cent. Fears of upward pressure on prices in the euro area are linked to the substantial depreciation of the single currency and the rapid growth in the monetary and credit aggregates.

In order to hold down inflation expectations and counter pressure on prices and wages, there has been a shift in the monetary policy stance, which has become more restrictive in all the leading industrial countries except for Japan. Since June the Federal Reserve has repeatedly raised the reference rates, taking that for federal funds to 6.5 per cent in mid-May this year. The Eurosystem first lowered the rate on main refinancing operations by half a percentage point in April last year in response to the slowdown in production in the area, but later raised it in steps by a total of 1.25 points to 3.75 per cent. Forward interest rates indicate expectations that both the Federal Reserve and the Eurosystem will raise policy rates by similar amounts before the end of the year.

The improvement in the international economic situation brought a gradual relaxing of the tensions in the international financial markets. In the Latin American countries hit by the crisis at the beginning of last year conditions for access to international credit improved in the last part of 1999 and the early part of this year, making it easier for the countries that still have substantial current account deficits to obtain financing.

Last year the rates of exchange between the leading currencies were highly variable and recorded very large movements. From February 1999 onwards the widening of the cyclical gap between the United States and Europe led to a marked weakening of the euro, while from the summer onwards the yen strengthened against both the dollar and the euro; the appreciation was accompanied by a strong recovery in Japanese share prices. The euro continued to weaken in the early part of this year and at the end of January the exchange rate with the dollar fell below parity. The recent depreciation of the euro cannot be readily explained either by expected monetary policy developments in the United States and the Eurosystem or by the underlying conditions in the two economies, even if the US economy is assumed to have a higher growth potential. In mid-May the euro had fallen by 17.8 per cent in effective terms since the beginning of the year and the yen had risen to about 109 against the dollar.

Growth prospects for this year are favourable. The IMF has forecast a further acceleration in the expansion of output and world trade to 4.2 and 7.9 per cent respectively. Growth in the euro area is expected to increase sharply, to 3.2 per cent and the differences between the area’s principal countries should narrow; the US economy should continue to grow at a very rapid pace (4.4 per cent). The Japanese economy is forecast to record a much lower increase in output than the other leading countries. The remaining Asian countries should consolidate the recovery that began last year. Latin America is expected to emerge definitively from recession and to achieve a growth rate of 4 per cent. The realization of this optimistic scenario hinges crucially on the premise that the United States, where the price/earnings ratio of shares has reached an all-time high, will not see sudden dives in share prices of a size that would undermine household and investor confidence, leading to radical changes in spending plans, with adverse repercussions on the international economy.

THE INTERNATIONAL FOREIGN EXCHANGE AND FINANCIAL MARKETS

International finance, the crises, the international financial architecture

The value of the total financial assets - bank deposits, bonds and shares - held by households and firms in the leading industrial countries is estimated to have risen to 360 per cent of those countries' GDP in 1999, compared with 210 per cent at the start of the decade.

The rapid expansion of the equity and bond markets was paralleled by the growing importance of international intermediaries: the assets of the major institutional investors domiciled in the industrial countries - hedge funds, investment funds, pension funds and insurance groups, some of which operate globally - rose from 90 to 150 per cent of the industrial countries' GDP. The expansion of the financial markets was abetted by exceptionally rapid growth in derivatives: the notional value of exchange-traded derivatives (options and futures) and over-the-counter derivatives (interest rate and currency swaps) rose from 40 to 340 per cent of the Group of Seven countries' GDP in the course of the decade (Figure 1).

In the second half of the nineties the more liquid components of financial assets also expanded more rapidly than output; monetary policies were made more accommodating in order to attenuate the imbalances and bouts of instability that affected various regions of the world. Over the period the broad monetary aggregates in the major economies as a group rose from 69 to 73 per cent of GDP (or from 72 to 75 per cent if cross-border deposits held by households and firms are included) and an indicator of international liquidity that also includes interbank cross-border deposits rose from 89 to 95 per cent of GDP.

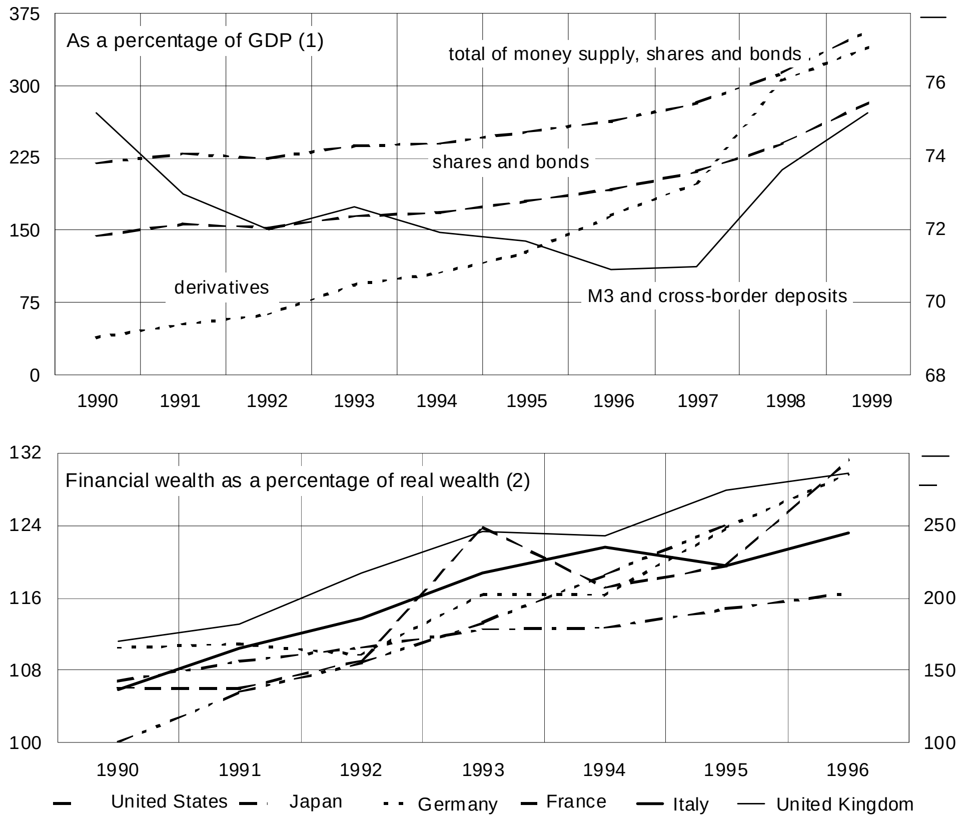
In 1999 greater stability returned to the international financial markets after the turbulence of the two preceding years. International bond and share issues resumed at a fast pace and demand for derivative instruments declined. By contrast, international banking activity stagnated.

A decade of financial instability. - The rapid growth in financial assets and in the scale of global players' balance sheets was punctuated during the nineties by bouts of pronounced instability in the form of currency and banking crises, intense pressure on stock exchanges and sharp increases in the volatility of financial asset prices.

Figure 1

FINANCIAL ASSETS AND DERIVATIVES IN THE G7

(end-of-year data)



Sources: Bank of Italy, BIS, Datastream, IMF, ISDA and OECD. For the data on real wealth: for Italy, Istat; for France, INSEE, *Annuaire Statistique de la France*; for Germany, Statistisches Bundesamt, *Statistisches Jahrbuch für die Bundesrepublik Deutschland*; for Japan, EPA, *Annual Reports on National Accounts*; for the United Kingdom, CSO, *United Kingdom National Accounts*; for the United States, Board of Governors of the Federal Reserve System, *Balance Sheet for the US Economy.*

(1) Traditional money supply (broad, national aggregates) and cross-border deposits of the non-bank sector; public and private bonds (issued by firms and banks); stock market capitalization of securities included in general share indices, calculated by Datastream; notional value of exchange-traded derivatives (options and futures) and OTC derivatives (interest rate and currency swaps); for 1998 and 1999, partly estimated. Right-hand scale for M3 and cross-border deposits, left-hand scale for the other variables. - (2) The data on real wealth are from the financial accounts of households and firms published by the OECD. The data on real wealth, drawn from national sources, include land, dwellings, industrial buildings, plant, machinery and durable goods. Right-hand scale for the United States and the United Kingdom, left-hand scale for the other countries.

The globalization of finance tightened the links between countries, facilitating the spread of turbulence, which also affected economies that were geographically far apart, not integrated with one another and at different levels of development.

The onset of the crises in the emerging market economies in the nineties generally coincided with the collapse of fixed exchange rate regimes, but the ultimate causes, albeit in differing degree case by case, are to be sought in economic policy imbalances, the shortcomings of the rules governing markets, the distortions generated by state intervention in the economy and the precariousness of financial intermediaries. The crisis that broke out in Mexico in December 1994 with the abandonment of the crawling peg to the dollar had repercussions in other countries of Latin America, most notably Argentina.

The economic and financial crisis that overwhelmed Asia in 1997 began in July in Thailand with the abandonment of the baht's peg to a basket of currencies and then spread rapidly to other countries, including Indonesia and South Korea, turning into a regional crisis.

The crisis that had the greatest effect on the international financial system, including the most developed markets, was the one that erupted in August in Russia; rooted in Russia's deep-seated structural and institutional weaknesses, it swiftly spread to other emerging economies. Following the debt moratorium declared unilaterally by the Russian authorities and, in the first half of September, the insolvency of the American hedge fund Long Term Capital Management, portfolio switching by international investors resulted in a massive shift of funds into the markets of industrial countries. In subsequent weeks bond and share prices collapsed in many countries of Latin America, Asia and Central and Eastern Europe as well as some commodity-exporting industrial countries. The turmoil abated only after the easing of monetary conditions in the United States, the rescue of LTCM by a consortium of banks coordinated by the Federal Reserve and the conclusion of an agreement between the IMF and Brazil for financial assistance to support an economic stabilization plan.

In mid-January 1999 the adjustment measures in Brazil ran into major obstacles, speculative pressures intensified and the monetary authorities were forced to stop pegging the réal to the dollar and allow it to float freely.

The reform of the international financial architecture. - The nature and scale of the crises that struck the emerging markets prompted a reconsideration of the international financial institutions' procedures for intervention and the tools for preventing and managing episodes of financial instability.

The initial results of the reform programme, which intensified in 1999, were examined by the finance ministers and central bank governors of the Group of Seven countries at their meetings in Washington this April.

The reform of the IMF is aimed at strengthening the Fund's role in crisis prevention by extending its traditional surveillance to include matters with significant implications for individual countries' financial stability. The Fund has also been assigned a central role in producing and disseminating information essential for the regular functioning of the financial markets and in promoting disclosure and compliance with standards and codes of conduct established at the international level.

One of the main objectives of involving private creditors in crisis resolution is to achieve a better assessment of the risks of lending to emerging market economies. According to the principles formulated at the last G7 summit, financial adjustment programmes should seek to achieve an optimum combination of economic adjustment, official lending and involvement of private creditors in debt rescheduling or reduction. On the other hand, the proposal to insert so-called collective action clauses in the contracts of bonds issued by emerging countries has not yet had a significant impact.

The Financial Stability Forum has been extremely active. At its third meeting, held in Singapore at the end of March, it approved the recommendations of the working groups on the activity of highly leveraged institutions, offshore financial centres and capital movements.

According to the indications that emerged from the latest G7 summit, the IMF's action to bring about macroeconomic stability cannot be divorced from longer-term measures aimed at reducing disparities in the living standards of populations in different regions of the world. However, the goal of promoting development remains the principal task of the World Bank and the regional development banks. The reform of these institutions is intended to focus their activities more closely on the reduction of poverty, especially in countries that are still unable to tap the private capital market. In particular, they will have to assume a front-line role in financing the provision of essential services and investment in infrastructure and human capital.

The equity, bond and currency markets

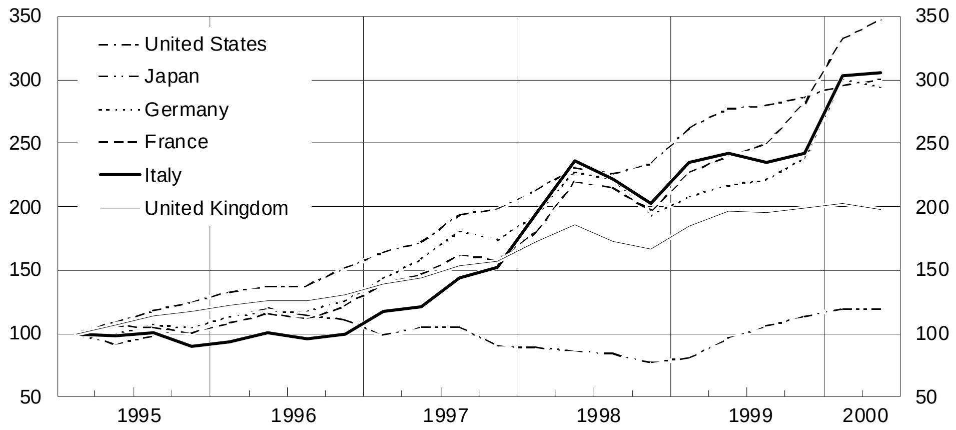
The equity and bond markets. - A moderate rise in share prices in the main industrial countries between January and October 1999 was followed by more significant gains until March 2000. The rise in prices was largest in the euro area (exceeding 54 per cent in Germany, around 45 per cent in Italy and France) and smaller in the United States and the United Kingdom (19 and 14 per cent respectively). In Japan, where share prices had declined for almost three years, the stock market began to rise at the start of 1999 and had expanded by more than 59 per cent by this March. The substantial increases in equity prices from October onwards in the major economies were driven by the exceptional surge in the new technology sectors in the United States and telecommunications in the euro area (Figure 2).

Between mid-March and mid-May expectations of a tightening of US monetary policy led to pronounced declines in share prices, exceeding 10 per cent in the main industrial countries and 25 per cent for technology stocks in the United States and telecommunications shares in the euro area.

Figure 2

STOCK EXCHANGE INDICES OF THE SIX MAIN INDUSTRIAL COUNTRIES

(average quarterly data; indices, first quarter of 1995=100)



Source: Reuters. For the United States, Standard & Poor's 500; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40; for the United Kingdom, FTSE All-Share; for Italy, Mib storico. The data for the second quarter of 2000 are updated to 12 May.

The shares of US information technology and biotechnology companies, most of which are listed on Nasdaq, registered exceptional gains in 1998 and 1999. From October 1998 onwards, traditional shares rose at an annual rate of about 27 per cent, while technology stocks soared by 126 per cent. The market capitalization of the latter sector, which was equal to 60 per cent of GDP in March, is just under half that of the traditional market.

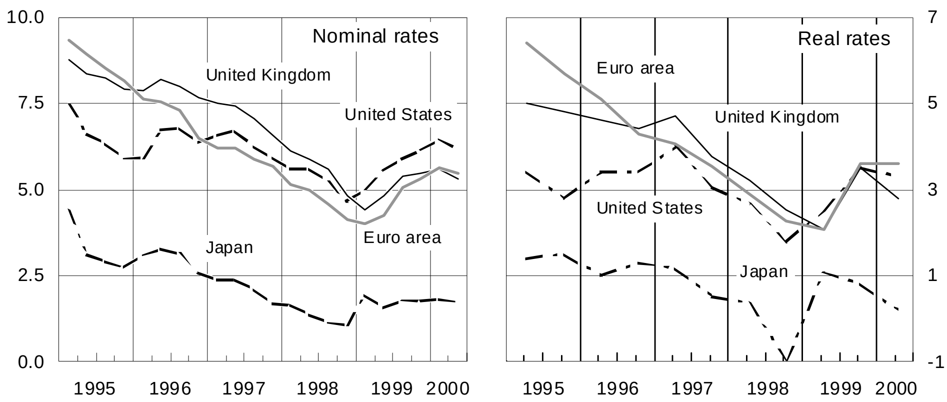
The rise in share prices in traditional sectors in the United States was fostered by the combination of continuing economic expansion and low inflation. However, some stock market indicators still signal a disparity between current share prices and the level justified by economic fundamentals. The price-earnings ratio of traditional shares is double that recorded in the last twenty years; it was above 30 at the beginning of 2000, compared with 17 five years earlier. The p/e ratio of technology stocks is nine times higher than the average recorded for traditional issues in the last twenty years. Similarly, in the euro area the p/e ratio for traditional sectors at the beginning of 2000 was almost double the figure of 15 recorded five years earlier.

In the euro area, between the beginning of 1995 and mid-May 2000 the shares of information technology, telecommunications and media companies posted extraordinary price gains of more than 800 per cent. This sector's proportion of total stock market capitalization climbed from 10 per cent in the first half of the nineties to 30 per cent at the beginning of this year, a figure equal to one quarter of euro-area GDP. Privatizations helped to fuel the rise in telecommunications shares.

At the beginning of 1999 bond yields started to rise in the United States and Europe, reflecting expectations of stronger economic growth and a tightening of monetary policy. In January 2000 long-term yields peaked at 6.7 per cent in the United States and 5.7 per cent in the euro area, compared with 4.7 and 3.8 per cent respectively at the beginning of 1999 (Figure 3). In February long-term yields began to decline and by April they were around 0.7 and 0.3 percentage points below their respective January peaks in the United States and Europe. In the United States the decline was partly attributable to the Treasury's announced intention to reduce new bond issues by around one third and to repurchase some $30 billion of bonds on the secondary market as well as to a shift of funds from equities. In the first half of May rates increased again, to 6.4 per cent in the United States and 5.6 per cent in the euro area.

Figure 3

NOMINAL AND REAL LONG-TERM INTEREST RATES (1)



Sources: National statistics and ECB.
(1) Yields on ten-year government bonds. Euro-area yields are averages weighted, up to December 1998, using the GDP of each country and, subsequently, the respective nominal amounts of ten-year government bonds outstanding. Average quarterly data for nominal rates. The data for the second quarter of 2000 are updated to 12 May; average data of April and October for real rates. The latter are deflated with the expected rate of consumer price inflation found by the surveys by Consensus Forecasts for the time horizon between six and ten years forward.

Real long-term interest rates, calculated on the basis of medium-to-long-term inflation expectations ascertained by Consensus Forecasts, averaged 2.5 per cent in the G7 countries in April 2000, compared with 3.7 per cent in 1994. Over the last five years they declined in the euro-area countries as nominal yields converged with those prevailing in Germany and are now 2.9 per cent. In the United States and Japan they were highly volatile and currently stand at 3.3 and 0.2 per cent respectively.

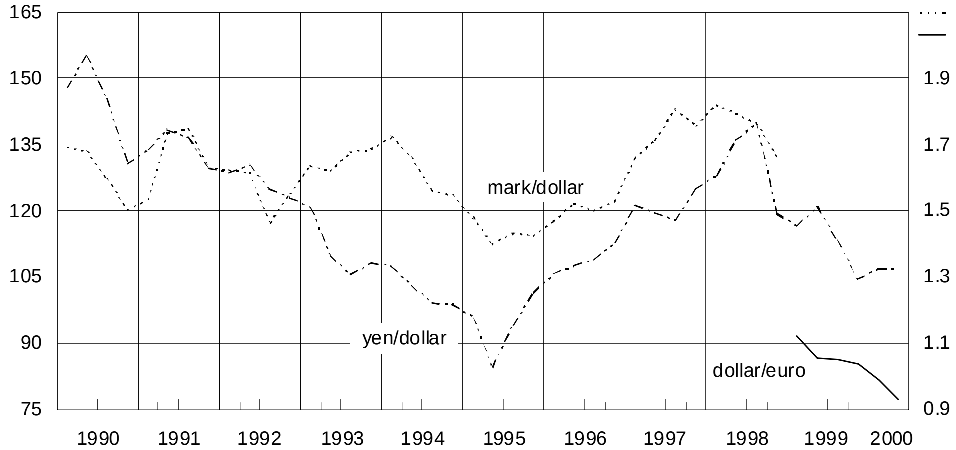
The exchange rates between the main currencies. - The euro depreciated steadily in 1999, falling by 14.8 per cent against the dollar and

13.8 per cent in nominal effective terms in the course of the year; the decline became more pronounced in the first few months of this year. The yen appreciated by 12.5 per cent against the dollar and 16.1 per cent in nominal effective terms, with most of the rise occurring in the second half of the year. The nominal effective exchange rate of the dollar remained broadly unchanged with respect to the beginning of 1999 (Figure 4).

Figure 4

EXCHANGE RATES OF THE DOLLAR AGAINST THE YEN, MARK AND EURO (1)

(average quarterly data)



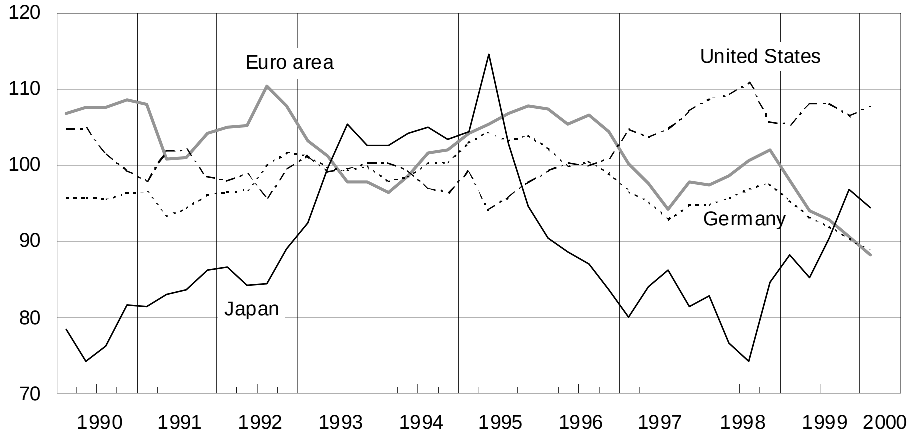
Source: National statistics.
(1) Yen/dollar, left-hand scale; dollar/euro and mark/dollar, right-hand scale. The data for the second quarter of 2000 are updated to 12 May.

During the first half of 1999 the strengthening of the dollar against the euro (from \$1.17 to \$1.02 per euro) reflected the widening of the cyclical disparity between Europe and the United States and the expected interest rate differential. Between the second half of July and the end of October the improvement in the outlook for growth in Europe caused the euro to rally briefly and then to stabilize at around \$1.06. It began to depreciate again in November. Since the third quarter of 1999 the exchange rate between the two currencies no longer appears to be linked to the expected short-term interest rate differential. The weakness of the euro is partly explained by the market's deepening conviction that the US economy will outpace Europe in the medium term.

The yen weakened slightly against the dollar in the first two months of 1999 and then stabilized at around ¥120 to the dollar. In the summer it began to appreciate and ended the year at ¥102. The strengthening coincided with a significant recovery in Japanese share prices. The positive performance of the currency and the stock exchange appears to reflect progress in the restructuring of the Japanese economy and a clear improvement in business sentiment.

Figure 5

INDICATORS OF COMPETITIVENESS
OF THE LEADING COUNTRIES OR AREAS (1)
(quarterly data; indices, 1993=100)



Sources: Based on ECB, OECD and IMF data and national statistics.
(1) Vis-à-vis 24 trading partners; deflated with producer prices. An increase indicates a loss of competitiveness. The indicator of the euro area's competitiveness vis-à-vis 13 trading partners is calculated by the European Central Bank. For the first quarter of 2000, partly estimated.

The movements in the nominal exchange rates of the three currencies led to substantial changes in Japanese competitiveness: the indicator based on the producer prices of manufactures shows that between the beginning of 1999 and the first quarter of 2000 the competitive position of Japan deteriorated by 12 per cent while that of the United States underwent little change (Figure 5).

RECENT DEVELOPMENTS AND ECONOMIC POLICIES

Economic developments in the industrial countries

Economic activity in the industrial countries accelerated in the second half of 1999, recovering from the low levels of 1998. The average growth of 2.9 per cent in the year as a whole was almost one percentage point higher than forecast a year ago.

As in 1998, international economic activity was sustained principally by the US economy, where domestic demand continued to grow very rapidly and GDP rose by 4.2 per cent, only slightly less than in 1998 (Table 1).

Table 1

GROSS DOMESTIC PRODUCT AND DEMAND IN THE LEADING INDUSTRIAL COUNTRIES AND AREAS (1)

(annualized percentage changes on the preceding period)

	1997	1998	1999	1999 H1	1999 H2
United States					
GDP	4.2	4.3	4.2	3.8	5.1
Domestic demand	4.5	5.5	5.1	5.0	5.7
Net exports (2)	−0.3	−1.3	−1.2	−1.5	−0.9
Japan					
GDP	1.6	−2.5	0.3	3.5	−2.5
Domestic demand	0.2	−3.1	0.6	4.6	−2.7
Net exports (2)	1.4	0.5	−0.3	−0.9	0.1
Euro area					
GDP	2.3	2.7	2.3	2.2	3.4
Domestic demand	1.7	3.4	2.8	3.2	2.4
Net exports (2)	0.6	−0.5	−0.4	−0.9	1.1
United Kingdom					
GDP	3.5	2.2	2.1	1.6	3.6
Domestic demand	3.8	4.1	3.5	3.4	3.6
Net exports (2)	−0.3	−2.1	−1.6	−2.0	−0.3

Sources*:* Eurostat and national statistics.
(1) At constant prices. Domestic demand includes changes in stocks. – (2) Contribution to the increase in GDP in percentage points.

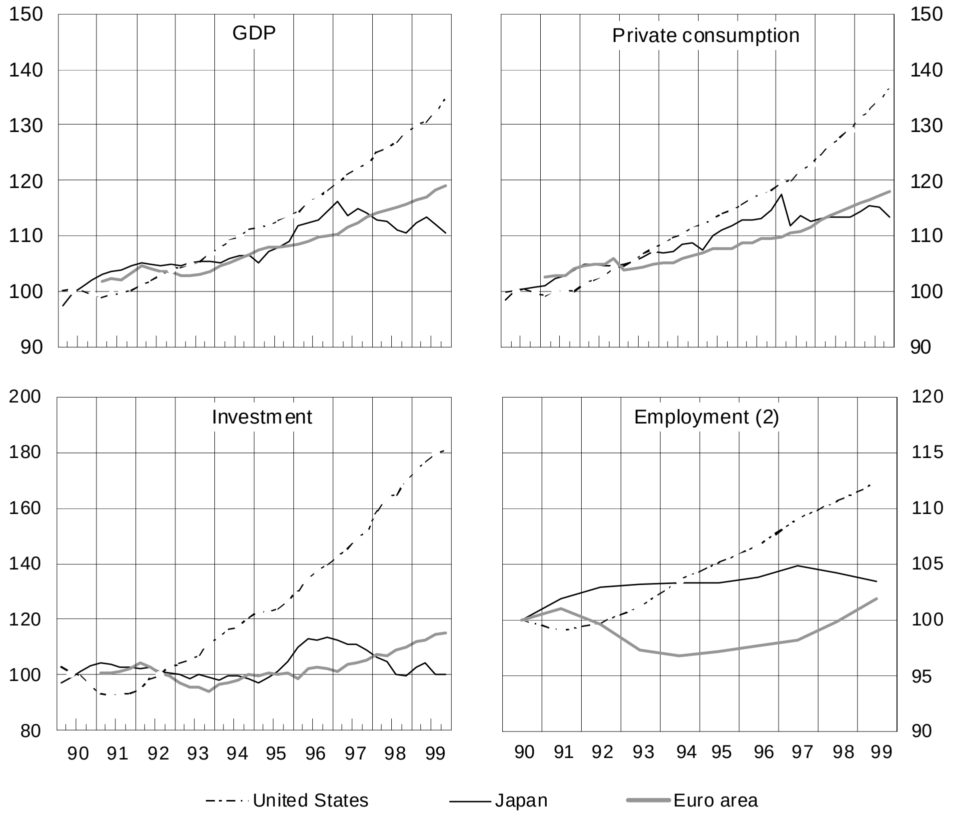
The remarkable feature of the US economy is the sharp acceleration in productivity growth at a very advanced stage of the long expansion that began in March 1991: in the upturns of the sixties and eighties, productivity gains slowed after a few years. The rate of growth in output per worker has risen significantly since 1996, enabling both real wages and profits to increase and stimulating consumption and investment. The improvement in profits in turn drove up share prices; the cost of capital fell, boosting investment, and wealth effects fueled consumption. As a consequence, demand grew more rapidly than supply, despite the large increase in productivity; this caused the labour market to tighten further and led to a substantial increase in the deficit on the current account of the balance of payments.

The future trend in labour productivity remains uncertain. In particular, the rate of growth of total factor productivity could slow in the next few years once the benefits of information technology have spread to all sectors.

Consumption grew by a substantial 5.3 per cent and fixed investment by 8.1 per cent, only slightly less than in 1998 (Figure 6). Net foreign trade continued to have a negative impact, curtailing GDP growth by 1.2 percentage points.

Figure 6

GDP, PRIVATE CONSUMPTION, INVESTMENT AND EMPLOYMENT IN THE UNITED STATES, JAPAN AND THE EURO AREA (1)



Sources: Eurostat, OECD and national statistics.

(1) For GDP, consumption and investment, quarterly data at constant prices; indices, 1990=100. Until 1991 the data for the euro area do not include the eastern regions of Germany. The investment data for the United States refer only to private investment. - (2) Annual data.

Non-farm payroll employment rose by 2.2 per cent, a small decline on 1998. The employment rate was 74.6 per cent, almost 4 percentage points higher than in 1991; in the euro area, by comparison, it was 60.1 per cent and in Italy 52.5 per cent. The unemployment rate in the United States was 4.1 per cent at the end of 1999.

Labour demand pressures in the United States had a very minor effect on wages. Labour costs, as measured by the employment cost index (ECI) for the entire economy, did not accelerate significantly during the year, rising at an average annual rate of 3.2 per cent, as against 3.4 per cent in 1998. Hourly wages in the narrower non-farm private sector rose by 3.7 per cent, compared with 4.1 per cent in 1998; the acceleration in productivity growth limited the rise in unit labour costs to 1.7 per cent, as against 2.4 per cent in 1998.

Inflation, measured in terms of the twelve-month change in consumer prices, rose by one percentage point from 1.7 to 2.7 per cent between January and December. The acceleration reflected higher energy prices. Core inflation fell slightly, from 2.3 to 1.9 per cent.

In the first quarter of 2000, cost and price indicators gave clear signs of economic overheating in the United States. Consumer prices accelerated; in April the twelve-month rate of increase rose to 3 per cent. Expectations of average inflation in 2000, as collected by *Consensus Forecasts*, were revised upward from 2.4 per cent in July 1999 to 3 per cent in May 2000. The rate of change of producer prices rose from 2.9 per cent at the end of 1999 to 3.9 per cent in April. The rise in the ECI accelerated sharply to an annualized rate of 5.7 per cent compared with the previous quarter, its highest level in the current upturn.

The unemployment rate fell further to a thirty-year low of 3.9 per cent in April of this year. Domestic demand continued to expand very rapidly in the first quarter of 2000; GDP increased at an annual rate of 5.4 per cent compared with the previous quarter.

In Japan the expansion in private domestic demand has yet to gain momentum (Table 1). After the recession of 1998, the recovery in the first half of 1999 resulted mainly from the substantial public investment under the fiscal stimulus package adopted at the end of the previous year. After having grown by 3.5 per cent on an annual basis in the first half of 1999, GDP contracted by 2.5 per cent in the second half owing to the waning of the boost from public demand and the decline in private consumption. GDP grew by only 0.3 per cent in the year as a whole.

The meagre growth in consumption is traceable to the fall in employment and the persistent decline in wages. The restructuring of large sectors of industry caused a 0.8 per cent decrease in employment last year; the average unemployment rate rose from 4.1 to 4.7 per cent, the highest level since the war. Foreign trade had a slight negative impact, curtailing growth by 0.3 percentage points; the strong recovery in imports after the decline in 1998 was a contributory factor.

The downward trend in producer prices abated during 1999 and almost came to a halt in the last few months of the year, owing in part to the rise in the prices of petroleum products. The decline in nominal wages also progressively abated.

The economic situation improved in the early months of 2000; industrial production rose and firms' demand expectations and investment plans became more favourable. However, domestic demand remains weak and heavily dependent on the additional fiscal stimuli from the measures introduced in December 1999 and March 2000. The performance of exports was aided by the recovery in other Asian economies but held back by the uncertainties arising from the appreciation of the yen.

In the euro area the effects of the crises in the emerging countries faded in the first few months of 1999; economic activity picked up in the second half of the year. In the year as a whole, however, GDP grew by 2.3 per cent, as against 2.7 per cent in 1998.

The growth in domestic demand decelerated from 3.4 to 2.8 per cent, reflecting the slowdown in household consumption. Expansive monetary conditions continued to bolster investment, which increased by 4.8 per cent. In the second half of the year the growth in world trade and the depreciation of the euro stimulated a sharp acceleration in exports, which increased at an annual rate of 12.2 per cent, compared with 2.5 per cent in the first half.

Employment, measured on the basis of national accounting data, rose by 1.6 per cent; the greater responsiveness to the growth in GDP, which was already apparent in 1998, was the result of measures to sustain employment in some countries and the gradual reduction in labour market rigidity during the nineties. The unemployment rate declined by almost one percentage point but nonetheless remained very high at 10 per cent.

The decline in world commodity prices and cyclical weakness in early 1999 helped to curb consumer price inflation, which amounted to 0.8 per cent on a twelve-month basis; in the same period producer prices fell by 2.7 per cent. In the second half of the year, however, the rise in crude oil prices caused producer prices to increase, reaching a twelve-month rate of 4.1 per cent in December; in the same month consumer prices rose by 1.7 per cent on the same basis. These trends continued in the first few months of 2000, reinforced by a further weakening of the euro: in March the rise in producer prices reached 6.2 per cent and in April consumer prices showed a twelve-month increase of 1.9 per cent.

In the United Kingdom economic activity recovered from the slowdown of late 1998 and early 1999; GDP accelerated briskly in the second half of the year, so that growth for the year as a whole came to 2.1 per cent. Household consumption rose by 3.9 per cent, fostered by the easing of monetary conditions, the rise in disposable income and the increase in lending to households, which was sustained by the rapid appreciation of the value of property used as collateral. Consumer price inflation net of mortgage interest payments fell from 2.6 to 2.2 per cent. However, the acceleration in wages and the sharp rise in house prices signalled risks of inflationary pressure.

Economic policies in the leading industrial countries

Fiscal policies. - In the nineties fiscal policy remained basically restrictive in the United States and the euro area. In Japan, by contrast, it was expansionary, especially in the last two years.

The budget balance improved steadily in the United States from 1993 onwards and in the euro area from 1994; Japan's fiscal position deteriorated markedly from near balance at the beginning of the decade to a deficit of almost 11 per cent of GDP in 1999. The scale of the fiscal adjustment in the United States is comparable to, and in some cases larger than, the adjustment carried out in the leading European economies to achieve the fiscal convergence objectives of the Maastricht Treaty. In the United States the federal budget moved from a deficit equal to 6 per cent of GDP in 1992 to a surplus of 0.5 per cent in 1999, while in the euro area the deficit fell from 5.6 per cent of GDP in 1993 to 1.2 per cent in 1999.

In the United States the federal budget for the fiscal year to September 1999 showed a further substantial surplus of $124 billion, or 1.4 per cent of GDP, compared with one of $69 billion the previous year; the increase was primarily due to cyclical factors. The Administration projects a surplus of $179 billion in the current fiscal year, equal to just under 2 per cent of GDP. The ratio of gross debt to GDP was further reduced from 62.4 to 59.3 per cent, which is more than 10 points below the level of 1993.

In Japan the budget deficit, net of the surplus of the social security system, was initially expected to decline in 1999; in fact it increased to 10.7 per cent of GDP, compared with 9.8 per cent in 1998.

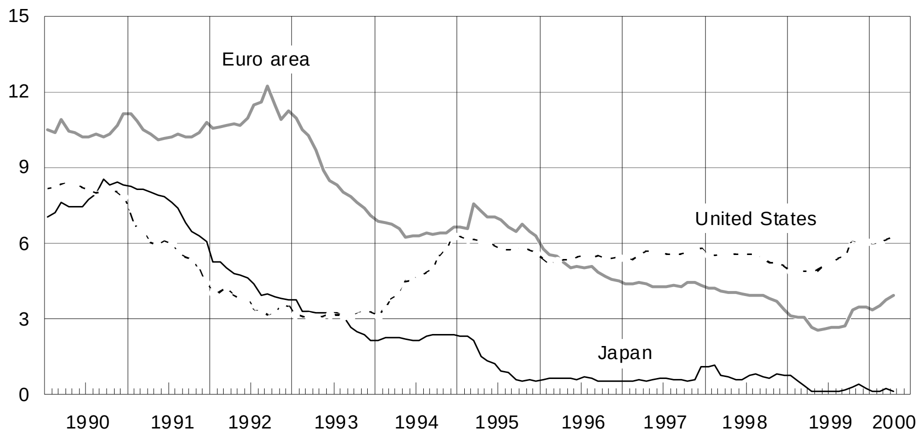
The 2000 budget, which was approved at the end of March, indicates a deficit equal to 10.1 per cent of GDP. Public expenditure is 2.6 per cent more than in the initial 1999 budget. A reform of the pension system was approved that provides for an average 5 per cent reduction in monthly payments to new retirees and a gradual raising of the retirement age from 60 to 65. Cyclically adjusted, the deficit is put at 6.6 per cent, compared with 5.4 per cent in the preceding fiscal year. Japan's gross public debt almost doubled in the nineties; last year it exceeded 100 per cent of GDP.

In the euro area the adjustment of the public finances continued. Thanks to the reduction in interest payments and the growth in revenue, the general government deficit decreased from 2 per cent of GDP in 1998 to 1.2 per cent last year. Cyclically adjusted, it declined from 1.6 to 0.7 per cent. The ratio of public debt to GDP decreased only slightly from 73.0 to 72.1 per cent.

Monetary policies. - Until mid-1999 US monetary policy was aimed at limiting the recessionary effect of the crises in the emerging countries. Thereafter a less accommodating stance was adopted in response to the persistently large gap between the expansion in demand and the growth potential of the economy. In the euro area official interest rates were raised from November onwards in view of the risk to the stability of prices over the medium term. The Bank of Japan continued to inject bank reserves in order to keep the overnight interbank rate close to zero as a means of stimulating demand.

Figure 7

NOMINAL SHORT-TERM INTEREST RATES (1)



(1) Average monthly data.

In the United States the Federal Reserve raised interest rates three times, taking the discount rate and the federal funds target rate to 5 and 5.5 per cent, respectively, in November, the same as before the international financial crisis in the autumn of 1998. From October onwards short-term interest rates were above 6 per cent, more than 1 percentage point higher than the levels prevailing in early 1999 (Figure 7). The rise in market rates was accompanied by a gradual slowdown in M2; the average growth of 6.1 per cent in the fourth quarter in relation to the same period of 1998 was nevertheless outside the reference range of 1-5 per cent. Once the risk of a liquidity shortage in the money market in connection with the millennium date change had been overcome, monetary policy was tightened further; official rates were raised twice, in February and March, by a total of 0.5 percentage points. In May growing inflationary pressures, evidenced by rising wages and other indications, prompted the Federal Reserve to increase official rates by another 0.5 percentage points. The federal funds target rate is now 6.5 per cent, 1.75 percentage points higher than at the beginning of June 1999.

From February 1999 onwards the Bank of Japan fostered a decline in overnight interbank rates to almost zero. In order to improve the operating of monetary policy transmission mechanisms, it subsequently extended the range of securities that can be used in repurchase agreements by including government securities maturing within two years. Monetary base grew by 5.7 per cent on average in 1999, accelerating towards the end of the year owing to fears of computer malfunctions in connection with the date change; the M2 plus CDs aggregate increased by 3.7 per cent. The expansion in monetary base did not prevent monetary conditions from becoming more restrictive during the year, owing partly to the appreciation of the yen and the fall in prices, which made real interest rates high compared with the needs of the economy. The restructuring of the banking system, which is still under way, continued to hinder lending to the private sector: even net of write-offs of bad loans, lending continued to decline. In the first few months of 2000, given the greater confidence of firms owing to improvements in corporate accounts and signs of recovery in private investment, the Bank of Japan announced the possibility of abandoning its policy of maintaining overnight rates at zero if economic conditions were to improve significantly.

In the euro area the rate on main refinancing operations was raised to 3 per cent in November in view of the widening gap between M3 growth and its 4.5 per cent reference value, the strong growth in credit to the private sector and the risk that the rise in oil prices would feed through into excessive wage increases. In February and March 2000 the rate was increased further to 3.5 per cent. In more recent months the inflationary outlook has changed somewhat: the risk of inflation due to wage growth has declined, while that created by the depreciation of the euro has increased. At the end of April the Eurosystem raised interest rates to 3.75 per cent on main refinancing operations, 4.75 per cent on marginal refinancing operations and 2.75 per cent on central bank deposits.

In the first half of 1999 the Bank of England reduced base rate by a total of 1.25 percentage points to 5 per cent, owing to lower expectations of inflation and weak domestic demand. From September onwards fears of a rise in inflation due to the recovery in global and especially domestic demand, combined with pressures in the property and labour markets, led to a sudden change in the monetary policy stance which continued into 2000; in February base rate was raised to 6 per cent, the same as in January 1999.

The emerging countries

In 1999 economic activity in Latin American countries slowed for the second consecutive year but to a lesser extent than had been expected following the onset of the crisis in Brazil. GDP increased by 0.1 per cent, as against 2.1 per cent in 1998. In Brazil and Mexico it grew by 0.8 and 3.7 per cent respectively; in Argentina it declined by 3 per cent and in other economies in the area (Colombia, Ecuador and Venezuela) it fell by more than 5 per cent.

Economic activity strengthened significantly in the emerging countries of Asia worst affected by the crisis of 1997. In South Korea GDP grew by 10.7 per cent, completely offsetting the large decline of 1998. Continuing excess productive capacity helped to limit the increase in prices to 0.8 per cent. In Thailand GDP expanded by 4.2 per cent and prices rose by 0.3 per cent. In the Philippines and Malaysia output grew by 3.2 and 5.4 per cent and inflation was 6.7 and 2.7 per cent respectively. Indonesia was the only country where economic activity stagnated and inflation remained over 20 per cent.

In China GDP continued to grow at a rapid rate (7.1 per cent), albeit more slowly than in 1998 owing to the abatement of the effects of the stimulating fiscal measures. China now accounts for 10.2 per cent of world production, second only to the United States, which has a share of 21.3 per cent. Foreign trade had a negative impact on growth despite the increase in exports in the second part of the year. The deflationary pressures that had prevailed in the first part of 1999 dissipated from September onwards; prices fell by 1.4 per cent in the year as a whole, against 0.8 per cent in 1998.

In Russia GDP grew by 3.2 per cent in 1999, thanks to the rise in oil prices and the depreciation of the rouble, which encouraged import substitution. The unexpectedly large increase in revenue made it possible to reduce the budget deficit from 5 per cent of GDP in 1998 to 1.7 per cent. The twelve-month inflation rate fell to 36.5 per cent in December, compared with over 100 per cent in the first half of the year; the improvement continued in 2000, with the rate declining to 22.4 per cent in March.

INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

International trade and the prices of raw materials

World trade recovered last year after the sudden slowdown of 1998 caused by the effects of the Asian crisis. The volume of trade in goods and services rose at an annual average rate of 4.6 per cent, compared with 4.2 per cent in 1998, and accelerated sharply in the second half of the year. Trade in goods alone, which accounts for about 80 per cent of the total in value terms, grew by 4.9 per cent, owing mainly to the improvement in conditions in Asia. The slowdown in imports by the euro-area economies and the decline in those by Latin America and Russia had the opposite effect. The exceptional growth in domestic demand in the United States continued to be a strong spur to international trade.

Exports increased by 3.6 per cent in volume in both the industrialized and developing countries, compared with 4.3 and 3.7 per cent respectively in 1998; the newly industrialized Asian economies recorded the fastest growth: 7.3 per cent, compared with a contraction of 0.6 per cent in 1998. The slowdown in exports by the industrialized countries was due to the weakness of those from the euro area, which was particularly marked in the first quarter. Exports from Japan rose by 2.2 per cent, compared with a contraction of 1.1 per cent in 1998.

Although the rate of growth in world trade accelerated last year, it was much slower than the very high rates recorded between 1994 and 1997.

The dollar prices of oil rose by almost 40 per cent between 1998 and 1999 on an annual average basis and more than doubled during the course of the year. Demand for crude oil exceeded supply by an average of more than one million barrels per day on account of the production cuts decided in March by the members of OPEC and the increase in demand, which was particularly marked in the emerging Asian economies and in North America. The price of WTI grade crude oil soared from $12 a barrel at the beginning of the year to more than $26 at the end of December and continued to rise until early March of this year, when it reached $34 a barrel. Oil prices fell back sharply as soon as it became apparent that OPEC would increase supply; in their meeting at the end of March the member countries decided to restore production to the levels obtaining prior to last year's cuts, and prices fell to $24 a barrel in early April.

Renewed upward pressure on prices developed from the middle of April onwards, probably as a result of action by the industrialized countries to replenish their stocks, which in the early months of this year had fallen to the lowest levels of the last ten years. By mid-May the spot price of WTI crude had reached $29.

The prices of non-food agricultural raw materials and metals began to rise again, reflecting the improvement in the international economic climate. During the year they increased by 8 and 20 per cent respectively, making up for the decline of 1998. In contrast, the prices of other raw materials such as food, drinks and fertilisers continued to fall.

The balance of payments

Last year the more advanced economies (industrialized countries and newly industrialized Asian economies) recorded a deficit on the current account of the balance of payments, which the IMF has estimated at $134 billion, compared with a surplus of about $40 billion in 1998. The US deficit grew by almost $120 billion; the surpluses of the other countries decreased. The overall balance of the developing countries, the Central and Eastern European economies and the countries of the former USSR remained in deficit, albeit contracting from $115 billion to $38 billion. The statistical discrepancy between current account balances thus increased considerably, to $172 billion, indicating a possible overestimation of the deficits or underestimation of the surpluses of some countries.

In the United States the very brisk growth in demand was reflected in a substantial worsening of the current account, which had already deteriorated considerably in 1998. The deficit rose from $221 billion in 1998, or 2.5 per cent of GDP, to $339 billion, or 3.7 per cent (Table 2). The deterioration stems primarily from the further increase in the trade deficit to almost $350 billion and in the deficit on net investment income, which rose from $12 billion to $25 billion. Japan’s current account surplus, which was affected by the improvement in domestic economic conditions and the appreciation of the yen, narrowed from $121 billion to $107 billion, or from 3.2 to 2.5 per cent of GDP; the trade surplus, at $124 billion, declined from 3.2 to 2.8 per cent of GDP. The current account surplus of the euro area contracted further, from $49 billion to $24 billion, or 0.4 per cent of GDP.

The US current account deficit was financed by net inflows of portfolio investment, which rose from $164 billion in 1998 to $237 billion, and direct investment, which more than doubled to $130 billion. Gross direct investment amounted to $283 billion, more than 80 per cent of which came from Europe. In the euro area net outflows of direct investment increased from $118 billion to $146 billion; however, net portfolio outflows declined to $35 billion, compared with $107 billion in 1998.

Table 2

BALANCE OF PAYMENTS OF THE LEADING INDUSTRIAL AREAS (1)
(billions of dollars)

	Current account	Capital account (2)	Financial account						Errors and omissions
			Direct investment	Portfolio investment (3)	Other investment		Official reserves	Total	
					Total	*of which*: *bank credit*			
	United States								
1995	–113.6	0.4	–39.8	137.4	49.1	–44.9	–9.7	136.9	–23.7
1996	–129.3	0.7	–3.7	251.9	–60.7	–75.1	6.7	194.1	–65.5
1997	–143.5	0.3	–0.7	294.8	–6.7	4.2	–1.0	286.4	–143.2
1998	–220.6	0.6	60.5	163.9	–7.9	15.8	–6.8	209.8	10.1
1999	–338.9	–0.2	130.4	237.4	1.7	6.3	8.7	378.2	–39.1
	Japan								
1995	111.4	–2.3	–22.7	–36.2	–5.5	–68.0	–58.7	–123.0	13.9
1996	65.8	–3.3	–23.2	–41.2	38.1	66.7	–36.9	–63.2	0.7
1997	94.2	–4.0	–22.9	26.6	–120.8	–94.4	–6.9	–124.0	33.9
1998	121.2	–14.7	–21.3	–41.5	–54.2	31.0	7.3	–109.7	3.2
1999	106.9	–16.5	–10.0	–25.8	5.1	52.3	–77.4	–108.1	17.7
	Euro area								
1995	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1996	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1997	85.6	15.0	–54.4	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
1998	48.6	14.2	–117.6	–106.8	133.8	174.0	10.0	–80.5	17.8
1999	24.1	14.2	–146.2	–34.6	98.7	120.9	14.7	–67.3	29.1

Sources*:* ECB and national statistics.
(1) Rounding may cause discrepancies in the decimal figures. – (2) Includes unilateral transfers that contribute to capital formation and transactions in intangible assets. – (3) Includes transactions in financial derivatives.

Last year's current account deficit increased the United States' net external debtor position to an estimated $1.9 trillion at the end of the year, equal to 20.3 per cent of GDP, compared with 17.6 per cent in 1998. The United States, which had still been a net creditor at the end of the eighties, has seen its external position deteriorate by about $1.7 trillion in the last five years. Japan's net external assets are estimated to have risen to about $1.4 trillion at the end of last year, equal to 29 per cent of GDP. The euro area's modest net debtor position vis-à-vis the rest of the world is thought to have declined to about $100 billion, or 1.6 per cent of GDP.

Financial flows to the emerging countries

Last year net private capital flows to the emerging countries amounted to about $81 billion, considerably less than the average for the last ten years

($132 billion) and a little higher than the figure for 1998 (Table 3). Direct investment was once again the largest source of financing to these countries, rising from $143 billion to $150 billion.

Table 3

NET CAPITAL FLOWS TO EMERGING COUNTRIES (1)

(billions of dollars)

	1980-89	1994	1995	1996	1997	1998	1999
All emerging countries							
Total net flows	46.0	139.7	238.6	216.3	171.1	119.8	83.5
Net private capital flows	16.7	136.3	226.9	215.9	147.6	75.1	80.5
Direct investment	11.1	84.0	92.6	113.2	138.6	143.3	149.8
Portfolio investment	5.4	109.6	36.9	77.8	52.9	8.5	23.3
Other investment	0.1	−57.3	97.4	24.9	−43.9	−76.7	−92.5
Net official flows	29.3	3.4	11.7	0.4	23.5	44.7	3.0
Memorandum items:							
Change in reserves	−11.8	−63.6	−117.9	−114.2	−73.1	−37.8	−78.5
Current account balance	−28.0	−75.8	−107.0	−94.4	−72.1	−50.9	14.0
Inflows of bank loans and trade credits (2)	25.3	12.3	31.4	39.7	54.5	41.5	−5.9
Latin America							
Total net flows	16.8	45.8	61.2	67.4	81.9	76.1	57.7
Net private capital flows	8.7	49.4	53.1	72.1	85.5	70.0	54.1
Direct investment	5.5	23.1	24.7	39.5	53.1	56.1	63.6
Portfolio investment	0.4	66.7	3.0	41.0	19.2	14.7	10.6
Other investment	2.8	−40.4	25.5	−8.4	13.2	−0.8	−20.1
Net official flows	8.1	−3.6	8.1	−4.7	−3.6	6.1	3.6
Memorandum items:							
Change in reserves	2.7	4.6	−21.9	−30.8	−15.3	17.4	5.1
Current account balance	−16.6	−52.2	−36.8	−38.3	−64.1	−88.6	−54.2
Inflows of bank loans and trade credits (2)	9.7	3.9	13.9	14.8	30.5	38.3	−4.7
Asia							
Total net flows	19.9	74.3	111.5	107.8	20.2	−15.0	−28.0
Net private capital flows	11.8	63.6	105.0	104.1	−1.4	−42.6	−27.1
Direct investment	4.6	47.1	46.6	53.0	55.4	58.3	49.8
Portfolio investment	1.0	11.7	14.2	12.9	3.5	−17.9	−5.6
Other investment	6.2	4.7	44.1	38.1	−60.3	−82.9	−71.3
Net official flows	8.1	10.7	6.5	3.7	21.6	27.6	−0.9
Memorandum items:							
Change in reserves	−12.7	−53.4	−46.1	−50.2	−16.2	−70.3	−60.4
Current account balance	−5.5	−6.4	−44.9	−36.8	23.2	113.6	95.8
Inflows of bank loans and trade credits (2)	6.4	7.4	11.8	16.9	12.3	−8.6	−9.1

Sources: IMF and World Bank.

(1) No data for Hong Kong are available. Capital inflows net of outflows. Other investment comprises bank loans and trade credits, currency and deposits and other assets and liabilities. Because of data limitations, “other investment” may include some official flows. The sum of total net flows, the current account balance and the change in reserves equals, with the opposite sign, the sum of the capital account balance and errors and omissions. – (2) Inflows with maturities of more than one year net of repayments.

Net official flows declined to about $3 billion in 1999, compared with $45 billion in 1998, as a result of a reduction in assistance to countries in difficulty and South Korea's early repayment of loans received in previous years.

The pattern of capital flows last year was in line with the trend that emerged in 1997 at the time of the Asian crisis. The liberalization of international commercial and financial transactions and the development of national financial and equity markets between 1990 and 1996 had been accompanied by a rapid and continuous expansion in net private financing to the emerging countries, which on average was about nine times as high as in the eighties and increased from 36 to 90 per cent of total net flows, while official financing declined by about half. After 1996 private financing began to decline sharply and in 1998 reached its lowest level for the decade, while official flows recovered strongly as a result of efforts by the international community to contain the effects of the crises. Until then Asia had been the largest recipient of net external private financing, but it lost ground to Latin America owing to the substantial outflows of capital that accompanied the 1997 crisis.

INCOME, PRICES AND THE BALANCE OF PAYMENTS

Economic growth in the euro area accelerated in the course of 1999, but for the year as a whole it was slower than in 1998, falling from 2.7 to 2.3 per cent. Germany and Italy recorded growth of 1.5 and 1.4 per cent respectively (Table 4), about half the rate for the other countries in the area.

Table 4

RESOURCES AND USES OF INCOME

	Percentage of GDP in 1999	1998			1999		
		Percentage changes		Contribution to GDP growth at constant prices	Percentage changes		Contribution to GDP growth at constant prices
		Values at constant prices	Deflators		Values at constant prices	Deflators	
Resources							
GDP	–	1.5	2.7	–	1.4	1.5	–
Imports of goods and services, *fob* (1)	26.8	9.1	–1.3	–2.2	3.4	1.3	–0.9
of which: goods	*20.5*	*9.1*	*–2.5*	*–1.7*	*4.5*	*0.6*	*–0.9*
Uses							
Domestic demand	98.7	2.9	2.0	2.8	2.5	1.8	2.4
Consumption by households	59.6	2.3	2.1	1.4	1.7	2.2	1.0
Consumption by government and non-profit institutions serving households	17.8	0.7	2.6	0.1	0.8	2.9	0.1
Gross fixed capital formation	19.7	4.1	1.8	0.8	4.4	1.2	0.8
machinery, equipment and transport equipment	*10.7*	*5.7*	*1.3*	*0.9*	*5.0*	*1.0*	*0.8*
construction	*8.1*	*–0.1*	*1.7*	*. .*	*1.8*	*1.5*	*0.1*
intangible goods	*0.8*	*5.7*	*5.3*	*. .*	*8.4*	*1.6*	*0.1*
Change in stocks and valuables (2)	1.5	–	–	0.6	–	–	0.4
Export of goods and services, *fob* (3)	28.1	3.3	1.0	0.9	–0.4	–0.4	–0.1
of which: goods	*22.1*	*3.5*	*0.6*	*0.8*	*–1.0*	*–0.5*	*–0.2*

Source: Istat, national accounts data based on ESA95.
(1) Includes residents' expenditure abroad. – (2) Includes statistical discrepancies. – (3) Includes non-residents' expenditure in Italy.

The past decade

For Italy, the past decade brought a reduction in the serious imbalances inherited from the past but also a slowdown in growth, which had previously been bolstered by budgetary policies that were unsustainable over the long term.

Macroeconomic policy was aimed at eradicating inflation and restoring sound public finances, partly in response to the decision to participate in the third stage of Economic and Monetary Union from the outset. The main structural reforms related to the liberalization and regulation of markets, a reduction in direct state intervention in the economy, changes in legislation on the financial system and an overhaul of regional development policy. However, heightened international competition and the entry of new countries into the markets showed up delays in the reform process. Italy's competitive weakness again came to the fore.

Monetary policy and concerted action by the two sides of industry made it possible to complete the eradication of inflation. The annual increase in consumer prices came down from 6 per cent in 1990 and 1991 to 2 per cent, its lowest level since 1968 and not far from the average for the euro area. General government net borrowing decreased from 7.7 per cent of GDP in 1992 to 1.9 per cent at the end of the decade; a considerable part of the improvement was due to the fall in nominal interest rates. Public debt began to decline in 1995, thanks partly to large-scale privatizations, and by the end of the decade it was equal to 115 per cent of GDP.

The structural reforms that were initiated have yet to solve the problems preventing the country from achieving its full growth potential. The tax burden increased, for want of a radical adjustment in public expenditure. It is proving difficult to raise the efficiency of the public administration. Unit costs and prices are still rising too rapidly, mainly because of a sharp slowdown in productivity that has not occurred in the other large euro-area countries. The surplus on the current account of the balance of payments was boosted temporarily by the depreciation of the lira in the first half of the nineties but steadily declined thereafter, despite slower growth than in the main euro-area countries. Neither the conditions for employing labour nor competition in the markets in goods and services improved sufficiently, regional disparities worsened and the inadequacy of innovative activity grew more pronounced, as did the fragility of Italy's international specialization.

Growth slowed down in the rest of the European Union as well during the decade; the markets in goods and factors were slow to adapt to the challenge of international competition. In the United States, by contrast, growth continued apace. In the latter part of the decade per capita income in the Union was about two thirds the level in the United States, a lower ratio than in 1985. Together with the disparity in participation rates, which remained unchanged, the higher level of unemployment in the euro area meant that the employment rate was only three quarters that of the United States.

Table 5

THE ITALIAN ECONOMY 1970-1999

(percentages and percentage points)

	1971-79		1980-89		1990-99		1990-94		1995-99	
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
GDP	**3.6**	**-**	**2.4**	**-**	**1.4**	**-**	**1.1**	**-**	**1.8**	**-**
Domestic demand	**3.2**	**3.3**	**2.6**	**2.6**	**1.3**	**1.3**	**0.5**	**0.5**	**2.1**	**2.1**
Household consumption	4.2	2.3	2.9	1.6	1.5	0.9	1.1	0.7	2.0	1.2
Collective consumption	3.2	0.6	2.7	0.5	0.5	0.1	0.7	0.1	0.3	0.1
Gross fixed capital formation	1.0	0.3	2.0	0.4	1.1	0.2	−1.6	−0.3	3.9	0.7
construction	*−1.0*	*−0.2*	*0.3*	*. .*	*−0.5*	*−0.1*	*−1.8*	*−0.2*	*0.8*	*0.1*
other	*5.3*	*0.4*	*4.0*	*0.4*	*2.4*	*0.3*	*−1.4*	*−0.2*	*6.4*	*0.6*
Change in stocks	−	0.1	−	. .	−	0.1	−	. .	−	0.2
Net foreign demand	**-**	**0.2**	**-**	**−0.2**	**-**	**0.1**	**-**	**0.5**	**-**	**−0.3**
Exports	7.7	0.9	3.2	0.5	5.1	0.9	5.7	1.0	4.4	1.0
Imports	4.9	−0.7	4.6	−0.7	4.6	−0.9	3.0	−0.6	6.3	−1.3
Unemployment rate (3)	5.0		8.5		10.6		9.5		11.6	
Labour costs per employee (1) (4)	18.1		13.0		4.7		6.5		2.9	
Productivity (1) (5)	2.8		1.7		1.4		1.7		1.1	
Consumer price inflation (1)	13.2		11.1		4.1		5.3		2.9	
Competitiveness (6)	−11.1		7.1		−10.5		−14.3		4.5	
Current account/GDP (7)	. .		−1.0		0.8		−0.7		2.3	
Net borrowing/GDP (7) (8)	−8.2		−10.8		−7.2		−9.9		−4.4	
Public debt/GDP (7)	56.0		77.5		114.4		109.5		119.3	
Change in the ratio of debt to GDP in the period	*15.3*		*34.7*		*19.7*		*28.4*		*−8.7*	

Sources: Based on Istat and Bank of Italy data. Data for the years before 1982 were based on ESA79.

(1) Average annual rate of increase. – (2) Average annual contribution to growth in GDP. – (3) Averages. (4) Nominal labour costs per standard employee labour unit. – (5) Ratio of value added at factor costs to total standard labour units. – (6) Cumulative change in the index of overall competitiveness based on producer prices; a positive value indicates a loss of competitiveness. – (7) Averages; as a percentage of GDP. – (8) The data for the years before 1995 were based on ESA79.

Economic performance deteriorated even more noticeably in Italy. The slowdown in activity was particularly pronounced: output growth averaged 1.4 per cent a year in the nineties, compared with 2.4 per cent in the eighties and 3.6 per cent in the seventies (Table 5). The employment rate for persons aged between 15 and 64, which was already much lower than in other industrial countries, declined to 52 per cent in 1999; the unemployment rate rose from 9.1 per cent at the beginning of the decade to 11.4 per cent.

In the second half of the nineties more flexible types of employment contract fostered the hiring of labour and widened wage differentials. Only 10 per cent of the net jobs created from 1995 onwards were not temporary or part-time. However, the spread of new types of contract alone could not produce a competitive environment that fully met the new requirements, in which the incentives to invest in human capital would be maximized and salaries more closely related to conditions in local labour markets and to corporate productivity.

The marked slowdown in the growth in consumption is one of the dominant macroeconomic features of the decade and clearly distinguishes Italy from the other main euro-area countries.

Household expenditure increased by an average of 1.5 per cent a year during the nineties, half the rate recorded in the previous decade. The need to reduce the budget deficit called for a large increase in taxation; this had a significant dampening effect on the growth in disposable income, which rose by 1.2 per cent a year at constant prices. Real earnings net of employees' social security contributions and taxes fell significantly. The incomplete reform of the pension and welfare system reduced spending capacity and generated expectations of further restrictions, prompting households to accumulate precautionary savings. Towards the end of the decade the financial incentives for the scrapping of motor vehicles and the decline in interest rates sustained household expenditure on durable goods.

The slowdown in consumption was one of the factors curbing investment. Investment excluding construction initially fell by 13 per cent compared with 1989 but grew again from the middle of the decade onwards, at an average rate of more than 6 per cent a year. As in the case of households, the tax incentives introduced in 1994 and 1998 and the reduction in the cost of money played an important role in sustaining corporate expenditure. Investment in machinery, equipment and transport equipment and in intangible goods increased from 11 per cent of GDP in 1990 to 12 per cent last year, one of the highest levels among the industrial countries. If construction is also included, the annual average growth in gross fixed investment fell by half between the eighties and the nineties, from 2.0 to 1.1 per cent.

Although the depreciation of the lira in the early part of the decade temporarily eased the need to reorganize production, the intensification of international competition, particularly from emerging countries, created an incentive to replace existing plant; the proportion of investment to expand capacity remained low throughout the nineties and decreased further towards the end of the decade.

Net foreign demand made virtually no contribution to economic growth during the decade as a whole; from 1996 onwards it reduced growth by about 2.5 percentage points. By adopting irrevocably fixed exchange rates between the currencies of member countries, EMU revealed the structural problem of the competitiveness of Italian goods, which had previously emerged during the final stage of participation in the EMS. Italy's shares of goods markets have declined by about one eighth in the last three years. The competitive difficulties facing Italian industry point to technological and organizational deficiencies. The sensitivity of Italian exports to price competitiveness, especially in relation to emerging countries, stems largely from Italy's specialization in traditional low-technology products. Between 1988 and 1997 the proportion of high-technology products in total Italian exports of manufactures remained unchanged at about 9 per cent; it rose from 12 to 16 per cent for the euro area and from 22 to 28 per cent for the United Kingdom, and fluctuated at around 28-29 per cent for the United States and Japan.

The disequilibria in the Italian economy appear to have worsened as regards regional growth rates, the composition of services, the size of firms and research and development.

The regional dualism between one part of the country that is economically backward and another that is on a par with the rest of the European Union became more pronounced during the past decade. Per capita output in the South in relation to that in the Centre and North fell back to the levels of the fifties (less than 55 per cent); despite a resumption of migration, the unemployment rate in the South rose to historical peaks of over 22 per cent. During the nineties the reduction in public support for local demand and supply revealed the structural deficiencies of the southern economy. Per capita investment fell from two thirds of the figure for the Centre and North to less than half in the course of the decade. Far-reaching innovations were made in state assistance, but they have yet to produce significant results at macroeconomic level.

The Bank of Italy survey of Italian households' income and expenditure shows a substantial adjustment in wages and salaries to the changed situation: between 1989 and 1998 the real net earnings of full-time workers fell by 11.2 per cent in the South, compared with 2.7 per cent in the Centre and North. This contributed to the sharp increase in wage disparities in Italy over the last ten years, during which the percentage of persons in low-income households rose by about 50 per cent and the number of low-wage workers doubled.

Despite the commencement of reforms in the utilities sector and distribution, the service sector continues to be dominated by traditional activities. Distribution and the public administration are bloated by international standards; other services for households and firms account for a smaller proportion of the sector and are less efficient.

Supply in all the main sectors of the economy is more fragmented in Italy than in the major industrial countries; the proportion of self-employed workers and workers employed in the smallest enterprises increased. There continue to be legislative obstacles to growth in company size. This creates more difficult conditions for research and development, on which Italian expenditure in relation to total resources was less than half the level in the other industrial countries at the end of the nineties.

The start of recovery

The euro area experienced a marked acceleration in exports during 1999, whereas the growth in domestic demand eased, albeit only slightly. In the second half of the year GDP was 1.7 per cent higher than in the first, thanks partly to the contribution from foreign trade, which accounted for around half a point of the growth.

The steep rise in the dollar prices of oil from the first quarter of the year onwards, the increase in the world prices of other raw materials and, from the summer onwards, the weakness of the euro caused producer and consumer prices in the area to accelerate last year and into the first few months of this. Consumer price inflation on a twelve-month basis rose from 0.8 per cent at the beginning of 1999 to 2.1 per cent in March 2000. Over the same period producer price inflation rose by 8.7 percentage points to 6 per cent. The behaviour of prices in Italy was similar: in March the twelve-month rise in consumer prices was 2.6 per cent and that in producer prices 5.4 per cent.

The revival in foreign orders initiated an upturn in Italy as well. Industrial output had begun to falter in the second half of 1998 and remained weak in the first half of 1999 (Figure 8). Thereafter, however, the expansion was rapid; the six-month variation in GDP in relation to the preceding half-year rose from 0.5 to 1.3 per cent. Whereas in the second half of the year domestic demand slowed down substantially, the contribution of net exports to growth swung from -1.1 per cent to +0.8 per cent.

Italian exports accelerated strongly, increasing at an annual rate of 11 per cent in the second half of 1999, fuelled by the growth in world trade and gains in competitiveness due to the depreciation of the euro. Imports continued to rise at a fairly rapid pace, as the effects of the recovery in activity tended to outweigh the impact of the decline in the real exchange rate.

As in all the other major euro-area countries, Italy's balance of payments deteriorated in 1999, owing partly to the fall in the terms of trade. The current account surplus declined to 11.7 trillion lire (0.5 per cent of GDP), less than a third of the 1998 figure.

The slowdown in domestic demand in Italy in the second half of the year had no counterpart in the other euro-area countries. The main factor was the virtual stagnation in national consumption. With disposable income rising only slowly, households' spending decisions continued to be constrained by uncertainty about the economic outlook.

The growth in investment excluding construction was not dissimilar to that in the other large euro-area countries. The high capacity utilization rates reached at the end of 1998, favourable financial conditions and expectations that the downturn would be short-lived prompted businesses to step up capital spending, particularly in the first half of the year. Investment in non-residential buildings declined further, in line with the trend of the past three years, indicating that only part of investment was aimed at expanding productive capacity. Civil engineering and investment in residential construction - especially renovation work, which had already begun to accelerate in the second half of 1999 - are showing signs of recovery, thanks to projects undertaken for the Jubilee and tax incentives.

The upturn in activity had an impact on employment, which rose by 1.0 per cent on average for the year. In the second half of 1999 the number of permanent full-time employees increased for the first time since 1993. In view of the growth in the labour supply, the unemployment rate fell by half a point to 11.4 per cent, 2 percentage points more than the average for the euro area.

Recent developments and the outlook for the current year

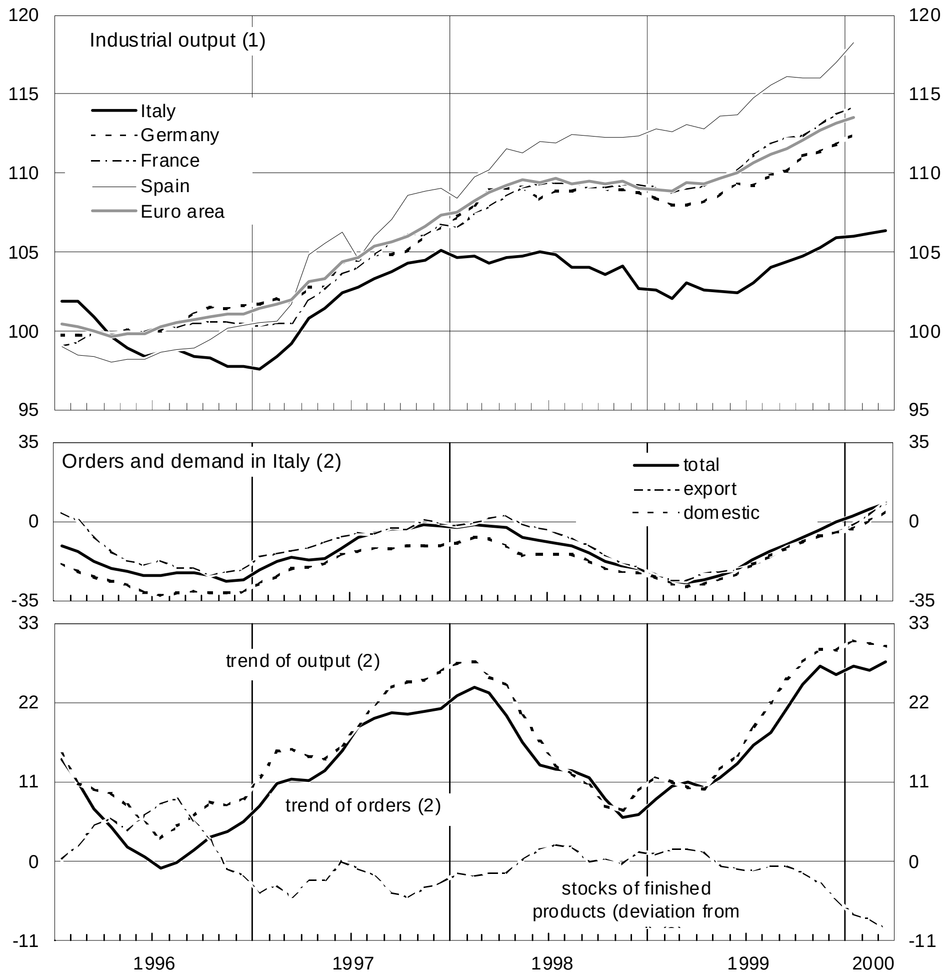
According to the main economic indicators, the recovery that began last summer should strengthen during the year. On the basis of surveys conducted by ISAE among industrialists, the level of orders is very high and above the peaks of the previous cycle (Figure 8). In the first quarter of the year industrial output appears to have increased more moderately than demand, which rose briskly. It is possible that firms responded to the acceleration in demand by running down stocks, as is usual in the early stages of cyclical upturns; the surveys indicate that stocks of finished products are considered to be well below normal.

Expectations of future demand trends point to a further improvement in the economic climate. This assessment is confirmed by the leading indicator constructed by the Bank of Italy and ISAE (Figure 9). Assuming a stable exchange rate at around the current level, oil prices in line with those on the futures market and growth of around 8 per cent in world trade, the increase in GDP this year should be more than 1 percentage point higher than in 1999. Growth would, however, remain lower than in the rest of the euro area.

Figure 8

INDUSTRIAL OUTPUT, DEMAND AND STOCKS

(three-month moving averages ending in the reference month)



Sources: Based on data published by Istat, Eurostat and ISAE.

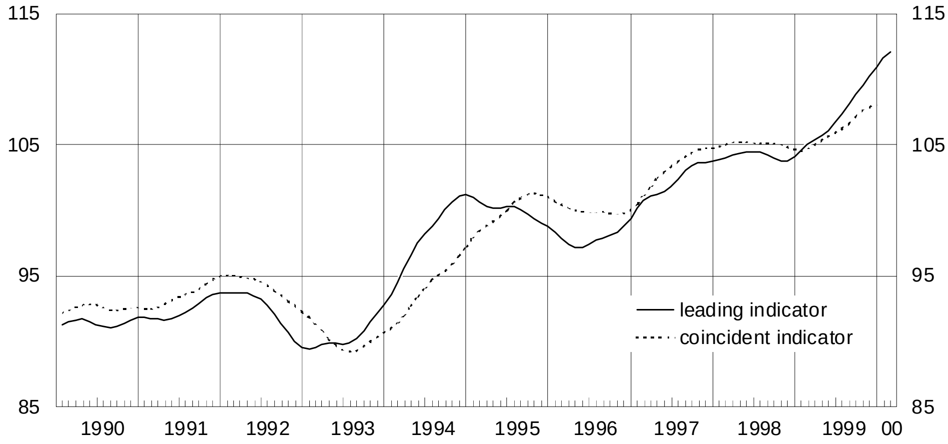
(1) Indices, 1995=100; seasonally adjusted data. - (2) Differences between the percentage of positive replies (“high”, “increasing”) and negative replies (“low”, “decreasing”) to ISAE business opinion surveys. Seasonally adjusted except for stocks of finished products and export orders.

The contribution of net foreign demand to growth should turn positive again. The increase in exports, which is being bolstered by the strong expansion in world trade and substantial gains in competitiveness due to the depreciation of the euro, should be larger than that in imports, which are being checked by the weakness of domestic demand and Italy's improved competitiveness. The deterioration in the terms of trade is likely to lead to a further decrease in the current account surplus.

Figure 9

INDICATORS OF THE BUSINESS CYCLE IN ITALY

(indices, 1995=100)



Sources: Based on data published by Istat, ISAE and the Bank of Italy.

Despite the acceleration in disposable income, consumption is expected to continue to grow more slowly than in the other euro-area countries; the recent increases in interest rates are likely to begin to affect household expenditure, especially on durable goods.

The growth in output and the fact that financial conditions remain essentially favourable, thanks partly to the tax concessions on reinvested profits and incentives for building renovation, are likely to continue to sustain investment.

Employment should increase further, albeit more slowly than output. With wages rising moderately, the improvement in productivity is expected to curb the rise in unit labour costs, offsetting at least part of the inflationary effects of the depreciation of the euro. The rise in prices is likely to be significantly above 2 per cent.

The recovery that is beginning to emerge will create the conditions for consolidating the expansion in output and employment beyond the short term. In the absence of trenchant economic measures to remove the obstacles to improved competitiveness, the progress achieved could prove to be ephemeral and heavily dependent on the world business cycle.

DEMAND

GDP growth in the euro area was curbed by a decline in exports for the second consecutive year and amounted to 2.3 per cent, compared with 2.7 per cent in 1998. The pattern was common to all the main countries of the area except France, where the effect of net exports turned positive. Rising imports fueled by the rapid expansion in output caused a pronounced deterioration in the trade position of Spain, where net exports made a negative contribution of 1.2 percentage points to total GDP growth of 3.7 per cent. Italy and Germany were affected to a greater extent by increasing competition from emerging countries; the negative impact of net exports was large in relation to the limited growth in domestic demand. Despite the strong growth in investment, the latter increased in Italy and Germany at a slower pace than in the rest of the euro area owing to the persistent weakness of consumption. GDP grew by 1.4 per cent in Italy and 1.5 per cent in Germany.

Household consumption

Household consumption in the euro area grew by 2.5 per cent at constant prices, compared with 3.0 per cent in 1998. The slowdown extended to all the main countries except Spain, where the growth accelerated from 4.1 to 4.4 per cent thanks to the increase in employment. The growth in consumption remained above 2 per cent in France, although it slowed by more than one percentage point compared with the previous year; it declined by about 0.2 percentage points to 2.1 per cent in Germany and by more than half a percentage point to 1.7 per cent in Italy, which for the second successive year recorded the feeblest growth in the euro area (Table 6). In contrast with developments in the other main countries, in Italy the growth in household expenditure gradually petered out until it came to a halt in the fourth quarter.

The growth in total domestic consumption, which excludes residents' spending abroad and includes non-residents' spending in Italy, slowed from 2.1 to 1.7 per cent. As in the preceding two years spending on durable goods was again the fastest-growing component, and its growth accelerated from 3.6 to 4.5 per cent. Excluding purchases of transport equipment, which were down sharply from the peaks reached thanks to the tax incentives for vehicle scrapping, the demand for durable goods rose by 6.4 per cent, the largest increase in the nineties. Spending on furniture, electrical household appliances, television sets, telephones and computers were contributory factors (Table 6). Replacement of these goods benefited from the decline in interest rates and the fall in the prices of computer and telephone equipment.

Table 6

HOUSEHOLD CONSUMPTION

(at 1995 prices; percentage changes)

	% share in 1999	1996	1997	1998	1999
Non-durable goods	44.2	–0.5	1.5	1.7	0.5
of which: food and beverages	*16.5*	*–1.1*	*1.6*	*0.8*	*. .*
Durable goods	11.9	1.9	16.9	3.6	4.5
of which: furniture and repairs	*3.8*	*–0.2*	*–0.3*	*–2.8*	*4.8*
electrical household appliances and repairs	*1.4*	*–4.6*	*7.5*	*6.3*	*8.2*
television receiving sets, photographic, computer and hi-fi equipment	*1.2*	*–0.6*	*18.2*	*8.3*	*11.9*
transport equipment	*4.3*	*0.8*	*41.4*	*1.9*	*1.2*
Services	43.9	1.9	1.5	2.2	2.1
of which: hotel and restaurant	*8.7*	*2.1*	*1.4*	*2.2*	*1.6*
communication	*3.4*	*13.5*	*13.2*	*16.9*	*17.0*
recreational and cultural	*3.0*	*9.5*	*5.5*	*7.0*	*12.2*
Total domestic consumption	**100.0**	**0.8**	**3.0**	**2.1**	**1.7**
Residents' consumption abroad		7.6	10.2	6.4	–3.1
Non-residents' consumption in Italy		–5.0	8.4	1.1	–1.2
Total national consumption		**1.2**	**3.0**	**2.3**	**1.7**
Memorandum item:					
Deflator of national consumption		4.4	2.2	2.1	2.2

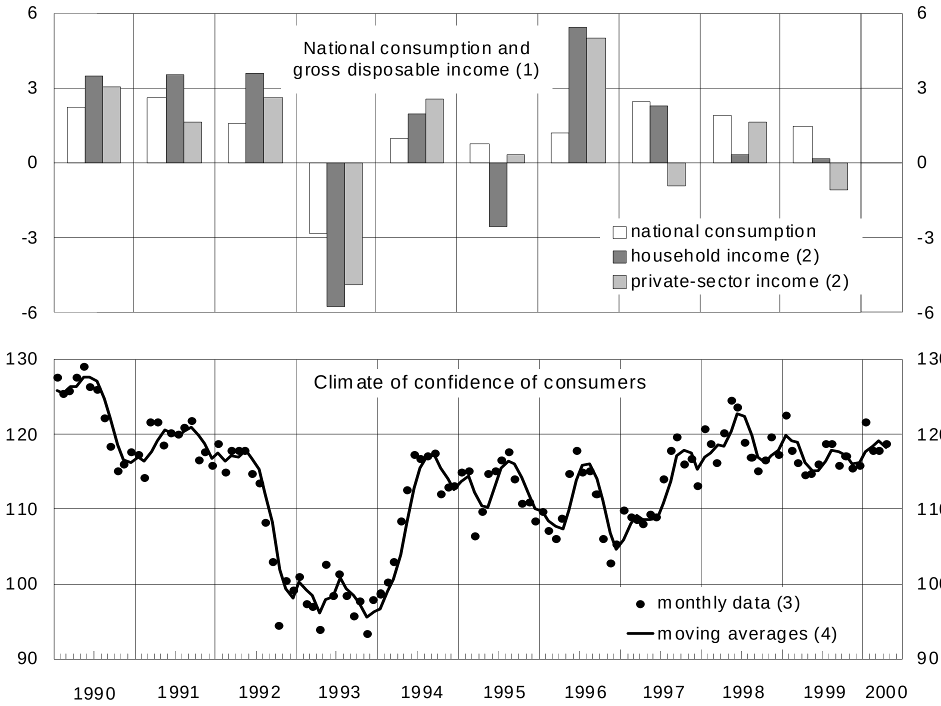
Source: Istat, national accounts (ESA95).

The increase in expenditure on services remained moderate at just over 2 per cent and was driven mainly by the rapid growth of respectively 17 and 12.2 per cent in spending on communication and recreational and cultural services. The growth in purchases of non-durable goods slackened from 1.7 to 0.5 per cent.

Demand for consumer goods in Italy continues to be restrained by the smallness of the growth in households' spending capacity, combined with the persistence of significant uncertainty about the outlook. The swings in assessments of the country’s economic situation recorded by the ISAE surveys of consumer sentiment were the largest in the last three years, reflecting initially the sluggishness of productive activity and subsequently the rise in political instability and the acceleration of prices; a high degree of uncertainty also characterized employment expectations, which after improving rapidly in the middle of the year worsened again in the fourth quarter (Figure 10).

Figure 10

CONSUMPTION, INCOME AND CLIMATE OF CONFIDENCE



Sources: Based on Istat and ISAE data.
(1) At 1995 prices; percentage changes on previous period. - (2) Estimate of income adjusted for actual losses on net financial assets due to inflation, divided by the deflator of national consumption. - (3) Indices, 1980=100. Until 1994 no survey was conducted in August; the data for that month were calculated as simple averages of the data for July and September. Since January 1995 interviews have been conducted by telephone, not in person, and the interviewee is no longer necessarily the head of the household. Since January 1998 the sample has referred to consumers instead of households. - (4) For the three months ending in the reference month.

According to preliminary estimates, households’ gross disposable income rose by 2.4 per cent at current prices and 0.3 per cent at constant prices, slightly more than in the previous year (Table 7).

Excluding the erosion of purchasing power of net financial assets, estimated on the basis of survey findings of economic agents’ inflation expectations, the increase in the sector’s income amounted to 2.6 per cent at current prices and 0.5 per cent at constant prices. The excess of actual inflation over expected inflation resulted in additional losses of purchasing power measured ex-post, which limited the growth in adjusted income to 2.2 per cent at current prices and 0.1 per cent at constant prices.

Table 7

GROSS DISPOSABLE INCOME AND AVERAGE PROPENSITY TO SAVE

(at current prices unless specified) (1)

	1996	1997	1998	1999
	Percentage changes			
Wages and salaries net of employees' social security contributions	5.3	3.8	4.3	3.9
employee compensation per standard labour unit	*6.1*	*4.1*	*–1.8*	*1.9*
total social security contributions (2)	*–1.0*	*–0.8*	*5.0*	*0.4*
employee standard labour units	*0.2*	*0.6*	*1.1*	*1.5*
Self-employment income net of social security contributions	5.6	4.4	6.3	3.3
self-employment income per standard labour unit	*5.0*	*4.4*	*3.4*	*3.1*
total social security contributions (2)	. .	*0.4*	*1.8*	*0.5*
self-employed labour units	*0.6*	*–0.4*	*1.0*	*–0.3*
Net property income (3)	4.0	–3.8	–7.0	–2.3
Net social security benefits and other net transfers	8.4	7.2	2.5	5.4
of which: net social security benefits	*8.3*	*6.6*	*2.5*	*5.3*
Current taxes on income and wealth (–)	8.0	6.2	2.5	7.3
Gross disposable income of households (4)	**5.5**	**2.8**	**2.2**	**2.4**
at 1995 prices (5)	1.0	0.6	0.2	0.3
at 1995 prices, adjusted for expected inflation (6)	1.8	2.2	2.3	0.5
at 1995 prices, adjusted for past inflation (7)	5.4	2.3	0.4	0.1
Gross disposable income of the private sector	**6.2**	**0.3**	**3.5**	**1.7**
at 1995 prices (5)	1.7	–1.9	1.4	–0.4
at 1995 prices, adjusted for expected inflation (6)	2.2	–0.9	3.2	–0.4
at 1995 prices, adjusted for past inflation (7)	5.0	–0.9	1.6	–1.1
	Percentages			
Households' average propensity to save (4) (8)	**19.1**	**17.2**	**15.4**	**14.2**
calculated on income adjusted for expected inflation	14.8	14.2	14.2	13.2
calculated on income adjusted for past inflation	15.6	14.9	13.6	12.1
Average propensity to save of the private sector (8)	**30.5**	**27.1**	**26.4**	**24.9**
calculated on income adjusted for expected inflation	27.4	24.6	25.3	23.7
calculated on income adjusted for past inflation	28.0	25.2	24.7	22.5

Sources: Based on Istat and Bank of Italy data.

(1) Estimates based on ESA95. – (2) Percentage change in net incomes attributable to social security contributions; a minus sign indicates an increase in the contribution burden. – (3) 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. – (4) Consumer households, including non-profit institutions serving households. – (5) Deflated using the deflator of national consumption. – (6) Gross disposable income net of expected losses on net financial assets due to inflation (estimated on the basis of the results of the Forum-Mondo Economico survey); deflated using the deflator of national consumption. – (7) Gross disposable income net of actual losses on net financial assets due to inflation; deflated using the deflator of national consumption. – (8) Ratio between the saving (before depreciation and after the change in severance pay and pension funds) and the gross disposable income of the sector.

On the basis of income adjusted for the expected loss of purchasing power of net financial assets, consumer households' propensity to save, which had remained unchanged in 1998 at around 14 per cent, declined to 13.2 per cent.

The deterioration in the result achieved by the corporate sector is estimated to have caused the growth in the gross disposable income of the private sector as a whole to fall from 3.5 to 1.7 per cent at current prices. The propensity to save declined by 1.5 percentage points to 24.9 per cent (23.7 per cent after adjusting for the expected loss of purchasing power of net financial assets).

In proportion to national income, the saving rate for the entire economy edged down to 21.5 per cent; nearly all of the decrease in the contribution of the private sector was offset by the increase in the general government surplus from 0.3 to 1.5 per cent (Table 8).

Table 8

GROSS SAVING AND INVESTMENT

(as a percentage of gross national disposable income)

	Average 1982-89	Average 1990-94	Average 1995-99	1996	1997	1998	1999
General government saving (1)	−6.3	−6.0	−1.2	−3.8	−0.2	0.3	1.5
Private sector saving (1)	28.7	25.9	23.1	26.1	22.1	21.5	19.9
of which: consumer households	*19.6*	*16.7*	*12.3*	*14.0*	*12.4*	*10.9*	*9.9*
Gross national saving	22.5	19.9	21.9	22.3	22.0	21.8	21.5
Gross investment	23.1	20.8	19.7	19.0	19.1	20.0	20.6
Memorandum item:							
Balance of current account transactions with the rest of the world	−0.7	−0.9	2.2	3.3	2.8	1.8	0.9

Sources: Based on Istat and Bank of Italy data.
(1) For years before 1995, estimates based on ESA79.

The gross disposable income of Italian households, which in the first three years of the nineties had risen at a rapid rate (3.5 per cent on average at constant prices and net of the effect of inflation on financial assets), languished for the rest of the decade. The average annual rate of increase for the nineties as a whole amounted to 1.2 per cent, around half that of the eighties. Calculated on the basis of income adjusted for the expected loss of purchasing power of net financial assets, households' propensity to save began to fall again in 1993 after a pause in the early nineties. In 1999 it was 3.2 percentage points below its 1993 level of 16.6 per cent; in 1983 it had been around 21 per cent.

Investment

Gross fixed investment in Italy grew by 4.4 per cent, compared with 4.1 per cent in 1998 (Table 9); a let-up in the second and third quarters was followed by a return to a fair rate of growth in the fourth (1.8 per cent on the preceding quarter). Net of depreciation, the increase for the year as a whole was 9.2 per cent. Stocks, the measurement of which is affected by the statistical discrepancies between the demand and supply estimates of the national accounts, grew appreciably for the third consecutive year.

Table 9

FIXED INVESTMENT

(at 1995 prices; percentage changes and percentages)

	Percentage change			As a percentage of GDP		
	1997	1998	1999	1997	1998	1999
Construction	–2.3	–0.1	1.8	8.2	8.1	8.1
residential buildings	*–2.7*	*–0.6*	*1.6*	*4.6*	*4.5*	*4.5*
other	*–1.8*	*0.5*	*1.9*	*3.6*	*3.6*	*3.6*
Machinery and equipment	4.8	5.7	5.0	7.9	8.3	8.5
Transport equipment	1.3	15.5	10.5	1.8	2.1	2.2
Intangible assets	4.5	5.7	8.4	0.8	0.8	0.8
Total gross fixed investment	**1.2**	**4.1**	**4.4**	**18.7**	**19.2**	**19.7**
Total excluding residential buildings	2.6	5.6	5.2	14.1	14.7	15.2
Total excluding construction	4.2	7.4	6.2	10.5	11.1	11.6
Total net fixed investment (1)	**–1.7**	**9.0**	**9.2**	**4.7**	**5.1**	**5.5**

Source: Istat, national accounts (ESA95).
(1) Excluding depreciation.

All of the components of investment increased in varying degree, most markedly in the service sector. Capital spending in industry, initially checked by the stagnation of activity, subsequently improved in response to signs of reviving demand and a rising capacity utilization rate. According to the ISAE surveys of industrial companies, the substantial improvement in the level and trend of orders during the year sustained the climate of confidence among businessmen. However, the investment survey conducted by the Bank of Italy found that there had been a reduction in industrial firms' purchases of capital goods for the year as a whole. Accordingly, the 5.1 per cent increase in investment other than housing and civil engineering projects shown by the national accounts for the economy as a whole appears to have been concentrated primarily in the service sector. The persistence of good profitability and low borrowing costs enhanced firms’ ability to finance their investment plans.

In the first half of the nineties gross fixed investment had decreased from 20.8 to 17.8 per cent of GDP. Some of this loss was subsequently recouped and the investment ratio rose to 19.7 per cent in 1999. The net decline in the ratio for the decade came on top of that of nearly two percentage points in the eighties, widening the gap vis-à-vis the intense pace of capital formation in Italy before the first oil crisis of the seventies.

Machinery and equipment, transport equipment and intangible assets. - Last year investment in machinery and equipment, transport equipment and intangible assets grew by 6.2 per cent in Italy, which was less than in Spain and France (8.4 and 8.5 per cent respectively) but more than in Germany (5.6 per cent). Although spending on transport equipment grew less than in 1998, it remained the fastest-growing component in Italy (10.5 per cent). Spending on intangible assets recorded rapid growth of 8.4 per cent last year and grew at an average annual rate of 7.9 per cent in the period between 1994 and 1999, possibly indicating the increasing importance of new technologies in production and distribution. The share of intangible assets in total gross fixed investment is still modest (4.3 per cent in 1999). Purchases of machinery and equipment rose by 5.0 per cent. The full unfolding of the effects of Law 133 of 13 March 1999 (known as the Visco Law) should help to boost capital spending during the current year; evidence of this is the jump shown between the end of 1999 and the first quarter of 2000 in the index of orders for machine tools published by the machine tool industry’s association.

Construction. - After declining by 2.3 per cent in 1997 and stagnating in 1998, investment in construction rose by 1.8 per cent last year. The growth of 1.6 per cent in residential building reversed a six-year decline. The result is attributable to renovation and extraordinary maintenance work, which was stimulated by the tax incentives introduced by Law 449 of 27 December 1997. Civil engineering projects increased by 5.9 per cent, contributing decisively to the sector’s growth, while spending on non-residential buildings contracted for the third successive year, decreasing by 0.3 per cent.

Investment in construction gradually declined in relation to GDP during the nineties in all the main countries of the euro area; in Italy the ratio fell from 10.1 to 8.1 per cent between 1990 and 1999. For Italy, 1992 marked the end of a four-year expansion and the onset of a protracted contraction due to the decline in residential building, which in part reflected demographic trends, and the pronounced decrease in spending on both civil engineering projects and non-residential buildings. Expenditure on public works was curtailed owing to judicial investigations (involving both firms and governmental bodies) and budgetary adjustment measures. The second half of the decade brought a further contraction in residential building, which contrasted with signs of recovery in the other sectors. The latter were initially supported by tax reliefs and, following a pause in 1997, by an appreciable pick-up in civil engineering projects. In 1999 residential building also showed signs of growth, although the improvement tapered out in the closing part of the year.

Stocks. - According to the national accounts, the item "changes in inventories and valuables" remained at a historically high level in 1999, for the third consecutive year, and accounted for 0.4 percentage points of the growth in GDP. Over the last three years the item contributed more than a quarter of the overall increase in output. Among the other main countries of the euro area, a comparable proportion is to be found only in Germany; in France and Spain the corresponding values are substantially lower.

Exports and imports

In 1999 net exports made a negative contribution to GDP growth of one percentage point. The sharp contraction in the surplus on goods at constant prices was only partly offset by a slight decline in the deficit on services. In the last three years net exports curtailed GDP growth by a total of 2.9 percentage points (Table 10).

Exports. - Italian exports of goods and services decreased by 0.4 per cent at constant prices, in contrast with substantial increases recorded by the other main euro-area countries, ranging from 8.5 per cent for Spain to 3.7 per cent for France. The result for Italy reflected an abrupt contraction between the last quarter of 1998 and the first of 1999, when exports of goods and services at constant prices were down by 4.4 per cent compared with the previous six months. Exports subsequently gathered pace throughout the euro area and reached a new peak in Italy in the second half of the year, when they rose by 5.4 per cent compared with the first half.

Despite the major adjustments in the exchange rate of the lira, Italy's export growth in the nineties was in line with that of the other main countries of the euro area, averaging 5.4 per cent a year at constant prices; only Spain recorded a much higher rate (9.4 per cent).

Table 10

EXPORTS AND IMPORTS OF GOODS AND SERVICES IN THE NATIONAL ACCOUNTS

(percentage changes on previous year unless otherwise specified)

	1997			1998			1999		
	Goods	Services	Total	Goods	Services	Total	Goods	Services	Total
Exports *fob* (1)									
At current prices	5.2	12.9	6.8	4.1	5.1	4.3	–1.6	2.1	–0.8
At 1995 prices	5.0	12.2	6.5	3.5	2.7	3.3	–1.0	1.9	–0.4
Deflators	0.1	0.7	0.3	0.6	2.3	1.0	–0.5	0.2	–0.4
Contribution to GDP growth at constant prices (2)	*1.1*	*0.7*	*1.7*	*0.8*	*0.2*	*0.9*	*–0.2*	*0.1*	*–0.1*
Imports *fob* (3)									
At current prices	11.9	11.1	11.7	6.4	11.8	7.7	5.1	3.4	4.7
At 1995 prices	11.2	7.1	10.2	9.1	9.1	9.1	4.5	..	3.4
Deflators	0.6	3.8	1.4	–2.5	2.5	–1.3	0.6	3.5	1.3
Contribution to GDP growth at constant prices (2)	*–1.9*	*–0.4*	*–2.3*	*–1.7*	*–0.5*	*–2.2*	*–0.9*	..	*–0.9*
Exports *fob*/imports *fob*									
At current prices, % ratio	122	106	118	120	99	115	112	98	109
At 1995 prices, % ratio	120	99	115	114	93	109	108	95	105
Deflators; indices, 1995=100	101	105	103	101	107	105	101	107	104
Contribution to GDP growth at constant prices (2) (4)	*–0.8*	*0.3*	*–0.6*	*–0.9*	*–0.3*	*–1.3*	*–1.1*	*0.1*	*–1.0*

	1997	1998	1999
Memorandum items:			
World trade (5)	9.7	4.2	4.6
Indicator of Italian competitiveness (6)			
Overall (7)	0.6	1.3	–2.7
Exports (8)	–0.2	1.8	–3.5
Imports (8)	1.7	0.7	–1.5

Sources: Istat, OECD and IMF.

(1) Includes non-residents' consumption in Italy. – (2) Percentage points. – (3) Includes residents' consumption abroad. – (4) Sum of the contribution of exports and imports. – (5) Average annual growth in world imports and exports of goods and services at constant prices (IMF data). – (6) Positive values indicate a loss of competitiveness. – (7) Based on the producer prices of manufactures. – (8) Based on the average unit values of manufactures.

Italy's export performance in the nineties stands midway between the rapid growth recorded in the seventies (7.7 per cent) and the much slower growth of the eighties (3 per cent). Between the end of 1992 and the early part of 1995 exports benefited considerably from gains in competitiveness produced by the depreciation of the lira and amounting to almost 17 per cent when calculated on the producer prices of manufactures. This led to a sharp improvement in Italy's market shares, which on average grew much faster than those of the other main euro-area countries in the period 1992-95 (Table 11). The gradual stabilization of the lira and heightened competition from the newly-industrializing countries, not least following the Asian crisis, resulted in Italian exports growing at an average annual rate of 3.7 per cent between 1996 and 1999, compared with respectively 5.6, 5.9 and 8.7 per cent for Germany, France and Spain. Unlike those countries, in 1996-99 Italy suffered a substantial loss of market shares.

Table 11

CHANGES IN EXPORTS AND OUTLET MARKETS

(at constant prices; percentages)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Italy										
Exports (1)	7.5	−1.4	7.3	9.0	9.8	12.6	0.6	6.5	3.3	−0.4
Outlet markets (2)	6.4	4.5	2.7	−1.1	8.8	7.8	5.5	8.5	7.2	6.9
Germany										
Exports (1)	12.4	11.0	−0.8	−5.5	7.6	5.7	5.1	10.9	7.0	4.2
Outlet markets (2)	5.6	1.4	3.3	−0.7	9.4	8.7	5.4	8.5	6.9	6.1
France										
Exports (1)	4.7	5.5	5.0	0.2	8.0	7.8	3.1	10.6	6.9	3.6
Outlet markets (2)	6.9	4.4	3.4	−1.9	9.0	8.0	5.2	9.1	7.5	6.9
Spain										
Exports (1)	3.2	7.9	7.4	8.5	16.7	10.0	10.3	15.1	7.1	8.5
Outlet markets (2)	6.9	3.8	3.2	−2.5	8.9	7.8	4.3	8.4	7.9	5.9

Source*:* Based on national statistics.

(1) Change in exports of goods and services according to the annual accounts. – (2) Average of the changes in imports of goods and services of the principal importing countries, weighted using their respective weights in the Bank of Italy's indicator of competitiveness.

Imports. - Italian imports of goods and services grew by 3.4 per cent at constant prices in 1999, compared with 9.1 per cent in 1998. After rising to a high level at the end of 1998, in the early part of 1999 they were affected by the sluggishness of productive activity. In the second half of the year, as demand strengthened, the growth in imports accelerated (from 2.1 to 2.6 per cent with respect to the previous period). France also experienced a slowdown in import growth (from 11.0 to 3.6 per cent year on year). In Germany and Spain, by contrast, imports continued to expand at a rapid rate (7.1 and 12.6 per cent respectively).

During the nineties the propensity to import increased in all the main countries of the euro area, reflecting the intensification of the internationalization of economic activity. In Italy the trend was less even than in the other European countries, with an increase of more than 4 percentage points in the last three years. During that period, total demand grew by an annual average of 2.7 per cent, while imports expanded by 7.5 per cent, primarily owing to the large loss of competitiveness vis-à-vis countries that export to Italy, which was only partly made good in 1999. The increase in import penetration primarily regarded consumer goods and capital goods, for which imports' share of total demand rose by 2 percentage points to exceed 22 and 12 per cent respectively.

DOMESTIC SUPPLY

For Italy, the nineties was the decade of slowest economic growth since the Second World War. The average annual growth rate from 1990 to 1999 was 1.4 per cent, compared with 2.4 per cent in the eighties, 3.6 per cent in the seventies, 6.2 per cent in the sixties and 6.1 per cent in the fifties. The slowdown affected the other advanced economies as well but was more pronounced in Italy, especially in the last twenty years. It came in conjunction with a deceleration in labour productivity, which grew only half as fast in the nineties (1.4 per cent per year) as twenty years earlier.

Economic sectors

Italian gross domestic product increased by 1.4 per cent in 1999, compared with 1.5 per cent in 1998. There remains a gap with respect to the euro area, which had growth of 2.3 per cent.

Industry excluding construction recorded an increase of 1.7 per cent in value added at factor cost and constant prices, down from 2.5 per cent in 1998 (Table 12). Construction, after prolonged stagnation, returned to albeit modest growth (1.1 per cent).

The country's primary energy requirement increased by 2.0 per cent (as against 2.7 per cent in 1998) even though oil prices rose sharply during the year. Import dependency accordingly rose from 81.6 to 82.3 per cent.

The real value added of services grew by less than 1 per cent (1.4 per cent in 1998). The sectors recording the largest gains were transport and communications (4.3 per cent) and other community, social and personal services (4.6 per cent). Value added in wholesale and retail trade and repairs remained nearly unchanged (Table 12).

In agriculture, forestry and fisheries, value added increased by 5 per cent at constant prices and 3.1 per cent at current prices. The work force continued to contract, decreasing by more than 5 per cent in standard labour units.

Regional developments

The Association for Industrial Development in Southern Italy estimates that real output increased by 1.5 per cent in the regions of the Centre and

Table 12

VALUE ADDED AT FACTOR COST

	1998		1999			Percentage changes			
						Volume		Deflators	
	Billions of lire, current prices	Share of value added (percentage)	Billions of lire, current prices	Millions of euros	Share of value added (percentage)	1998	1999	1998	1999
Industry	**531,601**	**28.7**	**541,626**	**279,727**	**28.4**	**2.1**	**1.6**	**–2.1**	**0.3**
Industry excluding construction	**442,074**	**23.9**	**449,233**	**232,010**	**23.6**	**2.5**	**1.7**	**–2.1**	**–0.1**
Non-energy extractive industries	8,239	0.4	9,222	4,763	0.5	2.0	1.6	–9.6	10.2
Manufacturing	393,598	21.3	396,650	204,853	20.8	2.1	0.7	–1.8	0.1
Production and distribution of electricity, gas, steam and water	40,237	2.2	43,361	22,394	2.3	6.4	11.8	–3.5	–3.6
Construction	**89,527**	**4.8**	**92,393**	**47,717**	**4.8**	**0.1**	**1.1**	**–1.7**	**2.1**
Services	**1,260,641**	**68.1**	**1,303,183**	**673,038**	**68.4**	**1.4**	**0.9**	**–0.4**	**2.5**
Wholesale and retail trade, repairs	250,665	13.5	258,738	133,627	13.6	2.9	0.3	–1.8	2.9
Hotels and restaurants	62,902	3.4	65,566	33,862	3.4	1.0	0.6	1.1	3.7
Transport and communications	138,704	7.5	144,035	74,388	7.6	1.6	4.3	3.0	–0.4
Financial intermediation	109,353	5.9	111,853	57,767	5.9	3.6	–3.4	–2.4	5.9
Real estate, renting, computer and business services	343,416	18.6	356,364	184,047	18.7	0.4	1.4	1.9	2.4
Public administration and defence, compulsory social security	103,994	5.6	107,123	55,324	5.6	0.4	0.4	–2.4	2.5
Education	91,709	5.0	94,794	48,957	5.0	–1.5	–0.7	–1.2	4.0
Health and other social services	83,336	4.5	85,801	44,313	4.5	0.5	0.7	–3.0	2.2
Other community, social and personal services	61,598	3.3	63,065	32,570	3.3	3.0	4.6	–3.8	–2.1
Domestic services	14,964	0.8	15,844	8,183	0.8	0.3	3.8	0.8	2.0
Agriculture	**59,373**	**3.2**	**61,202**	**31,608**	**3.2**	**1.2**	**5.0**	**–2.4**	**–1.9**
Value added at factor cost (1)	**1,851,615**	**100.0**	**1,906,011**	**984,373**	**100.0**	**1.6**	**1.2**	**–1.0**	**1.7**

Source: Istat.

(1) Gross of indirectly measured financial intermediation services.

North (as in 1998) and by 1.1 per cent in the South, including the island regions of Sicily and Sardinia (1.3 per cent in 1998). Per capita output grew slightly faster in the South than in the rest of the country (1.3 as against 1.2 per cent), reflecting substantial South-North migration, which the Association estimated at 90,000 people in 1999. Per capita GDP in the South remained equal to 54 per cent of that in the Centre and North.

Italian merchandise exports at current prices declined by 1.6 per cent in 1999. The decrease was sharpest in the peninsular South (-3.5 per cent) and in the North-West (-2.9 per cent), more moderate in the Centre and the Islands (-2.1 and -1.6 per cent). Only the North-East registered a small increase (0.5 per cent).

The economy in the nineties

The sectoral make-up of the Italian economy remained virtually unaltered through the nineties. The largest relative increase in real value added was achieved by the highly heterogeneous sector consisting of "wholesale and retail trade, repairs, hotel and restaurant services, transport and communications", whose share of the total rose from 23.7 per cent in 1990 to 24.8 per cent in 1999. The largest contraction occurred in the construction industry, which lost nearly a full percentage point, finishing the decade at just below 5 per cent.

The composition of employment changed more significantly. The share of agriculture fell from 8.6 to 5.9 per cent and that of industry declined by 1.6 points to 22.7 per cent. The sharpest gain came in the sub-sector "real estate, renting and business services", whose share of the total rose from 7.1 to 9.7 per cent. Despite a slight decline in the share of value added, "other services," including general government, health and recreation, increased its share of employment by 1.4 points.

Labour productivity for the entire economy increased at an average annual rate of 1.4 per cent between 1990 and 1999, compared with 2.2 per cent between 1983 and 1989. Though industry registered above-average gains (2.1 per cent per year), it suffered a slowdown in the growth of value added per worker in the second half of the decade. Productivity in construction stagnated, while per capita output growth in the service sector accelerated by comparison with the eighties.

Between 1988 and 1997, as international economic integration advanced, the diversity of industrial specializations in the countries of Europe did not diminish. The euro area is home to two models: that of France and Germany, strongly specialized in exports of skilled-labour-intensive products embodying better-than-average technological content; and that of Italy and Spain, specializing mainly in less technology-intensive traditional products.

The Italian economy is characterized by limited internationalization, as gauged by inward and outward direct investment. The gap vis-à-vis the other large European countries' shares of total world foreign direct investment has widened since the mid-nineties. This is explained, at least in part, by Italy's specialization in traditional industries. Foreign direct investment tends to concentrate in sectors with greater technological content and in those that are most R&D-intensive.

The relative expansion of the services sector

Employment in the services sector rose by over 22 percentage points between 1970 and 1990, from 36.6 to 58.3 per cent of the total, bringing Italy abreast of such countries as Germany and Japan and approaching the most heavily service-oriented economies. During those years the growth of the sector was powered in part by the expansion of general government and fostered by the lack of modernization in such traditional segments as the wholesale and retail trade.

In the nineties the increase in the incidence of services on total employment was slower in Italy than elsewhere. Contributory factors were the restructuring of trade of publicly-owned corporations and the slowdown in the growth of government employment. However, the expansion of services to businesses and households proceeded rapidly. In 1998 the share of Italian employment accounted for by services was 61.4 per cent, about the same as in Germany or Japan, but the gap had widened with respect to France (69.2 per cent), the United Kingdom (70.9 per cent) and the United States (73.7 per cent).

Firm size: an international comparison

The average size of firms in the industrial economies has declined since the peak of the sixties. According to data from Centro Studi Confindustria, the share of Italian manufacturing employment accounted for by firms with more than 500 employees was halved between the start of the sixties and the mid-nineties, from 31.5 to 15.1 per cent. In France the share fell from 55.2 per cent in 1977 to 42.8 per cent in 1994. The decrease was much less pronounced in the United States and the United Kingdom and negligible in

Germany. Meanwhile, the share of employment accounted for by firms with fewer than 100 employees rose everywhere. The increase was sharpest in Italy (from 48.8 to 68.6 per cent), still substantial in France and the UK, and more modest in the US and Germany. The trend does not depend on sectoral specialization. The progressive decline in manufacturing employment has been concentrated in the largest firms. The reduction in average firm size is general, reflecting a process dominated by technological factors linked to the growing use of microelectronics and information technology, which have improved coordination between different units and lessened the importance of economies of scale internal to the firm.

The decline in size has not been accompanied by international convergence in productive structures. Italy, where average firm size was already smaller, recorded the sharpest reduction; the differences with the other industrial countries have increased.

In Italy, the further fractionalization of an already fragmented productive structure has been accompanied by the rise of industrial districts, within which substantial external economies have largely offset the disadvantages of small size.

The fact that small firms predominate in all sectors suggests that institutional features specific to the Italian economy are at work.

Italian firms' difficulty in expanding can be traced to a variety of factors. It is argued that small size enables them more easily to elude the administrative and legal rigidities of factor market regulations as well as taxes and social contributions.

The modest size of Italian industrial firms is accompanied by a very high share of self-employment by international standards. In the last twenty years there has been a recovery in non-farm self-employment in a number of countries, due in part to the relative expansion of the services sector in the developed economies. Italy, which has always had a large share of self-employed workers, experienced a further rise, from 22.7 per cent in 1978 to 25.8 per cent in 1990. The share remained essentially constant for the next decade, owing above all to restructuring in the distributive trades. The only European country with a higher share is Greece (32.6 per cent). The share in Germany is 9.9 per cent, in France 8.2 per cent (Table 13).

Technological innovation

In the nineties, with the sweeping technological transformation induced by information and communication technologies, the link between innovative capacity and growth emerged with full force. In this sphere Europe lags behind the other industrial areas. In 1997 high-technology goods accounted for just 16 per cent of European exports of manufactures, compared with 29 per cent in Japan and 28 per cent (in 1996) in the United States. To judge by patents, Europe's backwardness is more pronounced still in such emerging high-technology sectors as computers and office machinery, electronics and biotechnology.

Table 13

SELF-EMPLOYMENT IN SELECTED INDUSTRIAL COUNTRIES

(self-employed workers as a percentage of total non-agricultural employment) (1)

	1970	1978	1984	1990	1998
France	12.5	10.6	10.5	9.2	8.2
Germany	10.3	8.3	8.3	8.4	9.9
Greece	–	31.9	32.0	32.4	32.6
Italy	24.4	22.7	25.6	25.8	26.0
United Kingdom	6.7	6.8	11.7	14.2	13.0
Spain	21.2	19.8	23.1	21.0	20.0
Japan	22.4	21.4	19.6	17.3	13.7
United States	7.6	7.4	8.0	7.7	7.1

Source: OECD, *Labour Force Statistics*, various years.
(1) Including family workers, classed in Italy as self-employed.

An international comparison shows that Italy is particularly weak in these sectors. In 1997 high-technology products accounted for just 8.5 per cent of its exports of manufactures. Italy's propensity to invest in R&D is considerably lower than that of most other industrial countries, according to OECD data (Table 14). In 1998 such investment amounted to just 1.03 per cent of GDP, compared with 2.32 per cent in Germany, 2.2 per cent in France, 2.77 per cent in the United States and 2.89 per cent (in 1997) in Japan. Corporate R&D spending is much lower proportionally in Italy than in the other industrial countries, reflecting Italian industry's persistent difficulty in closing the technology gap with the other advanced economies.

In 1997, about 78 per cent of Italian corporate in-house R&D activity was performed by firms with more than 500 employees and just 2.5 per cent by those with fewer than 50. The prevalance of small firms can be a real impediment to innovative activity and ultimately growth, especially in industries that are inherently R&D-intensive.

Table 14

R&D SPENDING IN SELECTED INDUSTRIAL COUNTRIES
(percentages of GDP)

	1981	1986	1991	1993	1995	1996	1997	1998
France								
Total	1.97	2.23	2.41	2.45	2.34	2.32	2.24	2.20
Corporate	1.16	1.31	1.48	1.51	1.43	1.43	1.37	1.37
Germany								
Total	2.43	2.73	2.61	2.42	2.31	2.30	2.31	2.32
Corporate	1.71	2.00	1.81	1.62	1.53	1.52	1.56	1.57
Italy								
Total	0.88	1.13	1.24	1.14	1.01	1.02	1.00	1.03
Corporate	0.50	0.66	0.69	0.61	0.54	0.55	0.53	0.56
United Kingdom								
Total	2.37	2.25	2.11	2.15	2.02	1.95	1.87	–
Corporate	1.49	1.55	1.42	1.44	1.32	1.27	1.22	–
Spain								
Total	0.42	0.61	0.87	0.91	0.85	0.87	0.86	0.88
Corporate	0.19	0.34	0.49	0.44	0.41	0.42	0.42	0.43
European Union								
Total	1.70	1.91	1.95	1.92	1.84	1.83	1.82	–
Corporate	1.06	1.25	1.23	1.19	1.14	1.14	1.14	–
Japan								
Total	2.13	2.55	2.82	2.68	2.77	2.80	2.89	–
Corporate	1.41	1.82	2.13	1.90	1.94	2.01	2.10	–
United States								
Total	2.42	2.85	2.81	2.62	2.61	2.66	2.70	2.77
Corporate	1.70	2.06	2.05	1.85	1.88	1.95	2.01	2.08

Source: OECD, *Main Science and Technology Indicators*, 1999.

Privatization and market regulation

The disposal of shares in public corporations continued. The Treasury sold 35.5 per cent of the equity of ENEL S.p.A. by a public offering that closed on 29 October, including a green shoe of 4.5 per cent and the setting aside of 1 per cent for future bonus shares. The operation, which generated gross proceeds of about 35 trillion lire, was the largest initial public offering ever made in Italy and one of the largest in Europe.

In 1999 IRI sold 87 per cent of the equity of its motorway arm Società Autostrade for 13.5 trillion lire; 30.4 per cent was sold via an auction, concluded on 26 October, to a core group of investors. The remaining 56.6 per cent was placed via a public offering that ended on 3 December.

The decade of the nineties saw a thorough overhaul of the role of public intervention in the Italian economy, cutting back direct State management of economic activities and revising the rules governing the conduct of private enterprises. Some of the privatizations responded in part to the actions of the European Commission regarding state subsidies to corporations and the related need to adjust the finances of several major state corporate groups, as well as to the more general need to sustain market confidence in public financial adjustment.

Disposals by IRI, ENI and the Treasury generated total gross proceeds of more than 152 trillion lire between 1993 and 1999 (Table 15), nearly 8 per cent of the average GDP for those years. In the last three years proceeds averaged 1.8 per cent of GDP. By way of comparison, in the period of most intensive privatization in the United Kingdom, between 1985 and 1995, annual proceeds averaged 1.2 per cent of GDP.

An OECD study compares the degree of product and labour market liberalization in 21 industrial countries in 1998. Owing to state regulation, Italy has the most substantial barriers to competition in the product markets, despite the progress made in recent years.

The salient event of the decade in the area of regulatory reform of the markets was Law 287 of 10 October 1990, "Rules for the safeguarding of competiton and the market," which instituted a Competition Authority. For utilities, an Electricity and Gas Authority was created by Law 481 of 14 November 1995; the Communications Authority was created under Law 249 of 31 July 1997. Directive 96/92/EC on the liberalization of the internal market in electricity was transposed into Italian law with Legislative Decree 79 of 16 March 1999, which enacts the break-up of ENEL into separate corporations for the generation, distribution and sale of electricity. The measure provides that beginning on 1 January 2003 no company may control more than 50 per cent of the electricity sold in Italy. A public law agency has been created as exclusive operator of the transmission network, which remains the property of ENEL S.p.A. The controlling stake in ENEL is still in public hands.

In the telecommunications industry, the public monopoly on the mobile phone segment came to an end in 1994 with the authorization of a private provider (Omnitel). In 1997 the Government initiated the disposal of the integrated Telecom Italia group, including mobile phone services, with a public offering. Presidential Decree 318 of 19 September 1997 laid down the rules for the implementation of Community directives concerning the telecommunications industry. As from 1 January 1998 fixed-line telephone service was liberalized, although the Authority's fixing of the charges to new providers for interlinking with the existing network entailed many problems. In June 1998 a third mobile phone provider was authorized (Wind).

Table 15

MAIN PRIVATIZATIONS IN ITALY IN THE NINETIES

Corporation (Group)	Method of sale	Percentage sold	Gross proceeds in billions of lire (millions of euros)
1993 – Italgel (IRI)	Private agreement	62.12	431.1
Cirio-Bertolli-DeRica (IRI)	Private agreement	62.12	310.7
Credito Italiano (IRI)	Public offering	58.09	1,801.1
SIV (EFIM)	Auction	100.00	210.0
Total for year			**2,752.9**
1994 – IMI - 1st *tranche*	Public offering	32.89	2,149.7
COMIT (IRI)	Public offering	54.35	2,891.2
Nuovo Pignone (ENI)	Auction	69.33	699.0
INA - 1st *tranche*	Public offering	47.25	4,530.0
Acciai Speciali Terni (IRI)	Private agreement	100.00	624.0
SME - 1st *tranche* (IRI)	Private agreement	32.00	723.0
Other companies (ENI)			1,087.0
Total for year			**12,703.9**
1995 – Italtel (IRI)	Auction	40.00	1,000.0
Ilva Laminati Piani (IRI)	Private agreement	100.00	1,928.7
Enichem Augusta (ENI)	Auction	70.00	300.0
Other companies (ENI)			336.0
IMI - 2nd *tranche*	Private agreement	19.03	1,200.0
SME - 2nd *tranche* (IRI)	Accept takeover bid	14.91	341.4
INA - 2nd *tranche*	Private agreement	18.37	1,687.0
ENI - 1st *tranche*	Public offering	15.00	6,299.0
ISE (IRI)	Auction	73.96	370.0
Total for year			**13,462.1**
1996 – Dalmine (IRI)	Auction	84.08	301.5
Italimpianti (IRI)	Auction	100.00	41.6
Nuova Tirrena	Auction	91.14	548.0
SME - 3rd *tranche* (IRI)	Accept takeover bid	15.21	120.9
INA - 3rd *tranche*	Conv. bond issue	31.08	3,260.0
MAC (IRI)	Auction	50.00	223.0
IMI - 3rd *tranche*	Public offering	6.94	501.2
Montefibre (ENI)	Public offering	65.00	183.0
ENI - 2nd *tranche*	Public offering	15.82	8,872.0
Total for year			**14,051.2**
1997 – ENI - 3rd *tranche*	Public offering	17.60	13,230.0
Aeroporti di Roma (IRI)	Public offering	45.00	541.0
Telecom Italia	Core investors + public offering	39.54	22,883.0
SEAT editoria	Core investors + public offering	61.27	1,653.0
Banca di Roma (IRI)	Public offering + bond issue	36.50	1,900.0
Total for year			**40,207.0**
1998 – SAIPEM (ENI)	Public offering	18.75	1,140.0
ENI - 4th *tranche*	Public offering	14.83	12,995.0
BNL	Public offering	67.85	6,707.0
Total for year			**20,842.0**
1999 – Enel	Public offering	35.5	34,828.0 (17,987.1)
Autostrade (IRI)	Auction + public offering	87.0	13,500.0 (6,972.2)
Total for year			**48,328.0 (24,959.3)**
Total proceeds			**152,347.1 (78,680.7)**

Sources: Company accounts (various years); Ministry of the Treasury, *Relazione sulle privatizzazioni* (various years); financial press.

The privatization of ENI preceded the liberalization of the natural gas market, creating a conflict between the national interest in greater competition and the interests of ENI's private shareholders. On 14 February 2000 the Government released a draft legislative decree transposing Directive 98/30/EC on the liberalization of the internal market in natural gas into Italian law; the decree would liberalize imports and production of gas and require the accounting and organizational division of SNAM (an ENI subsidiary) into three corporations (for procurement, for transportation and storage, and for distribution and sales). The decree also introduces a limit of 50 per cent on the market share of any operator during a transitional period running from 2003 to 2010. The Electricity and Gas Authority considers the degree of liberalization that would be achieved under the decree to be modest.

Legislative Decree 114 of 13 March 1998 reformed the rules governing the distributive sector, easing product and hours restrictions and liberalizing some commercial licensing requirements. For medium-sized distributors, the opening of new outlets was subjected to municipal authorization, while for large retailers the responsibility for establishing requirements for the opening or expansion of outlets was assigned to the regional authorities. *De facto*, many regions, late in setting such requirements, have suspended the market entry of large retailers.

Regional policy and the South

Between 1989 and 1999 gross product in southern Italy grew at an average annual rate of 0.9 per cent, compared with 1.5 per cent in the Centre and North. The sharp slowdown in southern economic growth, combined with faster population growth than in the rest of the country, widened geographical disparities. Per capita GDP in the southern regions fell from 57.8 per cent of that of the Centre and North in 1989 to 53.9 per cent in 1997 and remained at that level for the next two years, thanks to migration to the North (Figure 11).

Given the higher incidence of public expenditure on GDP in the area and its reduced openness to international markets, the southern economy suffered more severely than the rest of the country during the nineties from fiscal adjustment while benefiting only modestly from the export growth that followed the devaluation of the lira in 1992.

Per capita investment contracted very significantly in relative terms, from 63.7 per cent of that for the Centre and North in 1989 to 48.3 per cent in 1999, while per capita consumption fell from 70.1 to 65.9 per cent.

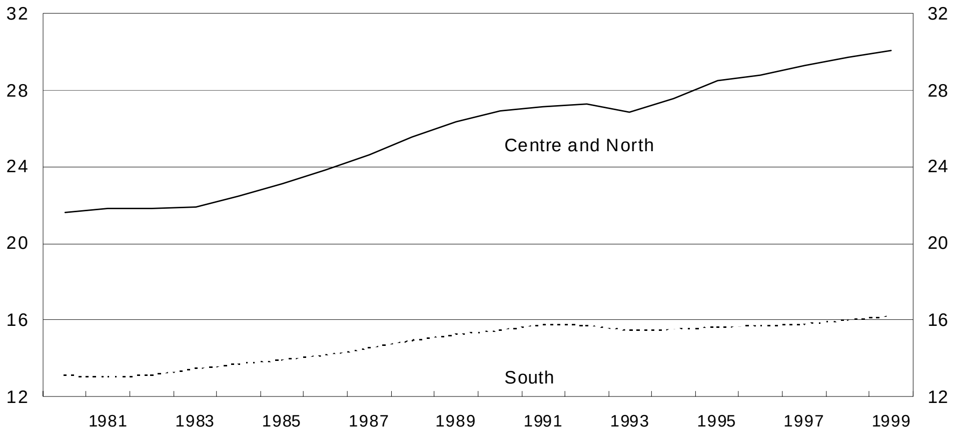
The reduction in demand support from the public sector was combined with a deterioration in the competitive conditions of the southern economy.

Owing in part to the phasing out of social contribution relief beginning in 1994, the cost of labour rose slightly more than in the Centre and North, despite a decline in wages. Productivity, defined as value added per standard labour unit, deteriorated rapidly in relative terms following the recession of 1993, and as a result unit labour costs in manufacturing rose from 95.5 per cent of those in the rest of the country in 1989 to 103.4 per cent in 1999.

Figure 11

PER CAPITA GDP IN ITALY

(annual data; millions of lire at 1990 prices)



Sources: Based on Istat and SVIMEZ data.

The structural weakness of the southern economy became fully apparent with the progressive decrease in public support. Following the crisis of the publicly owned industrial plants in the South in the mid-seventies, the southern development programme together with ordinary government spending helped to support incomes and consumption in the region but failed to close the infrastructure gap with the rest of the country or significantly increase the region's productive potential. The capacity to attract the outside investment required to develop the region's productive apparatus remained very modest.

In 1997 the Ministry of the Treasury created its Department for Development and Cohesion Policies, providing the administration with an instrument for planning regional development, promoting negotiated development planning, and undertaking initiatives for the utilization of European structural funds. In 1999 the Department released its Plan for Southern Development, which was approved by the European Commission in April 2000. This constitutes the official frame of reference for all projects in the regions eligible for Objective 1 funding. The planning method set forth in the document, calling for the broad involvement of local governments, envisages action on a range of factors that are relevant to increasing the trend rate of productivity growth in the South. The selection of the areas eligible for Objective 2 funding has not yet been given Commission approval.

The resources available under the Community Support Framework for 1994-1999 (60.4 trillion lire) were fully appropriated, and beginning in 1997 actual disbursements also rose, exceeding 60 per cent of the available funds by September 1999. The structural fund resources available to the Mezzogiorno under the Support Framework for 2000-2006 amount to 22 billion euros; together with national co-financing and private sector intervention, this should generate total investment of 47 billion euros.

Total national and Community spending in support of the depressed areas, net of tax relief, rose from 16 trillion lire in 1997 to 18 trillion in 1998 and 22 trillion in 1999.

THE LABOUR MARKET

Employment

Employment in the euro area has been recovering since the mid-nineties and continued to do so in 1999. According to the national accounts drawn up on the basis of ESA95, which provide a broader and more easily comparable picture than the labour force surveys, the number of persons employed averaged nearly 121 million, an increase of 1.6 per cent with respect to 1998. In Italy, the figure was 22.7 million, an increase of 1.2 per cent.

Employment in Italy peaked in 1991 and then fell by more than 1 million persons (4.5 per cent) over the subsequent four years. Since 1995 it has increased by 728,000, or 3.3 per cent, with nearly all of the gain occurring in salaried employment (687,000 persons) and in the Centre and North of the country (Figure 12). The employment rate for the population aged between 15 and 64 increased from 50.6 to 52.3 per cent; in 1999 it stood at 64.8 per cent in Germany, 60.4 per cent in France and 52.3 per cent in Spain.

According to the labour force survey, nine-tenths of the net new jobs created in the past four years were temporary or part-time positions (Table 16). The number of persons on permanent full-time contracts only began to increase when economic growth perked up in the second half of 1999, rising by an average of 123,000 with respect to the second half of 1998.

Table 16

STRUCTURE OF EMPLOYMENT IN ITALY

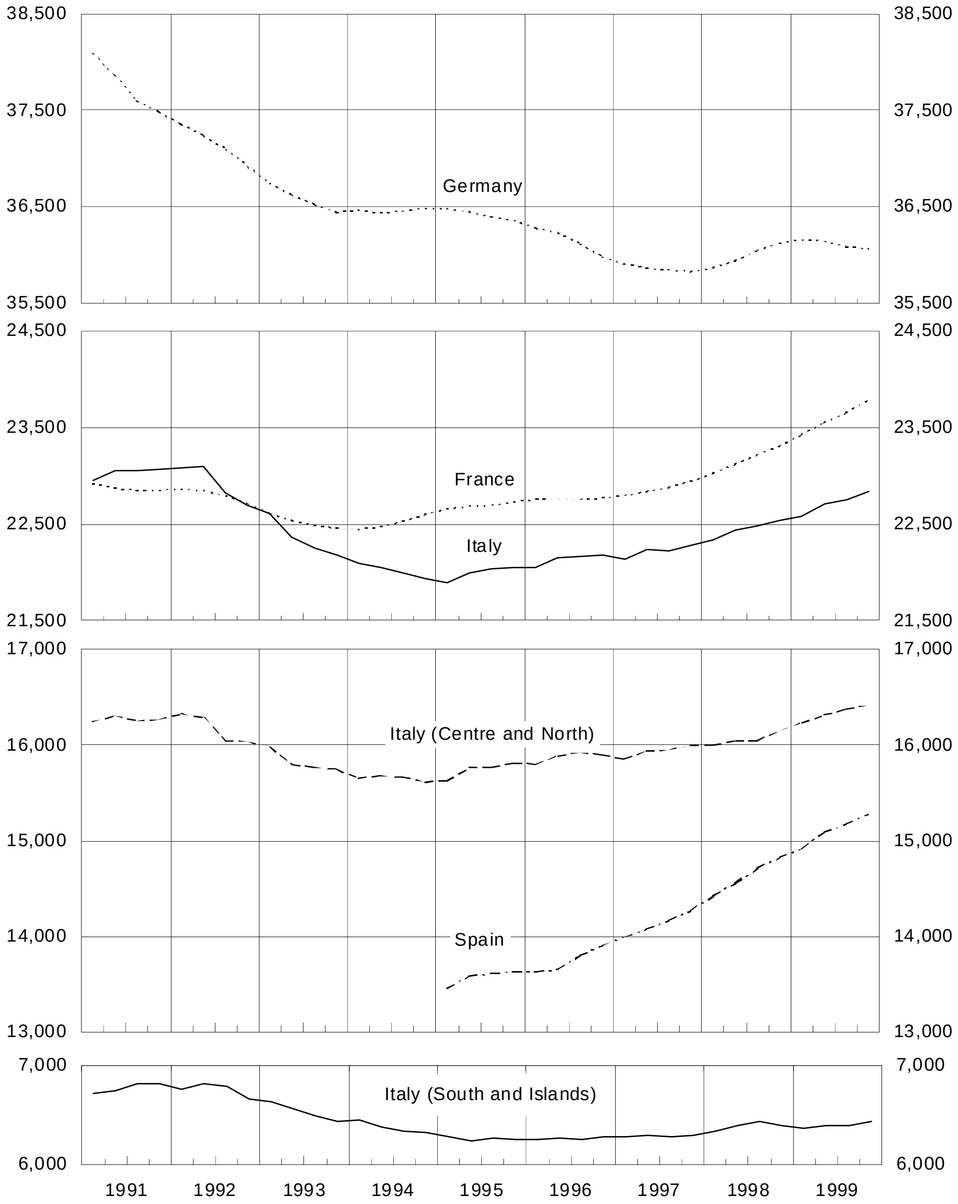
	1999		Change 1999/1998		Change 1999/1995	
	Thousands of persons	Percentage share	Thousands of persons	Percentage share	Thousands of persons	Percentage share
Self-employed	5,869	28.4	−18	−0.3	48	0.8
full-time	5,451	26.4	−37	−0.7	27	0.5
part-time	418	2.0	19	4.8	21	5.3
Employees	14,823	71.6	274	1.9	618	4.4
permanent full-time	12,643	61.1	35	0.3	33	0.3
permanent part-time	770	3.7	78	11.3	216	39.0
temporary full-time	962	4.6	118	14.0	231	31.6
temporary part-time	448	2.2	43	10.5	138	44.5
Total	**20,692**	**100.0**	**256**	**1.3**	**666**	**3.3**

Source: Istat, labour force surveys.

Figure 12

EMPLOYMENT IN THE MAIN EURO-AREA COUNTRIES

(seasonally adjusted; thousands of persons)



Sources: For Italy, Istat, national accounts (ESA95) and estimates for the regional breakdown. For the other countries, Eurostat, national accounts (ESA95); the data for France are partly estimated.

Comparisons of the incidence of temporary employment over time are complicated by changes in the methodology of the labour force survey. Leaving aside agriculture, where seasonal contracts have long been very common, the available data show that the proportion of temporary workers was fairly stable between 1977 and the early nineties. The peak in 1989 coincided with the maximum use of trainee contracts (Figure 13). The share of fixed-term contracts has increased rapidly since 1993, so that by 1999 they accounted for 8.6 per cent of non-agricultural employees in 1999.

In 1999, the number of part-time workers averaged more than 1.6 million, equal to 7.9 per cent of total employment; a quarter of these were self-employed (Table 16). In non-agricultural sectors the percentage of part-time workers remained broadly stable at between 4 and 5 per cent from 1984 to 1992 and then doubled over the next seven years (Figure 13).

Figure 13

SHARES OF TEMPORARY AND PART-TIME EMPLOYMENT IN THE NON-FARM SECTORS IN ITALY

(percentages)

Source: Based on Istat labour force surveys.
(1) The vertical dotted lines mark the main discontinuities caused by the revisions of the methodology used for the labour force surveys. - (2) As a percentage of total employees. The number of temporary workers was approximated by considering workers who declared they did not work "regularly and continuously" but "occasionally and intermittently" or "seasonally". - (3) As a percentage of total employees. - (4) As a percentage of total employment.

The use of fixed-term contracts has made it easier for firms to adjust labour inputs more rapidly to changes in economic conditions. Between 1995 and 1999 employment in industry was virtually unchanged, but there was a substantial increase in labour turnover (about 30 per cent of the labour force per year at the firms with at least 50 employees included in the sample of the Bank of Italy's survey).

Labour inputs and sectoral developments in the nineties

In recent years the number of persons employed has increased more rapidly than labour inputs owing to the spread of part-time work. Labour inputs, which are measured in standard units in the national accounts, increased by an average of 1 per cent in 1999, compared with a rise of 1.2 per cent in the number of persons employed; total growth between 1995 and 1999 was 2.7 and 3.3 per cent respectively (Table 17).

Table 17

SECTORAL DISTRIBUTION OF EMPLOYMENT IN ITALY

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

	Total employment					Salaried employment				
	Share		Change			Share		Change		
	1990	1999	1999/ 1998	1999/ 1990	1999/ 1995	1990	1999	1999/ 1998	1999/ 1990	1999/ 1995
Agriculture, forestry and fisheries	**8.6**	**5.9**	**–5.5**	**–32.0**	**–15.5**	**4.5**	**3.2**	**–4.3**	**–30.0**	**–14.3**
Industry excluding construction	**24.3**	**22.7**	**–0.4**	**–7.8**	**0.4**	**29.1**	**26.8**	**–0.4**	**–7.7**	**1.2**
of which: manufacturing	*23.3*	*21.9*	*–0.3*	*–7.4*	*0.7*	*27.7*	*25.7*	*–0.3*	*–7.2*	*1.6*
Construction	**6.7**	**6.5**	**1.6**	**–3.2**	**–0.2**	**6.1**	**5.3**	**1.1**	**–13.0**	**–4.0**
Services	**60.4**	**64.9**	**2.0**	**6.0**	**5.9**	**60.3**	**64.7**	**2.7**	**7.3**	**6.3**
Wholesale and retail trade, repair of personal and household goods	15.5	15.1	0.8	–3.5	1.9	9.4	10.6	5.4	12.8	8.4
Hotels and restaurants	4.7	5.3	3.5	11.3	7.3	3.8	4.3	2.3	13.1	9.0
Transport, storage and communications	6.1	6.1	1.9	–0.5	6.0	6.8	6.7	1.8	–1.7	7.4
Financial intermediation	2.6	2.8	1.0	5.8	2.1	3.3	3.5	1.7	7.9	2.4
Services to businesses and households (1)	7.1	9.7	6.2	34.8	26.5	5.7	7.4	7.3	30.4	25.1
Public administration (2)	6.3	6.0	–0.4	–6.9	–3.3	9.2	8.5	–0.4	–6.9	–3.3
Education	6.9	6.7	0.3	–4.4	–2.1	9.5	8.8	–0.1	–7.5	–2.6
Health and other social services	5.1	5.7	0.7	10.2	3.3	6.0	6.4	1.0	7.7	3.2
Other community, social and personal services	3.5	4.2	2.9	18.0	9.9	3.0	3.7	4.1	26.2	13.9
Private households with employed persons	2.6	3.3	4.0	25.0	11.7	3.8	4.7	4.0	25.0	11.7
Total	**100.0**	**100.0**	**1.0**	**–1.2**	**2.7**	**100.0**	**100.0**	**1.5**	..	**3.5**
Total net of agriculture, forestry and fisheries	**91.4**	**94.1**	**1.4**	**1.7**	**4.1**	**95.5**	**96.8**	**1.7**	**1.4**	**4.2**

Source: Istat, national accounts based on ESA95.
(1) Includes real estate, renting, computer and research services and other business services. – (2) Includes defence services and compulsory social security services.

The secular decline in employment in agriculture continued throughout the decade. In 1990 just over 2 million standard labour units had been employed in the sector, equal to 8.6 per cent of total employment; by 1999 the number was under 1.4 million, or 5.9 per cent of employment, although this was still higher than the European average. The fall of about a third involved both the self-employed (426,000 units) and employees (220,000).

Table 18

EMPLOYMENT, WORKING HOURS AND COMPANY BONUSES IN INDUSTRY EXCLUDING CONSTRUCTION: FIRMS WITH AT LEAST 50 EMPLOYEES IN 1999

(percentages)

	Total	Size class (number of workers)			Registered office			
		50-199	200-499	500+	North-West	North-East	Centre	South and Islands
	Salaried employment (1)							
Annual average employment	−1.8	−1.0	−0.9	−3.0	−2.8	0.3	−2.7	0.6
Employment at end of year (2) . . .	−1.5	−0.5	−0.8	−2.7	−2.3 (−2.3)	0.4 (. .)	−2.1 (−1.6)	−0.3 (−1.5)
Proportion of fixed-term workers at end of year	5.3	6.0	5.0	4.6	4.9	5.8	3.5	9.4
	Turnover (3)							
Total turnover (2)	29.5	37.8	25.9	22.9	21.1 (21.1)	46.0 (44.2)	23.5 (26.4)	43.7 (31.9)
Permanent hirings	5.0	6.0	4.6	4.1	4.5	6.0	3.6	7.6
Fixed-term hirings	9.0	12.6	7.9	6.0	4.9	17.1	7.1	14.1
Terminations for expiry of fixed-term contract	9.1	12.1	8.4	6.5	5.0	17.3	6.5	15.2
Terminations for other reasons .	6.4	7.1	5.0	6.4	6.7	5.6	6.3	6.8
	Actual working hours							
Hours worked per employee (1) . .	−0.3	. .	−0.8	0.3	0.1	−1.0	0.6	−2.0
Overtime (4)	4.3	4.2	4.2	4.6	4.3	4.3	4.4	4.3
Temporary employment (4)	0.6	0.6	0.7	0.5	0.7	0.6	0.3	0.4
Firms that use: (5)								
standard hours on an average multi-week basis	33.2	34.2	28.9	31.5	37.8	27.7	34.0	27.2
standard hours varying with production	27.9	28.3	24.1	32.6	23.9	36.3	20.5	25.3
individual pool of hours	10.1	7.8	16.7	21.7	11.4	9.3	10.6	3.2
additional reduction in hours for shift workers (6)	8.5	6.5	16.1	17.1	7.0	11.7	3.2	13.5
	Bonuses under company-level bargaining agreements (5)							
Traditional bonuses:	28.6	31.8	18.0	12.7	26.8	26.3	35.4	39.6
of predetermined amount	25.2	28.0	16.2	9.7	23.0	25.8	29.2	28.6
for organizational change	3.4	3.8	1.8	3.0	3.8	0.5	6.2	11.0
Bonuses related to company results:	71.4	68.2	82.0	87.3	73.2	73.7	64.6	60.4
partly related	35.7	34.3	41.8	38.7	37.1	35.0	32.4	36.4
entirely related	35.7	33.9	40.2	48.6	36.1	38.7	32.2	24.0

Source: Banca d'Italia. *Indagine sugli investimenti delle imprese dell'industria in senso stretto.*

(1) Percentage changes on previous year, except for the proportion of fixed-term workers at end of year. – (2) The figures in brackets are based on firms' actual location. – (3) Percentage ratio of hirings and terminations in 1999 to end-1998 salaried employment. – (4) Percentage ratio of overtime hours worked to total hours worked by firms' employees. – (5) Percentages calculated exclusively with reference to valid responses. – (6) Compared with the working hours provided for in national industry-wide labour contracts.

The decline in industrial employment that had begun in the eighties continued in the nineties. Between 1990 and 1999 employment in the sector fell by 450,000 standard labour units and its share of total employment fell from 24.3 to 22.7 per cent, close to the European average.

The Bank of Italy's annual survey indicates that at the end of 1999 employment in firms in industry excluding construction with at least 50 employees was 1.5 per cent lower than a year earlier (Table 18). Only in firms in the North-East did employment remain broadly stable. As in 1998, labour turnover was about 30 per cent, two-thirds of which involved workers on fixed-term contracts. There was a rapid increase in the adoption of flexible approaches to managing contractual hours at the company level, as envisaged under recent national labour contracts.

Employment in the construction sector showed a similar trend to that in industry, falling by 50,000 units between 1990 and 1999. The increase of 1.6 per cent in 1999 reflected the recovery in the sector stimulated by tax incentives and public works in connection with the Jubilee. The contraction between 1990 and 1999 affected salaried employment, which decreased by 128,000 standard units, while self-employment increased by 77,000 units.

Employment in the services sector declined between 1993 and 1994 for the first time since the war, but began to grow rapidly again in 1996. In 1999 more than 15 million standard labour units were employed in services, 853,000 more than in 1990. In traditional private services (wholesale and retail trade, hotels and restaurants, transport and communications) and public services (general public services, defence and education) employment recovered only partially in the second half of the decade, whereas it grew strongly in more modern business and personal services (real estate, renting and business services, other community, social and personal services, private households with employed persons), which accounted for 638,000 of the total increase of 842,000 standard labour units in the services sector between 1995 and 1999; over the decade their share increased from 14.2 to 17.2 per cent. Self-employment accounts for 1.4 million units, more than a third of the total in these segments, and has been the most rapidly expanding component in recent years, growing by 20.8 per cent between 1995 and 1999.

The supply of labour and unemployment

Italy's low employment rate by comparison with the European average is largely the result of its lower participation rate. In 1999 persons in work or in search of employment made up 59.3 per cent of the population aged between 15 and 64. The movement in the participation rate during that decade mirrored that in employment, declining to a low of 57.4 per cent in

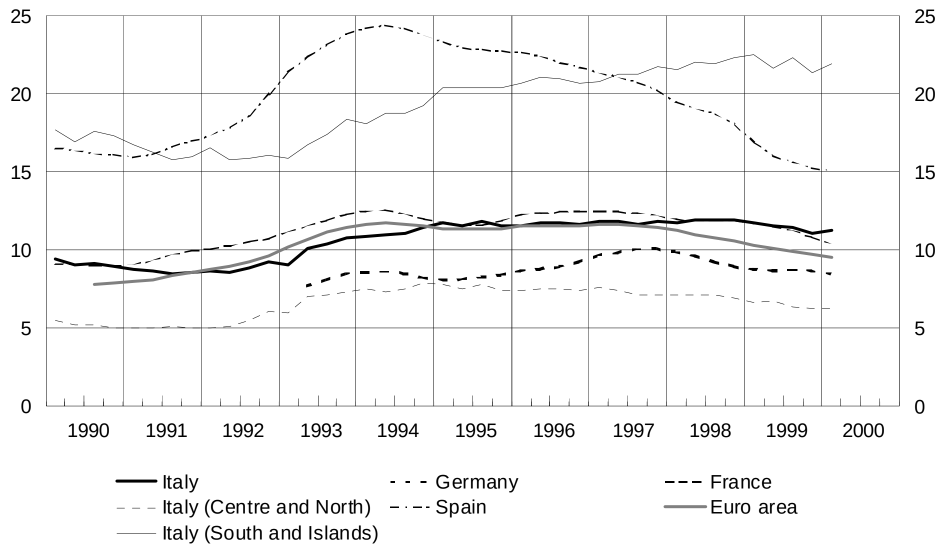
1995 and then rising. Although this slightly narrowed the gap with the rest of the EU, the differential is still 11 percentage points and is concentrated among certain segments of the population.

In 1999 the unemployment rate in Italy averaged 11.4 per cent, compared with 9.2 per cent in the EU and 10 per cent in the euro area. The differential gradually widened during the nineties: while the Italian rate increased until last year, the EU rate rose until 1994 before easing, with the largest decline coming in the last two years. The difference was entirely attributable to unemployment trends in Southern Italy (Figure 14). Unemployment rates in the North are among the lowest in Europe, and in some areas, notably in the North-East, signs of labour shortages have begun to emerge.

Figure 14

UNEMPLOYMENT RATES IN THE EURO AREA

(seasonally adjusted; percentages)



Sources: For Italy, Istat, labour force surveys; for the other countries, Eurostat.

Industrial relations and wage bargaining

National contracts covering two thirds of all private sector employees were renewed in 1999 and the first few months of this year (in metals and engineering, banking and distribution last summer; in chemicals, wood products, construction, insurance, textiles and clothing in the last six months). Wage increases were broadly in line with the inflation target of 1.2 per cent; this wage moderation was even confirmed in the recent agreement for the textile industry, notwithstanding the pick-up in inflation in the early months of the year, which makes it doubtful that actual inflation will be equal to the target rate for 2000. As regards employment conditions, the new contracts enhance flexibility in the use of labour through changes in the organization of working hours and increases in the portion of a firm's work force that can be on part-time or fixed-term contracts.

The incomes policy agreements of the early nineties forged a new framework of industrial relations and established concertation as a means to moderate wage growth and inflation, foster adjustment of the public finances and help the economy to recover from recession. Two bargaining levels were introduced: general working conditions and wage increases to protect workers' purchasing power (essentially in line with the Government's target inflation rates, taking account of changes in the terms of trade) are determined nationally, while increments tied to firms' economic performance are set at company level. These agreements helped curb the rate of wage growth and bring it back into line with that found in the other leading European countries. From the microeconomic point of view, the new system of industrial relations had only limited effects in increasing the weight of variable wage components.

Industrial relations became less conflictual in the nineties, as confirmed by the fall in the number of hours lost to strikes to its lowest level for thirty years. The new climate also facilitated more flexible use of labour in terms of types of employment contract, the organization of production and working hours. Changes in legislation on flexible employment contracts have been exceedingly slow and are not yet complete. The introduction of temporary employment agencies and the reform of apprenticeships, for which the 1992 and 1993 agreements provided, were enacted by Law 196 of 24 June 1997 and did not come into force until 1998. Greater progress appears to have been made in negotiations to extend fixed-term and part-time working. In the last two years greater flexibility has also begun to be applied to the scheduling of contractually prescribed working hours.

The concertation machinery has proven less effective in initiating the reform of the welfare institutions. Following the pension reforms enacted from 1992 to 1995, the sustainability of the present state pension system is still a matter of debate, and the role of supplementary private plans remains limited. The reform of unemployment insurance benefits has been deferred again, notwithstanding the increasing use of flexible employment arrangements, which makes such reform all the more urgent. Nor is there a welfare benefit of last resort, such as the "social inclusion income support" mechanism (*reddito minimo di inserimento*), which is still in the experimental phase.

The role of concertation was reaffirmed in the Social Pact for Growth and Employment signed in December 1998 by the Government and representatives of local authorities, trade unions and employers and has recently been endorsed by statements from the European Commission.

Tripartite consultation between government, business and labour has also been instituted in Germany.

Wages and labour costs

According to the national accounts, nominal gross earnings per standard employee labour unit rose by 2.3 per cent, about the same as in Germany and France (Table 19). The overall increase was the result of an acceleration from 2.2 to 2.9 per cent in industry excluding construction and a slowdown from 3.1 to 1.5 per cent in the private service sector.

Table 19

LABOUR COSTS AND PRODUCTIVITY IN ITALY

(percentage changes)

	Value added at 1995 basic prices	Total standard labour units	Output per standard labour unit	Earnings per standard labour unit (salaried employment)	Labour costs per standard labour unit (salaried employment) (1)	Unit labour costs (1)
			Manufacturing industry			
Average 1991-95	**1.5**	**–1.7**	**3.2**	**5.8**	**5.9**	**2.6**
Average 1996-99	**1.2**	**0.1**	**1.1**	**3.5**	**2.4 (3.5)**	**1.3 (2.4)**
1997	1.8	–0.1	2.0	3.6	4.3	2.3
1998	2.5	2.0	0.5	2.2	–2.1 (2.2)	–2.6 (1.7)
1999	1.7	–0.4	2.1	2.9	2.2	0.1
			Construction			
Average 1991-95	**–1.3**	**–0.6**	**–0.6**	**4.5**	**4.5**	**5.2**
Average 1996-99	**0.5**	. .	**0.6**	**3.5**	**2.3 (3.4)**	**1.7 (2.8)**
1997	–3.0	1.2	–4.1	4.2	4.8	9.3
1998	0.1	–1.9	2.0	2.8	–1.7 (2.8)	–3.7 (0.8)
1999	1.1	1.6	–0.5	2.7	2.1	2.7
			Market services (2) (3)			
Average 1991-95	**1.7**	**–0.3**	**1.9**	**5.7**	**5.5**	**3.5**
Average 1996-99	**1.7**	**2.1**	**–0.3**	**2.7**	**1.6 (2.7)**	**2.0 (3.1)**
1997	2.5	1.4	1.1	2.4	2.2	1.1
1998	1.8	2.3	–0.5	3.1	–1.1 (3.1)	–0.6 (3.6)
1999	0.8	2.7	–1.8	1.5	1.0	2.8
			Total economy (3)			
Average 1991-95	**1.3**	**–0.8**	**2.1**	**5.0**	**5.3**	**3.1**
Average 1996-99	**1.4**	**0.7**	**0.7**	**3.4**	**2.6 (3.6)**	**1.8 (2.8)**
1997	1.7	0.3	1.4	3.6	4.1	2.7
1998	1.6	1.1	0.5	2.4	–1.8 (2.4)	–2.2 (1.9)
1999	1.2	1.0	0.3	2.3	1.9	1.6

Source: Istat, national accounts based on ESA95.

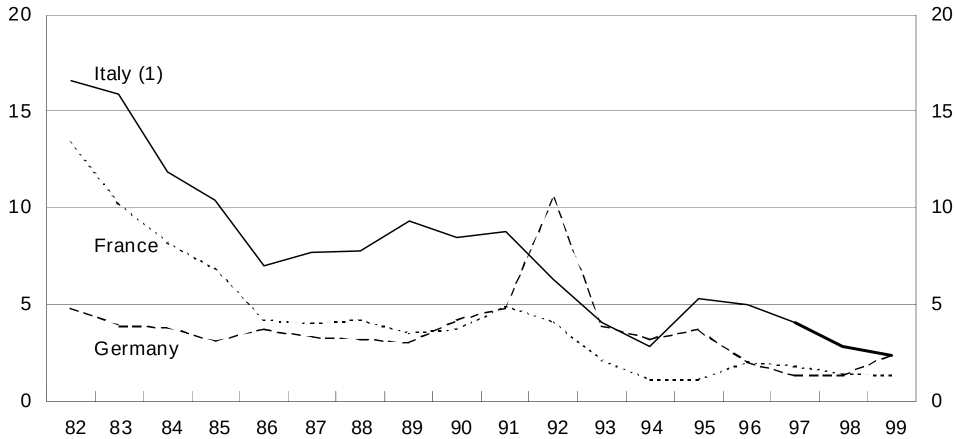
(1) The introduction of the regional tax on productive activities and the simultaneous elimination of some employers' contributions in 1998 produced a discontinuity in the series. The figures in brackets were obtained assuming a rise in labour costs per standard labour unit equal to the rise in earnings. – (2) Includes wholesale and retail trade, hotel and restaurant services, transport and communications, financial intermediation services and sundry services to businesses and households. – (3) Value added includes the former item "rental of buildings", which is no longer available in the national accounts based on ESA95.

The rate of increase in gross earnings and per capita labour income in Italy slowed down progressively in the course of the nineties, but convergence with the trend of per capita labour costs in Germany and France was slow, reflecting among other things differences in the speed of disinflation (Figure 15).

Figure 15

PER CAPITA LABOUR COSTS IN THE PRIVATE SECTOR

(percentage changes on previous year)



Sources: For Italy, Istat, national accounts (ESA95); for Germany and France, OECD, *Economic Outlook*, No. 66, December 1999.
(1) The 1998 figure for Italy was adjusted to take account of the introduction of the regional tax on productive activities.

Between 1990 and 1994 employers’ social security contributions decreased from 44.5 to 43.1 per cent of gross earnings in the private sector; over the next three years they rose to 45.1 per cent owing to the phasing-out of contribution relief for firms in the South. A regional tax on productive activities (IRAP) levied on value added was introduced in 1998 and at the same time national health service contributions and some other charges borne by employers were abolished. This resulted in a reduction in the incidence of direct payroll contributions to 39.0 per cent that year; the size of the reduction is lessened if one counts the part of IRAP attributable to labour and takes into account the fact that unlike the old contributions it is not deductible for corporate income tax purposes. Additional contribution relief lowered the incidence by nearly one point in 1999, to 38.2 per cent, and a comparable reduction has been granted for 2000 as well.

The distribution of net earnings and household income

The Bank of Italy’s survey of household income and wealth found that between 1989 and 1998 real per capita monthly earnings (net of income tax and employees’ social security contributions) declined by 8.9 per cent (Table

20). This was due in part to an increase in part-time jobs, but even full-time workers suffered a reduction of 5.3 per cent. The earnings gap between men and women widened until 1993 and narrowed again between 1995 and 1998. The fall in net earnings was much sharper in the South than in the Centre and North, leading to a perceptible widening of regional disparities: the average earnings of full-time workers in the South and Islands declined from 97 to 89 per cent of those in the rest of the country over the period in 1989-98.

Table 20

REAL MONTHLY NET EARNINGS

(thousands of lire at 1998 prices) (1)

	1989	1991	1993	1995	1998	Percentage change 1998/1989 (2)
				All employees		
Average earnings	2,299	2,204	2,235	2,149	2,094	–8.9
Men	*2,458*	*2,371*	*2,438*	*2,355*	*2,272*	*–7.6*
Women	*2,023*	*1,926*	*1,912*	*1,838*	*1,837*	*–9.2*
Centre and North	*2,311*	*2,232*	*2,263*	*2,195*	*2,177*	*–5.8*
South and Islands	*2,267*	*2,131*	*2,164*	*2,038*	*1,897*	*–16.3*
Gini coefficient (3)	0.193	0.194	0.241	0.234	0.241	0.048
Decile ratio (4)	2.2	2.4	2.8	2.8	3.1	0.9
Low-paid workers (5)	8.1	10.3	15.7	13.7	18.3	10.2
				Full-time employees		
Average earnings	2,326	2,241	2,302	2,215	2,202	–5.3
Men	*2,467*	*2,383*	*2,458*	*2,370*	*2,334*	*–5.4*
Women	*2,067*	*1,988*	*2,026*	*1,949*	*1,985*	*–4.0*
Centre and North	*2,342*	*2,274*	*2,339*	*2,268*	*2,274*	*–2.9*
South and Islands	*2,282*	*2,158*	*2,211*	*2,087*	*2,023*	*–11.3*
Gini coefficient (3)	0.187	0.186	0.227	0.220	0.216	0.029
Decile ratio (4)	2.2	2.2	2.5	2.4	2.6	0.4
Low-paid workers (5)	6.4	7.9	11.9	9.7	12.2	5.8

Source: Banca d'Italia, *Indagine sui bilanci delle famiglie italiane.*

(1) From workers' principal employment, excluding second jobs. Earnings have been deflated using the general consumer price index. – (2) Absolute changes for the Gini coefficient, the decile ratio and the percentage of low-paid workers. – (3) The Gini coefficient ranges from 0 (absolute equality) to 1 (maximum inequality). – (4) Ratio of the earnings corresponding to the top decile and the lowest decile. – (5) Percentages. Based on the OECD definition of "low-paid" as workers earning less than two thirds of the median earnings of full-time employees.

The dispersion of net monthly earnings increased significantly from 1991 to 1993 and remained broadly unchanged for the next five years. The proportion of low-paid workers, i.e. those earning less than two thirds of the median for full-time jobs, increased throughout the period, even among full-time workers.

The Bank of Italy's survey supplements the national accounts data on households' disposable income and provides a picture of changes in distribution. The two sources report different levels and trends in average household income because they use different methods of data collection. In particular, the survey data underestimate some components, primarily financial and self-employment income. Comparison with the national accounts data based on ESA79 indicates that from 1987 to 1995 the Bank of Italy surveys underestimated household income by about one third.

Between 1989 and 1998 average household size declined from 2.9 to 2.7 members. For the purposes of comparing levels of economic welfare, household incomes have been adjusted using the equivalence scale suggested by Eurostat, in order to take account of demographic changes and the economies of scale due to living in a family unit. Equivalent real disposable income fell by 2.4 per cent between 1989 and 1995 and increased by 7.5 per cent between 1995 and 1998, giving a rise of 5.0 per cent for the entire period (Table 21). This pattern reflected the decline not only in real net earnings but also, until 1995, in self-employment income. The share of the former in total equivalent household income fell from 45 to 38 per cent, that of the latter from 20 to 17 per cent. By contrast, positive contributions to the growth of equivalent disposable income were made by pensions and other transfers, which rose from 17 per cent in 1989 to 22 per cent in 1998, and by dividends, interest and rents, which rose from 18 to 23 per cent.

Table 21

HOUSEHOLDS' REAL DISPOSABLE EQUIVALENT INCOME

(thousands of lire at 1998 prices) (1)

	1989	1991	1993	1995	1998	Percentage change 1998/1989 (2)
Average equivalent income	25,482	25,578	24,972	24,878	26,751	5,0
Centre and North	*28,966*	*29,047*	*28,885*	*28,893*	*31,561*	*9,0*
South and Islands	*19,444*	*19,457*	*18,090*	*17,856*	*18,302*	*–5,9*
Gini coefficient (3)	0.300	0.291	0.336	0.337	0.350	0.050
Centre and North	*0.277*	*0.264*	*0.300*	*0.299*	*0.316*	*0.039*
South and Islands	*0.291*	*0.291*	*0.350*	*0.357*	*0.350*	*0.059*
Decile ratio (4)	3.7	3.8	4.7	4.7	4.9	1.2
Low-income households (5)	8.2	9.0	12.4	12.5	13.0	4.8
Persons in low-income households (5)	9.1	10.2	14.1	14.1	14.4	5.3

Source: Banca d'Italia, *Indagine sui bilanci delle famiglie italiane.*

(1) Households' total incomes (including imputed rental income from owner-occupied housing) net of direct taxes, deflated using the general consumer price index and rendered comparable with the OECD's modified equivalence scale and weighted for the number of household members. The OECD's modified equivalence scale attributes values of 1 to the first adult member, 0.5 to every other member over the age of 13 and 0.3 to every member aged 13 or less. – (2) Absolute changes for the Gini coefficient, the decile ratio and the percentage of low-income households. – (3) The Gini coefficient ranges from 0 (absolute equality) to 1 (maximum inequality). – (4) Ratio of the equivalent disposable income corresponding to the top decile and the lowest decile. – (5) Percentages. Based on the definition of "low income" as less than half the median equivalent disposable income.

The inequality in the distribution of equivalent disposable income increased over the period from 1989 to 1998, but most notably between 1991 and 1993; the proportion of individuals with equivalent income of less than 50 per cent of the median increased by about half.

Public income support for households in difficulty remains modest. The survey data indicate that unemployment and welfare benefits from all government sources provide less than 1 per cent of total household income. Half of these benefits go to the poorest quintile of the equivalent income distribution (before such transfers), 17 per cent each to the second and third quintiles and 16 per cent to the highest two.

Trials of a social inclusion income support mechanism, the RMI programme, which had been established under Legislative Decree 237 of 18 June 1998, began in 39 Italian municipalities at the end of 1998 and will run until December 2000. The scheme is addressed to people at risk of social exclusion and who for psychological, physical or social reasons are unable to provide for their own and their children’s sustenance. It consists of a means-tested cash benefit and a programme for social inclusion agreed between the beneficiary and the municipality. The maximum income support is 520,000 lire a month for a person living alone, increasing with household size according to an equivalence scale devised for the programme.

PRICES, COSTS AND COMPETITIVENESS

In 1999 the harmonized index of consumer prices rose by an average of 1.7 per cent in Italy and 1.1 per cent in the euro area (compared with 2.0 and 1.1 per cent, respectively, in 1998). Consumer prices accelerated during the year and continued to gather pace in early 2000. In March of this year the twelve-month rise in the harmonized index reached 2.6 per cent in Italy and 2.1 per cent in the euro area. The main cause of the speed-up was the sharp rise in the dollar prices of oil that began in the first quarter of 1999. Additional impetus to producer and consumer prices came from the weakness of the euro, which depreciated by more than 15 per cent against the dollar between January 1999 and March 2000, and the rise in the prices of other basic products beginning in the spring of 1999 in conjunction with the recovery in international economic activity.

OPEC’s decision to raise production quotas at the end of March moved supply and demand on international oil markets towards balance, causing a decline in spot prices (the price of Brent fell from more than $30 at the start of March to $22 in mid-April) and in those implicit in futures contracts. The further depreciation of the euro against the dollar (about 7 per cent between March and May) and the upturn in oil prices (which rose above $28 in the third week of May) erased the benefits of the earlier decline, triggering a new increase in petrol prices in the main euro-area countries. According to preliminary data, in May the year-on-year increase in the national consumer price index returned to its March level.

The risk that the acceleration in consumer prices could translate into higher wage demands has not yet materialized. Thanks in part to the prudent conduct of monetary policy, market expectations for more distant time horizons suggest that the current upturn in inflation is a temporary phenomenon.

In Italy the downward pressure that lower oil prices might produce in the coming months will be offset by the impact of the economic recovery. The average inflation rate for this year is expected to be above 2 per cent.

These developments come at the end of a decade in which inflation in Italy fell by considerably more than in the other European countries, achieving the convergence threshold established by the Maastricht Treaty and complying with the price stability criterion laid down by the

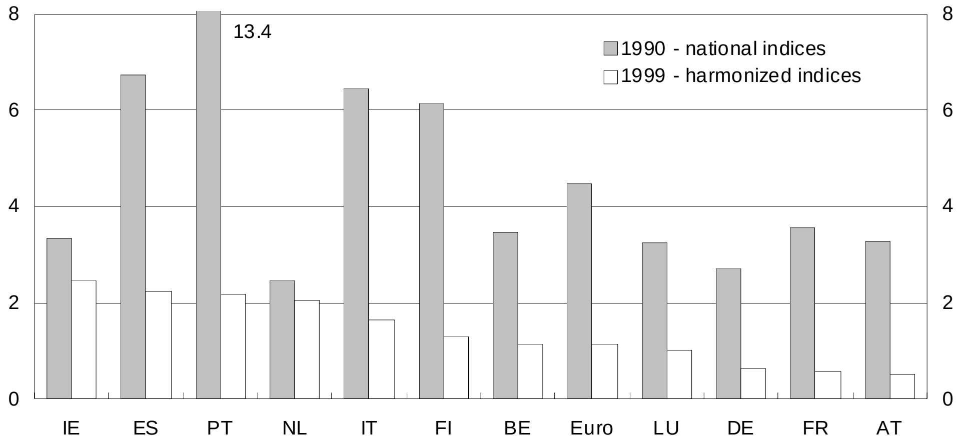
Eurosystem. This reduction was guided by the firm conduct of monetary policy and the containment of wage increases following the agreements on labour costs of 1992 and 1993.

All the economies in the euro area experienced disinflation: in 1990 none of the eleven countries had an inflation rate below 2 per cent; last year only Spain, Portugal and Ireland were above that level (Figure 16).

Figure 16

CONSUMER PRICE INFLATION IN THE EURO AREA IN 1990 AND 1999 (1)

(percentage changes)



Sources: Based on Istat, Eurostat and BIS data.
(1) Average annual inflation rates.

Although Italy’s unfavourable inflation differential narrowed significantly during the decade, it is still about 1 percentage point for the underlying inflation rate. Given that exchange rates are now irrevocably fixed, divergences in inflation rates are a larger source of concern than in the past.

Italy’s competitiveness measured in terms of the real exchange rate of the lira improved substantially as a result of the depreciation in 1992 and 1995. The strengthening of the lira before its re-entry into the European Exchange Rate Mechanism in November 1996 and the increase in prices and unit labour costs, which was larger than that registered by Italy’s main trading partners, slowly eroded the benefits of the devaluation. In recent years the gradual deterioration in competitiveness has been reflected in a decline in Italy’s market shares abroad and a parallel increase in those of foreign producers in Italy.

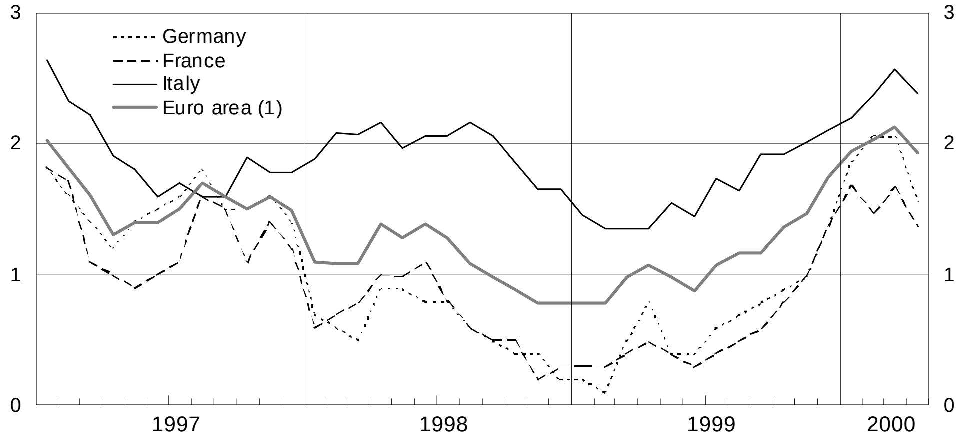
Consumer prices

Since the start of 1999 consumer prices have accelerated sharply in all the euro-area countries, owing to the surge in energy prices. The twelve-month change in the harmonized index, which was 2.6 per cent in Italy and 2.1 per cent in the euro area in March, fell to 2.4 and 1.9 per cent, respectively, in April (Figure 17).

Figure 17

HARMONIZED INDICES OF CONSUMER PRICES IN THE EURO AREA

(percentage changes on previous year)



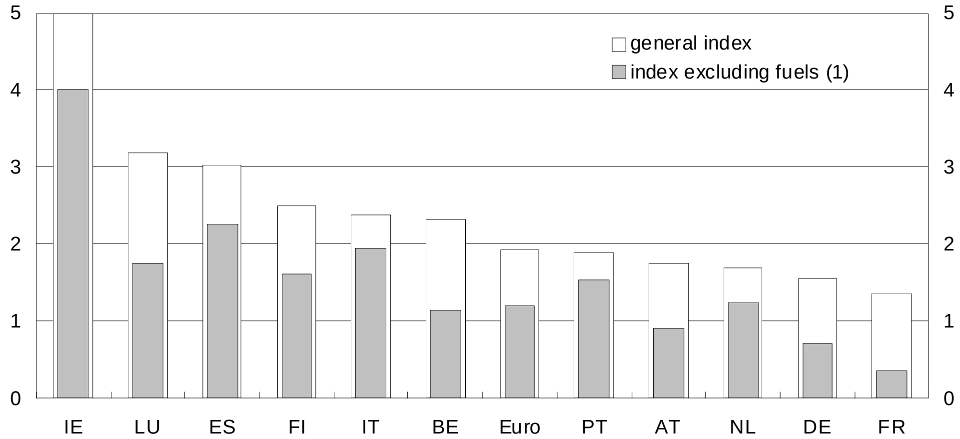
Source: Eurostat.
(1) Weighted average of the indices of the euro-area countries.

The energy component of the index - petrol and fuel oil - contributed about 1 percentage point to the overall increase in the euro area and 0.5 points in Italy in the year to April 2000. In France and Germany, overall consumer price inflation is 1 and 0.8 points lower than in Italy, but the differential is much greater when energy prices are excluded from the index (Figure 18).

Figure 18

HARMONIZED INDICES OF CONSUMER PRICES IN APRIL 2000

(percentage changes on previous year)



Source: Based on Eurostat data.
(1) The index excludes the prices of petrol and heating oil.

In Italy the pickup in the consumer prices of energy goods (from a year-on-year fall of 4.6 per cent in January 1999 to a rise of 12.7 per cent in March of this year) was less than that in the euro area as a whole (where the rate of change swung from -4.4 to +15.3 per cent). The difference is attributable to the greater stickiness of fuel prices in Italy.

The twelve-month rise in the harmonized index of consumer prices excluding food and energy products, which tracks underlying inflation trends more accurately, has remained at around 2 per cent in Italy and about 1 per cent in the euro area over the last six months (Tables a9 and a10).

Producer prices and firms' costs

Reflecting their sharp drop in 1998, producer prices of manufactures were unchanged on average in 1999 in the euro area and declined by 0.2 per cent in Italy. However, they rose at an accelerating rate during the year and in the first quarter of 2000. In Italy, the twelve-month rise in the general index increased from 2.8 per cent in December 1999 to 5.5 per cent in March of this year; in the euro area, from 4.1 to 6.2 per cent.

The harmonization of European statistics on producer prices is still at a preliminary stage. Producer price developments in the euro-area countries are therefore not fully comparable.

The acceleration in producer prices was due to the rise in energy prices and the recovery in economic activity, which mainly affected the prices of non-energy intermediate goods and capital goods. In Italy, the year-on-year increase in the prices of intermediate goods was 3.8 per cent in March 2000, compared with 1.7 per cent in December, while that in capital goods was 1.1 per cent (0.7 per cent in December). Prices behaved similarly in the other main European countries (see Table a11).

Producer prices have increasingly moved in step with cyclical conditions in the last five years. Given the growing momentum of the expansion, the conditions exist for a further rise in producer prices.

In Italy, unit variable costs in industry excluding construction were virtually unchanged on average in 1999. The negligible rise (0.2 per cent) is attributable to the fall in the prices of foreign inputs, which began in 1998 and continued through the first quarter of last year, and the slowdown in unit labour costs, from 1.7 in 1998 to 0.1 per cent.

In the second quarter of 1999 the prices of foreign inputs began to rise rapidly again, driven by energy prices. As a result, there was a marked acceleration in unit variable costs over the year, which was only partly dampened by the decline in unit labour costs in the fourth quarter thanks to a sharp rise in productivity (5.0 per cent with respect to the corresponding period in 1998).

Between 1997 and 1999 the differential in unit labour cost growth between Italy and the other major euro-area countries narrowed, decreasing from about 5 percentage points to virtually nil with respect to France and Germany.

In industry excluding construction, the share of profits in value added declined from 33.9 per cent in 1998 to 33.4 per cent last year.

Import and export prices and competitiveness

In Italy the average unit values in lire of imported manufactures began to rise again in 1999 after having fallen sharply the previous year. Although they declined by 0.9 per cent on average for the year, compared with a fall of 2.7 per cent in 1998, from July onwards the twelve-month change was positive, reaching 13.8 per cent in January 2000.

The average unit values of exports of manufactures were unchanged on average in 1999. After beginning to decline in the second half of 1998, they reversed during the year and by September the twelve-month rate of increase was positive, rising to 3.8 per cent in January of this year. The largest rises were recorded in consumer and intermediate goods.

The indicator of Italy's global competitiveness, based on producer prices, improved by more than 4 per cent between January 1999 and January 2000. The competitiveness of Germany and France increased even more, by 7.3 and 7.8 per cent respectively. As a result, Italy's competitive position with respect to its main European partners worsened.

Italy's average terms of trade deteriorated by 2 per cent in 1999 owing to the continued rise in import prices.

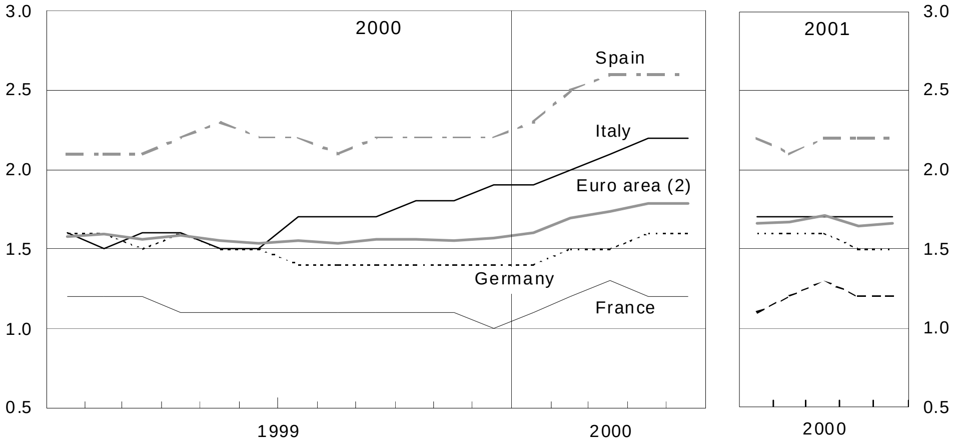
Inflation expectations

In recent months the upward pressure exerted on prices by oil and the weakness of the euro has been reflected in inflation expectations for 2000. In Italy, the *Consensus Forecasts* survey for May indicates expected average annual inflation of 2.2 per cent, compared with 1.5 per cent in June 1999; inflation expectations for the euro area were 1.8 per cent (1.5 per cent in June last year). The differential between the expected average annual inflation rate in Italy and that in the country's main European trading partners is slightly smaller than the actual difference recorded in 1999. It is expected to narrow further in 2001 and to disappear vis-à-vis the euro area (Figure 19).

Figure 19

CONSENSUS FORECASTS EXPECTATIONS FOR AVERAGE CONSUMER PRICE INFLATION IN 2000 AND 2001 IN THE EURO AREA (1)

(monthly data; percentage changes on previous year)



Source: Based on *Consensus Forecasts* data.

(1) Average annual rate of consumer price inflation expected by professional forecasters. The horizontal axis shows the months in which the survey is conducted. - (2) Weighted average of the forecasts for the countries of the euro area, excluding Luxembourg.

The quarterly survey of expectations conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore* also signalled a deterioration in Italian firms' inflation outlook with respect to the December 1999 survey (see *Economic Bulletin* No. 30, March 2000). Inflation expectations for Italy increased at both the shortest time horizon (six months) and the longest (one year and beyond), rising to 2.5 per cent from 2.1 and 2.2 per cent respectively. For the euro area, expected inflation rose by a similar amount, from 1.6 to 2.0 per cent.

Prices, costs and competitiveness in the nineties

In the last ten years annual consumer price inflation in Italy has fallen from more than 6 per cent to a level close to that in the other euro-area countries and in line with the price stability criterion established by the Eurosystem. Inflation expectations were gradually reined in as the markets became convinced of the determination with which the economic policy authorities were pursuing the objective of participating in the Monetary

Union. The agreements on the cost of labour of 1992 and 1993, the measures to redress the public finances and the structural reforms of the markets for goods, services and labour helped to create an economic environment within which monetary policy actions were fully effective.

The process of disinflation was not halted by the two sharp depreciations of the lira in the autumn of 1992, when it fell by a total of about 25 per cent against the mark and subsequently left the ERM, and in early 1995, when it fell by about 20 per cent.

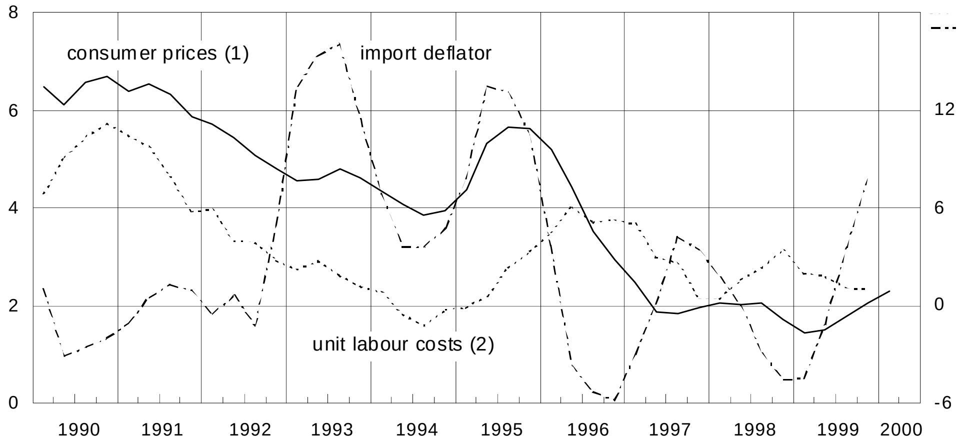
The first devaluation came with the economy in cyclical decline and the prices of raw materials decreasing. The impact on consumer prices was smaller than expected, partly owing to the agreements on labour costs and the prudence of exporters to Italy, who limited their price increases in order to protect their market shares.

The second devaluation, in February 1995, occurred at a time of price strains due to the acceleration in the prices of raw materials and the continued rapid growth in domestic demand, to which monetary authorities had reacted by raising interest rates as early as August 1994. Consumer price inflation averaged more than 5 per cent for the year and producer price inflation just under 8 per cent. The restrictive stance of monetary policy curbed inflation expectations and ensured a rapid return to disinflation. The following year the rise in consumer prices slowed to 4 per cent, that in producer prices to 1.9 per cent (Figure 20).

Figure 20

CONSUMER PRICE INDEX, UNIT LABOUR COSTS AND THE DEFLATOR OF IMPORTS OF GOODS AND SERVICES IN ITALY

(percentage changes on corresponding quarter)



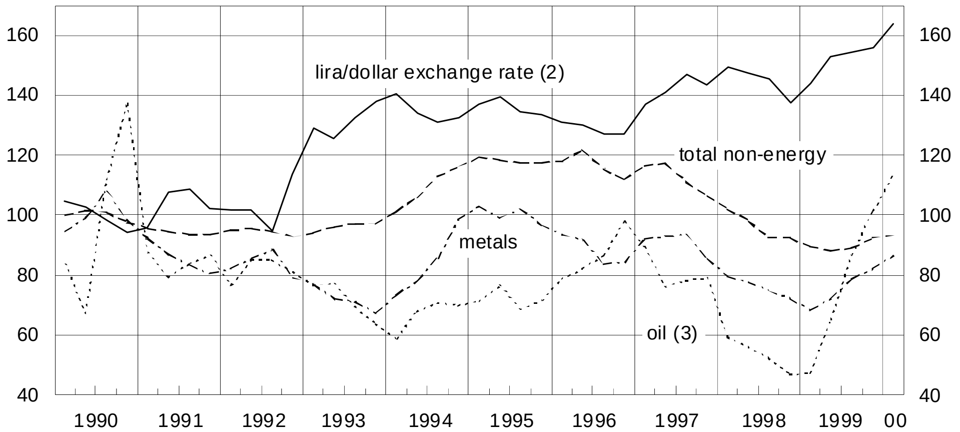
Source: Based on Istat data.
(1) General consumer price index. - (2) Total economy.

After the lira's re-entry into the ERM in November 1996, consumer price inflation remained stable at under 2 per cent until the recent rise caused by the sharp increase in oil prices. From 1996 to 1998 the behaviour of raw materials prices (Figure 21) and the economic slowdown, which was especially marked in Italy owing to the impact of the exceptionally stringent fiscal adjustment measures, helped to contain inflation.

Figure 21

DOLLAR PRICES OF RAW MATERIALS AND LIRA/DOLLAR EXCHANGE RATE (1)

(indices, 1990 = 100)



Source: Based on IMF data.
(1) Quarterly averages of monthly data (daily data for the exchange rate). - (2) A rise in the index indicates a depreciation of the lira against the dollar. - (3) Brent.

The year-on-year quarterly change in the producer prices of non-food, non-energy consumer goods, which had fluctuated between 3 and 3.6 per cent between 1992 and 1994, rose temporarily in the first half of 1995 but fell sharply in the fourth quarter of that year and remained below 2 per cent from the first quarter of 1997 to the first quarter of 2000.

Inflation expectations followed the downward path of actual inflation. In May 1995 the Bank of Italy for the first time signalled a level of inflation above which it would take action. Beginning the next year, although the markets' inflation expectations continued to outpace actual inflation, they were gradually lowered in step with the strengthening conviction that disinflation would continue (Figure 22).

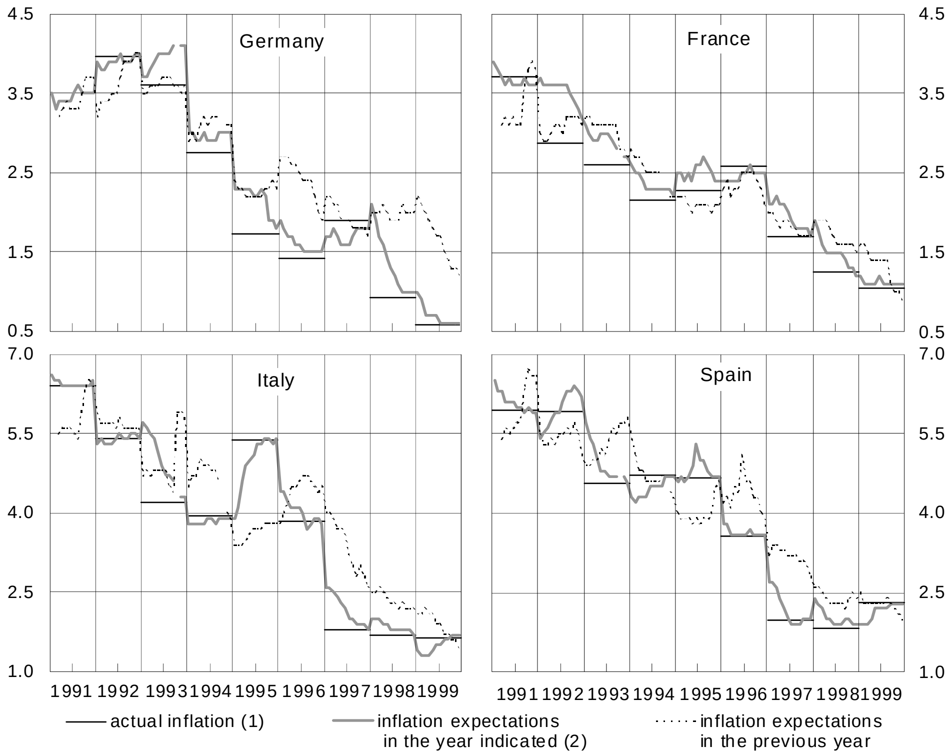
Policies aimed at fostering competition in traditionally sheltered sectors and the liberalization of public utilities created the conditions for the permanent removal of factors that had slowed disinflation in Italy.

Wage moderation helped to contain inflation of domestic origin. In industry excluding construction the increase in nominal per capita compensation of employees fell from around 9 per cent in the two years 1990-1991 to about 2 per cent in 1998-1999, the same level as in the other main euro-area countries. Despite wage restraint, however, the limited increase in productivity adversely affected the performance of unit labour costs, which rose more rapidly than in all the other main euro-area countries except Spain (Table 22).

Figure 22

INFLATION EXPECTATIONS SURVEYED BY *CONSENSUS FORECASTS*

(percentage changes on previous year)



Sources: Based on Istat, BIS and *Consensus Forecasts* data.

(1) Average annual rate based on national consumer prices indices. - (2) Monthly data. Inflation expectations for the year indicated formed in that year. - (3) Monthly data. Inflation expectations for the year indicated formed in the previous year.

In Italy the share of labour income in value added in industry excluding construction (which is obtained by attributing to self-employed workers the same income as employees) declined from 1993 onwards, in conjunction with the economic recovery and the marked slowdown in labour costs following the agreements of 1992 and 1993. In 1996 the share rose as real wages staged a recovery; it subsequently remained stable at a level just under that registered at the start of the decade. Compared with the other large European countries the rise in real per capita labour costs was particularly small in the first half of the nineties. Subsequently, following the slight rise in real wages, labour costs increased in line with those in France and Germany (Figure 23).

Table 22

UNIT LABOUR COSTS AND THEIR COMPONENTS IN INDUSTRY EXCLUDING CONSTRUCTION IN THE MAIN EURO-AREA COUNTRIES

(percentage changes)

	France	Germany	Italy	Spain
	Value added at 1995 basic prices			
Average 1991-95	**1.1**	**–1.6**	**1.5**	....
Average 1996-99	**2.0**	**1.6**	**1.2**	**3.5**
1996	0.3	–1.1	–1.4	1.8
1997	3.4	2.4	1.8	5.6
1998	1.7	4.0	2.5	4.8
1999	2.6	1.0	1.7	1.8
	Total labour units (1)			
Average 1991-95	**–2.5**	**–5.6**	**–1.7**	....
Average 1996-99	**–0.7**	**–1.5**	**0.1**	**3.6**
1996	–1.2	–3.0	–1.1	2.1
1997	–1.7	–2.2	–0.1	3.9
1998	0.0	–0.3	2.0	5.3
1999	0.1	–0.4	–0.4	2.9
	Labour productivity			
Average 1991-95	**3.8**	**4.3**	**3.2**	....
Average 1996-99	**2.7**	**3.1**	**1.1**	**–0.1**
1996	1.6	1.9	–0.3	–0.2
1997	5.2	4.7	2.0	1.6
1998	1.8	4.3	0.5	–0.6
1999	2.5	1.4	2.1	–1.1
	Per capita labour costs (1)(2)			
Average 1991-95	**3.5**	**7.1**	**5.9**	....
Average 1996-99	**2.6**	**2.4**	**3.5**	**2.5**
1996	2.6	3.5	5.5	3.4
1997	1.3	2.3	4.3	3.3
1998	4.6	2.0	2.2	1.8
1999	2.1	1.6	2.2	1.3
	Unit labour costs			
Average 1991-95	**–0.2**	**2.6**	**2.6**	....
Average 1996-99	**–0.1**	**–0.7**	**2.4**	**2.5**
1996	1.0	1.5	5.8	3.7
1997	–3.7	–2.3	2.3	1.6
1998	2.8	–2.2	1.7	2.4
1999	–0.4	0.2	0.1	2.4

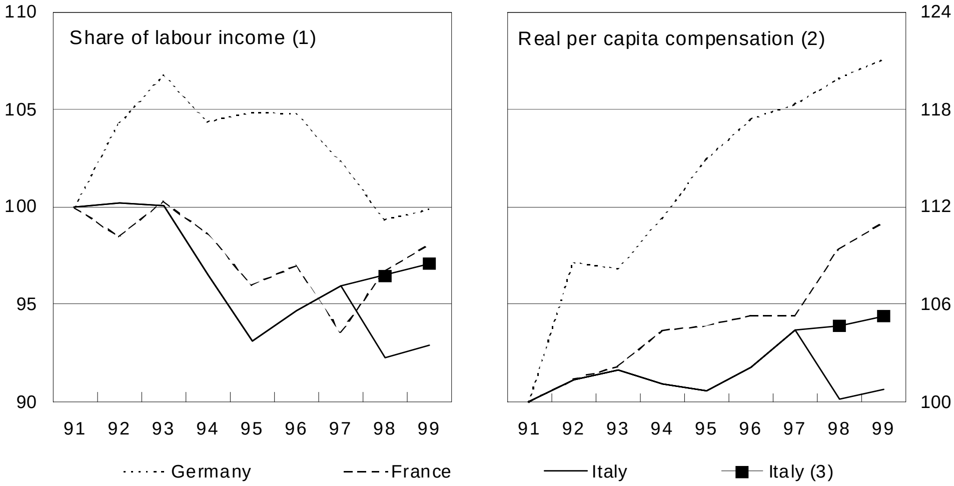
Source: Based on Eurostat data.

(1) For Italy and Spain, standard labour units. – (2) For Italy, the data for 1998 have been adjusted to take account of the introduction of Irap (see *Economic Bulletin,* No. 27, 1998).

Figure 23

SHARE OF LABOUR INCOME IN VALUE ADDED AND REAL PER CAPITA COMPENSATION IN INDUSTRY EXCLUDING CONSTRUCTION

(annual data; indices, 1991 = 100)



Source: Based on Eurostat data.

(1) The share of labour income in value added is obtained by attributing the self-employed with the same per capita compensation of employees. - (2) Obtained by deflating nominal per capita compensation with the consumer price index. - (3) The series was adjusted to take account of Irap by attributing compensation the same rate of increase as earnings.

With the convergence of national inflation rates below 2 per cent, the dispersion of inflation decreased sharply. In 1990 the difference between the highest and lowest inflation rates in the future euro area was 11 percentage points; last year it was 2 points (Figure 16). Beginning in 1996 the inflation differential between Italy and the other euro-area countries measured on the basis of the 12-month changes in the harmonized index of consumer prices gradually narrowed and after re-entry into the ERM hovered at around 0.5 points; that based on the underlying inflation indicator remained larger (Figure 24).

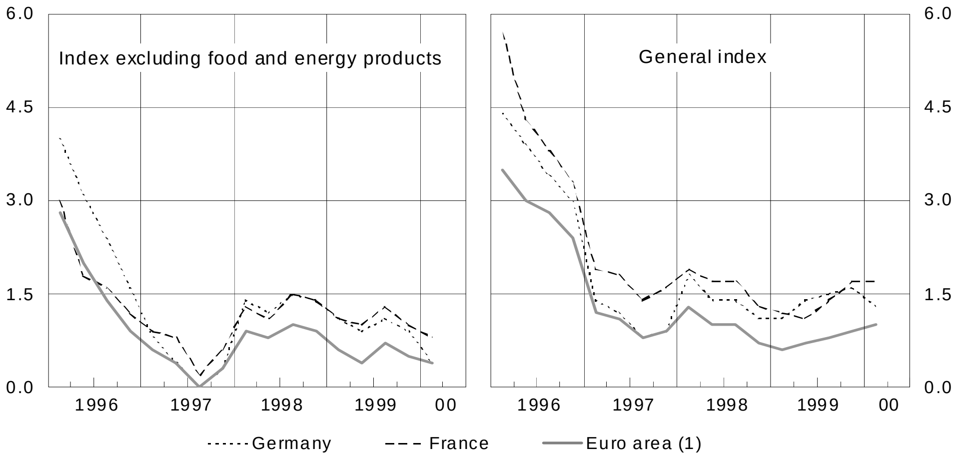
In the first half of the nineties the competitiveness of Italian goods was enhanced by the two large depreciations of the lira. Since 1996 the unfavourable inflation differential has progressively eroded that advantage (Figure 25).

After the last realignment within the ERM, in January 1987, the real exchange rate of the lira gradually appreciated as a result of the persistent divergence in the rate of increase in costs and prices with respect to the other European countries. The devaluation of 1992-1993 allowed Italy to recoup competitiveness, which improved by an estimated 20 per cent on the basis of the real exchange rate, more than offsetting the deterioration of previous years.

Figure 24

HARMONIZED INDICES OF CONSUMER PRICES: DIFFERENTIALS BETWEEN ITALY AND THE COUNTRY INDICATED

(quarterly averages of monthly data; percentage points)

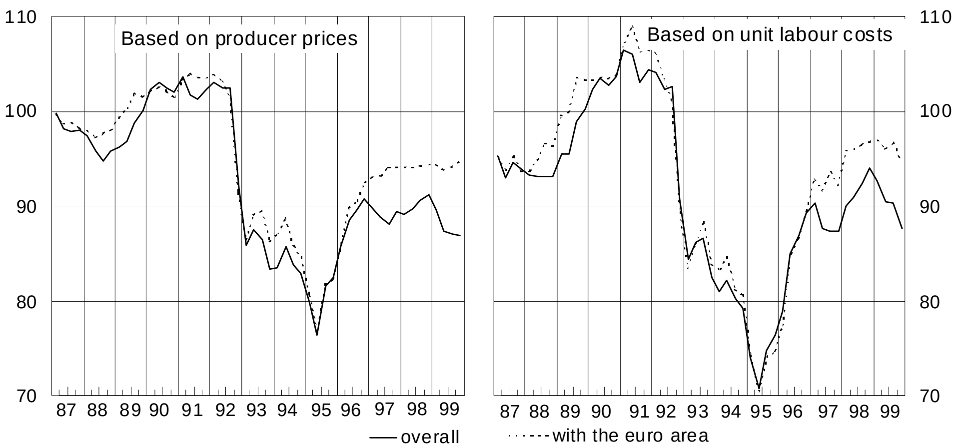


Source: Based on Eurostat data.
(1) Weighted average of the indices of the euro-area countries.

Figure 25

INDICATORS OF ITALY'S COMPETITIVENESS (1)

(indices, 1992=100)



Sources: Based on Istat, OECD and IMF data and national statistics.
(1) Quarterly data. An increase in the index indicates a loss of competitiveness.

Between 1992 and 1995 these developments caused Italy's share of world exports to increase, and Italian exports expanded by about 10 percentage points more than world trade. Italy's share of the total exports of the four largest euro-area countries increased by about 2 points. The depreciation following the Mexican crisis of February 1995 was followed by a rapid appreciation, bringing the lira back to its pre-crisis level by the end of the year.

Subsequently, under what was essentially a fixed-rate regime, the incomplete convergence of Italian costs and prices towards the level prevailing in the other main euro-area countries gradually eroded Italy’s price competitiveness. The growth in Italian exports was more than 15 percentage points smaller than that in world trade, while Italy’s share of world exports by the four leading European countries fell by 2 points; the country’s share of the group’s exports to the euro area decreased by 1.5 points.

THE BALANCE OF PAYMENTS AND ITALY’S NET EXTERNAL POSITION

The Italian current account surplus continued the decline that began in 1996; last year it amounted to €6 billion (11.7 trillion lire, equal to 0.5 per cent of GDP; Table 23), or 26.2 trillion lire less than in 1998. The surplus on capital account amounted to 5.3 trillion lire, compared with 4.4 trillion in 1998, and was almost wholly attributable to transfers from the EU. Capital inflows and outflows surpassed even the historically high levels recorded in 1998, producing a deficit on the financial account of 18.1 trillion lire. If Italy’s contribution to the ECB is excluded, average official reserves for the year remained almost unchanged; the “errors and omissions” item was almost wiped out. For the first time in fourteen years Italy’s net external position registered a substantial surplus of 96 trillion lire at the end of 1999.

The balances on current account and capital account

Last year’s reduction in the current account surplus was equal to that in the merchandise trade surplus, while the surplus on services narrowed and the deficit on transfers widened by almost identical amounts. The deficit on income narrowed slightly.

The surplus on capital account, which records transactions in intangibles and transfers linked to transactions in capital goods, rose by 1 trillion lire, thanks to increased receipts from the Regional Development Fund of the EU. The deficit on “intangible assets” was eliminated.

The current account: goods

Italy’s trade surplus on an *fob-fob* basis totalled 37.2 trillion lire, compared with 63.1 trillion in 1998, or 1.7 as against 3.1 per cent of GDP. The value of exports declined by 1.5 per cent, on account of the sharp fall in the early part of the year; while imports increased by 4.1 per cent.

The surplus on a *cif-fob* basis was almost halved, from 47.4 to 24.9 trillion lire. The surplus vis-à-vis the EU was almost wiped out, plunging from 7.3 trillion to 600 billion lire. The deficit with the euro area countries doubled from 4.5 to 9.9 trillion lire. The effects of international crises on

Italian trade, already serious at the end of 1998, carried through into the early part of last year, producing a marked contraction of 15.6 trillion lire in the trade surplus with non-EU countries.

Table 23

BALANCE OF PAYMENTS (1)

(balances in billions of lire and millions of euros)

	1995	1996	1997	1998	1999	
	lire					euros
Current account	**40,645**	**60,769**	**55,002**	**37,837**	**10,901**	**5,630**
Goods	63,059	83,301	68,107	63,098	36,376	18,786
Exports	*381,177*	*388,887*	*409,130*	*426,184*	*419,124*	*216,459*
Imports	*318,118*	*305,587*	*341,023*	*363,086*	*382,748*	*197,673*
Services	10,324	11,084	13,234	8,530	4,387	2,266
Income	−25,908	−23,453	−19,238	−20,896	−19,976	−10,317
Transfers	−6,830	−10,162	−7,101	−12,895	−9,886	−5,105
EU institutions	*−5,662*	*−8,829*	*−5,088*	*−11,492*	*−9,067*	*−4,683*
Capital account	**2,711**	**111**	**5,641**	**4,355**	**5,339**	**2,758**
Intangible assets	−42	−645	165	−234	−6	−3
Transfers	2,753	756	5,476	4,589	5,345	2,761
EU institutions	*3,718*	*1,631*	*6,320*	*5,320*	*6,198*	*3,201*
Financial account	**−9,222**	**−30,515**	**−35,078**	**5,963**	**−18,147**	**−9,372**
Direct investment	−3,567	−7,950	−11,690	−21,729	6	3
Abroad	*−11,413*	*−13,404*	*−17,986*	*−28,494*	*−12,260*	*−6,332*
In Italy	*7,846*	*5,454*	*6,296*	*6,766*	*12,266*	*6,335*
Portfolio investment	64,638	73,302	40,940	30,286	−45,764	−23,635
Assets	*−7,093*	*−33,709*	*−87,358*	*−158,240*	*−235,243*	*−121,493*
Liabilities	*71,731*	*107,011*	*128,298*	*188,526*	*189,480*	*97,858*
Financial derivatives	369	401	270	348	3,419	1,766
Other investment	−66,090	−77,626	−41,828	−39,919	10,446	5,395
Change in official reserves	−4,572	−18,642	−22,770	36,977	13,746	7,099
Errors and omissions	**−34,134**	**−30,364**	**−25,565**	**−48,155**	**1,907**	**984**

(1) The items are calculated using the new method adopted by Eurostat and the European Central Bank, which conforms with the Fifth edition of the IMF Balance of Payments Manual, The time series have been reconstructed and may be subject to revision.

Exports. - As average unit values remained broadly unchanged, the decrease in the value of exports (-1.5 per cent) paralleled that in volume (-1.6 per cent): while the volume of world trade expanded by 6.1 per cent, Italy's world market share contracted for the fourth consecutive year. The performance of Italian exports is particularly poor when set against that of the leading euro-area economies; in Germany the volume of exports grew by 4.7 per cent and national accounts for France and Spain point to increases of 4.5 and 6.7 per cent respectively.

Last year Italy's exports to the EU diminished in volume by 0.9 per cent, despite a substantial expansion in the area's imports; sales in the German market, which accounts for 16.5 per cent of the value of Italy's total exports and almost 30 per cent of those to the EU, declined by 4.5 per cent, while German imports expanded in volume by 5.3 per cent. The weakness of Italy's exports to Europe can be only fractionally explained by the decline in price competitiveness; other possible factors may be the quality of competing goods and differences in marketing and sales assistance policies.

There was a decline in exports at current prices to countries outside the EU of 5.2 trillion lire (or 2.8 per cent), reflecting that in volume. Much of this deterioration is attributable to the fall in demand from the economies of the former USSR, where Italian exports collapsed in the first eight months of the year, before picking up again. The recovery for the crisis-hit Asian economies began in the second quarter, permitting exports to exceed those of the previous year. Demand from these countries continued to accelerate in the first quarter of this year, to the benefit of Italian exports. By contrast the effects of the crisis in Brazil and Argentina lasted throughout 1999. The trend in the volume of exports to non-EU markets as a whole substantially reflected that of demand.

Imports. - The growth in the value of imports (4.1 per cent) was lower than that in volume (5.0 per cent); the decline in prices of 0.9 per cent was concentrated in the early part of the year, when they were still affected by the collapse in oil prices in 1998 and before the subsequent increase took effect. The largest contribution to volume growth came from imports of transport equipment (14.5 per cent) and electrical machinery and apparatus and precision instruments (9.4 per cent), which in 1998 had accounted for almost 27 per cent of total imports.

Last year the pattern of volume reflected that of demand, particularly for exports, which are the component of demand with the highest import content. After the pronounced slowdown in the first part of the year, the recovery in imports paralleled that in export demand; the largest increases over the year were in imports from the EU of investment and intermediate goods for the production of investment goods and imports from outside the EU of intermediate goods for the production of consumer goods.

The end of last year and the early months of 2000 saw strong growth in the value of imports, following the exceptional rises in the price of oil and the marked increase in volume spurred by the recovery of productive activity in Italy.

The current account: services, income and transfers

Services. - Last year the surplus on services amounted to 4.4 trillion lire, half as much as in 1998, confirming the trend reversal that had emerged in 1998 in comparison with the period that followed the lira's devaluation in 1992. In 1999 the outturn was due to a marked contraction in receipts, which fell by 2.9 per cent, while outflows remained substantially unchanged.

As from last year insurance services are calculated in accordance with the procedure described in the Fifth edition of the IMF's Balance of Payments Manual and ESA95. Only the cost of the service is included in the new item: other transactions between the insurer and the insured, such as payments of premia and claims, are included under other items according to the type of insurance involved. In the case of life insurance, premia and claims represent financial investments and are recorded under "other investments" in the financial account; otherwise they are included under unrequited transfers in the current account. Estimates for the value of the insurance service and the reconstruction of the time series are based on information contained in the balance sheets of Italian insurance companies.

The expansion of the surplus on services between 1992 and 1997 reflected that on foreign travel which, stimulated by the depreciation of the lira, effectively countered the steady deterioration in the deficit on other services; subsequently, as net receipts for tourism settled around their current levels, the surplus began to decline. Prominent among services other than foreign travel that have recorded steadily increasing deficits in recent years are business-related services: financial services, computer and information services, royalties and licenses and other business services.

Last year the surplus on foreign travel of 21 trillion lire, or 1 per cent of GDP, was almost unchanged compared with the preceding year, reflecting the substantial stability of both Italians' spending abroad (30.7 trillion lire) and spending by foreigners in Italy (51.7 trillion).

On the earnings side, the decline in receipts and arrivals from travellers from non-EU countries, of 3.9 and 5.3 per cent respectively, only slightly exceeded the increase in those from EU tourists, which rose by 2.9 and 3.3 per cent respectively.

Income. - There was a fall in both inflows and outflows recorded under this item, mainly in reflection of the fall in nominal interest rates. Although the deficit declined slightly, it remains substantial. This agrees with last year's average net surplus, owing to the different composition of the payments and receipts: liabilities consist mostly of bonds, which have higher nominal yields than dividends on shares, which account for a larger part of assets.

Current account transfers. - The contraction of 3 trillion lire in the deficit on unrequited transfers is attributable to transfers involving EU institutions as a result of a decline in payments and a rise in receipts. The largest reduction in payments, of 1.2 trillion lire, refers to VAT; on the credit side there was an increase in transfers from both the Guarantee Section of the EAGGF (1 trillion lire) and the European Social Fund (200 billion). Since the end of the eighties Italy's net positive contribution to the EU has stabilized and continues to grow; between 1990 and 1999 Italy made net transfers totalling about 70 trillion lire.

The financial account and the net external position

Against a surplus on current and capital account of 17 trillion lire, the financial account recorded a deficit of 18.1 trillion. In 1999 the substantial capital outflows by residents were not the result of diversifying into other currencies: almost 80 per cent of the exceptional increase in investment by non-banks was accounted for by euro-denominated equities. A positive entry of 1.1 trillion lire was made under errors and omissions, a much smaller amount than in previous years and with a different sign.

Italy's net external position at the end of last year showed a surplus of 96 trillion lire, or 4.5 per cent of GDP.

Direct investment. - Last year, for the first time in a decade, Italy registered a net balance between direct investment inflows and outflows, after a deficit of 21.7 trillion in 1998, thanks mainly to the acquisition of Omnitel and Infostrada by a foreign company for more than 14 trillion lire.

Foreign direct investment in Italy remained substantially stable at particularly low levels over the decade, recording an average of 0.3 per cent of GDP for the years 1990-1998. Italian investment abroad, on the other hand, increased to 1 per cent of GDP in the two years 1997-1998. Italian companies are generally less prone to internationalize their activities than those of other countries of similar size and economic development.

Portfolio investment. - There was a net outflow of portfolio investment of 45.8 trillion lire, compared with a net inflow of 30.3 trillion the previous year. Outward portfolio investment soared to 235.2 trillion lire, almost 50 per cent more than 1998. Inward portfolio investment remained unchanged; that to the non-bank sectors came mainly from banks and was more copious than in previous years.

Last year non-residents made even larger purchases of Italian government securities than in 1998, notwithstanding the convergence of yields to average European levels, but sold Italian shares, following the relatively high purchases of the previous year and against a background of continuing good performance by the Italian stock market. In the last six months non-residents have looked increasingly towards Treasury bonds, making purchases worth almost six times the value of 1998.

Resident non-bank investors made portfolio purchases abroad for a total of 251 trillion lire; the largest outflows came from non-bank financial firms and, more than in the past, from households. Banks, by contrast, reduced their holdings of foreign securities by an amount similar to that in previous years.

The contribution of equities to Italians' portfolio investment outflows last year was higher than in previous years, rising from 15 per cent in 1998 to 26 per cent, as foreign stock markets performed well.

At the end of 1998 more than 30 per cent of the the stock of Italians' portfolio investment abroad was in countries of the euro area; by the end of last year this value had risen to 39 per cent.

The official reserves amounted to 87.3 trillion lire at the end of 1999, about the same as at the end of 1998; valuation and exchange rate adjustments accounted for an increase of 12.4 trillion lire. If the contribution of 14.4 trillion lire to the European Central Bank in January 1999 is excluded, the net flow for last year was very small.

The new definition of the Bank of Italy's net external position comprises several items other than reserves and was affected by the launching of the TARGET accounts on which payments are settled.

After fourteen years Italy recorded a substantial net external creditor position last year. Italy's net debtor position with the rest of the world increased gradually between 1985 and 1992, when it amounted to 164.1 trillion lire, after which the favourable performance of the current account produced a contraction. Two thirds of the improvement of 128.1 trillion lire by comparison with the end of 1998 is attributable to price adjustments (totalling 90.1 trillion for the non-bank sector alone) arising from the positive performance of the US and European stock markets, and exchange rate adjustments (which totalled 49.1 trillion lire for the non-bank sector): the appreciation of the US dollar and the pound sterling, in which about 30 per cent of external assets are denominated, was the main cause of the latest substantial increase in assets.

THE PUBLIC FINANCES

Despite the slower growth in economic activity, general government net borrowing in the euro area diminished further, falling from 2.0 per cent of GDP in 1998 to 1.2 per cent in 1999. The fall in the ratio was due in equal measure to the decrease in interest payments and the increase in the primary surplus, boosted by the large expansion in revenue. All the countries in the area recorded an improvement in their budget balances except for Ireland and Luxembourg, which already had large surpluses. Austria, France, Italy and Portugal continued to have deficits of about 2 per cent of GDP. The objectives indicated in the updates of the national stability programmes point to a slowdown for the area as a whole in the process of reducing net borrowing; this is forecast to stabilize at around 1 per cent of GDP in 2000 and 2001 and then fall to 0.6 per cent in 2002 and 0.2 per cent in 2003. Many countries expect to reduce the ratio of revenue to GDP in order to foster growth and employment.

As in 1998, budgetary policy in Italy sought to reconcile consolidation of the results achieved in 1997 with support for economic growth. The objectives set for 1999 in the Economic and Financial Planning Document published in April 1998 included reducing net borrowing to 2.0 per cent of GDP and maintaining the primary surplus at the 5.5 per cent level forecast for 1998. The budget approved by Parliament at the end of that year was expected to increase the primary surplus by 8 trillion lire. In March 1999 the Quarterly Report on the Borrowing Requirement updated the estimates of the public finances on the basis of the results for 1998 and the performance of the economy, which were less favourable than had been forecast, and the large fall in interest rates. As a prudential measure the estimate of net borrowing was raised to 2.4 per cent of GDP and that of the primary surplus lowered to 4.5 per cent of GDP.

In the event net borrowing amounted to 1.9 per cent of GDP, 0.9 percentage points less than in 1998. The improvement in the balance was smaller than the decrease in interest payments, which fell from 8.1 to 6.8 per cent of GDP; in fact, the primary surplus contracted from 5.3 to 4.9 per cent of GDP. The contraction in the cyclically adjusted primary surplus (estimated taking account of changes in the composition of output and the distribution of income) was slightly larger, about 0.5 percentage points. The primary expenditure ratio rose by 0.7 percentage points and the revenue ratio by 0.3 points. Taxes and social security contributions rose from 43.0 to 43.3 per cent of GDP, with a large increase in direct taxes, from 14.4 to 15.1 per cent of GDP.

General government debt declined to 115.1 per cent of GDP; the decrease of 1.1 percentage points was much smaller than that of 3.6 points recorded in 1998, mainly owing to the slower growth in nominal GDP, the depreciation of the euro and the increase in the amounts deposited by the Treasury with the Bank of Italy.

The Quarterly Report on the Borrowing Requirement published in March 2000 estimated net borrowing for the year at 1.5 per cent of GDP, in line with the objective set in the Economic and Financial Planning Document published in 1998 and confirmed in subsequent planning documents. After falling in 1998 and 1999, the primary surplus ratio is expected to rise to 5.1 per cent; interest payments are expected to fall further to 6.6 per cent of GDP. The budget for 2000 should reduce the deficit by 2.4 trillion lire, of which 1.5 trillion is to come from lower interest payments. The adjustment measures approved are forecast to reduce primary expenditure by nearly 7.5 trillion and revenue by 6.5 trillion. Additional revenue deriving almost exclusively from the sale of real estate is to be accompanied by nearly 11.9 trillion of tax relief serving primarily to offset the effects of the unexpectedly large increase in revenue in 1999. According to the Quarterly Report, the budget for 2000 should permit the primary expenditure ratio to come down by 0.4 percentage points and the revenue ratio by 0.3 points, taking it back to its level in 1998.

The Economic and Financial Planning Document for 2001-04 is being prepared. The planning scenario contained in the Stability Programme update presented in December 1999 envisages a gradual decline in the overall budget deficit to close to balance in 2003. The improvement would be primarily due to a further fall of 1.2 percentage points in the ratio of interest payments to GDP between 2000 and 2003; the primary surplus ratio is expected to rise by 0.2 points. The ratios to GDP of revenue and current expenditure excluding interest payments are expected to fall by 1.2 and 1.1 points respectively. The cyclically adjusted budget balance is officially estimated to show a small surplus in 2003.

A cyclically adjusted budgetary position in or close to balance will allow adequate stabilization policies to be implemented and will speed up the reduction in the ratio of debt to GDP. If necessary, larger primary surpluses will have to contribute to achieving the objectives set for the budget balance.

BUDGETARY POLICY IN 1999 AND THE NINETIES

Italy in 1999

Results. - General government net borrowing amounted to 40.5 trillion lire (€20.9 billion), a decrease of 17.8 trillion lire compared with 1998. As a ratio to GDP it fell by nearly one percentage point, from 2.8 to 1.9 per cent (Tables 24 and a15 and Figure 26). The reduction in the deficit was due to the fall in interest payments from 8.1 to 6.8 per cent of GDP, which in turn mainly reflected the decline in interest rates until the spring of 1999. The primary surplus contracted from 5.3 to 4.9 per cent of GDP since the growth in expenditure outpaced that in revenue.

Table 24

MAIN INDICATORS OF THE GENERAL GOVERNMENT CONSOLIDATED ACCOUNTS (1)

(as a percentage of GDP)

	1989	1990	1991	1992	1993	1994	1995	1995	1996	1997	1998	1999
Revenue	42.0	42.7	43.8	46.5	48.3	45.7	45.9	45.6	45.8	48.2	46.6	46.9
Expenditure	51.8	53.8	53.9	56.1	57.8	54.9	53.6	53.2	52.9	50.9	49.4	48.8
of which: interest payments	*8.8*	*9.5*	*10.2*	*11.5*	*12.1*	*11.0*	*11.2*	*11.5*	*11.5*	*9.4*	*8.1*	*6.8*
Primary balance (surplus:–)	1.1	1.7	–0.1	–1.9	–2.6	–1.8	–3.5	–3.9	–4.4	–6.7	–5.3	–4.9
Net borrowing	9.8	11.1	10.1	9.6	9.5	9.2	7.7	7.6	7.1	2.7	2.8	1.9
Total borrowing requirement	10.9	10.5	11.0	10.8	10.8	9.3	7.1		7.5	1.9	2.5	1.0
Debt	95.4	97.2	100.6	107.7	118.1	123.8	123.2		122.1	119.8	116.2	115.1

Source: The general government consolidated accounts items are based on the *Relazione generale sulla situazione economica del Paese*.

(1) The series for the general government consolidated accounts based on ESA95 are available from 1995. The ratio to GDP for these series was calculated on the basis of the ESA79 value of GDP until 1994 and the ESA95 value from 1995. For the latter year the ratios calculated with both values of GDP are shown (the switch from ESA79 to ESA95 is discussed in the section on "Budgetary policy in 1998" of "The Public Finances" chapter of the Abridged Annual Report for 1998). The break is marked by a vertical double line. The borrowing requirement and debt ratios do not show a break; they were calculated on the basis of the ESA95 value of GDP for the whole period. Rounding may cause discrepancies.

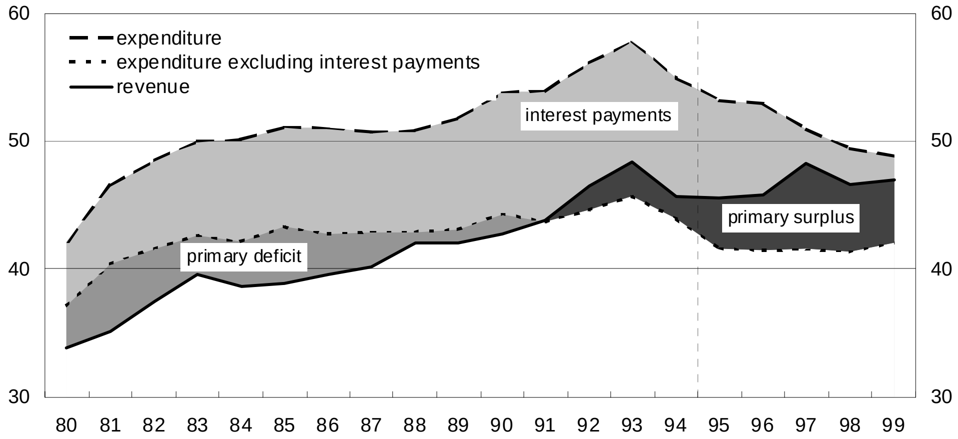
Primary expenditure rose from 41.3 to 42.0 per cent of GDP. Current expenditure accounted for half a percentage point of the total increase;

in particular, social security benefits rose from 17.0 to 17.4 per cent of GDP owing to the absence of the one-off contraction produced in 1998 by the switch from two-monthly to monthly payments of INPS pensions.

Figure 26

GENERAL GOVERNMENT REVENUE AND EXPENDITURE (1)

(*as a percentage of GDP*)



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

(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line.

Total revenue rose from 46.6 to 46.9 per cent of GDP. The ratio of taxes and social security contributions, which had fallen by 1.6 percentage points in 1998, rose from 43.0 to 43.3 per cent as the result of an increase of 0.7 points in the ratio of current taxes (to 30.4 per cent) and decreases of respectively 0.3 and 0.1 percentage points in the ratios of capital taxes and social security contributions.

Budgetary policy. - The Economic and Financial Planning Document published in April 1998 set targets of respectively 2.0 and 5.5 per cent of GDP for net borrowing and the primary surplus in 1999. GDP was forecast to grow by 2.5 per cent in real terms and the gross interest rate on twelve-month Treasury bills to be 4.5 per cent at the end of the year. These objectives and forecasts were basically confirmed in the Forecasting and Planning Report published in September 1998.

The budget approved at the end of 1998 provided for an increase of 8 trillion lire in the primary surplus, comprising 3 trillion of additional revenue and 5 trillion of reductions in expenditure. In March 1999 the Quarterly Report on the Borrowing Requirement updated the scenario for the public finances in the light of the less-favourable-than-expected outturn for 1998 and the large fall in interest rates. The forecast growth in GDP was reduced from 2.5 to 1.9 per cent. Net borrowing in 1999 was forecast to be 2.4 per cent of GDP; the expected reduction in interest payments did not fully offset the shortfall in the primary surplus (4.5 per cent of GDP instead of 5.5 per cent). The new scenario was substantially confirmed in the Economic and Financial Planning Document for 2000-03 and the Forecasting and Planning Report for 2000, published in June and September 1999 respectively.

In the closing months of the year expectations of a larger-than-forecast increase in revenue gathered strength. The expansionary trend of receipts observed in the September update of the Economic and Financial Planning Document was confirmed. When the Government updated the stability programme in December, the estimates for the public finances were revised: the upward revision of the estimate of the primary surplus, from 4.5 to 4.9 per cent of GDP, resulted in the figure for net borrowing dropping back to 2.0 per cent of GDP.

In the event net borrowing in 1999 amounted to 1.9 per cent of GDP, which was slightly better than the original objective, notwithstanding the exclusion from the calculation of the proceeds of INPS' sale of social security contribution claims.

Compared with the scenario published in the Forecasting and Planning Report in September 1998, the actual performance of the economy appears to have had a slightly beneficial effect on the primary surplus owing to the change in the composition of output, despite the fact that nominal GDP growth was much less than forecast (2.9 per cent, as against 4.6 per cent).

Some components of demand and income that have a particularly large and rapid impact on revenue grew faster than forecast: earnings rose by 3.8 per cent instead of 3.1 per cent and consumption by 3.8 per cent instead of 3.4 per cent. Furthermore, the larger-than-forecast increase in employment (1.0 per cent, as against 0.6 per cent) is likely to have brought a small reduction in spending on social security benefits.

The borrowing requirement and the public debt. - The general government borrowing requirement amounted to 21.9 trillion lire (1.0 per cent of GDP), a decrease of 29.3 trillion compared with 1998 (Tables 25 and a16). The improvement was much larger than that in net borrowing, primarily owing to the effects of some temporary factors.

The decrease in the borrowing requirement shrinks to 0.1 trillion lire when the following items are excluded: settlements of past debts (an outflow of 12.1 trillion, as against 4.8 trillion in 1998), privatization receipts (an inflow of 37.3 trillion, as against 15.3 trillion in 1998) and non-recurring dividends and the proceeds of the sale of social security contribution claims by INPS (inflows of respectively 6.5 and 8.0 trillion in 1999, as against nothing in 1998).

Table 25

GENERAL GOVERNMENT BALANCES AND DEBT

(billions of lire and millions of euros)

	1995	1996	1997	1998	1999	
	lire					euros
Net borrowing	135,696	135,047	53,718	58,344	40,511	20,922
Total borrowing requirement	127,106	142,558	36,879	51,192	21,873	11,296
Debt	2,202,075	2,323,451	2,376,503	2,403,528	2,449,766	1,265,199

Source: For net borrowing, *Relazione generale sulla situazione economica del Paese*.

For the first time since the late forties the state sector recorded a surplus (0.7 trillion lire, compared with a deficit of 48 trillion in 1998); the sector’s net borrowing requirement, which does not include settlements of past debts, privatization receipts or non-recurring dividends, fell from 58.5 to 31 trillion.

The local government borrowing requirement financed outside general government amounted to 15.5 trillion lire, compared with a surplus of 1 trillion in 1998. Bond financing, which had hardly existed before 1996, increased by a factor of almost five between 1998 and 1999 to reach 7.9 trillion (Table a16).

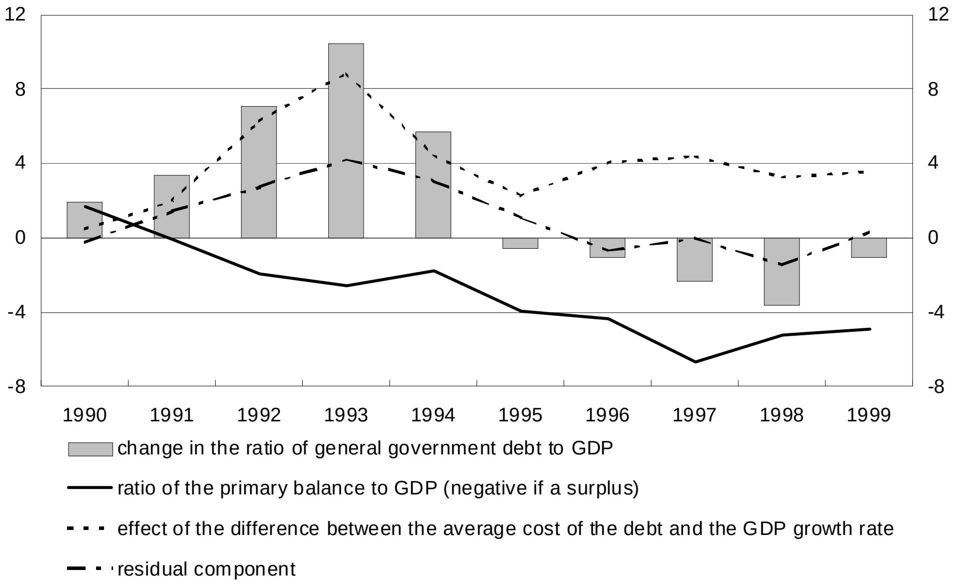
The ratio of the public debt to GDP (Tables a17 and a18) fell by 1.1 percentage points to 115.1 per cent at the end of the year, a much smaller improvement than in 1998 (3.6 points).

The decrease in net borrowing in 1999 was not sufficient to offset the effect on the debt ratio of the slowdown in the growth of GDP (from 4.2 to 2.9 per cent in nominal terms). Furthermore, factors that are not included in net borrowing but which affect the growth in the debt produced a net increase in liabilities equal to about 0.3 per cent of GDP, compared with a reduction of 1.5 points in 1998. A reduction in the debt of nearly 19 trillion lire (more than 7 trillion in 1998) was produced by the factors mentioned earlier that influence the difference between net borrowing and the borrowing requirement: privatization receipts, non-recurring dividends, the proceeds of the sale of claims by INPS, the settlement of past debts and the residual component attributable to minor financial items and the different accounting principles applied in calculating the two balances. The debt was driven up by the factors that influence the difference between the borrowing requirement and the change in the debt, in particular the increase of nearly 14 trillion lire in the Treasury’s assets held with the Bank of Italy and the weakening of the euro, which caused an increase of 13.5 trillion in the lira equivalent of dollar- and yen-denominated liabilities. In 1998, by contrast, these two effects had been of the opposite sign and equal to 16 and 1.5 trillion lire respectively (Figure 27).

Figure 27

CHANGE IN THE RATIO OF THE PUBLIC DEBT TO GDP AND ITS COMPONENTS (1)

(*percentages*)



(1) The change in the debt-to-GDP ratio (*d*) can be decomposed into three components on the basis of the following identity: $\text{n}d_t=pr_t+(r_t-g_t)[d_{t-1}/(1+g_t)]+re_t$, where *pr* is the ratio of the primary balance to GDP, $(r_t-g_t)[d_{t-1}/(1+g_t)]$ is the effect of the difference between the average cost of the debt (*r*, defined as the ratio of interest payments for the year to the debt at the end of the previous year) and the rate of increase in nominal GDP (*g*), and *re* is the ratio to GDP of the difference between net borrowing and the change in the debt. The primary balance and interest payments data for the period 1990-94 were calculated on the basis of ESA79.

The euro area in 1999

The adjustment of the public finances of the euro-area countries continued in 1999, despite the rate of economic growth slowing from 2.7 to 2.3 per cent at constant prices. Net borrowing amounted to 1.2 per cent of GDP, compared with 2.0 per cent in 1998 and the forecast of 1.8 per cent based on the national stability programmes submitted between December 1998 and February 1999. The improvement on the previous year was due in equal measure to the fall in interest payments and the increase in the primary surplus from 2.7 to 3.1 per cent of GDP, which was largely attributable to the substantial growth in revenue.

All the countries in the area recorded an improvement in their budget balances except for Ireland and Luxembourg, which already had large surpluses. Austria, France, Italy and Portugal had deficits of about 2 per cent of GDP, Belgium, Germany and Spain of about 1 per cent. The other countries ran surpluses.

Data released by the European Commission show that expenditure rose by 0.2 percentage points to 44.1 per cent of GDP, primarily as a consequence of the increase in social security benefits. The revenue ratio rose in every country (from 46.6 to 47.2 per cent for the area as a whole), primarily owing to increases in direct and indirect taxes.

The public debt declined from 73.0 to 72.1 per cent of GDP. Eight countries reduced their debt ratios, Belgium, Ireland and the Netherlands by more than two percentage points. The ratio rose in Austria, Germany and Portugal. In six countries the ratio is still above 60 per cent; in Italy and Belgium it is above 100 per cent.

In the European Union as a whole net borrowing fell from 1.5 to 0.6 per cent of GDP and the primary surplus rose from 3.1 to 3.5 per cent. EU public debt declined from 69.0 to 67.6 per cent of GDP.

Taken together, the four EU countries that have not adopted the single currency (Denmark, Greece, Sweden and the United Kingdom) recorded a budget surplus equal to 1.3 per cent of GDP, an improvement of 0.9 percentage points on the result for 1998; Greece’s deficit shrank from 3.1 to 1.6 per cent of GDP. The debt ratio for these four countries fell from 55.5 to 52.6 per cent on average; only in Greece was the improvement relatively small, a reduction of 1 percentage point from 105.4 per cent at the end of 1998.

Italy’s public finances in the nineties

At the turn of the decade Italy’s public finances showed severe imbalances: net borrowing in 1989 was equal to 9.8 per cent of GDP, about 9 percentage points above the average for the other EU countries; the public debt was growing rapidly. The decade closed with a budget deficit equal to 1.9 per cent of GDP, well below the 3 per cent limit established in the Maastricht Treaty; the gap with respect to the European average narrowed to 1.5 percentage points; the debt ratio gradually came down.

The reduction in the budget deficit was due largely to the increase of 4.9 percentage points in revenue in relation to GDP and the fall of 2 points in interest payments. Primary expenditure contracted by no more than 1.1 points, exclusively as a result of the decline of 1.2 points in capital expenditure; current expenditure rose slightly. Taxes and social security contributions were equal to 39.0 per cent of GDP in 1989, which was nearly 4 points less than the average for the other European countries; in 1999 the ratio stood at 43.3 per cent, nearly half a point more than the European average. Primary expenditure declined over the decade from 43.1 to 42.0 per cent, respectively in line with and one point below the European average (Tables 24, 26 and 27 and Figures 31 and 32).

Table 26

GENERAL GOVERNMENT FISCAL REVENUE (1)
(*as a percentage of GDP*)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Direct taxes	14.3	14.4	14.5	14.7	16.2	14.9	14.7	15.3	16.1	14.4	15.1
Indirect taxes	10.4	10.6	11.1	11.2	12.0	11.7	12.1	11.8	12.5	15.4	15.3
Current tax revenue	**24.7**	**25.1**	**25.6**	**25.9**	**28.2**	**26.7**	**26.8**	**27.1**	**28.5**	**29.8**	**30.4**
Actual social security contributions	12.6	12.9	13.1	13.3	13.7	13.0	13.0	14.6	15.0	12.5	12.4
Imputed social security contributions	1.5	1.6	1.6	1.7	1.8	1.9	1.7	0.4	0.4	0.4	0.4
Current fiscal revenue	**38.8**	**39.5**	**40.4**	**41.0**	**43.7**	**41.6**	**41.6**	**42.2**	**43.9**	**42.7**	**43.2**
Capital taxes	0.2	0.1	0.2	2.0	0.7	0.1	0.6	0.3	0.7	0.4	0.1
Fiscal revenue . . .	**39.0**	**39.6**	**40.6**	**43.0**	**44.4**	**41.7**	**42.2**	**42.5**	**44.6**	**43.0**	**43.3**

Source: Based on the *Relazione generale sulla situazione economica del Paese.*
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical double line. Rounding may cause discrepancies.

The years from 1990 to 1993. - In 1989 the general government accounts still showed a primary deficit equal to 1.1 per cent of GDP, despite the improvement of 3.4 percentage points recorded in the ratio in the favourable cyclical conditions of the second half of the eighties. The debt ratio stood at 95.4 per cent, after rising by 35 points over the previous decade.

Budgetary consolidation was intensified in the early nineties; radical steps were taken to adjust the primary balance, officially estimated to have brought an improvement of nearly 11 points in the ratio to GDP between 1990 and 1992. In some years the budget was supplemented by other measures to cope with unforeseen adverse factors. The large size of the adjustments reflected the need to offset the sharply rising trend of expenditure, especially interest payments, and the waning of the effects of temporary measures, to which considerable recourse was made (they amounted to over 3 per cent of GDP between 1990 and 1992).

The official *ex ante* estimates of the effects of the consolidation measures give only a rough idea of the actual scale of the adjustment imposed. The methods used in preparing the budget and estimating its impact underwent changes during the decade. Moreover, the action planned was not always implemented in full.

Table 27

GENERAL GOVERNMENT EXPENDITURE (1)
(*as a percentage of GDP*)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Compensation of employees	11.9	12.7	12.7	12.7	12.5	12.0	11.2	11.5	11.6	10.7	10.7
Intermediate consumption	4.9	4.8	4.9	5.0	5.2	5.0	6.8	6.8	6.8	6.9	7.1
Social security benefits .	17.6	18.2	18.3	19.3	19.5	19.5	16.7	16.9	17.3	17.0	17.4
Interest payments	8.8	9.5	10.2	11.5	12.1	11.0	11.5	11.5	9.4	8.1	6.8
Other current expenditure	3.5	3.0	3.1	2.9	3.6	3.2	2.3	2.5	2.2	2.9	2.9
Gross fixed investment .	3.3	3.3	3.3	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.6
Other capital expenditure	1.8	2.3	1.5	1.6	2.3	1.8	2.5	1.6	1.3	1.4	1.4
Total . . .	**51.8**	**53.8**	**53.9**	**56.1**	**57.8**	**54.9**	**53.2**	**52.9**	**50.9**	**49.4**	**48.8**
of which: expenditure excluding interest payments	*43.1*	*44.3*	*43.7*	*44.6*	*45.7*	*43.9*	*41.6*	*41.4*	*41.5*	*41.3*	*42.0*

Source: Based on the *Relazione generale sulla situazione economica del Paese*.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical double line. Rounding may cause discrepancies.

In 1991 the primary balance returned to surplus for the first time since the sixties. In the second half of 1992 the adjustment process was intensified in response to the devaluation of the lira. The budget for 1993 provided for an adjustment equal to nearly 6 per cent of GDP. Coupled with the supplementary measures introduced during the year, the primary surplus rose to 2.6 per cent of GDP. The increase in interest payments owing to the growth in the debt and its average cost prevented the overall balance from showing a comparable improvement; net borrowing remained equal to 9.5 per cent of GDP.

The ratio of debt to GDP rose by nearly 23 percentage points between 1989 and 1993; most of the increase occurred in the last two years. In addition to the slowdown in nominal GDP growth (from 10.4 per cent in 1990 to 3.0 per cent in 1993) and the devaluation of the lira (which caused the lira value of foreign currency debt to rise in relation to GDP by about 1.5 percentage points), the debt ratio was driven up by the issue of securities amounting to nearly 2 per cent of GDP to provide resources for the Treasury payment account at the Bank of Italy and the assumption by the state of debts of the former autonomous government agencies amounting to about 1 per cent of GDP. Settlements of past debts added another 1.1 percentage points over the four years; for the decade as a whole they added 3.1 points to the debt ratio (Figure 27).

The improvement in the primary balance between 1989 and 1993 was the result of the hike in revenue, from 42.0 to 48.3 per cent of GDP. Taxes and social security contributions rose from 39.0 to 44.4 per cent.

A large part of the increase in taxes and social security contributions was due to structural changes: the revision of personal income tax brackets and deductions; curbs on the correction of fiscal drag; the non-deductibility of local income tax for the purpose of determining taxable personal and corporate income; restrictions on accelerated depreciation; increases in social security and health-care contribution rates; revisions of VAT rates; and the introduction of a municipal tax on property and a special levy on firms' net assets, which was extended until 1997. Part of the proceeds generated by these measures served to fill the gap left by the drying up of revenue from the temporary measures adopted in the period. In particular, in 1992 the revenue from the revaluation of companies' assets, condonation schemes and the one-shot taxes levied on buildings and bank and postal deposits was equal to 1.8 per cent of GDP; in 1993 the same measures generated revenue amounting to another 0.6 per cent of GDP, but were destined to produce nothing in 1994. In view of the ways taxes are paid, some legislative changes brought additional temporary increases in revenue. In particular, the local income tax on buildings, which was abolished when the municipal tax on property was introduced, continues to produce revenue and in the first year the effect of changes in self-assessed taxes is roughly twice what it is when they are fully phased in.

Notwithstanding the adjustment measures adopted, primary expenditure rose from 43.1 per cent of GDP in 1989 to 45.7 per cent in 1993, largely owing to the recession in 1993. Social security benefits rose by 1.9 percentage points in relation to GDP and compensation of employees by 0.6 points; on the other hand, investment expenditure declined from 3.3 to 2.6 per cent of GDP.

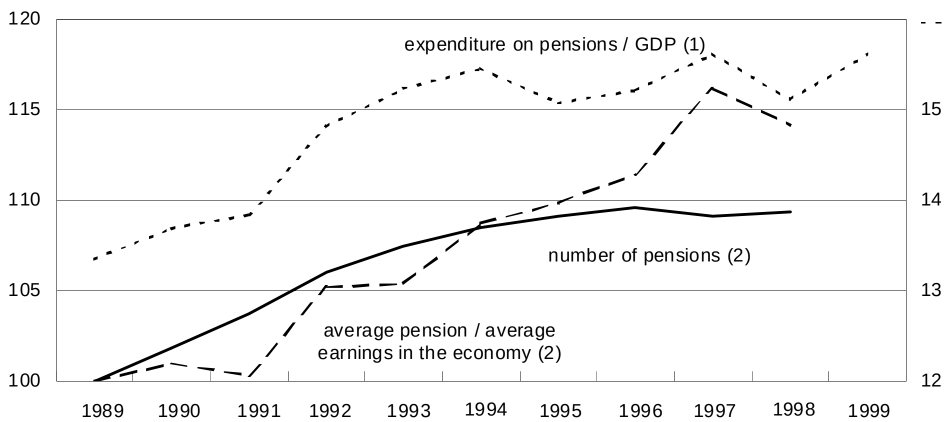
The fall in investment expenditure was due in part to the discovery of widespread irregularities in tenders for public works. The need to ensure the efficient use of the resources allocated to investment led in 1993-94 to the start of a reform, which is still under way, aimed at reducing the scope for irregular behaviour on the part of public officials and firms, guaranteeing more competition in tenders and increasing the project planning and evaluation capabilities of central and local government.

Reforms of the health service and pension system were launched in 1992. Expenditure on pensions, which rose from 5.0 per cent of GDP in 1960 to 14.8 per cent in 1992, shows a growth profile that is unsustainable in the long run.

According to official estimates prepared at the time, expenditure on pensions and annuities would have risen to 25 per cent of GDP in 2003 in the absence of remedial measures. The reform enacted in 1992, together with stopgap measures that temporarily suspended the revaluation of pensions, reduced future expenditure commitments by about one quarter. Most of the savings were obtained by the switch from earnings to inflation as the basis for revaluations and the determination of new pensions on the basis of workers' entire working lives. The second reform of the pension system, enacted in 1995, related benefits more closely to contributions, revised the redistributive effects of the system and reduced labour supply disincentives; the rising trend of expenditure was not significantly affected. Although additional measures to curb pension expenditure were adopted in the following years, it reached 15.6 per cent of GDP in 1999. Over the decade, the ratio of the average pension to average earnings rose by around 15 per cent; the number of pensions increased by around 10 per cent (Figure 28).

Figure 28

EXPENDITURE ON PENSIONS



Source: Based on Istat data.
(1) Percentages (right-hand scale). - (2) Indices, 1989=100 (left-hand scale).

In 1992 expenditure on the public health service amounted to 6.4 per cent of GDP. In the preceding years it had regularly exceeded the level established in the budget. The National Health Service accumulated deficits equal to 6 per cent of GDP. The reform enacted in 1992 aimed at curbing costs, in part by granting greater operational autonomy at the local level. Additional curbs on spending, especially on pharmaceuticals, were introduced in the following years. It nonetheless regularly exceeded the appropriations to the National Health Fund; the overshoots were smaller than in the eighties, however. In 1995 disbursements fell to 5.2 per cent of GDP; subsequently they began to rise again and in 1999 the ratio was equal to 5.7 per cent.

The years from 1994 to 1996. - Budgetary adjustment continued in these three years, with the adoption of measures totalling nearly 8 per cent of GDP. Less recourse was made to temporary measures, which amounted over the period to around 1.5 per cent of GDP. In 1996 the primary surplus rose to 4.4 per cent of GDP and net borrowing fell to 7.1 per cent, partly as a result of the small reduction in interest payments. This was the net effect of the decrease in the average cost of the debt from 10.8 per cent in 1993 to 9.7 per cent and the increase in the debt ratio, which peaked at 123.8 per cent in 1994.

The halt in the rise in the debt ratio was due not only to the growth in the primary surplus but also to the narrowing of the gap between the average cost of the debt and the rate of growth in nominal GDP, which averaged around 7 per cent in the three years in question. Furthermore, the effects of adverse factors not included in the deficit gradually waned.

The increase in the primary surplus was coupled with a decrease in revenue, which fell from 48.3 per cent of GDP in 1993 to 45.8 per cent in 1996. Primary expenditure fell from 45.7 to 41.4 per cent of GDP, benefiting from the relatively rapid growth in nominal GDP, the effects of the temporary measures adopted in 1995 to curb pension expenditure and the reduction in the number of public employees.

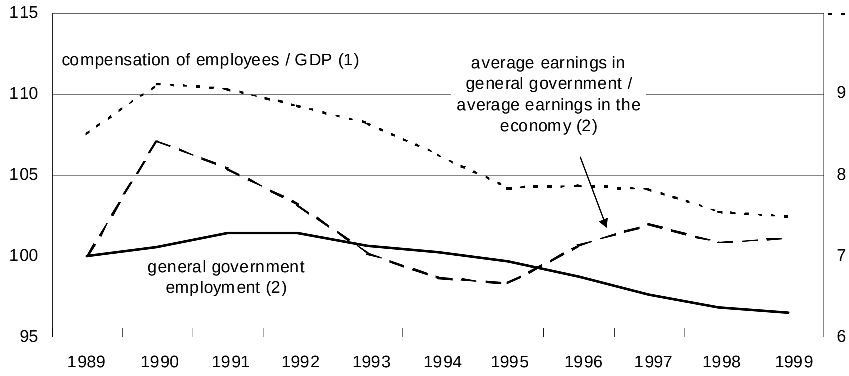
General government employment (excluding compulsory military service) rose until 1991, remained stable in 1992 and then declined in the subsequent years as the limits imposed on hiring became more effective. In 1999 it was down by 3.5 per cent compared with its level in 1989 and by 4.9 per cent compared with the peak recorded in 1992. After rising sharply in 1990, the ratio of average gross earnings in the sector to the average for the economy as a whole also declined; in the late nineties it was only slightly above its level in 1989. In the nineties the ratio of compensation of employees to GDP fell by more than one percentage point to 7.5 per cent of GDP (Figure 29).

The years from 1997 to 1999. - The consolidation of the public finances was given another boost in 1997 with the aim of ensuring Italy’s participation in the Monetary Union from the outset. The reference balance for budgetary policy was changed from the state sector borrowing requirement to general government net borrowing, the yardstick for the 3 per cent limit established by the Maastricht Treaty. A two-step budget adjustment amounting to about 3 per cent of GDP was implemented, mainly in the form of increases in revenue. Substantial use was made of temporary measures, which amounted to more than 1.5 per cent of

GDP and mainly concerned taxes (the special “Europe” tax, the bringing forward of payments and changes in the procedures for paying taxes). The ratio of taxes and social security contributions to GDP rose by 2.1 percentage points in 1997. Changes were also made to the accounting treatment of certain items in order to comply with the rules laid down by Eurostat, which reduced the ratio of net borrowing to GDP by 0.8 percentage points.

Figure 29

COMPENSATION OF EMPLOYEES



Source: Based on Istat data.
(1) Percentages (right-hand scale). - (2) Excluding compulsory military service. Indices, 1989=100 (left-hand scale).

The primary surplus rose by 2.3 percentage points to 6.7 per cent of GDP; the reduction in the net borrowing ratio was even larger (4.4 points), owing to the sharp fall in interest payments. The restrictions imposed on cash authorizations for individual items during the drafting of the budget, transfers of budget resources to non-state public bodies’ Treasury accounts and cash outlays from these accounts contributed to curbing expenditure. The collaboration of the local authorities helped to ensure the effectiveness of the restrictions.

The ratio of local authority expenditure to GDP declined from 14.7 to 13.6 per cent over the decade, with the current and capital accounts contributing in equal measure to the result. From the early nineties onwards there was a gradual shift from a system of local authority financing in which virtually all the resources were transferred by central government, sometimes with their use strictly determined, to one marked by a significant degree of autonomy, in which resources come from own taxes and shares of central government taxes. The municipal tax on property was introduced in 1993, the regional tax on productive activities in 1998. In 1999 the Domestic Stability Pact was drawn up to reconcile decentralized taxation with the budgetary rules adopted at European level.

Interest payments continued to decline in 1998 and 1999, permitting further reductions in net borrowing, despite the contraction in the primary surplus from 5.3 per cent of GDP in 1998 to 4.9 per cent in 1999. The aim of budgetary policy in this period was to move gradually towards a budgetary position close to balance, as provided for in the Stability and Growth Pact. The size of the budget adjustment was reduced to 1.2 per cent of GDP in 1998 and 0.4 per cent in 1999, partly owing to the slowdown in the trend growth of the deficit. Against an unfavourable economic background, budgetary policy shifted towards strengthening social policies and measures to foster growth.

Further, albeit limited, progress was made in bringing down the debt ratio. The positive effects of the increase in the primary surplus, the fall in the average cost of the debt (from 9.7 per cent in 1996 to 6.0 per cent in 1999) and the speeding up of the privatization programme (the proceeds of which amounted to 3.6 per cent of GDP in the three years in question, compared with a total of 4.9 per cent for the decade as a whole) were partly offset by the return to slower nominal GDP growth, which fell from 6.4 per cent in 1996 to 2.9 per cent in 1999.

Primary expenditure rose from 41.4 per cent of GDP in 1996 to 42.0 per cent in 1999, with investment expenditure also rising, from 2.2 to 2.6 per cent. Total revenue rose from 45.8 to 46.9 per cent. Taxes and social security contributions rose from 42.5 to 43.3 per cent; the surge in 1997 was only partly reabsorbed in the two following years and the fall of 1.6 percentage points in the ratio was smaller than that of 2.7 points recorded between 1993 and 1994.

Numerous changes were made to the tax system in the nineties, primarily with the aim of increasing revenue. Personal income tax receipts rose from 8.0 per cent of GDP in 1989 to 10.4 per cent in 1999, partly because fiscal drag was not fully offset by rate changes (Figure 30). VAT receipts rose from 5.2 to 6.9 per cent, *inter alia* as a result of rate revisions.

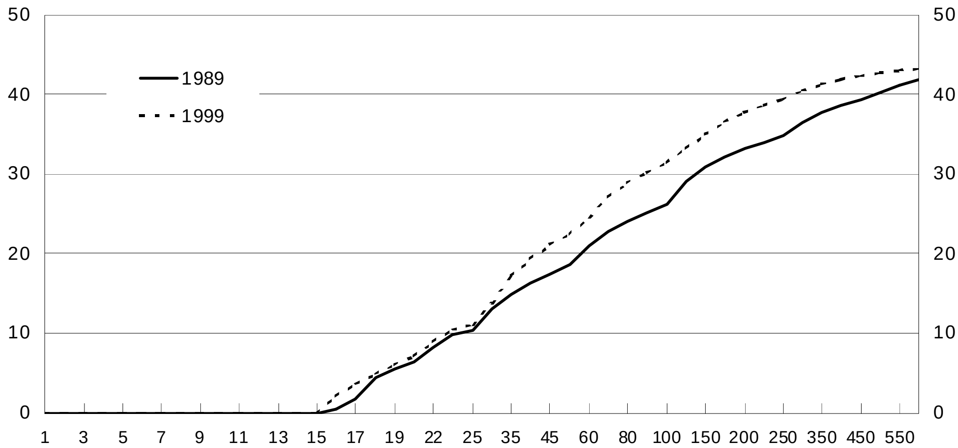
Until 1997 the basic structure of the main taxes did not undergo major changes. In 1998 a far-reaching reform was enacted. The withholding tax on income from financial assets was modified, the regional tax on productive activities replaced health service contributions and some taxes (including the special levy on firms' net worth) and corporate income tax was reformed with the introduction of the Dual Income Tax system. In addition to simplifying and rationalizing the tax system, the reforms were intended to reduce the distortions in the ways companies used factors of production and raised funds. The new system is advantageous for companies with low financial leverage, those with a high ratio of profits to value added and those that did not benefit from the charging of health service contributions to the budget.

Steps were also taken during the nineties to encourage investment by providing tax incentives: in the early nineties these were focused on innovative investment; subsequently the Tremonti Law and the Visco Law provided tax incentives for investments made in 1994-95 and 1999-2000 respectively. Since 1997 subsidies have been granted for the purchase of cars and mopeds. In 1999 and 2000 tax relief has been granted for building renovation costs.

Figure 30

AVERAGE PERSONAL INCOME TAX RATES IN 1989 AND 1999 (1)

(*employee with spouse and two dependent children*)



(1) Taxable income in 1999 is shown in millions of lire on the x-axis; the average tax rate is shown on the y-axis. The taxable income corresponding to the curve of average tax rates in 1989 has been revalued on the basis of the increase in prices over the decade 1989-99 (56.4 per cent).

The successful conclusion of the drive to qualify for adoption of the single currency brought to an end the long period in which the priority objective of Italian budgetary policy was to correct the imbalances in the public finances. The consolidation process, constrained by the size of the debt accumulated in earlier years, was marked by a succession of adjustments and repeated structural measures to curb expenditure in the main sectors; some reforms have not yet been completed. This may have influenced economic agents' expectations, with adverse repercussions on demand and interest rates, which only fell to the levels prevailing in the rest of Europe towards the end of 1997. The reliance on revenue measures in correcting the imbalances and the significant reduction in public investment may have had a harmful effect on the country's productive structure and the expansion of the economy. Looking ahead, budget balances in line with the indications of the Stability and Growth Pact and a steady reduction in the public debt will increase the scope for stabilization policies; it will also permit more attention to be paid to the public sector's allocative and redistributive functions and their effect on growth and employment.

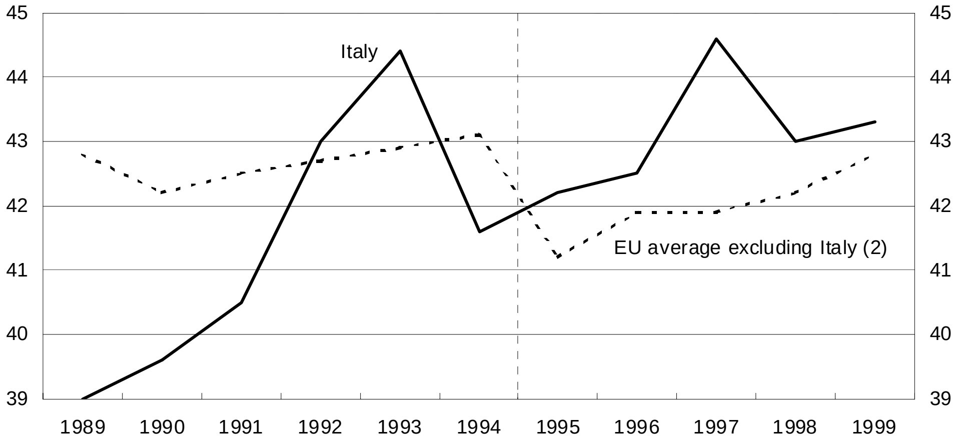
REVENUE AND EXPENDITURE

Revenue

In 1999 total general government revenue increased by 3.7 per cent to 988.5 trillion lire (€515,700 million) and rose from 46.6 to 46.9 per cent of GDP. Taxes and social security contributions rose from 43.0 to 43.3 per cent (Tables 24, 26 and a15 and Figure 31).

Figure 31

TAX REVENUE AND SOCIAL SECURITY CONTRIBUTIONS (1)
(*as a percentage of GDP*)



Sources: Based on Istat and European Commission data.
(1) Includes imputed social security contributions and capital taxes. Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. - (2) GDP-weighted average.

Receipts benefited from administrative action and legislative measures to reduce evasion: the completion of sectoral baseline studies and the start made on their application; the intensification of auditing; the introduction of the single tax return form and the changes in the procedures for declaring income, which discouraged taxpayers from declaring obviously inconsistent amounts for different taxes.

Direct taxes. - Direct tax receipts increased by 8.3 per cent and rose from 14.4 to 15.1 per cent of GDP, thanks mainly to the growth in corporate and personal income tax receipts. Both of these taxes benefited from the further expansion in their bases connected with the abolition in 1998 of health care contributions and some previously deductible taxes following the introduction of the regional tax on productive activities (Irap).

Personal income tax receipts grew by 10.8 per cent (Table a19) primarily as a result of the increases in the amount withheld on the incomes of the self-employed (12.6 per cent) and on employee incomes and the like (9.3 per cent). The growth in the latter reflected the rise in gross earnings (3.8 per cent) and pensions (6.2 per cent). The yield of corporate income tax, which rose by 36.5 per cent, also benefited from the improvement in profits in recent years. Receipts of the withholding tax on interest income and capital gains rose by 12.7 per cent.

A homogeneous comparison with the 1998 results of the withholding tax on interest income and capital gains is complicated by the major changes introduced with effect from 1 July 1998. The tax on securities held under asset management schemes, which was paid in February 1999 and calculated on the net result of asset management activity in the second half of 1998, came to 2.9 trillion lire. For securities held in custody, the tax on interest income amounted to more than 6.7 trillion lire and that on realized capital gains to about 2.6 trillion. The yield of the tax on interest earned on bank deposits rose from 3.1 to 5.3 trillion.

Indirect taxes. - Indirect tax receipts rose by 2.6 per cent but declined from 15.4 to 15.3 per cent of GDP. The decrease of 6.9 per cent in Irap receipts reflected the large payments on account made in 1998.

The growth of 8.3 per cent in VAT receipts, net of accounting settlements with the regions of Sicily and Sardinia and the funds turned over to the EU, reflected the rise in fuel prices and the growth in the base connected with the income tax relief granted for the renovation of buildings. Other business taxes grew by 4.8 per cent, owing mainly to the 17.6 per cent increase in registry fees. Revenue from lotto and lotteries rose by about 3.3 trillion lire, since the surge of 16.1 trillion in stakes was largely masked by the earlier booking of payouts.

Capital taxes. - Capital revenue fell by about 5.8 trillion lire. Most of the decrease was due to the termination of the levy on firms' staff severance pay provisions, which had generated 4.5 trillion of receipts in 1998.

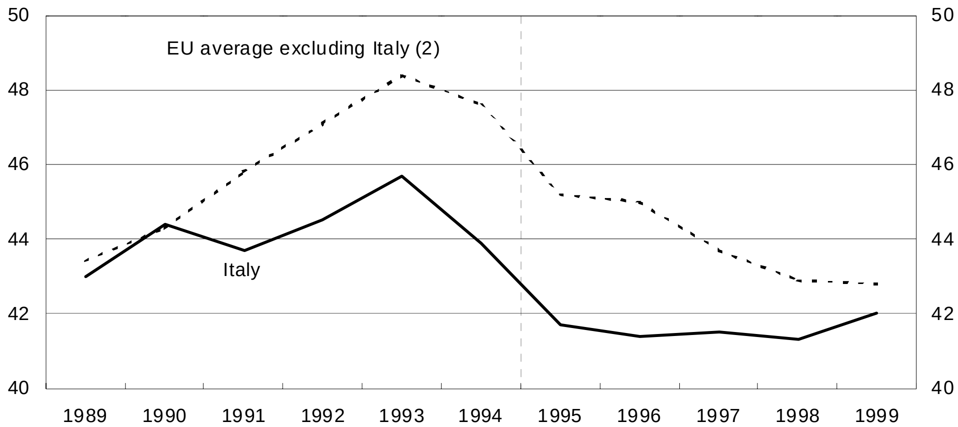
Social security contributions. - Social security contributions rose by 1.6 per cent; excluding health care contributions for December 1997, which were booked in January 1998, the increase was equal to 2.7 per cent. The rise in contributions was smaller than that of 3.8 per cent in total earnings, the principal contributions base. The disparity was due mainly to the abolition of contributions for the former workers’ housing scheme (Gescal) and the financing of temporary benefits, which brought down the overall contribution rate by 0.66 percentage points.

Expenditure

General government expenditure increased by 1.8 per cent to 1.039 trillion lire (€536,600 million; Table a15), but decreased from 49.4 to 48.8 per cent of GDP (Table 27). Whereas interest payments decreased by 13.0 per cent, primary expenditure increased by 4.7 per cent and rose from 41.3 to 42.0 per cent of GDP (Figure 32). The increase largely reflected the rise in current spending from 37.5 to 38.0 per cent of GDP. There was a large rise in capital expenditure for the second year running (10.9 per cent in 1998 followed by 7.4 per cent in 1999).

Figure 32

EXPENDITURE EXCLUDING INTEREST PAYMENTS (1)
(*as a percentage of GDP*)

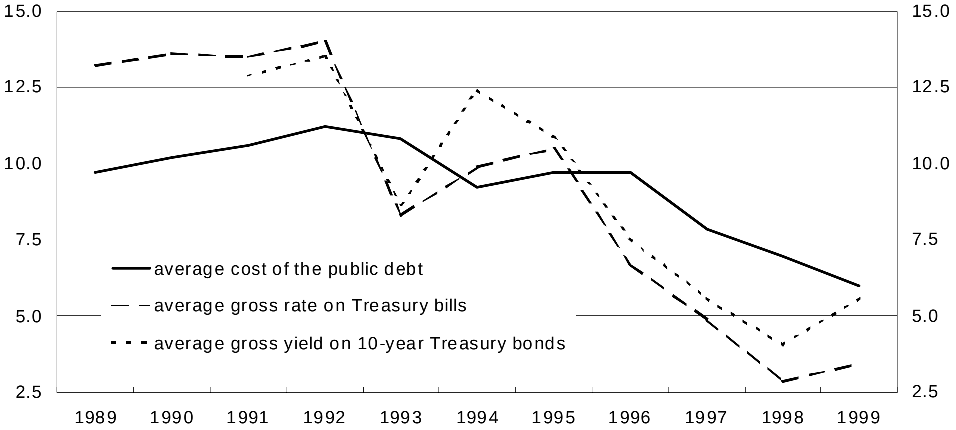


Sources: Based on Istat and European Commission data.
(1) Following the switch to ESA95 there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. - (2) GDP-weighted average.

Interest payments. - The large reduction of 21.8 trillion lire in this item, exceeding that recorded in 1998, was due above all to the decline in interest rates that lasted into the early months of 1999. Between December 1995 and January 1999, the gross yield on ten-year Treasury bonds fell from 10.9 to 3.9 per cent; the average gross yield on the three maturities of Treasury bills continued to decline until May, falling to 2.6 per cent, compared with 10.5 per cent at the end of 1995. The two rates rose back to respectively 5.6 and 3.5 per cent at the end of 1999. In parallel with these developments, the average cost of the public debt (the ratio of interest expenditure to the average stock of liabilities) decreased from 9.7 per cent in 1995 to 6.0 per cent in 1999 (Figure 33). Although rates have risen since then (the average gross yield on Treasury bills is currently 4.5 per cent), the decline in the average cost of the public debt is expected to continue as higher-yielding issues mature.

Figure 33

AVERAGE COST OF THE PUBLIC DEBT, AVERAGE GROSS RATE ON TREASURY BILLS AND GROSS YIELD ON 10-YEAR TREASURY BONDS (1)
(*percentages*)



(1) Following the switch to ESA95, there is a break between 1994 and 1995 in the interest payments series used in calculating the average cost of the debt.

Assuming that rates and the maturity structure of the debt remain unchanged, the average cost can be projected to fall by around half a percentage point between 2000 and 2003 and subsequently to remain stable. A change of one percentage point in the rates on all types of liabilities from the start of 2001 would have an impact on the average cost of around 0.3 percentage points in 2001, 0.5 points in 2002 and 0.6 points in 2003.

Social benefits. - The particularly large increase in outlays (5.5 per cent, compared with 2.0 per cent in 1998) reflected the pronounced growth in pension expenditure (5.6 per cent). The welfare component, which decreased by around 1 per cent in both 1997 and 1998, increased by 3.6 per cent, owing in part to measures included in the budget for 1999 in favour of low-income households. The ratio of total social security benefits to GDP rose to 17.4 per cent, 0.4 percentage points higher than in 1998 and 0.1 points higher than in 1997.

Pension and annuity expenditure grew by 6.2 per cent, a sharp rise on the increase of 0.8 per cent recorded in 1998, which had benefited from the temporary effects of the switch from two-monthly to monthly pension payments by INPS. The ratio of this item to GDP rose from 15.1 to 15.6 per cent, returning to the 1997 level.

In 1998 the change in the payment of INPS pensions produced a one-off expenditure saving on the order of 8 trillion lire, part of which was offset by the related decrease in withholding tax receipts. Without this change, pension spending would have grown by around 3.5 per cent in both 1998 and 1999; in relation to GDP, it would have remained virtually unchanged in the last three years.

In 1999 the annual adjustment of pensions to prices was slightly smaller than in 1998. The increase of 1.7 per cent paid in both years on the basis of the target rate of inflation was supplemented only in 1998 with the ex-post adjustment to compensate for the difference of 0.1 percentage points between target and actual inflation. Pension expenditure was also fueled by the increase in the number of beneficiaries and the replacement of pensions first paid many years ago with newly awarded, higher benefits.

Social benefits for unemployment grew by 4.7 per cent. As in recent years, unemployment and mobility benefits increased (by a total of 6.1 per cent), while wage supplementation declined (by 2.9 per cent). Outlays for family allowances grew by 5.7 per cent, compared with 9.2 per cent in 1998.

Compensation of employees. - The 2.6 per cent increase in expenditure under this heading reflected the relatively small rise of 2.2 per cent in gross earnings and that of 3.5 per cent in social security contributions, which was due primarily to the increase from 12.9 to 14.6 trillion lire in the payment made by the state to make good the deficit of the State Sector Employees’ Social Security Institute (INPDAP). After declining by nearly one percentage point in 1998 following the abolition of health care contributions, the ratio of compensation of employees to GDP remained unchanged at 10.7 per cent. The modest rise in total gross earnings reflected the further fall of 0.4 per cent in employment (excluding compulsory military service) in conjunction with an increase of around 2.5 per cent in average per capita earnings, which was essentially attributable to the effects of the contracts and additional allocations for school employees.

Other current expenditure. - This rose from 9.8 to 10.0 per cent of GDP. The relatively large increase in intermediate consumption (6.3 per cent) reflected the growth in outlays both by the state, partly for military and humanitarian intervention in the Balkans, and by local authorities. There was a steep rise in health care expenditure (6.4 per cent), especially for pharmaceuticals (11.2 per cent).

Capital expenditure. - Capital expenditure rose by 7.4 per cent, fueled mainly by investment grants (8.7 per cent), largely for the less developed areas, and investment (9.0 per cent). The latter increase primarily reflected the activity of local authorities, partly in connection with the preparations for the Jubilee. Investment rose from 2.4 to 2.6 per cent of GDP.

Local authorities

The ratio of the budgetary position of local authorities to GDP deteriorated by 0.3 percentage points, going from a surplus of around 2.5 trillion lire to a deficit of 5.2 trillion. This contrasted with the improvements recorded in the rest of general government (1.3 points for central government departments and 0.1 points for social security institutions).

Local authority revenue grew by 1.8 per cent, compared with 3.7 per cent for general government as a whole. The increase in public transfers on current and capital account to local authorities, equal to 3.6 and 21.7 per cent respectively, concerned the regions and was mainly connected with the financing of health care spending. Tax receipts contracted by 4.1 per cent.

Although the ratio of tax receipts to total revenue (40.7 per cent) was lower than in 1998, it remained appreciably above the level prevailing before the introduction of Irap (around 20 per cent on average in the period 1989-1997). Correspondingly, the ratio of public transfers to total revenue (46.7 per cent) was noticeably below the pre-1998 level (around 69 per cent on average in the period 1989-1997).

Total expenditure grew by 4.6 per cent, compared with 1.8 per cent for general government. Capital expenditure surged by 11.1 per cent (5.3 trillion lire). In particular, investment grew by 11.6 per cent (compared with 9.0 per cent for general government); spending in connection with the preparations for the Jubilee helped to continue the recovery that began in 1996 following the decline recorded in the early nineties. Current expenditure net of interest payments rose by 3.8 per cent (about 8.3 trillion lire), compared with 4.4 per cent for general government.

Last year saw the start of implementation of the Domestic Stability Pact, whereby local authorities contribute to achieving the objectives set for general government net borrowing and debt.

The measures accompanying the Finance Law for 1999 defined the reference balance for the Pact as the difference between revenue, excluding transfers from the state, and primary current expenditure. The objective set for 1999 for local authorities as a whole was to reduce this balance by 0.1 per cent of GDP (2.2 trillion lire) compared with its trend value. The Finance Law for 2000 modified the definition of the reference balance by excluding, among other things, one-off items. It indicated the objective of reducing the balance by 0.1 per cent of GDP for 2000 as well and established that any shortfall with respect to the objective set for 1999 had to be offset in 2000. For the purpose of evaluating the conformity of results with the objectives, the Finance Law allowed local authorities to apply the new definition of the reference balance retroactively to the accounts for 1999 and to consider the results obtained in the two years on a cumulative basis. The overall impact of these provisions on general government net borrowing in 2000 is officially estimated at 3.3 trillion.

Under the delegation of authority concerning fiscal federalism contained in Law 133 of 13 May 1999, the Government has abolished the current system of tax transfers to ordinary-statute regions. The measure is part of a wide-ranging reform of regional finance begun in 1998 with the introduction of Irap.

The new measure also introduces VAT revenue sharing and increases the rate of the regional surtax on personal income tax (with an equal decrease in the baseline tax rates) and the regions' share of the petrol excise tax.

The shares of VAT are attributed to each ordinary-statute region on the basis of regional consumption and then adjusted for the relative size of the resident population and differences in the tax base and per capita health care expenditure requirements. Any difference with respect to the share attributed on the basis of consumption alone is reflected in transfers received or paid between each region and a national equalization fund. During a transitional phase, between 2001 and 2012, the resources allocated to each region will be calculated using both the abolished transfers, i.e. on the basis of historical expenditure, and, increasingly, the new method. A share of the resources transferred to the regions will no longer be earmarked to finance health care; a system of controls will be introduced to check on the levels of spending and the quality of services provided.

The cyclically adjusted general government balance

The cyclically adjusted general government balance is an indicator used in medium-term budgetary policy analysis. It provides an estimate of the balance that would be recorded if the economy followed its trend growth path without cyclical fluctuations.

The indicator is an important tool for verifying the consistency of budgetary policies with the Stability and Growth Pact, which commits the EU countries “to adhere to the medium-term objective of budgetary positions close to balance or in surplus”. The medium-term budgetary objective can be interpreted to mean the cyclically adjusted budget balance.

In theory, excluding the transitory effects of cyclical fluctuations allows more correct evaluation of the public accounts. However, estimates of the cyclical component of the budget need to be treated with caution, since they are based on an appraisal of the trend growth path of the economy that is subject to significant margins of uncertainty. The available methods for estimating trend growth lead to different results and there is no consensus on which method should be used.

In the methodology adopted here for Italy, analysis of the cycle is based on five macroeconomic variables whose effects on the public finances are especially large and direct (companies’ gross operating profits, private consumption, number of unemployed, per capita earnings and payroll employment in the private sector). The trend growth of the variables is estimated with a statistical approach (based on the Hodrick-Prescott filter) similar to that currently used by the European Commission for GDP; before the filter is applied, the time series of the variables are extended on the basis of forecasting exercises conducted with the Bank of Italy’s quarterly econometric model. By contrast, the OECD and the IMF estimate potential GDP using production functions for the entire economy.

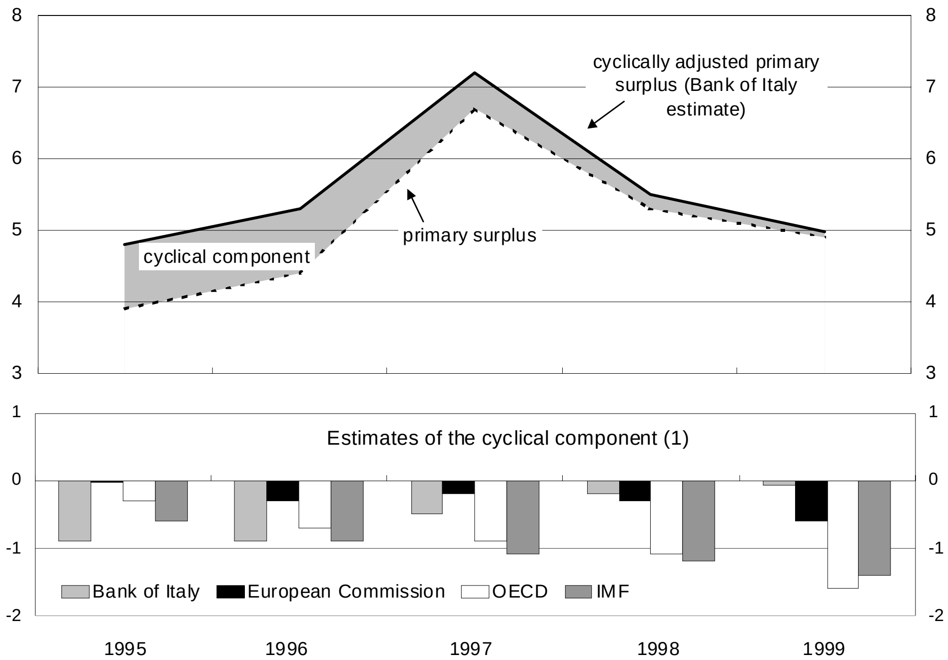
The cyclical components of the budget balance are calculated as the product of three elements: the deviations of the macroeconomic variables from trend values, the elasticities of the various components of the general government budget to those variables, and the level of those components. Following standard practice, the analysis is applied primarily to revenue; cyclical fluctuations in expenditure are assumed to affect only the items connected with unemployment; in particular, any cyclical effect on interest payments is excluded.

Compared with the methods used by the OECD, the IMF and the European Commission to calculate the structural budget balance, which analyze the cycle on the basis of total output (and thus refer only to the output gap, i.e. the difference between trend and actual GDP), the procedure that considers the above-mentioned macroeconomic variables can capture the effects of unbalanced economic growth on the public finances. In Italy, in particular, these effects substantially lessened the budgetary consequences of the economic upturn of 1995 and the slow growth recorded in 1999. The large increase in GDP in 1995 was driven mainly by exports and investment, demand components that are not subject to value-added tax; the change in per capita earnings, for which the effective tax rates are relatively high and there are no significant lags in tax payments, was negative in real terms; employment registered its low for the decade; the number of unemployed rose. In 1999 GDP grew only modestly and much less than earnings and the domestic component of domestic demand; employment increased significantly and the number of unemployed decreased. The composition effects just described for 1995 and 1999 explain nearly all of the difference (0.9 percentage points for 1995 and 0.5 points for 1999) between the estimates of the cyclical impact in relation to GDP presented here and the more recent estimates by the European Commission; likewise, composition effects also account for the difference vis-à-vis the OECD and IMF estimates of the cyclical impact during the period (Figure 34).

Figure 34

EFFECTS OF THE CYCLE ON THE GENERAL GOVERNMENT PRIMARY BUDGET BALANCE IN ITALY

(as a percentage of GDP)



Sources: Bank of Italy, based on Istat data; European Commission, *Spring Forecast*, March 2000; OECD, *Economic Outlook*, December 1999; IMF, *World Economic Outlook*, May 2000.

(1) A negative value of the cyclical component of the primary deficit indicates a contractionary effect on the surplus.

Taking account of the composition of GDP and the distribution of income, the economic cycle in Italy can be estimated to have added 0.9 percentage points to the deficit ratio in both 1995 and 1996. The expansionary effect gradually waned in the subsequent years, despite the sluggishness of output growth, and all but disappeared in 1999 (0.1 points). This tendency reflected the recovery in employment (in particular, private sector payroll employment was almost 6 per cent higher in 1999 than in 1995) and the relatively faster growth in the components of demand and income that account for the largest shares of taxes and social security contributions. In 1999 the cyclically adjusted primary surplus is estimated to have been 5.0 per cent of GDP and close to its level in 1995 (4.8 per cent). According to preliminary estimates, the cyclical impact this year should be broadly unchanged.

THE OUTLOOK

Italian budgetary policy

Following the sharp acceleration in the reduction of net borrowing in 1997, Italian budgetary policy in the last two years has sought to combine consolidation of the results achieved with support for economic activity. This twofold objective was confirmed by the Economic and Financial Planning Document for 2000-03 presented in June 1999 and by the stability programme update submitted to the European Commission in December.

The Planning Document envisaged a steady reduction in the overall deficit: to 1.5 per cent of GDP in 2000, 1.0 per cent in 2001, 0.6 per cent in 2002 and substantial balance in 2003. This result was seen as deriving mainly from the decrease in interest expenditure (from 7.1 per cent of GDP forecast in 1999 to 5.3 per cent in 2003). Most of the significant decline expected in the primary budget surplus for 1999 (to 4.6 per cent of GDP from 5.2 per cent in 1998) was attributed to the poor performance of the economy. The primary surplus was expected to rise to 5.0 per cent of GDP in 2000 and to 5.2 per cent over the three following years.

The increase in the primary surplus over the four-year period was the result of reductions in relation to GDP of current expenditure (1.7 percentage points, of which 0.7 points in 2000), investment (0.4 points, no change in 2000) and revenue (1.6 points, including 0.3 points in 2000). The Planning Document envisaged higher capital spending than in this scenario (up to 0.6 per cent of GDP in 2003), provided that offsetting measures were enacted or the economy performed better than forecast.

These objectives were reaffirmed last September in the Forecasting and Planning Report for 2000 and the update to the Economic and Financial Planning Document for 2000-2003. As a consequence of the better-than-expected performance of revenue in 1999, the forecast for the ratio of tax revenue to GDP on a current programmes basis was revised upwards by 0.4 percentage points for each of the four years. The planning documents envisaged tax cuts to offset the increase.

The update to the stability programme, which essentially confirmed the Economic and Financial Planning Document scenario, estimated that the cyclically adjusted budget balance would shift from a deficit of 0.1 per cent of GDP in 2000 to a surplus of 0.3 per cent in 2003. Accordingly, the adjusted primary surplus would narrow from 6.4 to 5.6 per cent over the period.

The Government's budget for 2000, drafted late last year, was intended to reduce net borrowing on a current programmes basis by about 2.4 trillion lire. Parliament did not introduce significant changes with respect to the Government draft. A part of the reduction in expenditure was to come from lower interest payments; the planned adjustment to the primary surplus amounted to about 1 trillion lire.

The final budget package provided for reductions of about 9 trillion lire in expenditure and 6.5 trillion in revenue. Total spending cuts of 11.5 trillion lire will be partially offset by increases of 2.6 trillion for social programmes and measures to foster economic growth. A reduction of 11.9 trillion in taxes and social security contributions, designed chiefly to compensate for the upward trend in tax receipts, is set against 5.4 trillion in additional revenue, coming mostly from disposals of real estate assets (4 trillion). Since the effects of some measures concerning social security and the public debt are counted among spending decreases, whereas they actually produce additional non-tax revenue for general government, the overall net expenditure and revenue decreases are reduced to 5.6 and 3.2 trillion lire respectively.

The Quarterly Report on the Borrowing Requirement and the update to the Forecasting and Planning Report, which were presented in April, revised the forecasts for 2000 in the light of the final outturn for 1999. The primary surplus and interest expenditure were both increased slightly, to 5.1 and 6.6 per cent of GDP, leaving the deficit of 1.5 per cent unchanged.

The revenue ratio was higher than expected in 1999. The Quarterly Report expects the budget for 2000 to be larger than that forecast in last year's Economic and Financial Planning Document, with revenue amounting to 46.6 per cent of GDP, as against 46.2 per cent, and non-interest expenditure to 41.5 per cent, as against 41.2 per cent. The planned reduction in revenue is unchanged at 0.3 per cent; the decrease in non-interest expenditure is 0.5 per cent instead of 0.7 per cent.

Medium-term objectives. - The June 1997 Stability and Growth Pact commits the members of the European Union to achieving a budgetary position close to balance or in surplus in the medium term. The European Council has established that this objective must be attained by 2002, specifying that the time horizon to which the objective refers is the economic cycle. The prospective situation is thus one in which the budget balance fluctuates over the cycle around the medium-term objective, which can be taken as the cyclically adjusted balance.

The Council asserts that the primary purpose of the objective is to prevent the operation of built-in stabilizers from generating annual deficits of more than 3 per cent of GDP in response to normal cyclical fluctuations in the economy (that is, when real GDP does not fall by more than 2 per cent in a year).

Based on a valuation of the severity of any future recessions and the elasticity of budgets with respect to the cycle, the European Commission has calculated for each country the maximum cyclically adjusted deficit consistent with the Council’s indications. The Opinion on Italy’s stability programme, released in February, refers to an estimate of 1.2 per cent of GDP for the maximum deficit.

A number of factors must be taken into account in determining the scope for stabilization policies. Two principal arguments for adopting relatively broad margins can be adduced: *a)* for members of the Monetary Union the budget is the main economic policy instrument available to counter the effects of adverse events that do not affect the entire area; *b)* with economic integration, the effects of changes in the budget balance diminish. Against broad margins, it can be argued that the expansionary effects of built-in stabilizers are no longer necessarily limited by the effects of changes in interest rates.

The Council further specified that adequate safety margins are needed to buffer the effects of other factors of budget variability (e.g. interest rates), to allow for discretionary countercyclical policies, to ensure a sufficient reduction in the debt ratio and to guarantee the medium and long-term sustainability of the public finances (with special reference to the aging of the population).

The timing of the effects of changes in market rates on interest expenditure, and hence on the budget balance, depends on the maturity structure of the debt. In Italy, the portion of the debt consisting of fixed-rate paper with a residual maturity longer than one year increased during the nineties. Consequently, the immediate impact of interest rate changes has been attenuated. The effect of a one-point rise in market rates at the start of the year is now estimated to be just over 0.3 per cent of GDP over the following 12 months and about 0.5 per cent the year after.

The effectiveness of discretionary policies may be limited by such factors as economic agents’ expectations and the lag between the emergence of the slowdown in economic activity and the time when the effects of countercyclical measures are felt.

The countries where the debt ratio is highest have pledged to reduce it adequately. They must accordingly set more ambitious budget objectives than the other countries. Moreover, budgets that are in deficit even after cyclical adjustment may not suffice to lower the ratio during cyclical slowdowns.

The four-year Planning Document set the objective of substantial general government budget balance in 2003; official estimates put the cyclically adjusted balance slightly in surplus. The Council’s Opinion is that the Italian government plans satisfy the requirements of the Stability and Growth Pact.

Cyclically adjusted budget balance or surplus will permit countercyclical policy measures without provoking excessive deficits. It will lower the risk of interest rate increases or other shocks requiring measures that would aggravate their impact on the economy. It will speed up the reduction in the debt ratio. The objectives set must be attained, if necessary, with larger primary surpluses than currently planned.

In the absence of significant changes in market interest rates, continuing the reduction in the debt ratio at the pace now planned could result in a decrease in interest expenditure of about 0.2 per cent of GDP each year, even after the effects of the fall in interest rates in the second half of the nineties have worn off entirely. This is an important contribution to the long-run sustainability of the public finances, especially in view of the budgetary pressures that will be exerted by population aging and the progressive integration of the European economies.

Notwithstanding the reforms enacted, pension spending rose in the nineties by more than 2 percentage points in relation to GDP. The State Accounting Office estimates that without additional corrective measures pension outlays will continue to rise faster than GDP for the next three decades. And the aging of the population is likely to bring an increase in expenditure on health care and old-age assistance.

Increased economic integration and greater factor mobility facilitate the shifting of tax base to countries with lower tax rates. This may be aggravated by policies designed to lure tax base away from other countries by offering more favourable tax treatment. Such conditions can result in a redistribution of tax receipts that accentuates distortions in the allocation of resources.

Action to curb non-interest expenditure that would correct its tendency to rise in the decades to come and bring a rapid reduction in the debt ratio as early as this decade would make it possible to reconcile budgetary balance with a substantial, lasting reduction in the tax burden.

Budgetary policy in the euro area

Between September 1999 and March 2000 the countries of the euro area presented the first updates to their stability programmes under the excessive deficit procedure. The objectives set indicate that improvement in budget positions will proceed less rapidly than in the last few years. In many countries the process will be accompanied by a lowering of the revenue ratio in order to sustain economic growth and employment.

According to the stability programmes, the general government budget deficit in the euro area should diminish gradually from 1.4 per cent of GDP in 1999 (1.2 per cent in the event) to substantial balance in 2003 (Table 28). The ratio of public debt to GDP should decline by more than 6 percentage points between 1999 and 2003 to 66.3 per cent, and by the end of the period would only exceed 60 per cent in Belgium (101.2 per cent), Italy (100.0 per cent) and Austria (61.2 per cent).

Table 28

GENERAL GOVERNMENT NET BORROWING AND DEBT IN THE EURO AREA (1)
(percentage of GDP)

	1998	1999	2000	2001	2002	2003
Net borrowing						
Outturn and European Commission forecasts	2.0	1.2	0.9	0.8	–	–
Objectives of national stability programme updates (2) . .	–	1.4	1.1	1.0	0.6	0.2
Debt						
Outturn and European Commission forecasts	73.0	72.1	70.3	68.0	–	–
Objectives of national stability programme updates (2) . .	–	72.5	71.4	69.9	68.1	66.3

Sources: Based on European Commission data (*Spring Forecast*, March 2000) and updates to national stability programmes.
(1) GDP-weighted average. – (2) The updates are for the years 1999-2003. For Ireland and the Netherlands, they are for 1999-2002, and in calculating the averages for 2003 the values for 2002 were used for those two countries. For the countries that submitted alternative growth scenarios, the intermediate scenario was taken.

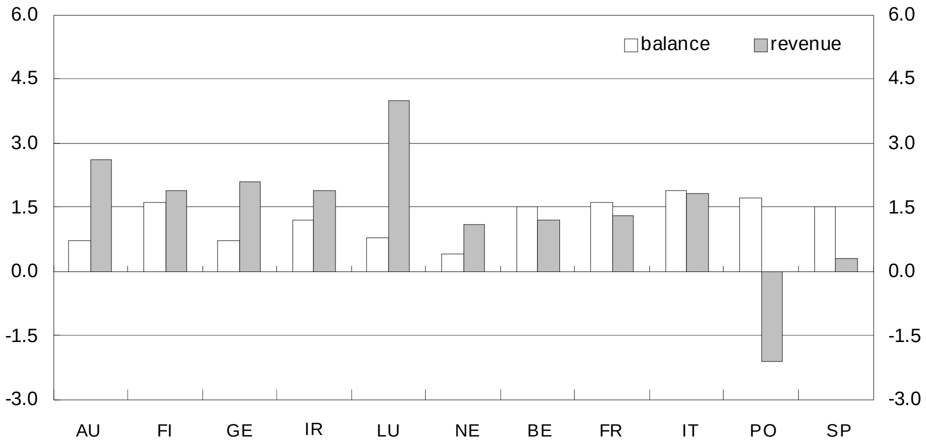
All the countries except Portugal forecast a reduction in their overall expenditure ratios. The Commission forecasts that in 2000 and 2001 the contribution of the reduction in interest payments to the decrease in overall expenditure will diminish. For the area as a whole the latter should decline by 1.9 percentage points between 1999 and 2001 to 46.5 per cent of GDP, while interest payments should fall by 0.4 points to 3.9 per cent.

The Commission forecasts that revenue will decline from 47.2 per cent of GDP in 1999 to 45.7 per cent in 2001 in the area as a whole. All the participating countries except Portugal plan reductions in revenue between 2000 and 2003, and they all predict an improvement in their balances. Austria, Finland, Germany, Ireland, Luxembourg and the Netherlands expect the decline in revenue to be larger than the improvement in the balance (Figure 35); Belgium, France, Italy and Spain expect the opposite to occur. The revenue ratio in Spain in 1999 was more than 7 points below the average for the area.

In the assessments released by the European Council, the plans are deemed to be essentially consistent with the objectives set by the Stability and Growth Pact. The Council also appreciates the planned reduction in the revenue ratio. For some countries, however, including France, Germany and Italy, the Council recommends that any extra resources made available by faster-than-forecast economic growth or other favourable events should be used to achieve more ambitious budgetary targets.

Figure 35

BUDGET BALANCE IMPROVEMENTS AND REVENUE REDUCTIONS IN THE UPDATES TO NATIONAL STABILITY PROGRAMMES FOR 1999-2003 (1)
(percentage points of GDP)



Source: Based on updates to national stability programmes.
(1) Revenue data are the ratio of taxes and social security contributions to GDP for France and Germany, the ratio of total revenue for the other countries. For Ireland and the Netherlands, 1999-2002. For the Netherlands the data are partly estimated.

The cyclical outlook for the next few years gives the countries of the euro area an opportunity to bring forward the medium-term objective of a budgetary position close to balance or in surplus and to speed up debt reduction. The tax reforms implemented or planned in various countries can benefit the economy by reducing distortions in the allocation of resource and fostering employment. A determined reduction in non-interest expenditure would make it possible to implement these reforms without jeopardizing the planned budget results.

MONETARY POLICY AND THE MONEY AND FINANCIAL MARKETS

Last year saw the launch of the single monetary policy for the eleven countries of the euro area. It was conducted, with the primary objective of maintaining price stability, on the basis of the information provided by the monetary aggregates and leading indicators of inflation. In the early part of the year, marked by limited price increases and sluggish growth in economic activity, the monetary stance was made more expansionary; nominal and real interest rates and inflation all declined to historically low levels. In the last part of the year, with the recovery gathering pace, signs of inflationary pressure began to emerge, fuelled in part by the rise in the prices of raw materials, especially oil, and the persistent weakness of the euro. From November onwards monetary conditions were gradually tightened.

Between the end of 1998 and early 1999 the weakness of export demand depressed economic activity in the euro area. In March inflation was very subdued, with the twelve-month rate equal to 1.0 per cent, while the twelve-month growth in M3 was only just above the reference value. Accordingly, at the beginning of April the Governing Council of the ECB lowered the rate on its main refinancing operations by half a percentage point to 2.5 per cent (Figure 36).

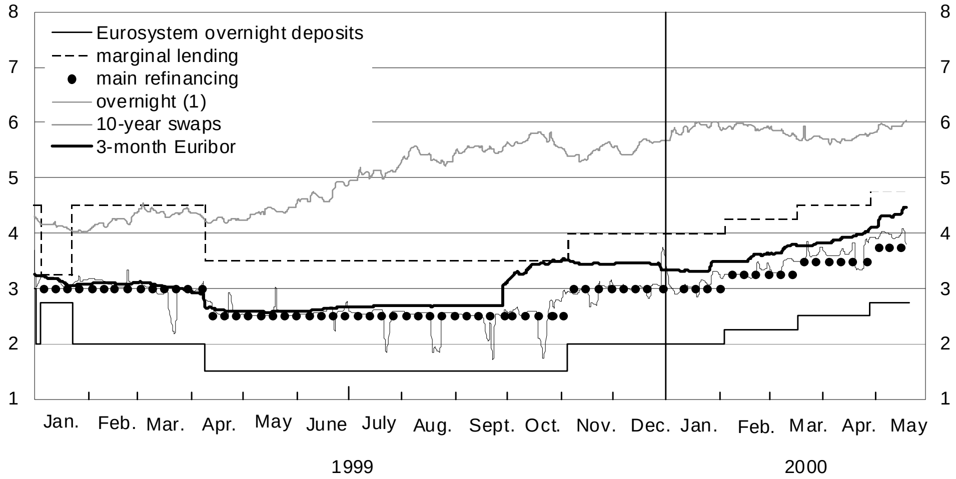
From May onwards the strengthening of the international economy put upward pressure on the prices of oil and other raw materials. In the summer signs of a recovery in output began to appear in the euro area as well; however, with the growth gap vis-à-vis the United States remaining large, the depreciation of the euro that had been under way since the start of the year continued. The risk of inflation in the area gradually reappeared. The twelve-month growth in M3 accelerated to 5.8 per cent in September, 1.3 per cent above the reference value set by the Eurosystem.

Short-term yields in euros fell to a low of 2.6 per cent in mid-April 1999 and held steady until the autumn. There was a rise in October due to contingent factors: contracts maturing in the new year were affected by fears that computer malfunctions in connection with the century change could result in liquidity strains.

Figure 36

OFFICIAL INTEREST RATES AND MONEY AND FINANCIAL MARKET RATES

(daily data and percentages)



(1) The Eonia rate.

In the autumn the Governing Council of the ECB gradually tightened monetary conditions to prevent the temporary upward pressure on prices from influencing inflation expectations. On 4 November the rate on main refinancing operations was raised by half a percentage point to 3.0 per cent; three additional quarter-point increases have been made in 2000, on 3 February, 16 March and 27 April. On each of these occasions the Governing Council raised the rates on the marginal lending facility and the deposit facility by an equal amount. Between the end of August 1999 and the end of January 2000 three-month rates rose by 0.8 percentage points to 3.5 per cent; in the middle of May they reached 4.3 per cent.

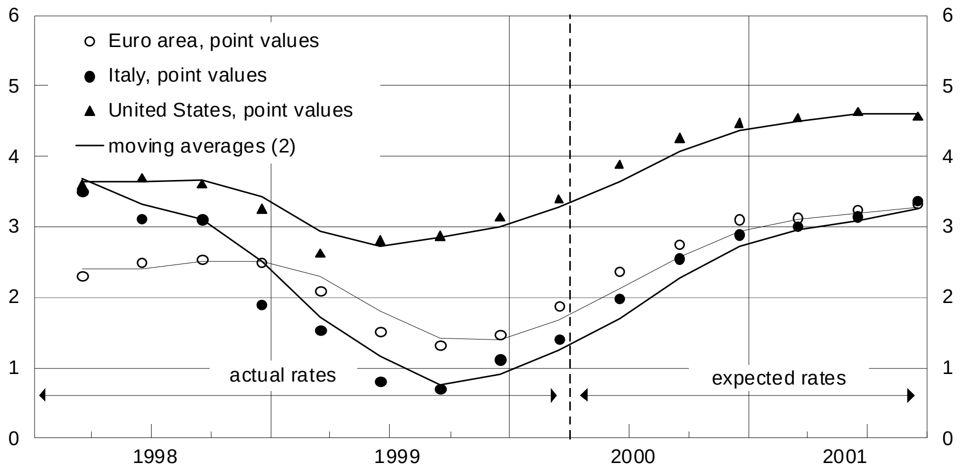
Short-term interest rate movements were anticipated by the market. Between May and December the yields expected for the subsequent year rose steadily at all maturities. At the same time, the slope of the curve of expected yields steepened significantly.

The rise in long-term interest rates that had already begun in the United States towards the end of 1998 spread to the euro area in May 1999 in response to the change in the outlook for economic activity and inflation. After fluctuating around 4.2 per cent in the first four months of last year, yields on ten-year bonds denominated in euros began to rise in May and reached 5.7 per cent in December. Since the beginning of 1999 the differential between the yields on ten-year Italian and German government bonds, measured with reference to the benchmark securities used to evaluate compliance with the EU convergence criteria, has remained between 0.2 and 0.3 percentage points.

Monetary conditions in the euro area in 1999 were on the whole expansionary. The real short-term interest rate declined through the summer to a very low level (about 1.5 per cent, more than a full percentage point lower than at the end of 1998) before rising slightly in the last quarter (Figure 37).

Figure 37

REAL INTEREST RATES (1)



(1) Nominal 3-month Euromarket rates (from June 2000 onwards, nominal rates implicit in futures contracts) deflated using inflation expectations from the quarterly *Consensus Forecasts* survey. - (2) Average of each value with the preceding one.

In Italy the real short-term interest rate, which had fallen by more than 2 points in 1998, declined further in the first nine months of 1999 to under 1.0 per cent. The differential with the average for the euro area reflects faster inflation, both actual and expected. At present the real short-term interest rate is still about half a point below the area-wide average. Market expectations are that it will rise significantly over the next few months to reach about 3 per cent at the end of the year and come into line with the area-wide rate in 2001.

An expansionary impulse also derived from the weakness of the euro. The currency has depreciated by 13.6 per cent in nominal effective terms since the start of 1999, when the exchange rate was higher than would have been indicated by the average exchange rates of the participating currencies in the preceding years.

M3 grew at a rapid pace in the euro area in 1999: the three-month moving average of twelve-month growth (a measure that is less subject to erratic movements and the one that is used to evaluate the divergence from the reference rate) rose to 6.0 per cent in December. The pace was especially brisk for the most liquid components, mainly currency in circulation and overnight deposits; M1 grew by 9.8 per cent over the year. In the early months of 2000 twelve-month growth in M3 remained above the reference value; in March it was equal to 6.5 per cent.

A contributory factor in these trends was the reduction of the opportunity cost of holding liquid funds. The decline in short-term interest rates between the end of 1997 and September 1999 amounted to 1.6 percentage points, while the differential between the short-term rate and the own rate on M3 narrowed from 1.7 to 1.1 points. From the summer onwards the strengthening recovery in economic activity within the area contributed to the growth in the money supply.

Italy’s contribution to the growth of euro-area M3 increased modestly, the Italian aggregate expanding by 2.2 per cent in 1999. The strong growth of currency in circulation and current account deposits, which also affected Italy (growth of 11.5 and 9.7 per cent respectively), was offset by the contraction of the less liquid components (chiefly CDs and customer repos). This reflected primarily structural portfolio shifts connected with the transformation in households’ financial asset portfolios that has been under way for some years now.

Credit expanded very rapidly in the euro area in 1999; financing to the private sector rose by 10.5 per cent, as against 9.7 per cent in 1998. The increase, which was larger than the growth in M3, was financed by the substantial expansion in banks’ non-monetary liabilities, which consisted mainly of instruments with agreed maturity over two years and grew by 7.8 per cent, and net liabilities to non-residents of the euro area.

In Italy financing to the private sector expanded by 13.5 per cent, as against 9.2 per cent in 1998; bank lending increased by 10.4 per cent. Funds raised abroad rose rapidly but are still only a small portion of total funding.

Financial assets grew in Italy by 5.7 per cent in 1999; the foreign component rose from 17.2 to 25.4 per cent of the total, primarily as a consequence of the increase in investments abroad by non-money-market funds. The small contraction of 3 per cent in domestic financial assets was due primarily to the fall in holdings of Treasury bills and to a lesser extent to that in holdings of other government securities.

HOUSEHOLDS AND ENTERPRISES

Against the background of slow growth in disposable income, households' financial surplus was equal to 6.4 per cent of GDP in 1999 (Table 29), lower than the average for the four preceding years. Among financial liabilities, there was a large increase in medium and long-term debt.

The corporate sector's financial deficit fell from 2.5 to 1.0 per cent of GDP. The high level of self-financing in conjunction with a further reduction in net financial costs contributed to the decline.

The growth in net external financial assets fell back from 37.6 trillion lire in 1998 to 25.1 trillion (€13.0 billion): the surpluses recorded by households, enterprises and investment funds were offset by non-residents' purchases of Italian government securities and above all by the step-up in Italian banks' borrowing abroad. The pronounced growth in the banking sector's external deficit was fuelled by the need to finance an expansion in lending that was far more swift than that in deposits.

The financial accounts of the household sector

In 1999 the net financial assets of the household sector, which comprises consumer households and sole proprietorships with up to 5 employees, grew by 136.9 trillion lire (€70.7 billion; Table 30), compared with 102.8 trillion in 1998. The surplus of consumer households alone rose from 6.0 to 7.0 per cent of GDP.

Households' financial assets grew by 184.4 trillion lire (€95.2 billion). The shift of portfolios into equities and investment fund units, which has been particularly marked since 1996, continued last year, albeit more slowly than in 1998. At the end of 1999 Italian and foreign shares and investment fund units made up around 51 per cent of households' total financial assets, 5 percentage points more than a year earlier and 23 points more than in 1996; the rise in stock prices contributed to the increase.

Net purchases of domestic shares rose from 5.6 to 43.7 trillion lire; part of the increase came from privatizations, particularly the sale of around one third of ENEL's shares. Net purchases of units of domestic investment funds decreased from 312.8 to 118.2 trillion lire. Direct holdings of government securities and CDs declined further, while cash and deposits fell from 22.9 to 20.6 per cent of households' financial assets.

Table 29

FINANCIAL BALANCES (1)

	1996	1997	1998	1999	1999
	Billions of lire				*Millions of euros*
Households:	131,023	136,868	102,761	136,876	70,690
of which: external balance	*20,496*	*33,002*	*31,439*	*59,005*	*30,474*
Non-financial corporations	−41,860	−29,002	−52,327	−20,792	−10,738
of which: external balance	*4,184*	*6,505*	*9,595*	*23,323*	*12,045*
General government	−132,989	−45,087	−54,843	−27,693	−14,302
of which: external balance	*−100,205*	*−99,583*	*−133,918*	*−173,956*	*−89,841*
Monetary financial institutions	25,354	−27,527	28,747	−21,957	−11,340
of which: external balance	*42,234*	*−8,034*	*−1,752*	*−80,472*	*−41,560*
Other financial intermediaries (2)	15,995	−11,657	24,765	−12,242	−6,323
of which: external balance	*23,401*	*76,279*	*128,240*	*172,311*	*88,991*
Insurance corporations (3)	−3,759	−17,281	−11,544	−29,047	−15,002
of which: external balance	*3,652*	*−1,855*	*3,954*	*24,933*	*12,877*
Rest of the world	6,238	−6,314	−37,558	−25,145	−12,986
	(a) *As a percentage of GDP*				
Households	6.9	6.9	5.0	6.4	
of which: consumer	*7.2*	*8.1*	*6.0*	*7.0*	
Non-financial corporations	−2.2	−1.5	−2.5	−1.0	
General government	−7.0	−2.3	−2.7	−1.3	
Financial institutions (4)	2.0	−2.8	2.0	−2.9	
Rest of the world	0.3	−0.3	−1.8	−1.2	
	(b) *Adjusted for inflation, as a percentage of GDP*				
Households	3.7	4.6	3.4	4.5	
of which: consumer	*4.1*	*5.9*	*4.4*	*5.1*	
Non-financial corporations	−1.4	−0.9	−2.1	−0.4	
General government	−3.9	−0.1	−1.1	0.6	
	Transfers of wealth as a percentage of GDP				
Consumer households					
(c) Gains/losses due to inflation (c=b−a)	−3.1	−2.2	−1.6	−1.9	
(d) Net interest	7.4	6.1	4.5	3.3	
(e) Net transfer of wealth (e=c+d)	4.3	3.9	2.9	1.4	
Non-financial corporations					
(c) Gains/losses due to inflation (c=b−a)	0.8	0.6	0.4	0.6	
(d) Net interest	−3.6	−2,9	−2.4	−1.8	
(e) Net transfer of wealth (e=c+d)	−2.8	−2.3	−2.0	−1.2	

Source: Financial accounts.
(1) Only lira-denominated financial instruments having a fixed monetary value at maturity are counted in calculating gains/losses due to inflation. Rounding may cause discrepancies in totals. – (2) Includes financial auxiliaries. – (3) Includes pension funds. – (4) Monetary financial institutions, other financial intermediaries and insurance corporations.

Table 30

FINANCIAL ASSETS AND LIABILITIES OF HOUSEHOLDS (1)

	Stocks				Flows		
	Billions of lire	Millions of euros	Percentage composition		Billions of lire		Millions of euros
	Dec. 1999	Dec. 1999	Dec. 1998	Dec. 1999	1998	1999	1999
ASSETS							
Cash and sight deposits	652,684	337,083	13.8	13.1	39,062	30,037	15,513
Other deposits	375,141	193,744	9.1	7.5	−90,091	−36,348	−18,772
bank	*174,344*	*90,041*	*5.0*	*3.5*	*−102,595*	*−53,844*	*−27,808*
postal	*200,797*	*103,703*	*4.1*	*4.0*	*12,504*	*17,496*	*9,036*
Short-term securities	57,108	29,494	2.2	1.2	−104,889	−43,300	−22,363
Medium and long-term securities	641,021	331,060	15.4	12.9	−111,278	−59,480	−30,719
of which: government	*313,077*	*161,691*	*8.0*	*6.3*	*−155,509*	*−53,748*	*−27,758*
Investment fund units	909,969	469,960	15.9	18.3	312,761	118,194	61,042
Shares and other equities ...	1,389,061	717,390	27.0	27.9	5,626	43,655	22,546
External assets	397,656	205,372	5.9	8.0	31,439	59,005	30,474
Short-term securities	*1,400*	*723*	*0.1*	*0.0*	*93*	*−1,981*	*−1,023*
Medium and long-term securities	*138,219*	*71,384*	*2.5*	*2.8*	*16,880*	*19,866*	*10,260*
Shares and other equities .	*198,092*	*102,306*	*2.6*	*4.0*	*7,154*	*18,570*	*9,591*
Investment fund units	*59,947*	*30,960*	*0.7*	*1.2*	*7,312*	*22,550*	*11,646*
Insurance and pension fund reserves (2)	550,900	284,516	10.7	11.1	55,744	72,673	37,532
Total assets	**4,973,542**	**2,568,620**	**100.0**	**100.0**	**138,375**	**184,435**	**95,253**
LIABILITIES							
Short-term debt (3)	85,049	43,924	20.1	19.0	3,168	4,158	2,147
of which: bank	*84,160*	*43,465*	*19.8*	*18.8*	*3,795*	*4,378*	*2,261*
Medium and long-term debt (4)	323,454	167,050	70.6	72.1	29,848	40,585	20,960
of which: bank	*288,200*	*148,843*	*62.1*	*64.3*	*26,893*	*39,553*	*20,427*
Other (5)	39,935	20,625	9.3	8.9	2,598	2,817	1,455
Total liabilities	**448,438**	**231,599**	**100.0**	**100.0**	**35,614**	**47,559**	**24,562**
Balance	**4,525,104**	**2,337,021**			**102,761**	**136,876**	**70,690**

Source: Financial accounts.
(1) Includes consumer households, non-profit institutions serving households, and sole proprietorships with up to 5 employees. Rounding may cause discrepancies in totals. – (2) Includes insurance reserves of both the life and casualty sectors. – (3) Includes finance provided by factoring companies. – (4) Includes finance provided by leasing companies, consumer credit from financial corporations and sundry minor items. – (5) Staff severance pay provisions.

The elimination of exchange rate risk within the euro area fostered the expansion in external assets, which grew by 59 trillion lire, almost double the increase recorded in 1998. The growth in foreign investment, like that in domestic assets, was concentrated in shares and investment funds.

Households' financial liabilities rose by 47.6 trillion lire, compared with 35.6 trillion in 1998. With reference to consumer households alone, the annual growth in total debt rose from 2.1 to 2.7 per cent of disposable income. A large increase was recorded in medium and long-term bank debt in connection with the growth in spending on durable goods and for the purchase and renovation of real estate.

The ratio of Italian household debt to GDP rose by around 3 percentage points over the decade but is still low compared with other countries: in 1998, the latest year for which comparable data are available, the ratio stood at 13 per cent, as against 65 per cent in Spain, 68 per cent in the United Kingdom and 71 per cent in the United States; a slightly lower figure was recorded in Germany (11 per cent).

The financing of enterprises and their liquidity

In 1999 the operating margin of enterprises, measured as the ratio of gross operating profit to value added, remained close to the high level of 1998 (35 per cent). The further, sharp contraction in net financial costs (Figure 38), primarily due to the fall in interest rates, helped firms to post high total profits again. According to the Bank of Italy's survey of investment by manufacturing firms with more than 50 employees, 68 per cent of the firms showed a profit in 1999, compared with 72 per cent in 1998.

Self-financing covered 66 per cent of gross fixed investment, compared with 64 per cent in 1998. The corporate sector's financial deficit declined from 52.3 trillion lire in 1998 to 20.8 trillion (€10.7 billion; Table 31).

Firms' financial liabilities rose by 163.3 trillion lire. The growth in equity funding made it possible to reduce leverage: the ratio of financial debt to the sum of equity capital and financial debt declined from an average of 43 per cent in 1998 to 41 per cent last year.

Equity issues by Italian firms rose from 35.1 to 86.5 trillion lire (Table 31). The surge reflected the capital increases carried out by the Olivetti group to finance the takeover of Telecom Italia: these operations accounted for more than 90 per cent of all new share issues by listed companies.

Excluding companies migrating from the *mercato ristretto* and those formed as a result of spinoffs, 21 companies were listed on the stock exchange (compared with 16 in 1998) and six on the Nuovo Mercato. In all, the newly-listed non-financial corporations numbered 23; around half of them operate in high-technology sectors.

Table 31

FINANCIAL ASSETS AND LIABILITIES OF ENTERPRISES (1)

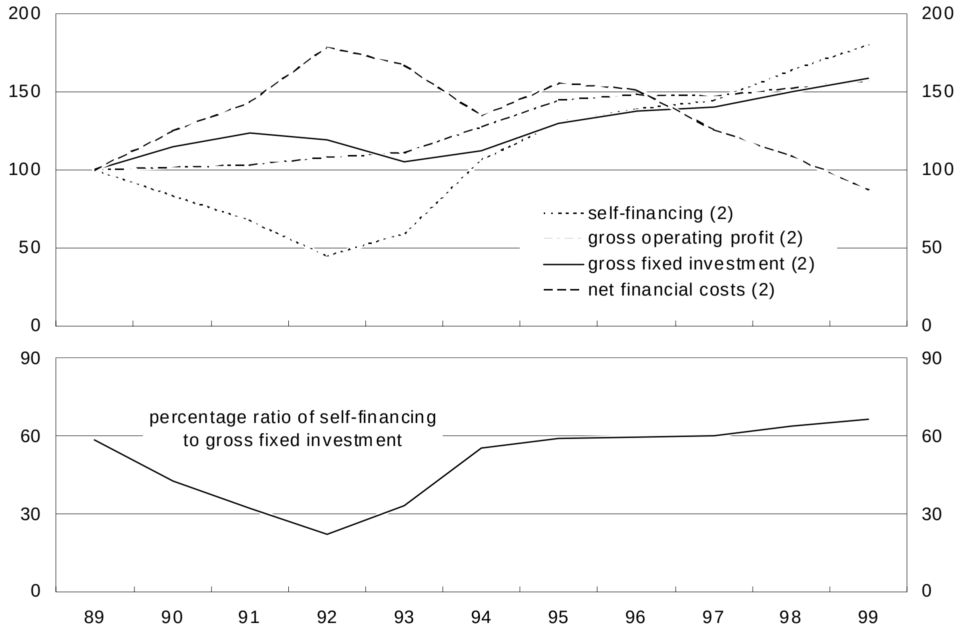
	Stocks				Flows		
	Billions of lire	Millions of euros	Percentage composition		Billions of lire		Millions of euros
	Dec. 1999	Dec. 1999	Dec. 1998	Dec. 1999	1998	1999	1999
ASSETS							
Cash and sight deposits	161,806	83,566	16.4	14.1	5,130	22,915	11,835
of which: bank	*161,806*	*83,566*	*16.4*	*14.1*	*11,385*	*23,070*	*11,915*
Other deposits	14,198	7,333	2.3	1.2	−6,144	−5,252	−2,713
of which: bank	*12,446*	*6,428*	*2.1*	*1.1*	*−6,185*	*−5,299*	*−2,737*
Short-term securities	685	354	0.1	0.1	−726	−2,878	−1,486
Medium and long-term securities	46,435	23,982	5.1	4.1	99	−3,593	−1,856
of which: government	*29,587*	*15,281*	*3.3*	*2.6*	*−3,394*	*−5,504*	*−2,843*
Shares and other equities	397,179	205,126	33.4	34.7	1,734	61,838	31,936
Other (2)	72,446	37,415	6.6	6.3	11,833	15,112	7,805
External assets	452,706	233,803	36.1	39.5	16,919	54,373	28,081
of which: trade credit receivable	*99,547*	*51,412*	*9.9*	*8.7*	*−1,268*	*15,930*	*8,227*
bonds	*41,785*	*21,580*	*3.1*	*3.6*	*3,258*	*12,939*	*6,682*
shares and other equities	*266,907*	*137,846*	*20.6*	*23.3*	*6,836*	*5,289*	*2,732*
Total assets	**1,145,455**	**591,578**	**100.0**	**100.0**	**28,846**	**142,515**	**73,603**
LIABILITIES							
Domestic liabilities	**2,595,029**	**1,340,221**	**85.0**	**88**	**65,749**	**128,135**	**66,176**
Short-term debt (3)	467,093	241,233	18.1	15.3	18,045	9,091	4,695
of which: bank	*432,344*	*223,287*	*16.7*	*14.1*	*10,863*	*9,340*	*4,824*
Medium and long-term debt (4)	445,394	230,027	16.6	14.6	15,096	28,229	14,579
of which: bank	*349,209*	*180,351*	*13.0*	*11.4*	*20,574*	*21,204*	*10,951*
Bonds (5)	35,167	18,162	1.7	1.1	6,707	−8,448	−4,363
Shares and other equities	1,512,007	780,886	43.5	49.4	17,849	90,663	46,824
Other (6)	135,368	69,912	5.1	4.4	8,052	8,600	4,442
External liabilities	**466,395**	**240,873**	**15.0**	**15.2**	**15,423**	**35,171**	**18,165**
Trade credit payable	*51,548*	*26,623*	*1.7*	*1.7*	*−4,157*	*7,754*	*4,005*
Financial debt	*118,251*	*61,072*	*3.3*	*3.9*	*2,356*	*31,572*	*16,306*
Shares and other equities	*296,596*	*153,179*	*10.0*	*9.7*	*17,224*	*−4,155*	*−2,146*
Total liabilities	**3,061,425**	**1,581,094**	**100.0**	**100.0**	**81,173**	**163,307**	**84,341**
Balance	**−1,915,970**	**−989,516**			**−52,327**	**−20,792**	**−10,738**

Source: Financial accounts.
(1) The data refer to non-financial corporations. Rounding may cause discrepancies in totals. – (2) Includes insurance technical reserves and sundry minor items. – (3) Includes finance provided by factoring companies and repo transactions. – (4) Includes finance provided by leasing companies. – (5) Includes banker's acceptances. – (6) Severance pay and pension funds.

Figure 38

THE EXTERNAL FUNDING REQUIREMENT OF FIRMS (1)

(annual data)



Sources: Istat and Bank of Italy.
(1) Estimate for non-financial corporate enterprises based on annual national accounts data. The data for 1999 are provisional.- (2) Indices, 1989=100.

Domestic debt grew by 28.9 trillion lire, compared with 39.8 trillion in 1998; this was the outcome of an acceleration in medium and long-term borrowing from banks and leasing companies, a contraction in bond issues and a slowdown in short-term borrowing. The share of medium and long-term domestic debt remained stable at about 50 per cent.

Foreign debt grew by 31.6 trillion lire, compared with 2.4 trillion in 1998; the increase was partly due to a loan that was used to conclude the takeover of Telecom Italia. Foreign debt rose from 8.3 to 11.1 per cent of total debt. The external component of total financial liabilities amounted to 14 per cent, broadly unchanged from 1998 but more than 5 percentage points higher than in 1992.

On the assets side, firms' external assets recorded very rapid growth (54.4 trillion lire overall, compared with 16.9 trillion in 1998), reflecting increases in bonds and trade credit, whose acceleration was spurred by the recovery of exports in the closing part of the year. The rapid build-up in domestic sight deposits with banks eased slightly in the autumn, reflecting the need to finance renewed investment. In addition, the takeover bid for Telecom Italia involved both a large increase in domestic shares, since the company's shares had been widely held by other sectors, and a reduction in holdings of foreign shares owing to the sale of the interest in OliMan to Mannesmann.

BANKS AND OTHER CREDIT INTERMEDIARIES

Banking business in the euro area increased more rapidly than GDP in 1999. Lending expanded most in the countries where the decline in interest rates during the convergence process had been greatest and those experiencing rapid economic growth. Whereas fund-raising within the euro area rose only moderately, banks increased their net liabilities towards non-residents. The disparity between the growth in lending and that in resources was larger in Italy than in the rest of the area.

In Italy the growth in demand for loans came mainly from consumer households, which primarily increased their longer-term debt. Firms financed investment chiefly out of internal funds; it was not until the first quarter of 2000 that they significantly increased their demand for bank loans.

Credit conditions remained easy. Short-term lending rates fell by 1.2 percentage points during 1999, compared with an average decrease of 0.4 points in the euro area; the decline was even larger in real terms. The average rate approached that charged to prime customers; the unused margin on overdrafts rose to its highest level since the beginning of the decade. Bad debts declined, partly owing to large securitization operations. Those recognized during the year represented 1.4 per cent of the total portfolio, the lowest proportion recorded in the nineties.

Domestic fund-raising increased moderately, as in 1998 (Table 32). Among short-term liabilities, only current account deposits rose, driven by the steady decline in their opportunity cost until mid-year and by the need for savers to balance investments in managed savings instruments and shares with an increase in more liquid assets. Medium and long-term fund-raising decreased. In view of the large increase in lending for terms of more than 18 months, banks slightly lengthened the average maturity of their liabilities by continuing to increase the stock of bond issues, which are longer-dated than medium-term certificates of deposit.

Italian banks financed the strong growth in lending by increasing their net external indebtedness in order to avoid a general rise in domestic deposit rates and by drastically reducing their securities portfolios, given that nominal and real interest rates were much lower than in the past. The ratio of securities portfolios to total lending fell to 19.4 per cent at the end of 1999, the lowest figure for thirty years.

Asset management services continued to expand; the rise in the net assets of investment funds and the shift towards equity funds led to an increase in banks' commission income. The rise in earnings from services and financial operations offset the fall in net interest income and income from trading in securities and foreign exchange; gross income, net of dividends on shareholdings in other banks, remained stable. Operating costs rose by 2.2 per cent, despite a reduction in staff costs. Labour costs per employee increased slightly to 114.5 million lire. Extraordinary items helped to boost the return on equity from 7.4 to 10 per cent.

Table 32

MAIN ITEMS IN BANKS' BALANCE SHEETS (1)

(end-of-period data; percentage changes on year-earlier period; billions of lire and millions of euros)

	1997	1998	1999				March 2000	Balances December 1999	
			March	June	Sept.	Dec.		Lire	Euros
Assets									
Securities	–10.5	1.1	–0.2	–0.6	–0.9	–6.6	–9.4	324,282	167,478
Government securities	*–11.3*	*–2.8*	*–2.5*	*–2.9*	*–3.9*	*–9.9*	*–15.6*	*259,603*	*134,074*
Loans (2) (3)	5.4	6.0	6.4	8.5	8.6	9.2	11.5	1,346,926	695,629
short-term (2)	5.5	5.7	5.6	7.6	5.5	6.2	11.1	666,589	344,265
medium and long-term (2) (3)	5.3	6.4	7.1	9.5	11.7	12.4	11.8	680,337	351,364
Repos	–27.8	41.7	19.9	10.4	9.2	31.7	–6.7	19,480	10,061
Bad debts	–2.5	2.2	0.8	–4.4	–5.2	–7.1	–8.2	113,979	58,865
Estimated realizable value of bad debts	*–4.5*	*–1.0*	*2.4*	*–8.6*	*–9.0*	*–15.8*	*–15.8*	*59,110*	*30,528*
External assets (2)	2.1	3.6	–9.5	–10.9	–16.0	–9.6	2.3	302,390	156,172
Liabilities									
Domestic funding (4)	3.0	1.8	2.1	2.5	1.6	2.3	3.7	1,404,932	725,587
short-term	10.0	3.5	3.7	4.2	3.1	4.7	5.3	902,198	465,946
current accounts	*9.2*	*13.1*	*13.3*	*14.8*	*14.9*	*13.3*	*12.3*	*642,804*	*331,981*
CDs	*27.4*	*–13.4*	*–18.4*	*–20.1*	*–20.1*	*–21.2*	*–15.8*	*59,055*	*30,499*
repos	*10.6*	*–18.0*	*–16.9*	*–23.2*	*–28.9*	*–18.2*	*–10.5*	*88,841*	*45,882*
medium and long-term	–6.5	–0.9	–0.6	–0.3	–0.9	–1.8	0.7	502,734	259,640
CDs	–49.0	–45.3	–42.4	–40.5	–38.8	–39.0	–39.3	46,217	23,869
bonds	34.8	15.4	11.6	8.9	6.6	4.7	6.8	456,517	235,772
External liabilities (2)	6.4	–0.1	–10.2	–9.0	–0.5	5.9	10.6	445,748	230,209

(1) Bank of Italy monthly survey. The figures for March 2000 are provisional. The adjustments described in notes 2 and 3 relate only to the percentage changes. – (2) The foreign currency component is net of exchange rate adjustments. – (3) Net of the effects of the operations concluded in January 1997 between Banco di Napoli and the non-bank collection company SGA. – (4) For deposits, monthly averages of daily data; for bonds and repos, end-of-period data. The data on deposits include those in euros and the other currencies replaced by the euro; the data are partly estimated.

Lending

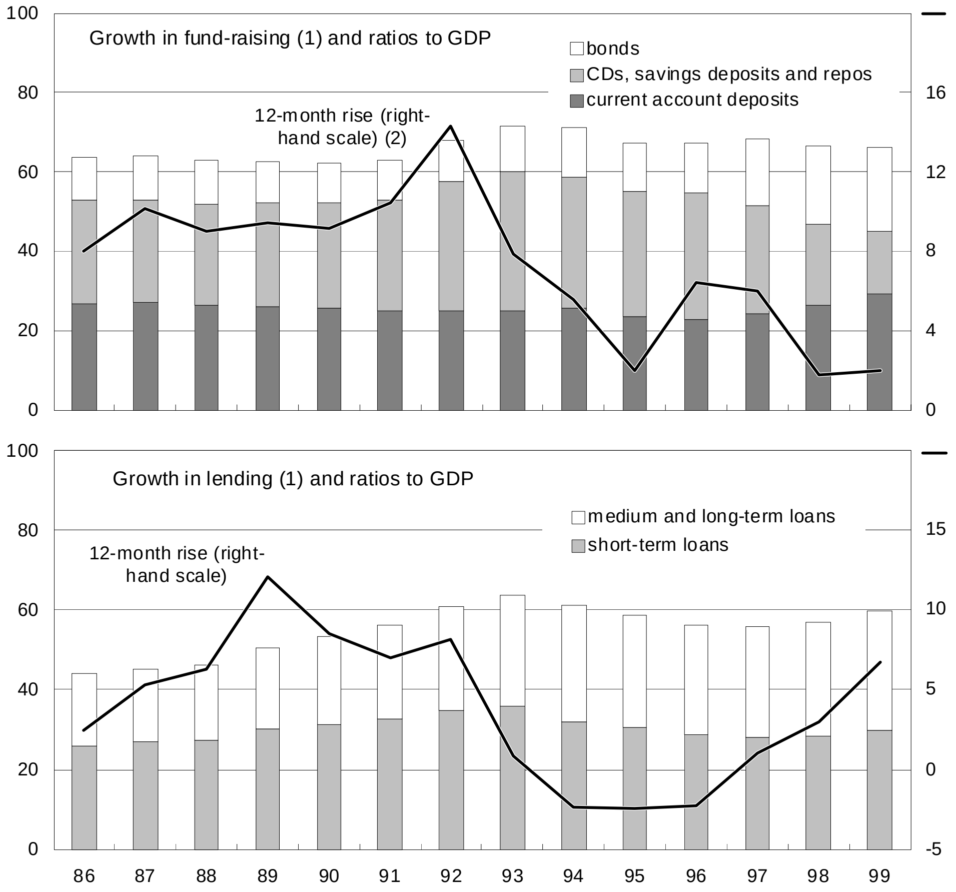
Lending by euro-area banks to resident customers increased by 8.1 per cent last year, compared with a rise of 7.7 per cent in 1998. Lending to households expanded particularly rapidly, above all in Italy, Spain and the Netherlands.

In Italy lending grew by 9.2 per cent, compared with 6.0 per cent in 1998, and rose from 56.7 to 59.7 per cent of GDP (Figure 39).

Figure 39

BANKING INDICATORS

(average annual data; percentage values)



(1) Obtained by applying the GDP deflator to average annual balances. - (2) Includes repos.

Short-term lending increased by 6.2 per cent (5.7 per cent in 1998). It registered three brief accelerations during the year, first in conjunction with the launch of the single currency in January and then in June and November in connection with financial operations undertaken by large industrial groups and the increase in the demand for liquidity associated with tax payments. Current account overdraft facilities increased by 9.3 per cent, more than the rise in the amount actually drawn (7.7 per cent); as a result, the unused margin increased from an average of 55.6 to 57 per cent, the highest level in the nineties.

The sharp acceleration in medium and long-term lending growth, from 6.4 to 12.4 per cent, mainly reflected that in mortgage lending to consumer households (from 14.8 to 24.2 per cent) driven by low interest rates, increased activity in the real estate market and the tax incentives for renovation of residential buildings (Table 33).

Table 33

MEDIUM AND LONG-TERM LENDING (1)

(end-of-period data; percentage values; billions of lire and, in brackets, millions of euros)

	General govern-ment (2)	Financial and insur-ance com-panies (3)	Firms			Households			Total (3)
				Holding compa-nies	Non-finan-cial enterprises	Consumer		Sole proprietors	
							Mortgage loans		
	Percentage change on year-earlier period								
1996	−2.8	27.7	5.2	−24.6	8.2	3.4	4.0	9.1	4.0
1997	3.2	40.3	2.2	−21.8	4.0	7.1	7.1	7.1	5.3
1998 (4) ..	−4.5	6.3	5.5	8.7	5.4	14.2	14.8	9.9	6.4
1999 (4) ..	3.7	2.3	8.9	12.9	8.7	22.8	24.2	16.4	12.4
1999 (5) ..	3.7	2.3	10.0	12.9	9.9	22.8	24.2	14.9	12.4
	Balances								
1996	102,602	15,339	223,091	14,846	208,245	134,780	111,664	58,753	534,565
1997	105,941	27,663	228,846	11,592	217,254	144,767	119,894	62,981	570,200
1998 (4) ..	101,143	29,508	241,378	12,597	228,781	165,282	137,647	69,217	606,528
1999 (4) ..	104,962	28,029	263,534	14,234	249,300	203,162	171,189	80,650	680,337
	(54,208)	*(14,476)*	*(136,104)*	*(7,351)*	*(128,753)*	*(104,925)*	*(88,412)*	*(41,652)*	*(351,364)*
1999 (5) ..	104,962	28,029	300,899	14,234	286,665	203,162	171,189	43,285	680,337
	(54,208)	*(14,476)*	*(155,401)*	*(7,351)*	*(148,050)*	*(104,925)*	*(88,412)*	*(22,355)*	*(351,364)*

(1) Bank of Italy monthly survey. Changes in the foreign currency component are net of exchange rate adjustments. – (2) Includes the debts of the State Railways whose servicing is charged to the budget, in accordance with Eurostat standards practice rules. – (3) Net of the effects of the operations concluded in January 1997 between Banco di Napoli and the non-bank collection company SGA. – (4) Data obtained by aggregating subgroups in areas of economic activity in accordance with the criteria in force until May 1998. – (5) Data obtained by aggregating subgroups in areas of economic activity in accordance with the criteria in force since June 1998.

Given the modest expansion in economic activity and the large proportion of investment financed with internal resources, the growth in lending to firms slowed from 5.6 to 4.9 per cent. The largest slowdown came in lending to industry (from 6.2 to 2.9 per cent), whereas the rapid growth in lending to the services sector continued, rising from 8.8 to 9.5 per cent. Lending to financial companies increased considerably, notably those specializing in consumer credit, factoring and leasing.

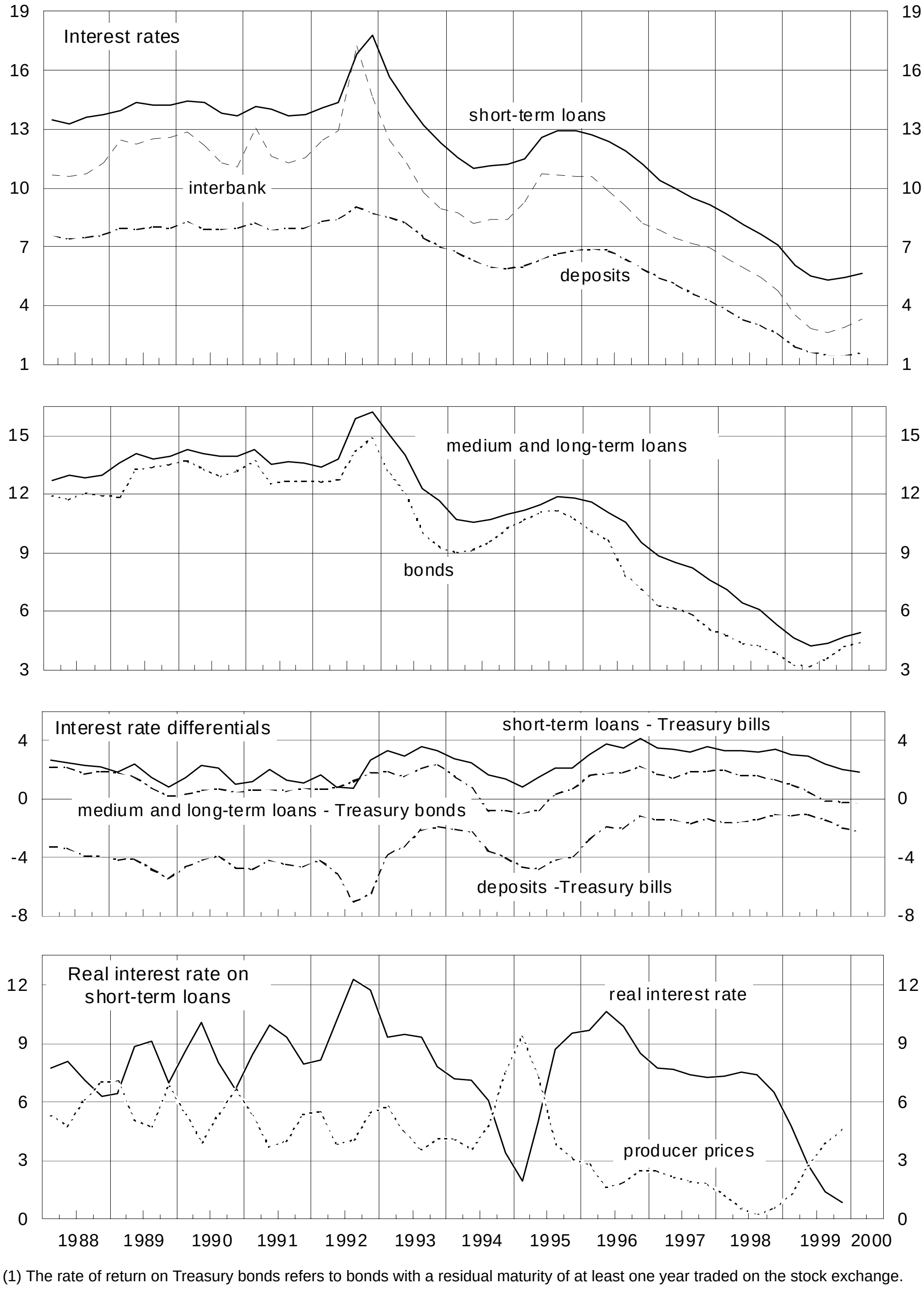
Lending to the industrial sector recovered strongly in the first quarter of 2000 in conjunction with the pickup in economic activity.

Banks' short-term lending rates declined from 6.7 to 5.6 per cent in 1999 (Table a29 and Figure 40), greater than the fall in the euro-area average (from 6.2 to 5.8 per cent) and more than monetary conditions and the performance of the main macroeconomic variables had appeared to warrant. The decline came to a halt in Italy and the euro area in the last quarter of the year as the signs of economic recovery were confirmed and expectations of a less accommodating monetary stance strengthened.

Figure 40

INTEREST RATES AND INTEREST RATE DIFFERENTIALS (1)

(quarterly data; percentages and percentage points)



(1) The rate of return on Treasury bonds refers to bonds with a residual maturity of at least one year traded on the stock exchange.

In the euro area the fall in medium and long-term interest rates in the first five months of 1999 (0.4 percentage points for firms and households) was more than offset by the increase over the rest of the year (0.8 and 1.0 points respectively) in the wake of the general rise in rates in the capital market.

In Italy, by contrast, medium and long-term rates declined by 0.2 points. The lending rate for households fell until August and then rose slightly, reaching 5.5 per cent in December, 0.7 points lower than at the end of 1998. The rate for firms declined by half a percentage point in the first half of the year, then increased by the same amount; in December it was 4.6 per cent, in line with the yield on 5-year Treasury bonds.

In the first three months of 2000, bank lending rates edged up further, by 0.2 points at short term and 0.5 points at medium and long term; in the euro area they rose by 0.3 points in both segments.

Table 34

CONSUMER CREDIT, FACTORING AND LEASING (1)

(end-of-period data; billions and millions of euros; percentage values)

	Outstanding 1999 (2)		Change on previous year		
	Lire	Euros	1997	1998	1999 (2)
			Consumer credit		
Total credit	62,565	32,312	20.0	12.5	18.8
of which: credit cards	*6,884*	*3,555*	*27.8*	*18.7*	*26.0*
Financial companies	28,750	14,848	35.6	21.9	25.9
of which: credit cards	*4,260*	*2,200*	*30.4*	*18.1*	*24.9*
Banks	33,815	17,464	8.6	4.3	13.4
of which: credit cards	*2,624*	*1,355*	*16.1*	*28.3*	*28.0*
			Factoring		
Total credit	55,727	28,781	....	7.9	19.9
Financial companies	51,629	26,664	21.1	7.7	19.5
of which: without recourse	*18,540*	*9,575*	*13.2*	*8.0*	*18.3*
Banks	4,098	2,116	....	10.9	25.5
			Leasing		
Total credit	73,198	37,804	6.3	17.1	22.8
Financial companies	58,667	30,299	6.6	15.3	22.0
Banks	14,531	7,505	4.3	29.0	26.2

(1) Based on supervisory reports. – (2) Provisional.

In 1999 bad debts decreased from 123 trillion to 114 trillion lire and from 9.1 to 7.8 per cent of total lending; at their estimated realizable value, they decreased from 5.4 to 4.2 per cent. Contributing to the reduction, which began in May, were a number of large securitization operations. The proportion of bad debts covered by specific loan loss provisions increased from 42.8 to 48.1 per cent in 1999; in early 2000 it rose further, to 51.6 per cent.

In 1999 lending by financial companies in the consumer credit, factoring and leasing businesses increased by 21.8 per cent (13.7 per cent in 1998) to 139 trillion lire. Lending by banks in the three sectors rose by 17.6 per cent to 52.4 trillion. At the end of the year consumer credit, factoring and leasing accounted for 12.4 per cent of total lending by credit intermediaries (banks and financial companies) (Table 34).

Domestic deposits and borrowed funds

Banks' domestic fund-raising in Italy increased by 2.3 per cent, compared with 1.8 per cent in 1998 (Table 32). The increment was smaller than that in the euro area as a whole. In the leading euro-area countries, only Spain and the Netherlands recorded a significant acceleration in the aggregate.

Fund-raising at short term increased by 4.7 per cent (3.5 per cent in 1998) owing to an increase of 13.3 per cent in current account deposits (13.1 per cent in 1998), a further sharp contraction in CDs with maturity of less than 18 months and the decrease in repurchase operations.

Fund-raising at terms of over 18 months decreased by 1.8 per cent, following a decline of 0.9 per cent in 1998. While CDs fell by a further 39 per cent, the growth in bonds dropped from 15.4 to 4.7 per cent, with the most rapid deceleration coming in the second half of the year in conjunction with the rise in medium and long-term interest rates.

In Italy the decrease in the average deposit rate until October was 0.9 percentage points; the rate subsequently rose by 0.2 points to 1.6 per cent in March of this year (Table a29). In the euro area as a whole the decrease amounted to 0.6 points through June; the increase in the second half came to 0.8 points.

After adjusting for different tax treatment, the spread between the average yield on Treasury bills and the interest rate on current account deposits, which had been narrowing since 1997, continued to decrease in the early months of last year. It began to widen again in the second half of the year as money market rates turned upwards. At the end of the year the spread was 2.2 points, 0.8 more than in December 1998. The differential vis-à-vis CDs behaved similarly. At the end of 1999 the yield on banks' fixed-rate bonds was in line with that on five-year BTPs.

Banks' securities portfolios and net external position

In 1999 the book value of banks' securities portfolios decreased by 22.8 trillion lire, or 6.6 per cent, compared with an increase of 3.7 trillion (1.1 per cent) in 1998. The share of government securities decreased from 83.0 to 80.1 per cent of the total.

The ratio of securities to the aggregate comprising securities and loans fell from 22.0 to 19.4 per cent, the lowest level since the beginning of the seventies.

In 1999 banks' net external indebtedness after exchange rate adjustments rose by 53.2 trillion lire, the result of a decrease of 30.35 trillion lire in assets and an increase of 22.85 trillion in liabilities. At the end of the year the banks had net external liabilities of 143.4 trillion lire.

Securities deposited with banks

The face value of the securities deposited with banks rose by 5.9 per cent to 2,972 trillion lire at the end of 1999. Securities in portfolios managed directly by banks accounted for 9.4 per cent of the total, the same proportion as in 1998.

Households' deposits of securities other than shares in collective investment undertakings and those entrusted for management to banks decreased by 2.9 per cent to 851.1 trillion lire. Government securities accounted for 31.6 per cent of the total (37.3 per cent in 1998) and those issued by non-residents for 18.1 per cent (15.3 per cent in 1998).

Profit and loss accounts

Banks' results for 1999 confirmed the improved profitability registered in 1998. Extraordinary income contributed to the increase in profits.

The rapid growth in domestic lending was not sufficient to offset the narrowing of the spread between lending and deposit rates. Net interest income fell by 3.9 trillion lire to 55.4 trillion (Table a26), the lowest figure since 1991; it declined from 2.12 to 1.95 per cent of total assets (Table 35).

The decline in bond prices in the second half of the year resulted in securities trading profits falling from 9 to 4.6 trillion lire. This was partly compensated by the rise from 17.7 to 21.6 trillion in income from services, chiefly asset management business.

Table 35

PROFIT AND LOSS ACCOUNTS OF BANKS (1)

Voci	1996	1997	1998	1999	1996	1997	1998	1999
	As a percentage of total assets				**Percentage changes**			
Net interest income (a)	**2.54**	**2.26**	**2.12**	**1.95**	**–1.2**	**–5.4**	**–1.3**	**–6.6**
Non-interest income (b) (2)	**1.04**	**1.09**	**1.42**	**1.64**	**26.9**	**11.5**	**37.2**	**17.1 (10.4)**
of which: trading	*0.38*	*0.29*	*0.32*	*0.16*	*56.2*	*–17.9*	*14.6*	*–48.2*
services	*0.30*	*0.42*	*0.63*	*0.76*	*16.2*	*46.3*	*59.2*	*22.2*
other financial operations (2)	*0.14*	*0.16*	*0.24*	*0.45*	*8.3*	*21.6*	*57.7*	*93.6 (68.2)*
Gross income (c=a+b) (2)	**3.58**	**3.36**	**3.53**	**3.58**	**5.6**	**–0.5**	**11.2**	**2.9 (0.0)**
Operating expenses (d) (3)	**2.39**	**2.31**	**2.14**	**2.16**	**4.5**	**2.4**	**1.4**	**2.2**
of which: staff costs (3) (4)	*1.54*	*1.44*	*1.31*	*1.28*	*5.9*	*–0.5*	*1.6*	*–0.9*
Net income (e=c–d) (2) (3)	**1.19**	**1.05**	**1.39**	**1.43**	**7.8**	**–6.3**	**30.7**	**4.0 (–3.4)**
Value adjustments, readjustments and allocations to provisions (f) (2)	**0.69**	**0.72**	**0.49**	**0.40**	**0.5**	**10.9**	**–27.5**	**–18.6 (–10.0)**
of which: loan losses	*0.49*	*0.59*	*0.47*	*0.42*	*–18.1*	*29.2*	*–17.0*	*–9.0*
Profit before tax (g=e–f) (2) (3)	**0.50**	**0.33**	**0.90**	**1.03**	**19.8**	**–30.1**	**133.0**	**16.3 (0.4)**
Tax (h)	**0.32**	**0.29**	**0.44**	**0.41**	**–0.4**	**–4.7**	**61.8**	**–4.5**
Net profit (g–h)	**0.18**	**0.04**	**0.46**	**0.62**	**86.0**	**–74.7**	**1.028.2**	**36.0**
Dividends distributed	0.16	0.16	0.27	0.40	19.5	9.9	72.5	49.5
	Other data							
	Profit before tax				**Net profit**			
Profit as a percentage of capital and reserves (ROE) (5)	7.8	5.4	14.1	15.9	3.2	1.0	7.4	10.0
	Amounts				**Percentage changes**			
Total assets *(billions of lire)*	2,538,141	2,685,298	2,819,345	2,887,092	5.3	5.8	5.0	2.4
Total number of employees	331,136	322,583	317,458	311,469	–2.0	–2.6	–1.6	–1.9
of which: banking staff	*326,802*	*318,802*	*313,128*	*307,245*	*–2.0*	*–2.4*	*–1.8*	*–1.9*
annual averages (6)	*330,850*	*322,293*	*316,849*	*311,144*	*–0.9*	*–2.6*	*–1.7*	*–1.8*
Total assets per employee *(millions of lire)*								
At current prices	7,665	8,324	8,881	9,269	7.5	8.6	6.7	4.4
At constant prices (7)	7,370	7,846	8,208	8,427	3.3	6.5	4.6	2.7
Banking staff costs per employee (3) *(millions of lire)*								
At current prices (8)	118.3	118.4	114.3	114.5	6.2	0.0	2.3	0.2
At constant prices (7) (8)	113.8	111.6	105.6	104.1	2.2	–2.0	0.3	–1.5

(1) Rounding may cause discrepancies in totals. The data for 1999 are provisional. – (2) The rates of increase calculated excluding dividends on shareholdings in other banks are in brackets. – (3) The figures for 1998 are only partially comparable with those for 1997 following the suppression of direct contributions to the National Health Service. The percentage changes for 1998 have been adjusted by deducting 6.6 million per employee from the staff costs for 1997. – (4) Comprises wages and salaries, costs in respect of severance pay, social security contributions and sundry bonuses paid to banking staff; the figures for 1997, 1998 and 1999 also include the extraordinary costs incurred in connection with early retirement incentive schemes. The number of banking 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. – (5) Profit includes the net income of foreign branches and the change in the provision for general banking risks. – (6) Centred averages of 3-month data. – (7) Deflated using the consumer price index (1995=100). – (8) Excludes the extraordinary costs incurred in connection with early retirement incentive schemes.

Income from financial operations increased substantially, owing in part to dividends on shareholdings in other banks, which rose from 1.7 to 4.5 trillion lire; excluding these, gross income remained stable at 97.4 trillion.

Operating expenses increased by 2.2 per cent, despite a 0.9 per cent decrease in staff costs. Labour costs per employee rose slightly, from 114.3 to 114.5 million lire, while the number of employees declined by 5,900 (1.9 per cent), 2,900 of whom were seconded to subsidiaries. Incentives for early departure were taken up by 5,600 workers, with an associated cost of 930 billion lire, up from 730 billion in 1998. Of this, 480 billion was related to employees who had left in previous years.

Net income declined by 1.3 trillion lire, or 3.4 per cent. Net value adjustments to loans decreased by 1.2 trillion lire to 0.42 per cent of total assets, the lowest level since the end of the eighties; those to securities and shareholdings increased by 3 trillion. Net extraordinary income increased by 6.6 trillion lire thanks to capital gains on shareholdings (3.7 trillion) and other extraordinary items (1.9 trillion). As in 1998, when they amounted to 2 trillion lire, the latter were mainly the result of bringing balance sheets into line with international accounting standards.

Profit before tax increased by 95 billion lire (0.4 per cent). Return on equity rose from 7.4 to 10 per cent; for “major” and “large” banks it increased from 8.1 to 12.8 per cent, 7 points more than for the other banks.

INSTITUTIONAL INVESTORS

In 1999 the flow of savings to institutional investors fell back from the very high levels of 1998, when the rapid decrease in yields had triggered a large-scale adjustment in households' portfolios. Consolidated net fund-raising amounted to 138.1 trillion lire (€71.3 billion), compared with 379.4 trillion lire the previous year (Table 36). The net assets managed by the sector now equal four fifths of GDP and 34.1 per cent of households' financial assets (Table 37).

Table 36

INSTITUTIONAL INVESTORS:
NET FUND-RAISING AND ASSETS UNDER MANAGEMENT
(billions of lire and, in brackets, millions of euros)

	Net flows				End-of-period stocks			
	1998	1999	Percentage composition 1998	Percentage composition 1999	1998	1999	Percentage composition 1998	Percentage composition 1999
Investment funds	313,088	118,705 *(61,306)*	61.3	41.4	720,823	920,311 *(475,301)*	43.4	44.2
Insurance companies (1) (2)	47,157	62,618 *(32,339)*	9.2	21.8	287,441	350,059 *(180,790)*	17.3	16.8
Pension funds (2) (3)	4,877	1,578 *(815)*	1.0	0.6	108,965	110,543 *(57,091)*	6.6	5.3
Portfolio management services	145,530	103,976 *(53,699)*	28.5	36.2	543,181	700,654 *(361,858)*	32.7	33.7
Total	**510,652**	**286,877** ***(148,160)***	**100.0**	**100.0**	**1,660,410**	**2,081,567** ***(1,075,040)***	**100.0**	**100.0**
Consolidated total (4)	**379,431**	**138,129** ***(71,338)***			**1,421,952**	**1,694,361** ***(875,064)***		

(1) Change in technical reserves. – (2) The figure for 1999 is estimated. – (3) Change in balance sheet assets. – (4) Net of investments within the sector.

At the international level, the ratio between the assets of institutional investors and GDP is highest in the United States and the United Kingdom, where the securities market plays a major role in the financial system (Table 38); among the leading countries of continental Europe, the sector is largest in the Netherlands and France and less developed in Italy, Germany and Spain. The differences mostly reflect those in the growth of pension

Table 37

INSTITUTIONAL INVESTORS: ASSETS UNDER MANAGEMENT AS A PERCENTAGE OF HOUSEHOLDS' FINANCIAL ASSETS (1)

(end-of-period data)

	1990	1995	1998	1999	1998 (2)				
					Italy	France (3)	Germany	Spain	US
Investment funds	2.3	3.8	16.0	18.5	16.0	21.1	20.2	26.3	19.3
Insurance companies (4)	3.7	4.4	5.4	5.8	6.4	28.6	23.8	. .	14.5
Pension funds (4)	0.6	3.0	2.4	2.2	2.4	. .	2.2	15.8	27.2
Other institutions (5)	3.2	5.6	7.8	7.5	12.1	. .	. .	. .	9.4
Total	**9.8**	**16.7**	**31.7**	**34.1**	**37.0**	**49.8**	**46.2**	**42.1**	**70.5**

(1) Except where indicated, the data are net of investments within the sector. – (2) The comparison is based on data not adjusted for investments within the sector. – (3) The figures refer to 1997. – (4) The figure for 1999 is estimated. – (5) The figures for Italy refer to portfolio management services.

funds, for which the ratio of assets to GDP is highest in the Anglo-Saxon countries and the Netherlands, but still low in the remaining European nations. The contribution of the insurance sector is also limited in Italy, where "Other institutions", which include the asset management branches of banks and other financial intermediaries, play a much larger role.

Table 38

PERCENTAGE COMPOSITION OF INSTITUTIONAL INVESTORS' PORTFOLIOS IN THE MAIN EUROPEAN COUNTRIES AND THE UNITED STATES (1)

(1998 end-of-period data unless otherwise indicated)

	Italy		Germany	France (2)	Spain (3)	Nether-lands	UK	US
	1998	1999						
Bonds	**78**	**68**	**62**	**58**	**56**	**46**	**20**	**39**
Shares	**19**	**29**	**32**	**36**	**13**	**49**	**74**	**58**
Deposits and cash	**3**	**3**	**6**	**6**	**31**	**5**	**6**	**3**
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Memorandum items (as a percentage of GDP):								
Unconsolidated assets	80	98	70	116	69	156	214	219
Consolidated assets	69	80						
	Percentage shares of institutional investors' total net assets							
Investment funds	43	44	44	43	61	10	12	27
Insurance companies	17	17	51	57	36	36	49	20
Pension funds	7	5	5	–	3	53	39	39
Other institutions	33	34	–	–	–	1	–	14

Sources: OECD and Bank of Italy.

(1) Aggregate portfolios of the leading institutional investors of each country. – (2) The figures for net assets refer only to financial assets. – (3) The figure for insurance companies includes the assets of autonomous pension funds.

The sectoral breakdown by type of investment reflects the main structural features of each country's financial market. In 1998 the contribution of shares to total assets was modest in Spain (13 per cent) and Italy (19 per cent), where the stock market is underdeveloped, and higher in the United Kingdom (74 per cent) and the United States (58 per cent), where the stock market offers ample scope for diversification.

Net subscriptions of Italian investment funds fell sharply in 1999, but nevertheless remained substantial; they were concentrated on funds investing predominantly in foreign markets. Net subscriptions combined with large capital gains produced a significant increase in net assets. The increase in the relative size of equity and balanced funds brought the structure of the Italian funds industry closer to that of other European countries.

Funds yielded an average of 12.6 per cent, but returns differed markedly between the various segments, ranging from virtually zero on bond funds to 35.7 per cent on equity funds. The duration of the portfolio increased and diversification into equities and foreign securities accelerated.

Last year portfolio management services registered a decline in net fund-raising compared with the previous year; in the fourth quarter there was a net outflow for the first time since the second quarter of 1995. The average rate of return was almost 4 percentage points lower than that of investment funds. The share of investment fund units in the assets of portfolio management services rose to 49.1 per cent.

The insurance sector, by contrast, recorded a rise in the flow of premium income over 1998, with the life sector recording particularly rapid growth, thanks to the strong expansion of policies linked to financial variables, which are sold mostly through banks. The proportion of households' financial assets accounted for by insurance products rose from 5.4 to 5.8 per cent.

Securities investment funds

Last year Italian investment funds' net subscriptions amounted to 118.7 trillion lire (€61.3 billion), little more than one third of the previous year's total. The decline is ascribable entirely to the bond segment, where net subscriptions amounted to 2.6 trillion lire, compared with 216.2 trillion in 1998. By contrast, the net inflow of resources to equity funds increased from 47.7 to 69.8 trillion lire. There was particularly high demand in the latter segment for funds investing mainly in European equities and Asian stock markets, while funds specializing in Italian shares recorded a net outflow of

12.5 trillion lire. Data for the other euro-area countries are available only for Germany and Spain and confirm a marked shift of savings from bond to equity funds and, to a lesser extent, to balanced funds.

There was a further sharp increase in net assets, to 920.3 trillion lire (€475.3 billion) at the end of the year, or 43.2 per cent of GDP. The expansion of 199.5 trillion was produced mainly by the equity and balanced fund segments, whose share of total net assets rose to 53 per cent, in line with the average for the euro area (Table 39). For the area as a whole there was a remarkable expansion of more than 54 per cent in the assets of global equity funds, which invest prevalently in shares denominated in currencies other than the euro.

Table 39

NET ASSETS OF INVESTMENT FUNDS
IN THE MAIN EUROPEAN COUNTRIES AND THE UNITED STATES
(end-of-period data in millions of euros)

		Italy (1)	Germany	France	Luxem-bourg	Euro area (2)	UK	US (3)
Net assets	1998	372,279	166,834	534,123	433,037	1,932,689	243,607	4,714,744
	1999	475,301	235,709	651,700	656,618	2,491,790	369,398	6,814,951
as a % of the euro area . .		*19.1*	*9.5*	*26.2*	*26.4*	*100.0*		
of which: (4)								
equity funds	1998	70,557	71,814	91,273	122,910	483,639	203,344	2,541,366
	1999	140,359	133,053	153,600	266,885	859,255	299,398	4,023,392
domestic	1998	25,549	28,376	47,183	. . . .	147,321	120,333	2,207,176
	1999	26,458	36,765	69,800	. . . .	193,556	179,617	. . . .
euro area and European (5)	1998	17,535	20,108	. . . .	. . . .	36,908	53,017	. . . .
	1999	42,465	38,626	16,300	. . . .	130,028	41,345	. . . .
global (5)	1998	27,473	23,329	44,090	. . . .	170,380	29,995	. . . .
	1999	71,435	57,662	67,500	. . . .	262,664	78,437	. . . .
bond funds	1998	203,719	66,205	163,258	200,688	780,571	18,750	708,755
	1999	203,757	63,571	155,600	241,178	807,266	30,721	804,400
balanced funds . .	1998	84,505	5,779	122,291	34,053	327,101	19,970	311,216
	1999	110,039	12,149	163,700	56,195	440,535	23,138	381,445

Sources: FEFSI, ICI, Assogestioni and Bank of Italy.

(1) In order to compare the Italian data with those of the other countries, the fund classification adopted in this table is that of FEFSI and therefore differs from that used in the other tables. The breakdown by segment for 1998 is partly estimated. – (2) The figures available for the Netherlands and Ireland refer rrespectively, to 1998 and 1997. The figures for Italy for 1998 are partly estimated. The sum of the amounts for the equity sub-categories may differ from the total since data are not available for Luxembourg. – (3) Provisional data for 1999. – (4) In addition to equity, bond and balanced funds, the fund classification used at the international level includes money market funds and a residual category; the data for the last two categories are not shown in this table. – (5) For several European countries the breakdown between European equity funds and global equity funds is not available; where this was the case, the whole amount was attributed to the global fund category.

The average rate of return of Italian investment funds last year was 12.6 per cent, the highest for the decade apart from 1993 (25.4 per cent). There were marked differences between the main segments, with bond funds recording 0.3 per cent, balanced funds 16.7 per cent and equity funds 35.7 per cent.

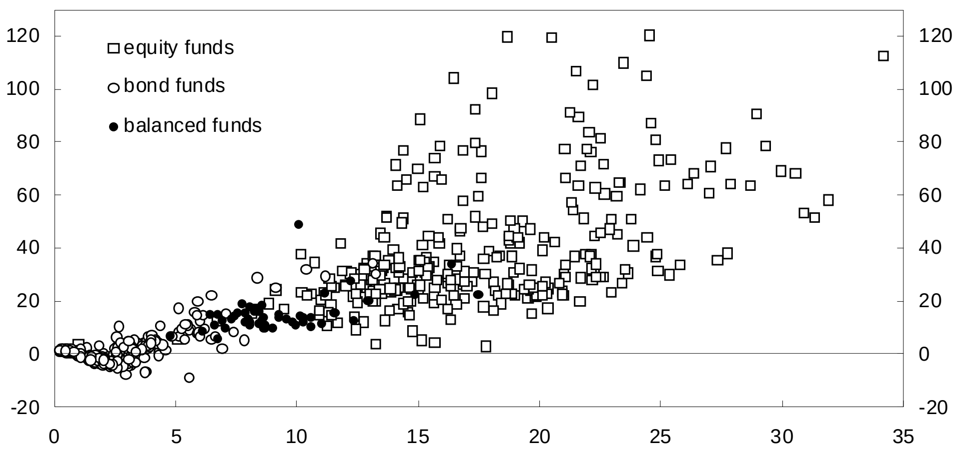
In the summer of last year management companies began to apply the Consob regulation requiring fund prospectuses to include both a benchmark and a comparison between each fund's rates of return and those of the chosen benchmark since January 1996. The indication of benchmarks is intended to help subscribers to identify and assess funds' investment policies and risk profiles, thereby allowing them to choose the product best suited to their risk-return preferences. By April of this year about half the management companies had complied with this requirement.

The comparability of any particular fund's rates of return with those of the benchmark is limited by the costs charged to individual investors. The quantification of these costs, which relate mainly to the purchase, custody and administration of securities (e.g. redemption of coupons, conversion, exercise of rights) is complicated by the variety of instruments included in benchmark indices; moreover, they include a substantial fixed component.

There were wide differences in the rates of return for both bond and balanced funds (the range exceeded 40 percentage points) and for equity funds (Figure 41).

Figure 41

ITALIAN INVESTMENT FUNDS:
RATE OF RETURN AND VARIABILITY (1)
(percentages in the period December 1998 - December 1999)



(1) Vertical axis = rate of return; horizontal axis = standard deviation.

Table 40

ITALIAN INVESTMENT FUNDS' SECURITIES PORTFOLIO:
BY TYPE OF ISSUER AND CURRENCY (1)

(market values; end-of-period data in billions of lire and, in brackets, millions of euros)

	Government securities and corporate bonds								Shares				Total
	Italian issuers				Foreign issuers			Total	Italian issuers	Foreign issuers		Total	
	Public sector	Banks	Firms	Total	Euro area	*of which: gov. secs.*	Other			Euro area	Other		
	Securities denominated in lire												
1997	195,390	3,268	888	199,546	4,880	55	7,817	212,243	39,409	. .	. .	39,409	251,652
1998	369,121	5,391	996	375,508	4,677	13	9,776	389,961	76,326	. .	. .	76,326	466,287
1999	126	5,396	982	6,504	1,805	12	5,823	14,132	66,836	. .	. .	66,836	80,968
	(65)	*(2,787)*	*(507)*	*(3,359)*	*(932)*	*(6)*	*(3,007)*	*(7,299)*	*(34,518)*	*(. .)*	*(. .)*	*(34,518)*	*(41,816)*
	Securities denominated in euro-area currency (2)												
1997	1,010	5	. .	1,015	6,196	4,512	648	7,859	. .	7,769	15	7,784	15,643
1998	671	12	329	1,012	31,105	25,000	2,737	34,854	. .	22,676	67	22,743	57,597
1999	. .	22	. .	22	740	45	3,001	3,763	. .	17,678	. .	17,678	21,441
	(. .)	*(11)*	*(. .)*	*(11)*	*(382)*	*(23)*	*(1,550)*	*(1,943)*	*(. .)*	*(9,130)*	*(. .)*	*(9,130)*	*(11,073)*
	Securities denominated in euros												
1999	306,420	4,312	2,356	313,088	104,798	82,526	18,544	436,430	19,057	52,919	116	72,092	508,522
	(158,253)	*(2,227)*	*(1,217)*	*(161,696)*	*(54,124)*	*(42,621)*	*(9,577)*	*(225,397)*	*(9,842)*	*(27,330)*	*(60)*	*(37,232)*	*(262,630)*
	Securities denominated in non-euro-area currencies												
1997	2,901	23	. .	2,924	4,291	382	24,822	32,037	. .	269	30,921	31,190	63,227
1998	5,851	420	. .	6,271	10,995	2,093	64,175	81,441	. .	392	60,933	61,325	142,766
1999	3,448	139	520	4,107	3,137	469	72,500	79,744	. .	. .	170,701	170,701	250,445
	(1,781)	*(72)*	*(269)*	*(2,121)*	*(1,620)*	*(242)*	*(37,443)*	*(41,184)*	*(. .)*	*(. .)*	*(88,160)*	*(88,160)*	*(129,344)*
	Total portfolio												
1997	199,301	3,296	888	203,485	15,367	4,949	33,287	252,139	39,409	8,038	30,936	78,383	330,522
1998	375,643	5,823	1,325	382,791	46,776	27,106	76,689	506,256	76,326	23,068	61,000	160,394	666,650
1999	309,994	9,869	3,858	323,721	110,480	83,052	99,868	534,069	85,893	70,597	170,817	327,307	861,376
	(160,099)	*(5,097)*	*(1,992)*	*(167,188)*	*(57,058)*	*(42,893)*	*(51,578)*	*(275,824)*	*(44,360)*	*(36,460)*	*(88,220)*	*(169,040)*	*(444,864)*

(1) Partly estimated data. — (2) Excluding securities denominated in lire.

The diversification of funds' portfolios became more pronounced last year in favour of the equity and foreign markets. The further reduction in the share of Italian government securities to 35.8 per cent was only partly offset by the increase in foreign bonds. The corresponding rise in the share of equities, from 24.0 to 38.0 per cent is wholly attributable to the foreign component, which expanded from 12.6 to 28.0 per cent of the total, while the share of Italian equities declined from 11.4 to 10.0 per cent.

Purchases of foreign bonds were concentrated on issues by euro-area residents, holdings of which rose from 46.8 to 110.5 trillion lire (Table 40). This was partly due to the large increase in placements of euro-denominated bonds by banks and other private-sector issuers, which added considerable liquidity to the market and, with the entry of numerous new issuers, expanded the scope for diversification. The value of foreign equities tripled to more than 240 trillion lire.

The introduction of the single European currency, the consolidation of the financial industry that is taking place in the leading industrial countries and the development of on-line methods of selling financial products are increasing the competitive pressure on the euro-area investment fund industry. Comparable figures for December 1999 released by Lipper show that the management fees charged by Italian equity funds were equal to 1.6 per cent of assets under management, compared with 1.8 per cent in Spain, 1.4 per cent in France, 1.3 per cent in Luxembourg and the United Kingdom and 0.9 per cent in Germany and the Netherlands; the entry charges applied by Italian equity funds were among the lowest. The results for the balanced and bond segments were similar.

Portfolio management services

Last year asset management companies joined banks and securities firms in offering portfolio management services. The number of firms in the sector grew rapidly and by the end of the year there were 23, some of which were the result of transformations or acquisitions of securities firms or their portfolio management businesses.

Although sharply down on 1998, the net flow of savings to portfolio management services (run by securities firms, asset management companies and directly by banks) remained substantial at 104 trillion lire (€53.7 billion; Table 41). The decline mainly affected the net fund-raising of portfolio services managed by banks, which fell from 100.7 to 28.9 trillion lire.

The total value of the assets administered by portfolio management services amounted to 700.7 trillion lire at the end of 1999, an increase of 157.5 trillion over the end of the previous year.

Table 41

ITALIAN PORTFOLIO MANAGEMENT SERVICES: SECURITIES PORTFOLIO

(billions of lire and millions of euros)

	1998	1999 (1)		1997	1998	1999 (1)
	lire		euros			
	Net flows			End-of-period stocks *(percentage composition)*		
Italian government securities and corporate bonds	**14,963**	**–1,574**	**–813**	**65.3**	**48.7**	**35.8**
Short-term and floating-rate	–8,148	9,185	4,743	23.8	14.6	10.5
BOTs	1,666	9,075	4,687	2.9	2.3	1.2
CCTs	–9,814	110	57	20.9	12.3	9.3
Medium and long-term	23,111	–10,759	–5,556	41.5	34.0	25.3
CTZs	–6,342	–3,792	–1,959	11.2	4.4	3.0
BTPs	30,586	–3,161	–1,632	24.0	23.7	17.6
Other	–1,133	–3,806	–1,965	6.3	5.9	4.7
Italian shares	**2,897**	**149**	**77**	**5.9**	**5.1**	**6.0**
Italian investment fund units	**94,851**	**21,425**	**11,065**	**18.1**	**34.6**	**42.8**
Foreign securities	**16,676**	**38,035**	**19,643**	**10.5**	**11.5**	**15.4**
Bonds	8,009	286	148	7.7	7.1	6,2
Shares	2,910	6,256	3,231	1.7	1.7	2.9
Investment fund units	5,757	31,493	16,265	1.1	2.6	6.3
Other financial assets	**259**	**253**	**130**	**0.2**	**0.1**	**0.0**
Total	**129,646**	**58,287**	**30,102**	**100.0**	**100.0**	**100.0**
Memorandum items:						
Net fund-raising	**145,530**	**103,976**	**53,699**			
Banks	100,673	28,855	14,902			
Securities firms	44,857	25,349	13,092			
Asset management companies	–	49,772	25,705			
Portfolio				**350,685**	**514,948**	**667,219**

(1) Provisional.

After deducting net inflows of funds, the increase in net assets, which approximates the return earned by investors on the assumption that coupons are fully reinvested, fell a little short of 9.0 per cent, nearly 4 percentage points less than that earned by investment funds; assuming that the composition of the investment funds whose units are held in managed portfolios coincides with that of Italian investment funds as a whole, the lower rate of return reflects the larger share of government securities and bonds in managed portfolios.

The share of investment fund units held by portfolio management services rose by 12 percentage points to 49.1 per cent, with foreign funds recording particularly strong growth, from 2.6 to 6.3 per cent. The share of investment fund units held by banks' portfolio management arms rose by more than 14 percentage points to 52.7 per cent, while that held by securities firms and asset management companies rose by almost 9 percentage points to 43.4 per cent.

Insurance companies and pension funds

Insurance companies. - Last year the premium income of insurance companies amounted to 68.9 trillion lire (€35.6 billion) in the life sector and 50.8 trillion lire (€26.3 billion) in the casualty sector, an increase over the previous year of 17.6 and 3.4 trillion lire respectively (Table 42). The growth of life insurance policies offering index-linked or unit-linked benefits gathered momentum; premium income amounted to 12.6 and 17.5 trillion lire respectively (compared with 8.2 and 3.6 trillion in 1998) and the share of these two segments in the net assets of the life sector rose from 14.8 to 22.3 per cent.

Table 42

INSURANCE COMPANIES: MAIN ASSETS AND LIABILITIES

(balance sheet values; end-of-period data in billions of lire and, in brackets, millions of euros)

	Assets						Liabilities		*Memorandum item:* premium income (4)
	Deposits and cash (1)	Securities (1)	Loans & annuities (2)	Real estate	Other net assets	Total (1)	Technical reserves (3)	Net worth	
					Life sector				
1996	2,012	137,856	1,808	10,319	4,226	156,221	130,890	25,331	26,063
1997	2,849	170,707	1,948	10,177	6,349	192,030	165,017	27,013	36,986
1998	3,181	219,665	1,897	4,744	4,648	234,135	205,434	28,701	51,277
1999 (5) . .	3,741	277,814	1,415	4,335	5,693	292,998	261,256	31,742	68,922
	(1,932)	*(143,479)*	*(731)*	*(2,239)*	*(2,940)*	*(151,321)*	*(134,928)*	*(16,393)*	*(35,595)*
					Casualty sector				
1996	3,045	62,816	626	13,063	11,192	90,742	69,109	21,633	41,650
1997	2,929	66,634	1,603	13,183	14,301	98,650	75,267	23,383	44,450
1998	3,033	75,683	919	11,871	16,380	107,886	82,007	25,879	47,440
1999 (5) . .	3,114	81,755	614	12,129	18,839	116,451	88,803	27,648	50,839
	(1,608)	*(42,223)*	*(317)*	*(6,264)*	*(9,730)*	*(60,142)*	*(45,863)*	*(14,279)*	*(26,256)*
					Total				
1996	5,057	200,672	2,434	23,382	15,418	246,963	199,999	46,964	67,713
1997	5,778	237,341	3,551	23,360	20,650	290,680	240,284	50,396	81,436
1998	6,214	295,348	2,816	16,615	21,028	342,021	287,441	54,580	98,717
1999 (5) . .	6,855	359,569	2,029	16,464	24,532	409,449	350,059	59,390	119,761
	(3,540)	*(185,702)*	*(1,048)*	*(8,503)*	*(12,670)*	*(211,463)*	*(180,791)*	*(30,672)*	*(61,851)*

(1) In lire and foreign currency; including assets entrusted to portfolio management services. – (2) Net of corresponding liabilities. – (3) Net of reinsurance. – (4) Italian direct insurance; includes premium income of offices in other EU countries. – (5) Partly estimated.

Legislative Decree 47/2000 establishes that for life policies coupled with retirement products to be eligible, from 1 January 2001, for the same tax treatment as supplementary pension schemes, they must pay out the amount accumulated only when insureds reach retirement age, pay 50 per cent in the form of an annuity, exclude the granting of advances and meet minimum contribution requirements (5 years for old-age benefits and 15 for long-service benefits).

The technical reserves of insurance companies showed a substantial increase of 62.6 trillion lire, taking the total to more than 350 trillion; as with premium income, the expansion in reserves was almost entirely attributable to the life sector, which at the end of last year accounted for three quarters of the total. With real estate assets remaining broadly unchanged, the expansion in assets was reflected in their securities holdings, which rose to 359.6 trillion lire.

Insurance companies' investment behaviour was marked by a sharp reduction in the proportion of government securities, from 56.1 to 45.4 per cent (Table 43), accompanied by increases in the shares of euro-denominated equities (from 17.2 to 20.2 per cent), euro-bonds issued by non-residents (from 7.3 to 9.7 per cent) and investment fund units (from 3.2 to 5.0 per cent).

Table 43

INSURANCE COMPANIES: SECURITIES PORTFOLIO (1)

(balance sheet values; end-of-period data in billions of lire and, in brackets, millions of euros)

	Securities denominated in euro-area currencies					Securities denominated in non-euro-area currencies		Investment fund units	Total
	Government securities and corporate bonds			Shares (2)	Total		*of which: shares* (2)		
	Govern-ment securities	Corporate bonds	Total						
	Life sector								
1998 (3)	131,348	37,889	169,237	27,923	197,160	13,771	1,891	8,733	219,665
1999 (3)	131,479	61,334	192,813	44,231	237,044	23,784	4,522	16,986	277,814
	(67,903)	*(31,677)*	*(99,580)*	*(22,843)*	*(122,423)*	*(12,283)*	*(2,335)*	*(8,773)*	*(143,479)*
	Casualty sector								
1998 (3)	34,469	12,935	47,404	22,998	70,402	4,573	995	709	75,683
1999 (3)	31,711	14,957	46,668	28,553	75,221	5,608	1,389	926	81,755
	(16,378)	*(7,724)*	*(24,102)*	*(14,746)*	*(38,848)*	*(2,896)*	*(717)*	*(478)*	*(42,223)*
	Total								
1998 (3)	165,817	50,824	216,641	50,921	267,562	18,344	2,886	9,442	295,348
1999 (3)	163,190	76,291	239,481	72,784	312,265	29,392	5,911	17,912	359,569
	(84,281)	*(39,401)*	*(123,682)*	*(37,590)*	*(161,271)*	*(15,180)*	*(3,053)*	*(9,251)*	*(185,702)*

(1) Including assets entrusted to portfolio management services. The breakdown of the data on the portfolio of assets relative to pension funds and products linked to investment funds and market indices is partly estimated. – (2) Including participating interests. – (3) Partly estimated.

Pension funds. - Last year the total assets of non-INPS pension funds, including banks' pre-1993-reform supplementary funds, rose by 1.6 trillion lire to 110.5 trillion (Table 44). The expansion was wholly attributable to non-INPS funds; the assets of banks' supplementary funds declined by 1.7 trillion.

Table 44

PENSION FUNDS: MAIN ASSETS

(balance sheet values; end-of-period data in billions of lire and, in brackets, millions of euros)

	1997			1998			1999 (1)		
	Non-INPS funds	Bank funds	Total	Non-INPS funds	Bank funds	Total	Non-INPS funds	Bank funds	Total
Cash and deposits	14,168	1,272	15,440	15,556	1,375	16,931	16,817	1,179	17,996
							(8,685)	*(609)*	*(9,294)*
Government securities	11,182	11,523	22,705	9,448	17,247	26,695	8,695	14,262	22,957
							(4,491)	*(7,366)*	*(11,856)*
Corporate bonds	2,147	1,593	3,740	2,774	2,167	4,941	3,313	1,847	5,160
							(1,711)	*(954)*	*(2,665)*
Shares	589	1,942	2,531	319	2,758	3,077	398	2,595	2,993
							(206)	*(1,340)*	*(1,546)*
Foreign currency securities	38	1,500	1,538	141	2,630	2,771	520	3,269	3,789
							(269)	*(1,688)*	*(1,957)*
Loans and other financial assets	11,876	2,649	14,525	6,052	3,443	9,495	5,471	5,537	11,009
							(2,826)	*(2,860)*	*(5,685)*
Real estate	38,851	4,759	43,610	39,048	6,007	45,055	41,405	5,233	46,638
							(21,384)	*(2,703)*	*(24,087)*
Total	**78,851**	**25,238**	**104,089**	**73,338**	**35,627**	**108,965**	**76,620**	**33,923**	**110,543**
							(39,571)	***(17,520)***	***(57,091)***

(1) Provisional.

According to information released by the Pension Fund Supervisory Commission on intermediaries established in accordance with the new regulations for supplementary pension schemes, at the end of September 1999 there were 5 closed funds and 85 open funds in operation (compared with 4 and 75 respectively at the end of 1998); 25 closed funds were authorized only to enroll members. Closed funds had 531,500 members and open funds 84,000, compared with about 387,600 and 14,600 respectively at the end of 1998; the enrolment rate for closed funds rose by 2.1 percentage points compared with the end of 1998 to stand at 27.1 per cent.

The factors that may be holding back the expansion of the new types of pension fund include the burden of compulsory contributions to the state social security system, the comparatively generous pensions the latter guarantees some categories of worker and the strongly entrenched tradition of severance pay.

On 1 January 2001 Legislative Decree 47/2000 will enter into force, providing more favourable tax treatment for Italian pension funds. As well as harmonizing the treatment of supplementary pension schemes, the new rules raise the ceiling for tax-deductible contributions and provide for the net operating profits of pension funds to be taxed in the same way as those of investment funds, but at a rate of 11 per cent instead of 12.5 per cent.

THE SECURITIES MARKETS

In 1999 long-term interest rates began to increase again in Italy following a three-year decline. The upward movement, which had begun in the United States towards the close of 1998, spread to the European markets in the second half of the year and was partly reflected in real rates.

Net issues of government securities decreased substantially. The Italian Treasury continued to pursue the strategy of lengthening the maturity, as in the two previous years; large amounts of 10 and 30-year fixed-rate securities were issued.

The introduction of the single currency led to a substantial increase in issues of bonds by private-sector euro-area companies. Issues by Italian companies, which increased more rapidly than the average for the area, were made mainly in the international market and primarily by financial enterprises. In the domestic market both corporate issues and securitization operations increased, whereas banks' direct issues of bonds declined for the second year in succession.

Share prices in Italy remained virtually unchanged for the first nine months of the year. From mid-October onwards the stock markets of the euro area saw share prices rise sharply, particularly for those of shares most closely linked to the new information technologies. As a result of the rise in share values and the listing of new companies, the capitalization of the Italian stock market equalled 66.1 per cent of GDP at the end of 1999. Integration between the European stock markets is continuing, stimulated by the introduction of the euro.

Government securities

Supply and demand. - Net issues of government securities fell to 10.7 trillion lire (€5.5 billion) in 1999 from 38.8 trillion in 1998 (Table 45). The decrease in the public-sector borrowing requirement and the use of privatization proceeds to redeem securities contributed to the decline.

The Treasury continued its policy of lengthening the maturity of the debt. As in the previous year, very ample use was made of BTPs: net issues, which totalled €75.8 billion, were concentrated in the first half of the year, when long-term interest rates remained at very low levels, and principally

Table 45

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS (1)

(billions of lire and, in brackets, millions of euros)

	Gross issues			Net issues			Stocks (2)		
	1998	1999	Jan.-Mar. 2000 (3)	1998	1999	Jan.-Mar. 2000 (3)	1998	1999	March 2000 (3)
Public sector	**846,572**	**807,785** ***(417,186)***	**213,906** ***(110,473)***	**38,767**	**10,688** ***(5,520)***	**29,229** ***(15,095)***	**2,102,398**	**2,130,949** ***(1,100,543)***	**2,167,532** ***(1,119,437)***
BOTs	425,768	373,493 *(192,893)*	87,616 *(45,250)*	−35,482	−35,107 *(−18,131)*	−8,713 *(−4,500)*	266,768	231,661 *(119,643)*	222,948 *(115,143)*
CTZs	97,778	95,069 *(49,099)*	25,323 *(13,078)*	6,598	−17,097 *(−8,830)*	−3,262 *(−1,685)*	171,974	159,740 *(82,499)*	158,135 *(81,670)*
CCTs (4)	42,501	39,823 *(20,567)*	18,033 *(9,313)*	−42,097	−52,723 *(−27,229)*	−6,054 *(−3,127)*	525,403	472,376 *(243,962)*	466,238 *(240,792)*
BTPs	261,441	275,239 *(142,149)*	71,566 *(36,961)*	149,343	146,858 *(75,846)*	38,675 *(19,974)*	908,508	1,056,384 *(545,577)*	1,097,495 *(566,809)*
CTEs	. .	. . *(. .)*	. . *(. .)*	−12,448	−18,879 *(−9,750)*	−1,441 *(−744)*	25,220	6,281 *(3,244)*	4,841 *(2,500)*
Republic of Italy issues	17,949	19,581 *(10,113)*	10,783 *(5,569)*	2,472	−7,600 *(−3,925)*	10,204 *(5,270)*	103,329	107,721 *(55,633)*	121,501 *(62,750)*
Other	1,135	4,579 *(2,365)*	585 *(302)*	−29,619	−4,766 *(−2,461)*	−180 *(−93)*	101,197	96,784 *(49,985)*	96,374 *(49,773)*
Banks	**135,980**	**157,707** ***(81,449)***	**56,415** ***(29,136)***	**57,728**	**19,827** ***(10,240)***	**15,736** ***(8,127)***	**436,073**	**456,518** ***(235,772)***	**472,479** ***(244,015)***
Firms	**2,714**	**23,543** ***(12,159)***	**2,191** ***(1,132)***	**841**	**13,368** ***(6,904)***	**1,315** ***(679)***	**34,411**	**47,061** ***(24,305)***	**48,444** ***(25,019)***
Total	**985,266**	**989,035** ***(510,794)***	**272,512** ***(140,741)***	**97,334**	**43,883** ***(22,664)***	**46,280** ***(23,902)***	**2,572,883**	**2,634,528** ***(1,360,620)***	**2,688,455** ***(1,388,471)***
Memorandum item:									
Redemptions of government securities (5)	**14,016**	**36,002** ***(18,593)***	–	–	–	–	–	–	–
	Percentage composition (6)								
Public sector	**85.9**	**81.7**	**78.5**	**39.8**	**24.4**	**63.2**	**81.7**	**80.9**	**80.6**
BOTs	50.3	46.2	41.0	−91.5	−328.5	−29.8	12.7	10.9	10.3
CTZs	11.5	11.8	11.8	17.0	−160.0	−11.2	8.2	7.5	7.3
CCTs (4)	5.0	4.9	8.4	−108.6	−493.3	−20.7	25.0	22.2	21.5
BTPs	30.9	34.1	33.5	385.2	1.374.1	132.3	43.2	49.6	50.6
CTEs	. .	. .	. .	−32.1	−176.6	−4.9	1.2	0.3	0.2
Republic of Italy issues	2.1	2.4	5.0	6.4	−71.1	34.9	4.9	5.1	5.6
Other	0.1	0.6	0.3	−76.4	−44.6	−0.6	4.8	4.5	4.5
Banks	**13.8**	**15.9**	**20.7**	**59.3**	**45.0**	**34.0**	**16.9**	**17.3**	**17.6**
Firms	**0.3**	**2.4**	**0.8**	**0.9**	**30.5**	**2.8**	**1.3**	**1.8**	**1.8**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
As a percentage of GDP	*47.7*	*46.5*	*12.8*	*4.7*	*2.1*	*2.2*	*124.4*	*123.8*	*126.3*

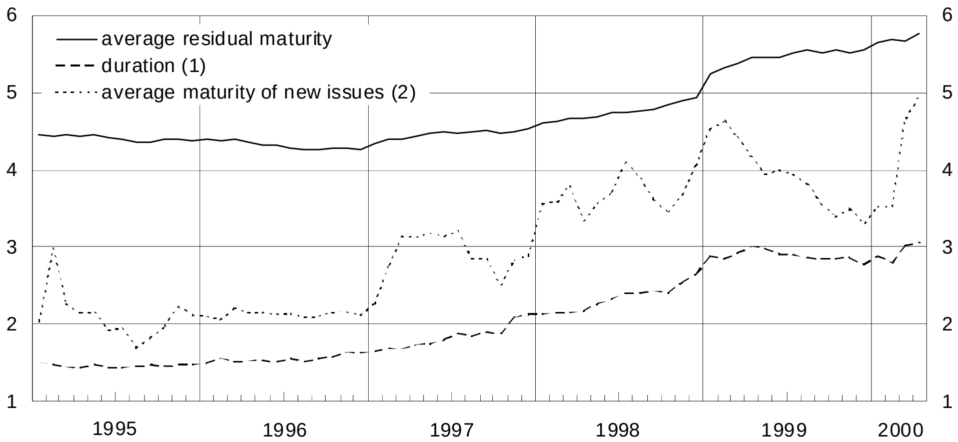
(1) Rounding may cause discrepancies. – (2) End-of-period face value. – (3) Provisional. – (4) Includes only variable-coupon certificates. – (5) Comprises both buybacks and redemptions at maturity; face value. – (6) The percentages shown for the various types of government securities are ratios to the total of public-sector securities.

involved 10 and 30-year bonds. On the other hand, floating-rate and short-term securities recorded substantial net redemptions amounting to €27.2 billion and €18.1 billion for CCTs and BOTs respectively, alongside net redemptions totalling €8.8 billion for CTZs and €3.9 billion for international Republic of Italy issues. The average residual maturity of government securities lengthened by 7 months, reaching 67 months at the end of 1999 (Figure 42). Owing to the rise in interest rates in the second half of the year, the lengthening of the debt's average residual maturity did not result in an increase in its duration, which decreased from 34 to 33 months.

Figure 42

AVERAGE MATURITY AND DURATION OF GOVERNMENT SECURITIES (1)

(years)



(1) Of securities listed on MTS. - (2) Moving average for the three months ending in the month indicated.

The intensification of competition in the capital markets following the launch of the Monetary Union prompted the member countries to concentrate government securities issues on a small number of massive placements, in order to accommodate euro-area investors' demand for greater liquidity and satisfy the minimum lot requirements set by EuroMTS. Placements exceeding €2 billion each accounted for 78 per cent of the total in Italy last year, compared with 67 per cent in 1998; the corresponding proportion rose from 41 to 60 per cent in France and from 97 to 99 per cent in Germany. Among euro-area government securities, German Bunds appear to have become the benchmark for the longer maturities.

Italian households continued the portfolio diversification that they had begun in past years, shifting to financial investments with a higher combination of risk and return; investors comprising the sector "other investors" (mainly households and firms) made net disposals of government securities amounting to €50.8 billion (Table 46). There were also substantial net disposals by investment funds and banks (€18.2 billion and €12.4 billion respectively). In contrast with large-scale disinvestment by

Table 46

NET PURCHASES AND STOCKS OF SECURITIES (1)

(billions of lire and, in brackets, millions of euros)

	Public sector						Corporate bonds	Total corporate bonds and government securities	Listed shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
					Net purchases *(billions of lire and, in brackets, millions of euros)*				
1998									
BI-UIC	−14,137	488	4,436	−20,472	−745	−30,430	−62	−30,492	421
Banks	13,033	1,595	−16,576	−2,320	−2,887	−7,155	11,017	3,862	353
Insurance corporations	3,557	−1,121	521	27,898	7,807	38,662	136	38,797	5,764
Investment funds	13,558	2,101	34,888	122,413	1,042	174,001	2,172	176,174	16,709
Non-residents (3)	52,909	22,239	52,539	23,712	778	152,178	....	152,178	24,883
Other investors (4)	−104,402	−18,705	−117,904	−1,889	−45,589	−288,489	45,305	−243,185	−34,482
Total	**−35,482**	**6,598**	**−42,097**	**149,343**	**−39,595**	**38,767**	**58,568**	**97,334**	**13,648**
1999									
BI-UIC	−230	−389	−7,005	1,071	122	−6,432	407	−6,025	672
	(−119)	*(−201)*	*(−3,618)*	*(553)*	*(63)*	*(−3,322)*	*(210)*	*(−3,112)*	*(347)*
Banks	−15,608	−3,253	−12,137	3,203	3,737	−24,058	8,948	−15,109	2,981
	(−8,061)	*(−1,680)*	*(−6,268)*	*(1,654)*	*(1,930)*	*(−12,425)*	*(4,622)*	*(−7,803)*	*(1,540)*
Insurance corporations	160	−1,191	−3,321	3,809	−2,577	−3,120	10,669	7,549	5,288
	(83)	*(−615)*	*(−1,715)*	*(1,967)*	*(−1,331)*	*(−1,611)*	*(5,510)*	*(3,899)*	*(2,731)*
Investment funds	−8,963	−23,299	993	−3,114	−867	−35,250	4,767	−30,482	−5,441
	(−4,629)	*(−12,033)*	*(513)*	*(−1,608)*	*(−448)*	*(−18,205)*	*(2,462)*	*(−15,743)*	*(−2,810)*
Non-residents (3)	41,839	36,183	−13,015	124,048	−10,913	178,142	....	178,142	−16,103
	(21,608)	*(18,687)*	*(−6,722)*	*(64,065)*	*(−5,636)*	*(92,003)*	*(....)*	*(92,003)*	*(−8,317)*
Other investors (4)	−52,305	−25,148	−18,239	17,841	−20,745	−98,595	8,401	−90,194	53,975
	(−27,013)	*(−12,988)*	*(−9,420)*	*(9,214)*	*(−10,714)*	*(−50,920)*	*(4,339)*	*(−46,581)*	*(27,876)*
Total	**−35,107**	**−17,097**	**−52,723**	**146,858**	**−31,244**	**10,688**	**33,193**	**43,883**	**41,372**
	(-18,131)	***(-8,830)***	***(-27,229)***	***(75,846)***	***(-16,136)***	***(5,520)***	***(17,143)***	***(22,664)***	***(21,367)***
					Stocks *(percentages)*				
December 1999									
BI-UIC	..	0.2	1.0	2.9	35.9	5.3	0.1	4.3	0.9
Banks	13.4	11.1	25.2	8.1	6.9	12.6	13.7	12.7	0.7
Insurance corporations	1.8	0.8	7.0	11.0	1.7	7.5	7.7	7.5	2.5
Investment funds	6.2	28.0	15.5	16.8	2.2	14.8	2.3	12.4	6.1
Non-residents (3)	54.2	38.1	11.1	38.6	47.6	38.6	....	31.3	8.3
Other (4)	24.4	21.8	40.2	22.6	5.7	21.2	76.2	31.8	81.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total amount (5)	**231,661**	**159,740**	**472,376**	**1,056,384**	**210,788**	**2,130,949**	**503,579**	**2,634,528**	**1,382,781**
	(119,643)	***(82,499)***	***(243,962)***	***(545,577)***	***(108,863)***	***(1,100,343)***	***(260,077)***	***(1,360,620)***	***(714,147)***

(1) Net purchases are valued at market prices. The composition of the holdings of stocks of government securities and corporate bonds refers to face values; that of shareholdings to market prices. – (2) Includes Republic of Italy issues, the composition of which is partly estimated. – (3) The data on CTZs are partly estimated. CCTs include both floating and fixed-rate credit certificates issued by the Treasury. – (4) Households, enterprises, social security institutions, the Deposits and Loans Fund, and Italian investment firms. The data on shares are partly estimated. – (5) Billions of lire and, in brackets, millions of euros.

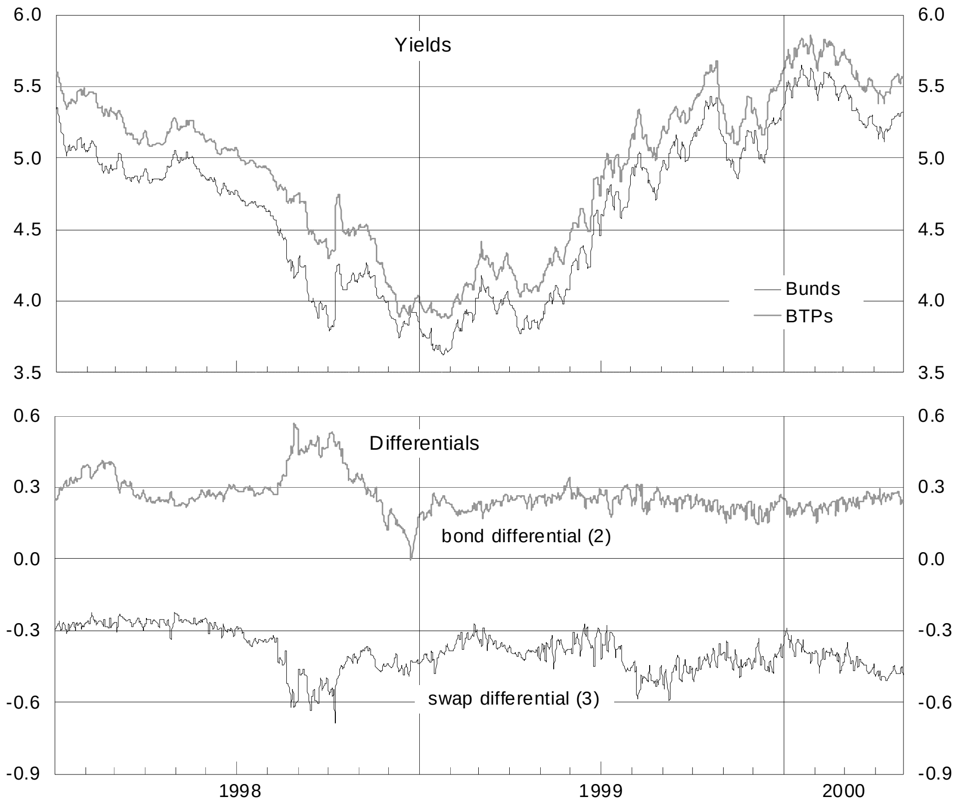
residents, net investment by foreign investors was again considerable (€92.0 billion, compared with €78.6 billion in 1998); as in the previous year, demand was heaviest for BTPs, which accounted for 70 per cent of total net purchases.

Interest rates. - The decline in medium and long-term interest rates that had marked the three previous years came to a halt in 1999 and rates began to rise from the spring onwards. Between the end of March and the end of August, the yield on 10-year BTPs rose by 0.9 percentage points to 5.1 per cent (Figure 43). During the same period, there was an increase in the volatility of the yield on long-dated euro-area securities implied by options prices (Figure 44). After a phase of relative stability towards the end of the year, which closed with the 10-year rate at 5.6 per cent, compared with 4.0 per cent at the end of 1998, the yield increased further at the beginning of 2000 and stood at 5.7 per cent in mid-May.

Figure 43

GROSS YIELDS ON 10-YEAR ITALIAN AND GERMAN SECURITIES (1)

(daily data; percentages and percentage points)



(1) Source: BIS. Yields on benchmark 10-year securities. - (2) Differential between 10-year BTPs and Bunds. - (3) Differential between 10-year Bunds and 10-year mark swaps; from 1999 onwards, differential between 10-year Bunds and 10-year euro swaps.

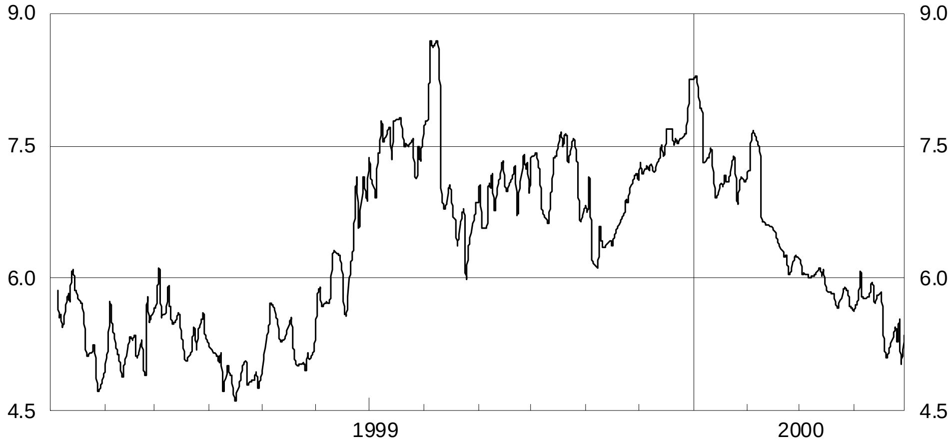
The rise in nominal long-term yields was accompanied by a more limited increase in real rates. On the basis of information derived from the prices of euro-denominated French Treasury securities indexed to consumer prices, the rise in real rates in 1999 can be estimated at 0.5 percentage points (against 1.5 points for nominal rates).

In 1999 the yield curve became upward-sloping across the entire maturity spectrum for the first time in three years; the slope steepened in the course of the year. The yield spread between 10-year BTPs and 3-month interbank funds widened steadily from 1.5 percentage points in April to 2.6 points at the end of the year. During the early part of 2000 it narrowed, declining to 1.4 points in mid-May.

Figure 44

EXPECTED VOLATILITY OF 10-YEAR BUNDS (1)

(daily data; percentages on an annual basis)



Source: Bloomberg.
(1) Volatility implied by options on futures quoted on EUREX.

The secondary market. - Average daily turnover in spot trading on the screen-based secondary market for government securities (MTS) decreased further in 1999, falling from €12.9 billion to €9.5 billion. The contraction was largest for floating-rate and short-term securities: turnover in CCTs and BOTs fell by 55 and 37 per cent respectively, compared with 18 per cent for BTPs. The decline in trading is only partly explained by the decrease in the stock of listed securities; it reflected the general tendency of euro-area bond markets to revert to the lower levels of activity prevailing before the convergence of interest rates. The fall in turnover did not reduce the market’s liquidity: the spread between the best bid and ask prices, which is recorded at the close of the market, narrowed to less than 4 basis points.

Presumably, a factor in the decline in trading on the Italian market was the rapid growth of EuroMTS, where turnover averaged €1.3 billion a day from May onwards. Trading concentrated on Italian securities, which accounted for 39 per cent of the total to December 1999, compared with 23 and 20 per cent respectively for German and French securities.

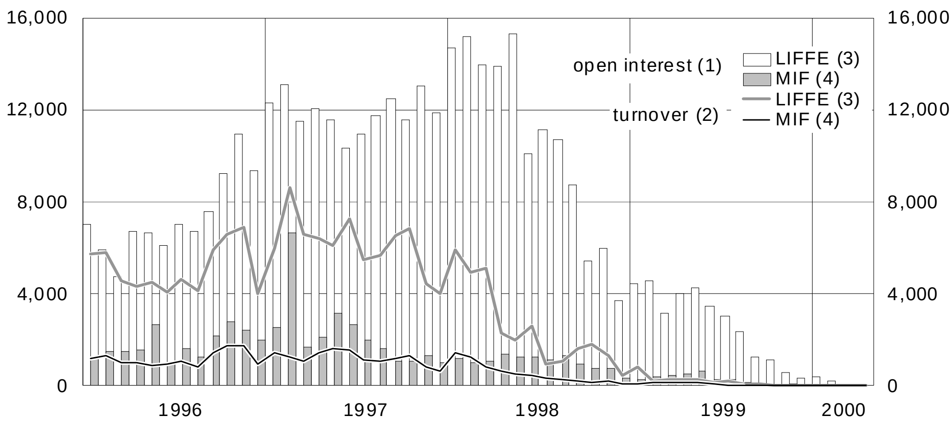
The volume of repo trading on MTS doubled with respect to 1998. Daily turnover averaged €19.8 billion overall, of which €10.5 billion in the general collateral segment and €9.3 billion in special repos (i.e. transactions in specific securities).

Interest rate derivatives markets. - Average daily turnover in BTP futures on the London market (LIFFE) contracted drastically almost to the vanishing point, from €2.5 billion to €200 million (Figure 45). The decline occurred in concomitance with the launch of the single currency and reflected the success of the Bund as the benchmark security for trading in long-term euro interest rate derivatives. There was also a collapse in average daily turnover in Eurolira futures (from €29.6 billion to €2.3 billion) and in the Italian futures market (from €1.2 billion to €300 million); it concerned contracts on short-term interest rates for all the euro currencies superseded by the euro, which were replaced by new contracts indexed to Euribor and EuroLibor. Average daily turnover in the latter, which were traded mainly on LIFFE, amounted to €149.4 billion in 1999, comparable to that recorded the previous year for all contracts in the currencies superseded by the euro.

Figure 45

FUTURES MARKETS: TURNOVER AND OPEN INTEREST

(millions of euros)



(1) End-of-period values. - (2) Average daily values. - (3) 10-year BTPs. - (4) 5, 10 and 30-year BTPs.

The market in private-sector bonds

Net bond issues by private-sector entities in Italy (banks, non-bank financial intermediaries and non-financial corporations) rose from €1.3 billion in 1998 to €59.1 billion last year (Table 47). The majority of the issues were placed in the international market (82 per cent) and denominated in euros. Issues by non-financial corporations accounted for 47 per cent of the total and increased nearly nine times over from the previous year.

Table 47

NET BOND ISSUES IN THE EURO AREA (1)

(millions of ecus up to 1998, millions of euros for 1999)

	1995	1996	1997	1998	1999
			Italy		
Financial corporations	15,431	34,552	–5,235	–1,930	31,306
Non-financial corporations	134	–566	1,585	3,245	27,791
Total	**15,565**	**33,986**	**–3,650**	**1,315**	**59,097**
of which: Euromarket	*–822*	*344*	*4,773*	*6,914*	*48,577*
of which: rated issues (percentage share) (2)	*19*	*46*	*25*	*24*	*81*
Memorandum item: public sector	*54,651*	*57,572*	*14,351*	*22,066*	*10,821*
			France		
Financial corporations	–7,921	–9,921	–6,856	–18,135	43,665
Non-financial corporations	–635	20,571	3,071	18,142	60,530
Total	**–8,556**	**10,650**	**–3,785**	**7**	**104,195**
of which: Euromarket	*5,982*	*9,784*	*16,230*	*22,308*	*59,903*
of which: rated issues (percentage share) (2)	*57*	*89*	*45*	*59*	*57*
Memorandum item: public sector	*56,995*	*57,644*	*42,861*	*62,316*	*17,122*
			Germany		
Financial corporations	126,513	136,819	125,945	172,586	217,329
Non-financial corporations	1,055	1,639	7,452	6,607	34,073
Total	**127,568**	**138,458**	**133,397**	**179,193**	**251,402**
of which: Euromarket	*51,492*	*73,756*	*71,206*	*84,930*	*182,844*
of which: rated issues (percentage share) (2)	*32*	*57*	*58*	*48*	*54*
Memorandum item: public sector	*10,973*	*30,512*	*34,998*	*31,007*	*33,157*
			Euro area		
Financial corporations	164,165	202,965	158,835	195,917	416,980
Non-financial corporations	8,333	27,222	18,829	46,678	158,060
Total	**172,498**	**230,187**	**177,664**	**242,595**	**575,040**
of which: Euromarket	*88,264*	*124,001*	*139,244*	*172,243*	*415,982*
of which: rated issues (percentage share) (2)	*34*	*60*	*47*	*48*	*66*
Memorandum item: public sector	*204,916*	*220,890*	*132,223*	*137,353*	*101,664*

Sources: BIS, *Capital Data* and Bank of Italy calculations.
(1) Includes CDs. The figures for each country are obtained by summing domestic and Euromarket issues. Although the BIS data on the domestic markets exclude securities issued by non-residents, some double-counting is still possible. – (2) Rating awarded by Standard & Poor's or, if not available, by Moody's or Fitch-IBCA.

Italy's recently enacted law on the securitization of claims will foster the development of the market in asset-backed securities. In 1999 banks carried out several important loan securitization operations.

Net bond issues by private-sector issuers in the euro area rose from €242.6 billion to €575.0 billion; 72 per cent of the issues were made in the international market and 87 per cent in euros, figures similar to those recorded for Italian issuers. Net issues by euro-area non-financial corporations rose more than three-fold to account for 27 per cent of the total. The private-sector bond market is still far smaller in the euro area than in the United States in relation to GDP (59 against 86 per cent).

Gross issues of euro-denominated Eurobonds by non-area residents rose from €89.0 billion to €146.0 billion.

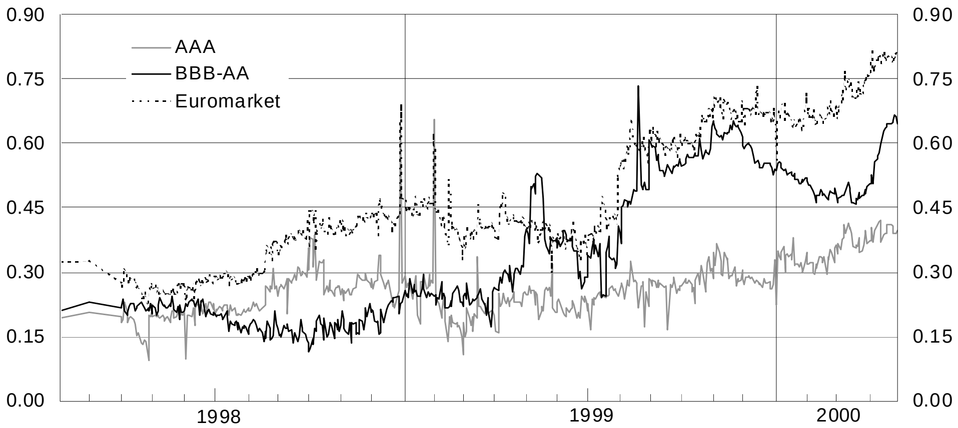
The proportion of rated Eurobond issued by area residents increased from 48 to 66 per cent; among rated issues, those with a rating below AAA rose from 69 to 79 per cent. Issues of bonds with lower ratings, particularly those in the high-yield, high-risk segment (with a rating below BBB), are still much less common in the euro area than in the US market: in 1999 they accounted for barely 0.69 per cent of total issues.

In 1999 the number of Italian banks that acted as bookrunners for Eurobond issues by private companies resident in the area increased from seven to eleven. The amount placed increased six times over (from €2.2 billion to €14.1 billion), but Italian intermediaries' share of the total Euromarket remained limited (5.1 per cent). Italian banks handled 71 per cent of the bonds issued by Italian companies in euros or in the currencies superseded by the euro, compared with 41 per cent in the two preceding years.

Figure 46

YIELD SPREADS BETWEEN EUROBONDS OF THE NON-FINANCIAL SECTOR AND GOVERNMENT SECURITIES OF THE SAME MATURITY (1)

(percentage points; daily data)



Sources: Merrill Lynch indices and Bank of Italy calculations.

(1) Differentials adjusted for the value of redemption options (option-adjusted spreads). End-of-month data up to March 1999 and daily data thereafter.

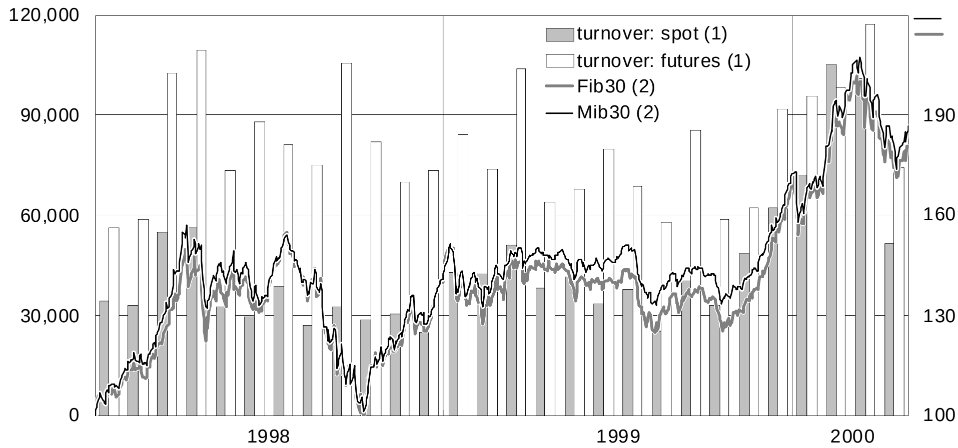
In the first half of 1999 the yield spread between euro-denominated bonds of non-financial firms and government securities remained generally stable at around 40 basis points (Figure 46); however, this was more than the average of 34 basis points for 1998, which had seen yields on corporate bonds spike in August with the outbreak of the Russian crisis. The spread widened in the second half of the year and reached 68 basis points in the autumn in conjunction with the increase in issuance.

The equity market

Supply and demand. - The capitalization of the Italian stock market grew from 931.5 to 1,382.8 trillion lire (from €481.1 billion to €714.1 billion; Table 48). The increase reflected new listings and new share issues by listed companies (amounting to €87.6 billion) and the large rise in share prices (more than €140.0 billion; Figure 47).

Figure 47

ITALIAN STOCK EXCHANGE: SPOT AND FUTURES MARKETS



(1) Monthly turnover in millions of euros (left-hand scale). - (2) Indices, 31 December 1997=100 (right-hand scale).

Twenty-one Italian companies with total capitalization of €66.2 billion were newly listed on the stock exchange last year. The contribution of privatizations was substantial: €54.2 billion, or 82 per cent of the total, almost all of it due to the sale of ENEL; the two other privatized companies had an initial market capitalization of €2.0 billion. Three foreign companies already listed in foreign markets were added to the official list.

The Nuovo Mercato, established to facilitate the listing of innovative companies with high growth potential, began to operate in June 1999. At the end of April 2000 the 10 shares listed on this circuit had a total capitalization of €26.4 billion.

Table 48

MAIN INDICATORS OF THE ITALIAN STOCK EXCHANGE (1)
(billions of lire and, in brackets, millions of euros unless otherwise indicated)

	1994	1995	1996	1997	1998	1999
Number of listed Italian companies	223	221	217	213	223	241
Total market capitalization (2)	293,566	325,568	386,157	598,809	931,472	1,382,781 *(714,147)*
as a percentage of GDP	*17.9*	*18.4*	*20.6*	*30.7*	*45.3*	*65.2*
percentage breakdown:						
industry	*25*	*33*	*34*	*31*	*24*	*20*
insurance	*23*	*20*	*15*	*15*	*16*	*11*
banking	*18*	*17*	*15*	*19*	*27*	*23*
finance	*8*	*5*	*4*	*4*	*3*	*3*
services	*26*	*25*	*32*	*31*	*30*	*43*
Total	**100**	**100**	**100**	**100**	**100**	**100**
Gross share issues (3)	12,982	8,515	5,506	7,933	13,689	41,372 *(21,367)*
Market capitalization of newly listed companies (4)	26,388	64,411	14,886	12,731	42,060	360,927 *(186,403)*
of which: foreign companies	–	–	–	–	17,268	232,660 *(120,159)*
Dividends distributed	5,105	6,180	9,786	12,112	13,601	16,593 *(8,570)*
Earnings/price ratio (percentages) (5)	4.6	5.8	6.3	4.6	3.8	3.4
Dividends/price ratio (percentages)	1.6	1.7	2.2	1.6	1.2	1.2
Turnover:						
stock exchange	*190,009*	*140,341*	*156,521*	*337,071*	*818,878*	963,726 *(497,723)*
futures	*4,543*	*166,838*	*400,951*	*919,010*	*1,889,174*	*1,738,455* *(897,837)*
options	–	*1,697*	*71,457*	*242,073*	*517,274*	*509,498* *(263,134)*
Annual change in prices (6)	3.3	−6.9	13.1	58.2	41.0	22.3
Turnover ratio (percentages) (7)	94	69	67	104	150	146

(1) Excludes the Mercato Ristretto and the Nuovo Mercato. – (2) Italian companies; at end of period. – (3) Capitalization at the final offering price or, for companies already listed on other exchanges, at the first date of trading on the Italian stock exchange. – (4) Sum of the values of the capitalization of each company at the final offering price. – (5) Source: Datastream. – (6) Percentage change in the Mib index. – (7) Annualized average ratio of monthly turnover to market capitalization.

The introduction of the euro has stimulated agreements among the European stock exchanges aiming at the creation of a continent-wide market. In March 2000 the Paris, Brussels and Amsterdam exchanges announced the creation of Euronext, an integrated trading circuit that will operate as a company established in the Netherlands. The accord envisages the adoption of a single trading platform and the unification of clearing and settlement procedures. At the beginning of May the London and Frankfurt exchanges announced a merger plan under which trading in blue chips would be concentrated in London, the seat of the new exchange, with Frankfurt to handle trading in derivatives and the shares of innovative companies; for the latter, an agreement with Nasdaq has been concluded.

In 1999 banks and insurance companies purchased respectively €1.5 billion and €2.7 billion worth of listed Italian shares, whereas foreign investors made net disposals totalling €8.3 billion. Reversing the trend of the two preceding years, investment funds ran down their holdings of Italian shares by €2.8 billion; the figure reflected both the contraction in fund-raising by investment funds specializing in the Italian market and the reallocation of funds' equity portfolios to the benefit of the other euro-area markets and those of Asia. Net purchases estimated at €11.7 billion made directly by households were due mostly to the massive public offerings of shares of privatized companies.

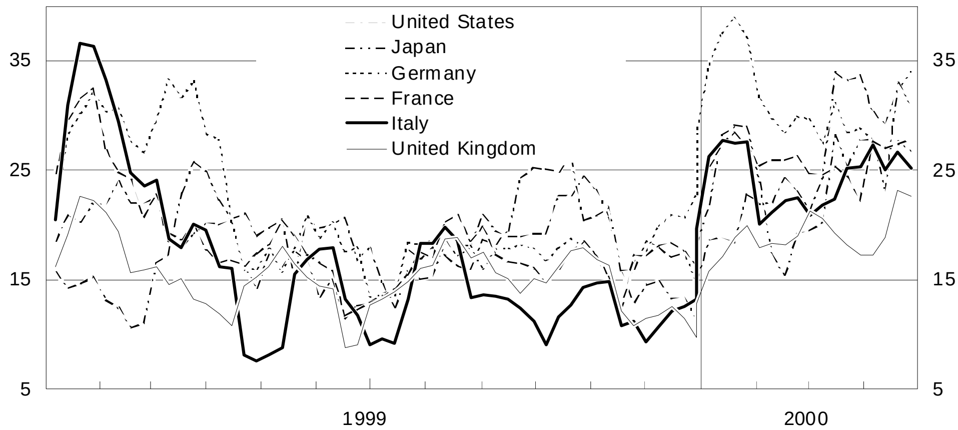
Share prices. - The Italian share price index rose by 22 per cent, which was less than the huge gains recorded in the preceding years (41 per cent in 1998 and 58 per cent in 1997). The increase was smaller than those registered in France and Germany (51 and 35 per cent respectively) and larger than those achieved in the United Kingdom and Spain (21 and 16 per cent respectively).

Until mid-October share prices hardly budged in Italy, reflecting the uncertain outlook for economic growth, whereas they rose moderately in Germany, France and the United Kingdom. A phase of rapid appreciation ensued on all the main exchanges, most notably on those of the euro area; in the last quarter of 1999 the indices of the German, French and Italian stock exchanges gained respectively 31, 30 and 22 per cent. After stagnating in January 2000, share prices began to rise again across the board on all the European exchanges in concomitance with a renewed surge in the prices of technology stocks in the United States; the general indices of the US market diverged from this trend, showing a slight decline. European share prices reached highs around the first week of March, with gains from the start of the year of 20 per cent in Italy, 15 per cent in Germany and 10 per cent in France; in the subsequent weeks they recorded sharp fluctuations and a general decline. In the closing days of May 2000 the share price index was up on December 1999 by 4 per cent in Italy and 3 per cent in France, and down by 2 per cent in Germany.

The phase of rising share prices was accompanied by a pronounced increase in volatility, which reached particularly high levels in the first four months of 2000 (Figure 48), when the variability of prices rose above 25 per cent on all the main European stock exchanges except for London. The increase was largely due to the technology sector.

Figure 48

VOLATILITY OF SHARE PRICES ON THE MAIN INTERNATIONAL STOCK EXCHANGES (1)

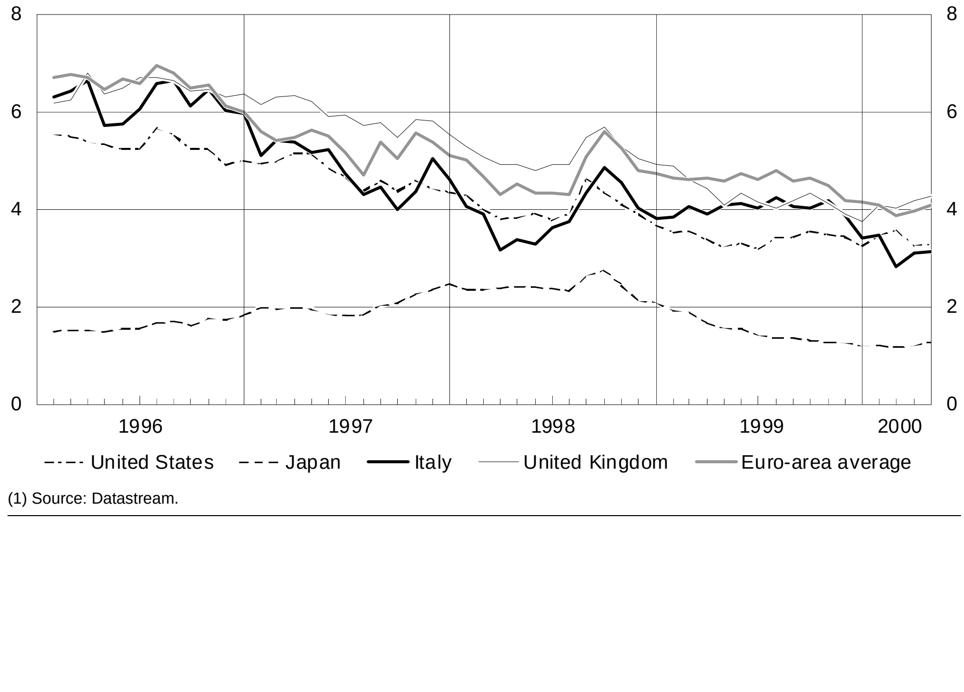


(1) Standard deviation of the last 21 daily returns of the price indices; annualized data.

The expected earnings/price ratio of the Italian stock exchange fell from 3.8 per cent at the end of 1998 to 3.4 per cent at the end of last year and then declined more steeply to 2.9 per cent at the end of April 2000; real long-term interest rates at the same date stood at 3.5 per cent. The very low earnings/price ratios in Italy are similar to those prevailing in the American market but significantly lower by comparison with the other main European exchanges (Figure 49).

Figure 49

EXPECTED EARNINGS/PRICE RATIOS IN SELECTED COUNTRIES
(*percentages*)



(1) Source: Datastream.

The equity-based derivatives market. - Turnover in covered warrants on the Italian derivatives market increased sharply from €400 million in 1998 to €1.2 billion last year and surged further in the first three months of 2000, when it averaged €3.6 billion a month.

Turnover in individual stock options also rose, albeit more moderately (from €21.2 billion to €28.1 billion), while turnover in Fib30 index options was broadly unchanged from 1998 and totalled €264.2 billion.

Average daily turnover in Fib30 index futures contracted from a notional value of €977.8 billion to €905.8 billion.

SUPERVISION OF BANKS AND OTHER INTERMEDIARIES

This section of the Report sets out the criteria and methods followed in the Bank's supervisory activities and describes the measures adopted in 1999. It fulfills the Bank of Italy's obligation to publish an annual report on its supervision of banks and non-bank intermediaries pursuant to Article 4 of the 1993 Banking Law (Legislative Decree 385 of 1 September 1993).

The Bank of Italy participates actively in international efforts to improve the supervision of financial intermediaries. Particularly important initiatives are the work of the Basle Committee on banks' capital adequacy and that of the Financial Stability Forum on ways of dealing with potential sources of instability within the international financial system.

The new capital adequacy framework proposed by the Basle Committee is intended to achieve closer correlation of banks' capital with actual risks by refining the quantitative rules and supplementing them with qualitative standards on banks' strategy and internal organization and with market discipline. The Committee proposes that credit risk be measured by reference to the ratings of specialized agencies or of banks' internal rating systems. The latter enable banks to capitalize on their information on customers and improve their credit assessment, pricing and risk control processes.

The Financial Stability Forum has examined several factors that could jeopardize the stability of financial systems. It has proposed a procedure for evaluating offshore centres' observance of international standards for prudential supervision and cooperation between supervisory authorities. As for transactions with highly leveraged institutions, it has recommended that banks strengthen their risk management procedures and has endorsed the actions undertaken by national authorities to foster greater public disclosure on the part of those institutions.

In Italy, statutory and administrative provisions have evolved to simplify the rules, strengthen cooperation between supervisory authorities and increase transparency vis-à-vis the public.

The new rules on holdings of capital in banks streamline the regulatory framework for operators, specifying the timetable and content of prior notification and of the authorization. The rules on transparency in banks' security issues were modified to keep step with the growing complexity of the instruments issued. For the asset management industry the time needed to start up new initiatives was shortened, the possible scope of business broadened, and the range of products they may offer extended.

The privatization of banks and the reorganization of the financial system proceeded at a rapid pace last year. With the completion of the operations already under way, the share of bank assets held by banks controlled by the state or by bank foundations will fall to 12 per cent, compared with 18 per cent at the end of 1998.

Last year saw 64 banking concentrations involving the transfer of market shares equal to 15 per cent of total assets, the highest figure since the beginning of the nineties. As the result of mergers and acquisitions the share of total assets accounted for by the five largest groups rose to 50 per cent, compared with 35 per cent three years ago, and approached the average for the euro area. The restructuring has now extended to medium-sized banks, giving rise to new institutions of substantial dimensions.

Banks and banking groups are striving to manage the transformation of their corporate and productive structures as a consequence of concentrations, in order to achieve more effective integration. Both individual and collective portfolio management activities are increasingly assigned to asset management companies within groups. The more highly diversified groups tend towards strategies of specialization, assigning one unit to the actual production of asset management services and others to distribution and marketing.

An increasingly important aspect of marketing is the sale of insurance products via banking channels. Premiums generated by new life insurance policies sold at banks rose by 70 per cent in 1999 to nearly 41 trillion lire.

The provision of Internet services is growing. More than 300 intermediaries, including 240 banks holding 87 per cent of the system's total assets, use the Internet to supply information or services, mainly securities trading.

Banks' net profits increased, with significant contributions from capital gains on the sale of equity interests and the taking of tax benefits, largely arising from value adjustments to loans in previous years that were only partially deducted from taxable income (so-called deferred taxation). Return on equity rose to more than 9 per cent, 2 points better than in 1998.

The profitability of the largest banks, involved in reorganization in the wake of concentrations, improved considerably. The ratio of their operating costs to gross income has been reduced by 8 percentage points since 1997, bringing it into line with the system-wide average.

The good results shown by firms helped to bring significant improvement in the quality of banks’ loan assets. At adjusted values, new bad debts amounted to 1.4 per cent of the previous year’s outstanding lending, more than 2 percentage points below the peak figure registered in 1993. The stock of bad debts was reduced, essentially reflecting the securitization of 18 trillion lire worth of uncollectible claims. Loan losses decreased by 1.1 trillion lire to 0.9 per cent of the loans outstanding in 1998, about the same level as at the beginning of the decade.

The average solvency ratio remained above 12 per cent in 1999. In the last two years increased recourse to the equity market has contributed to the growth in banks’ capital. The assets held by listed banks rose from 39 per cent of the system-wide total in 1993 to 44 per cent in 1998, a level comparable to that found in the other leading European countries.

The improving state of the banks was reflected in supervisory evaluations, off-and on-site. Significant progress was found in the largest groups. Problems were detected among the smaller banks, a third of which belong to groups whose financial situation is positive. The inspections carried out in the three years from 1997 to 1999 resulted in fewer unfavourable assessments than in the previous three-year period.

Supervisory activity paid special attention to the reorganization of group structures, internal control systems and risk management methods. Given the complexity of restructuring plans, banks’ governing bodies were urged to adopt effective criteria for the division of responsibilities and to speed up the rationalization of operational structures.

The banks were asked to review their organizational arrangements and internal controls in the light of the general criteria issued in 1998 and to draft plans for the necessary adjustments.

The use of internal rating systems for credit risk management is still not widespread, and better coordination with lending departments is needed. Improvement in the control of financial intermediation risks was observed at some large groups. At other institutions further adaptation of risk measurement and control systems to the size and complexity of business is needed.

The profits of asset management companies rose by 36 per cent in 1999, thanks mainly to the increase in the volume of assets managed and a shift towards higher-value-added products.

Investment firms’ profitability remained at the high levels registered in 1998. Bank-controlled firms achieved better-than-average results. The greater risks connected with higher-yielding activities were fully covered by the intermediaries' capital resources.

The financial companies entered in the special register referred to in Article 107 of the Banking Law recorded return on equity of 8 per cent, compared with 6 per cent in 1998. The gain was largely due to deferred tax benefits. A slight increase in gross income was accompanied by the curbing of operating expenses.

Supervision of asset management companies focused mainly on restructuring plans and organizational shortcomings in the light of the considerable increase in the volume of assets under management and of new products. Supervision of investment firms was directed to strengthening organization and improving risk management, especially as regards operational risks. There was closer scrutiny of the asset quality and risk management procedures of the financial companies entered in the special register.

In securities issue oversight, special attention was paid to assessing the innovative features of the products offered. During the year there were significant issues of more sophisticated instruments, such as asset-backed securities.

THE REGULATORY FRAMEWORK

The new capital adequacy rules proposed by the Basle Committee and the European Commission

In June 1999 the Basle Committee published a proposal for a new bank capital adequacy framework to replace the 1988 Capital Accord. Financial innovation and advances in risk measurement have revealed the limitations of the current rules. The new framework consists of three "pillars": refinement of risk measurement for the purposes of the minimum capital requirement, qualitative requirements that calibrate capital adequacy to banks' strategies and internal organization, and reinforcement of market discipline.

In close coordination with the work of the Basle Committee, the European Union launched an initiative to revise the Community directives on capital adequacy. The reform proposal, which was circulated for consultation in November 1999, concerns all banks and investment firms and is therefore wider in scope than the Basle recommendations, which apply only to banks with international operations.

International cooperation and Community legislation

International cooperation. - As one of the Group of Seven's initiatives to investigate the potential causes of instability in the international financial system, the Financial Stability Forum in March of this year published its first three reports on short-term capital movements, highly-leveraged institutions and offshore centres.

The second of these reports provides an initial assessment of the effects on international financial stability of the operations of hedge funds, highly-leveraged institutions that are not subject to any specific supervisory regime. It also identifies a series of actions, to be agreed at international level, that can lessen the potential risks. In line with the Basle Committee's indications of January 1999, the document recommends that credit and financial institutions strengthen their risk management procedures for transactions with highly-leveraged institutions, approves the steps taken by national authorities to impose public disclosure requirements on hedge funds, and suggests subjecting them to a specific supervisory regime if the recommendations prove ineffective.

The report on offshore centres analyzes financial markets that lure non-residents' activities by offering a benign economic regime, tax and regulatory advantages and the protection of business secrecy. With the increasing integration of markets, the growth of such centres and the severe inadequacy of some of them in regulation and in cooperation with foreign authorities could spawn international financial instability. The report, reviewing the standards set by the international organizations of bank, insurance and securities regulators, identifies several for priority implementation: cooperation and exchange of information between authorities of different countries, preparation of supervisory rules and procedures consistent with international principles, and the identification of customers. The report proposes that the International Monetary Fund initiate a procedure for evaluating actual compliance with these standards and outlines a system of incentives to encourage their adoption; in particular, it suggests that industrial countries' supervisory authorities should take compliance with international principles into account when, for example, authorizing home-country intermediaries to operate in offshore centres. In May 2000 the Forum published a classification dividing the offshore centres into three groups on the basis of the quality of supervision and their cooperation with other authorities. The classification, which reflects the findings of a questionnaire sent to offshore centres and the supervisory authorities of 30 industrial countries, aims at setting the priorities for assessment of the centres by the IMF.

Last year saw further action by the Basle Committee to encourage banks to adopt adequate risk management procedures and organizational safeguards. The Committee also circulated a document illustrating the application of the core principles for effective banking supervision. The document defines the key criteria by which the responsible organizations (the IMF, World Bank, regional development banks, and so forth) will assess the conformity of emerging countries' financial systems with the principles.

The Banking Supervision Committee at the European Central Bank, which brings together representatives of the national central banks and supervisory authorities, continued to study the evolution of the banking and financial markets in Europe. The Committee also began to prepare a macro-prudential framework for the analysis of national banking systems and markets.

In addition, the Committee assisted the ECB in its advisory functions regarding draft EU and national legislation, such as the two proposals for directives on electronic money and the national measures transposing Directive 98/26/EC on settlement finality in payment and securities settlement systems.

EU legislation. - In 1999 the European Council adopted the common position on the proposal for a directive on the taking-up, pursuit and prudential supervision of the business of electronic money institutions (i.e. issuers of prepaid cards or monetary values stored in computer memory intended for general acceptance).

Negotiations continued on the draft directive on the distance marketing of consumer financial services, which would introduce harmonized forms of protection for consumers who contract for financial services by means of remote communication (ordinary mail, electronic mail, telephone, fax).

The Council continued its examination of the two proposals for directives amending the EU's current legislation on undertakings for collective investment in transferable securities (Directive 85/611). One of the proposals is aimed at specifying the minimum harmonized rules applicable to management companies, the other at widening the scope of permissible investments for investment funds and SICAVs equipped with the European passport.

Italian legislation

The overriding aims of recent primary and secondary legislation are to simplify the rules, reinforce cooperation between supervisory authorities, increase the scope of public disclosure and raise the level of competition among intermediaries.

Amendments to the 1993 Banking Law. - Two legislative decrees adopted last year introduced several amendments to the 1993 Banking Law, mainly in connection with changes in the general framework of domestic and EU legislation.

Legislative Decree 333 of 4 August 1999 completed the transposition of Directive 95/26/EC (the so-called post-BCCI Directive) for the credit sector. The directive had already been implemented in part by the

Consolidated Law on Financial Intermediation (Legislative Decree 58 of 24 February 1998).

Legislative Decree 342 of 4 August 1999, issued pursuant to the EU Legislation Implementation Law for 1995-97 (Law 128 of 24 April 1998), amended the 1993 Banking Law to take account of intervening developments in intermediaries' operations and the markets and in response to needs that have emerged during the Banking Law's application. The principal changes regard the rules on contractual conditions, controls on transparency and financial intermediaries, and the assignment of legal relationships. Several amendments concern the rules governing specific credit operations and several minor categories of financial institution. For the sake of consistency with the more recent Consolidated Law on Financial Intermediation, several changes were also made in the Banking Law's provisions on sanctions and unauthorized banking and financial activity.

Secondary legislation

Equity investment in banks and bank holding companies. - The Supervisory Instructions governing the acquisition of a controlling interest in a bank or bank holding company were revised in October 1999. The new rules concern the timetable and contents of prior notification to the Bank of Italy and the procedure followed by the Bank to authorize the acquisition. They also improve coordination with Consob's procedures for takeover bids.

Prior notification enables the Bank of Italy to scan for impediments to the operation and speeds up examination of the application for authorization. A plan for a takeover bid must be disclosed beforehand to the Bank when it has reached the stage where it can be proposed to the board of directors. Authorization must be requested within thirty days of the prior notification. To satisfy the needs of the market, the time limit for granting authorization is shortened from sixty to thirty days in the case of operations involving an irrevocable commitment to acquire significant interests (tender offers and participation in auctions). To enable the Bank of Italy to verify sound and prudent management and safeguard stability, the application must also outline the proposed business plan.

Supervisory capital requirements. - In February 1999 the supervisory capital requirements were adapted to the Amendment to the Capital Accord to incorporate market risks, which the Basle Committee had approved in

January 1996, and EC Directives 98/31, 98/32 and 98/33 regarding market risks, the solvency ratio and other aspects of prudential supervision.

The principal innovation concerns the possibility for banks to use their own internal models to calculate capital charges against market risks. Permission to do so is subject to recognition of the models by the Bank of Italy, which verifies that these satisfy minimum standards ensuring accurate calculation of the capital requirements for prudential purposes.

Transparency of securities issued by banks. - The increasingly complex risk profiles of securities issued by banks and the need for more detailed public disclosure by way of uniform formats that facilitate the comparison of offers spurred a revision of the transparency rules for bank securities.

The provisions of July 1999 specify the information to be reported in the analytical fact sheets (information on the issuer bank, the features of the issue and the risks of the operation), regulate the contents of summary public notices and also apply the disclosure requirements to banks that market securities of other issuers.

Collective asset management. - The overhaul of regulation of collective asset management in accordance with the guidelines laid down by the Consolidated Law on Financial Intermediation was completed last year, taking sectoral developments into account. The reform anticipated the tendencies that have emerged at EU level.

Regulatory revision was accompanied by a simplification of procedural formalities, particularly with a view to shortening the time needed to launch new initiatives (establishment of asset management companies, offer of new products).

Decree 228 of 24 May 1999 issued by the Minister of the Treasury widened the operational possibilities for investment funds and the array of products that asset management companies can offer, permitting the establishment of funds reserved to “qualified” investors and of “speculative” funds.

In September 1999 the prudential rules on the operating limits of investment funds and SICAVs were revised and the regulation governing the methods of valuing fund assets was amended accordingly.

The requirements regarding depositary banks were also revised. The minimum capital requirement was raised from 75 billion lire (€39 million) to €100 million. In order to ensure separation between asset management companies and depositary banks, the function of depositary bank cannot be conferred if the chairman of the board of directors, managing director, general manager or members of the management committee of the asset management company or SICAV perform similar functions in the bank.

The revision of the secondary legislation issued by the Bank of Italy concerning collective investment undertakings was completed with the measure of 24 December 1999 defining the standard formats and rules for drawing up the accounting statements of investment funds and SICAVs.

Early repayment of real estate loans, compound interest and minor categories of financial institution. - Implementing the amendments to the 1993 Banking Law, on 9 February the Interministerial Committee for Credit and Savings issued three decisions concerning, respectively, the early repayment of real estate loans, compound interest and the activity of some minor categories of financial institution. The first decision indicates the standards of transparency that banks must adopt in determining the all-inclusive amount due from customers in the case of early repayment of real estate loans; contracts must indicate the formula for calculating the amount and provide one or more illustrative examples. The second limits the circumstances in which interest may be compounded. The third defines the procedures and limits subject to which non-profit non-banks that traditionally raise funds and make loans on a small scale in local markets may continue to operate.

Measures regarding non-banks. - A measure issued on 29 March 2000 governs the treatment of securitization operations in the annual accounts of the assignee companies. Each operation must be reported only in the notes to the financial statements, which will also include a statement setting out the qualitative and quantitative details serving for full disclosure.

Implementing Article 58 of Law 448/1998 (Public finance measures for stability and growth), on 3 May 1999 the Interministerial Committee for Credit and Savings decided to permit cooperative companies - except for financial companies not subject to supervision - to issue bonds up to the amount of their capital less any funds raised by means of commercial paper and investment certificates.

THE STRUCTURE OF THE FINANCIAL SYSTEM

Banks and banking groups

At the end of 1999 the Italian financial system included 876 banks, compared with 921 a year earlier (Table 49); 208 were members of banking groups.

Table 49

THE STRUCTURE OF THE ITALIAN FINANCIAL SYSTEM

	31 December 1998			31 December 1999		
	Inter-media-ries	No. of branches		Inter-media-ries	No. of branches	
		Italy	Abroad		Italy	Abroad
Banks	**921**	**26,258**	**100**	**876**	**27,134**	**98**
of which: limited company banks (1)	*243*	*19,127*	*91*	*239*	*19,978*	*89*
cooperative banks (banche popolari)	*56*	*4,275*	*9*	*49*	*4,205*	*9*
mutual banks (banche di credito cooperativo)	*563*	*2,772*	–	*531*	*2,862*	–
branches of foreign banks	*59*	*84*	–	*57*	*89*	–
Securities firms	**191**	–	–	**183**	–	–
Asset management companies and SICAVs	**72**	–	–	**86**	–	–
Financial companies listed in register referred to in Art. 106 of the Banking Law	**1,427**	–	–	**1.339**	–	–
of which: listed in special register referred to in Art. 107	*206*	–	–	*203*	–	–

(1) Includes banks accepting medium and long-term funds and central credit and refinancing institutions.

Strategy and organization. - The legislative and structural changes in the banking system over the past decade have broadened the range of options available to banks in defining their corporate strategies. New distinctions have emerged among intermediaries, with some seeking to establish a major presence in multiple markets and others targeting specific product lines or customer segments. Some banks also remain committed to defending their traditional markets by enhancing their connections with local customers.

Growth objectives are also being pursued through commercial policies aimed at establishing a leading position in innovative sectors, often by means of alliances with telecommunications companies that are reinforced by cross-shareholding.

The prevailing strategy of expansion has been to achieve rapid growth by various means, including mergers between banks of similar size.

Developments in 1999. - The reallocation of bank ownership continued apace. With the completion of operations under way, the share of total assets held by banks and groups controlled by the State, local authorities and foundations will fall to 12 per cent, compared with 18 per cent at the end of 1998 (Figure 50). Between 1992 and the end of 1999, the number of banks in public hands fell to 49.

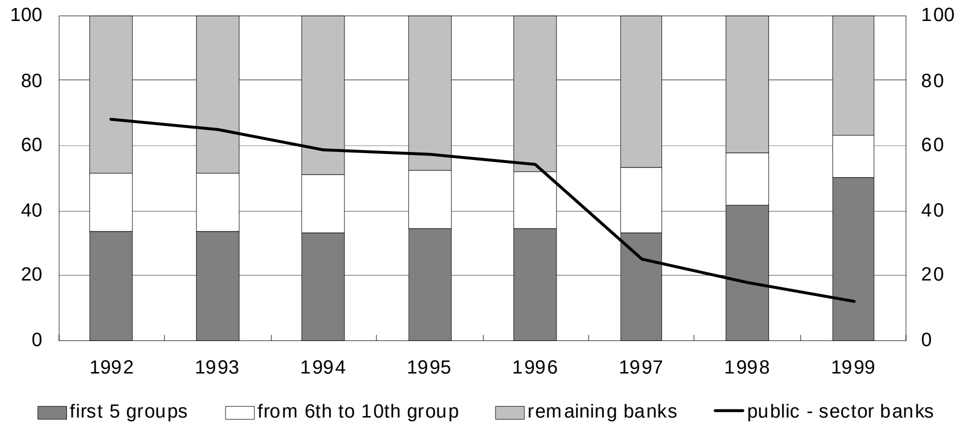
Excluding intra-group mergers, 64 concentrations were completed last year. This involved the transfer of market shares equal to nearly 15 per cent of total banking assets, the highest figure recorded to date.

In the wake of this consolidation the share of total assets controlled by the five largest Italian banking groups rose to 50 per cent, compared with 35 per cent three years earlier. The ten largest groups held 63 per cent of assets, compared with 52 per cent in 1996 (Figure 50).

Figure 50

CONCENTRATION AND PRIVATIZATION IN THE ITALIAN BANKING SYSTEM

(share of total assets at year-end; percentages)



Restructuring has spread to medium-sized institutions as well. In 1999 a number of major players were born (Banca Antoniana Popolare Veneta, Cardine Banca, Banca Popolare di Lodi, Banca Lombarda, Bipop-Carire), some with branch networks rivalling those of the leading national banks. The use of new distribution channels permitted some banks to expand beyond the confines of their original markets and to gain significant market shares, especially in the investment services segment.

Recourse to the market for debt or equity capital was once again an essential part of banks' growth strategies. Acquisition and expansion plans were financed with multi-year programmes to strengthen capital bases using a diversified range of innovative instruments, some of which were placed on international markets. The performance of bank shares varied. The prices of some reflected considerable goodwill, confirming the importance investors attach to corporate strategy and prospects for growth.

In 1999 the number of groups decreased by 6, to 79, as a result of concentrations; their share of total assets rose from 87 to 89 per cent.

The rationalization of Italian banks' foreign networks continued. After disposing of disappointing equity investments in foreign banks, some Italian intermediaries expanded their presence in emerging markets, notably Latin America and Eastern Europe, by acquiring banks with a retail focus and large domestic market shares. The number of Italian groups operating abroad remained unchanged at 25.

Fifty-seven foreign banks are established in Italy, with a total of 89 branches, 5 more than in 1998. Twelve Italian banks are subsidiaries of foreign groups (11 in 1998), of which 8 are based in the EU.

Distribution. - Personal contact with customers still plays a central role in banks' commercial strategies and drives the growth in the branch network (which grew by 874 units in 1999) and in the marketing of products through financial salesmen. At the same time, advances in telecommunications and data transmission and the growing use of these technologies by the public are reducing the need for physical proximity, considerably expanding the potential of electronic and telephone distribution channels.

Internet banking. - The Internet enables banks to distribute financial products to households and firms at lower unit costs, to extend their potential customer base by reducing the need for a physical presence in a given market and to enter new areas of business.

A total of 312 intermediaries use the Internet to provide services or as a channel for information or promotional initiatives; 237 are banks, accounting for 87 per cent of total assets. Intermediaries offering on-line transaction services to customers number 134, the majority of them banks; 54 of these are also involved in e-commerce ventures, generally through the promotion or creation of virtual markets or shops (40 initiatives) and the provision of payment services (45).

Relations between banks and insurance companies. - The bancassurance model has been widely adopted in Europe, although its features differ from country to country. Joint bank and insurance ventures have also expanded in Italy.

In December 1999 Italian banks had equity interests in 69 Italian insurance companies (mainly operating in the life sector) and in 46 insurance brokers, together with holdings in 15 foreign insurance companies and 1 foreign broker. Insurance companies controlled 4 Italian banks and had equity interests in 20 others in December 1999. In the first few months of this year the number of banks they controlled rose to 5. Banks are playing a growing role in the distribution of insurance products: last year more than 50 per cent of life insurance premiums were collected through banks.

Securities intermediaries

Asset management companies. - The asset management sector has undergone major changes as the large banking and insurance groups have restructured their production and distribution processes.

Both collective and individual portfolio management activities are being concentrated in asset management companies. Last year this process saw the merger of 7 securities firms into asset management companies, the transformation of 3 firms and 2 transfers of individual portfolio management business to management companies. In many cases banks have delegated the handling of individual customer portfolios to group asset management companies.

In December 1999 asset management companies controlled about 72 per cent of funds under management, an increase of 8 percentage points on 1998. The market is dominated by Italian banking groups; of the top ten players, which account for 71 per cent of assets, only two are insurance groups. At the end of last year there were 85 registered management companies, 14 more than in 1998.

Fifty-eight asset management companies and one open-end investment company (SICAV) were operational in the field of open-end collective investment undertakings. Summing the 6 sectors managed by the SICAV and the 7 of the sole multi-sector fund with the single-sector investment funds, 823 Italian funds were operational at the end of 1999, compared with 706 a year earlier. Equity funds accounted for 46 per cent of the total, the same as bond and money-market funds together, while balanced funds made up the remainder (Table 50).

Table 50

UNDERTAKINGS FOR COLLECTIVE INVESTMENT

	31.12.1998	31.12.1999
Italian open-end securities investment funds: (1)		
authorized	924	1.019
operational	706	823
of which: *equity*	*325*	*383*
balanced	*52*	*54*
bond	*224*	*270*
money market	*105*	*113*
global	*–*	*3*
Italian closed-end securities investment funds:		
autorizhed	11	12
operational	7	11
Italian closed-end real-estate investment funds:		
autorizhed	2	6
operational	–	3
Italian open-end pension funds established by asset management companies:		
autorizhed	25	32
Foreign funds and sectors marketed in Italy	**938**	**1,192**
of which: *equity*	*478*	*599*
balanced	*57*	*74*
bond	*279*	*383*
money market	*86*	*91*
global	*38*	*45*

(1) Includes one Italian SICAV. Sectors are considered individually.

Net subscriptions to open-end funds amounted to about 119 trillion lire (€61.458 billion), a decline of 62 per cent with respect to 1998 that was due to the gradual completion of the shift of securities deposited with banks into managed savings products. Total assets under management increased by 27.6 per cent to 920.300 trillion lire (€475.295 billion), thanks to the rise in share prices.

At the end of the year, the 11 closed-end funds, 3 of which are listed on the official market, had assets of 1.350 trillion lire (€697 million), compared with 900 billion lire at the end of 1998. These funds mainly invest in the equity of unlisted firms, playing a venture capital role; funds operating for more than one year are 45 per cent invested in unlisted equities.

Three closed-end real-estate investment funds began operations in 1999. At year-end they had assets of 1.4 trillion lire (€723 million).

Thirty-two open-end pension funds established by asset management companies were authorized in 1999 (Table E7). The companies managed assets of pension funds totalling about 1.1 trillion lire (€568 million).

In December 1999 there were 1,192 foreign investment funds and SICAVs marketed in Italy, 254 more than in 1998; 50 per cent were equity based and 40 per cent were bond or money-market funds.

Securities firms (SIMs). - The number of securities firms fell by 8 to 183, mainly as a result of the restructuring in the asset management sector and the withdrawal of a number of foreign-owned firms. Nine authorizations were issued (compared with 8 in 1998) for initiatives in individual portfolio management, financial sales networks and companies specialized in on-line trading.

Financial companies

At the end of 1999 there were 203 financial companies listed in the special register pursuant to Article 107 of the 1993 Banking Law and subject to Bank of Italy supervision. At the same date there were 1,339 intermediaries listed in the general list referred to in Article 106. Lending by companies in the special register totaled 143.7 trillion lire (€74.215 billion).

The growth of the quasi-banking sector in Italy paralleled that in the main European markets. New leasing contracts increased by 14 per cent in Europe and 27 per cent in Italy, where real estate leasing is more developed. Turnover in the Italian factoring industry, which is the second largest in continental Europe, rose by 17 per cent, slightly less than the European average of 19 per cent. Consumer credit expanded by an average of 13 per cent in Europe. The Italian market, which is still undersized compared with the other leading European countries, registered growth of 27 per cent.

Venture capital investment, which increased substantially in the last two years, is still dominated by foreign investors.

The first special-purpose vehicles were registered in the second half of 1999, following approval of Law 130 of 30 April 1999 on the securitization of claims and the completion of a number of operations.

RISKS, PROFITABILITY AND CAPITAL ADEQUACY OF INTERMEDIARIES

Banks

Credit risk. - Lending by Italian banks expanded by 8.4 per cent in 1999 or 9.2 per cent including lending by financial companies that became banks in the course of the year (Table 51).

Table 51

BANK'S BAD AND DOUBTFUL DEBTS AND TOTAL LENDING (1)
(end-of-period amounts in billions of lire; in brackets, millions of euros)

	Banks accepting short-term funds			Banks accepting medium and long-term funds			Total		
	Bad debts (2)	Doubtful debts	Total loans (3)	Bad debts (2)	Doubtful debts	Total loans (3)	Bad debts (2)	Doubtful debts	Total loans (3)
1997	106,541	40,061	1,188,490	15,893	5,915	171,789	122,434	45,976	1,360,279
1998	109,806	38,112	1,270,066	15,283	5,548	173,246	125,089	43,660	1,443,312
1999	104,054	34,041	1,407,640	12,594	3,282	168,754	116,648	37,323	1,576,394
	(53,739)	*(17,581)*	*(726,985)*	*(6,504)*	*(1,695)*	*(87,154)*	*(60,244)*	*(19,276)*	*(814,140)*

(1) Lending to resident customers of banks operating in Italy and Italian banks' branches abroad. The classification of banks is that which was in force at the end of 1999; merged banks have been considered as belonging to the category of the bank into which they were merged. – (2) Includes protested bills. – (3) Includes bad debts and protested bills.

The quality of credit improved significantly, as is indicated by the contraction in new bad debts. Gross of value adjustments, total bad debts declined by 8.4 trillion lire (€4.338 billion) to 116.6 trillion (€60.219 billion) at the end of the year. This was equal to 7.4 per cent of total loans, the lowest figure since 1993. Net of value adjustments, bad debts diminished by 9.5 trillion lire during the year to 63.8 trillion (€32.950 billion). Doubtful debts decreased by 6.3 trillion lire (€3.254 billion).

Banks carried out loan securitization for 22.5 trillion lire (€11.62 billion) during the year; 18 trillion consisted in bad debts and 2.3 trillion in doubtful debts. In many cases full transfer of the risk to the purchaser did not take place.

The ratio of adjusted to account-book bad debts was 107 per cent, down from 109.8 per cent at the end of 1998. On this adjusted basis, the flow of new bad debts diminished to 1.4 per cent of outstanding lending, compared with 1.6 per cent in 1998.

The banks were required to reduce their exposure to any single customer to no more than 40 per cent of supervisory capital by 31 December 1998, and at that date the adjustment of overexposure was very largely completed. The amounts in excess of the ceiling totalled 950 billion lire, compared with 10.1 trillion in March 1997.

The individual ceiling was lowered to 25 per cent of capital in January 1999. By the end of 2001 banks will have to bring their exposures down to that limit. In September 1999 amounts in excess of the new ceiling, on a consolidated basis, totaled 9.5 trillion lire (€4.906 billion). The principal banking groups accounted for 72 per cent of the excess exposure, and three-fourths of the amount was with four large industrial groups. At the same time, large exposures (those for more than 10 per cent of supervisory capital) amounted to 133.4 trillion lire, or (€68.895 billion).

Country risk. - In December 1999 Italian banks' non-guaranteed loans subject to the supervisory rules on country risk amounted to 24.7 trillion lire (€12.756 billion), including 4.6 trillion in short-term trade credits. The increase of 1.3 trillion (€671 million) during 1999 largely reflects the appreciation of the dollar, in which most international credits are denominated. Net of the exchange rate effect, the creditor positions of Italian banks increased only vis-à-vis the Middle East.

The loans subject to adjustment - among which short-term trade credits are assigned a 15 per cent weight in consideration of their lower risk - diminished by 900 billion lire to 12.5 trillion (€6.456 billion), thanks to the decrease in countries' riskiness by comparison with 1998. By risk class, the proportion of lending to zero-risk countries rose from 37 to 45 per cent; that going to countries risk-weighted at 30 per cent or more declined by 2 points to 33 per cent.

Required adjustments to supervisory capital increased by 1.2 trillion lire (€620 million). The average adjustment, i.e. the ratio of minimum adjustments to total non-guaranteed claims on non-zero-risk countries, rose from 15.6 to 19.6 per cent. In significant measure the increase was due to the end of the transitional rules instituted together with the new country risk regime, which had permitted adjustments equal to 70 per cent of the required amounts.

Profitability. - Banks' return on equity rose to 9.3 per cent in 1999. The increase of 2 points compared with 1998 was due very largely to extraordinary income (Table 52).

Table 52

SELECTED INDICATORS FOR ITALIAN BANKS BY GEOGRAPHICAL AREA (1)

(amounts in billions of lire; in brackets, millions of euros)

	Centre and North		South		Total	
	1998	1999	1998	1999	1998	1999
Net income (2)	39,294	41,320 *(21,340)*	3,051	2,029 *(1,048)*	42,345	43,349 *(22,388)*
Charges for loan losses	12,239	11,713 *(6,049)*	1,938	1,361 *(703)*	14,177	13,074 *(6,752)*
ROE (%)	*7.9*	*9.5*	*3.0*	*7.3*	*7.4*	*9.3*
Allocations to supervisory capital (2)	6,567	7,348 *(3,795)*	181	1,019 *(526)*	6,748	8,367 *(4,321)*
Increases in share capital (3)	13,613	7,124 *(3,679)*	178	96 *(50)*	13,791	7,220 *(3,729)*
Supervisory capital	213,716	229,728 *(118,644)*	17,894	18,655 *(9,635)*	231,610	248,383 *(128,279)*
Solvency ratio (%)	*12.8*	*12.4*	*13.4*	*13.4*	*12.9*	*12.5*
Excess amounts	81,208	83,518 *(43,133)*	7,305	7,594 *(3,922)*	88,513	91,112 *(47,055)*
Shortfalls	953	1,916 *(990)*	53	61 *(32)*	1,005	1,977 *(1,021)*
Excesses on a consolidated basis (4)	58,409	53,068 *(27,407)*	5,818	4,837 *(2,498)*	64,226	57,905 *(29,905)*
Shortfalls on a consolidated basis (4)	583	193 *(100)*	3	5 *(3)*	586	198 *(102)*

(1) The classifications are those that were in force at the end of 1999. – (2) The data here differ from those commented on in the text in that net income and allocations to supervisory capital include dividends earned on holdings of bank equity. – (3) Net of buybacks. – (4) Data for the month of June.

Net interest income came to 61.2 trillion lire (€31.607 billion), a decrease of 5 per cent. Net of dividends on banks' shareholdings, gross income remained unchanged, as an increase of 3.8 trillion lire in income from services was offset by a decrease of 4.4 trillion in income from securities trading.

There was an increase of 3 per cent in operating expenses, due to a rise in non-staff costs. Consisting largely in purchases of goods and professional services, these costs increased in connection with the adaptation of information systems for the century change and with greater outsourcing of instrumental functions. Staff costs amounted to just over 39 trillion lire (€20.142 billion), as in 1998.

The number of bank employees decreased by 0.2 per cent, following declines of 1.9 per cent in 1997 and 1.2 per cent in 1998. While the large banks downsized, smaller banks expanded staff. Since the staffing peak of 1993, the overall contraction amounts to 6 per cent.

The increase in expenses resulted in a 5 per cent decrease in net income. Costs connected with loan losses amounted to 13.1 trillion lire (€6.766 billion), 1.1 trillion less than in 1998 (Table 52).

Pretax profits were boosted by gains on disposals of equity interests, which rose from 1.2 trillion lire (€620 million) in 1998 to 3.5 trillion lire last year. The increase reflected the disposal of holdings in large non-financial firms. The banks also counted their future tax credits as income for the year. Taxes paid decreased by 6 per cent.

The portion of net profit distributed as dividends came to 11.8 trillion lire (€6.094 billion), an increase of about half by comparison with 1998. The portion used to increase supervisory capital diminished by one third.

The improvement in return on equity was accounted for mostly by the banks involved in mergers and acquisitions. Among these, the sharpest increase was scored by the ten biggest banks, whose ROE went from a negative 5 per cent in 1997 to a positive 12 per cent in 1999. The other intermediaries involved in concentrations raised their ROE from 5 to 10 per cent, while those not involved saw it decline from 6 to 5 per cent.

Capital adequacy. - In June 1999 the overall solvency ratio of the Italian banking system, calculated on a consolidated basis, stood at 11 per cent, about half a point lower than in June 1998, largely as the result of an increase in risk-weighted assets. Amounts in excess of the minimum capital requirements came to 57.9 trillion lire (€29.903), compared with 64.2 trillion a year earlier. Shortfalls amounted to 200 billion lire (€103 million) and concerned 8 banks with lending equal to less than 3 per cent of the system-wide total.

The supervisory capital of the Italian banking system, computed on a consolidated basis, amounted to 214.3 trillion lire (€110.677 billion), representing an increase of 8.3 trillion (€4.287 billion) since June 1998.

In December 1999 the average solvency ratio, measured on a solo basis, was 12.5 per cent; this represented a decline of 0.4 percentage points since the previous year, due largely to the rapid expansion of lending (Tables 52 and a33). The supervisory capital of individual banks totalled 248.4 trillion lire (€128.288 billion), an increase of 16.8 trillion lire since the end of 1998 (Table a34). Subordinated liabilities increased by 47 per cent to 42.6 trillion lire; net capital losses implied on securities held as financial fixed assets amounted to 1.2 trillion lire.

Substantial increases in capital contributed to the expansion of banks' capital bases. Following 13.8 trillion lire in such operations in 1998, banks effected net increases for another 7.2 trillion lire (€3.718 billion) last year, compared with an annual average of 4.7 trillion between 1994 and 1997 (Table 52).

Asset management companies

Profitability. - The net profits of asset management companies amounted to 1.17 trillion lire (€604 million) in 1999, an increment of 36.4 per cent due both to the expansion of assets under management and to changes in their composition, with an increase in high-value-added products.

Net commission income was 37 per cent greater than in 1998. The management of open-end investment funds instituted by the companies themselves generated more than 95 per cent of total revenues.

Heightened competition led the companies to exploit all their marketing tools (product range, advertising, new distribution channels); the level and structure of commissions were also affected.

Operating costs increased as a result of the companies' expansion of structures and staff but remained constant in proportion to core business income. The average ratio of operating expenses to average assets under management declined from 0.18 to 0.12 per cent, ranging from 0.08 per cent for the largest companies to 0.54 per cent for the smallest.

Open-end investment fund management companies, for which a significant comparison with 1998 is possible, registered ROE on a par with the high levels of 1998 (40.8 and 41.1 per cent respectively).

Securities firms

Profitability. - The net profits of Italian securities firms were roughly unchanged last year at 1.2 trillion lire (€620 million). Their average return on equity remained at the previous year's high levels (30.5 per cent). Total revenues were broadly stable. The contribution of off-premises sales rose from 17.3 to 29.2 per cent of the total, while there was a decrease, even in absolute terms, in revenues from trading on own account and on account of third parties and an even sharper one in income from asset management activities.

Capital and risks. - At the end of 1999 the capital requirement for securities firms was about 1 trillion lire (€516 million), an increase of 29 per cent in the year. Their supervisory capital, 94 per cent of which was tier-one capital, was 2.7 trillion lire (€1.394 billion), representing an increase of 5 per cent.

The increase in capital resources used to meet the requirements reflects stepped-up underwriting of securities issues, changes in portfolio management procedures and differences in the types of securities handled.

Financial companies

Credit risk. - On 31 December 1999 bad debts, net of value adjustments, amounted to 1.3 per cent of total lending by financial companies, less than at the end of 1998. The improvement in credit quality is confirmed by the fact that new bad debts declined from 1.6 to 1.2 per cent. Credit risk concentration decreased.

Profitability. - The net profits of the intermediaries registered under Article 107 of the 1993 Banking Law came to 1.1 trillion lire (€568 million), representing a return on equity of 8 per cent compared with 6 per cent in 1998. Increased revenue from services contributed to a modest rise in gross income from 5.85 to 6.0 trillion lire (€3.099 billion). Rationalization within banking groups helped cut operating expenses from 63 per cent of gross income in 1998 to 60 per cent last year.

Capital adequacy. - The companies' total supervisory capital, 97 per cent of which consists of tier-one capital, amounted to 12.7 trillion lire (€6.559 billion), while the risk asset ratio decreased from 9.9 to 9.5 per cent. Their net exposure to interest rate risk came to 1.25 trillion lire (€644 million), or 9.8 per cent of supervisory capital. Exchange rate risk exposure remained modest at 3.8 per cent.

SUPERVISORY CONTROLS

Banking supervision

Analytical methods and tools. - The reorganization of banking groups, which involves parcelling out activity among product, service and distribution companies and a consequent increase in intra-group transactions, thus diminishing the significance of company-level data, requires an analysis focussed on consolidated data and structured by line of activity. Scope for supervisory analysis and intervention centring on individual banks remains primarily where the latter preserve operating autonomy.

The methods used to analyze the quality of loan portfolios have been further refined, to ensure that any sign of deterioration in the creditworthiness of homogeneous categories of borrowers will be promptly captured by indicators of anomaly constructed with data from the Central Credit Register. The identification of categories of borrowers with homogeneous risk profiles permits more effective evaluation of banks' loan selection and monitoring procedures; the results of supervisory analysis are disclosed to banks' corporate officers, who are asked to verify the match with their own assessments.

Given the great importance that asset management now has for banks and banking groups, detailed studies were conducted of its principal operating processes and the associated risks. The goal is to identify the criteria for a complete evaluation of the adequacy of organizational arrangements and internal controls in relation to the different risks taken.

Prudential analysis of banks' situations. - The scores assigned to banks were appreciably better last year than in 1998 on the whole. Banks with a positive evaluation accounted for more than 51 per cent of total borrowed funds, compared with 41 per cent in 1998, whereas those with unsatisfactory scores accounted for 23 per cent, unchanged from the previous year. The share of borrowed funds held by banks receiving mediocre scores consequently declined. Set against the improvement in profitability and risk profiles, some banks continued to exhibit organizational shortcomings.

The increase in positive evaluations was mainly due to the amelioration in the situation, and in particular the profitability, of some large groups. The number of banks (other than mutual banks) classified as unsatisfactory decreased by 13 to 64, of which a third belong to groups whose balance sheet situation is positive. The substandard mutual banks numbered 95 and accounted for about 13 per cent of mutual banks' total borrowed funds.

Supervisory action. - The Bank of Italy took action in the form of reprimands or meetings involving around 380 banks last year. A total of 484 meetings were held, the same as in 1998; 260 were arranged by the Head Office and 224 by branches. Half of the meetings arranged by the Head Office concerned some 30 banking groups.

There was a further increase in the number of meetings held to examine specific problems, particularly major strategic initiatives (mergers, establishment of Internet banks, restructuring of shareholdings) the management of credit risk and financial risks, and internal controls.

The integration and restructuring plans were generally satisfactory in terms of the rationalization of production; however, their implementation is highly complex and requires time.

Banks' governing bodies were reminded of the need for a more efficient division of roles and management responsibilities. They were urged to monitor the progress of corporate integration constantly for achievement of the expected economic and financial benefits according to schedule and to move ahead with the rationalization of shareholdings and branch networks. Holding companies were invited to prepare capitalization plans to ensure that capital adequacy requirements are satisfied with a margin to spare.

Supervisory activity with regard to risk control consisted in requesting reinforcement of the mechanisms for coordinating the activity of subsidiaries, with special reference to internal auditing and risk management. For credit risk, greater attention was paid to the effectiveness of banks' procedures for monitoring changes in the economic and financial situation of borrowers, especially in the case of banks whose supervisory returns showed signs of loan deterioration. For the risks associated with financial intermediation, follow-ups with some major groups found improvements in the risk control process both at the holding company level and in the specialized trading units. In others, however, measurement and control systems remain inadequate to cope with the growing volume and complexity of business.

Small and medium-sized banks display shortcomings in internal control systems and difficulties in boosting profitability by penetrating markets beyond their traditional areas of operation. Supervisory action was directed towards checking their ability to make organizational and operational changes that would save on costs, among other things. In the case of mutual banks, supervisory action on individual institutions was accompanied by efforts to spur their trade associations to devise more effective ways of assisting members in unsatisfactory situations.

Crisis procedures and other special procedures

Crisis procedures. - Eight banks were placed in special administration and the procedure was concluded for six in 1999. Two banks were placed in compulsory administrative liquidation.

In 1999 and during the current year Sicilcassa, in compulsory administrative liquidation, and Banco di Sicilia completed the joint valuation of the assets and liabilities transferred to the latter except for items that could not be valued because they were bound up in legal disputes of long duration and uncertain outcome arising from objections to the statement of liabilities. Taking this into account, the final shortfall on the transfer amounted to 4.158 trillion lire (€2.147 billion).

Two securities firms were placed in special administration and one in compulsory administrative liquidation.

Other special procedures. - The voluntary winding-up of Isveimer neared its conclusion last year, with the sale of assets, repayment of liabilities, extinguishing of staff pension obligations, and employee severance measures. The interim accounts of the liquidation at 31 December 1999 basically confirm the estimate of the final loss of the procedure (1.775 trillion lire, or €917 million, including the discounting of future losses), in line with that indicated in Isveimer's three previous annual accounts.

SGA continued the disposal of assets in 1999, reducing their balance sheet value from 12.442 to 7.770 trillion lire (€3.977 billion). Banco di Napoli made good SGA's losses with a corresponding reduction in the loan that it had made for the purchase of its substandard assets. The losses to Banco di Napoli from the reduction in its claim on SGA are being made good by the Bank of Italy with "restorative" measures in the manner established by the Ministerial Decree of 27 September 1974, in accordance with Article 3.6 of Law 588/1996.

Supervision of securities intermediaries

Asset management companies. - Last year saw the Bank of Italy engaged in evaluating operations connected with corporate restructuring and with new initiatives in the asset management sector and in promoting more efficient organizational arrangements on the part of intermediaries. Authorization procedures were streamlined.

Supervisory action involved 29 written reprimands or meetings with corporate officers. Where problems had been detected, companies were asked to draw up plans for reorganization of corporate functions and, in certain cases, business expansion (supply of individual portfolio management services or establishment of new investment funds) was made contingent on the adoption of corrective measures.

The emergence of new collective portfolio management products was reflected in an increase in approvals of fund rules. The streamlined procedures halved the average waiting time for decisions.

Securities firms. - Prudential analysis of securities firms identified problems of profitability in firms of marginal importance whose losses reflected the difficulty of forging effective strategies for growth. Several firms displayed scant awareness of the importance of control structures, which were not assured sufficient autonomy vis-à-vis operating units.

Supervisory measures - 36 letters of reprimand and 11 meetings - were taken to urge corporate officers to prepare reorganization plans enabling their firms to achieve and maintain an adequate balance sheet situation. In some cases business expansion was made contingent on the elimination of the observed weaknesses.

Supervision of financial companies

Analysis of the traditional indicators of risk in the main areas of financial intermediation - leasing, factoring and consumer credit, which together account for more than 85 per cent of lending by supervised financial companies - found moderate levels of risk for the period 1996-98. Special attention was paid to checking the quality of credit.

During the year reprimands were sent to or meetings held with 28 companies whose technical profiles displayed weaknesses.

Access to the securities market

Against the background of the integration and growth of markets, supervision of securities issues and offerings de-emphasized quantitative controls in favour of qualitative measures bearing on the innovative features of the products offered and their compatibility with the criteria established by the Interministerial Committee for Credit and Savings to safeguard the stability and efficiency of the market.

Banks notified issues of securities amounting to 382.1 trillion lire (€197.338 billion), compared with 433.2 trillion in 1998. Issues notified by Italian non-banks amounted to 62.4 trillion lire (€32.227 billion), compared with 9.8 trillion in 1998. Notifications were received regarding offerings of foreign securities in Italy totalling 241.0 trillion lire (€124.466 billion), compared with 211.8 trillion in 1998.

COMPETITION POLICY IN THE BANKING SECTOR

Mergers and acquisitions have been the chief instruments used in the reorganization of the banking system, and the resulting consolidation, accomplished partly through the formation or expansion of banking groups, has increased overall concentration. The extension of banks' networks and the presence of several operators in the same markets have nonetheless intensified competition.

The Bank of Italy has acted to ensure that the process of consolidation is accompanied by increasing efficiency and stability in the sector and to guarantee effective competition at local level.

A number of indicators confirm that the process of concentration that swept the Italian credit system in the nineties took place in a framework of increased competition.

The standard Herfindahl-Hirschman index shows substantial stability of concentration in deposit markets at provincial level over the last decade but increased concentration in lending markets at regional level. These trends have been accompanied by a reduction in interest rates and profit margins, showing that mergers have not led to the acquisition of dominant positions.

In each of the last three years the redistribution of market shares has involved an average of 3.9 per cent of total lending, compared with 2.6 per cent in the preceding three-year period.

The average number of operators per province, which rose from 20 to 27 in the eighties, stood at 31 at the end of 1999: the presence of outlets throughout Italy is dense, with 1 bank branch per 2,100 inhabitants, and about 80 per cent of the population can choose from at least three banks in their home town.

The spread between short-term lending and deposit rates, which had declined from 9 to 7 percentage points in the eighties, had narrowed to less than 4 points by the end of last year.

Since the introduction of Law 287/1990 the Bank of Italy has undertaken a total of 33 investigations: 16 involved mergers, 12 (one still in course) involved agreements and 5 abuses of dominant position. No comparable number of investigations has been conducted in any other credit system.

The key element in assessing the competitive impact of a concentration is the size of the relevant market, with reference both to product and to geographical area. The Bank of Italy considers the relevant area for deposits to be the province and for lending the region. It also acts to preserve competition in smaller areas.

During the nineties 16 mergers were investigated because of the possible creation of dominant positions capable of altering competitive conditions in the relevant markets; more than half of the cases examined led to the imposition of either structural measures (sale or closure of branches) or others (a ban on new branches for a set period of time in competition-critical markets) to prevent the banks concerned from acquiring excessive market power. Trends in market shares and interest rates show that the measures have been effective.

Mergers and acquisitions. - Last year 51 mergers involving banks were notified to the Bank of Italy under Article 16 of Law 287/90, compared with 60 in 1998 and 69 in 1997. Fifteen of these concerned infra-group or minor operations. In 31 of the remaining 36 cases no investigation was opened; of the 5 investigations launched, 4 were completed during 1999 and 1 in the early months of this year.

Monte dei Paschi di Siena-Cassa di Risparmio di San Miniato. - The investigation into the acquisition by Monte dei Paschi di Siena of a 25 per cent stake in Cassa di Risparmio di San Miniato was completed last year.

The investigation revealed a pronounced strengthening by the banks concerned of their competitive position for the deposit market in the province of Pisa; the gap between the two banks' market shares (which increased by 1.5 points in the last two years) and their main competitors was particularly large. The operation was therefore only allowed to go ahead on condition that the parties keep the number of branches in Pisa province unchanged for an unusually long period (five years).

UniCredito Italiano-Cassa di Risparmio di Trieste. - This operation envisaged the acquisition by UniCredito Italiano of control of Cassa di

Risparmio di Trieste. The two banks' market shares prompted the opening of an enquiry with regard to the regional markets for lending in the Veneto and Friuli Venezia Giulia regions and the deposit markets in the provinces of Verona and Trieste.

The enquiry ruled out the possibility of competitive distortions in the regional markets. However, UniCredito already held a dominant position with regard to deposits in Verona, as noted in the authorization granted for the merger between Credito Italiano and Unicredito on 2 November 1998. This authorization had been granted subject to the condition that the UniCredito group dispose of two branches in the province and open no new branches for two years. The merger with Cassa di Risparmio di Trieste, with one branch in Verona, would have violated this condition.

The position of Cassa di Risparmio in the deposits market in Trieste would have been strengthened by its merger with UniCredito: the two banks together would have had a market share close to 50 per cent. The merger was authorized on three conditions: (i) the disposal of one branch in the province of Verona; (ii) the closure of three branches in the province of Trieste; (iii) no geographical expansion by UniCredito in the province of Trieste for an additional two-year period.

UniCredito Italiano-Cassa di Risparmio di Trento e Rovereto (CARITRO). - This operation envisaged the acquisition by UniCredito Italiano of control of CARITRO.

The acquisition by UniCredito of CARITRO's branches in Verona would have run counter to the condition contained in the authorizations for the mergers between Credito Italiano and Unicredito and between UniCredito Italiano and Cassa di Risparmio di Trieste, to reduce and contain UniCredito's branches in the province.

Authorization of the merger was therefore subjected to two conditions, i.e. that UniCredito: (i) within one year, close or dispose of a number of branches in Verona equal to those of CARITRO (six); (ii) abstain from increasing the total number of its branches in the province for a further two-year period.

Banca Intesa-Banca Commerciale Italiana. - This operation envisaged the acquisition by Banca Intesa of 70 per cent of the ordinary and savings shares of Banca Commerciale Italiana (COMIT) by means of a takeover bid. An enquiry was initiated to examine the market impact on deposits and lending, individual portfolio management accounts, investment funds and factoring. The part of the enquiry concerning the asset management and factoring markets was conducted in cooperation with the Competition Authority, which had already initiated similar proceedings.

Although the merger brings together two of Italy's leading banks, it had no relevant impact on the deposit and lending markets at national level.

At the provincial deposit market level the enquiry revealed possible competition-limiting effects in 12 provinces in which the combined shares of the Intesa and COMIT groups were significant, in some cases over 50 per cent. There was pronounced overlapping in the regional lending markets of Calabria and Lombardy, but the enquiry ruled out the possibility that the two groups' combined shares in these regions might have a major impact on competition.

The enquiry into the asset management markets showed that at national level the large market shares of the two groups would not significantly restrict competition. With regard to the supply of asset management services, whether on an individual or a collective basis, no dominant position was found, on account of the competition from other major operators with appreciable market shares. With specific reference to distribution networks, the disaggregated national data revealed high combined shares (in excess of 35 per cent) in some provinces. The structural network-reducing measures proposed by the banks to cut back their share of the deposit market also affected the distribution capacity of their investment fund and asset management services. No competition-restricting circumstances were found in the supply or distribution of factoring.

On completion of the enquiry the Bank of Italy accepted Banca Intesa's undertaking: (i) to close or dispose of 45 branches in 12 provinces within one year; (ii) not to increase the overall number of its branches in the same provinces for a further period of two years.

Cassa di Risparmio di Genova (CARIGE)-Cassa di Risparmio di Savona (CARISA). - The enquiry into this merger, to be accomplished through the acquisition by CARIGE of total control of CARISA, was launched because of the possible restriction of competition in the deposit markets of the provinces of Imperia and Savona and the lending market in the Liguria region.

With regard to deposits in the province of Imperia, the enquiry found no significant threat to competition: CARISA's contribution to the market share of CARIGE was marginal and the level of competition in the market appeared satisfactory.

In the deposit market in Savona, on the other hand, the two banks would have acquired a combined market share of about 43 per cent, as well as a large number of branches (42 per cent of the total for the province).

The investigation found no threat to competition in the Liguria regional lending market.

The merger was authorized on condition that within one year the two banks: (i) dispose of four branches in the province of Savona (specifically, in the towns in which competition appeared most under threat); (ii) close two branches in the town of Savona; and (iii) for an additional two-year period, refrain from increasing the overall number of branches in the province of Savona.

Agreements. - Two complex investigations were initiated last year, one involving ABI and the other concerning thirteen major Italian banks.

On 26 January 1999 an investigation was launched into ABI’s recommendation that, to prepare for the launch of the third stage of EMU, banks adopt a specific formula to define the commission to be charged to customers for exchanging the banknotes of euro-area currencies; the recommendation also indicated the upper limits for both the fixed and variable portions of the commission (5,000 lire or €2.60 and 3 per cent).

The enquiry found that ABI’s recommendation constituted an agreement whose aim and effect was the concerted calculation of charges for the exchange of banknotes of euro-area countries.

ABI was warned not to take similar initiatives to set or recommend prices or commissions to customers in the future.

On 19 April 1999 the Bank of Italy initiated an enquiry into a suspected competition-restricting agreement between thirteen of Italy’s leading banks.

The enquiry found that during their meetings the banks had shared competition-sensitive information on most of their activities and discussed strategic and commercial issues with a view to coordinating their policies. This systematic and wide-ranging exchange of information was held to reduce competition and be prejudicial to the necessary autonomy and independence of action of a group of banks with considerable market shares in Italy.

It was also ascertained that the agreements had effectively damaged competition on only two counts. During the meetings the banks had jointly decided how to proceed in the matters of retaining the “foreign exchange commission charge” applied to cross-border payment orders in euro currencies and the charges for services affected by the extension of VAT exemptions under Article 4 of Law 28/1997.

The agreement was declared prejudicial on the above two counts and a pecuniary sanction applied equal to 3 per cent of the revenue earned during 1998 by each bank on the services in question, for a total of 33 billion lire (€17 million).

The investigation involving the Federazione delle Cooperative Raiffeisen with regard to an agreement for the geographical division of markets was concluded with a ruling that it was damaging to competition.

MARKET SUPERVISION

The supervisory role assigned to the Bank of Italy by the Consolidated Law on Financial Intermediation (Legislative Decree 58/1998) is to enhance the functionality of the financial markets by promoting efficient operation and orderly trading. It involves the establishment of principles and rules, the surveillance of trading and settlement procedures and the supervision of system operators.

In 1999 and the early part of 2000 the Italian financial markets moved in line with international trends. The total volume of activity grew, albeit with different contributions by the various sectors; new operating segments were activated and new services and procedures made ready under the impetus of mounting competition among trading, settlement and guarantee systems as a result of financial globalization, the use of new technologies and, most recently, the introduction of the euro.

In the context of increasing international openness, Italian trading, settlement, clearing and guarantee systems and central securities depositories launched projects for functional integration and reorganization of ownership. The inception of the single currency has accentuated competition among European financial centres, which was already fuelled by technological developments and the progressive convergence of national legal systems. In each country this has led to the tendency for similar functions to be concentrated in a single entity. At the international level, the drive for efficiency is generating alliances and mergers within the individual sectors.

The wholesale market in government securities (MTS)

The cash market. - The decline in the volume of spot trading on MTS follows the general trend of the main European markets in government securities. The concentration of trading by participant and by securities increased.

Average daily turnover fell by 26 per cent to around 18.4 trillion lire (€9.5 billion). Treasury bonds accounted for around 76 per cent of the total, Treasury credit certificates for 13 per cent, Treasury bills and zero-coupon certificates 8 per cent, and Bunds 3 per cent. Volume continued to decline in the first quarter of 2000, when daily turnover averaged 16.29 trillion lire (€8.4 billion). The concentration of trading, measured daily on the basis of market shares per participant and per category of security, provides an estimate of market segmentation. In 1999 the five most active intermediaries accounted for 30 per cent of total volume and the top ten for more than 50 per cent, compared with 26 and 47 respectively in 1998. As in the past, a large share of turnover (63 per cent) came from trades between primary dealers.

Despite the decrease in turnover and the increase in concentration, the bid-ask yield spread, which is recorded at the close of the market, narrowed from 6 to 3.5 basis points. In 1999 it was 11 basis points for Treasury bills, 3.8 for zero-coupon Treasury certificates and 3 for Treasury bonds.

The market's high efficiency is demonstrated by an analysis of the entire operating day. On the basis of high-frequency data, after the opening phase the bid-ask price spread remains extremely narrow, smaller than the values recorded in EuroMTS for Treasury bonds listed on both markets. Trading is continual during the day, with a normal lull between 1:00 and 2:30 p.m..

The repo market. - The volume of repo trading on the MTS platform surged to more than double that of the cash market. The repo market has become essential for intermediaries' liquidity management (general collateral repos), for arbitrage trading and in general for the orderly functioning of the secondary market in securities (special repos).

Average daily turnover rose from 15.9 trillion lire (€8.2 billion) in 1998 to 38.3 trillion (€19.8 billion) last year. In the first three months of 2000 it increased further, exceeding 38.9 trillion lire (€20.1 billion). The market remains highly concentrated on the shortest maturities: in 1999 the most liquid maturity was spot-next, accounting for around 84 per cent of turnover, followed by tomorrow-next with 12 per cent. General collateral repos made up 53 per cent of the total and special repos 47 per cent. The concentration of trading declined in the general collateral segment, where the share of the top five participants shrank from 50 to 43 per cent. The share of the first five participants in special repos remained unchanged at 24 per cent. Investment funds were responsible for about 20 per cent of the entire volume of trading, 5 points more than in 1998.

The grey market. - Pre-issue trading of government securities (the grey market) was inaugurated in May 1999 and extended to all new issues.

Turnover for the year amounted to about 23.2 trillion lire (€12.0 billion) and averaged 252 billion lire (€130 million) a day.

New segments of the bond market

The corporate bond market. - Since November 1999 MTS S.p.A. has been operating MTS/Corporate, a wholesale market in Italian and foreign corporate bonds as well as bonds issued by international organizations of which States are shareholders. The retail market for corporate bonds and supranational issues (EuroMot) was established by Borsa Italiana S.p.A. and opened for trading in January 2000.

MTS/Corporate has a market-maker structure and allows securities to be listed in the days preceding issue. Bonds with a float of at least €850 million can be traded; the minimum lot is 2.5 million. Three securities deriving from the securitization of INPS claims and one issue by the European Investment Bank are currently listed. Average daily turnover amounted to some 13.9 billion lire (€7.2 million) in November and December. It contracted to 6.4 billion lire (€3.3 million) in the first quarter of this year.

The new national MTSs. - MTS S.p.A. has taken steps to establish its technological platform in government securities markets abroad by setting up local companies whose shareholders include the sovereign issuer and leading intermediaries in each country.

MTS Amsterdam began trading in Dutch government securities in August. MTS France began operating in April and MTS Belgium in May of this year. Similar initiatives have been launched in Portugal and Japan.

EuroMTS. - EuroMTS Ltd, a British company 75 per cent owned by MTS S.p.A., has been operating a market in the benchmark government securities of the main euro-area countries since April 1999. EuroMTS is a “super wholesale” market, with larger minimum trading lots than the national MTSs, larger participants and trading restricted to benchmark securities.

EuroMTS uses the MTS technological platform and is a market-maker market with anonymous quotes in which participants undertake to quote bid and ask prices with a spread narrower than a set threshold on a certain number of securities distributed over various maturities. Intermediaries active in both markets can quote simultaneously on the securities traded on the two circuits (parallel quoting).

At the end of 1999 there were 87 securities listed on EuroMTS: 21 Italian, 27 German, 16 French, 11 Spanish, 4 Dutch, 3 Belgian, 4 Austrian and 1 Portuguese. Two Finnish securities were listed early this year.

The interbank deposit market

Daily turnover on the Italian interbank deposit market (MID) in 1999 averaged around 27 trillion lire (€14.1 billion), a decrease of 15 per cent from the previous year. The first few months of 2000 saw a gradual recovery of trading, with turnover amounting to 32 trillion lire (€16.5 million) in April. Trading was further concentrated on overnight deposits.

Average daily trading volume in overnight funds rose from 18.6 trillion lire (€9.6 billion) in 1999 to 21.3 trillion (€11.0 billion) in the first quarter of 2000, while daily trading in tomorrow-next funds declined from 4.3 trillion (€2.2 billion) to 3.5 trillion (€1.8 billion). The concentration of trading on overnight deposits increased from 68 to 75 per cent.

The distribution of activity on MID in the course of the day shows a concentration of trading in the early morning and early afternoon, reflecting the operations of banks' treasury departments.

The market management company, e-MID S.p.A., intends to extend the market to the entire euro area by encouraging remote access and entering into agreements with other markets. It is examining the possibility of introducing trading in repos and derivatives based on interest rates (overnight indexed swaps).

Regulation and supervision of market management companies and trading support systems

The legislative frame of reference for market management support systems is being completed in compliance with the general principles laid down by the Consolidated Law on Financial Intermediation: separation between operating functions, entrusted to private organizations, and regulatory and supervisory functions, assigned to the authorities; entrepreneurship; contestability and international openness of markets and their support systems; risk limitation.

Market management companies. - Pursuant to Article 66 of the Consolidated Law, on 13 May 1999 the Treasury Minister, after consulting the Bank of Italy and Consob, issued Ministerial Decree 219 regulating the wholesale markets for government securities.

Earlier this year the limited company e-MID S.p.A., which was created in 1999, took over from the Management Committee of the Interbank Deposit Market. The company's shareholders are the market's most active banks. The Bank of Italy has verified that the market rules that the company has drawn up pose no problems for the efficiency of the market or the orderly conduct of trading.

Central securities depositories. - In April 2000 Consob amended its Regulation on markets. The principal changes concerning central depository companies, adopted in agreement with the Bank of Italy, permit depositories to hold equity interests in clearing houses for financial derivatives and defer specification of the activities a depository may perform where it also manages settlement procedures to the forthcoming regulations on settlement services.

Last year Monte Titoli S.p.A. recorded appreciable growth of activity in connection with the increase in issues by the private sector; the number of participants rose. Monte Titoli activated three more links with central depositories of other European countries.

Settlement systems. - As provided by Article 69.1 of the Consolidated Law, the regulations on settlement services are about to be issued. In preparing these provisions, the Bank of Italy and Consob have been guided by the principles that underpin the activity of the most important settlement systems abroad: coincidence of the role of settlement manager and central depository; use of central bank money; possibility of settlement in different currencies; availability of automatic securities lending systems.

Monte Titoli is preparing Express, a procedure for gross settlement of transactions in financial instruments. Express will operate in real time and settle the cash side in central bank money. In the future it will be flanked by a net settlement procedure that will replace the one currently managed by the Bank of Italy. The modular architecture of Express allows its basic services to be supplemented with additional functions demanded by the markets and participants, such as securities lending, multi-currency settlement, management of guarantees, use of protocols different from those envisaged by the National Interbank Network, and settlement of cross-border transactions.

Clearing and guarantee systems. - The Consolidated Law refers regulation of guarantee systems to separate provisions to be issued by the

Bank of Italy and Consob for derivatives (Article 70) and cash markets (Article 69.2). The regulation on clearing and guarantee of derivative instruments is in the process of being issued and will also contain the principles of the regulation of clearing and guarantee of non-derivative financial instruments.

PAYMENT SYSTEM OVERSIGHT

Central banks' activities in the field of payment systems were among the matters discussed last year in international cooperative fora, in view of the need for stronger measures to guarantee the stability of the international financial system in the context generated by the process of globalization.

The Financial Stability Forum, in which governments, central banks, the supervisory authorities of the G7 countries and international organizations coordinate their actions, has highlighted the potential vulnerability of funds transfer systems.

At the Bank for International Settlements, where these issues have been studied for many years, work continued, with the participation of the emerging countries, on the development of guidelines for the management and control of both cash and securities settlement systems. With regard to retail payments, the central banks continued their efforts to overcome obstacles to the supply of innovative payment services more in line with consumers' needs.

The Governing Council of the ECB approved the framework for the conduct of oversight in Stage Three of EMU. The objective is to guarantee the stability and efficiency of the channels for transmitting monetary policy, given that national central banks are responsible for national payment systems. The Council also recognized the need to enhance the efficiency of retail cross-border payments, as established in the European Directive of 1997, which also introduced consumer protection measures.

In Italy the results of the discussions in recent years on the objectives and scope of oversight were published in the White Paper issued by the Bank of Italy last November. The document outlines strategies consistent with views expressed at the international level.

The Bank of Italy's activities last year were aimed at enhancing the reliability and efficiency of the payment system and at fostering competition among intermediaries, focusing on safety and transparency in the supply of services and ensuring the proper functioning of settlement circuits.

In the field of retail payments, the computerized interbank archive currently under development at the Bank is expected to bring significant benefits. Its aim is to bolster confidence in the use of cheques and payment cards. The integration of the bank and postal circuits has been extended to include retail credit transfers. Initiatives have been launched to ensure the development of more innovative segments, with particular reference to the security and proper functioning of transactions carried out via the Internet and new electronic money schemes being promoted by the market. So far as cheques and credit transfers are concerned, the authorities have confirmed the existence of delays in passing on to customers the benefits generated by earlier changes to interbank procedures. Steps to assess the operational continuity and quality of service offered by the leading managers of system infrastructure have been taken.

The financial community was closely involved in the changeover to the year 2000. In cooperation with operators and public authorities, the Bank of Italy adopted technical and organizational measures that conformed to the indications of the ECB and the BIS. Intermediaries and the financial markets were able to carry on working in normal conditions of full efficiency.

The Italian component of the EU-wide TARGET system, BI-REL, enabled Italian banks to tap efficiently into the European liquidity market. By increasing the demand for efficient and safe cross-border payment services, market integration is acting as a spur to enhance the efficiency of domestic settlement systems; the measures currently being taken to improve the TARGET system are in part a response to this need.

With a view to establishing a single central securities depository able to take part in the process of consolidating similar European infrastructures, work continued in Italy on the task of disposing of the centralized system for government securities and developing new securities settlement systems. Measures have been adopted within the state payments sector to extend the electronic payment order procedure to other types of operation and to integrate the government and interbank networks.

A section on the payment system has been added to the Supplements to the Statistical Bulletin to provide information on the structural development of the system, as well as to enable market participants to assess their positions in relation to the system as a whole.

Oversight activities

The second *White Paper on Payment System Oversight* published at the end of last year offers a review of recent years' experience and comments on the objectives and scope of oversight, as part of the drive for transparency in central banks' activities in this sector recommended in international cooperative fora.

With practice, the oversight function has developed closer ties with the banking and financial supervision and market surveillance. Among the measures taken jointly are the transposition of the Directive on settlement finality in payment and securities settlement systems (see *The direct supply of payment services*), the assessment of electronic money schemes, and the processing of customers' complaints regarding payment systems and instruments.

The oversight function has been concerned mainly with the overall efficiency of customer services and the working of the system's infrastructure.

Development of payment instruments. - The number of payments effected with cashless instruments rose last year by 5.6 per cent, with direct debits and payment cards recording the highest growth. This expansion reflects the increasing spread of telematic links, which rose by 42 per cent over 1998, and the higher number of ATM and POS terminals. By 1998 the distribution of these machines in terms of inhabitants per bank branch or terminal was similar to the average for the euro area, although their actual use was more modest.

The spread of these instruments should be stimulated by the continuing development of electronic money schemes using new technologies, the definition of a regulatory framework for issuers - which is in the process of being approved at European level - and the transition to the euro.

Traditional payment systems. - Cheques and credit transfers, which are the instruments most widely adopted in Italy, were the main focus of the oversight function last year.

The reform of disciplinary sanctions for drawing bad cheques on banks or the Post Office or for writing cheques without authorization included the establishment by the Bank of Italy of a computerized interbank archive, due to begin operating before the end of this year. The archive will store data on persons guilty of these offences (and of the relative cheques), who will be subject to a system-wide prohibition on issuing new bank or postal cheques for a period of six months. The database will also store information regarding persons whose authorization to use payment cards has been revoked and on lost or stolen cheques and payment cards. This step is part of the policy of enhancing security and confidence in the use of these instruments.

A survey was conducted in March this year on the cost of cheques and the time taken to credit them: the survey covered the entire Italian banking system except banks operating in the medium and long-term. The average number of days required for the availability of funds on customers' current accounts was 6.7 working days, or 8.1 days if the finality of the transaction is considered; in both cases peaks of more than 10 days were recorded. The charge implicit in the value date averaged 4 days, with differences between banks ranging from 2 to 6 days. This service could be improved both by rationalizing the conditions practised and by the introduction of explicit charging mechanisms.

A similar survey was conducted on credit transfers, which are receiving increasing attention at the European level. At least 4 working days are required to complete a credit transfer between payer and payee, including the time needed to process the 10 per cent of total credit transfers initiated without any indication of the payee's current account. These times can be reduced through greater recourse to technology procedures and the availability of interbank procedures. The survey also revealed a lack of certainty regarding the completion of these operations. With regard to information and customer protection, Directive 1997/5/EC on cross-border credit transfers, currently in the process of being transposed, is a fundamental point of reference.

In April this year the Italian Post Office joined the "low-value credit transfer" scheme, having last year already completed the process of participating in the interbank procedures for the exchange and settlement of bank and postal cheques.

Payments via open networks. - Last year saw a multitude of new initiatives aimed at developing payment services and instruments for use on open networks. Since June 1999 schemes sponsored by non-banks have been submitted to the oversight authorities for evaluation; these schemes call for an overall assessment of the security, transparency and anti money-laundering aspects involved in electronic money transfers.

A survey of the leading issuers of credit cards revealed that in the first two months of this year 10 per cent of the credit cards in circulation were used at least once for Internet, mail or phone purchases of low-value goods.

The Banking Supervision and other Bank of Italy departments studied the activities of "virtual banks" in order to investigate the presence and weight of Italian banks in the Internet. In February 2000 fewer than 130 banks were offering their customers payment services through the Internet. In relation to the overall supply of banking services via the net, which consisted mostly of securities trading on behalf of customers, payment system operations accounted for 13 per cent in value and 21 per cent in volume.

Legislation is currently being prepared that will give digital and autograph signatures equal legal status in Italy, a move that should serve to strengthen consumer confidence in payment services via the net.

The digital signature is the most sophisticated instrument currently available in the IT product market for solving the security problems of open networks. For this reason the Italian Bankers' Association is cooperating with the Interbank Convention on Automation (CIPA) to prepare the infrastructure necessary to ensure security in the use of the digital signature on the Internet for the banking and financial sector.

The role of infrastructure. - In keeping with international trends, the process of restructuring and consolidation of system providers is gathering momentum in Italy.

As part of the privatization process, the Bank of Italy completed the disposal of its participation in SIA in the early part of this year, almost one year after the Company's merger with Ced-Borsa.

In March an investigation was launched to verify the continuity and quality of services offered by the leading system providers in Italy, with particular attention to the provision of efficient organizational and internal control procedures.

Adjustment to the year 2000. - Last year the financial community was closely involved in measures to adjust computer systems to the year 2000 and to check their proper working. The Strategic Committee and the Technical Secretariat set up within the Bank of Italy offered guidelines and coordinated measures taken both within the Bank and outside (see *Annual Report for the year 1998)*; liaison with market participants, other Italian supervisory authorities, international cooperative organizations and the government Year 2000 Committee was intensified.

Towards the end of the year, partly in agreement with the ECB and the BIS, a special Central Communication Point was set up at the Bank of Italy, able to move rapidly in the event of an emergency and to cooperate with other central banks and national and international authorities.

The complete functioning of the Italian interbank payment system was verified from 1 January 2000 and on 3 January the banks, markets and infrastructure resumed operations in conditions of complete efficiency (see *Economic Bulletin* No. 30, 2000).

Direct provision of payment services

The Bank of Italy's activity during the year aimed at enhancing the efficiency of cash and financial instrument settlement, verifying the adequacy of Year 2000 adjustment, and improving state payment services.

Actions were taken to reinforce the competitiveness of Italy as a financial centre and of Italian intermediaries and to foster the integration of Italian with foreign markets.

The Bank acted in accordance with the guidelines laid down by the BIS concerning systemic risk and by the ESCB for improving the operation of TARGET and enhancing the reliability of securities settlement systems (see ECB *Annual Report*, April 2000).

Contacts between national central banks and their domestic intermediaries were begun to establish priorities for action to enhance the functioning of the TARGET system. Possible ways of providing TARGET access for countries that have applied for EU membership were examined. The actions required to reduce the costs and provide for uniform technical access procedures to the EU real-time gross settlement systems were designed.

Cash settlement. - The volume and composition of the payments settled through the Bank of Italy's circuits were affected last year by the substitution of the euro for national currencies in money and financial markets and by the launch of the TARGET system, of which BI-REL is the Italian component. The flow of funds handled by the clearing and settlement systems diminished to 65,000 trillion lire, owing to a decrease in foreign exchange transactions and external lira transfers accounted for mostly by the larger banks. The share of the top six banks in these transactions shrank from 68 to 56 per cent. This also reflects the channelling of a portion of cross-border payments into systems other than TARGET (chiefly Euro 1), to which these institutions have direct access.

BI-REL settled a daily average of more than 42,000 payments and 240 trillion lire. The use of intraday liquidity was very limited, averaging 2 per cent of settlement volume; even on the tightest days drawings of intraday liquidity never exceeded 13 trillion lire or 25 per cent of the value of collateral securities. Payments lacking immediate cover were held on queue for less than one minute. The number and amount of settlement failures in the securities clearing and settlement system and retail payments diminished.

The cross-border component of transactions increased steadily in the course of the year; cross-border payments rose from 45 per cent of total BI-REL settlements in the first quarter to 56 per cent in the fourth. About three quarters of TARGET cross-border flows went to France, Germany and the United Kingdom; these payments were heavily concentrated at the biggest banks and the branches of foreign banks. These institutions' operations consist mainly of interbank business, and within it, of large-value transactions in connection with foreign exchange trading and treasury management; at the branches of foreign banks this feature is preponderant. The latter's average interbank payments are five times as large as that of major Italian banks.

BI-REL will soon be reorganized to permit broader participation by foreign intermediaries. For those resident within the European economic area this will be accomplished by allowing for remote access via SWIFT; for those outside the area, through correspondence accounts linked to TARGET by the Bank of Italy's internal procedures.

In the longer run BI-REL functions will be expanded in step with the harmonization of EU real-time gross settlement systems currently under way. Consideration will be given to possible mechanisms for reducing liquidity requirements, for making incoming payments visible and for enabling users to alter their priorities in payment queues.

The Bank of Italy intends to enhance the range of correspondent services provided to institutions outside the euro area. This initiative could be of interest to the central banks of countries with traditional geographical, historical or commercial ties to Italy that intend to maintain accounts in euros for payments, reserve investment or portfolio management.

Securities settlement. - The value of securities transactions handled by the settlement procedures exceeded 60,000 trillion lire (€31,086 trillion) in 1999, growing by 13.2 per cent after 26.4 per cent growth in 1998. The slowdown in growth involved all categories of financial instrument. The flow of Italian government securities, which account for over 95 per cent of the total, increased by 12.8 per cent, as against 24.6 per cent in 1998.

A measure introduced on 30 July 1999 allows for entering transactions to be settled "same day". With a view to meeting market participants' needs, the new settlement machinery was restricted to repo contracts negotiated in the regulated market for government securities (MTS). In the first eight months of operation, it handled transactions worth 1.6 trillion lire a month.

The cross-border use of securities as collateral for ESCB credit operations increased progressively. Collateral provided within the framework of the Correspondent Central Banking Model (CCBM) rose to €160 billion in December, or 18.9 per cent of the total. That offered through the alternative channel of links between EU central securities depositories accounted for 4.2 per cent.

In keeping with the privatization of infrastructures traced out in the Consolidated Law on Financial Intermediation, by the end of this year the Bank of Italy will complete the disposal of its central government securities depository (CAT). Within the next few months the real-time gross settlement system for financial instruments (Express), set up by Monte Titoli S.p.A. in cooperation with SIA, will begin operation; it will guarantee delivery versus payment on an intraday basis.

Government payment services. - In performing state treasury services, the Bank of Italy works to modernize payment and collection procedures through full integration into the interbank payment system. The objective is to upgrade the quality of the service to government departments and to citizens in keeping with the standards of efficiency and reliability governing payment system oversight.

In order to simplify relations between the revenue service and taxpayers and improve collection efficiency, the use of the single payment form for taxes and social contributions, introduced in April 1999, was extended to cover liabilities to social security institutions other than INPS.

The electronic payment order procedure, which has been operational since January 1999, is one of the most important innovations in government accounting in decades. It represents the practical implementation of the computerization of spending procedures set forth in Presidential Decree 367 of 20 April 1994. By amount, most of the orders settled in cash are for less than one million lire; overall, the great majority of payment orders are for less than 50 million lire.

Improvements in the handling of state payments and collection have also stemmed from the rationalization of the flow of information to government departments. In cooperation with the State Audit Office and the Treasury, the Bank of Italy has devised accounting report procedures involving the progressive replacement of the present paper documents with electronic transmission. The new system will speed up the preparation and transmission of data, avoid duplication and create a detailed, integrated and complete database that can be used for the departments' subsequent processing.

The progressive integration of the state treasury into the broader payment system is pursued through the generalized use of interbank procedures.

In the field of central government payments, the Bank of Italy, in cooperation with the Authority for Public Administration Computerization, the State Accounting Office and the State Audit Office, is working to seize the opportunities offered by the development of online information technology. The integration of the single public administration network with the National Interbank Network, which is in course of realization, will permit extension of electronic payment orders to all payments by central government departments and their local units.

THE GOVERNOR'S CONCLUDING REMARKS

Last year the Bank continued to be intensively involved in the execution of the institutional functions of monetary policy and banking supervision in a setting that was rendered more complex by growing international openness and by the profound changes taking place in the economy and finance.

The Bank is contributing in the appropriate fora to a redefinition of the fundamental structure and characteristics of an effective supervisory system to enable it to cope with developments in international finance.

The decisions that we are taking in the European System of Central Banks call for economic and institutional analysis that must increasingly look beyond national borders. We are responsible for implementing the Eurosystem's decisions in our money market.

The efficiency of the procedures for market intervention, the management of foreign exchange reserves, the settlement of interbank payments and the production of statistics has been confirmed. The printing of banknotes in euros began in June 1999.

In our day-to-day activities, we cooperate closely and fruitfully with other regulatory authorities, first and foremost those superintending the financial markets and safeguarding competition.

We have launched a project to expand the services that the Bank performs through its branches. An important aspect of this is the enhancement of supervisory activities and economic research. It is planned to make economic and financial information more widely available, to the benefit of local communities.

In September we inaugurated the Donato Menichella Centre, in the presence of the Head of State, the Cardinal Vicar of Rome, the President of the Senate, the Vice President of the Chamber of Deputies, the President of the Constitutional Court and the Minister of Foreign Affairs representing the Government. The Centre is the technological hub for the Bank's telematic links with its branches, the banking system, the other central banks and the financial markets.

The Bank takes care to develop and constantly update the skills of all its employees, who are called upon to possess increasingly high qualifications in order to continue to operate effectively in the changed economic and financial environment.

The Directorate and the Board of Directors wish to express their gratitude to the staff for performing their tasks with professionalism and dedication to the values of the Bank.

The world economy

Share prices again rose sharply in 1999: by 34 per cent in Germany, 51 per cent in France and 22 per cent in Italy. In Europe most of the gains came in the last few months of the year. In the United States the rise amounted to 20 per cent.

The upward trend in share prices began in 1995. They have more than tripled in the United States and the euro area and nearly tripled in Italy.

The exceptional growth of the US economy and the continuous reduction in both nominal and real interest rates worldwide were behind the prolonged rise. The crises in Asia and Latin America were overcome last year; the European economy is recovering.

However, these factors only partially explain the level of share prices.

In 1995 price-earnings ratios were approximately 17 in the United States and 14 in Europe, in line with long-term averages. They have increased steadily since then, reaching 27 in Europe, 33 in the United States and 29 in Italy at the end of 1999.

Such share prices can be justified if long-term earnings growth is twice that projected for the entire economy and the risk premium for shares is half the historically observed figure of 6 per cent.

The prices of shares in companies in the information technology and telecommunications industries were very high. Analysts are forecasting that over the next five years earnings in these sectors will grow in nominal terms by between 20 and 30 per cent a year, depending on the market; individual company results are widely dispersed around the mean.

The riskiness perceived by investors, which is implicit in share prices, is low for these securities too. They may be useful in diversifying portfolios. Linking technologically advanced sectors with traditional ones may significantly increase the latters’ productivity and profits.

The increase in share prices occurred at a time of abundant liquidity on an international scale; it began in the United States and spread to the European markets as a result of the activity of global investors.

Price-earnings ratios are structurally higher in Japan than in the US or European markets, partly as a reflection of the low level of interest rates. Japanese share prices declined from mid-1997 to the end of 1998; from then until the early months of this year they recovered considerably, in parallel with developments in the other Asian markets.

In Europe the rapid rise in share prices continued until the first few days of March, with a further gain of about 20 per cent over the December average; in Italy the increase was almost 30 per cent.

A correction began in all the markets in April, but yesterday prices in Italy were still higher than at the end of last year. In the US market they were back below the end-1999 level.

Price-earnings ratios remain out of line with those of the last fifty years.

Share prices in high technology sectors continued to rise sharply in the first quarter, increasing by 40 per cent in Europe and by 30 per cent in the United States. In subsequent weeks the indices declined, so that by last week they were again close to the levels prevailing at the end of 1999 in Europe and 15 per cent below the December level in the United States.

International liquidity

In the early months of 1995, in the wake of the financial crisis in Mexico, there was a sudden flight from the dollar, the pound sterling and the lira towards the yen, the German mark and the French franc. The dollar lost 10 per cent of its value against the other leading currencies; the lira depreciated sharply. The Japanese yen appreciated by 20 per cent in the space of only a few weeks.

An increase in interest rates in the United States would have aggravated the crisis and caused it to spread to other Latin American countries. At their meeting in Washington in April of that year, the Group of Seven countries agreed to reduce official rates in Germany and Japan and to purchase dollars against yen in the market.

In Japan the discount rate was lowered immediately from 1.75 to 1 per cent and again in September 1995 to 0.5 per cent. In Germany it was reduced from 4 to 3.5 per cent in August, to 3 per cent in December and to 2.5 per cent in April 1996. Massive intervention was undertaken in the foreign exchange markets. In the second half of 1995 the dollar recovered the ground it had lost in the early months of the year, the yen fell below the value at which it had begun the year and the surge in the exchange rate of the mark slowed down.

The sharp reduction in official rates in Japan was followed by a swift expansion of the monetary base; the Japanese banks increased their lending in international markets.

Highly leveraged institutions borrowed funds cheaply in order to invest in the American and European markets.

Thus began a prolonged period of expanding liquidity and falling interest rates in all the leading economies.

Real long-term interest rates, which had stood at 4.2 per cent in the first half of the nineties, fell to 2.8 per cent in the two years 1996-97 and to 1.4 per cent in 1998; they rose to 1.8 per cent last year.

Share prices began to rise.

In the leading industrial countries the ratio between the money supply, including deposits held abroad, and GDP fell until 1996 but has been rising steadily since 1997. The ratio between the notional value of derivatives and GDP, which stood at 1.3:1 in 1995, was close to 3.5:1 at the end of last year.

The stock market value of shares and government and corporate bonds has risen from a GDP multiple of 1.7 at the end of 1994 to one of 2.8 at the end of 1999.

Net inflows of direct investment to the United States increased from $60 billion in 1998 to $130 billion last year; inflows of portfolio investment grew from $164 billion to $237 billion over the same period.

In the euro area net outflows of direct investment have risen steadily, to reach $146 billion last year; outflows of portfolio investment contracted between 1998 and 1999.

Outflows of capital from Japan have decreased.

The behaviour of the exchange rates between the leading currencies appears to be dominated by such capital movements.

The availability and low cost of financing have facilitated mergers and acquisitions of firms within the leading economies and internationally.

Around 33,000 such operations were carried out in 1999. The overall value of those for which the terms are known was $3.3 trillion. In Europe the number of operations rose from 9,300 in 1998 to 13,300 in 1999; the value of those disclosed came to $1.4 trillion last year.

The expansionary stance of monetary policies prevented the financial crises that affected several countries and areas in the second half of the nineties from spreading to the rest of the world.

It helped foster the recovery of the world economy.

Consumer price inflation and production costs were held down in the United States by the considerable gains in productivity and the dampening effect of immigration on wages, and in Europe by restrictive budgetary policies and wage moderation.

The economic recovery has triggered sharp increases in the prices of raw materials and crude oil. Pressure on property prices also became apparent last year in several countries.

Inflation has been rising since the second half of 1999. In March consumer prices in the United States rose by 0.8 per cent, or by 3.7 per cent on a twelve-month basis. In April the increase was more modest. Producer prices and wages came under pressure. In the euro area the rate of increase in consumer prices rose to 2.1 per cent in March; in April it was 1.9 per cent; no wage pressure has emerged.

The increase in productivity

The US economy grew at an average annual rate of 2.3 per cent in the first half of the nineties. From 1996 onwards the growth in output quickened to an average of 4.1 per cent. Salaried employment in the private sector, excluding agriculture, rose by 2.6 per cent a year. In April of this year the unemployment rate fell to 3.9 per cent, its lowest level in the last three decades.

The federal budget, which still showed a deficit of 3.3 per cent of GDP in 1995, achieved a surplus of 0.5 per cent in 1999.

Per capita wages and salaries rose in real terms. The growth in consumption was fuelled by the increase in employment and the rise in share prices. Inflation has remained low for many years, despite the acceleration in demand; the current account deficit has increased.

Productivity rose markedly throughout the economy in the second half of the decade.

The productivity gains are the result of a steady rise in the flow of productive investment, which has grown by almost 10 per cent a year since the early nineties. According to official statistics, tangible and intangible investment in information technology has risen from 12 per cent of the total flow in the early eighties to 42 per cent.

The growth in output is founded on the substantial stock of scientific discoveries and technical knowhow accumulated over recent decades. The number of patents granted has increased rapidly.

The hallmark of innovations in electronics, information technology and communications is the wide range of uses to which they can be put in all sectors of activity and their ability to be integrated with existing technologies.

Given the great flexibility in the use of production factors, the spread of new technologies has led to changes in US corporate organization, which displayed a high degree of vertical integration, and improved the efficiency of interfirm and intersectoral relations.

The result has been a profound re-organization of the whole economy. Productivity has increased. Competition has become keener.

Hourly labour productivity in the private sector, excluding agriculture, had risen at an annual rate of 1.3 per cent between 1973 and the mid-nineties. The rate accelerated to 2.5 per cent over the last four years. Higher capital intensity accounted for 0.4 percentage points of the acceleration and the remaining 0.8 points can be ascribed largely to the reorganization of production induced by the widespread use of information technology.

The increase in productivity averaged 5.2 per cent a year over the last four years in manufacturing as a whole and almost 8 per cent in the durable goods industry.

Hourly productivity rose by 3.0 per cent in 1999; the annualized rate of increase was 6.9 per cent in the last quarter and 2.4 per cent in the first quarter of this year.

The growth potential of the US economy, which until a few years ago was estimated to be 2.5 per cent, is now put at between 3.5 and 4 per cent. It is not clear whether the technological and organizational changes now taking place will be able to guarantee substantial increases in productivity in the next few years. Nonetheless, there still appears to be ample scope for applying the new technologies and the use of information technology can produce further productivity gains in several sectors.

World economic developments

South Korea and the other countries of South-East Asia returned to rapid economic growth last year following the sharp recession of 1998; their persistent balance-of-payments deficits were transformed into surpluses.

In Japan the strongly expansionary fiscal policy that has been pursued since 1998, while considerably increasing the public debt, has prevented the economy from falling into depression, which would potentially have grave consequences worldwide. In the first quarter of 2000 investment rose and consumption also showed signs of improvement. After pausing in the second quarter, growth is expected to resume and continue for the rest of the year; it is still being held back by the high propensity to save.

In the United States the growth of gross domestic product accelerated in the fourth quarter to an annual rate of more than 7 per cent. Economic activity continues to expand rapidly, at an annual pace of 5.4 per cent in the first quarter. Growth could exceed 4.5 per cent for the current year as a whole.

In Latin America the economy performed better than expected. The euro area enjoyed an export-led recovery in the second half of the year; productive investment is growing and consumption is rising. So far, the rise in demand and output has been weakest in Germany and Italy.

In 2000 the world economy is expected to grow by more than 4 per cent and world trade in goods and services by 8 per cent.

With the reappearance of inflationary pressures, the monetary authorities in the three main economic areas are taking a less accommodating stance. Between June 1999 and April of this year, the Federal Reserve raised the federal funds rate by 1.25 percentage points. In the Eurosystem, we raised the rate on main refinancing operations by 0.5 points in November, followed by a series of further increases totalling 0.75 points. Japan is also expected to raise interest rates, abandoning its policy of keeping them close to zero.

In May the strong growth of consumption and inflationary pressures induced the Federal Reserve to raise its reference rate by a further 0.5 points to 6.5 per cent.

Short-term yield curves are upward-sloping in the United States and Europe. Yields on ten-year government bonds denominated in dollars are around 6.5 per cent; those on comparable euro-denominated paper are about one percentage point lower.

The deficit on the current account of the balance of payments of the world's largest economy is increasing. Although it is probably overestimated, the deficit might potentially have a destabilizing effect on the exchange rates between the major currencies. The improvement in economic activity in Latin America is accompanied by persistent external deficits; they have been readily financed so far, thanks to the abundance of world liquidity.

The rapid and unbroken increase in the global ratio of financial wealth to economic output over the past five years raises questions about the stability of the present situation.

Vigorous economic growth in Europe and Japan would ensure greater consistency between finance and the real economy and moderate the external payments imbalances of the major areas.

The intensive and widespread use of new technologies in Europe would make a significant contribution to growth, competitiveness and employment.

Structural reforms of the public finances, the labour market and product markets are necessary to ease inflationary pressures and enable our economies to realize their growth potential.

The harmonious development of the world economy

Soundly based growth in the world economy requires a stable and efficient financial system.

The integration of capital markets improves the global allocation of savings; for the developing countries it relaxes the constraints on the availability of funds.

However, the risk of instability is increasing.

In the last few years investment by institutional investors has expanded at an extraordinary pace. At the end of 1998 the total assets of such intermediaries in the United States, Europe and Asia amounted to $30 trillion, roughly equal to global GDP. Banks have also contributed to the expansion of international finance.

If investors perceive that the return on capital invested in a given area is inadequate, sudden and massive capital outflows may ensue. The crisis may become acute if a large part of the external debt of the countries involved is short-term and denominated in foreign currencies.

The economic and social costs of financial crises are enormous.

The possibility of financial turbulence spreading poses a challenge to the ability of the international community to ensure the governability of a system marked by ever greater market integration.

Adequate evaluation of the risks is prevented by poor information on the use of funds, lack of transparency in the structures of intermediation and shortcomings in market oversight and banking supervision; these deficiencies may impede sound and prudent credit management.

There is serious concern about the quality of controls, especially in offshore financial centres.

The activity of intermediaries located in most of these centres eludes adequate checks on operating standards. Although the inflow of capital reflects the presence of innovative products and markets, the growth in the volume of transactions is also fuelled by low taxes, lax regulation and relatively impenetrable banking secrecy. The latter can be exploited for purposes of money laundering.

At the end of 1999 lending by banks domiciled in these centres to non-residents - mainly banks but also including a good number of heavily indebted non-bank intermediaries - totalled nearly $1.9 trillion, equivalent to about 4,000 trillion lire.

The Bank of Italy has allowed only Italian banks with effective internal control systems to set up establishments in these centres and has circumscribed their operations.

The Financial Stability Forum has asserted the need to improve the quality of information and strengthen supervisory arrangements in offshore centres.

For highly leveraged institutions, a risk control mechanism based on creditor banks has been proposed. The feasibility and advisability of exercising stricter prudential supervision over these intermediaries is being assessed.

Within the framework of the Group of Seven leading industrial countries, we have drafted a reform of the Bretton Woods institutions with the aim of adjusting their functions to the new global economic and financial environment.

The central role of the International Monetary Fund in promoting macroeconomic and financial stability is reaffirmed. The Fund's operations must be directed above all to crisis prevention through systematic surveillance of individual national economies. Funding must be provided in response to balance-of-payments requirements and to support structural reforms. The Fund must continue to grant subsidized credit to low-income countries in order to promote financial stability and economic growth.

An essential condition for growth in the world economy is an open trading system that eliminates tariff barriers and quantitative restrictions. The progress now being made could bring emerging countries with a large part of the world's population within the scope of the agreements. Consensus must be restored between the industrial and the developing countries in order to resume talks on agriculture and services with a view to a more equitable division of the benefits.

The World Bank and the regional development banks must foster growth and eradicate poverty in the backward countries in the medium term. Vast sections of the world's population must be given access to the primary goods of food, shelter, health care and education that they are currently denied. The initiative in favour of the heavily indebted poor countries must proceed.

Rapid, sustained growth in the world economy will also involve these countries, helping to ease their severe economic and social difficulties.

The year 2000 of the Christian era must go down in history as the year in which a start was made on correcting the huge international disparities in living standards. It can be the commencement of a period of more harmonious development in which all the nations of the Earth can participate with renewed dignity.

The financial system

The single currency has accelerated the integration of financial systems in Europe; it has stimulated efforts to find organizational structures for markets and intermediaries that are consonant with the rise in competition and the demand for new services.

The strengthening of the European system constitutes an element of stability for global finance. In Italy the financial system and intermediaries must continue their action in pursuit of efficiency gains.

In the euro area the ratio of the value of listed companies to gross domestic product was 90 per cent at the end of 1999, half the figure in the United States and the United Kingdom.

The capitalization of the Italian stock market stood at 66 per cent of GDP at the end of 1999; the increase of 35 percentage points from two years earlier is largely attributable to the rise in share prices. Italy's stock exchange has attained a high level of efficiency, but the number of listed companies remains small: there are 264, of which 44 were added in the last two years.

There are 968 listed companies in France, 1,043 in Germany and 718 in Spain.

The launch of the New Market in Italy has been an important factor for the flotation of firms operating in innovative sectors. It now lists twelve companies and many others have announced their intention to apply for admission. The market is part of a European circuit where the shares of 400 companies are traded.

At the end of 1999 the outstanding volume of bonds issued by residents was equal to 117 per cent of GDP in the euro area, compared with 180 per cent in the United States; the difference is largely due to the smaller stock of corporate bonds.

The value of Eurobonds issued by financial intermediaries and non-financial corporations of the area doubled in 1999; the presence of Italian companies increased. The benefits a wide market can bring for small and medium-sized firms have been confirmed.

The development of institutional investors in the euro area is still limited; pension fund assets are equal to 7 per cent of GDP, compared with 82 per cent in the United States.

Investment funds are more widespread. Their net assets are equal to 41 per cent of GDP, compared with 74 per cent in the United States. A quarter of the assets of European funds are administered by companies based in Luxembourg, where their profits are not taxed.

Venture capital activity is still underdeveloped in Europe and Italy. In 1998 and 1999 the 63 Italian and foreign intermediaries authorized to operate in Italy carried out more than 600 transactions. Less than 20 per cent of the total funding went to projects in high-technology sectors.

The structure of the banking system

In 1998 and 1999 there were 2,570 operations involving changes in the ownership structure of banks and other financial intermediaries in the European Union, nearly 50 per cent more than in the preceding two years.

The value of the 1,451 operations whose terms have been disclosed amounted to €430 billion; the average value of the operations carried out by Italian intermediaries was €860 million.

Corporate strategies were aimed at countering the erosion of profit margins by developing high-value-added services. The necessary investments are viable if they are made for large-scale production.

In the Italian banking system the number of banks in business has fallen from 1,176 to 872 since 1989. There have been 324 mergers; in another 137 takeovers the banks retained their legal personality. The target banks involved in mergers and acquisitions accounted for 40 per cent of total assets.

Banking groups of a size comparable to that of their main European competitors have been formed; three of the 15 largest banks in the euro area are Italian.

The key to the success of group-based consolidation is its ability to combine the advantages of brand preservation with those deriving from the coordinated monitoring of risks, the curbing of costs and the integration of policies for the production and marketing of services.

The reorganization of the Italian banking system is not complete. It also needs to involve medium-sized intermediaries.

As supervisory authority, the Bank of Italy evaluates proposed consolidation projects and monitors their implementation. It assesses the adequacy of risk measurement and management systems. It calls on parent companies to take prompt action to rationalize branch networks and integrate information systems and procedures.

The reorganization of the banking system has progressed in parallel with privatizations. Since 1993 the share of assets attributable to banks controlled by the state or by foundations has fallen from 70 to 12 per cent.

In compliance with the legal restrictions designed to safeguard banking stability, industrial firms have acquired minority holdings in banks. The largest proportion of banks' share capital has been acquired by other intermediaries, both Italian and foreign; a substantial percentage has been sold to small investors.

Cross-shareholdings between banks are common in other financial systems; they reflect the need for diversification and the desire to enter business areas where the investee undertakings have gained considerable experience; links between banks and insurance companies have developed. An average of 3.5 non-group bank or insurance companies hold shares in the capital of the 15 largest euro-area banking groups. For the Italian banks in this set the average is 5, reflecting the larger number of foreign shareholders.

The participation of several intermediaries in the capital of banks was crucial to the privatization programme. The Bank of Italy ensures that this does not impede competition.

Italy's major banks have the ability to become significant players in important areas of business in Europe; success in other countries will consolidate their tendency to expand their supply of services and will increase their sources of income.

Competition

Competition with foreign intermediaries is intensifying; the latter have acquired significant market shares in several business areas. Liberalization of the rules on the establishment of banks and the opening of branches has strengthened competition in local credit markets.

Today the branch network reaches towns and cities where 97 per cent of the population lives; the average number of banks represented in each province has risen from 27 to 31 in the past decade.

Innovative ways of delivering financial services are helping to increase the information provided to customers and the possibility to choose from among a plurality of intermediaries. A total of 418 banks now offer firms facilities for carrying out transactions by computer; nearly a million customers make use of telephone banking.

In the newly-developed areas of business, small and medium-sized banks are also gaining ground. The ability to establish a position in these fields has beneficial effects on market shares in traditional types of operation and on profits.

The growing use of the Internet is concentrated at present on securities trading. Banks are providing increasing support for e-commerce projects. These activities are not without specific risks, which can affect the reputation of intermediaries; a strengthening of internal control systems is necessary.

The prudential and regulatory issues are being examined at both the domestic and international levels.

Competition has led to large shifts in market shares, over and above that deriving from mergers.

The redistribution of market shares has been most pronounced in the household loan market. Competition has helped to hold down interest rates; mortgage rates have risen less in Italy than in the other euro-area countries since the spring of 1999.

The spread between short-term lending and deposit rates narrowed from 6.4 to 5.0 percentage points between 1991 and 1996, despite the increase in credit risk. In the next three years the spread narrowed by another point. At the end of 1999 it was in the middle of the range for the main countries of the euro area.

Mergers and acquisitions have created intermediaries that are able to attain higher levels of operational efficiency, to the benefit of customers.

Competition in local markets has not lessened. Empirical studies of provincial deposit markets have shown that during the nineties the rates and conditions applied by banks resulting from mergers tended to shift in favour of savers.

The lending rates of the banks with the largest shares of regional markets have declined, coming into line with those of other banks.

We have conducted 33 investigations since Law 287 of 1990 came into force. The Bank has verified whether the conduct of intermediaries constituted abuse of a dominant position in five cases and agreements in restraint of competition in another twelve.

Sixteen mergers have been examined for the formation of dominant positions; compensating measures, such as the closure or sale of branches and a temporary ban on the opening of new branches, were imposed in ten cases.

All five of the investigations initiated in 1999 on cases of concentration concluded with the imposition of compensating measures.

Two investigations concerning agreements were also conducted last year. The first concerned the manner of determining the commission for exchanging banknotes of the euro-area countries. As a result, the Bank issued a warning against schemes aimed at a uniform determination of the prices and conditions applied by banks.

The second investigation concerned agreements for the exchange of information on the main balance sheet aggregates and for the setting of certain commissions. Anti-competitive effects were found in two cases and fines amounting to 33 billion lire were levied.

The action of the Bank of Italy to promote and safeguard competition is bringing benefits primarily for small businesses and households.

Restoring efficiency

The profitability of the Italian banking system moved back closer to the European average; further improvements in efficiency are still needed, especially for the largest banks, which are those most exposed to foreign competition.

In 1998 banks' net profits were equal to 7.4 per cent of capital and reserves in Italy, 14.0 per cent in Spain, 10.2 per cent in Germany and 8.3 per cent in France. The gap between Italy and the average for those three countries was 3.4 percentage points; a year earlier it had been 7.4 points.

One percentage point of this difference is due to Italy's higher level of direct taxation.

In 1999 the return on equity rose to 9.3 per cent, owing in part to extraordinary income.

Banks' profits were sustained by earnings from asset management. Profits on trading in securities and foreign currencies diminished. Net interest income declined to 1.95 per cent of total assets, the lowest figure in thirty years. Operating expenses rose by 2.2 per cent.

Extraordinary income derived from the disposal of equity interests and the recording of tax benefits accrued in previous years. The tax burden will be eased by the application of dual income tax from this year onwards and the reductions in the rate of the regional tax on productive activities to take effect in 2001 and subsequent years.

The diminution in credit risk translated into a decrease in new bad loans to 1.4 per cent of total lending; in the South the ratio came down to 2.8 per cent.

The recovery in profitability stems from changes in the banks' product mix and improvements in operating efficiency. During the second half of the past decade the portion of gross income generated by services and trading in securities and foreign currencies rose from 26 to 43 per cent.

The number of bank employees declined by 8 per cent.

The major banks benefited from mergers and acquisitions, rapidly expanding their asset management and business services. The scope for developing financial market services has broadened; thanks to better information, domestic intermediaries enable firms to place bond issues in Europe at lower interest rates.

Each year from 1994 to 1997 the ten largest banks recorded an overall net loss, owing in part to loan losses generated in the past recession. Restructuring necessitated staff reductions; in the last three years voluntary redundancy payments were made to 11,200 employees. In 1998 and 1999 these banks' return on equity was on average 2 percentage points better than that of the rest of the banking system.

Banking is highly labour-intensive; productivity being equal, higher factor costs than those of competitors are not sustainable in the medium term.

Italian banks' per capita labour costs remained unchanged in 1999 at 114 million lire. In 1996 they were 31 per cent higher than the average in Germany, France and Spain. The gap narrowed to 17 per cent in 1998, 7 points of the improvement stemming from the abolition of health contributions, which were absorbed into the new regional tax on productive activities.

The new national labour contract for the banking industry came into effect in November. It provides for a total wage increase of 2.5 per cent over the four years from 1998 to 2001. Automatic seniority increments and entry-level salaries were revised. Action plans were agreed to make work organization more flexible, improve training and upgrade employees' skill levels.

The new contract brings opportunities for developing the system and increasing its efficiency that must be seized by management and trade unions.

The quality and quantity of the services banks provide to investors and firms must be raised by using new technologies and taking best advantage of flexibility in working practices and salaries.

The development of the capital market is tending to reduce the share of bank lending going to large firms. Banks are increasingly lending to smaller customers; the share of credit to households has risen from 15 to 19 per cent in the last three years, although this is still only half the average for the euro area.

Efforts to reinforce risk-control measures must continue, especially in a situation of strong loan demand, rising real estate prices and highly volatile share prices.

Under the provisions of the envisaged amendment of the Basle Capital Accord, banks will have to develop methods for classifying their customers so as to improve the measurement of insolvency risk, especially for firms that have not been rated by specialized agencies. The capital requirements for banks unable to adopt the more advanced techniques will be assessed using a standardized approach that could result in a higher solvency ratio.

The findings of regular on-site inspections have been more positive than in the past. Increasing importance is being given to assessing organizational structures.

In the three years from 1997 to 1999 inspections were conducted at 517 banks controlling 34 per cent of the banking system's total assets. Positive judgments were given for banks controlling 17 per cent of assets, while partially positive judgments were issued for banks with 13 per cent of assets. Findings of inadequacy were made for banks holding 4 per cent of assets, compared with 9 per cent between 1994 and 1996.

In an era in which capital moves swiftly in search of the highest-yielding investments, there is considerable scope for comparing the quality and cost of services offered by intermediaries at both the national and international levels.

Financial conditions must be created that will stimulate the growth of firms, especially those operating in innovative sectors, where risks and returns are high and the ability of companies to provide real guarantees against loans is limited. It is up to intermediaries to develop a broader range of financing options, including venture capital. The funds available within the Community from international financial institutions should be utilized.

The expansion of the stock market should be fostered by removing the factors that discourage Italian firms from seeking a listing.

Pension funds must grow to a size commensurate with that of the Italian economy in order to facilitate the reform of the pension system and increase the flow of funds to long-term investments. The reorganization of the banking system and an improvement in the structure of the capital market will help attract financial investment from abroad and lock savings into the Italian economy.

The banks' extensive knowledge of firms' activities can be used to foster the rapid spread of technological innovation, which is essential for increasing productivity, competitiveness and employment.

The Italian economy

Investment is increasing in the euro area, stimulated by the ample supply of loanable funds and the low cost of capital. Business expectations are leaning towards optimism.

Money market reference rates were reduced to 3 per cent at the end of 1998; we lowered the main refinancing rate again to 2.5 per cent in April of last year.

The yield on 10-year government securities fell below 4 per cent in early 1999.

Households have been adopting a cautious attitude towards spending for quite some time. Although it began to grow again in 1998, consumption is still being dampened by the smallness of the increase in employment.

Output stagnated in Germany and France from the spring of 1998 until the first quarter of last year. In Italy industrial production fell from December 1997 to May 1999.

After slowing down in the wake of the crises in Asia and Latin America, world trade in goods and services increased by 6 per cent in the second half of 1999.

Economic activity recovered swiftly in all countries and in all sectors, in association with the increase in exports. In December output in the euro area was 4 per cent higher than the low recorded in the early months of the year.

The expansion continued in the first quarter of this year. The largest increases were in the production of capital and intermediate goods; the supply of consumer goods rose more slowly.

The year-on-year increase in the money supply was 6.2 per cent in December 1999; in April the rate of growth rose to 6.5 per cent. Credit demand is increasing rapidly.

The easier monetary conditions fostered capital outflows. The weakening of the exchange rate sustained exports. The fall amplified the increases in the prices of oil and raw materials, causing consumer price inflation to rise to around 2 per cent.

The pressure on producer prices is a source of concern. The year-on-year increase in the manufacturing sector reached 6.2 per cent in March, while the prices of intermediate goods rose by 9.8 per cent.

Long-term interest rates began to rise again in May 1999. In order to counter inflationary pressures, we raised the reference rate by 50 basis points in the autumn and by a further 75 points in a series of steps in the early months of this year.

In 1998 the GDP of the eleven euro-area countries increased by 2.7 per cent. In 1999 it rose by 2.3 per cent.

In Italy, GDP increased slightly in the first half of 1999; in the second half it grew at an annual rate of 2.5 per cent. Growth for the year as a whole amounted to 1.4 per cent.

Although exports accelerated from the second quarter of 1999 onwards, they contracted by 0.4 per cent for the year as a whole.

Competitiveness

Public sector net borrowing decreased from 11.1 per cent of GDP in 1990 to 1.9 per cent last year.

Consumer price inflation fell from an annual average of around 10 per cent in the eighties to 3.9 per cent in the nineties, reaching 1.7 per cent in 1999.

Long-term interest rates declined from well above 10 per cent in the early nineties to under 5 per cent in 1999.

These figures testify to the restoration of macroeconomic stability that enabled Italy to participate in monetary union.

The macroeconomic imbalances accumulated in previous decades forced corrections on the Italian economy that had a significant impact on growth, employment and the structure of society.

Gross domestic product rose by an annual average of 1.4 per cent between 1990 and 1999, 0.7 points less than in the other ten countries of the euro area. The shortfall over the period as a whole was 7 percentage points.

The Italian economy’s difficulties in keeping pace with the European and world economies became increasingly evident, especially in the second half of the decade.

In the four years from 1996 to 1999 world trade in goods and services increased by 28 per cent in volume terms. Italian exports grew by 10 per cent. Gross domestic product expanded by 6 per cent over the same period, while imports increased by 24 per cent.

In the other ten euro-area countries GDP increased by 9.5 per cent over the four years. Exports and imports rose by 31 per cent.

If the comparison is extended to the five-year period from 1995 to 1999, Italian exports increased by 24 per cent, compared with 41 per cent in the other euro-area countries. World trade expanded by 39 per cent over the same period.

Domestic demand in Italy increased at the same pace as in the other European countries. Industrial production grew by 4.4 per cent in the four years to 1999; it expanded by 13 per cent in the other countries. Since 1994 it has increased by 10 per cent in Italy and by 16 per cent in the rest of the area.

The gap between supply and demand was covered by the surplus on the current account of the balance of payments. It declined from 43 trillion lire in 1995 (2.4 per cent of GDP) to 17 trillion in 1999 (0.8 per cent).

The inadequate response of output to demand, the high elasticity of imports and the slow growth in exports underscore the problems of our economy's competitiveness.

After the foreign exchange crisis of 1992, Italian industry's unit labour costs relative to those in the other industrial economies had returned to their level of the early eighties.

In 1996, following the depreciation of the lira in early 1995, relative unit labour costs had returned to their 1993 level. The re-entry into the European Exchange Rate Mechanism in November 1996 set the seal on the restored external stability of the lira.

It was not accompanied by parallel stability in unit labour costs.

Italy's loss of competitiveness vis-à-vis the other industrial countries in terms of unit labour costs amounted to 6.2 per cent between 1996 and 1999.

Measured in terms of producer prices, competitiveness decreased by 2.3 percentage points between 1993 and 1999. Over the same period, the competitiveness of industry in Germany and France improved by 7 and 8 percentage points respectively.

Productivity growth was inadequate.

Labour productivity in Italian manufacturing industry increased by an annual average of 2.1 per cent during the nineties.

Over the same period productivity increased by an annual average of 3.4 per cent in the United States. Labour productivity in industry rose by 3.0 per cent a year in Germany and by 3.7 per cent in France.

The gap widened in the second half of the decade.

The annual average rate of productivity growth in Italy fell to 0.7 per cent between 1995 and 1999; in the other major industrial countries it was on the order of 4 per cent.

The slowdown in productivity growth reflects a deficiency of innovation.

In Italy the rise in wages and contributions per unit of labour employed exceeded productivity growth by 12 percentage points between 1995 and 1999. By contrast, productivity gains exceeded the rise in labour costs by 4.4 points in France and 5 points in Germany.

The widening of the tax wedge played a significant role in Italy. Over the decade per capita gross earnings of public and private-sector employees rose by 42 per cent, nearly the same as the rise in consumer prices. In real terms, there was virtually no growth. Owing to the increased incidence of personal income tax, net earnings lost an estimated average of 5 per cent of their purchasing power in the nineties.

Domestic demand for consumption and investment increased more slowly than in the previous decade, although the rise was similar to that in the other European countries.

Supply did not respond.

The erosion of Italy’s market shares was greater than can be explained by changes in relative costs. It reflects external diseconomies and an insufficient adjustment of the composition and quality of output.

The level of taxes and contributions, the rigidities in the labour market, the inadequacy of infrastructure, the regulatory obstacles that penalize small firms and the inefficiency of the public administration put a brake on development.

Employment

The number of people in work, as measured by labour force surveys, rose from 20,026,000 in 1995 to 20,692,000 in 1999. The increase over the four years was equal to 3.3 per cent; GDP per worker rose in real terms over the same period by 2.6 per cent.

In the other ten euro-area countries employment increased by 5.3 per cent between 1995 and 1999, GDP per worker by 4 per cent.

There was a change in the structure of employment in Italy during the nineties, especially in the second half of the decade.

The number of permanent full-time employees fell by about 627,000 between 1993 and 1995. It remained close to 12,600,000 until the spring of 1999, since when it has risen by about 120,000.

The recent increase in salaried employment has been concentrated in the service sector; it has consisted almost exclusively of part-time and fixed-term jobs. The number of employees with such new forms of contract rose from 1,600,000 in 1995 to 2,200,000 at the end of 1999.

It is becoming more difficult to find employment in the private sector on favourable conditions as regards job security, earnings growth and promotion on the basis of skills and experience.

Structural changes in employment took place in the nineties in all the countries with a long industrial tradition.

In order to respond to the competition from economies with very low labour costs and limited social protection, economic activity is tending to shift towards technologically advanced, high-quality products and services with a higher value added.

At the same time employment relationships are being deregulated and closer links created between wages and productivity.

Employment regulations are being enforced, avoiding exploitation of the weakest workers and guaranteeing adequate minimum earnings, safety at the workplace and social security cover.

Even more than in the unemployment rate, the structural weakness of Italy’s system of employment is reflected in the employment rate, defined as the ratio of persons in any form of employment to the population of working age.

In the euro area as a whole the employment rate is 60 per cent; in Italy it is 52 per cent and in the Mezzogiorno it falls to 41 per cent.

The indicator is equal to 71 per cent in the Netherlands, which has a large number of part-time workers. High values, of 67 and 63 per cent respectively, are to be found in Portugal and Ireland, where earnings and labour costs are relatively low and the rules flexible.

The employment rate in the United States is 75 per cent.

The proportion of self-employed workers is particularly high in Italy, evidence of the difficulty of finding salaried employment, even in forms other than permanent full-time jobs. In the non-farm sector the proportion of self-employed workers is 27 per cent; Greece is the only country in the European Union in which it is larger. In the leading industrial countries the proportion is around 10 per cent, in the United States it is 7 per cent. In Spain and Portugal, whose economies are less developed than Italy's, it is 20 per cent.

The number of workers in the underground economy has risen to an abnormal level. Their earnings are well below the average; they have virtually no social security cover or accident insurance.

The difficulty of achieving growth and creating employment is reflected in the distribution of income and indicators of poverty.

The proportion of full-time workers whose net earnings are less than two thirds of the median value rose from 8 per cent in the second half of the eighties to 12 per cent in 1998.

In 1998 some 13 per cent of households had an income below the poverty line. The proportion in the South was 27 per cent; it had been rising since the beginning of the nineties.

The effects of the problems facing the economy have been unequally distributed across the country.

Of the 670,000 jobs created since 1995, 550,000 were in the Centre and North and 120,000 in the South.

Between 1990 and 1999 gross domestic product grew by 13.5 per cent in the Centre and North and by 7.1 per cent in the South: a differential that accentuated the disparities between the two Italies.

Between January 1999 and the early months of this year the increase in employment amounted to 1.1 per cent; from the middle of the year onwards it spread to the regions of the Mezzogiorno.

The short-term outlook

According to the International Monetary Fund, the Italian economy will grow by 2.7 per cent in 2000, the economy of the euro area by 3.2 per cent.

The European Commission expects the gross domestic product of the euro area to grow by 3.4 per cent; consumer prices are forecast to rise by an average of 1.8 per cent, a figure that is not consistent with the current exchange rate.

The growth rates of the euro-area countries are widely dispersed. Output is expected to increase by 7.5 per cent in Ireland, by 3.8 per cent in Spain and by 3.7 per cent in France. For Germany and Italy, the Commission forecasts GDP growth of 2.9 and 2.7 per cent respectively.

Whether the Italian economy expands in line with the forecasts of international organizations will depend on the ability of Italy's exports and productive system to participate in the recovery of world trade and international growth.

Households' spending on consumption is still tending to slow down. It is being held back by the tightness of fiscal policy and slow income growth in previous years. Purchasing power is being eroded by the increases in utility charges and the prices of energy products.

Consumption should begin to pick up next year.

The low cost of capital, adequate profitability and tax incentives continue to sustain investment.

In all the leading industrial countries investment in construction has shown a sharply downward trend in recent decades. In Italy the increase in the tax burden on residential buildings and the reduction in public investment were contributory factors during the nineties.

Since last year investment in housing has been encouraged by the large fall in long-term interest rates and the tax incentives for the renovation of buildings.

Investment in plant, equipment, transport equipment and intangible goods has been growing for several years. Between 1995 and 1999 it rose by 23 per cent in real terms, four times the increase in gross domestic product.

Growth of nearly 7 per cent is expected in 2000.

In the last three months of 1999 industrial production was up by 3.4 per cent compared with the trough in the second quarter.

Surveys of business opinion continue to point to expectations of growth. In the first quarter of 2000 production was 0.5 per cent higher than in the last three months of 1999. In April it weakened; provisional estimates for May indicate a significant recovery.

Exports are forecast to grow by 9 per cent at constant prices, or faster than world trade; imports are not expected to rise by more than 6 per cent.

Compared with the lows recorded at the beginning of 1999, Italy's trade flows at current prices have been marked by a sharp rise not only in exports but also in imports; this is true as regards both the other countries of the European Union and the rest of the world. Non-price competitiveness continues to have an adverse effect on Italian trade.

The flexibility introduced into the labour market should lead to a further substantial increase in employment in the private sector, mainly in the form of fixed-term and part-time jobs.

This scenario suggests that it will be possible to reduce public sector net borrowing to around 1.5 per cent of GDP.

It is necessary to achieve the objective of a balanced budget in three years' time, by taking resolute action with regard to the primary surplus. The increases in short and long-term interest rates will have marginal repercussions on the public finances in 2000. Their impact will tend to grow in the coming years.

The public sector

The reduction in net borrowing from 7.6 per cent of GDP in 1995 to 1.9 per cent in 1999 was brought about initially by increasing the ratio of taxes and social security contributions to GDP; it was accompanied by a first substantial fall in interest payments. Subsequently, in the two years 1998-99, the ratio fell by 1.3 percentage points; interest payments fell by another 2.6 points in relation to GDP.

Of the 5.7 point reduction in the deficit in relation to GDP in the last four years, 4.7 points were due to the decline in interest payments.

Starting from 36 per cent in the mid-eighties, the ratio of taxes and social security contributions to GDP in Italy was raised to an average of 42 per cent in the first half of the nineties. Net borrowing showed only a marginal improvement because interest payments rose substantially at the same time.

In the nineties the gross saving of the private sector declined sharply in relation to national income, closely mirroring the improvement in the public finances. Between the two years 1995-96 and 1999 the ratio of the general government current account deficit to national income fell by 5.4 percentage points; the private-sector saving ratio fell from 26 to 20 per cent.

The increase in the tax burden and the decrease in transfer payments caused by the contraction in interest payments depressed households' disposable income. In real terms it rose by 2.2 per cent over the four years in question. If account is taken of the smaller erosion of financial wealth, households' disposable income can be estimated to have increased in real terms by 8 per cent over the period.

Despite the support this provided, the growth in consumption has been slowing since 1998. This has curbed the expansion in economic activity and the formation of income in the private sector.

The reduction in the economy's rate of growth is related to the steady and substantial increase in the tax burden over the last two decades. This was not matched by an improvement in the quality of expenditure. Significant progress has not been made in enhancing the efficiency and effectiveness of the public administration. Spending on public investment has declined. Pension expenditure has continued to increase even after the wide-ranging reforms enacted in 1993 and 1995.

The economy has failed to respond effectively by raising productivity and improving product quality. The fragmentation of production has increased. The composition of employment has deteriorated; flexibility has been achieved in part through recourse to undeclared workers.

The deficit spending of the eighties did not cause the Italian economy to grow more rapidly than the rest of Europe. The expansion of production and investment was hindered by inflationary pressures. The build-up of public debt accelerated.

The budgetary measures taken in the early nineties, especially the restrictions imposed in 1993, averted a financial crisis. But the drastic curbing of the deficit brought a reduction in gross domestic product and caused a sharp fall in investment.

Especially in the second half of the nineties, the adjustment of the public finances should have hinged on a more determined reduction in current expenditure, a drive to increase public investment and a decrease in taxes and social security contributions in relation to GDP.

The turning point for the functional efficiency of the public administration came with the reform and simplification of the legislative framework; in the last three years steps have been taken to streamline the bureaucracy.

Small enterprises, which form the core of the Italian economy, are still subject to an array of rules and a tax burden that hamper their growth.

The economy’s competitiveness is diminished by the excessively slow working of the civil courts.

The basic concepts of the administrative system need to be re-examined with a view to improving its functional efficiency in an environment marked by increasing international openness and rapid changes in markets.

With economic activity picking up, fuelled for the time being by exports, the planned reduction in the tax burden should have a positive effect on domestic demand and supply.

Achieving a higher level of public investment depends first and foremost on the efficient working of government departments and the project-development capabilities of local authorities. The shortcomings in the latter must be made good by supportive action on the part of central government. Local authorities can also turn to the private sector for planning, design and advisory services.

Consumer price inflation in Italy in 2000 will be about 2.3 per cent, higher than in the other European Union countries.

An increase in interest rates in line with that implicit in the yield curve may again depress growth in 2001.

It is essential that Italian exports keep pace with the growth in world trade and reverse the tendency they have shown in the last few years to lose market share.

The recovery under way in Europe and Italy must mark the start of a new period of growth.

The depreciation of the common currency has boosted the competitiveness of European industry, but it is a short-lived benefit.

The ratio between financial assets in the euro area and the rest of the world has changed to our disadvantage. The relative value of European firms has declined.

This trend must be reversed.

Confidence in the currency and in the institutions responsible for managing the economy fosters growth by attracting investment.

Money is the counterpart of the credit granted to the economy. As the economy strengthens, so will the currency.

Europe must invest and innovate. There is a need for uniform taxation of financial assets and harmonization of company law and taxation. A citizens' Europe calls for conditions, especially as regards pensions and welfare, that will allow workers to move easily within the area.

Economic competitiveness has its roots in the real economy and the ability of firms to derive ever greater value added from the resources of capital and labour.

In Italy the deterioration in growth during the nineties can be traced back to imbalances that had developed over the years.

By reducing competitiveness, the slowdown in productivity growth in the second half of the decade was reflected in a contraction in Italy's share of world trade in goods and services and an unsatisfactory increase in industrial output.

Thanks to the resolutely disinflationary monetary policy pursued since 1994, the closing of the gap between public expenditure and revenue and the objective of participation in the single European currency, we were able to restore monetary stability.

However, the structural problems of the fragmentation of industry and the paucity of innovative products are reappearing.

The emergence of a renewed risk of inflation and the need to improve competitiveness call for a definitive reform of the pension system and the elimination of the still considerable rigidities in the labour market.

A closer relationship must be established between labour costs, which include a substantial tax wedge, and productivity.

It is necessary to introduce bargaining arrangements and types of employment contract more in tune with the changes that have occurred in the global environment in which the economy has to operate.

Cooperation between the two sides of industry is an essential requisite.

The confrontational episodes at the heart of industrial relations must translate, over the long term, into strategic cooperation aimed at achieving cost-effective production, competitiveness and growth.

There is scope for the application of new technologies, especially information technology, for the creation of new products and for the reorganization of the economy.

It is up to entrepreneurs to achieve advances in this area; legislation, taxation and the labour market must create a favourable environment.

Small businesses have always been one of the strengths of the Italian economy. They have flexible forms of organization. The administrative and fiscal constraints that limit their growth must be removed.

Industrial districts give small enterprises the chance to enjoy some of the advantages available to larger firms. Information technology can widen the confines of districts, lead to a nationwide reorganization of relations between firms and sectors and increase the efficiency of the economy as a whole.

The new economy is nothing more than the reorganization of existing economic structures by applying information and innovation. It calls for knowhow and expertise, which can be derived from closer cooperation between firms and research bodies and universities. Innovative technologies and forms of organization can be imported from the advanced economies; they need to be adapted to suit the features of our own system of production.

Small firms and the Mezzogiorno can benefit enormously from these advances.

The upturn in the world economic cycle offers an opportunity to undertake the necessary reform of legislation, public expenditure and taxation.

It is time to act.

The planned easing of the tax burden this year must constitute a credible first step towards larger reductions over the medium term. The growth in current expenditure must be curbed, thereby reducing its ratio to GDP.

We must combine the reduction in the deficit with higher public investment.

A place can be found in economic and financial planning for guidelines that encourage the emergence of new ways of raising productivity and improving product quality. The environment and the cultural heritage are two reservoirs of wealth for the years to come, and not only in the economic sense.

The new economy will benefit from the information on the situation of a host of small and medium-sized enterprises that the major banks already possess.

The combination of banking with the knowledge and resources of firms in the high technology sector must also bring benefits for the whole economy.

The strengthening of a banking system in which the strategic decisions continue to be taken in this country anchors the ownership of industrial groups to domestic savings.

In the not too distant past, after the abandonment of the monetary order created at Bretton Woods, it was held that a financial system left to develop and operate in accordance with market forces could automatically lead to growth and stability in the world economy.

The last two decades have seen not only rapid advances in emerging countries, but also the marginalization of some weaker economies and bouts of instability, which were in danger of engulfing the financial systems and economies of large as well as small countries.

The need for a system of financial governance by means of global supervision that leaves individual intermediaries the degree of freedom consistent with stability is reasserting itself forcefully.

Financial capitalism has shown itself to be a powerful factor in the creation of wealth, but also to be even more unstable than traditional industrial capitalism.

A concept of economic and financial power based on the formation of large conglomerates combining industrial, commercial and financial activities has proved not to be a winning formula. This lesson comes from some economies in the Far East, whose fragility at times of serious financial turmoil has given rise to crises with far-reaching consequences.

Systems in which there is a clear separation between financial intermediation and industrial activity have been shown to be superior in terms of stable long-term growth. This is the model adopted in Italy. While we are keen to foster a greater spirit of competition in the banking sector, a dangerous intermingling of industry, commerce and finance must be avoided.

Globalization raises new problems for development and the distribution of wealth at world level. Global finance is a source of progress, but it can also undermine existing arrangements in more backward economies, thereby marginalizing them.

A new awareness of the need to pay attention to the redistributive effects of growth has emerged among the leaders of the more developed countries as well.

International cooperation must be intensified; imbalances are still too prevalent. The Holy Father recently spoke out to warn us and exhort us to globalize solidarity.

Human rights demand it; the economy needs it.

Turning once more to Italy, we must meditate again on the principles enunciated in our Constitution. Liberty, equality and fraternity, freedom and independence are values enshrined in the law of nations with a long tradition of democracy. Their spirit permeates all modern constitutions.

The fathers of our Constitution wanted the central value of our laws to be Man, for whom work is a precondition for complete personal realization, including the effective exercise of civil and political rights.

The advances in macroeconomic stability achieved in recent years have created a valid base from which to defeat the form of social marginalization that comes from unemployment.

This objective is within our reach.

It is also an objective that we must all share. It is the point at which economic, social and political aims converge. It is for the state and its institutions to find the ways and means of achieving it.

It is the factor on which the future of our civilization, our values, the development of Italian society and our young people depend.

ANNUAL ACCOUNTS

NOTES TO THE ACCOUNTS [1]

The start of the Third Stage of EMU has brought major changes in the Bank of Italy's annual accounts. In the new institutional context the Bank has adopted the methods of preparing the accounts and the layout recommended by the Governing Council of the ECB. Among other things, the new procedures involved the application at the beginning of 1999 of the new valuation methods to gold, assets denominated in foreign currency and securities; the new values were considered as the initial carrying value of the assets in question.

The results for 1999 were affected by the rise in interest rates in financial markets over the year and the weakening of the euro against the dollar and the yen.

The Bank's balance sheet expanded considerably compared with the end of 1998, from €137,960 million (267,127 billion lire) to €182,853 million (354,052 billion lire). On the assets side the bulk of the increase was due to the revaluation of gold, foreign currency and the portfolio of securities not held as financial fixed assets. On the liabilities side, in addition to the increase in the revaluation accounts, there were increases in the following items: the balances of the other central banks participating in the TARGET settlement system, banknotes in circulation, Treasury deposits and banks' deposits for required reserves.

Total net income fell from €6,444 million (12,477 billion lire) to €2,916 million (5,646 billion lire); expenditure excluding that in respect of institutional transactions, which are taken into account in arriving at total net income, fell from €4,083 million (7,906 billion lire) to €2,381 (4,610 billion lire). Net profit for the year fell from €2,361 million (4,571 billion lire) to €535 million (1,036 billion lire); the decrease of €1,826 million was primarily due to the downturn in the result for financial operations and the writedowns made during the year, which were only offset in part by the reduction in transfers to provisions for staff costs, income tax and the tax on productive activities.

(1) This abridged English version of the Bank's annual accounts does not contain all the information required by law in the Italian version.

1. *Legal basis, methods of preparation and layout of the annual accounts*

Legal basis of the annual accounts

In drawing up its annual accounts, the Bank of Italy is subject to the provisions of special laws and, although it is not bound by them, applies the rules laid down in the Civil Code, interpreted in the light of the accounting standards generally adopted.

The main statutory provisions referred to above are:

- Article 8.1 of Legislative Decree 43/1998 ("Adaptation of Italian law to the provisions of the treaty establishing the European Community for matters concerning monetary policy and the European System of Central Banks"). The Decree states that "in drawing up its annual accounts, the Bank of Italy may adapt, *inter alia* by way of derogation from the provisions in force, the methods it uses in recognizing amounts and preparing its annual accounts to comply with the rules laid down by the ECB in accordance with Article 26.4 of the ESCB Statute and the recommendations it has issued. The annual accounts drawn up in accordance with this paragraph, with regard in particular to the methods used in their preparation, are also valid for tax purposes".

  In a guideline that was approved by the Governing Council of the ECB on 1 December 1998 (Guideline ECB/1998/NP22, now amended in Guideline ECB/1999/9), the ECB laid down rules for items of central banks' annual accounts with reference mainly to the institutional activities of the ESCB (system items) and non-binding recommendations for the other items of their annual accounts (non-system items). In addition, on 8 April 1999 the Governing Council of the ECB issued Recommendation ECB/1999/NP7 on the accounting treatment of the costs incurred in the production of banknotes.

  On the basis of the authority granted by Article 8 of Legislative Decree 43/1998, the Bank of Italy has applied in full the accounting rules and recommendations issued by the ECB, including those on the layout of the profit and loss account in report form and that of the balance sheet. The latter is the same as that used for the monthly statement approved, pursuant to Article 8.2 of Legislative Decree 43/1998, by the Minister of the Treasury, the Budget and Economic Planning in a decree issued on 5 May 1999;

- Royal Decree 1067/1936 (the Bank's Statute) as amended, which lays down special rules for the allocation of the income arising from the investment of the reserves.

As regards the matters not covered by the foregoing rules, the following provisions apply:

- Legislative Decree 127/1991 ("Implementing Directives 78/660/EEC on the annual accounts of certain types of companies and 83/349/EEC on consolidated accounts pursuant to Article 1.1 of Law 69/1990");
- Legislative Decree 87/1992 ("Implementation of Directive 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 89/117/EEC on foreign branches' annual accounting documents");
- the Income Tax Code approved by Presidential Decree 917/1986.

In implementation of European Council Regulation 974/98, the Bank's accounting records and annual accounts are expressed in euros. In order to facilitate comparison with the figures for the preceding years, the balance sheet and profit and loss account figures are shown, appropriately rounded, in euros and lire.

The changes in the methods of preparation and valuation

As a consequence of the observance of the rules and recommendations issued by the Governing Council of the ECB, the methods of preparation and valuation used in drawing up the annual accounts have been changed compared with the previous year in the following main respects:

a) the valuation of gold, net foreign currency assets and listed securities not held as financial fixed assets (denominated in euros and foreign currency): under the new method they are valued at the market prices at the close of the accounting period (instead of at the price of the last swap transaction with the ECB for gold and at the lower of cost and the average price in the last month for listed securities);
b) the treatment of revaluation gains and losses: the former do not affect the profit and loss account but are included in revaluation accounts; the latter are recognized in the profit and loss account. No provision is made for writebacks: revaluation gains in respect of items that had previously been written down do not contribute to the profit for the year but are included in the revaluation accounts referred to above.;
c) the quantification of "cost of sales" and stocks:
    - securities are measured using the "average-daily-net-cost" method, the weighted average cost of the stock at the beginning of the day and of the purchases settled during the day (instead of the average-annual-cost method);
    - gold and foreign currencies are measured using the "average-daily-net-cost" method (instead of the LIFO method with annual intervals

for foreign currencies). In applying the new method, the "cost of sales" for sales settled during the day is calculated on the basis of the average cost of the purchases made on the same day; for sales in excess of purchases, reference is made to the average cost of the latter at the end of the previous day; excess purchases (valued at the average cost of the day) are added to the existing stocks in order to calculate the new average cost;

d) banknote production costs: these are now recognized in the year in which they are incurred instead of in the year in which notes are actually issued. In addition, the costs incurred in developing new versions of banknotes are no longer capitalized. The amount of such capitalized costs still to be amortized was all charged to income in 1999.

e) depreciation of tangible fixed assets: depreciation is charged on the basis of the depreciation rates established by the ECB, *inter alia* for amounts that were previously charged in full to income for the year (tangible fixed assets with a unit value of not more than one million lire and expenditure incurred for fixed assets of particular historical or artistic interest, which are now governed by Legislative Decree 490/1999);

f) intangible fixed assets: those relative to deferred costs incurred in respect of properties owned by third parties, enlargements of TLC networks and the development of software using internal and external resources are no longer capitalized if they amount to less than €10,000 but charged in full to income.

g) revaluation gains: those that emerged on the occasion of the valuation of assets at market value at the beginning of the Third Stage or earlier are included, in the event of redemptions or sales, in income on a pro rata basis.

In line with the recent shift in the generally applied accounting standards, as of the 1999 annual accounts taxes on income and productive activities are recognized with account being taken of "deferred tax assets and liabilities".

Layout of the annual accounts

The new layout of the balance sheet, which corresponds to the model monthly statement, conforms with that recommended by the Governing Council but includes some more detailed subitems and the total amount of the memorandum accounts. It is arranged so as to give an adequate representation of the transactions connected with the Bank's participation in the Eurosystem by dividing the items concerned according to the currency in which they were originally denominated (euros or foreign currency) and the nature and residence of the counterparty.

Tables 3 and 4 show the balance sheet figures at 31 December 1998, 1 January 1999 and 31 December 1999 to permit an overall assessment of the effects deriving in the new operational context from the application of the new accounting policies.

A rough idea of the effects on the balance of the application of the new accounting policies is given by the increase of just over €5 billion (around 10,000 billion lire) in the portfolio of securities other than the investment of provisions and reserves. The above amount is included in the item *Revaluation accounts*.

The profit and loss account, in conformity with the recommendations issued by the Governing Council of the ECB, is drawn up in vertical form and shows the net result for the year arising from the Bank's institutional operations, other income and the remaining expenditure.

2. *Comment on the accounts*

Balance sheet

The changes in assets and liabilities between 31 December 1998 and 31 December 1999 and the situation at 1 January 1999 are shown in Tables 1 and 2.

Assets:

The item *Gold and gold receivables* amounted to €22,822 million (44,190 billion lire), as against €21,138 million (40,929 billion lire) at the end of 1998. It comprises the gold owned by the Bank (79 million ounces, equivalent to 2,452 tons), which was valued, in the same way as other foreign currencies, at the year-end price communicated by the ECB (€289.518 per ounce). At the end of 1998 the Bank's holding of gold had amounted to 2,593 tons and was valued at the price of the last swap transaction with the ECB (€253.568 per ounce).

The increase of €1,684 million was the result of the year-end revaluation surplus of €3,401 million, which was partly offset by the €600 million deficit arising from the revaluation of gold at the price obtaining on 1 January 1999 and the transfer to the ECB on 5 January 1999 of 141 tons for €1,117 million.

Claims on non-euro-area residents denominated in foreign currency decreased by €2,862 million, from €25,179 million to €22,317 million (from 48,754 to 43,213 billion lire) as a result of the contribution to the ECB of foreign securities (€5,242 million in US dollars and €522 million in yen) and foreign currency (€455 million in US dollars and €111 million in yen) for a total of €6,330 million.

Table 1

BALANCE SHEET - ASSETS

	Amounts at end-1998		Amounts at 1 Jan. 1999	Changes	Amounts at end-1999	Changes
		(a)	(b)	(c)=(b)–(a)	(d)	(e)=(d)–(a)
	(lire)	*(thousands of euros)*				
1 Gold and gold receivables	**40,929,328,848,321**	**21,138,234**	**20,537,983**	**–600,251**	**22,822,355**	**1,684,121**
2 Claims on non-euro-area residents denominated in foreign currency	**48,754,130,447,394**	**25,179,407**	**25,320,998**	**141,591**	**22,317,490**	**–2,861,917**
2.1 Receivables from the IMF	8,241,138,969,793	4,256,193	4,260,442	4,249	4,252,977	–3,216
2.2 Securities (other than shares)	20,351,016,269,365	10,510,423	10,578,079	67,656	14,138,303	3,627,880
2.3 Reverse operations	–	–	–	–	184,045	184,045
2.4 Other claims	20,161,975,208,236	10,412,791	10,482,477	69,686	3,742,165	–6,670,626
3 Claims on euro-area residents denominated in foreign currency	**65,965,765**	**34**	**34**	**. .**	**3,602,978**	**3,602,944**
3.1 Financial counterparties	65,965,765	34	34	. .	3,602,978	3,602,944
3.1.1 Securities (other than shares)	–	–	–	–	*559,173*	*559,173*
3.1.2 Reverse operations	–	–	–	–	*38,908*	*38,908*
3.1.3 Other claims	*65,965,765*	*34*	*34*	. .	*3,004,897*	*3,004,863*
3.2 General government	–	–	–	–	–	–
3.3 Other counterparties	–	–	–	–	–	–
4 Claims on non-euro-area residents	**354,898**	**. .**	**. .**	**-**	**1,214,195**	**1,214,195**
5 Lending to financial sector counterparties in the euro area	**6,111,043,611,953**	**3,156,091**	**3,156,091**	**-**	**35,852,376**	**32,696,285**
5.1 Main refinancing operations	4,123,929,030,600	2,129,832	2,129,832	–	33,162,534	31,032,702
5.2 Longer-term refinancing operations	–	–	–	–	1,892,278	1,892,278
5.3 Fine-tuning reverse operations	–	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–	–
5.5 Marginal lending facility	–	–	–	–	793,892	793,892
5.6 Credits related to margin calls	–	–	–	–	3,273	3,273
5.7 Other claims	1,987,114,581,353	1,026,259	1,026,259	–	399	–1,025,860
6 Securities issued by euro-area residents (other than shares)	**4,709,890,126,834**	**2,432,455**	**2,639,883**	**207,428**	**1,483,116**	**–949,339**

Table 1 (cont.)

BALANCE SHEET - ASSETS

	Amounts at end-1998	(a)	Amounts at 1 Jan. 1999 (b)	Changes (c)=(b)–(a)	Amounts at end-1999 (d)	Changes (e)=(d)–(a)
	(lire)	*(thousands of euros)*				
7 General government debt	**79,099,613,834,669**	**40,851,541**	**40,851,541**	**–**	**40,851,541**	**–**
Government securities issued under Law 483/93	*76,205,757,000,000*	*39,356,989*	*39,356,989*	–	*39,356,989*	–
Items arising from the Bank's former management of stockpiling bills	*2,893,856,834,669*	*1,494,552*	*1,494,552*	–	*1,494,552*	–
8 INTRA-EUROSYSTEM CLAIMS	**1,442,037,082,500**	**744,750**	**744,750**	**–**	**8,192,250**	**7,447,500**
8.1 Participating interest in the ECB	1,442,037,082,500	744,750	744,750	–	744,750	–
8.2 Claims deriving from the transfer of foreign reserves to the ECB	–	–	–	–	7,447,500	7,447,500
9 ITEMS TO BE SETTLED	**5,048,971,303**	**2,608**	**2,608**	**–**	**736**	**–1,872**
10 OTHER ASSETS	**86,075,924,468,923**	**44,454,505**	**44,454,036**	**–469**	**46,515,468**	**2,060,963**
10.1 Euro-area coins	12,789,303,642	6,605	6,605	–	3,775	–2,830
10.2 UIC endowment fund	500,000,000,000	258,228	258,228	–	258,228	–
10.3 Investments of reserves and provisions (including shares)	42,385,345,779,417	21,890,204	21,912,029	21,825	25,024,582	3,134,378
Government securities	*39,309,802,657,281*	*20,301,819*	*20,323,644*	*21,825*	*17,787,409*	*–2,514,410*
Shares and participating interests	*2,673,550,170,373*	*1,380,773*	*1,380,773*	–	*6,850,452*	*5,469,679*
Other securities	*401,992,951,763*	*207,612*	*207,612*	–	*386,721*	*179,109*
10.4 Intangible fixed assets	124,727,062,316	64,416	64,416	–	38,704	–25,712
10.5 Deferred charges	14,104,445,106	7,285	7,285	–	8,213	928
10.6 Tangible fixed assets (net of depreciation)	3,779,546,331,085	1,951,973	1,951,973	–	1,961,185	9,212
10.7 Accrued income and prepaid expenses	1,991,674,839,965	1,028,614	1,006,285	–22,329	1,018,763	–9,851
10.8 Sundry	37,267,736,707,392	19,247,180	19,247,215	35	18,202,018	–1,045,162
Advances under Ministerial Decree of 1974	*30,932,366,845,700*	*15,975,234*	*15,975,234*	–	*15,925,906*	*–49,328*
Other items	*226,956,545,213*	*117,214*	*117,249*	*35*	*42,578*	*–74,636*
Miscellaneous receivables	*6,045,666,363,109*	*3,122,326*	*3,122,326*	–	*2,204,243*	*–918,083*
Closing stocks	*25,816,939,695*	*13,333*	*13,333*	–	*494*	*–12,839*
Other investments of severance pay and pension provisions	*36,930,013,675*	*19,073*	*19,073*	–	*28,797*	*9,724*
Total	**267,127,083,712,560**	**137,959,625**	**137,707,924**	**–251,701**	**182,852,505**	**44,892,880**

Table 2

BALANCE SHEET - LIABILITIES

	Amounts at end-1998	(a)	Amounts at 1 Jan. 1999 (b)	Changes (c)=(b)–(a)	Amounts at end-1999 (d)	Changes (e)=(d)–(a)
	(lire)	*(thousands of euros)*				
1 Banknotes in circulation	**122,411,382,958,000**	**63,220,203**	**63,220,203**	**-**	**70,614,050**	**7,393,847**
2 Liabilities to euro-area financial sector counterparties denominated in euros	**13,549,630,195,797**	**6,997,800**	**6,997,800**	**-**	**9,225,013**	**2,227,213**
2.1 Current accounts (covering the minimum reserve system)	13,549,630,195,797	6,997,800	6,997,800	–	9,100,788	2,102,988
2.2 Deposit facility	–	–	–	–	124,225	124,225
2.3 Fixed-term deposits	–	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–	–	–
3 Liabilities to other euro-area residents denominated in euros	**42,737,777,356,784**	**22,072,220**	**22,072,220**	**-**	**29,465,494**	**7,393,274**
3.1 General government	42,205,568,747,493	21,797,357	21,797,357	–	29,078,380	7,281,023
3.1.1 Treasury payments account	*42,071,873,598,974*	*21,728,309*	*21,728,309*	–	*29,047,269*	*7,318,960*
3.1.2 Sinking fund for the redemption of government securities	*133,692,160,665*	*69,046*	*69,046*	–	*5,452*	*–63,594*
3.1.3 Other liabilities	*2,987,854*	*2*	*2*	–	*25,659*	*25,657*
3.2 Other counterparties	532,208,609,291	274,863	274,863	–	387,114	112,251
4 Liabilities to non-euro-area residents denominated in euros	**68,665,726,362**	**35,463**	**35,463**	**-**	**5,359,943**	**5,324,480**
4.1 Liabilities to non-euro-area EU central banks	121,429,051	63	63	–	5,326,726	5,326,663
4.2 Other liabilities	68,544,297,311	35,400	35,400	–	33,217	–2,183
5 Liabilities to euro-area residents denominated in foreign currency	**-**	**-**	**-**	**-**	**38,908**	**38,908**
5.1 Financial sector counterparties	–	–	–	–	38,908	38,908
5.2 General government	–	–	–	–	–	–
5.3 Other counterparties	–	–	–	–	–	–
6 Liabilities to non-euro-area residents denominated in foreign currency	**21,049,084,172**	**10,871**	**10,913**	**42**	**926,438**	**915,567**
6,1 Deposits and balances	21,049,084,172	10,871	10,913	42	12,756	1,885
6,2 Other liabilities	–	–	–	–	913,682	913,682
7 Counterpart of SDRs allocated by the IMF	**1,634,913,264,000**	**844,362**	**846,012**	**1,650**	**958,759**	**114,397**

Table 2 (cont.)

BALANCE SHEET - LIABILITIES

		Amounts at end-1998		Amounts at 1 Jan. 1999	Changes	Amounts at end-1999	Changes
			(a)	(b)	(c)=(b)–(a)	(d)	(e)=(d)–(a)
		(lire)	*(thousands of euros)*				
8	**Intra-Eurosystem liabilities**	**1,109,353,935**	**573**	**573**	**–**	**11,293,350**	**11,292,777**
8.1	Promissory notes covering debt certificates issued by the ECB	–	–	–	–	–	–
8.2	Other liabilities (net)	1,109,353,935	573	573	–	11,293,350	11,292,777
9	**Items to be settled**	**23,232,106,343**	**11,998**	**11,998**	**–**	**23,543**	**11,545**
10	**Other liabilities**	**1,940,095,425,173**	**1,001,976**	**1,001,507**	**–469**	**2,172,068**	**1,170,092**
10.1	Bank of Italy drafts	914,082,711,738	472,084	472,084	–	488,811	16,727
10.2	Cashier's department services	166,012,368,567	85,738	85,738	–	2,158	–83,580
10.3	Accrued expenses and deferred income	3,192,055,392	1,649	1,180	–469	15,699	14,050
10.4	Sundry	856,808,289,476	442,505	442,505	–	1,665,400	1,222,895
11	**Provisions**	**18,444,572,736,351**	**9,525,827**	**9,496,232**	**–29,595**	**8,734,268**	**–791,559**
11.1	Provisions for specific risks:	8,907,308,835,660	4,600,241	4,570,646	–29,595	3,799,206	–801,035
	for losses on foreign exchange	*4,178,013,173,819*	*2,157,764*	*2,157,764*	–	*2,157,764*	–
	for losses on securities	*1,983,295,661,841*	*1,024,287*	*994,692*	*–29,595*	*1,024,287*	–
	for insurance cover	*600,000,000,000*	*309,874*	*309,874*	–	*309,874*	–
	for losses incurred by the ECB	–	–	–	–	*41,466*	*41,466*
	for taxation	*2,146,000,000,000*	*1,108,316*	*1,108,316*	–	*265,815*	*–842,501*
11.2	Sundry staff-related provisions	9,537,263,900,691	4,925,586	4,925,586	–	4,935,062	9,476
	for staff severance pay and pensions	*9,404,061,052,231*	*4,856,792*	*4,856,792*	–	*4,865,373*	*8,581*
	for grants to BI pensioners and their surviving dependents	*2,634,245,953*	*1,360*	*1,360*	–	*1,486*	*126*
	for severance pay of contract staff	*2,417,602,507*	*1,249*	*1,249*	–	*1,243*	*–6*
	for staff costs	*128,151,000,000*	*66,185*	*66,185*	–	*66,960*	*775*
12	**Revaluation accounts**	**26,990,596,669,549**	**13,939,480**	**13,716,151**	**–223,329**	**24,091,887**	**10,152,407**
13	**Provision for general risks**	**17,616,323,954,266**	**9,098,072**	**9,098,072**	**–**	**9,098,072**	**–**
14	**Capital and reserves**	**17,116,294,773,938**	**8,839,828**	**8,839,828**	**–**	**10,315,737**	**1,475,909**
14.1	Capital	300,000,000	155	155	–	155	–
14.2	Ordinary and extraordinary reserves	10,955,097,231,749	5,657,835	5,657,835	–	7,133,744	1,475,909
14.3	Other reserves	6,160,897,542,189	3,181,838	3,181,838	–	3,181,838	–
15	**Net profits for distribution**	**4,571,440,107,890**	**2,360,952**	**2,360,952**	**–**	**534,975**	**–1,825,977**
	Total	**267,127,083,712,560**	**137,959,625**	**137,707,924**	**–251,701**	**182,852,505**	**44,892,880**

The item included:

- *receivables from the IMF*, which remained virtually unchanged (€4,253 million, as against €4,256 million at the end of 1998), comprising Italy's net position vis-à-vis the IMF (€3,524 million), the loan Italy made in connection with the Fund's participation in the debt reduction plan (formerly ESAF, now PRGF) for the poorest countries (€562 million) and other balances in SDRs (€167 million);
- *securities (other than shares)* valued at year-end prices and exchange rates, which rose by €3,628 million from €10,510 million to €14,138 million (from 20,351 to 27,376 billion lire); this subitem comprises securities denominated in US dollars and yen ($12,899 million and ¥133,375 million) issued mainly by the US and Japanese Treasuries and the BIS;
- *reverse operations* amounting to €184 million (zero at the end of 1998);
- *other assets*, which fell by €6,671 million (from €10,413 million to €3,742 million); among the components of this subitem, correspondent current accounts fell from €5,245 million to €546 million and tied accounts from €5,165 million to €3,194 million.

Over the year the euro depreciated against the US dollar (from 1.171 to 1.0046) and the yen (from 134,697 to 102.73), with a corresponding increase in the value of foreign currency assets.

Claims on euro-area residents denominated in foreign currency amounted to €3,603 million (6,976 billion lire) and referred exclusively to transactions with financial counterparties. In particular, securities (other than shares) amounted to €559 million and were all denominated in US dollars; reverse operations amounted to €39 million and consisted of securities buy-sell-back transactions; other assets rose from a negligible amount at the end of 1998 to €3,005 and consisted of foreign currency accounts with banks abroad, mainly in France and Germany.

Claims on non-euro-area residents rose from a negligible amount at the end of 1998 to €1,214 million (2,351 billion lire) and consisted entirely of *claims on non-euro-area EU central banks* in connection with the operation of the TARGET system.

Lending to financial sector counterparties in the euro area rose from €3,156 million to €35,852 million (from 6,111 to 69,420 billion lire). In particular:

- *main refinancing operations* amounted to €33,163 million (64,212 billion lire), compared with €2,130 million (4,124 billion lire) of repos of a similar nature still outstanding at the end of 1998. The size of this item needs to be set in relation to the large contraction recorded in the closing part of last year in preparation for the start of Stage Three of EMU and reflects both the repositioning of Italian banks in the European money market and their larger liquidity requirements in connection with the Year 2000 date change. As early as January the item amounted to €18,944 million, which was in line with the average recorded in 1998 for repos (€11,074 million);

- *longer-term refinancing operations*, which were activated in 1999, amounted to €1,892 million; the average for the year was equal to €1,871 million;
- the *marginal lending facility* stood at €794 million (€27 million on average for the year);
- *credits related to margin calls* amounted to €3 million;
- *other claims* fell to €0.4 million from the €1,026 million shown at the end of 1998 and consisting almost exclusively of advances and discounts that had not matured at the close. The figure for 1999 referred to deposits in euros with banks in the euro area.

Securities issued by euro-area residents (other than shares) consisted of government securities eligible for monetary policy purposes and declined by €949 million (from €2,432 million to €1,483 million), primarily as a consequence of transfers to investment of reserves. The average amount for the year was equal to €1,549 million.

General government debt amounted, as at the end of 1998, to €40,852 million (79,100 billion lire). The item comprised €39,357 million (76,206 billion lire) of securities deriving from the conversion of the former Treasury current account (issued under Law 483/1993) and €1,495 million (2,894 billion lire) in respect of the past management of stockpiling bills.

Intra-Eurosystem claims rose from €745 million to €8,192 million and comprised the Bank's participating interest of €745 million in the ECB (14.895 of the total capital) and €7,447 million of claims deriving from the transfer of foreign reserves to the ECB in respect of the transfers of gold, foreign securities and foreign currency mentioned earlier.

Items to be settled decreased from €3 million to €1 million.

Other assets rose from €44,455 million to €46,516 million (from 86,076 to 90,067 billion lire). In particular:

- *euro-area coins* decreased from €7 million to €4 million;
- the *UIC endowment fund* remained unchanged at €258 million (500 billion lire);
- *investments of reserves and provisions (including shares)* rose from €21,890 million to €25,025 million (from 42,385 to 48,454 billion lire). The increase of €3,135 million was the result of the €5,187 million

(10,044 billion lire) of revaluations effected at 31 December 1999, which are shown in the revaluation accounts on the liabilities side and which were partially offset by net sales amounting to €3,562 million. The revaluations mainly concerned shares. The average value of the whole item for the year was equal to €21,345 million (41,329 billion lire).

The designation of securities as financial fixed assets is decided by the Board of Directors.

- *intangible fixed assets* decreased from €65 million to €39 million and included €37 million of procedures and designs developed by the EDP Department;
- *deferred charges* rose from €7 million to €8 million and comprised the cost of software licences (€4 million) and TLC network costs (€4 million);
- *tangible fixed assets (net of depreciation)* rose by €9 million to €1,961 million and comprised: the buildings used by the Bank for its institutional activities, which rose from €1,786 million to 2,075 million (the related accumulated depreciation amounted to €725 million); the buildings in which severance pay provisions are invested, unchanged at €354 million (the related accumulated depreciation amounted to €23 million); and plant and equipment, which rose respectively from €110 million to €118 million and from €234 million to €436 million (the related accumulated depreciation amounted respectively to €96 million and €192 million);
- *accrued income and prepaid expenses* decreased from €1,029 million to €1,019 million;
- *sundry* other assets decreased from €19,247 million to €18,202 million (from 37,268 to 35,244 billion lire) and included €15,926 million (30,837 billion lire) of advances granted with an interest rate of 1 per cent under a Ministerial Decree of 27 September 1974 (€9,083 million to Banco Napoli pursuant to Law 588/1996 to cover losses incurred by SGA SpA and €6,843 million to Banco di Sicilia in connection with its intervention in favour of Sicilcassa SpA in compulsory administrative liquidation).

Sundry other assets also included €29 million of severance pay advances granted, with the related interest capitalized (€19 million at the end of 1998).

Liabilities:

Banknotes in circulation rose from €63,220 million to €70,614 million (from 122,411 to 136,728 billion lire), an increase of €7,394 million (14,317 billion lire) or 11.7 per cent that was partly due to the demand for liquidity in connection with the Year 2000 date change. The average stock of notes in circulation rose from €57,639 million to €62,775 million (from 111,604 to 121,550 billion lire), an increase of 8.9 per cent, as against one of 7.7 per cent in 1998.

Liabilities to euro-area financial sector counterparties rose from €6,998 million to €9,225 million (from 13,550 to 17,862 billion lire) and comprised:

- *current accounts (covering the minimum reserve system),* consisting exclusively of compulsory reserve deposits, which amounted to €9,101 million (17,622 billion lire), as against €6,605 million (12,789 billion lire) at the end of 1998. The average for the year, which reflects the movement in borrowed funds subject to the requirement and the effects of the new rules issued by the ECB Governing Council (Regulation ECB/1998/15), was equal to €11.861 million (22,967 billion lire), compared with an average of €34,330 million (66,472 billion lire) in 1998 based on the national rules in force;

- the *deposit facility;* which amounted to €124 million.

Liabilities to other euro-area residents rose by €7,393 million, from €22,072 million to €29,465 million (from 42,738 to 57,053 billion lire) primarily as a result of the increase in the *Treasury payments account*, from €21,728 million to €29,047 million (from 42,072 to 56,243 billion lire); the *sinking fund for the redemption of government securities* fell from €69 million to €5.5 million (from 134 to 10.6 billion lire). The average balances on the two accounts amounted to respectively €18,693 and €1,397 million, as against 18,837 and 1,399 million in 1998.

This item also includes:

- *other liabilities* to general government, consisting of €26 million of current account deposits;

- liabilities to *other counterparties,* amounting to €387 million and consisting mainly of the balance of €372 million (720 billion lire) on the UIC's current account.

The financial flows arising from dealings between the Bank of Italy and the UIC are mostly settled on this account. Among the movements recorded in 1999, it is worth noting: a) the recovery of expenses by the UIC under special agreements for a total of €7.6 million; b) the Bank's share of the UIC's profits, €802.1 million; c) interest earned on the overdraft on the UIC's current account in the first few days of 1999, €0.02 million; and d) interest payable on the credit balance on the UIC's current account, €5.5 million.

Liabilities to non-euro-area residents amounted to €5,360 million (€35 million at the end of 1998) and mainly comprised *liabilities to non-euro-area EU central banks* totaling €5,327 million in connection with the operation of the TARGET system. *Other liabilities* amounted to €33 million, as against €35 million at the end of 1998.

Liabilities to euro-area residents denominated in foreign currency amounted to €39 million; they consisted of repos entered into in 1999 with banks in other EMU countries and the total includes €4 million of revaluations at year-end exchange rates.

Liabilities to non-euro-area residents denominated in foreign currency amounted to €926 million (€11 million at the end of 1998), of which €106 million in respect of year-end exchange adjustments. *Deposits and balances* amounted to €13 million and *other liabilities* to €913 million. The latter refer to repos involving securities denominated in US dollars that were entered into mainly with financial counterparties in the United Kingdom.

The *counterpart of SDRs allocated by the IMF* rose from €844 million to €959 million, primarily owing to the €101 million revaluation at year-end exchange rates.

The item *intra-Eurosystem liabilities* amounted to €11,293 million (21,867 billion lire) and comprised the TARGET balances with other Eurosystem central banks.

Items to be settled rose from €12 million to €24 million.

Other liabilities increased by €1,170 million (from €1,002 million to €2,172 million), primarily owing to the writedown of €1,136 million of the commitments, included in the memorandum accounts, to buy back securities in respect of transactions under a Ministerial Decree of 27 September 1974. The other subitems that increased were *Bank of Italy drafts,* by €17 million (from €472 million to €489 million) and *accrued expenses and deferred income,* by €14 million (from €2 million to €16 million); on the other hand the liabilities connected with *Cashier's department services* fell, by €85 million (from €86 million to €2 million).

Provisions decreased by €792 million (from €9,526 million to €8,734 million), primarily as a consequence of the withdrawal of €1,015 million (1,966 billion lire) from the tax provision (included among the *provisions for specific risks*) to pay the taxes for 1998. A total of €173 million was allocated to this provision, of which €151 million for income tax and the tax on productive activities for 1999 and €22 million following the recognition of deferred tax liabilities.

The provisions for losses on foreign exchange, for losses on securities and for insurance cover remained unchanged (at respectively €2,158 million, €1,024 million and €310 million) since they were deemed to be adequate. A provision of €41 million was created for the part of the losses incurred by the ECB in 1999 that the Bank will have to make good.

Table 3

PROVISIONS

	Amounts at end-1998	Changes		Amount at end-1999
		Transfers from	Transfers to	
	(thousands of euros)			
Provisions for specific risks:	**4,600,241**	**1,015,354**	**214,319**	**3,799,206**
for losses on foreign exchange . .	2,157,764	–	–	2,157,764
exchange risk	*1,537,605*	–	–	*1,537,605*
under Decree Law 867/1976 . .	*620,159*	–	–	*620,159*
for losses on securities	1,024,287	–	–	1,024,287
for insurance cover	309,874	–	–	309,874
for losses incurred by the ECB . .	–	–	41,466	41,466
for taxation (1)	1,108,316	1,015,354	172,853	265,815
Sundry staff-related provisions:	**4,925,586**	**46,336**	**55,812**	**4,935,062**
for staff severance pay and pensions	4,856,792	–	8,581	4,865,373
for grants to BI pensions and their surviving dependents	1,360	53	179	1,486
for severance pay of contract staff under Law 297/1982	1,249	135	129	1,243
for staff costs	66,185	46,148	46,923	66,960
Total . . .	**9,525,827**	**1,061,690**	**270,131**	**8,734,268**
	(millions of lire)			
Provisions for specific risks:	**8,907,309**	**1,966,000**	**414,980**	**7,356,289**
for losses on foreign exchange . .	4,178,013	–	–	4,178,013
exchange risk	*2,977,218*	–	–	*2,977,218*
under Decree Law 867/1976 . .	*1,200,795*	–	–	*1,200,795*
for losses on securities	1,983,296	–	–	1,983,296
for insurance cover	600,000	–	–	600,000
for losses incurred by the ECB . .	–	–	80,289	80,289
for taxation (1)	2,146,000	1,966,000	334,691	514,691
Sundry staff-related provions:	**9,537,264**	**89,717**	**108,066**	**9,555,613**
for staff severance pay and pensions	9,404,061	–	16,615	9,420,676
for grants to BI pensioners and their surviving dependents	2,634	103	346	2,877
for severance pay of contract staff under Law 297/1982	2,418	260	250	2,408
for staff costs	128,151	89,354	90,855	129,652
Total . . .	**18,444,573**	**2,055,717**	**523,046**	**16,911,902**

(1) Includes the amounts set aside for the taxes for 1999 and for deferred tax liabilities.

Sundry staff-related provisions increased by €9 million (from €4,926 million to €4,935 million, of which €4,865 for staff severance pay and pensions), primarily as a result of the increase of €8.6 million in the severance pay liability; the amount set aside for pensions was about €24 more than necessary on the basis of a recalculation of the mathematical reserves. The excess remained allocated to the account to meet similar charges that will arise from the renewal of labour contracts. After taking account of the withdrawals and allocations for the year, the provision for staff costs increased by €1 million (from €66 million to €67 million); the provision for grants to BI pensioners and their surviving dependents and that for the severance pay of contract staff both remained at €1 million.

The provisions and the related movements in 1999 are detailed in Table 3.

The *revaluation accounts* amounted to €24,092 million (46,648 billion lire), an increase of €10,152 million (19,658 billion lire) that reflected the positive effects of the revaluations of gold, foreign currencies and securities not held as fixed assets at market exchange rates and prices.

The *provision for general risks* remained unchanged at €9,098 million (17,616 billion lire).

The item *capital and reserves* amounted to €10,316 million (19,974 billion lire). It comprises the ordinary and extraordinary reserves, which increased by a total of €1,476 million (26 per cent) to stand respectively at €3,650 million and €3,484 million (7,068 and 6,745 billion lire) and the following reserves, which remained unchanged: sundry revaluation surplus (€1,351 million); the special provision for the renewal of tangible fixed assets (€1,805 million); and the reserve for accelerated depreciation under Article 67.3 of the income tax code (€26 million).

The holders of the Bank's capital are shown in Table 4 and the movements in the item *capital and reserves* in Table 5.

Table 4

SHAREHOLDERS

	At 31 December 1999				At 31 December 1998			
	Number	Shares held (1)	%	Votes	Number	Shares held (1)	%	Votes
Shareholders with voting rights	80	299,934	100.0	755	80	299,934	100.0	755
Limited company banks	*72*	*253,434*	*84.5*	*630*	*72*	*253,434*	*84.5*	*630*
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 .	6	66	. .	–	6	66	. .	–
Total . . .	**86**	**300,000**	**100.0**	**755**	**86**	**300,000**	**100.0**	**755**

(1) With a face value of 1,000 lire each.

Table 5

MOVEMENTS IN SHARE CAPITAL AND RESERVES

	Balance at end-1998	Increases	Decreases	Balance at end-1999
	(thousands of euros)			
Share capital	155	–	–	155
Ordinary reserve	2,827,229	(1) 827,744	(2) 4,899	3,650,074
Extraordinary reserve	2,830,606	(1) 658,119	(2) 5,055	3,483,670
Revaluation surplus reserve (under Law 72/1983)	673,460	–	–	673,460
Revaluation surplus reserve (under Law 408/1990)	660,533	–	–	660,533
Revaluation surplus reserve (under Law 413/1991)	16,922	–	–	16,922
Revaluation for accelerated depreciation (under Art. 67.3 of the income tax code)	25,879	–	–	25,879
Special provision for the renewal of tangible fixed assets	1,805,044	–	–	1,805,044
Total	**8,839,828**	**1,485,863**	**9,954**	**10,315,737**
	(millions of lire)			
Share capital	300	–	–	300
Ordinary reserve	5,474,280	(1) 1,602,734	(2) 9,486	7,067,528
Extraordinary reserve	5,480,817	(1) 1,274,297	(2) 9,788	6,745,326
Revaluation surplus reserve (under Law 72/1983)	1,304,000	–	–	1,304,000
Revaluation surplus reserve (under Law 408/1990)	1,278,971	–	–	1,278,971
Revaluation surplus reserve (under Law 413/1991)	32,767	–	–	32,767
Revaluation for accelerated depreciation (under Art. 67.3 of the income tax code)	50,108	–	–	50,108
Special provision for the renewal of tangible fixed assets	3,495,052	–	–	3,495,052
Total	**17,116,295**	**2,877,031**	**19,274**	**19,974,052**

(1) The movement was due to the allocation of the net profit for 1998 and the return earned in 1999 on the investment of the reserve. – (2) The movement was due to the dividend paid to shareholders in respect of the return earned in 1999 on the investment of the reserve (under Art. 56 of the Bank's Statute).

Income statement

Details of the items for 1999 and 1998 are shown in euros and lire in Table 6.

Among the items included under *net income from institutional operations*, net interest income declined by €904 million (1,749 billion lire) since the fall in *interest income* (from €4,308 million to €2,465 million) was larger than that in *interest expense* (from €2,787 million to €1,848 million).

Interest income earned on securities and other assets denominated in foreign currency, excluding bond premiums and discounts, amounted to €892 million (1,728 billion lire) and comprised income from:

- foreign currency securities for a total of €428 million (829 billion lire);
- other foreign currency assets for a total of €306 million (593 billion lire), earned mainly on time deposits and correspondent current accounts;
- accounts with the IMF for a total of €138 million (268 billion lire), of which €111 on Italy's quota, €4 on SDR balances and €23 on ESAF (now PRGF), NAB and GAB loans;
- reverse operations for a total of € 18 million (35 billion lire);
- gold transactions for a total of € 1.7 million (3.2 billion lire).

Interest income earned on positions in euros, excluding bond premiums and discounts, amounted to €1,497 million (2,898 billion lire) and comprised:

- €568 million (1,101 billion lire) from refinancing operations. In more detail, the interest earned on main refinancing operations amounted to €512 million (992 billion lire) and that earned on longer-term refinancing operations amounted to €56 million (108 billion lire); the average rate of return was respectively 2.7 and 3 per cent. In 1998 the income earned on repo operations had amounted to €583 million (1,130 billion lire), with an average rate of return of 5.3 per cent.
- €394 million (762 billion lire) from claims on the State in the form of securities yielding 1 per cent under Law 483/1993;
- €277 million (536 billion lire) on intra-Eurosystem balances. In particular, the interest earned on the claims arising from the transfer of foreign currency reserve assets to the ECB amounted to €172 million and those on TARGET accounts held with other Eurosystem central banks amounted to €105;
- €163 million (315 billion lire) on discounts and advances, of which €162 million consisted of interest earned on operations carried out under a Ministerial Decree of 27 September 1974 and €1 million of interest on discounts and fixed-term advances outstanding at the beginning of the year;

Table 6

ANALYSIS OF THE INCOME STATEMENT

(thousands of euros)

	1999		1998 (1)	
A) NET INCOME FROM INSTITUTIONAL OPERATIONS		**523,393,328**		**5,038,754,500**
Interest income		2,465,418,701		4,307,764,220
securities and other assets denominated in foreign currency	*754,461,639*		*591,039,007*	
IMF positions	*138,119,870*		–	
refinancing operations	*568,513,533*		*583,410,882*	
Stage Two of EMU discounts and advances	*162,759,260*		*244,466,923*	
claims on the State	*393,569,890*		*393,569,890*	
intra-Eurosystem balances	*278,474,505*		–	
UIC current account	*20,580*		*825,880,443*	
freely available Italian securities	*93,573,703*		*1,617,567,110*	
bond premiums and discounts	*75,925,721*		*51,829,965*	
Interest expense		–1,848,033,166		–2,787,146,536
Treasury payments account	*–946,691,942*		*–1,243,122,113*	
sinking fund for the redemption of government securities	*–40,590,918*		*–76,960,890*	
current account deposits of required reserves	*–324,193,517*		*–1,449,898,698*	
overnight deposits and deposits related to margin calls	*–1,249,882*		–	
reverse operations	–		*–9,882,490*	
UIC current account	*–5,536,444*		–	
intra-Eurosystem balances	*–484,593,306*		–	
sundry interest denominated in foreign currency	*–45,087,089*		*–6,364,951*	
other	*–90,068*		*–917,394*	
Net interest income		**617,385,535**		**1,520,617,684**
Profits and losses on financial operations		–185,221,021		3,909,131,491
profits/losses on securities trading	*–506,332,692*		*3,496,412,580*	
profits/losses on foreign exchange trading	*321,084,133*		*412,718,911*	
profits/losses on derivatives contracts denominated in foreign currency	*27,538*		–	
Writedowns of financial assets and positions		–1,629,571,893		–
foreign securities	*–440,698,023*		–	
foreign currencies	*–9,840*		–	
securities denominated in euros	*–53,149,012*		–	
forward transactions in securities	*–1,135,715,018*		–	
Transfers to/from provisions for losses on foreign exchange and securities		966,626,512		–816,001,901
transfers from “pre-system” revaluation reserves	*966,626,512*		–	
transfers to provision for losses on securities	–		*–767,454,952*	
transfers to provision for losses on foreign exchange	–		*–48,546,949*	
Net result of financial operations, writedowns and risk provision transfers		**–848,166,402**		**3,093,129,590**
Fee and commission income		19,301,552		27,830,989
Fee and commission expense		–30,065,137		–415,626
Net income from fees and commissions		**–10,763,585**		**27,415,363**
Income from equity shares and participating interests		802,059,595		397,591,863
income from participating interest in UIC endowment fund	*802,059,595*		*397,591,863*	
Net result of the pooling of monetary income		–37,121,815		–
monetary income pooled	*6,606,802*		–	
monetary income conferred	*–2,262,806*		–	
contribution to covering ECB losses	*–41,465,811*		–	

(1) Where possible the figures for 1998 have been adjusted in line with the new criteria for preparing the annual accounts; the amounts referring to foreign currency items have not been reclassified since for 1998 they included non-lira euro-area currencies while for 1999 they only included non-euro-area currencies; the securities components are not comparable either owing to the change in the method used to value stocks and that used to calculate premiums and discounts. The amount of the transfer to the “Provision for general risks” (€6,595,834,881) is not included in the profit and loss account. The analogous “transfer to the provisions for staff severance pay and pensions” (€426,678,961) is included, instead, in “Other revenues- sundry” and offset under “Staff costs”.

Table 6 (cont.)

ANALYSIS OF THE INCOME STATEMENT
(thousands of euros)

	1999		1998 (1)	
B) OTHER INCOME		**2,392,700,708**		**1,405,158,083**
Income from the investment of reserves and provisions		2,190,101,892		694,353,927
interest income	*1,506,034,428*		*557,831,069*	
bond premiums and discounts	*–253,414,723*		*28,328,310*	
dividends on equity shares and participating interests	*129,386,696*		*79,303,514*	
trading profits and gains on disposals	*808,095,491*		*18,690,140*	
writebacks	–		*10,200,894*	
Prior-year adjustments		91,587,666		17,771,445
Sundry		111,011,150		693,032,711
rental income from buildings	*15,606,555*		*14,758,613*	
interest on tax credits	*50,025,008*		*50,025,008*	
other interest income	*1,387,062*		*1,024,125*	
commissions paid by the Ministry of the Treasury	*18,555,510*		*101,824,022*	
procedures, studies and design completed	*8,373,083*		*39,292,505*	
closing stocks	*493,751*		*13,333,337*	
other	*16,570,181*		*46,096,140*	
transfers to provisions for staff severance pay and pensions	–		*426,678,961*	
TOTAL NET INCOME (A+B)		**2,916,094,036**		**6,443,912,583**
C) OTHER EXPENSES		**–2,381,118,596**		**–4,082,960,801**
Staff costs (2)		–914,016,714		–2,155,991,003
wages and salaries and related costs	*–586,367,962*		*–603,183,407*	
amounts paid to head and branch office collegial bodies (2)	*–2,026,944*		*–1,873,982*	
pensions and severance payments	*–262,094,322*		*–233,168,347*	
other	*–7,716,377*	*–858,205,605*	*–6,981,094*	*–845,206,830*
transfers to provisions:				
for staff severance pay and pensions	*–8,580,598*		*–803,375,240*	
for expenses accrued but not yet paid	*–46,922,744*		*–80,498,447*	
for other	*–307,767*	*–55,811,109*	*–231,525*	*–884,105,212*
transfers to provisions for staff severance pay and pensions		–		*–426,678,961*
Other administrative costs		–302,276,225		–294,507,298
Depreciation of tangible and intangible fixed assets		–146,886,417		–127,084,408
Other costs:				
losses on investments of reserves and provisions		–12,468,506		–61,978
losses on disposals	*–4,079,590*		*–61,978*	
writedowns	*–8,388,916*		–	
prior-year adjustments		–12,645,963		–1,151,084
appriopriation of investment income to reserves (3)		–777,576,980		–433,949,865
other taxes and duties		–21,437,337		–16,304,070
sundry		–19,810,454		–38,556,832
other interest expense	*–1,820,632*		*–4,325,038*	
opening stocks	*–13,333,337*		*–32,006,934*	
miscellaneous payables	*–4,656,485*		*–2,224,860*	
Taxes on income for the year and productive activities		–174,000,000		–1,015,354,263
NET PROFIT FOR THE YEAR		**534,975,440**		**2,360,951,782**

(2) includes the remuneration of the Board of Directors (€885,534 in 1999 and €884,037 in 1998) and the Board of Auditors (€31,117 in 1999 and €29,987 in 1998). – (3) Pursuant to Article 55 of the Statute.

- €93 million (181 billion lire) on securities held for monetary policy purposes, with an average rate of return of 6 per cent;
- €1.8 million (3.6 billion lire) on TARGET accounts held with non-Eurosystem central banks.

Among the interest expense items, the interest paid on positions in euros amounted to €1,803 million (3,491 billion lire) and that on foreign currency positions to €45 million (87 billion lire). The interest paid on liabilities denominated in euros comprised:

- €947 million (1,833 billion lire) on the Treasury payments account, a decrease of €296 million compared with the €1,243 million (2,407 billion lire) recorded in 1998 owing to the decline in the average rate of return (from 6.6 to 5.1 per cent) and the slight decrease in the average balance (from €18,837 million to €18,693 million);
- €41 million (79 billion lire) on the sinking fund for the redemption of government securities, a decrease of €36 million compared with 1998 that was primarily due to the fall in the average rate of return (from 5.5 to 2.9 per cent);
- €324 million (628 billion lire) on current account deposits of required reserves; with an average rate of return of 2.7 per cent;
- €442 million (855 billion lire) on TARGET accounts held with non-Eurosystem central banks;
- €43 million (83 billion lire) on TARGET accounts held with other Eurosystem central banks.
- €5.5 million (10.7 billion lire) on the account held by the UIC;
- €1 million (2 billion lire) on overnight deposits.

The *net result of financial operations, writedowns and risk provision transfers* was negative for a total of €848 million (1,642 billion lire), a swing of €3,941 million compared with the positive result of €3,093 million recorded in 1998. In particular, *profits and losses on financial operations* showed a loss of €185 million (359 billion lire) as a consequence of the losses of €67 million and €439 million (131 and 849 billion lire) incurred on trading in securities denominated respectively in foreign currency and euros and the profit of €321 million (622 billion lire) earned on foreign exchange trading, for the most part involving US dollars. The losses on securities denominated in euros were the result of sales to the banks concerned of securities for the constitution of collateral for advances granted under a Ministerial Decree of 27 September 1974.

Writedowns of financial assets and positions amounted to €1,630 million (3,155 billion lire), of which €1,136 million (2,199 billion lire) referred to writedowns totaling €441 million (853 billion lire) of commitments to buy back securities in connection with the aforementioned transactions under the Ministerial Decree of 27 September 1974 and of securities denominated in foreign currency and to writedowns totaling €53 million (103 billion lire) of government and government-guaranteed securities denominated in euros.

Last year saw the withdrawal of €967 million (1,872 billion lire) from the revaluation accounts set up at the beginning of Stage Three. This amount was included under *transfers to/from provisions for losses on foreign exchange and securities*. In particular, €52 million was withdrawn to cover writedowns of securities and €915 million to cover losses on disposals of securities and foreign exchange held at the beginning of 1999.

No transfers were made to the provisions for losses on foreign exchange and securities, whereas €816 million (1,580 billion lire) had been allocated in 1998.

In particular, the provision for losses on foreign exchange was unchanged at €2,158 million (4,178 billion lire), since this was deemed adequate to meet the foreseeable risk, estimated using the value-at-risk method indicated by the ECB, taking into account the size of the foreign currency revaluation accounts. The provision for losses on securities as a result of fluctuations in the prices of the Bank's overall securities portfolio, set up in 1998, was also unchanged at €1,024 million (1,983 billion lire).

Net income from fees and commissions was negative for €11 million (21 billion lire), whereas in 1998 it had been positive for €27 million (53 billion lire). In more detail, *fee and commission income* decreased from €28 million to €19 million, while *fee and commission expense*, which had been negligible in 1998, rose to €30 million, primarily as a result of the commission paid to the UIC for the management of the official reserves in foreign currency pursuant to Article 1 of Legislative Decree 319/1998.

Income from equity shares and participating interests consisted exclusively of the profits allocated to the Bank in respect of its share of the UIC's endowment fund. These amounted to €802 million (1,553 billion lire), an increase of €404 million that was due to the increase in the UIC's profits from €1,551 million in 1997 to €3,208 million in 1998 in connection with the sale of the foreign currency reserves to the Bank of Italy.

The *net result of the pooling of monetary income* was negative for €37 million (72 billion lire) and equal to the sum of €2.3 million of centralized monetary income, €6.6 million corresponding to the share of monetary income attributable to the Bank of Italy on the basis of its participating interest in the capital of the ECB, and the €41.5 million contribution to making good the loss incurred by the ECB in 1999.

Other income increased compared with 1998. The item comprised:

- €2,190 million (4,241 billion lire) of *income from the investment of reserves and provisions*, an increase of €1,496 million that was primarily due to an increase in interest income and the capital gains realized on equity investments. The item comprises interest income and dividends from securities, which, after deducting €253 million of bond premiums and discounts, amounted to €1,382 million; profits on trading of securities not held as fixed assets for a total of €649 million and profits on securities held as fixed assets for a total of € 159 million;
- €92 million (177 billion lire) of *prior-year adjustments*, compared with €18 million in 1998. Of the increase, €33 million referred to claims in respect of deferred tax assets that arose in prior years and that were recognized in the accounts for the first time in connection with the treatment of deferred taxation. The claims were €599 million less than indicated in the notes to the accounts for 1998 and amounted to €632 million (1,223 billion lire). The difference was due to the fact that in some cases all the conditions for the inclusion in the accounts of such amounts were no longer met under the new accounting standards;
- €111 million (215 billion lire) of *sundry* income, a decrease of €582 million compared with the reclassified figure for 1998, which, however, included €427 million (826 billion lire) of transfers to the provision for severance pay and pensions under both income and expense in connection with the reclassification of the item "sundry provisions" that was effected in that year. The income for 1999 included in this subitem consisted mainly of €50 million of interest on tax credits, €19 million of commissions paid by the Treasury Ministry for payment services, and €16 million of property rents.

The composition of the Bank's staff is shown in Table 7. *Staff costs* amounted to €914 million (1,770 billion lire) and, in accordance with the accounting recommendations of the ECB, comprised:

- €8.6 million of transfers to the provision for severance pay and pensions (entirely for the severance pay component); in 1998 the transfers for both components had amounted to €1,230 million (2,382 billion lire);
- €47 million (91 billion lire) for expenses accrued but not yet paid at the end of 1999, compared with €66 million in 1998 and €14 million allocated to the provision for staff costs in respect of wage negotiations;
- €8 million (15 billion lire) of insurance premiums for staff policies paid for by the Bank, up from €7 million (14 billion lire) in 1998;
- €2 million (4 billion lire) for emoluments paid to head and branch office collegial bodies, unchanged compared with 1998.

Excluding all these subitems, *staff costs* amounted to €848 million (1,643 billion lire), an increase of €11 million on 1998.

Table 7

THE BANK'S STAFF

	Average number of persons in service		Percentage composition	
	1999	1998	1999	1998
Managerial	1,923	1,911	21.8	21.4
Clerical	5,207	5,286	59.2	59.3
General services and security	1,062	1,094	12.1	12.3
Blue-collar	610	623	6.9	7.0
Total	**8,802**	**8,914**	**100.0**	**100.0**

In more detail, wages and salaries and salaries and related costs rose by 1.7 per cent and pensions and severance payments by 12.4 per cent. The increase in the latter component was entirely attributable to that in severance payments and reflected the larger number of departures during the year.

Other administrative costs rose from €295 million to €302 million (from 570 to 585 billion lire). The increase of €7 million was primarily attributable to the increases in maintenance costs for buildings the Bank uses for institutional purposes and in charges for security services and the escort of shipments of valuables. These were partly offset by the reduction in the cost of governmental supervision following the suppression by Legislative Decree 43/1998 of the powers of the Ministry of the Treasury, the Budget and Economic Planning concerning the issue and circulation of banknotes.

Depreciation of tangible and intangible fixed assets amounted to €147 million (284 billion lire) and referred mainly to buildings (€73 million), procedures, studies and designs (€42 million) and plant and equipment (€23 million). In 1998 this item had amounted to €127 million.

Other costs amounted to €844 million (1,634 billion lire) and comprised:

- €778 million (1,506 billion lire) of allocations to reserves of the income earned thereon, an increase of €344 compared with 1998 that mainly reflected the capital gains realized on equity investments;
- €21 million (42 billion lire) of *other taxes and duties*, including €11 million of municipal property tax and €6 million of road vehicle tax;
- €20 million (38 billion lire) of *sundry* other costs, including €13 million of opening stocks of consumables, watermarked paper and banknotes in

production; as of 1999, the cost of banknote production is charged in full to income;

- €13 million (24 billion lire) of *prior-year adjustments*;
- €12 million (24 billion lire) of *losses on investments of reserves and provisions*, consisting mainly of writedowns of equity investments.

Taxes on income for the year and productive activities amounted to €174 million (337 billion lire), a decrease of €841 million that reflected the contraction in the profit for the year. The item included €96 million of corporate income tax, as against €799 million in 1998, and €55 million of regional tax on productive activities, as against €216 in 1998. The remaining amount of €23 million consisted of the recognition of deferred tax in accordance with the accounting standard applied for the first time in 1999. The amount was calculated on the basis of the rates for corporate income tax and the regional tax on productive activities currently expected for 1999 and subsequent years as follows:

- the item in question increased by €19 million in respect of prepaid taxes, to be recovered in the tax return for 1999, related to events that occurred in prior years and by €23 million in respect of deferred taxes related to events that occurred in 1999;
- conversely, it decreased by €18 million in respect of prepaid taxes related to events that occurred in 1999 and by €1 million in respect of deferred taxes related to events that occurred in prior years.

3. Proposals of the Board of Directors

Pursuant to Articles 54 and 57 of the Statute and after hearing the favourable opinion of the Board of Auditors, the Board of Directors proposes the following allocation of the net profit for 1999 of €534,975,440 (1,036 billion lire):

	euros	*lire*
– 20 per cent to the ordinary reserve . . .	106,995,088	(207,171,379,181)
– an amount equal to 6 per cent of the share capital to shareholders	9,296	(18,000,000)
– 10 per cent to the extraordinary reserve	53,497,544	(103,585,689,591)
– an additional amount equal to 4 per cent of the share capital to shareholders . .	6,197	(12,000,000)
– the remaining amount to the Treasury	374,467,315	(725,069,827,134)
TOTAL	534,975,440	(1,035,856,895,906)

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 €28,290,000 (55 billion lire), equal to 0.5 per cent (0.2 per cent in the previous year) of the total reserves at 31 December 1998.

If these proposals are approved, the total dividend will be equal to €28,305,493, corresponding to €94,35 (182,687 lire) per share.

THE GOVERNOR
Antonio Fazio

BALANCE SHEET
AND INCOME STATEMENT
for the year ended 31 December 1999

BALANCE

ASSETS	amounts in euros		amounts in lire	
	1999	1998	1999	1998
1 GOLD AND GOLD RECEIVABLES	**22,822,355,133**	**21,138,234,259**	**44,190,241,574,052**	**40,929,328,848,321**
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**22,317,490,312**	**25,179,407,029**	**43,212,686,966,629**	**48,754,130,447,394**
2.1 Receivables from the IMF	4,252,976,656	4,256,193,077	8,234,911,109,907	8,241,138,969,793
2.2 Securities (other than shares)	14,138,303,563	10,510,422,756	27,375,573,041,014	20,351,016,269,365
2.3 Reverse operations	184,045,105	–	356,361,014,994	–
2.4 Other claims	3,742,164,988	10,412,791,196	7,245,841,800,714	20,161,975,208,236
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**3,602,977,769**	**34,069**	**6,976,337,764,588**	**65,965,765**
3.1 Financial counterparties	3,602,977,769	34,069	6,976,337,764,588	65,965,765
3.1.1 Securities (other than shares)	*559,173,386*	–	*1,082,710,651,413*	–
3.1.2 Reverse operations	*38,907,919*	–	*75,336,237,155*	–
3.1.3 Other claims	*3,004,896,464*	*34,069*	*5,818,290,876,020*	*65,965,765*
3.2 General government	–	–	–	–
3.3 Other counterparties	–	–	–	–
4 CLAIMS ON NON-EURO-AREA RESIDENTS	**1,214,194,354**	**183**	**2,351,008,102,207**	**354,898**
4.1 Claims on non-euro-area EU central banks	1,214,194,354	–	2,351,008,102,207	–
4.2 Securities (other than shares)	–	–	–	–
4.3 Reverse operations	–	–	–	–
4.4 Other claims	–	183	–	354,898
5 LENDING TO FINANCIAL SECTOR COUNTERPARTIES IN THE EURO AREA	**35,852,376,016**	**3,156,090,634**	**69,419,880,108,655**	**6,111,043,611,953**
5.1 Main refinancing operations	33,162,534,288	2,129,831,599	64,211,620,266,794	4,123,929,030,600
5.2 Longer-term refinancing operations	1,892,277,424	–	3,663,960,008,136	–
5.3 Fine-tuning reverse operations	–	–	–	–
5.4 Structural reverse operations	–	–	–	–
5.5 Marginal lending facility	793,892,113	–	1,537,189,481,677	–
5.6 Credits related to margin calls	3,272,723	–	6,336,874,763	–
5.7 Other claims	399,468	1,026,259,035	773,477,285	1,987,114,581,353
6 SECURITIES ISSUED BY EURO-AREA RESIDENTS (other than shares)	**1,483,116,315**	**2,432,455,250**	**2,871,713,626,451**	**4,709,890,126,834**
7 GENERAL GOVERNMENT DEBT	**40,851,541,280**	**40,851,541,280**	**79,099,613,834,669**	**79,099,613,834,669**
8 INTRA-EUROSYSTEM CLAIMS	**8,192,250,000**	**744,750,000**	**15,862,407,907,500**	**1,442,037,082,500**
8.1 PartIcipating interest in the ECB	744,750,000	744,750,000	1,442,037,082,500	1,442,037,082,500
8.2 Claims deriving from the transfer of foreign reserves to the ECB	7,447,500,000	–	14,420,370,825,000	–
8.3 Other claims (net)	–	–	–	–
9 ITEMS TO BE SETTLED	**735,685**	**2,607,576**	**1,424,485,298**	**5,048,971,303**
10 OTHER ASSETS	**46,515,467,845**	**44,454,505,037**	**90,066,504,923,718**	**86,075,924,468,923**
10.1 Euro-area coins	3,774,864	6,605,125	7,309,156,092	12,789,303,642
10.2 UIC endowment fund	258,228,450	258,228,450	500,000,000,000	500,000,000,000
10.3 Investments of reserves and provisions (including shares)	25,024,581,525	21,890,204,248	48,454,346,470,070	42,385,345,779,417
10.4 Intangible fixed assets	38,703,893	64,416,152	74,941,187,093	124,727,062,316
10.5 Deferred charges	8,213,097	7,284,338	15,902,772,573	14,104,445,106
10.6 Tangible fixed assets (net of depreciation)	1,961,185,378	1,951,972,778	3,797,384,411,434	3,779,546,331,085
10.7 Accrued income and prepaid expenses	1,018,762,688	1,028,614,211	1,972,599,629,390	1,991,674,839,965
10.8 Sundry	18,202,017,950	19,247,179,735	35,244,021,297,066	37,267,736,707,392
TOTAL	**182,852,504,709**	**137,959,625,317**	**354,051,819,293,767**	**267,127,083,712,560**
12 MEMORANDUM ACCOUNTS	**1,496,286,293,218**	**1,849,711,585,345**	**2,897,214,260,968,930**	**3,581,541,051,355,322**

Audited and found correct - 20 April 2000:

THE AUDITORS
GIUSEPPE BRUNI
ENRICO NUZZO
ANGELO PROVASOLI
MASSIMO STIPO
GIANFRANCO ZANDA

SHEET

LIABILITIES	amounts in euros		amounts in lire	
	1999	1998	1999	1998
1 BANKNOTES IN CIRCULATION	**70,614,049,741**	**63,220,203,256**	**136,727,866,091,754**	**122,411,382,958,000**
2 LIABILITIES TO EURO-AREA FINANCIAL SECTOR COUNTERPARTIES DENOMINATED IN EUROS	**9,225,012,401**	**6,997,799,994**	**17,862,114,762,052**	**13,549,630,195,797**
2.1 Current accounts (covering the minimum reserve system)	9,100,787,649	6,997,799,994	17,621,582,100,374	13,549,630,195,797
2.2 Deposit facility	124,224,752	–	240,532,661,678	–
2.3 Fixed-term deposits	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–
2.5 Deposits related to margin calls	–	–	–	–
3 LIABILITIES TO OTHER EURO-AREA RESIDENTS DENOMINATED IN EUROS	**29,465,493,713**	**22,072,219,968**	**57,053,151,511,457**	**42,737,777,356,784**
3.1 General government	29,078,380,115	21,797,357,160	56,303,595,064,477	42,205,568,747,493
3.1.1 Treasury payments account	*29,047,268,637*	*21,728,309,378*	*56,243,354,843,996*	*42,071,873,598,974*
3.1.2 Sinking fund for the redemption of government securities	*5,452,040*	*69,046,239*	*10,556,621,626*	*133,692,160,665*
3.1.3 Other liabilities	*25,659,438*	*1,543*	*49,683,598,855*	*2,987,854*
3.2 Other counterparties	387,113,598	274,862,808	749,556,446,980	532,208,609,291
4 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN EUROS	**5,359,943,024**	**35,462,888**	**10,378,296,879,603**	**68,665,726,362**
4.1 Liabilities to non-euro-area EU central banks	5,326,726,282	62,713	10,313,980,298,745	121,429,051
4.2 Other liabilities	33,216,742	35,400,175	64,316,580,858	68,544,297,311
5 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**38,907,919**	**-**	**75,336,236,613**	**-**
5.1 Financial sector counterparties	38,907,919	–	75,336,236,613	–
5.2 General government	–	–	–	–
5.3 Other counterparties	–	–	–	–
6. LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**926,438,040**	**10,870,945**	**1,793,834,183,614**	**21,049,084,172**
6.1 Deposits and balances	12,755,994	10,870,945	24,699,048,464	21,049,084,172
6.2 Other liabilities	913,682,046	–	1,769,135,135,150	–
7 COUNTERPART OF SDRs ALLOCATED BY THE IMF	**958,759,142**	**844,362,235**	**1,856,416,564,655**	**1,634,913,264,000**
8 INTRA-EUROSYSTEM LIABILITIES	**11,293,350,081**	**572,933**	**21,866,974,960,525**	**1,109,353,935**
8.1 Promissory notes covering debt certificates issued by the ECB	–	–	–	–
8.2 Other liabilities (net)	11,293,350,081	572,933	21,866,974,960,525	1,109,353,935
9 ITEMS TO BE SETTLED	**23,543,197**	**11,998,382**	**45,585,985,474**	**23,232,106,343**
10 OTHER LIABILITIES	**2,172,067,737**	**1,001,975,668**	**4,205,709,596,322**	**1,940,095,425,173**
10.1 Bank of Italy drafts	488,811,150	472,084,323	946,470,365,004	914,082,711,738
10.2 Cashier's department services	2,157,668	85,738,233	4,177,826,908	166,012,368,567
10.3 Accrued expenses and deferred income	15,698,725	1,648,559	30,396,969,617	3,192,055,392
10.4 Sundry	1,665,400,194	442,504,553	3,224,664,434,793	856,808,289,476
11 PROVISIONS	**8,734,268,457**	**9,525,826,840**	**16,911,901,986,165**	**18,444,572,736,351**
11.1 Provisions for specific risks	3,799,206,170	4,600,241,100	7,356,288,930,747	8,907,308,835,660
11.2 Sundry staff-related provisions	4,935,062,287	4,925,585,740	9,555,613,055,418	9,537,263,900,691
12 REVALUATION ACCOUNTS	**24,091,886,669**	**13,939,479,860**	**46,648,397,400,585**	**26,990,596,669,549**
13 PROVISION FOR GENERAL RISKS	**9,098,072,043**	**9,098,072,043**	**17,616,323,954,266**	**17,616,323,954,266**
14 CAPITAL AND RESERVES	**10,315,737,105**	**8,839,828,523**	**19,974,052,284,776**	**17,116,294,773,938**
14.1 Capital	154,937	154,937	300,000,000	300,000,000
14.2 Ordinary and extraordinary reserves	7,133,744,128	5,657,835,546	13,812,854,742,587	10,955,097,231,749
14.3 Other reserves	3,181,838,040	3,181,838,040	6,160,897,542,189	6,160,897,542,189
15 NET PROFITS FOR DISTRIBUTION	**534,975,440**	**2,360,951,782**	**1,035,856,895,906**	**4,571,440,107,890**
TOTAL	**182,852,504,709**	**137,959,625,317**	**354,051,819,293,767**	**267,127,083,712,560**
17 MEMORANDUM ACCOUNTS	**1,496,286,293,218**	**1,849,711,585,345**	**2,897,214,260,968,930**	**3,581,541,051,355,322**

THE ACCOUNTANT GENERAL

STEFANO LO FASO

THE GOVERNOR

ANTONIO FAZIO

INCOME STATEMENT

	amounts in euros		amounts in lire	
	1999	1998 (1)	1999	1998 (1)
a) Net income from institutional operations				
Interest income	*2,465,418,701*	*4,307,764,220*	*4,773,716,268,301*	*8,340,994,626,023*
Interest expense	*–1,848,033,166*	*–2,787,146,536*	*–3,578,291,178,447*	*–5,396,668,223,440*
Net interest income	**617,385,535**	**1,520,617,684**	**1,195,425,089,854**	**2,944,326,402,583**
Profits and losses on financial operations	*–185,221,021*	*3,909,131,491*	*–358,637,905,519*	*7,569,134,031,488*
Writedowns of financial assets and positions	*–1,629,571,893*	–	*–3,155,291,170,014*	–
Transfers to/from provisions for losses on foreign exchange and securities	*966,626,512*	*–816,001,901*	*1,871,649,917,010*	*–1,580,000,000,000*
Net result of financial operations, writedowns and risks provision transfers	**–848,166,402**	**3,093,129,590**	**–1,642,279,158,523**	**5,989,134,031,488**
Fee and commission income	*19,301,552*	*27,830,989*	*37,373,015,259*	*53,888,308,537*
Fee and commission expense	*–30,065,137*	*–415,626*	*–58,214,222,548*	*–804,763,720*
Net income from fees and commissions	**–10,763,585**	**27,415,363**	**–20,841,207,289**	**53,083,544,817**
Income from equity shares and participating interests	802,059,595	397,591,863	1,553,003,931,972	769,845,197,963
Net result of the pooling of monetary income	–37,121,815	–	–71,877,855,859	–
b) Other income				
– *income from the investment of reserves and provisions*	2,190,101,892	694,353,927	4,240,628,590,268	1,344,456,677,881
– *prior-year income*	91,587,666	17,771,445	177,338,450,085	34,410,315,286
– *sundry*	111,011,150	693,032,711	214,947,558,190	1,341,898,446,950
Total net income (a+b)	**2,916,094,036**	**6,443,912,583**	**5,646,345,398,698**	**12,477,154,616,968**
Staff costs (2)	–914,016,714	–2,155,991,003	–1,769,783,142,972	–4,174,580,699,101
Other administrative costs	–302,276,225	–294,507,298	–585,288,386,045	–570,245,645,383
Depreciation of tangible and intangible fixed assets	–146,886,417	–127,084,408	–284,411,763,264	–246,069,726,177
Banknote production services	–	–	–	–
Other costs:				
– *losses on investments of reserves and provisions*	–12,468,506	–61,978	–24,142,393,822	–120,006,638
– *other allocations to provisions*	–	–	–	–
– *prior-year expense*	–12,645,963	–1,151,084	–24,485,998,759	–2,228,808,986
– *appropriation of investment income to reserves (pursuant to Article 55 of the Statute)*	–777,576,980	–433,949,865	–1,505,598,978,464	–840,244,104,875
– *other taxes and duties*	–21,437,337	–16,304,070	–41,508,472,803	–31,569,081,308
– *sundry*	–19,810,454	–38,556,832	–38,358,386,663	–74,656,436,610
Taxes on income for the year and productive activities	–174,000,000	–1,015,354,263	–336,910,980,000	–1,966,000,000,000
Net profit for the year	**534,975,440**	**2,360,951,782**	**1,035,856,895,906**	**4,571,440,107,890**

(1) The income and expense for 1998 do not include the amount in respect of the transfer from “Sundry provisions” to “Provisions for general risks” (€ 6,595,834,881 equal to Lit. 12,771,317,205,786); the analogous “Transfer to the provisions for staff severance pay and pensions” (€ 426,678,961 equal to Lit. 826,165,672,670) is included, instead, in “Other revenues-sundry” and offset under “Staff costs”, together with an additional allocation (€ 803,375,240 equal to Lit. 1,555,551,376,380). - (2) With the new layout this item includes the allocation to staff-related provisions (€ 55,811,109 equal to Lit. 108,065,376,101 in 1999 and € 884,105,212 equal to Lit. 1,711,866,399,470 in 1998).

ALLOCATION OF THE NET PROFIT FOR THE YEAR	amounts in euros	amounts in lire
TO THE ORDINARY RESERVE	106,995,088	207,171,379,181
TO THE EXTRAORDINARY RESERVE	53,497,544	103,585,689,591
TO SHAREHOLDERS: 6% OF THE CAPITAL	9,296	18,000,000
AN ADDITIONAL 4% OF THE CAPITAL	6,197	12,000,000
TO THE TREASURY	374,467,315	725,069,827,134
TOTAL	**534,975,440**	**1,035,856,895,906**

Audited and found correct
20 April 2000: **THE AUDITORS**

Giuseppe Bruni
Enrico Nuzzo
Angelo Provasoli
Massimo Stipo
Gianfranco Zanda

THE ACCOUNTANT GENERAL

Stefano Lo Faso

THE GOVERNOR

Antonio Fazio

REPORT OF THE BOARD OF AUDITORS ON THE 106th FINANCIAL YEAR OF THE BANK OF ITALY AND THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1999

To the Shareholders

The accounts for the year ended 31 December 1999, submitted for your approval and drawn up in euros in conformity with Council Regulation (EC) No. 974/98, show the following results:

Assets			€	182,852,504,709
Liabilities	€	172,001,792,164		
Capital and reserves	”	10,315,737,105		
			€	182,317,529,269
Net profit for the year (as shown in the vertical profit and loss account) .			€	534,975,440

The memorandum accounts, shown on both sides of the balance sheet for an amount of €1,496,286,293,218, refer to deposits of securities and sundry valuables and commitments and contingent liabilities (for purchases and sales of securities, foreign exchange and euros).

The accounts were kept properly in conformity with the standards and rules laid down by the law in force. The individual items of the accounts, which were also checked by the independent auditors, were compared with the accounting records and found to conform with them.

In 1999, with the start of Stage Three of EMU, the accounting rules laid down by the ECB came into force, inter alia for the preparation of the annual accounts, as provided for in Article 8 of Legislative Decree 43 of 10 March 1998. At the same time the Bank adopted new formats for the balance sheet and profit and loss account, in line with the recommendations of the ECB in this matter.

We agree with the valuation methods applied in preparing the annual accounts. They are different from those used the previous year. The methods applied, which are in complete conformity with those approved by the Board of Directors and those established by the law in force, are described in detail in the notes to the accounts. They also conform with the indications given by the ECB to render the data of the annual accounts homogeneous with those contained in the financial statements of the Eurosystem. The notes to the accounts contain all the other information required by law and, as regards the change in the valuation methods applied, contain an assessment of the quantitative effects on the balance sheet items related to the Bank's institutional activity observable by comparing the figures at 31 December 1998 and 1 January 1999.

We inform you that in drawing up the annual accounts it was not necessary to invoke the waiver provided for in the fourth paragraph of Article 2423 of the Civil Code.

We also declare that the Bank's provisions stand at a prudent level. In particular, the "provisions for supplementary retirement benefits" comprise both the mathematical reserves corresponding to the vested benefits of the staff and retirees and the staff severance pay entitlements accrued at the end of the year. The pension part of the above-mentioned provisions shows an excess of €24 million that remains set aside in the accounts for contingent liabilities of the same nature connected with the renewal of labour contracts.

Pursuant to Articles 54 and 57 of the Statute, the Board of Directors proposes the following allocation of the net profit for 1999 of €534,975,440:

- 20 per cent to the ordinary reserve	€	106,995,088
- an amount equal to 6 per cent of the share capital to shareholders	”	9,296
- 10 per cent to the extraordinary reserve	”	53,497,544
- an additional amount equal to 4 per cent of the share capital to shareholders	”	6,197
- the remaining amount to the Treasury	”	374,467,315
TOTAL	€	534,975,440

Pursuant to Article 56 of the Statute, the Board of Directors also proposes the distribution to shareholders — drawing on the income earned on the ordinary and extraordinary reserves — of an additional €28,290,000, equal to 0.5 per cent of the total reserves at 31 December 1998 and within the limit laid down in the above-mentioned article.

During the year we attended the meetings of the Board of Directors and the Board Committee and made the tests and controls within the scope of our authority, in particular as regards the quantities of cash and valuables belonging to the Bank and third parties, verifying at all times compliance with the law and the Bank's Statute and General Regulations.

We monitored the activity of the Bank's peripheral units in close contact with the examiners, in accordance with Articles 23 and 24 of the Bank's Statute, at the main branches and the branches, whom we thank warmly.

We recommend that you approve the accounts for 1999 that have been submitted to you (the balance sheet, the profit and loss account and the notes to the accounts) and the proposed allocation of the net profit for the year and distribution to shareholders of an additional amount pursuant to Article 56 of the Statute.

THE AUDITORS
GIUSEPPE BRUNI
ENRICO NUZZO
ANGELO PROVASOLI
MASSIMO STIPO
GIANFRANCO ZANDA

RECONTA ERNST & YOUNG

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders
of the Bank of Italy

1. We have audited the financial statements of the Bank of Italy for the year ended 31 December 1999. Responsibility for the preparation of the financial statements lies with the administrative bodies of the Bank of Italy. We are responsible for the professional opinion rendered on the financial statements and based on our audit.

2. Our audit was performed in accordance with the prescribed auditing standards and methods. In accordance with these auditing standards and methods, the audit was planned and carried out so as to acquire all the information considered necessary in order to determine whether the financial statements for the year contained material misstatements and whether, taken as a whole, they were reliable. The audit procedures included the examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and an assessment of the appropriateness and correctness of the accounting policies applied and of the reasonableness of the estimates made by the administrative bodies. We consider that the work carried out provides a reasonable basis for our opinion.

3. The balance sheet and profit and loss account show, for the sake of comparison, the figures for the previous year, which were obtained by reclassifying the items of the balance sheet and profit and loss account for the year ended 31 December 1998 in accordance with the new layouts adopted in 1999. For the comparative balance sheet figures for the year ended 31 December 1998, see our audit report dated 20 May 1999, while, since we did not audit the profit and loss account for 1998, we do not express an opinion thereon.

4. In our opinion, the above-mentioned financial statements, taken as a whole, give a true and fair view of the Bank of Italy's assets and liabilities, financial position and results for the year ended 31 December 1999, in accordance with the accounting standards and policies set out in Section 1 of the notes to the accounts.

5. We draw your attention to the following circumstances described in the notes to the accounts:
   a) as provided for in Article 8 of Legislative Decree 43/1998, the Bank of Italy has adopted the formats and accounting standards and policies prescribed by the European Central Bank, in the manner specified by the same. The notes to the accounts describe the effects of the change;
   b) the balance sheet for the year ended 31 December 1999 includes a fully-taxed provision for general risks against the general risks inherent in the Bank's activity;
   c) in compliance with a provision of the Bank's Statute having the force of law, the profit and loss account includes the direct allocation to the ordinary and extraordinary reserves of the annual income earned on the investment of the reserve themselves.

Rome, 25 May 2000

STATISTICAL APPENDIX

LIST OF TABLES

SOURCES AND USES OF INCOME IN FRANCE (1)

(at 1995 prices; billions of francs and, in brackets, billions of euros)

	Sources			Uses							
				Domestic demand							Exports of goods and services
				Gross fixed investment			Household consumption (3)	Collective consumption	Change in stocks and valuables	Total	
	Gross domestic product	Imports of goods and services	Total	Construction	Other (2)	Total					
1995	7,752.4	1,638.3	9,390.8	706.1	750.8	1,456.9	4,303.5	1,850.8	34.9	7,646.1	1,744.7
1996	7,837.9	1.664.5	9,502.5	685.0	771.6	1,456.6	4,358.8	1,892.8	−11.0	7,697.2	1,805.3
1997	7,987.2	1,778.8	9,766.6	664.4	791.4	1,455.8	4,366.1	1,933.1	−6.9	7,748.0	2,018.5
1998	8,232.7	1,975.2	10,209.8	675.2	872.7	1,548.0	4,509.5	1,935.7	41.7	8,034.9	2,175.0
1999	8,473.4	2,046.5	10,521.6	711.7	946.5	1,658.2	4,603.8	1,985.3	1.5	8,248.8	2,255.7
	(1,298.6)	*(313.6)*	*(1,612.5)*	*(109.1)*	*(145.1)*	*(253.9)*	*(705.6)*	*(304.3)*	*(2.8)*	*(1,266.5)*	*(345.7)*
1995 – I	1,931.5	403.7	2,335.2	178.6	187.5	366.1	1,069.9	460.9	2.2	1,899.0	436.2
II	1,942.5	412.3	2,354.7	177.6	186.2	363.8	1,082.5	461.6	5.1	1,913.1	441.7
III	1,943.1	413.2	2,356.3	174.8	188.5	363.4	1,077.1	463.9	16.2	1,920.6	435.7
IV	1,938.9	408.3	2,347.2	175.1	189.4	364.4	1,076.6	465.0	7.4	1,913.4	433.9
1996 – I	1,951.8	414.0	2,365.8	171.5	192.2	363.8	1,094.6	468.8	−5.9	1,921.3	444.5
II	1,956.2	416.6	2,372.8	172.1	192.5	364.5	1,087.3	471.9	5.8	1,929.5	443.3
III	1,965.2	412.1	2,377.3	171.6	193.2	364.8	1,096.9	474.4	−10.1	1,926.0	451.3
IV	1,966.9	419.2	2,386.1	169.8	193.4	363.2	1,082.3	477.3	0.8	1,923.7	462.5
1997 – I	1,977.4	424.0	2,401.4	166.3	190.9	357.2	1,084.0	481.0	0.8	1,923.1	478.3
II	1,987.0	433.8	2,420.8	166.5	195.6	362.1	1,085.6	482.7	−7.6	1,922.8	498.0
III	2,002.3	453.9	2,456.1	165.3	200.3	365.6	1,091.1	484.3	2.4	1,943.4	512.7
IV	2,021.9	468.6	2,490.4	166.3	205.2	371.5	1,104.9	484.4	−0.1	1,960.7	529.7
1998 – I	2,040.3	485.6	2,525.9	166.5	211.4	377.9	1,113.9	482.7	11.4	1,985.9	540.0
II	2,057.0	496.6	2,553.6	167.8	217.5	385.3	1,127.8	483.2	10.5	2,006.9	546.7
III	2,067.3	499.6	2,566.9	169.0	222.6	391.6	1,133.8	484.7	9.6	2,019.7	547.2
IV	2,083.2	499.8	2,583.0	171.9	226.1	398.0	1,140.5	487.2	16.4	2,042.1	540.9
1999 – I	2,095.8	493.4	2,589.2	175.5	232.2	407.7	1,142.8	492.0	7.2	2,049.8	539.4
	(321.2)	*(75.6)*	*(396.8)*	*(26.9)*	*(35.6)*	*(62.5)*	*(175.1)*	*(75.4)*	*(1.1)*	*(314.1)*	*(82.7)*
II	2,112.5	505.4	2,617.9	177.7	235.4	413.1	1,149.8	495.7	5.8	2,064.3	553.6
	(323.8)	*(77.5)*	*(401.2)*	*(27.2)*	*(36.1)*	*(63.3)*	*(176.2)*	*(76.0)*	*(0.9)*	*(316.4)*	*(84.8)*
III	2,132.7	515.4	2,648.1	178.0	241.1	419.1	1,159.1	498.2	−5.7	2,070.7	577.4
	(326.9)	*(79.0)*	*(405.8)*	*(27.3)*	*(37.0)*	*(64.2)*	*(177.6)*	*(76.4)*	*(−0.9)*	*(317.3)*	*(88.5)*
IV	2,148.7	528.8	2,677.5	180.5	243.2	423.7	1,166.7	501.8	3.3	2,095.4	582.1
	(329.3)	*(81.0)*	*(410.3)*	*(27.7)*	*(37.3)*	*(64.9)*	*(178.8)*	*(76.9)*	*(0.5)*	*(321.1)*	*(89.2)*

Sources: National statistics, Eurostat; national accounts (ESA95).

(1) The quarterly data are adjusted for seasonal factors and the number of working days. – (2) Machinery, equipment, transport equipment and intangible assets. – (3) Includes consumption by non-profit institutions serving households.

Table a2

SOURCES AND USES OF INCOME IN GERMANY (1)
(at 1995 prices; billions of marks and, in brackets, billions of euros)

	Sources			Uses								
				Domestic demand								Exports of goods and services
	Gross domestic product	Imports of goods and services	Total	Gross fixed investment			Household consumption (3)	Collective consumption	Change in stocks and valuables	Total		
				Construction	Other (2)	Total						
1995	3,523.0	837.4	4,360.4	506.0	284.6	790.6	2,001.6	697.8	8.1	3,498.1		862.3
1996	3,549.6	863.8	4,413.4	491.5	290.4	782.0	2,017.3	712.8	−5.1	3,507.0		906.4
1997	3,601.1	935.6	4,536.7	484.4	301.2	785.7	2,032.2	704.7	8.7	3,531.3		1,005.3
1998	3,678.6	1,015.0	4,693.6	465.7	331.0	796.7	2,078.8	708.0	34.7	3,618.1		1,075.6
1999	3,732.3 *(1,991.9)*	1,087.4 *(580.3)*	4,819.7 *(2,572.2)*	465.7 *(248.5)*	349.5 *(186.5)*	815.2 *(435.1)*	2,122.7 *(1,132.9)*	709.5 *(378.6)*	51.2 *(27.3)*	3,698.6 *(1,973.9)*		1,121.1 *(598.3)*
1995 – I	876.7	206.8	1,083.5	127.0	70.7	197.7	496.1	169.8	7.1	870.7		212.7
II	882.1	210.6	1,092.7	128.8	71.4	200.2	502.9	173.0	−0.4	875.7		217.0
III	881.5	210.3	1,091.8	126.1	71.3	197.4	502.8	174.8	2.4	877.4		214.4
IV	883.0	209.7	1,092.7	124.0	71.1	195.1	501.7	180.2	−2.7	874.3		218.3
1996 – I	876.4	214.1	1,090.5	114.5	71.3	185.8	502.1	175.6	5.0	868.5		221.9
II	887.6	212.7	1,100.3	126.8	72.9	199.7	502.9	177.6	−3.1	877.1		223.1
III	891.1	214.8	1,105.9	126.1	72.9	199.0	505.5	179.6	−4.6	879.5		226.3
IV	895.0	223.5	1,118.5	124.4	74.3	198.7	506.4	180.0	−3.2	881.9		236.5
1997 – I	891.7	227.3	1,119.0	118.7	74.4	193.1	507.8	176.1	1.8	878.8		240.2
II	901.4	230.4	1,131.8	123.0	74.6	197.6	509.8	176.6	0.1	884.1		247.8
III	903.8	237.1	1,140.9	122.1	75.7	197.8	506.7	176.3	1.9	882.7		258.3
IV	908.1	242.7	1,150.8	121.6	77.4	199.0	509.8	175.7	4.5	889.0		261.8
1998 – I	918.1	249.1	1,167.2	120.1	80.2	200.3	517.4	178.1	4.3	900.1		267.2
II	917.7	253.4	1,171.1	115.0	81.4	196.4	516.5	177.8	8.4	899.1		272.0
III	920.3	254.6	1,174.9	115.6	83.9	199.5	520.9	176.3	7.9	904.6		270.4
IV	919.1	255.8	1,174.9	114.0	84.5	198.5	522.8	175.8	14.4	911.5		263.3
1999 – I	925.3 *(493.8)*	262.2 *(139.9)*	1,187.5 *(633.8)*	115.4 *(61.6)*	86.7 *(46.3)*	202.1 *(107.9)*	528.0 *(281.8)*	179.2 *(95.6)*	10.9 *(5.8)*	920.2 *(491.1)*		267.4 *(142.7)*
II	925.9 *(494.1)*	269.8 *(144.0)*	1,195.7 *(638.1)*	115.5 *(61.6)*	86.4 *(46.1)*	201.9 *(107.8)*	527.3 *(281.4)*	177.1 *(94.5)*	13.1 *(7.0)*	919.4 *(490.7)*		276.3 *(147.5)*
III	934.0 *(498.5)*	274.9 *(146.7)*	1,208.9 *(645.2)*	117.0 *(62.4)*	87.2 *(46.5)*	204.2 *(109.0)*	530.8 *(283.3)*	177.1 *(94.5)*	12.2 *(6.5)*	924.3 *(493.3)*		284.6 *(151.9)*
IV	940.3 *(501.8)*	275.6 *(147.1)*	1,215.9 *(648.9)*	116.0 *(61.9)*	87.3 *(46.6)*	203.3 *(108.5)*	534.2 *(285.1)*	176.1 *(94.0)*	15.4 *(8.2)*	929.0 *(495.8)*		286.9 *(153.1)*

Sources: National statistics, Eurostat; national accounts (ESA95).

(1) The quarterly data are adjusted for seasonal factors and the number of working days. – (2) Machinery, equipment, transport equipment and intangible assets. – (3) Includes consumption by non-profit institutions serving households.

SOURCES AND USES OF INCOME IN SPAIN (1)
(at 1995 prices; billions of pesetas and, in brackets, billions of euros)

	Sources			Uses								
				Domestic demand								
				Gross fixed investment								
	Gross domestic product	Imports of goods and services	Total	Construction	Other (2)	Total	Household consumption (3)	Collective consumption	Change in stocks and valuables	Total	Exports of goods and services
1995	72,841.7	16,601.2	89,443.0	10,804.0	5,210.6	16,014.6	43,554.5	13,159.2	249.4	72,977.7	16,465.3
1996	74,546.4	17,938.3	92,484.7	10,693.8	5,640.7	16,334.5	44,445.7	13.334.0	207.1	74,321.4	18,163.3
1997	77,405.7	20,237.9	97,643.6	10,944.0	6,201.8	17,145.9	45,723.5	13,696.8	163.9	76,730.0	20,913.6
1998	80,467.6	22,479.5	102,947.1	11,713.4	7,010.8	18,724.2	47,604.6	13,975.9	242.9	80,547.6	22,399.4
1999	83,483.6	25,316.9	108,800.5	12,680.3	7,598.7	20,279.0	49,717.1	14,227.5	284.1	84,507.6	24,292.9
	(512.2)	*(155.3)*	*(667.5)*	*(77.8)*	*(46.6)*	*(124.4)*	*(305.0)*	*(87.3)*	*(1.7)*	*(518.5)*	*(149.0)*
1995 – I	18,109.2	4,068.0	22,177.2	2,718.6	1,330.2	4,048.7	10,826.7	3,244.4	23.8	18,143.7	4,033.5
II	18,196.9	4,125.0	22,321.9	2,733.7	1,286.0	4,019.6	10,856.1	3,292.0	62.5	18,230.2	4,091.7
III	18,223.3	4,160.5	22,383.8	2,667.4	1,226.6	3,894.0	10,894.4	3,316.0	156.8	18,261.3	4,122.5
IV	18,312.4	4,247.7	22,560.1	2,684.3	1,367.9	4,052.2	10,977.2	3,306.9	6.3	18,342.5	4,217.5
1996 – I	18,478.2	4,327.2	22,805.4	2,627.0	1,351.0	3,978.0	11,070.8	3,331.7	63.4	18,444.0	4,361.4
II	18,543.0	4,409.5	22,952.5	2,652.2	1,427.8	4,080.0	11,098.8	3,321.2	40.4	18,540.3	4,412.2
III	18,709.4	4,574.7	23,284.1	2,723.2	1,483.3	4,206.5	11,120.7	3,328.6	4.0	18,659.9	4,624.2
IV	18,815.8	4,626.8	23,442.7	2,691.4	1,378.6	4,070.0	11,155.4	3,352.5	99.3	18,677.2	4,765.4
1997 – I	19,012.7	4,812.1	23,824.8	2,691.4	1,470.9	4,162.4	11,264.2	3,384.5	140.9	18,952.0	4,872.8
II	19,263.1	5,000.9	24,264.0	2,724.3	1,525.2	4,249.5	11,369.3	3,417.9	66.0	19,102.7	5,161.3
III	19,421.3	5,092.7	24,513.9	2,755.3	1,589.5	4,344.9	11,478.8	3,441.8	–110.8	19,154.6	5,359.3
IV	19,708.6	5,332.2	25,040.9	2,773.0	1,616.2	4,389.2	11,611.2	3,452.5	67.9	19,520.7	5,520.1
1998 – I	19,858.4	5,395.3	25,253.7	2,822.0	1,762.6	4,584.6	11,702.3	3,468.7	–20.2	19,735.5	5,518.3
II	20,027.0	5,510.4	25,537.4	2,868.7	1,640.2	4,508.9	11,852.6	3,474.9	105.8	19,942.2	5,595.1
III	20,205.2	5,724.6	25,929.8	2,964.8	1,785.6	4,750.4	11,963.2	3,500.7	58.7	20,273.0	5,656.8
IV	20,377.0	5,849.3	26,226.2	3,057.9	1,822.4	4,880.3	12,086.5	3,531.7	98.5	20,597.0	5,629.3
1999 – I.	20,539.6	6,047.6	26,587.2	3,065.4	1,806.2	4,871.6	12,258.6	3,556.2	98.7	20,785.0	5,802.2
	(126.0)	*(37.1)*	*(163.1)*	*(18.8)*	*(11.1)*	*(29.9)*	*(75.2)*	*(21.8)*	*(0.6)*	*(127.5)*	*(35.6)*
II	20,760.6	6,266.8	27,027.5	3,130.8	1,886.6	5,017.3	12,345.7	3,564.8	151.0	21,078.8	5,948.7
	(127.4)	*(38.4)*	*(165.8)*	*(19.2)*	*(11.6)*	*(30.8)*	*(75.7)*	*(21.9)*	*(0.9)*	*(129.3)*	*(36.5)*
III	20,987.9	6,408.4	27,396.3	3,211.1	1,964.6	5,175.7	12,503.3	3,558.9	30.7	21,268.6	6,127.7
	(128.8)	*(39.3)*	*(168.1)*	*(19.7)*	*(12.1)*	*(31.8)*	*(76.7)*	*(21.8)*	*(0.2)*	*(130.5)*	*(37.6)*
IV	21,195.4	6,594.0	27,789.5	3,273.0	1,941.4	5,214.4	12,609.6	3,547.6	3.7	21,375.3	6,414.2
	(130.1)	*(40.5)*	*(170.6)*	*(20.1)*	*(11.9)*	*(32.0)*	*(77.4)*	*(21.8)*	*(0.0)*	*(131.5)*	*(39.4)*

Sources: National statistics, Eurostat; national accounts (ESA95).

(1) The quarterly data are adjusted for seasonal factors and the number of working days. – (2) Machinery, equipment, transport equipment and intangible assets. – (3) Includes consumption by non-profit institutions serving households.

Table a4

VALUE ADDED PER UNIT OF LABOUR AND UNIT LABOUR COSTS, BY BRANCH

	1991	1992	1993	1994	1995	1996	1997	1998	1999	
	lire									euros
					Value added at factor cost per unit of labour (1) *(thousands of lire at 1995 prices)*					
Agriculture, forestry and fishing	**27,617**	**28,726**	**31,304**	**33,155**	**34,834**	**37,099**	**38,545**	**40,554**	**45,093**	**21,169**
Industry excluding construction	**69,346**	**72,271**	**72,716**	**77,218**	**80,029**	**79,780**	**81,385**	**81,765**	**83,489**	**39,194**
of which: manufacturing	*64,348*	*67,158*	*67,543*	*71,566*	*74,167*	*73,722*	*75,658*	*75,632*	*76,397*	*35,865*
Construction	**58,570**	**57,580**	**55,847**	**54,530**	**56,688**	**59,587**	**57,117**	**58,273**	**57,959**	**27,209**
Services (2)	**72,642**	**73,142**	**75,258**	**76,997**	**78,310**	**78,558**	**79,587**	**79,426**	**78,548**	**36,874**
Wholesale and retail trade, repair of household goods etc.	*58,179*	*59,119*	*60,307*	*63,742*	*67,085*	*66,737*	*68,943*	*70,184*	*69,807*	**32,771**
Hotels and restaurants	*47,498*	*47,918*	*48,695*	*48,357*	*48,847*	*49,629*	*49,268*	*48,651*	*47,256*	**22,184**
Transport, storage and communication	*78,360*	*80,205*	*83,117*	*86,953*	*92,319*	*90,914*	*92,641*	*93,521*	*95,755*	*44,952*
Financial intermediation	*145,361*	*140,484*	*156,800*	*166,173*	*159,928*	*171,446*	*171,480*	*174,902*	*167,276*	*78,528*
Sundry business and household services (2) (3)	*155,478*	*151,685*	*157,328*	*160,928*	*159,432*	*153,276*	*149,579*	*142,027*	*135,531*	*63,625*
Public administration (4)	*59,727*	*61,770*	*63,198*	*64,054*	*65,201*	*66,238*	*67,077*	*67,693*	*38,253*	*32,042*
Education	*53,020*	*53,569*	*54,541*	*53,798*	*53,101*	*53,043*	*52,782*	*52,461*	*51,984*	*24,404*
Health and social work services	*57,802*	*59,434*	*58,550*	*57,467*	*56,687*	*58,172*	*59,333*	*58,958*	*58,936*	*27,668*
Other public, social and personal services	*59,381*	*59,425*	*58,913*	*60,210*	*61,775*	*63,316*	*64,736*	*64,065*	*65,104*	*30,563*
Private households with employed persons	*18,276*	*18,663*	*18,498*	*18,624*	*18,687*	*18,576*	*18,552*	*18,551*	*18,512*	*8,691*
Total (2)	**67,102**	**68,184**	**69,903**	**72,240**	**74,128**	**74,736**	**75,764**	**76,132**	**76,345**	*35,840*
					Unit labour costs (1) (5)					
Agriculture, forestry and fishing	**0.765**	**0.804**	**0.768**	**0.738**	**0.717**	**0.694**	**0.680**	**0.640**	**0.584**	**0.642**
Industry excluding construction	**0.608**	**0.623**	**0.651**	**0.633**	**0.640**	**0.677**	**0.692**	**0.674**	**0.674**	**0.742**
of which: manufacturing	*0.637*	*0.651*	*0.682*	*0.663*	*0.670*	*0.713*	*0.727*	*0.712*	*0.722*	*0.794*
Construction	**0.605**	**0.644**	**0.693**	**0.717**	**0.718**	**0.711**	**0.777**	**0.749**	**0.769**	**0.846**
Services (2)	**0.584**	**0.611**	**0.619**	**0.622**	**0.635**	**0.674**	**0.692**	**0.681**	**0.700**	**0.770**
Wholesale and retail trade, repair of household goods etc.	*0.621*	*0.631*	*0.649*	*0.636*	*0.641*	*0.670*	*0.665*	*0.658*	*0.680*	*0.748*
Hotels and restaurants	*0.610*	*0.683*	*0.719*	*0.740*	*0.808*	*0.814*	*0.845*	*0.850*	*0.896*	*0.986*
Transport, storage and communication	*0.619*	*0.643*	*0.632*	*0.601*	*0.606*	*0.634*	*0.640*	*0.633*	*0.621*	*0.684*
Financial intermediation	*0.544*	*0.614*	*0.568*	*0.566*	*0.586*	*0.598*	*0.603*	*0.569*	*0.587*	*0.646*
Sundry business and household services (2) (3)	*0.243*	*0.261*	*0.271*	*0.285*	*0.296*	*0.319*	*0.337*	*0.351*	*0.376*	*0.413*
Public administration (4)	*0.800*	*0.802*	*0.823*	*0.849*	*0.862*	*0.940*	*0.981*	*0.945*	*0.964*	*1.060*
Education	*0.843*	*0.890*	*0.900*	*0.932*	*0.970*	*1.065*	*1.117*	*1.110*	*1.163*	*1.279*
Health and social work services	*0.804*	*0.815*	*0.850*	*0.865*	*0.895*	*0.941*	*1.013*	*0.975*	*0.991*	*1.091*
Other public, social and personal services	*0.661*	*0.666*	*0.712*	*0.722*	*0.733*	*0.757*	*0.765*	*0.759*	*0.761*	*0.837*
Private households with employed persons	*0.805*	*0.856*	*0.911*	*0.938*	*1.000*	*1.040*	*1.092*	*1.101*	*1.124*	*1.236*
Total (2)	**0.611**	**0.636**	**0.649**	**0.647**	**0.657**	**0.691**	**0.710**	**0.694**	**0.706**	**0.776**

Source: Istat, national accounts (ESA95).

(1) Includes indirectly measured financial intermediation services. – (2) Includes the old branch “Renting of buildings”, which is no longer available with ESA95. – (3) Includes real estate services, renting services, computer and related services, research and other business services. – (4) Includes defence and compulsory social security services. – (5) Compensation of employees at current prices per standard labour unit divided by value added at factor cost at 1995 prices per standard labour unit.

Table a5

SOURCES AND USES OF INCOME AND HOUSEHOLD CONSUMPTION

(at 1995 prices; billions of lire and, in brackets, millions of euros)

	SOURCES AND USES								
	Uses								TOTAL SOURCES/ USES
	Agriculture, forestry and fishing (1)	Industry (1)	Services (1) (2)	Financial intermediation services indirectly measured (–)	Other services (1) (3)	VAT and indirect taxes on imports	Gross domestic product	Imports of goods and services (*fob*) (4)	
1990	45,119	545,392	744,119	71,082	312,163	102,176	1,677,885	353,599	2,031,484
1991	49,188	551,022	752,215	71,045	315,438	104,393	1,701,210	361,668	2,062,878
1992	49,859	554,465	757,844	75,505	321,933	105,554	1,714,149	388,387	2,102,536
1993	49,713	534,368	770,219	76,549	320,058	101,191	1,699,000	346,168	2,045,168
1994	50,128	553,516	788,480	78,942	320,560	102,764	1,736,505	374,295	2,110,800
1995	50,895	575,170	810,087	77,180	323,371	104,938	1,787,278	410,451	2,197,729
1996	51,714	572,608	825,355	78,219	329,628	105,728	1,806,814	409,052	2,215,866
1997	52,328	579,505	846,916	81,378	332,385	109,870	1,839,624	450,716	2,290,340
1998	52,946	590,445	862,421	84,288	334,180	112,095	1,867,796	491,807	2,359,603
1999	55,897	600,055	869,363	83,851	338,732	114,212	1,894,407	508,353	2,402,760
	(26,241)	*(281,697)*	*(408,124)*	*(39,364)*	*(159,018)*	*(53,617)*	*(889,333)*	*(238,647)*	*(1,127,981)*
1996 – I	12,758	145,392	205,389	19,648	81,762	26,280	451,933	104,811	556,745
II	12,552	142,695	205,053	19,458	82,284	26,268	449,795	97,951	547,746
III	13,265	143,178	207,170	19,544	82,592	26,440	453,101	101,478	554,579
IV	12,738	141,344	207,742	19,569	82,990	26,739	451,985	104,811	556,795
1997 – I	13,307	140,024	208,080	20,114	82,928	27,017	451,243	105,429	556,672
II	12,758	145,489	211,328	20,312	83,250	27,527	460,039	112,108	572,147
III	13,036	146,138	213,101	20,388	83,070	27,665	462,621	114,518	577,140
IV	13,226	147,853	214,408	20,564	83,137	27,660	465,720	118,660	584,381
1998 – I	13,371	146,879	214,571	20,993	83,081	27,782	464,691	124,213	588,905
II	13,358	147,746	215,371	21,179	83,434	27,985	466,714	121,947	588,661
III	13,281	148,518	215,868	21,102	83,711	28,200	468,476	121,044	589,520
IV	12,936	147,301	216,610	21,014	83,954	28,127	467,915	124,604	592,519
1999 – I	13,653	147,496	216,399	20,888	84,301	28,423	469,382	123,716	593,098
	(6,409)	*(69,242)*	*(101,589)*	*(9,806)*	*(39,575)*	*(13,343)*	*(220,352)*	*(58,079)*	*(278,431)*
II	13,783	149,221	216,631	20,898	84,614	28,566	471,917	127,209	599,126
	(6,471)	*(70,052)*	*(101,698)*	*(9,811)*	*(39,722)*	*(13,410)*	*(221,542)*	*(59,719)*	*(281,261)*
III	14,164	151,091	217,821	20,967	84,844	28,582	475,536	126,958	602,494
	(6,649)	*(70,930)*	*(102,257)*	*(9,843)*	*(39,830)*	*(13,418)*	*(223,241)*	*(59,601)*	*(282,842)*
IV	14,298	152,247	218,512	21,098	84,973	28,641	477,572	130,471	608,043
	(6,712)	*(71,473)*	*(102,581)*	*(9,905)*	*(39,891)*	*(13,446)*	*(224,197)*	*(61,250)*	*(285,447)*

Source: Istat, national accounts (ESA95).

(1) Value added at market prices. – (2) Wholesale and retail trade, repair services, hotel and restaurant services, transport and communication services; monetary and financial institutions; real estate expenditure abroad. – (5) Expenditure of general government and non-profit institutions serving households. – (6) Includes non-residents' expenditure in Italy.

Table a5

OF INCOME						HOUSEHOLD DOMESTIC CONSUMPTION				
Uses						By type of consumption			By type of good	
Investment in buildings and public works	Investment in machinery, equipment, transport equipment and intangible assets	Domestic consumption		Change in stocks and valuables	Exports of goods and services (*fob*) (6)	Non-durable goods	Durable goods	Services	Food products, beverages and tobacco products	Non-food products
		Domestic household expenditure	Public expenditure (5)							
168,804	179,664	998,862	329,895	15,505	338,754	471,605	115,018	417,643	213,977	790,289
171,508	180,442	1,027,898	335,481	13,553	333,996	484,034	117,587	431,450	215,307	817,764
169,176	177,789	1,047,749	337,382	11,916	358,524	489,148	120,428	437,276	214,924	831,928
157,879	151,262	1,009,039	336,676	−554	390,866	481,441	101,267	436,478	211,449	807,737
147,888	161,471	1,024,646	333,942	13,710	429,143	485,456	104,109	452,388	208,703	833,250
149,202	178,650	1,041,930	326,933	17,829	483,185	491,467	105,782	467,222	204,901	859,570
154,535	185,187	1,054,736	330,406	4,814	486,188	489,087	107,815	476,208	203,001	870,109
150,980	192,902	1,085,929	333,308	9,557	517,664	496,220	125,992	483,187	206,039	899,360
150,843	207,194	1,110,974	335,572	20,058	534,962	504,890	130,525	493,710	207,535	921,590
153,517	220,111	1,129,811	338,130	28,393	532,798	507,658	136,358	504,299	207,521	940,794
(72,069)	*(103,332)*	*(530,392)*	*(158,736)*	*(13,329)*	*(250,123)*	*(238,321)*	*(64,014)*	*(236,744)*	*(97,421)*	*(441,658)*
38,599	46,741	261,719	81,877	5,716	122,092	122,106	26,754	117,877	50,879	215,858
38,795	46,292	262,118	82,421	−914	119,034	122,114	26,367	118,488	50,778	216,191
38,856	45,581	264,020	82,950	1,966	121,207	122,335	26,757	119,376	50,607	217,861
38,285	46,573	266,879	83,158	−1,954	123,855	122,533	27,937	120,467	50,737	220,200
37,468	46,458	267,968	83,088	−2,739	124,428	123,623	29,204	120,205	51,391	221,641
37,626	48,027	272,145	83,200	3,453	127,696	124,234	31,672	120,757	51,635	225,028
37,478	48,540	272,917	83,445	2,847	131,912	124,068	32,692	120,899	51,532	226,126
38,408	49,877	272,899	83,575	5,997	133,626	124,296	32,424	121,325	51,480	226,565
38,090	51,645	274,930	83,524	5,261	135,455	125,549	31,980	122,262	51,842	227,949
37,590	51,478	277,399	83,900	3,599	134,696	126,379	32,263	123,281	52,036	229,887
37,523	52,097	278,694	83,959	2,223	135,023	126,424	33,523	123,820	51,952	231,814
37,639	51,975	279,952	84,189	8,977	129,788	126,539	32,758	124,348	51,705	231,939
37,657	53,771	281,825	84,387	7,302	128,156	127,028	34,060	124,777	51,850	234,015
(17,678)	*(25,243)*	*(132,303)*	*(39,616)*	*(3,428)*	*(60,163)*	*(59,634)*	*(15,990)*	*(58,577)*	*(24,341)*	*(109,859)*
38,062	54,767	282,377	84,417	8,314	131,189	127,312	34,241	125,534	51,993	235,094
(17,868)	*(25,710)*	*(132,562)*	*(39,630)*	*(3,903)*	*(61,587)*	*(59,767)*	*(16,075)*	*(58,932)*	*(24,408)*	*(110,365)*
38,510	55,353	282,990	84,519	5,440	135,682	126,822	34,027	126,585	51,931	235,503
(18,079)	*(25,986)*	*(132,850)*	*(39,678)*	*(2,554)*	*(63,696)*	*(59,537)*	*(15,974)*	*(59,426)*	*(24,379)*	*(110,557)*
39,289	56,219	282,620	84,808	7,338	137,770	126,496	34,030	127,403	51,747	236,182
(18,444)	*(26,392)*	*(132,677)*	*(39,813)*	*(3,445)*	*(64,676)*	*(59,384)*	*(15,975)*	*(59,810)*	*(24,293)*	*(110,876)*

services and business activities. – (3) Public administration and defence services; compulsory social security services; other community, social and personal service activities. – (4) Includes residents'

INDUSTRIAL PRODUCTION BY ECONOMIC PURPOSE
(indices, 1995=100)

	Final consumer goods				Final investment goods				Intermediate goods				Manu-facturing	AGGRE-GATE INDEX
	Non-durable	Semi-durable	Durable	Total	For industry	Transport equipment	Multi-sector	Total	For industry	For consumer goods	Mixed purpose	Total		
1990	93.5	92.3	92.4	92.8	87.5	125.5	96.2	95.2	102.6	97.0	91.5	93.3	93.8	93.5
1991	94.9	92.3	91.9	93.2	83.4	119.0	94.6	91.3	100.0	97.1	91.1	92.7	92.7	92.6
1992	97.9	92.7	89.0	93.9	81.9	106.5	91.5	87.7	99.1	98.3	91.5	93.1	92.3	92.4
1993	98.0	89.8	83.8	91.6	81.5	85.3	94.1	84.6	90.2	96.0	90.5	91.1	89.8	90.2
1994	99.0	95.9	93.7	96.6	85.8	87.9	94.0	87.8	90.7	99.8	96.2	96.1	94.7	94.9
1995	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
1996	100.6	99.2	98.2	99.6	102.7	102.4	100.4	102.2	102.6	99.0	97.3	98.1	98.9	99.1
1997	105.1	100.8	104.1	103.2	103.0	111.1	97.3	103.0	101.8	102.4	101.9	101.9	102.1	102.4
1998	108.0	99.4	106.4	103.9	101.8	110.9	100.5	102.8	105.5	101.0	105.4	104.9	103.8	104.3
1999	113.1	96.3	105.7	105.1	99.7	110.5	106.9	102.4	104.0	99.5	105.6	104.7	103.7	104.4
1993 – I	101.3	92.5	85.3	94.3	82.9	90.1	102.4	88.0	91.5	96.8	91.2	91.9	91.7	91.0
II	97.8	90.5	80.5	91.1	82.2	84.7	89.0	84.0	89.8	95.9	91.4	91.8	89.5	90.3
III	96.2	89.1	83.9	90.7	80.5	84.8	97.8	84.6	90.5	94.7	88.5	89.5	88.8	89.5
IV	96.7	86.9	85.3	90.3	80.3	81.5	87.1	81.9	89.1	96.6	90.8	91.4	89.3	90.0
1994 – I	97.3	92.9	88.3	93.6	81.4	81.5	85.6	82.3	89.3	98.6	91.3	92.0	91.0	91.4
II	99.6	96.5	93.5	97.0	84.1	87.2	97.0	87.2	89.4	100.9	96.4	96.3	94.3	94.7
III	99.7	98.0	95.3	98.1	87.6	91.1	97.9	90.2	90.0	99.3	97.9	97.3	96.2	96.0
IV	99.3	96.2	97.6	97.7	90.3	91.8	95.4	91.6	94.0	100.6	99.2	98.8	97.1	97.5
1995 – I	99.1	98.8	98.3	98.8	93.7	98.6	97.4	95.0	93.9	99.3	98.4	98.0	97.3	98.9
II	99.2	99.8	99.3	99.5	97.5	98.3	98.2	97.7	96.7	99.4	99.6	99.3	98.9	99.2
III	99.3	101.7	100.8	100.5	100.4	99.2	98.8	100.0	103.3	101.6	102.1	102.2	101.7	100.3
IV	102.3	99.7	101.6	101.1	108.4	103.8	105.6	107.3	106.0	99.6	99.9	100.5	102.1	101.6
1996 – I	98.8	99.9	99.2	99.3	104.7	104.4	102.3	104.2	106.9	97.6	99.1	99.7	99.8	101.1
II	100.6	98.3	99.5	99.5	103.6	104.1	103.0	103.6	103.1	97.9	97.5	98.2	99.4	98.7
III	100.2	98.8	99.0	99.4	101.0	102.9	98.6	100.8	101.4	99.5	97.5	98.1	98.6	98.7
IV	102.6	99.5	95.1	100.1	101.4	98.2	97.5	100.3	99.0	101.1	95.1	96.2	97.6	97.9
1997 – I	104.1	100.1	101.9	102.1	101.0	106.0	99.8	101.4	96.6	101.3	97.5	97.8	99.2	99.1
II	103.9	101.4	105.4	103.2	103.2	111.7	97.7	103.3	102.8	101.5	102.0	102.1	101.8	102.1
III	105.9	100.4	103.7	103.4	102.9	111.7	94.7	102.5	102.6	102.6	103.2	103.1	102.6	103.4
IV	106.3	101.3	105.5	104.2	105.0	114.8	97.1	104.8	105.0	104.1	104.8	104.7	104.6	104.9
1998 – I	106.7	98.9	105.7	103.5	103.6	112.6	100.4	104.2	106.3	102.9	105.3	105.1	104.6	104.5
II	108.2	99.6	105.7	104.3	104.5	113.2	99.2	104.7	106.5	103.9	106.7	106.3	105.2	105.3
III	109.2	100.3	103.8	104.7	102.2	109.8	102.6	103.3	106.5	100.2	105.2	104.8	103.7	104.4
IV	107.9	98.8	101.6	103.2	96.9	107.8	99.7	98.9	102.5	97.0	104.5	103.4	101.8	103.1
1999 – I	111.6	97.6	102.2	104.4	100.3	109.4	107.7	102.9	102.4	99.7	104.0	103.4	103.0	103.6
II	111.1	95.2	102.2	103.3	98.6	108.0	104.4	100.9	101.5	98.4	104.0	103.1	102.0	103.0
III	115.0	98.3	106.6	106.9	99.9	111.4	105.7	102.5	105.4	100.1	107.3	106.2	104.6	104.9
IV	114.5	94.1	111.8	106.0	100.0	113.6	109.7	103.5	106.6	99.6	107.2	106.2	105.1	106.3

Source: Based on Istat data.

CAPACITY UTILIZATION RATES IN INDUSTRY, BY ECONOMIC PURPOSE

(data adjusted for seasonal factors and the number of working days; percentages)

	Final consumer goods				Final investment goods				Intermediate goods				Manu-facturing	AGGRE-GATE INDEX
	Durable	Semi-durable	Non-durable	Total	For industry	Transport equipment	Multi-sector	Total	For industry	For consumer goods	Mixed purpose	Total		
1990	97.3	96.2	96.0	96.6	95.9	96.2	89.7	94.7	98.0	94.6	96.0	96.0	92.8	93.3
1991	97.0	95.1	94.2	95.6	88.4	92.7	88.1	89.2	95.2	94.4	94.2	94.4	90.6	91.3
1992	98.3	94.4	90.1	94.9	83.9	84.4	85.2	84.3	93.9	95.5	93.4	93.7	89.3	90.0
1993	96.2	90.3	83.7	91.2	80.9	68.7	87.5	80.0	85.3	93.0	91.1	90.8	86.1	87.0
1994	95.2	95.4	92.4	94.7	82.5	72.1	87.3	81.6	85.3	96.6	95.6	94.6	90.0	90.6
1995	94.2	98.4	97.4	96.4	93.3	83.5	92.8	91.8	93.8	96.5	98.1	97.4	93.8	94.2
1996	92.8	96.5	94.6	94.5	94.8	87.0	93.1	93.4	96.0	95.4	94.3	94.6	92.2	92.6
1997	95.0	97.0	98.9	96.5	95.1	96.1	90.2	94.3	95.2	98.4	97.5	97.4	94.3	94.7
1998	95.9	94.6	97.9	95.7	94.0	96.5	93.0	94.2	98.7	97.0	99.4	99.1	94.9	95.4
1999	98.4	90.7	97.2	95.3	92.0	96.2	98.6	93.8	97.3	95.6	98.7	98.2	93.9	94.4
1993 – I . . .	100.0	93.5	85.6	94.3	83.3	72.1	95.2	83.7	86.6	93.8	92.3	91.9	88.3	88.9
II . . .	96.3	91.2	80.6	90.8	81.9	68.1	82.8	79.6	84.9	92.9	91.8	91.2	85.8	86.8
III . . .	94.2	89.5	83.7	90.1	79.6	68.4	91.0	79.8	85.5	91.7	89.1	89.1	85.0	85.9
IV . . .	94.3	87.1	84.8	89.4	78.7	66.1	80.9	76.9	84.0	93.5	91.2	90.8	85.4	86.2
1994 – I . . .	94.2	92.8	87.5	92.2	79.2	66.4	79.6	77.0	84.2	95.4	91.3	91.1	86.9	87.3
II . . .	96.0	96.1	92.4	95.3	81.2	71.4	90.1	81.2	84.1	97.6	95.6	94.6	89.6	90.2
III . . .	95.7	97.5	93.9	96.0	83.9	74.8	91.0	83.7	84.7	96.0	97.2	95.7	91.4	92.1
IV . . .	94.8	95.3	95.8	95.2	85.8	75.8	88.6	84.6	88.3	97.2	98.3	97.1	92.1	92.6
1995 – I . . .	94.0	97.5	96.2	95.7	88.5	81.7	90.5	87.9	88.2	95.9	97.2	96.0	91.8	92.6
II . . .	93.7	98.3	96.9	96.0	91.4	81.9	91.2	89.9	90.8	96.0	97.5	96.6	92.9	93.4
III . . .	93.3	100.0	98.1	96.7	93.4	83.0	91.7	91.6	96.8	98.0	100.0	99.4	95.6	95.5
IV . . .	95.7	97.7	98.5	97.0	100.0	87.2	97.9	97.8	99.2	96.1	97.7	97.7	94.9	95.2
1996 – I	91.8	97.5	95.8	94.7	96.7	88.0	95.1	95.2	100.0	94.0	96.7	96.8	93.3	94.1
II . . .	93.1	95.8	95.9	94.6	95.7	88.2	95.6	94.6	96.5	94.3	94.2	94.4	92.8	92.8
III . . .	92.3	96.1	95.2	94.2	93.2	87.6	91.4	92.1	94.9	95.8	94.2	94.5	91.9	92.2
IV . . .	94.1	96.5	91.3	94.5	93.6	84.0	90.3	91.6	92.7	97.3	91.9	92.6	90.8	91.4
1997 – I . . .	94.6	96.6	97.2	95.8	93.3	91.0	92.8	92.9	90.4	97.3	94.2	94.2	91.9	92.3
II . . .	94.2	97.7	100.0	96.6	95.2	96.4	90.6	94.6	96.2	97.6	97.3	97.2	94.2	94.7
III . . .	95.7	96.5	98.5	96.5	95.0	96.9	87.7	93.9	96.0	98.6	98.5	98.2	94.6	95.0
IV . . .	95.6	97.2	100.0	97.0	96.8	100.0	89.8	95.9	98.2	100.0	100.0	99.8	96.3	96.6
1998 – I . . .	95.1	94.3	99.5	95.5	95.8	97.9	93.3	95.6	99.5	98.7	100.0	99.8	95.8	96.1
II . . .	96.2	94.9	99.4	96.3	96.5	98.5	91.8	95.9	99.7	99.9	100.0	99.9	96.3	96.5
III . . .	96.8	95.4	97.5	96.4	94.3	95.6	94.9	94.6	99.6	96.3	99.2	98.9	94.7	95.3
IV . . .	95.3	93.9	95.3	94.7	89.3	94.0	92.1	90.5	95.9	93.2	98.4	97.6	92.9	93.8
1999 – I . . .	97.3	91.8	94.8	94.8	92.9	94.8	100.0	94.5	95.8	95.7	97.9	97.5	93.4	94.1
II . . .	97.0	89.8	95.0	93.9	91.0	93.9	96.6	92.4	95.0	94.5	96.9	96.4	92.4	93.0
III . . .	100.0	92.6	99.0	97.0	92.2	97.1	97.7	93.9	98.6	96.2	100.0	99.4	94.7	95.2
IV . . .	99.4	88.6	100.0	95.5	92.0	98.9	100.0	94.4	99.7	95.8	100.0	99.5	95.1	95.3

Source: Based on Istat data.

Table a8

INDICES OF CONSUMER PRICES: ITALY

(percentage changes on corresponding period)

	NIC (1)															WEH (2)
	Goods and services with unregulated prices									Goods and services with regulated prices					Overall index (5)	Overall index (5)
	Non-food and non-energy products		Services	Total net of food and energy products and those with regulated prices	Food products			Energy products	Total	Goods (4)	Utility charges		Rents	Total		
		of which: net of cars			Processed	Not processed	Total					*of which: energy products*				
Weights (3)	*32.2*	*27.9*	*26.7*	*58.9*	*10.2*	*7.2*	*17.4*	*3.6*	*79.9*	*4.7*	*12.1*	*3.1*	*3.3*	*20.1*	*100.0*	*100.0*
1990	4.6	4.7	8.0	6.1	6.3	6.0	6.1	13.8	6.5	4.8	7.1	9.3	6.1	6.4	6.5	6.1
1991	4.5	4.7	7.7	5.9	5.9	7.3	6.6	9.0	6.2	6.8	7.1	9.1	5.9	6.9	6.3	6.4
1992	4.0	4.0	7.5	5.5	5.0	5.1	5.0	0.6	5.2	3.6	6.2	1.3	6.5	5.6	5.3	5.4
1993	4.7	4.1	5.6	5.1	4.5	−0.2	2.2	5.5	4.4	8.7	4.7	3.4	7.6	6.1	4.6	4.2
1994	4.1	3.5	4.3	4.2	4.0	3.1	3.5	3.9	4.0	3.9	3.3	4.7	8.4	4.2	4.1	3.9
1995	4.9	4.2	5.2	5.0	6.8	5.4	6.1	7.5	5.4	2.8	4.5	4.4	7.6	4.6	5.2	5.4
1996	3.8	3.7	4.5	4.1	4.6	3.7	4.2	4.4	4.1	4.2	2.0	−0.2	8.3	3.5	4.0	3.9
1997	1.5	1.8	2.9	2.1	0.8	−0.8	0.0	1.5	1.6	5.4	2.7	2.3	6.6	4.0	2.0	1.7
1998	1.9	1.8	2.8	2.3	0.8	1.6	1.2	−2.7	1.8	4.5	1.2	0.0	5.2	2.6	2.0	1.8
1999	1.2	1.2	2.6	1.8	0.8	1.1	0.9	4.2	1.8	2.8	0.4	−2.6	3.3	1.5	1.7	1.6
1998 – Oct. .	1.7	1.8	2.6	2.1	1.0	2.1	1.5	−3.5	1.7	5.1	0.4	−1.0	4.5	2.2	1.9	1.7
Nov. .	1.4	1.5	2.7	2.0	0.9	1.8	1.3	−4.2	1.6	5.0	0.3	−2.0	4.5	2.1	1.7	1.5
Dec. .	1.4	1.5	2.7	2.0	0.9	1.8	1.3	−4.5	1.6	5.0	0.5	−1.9	4.5	2.2	1.7	1.5
1999 – Jan. .	1.3	1.3	2.6	1.9	0.8	1.8	1.3	−4.2	1.5	4.6	−0.4	−5.2	4.0	1.5	1.5	1.3
Feb. .	1.1	1.3	2.5	1.7	0.8	2.0	1.3	−2.9	1.5	4.6	−0.4	−5.2	4.0	1.5	1.4	1.2
Mar. .	1.1	1.3	2.4	1.7	0.8	2.1	1.4	−1.2	1.5	2.1	−0.6	−5.5	4.0	0.8	1.3	1.4
Apr. .	1.1	1.3	2.4	1.7	0.8	2.2	1.4	2.2	1.6	2.0	−0.3	−5.6	3.4	0.8	1.5	1.6
May .	1.1	1.3	2.4	1.7	0.6	2.2	1.3	3.2	1.7	1.7	−0.1	−4.8	3.4	0.9	1.5	1.6
June	1.0	1.2	2.5	1.7	0.6	1.5	1.0	3.3	1.6	1.3	−0.1	−4.9	3.4	0.8	1.4	1.5
July .	1.2	1.2	2.6	1.9	0.6	0.8	0.8	5.1	1.8	2.9	0.4	−3.3	3.2	1.5	1.7	1.7
Aug. .	1.1	1.2	2.6	1.8	0.6	0.5	0.6	6.3	1.8	2.9	0.3	−3.2	3.2	1.4	1.7	1.6
Sept.	1.1	1.2	2.6	1.8	0.7	0.1	0.5	8.6	1.8	2.9	1.3	0.3	3.2	2.0	1.8	1.8
Oct. .	1.4	1.2	2.7	2.0	0.8	0.1	0.5	9.2	2.0	2.9	1.4	0.5	2.7	2.0	2.0	1.8
Nov. .	1.4	1.2	2.8	2.1	0.9	0.1	0.6	8.7	2.1	2.9	1.7	2.9	2.7	2.1	2.0	2.0
Dec. .	1.4	1.2	2.7	2.0	1.0	0.0	0.6	12.6	2.2	2.9	1.7	2.9	2.7	2.1	2.1	2.1
2000 – Jan. .	1.4	1.2	2.8	2.0	1.0	−0.3	0.5	12.8	2.1	2.4	2.5	6.0	2.8	2.5	2.2	2.1
Feb. .	1.3	1.2	3.0	2.1	1.1	0.1	0.6	13.7	2.3	2.4	2.5	5.9	2.8	2.5	2.4	2.4
Mar. .	1.3	1.2	3.1	2.1	1.1	0.3	0.8	16.6	2.4	2.4	2.8	8.1	2.8	2.7	2.5	2.5

Source: Based on Istat data.

(1) Italian consumer price index for the entire resident population; 1995=100. Chain index as of January 1999. – (2) Italian consumer price index for worker and employee households, excluding tobacco products; 1995=100. Chain index as of January 1999. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weights shown in the table are those for 2000. – (4) Medicines, salt and tobacco products. For medicines, the reference is to the aggregate calculated by Istat; around one third of this consists of products in the so-called "C band", the prices of which are unregulated. Drinking water, electricity and natural gas are included under utility charges. – (5) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

HARMONIZED INDEX OF CONSUMER PRICES: ITALY (1)
(percentage changes on corresponding period)

	Non-food and non-energy products		Services		Total net of food and energy products	Food products				Energy products	Overall index
		of which: net of cars		*of which: net of rents*		Processed	Not processed	Tobacco products			
Weights	*36.7*	*32.1*	*36.0*	*33.0*	*72.7*	*9.7*	*8.6*	*2.0*	*20.3*	*7.0*	*100.0*
1996	3.9	3.7	4.7	4.3	4.3	4.8	3.4	5.9	4.2	1.7	4.0
1997	1.7	2.0	3.2	3.0	2.4	0.7	–0.7	3.9	0.3	1.9	1.9
1998	2.1	2.0	2.8	2.6	2.4	0.6	1.6	5.4	1.5	–1.4	2.0
1999	1.3	1.4	2.5	2.4	1.9	0.7	1.1	2.0	1.0	1.1	1.7
1998 – Jan.	2.0	1.9	2.9	2.7	2.4	0.2	0.7	4.7	0.8	0.3	1.9
Feb.	2.2	1.9	3.0	2.8	2.6	0.3	1.2	4.7	1.1	–0.2	2.1
Mar.	2.3	2.0	3.0	2.8	2.6	0.4	1.2	5.5	1.2	–1.1	2.1
Apr.	2.3	2.1	2.9	2.7	2.6	0.5	1.4	5.5	1.4	–0.8	2.2
May	2.3	2.1	2.7	2.4	2.5	0.8	1.5	5.5	1.5	–1.0	2.0
June	2.3	2.1	2.7	2.4	2.5	0.8	1.8	5.5	1.7	–1.0	2.1
July	2.3	2.2	2.6	2.4	2.5	0.8	1.9	5.5	1.7	–1.1	2.1
Aug.	2.4	2.1	2.7	2.5	2.5	0.8	2.1	5.5	1.8	–1.6	2.2
Sept.	2.3	2.1	2.7	2.5	2.5	0.9	2.1	5.5	1.9	–1.9	2.1
Oct.	2.0	2.1	2.5	2.4	2.2	0.8	2.1	5.5	1.9	–2.3	1.9
Nov.	1.7	1.7	2.7	2.5	2.1	0.7	1.8	5.5	1.7	–3.1	1.7
Dec.	1.6	1.7	2.8	2.6	2.2	0.8	1.8	5.5	1.7	–3.2	1.7
1999 – Jan.	1.5	1.5	2.6	2.5	2.0	0.8	1.8	5.5	1.6	–4.6	1.5
Feb.	1.3	1.5	2.5	2.4	1.9	0.7	2.0	5.5	1.7	–3.9	1.4
Mar.	1.2	1.5	2.4	2.2	1.8	0.8	2.1	0.0	1.3	–3.1	1.4
Apr.	1.2	1.4	2.5	2.4	1.8	0.8	2.1	0.0	1.3	–1.4	1.3
May	1.2	1.4	2.5	2.4	1.8	0.5	2.0	0.0	1.1	–0.5	1.5
June	1.2	1.4	2.4	2.4	1.8	0.6	1.5	0.0	0.9	–0.5	1.4
July	1.4	1.4	2.6	2.6	2.0	0.6	0.8	2.3	0.9	1.3	1.7
Aug.	1.3	1.4	2.5	2.5	1.9	0.5	0.5	2.3	0.8	1.9	1.6
Sept.	1.3	1.4	2.5	2.5	1.9	0.7	0.2	2.3	0.7	4.8	1.9
Oct.	1.6	1.4	2.6	2.6	2.1	0.8	0.1	2.3	0.7	5.2	1.9
Nov.	1.6	1.4	2.4	2.4	2.0	0.9	0.2	2.3	0.8	6.1	2.0
Dec.	1.6	1.4	2.3	2.2	1.9	1.0	0.1	2.3	0.7	8.0	2.1
2000 – Jan.	1.5	1.3	2.4	2.3	1.9	1.1	–0.1	2.3	0.6	9.6	2.2
Feb.	1.5	1.4	2.6	2.6	2.0	1.1	0.2	2.3	0.8	10.0	2.4
Mar.	1.5	1.4	2.6	2.6	2.1	1.1	0.3	2.3	0.9	12.7	2.6

Source: Eurostat.
(1) Chain index. The weights shown in the table are those for 2000. The series “net of cars” and “net of rents” are compiled by the Bank of Italy.

Table a10

HARMONIZED INDEX OF CONSUMER PRICES: EURO AREA (1)

(percentage changes on corresponding period)

	Non-food and non-energy products		Services		Total net of food and energy products	Food products				Energy products	Overall index
		of which: net of cars		*of which: net of rents*		Processed	Not processed	Tobacco products			
Weights	*33.4*	*28.9*	*36.8*	*30.5*	*70.2*	*10.3*	*8.2*	*2.3*	*20.8*	*9.0*	*100.0*
1996	1.7	1.7	3.0	2.7	2.3	1.4	1.4	3.2	1.7	3.1	2.2
1997	0.5	0.7	2.4	2.2	1.5	0.6	1.4	5.6	1.4	2.8	1.6
1998	0.9	0.8	2.0	1.9	1.4	0.9	1.9	4.0	1.6	−2.6	1.1
1999	0.6	0.6	1.6	1.5	1.1	0.4	0.0	3.2	0.5	2.2	1.1
1998 – Jan.	0.5	0.5	2.0	2.0	1.3	0.9	1.6	3.4	1.4	−1.2	1.1
Feb.	0.7	0.5	2.0	1.9	1.3	0.9	2.0	3.6	1.6	−1.3	1.1
Mar.	0.7	0.6	1.9	1.8	1.3	1.1	2.5	3.2	1.9	−1.6	1.1
Apr.	0.9	0.7	2.1	2.0	1.5	1.1	3.0	3.0	2.1	−1.0	1.4
May	0.9	0.8	2.0	1.9	1.4	1.1	2.6	4.7	2.1	−1.4	1.3
June	1.0	0.9	2.0	1.9	1.5	1.0	2.8	4.6	2.1	−1.7	1.4
July	1.0	0.8	2.0	1.9	1.5	0.9	2.5	4.5	1.9	−2.0	1.3
Aug.	1.0	0.9	2.0	2.0	1.5	0.9	2.4	4.6	1.8	−3.8	1.1
Sept.	1.0	0.9	2.0	1.9	1.5	0.8	1.5	3.8	1.4	−3.9	1.0
Oct.	1.0	0.9	2.1	2.1	1.5	0.7	1.1	3.9	1.2	−4.1	0.9
Nov.	0.9	0.9	2.0	1.9	1.5	0.7	0.6	4.0	1.0	−4.5	0.8
Dec.	0.9	0.8	1.9	1.9	1.4	0.6	0.9	4.0	1.0	−4.9	0.8
1999 – Jan.	0.8	0.8	1.8	1.7	1.3	0.6	1.1	4.7	1.2	−4.4	0.8
Feb.	0.8	0.8	1.7	1.6	1.2	0.6	1.5	4.5	1.3	−4.4	0.8
Mar.	0.8	0.8	1.8	1.7	1.3	0.6	1.7	3.5	1.3	−2.9	1.0
Apr.	0.6	0.7	1.7	1.6	1.2	0.6	1.1	3.7	1.1	0.1	1.1
May	0.6	0.7	1.5	1.5	1.1	0.4	0.4	2.0	0.6	0.3	1.0
June	0.6	0.7	1.5	1.4	1.1	0.4	−0.7	2.0	0.1	1.2	0.9
July	0.6	0.6	1.6	1.6	1.1	0.3	−1.4	2.4	−0.1	2.9	1.1
Aug.	0.6	0.7	1.5	1.4	1.1	0.3	−1.6	2.4	−0.3	4.7	1.2
Sept.	0.4	0.5	1.4	1.4	1.0	0.2	−1.1	2.4	−0.1	6.2	1.2
Oct.	0.5	0.5	1.3	1.3	0.9	0.2	−0.4	3.6	0.3	6.3	1.4
Nov.	0.5	0.5	1.5	1.4	1.0	0.3	−0.3	3.5	0.4	7.1	1.5
Dec.	0.5	0.5	1.6	1.6	1.1	0.4	−0.2	3.8	0.5	10.0	1.7
2000 – Jan.	0.8	0.7	1.7	1.6	1.2	0.4	−0.5	3.5	0.4	12.0	1.9
Feb.	0.5	0.4	1.6	1.5	1.1	0.4	0.0	3.6	0.6	13.5	2.0
Mar.	0.6	0.6	1.6	1.5	1.1	0.4	−0.5	3.6	0.4	15.3	2.1

Source: Eurostat.

(1) Weighted average of the indices of the euro-area countries. Chain index. The weights shown in the table are those for 2000. The series “net of cars” and “net of rents” are compiled by the Bank of Italy.

Table a11

INDEX OF THE PRODUCER PRICES OF MANUFACTURES SOLD IN THE DOMESTIC MARKET: ITALY

(percentage changes on corresponding period)

	Non-energy products								Energy products	Overall index
	Consumer goods					Investment goods	Intermediate goods	Total		
	Non-food products with unregulated prices (2)	*of which: net of cars*	Food products with unregulated prices (3)	Other goods (4)	Total					
Weights *(1)*	*18.5*	*16.4*	*12.3*	*4.1*	*34.9*	*9.5*	*41.0*	*85.4*	*14.6*	*100.0*
1990	2.7	2.5	3.0	3.1	2.8	4.1	1.7	2.6	16.2	4.1
1991	2.3	2.3	5.3	1.9	3.4	3.3	5.5	3.8	−2.4	3.3
1992	3.2	3.0	3.8	5.3	3.6	3.3	1.0	2.2	−0.4	1.9
1993	3.1	2.7	3.9	6.0	3.7	3.6	3.2	3.4	6.3	3.8
1994	3.2	2.6	3.6	5.0	3.5	2.9	4.2	3.8	3.2	3.7
1995	5.1	5.0	6.0	4.4	5.3	5.0	10.7	8.1	6.4	7.9
1996	3.4	3.2	2.8	3.5	3.2	3.6	−0.1	1.7	3.4	1.9
1997	0.7	1.0	1.1	0.9	0.9	1.8	0.5	0.8	4.3	1.3
1998	1.5	1.4	1.4	3.5	1.7	1.8	0.2	1.0	−5.1	0.1
1999	0.9	0.9	−0.4	3.2	0.7	1.0	−1.1	−0.1	−1.0	−0.3
1998 – Jan.	1.0	1.3	2.3	3.4	1.7	1.8	2.0	1.9	−2.3	1.3
Feb.	1.3	1.4	2.3	3.0	1.8	2.0	2.0	1.9	−2.7	1.3
Mar.	1.4	1.4	2.1	2.4	1.7	1.8	1.8	1.8	−3.6	0.9
Apr.	1.2	1.3	2.3	3.8	1.9	1.8	1.2	1.6	−3.1	0.9
May	1.4	1.4	1.9	3.7	1.8	1.8	0.6	1.3	−3.5	0.6
June	1.5	1.4	1.6	3.7	1.8	1.7	0.4	1.2	−4.0	0.4
July	1.7	1.5	1.4	3.6	1.8	1.9	0.4	1.1	−4.9	0.3
Aug.	1.7	1.4	1.1	3.6	1.7	1.8	−0.2	0.8	−6.1	−0.3
Sept.	1.5	1.2	0.8	3.6	1.5	1.7	−0.7	0.5	−6.4	−0.5
Oct.	1.8	1.5	0.5	3.7	1.5	1.8	−1.3	0.2	−7.4	−0.9
Nov.	1.6	1.5	0.2	3.7	1.3	1.8	−1.5	0.0	−8.7	−1.3
Dec.	1.6	1.4	0.2	3.7	1.3	1.8	−1.8	−0.1	−8.5	−1.3
1999 – Jan.	1.3	1.2	0.0	4.8	1.2	1.5	−2.1	−0.3	−9.3	−1.6
Feb.	1.1	1.1	0.2	5.0	1.2	1.2	−2.5	−0.5	−8.8	−1.8
Mar.	0.8	0.8	0.1	3.1	0.9	1.1	−2.7	−0.8	−8.0	−1.8
Apr.	1.1	1.0	−0.3	1.8	0.7	1.1	−2.6	−0.8	−6.7	−1.6
May	0.8	0.7	−0.7	1.7	0.4	1.0	−2.3	−0.8	−5.9	−1.4
June	0.8	0.7	−0.9	1.6	0.3	1.0	−2.1	−0.7	−5.1	−1.4
July	0.5	0.5	−0.7	3.7	0.5	0.9	−1.7	−0.5	−1.3	−0.6
Aug.	0.5	0.7	−0.5	3.8	0.6	0.8	−0.9	−0.1	0.7	0.0
Sept.	0.8	0.9	−0.9	3.7	0.6	0.7	−0.3	0.2	5.0	0.8
Oct.	1.0	1.0	−0.5	3.2	0.8	0.7	0.8	0.8	6.5	1.6
Nov.	1.0	0.9	−0.2	3.3	0.8	0.7	1.2	1.0	10.2	2.2
Dec.	1.1	1.0	−0.3	3.2	0.8	0.7	1.7	1.2	13.0	2.8
2000 – Jan.	1.1	1.0	0.0	3.0	0.9	0.9	2.6	1.7	17.2	3.8
Feb.	1.2	1.2	0.0	3.0	1.0	1.1	3.2	2.0	20.5	4.6
Mar.	1.3	1.2	0.5	2.8	1.2	1.1	3.8	2.4	24.4	5.5

Source: Based on Istat data.

(1) 1995=100. – (2) Excludes medicines, the prices of which are subject to official control. In the absence of elementary indices for medicines, the reference is to the Istat aggregate "Chemical, pharmaceutical and medical products", which also includes goods with unregulated prices. – (3) Excludes tobacco products, the consumer prices of which are subject to official control. – (4) Includes tobacco products and medicines.

Table a12

LABOUR COSTS, LABOUR PRODUCTIVITY AND UNIT LABOUR COSTS IN THE EURO-AREA COUNTRIES

(percentage changes)

	1992	1993	1994	1995	1996	1997	1998	1999
				Per capita labour costs (1)				
Austria	....	....	....	....	1.2	0.6	2.7	2.1
Belgium	5.8	3.7	4.1	2.3	1.2	2.8	2.1	2.4
Finland	2.2	0.9	3.1	3.9	2.7	1.7	4.7	2.4
France	3.5	2.5	1.7	2.3	2.2	2.1	2.3	1.7
Germany	10.6	4.4	3.2	3.9	2.2	1.4	1.4	1.8
Ireland	6.4	6.4	2.7	2.9	4.4	−0.3	5.8	....
Italy (2)	5.5	4.0	3.6	4.3	5.7	4.1	−1.8	1.6
Luxembourg	....	....	....	....	....	3.2	0.9	....
Netherlands	....	....	....	....	1.6	1.8	2.6	....
Portugal	13.8	7.5	5.2	6.0	6.2	5.6	5.7	....
Spain	....	....	....	....	4.0	2.5	3.0	2.5
				Labour productivity (3)				
Austria	....	....	....	....	2.5	1.2	2.3	0.7
Belgium	1.8	−1.1	2.9	2.8	0.5	2.1	1.6	1.6
Finland	3.9	7.4	5.1	2.1	2.8	2.9	3.4	−0.6
France	1.8	0.1	1.5	0.8	0.7	1.1	1.6	0.8
Germany	3.9	0.6	2.6	2.2	1.9	2.8	2.2	1.4
Ireland	2.4	1.4	2.1	4.5	3.9	−0.2	3.9	....
Italy	1.5	2.0	3.9	2.7	0.5	1.3	0.6	0.0
Luxembourg	....	....	....	....	....	2.9	0.0	....
Netherlands	....	....	....	....	0.7	1.0	0.9	....
Portugal	1.0	0.6	2.5	3.6	2.9	1.8	1.6	....
Spain	....	....	....	....	0.4	0.8	−0.1	−0.2
				Unit labour costs				
Austria	....	....	....	....	−1.3	−0.5	0.5	1.3
Belgium	4.0	4.8	1.2	−0.6	0.8	0.7	0.5	0.8
Finland	−1.6	−6.1	−2.0	1.8	−0.1	−1.1	1.3	3.0
France	1.8	2.4	0.2	1.5	1.5	1.0	0.7	0.9
Germany	6.4	3.7	0.6	1.7	0.3	−1.4	−0.9	0.4
Ireland	3.9	4.9	0.6	−1.6	0.5	−0.1	1.9	....
Italy (2)	3.9	2.0	−0.2	1.5	5.1	2.8	−2.3	1.6
Luxembourg	....	....	....	....	....	0.3	0.9	....
Netherlands	....	....	....	....	0.9	0.8	1.7	....
Portugal	12.7	6.9	2.6	2.3	3.2	3.7	4.0	....
Spain	....	....	....	....	3.6	1.7	3.1	2.8

Sources: Based on Eurostat data and BIS data for Ireland and Portugal.

(1) Per employee. – (2) The figure for 1998 has not been adjusted for the effect of the introduction of the regional tax on productive activies. Applying the change recorded in earnings per employee in 1998 (2.4 per cent) to the figure for labour costs per employee in the same year, unit labour costs would rise by 1.8 per cent (see Economic Bulletin, No. 31, 1998). Value added at base prices and at constant prices divided by the number of employed persons.

Table a13

BALANCE OF PAYMENTS (1)
(balances in billions of lire and millions of euros)

	1994	1995	1996	1997	1998	1999	1999
	lire						euros
Current account	**20,549**	**40,645**	**60,769**	**55,002**	**37,837**	**11,686**	**6,036**
Goods	50,664	63,059	83,301	68,107	63,098	37,161	19,192
Credits	308,047	381,177	388,887	409,130	426,184	419,909	216,865
Debits	257,383	318,118	305,587	341,023	363,086	382,748	197,673
Services	8,399	10,324	11,084	13,234	8,530	4,387	2,266
Credits	82,058	93,604	93,531	105,426	111,143	107,960	55,757
Debits	73,659	83,280	82,447	92,192	102,613	103,573	53,491
Income	–26,998	–25,908	–23,453	–19,238	–20,896	–19,976	–10,317
Credits	46,588	56,077	62,304	78,322	93,952	84,389	43,583
Debits	73,586	81,985	85,757	97,560	114,848	104,365	53,900
Transfers	–11,516	–6,830	–10,162	–7,101	–12,895	–9,886	–5,105
EU institutions	*–7,873*	*–5,662*	*–8,829*	*–5,088*	*–11,492*	*–9,067*	*–4,683*
Capital account	**1,756**	**2,711**	**111**	**5,641**	**4,355**	**5,339**	**2,758**
Intangible assets	–367	–42	–645	165	–234	–6	–3
Transfers	2,123	2,753	756	5,476	4,589	5,345	2,761
EU institutions	*3,061*	*3,718*	*1,631*	*6,320*	*5,320*	*6,198*	*3,201*
Financial account	**–25,582**	**–9,222**	**–30,515**	**–35,078**	**5,963**	**–18,147**	**–9,372**
Direct investment	–4,850	–3,567	–7,950	–11,690	–21,729	6	3
Abroad	–8,456	–11,413	–13,404	–17,986	–28,494	–12,260	–6,332
In Italy	3,606	7,846	5,454	6,296	6,766	12,266	6,335
Portfolio investment	–7,556	64,638	73,302	40,940	30,286	–45,764	–23,635
Assets	–55,818	–7,093	–33,709	–87,358	–158,240	–235,243	–121,493
Liabilities	48,262	71,731	107,011	128,298	188,526	189,480	97,858
Financial derivatives	1,141	369	401	270	348	3,419	1,766
Other investment	–11,166	–66,090	–77,626	–41,828	–39,919	10,446	5,395
Assets	–3,542	–47,032	–110,637	–62,347	–69,746	–59,103	–30,524
Liabilities	–7,624	–19,058	33,011	20,519	29,826	69,549	35,919
Change in official reserves	–3,151	–4,572	–18,642	–22,770	36,977	13,746	7,099
Errors and omissions	**3,277**	**–34,134**	**–30,364**	**–25,565**	**–48,155**	**1,122**	**578**

(1) The items are calculated using the new method adopted by Eurostat and the European Centrral Bank, which conforms with the Fifth edition of the IMF Balance of Payments Manual. The series have been reconstructed and may be subject to revision.

Table a14

ITALY'S EXTERNAL POSITION
(billions of lire and millions of euros)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	
	lire									euros
ASSETS	**392,553**	**527,926**	**681,897**	**747,585**	**851,770**	**1,004,833**	**1,288,615**	**1,657,800**	**2,132,033**	**1,101,103**
Non-bank sectors	**267,807**	**358,897**	**442,552**	**524,989**	**594,340**	**676,489**	**939,380**	**1,195,054**	**1,644,511**	**849,319**
Direct investment	81,034	103,503	138,138	146,072	168,492	179,598	236,723	273,442	330,864	170,877
Real estate	5,186	6,715	7,847	8,442	9,211	8,803	9,839	....	11,823	6,106
Other	75,848	96,788	130,291	137,630	159,281	170,795	226,884	....	319,041	164,771
Portfolio investment	110,065	165,265	206,208	256,675	290,967	343,532	515,350	639,747	985,322	508,876
Loans	23,325	32,811	37,277	51,144	55,781	72,860	102,423	....	....	....
Trade credits	53,383	57,318	60,929	71,098	79,100	80,499	84,884	....	....	....
Other investment	....	....	....	....	....	....	....	275,868	323,021	166,826
Derivatives	....	....	....	....	....	....	....	5,997	5,304	2,739
Banks	**124,746**	**169,029**	**239,345**	**222,596**	**257,430**	**328,344**	**349,235**	**372,095**	**366,668**	**189,368**
Direct investment	....	....	....	....	....	....	....	15,064	19,186	9,909
Portfolio investment	....	....	....	....	....	....	....	51,439	67,760	34,995
Other investment	....	....	....	....	....	....	....	303,323	268,617	138,729
Derivatives	....	....	....	....	....	....	....	2,269	11,105	5,735
Central bank	**95,913**	**76,539**	**86,566**	**93,897**	**95,593**	**108,563**	**135,619**	**90,651**	**120,854**	**62,416**
Direct investment	....	....	....	....	....	....	....	7	8	4
Portfolio investment	....	....	....	....	....	....	....	525	1,118	577
Other investment	....	....	....	....	....	....	....	1,480	32,400	16,733
Derivatives	....	....	....	....	....	....	....	88,639	87,328	45,101
Gold	....	....	....	....	....	....	....	*39,814*	*44,099*	*22,775*
LIABILITIES	**610,068**	**759,328**	**911,238**	**956,864**	**1,027,766**	**1,165,402**	**1,420,127**	**1,689,883**	**2,036,059**	**1,051,537**
Non-bank sectors	**334,075**	**399,141**	**544,685**	**581,021**	**661,801**	**786,231**	**999,379**	**1,245,214**	**1,496,859**	**773,063**
Direct investment	70,878	73,489	91,929	98,398	103,561	114,242	146,290	174,231	207,907	107,375
Real estate	2,194	2,203	2,471	2,558	3,002	3,244	3,540	3,807	4,419	2,282
Other	68,684	71,286	89,458	95,840	100,559	110,998	142,750	170,424	203,488	105,093
Portfolio investment	104,950	146,915	271,609	305,864	374,653	510,327	677,971	900,282	1,048,115	541,306
Government securities	*74,233*	*99,011*	*206,893*	*233,629*	*291,486*	*397,937*	*515,914*	*894,674*	*822,750*	*424,915*
BOTs	*2,884*	*2,891*	*4,286*	*5,387*	*10,355*	*24,169*	*32,255*	*675,718*	*125,605*	*64,870*
BTPs	*12,355*	*42,964*	*109,504*	*91,428*	*108,221*	*189,851*	*283,139*	*317,309*	*406,655*	*210,020*
CTEs	*19,325*	*23,824*	*28,667*	*31,183*	*33,850*	*30,981*	*30,550*	*24,036*	*14,602*	*7,541*
Other	*18,985*	*5,184*	*17,258*	*42,623*	*61,823*	*70,801*	*78,684*	*152,843*	*170,440*	*88,025*
Republic of Italy	*20,684*	*24,148*	*47,178*	*63,008*	*77,237*	*82,135*	*91,286*	*95,940*	*105,448*	*54,459*
Loans	124,200	143,500	146,458	135,045	136,128	119,012	127,167	....	....	....
Trade credits	34,047	35,237	34,689	41,714	47,459	42,650	47,951	....	....	....
Other investment								170,701	234,594	121,158
Derivatives								5,608	6,243	3,224
Banks	**275,993**	**360,187**	**366,553**	**375,843**	**365,965**	**379,171**	**420,748**	**444,576**	**496,891**	**256,623**
Direct investment	....	....	....	....	....	....	....	1,231	1,297	670
Portfolio investment	....	....	....	....	....	....	....	3,201	10,518	5,432
Other investment	....	....	....	....	....	....	....	437,614	473,937	244,768
Derivatives	....	....	....	....	....	....	....	2,529	11,139	5,753
Central bank	**1,575**	**9,240**	**2,629**	**2,461**	**4,117**	**1,912**	**1,975**	**93**	**42,309**	**21,851**
Direct investment	....	....	....	....	....	....	....	....	....	....
Portfolio investment	....	....	....	....	....	....	....	....	....	....
Other investment	....	....	....	....	....	....	....	93	42,309	21,851
OVERALL NET POSITION	**–123,177**	**–164,103**	**–145,404**	**–117,843**	**–84,520**	**–53,828**	**2,132**	**–32,083**	**95,974**	**49,566**

Table a15

CONSOLIDATED ACCOUNTS OF GENERAL GOVERNMENT
(billions of lire and millions of euros)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	
	lire									euros (1)
Revenue										
Direct taxes	207,054	221,506	250,835	244,854	263,494	290,923	318,466	296,914	321,587	166,086
Indirect taxes	159,022	167,660	186,611	192,173	215,935	224,852	247,286	318,303	326,421	168,582
Actual social security contributions	187,193	200,031	212,816	213,679	232,928	278,359	296,935	258,980	263,003	135,830
Imputed social security contributions	22,761	26,157	27,799	30,588	30,881	7,807	7,696	7,685	7,816	4,037
Income from capital	8,820	9,412	9,177	8,516	10,921	11,728	12,507	11,455	14,217	7,342
Other	35,368	40,344	48,101	51,429	44,973	49,145	52,738	54,896	54,675	28,237
Total current revenue	**620,218**	**665,110**	**735,339**	**741,239**	**799,132**	**862,814**	**935,628**	**948,233**	**987,719**	**510,114**
Capital account revenue	5,188	33,783	14,115	7,573	15,336	8,259	19,607	14,390	10,784	5,569
Total revenue	**625,406**	**698,893**	**749,454**	**748,812**	**814,468**	**871,073**	**955,235**	**962,623**	**998,503**	**515,683**
as a percentage of GDP	*43.8*	*46.5*	*48.3*	*45.7*	*45.6*	*45.8*	*48.2*	*46.6*	*46.9*	
Expenditure										
Compensation of employees	181,755	190,248	193,121	197,446	200,521	218,559	229,935	221,571	227,262	117,371
Intermediate consumption	70,042	75,608	79,923	82,371	120,962	128,908	134,675	141,820	150,803	77,883
Social services	261,320	290,578	302,873	319,464	298,752	320,665	344,137	351,185	370,367	191,279
Subsidies to firms	28,763	27,032	33,915	32,864	26,256	28,251	24,286	27,539	28,038	14,480
Interest payments	144,978	172,622	187,800	179,927	205,991	218,701	186,509	167,552	145,726	75,261
Other	15,212	16,288	21,824	19,076	14,697	18,750	19,150	33,347	33,125	17,108
Total current expenditure	**702,070**	**772,376**	**819,456**	**831,148**	**867,179**	**933,834**	**938,692**	**943,014**	**955,321**	**493,382**
Gross investment	46,521	45,538	41,049	37,855	38,109	42,111	44,557	49,795	54,301	28,044
Investment grants	19,112	23,410	26,616	24,387	22,770	23,040	17,253	19,155	20,815	10,750
Other	1,784	1,223	9,252	5,572	22,106	7,135	8,451	9,003	8,577	4,430
Total capital account expenditure	**67,417**	**70,171**	**76,917**	**67,814**	**82,985**	**72,286**	**70,261**	**77,953**	**83,693**	**43,224**
Total expenditure	**769,487**	**842,547**	**896,373**	**898,962**	**950,164**	**1,006,120**	**1,008,953**	**1,020,967**	**1,039,014**	**536,606**
as a percentage of GDP	*53.9*	*56.1*	*57.8*	*54.9*	*53.2*	*52.9*	*50.9*	*49.4*	*48.8*	
Deficit on current account (surplus–)	**81,852**	**107,266**	**84,117**	**89,909**	**68,047**	**71,020**	**3,064**	**–5,219**	**–32,398**	**–16,732**
Net borrowing	**144,081**	**143,654**	**146,919**	**150,150**	**135,696**	**135,047**	**53,718**	**58,344**	**40,511**	**20,922**
as a percentage of GDP	*10.1*	*9.6*	*9.5*	*9.2*	*7.6*	*7.1*	*2.7*	*2.8*	*1.9*	

Source: Based on the *Relazione generale sulla situazione economica del Paese.*
(1) Rounding after conversion into euros may cause discrepancies.

FINANCING OF THE GENERAL GOVERNMENT BORROWING REQUIREMENT (1)
(billions of lire and millions of euros)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
	lire										euros
Medium and long-term securities	**80,425**	**116,172**	**90,130**	**172,466**	**232,570**	**104,482**	**140,673**	**107,135**	**82,919**	**48,008**	**24,794**
of which:											
floating rate	*25,953*	*4,610*	*28,524*	*8,803*	*19,190*	*–13,017*	*15,202*	*4,483*	*–19,206*	*–26,663*	*–13,770*
issued abroad	*14,118*	*4,669*	*961*	*9,601*	*7,928*	*14,582*	*14,245*	*6,556*	*1,668*	*–5,256*	*–2,714*
Short-term securities	**40,338**	**12,161**	**45,339**	**5,331**	**11,311**	**–857**	**–27,174**	**–81,771**	**–35,371**	**–34,235**	**–17,681**
of which:											
issued abroad	–	–	–	–	–	–	–	–	–	*713*	*368*
Post Office deposits	**7,485**	**7,036**	**9,111**	**8,922**	**21,738**	**15,790**	**12,798**	**11,641**	**6,400**	**17,496**	**9,036**
of which:											
Post Office savings certificates	*5,120*	*4,646*	*4,710*	*5,587*	*14,891*	*10,718*	*12,733*	*7,183*	*5,020*	*6,790*	*3,507*
savings books	*3,730*	*3,351*	*2,187*	*2,918*	*7,276*	*5,806*	*1,606*	*5,519*	*7,483*	*10,706*	*5,529*
current accounts	*–1,366*	*–962*	*2,214*	*416*	*–429*	*–733*	*–1,541*	*–1,062*	*–6,104*	–	–
Lending by banks	**7,190**	**20,896**	**12,035**	**16,579**	**339**	**15,918**	**–1,565**	**2,322**	**–19,076**	**4,465**	**2,306**
of which:											
resident banks	*6,431*	*20,080*	*12,856*	*13,813*	*–1,276*	*4,919*	*–2,813*	*1,694*	*–5,286*	*6,202*	*3,203*
non-resident banks	*759*	*816*	*–821*	*2,766*	*1,615*	*10,999*	*1,248*	*628*	*–13,790*	*–1,737*	*–897*
Other debt	**2,908**	**2,751**	**7,680**	**–3,271**	**–78,440**	**203**	**100**	**90**	**490**	**70**	**36**
of which:											
towards Bank of Italy-UIC	*2,720*	*2,578*	*7,426*	*–3,411*	*–78,473*	*–9*	*–51*	*–47*	*133*	*–22*	*–12*
Claims on Bank of Italy-UIC	**92**	**–106**	**–310**	**–31,101**	**–33,247**	**–8,430**	**17,725**	**–2,538**	**15,830**	**–13,931**	**–7,195**
TOTAL BORROWING REQUIREMENT	**138,437**	**158,909**	**163,984**	**168,927**	**154,271**	**127,106**	**142,558**	**36,879**	**51,192**	**21,873**	**11,296**
as a percentage of GDP	*10.5*	*11.0*	*10.8*	*10.8*	*9.3*	*7.1*	*7.5*	*1.9*	*2.5*	*1.0*	
Settlements of past debts	**4,831**	**73**	**31**	**10,837**	**9,342**	**4,085**	**13,502**	**–409**	**4,770**	**12,118**	**6,259**
Privatization receipts	–	**–2,100**	–	–	**–5,919**	**–8,354**	**–6,226**	**–21,179**	**–15,277**	**–43,839**	**–22,641**
Borrowing requirement net of settlements of past debts and privatization receipts	**133,607**	**160,936**	**163,953**	**158,089**	**150,848**	**131,375**	**135,283**	**58,467**	**61,699**	**53,594**	**27,679**
Memorandum items:											
debts of other entities serviced by the government	*7,397*	*3,019*	*4,891*	*–2,137*	*111*	*1,108*	*525*	*–6,473*	*–11,031*	*–2,191*	*–1,132*
change in bank deposits	*–701*	*–705*	*3,153*	*2,232*	*–641*	*1,182*	*2,835*	*–938*	*1,295*	*5,357*	*2,766*
Central government borrowing requirement	**134,850**	**144,897**	**159,769**	**157,117**	**153,526**	**125,411**	**141,197**	**30,218**	**52,417**	**5,849**	**3,021**
of which:											
securities	*120,782*	*128,351*	*135,483*	*177,807*	*243,884*	*103,626*	*112,994*	*23,585*	*45,863*	*5,891*	*3,042*
bank lending	*3,518*	*6,790*	*7,746*	*4,680*	*–473*	*14,181*	*–2,464*	*–2,616*	*–16,213*	*–3,677*	*–1,899*
other	*10,549*	*9,755*	*16,540*	*–25,371*	*–89,885*	*7,604*	*30,666*	*9,250*	*22,767*	*3,635*	*1,877*
Local authority borrowing requirement	**3,809**	**13,747**	**3,397**	**12,636**	**–161**	**2,593**	**1,398**	**6,620**	**–1,031**	**15,462**	**7,986**
of which:											
securities	*–19*	*–19*	*–14*	*–10*	*–3*	*–1*	*505*	*1,779*	*1,685*	*7,882*	*4,070*
bank lending	*3,893*	*13,840*	*3,471*	*12,725*	*–94*	*2,635*	*936*	*4,897*	*–2,668*	*7,581*	*3,915*
other	*–65*	*–74*	*–60*	*–79*	*–64*	*–41*	*–43*	*–56*	*–47*	–	–
Social security institution borrowing requirement	**–221**	**266**	**817**	**–826**	**906**	**–898**	**–36**	**41**	**–195**	**561**	**290**

(1) Rounding may cause discrepancies.

Table a17

GENERAL GOVERNMENT DEBT
BREAKDOWN BY HOLDING SECTOR (1)
(face value in billions of lire and millions of euros)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
	lire										euros
Medium and long-term securities	**710,008**	**831,772**	**937,595**	**1,118,627**	**1,363,792**	**1,487,329**	**1,627,056**	**1,746,982**	**1,821,063**	**1,879,056**	**970,452**
held by:											
Bank of Italy-UIC	*53,105*	*56,017*	*82,426*	*95,044*	*186,333*	*197,841*	*166,478*	*137,709*	*120,169*	*112,113*	*57,902*
banks	*131,772*	*182,503*	*237,093*	*213,290*	*265,089*	*264,587*	*282,667*	*265,120*	*243,980*	*236,993*	*122,397*
other residents	*470,160*	*520,835*	*519,303*	*628,138*	*667,952*	*745,925*	*834,118*	*907,348*	*928,484*	*873,687*	*451,221*
non-residents	*54,972*	*72,418*	*98,772*	*182,154*	*244,418*	*278,976*	*343,793*	*436,805*	*528,430*	*656,263*	*338,932*
Short-term securities	**335,616**	**347,736**	**394,000**	**400,005**	**411,322**	**410,471**	**383,297**	**301,526**	**266,157**	**231,921**	**119,777**
held by:											
Bank of Italy-UIC	*13,194*	*9,482*	*173*	*572*	*14,306*	*3,327*	*1,698*	*14,331*	*230*	–	–
banks	*31,394*	*33,901*	*33,273*	*79,459*	*73,101*	*48,506*	*56,256*	*33,519*	*46,552*	*30,944*	*15,981*
other residents	*286,318*	*299,141*	*356,733*	*315,179*	*318,462*	*348,190*	*301,271*	*221,796*	*135,006*	*78,248*	*40,412*
non-residents	*4,709*	*5,212*	*3,821*	*4,795*	*5,454*	*10,448*	*24,072*	*31,881*	*84,369*	*122,729*	*63,384*
Post Office deposits	**89,162**	**96,198**	**105,308**	**114,230**	**135,968**	**151,759**	**164,557**	**176,198**	**182,598**	**200,094**	**103,340**
Lending by banks	**71,804**	**92,686**	**108,753**	**128,618**	**129,631**	**145,779**	**141,704**	**144,870**	**126,292**	**131,207**	**67,763**
of which:											
resident banks	*60,942*	*81,022*	*93,878*	*107,691*	*106,415*	*111,333*	*108,521*	*110,214*	*104,928*	*111,130*	*57,394*
non-resident banks	*10,862*	*11,665*	*14,875*	*20,927*	*23,216*	*34,445*	*33,183*	*34,655*	*21,365*	*20,077*	*10,369*
Other liabilities towards BI-UIC	**74,782**	**77,359**	**84,785**	**81,374**	**2,902**	**2,893**	**2,842**	**2,794**	**2,927**	**2,905**	**1500**
of which:											
current accounts	*71,063*	*73,074*	*80,780*	*76,206*	–	–	–	–	–	–	–
Other domestic debt	**3,032**	**3,205**	**3,458**	**3,599**	**3,632**	**3,844**	**3,995**	**4,133**	**4,490**	**4,582**	**2,367**
General government debt (2)	**1,284,403**	**1,448,956**	**1,633,900**	**1,846,453**	**2,047,247**	**2,202,075**	**2,323,451**	**2,376,503**	**2,403,528**	**2,449,766**	**1,265,199**
as a percentage of GDP	*97.2*	*100.6*	*107.7*	*118.1*	*123.8*	*123.2*	*122.1*	*119.8*	*116.2*	*115.1*	
held by:											
Bank of Italy-UIC	*141,080*	*142,858*	*167,385*	*176,990*	*203,541*	*204,061*	*171,018*	*154,834*	*123,326*	*115,018*	*59,402*
banks	*224,108*	*297,426*	*364,245*	*400,440*	*444,604*	*424,427*	*447,444*	*408,853*	*395,460*	*379,067*	*195,772*
other residents	*848,671*	*919,378*	*984,802*	*1,061,146*	*1,126,014*	*1,249,717*	*1,303,941*	*1,309,474*	*1,250,578*	*1,156,611*	*597,340*
non-residents	*70,543*	*89,294*	*117,468*	*207,877*	*273,088*	*323,870*	*401,048*	*503,341*	*634,164*	*799,070*	*412,685*
Memorandum item:											
debt issued abroad	48,898	54,797	64,706	85,560	96,106	119,473	126,752	142,914	130,296	136,877	70,691

(1) Rounding may cause discrepancies. – (2) In accordance with the criteria laid down in Council Regulation (EC) No. 3605/93.

Table a18

GENERAL GOVERNMENT DEBT
BREAKDOWN BY INSTRUMENT AND SUBSECTOR (1)
(face value in billions of lire and millions of euros)

	1989	1990	1991	1992	1993
	lire				
Medium and long-term securities	**625,090**	**710,008**	**831,772**	**937,595**	**1,118,627**
memorandum items: in foreign currencies	45,575	59,670	66,033	78,066	101,496
in non-euro-area currencies	12,839	13,376	14,575	16,953	34,889
floating rate	358,661	412,279	423,219	482,769	502,397
issued abroad	24,753	38,036	43,133	49,832	64,633
Short-term securities	**295,112**	**335,616**	**347,736**	**394,000**	**400,005**
memorandum items: in foreign currencies	11,306	7,346	4,999	7,672	7,443
in non-euro-area currencies	–	–	–	–	–
issued abroad	–	–	–	–	–
Post Office deposits	**81,677**	**89,162**	**96,198**	**105,308**	**114,230**
of which: Post Office savings certificates	52,099	57,219	61,865	66,575	72,162
memorandum items: redemption value	*80,659*	*91,011*	*100,368*	*107,382*	*117,867*
savings books	19,935	23,665	27,017	29,204	32,122
current accounts	9,643	8,278	7,316	9,530	9,946
Lending by banks	**64,871**	**71,804**	**92,686**	**108,753**	**128,618**
memorandum items: in foreign currencies	10,090	10,310	11,205	14,880	20,496
in non-euro-area currencies	5,159	5,471	6,248	7,206	7,773
resident banks	54,511	60,942	81,022	93,878	107,691
non-resident banks	10,360	10,862	11,665	14,875	20,927
Other liabilities	**74,906**	**77,813**	**80,564**	**88,244**	**84,973**
of which: towards Bank of Italy-UIC	72,062	74,782	77,359	84,785	81,374
GENERAL GOVERNMENT DEBT (2)	**1,141,655**	**1,284,403**	**1,448,956**	**1,633,900**	**1,846,453**
as a percentage of GDP	*95.4*	*97.2*	*100.6*	*107.7*	*118.1*
Central government debt	**1,104,231**	**1,243,388**	**1,393,929**	**1,574,648**	**1,775,387**
of which: securities	920,136	1,045,578	1,179,480	1,331,581	1,518,628
bank lending	28,270	31,528	38,306	50,073	58,035
other	155,824	166,282	176,143	192,994	198,724
Local authority debt	**36,320**	**40,132**	**53,878**	**57,286**	**69,926**
of which: securities	65	46	28	14	4
bank lending	35,497	39,392	53,231	56,713	69,443
other	758	693	618	558	479
Social security institution debt	**1,104**	**883**	**1,149**	**1,966**	**1,140**
Treasury assets held with BI-UIC	**1,081**	**989**	**1,095**	**1,406**	**32,507**
DEBT NET OF TREASURY ASSETS HELD WITH BI-UIC	**1,140,574**	**1,283,413**	**1,447,861**	**1,632,494**	**1,813,946**
memorandum items: debt in foreign currencies	66,970	77,326	82,237	100,619	129,436
debt in non-euro-area currencies	18,180	19,060	21,100	24,502	43,219
debt of state sector	1,116,656	1,259,676	1,411,730	1,595,150	1,765,461
debt of other entities serviced by the government	27,236	34,483	37,439	43,621	42,703
bank deposits	21,770	21,070	20,365	23,519	25,751
Debt of other public sector bodies (3)	**1,260**	**1,279**	**1,928**	**2,007**	**1,948**
Public sector debt	**1,141,834**	**1,284,693**	**1,449,788**	**1,634,501**	**1,815,894**

(1) Rounding may cause discrepancies. – (2) In accordance with the criteria laid down in Council Regulation (EC) No. 3605/93. – (3) Excluding debts serviced by the government.

Table a18

1994	1995	1996	1997	1998	1999	
lire						euros
1,363,792	**1,487,329**	**1,627,056**	**1,746,982**	**1,821,063**	**1,879,056**	**970,452**
123,366	130,910	126,468	132,693	126,509	120,048	62,000
45,067	55,129	61,761	66,546	65,817	74,864	38,664
540,721	517,514	548,144	557,411	517,895	465,434	240,377
72,890	85,028	93,569	108,259	108,931	116,086	59,954
411,322	**410,471**	**383,297**	**301,526**	**266,157**	**231,921**	**119,777**
–	–	–	–	–	713	368
–	–	–	–	–	–	–
–	–	–	–	–	713	368
135,968	**151,759**	**164,557**	**176,198**	**182,598**	**200,094**	**103,340**
87,053	97,771	110,504	117,687	122,707	129,498	66,880
136,556	*152,083*	*172,844*	*187,004*	*203,098*	*218,963*	*113,085*
39,398	45,204	46,811	52,330	59,813	70,519	36,420
9,517	8,784	7,243	6,181	78	78	40
129,631	**145,779**	**141,704**	**144,870**	**126,292**	**131,207**	**67,763**
20,116	29,502	25,137	24,863	12,418	12,893	6,659
7,225	6,488	5,281	5,200	4,698	4,335	2,239
106,415	111,333	108,521	110,214	104,928	111,130	57,394
23,216	34,445	33,183	34,655	21,365	20,077	10,369
6,533	**6,737**	**6,837**	**6,927**	**7,418**	**7,487**	**3,867**
2,902	2,893	2,842	2,794	2,927	2,905	1,500
2,047,247	**2,202,075**	**2,323,451**	**2,376,503**	**2,403,528**	**2,449,766**	**1,265,199**
123.8	*123.2*	*122.1*	*119.8*	*116.2*	*115.1*	
1,975,434	**2,128,566**	**2,248,562**	**2,294,910**	**2,323,224**	**2,352,916**	**1,215,180**
1,775,113	1,897,800	2,009,816	2,046,148	2,083,239	2,098,594	1,083,833
58,234	72,644	67,684	65,912	50,197	46,968	24,257
142,086	158,121	171,062	182,850	189,788	207,353	107,089
69,767	**72,361**	**73,777**	**80,440**	**79,346**	**95,331**	**49,234**
1	–	537	2,360	3,981	12,384	6,396
69,351	71,987	72,908	77,805	75,137	82,719	42,721
415	374	332	275	228	228	118
2,046	**1,148**	**1,112**	**1,153**	**958**	**1,520**	**785**
65,754	**74,184**	**56,459**	**58,997**	**43,168**	**57,098**	**29,489**
1,981,493	**2,127,890**	**2,266,992**	**2,317,506**	**2,360,360**	**2,392,668**	**1,235,710**
143,482	160,412	151,605	157,556	138,927	133,655	69,027
52,926	62,023	67,386	72,036	70,515	79,200	40,903
1,931,836	2,073,726	2,206,397	2,251,070	2,290,802	2,300,032	1,187,867
43,024	44,827	44,625	38,583	27,464	25,544	13,193
25,110	26,292	29,127	28,189	29,484	34,840	17,993
2,658	**2,526**	**2,017**	**2,202**	**2,002**	**2,163**	**1,117**
1,984,151	**2,130,417**	**2,269,009**	**2,319,708**	**2,362,363**	**2,394,831**	**1,236,827**

Table a19

STATE SECTOR BALANCES (1)
(billions of lire and millions of euros)

	1996	1997	1998	1999	
	lire				euros
Revenue	550,320	622,037	595,727	684,698	353,617
Expenditure	681,799	600,295	657,514	743,953	384,219
State budget deficit	**–131,479**	**21,742**	**–61,787**	**–59,255**	**–30,602**
Treasury operations	4,009	–53,304	11,336	63,657	32,876
Lending of the Deposits and Loans Fund	–10,086	–911	1,327	–4,825	–2,492
Borrowing requirement of ANAS and the State Forests	1,409	1,391	1,119	1,105	570
Borrowing requirement of other former autonomous government agencies	–	–	–	–	–
State sector borrowing requirement	**–136,147**	**–31,081**	**–48,005**	**682**	**352**
State sector borrowing requirement excluding settlements of past debts and privatization receipts	**–128,871**	**–52,670**	**–58,513**	**–31,038**	**–16,030**
DETAIL OF REVENUE					
Direct taxes					
Personal income tax	167,923	182,601	200,221	221,833	114,567
Corporate income tax	31,757	44,304	42,185	57,580	29,738
Local income tax	19,017	24,232	6,368	706	365
Withholding taxes on interest income and capital gains	41,378	36,597	19,811	22,335	11,535
Withholding tax on dividends	3,009	3,467	3,384	764	395
Direct tax condonation schemes	2,530	82	696	90	46
Other	14,772	24,860	17,288	18,631	9,622
Total direct taxes	**280,386**	**316,143**	**289,953**	**321,939**	**166,268**
Indirect taxes					
Value added tax	109,656	118,051	128,856	139,490	72,041
Other business taxes	33,539	39,004	36,583	38,349	19,806
Excise taxes on oil products	37,120	38,075	39,026	39,201	20,246
Other excise taxes	12,288	13,581	11,416	12,974	6,701
Sales taxes on tobacco products	10,512	10,587	11,735	12,389	6,398
Lotteries	9,476	11,439	13,191	29,332	15,149
Indirect tax condonation schemes	823	342	124	46	24
Other	3,407	3,234	3,008	2,755	1,423
Total indirect taxes	**216,821**	**234,313**	**243,939**	**274,536**	**141,786**
EU levies	12,060	9,896	11,448	9,943	5,135
Health care and other social security contributions	4,634	5,013	2,146	1,916	990
Other income	36,419	56,672	48,241	76,364	39,439
Total budget revenue	**550,320**	**622,037**	**595,727**	**684,698**	**353,617**

(1) Rounding may cause discrepancies.

Table a20

BANKING SYSTEM’S LIQUIDITY POSITION: ITALIAN CONTRIBUTION
(maintenance period average amounts in millions of euros)

Maintenance period ending in:	Liquidity-providing factors					
			Monetary policy operations			
	Net assets in gold and foreign currency	Net claims on the Eurosystem	Main refinancing operations	Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations
1999 – Feb.	41,113	1,397	8,304	2,392	92	152
Mar.	38,236	−13,415	18,357	2,829	. .	17
Apr.	39,746	−5,304	10,261	2,727	20	5
May	40,396	13,720	14,551	2,555	50	3
June	40,163	−109	19,141	2,368	3	3
July	43,161	13,517	28,954	1,751	3	1
Aug.	40,604	2,591	25,581	1,086	. .	1
Sept.	40,313	1,946	28,623	750	. .	1
Oct.	42,381	14,128	23,946	703	. .	. .
Nov.	43,110	−327	20,377	1,371	28	5
Dec.	43,126	1,837	21,586	1,726	2	6
2000 – Jan.	44,268	−5,521	25,028	1,893	135	2
Feb.	45,241	22,362	19,201	1,129	4	. .
Mar.	46,503	10,801	23,815	622	2	. .

Maintenance period ending in:	Liquidity-absorbing factors					Credit institutions’ current accounts with the central bank (c)	Italian contribution to base money (a+b+c)
	Monetary policy operations						
	Other liquidity-absorbing operations	Deposit facility (a)	Currency in circulation (b)	Central government deposits	Other factors (net)		
1999 – Feb.	. .	96	61,777	15,849	−36,511	12,240	74,113
Mar.	. .	36	61,131	22,306	−49,485	12,037	73,204
Apr.	. .	1	62,024	14,385	−40,698	11,744	73,769
May	. .	19	62,709	12,122	−15,367	11,791	74,519
June	. .	87	63,588	15,634	−29,582	11,842	75,517
July	. .	15	64,620	22,144	−11,219	11,827	76,462
Aug.	. .	394	65,604	22,667	−30,807	12,005	78,004
Sept.	. .	7	64,611	28,766	−33,582	11,830	76,448
Oct.	. .	12	65,024	20,861	−16,336	11,597	76,634
Nov.	. .	4	65,362	21,222	−33,765	11,741	77,106
Dec.	. .	45	68,285	27,888	−39,794	11,858	80,189
2000 – Jan.	707	21	70,414	15,358	−32,404	11,709	82,145
Feb.	. .	1	67,146	21,083	−12,703	12,409	79,556
Mar.	. .	9	67,282	23,470	−21,354	12,335	79,627

Table a21

ITALIAN COMPONENT OF THE MONETARY AGGREGATES OF THE EURO AREA: RESIDENTS OF ITALY AND THE REST OF THE EURO AREA (1)

(end-of-period amounts in millions of euros)

	Currency in circulation (2)	Overnight deposits	Total	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total
1997	60,046	319,609	379,655	113,319	113,784	606,758
1998 – Jan. . . .	56,830	308,501	365,331	109,180	113,258	587,769
Feb. . . .	56,226	304,029	360,255	106,652	112,963	579,870
Mar. . . .	57,678	316,831	374,510	102,085	112,648	589,242
Apr. . . .	57,995	323,508	381,503	98,413	112,541	592,457
May . . .	59,306	324,179	383,485	94,084	113,413	590,982
June . . .	59,142	340,226	399,367	92,634	113,196	605,197
July . . .	60,327	321,872	382,199	88,415	112,856	583,470
Aug. . . .	58,175	315,175	373,350	86,277	113,800	573,426
Sept. . .	58,452	315,796	374,247	84,169	114,525	572,942
Oct. . . .	58,776	318,182	376,958	82,963	114,036	573,957
Nov. . . .	59,686	316,523	376,210	84,411	114,441	575,062
Dec. . . .	64,541	354,215	418,756	85,325	120,733	624,815
1999 – Jan. . . .	60,984	355,288	416,271	81,108	120,338	617,718
Feb. . . .	60,485	344,012	404,498	78,627	120,029	603,153
Mar. . . .	61,446	349,990	411,436	77,349	118,849	607,634
Apr. . . .	62,327	356,900	419,227	73,617	118,284	611,128
May . . .	62.940	357.570	420.510	72.302	118.698	611,510
June . . .	63,903	369,586	433,490	70,639	119,011	623,140
July . . .	65,815	365,001	430,816	68,088	119,727	618,630
Aug. . . .	63,938	350,804	414,742	67,784	120,090	602,616
Sept. . .	64,511	358,229	422,740	66,458	121,088	610,285
Oct. . . .	65,370	365,201	430,571	65,993	121,737	618,301
Nov. . . .	65,364	356,373	421,737	65,241	121,492	608,469
Dec. . . .	71,958	389,876	461,834	65,745	128,860	656,439
2000 – Jan. . . .	67,164	390,387	457,551	63,678	128,354	649,583
Feb. . . .	66,614	384,226	450,840	64,327	127,165	642,332
Mar. . . .	67,372	388,201	455,573	63,815	126,454	645,842

(1) Liabilities of Italian MFIs and the Post Office to the "money-holding sector", except for the items specified in footnotes (2) and (3). For the methodology, see the box on "The monetary aggregates from the total of such liabilities of Italian MFIs the amount held by Italian MFIs themselves. Since the returns to the ECB do not contain the amounts held by the MFIs of the rest of the area or overnight deposits, excluding notes and coins in the various denominations of the euro held by resident MFIs. – (5) Obtained as the sum of the contributions to euro-area M1, deposits with agreed and money-market paper and debt securities up to 2 years' agreed maturity, excluding those issued by euro-area MFIs and held by resident MFIs.

Table a21

Repurchase agreements	Money-market fund shares/units and money-market paper (3)	Debt securities up to 2 years (3)	Total monetary liabilities	Contribution to euro-area money			
				M1 (4)	M2 (5)	M3 (6)	
74,863	3,689	10,270	695,580	374,304	601,406	690,016	 1997
86,939	3,811	11,953	690,472	361,416	583,855	686,378	. . . . Jan. – 1998
86,361	4,020	13,803	684,055	356,595	576,210	680,212	. . . . Feb.
78,636	4,227	15,804	687,908	370,442	585,174	683,651	. . . . Mar.
75,317	4,481	17,940	690,196	377,430	588,384	685,936	. . . . Apr.
76,657	5,092	19,498	692,230	379,553	587,051	688,087	. . . . May
70,462	5,526	22,386	703,570	395,099	600,928	697,583	. . . . June
74,893	5,089	22,367	685,819	377,454	578,725	680,758	. . . . July
77,984	5,285	21,917	678,613	368,722	568,798	672,322	. . . . Aug.
75,906	5,315	20,891	675,053	369,820	568,514	668,819	. . . . Sept.
83,190	5,568	18,981	681,696	372,644	569,643	677,139	. . . . Oct.
74,836	5,349	17,527	672,774	371,034	569,886	667,381	. . . . Nov.
60,493	4,772	16,777	706,857	412,842	618,901	700,777	. . . . Dec.
61,462	4,068	15,402	698,650	412,135	613,581	694,256	. . . . Jan. – 1999
69,544	3,979	15,791	692,468	400,498	599,154	688,152	. . . . Feb.
64,800	3,667	14,716	690,817	407,258	603,457	686,369	. . . . Mar.
61,157	4,071	14,186	690,542	414,988	606,889	686,049	. . . . Apr.
59,334	4,382	14,112	689,337	415,803	606,803	683,971	. . . . May
54,977	5,485	14,140	697,741	428,953	618,603	692,450	. . . . June
57,452	5,919	13,403	695,405	426,076	613,891	690,388	. . . . July
58,422	6,415	13,019	680,473	410,085	597,959	675,261	. . . . Aug.
55,282	7,349	12,300	685,216	418,161	605,706	679,624	. . . . Sept.
55,214	7,830	11,279	692,624	426,165	613,895	687,162	. . . . Oct.
57,015	7,846	11,409	684,738	416,664	603,396	678,387	. . . . Nov.
50,754	13,065	11,196	731,454	455,983	650,589	724,830	. . . . Dec.
54,531	13,159	10,861	728,134	452,679	644,711	722,549	. . . . Jan. – 2000
58,425	12,831	10,856	724,443	446,175	637,667	718,857	. . . . Feb.
57,442	12,556	10,482	726,321	451,004	641,273	720,608	. . . . Mar.

of the euro area and their Italian counterparts" in Banca d'Italia, *Economic Bulletin*, No. 32 February 1999. – (2) All Bank of Italy banknotes and Treasury coins. – (3) Calculated by subtracting that held by general government, it is not possible to determine exactly the amount held by the "money-holding sector". – (4) Obtained as the sum of currency in circulation and maturity up to 2 years and deposits redeemable at notice up to 3 months. – (6) Obtained as the sum of the contribution to euro-area M2, repurchase agreements, money-market fund shares/units

Table a22

COUNTERPARTS OF MONEY:
RESIDENTS OF ITALY AND THE REST OF THE EURO AREA (1)
(end-of-period amounts in millions of euros)

	Total monetary liabilities	OTHER LIABILITIES OF MFIs								
		Deposits of central government	Medium and long-term liabilities to the money-holding sector					Liabilities to non-residents of the euro area	Finance	
			Deposits with agreed maturity over 2 years	Deposits redeemable at notice over 3 months	Debt securities over 2 years' agreed maturity (2)	Capital and reserves (2)	Total		Loans	
1997	695,580	36,126	29,994	0	168,556	111,173	309,723	137,336	62,992	
1998 – Jan. . . .	690,472	35,746	29,156	0	168,803	110,317	308,276	138,551	62,547	
Feb. . . .	684,055	38,630	28,194	0	169,808	110,198	308,200	140,945	61,914	
Mar. . . .	687,908	30,554	27,457	0	171,362	107,555	306,374	152,826	62,002	
Apr. . . .	690,196	23,194	26,331	0	170,869	106,175	303,375	149,921	62,173	
May . . .	692,230	27,062	25,393	0	173,958	107,320	306,671	146,322	62,012	
June . . .	703,570	31,420	24,374	2	182,457	109,022	315,855	143,510	64,317	
July . . .	685,819	37,883	23,746	1	184,720	107,333	315,800	130,530	61,367	
Aug. . . .	678,613	45,773	22,825	1	188,358	107,118	318,303	132,860	60,823	
Sept. . .	675,053	40,106	25,941	1	190,267	106,122	322,332	128,035	61,730	
Oct. . . .	681,696	28,520	24,778	6	193,674	106,031	324,489	131,241	61,249	
Nov. . . .	672,774	27,292	24,226	17	198,506	106,575	329,325	129,788	61,897	
Dec. . . .	706,857	29,207	23,463	0	201,253	102,704	327,420	127,039	62,915	
1999 – Jan. . . .	698,650	37,005	22,852	0	202,919	105,461	331,232	135,978	63,563	
Feb. . . .	692,468	38,246	21,829	0	205,455	105,291	332,576	126,108	63,217	
Mar. . . .	690,817	32,115	21,294	0	207,829	106,215	335,338	132,800	62,390	
Apr. . . .	690,542	27,444	20,398	0	210,349	107,006	337,753	155,363	62,297	
May . . .	689,337	29,737	19,287	0	212,849	106,948	339,084	144,309	62,813	
June . . .	697,741	29,078	19,241	0	213,749	108,648	341,638	169,795	63,295	
July . . .	695,405	42,529	18,999	0	214,259	109,464	342,722	147,256	61,728	
Aug. . . .	680,473	41,273	18,648	0	215,608	108,554	342,810	146,450	61,514	
Sept. . .	685,216	37,471	18,421	0	215,630	110,814	344,865	164,787	61,766	
Oct. . . .	692,624	28,464	18,037	0	218,013	109,977	346,028	146,514	62,176	
Nov. . . .	684,738	41,536	17,514	0	220,753	110,002	348,269	140,686	63,034	
Dec. . . .	731,454	37,039	17,004	0	222,360	114,287	353,651	142,024	64,770	
2000 – Jan. . . .	728,134	32,202	16,325	0	223,189	115,665	355,179	156,773	62,611	
Feb. . . .	724,443	40,582	15,611	0	226,679	116,040	358,331	144,140	61,355	
Mar. . . .	726,321	36,201	15,613	0	228,930	117,576	362,119	160,619	59,454	

(1) For the methodology, see the box on “The monetary aggregates of the euro area and their Italian counterparts” in Banca d’Italia, *Economic Bulletin*, No. 32 February 1999. – (2) Calculated of the area or that held by general government, it is not possible to determine exactly the amount held by the “money-holding sector”.

Table a22

ASSETS OF MFIs										
Claims on residents of Italy and the rest of the euro area								Claims on non-residents of the euro area	Other counterparts	
to general government		Finance to other residents				Total				
Bonds	Total	Loans	Bonds	Holdings of shares/other equity	Total					
265,560	328,552	650,506	4,277	18,048	672,831	1,001,383	153,507	23,875		 1997
269,526	332,073	646,472	4,442	19,057	669,971	1,002,044	145,617	25,384		.... Jan.– 1998
263,177	325,091	648,804	4,755	18,581	672,140	997,231	144,557	30,042		.... Feb.
267,358	329,359	653,293	5,012	20,189	678,495	1,007,854	154,517	15,291		.... Mar.
265,317	327,490	655,690	5,027	20,833	681,551	1,009,041	147,514	10,132		.... Apr.
263,670	325,682	650,945	5,728	21,764	678,437	1,004,120	146,551	21,614		.... May
268,034	332,352	667,972	6,657	23,339	697,969	1,030,320	155,693	8,342		.... June
257,213	318,580	672,529	7,583	23,346	703,458	1,022,038	138,753	9,242		.... July
254,193	315,017	663,260	5,176	22,387	690,823	1,005,839	140,822	28,886		.... Aug.
258,999	320,729	665,199	4,620	21,798	691,617	1,012,346	130,359	22,821		.... Sept.
260,164	321,414	664,818	4,497	21,443	690,758	1,012,171	134,216	19,558		.... Oct.
250,845	312,743	683,875	4,904	21,969	710,748	1,023,490	128,533	7,156		.... Nov.
253,850	316,765	701,472	4,521	21,861	727,854	1,044,619	124,285	21,619		.... Dec.
252,228	315,792	703,941	5,628	22,924	732,493	1,048,284	124,552	30,029		.... Jan.– 1999
258,088	321,305	702,251	7,541	24,717	734,509	1,055,814	121,110	12,474		.... Feb.
253,838	316,229	708,884	7,342	25,537	741,762	1,057,991	106,050	27,030		.... Mar.
256,254	318,551	709,974	5,311	27,286	742,572	1,061,123	115,674	34,305		.... Apr.
255,344	318,157	712,201	5,424	29,490	747,116	1,065,273	109,065	28,130		.... May
253,830	317,125	733,600	6,397	27,914	767,910	1,085,035	119,111	34,105		.... June
250,022	311,749	739,408	8,818	27,539	775,765	1,087,515	113,822	26,576		.... July
248,634	310,149	732,676	8,769	25,533	766,978	1,077,127	118,771	15,108		.... Aug.
252,360	314,125	733,861	9,668	26,195	769,725	1,083,850	111,957	36,532		.... Sept.
254,158	316,334	736,742	10,218	26,480	773,439	1,089,773	111,377	12,479		.... Oct.
244,730	307,764	765,981	10,151	30,225	806,358	1,114,122	110,679	−9,573		.... Nov.
238,646	303,416	774,674	11,052	33,807	819,533	1,122,949	109,954	31,264		.... Dec.
236,171	298,783	778,016	11,034	34,478	823,529	1,122,312	112,558	37,418		.... Jan.– 2000
237,427	298,783	785,788	11,421	37,959	835,168	1,133,951	108,172	25,373		.... Feb.
237,359	296,813	794,617	12,193	40,112	846,921	1,143,734	115,901	25,625		.... Mar.

by subtracting from the total of such liabilities of Italian MFIs the amount held by Italian MFIs themselves. Since the returns to the ECB do not contain the amounts held by the MFIs of the rest

Table a23

BANKS' ASSETS AND LIABILITIES (1)
(billions of lire and, in brackets, millions of euros)

	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)
1995 – Dec.	78,996	1,073,410	352,260	110,269	14,771	51,205	151,979	231,119	*72,370*
1996 – "	80,892	1,090,928	383,583	123,117	22,264	57,667	182,128	295,728	*74,231*
1997 – "	86,803	1,160,916	343,406	119,990	27,743	62,714	184,791	311,639	*70,911*
1998 – "	22,269	1,230,406	347,123	122,629	42,362	81,663	192,880	318,975	*70,192*
1999 – Jan.	25,261	1,234,638	346,000	122,718	37,166	83,435	164,740	348,239	*69,222*
	(13,046)	*(637,637)*	*(178,694)*	*(63,379)*	*(19,195)*	*(43,091)*	*(85,081)*	*(179,850)*	*(35,750)*
Feb.	22,017	1,228,822	357,116	123,023	42,531	88,277	155,863	320,656	*67,143*
	(11,371)	*(634,633)*	*(184,435)*	*(63,536)*	*(21,965)*	*(45,591)*	*(80,497)*	*(165,605)*	*(34,676)*
Mar.	21,952	1,232,275	347,383	122,644	45,920	92,223	150,474	291,480	*64,813*
	(11,337)	*(636,417)*	*(179,408)*	*(63,341)*	*(23,716)*	*(47,629)*	*(77,713)*	*(150,537)*	*(33,473)*
Apr.	22,004	1,237,975	339,351	123,405	43,761	94,493	161,902	300,944	*63,276*
	(11,364)	*(639,361)*	*(175,260)*	*(63,734)*	*(22,601)*	*(48,802)*	*(83,616)*	*(155,424)*	*(32,679)*
May	26,301	1,239,795	342,468	123,109	51,905	94,089	163,173	293,445	*63,744*
	(13,584)	*(640,300)*	*(176,870)*	*(63,581)*	*(26,807)*	*(48,593)*	*(84,272)*	*(151,552)*	*(32,921)*
June	20,747	1,280,167	348,666	119,741	55,557	92,534	189,725	323,097	*60,678*
	(10,715)	*(661,151)*	*(180,071)*	*(61,841)*	*(28,693)*	*(47,790)*	*(97,985)*	*(166,866)*	*(31,337)*
July	25,707	1,288,390	347,135	119,994	53,597	91,377	156,678	300,718	*62,261*
	(13,277)	*(665,398)*	*(179,280)*	*(61,972)*	*(27,680)*	*(47,192)*	*(80,917)*	*(155,308)*	*(32,155)*
Aug.	19,826	1,276,301	343,910	120,688	60,870	91,045	164,098	290,399	*63,263*
	(10,239)	*(659,154)*	*(177,615)*	*(62,330)*	*(31,437)*	*(47,021)*	*(84,750)*	*(149,979)*	*(32,672)*
Sept.	14,984	1,278,591	349,571	119,247	58,962	93,680	177,035	283,317	*62,076*
	(7,739)	*(660,337)*	*(180,539)*	*(61,586)*	*(30,451)*	*(48,382)*	*(91,431)*	*(146,231)*	*(32,060)*
Oct.	23,596	1,283,313	352,442	120,142	45,925	95,020	187,290	284,050	*63,170*
	(12,186)	*(662,776)*	*(182,021)*	*(62,048)*	*(23,718)*	*(49,074)*	*(96,727)*	*(146,700)*	*(32,624)*
Nov.	19,447	1,331,306	336,598	119,557	46,443	93,499	195,901	304,528	*63,071*
	(10,044)	*(687,562)*	*(173,838)*	*(61,746)*	*(23,986)*	*(48,288)*	*(101,174)*	*(157,276)*	*(32,573)*
Dec.	27,245	1,346,926	324,282	113,979	53,539	103,938	223,149	302,390	*59,110*
	(14,071)	*(695,629)*	*(167,478)*	*(58,865)*	*(27,650)*	*(53,679)*	*(115,247)*	*(156,172)*	*(30,528)*
2000 – Jan. (2)	30,191	1,356,644	315,686	113,791	41,725	108,451	237,290	283,234	*57,102*
	(15,592)	*(700,648)*	*(163,038)*	*(58,768)*	*(21,549)*	*(56,010)*	*(122,550)*	*(146,278)*	*(29,491)*
Feb. (2)	19,121	1,364,550	313,132	112,110	59,201	113,323	230,528	284,874	*54,493*
	(9,875)	*(704,731)*	*(161,719)*	*(57,900)*	*(30,575)*	*(58,526)*	*(119,058)*	*(147,125)*	*(28,143)*
Mar. (2)	22,051	1,375,959	314,827	112,621	69,920	117,980	233,034	307,980	*54,542*
	(11,388)	*(710,624)*	*(162,594)*	*(58,164)*	*(36,111)*	*(60,932)*	*(120,352)*	*(159,058)*	*(28,168)*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Deposits in lire until December 1998. As of January 1999 the data also include deposits in euros and other euro-area

Table a23

Liabilities								*Memorandum item*	
Deposits of residents in lire/euros (3)	Bonds	Other domestic funds	Repurchase agreements	Interbank accounts	Funds raised abroad	Capital and reserves	Other items	Supervisory capital	
935,199	215,286	22,820	164,501	166,069	343,580	232,439	−15,885	*171,776*	Dec.– 1995
959,577	280,213	22,447	174,006	193,714	364,080	250,188	−7,918	*182,305*	” – 1996
881,329	377,743	25,898	172,454	200,333	392,738	257,052	−9,545	*187,485*	” – 1997
877,146	436,072	27,894	144,343	200,363	391,339	283,092	−1,942	*220,059*	” – 1998
884,448	435,351	24,508	151,893	174,327	425,607	286,542	−20,479	. . . .	Jan. – 1999
(456,779)	*(224,840)*	*(12,657)*	*(78,446)*	*(90,033)*	*(219,808)*	*(147,986)*	*(−10,576)*		
855,826	439,567	24,193	195,694	160,926	405,056	289,496	−32,452	. . . .	Feb.
(441,997)	*(227,017)*	*(12,495)*	*(101,067)*	*(83,111)*	*(209,194)*	*(149,512)*	*(−16,760)*		
856,070	442,555	24,056	165,135	152,438	402,995	293,988	−32,886	*222,841*	Mar.
(442,123)	*(228,561)*	*(12,424)*	*(85,285)*	*(78,727)*	*(208,129)*	*(151,832)*	*(−16,984)*	*(115,088)*	
868,072	445,915	23,902	158,523	162,796	390,684	296,187	−22,244	. . . .	Apr.
(448,322)	*(230,296)*	*(12,344)*	*(81,870)*	*(84,077)*	*(201,771)*	*(152,968)*	*(−11,488)*		
864,795	450,952	23,643	169,372	160,569	399,716	295,965	−30,728	. . . .	May
(446,629)	*(232,897)*	*(12,211)*	*(87,474)*	*(82,927)*	*(206,436)*	*(152,853)*	*(−15,870)*		
875,838	454,409	24,338	176,234	183,359	408,680	300,715	6,660	*233,019*	June
(452,333)	*(234,682)*	*(12,570)*	*(91,018)*	*(94,697)*	*(211,066)*	*(155,306)*	*(3,440)*	*(120,344)*	
862,333	451,694	22,959	183,048	153,583	424,866	300,888	−15,775	. . . .	July
(445,358)	*(233,281)*	*(11,857)*	*(94,536)*	*(79,319)*	*(219,425)*	*(155,396)*	*(−8,147)*		
841,141	452,139	24,777	190,702	160,053	429,346	302,251	−33,272	. . . .	Aug.
(434,413)	*(233,510)*	*(12,796)*	*(98,489)*	*(82,660)*	*(221,739)*	*(156,100)*	*(−17,183)*		
851,773	452,257	24,903	171,733	168,640	422,092	302,146	−18,157	*235,751*	Sept.
(439,904)	*(233,571)*	*(12,861)*	*(88,693)*	*(87,095)*	*(217,993)*	*(156,045)*	*(−9,377)*	*(121,755)*	
859,570	454,918	26,692	165,168	176,107	427,156	301,637	−19,470	. . . .	Oct.
(443,931)	*(234,946)*	*(13,875)*	*(85,302)*	*(90,952)*	*(220,608)*	*(155,782)*	*(−10,055)*		
839,371	458,333	27,491	160,867	182,992	443,063	304,096	31,065	. . . .	Nov.
(433,499)	*(236,709)*	*(14,198)*	*(83,081)*	*(94,507)*	*(228,823)*	*(157,053)*	*(16,044)*		
898,924	456,517	26,292	172,352	210,532	445,748	313,433	−28,351	*247,251*	Dec.
(464,255)	*(235,772)*	*(13,579)*	*(89,012)*	*(108,731)*	*(230,209)*	*(161,875)*	*(−14,642)*	*(127,695)*	
895,125	457,608	28,879	153,407	214,063	441,293	324,274	−27,637	. . . .	(2) Jan. – 2000
(462,293)	*(236,335)*	*(14,915)*	*(79,228)*	*(110,554)*	*(227,909)*	*(167,473)*	*(−14,273)*		
881,849	463,055	26,225	169,283	222,721	441,261	327,461	−35,017	. . . .	(2) Feb.
(455,437)	*(239,148)*	*(13,544)*	*(87,428)*	*(115,026)*	*(227,892)*	*(169,120)*	*(−18,085)*		
884,410	472,480	26,983	197,342	214,273	460,637	335,569	−37,322	256,836	(2) Mar.
(456,759)	*(244,015)*	*(13,936)*	*(101,919)*	*(110,663)*	*(237,899)*	*(173,307)*	*(−19,275)*	*(132,645)*	

currencies.

BANKS: LOAN PORTFOLIO (1)
(billions of lire and, in brackets, millions of euros)

	Loans to residents						Loans to non-residents
	Short-term		Medium and long-term		Total		
		of which: in lire/euros (3)		*of which: in lire/euros* (3)		*of which: in lire/euros* (3)	
1995 – Dec.	556,942	496,539	516,468	472,383	1,073,410	968,922	16,124
1996 – ”	556,364	502,124	534,565	498,854	1,090,928	1,000,978	17,854
1997 – ”	590,716	530,778	570,200	540,684	1,160,916	1,071,462	23,181
1998 – ”	623,879	561,374	606,527	580,824	1,230,406	1,142,198	27,309
1999 – Jan.	630,444	595,056	604,194	595,096	1,234,638	1,190,151	25,936
	(325,597)	*(307,321)*	*(312,040)*	*(307,341)*	*(637,637)*	*(614,662)*	*(13,395)*
Feb.	620,366	582,895	608,455	599,615	1,228,822	1,182,511	25,440
	(320,393)	*(301,040)*	*(314,241)*	*(309,676)*	*(634,633)*	*(610,716)*	*(13,138)*
Mar.	616,400	577,889	615,875	607,222	1,232,275	1,185,111	25,682
	(318,344)	*(298,455)*	*(318,073)*	*(313,604)*	*(636,417)*	*(612,059)*	*(13,264)*
Apr.	614,654	575,135	623,320	615,326	1,237,975	1,190,461	26,576
	(317,442)	*(297,032)*	*(321,918)*	*(317,789)*	*(639,361)*	*(614,822)*	*(13,726)*
May	608,317	567,564	631,478	623,055	1,239,795	1,190,619	27,043
	(314,169)	*(293,122)*	*(326,131)*	*(321,781)*	*(640,300)*	*(614,903)*	*(13,966)*
June	639,424	597,433	640,743	632,806	1,280,167	1,230,239	28,434
	(330,235)	*(308,549)*	*(330,916)*	*(326,817)*	*(661,151)*	*(635,366)*	*(14,685)*
July	644,173	603,115	644,218	636,484	1,288,390	1,239,599	26,219
	(332,687)	*(311,483)*	*(332,711)*	*(328,716)*	*(665,398)*	*(640,199)*	*(13,541)*
Aug.	627,875	587,182	648,426	641,006	1,276,301	1,228,188	25,518
	(324,270)	*(303,254)*	*(334,884)*	*(331,052)*	*(659,154)*	*(634,306)*	*(13,179)*
Sept.	624,130	583,674	654,461	646,079	1,278,591	1,229,753	26,819
	(322,336)	*(301,443)*	*(338,001)*	*(333,672)*	*(660,337)*	*(635,115)*	*(13,851)*
Oct.	621,085	581,341	662,228	653,881	1,283,313	1,235,222	27,437
	(320,764)	*(300,238)*	*(342,012)*	*(337,701)*	*(662,776)*	*(637,939)*	*(14,170)*
Nov.	661,335	617,515	669,971	661,573	1,331,306	1,279,088	30,083
	(341,551)	*(318,920)*	*(346,011)*	*(341,674)*	*(687,562)*	*(660,594)*	*(15,537)*
Dec.	666,589	625,205	680,336	671,915	1,346,926	1,297,119	32,031
	(344,265)	*(322,891)*	*(351,364)*	*(347,015)*	*(695,629)*	*(669,906)*	*(16,543)*
2000 – Jan. (2)	682,312	637,877	674,331	666,010	1,356,644	1,303,887	29,626
	(352,385)	*(329,436)*	*(348,263)*	*(343,966)*	*(700,648)*	*(673,402)*	*(15,301)*
Feb. (2)	684,209	638,506	680,341	671,923	1,364,550	1,310,429	30,450
	(353,364)	*(329,761)*	*(351,367)*	*(347,019)*	*(704,731)*	*(676,780)*	*(15,726)*
Mar. (2)	688,100	639,925	687,859	678,731	1,375,959	1,318,656	31,611
	(355,374)	*(330,494)*	*(355,250)*	*(350,535)*	*(710,624)*	*(681,029)*	*(16,326)*

(1) Rounding may cause discrepancies in totals. – (2) Provisional. – (3) Loans in lire until December 1998. As of January 1999, the data also include loans in euros and other euro-area currencies.

Table a25

BANKS: SECURITIES PORTFOLIO (1)
(billions of lire and, in brackets, millions of euros)

	Government securities					Other		Total
		of which:					*of which: bonds issued by banks*	
		BOTs and BTEs	*CTZs*	*CCTs*	*BTPs*			
1995 – Dec.	301,552	44,650	10,222	133,268	107,090	50,708	47,576	352,260
1996 – ”	334,173	52,957	19,636	155,306	99,331	49,411	47,050	383,583
1997 – ”	296,481	32,094	18,661	154,455	86,220	46,925	43,491	343,406
1998 – ”	288,088	45,265	20,256	134,790	83,901	59,035	54,580	347,123
1999 – Jan.	288,136	48,797	20,478	131,239	83,734	57,864	53,444	346,000
	(148,810)	*(25,202)*	*(10,576)*	*(67,779)*	*(43,245)*	*(29,884)*	*(27,601)*	*(178,694)*
Feb.	298,357	45,671	23,906	132,154	92,253	58,759	53,064	357,116
	(154,088)	*(23,587)*	*(12,346)*	*(68,252)*	*(47,645)*	*(30,347)*	*(27,405)*	*(184,435)*
Mar.	288,616	40,567	21,840	128,542	94,300	58,767	54,168	347,383
	(149,057)	*(20,951)*	*(11,279)*	*(66,387)*	*(48,702)*	*(30,351)*	*(27,975)*	*(179,408)*
Apr.	280,074	41,358	23,680	123,587	88,174	59,276	54,406	339,351
	(144,646)	*(21,360)*	*(12,230)*	*(63,827)*	*(45,538)*	*(30,614)*	*(28,098)*	*(175,260)*
May	281,475	41,451	20,942	121,931	93,892	60,993	56,047	342,468
	(145,370)	*(21,408)*	*(10,816)*	*(62,972)*	*(48,491)*	*(31,500)*	*(28,946)*	*(176,870)*
June	285,648	41,318	20,897	121,144	98,343	63,019	58,247	348,666
	(147,525)	*(21,339)*	*(10,793)*	*(62,566)*	*(50,790)*	*(32,546)*	*(30,082)*	*(180,071)*
July	284,959	38,238	21,279	123,889	97,989	62,176	57,435	347,135
	(147,169)	*(19,748)*	*(10,990)*	*(63,983)*	*(50,607)*	*(32,111)*	*(29,662)*	*(179,280)*
Aug.	282,099	37,459	18,935	123,086	97,462	61,811	57,095	343,910
	(145,692)	*(19,346)*	*(9,779)*	*(63,569)*	*(50,335)*	*(31,923)*	*(29,487)*	*(177,615)*
Sept.	285,577	38,787	19,800	123,171	98,749	63,994	58,298	349,571
	(147,488)	*(20,032)*	*(10,226)*	*(63,612)*	*(51,000)*	*(33,050)*	*(30,108)*	*(180,539)*
Oct.	288,545	38,689	19,243	125,683	100,087	63,897	58,218	352,442
	(149,021)	*(19,981)*	*(9,938)*	*(64,910)*	*(51,691)*	*(33,000)*	*(30,067)*	*(182,021)*
Nov.	272,178	34,478	20,266	120,987	91,523	64,419	58,588	336,598
	(140,568)	*(17,806)*	*(10,467)*	*(62,484)*	*(47,268)*	*(33,270)*	*(30,258)*	*(173,838)*
Dec.	259,603	30,316	17,004	120,383	87,104	64,679	57,944	324,282
	(134,074)	*(15,657)*	*(8,782)*	*(62,173)*	*(44,986)*	*(33,404)*	*(29,925)*	*(167,478)*
2000 – Jan. (2)	251,331	27,230	16,766	118,582	83,985	64,354	57,651	315,686
	(129,802)	*(14,063)*	*(8,659)*	*(61,242)*	*(43,374)*	*(33,236)*	*(29,774)*	*(163,038)*
Feb. (2)	248,583	27,869	18,907	113,304	83,786	64,550	57,663	313,132
	(128,382)	*(14,393)*	*(9,765)*	*(58,517)*	*(43,272)*	*(33,337)*	*(29,780)*	*(161,719)*
Mar. (2)	243,457	26,297	19,604	112,511	80,414	71,369	64,622	314,827
	(125,735)	*(13,581)*	*(10,124)*	*(58,107)*	*(41,531)*	*(36,859)*	*(33,374)*	*(162,594)*

(1) Rounding may cause discrepancies in totals. – (2) Provisional.

Table a26

PROFIT AND LOSS ACCOUNTS OF BANKS BY CATEGORY OF BANK (1)
(billions of lire)

	Interest receivable						Interest payable							
	Deposits with BI-UIC & Treasury	Domestic lending (2)	Securities	Interbank accounts (2)	Repos (2)	Claims on non-residents & on residents in foreign currency (3)	Deposits (2)	BI-UIC financing	Interbank accounts (2)	Repos (2)	Bonds and subordinated liabilities	Liabilities to non-residents & to residents in foreign currency (3)	Balance of derivative hedging contracts	Net interest income (a)
														Limited company
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 . . .	4,242	104,942	28,552	6,292	1,905	19,810	46,674	430	7,717	12,080	23,200	21,468	−1,740	52,435
1996 . . .	3,596	104,601	27,099	7,206	1,745	18,410	47,832	173	8,440	11,405	23,678	17,790	−1,681	51,656
1997 . . .	3,635	90,690	21,131	5,659	1,164	19,736	34,838	87	6,564	9,354	24,514	17,442	−244	48,971
1998 . . .	2,849	80,970	15,902	4,886	1,882	17,693	21,879	67	5,340	7,275	24,391	16,913	712	49,027
1999 (4)	722	68,635	10,500	3,227	1,486	12,941	12,102	16	3,568	3,823	20,464	13,762	2,170	45,946
														Cooperative banks
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 . . .	811	15,495	6,361	1,500	277	2,001	9,085	20	1,251	2,575	619	1,607	−273	11,016
1996 . . .	638	15,744	5,576	1,655	413	1,644	9,051	19	1,115	2,455	971	1,258	−353	10,447
1997 . . .	672	14,207	4,322	1,471	409	1,825	6,581	9	895	2,039	1,924	1,351	−226	9,880
1998 . . .	475	12,475	3,003	1,074	488	1,829	3,887	8	713	1,414	2,416	1,615	−96	9,195
1999 (4)	106	10,225	1,881	549	143	1,574	1,971	2	432	531	1,948	1,310	4	8,287
														Main mutual banks
1994 . . .	10	434	389	74	3	14	379	. .	5	124	. .	10	−1	404
1995 . . .	12	517	407	86	3	14	393	1	5	162	. .	10	−3	466
1996 . . .	12	570	398	102	10	9	429	1	4	159	12	5	. .	490
1997 . . .	15	548	340	69	8	13	331	1	6	108	78	6	−3	462
1998 . . .	18	533	268	53	4	25	221	0	7	71	112	9	−3	478
1999 (4)	9	484	201	26	1	28	129	0	5	26	99	9	−2	479
														Central credit
1994 . . .	7	316	882	495	5	339	54	37	868	191	12	396	−55	431
1995 . . .	24	294	998	598	10	428	65	50	1,141	253	13	433	−9	387
1996 . . .	32	242	1,068	863	43	340	66	43	1,503	213	31	373	−15	343
1997 . . .	33	192	827	714	127	325	69	33	1,132	232	91	345	4	320
1998 . . .	36	163	529	500	57	474	111	21	737	136	92	380	23	304
1999 (4)	53	107	402	179	58	350	50	3	351	120	73	294	25	282
														Branches of
1994 . . .	25	892	1,439	568	386	1,819	49	7	922	872	. .	2,354	−315	610
1995 . . .	29	1,215	1,465	819	315	2,753	101	12	1,051	814	. .	3,713	−318	589
1996 . . .	27	1,342	1,765	705	442	2,552	123	4	1,278	711	. .	3,783	−249	684
1997 . . .	29	1,219	1,465	554	577	2,980	70	5	1,334	669	. .	3,823	−378	545
1998 . . .	22	1,101	2,170	1,159	624	1,998	143	2	1,276	869	. .	3,915	−496	372
1999 (4)	24	563	465	246	79	1,030	28	2	209	62	. .	1,619	−41	446
														Total
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 . . .	5,118	122,463	37,783	9,295	2,511	25,006	56,318	512	11,165	15,882	23,831	27,230	−2,343	64,893
1996 . . .	4,305	122,500	35,906	10,531	2,653	22,954	57,501	241	12,341	14,944	24,692	23,209	−2,299	63,621
1997 . . .	4,384	106,856	28,085	8,468	2,284	24,878	41,889	135	9,932	12,401	26,606	22,967	−848	60,179
1998 . . .	3,400	95,243	21,872	7,672	3,054	22,019	26,241	99	8,073	9,765	27,012	22,833	140	59,376
1999 (4)	914	80,013	13,449	4,226	1,767	15,922	14,279	23	4,566	4,561	22,584	16,995	2,156	55,440

(1) Rounding may cause discrepancies in totals. – (2) In lire until 1998. In euros and the various currency denominations of the euro in 1999. – (3) For residents: in currencies

Table a26

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													
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
16,680	4,640	5,137	69,115	47,854	30,830	21,260	16,199	14,178	5,969	−909	1,969,625	275,133	271,085
21,350	7,544	6,176	73,006	49,496	32,233	23,510	15,096	10,459	5,898	2,516	2,039,757	269,351	265,441
23,479	5,793	8,990	72,451	50,424	31,816	22,027	16,951	14,044	5,837	−761	2,137,814	264,610	260,903
32,628	7,054	14,441	81,655	49,409	30,608	32,247	11,675	11,404	10,085	10,486	2,250,539	260,749	256,812
39,077	3,609	17,625	85,023	50,746	30,496	34,277	9,063	10,407	9,789	15,425	2,345,202	257,127	253,287
(banche popolari)													
3,392	1,103	1,220	12,868	8,360	5,196	4,507	2,405	1,684	1,098	1,004	289,411	51,861	51,368
3,427	1,050	1,273	14,442	9,151	5,592	5,291	2,430	2,025	1,708	1,153	320,011	56,826	56,384
4,014	1,617	1,310	14,461	9,076	5,622	5,385	2,017	1,580	1,784	1,584	323,569	52,157	51,733
4,742	1,653	1,839	14,622	9,502	5,783	5,121	1,989	1,519	1,505	1,626	356,377	51,594	51,520
6,325	1,583	2,940	15,520	9,092	5,401	6,428	2,514	1,528	1,926	1,988	374,520	50,023	49,630
5,933	755	3,219	14,221	8,805	5,145	5,416	1,964	1,419	1,514	1,938	378,131	48,088	47,704
(banche di credito cooperativo)													
106	34	19	510	332	197	178	62	27	7	109	10,234	2,030	2,030
102	40	20	568	369	213	199	33	31	8	158	10,909	2,100	2,100
155	85	23	645	404	229	240	39	37	18	183	12,012	2,175	2,175
170	83	35	632	432	245	200	33	34	4	162	13,429	2,228	2,228
254	127	66	732	479	262	252	63	52	41	148	14,533	2,449	2,449
237	83	87	716	504	272	212	76	40	35	101	16,260	2,554	2,554
institutions													
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
370	187	154	714	404	200	310	133	88	88	89	37,410	1,543	1,543
414	201	174	735	418	208	316	244	114	67	5	39,729	1,543	1,543
431	180	224	735	418	197	317	129	35	85	103	38,677	1,598	1,598
504	152	236	786	413	187	373	608	−4	63	−298	37,438	1,544	1,544
foreign banks													
265	−102	269	875	548	268	327	−22	53	187	162	67,065	1,909	1,909
302	229	35	892	561	305	330	−43	53	233	141	76,351	1,852	1,852
153	85	−62	837	596	332	241	−82	64	169	154	91,650	1,822	1,822
223	96	78	768	630	346	138	−151	64	170	119	110,864	1,883	1,883
184	25	25	556	725	392	−168	−563	69	134	261	128,676	1,913	1,913
763	14	444	1,208	924	393	285	−465	43	303	446	67,281	1,705	1,705
banks													
21,053	6,122	7,056	81,217	55,684	36,070	25,533	18,947	11,940	5,399	1,188	2,363,863	338,488	333,157
20,796	6,081	6,596	85,690	58,340	37,133	27,349	18,728	16,386	7,992	629	2,408,554	337,456	332,966
26,042	9,518	7,603	89,662	59,976	38,617	29,686	17,202	12,228	7,957	4,528	2,504,398	327,048	322,714
29,029	7,826	11,116	89,208	61,406	38,398	27,801	19,067	15,775	7,583	1,151	2,658,212	321,858	318,077
39,822	8,968	17,695	99,198	60,122	36,860	39,076	13,819	13,088	12,271	12,986	2,806,945	316,732	312,402
46,515	4,613	21,611	101,955	61,393	36,493	40,562	11,246	11,904	11,703	17,613	2,844,312	311,018	306,794

other than the lira and the various currency denominations of the euro in 1999.

Table a27

FINANCIAL MARKET: GROSS AND NET ISSUES OF SECURITIES
(billions of lire and, in brackets, billions of euros)

	Bonds and government							
	Public sector							
	Government securities							Autonomous government agencies and State Railways
	Treasury bills	Zero-coupon Treasury certificates	Floating rate Treasury credit certificates (1)	Treasury bonds (1)	Treasury certificates in ecus	Other (2)	Total	
								Gross
1993	737,345	–	56,000	166,452	12,838	16,685	989,322	–
1994	679,500	–	60,767	167,574	17,665	81,801	1,007,306	4,000
1995	714,250	47,217	122,810	118,484	6,769	3,165	1,012,695	–
1996	665,023	59,924	105,945	148,917	3,913	10,395	994,117	4,000
1997	506,000	105,905	64,404	190,596	–	168	867,073	–
1998	425,768	97,779	42,502	261,441	–	38	827,527	–
1999	373,493	95,068	39,823	275,239	–	–	783,623	–
	(192,893)	*(49,099)*	*(20,567)*	*(142,149)*	*(–)*	*(–)*	*(404,708)*	*(–)*
								Rede
1993	730,866	–	34,387	27,521	13,719	16,801	823,293	2,000
1994	660,346	–	22,200	55,523	14,140	19,414	771,624	27
1995	715,750	–	148,917	15,844	14,797	10,746	906,054	1,200
1996	692,476	–	76,258	92,255	8,600	20,181	889,769	1,000
1997	588,310	54,275	56,213	120,963	4,354	19,923	844,038	–
1998	461,250	84,576	84,973	119,921	12,448	25,680	788,848	5,000
1999	408,600	107,300	92,850	127,323	18,879	8,192	763,144	1,000
	(211,024)	*(55,416)*	*(47,953)*	*(65,757)*	*(9,750)*	*(4,231)*	*(394,131)*	*(516)*
								Issue
1993	–	–	915	446	−225	−35	1,102	–
1994	–	–	938	7,592	788	–	9,317	–
1995	–	8,918	2,763	6,715	135	–	18,531	–
1996	–	8,409	−773	−990	48	–	6,693	–
1997	–	10,146	209	1,043	–	–	11,398	–
1998	–	6,605	−374	−7,823	–	–	−1,593	–
1999	–	4,864	−304	1,057	–	–	5,617	–
	(–)	*(2,512)*	*(−157)*	*(546)*	*(–)*	*(–)*	*(2,901)*	*(–)*
								Net
1993	6,480	–	20,698	138,485	−656	−80	164,927	−2,000
1994	19,155	–	37,629	104,458	2,736	62,386	226,363	3,973
1995	−1,500	38,299	−28,870	95,925	−8,163	−7,581	88,109	−1,200
1996	−27,453	51,515	30,460	57,652	−4,734	−9,786	97,655	3,000
1997	−82,310	41,484	7,982	68,590	−4,354	−19,755	11,637	–
1998	−35,482	6,598	−42,097	149,343	−12,448	−25,642	40,272	−5,000
1999	−35,107	−17,097	−52,723	146,858	−18,879	−8,192	14,861	−1,000
	(−18,131)	*(−8,830)*	*(−27,229)*	*(75,846)*	*(−9,750)*	*(−4,231)*	*(7,675)*	*(−516)*
								Cou
1993	40,959	–	69,167	39,387	5,121	10,146	164,780	1,369
1994	34,957	–	56,695	52,496	4,968	9,711	158,827	1,041
1995	41,250	–	58,837	61,265	4,879	9,320	175,551	1,114
1996	31,079	–	60,460	67,570	3,804	8,352	171,265	1,129
1997	18,669	10,471	48,894	70,695	3,138	6,018	157,885	876
1998	11,740	6,605	36,504	72,062	2,691	2,982	132,584	520
1999	7,269	4,864	22,010	72,358	1,755	1,593	109,848	444
	(3,754)	*(2,512)*	*(11,367)*	*(37,370)*	*(906)*	*(823)*	*(56,732)*	*(229)*

(1) The 1993 issues include 10,000 billion lire of CCTs and 21,000 billion of BTPs placed with the Bank of Italy in December to finance the new Treasury payments account. – (2) Includes:
issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy; excludes Republic of Italy loans. – (3) The total for the public sector differs
by Autostrade-IRI. – (5) Gross issues for cash. The figure for 1999 is provisional.

Table a27

securities											
			Firms and international institutions								
Crediop on behalf of Treasury	Total (3)	Banks	ENEL	IRI ENI EFIM	Private firms	International institutions	Total (4)	Total bonds and government securities	Listed shares (5)		
issues											
–	989,322	44,185	2,111	1,000	1,289	–	4,950	1,038,457	15,230	....	1993
–	1,011,306	43,252	114	–	3,421	650	4,285	1,058,843	12,892	....	1994
–	1,012,695	28,355	117	–	963	1,000	2,080	1,043,130	8,515	....	1995
–	998,356	97,075	121	–	1,302	2,500	3,923	1,099,354	5,506	....	1996
–	867,847	148,240	124	–	1,422	5,640	7,186	1,023,273	7,933	....	1997
–	828,622	135,981	62	–	1,053	1,600	2,715	967,318	13,648	....	1998
–	788,203	157,708	4,312	–	18,650	581	23,542	969,453	41,372	....	1999
(–)	*(407,073)*	*(81,449)*	*(2,227)*	*(–)*	*(9,632)*	*(300)*	*(12,158)*	*(500,681)*	*(21,367)*		
mptions											
309	825,612	17,606	3,966	1,775	930	603	7,274	850,493	–	....	1993
74	771,730	20,705	2,174	2,669	1,030	460	6,333	798,768	–	....	1994
49	907,304	28,745	1,250	2,754	103	465	4,572	940,621	–	....	1995
40	890,809	32,148	800	467	–	250	1,517	924,475	–	....	1996
8	844,062	50,710	800	2,221	–	650	3,671	898,443	–	....	1997
–	793,921	77,652	1,300	24	–	500	1,874	873,447	–	....	1998
–	764,298	137,263	1,150	31	7,761	1,150	10,142	911,703	–	....	1999
(–)	*(394,727)*	*(70,890)*	*(594)*	*(16)*	*(4,008)*	*(594)*	*(5,238)*	*(470,855)*			
discounts											
–	1,102	365	17	–	–	–	17	1,484	–	....	1993
–	9,317	288	–	–	–	–	22	9,627	–	....	1994
–	18,531	131	–	–	–	–	–	18,662	–	....	1995
–	6,694	211	–	–	–	1,201	1,201	8,105	–	....	1996
–	11,398	302	–	–	–	1,493	1,493	13,192	–	....	1997
–	–1,593	601	–	–	–	–	–	–992	–	....	1998
–	5,617	620	6	–	12	–	18	6,255	–	....	1999
(–)	*(2,901)*	*(320)*	*(3)*	*(–)*	*(6)*	*(–)*	*(9)*	*(3,230)*			
issues											
–309	162,608	26,213	–1,872	–775	359	–603	–2,341	186,480	15,230	....	1993
–74	230,258	22,259	–2,060	–2,669	2,391	190	–2,070	250,447	12,892	....	1994
–49	86,859	–521	–1,133	–2,754	860	535	–2,492	83,847	8,515	....	1995
–40	100,854	64,715	–679	–467	1,302	1,049	1,205	166,774	5,506	....	1996
–8	12,388	97,228	–676	–2,221	1,422	3,498	2,022	111,638	7,933	....	1997
–	36,294	57,728	–1,239	–24	1,053	1,100	841	94,863	13,648	....	1998
–	18,288	19,827	3,155	–31	10,877	–569	13,368	51,483	41,372	....	1999
(–)	*(9,445)*	*(10,240)*	*(1,630)*	*(–16)*	*(5,611)*	*(–294)*	*(6,904)*	*(26,589)*	*(21,367)*		
pons											
27	166,176	21,696	2,464	1,405	....	261	4,176	192,049	6,468	....	1993
9	159,877	20,395	1,367	952	....	183	2,561	182,834	5,105	....	1994
6	176,671	22,876	1,255	707	....	196	2,221	201,768	6,180	....	1995
6	172,400	23,317	1,130	459	....	142	1,833	197,550	9,786	....	1996
5	158,783	25,294	875	212	....	207	1,353	185,430	12,112	....	1997
4	136,463	25,519	646	93	....	228	967	162,949	13,601	....	1998
–	110,293	21,170	664	18	....	261	943	132,406	16,593	....	1999
(–)	*(56,962)*	*(10,933)*	*(343)*	*(10)*	*(. . . .)*	*(135)*	*(488)*	*(68,382)*	*(8,570)*		

securities issued by the Treasury to consolidate past debts; Treasury discount certificates, option certificates and bills in ecus; ordinary certificates and the 76,206 billion lire of securities
from the sum of the individual components by the amount of bond issues by local authorities. – (4) The total differs from the sum of the individual components by the amount of bond issues

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	Enterprises	International institutions	Total (1)
1990	12.84	10.89	13.22	13.49	–	13.34	12.49	11.93	12.28
1991	12.60	10.09	12.91	13.14	–	12.96	11.62	11.40	11.79
1992	14.98	10.20	13.20	13.59	–	13.37	12.73	11.66	12.63
1993	11.77	7.81	11.12	11.32	–	11.28	10.90	10.02	11.09
1994	9.97	7.64	10.53	10.68	–	10.14	10.55	9.83	10.15
1995	11.60	8.82	11.64	11.94	11.40	11.58	11.35	11.00	11.45
1996	9.01	6.33	8.77	9.06	8.49	9.20	9.08	9.46	9.09
1997	6.81	5.42	7.17	6.76	6.45	7.41	7.07	7.17	7.14
1998	4.89	4.87	7.01	4.92	4.58	5.45	5.71	5.87	5.55
1999	3.13	4.35	–	4.71	3.21	4.80	5.49	6.32	5.19
1998 – Jan.	5.60	5.12	6.76	5.44	5.26	6.35	5.85	5.74	5.99
Feb.	5.98	5.00	6.84	5.37	5.45	6.52	6.09	5.82	6.18
Mar.	5.54	5.57	6.78	5.17	5.03	6.10	6.07	5.76	6.01
Apr.	5.17	5.63	7.67	5.13	4.90	5.68	6.03	5.64	5.76
May	5.04	5.51	–	5.17	4.80	5.56	6.04	5.74	5.71
June	4.98	5.30	–	5.07	4.83	5.52	5.97	6.14	5.72
July	4.89	5.00	–	4.97	4.57	5.26	5.66	6.12	5.49
Aug.	4.72	4.73	–	4.81	4.50	5.21	5.57	6.08	5.45
Sept.	4.65	4.48	–	4.62	4.37	5.14	5.45	5.96	5.36
Oct.	4.39	4.08	–	4.59	4.06	4.78	5.33	5.86	5.07
Nov.	4.13	4.09	–	4.52	3.78	4.69	5.24	5.89	5.01
Dec.	3.66	3.95	–	4.18	3.33	4.56	5.16	5.68	4.88
1999 – Jan.	3.11	4.12	–	4.03	3.03	4.31	4.88	5.54	4.64
Feb.	3.18	4.73	–	4.13	3.07	4.42	5.00	5.65	4.76
Mar.	3.20	4.26	–	4.31	3.07	4.57	5.18	5.73	4.92
Apr.	3.01	4.56	–	4.14	2.77	4.37	4.96	5.62	4.67
May	2.73	4.22	–	4.24	2.72	4.37	5.02	5.73	4.70
June	2.78	4.33	–	4.57	2.92	4.61	5.44	5.98	4.98
July	2.94	4.26	–	4.83	3.12	4.91	5.52	6.40	5.26
Aug.	3.07	3.51	–	5.07	3.28	5.02	5.67	6.56	5.39
Sept.	3.12	4.17	–	5.21	3.32	5.13	5.85	6.66	5.51
Oct.	3.24	4.47	–	5.46	3.70	5.33	6.14	7.02	5.77
Nov.	3.61	4.71	–	5.25	3.71	5.24	5.02	7.31	5.73
Dec.	3.59	4.85	–	5.34	3.85	5.36	6.16	7.61	5.88
2000 – Jan.	3.66	5.45	–	5.62	3.95	5.60	6.42	7.90	6.13
Feb.	3.78	5.59	–	5.60	4.09	5.69	6.39	7.82	6.17
Mar.	3.98	5.75	–	5.49	4.23	5.66	6.32	7.71	6.12
Apr.	4.21	5.79	–	5.43	4.30	5.57	6.33	7.71	6.05

(1) Until September 1995 includes the bonds issued by autonomous government agencies and public enterprises.

Table a29

BANK INTEREST RATES (1)

	Deposits (2)						Loans (2)		New medium & long-term loans to enterprises (7)	New medium & long-term loans to consumer households (7)	ABI prime rate (8)
				Certificates of deposit							
	Average: current accounts	Overall average	Maximum (3)	Overall average	Maturities up to 6 months (4)	Maturities from 18 to 24 months (5)	Overall average	Minimum (6)			
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
1996	5.26	6.49	7.92	8.61	7.48	7.76	12.06	9.00	10.68	12.91	10.95
1997	3.73	4.83	6.11	7.29	5.43	5.33	9.75	6.79	8.26	10.65	9.21
1998	2.50	3.16	4.70	5.72	4.00	3.80	7.88	5.11	6.22	7.84	7.71
1999	1.18	1.61	2.73	4.23	2.32	2.62	5.58	2.94	4.46	5.66	5.86
1998 – Jan.	3.08	3.90	5.36	6.49	4.60	4.38	8.83	5.94	7.18	9.52	8.25
Feb.	2.93	3.74	5.22	6.32	4.49	4.21	8.69	5.88	7.29	9.20	8.25
Mar.	2.94	3.68	5.21	6.18	4.44	4.16	8.51	5.76	6.77	8.89	8.25
Apr.	2.78	3.48	5.02	6.02	4.28	4.09	8.33	5.53	6.66	8.62	7.88
May	2.51	3.21	4.69	5.87	4.07	3.90	8.12	5.32	6.46	8.20	7.88
June	2.53	3.16	4.73	5.72	4.01	3.84	7.89	5.14	6.19	7.61	7.88
July	2.47	3.08	4.64	5.60	3.97	3.77	7.73	4.99	6.15	7.39	7.88
Aug.	2.37	2.97	4.57	5.49	3.86	3.68	7.59	4.88	6.06	7.61	7.88
Sept.	2.37	2.94	4.57	5.40	3.87	3.69	7.55	4.85	6.01	7.24	7.88
Oct.	2.36	2.89	4.56	5.30	3.83	3.58	7.48	4.77	5.81	6.92	7.25
Nov.	1.97	2.55	4.12	5.18	3.47	3.30	7.17	4.41	5.57	6.68	6.88
Dec.	1.70	2.29	3.72	5.05	3.11	3.04	6.70	3.80	4.53	6.17	6.38
1999 – Jan.	1.44	2.00	3.25	4.88	2.68	2.77	6.28	3.36	4.78	6.13	5.88
Feb.	1.31	1.85	3.02	4.70	2.53	2.70	6.08	3.23	4.61	6.04	5.88
Mar.	1.31	1.82	2.99	4.56	2.50	2.67	5.85	3.18	4.49	5.98	5.88
Apr.	1.25	1.73	2.84	4.41	2.43	2.61	5.72	3.05	4.37	5.66	5.75
May	1.09	1.56	2.58	4.29	2.22	2.45	5.51	2.83	4.16	5.56	5.75
June	1.09	1.51	2.52	4.19	2.15	2.41	5.37	2.76	4.06	5.43	5.75
July	1.08	1.48	2.51	4.11	2.15	2.41	5.32	2.73	4.11	5.22	5.75
Aug.	1.07	1.46	2.49	4.03	2.15	2.41	5.27	2.75	4.51	5.58	5.75
Sept.	1.08	1.45	2.51	3.99	2.18	2.51	5.25	2.74	4.38	5.56	5.75
Oct.	1.09	1.44	2.52	3.93	2.22	2.64	5.30	2.76	4.71	5.61	5.75
Nov.	1.13	1.46	2.63	3.88	2.30	2.87	5.51	2.90	4.77	5.61	6.25
Dec.	1.22	1.52	2.88	3.85	2.40	2.99	5.55	3.03	4.58	5.50	6.25
2000 – Jan.	1.30	1.56	3.07	3.81	2.43	2.97	5.57	3.14	4.73	5.59	6.25
Feb.	1.28	1.54	3.02	3.75	2.47	3.06	5.64	3.21	5.02	5.91	6.50
Mar.	1.34	1.58	3.13	3.72	2.54	3.14	5.71	3.31	4.93	5.96	6.75

(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. – (3) Rate applied to the last decile of freely available deposits in lire (and from January 1999 onwards in other euro-area currencies) 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 CDs in lire (and from January 1999 onwards in other euro-area currencies) with an original maturity of between 18 and 24 months. – (6) Rate applied to the first decile of short-term loans in lire (and from January 1999 onwards in other euro-area currencies) 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.

Table a30

ITALY’S FINANCIAL ASSETS AND LIABILITIES IN 1999 (1)

(stocks in billions of lire)

Institutional sectors / Financial instruments	Non-financial corporations		Financial corporations: Monetary financial institutions		Financial corporations: Other financial intermediaries		Financial corporations: Financial auxiliaries		Financial corporations: Insurance corporations and pension funds	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Monetary gold and SDRs	**–**	**–**	**44,514**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency and transferable deposits, with:	**161,806**	**–**	**116,728**	**1,145,535**	**65,978**	**–**	**4,667**	**–**	**6,527**	**–**
MFIs	161,806	–	96,075	1,145,535	65,978	–	4,667	–	6,527	–
central government	..	–	673	–	–	–	–	–	–	–
rest of the world	–	–	19,980	–	–	–	–	–	–	–
Other deposits, with	**14,198**	**–**	**349,197**	**720,168**	**24,274**	**–**	**483**	**–**	**2,352**	**–**
MFIs	12,446	–	233,447	720,168	24,274	–	483	–	2,352	–
central government	1,752	–	–	–	–	–	–	–	–	–
rest of the world	–	–	115,749	–	–	–	–	–	–	–
Short-term securities, issued by	**4,080**	**4,820**	**43,576**	**61**	**32,058**	**132**	**12**	**–**	**5,512**	**–**
general government	675	–	30,944	–	16,321	–	12	–	4,227	–
other residents	9	4,820	3,992	61	228	132	–	–	–	–
rest of the world	3,396	–	8,641	–	15,510	–	–	–	1,284	–
Bonds, issued by	**84,825**	**30,347**	**496,228**	**456,517**	**610,808**	**15,483**	**4,666**	**–**	**236,479**	**1,520**
MFIs	16,328	–	60,303	456,517	14,093	–	680	–	30,691	–
central government: CCTs	13,307	–	130,723	–	82,774	–	1,660	–	34,684	–
central government: other	16,257	–	246,685	–	248,395	–	2,302	–	125,893	–
local government	23	–	3,666	–	1,342	–	..	–	76	–
other residents	520	30,347	3,873	–	4,235	15,483	25	–	8,350	1,520
rest of the world	38,390	–	50,977	–	259,968	–	–	–	36,786	–
Derivatives	**....**	**....**	**....**	**....**	**....**	**....**	**–**	**–**	**–**	**–**
Short-term loans, of	**55,573**	**585,344**	**817,780**	**81,286**	**90,347**	**186,291**	**–**	**7,765**	**–**	**1,401**
non-financial corporations	55,573	–	–	–	–	–	–	–	–	–
MFIs	–	432,344	817,780	12,352	–	151,185	–	7,765	–	1,401
other financial corporations	–	34,749	–	3,300	90,347	–	–	–	–	..
general government	–	–	–	–	–	–	–	–	–	–
rest of the world	–	118,251	–	65,634	–	35,107	–	–	–	–
Medium and long-term loans, of	**–**	**445,394**	**845,009**	**106,785**	**90,955**	**39,903**	**11**	**1,093**	**2,029**	**7,460**
non-financial corporations	–	–	–	–	–	–	–	–	–	–
MFIs	–	349,209	845,009	42,464	–	37,390	–	388	–	4,327
other financial corporations	–	56,290	–	943	90,955	–	11	–	2,029	147
general government	–	39,896	–	3,991	–	–	–	704	–	1,873
rest of the world	–	..	–	59,387	–	2,513	–	–	–	1,113
Shares and other equity, issued by	**664,086**	**1,808,603**	**133,232**	**486,865**	**456,893**	**104,610**	**–**	**–**	**141,064**	**253,304**
residents	397,179	1,808,603	109,831	486,865	89,852	104,610	–	–	71,543	253,304
rest of the world	266,907	–	23,402	–	367,041	–	–	–	69,520	–
Mutual fund shares, issues by	**44,467**	**–**	**–**	**–**	**24,073**	**920,311**	**–**	**–**	**4,849**	**–**
residents	–	–	–	–	–	920,311	–	–	–	–
rest of the world	44,467	–	–	–	24,073	–	–	–	4,849	–
Insurance technical reserves	**16,873**	**135,368**	**–**	**35,165**	**–**	**–**	**–**	**–**	**–**	**357,306**
net equity of households	–	135,368	–	35,165	–	–	–	–	–	265,802
prepayments and other claims	16,873	–	–	–	–	–	–	–	–	91,504
Other accounts receivable/payable	**99,547**	**51,548**	**....**	**....**	**....**	**–**	**–**	**–**	**–**	**–**
Trade credits	99,547	51,548	–	–	–	–	–	–	–	–
Other	....	–	....	....	....	–	–	–	–	–
Total	**1,145,455**	**3,061,425**	**2,846,264**	**3,032,382**	**1,395,386**	**1,266,731**	**9,839**	**8,858**	**398,812**	**620,991**

(1) Provisional. Rounding may cause discrepancies in totals.

General government						Households and non-profit institutions serving households		Rest of the world		Total		Institutional sectors
Central government		Local government		Social security funds								
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Financial instruments
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**44,514**	**44,514**	**44,514**	**Monetary gold and SDRs**
69,415	**28,274**	**39,393**	**-**	**7,230**	**-**	**652,683**	**-**	**69,363**	**19,980**	**1,193,789**	**1,193,789**	**Currency and transferable deposits,** with:
69,415	–	14,393	–	7,230	–	650,081	–	69,363	–	1,145,535	1,145,535	MFIs
–	28,274	25,000	–	..	–	2,602	–	–	–	28,274	28,274	central government
–	–	–	–	–	–	–	–	–	19,980	19,980	19,980	rest of the world
965	**201,769**	**2,458**	**-**	**787**	**-**	**374,360**	**-**	**268,612**	**115,749**	**1,037,686**	**1,037,686**	**Other deposits,** with
965	–	2,458	–	787	–	174,344	–	268,612	–	720,168	720,168	MFIs
–	201,769	–	–	–	–	200,016	–	–	–	201,769	201,769	central government
–	–	–	–	–	–	–	–	–	115,749	115,749	115,749	rest of the world
58	**231,661**	**75**	**-**	**296**	**-**	**58,509**	**-**	**122,729**	**30,230**	**266,905**	**266,905**	**Short-term securities,** issued by
58	231,661	75	–	296	–	56,324	–	122,729	–	231,661	231,661	general government
–	–	–	–	–	–	785	–	–	–	5,014	5,014	other residents
–	–	–	–	–	–	1,399	–	–	30,230	30,230	30,230	rest of the world
17,317	**1,896,055**	**5,868**	**6,838**	**14,565**	**-**	**779,240**	**-**	**686,121**	**529,357**	**2,936,118**	**2,936,118**	**Bonds,** issued by
3,848	–	750	–	2,009	–	324,392	–	3,422	–	456,517	456,517	MFIs
353	483,154	491	–	5,054	–	98,975	–	115,133	–	483,154	483,154	central government: CCTs
13,114	1,412,901	617	–	6,129	–	212,379	–	541,130	–	1,412,901	1,412,901	central government: other
..	–	6	6,838	..	–	1,724	–	..	–	6,838	6,838	local government
2	–	59	–	299	–	3,551	–	26,435	–	47,350	47,350	other residents
–	–	3,945	–	1,073	–	138,219	–	–	529,357	529,357	529,357	rest of the world
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**. . . .**	**. . . .**	**. . . .**	**. . . .**	**Derivatives**
1,794	**1,202**	**-**	**6,107**	**-**	**1,907**	**-**	**85,049**	**218,991**	**228,134**	**1,184,486**	**1,184,486**	**Short-term loans,** of
–	–	–	–	–	–	–	–	–	55,573	55,573	55,573	non-financial corporations
–	1,202	–	6,039	–	113	–	84,160	–	121,219	817,780	817,780	MFIs
–	–	–	68	–	–	–	889	–	51,341	90,347	90,347	other financial corporations
1,794	–	–	–	–	1,794	–	–	–	–	1,794	1,794	general government
–	–	–	–	–	–	–	–	218,991	–	218,991	218,991	rest of the world
212,935	**47,166**	**-**	**213,167**	**-**	**1,397**	**-**	**323,454**	**79,796**	**44,915**	**1,230,735**	**1,230,735**	**Medium and long-term loans,** of
–	–	–	–	–	–	–	–	–	–	–	–	non-financial corporations
–	30,371	–	74,885	–	1,397	–	288,200	–	16,376	845,009	845,009	MFIs
–	11	–	339	–	–	–	35,136	–	128	92,995	92,995	other financial corporations
212,935	–	–	137,942	–	–	–	118	–	28,411	212,935	212,935	general government
–	16,784	–	–	–	–	–	–	79,796	–	79,796	79,796	rest of the world
192,821	**-**	**28,286**	**173**	**2,134**	**-**	**1,587,153**	**-**	**389,425**	**941,538**	**3,595,095**	**3,595,095**	**Shares and other equity,** issued by
179,314	–	25,565	173	1,786	–	1,389,061	–	389,425	–	2,653,556	2,653,556	residents
13,506	–	2,721	–	348	–	198,092	–	–	941,538	941,538	941,538	rest of the world
..	**-**	**97**	**-**	**28**	**-**	**969,915**	**-**	**10,342**	**133,461**	**1,053,772**	**1,053,772**	**Mutual fund shares,** issues by
–	–	–	–	–	–	909,969	–	10,342	–	920,311	920,311	residents
..	–	97	–	28	–	59,946	–	–	133,461	133,461	133,461	rest of the world
-	**-**	**-**	**-**	**-**	**-**	**550,900**	**39,934**	**-**	**-**	**567,773**	**567,773**	**Insurance technical reserves**
–	–	–	–	–	–	476,268	39,934	–	–	476,268	476,268	net equity of households
–	–	–	–	–	–	74,632	–	–	–	91,504	91,504	prepayments and other claims
-	**. . . .**	**-**	**-**	**-**	**-**	**. . . .**	**-**	**51,548**	**99,547**	**151,095**	**151,095**	**Other accounts receivable/payable**
–	–	–	–	–	–	–	–	51,548	99,547	151,095	151,095	Trade credits
–	. . . .	–	–	–	–	. . . .	–	. . . .	. . . .	. . . .	. . . .	Other
495,304	**2,406,128**	**76,178**	**226,285**	**25,041**	**3,304**	**4,972,761**	**448,438**	**1,896,928**	**2,187,426**	**13,261,968**	**13,261,968**	**Total**

Table a31

ITALY'S FINANCIAL ASSETS AND LIABILITIES IN 1999 (1)

(flows in billions of lire)

Institutional sectors / Financial instruments	Non-financial corporations		Financial corporations: Monetary financial institutions		Financial corporations: Other financial intermediaries		Financial corporations: Financial auxiliaries		Financial corporations: Insurance corporations and pension funds	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Monetary gold and SDRs	**–**	**–**	**–2,042**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency and transferable deposits, with:	**22,915**	**–**	**–8,313**	**126,682**	**18,991**	**–**	**1,256**	**–**	**730**	**–**
MFIs	23,070	–	3,426	126,682	18,991	–	1,256	–	730	–
central government	–155	–	–645	–	–	–	–	–	–	–
rest of the world	–	–	–11,094	–	–	–	–	–	–	–
Other deposits, with	**–5,252**	**–**	**69,254**	**56,026**	**–7,695**	**–**	**–249**	**–**	**944**	**–**
MFIs	–5,299	–	85,769	56,026	–7,695	–	–249	–	944	–
central government	47	–	–	–	–	–	–	–	–	–
rest of the world	–	–	–16,514	–	–	–	–	–	–	–
Short-term securities, issued by	**–2,599**	**–3,193**	**–15,669**	**34**	**–10,496**	**–95**	**–1,280**	**–**	**–520**	**–**
general government	–2,847	–	–15,838	–	–11,499	–	–1,280	–	–1,051	–
other residents	–31	–3,193	158	34	–899	–95	–	–	–	–
rest of the world	278	–	10	–	1,902	–	–	–	530	–
Bonds, issued by	**9,068**	**–5,255**	**6,651**	**19,827**	**57,735**	**15,483**	**–3,008**	**–**	**21,597**	**1,520**
MFIs	2,258	–	4,438	19,827	2,614	–	398	–	8,175	–
central government: CCTs	–1,484	–	–21,579	–	–2,485	–	–8	–	–3,501	–
central government: other	–3,992	–	3,588	–	–20,328	–	–3,512	–	1,709	–
local government	–29	–	1,601	–	1,249	–	–26	–	13	–
other residents	–347	–5,255	2,828	–	2,287	15,483	140	–	3,640	1,520
rest of the world	12,661	–	15,773	–	74,398	–	–	–	11,561	–
Derivatives	**....**	**....**	**....**	**....**	**....**	**....**	**–**	**–**	**–**	**–**
Short-term loans, of	**13,820**	**42,617**	**45,975**	**13,699**	**3,150**	**26,748**	**–**	**4,546**	**–**	**–1,379**
non-financial corporations	13,820	–	–	–	–	–	–	–	–	–
MFIs	–	9,340	45,975	2,788	–	22,995	–	4,546	–	–1,379
other financial corporations	–	–248	–	2,420	3,150	–	–	–	–	..
general government	–	–	–	–	–	–	–	–	–	–
rest of the world	–	33,525	–	8,490	–	3,753	–	–	–	–
Medium and long-term loans, of	**–**	**26,276**	**64,372**	**–1,138**	**8,202**	**–974**	**11**	**675**	**–787**	**153**
non-financial corporations	–	–	–	–	–	–	–	–	–	–
MFIs	–	21,204	64,372	216	–	–571	–	–29	–	–113
other financial corporations	–	5,993	–	104	8,202	–	11	–	–787	–2
general government	–	1,031	–	32	–	–	–	704	–	88
rest of the world	–	–1,953	–	–1,491	–	–403	–	–	–	180
Shares and other equity, issued by	**67,126**	**86,509**	**39,117**	**6,022**	**86,395**	**6,761**	**–**	**–**	**7,741**	**..**
residents	61,838	86,509	33,312	6,022	–9,023	6,761	–	–	3,447	..
rest of the world	5,289	–	5,804	–	95,418	–	–	–	4,294	–
Mutual fund shares, issues by	**20,215**	**–**	**–**	**–**	**6,595**	**118,705**	**–**	**–**	**3,938**	**–**
residents	–	–	–	–	–	118,705	–	–	–	–
rest of the world	20,215	–	–	–	6,595	–	–	–	3,938	–
Insurance technical reserves	**1,291**	**8,600**	**–**	**149**	**–**	**–**	**–**	**–**	**–**	**62,398**
net equity of households	–	8,600	–	149	–	–	–	–	–	54,762
prepayments and other claims	1,291	–	–	–	–	–	–	–	–	7,634
Other accounts receivable/payable	**15,930**	**7,754**	**....**	**....**	**....**	**–**	**–**	**–**	**–**	**–**
Trade credits	15,930	7,754	–	–	–	–	–	–	–	–
Other	....	–	....	....	....	–	–	–	–	–
Total	**142,514**	**163,307**	**199,345**	**221,302**	**162,876**	**166,627**	**–3,270**	**5,222**	**33,644**	**62,691**

(1) Provisional. Rounding may cause discrepancies in totals.

Table a31

General government						Households and non-profit institutions serving households		Rest of the world		Total		Institutional sectors
Central government		Local government		Social security funds								
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Financial instruments
–	–	–	–	–	–	–	–	–	−2,042	−2,042	−2,042	**Monetary gold and SDRs**
15,772	−3,283	−529	–	1,884	–	30,037	–	29,560	−11,094	112,304	112,304	**Currency and transferable deposits,** with:
15,772	–	2,000	–	1,884	–	29,992	–	29,560	–	126,682	126,682	MFIs
–	−3,283	−2,529	–	..	–	45	–	–	–	−3,283	−3,283	central government
–	–	–	–	–	–	–	–	–	−11,094	−11,094	−11,094	rest of the world
128	17,543	701	–	−449	–	−36,348	–	36,022	−16,514	57,056	57,056	**Other deposits,** with
128	–	701	–	−449	–	−53,844	–	36,022	–	56,026	56,026	MFIs
–	17,543	–	–	–	–	17,496	–	–	–	17,543	17,543	central government
–	–	–	–	–	–	–	–	–	−16,514	−16,514	−16,514	rest of the world
−2,196	−35,107	−1,259	–	−36	–	−45,281	–	41,718	741	−37,620	−37,620	**Short-term securities,** issued by
−2,196	−35,107	−1,259	–	−36	–	−40,818	–	41,718	–	−35,107	−35,107	general government
–	–	–	–	–	–	−2,482	–	–	–	−3,254	−3,254	other residents
–	–	–	–	–	–	−1,980	–	–	741	741	741	rest of the world
13,799	40,848	−1,058	4,426	−1,851	–	−39,614	–	150,389	136,858	213,707	213,707	**Bonds,** issued by
−106	–	63	–	−129	–	1,073	–	1,042	–	19,827	19,827	MFIs
171	−79,627	−608	–	−901	–	−27,468	–	−21,764	–	−79,627	−79,627	central government: CCTs
13,735	120,475	−2,951	–	−1,269	–	−27,916	–	161,411	–	120,475	120,475	central government: other
..	–	−20	4,426	..	–	1,637	–	..	–	4,426	4,426	local government
..	–	161	–	145	–	−6,806	–	9,699	–	11,748	11,748	other residents
–	–	2,297	–	302	–	19,865	–	–	136,858	136,858	136,858	rest of the world
–	–	–	–	–	–	–	–	....	....	....	....	**Derivatives**
..	637	–	1,561	–	−94	–	4,157	45,768	16,219	108,713	108,713	**Short-term loans,** of
–	–	–	–	–	–	–	–	–	13,820	13,820	13,820	non-financial corporations
–	637	–	1,526	–	−94	–	4,377	–	1,236	45,975	45,975	MFIs
–	–	–	35	–	–	–	−220	–	1,163	3,150	3,150	other financial corporations
..	–	–	–	–	..	–	–	–	–	..	..	general government
–	–	–	–	–	–	–	–	45,768	–	45,768	45,768	rest of the world
6,629	−4,517	–	10,759	–	680	–	40,584	−5,809	121	72,619	72,619	**Medium and long-term loans,** of
–	–	–	–	–	–	–	–	–	–	–	–	non-financial corporations
–	−2,386	–	5,840	–	680	–	39,553	–	−22	64,372	64,372	MFIs
–	11	–	99	–	–	–	1,174	–	46	7,426	7,426	other financial corporations
6,629	–	–	4,818	–	–	–	−142	–	97	6,629	6,629	general government
–	−2,142	–	–	–	–	–	–	−5,809	–	−5,809	−5,809	rest of the world
−29,788	–	2,988	28	1,028	–	62,225	–	−5,595	131,920	231,239	231,239	**Shares and other equity,** issued by
−30,396	–	1,102	28	978	–	43,655	–	−5,595	–	99,320	99,320	residents
607	–	1,886	–	50	–	18,570	–	–	131,920	131,920	131,920	rest of the world
..	–	22	–	5	–	140,744	–	511	53,325	172,030	172,030	**Mutual fund shares,** issues by
–	–	–	–	–	–	118,194	–	511	–	118,705	118,705	residents
..	–	22	–	5	–	22,550	–	–	53,325	53,325	53,325	rest of the world
–	–	–	–	–	–	72,673	2,817	–	–	73,964	73,964	**Insurance technical reserves**
–	–	–	–	–	–	66,329	2,817	–	–	66,329	66,329	net equity of households
–	–	–	–	–	–	6,343	–	–	–	7,634	7,634	prepayments and other claims
–	....	–	–	–	–	....	–	7,754	15,930	23,684	23,684	**Other accounts receivable/payable**
–	–	–	–	–	–	–	–	7,754	15,930	23,684	23,684	Trade credits
–	....	–	–	–	–	....	–	....	....	....	....	Other
4,345	16,120	865	16,776	581	587	184,435	47,559	300,319	325,464	1,025,655	1,025,655	**Total**

Table a32

BANKS: CONTRIBUTION OF OPERATIONS TO SUPERVISORY CAPITAL (1)
(billions of lire and, in brackets, millions of euros)

	Classification by type of bank						Total	Classification by size		Classification by location of head office	
	Limited cos. raising short-term funds	Limited cos. raising 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
						Net income (2)					
1997	21,663	1,930	4,316	1,968	270	200	30,347	21,835	8,512	28,012	2,335
1998	31,518	2,435	5,710	2,369	278	144	42,454	31,978	10,476	39,403	3,051
1999	32,977	2,638	5,455	1,906	354	352	43,682 *(22,560)*	33,581	10,101	41,653	2,029
						Extraordinary expenses, net					
1997	−838	−61	−64	−98	86	−198	−1,174	−573	−601	−773	−401
1998	−2,569	−622	242	−9	49	−325	−3,234	−2,792	−442	−2,850	−384
1999	−7,220	189	−240	196	243	−211	−7,043 *(−3,637)*	−6,459	−584	−5,649	−1,394
						Sundry provisions					
1997	3,649	−324	359	36	56	29	3,805	3,364	441	3,479	326
1998	3,070	−28	515	65	18	35	3,675	3,086	589	3,144	531
1999	3,974	−87	596	87	35	31	4,636 *(2,394)*	3,823	813	4,173	463
						Charges for loan losses					
1997	11,340	992	1,261	338	113	78	14,122	11,566	2,556	12,492	1,630
1998	10,882	1,369	1,422	436	68	58	14,235	11,236	2,999	12,298	1,937
1999	9,588	1,675	1,428	341	41	23	13,096 *(6,764)*	10,467	2,629	11,735	1,361
						Taxes					
1997	5,645	814	1,241	85	36	208	8,029	5,424	2,605	7,589	440
1998	9,667	1,002	1,718	371	75	136	12,969	9,896	3,073	12,319	650
1999	9,493	711	1,527	287	62	179	12,259 *(6,331)*	9,527	2,732	11,858	401
						Dividends					
1997	3,394	307	842	47	16	19	4,625	3,487	1,138	4,490	135
1998	6,597	183	990	45	16	74	7,905	6,318	1,587	7,768	137
1999	10,009	437	1,211	41	12	41	11,751 *(6,069)*	9,765	1,986	11,572	179
						Allocations to supervisory capital (2)					
1997	−1,526	202	677	1,560	−37	64	940	−1,433	2,373	735	205
1998	3,871	531	823	1,461	52	166	6,904	4,234	2,670	6,724	180
1999	7,133	−287	933	954	−39	289	8,983 *(4,639)*	6,458	2,525	7,964	1,019
						ROE *(percentages)*					
1997	0.1	0.2	6.4	11.1	−1.1	8.7	1.7	0.0	5.9	1.7	2.5
1998	8.0	2.5	7.4	9.8	5.4	14.0	7.5	7.7	6.9	7.9	3.0
1999	11.9	−0.6	7.3	1.0	1.0	21.1	9.6	10.9	6.5	9.7	7.3

(1) Unconsolidated data. The classifications are those that were in force at the end of 1999; merged banks have been considered as belonging to the category of the bank with which they were merged. – (2) Net income and allocations to supervisory capital include dividends received on participating interests in banks.

Table a33

BANKS: CAPITAL ADEQUACY (1)

(billions of lire and, in brackets, millions of euros)

	December 1997			December 1998			December 1999		
	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			10.9			11.3			11.2
Excess amounts	50	41,166		48	48,610		47	51,868	
Shortfalls	6	1,485		5	921		7	1,637	
Small and minor banks			20.0			18.7			17.4
Excess amounts	811	38,694		794	39,903		747	39,244	
Shortfalls	9	97		9	84		12	340	
Classification by type of bank									
Limited companies raising short-term funds			11.4			11.6			11.5
Excess amounts	204	42,329		208	48,533		200	51,249	
Shortfalls	7	1,274		6	417		7	422	
Limited companies raising medium and long-term funds			16.8			17.2			15.4
Excess amounts	29	15,993		26	15,059		19	13,188	
Shortfalls	4	296		4	420		7	1,382	
Cooperative banks			13.0			13.6			13.5
Excess amounts	47	9,670		47	12,258		49	14,257	
Shortfalls	–	–		1	161		–	–	
Mutual banks			24.1			22.5			21.8
Excess amounts	577	10,961		557	11,541		523	11,779	
Shortfalls	4	12		3	7		4	19	
Central credit institutions			15.8			17.2			11.6
Excess amounts	4	907		4	1,122		3	639	
Shortfalls	–	–		–	–		1	154	
Classification by location of head office									
Centre-North			12.5			12.8			12.4
Excess amounts	622	71,500		618	81,208		596	83,518	
Shortfalls	7	1,444		8	953		15	1,916	
South			14.5			13.5			13.4
Excess amounts	239	8,360		224	7,305		198	7,594	
Shortfalls	8	138		6	52		4	61	
Banking system as a whole			**12.7**			**12.9**			**12.5**
Excess amounts	**861**	**79,860**		**842**	**88,513**		**794**	**91,112** ***(47,055)***	
Shortfalls	**15**	**1,582**		**14**	**1,005**		**19**	**1,977** ***(1,021)***	

(1) Unconsolidated data excluding branches of foreign banks. The classifications are those that were in force at the end of 1999.

Table a34

BANKS: SUPERVISORY CAPITAL (1)
(billions of lire and, in brackets, millions of euros)

	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		Major, large and medium-sized banks	Small and minor banks	Centre-North	South
					December 1998					
Supervisory capital	**154,858**	**27,301**	**29,482**	**17,875**	**2,094**	**231,610**	**162,040**	**69,570**	**213,716**	**17,894**
Primary capital	127,512	22,279	24,967	17,048	2,047	193,853	129,287	64,566	178,035	15,818
of which: capital and reserves	*129,939*	*21,255*	*25,406*	*16,927*	*2,020*	*195,547*	*131,928*	*63,619*	*178,448*	*17,099*
provision for general banking risks	*3,194*	*1,466*	*1,286*	*331*	*57*	*6,334*	*3,682*	*2,652*	*5,620*	*714*
intangible assets and goodwill	*4,952*	*80*	*1,659*	*161*	*28*	*6,880*	*5,683*	*1,197*	*5,330*	*1,550*
Supplementary capital	31,693	5,450	6,061	847	349	44,400	37,936	6,464	42,006	2,394
of which: subordinated liabilities (2)	*22,772*	*1,342*	*4,679*	*142*	–	*28,935*	*25,933*	*3,002*	*27,182*	*1,753*
revaluation losses on securities	*27*	*10*	*3*	*2*	–	*42*	*37*	*5*	*41*	*1*
loan loss provisions (3)	*743*	*11*	*58*	*51*	*36*	*899*	*673*	*226*	*888*	*11*
Unconsolidated equity interests and other deductions	4,348	429	1,546	19	301	6,643	5,183	1,460	6,325	318
Memorandum item:										
Excess provisions (4)	365	644	22	130	–	1,161	607	554	1,044	117
					December 1999					
Supervisory capital	**168,487** ***(87,016)***	**24,644** ***(12,728)***	**35,105** ***(18,130)***	**18,583** ***(9,597)***	**1,564** ***(808)***	**248,383** ***(128,279)***	**176,378** ***(91,092)***	**72,005** ***(37,187)***	**229,728** ***(118,645)***	**18,655** ***(9,635)***
Primary capital	134,040	20,299	28,516	18,000	1,401	202,256	135,650	66,606	185,224	17,032
of which: capital and reserves	*135,410*	*19,967*	*29,214*	*17,896*	*1,774*	*204,261*	*138,223*	*66,038*	*187,239*	*17,022*
provision for general banking risks	*4,928*	*1,455*	*1,384*	*307*	*48*	*8,122*	*4,947*	*3,175*	*6,526*	*1,596*
intangible assets and goodwill	*4,827*	*87*	*1,975*	*151*	*35*	*7,075*	*5,597*	*1,478*	*6,000*	*1,075*
Supplementary capital	38,675	5,055	8,179	607	367	52,883	46,181	6,702	50,933	1,950
of which: subordinated liabilities (2)	*33,473*	*1,403*	*7,219*	*181*	*308*	*42,584*	*38,376*	*4,208*	*40,808*	*1,776*
revaluation losses on securities	*567*	*20*	*250*	*323*	*13*	*1,173*	*585*	*588*	*893*	*280*
loan loss provisions (3)	*817*	*36*	*73*	*70*	*82*	*1,078*	*794*	*284*	*1,059*	*19*
Unconsolidated equity interests and other deductions	4,228	710	1,590	24	204	6,756	5,452	1,304	6,430	326
Memorandum item:										
Excess provisions (4)	247	672	11	80	–	1,011	443	568	990	21

(1) Unconsolidated data excluding branches of foreign banks. The classifications are those that were in force at the end of 1999 – (2) Includes "hybrid" capital instruments. – (3) Excludes "excess provisions", which are not eligible for inclusion in supervisory capital. – (4) Loan loss provisions in excess of 1.25 per cent of risk-weighted assets.

LIST OF ABBREVIATIONS

ABI - *Associazione bancaria italiana*
Italian Bankers' Association

BI-COMP - *Banca d'Italia Compensazione*
Bank of Italy Clearing System

BI-REL - *Banca d'Italia Regolamento Lordo*
Bank of Italy real-time gross settlement system

BOT - *Buoni ordinari del Tesoro*
Treasury bills

BTP - *Buoni del Tesoro poliennali*
Treasury bonds

CCT - *Certificati di credito del Tesoro*
Treasury credit certificates

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

CTE - *Certificati del Tesoro in ECU*
Treasury certificates in ecus

CTO - *Certificati del Tesoro con opzione*
Treasury option certificates

CTZ - *Certificati del Tesoro* zero-coupon
Zero-coupon Treasury certificates

Iciap - *Imposta comunale per l'esercizio di imprese e di arti e professioni*
Municipal tax on businesses and the self-employed

Ilor - *Imposta locale sui redditi*
Local income tax

INAIL - *Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro*
National Industrial Accidents Insurance Institute

INPS - *Istituto nazionale per la previdenza sociale*
National Social Security Institute

Irap - *Imposta regionale sulle attività produttive*
Regional tax on productive activities

Irpef - *Imposta sul reddito delle persone fisiche*
Personal income tax

Irpeg - *Imposta sul reddito delle persone giuridiche*
Corporate income tax

Isae - *Istituto di studi e analisi economica*
Institute for Economic Research and Analysis

Istat	-	*Istituto nazionale di statistica* National Institute of Statistics
Isvap	-	*Istituto per la vigilanza sulle assicurazioni private e di interesse collettivo* Supervisory authority for the insurance industry
MIF	-	*Mercato italiano dei* futures Italian Futures Market
MTS	-	*Mercato telematico dei titoli di Stato* Screen-based secondary market in government securities
SACE	-	*Sezione per l'assicurazione dei crediti all'esportazione* Foreign Trade Insurance Services Agency
SIM	-	*Società di intermediazione mobiliare* Securities investment firm
TARGET	-	Trans-European Real-time Gross Express Transfer
UIC	-	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

ADMINISTRATION OF THE BANK OF ITALY

AT 31 DECEMBER 1999

DIRECTORATE

Antonio FAZIO	- Governor and chairman of the board of directors
Vincenzo DESARIO	- Director general
Pierluigi CIOCCA	- Deputy director general
Antonio FINOCCHIARO	- Deputy director general and Secretary to the Board

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* Member of the Executive Committee

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ALTERNATE AUDITOR

Cesare BISONI

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Carlo SANTINI	- Central manager for economic research
Vincenzo PONTOLILLO	- Central manager for central banking and markets
Bruno BIANCHI	- Central manager for banking and financial supervision
Stefano LO FASO	- Accountant general
Cesare Augusto GIUSSANI	- Secretary general
Franco COTULA	- Central manager for historical research
Fabrizio SACCOMANNI	- Central manager for international affairs
Giuseppe GIUSTINIANI	- Central manager for note issue
Vincenzo CATAPANO	- General counsel
Carlo TRESOLDI	- Central manager for payment system and treasury operations
Domenico CAVALLO	- Central manager for property and purchasing