BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

HELD IN ROME ON 31 MAY 2001

ABRIDGED REPORT FOR THE YEAR 2000

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THE INTERNATIONAL ECONOMY

In the United States the tightening of monetary conditions, the increase in oil prices, the dollar's appreciation and the fall in share prices and in the profits of non-financial firms led to a sharp deceleration in the economy's growth and, in particular, to a very pronounced decline in capital spending. The slowdown spread to the other leading industrial areas, which were also hit by the increase in oil prices and the drop in the equity market. In Japan the economic situation, which had improved in the first half of the year thanks to a recovery in private investment, worsened again. Growth remained buoyant in the euro-area economies in the first half of the year, fostering a marked increase in employment, but slackened in the second half. The progressive decline in the rate of growth in world trade adversely affected productive activity in the developing countries of Asia and Latin America. Towards the end of the year episodes of financial instability occurred in Argentina and Turkey, culminating in the latter in a currency and banking crisis in February of this year.

Reflecting the generalized increase in productive activity of the first six months, in 2000 as a whole world output grew at an annual rate of 4.8 per cent, one of the highest figures recorded in the last 25 years. World trade expanded rapidly, by more than 12 per cent; a powerful impulse was imparted by the United States, whose imports rose in volume terms by an annual average of about 14 per cent, despite a slackening in the second half of the year. The US external current account deficit widened further to exceed $400 billion; as a percentage of GDP (4.4 per cent), this was higher than the figure recorded in 1985, during the phase of exceptional appreciation of the dollar and expansion of the government budget deficit.

In the developing countries and those of Central and Eastern Europe and the former Soviet Union, output increased by a substantial 5.8 per cent. Growth in China and in Russia was also robust, at 8 and 7.7 per cent respectively. In the case of Russia the rise in oil prices was especially beneficial. After stagnating in 1999, overall growth in Latin America climbed back to 4.1 per cent, thanks to the satisfactory performance of Brazil and Mexico. Growth contracted only in Argentina (by 0.5 per cent), for the second consecutive year.

The acceleration in the world economy that began in 1999 and continued into the first half of last year pushed up the price of oil, which exceeded $30 a barrel in September. Although the resulting inflationary pressure was considerably less than that generated by the two oil shocks of the seventies, thanks partly to the industrial economies' success in reducing their energy intensity in the meantime, it was nonetheless substantial. The consequent slowdown in the world economy and the decision of the OPEC countries to increase crude production so as to hold down prices to around $25 a barrel fostered a large drop in prices in December.

Last year's 5 per cent increase in output in the US was the highest recorded in the current expansionary phase that began in the spring of 1991, and both the public finances and employment benefited from it. The federal budget surplus rose to equal 2.4 per cent of GDP and the unemployment rate remained low, at around 4 per cent, even though the labour force grew further by 1.1 per cent. The gradual monetary tightening that had begun in June 1999 continued up to May of last year, with the aim of bringing the expansion in domestic demand into line with the economy's growth potential. After continuing to post large gains in the early months of the year, the stock market began to fall at the end of March, reflecting the sharp correction in the technological segment. A turning-point in productive activity was reached in June. The ensuing slowdown was as unexpectedly swift as it was intense and in the last quarter output stagnated, notwithstanding the positive contribution of private consumption.

The sharp deterioration in firms' profitability and their increasing difficulties in obtaining external financing led to a sudden shift in monetary policy at the beginning of this year. Both the timing and the intensity of the action by the US monetary authorities were unusual. The first reduction in interest rates of half a percentage point in January was followed by four similar cuts, the last in mid-May. In February the new Administration presented a sweeping tax reform bill aimed at permanently reducing the tax burden, particularly on personal income. The overall amount of the plan has already received approval from Congress and the two chambers are currently debating the tax relief measures for 2001.

Notwithstanding the pronounced easing of monetary policy, the economic outlook remains uncertain. Any recovery of productive activity in the relatively short term depends on there being no further downward correction in share prices, on account of the negative effects this would have on households' spending and corporate funding. The stability of share prices hinges in turn on the market's perception of how structural are the productivity gains achieved by the US economy in the last decade as a result of massive investment in new information and communications technologies.

The Japanese economy's modest upturn in the first half of last year, fueled by public and private capital spending, gave way to renewed deterioration, partly because the expansionary effects of the previous year's budget measures petered out. In the second half of the year production stagnated, private consumption declined and exports slowed down, finally contracting in the first quarter of this year. Prices continued to decline in spite of the rise in the oil price. Consumption was affected both by the pronounced worsening of the employment situation, which was due partly to restructuring programmes put in place by large and medium-sized firms, and by the smallness of wage increases. The high number of corporate bankruptcies further depressed share prices, with heavy losses involving both the technological and traditional sectors. The renewed deterioration in the economic situation and the fall in share prices exacerbated the problems of the banking system. The Bank of Japan estimated the total of bad debts and non-performing assets at more than ¥65 trillion at the end of September 2000, equal to about 13 per cent of GDP. This figure would, however, be much greater if loans to firms with moderately shaky balance sheets were also considered "at risk".

In mid-August the Japanese monetary authorities abandoned the strategy adopted in February 1999 of keeping the overnight rate at nil and set the target rate at 0.25 per cent. The worsening economic and financial situation and the intensification of deflation led the Bank of Japan to alter the course of monetary policy again. In mid-March of this year a new strategy was announced, aimed at ensuring massive injections of bank liquidity, partly through purchases of government securities in the secondary market in excess of the previous limits. This approach is to be maintained until the sign of the growth rate of consumer prices turns stably positive. At the beginning of April the government announced a package of measures to reduce the ratio of banks' shareholdings to own funds and to accelerate the process of writing off the bad debts of the 15 largest banks. Banks' holding in excess of the ratio just set by the government will be purchased by an *ad hoc* institution, partly with public funds.

The weakness that afflicted the euro in 1999 continued last year. After falling to a low of $0.825 at the end of October, the euro staged a sharp recovery between November and the beginning of this year, partly as a result of the clouding of growth prospects in the United States and the ensuing narrowing of the differential between dollar and euro interest rates and between returns on equity capital in the two economies. In mid-January 2001 the euro again began to weaken, reflecting the worsening economic situation in the area and the downward revision of growth forecasts for this year. In mid-May it stood at $0.88 and ¥108.

Last year GDP growth in the euro area rose to 3.4 per cent, from 2.5 per cent in 1999; the increase was fueled by net exports, whose negative contribution of 0.6 percentage points in 1999 gave way to a positive contribution for an identical amount in 2000 as a result of the rapid expansion in world trade and the depreciation of the euro. In the second half of the year activity slackened as domestic demand, and particularly consumption, decelerated. The situation of the labour market nonetheless improved further, with unemployment in the area – which at the beginning of 1999 had stood at 10.3 per cent – falling from 9.4 to 8.5 per cent between January and December. The rise in oil prices and the weakening of the exchange rate fanned inflation: as measured by the harmonized index of consumer prices, the rate rose from 1.9 per cent in January to 2.9 per cent in November. Inflation abated somewhat in subsequent months, but climbed back to 3 per cent in April of this year. Against this background, monetary policy action aimed at curbing inflation expectations and preventing the initial impact on prices being transformed into a persistent rise in the inflation rate.

Between January and October the Eurosystem raised the rate on main refinancing operations in several steps, increasing it from 3 to 4.75 per cent. In the early months of this year, despite signs of a slowdown in the area's leading economies, the simultaneous re-emergence of price pressures dissuaded the Eurosystem from adopting an expansionary monetary stance. In mid-May the ECB Governing Council lowered the reference rates by a quarter of a percentage point, setting the rate on main refinancing operations at 4.5 per cent, considering that the marked deceleration in money supply growth, the improved medium-term forecasts for prices and the increasing weakness of economic activity had attenuated the inflationary risks. The general government budget deficit, which in 1999 had been equal to 1.2 per cent of GDP, narrowed last year to 0.7 per cent. Recent estimates by the European Commission suggest that, if the positive effects of the cycle are excluded, the overall improvement in the balance would decline to 0.2 per cent and be attributable entirely to lower interest payments.

The growth prospects of the world economy worsened in the early months of this year. The latest estimates by the IMF represent a sharp downward revision of the forecasts published in the spring of last year and now indicate that the growth in output and in world trade will slow down to 3.2 and 6.7 per cent respectively in 2001. Growth in the leading industrial economies is expected to decline to 1.6 per cent, or less than half that recorded last year. The most pronounced slowdown is expected to occur in the United States, while further stagnation is forecast for Japan. The economy of the euro area should hold up relatively well, growing by 2.4 per cent overall, albeit with appreciable differences between countries. The slowdown is expected to be less marked in the emerging countries, with the Asian economies in particular continuing to expand at rapid rates of around 6 per cent, primarily reflecting robust growth in China and India. In Latin

America GDP is forecast to increase by just below 4 per cent, thanks largely to the high rate of growth in Brazil.

The international scenario is still marked by uncertainty. Notwithstanding the fair figure for growth in the first quarter, the latest US economic indicators give mixed signs concerning the performance of the economy for the remainder of the year. While there are indications that the process of destocking is coming to an end, there is as yet no convincing evidence of a recovery in production. Consumption, which to date has fueled growth, could slacken, partly on account of the recent rise in unemployment. The strains in the financial markets of Argentina intensified at the beginning of May. The already precarious economic situation in Japan could deteriorate further, possibly leading to excessive depreciation of the yen, which would have repercussions on the competitiveness of other Asian economies. International investors might take a more cautious approach to the emerging economies, leading to fund-raising difficulties particularly for Latin American countries, whose current account imbalances are still large.

RECENT DEVELOPMENTS AND ECONOMIC POLICIES

Economic developments in the industrial countries

In the United States GDP growth accelerated from 4.2 per cent in 1999 to 5 per cent in 2000, the highest rate since 1984; at the same time labour productivity rose by 4.3 per cent, the largest rise for a decade. Compared with the preceding period, GDP grew by almost 6 per cent on an annual basis in the first half of 2000 and by only 2.7 per cent in the second (Table 1). The exceptional expansion in domestic demand through June was fueled by the substantial increase in households' net wealth in 1999, which boosted consumption, and the further acceleration in private investment. The worsening in the conditions of the corporate sector's access to the financial market as a consequence of the tightening of monetary policy by the Federal Reserve and the fall in share prices that began towards the end of March contributed to the sharp slowdown in the growth in private investment over the year, from 12.7 per cent on an annual basis in the first half to 4 per cent in the second. The slowdown reflected the 16.4 per cent fall in spending on transport equipment and the marked downturn in spending on information and telecommunications equipment (up by 17.5 per cent in the second half, compared with 27.7 per cent in the first). In this case the result was also influenced by the fall in the prices of computers slowing from 23.7 per cent in 1999 to 13.8 per cent in 2000. The pretax profits of non-financial companies contracted by 6.3 per cent between the first and second halves of the year.

Household consumption expanded by 5.3 per cent in 2000, as in 1999. The slowdown over the year, from 6 per cent on an annual basis in the first half to 3.7 per cent in the second, was partly due to the adverse effect on disposable income of the increase in the prices of energy products. The savings rate of the household sector turned negative in the second half of the year and fell to –1 per cent in the first quarter of 2001.

Payroll employment expanded by 2 per cent year on year, slightly less than in 1999, primarily as a consequence of the smaller number of jobs created in the service sector. Although the growth of 1.1 per cent in the supply of labour was the same as in 1999, conditions in the labour market remained tight, with unemployment at close to 4 per cent for most of the year.

Consumer prices rose by 3.4 per cent on average for the year, as against 2.2 per cent in 1999. The acceleration in the twelve-month rate of increase from 2.7 per cent in January to 3.7 per cent in July reflected the rise in the prices of energy products; this measure of inflation subsequently declined slightly to stand at 3.4 per cent in December. Core inflation, calculated with reference to a basket that excludes food and energy products, accelerated from 2 per cent in January to 2.6 per cent in August and then remained stable at close to this value for the remainder of the year and in the first four months of 2001. Unit labour costs rose by 0.7 per cent, as against 1.8 per cent in 1999; they benefited from the rapid rise in productivity, despite the slowdown from an annual rate of 4.6 per cent in the first half of the year to 3.4 per cent in the second. The increase in unit labour costs in the second half of the year affected profits more than inflation.

In the first quarter of 2001 the economy performed better than had been expected, with provisional data indicating an annualized increase in GDP of 2 per cent on the fourth quarter of 2000; however, the rise in productivity came to an abrupt halt. Decisive support for economic activity came from consumption, which expanded by 3.1 per cent. The growth of 1.6 per cent in private investment following a fall in the fourth quarter was almost entirely due to the rise in spending on transport equipment, combined with the recovery in the building industry fueled by the decline in mortgage rates; by contrast, spending on industrial machinery fell by 4.7 per cent and that on information and telecommunications equipment by 6.4 per cent. Destocking gathered pace; the sharp contraction in imports (by 10.4 per cent on an annual basis) reflected a shift in demand towards domestic producers, which were consequently able to reduce their excess inventories. The unemployment rate rose from 4 per cent in December 2000 to 4.5 per cent in April 2001. Although most of the fall in employment in March and April of this year occurred in manufacturing, some branches of the service sector also contributed.

In Japan economic activity expanded by 1.7 per cent in 2000, as against 0.8 per cent in 1999 (Table 1). In the first half of the year output rose by 3.6 per cent on an annual basis, boosted by the public investment contained in the supplementary budget approved at the end of 1999. In the second half of the year there were clear signs of the economy weakening; output stagnated as the effects of the fiscal stimulus waned and consumption declined.

Household consumption, depressed by unfavourable labour market conditions, rose by only 0.5 per cent year on year. The unemployment rate remained at the historically high level of 4.7 per cent recorded in 1999 and wages showed only very small gains after falling in the two previous years. Another factor that adversely affected consumption was the negative wealth effect associated with the large fall in property and equity prices.

Table 1

GROSS DOMESTIC PRODUCT AND DEMAND IN THE LEADING INDUSTRIAL COUNTRIES

(at constant prices; unless otherwise indicated, annualized percentage changes on previous period)

	1998	1999	2000	2000	
				H1	H2
United States					
GDP	4.4	4.2	5.0	5.9	2.7
Domestic demand (1)	5.5	5.2	5.7	6.5	3.5
Net exports (2)	–1.3	–1.2	–1.0	–0.9	–1.0
Japan					
GDP	–1.1	0.8	1.7	3.6	–0.3
Domestic demand (1)	–1.5	0.9	1.3	2.7	0.1
Net exports (2)	0.3	–0.1	0.4	1.0	–0.4
Euro area					
GDP	2.9	2.5	3.4	3.7	2.6
Domestic demand (1)	3.5	3.1	2.8	3.2	2.0
Net exports (2)	–0.5	–0.6	0.6	0.5	0.6
United Kingdom					
GDP	2.6	2.3	3.0	2.5	3.0
Domestic demand (1)	4.6	3.8	3.7	3.5	3.8
Net exports (2)	–2.0	–1.5	–0.8	–1.0	–0.9

Sources: Eurostat and national statistics.

(1) Includes changes in stocks and residents' expenditure in the rest of the world; excludes non-residents' expenditure on the economic territory. – (2) Contribution to the increase in GDP in percentage points.

After contracting substantially in the two previous years, private investment grew by 3.8 per cent in 2000, boosted by the large increase in corporate profits, which exceeded 30 per cent according to a survey conducted by the Ministry of Finance. Non-residential investment grew by 4.5 per cent year on year, with an acceleration in the second half of 2000. The increase in profits was especially pronounced in manufacturing industry, where they rose from 3 to 4.2 per cent of sales. As in 1999, firms used part of these resources to reduce their high levels of debt and strengthen their balance sheets.

Net foreign demand contributed nearly half a percentage point to the growth in economic activity in 2000, primarily as a consequence of the increase in demand in the other Asian economies. However, in the second half of the year the contribution turned negative owing to the sharp slowdown in exports of capital goods and information technology equipment, especially to the other economies in the region and the European Union.

The decline in consumer prices accelerated; year on year they fell by 0.6 per cent, as against 0.3 per cent in 1999. Contributory factors included the persistent weakness of demand and the liberalization and rationalization of supply in some sectors. After falling by 1.5 per cent in 1999, producer prices remained virtually unchanged despite the hike in the oil price.

In the early months of 2001 there was a further worsening in economic conditions: in the first quarter industrial production fell by 3.6 per cent compared with the fourth quarter of 2000; the average level of exports in January and February was down; and the March quarterly Tankan survey showed a deterioration in business expectations, reflecting a more pessimistic assessment of the outlook for domestic and foreign demand. The fiscal measures approved at the end of 2000 are seen as likely to provide only temporary support for demand starting in the second quarter of this year.

In the euro area the strong growth in economic activity that had begun in 1999 continued in the first half of 2000, when GDP expanded by 3.7 per cent on an annual basis; the second half of the year saw a deceleration (Table 1). After expanding by 2.5 per cent in 1999, the area's economy grew by 3.4 per cent in 2000, the best result since the beginning of the nineties. The performance in the second half of the year reflected the sharp slowdown in private consumption following the erosion of disposable income by the increase in the prices of energy products. For the second year in succession there was a significant improvement in employment, which rose by 2.1 per cent over the year, while the unemployment rate fell from 9.4 per cent in January 2000 to 8.7 per cent at the end of the year and 8.4 per cent in March 2001.

Consumer price inflation was 2.3 per cent on average in 2000, compared with 1.1 per cent in 1999. The main factors that contributed to this sharp acceleration were the increase in the prices of energy products in the summer months and the depreciation of the euro. Core inflation, which excludes the most volatile items (food and energy products) accelerated almost continuously from August 2000 onwards, with the twelve-month rate rising from 1.1 per cent in January 2000 to 1.5 per cent in December and then to 2 per cent in April of this year.

Economic policies in the leading industrial countries

Fiscal policies. – In the United States the overall federal budget surplus for the fiscal year that ended in September 2000 amounted to $236 billion, compared with $124 billion for fiscal 1999; as a ratio to GDP it rose by one percentage point to 2.4 per cent. Excluding social security, the outcome swung from near balance in fiscal 1999 to a substantial surplus of $86 billion in fiscal 2000. The improvement was due to the sharp rise in revenue. For the current fiscal year the Administration forecasts an overall surplus of $281 billion (2.7 per cent of GDP), to which social security is expected to contribute $156 billion.

Federal debt contracted in absolute terms in fiscal 2000 and fell in relation to GDP by 2 percentage points to 57.3 per cent. The debt held by the public fell from 39.9 to 34.7 per cent of the total.

The strong performance of the public finances led the Administration to submit proposals to Congress for a permanent reduction in revenue, especially from personal income taxes, and the imposition of a ceiling on discretionary expenditure.

At the beginning of May, as part of the approval of the budget for fiscal 2002, Congress approved a resolution that fixed the total tax reductions for the period 2002-11 at $1,350 billion, instead of $1,600 as proposed by the Administration; at the same time it set the ceiling on annual growth in discretionary spending at 4.9 per cent, instead of 4 per cent as proposed by the Administration. About $100 billion of the tax reductions will be divided between 2001 and 2002, possibly on a retroactive basis. Since the resolution in question still has to be transformed into legislation, it is not yet possible to quantify the stimulus it will give to growth this year.

In Japan the deficit for the fiscal year ended in March 2001, excluding the social security surplus, rose to 9.5 per cent of GDP; the figure for fiscal 1999 was 8.8 per cent. Last year's deficit was larger than had originally been estimated following the approval in November 2000 of a supplementary budget providing for around ¥11 trillion of additional expenditure (2.1 per cent of GDP), of which ¥5 trillion is to be financed directly by the central government. The effect on economic activity should begin to make itself felt in the second quarter of this year. Japan's public debt is the highest of all the industrial countries; according to OECD estimates at the end of 2000 it had risen to 123 per cent of GDP.

In the euro area general government net borrowing, excluding the proceeds of the sales of UMTS licences, fell from 1.2 per cent of GDP in 1999 to 0.7 per cent in 2000. The improvement benefited from the acceleration in economic activity and the further decline in interest payments in relation to GDP, while the tax reliefs granted in some countries acted in the opposite direction.

Monetary policies. – In the early months of 2000, with domestic demand rising strongly and the risk of inflation increasing, the Federal Reserve intensified the monetary tightening it had begun in the middle of

1999. Between February and May the target rate for federal funds and the discount rate were raised in several steps by a total of one percentage point to 6.5 and 6 per cent respectively, the highest levels on record since 1990 and one percentage point above those obtaining in August 1998, before the adoption of an expansionary stance in response to the international financial crisis. From the middle of May 2000 to the end of the year the reference rates were kept on hold. However, the clear worsening, especially in the fourth quarter, in the performance of the economy and the terms on which firms were able to obtain external finance and the stability of core inflation led the authorities in December to announce a switch in their assessment of the relative risks of inflation and of a sharp slowdown in economic activity, with the latter outweighing the former.

In the early months of 2001 monetary policy became decidedly expansionary. At the beginning of January, the Federal Reserve's Open Market Committee surprised the markets by cutting the two reference rates by 0.5 percentage points in an unscheduled meeting. Four further half-point cuts in the two rates followed between the end of January and the middle of May. This, the most pronounced monetary easing since 1982, is intended to counter the decline in corporate profitability and consequent fall in investment and to avoid a downward spiral in consumer confidence. The federal funds and discount rates now stand at 4 and 3.5 per cent respectively, their lowest levels since 1994. When it made the latest rate cut, the Federal Reserve stated that there was still a risk that the weak cyclical conditions would persist for some time.

In Japan the signs of an upturn in economic activity led the central bank to raise the overnight rate to 0.25 per cent in mid-August, thereby rendering monetary policy slightly less accommodating than previously, when the strategy had been to keep overnight interest rates close to zero. The three-month call rate rose from 0.3 to 0.6 per cent in December. In 2001 the deterioration in economic conditions, the revival of deflationary pressures and growing concern about the financial solidity of the banking system led the authorities to put monetary policy back on a more expansionary footing. The discount rate was lowered in the first week of February, from 0.5 to 0.35 per cent, and again at the end of the same month, to 0.25 per cent. This easing was accompanied by measures to boost liquidity and by a reduction in the target for the overnight rate to 0.15 per cent. In the middle of March the authorities announced a change in the operational objective for monetary policy, with a quantitative target for bank reserves replacing the overnight rate, and further measures to ensure an abundance of liquidity. The authorities also declared that the new strategy would be kept in place until the inflation rate, measured in terms of consumer prices, had become stably positive. Following this shift in policy stance, the overnight rate fell close to zero.

In the euro area monetary policy has been directed towards countering the risk of a deterioration in inflation expectations at a time of accelerating prices as a consequence of the increase in those of energy products, the depreciation of the euro and the rapid pace of economic expansion. Starting from a historically low level, the rate on main refinancing operations was gradually raised by a total of 2.25 percentage points between November 1999 and October 2000, when it stood at 4.75 per cent. Liquidity nonetheless remained abundant in view of the rapid expansion in money and credit and the weakening of the euro. On 10 May 2001 the Governing Council of the ECB lowered the reference rate by 0.25 percentage points to 4.5 per cent in view of the reduction in the medium-term risk of inflation and the decline in monetary growth to close to the reference rate between January and March 2001.

The emerging countries

In 2000, against a background of declining inflation, the Asian emerging economies expanded by 7.1 per cent, an improvement on the already rapid growth of 6.3 per cent they had recorded in 1999. In the last few months of the year economic activity slowed in response to weaker foreign demand, especially for high-tech products. In some countries the performance of the economy was also affected by political uncertainty and delays in implementing structural reforms. The substantial external current account surplus the area had recorded in the wake of the 1997 crisis contracted by more than one percentage point to 2.7 per cent of GDP in 2000.

In Latin America, despite the recession in Argentina, the expansion in economic activity accelerated from 0.2 per cent in 1999 to 4.1 per cent in 2000, fueled by the increase in both domestic and foreign demand and the rise in the oil price, which benefited the oil-producing countries in the area. Growth slowed towards the end of the year, especially in the countries with the closest trade links with the United States. In Argentina the persistence of unfavourable economic conditions and the delicate political situation increased the risk of a financial crisis. There was a further reduction, albeit smaller than in 1999, in the area’s external current account deficit, which declined to 2.5 per cent of GDP. The high degree of dependence on external finance continues to expose several countries to the risk of a loss of confidence on the part of international investors and hence to financial turbulence.

Last year also saw economic activity accelerate in the twelve countries of Central and Eastern Europe and the Mediterranean that are candidates for membership of the European Union. Overall, their GDP grew by 3.8 per cent, compared with 1.9 per cent in 1999. In fact 2000 was the first year since the start of the transition process in which all the economies in the area expanded.

After its economy had contracted in 1999, Turkey achieved substantial year-on-year growth of 7.1 per cent in 2000. However, the country was affected by serious episodes of financial instability from the autumn onwards, which culminated in February 2001 in a major banking and foreign exchange crisis. The new stabilization programme is being defined in a context marked by a sharp fall in economic activity and severe inflation.

THE INTERNATIONAL FOREIGN EXCHANGE AND FINANCIAL MARKETS

Equities

From the end of March 2000 to the end of March of this year, shares in the technology, media and telecommunications sector (TMT) fell dramatically on all the main stock exchanges, in conditions marked by pronounced volatility. There was a significant correction of the disparity between the market prices of shares and values consistent with their economic fundamentals. In the course of 2000 the equities of traditional companies registered modest gains both in the United States and in Europe; between January and mid-March 2001 they turned downwards and prices fell back to the levels of the beginning of 2000. Subsequently, partly in response to the easing of monetary conditions in various countries, signs of recovery were visible in all sectors, despite the great uncertainty still weighing on the economic outlook.

At the end of March 2000 the TMT share indexes in the United States and the euro area reached all-time highs, having risen by 88 and 200 per cent, respectively, since the start of 1999. In Japan, the rise between the same date and the peak in mid-February was equal to 240 per cent (Figure 1).

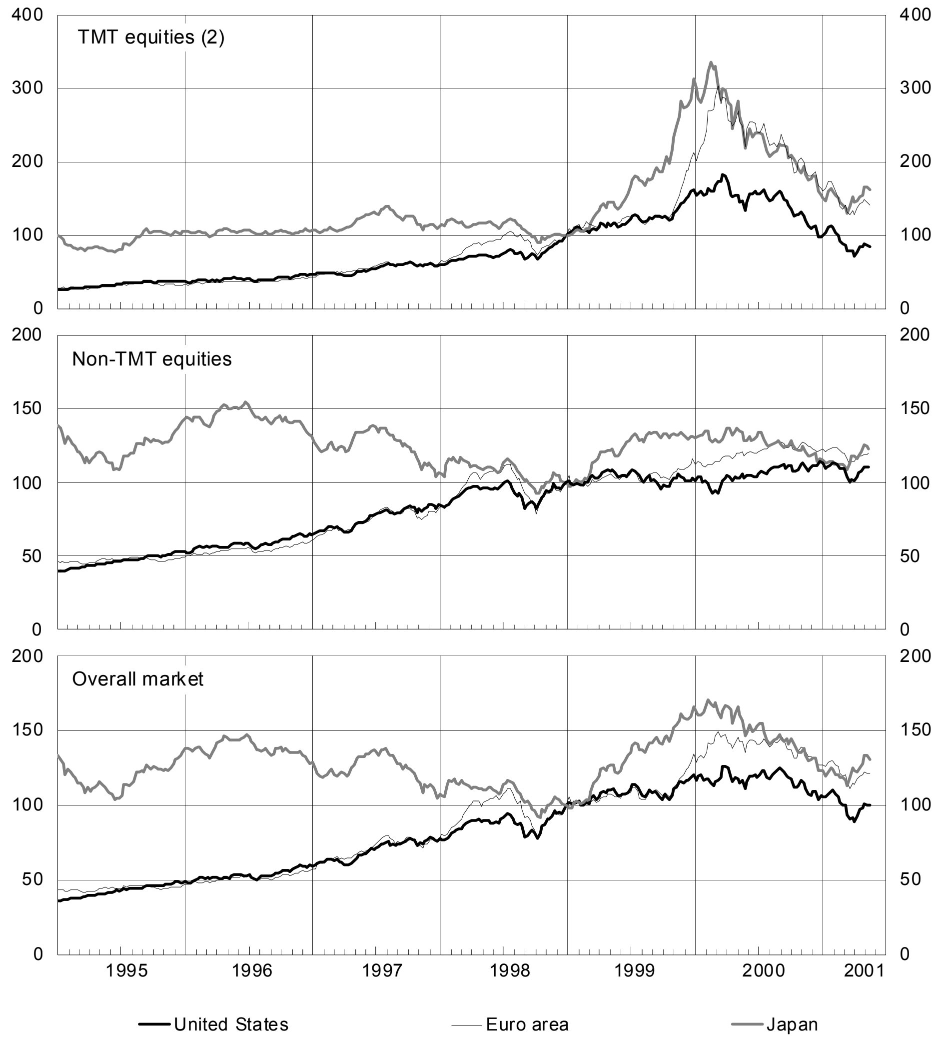
Since the end of March 2000 TMT equities have been falling, with some brief recoveries. The indexes in the US, the euro area and Japan were all down by about 60 per cent twelve months later. The unexpected reversal of US monetary policy in January 2001 afforded only temporary relief. In the next four weeks the indexes scored significant gains but turned sharply downwards again at the beginning of February. The fall in TMT equity prices in the three areas was nearly identical in both size and timing.

The performance of traditional equities in the United States and Europe in 2000 differed sharply from that of TMT shares. Prices fluctuated around a modestly rising trend that continued into the early weeks of 2001. Between the beginning of 2000 and 10 February 2001, prices rose by 16 per cent in the US and 12 per cent in Europe. The subsequent downturn brought them back to the levels of early 2000 by 20 March. Only in Japan did traditional share prices fall, though less sharply than TMT shares, reflecting the worsening economic situation and resulting concerns over the stability of the financial system. The decline came to 22 per cent between the start of 2000 and mid-March 2001.

Figure 1

SHARE PRICES

(weekly averages; indices, 1 January 1999=100) (1)



Source: *Thomson Financial Datastream.*

(1) The latest available data are for the second week of May 2001. – (2) Technology, media and telecommunications shares.

In the second half of March the markets turned up in all three areas and in all sectors. By mid-May TMT share prices had risen by between 11 and 30 per cent, traditional equities by 11 to 15 per cent. The rise strengthened following the Federal Reserve's unexpected lowering of the official interest rates by half a point on 18 April. It is hard to tell whether this marks the beginning of a sustained bull market or is only transitory. The economic outlook is still uncertain, and world growth forecasts have recently been revised sharply downwards.

Bonds

Yields on government bonds declined significantly in the United States last year. In the euro area they remained virtually stable until early November, then declined in the closing two months. During the first half of the year the US decline was due to a contraction of new issue volumes and to Treasury buy-backs made possible by the substantial budget surplus. After mid-year, by contrast, the reduction in yields (which accelerated towards the end of the year as funds were shifted from equities to bonds) was due to the slowdown in economic activity and the consequent downward revision of growth and inflation expectations. In the euro area as well, the decline in bond yields during the last two months of the year was due to worsening growth prospects. At the end of 2000 long-term interest rates stood at 5.2 per cent in the US and 4.8 per cent in the euro area, respectively 1.6 and 0.6 points lower than at the start of the year.

The US economic deterioration in the fourth quarter made investors more selective, penalizing the less creditworthy private issuers. The differential between the yields on private bonds and the corresponding swap rates widened. Funding difficulties drove US corporations to rely more heavily on bank lending. Between the beginning of June and the end of December the spread between A-rated bonds and the swap rate widened by 0.6 percentage points; that for BB-rated bonds by 0.7 points. Since January lower-rated borrowers have benefited from the easing of monetary conditions; by mid-May the spread for BB-rated issuers had narrowed by 1.6 points.

The corporate bond market in Europe was dominated in 2000 by massive issues by telecommunications companies to finance the acquisition of third-generation mobile phone licences and investment in their development. The resulting increase in leverage, which investors came to see as excessive in view of the downward revision of profit forecasts, worsened these corporations' credit ratings and significantly increased their borrowing costs.

In Japan ten-year bond yields fluctuated between 1.6 and 2 per cent last year. In the new year the release of data indicating a sharp economic deterioration drove yields down to 1 per cent by the end of March.

However, the decline in yields halted in mid-March in all the leading markets, and interest rates moved upwards again, owing in part to portfolio adjustment in favour of equities. In the United States and the euro area, yields in mid-May were 0.4 and 0.3 points respectively above their March lows. In Japan yields rose by 0.15 points but remain extremely low at 1.3 per cent.

Exchange rates

The euro depreciated heavily against the dollar through October, losing nearly 20 per cent of its value. After strengthening temporarily in the last two months of the year, it weakened again. The yen held stable against the dollar for most of 2000 but began to weaken in November. By mid-May 2001 it had fallen by about 13 per cent against the US currency.

The euro declined from 1.03 to the dollar at the beginning of 2000 to a low of 0.825 on 26 October, failing to respond to the Eurosystem's successive interest rate increases. On 22 September the leading central banks intervened together in the markets in support of the European currency.

Beginning in November, as the US economy deteriorated rapidly, the euro staged a significant recovery. At the beginning of the upturn the Eurosystem carried out unilateral support interventions.

Since the second half of January 2001 the dollar has appreciated once again, sustained by the markets' belief, based on the repeated large interest rate cuts by the Federal Reserve, that the US authorities are determined to avoid a recession. In the middle of May the euro was trading at 0.878 dollars, which corresponds to a depreciation of 15 per cent since January 2000.

The nominal effective exchange rate of the euro recovered strongly in November after declining by about 10 per cent since the beginning of 2000, and by January 2001 was only slightly lower than a year earlier. It then declined slightly and in April was 3 per cent below the level of January 2000.

In April 2001 the real effective exchange rate of the euro was about the same as in January 2000. Over the same period the dollar appreciated by 13 per cent in real effective terms and the yen depreciated by the same amount.

INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

International trade and the prices of raw materials

World trade accelerated sharply in 2000; annual growth of flows of goods and services at constant prices rose from 5.3 to 12.4 per cent, the best result in more than a decade. For goods alone, the increase was 13.4 per cent. Exports of goods were fueled by the expansion in global demand, especially in the first half of the year, with the emerging economies of Asia and Japan recording particularly rapid export growth. However, trade slackened in the second half, most notably in the fourth quarter, reflecting the weakening of demand in the United States particularly for capital goods. The latest IMF forecast for merchandise trade in 2001 points to a sharp reduction in growth to 6.7 per cent.

The price of crude oil, measured as the simple average of the three main grades, increased by 57 per cent year on year; between January and September it rose from $25 to $34 a barrel, the highest level in ten years. The increase was driven by demand, which was far more robust than expected. In the fourth quarter oil prices fell back rapidly following the sharp deceleration in demand, the production increase decided by the OPEC countries in September and the release of some of the US strategic reserves; in December they were close to the levels of the start of the year.

Between February and March of this year the price of oil climbed back to $28 a barrel following OPEC’s decision to cut production by a total of 2.5 million barrels a day (equal to more than 3 per cent of world output) under its recently adopted strategy of keeping the price within a target range of between $22 and $28. Since April oil prices have shown wide fluctuations. In the first half of May they were around $27 a barrel.

The advanced countries’ terms of trade worsened by an average of 3.4 per cent in 2000; the countries most dependent on oil imports (Germany, Japan and Italy) were hit particularly hard. The developing countries’ terms of trade improved by 6.4 per cent, reflecting the large gain of the oil-exporting countries (45.6 per cent).

The external current account deficit of the advanced economies as a group grew from $167 billion in 1999 to an estimated $269 billion last year as a consequence of the further large increase in that of the United States, which expanded from $332 billion to $435 billion (Table 2). The euro area's deficit also increased, to $32 billion, but remained very small in relation to GDP. The deterioration was caused by the large reduction in the area's trade surplus, which contracted from $88 billion to $49 billion owing to the increased value of oil imports.

Table 2

BALANCE OF PAYMENTS ON CURRENT ACCOUNT OF THE MAIN GROUPS OF COUNTRIES

	Billions of dollars				As a percentage of GDP			
	1998	1999	2000	Forecasts 2001	1998	1999	2000	Forecasts 2001
Advanced countries	**3.2**	**–166.5**	**–268.8**	**–291.4**	**. .**	**. .**	**–0.1**	**–0.1**
of which: United States	*–217.1*	*–331.5*	*–435.4*	*–446.0*	*–2.5*	*–3.6*	*–4.4*	*–4.3*
Japan	*121.2*	*106.9*	*116.9*	*115.4*	*3.1*	*2.4*	*2.5*	*2.7*
Euro area	*34.8*	*–6.6*	*–32.1*	. . . .	*0.5*	*–0.1*	*–0.5*	. . . .
Newly industrialized Asian economies (1)	*67.2*	*65.2*	*51.7*	*43.2*	*8.1*	*7.0*	*5.1*	*4.2*
of which: South Korea	*40.6*	*24.5*	*11.0*	*10.1*	*12.7*	*6.0*	*2.4*	*2.3*
Developing countries	**–92.2**	**–18.5**	**46.0**	**. .**	**–1.8**	**–0.4**	**0.9**	**. .**
of which: Asia	*47.0*	*46.7*	*35.9*	*22.5*	*2.5*	*2.3*	*1.6*	*1.0*
of which: Asean-4 (2)	*29.3*	*38.5*	*33.8*	*28.2*	*8.5*	*9.2*	*7.7*	*6.1*
China	*31.5*	*15.7*	*12.5*	*7.2*	*3.3*	*1.6*	*1.2*	*0.6*
India	*–6.9*	*–2.8*	*–5.0*	*–5.8*	*–1.7*	*–0.6*	*–1.0*	*–1.2*
Latin America	*–90.2*	*–55.7*	*–47.9*	*–66.4*	*–4.5*	*–3.2*	*–2.5*	*–3.3*
of which: Argentina	*–14.3*	*–12.4*	*–9.7*	*–10.0*	*–4.8*	*–4.4*	*–3.4*	*–3.4*
Brazil	*–33.6*	*–25.0*	*–24.6*	*–27.4*	*–4.3*	*–4.7*	*–4.2*	*–4.5*
Mexico	*–16.1*	*–14.1*	*–17.7*	*–23.6*	*–3.8*	*–2.9*	*–3.1*	*–3.9*
Venezuela	*–3.3*	*3.7*	*13.0*	*5.3*	*–3.4*	*3.6*	*10.8*	*4.3*
Central and Eastern Europe	**–20.3**	**–23.2**	**–20.4**	**–21.8**	**–5.0**	**–5.9**	**–5.1**	**–5.0**
Russia	**–1.6**	**22.9**	**45.3**	**35.6**	**–0.6**	**12.4**	**18.4**	**12.0**
Memorandum items:								
Oil-exporting developing countries	**–35.2**	**10.1**	**93.8**	**63.6**	**–6.3**	**1.7**	**13.4**	**9.1**
Non-oil-exporting developing countries	**–57.0**	**–28.6**	**–47.8**	**–63.6**	**–1.3**	**–0.7**	**–1.0**	**–1.3**

Sources: Based on IMF data and national statistics.
(1) Hong Kong, Singapore, South Korea and Taiwan. – (2) Indonesia, Malaysia, the Philippines and Thailand.

The overall current account of the developing countries, traditionally in deficit (to the tune of $19 billion in 1999), showed a $46 billion surplus. The improvement stemmed largely from the oil-exporting countries' substantially larger surplus, which rose from $10 billion to $94 billion; in particular, it reflects the allocation to saving of most of the Middle East countries' additional oil revenues. Russia's current account surplus also rose sharply, from $23 billion to $45 billion. By contrast, for the second consecutive year the surpluses of the newly industrialized economies and developing countries of Asia fell back slightly from the peak of 1998, decreasing from $65 billion to $52 billion and from $47 billion to $36 billion, respectively.

The external deficit of the Latin American countries edged downwards from $56 billion to $48 billion, primarily owing to the increase, from $4 billion to $13 billion, in the surplus of Venezuela, a major oil producer, and the modest reduction, from $12 billion to $10 billion, in the deficit of Argentina. The deficit of the Central and Eastern European economies also contracted slightly, to $20 billion, but was still a little more than 5 per cent of the area's GDP.

As in the two preceding years, the US current account deficit, which rose from 3.6 to 4.4 per cent of GDP, was easily financed by massive net inflows of private capital, especially for direct investment ($155 billion) and portfolio investment ($332 billion, an increase of $118 billion on 1999). More than half of the latter involved the equity market, which recorded net inflows of $172 billion, compared with $99 billion in 1999. Japan's current account surplus rose moderately to 2.5 per cent of GDP as a result of the virtual disappearance of the deficit on invisibles, while the trade surplus contracted from 2.7 to 2.5 per cent of GDP; net outflows of direct and portfolio investment rose strongly, from $36 billion to $61 billion.

On the basis of the performance of the current and capital accounts, the United States' net external liabilities at the end of 2000 are estimated to have reached $1.9 trillion, equal to 19.2 per cent of GDP, compared with 15.8 per cent at the end of 1999. Japan's net external assets grew slightly during the year, from $829 billion to around $840 billion and from 16.5 to 18.8 per cent of GDP. The euro area's net external liabilities are estimated to have increased from $132 billion to $144 billion, while remaining of modest size in relation to GDP (2.4 per cent).

Capital flows to the emerging countries

According to IMF estimates, in 2000 total net capital flows to the emerging countries contracted further to around $37 billion, less than half the figure of the previous year (Table 3).

Net private capital flows fell from $70 billion to $33 billion, a drastic reduction in comparison with the pre-Asian-crisis years from 1993 to 1996.

Table 3

NET CAPITAL FLOWS TO EMERGING COUNTRIES (1)

(billions of dollars)

	1993-96	1997-98	1999	2000
	All emerging countries			
Total net flows	**193.5**	**146.2**	**80.4**	**37.4**
Private	169.8	86.8	69.8	32.6
Direct investment	*88.7*	*148.0*	*150.3*	*143.9*
Portfolio investment	*80.0*	*21.7*	*21.5*	*25.0*
Other investment	*1.2*	*–83.1*	*–101.9*	*–136.2*
Official (2)	23.7	59.5	10.6	4.8
	Asia			
Total net flows	**77.8**	**–4.0**	**–2.0**	**–5.2**
Private	74.3	–16.7	0.5	–1.8
Direct investment	*45.5*	*59.8*	*50.6*	*47.1*
Portfolio investment	*20.9*	*–4.3*	*4.3*	*12.7*
Other investment	*7.9*	*–72.3*	*–54.4*	*–61.5*
Official (2)	3.6	12.8	–2.5	–3.4
	Latin America			
Total net flows	**61.7**	**80.7**	**47.8**	**56.4**
Private	46.2	64.9	40.4	39.3
Direct investment	*24.9*	*55.1*	*64.2*	*56.9*
Portfolio investment	*37.6*	*19.5*	*10.4*	*4.7*
Other investment	*–16.2*	*–9.6*	*–34.2*	*–22.3*
Official (2)	15.5	15.8	7.4	17.1
	Africa			
Total net flows	**12.6**	**14.3**	**14.1**	**4.2**
Private	9.8	13.9	12.7	8.6
Direct investment	*3.1*	*7.6*	*8.9*	*6.8*
Portfolio investment	*2.6*	*5.4*	*8.7*	*4.3*
Other investment	*4.2*	*0.9*	*–4.9*	*–2.4*
Official (2)	2.8	0.5	1.4	–4.4
	Middle East, Malta and Turkey			
Total net flows	**20.4**	**19.0**	**8.7**	**–21.5**
Private	16.5	13.8	3.7	–16.2
Direct investment	*6.1*	*7.6*	*5.0*	*9.0*
Portfolio investment	*5.2*	*–4.9*	*–4.2*	*–2.1*
Other investment	*5.2*	*11.0*	*2.9*	*–23.1*
Official (2)	4.0	5.3	5.0	–5.3
	Central and Eastern Europe and former Soviet Union			
Total net flows	**21.0**	**36.2**	**11.8**	**3.6**
Private	23.1	11.0	12.5	2.8
Direct investment	*9.2*	*18.0*	*21.6*	*24.2*
Portfolio investment	*13.8*	*6.0*	*2.2*	*5.3*
Other investment	*0.2*	*–13.1*	*–11.2*	*–26.7*
Official (2)	–2.1	25.2	*–0.8*	*0.8*

Source: IMF.

(1) Annual averages for 1993-96 and 1997-98. No data for Hong Kong are available. Capital inflows net of outflows. Other investment comprises bank loans and trade credits, foreign currency deposits and other assets and liabilities; it may also include some official flows. Rounding may cause discrepancies in totals. – (2) Excludes the change in official reserves.

The low value of the aggregate primarily reflected the increase in net outflows of trade credits and bank loans, both of which are included in “other private investment”. The balance on the latter, which turned negative in 1997, worsened from $102 billion in 1999 to $136 billion last year. There were further substantial net outflows of bank capital from the countries hit hardest by the crises of 1997 and 1998. The net outflow of $23 billion from the Middle East, Malta and Turkey reflects the international banking system’s flight from exposure to Turkey at the end of the year.

Net inflows of portfolio investment rose from $22 billion to $25 billion, which was still far below the average of $80 billion for the period 1993-96. Compared with 1999, there was an increase in net flows to China, the countries of Central and Eastern Europe and those of the former Soviet Union. By contrast, those to Latin America fell by more than a half, from $10.4 billion to $4.7 billion. The reduction mainly concerned Argentina and Mexico, whose decreases more than offset the recovery in portfolio investment in Brazil.

Direct investment in the emerging economies continued to be a quantitatively important source of financing. In 2000 net inflows amounted to $144 billion, compared with $150 billion in 1999 and an average of $89 billion in 1993-96. Net direct investment in the countries of Central and Eastern Europe, the former Soviet Union and the Middle East rose from $27 billion in 1999 to $33 billion last year.

Total net official flows to the emerging countries amounted to only $4.8 billion, compared with $10.6 billion in 1999.

INCOME, PRICES AND THE BALANCE OF PAYMENTS

Recent developments in the euro area

Output in the euro area increased by 3.4 per cent in 2000, the highest rate of growth for ten years. At the same time, the United States was also experiencing its fastest expansion of the past decade (5 per cent). In the United States the acceleration in relation to 1999 was fueled by domestic demand, whereas in the euro area the impetus came from exports.

Activity quickened in all the main euro-area economies. In particular, Germany and Italy, the two countries which had previously shown the slowest growth, halved the gap in relation to the area average and caught up with France, thanks to the large positive contribution from foreign trade, which contrasted with the markedly negative contribution it had made in 1999 (Table 4).

The rate of GDP growth slowed down during 2000 owing to developments in the world economy in the second half of the year. The rise in oil prices eroded households' purchasing power, thus curbing their expenditure. The abrupt halt in growth in the United States jeopardized the prospects of an expansion in demand, increasing uncertainty and inducing firms to trim their investment plans. The rate of growth in gross fixed investment in the area fell by one third between the first and second halves of the year and that in consumption by almost half. France was an exception among the major countries; there the slight slowdown in household consumption was offset by an acceleration in investment, especially in items other than construction.

The growth in industrial production in the euro area in 2000 was the highest for at least fifteen years, with the index rising by 5.5 per cent on an annual average basis, thanks to the rapid acceleration from the middle of 1999 onwards. There was a particularly large increase of more than 7 per cent in the output of durable goods, with that of capital goods rising by 8.8 per cent; the production of electronic equipment for information systems and communications (ICT) rose by over 20 per cent. The weakening of growth in the summer and autumn, which was foreshadowed by the behaviour of orders and business confidence, was especially noticeable in Spain (Figure 2).

Table 4

GDP AND ITS MAIN COMPONENTS IN THE MAJOR EURO-AREA COUNTRIES

(at constant prices; seasonally adjusted data; percentage changes on the year-earlier period unless otherwise indicated)

	1999	2000	2000			
	Year	Year	Q1	Q2	Q3	Q4
			GDP			
Germany	1.6	3.0	1.0	1.2	0.3	0.2
France	2.9	3.1	0.6	0.7	0.6	1.0
Italy	1.6	2.9	1.1	0.2	0.6	0.8
Spain	4.0	4.1	1.4	0.8	0.8	0.7
Euro area	2.5	3.4	0.9	0.8	0.6	0.7
			Imports			
Germany	8.1	10.2	2.2	3.2	2.6	5.5
France	4.7	14.2	4.0	4.0	4.9	3.2
Italy	5.1	8.3	−0.8	4.2	2.3	−0.2
Spain	11.9	10.4	1.1	1.8	2.9	0.6
Euro area	6.9	10.6	2.2	2.6	2.5	2.8
			Exports			
Germany	5.1	13.2	4.4	2.8	2.8	4.5
France	4.0	12.6	3.3	4.5	2.9	3.6
Italy	. .	10.2	−0.1	2.3	7.3	1.4
Spain	6.6	10.8	1.1	3.5	2.5	3.6
Euro area	4.8	11.9	2.7	2.4	3.0	3.1
			Household consumption (1)			
Germany	2.6	1.6	0.1	1.5	−0.4	0.1
France	2.8	2.5	0.7	0.5	0.5	0.3
Italy	2.4	2.9	0.9	1.0	0.4	0.2
Spain	4.7	4.0	1.7	0.6	0.2	0.1
Euro area	3.0	2.6	0.7	0.9	0.2	0.3
			Gross fixed investment			
Germany	3.3	2.4	1.7	. .	0.8	−0.1
France	6.2	6.1	1.6	1.8	1.6	3.0
Italy	4.6	6.1	2.0	1.2	0.6	0.1
Spain	8.9	5.9	1.7	. .	2.5	−2.0
Euro area	5.1	4.5	1.6	0.6	1.0	0.5
			Domestic demand			
Germany	2.4	2.0	0.2	1.3	0.2	0.5
France	3.1	3.3	0.7	0.5	1.1	0.8
Italy	3.0	2.3	0.9	0.7	−0.9	0.4
Spain	5.5	4.1	1.4	0.3	0.9	−0.2
Euro area	3.1	2.8	0.7	0.8	0.3	0.5
			Net external demand (2)			
Germany	−0.8	1.0	0.7	−0.1	0.1	−0.2
France	−0.1	−0.1	−0.1	0.2	−0.5	0.2
Italy	−1.3	0.6	0.2	−0.5	1.5	0.5
Spain	−1.5	−0.1	. .	0.5	−0.2	0.9
Euro area	−0.6	0.6	0.2	. .	0.2	0.2

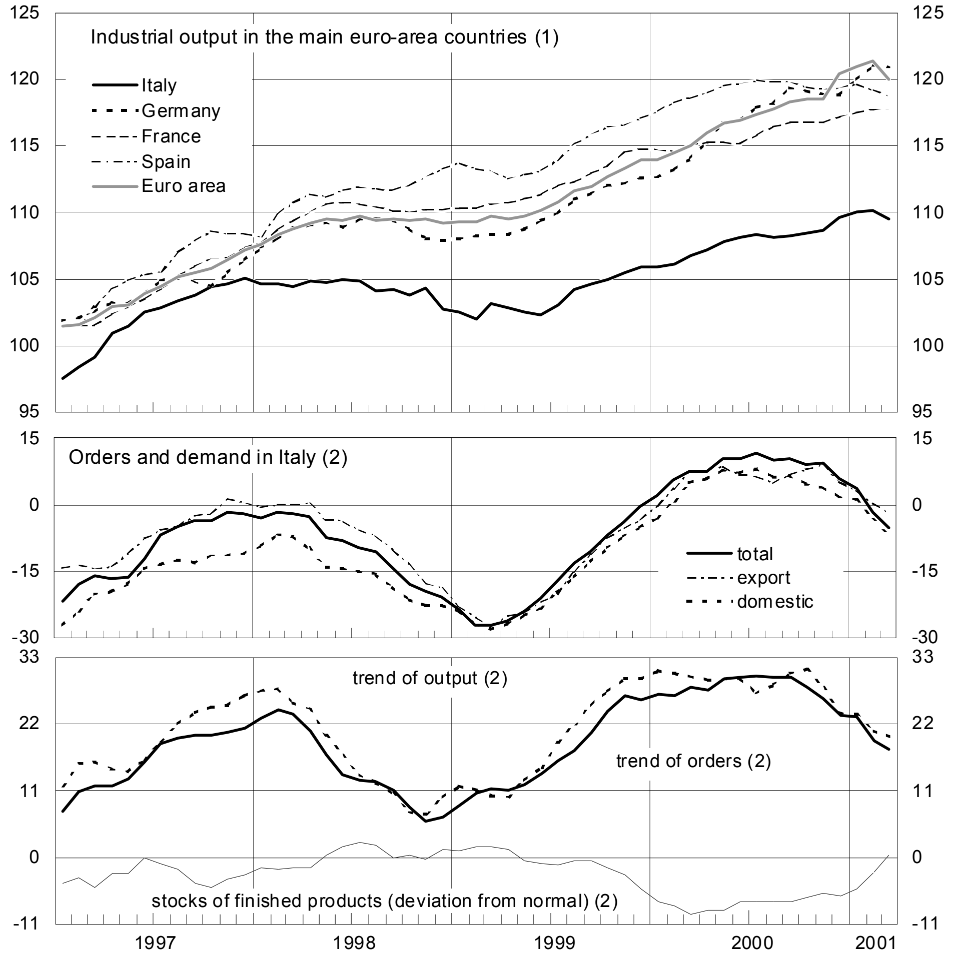
Sources: Based on Eurostat and national statistics.

(1) Comprises expenditure of resident households and of non-profit institutions serving households. – (2) Contribution to the growth on the preceding period in percentage points.

Figure 2

INDUSTRIAL OUTPUT, DEMAND AND STOCKS

(moving averages for the three months ending in the reference month)



Sources: Based on Istat, Eurostat and ISAE data.

(1) Indices, 1995=100; seasonally adjusted data for all countries; the euro area includes Greece. – (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.

Labour market data also show a high degree of macroeconomic conformity between the countries in the area. The unemployment rate for the area as a whole fell by about one percentage point to 8.5 per cent at the end of the year; it came down substantially in all the countries, with particularly large improvements in Spain and Belgium. By the beginning of this year unemployment in France, Finland and Italy had fallen below 10 per cent, leaving only Spain with a rate in double digits.

By contrast, there was wider dispersion in the national rates of consumer price inflation, as regards not only the more volatile components but also core inflation.

The acceleration in the rise in the general consumer price index for the area from 1.1 to 2.3 per cent was due almost entirely to the impact effect of the increase in energy prices. There were fairly wide differences between countries, however, depending on the composition of household consumption and the taxation of energy products. The variation in the prices of services also differed from country to country, partly because of the different stages reached in the liberalization of the sector. On the other hand, producer prices in the major countries moved more closely in step during the year, accelerating appreciably until the beginning of the autumn and slowing down equally abruptly thereafter.

Core inflation in the area was 1.2 per cent, slightly higher than in 1999 and in line with the average for the second half of the nineties. This outcome was due in large part to continued wage restraint. The rate of change in unit labour costs in industry excluding construction fell by more than two percentage points in all of the four largest countries of the area, with the average swinging from plus 1.1 per cent in 1999 to minus 1.5 per cent in 2000. The most marked improvement in competitiveness on the basis of unit labour costs was in Germany, which widened the gap in its favour, especially in relation to Spain.

The growth in economic activity in Italy

The performance of the Italian economy was not significantly different from that of the euro area as a whole (Table 5). Here too, economic activity grew at its fastest rate of the last decade, comparable with that recorded in 1995. Nevertheless, Italy continued to lag behind the average for the area, especially as far as industrial output was concerned. The economy continued to have difficulty competing in the internal market of the European Union. As regards cyclical developments, the slowdown in consumption and investment in Italy was sharper than in the area as a whole.

The recovery in industrial output, which had begun rather hesitantly in the first half of 1999, proceeded strongly for about a year before settling back to a more moderate pace, if one disregards the brief surge in the last two months of 2000. The twelve-month rise in the seasonally adjusted index came down from 7.9 per cent in May 2000 to 2.2 per cent this March. ISAE surveys show that orders clearly foreshadowed this slowdown from last summer onwards (Figure 2).

The growth in world trade, together with the depreciation of the euro, helped to boost exports, which rose by an annual average of 10.2 per cent in volume. Despite this increase, Italian firms suffered a further erosion of market share, especially in the EU. In the last four years Italian exports grew at less than half the rate of increase in the imports of countries that constitute our export markets (22.2 per cent, compared with 48.4 per cent at constant prices). With demand for their products increasing at a comparable rate, Germany and France maintained their market shares and Spain increased its share by one third. Italy's trade balance with euro-area countries has been deteriorating since 1996; the surplus of 6.1 trillion lire in that year turned into a deficit of 9.8 trillion in 2000.

Table 5

ITALY: RESOURCES AND USES OF INCOME

	Percentage of GDP in 2000	1999			2000		
		Percentage changes		Contribution to GDP growth	Percentage changes		Contribution to GDP growth
		Values at constant prices	Deflators		Values at constant prices	Deflators	
Resources							
GDP	–	1.6	1.6	–	2.9	2.2	–
Imports of goods *fob* and services (1)	28.5	5.1	0.4	–1.3	8.3	12.7	–2.2
of which: goods	*22.0*	*7.2*	*–0.5*	*–1.4*	*8.7*	*13.6*	*–1.8*
Uses							
Domestic demand	98.4	3.0	1.6	2.9	2.3	3.9	2.3
Consumption of resident households	60.2	2.3	2.1	1.4	2.9	2.9	1.7
Consumption of government and non-profit institutions serving households	17.5	1.6	2.6	0.3	1.7	2.8	0.3
Gross fixed capital formation	20.5	4.6	1.2	0.9	6.1	2.5	1.2
machinery, equipment and transport equipment	*11.3*	*5.5*	*0.9*	*0.6*	*7.5*	*2.0*	*0.8*
construction	*8.2*	*2.8*	*1.5*	*0.2*	*3.6*	*3.3*	*0.3*
intangible assets	*1.0*	*12.4*	*2.8*	*0.1*	*11.6*	*1.1*	*0.1*
Change in stocks and valuables (2)	0.2	–	–	0.4	–	–	–1.0
Exports of goods *fob* and services (3)	30.1	. .	. .	. .	10.2	6.0	2.9
of which: goods	*23.9*	*1.1*	*–0.5*	*0.2*	*9.7*	*6.8*	*2.2*

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

The serious worsening of the terms of trade as a result of the depreciation of the euro and the rise in oil prices caused Italy's overall trade account to deteriorate sharply last year, even though the increase in the volume of imports was less than the euro-area average. The trade surplus on a *fob-fob* basis fell by a half, from 42.7 to 22.8 trillion lire. There was an equally large deterioration in the current account, which recorded a deficit of 11.8 trillion lire, the first since 1992.

Gross fixed investment increased by 6.1 per cent in 2000, comparable with the rate in France and more than twice as fast as in Germany. The most rapid increase was in expenditure on machinery, equipment, transport equipment and intangible assets, which rose at an annual rate of just under 10 per cent in the first half of 2000 before slackening in the second in parallel with the decline in the prospects for growth in world demand. In the last five years spending on these items has kept pace with that in Germany and France. Building investment rose by 3.6 per cent, thanks mainly to the performance of non-residential construction but also to the increase in residential renovation work, which benefited from substantial tax concessions.

Consumption slowed down more sharply in Italy than in the other euro-area economies, although on an annual average basis it increased more strongly than in the rest of the area. Purchases of durable goods again rose more rapidly than the average (9.7 per cent, compared with 2.9 per cent). There was a very large rise of almost 25 per cent in expenditure on ICT, with both the services and durable goods components benefiting.

The rise in the prices of imported goods and the recovery in output caused consumer price inflation to accelerate from 1.7 per cent in 1999 to 2.6 per cent; the inflation differential in relation to the average for the euro area almost closed for the first time in thirty years. In terms of core inflation, the differential to Italy's disadvantage remained unchanged at 0.7 percentage points. Long-term inflation expectations are below 2 per cent.

The rise in employment

The salient feature of last year was the growth in employment by about 2.5 million persons in the euro area as a whole and by almost 400,000 in Italy. Since 1997 the number of persons in work has increased by about 6.6 million in the area and by 820,000 in Italy. Over the same period the demand for labour had positive effects on the labour supply, which grew by almost 1 per cent a year.

This growth in employment followed a decline of more than 1 million in the number of persons in work in the area as a whole between 1992 and 1997 and one of 880,000 in Italy.

The rise in employment benefited mainly the weakest members of the labour force. A reconstruction by Eurostat indicates that between 1997 and 2000 unemployment rates fell in the area as a whole by about 3 percentage points for women and almost 6 points for persons under the age of 25, compared with an average improvement of 2.6 points. The trend was common to most of the countries, albeit with differences. In Italy the fall in the unemployment rate over the same period was 1.7 points for women, 2.9

points for young people and 1.1 points on average. More than half of the improvement occurred last year. In addition, the positive encouragement effects on the labour supply led to an increase in participation rates in general, and especially for women aged over 25.

Both in the euro area as a whole and in Italy, the growth in economic activity does not appear to account entirely for the increase in the demand for labour and the change in the composition of the labour force. The employment opportunities for the groups that are traditionally weakest – young people and women – have increased, not only because of the growth of services but also on account of the spread of new types of employment contract and policies aimed at providing a stepping-stone into work. Overall, the scale and characteristics of the rise in employment appear to be correlated with changes in explicit and implicit labour costs.

In recent years explicit labour costs have been held down by wage restraint and by the measures that many countries, including Italy, have introduced to reduce social security contributions, often targeted at the most disadvantaged categories of worker. Implicit labour costs, due to rigidity in the use of labour, have been reduced in Italy too by more flexible working hours and reforms that have widened the range of contracts and facilitated fixed-term and part-time working. Schemes to promote apprenticeships and other forms of on-the-job training have made it easier for young people to find work.

In Italy another likely factor has been the reduction of barriers to entry in certain sectors (such as distribution), the spread of new business services and the increase in demand for new professional skills, such as those associated with ICT, which are more prevalent among younger age-groups. This last tendency can also be deduced from the type of vacancies and the change in the occupational composition of the work force in recent years.

Fixed-term and part-time jobs accounted for more than 80 per cent of the increase of more than 1 million in the number of persons in employment in Italy between 1995 and 2000. The number of persons with quasi-employee status (professionals and external consultants with an employment relationship similar to that of employees) almost doubled to just under 2 million at the end of 2000. Nevertheless, the recent growth in permanent employment indicates that when firms have difficulty finding manpower they are not averse to offering workers permanent full-time jobs. This willingness should be increased further by the recent introduction of tax credits for hiring additional permanent workers.

There are still serious disequilibria, however. In the euro area the proportion of long-term unemployed is still extremely high, at more than 50 per cent of the total; in Italy it is 61 per cent. The employment rate for the population between the ages of 15 and 64 is almost 10 points below the target of 70 per cent set by the European Council in Lisbon for the end of the decade; in Italy it is still 53.2 per cent. In Italy there are still wide geographic differences in the labour market and the gap is widening between the protected and better-paid part of the market and the part where jobs are precarious. The range of types of contract, wages and other employment conditions is still not as wide as would be desirable.

Over the longer term, employment prospects depend on achieving a stable growth path, which in the case of Italy requires a significant improvement in the international competitiveness of firms and measures to help backward regions catch up.

Technological innovation and the availability of adequate business services may produce gains in competitiveness. Up to now, the privatization and liberalization of large sections of the service sector have not been entirely consistent with the aims of maximizing productivity, developing networks, enhancing standards of service, holding down prices and ensuring consumer protection.

The pace of innovation is being checked by residual monopoly rents. The spread of the new information and communication technologies needs to be accompanied by changes in corporate organization and in relations between firms. Reorganization is being held back by the fact that the modernization of infrastructure, factor markets, public services and the legal system has still not been completed. Italian firms still cannot benefit from the necessary changes in company and bankruptcy law; civil proceedings still last far longer than in the other leading industrial countries.

The vigorous investment cycle that began in the South some years ago, combined with a particularly high rate of business start-ups and the tendency for southern firms to be more international, have laid the groundwork for reducing the development lag with the rest of the country. Although output growth is about half a point lower than in the Centre and North, non-farm employment in the South has been recovering since 1995 and rose by about 220,000 persons between the first labour force survey of 2000 and the first of this year, compared with an increase of 420,000 in the rest of the country.

Recent developments and the outlook for the current year

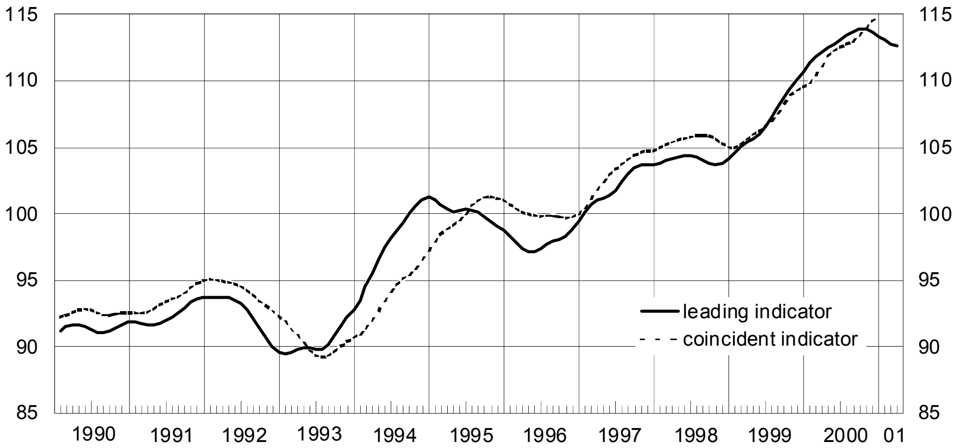
According to the main economic indicators, in particular Eurostat’s harmonized business surveys, economic activity in the euro area will tend to weaken in the coming months. The expected slowdown in world demand, the severity of which will depend to a large extent on the scale of the downturn in the United States, and uncertainty about the direction of stock markets justify fears of adverse influences from outside the area. These will be offset partly by relatively sustained domestic consumer and investment demand, thanks to the continued rise in employment and high capacity utilization rates.

Against this background, the ISAE surveys of Italian industrial firms indicate that the growth in economic activity is likely to slow in Italy too. In the first three months of this year industrial output began to respond to the weakening of demand that became evident in the middle of 2000 (Figure 2). The substantial build-up of stocks of finished goods and the behaviour of imports confirm the slowdown in activity, which is endorsed by Istat's preliminary estimate of GDP in the first quarter of 2001. According to the leading indicator constructed by the Economic Research Department of the Bank of Italy and ISAE (Figure 3), the downturn could last for several months.

Figure 3

INDICATORS OF THE BUSINESS CYCLE IN ITALY

(indices, 1995=100)



Sources: Based partly on Istat and ISAE data.

Given the possible halving of the growth in world demand, as forecast by the International Monetary Fund in the event of a sharp downturn in the United States, and assuming first that oil prices reach the levels indicated by futures prices and secondly that the exchange rate and interest rates remain stable, GDP growth in Italy is likely to slow down significantly in 2001, possibly falling by more than half a percentage point in relation to 2000. However, even this forecast is predicated on positive growth in the second half of the year, as the level of GDP in the first quarter would result in annual average growth of only 1.6 per cent if output remained unchanged in the subsequent quarters.

Exports are expected to slow markedly on an annual average basis and to continue to grow more slowly than world demand. However, with imports also slowing sharply, net foreign demand should continue to make a positive contribution to GDP growth. The trade balance and the current account could improve marginally.

The growth in household consumption is likely to be considerably smaller than last year, owing partly to a natural decrease in the growth of spending on durable goods. In view of the expected further large rise in disposable income, due mainly to a substantial increase in employment, consumption should nevertheless begin to accelerate again before the end of the year.

In view of the altered economic environment, investment is unlikely to equal the rates of growth achieved in the first half of 2000. Gross fixed investment in residential buildings could also slow down, after two years of substantial growth.

In the course of 2001 consumer price inflation should slow down from the high rates reached in the first few months of the year. Core inflation could be higher on average than in 2000, but it should gradually come down as the year proceeds. On an annual average basis, inflation is likely to remain broadly the same as in 2000, despite a modest acceleration in unit labour costs due to an expected slowdown in productivity growth.

DEMAND

Domestic demand in the euro area grew by 2.8 per cent at constant prices, easing slightly from 3.1 per cent in 1999. In Italy, both household consumption and gross fixed investment picked up pace, but changes in stocks had a substantial negative effect. Net exports contributed 0.6 percentage points to euro-area growth, compared with minus 0.6 points in 1999; their contribution was appreciable especially in Germany and Italy (1 and 0.6 points respectively), essentially nil in France and Spain.

Household consumption

In 2000 Italian household consumption grew by 2.9 per cent in real terms, compared with 2.3 per cent in 1999 (Table 6). Including non-residents' spending in Italy, which rose by 9 per cent and was fueled in part by the events connected with the Jubilee Year, and excluding residents' spending abroad, which fell by 4.7 per cent, the growth in total domestic consumption came to 3.3 per cent, compared with 2.1 per cent in 1999. The briskness of consumption in Italy contrasted with its deceleration in the euro area as a whole, particularly in Germany and, less sharply, in France and Spain.

As in the other major European countries, private consumption slowed down in Italy in the latter part of the year, falling from annualized growth of 3.6 per cent in the first half to 2 per cent in the second; a contributory factor was the reduction in consumers' purchasing power caused by the rise in the prices of oil products and the depreciation of the euro. In the autumn the index of households' confidence registered a significant decline (Figure 4).

For the fifth consecutive year the rise in consumption was led by durable goods purchases, which grew by 9.7 per cent, double the increase of 1999 (Table 6). The decline in such spending in the period from 1992 to 1995 (averaging 2.6 per cent a year) was followed by five years of robust growth (7.4 per cent a year), due not only to the need to rebuild stocks but also to purchases of products tied to the new information and communications technologies.

A substantial contribution (of about one third) to the growth in spending on durable goods came from purchases of furniture, which were indirectly stimulated by the completion of the housing renovation work encouraged by the government measures of the last three years. Purchases of transport equipment grew by 4.1 per cent, the largest increase since 1992 except for the exceptional gain produced in 1997 by the incentives for car scrapping.

Table 6

ITALIAN HOUSEHOLD CONSUMPTION

(at 1995 prices; percentage changes)

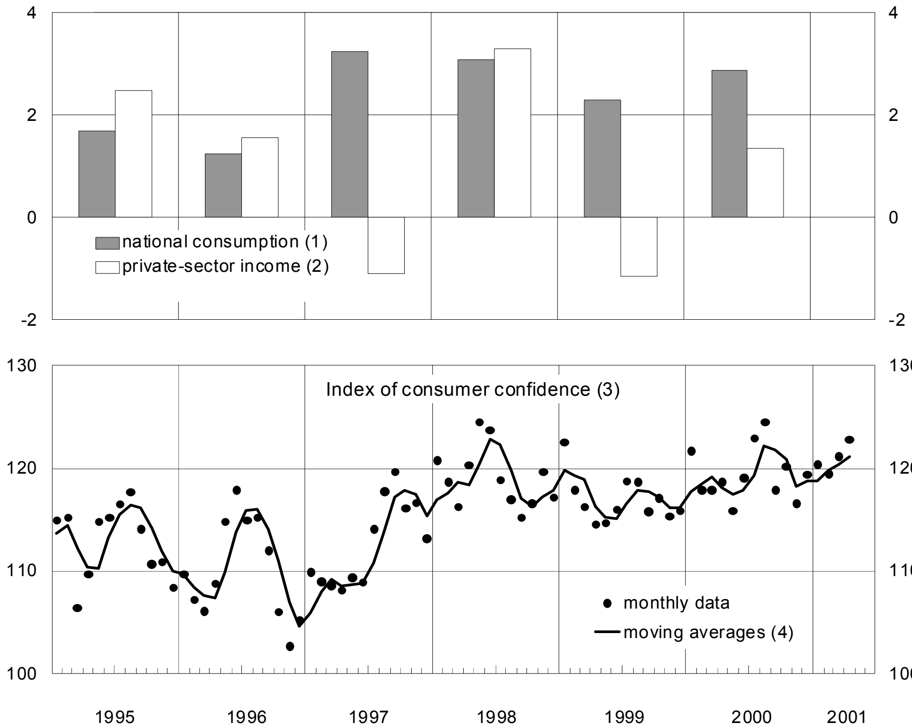
	% share in 2000	1997	1998	1999	2000
Non-durable goods	43.9	2.1	2.7	1.3	1.8
of which: food and beverages	*16.2*	*1.7*	*1.5*	*0.8*	*1.3*
Durable goods	12.6	16.4	4.8	4.9	9.7
of which: furniture and repairs	*4.2*	*1.3*	*2.5*	*3.8*	*9.0*
electrical household appliances and repairs	*1.4*	*4.1*	*8.8*	*10.6*	*8.0*
television receiving sets, photographic, computer and hi-fi equipment	*1.4*	*13.5*	*7.6*	*18.8*	*27.3*
transport equipment	*4.2*	*40.7*	*1.2*	*1.5*	*4.1*
Services	43.5	1.5	2.6	2.3	3.2
of which: hotel and restaurant	*9.1*	*1.5*	*2.9*	*2.5*	*7.4*
communication	*3.9*	*14.2*	*14.5*	*18.4*	*21.7*
recreational and cultural	*2.8*	*3.2*	*6.3*	*7.9*	*3.7*
Total domestic consumption	**100.0**	**3.3**	**2.9**	**2.1**	**3.3**
Residents' consumption abroad	–	10.2	6.3	2.1	–4.7
Non-residents' consumption in Italy	–	8.4	1.1	–1.3	9.0
Total national consumption	**-**	**3.2**	**3.1**	**2.3**	**2.9**
Memorandum item:					
Deflator of national consumption	–	2.2	2.1	2.1	2.9

Source: Istat, national accounts.

In 2000 purchases of non-durable goods grew by 1.8 per cent, which was lower than the average rate of the last four years (2 per cent). The growth in spending on food and beverages remained moderate, though it did accelerate from 0.8 to 1.3 per cent. For the first time since 1996 expenditure on services rose by more than 3 per cent, fueled by the marked increase in spending on communications (21.7 per cent) and, to a lesser extent, by that for hotel and restaurant services (7.4 per cent).

Figure 4

CONSUMPTION, INCOME AND CONSUMER CONFIDENCE IN ITALY



Sources: Based on Istat and ISAE data.

(1) Household consumption at 1995 prices; percentage changes on previous year. – (2) Gross disposable income adjusted for expected losses on net financial assets due to inflation, deflated using the national consumption deflator; percentage changes on previous year. – (3) 1980=100. – (4) For the three months ending in the reference month.

The satisfactory growth in consumption last year primarily reflected the increase in households' spending capacity. Data on households' disposable income consistent with the recent revision of the national accounts for 1997-2000 have yet to be released. The gross disposable income of the private sector as a whole, which had declined slightly in 1999, grew by 2.4 per cent at constant prices and by 5.4 per cent at current prices (Table 7). Income from salaried employment rose by 1.6 per cent in real terms; given the nearly equal expansion in the number of salaried employees (measured by standard labour units), real per capita income remained stationary. Firms' retained earnings remained at high levels.

The private sector's propensity to save diminished from 24.1 to 23.8 per cent (Table 7), continuing the downward trend of the nineties. The decline is more marked – around one percentage point – if income is adjusted for the expected loss of purchasing power on the sector's net financial assets.

Table 7

GROSS DISPOSABLE INCOME AND PROPENSITY TO SAVE OF THE PRIVATE SECTOR IN ITALY

	Average 1991-2000	1997	1998	1999	2000
	Percentage changes				
Gross disposable income					
at current prices	4.3	0.5	3.9	1.9	5.4
at 1995 prices (1)	0.5	–2.2	1.5	–0.3	2.4
at 1995 prices, adjusted for expected inflation (2)	0.8	–1.1	3.3	–1.2	1.4
at 1995 prices, adjusted for past inflation (3)	0.7	–1.3	2.5	–1.1	2.2
	Percentages				
Average propensity to save					
calculated on unadjusted income (4)	28.5	27.0	26.0	24.1	23.8
calculated on income adjusted for expected inflation	25.6	24.6	24.9	22.3	21.1
calculated on income adjusted for past inflation	25.4	24.4	24.1	21.5	21.0

Source: Based partly on Istat data.

(1) Deflated using the deflator of national consumption. – (2) Gross disposable income net of expected losses on net financial assets due to inflation, deflated using the deflator of national consumption. – (3) Gross disposable income net of actual losses on net financial assets due to inflation; deflated using the deflator of national consumption. – (4) Ratio between the saving (gross of depreciation and net of the change in staff severance pay provisions) and the gross disposable income of the sector.

The saving rate for the entire economy edged down from 21 to 20.8 per cent, notwithstanding general government's larger current surplus (Table 8).

Table 8

GROSS SAVING AND INVESTMENT IN ITALY

(as a percentage of gross national disposable income)

	Average 1971-80	Average 1981-90	Average 1991-00	1997	1998	1999	2000
General government saving	–4.5	–6.4	–3.3	–0.2	0.2	1.6	1.8
Private sector saving	30.3	28.8	24.1	22.1	21.2	19.4	19.0
Gross national saving	25.8	22.4	20.8	21.9	21.4	21.0	20.8
Gross investment	26.0	23.3	19.9	19.1	19.6	20.0	20.7
Memorandum item:							
Balance of current account transactions with the rest of the world	–0.2	–0.9	0.9	2.8	1.9	1.0	0.1

Sources: Based on Istat and Bank of Italy data.

Investment

In Italy gross fixed investment at constant prices grew by 6.1 per cent, compared with 4.6 per cent in 1999 (Table 9), 1.6 percentage points more than in the euro area as a whole. Its contribution of 1.2 percentage points to GDP growth was substantial and the largest since 1988. Capital formation net of depreciation expanded by 12.7 per cent. The modest change in stocks gave rise to a considerably smaller increase of 1.2 per cent in gross investment.

Table 9

FIXED INVESTMENT IN ITALY

(at 1995 prices; percentage changes and percentages)

	Percentage change			As a percentage of GDP		
	1998	1999	2000	1998	1999	2000
Construction	–0.2	2.8	3.6	8.1	8.2	8.2
residential	*–0.6*	*1.8*	*2.5*	*4.5*	*4.5*	*4.5*
other	*0.3*	*4.1*	*5.1*	*3.6*	*3.7*	*3.7*
Machinery and equipment	5.2	4.7	6.9	8.3	8.6	8.9
Transport equipment	17.7	8.4	9.9	2.1	2.2	2.4
Intangible assets	12.6	12.4	11.6	0.8	0.9	1.0
Total gross fixed investment	**4.3**	**4.6**	**6.1**	**19.3**	**19.8**	**20.5**
Total excluding residential buildings	5.9	5.5	7.2	14.8	15.4	16.0
Total excluding construction	7.8	6.0	7.8	11.2	11.7	12.3
Total net fixed investment (1)	**8.3**	**8.8**	**12.7**	**5.8**	**6.3**	**6.9**

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

The growth in capital spending last year was concentrated in machinery, equipment and intangible assets. Rendered possible by firms’ strong profits and favourable financial conditions and advisable by high capacity utilization rates, the rapid growth in gross fixed investment in the first half of 2000 (at an annualized rate of 7.4 per cent) was prompted by the prospects of expanding demand, especially for exports. Subsequently, the worsening of the economic environment and heightened uncertainty as to the severity and duration of the international slowdown created the conditions for a deceleration in purchases of capital goods.

Expenditure on machinery, equipment, transport equipment and intangible assets increased by 7.8 per cent at constant prices. Its ratio to GDP (12.3 per cent) exceeded historic highs and the percentages recorded in the other main euro-area countries and the United States. The machinery and equipment component alone, which benefited from the need for additional capacity and automation reported in the ISAE surveys of firms, accounted for around two thirds of the expansion. Investment in intangible assets rose by 11.6 per cent.

Construction investment grew by 3.6 per cent, thanks mainly to the increase of 5.1 per cent in non-residential building (Table 9). Civil engineering projects contracted by 0.6 per cent, probably owing to the completion of work for the Jubilee Year. Investment in residential building, which grew by 2.5 per cent, was buoyed by the tax reliefs for renovation that have been in force for three years.

The item "changes in inventories and valuables", which also includes the statistical discrepancies in the national accounts, detracted one percentage point from the growth of GDP in 2000. As a result, the item's overall contribution to growth in the period from 1997 to 2000 fell to nil. Stocks continued to contract until the end of the summer; in the fourth quarter, as the economy slowed down, they began to build up rapidly. According to ISAE surveys, in the first few months of 2001 stocks of finished products were back at levels considered normal.

Exports and imports

The recovery in world economic activity and the depreciation of the single currency fueled the euro area's exports of goods and services, which expanded by 11.9 per cent at constant prices in 2000, surpassing even the very substantial growth of 10.6 per cent in imports.

Table 10

EXPORTS AND IMPORTS OF GOODS AND SERVICES IN ITALY'S NATIONAL ACCOUNTS

(percentage changes on previous year unless specified)

	1998			1999			2000		
	Goods	Services	Total	Goods	Services	Total	Goods	Services	Total
Exports *fob* (1)									
At current prices	4.1	6.1	4.6	0.6	−2.2	..	17.1	15.7	16.8
At 1995 prices	3.5	3.9	3.6	1.1	−3.9	..	9.7	12.4	10.2
Deflators	0.6	2.2	1.0	−0.5	1.9	..	6.8	2.9	6.0
Imports *fob* (2)									
At current prices	6.0	12.6	7.6	6.7	2.2	5.5	23.5	17.5	22.0
At 1995 prices	8.8	9.6	9.0	7.2	−1.4	5.1	8.7	6.7	8.3
Deflators	−2.6	2.8	−1.3	−0.5	3.7	0.4	13.6	10.1	12.7
Exports *fob*/imports *fob*									
At current prices, % ratio	120.1	99.4	114.8	113.3	95.1	108.8	107.4	93.7	104.1
At 1995 prices, % ratio	114.1	93.9	109.1	107.6	91.6	103.9	108.5	96.5	105.8
Terms of trade; indices, 1995=100	105.3	105.8	105.2	105.3	103.9	104.7	99.0	97.1	98.4
Contribution of net exports to real GDP growth (3)	*−0.8*	*−0.4*	*−1.2*	*−1.2*	*−0.1*	*−1.3*	*0.3*	*0.3*	*0.6*

Sources: Istat, OECD and IMF.
(1) Includes non-residents' consumption in Italy. – (2) Includes residents' consumption abroad. – (3) Percentage points.

Exports. – Italy's exports of goods and services rose by 10.2 per cent at constant prices, smaller than the increases recorded by Germany, France and Spain (13.2, 12.6 and 10.8 per cent, respectively; Table 11). Italian exports accelerated only in the second half of the year, thanks in part to some recovery in sales to the rest of the EU. Export growth continued into the early months of this year at rates close to those of the fourth quarter of 2000.

Table 11

EXPORTS AND IMPORTS OF THE MAJOR EURO-AREA COUNTRIES

(at constant prices; percentage changes)

	1996	1997	1998	1999	2000
Germany					
Imports of goods and services	3.1	8.4	8.6	8.1	10.2
Total demand (1)	1.6	4.0	4.7	3.9	6.2
Exports of goods and services	5.1	11.3	7.0	5.1	13.2
Outlet markets (2)	5.4	8.9	7.3	6.9	11.2
Indicator of competitiveness					
overall (3)	–4.3	–5.0	1.4	–3.8	–7.1
export (4)	–4.3	–5.7	1.7	–4.4	–8.0
import (4)	–4.2	–4.0	1.1	–3.0	–5.9
France					
Imports of goods and services	1.6	6.9	11.6	4.7	14.2
Total demand (1)	1.0	3.1	6.6	3.4	5.9
Exports of goods and services	3.5	11.8	8.3	4.0	12.6
Outlet markets (2)	5.2	9.3	7.8	7.6	10.6
Indicator of competitiveness					
overall (3)	–3.3	–5.4	1.0	–2.4	–3.8
export (4)	–3.2	–6.1	1.3	–3.2	–4.8
import (4)	–3.4	–4.7	0.6	–1.6	–2.7
Italy					
Imports of goods and services	–0.3	10.1	9.0	5.1	8.3
Total demand (1)	0.8	4.2	4.0	2.8	4.0
Exports of goods and services	0.6	6.4	3.6	. .	10.2
Outlet markets (2)	5.5	8.8	7.9	7.4	11.6
Indicator of competitiveness					
overall (3)	11.4	0.4	1.3	–2.8	–3.3
export (4)	11.2	–0.5	1.7	–3.6	–4.5
import (4)	11.7	1.6	0.7	–1.7	–1.7
Spain					
Imports of goods and services	8.0	13.3	13.4	11.9	10.4
Total demand (1)	4.2	6.3	6.0	5.4	5.6
Exports of goods and services	10.4	15.3	8.3	6.6	10.8
Outlet markets (2)	4.3	8.7	8.5	6.7	11.3
Indicator of competitiveness					
overall (3)	2.3	–4.4	–0.1	–1.1	–2.8
export (4)	2.3	–5.0	0.2	–1.8	–3.8
import (4)	2.3	–3.8	–0.3	–0.5	–2.0

Source: Based on national statistics.

(1) Sum of resident households' consumption, investment other than construction, exports of goods, and change in stocks and valuables. – (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. – (3) Based on the producer prices of manufactures using overall weights. A positive value indicates a loss of competitiveness. – (4) Based on the producer prices of manufactures. A positive value indicates a loss of competitiveness.

The volume of Italian exports of goods grew by 9.7 per cent (Table 10), accelerating sharply from the modest trend of the four preceding years, when it had grown by an average of 2.8 per cent a year. Notwithstanding the significant gains in price competitiveness in 1999 and 2000, Italian firms continued to lose market shares in relation to the growth of Italy's outlet markets (11.6 per cent in 2000), albeit less than in the preceding years. By contrast, Germany and France gained market shares, while Spain basically held its own (Table 11).

Table 12

ITALIAN EXPORTS OF GOODS IN VOLUME BY GEOGRAPHICAL AREA AND SECTOR

(percentages; indices, 1995=100)

	1999			2000					
	EU	Non-EU	World	EU		Non-EU		World	
	% change	% change	% change	% change	% comp.	% change	% comp.	% change	% comp.
Products of agriculture, forestry and fishing	7.9	17.4	9.7	–5.4	2.1	11.1	0.7	–2.0	1.5
Products of mining and quarrying	1.5	5.3	3.6	–4.0	0.2	25.1	0.3	11.9	0.2
Products of manufacturing	2.4	–2.6	0.2	6.2	97.7	17.4	98.9	11.0	98.4
Food, beverages and tobacco products	10.2	–1.3	5.8	1.6	5.6	12.3	4.2	5.4	5.0
Textiles and clothing	–4.3	–6.0	–5.0	5.3	10.3	19.3	10.9	11.3	10.5
Leather and leather products	–4.6	–1.3	–2.8	–1.9	4.0	24.3	6.5	11.5	5.2
Wood and cork products (excluding furniture)	7.3	14.3	10.4	8.5	0.6	25.4	0.6	16.1	0.6
Paper, paper products, printed matter and publishing	4.5	3.1	4.0	6.1	2.7	17.3	1.6	9.6	2.2
Coke, petroleum products and nuclear fuel	–11.9	–5.1	–7.7	0.8	1.1	7.9	2.7	5.8	1.8
Chemical products and man-made fibres	7.1	5.8	6.6	9.6	9.4	19.3	9.6	13.9	9.5
Rubber and plastic products	4.7	5.7	5.1	3.9	4.6	17.2	2.5	7.8	3.7
Non-metallic mineral products	2.7	–2.3	0.5	0.4	3.3	12.0	3.9	5.8	3.6
Basic metals and metal products	0.8	–4.0	–0.6	8.6	9.6	17.9	6.3	11.9	8.1
Machinery and equipment	4.1	–7.0	–1.5	7.3	17.7	13.6	21.4	10.4	19.4
Electrical machinery and apparatus and optical instruments	–1.3	4.6	1.1	2.6	9.7	26.5	10.0	12.6	9.8
Transport equipment	4.0	–12.2	–2.2	12.6	13.7	12.5	9.6	12.6	11.9
Other manufactured goods (including furniture)	3.3	4.0	3.8	5.5	5.4	21.1	9.1	13.7	7.1
Electricity, gas and water	–10.8	32.8	15.1	23.1	0.0	–15.7	0.0	–2.8	0.0
Total	**2.5**	**–2.7**	**0.3**	**6.0**	**100.0**	**16.1**	**100.0**	**10.3**	**100.0**

Source: Istat.

The gap in export growth between Italy and the other main euro-area countries is only partly attributable to the trend of price competitiveness; with competitive gains of similar size, the growth in French exports outpaced that in Italian exports by nearly 2.5 percentage points (Table 11).

Italian industry is more heavily specialized in traditional products and is adversely affected by the increasingly fierce competition of the emerging countries. Its modest presence in the high-technology sectors does not allow it to benefit significantly from the strong growth in world demand for high-tech products.

The exports of the majority of branches increased at rates above or close to the national average (Table 12). For Italy's typical products, the results were good; exports of food, beverages and tobacco products, the only manufacturing sector to suffer a slowdown, reflected the sharp deceleration in sales to EU countries, due primarily to the slump in those of beverages.

Italian exports to non-EU markets surged by 16.1 per cent, as against a decline of 2.7 per cent in 1999. The growth last year was fueled by US demand, by the recovery in several areas previously stricken by financial crisis (Russia and Asian countries), by the OPEC countries and by China. Nearly every sector benefited, especially textiles and clothing, leather and footwear, and electrical machinery and apparatus, with increments of 19.3, 24.3 and 26.5 per cent, respectively (Table 12).

Italy's exports of goods to the EU grew much more slowly than those to the rest of the world. The increase amounted to 6 per cent, compared with 2.5 per cent in 1999 (Table 13); it was smaller than the corresponding figures for Spain (9.7 per cent) and especially Germany (14.4 per cent).

Table 13

ITALIAN EXPORTS AND IMPORTS OF GOODS BY GEOGRAPHICAL AREA

(percentage changes; indices, 1995=100)

	Exports				Imports			
	1999		2000		1999		2000	
	Percent-age change (1)	Percent-age compo-sition (2)	Percent-age change (1)	Percent-age compo-sition (2)	Percent-age change (1)	Percent-age compo-sition (2)	Percent-age change (1)	Percent-age compo-sition (2)
EU	2.5	58.2	6.0	54.9	6.8	61.5	7.0	56.3
of which: France	*2.1*	*13.2*	*6.7*	*12.6*	*6.2*	*12.8*	*4.7*	*11.4*
Germany	*–1.0*	*16.7*	*1.6*	*15.1*	*9.1*	*19.2*	*10.1*	*17.5*
UK	*1.9*	*7.2*	*8.2*	*6.9*	*–1.9*	*6.1*	*0.6*	*5.4*
Spain	*11.0*	*6.4*	*7.8*	*6.2*	*1.3*	*4.4*	*12.1*	*4.1*
Non-EU	–2.7	41.8	16.1	45.1	6.6	38.5	11.0	43.7
of which: Russia	*–37.7*	*0.8*	*43.3*	*1.0*	*19.7*	*2.0*	*11.2*	*3.3*
United States	*4.6*	*9.3*	*17.6*	*10.4*	*–3.3*	*4.8*	*14.9*	*5.3*
Japan	*–8.6*	*1.6*	*14.8*	*1.7*	*10.6*	*2.5*	*7.2*	*2.5*
China	*4.3*	*0.8*	*28.0*	*0.9*	*23.5*	*2.4*	*22.6*	*2.7*
Total	**0.3**	**100.0**	**10.3**	**100.0**	**6.7**	**100.0**	**8.7**	**100.0**

Source: Istat.
(1) In volume. – (2) In value.

Italian sales stagnated particularly in the German market, which absorbs nearly 30 per cent of Italy's exports to the EU. In 2000 Germany's imports from the EU rose by 14 per cent in volume and 21.6 per cent in value; its imports from Italy grew by only 1.6 per cent in volume and 9.5 per cent in value, with a further heavy loss of market share after those of the two preceding years.

Imports. – Italian imports of goods and services grew by 8.3 per cent in real terms, compared with 5.1 per cent in 1999 (Table 10); they slackened in the last two quarters of the year as production decelerated.

Table 14

ITALIAN IMPORTS OF GOODS IN VOLUME BY GEOGRAPHICAL AREA AND SECTOR

(percentages; indices, 1995=100)

	1999			2000					
	EU	Non-EU	World	EU		Non-EU		World	
	% change	% change	% change	% change	% comp.	% change	% comp.	% change	% comp.
Products of agriculture, forestry and fishing	10.7	–3.1	3.8	–5.1	3.2	5.3	4.0	–0.2	3.6
Products of mining and quarrying	–8.0	2.2	0.9	37.3	1.3	7.2	23.6	8.7	11.1
Products of manufacturing	6.8	7.5	7.0	7.2	95.1	13.1	71.7	9.2	84.7
Food, beverages and tobacco products	1.9	6.2	2.7	1.2	9.1	7.6	3.4	2.5	6.6
Textiles and clothing	–2.5	8.4	4.3	9.5	3.2	15.8	7.5	13.6	5.1
Leather and leather products	5.9	2.7	3.4	5.2	0.8	22.0	4.0	18.3	2.2
Wood and cork products (excluding furniture)	5.9	7.1	6.5	11.6	1.1	5.9	1.6	8.6	1.3
Paper, paper products, printed matter and publishing	5.6	–1.2	3.5	–5.5	3.3	0.8	2.2	–4.7	2.8
Coke, petroleum products and nuclear fuel	–23.8	6.6	–3.5	9.3	0.9	–8.4	3.4	–2.9	2.0
Chemical products and man-made fibres	8.3	–0.1	6.1	6.9	17.3	11.7	8.1	8.3	13.2
Rubber and plastic products	8.0	12.4	9.0	7.6	2.7	11.3	1.4	8.6	2.1
Non-metallic mineral products	4.6	16.1	7.7	4.7	1.3	24.0	0.8	10.2	1.1
Basic metals and metal products	0.4	–0.2	0.1	7.3	9.5	11.6	11.3	9.3	10.3
Machinery and equipment	3.9	11.3	6.2	10.8	8.8	14.1	6.4	12.0	7.8
Electrical machinery and apparatus and optical instruments	11.4	8.5	10.6	11.5	17.7	17.1	10.5	13.2	14.5
Transport equipment	12.7	25.0	15.9	7.5	17.8	20.4	8.8	10.8	13.8
Other manufactured goods (including furniture)	4.0	6.8	5.7	19.9	1.6	14.3	2.3	16.5	1.9
Electricity, gas and water	–6.7	8.2	2.2	21.8	0.4	–5.2	0.8	3.4	0.6
Total	**6.8**	**6.6**	**6.7**	**7.0**	**100.0**	**11.0**	**100.0**	**8.7**	**100.0**

Source: Istat.

Imports of goods grew by 8.7 per cent at constant prices, less than in the other main euro-area countries. The more substantial increases recorded in France, Germany and Spain (16.1, 11.1 and 10.4 per cent, respectively) were attributable to the stronger growth of the components of demand, such as exports, that are more likely to stimulate purchases from abroad.

Despite the depreciation of the euro, Italy's imports from non-EU countries outpaced those from the area (Table 13), owing primarily to the growth in purchases from China (22.6 per cent) and, to a lesser extent, in those from the United States (14.9 per cent).

In line with the recovery in production and investment, Italian firms' imports of intermediate and investment goods, which account for the bulk of German export penetration, expanded in volume by 9.6 and 11.8 per cent, respectively.

By sector, the largest increases in imports last year were for textiles and clothing and for leather and footwear, particularly from non-EU countries (Table 14). These flows, which also reflect the reimporting of semi-processed goods from Central and Eastern Europe, where Italian firms have transferred some of their production, benefited from the recovery in sales of finished Italian products in foreign markets.

There were also large increases in imports of "electrical machinery and apparatus and optical instruments" (13.2 per cent) and of transport equipment, especially from outside the EU, continuing a trend under way for several years.

DOMESTIC SUPPLY

Italian economic activity picked up appreciably in 2000; there remains a growth gap with the other countries of the euro area.

Economic sectors

Gross domestic product at market prices grew by 2.9 per cent in real terms, compared with 1.6 per cent in 1999. The increase in value added at factor costs improved from 1.3 to 2.9 per cent (Table 15).

Value added growth in industry excluding construction accelerated from 0.5 per cent to 3.5 per cent, that in construction from 1.2 to 2.6 per cent; in the energy sector, it slowed from 8 to 6.6 per cent.

Domestic production of energy, in tons of oil equivalent, declined by more than 5 per cent. The primary energy requirement increased by 1.2 per cent, compared with 1.9 per cent in 1999, and import dependency accordingly rose from 82.3 to 83.4 per cent. A significant increase of 4.2 per cent in industrial energy demand was partially offset by declines in consumption for heating (–1.9 per cent), transportation (–0.3 per cent) and agriculture (–7.6 per cent). For the first time, oil products covered less than 50 per cent of Italy's primary energy requirement, owing in part to the sharp rise in prices. The use of natural gas and solid fuels increased.

Industrial production returned to rapid growth of 3.1 per cent, roughly on a par with France (3.3 per cent) but less than in Germany (6.6 per cent), Spain (4.4 per cent) or the euro area as a whole (5.5 per cent). Capacity utilization rose from 76 to 78.8 per cent on average for the year. The rise was more pronounced in the second half, the rate reaching 79.8 per cent in the fourth quarter compared with 75.8 per cent a year earlier.

Value added in services increased by 3 per cent, compared with 1.5 per cent in 1999. The fastest growth was recorded in transport and communications (4.2 per cent, with a significant reduction in prices), hotel and restaurant services (5.1 per cent), and financial intermediation (8.7 per cent).

Value added in agriculture, forestry and fishing declined perceptibly, by 2.1 per cent, cutting the sector's share of GDP from 3.2 to 3 per cent. The sector continues to shed labour, albeit more slowly. Last year its labour input declined by 2.4 per cent in terms of full-time equivalent workers; the decline was concentrated among the self-employed (–4.1 per cent), while the salaried component rose slightly (0.5 per cent).

Table 15

VALUE ADDED AT FACTOR COSTS

Branch	1999			2000			Percentage changes			
	Current prices		Share of value added (%)	Current prices		Share of value added (%)	Volume		Deflators	
	Billions of lire	Millions of euros		Billions of lire	Millions of euros		1999	2000	1999	2000
Industry	**543,936**	**280,919**	**28.3**	**573,737**	**296,310**	**28.4**	**0.6**	**3.4**	**1.6**	**2.1**
Industry excluding construction	**450,760**	**232,798**	**23.5**	**474,598**	**245,109**	**23.5**	**0.5**	**3.5**	**1.4**	**1.7**
Non-energy extractive industries	8,582	4,432	0.4	10,872	5,615	0.5	–1.0	–4.6	9.3	32.8
Manufacturing	400,069	206,618	20.9	418,776	216,280	20.8	–0.2	3.3	1.8	1.3
Production and distribution of electricity, gas, steam and water	42,109	21,748	2.2	44,950	23,214	2.2	8.0	6.6	–3.2	0.1
Construction	**93,176**	**48,121**	**4.8**	**99,139**	**51,201**	**4.9**	**1.2**	**2.6**	**2.2**	**3.7**
Services	**1,317,259**	**680,308**	**68.5**	**1,388,676**	**717,192**	**68.6**	**1.5**	**3.0**	**2.2**	**2.4**
Wholesale and retail trade, repairs	257,094	132,778	13.4	264,613	136,661	13.1	1.3	2.8	1.7	0.1
Hotels and restaurants	66,670	34,432	3.5	72,008	37,189	3.6	1.4	5.1	3.4	2.8
Transport, storage and communications	142,986	73,846	7.4	146,719	75,774	7.3	3.5	4.2	–1.2	–1.5
Financial intermediation	109,659	56,634	5.7	130,336	67,313	6.4	–2.7	8.7	2.8	9.4
Services to businesses and households (1)	372,576	192,419	19.3	394,339	203,659	19.5	2.8	3.3	3.2	2.4
Public administration (2)	106,936	55,228	5.6	109,924	56,771	5.4	1.3	0.8	1.5	2.0
Education	96,358	49,765	5.0	97,930	50,577	4.8	–0.5	–0.2	4.2	1.8
Health and other social services	86,808	44,833	4.5	91,451	47,231	4.5	1.3	0.6	3.1	4.7
Other community, social and personal services	62,876	32,473	3.3	65,477	33,816	3.2	1.9	–1.4	–0.4	5.7
Private households with employed persons	15,296	7,900	0.8	15,879	8,201	0.8	0.3	0.4	2.0	3.4
Agriculture (3)	**61,222**	**31,619**	**3.2**	**60,187**	**31,084**	**3.0**	**5.7**	**–2.1**	**–2.4**	**0.4**
Value added at factor costs (4)	**1,922,417**	**992,846**	**100.0**	**2,022,600**	**1,044,586**	**100.0**	**1.3**	**2.9**	**1.9**	**2.2**

Source: Istat.

(1) Gross of real-estate, renting, computer, research and other professional and business services. – (2) Includes defence and compulsory social insurance. – (3) Includes forestry and fisheries. – (4) Gross of indirectly measured financial intermediation services.

Information and communications technology and productivity

In the last decade, process and product innovations associated with microelectronics and information technology have produced greater organizational flexibility, reduced the costs of market access and allowed simpler and more intensive utilization of information, most notably within the US economy. Overall, these factors appear to have generated powerful gains in productivity. Information and communications technologies (ICT) find applications in virtually all branches of the economy, because they command the control and coordination of economic processes. Firms' application of new technologies is a complex phenomenon: beyond the mere purchase of ICT equipment, it entails staff retraining, new employment relations, the reorganization of productive activities and the recasting of firms' relations with suppliers and distributors.

The United States recorded an average increase in hourly productivity in manufacturing of 4.9 per cent per year between 1996 and 2000. Even allowing for differences in methods of calculation, results in the euro area were more modest. In the four main euro-area economies, over that same period value added per employee in industry excluding construction rose by 2.0 per cent a year; Italy's rate of 1.3 per cent was the slowest of the four.

Europe lags considerably behind in the production and accumulation of new technological equipment; the gap appears widest in Italy.

European producers of ICT-linked investment goods have not recorded productivity growth comparable to the exceptional gains of their US counterparts.

Productivity gains for the economy as a whole depend on the speed with which ICT makes its way into the user industries. The introduction and efficient use of ICT depends on organizational innovation, the enhancement of the human capital utilized within the firm and favourable institutional and environmental conditions (flexibility in the factors markets, efficient telecommunications and adequate transport and communications infrastructure), which are its necessary complement.

The Bank of Italy's industrial investment survey at the start of 2001 found that more than 96 per cent of industrial firms with at least 50 employees had computers linked to Internet, and about 80 per cent had their own web sites (Table 16). Eighty per cent of the Internet links had been established since the start of 1998. Among smaller firms, the presence of ICT is uniformly lower. The backwardness of the latter is more pronounced in the areas that affect firm organization more deeply, such as the use of enterprise resource planning technology and the creation of a special ICT unit. ICT use is less common among firms located in the South.

Table 16

UTILIZATION OF SOME INFORMATION AND COMMUNICATIONS TECHNOLOGIES IN ITALIAN INDUSTRIAL FIRMS IN 2000

	Spending on purchase and maintenance of ICT (1) per 100 employees (millions of lire)	PCs per 100 employees	Firms with Internet links (%)	Firms with own web site (%)	Firms with special ICT unit (1) (%)	Firms with ERP technology (2) (%)
Size (number of employees)						
50-99	62	31.4	95.9	79.7	25.6	10.5
100-199	85	34.6	97.3	83.2	43.1	25.3
200-999	97	39.2	98.4	84.8	55.6	42.7
1,000 +	114	49.5	98.9	92.6	85.5	74.9
Geographical area						
North-West	95	44.4	97.3	83.3	34.7	22.8
North-East	94	32.9	97.3	86.7	40.9	20.5
Centre	95	41.8	95.3	77.9	29.5	17.0
South	57	29.3	94.6	64.3	30.5	12.4
Sector						
Textiles, clothing, shoes and leather	61	25.1	94.7	79.0	36.3	15.2
Chemicals, rubber and plastic products	113	57.4	96.0	77.3	45.3	23.6
Metal engineering products	104	38.6	97.2	84.5	35.8	22.8
Other manufactures	72	32.2	97.8	81.1	29.8	17.1
Other industry excluding construction	101	63.3	94.4	72.8	37.4	24.8
Total	**92**	**39.2**	**96.7**	**81.6**	**35.4**	**20.1**

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

(1) Information and Communications Technology. – (2) Computerized enterprise resource planning for integration of all areas, internal and external to firm.

The new ICT-based model of technology may reduce the benefits of vertical integration and encourage the decentralization of production and the growth of inter-firm trade, decreasing optimal company size. The Italian economy, with its prevalence of small firms, could benefit from the spread of ICT. At the same time, small average size may be a handicap to innovation and reorganization, in that small firms may lack the financial and human resources needed for the transformation required by the new technologies.

Economic growth and the law

A recent survey by ISAE confirms that Italy is the EU country in which civil justice is slowest, cases taking an average of 116 months to complete all three levels of judgment, 68 per cent longer than the EU average. At the same time, however, legal costs to the parties are comparatively low (less than half the European average).

Company law. – In Italian corporate law, the treatment of public limited companies does not differ notably from that of private limited companies, discouraging the use of the latter form of corporate governance.

The private limited company is less common than in other countries, notwithstanding the smaller average size of Italian companies (Table 17). The law governing public limited companies – which is tailored to the large firm – contains a large number of compulsory provisions, leaving little scope for independence in drafting by-laws and signing contracts; it also contains procedures that are particularly burdensome, especially for small companies. The constraints implicit in the law on public limited companies (after which that on private limited companies is patterned) are generally not relaxed for companies that have only a few shareholders and that do not ordinarily resort to the equity market.

Table 17

PUBLIC AND PRIVATE LIMITED COMPANIES IN SELECTED COUNTRIES

	Degree of differentiation in laws governing public and private limited companies	Average firm size relative to EU average (1)	Number of public limited companies	Number of private limited companies	Ratio public/private limited companies
France	Medio	0.98	153,864	742,245	1/5
Germany	Alto	1.58	3,951	438,085	1/111
Italy	Basso	0.42	34,998	368,785	1/10
Netherlands	Alto	....	1,015	154,930	1/153
United Kingdom	Alto	1.58	12,400	1,345,300	1/108

Sources: For the UK, data at 31.3.2000 from Department of Trade and Industry, *Companies in 1999/2000*; for Italy, Istat, *Censimento intermedio dell'industria e dei servizi al 31.12.1996*; for Germany, data for 1999 from *Statistical Yearbook for the Federal Republic of Germany*; for France, data at 1.1.1999 from *Annuaire Statistique de la France*; for the Netherlands, data at 1.1.1999 from *Statistical Yearbook of the Netherlands.*

(1) Source: Based on Eurostat data. Weighted average of employment share by class size; index: EU = 1.

Elsewhere in Europe, a broader range of flexible forms for capitalist enterprises is provided both through a low level of requirements for companies of all legal forms (United Kingdom, Netherlands) and through appropriate graduation of the rules depending on the nature of the shareholder base and financing (France, Germany, United Kingdom).

Bankruptcy law. – The procedures for handling corporate insolvencies affect both management and financiers. Well-designed procedures can maximize the economic value of the troubled enterprise while furnishing satisfactory guarantees to its creditors.

The Italian rules do not pay sufficient attention to maximizing the value of the enterprise. They are marked by severe sanctions on the entrepreneur which, though intended to protect creditors, actually reduce the incentive for prompt recourse to bankruptcy procedures, damaging the prospects for the company's recovery and hence for recouping credit claims.

Reform bills. – In July 1998 the Ministry of Justice formed a study committee to draft an enabling act for company law reform. The Government submitted the draft to the Chamber of Deputies as bill C. 7123 on 20 June 2000, but the legislature expired before it could be passed. The draft calls for a more highly diversified range of rules on company models, increased independence in drafting company by-laws, greater decision-making powers for the board of directors, simplification of the rules on corporate acts, and a broader range of possibilities for corporate finance.

Two bills on bankruptcy law (C. 7458 and C. 7497) were submitted to Parliament, but their passage too was halted when Parliament was dissolved.

Regulatory and administrative simplification. – In common with most other industrial countries, Italy undertook a reform programme in the nineties to reduce direct and indirect regulatory costs to firms, citizens and the public administration. The OECD's report on *Regulatory Reform in Italy*, released in March 2001, studies and evaluates the regulatory reforms under way. It makes a positive assessment of the reform programme and the results achieved in a relatively short time but also notes that the practical benefits of the reforms are somewhat limited in scope and that the programme still has to be completed.

Privatizations and market regulation

Privatizations. – The sale of publicly-owned corporations continued in 2000. Despite the deferral of further sales of Treasury shares in ENI and ENEL, total gross privatization proceeds came to about 20 trillion lire (Table 18).

In March the sale of IRI's shares of Autostrade S.p.A., begun in 1997, was completed. The total proceeds to IRI from the disposal of Autostrade came to 13.016 trillion lire.

Table 18

MAIN PRIVATIZATIONS IN ITALY IN 2000

Corporation	Group (sector)	No. employees in 1999 (1)	Method of sale	Percentage sold (2)	Residual public stake (%) (2)	Date of sale	Gross proceeds	
							Billions of lire	Millions of euros
Autostrade	IRI (motorway operation)	10,107	Private agreement	30.00	4.1 (3)	09.03.00	4,911	2,536.3
Finmeccanica . .	IRI (aerospace, defence)	43,753	Private agreement	40.10	32.45	02.06.00	10,659 (4)	5,504.9
Aeroporti di Roma	IRI (airport operation)	5,048	Private agreement	51.20	3.0 (5)	31.07.00	2,572	1,328.3
Banco di Napoli	Banking	10,600	Acceptance of takeover bid	16.16	–	01.12.00	956	493.7

Sources: Mediobanca, *R&S* (various years); Ministry of the Treasury, *Relazione sulle privatizzazioni* (various years); financial press.

(1) Average for the year. – (2) Of equity capital. – (3) Gross of bonus share. – (4) Includes compensation for exercise of green shoe. – (5) Stake held by Regione Lazio, Comune di Fiumicino, Provincia di Roma and Comune di Roma.

On 29 May 2000 IRI made a public offering of its shares in Finmeccanica, a defence and aerospace company. The sale of about 40 per cent of the company's equity (plus another 3.6 per cent that IRI transferred to the Treasury) was completed in early June, bringing gross proceeds of 10.66 trillion lire. The residual public holding in Finmeccanica is 32.45 per cent. The Treasury also holds a golden share, while a 3 per cent ceiling was placed on other investors' stakes, above which prior approval by the Treasury is required.

On 31 July the sale of IRI's stake in Aeroporti di Roma S.p.A. was completed. This disposal had been begun a year earlier with the sale of 3 per cent of the airport operator's shares to the Lazio regional government, the municipality of Fiumicino, the Province of Rome and the City of Rome, for 100 billion lire. The new private agreement resulted in the sale of 51.20 per cent of Aeroporti's equity to the Leonardo syndicate comprising Gemina, Falck, Italpetroli and Impregilo for 2.572 trillion lire. In view of the privatization the operating concession under convention 2820 of 26 June 1974 between Aeroporti di Roma and the Transport Ministry, which had been due to expire in 2008, was extended until July 2044, pursuant to Law 333 of 11 June 1992, Law 351 of 3 August 1995 and Law 662 of 23 December 1996.

In November the Treasury sold its residual holding in Banco di Napoli, accepting San Paolo-IMI's takeover bid for all the bank's shares. The transaction was settled on 1 December, the Treasury taking in 956 billion lire.

At the end of June, the shareholders' meeting of IRI S.p.A. decided on the voluntary liquidation of the corporation, as provided by the agreement of July 1993 with the European Commission (the Andreatta-Van Miert agreement), and the transfer to the Treasury of IRI's stakes in Alitalia (53 per cent) and Finmeccanica (4 per cent). RAI, Fincantieri, Tirrenia and a few other companies remained temporarily under the control of IRI, the liquidation of which will take some considerable time.

Market liberalization. – The liberalization of public utilities, initiated by Community directives, advanced further last year. The foundations of the new regulatory framework were completed both for telecommunications and for electricity and gas. However, the rules for liberalization of local public services have not yet been approved, although shares in some important municipalized companies have already been sold.

In the electricity industry, where prices are still considerably above the European average, there has been some restructuring in recent years, but market concentration will remain strong even in the future.

In the electricity generation segment, the openness of the Italian market remains limited. The plans announced for the sale of some of ENEL's generating stations to other operators under Legislative Decreee 79 of 16 March 1999 are still at an initial stage. By the end of 2002 the amount of capacity transferred should reach 15 gigawatts, shared by three different companies (Eurogen, Elettrogen and Interpower), in addition to another 5.5 gigawatts whose sale the antitrust authority has made a precondition for the merger of the ENEL group's mobile phone subsidiary Wind with Infostrada. ENEL would thus retain about 50 per cent of total Italian electricity generation capacity, which is higher than the share held by the market leader in Germany, Spain or the United Kingdom. Given the need for reconversion, the capacity disposed of cannot be fully used by the new operators for two years after its acquisition. ENEL also controls about half of the country's capacity to import electricity, an advantage that will persist at least until 2007, when the contracts with France, the main supplier, expire. Through its ENEL Trade subsidiary, moreover, ENEL has acquired about half of the system's residual interconnection capacity, which is allotted annually. The great concentration of the market will hinder the formation of an efficient electricity exchange market, which is now possible with the creation of the Electricity Exchange manager and the drafting of regulations by the Ministry for Industry.

The Electricity and Gas Authority and the antitrust authority have expressed doubts over the formal monopolist's retention of ownership of the high-tension lines and called for a third party to own and manage the power grid. Present arrangements could allow anti-competitive practices in other market segments. These risks are only somewhat mitigated by the assignment of management of the national grid to a public agency.

Liberalization in the natural gas segment has made less progress. While many companies are engaged in final distribution, supply is still a virtual monopoly. The ENI group controls 95 per cent of Italy's imported gas and nearly 90 per cent of domestic production. Legislative Decree 164 of 23 May 2000, transposing Community directive 98/30, alters this market structure only in part, setting a cap of 75 per cent on the market leader's share of production and of imports, which should then fall by 2 percentage points a year starting in 2002 to reach 61 per cent by 2010. This limitation does not appear to be sufficient to engender a competitive market, because among other things the ENI group retains a monopoly on gas storage facilities and controls the high-pressure pipeline network, both essential infrastructures to any would-be competitors. Pipeline access is regulated by the Electricity and Gas Authority, but ENI can refuse to handle shipments that conflict with its own interests as specified by long-term import contracts or with its obligations as a public utility. This set of factors is a serious obstacle to competition in a sector whose prices are distinctly above the European average.

In the telephone industry, despite the slowness in initiating regulatory reform, market opening is spreading progressively to all segments, although the former public monopoly retains a dominant position in fixed-line telephones and is the leader in mobile phones.

A number of European countries held auctions last year for licences to operate the new Universal Mobile Telecommunications System. The British and German auctions were completed in April and August, the winners paying respectively €38.8 billion and €50.5 billion. The Italian UMTS auction, held in October, resulted in the assignment of five licences with total proceeds of €13.8 billion. The licences were assigned to TIM, Omnitel, Wind, Ipse and Andala. In France the auction was concluded early in 2001, assigning just two licences for proceeds of €9.9 billion.

Regional disparities and regional policy

Regional economic developments. – The Association for Industrial Development in Southern Italy estimates that real output increased by 2.5 per cent in the South of Italy (1.5 per cent in 1999) and by 3.1 per cent in the Centre and North (1.7 per cent in 1999). Owing to net emigration of 73,000 persons to the rest of Italy, per capita output rose only very slightly less than in the Centre and North (2.6 as against 2.7 per cent). The ratio of per capita GDP in the South to that in the rest of Italy remained unchanged at 57 per cent.

According to the Association, gross fixed investment in the South accelerated markedly and recorded growth of 6.8 per cent, outpacing that in the Centre and North (5.9 per cent).

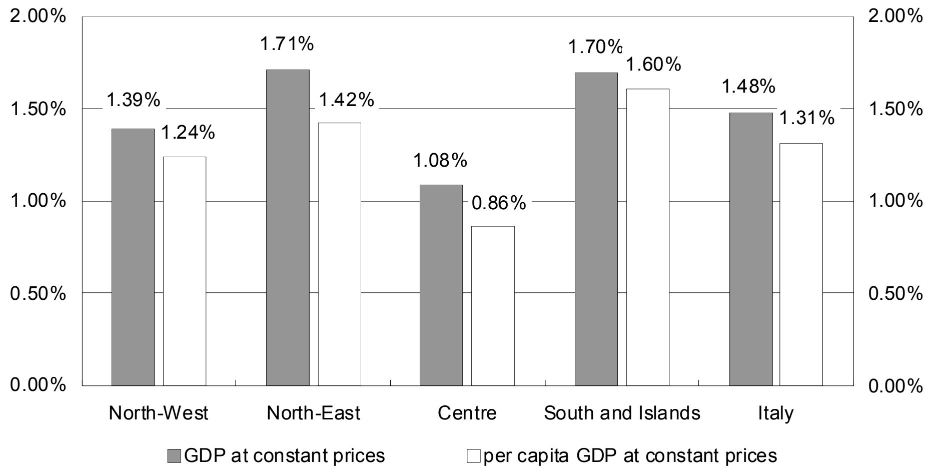
Export sales rose sharply for all parts of the country last year. In the South, where exports gained 27.3 per cent in value, and in the Centre the increase was greater than the national average of 16.4 per cent. Respectively, these two areas account for 11.1 and 16.6 per cent of Italian exports.

Regional disparities. – Last year Istat released the first results of the new regional accounts for 1995-1998, revised for consistency with the national accounts based on ESA95. The North-East and the South recorded average real economic growth of 1.7 per cent per year, compared with a national average of 1.5 per cent. Per capita GDP grew faster in the South than in the other macroregions (1.6 per cent in real terms), thanks in part to slower population growth (Figure 5). The relatively slow population increase in the South was due in part to the resumption of internal migration (with net migration to the rest of Italy estimated at half a million persons during the nineties) and in part to the effect of immigrants, mostly from non-EU countries, settling primarily in the regions of the Centre and North.

Figure 5

GROSS DOMESTIC PRODUCT IN ITALIAN MACRO-REGIONS

(average annual growth rates, 1995-1998)



Source: Istat, *Conti economici territoriali*.

The upturn in economic activity in the South was marked by the strong expansion of investment and the growth of export demand. The average annual rate of increase in real gross fixed investment from 1995 through 1998 was 4.3 per cent, compared with 3.0 per cent for the country as a whole. Since 1996 the South has outpaced the rest of the country in export growth by value, rising from 9 per cent of total Italian exports to 11 per cent in 2000, about the same share as the region had in the eighties. Another sign of the improvement in the quality of growth in the second half of the nineties is business start-ups, which were above the national average both in manufacturing and in the services.

Istat's new regional data confirm that unit labour costs in manufacturing have been rising faster in the South than elsewhere. They increased from 96.6 per cent of the average for the Centre and North in 1995 to 101.5 per cent in 1998. The difference reflects the sharp rise in the cost of labour in the South, owing partly to the phasing out of social contribution relief.

Regional policy. – Since 1997 regional development policy has been managed by the Treasury Ministry's Department for Development and Cohesion. The guidelines for project planning have been recast; the aim is now to promote integrated development of local economies with the broad involvement of local government.

According to the Treasury's accounts of resources and uses of funds in the depressed areas, negotiated development planning remained relatively modest in financial terms between 1997 and 2000.

In August 2000 the Community Support Frameworks for the years 2000-06 for Objective 1 regions were approved, with planned expenditure of 86 trillion lire through 2008. The regions of southern Italy will have to administer some 55 trillion, or 72 per cent of the Community and national resources available.

Eligibility for Objective 1 structural support could be altered with the enlargement of the Union and the consequent lowering of its average per capita GDP. Under present criteria, eligible regions are those where per capita GDP (at purchasing power parity) is below 75 per cent of the EU average. Recent estimates indicate that with the admission of the countries of Central and Eastern Europe, the only Italian regions eligible for Objective 1 funding would be Campania and Calabria.

THE LABOUR MARKET

Employment

Employment in the euro area increased significantly again in 2000, continuing the expansion that began in the middle of the nineties. Partial estimates deriving from the national accounts indicate that the average number of residents employed rose by 2 per cent, after the 1.8 per cent gain recorded in 1999.

In Italy the average number of residents in work increased by 1.7 per cent according to the national accounts (Figure 6), one of the largest gains since the Second World War. The expansion of employment in the second half of the nineties was substantially greater than would have been expected on the basis of the economy's growth. In a setting of high corporate profits, the extra expansion came in response to favourable trends in overall labour costs. The per capita cost of labour held basically stable in real terms, thanks in part to public incentives for hiring. The cost of adjusting the utilization of labour was reduced by changes, introduced either by collective bargaining or by legislation, that gave employers more flexibility in adjusting manning levels, the organization of production and shift scheduling. Especially in the South, people were more willing to take jobs regardless of contractual terms, owing in part to protracted high unemployment.

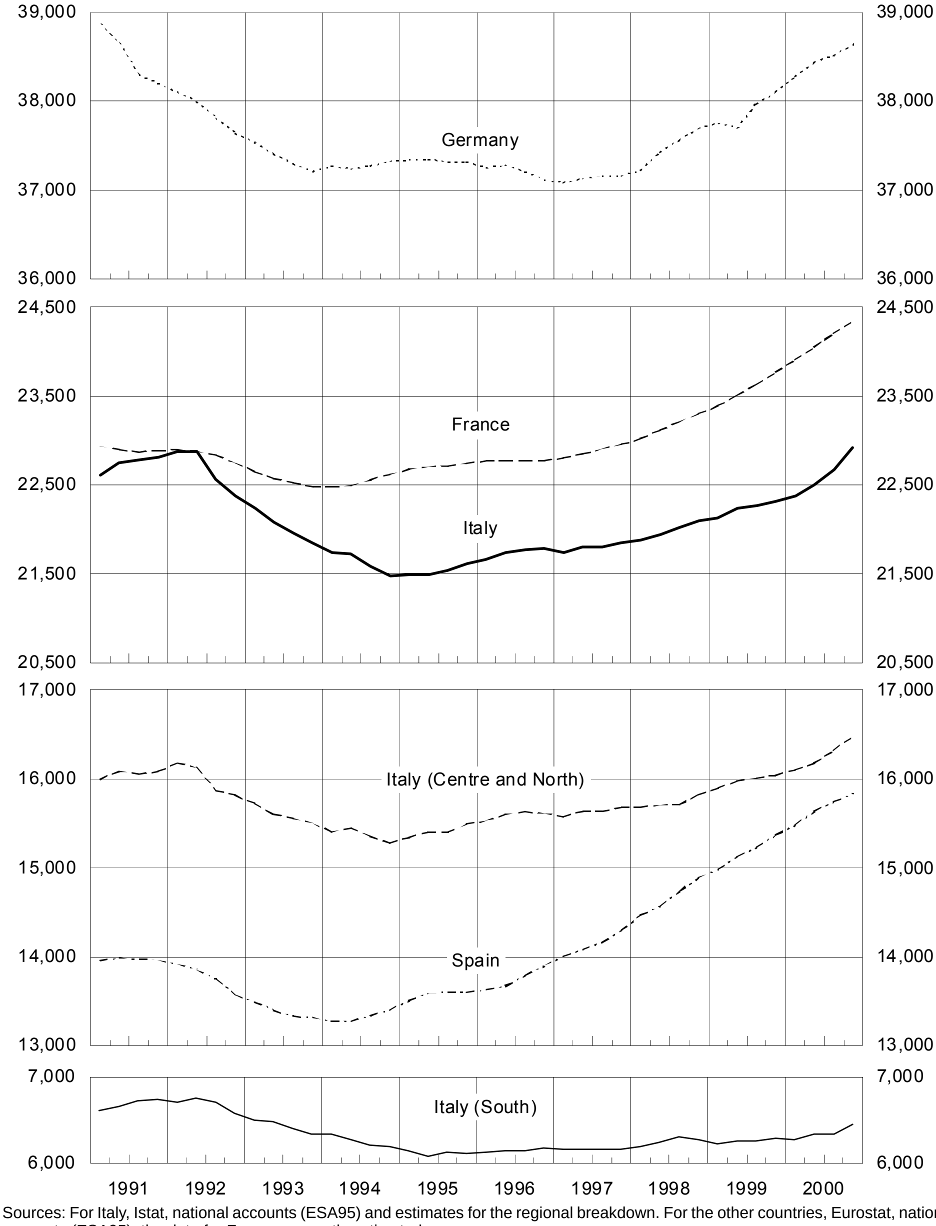
According to the labour force survey – which does not count some categories of workers that are included in the national accounts estimates, such as those living in communities, military conscripts and undocumented foreigners – the number of persons employed in Italy increased by 1.9 per cent on average in 2000, or by 388,000 (Table 19). The gain in permanent, full-time positions increased (105,000), and self-employment returned to growth (80,000). The number of fixed-term and part-time jobs also continued to grow (203,000), accounting for just over half of net job creation as against 95 per cent between 1996 and 1999, when total employment expanded by 567,000 persons.

The creation of these steadier payroll jobs was especially robust in the second half of 2000 and was found by the January 2001 survey to have accelerated further (Figure 7). This can be explained by the good performance of the economy and, at least up to the autumn, by the emergence of labour shortages in some parts of the country.

Figure 6

EMPLOYMENT IN THE MAJOR 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.

The tax credit provided by the Finance Law for 2001 (Law 388 of 23 December 2000), which came into effect in October, differs from the many measures already in being in the large size of the relief provided and its nationwide applicability. The measure reinforces the tendency to support employment, especially the creation of permanent jobs, with automatic incentives in the form of social contribution relief or tax credits. According to the Ministry of Labour, in 1999 contribution abatements were granted in respect of more than 1.5 million workers, half of them under apprenticeship or trainee contracts (Table 20).

Table 19

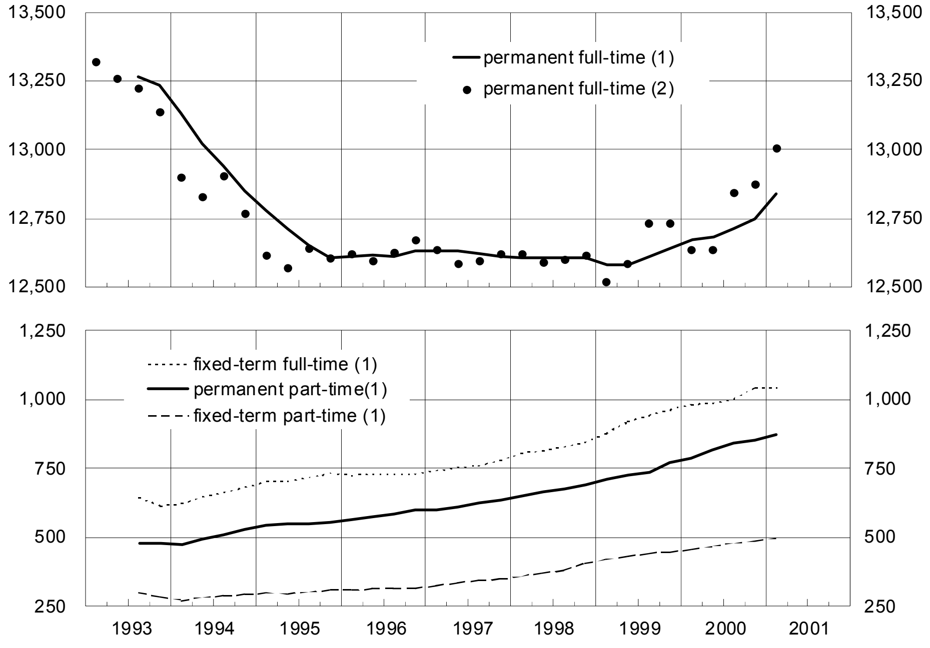
STRUCTURE OF EMPLOYMENT IN ITALY (1)

	2000		Change 2000/1999		Change 2000/1996	
	Thousands of persons	Percentage share	Thousands of persons	Percentage change	Thousands of persons	Percentage change
Self-employed	5,949	28.2	80	1.4	95	1.6
full-time	5,511	26.1	60	1.1	49	0.9
part-time	438	2.1	20	4.7	47	11.9
Employees	15,131	71.8	308	2.1	859	6.0
permanent	13,601	64.5	188	1.4	373	2.8
full-time	12,748	60.5	105	0.8	118	0.9
part-time	853	4.0	83	10.8	255	42.5
fixed-term	1,530	7.2	120	8.5	486	46.6
full-time	1,042	4.9	80	8.3	313	42.9
part-time	488	2.3	40	8.8	173	55.0
Total	**21,080**	**100.0**	**388**	**1.9**	**955**	**4.7**

Source: Istat, labour force surveys.
(1) Average of quarterly surveys conducted in January, April, July and October.

Figure 7

STRUCTURE OF SALARIED EMPLOYMENT IN ITALY
(quarterly data; thousands of persons)



Source: Based on Istat, labour force surveys.
(1) Moving averages of the four quarters to the reference quarter. - (2) Quarterly data, not seasonally adjusted.

Table 20

LABOUR POLICY PROGRAMMES IN ITALY

	Expenditure					Beneficiaries	
	Billions of lire			Percentage of total		Thousands of persons	
	1998	1999	2000	1998	1999	1998	1999
Vocational training	7,426	7,703	....	25.3	26.6	1,316	1,274
of which: apprenticeship and trainee contracts	*4,019*	*4,812*	....	*13.7*	*16.6*	*744*	*769*
Job sharing and job rotation	28	23	208	0.1	0.1	....	....
Employment incentives	5,519	5,289	5,644	18.8	18.3	724	762
Integration of the disabled	–	–	10	–	–	266	266
Direct job creation	1,296	1,542	1,048	4.4	5.3	137	145
Self-employment incentives	419	562	532	1.4	1.9	2	2
Total active labour policy programmes	**14,687**	**15,119**	....	**50.5**	**52.3**	**2,444**	**2,449**
of which: social contribution relief	*8,217*	*9,389*	....	*28.0*	*32.5*		
Unemployment benefits and other income support	12,236	11,942	10,336	41.7	41.3	....	....
Early retirement	2,444	1,855	1,714	8.3	6.4	....	....
Total passive labour policy programmes	**14,680**	**13,797**	....	**50.0**	**47.7**	....	....
Total labour policy programmes	**29,367**	**28,916**	....	**100.0**	**100.0**	....	....

Source: Ministero del Lavoro, *Rapporto di monitoraggio sulle politiche occupazionali e del lavoro.*

The overall growth in employment in Italy in 2000 may also have reflected the “surfacing” of workers engaged in activities that previously eluded the labour force survey. The national accounts estimate of unreported workers – persons who describe themselves as employed in response to the labour force survey but do not show up in the data on firms – stabilized in 1997-99 at 14.7 per cent of the labour force, with a slight increase among employees (from 16.3 per cent in 1997 to 16.5 per cent in 1999) and a decline among the self-employed (from 10.2 to 9.5 per cent). Overall, there were 3.3 million off-the-books workers in 1999. The data for 2000 are not available, but an indirect indication that the share of unreported employment may have declined is the fact that firms’ labour costs have risen faster than total employee earnings, which signals an increase in the actual incidence of employer social contributions not corresponding to the formal rates.

Qualitative changes in labour demand since 1995

The average number of persons employed in 2000 was 1,054,000 higher than the low point of 1995. The increase has been accompanied by radical change in the make-up of the demand for labour. Greater flexibility in employment contracts – partly in response to the desires of the labour force, notably youths and women – has been paralleled by a substantial shift towards more skilled jobs as a consequence of the introduction of new technology in many production processes. Though substantial, this reallocation of labour demand has been less intense than in other countries, in particular the United States. Nor has it been sufficient to respond to the qualitative improvement in the labour supply.

The increasing education of the population has thus translated not so much into the creation of new, higher-skill jobs as into the assignment of the same tasks to better-educated workers. Consequently, earnings differentials according to educational attainment have narrowed. Among full-time employees, the average monthly take-home pay of university graduates declined from 152 per cent of that of middle school graduates in 1995 to 145 per cent in 1998; the corresponding differential over high school graduates fell from 119 to 116 per cent. This reduction in the education "premium" – which was not, as in the past, the product of expressly egalitarian policies – signals a deterioration in the relative position of people with good schooling and an expansion of the labour market segment in which human capital endowment correlates poorly with earnings.

Labour inputs and sectoral developments in the nineties

As in past years, labour input as measured by standard labour units rose less than the number of persons in work, owing to the increase in part-time jobs. On average for 2000, the number of persons employed in Italy, including non-residents, rose by 1.6 per cent, the number of standard units by 1.5 per cent (Table 21).

The increase in labour input was concentrated in private services, where it rose by 3.7 per cent, contributing 1.4 percentage points to the overall expansion. Payroll employment increased more than self-employment (4.4 as against 2.8 per cent), and the latter shrank to 41.2 per cent of total labour input, the lowest figure since 1970. In 1990 it had been 44.4 per cent.

Industrial labour input remained broadly stable last year (Table 21), thanks to growth in the second half. The survey conducted by *Il Sole 24 Ore* and the Bank of Italy, as well as the cyclical surveys of industrial firms by ISAE, found that the difficulties of firms in the North in filling vacancies, which had emerged in the second half of 1999, were at their worst in the third quarter of 2000, when employment growth accelerated sharply. The strains eased in the fourth quarter. The Bank of Italy's annual survey of industrial investment found that the workforce of industrial firms with at least 50 employees was very slightly larger at the end of the year than at the end of 1999, confirming the end of the decline in industrial employment signaled by the national accounts figures (Table 22).

Table 21

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	2000	2000/ 1990	2000/ 1995	2000/ 1999	1990	2000	2000/ 1990	2000/ 1995	2000/ 1999
Agriculture, forestry and fisheries	**8.6**	**5.7**	**–33.6**	**–17.5**	**–2.4**	**4.5**	**3.1**	**–29.8**	**–14.0**	**0.5**
Industry excluding construction	**24.3**	**22.4**	**–7.8**	**0.4**	**0.1**	**29.1**	**26.4**	**–7.8**	**1.1**	**0.0**
of which: manufacturing	*23.3*	*21.6*	*–7.2*	*0.8*	*0.2*	*27.7*	*25.3*	*–7.1*	*1.7*	*0.1*
Construction	**6.6**	**6.6**	**–0.8**	**2.3**	**1.6**	**6.1**	**5.3**	**–10.8**	**–1.6**	**1.7**
Services	**60.4**	**65.3**	**8.3**	**8.2**	**2.3**	**60.3**	**65.1**	**9.5**	**8.5**	**2.2**
Wholesale and retail trade, repair of personal and household goods	15.5	15.2	–2.0	3.5	1.3	9.4	10.9	17.7	13.1	3.8
Hotels and restaurants	4.7	5.6	19.5	15.2	7.1	3.8	4.6	22.6	18.2	8.3
Transport, storage and communications	6.1	6.2	2.5	9.3	2.3	6.8	6.8	1.2	10.5	2.3
Financial intermediation	2.6	2.7	5.3	1.7	–0.8	3.3	3.4	6.9	1.4	–1.3
Services to businesses and households (1)	7.1	10.2	43.5	34.6	7.7	5.7	7.8	39.5	33.8	7.4
Public administration (2)	6.3	5.8	–8.1	–4.5	–1.4	9.2	8.3	–8.1	–4.5	–1.4
Education	6.9	6.7	–3.5	–1.1	0.9	9.5	8.7	–7.1	–2.2	0.3
Health and other social services	5.1	5.6	9.9	3.1	0.0	6.0	6.3	6.8	2.3	–0.6
Other community, social and personal services	3.5	4.2	19.5	11.4	1.5	3.0	3.8	30.1	17.5	3.2
Private households with employed persons	2.6	3.2	21.3	8.4	0.7	3.8	4.5	21.3	8.4	0.7
Total	**100.0**	**100.0**	**0.1**	**4.1**	**1.5**	**100.0**	**100.0**	**1.5**	**5.0**	**1.5**
Total net of agriculture, forestry and fisheries	**91.4**	**94.3**	**3.3**	**5.8**	**1.7**	**95.5**	**96.9**	**2.3**	**5.8**	**1.6**

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

Construction employment continued to expand; labour input rose by 1.6 per cent (Table 21) as a result of the upward trend in activity, again fueled by tax incentives for renovation work. The decline in agricultural employment slowed perceptibly, falling by 2.4 per cent compared with 5.6

per cent in 1999. The labour input in public services and services to households increased modestly, by 0.2 per cent.

Table 22

EMPLOYMENT AND WORKING HOURS IN INDUSTRY EXCLUDING CONSTRUCTION: FIRMS WITH AT LEAST 50 EMPLOYEES
(percentages)

	1999	2000							
		Total	Size class (number of workers)			Registered office (1)			
			50-199	200-499	500+	North-West	North-East	Centre	South and Islands
				Salaried employment					
Average employment in year (2)	−1.8	0.1	0.3	−0.1	. .	−0.6	1.1	−0.8	2.2
Employment at end of year (2)	−1.5	0.1	0.2	0.2	−0.1	−0.6 (−0.6)	1.8 (1.8)	−1.5 (. .)	0.8 (−1.7)
Proportion of fixed-term workers at end of year	5.3	6.0	6.5	5.5	5.6	5.4	6.6	4.8	9.7
				Turnover (3)					
Total turnover	29.3	31.9	39.5	30.3	25.3	24.5 (24.7)	45.4 (43.4)	25.9 (29.3)	41.8 (33.2)
Permanent hirings	4.8	6.0	6.8	5.9	5.4	5.5 (5.5)	7.6 (7.3)	4.2 (5.1)	7.5 (5.8)
Fixed-term hirings	9.1	10.0	13.1	9.3	7.2	6.5 (6.6)	16.0 (15.2)	8.0 (9.1)	13.8 (10.4)
Separations for expiry of fixed-term contract	9.1	9.3	12.4	9.3	6.3	5.8 (5.9)	15.6 (14.7)	6.9 (8.1)	13.4 (10.2)
Separations for other reasons	6.3	6.6	7.3	5.8	6.4	6.8 (6.7)	6.2 (6.3)	6.8 (7.0)	7.1 (6.8)
				Actual working hours					
Hours worked per employee (2)	−0.3	0.3	0.7	1.0	−0.5	−0.2	1.0	0.2	0.8
Overtime (4)	4.2	4.4	4.4	4.5	4.6	4.8	4.2	4.2	4.0
Temporary employment (4)	0.6	1.1	1.0	1.2	1.2	1.2	1.1	0.7	0.9

Source: Banca d'Italia, *Indagine sugli investimenti delle imprese dell'industria in senso stretto.*
(1) The figures in brackets are based on firms' actual locations. – (2) Percentage changes on previous year. – (3) Ratio of hirings and separations in 2000 to end-1999 employment. – (4) Ratio to total hours worked by firms' employees.

Labour supply and unemployment

Istat's labour force survey found that the labour force averaged 23,575,000 persons last year, 213,000 (0.9 per cent) more than in 1999. Among the population of working age (15-64), the participation rate rose to 59.9 per cent, 0.6 percentage points higher than in 1999 and 2.5 points higher than in 1995. In the last five years the increase has been accounted for by women, whose participation rate has risen from 42.3 to 46.3 per cent while that of men has gone from 72.5 to 73.6 per cent.

The average employment rate for the resident population aged 15-64 rose from 52.5 per cent in 1999 to 53.5 per cent in 2000 but remains far below the euro-area average of over 60 per cent, to say nothing of the target set at the Lisbon summit of 70 per cent for the European Union by the end of the decade. The main hindrance is the low participation rate of women.

The average number of persons unemployed in 2000 was 2,495,000, a decrease of 174,000 (6.5 per cent) compared with 1999. The average unemployment rate declined from 11.4 to 10.6 per cent, the lowest since 1994. The fall involved both men and women (from 8.8 to 8.1 per cent and from 15.7 to 14.5 per cent respectively) and all age-groups. The joblessness rate declined from 6.5 to 5.7 per cent in the Centre and North and from 22 to 21 per cent in the South.

Wages and labour costs

According to the national accounts, gross de facto earnings per full-time equivalent employee rose last year by 3.1 per cent for the economy as a whole (Table 23), as against a 1.9 per cent rise in contractual wages. In real terms de facto earnings increased by 0.5 per cent (while real contractual wages decreased by 0.6 per cent). The acceleration with respect to 1999, when nominal earnings rose by 2.4 per cent (and real earnings by 0.8 per cent) reflected the sharp rise of 4.3 per cent for public service employees. In the private sector de facto earnings grew by 2.5 per cent, about the same as in 1999. The significant rise in public sector earnings last year, which could continue this year as well, represents the partial recouping of past lags; in ten years they have risen by 44 per cent, in line with consumer prices, compared with 55 per cent for private sector earnings.

Compensation of employees per standard labour unit – gross earnings plus employers' social contributions – rose by 2.9 per cent overall in 2000, half a point more than in 1999. Between 1997 and 2000 per capita labour income grew by 2.7 per cent per year in Italy (adjusting for the introduction of the regional tax on productive activities, Irap), compared with 1.1 per cent in Germany, 2.1 per cent in France and 3.2 per cent in Spain.

Table 23

LABOUR COSTS AND PRODUCTIVITY IN ITALY

(percentage changes)

	Value added at 1995 base prices	Total standard labour units	Output per standard labour unit	Earnings per standard employee labour unit	Labour costs per standard employee labour unit (1)	Unit labour costs (1)	Labour's share of value added at base prices (1) (2)	Total factor productivity (3)	
								Unadjusted	Adjusted
					Industry excluding construction				
Average 1981-1985	0.1	−2.8	3.0	15.8	16.2	12.7	67.0	3.3	2.5
Average 1986-1990	3.2	0.6	2.5	7.3	7.9	5.3	64.6	1.9	0.7
Average 1991-1995	1.5	−1.7	3.2	5.8	5.9	2.6	67.2	2.1	1.1
Average 1996-2000	1.4	0.1	1.3	3.3	2.6 (3.3)	1.3 (2.2)	64.2 (66.0)	0.2	. .
1998	1.7	1.8	−0.1	3.0	−1.4 (3.0)	−1.3 (3.1)	63.7 (66.5)	−0.1	−0.5
1999	0.5	−0.6	1.1	2.9	2.7	1.6	64.3 (67.2)	0.3	−0.6
2000	3.5	0.1	3.4	2.4	2.6	−0.7	62.5 (65.4)	. . . .	. . . .
					Construction				
Average 1981-1985	0.1	−1.3	1.4	15.9	15.1	13.5	63.5	0.2	. . . .
Average 1986-1990	1.9	−0.4	2.3	9.9	10.4	7.9	66.0	2.1	. . . .
Average 1991-1995	−1.3	−0.6	−0.6	4.5	4.5	5.2	70.1	−0.5	. . . .
Average 1996-2000	1.1	0.5	0.7	3.7	2.7 (3.7)	2.0 (3.1)	70.4 (72.6)	0.2	. . . .
1998	−0.4	−1.4	1.0	4.9	−0.4 (4.9)	−1.4 (3.9)	70.1 (73.9)	0.3	. . . .
1999	1.2	1.5	−0.3	3.3	3.2	3.5	71.3 (75.1)	−0.4	. . . .
2000	2.6	1.6	1.0	3.1	3.5	2.5	70.4 (74.2)	. . . .	. . . .
					Market services (4) (5)				
Average 1981-1985	3.1	3.7	−0.5	14.0	13.5	14.1	64.9	0.3	. . . .
Average 1986-1990	3.6	1.7	1.9	7.0	7.3	5.3	60.1	1.5	. . . .
Average 1991-1995	1.7	−0.3	1.9	5.8	5.5	3.5	57.2	0.9	. . . .
Average 1996-2000	2.5	2.4	0.1	2.7	1.9 (2.7)	1.8 (2.7)	51.8 (53.2)	0.1	. . . .
1998	2.4	2.2	0.2	3.6	−0.9 (3.6)	−1.1 (3.4)	50.9 (53.2)	0.4	. . . .
1999	1.7	2.6	−0.9	1.5	1.4	2.3	51.1 (53.4)	−0.6	. . . .
2000	4.1	3.7	0.4	2.5	2.7	2.3	51.3 (53.6)	. . . .	. . . .
					Private sector (5)				
Average 1981-1985	1.7	−0.2	1.9	15.4	15.3	13.1	69.3	1.8	. . . .
Average 1986-1990	3.2	0.4	2.7	7.4	7.9	5.1	65.3	2.0	. . . .
Average 1991-1995	1.4	−1.2	2.6	5.8	5.7	3.0	63.7	1.5	. . . .
Average 1996-2000	2.0	1.0	1.1	3.2	2.4 (3.2)	1.3 (2.2)	58.4 (60.0)	0.5	. . . .
1998	2.0	1.2	0.7	3.6	−1.0 (3.6)	−1.7 (2.8)	57.6 (60.2)	0.5	. . . .
1999	1.5	0.8	0.6	2.4	2.2	1.6	57.8 (60.5)	0.2	. . . .
2000	3.6	1.9	1.6	2.5	2.7	1.1	57.3 (59.9)	. . . .	. . . .
					Total economy (5)				
Average 1981-1985	1.8	0.5	1.3	15.2	15.1	13.7	73.0	1.3	0.9
Average 1986-1990	2.9	0.7	2.1	8.1	8.5	6.3	69.6	1.5	1.2
Average 1991-1995	1.3	−0.8	2.1	5.0	5.3	3.1	68.6	1.2	0.7
Average 1996-2000	1.8	0.8	1.0	3.4	2.7 (3.4)	1.7 (2.6)	63.8 (65.5)	0.5	0.1
1998	1.7	1.0	0.7	2.9	−1.5 (2.9)	−2.1 (2.2)	62.8 (65.6)	0.4	0.1
1999	1.4	0.8	0.5	2.4	2.3	1.8	63.1 (65.9)	0.1	−0.2
2000	2.9	1.5	1.4	3.1	2.9	1.5	62.6 (65.4)	. . . .	. . . .

Source: Istat, national accounts (ESA95).

(1) The introduction of the regional tax on productive activities and the simultaneous elimination of some employers' contributions in 1998 caused a break 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 in 1998. – (2) Percentages. – (3) Total factor productivity represents the growth in output attributable to technical progress and is calculated as the difference between the rate of growth in value added and those in labour inputs and capital stock, weighted according to their respective shares in the distribution of value added. Adjusted productivity takes account of the improvement in the quality of labour input and, for industry only, also of the change in the number of hours worked and capacity utilization. The averages for 1981-85 and 1996-2000 refer respectively to the years 1983-85 and 1996-99. – (4) Includes wholesale and retail trade, hotel and restaurant services, transport and communications, financial intermediation services and sundry services to businesses and households. – (5) Value added includes the former item "rental of buildings", which no longer appears separately in the national accounts based on ESA95.

Unit labour costs increased by 1.5 per cent in the economy as a whole, compared with 1.8 per cent in 1999. In Germany they declined by 0.7 per cent, while they rose by 1.1 per cent in France and 3.3 per cent in Spain. The slowdown in the rise in unit labour costs in Italy was more pronounced in the private sector (from 1.6 to 1.1 per cent), thanks to the step-up in productivity, which more than doubled its rate of increase to 1.6 per cent, compared with 0.7 per cent in 1998 and 0.6 per cent in 1999. The labour productivity gain was especially great in industry (3.4 per cent).

From 1985 to 2000 value added per standard labour unit in the entire Italian economy rose at an average annual rate of 1.7 per cent; the rate of increase fell from 2.1 per cent per year between 1986 and 1995 to 1 per cent between 1996 and 2000 (Table 23). Recent analyses have shown that while the contribution of the capital stock was roughly constant over the entire period, the slowdown in labour productivity reflected that in total factor productivity. Between 1982 and 1999 total factor productivity rose by 0.7 per cent per year (net of the rise in the quality of labour inputs as proxied by the educational attainment of the workforce), but its rate of growth slowed from 1.2 per cent in 1986-1990 to 0.1 per cent in 1996-99.

Figure 8

LABOUR'S SHARE OF VALUE ADDED

(percentages)

Source: Based on Istat, national accounts (ESA95).

(1) Value added at base prices. Before 1970 values were estimated on the basis of trends in value added at factor cost. The upper line in each series from 1998 to 2000 takes account of the introduction of Irap, assuming that in 1998 labour incomes grew at the same rate as gross earnings.

The share of total value added (at base prices) going to labour fell last year from 63.1 to 62.6 per cent in the entire economy, and from 57.8 to 57.3 per cent in the private sector (adjusted for Irap, to 65.4 and 59.9 per cent respectively). In the last five years, taking Irap into account, both proportions have stabilized at their lowest levels in the last half-century (Figure 8). In industry labour's share fell to 62.5 per cent (65.4 per cent adjusted for Irap), which was below the average for 1996-2000.

PRICES AND COSTS

In Italy and the euro area the acceleration in inflation that began in the spring of 1999 continued last year, fueled by the large rises in the prices of imports. The feared surge in core inflation as a consequence of the indirect effects of these price increases has not occurred to date. In the last part of the year the easing of external price pressures reduced the risk of its occurring; the stance of monetary policy prevented the rise in current inflation from affecting longer-term expectations.

In 2000 the year-on-year rise in the harmonized index of consumer prices was 2.6 per cent in Italy and 2.3 per cent in the euro area (excluding Greece), compared with respectively 1.7 and 1.1 per cent in 1999. The rise in the index of core inflation (i.e. excluding unprocessed food and energy) was much smaller – 1.9 per cent in Italy and 1.2 per cent in the euro area – and similar to that recorded in 1999 (Table 24). Producer prices in the euro area rose by 5.4 per cent in 2000, compared with a decline of 0.4 per cent in 1999.

Table 24

CONSUMER PRICE INFLATION AND CORE INFLATION IN THE MAJOR EURO-AREA COUNTRIES

(harmonized indices; percentage changes on the year-earlier period)

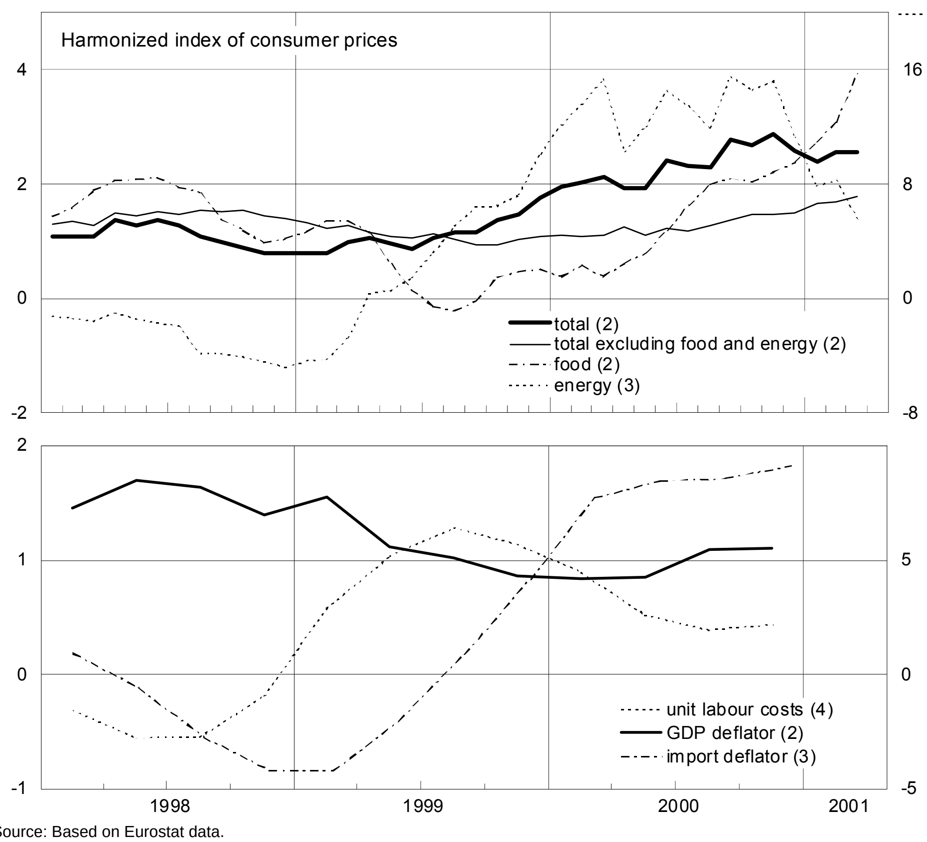
	Germany			France			Italy			Spain			Euro (2)		
	General index	Core inflation (1)	Fresh food and energy	General index	Core inflation (1)	Fresh food and energy	General index	Core inflation (1)	Fresh food and energy	General index	Core inflation (1)	Fresh food and energy	General index	Core inflation (1)	Fresh food and energy
1997 . .	1.5	1.3	2.5	1.3	1.1	2.1	1.9	2.3	0.3	1.9	1.9	1.8	1.6	1.5	2.0
1998 . .	0.6	1.1	–1.6	0.7	0.9	–0.3	2.0	2.3	0.5	1.8	2.2	0.3	1.1	1.4	–0.3
1999 . .	0.6	0.4	1.8	0.6	0.7	0	1.7	1.8	1.2	2.2	2.4	1.7	1.1	1.1	1.2
2000 . .	2.1	0.7	8.8	1.8	0.6	7.1	2.6	1.9	6.1	3.5	2.5	6.8	2.3	1.2	7.6
2001 Q1.	2.4	1.2	8.5	1.4	1.1	2.9	2.7	2.1	6.0	3.9	3.3	6.1	2.6	1.8	6.3

Source: Based on Eurostat data.
(1) General index excluding energy and unprocessed food. – (2) Weighted average of the euro-area countries (11 until December 2000, plus Greece from January 2001).

The dollar prices of commodities rose by an average of 23.2 per cent in 2000, those of the energy component of the index by 56.9 per cent. Prices in euros rose even more owing to the depreciation of the common currency (by 13.3 per cent against the dollar). The dynamics of domestic costs curbed the rise in consumer prices: the inflation generated within the area, as measured by the GDP deflator, declined from 1.1 per cent in 1999 (for the four major countries) to 1 per cent in 2000 (Figure 9); in Italy the corresponding values were 1.6 and 2.2 per cent. The sharp upturn in economic activity in Italy allowed firms to pass on their higher overall costs to prices. The share of Italian industrial firms' profits in value added rose slightly; the data available suggest a similar pattern in the other major euro-area countries.

Figure 9

INFLATION INDICATORS IN THE EURO AREA
(percentage changes on the year-earlier period) (1)



Source: Based on Eurostat data.
(1) Monthly data for the harmonized indices. Quarterly data for the other indicators, which refer to the average for Germany, France, Italy and Spain. – (2) Left-hand scale. – (3) Right-hand scale. – (4) For the entire economy. Moving average of the four quarters ending in the reference quarter. Left-hand scale.

In the course of 2000 short-term inflation expectations gradually worsened in the euro area and Italy, while those for more distant time horizons remained stable at less than 2 per cent. Economic agents' perception that the large increase in import prices is likely to have only a temporary impact on inflation has so far helped to avoid the start of a wage-price spiral.

Towards the end of last year the outlook for the growth of the world economy became less favourable, primarily because of the slowdown in the United States. The oil price fell back and the euro recovered to some extent against the dollar. These movements created the conditions for a decline in inflation. The rate nonetheless remained high in the early part of this year owing to some specific factors, notably the rise in meat prices. In Italy the rate was also affected in January by widespread increases in regulated prices of goods and services.

Consumer prices

In 2000 the most volatile consumer prices – especially those of energy products and to a lesser extent those of unprocessed food (including meat) – made an exceptional contribution to the rise in the annual rate of inflation, amounting to 0.7 percentage points in Italy and 1.1 points in the euro area. Over the year the twelve-month increase in the harmonized index rose from 2.2 and 1.9 per cent in Italy and the euro area respectively in January to 2.9 per cent in both areas in November and then declined to 2.6 per cent in both areas in March 2001, reflecting the fall in the oil price from December onwards and the partial recovery of the exchange rate of the euro (Figure 9 and Tables a9 and a10). However, in the first quarter of this year consumer price inflation was driven by a series of specific factors, notably the rise in meat prices in connection with first BSE and then foot-and-mouth disease. In April increases in the prices of fuels and unprocessed food pushed up inflation in the area to 3 per cent.

In Italy the twelve-month rise in the general consumer price index accelerated from 2.7 per cent in December 2000 to 3 per cent in January 2001 (Figure 10). The harmonized index showed a considerably smaller increase (2.7 per cent).

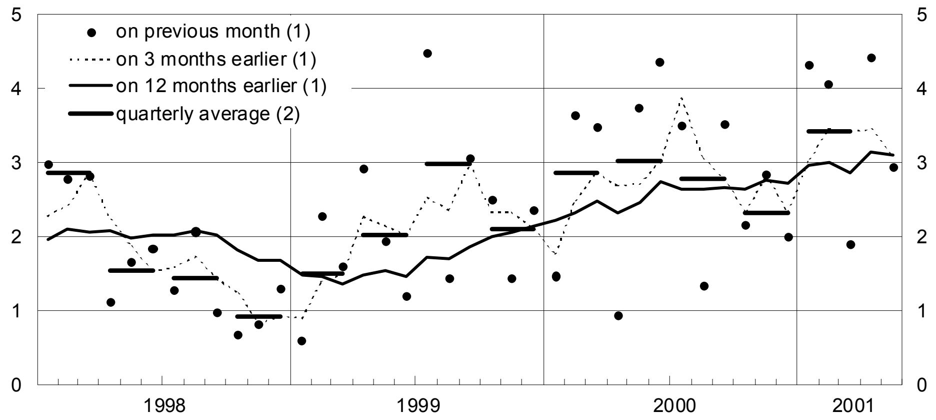
The large difference between the twelve-month rises in the two indices in January – a record 0.3 percentage points – was entirely due to two factors: the large increase in the item “betting and lotteries”, present only in the basket of the general index, and the abolition of prescription charges, present only in the harmonized index.

In Italy the temporary decline in the twelve-month rise in the general consumer price index in March – to 2.8 per cent, from 3 per cent in the two preceding months (Table a8) – was followed in April by a rise of 3.1 per cent, owing in part to the large increases in the prices of tobacco products and motor vehicle insurance premiums, which jumped after the expiry of the one-year freeze imposed by the Government in April 2000. Excluding these items, the annualized three-month rise on a seasonally adjusted basis was equal to 3 per cent.

Figure 10

ITALY: GENERAL CONSUMER PRICE INDEX

(percentage changes)



Source: Based on Istat data.
(1) Seasonally adjusted and annualized. – (2) Average of seasonally adjusted and annualized monthly changes in the reference quarter.

Harmonized core inflation, which excludes energy and unprocessed food, accelerated only a little in 2000 on a year-on-year basis: from 1.1 to 1.2 per cent in the euro area as a whole and from 1.8 to 1.9 per cent in Italy. As in earlier years, the acceleration was more pronounced in the countries with faster GDP growth. In April 2001 the twelve-month rise in the euro area was 2 per cent, compared with values close to 1 per cent up to one year before; in Italy the corresponding figures were 2.5 and 1.9 per cent. Overall, the smallness of the upturn in core inflation in 2000 was mainly attributable to the favourable trend of domestic costs and the high proportion of consumer goods traded within the euro area, which attenuates the indirect effects of the weakening of the euro.

The dispersion of the annual inflation rates of the euro-area countries increased in 2000. This was partly a reflection of the impact of the increase in energy prices in view of the varying importance of this item in the structure of each country’s consumption and the different size of the tax component in final prices. It should be noted, however, that the dispersion of the core components of inflation also increased. In particular, the prices of services diverged more than in the past in connection with the different degrees of liberalization achieved in some branches.

In the medium term the behaviour of prices in some recently liberalized sectors – especially telephony, electricity and gas – should be improved by the measures adopted with the aim of increasing competition. The liberalization under way aggravates the problem of measuring consumer price inflation. The statistics available may reflect the influence on prices of a more competitive environment with a lag and then only in part if they do not take qualitative changes and new products and services promptly into account.

In the second half of the nineties the debate on the problems of measuring consumer price inflation received an important stimulus from the publication of the so-called Boskin Report, "Toward a more accurate measure of the cost of living", which analyzed the main distortions to which the indices normally used are subject and quantified their effects in the case of the United States. Specifically, the report stressed the problems concerning the prompt observation of movements in the relative prices of products, changes in quality and the introduction of new goods and services, aspects whose importance increases with the interval between revisions of the basket.

In order to assess the potential impact of changes in the quality of products on the measurement of consumer price inflation, an analysis was made of car prices in Italy between 1988 and 1998. Comparison of the general consumer price index with a measure corrected to take account of changes in quality (based on "hedonic prices") shows that the official index overestimated the rise in car prices in the period by around 1.5 percentage points per year. A similar result is obtained when the official index is compared with that compiled by Centro Studi Promotor using a different method of calculation, a chain index for the same period (Figure 11).

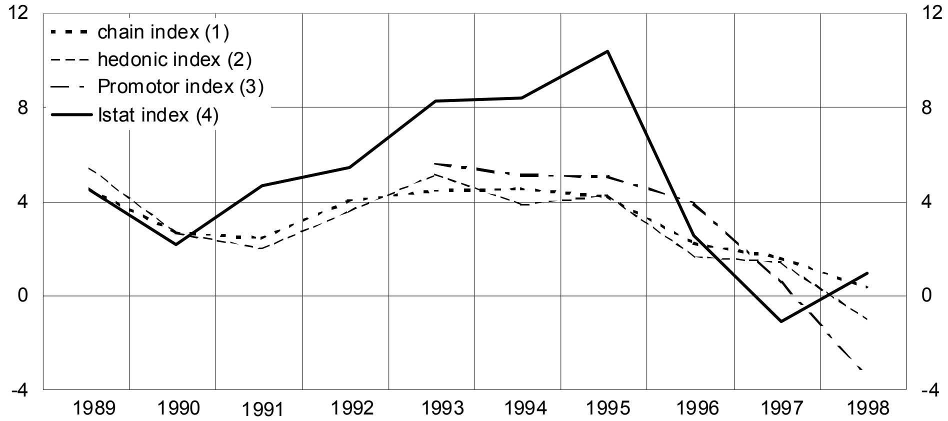
It should be noted, however, that the problem of changes in the quality of products should be largely overcome following Istat's adoption of chain indexes at the beginning of 1999.

The differential between the annual inflation rate in Italy and the euro-area average was almost eliminated in 2000 (from 0.6 points in 1999 it fell to 0.3 percentage points). The closing of this gap, for the first time since the beginning of the seventies, benefited from the smaller impact on Italian inflation of the jump in the prices of energy products, both because the latter have a below-average weight in the consumption of Italian households and because fuel prices in Italy are less sensitive to changes in the oil price. The convergence of Italian inflation cannot yet be considered complete; in 2000 core inflation was 0.7 percentage points higher than the average in the euro area, as in 1999.

Figure 11

CONSUMER PRICES OF CARS IN ITALY

(twelve-month percentage changes in December of each year)



Sources: Based on Istat, *Quattroruote* and Centro Studi Promotor data.
(1) Index calculated on the basis of data collected by *Quattroruote* as the geometric mean of the ratio of the price in the reference year to that in the previous year of cars sold in Italy in both years. – (2) Index calculated on the basis of data collected by *Quattroruote* by applying the "hedonic regression" technique. – (3) Index calculated by the Centro Studi Promotor, which eliminates price changes due to changes in the standard equipment of cars. – (4) Index based on the item "motor vehicles" in the basket of consumer prices for the entire resident population.

Producer prices and their determinants

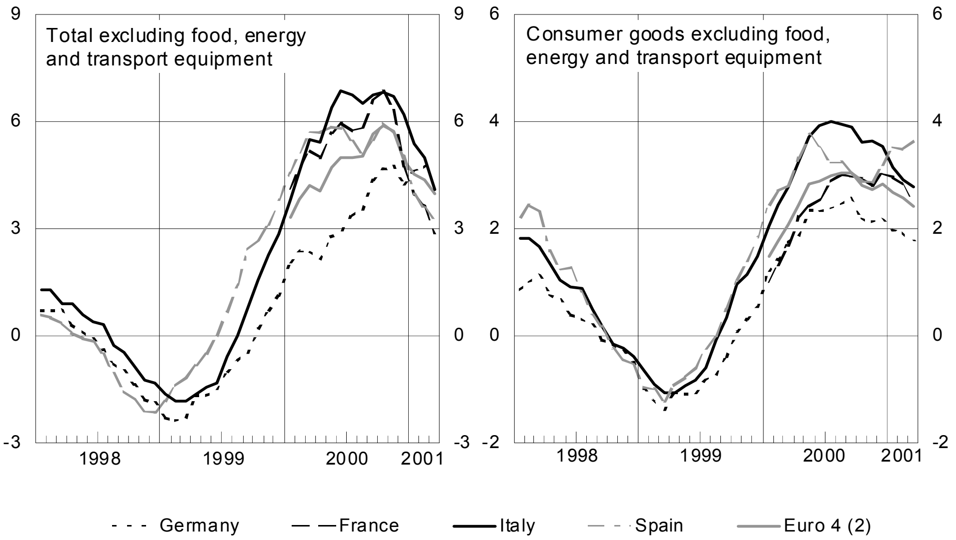
Producer prices of manufactures rose by 5.4 per cent in the euro area in 2000, compared with a fall of 0.4 per cent in 1999; the corresponding figures for Italy were 6 and –0.3 per cent. The upward trend reversed towards the end of the year in conjunction with the decline in the cost pressures associated with imported inputs and the slowdown in demand in the second half of the year. The twelve-month rise in the euro area fell to 4.1 per cent in March 2001 after peaking at 6.1 per cent in October; Italy recorded a similar fall, from 6.8 to 4.2 per cent (Tables a11 and a12).

In the course of 2000 the main components of producer prices in the four major euro-area countries – for which more highly disaggregated data are available – moved more or less in parallel. Up until the autumn the acceleration in the general index reflected that in the prices of both energy and non-energy intermediate goods, which tend to react rapidly to movements in international commodity prices. These pressures were transmitted with a lag of some months to the other components of the index. The rise in the prices of final consumer goods, excluding food and energy, gradually accelerated (Figure 12): in March 2001 the twelve-month rise in the four countries was equal to 2 per cent, more than 1 percentage point higher than in January 2000. A similar pattern can be observed in Italy, where the twelve-month rise increased from 1.3 to 2.5 per cent over the same period. Towards the end of last year the fall in international commodity prices curbed the rise in the prices of intermediate goods and this led to a deceleration in the twelve-month rise in the general index in all the major euro-area countries except Germany (where from January onwards the prices of some energy products were affected by the introduction of the ecological tax, which was phased in over several months).

Figure 12

PRODUCER PRICES IN THE MAJOR EURO-AREA COUNTRIES (1)

(twelve-month percentage changes)



Sources: Based on Eurostat data and national statistics.

(1) The different treatments of indirect taxes, which are levied primarily on energy products, make the cross-border comparison of indices containing such products somewhat unreliable. – (2) GDP-weighted average of the indices for Germany, France, Italy and Spain. The indices for France are available from January 1999 onwards.

In 2000 the increase in industrial costs produced by the substantial rise in the prices of imported inputs was partially offset by the favourable performance of the domestic component. Continued wage moderation and the cyclical improvement in productivity led to a reduction in unit labour costs in all the major euro-area countries except Spain.

In Italy unit variable costs in industry excluding construction, estimated by Istat, as are output prices, gross of intrasectoral transactions within the framework of the national accounts, increased on average by 3.3 per cent in 2000, whereas in 1999 they had declined by 0.2 per cent. The outcome reflected the divergence between the performance of the imported component, which accelerated rapidly, and that of the domestic component, which showed a moderate increase. In a period of expanding economic activity, firms passed on the increase in unit variable costs to output prices, which, after remaining unchanged in 1999, rose by an average of 3.7 per cent in 2000, thereby causing unit profit margins to widen slightly. The increase in the share of gross operating profits in manufacturing value added compared with 1999 is consistent with the foregoing assessment. The national accounts of the other major euro-area countries show a similar pattern for the share of profits in industry to that recorded in Italy.

The euro prices of Italy's imports showed a sharp rise year on year (14.1 per cent), as did those of France and Germany. The prices of non-energy commodities accelerated until February 2000 (when they rose by 6.2 per cent on a twelve-month basis according to the IMF index), after which they fell; in March they were down by 4.3 per cent on a twelve-month basis. By contrast, the tensions in the oil market continued until the autumn, when prices jumped to new peaks (with the average of the three main grades exceeding $30 a barrel). Conditions in the market eased towards the end of the year in response to the worsening outlook for economic growth, especially in the United States. Oil prices nonetheless remained volatile in the subsequent months.

Overall wage growth remained subdued in Italy and the other major euro-area countries, except Spain. Per capita compensation of employees rose in the four major countries by 1.9 per cent on average, compared with 1.7 per cent in 1999 (Table 25). The rise in Italy was much larger than those in France and Spain (2.9 per cent, as against respectively 1.8 and 1.2 per cent). Unit labour costs in the four major countries showed a small increase of 0.5 per cent on average, compared with a rise of 1.2 per cent in 1999. The improvement was due to the faster rate of increase in productivity (1.4 per cent, as against 0.5 per cent in 1999), especially in industry. In Germany, where productivity rose fastest, unit labour costs fell by 0.7 per cent. The increase in unit labour costs was moderate in France (1.1 per cent, as in 1999) and in Italy (1.5 per cent, as against 1.8 per cent in 1999), but much larger in Spain (3.3 per cent, as against 2.9 per cent in 1999).

Inflation expectations

In 2000 the revival of tensions in the oil market, which regularly contradicted the expectations of an imminent fall embodied in forward prices, was reflected in the worsening of inflation expectations in the euro area. The professional forecasters surveyed by *Consensus Forecasts* gradually revised their forecasts for 2000 and 2001 upwards in line with the movements in prices. In January 2000 the annual inflation rate expected for the year was 1.6 per cent for the euro area and 1.9 per cent for Italy; in October the figure for both areas was around 2 per cent and still underestimated actual inflation in 2000 by about half a percentage point.

Table 25

UNIT LABOUR COSTS AND THEIR DETERMINANTS IN THE MAJOR EURO-AREA COUNTRIES

(percentage changes on the previous year)

	Labour costs per employee (1)		Labour productivity						Unit labour costs	
					Value added (2)		Employment (1)			
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
					Industry excluding construction					
Germany	1.3	2.3	0.8	4.6	–0.1	5.4	–0.7	0.3	0.5	–2.2
France	3.6	1.4	2.5	2.8	2.4	3.5	–0.1	0.7	1.0	–1.3
Italy	2.7	2.7	1.1	3.4	0.5	3.5	–0.6	0.1	1.6	–0.7
Spain	2.4	2.7	–0.3	2.1	3.0	5.1	3.4	2.9	2.8	0.6
Euro 4 (3)	2.0	2.3	0.9	3.8	1.0	4.5	0.1	0.6	1.1	–1.5
					Services (4)					
Germany	1.3	0.8	0.4	1.2	2.6	3.8	2.2	2.5	0.8	–0.3
France	2.0	2.0	0.6	0.2	3.1	3.1	2.5	2.9	1.3	1.8
Italy	2.1	3.1	–0.4	0.6	1.5	3.0	1.9	2.3	2.5	2.4
of which: private	*1.4*	*2.7*	*–0.9*	*0.4*	*1.7*	*4.1*	*2.6*	*3.7*	*2.3*	*2.3*
public	*2.7*	*3.5*	*0.2*	*–0.2*	*0.9*	*0.0*	*0.7*	*0.2*	*2.6*	*3.7*
Spain	2.8	4.7	0.0	0.2	3.5	3.6	3.5	3.3	2.8	4.4
Euro 4 (3)	1.7	1.8	0.2	0.7	2.6	3.4	2.4	2.7	1.5	1.2
					Total economy					
Germany	1.1	1.2	0.7	2.0	1.6	3.8	1.1	1.6	0.4	–0.7
France	2.3	1.8	1.1	0.7	2.9	3.1	1.8	2.3	1.1	1.1
Italy	2.4	2.9	0.5	1.4	1.4	2.9	0.8	1.5	1.8	1.5
Spain	2.8	4.0	–0.2	0.7	3.4	4.1	3.6	3.3	2.9	3.3
Euro 4 (3)	1.7	1.9	0.5	1.4	2.1	3.4	1.6	2.0	1.2	0.5

Source: Based on Eurostat data.

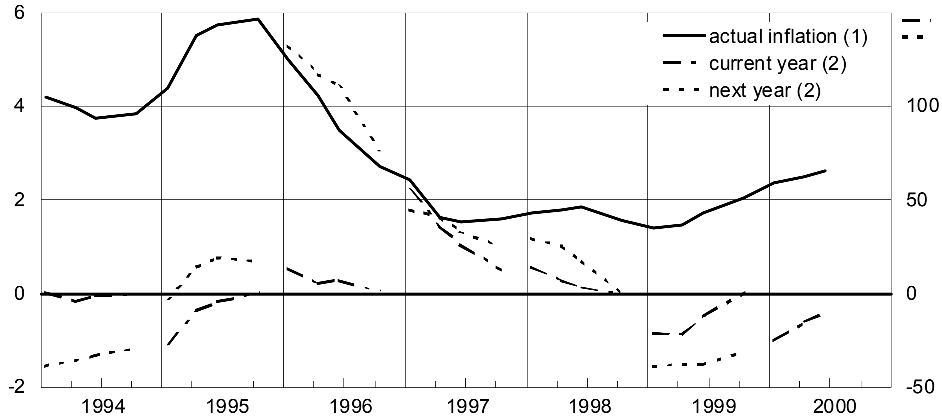
(1) Standard labour units for Italy and Spain. – (2) At 1995 base prices. – (3) Changes calculated on the basis of the sum of the values for Germany, France, Italy and Spain. – (4) Comprises the ESA95 sectors “wholesale and retail trade, transport and communication services”, “financial intermediation and real estate services” and “other services”.

An analysis of professional forecasters' inflation expectations surveyed monthly by *Consensus Forecasts* shows that there were sizable errors in the forecasts of annual inflation in Italy in the nineties up to the summer of the year to which the forecasts referred and that these errors declined gradually only in the last few months of the year (Figure 13). Repeating the analysis for the other euro-area countries produced similar results.

Figure 13

ERRORS IN CONSUMER PRICE INFLATION EXPECTATIONS IN ITALY COLLECTED BY *CONSENSUS FORECASTS*

(twelve-month percentage changes)



Sources: Based on Istat and *Consensus Forecasts* data (January, April, June and October surveys).

(1) Percentage changes with respect to the year-earlier quarter in the index of consumer prices for worker and employee households, excluding tobacco products, up to December 1998 and the general consumer price index from 1999 onwards. Left-hand scale. – (2) Arithmetic mean of the errors, in percentage points, in the forecasts of annual average inflation made by individual businessmen in the reference month compared with the actual value in the year in which the forecast was made and in the next year. Right-hand scale.

The surveys of European enterprises and households conducted using methods harmonized by the European Commission are another important source of information on short-term inflation expectations. The survey of manufacturing enterprises covers their intentions with regard to price revisions in the three following months ("upward", "stable" or "downward"). This qualitative variable predicts short-term movements in producer prices correctly, especially for non-energy products. Its forecasting power derives from the fact that enterprises' intentions with regard to price revisions are based on detailed knowledge of the relevant economic and financial variables and from the shortness of the forecasting horizon. The survey of consumers covers their qualitative assessments of consumer price movements in the twelve following months. The information they provide is less reliable since interviewees tend to base their predictions primarily on past inflation and their forecasts are frequently incorrect.

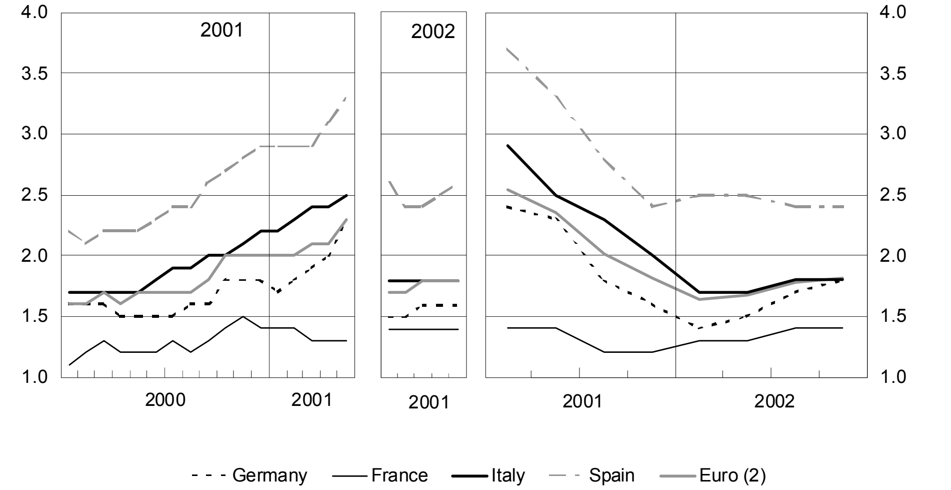
According to the survey conducted by *Consensus Forecasts* in April 2001, annual inflation this year will be 2.1 per cent in the euro area and 2.4

per cent in Italy (Figure 14). The expectations observed on a quarterly basis in March 2001 indicate that price increases will slow to less than 2 per cent in the third quarter of this year in the euro area and in the fourth quarter in Italy.

Figure 14

EXPECTATIONS CONCERNING CONSUMER PRICE INFLATION IN THE EURO AREA IN 2001 AND 2002 OBSERVED BY *CONSENSUS FORECASTS*

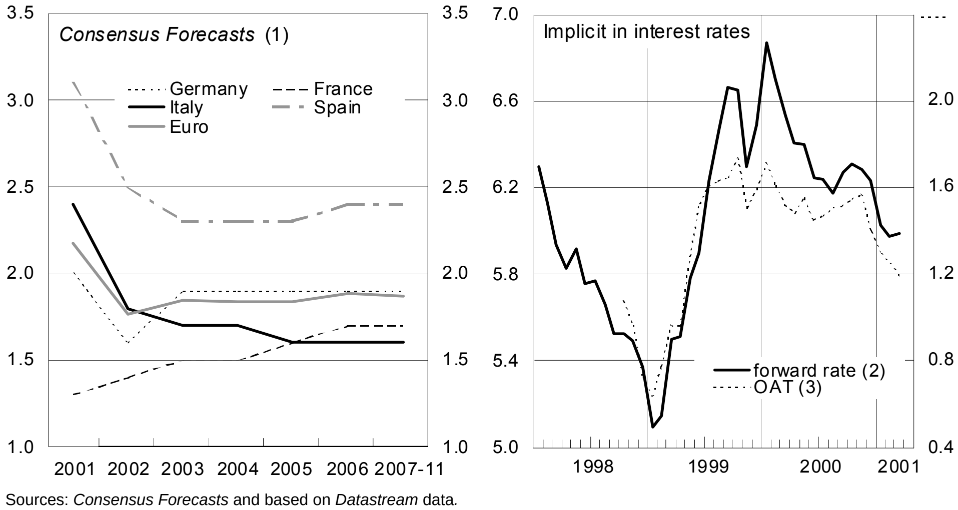
(percentage changes on previous year) (1)



Source: *Consensus Forecasts.*
(1) For the monthly data, the horizontal axis shows the months in which the expectations of annual average inflation were surveyed; for the quarterly data, it shows the period to which the expectations refer, as surveyed in March 2001. – (2) For the monthly data, average of the 11 countries; for the quarterly data, average of Germany, France, Italy, Spain and the Netherlands.

Figure 15

LONG-TERM INFLATION EXPECTATIONS



Sources: *Consensus Forecasts* and based on *Datastream* data.
(1) The figure shows the percentage changes expected in consumer prices on the previous year for the years indicated on the horizontal axis, as surveyed in April 2001. – (2) Average of 1-year forward rates between 6 and 9 years ahead implied by the yield curve for euro interest rate swaps. Left-hand scale. – (3) Difference in percentage points between the yield to maturity on French government securities with a nominal coupon (*Obligation assimilable du Trésor indexée*; OAT) and that on similar index-linked securities maturing in 2009. Right-hand scale.

The indicators of expectations for more distant time horizons have continued to suggest that the recent rise will be short-lived. The half-yearly survey conducted by *Consensus Forecasts* in April 2001 points to a slowdown in consumer price inflation to less than 2 per cent in 2002, both in the euro area and in Italy (Figure 15). This prediction is confirmed by the indicator of inflation expectations for the long term (9 years) derived from the financial markets. The difference between the nominal yields of the securities issued by the French Treasury and the real yields on its index-linked bonds narrowed from 1.7 percentage points at the beginning of 2000 to 1.3 points in April 2001.

THE BALANCE OF PAYMENTS AND THE NET EXTERNAL POSITION

Italy recorded a current account deficit of €6.1 billion last year (11.8 trillion lire, equal to 0.5 per cent of GDP; Table 26), compared with a surplus of 7.7 trillion in 1999. As elsewhere, this outturn reflects the higher value of energy imports. Disregarding this increase, the current account balance would not be too far removed from that of the previous year. Thanks to the strong recovery in world demand, the increase in the value of exports of goods was close to that of imports. The deficit on current transfers remained unchanged, while that on income widened and the surplus on services, which has been declining since 1997, was almost eliminated. There was a slight improvement in the capital account, attributable to transactions with the EU.

Table 26

BALANCE OF PAYMENTS

(balances in billions of lire and millions of euros)

	1997	1998	1999		2000	
	lire			euros	lire	euros
Current account	**56,813**	**39,585**	**14,894**	**7,692**	**–11,794**	**–6,091**
Goods	68,102	63,091	42,683	22,044	22,794	11,772
Export	*409,126*	*426,181*	*428,853*	*221,484*	*502,561*	*259,551*
Import	*341,024*	*363,089*	*386,170*	*199,440*	*479,767*	*247,779*
Services	13,255	8,493	2,178	1,125	64	33
Income	–17,446	–19,109	–20,122	–10,392	–25,358	–13,096
Transfers	–7,098	–12,891	–9,846	–5,085	–9,294	–4,800
EU institutions	*–5,088*	*–11,501*	*–9,070*	*–4,684*	*–9,497*	*–4,905*
Capital account	**5,658**	**4,355**	**5,400**	**2,789**	**6,179**	**3,191**
Intangible assets	180	–234	–6	–3	–139	–72
Transfers	5,478	4,589	5,406	2,792	6,318	3,264
EU institutions	*6,320*	*5,320*	*6,198*	*3,201*	*7,018*	*3,624*
Financial account	**–35,393**	**2,482**	**–17,169**	**–8,867**	**8,301**	**4,287**
Direct investment	–12,400	–20,486	345	178	2,225	1,149
Abroad (1)	*–20,850*	*–27,917*	*–26,216*	*–13,539*	*–25,884*	*–13,368*
In Italy (1)	*8,450*	*7,431*	*26,561*	*13,718*	*28,109*	*14,517*
Portfolio investment	33,247	13,699	–45,763	–23,635	–50,837	–26,255
Assets	*–91,251*	*–167,129*	*–235,243*	*–121,493*	*–167,178*	*–86,340*
Liabilities	*124,498*	*180,828*	*189,480*	*97,858*	*116,341*	*60,085*
Financial derivatives	–3,158	–1,475	3,419	1,766	4,843	2,501
Other investment	–30,314	–26,231	11,085	5,725	57,991	29,950
Change in official reserves	–22,769	36,975	13,746	7,099	–5,921	–3,058
Errors and omissions	**–27,078**	**–46,422**	**–3,125**	**–1,614**	**–2,686**	**–1,387**

(1) The 1999 data for direct investment include 14 trillion lire subtracted from direct investment abroad and added to inward investment, leaving the balance unchanged. This sum refers to the purchase of Omnitel and Infostrada by a foreign firm. The transaction was recorded as a decrease in Italian investment abroad rather than as an increase in foreign investment in Italy, so that the reclassification reflects the economic aspect of the operation.

Italy's financial account generated net inflows of €4.3 billion (8.3 trillion lire), compared with net outflows of €8.9 billion in 1999. Direct foreign investment gave rise to a surplus, with inward investment remaining at the same high levels as 1999. Non-residents continued to make substantial purchases of Italian government securities. For the second year running the errors and omissions item was negligible. At the end of last year Italy had a net foreign creditor position amounting to €46.6 billion, or 90.2 trillion lire, equal to 4 per cent of GDP.

Trade

Italy's trade surplus on an fob-fob basis fell from €22 billion in 1999 to €11.8 billion (22.8 trillion lire), or from 2 to 1 per cent of GDP. Given that the volume of exports increased more than imports, the narrowing of the trade surplus is attributable to changes in relative prices, which worsened the terms of trade by 7 per cent. The 94 per cent increase in oil prices contributed almost one quarter of the total increase in import prices, which came to 13.6 per cent. On a cif-fob basis, net imports of crude oil and natural gas, which accounted for almost 95 per cent of total imports of fossil fuels, leapt from €12.8 billion to €26.3 billion (from 24.7 to 51 trillion lire), or from 1.2 to 2.3 per cent of GDP.

On a cif-fob basis, the trade surplus narrowed last year by €12.6 billion (24.5 trillion lire). More than two thirds of this deterioration was attributable to trade with non-EU countries, particularly the oil-exporters. The deficit in trade with the OPEC countries widened by €8.5 billion and that with Russia by €3.3 billion.

For the first time since 1993 Italy recorded a merchandise trade deficit with the EU, amounting to €2.9 billion, or 5.6 trillion lire, compared with a surplus of €1.4 billion recorded in 1999. The deterioration stemmed from trade with euro-area countries, in whose regard the deficit grew from €4.4 billion to 9.8 billion. This outturn was due not only to the loss in the price competitiveness of Italian products within the euro area but also to the particular difficulties encountered in exporting to Germany. Italy's trade balance with Germany recorded a deficit of €6 billion last year, whereas in 1996 it had been in surplus by €4.4 billion.

Services, income and transfers

Services. – Last year Italy's surplus on services was negligible, compared with €1.1 billion in 1999. In contrast to the small change recorded in 1999, when receipts contracted and outflows remained substantially unchanged, both flows recorded large value increases, of 10.3 and 12.5 per cent respectively. The expansion in receipts was primarily due to foreign travel and, to a lesser extent, sundry business services; the latter, together with transport, also generated the increase in outflows.

Italy's surplus on foreign travel in 2000, equal to €12.9 billion, or 25 trillion lire, was €2 billion more than in 1999 and the largest in the last five years. Against an increase of 7.3 per cent in Italians' spending abroad, spending by foreigners in Italy expanded by 12 per cent. The devaluation of the euro helped to increase both the numbers of foreigners visiting Italy (by 2.7 per cent) and their per capita spending. Another factor that had a positive effect on the influx of tourists was the Jubilee.

Spending in Italy by tourists from the EU and from other countries increased by 9.1 per cent and 16.1 per cent respectively. The largest contribution to the growth in overall receipts came from visitors from the United States (whose spending expanded by 28.5 per cent), France (13.8 per cent), Spain (87.4 per cent) and the United Kingdom (21.9 per cent). The rise in the number of visitors from Spain can be ascribed to the Jubilee, while high-spending tourists from the United States and the United Kingdom were probably also attracted by the depreciation of the euro.

Income. – Last year closed with a deficit of €13.1 billion (25.4 trillion lire) on income; the deficits on both labour and investment income widened further. Given the moderately positive net external position, the deficit on investment income can be explained by the different composition of payments and receipts. Italians' holdings of foreign securities consist mostly of shares, the dividends on which are generally lower than the nominal yields on bonds, which represent a major part of non-residents' portfolios.

As laid down in the Fifth Edition of the IMF Balance of Payments Manual and in ESA95, the data on investment income have been revised to include an estimate of reinvested earnings and of accruals adjustments. Reinvested earnings is that part of accrued earnings on direct investment that investors decide not to realize but to reinvest in the same enterprise; the data are estimated by the UIC on the basis of information supplied by an IMF-coordinated survey and included among income inflows and outflows, starting with 1998. Accrual adjustments calculated by the UIC for securities other than shares are also included, starting with 1997; last year's adjustment amounted to about 1.7 trillion lire in credits and 6.7 trillion in debits.

Current account transfers. – The deficit on unrequited transfers of €4.8 billion remained close to that for 1999. The deficit on transfers involving EU institutions widened from €4.7 billion to €4.9 billion. The increase in receipts from the Guarantee Section of the EAGGF and the European Social Fund was offset by the rise in payments in relation to VAT and to agricultural excise duties and withdrawals.

The capital account

Italy's surplus on capital account, which records transactions in intangible goods (patents, royalties, trademarks, etc.) and unrequited transfers in connection with purchases of capital goods, rose last year to €3.2 billion (6.2 trillion lire). The improvement of €0.4 billion reflects the increase in net receipts from the EU. The reduction in receipts from the Regional Development Fund was more than offset by the increase in receipts from the Guidance Section of the EAGGF. The deficit on "intangible assets" increased slightly.

The financial account and the net external position

Against the deficit of €2.9 billion on current and capital account, the financial account recorded inflows of €4.3 billion last year. The errors and omissions item was thus negative by €1.4 billion, a similar figure to that recorded in 1999 and much smaller than the average for the nineties.

Direct investment. – Last year Italy registered a net inflow of direct investment of €1.1 billion or 2.2 trillion lire, following that of €0.2 billion in 1999 (Table 26). If the Omnitel-Infostrada operation of June 1999 is reclassified as foreign direct investment in Italy, the flows in both directions remained basically at the same levels as in 1999. Italian investment abroad amounted to €13.4 billion, €0.2 billion less than the previous year; in the last three years this item has averaged almost twice as much as in the previous three-year period (€13.8 billion compared with €7.9 billion), confirming the Italians' increasing propensity to invest abroad. Inward direct investment expanded even more markedly, with inflows of capital over the last two years totalling €28.2 billion, equivalent to the total inflow between 1988 and 1998. Both inflows and outflows are nonetheless low by international standards.

Portfolio investment. – Last year flows of portfolio investment in both directions fell back from the peak of 1999; the result was a net outflow of €26.3 billion (50.8 trillion lire), a little larger than in the previous year (€23.6 billion).

The decline in Italians' investment abroad from €121.5 to €86.3 billion was the result of a drastic drop in purchases of bonds, more than offsetting the continuing expansion in purchases of shares, which rose to €82.9 billion (in 1997 they had amounted to €15.2 billion). Both outturns reflected the portfolio behaviour of non-bank private investors; the largest outflows were recorded by non-bank financial companies and households.

Foreign portfolio investment in Italy contracted from €97.9 billion to €60.1 billion, with foreign banks again leading the way in purchasing Italian securities. Non-residents continued to sell Italian shares and, as in 1999, only non-bank issues were affected. Disposals over the last two years have amounted to a total of €11.8 billion. Non-residents' purchases of Italian government securities, which account for almost 90 per cent of total securities held by non-residents, declined from €92.2 billion in 1999 to €52.6 billion last year.

The official reserves and the net external position. – Italy's official reserves amounted to €50.4 billion, or 97.5 trillion lire at the end of 2000, compared with €45.1 billion at the end of 1999. Last year's flows totalled €3.1 billion while exchange rate and valuation adjustments were positive by €2.2 billion.

Italy's net external creditor position contracted by €6.5 billion to €46.6 billion at the end of the year, falling from 4.8 to 4 per cent of GDP. Transactions on the financial account contributed €4.3 billion to this decline. The rest came from value and exchange rate adjustments.

THE PUBLIC FINANCES

General government net borrowing in the euro area fell from 1.2 per cent of GDP in 1999 to 0.7 per cent in 2000, excluding the proceeds of sales of UMTS licences, which amounted to 1.1 per cent of GDP in 2000. All the euro-area countries contributed to the improvement. Finland and Ireland recorded substantial increases in their budget surpluses; Belgium broke even; France, Germany and Italy reduced their deficit ratios slightly (by 0.3 percentage points on average). The decrease in the euro-area deficit ratio was due to the decline in interest payments and the favourable performance of the economy; the cyclically adjusted primary balance was virtually unchanged. The stability programmes of the euro-area countries point to a pause in the improvement in the area's budget balances in 2001: general government net borrowing is expected to remain almost unchanged. In 2002 there should be an improvement and in 2003 breakeven should be reached. The European Council has suggested to some countries that they should accelerate the reduction in their deficits.

In Italy the Economic and Financial Planning Document published in June 1999 had set a target for net borrowing in 2000 of 1.5 per cent of GDP, accompanied by a primary surplus of 5 per cent. In order to achieve these objectives, a budget was approved to produce a net reduction of around 2.4 trillion lire in the budget deficit compared with its value on a current programmes basis; the budget measures included 11.9 trillion of tax reliefs. In view of the better-than-expected performance of the economy, the Planning Document published in June 2000 set new targets for the year: 1.3 per cent for net borrowing and 5.2 per cent for the primary surplus. The growth in tax revenues led to the decision, in September, to grant 13.1 trillion of additional tax reliefs. The Planning Document estimates were confirmed in the update of the Stability Programme prepared in December.

In the event general government net borrowing in 2000 was equal to 1.5 per cent of GDP, 0.3 percentage points less than in 1999. The primary surplus remained unchanged at 5 per cent of GDP; on a cyclically adjusted basis it declined from 5 to 4.8 per cent. The primary expenditure ratio fell by 0.9 percentage points, partly owing to temporary factors that curbed the growth in pensions and the compensation of public employees. Tax revenues and social security contributions declined from 43 to 42.4 per cent of GDP. The rise of 3.8 per cent in receipts derived from the expansion in economic activity, the substantial flow of withholding tax on managed savings and the effects on VAT of the increase in the oil price; the tax reliefs granted acted in the opposite direction.

Italy's financial balances deteriorated: the general government borrowing requirement increased by 1.6 percentage points to 2.3 per cent of GDP; the state sector borrowing requirement, net of settlements of past debts and privatization receipts, increased by 0.8 percentage points to 2.2 per cent of GDP. The difference between the general government borrowing requirement and general government net borrowing stems from different definitions and methods of calculation, as well as from statistical discrepancies. Detailed data on the difference are not available; in 1999 it was negative but last year there was a large swing and it turned positive.

The public debt declined from 114.6 to 110.5 per cent of GDP. Owing to the larger increase in nominal GDP, the improvement was larger than that of 1.8 percentage points recorded in 1999.

The Economic and Financial Planning Document published in June 2000 set a target for general government net borrowing in 2001 of 1 per cent of GDP, accompanied by a primary surplus of 5.2 per cent; the Planning Document Update published in September set new targets for the year: 0.8 per cent for net borrowing and 5.3 per cent for the primary surplus, figures that were confirmed in the update of the Stability Programme. According to official estimates, the budget for 2001, with its tax reliefs for households and enterprises, has increased the deficit for the year by around 25 trillion lire compared with its value on a current programmes basis. The Quarterly Report on the Borrowing Requirement published in April 2001 reinstated the targets of 1 per cent of GDP for net borrowing and 5.2 per cent for the primary surplus.

There are factors of uncertainty bearing on these objectives: the tax reliefs introduced in the last part of 2000 were granted assuming significant structural rises in tax receipts and some of the reductions in expenditure and increases in revenue included in the budget may be less effective than expected. The estimates imply a further widening of the gap between the financial balances and net borrowing.

The objective of a balanced budget in 2003 is confirmed. This result will ensure there is scope for adequate counter-cyclical policies and speed up the reduction in the debt ratio. Achieving it will require close control over expenditure; the process of reducing the tax burden must not be jeopardized.

During the nineties Italy and other European countries devolved important expenditure responsibilities and significant tax-raising powers. In order to increase efficiency in the supply of public services, this process must be based on clear financial accountability at the various levels of government and rigorous budgetary constraints. It is also necessary to ensure the compatibility of individual local authorities' accounts with the objectives for general government agreed at European level.

BUDGETARY POLICY IN 2000

The euro area

General government net borrowing in the euro area fell from 1.2 per cent of GDP in 1999 to 0.7 per cent in 2000, excluding the proceeds of sales of third-generation mobile telephony (UMTS) licences. The reduction was slightly larger than that indicated by the updates to the stability programmes presented between the end of 1999 and the beginning of 2000.

The improvement in area-wide net borrowing was due both to the further decline of 0.2 percentage points in the ratio of interest payments to GDP and to the cyclical expansion. These factors more than offset the effects of the measures adopted in some countries, such as Italy and Germany, to reduce the tax burden.

All the euro-area countries improved their budget balances and, except for Portugal, achieved the objectives indicated in the updates to their stability programmes; Italy attained the objective specified in the update of December 1999, not the more ambitious one indicated subsequently. Finland and Ireland increased their surpluses substantially (in relation to GDP by 4.9 and 2.4 percentage points respectively). The other countries' budget balances improved by less than 1 point. France, Germany and Italy reduced their deficits marginally, by an average of 0.3 points. Belgium balanced its budgetary position. As in 1999, Austria, Italy and Portugal recorded the largest deficits in relation to GDP.

The area's primary surplus rose from 3 to 3.3 per cent of GDP. According to European Commission estimates, the ratio to GDP of the cyclically adjusted primary surplus remained basically unchanged.

The reduction in the ratio of debt to GDP accelerated: after declining by 1.1 percentage points in 1999, the ratio fell by 2.4 points, to 69.7 per cent. All the countries in the area contributed to the improvement, with large reductions recorded in Belgium (5.5 points), Ireland (11 points), Italy (4.1 points) and the Netherlands (6.9 points). In Belgium and Italy the debt is still larger than GDP; in Austria, Germany and Spain it is above the threshold of 60 per cent.

Italy

Net borrowing. – General government net borrowing fell from 1.8 per cent of GDP in 1999 to 1.5 per cent in 2000, reflecting the reduction in interest payments to 6.5 per cent (Tables 27 and a15 and Figure 16). The primary surplus remained stable in relation to GDP; the ratios of primary expenditure and revenue fell by 0.9 percentage points.

Table 27

MAIN INDICATORS OF THE GENERAL GOVERNMENT CONSOLIDATED ACCOUNTS IN ITALY (1)

(as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Revenue	42.6	43.8	46.0	47.3	45.1	45.6	45.8	48.0	46.4	46.7	45.8
Expenditure (2)	54.4	55.5	56.6	57.6	54.3	53.2	52.9	50.7	49.2	48.4	47.3
of which: interest payments	*10.5*	*11.9*	*12.6*	*13.0*	*11.4*	*11.5*	*11.5*	*9.4*	*8.0*	*6.7*	*6.5*
Primary deficit (surplus: –) (2)	1.3	–0.2	–2.0	–2.8	–2.1	–3.9	–4.4	–6.7	–5.2	–5.0	–5.0
Net borrowing (2)	11.8	11.7	10.7	10.3	9.3	7.6	7.1	2.7	2.8	1.8	1.5
Total borrowing requirement (3)	10.5	11.0	10.8	10.9	9.7	7.2	7.5	1.9	2.5	0.7	2.3
Debt	97.2	100.6	107.7	118.2	124.3	123.8	122.7	120.2	116.4	114.6	110.5

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

(1) Rounding may cause discrepancies. – (2) The figure for 2000 does not include the proceeds of the sale of UMTS licences (26,750 billion lire, equal to 1.2 per cent of GDP); in the national accounts they are deducted from expenditure. See Table a15 in the Statistical Appendix. – (3) The figure for 2000 includes the part of the proceeds of the sale of UMTS licences received in that year (23,040 billion lire, equal to 1 per cent of GDP). These receipts were used to reduce the debt by 20,736 billion lire and included in privatization receipts.

The deviation of net borrowing in 2000 from the target of 1.3 per cent indicated in the Economic and Financial Planning Document of June 2000 (and confirmed in the update to the stability programme last December) was attributable entirely to the primary surplus. The Government had expected this to improve as a consequence of faster growth in revenue (4 per cent) than in primary expenditure (3.4 per cent). In the event, revenue grew by 3.2 per cent and primary expenditure by 3 per cent.

The result for primary expenditure reflected the delay in renewing the wage agreements covering the majority of public employees and the fall in the number of new pensions due to the one-year increase in the retirement age for old-age pensions. The method of indexation, based on inflation in the previous year, also helped to curb the growth in pension expenditure.

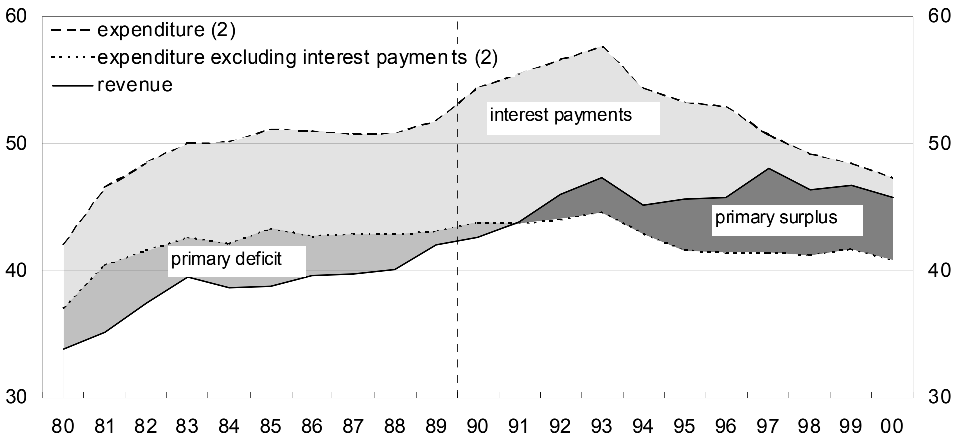
Revenue was boosted by the acceleration in economic activity, the growth in receipts of the withholding tax on managed savings and the effects on VAT receipts of the rise in oil prices. It was reduced by the tax reliefs granted at the end of 1999 (11.9 trillion lire) and those approved towards the end of 2000 (13.1 trillion); the effects of the latter were concentrated in the last two months of the year.

The ratio of taxes and social security contributions to GDP fell by 0.6 percentage points to 42.2 per cent; in September it had been forecast to remain unchanged. The growth in receipts, equal to 3.8 per cent, was stunted by the revenue-reducing measures. It would have amounted to 5.3 per cent had it not been for the reliefs granted at the end of September and to 6.5 per cent in the absence of those adopted at the end of 1999 as well.

Figure 16

GENERAL GOVERNMENT REVENUE AND EXPENDITURE IN ITALY (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 1989 and 1990, which is marked by a vertical dotted line. – (2) The figure for 2000 does not include the proceeds of the sale of UMTS licences (26,750 billion lire, equal to 1.2 per cent of GDP); in the national accounts they are deducted from expenditure. See Table a15 in the Statistical Appendix.

Budgetary policy. – The Economic and Financial Planning Document of June 1999 and the Forecasting and Planning Report of the following September set the objective for net borrowing in 2000 at 1.5 per cent of GDP; the primary surplus and interest payments were forecast at 5 and 6.5 per cent respectively. It was assumed that GDP would grow by 2.2 per cent in real terms and the rate on 12-month Treasury bills be 3.7 per cent at the end of 2000.

Achieving these objectives required only a small budgetary correction; the growth in tax revenue on a current programmes basis was particularly large. At the end of 1999 Parliament approved a budgetary package intended to reduce net borrowing by around 2.4 trillion with respect to its current programmes value by way of an adjustment on the order of 17 trillion lire (11.5 trillion of expenditure savings and 5.4 trillion of revenue increases, deriving largely from property sales) offset by 2.6 trillion lire of additional spending on social policies and development support, 10.3 trillion of tax reliefs and 1.6 trillion of social security contributions relief.

The granting of the tax cuts gave effect to the provision of the Finance Law for 2000 concerning the reduction of the tax burden. The provision in question established that larger-than-forecast tax receipts could be used to reduce the tax burden, provided the extra revenue was not needed in order to reach the objective for net borrowing and came from the fight against tax evasion. Previously, it had only been possible to use revenue in excess of the forecasts to improve the fiscal balances.

With the Economic and Financial Planning Document of June 2000 the estimate of net borrowing was lowered to 1.3 per cent of GDP following the upward revision of forecast GDP growth to 2.8 per cent. This objective was confirmed in the update to the stability programme last December.

During the summer there were growing expectations that the result for tax receipts would be better than forecast. For the second consecutive year the Government made upward revisions to the current-programme estimates of taxes and social security contributions when it presented the budget for the following year and decided to give back the additional revenue by means of reliefs. However, in contrast with 1999, the reliefs were granted starting from the same year, with an effect estimated at 13.1 trillion lire.

As provided for in the Finance Law for 2000, the amount of the reliefs corresponded to the September estimate of tax receipts in excess of the initial forecasts attributable to the fight against tax evasion; in accordance with Law 133/1999, the amount was defined as the portion of the increase in receipts due neither to cyclical factors nor to legislative measures. On the basis of the outturn for the year, the additional revenue attributable to the fight against evasion can be estimated to have been equal to around half the amount forecast in September: the increase in receipts compared with 1999 was smaller than forecast, while the component of the increase due to cyclical factors was larger (nominal GDP grew by 5.2 per cent, compared with the September forecast of 4.3 per cent).

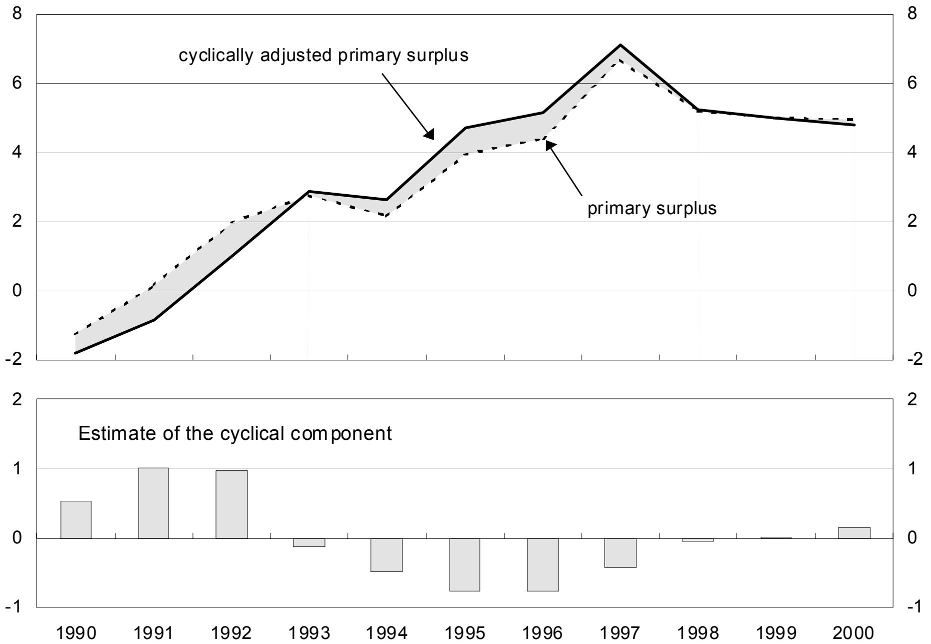
Cyclically adjusted net borrowing. – The effects of the economic cycle on general government net borrowing were moderately favourable in 2000, amounting to 0.2 per cent of GDP. Preliminary estimates put them at 0.1 per cent for the current year. In 1998 and 1999 they were virtually nil.

The cyclical component of the budget is estimated using a method developed within the European System of Central Banks. Unlike the methods adopted by the OECD, IMF and European Commission, which analyze the cycle on the basis of aggregate GDP, this one takes account of the effects of changes in the composition of output. The trend values of the macroeconomic variables of relevance for the public finances are estimated using a Hodrick-Prescott statistical filter (which is also used by the European Commission, but for GDP). The use of a statistical filter ensures that cyclical deviations cancel each other out on average. The cyclical component of the budget is calculated as the product of three factors: the deviations of the macroeconomic variables from their trend values, the elasticities of the different components of the budget with respect to these variables, and the levels of these variables.

Figure 17

EFFECTS OF THE CYCLE ON THE GENERAL GOVERNMENT PRIMARY BUDGET BALANCE IN ITALY (1)

(as a percentage of GDP)



Source: Based on Istat data.

(1) The figure for 2000 does not include the proceeds of the sale of UMTS licences (26,750 billion, equal to 1.2 per cent of GDP). A negative value of the cyclical component of the primary balance indicates that it led to a reduction in the surplus.

The method developed within the ESCB is only marginally different from that used in the Bank of Italy's Annual Reports of the past few years. The main difference concerns the value of the smoothing parameter of the Hodrick-Prescott filter, which has been changed from 100 (the value also used by the European Commission) to 30. This revision increases the weight of the relatively long fluctuations included in the trend components; cyclical fluctuations of up to 8 years in length are almost entirely excluded from the trend and attributed to the cyclical component.

On the basis of this method, the economic cycle is found to have had a positive effect on the Italian budget balance in the first three years of the nineties (averaging almost 1 per cent of GDP). Between 1993 and 1996 cyclical conditions deteriorated sharply and had an adverse effect on the budget balance: this effect increased over the four years, reaching a maximum of 0.8 per cent of GDP in 1995 and 1996. In the remaining years of the nineties the negative impact of the cycle gradually faded away.

Financial balances and the public debt. – The general government total borrowing requirement rose by 35.9 trillion lire to 51.6 trillion (26.7 million euros) in 2000 (Tables 28 and a16). The net borrowing requirement, which excludes settlements of past debts and state-sector privatization receipts, increased from 47.5 to 72.7 trillion. The considerable worsening of the financial balances contrasts with the slight improvement in net borrowing.

Table 28

GENERAL GOVERNMENT BALANCES AND DEBT IN ITALY

(billions of lire and millions of euros)

	1997	1998	1999		2000	
	lire			euros	lire	euros
Net borrowing (1)	53,679	58,745	37,724	19,483	34,310	17,720
Total borrowing requirement	38,457	52,801	15,742	8,130	51,609	26,654
Debt	2,388,827	2,417,461	2,457,607	1,269,248	2,493,356	1,287,711

Source: For net borrowing, *Relazione generale sulla situazione economica del Paese*.
(1) The figure for 2000 does not include the proceeds of the sale of UMTS licences (26,750 billion, equal to 1.2 per cent of GDP).

The financial balances are the earliest indicators available for controlling the intra-year trend of the public finances. Using information provided by markets and financial intermediaries, the borrowing requirement can be calculated on the financing side without waiting for the annual accounts of the individual bodies.

The difference between the general government borrowing requirement and net borrowing depends on: (a) transactions involving financial assets (the cash movements connected with such transactions are included among the revenue and expenditure that contribute to the formation of the borrowing requirement but not among those considered in calculating net borrowing. In addition, the definition of these transactions in the accounts of the borrowing requirement prepared by the Treasury Ministry differs from that in the national accounts prepared by Istat); (b) the different accounting principle adopted (cash basis for the borrowing requirement and accruals basis for net borrowing); and (c) the use of different sources (the general government borrowing requirement is calculated on the basis of the net issues of liabilities by the bodies of the sector, whereas net borrowing is calculated starting out from the economic accounts of the individual bodies).

The disparity is highly variable: between 1990 and 2000 the borrowing requirement was smaller than net borrowing in six years, with a maximum difference of 22 trillion lire in 1999; in the other years the borrowing requirement was larger, with a maximum difference of 17.3 trillion in 2000. On average, the borrowing requirement was 2.9 trillion smaller than net borrowing during the period in question.

Complete data on the reconciliation between the total borrowing requirement and net borrowing are not available. Only some of the main elements of reconciliation can be identified on the basis of official documents, namely: the balance of the financial items of the consolidated accounts of the public sector on a cash basis; the extraordinary receipts arising from privatizations; the difference between interest payments on Post Office savings certificates in cash and accruals terms; and settlements of past debts. The difference in 2000 between the borrowing requirement after it is adjusted to take these elements into account and net borrowing is unlike any recorded in the past.

The increase in the general government borrowing requirement reflects that in the central government deficit, which rose from 3.9 trillion lire in 1999 to 39.7 trillion in 2000 (Table a16). A comparable deterioration was recorded by the state sector balance, which swung from a surplus of 700 billion lire in 1999 to a deficit of 28.1 trillion in 2000.

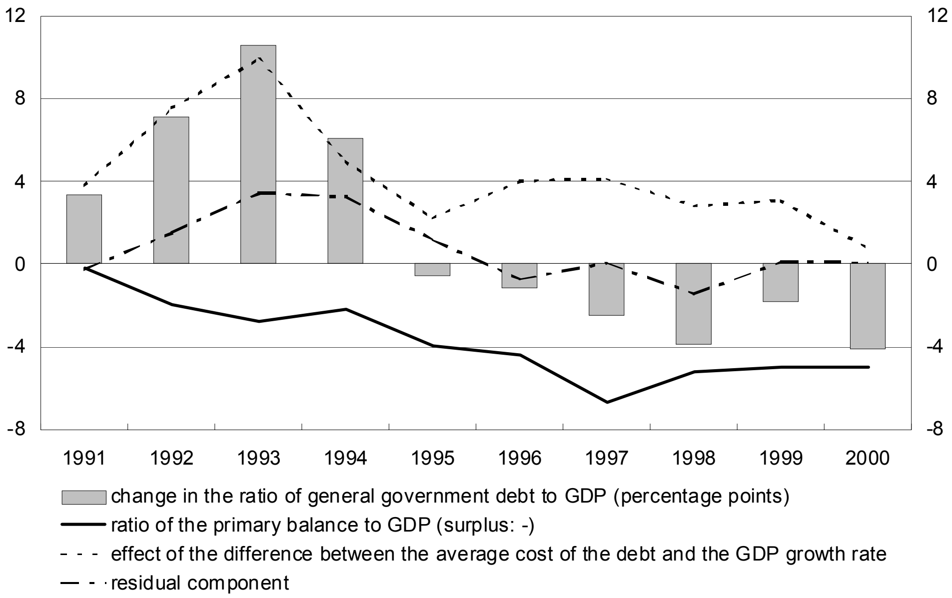
The public debt grew by 35.7 trillion lire to reach 2,493.4 trillion lire, or 1,287.7 billion euros). The change was 15.9 trillion lire smaller than the borrowing requirement (whereas in 1999 it had been 24.4 trillion larger). The difference between the change in the debt and the borrowing requirement is the result of: (a) the drawing down of assets held with the Bank of Italy in order to finance the borrowing requirement (by 18.6 trillion lire, whereas in 1999 such assets had increased by around 13.3 trillion); (b) the behaviour of the exchange rate of the euro, which increased the lira value of foreign currency liabilities (by around 2.3 trillion lire, compared with 13.5 trillion in 1999); and (c) issue premiums and discounts and other residual items (which increased the debt by 400 billion lire in 2000 and reduced it by 2.4 trillion in 1999).

The average residual maturity of public debt securities lengthened further, from 5.5 years at the end of 1999 to 5.9 at the end of 2000, as a result of net redemptions of short-term securities amounting to 34.3 trillion lire and net issues of medium and long-term securities totaling 68.2 trillion (of which 31.2 trillion placed on the domestic market).

Figure 18

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: n$d_t = pr_t + (r_t - g_t)[d_{t-l}/(1+g_t)] + re_t$, where *pr* is the ratio of the primary balance to GDP, $(r_t - g_t)[d_{t-l}/(1+g_t)$ 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 for 2000 excludes the proceeds of the sale of UMTS licences (26,750 billion lire, equal to 1.2 per cent of GDP); the part of the proceeds received in that year (23,040 billion lire, equal to 1 per cent of GDP) is included in the residual component.

The year-end ratio of the general government debt to GDP was 110.5 per cent, a decrease of 4.1 percentage points. This decline was larger than that recorded in 1999 (1.8 points) and also than that indicated in the Economic and Financial Planning Document (3 points). This result is attributable to the nominal growth in GDP, which was almost 2 points higher than in 1999 and, owing essentially to the change in the deflator, exceeded the official forecasts by 1 point (Figure 18). The average interest rate on the debt diminished marginally, from 6 to 5.9 per cent. The primary surplus and the effect of the factors that influence the change in the debt but are not included in the calculation of net borrowing remained unchanged.

REVENUE AND EXPENDITURE

Revenue

In 2000 total general government revenue grew by 3.2 per cent to 1,032.7 trillion lire (€533.3 billion); its ratio to GDP fell by 0.9 percentage points to 45.8 per cent (Tables 27 and a15). Taxes and social security contributions declined from 43 to 42.4 per cent of GDP, slightly below the average for the other EU countries of 42.8 per cent (Table 29 and Figure 19). Most of this decrease came from the 0.4-point reduction in direct taxes as a proportion of GDP.

Table 29

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

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Direct taxes	14.2	14.3	14.6	16.0	14.9	14.7	15.3	16.0	14.3	14.9	14.5
Indirect taxes	10.7	11.1	11.3	12.0	11.8	12.1	11.8	12.4	15.3	15.2	15.1
Current tax revenue	**24.8**	**25.4**	**25.9**	**28.0**	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.6**
Actual social security contributions	12.9	13.3	13.4	13.5	13.2	13.0	14.6	14.9	12.5	12.4	12.4
Imputed social security contributions	1.5	1.6	1.7	1.8	1.9	1.7	0.4	0.4	0.4	0.4	0.3
Current fiscal revenue	**39.3**	**40.3**	**41.0**	**43.3**	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.9**	**42.3**
Capital taxes	0.1	0.2	2.0	0.7	0.1	0.6	0.3	0.7	0.4	0.1	0.1
Fiscal revenue	**39.4**	**40.5**	**43.0**	**44.0**	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.4**

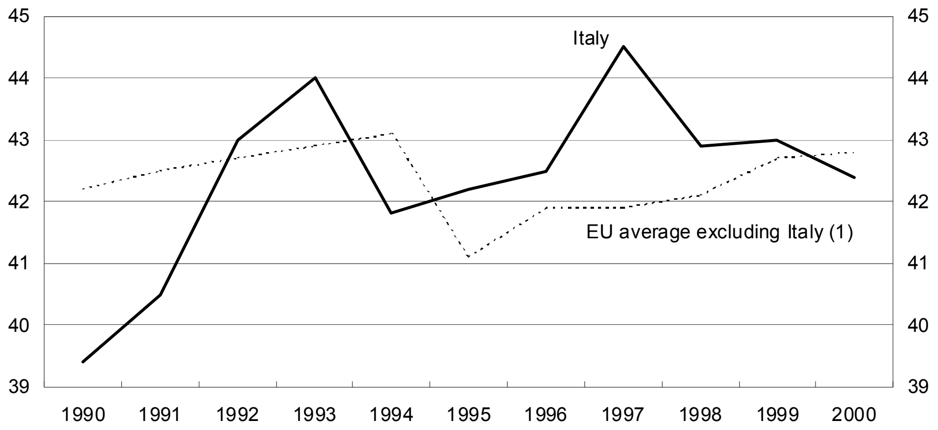
Source: Based on *Relazione generale sulla situazione economica del Paese*. See Table a15.
(1) Rounding may cause discrepancies.

As up-to-date data on the receipts from the individual taxes on an accruals basis are not available, the analysis that follows is on a cash basis, and even these data are available only for the state sector. The data are adjusted to exclude the effects of accounting settlements not corresponding to effective changes in revenue (Table a19).

Figure 19

TAX REVENUE AND SOCIAL SECURITY CONTRIBUTIONS (1)

(*as a percentage of GDP*)



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

Direct taxes. – The growth in this component (2 per cent) was due to the increase in receipts of the withholding tax on income from managed assets, reflecting the rise in the stock market in 1999. This increase more than offset the decline in receipts of corporate income tax and other direct taxes, while personal income tax receipts remained essentially unchanged.

The withholding tax on interest income and capital gains rose by 13.3 trillion lire (59.7 per cent). The portion referring to securities held under asset management schemes, paid all at once in February, increased by 12.3 trillion to 15.2 trillion lire, reflecting the rise in share prices in 1999. For assets in custody, capital gains tax receipts increased by 3.3 trillion to 5.9 trillion lire; receipts in respect of interest income were basically unchanged. Receipts of the withholding tax on interest on bank deposits declined for the third consecutive year, by 2.9 trillion lire, mainly because of the very substantial tax credits accrued by the banks since the second half of 1996. These credits derived from the increase in tax payments on account due in the years from 1996 to 1998, introduced in the supplementary budget provisions for 1996 (Law 425 of 8 August 1996).

Withholding tax on employee incomes decreased by 0.8 per cent. Had there not been tax reliefs of about 12 trillion lire, receipts would have risen by 7 per cent, consistent with the expansion of wages and salaries. The amount withheld on self-employment incomes increased by 9.2 per cent, because the tax reductions on them only become effective with the annual income tax return.

The budget for 2000 and a decree law passed last September modified the personal income tax. The changes reduced the average tax rate for all incomes. This represented an inversion of the trend, given that the rate had risen steadily since 1991 owing mainly to fiscal drag, which was only partially offset by legislative action. Compared with 1999, the average tax rate on earnings of 20, 40, 80 and 120 million lire for an unmarried worker was reduced by 1.6, 1.0, 0.4 and 0.3 percentage points, respectively. For a worker with a dependent spouse and two children, the corresponding reductions were 2.1, 1.3, 0.6 and 0.4 points. About one quarter of the tax savings stemmed from an increase in credits on account of dependents.

A further reduction in the average tax rate is expected from the changes introduced with the budget provisions for 2001. The average rate should decline by another 0.3 percentage points for an unmarried worker earning at least 40 million lire and by 1.5, 1.0, 0.7 and 0.4 points for a worker with a dependent spouse and two children earning respectively 20, 40, 80 and 120 million.

Corporate income tax receipts diminished by 3.8 per cent and those from the self-assessed portion of personal income taxes by 4.7 per cent, reflecting tax relief estimated at 7.6 trillion lire. The decline was moderated by the rise in profits in 1999.

Indirect taxes. – Indirect tax revenue grew by 7 per cent, thanks to increased receipts from VAT and the state monopolies. These gains more than offset declines of 2.7 trillion lire in other business taxes, 1.2 trillion in the excise tax on mineral oils and 5.5 trillion in the yield from lotto and lotteries.

VAT receipts increased by 18.3 per cent (25.5 trillion lire), reflecting the good performance of consumption and imports, the rise in the price of oil and the surfacing of tax base.

The revenue of state monopolies increased by 15 per cent (1.9 trillion lire), thanks to a more effective fight against smuggling.

Social security contributions. – Social security contributions rose by 4.6 per cent. Actual contributions increased by 4.9 per cent, whereas imputed contributions declined by 5.5 per cent.

Compared with an increase of 4.9 per cent in private-sector wages and salaries, actual employer contribution payments rose by 5.5 per cent. Public-sector earnings grew by 4.1 per cent and actual contributions by 1.7 per cent; the latter increase rises to 3.4 per cent if it is recalculated to reflect the latest data on additional payments by the state to the public employees pension fund in 1999 and 2000.

Finally, contributions on account of the self-employed grew by 9.5 per cent. In part, this sharp rise reflects the increase in the contribution rate on artisans and shopkeepers and on regular free-lance collaborators not enrolled in other compulsory schemes.

Expenditure

General government expenditure amounted to 1,040.2 trillion lire (€537.2 billion; Table a15), basically unchanged from 1999. Excluding the proceeds of sales of UMTS licences, which are deducted from capital outlays, expenditure increased by 2.7 per cent (3 per cent net of interest payments). As a ratio to GDP, it declined from 48.4 to 47.3 per cent (Table 30). Of the decrease, 0.7 points was accounted for by primary current expenditure, which came down to 37.1 per cent of GDP. Interest payments and capital expenditure (excluding the UMTS proceeds) both declined by 0.2 points, to 6.5 and 3.7 per cent respectively (Figure 20).

Table 30

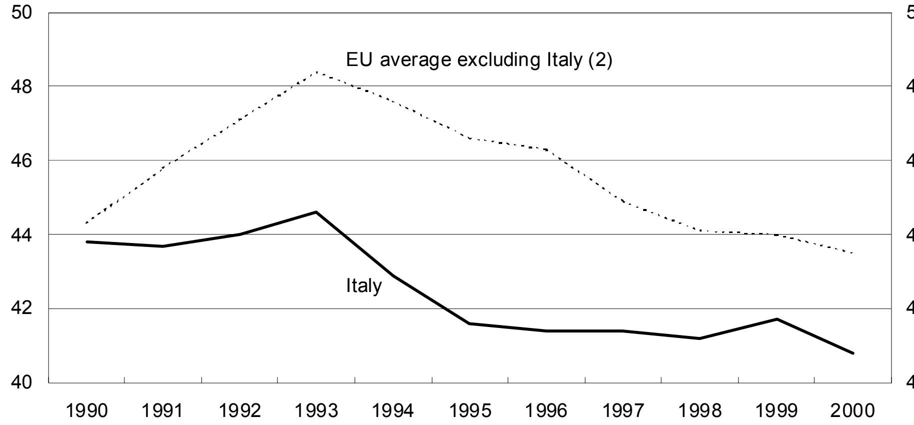
GENERAL GOVERNMENT EXPENDITURE (1)
(*as a percentage of GDP*)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Compensation of employees	12.6	12.6	12.4	12.3	11.9	11.2	11.5	11.6	10.7	10.7	10.5
Intermediate consumption . .	4.9	5.0	5.1	5.2	5.2	4.8	4.8	4.7	4.8	5.0	5.0
Purchases of social benefits in kind	2.6	2.6	2.5	2.4	2.2	2.0	2.0	2.1	2.1	2.1	2.2
Social benefits in money . . .	15.5	15.6	16.5	17.0	17.3	16.7	16.9	17.3	17.0	17.2	16.7
Interest payments	10.5	11.9	12.6	13.0	11.4	11.5	11.5	9.4	8.0	6.7	6.5
Other current expenditure . .	2.8	3.0	2.8	3.3	2.7	2.3	2.5	2.2	2.9	2.8	2.8
Gross fixed investment	3.3	3.2	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.5	2.4
Other capital expenditure (2)	2.2	1.7	1.5	1.7	1.5	2.5	1.6	1.3	1.4	1.4	1.3
Total (2) . . .	**54.4**	**55.5**	**56.6**	**57.6**	**54.3**	**53.2**	**52.9**	**50.7**	**49.2**	**48.4**	**47.3**
of which: expenditure excluding interest payments (2)	*43.8*	*43.7*	*44.0*	*44.6*	*42.9*	*41.6*	*41.4*	*41.4*	*41.2*	*41.7*	*40.8*

Source: Based on *Relazione generale sulla situazione economica del Paese*.
(1) Rounding may cause discrepancies. – (2) The figure for 2000 does not include the proceeds of sales of UMTS licences (26.75 trillion lire, or 1.2 per cent of GDP). In the national accounts, these receipts are entered as a reduction in capital expenditure. See Table a15.

Figure 20

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

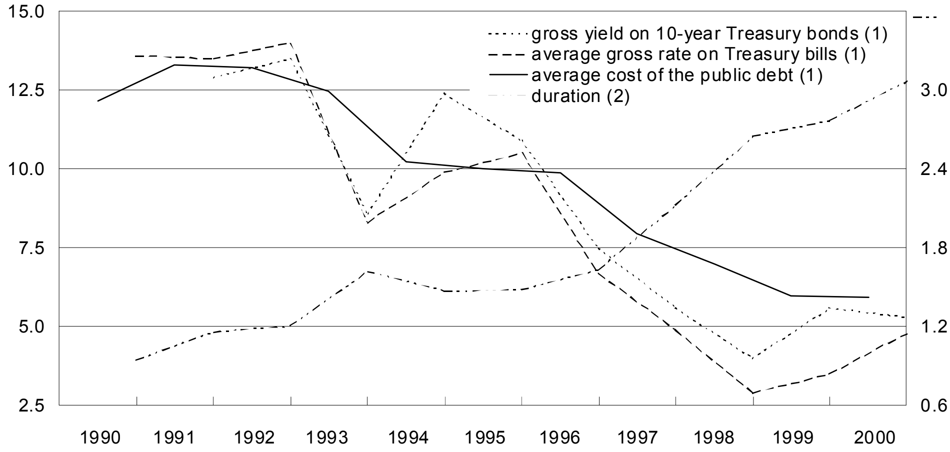


Sources: Based on Istat and European Commission data.
(1) The data for 2000 do not include the proceeds of sales of UMTS licences. – (2) GDP-weighted average. Following the switch to ESA95 there is a break in the series between 1994 and 1995.

Interest payments. – The increase of 1.3 trillion lire in this item, following the very substantial reductions of the previous three years, was due to the growth in the nominal value of the debt. The average interest rate on the debt (i.e. the ratio of total interest payments to the average stock of the liabilities), which had been falling steadily since 1991, remained virtually unchanged last year (5.9 per cent, compared with 6 per cent in 1999; Figure 21). This was the net outcome of the rise in short-term interest rates that began in the first half of 1999 and a fall in the average rate on the longer-term component of the debt as high-yielding issues reached maturity.

Figure 21

RATES ON GOVENMENT SECURITIES AND AVERAGE COST AND DURATION OF THE PUBLIC DEBT



(1) Percentages; left-hand scale. – (2) Years; right-hand scale. Securities listed on MTS.

However, the latter effect was attenuated by the rise in long-term interest rates during 1999.

The reduction in interest rates in the course of the nineties was accompanied by the gradual lengthening of the average residual maturity and duration of government securities outstanding. Their duration lengthened from 0.9 years at the end of 1990 to 3.1 years at the end of 2000. Three quarters of this increase was achieved in the second half of the decade.

Social benefits in money. – The ratio of social benefits to GDP declined by 0.5 points to 16.7 per cent, the same as in 1995. The particularly moderate rise in outlays (2.3 per cent, compared with 4.6 per cent in 1999) reflected that in pension and annuity expenditure (2.4 per cent), which was affected chiefly by temporary factors.

The growth in expenditure for pensions and annuities, of both an insurance and a welfare nature, which accounts for about 90 per cent of total social benefits, was much less than in 1999 (5.4 per cent). The figure for that year was affected by the shift from bimonthly to monthly payment of INPS pensions, which had reduced the outlays for 1998 by about 8 trillion lire. Had that change not been made, pension outlays would have increased by 2.8 per cent in 1999. Pension spending fell from 15.4 to 15 per cent of GDP in 2000, lower than in 1998.

The trend in expenditure for pensions and annuities reflected: (a) the modest increase in benefits due to inflation indexation (1.5 per cent, on the basis of the inflation registered in 1999, plus an adjustment of 0.1 percentage points to make up the gap between target and actual inflation in the previous year); (b) the raising of the retirement age for old-age pensions for private-sector employees from 64 to 65 for men and 59 to 60 for women. The gradual increase in the retirement age, now fully phased in, was originally enacted in 1992 and accelerated by the legislation accompanying the Finance Law for 1995. Expenditure was increased by about 600 billion lire according to official estimates by a one-time-only payment of 200,000 lire each to pensioners receiving minimum compensation, enacted together with tax reliefs late in the year.

Turning to non-pension benefits, expenditure on unemployment benefits and wage supplementation diminished by 3.8 per cent, the first decline since 1997, thanks to the growth of employment. Family allowances increased by 3.3 per cent and public employee severance allowances by 4.7 per cent.

Compensation of employees. – General government staff costs declined from 10.7 to 10.5 per cent of GDP. The overall increase of 3.1 per cent in expenditure reflected a 4.1 per cent rise in gross wages and a more moderate rise of 0.8 per cent in employer social security contributions. Taking into account the latest data on the state's supplementary contribution to the public employees pension fund, the latter rise comes to 2.3 per cent. About half of the growth in per capita earnings (equal to 4.2 per cent, excluding military conscripts) was accounted for by the raises granted to senior medical staff under their agreements for 1998-99 and 2000-01; more than a third reflected the effects of the wage agreements covering other public employees for the two years 1998-99. The deferral to this year of most of the costs of the contract renewals for 2000-01 helped hold down expenditure in 2000. Excluding compulsory military service, employment remained approximately unchanged for the second consecutive year, after five years of significant reductions.

Other current expenditure. – These items came to 10 per cent of GDP, nearly the same as in 1999. Social benefits in kind, consisting almost entirely in health care, increased by 7.2 per cent as an effect mainly of spending on pharmaceuticals and the new convention for general practitioners. Intermediate consumption rose by 5 per cent, with a larger increase recorded for local authorities.

Between 1986 and 1991, public health care spending rose from 5 to 6.5 per cent of GDP. Measures enacted in 1992 significantly moderated these outlays, bringing them back down to 5.2 per cent of GDP in 1995, thanks to the containment of staff costs and above all to measures on pharmaceuticals. About four tenths of the reduction in the ratio of health spending to GDP between 1991 and 1995 was accounted for by pharmaceuticals, spending on which fell from over 15 trillion to under 10 trillion lire. The ratio subsequently turned upwards and reached 5.6 per cent in 1999. This corresponded to a widening of the system's deficit spending: from an average of less than 5 trillion lire between 1993 and 1996, the annual deficit rose to 9 trillion lire in the period 1997-99. The data on total expenditure in 2000 have not yet been released. Preliminary estimates indicate that it rose significantly and the deficit remained large.

Public spending on pharmaceuticals rose by 14.3 per cent last year to exceed 16 trillion lire. The growth was due to a rise in the average price of prescription drugs, a decrease in patients' co-payments and an increase in consumption, reflecting the reimbursability of new classes of drugs.

Compensation of personnel, the data for which are available only on a cash basis, increased by 8.3 per cent, compared with 2.2 per cent in 1999, as a result of the new contract for senior medical staff. Introducing the principle that these physicians could work only for the National Health Service, the new contract granted salary increases providing an incentive for them to remain.

Capital expenditure. – Capital expenditure, net of the UMTS licence proceeds, fell from 3.9 to 3.7 per cent of GDP. After substantial increases in 1998 and 1999, public investment and investment support rose by 2.7 and 3.4 per cent respectively. The former reflected the reduction in spending on public works for the Jubilee Year. Other capital expenditure fell from 0.4 to 0.2 per cent of GDP, excluding the UMTS licence proceeds. In 1999 the refund of the "tax for Europe" had been entered under this head.

Local authorities

The local authorities' budgetary position improved by 0.5 per cent of GDP, shifting from a deficit of 9.4 trillion lire in 1999 to a surplus of 3.3 trillion.

The revenue of the local authorities increased by 9.1 per cent, compared with 3.2 per cent for general government. The increase consisted mainly in current revenue, which grew by 25.3 trillion lire (9.8 per cent). Indirect tax receipts surged by 16.3 trillion (18.9 per cent), thanks in part to the increase in the portion of Irap proceeds allocated to the regions and in the tax on automobile insurance. Current public transfers increased by 3.5 trillion lire (3.2 per cent), while capital transfers diminished by 800 billion (4.4 per cent).

Last year the local authorities' own fiscal revenue surpassed central government transfers. The former rose from 41.3 to 44.1 per cent of total revenue, while the latter declined from 46.4 to 43.4 per cent.

Total expenditure rose by 4.5 per cent. Primary current expenditure increased by 4.9 per cent, compared with 3.4 per cent growth in that of general government. The sharpest rises came in intermediate consumption (5.5 per cent) and in social benefits in kind (7.3 per cent), consisting mainly in health expenditure. Interest payments fell further by 6.4 per cent. Capital expenditure rose by 4.1 per cent.

The Domestic Stability Pact, introduced as part of the 1999 budget, is designed to involve local authorities in the attainment of the public finance targets agreed at European level. The Pact sets an aggregate financial target for local authorities. To achieve it, the individual governments must improve their balance compared with the current programmes projection by an amount proportional to their non-interest expenditure in the previous year. The improvement is required regardless of the initial balance. For 1999 the balance referred to was the difference between primary current expenditure and revenue net of transfers from the central government. Beginning with

2000 the balance excludes extraordinary items and health care; however, any overshoots committed in 1999 also had to be offset. Local authorities may apply the new definition of the balance retroactively. In this event they can consider the results for 1999 and 2000 on a cumulative basis. The Finance Law for 2001 makes no change in the definition of the reference balance, but it does modify the standard for setting the target: the balance must not worsen by more than 3 per cent by comparison with the 1999 outturn.

As presently structured the Pact has a number of defects, relating primarily to its ability to make the local authorities active participants in achieving the general government budget targets. First of all, the Pact's reference balance does not coincide with that used for purposes of EU budgetary rules, and the disparity was widened by the rules changes introduced in 2000. Second, the Pact does not take into account the initial budget position of the individual authorities: for a given volume of primary expenditure it requires the same improvement of those in surplus and those running deficits. Third, the budget constraint imposed by the Pact is insufficiently stringent. As noted, the local authorities are allowed to choose among various definitions of the relevant balance, even retroactively. Moreover, failure to achieve the targets results in sanctions on the violators only if Italy itself is sanctioned by the European Union. The repeated changes to the rules may have undermined the Pact's credibility.

To date, the results for the consolidated accounts of regional and local governments appear to confirm the relevance of these problems. For the regions, an overall deficit in excess of the target is estimated both for 1999 and for 2000, despite the relaxation of the constraint last year. For local governments, after the positive results of 1999 the target was attained in 2000 thanks to the new rules that made the objectives less ambitious.

THE OUTLOOK

Budgetary policy in the euro area

The budgetary policies of the euro-area countries are intended to achieve a budgetary position close to balance or in surplus in the medium term. However, the progress made in recent years towards this goal could come to a halt in 2001.

The stability programme updates published between September 2000 and January 2001 show a gradual improvement in general government net borrowing after excluding the proceeds of the sales of UMTS licences (1.1 per cent of GDP in 2000 and 0.1 per cent in 2001). Including Greece, the area-wide budgetary position is expected to pass from a deficit equal to 0.7 per cent of GDP in 2000 to balance in 2003 (Table 31). In 2004 all the countries in the area are expected to achieve a budgetary position in surplus or close to balance, except for France on the basis of the less favourable of the two scenarios presented in the update of its stability programme. Between 2000 and 2004 the ratio of debt to GDP is expected to fall by more than 9 percentage points to 61.4 per cent. At the end of the period the ratio is forecast to exceed 60 per cent only in Belgium (92.9 per cent), Greece (84 per cent) and Italy (94.9 per cent).

The European Commission nonetheless expects general government net borrowing in the area to increase from 0.7 to 0.8 per cent of GDP in 2001. For some countries its forecasts differ significantly from their stability programmes: in Italy and Portugal the ratio of general government net borrowing to GDP is expected to be about half a point higher and in Ireland and Greece the ratio of the budget surplus to be about half a point lower. On a cyclically adjusted basis the primary surplus is expected to contract by 0.4 percentage points in 2001 (to 3 per cent of GDP) and remain basically stable in 2002.

According to the Opinions formulated by the European Council, the latest updates to the stability programmes were basically consistent with the Stability and Growth Pact. For some countries, however, a slowdown in the consolidation of their public finances was observed. In particular, the Council judged the German stability programme to be consistent with the Pact from 2002 onwards, in view of the increase in the budget deficit expected in 2001. As for France, the Council suggested that it should bring forward the achievement of a balanced budget, which is currently forecast for 2004 only on the basis of the more favourable macroeconomic scenario. In Italy's case the Council called for an acceleration of the consolidation of the public finances.

Table 31

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

(as a percentage of GDP)

	1999	2000	2001	2002	2003	2004
Net borrowing						
Outturn and European Commission forecasts	1.2	0.7	0.8	0.4	–	–
Objectives of national stability programme updates (2)	–	0.7	0.6	0.3	0.0	–0.3
Outturn and IMF forecasts	1.2	0.7	0.9	0.6	–	–
Outturn and OECD forecasts	1.2	0.7	0.8	0.4	–	–
Debt						
Outturn and European Commission forecasts	72.1	69.7	67.8	65.6	–	–
Objectives of national stability programme updates (2)	–	70.3	68.0	66.2	64.1	61.4

Sources: Based on data published by the European Commission (*Spring Forecast*, April 2001), the IMF (*World Economic Outlook*, April 2001) and the OECD (*Economic Outlook*, May 2001) and the updates to national stability programmes submitted between September 2000 and January 2001.
(1) GDP-weighted average. The data exclude the proceeds of sales of UMTS licences and from 2001 include Greece. Including Greece, the debt outturn figure for 1999 would have been 72.7 per cent and that for 2000 would have been 70.4 per cent (70.9 per cent on the basis of national stability programmes); the corresponding figures shown in the table for net borrowing are unaffected by the inclusion of Greece. – (2) The updates are for the years 2000-2004. For Ireland and Luxembourg, they are for 2000-2003, and in calculating the averages for 2004 the values for 2003 were used. In calculating the debt averages, Luxembourg was excluded since it did not include debt objectives in the update of its stability programme. France and the Netherlands submitted alternative growth scenarios; the intermediate scenario was used for France and the prudential scenario for the Netherlands, in line with its budget procedure.

Budgetary policy in Italy

Outlook for 2001. – Budgetary policy continues to be directed towards reconciling the objectives of sustaining growth and curbing the tax burden with that of reducing the deficit. The recent trend of the public finances indicates that the achievement of the latter objective is at risk.

The Economic and Financial Planning Document for 2001-04, published in June 2000, indicated a decrease in net borrowing from 1.3 per cent of GDP in 2000 to 1 per cent in 2001, excluding the proceeds of the sale of UMTS licences. The primary surplus was forecast to remain unchanged at 5.2 per cent of GDP, again excluding the proceeds of the sale of UMTS licences.

The document did not contain the planned levels of revenue and expenditure items. On a current programmes basis, primary expenditure and total revenue were expected to decline in relation to GDP by 0.8 and 0.7 percentage points respectively. The results in the early months of 2000 suggested that tax revenue and some expenditure items were likely to grow faster than expected. The decision as to whether corrective action was necessary was postponed until a more accurate assessment could be made when the Planning Document Update was published at the end of September.

When the Government prepared the Planning Document Update and the Forecasting and Planning Report in September, it increased the estimate of tax revenue in 2001 on a current programmes basis by just over 1 per cent of GDP. All the additional revenue was deemed to be of a structural nature and, in order to offset the increase, reliefs were built into the budget for 2001. The forecast for primary expenditure in 2001 remained unchanged, while that for interest payments was reduced by 0.1 per cent of GDP. More demanding targets were set for net borrowing and the primary surplus: 0.8 and 5.3 per cent of GDP respectively. The new figures were kept unchanged in the update of the stability programme submitted to the European Commission in December 2000.

In order to achieve the results described above, the Government submitted a budget that provided explicitly for an increase in the deficit with respect to its value on a current programmes basis. This was the first time such action had been taken since the reform of 1978, which had introduced the annual Finance Law in which all the budgetary measures for the year were to be included. It was officially estimated that the adjustments proposed would reduce the primary surplus on a current programmes basis by about 25 trillion lire. Parliament made only minor changes which, in accordance with the rules governing amendments to the Finance Bill, left the effect on net borrowing unchanged. According to the Government's estimates, the budget would reduce revenue by more than 21 trillion lire and increase expenditure by nearly 4 trillion.

The budget was intended to boost economic growth by reducing the tax burden on households and firms; on the expenditure front there was a further reallocation of resources in favour of social security.

The tax and social security contribution reliefs granted in the budget are officially estimated to amount to more than 32 trillion lire, of which nearly half deriving from the changes made to the structure of personal income tax. Some 11 trillion of reliefs are to be offset by additional revenue, some of which will be of a temporary nature. As regards expenditure, the reductions, amounting to 8.3 trillion lire, mostly concern intermediate consumption (5.6 trillion); the increases, amounting to 12 trillion lire, mostly concern current expenditure (9.1 trillion), especially for pensions and the renewal of labour contracts.

The Quarterly Report on the Borrowing Requirement published in April 2001, which takes account of the outturn for 2000, raised the estimate for general government net borrowing in 2001 from 0.8 per cent of GDP back up to 1 per cent. The target for the primary surplus was set at 5.2 per cent, a slight increase on the previous year (5 per cent).

According to the Quarterly Report, the small improvement in the primary surplus would be accompanied by further reductions in both revenue and primary expenditure in relation to GDP. The current revenue ratio was forecast to fall by 0.5 percentage points to 44.9 per cent, in line with the levels recorded in the mid-nineties, while the capital revenue ratio was expected to rise by 0.3 points to 0.7 per cent, reflecting the proceeds of the property sales included in this item (it should be noted that in the general government accounts Istat includes these proceeds with a negative sign under capital expenditure). The primary expenditure ratio was forecast to fall by 0.4 points to 40.4 per cent and the ratio of interest payments by 0.3 points.

The estimates published in the Quarterly Report on the Borrowing Requirement are not watertight. In particular, some of the measures to reduce expenditure and raise additional revenue may be less effective than predicted. There is also the fact that the tax and social security contribution reliefs introduced in the last part of 2000 were granted on the assumption that there would be significant structural increases in revenue.

As regards expenditure, the uncertainty mainly concerns the savings in intermediate consumption to be generated by the new rules on purchasing procedures (estimated at 5.6 trillion lire or more than 3 per cent of spending on goods and services). There is also the possibility that outlays in the health care sector will rise rapidly, partly as a consequence of the elimination in the budget of prescription charges and patients' contributions to the cost of some specialist services. As regards revenue, it may well be difficult to raise all the proceeds forecast from sales of property (estimated at 7.5 trillion lire, of which 6 trillion originally included in the budget for 2000 but not realized). Moreover, in line with the interpretation adopted in the Planning Document Update, the estimates were based on the assumption that the faster growth in revenue in 2000 compared with the original forecasts was structural and that its continuation would counterbalance the reliefs granted in the budget for 2001. It should be noted in this respect that in September 2000 the additional revenue was expected to amount to 13.8 trillion lire in 2000 and 26.4 trillion in 2001; in the event in 2000 it fell short of the forecast by about 6 trillion and the Quarterly Report on the Borrowing Requirement published in April 2001 reduced the forecast for tax revenue in 2001 by about 7 trillion. Lastly, it needs to be stressed that a drastic contraction in the withholding tax on managed assets appears inevitable.

In preparing the Quarterly Report on the Borrowing Requirement, the Government also revised the estimates of the state sector borrowing requirement in 2001. Excluding the proceeds of privatizations and settlements of past debts, the figure was raised from 32.75 to 51.7 trillion lire, a further increase compared with the low of 31 trillion recorded for this balance in 1999. The gap between the state sector net borrowing requirement and general government net borrowing was expected to widen from 14.9 trillion lire in 2000 to 27.2 trillion, after being negative throughout the nineties. On the basis of the information contained in the Quarterly Report on the Borrowing Requirement, it can be estimated that if the planning scenario were realized, the gap between the general government gross borrowing requirement and general government net borrowing would also increase compared with the 17.3 trillion recorded in 2000.

In the first four months of 2001 the state sector borrowing requirement, excluding settlements of past debts and the proceeds of privatizations, amounted to 54.8 trillion lire, 20.3 trillion more than in the year-earlier period. This result reflected the reduction in the yield of the withholding tax on managed assets, which had been especially large in 2000 and paid in one shot in February. If the trends of the early months of this year were to continue uninterrupted, the borrowing requirement for the year as a whole would be larger than expected.

The outlook for the medium term. – The Economic and Financial Planning Document published in June 2000 envisaged a gradual reduction in the overall budget deficit in the period 2002-04, with near balance being reached in 2003 and a small surplus in 2004. These results were to be achieved primarily as a consequence of a decline in interest payments (from 6.5 per cent of GDP in 2000 to 5.6 per cent in 2003 and 5.2 per cent in 2004). The primary surplus was seen as rising and then stabilizing at around 5.5 per cent of GDP. The ratio of debt to GDP was expected to fall below 100 per cent in 2003. The foregoing objectives were confirmed in the update of the stability programme submitted to the European Commission in December 2000.

According to the Opinion issued by the European Council on 12 February 2001, the objectives set in the update to the stability programme were consistent with the commitments deriving from the Stability and Growth Pact. The Council nonetheless stressed the existence of some risks in connection with the underlying macroeconomic hypotheses, the possibility that not all the additional revenue forecast for 2001 (in the light of which the budgetary reliefs had been granted) would prove to be of a structural nature, and the fact that some of the budgetary adjustment measures might prove to be less effective than expected. The Council called on Italy: to achieve the objectives established, if necessary by adopting corrective measures; to speed up the consolidation of the public finances, in view of the still large public debt; and to introduce further reforms for the items of expenditure affected by the aging of the population, especially pensions.

In defining the objectives for the next four years, the reductions in general government net borrowing and debt indicated in the update of the stability programme will need to be confirmed; at the same time it will be necessary to reaffirm the objective of reducing the overall tax burden. The improvement in the balances of the public finances must be achieved by reducing primary expenditure in relation to GDP. Looking ahead, the fall in interest payments will depend above all on reducing the debt ratio, since the gap between the average cost of the debt and current issue rates has gradually grown smaller.

If the entire public debt were replaced with newly-issued securities of the same types and its composition remained the same, the ratio of interest payments to GDP would fall by about 0.75 percentage points. This gives an idea of the savings that can be made in the long term assuming the debt ratio and interest rates remain unchanged.

Decentralization. – The nineties saw significant advances in decentralizing responsibility for expenditure and granting tax-levying powers to local authorities, as in other European countries.

A decentralized structure of government can bring greater efficiency in the use of resources. It makes it possible to tailor the supply of public services to the needs and local preferences of citizens, to create a direct link between expenditure and revenue decisions, and to control the behaviour of the public administration more closely. Achieving these benefits assumes, however, that local authorities all have an adequate management capability, that responsibilities are clearly assigned among the different levels of government and that rigorous budgetary constraints are applied. Moreover, starting from a situation marked by large geographical disparities in the level of economic endowments, there is a need for transparent mechanisms for the transfer of resources to the less developed areas.

With the decentralization carried out in the nineties, local authorities were entrusted with new administrative functions and local development responsibilities. At the same time their revenue-raising powers were increased with the introduction of new local taxes, of which the most important were the municipal tax on buildings and the regional tax on productive activities, and surtaxes on central government taxes, notably personal income tax, with the right to fix the related rates within limits laid down by law. Recently Parliament approved an amendment to the Constitution, which has not yet entered into force, explicitly granting local authorities the right to determine their revenue and expenditure and the central government the right to make equalizing interventions.

The process of decentralization needs to be based not only on a clear assignment of financial responsibilities to the various levels of government but also on rigorous budgetary constraints. It is necessary to ensure the compatibility of the balances of individual authorities with the objectives agreed at the European level for general government as a whole.

In some EU countries budgetary rules and coordination procedures have been adopted or are under study in order to involve local government bodies in the attainment of the objectives established at the national level. The domestic stability pact introduced in Italy in 1999 is intended to achieve this aim but nonetheless needs to be improved in several important respects.

It is necessary to create mechanisms capable of giving effect to the balanced budget constraint at the level of individual authorities. This constraint must be coupled with rules that allow the financing of public investment and take account of the effects of the business cycle on local authorities' budgets. Machinery for the timely monitoring of each authority's accounts must be put in place.

MONETARY POLICY AND THE MONEY AND FINANCIAL MARKETS

In the course of 2000 real short-term interest rates in the euro area gradually returned to levels similar to those prevailing before their decline in the first half of 1999. The rise occurred against the backdrop of a recovery in economic activity and inflationary pressures stemming from the increase in the prices of raw materials and the weakness of the euro.

The growth in the monetary and credit aggregates slowed down in the second half of the year but remained considerable. Real interest rates were low by historical standards. The supply of bank credit continued to be abundant. Up to October the depreciation of the euro generated a further expansionary impulse.

The rise in short-term rates came to a halt in the last part of 2000 and the first few months of 2001. The deterioration in world economic conditions and the partial recovery of the euro attenuated the risks for price stability in the area. In May the Governing Council of the ECB lowered official rates by 0.25 percentage points.

At the beginning of 2000 signs of accelerating economic activity in the euro area strengthened in an international context characterized by the protracted, rapid expansion in the United States, the rise in raw materials prices and the steady depreciation of the euro. The monetary and credit aggregates indicated conditions of abundant liquidity: in March the three-month moving average of the twelve-month growth in M3 was 6 per cent, 1.5 percentage points above the reference value set by the Governing Council of the ECB. In the same month the twelve-month rate of growth in bank lending to the private sector reached 11 per cent.

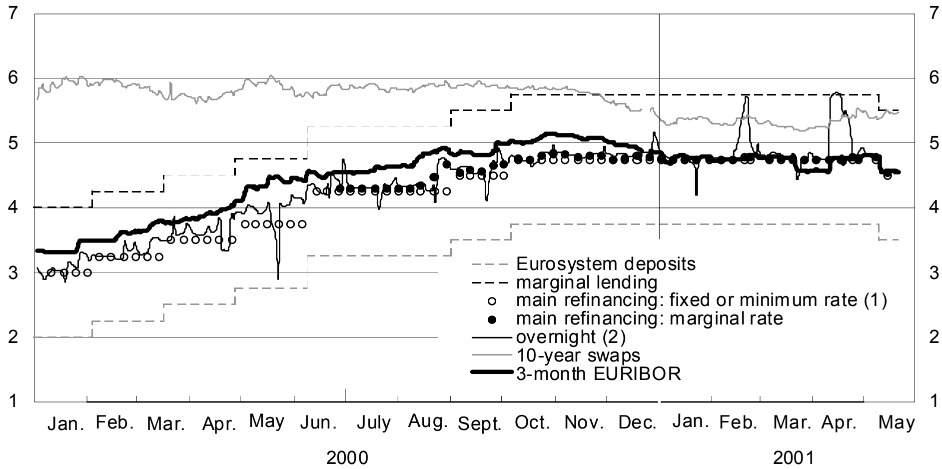
Against this background, at the beginning of February the Governing Council raised the rate on the ECB’s main refinancing operations from 3 to 3.25 per cent (Figure 22), the first change since the half-point increase of 4 November 1999. With the growth prospects of the area’s economy improving, the euro weakening further and oil prices trending upwards, official rates continued to be raised gradually over subsequent months in order to counter the risks for price stability. The rate on main refinancing operations was increased five more times, so that by the beginning of

October it stood at 4.75 per cent, 2.25 points higher than a year earlier. The rate on the marginal lending facility and that on Eurosystem overnight deposits had been raised by an equal amount.

Figure 22

OFFICIAL INTEREST RATES AND MONEY AND FINANCIAL MARKET RATES IN THE EURO AREA

(daily data and percentages)



Sources: European Central Bank, Reuters, Telerate.
(1) Fixed rate until 21 June 2000, minimum rate thereafter. – (2) The EONIA rate.

The increases in official rates during the year affected money-market rates in the area. The Eonia overnight rate rose by 1.8 points to 4.8 per cent and three-month interbank rates by slightly less. The movements in short-term interest rates were widely anticipated by the markets and rapidly fed through to the yield curve.

The real short-term interest rate in the area, calculated from inflation expectations recorded in surveys, rose by about one point during the year to stand at 2.6 per cent in December (Figure 23); this is not high by the standards of the European countries with substantial price stability. Bank lending rates also stayed low.

Long-term rates in euros remained broadly stable up to October and declined thereafter. In the first ten months of 2000, ten-year interest rate swap rates ranged between 5.7 and 6 per cent; yields on euro-area benchmark government securities also fluctuated only marginally. The yields on swaps and benchmark securities subsequently came down to 5.5 and 5 per cent respectively at the end of December and held at around those levels in the first quarter of this year.

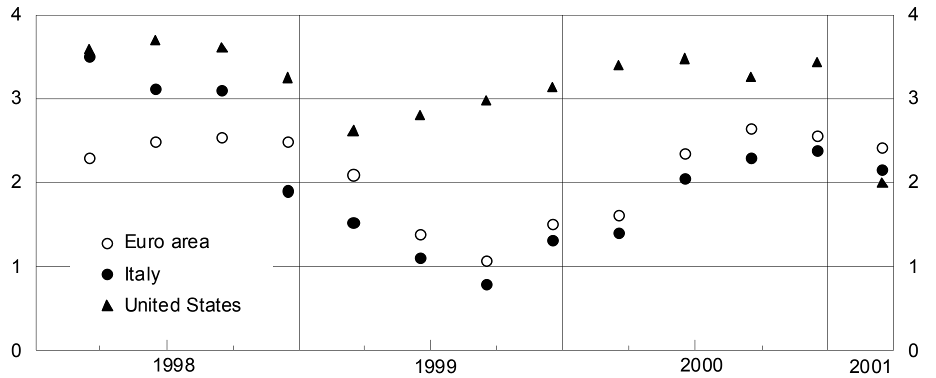
The yield curve was steeply sloped at the beginning of 2000 but gradually flattened as the year wore on; in December the differential between ten-year bond yields and three-month interbank rates was 0.2 percentage points, compared with 2.2 points a year earlier.

The nominal effective exchange rate of the euro reached a low in May, recovered in June and then weakened again in the third quarter. On 27 October the euro's depreciation since the beginning of the year was 17.9 per cent against the dollar (corresponding to a low of $0.825 per euro), 13.1 per cent against the yen and 10.9 per cent in nominal effective terms.

Figure 23

REAL THREE-MONTH INTEREST RATES (1)

(percentages)



Sources: Bank of Italy calculations based on data from Reuters, *Consensus Forecasts* and the OECD.

(1) Nominal 3-month Euromarket rates (average of daily rates in the last month of the quarter), deflated using inflation expectations from the quarterly *Consensus Forecasts* survey. For the euro area, until December 1998, 3-month LIBOR rates for France, Germany, Italy and Spain, weighted using each country's GDP (at current prices in national currency, converted into a common currency using the average purchasing power parities for 1994-96); from January 1999 onwards, 3-month EURIBOR.

Common concern over the potential implications for the world economy of an excessive depreciation of the euro induced the ECB to prompt the monetary authorities of the United States, Japan, the United Kingdom and Canada to join it in taking concerted exchange market intervention on 22 September in support of the euro. The Eurosystem carried out further interventions in subsequent weeks.

At the end of October the euro staged a strong rally that reduced its depreciation since the beginning of the year to 7.4 per cent against the dollar and 1.6 per cent in effective terms. The marked deterioration in growth prospects in the United States contributed to the euro's recovery against the dollar.

The closing part of 2000 and the first few months of 2001 have seen a deterioration in the outlook for world growth. In the United States, a very rapid change in cyclical conditions has been accompanied by a fall in share prices that at some points has aroused concern for the stability of important segments of the financial market. In the first few months of this year the Federal Reserve has reduced interest rates repeatedly, and expansionary budgetary measures have been approved. In the euro area, signs of a slowdown in activity have gradually emerged and become more insistent in the first few months of this year; since the end of 2000 the risks for price stability have diminished, owing to the fall in raw materials prices and continued wage restraint. Although the euro began to depreciate again in the second half of January, it has remained above the lows it touched in the autumn of 2000. Inflation has picked up in the early part of 2001 owing to the rise in the prices of food products following the spread of livestock diseases in several European countries, but these developments have not altered the prospects for price stability in the medium term. Against this background, the Governing Council of the ECB lowered official rates by 0.25 percentage points on 10 May; the minimum rate on main refinancing operations was reduced to 4.5 per cent.

Expectations about the future course of monetary policy in the Eurosystem have adapted to the changed environment. In mid-May the rate on the three-month Eurodeposit future contract maturing in September 2001 was 4.3 per cent, 0.3 points below the spot rate at that time.

In 2000 the growth in M3 remained above the reference value of 4.5 per cent. The three-month moving average of its twelve-month growth rate was 5.1 per cent in December.

The behaviour of M3 reflected the slowdown in the most liquid components. The twelve-month rate of increase in M1 came down to 5.7 per cent in December, compared with 10 per cent in the same month of 1999, partly owing to the increase in the opportunity cost of holding money: during the year the differential between money-market rates and the yield on M3 widened by around one percentage point. The appreciable acceleration in the less liquid components of the aggregate was not sufficient to offset the slowdown in M1.

The Italian contribution to euro-area M3 grew by 4.6 per cent over the year. The trends in the different components were similar to those for the area as a whole. Rapid growth in the less liquid items contrasted with a slowdown in currency in circulation, overnight deposits and deposits redeemable at notice of up to three months.

Lending by monetary financial institutions to private-sector borrowers in the euro area rose by 10.2 per cent in 2000. In Italy total lending to the private sector increased by 13.5 per cent, against 13.6 per cent in 1999. Stimulus came from higher corporate demand for short-term loans than in the previous year and the continued strength of household demand for mortgage loans. There was a sharp slowdown in the growth of funds raised abroad.

The total financial assets of the private sector, net of directly held shares, rose by 5.8 per cent as a result of a slight increase of 3.4 per cent in domestic assets and a further substantial growth of 13 per cent in external assets.

HOUSEHOLDS AND ENTERPRISES

The financial surplus of the household sector rose from 4.8 to 5 per cent of GDP in 2000 (Table 32). Among households' assets, the proportion of investment fund units diminished while net investment abroad increased further. On the liabilities side, demand for durable consumer goods fueled continued growth in medium and long-term debt, albeit at a slower rate than in 1999.

The ratio of non-financial enterprises' gross operating profit to value added remained at the high levels recorded in the second half of the nineties. The rise in interest rates contributed to the increase in their net financial costs from 3.9 to 4.7 per cent of value added. In relation to value added, self-financing remained close to the high levels of the two preceding years. Against the background of a pronounced pick-up in capital spending, the corporate sector's financial deficit rose from 1 to 5.1 per cent of GDP.

On the basis of the latest available data, in 1999 the net profits of 35,000 firms surveyed by the Company Accounts Data Service were equal to 10 per cent of their equity, in line with the high values of the late eighties.

Italy's total financial assets amounted to 15,780 trillion lire in 2000, equal to 7 times GDP, compared with 14,721.3 trillion and 6.9 times GDP in 1999.

The revision of Italy's financial accounts to bring them into line with the ESA95 system was completed in September 2000. Numerous changes regarding statistical sources and calculation methods were introduced at the same time. The new data, which were published in the Supplement to the Statistical Bulletin of 27 October 2000, show significant differences in relation to those calculated in the past.

The financial accounts of households

The financial savings of the household sector, which comprises consumer households and sole proprietorships with up to five employees, increased from 102.4 trillion lire in 1999 to 114 trillion lire last year (€58.9 billion; Table 33). Those of consumer households alone remained stable at 6.3 per cent of GDP.

The flow of financial assets amounted to 188 trillion lire (€97.1 billion), compared with 182.8 trillion lire in 1999.

Table 32

ITALY: FINANCIAL BALANCES (1)

(billions of lire, millions of euros and percentages)

	1997	1998	1999		2000	
	lire	lire	lire	euros	lire	euros
Households	134,767	95,859	102,377	52,873	114,008	58,880
of which: external balance	*48,217*	*50,393*	*63,953*	*33,029*	*61,805*	*31,920*
Non-financial corporations	−5,515	−28,026	−21,909	−11,315	−115,157	−59,474
of which: external balance	*6,501*	*9,533*	*7,628*	*3,939*	*7,445*	*3,845*
General government	−60,035	−62,504	−35,373	−18,269	−5,622	−2,904
of which: external balance	*−104,966*	*−144,475*	*−185,676*	*−95,894*	*−97,728*	*−50,472*
Monetary financial institutions	6,947	27,832	11,635	6,009	52,017	26,865
of which: external balance	*20,576*	*−35,548*	*−64,245*	*−33,180*	*−45,697*	*−23,600*
Other financial intermediaries (2)	−10,182	5,560	−1,445	−746	−27,909	−14,414
of which: external balance	*82,683*	*141,108*	*170,596*	*88,106*	*68,439*	*35,346*
Insurance companies (3)	−15,948	−14,466	−41,355	−21,358	−27,315	−14,107
of which: external balance	*−2,977*	*3,244*	*21,676*	*11,195*	*−4,246*	*−2,193*
Rest of the world	−50,034	−24,254	−13,932	−7,195	9,982	5,155
	As a percentage of GDP					
Households	6.8	4.6	4.8		5.0	
of which: consumer	*8.3*	*6.1*	*6.3*		*6.3*	
Non-financial corporations	−0.3	−1.3	−1.0		−5.1	
General government	−3.0	−3.0	−1.6		−0.2	
Financial institutions (4)	−1.0	0.9	−1.5		−0.1	
Rest of the world	−2.5	−12	−0.7		0.4	
	Adjusted for inflation, as a percentage of GDP (5)					
Households	4.4	2.8	2.9		3.4	
of which: consumer	*6.0*	*4.3*	*4.4*		*4.6*	
Non-financial corporations	0.3	−0.9	−0.4		−4.5	
General government	−0.9	−1.3	0.3		1.3	

Source: Bank of Italy.
(1) Rounding may cause discrepancies in totals. − (2) Includes financial auxiliaries. − (3) Includes pension funds. − (4) Monetary financial institutions, other financial intermediaries and insurance companies. − (5) Only lira-denominated financial instruments with a fixed monetary value at maturity are taken into consideration in calculating the adjustment for inflation.

Table 33

FINANCIAL ASSETS AND LIABILITIES OF ITALIAN HOUSEHOLDS (1)

(billions of lire, millions of euros and percentage composition)

	End-of-period stocks			Flows			
	December 2000			1999		2000	
	lire	euros	% composition	lire	euros	lire	euros
ASSETS							
Cash and sight deposits	744,582	384,544	14.8	36,652	18,929	18,747	9,682
Other deposits	509,444	263,106	10.1	–31,907	–16,477	15,487	7,998
bank	*202,789*	*104,732*	*4.0*	*–58,476*	*–30,200*	*–1,687*	*–871*
postal	*306,655*	*158,374*	*6.1*	*26,569*	*13,722*	*17,174*	*8,869*
Short-term securities	48,636	25,118	1.0	–42,529	–21,965	–8,553	–4,417
Medium and long-term securities	758,653	391,811	15.1	–61,400	–31,711	54,526	28,161
of which: government	*366,092*	*189,071*	*7.3*	*–65,389*	*–33,771*	*29,607*	*15,291*
Investment fund units	813,245	420,006	16.1	141,942	73,307	11,363	5,868
Shares and other equities	1,028,105	530,972	20.4	–10,926	–5,642	–41,182	–21,269
External assets	477,047	246,375	9.5	63,953	33,028	61,803	31,920
of which: short-term securities	*1,779*	*919*	*0.0*	*–2,044*	*–1,055*	*192*	*99*
medium and long-term securities	*153,520*	*79,287*	*3.0*	*18,145*	*9,371*	*1,767*	*913*
shares and other equities	*213,459*	*110,242*	*4.2*	*16,742*	*8,646*	*34,302*	*17,716*
investment fund units	*96,248*	*49,708*	*1.9*	*34,544*	*17,840*	*28,008*	*14,465*
Insurance and pension fund reserves (2)	599,376	309,552	11.9	77,558	40,056	70,064	36,185
Other financial assets (3)	58,445	30,184	1.1	9,425	4,867	5,769	2,979
Total assets	**5,037,533**	**2,601,669**	**100**	**182,769**	**94,392**	**188,025**	**97,107**
LIABILITIES							
Short-term debt (4)	102,325	52,846	15.1	5,223	2,697	6,168	3,186
of which: bank	*101,002*	*52,163*	*14.9*	*5,443*	*2,811*	*5,734*	*2,962*
Medium and long-term debt (5)	407,207	210,305	60.1	60,490	31,240	46,222	23,872
of which: bank	*368,019*	*190,066*	*54.4*	*59,537*	*30,748*	*42,239*	*21,815*
Other financial liabilities (6)	167,547	86,531	24.8	14,679	7,581	21,626	11,169
Total liabilities	**677,079**	**349,682**	**100**	**80,392**	**41,519**	**74,017**	**38,227**
Balance	**4,360,454**	**2,251,987**		**102,377**	**52,873**	**114,008**	**58,880**

Source: Bank of Italy.
(1) 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 trade credit and other minor items. – (4) Includes finance provided by factoring companies. – (5) includes finance provided by leasing companies, consumer credit from financial companies and other minor items. – (6) Staff severance pay provisions and other minor items.

Within the sector's securities portfolio there was a marked shift away from short-term securities, which declined by 8.4 trillion lire, towards medium and long-term securities, which increased by 56.3 trillion (compared with a fall of 43.3 trillion in 1999); the low level of short-term interest rates and the Treasury's policy of lengthening the maturity of issues contributed to this change. There was an increase of 18.7 trillion lire in cash and domestic sight deposits, which had risen by 36.7 trillion in 1999. The growth in postal time deposits and the smaller contraction in certificates of deposit caused "Other deposits" to increase by 15.5 trillion lire, in contrast to the sharp fall recorded in 1999. Cash, deposits and securities increased from 42.4 to 44 per cent of total financial assets.

The growth in holdings of investment fund units slowed down sharply, from 141.9 trillion lire in 1999 to 11.4 trillion last year; the largest reduction occurred in bond fund units. Direct holdings of Italian shares and equities fell by 41.2 trillion lire, compared with a decrease of 10.9 trillion in 1999.

The international diversification of households' portfolios continued. Investment in foreign shares and equities amounted to 34.3 trillion lire, against 16.7 trillion in 1999. Holdings of foreign investment fund units showed a further strong increase, rising by 28 trillion lire compared with 34.5 trillion the previous year; a large proportion of the net flow consisted of units issued by companies controlled by Italian intermediaries in other euro-area countries. The net flow of foreign financial assets came to 61.8 trillion lire overall, compared with 64 trillion in 1999.

Shares and Italian investment fund units decreased from 45.6 per cent of households' total financial assets at the end of 1999 to 42.6 per cent a year later, ending the period of sustained growth that had begun in 1996.

In 2000 households' financial liabilities rose by 74 trillion lire (€38.2 billion); in 1999 they had risen by 80.4 trillion. Debt towards banks and other intermediaries rose by 52.4 trillion, against 65.7 trillion the previous year; medium and long-term debt increased by 46.2 trillion (60.5 trillion in 1999).

Between the end of 1995 and the end of 1999, the last year for which comparable data are available, the ratio of households' financial liabilities to GDP rose from 22 to 28 per cent in Italy, less than the increases in Germany and Spain. Despite the increase, the ratio remained lower in Italy than in the other leading industrial countries. Sample surveys show that 19 per cent of households were in debt in Italy, compared with 43 per cent in Germany and 74 per cent in the United States. If debt towards relatives and friends and trade credit payable are added to debt owed to banks and financial companies, the percentage of indebted Italian households rises to 25 per cent.

The financing of enterprises and their liquidity

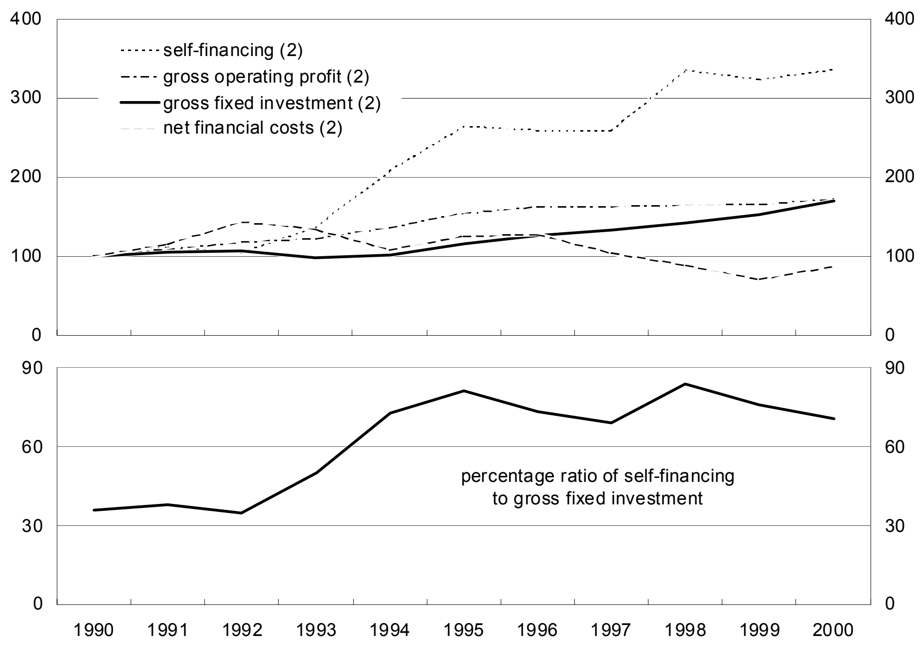
In 2000 the operating profit of enterprises, measured by the ratio of gross operating profit to value added, remained broadly unchanged at the high level of 1999. The rise in interest rates contributed to the growth in net financial costs, which had fallen substantially in the previous three years (Figure 24). The Bank of Italy survey of investment by manufacturing firms with more than 50 employees shows that the percentage of firms in profit or breaking even remained high, at 84 per cent, compared with 83 per cent in 1999. The strong acceleration in investment caused the proportion of gross fixed investment covered by self-financing to fall from 76 to 71 per cent; the corporate sector's financial deficit rose from 21.9 to 115.2 trillion lire (€59.5 billion; Table 34).

In 2000 enterprises' financial liabilities rose by 203.2 trillion lire (€104.9 billion). The flow of domestic liabilities amounted to 179.5 trillion lire, against 159.9 trillion in 1999. Banks encouraged corporate demand for credit by offering easy credit conditions. The growth in bank lending was substantial: 69.8 trillion at short term and 42.4 trillion at medium and long term, compared with 8.1 and 39 trillion respectively in 1999. Foreign

Figure 24

THE EXTERNAL FUNDING REQUIREMENT OF ITALIAN FIRMS (1)

(annual data)



Sources: Istat and Bank of Italy.
(1) Non-financial enterprises. Estimate based on annual national accounts data. The data for 2000 are provisional. – (2) Indices, 1990=100.

financial liabilities, in contrast, rose much less than in the previous year, by 23.6 trillion against 61.1 trillion in 1999, when a substantial part of the sharp increase had reflected borrowing in connection with the takeover of Telecom Italia.

In 2000 domestic and foreign trade credit payable rose by 22.9 trillion lire, compared with 22.8 trillion the previous year, and accounted for 12.4 per cent of firms' total liabilities. A comparison with other leading industrial countries, which is possible on the basis of figures for 1999, shows that it was higher in Italy than in France, Germany and the United Kingdom.

In 2000 the Bank of Italy launched a study of trade credit in order to analyze its characteristics and the implications it could have for firms' operations and the transmission of monetary policy to the economy.

The results of an initial questionnaire as part of the Bank's annual survey of around 1,500 manufacturing firms indicate that in 2000 the weighted average amount of trade credit granted to other firms was 21 per cent of turnover and its average contractual maturity around 90 days. Late payment entailed a cost for the debtor in the case of 17 per cent of the total. Around three quarters of trade credit was collected on time and the average delay for the remainder was around 45 days. A penalty was applied to around 10 per cent of credit past its due date.

Trade debt is used mainly to synchronize payments with future receipts. The weighted average amount was equivalent to 15 per cent of turnover and around 90 per cent of short-term bank debt. The average contractual term was 85 days and the proportion paid after the due date 15 per cent. Approximately 5 per cent of the total bore interest.

Net equity issues amounted to 17.2 trillion lire in 2000 (compared with 80 trillion the previous year), equal to 8.5 per cent of the total flow of liabilities. Leverage, measured as the ratio of financial debts to the sum of financial debts and net worth, was 38.1 per cent at the end of 2000, around 2 percentage points higher than a year earlier.

A comparison based on financial accounts data indicates that firms are more highly leveraged in Italy than in France, Spain, the United States and the United Kingdom, all of which have ratios of less than 30 per cent; the higher ratio in Italy reflects the lower proportion of shares and other equities in the total liabilities of Italian enterprises.

Venture capitalists in Italy invested 23 per cent of their funds in high-technology sectors last year, a lower percentage than in the euro area (about 31 per cent in 1999) and far less than in the United States (around 90 per cent).

Table 34

FINANCIAL ASSETS AND LIABILITIES OF ITALIAN ENTERPRISES (1)
(billions of lire, millions of euros and percentage composition)

	End-of-period stocks			Flows			
	December 2000			1999		2000	
	lire	euros	% com-position	lire	euros	lire	euros
ASSETS							
Cash and sight deposits	187,132	96,646	8.5	19,297	9,966	20,848	10,767
Other deposits	21,572	11,141	1.0	–5,882	–3,038	6,717	3,469
of which: bank	*19,761*	*10,206*	*0.9*	*–5,928*	*–3,062*	*6,658*	*3,439*
Short-term securities	461	238	0.0	–3,747	–1,935	–887	–458
Medium and long-term securities	59,275	30,613	2.7	–2,157	–1,114	3,278	1,693
of which: government	*32,742*	*16,910*	*1.5*	*–5,518*	*–2,850*	*–1,576*	*–814*
Shares and other equities	870,834	449,748	39.4	107,292	55,412	25,450	13,144
Investment fund units	11,310	5,841	0.5	1,974	1,020	158	82
Trade receivables	404,226	208,765	18.3	9,899	5,113	13,476	6,960
Other financial assets (2)	96,240	49,704	4.4	3,707	1,914	–12,119	–6,259
External assets	557,198	287,769	25.2	68,738	35,500	31,092	16,058
of which: trade receivables	*115,620*	*59,713*	*5.2*	*17,919*	*9,254*	*14,084*	*7,274*
bonds	*60,925*	*31,465*	*2.8*	*13,492*	*6,968*	*–1,326*	*–685*
shares and other equities	*263,312*	*135,989*	*11.9*	*6,163*	*3,183*	*9,750*	*5,036*
Total assets	**2,208,249**	**1,140,465**	**100.0**	**199,120**	**102,837**	**88,015**	**45,456**
LIABILITIES							
Domestic liabilities	**3,362,199**	**1,736,431**	**85.7**	**159,920**	**82,592**	**179,525**	**92,717**
Short-term debt (3)	571,974	295,400	14.6	7,883	4,071	84,923	43,859
of which: bank	*522,101*	*269,643*	*13.3*	*8,131*	*4,199*	*69,799*	*36,048*
Medium and long-term debt (4)	478,911	247,337	12.2	31,221	16,124	41,317	21,339
of which: bank	*393,028*	*202,982*	*10.0*	*38,982*	*20,132*	*42,398*	*21,897*
Shares and other equities	1,711,689	884,014	43.5	88,770	45,846	23,205	11,984
Trade payables	426,557	220,298	10.9	18,566	9,589	17,568	9,073
Other financial liabilities (5)	173,068	89,382	4.5	13,480	6,962	12,511	6,461
External liabilities	**560,097**	**289,266**	**14.3**	**61,110**	**31,561**	**23,647**	**12,213**
of which: trade payables	*59,120*	*30,533*	*1.5*	*9,984*	*5,156*	*5,342*	*2,759*
financial debt	*191,793*	*99,053*	*4.9*	*60,409*	*31,198*	*25,397*	*13,116*
shares and other equities	306,327	158,205	7.8	–8,759	–4,524	–5,970	–3,083
Total liabilities	**3,922,295**	**2,025,696**	**100.0**	**221,029**	**114,152**	**203,172**	**104,930**
Balance	**–1,714,046**	**–885,231**		**–21,909**	**–11,315**	**–115,157**	**–59,474**

Source: Bank of Italy.
(1) The data refer to non-financial companies. Rounding may cause discrepancies in totals. – (2) Includes insurance technical reserves and other minor items. – (3) Includes finance provided by factoring companies. – (4) includes finance provided by leasing companies, bonds and bankers' acceptances. – (5) Includes severance pay and other minor items.

An international comparison shows significant differences between the European venture capital market (and especially the Italian market) and that in the United States as regards the total volume of funds invested in the development of firms: in 2000 venture capital investment was equal to about 1 per cent of GDP in the United States, whereas in the euro area and Italy investment by venture capital companies, which also includes investment in mature firms, was less than half that proportion.

There are also differences in the relative weights of the different types of investor in venture capital funds. In 1999 in the United States 23 per cent of resources came from pension funds, compared with 19 per cent in Europe and 6 per cent in Italy; in Europe banks are the largest contributors to funds operated by venture capital companies, whereas in the United States their involvement is small. Furthermore, in the United States disinvestment is carried out mainly via the stock market, whereas in Europe trade sales are still more common.

The growth in firms' financial assets slowed down to 88 trillion lire in 2000, compared with 199.1 trillion in 1999. Deposits continued to increase but the rise in holdings of shares was much smaller than in the previous year, when this aggregate had also been strongly affected by the takeover of Telecom Italia. The increase in foreign assets was also less than in 1999.

BANKS AND OTHER CREDIT INTERMEDIARIES

In 2000 the expansion of economic activity in Italy fueled the demand for corporate loans and helped to reduce loan losses. Banks' income from services continued to rise, boosted by households' demand for professional asset management services. An expansion in activity on the international capital markets enabled banks to diversity their funding. The return on equity was 11.6 per cent, the highest figure since the mid-eighties.

Table 35

MAIN ITEMS IN THE BALANCE SHEETS OF ITALIAN BANKS (1)

(end-of-period data; percentage changes on year-earlier period unless otherwise indicated; millions of euros)

	1999	2000	2000 (2)				March 2000	Balances December 2000
			Q1	Q2	Q3	Q4		
Assets								
Securities	13.6	−3.9	8.5	−0.8	−11.1	−10.7	−4.9	187.346
government securities	*16.1*	*−5.6*	*8.8*	*0.2*	*−15.6*	*−13.6*	*−5.6*	*136.022*
Loans	10.0	13.1	12.7	13.6	11.6	14.8	12.3	922.799
of which: (3)								
short-term (a)	*6.5*	*18.5*	*19.7*	*16.4*	*20.2*	*18.1*	*17.1*	*435.839*
medium and long-term (b)	*13.2*	*10.1*	*9.3*	*11.2*	*8.3*	*11.5*	*9.6*	*423.112*
(a)+(b)	*9.8*	*14.2*	*14.3*	*13.7*	*14.1*	*14.7*	*13.3*	*858.952*
repos	*30.5*	*−18.3*	*−74.4*	*64.5*	*−80.9*	*455.9*	*7.0*	*8.316*
bad debts (4)	*−7.2*	*−13.8*	*−4.7*	*−12.4*	*−3.8*	*−31.2*	*−11.7*	*51.903*
Memorandum item:								
bad debts at realizable value	*−16.2*	*−20.1*	*−29.3*	*−14.2*	*0.7*	*−33.3*	*−14.4*	*24.551*
External assets	−8.1	1.0	8.1	13.9	−26.1	14.4	7.0	194.485
Liabilities								
Domestic funding (5)	2.9	6.1	10.1	4.4	4.9	6.8	4.2	907.615
Deposits	0.6	4.0	5.6	3.2	4.1	5.3	1.8	605.134
of which: (6)								
current accounts	*10.0*	*6.0*	*12.5*	*−0.5*	*12.3*	*2.1*	*0.9*	*407.909*
fixed-term	*−22.2*	*−16.1*	*−15.3*	*−12.1*	*−22.9*	*−13.5*	*−17.7*	*64.865*
repayable at notice	*0.0*	*−6.6*	*−4.6*	*−6.3*	*−8.5*	*−8.0*	*−7.1*	*57.131*
repos	*−16.3*	*35.7*	*6.5*	*73.7*	*4.7*	*66.3*	*42.7*	*68.265*
Bonds (5)	8.0	10.7	20.0	6.9	6.5	9.8	9.2	302.481
External liabilities	4.3	11.6	17.7	−0.6	20.4	9.9	18.6	272.380

(1) The figures for March 2001 are provisional. The percentage changes are net of changes due to reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. − (2) Quarterly growth rates are expressed on an annual basis and calculated on data adjusted for seasonal variations where appropriate. − (3) Minor items in the aggregate are not reported separately. − (4) The percentage changes are not adjusted for debt cancellations and securitization operations. − (5) Including bonds held by non-residents. − (6) Excluding those of central government.

The growth in lending was greater than in similar cyclical upturns in the past. With real interest rates very low, large firms in particular turned to bank loans in order to finance higher investment and corporate restructuring. Households continued to increase their bank debt substantially for the purchase of property and durable consumer goods.

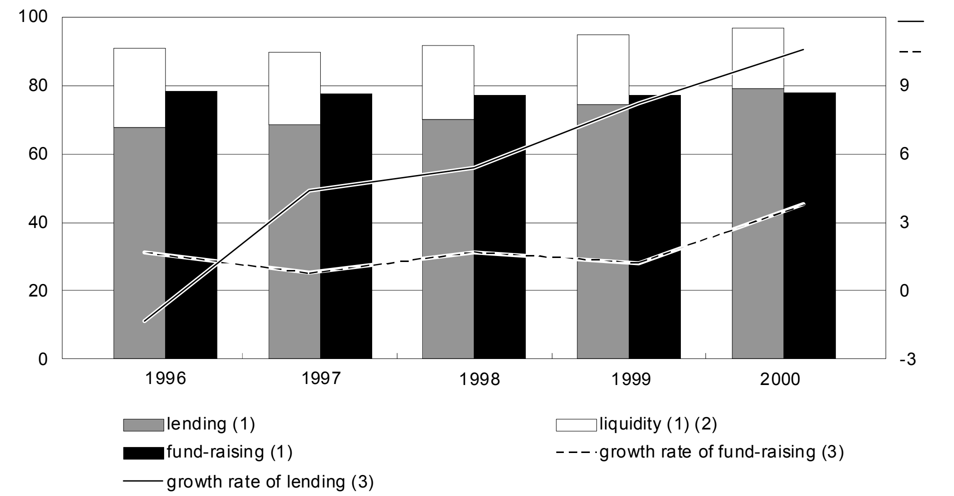
Banks' domestic funding rose by 6.1 per cent, 7 percentage points less than the increase in lending (Table 35). The rate of growth in current accounts declined sharply, reflecting the rise in yields on alternative short-term instruments. By contrast, there was an increase in fund-raising in the form of bond issues, particularly on the Euromarket.

In order to compensate for the difference between the expansion in lending and that in fund-raising (Figure 25), banks sold government securities and increased their net external liabilities. The ratio of liquid assets (cash and securities) to loans fell to very low levels both by historical standards and by comparison with the average for the euro area.

Figure 25

BANKING INTERMEDIATION IN ITALY

(end-of-year data; percentages)



(1) As a percentage of GDP; left-hand scale. – (2) Cash and securities. – (3) On previous year; right-hand scale. End-year stocks deflated using GDP deflator.

The combination of the rapid growth in lending and the moderate rise in the average cost of borrowed funds, made possible by the diversification of funding sources, led to an increase in net interest income. Gross income rose by 10.9 per cent. Operating expenses increased by 4.7 per cent. The large rise in other administrative expenses is attributable to the purchase of services, primarily in the field of data processing, which is now widely outsourced.

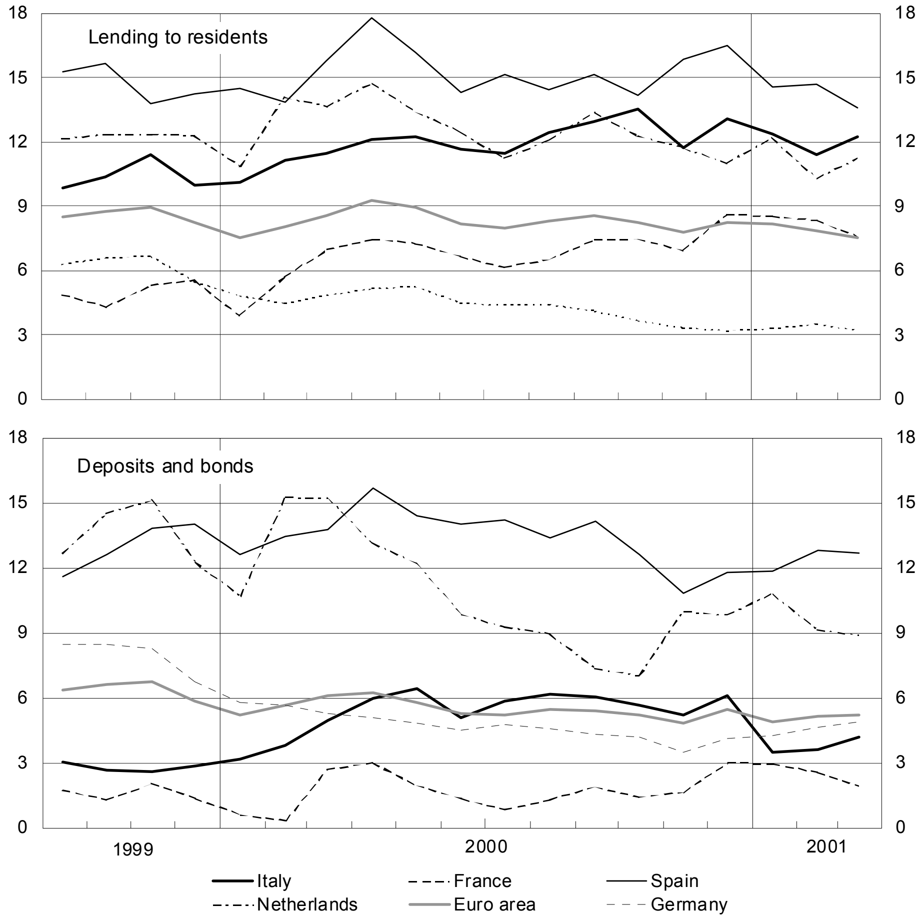
In the last three years Italian banks have steadily narrowed the profitability gap that had developed in relation to the euro-area average. The improvement was greatest in the case of large banks, which expanded their distribution networks by means of concentrations.

Lending

The growth in bank lending in Italy accelerated from 10 per cent in 1999 to 13.1 per cent last year. The expansion was above the average for the euro area (8.3 per cent), owing mainly to the higher rate of growth in corporate loans. Among the major euro-area countries, only Spain saw lending increase at a faster pace than in Italy (Figure 26).

Figure 26

BANK FUND-RAISING AND LENDING IN THE EURO AREA (1)
(monthly data; 12-month percentage change)



Sources: ECB and national statistics.
(1) Fund-raising and lending of monetary and financial institutions (MFI) of the euro area, excluding the eurosystem to non-MFI resident customers.

In Italy the acceleration occurred in short-term credit, which grew by 18.5 per cent, compared with 6.5 per cent the previous year, while the rate of growth in medium and long-term lending slowed down from 13.2 to 10.1 per cent.

The recovery in investment and production caused the rate of growth in corporate lending to rise sharply, from 5.9 to 15.8 per cent, with loans to large companies showing an especially rapid increase; the proportion of credit granted to companies with debt in excess of 50 billion lire rose from 29.6 to 33.1 per cent.

Around one fifth of the acceleration in lending to industrial firms from 4.5 to 12.7 per cent was attributable to the energy sector. The growth of 20 per cent in lending to the service sector was fueled mainly by lending to telecommunications companies, which more than doubled during the year, and by a small number of large operations in other sectors.

In 2000 Italian banks increased their activities in the international syndicated loan market. The total value of new loans involving at least one Italian intermediary was €125 billion, equal to 5.2 per cent of the world total. Loans granted in the international market to residents of Italy came to €42 billion and accounted for 94 per cent of syndicated loans granted by Italian intermediaries, compared with an average of 65 per cent in the nine preceding years.

The growth in lending to consumer households slowed down from 21.6 to 13.3 per cent, with most of the deceleration occurring in medium and long-term loans, which had expanded strongly in the two previous years. The value of loans granted to finance home purchases was close to the level of 1999.

Credit conditions remained generally easy in 2000. The differential between the average and minimum rates on short-term loans narrowed by 35 basis points to 2.2 percentage points. The rate of drawdown on overdrafts remained very low for all categories of borrower.

The percentage of secured loans increased both for borrowers as a whole (from 48.8 to 49.6 per cent) and for non-financial enterprises (from 50.5 to 51.5 per cent). Econometric analysis shows that it is the more risky loans that are secured, in other words loans granted at an above-average interest rate and with a higher probability of turning bad. Larger loans – for which banks have greater power to impose their terms, assuming a given size of borrower – are more likely to be secured. The existence of guarantees on bank loans is only weakly correlated with indicators of companies' earnings and growth, but the availability of assets to pledge does exhibit statistical significance. Firms with a long-standing relationship with the bank have a lower percentage of secured loans. The function linking the duration of the relationship with the bank and the existence of guarantees is not linear, however; even relatively young firms and those with only a short relationship with the bank have an above-average probability of obtaining unsecured loans.

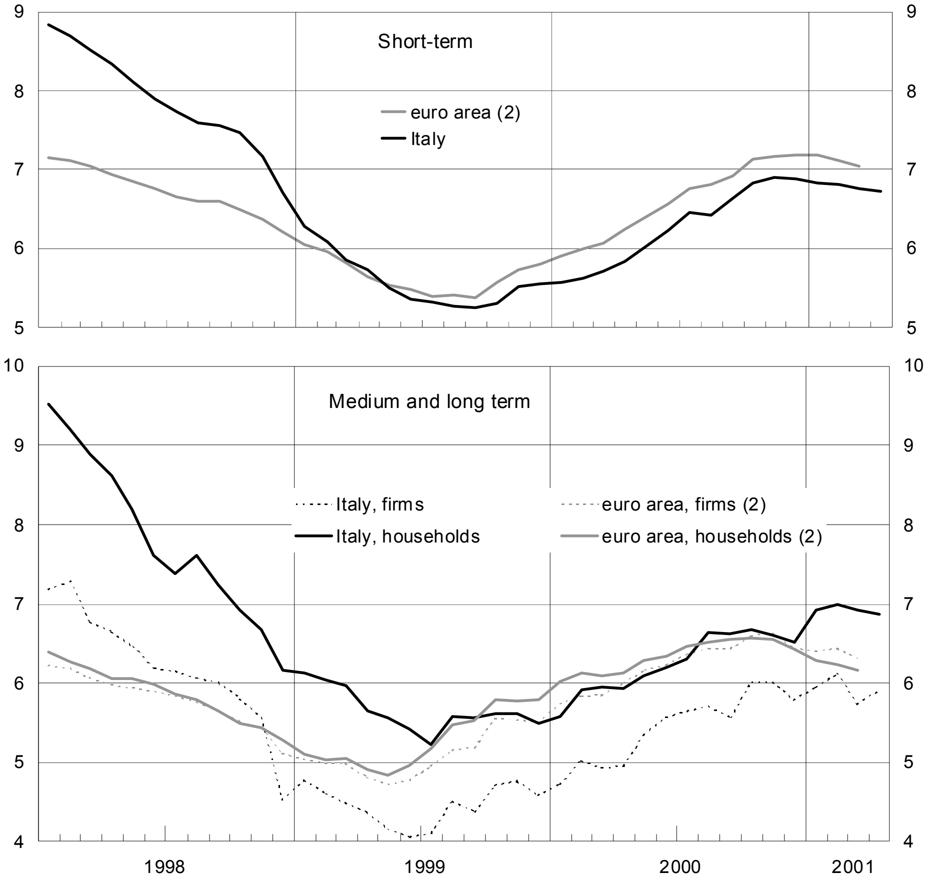
Short-term lending rates rose in parallel with rates in the euro area as a whole, increasing by 1.3 percentage points to 6.9 per cent (Figures 27 and 28).

According to econometric estimates, in Italy the adjustment of bank lending rates to changes in money-market yields was in line with past experience.

Figure 27

BANK LENDING RATES IN ITALY AND THE EURO AREA (1)

(monthly averages)



Sources: Based on ten-day statistics and ECB data.
(1) Weighted averages of national interest rates reported to central banks. The data are not harmonized so the curves must be used with caution; they are indicators of trends rather than relative levels of rates.

Medium and long-term lending rates rose by one percentage point for households (to 6.5 per cent) and by 1.2 points for enterprises (to 5.8 per cent). The increases were slightly larger than in the euro area as a whole (0.6 points for households and 0.9 points for enterprises); there was no difference, however, if the comparison is begun in mid-1999, when bond yields began to rise.

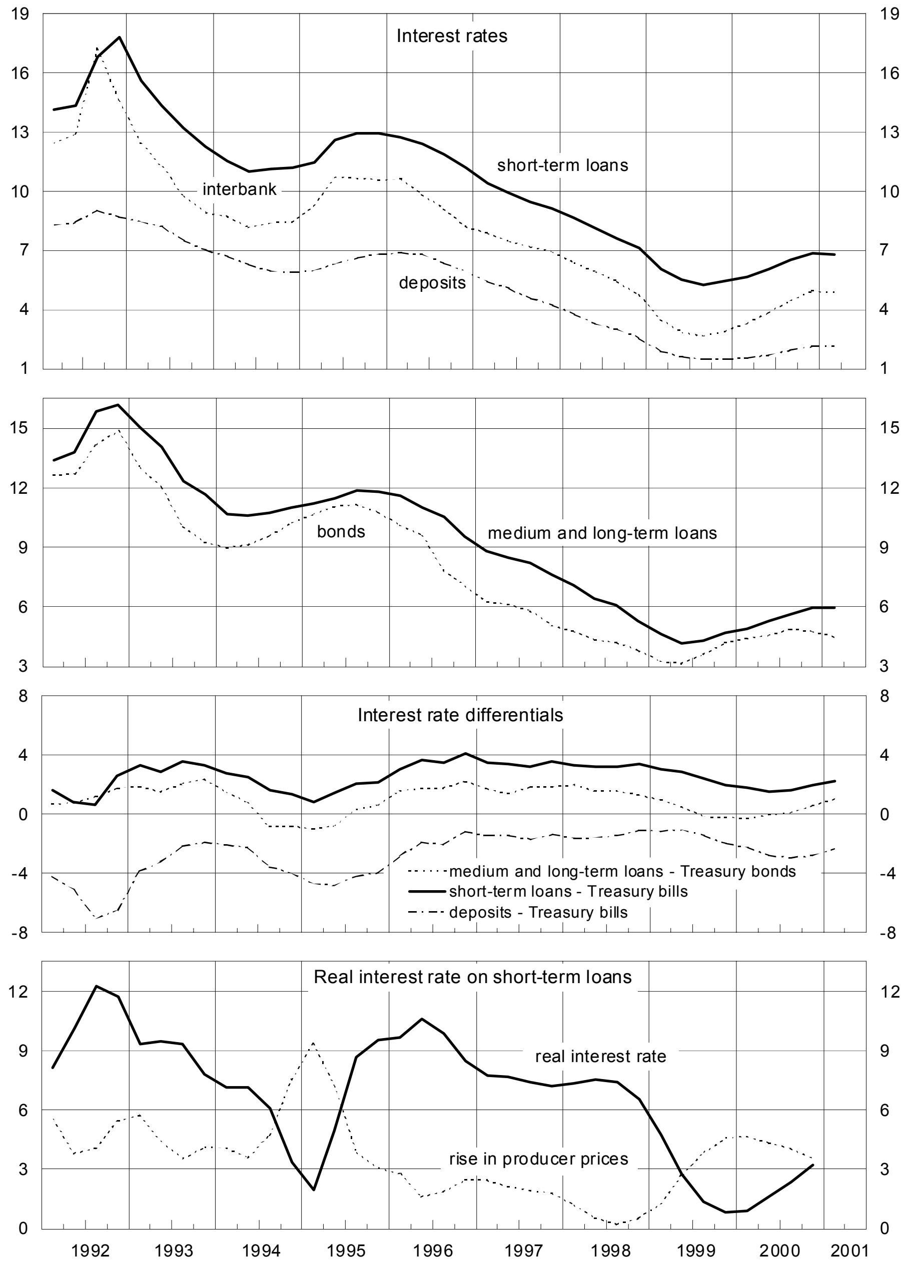
Bad debts decreased by €8.3 billion last year; at the end of December they amounted to 5.7 per cent of total lending, the lowest level since 1993. The decrease was partly the result of substantial securitization operations. The flow of new bad debts was 22.4 per cent lower than in 1999 and fell from 1.4 to 1 per cent of performing loans.

In 2000 lending by financial companies in the consumer credit, leasing and factoring businesses supervised by the Bank of Italy continued to grow at a very rapid rate of 19.2 per cent. Loans from banks for similar purposes also rose substantially, by 17.2 per cent.

Figure 28

INTEREST RATES AND INTEREST RATE DIFFERENTIALS (1)

(qurterly data; percentages and percentage points)



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

The slowdown in the growth of consumer credit from banks and finance companies from 18.8 to 14.9 per cent (Table 36) can be attributed largely to the deceleration from 26 to 9.9 per cent in credit granted via credit cards owing to a number of very large securitization operations. Credit assigned under factoring transactions rose by 17.1 per cent, compared with 19.9 per cent in 1999. Leasing business increased by 23.2 per cent (22.8 per cent in 1999), owing mainly to the rapid growth of 30.9 per cent in real estate leasing.

Interest rates on consumer credit and factoring operations rose by less than short-term bank lending rates; in the case of leasing, by contrast, the rise was slightly larger than that in the cost of medium and long-term bank loans.

Table 36

CONSUMER CREDIT, FACTORING AND LEASING IN ITALY
(end-of-period; millions of euros and percentage changes on previous year)

	Outstanding 2000 (1)	Changes		
		1998	1999	2000 (1)
	Consumer credit			
Total credit	37,112	12.5	18.8	14.9
of which: credit cards	*3,906*	*18.7*	*26.0*	*9.9*
Finance companies	16,947	21.9	25.9	14.2
of which: credit cards	*2,808*	*18.1*	*24.9*	*27.6*
Banks	20,167	4.3	13.4	15.4
of which: credit cards	*1,099*	*28.3*	*28.0*	*–18.9*
	Factoring			
Total credit	33,696	7.9	19.9	17.1
Finance companies	31,267	7.7	19.5	17.3
of which: without recourse	*12,936*	*8.0*	*18.3*	*35.2*
Banks	2,429	10.9	25.5	14.8
	Leasing			
Total credit	46,558	17.1	22.8	23.2
Financial companies	37,218	15.3	22.0	23.5
Banks	9,341	29.0	26.2	21.9

Source: Based on supervisory reports.
(1) Provisional.

Deposits and borrowed funds

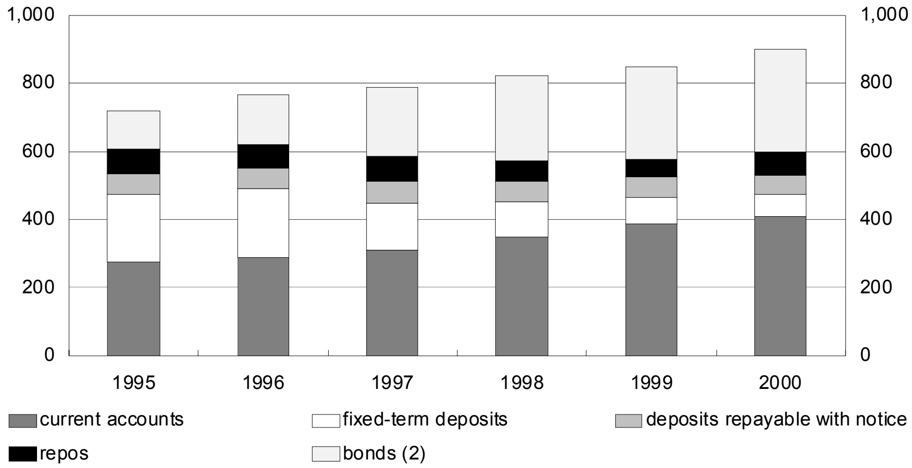
The growth in bank fund-raising in the form of deposits and bonds accelerated from 2.9 per cent in 1999 to 6.1 per cent last year. In the euro area the rate of increase was 5.5 per cent.

In Italy current accounts grew less rapidly than in 1999, by 6 per cent as against 10 per cent. The differential between Treasury bill yields and current account deposit rates, net of tax, widened from 2.2 to 2.6 percentage points in the course of the year, and touched a maximum of 3 points in the summer. Securities repurchase agreements, which had contracted by 16.3 per cent in 1999, increased by 35.7 per cent in 2000. Deposits as a whole rose by 4 per cent, compared with 0.6 per cent the previous year. Banks' bond issues increased by 10.7 per cent, compared with 8 per cent in 1999; their share of total fund-raising increased from 31.8 to 33.3 per cent (Figure 29).

Figure 29

BANK FUND-RAISING IN ITALY (1)

(end-of-year data; billions of euros)



(1) Net of deposits of central government departments. – (2) Gross of those held by non-residents.

The development of a broad corporate bond market in the euro area has facilitated the issuance of Eurobonds by Italian banks. In 2000 such issues more than doubled to €20 billion, equal to about one fifth of gross issues by Italian banks (compared with one tenth in 1999) and 10.1 per cent of the total bonds issued by intermediaries in the area. In the two years since the launch of the third stage of EMU 37 Italian banks have issued Eurobonds; 24 of these banks came to the European market for the first time, and 28 were of medium or small size. Econometric analysis indicates that recourse to the Eurobond market is easier for issuers that are listed on official markets and have a relatively high credit rating, as well as for those that are relatively large. In addition, issues are more common among intermediaries whose domestic fund-raising is less diversified both by type of liabilities issued and by the size distribution of their customers. Eurobond issues are more costly than domestic bond issues, but they widen the range of sources of finance, increase the stability of borrowed funds and avoid a general increase in the cost of resources.

In Italy the average deposit rate rose by 0.7 percentage points to 2.2 per cent and that on current accounts by 0.9 points to 2.1 per cent. Repo rates showed a larger rise of 1.8 points to 4.8 per cent. In the euro area rates on fixed-term deposits of up to one year increased by 1.2 points.

The yield offered by banks on fixed-rate bond issues in Italy remained broadly unchanged; compared with 4.7 per cent in December 1999, it was 4.8 per cent at the end of last year, in line with the return on five-year Treasury bonds.

Banks' securities portfolios and net external position

In 2000 the banks' securities portfolios, at book value, decreased by €28.5 billion, or 14.5 per cent, after having fallen by 6.5 per cent in 1999. The reduction was due to a contraction in holdings of government securities, which fell from 80.9 to 76 per cent of the total; bank bonds rose by e1.4 billion and their share of the total increased to 21.5 per cent.

The ratio of liquid assets (cash and securities) to the aggregate of liquid assets and loans fell from 21.2 to 18.1 per cent, a low figure both in historical terms and in relation to the euro-area average. Econometric estimates based on a sample of more than 500 Italian banks for the period from 1986 to 1998 show that liquid assets provide an important cushion that mitigates the effects of changes in monetary conditions on the supply of credit. Over the long run, an increase of one percentage point in official interest rates reduces the nominal rate of growth of lending by approximately 0.5 points for less liquid banks (those in the first decile of the distribution of the ratio between liquid and total assets), whereas the reduction is much smaller (around 0.2 points) for banks in the top decile.

Excluding the effects of exchange rate variations, the net external liabilities of Italian banks increased by €25.9 billion, of which €4.4 billion was towards EMU countries. External assets rose by €2.5 billion; those denominated in euros increased from 67.3 to 71.4 per cent of the total. Gross external liabilities increased by €28.4 billion (of which €26.1 billion was denominated in euros), with €9.7 billion being towards other euro-area countries, €6.2 billion towards the United Kingdom and €2 billion towards the United States. At the end of 2000 the Italian banking system had a net external debtor position of €77.9 billion, equal to 4.4 per cent of total bank assets, compared with €57.4 billion and 3.7 per cent in 1999.

Securities deposited with banks

The face value of securities deposited with banks for safekeeping rose by 1.6 per cent to €1.6 trillion last year; within the total, the value of portfolios managed directly by banks fell by 11.2 per cent.

Assets deposited by households declined by 2.5 per cent, reflecting net redemptions of Italian investment fund units; deposits of government securities grew by 1.1 per cent, reversing the downward trend that had prevailed since 1996. Foreign securities increased by 8.4 per cent to account for 15.6 per cent of households' total securities deposits.

Profit and loss accounts

Net interest income grew for the first time since 1995. The increase of €2.4 billion, or 7.6 per cent (Table 37), was due mainly to the strong expansion in lending, with unit earnings increasing only moderately.

Trading in securities and foreign exchange generated net income of €2.5 billion, 14.7 per cent less than in 1999. Income from services, a large part of which is earned from asset management, rose by 21.4 per cent, a slightly slower rate than in the previous year.

Other financial operations generated net income of €9.3 billion; the increase of 34.7 per cent over the year was due to an increase of 42.6 per cent in dividends on shares and participations, which rose to €8.5 billion, half of which derived from participations in other banks.

Gross income increased by 10.9 per cent. Operating expenses rose by 4.7 per cent, staff costs by 0.9 per cent. Costs per employee rose by 2.2 per cent to €60,400 (117 million lire).

The number of bank staff remained unchanged; a reduction in staff at large banks offset increases elsewhere due to the formation of new banks and the expansion of small institutions, which accounted for a large proportion of the 1,000 branches opened during the year.

Banks' branch networks expanded significantly throughout the second half of the nineties in parallel with the development of "remote" banking services. At the end of last year 522 banks offered services via the telephone or computer. Econometric analysis indicates that remote access facilities are more common in provinces where per capita incomes are higher and firms are larger and in those where there is a higher branch density per inhabitant, banking markets are more concentrated and payment services are more highly developed (measured in terms of the prevalence of POS terminals). The proportion of customers carrying out banking transactions via the internet is positively correlated with the prevalence of personal computers among families and with the level of education. The banks that have gone furthest in developing remote services are relatively large, have fewer staff per branch and have a branch network concentrated in the northern regions. The banks that were the first on the scene with telephone or computer-based services tend to have a higher proportion of "remote" customers in the years following the launch of the new business; the period covered by the study is short, however. Up to now, "remote" services do not appear to have been developed as an alternative to the traditional distribution network.

Table 37

PROFIT AND LOSS ACCOUNTS OF ITALIAN BANKS (1)

	1997	1998	1999	2000	1997	1998	1999	2000
	As a percentage of total assets				**Percentage changes**			
Net interest income (a)	**2.32**	**2.15**	**1.95**	**1.92**	**–5.4**	**–1.1**	**–6.4**	**7.6**
Non-interest income (b) (2)	**1.09**	**1.40**	**1.60**	**1.76**	**11.5**	**36.6**	**18.0 (11.8)**	**20.4 (15.4)**
of which: trading	*0.30*	*0.32*	*0.18*	*0.14*	*–16.5*	*14.1*	*–41.3*	*–14.7*
services	*0.41*	*0.62*	*0.73*	*0.81*	*45.5*	*59.6*	*22.7*	*21.4*
other financial operations (2)	*0.15*	*0.23*	*0.42*	*0.52*	*23.2*	*56.3*	*91.7 (66.5)*	*34.7 (16.2)*
Gross income (c=a+b) (2)	**3.40**	**3.55**	**3.55**	**3.68**	**–0.6**	**11.0**	**3.2 (0.6)**	**13.4 (10.9)**
Operating expenses (d) (3)	**2.33**	**2.16**	**2.15**	**2.05**	**2.6**	**1.9**	**2.7**	**4.7**
of which: banking staff costs (3) (4)	*1.44*	*1.30*	*1.26*	*1.16*	*–0.2*	*1.9*	*–0.4*	*0.9*
Gross operating profit (e=c–d) (2) (3)	**1.07**	**1.39**	**1.40**	**1.63**	**–6.8**	**28.9**	**4.0 (–2.9)**	**26.6 (21.6)**
Value adjustments, readjustments and allocations to provisions (f) (2) (5)	**0.69**	**0.48**	**0.40**	**0.35**	**10.9**	**–25.9**	**–15.0 (–6.8)**	**8.9 (–0.5)**
of which: loan losses	*0.58*	*0.45*	*0.44*	*0.35*	*28.3*	*–16.2*	*–1.4*	*–11.9*
Profit before tax (g=e–f) (2) (3) (5)	**0.38**	**0.91**	**1.01**	**1.27**	**–28.1**	**111.3**	**13.9 (–0.8)**	**33.6 (33.5)**
Tax (h) (5)	**0.28**	**0.43**	**0.40**	**0.48**	**–5.4**	**59.8**	**–4.5**	**19.7**
Net profit (g–h)	**0.09**	**0.48**	**0.61**	**0.79**	**–58.3**	**441.9**	**30.2**	**42.6**
Dividends distributed	0.16	0.25	0.37	0.43	9.2	71.1	49.7	27.7
	Other data							
	Profit before tax				**Net profit**			
Profit as a percentage of capital and reserves (ROE) (6)	5.9	13.8	15.4	18.4	1.7	7.5	9.7	11.6
	Amounts				**Percentage changes**			
Total assets *(millions of euros)*	1,470,223	1,572,334	1,633,064	1,786,083	7.1	6.3	3.8	9.8
Average total number of employees	347,799	345,699	343,057	342,837	–1.7	–0.7	–1.2	0.0
of which: banking staff	*343,522*	*341,427*	*338,751*	*338,855*	*–1.7*	*–0.7*	*–1.2*	*0.1*
Total assets per imployee *(thousands of euros)*								
at current prices	4,227	4,548	4,760	5,210	9.0	7.0	5.0	9.7
at constant prices (7)	3,984	4,204	4,328	4,619	6.9	5.0	3.3	7.0
Banking staff costs per imployee (3) *(thousands of euros)*								
at current prices (8)	60.8	58.9	59.1	60.4	0.0	2.4	0.3	2.2
at constant prices (7) (8)	57.3	54.4	53.7	53.6	–2.0	0.5	–1.4	–0.4
Memorandum item: (9):								
Total assets *(millions of euros)*	1,485,391	1,579,507	1,635,415	1,789,424	7.1	6.6	3.7	9.4
Total number of employees (10)	347,510	343,750	340,711	343,017	–2.0	–1.0	–0.9	0.7
of which: banking staff (10)	*343,722*	*339,415*	*336,487*	*339,556*	*–1.9*	*–1.2*	*–0.9*	*0.9*

(1) Rounding may cause discrepancies in totals. The data for 2000 are provisional. – (2) The rates of increase calculated net of dividends on shareholdings in other banks are shown in brackets. – (3) The figures for 1998 are only partially comparable with those for previous years owing to the abolition of direct National Health Service contributions. The percentage changes for 1998 have been adjusted by deducting 3,400 euros 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; 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 banks. — (5) The percentage changes for 2000 are calculated including deferred and prepaid taxes for the year among extraordinary income in order to ensure consistency with the data for 1999. – (6) Profit includes the net income of foreign branches and the change in the provision for general banking risks. – (7) Deflated using the consumer price index (1995=100). – (8) Excluding the extraordinary costs incurred in connection with early retirement incentive schemes. – (9) Data for the entire banking system, including banks that have not reported information on their profit and loss accounts. – (10) End-of-period data.

Operating expenses other than staff costs rose by €1.4 billion, or 9.9 per cent, owing partly to an increase of €200 million, or 16.3 per cent, in legal and consultancy expenses and above all a rise of €700 million, or 61.7 per cent, in the cost of data-processing services, which are largely outsourced to operators outside the banking sector.

Between 1989 and 1999 Italian banks' expenditure on information technology amounted to 9 per cent of total operating costs each year, and exceeded 11 per cent in 1998 and 1999. Annual real investment in hardware per employee, adjusted to take account of changes in product quality using an index based on "hedonic prices", quadrupled in the course of the decade, while that in software tripled. In 1999 the total capital per employee tied up in hardware, software and data-processing systems was 3.5 times higher than in 1989. Econometric estimates indicate that growth in the stock of IT capital brings significant cost savings for the entire banking industry, measured on the basis of shifts in the efficient frontier over time. There is also evidence that banks with a larger volume of IT capital per employee tend to be more efficient.

Gross operating profit increased by 21.6 per cent to €29 billion. Pre-tax profit rose from €16.3 to 21.9 billion, a rise of 33.5 per cent, while current direct taxes increased from €6.4 to 7.8 billion. Return on equity rose from 9.7 to 11.6 per cent.

INSTITUTIONAL INVESTORS

In 2000 the flow of savings to institutional investors contracted for the second consecutive year. Consolidated net fund-raising amounted to 27.6 trillion lire, compared with 139.5 trillion in 1999 (Table 38). The net assets managed by the sector fell from 80.8 to 75.5 per cent of GDP and declined slightly as a proportion of households' financial assets to stand at 31.8 per cent, one of the highest values in the euro area.

Table 38

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

	Net flows				End-of-period stocks			
	1999	2000	Percentage composition		1999	2000	Percentage composition	
			1999	2000			1999	2000
Investment funds	118.645 *(61,275)*	–13,353 *(–6,896)*	39.4	–11.4	920,311 *(475,301)*	871,188 *(449,931)*	43.1	39.7
Insurance companies (1) ...	67,823 *(35,028)*	59,881 *(30,926)*	22.5	51.0	355,264 *(183,479)*	415,145 *(214,404)*	16.6	18.9
Pension funds (1) ...	10,376 *(5,359)*	6,875 *(3,551)*	3.4	5.9	141,239 *(72,944)*	148,114 *(76,495)*	6.6	6.8
Portfolio management services	103,976 *(53,699)*	64,065 *(33,087)*	34.6	54.5	716,985 *(370,292)*	759,234 *(392,112)*	33.6	34.6
Total	**300,820** ***(155,361)***	**117,468** ***(60,667)***	**100**	**100**	**2,133,799** ***(1,102,015)***	**2,193,681** ***(1,132,942)***	**100**	**100**
Consolidated total (2)	**139,527** ***(72,060)***	**27,588** ***(14,248)***			**1,734,048** ***(895,561)***	**1,704,050** ***(880,068)***		

(1) Technical reserves and total balance-sheet assets for insurance companies and pension funds respectively. The figures for 2000 are estimated. – (2) Net of investments between the different categories of intermediary.

At the end of the year investment fund units constituted 18.1 per cent of the portfolio (19.4 per cent in 1999), insurance policies 6.3 per cent (5.4 per cent) and managed portfolios 15.1 per cent (14.8 per cent) (Table 39).

As a result of rapid growth in the second half of the nineties, managed savings in Italy account for about the same proportion of households' financial assets as in Germany. In Italy the percentage of households' financial wealth held in the form of investment fund units is very high; at the end of 1999 it was almost four percentage points more than in Spain and twice as large as in France and Germany.

Table 39

INSTITUTIONAL INVESTORS: VARIOUS INSTRUMENTS AS A PERCENTAGE OF HOUSEHOLDS' FINANCIAL ASSETS
(end-of-period data)

	1998				1999				2000
	Italy	France	Germany	Spain	Italy	France	Germany	Spain	Italy
Investment fund units (1)	16.7	9.0	8.8	18.2	19.4	8.7	10.5	15.6	18.1
Insurance policies and pension funds	5.0	20.5	24.8	9.8	5.7	18.6	24.6	10.1	6.6
of which: insurance policies	*4.7*	*20.5*	....	*5.2*	*5.4*	*18.6*	....	*5.5*	*6.3*
Other instruments (2)	12.5	–	–	–	14.8	–	–	–	15.1
of which: invested in investment funds	*4.4*	–	–	–	*6.8*	–	–	–	*7.9*
Total	**29.8**	**29.5**	**33.6**	**28.0**	**33.0**	**27.3**	**35.1**	**25.7**	**31.8**

Sources: Eurostat and Bank of Italy.
(1) Including units of foreign funds. – (2) Individually managed portfolios; also includes portfolios of sectors other than households.

The dynamic development of Italian institutional investors from the mid-nineties onwards was fueled by the slowdown in inflation, the decline in nominal and real interest rates, the reduction in the state sector financial deficit, measures to curb public pensions, changes in legislation on securities markets and, especially in 1999 and 2000, the strong rise in share values.

Within the Italian investment fund sector there was a sizable shift from bond to equity funds last year, especially in the months when the rise in share prices was most pronounced. Net subscriptions of funds based abroad but controlled by Italian intermediaries increased further.

Investment funds showed a negative average return of 3.6 per cent for the year as a whole, dragged down by the fall in share prices in the main markets. The international diversification of their portfolios continued: the proportion of foreign securities rose from 52.2 to 57.1 per cent.

The net inflow of savings to portfolio management services was lower than in 1999. At the end of the year more than half of their portfolio consisted of investment fund units. The average return, though negative, was almost three percentage points better than that of investment funds, reflecting the smaller proportion of shares, especially foreign shares, in their portfolios.

Insurance companies' technical reserves continued to rise at a rapid pace, while premium income slowed down markedly, owing almost entirely to developments in the life sector. Their share of the total assets managed by institutional investors rose by more than two percentage points, to 18.9 per cent, at the expense of investment funds.

The net assets of pension funds grew by 4.9 per cent; those of funds formed after the 1993 reform increased from 1.1 to 2.3 per cent of the total.

Securities investment funds

Italian investment funds recorded net redemptions of 13.4 trillion lire in 2000, against net subscriptions of 118.6 trillion the previous year. By contrast, savers made substantial investments in foreign funds controlled by Italian intermediaries, whose net fund-raising in 2000 can be estimated at 70.1 trillion lire, compared with 52.1 trillion in 1999. Overall, the net subscriptions of funds operated by Italian intermediaries amounted to 56.7 trillion lire, around one third of the 1999 figure.

Among Italian funds there was a pronounced portfolio shift towards equity and balanced funds, which recorded net subscriptions of 82.8 and 27.5 trillion lire respectively. Bond and money-market funds, by contrast, experienced large net redemptions of 83.5 and 44.6 trillion respectively.

The data available on six other euro-area countries, including Germany, Luxembourg and Spain, indicate substantial net fund-raising overall, although there were substantial redemptions of units in Spain. As in Italy, demand for equity funds was very strong and there was a general outflow of savings from bond funds.

Fund management companies controlled by banks have a very large share of the market in all the main European countries. They manage 88 per cent of total assets in France, 90.3 per cent in Germany and 94 per cent in Spain and Italy; in the United Kingdom and the Netherlands, where the financial markets are highly developed, bank funds handle less than half of total fund assets. Foreign banks have a very small share of the investment fund market in the Netherlands and Germany; they account for 13 per cent in Italy and between 16 and 20 per cent in France, Spain and the United Kingdom.

At the end of last year the net assets of harmonized Italian funds totalled 871.2 trillion lire, 5.3 per cent less than in 1999. If foreign funds of Italian origin are included, however, the total net assets managed by Italian intermediaries increased by 1.5 per cent to 1,059.8 trillion lire, but their share of the total net assets of euro-area investment funds fell from 21.6 to 19 per cent.

The net assets of Italian equity funds amounted to €155.7 billion at the end of 2000 (Table 40), equal to 34.6 per cent of the total net assets of Italian funds. France was the only leading country where equity funds had a smaller share, 28.3 per cent; they accounted for 60.9 per cent of the total in Germany, 56.9 per cent in the United States and 76.4 per cent in the United Kingdom. Bond funds represent 34.6 per cent of the total in Italy, about eight percentage points more than the euro-area average and three times the proportion in the United States.

Table 40

NET ASSETS OF INVESTMENT FUNDS IN THE MAIN EUROPEAN COUNTRIES AND THE UNITED STATES

(end-of-period data in billions of euros)

		Italy (1)	Germany	France	Luxembourg and Ireland (2)	*of which: controlled by Italian intermedi-aries*	Euro area (3)	UK	US
Net assets	1999	475	236	652	751	64	2,492	369	6,815
	2000	450	253	766	942	97	2,885	415	7,573
as a % of GDP	*1999*	*42.9*	*11.9*	*48.3*			*43.1*	*25.8*	*73.6*
	2000	*38.6*	*12.4*	*54.5*			*44.8*	*27.7*	*70.7*
of which: (4)									
equity funds	1999	140	133	154	267	17	859	299	4,023
	2000	156	154	217	351	50	1,146	318	4,306
domestic	1999	26	37	70	....	....	....	180	3.441
	2000	27	35	116	....	7	....	230	....
European	1999	42	39	16	....	....	....	41	....
	2000	56	44	24	....	17	....	49	....
other	1999	71	58	68	....	....	....	78	....
	2000	72	75	77	....	25	....	38	....
bond funds	1999	204	64	156	241	13	807	31	804
	2000	156	57	129	264	36	770	36	879
balanced funds	1999	110	12	164	56	....	441	23	381
	2000	116	15	202	67	10	521	31	381

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 in the Report. – (2) For Ireland, September 2000. – (3) The available data for the Netherlands and Ireland respectively refer to the end of 1999 and September 2000. – (4) In addition to equity, bond and balanced funds, the fund classification used internationally includes money-market funds and a residual category; the data for the last two categories are not shown in the table.

In the equity compartment, the proportion of net assets managed by intermediaries specializing in national stock markets is lowest in Italy, at 17.4 per cent. It is slightly higher in Germany (22.7 per cent) but far larger in France and the United Kingdom (53.3 and 72.5 per cent respectively). Moreover, in Italy funds investing in the shares of other European countries are extremely prominent, while the profile of funds specializing in the US and Asian markets is similar to that in Germany and France.

In 2000 the negative average return on Italian investment funds (–3.6 per cent, compared with 12.6 per cent in 1999) mainly reflected the fall of 8.8 per cent in the value of units in equity funds due to the decline in share values on the main world stock markets. The return on bond funds rose during the year to 4.3 per cent in December, compared with 0.3 per cent in 1999.

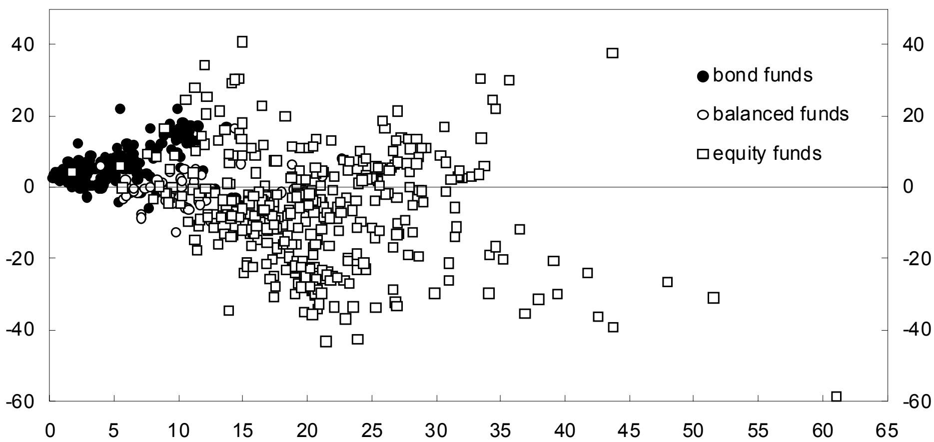
In 1999 and 2000 management fees on equity funds in the three largest euro-area countries were slightly above the average for previous years, reflecting the large volume of savings flowing into such funds. According to data collected by Lipper, they increased by about 20 basis points in France to 1.5 per cent, just under 10 basis points in Italy to 1.6 per cent and by 5 basis points in Germany to 0.9 per cent. There were also smaller increases in fees on balanced funds. Management fees on bond funds rose slightly in France to 1.1 per cent and remained unchanged in Italy, whereas in Germany they fell by almost 10 basis points to 0.6 per cent. Fees on money-market funds declined in all the countries in 2000, to 0.8 per cent in Italy, 0.9 per cent in France and 0.5 per cent in Germany.

The dispersion of returns within fund categories was slightly wider than in 1999 in the case of bond funds but narrower in that of equity funds; results ranged from –5.8 to 22.1 per cent for bond funds and from –58.6 to 40.9 per cent for equity funds (Figure 30). The variability of the returns of individual funds remained relatively small for bond funds (between 0.2 and 22.9 per cent) but was very large for equity funds (between 1.7 and 61 per cent), the highest values being recorded by certain intermediaries specializing in investment in Asian markets and high-technology stocks.

Figure 30

ITALIAN INVESTMENT FUNDS:
RATE OF RETURN AND VARIABILITY (1)

(percentages in the period December 1999 – December 2000)



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

At the end 2000 Italian government securities constituted 29.6 per cent of the total portfolio of Italian investment funds, 6.2 percentage points less than a year earlier; the share of short-term and floating-rate securities declined further, while that of Treasury bonds stabilized at just over 20 per cent. Italian shares made up 10.6 per cent of the total portfolio, compared with 9.9 per cent in 1999. By contrast, the proportion of foreign securities rose considerably, from 52.2 to 57.1 per cent, owing mainly to a marked increase in the percentage of shares from 27.9 to 32.4 per cent (Table 41).

Table 41

ITALIAN INVESTMENT FUNDS: SECURITIES PORTFOLIO BY TYPE OF ISSUER AND CURRENCY

(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			Italian issuers	Foreign issuers		
				Euro area		Other				
	Public sector	Banks	Firms		*of which*: gov. secs.			Euro area	Other	
	Securities denominated in euros									
1999 .	310.990	9,424	4,093	107,355	82,607	27,720	86,408	69,874	126	615,989
	(160,613)	*(4,867)*	*(2,114)*	*(55,444)*	*(42,663)*	*(14,316)*	*(44,626)*	*(36,087)*	*(65)*	*(318,132)*
2000 .	241,778	10,175	4,539	105,029	80,975	24,941	85,659	82,586	213	554,919
	(124,868)	*(5,255)*	*(2,344)*	*(54,243)*	*(41,820)*	*(12,881)*	*(44,239)*	*(42,652)*	*(110)*	*(286,592)*
	Securities denominated in non-euro-area currencies									
1999 .	3,967	139	. .	3,139	469	72,506	37	1,088	171,501	252,377
	(2,049)	*(72)*	*(. .)*	*(1,621)*	*(242)*	*(37,446)*	*(19)*	*(562)*	*(88,573)*	*(130,342)*
2000 .	4,277	103	. .	2,724	366	67,181	70	1,115	177,819	253,289
	(2,209)	*(53)*	*(. .)*	*(1,407)*	*(189)*	*(34,696)*	*(36)*	*(576)*	*(91,836)*	*(130,813)*
	Total portfolio									
1999 .	314,958	9,563	4,093	110,493	83,076	100,225	86,445	70,962	171,627	868,367
	(162,662)	*(4,939)*	*(2,114)*	*(57,065)*	*(42,905)*	*(51,762)*	*(44,645)*	*(36,649)*	*(88,638)*	*(448,474)*
2000 .	246,055	10,278	4,539	107,753	81,341	92,122	85,728	83,701	178,032	808,209
	(127,077)	*(5,308)*	*(2,344)*	*(55,650)*	*(42,009)*	*(47,577)*	*(44,275)*	*(43,228)*	*(91,946)*	*(417,405)*

Portfolio management services

The net flow of savings to portfolio management services remained substantial last year, at 64.1 trillion lire (Table 42), although it fell short of the 1999 figure of 104 trillion.

The total value of the assets administered by the sector rose by 5.9 per cent to 759.2 trillion lire. The proportion controlled by asset management companies increased rapidly during the year, from 26.8 to 35.6 per cent, owing partly to the conversion of some securities firms into asset management companies and the tendency for banking groups to channel individual portfolio management business to asset management companies.

Table 42

ITALIAN PORTFOLIO MANAGEMENT SERVICES: SECURITIES PORTFOLIO

(billions of lire and millions of euros)

	1999		2000 (1)		1998	1999	2000 (1)
	lire	euros	lire	euros			
	Net flows				End-of-period stocks *(percentage composition)*		
Italian government securities and corporate bonds	**–1.574**	**–813**	**–6,894**	**–3,561**	**48.7**	**36.3**	**31.3**
Short-term and floating-rate	9,184	4,743	–5,036	–2,601	14.6	10.6	7.7
BOTs	8,450	4,364	–1,013	–523	2.3	1.2	0.5
CCTs	1,881	971	–4,023	–2,078	12.3	9.4	7.2
Medium and long-term	–10,759	–5,556	–1,858	–960	34.1	25.7	23.6
CTZs	–3,278	–1,693	–758	–392	4.4	1.5	0.7
BTPs	–3,161	–1,632	–1,211	–625	23.7	17.9	16.2
Other	–2,722	–1,406	111	57	2.0	2.0	1.2
Corporate bonds	–1,083	–559	. .	. .	3.9	4.3	5.5
Italian shares	**149**	**77**	**–2,463**	**–1,272**	**5.1**	**5.8**	**5.8**
Italian investment fund units	**21,425**	**11,065**	**30,044**	**15,516**	**34.6**	**41.5**	**44.8**
Foreign securities	**38,035**	**19,643**	**34,868**	**18,008**	**11.5**	**15.7**	**16.9**
Bonds	286	148	–2,939	–1,518	7.1	6.1	5.0
Shares	6,256	3,231	3,347	1,729	1.7	3.5	2.5
Investment fund units	31,493	16,265	34,459	17,797	2.6	6.1	9.3
Other financial assets	**253**	**130**	**3,696**	**1,909**	**0.1**	**0.7**	**1.2**
Total	**58,287**	**30,102**	**59,251**	**30,600**	**100.0**	**100.0**	**100.0**
Memorandum items:							
Net fund-raising	**103,976**	**53,699**	**64,065**	**33,087**			
Banks	28,855	14,902	–14,141	–7,303			
Securities firms	25,349	13,092	–213	–110			
Asset management companies	49,772	25,705	78,419	40,500			
Portfolio (billions of lire)					**514.948**	**691.920**	**735.649**

(1) Provisional.

For the first time since the beginning of the nineties the sector's financial results (calculated from the increase in net assets less the flow of new savings, which approximates to the manager's return on the assumption that all income is reinvested) were slightly negative (–0.8 per cent, compared with 8.1 per cent in 1999). If it is assumed that the portfolio of investment funds held by asset management services mirrors the composition of the Italian fund sector as a whole, the positive return differential of 2.8 percentage points in relation to investment funds was due primarily to the continued high proportion of Italian government securities in the services' portfolios and the relatively low incidence of foreign shares. The overall results conceal differences between different types of intermediary: whereas portfolio management services operated by banks and securities firms showed negative returns (–0.8 and –1.3 per cent respectively), asset management companies achieved a return that was just positive (0.4 per cent).

At the end of the year 54.1 per cent of the sector's total portfolio was invested in investment fund units. If it is assumed that the portfolio composition of the investment funds whose units are held in managed portfolios matched that of Italian investment funds as a whole, the share of Italian government securities in the services' overall portfolio was about 48.8 per cent, 17 points more than in the funds; the proportion of Italian shares was only slightly higher than in the portfolio of the funds (11.6 per cent, against 10.6 per cent), while the proportion of foreign securities was much lower (38.4 per cent, against 57.1 per cent in the investment funds), owing mainly to the smaller incidence of shares (20.1 per cent, against 32.4 per cent).

Insurance companies and pension funds

Insurance companies. – In 2000 the premium income of insurance companies amounted to 77 trillion lire in the life sector and 53.9 trillion in the casualty sector, respectively 8.1 and 3.1 trillion lire more than the previous year (Table 43). The overall rate of growth of 9.4 per cent was half the average for the three years from 1997 to 1999, reflecting an abrupt slowdown in the growth of life premiums to 11.8 per cent, less than one third the level of the previous three years.

Individual pension plans subject to the tax provisions for supplementary pension schemes were introduced on 1 January 2001, when Legislative Decree 47 of 18 February 2000 came into effect. The law allows individuals to establish their own plan either by subscribing to open pension funds or by taking out pension-linked insurance policies, which provide for benefits to be paid only when the individual reaches retirement age and meets minimum contribution requirements. It also governs the saver's right to transfer his pension assets from one intermediary to another.

The proportions of shares and investment fund units in the insurance companies' portfolio increased further, to 21 and 11.3 per cent respectively, compared with 19.8 and 7.8 per cent in 1999 (Table 44). The percentage of government securities continued to decline, falling from 44.8 to 38.3 per cent.

Table 43

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*: estate assets income (4)
	Deposits and cash (1)	Securities (1)	Loans & annuities (2)	Real	Other net	Total	Technical reserves (3)	Net worth premium	
					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	3,519	218,725	1,897	4,744	5,249	234,134	205,434	28,700	51,277
1999	4,333 *(2,237)*	279,225 *(144,207)*	1,430 *(739)*	4,321 *(2,232)*	7,979 *(4,121)*	297,288 *(153,536)*	266,483 *(137,627)*	30,805 *(15,909)*	68,925 *(35,597)*
2000 (5) . .	5,306 *(2,740)*	335,296 *(173,166)*	1,514 *(782)*	4,242 *(2,191)*	8,595 *(4,439)*	354,953 *(183,318)*	320,254 *(165,398)*	34,699 *(17,920)*	77,033 *(39,784)*
					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	75,684	919	11,871	16,380	107,887	82,007	25,880	47,440
1999	3,252 *(1,680)*	82,441 *(42,577)*	519 *(268)*	12,018 *(6,207)*	16,816 *(8,685)*	115,046 *(59,416)*	88,781 *(45,851)*	26,265 *(13,565)*	50,820 *(26,246)*
2000 (5) . .	3,551 *(1,834)*	93,235 *(48,152)*	742 *(383)*	11,827 *(6,108)*	14,903 *(7,697)*	124,258 *(64,174)*	94,891 *(49,007)*	29,367 *(15,167)*	53,933 *(27,854)*
					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	6,552	294,409	2,816	16,615	21,629	342,021	287,441	54,580	98,717
1999	7,585 *(3,917)*	361,666 *(186,784)*	1,949 *(1,007)*	16,339 *(8,438)*	24,795 *(12,807)*	412,334 *(212,953)*	355,264 *(183,479)*	57,070 *(29,474)*	119,745 *(61,843)*
2000 (5) . .	8,857 *(4,574)*	428,531 *(221,318)*	2,256 *(1,165)*	16,069 *(8,299)*	23,498 *(12,136)*	479,211 *(247,491)*	415,145 *(214,404)*	64,066 *(33,087)*	130,966 *(67,638)*

(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.

Pension funds. – At the end of 2000 the total assets of pension funds and non-INPS pension institutions amounted to 148.1 trillion lire, 4.9 per cent more than a year earlier (Table 45). The assets of pension funds established under the new supplementary pension legislation rose to 3.4 trillion lire, equal to 2.3 per cent of the total, and those of funds that predate the 1993 reform came to 60 trillion. The assets of non-INPS institutions rose from 83.9 to 84.7 trillion lire. At the end of the year the assets managed by all types of pension fund equaled 6.6 per cent of GDP.

Table 44

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 euros					Securities denominated in non-euro-area currencies		Investment fund	Total
	Government securities and corporate bonds			Shares (2)	Total				
	Govern-ment securities	Corporate bonds	Total				*of which:* shares units (2)		
				Life sector					
1998 . . .	123,415	45,508	168,923	27,923	196,846	13,146	1,891	8,733	218,725
1999 . . .	126,255 *(65,205)*	69,018 *(35,645)*	195,273 *(100,850)*	35,750 *(18,463)*	231,023 *(119,313)*	21,204 *(10,951)*	6,192 *(3,198)*	26,998 *(13,943)*	279,225 *(144,207)*
2000 (3)	127,391 *(65,792)*	91,607 *(47,311)*	218,998 *(113,103)*	46,459 *(23,994)*	265,457 *(137,097)*	23,271 *(12,018)*	8,080 *(4,173)*	46,568 *(24,050)*	335,296 *(173,166)*
				Casualty sector					
1998 . . .	34,469	12,935	47,404	22,998	70,402	4,573	995	709	75,684
1999 . . .	35,780 *(18,479)*	12,871 *(6,648)*	48,651 *(25,126)*	27,970 *(14,445)*	76,621 *(39,572)*	4,566 *(2,358)*	1,541 *(796)*	1,254 *(648)*	82,441 *(42,577)*
2000 (3)	36,621 *(18,913)*	16,093 *(8,311)*	52,714 *(27,225)*	33,924 *(17,520)*	86,638 *(44,745)*	4,885 *(2,523)*	1,693 *(874)*	1,712 *(884)*	93,235 *(48,152)*
				Total					
1998 . . .	157,884	58,443	216,327	50,921	267,248	17,719	2,886	9,442	294,409
1999 . . .	162,035 *(83,684)*	81,889 *(42,293)*	243,924 *(125,977)*	63,720 *(32,908)*	307,644 *(158,885)*	25,770 *(13,309)*	7,733 *(3,994)*	28,252 *(14,590)*	361,666 *(186,784)*
2000 (3)	164,012 *(84,705)*	107,700 *(55,623)*	271,712 *(140,328)*	80,383 *(41,514)*	352,095 *(181,842)*	28,156 *(14,541)*	9,773 *(5,047)*	48,280 *(24,934)*	428,531 *(221,318)*

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

The non-INPS pension institutions – which cater for certain categories of self-employed workers, professionals and public and private-sector employees – are not required to be registered with the Pension Fund Supervisory Commission, but they are an important form of collective asset management for pension purposes.

Real estate and liquid assets continue to be large items in the pension institutions’ portfolios, accounting for 47.1 and 30.5 per cent of their total assets. The funds that predate the 1993 reform, on the other hand, hold a substantial proportion of their assets in the form of bonds and shares (respectively 47.6 and 19.6 per cent of the total).

According to data from the Pension Fund Supervisory Commission, 23 closed funds and 85 open funds were authorized to operate at 31 March 2001, compared with 6 and 79 respectively at the end of 1999. In the case of closed funds the subscription rate (the number of actual members as a percentage of potential subscribers) rose from 26.5 per cent in 1999 to 32.5 per cent. The bulk of contributions to open funds (83.8 per cent) was acquired through bank branches and 9.6 per cent was collected via insurance companies.

Table 45

PENSION FUNDS: MAIN ASSETS (1)

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

	1999				2000 (2)			
	Non-INPS pension institutions	Pension funds		Total	Non-INPS pension institutions	Pension funds		Total
		Formed before the reform of 1993	Formed after the reform of 1993			Formed before the reform of 1993	Formed after the reform of 1993	
Cash and deposits	23,458	1,079	94	24,631	25,814	1,593	210	27,618
	(12,115)	*(557)*	*(49)*	*(12,721)*	*(13,332)*	*(823)*	*(109)*	*(14,263)*
Bonds	11,532	27,699	897	40,128	11,743	28,573	2,007	42,324
	(5,956)	*(14,305)*	*(463)*	*(20,724)*	*(6,065)*	*(14,757)*	*(1,037)*	*(21,858)*
of which: government securities (3)	9,125	12,013	. . . .	21,138	9,312	11,469	. . . .	20,781
	(4,713)	*(6,204)*	*(. . . .)*	*(10,917)*	*(4,809)*	*(5,923)*	*(. . . .)*	*(10,733)*
Shares	988	10,779	347	12,113	1,088	11,747	776	13,610
	(510)	*(5,567)*	*(179)*	*(6,256)*	*(562)*	*(6,067)*	*(401)*	*(7,029)*
Loans and other financial assets .	8,216	9,291	169	17,676	6,195	9,848	379	16,423
	(4,243)	*(4,798)*	*(88)*	*(9,129)*	*(3,199)*	*(5,086)*	*(196)*	*(8,482)*
Real estate	39,717	6,973	–	46,690	39,868	8,271	–	48,139
	(20,512)	*(3,601)*	*(–)*	*(24,114)*	*(20,590)*	*(4,272)*	*(–)*	*(24,862)*
Total	**83,911**	**55,821**	**1,507**	**141,239**	**84,708**	**60,033**	**3,373**	**148,114**
	(43,336)	***(28,829)***	***(778)***	***(72,944)***	***(43,748)***	***(31,004)***	***(1,742)***	***(76,495)***

(1) The composition is partly estimated. – (2) Provisional. – (3) For funds formed before the reform of 1993, the data relate only to intermediaries supervised by the Bank of Italy.

The portfolio preferences of the two types of pension fund established after the 1993 reform differ widely. While almost three quarters of the net assets of closed funds consist of bonds, open pension funds hold broadly equal proportions of bonds, shares and investment fund units and a high percentage of liquid assets.

THE SECURITIES MARKETS

In 2000 share prices in Italy were affected by cyclical developments in Europe and expectations about the course of the US economy. Share prices fluctuated very widely, especially those of technology stocks, which rose to extremely high levels in relation to economic fundamentals and corporate profitability in the first few months of the year. Long-term bond prices were more stable, despite the fact that most issuers had to pay higher interest rates. Private-sector companies raised substantial funds in the financial markets by means of both Eurobond and share issues.

Yields on long-term Italian government securities were stable in the first ten months of the year, then fell by about 0.5 percentage points in November and December as signs of an economic slowdown appeared. The decrease was partly reflected in real interest rates, which remained at a historically low level in line with that prevailing throughout the euro area. There was a slight widening of yield differentials in relation to German Bunds, which have become the benchmark for long-term securities denominated in euros.

Net issues of Italian government securities were larger than in 1999. As in previous years, they were concentrated in the medium and long-term segments; the duration of listed securities lengthened further to more than three years at the end of 2000. MTS, the Italian screen-based market, ensured highly liquid trading in government securities throughout the year and was not significantly affected by competition from alternative electronic trading systems. Trading in derivatives on 10-year government bonds of the euro area, predominantly in contracts on German Bunds, grew considerably.

Net issues of medium and long-term bonds by Italian private-sector issuers were in line with the high figure of the previous year; the majority of the new issues were made on the international market. In the second half of the year the deterioration in the outlook for world growth and the high level of debt accumulated by some branches of industry adversely affected the credit rating of issuers, giving rise to an increase in the cost of bond financing.

In contrast to the other major European exchanges, share prices on the Italian stock exchange rose slightly in the course of the year, reflecting both the good performance of banking and insurance shares and a smaller decline in the prices of telecommunications stocks than in the other countries. In

March 2001 the capitalization of the Italian stock market was equal to around 60 per cent of GDP, which was still relatively low by European standards. During the year 45 companies were admitted to stock-exchange listing.

Government securities

Supply and demand. – In 2000 net issues of government securities in Italy rose to €14.7 billion (28.4 trillion lire), compared with €5.5 billion in 1999 (Table 46). The increase reflected mainly the growth in the general government borrowing requirement.

In the euro area, by contrast, net issues of government securities continued to decline and were about one quarter lower than in 1999. There was a preponderance of issues at medium and long term, with Italian securities comprising around 25 per cent of the total for these maturities, compared with 23 per cent for German and French securities. Gross issues contracted by around one tenth; the proportion issued at medium and long term fell by just over one percentage point to 54.3 per cent.

Net issues of Italian government securities declined substantially in relation to the euro-area total during the nineties, reflecting the improvement in the public finances in Italy. The ratio, which had still been above 51 per cent in 1991, amounted to just over 8 per cent in 2000 (Figure 31). However, Italy's share of the area's gross issues remains high (38.1 per cent, compared with 50.6 per cent in 1991) in view of the substantial volume of maturing securities.

The Italian Treasury made substantial net issues of BTPs (€47.6 billion) as part of its continuing strategy of lengthening the duration of the debt, which rose during the year from 2 years and 11 months to 3 years and 1 month (Figure 32).

Banks and investment funds reduced their holdings of government securities. Firms and households, on the other hand, made net purchases of BTPs, CCTs and CTZs. Government securities held by non-residents rose from 38.6 to 41.2 per cent of the volume in circulation as a result of large purchases of BTPs and Republic of Italy issues.

Interest rates. – The rise in medium and long-term rates came to an end last year. Yields on government securities of the euro area remained relatively stable until October (Figure 33) and declined by about half a percentage point in the last two months of the year as signs of a deterioration in the world economy began to appear and the risk of inflation in the euro area receded; they were more or less unchanged throughout the first quarter of this year. In 2000 the volatility implied by the prices of options on 10-year Bund futures gradually diminished (Figure 34).

Table 46

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS (1)

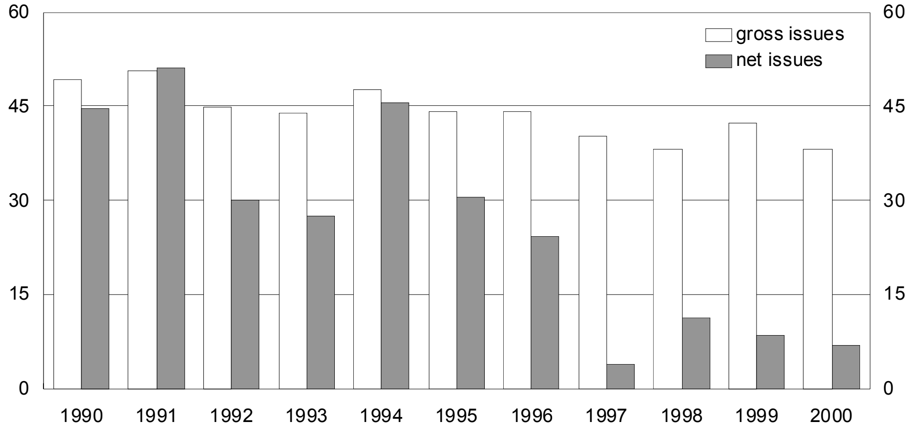
(billions of lire and, in brackets, millions of euros)

	Gross issues			Net issues			Stocks (2)		
	1999	2000	Jan.-Mar. 2001 (3)	1999	2000	Jan.-Mar. 2001 (3)	1999	2000	Jan.-Mar. 2001 (3)
Public sector . . .	**807,785**	**674,411**	**234,662**	**10,688**	**28,394**	**66,958**	**2,130,948**	**2,168,142**	**2,235,710**
	(417,186)	***(348,304)***	***(121,193)***	***(5,520)***	***(14,665)***	***(34,581)***	***(1,100,543)***	***(1,119,752)***	***(1,154,648)***
BOTs	373,493	318,807	100,237	−35,107	−33,982	24,833	231,661	197,680	222,512
	(192,893)	*(164,650)*	*(51,768)*	*(−18,131)*	*(−17,550)*	*(12,825)*	*(119,643)*	*(102,093)*	*(114,918)*
CTZs	95,069	64,511	22,056	−17,097	−43,492	−13,021	159,740	120,852	109,575
	(49,099)	*(33,317)*	*(11,391)*	*(−8,830)*	*(−22,462)*	*(−6,725)*	*(82,499)*	*(62,415)*	*(56,591)*
CCTs (4)	39,823	38,474	13,797	−52,723	−15,219	2,296	472,376	456,936	459,157
	(20,567)	*(19,870)*	*(7,126)*	*(−27,229)*	*(−7,860)*	*(1,186)*	*(243,962)*	*(235,988)*	*(237,135)*
BTPs	275,239	206,672	78,266	146,858	92,217	41,816	1,056,384	1,150,917	1,191,083
	(142,149)	*(106,737)*	*(40,421)*	*(75,846)*	*(47,626)*	*(21,596)*	*(545,577)*	*(594,399)*	*(615,143)*
CTEs	. .	. .	. .	−18,879	−3,377	−968	6,281	2,904	1,936
	(. .)	*(. .)*	*(. .)*	*(−9,750)*	*(−1,744)*	*(−500)*	*(3,244)*	*(1,500)*	*(1,000)*
Republic of Italy issues	19,581	37,978	19,820	−7,600	26,728	12,328	107,721	136,695	149,612
	(10,113)	*(19,614)*	*(10,236)*	*(−3,925)*	*(13,804)*	*(6,367)*	*(55,633)*	*(70,597)*	*(77,268)*
Other	4,579	7,970	487	−4,765	5,519	−325	96,784	102,158	101,834
	(2,365)	*(4,116)*	*(252)*	*(−2,461)*	*(2,851)*	*(−168)*	*(49,985)*	*(52,760)*	*(52,593)*
Banks	**157,707**	**164,707**	**48,536**	**19,827**	**32,285**	**13,526**	**456,518**	**489,464**	**503,178**
	(81,449)	***(85,064)***	***(25,067)***	***(10,240)***	***(16,674)***	***(6,986)***	***(235,772)***	***(252,787)***	***(259,870)***
Firms	**23,543**	**37,633**	**9,452**	**13,368**	**26,054**	**4,957**	**47,061**	**69,193**	**77,079**
	(12,159)	***(19,436)***	***(4,882)***	***(6,904)***	***(13,456)***	***(2,560)***	***(24,305)***	***(35,735)***	***(39,808)***
Total	**989,035**	**876,751**	**292,652**	**43,882**	**86,733**	**85,442**	**2,634,528**	**2,726,800**	**2,815,968**
	(510,794)	***(452,804)***	***(151,142)***	***(22,663)***	***(44,794)***	***(44,127)***	***(1,360,620)***	***(1,408,275)***	***(1,454,326)***
Memorandum item:									
Redemptions of government securities (5) . .	**36,002**	**21,950**	**. .**	-	-	-	-	-	-
	(18,593)	***(11,336)***	***(. .)***						
	Percentage composition (6)								
Public sector . . .	**81.7**	**76.9**	**80.2**	**22.4**	**32.7**	**78.4**	**80.9**	**79.5**	**79.4**
BOT	46.2	47.3	42.7	−328.5	−119.7	37.1	10.9	9.1	10.0
CTZ	11.8	9.6	9.4	−160.0	−153.2	−19.4	7.5	5.6	4.9
CCT (4)	4.9	5.7	5.9	−493.3	−53.6	3.4	22.2	21.1	20.5
BTP	34.1	30.6	33.4	1,374.0	324.8	62.5	49.6	53.1	53.3
CTE	. .	. .	. .	−176.6	−11.9	−1.4	0.3	0.1	0.1
Republic of Italy issues	2.4	5.6	8.4	−71.1	94.1	18.4	5.1	6.3	6.7
Other	0.6	1.2	0.2	−44.6	19.4	−1.0	4.5	4.7	4.6
Banks	**15.9**	**18.8**	**16.6**	**45.2**	**37.2**	**15.8**	**17.3**	**18.0**	**17.9**
Firms	**2.4**	**4.3**	**3.2**	**30.5**	**30.0**	**5.8**	**1.8**	**2.5**	**2.7**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
As a percentage of GDP	*46.1*	*38.8*	*12.4*	*2.8*	*3.8*	*3.6*	*122.8*	*120.8*	*118.9*

(1) Rounding may cause discrepancies. – (2) End-of-period face value. – (3) Provisional. – (4) Comprises 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.

Figure 31

GROSS AND NET ISSUES OF ITALIAN GOVERNMENT SECURITIES AS A PERCENTAGE OF EURO-AREA ISSUES (1)



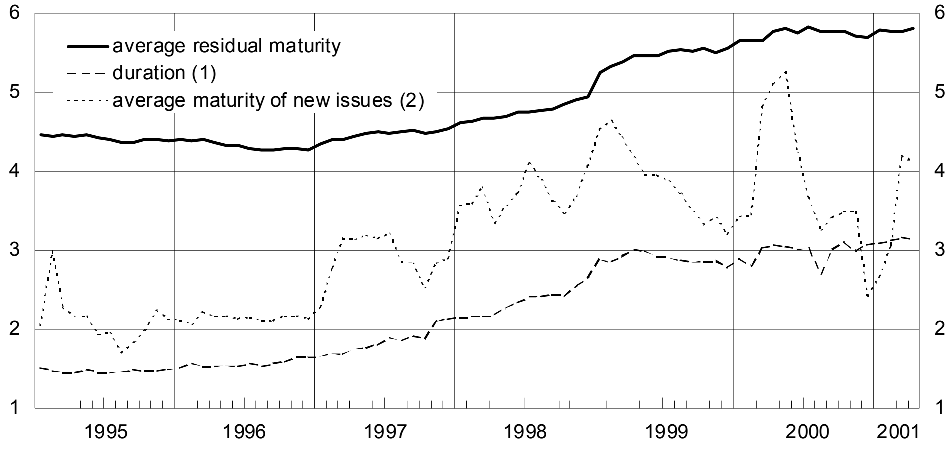
Sources: ECB and Bank of Italy.
(1) The euro-area data exclude those for the Netherlands and Portugal.

The fall in real rates was slightly less than that in nominal yields. Those on French 10-year government securities indexed to consumer prices fluctuated around the 3.7 per cent mark in the first ten months of 2000 and gradually declined by 0.3 points in the last two months of the year.

The slope of the euro yield curve steadily flattened, reflecting both the slight fall in long-term rates and the rise at the short end.

Figure 32

AVERAGE MATURITY AND DURATION OF GOVERNMENT SECURITIES
(years)

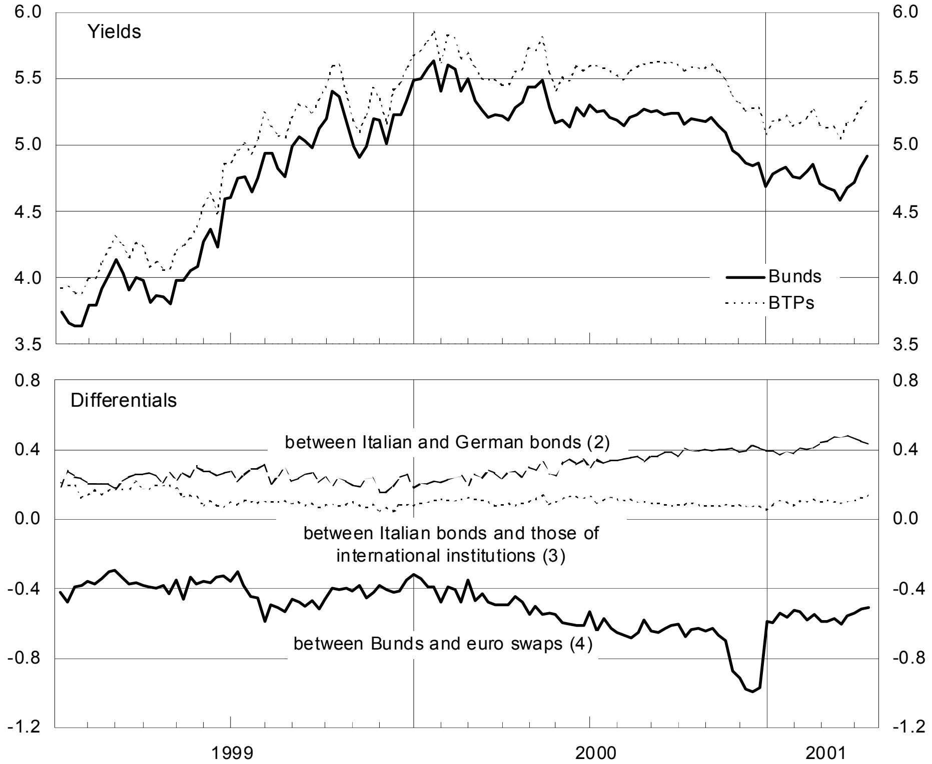


(1) Of securities listed on MTS. – (2) Moving average for the three months ending in the month indicated.

Figure 33

GROSS YIELDS ON 10-YEAR ITALIAN AND GERMAN SECURITIES AND MAIN INTEREST RATE DIFFERENTIALS (1)

(weekly data; percentages and percentage points)



(1) Source: BIS. Yields on benchmark 10-year securities. – (2) Differential between 10-year BTPs and Bunds. – (3) Simple average of yield differentials between Republic of Italy issues and IBRD bonds with similar characteristics. – (4) Differential between 10-year Bunds and 10-year euro swaps.

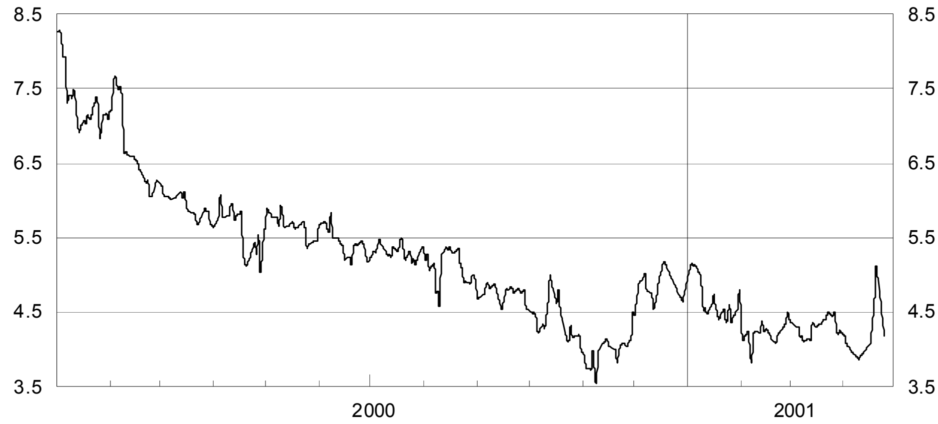
The yield differential between 10-year BTPs and Bunds was broadly stable in the first quarter of the year and gradually increased from March onwards, so that by mid-December it measured more than 0.4 percentage points; in mid-May 2001 it stood at 0.38 points. The widening of the differential, which also affected 30-year bonds and 3 and 5-year maturities, coincided with the start of a period of turbulence in world equity markets; it became more pronounced in May, when the German Government announced the tender for the award of UMTS licences, the proceeds from which were expected to lead to a large reduction in issues of German government securities. The decline in Bund rates during the year was due in part to the fact that since early 1999 Bunds have been the underlying instrument for almost all long-term interest-rate derivative contracts in the euro area.

For the other major euro-area countries the increase in the yield differential in relation to 10-year Bunds was smaller, averaging 7 basis points between April and December. At the end of the year the differential was 0.18 percentage points for France, 0.12 points for the Netherlands and 0.31 points for Spain. The widening of the Italian differential with the other countries of the area was due partly to special factors that worked in favour of foreign government securities. For Germany and France, the most important of these was the reduction in the supply of securities for terms of more than 12 months. In France yields on government securities were held down by the commitment made by a number of large French intermediaries at the beginning of last year to support futures trading in French Treasury bonds. Belgian, Dutch and Spanish government securities benefited from the launch of trading on electronic systems (national MTS in Belgium and the Netherlands, EuroMTS in Spain), which increased liquidity.

Figure 34

EXPECTED VOLATILITY OF 10-YEAR BUNDS (1)

(daily data; percentages on an annual basis)



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

Econometric analyses for the main bond markets in the area (Germany, France and Italy), the United Kingdom and the United States confirm that the fluctuations observed in recent years in differentials between countries and between government securities and long-term swap rates are attributable essentially to variations in market liquidity and not to changes in economic fundamentals. The analysis suggests that the United States and the United Kingdom have more liquid bond markets; among the main euro-area markets, it is the Italian market that has long borne the greatest similarity to the US and British markets in terms of informational efficiency. Italy’s advantage appears to stem from the fact that for more than a decade it has had a broad and efficient electronic market in government securities (MTS), something that France and Germany lack.

The secondary market. – Average daily turnover in Italian government securities on the screen-based market (MTS) declined from €9.5 billion in

1999 to €7.9 billion last year, owing partly to the reduction in gross issues of BTPs, which normally increase secondary market trading, and to the fall in volatility. Repo trading on MTS increased further.

A number of competing electronic platforms for wholesale trading in government securities have been launched in Europe in the last two years. In order to boost turnover, they have often developed services such as repo trading and screen-based auctions in government securities alongside spot trading and have sometimes admitted securities of government agencies or non-state mortgage-backed securities to listing.

Electronic systems for trading in government securities are common in wholesale markets but less so for transactions between intermediaries and final investors. A recent report by the BIS and the central banks of the Group of Ten countries highlights some of the implications of the spread of electronic trading for the structure and stability of markets. By comparison with over-the-counter telephone trading, electronic systems reduce transaction costs and increase the liquidity and transparency of trading. Many market participants foresee consolidation in areas where there is overlap between several electronic systems in view of the high cost of operating IT infrastructure and the increase in network economies and economies of scale. As regards market stability, the available evidence indicates that electronic trading systems do not lead to excessive fragmentation of trading, a reduction in liquidity in times of tension or an increase in price volatility. On the contrary, in several cases they appear to have increased the market's capacity to provide liquidity in periods of high uncertainty.

In 1999 and 2000 the Italian MTS easily withstood intense competition from other electronic platforms following the launch of the third stage of EMU. The bid-ask spread on BTPs was almost always below 5 basis points, and even for the least traded securities it remained at one of the lowest levels observed since the creation of the market. The daily turnover in listed BTPs (the volume of trading as a percentage of the stock of the security) was stable at around 1 per cent, with a slight increase in the case of benchmark 10-year bonds. One reason for the latter was the substantial increase in the number of foreign traders entering the market without having offices in Italy from 11 to 27 over the two years.

Markets in interest-rate derivatives. – Trading in futures on 10-year government securities in the euro area was concentrated on German Bunds. Average daily turnover in this contract represented about 80 per cent of total futures trading on long-term French, Italian and German government securities and rose to €62.2 billion, compared with €58.5 billion in the second half of 1999.

The private-sector bond market

Net issues of medium and long-term bonds by private-sector Italian companies amounted to €57.6 billion last year, in line with the 1999 figure (Table 47). The launch of the euro led to a rapid increase in Italian corporate issues in the international market, from €9.3 billion in 1998 to €46.8 billion in 1999 and €48.7 billion in 2000, and from 19.2 per cent of total Italian net issues in 1998 to 84.6 per cent last year; issues by companies from other euro-area countries had already been concentrated on the international market since 1998.

Table 47

NET ISSUES AND STOCKS OF MEDIUM AND LONG-TERM CORPORATE BONDS IN ITALY AND THE EURO AREA (1)

(at face value; millions of ecus for 1998, millions of euros thereafter)

	Net issues			Stocks			As a % of GDP
	1998	1999	2000	1998	1999	2000	2000
				Italy			
Banks	48,438	21,939	35,860	266,821	290,124	326,144	30
Other financial companies	154	8,973	14,108	5,004	14,212	28,313	3
Non-financial companies (2)	–156	24,075	7,614	28,695	53,006	60,187	5
Total	**48,436**	**54,987**	**57,582**	**300,520**	**357,342**	**414,644**	**38**
of which: international market (3)	*9,290*	*46,845*	*48,735*	*40,333*	*89,903*	*137,650*	*13*
Memorandum item: public sector	*32,990*	*30,789*	*35,429*	*939,403*	*977,358*	*1,013,549*	*92*
				Euro area			
Banks	148,402	227,296	250,388	2,175,799	2,435,586	2,703,527	43
Other financial companies	33,755	92,014	93,358	206,793	312,839	405,303	6
Non-financial companies (2)	3,345	42,295	86,408	233,508	273,154	358,231	6
Total	**185,502**	**361,605**	**430,154**	**2,616,100**	**3,021,579**	**3,467,061**	**55**
of which: international market (3)	*167,419*	*391,328*	*485,732*	*894,245*	*1,365,636*	*1,847,594*	*30*
Memorandum item: public sector	*172,849*	*166,745*	*110,463*	*2,984,227*	*3,174,350*	*3,285,721*	*53*

Sources: Based on ECB, BIS and Bank of Italy data.

(1) Partly estimated. The nationality and sector are those of the parent company and not of the issuer. The distribution according to sector is affected by differences in the classification systems used by the ECB and the BIS. – (2) For Italy includes issues by the state railway company. – (3) The international market consists of bond issues sold partly to residents of countries other than that of the issuer.

In the area as a whole, net issues of bonds by private-sector companies exceeded the already high level reached in 1999, rising from €361.6 to 430.2 billion.

The bond markets in the United States and the euro area are of similar size in relation to GDP but differ with regard to the proportions of bank and non-bank issues. At the end of last year non-bank bonds were equal to 12 per cent of the area's GDP, compared with 50 per cent in the United States, while bonds issued by banks represented 43 per cent of GDP in the European countries, against 2 per cent in the United States.

Both the number of operations on the international market and their average size remained high. Several large issues contributed to the financing of mergers and acquisitions, as in the previous year, and others financed heavy investment in the telecommunications sector. The number of companies issuing bonds on the international market for the first time fell from 149 in 1999 to 104. New issues were heavily concentrated in a small number of sectors, with banks, telecommunications companies and car manufacturers to the fore. Among rated issues, the proportion with the highest rating (AAA) increased slightly and that of securities with an A or BBB rating also rose, mainly owing to the downgrading of numerous issuers.

Euro-area intermediaries maintained their share of the international issuance market, an area of business that is highly concentrated and traditionally dominated by British and US investment banks. Euro-area intermediaries acted as bookrunners for 28.3 per cent of issues by value; Italian banks' share remained small, at just over 1 per cent.

In their capacity as bookrunners, Italian banks placed 27.3 per cent of the Eurobonds issued by Italian non-financial enterprises; the corresponding figures for German and French banks were higher (32 and 43.6 per cent respectively) and that for British banks substantially lower (12 per cent). Moreover, almost half of the Eurobonds issued by Italian companies were marketed by foreign investment banks, similar to the proportion for the United Kingdom (46 per cent) and higher than the figures for France and Germany (24.7 and 34.1 per cent respectively).

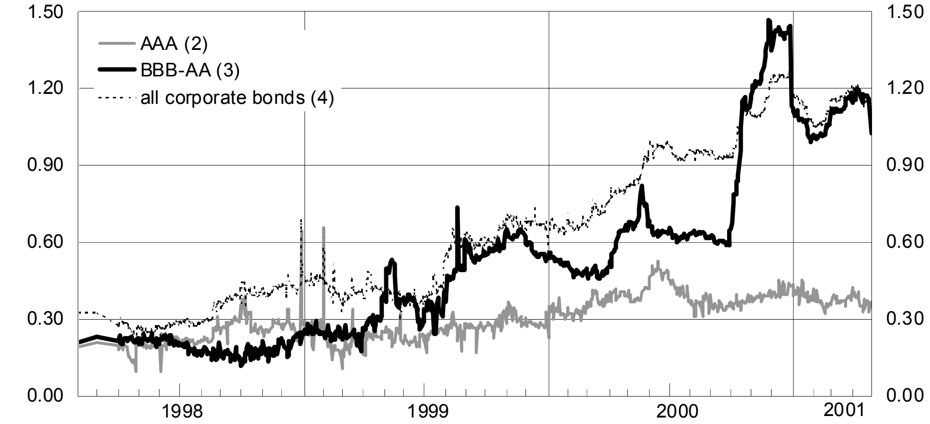
The experience of countries where the law has recently permitted commercial banks to participate in the placement of bonds, such as the United States and Japan, shows that they are quickly able to win substantial market share from other intermediaries, increase competition in the industry and improve issue conditions, especially for smaller companies and those with a low credit rating. Econometric analysis of the Eurobond market indicates that, other things being equal, the presence of a commercial bank among the institutions appointed to place an issue enables the company to obtain capital more cheaply than if the issue were only in the hands of an investment bank; the reduction is largest where the bank and the issuer are of the same nationality.

The yield differential between Eurobonds of the non-financial sector and government securities widened by half a percentage point to 1.2 points in December (Figure 35); the increase mainly affected lower-rated bonds and those of telecommunications companies, for which the differential increased from 0.86 to 1.61 points.

Figure 35

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

(daily data; percentage points)



Sources: Merrill Lynch indices and Bank of Italy calculations.

(1) Yields on fixed-rate euro-denominated Eurobonds issued by non-financial enterprises with a residual term to maturity of not less than one year. Includes bonds of issuers in countries whose long-term foreign currency debt is of investment grade (rating of not less than BBB3 or BBB-). The yield curve for government securities is estimated by Merrill Lynch on the basis of French and German securities. Differentials are adjusted for the value of redemption options (option-adjusted spreads). End-of-month data up to March 1998, daily data thereafter. – (2) Yield differential between AAA-rated bonds and government securities. – (3) Yield differential between BBB-rated and AA-rated bonds. – (4) Yield differential between all corporate bonds and government securities.

The equity market

Supply and demand. – In March 2001 the capitalization of the Italian stock market amounted to €722 billion (1,397.2 trillion lire), not dissimilar to the level at the end of 1999; at the end of 2000 it had stood at €812 billion (Table 48). Market capitalization was equivalent to 62 per cent of GDP, comparable to the level in Germany but still far lower than in Spain and France (89 and 103 per cent respectively).

Forty-five companies were admitted to listing last year, against 27 in 1999; 31 of these joined the Nuovo Mercato, compared with 6 the previous year. The initial capitalization of newly listed companies amounted to €30.2 billion; by contrast with the past, privatized companies contributed only a very small proportion (€2.4 billion).

In the three largest euro-area countries 314 companies were listed for the first time, compared with 289 in 1999. Most of the new companies were admitted in the early part of the year when share prices were rising rapidly. The value of the new listings was about €48 billion, equal to 1.3 per cent of the market capitalization at the beginning of the year, in line with the 1999 figure.

Table 48

MAIN INDICATORS OF THE ITALIAN STOCK EXCHANGE (1)

(billions of lire and, in brackets, millions of euros unless otherwise indicated)

	1995	1996	1997	1998	1999	2000
Number of listed Italian companies	217	213	209	219	247	276
of which: on the Nuovo Mercato	–	–	–	–	6	39
Total market capitalization (2)	325,568	386,156	600,042	931,472	1,396,299 *(721,128)*	1,573,109 *(812,443)*
of which: on the Nuovo Mercato	–	–	–	–	13,517 *(6,981)*	42,919 *(22,166)*
as a percentage of GDP	*18,2*	*20,3*	*30,2*	*44,8*	*65,1*	*69,7*
percentage breakdown:						
industry	*33*	*34*	*31*	*24*	*20*	*21*
insurance	*20*	*15*	*15*	*16*	*11*	*14*
banking	*17*	*15*	*19*	*27*	*23*	*25*
finance	*5*	*4*	*4*	*3*	*3*	*3*
services	*25*	*32*	*31*	*30*	*43*	*37*
Total	**100**	**100**	**100**	**100**	**100**	**100**
Gross share issues (3)	8,515	5,506	7,933	13,689	43,649 *(22,543)*	17,714 *(9,148)*
of which: on the Nuovo Mercato	–	–	–	–	411 *(212)*	8,523 *(4,402)*
Market capitalization of newly listed companies (4)	64,411	14,886	12,731	42,060	360,927 *(186,403)*	58,380 *(30,151)*
of which: foreign companies	–	–	–	17,268	232,660 *(120,159)*	. . . .
of which: on the Nuovo Mercato					2,604 *(1,345)*	42,807 *(22,108)*
Dividends distributed	6,180	9,786	12,112	13,601	19,254 *(9,944)*	31,005 *(16,013)*
Earnings/price ratio (5)	7.0	6.9	4.6	3.9	3.4	4.5
Dividend/price ratio (5)	1.8	2.1	1.7	1.6	1.5	2.1
Turnover:						
stock exchange	*140,808*	*157,088*	*339,564*	*822,630*	980,758 *(506,519)*	*1,680,638* *(867,977)*
futures on MIB30 index	*168,692*	*400,926*	*925,005*	*1,893,190*	*1,753,953* *(905,841)*	*1,906,049* *(984,392)*
options on MIB30 index	*1,710*	*71,359*	*242,225*	*517,462*	*511,526* *(264,181)*	*625,736* *(323,166)*
Annual change in prices (6)	−6.9	13.1	58.2	41.0	22.3	5.4
Turnover ratio (7)	45	44	69	107	84	110

(1) Excludes the Mercato Ristretto. – (2) Italian companies; at end of period. – (3) Italian companies. The value of share issues is obtained by multiplying the number of shares issued by the issue price. – (4) Sum of the capitalization values of each company on the issue date. – (5) Source: Thomson Financial Datastream. End-of-period data. Percentages. – (6) Percentage change in the MIB index. – (7) Italian companies. Percentage ratio of turnover to average market capitalization.

In the euro area 44.3 per cent of the value of new listings related to companies in the telecommunications and other high-technology sectors, which mainly sought to join national markets for high-growth companies.

In Germany the Neuer Markt attracted foreign companies for the second consecutive year (17, compared with 19 in 1999), of which four were from Austria, four from the Netherlands, three from Israel and two from the United States. The shares of one Swiss company that was already listed in Zurich were admitted to the Nuovo Mercato.

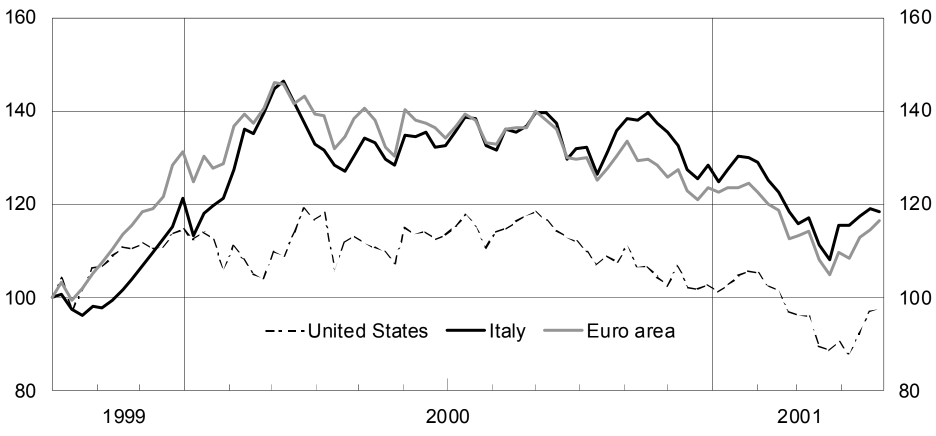
Initial listings on the Nuovo Mercato differ from those on the main board of the Italian Stock Exchange. Newly-issued shares account for a larger proportion of total shares (87.2 per cent, compared with 44.7 per cent on the main market), the percentage of shares sold by the controlling group is lower (25.4 per cent, against 31.1 per cent) and the proportion of issues reserved for institutional investors is higher (66.6 per cent, compared with 51.8 per cent). According to a survey conducted by the branches of the Bank of Italy among a number of companies that listed on the Nuovo Mercato in 1999 and 2000, the main reason for the decision to seek listing was to finance large investment projects or corporate acquisitions. Other important reasons were to dispose of shareholdings in the newly listed companies, especially where shareholders included closed-end investment funds, and to offer managers incentives linked to share price performance; by contrast, tax incentives were of only minor significance. All the companies interviewed attached great importance to the improved reputation the company would enjoy as a result of admittance to the stock exchange.

Share prices and trading. – The rise in share prices that had lasted throughout the second half of the nineties came to an end during 2000 both in Europe and in the United States. In the course of the year share price indices fell by 5.9 per cent in the euro area as a whole, by 0.5 per cent in France, 6.2 per cent in Germany and 12.7 per cent in Spain, while they rose

Figure 36

SHARE PRICES (1)

(end-of-week data; indices, 1 October 1999=100)



Source: Bloomberg.
(1) indices: MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

by 5.4 per cent in Italy (Figure 36). The markets for high-growth companies fell sharply everywhere; the Nuovo Mercato index declined by 28.3 per cent and the Neuer Markt index by 40 per cent.

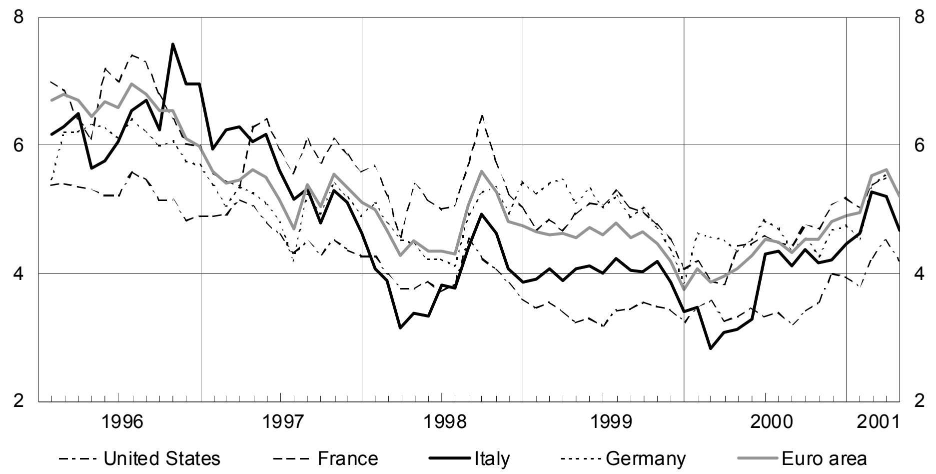
The Italian stock market was the only major world market to record a rise in prices in the course of 2000. This better performance was ascribable largely to the buoyancy of banking and insurance shares due to positive investor assessment of the growth prospects of the large banking and insurance groups. In the latter part of the year, in particular, it also partly reflected a smaller fall in telecommunications shares than in the other countries.

In early 2000 earnings/price ratios on the main stock markets of the area fell to extremely low levels by historical standards; they rose again in the second half of the year, reflecting both the increase in profits by comparison with 1999 and the fall in share prices (Figure 37). Higher earnings/price ratios are consistent with a downward revision of expectations for profits growth and a more cautious assessment by investors of the riskiness of equity investment.

Figure 37

CURRENT EARNINGS/PRICE RATIOS IN SELECTED INDUSTRIAL COUNTRIES

(percentages)



Source: Thomson Financial Datastream.

In April 2001 financial analysts still expected extremely rapid profits growth. More than a year after stock market indices in the United States and Europe had peaked, the financial analysts polled by I/B/E/S still expected the nominal profits of companies included in the Nasdaq 100 index to show long-term growth of almost 30 per cent, broadly the same as in February 2000. The expected average growth for the 500 companies in the Standard & Poor’s index was also unchanged at 14 per cent. These findings are in line with past evidence from econometric studies, which show that indicators of expectations of long-term profits growth, obtained by aggregating forecasts from the main securities analysts, often tend to overestimate actual performance.

Turnover on the Italian equity market increased considerably in 2000, in line with developments in the main international exchanges.

The market in equity-based derivatives. – In 2000 the number of futures contracts on the MIB30 index was 16.4 per cent lower than in the previous year, although the total value of trades rose by 8.7 per cent to about €984 billion. Turnover in options on the MIB30 index increased substantially, especially during the periods of greatest volatility in share prices; in value terms it increased by 22.3 per cent to €323 billion. The number of individual stock options more than tripled and their notional value rose to just under €60 billion. The covered-warrant market reached a significant size by international standards.

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 2000. 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).

Last year there was intense cooperation among supervisory authorities in international fora, particularly as regards the activity of the Basel Committee on banks' capital adequacy and work on the consolidation of the financial industry.

The proposed New Capital Accord for banks, which the Basel Committee published for consultation in January 2001, is intended to create a closer link between capital and risks. It is based on a more articulated system of capital requirements, rigorous control of capital adequacy in relation to banks' risks and strategies, and more extensive reliance on market discipline. Capital requirements are foreseen for operational risks as well as credit and market risks. Banks can choose among several methods of calculating the requirements; applying more precise methods makes it possible to limit the capital needed to cover a given volume of assets.

Studies conducted within the framework of the European Union and the Group of Ten show that in the leading industrial countries integration in the financial sector has mainly involved businesses in the same market sector and the same country. These studies point out the advantages associated with sectoral and geographical diversification but also highlight the possible amplification of the effects of a business failure on systemic stability. Stepped-up coordination between supervisory authorities at the international level is necessary in the case of cross-border concentrations. The G-10 report emphasizes that the European Union's current structure of rules, consisting of directives and bilateral and multilateral cooperation agreements between supervisory authorities, provides a complete framework for the management of banking crises.

The aim of the changes made to the statutory and regulatory framework in Italy has been to increase the transparency of banking services with a view to improving bank-customer relations, govern innovative financial transactions and simplify the rules in force.

The rules on cross-border payment orders are designed to protect customers with regard to the time required and the procedure used to execute orders and the responsibility of intermediaries. Those on transparency of securities issues by banks were amended to increase public disclosure of the risks associated with structured instruments. The measures concerning mortgage loans clarified that usurious rates are rates that exceed the legal threshold at the time a loan contract is signed, thereby conferring on fixed rate loans the certainty that is essential to the functioning of that financial segment.

Prudential rules for banks' loan securitization transactions were issued, together with provisions to ensure transparency and correctness in the operations of special purpose vehicles and servicers. Measures were also issued governing the prudential and accounting treatment of credit derivatives. New provisions on collective asset management were designed to streamline the procedures and reduce the time required for authorizations.

In the light of the increasing integration between the banking and insurance sectors, specific arrangements for cooperation were agreed with ISVAP, the supervisory authority for the insurance industry. The agreements include periodic meetings to be held under specified procedures.

The reorganization of the financial system continued. The number of banks declined from 876 to 841; 18 banks began operating and 2 were put into liquidation. Fifty-eight banking concentrations were carried out involving the transfer of market shares equal to 6.4 per cent of total assets. The concentration of the banking system increased: the 5 largest groups accounted for 54 per cent of total assets at the end of 2000, 4 percentage points more than a year earlier. Italian banks expanded their presence abroad; in some countries of Central and Eastern Europe they have come to hold market shares on the order of 20 per cent.

Banks increased the supply of asset management services above all by expanding their networks of financial salesmen and the Internet channel. Some 75 per cent of banks and 54 per cent of other financial intermediaries have websites; 58 per cent of banks and 7 per cent of other intermediaries allow customers to carry out transactions via the Internet.

Banks' ramified distribution networks enabled them to step up the sale of insurance products. Their share of the premium income generated by new life insurance policies came to around 70 per cent.

Following regulatory changes, the first companies specialized in managing hedge funds and funds reserved to qualified investors were formed. In addition, more than 39 funds of funds were set up, giving subscribers access to a more diversified portfolio with a small investment. There was a large increase in the number of foreign investment funds and SICAVs marketed in Italy; most of them were linked to Italian intermediaries, which channeled substantial flows of savings to asset management companies established in European countries offering more favourable tax treatment of earnings.

Among financial companies, the number of credit intermediaries fell as a consequence of the reorganization of groups. Intermediaries engaged in merchant banking and securitization vehicles both rose in number.

The growth in economic activity fueled the demand for credit. Massive investments in the telecommunications sector were reflected in an increase in lending to large companies.

Continuing the trend of recent years, the quality of banks' loan assets improved. At adjusted values, new bad debts were equal to 1 per cent of the previous year's outstanding lending, compared with 1.4 per cent in 1999. The stock of bad debts declined by 16.6 trillion lire, principally as a consequence of securitizations.

Banks' profits rose from 9.5 to 11.3 per cent of their capital and reserves; the largest banks achieved a return of 13.1 per cent on their equity.

The diversification of banks' sources of income continued. Non-interest income rose to 47 per cent of the total, compared with 25 per cent in the mid-nineties. Operating expenses increased by 4.7 per cent, mainly owing to investment in technological infrastructure. The ratio of staff costs to gross income fell to 31.5 per cent, one of the lowest figures in continental Europe.

The robust growth in assets was not matched by an adequate expansion in banks' capital base, notwithstanding the new share issues made during the year and the issuance of considerable volumes of subordinated liabilities. In December 2000 the consolidated solvency ratio was equal to 10.3 per cent, slightly less than twelve months earlier. The Italian banking system's capital base is also small by international standards: in 1999 the solvency ratio of the internationally active banks of the G-10 countries was 12 per cent.

The profits of asset management companies rose by 65 per cent, thanks in part to the reallocation of portfolios in favour of equity-based products, on which higher commissions are charged. Despite the appreciable rise in operating expenses, the return on equity of investment firms remained high at 24 per cent; that of financial companies stood at 8 per cent, in line with the previous year.

The improvement in intermediaries' profitability and financial position is confirmed by the findings of supervisory analyses and on-site inspections.

The share of total borrowed funds attributable to banks whose situation showed anomalies declined from 23 to 19 per cent. The share of assets under management attributable to asset management companies with organizational shortcomings fell to 17 per cent. Investment firms having an anomalous situation accounted for 3.6 per cent of total income. Fewer unsatisfactory evaluations were issued at the end of on-site inspections of banks between 1998 and 2000 than in the preceding three years.

Supervisory activity paid special attention to the organizational structures of the larger groups, principally checking on the measures adopted in matters of corporate governance and internal controls. Parent companies were asked to prepare programmes to ensure that their capitalization was stably above the minimum and commensurate with the strategies pursued. Guidelines for the outsourcing of individual phases of banks' operations were defined; for smaller banks, specific attention was devoted to examining the projects their trade organizations had prepared for the outsourcing of the audit function.

The role of the branches of the Bank of Italy was strengthened in carrying out controls on transparency and in supervising intermediaries of regional importance, in order to detect elements of potential weakness more quickly.

Intermediaries' use of innovative financial instruments required special attention to be paid to the risks that such instruments involve and to the organizational and contractual aspects of the transactions. For securitized loans, the degree of effective transfer of the risk was verified; for sales of structured securities, disclosure to customers was improved. With regard to asset management companies that offer hedge funds, matters concerning organizational arrangements and the type of investor were explored. Supervisory action on investment firms and financial companies mainly concerned organizational structures and internal controls.

THE REGULATORY FRAMEWORK

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

In January 2001 the Governors of the central banks of the Group of Ten countries approved the new bank capital adequacy rules proposed by the Basel Committee. The final text of the new Capital Accord should be published by the end of the year, after a second consultation with the banks, and take effect in 2004.

The new framework is based on three "pillars": minimum capital requirements, prudential control of capital adequacy and reinforcement of market discipline.

The capital requirements refer to credit and market risks, which were already provided for in the 1988 Accord and the amendment to it, and to operational risk. The new treatment of credit risk is defined in detail in the consultation document, whereas the treatment of market risk is unchanged. The definition of the methods for calculating operational risk is being studied.

For the second pillar, the new rules require banks to have internal methods of assessing capital adequacy that take account of the risks not covered by the minimum requirements and of the possible impact of adverse economic developments. It is up to the authorities to control each bank's capital adequacy assessments and strategies and its ability to comply with the minimum requirements. Furthermore, the authorities must prevent banks' capital from falling below the required minimum, take corrective measures where they consider a bank's risk assessment and its allocation of capital insufficient, and have the power to require ratios higher than the minimum.

The reinforcement of market discipline through greater disclosure is an essential part of the new Accord. The Basel Committee provides for banks' disclosure of quantitative data on risks and information on risk-management in greater detail, the more they use internal models for calculating the capital requirements.

At the end of January 2001 the European Union also began the second consultation on the reform of Community regulation of capital requirements. The consultation document stated that it was necessary to adapt the new Basel Accord to the European legislative framework, which encompasses all banks of whatever size as well as investment firms.

International cooperation and Community legislation

International cooperation. – The Financial Stability Forum continued to investigate the factors of vulnerability of the financial system and to promote initiatives aimed at limiting the risks. Particular importance was attributed to the generalized application of the standards established by the international organizations for prudential supervision, market regulation and the fight against money laundering. The Forum encouraged offshore financial centres to participate in the evaluation and technical assistance programmes prepared by the IMF and the World Bank and to publish their results in order to demonstrate the progress made in complying with the standards.

The Committee for Banking Supervision at the European Central Bank further explored the principal structural trends in European banking systems and refined the instruments of macro-prudential analysis.

EU legislation. – Directive 2001/24/EC on the reorganization and winding up of credit institutions was approved in April. The Directive applies the principles of universality and unity of bank crisis procedures in the countries of the European Union. Decisions on the opening of procedures are left to the home country of the distressed bank; the procedures are governed by the rules of that country and effective throughout the EU, except in expressly identified cases of derogation.

The negotiations in the EU Council on the proposed directive on the distance selling of consumer financial services have reached an advanced stage. The directive is intended to harmonize the member states' legislation on prior disclosure to consumers and the customer's right of withdrawal. One of the questions still to be settled concerns the law applicable to services when the provider operates in a different member state from that of the customer.

In April 2001 the European Commission adopted the proposed directive concerning the prudential supervision of financial conglomerates. The measure is intended to supplement the legislation already in force in the banking, securities and insurance sectors, concentrating on matters of capital adequacy and coordination among supervisory authorities.

In September 2000 the European Parliament and EU Council approved Directives 2000/28/EC and 2000/46/EC concerning electronic money institutions. The transposition of the directives into national legislation is to be completed by 27 April 2002.

Political agreement was reached in the Council on the two proposals for directives amending Directive 85/611/EEC regarding undertakings for collective investment in transferable securities (UCITS). The procedure for the adoption of these two closely interconnected directives at EU level should be completed by the end of this year.

In March 2001 the European Council meeting in Stockholm approved the final report of the Committee of Wise Men on the regulation of European financial markets. The committee, chaired by Alexandre Lamfalussy, had been established in July 2000 to study the development and integration of the securities markets and put forward relevant proposals. The report recommends the introduction of rules to speed up the regulatory process and make it more flexible.

Italian legislation

Primary legislation mainly concerned aspects of the bank-customer relationship and was directed towards enhancing the transparency of banking services and achieving a better balance between contractual positions.

Cross-border credit transfers. – Legislative Decree 253 of 28 July 2000, issued pursuant to the 1999 EU Legislation Implementation Law (Law 526 of 21 December 1999), transposed Directive 97/5/EC concerning cross-border credit transfers. The provisions apply to all cross-border credit transfers of up to €50,000 effected by banks and other authorized institutions. They are designed to protect customers with regard to disclosure, the time required and procedure used to execute orders, the responsibility of intermediaries and the settlement of disputes.

Mortgage lending rates. – Law 24 of 28 February 2001 ratified, with amendments, Decree Law 394 of 29 December 2000 establishing rules for authentic interpretation of Law 108 of 7 March 1996 concerning usury.

The new law clarifies that usurious interest rates are those that exceed the legal limit at the time they are promised or agreed, independently of the time of their payment. This interpretation gives certainty to the legal effects of fixed-rate loan contracts, a precondition for the proper functioning of that sector of finance.

In view of the exceptional, structural decline in interest rates in the two years 1998-99, Parliament also established that the interest rate originally agreed on fixed rate mortgages outstanding was to be replaced with a rate determined on the basis of the law, unless there was an agreement more favourable to the debtor.

Post office banking services. – In March 2001 the Council of Ministers approved Presidential Decree 144 of 14 March 2001 containing the Regulation governing the post office banking services offered by Poste Italiane S.p.A. to its customers. The Regulation extends the range of post office banking activities, especially in the field of investment services, excluding trading for own account and the management of investment portfolios on an individual basis. The possibility of granting loans is also precluded. Taking account of the new operational possibilities, the Regulation provides that Poste Italiane shall be considered similarly to a bank for supervisory purposes.

Payment and securities settlement systems. – A legislative decree approved in April 2001 and about to be published in the *Gazzetta Ufficiale* transposed Directive 98/26/EC, aimed at enhancing the efficiency of payment and securities settlement systems within the European Union.

Secondary legislation

Prudential rules were established for banks for rapidly growing types of financial innovation, especially in the field of risk mitigation techniques.

Asset securitization. – Prudential rules for asset securitizations by Italian intermediaries were issued in March 2000. The capital ratio to be applied to banks investing in asset-backed securities reflects that applying to the securitized assets; where these are heterogeneous, the weight applicable to the riskiest asset in the pool is used. The treatment also varies according to the securities' degree of subordination (senior, mezzanine or junior). The capital requirement for the securities purchased by each bank may not exceed the requirement that would have been applied to the originating bank if the securitized assets had remained on its balance sheet.

Credit derivatives. – Rules for the prudential, balance sheet and reporting treatment of credit derivatives and on the organizational systems banks must have in order to be able to use such products were issued in July 2000. Where credit derivatives are included in the banking book, in calculating the capital requirement the bank purchasing the hedge may apply the weight of the bank selling the hedge; the latter will have to maintain a capital requirement consistent with the nature of the original debtor. If credit derivatives are held in the trading book, both the hedge purchaser and the seller are to apply the prudential requirements for market risks to the derivative contract.

Securities issued by banks. – Supervisory instructions concerning the transparency of securities issued by banks, already the subject of provisions in July 1999, were issued in November 2000 in view of the increasingly complex risk profiles of so-called structured bonds.

Collective asset management. – To enable operators to respond more rapidly to the demands of the market and to make it easier for investors to compare products, provisions were issued on 28 November 2000 allowing fund management companies to draw up simplified rules for the management of open-end securities investment funds governed by Directive 85/611/EEC ("harmonized" funds), which constitute the majority of the funds present on the market. The Bank of Italy has twenty days to examine and approve fund rules drawn up in simplified form, compared with four months under the ordinary procedure established by the Consolidated Law on Financial Intermediation.

The administrative procedures for approval of amendments to fund rules concerning Internet marketing of fund units and identification of the regulated markets on which collective investment undertakings may invest were simplified.

Securities intermediaries. – A regulation issued on 4 August 2000 collated and simplified most of the provisions issued by the Bank of Italy concerning Italian securities firms (SIMs). The regulation covers SIMs' operations abroad, permissible equity investments, administrative and accounting organization, internal controls and capital adequacy and rules for preparing the annual accounts.

Financial intermediaries. – A regulation issued on 11 May 2000 provided guidelines for the administrative and accounting organization and internal controls of financial intermediaries entered in the special register established by Article 107 of the 1993 Banking Law.

Securitization companies. – In governing the activity of persons carrying out asset securitizations, Law 130 of 30 April 1999 included securitization vehicles and non-bank securitization servicers among financial intermediaries. On 23 August 2000 rules were issued to ensure transparency and correctness of the activity of these intermediaries.

THE STRUCTURE OF THE FINANCIAL SYSTEM

The number of banks in Italy declined further in 2000, from 876 to 841 (Table 49). Most of the decrease was accounted for by mutual banks, which fell from 531 to 499. The tendency to concentration affected the other categories as well, owing to changes in banking groups. The latter declined in number from 79 to 74, but the number of Italian banks belonging to them rose from 208 to 217.

Table 49

THE STRUCTURE OF THE ITALIAN FINANCIAL SYSTEM

	31 December 1999			31 December 2000		
	Interme-diaries	No. of branches		Interme-diaries	No. of branches	
		Italy	Abroad		Italy	Abroad
Banks	**876**	**27,134**	**98**	**841**	**28,177**	**94**
of which: limited company banks (1)	*239*	*19,978*	*89*	*240*	*20,338*	*84*
*cooperative banks (*banche popolari*)*	*49*	*4,205*	*9*	*44*	*4,789*	*10*
*mutual banks (*banche di credito cooperativo*)*	*531*	*2,862*	–	*499*	*2,951*	–
branches of foreign banks	*57*	*89*	–	*58*	*99*	–
Securities firms	**183**	–	–	**171**	–	–
Asset management companies and SICAVs	**86**	–	–	**101**	–	–
Financial companies listed in register referred to in Art. 106 of the Banking Law	**1,339**	–	–	**1,357**	–	–
of which: listed in special register referred to in Art. 107	*203*	–	–	*211*	–	–

(1) Includes banks accepting medium and long-term funds and central credit and refinancing institutions.

Banks and banking groups

Developments in 2000. – Last year saw the completion of 58 concentrations, not counting intra-group mergers, entailaing the transfer of market shares equal to 6.4 per cent of total banking assets. There were also 12 intra-group mergers for purposes of rationalization, involving 10 per cent of total system assets.

Takeovers and the stepped-up asset growth strategies of some major Italian banks resulted in further concentration at the top of the system. The share of total assets controlled by the five largest banking groups rose from 50 per cent to 54 per cent and that of the top ten groups from 63 to 67 per cent.

Medium-sized groups also engaged in substantial concentrations during the year and kept their overall market share broadly unchanged. Some, after a period of rapid business expansion, focused on consolidation in order to complete the integration of the units acquired and improve operating profits. Well-functioning corporate governance and managerial and professional skills were crucial to successful takeovers and growth plans.

At the end of 2000 banking groups controlled 89 per cent of total banking system assets, the same as in 1999. Banks and groups controlled by foundations or local or central government bodies held 12 per cent.

The foreign presence of Italian banks was extended, thanks notably to the acquisition of 14 foreign banks, mainly in Central and Eastern Europe (4 in Switzerland, another 4 in Croatia). The takeovers were effected not only by the largest Italian groups but also by 4 medium-sized groups. As a result, Italian banks now hold significant market shares in a number of Eastern European countries (more than 20 per cent in Croatia, Poland and Bulgaria).

The number of Italian groups operating abroad rose from 25 to 26. Overall, the foreign component of consolidated total assets increased from 14.5 to 16.5 per cent. Foreign banking subsidiaries increased in number from 59 to 73, while the foreign branches of Italian banks slipped from 98 to 94. Branches and subsidiaries located in non-EU countries numbered 44 and 49 respectively.

Fifty-eight foreign banks are established in Italy, with 99 branches (10 more than in 1999). Italian subsidiaries of foreign groups numbered 13 (compared with 12 in 1999), 10 of them belonging to EU groups.

Distribution. – Banking groups' need to expand business operations and to reorganize prompted an enlargement of branch networks and greater use of financial salesmen. The number of branches increased by 1,046 during the year. The number of financial salesmen shot up by 53 per cent, with nearly two-thirds of the increase accounted for by the strategy of diversification of distribution channels on the part of ten banks and banking groups specializing in asset management and bancassurance.

There was further growth in telephone and internet banking in 2000, as the public increasingly used these innovative systems. At the end of the year 75 per cent of banks and 54 per cent of financial companies were online with promotional sites or sites allowing transactions; 77 per cent of the online banks, accounting for 71 per cent of total banking system assets, had the latter type of site, compared with 13 per cent of the financial companies.

More than 1.5 million bank customers and 200,000 financial company customers actually carried out online operations, a sharp increase from the 330,000 such customers found in a sample of banks and securities firms (SIMs) in March 2000 (banks and SIMs responding only to the 2001 survey reported 42,600 customers using active online accounts).

Relations between banks and insurance companies. – Cross shareholding between banks and insurance companies was strengthened, although the sort of integrated bancassurance conglomerates found in other European countries, in which banking and insurance business are equally important, were not formed.

At the end of the year Italian banks held equity stakes in 73 insurance companies (mostly in the life branch) and in 37 insurance brokers; in 30 and 26 cases, respectively, they held controlling shares. Italian banks also held stakes in 17 foreign insurance companies and 5 foreign brokers (with controlling stakes in 13 and 5, respectively). Insurance groups had holdings in 19 Italian banks, including 4 controlling stakes.

The role of banks in the distribution of insurance products continues to grow. Premiums from new life insurance policies collected through banks increase by 6.15 trillion lire. Banks' share of new life insurance premium income was well above 70 per cent.

Asset management companies

At the end of 2000 the special register listed 99 asset management companies and 2 SICAVs (Table 50); 14 asset management companies and 1 SICAV were authorized during the year.

Reforms of the rules governing unharmonized investment funds enacted at the end of 1999 encouraged diversification of the asset management industry. The first speculative collective investment undertakings and the first funds limited to qualified operators were opened.

Asset management companies accounted for 70.6 per cent of the total funds under management (collective undertakings plus individual portfolios), compared with 11.2 per cent for banks and 2.3 per cent for SIMs. The remaining 15.9 per cent was managed by foreign operators, largely belonging to Italian banking and insurance groups, that market units in harmonized open UCITS in Italy.

Open-end Italian UCITS. – The rules of 110 new harmonized funds were approved in 2000; most of them were internationally oriented equity funds.

Table 50

ASSET MANAGEMENT COMPANIES AND SICAVs

	31 December 1999		31 December 2000	
	Total	*of which: bank-controlled* (1)	Total	*of which: bank-controlled* (1)
Asset management companies (2)	**86**	**62**	**101**	**68**
of which, instituting and managing:				
open-end securities funds	*55*	*38*	*60*	*40*
of which funds of funds	*–*	*–*	*11*	*11*
closed-end securities funds	*11*	*11*	*14*	*11*
closed-end real estate funds	*5*	*4*	*8*	*6*
hedge funds	*–*	*–*	*2*	*–*
funds reserved to qualified investors	*–*	*–*	*22*	*12*
open-end pension funds	*20*	*16*	*20*	*15*
of which, instituting funds managed by other asset management companies	*–*	*–*	*5*	*5*
of which, management companies only	*4*	*2*	*9*	*5*
Foreign SICAV management companies (3)	**141**		**173**	
of which: SICAVs	*101*		*122*	

(1) Companies in which banks hold more than 50 per cent of the equity. – (2) The data include Italian SICAVs. – (3) Companies that market units to the general public in Italy pursuant to Legislative Decree 58/1998, Article 42.

On 31 December 2000 the total assets under management of the 982 operational open-end funds (159 more than a year earlier) amounted to 876.76 trillion lire (€452.809 billion), down from 920.311 trillion lire at the end of 1999 owing to net redemptions of 13.5 trillion lire and average losses of 3.6 per cent during the year. In the last two years the share of total assets held by equity funds rose from 21 to 37 per cent.

The rules of 39 funds of funds were approved last year. These products, specializing in investment fund units, give subscribers access, with a relatively modest investment, to a portfolio of funds selected by a professional manager; by comparison with traditional portfolio management investment in funds, their fees are lower and their performance is easier to monitor. These UCITS, which have been marketed since May 2000, registered net subscriptions of about 10 trillion lire (€5.165 billion).

Open-end foreign UCITS. – The number of foreign investment funds and SICAVs selling units in Italy increased sharply in 2000, from 1,192 to 1,844 (Table 51); 54 per cent were equity funds. At the end of the year the assets of Italian subscribers to these funds amounted to 236.8 trillion lire (€122.297 billion), compared with 145 trillion lire a year earlier. About 80 per cent of these assets were under the management of foreign UCITS created abroad by Italian banking and insurance groups.

Table 51

UNDERTAKINGS FOR COLLECTIVE INVESTMENT

	31.12.1999	31.12.2000
Italian open-end securities investment funds: (1)		
authorized	1,019	1,135
of which: for qualified investors	*10*	*19*
operational	823	982
of which: equity	*383*	*465*
balanced	*54*	*65*
bond	*270*	*316*
money market	*113*	*120*
global	*3*	*16*
Funds of funds:		
authorized	–	39
Italian closed-end securities investment funds:		
authorized	12	16
operational	11	12
Italian closed-end real-estate investment funds:		
authorized	6	10
operational	3	6
Italian open-end pension funds established by asset management companies:		
authorized	32	35
Foreign funds and sectors marketed in Italy	**1,192**	**1,844**
of which: equity	*599*	*1,009*
balanced	*74*	*145*
bond	*383*	*525*
money market	*91*	*116*
global	*45*	*49*

(1) Includes Italian SICAVs. Sectors are considered individually.

The increase confirms the tendency of Italian operators to shift assets into foreign funds. The Italian funds of the three largest Italian banking groups had net redemptions of 43.154 trillion lire (€22.287 billion), but this was more than offset by the net subscriptions of their foreign funds (56.341 trillion lire, or €29.098 billion). One reason for this tendency is the more favourable tax treatment of the profits of the asset management companies located in low-tax countries such as Luxembourg and Ireland, where nearly all the foreign funds (98 per cent) marketed in Italy are registered.

Closed-end Italian UCITS. – The rules of 8 new closed-end funds (4 security and 4 real-estate) were approved in 2000. At the end of the year the assets of the 12 operational closed-end securities funds amounted to 1.454 trillion lire (€751 million), compared with 1.35 trillion at the end of 1999. Six closed-end real estate funds had assets of 3.1 trillion lire (€1.601 billion), compared with 1.4 trillion a year earlier.

Securities firms

The number of registered securities firms (SIMs) declined by 12 in the course of 2000 to 171, as the result of 27 withdrawals and 15 new registrations (Table 52). In addition to the exit from the market of marginal operators with some anomalies, the withdrawals reflected the tendency of banking groups to shift their portfolio management services to asset management companies and to distribute consumer financial products through bank branches.

Table 52

INVESTMENT FIRMS: AUTHORIZED AND OPERATIONAL

Activity	Authorized		Authorized	
	at 31.12.1999	*of which: operational*	at 31.12.2000	*of which: operational*
Trading on own account	62	60	55	52
Trading on account of third parties	67	65	60	58
Underwriting	37	34	36	35
Placement without guarantee	111	105	109	106
Individual portfolio management	97	93	91	86
Taking orders and mediation	74	69	79	76
Memorandum item:				
Number of SIMs	183	181	171	168

The transfer of individual portfolio management services from SIMs to asset management companies that began in 1998 continued. Four such services were transformed into asset management companies during the year, one via takeover and three via corporate restructuring. The individual portfolios managed by these units were worth about 20 trillion lire (€10.329 billion), or 21.2 per cent of the total assets managed by SIMs at the end of 1999.

The transformation of financial sales SIMs into banks and the transfer to banks of parts of SIMs continued (4 operations in 2000), as part of banking groups' efforts to strengthen their distribution capacity.

The number of SIMs created by former brokers increased.

The authorities received 114 notifications from Community investment firms planning to provide investment services in Italy. Five of them planned to open a branch, whose activity would consist chiefly in the marketing of units and taking orders via the Internet.

Financial companies

At the end of 2000 there were 211 financial companies listed in the special register pursuant to Article 107 of the 1993 Banking Law. At the same date there were 1,357 intermediaries on the general list referred to in Article 106.

The companies in the special register accounted for 80 per cent of the leasing market and 92 per cent of the factoring market. Their share of the consumer credit market was only 49 per cent, owing to the traditional presence of banks.

The number of merchant banking intermediaries established in Italy numbered 18 at the end of the year, 11 of them bank-controlled. Equity participations taken for purposes of subsequent sale increased by 33 per cent during the year.

Sixteen special-purpose asset securitization vehicles were registered during the year, together with three servicers.

RISKS, PROFITABILITY AND CAPITAL ADEQUACY OF INTERMEDIARIES

Banks

Credit risk. – Lending expanded rapidly again in 2000, at a pace of 12.1 per cent (Table 53). Continuing the tendency of the last few years, the overall quality of bank credit improved.

Table 53

BANKS' 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)
1998	11,260	38,499	1,291,371	3,829	5,163	152,039	125,089	43,662	1,443,410
1999	106,022	34,528	1,430,895	11,025	2,892	146,162	117,047	37,420	1,577,057
	(54,756)	*(17,832)*	*(738,996)*	*(5,694)*	*(1,494)*	*(75,486)*	*(60,450)*	*(19,326)*	*(814,482)*
2000	93,483	34,936	1,626,100	6,922	2,188	142,214	100,405	37,124	1,768,314
	(48,280)	(18,043)	*(839,811)*	*(3,575)*	*(1,130)*	*(73,447)*	*(51,855)*	*(19,173)*	*(913,258)*

(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 2000; 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.

Outstanding loans grew by 14.2 per cent, compared with 10.1 per cent in 1999. The acceleration was nationwide but was especially sharp in the Centre and North. Bad debts declined by 14.2 per cent. The rate of increase in lending to firms rose from 6.9 to 14.4 per cent; the growth was fastest in the branches with records of low risk. Credit to households expanded by 13.4 per cent, compared with 21.8 per cent in 1999. The slowdown was concentrated in home mortgage lending.

The additional lending went largely to firms with good profitability and sound finances as is shown by a statistical analysis of the firms registered with the Chambers of Commerce, which accounted for 75 per cent of outstanding bank credit to non-financial firms at the end of 2000.

Telecommunications firms more than doubled their bank debt to finance large-scale investment (Table 54). At the end of the year loans and guarantees provided to Italian and foreign telecommunications companies amounted to 70.8 trillion lire (€36.565 billion), 20 per cent of it provided by the branches of foreign banks. Adding banks' holdings of bonds and equity, the total exposure came to 80.5 trillion lire (€41.575 billion), compared with 30.5 trillion (€15.752 billion) at the end of 1999. For the most heavily exposed banking groups, credit and guarantees to telecommunications firms represented 3.9 per cent of the total. In the first quarter of 2001 bank credit to the telecommunications industry was reduced by 3.4 trillion lire (€1.756 billion).

Table 54

BANKS' EXPOSURE TO TELECOMMUNICATIONS FIRMS (1)

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

	1999		2000	
	Italian firms	Foreign firms	Italian firms	Foreign firms
Loans	16,455 (8,498)	1,219 (630)	34,288 (17,708)	3,190 (1,647)
Guarantees	4,820 (2,489)	121 (62)	28,401 (14,668)	4,956 (2,560)
Total loans + guarantees	21,275 (10,988)	1,340 (692)	62,689 (32,376)	8,146 (4,207)
of which: branches of foreign banks	*1,057* *(546)*	*330* *(170)*	*13,925* *(7,192)*	*257* *(133)*
Securities (2)	3,274 (1,691)	4,659 (2,406)	4,514 (2,331)	5,162 (2,666)
Total	**24,549** **(12,679)**	**5,999** **(3,098)**	**67,203** **(34,707)**	**13,308** **(6,873)**

Sources: *Centrale dei rischi* and prudential reports.

(1) Data for a sample of corporations comprising: fixed and mobile telephone and cable communications companies, their subsidiaries and supplier engaged in the production of electronic components for telecommunications. – (2) Bonds, shares and equity interests.

Gross of value adjustments, total bad debts declined by 16.6 trillion lire (€8.573 billion) to about 100 trillion (€51.646 billion; Table 53). At the end of the year bad debts amounted to 5.7 per cent of total loans. Net of value adjustments, they came to 22.5 per cent of consolidated supervisory capital. Doubtful debts, after contracting in 1999, remained stable at about 37 trillion lire (€19.109 billion).

The reduction of bad debts involved all categories of banks and was achieved mainly thanks to securitization. New bad debts also diminished. Bad loans worth 16 trillion lire (€8.263 billion) were securitized during the year. New bad loans reported for the first time decreased from 13 trillion to 9 trillion lire (€6.714 billion to €4.648 billion).

New bad debts as adjusted for supervisory purposes decreased to 1 per cent of outstanding lending, compared with 1.4 per cent in 1999. The decrease involved all borrower categories, notably construction firms.

Credit recovery by Italian banks. – A survey of the banking system except for mutual banks and the branches of foreign banks was conducted in 2000 on the length and cost of actions to recover non-performing credits and the average amount recovered. The data, covering 253 banks, refer to bad and doubtful debts in whose regard a claim extinction event occurred in 1999.

The most common procedure in regard to bad debts is out-of-court settlement (41 per cent of the cases), followed by bankruptcy proceedings (21 per cent) and mortgage foreclosure (10 per cent). The initial results show that the recovery rate varies with the procedure followed (ranging from 68 per cent in out-of-court settlements to 27 per cent in bankruptcy proceedings). Real collateral enables banks to recover 50 per cent of their claim in bankruptcy proceedings and 70 per cent in out-of-court settlements. The recovery rate for doubtful debts is far better than for bad loans: 91 per cent in out-of-court transactions, which are the preferred option.

The average time required to recover the amount due via bankruptcy proceedings is very long everywhere in Italy (almost 7 years); out-of-court settlements are quicker (2 years).

Country risk. – In December 2000 international bank lending to non-OECD countries amounted to €1.4 trillion, compared with €1.35 trillion in December 1999. Italian banks' share of this market, according to BIS data, remained stable at about 3 per cent. The largest shares are held by Japan (18 per cent), Germany (16 per cent), the United Kingdom (10.5 per cent), the United States (8 per cent) and France (8.5 per cent). The Netherlands and Spain have about 4 per cent each. Italian banks' exposure vis-à-vis Argentina, Brazil and Russia is higher, between 7 and 10 per cent; with respect to offshore centres it averages 2 per cent.

In December 2000 Italian banking groups' non-guaranteed loans subject to the supervisory rules on country risk amounted to 30.5 trillion lire (€15.752 billion), including 8.6 trillion in less risky short-term trade credits.

Consolidated loans subject to adjustment came to 23.2 trillion lire (€11.982 billion), virtually unchanged from a year earlier. Required adjustments to supervisory capital diminished to 4.2 trillion lire (€2.169 billion), or from 25 to 18 per cent of the total subject to adjustment.

Profitability. – The profit performance of Italian banks (not counting the branches of foreign banks) continued to improve last year, with return on equity rising from 9.5 to 11.3 per cent.

As in 1998 and 1999, major and large banks again outperformed the rest of the system, with a ROE of 13.1 per cent compared with 9.1 per cent for the other banks.

The expansion of assets led to a 7 per cent increase in net interest income, which rose to 65.5 trillion lire (€33.828 billion). This was the first increase in net interest income since 1995, before the convergence of Italian with euro-area interest rates.

Gross income increased by 13.5 per cent to 124.4 trillion lire (€64.247 billion). Net of dividends on banks' shareholdings, it grew by 11 per cent.

Operating expenses rose by 4.7 per cent to 69.3 trillion lire (€35.79 billion). Most of the increase was accounted for by non-staff costs. There was an increase in investment in technological modernization in order to provide customers with a full range of financial services, including distance services.

Net income came to 55.1 trillion lire (€28.457 billion), a gain of 27 per cent compared with 1999 (21 per cent net of dividends on banks' shareholdings). Value adjustments diminished by 16 per cent to 11.3 trillion lire (€5.836 billion). Extraordinary income declined by 15 per cent to 6.3 trillion lire; such proceeds had been exceptionally large in 1999 due to disposals of equity holdings in non-financial firms.

Retained earnings for the year came to 16.2 trillion lire (€8.367 billion), an increase of 80 per cent. The portion distributed as dividends increased by 26 per cent or 3.1 trillion lire.

Capital adequacy. – At the end of 2000 the total supervisory capital of the Italian banking system, calculated on a consolidated basis, was 230 trillion lire (€118.785 billion), an increase of 16 trillion compared with 1999. Despite capital increases, subordinated debt issues and retained earnings, the sharp growth in risk-weighted assets lowered the solvency ratio from 10.6 to 10.3 per cent, the lowest it has been in recent years (Table 53).

Amounts in excess of the minimum capital requirements came to 50.6 trillion lire (€26.133 billion), compared with 54.9 trillion (€28.353 billion) the previous year. The number of banks or groups with capital shortfalls fell from 9 to 5 and the amount of the overall shortfall plunged from 2.6 trillion to 22 billion lire.

The degree of capitalization of Italian banks is somewhat low by international standards. The average solvency ratio of Italy's 20 internationally active banking groups was 9.6 per cent in December 1999, compared with an average of 12 per cent for those of the Group of Ten countries.

Markets' evaluation of banks. – Since the turn of the nineties the number of banks listed on Italy's main stock exchange has risen from 21 to

40. At the end of 2000 another six banks were listed on the “second” market and one on the New Market. Listed banks account for 80 per cent of the consolidated assets of the entire banking system. The good performance of bank shares increased the sector’s share of total stock market capitalization from 23 per cent in 1999 to 24.5 per cent in 2000).

The prices of Italian bank equities rose by 14 per cent last year, compared with 5 per cent for the general stock exchange index, reflecting the banks’ profit performance and the positive outlook for development in financial innovative sectors.

At the end of the year 50 Italian banks, holding 60 per cent of the system’s assets, had ratings assigned by at least one of the major international agencies; 29 of them were listed on the Milan stock exchange. The average rating was A; that of the listed banks was marginally better.

Asset management companies

Profitability. – The net profits of asset management companies amounted to 1.9 trillion lire (€981 million) in 2000, 65 per cent more than in 1999 (61.4 per cent using the same sample). The number of companies making losses, most of them recently formed, decreased from 17 to 13.

Core business income rose by 42.9 per cent to 4.3 trillion lire (€2.22 billion), thanks to a larger increase in commission income (29.8 per cent) than in commission expenses (26 per cent).

Average assets under management expanded very significantly (37.1 per cent) and investor portfolios were reallocated into equity products, which generate higher commissions.

More than 92 per cent of the asset management companies’ revenues came from the management of open-end investment funds. Even though other funds expanded to account for a third of total assets, their contribution to revenue was modest, owing to low unit earnings. The average revenue from open-end funds came to 1.7 per cent of the assets under management, while that from individual portfolio management was just 0.3 per cent. Management on account of third parties produced revenues of 0.4 per cent.

Adaptation of organization to the larger volume of assets under management and to the diversification of products led to a 37 per cent rise in operating costs. Staff costs rose to 31.9 per cent of total costs, a low level that was maintained partly by large-scale outsourcing.

The ratio of operating costs to average assets under management was 0.12 per cent, the same as in 1999.

Securities firms

Profitability. – Italian securities firms made net profits of just over 1 trillion lire (€516 million) last year, a decline of 11.1 per cent compared with 1999 (Table 55) due mainly to a sharp rise in operating costs not offset by the increase in revenues.

Table 55

PROFIT AND LOSS ACCOUNTS OF SECURITIES FIRMS (1)

(amounts in billions of lire; in brackets, millions of euros; percentages)

	1999		2000	
	Billions of lire	Percentage share	Billions of lire	Percentage share
Revenue from trading on own account (2)	543	*14.7*	493	*11.47*
of which: interest	329	*8.9*	394	*9.17*
Revenue from trading on account of third parties (3)	1,571	*42.4*	2,352	*54.74*
Revenue from individual portfolio management	446	*12.0*	468	*10.89*
Revenue from off-premises sales	1,082	*29.2*	856	*19.92*
Revenue from other business (4)	13	*0.4*	47	*1.09*
Revenue from securities administration (5)	50	*1.3*	81	*1.89*
Total revenue	**3,705** ***(1,913)***	*100.0*	**4,297** ***(2,219)***	*100.0*
Operating costs (–)	1,760	*47.5*	2.423	*56.39*
Net income	**1,945** ***(1,005)***	*52.5*	**1,874** ***(968)***	*43.61*
Other revenues/expenses (6)	–23	*–0.6*	–70	*–1.63*
Profit before tax	**1,922** ***(993)***	*51.9*	**1,804** ***(932)***	*41.98*
Tax (–)	763	*20.6*	773	*17.99*
Net profit	**1,159** ***(599)***	*31.3*	**1,031** ***(532)***	*23.99*
Number of firms (7)	164		158	
Shareholders' equity	3.791		4.278	
ROE (percentage)	*30.6*		*24.1*	

(1) Profit-and-loss data from prudential reports. – (2) Including net interest income. – (3) Securities and foreign exchange trading. – (4) Includes revenue from other investment services (placement of securities and order-taking) and from accessory services (consultancy, securities custody and administration, etc.). – (5) Net result of securities investment by firms not authorized to engage in trading on own account. – (6) Comprises allocations to provisions and extraordinary items. – (7) End-of-year data. Excluding non-operational firms.

Forty-four firms made losses for the year. Excluding those not yet fully in operation, most of the loss-makers fell into two categories: small, individually owned firms engaged in portfolio management; and firms forming part of insurance and banking groups involved in restructuring or projects for the development of the distribution network and on-line trading services.

Return on equity fell by more than 6 percentage points to 24 per cent.

Revenues from trading on account of third parties remained the main source of income and the only component that increased, accounting for more than half of total revenues.

The ratio of operating costs to total revenues rose by 9 percentage points. All the main cost items rose rapidly, reflecting the intermediaries' expansion. A good many firms sustained substantial costs for the launch or strengthening of on-line trading platforms, with sometimes large-scale investment in infrastructure and advertising. Staff costs rose by 15 per cent, while the number of employees increased by 9 per cent.

Capital and risks. – In December 2000 the capital requirement for securities firms was over 1.1 trillion lire (€568 million), an increase of 13 per cent in the year. The requirement against market and credit risks represented more than 70 per cent of the overall requirement, as in 1999 (Table 56).

Table 56

COMPONENTS OF SECURITIES FIRMS' CAPITAL REQUIREMENT

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

Type of firm	Market and credit risks		Other risks		Total		Supervisory capital
	No. firms	Total risk	No. firms	Total risk	No. firms	Total risk	
Trading firms							
1999	18	702	36	114	54	816	1,828
		(363)		*(59)*		*(421)*	*(944)*
2000	15	791	36	135	51	926	2,071
		(409)		*(70)*		*(478)*	*(1,070)*
Other securities firms							
1999	9	6	106	173	115	179	854
		(3)		*(89)*		*(92)*	*(441)*
2000	7	13	102	189	109	202	894
		(7)		*(98)*		*(104)*	*(462)*
Total							
1999	27	708	142	287	169	995	2,682
		(366)		*(148)*		*(514)*	*(1,385)*
2000	22	804	138	324	160	1,128	2,965
		(415)		*(167)*		*(583)*	*(1,531)*

Securities firms must have supervisory capital at least equal to the sum of capital requirements against market and credit risks or 25 per cent of their overhead costs as recorded in the previous year's accounts, whichever is greater; 86 per cent of the firms applied the second standard. In fact, only a relative few firms specialize in trading on own account or securities underwriting.

The supervisory capital of the firms came to about 3 trillion lire (€1.549 billion); it consists almost entirely of tier-one elements. The increase in capital, deriving in equal measure from increases in paid-in capital and reinvestment of profits, was slightly smaller than that in the requirement. At the end of the year ten securities firms had capital shortfalls.

Financial companies

Profitability. – The net profits of financial companies increased by 9 per cent last year to 1.1 trillion lire (€568 million). Return on equity was 8 per cent, the same as in 1999. Interest income (net of the cost of hedges) was 4.5 trillion lire (€2.324 billion), also about the same as in 1999. Gross income rose by 12 per cent to 6.5 trillion lire (€3.357 billion), thanks to increased net revenue from services and a rise in dividends from equity holdings.

Operating costs increased by 12 per cent to 4 trillion lire (€2.066 billion), reflecting investment in technology to reinforce distribution networks. Staff costs were a modest 33 per cent of the total, thanks to widespread outsourcing of major functions.

Credit losses diminished by 14 per cent compared with 1999 to 20 per cent of gross income.

Credit risk. – On 31 December 2000 the gross total lending of the financial companies listed in the special register amounted to 168.3 trillion lire (€86.919 billion), representing an increase of 18 per cent in the year. Performing loans worth 3.25 trillion lire (€1.678 billion) were securitized.

Gross of value adjustments, bad debts amounted to 4.3 trillion lire (€2.221 billion), about the same as in 1999, and were equal to 2.6 per cent of the companies' total credit, a decline of about half a point. Credit risk concentration increased.

Capital adequacy. – The companies' total supervisory capital, which consists almost entirely of tier-one elements, amounted to 13.450 trillion lire (€6.948 billion) at the end of the year, an increase of 800 billion lire. The increase stemmed mainly from capital increases and to a lesser extent from retained earnings. The intermediaries engaged in credit business (leasing, factoring and consumer credit) had a risk asset ratio of 6.4 per cent, nearly one percentage point lower than in 1999.

SUPERVISORY CONTROLS

Banking supervision

Analytical methods and tools. – In the course of 2000 changes were made with regard to the organization of the supervision of banking groups, the principles that must underlie the decision to outsource corporate activities and the procedures for validating the internal models used by banks to measure market risk.

The consolidation of the Italian banking system has led to the inclusion in groups of banks with strong local roots. The redefinition of the tasks entrusted to local banks provides for them to focus on functions aimed at defending the areas in which they are established. On the one hand, the supervisory authority continues to assess the conditions of these banks within the overall context of the group they belong to, on the other, it examines the typical features of each bank in order to have early warning of critical elements in the operation of specific parts of the conglomerate. In order to improve the ability to analyze conditions in banks with a strong local bias, since the beginning of 2001 the supervision of smaller banks that are part of a group has been carried out in close collaboration with the supervisory units in the Bank of Italy’s branches.

In the analysis of intermediaries’ organizational arrangements, the outsourcing of functions to other group companies or non-group companies has been growing in importance. The supervisory authority assesses the measures taken by individual intermediaries in order to manage the risks associated with such decisions, especially that inherent in the division between responsibility for the functions that are outsourced, which remains with top management, and their performance.

Last year saw the first application by an Italian bank for permission to use its internal model to determine the capital charge for the financial risks deriving from its trading portfolio. The assessment of the suitability of a model by the supervisory authority includes an evaluation of its statistical characteristics, checks to ensure that it is actually used by intermediary’s operating structures and that the results it produces are monitored, and an evaluation of the reliability of the intermediary’s information system.

Prudential analysis of banks’ situations. – Last year saw a reduction in the share of borrowed funds of banks with unsatisfactory overall scores, from 23 to 19 per cent of the total. Excluding mutual banks, the number of banks with unsatisfactory scores, most of which belonged to banking groups, fell from 64 to 55. There were 96 mutual banks with unsatisfactory scores and they accounted for around 12 per cent of the total borrowed funds of the category. The share of total borrowed funds of banks with intermediate scores rose from 26 to 40 per cent. In particular, the changes in banks' operations as a result of their becoming part of a group and the time needed to carry out the planned reorganization measures led to an initial increase in organizational risk for the banks concerned.

The trade associations of minor and mutual banks have drawn up plans for the outsourcing of the internal audit function. The supervisory authority has examined these plans with a view to assessing the adequacy the organizations and professional resources of the potential suppliers of the service and to verify the terms of the supply contracts.

The growth and increasing complexity of securitizations and innovative fund-raising instruments led the supervisory authority to focus on the organizational aspects involved, the related risks and the ability of banks to cope with them.

Supervisory action. – Last year the Bank of Italy took action in the form of written reprimands or meetings involving 524 banks. There was an increase in the number of reprimands calling on banks to establish adequate organizational arrangements, with special reference to their finance areas. The number of meetings rose from 484 in 1999 to 519. Of the total, 261 were arranged by the Head Office and 258 by branches; about half of the meetings arranged by the Head Office were with banks belonging to 29 banking groups.

For banks involved in concentrations, supervisory action focused on verifying the adequacy of capital with respect to the risks taken on and the plans for adapting the group's internal control system. Apart from evaluating the suitability of the solutions proposed to deal with the critical aspects found, the supervisory authority paid special attention to checking compliance with the schedules for the implementation of the plans presented.

The growth in acquisitions, both in Italy and abroad, led the supervisory authority to ask bank parent companies to draw up multi-year plans for achieving levels of capital above the minimum and congruous with their strategies. Banks are assessed positively where tier-one capital is a high proportion of their total supervisory capital. In some cases agreement was reached with intermediaries on above-minimum targets for tier-one and total capital.

Supervisory action with regard to risk control focused on verifying compliance with the directives issued by parent companies concerning internal controls. Where banks were expanding their presence in foreign markets, the supervisory authority's recommendations took account of the specific features of the host country's legal and institutional frameworks.

As for the risks deriving from financial intermediation, supervisory controls revealed that of the top 20 banking groups only 6, accounting for more than 40 per cent of the fund-raising market, had a system of ceilings based on the concept of maximum probable loss, a measure used by top management in making risk-exposure decisions and analyzing the profitability of business units. Almost all the other groups had made investments, especially in IT systems, in advanced methods of measuring market risks.

Controls on asset management companies and investment firms

Analytical methods and tools for non-bank intermediaries. – During the year a project was launched to beef up the supervision of investment firms, asset management companies and financial intermediaries referred to in Article 107 of the 1993 Banking Law. The project involved a revision of the analytical instruments and working procedures used in this area of supervision.

The most important innovation was the introduction of new guidelines for analyzing intermediaries' organizational arrangements in order to identify weaknesses and assess their influence on resource and risk management. The supervisory authority assesses the relationship with the owners of each company and the ability of its governing bodies to perform their functions, the internal control system, top management's awareness of the risks involved in the company's activity and the organizational arrangements for managing them.

In order to take into account the broader range of transactions asset management companies can undertake, the analytical tools have been improved and new ones added; at the same time the information provided by the new supervisory reports has been fully exploited.

Controls on access to the market. – The aim of this type of supervisory activity was to reconcile the growth of the financial industry with the maintenance of adequate investor protection.

The supervisory authority accompanied the creation and regulation of the first asset management companies set up to manage hedge funds and funds reserved to qualified investors with a careful analysis of the aspects related to their organizational arrangements, types of subscribers and freedom in designing products.

Hedge funds and funds reserved to qualified investors are open to professional investors and persons who are in a position to check the ways in which they are managed, so that the question of investor protection is significantly different. Accordingly, the examination of fund rules is directed primarily towards ensuring that they are clear, transparent and consistent.

Prudential analysis of intermediaries' situations. – In 2000 this form of supervisory activity found 43 "problem" companies, of which 11 were asset management companies and 32 were investment firms.

A first group of 32 intermediaries, consisting mainly of investment firms, had the following features in common: they were owned by individuals who frequently played an important role in the business, both in strategic decision-making and in day-to-day operations; both the firms and their market shares were small and their organizational structures were highly simplified.

Another 11 intermediaries, consisting mainly of asset management companies, were found to have serious weaknesses in their organizational structures and internal control systems, often as a consequence of the rapid growth in assets under management; in some cases the weaknesses were coupled with shortcomings in the performance of the tasks assigned to the depository bank.

Compared with the previous year, the number of companies with unsatisfactory scores fell from 18 to 15 per cent of the total number subject to supervision. The improvement reflects the takeover of some investment firms in difficulty by other intermediaries and the results achieved by the reorganizations initiated in response to supervisory action.

Supervisory action. – Last year the Bank of Italy took action in the form of written reprimands and/or meetings involving 34 investment firms and 25 asset management companies. The interventions numbered 83, of which 56 were meetings with corporate officers at the Bank of Italy's Head Office or one of its branches. In 1999 there had been 24 meetings and 52 written reprimands. The greater recourse to meetings made it possible to proceed rapidly with analyses of the operational arrangements, organizational structures and strategies of the intermediaries involved. A number of interventions involved intermediaries that had entered the market recently or begun to provide on-line financial services.

For asset management companies, the Bank's interventions mainly concerned the management of the processes involved in operations.

In some instances the scant integration of operating procedures affected the administrative and accounting aspects of fund management, especially as regards the procedures for calculating the value of units. During the year a total of 13 miscalculations were found at 11 companies. In some of these cases substantial disbursements were necessary to re-establish the correct values and compensate unit-holders. Other problems found concerned the handling and coordination of the relationships between the various players involved in the production process (placers, management companies, depository banks and companies with management mandates).

In one case the shortcomings found in a company's organization and internal control system and the frequent irregularities found in its operations led the Bank of Italy to prohibit any increase in its business.

Supervision of financial companies

The wide range of activities undertaken by financial companies listed in the special register makes it necessary to tailor the use of the various supervisory instruments to each company's business and risk profile.

For intermediaries involved in leasing, factoring and consumer credit, both the Head Office and the Bank's branch offices use standardized analytical models and performance indicators, with more and more highly integrated recourse to the data bases available.

The analysis of the qualitative aspects of the management of financial companies draws on the information collected in a sample survey covering organizational structure, internal controls and best practices in the various fields of activity.

During the year a number of e-money schemes were evaluated. They provide for the issue of prepaid cards that can be used on the Internet with the fund-raising side handled by the issuing bank and the management of the cards by a financial company.

Supervisory action was taken with regard to 59 financial companies. The focus was on the analysis of the technical aspects of their business with a view to identifying remedial measures and their organizational structures and internal control systems.

Inspections

During the year 180 inspections were carried out, compared with 186 in 1999. Of the total 118 were initiated by the Bank's branches. Nearly all the inspections were comprehensive and the 164 banks involved accounted for 11 per cent of the banking system's total assets, compared with respectively 167 and 10 per cent in 1999.

The results of the inspections of medium-sized and large banks were nearly always positive with regard to their strategies, profitability and balance sheet strength, whereas the evaluations of their organizational structures, especially those concerning financial intermediation business, were less satisfactory owing to the incomplete modernization of the procedures involved in decision and internal controls. Overall, the results for smaller banks were also positive, although in some cases there were shortcomings deriving from an inability to plan and implement the changes needed to cope with the more competitive environment.

The inspections at non-bank intermediaries involved 7 investment firms, 3 asset management companies and 2 financial intermediaries referred to in Article 107 of the 1993 Banking Law. Inspections were also carried out at 2 depository banks and one financial cooperative in order to verify compliance with the requirements for its transformation into a bank.

Crisis procedures and other special procedures

Special administration and compulsory administrative liquidation of banks. – During the year seven special administration procedures were initiated and nine were concluded. Six of the procedures ended with the takeover of the distressed bank by another bank.

At the end of 2000 there were eight special administration procedures under way, of which three were concluded in the early months of 2001.

At the end of last year there were also 29 compulsory administrative liquidations under way, seven of which are about to be closed.

As regards the compulsory administrative liquidation of Sicilcassa, the valuation of the assets and liabilities transferred to Banco di Sicilia has been completed, but there remain some items to be valued that are related to ongoing legal proceedings.

Banco di Sicilia has transferred 794 bad debts back to the liquidators which had been valued at 1,117 billion lire at 6 September 1997. They have been added to the positions that had remained with the liquidators from the beginning of the procedure. At the end of 2000 the liquidators held a total of about 1,000 positions with a nominal value of 4,658 billion lire.

Other special procedures. – The collection company SGA continued to recover the claims it had acquired from Banco di Napoli. At the end of the year a total of 4,643 billion lire had been collected and 295 billion lire of buildings acquired. The claims still to be recovered amounted to around 5,630 billion lire.

On 5 July 2000 SGA acquired Isveimer's portfolio of non-performing customer loans at 30 June 2000, with net claims amounting to 559 billion lire. The transaction made it possible to speed up the liquidation of Isveimer and to concentrate the activity of realizing its assets in one organization, with consequent synergies and cost savings. SGA will keep any gains deriving from the realization of assets at a price higher than the acquisition price.

The period of existence of SGA has been extended to 31 December 2005 in order to allow more time for the realization of assets and improve the recovery rate, not least in view of the acquisition of Isveimer's claims.

In the course of 2000 SGA reached a settlement with Banco di Napoli covering a number of disputes. The settlement also provided for the termination on 1 January 2002 of the mandate SGA had given to Banco di Napoli to administer the claims it had acquired.

SGA closed the year with a loss of 1,086 billion lire, of which 645 billion in respect of the balance sheet situation at 30 June 2000. SGA's losses have been covered by Banco di Napoli cancelling an equal amount from the loan it had granted to the collection company to pay for the latter's acquisition of its non-performing assets.

The liquidation of Isveimer is in the conclusive phase. The company's assets have been realized and its liabilities settled. The financing obtained from Banco di Napoli has been repaid. The main tasks still facing the liquidators concern the legal disputes under way and the disposal of the participating interests in Isveimer's subsidiaries Finproget and BN Commercio e Finanza.

The liquidators have brought actions for liability against the persons considered responsible for the failure of Isveimer.

The annual accounts of the liquidation at 31 December 2000 basically confirmed the estimated overall deficit of 1,775 billion lire, as stated in the preceding interim accounts. The shortfall has been made good by Banco di Napoli, to which the Bank of Italy has granted advances under Article 3.6 of Law 588/1996 in the manner provided for in Treasury Ministry Decree 27.9.1974.

Special administration and compulsory administrative liquidation of investment firms. – Two special administration procedures involving investment firms were initiated in 2000, one by the Bank of Italy and the other by Consob.

Three special administration procedures were closed last year: two investment firms were returned to ordinary administration following changes in their ownership structures and a third was placed in compulsory administrative liquidation.

In 2001 the statements of liabilities have been prepared for the ten compulsory administrative liquidations that were under way at the end of 2000. In seven cases assets have been allotted and distributed. In one case the procedure was closed in the early part of this year with the filing of the final documentation, which provides for the distribution of the liquidation surplus among the shareholders.

Penalties

Last year saw the Bank of Italy submit 110 proposals for the imposition of penalties for violations of provisions governing the banking and financial industries. The proposals concerned 95 banks, 7 investment firms, 2 financial companies; in 1999 the proposals had concerned 69 banks, 5 investment firms and 2 financial companies.

The analysis of banks' annual accounts for 1999 revealed a tendency for securities to be transferred between trading and investment portfolios when market prices showed large swings and for such transfers often not to correspond to any of the cases provided for in the relevant legislation (Legislative Decree 87/1992). In the 175 cases where banks had repeatedly made such transfers and the amounts involved were material, there were deemed to be grounds for initiating the procedure for the imposition of administrative penalties.

There was a significant increase in the number of decrees imposing administrative penalties issued by the Ministry of the Treasury: 110, compared with 81 in 1999. The number of appeals against penalties declined from 164 to 154 and involved 19 banks (28 in 1999) and 6 investment firms. The Rome Court of Appeal concluded four appeal proceedings with 3 rejections and one acceptance.

Access to the securities markets

The Bank of Italy performed the controls on issues and offerings of securities provided for in Article 129 of the 1993 Banking Law with the aim of reconciling the objective of ensuring orderly trading with the need to encourage the development of innovative financial products.

Further organizational efforts were made to streamline and speed up the procedures for examining applications, in line with the market's need for rapid decisions.

The preliminary notifications submitted to the Bank of Italy revealed a high level of offerings on the domestic market, but it was not deemed necessary to scale down any of the proposed issues. Two issues were prohibited because of the incompatibility of the financial features of the instruments with the standards laid down by the Interministerial Committee for Credit and Savings. In the first case the parameters chosen for the indexation of the securities did not meet the standards for objectivity and transparency; in the second case the rules governing the securities referred to risks that were not compatible with the indications of the Committee.

Dealings with other governmental bodies and the prevention of financial crime

The Bank of Italy again cooperated intensely with the judicial authorities. A total of 441 requests for information and documentation were received from magistrates and investigative bodies; employees of the Bank gave evidence on 86 occasions in penal proceedings; 43 requests were received for information and data on bank loans held by the Central Credit Register. In 30 cases Bank employees acted as consultants to the judicial authorities. On the basis of the cooperation agreements in place, the Bank sent 10 on-site examination reports to the Bureau of Antimafia Investigation.

During the year the Bank submitted 47 reports to the judicial authorities on suspected penal offences discovered in the performance of its supervisory duties.

Following the changes made in anti-money-laundering legislation and in the working of the banking, financial and insurance markets, the Bank overhauled the “operational indications for reporting suspect transactions” it had issued in February 1993 and updated in November 1994.

In June the Financial Action Task Force set up to counter money-laundering published a list of “uncooperative countries and territories”. The Bank of Italy drew the attention of intermediaries subject to supervision to the need for particular care in handling transactions linked in any way to the countries on the list.

COMPETITION POLICY IN THE BANKING SECTOR

Competition in banking has increased substantially over the past decade. The OECD's report on *Regulatory Reform in Italy* notes that since 1990 regulatory reform has removed entry barriers, fostered the entry of new competitors and laid the basis for improving the productivity and the efficiency of the credit and financial industry.

The effects of competition can be seen in the indicators of prices and of market share mobility. The data at the disposal of the Bank of Italy, owing in part to its supervisory activity, permit constant monitoring of the state of competition in banking both at local level and in the various product markets.

At the end of 2000 the spread between short-term lending and deposit rates was about 4 percentage points, in line with the average for the euro area. The short-term lending rate differential between North and South reflects differing degrees of borrower risk; it is about 2 percentage points for non-financial firms and practically nil for households.

The redistribution of provincial market shares involved an average of 3 per cent of total deposits last year. Redistribution of lending market shares affected more than 4 per cent of the market, and in the home mortgage market nearly 6 per cent. In asset management the shift of market shares was very substantial, more than 10 per cent.

The increase in competition came during a period of radical structural change in the credit market. The number of banks fell from 1,176 in 1990 to 841 at the end of 2000. Concentration was accompanied by the entry of new operators, both Italian and foreign. Over the same period of time 191 new banks were constituted, including 37 deriving from the transformation of financial companies or securities firms. The number of foreign bank subsidiaries and branches rose from 41 to 71.

Competition led to product diversification and the search for new marketing channels. The supply of services to households and firms increased. About 50 per cent of the gross income of the leading banks in 2000 was generated by commissions and earnings on activities other than lending and deposit-taking. In the middle of the nineties this share was under 30 per cent.

Competition and lower costs in connection with the sale of financial products via Internet have exerted strong downward pressure on commissions charged to customers. A Bank of Italy survey has found that the prices of on-line services are lower than those for the same products distributed via traditional channels. A good many on-line trading operators provide this service free of charge.

On-line trading is frequently associated with traditional banking products that offer especially high remuneration of liquidity, in order to attract customers and lead them to carry out more transactions on their securities accounts. These high interest rates exert competitive pressure on those for ordinary deposits.

The development of alternatives to the bank branch for the distribution of banking products has not diminished the importance of local banking markets. The empirical evidence provided by the Group of Ten's recent report on Consolidation in the Financial Sector indicates that demand from households and firms is directed mainly to banks operating locally and that local presence remains a key strategic factor. For Italy, the data on the loan market confirm that on average nearly 90 per cent of loans are made to customers who are resident in the same region as the lending branch.

Last year the Bank of Italy initiated a programme to use its branches for large-scale monitoring of local banks' compliance with the transparency rules and for detection of competitive distortions in local markets.

Mergers and acquisitions. – Last year 61 mergers involving banks were notified to the Bank of Italy under Article 16 of Law 287/1990. Twenty-seven of these were not subject to the antitrust rules. In 32 cases examination of the operation's impact – in terms of the market shares of the banks involved and their competitors, comparison between the merging banks' interest rates and the average for the markets involved, and indices of supply concentration – found neither creation nor strengthening of a dominant position in the areas surveyed, so investigations were not initiated.

For two mergers involving large banking groups with significant territorial overlap, enquiries were begun. Another investigation was initiated in 2000 and completed in January 2001 for non-compliance with previous measures. A measure modifying compensatory measures ordered upon the authorization of a merger was issued.

Banca di Roma-Mediocredito Centrale. – An enquiry was begun into the proposed acquisition by Banca di Roma of the equity of Mediocredito Centrale, the head of a banking group also including Banco di Sicilia, as regards the provincial deposits markets of Agrigento, Caltanissetta, Catania, Enna, Messina, Palermo and Siracusa and the regional loan markets of Molise and Sicily.

The enquiry found that the Mediocredito Centrale group's share of the local deposits markets, despite a decline in the last two years, remained significantly larger than those of its competitors. Nevertheless, it also found that in these markets the increased presence of national banks, owing to their acquisition of controlling stakes in local banks, had prevented the Mediocredito Centrale group from translating its leading position into higher prices to customers; in fact deposit rates were for the most part higher than the market average.

In the loan market in the Molise region, the inquiry found that the impact of the merger on competition was limited, because the share that Mediocredito added to that of Banca di Roma was marginal.

In the loan market in Sicily, the strengthening of the Mediocredito group's already powerful position was attenuated by the fact that in the previous two years its market share had been declining. Net of the large volume of bad debts, the decline was even sharper. Over the same period, total lending at the regional level increased significantly.

The merger was authorized on condition that the group, in addition to full execution of the disposals called for by order 22 of 3 April 1998 (Banco di Sicilia-Sicilcassa-Mediocredito Centrale), close another 12 branches and not increase the total number of branches in Sicily for three years.

San Paolo/IMI-Banco di Napoli. – This transaction involved San Paolo-IMI's acquisition of control of Banco di Napoli Holding, which holds 56 per cent of Banco di Napoli's equity, followed by a takeover bid for the bank's residual ordinary shares.

The investigation concluded that in the province of Naples the merger could limit competition in the deposits market. The operation was accordingly authorized on condition that the new group dispose of 10 branches in that province, including 3 in municipalities where the merger would have resulted in a monopoly, and refrain from opening any new branches for two years after the completion of the last of the mandated disposals.

Modification of authorization conditions. – A special measure was adopted in respect of the solutions suggested by UniCredito Italiano for compliance with the authorities' conditions for authorization of its takeover of Cassa di Risparmio di Trieste and Cassa di Risparmio di Trento e Rovereto. UniCredito requested an extension of the deadline for closing 3 branches in the province of Trieste and permission to dispose of 4 branches different from those originally named in the province of Verona.

This request was not judged such as to alter the efficacy of the measures already ordered.

UniCredito Italiano: non-compliance proceeding. – In October 2000 an inquiry was initiated to evaluate UniCredito Italiano's possible infringement of Law 287/1990, Article 19.1, for non-compliance with the terms of earlier orders. The inquiry, completed in January 2001, concluded that UniCredito was not in non-compliance with those orders.

Agreements. – A complex investigation was initiated in June 2000 into agreements on payment and collection services by banks, involving the Italian Bankers' Association (ABI) and the Bancomat Convention, an association formed at ABI's initiative to develop the payment functions of the Bancomat card. In relation to the agreements on Bancomat, automated bank receipts and direct interbank bill collection, the investigation focused on the renewal of the authorizations in derogation to the ban on agreements restricting competition laid down by Law 287/1990, Article 4.1. Such derogation depends on a set of conditions envisaged by the law, such as improvement in supply terms, substantial benefit to the consumer, the necessity of the restrictions, and the non-elimination of competition.

The terms of the agreements potentially harmful to competition consist in the setting of an interbank charge for payment and collection services; for the Bancomat agreement alone, the uniform banking norms adopted by the banks in customer relations are also under investigation.

For the Pagobancomat agreement, the investigation will verify the state of implementation of the conditions laid down in order 23 of 8 October 1998: the level of the interbank charge and the definition of the cost components determining it, the differentiation of interbank charges according to product sectors, and the effects of the non-discrimination rule on retailers.

Before the deadline for conclusion of the proceeding, the object of the inquiry was broadened; the deadline was deferred to 31 October 2001.

Banca Popolare di Bergamo Credito Varesino-Banca della Bergamasca Credito Cooperativo. – At the beginning of the year an inquiry into these two banks was initiated. The investigation was launched following the discovery, in the course of an on-site inspection at Banca della Bergamasca Credito Cooperativo, of the minutes of a meeting of the Board of Directors containing references to a possible agreement with Banca Popolare di Bergamo Credito Varesino for the geographical division of markets.

The investigation found that there had not been any actual coordination of branching policies between the two banks following the meeting.

Inquiries initiated in 2001. – Early in 2001 the Bank of Italy initiated an inquiry into bank payment cards involving Servizi Interbancari, Deutsche

Bank, Cariplo, Banca Nazionale del Lavoro and Findomestic Banca. The investigation was agreed together with the Competition Authority, which opened a parallel proceeding in respect of non-bank institutions. The matters under investigation are retailers' commissions to banks for payment via cards and the contractual conditions between cardholders and issuers.

MARKET SUPERVISION

The sharp correction in share prices and their greater volatility in 2000 increased the focus on the stability and orderly functioning of trading and settlement systems. In the event, the swift shift in expectations and liquidity conditions was readily absorbed by the financial markets.

In Europe, further political and institutional action was taken to accelerate the integration of EU financial markets. Plans for consolidation in the trading and settlement sectors are continuing to be developed. The European Council meeting in March of this year approved the report on settlement in Europe's financial market prepared by the Committee of Wise Men established by the Ecofin Council in July 2000. The report named the lack of common rules, the differences between national laws and the fragmentation of the trading and post-trading industry as the main obstacles to the integration of financial markets.

In 2000 Italy's markets improved their regulatory arrangements, introduced new services and increased their international openness. The Italian financial centre grew stronger and formulated broadly shared strategies.

In May of this year the Strategic Planning Committee for the development of the Italian financial marketplace published its concluding report. The document expresses the hope that the various components of the Italian financial industry will develop synergies based on appropriate organizational solutions, so as to improve the efficiency of financial services in Italy and thereby contribute to the growth and integration of the European capital market.

The Committee was coordinated by the Minister of the Treasury and composed of representatives of the Bank of Italy, Consob, the market management companies and support structures, intermediaries' trade associations and issuers' organizations. Its purpose was to ensure synergy of the initiatives of the various actors for the international openness, efficiency and competitiveness of Italian markets.

The wholesale market in government securities (MTS)

The cash market. – Average daily turnover in government securities contracted further to €7.9 billion, 17 per cent less than in 1999. However, the decline that had begun in 1998 came to a halt in the second half of the year, and in the first few months of 2001 turnover recovered to its average level of the first half of 1999. The growth in volume was accompanied by a more even distribution of activity among the securities traded.

Since April 2001 MTS S.p.A., the market management company, has concentrated trading in Bunds on EuroMTS.

The market achieved further progress in operational efficiency and liquidity, as reflected by the bid-ask spread. The spread narrowed to 6 basis points, compared with 9 in the last quarter of 1999. In the first quarter of 2001 it declined further to 4.5 basis points, in connection with an increase in volume.

Mergers and acquisitions between financial intermediaries and the withdrawal of some small dealers again caused the number of participants in MTS to decline. The number and market share of foreign intermediaries grew and the concentration of trading per dealer increased.

The number of market participants fell from 214 to 188 and that of primary dealers decreased by two, to 26. The number of intermediaries with remote access rose from 19 to 27, including 16 primary dealers.

There were 16 specialists in government securities at the end of 2000; the number increased to 18 in April 2001. The specialists' market share fell from 65 to 59 per cent in 2000 as a result of the increasing activity of the two primary dealers that would qualify as specialists in 2001. In the early months of 2001 it grew to 72 per cent. The specialists again made a very substantial contribution to the efficiency and liquidity of the market in terms of spread and turnover.

The repo market. – The volume of trading increased in both the general collateral and special repo segments in 2000 and there was a further substantial rise in the first few months of this year. Trading continued to remain concentrated on the shortest maturities.

Of the two segments, the general collateral segment recorded the larger increase in average daily turnover (10 per cent), confirming the growing use of this instrument in intermediaries' liquidity management. Trading concentrated in the early hours of the day, and the average rates on short-term maturities were in line with the corresponding rates on the interbank deposit market.

The special repo segment, where turnover grew by 7 per cent, promptly signaled shortages of individual securities.

The grey market. – Pre-issue trading of Italian government securities increased, confirming intermediaries' interest in a market segment that also allows ready adjustment of the positions taken in auctions. Turnover for the year amounted to around €29 billion, compared with €12 billion in the seven months of activity in 1999.

Other segments of the bond market

EuroMTS. – The volume of spot trading remained at the level of 1999. The repo segment, inaugurated in October 1999, grew rapidly in 2000 but then contracted sharply in the first three months of this year.

Average daily spot turnover amounted to €3.1 billion, just over the figure for the previous year. Italian securities accounted for 48 per cent of the total, compared with 38 per cent in 1999; German and French securities accounted for 16 per cent each, compared with 32 and 24 per cent respectively in 1999. Average daily turnover in repos rose during the year from €60 million to €880 million, trading was virtually all (98 per cent) in the special repo segment. In the period from May to December 86 per cent of all trades involved the interposition of a clearinghouse.

The corporate bond market. – Trading in euro-denominated corporate bonds followed divergent trends on MTS and EuroMTS. Activity remained modest on MTS/Corporate, whereas the Eurocredit/MTS circuit, inaugurated in May, recorded rapidly growing volume.

The over-the-counter market. – The OTC market continues to account for a significant share of total activity in Italian government securities. In view of the development of alternative circuits, there is a need for regular verification of whether the prices of government securities are formed predominantly within the more transparent and efficient regulated market. According to the evidence collected by the Bank of Italy, Italian intermediaries' wholesale business is conducted largely on MTS.

The Bank of Italy sent MTS primary dealers a questionnaire on their wholesale business on the secondary market in government and corporate securities (volumes traded, types of securities, trading circuits, type and residence of counterparty). The data available so far, covering 13 resident dealers that account for around 50 per cent of total activity on MTS, shows that in the first three months of 2001 the dealers in question had carried out three quarters of their trades in government securities on the regulated market.

The interbank deposit market

Average daily turnover on e-MID rose in 2000 and stabilized at that higher level in the first quarter of this year. Trading was further concentrated on overnight deposits.

Daily turnover averaged €15.7 billion, an increase of 11 per cent compared with 1999. Average daily turnover in overnight funds rose from €9.6 billion in 1999 to more than €12 billion last year.

A large-deal procedure was introduced in September for the short maturities. The minimum transaction amount is €100 million, compared with €1.5 million under the ordinary procedure.

The distribution of activity on e-MID in the course of the day continued to show peak volumes in the early morning and early afternoon.

The overnight rate on e-MID responded promptly to the changes in the ECB's official rates and moved regularly in line with the EONIA rate. The interbank deposit market confirmed that it was an efficient instrument for redistributing liquidity. The increasing participation of foreign intermediaries enhanced e-MID's ability to reflect the liquidity conditions of the entire euro area. The concentration of trading per intermediary remained stable.

The volatility of the overnight rate was low even in the phases of most intense market activity, demonstrating e-MID's high degree of liquidity. It increased in some sessions preceding the end of the compulsory reserve maintenance period, particularly during the final hours of trading.

Interest rate derivatives

As in the previous year, in 2000 the most heavily-traded futures contract on euro-area government securities was the contract on ten-year Bunds listed on Eurex. There was an upturn of activity on Matif. For short-term interest rate derivatives, the largest volume of trading again took place on LIFFE.

In Italy, as part of a strategy of widening the range of products offered, in November e-MID S.p.A. launched an electronic market (e-MIDER) for trading overnight indexed swaps on the EONIA rate. Daily turnover on the new market averaged around €2.7 billion, falling to around €1.1 billion in the first three months of 2001.

Central securities depositories

On 11 December Monte Titoli S.p.A. took over the function of central depository for government securities from the Bank of Italy. In January of this year the Bank of Italy disposed of its shareholding in Monte Titoli.

At the end of 2000 Monte Titoli ranked fourth among European depositories by value of securities held. The number of its participants increased further; links were activated with the central depositories of Switzerland, Luxembourg and the Netherlands. The value of securities on deposit amounted to around €2.20 trillion, compared with €7.424 trillion at Euroclear, €7.42 trillion at Clearstream and €3.057 trillion at Crest in the UK. The number of participants rose from 1,243 to 1,582 in 2000.

Settlement of transactions in securities

Two systems are currently in operation in Italy for the settlement of securities transactions: the clearing and settlement service for transactions in financial instruments managed by the Bank of Italy, and Express, the real-time gross settlement system run by Monte Titoli.

Express began operations on 20 November 2000. In addition to one-by-one transaction settlement, its main features are acquisition of transactions exclusively by way of automated trade matching and correction systems, settlement of the cash side in central bank money via BI-REL, delivery versus payment, and management of temporary shortfalls in the supply of securities via a queuing system.

Since December, following recognition of its conformity with the standards of the European System of Central Banks, Express has been used for the settlement of monetary policy operations. It can also be used for transactions effected outside of the regulated markets.

The system handled an average of around 300 transactions per day amounting to more than €3.3 billion. Monetary policy operations accounted for around 13 per cent of the number and 47 per cent of the value of transactions settled. At the end of March 2001 Express counted a total of 90 participating banks and securities firms. In the system's first few months in operation its regularity of performance satisfied the requirements for executing monetary policy operations.

Monte Titoli is now preparing a net settlement system for securities transactions (the Express II project). The new system's operating rules are to be submitted to the Bank of Italy and Consob for evaluation by October.

Clearing and guarantee systems

The Clearinghouse's activity concentrated on equity derivatives, benefiting from the surge in trading on the Stock Exchange. The number of Clearinghouse members diminished owing both to mergers between intermediaries and to the centralization of clearing at a single institution within some banking groups.

In line with the developments in the leading European financial centres, the Clearinghouse is drawing up plans for introducing the central counterparty function in the spot market as well.

Regulation and supervision of market management companies

In Italy the authorities continued their action to complete the frame of reference delineated by the Consolidated Law on Financial Intermediation. Secondary legislation was issued for the services of settlement, clearing and guarantee, and central depository; the privatization of Monte Titoli was completed; and a single private organization, Monte Titoli, was appointed central depository for government securities and assigned the settlement services.

The Community framework. – The final Report of the Committee of Wise Men, formed to inquire into the state of development and integration of Europe's financial markets and to formulate proposals to foster their integration, was presented in February of this year. It was approved by the European Council meeting in Stockholm in March.

The Committee recommended that the principal measures contemplated by the Financial Services Action Plan be implemented by 2004. In the Committee's opinion, however, the shortcomings of the Community's machinery for approving and implementing legislation are a serious obstacle to timely adoption of the measures needed to create an integrated European capital market.

The Committee accordingly called for more frequent recourse to Community regulations instead of directives and streamlining the legislative process, *inter alia* by means of "comitology", i.e. the preparation of implementing provisions by the European Commission with the aid of special committees.

Meanwhile, a round of consultation with national authorities and market participants was begun on updating the Investment Services Directive (92/22/EC), as envisaged by the Financial Services Action Plan.

Legislative activity in Italy. – The regulations implementing the Consolidated Law on Financial Intermediation aim at providing a coherent framework of rules encompassing every phase in the operation of the financial market industry. In 2000 the Bank of Italy, in agreement with Consob, issued two separate regulations governing the settlement services for transactions in derivative financial instruments and non-derivative financial instruments pursuant to Articles 70 and 69.1, respectively, of the Consolidated Law.

The two regulations establish the requirements for settlement service management companies, access criteria, the main features of the services' operation and organization and those safeguarding the stability of the systems. Both measures entrust the management companies with establishing the technical procedures and specifications for the provision of settlement services.

The decree transposing the Community directive on settlement finality is about to be published.

PAYMENT SYSTEM OVERSIGHT

Central banks continued their action to guarantee the financial stability and the effective functioning of payment systems last year. Cooperative efforts in international fora focused on analyzing the evolution of the systems and defining principles and standards for the adaptation of payment and settlement structures.

The Bank for International Settlements established basic principles for guaranteeing the reliability and efficiency of systemically important payment systems. The principles, which were adopted by the Governing Council of the European Central Bank, are comprised in the standards recommended by the Financial Stability Forum to strengthen financial systems.

The ECB announced that the oversight function is to be exercised through a division of tasks with the national central banks, albeit within a unified framework of guidance and control. A formal agreement was concluded among the banking supervisory and payment systems oversight authorities to exchange information serving to enhance the efficacy of the two functions. The Financial Stability Forum confirmed the need for such cooperation in the face of the risks of contagion in payment systems and those stemming from the development of e-finance.

The European System of Central Banks analyzed the evolution of the TARGET system in order to respond better to the increasing requirements of intermediaries and to optimize performance with a view to the admission of new members. The decisions made should favour the development of new functions in the framework of broader harmonization of the features of national systems and of the criteria for recovering operating costs. A long-term calendar of TARGET working days was agreed.

The ECB’s work on upgrading the efficiency of cross-border retail payments produced a paper assessing the progress made and the actions still needed to attain the objectives in time for the cash changeover to the euro. The ECB and national central banks undertook coordinated efforts to spur operators to implement the measures called for.

In Italy, action for more effective oversight on instruments, circuits, infrastructures and intermediaries was aimed at improving the quality of traditional payment instruments, the security of new ones, and the level of risk control. Direct measures were complemented by work to sensitize operators to the need for greater transparency in practices and conduct. Bank of Italy branches will be significantly involved in the programme.

To increase the competitiveness of national systems, and in line with the development of TARGET, an improvement to BI-REL, the Italian component, was designed; services will be strengthened by adaptation to technological innovation and international standards. BI-REL's conformity with the Financial Stability Forum's principles was verified.

The Bank of Italy continued its participation in the initiatives of the World Bank and the IMF to assist the emerging countries in developing their cash and securities payment and settlement systems.

Within Italy, the transfer of central depository services for government securities from the Bank of Italy to Monte Titoli was completed, and the latter initiated a new gross settlement service. Work is under way to institute a net settlement system to replace the one provided until now by the Bank. In April 2001 the directive on settlement finality was transposed into Italian law.

Work on the renovation of the state treasury service continued last year. The linkage of the single public administration network with the National Interbank Network is the fulcrum of the computerized public administration payment system, whose objective is to extend computerized procedures while guaranteeing excellence in security, efficacy and speed of payment. The progressive integration of the treasury service into the national payment system enabled the Bank of Italy in January 2001 to begin providing cashier's services for the tax agencies created by the reform of the Ministry of Finance.

Oversight activities

International fora proceeded further in developing the principles and methods of central bank action to control risks and ensure efficiency in payment systems and to guarantee public confidence in the currency. The shared objective of safeguarding the stability of the financial system provided the basis for cooperation between payment system oversight and banking supervisory authorities.

In Italy, the payment system oversight, banking supervision and market surveillance functions intersected principally in the decrees transposing EC directives on low-value cross-border credit transfers and on settlement finality, in the process of integration between the banking and postal payments circuits, in assessing the implications of e-finance for financial system risk, and in evaluating new projects for electronic money to be used on the Internet.

In the main industrial countries the complexity of payment systems and the substantial market imperfections that persist are persuading central bankers of the need to rethink the way in which payment system oversight is exercised. Apart from moral suasion, an increasingly important instrument at the authorities' disposal is regulation to establish the rules of the market, the public aims pursued and the role of oversight. This is the direction being taken in the work to implement Article 146 of the 1993 Banking Law, which assigns the oversight function to the Bank of Italy.

Traditional payment instruments. - The number of transactions settled using instruments other than cash increased by 7.1 per cent last year. Nevertheless, cashless transactions per capita continued to be fewer in Italy than in the other main industrial countries.

The number of payments by cheque remained roughly unchanged compared with 1999 while that of credit transfers increased by 9.1 per cent and that of direct debits by 13.5 per cent. Transactions settled via payment cards increased by 23.7 per cent, notably because of the continuing extension of the POS network, which reached a total of nearly 570,000 terminals, an increase of 31.1 per cent in the year. The number of debit cards issued during the year rose by 2 per cent, that of credit cards by 10 per cent.

In view of the shortcomings of the retail payment system, the Bank of Italy initiated a plan of action to strengthen analysis and monitoring of instruments, intermediaries and payment circuits. The banking system and professional and commercial associations were urged to shorten handling time for cheques and credit transfers to converge on the average for the other industrial countries.

The survey on cheques and credit transfers conducted in March 2001 to assess the quality of the main payment services was significantly broader than that of 2000. No improvement in execution times and other conditions for end-users was found (Table 57). The deficiencies were mainly structural, involving both operating features and relations with customers.

Oversight activity has been reinforced by a survey at local level conducted via the Bank of Italy's branches. The survey focuses on qualitative and quantitative data useful to an understanding of the mechanisms and conditions that determine the efficiency of payment services; in particular with reference to cheques and credit transfers, both domestic and cross-border.

Table 57

CONDITIONS GOVERNING CHEQUES AND CREDIT TRANSFERS

(number of working days)

	Handling time					
	Average		Minimum		Maximum	
	1999	2000	1999	2000	1999	2000
Cheques						
Value date	4.0	4.0	1.7	1.7	6.2	6.0
Availability of funds	6.7	6.7	4.7	4.7	8.3	8.0
Finality	8.1	10.0	6.8	8.5	9.6	11.6
Credit transfers up to 100 million lire (€51,646)						
Value date	1.7	2.0	1.5	1.3	3.7	4.0
Availability of funds	3.0	2.6	2.1	0.9	5.2	3.2

Integration between the postal and banking payment circuits, in which Italy has long lagged behind the other European countries, made progress with Poste Italiane S.p.A.'s gradual adherence to the main banking procedures. Last year integration was extended to low-value credit transfers, and the definitive integration of the two cheque circuits is now being prepared.

The drafting of regulations to govern the operation of the Bank of Italy's interbank database on cheques and payment cards (the Interbank Alert Centre) proceeded. When the regulations are issued by the Minister of Justice and the Bank of Italy, and the procedures finalized, the preliminaries to making the archive operational will be complete.

Interbank cooperative bodies (the Italian Bankers' Association, the Interbank Convention on Automation) have initiated projects to modernize the main payment services. In addition to the measures concerning cross-border credit transfers, the desirability of a single European cheque-truncation procedure is being studied. A revision of interbank corporate banking procedures has been begun with the aim of broadening operations and permitting the use of open networks at the international level. A new bill collection architecture is now being finalized. It will rely on the RID direct interbank debt procedure (broken down into three segments, each for a specific class of customers) and on preprinted interbank payment order forms.

Electronic instruments. – A survey of Internet business by Italian banks found that in December 2000 more than 600 Italian banks were on the web, three quarters of them with sites that permit customers to conduct transactions. Active customers numbered more than 1.5 million. Payments via the Internet accounted for less than 10 per cent of the total flows, according to the survey. Transaction security relies mainly on standardized control methods and information products.

Most Internet payments are made by credit card. A survey of the main issuers found that in 2000 about 16 per cent of active credit cards were used to make at least one purchase on-line or at a distance (by correspondence or telephone). On-line and distance transactions amounted to 2 per cent of total transactions by number and 3 per cent by value, about the same as in 1999. However, fraud (theft, loss, forgery, etc.) on the Internet accounted for 7 per cent of total payment card frauds.

A number of initiatives were undertaken during the year for the use of prepaid cards on the Internet, mostly by non-banks (telephone companies, service providers, etc.). At the end of the year two of the projects were effectively operational. The projects were evaluated jointly by the supervision and oversight functions of the central bank and by the sectoral authorities as regards money laundering rules. To facilitate orientation in a regulatory framework that is still in flux, the Bank of Italy has elected an approach of interactive communication with the market, making known its objectives and concerns while inviting operators to describe their projects and the functional characteristics of their circuits.

European security strategy formed the common base for cooperation between the oversight authority and the Authority for Information Technology in the Public Administration. Their joint efforts touched on the transposition of the directive on electronic signatures; on standards for interoperability, for the certification of attribution and enduring legal validity of electronic signatures; and on technical procedures for the use of electronic identity cards, the first of which were issued in March 2001, in payments with the public administration. To improve security safeguards for payment cards, ABI launched its smart card project, which envisages the migration of bank cards to chip technology by July 2002.

The role of infrastructure. – Last year the Bank of Italy began systematically evaluating the operating risks of market payment and securities settlement infrastructures, many of which are managed by non-financial institutions. The assessment covered the main system managers, and the branches of the Bank of Italy were involved in analyzing locally important infrastructures.

The main Italian central credit institution for mutual banks acts simultaneously as payment system infrastructure and settlement agent. In close cooperation with the banking supervisory function, the Bank of Italy's oversight function evaluated proposals for regulatory reform for this payment subsystem, weighing the reliability, transparency and efficiency of the rules and controls governing relations between the parties (manager, participants, service providers) and the overall security of the circuit.

The changeover to the euro. – Monitoring of payment system operators' adaptation to the euro continued in 2000, with the collaboration of the authorities and professional and business associations involved. Within the systems operated by the Bank of Italy, the euro is used mainly in interbank transactions and large-value transactions. This is in line with the state of affairs in the other EU countries.

In planning for the conversion of bank accounts into euros, called for in the Commission recommendation of 11 October 2000, the Italian banking system envisages several phases and has invited customers to request the changeover to the euro in advance, in order to avoid the danger of concentrating all this activity at the end of the year.

Direct provision of payment services

Cash settlement. – The flow of funds handled by the clearing and settlement systems run by the Bank of Italy amounted to more than 76,000 trillion lire (€40 trillion), or 34 times the Italian GDP, representing an increase of 17 per cent compared with 1999. This re-established the upward trend in following the fall in 1999 deriving from the contraction in foreign exchange and external lira giro transactions with the introduction of the euro.

About 87 per cent of payments were made through the BI-REL real time gross settlement system, which handled an average daily volume of 45,000 transactions worth 280 trillion lire. BI-REL's turnover increased by 14 per cent in value and 4 per cent in volume, compared with TARGET system increases of 12 and 15 per cent respectively. Payments channeled through the BI-COMP retail clearing system and the securities clearing system, which accounted for 13 per cent of the total, increased by 7 per cent.

The value of domestic payments via BI-REL increased by 6 per cent, in line with the overall trend in the euro area. The growth was due to increases in customer credit transfers (23 per cent) and in interbank payments (7 per cent), which more than offset the further contraction of 4 per cent in giro transfers between resident banks ordered by foreign correspondents. This contraction is explained by the continuing decline in the use of correspondent accounts to settle cross-border payments in euros.

The number of correspondent accounts held by Italian banks with EU counterparties decreased by 11.5 per cent last year.

In confirmation of the growing internationalization of the Italian financial centre, cross-border payments were the fastest-growing component of BI-REL flows, with an increase of 33 per cent in value compared with a euro-area average of 20 per cent. The share of such payments in total BI-REL settlements thus rose from 51 per cent in 1999 to 57 per cent in 2000, and in the first quarter of 2001 it exceeded 63 per cent. The fast growth of cross-border payments is due in part to the shift in interbank transactions towards foreign operations as an effect of the progressive integration of euro-area financial markets.

Another factor in the increase in cross-border payments was growing use of BI-REL to settle commercial transactions. The increase in cross-border credit transfers was very rapid both by value (141 per cent) and by volume (78 per cent), reflecting greater activity on the part of smaller banks, which had previously relied on the intermediation of major or large banks. By number, these transfers accounted for nearly 50 per cent of all cross-border payments, compared to a TARGET average of 35 per cent. Their average size (€280,000) was smaller than the TARGET average of €1.1 million, reflecting the large role of small and medium-sized enterprises within the Italian economy.

To facilitate participation in the Italian payment system by foreign intermediaries, in November 2000 remote access to BI-REL for cross-border transactions via SWIFT was introduced for distance participants.

On 20 November, with the start of the Express gross settlement service, BI-REL began real-time settlement of the cash leg of OTC securities transactions. On 11 December it began real-time settlement of monetary policy repos with the Eurosystem.

Last year the ESCB further studied the prospective development of TARGET to meet the growing needs of intermediaries with a view to the system's extension to EU candidate countries. In line with the ESCB's call for greater functional harmonization between national systems, a number of EU members began projects to adapt their national settlement systems.

The guidelines for the development of BI-REL, which were discussed with the banking system, envisage: new instruments for managing intraday liquidity, such as a procedure to optimize its use and a liquidity reserve function for urgent payments; re-examination of charges for domestic payments using the criteria already in place for cross-border payments; and additional instruments for participants' interaction with the system, in particular for the handling of queued payments. Consultations with the banks indicated that the changes should be phased in gradually, beginning with the functions that have the least impact on internal procedures. Special attention will be paid to greater integration with SWIFT and with its new Internet-based services.

Patterns in interbank payments. – The trend in the flow of funds through the clearing and settlement system reflects changing patterns in the operations of the participating credit institutions, with a notable increase in specialization. Particularly high levels of concentration are found in cross-border and foreign exchange payments, owing to the dominant role of the major banks and foreign bank branches in this segment. There is larger-scale involvement of smaller banks in domestic customer payments and transactions involving the interbank redistribution of liquidity.

The pattern of payment system flows and operational specialization are also related to the formation of banking groups. Payments originated by members of banking groups rose to 80 per cent of total BI-REL flows in 2000. Financial integration within groups is increasing, as is indicated by the rise in the share of intragroup payments from 7.5 to 18 per cent.

Securities settlement. – The settlement procedures handled securities transactions worth about 51,000 trillion lire (€26.582 trillion) last year, a decline of 11,000 trillion lire.

In April 2000 the settlement time for stock exchange securities trades was shortened from five to three days. In May the Governor, acting in concert with the Consob, revised the period of exemption from penalties in case of late delivery of securities whose settlement was delayed to reflect that shortening.

In implementation of the Treasury Minister's order of 23 August assigning central securities depository services to Monte Titoli, the Bank of Italy acted to accomplish the transfer of banks' securities deposits to Monte Titoli with as little impact on the system as possible. Even after the transfer, effected on 11 December, the Bank continues to handle the securities used as collateral for Eurosystem credit operations, to withdraw certificates for dematerialization, to place new Treasury issues, to service the government debt and, temporarily, to execute clearing and settlement for financial instruments.

The cross-border use of securities as collateral for EU monetary policy operations and for intraday liquidity from the ESCB increased again last year. Almost all the growth came through the Correspondent Central Banking Model. Although this is a transitory channel pending the development of efficient market mechanisms, it continues to be more attractive to operators than the alternative of bilateral links between central depositories. Within the Model the Bank of Italy is the leading correspondent central bank. Last year, in fact, the Italian component handled 40 per cent of the securities deposited by non-resident banks, followed by the German and Belgian components with 18 per cent each.

Government payment services. – The modernization of state treasury services is based on widespread use of electronic systems and of the interbank settlement procedures. The integration of the state treasury into the overall payment system simplifies disbursements and revenue collection while improving the quality of service to the administration and to citizens, with gains in efficiency and reliability alike.

The Bank of Italy's efforts to make the execution of public payments more efficient, based on the integration of the Single Public Administration Network with the National Interbank Network, were joined by the other institutions involved. In December 2000 the State Accounting Office, the Authority for Information Technology in the Public Administration and the State Audit Office signed a protocol of understanding with the Bank for the creation of a Computerized System for Public Administration Payments.

The development of the new System envisages further spread of online procedures in state treasury operations, the substitution of electronic messages for the spending orders, acts and documents called for by state accounting rules, and the use of the interbank and postal circuits as standard procedure for government payments. As a promoter of the System the Bank of Italy has undertaken to adapt its treasury services to the objectives of the System and to supply the technological infrastructure for secure data transmission.

The System is open to all central government departments that use the state treasury and, in future, also to other central and local government bodies. Members must have an information system linked with the Single Public Administration Network, which permits computerized transmission of payment and collection orders. The authenticity and integrity of such orders are guaranteed by a digital signature, pursuant to Presidential Decree 445 of 28 December 2000 (the codified law on administrative documentation).

The progressive integration of the state treasury into the broader payment system and the use of computerized procedures enabled the Bank of Italy to begin, on 1 January 2001, providing treasury services for the tax agencies (revenues, customs, territory and state property) created by the reform of the Ministry of Finance (Legislative Decree 300 of 30 July 1999). The convention governing relations with these agencies provides for same-day settlement of collection and payment transactions on the agencies' treasury accounts. The Ministry of the Treasury receives a data flow classifying each transaction according to the economic-functional code agreed on with the agencies.

The initiatives begun during the year and those now being finalized have increased the operational efficiency of the state treasury and ensure the optimal management of the financial and information flows relating to government revenue collection and payments.

Implementation of the new procedures will make it easier to phase out the single treasury service for public agencies pursuant to Law 94 of 3 April 1997 and Legislative Decree 279 of 7 August 1997. A working group under the Authority for Public Administration Computerization, including representatives of the State Accounting Office and the Bank of Italy, has begun to study the design of a new treasury system for local governments that can also serve the Treasury’s need for information on the state of the public accounts and of local authorities’ observance of the Domestic Stability Pact.

THE GOVERNOR'S CONCLUDING REMARKS

Against the background of rapid economic and financial change, both in Italy and throughout the world, the Bank of Italy provides the organs of state, the country and the markets with a substantial contribution in terms of analysis and proposals. It systematically gives account of its activities in the appropriate fora.

The Bank is an active member of multilateral bodies for the international coordination of supervision and the examination of economic and monetary policies.

Within the European System of Central Banks we participate in setting the common monetary policy and are responsible for implementing it in our own market.

The programme for extending the functions performed by the Bank's branches has come into operation.

The network of branches plays a part in the supervision of banks and payment systems and the safeguarding of competition in local credit and financial markets. Increasingly, analysis of the Italian economy is being supplemented by studies of the regional structure of production and finance carried out by our local branches in collaboration with the Bank's Head Office.

Preparations for the changeover to the euro are continuing, beginning with the printing of the new banknotes, and the deadlines are being met. In conjunction with the Ministry of the Treasury and the Italian Bankers' Association, we are organizing the transition to the new currency in accordance with principles of functionality and security.

In order to increase operational efficiency, particular attention is being paid to the planning and verification of the Bank's decision-making and expenditure procedures.

We are working closely with other public bodies in the prevention and suppression of money laundering and in the fight against usury.

The projects for screen-based treasury operations are designed to integrate the public administration into the payment system and to enhance the exchange of information.

We are paying particular attention to utilizing and developing the professional skills of the staff. I wish to express my personal thanks, as well as those of the Directorate and the Board of Directors, to all our employees for their espousal of the values of the Bank and for the skill and dedication with which they perform their duties.

The world economy

The ratio between share prices and gross earnings, which stood at around 30 in the United States and Italy last May, has fallen back to 24 in the United States and 22 in Italy.

The decline in the ratio was caused by the fall in the value of technology stocks both in the United States and in Europe by about 50 per cent from the peaks of last spring, which were based on an assumption of extremely rapid earnings growth that proved unfounded. The prices of shares in traditional sectors, which account for the greater part of stock market capitalization, are still close to the peaks reached in 2000.

The long bull market began in the United States in 1995, after modest fluctuations in share prices in earlier years; the markets anticipated the exceptional rise in productivity and profits. The upward trend spread rapidly to share prices in Europe, where output grew more strongly in the second half of the nineties than in the first but did not exceed the rates achieved in the eighties.

The availability of ample liquid funds and the use of derivatives influenced valuations and helped spread the rise in share prices both within the US market and from there to other countries. The rise in equity markets went hand in hand with the reduction in interest rates everywhere; long-term bond yields fell sharply until 1998 and continued to decline in real terms in 1999 and 2000.

The abundance of liquidity in international markets encouraged corporate acquisitions and mergers in the service sector and in industry, both within the euro area and between companies in the area and firms based elsewhere.

In Italy, France and Spain there were more concentrations between financial intermediaries than in the early nineties and the amounts involved were larger. The operations were mainly between companies in the same country, but the international openness of banking and financial systems is increasing everywhere.

The euro area

The introduction of the single currency and the intensification of capital movements have made the effects of rigidities and structural shortcomings more obvious in many economies. It is necessary to remove them, in order to remain competitive in the new environment.

The aging of the population in Europe weighs on the prospects for long-term growth.

More rapid and lasting growth requires a prolonged expansion in domestic demand. At the same time, it presupposes reforms that limit public expenditure in relative terms, offer the prospect of a reduction in the tax burden and amend the rules governing the labour market and the regulation of corporate activities. Sensible immigration policies can mitigate the effects of the aging of the population.

In Germany and France programmes have been launched to reduce the tax burden on households, firms and the financial markets. In Italy moves towards a larger tax reduction conflict with the need to contain the budget deficit and reduce the ratio of public debt to GDP.

Increasingly, the social security systems of the majority of European countries are proving to be financially unsustainable. Expenditure on pensions reflects legislation passed in times of rapid economic growth and when the demographic structure was closer to the norm.

In the three years from 1998 to 2000 gross domestic product increased at average annual rates of 2.9 per cent in the euro area, 4.5 per cent in the United States and 4.1 per cent in the emerging economies.

Over the same period, GDP growth in Italy averaged 2.1 per cent, the lowest rate among the European countries.

In the euro area growth was fueled by exports, which increased by an annual average of almost 8 per cent over the three years, against the background of a depreciating currency. Household spending grew in line with output, while corporate investment rose almost twice as fast, at an annual rate of 4.9 per cent, aided by high profit margins and an abundant supply of credit.

Gross domestic product increased by 3.4 per cent in 2000. The rise in energy prices drained purchasing power away from households and firms and generated inflationary pressures.

The balance of payments on current account, which had shown a surplus of 31 billion euros in 1998, has steadily deteriorated. The deficit rose from 6 billion euros in 1999 to 34 billion in 2000, equal to 0.5 per cent of GDP.

The monetary authorities countered the growing inflationary pressures with a series of increases in official rates totaling 225 basis points between November 1999 and October 2000.

Forecasts for this year indicate a weakening of demand and output in the area. The slowdown in activity became more marked in the first quarter of this year. In the largest economy the increase in output in relation to the same period of the previous year was 2 per cent; in May the rise in consumer prices reached 3.5 per cent.

Consumer price inflation in the area averaged 2.3 per cent in 2000. In 2001 the annual rate will still be above 2 per cent; it should gradually decline over the coming months and fall below this threshold in 2002.

At the beginning of May we reduced official interest rates by 25 basis points, bringing the rate on main refinancing operations down to 4.5 per cent.

World economic developments

The prolonged expansion in domestic demand in the United States helped to sustain the rapid growth of the world economy in the second half of the nineties. The current account deficit reached $435 billion last year.

Part of the deficit is in relation to firms and economies for which the United States and the dollar are a point of reference. The breadth and depth of the financial markets, the earning prospects of investments and the stable institutional environment have continued to attract direct and portfolio investment from all over the world.

The demand for dollars for both financial and direct investment was consistently greater than the supply generated by the current account deficit.

Between 1995 and 2000 the dollar appreciated by 24 per cent in nominal terms and by 17 per cent in real terms.

Hourly labour productivity in the non-farm private sector rose by an average of 3 per cent per year in the second half of the nineties, compared with 1.4 per cent between 1974 and 1995. More than one percentage point of the acceleration was due to technological and organizational advances; the remainder can be ascribed to growth in the capital stock. The cyclical upturn made it possible to modify the structure of the economy.

Hourly labour productivity in manufacturing industry rose by an average of 4.4 per cent per year between 1996 and 1999. The electronics and communications sectors recorded annual increases in excess of 10 per cent in the nineties.

Abundant liquidity and the gradual fall in the cost of capital stimulated a sharp acceleration in the world economy during 1999 and the first half of last year.

After growing by 2.8 per cent in 1998 and by 3.5 per cent in 1999, output increased by 4.8 per cent in 2000.

World trade in goods and services, which had grown at an annual average rate of 6.5 per cent between 1995 and 1999, rose by 12.4 per cent in 2000.

In the emerging economies, exports to developed countries increased substantially and domestic demand in the form of consumption and investment rose.

The speed of the expansion in the world economy over the last two years generated widespread inflationary pressures. The price of crude oil increased threefold between the end of 1998 and November 2000, partly on account of the oligopolistic constraints on supply.

Consumer price pressures intensified last year. In the industrial economies inflation increased by one percentage point; in Europe the depreciation of the currency was a contributory factor.

The very factors that had fostered the recovery of the world economy were ultimately responsible for depressing growth via their effect on inflation.

In Italy the increase in energy prices reduced the disposable income of the private sector by an estimated 1.5 per cent.

The rise in energy prices also had a significant effect in the United States and Japan, countries where energy intensity per unit of output is high, and in numerous emerging economies that depend heavily on imported oil.

In the United States the slowdown in activity was abrupt; in the last quarter of 2000 investment fell for the first time in many years. Consumer demand continued to grow, but more slowly.

Financial factors also had an adverse effect. Credit conditions, which had been particularly favourable until last year, became tighter during 2000, partly on account of the repeated raising of official rates. An over-optimistic assessment of firms' prospects, which was reflected in the excesses of some segments of the stock markets, had been accompanied by abundant bank lending at relatively low interest rates, especially to firms in the new technology sectors.

In Japan the recovery recorded in the first half of last year was frustrated by the weakening of neighbouring economies. Exports slackened considerably and private consumption declined in the second half of the year. The quality of banks' assets is deteriorating as uncertainty about the recovery persists; it is being affected by fluctuations in share and property prices.

In Europe a gradual slowdown in economic activity until the third quarter of 2000 was followed by a recovery in the fourth in some countries, including Italy. The recovery proved to be short-lived, with growth declining sharply in the first quarter of this year.

The slowdown in activity spread to all regions of the globe.

The rate of growth in output in the newly industrialized countries, which stood at 8 per cent in 1999 and 2000, will fall to 4 per cent this year.

The appreciation of the dollar exacerbated the position of countries whose currencies are pegged to the US currency. In Argentina the authorities responded to the crisis by taking additional restrictive budgetary measures and obtaining financial support from the International Monetary Fund and the World Bank.

In Turkey the crisis arose because of a serious deterioration in the assets of public-sector banks. Here too, financial support from the international community was needed.

According to IMF estimates published in April, the world economy will grow by 3.2 per cent this year. In the United States the increase is put at 1.5 per cent.

The US economy should nonetheless regain momentum in the second half of the year owing to the expansionary effects of monetary policy and the budget measures already approved by Congress.

The Federal Reserve reduced interest rates aggressively from the beginning of January onwards. The first reduction of 50 basis points was followed by four further cuts of 50 basis points each in late January, March, April and May. The federal funds rate was brought down to 4 per cent and the discount rate to 3.5 per cent.

The rate cuts prevented a collapse in equity prices and improved investor confidence.

Available data point to a small increase in output in the first quarter. While a recovery in investment seems unlikely in the short term, especially in the sectors where capital spending was very high in the last decade, output in the automobile industry and investment in new homes are rising. The fall in employment and the decline in the value of financial assets are generating uncertainty about the prospects for consumption.

The fiscal package will produce an initial reduction in taxes of about \$40 billion in the closing months of this year; the total for the years 2001 and 2002 will amount to about \$110 billion. The measures extend over a period of ten years and will bring down the tax burden by a total of \$1.35 trillion, equal to more than 1 per cent of GDP for the entire period. It will also have significant supply-side effects.

The growth potential of the US economy remains high. Bringing actual growth back closer into line with potential growth will be crucial for the equilibrium of the entire world economy.

Economic recovery in Japan depends on restoring the banking system to health and on implementing sweeping structural reforms that can restore household and business confidence, revive domestic demand and change the structure of the economy.

In the euro area efforts to stabilize the public finances must continue. Reforms to stimulate investment and increase supply-side flexibility must be implemented.

A new global equilibrium

Growth rates in China and India will remain high. In the rest of Asia economic expansion will be slower than in the last two years.

In Latin America the Mexican economy, with its greater vulnerability to the deceleration of demand in the United States, will undergo a pronounced slowdown. In Brazil economic activity should continue to expand, thanks to the flexible exchange rate regime and rising domestic demand.

In the economies in transition, the harm will be greatest where relations with the industrial countries are closest.

The downturn in the world economy is exacerbating the problems of the least developed countries. It is making it all the more urgent to achieve the poverty reduction targets set by the United Nations and endorsed by the World Bank and the International Monetary Fund.

In the nineties the free movement of capital and investment led to vigorous growth for the economies and industries best integrated into world trade.

The liberalization of trade in medium and high-technology industrial products created openings for business start-ups, often by major multinational corporations, in countries where labour costs and consumption are particularly low.

In a number of industries the products of the emerging economies now compete effectively with those of the traditional industrial countries.

However, the expansion in world economic activity during the last decade and the overall improvement in living standards have been accompanied by a deterioration in income distribution and a worsening of disparities both within the developing countries and between different parts of the world.

Because of extreme social backwardness and political instability, many economies have drawn only limited benefit from globalization, others none at all. Traditional industries in some of the less backward countries have suffered as a result of competition from cheaper products.

Recurrent financial crises have had severe repercussions on employment and the welfare of the population.

In the two most populous countries of Asia the benefits of macroeconomic progress have spread to large parts of the population; in the other developing economies of Asia, Latin America and Africa the number of people living in extreme poverty has increased.

In some countries civil war or international conflict has had serious repercussions on living standards.

Even in the seventies, and also during the decades that followed, the flow of public and private funds to economically backward countries was not put to fruitful use. Their mounting foreign debt and difficulty in servicing it drove these countries to the margins of world economic development.

All the international institutions are engaged in a profound rethinking of the impact of globalization on the stability of the emerging economies and the distribution of the benefits of economic transformation and changes in production methods.

The initiative to reduce the debt of the heavily indebted poor countries, which was launched by the Group of Seven countries at the Cologne summit in June 1999, began to be implemented last year. In accordance with the conditions laid down by the International Monetary Fund and the World Bank, agreements for the partial cancellation of the debts of 22 of the 41 poorest countries were concluded.

The current value of the debt was reduced by about half. The reduction in interest payments was more than 40 per cent; $375 million a year has been remitted by the World Bank. If bilateral debt relief measures are included, the debt reduction amounts to nearly two thirds.

The developed countries have been urged to cancel all or part of their official trade credits.

Italy has cancelled claims amounting to about $1.8 billion. A further reduction of up to $3.6 billion is scheduled to take place by the end of 2003.

Negotiations on the start of debt reduction are under way with the other 19 countries. The talks with nine of them are hindered by military conflict.

Strong calls for debt relief, which is being pursued by the Bretton Woods institutions, were made by the Roman Catholic Church in connection with the Jubilee Year and by other churches, non-Christian religious groups and non-governmental humanitarian organizations. Debt remission accords with the principles of human and civil solidarity. It reintegrates the poorest economies into world commerce, where they often face unfavourable terms of trade. It is the prerequisite for foreign investment that can trigger economic development.

New rules are needed for handling official aid to the least developed countries. A greater role must be given to international organizations and multilateral development banks, which assign higher priority than donor countries to the objective of reducing poverty.

The traditional agricultural and textile products that frequently typify the developing economies still run up against tariff barriers and, in the case of textiles, import quotas in the advanced countries.

The World Trade Organization must resume negotiations on the liberalization of trade, first and foremost in foodstuffs and textiles, while taking due account of the interests of the least developed countries and safeguarding the environment and local culture.

The European Union's decision to remove the barriers to imports of all products from the poorest countries, except for arms, will contribute in this regard.

Italy's "beyond debt relief" initiative, which was announced at the meeting of finance ministers and central bank governors in Palermo in February and will be on the agenda of the Genoa summit of the Heads of State and Government of the major industrial countries, aims in this direction.

Globalization and financial capitalism are powerful, fundamental factors in extending development to the least developed economies. They need to be supplemented by policies to amplify their positive effects and more effectively prevent the crises of the last few years from recurring.

Through the operation of the market, trade liberalization tends to concentrate products of higher quality and greater value added in the advanced economies, leaving the mass production of basic goods to the middle and low-income countries.

The industrial countries should encourage this tendency by adopting economic policies that foster technological innovation and scientific research and thus succeed in combining stronger domestic growth with the development of the emerging economies.

The outcome, in a framework of closer international cooperation, should be a widespread increase in welfare at the global level.

Economic development, the reduction of poverty, better social equilibrium and decent living standards for the people of the developing nations are closely interlinked. These objectives must be pursued with foresight and determination, thereby contributing to international détente and peace.

Banks

In the mid-nineties the Italian banking system was still fragmented. The return on capital was far lower than in the other leading countries.

The earning capacity of Italian banks was limited by the growing volume of non-performing loans, the narrow range of services provided to enterprises and households and high labour costs.

Staff costs absorbed 44 per cent of revenues, 7 percentage points more than the average for German, French, British and Spanish banks.

At the urging of the Bank of Italy, the banking system has achieved a substantial improvement in efficiency as a consequence of privatizations, consolidation and restructuring. The deregulation of operations, the entry into the market of leading foreign intermediaries and the expansion of supply networks have intensified competition. Innovative products and distribution channels have been developed, production processes reorganized and labour costs held down.

The contestability of ownership and the need to raise capital in the markets to finance concentrations have forced banks to set higher objectives for profitability. The number of banks listed on the stock exchange has doubled in the last ten years: on a consolidated basis, the 40 banks whose shares are traded on the main market account for 80 per cent of the banking system's total assets.

The efficiency gains achieved by the banking system and the reduction in the cost of intermediation benefit the entire economy, households and enterprises.

The consolidation of the Italian banking system has been particularly rapid in the last five years. Bank mergers and acquisitions accounted for nearly 40 per cent of all M&A activity by value; the only major country to record a higher proportion was Japan, where a large number of concentrations involved companies in serious difficulties. In the United States the proportion was 15 per cent, in France 16 per cent and in Germany 3 per cent.

Between 1996 and 2000 banks holding 37 per cent of the banking system's total assets were the target of mergers and acquisitions; in the preceding five years the figure had been 15 per cent.

Large banking groups have been created; the five biggest account for 54 per cent of total assets, compared with 36 per cent in 1995. The degree of concentration in the industry is similar to that in France and Spain and higher than in Germany and the United States.

The larger scale of production has allowed banks to achieve economies in the supply of services, especially in the field of managed savings, and to develop distribution channels based on new technologies. The number of customers using telecommunications links to obtain information, trade securities and carry out banking transactions is growing rapidly.

As a result of restructuring, the major banks in southern Italy have acquired stable ownership structures, improved their profitability, rebuilt their capital bases and are now again providing support for production and investment.

In response to strong urging by the supervisory authorities in 1997, banks have adopted measures, in agreement with the trade unions and with the blessing of the Government, to curb their unit labour costs and make better use of the professional skills of their staffs. At the same time they have expanded their activities with a higher value added.

The rise in unit labour costs in the four years from 1997 to 2000 was reduced to an annual average of 1.2 per cent in nominal terms. The payment of incentives totaling 2,600 billion lire encouraged the exodus of 21,900 employees. Employment declined by 3 per cent in the banking industry as a whole; at the largest banks it fell by 10 per cent, while at smaller banks it rose by 7 per cent.

Labour productivity increased at an annual average rate of 6 per cent; the figure for the largest banks was 8 per cent.

In 1999, the last year for which international comparisons can be made, the ratio of staff costs to revenues at Italian banks was close to the average for France, Germany and Spain. Average staff costs per employee are nonetheless still higher than the average for the other main euro-area countries.

The favourable trend in the profitability and financial structure of industrial firms and improvements in loan management have contributed to reducing credit risk. The ratio of the flow of new bad debts to total loans stood at around 2.5 per cent in the mid-nineties; it fell to 1 per cent in 2000.

The progress made by the banking system is confirmed by the results of on-site examinations. In the three years from 1998 to 2000, inspections were carried out at 516 banks with 32 per cent of the system's total assets. Highly positive assessments were issued for banks representing 19 per cent of the system, negative assessments for banks with a market share of 4 per cent. In the three preceding years, the corresponding figures for a sample representing 36 per cent of the banking system were 10 and 8 per cent respectively.

The efficiency gap between Italian banks and their main European competitors has been almost closed. The ratings awarded by international agencies have improved.

The increase in profitability has led to bank shares outperforming those of industrial companies and foreign banks over the last five years.

Results for the year 2000

The improvement in profitability was more pronounced in 2000 owing to the rise in credit demand, boosted by investment, and the further rapid growth in asset management services. Total revenues increased by 11 per cent.

Operating costs rose by 4.7 per cent, primarily as a result of investment to expand distribution channels and upgrade information systems.

In the course of the year employment increased by 4,400 in small banks and fell by a similar number in large ones.

The Solidarity Fund that recently came into operation provides the means for improving staff qualifications and making more efficient use of personnel.

Loan losses fell to their lowest level for ten years as a percentage of total lending.

Banks' return on equity averaged 11.3 per cent, the highest value since the middle of the eighties; for large banks the figure was 13 per cent.

Maintaining a high level of profitability requires careful management. The slowdown in economic activity and the fall in share prices are reducing income from services and having repercussions on the financial situation of corporate borrowers.

In Italy equities account for a small part of banks' securities portfolios. The commissions earned on placements and securities trading fell sharply in the first quarter of this year, as did those generated by asset management services. The net assets of investment funds contracted, partly as a result of net redemptions.

The rapid growth in bank lending, which outstripped that in fund-raising, was financed primarily by increased borrowing abroad and disposals of government securities. Dependence on wholesale funds, which are subject to sudden shifts in the terms on which they are supplied, and the reduction in the volume of liquid assets may cause the cost of banks' funding policies to rise if strains develop in the market.

A substantial proportion of new lending was to large enterprises; the decisions to grant credit were mostly made in the first half of the year, when the profitability of investment projects was judged to be especially promising. Very large loans were granted at below-average rates to groups in the telecommunications industry.

Since the summer of 2000 growing uncertainty in all markets about corporate profitability has caused share prices to fall in several sectors and the risk premiums demanded for placing bonds to rise.

Lending decisions, especially where innovative sectors are concerned, must be based on a careful assessment of the quality of investment projects, their profitability over time and the firms' exposure to adverse cyclical developments. At a time of wide fluctuations in economic activity and in the prices of securities and property, the price of credit must be based on an assessment of lending risk that goes beyond the short term.

Prospects and outstanding problems

The need to compete in international markets requires further increases in the profitability and efficiency of Italian banks. The range of services provided to enterprises must be broadened and the quality of those supplied to households improved; banks' capital bases must be strengthened.

The groups that have recently been formed must complete the integration of their production and control functions.

More than three quarters of banks' fee income comes from services provided to households, especially asset management; the supply of services to enterprises is still limited.

In Italy, as in other European countries, the demand for services is growing strongly, in connection with the rapid development of share and bond markets, syndicated loans, takeovers and corporate restructuring. In Europe fees from services provided to enterprises in the last two years are estimated to have been on the order of 25 billion euros, three times the figure for 1997 and 1998.

For the major Italian banking groups, the capture of a significant share of these markets will be the key to expanding their businesses and increasing and stabilizing their profitability.

Innovations and the growing complexity of financial products make it harder for savers to be fully aware of the risks when choosing investments. Transparency and fairness in dealings with customers strengthen confidence in the financial system, enhance intermediaries' reputations, and are a means of competing successfully.

We have specified the information that Community and Italian law requires banks to make available to customers and the method of disclosure. More stringent rules have been issued for structured notes combining features of derivative instruments and bonds.

Via our network of branches, we have begun a systematic survey of bank branches in their local markets to verify observance of the rules on disclosure and investigate any anti-competitive behaviour that comes to light.

We trust that banks will take steps on their own initiative to ensure scrupulous compliance with proper professional conduct, simplify their contracts, and make it easier to understand the obligations of the parties and compare the terms and conditions applied by different institutions.

There is a need for a substantial improvement in relations between banks and their customers.

The rapid growth in lending in the last few years has reduced the banking system's capital adequacy, for which the minimum standard is 8 per cent of risk-weighted assets. Despite very large increases in share capital and the high level of self-financing, the solvency ratio fell to 10.3 per cent in 2000, compared with 11.3 per cent in 1998.

The solvency ratio in Italy is lower than in the other Group of Ten countries; at the end of 1999 the average for internationally active banks was 12 per cent.

The new capital Accord being drafted within the Basel Committee requires banks to develop more accurate methods for assessing their capital adequacy and to follow operational policies that ensure its maintenance over time. It recommends that banks have own funds in excess of the minimum standard and broadens the range of information to be disclosed concerning the risk-management techniques used.

The Bank of Italy has contributed to devising a balanced solution for the new regime. Banks are left ample freedom to determine their capital requirements on the basis of appropriate internal procedures for measuring the probability of customer default as an alternative to the assessments of rating agencies, which small firms do not normally use.

The supervisory authorities will check compliance with the standards set at international level and the use of such procedures in evaluating creditworthiness and setting interest rates.

Under this new regulatory regime banks' capital is more closely related to the risk inherent in their assets; they will have to seek higher returns on capital by reducing their costs rather than by increasing the volume of loans with higher yields and greater risks.

Mergers and acquisitions have permitted the rapid creation of sizable banking groups operating in many markets and able to take advantage of the contribution that banks with long traditions and solid relationships with their local customers can make.

The priorities are to integrate different corporate cultures, to overcome the complex problems that arise in defining strategies by bringing different entities under unified management, and to coordinate the use of distribution channels and operating techniques. Only in this way is it possible to increase efficiency and productivity and ensure better combinations of risk and return on the assets side.

Banking foundations played an important role in the privatization programme; they are members of the stable groups of shareholders they helped to form when the share sales were carried out. They may not be involved in the management of banks; the members of their governing bodies may not hold positions in the banks in which they have an interest; the rules on incompatibilities between appointments must be observed. It is not in the spirit of the law for foundations to reinvest privatization proceeds in the banking sector; the acquisition of very small holdings of bank shares as financial investments must be part of a portfolio diversification policy.

The financial markets and the allocation of savings

Banks figure prominently in the intermediation of savings in all countries, including those where the role of stock markets is pre-eminent. In the investment fund sector, banks' market share is large in Italy, in line with that in France and Germany and larger than in the United Kingdom, where it is close to 50 per cent. In the placement of bonds, their role is of comparable importance in the major European countries.

Leading countries have amended their legislation in order to allow banks to operate in sectors formerly reserved for other intermediaries. In the United States, the repeal of the Glass-Steagall Act in 1999 encouraged links between banking, finance and insurance.

The growth of the share and bond markets, the wide range of competing intermediaries, transparency and the action of the supervisory authorities counter the risk of conflicts of interest in the provision of services to customers.

Italian households' propensity to save declined considerably in the nineties, primarily because of the scant growth in disposable income. The ratio of households' saving to income fell to 11.3 per cent in 2000, compared with 17.2 per cent in 1993. The ratio is higher in France and Japan, where it is equal to 15.6 and 12.8 per cent respectively; it is lower in Germany and the United Kingdom, standing at 10.1 and 3.9 per cent; it has fallen to nil in the United States.

The decline in inflation has led to changes in the composition of households' wealth. Savers are turning to long-term financial assets, and particularly to shares, entrusting a high proportion of their portfolios to institutional investors. Demographic trends and the prospects of pension-system reform are reinforcing this tendency.

As the Italian financial system moves towards more efficient, internationally open arrangements, banks are capitalizing on their links with customers, turning the knowledge they derive from their experience of working with firms to the advantage of savers, and thereby lowering the information barriers to smaller firms' access to the capital market.

A wide array of services and the development of the securities markets will facilitate the financing of innovative projects characterized by high risks and returns and deferred profitability, leaving it to the market to select the most efficient ownership and operational arrangements.

It is necessary to reduce the tax-related competitive disadvantages that are causing important Italian intermediaries to move their operations to financial centres elsewhere in the euro area. The loss of professional skills and the relocation of massive investments tend to diminish the growth potential of the entire financial system.

The privatization of market organizations has been completed; the high degree of fragmentation that once characterized the sector has largely been remedied; the services provided for market participants have increased.

The development of a major financial centre in Italy is beneficial first and foremost for an efficient allocation of domestic savings. It contributes to strengthening the European market.

The Strategic Planning Committee composed of the Treasury, market participants, Consob and the Bank of Italy is working towards this objective.

Forty-five companies were admitted to stock exchange listing in 2000, a large proportion of them on the Nuovo Mercato. This was the highest number in the last ten years.

Because the private capital market is still small, a substantial part of the demand for diversification of households' portfolios of financial instruments tends to be directed abroad.

Households are assisted in this by institutional investors, which achieve large economies of scale in collecting and producing information on foreign firms and markets. At the end of 2000 foreign assets accounted for 53 per cent of Italian investment funds' net assets; for equities the proportion was 75 per cent.

The balance on portfolio investment has deteriorated steadily since 1995. In 2000 there was a net outflow of 51 trillion lire. Inward portfolio investment fell to 116 trillion lire last year, compared with 190 trillion in 1999.

Direct investment flows, which depend more directly on developments in productive activity, were virtually in balance. Inflows and outflows were equal to 1 per cent of GDP last year. They are small in relation to the level of development of Italy's industrial and service sectors.

The smallness of the flows testifies to the insufficient international-ization of Italian firms, due partly to their small average size. It reveals the difficulty of attracting finance from abroad. These are attributable to regulatory and administrative inefficiencies, obstacles to the establishment of businesses, inadequate infrastructure and the heavy burden of tax and social security contributions.

It is necessary to offer better opportunities for the investment of domestic savings, to attract a significant proportion of international capital for the development of innovative sectors, and in this way to improve our economy's growth prospects.

The Italian economy

The Italian economy grew by 2.9 per cent in 2000, a considerably higher rate than in previous years.

In the period from 1996 to 1999 the average annual increase in GDP had been 1.6 per cent.

Domestic demand did not fail to contribute in those four years, growing at an average annual rate of 2.4 per cent. Capital spending expanded rapidly. A substantial part of the increase in demand translated into imports rather than domestic output.

Italy's world market share fell considerably, from 4.6 per cent in 1995 to 4.1 per cent in 1999. The stabilization of the currency was not accompanied by a compatible trend in production costs.

The lower competitiveness of Italian products in both the international and the domestic market was reflected in the modest growth in industrial production. Between 1995 and the fourth quarter of last year production increased by 9 per cent in Italy, compared with 20 per cent in the euro area; in France and Germany it expanded by 17 and 19 per cent respectively.

The loss of competitiveness is attributable not only to adverse cost and price trends, but also to the type and quality of Italian products and, more generally, to the mismatch between supply and the composition of demand.

One factor is the limited production of high-technology goods in Italy. World demand for such goods is growing twice as fast as that for other products. In the last ten years their share of total exports of manufactures remained static in Italy at 8 per cent, while it rose from 13 to 19 per cent in the European Union and from 26 to 29 per cent in the United States.

In 2000 exports of goods and services grew by 10.2 per cent, compared with an increase of 12.4 per cent in world trade. Exports to euro-area countries rose by 5.4 per cent, while those to the rest of the world increased by 13.3 per cent, boosted by the depreciation of the currency.

In response to robust demand, imports expanded rapidly, but by less than exports.

Consumption increased by 2.9 per cent. Investment excluding construction grew by 7.8 per cent, that in construction by 3.6 per cent.

As in the other European countries, economic growth gradually slowed down in the course of the year.

Signs of a reversal of trend became apparent in the summer. Foreign and domestic orders began to decline as early as mid-year; business confidence deteriorated.

Domestic demand showed signs of weakening in the second half of the year, reflecting the erosion of purchasing power due to the increase in the prices of oil products. Exports slowed down sharply in the autumn; the deterioration in the terms of trade led to a deficit on the current account of the balance of payments after seven years of surpluses.

The acceleration in inflation due to the rise in energy prices depressed the propensity to save. Only part of its effects became apparent in 2000; they will be reflected in consumption and the other components of demand this year.

Employment

Labour market reforms enabled Italy to be among the countries to benefit from the world economic upturn in terms of higher income and employment.

Unemployment fell from 11.2 per cent of the labour force in the fourth quarter of 1999 to 10 per cent in the corresponding period of 2000. The employment rate among the population between the ages of 15 and 64 rose to 53.5 per cent last year; the average for the euro area is above 60 per cent.

According to the national accounts, the number of persons employed rose by 1.7 per cent in 2000 to an annual average of 22.6 million.

In the other ten countries of the euro area, employment expanded by 2.1 per cent. In Spain and France the increase amounted to 3.3 and 2.3 per cent respectively; in Germany it was 1.6 per cent.

According to the labour force survey, in 2000 the number of persons in work rose by 1.9 per cent, or 388,000, comprising 80,000 self-employed workers, 203,000 part-time or fixed-term employees and 105,000 full-time permanent employees.

During the three preceding years, employment had increased by only 567,000 persons owing to the slowness of economic growth; almost all of the new jobs were part-time or fixed-term positions.

The number of persons in permanent payroll employment began growing again in the second half of 2000; between last October and January of this year the increase amounted to 160,000 workers, of whom 97,000 were in the South.

The Finance Law for 2001 introduced a tax credit of 800,000 lire a month, valid until December 2003, for each additional employee hired on a permanent basis; the incentive is increased by 50 per cent in the southern regions. The reduction in labour costs for each new employee averages 16 per cent in the Centre and North and 31 per cent in the South. The measure is also an effective means of bringing undeclared employment into the open.

At the end of last year employment surpassed the peak recorded at the beginning of 1992, thus making good the loss of more than one million jobs suffered between then and 1995.

The composition of employment changed during the recovery. The number of full-time employees and self-employed workers increased by 226,000; that of workers with fixed-term, part-time or temporary contracts rose by 828,000. One third of the part-time and fixed-term workers accepted such employment because they were unable to find a steady job.

The demand for skilled labour is tending to grow: the number of persons employed in professional or specialized work requiring a high-school or university education is rising, while the number of blue-collar workers, artisans and clerical workers employed in tasks requiring the least skills is declining.

A higher level of education increases the probability of employment; it is generally associated with higher pay.

The proportion of the population between the ages of 25 and 59 with at least a high-school diploma rose from 38 to 48 per cent between 1995 and 2000. Italy still lags significantly behind the other countries of the European Union, where the average is 69 per cent.

The improvement in the quality of job vacancies did not fully match that in the average level of schooling; the correlation between level of education and positions offered by firms weakened. The possibility of developing human capital in the workplace is decreasing.

The proportion of workers on relatively low pay has increased; in the ten years from 1989 to 1998 it rose from 6 to 12 per cent among full-time workers, including those with a high level of education.

The composition of employment reflects the insufficient adjustment of the structure of production: activity remains fragmented among a multitude of small firms; industrial production and exports are not responding adequately to quantitative and qualitative changes in demand; high-productivity services are underdeveloped.

The rise in total factor productivity is small.

Capital spending was increased substantially in the last five years, with the aim of reorganizing production and replacing unskilled labour. However, changes in the structure of the economy and productivity gains were impeded by the hesitant growth in output.

The innovations in labour contracts have made a sizable contribution to the growth in employment. Further benefits can come from a widening of the range to provide a bridge from temporary jobs to more stable employment.

More widespread and effective use of wage flexibility that provides workers and their families with a dignified standard of living and is also consistent with profitability and the needs of production will further raise the overall employment rate, contribute to the economy’s competitiveness and increase firms’ propensity to invest.

The public sector

The general government borrowing requirement net of settlements of past debts and privatization proceeds, which had been equal to 9.5 per cent of gross domestic product in 1994, was reduced to 3 per cent in 1998 and 2.2 per cent in 1999.

The improvement in the public finances came to a halt in 2000.

The borrowing requirement rose from 47.5 trillion lire in 1999 to 72.7 trillion in 2000, or 3.2 per cent of GDP.

General government net borrowing diminished from 1.8 per cent of GDP in 1999 to 1.5 per cent in 2000. The difference between the borrowing requirement and net borrowing increased to 38.3 trillion lire.

While nominal GDP rose by 5.2 per cent, public expenditure net of interest payments increased by 3 per cent; revenue grew by 3.2 per cent. Despite the modest rise in interest rates, interest expenditure diminished further in proportion to GDP.

Personnel costs were affected by delays in renewing most of the collective wage agreements for public employees. Pension spending benefited from the raising of the retirement age by one year and from the adjustment of pensions on the basis of the inflation rate for 1999, which was lower than that for 2000.

Health costs continue to rise rapidly.

The increase in revenue in 2000 was sustained not only by the growth in economic activity but also by the rise in share prices in 1999, which was reflected in the yield of the withholding tax on managed savings. VAT revenue increased, in part owing to the rise in the prices of oil products.

The tax reductions enacted in the Finance Law for 2000 and the further reduction of 13.1 trillion lire provided for in the budget measures for 2001 worked in the opposite direction.

The deterioration in the public finances has continued into the current year.

In the first four months of 2001 the Treasury borrowing requirement came to 54.8 trillion lire, 20.3 trillion more than in the same period of 2000 and practically equal to the forecast for the entire year.

Expenditure on public sector wages and salaries will accelerate in the course of the year as a consequence of collective wage agreements. Spending on health care will continue to fuel the growth in public expenditure.

Revenue will be affected by the cyclical slowdown in growth and last year's stagnation in equity prices.

The reduction in the tax burden planned for 2001 and subsequent years is not matched by the trend in expenditure as a proportion of GDP.

Measures to curb the growth of current expenditure in the medium term are essential in order to ease the tax burden significantly, to finance increased public investment and to achieve a balanced budget.

By international standards, Italian health care expenditure is not disproportionate to the size of the economy, but fundamental problems in connection with the efficiency of health services and the aging of the population remain unresolved. In the absence of effective means to regulate access to health services, the weakest social groups will suffer from rationing.

The rise in health expenditure was slowed by the reforms of 1992, but from 1996 onwards spending again increased more rapidly than GDP. The trend has been accentuated in the last two years, with substantial overshooting of the sector's budget allocations.

There are marked disparities in the quality and cost of health care between regions, and between different facilities in the same region. Such inequalities demonstrate the wide scope that exists for reducing expenditure and improving efficiency.

It is necessary to rethink the provision of health care services, beginning with a systematic examination of the costs and activities of individual institutions and proceeding to a review of the overall organization of the system. Eligibility must be redefined. Greater recourse to private health insurance could permit a more efficient mix of public and private provision.

Over the medium and long term, the pension system exhibits disequilibria, the fundamental nature of which has been clearly identified and which are similar to those found in most continental European countries and other large industrial economies.

The disequilibria stem from the slowdown in economic growth and the aging of the population.

Over the last decade Italy has initiated major reforms that have significantly curbed expenditure on pensions. Such spending nevertheless remains high and is tending to rise. It is not compatible with lasting budget balance and the objective of reducing the tax burden.

Prompt action is needed to attain a gradual but significant rise in the average age of retirement. Wide freedom of choice in this regard must be guaranteed, with appropriately calibrated costs and rewards. This will make it possible to reconcile the curbing of pension expenditure with the guarantee of reasonable living standards for future retirees. Efforts must continue to be made to augment the role of funded private pension schemes.

In the nineties the reform of local government finances strengthened the autonomy of regional and local government. The curbing of transfer payments from central government contributed to the adjustment of the public finances.

A domestic Stability Pact was introduced in 1999 to ensure that the decentralization of public finances would be consistent with the targets for the public sector budget as a whole. Substantial legislative and regulatory measures to implement the pact are still required.

Funding responsibility must be more closely correlated with spending powers at each level of government. Budget constraints must be made binding. The financing of investment must be ensured.

Fiscal decentralization will become increasingly important in the light of the foreseeable reform of state institutions. The positive aspects of federalism must be harnessed to derive the benefits it can offer in terms of resource allocation and the ability to match public services more closely to the needs and preferences of the local community. The transfer of adequate resources from the more highly developed to the less well endowed parts of the country will ensure the provision of basic services to all citizens.

There remains the problem of the efficiency and effectiveness of government action.

Progress has been made in recent years, especially in the simplification of administrative procedures, but Italy is still one of the countries in which the public sector contributes least to the competitiveness of the economy.

Cost reductions throughout general government, organizational and technological innovation and an improvement in services to the community can bring substantial benefits in terms of growth in gross domestic product, given the comparatively large size of the public sector and its low level of efficiency.

Investment

The growth in investment reveals the expectations for the development of an economy and defines its features.

Between 1995 and 2000 total investment increased at an annual rate of 4.1 per cent; in the first half of the nineties it had contracted, sapping the economy's ability to respond to the expansion of demand and reducing the growth in potential output.

In the last five years investment in machinery and equipment, transport equipment and intangible goods has increased at an average annual rate of 6.1 per cent. Expenditure on intangibles has been especially strong, growing at nearly 10 per cent per year.

High profits, tax incentives for their reinvestment and the availability of abundant finance at low cost have encouraged firms to invest heavily.

Construction activity has also been recovering since 1999, thanks to lower interest rates and tax incentives for renovation work.

Rather than in industry, productive investment has been concentrated in services, in line with the long-standing tendency in the advanced economies for the formation of value added to shift to the tertiary sector.

In industry the proportion of investment allocated to the rationalization of production processes rose to 40 per cent in the last three years. Expenditure on information and communications technology was the fastest-growing component of investment in all sectors of the economy between 1995 and 2000.

The positive effects of the new economy in terms of productivity growth emerge only after a long period of capital accumulation. Investment must be combined with corporate reorganization, which may sometimes be quite radical. Innovation in employment arrangements and appropriate skills are required. It is essential that aggregate demand for goods and services continue to expand rapidly. The weakness of growth in the second half of the nineties was one of the reasons for the slow pace of productivity gains.

The acceleration of economic growth in 2000 boosted employment and productivity. Investment grew at an annual rate of nearly 10 per cent in the second half of 1999, in the initial stages of the cyclical upturn, and continued at that pace in the first six months of 2000 before decelerating in the second half of the year.

The cyclical slowdown in investment that is liable to occur this year threatens to affect the prospects for long-term growth.

The Bank of Italy's annual survey of the intentions of industrial companies confirms the tendency to cut back capital spending.

Effective, structural economic policy measures for the public finances and the labour market will make it possible to avoid curtailing the modernization of the Italian economy and to revive expectations of growth.

It is up to firms to respond innovatively in order to exploit the opportunities offered by advanced technology, regain world market share and increase the output of products able to keep pace with changes in demand. The high level of profits gives them the means to do so.

The weak growth of the Italian economy in the second half of the nineties and the unsatisfactory gains in productivity and competitiveness were due in part to the contraction in public investment.

Public investment fell from 3.7 per cent of GDP in 1985 to 3.3 per cent in 1990 and then to a low of 2.1 per cent in 1995. In more recent years it has recovered slightly; by 2000 it had risen to 2.4 per cent.

In the North-West of Italy the stock of public capital is slightly above the European average, but in many parts of the North-East, the Centre and especially the South it is distinctly below that level.

The deficiencies are evident in the road and rail networks, the production and distribution of energy, the supply of drinking water, and airports.

Inadequate infrastructure, together with the limited effectiveness of many public services, puts a brake on economic growth and employment.

It is necessary to carry out major public works programmes that can increase the productivity of the entire economy, possibly with the involvement of private capital and European financial institutions. The inadequacy of project planning capabilities at local level needs to be overcome, if necessary with assistance from central government.

In the realization of major investment projects, Italy's rich cultural and environmental heritage must be safeguarded.

Investment in the environment or designed to capitalize on the cultural heritage may itself be a source of growth and jobs. It can enhance tourist services, and it can go hand in hand with agricultural methods that lay the emphasis on quality.

Measures to improve services and the quality of life in large conurbations are a significant factor in sustainable development.

The cutback in public works and the termination of special development assistance in the first half of the nineties had severe repercussions on the economy of southern Italy.

The lack of basic infrastructure is a source of external diseconomies for companies operating in the South. The region's growth prospects are clouded by the consequences of social decay, undeclared activities and widespread illegality.

By the early eighties per capita output in the South of Italy had reached 60 per cent of that in the Centre and North; the ratio then declined, and at the end of the nineties it stood at 56 per cent.

Encouraging signs have emerged in recent years. The South's share of total Italian exports rose from 9 per cent in 1996 to 12 per cent at the end of 2000. Capital formation has resumed. Employment is growing again.

There is an abundant labour supply in the South of Italy, especially among young people.

The optimal use of environmental assets, appropriate labour and wage policies, and public investment can trigger a new phase of economic growth in the South and boost output in advanced sectors.

A state of comparative backwardness can be turned into an opportunity for development.

Economic recovery in the United States is crucial to surmounting the crisis in the world economy. In response to the substantial reduction in interest rates and measures to lighten the tax burden, the recovery will manifest itself in the second half of this year and gain momentum in 2002.

In Europe the data point to a slowdown in activity in the early part of this year. An intensive round of reforms can raise the forecasts for economic growth in the European Union. Over the medium term, the entry of new member countries can open up the prospect of an expansion of internal demand and supply.

The problems of the Japanese economy can be overcome only by restoring the health of the banking system and radically restructuring the economy.

Equilibrium in the financial markets and the contribution they make to the financing of investment and to the improved international allocation of savings will be underpinned by recovery in the more advanced economies.

In Italy, as in the rest of Europe, output stagnated in the first four months of 2001.

Consumer price inflation rose to a seasonally adjusted annualized rate of over 3 per cent in the first five months of the year. An appreciable slowdown in inflation in the next few months may bring the average annual increase down to about 2.8 per cent this year and around 2 per cent in 2002.

Household consumption will increase by 2 per cent. The rate of export growth will decline by a half.

The growth in investment and national income is tending to slow down.

It is necessary to create the conditions for an acceleration in economic growth as early as the second half of this year.

There must be no interruption in the expansion and transformation of productive capacity and the growth in employment.

Economic developments and uncertainty about the trend in expenditure and some forms of revenue are raising doubts about the achievement of the budgetary targets.

The state sector borrowing requirement for the first five months of 2001, net of 4 trillion lire in tax refunds that have already been made, amounts to 74 trillion lire, compared with 50.6 trillion in the corresponding period of 2000.

Assuming adjustment items are on the same scale as last year, general government net borrowing will significantly overshoot the target of 1 per cent of gross domestic product.

The adverse effects this may have on inflation, investment and growth must be countered promptly.

In the very short term, the borrowing overshoot can be offset partly by restricting cash disbursements.

Given the limits to such action, the budget must be brought back into balance over a period of several years as part of a programme of reforms involving the pension system, the health service, the control of local government budgets and the overall efficiency of the public sector.

In order to reduce the structural budget deficit it was necessary to increase the ratio of tax and social security contributions to GDP by 6 percentage points between the second half of the eighties and the second half of the nineties.

Curbing expenditure in relation to the growth in gross domestic product should make it possible to reduce the ratio of tax and social security contributions by one percentage point a year for the five years beginning in 2002.

A fundamental contribution to reducing the tax burden and the ratio of expenditure to GDP must come from faster economic growth.

The announcement and launch of a programme to reform public expenditure and reduce the tax burden have a positive effect on growth expectations and investment decisions.

Specific measures are needed to eliminate the large pockets of undeclared employment and underground activities.

New forms of labour contract, to be defined by agreement between employers and trade unions, will contribute to the growth of the economy and employment.

In an economy with a large number of small enterprises, the new information technologies can make a decisive contribution to raising productivity, by fostering the development of more efficient relations between firms and between sectors of the economy.

The reform of company law must be completed and that of bankruptcy procedures begun. The organization of the system of civil justice must be reviewed and improved. A reduction in the length of legal proceedings will enhance the smooth operation of the market and its ability to allocate resources.

The resumption of public works projects and infrastructure investment, the privatization of public services and the measures to restore legality and security will, in the short term, boost aggregate demand and, in the longer term, revive the backward areas in the South, to the benefit of the Italian economy as a whole.

In the decades immediately after the Second World War there was a coherent vision of economic policy in which the commitment of workers and their organizations, businessmen and politicians enabled Italy to transform itself from a backward agrarian country into a modern industrial economy, to join with five other countries in initiating the process of European integration and to open its markets fully to trade from every part of the world within a context of political and institutional stability.

Today, in a more difficult international environment but one that is also rich in opportunities, we must find renewed dynamism, with all sections of society contributing. The post-war economic miracle can be repeated.

We can and must achieve it.

ANNUAL ACCOUNTS

NOTES TO THE ACCOUNTS (1)

The Bank's results for the year 2000 were affected by the performance of the main macroeconomic variables, especially the depreciation of the euro against the dollar compared with the early part of the year and the rise in money and financial market interest rates.

The year-end balance sheet total was equal to 180,795 million euros (350,069 billion lire), which was basically in line with the figures for the end of the preceding year, 182,853 million euros (354,052 billion lire). On the assets side, the reduction in refinancing operations was partly offset by the growth in foreign currency assets and investments of own funds; on the liabilities side the reduction in the deposits of general government was partly offset by the growth in banknotes in circulation, revaluation accounts and reserves.

Turning to the profit and loss account, total net income amounted to 3,752 million euros (7,265 billion lire), compared with 2,916 million euros (5,646 billion lire) in 1999; expenditure, excluding that in respect of institutional transactions, amounted to 3,625 million euros (7,018 billion lire), compared with 2,381 million euros (4,610 billion lire) in 1999. Net profit for the year amounted to 127 million euros (247 billion lire), a reduction of 408 million euros compared with the result for 1999 (535 million euros, corresponding to 1,036 billion lire) that was due to the increase in income tax and the regional tax on productive activities. This, in turn, reflected the rise in pre-tax profit and the reduction in revenues eligible for tax refunds.

1. Legal basis, methods of preparation and layout of the annual accounts

1.1. *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

(1) This abridged English version of the Bank's annual accounts does not contain all the information required by law in the Italian version. In particular, it does not include the external auditor's report issued by Reconta Ernst & Young.

Code, interpreted in the light of the accounting standards generally adopted in Italy.

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 issued by the ECB in this field. 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 approved by the Governing Council of the ECB on 1 December 1998 (Guideline ECB/1998/NP22, amended on 15 December 1999 and again on 14 December 2000 (Guideline ECB/2000/18), 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 concerning the preparation of the accounts not covered by the foregoing rules, the following provisions apply:

- Legislative Decree 127/1991 (“Implementation of 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 the obligations of branches established in a Member State of credit institutions and financial institutions having their head offices outside that Member State regarding the publication of 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 also shown, appropriately rounded, in lire.

1.2. *Accounting policies.* – The accounting policies applied in preparing the annual accounts for 2000 are described below. Where provided for by law, they were agreed with the Board of Auditors.

GOLD AND FOREIGN CURRENCY ASSETS/LIABILITIES

– *in valuing stocks and determining the results of trading, the "average-daily-net-cost" method is applied for each currency;*

– *the valuation is effected on the basis of the year-end price of gold and exchange rates communicated by the ECB. Revaluation gains are included in the corresponding revaluation account; revaluation losses in excess of earlier revaluation gains are taken to profit and loss account, with the simultaneous entry under income of any amount withdrawn from the specific provision existing at the beginning of Stage Three, if it still exists;*

– *the International Monetary Fund quota is translated on the basis of the SDR/euro exchange rate communicated by the ECB.*

SECURITIES

– *the cost (clean price) of bonds is adjusted in the light of the amortization of the premium/discount (the difference between the purchase price and the redemption value, to be taken to profit and loss account – on a pro rata basis using a method based on compound capitalization) – in relation to the residual life of the security);*

– *purchases of bonds in connection with forward contracts are included, in accordance with the rules laid down in the Guideline, at the current market price recorded on the settlement day;*

– *the valuation of holdings for the purpose of determining the profit or loss on securities is effected, for each type of security, using the "average daily cost" method;*

– *holdings are stated as follows:*

  1) *for securities not held as fixed assets:*

     a) *listed shares and bonds: at the market price available at the end of the year; revaluation surpluses are not recognized in the profit and loss account but included in the revaluation accounts; revaluation deficits in excess of earlier* *revaluation surpluses are taken to profit and loss account, with the simultaneous entry under income of any amount withdrawn from the specific provision existing at the beginning of Stage Three;*

b) unlisted bonds: at cost with account taken of any diminution in value corresponding to special situations related to the position of the issuer;

c) unlisted shares and equity interests not represented by shares: at cost, reduced as appropriate where the losses incurred by the issuing company are such as to cause the security's value to fall below cost;

2) for securities held as fixed assets (bonds and shares):

- *at cost, with account taken of special situations related to the position of the issuer that cause the security's value to fall below cost.*

PARTICIPATING INTERESTS

The Bank's participating interests in subsidiary and associated companies classified as fixed assets are stated at cost less any losses that reduce the Bank's interest in the shareholders' equity below cost. In particular, the participating interest in Monte Titoli S.p.A. includes the revaluation permitted by Law 342/2000.

The UIC endowment fund and the participating interest in the ECB are stated at cost.

Dividends and the profits of the UIC are recognized on a cash basis.

The Bank's accounts are not consolidated with those of investee companies insofar as the Bank is not among the entities referred to in Article 25 of Legislative Decree 127/1991.

The annual accounts of the UIC are attached to those of the Bank pursuant to Article 4 of Legislative Decree 319/1998.

TANGIBLE FIXED ASSETS

Depreciation begins in the quarter subsequent to that of acquisition both for buildings and for plant and equipment.

Buildings

- *are stated at cost plus revaluations effected pursuant to specific laws, including Law 342/2000. The depreciation of buildings used in the Bank's institutional activities and those that are "objectively instrumental" (included among the investments of the provision for staff severance pay and pensions in accordance with the definition of "instrumentality" contained in Article 40.2 of the Income Tax Code) is on a straight line basis using the annual allowance of 4 per cent established by the ECB.*

Plant and equipment

- *are stated at cost. They are depreciated on a straight line basis using the allowances established by the ECB (plant, furniture and equipment, 10 per cent; computers and related hardware and basic software and motor vehicles, 25 per cent).*

For some tangible fixed assets acceleration is also charged in addition to the ordinary depreciation envisaged by the ECB and set aside in the "reserve" referred to in Article 67.3 of the Income Tax Code as amended. The accelerated depreciation allowances are consistent with the provisions of Italian law and the rules laid down by the ECB.

INTANGIBLE FIXED ASSETS

Procedures, studies and designs under way and advances

- *included at purchase or production cost.*

Procedures, studies and designs completed

- *included at purchase or production cost and amortized on the basis of allowances deemed congruent with the assets' remaining useful lives.*

Deferred charges

Costs of not less than 10,000 euros are capitalized. In particular:

- *software licences are stated at cost and amortized on a straight line basis over the life of the contract or, where no time limit is established or it is exceptionally long, over the estimated useful life of the software;*
- *costs incurred in constructing and enlarging communication networks and one-off contributions provided for in multi-year contracts are amortized on a straight line basis over the foreseeable life of the network in the first two cases and over the life of the contract in the third case;*
- *costs incurred in carrying out "incremental" works on buildings owned by third parties and rented to the Bank are amortized on a straight line basis over the remaining life of the rental contract.*

STOCKS OF THE TECHNICAL DEPARTMENTS

The valuation of stocks, with reference exclusively to the EDP Department. The valuation is made using the LIFO method.

ACCRUALS AND DEFERRALS

Include the income and expense accrued at the end of the year in respect of items of a multi-year nature.

PROVISIONS FOR SPECIFIC RISKS

Transfers to these provisions are made in the light of the assessment of the specific risks associated with the various sectors of the Bank's operations in compliance with the prudence principle.

The provision for losses on foreign exchange is for exchange rate risk estimated using the value-at-risk (VAR) method. The provision for losses on securities is for the risk of changes in the prices of the securities in the Bank's overall portfolio, estimated using the same method. In determining the amounts of these two provisions, account is also taken of the revaluation accounts.

The provision for taxation is equal to the amount of taxes to be paid (including deferred tax liabilities), determined on the basis of a realistic estimate of the foreseeable liability under the tax rules in force and amounts possibly arising from disputes with the tax authorities.

The provision for insurance cover is primarily for losses incurred in the transport of banknotes.

SUNDRY STAFF-RELATED PROVISIONS

Transfers to the provision for severance pay and pensions are included in the annual accounts under Article 3 of the related Rules for an amount that comprises both the actuarial reserves corresponding to the situation of staff having entitlement and that of pensioners and the severance pay accrued by all the members of the staff in service at the end of the year.

The provision for staff costs includes the estimated amount of costs that have accrued (bonuses, holidays not taken) but not been paid at the end of the year as well as the amounts to be paid into the supplementary pension fund for staff hired since 28 April 1993.

The provision for grants to BI pensioners and their surviving dependents takes into account the revenues accruing under Article 24 of the Rules governing staff severance pay and pensions.

Transfers to the provision for severance pay of contract staff comprise the amounts determined pursuant to Law 297/1982.

PROVISION FOR GENERAL RISKS

Transfers to this provision are made in the light of the general risks associated with the various sectors of the Bank's operations in compliance with the prudence principle.

The provision is for risks arising from the Bank's activity which cannot be determined individually or attributed objectively and for which specific provision has not been made. Transfers to and withdrawals from this provision are decided by the Board of Directors.

OTHER ASSETS AND LIABILITIES ITEMS

These are stated at their nominal value; in particular, for receivables, the nominal value coincides with the estimated realizable value.

MEMORANDUM ACCOUNTS

Commitments to repurchase securities in connection with advances granted under Treasury Ministry Decree 27.9.1974 are valued at the forward price determined on the basis of market interest rates. Negative valuation differences are included in the balance sheet under the item other liabilities *and taken to profit and loss account.*

Securities of third parties held on deposit are stated at their nominal value.

Foreign currency amounts are translated at year-end exchange rates.

1.3. *Changes to the layout of the annual accounts*. – The layout of the balance sheet conforms with that recommended by the ECB but includes some more detailed subitems and the total amount of the memorandum accounts. It corresponds closely to the model monthly statement approved by the Ministry of the Treasury, the Budget and Economic Planning in a decree issued on 9 May 2001. Some minor changes have been made compared with the layout of the accounts for the year ended 31 December 1999 following the rules laid down by the Governing Council of the ECB on 14 December 2000 (Guideline ECB/2000/18). In particular:

- on the assets side a new item 6, *other claims on euro-area banks,* has been introduced to show claims on such counterparties unrelated to monetary policy operations; it replaces the previous subitem 5.7, *other claims*, which has been eliminated. Item 5 has been renamed *lending to euro-area banks related to monetary policy operations*;
- analogously, on the liabilities side a new item 3, *other liabilities to euro-area banks*, has been introduced to show liabilities to resident counterparties unrelated to monetary policy operations.

For the items/subitems of the 1999 layout subject to reclassification, the related amounts are shown in the notes at the foot of each page of the balance sheet.

2. Comment on the accounts

2.1. *Balance sheet*. – The year-end balance sheet total, excluding memorandum items, was equal to 180,795 million euros (350,069 billion lire), compared with 182,853 million euros (354,052 billion lire) at the end of 1999 (Tables 1 and 2).

Assets

The item *Gold and gold receivables*, which comprises the gold owned by the Bank, rose from 22,822 to 23,098 million euros (from 44,190 to 44,723 billion lire) exclusively owing to the increase in the year-end market price communicated by the ECB (from 289.518 to 293.010 euros per ounce). In fact the quantity of gold remained unchanged at 79 million ounces or 2,452 tons.

Claims on non-euro-area residents denominated in foreign currency, valued at market prices and exchange rates, increased from 22,317 to 27,487 million euros (from 43,213 to 53,223 billion lire).

Within this item:

- *receivables from the IMF* decreased from 4,253 to 3,984 million euros (from 8,235 to 7,714 billion lire) and comprised Italy’s net position vis-à-vis the IMF, which declined from 3,524 to 3,134 million euros (from 6,823 to 6,068 billion lire), freely available SDRs, which rose from 167 to 255 million euros (from 324 to 495 billion lire), and the loan Italy made to support debt-reduction initiatives for the poorest countries (PRGF), which rose from 562 to 594 million euros (1,088 to 1,151 billion lire);

Table 1

BALANCE SHEET - ASSETS

	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes
	(thousands of euros)			*(millions of lire)*		
1 Gold and gold receivables	**23,097,625**	**22,822,355**	**275,270**	**44,723,239**	**44,190,241**	**532,998**
2 Claims on non-euro-area residents denominated in foreign currency	**27,487,194**	**22,317,490**	**5,169,704**	**53,222,630**	**43,212,687**	**10,009,943**
2.1 Receivables from the IMF	3,983,852	4,252,977	−269,125	7,713,812	8,234,911	−521,099
2.2 Securities (other than shares)	19,863,830	14,138,303	5,725,527	38,461,739	27,375,573	11,086,166
2.3 Current accounts and deposits	3,636,855	3,739,739	−102,884	7,041,934	7,241,144	−199,210
2.4 Reverse operations	–	184,045	−184,045	–	356,361	−356,361
2.5 Other claims	2,657	2,426	231	5,145	4,698	447
3 Claims on euro-area residents denominated in foreign currency	**3,022,323**	**3,602,978**	**−580,655**	**5,852,032**	**6,976,338**	**−1,124,306**
3.1 Financial counterparties	3,022,323	3,602,978	−580,655	5,852,032	6,976,338	−1,124,306
3.1.1 Securities (other than shares)	*156,835*	*559,173*	*−402,338*	*303,674*	*1,082,711*	*−779,037*
3.1.2 Reverse operations	–	*38,908*	*−38,908*	–	*75,336*	*−75,336*
3.1.3 Other claims	*2,865,488*	*3,004,897*	*−139,409*	*5,548,358*	*5,818,291*	*−269,933*
3.2 General government	–	–	–	–	–	–
3.3 Other counterparties	–	–	–	–	–	–
4 Claims on non-euro-area residents	–	**1,214,195**	**−1,214,195**	–	**2,351,008**	**−2,351,008**
5 Lending to euro-area banks related to monetary policy operations (1)	**25,861,685**	**35,851,977**	**−9,990,292**	**50,075,205**	**69,419,107**	**−19,343,902**
5.1 Main refinancing operations	25,398,507	33,162,534	−7,764,027	49,178,367	64,211,620	−15,033,253
5.2 Longer-term refinancing operations	463,003	1,892,278	−1,429,275	896,498	3,663,960	−2,767,462
5.3 Fine-tuning reverse operations	–	–	–	–	–	–
5.4 Structural reverse operations	–	–	–	–	–	–
5.5 Marginal lending facility	–	793,892	−793,892	–	1,537,190	−1,537,190
5.6 Credits related to margin calls (2)	175	3,273	−3,098	340	6,337	−5,997
6 Other claims on euro-area banks	**499**	**399**	**100**	**967**	**773**	**194**
7 Securities issued by euro-area residents (other than shares)	**1,550,762**	**1,483,116**	**67,646**	**3,002,694**	**2,871,714**	**130,980**

Table 1 (cont.)

BALANCE SHEET - ASSETS

		Amounts at end- 2000	Amounts at end- 1999 (*)	Changes	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes
		(thousands of euros)			*(millions of lire)*		
8	**General government debt**	**40,611,403**	**40,851,541**	**–240,138**	**78,634,641**	**79,099,614**	**–464,973**
	Government securities issued under Law 483/1993	*39,356,989*	*39,356,989*	–	*76,205,757*	*76,205,757*	–
	Items arising from the Bank's former management of stockpiling bills - securitized part	*1,167,061*	–	*1,167,061*	*2,259,745*	–	*2,259,745*
	Items arising from the Bank's former management of stockpiling bills - unsecuritized part	*87,353*	*1,494,552*	*–1,407,199*	*169,139*	*2,893,857*	*–2,724,718*
9	**Intra-Eurosystem claims**	**8,192,250**	**8,192,250**	**–**	**15,862,408**	**15,862,408**	**–**
9.1	Participating interest in the ECB	744,750	744,750	–	1,442,037	1,442,037	–
9.2	Claims deriving from the transfer of foreign reserves to the ECB	7,447,500	7,447,500	–	14,420,371	14,420,371	–
10	**Items to be settled**	**797**	**736**	**61**	**1,543**	**1,424**	**119**
11	**Other assets** (3)	**50,970,945**	**46,515,468**	**4,455,477**	**98,693,511**	**90,066,505**	**8,627,006**
11.1	Euro-area coins	6,326	3,775	2,551	12,249	7,309	4,940
11.2	UIC endowment fund	258,228	258,228	–	500,000	500,000	–
11.3	Investments of reserves and provisions (including shares)	28,675,361	25,024,582	3,650,779	55,523,241	48,454,346	7,068,895
	Government securities	*20,514,600*	*17,787,409*	*2,727,191*	*39,721,805*	*34,441,225*	*5,280,580*
	Shares and participating interests	*7,770,114*	*6,850,452*	*919,662*	*15,045,039*	*13,264,324*	*1,780,715*
	Other securities	*390,647*	*386,721*	*3,926*	*756,397*	*748,797*	*7,600*
11.4	Intangible fixed assets	26,779	38,704	–11,925	51,851	74,941	–23,090
11.5	Deferred charges	6,105	8,213	–2,108	11,821	15,903	–4,082
11.6	Tangible fixed assets (net of depreciation)	2,844,090	1,961,185	882,905	5,506,925	3,797,384	1,709,541
11.7	Accrued income and prepaid expenses	1,226,497	1,018,763	207,734	2,374,830	1,972,600	402,230
11.8	Sundry (4)	17,927,559	18,202,018	–274,459	34,712,594	35,244,022	–531,428
	Advances under Ministerial Decree of 1974	*15,982,911*	*15,925,906*	*57,005*	*30,947,230*	*30,836,853*	*110,377*
	Other items	*288,795*	*42,578*	*246,217*	*559,187*	*82,445*	*476,742*
	Miscellaneous receivables	*1,616,777*	*2,204,243*	*–587,466*	*3,130,516*	*4,268,010*	*–1,137,494*
	Closing stocks	*663*	*494*	*169*	*1,283*	*956*	*327*
	Other investments of severance pay and pension provisions	*38,413*	*28,797*	*9,616*	*74,378*	*55,758*	*18,620*
	Total (5)	**180,795,483**	**182,852,505**	**–2,057,022**	**350,068,870**	**354,051,819**	**–3,982,949**

(*) The 1999 columns are based on the new layout but do not take account of the following additional reclassifications:
(1) 35,852,355 thousands of euros (69,420 billions of lire). – (2) 3,651 thousands of euros (7 billions of lire). – (3) 46,511,124 thousands of euros (90,058 billions of lire). – (4) 18,197,674 thousands of euros (35,236 billions of lire). – (5) 182,848,539 thousands of euros (354,044 billions of lire).

Table 2

BALANCE SHEET – LIABILITIES

	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes
	(thousands of euros)			*(millions of lire)*		
1 Banknotes in circulation	**75,063,752**	**70,614,050**	**4,449,702**	**145,343,691**	**136,727,866**	**8,615,825**
2 Liabilities to euro-area banks related to monetary policy operations (1)	**7,752,016**	**9,225,013**	**–1,472,997**	**15,009,996**	**17,862,115**	**–2,852,119**
2.1 Current accounts (covering the minimum reserve system)	7,650,936	9,100,788	–1,449,852	14,814,277	17,621,582	–2,807,305
2.2 Deposit facility	101,080	124,225	–23,145	195,719	240,533	–44,814
2.3 Fixed-term deposits	–	–	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–	–	–
2.5 Deposits related to margin calls (2)	–	–	–	–	–	–
3 Other liabilities to euro-area banks	**–**	**–**	**–**	**–**	**–**	**–**
4 Liabilities to other euro-area residents denominated in euros (3)	**19,453,617**	**29,465,494**	**–10,011,877**	**37,667,455**	**57,053,152**	**–19,385,697**
4.1 General government (4)	19,370,513	29,078,380	–9,707,867	37,506,542	56,303,596	–18,797,054
4.1.1 Treasury payments account	*15,125,837*	*29,047,269*	*–13,921,432*	*29,287,705*	*56,243,355*	*–26,955,650*
4.1.2 Sinking fund for the redemption of government securities	*4,219,165*	*5,452*	*4,213,713*	*8,169,442*	*10,557*	*8,158,885*
4.1.3 Other liabilities (5)	*25,511*	*25,659*	*–148*	*49,395*	*49,684*	*–289*
4.2 Other counterparties (6)	83,104	387,114	–304,010	160,913	749,556	–588,643
5 Liabilities to non-euro-area residents denominated in euros (7)	**24,205**	**5,359,943**	**–5,335,738**	**46,867**	**10,378,297**	**–10,331,430**
5.1 Liabilities to non-euro-area EU central banks	229	5,326,726	–5,326,497	442	10,313,980	–10,313,538
5.2 Other liabilities (8)	23,976	33,217	–9,241	46,425	64,317	–17,892
6 Liabilities to euro-area residents denominated in foreign currency	**–**	**38,908**	**–38,908**	**–**	**75,336**	**–75,336**
6.1 Financial sector counterparties	–	38,908	–38,908	–	75,336	–75,336
6.2 General government	–	–	–	–	–	–
6.3 Other counterparties	–	–	–	–	–	–
7 Liabilities to non-euro-area residents denominated in foreign currency	**228,658**	**926,438**	**–697,780**	**442,743**	**1,793,834**	**–1,351,091**
7.1 Deposits and balances	13,895	12,756	1,139	26,904	24,699	2,205
7.2 Other liabilities	214,763	913,682	–698,919	415,839	1,769,135	–1,353,296
8 Counterpart of SDRs allocated by the IMF	**983,420**	**958,759**	**24,661**	**1,904,166**	**1,856,417**	**47,749**
9 Intra-Eurosystem liabilities (9)	**17,762,524**	**11,293,350**	**6,469,174**	**34,393,042**	**21,866,975**	**12,526,067**
9.1 Promissory notes covering debt certificates issued by the ECB	–	–	–	–	–	–
9.2 Other liabilities (net) (9)	17,762,524	11,293,350	6,469,174	34,393,042	21,866,975	12,526,067

BALANCE SHEET – LIABILITIES

	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes	Amounts at end- 2000	Amounts at end- 1999 (*)	Changes
	(thousands of euros)			*(millions of lire)*		
10 Items to be settled	**26,741**	**23,543**	**3,198**	**51,778**	**45,586**	**6,192**
11 Other liabilities (10)	**1,958,616**	**2,172,068**	**–213,452**	**3,792,409**	**4,205,709**	**–413,300**
11.1 Bank of Italy drafts	800,161	488,811	311,350	1,549,327	946,470	602,857
11.2 Cashier’s department services	17,012	2,158	14,854	32,941	4,178	28,763
11.3 Accrued expenses and deferred income	22,296	15,699	6,597	43,171	30,397	12,774
11.4 Sundry (11)	1,119,147	1,665,400	–546,253	2,166,970	3,224,664	–1,057,694
12 Provisions	**9,879,360**	**8,734,268**	**1,145,092**	**19,129,110**	**16,911,902**	**2,217,208**
12.1 Provisions for specific risks:	4,603,328	3,799,206	804,122	8,913,286	7,356,289	1,556,997
for losses on foreign exchange	*2,157,764*	*2,157,764*	–	*4,178,013*	*4,178,013*	–
for losses on securities	*1,024,287*	*1,024,287*	–	*1,983,296*	*1,983,296*	–
for insurance cover	*309,874*	*309,874*	–	*600,000*	*600,000*	–
for losses incurred by the ECB	–	*41,466*	*–41,466*	–	*80,289*	*–80,289*
for taxation	*1,111,403*	*265,815*	*845,588*	*2,151,977*	*514,691*	*1,637,286*
12.2 Sundry staff-related provisions:	5,276,032	4,935,062	340,970	10,215,824	9,555,613	660,211
for staff severance pay and pensions	*5,198,959*	*4,865,373*	*333,586*	*10,066,589*	*9,420,676*	*645,913*
for grants to BI pensioners and their surviving dependents	*1,530*	*1,486*	*44*	*2,962*	*2,877*	*85*
for severance pay of contract staff	*1,296*	*1,243*	*53*	*2,511*	*2,408*	*103*
for staff costs	*74,247*	*66,960*	*7,287*	*143,762*	*129,652*	*14,110*
13 Revaluation accounts	**26,150,676**	**24,091,887**	**2,058,789**	**50,634,770**	**46,648,397**	**3,986,373**
14 Provision for general risks	**9,098,072**	**9,098,072**	**–**	**17,616,324**	**17,616,324**	**–**
15 Capital and reserves	**12,286,410**	**10,315,737**	**1,970,673**	**23,789,807**	**19,974,052**	**3,815,755**
15.1 Capital	155	155	–	300	300	–
15.2 Ordinary and extraordinary reserves	8,184,683	7,133,744	1,050,939	15,847,757	13,812,855	2,034,902
15.3 Other reserves	4,101,572	3,181,838	919,734	7,941,750	6,160,897	1,780,853
16 Net profits for distribution	**127,416**	**534,975**	**–407,559**	**246,712**	**1,035,857**	**–789,145**
Total (12)	**180,795,483**	**182,852,505**	**–2,057,022**	**350,068,870**	**354,051,819**	**–3,982,949**

(*) The 1999 columns are based on the new layout but do not take account of the following additional reclassifications:
(1) 9,225,390 thousands of euros (17,863 billions of lire). – (2) 378 thousands of euros (0,732 billions of lire). – (3) 29,467,997 thousands of euros (57,058 billions of lire). – (4) 29,079,462 thousands of euros (56,306 billions of lire). – (5) 26,741 thousands of euros (52 billions of lire). – (6) 388,535 thousands of euros (752 billions of lire). – (7) 5,360,127 thousands of euros (10,379 billions of lire). – (8) 33,400 thousands of euros (65 billions of lire). – (9) 11,289,006 thousands of euros (21,859 billions of lire). – (10) 2,169,381 thousands of euros (4,201 billions of lire). – (11) 1,662,713 thousands of euros (3,219 billions of lire). – (12) 182,848,539 thousands of euros (354,044 billions of lire).

- *securities (other than shares)* rose from 14,138 to 19,864 million euros (from 27,376 to 38,462 billion lire), primarily as a consequence of the purchases made during the year. At the end of the year the portfolio consisted of 17,201 million euros (33,306 billion lire) of securities denominated in US dollars, 2,008 million euros (3,888 billion lire) of securities denominated in yen and 655 million euros (1,268 billion lire) of securities denominated in Swiss francs, issued mainly by the US and Japanese Treasuries and the BIS;
- *reverse operations* fell to zero from 184 million euros at the end of 1999;
- *current accounts and deposits* with foreign correspondent banks declined from 3,740 to 3,637 million euros (from 7,241 to 7,042 billion lire) as a consequence of the fall in time deposits from 3,194 to 2,940 million euros (from 6,184 to 5,692 billion lire), which was only offset in part by the increase in sight and overnight deposits from 546 to 697 million euros (from 1,057 to 1,350 billion lire);
- *other assets* consisted exclusively of foreign banknotes and remained basically unchanged at around 2 million euros.

Over the year the euro depreciated against the US dollar (from 1.0046 to 0.9305) and the Swiss franc (from 1.6051 to 1.5232); it appreciated against the yen (from 102.73 to 106.92).

Claims on euro-area residents denominated in foreign currency rose from 3,603 to 3,022 million euros (from 6,976 to 5,852 billion lire) and referred exclusively to transactions with financial counterparties. In particular:

- *securities (other than shares)* were all denominated in US dollars and fell from 559 to 157 million euros (from 1,083 to 304 billion lire) as a consequence of the net sales made during the year;
- *reverse operations* fell to zero from 39 million euros (75 billion lire) at the end of 1999;
- *other assets* consisted entirely of accounts with foreign banks abroad, mostly in the form of time deposits in US dollars and yen, and declined from 3,005 to 2,865 million euros (from 5,818 to 5,548 billion lire).

Claims on non-euro-area residents, which at the end of 1999 had consisted entirely of *claims on non-euro-area EU central banks* in connection with the operation of the TARGET system, fell to zero following the introduction in November 2000 of the daily netting by novation procedure. Under this procedure credit and debit positions vis-à-vis the non Eurosystem NCBs and those vis-à-vis the Eurosystem NCBs are transferred to the ECB by means of multilateral netting by novation. This leads to the Bank having a single net position vis-à-vis the ECB, which is included in the item *Intra-Eurosystem claims* (if a credit position) *liabilities* (if a debit position).

Lending to euro-area banks related to monetary policy operations fell from 35,852 to 25,862 million euros (from 69,419 to 50,075 billion lire), primarily as a consequence of the reduction in main refinancing operations from 33,163 to 25,399 million euros (from 64,212 to 49,178 billion lire). The figure for 31 December 1999 was especially high owing to the need for liquidity in connection with the millenium date change.

Longer-term refinancing operations fell from 1,892 to 463 million euros (from 3,664 to 896 billion lire). The annual average value of this item showed a similar fall, from 1,871 to 457 million euros (from 3,622 to 885 billion lire).

The *marginal lending facility* fell to zero from 794 million euros at the end of 1999; the annual average value of the recourse to this form of overnight liquidity by monetary policy counterparties fell from 27 to 17 million euros (from 52 to 33 billion lire).

Credits related to margin calls were not material at 31 December 2000, when they amounted to 0.2 million euros (0.3 billion lire), whereas a year earlier they had amounted to 3 million euros (6 billion lire).

As in 1999, no recourse was made to *structural reverse operations*, while *fine-tuning reverse operations* were used once in June with a tender for 901 million euros (1,744 billion lire).

The item *other claims on euro-area banks*, which comprises the correspondent accounts held with banks in other euro-area countries in connection with the activity of the Bank's representative offices abroad, rose from 0.4 to 0.5 million euros (from 0.8 to 1 billion lire).

Securities issued by euro-area residents (other than shares) consisted of government securities eligible for monetary policy purposes and remained basically unchanged, edging up from 1,483 to 1,551 million euros (from 2,872 to 3,003 billion lire).

General government debt contracted slightly, from 40,852 to 40,611 million euros (from 79,100 to 78,635 billion lire), as a consequence of the partial redemption of securities issued in respect of the past management of stockpiling bills. The securities deriving from the conversion of the former Treasury current account (issued under Law 483/1993) remained unchanged at 39,357 million euros (76,206 billion lire).

Intra-Eurosystem claims remained unchanged at 8,192 million euros (15,862 billion lire) and comprised the Bank's participating interest of 745 million euros in the ECB (14.895 per cent of the total capital) and 7,447 million euros (14,420 billion lire) of claims deriving from the transfer of foreign reserves (gold, foreign securities and foreign currency) to the ECB at the beginning of Stage Three of EMU.

Items to be settled remained stable at around 1 million euros.

Other assets rose from 46,516 to 50,971 million euros (from 90,067 to 98,694 billion lire). In particular:

– *euro-area coins* rose from 4 to 6 million euros (from 7 to 12 billion lire);
– the *UIC endowment fund* remained unchanged at 258 million euros (500 billion lire);
– *investments of reserves and provisions (including shares)* consisted entirely of securities denominated in euros and euro-area currencies and rose from 25,025 to 28,675 million euros (from 48,454 to 55,523 billion lire), primarily as a consequence of the net purchases made during the year.

The Bank took advantage of the opportunity offered by Law 342/2000 to revalue the portion of its interest in Monte Titoli S.p.A. classified as a financial fixed asset. The revaluation amounted to 73 million euros (142 billion lire) and was entered, net of the full-settlement tax of 11 million euros (21 billion lire) payable on the revaluation itself, in the new item *revaluation surplus reserve (under Law 342/2000)*.

In January 2001 the Bank sold its participating interest in Monte Titoli S.p.A. pursuant to Article 204 of Legislative Decree 58/1998 (the Consolidated Law on Financial Intermediation). The price per share in the sale was used as the basis for calculating the revaluation referred to above.

– *intangible fixed assets* decreased from 39 to 27 million euros (from 75 to 52 billion lire) and included 37 million euros of procedures and designs developed by the EDP Department;
– *deferred charges* declined from 8 to 6 million euros (from 16 to 12 billion lire) and included 4 million euros (7 billion lire) for software licences;
– *tangible fixed assets (net of depreciation)* rose from 1,961 to 2,844 million euros (from 3,797 to 5,507 billion lire) as a consequence of the revaluation surplus of 993 million euros (1,922 billion lire) generated by the application of Law 342/2000 as follows:

  a) 879 million euros (1,702 billion lire) in respect of the 155 buildings used by the Bank for its institutional activities, the value of which rose from 1,350 to 2,126 million euros (from 2,614 to 4,117 billion lire) net of accumulated depreciation, which rose, in turn, from 725 to 836 million euros (from 1,404 to 1,619 billion lire);

  b) 114 million euros (220 billion lire) in respect of the investment of severance pay and pension provisions in 71 properties, the value of which accordingly rose from 332 to 438 million euros (from 642 to 847 billion lire) net of accumulated depreciation, which rose, in turn, from 23 to 31 million euros (from 44 to 59 billion lire).

Last year also saw increases in assets under construction and advances, from 13 to 17 million euros (from 25 to 33 billion lire), and furniture, from

22 to 30 million euros (from 42 to 58 billion lire), while plant and equipment declined from 243 to 232 million euros (from 471 to 449 billion lire).

- *accrued income and prepaid expenses* increased from 1,019 to 1,227 million euros (from 1,973 to 2,375 billion lire);
- *sundry* other assets remained basically unchanged at 17,928 million euros (34,713 billion lire) and included 15,983 million euros (30,947 billion lire) in respect of the advance granted under Treasury Ministry Decree 27.9.1974 to Banco di Napoli pursuant to Law 588/1996.

Liabilities

Banknotes in circulation amounted to 75,064 million euros (145,344 billion lire), an increase of 4,450 million euros (8,616 billion lire) or 6.3 per cent. The larger increase of 11.7 per cent in 1999 was influenced by the special need for liquidity in connection with the Year 2000 date change. The average stock of notes in circulation rose from 62,775 to 68,226 million euros (from 121,550 to 132,103 billion lire), an increase of 8.7 per cent, as against one of 8.9 per cent in 1999.

Liabilities to euro-area banks related to monetary policy operations fell from 9,225 to 7,752 million euros (from 17,862 to 15,010 billion lire) owing to the reduction in the subitem banks' current accounts (covering the minimum reserve system) from 9,101 to 7,651 million euros (from 17,622 to 14,814 billion lire). The average value of the item rose from 11,861 to 12,472 million euros (from 22,967 to 24,149 billion lire).

The *deposit facility* of the monetary policy counterparts dropped from 124 to 101 million euros (from 241 to 196 billion lire).

Fixed-term deposits and *fine-tuning reverse operations* were both equal to zero, as at the end of 1999.

The new item *other liabilities to euro-area banks* was equal to zero.

Liabilities to other euro-area residents fell from 29,465 to 19,454 million euros (from 57,053 to 37,667 billion lire). The following changes occurred within the subitem general government:

- the *Treasury payments account* fell from 29,047 to 15,126 million euros (from 56,243 to 29,288 billion lire). The average balance on the account rose from 18,693 to 19,148 million euros (from 36,195 to 37,076 billion lire);
- the *sinking fund for the redemption of government securities* amounted to 4,219 million euros (8,169 billion lire) The increase compared with the figure of 5 million euros (11 billion lire) at the end of 1999 was largely

due to the difference between the 10,709 million euros (20,736 billion lire) generated by the sale of UMTS licences and the 6,711 million euros (12,994 billion lire) withdrawn from the fund to buy back government securities in the market in the last part of the year;

– *other liabilities* to general government remained virtually unchanged at about 26 million euros (49 billion lire).

The subitem liabilities to *other counterparties* fell from 387 to 83 million euros (from 750 to 161 billion lire) in connection with the movement in the balance on the UIC's current account, which fell from 372 to 79 million euros (from 720 to 152 billion lire).

Liabilities to non-euro-area residents fell from 5,360 to 24 million euros (from 10,378 to 47 billion lire) following the activation of the procedure for the netting by novation of debit positions deriving from the operation of the TARGET system, which had accounted for almost the entire item at the end of 1999. Since the introduction of the procedure, in the subitem *liabilities to non-euro-area EU central banks* there remained only the balances on any reciprocal accounts held outside the TARGET system with NCBs that were not part of the Eurosystem, balances that were not material at the end of the year. Other liabilities declined from 33 to 24 million euros (from 64 to 46 billion lire).

Liabilities to euro-area residents denominated in foreign currency fell to zero from 39 million euros (75 billion lire) at the end of 1999 in respect of foreign currency repos entered into with resident counterparties.

Liabilities to non-euro-area residents denominated in foreign currency were all denominated in US dollars and fell from 926 to 229 million euros (from 1,794 to 443 billion lire) almost entirely as a consequence of the reduction in the repos included under *other liabilities*, which fell from 913 to 215 million euros (from 1,769 to 416 billion lire); by contrast, the subitem *deposits and balances* remained virtually unchanged, rising from 13 to 14 million euros (from 25 to 27 billion lire).

The *counterpart of SDRs allocated by the IMF* rose from 959 to 983 million euros (from 1,856 to 1,904 billion lire), primarily owing to the gain of 18 million euros (35 billion lire) produced by the revaluation at year-end exchange rates.

The item *intra-Eurosystem liabilities* rose from 11,293 to 17,763 million euros (from 21,867 to 34,393 billion lire) as a consequence of the activation of the netting by novation procedure referred to above.

Items to be settled rose from 24 to 27 million euros (from 46 to 52 billion lire).

Other liabilities fell from 2,172 to 1,959 million euros (from 4,206 to 3,792 billion lire). The subitem Bank of Italy drafts rose from 489 to 800 million euros (from 946 to 1,549 billion lire).

The subitem *sundry* other liabilities included 477 million euros (924 billion lire) corresponding to the negative difference, matched by the writedown taken to profit and loss account, in respect of the forward repurchase position in securities connected with transactions under Treasury Ministry Decree 27.9.1974 determined on the basis of the foreseeable difference between the repurchase price and the future market price. At the end of 1999 the negative difference had amounted to 1,136 million euros (2,199 billion lire).

Accrued expenses and deferred income rose from 16 to 22 million euros (from 30 to 43 billion lire) and the liabilities connected with *Cashier's department services* rose by 15 million euros (29 billion lire), from 2 to 17 million euros (from 4 to 33 billion lire).

Provisions increased from 8,734 to 9,879 million euros (from 16,912 to 19,129 billion lire). In particular:

– *provisions for specific risks* rose from 3,799 to 4,603 million euros (from 7,356 to 8,913 billion lire). The increase was due to the tax provision, from which a total of 151 million euros (292 billion lire) was withdrawn in connection with the payment of corporate income tax and the regional tax on productive activities for 1999 and to which a total of 996 million euros (1,929 billion lire) was allocated, as follows: 755 million euros (1,462 billion lire) for corporate income tax and the regional tax on productive activities for the year; 42 million euros (81 billion lire) for deferred tax liabilities for the year and 200 million euros (386 billion lire) set aside for the full-settlement tax on the revaluation of fixed assets and withdrawn from the related revaluation reserve. The full amount of the provision for losses incurred by the ECB was withdrawn; 41 million euros had been allocated at the end of 1999, corresponding to the Bank's share of the amount to be made good for 1999. The provisions for losses on foreign exchange and securities remained unchanged at respectively 2,158 and 1,024 million euros (4,178 and 1,983 billion lire), as did the provision for insurance cover at 310 million euros (600 billion lire);
– *sundry staff-related provisions* rose from 4,935 to 5,276 million euros (from 9,556 to 10,216 billion lire). The factors contributing to the increase included the allocation of 334 million euros (646 billion lire) to the provision for staff severance pay and pensions – of which 271 million euros (524 billion lire) was for pensions, taking into account compliance with the new statutory rules contained in the Finance Law for 2001 and the alignment with actual inflation – and 63 million euros (122 billion lire) was for the severance pay liability accrued. The provision for staff costs rose from 67 to 74 million euros (from 130 to 144 billion lire),

primarily owing to the allocation of 4 million euros (8 billion lire) of the amounts to be paid into the supplementary pension fund for staff hired since 28 April 1993. Taken together, the provision for grants to BI pensioners and their surviving dependents and that for the severance pay of contract staff remained at around 3 million euros (5 billion lire).

The provisions and the related movements in 2000 are detailed in Table 3.

Table 3

PROVISIONS

	Amounts at end-1999	Changes		Amounts at end-2000
		Transfers from	Transfers to	
	(thousands of euros)			
Provisions for specific risks:	**3,799,206**	**192,243**	**996,365**	**4,603,328**
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)	265,815	150,777	996,365	1,111,403
Sundry staff-related provisions:	**4,935,062**	**46,631**	**387,601**	**5,276,032**
for staff severance pay and pensions	4,865,373	–	333,586	5,198,959
for grants to BI pensioners and their surviving dependents	1,486	50	94	1,530
for severance pay of contract staff under Law 297/1982	1,243	113	166	1,296
for staff costs	66,960	46,468	53,755	74,247
Total	**8,734,268**	**238,874**	**1,383,966**	**9,879,360**
	(millions of lire)			
Provisions for specific risks:	**7,356,289**	**372,235**	**1,929,232**	**8,913,286**
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)	514,691	291,946	1,929,232	2,151,977
Sundry staff-related provisions:	**9,555,613**	**90,291**	**750,502**	**10,215,824**
for staff severance pay and pensions	9,420,676	–	645,913	10,066,589
for grants to BI pensioners and their surviving dependents	2,877	97	182	2,962
for severance pay of contract staff under Law 297/1982	2,408	219	322	2,511
for staff costs	129,652	89,975	104,085	143,762
Total	**16,911,902**	**462,526**	**2,679,734**	**19,129,110**

(1) Includes the amounts set aside for corporate income tax and the tax on productive activities for 2000, the full-settlement tax on revaluations and deferred tax liabilities.

The *revaluation accounts*, which show the positive effects of the revaluations of gold, foreign currencies and securities not held as fixed assets at market exchange rates and prices, rose from 24,092 to 26,151 million euros (from 46,648 to 50,635 billion lire).

The *provision for general risks* remained unchanged at 9,098 million euros (17,616 billion lire).

The item *capital and reserves* increased in total by 1,970 million euros (3,816 billion lire) as a result of:

- the increase in the *ordinary reserve* from 3,650 to 4,158 million euros (from 7,068 to 8,103 billion lire) and that in the *extraordinary reserve* from 3,484 to 4,000 million euros (from 6,745 to 7,745 billion lire). The total increase of 1,051 million euros (2,035 billion lire) was smaller than that recorded the previous year because the allocation of net profit in 1999 was smaller than that in 1998.
- the creation, within the subitem *other reserves*, of the "revaluation surplus reserve (under Law 342/2000)" for a total of 866 million euros (1,678 billion lire), the sum of the revaluation of tangible fixed assets amounting to 993 million euros (1,922 billion lire) and that of the fixed-asset portion of the Bank's equity interest in Monte Titoli S.p.A. amounting to 73 million euros (142 billion lire), less 200 million euros (386 billion lire) of full-settlement tax on the revaluations;
- the increase of 53 million euros (103 billion lire) in the reserve for accelerated depreciation under Article 67.3 of the income tax code, deriving – in line with the Bank's policy in preceding years – from the accelerated depreciation of intangible fixed assets.

The other revaluation reserves and the "special provision for the renewal of tangible fixed assets" remained unchanged at respectively 1,351 and 1,805 million euros (2,616 and 3,495 billion lire).

The holders of the Bank's capital are shown in Table 4 and the *movements in capital and reserves* in Table 5.

Table 4

SHAREHOLDERS

	At 31 December 2000				At 31 December 1999			
	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 CAPITAL AND RESERVES

	Balance at end-1999	Increases	Decreases	Balance at end-2000
	(thousands of euros)			
Share capital	155	–	–	155
Ordinary reserve	3,650,074	(1) 548,940	(2) 14,136	4,184,878
Extraordinary reserve	3,483,670	(1) 530,289	(2) 14,154	3,999,805
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 surplus reserve (under Law 342/2000)	–	1,066,168	199,634	866,534
Reserve for accelerated depreciation (under Art. 67.3 of the income tax code)	25,879	53,200	–	79,079
Special provision for the renewal of tangible fixed assets	1,805,044	–	–	1,805,044
Total	**10,315,737**	**2,198,597**	**227,924**	**12,286,410**
	(millions of lire)			
Share capital	300	–	–	300
Ordinary reserve	7,067,528	(1) 1,062,897	(2) 27,372	8,103,053
Extraordinary reserve	6,745,326	(1) 1,026,783	(2) 27,405	7,744,704
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 surplus reserve (under Law 342/2000)	–	2,064,388	386,546	1,677,842
Reserve for accelerated depreciation (under Art. 67.3 of the income tax code)	50,108	103,010	–	153,118
Special provision for the renewal of tangible fixed assets	3,495,052	–	–	3,495,052
Total	**19,974,052**	**4,257,078**	**441,323**	**23,789,807**

(1) The movement was due to the allocation of the net profit for 1999 and the return earned in 2000 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).

As regards the obligations deriving from the switch to the single currency, in April 2000 the Board of Directors approved the proposal for the conversion into euros of the Bank's capital (Article 20 of Royal Decree Law 375/1936) with effect from 1 January 2002 pursuant to Article 4.1d) of Legislative Decree 213/1998, which provides for amounts specified in lire in statutory provisions to be converted into euros and rounded to two decimal places.

Following the conversion, the Bank's capital will be equal to 156,000 euros and divided into 300,000 shares with a face value of 0.52 euros each. The increase of 1,062.93 euros in the capital as a consequence of the rounding to the second decimal place of the face value of the shares will be withdrawn from the extraordinary reserve in the manner provided for in Legislative Decree 213/1998.

The shareholders' meeting has been provided with detailed information on the conversion.

2.2. *Income statement*. – The net profit for the year amounted to 127 million euros (247 billion lire), a decrease compared with that of 535 million euros (1,036 billion lire) for 1999 owing to the increase in taxes for the year, which more than offset the rise in pre-tax profit from 709 to 922 million euros (from 1,786 to 1,373 billion lire) (Tables 6 and 7).

Among the items included under *net income from institutional operations, net interest income* rose by 460 million euros (891 billion lire) since the rise in *interest income* was larger than that in *interest expense*.

Total *interest income* increased by 1,345 million euros (2,603 billion lire) and rose from 2,465 to 3,810 million euros (4,774 to 7,377 billion lire).

In particular, interest income on positions denominated in foreign currency, excluding bond premiums and discounts, amounted to 1,387 million euros (2,685 billion lire). The increase of 494 million euros (957 billion lire) comprised:

– 470 million euros (910 billion lire) of additional income from securities and other assets denominated in foreign currency. Specifically, the securities portfolio contributed 371 million euros (719 billion lire) as a result of the increase in its average value from 11,718 to 18,788 million euros (from 22,690 to 36,379 billion lire) and the rise in the average rate of return from 3.66 to 4.26 per cent. Deposits and repos contributed the remainder of the additional income as a result of the rise in their average rates of return from respectively 4.93 to 5.78 per cent and 5.10 to 6.23 per cent;
– 24 million euros (47 billion lire) of additional income from the position with the IMF, of which 15 million euros ((28 billion lire) in respect of the net position and 7 million euros (13 billion lire) in respect of SDR balances.

Interest income earned on positions in euros, excluding bond premiums and discounts, rose from 1,497 to 2,252 million euros (from 2,898 to 4,361 billion lire). The increase of 755 million euros (1,463 billion lire) comprised:

Table 6

ANALYSIS OF THE INCOME STATEMENT

(euros)

	2000		1999	
A) NET INCOME FROM INSTITUTIONAL OPERATIONS:		**1,254,818,777**		**523,393,328**
Interest income		3,809,953,776		2,465,418,701
securities and other assets denominated in foreign currency	*1,224,659,336*		*754,461,639*	
IMF positions	*162,221,969*		*138,119,870*	
refinancing operations	*1,001,511,886*		*568,513,533*	
discounts and advances	*161,804,859*		*162,759,260*	
claims on the State	*393,569,890*		*393,569,890*	
intra-Eurosystem balances	*598,249,610*		*278,474,505*	
UIC current account	*2,535*		*20,580*	
securities denominated in euros held for monetary policy purposes	*97,274,172*		*93,573,703*	
bond premiums and discounts	*170,659,519*		*75,925,721*	
Interest expense		−2,732,157,036		−1,848,033,166
Treasury payments account	*−1,102,972,747*		*−946,691,942*	
sinking fund for the redemption of government securities	*−68,932,166*		*−40,590,918*	
current account deposits of required reserves	*−509,344,912*		*−324,193,517*	
overnight deposits, term deposits and deposits related to margin calls	*−3,094,493*		*−1,249,882*	
UIC current account	*−4,419,850*		*−5,536,444*	
intra-Eurosystem balances	*−976,105,540*		*−484,593,306*	
sundry interest denominated in foreign currency	*−67,287,328*		*−45,087,089*	
other	*−*		*−90,068*	
Net interest income		**1,077,796,740**		**617,385,535**
Profits and losses on financial operations		503,459,991		−185,221,021
profits/losses on securities trading	*182,386,636*		*−506,332,692*	
profits/losses on foreign exchange trading	*371,396,291*		*321,084,133*	
profits/losses on derivatives contracts denominated in foreign currency	*−*		*27,538*	
profits/losses on forward transactions in securities under Ministerial Decree 1974	*−50,322,936*		*−*	
Writedowns of financial assets and positions		−479,560,368		−1,629,571,893
foreign securities	*−1,779,134*		*−440,698,023*	
foreign currencies	*−35,023*		*−9,840*	
securities denominated in euros	*−448,801*		*−53,149,012*	
forward transactions in securities under Ministerial Decree 1974	*−477,297,410*		*−1,135,715,018*	
Transfers to/from provisions for losses on foreign exchange and securities		38,799,379		966,626,512
transfers from “pre-system” revaluations reserves	*38,799,379*		*966,626,512*	
Net result of financial operations, writedowns and risk provision transfers		**62,699,002**		**−848,166,402**
Fee and commission income		25,070,184		19,301,552
Fee and commission expense		−19,730,788		−30,065,137
Net income from fees and commissions		**5,339,396**		**−10,763,585**
Income from equity shares and participating interests		106,447,914		802,059,595
income from participating interest in UIC endowment fund	*106,447,914*		*802,059,595*	
Net result of the pooling of monetary income		2,535,725		−37,121,815
monetary income pooled	*6,300,490*		*6,606,802*	
monetary income conferred	*−3,764,765*		*−2,262,806*	
contribution to covering ECB losses	*−*		*−41,465,811*	

Table 6 (cont.)

ANALYSIS OF THE INCOME STATEMENT

(euros)

	2000		1999	
B) OTHER INCOME:		**2,497,345,356**		**2,392,700,708**
Income from the investment of reserves and provisions		2,398,623,867		2,190,101,892
interest income	*1,512,741,253*		*1,506,034,428*	
bond premiums and discounts	*−160,585,906*		*−253,414,723*	
dividends on equity shares and participating interests	*142,353,861*		*129,386,696*	
trading profits and gains on disposals	*904,114,659*		*808,095,491*	
Prior-year income		18,831,368		91,587,666
Sundry		79,890,121		111,011,150
rental income from buildings	*16,719,357*		*15,606,555*	
interest on tax credits	*29,360,007*		*50,025,008*	
other interest income	*982,547*		*1,387,062*	
commissions paid by the Ministry of the Treasury	*774,704*		*18,555,510*	
procedures, studies and designs completed	*10,448,804*		*8,373,083*	
closing stocks	*662,666*		*493,751*	
other	*20,942,036*		*16,570,181*	
TOTAL NET INCOME (A+B)		**3,752,164,133**		**2,916,094,036**
C) OTHER EXPENSES:		**−3,624,748,216**		**−2,381,118,596**
Staff costs		−1,219,591,592		−914,016,714
wages and salaries and related costs	*−603,842,173*		*−586,367,962*	
emoluments paid to head and branch office collegial bodies (1)	*−2,401,580*		*−2,026,944*	
pensions and severance payments	*−218,260,135*		*−262,094,322*	
other	*−8,606,895*	*−833,110,783*	*−7,716,377*	*−858,205,605*
transfers to:				
provision for staff severance pay and pensions	*−333,586,573*		*−8,580,598*	
provision for expenses accrued but not yet paid	*−52,634,482*		*−46,922,744*	
other provisions	*−259,754*	*−386,480,809*	*−307,767*	*−55,811,109*
Administrative costs		−355,085,283		−302,276,225
Depreciation of tangible and intangible fixed assets		−190,571,980		−146,886,417
Other costs:				
losses on investments of reserves and provisions		−29,693,174		−12,468,506
losses on disposals	*−11,656,232*		*−4,079,590*	
writedowns	*−18,036,942*		*−8,388,916*	
other transfers to provisions		−53,200,000		−
prior-year expense		−5,855,506		−12,645,963
appropriation of investment income to reserves (2)		−918,736,653		−777,576,980
other taxes and duties		−42,911,059		−21,437,337
sundry		−14,102,969		−19,810,454
other interest expense	*−3,296,316*		*−1,820,632*	
opening stocks	*−493,751*		*−13,333,337*	
miscellaneous payables	*−10,312,902*		*−4,656,485*	
Taxes on income for the year and productive activities		−795,000,000		−174,000,000
NET PROFIT FOR THE YEAR		**127,415,917**		**534,975,440**

(1) Includes the remuneration of the Board of Directors (915,783 euros in 2000 and 885,534 euros in 1999) and the Board of Auditors (31,119 euros in 2000 and 31,117 euros in 1999). − (2) Pursuant to Article 55 of the Statute.

Table 7

ANALYSIS OF THE INCOME STATEMENT

(thousands of lire)

	2000		1999	
A) NET INCOME FROM INSTITUTIONAL OPERATIONS:		**2,429,667,954**		**1,013,430,801**
Interest income		7,377,099,197		4,773,716,268
securities and other assets denominated in foreign currency	*2,371,271,132*		*1,460,841,437*	
IMF positions	*314,105,532*		*267,437,361*	
refinancing operations	*1,939,197,418*		*1,100,795,699*	
discounts and advances	*313,297,895*		*315,145,873*	
claims on the State	*762,057,570*		*762,057,570*	
intra-Eurosystem balances	*1,158,372,772*		*539,201,829*	
UIC current account	*4,908*		*39,849*	
securities denominated in euros held for monetary policy purposes	*188,349,062*		*181,183,954*	
bond premiums and discounts	*330,442,908*		*147,012,696*	
Interest expense		–5,290,193,704		–3,578,291,178
Treasury payments account	*–2,135,653,042*		*–1,833,051,206*	
sinking fund for the redemption of government securities	*–133,471,285*		*–78,594,976*	
current account deposits of required reserves	*–986,229,272*		*–627,726,180*	
overnight deposits and deposits related to margin calls	*–5,991,774*		*–2,420,110*	
UIC current account	*–8,558,023*		*–10,720,050*	
intra-Eurosystem balances	*–1,890,003,874*		*–938,303,481*	
sundry interest denominated in foreign currency	*–130,286,434*		*–87,300,779*	
other	–		*–174,396*	
Net interest income		**2,086,905,493**		**1,195,425,090**
Profits and losses on financial operations		974,834,477		–358,637,905
profits/losses on securities trading	*353,149,772*		*–980,396,802*	
profits/losses on foreign exchange trading	*719,123,495*		*621,705,575*	
profits/losses on derivatives contracts denominated in foreign currency	–		*53,322*	
profits/losses on forward transactions in securities under Ministerial Decree 1974	*–97,438,790*		–	
Writedowns of financial assets and positions		–928,558,355		–3,155,291,170
foreign securities	*–3,444,885*		*–853,310,361*	
foreign currencies	*–67,815*		*–19,052*	
securities denominated in euros	*–869,000*		*–102,910,838*	
forward transactions in securities under Ministerial Decree 1974	*–924,176,655*		*–2,199,050,919*	
Transfers to/from provisions for losses on foreign exchange and securities		75,126,074		1,871,649,917
transfers from "pre-system" revaluation reserves	*75,126,074*		*1,871,649,917*	
Net result of financial operations, writedowns and risk provision transfers		**121,402,196**		**–1,642,279,158**
Fee and commission income		48,542,647		37,373,015
Fee and commission expense		–38,204,133		–58,214,222
Net income from fees and commissions		**10,338,514**		**–20,841,207**
Income from equity shares and participating interests		206,111,902		1,553,003,932
income from participating interest in UIC endowment fund	*206,111,902*		*1,553,003,932*	
Net result of the pooling of monetary income		4,909,849		–71,877,856
monetary income pooled	*12,199,451*		*12,792,554*	
monetary income conferred	*–7,289,602*		*–4,381,404*	
contribution to covering ECB losses	–		*–80,289,006*	

Table 7 (cont.)

ANALYSIS OF THE INCOME STATEMENT

(thousands of lire)

	2000		1999	
B) OTHER INCOME:		**4,835,534,893**		**4,632,914,598**
Income from the investment of reserves and provisions		4,644,383,436		4,240,628,590
interest income	*2,929,075,507*		*2,916,089,281*	
bond premiums and discounts	*−310,937,672*		*−490,679,326*	
dividends on equity shares and participating interests	*275,635,510*		*250,527,578*	
trading profits and gains on disposals	*1,750,610,091*		*1,564,691,057*	
Prior-year income		36,462,613		177,338,450
Sundry		154,688,844		214,947,558
rental income from buildings	*32,373,189*		*30,218,505*	
interest on tax credits	*56,848,900*		*96,861,921*	
other interest income	*1,902,476*		*2,685,727*	
commissions paid by the Ministry of the Treasury	*1,500,035*		*35,928,478*	
procedures, studies and designs completed	*20,231,706*		*16,212,550*	
closing stocks	*1,283,101*		*956,035*	
other	*40,549,437*		*32,084,342*	
TOTAL NET INCOME (A+B)		**7,265,202,847**		**5,646,345,399**
C) OTHER EXPENSES:		**−7,018,491,229**		**−4,610,488,503**
Staff costs		−2,361,458,611		−1,769,783,143
wages and salaries and related costs	*−1,169,201,484*		*−1,135,366,693*	
emoluments paid to head and branch office collegial bodies (1)	*−4,650,106*		*−3,924,711*	
pensions and severance payments	*−422,610,552*		*−507,485,373*	
other	*−16,665,274*	*−1,613,127,416*	*−14,940,990*	*−1,661,717,767*
transfers to:				
provision for staff severance pay and pensions	*−645,913,673*		*−16,614,354*	
provision for expenses accrued but not yet paid	*−101,914,568*		*−90,855,101*	
other provisions	*−502,954*	*−748,331,195*	*−595,921*	*−108,065,376*
Administrative costs		−687,540,981		−585,288,386
Depreciation of tangible and intangible fixed assets		−368,998,808		−284,411,763
Other costs:				
losses on investments of reserves and provisions		−57,494,002		−24,142,394
losses on disposals	*−22,569,612*		*−7,899,187*	
writedowns	*−34,924,390*		*−16,243,207*	
other transfers to provisions		−103,009,564		−
prior-year expense		−11,337,841		−24,485,999
appropriation of investment income to reserves (2)		−1,778,922,220		−1,505,598,978
other taxes and duties		−83,087,396		−41,508,473
sundry		−27,307,156		−38,358,387
other interest expense	*−6,382,557*		*−3,525,235*	
opening stocks	*−956,036*		*−25,816,940*	
miscellaneous payables	*−19,968,563*		*−9,016,212*	
Taxes on income for the year and productive activities		−1,539,334,650		−336,910,980
NET PROFIT FOR THE YEAR		**246,711,618**		**1,035,856,896**

(1) Includes the remuneration of the Board of Directors (1,773,203,000 lire in 2000 and 1,714,634,000 lire in 1999) and the Board of Auditors (60,254 thousands of lire in 2000 and 60,250 thousands of lire in 1999). − (2) Pursuant to Article 55 of the Statute.

- 433 million euros (838 billion lire) of additional income from refinancing operations, the net result of an increase in income from main refinancing operations of 473 million euros (916 billion lire) and a decrease in income from longer-term refinancing operations of 39 million euros (76 billion lire).

  The positive performance of interest income from main refinancing operations was attributable not only to the rise in the average rate of return from 2.70 to 4.03 per cent but also to the increase in the average volume of transactions from 18,944 to 24,411 million euros (from 36,680 to 47,267 billion lire), while the decrease in interest income from longer-term refinancing operations was due to the contraction in the average volume of transactions from 1,871 to 457 million euros (from 3,622 to 885 billion lire), which was offset only in part by the rise in the average rate of return from 2.97 to 3.62 per cent);
- 320 million euros (619 billion lire) on intra-Eurosystem balances. In particular, the interest earned on TARGET accounts increased from 106 to 339 million euros (from 206 to 656 billion lire) and that on the claims arising from the transfer of foreign currency reserve assets to the ECB from 172 to 259 million euros (from 334 to 502 billion lire). Both increases reflected the rise in the interest rates applied.

There was virtually no change in the interest earned at the rate of 1 per cent on discounts and advances under Treasury Ministry Decree 27.9.1974 (162 million euros, 313 billion lire) or in the interest income from claims on the State under Law 483/1993 (394 million euros, 762 billion lire). The interest earned on securities held for monetary policy purposes increased from 93 to 97 million euros (from 181 to 188 billion lire) as a result of a small rise in the average rate of return, from 6.04 to 6.39 per cent, and a slight contraction in the average portfolio, from 1,549 to 1,523 million euros (from 2,998 to 2,950 billion lire).

Bond premiums and discounts in respect of securities denominated in euros and foreign currency rose from 76 to 171 million euros (from 147 to 330 billion lire).

Interest expense increased from 1,848 to 2,732 million euros (from 3,578 to 5,290 billion lire).

Interest expense increased in respect of all the items denominated in euros except for the account held by the UIC. In detail, the increases amounted to:

- 492 million euros (952 billion lire) in respect of intra-Eurosystem balances, owing to the larger average payables on TARGET accounts and the rise in the average rate of return;
- 185 million euros (359 billion lire) in respect of current account deposits of required reserves, primarily owing to the rise in the average rate of

return on required reserves from 2.73 to 4.08 per cent. The average amount of required reserves rose from 11,861 to 12,472 million euros (from 22,967 to 24,149 billion lire);

- 156 million euros (303 billion lire) in respect of the Treasury payments account, owing to the rise in the average rate of return from 5.06 to 5.76 per cent and the increase in the average balance;
- 28 million euros (55 billion lire) in respect of the sinking fund for the redemption of government securities, owing to the rise in the average rate of return from 2.9 to 3.72 per cent and the increase in the average amount outstanding from 1,397 to 1,853 million euros (from 2,706 to 3,588 billion lire);
- 2 million euros (4 billion lire) in respect of overnight deposits, fixed-term deposits and deposits related to margin calls, which rose from 1 to 3 million euros (from 2 to 6 billion lire).

The interest paid on the current account held by the UIC decreased by 1 million euros (2 billion lire), the combined effect of the decrease in the average balance from 358 to 142 million euros (from 692 to 274 billion lire) and the rise in the average rate of return 1.55 to 3.12 per cent.

The interest paid on positions denominated in foreign currency increased from 45 to 67 million euros (from 87 to 130 billion lire). In particular, that on allocations of SDRs increased from 32 to 45 million euros (from 61 to 87 billion lire).

The *net result of financial operations, writedowns and risk provision transfers*, which in 1999 had been negative for a total of 848 million euros (1,642 billion lire) was positive for a total of 63 million euros (121 billion lire). The swing reflected:

- the improvement in the item *profits and losses on financial operations*, which showed a profit of 503 million euros (975 billion lire), whereas in 1999 it had shown a loss of 185 million euros (359 billion lire), primarily in connection with sales of securities for the constitution of collateral for advances granted under Treasury Ministry Decree 27.9.1974. The positive outcome in 2000 was the result of 182 million euros (353 billion lire) of profits from trading in securities (denominated almost exclusively in foreign currency), 371 million euros (719 billion lire) of profits from foreign exchange trading (of which 477 billion lire from trading in US dollars and 209 billion lire from trading in yen) and 50 million euros (97 billion lire) of losses deriving from the closure of the forward position in connection with the advances granted under Treasury Ministry Decree 27.9.1974 that fell due at the end of the year;
- the decrease in the item *writedowns of financial assets and positions* from 1,630 to 480 million euros (from 3,155 to 929 billion lire). In particular, there was a reduction both in the writedown of the forward repurchase

position in securities connected with transactions under Treasury Ministry Decree 27.9.1974 determined on the basis of the foreseeable difference between the repurchase price and the future market price (from 1,136 to 477 million euros; from 2,199 to 924 billion lire) and, owing to exchange rate movements, in the revaluation losses on securities denominated in euros and foreign currency (from 494 to 2 million euros; from 956 to 4 billion lire);

- the decrease from 967 to 39 million euros (from 1,872 to 75 billion lire) in withdrawals made from the pre-system revaluation reserves as a consequence of disposals and writedowns of securities and foreign exchange and included under *transfers to/from provisions for losses on foreign exchange and securities*. The withdrawals in 1999 were mainly made in connection with the transfer to the ECB of gold and foreign currency assets at the beginning of Stage Three.

  As in 1999, no transfers were made to the provisions for losses on foreign exchange and securities.

Net income from fees and commissions was positive for 5 million euros (10 billion lire), whereas in 1999 it had been negative for 11 million euros (21 billion lire). In more detail, fee and commission income, which consisted primarily of charges for clearing and settlement services provided by the Bank, increased from 19 to 25 million euros, while fee and commission expense fell from 30 to 20 million euros (from 58 to 38 billion lire) as a consequence of the decrease in the commission paid to the UIC for the management of the official reserves in foreign currency.

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 fell from 802 to 106 million euros (from 1,553 to 206 billion lire). The large allocation in 1999 had been due to the high level of the UIC's profits in 1998 (3,208 million euros, 6,212 billion lire) following the sale of the foreign currency reserves to the Bank of Italy.

The *net result of the pooling of monetary income*, which in 1999 had been negative for 37 million euros (72 billion lire) since it had included the 41 million euros (80 billion lire) allocated to make good the Bank's share of the ECB's loss for 1999, was positive for 3 million euros (5 billion lire), the resultant of 4 million euros (7 billion lire) of monetary income contributed by the Bank and 7 million euros (12 billion lire) of monetary income attributable to the Bank.

Other income increased by 104 million euros (203 billion lire), from 2,393 to 2,497 million euros (from 4,633 to 4,836 billion lire), as follows:

- *income from the investment of reserves and provisions* increased from 2,190 to 2,399 million euros (from 4,241 to 4,644 billion lire). In more detail, interest income and dividends from securities, including bond premiums and discounts, rose from 1,382 to 1,495 million euros (from 2,676 to 2,894 billion lire) and profits from trading of assets and disposals rose from 808 to 904 million euros (from 1,565 to 1,751 billion lire).

The average holding of shares grew from 1,471 to 7,105 million euros (from 2,848 to 13,756 billion lire) and that of interest-earning securities from 19,874 to 21,027 million euros (from 38,481 to 40,714 billion lire). The growth was mainly due to purchases made during the year;

- *prior-year income* decreased by 73 million euros (141 billion lire), falling from 92 to 19 million euros (from 177 to 36 billion lire). The figure for 1999 had been influenced by the inclusion under the newly introduced accounting policy of claims in respect of deferred tax assets that had arisen in prior years;
- *sundry* income decreased from 111 to 80 million euros (from 215 to 155 billion lire). The items contributing to the decrease included: interest on tax credits, which fell by 21 million euros (40 billion lire) as a result of the refunds received, and commissions paid by the Treasury Ministry for payment services, which fell from 19 to 1 million euros (from 36 to 2 billion lire) following the dematerialization of Italian government securities.

Staff costs rose from 914 to 1,220 million euros (from 1,770 to 2,361 billion lire) in connection with the increase in the transfers to the provision for severance pay and pensions from 9 to 334 million euros (from 17 to 646 billion lire).

Transfers to provisions, which, in accordance with the accounting recommendations of the ECB, are stated under staff costs, also included those to the provision for expenses accrued but not yet paid and the contributions to the supplementary pension fund for staff hired since 28 April 1993, which together amounted to 53 million euros (102 billion lire) (Table 3).

Excluding transfers to provisions, staff costs declined owing to the decrease of 43 million euros (84 billion lire) in payments of severance pay, which more than offset the increase of 17 million euros (34 billion lire) in wages and salaries and related costs.

Emoluments paid to head and branch office collegial bodies remained unchanged at 2 million euros (4 billion lire).

The breakdown of the Bank’s staff by type of employment is shown in Table 8.

Administrative costs rose by 53 million euros (102 billion lire), primarily in connection with the purchase of watermarked paper for the production of euro banknotes.

Depreciation of tangible and intangible fixed assets, which are based on the depreciation rates laid down by the ECB, increased by 44 million euros

(85 billion lire) from 147 to 191 million euros (from 284 to 369 billion lire). The increase was primarily due to the revaluation of fixed assets under Law 342/2000.

Table 8

THE BANK'S STAFF

	Average number of persons in service		Percentage composition	
	2000	1999	2000	1999
Managerial	1,924	1,923	22.3	21.8
Clerical	5,100	5,207	59.0	59.2
General services and security	1,019	1,062	11.8	12.1
Blue-collar	596	610	6.9	6.9
Total	**8,639**	**8,802**	**100.0**	**100.0**

The charge for the year referred mainly to buildings (119 million euros, 230 billion lire), plant and equipment (34 million euros, 65 billion lire) and EDP Department procedures, studies and designs (29 million euros, 55 billion lire).

Other costs rose from 844 to 1,064 million euros (from 1,634 to 2,061 billion lire) and comprised:

- *losses on investments of reserves and provisions*, which rose from 12 to 30 million euros (from 24 to 57 billion lire), as a result of larger losses on disposals and an increase in writedowns of equity investments;
- *other transfers to provisions* amounting to 53 million euros (103 billion lire) and consisting of accelerated depreciation allocated to the "reserve" under Article 67.3 of the Income Tax Code;
- *prior-year expense*, which fell from 13 to 6 million euros (from 24 to 11 billion lire);
- *appropriation of investment income to reserves*, which increased from 778 to 919 million euros (from 1,506 to 1,779 billion lire), primarily as a result of the capital gains realized on bonds;
- *other taxes and duties*, i.e. excluding income tax for the year and the regional tax on productive activities, which rose from 21 to 43 million euros (from 42 to 83 billion lire) owing to the increase in the stamp duty on notes in circulation from 6 to 28 million euros (from 12 to 55 billion lire);
- *sundry* other costs, which decreased by 6 million euros (11 billion lire) as a result of the decrease of 13 million euros (25 billion lire) in opening

stocks, partially offset by the prudential allocation of 5 million euros (10 billion lire) for interest accrued but not yet paid on investments of the ordinary reserve and the writedown of 1 million euros of an asset in connection with the revaluation of assets under Law 342/2000.

Taxes on income for the year and productive activities rose from 174 to 795 million euros (from 337 to 1,539 billion lire) owing to the increase in the pre-tax profit and the reduction in revenues eligible for tax refunds (income earned on the Bank's share of the UIC's endowment fund). Corporate income tax and the regional tax on productive activities rose from 151 to 755 million euros; the remaining 40 million euros (23 million in 1999) consisted of the deferred tax liability calculated on the basis of the weighted average rate of corporate income tax for 2000 following the introduction of the "Dual Income Tax" and the rates for the regional tax on productive activities currently expected for 2001 and subsequent years.

Corporate income tax rose from 96 to 610 million euros (from 185 to 1,181 billion lire) and the regional tax on productive activities from 55 to 145 million euros (from 107 to 280 billion lire).

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 2000 of 127,415,917 euros (247 billion lire):

	euros	*lire*
– 20 per cent to the ordinary reserve . . .	25,483,183	(49,342,323,626)
– an amount equal to 6 per cent of the share capital to shareholders	9,296	(18,000,000)
– 20 per cent to the extraordinary reserve	25,483,183	(49,342,323,626)
– 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	76,434,058	(147,996,970,880)
TOTAL	127,415,917	(246,711,618,132)

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 39,236,000 euros

(76 billion lire), equal to 0.55 per cent (0.50 per cent in the previous year) of the total reserves at 31 December 1999.

If these proposals are approved, the total dividend will be equal to 39,251,493 euros, corresponding to 130.83831 euros (253,338 lire) per share.

THE GOVERNOR
Antonio Fazio

BALANCE SHEET
AND INCOME STATEMENT
for the year ended 31 December 2000

ASSETS	amounts in euros		amounts in lire	
	2000	1999 (*)	2000	1999 (*)
1 GOLD AND GOLD RECEIVABLES	**23,097,625,286**	**22,822,355,133**	**44,723,238,912,988**	**44,190,241,574,052**
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**27,487,194,373**	**22,317,490,312**	**53,222,629,848,706**	**43,212,686,966,629**
2.1 Receivables from the IMF	3,983,851,620	4,252,976,656	7,713,812,376,780	8,234,911,109,907
2.2 Securities (other than shares)	19,863,830,346	14,138,303,563	38,461,738,783,352	27,375,573,041,014
2.3 Current accounts and deposits	3,636,855,417	3,739,738,590	7,041,934,037,791	7,241,143,639,969
2.4 Reverse operations	–	184,045,105	–	356,361,014,994
2.5 Other claims	2,656,990	2,426,398	5,144,650,783	4,698,160,745
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**3,022,322,599**	**3,602,977,769**	**5,852,032,577,778**	**6,976,337,764,588**
3.1 Financial counterparties	3,022,322,599	3,602,977,769	5,852,032,577,778	6,976,337,764,588
3.1.1 Securities (other than shares)	*156,834,605*	*559,173,386*	*303,674,140,720*	*1,082,710,651,413*
3.1.2 Reverse operations	–	*38,907,919*	–	*75,336,237,155*
3.1.3 Other claims	*2,865,487,994*	*3,004,896,464*	*5,548,358,437,058*	*5,818,290,876,020*
3.2 General government	–	–	–	–
3.3 Other counterparties	–	–	–	–
4 CLAIMS ON NON-EURO-AREA RESIDENTS	**-**	**1,214,194,354**	**-**	**2,351,008,102,207**
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 Other claims	–	–	–	–
5 LENDING TO EURO-AREA BANKS RELATED TO MONETARY POLICY OPERATIONS (1)	**25,861,684,987**	**35,851,976,548**	**50,075,204,789,527**	**69,419,106,631,370**
5.1 Main refinancing operations	25,398,507,064	33,162,534,288	49,178,367,272,908	64,211,620,266,794
5.2 Longer-term refinancing operations	463,002,669	1,892,277,424	896,498,176,956	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 (2)	175,254	3,272,723	339,339,663	6,336,874,763
6 OTHER CLAIMS ON EURO-AREA BANKS	**499,448**	**399,468**	**967,065,404**	**773,477,285**
7 SECURITIES ISSUED BY EURO-AREA RESIDENTS (other than shares)	**1,550,761,910**	**1,483,116,315**	**3,002,693,764,405**	**2,871,713,626,451**
8 GENERAL GOVERNMENT DEBT	**40,611,402,701**	**40,851,541,280**	**78,634,640,708,059**	**79,099,613,834,669**
9 INTRA-EUROSYSTEM CLAIMS	**8,192,250,000**	**8,192,250,000**	**15,862,407,907,500**	**15,862,407,907,500**
9.1 Participating interest in the ECB	744,750,000	744,750,000	1,442,037,082,500	1,442,037,082,500
9.2 Claims deriving from the transfer of foreign reserves to the ECB	7,447,500,000	7,447,500,000	14,420,370,825,000	14,420,370,825,000
9.3 Other claims (net)	–	–	–	–
10 ITEMS TO BE SETTLED	**797,024**	**735,685**	**1,543,254,299**	**1,424,485,298**
11 OTHER ASSETS (3)	**50,970,944,924**	**46,515,467,845**	**98,693,511,526,967**	**90,066,504,923,718**
11.1 Euro-area coins	6,325,953	3,774,864	12,248,753,190	7,309,156,092
11.2 UIC endowment fund	258,228,450	258,228,450	500,000,000,000	500,000,000,000
11.3 Investments of reserves and provisions (including shares)	28,675,361,127	25,024,581,525	55,523,241,489,415	48,454,346,470,070
11.4 Intangible fixed assets	26,778,847	38,703,893	51,851,077,151	74,941,187,093
11.5 Deferred charges	6,105,163	8,213,097	11,821,244,116	15,902,772,573
11.6 Tangible fixed assets (net of depreciation)	2,844,089,423	1,961,185,378	5,506,925,027,479	3,797,384,411,434
11.7 Accrued income and prepaid expenses	1,226,497,390	1,018,762,688	2,374,830,101,742	1,972,599,629,390
11.8 Sundry (4)	17,927,558,571	18,202,017,950	34,712,593,833,874	35,244,021,297,066
TOTAL (5)	**180,795,483,252**	**182,852,504,709**	**350,068,870,355,633**	**354,051,819,293,767**
13 MEMORANDUM ACCOUNTS	**673,896,915,980**	**1,496,286,293,218**	**1,304,846,381,505,447**	**2,897,214,260,968,930**

(*) The 1999 columns are based on the new layout but do not take account of the following additional reclassifications: (1) 35,852,354,542 euros (69,419,838,529,077 lire); (2) 3,650,717 euros (7,068,772,470 lire); (3) 46,511,123,849 euros (90,058,093,773,828 lire); (4) 18,197,673,954 euros (35,235,610,147,176 lire); (5) 182,848,538,707 euros (354,044,140,041,584 lire).

Audited and found correct - 24 April 2001
THE AUDITORS: Giuseppe Bruni, Enrico Nuzzo, Angelo Provasoli, Massimo Stipo, Gianfranco Zanda

SHEET

LIABILITIES	amounts in euros		amounts in lire	
	2000	1999 (*)	2000	1999 (*)
1 BANKNOTES IN CIRCULATION	**75,063,752,078**	**70,614,049,741**	**145,343,691,236,940**	**136,727,866,091,754**
2 LIABILITIES TO EURO-AREA BANKS RELATED TO MONETARY POLICY OPERATIONS (1)	**7,752,015,882**	**9,225,012,401**	**15,009,995,791,685**	**17,862,114,762,052**
2.1 Current accounts (covering the minimum reserve system)	7,650,935,513	9,100,787,649	14,814,276,905,795	17,621,582,100,374
2.2 Deposit facility	101,080,369	124,224,752	195,718,885,890	240,532,661,678
2.3 Fixed-term deposits	–	–	–	–
2.4 Fine-tuning reverse operations	–	–	–	–
2.5 Deposits related to margin calls (2)	–	–	–	–
3 OTHER LIABILITIES TO EURO-AREA BANKS	**–**	**–**	**–**	**–**
4 LIABILITIES TO OTHER EURO-AREA RESIDENTS DENOMINATED IN EUROS (3)	**19,453,616,888**	**29,465,493,713**	**37,667,454,772,464**	**57,053,151,511,457**
4.1 General government (4)	19,370,512,538	29,078,380,115	37,506,542,311,857	56,303,595,064,477
4.1.1 Treasury payments account	*15,125,837,391*	*29,047,268,637*	*29,287,705,165,827*	*56,243,354,843,996*
4.1.2 Sinking fund for the redemption of government securities	*4,219,164,624*	*5,452,040*	*8,169,441,885,603*	*10,556,621,626*
4.1.3 Other liabilities (5)	*25,510,523*	*25,659,438*	*49,395,260,427*	*49,683,598,855*
4.2 Other counterparties (6)	83,104,350	387,113,598	160,912,460,607	749,556,446,980
5 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN EUROS (7)	**24,204,918**	**5,359,943,024**	**46,867,256,266**	**10,378,296,879,603**
5.1 Liabilities to non-euro-area EU central banks	228,506	5,326,726,282	442,449,448	10,313,980,298,745
5.2 Other liabilities (8)	23,976,412	33,216,742	46,424,806,818	64,316,580,858
6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**–**	**38,907,919**	**–**	**75,336,236,613**
6.1 Financial sector counterparties	–	38,907,919	–	75,336,236,613
6.2 General government	–	–	–	–
6.3 Other counterparties	–	–	–	–
7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**228,657,599**	**926,438,040**	**442,742,849,119**	**1,793,834,183,614**
7.1 Deposits and balances	13,894,843	12,755,994	26,904,167,462	24,699,048,464
7.2 Other liabilities	214,762,756	913,682,046	415,838,681,657	1,769,135,135,150
8 COUNTERPART OF SDRs ALLOCATED BY THE IMF	**983,419,704**	**958,759,142**	**1,904,166,070,264**	**1,856,416,564,655**
9 INTRA-EUROSYSTEM LIABILITIES (9)	**17,762,524,048**	**11,293,350,081**	**34,393,042,437,859**	**21,866,974,960,525**
9.1 Promissory notes covering debt certificates issued by the ECB	–	–	–	–
9.2 Other liabilities (net) (9)	17,762,524,048	11,293,350,081	34,393,042,437,859	21,866,974,960,525
10 ITEMS TO BE SETTLED	**26,741,150**	**23,543,197**	**51,778,087,072**	**45,585,985,474**
11 OTHER LIABILITIES (10)	**1,958,615,943**	**2,172,067,737**	**3,792,409,291,224**	**4,205,709,596,322**
11.1 Bank of Italy drafts	800,160,667	488,811,150	1,549,327,094,847	946,470,365,004
11.2 Cashier's department services	17,012,582	2,157,668	32,940,951,065	4,177,826,908
11.3 Accrued expenses and deferred income	22,295,788	15,698,725	43,170,666,108	30,396,969,617
11.4 Sundry (11)	1,119,146,906	1,665,400,194	2,166,970,579,204	3,224,664,434,793
12 PROVISIONS	**9,879,360,580**	**8,734,268,457**	**19,129,109,510,024**	**16,911,901,986,165**
12.1 Provisions for specific risks	4,603,328,054	3,799,206,170	8,913,286,010,422	7,356,288,930,747
12.2 Sundry staff-related provisions	5,276,032,526	4,935,062,287	10,215,823,499,602	9,555,613,055,418
13 REVALUATION ACCOUNTS	**26,150,676,522**	**24,091,886,669**	**50,634,770,428,556**	**46,648,397,400,585**
14 PROVISION FOR GENERAL RISKS	**9,098,072,043**	**9,098,072,043**	**17,616,323,954,266**	**17,616,323,954,266**
15 CAPITAL AND RESERVES	**12,286,409,980**	**10,315,737,105**	**23,789,807,051,762**	**19,974,052,284,776**
15.1 Capital	154,937	154,937	300,000,000	300,000,000
15.2 Ordinary and extraordinary reserves	8,184,683,413	7,133,744,128	15,847,756,952,748	13,812,854,742,587
15.3 Other reserves	4,101,571,630	3,181,838,040	7,941,750,099,014	6,160,897,542,189
16 NET PROFITS FOR DISTRIBUTION	**127,415,917**	**534,975,440**	**246,711,618,132**	**1,035,856,895,906**
TOTAL (12)	**180,795,483,252**	**182,852,504,709**	**350,068,870,355,633**	**354,051,819,293,767**
18 MEMORANDUM ACCOUNTS	**673,896,915,980**	**1,496,286,293,218**	**1,304,846,381,505,447**	**2,897,214,260,968,930**

(*) The 1999 columns are based on the new layout but do not take account of the following additional reclassifications: (1) 9,225,390,395 euros (17,862,846,659,759 lire); (2) 377,994 euros (731,897,707 lire); (3) 29,467,996,971 euros (57,057,998,494,302 lire); (4) 29,079,461,784 euros (56,305,689,467,576 lire); (5) 26,741,107 euros (51,778,001,954 lire); (6) 388,535,187 euros (752,309,026,726 lire); (7) 5,360,126,590 euros (10,378,652,313,581 lire); (8) 33,400,308 euros (64,672,014,836 lire); (9) 11,289,006,085 euros (21,858,563,810,635 lire); (10) 2,169,380,913 euros (4,200,507,179,499 lire); (11) 1,662,713,370 euros (3,219,462,017,970 lire); (12) 182,848,538,707 euros (354,044,140,041,584 lire).

THE ACCOUNTANT GENERAL
STEFANO LO FASO

THE GOVERNOR
ANTONIO FAZIO

INCOME STATEMENT

	amounts in euros		amounts in lire	
	2000	1999	2000	1999
a) Net income from institutional operations				
Interest income	*3,809,953,776*	*2,465,418,701*	*7,377,099,197,352*	*4,773,716,268,301*
Interest expense	*–2,732,157,036*	*–1,848,033,166*	*–5,290,193,704,057*	*–3,578,291,178,447*
Net interest income	**1,077,796,740**	**617,385,535**	**2,086,905,493,295**	**1,195,425,089,854**
Profits and losses on financial operations	*503,459,991*	*–185,221,021*	*974,834,477,084*	*–358,637,905,519*
Writedowns of financial assets and positions	*–479,560,368*	*–1,629,571,893*	*–928,558,354,677*	*–3,155,291,170,014*
Transfers to/from provisions for losses on foreign exchange and securities	*38,799,379*	*966,626,512*	*75,126,073,615*	*1,871,649,917,010*
Net result of financial operations, writedowns and risk provision transfers	**62,699,002**	**–848,166,402**	**121,402,196,022**	**–1,642,279,158,523**
Fee and commission income	*25,070,184*	*19,301,552*	*48,542,646,471*	*37,373,015,259*
Fee and commission expense	*–19,730,788*	*–30,065,137*	*–38,204,133,132*	*–58,214,222,548*
Net income from fees and commissions	**5,339,396**	**–10,763,585**	**10,338,513,339**	**–20,841,207,289**
Income from equity shares and participating interests	106,447,914	802,059,595	206,111,902,015	1,553,003,931,972
Net result of the pooling of monetary income	2,535,725	–37,121,815	4,909,849,330	–71,877,855,859
b) Other income				
– *income from the investment of reserves and provisions*	2,398,623,867	2,190,101,892	4,644,383,435,479	4,240,628,590,268
– *prior-year income*	18,831,368	91,587,666	36,462,613,188	177,338,450,085
– *sundry*	79,890,121	111,011,150	154,688,844,124	214,947,558,190
Total net income (a+b)	**3,752,164,133**	**2,916,094,036**	**7,265,202,846,792**	**5,646,345,398,698**
Staff costs	–1,219,591,592	–914,016,714	–2,361,458,611,261	–1,769,783,142,972
Administrative costs	–355,085,283	–302,276,225	–687,540,980,934	–585,288,386,045
Depreciation of tangible and intangible fixed assets	–190,571,980	–146,886,417	–368,998,808,180	–284,411,763,264
Banknote production services	–	–	–	–
Other costs:				
– *losses on investments of reserves and provisions*	–29,693,174	–12,468,506	–57,494,002,195	–24,142,393,822
– *other allocations to provisions*	–53,200,000	–	–103,009,564,000	–
– *prior-year expense*	–5,855,506	–12,645,963	–11,337,840,990	–24,485,998,759
– *appropriation of investment income to reserves* (1)	–918,736,653	–777,576,980	–1,778,922,219,898	–1,505,598,978,464
– *other taxes and duties*	–42,911,059	–21,437,337	–83,087,395,784	–41,508,472,803
– *sundry*	–14,102,969	–19,810,454	–27,307,155,418	–38,358,386,663
Taxes on income for the year and productive activities	–795,000,000	–174,000,000	–1,539,334,650,000	–336,910,980,000
Net profit for the year	**127,415,917**	**534,975,440**	**246,711,618,132**	**1,035,856,895,906**

(1) Pursuant to Article 55 of the Statute.

ALLOCATION OF THE NET PROFIT FOR THE YEAR	amounts in euros	amounts in lire
TO THE ORDINARY RESERVE	25,483,183	49,342,323,626
TO THE EXTRAORDINARY RESERVE	25,483,183	49,342,323,626
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	76,434,058	147,996,970,880
TOTAL	**127,415,917**	**246,711,618,132**

Audited and found correct
24 April 2001. **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 107th FINANCIAL YEAR OF THE BANK OF ITALY AND THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2000

To the Shareholders

The accounts for the year ended 31 December 2000, submitted for your approval and drawn up in euros in conformity with Council Regulation (EC) No. 974/98, show the following results:

Assets	€	180,795,483,252
Liabilities	€	168,381,657,355
Capital and reserves	€	12,286,409,980
Net profit for the year (as shown in the vertical profit and loss account) .	€	127,415,917

The memorandum accounts, shown on both sides of the balance sheet for an amount of 673,896,915,980 euros, 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.

The methods used in preparing the annual accounts and valuing assets and liabilities are unchanged compared with the previous year. The methods applied conform in all respects with those approved by the Board of Directors and with the law in force. We agree with these methods, which are described in detail in the notes to the accounts. They also conform with the harmonized accounting rules laid down by the Governing Council of the ECB and transposed for the purposes of the annual accounts by Article 8 of Legislative Decree 43/1998. The notes to the accounts contain all the other information required by law.

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 "provision for severance pay and pensions" comprises both the actuarial reserves corresponding to the situation of staff having entitlement and that of pensioners and the severance pay accrued by all the members of the staff in service at the end of the year. We also draw your attention to the fact that the provision for staff costs includes the amounts to be paid into the supplementary pension fund for staff hired since 28 April 1993.

In addition, we inform you that the Bank, taking advantage of the possibility provided by Law 342/2000, has revalued all the buildings used in its activities and its participating interest in Monte Titoli S.p.A. The amount of the revaluation has been included, net of the related full-settlement tax, in the revaluation reserve created under Law 342/2000. The revaluation was carried out using the current value method since a reference market exists for the assets in question capable of providing significant price indications.

In determining the new values of buildings, the Bank obtained appraisals from outside experts drawn up according to the summary comparative method: the net market value of the buildings used in its activities included in the accounts for the year ended 31 December 1999 was estimated to be 2,410 million euros. In revaluing these assets, as in earlier revaluations, values that were 5 per cent below those estimated for each building were adopted in accordance with the prudence principle and compared with the net balance sheet values.

We therefore declare that the net balance sheet value of the revalued assets, plus the depreciation charge – where applicable – in respect of the revaluation, does not exceed the market value of the assets in question at 31 December 2000.

Pursuant to Article 54 of the Statute, the Board of Directors proposes the following allocation of the net profit for 2000 of 127,415,917 euros:

– 20 per cent to the ordinary reserve	€	25,483,183
– an amount equal to 6 per cent of the share capital to shareholders	”	9,296
– 10 per cent to the extraordinary reserve	”	25,483,183
– an additional amount equal to 4 per cent of the share capital to shareholders	”	6,197
– the remaining amount to the Treasury	”	76,434,058
TOTAL	€	127,415,917

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 39,236,000 euros, equal to 0.55 per cent of such reserves at 31 December 1999 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, in accordance with Articles 23 and 24 of the Bank's Statute, with the examiners at the main branches and the branches, whom we thank warmly.

We recommend that you approve the accounts for 2000 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.

Upon the termination of our appointment, we thank you for the confidence with which you have honoured us.

THE AUDITORS
GIUSEPPE BRUNI
ENRICO NUZZO
ANGELO PROVASOLI
MASSIMO STIPO
GIANFRANCO ZANDA

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							
	Gross domestic product	Imports of goods and services	Total	Domestic demand							Exports of goods and services
				Gross fixed investment			National consumption		Change in stocks and valuables	Total	
				Construction	Other (2)	Total	Households (3)	General government			
1996	7,837.9	1,664.5	9,502.5	684.5	772.1	1,456.6	4,358.8	1,892.8	–11.0	7,697.2	1,805.3
1997	7,987.2	1,778.8	9,766.0	661.2	794.6	1,455.8	4,366.1	1,933.1	–7.4	7,747.5	2,018.5
1998	8,258.9	1,985.2	10,244.1	674.1	883.2	1,557.3	4,515.5	1,930.7	54.3	8,057.8	2,186.3
1999	8,499.7	2,079.3	10,579.1	711.7	942.8	1,654.5	4,642.5	1,969.8	38.4	8,305.3	2,273.7
	(1,287.6)	*(315.0)*	*(1,602.5)*	*(107.8)*	*(142.8)*	*(250.6)*	*(703.3)*	*(298.4)*	*(5.8)*	*(1,258.1)*	*(344.4)*
2000	8,763.1	2,375.0	11,138.1	751.4	1,004.1	1,755.5	4,760.2	2,012.7	50.3	8,578.8	2,559.3
	(1,335.9)	*(362.1)*	*(1,698.0)*	*(114.6)*	*(153.1)*	*(267.6)*	*(725.7)*	*(306.8)*	*(7.7)*	*(1,307.8)*	*(390.2)*
1996 – I	1,953.9	415.0	2,368.9	171.6	192.6	364.2	1,093.2	469.6	–3.5	1,923.4	445.5
II	1,956.4	415.9	2,372.2	172.2	193.3	365.5	1,087.2	471.8	4.1	1,928.7	443.6
III	1,966.6	412.0	2,378.6	171.9	193.5	365.3	1,097.1	473.9	–9.3	1,927.1	451.6
IV	1,965.2	417.7	2,382.8	169.3	193.6	362.9	1,083.5	476.8	–2.0	1,921.2	461.6
1997 – I	1,973.1	422.7	2,395.8	165.4	192.4	357.8	1,082.7	481.2	–3.9	1,917.8	477.9
II	1,987.7	434.0	2,421.7	165.5	196.7	362.1	1,086.5	482.6	–6.7	1,924.6	497.1
III	2,004.1	455.1	2,459.2	164.5	200.4	364.8	1,091.8	484.2	4.1	1,945.0	514.2
IV	2,023.9	468.8	2,492.7	165.7	205.7	371.3	1,104.5	483.8	3.1	1,962.7	529.9
1998 – I	2,043.5	485.7	2,529.2	165.8	214.5	380.3	1,112.6	481.9	12.0	1,986.8	542.4
II	2,063.5	499.8	2,563.3	167.2	221.5	388.7	1,128.3	482.1	16.1	2,015.2	548.0
III	2,075.8	502.0	2,577.8	169.0	224.5	393.5	1,136.2	482.5	14.3	2,026.5	551.3
IV	2,085.3	503.7	2,588.9	172.0	226.4	398.4	1,145.1	484.2	17.6	2,045.3	543.7
1999 – I	2,100.1	500.8	2,600.9	175.2	232.4	407.6	1,148.3	488.8	12.7	2,057.5	543.4
	(318.1)	*(75.9)*	*(394.0)*	*(26.5)*	*(35.2)*	*(61.7)*	*(174.0)*	*(74.1)*	*(1.9)*	*(311.7)*	*(82.0)*
II	2,116.5	510.6	2,627.1	177.6	234.6	412.1	1,158.7	490.9	8.4	2,070.1	557.1
	(320.6)	*(77.4)*	*(398.0)*	*(26.9)*	*(35.5)*	*(62.4)*	*(175.5)*	*(74.4)*	*(1.3)*	*(313.6)*	*(84.4)*
III	2,138.6	522.7	2,661.2	178.1	237.6	415.7	1,172.4	493.0	–0.5	2,080.7	580.6
	(324.0)	*(79.2)*	*(403.1)*	*(27.0)*	*(36.0)*	*(63.0)*	*(177.6)*	*(74.7)*	*(–0.1)*	*(315.2)*	*(87.9)*
IV	2,162.8	541.3	2,704.1	179.9	242.4	422.3	1,181.0	497.1	14.0	2,114.5	589.7
	(327.6)	*(82.0)*	*(409.6)*	*(27.3)*	*(36.7)*	*(64.0)*	*(178.9)*	*(75.3)*	*(2.1)*	*(320.3)*	*(89.3)*
2000 – I	2,176.2	562.8	2,739.0	184.0	244.9	428.9	1,189.6	498.9	12.7	2,130.0	609.0
	(331.8)	*(85.8)*	*(417.6)*	*(28.1)*	*(37.3)*	*(65.4)*	*(181.3)*	*(76.0)*	*(1.9)*	*(322.7)*	*(92.3)*
II	2,192.5	585.1	2,777.6	187.1	249.5	436.6	1,195.0	502.5	7.2	2,141.3	636.3
	(334.2)	*(89.2)*	*(423.4)*	*(28.5)*	*(38.0)*	*(66.6)*	*(182.2)*	*(76.6)*	*(1.1)*	*(324.4)*	*(96.4)*
III	2,206.5	613.6	2,820.1	188.4	255.3	443.8	1,201.5	505.5	14.8	2,165.6	654.5
	(336.4)	*(93.5)*	*(429.9)*	*(28.7)*	*(38.9)*	*(67.7)*	*(183.2)*	*(77.1)*	*(2.3)*	*(328.0)*	*(99.1)*
IV	2,228.1	633.0	2,861.1	191.6	265.3	456.9	1,205.3	508.6	12.3	2,183.1	677.9
	(339.7)	*(96.5)*	*(436.2)*	*(29.2)*	*(40.4)*	*(69.7)*	*(183.8)*	*(77.5)*	*(1.9)*	*(330.7)*	*(102.7)*

Source: National statistics.

(1) The annual data are calculated as chain indices (1995=100). The conversion into euros was effected by applying the average exchange rate of the previous year (franc/ecu for 1999, franc/euro for 2000). The quarterly data are adjusted for seasonal factors and the number of working days. – (2) Machinery, equipment, transport equipment and intangible assets. – (3) Consumption by resident households and non-profit institutions serving households.

SOURCES AND USES OF INCOME IN GERMANY (1)
(at 1995 prices; billions of marks and, in brackets, billions of euros)

	Sources			Uses							
				Domestic demand							
				Gross fixed investment			National consumption				
	Gross domestic product	Imports of goods and services	Total	Construction	Other (2)	Total	Households (3)	General government	Change in stocks and valuables	Total	Exports of goods and services
1996	3,550.0	865.9	4,415.9	491.6	292.4	784.0	2,023.6	710.2	–8.3	3,509.4	906.4
1997	3,599.6	938.4	4,538.0	484.4	304.0	788.4	2,037.2	704.1	–0.3	3,529.4	1,008.6
1998	3,673.5	1,018.7	4,692.2	479.6	332.5	812.1	2,078.5	707.7	15.0	3,613.2	1,079.0
1999	3,730.7	1,101.3	4,832.0	481.7	357.0	838.8	2,132.1	706.7	21.0	3,698.5	1,133.5
	(1,991.0)	*(587.8)*	*(2,578.8)*	*(257.1)*	*(190.5)*	*(447.6)*	*(1,137.9)*	*(377.2)*	*(11.2)*	*(1,973.9)*	*(604.9)*
2000	3,840.8	1,214.1	5,054.9	469.7	389.3	859.0	2,165.3	716.7	30.3	3,771.3	1,283.7
	(2,049.8)	*(648.0)*	*(2,697.8)*	*(250.6)*	*(207.8)*	*(458.4)*	*(1,155.6)*	*(382.5)*	*(16.2)*	*(2,012.7)*	*(685.1)*
1996 – I	877.1	213.5	1,090.6	112.8	71.6	184.4	504.2	175.5	5.8	869.8	220.8
II	887.6	213.2	1,100.8	126.9	73.7	200.6	504.1	177.1	–3.7	878.0	222.8
III	891.6	216.2	1,107.8	126.3	73.3	199.6	507.7	179.1	–5.1	881.3	226.5
IV	894.5	224.6	1,119.1	125.4	75.0	200.4	507.6	178.6	–6.0	880.5	238.6
1997 – I	892.7	228.6	1,121.3	120.1	75.0	195.1	510.5	177.0	–2.8	879.9	241.4
II	899.6	231.4	1,131.0	122.1	75.2	197.3	510.9	177.1	–1.6	883.6	247.4
III	903.3	238.5	1,141.8	122.3	76.3	198.6	507.5	175.6	1.5	883.3	258.5
IV	909.2	242.3	1,151.5	122.6	78.5	201.1	509.8	174.4	1.1	886.5	265.0
1998 – I	919.6	249.6	1,169.2	123.2	80.6	203.8	518.3	177.1	2.1	901.1	268.1
II	915.1	254.0	1,169.1	118.9	82.2	201.1	515.4	177.0	2.7	896.1	273.0
III	917.9	256.0	1,173.9	119.7	83.7	203.4	520.4	176.6	3.5	903.9	270.0
IV	918.0	257.2	1,175.2	116.9	85.0	201.9	523.4	177.0	7.5	909.9	265.3
1999 – I	925.4	263.4	1,188.8	118.4	87.1	205.5	531.3	177.0	8.1	921.9	266.9
	(493.9)	*(140.6)*	*(634.4)*	*(63.2)*	*(46.5)*	*(109.7)*	*(283.5)*	*(94.5)*	*(4.3)*	*(492.0)*	*(142.4)*
II	924.2	271.8	1,196.0	119.0	87.6	206.6	529.4	176.0	5.8	917.7	278.3
	(493.2)	*(145.1)*	*(638.3)*	*(63.5)*	*(46.8)*	*(110.3)*	*(282.5)*	*(93.9)*	*(3.1)*	*(489.8)*	*(148.5)*
III	932.5	278.1	1,210.6	121.4	89.8	211.2	532.7	177.0	2.3	923.2	287.4
	(497.7)	*(148.4)*	*(646.1)*	*(64.8)*	*(47.9)*	*(112.7)*	*(284.3)*	*(94.5)*	*(1.2)*	*(492.7)*	*(153.4)*
IV	940.6	282.7	1,223.3	120.4	90.1	210.5	535.6	176.7	6.9	929.7	293.6
	(502.0)	*(150.9)*	*(652.9)*	*(64.3)*	*(48.1)*	*(112.3)*	*(285.8)*	*(94.3)*	*(3.7)*	*(496.2)*	*(156.7)*
2000 – I	949.6	288.8	1,238.4	118.8	95.2	214.0	536.4	179.7	1.7	931.8	306.6
	(506.8)	*(154.1)*	*(660.9)*	*(63.4)*	*(50.8)*	*(114.2)*	*(286.3)*	*(95.9)*	*(0.9)*	*(497.3)*	*(163.6)*
II	960.8	297.9	1,258.7	117.8	96.1	213.9	544.5	179.3	5.9	943.5	315.2
	(512.8)	*(159.0)*	*(671.8)*	*(62.9)*	*(51.3)*	*(114.2)*	*(290.6)*	*(95.7)*	*(3.1)*	*(503.5)*	*(168.2)*
III	963.5	305.5	1,269.0	116.7	98.9	215.6	542.5	178.2	8.9	945.1	323.9
	(514.2)	*(163.0)*	*(677.3)*	*(62.3)*	*(52.8)*	*(115.1)*	*(289.5)*	*(95.1)*	*(4.7)*	*(504.4)*	*(172.9)*
IV	965.5	322.4	1,287.9	115.7	99.7	215.4	542.8	179.5	12.0	949.5	338.4
	(515.3)	*(172.1)*	*(687.3)*	*(61.7)*	*(53.2)*	*(115.0)*	*(289.7)*	*(95.8)*	*(6.4)*	*(506.7)*	*(180.6)*

Source: National statistics.

(1) The quarterly data are adjusted for seasonal factors and the number of working days. – (2) Machinery, equipment, transport equipment and intangible assets. – (3) Consumption by resident households and 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								Exports of goods and services
	Gross domestic product	Imports of goods and services	Total	Gross fixed investment			National consumption		Change in stocks and valuables	Total		
				Construction	Other (2)	Total	Households (3)	General government				
1996	74,617.0	17,932.3	92,549.3	8,985.2	7,361.9	16,347.1	44,493.4	13,325.8	208.0	74,374.2		18,175.1
1997	77,556.4	20,312.3	97,868.7	9,228.6	7,936.7	17,165.3	45,867.7	13,708.8	170.5	76,912.3		20,956.4
1998	80,904.9	23,036.4	103,941.3	9,975.7	8,860.4	18,836.1	47,944.7	14,210.4	245.6	81,236.8		22,704.5
1999	84,158.3 *(516.3)*	25,772.4 *(158.1)*	109,930.7 *(674.4)*	10,877.3 *(66.7)*	9,635.5 *(59.1)*	20,512.8 *(125.8)*	50,200.2 *(308.0)*	14,626.5 *(89.7)*	379.0 *(2.3)*	85,718.6 *(525.9)*		24,212.2 *(148.5)*
2000	87,580.9 *(537.3)*	28,455.8 *(174.6)*	116,036.6 *(711.9)*	11,570.1 *(71.0)*	10,147.1 *(62.3)*	21,717.2 *(133.2)*	52,199.7 *(320.2)*	15,011.8 *(92.1)*	292.2 *(1.8)*	89,220.9 *(547.4)*		26,815.8 *(164.5)*
1996 – I	18,486.7	4,298.2	22,784.9	2,204.0	1,744.8	3,948.8	11,129.5	3,304.7	26.8	18,409.8		4,375.1
II	18,630.0	4,379.4	23,009.4	2,221.7	1,846.8	4,068.5	11,143.4	3,334.3	38.0	18,584.2		4,425.2
III	18,746.5	4,611.8	23,358.3	2,291.1	1,914.9	4,206.0	11,098.3	3,335.1	119.8	18,759.3		4,599.0
IV	18,753.9	4,642.8	23,396.7	2,268.3	1,855.4	4,123.7	11,122.2	3,351.7	23.3	18,620.9		4,775.8
1997 – I	19,015.4	4,792.7	23,808.0	2,267.5	2,004.7	4,272.2	11,262.9	3,376.6	114.2	19,025.8		4,782.2
II	19,279.7	4,990.5	24,270.2	2,292.9	1,947.0	4,240.0	11,387.8	3,402.3	58.5	19,088.5		5,181.6
III	19,499.9	5,179.5	24,679.4	2,325.3	1,916.1	4,241.4	11,524.9	3,452.1	–31.2	19,187.2		5,492.1
IV	19,761.3	5,349.8	25,111.1	2,342.9	2,068.8	4,411.7	11,692.1	3,477.9	28.9	19,610.7		5,500.4
1998 – I	19,969.7	5,515.0	25,484.7	2,384.4	2,114.9	4,499.3	11,828.1	3,518.0	33.4	19,878.8		5,605.9
II	20,092.4	5,681.4	25,773.7	2,429.4	2,164.2	4,593.6	11,904.4	3,525.0	59.5	20,082.4		5,691.3
III	20,341.9	5,840.0	26,182.0	2,537.1	2,242.8	4,779.9	12,031.9	3,579.6	56.1	20,447.5		5,734.5
IV	20,500.9	6,000.0	26,500.9	2,624.8	2,338.5	4,963.4	12,180.4	3,587.8	96.5	20,828.1		5,672.8
1999 – I	20,736.0 *(127.2)*	5,994.0 *(36.8)*	26,730.0 *(164.0)*	2,653.6 *(16.3)*	2,259.6 *(13.9)*	4,913.1 *(30.1)*	12,369.9 *(75.9)*	3,632.3 *(22.3)*	7.2 *(. .)*	20,922.5 *(128.4)*		5,807.5 *(35.6)*
II	20,938.3 *(128.5)*	6,369.2 *(39.1)*	27,307.4 *(167.5)*	2,720.2 *(16.7)*	2,388.4 *(14.7)*	5,108.5 *(31.3)*	12,460.1 *(76.4)*	3,658.2 *(22.4)*	65.7 *(0.4)*	21,292.5 *(130.6)*		6,014.9 *(36.9)*
III	21,126.7 *(129.6)*	6,578.2 *(40.4)*	27,704.9 *(170.0)*	2,723.5 *(16.7)*	2,468.4 *(15.1)*	5,191.9 *(31.9)*	12,609.2 *(77.4)*	3,642.9 *(22.3)*	190.7 *(1.2)*	21,634.7 *(132.7)*		6,070.3 *(37.2)*
IV	21,357.4 *(131.0)*	6,830.9 *(41.9)*	28,188.3 *(172.9)*	2,780.0 *(17.1)*	2,519.2 *(15.5)*	5,299.3 *(32.5)*	12,761.1 *(78.3)*	3,693.1 *(22.7)*	115.4 *(0.7)*	21,868.8 *(134.2)*		6,319.5 *(38.8)*
2000 – I	21,647.8 *(132.8)*	6,909.3 *(42.4)*	28,557.2 *(175.2)*	2,845.3 *(17.5)*	2,545.8 *(15.6)*	5,391.1 *(33.1)*	12,971.8 *(79.6)*	3,706.9 *(22.7)*	97.3 *(0.6)*	22,167.1 *(136.0)*		6,390.1 *(39.2)*
II	21,814.4 *(133.8)*	7,033.8 *(43.2)*	28,848.1 *(177.0)*	2,874.5 *(17.6)*	2,514.6 *(15.4)*	5,389.2 *(33.1)*	13,055.6 *(80.1)*	3,745.4 *(23.0)*	42.5 *(0.3)*	22,232.7 *(136.4)*		6,615.4 *(40.6)*
III	21,980.3 *(134.8)*	7,236.3 *(44.4)*	29,216.6 *(179.2)*	2,909.1 *(17.8)*	2,615.6 *(16.0)*	5,524.8 *(33.9)*	13,078.6 *(80.2)*	3,770.2 *(23.1)*	59.2 *(0.4)*	22,432.7 *(137.6)*		6,783.8 *(41.6)*
IV	22,138.3 *(135.8)*	7,276.4 *(44.6)*	29,414.8 *(180.5)*	2,941.1 *(18.0)*	2,471.1 *(15.2)*	5,412.1 *(33.2)*	13,093.7 *(80.3)*	3,789.2 *(23.2)*	93.3 *(0.6)*	22,388.3 *(137.4)*		7,026.5 *(43.1)*

Source: National statistics.

(1) The quarterly data are adjusted for seasonal factors and the number of working days. – (2) Machinery, equipment, transport equipment and intangible assets. – (3) Consumption by resident households and non-profit institutions serving households.

Table a4

VALUE ADDED PER UNIT OF LABOUR AND UNIT LABOUR COSTS, BY BRANCH

	1993	1994	1995	1996	1997	1998	1999		2000	
	lire							euros	lire	euros
	Value added at factor cost per unit of labour (1) *(thousands of lire and euros at 1995 prices)*									
Agriculture, forestry and fishing	**31,303**	**33,153**	**34,832**	**37,099**	**38,540**	**40,543**	**45,383**	**21,305**	**45,516**	**21,368**
Industry excluding construction	**72,723**	**77,219**	**80,027**	**79,777**	**81,685**	**81,577**	**82,443**	**38,703**	**85,279**	**40,034**
of which: manufacturing	*67,547*	*71,571*	*74,164*	*73,718*	*75,821*	*75,535*	*75,702*	*35,538*	*78,114*	*36,671*
Construction	**55,847**	**54,530**	**56,688**	**59,587**	**57,570**	**58,154**	**58,000**	**27,228**	**58,570**	**27,496**
Services (2)	**75,259**	**76,995**	**78,310**	**78,557**	**79,562**	**79,868**	**79,574**	**37,344**	**80,066**	**37,587**
Wholesale and retail trade, repair of household goods etc.	*60,309*	*63,738*	*67,083*	*66,737*	*68,567*	*69,031*	*69,458*	*32,607*	*70,493*	*33,093*
Hotels and restaurants	*48,695*	*48,353*	*48,847*	*49,625*	*49,422*	*49,103*	*48,215*	*22,635*	*47,292*	*22,202*
Transport, storage and communication	*83,123*	*86,959*	*92,326*	*90,894*	*92,880*	*94,072*	*95,422*	*44,796*	*97,173*	*45,618*
Financial intermediation	*156,800*	*166,146*	*159,954*	*171,474*	*172,688*	*177,021*	*170,111*	*79,859*	*186,335*	*87,475*
Sundry business and household services (2) (3)	*157,328*	*160,947*	*159,423*	*153,292*	*149,136*	*146,089*	*141,282*	*66,325*	*135,481*	*63,602*
Public administration (4)	*63,194*	*64,054*	*65,201*	*66,238*	*67,115*	*67,502*	*68,393*	*32,107*	*69,919*	*32,824*
Education	*54,541*	*53,794*	*53,101*	*53,043*	*53,037*	*52,743*	*52,259*	*24,533*	*51,673*	*24,258*
Health and social work services	*58,550*	*57,647*	*56,692*	*58,172*	*59,060*	*58,675*	*59,207*	*27,795*	*59,547*	*27,955*
Other public, social and personal services	*58,913*	*60,203*	*61,768*	*63,316*	*65,205*	*65,589*	*64,767*	*30,405*	*62,867*	*29,513*
Private households with employed persons	*18,498*	*18,624*	*18,687*	*18,577*	*18,552*	*18,525*	*18,524*	*8,696*	*18,478*	*8,675*
Total (2)	**69,904**	**72,239**	**74,128**	**74,735**	**75,846**	**76,352**	**76,760**	**36,035**	**77,845**	**36,545**
	Unit labour costs (1) (5) *(current lire/euros per lire/euros at 1995 prices)*									
Agriculture, forestry and fishing	**0.768**	**0.738**	**0.717**	**0.694**	**0.680**	**0.637**	**0.574**	**0.631**	**0.574**	**0.632**
Industry excluding construction	**0.651**	**0.633**	**0.640**	**0.677**	**0.688**	**0.678**	**0.690**	**0.759**	**0.684**	**0.753**
of which: manufacturing	*0.681*	*0.663*	*0.670*	*0.713*	*0.723*	*0.715*	*0.735*	*0.808*	*0.731*	*0.804*
Construction	**0.693**	**0.717**	**0.718**	**0.711**	**0.758**	**0.747**	**0.773**	**0.851**	**0.793**	**0.872**
Services (2)	**0.619**	**0.622**	**0.635**	**0.674**	**0.692**	**0.677**	**0.694**	**0.764**	**0.711**	**0.782**
Wholesale and retail trade, repair of household goods etc.	*0.649*	*0.636*	*0.641*	*0.670*	*0.665*	*0.662*	*0.679*	*0.747*	*0.695*	*0.765*
Hotels and restaurants	*0.719*	*0.740*	*0.808*	*0.814*	*0.843*	*0.847*	*0.889*	*0.978*	*0.919*	*1.011*
Transport, storage and communication	*0.632*	*0.601*	*0.606*	*0.634*	*0.639*	*0.627*	*0.622*	*0.684*	*0.622*	*0.684*
Financial intermediation	*0.568*	*0.566*	*0.586*	*0.598*	*0.598*	*0.562*	*0.584*	*0.642*	*0.549*	*0.604*
Sundry business and household services (2) (3)	*0.271*	*0.285*	*0.296*	*0.319*	*0.337*	*0.346*	*0.365*	*0.401*	*0.401*	*0.441*
Public administration (4)	*0.823*	*0.849*	*0.862*	*0.940*	*0.984*	*0.949*	*0.959*	*1.056*	*0.975*	*1.072*
Education	*0.900*	*0.932*	*0.970*	*1.065*	*1.112*	*1.110*	*1.158*	*1.274*	*1.182*	*1.300*
Health and social work services	*0.850*	*0.865*	*0.895*	*0.941*	*1.022*	*0.982*	*1.006*	*1.107*	*1.076*	*1.184*
Other public, social and personal services	*0.712*	*0.722*	*0.733*	*0.757*	*0.762*	*0.738*	*0.758*	*0.833*	*0.806*	*0.886*
Private households with employed persons	*0.911*	*0.938*	*1.000*	*1.040*	*1.092*	*1.102*	*1.124*	*1.236*	*1.161*	*1.278*
Total (2)	**0.649**	**0.647**	**0.657**	**0.691**	**0.708**	**0.693**	**0.706**	**0.777**	**0.717**	**0.788**

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.

SOURCES AND USES OF INCOME AND HOUSEHOLD CONSUMPTION IN ITALY
(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)	
1991	49,188	551,022	752,215	71,045	315,438	104,393	1,701,210	361,668	2,062,878
1992	49,859	554,464	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	575,169	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	329,629	105,728	1,806,815	409,052	2,215,867
1997	52,327	583,511	846,680	81,446	332,703	109,652	1,843,426	450,418	2,293,844
1998	52,946	590,722	868,199	82,566	335,143	112,366	1,876,807	490,929	2,367,736
1999	56,249	596,780	883,023	82,801	338,820	114,992	1,907,064	515,809	2,422,873
	(26,406)	*(280,160)*	*(414,537)*	*(38,871)*	*(159,060)*	*(53,983)*	*(895,275)*	*(242,148)*	*(1,137,423)*
2000	55,060	612,820	919,887	83,639	339,046	119,475	1,962,649	558,398	2,521,047
	(25,848)	*(287,690)*	*(431,843)*	*(39,265)*	*(159,166)*	*(56,088)*	*(921,370*	*(262,141)*	*(1,183,511)*
1997 – I	13,296	141,179	208,618	20,159	83,142	27,127	453,203	105,241	558,444
II	12,673	146,281	211,707	20,263	83,204	27,424	461,026	112,750	573,776
III	12,847	147,196	212,742	20,416	83,134	27,493	462,995	114,903	577,898
IV	13,512	148,854	213,613	20,608	83,223	27,608	466,202	117,524	583,726
1998 – I	13,368	147,132	215,573	20,398	83,332	27,844	466,850	123,254	590,105
II	13,316	147,551	216,873	20,494	83,366	28,039	468,651	122,135	590,785
III	13,038	148,752	218,229	20,713	84,205	28,188	471,699	121,211	592,910
IV	13,225	147,285	217,525	20,961	84,239	28,294	469,608	124,328	593,935
1999 – I	13,760	147,247	218,396	20,552	84,532	28,497	471,880	126,464	598,343
	(6,460)	*(69,125)*	*(102,526)*	*(9,648)*	*(39,684)*	*(13,378)*	*(221,525)*	*(59,369)*	*(280,893)*
II	13,869	148,573	219,606	20,577	84,695	28,592	474,759	127,341	602,100
	(6,511)	*(69,748)*	*(103,095)*	*(9,660)*	*(39,760)*	*(13,423)*	*(222,877)*	*(59,781)*	*(282,657)*
III	14,121	149,935	221,429	20,741	84,697	28,802	478,243	127,125	605,369
	(6,629)	*(70,387)*	*(103,950)*	*(9,737)*	*(39,761)*	*(13,521)*	*(224,512)*	*(59,679)*	*(284,192)*
IV	14,500	151,025	223,592	20,932	84,896	29,101	482,183	134,881	617,063
	(6,807)	*(70,899)*	*(104,966)*	*(9,827)*	*(39,855)*	*(13,662)*	*(226,362)*	*(63,320)*	*(289,682)*
2000 – I	13,814	153,288	226,907	20,718	84,721	29,448	487,460	133,794	621,254
	(6,485)	*(71,961)*	*(106,522)*	*(9,726)*	*(39,772)*	*(13,824)*	*(228,839)*	*(62,810)*	*(291,649)*
II	13,678	153,129	228,088	20,799	84,587	29,785	488,468	139,457	627,925
	(6,421)	*(71,887)*	*(107,076)*	*(9,764)*	*(39,710)*	*(13,983)*	*(229,312)*	*(65,468)*	*(294,781)*
III	13,836	152,748	230,940	20,923	84,698	30,010	491,309	142,682	633,991
	(6,495)	*(71,708)*	*(108,415)*	*(9,822)*	*(39,762)*	*(14,088)*	*(230,646)*	*(66,982)*	*(297,628)*
IV	13,732	153,656	233,952	21,199	85,040	30,232	495,413	142,465	637,878
	(6,447)	*(72,134)*	*(109,829)*	*(9,952)*	*(39,922)*	*(14,192)*	*(232,573)*	*(66,880)*	*(299,453)*

Source: Istat, national accounts.

(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.

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)							
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	4,815	486,188	489,087	107,815	476,208	203,001	870,109
151,520	195,294	1,088,836	331,441	9,477	517,276	499,321	125,520	483,464	206,126	902,179
151,156	210,566	1,122,395	332,922	14,913	535,784	512,748	131,590	496,215	208,915	931,638
155,434 *(72,969)*	223,096 *(104,733)*	1,148,203 *(539,026)*	338,263 *(158,798)*	21,991 *(10,324)*	535,886 *(251,573)*	519,653 *(243,952)*	138,013 *(64,790)*	507,401 *(238,200)*	211,069 *(99,087)*	953,998 *(447,856)*
161,087 *(75,623)*	240,559 *(112,931)*	1,181,222 *(554,527)*	343,970 *(161,477)*	3,483 *(1,635)*	590,726 *(277,318)*	528,836 *(248,263)*	151,411 *(71,080)*	523,609 *(245,809)*	214,104 *(100,512)*	989,752 *(464,641)*
37,583	46,637	268,981	82,785	–532	122,990	123,592	30,304	120,316	51,226	222,985
37,626	48,048	272,354	82,918	3,494	129,337	124,528	31,614	120,668	51,501	225,309
37,558	49,643	273,111	82,872	2,962	131,753	125,233	31,750	120,786	51,601	226,168
38,753	50,967	274,390	82,866	3,553	133,197	125,968	31,852	121,694	51,798	227,716
38,049	51,984	277,256	82,848	4,258	135,709	127,059	32,295	122,808	51,964	230,198
37,605	52,750	280,063	83,137	1,280	135,950	128,144	32,681	123,745	52,307	232,264
37,511	53,163	281,305	83,272	3,857	133,802	128,546	33,223	124,606	52,353	234,022
37,990	52,670	283,771	83,665	5,517	130,322	128,998	33,391	125,056	52,291	235,154
38,115 *(17,893)*	54,337 *(25,509)*	285,398 *(133,981)*	83,938 *(39,405)*	6,640 *(3,117)*	129,915 *(60,989)*	129,714 *(60,895)*	33,690 *(15,816)*	125,846 *(59,079)*	52,358 *(24,580)*	236,892 *(111,209)*
38,846 *(18,236)*	54,660 *(25,660)*	285,397 *(133,980)*	84,242 *(39,548)*	7,166 *(3,364)*	131,790 *(61,869)*	129,685 *(60,881)*	33,982 *(15,953)*	126,223 *(59,256)*	52,572 *(24,680)*	237,318 *(111,409)*
38,946 *(18,283)*	56,395 *(26,475)*	287,648 *(135,037)*	84,781 *(39,801)*	3,025 *(1,420)*	134,573 *(63,176)*	129,798 *(60,934)*	34,743 *(16,310)*	127,104 *(59,669)*	52,879 *(24,824)*	238,765 *(112,089)*
39,527 *(18,556)*	57,704 *(27,089)*	289,760 *(136,028)*	85,302 *(40,045)*	5,162 *(2,423)*	139,608 *(65,539)*	130,457 *(61,243)*	35,598 *(16,712)*	128,228 *(60,197)*	53,260 *(25,003)*	241,023 *(113,149)*
39,953 *(18,756)*	59,224 *(27,803)*	292,346 *(137,242)*	85,725 *(40,244)*	4,498 *(2,112)*	139,508 *(65,492)*	131,403 *(61,687)*	36,571 *(17,168)*	129,694 *(60,885)*	53,583 *(25,155)*	244,085 *(114,586)*
40,344 *(18,940)*	60,043 *(28,187)*	295,377 *(138,665)*	85,796 *(40,277)*	3,655 *(1,716)*	142,710 *(66,996)*	132,140 *(62,033)*	37,636 *(17,668)*	130,684 *(61,350)*	53,667 *(25,194)*	246,792 *(115,857)*
40,412 *(18,971)*	60,562 *(28,431)*	296,409 *(139,150)*	86,018 *(40,381)*	–2,608 *(–1,224)*	153,198 *(71,919)*	132,457 *(62,182)*	38,289 *(17,975)*	131,400 *(61,686)*	53,548 *(25,138)*	248,597 *(116,704)*
40,378 *(18,956)*	60,730 *(28,510)*	297,091 *(139,470)*	86,431 *(40,575)*	–2,061 *(–968)*	155,310 *(72,911)*	132,836 *(62,360)*	38,916 *(18,269)*	131,831 *(61,888)*	53,306 *(25,025)*	250,278 *(117,494)*

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; data adjusted for seasonal factors and the number of working days)

	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		
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	98.0	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	104.2	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
2000	115.1	94.7	109.8	106.1	104.3	114.4	113.4	107.3	109.5	100.6	109.5	108.5	107.0	107.7
1994 – I	97.3	93.3	88.4	93.9	81.4	80.9	85.7	82.5	90.1	98.6	91.7	92.7	91.5	91.4
II	99.5	96.6	93.5	97.0	84.1	87.4	97.2	87.2	89.2	100.7	96.1	95.7	94.2	94.7
III	99.7	97.1	95.3	97.6	87.6	91.7	97.6	90.0	90.1	99.3	97.8	96.9	95.7	96.0
IV	99.3	96.5	97.6	97.8	90.4	91.6	95.4	91.5	93.4	100.7	99.2	99.1	97.3	97.5
1995 – I	99.2	98.8	98.3	99.9	93.7	98.8	97.3	95.7	94.9	99.3	99.0	99.5	98.7	98.9
II	99.2	100.1	99.3	99.4	97.5	98.4	98.4	98.1	96.2	99.2	99.1	99.3	99.3	99.2
III	99.3	100.8	100.8	100.4	100.3	99.2	98.7	99.9	103.3	101.7	101.9	100.4	100.5	100.3
IV	102.3	100.3	101.6	100.3	108.5	103.6	105.6	106.2	105.5	99.7	100.0	100.7	101.5	101.6
1996 – I	98.9	99.6	99.2	100.2	104.7	104.2	102.0	104.3	107.6	97.6	100.0	100.8	100.7	101.2
II	100.5	98.0	99.5	98.8	103.6	104.2	103.1	102.8	103.0	97.5	96.9	97.2	98.6	98.5
III	100.1	99.4	99.0	99.3	100.8	102.9	98.7	101.3	101.3	99.7	97.1	97.8	98.5	98.7
IV	102.7	99.6	95.1	100.1	101.6	98.1	97.6	100.4	98.6	101.3	95.2	96.4	97.5	98.0
1997 – I	104.2	100.4	102.1	101.2	101.1	105.4	99.5	100.2	97.6	101.4	98.5	97.9	98.7	99.0
II	103.7	101.8	105.4	103.3	103.1	111.8	97.8	102.9	102.5	101.1	101.4	101.5	101.7	102.1
III	105.8	100.6	103.5	104.1	102.5	111.7	94.8	103.8	102.4	102.8	102.8	103.2	103.2	103.5
IV	106.5	100.4	105.5	104.1	105.2	115.4	97.2	105.2	104.4	104.1	104.8	105.1	104.7	104.9
1998 – I	106.9	99.4	105.8	103.2	103.6	112.1	99.9	103.0	107.0	102.9	106.1	105.3	104.2	104.3
II	107.8	99.1	105.4	104.2	104.3	113.0	99.1	104.3	106.5	103.3	106.0	105.7	104.9	105.2
III	108.9	99.8	103.5	104.8	101.7	109.8	102.8	103.7	105.7	100.5	104.8	104.6	104.0	104.6
IV	108.5	99.2	102.2	103.6	97.6	108.6	100.1	100.0	102.6	97.4	104.7	104.0	102.3	103.2
1999 – I	112.5	97.6	103.0	104.4	100.9	109.0	107.6	102.4	103.2	100.4	104.9	103.9	102.8	103.7
II	110.8	95.7	101.9	103.7	98.7	107.3	104.7	101.1	101.3	98.2	103.7	103.1	102.2	102.9
III	114.4	98.8	106.0	106.2	99.1	111.8	105.9	102.0	105.1	100.3	106.8	105.3	104.3	105.0
IV	114.5	93.1	112.0	106.1	100.1	113.8	109.2	104.3	106.3	98.9	107.1	106.7	105.4	106.1
2000 – I	111.9	92.4	108.5	104.7	101.6	115.4	108.3	105.4	105.0	96.4	108.3	107.7	105.7	106.6
II	115.3	94.0	109.8	106.4	102.7	114.8	113.1	106.4	110.2	98.5	109.3	108.5	106.9	107.7
III	115.2	95.1	108.8	105.6	105.2	113.7	110.7	107.9	110.4	106.2	110.5	108.5	106.9	107.7
IV	118.1	97.3	112.2	107.8	107.7	113.4	121.3	109.7	112.2	101.2	109.8	109.1	108.5	109.0

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
	Non-durable	Semi-durable	Durable	Total	For industry	Transport equipment	Multi-sector	Total	For industry	For consumer goods	Mixed purpose	Total		
1991	97.0	96.4	93.3	96.0	88.4	92.7	88.6	89.3	94.8	94.5	94.5	94.5	90.8	91.4
1992	98.3	95.9	88.9	95.2	83.8	84.3	85.9	84.4	93.2	95.5	93.6	93.8	89.5	90.2
1993	96.3	91.9	82.3	91.5	80.8	68.6	88.5	80.1	84.4	93.0	91.4	90.8	86.3	87.1
1994	95.4	97.3	90.6	95.0	82.4	72.0	88.6	81.8	84.2	96.6	95.9	94.7	89.9	90.4
1995	94.5	99.9	95.3	96.7	93.2	83.3	94.5	92.0	92.2	96.6	98.3	97.4	93.5	93.7
1996	93.2	98.7	92.1	95.1	94.6	86.8	94.1	93.4	94.1	95.4	94.2	94.3	91.7	92.0
1997	95.5	99.5	96.2	97.1	94.9	95.8	89.9	94.1	92.7	98.5	97.0	96.6	93.6	93.7
1998	96.4	98.1	94.9	96.8	93.8	96.3	91.5	93.7	95.4	97.1	98.7	98.2	94.0	94.2
1999	99.0	95.0	94.8	96.8	91.8	96.0	95.9	93.2	93.5	95.6	97.3	96.7	92.8	93.0
2000	98.8	93.5	97.1	96.6	96.1	99.4	98.7	97.1	97.8	96.2	99.3	98.8	94.6	94.8
1994 – I	94.5	94.6	86.0	92.6	79.1	66.1	80.7	77.1	83.8	95.5	91.8	91.4	86.8	87.1
II	96.2	98.0	90.6	95.6	81.1	71.3	91.2	81.3	82.9	97.5	95.9	94.7	89.4	90.0
III	95.9	99.3	92.0	96.3	83.8	74.9	92.5	83.9	83.6	96.0	97.3	95.7	91.3	91.9
IV	95.0	97.3	93.9	95.6	85.8	75.6	90.1	84.9	86.5	97.3	98.4	97.0	92.0	92.4
1995 – I	94.4	99.6	94.2	96.3	88.3	81.7	92.1	88.0	87.7	96.0	97.8	96.5	91.4	92.1
II	93.9	100.0	94.8	96.4	91.2	81.7	92.5	90.0	88.9	95.8	97.6	96.4	92.5	92.8
III	93.6	100.0	95.8	96.5	93.1	82.8	93.5	91.7	95.3	98.2	100.0	99.3	95.1	94.9
IV	96.0	99.9	96.2	97.5	100.0	87.0	100.0	98.1	97.0	96.2	97.8	97.5	94.8	94.9
1996 – I	92.3	99.8	93.6	95.4	96.5	87.8	96.5	95.2	98.9	94.1	97.4	97.2	92.9	93.5
II	93.3	97.9	93.5	95.1	95.4	88.0	96.5	94.6	94.4	94.0	93.9	94.0	92.2	92.1
III	92.5	98.1	92.6	94.7	92.8	87.4	92.4	92.0	92.8	96.0	93.8	93.9	91.4	91.5
IV	94.5	98.8	88.7	95.1	93.7	83.8	91.0	91.8	90.1	97.5	91.5	92.0	90.4	90.7
1997 – I	95.4	99.1	94.8	96.7	93.1	90.6	92.8	92.7	89.1	97.7	94.4	94.1	91.5	91.6
II	94.5	100.0	97.6	97.1	95.0	96.1	90.2	94.3	93.4	97.3	96.7	96.4	93.4	93.7
III	95.9	98.9	95.5	97.0	94.5	96.6	87.4	93.5	93.2	98.8	97.6	97.2	93.9	93.9
IV	96.1	100.0	97.0	97.7	97.0	100.0	89.2	96.0	94.9	100.0	99.1	98.8	95.7	95.6
1998 – I	96.0	97.6	96.8	96.8	95.4	97.4	91.9	95.0	97.1	98.9	100.0	99.5	95.2	95.1
II	96.4	98.1	96.1	97.0	96.1	98.1	90.1	95.3	96.4	99.3	99.5	99.1	95.2	95.1
III	97.0	98.7	94.0	97.1	93.7	95.5	93.3	93.9	95.5	96.5	97.9	97.5	93.6	93.9
IV	96.1	97.8	92.5	96.1	90.0	94.2	90.5	90.6	92.6	93.5	97.4	96.5	92.1	92.6
1999 – I	99.2	96.8	92.8	97.1	92.8	94.6	97.7	94.0	93.0	96.5	97.3	96.7	93.1	93.3
II	97.3	94.1	91.5	95.1	90.9	93.3	93.9	91.8	91.1	94.4	95.7	95.0	91.3	91.6
III	100.0	96.6	95.0	97.8	91.3	97.1	94.7	92.8	94.4	96.4	98.1	97.5	93.1	93.5
IV	99.6	92.6	100.0	97.1	92.3	98.8	97.3	94.2	95.4	95.0	98.1	97.4	93.5	93.6
2000 – I	96.9	90.0	96.3	94.3	93.4	99.9	96.9	95.0	94.0	92.7	98.9	97.6	92.9	93.3
II	99.4	92.9	97.2	96.6	94.6	99.7	100.0	96.3	98.5	94.7	99.3	98.7	94.2	94.5
III	98.9	93.1	96.1	96.3	97.0	98.9	97.9	97.5	98.6	100.0	100.0	99.8	95.2	95.5
IV	100.0	97.8	98.8	99.0	99.4	98.9	100.0	99.4	100.0	97.2	98.9	98.9	96.2	95.8

Source: Based on Istat data.

Table a8

ITALIAN CONSUMER PRICE INDICES

(percentage changes on corresponding period)

	Entire resident population (1)														WEH (2)
	Goods and services with unregulated prices									Goods and services with regulated prices (4)			Rents	Overall index (6)	Overall index (6)
	Non-food and non-energy products		Services	Total net of food and energy products and those with regulated prices	Food products			Energy products	Total	Energy products	Non-energy products (5)	Total			
		of which: net of cars			Processed	Fresh	Total								
Weights (3)	*31.8*	*27.6*	*26.8*	*58.6*	*10.0*	*7.1*	*17.1*	*3.9*	*79.6*	*3.4*	*13.9*	*17.3*	*3.1*	*100.0*	*100.0*
1996	3.8	3.7	4.4	4.1	4.6	3.7	4.2	4.4	4.1	–0.2	3.5	2.7	8.3	4.0	3.9
1997	1.5	1.8	2.8	2.1	0.8	–0.8	0.0	1.5	1.6	2.3	4.0	3.6	6.6	2.0	1.7
1998	1.9	1.8	2.7	2.2	0.8	1.6	1.2	–2.7	1.8	0.0	2.8	2.2	5.2	2.0	1.8
1999	1.2	1.2	2.6	1.8	0.8	1.1	0.9	4.2	1.8	–2.6	2.0	1.1	3.3	1.7	1.6
2000	1.5	1.4	2.8	2.1	1.2	2.0	1.6	13.2	2.5	9.8	1.6	3.1	2.5	2.5	2.6
1999 – Jan. .	1.3	1.3	2.5	1.8	0.8	1.8	1.2	–4.2	1.5	–5.2	2.7	1.1	4.0	1.5	1.3
Feb. .	1.1	1.3	2.4	1.7	0.8	2.0	1.3	–2.9	1.4	–5.2	2.7	1.1	4.0	1.4	1.2
Mar. .	1.1	1.3	2.3	1.6	0.8	2.1	1.4	–1.2	1.5	–5.5	1.7	0.3	4.0	1.3	1.4
Apr. .	1.1	1.3	2.4	1.7	0.8	2.2	1.4	2.2	1.7	–5.6	1.8	0.3	3.4	1.5	1.6
May .	1.1	1.2	2.4	1.7	0.6	2.2	1.3	3.2	1.7	–4.8	1.7	0.4	3.4	1.5	1.6
June	1.0	1.2	2.5	1.7	0.6	1.6	1.0	3.3	1.6	–4.9	1.5	0.2	3.4	1.4	1.5
July .	1.2	1.2	2.7	1.9	0.6	0.8	0.8	5.1	1.8	–3.3	2.1	1.0	3.2	1.7	1.7
Aug. .	1.1	1.2	2.7	1.8	0.6	0.5	0.6	6.3	1.8	–3.2	1.9	1.0	3.2	1.7	1.6
Sept.	1.1	1.2	2.7	1.8	0.7	0.1	0.5	8.6	1.8	0.3	2.0	1.7	3.2	1.8	1.8
Oct. .	1.4	1.2	2.8	2.0	0.8	0.1	0.5	9.2	2.0	0.5	2.0	1.7	2.7	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	1.8	2.0	2.7	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	1.8	2.0	2.7	2.1	2.1
2000 – Jan. .	1.4	1.2	2.8	2.0	1.0	–0.3	0.5	12.8	2.1	6.0	1.7	2.5	2.8	2.2	2.1
Feb. .	1.3	1.2	3.0	2.1	1.1	0.1	0.6	13.7	2.3	5.9	1.8	2.5	2.8	2.4	2.4
Mar. .	1.3	1.2	3.0	2.1	1.1	0.3	0.8	16.6	2.4	8.1	1.6	2.7	2.8	2.5	2.5
Apr. .	1.3	1.2	2.9	2.0	1.1	0.9	1.0	11.2	2.2	8.0	1.7	2.8	2.2	2.3	2.2
May .	1.4	1.3	2.8	2.1	1.2	1.4	1.2	11.4	2.3	10.9	1.8	3.4	2.2	2.5	2.3
June	1.6	1.4	2.9	2.2	1.2	1.8	1.5	14.9	2.6	11.0	2.0	3.5	2.2	2.7	2.7
July .	1.5	1.4	2.8	2.1	1.3	2.5	1.8	13.9	2.5	12.2	1.3	3.2	2.5	2.6	2.7
Aug. .	1.6	1.4	2.7	2.1	1.3	2.8	1.9	12.1	2.5	12.1	1.5	3.4	2.5	2.6	2.7
Sept.	1.5	1.4	2.6	2.0	1.3	3.2	2.1	14.0	2.6	11.1	1.4	3.1	2.5	2.6	2.6
Oct. .	1.5	1.5	2.6	2.0	1.4	3.4	2.2	13.3	2.6	10.3	1.5	3.1	2.4	2.6	2.6
Nov. .	1.7	1.7	2.5	2.1	1.4	3.6	2.3	14.6	2.7	11.0	1.6	3.3	2.4	2.7	2.7
Dec. .	1.8	1.8	2.6	2.1	1.5	4.5	2.7	9.9	2.6	11.0	1.6	3.3	2.4	2.7	2.7
2001 – Jan. .	1.9	1.8	2.8	2.3	1.7	4.9	3.0	5.6	2.6	13.1	3.1	4.9	2.4	3.0	3.1
Feb. .	2.0	2.0	2.7	2.3	1.8	5.8	3.5	3.4	2.6	13.3	3.1	5.0	2.4	3.0	3.0
Mar. .	2.0	2.0	2.8	2.3	1.9	5.8	3.5	0.2	2.5	11.6	3.2	4.7	2.4	2.8	2.8
Apr. .	2.1	2.1	3.2	2.6	2.2	5.5	3.6	2.2	2.8	11.8	3.5	5.0	2.2	3.1	3.1

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; 1995=100. – (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 January 2001. – (4) The sub-indices are based on the 206-product classification. – (5) Includes medicines, for which 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. – (6) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Table a9

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: cars		*of which: rents*		Processed	*of which: tobacco products*	Fresh			
Weights	*36.9*	*4.4*	*35.7*	*2.8*	*72.6*	*11.4*	*1.9*	*8.4*	*19.8*	*7.6*	*100.0*
1997	1.7	–1.1	3.3	6.7	2.4	1.2	3.9	–0.7	0.3	1.9	1.9
1998	2.1	3.5	2.8	5.3	2.4	1.4	5.4	1.6	1.5	–1.4	2.0
1999	1.4	0.6	2.5	3.3	1.9	0.9	2.0	1.1	1.0	1.1	1.7
2000	1.7	2.2	2.3	2.4	2.0	1.3	1.1	1.8	1.5	11.6	2.6
1999 – Jan.	1.5	1.2	2.6	4.4	2.0	1.6	5.5	1.8	1.6	–4.6	1.5
Feb.	1.3	–0.9	2.5	4.4	1.9	1.5	5.5	2.0	1.7	–3.9	1.4
Mar.	1.3	–0.9	2.4	4.4	1.8	0.6	0.0	2.1	1.3	–3.1	1.4
Apr.	1.2	–0.9	2.5	3.3	1.8	0.6	0.0	2.1	1.3	–1.4	1.3
May	1.2	–0.6	2.5	3.3	1.9	0.4	0.0	2.0	1.1	–0.5	1.5
June	1.2	–0.6	2.5	3.3	1.8	0.5	0.0	1.5	0.9	–0.5	1.4
July	1.4	1.2	2.6	3.1	2.0	0.9	2.3	0.8	0.9	1.3	1.7
Aug.	1.3	0.2	2.5	3.1	1.9	0.8	2.3	0.5	0.8	1.9	1.6
Sept.	1.3	0.2	2.5	3.1	1.9	1.0	2.3	0.2	0.7	4.8	1.9
Oct.	1.6	2.7	2.5	2.5	2.0	1.1	2.3	0.1	0.7	5.2	1.9
Nov.	1.6	2.7	2.4	2.5	2.0	1.1	2.3	0.2	0.8	6.1	2.0
Dec.	1.6	2.7	2.2	2.5	1.9	1.2	2.3	0.1	0.7	8.0	2.1
2000 – Jan.	1.5	2.7	2.3	2.6	1.9	1.3	2.3	–0.1	0.7	9.6	2.2
Feb.	1.5	2.2	2.6	2.6	2.0	1.3	2.3	0.2	0.8	10.0	2.4
Mar.	1.5	2.2	2.6	2.6	2.0	1.3	2.3	0.3	0.9	12.7	2.6
Apr.	1.5	2.2	2.3	2.2	1.9	1.3	2.3	0.9	1.1	9.8	2.4
May	1.7	2.1	2.2	2.2	2.0	1.4	2.3	1.3	1.3	11.2	2.5
June	1.8	2.9	2.3	2.2	2.1	1.5	2.3	1.7	1.5	13.1	2.7
July	1.7	2.2	2.3	2.3	2.0	1.1	0.0	2.2	1.6	13.1	2.6
Aug.	1.7	2.2	2.3	2.3	2.1	1.2	0.0	2.5	1.7	12.1	2.6
Sept.	1.8	2.2	2.1	2.3	2.0	1.2	0.0	2.9	1.9	12.6	2.6
Oct.	1.8	1.6	2.1	2.3	2.0	1.3	0.0	3.0	2.0	11.9	2.7
Nov.	2.0	1.9	2.1	2.3	2.1	1.4	0.0	3.1	2.1	13.0	2.9
Dec.	2.0	1.9	2.3	2.3	2.2	1.3	–0.3	3.9	2.4	10.4	2.8
2001 – Jan.	1.8	1.9	2.6	2.2	2.2	1.5	–0.3	4.3	2.7	9.2	2.7
Feb.	1.9	2.0	2.4	2.2	2.1	1.6	–0.3	5.2	3.1	8.0	2.7
Mar.	1.9	2.0	2.6	2.2	2.2	1.6	–0.3	5.1	3.1	5.4	2.6
Apr.	2.0	2.4	3.1	2.0	2.5	2.5	3.7	4.9	3.5	6.7	3.0

Source: Based on Eurostat data.
(1) Chain indices, 1996=100. 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 January 2001.

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: cars		*of which: rents*		Processed	*of which: tobacco products*	Fresh			
Weights	*36.9*	*4.4*	*35.7*	*2.8*	*72.6*	*11.4*	*1.9*	*8.4*	*19.8*	*7.6*	*100.0*
1998	0.9	1.5	1.9	2.1	1.4	1.4	4.0	1.9	1.6	–2.6	1.1
1999	0.7	0.5	1.5	1.7	1.1	0.9	3.1	0.0	0.6	2.4	1.1
2000	0.7	1.1	1.7	1.3	1.3	1.1	3.4	1.7	1.4	13.3	2.3
1999 – Jan.	0.9	1.3	1.7	1.9	1.3	1.2	4.6	1.1	1.2	–4.4	0.8
Feb.	0.8	0.6	1.6	1.8	1.2	1.3	4.4	1.5	1.4	–4.3	0.8
Mar.	0.8	0.6	1.7	1.8	1.3	1.1	3.5	1.7	1.4	–2.8	1.0
Apr.	0.7	0.2	1.6	1.7	1.2	1.1	3.6	1.2	1.2	0.3	1.1
May	0.6	0.1	1.5	1.7	1.1	0.8	1.9	0.4	0.6	0.5	1.0
June	0.6	0.2	1.5	1.7	1.1	0.7	1.9	–0.7	0.2	1.4	0.9
July	0.6	0.2	1.6	1.7	1.1	0.7	2.2	–1.4	–0.1	3.2	1.1
Aug.	0.6	0.1	1.4	1.6	1.0	0.7	2.4	–1.6	–0.2	5.0	1.2
Sept.	0.5	0.2	1.4	1.6	0.9	0.7	2.4	–1.1	0.0	6.4	1.2
Oct.	0.5	0.8	1.3	1.5	0.9	0.9	3.5	–0.4	0.4	6.5	1.4
Nov.	0.6	0.9	1.5	1.5	1.0	0.9	3.5	–0.2	0.5	7.3	1.5
Dec.	0.6	0.8	1.5	1.5	1.1	1.0	3.8	–0.3	0.5	10.1	1.7
2000 – Jan.	0.6	1.1	1.6	1.2	1.1	1.0	3.6	–0.6	0.4	12.1	1.9
Feb.	0.5	1.0	1.6	1.3	1.1	1.0	3.7	–0.1	0.6	13.6	2.0
Mar.	0.6	0.9	1.6	1.3	1.1	1.0	3.6	–0.5	0.4	15.3	2.1
Apr.	0.6	0.9	1.8	1.3	1.3	0.9	3.6	0.1	0.6	10.3	1.9
May	0.6	1.1	1.5	1.3	1.1	1.0	3.7	0.5	0.8	12.0	1.9
June	0.7	1.1	1.7	1.3	1.2	1.0	3.9	1.5	1.2	14.5	2.4
July	0.5	1.3	1.7	1.3	1.2	1.0	3.6	2.6	1.6	13.4	2.3
Aug.	0.6	1.2	1.8	1.3	1.3	1.1	3.5	3.3	2.0	11.9	2.3
Sept.	0.8	1.2	1.8	1.3	1.4	1.3	3.7	3.3	2.1	15.6	2.8
Oct.	1.0	1.2	1.9	1.3	1.5	1.2	2.4	3.2	2.0	14.6	2.7
Nov.	1.0	1.2	1.8	1.3	1.5	1.4	2.7	3.5	2.2	15.2	2.9
Dec.	1.1	1.4	1.8	1.2	1.5	1.4	2.4	3.9	2.4	11.3	2.6
2000 – Jan.	1.2	1.3	2.2	1.4	1.7	1.7	2.4	4.5	2.8	7.9	2.5
Feb.	1.3	1.3	2.3	1.4	1.8	2.1	3.3	4.5	3.0	8.3	2.6
Mar.	1.3	1.6	2.3	1.4	1.8	2.2	3.4	6.5	3.9	5.6	2.6
Apr.	1.5	1.7	2.4	1.3	1.9	2.6	4.0	7.1	4.3	7.9	3.0

Source*:* Eurostat.

(1) Weighted average of the indices of the euro-area countries (11 countries until December 2000; plus Greece from January 2001 onwards). The weights shown in the table are those for January 2001.

INDEX OF THE PRODUCER PRICES
OF MANUFACTURES SOLD IN THE DOMESTIC MARKET: ITALY (1)
(percentage changes on corresponding period)

	Consumer goods		Investment goods net of transport equipment	Transport equipment	Intermediate goods		Overall index net of food and energy products and transport equipment	Overall index
	Net of food products and transport equipment	Food products			Non-energy products	Energy products		
Weights	*18.4*	*14.5*	*8.3*	*3.3*	*41.0*	*14.5*	*67.7*	*100.0*
1998	1.5	1.8	1.7	2.4	0.2	–5.1	0.8	0.1
1999	1.3	–0.1	0.9	1.2	–1.1	–1.0	–0.2	–0.3
2000	2.0	1.3	1.0	1.8	4.6	24.2	3.4	6.0
1999 – Jan.	1.6	0.7	1.4	2.2	–2.1	–9.3	–0.7	–1.6
Feb.	1.6	0.8	1.1	1.7	–2.5	–8.8	–0.9	–1.8
Mar.	1.4	0.1	1.1	1.2	–2.7	–8.0	–1.1	–1.8
Apr.	1.3	–0.3	1.0	1.9	–2.6	–6.7	–1.1	–1.6
May	1.0	–0.6	1.0	1.4	–2.3	–5.9	–0.9	–1.4
June	1.0	–0.8	1.0	1.5	–2.1	–5.1	–0.8	–1.4
July	1.0	–0.3	0.9	1.0	–1.7	–1.3	–0.6	–0.6
Aug.	1.2	–0.1	0.9	–0.1	–0.9	0.7	–0.1	0.0
Sept.	1.4	–0.4	0.8	0.0	–0.3	5.0	0.3	0.8
Oct.	1.4	–0.1	0.6	1.3	0.8	6.5	0.9	1.6
Nov.	1.3	0.2	0.7	1.2	1.2	10.2	1.1	2.2
Dec.	1.4	0.1	0.7	1.2	1.7	13.0	1.5	2.8
2000 – Jan.	1.3	0.4	0.9	1.4	2.6	17.2	2.0	3.8
Feb.	1.5	0.4	1.1	1.4	3.2	20.5	2.4	4.6
Mar.	1.5	0.8	1.0	2.0	3.8	24.4	2.8	5.5
Apr.	1.6	1.5	0.8	2.2	4.6	21.1	3.2	5.4
May	1.9	2.0	0.9	2.2	5.2	25.3	3.7	6.4
June	2.1	1.8	1.0	2.3	5.5	27.5	3.9	6.9
July	2.3	1.1	1.1	1.9	5.5	26.6	4.0	6.7
Aug.	2.4	1.0	1.0	1.7	5.3	24.7	3.9	6.5
Sept.	2.2	1.4	1.1	1.7	5.3	26.2	3.9	6.7
Oct.	2.1	1.3	1.0	1.7	4.9	27.5	3.6	6.8
Nov.	2.2	1.4	1.1	1.7	4.8	26.3	3.6	6.7
Dec.	2.4	2.2	1.1	1.7	4.6	22.6	3.5	6.2
2001 – Jan.	2.4	2.1	1.1	1.7	3.9	18.4	3.1	5.4
Feb.	2.5	2.9	1.1	2.5	3.5	15.8	2.9	5.0
Mar.	2.6	2.4	1.1	1.9	3.2	11.9	2.8	4.2

Source: Based on Istat data.
(1) Classification of goods by economic purpose, 1995=100. The weights shown in the table are those for 1995.

INDEX OF THE PRODUCER PRICES OF MANUFACTURES SOLD IN THE DOMESTIC MARKET: MAJOR EURO-AREA COUNTRIES

(percentage changes on corresponding period)

	Germany					France (2)				
	Consumer goods net of food products and transport equipment	Intermediate goods		Overall index net of food and energy products and transport equipment	Overall index	Consumer goods net of food products and transport equipment	Intermediate goods		Overall index net of food and energy products and transport equipment	Overall index
		Non-energy products	Energy products				Non-energy products	Energy products		
Weights (1)	*(13.0)*	*(30.8)*	*(19.4)*	*(58.3)*	*(100.0)*	*(17.4)*	*(28.7)*	*(12.8)*	*(60.2)*	*(100.0)*
1998	1.0	–0.2	–3.5	0.3	–0.4	....	....	....	....	....
1999	0.8	–1.7	–2.0	–0.7	–1.0	....	....	....	....	....
2000	0.7	3.7	10.4	2.1	3.3	0.5	4.4	25.4	2.4	5.6
2000 – Jan.	0.7	1.9	8.2	1.2	2.0	–0.3	2.3	26.3	1.0	4.1
Feb.	0.8	2.5	8.8	1.4	2.4	–0.4	3.0	28.5	1.3	4.7
Mar.	0.5	3.1	7.4	1.7	2.4	–0.2	3.4	28.4	1.7	5.2
Apr.	0.8	3.6	5.5	1.9	2.1	0.0	4.3	23.0	2.2	5.0
May	0.8	4.0	6.8	2.3	2.7	0.1	4.7	27.4	2.4	5.7
June	0.8	4.2	8.0	2.3	2.9	0.5	5.0	29.1	2.5	6.0
July	1.0	4.3	9.6	2.4	3.3	0.8	5.1	24.6	2.9	5.7
Aug.	0.8	4.4	10.2	2.4	3.5	1.0	5.4	23.5	3.0	5.8
Sept.	0.7	4.6	14.0	2.6	4.3	1.0	5.3	28.6	3.0	6.6
Oct.	0.3	4.2	16.5	2.2	4.6	1.2	4.9	29.5	2.9	6.8
Nov.	0.4	4.0	16.6	2.1	4.7	1.1	4.8	24.7	2.8	6.3
Dec.	0.3	3.8	13.1	2.2	4.2	1.5	4.7	13.5	3.0	4.7
2001 – Jan.	0.8	3.5	15.1	2.0	4.6	1.7	4.4	7.7	2.9	3.9
Feb.	0.8	3.2	15.8	1.9	4.7	2.0	4.0	6.1	2.8	3.6
Mar.	1.6	2.6	16.8	1.8	4.9	1.7	3.7	1.9	2.5	2.8

	Spain					Euro 4 (3)					Euro (4)
Weights (1)	*(19.8)*	*(30.6)*	*(16.7)*	*(61.7)*	*(100.0)*	*(16.2)*	*(32.5)*	*(16.2)*	*(61.3)*	*(100.0)*	*(100.0)*
1998	1.0	0.9	–7.3	0.9	–0.7	....	....	....	....	....	–0.7
1999	1.2	–1.4	2.5	–0.1	0.7	....	....	....	....	....	–0.4
2000	1.5	4.9	21.3	3.1	5.4	1.0	4.2	19.1	2.6	4.8	5.4
2000 – Jan.	1.3	3.9	18.3	2.4	4.5	0.6	2.4	16.4	1.5	3.3	3.8
Feb.	1.1	4.3	21.6	2.7	5.1	0.7	3.0	18.4	1.8	3.8	4.4
Mar.	1.3	4.6	24.7	2.8	5.7	0.6	3.5	19.1	2.1	4.2	4.8
Apr.	1.5	5.5	22.2	3.3	5.7	0.9	4.2	15.8	2.4	4.0	4.6
May	1.5	6.3	21.5	3.7	5.8	0.9	4.7	18.4	2.8	4.7	5.3
June	1.4	5.9	23.5	3.5	5.8	1.1	4.9	20.0	2.9	5.0	5.6
July	1.5	5.2	21.8	3.2	5.4	1.3	4.9	19.1	3.0	5.0	5.6
Aug.	1.5	5.2	19.2	3.2	5.1	1.3	5.0	18.3	3.0	5.0	5.6
Sept.	1.5	4.9	22.3	3.1	5.5	1.2	5.0	21.9	3.0	5.6	6.2
Oct.	1.9	4.3	24.0	2.9	6.0	1.2	4.6	23.7	2.8	5.9	6.6
Nov.	1.8	4.1	21.8	2.9	5.7	1.2	4.4	21.8	2.7	5.7	6.3
Dec.	1.9	4.5	15.7	3.2	5.0	1.3	4.3	15.7	2.8	4.9	5.4
2001 – Jan.	2.4	4.8	8.1	3.5	3.9	1.6	4.0	12.9	2.7	4.5	4.8
Feb.	2.5	5.0	5.4	3.5	3.6	1.7	3.7	11.7	2.6	4.3	4.5
Mar.	3.0	4.8	2.3	3.6	3.2	2.0	3.3	9.4	2.4	4.0	4.1

Sources: Based on Istat data and national statistics.
(1) 1995=100 for Germany, France and Spain. – (2) The disaggregated data for France are available from January 1999. – (3) GDP-weighted average for Germany, France, Italy and Spain. – (4) Series compiled by Eurostat for all euro-area countries.

BALANCE OF PAYMENTS
(balances in billions of lire and millions of euros)

	1996	1997	1998	1999		2000	
	lire				euros	lire	euros
Current account	**60,769**	**56,813**	**39,585**	**14,894**	**7,692**	**–11,794**	**–6,091**
Goods	83,301	68,102	63,091	42,683	22,044	22,794	11,772
Credits	388,887	409,126	426,181	428,853	221,484	502,561	259,551
Debits	305,587	341,024	363,089	386,170	199,440	479,767	247,779
Services	11,084	13,255	8,493	2,178	1,125	64	33
Credits	93,531	105,518	111,145	107,089	55,307	118,124	61,006
Debits	82,447	92,263	102,652	104,911	54,182	118,060	60,973
Income	–23,453	–17,446	–19,109	–20,122	–10,392	–25,358	–13,096
Credits	62,304	72,394	77,138	84,195	43,483	81,128	41,899
Debits	85,757	89,840	96,247	104,317	53,875	106,486	54,995
Transfers	–10,162	–7,098	–12,891	–9,846	–5,085	–9,294	–4,800
EU institutions	*–8,829*	*–5,088*	*–11,501*	*–9,070*	*–4,684*	*–9,497*	*–4,905*
Capital account	**111**	**5,658**	**4,355**	**5,400**	**2,789**	**6,179**	**3,191**
Intangible assets	–645	180	–234	–6	–3	–139	–72
Transfers	756	5,478	4,589	5,406	2,792	6,318	3,264
EU institutions	*1,631*	*6,320*	*5,320*	*6,198*	*3,201*	*7,018*	*3,624*
Financial account	**–30,515**	**–35,393**	**2,482**	**–17,169**	**–8,867**	**8,301**	**4,287**
Direct investment	–7,950	–12,400	–20,486	345	178	2,225	1,149
Abroad	–13,404	–20,850	–27,917	–12,216	–6,309	–25,884	–13,368
In Italy	5,454	8,450	7,431	12,561	6,487	28,109	14,517
Portfolio investment	73,302	33,248	13,699	–45,763	–23,635	–50,837	–26,255
Assets	–33,709	–91,251	–167,129	–235,243	–121,493	–167,178	–86,340
Liabilities	107,011	124,498	180,828	189,480	97,858	116,341	60,085
Financial derivatives	401	–3,158	–1,475	3,419	1,766	4,843	2,501
Other investment	–77,626	–30,314	–26,231	11,085	5,725	57,991	29,950
Assets	–110,637	–59,476	–58,501	–60,936	–31,471	1,911	987
Liabilities	33,011	29,162	32,270	72,022	37,196	56,080	28,963
Change in official reserves	–18,642	–22,769	36,975	13,746	7,099	–5,921	–3,058
Errors and omissions	**–30,364**	**–27,078**	**–46,422**	**–3,125**	**–1,614**	**–2,686**	**–1,387**

Table a14

ITALY'S EXTERNAL POSITION

(billions of lire and millions of euros)

	1993	1994	1995	1996	1997	1998	1999		2000	
	lire							euros	lire	euros
ASSETS	**768,463**	**841,482**	**947,363**	**1,113,396**	**1,424,609**	**1,657,289**	**2,124,205**	**1,097,059**	**2,353,081**	**1,215,265**
Non-bank sectors	**442,552**	**524,989**	**594,340**	**676,489**	**939,566**	**1,194,543**	**1,645,623**	**849,893**	**1,839,867**	**950,212**
Direct investment	138,138	146,072	168,492	179,598	232,839	277,466	330,831	170,860	346,297	178,847
Real estate	7,847	8,442	9,211	8,803	9,840	10,350	11,823	6,106	12,938	6,682
Other	130,291	137,630	159,281	170,795	222,999	267,116	319,008	164,754	333,359	172,166
Portfolio investment	206,208	256,675	290,967	343,532	453,631	639,747	985,322	508,876	1,137,086	587,256
Loans	37,277	51,144	55,781	72,860	....	....	....	....	....	....
Trade credits	60,929	71,098	79,100	80,499	....	....	....	....	....	....
Other investment	....	....	....	....	248,744	273,974	326,807	168,782	351,829	181,705
Derivatives	....	....	....	....	4,352	3,356	2,663	1,375	4,655	2,404
Banks	**239,345**	**222,596**	**257,430**	**328,344**	**349,235**	**372,095**	**357,730**	**184,752**	**393,876**	**203,420**
Direct investment	....	....	....	....	12,650	15,064	19,667	10,157	28,639	14,791
Portfolio investment	....	....	....	....	27,115	51,439	67,669	34,948	70,283	36,298
Other investment	....	....	....	....	308,620	303,323	267,368	138,084	292,257	150,938
Derivatives	....	....	....	....	850	2,269	3,026	1,563	2,697	1,393
Central bank	**86,566**	**93,897**	**95,593**	**108,563**	**135,808**	**90,651**	**120,852**	**62,414**	**119,338**	**61,633**
Direct investment	....	....	....	....	..	7	8	4	8	4
Portfolio investment	....	....	....	....	..	525	1,118	577	1,384	715
Other investment	....	....	....	....	190	1,480	32,400	16,733	20,424	10,548
Derivatives	....	....	....	....	135,618	88,639	87,326	45,100	97,522	50,366
Gold	....	....	....	....	*37,578*	*39,814*	*44,099*	*22,775*	*44,724*	*23,098*
LIABILITIES	**913,867**	**959,325**	**1,031,883**	**1,167,314**	**1,424,751**	**1,688,606**	**2,021,337**	**1,043,934**	**2,262,855**	**1,168,667**
Non-bank sectors	**544,685**	**581,021**	**661,801**	**786,231**	**1,003,695**	**1,243,937**	**1,498,361**	**773,839**	**1,648,029**	**851,136**
Direct investment	91,929	98,398	103,561	114,242	149,454	178,662	208,209	107,531	234,225	120,967
Real estate	2,471	2,558	3,002	3,244	3,541	3,807	4,419	2,282	5,734	2,961
Other	89,458	95,840	100,559	110,998	145,913	174,855	203,790	105,249	228,491	118,006
Portfolio investment	271,609	305,864	374,653	510,327	677,971	894,674	1,048,115	541,306	1,161,168	599,693
Government securities	*206,893*	*233,629*	*291,486*	*397,937*	*515,914*	*675,718*	*822,750*	*424,915*	*910,722*	*470,343*
BOTs	*4,286*	*5,387*	*10,355*	*24,169*	*32,255*	*85,590*	*125,605*	*64,870*	*118,826*	*61,369*
BTPs	*109,504*	*91,428*	*108,221*	*189,851*	*283,139*	*317,309*	*406,655*	*210,020*	*499,546*	*257,994*
CTEs	*28,667*	*31,183*	*33,850*	*30,981*	*30,550*	*24,036*	*14,602*	*7,541*	*12,607*	*6,511*
Other	*17,258*	*42,623*	*61,823*	*70,801*	*78,684*	*152,843*	*170,440*	*88,025*	*147,617*	*76,238*
Republic of Italy	*47,178*	*63,008*	*77,237*	*82,135*	*91,286*	*95,940*	*105,448*	*54,459*	*132,126*	*68,237*
Loans	146,458	135,045	136,128	119,012	....	....	....	....	....	....
Trade credits	34,689	41,714	47,459	42,650	....	....	....	....	....	....
Other investment	....	....	....	....	173,387	168,042	238,843	123,352	248,961	128,578
Derivatives	....	....	....	....	2,883	2,559	3,194	1,650	3,675	1,898
Banks	**366,553**	**375,843**	**365,965**	**379,171**	**420,748**	**444,576**	**480,667**	**248,244**	**579,938**	**299,512**
Direct investment	....	....	....	....	900	1,231	1,297	670	1,164	601
Portfolio investment	....	....	....	....	3,362	3,201	10,518	5,432	25,431	13,134
Other investment	....	....	....	....	415,553	437,614	465,795	240,563	551,523	284,838
Derivatives	....	....	....	....	933	2,529	3,057	1,579	1,820	940
Central	**2,629**	**2,461**	**4,117**	**1,912**	**308**	**93**	**42,309**	**21,851**	**34,888**	**18,018**
Direct investment	....	....	....	....	....	....	....	....	....	....
Portfolio investment	....	....	....	....	....	....	....	....	....	....
Other investment	....	....	....	....	308	93	42,309	21,851	34,888	18,018
OVERALL NET POSITION	**–145,404**	**–117,843**	**–84,520**	**–53,918**	**–142**	**–31,317**	**102,868**	**53,125**	**90,226**	**46,598**

CONSOLIDATED ACCOUNTS OF GENERAL GOVERNMENT

(billions of lire and millions of euros)

	1993	1994	1995	1996	1997	1998	1999		2000	
	lire							euros (1)	lire	euros (1)
Revenue										
Direct taxes	250,164	245,872	263,494	290,923	318,582	297,688	320,069	165,302	326,883	168,821
Indirect taxes	187,722	195,153	215,935	224,852	247,286	318,616	325,351	168,030	341,184	176,207
Actual social security contributions	211,789	217,766	232,928	278,359	296,935	258,976	266,846	137,814	279,872	144,542
Imputed social security contributions	27,633	30,777	30,881	7,807	7,696	7,667	7,905	4,083	7,472	3,859
Income from capital	7,253	7,265	10,921	11,728	12,252	10,440	14,028	7,245	11,311	5,842
Other	41,420	41,253	44,973	49,145	51,994	56,239	56,168	29,008	57,373	29,631
Total current revenue	**725,981**	**738,086**	**799,132**	**862,814**	**934,745**	**949,626**	**990,367**	**511,482**	**1,024,095**	**528,901**
Capital account revenue	13,979	6,779	15,336	8,259	19,595	14,270	10,674	5,513	8,585	4,434
Total revenue	**739,960**	**744,865**	**814,468**	**871,073**	**954,340**	**963,896**	**1,001,041**	**516,995**	**1,032,680**	**533,335**
as a percentage of GDP	*47.3*	*45.1*	*45.6*	*45.8*	*48.0*	*46.4*	*46.7*		*45.8*	
Expenditure										
Compensation of employees	192,336	196,521	200,521	218,559	230,627	222,176	228,713	118,120	235,874	121,819
Intermediate consumption	81,429	85,272	85,329	90,920	93,860	99,289	106,593	55,051	111,931	57,808
Social assistance benefits in kind (market purchases)	37,346	35,962	35,633	37,988	40,816	43,076	46,110	23,814	49,415	25,521
Social assistance benefits in cash	266,504	285,656	298,752	320,665	344,212	352,194	368,493	190,311	377,115	194,764
Subsidies to firms	30,595	28,201	26,256	28,251	24,286	27,920	26,490	13,681	26,044	13,451
Interest payments	203,935	189,212	205,991	218,701	186,086	166,757	144,781	74,773	146,126	75,468
Other	21,534	16,169	14,697	18,750	18,729	33,109	34,602	17,870	37,848	19,547
Total current expenditure	**833,679**	**836,993**	**867,179**	**933,834**	**938,616**	**944,521**	**955,782**	**493,620**	**984,353**	**508,376**
Gross investment	41,201	37,385	38,109	42,111	44,255	49,421	52,728	27,232	54,154	27,968
Investment grants	22,929	20,621	22,770	23,040	17,419	20,031	22,327	11,531	23,091	11,926
Other (2)	3,006	3,547	22,106	7,135	7,729	8,668	7,928	4,094	–21,358	–11,030
Total capital account expenditure (2)	**67,136**	**61,553**	**82,985**	**72,286**	**69,403**	**78,120**	**82,983**	**42,857**	**55,887**	**28,863**
Total expenditure (2)	**900,815**	**898,546**	**950,164**	**1,006,120**	**1,008,019**	**1,022,641**	**1,038,765**	**536,477**	**1,040,240**	**537,239**
as a percentage of GDP	*57.6*	*54.3*	*53.2*	*52.9*	*50.7*	*49.2*	*48.4*		*46.1*	
Deficit on current account	**107,698**	**98,907**	**68,047**	**71,020**	**3,871**	**–5,105**	**–34,585**	**–17,862**	**–39,742**	**–20,525**
Net borrowing (3)	**160,855**	**153,681**	**135,696**	**135,047**	**53,679**	**58,745**	**37,724**	**19,483**	**7,560**	**3,904**
as a percentage of GDP	*10.3*	*9.3*	*7.6*	*7.1*	*2.7*	*2.8*	*1.8*		*0.3*	

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

(1) Rounding after conversion into euros may cause discrepancies. – (2) The figures for 2000 include the proceeds of the sale of UMTS licences with a negative sign (26,750 billion lire, equal to 1.2 per cent of GDP). – (3) The figures for 2000 include the proceeds of the sale of UMTS licences.

Table a16

FINANCING OF THE GENERAL GOVERNMENT BORROWING REQUIREMENT (1)

(billions of lire and millions of euros)

	1992	1993	1994	1995	1996	1997	1998	1999		2000	
	lire								euros	lire	euros
Medium and long-term securities	**90,130**	**172,466**	**232,570**	**104,482**	**140,673**	**107,135**	**82,919**	**44,766**	**23,120**	**68,214**	**35,230**
of which:											
floating rate	*57,460*	*18,714*	*37,386*	*–25,971*	*31,404*	*9,058*	*–39,142*	*–52,157*	*–26,937*	*–14,675*	*–7,579*
issued abroad	*961*	*9,601*	*7,928*	*14,582*	*14,245*	*6,556*	*1,668*	*–5,256*	*–2,714*	*31,179*	*16,102*
Short-term securities	**45,339**	**5,331**	**11,311**	**–857**	**–27,174**	**–81,771**	**–35,371**	**–34,235**	**–17,681**	**–34,278**	**–17,703**
of which:											
issued abroad	–	–	–	–	–	–	–	*713*	*368*	*–458*	*–237*
Post Office deposits	**9,111**	**8,922**	**21,738**	**15,790**	**12,798**	**11,641**	**6,400**	**17,418**	**8,996**	**9,023**	**4,660**
of which:											
Post Office savings certificates	*4,710*	*5,587*	*14,891*	*10,718*	*12,733*	*7,183*	*5,020*	*6,790*	*3,507*	*4,599*	*2,375*
savings books	*2,187*	*2,918*	*7,276*	*5,806*	*1,606*	*5,519*	*7,483*	*10,706*	*5,529*	*4,424*	*2,285*
current accounts	*2,214*	*416*	*–429*	*–733*	*–1,541*	*–1,062*	*–6,104*	*–78*	*–40*	–	–
Lending by banks	**12,135**	**18,565**	**6,940**	**17,901**	**–1,490**	**3,900**	**–17,467**	**1,698**	**877**	**–10,224**	**–5,280**
of which:											
resident banks	*12,956*	*15,799*	*5,326*	*6,902*	*–2,738*	*3,271*	*–3,677*	*3,435*	*1,774*	*–3,320*	*–1,714*
non-resident banks	*–821*	*2,766*	*1,615*	*10,999*	*1,248*	*628*	*–13,790*	*–1,737*	*–897*	*–6,904*	*–3,566*
Other debt	**7,680**	**–3,271**	**–78,440**	**203**	**100**	**90**	**490**	**–629**	**–325**	**293**	**151**
of which:											
towards Bank of Italy	*7,426*	*–3,411*	*–78,473*	*–9*	*–51*	*–47*	*133*	*–727*	*–375*	*–2,722*	*–1,406*
Claims on Bank of Italy	**–310**	**–31,101**	**–33,247**	**–8,430**	**17,725**	**–2,538**	**15,829**	**–13,276**	**–6,856**	**18,581**	**9,596**
TOTAL BORROWING REQUIREMENT	**164,084**	**170,913**	**160,873**	**129,090**	**142,633**	**38,457**	**52,801**	**15,742**	**8,130**	**51,609**	**26,654**
as a percentage of GDP	*10.8*	*10.9*	*9.7*	*7.2*	*7.5*	*1.9*	*2.5*	*0.7*		*2.3*	
Settlements of past debts (2)	**31**	**10,837**	**9,342**	**4,085**	**13,502**	**–409**	**4,770**	**12,118**	**6,259**	**8,904**	**4,599**
Privatization receipts (2)	–	–	**–5,919**	**–8,354**	**–6,226**	**–21,179**	**–15,277**	**–43,839**	**–22,641**	**–29,951**	**–15,469**
Borrowing requirement net of settlements of past debts and privatization receipts	**164,053**	**160,075**	**157,450**	**133,359**	**135,357**	**60,045**	**63,308**	**47,463**	**24,513**	**72,656**	**37,523**
Memorandum items:											
debts of other entities serviced by the government	*4,891*	*–2,137*	*111*	*1,108*	*525*	*–6,473*	*–11,031*	*–2,191*	*–1,132*	*–4,458*	*–2,303*
change in bank deposits	*3,153*	*2,232*	*–641*	*1,182*	*2,835*	*–938*	*1,295*	*5,357*	*2,766*	*70*	*36*
Central government borrowing requirement	**161,361**	**166,130**	**174,180**	**128,618**	**143,193**	**32,040**	**51,100**	**3,865**	**1,996**	**39,654**	**20,479**
of which:											
securities	*135,483*	*177,807*	*243,884*	*103,626*	*112,994*	*23,585*	*45,863*	*5,891*	*3,042*	*28,883*	*14,917*
bank lending	*9,338*	*13,693*	*20,181*	*17,388*	*–467*	*–795*	*–17,530*	*–5,539*	*–2,861*	*–17,127*	*–8,845*
other	*16,540*	*–25,371*	*–89,885*	*7,604*	*30,666*	*9,250*	*22,767*	*3,513*	*1,815*	*27,897*	*14,408*
Local authority borrowing requirement	**1,905**	**5,609**	**–12,554**	**258**	**–532**	**6,427**	**1,872**	**12,007**	**6,201**	**11,954**	**6,174**
of which:											
securities	*–14*	*–10*	*–3*	*–1*	*505*	*1,779*	*1,685*	*4,640*	*2,396*	*5,052*	*2,609*
bank lending	*1,979*	*5,698*	*–12,487*	*299*	*–994*	*4,704*	*235*	*7,367*	*3,805*	*6,901*	*3,564*
other	*–60*	*–79*	*–64*	*–41*	*–43*	*–56*	*–47*	–	–	–	–
Social security institution borrowing requirement	**817**	**–826**	**–753**	**215**	**–29**	**–10**	**–171**	**–129**	**–67**	**1**	**1**

(1) Conversion into euros and rounding may cause discrepancies. – (2) The figures refer to the state sector.

Table a17

GENERAL GOVERNMENT DEBT
BREAKDOWN BY HOLDING SECTOR (1)
(face value in billions of lire and millions of euros)

	1992	1993	1994	1995	1996	1997	1998	1999		2000	
	lire								euros	lire	euros
Medium and long-term securities	**937,595**	**1,118,627**	**1,363,792**	**1,487,329**	**1,627,056**	**1,746,982**	**1,821,063**	**1,875,815**	**968,778**	**1,946,555**	**1,005,312**
held by:											
Bank of Italy	*82,426*	*95,044*	*186,333*	*197,841*	*166,478*	*137,709*	*120,169*	*112,113*	*57,902*	*120,669*	*62,320*
banks	*237,093*	*213,290*	*265,089*	*264,587*	*282,667*	*265,120*	*243,980*	*236,993*	*122,397*	*198,149*	*102,335*
other residents	*519,303*	*628,138*	*667,952*	*745,925*	*834,118*	*907,354*	*928,490*	*869,403*	*449,009*	*859,544*	*443,917*
non-residents	*98,772*	*182,154*	*244,418*	*278,976*	*343,793*	*436,799*	*528,424*	*657,305*	*339,470*	*768,193*	*396,739*
Short-term securities	**394,000**	**400,005**	**411,322**	**410,471**	**383,297**	**301,526**	**266,157**	**231,921**	**119,777**	**197,643**	**102,074**
held by:											
Bank of Italy	*173*	*572*	*14,306*	*3,327*	*1,698*	*14,331*	*230*	–	–	*150*	*78*
banks	*33,273*	*79,459*	*73,101*	*48,506*	*56,256*	*33,519*	*46,552*	*30,944*	*15,981*	*12,135*	*6,267*
other residents	*356,733*	*315,179*	*318,462*	*348,190*	*301,271*	*221,796*	*135,006*	*78,248*	*40,412*	*64,490*	*33,306*
non-residents	*3,821*	*4,795*	*5,454*	*10,448*	*24,072*	*31,881*	*84,369*	*122,729*	*63,384*	*120,868*	*62,423*
Post Office deposits	**105,308**	**114,230**	**135,968**	**151,759**	**164,557**	**176,198**	**182,598**	**200,016**	**103,300**	**209,040**	**107,960**
Lending by banks	**108,853**	**130,704**	**138,319**	**156,450**	**152,450**	**157,193**	**140,225**	**142,373**	**73,529**	**132,344**	**68,350**
of which:											
resident banks	*93,978*	*109,777*	*115,103*	*122,005*	*119,267*	*122,538*	*118,861*	*122,295*	*63,160*	*118,976*	*61,446*
non-resident banks	*14,875*	*20,927*	*23,216*	*34,445*	*33,183*	*34,655*	*21,365*	*20,077*	*10,369*	*13,368*	*6,904*
Other liabilities towards BI	**84,785**	**81,374**	**2,902**	**2,893**	**2,842**	**2,794**	**2,927**	**2,894**	**1,495**	**171**	**89**
of which:											
current accounts	*80,780*	*76,206*	–	–	–	–	–	–	–	–	–
Other domestic debt	**3,458**	**3,599**	**3,632**	**3,844**	**3,995**	**4,133**	**4,490**	**4,588**	**2,369**	**7,603**	**3,927**
General government debt (2)	**1,634,000**	**1,848,539**	**2,055,935**	**2,212,746**	**2,334,197**	**2,388,827**	**2,417,461**	**2,457,607**	**1,269,248**	**2,493,356**	**1,287,711**
as a percentage of GDP	*107.7*	*118.2*	*124.3*	*123.8*	*122.7*	*120.2*	*116.4*	*114.6*		*110.5*	
held by:											
Bank of Italy	*167,385*	*176,990*	*203,541*	*204,061*	*171,018*	*154,834*	*123,326*	*115,007*	*59,396*	*120,991*	*62,486*
banks	*364,345*	*402,526*	*453,292*	*435,098*	*458,190*	*421,177*	*409,393*	*390,232*	*201,538*	*329,260*	*170,049*
other residents	*984,802*	*1,061,146*	*1,126,014*	*1,249,717*	*1,303,941*	*1,309,480*	*1,250,584*	*1,152,256*	*595,090*	*1,140,676*	*589,110*
non-residents	*117,468*	*207,877*	*273,088*	*323,870*	*401,048*	*503,335*	*634,158*	*800,112*	*413,223*	*902,429*	*466,066*
Memorandum item: debt issued abroad	64,706	85,560	96,106	119,473	126,752	142,914	130,296	136,877	70,691	163,342	84,359

(1) Rounding and translation into euros 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)

	1991	1992	1993	1994	1995	1996
	lire					
Medium and long-term securities	**831,772**	**937,595**	**1,118,627**	**1,363,792**	**1,487,329**	**1,627,056**
of which: in foreign currencies	66,033	78,066	101,496	123,366	130,910	126,468
in non-euro-area currencies	14,575	16,953	34,889	45,067	55,129	61,761
floating rate	423,219	482,769	502,397	540,721	517,514	548,144
issued abroad	43,133	49,832	64,633	72,890	85,028	93,569
Short-term securities	**347,736**	**394,000**	**400,005**	**411,322**	**410,471**	**383,297**
of which: in foreign currencies	4,999	7,672	7,443	–	–	–
in non-euro-area currencies	–	–	–	–	–	–
issued abroad	–	–	–	–	–	–
Post Office deposits	**96,198**	**105,308**	**114,230**	**135,968**	**151,759**	**164,557**
of which: Post Office savings certificates	61,865	66,575	72,162	87,053	97,771	110,504
memorandum items: redemption value	*100,368*	*107,382*	*117,867*	*136,556*	*152,083*	*172,844*
savings books	27,017	29,204	32,122	39,398	45,204	46,811
current accounts	7,316	9,530	9,946	9,517	8,784	7,243
Lending by banks	**92,686**	**108,853**	**130,704**	**138,319**	**156,450**	**152,450**
of which: in foreign currencies	11,551	15,308	21,192	20,908	30,009	25,568
in non-euro-area currencies	6,334	7,313	7,947	7,423	6,615	5,389
resident banks	81,022	93,978	109,777	115,103	122,005	119,267
non-resident banks	11,665	14,875	20,927	23,216	34,445	33,183
Other liabilities	**80,564**	**88,244**	**84,973**	**6,533**	**6,737**	**6,837**
of which: towards the Bank of Italy	77,359	84,785	81,374	2,902	2,893	2,842
GENERAL GOVERNMENT DEBT (2)	**1,448,956**	**1,634,000**	**1,848,539**	**2,055,935**	**2,212,746**	**2,334,197**
as a percentage of GDP	*100.6*	*107.7*	*118.2*	*124.3*	*123.8*	*122.7*
Central government debt	**1,399,529**	**1,581,840**	**1,791,592**	**2,012,293**	**2,168,631**	**2,290,624**
of which: securities	1,179,480	1,331,581	1,518,628	1,775,113	1,897,800	2,009,816
bank lending	43,906	57,265	74,240	95,093	112,710	109,746
other	176,143	192,994	198,724	142,086	158,121	171,062
Local authority debt	**48,278**	**50,194**	**55,806**	**43,255**	**43,513**	**43,000**
of which: securities	28	14	4	1	–	537
bank lending	47,631	49,621	55,323	42,839	43,139	42,130
other	618	558	479	415	374	332
Social security institution debt	**1,149**	**1,966**	**1,140**	**387**	**602**	**573**
Treasury assets held with BI	**1,095**	**1,406**	**32,507**	**65,754**	**74,184**	**56,459**
DEBT NET OF TREASURY ASSETS HELD WITH THE BANK OF ITALY	**1,447,861**	**1,632,594**	**1,816,032**	**1,990,181**	**2,138,562**	**2,277,738**
of which: debt in foreign currencies	82,583	101,047	130,131	144,274	160,919	152,035
debt in non-euro-area currencies	21,446	24,930	43,914	53,718	62,530	67,817
debt of other entities serviced by the government	37,439	43,621	42,703	43,024	44,827	44,557
Debt of other public sector bodies (3)	**1,928**	**2,007**	**1,948**	**2,658**	**2,526**	**2,017**
Public sector debt	**1,449,788**	**1,634,601**	**1,817,980**	**1,992,838**	**2,141,088**	**2,279,755**
Memorandum items:						
State sector debt net of Treasury assets held with the Bank of Italy	1,411,730	1,595,150	1,765,461	1,931,836	2,073,726	2,206,329
Bank deposits	20,365	23,519	25,751	25,110	26,292	29,127

(1) Conversion into euros and rounding may cause discrepancies.– (2) In accordance with the criteria laid down in Council Regulation (EC) No. 3605/93. – (3) Excluding debts serviced by

1997	1998	1999		2000		
lire			euros	lire	euros	
1,746,982	**1,821,063**	**1,875,815**	**968,778**	**1,946,555**	**1,005,312**	**Medium and long-term securities**
132,693	126,509	120,048	62,000	150,847	77,906	*of which:* in foreign currencies
66,546	65,817	74,864	38,664	85,697	44,259	. . . . in non-euro-area currencies
557,411	517,895	465,434	240,377	450,539	232,684	. . . . floating rate
108,259	108,931	116,086	59,954	149,719	77,323	. . . . issued abroad
301,526	**266,157**	**231,921**	**119,777**	**197,643**	**102,074**	**Short-term securities**
–	–	713	368	255	132	*of which:* in foreign currencies
–	–	–	–	–	–	. . . . in non-euro-area currencies
–	–	713	368	255	132	. . . . issued abroad
176,198	**182,598**	**200,016**	**103,300**	**209,040**	**107,960**	**Post Office deposits**
117,687	122,707	129,498	66,880	134,096	69,255	*of which:* Post Office savings certificates
187,004	*203,098*	*218,963*	*113,085*	*231,712*	*119,669*	. . . . *memorandum items:* redemption value
52,330	59,813	70,519	36,420	74,943	38,705	. . . . savings books
6,181	78	–	–	–	–	. . . . current accounts
157,193	**140,225**	**142,373**	**73,529**	**132,344**	**68,350**	**Lending by banks**
25,226	12,577	12,977	6,702	9,248	4,776	*of which:* in foreign currencies
5,290	4,856	4,419	2,282	3,683	1,902	. . . . in non-euro-area currencies
122,538	118,861	122,295	63,160	118,976	61,446	. . . . resident banks
34,655	21,365	20,077	10,369	13,368	6,904	. . . . non-resident banks
6,927	**7,418**	**7,482**	**3,864**	**7,774**	**4,015**	**Other liabilities**
2,794	2,927	2,894	1,495	171	89	*of which:* towards the Bank of Italy
2,388,827	**2,417,461**	**2,457,607**	**1,269,248**	**2,493,356**	**1,287,711**	**GENERAL GOVERNMENT DEBT** (2)
120.2	*116.4*	*114.6*		*110.5*		*as a percentage of GDP*
2,338,794	**2,365,791**	**2,393,537**	**1,236,159**	**2,417,176**	**1,248,367**	**Central government debt**
2,046,148	2,083,239	2,098,594	1,083,833	2,129,848	1,099,975	*of which:* securities
109,796	92,764	87,673	45,279	70,742	36,535	. . . . bank lending
182,850	189,788	207,270	107,046	216,586	111,857	. . . . other
49,470	**51,279**	**63,808**	**32,954**	**75,917**	**39,208**	**Local authority debt**
2,360	3,981	9,142	4,722	14,350	7,411	*of which:* securities
46,835	47,069	54,438	28,115	61,339	31,679	. . . . bank lending
275	228	228	118	228	118	. . . . other
563	**391**	**262**	**135**	**264**	**136**	**Social security institution debt**
58,997	**43,168**	**56,443**	**29,151**	**37,863**	**19,554**	**Treasury assets held with BI**
2,329,830	**2,374,293**	**2,401,164**	**1,240,098**	**2,455,494**	**1,268,157**	**DEBT NET OF TREASURY ASSETS HELD WITH THE BANK OF ITALY**
157,919	139,085	133,738	69,070	160,350	82,814	*of which:* debt in foreign currencies
72,399	70,673	79,283	40,946	89,380	46,161	. . . . debt in non-euro-area currencies
38,488	27,402	25,461	13,149	21,206	10,952	. . . . debt of other entities serviced by the government
2,202	**2,002**	**2,163**	**1,117**	**1,972**	**1,018**	**Debt of other public sector bodies** (3)
2,332,032	**2,376,296**	**2,403,327**	**1,241,215**	**2,457,465**	**1,269,175**	**Public sector debt**
						Memorandum items:
2,250,975	2,290,747	2,300,526	1,188,123	2,346,547	1,211,890	. . . . State sector debt net of Treasury assets held with the Bank of Italy
28,189	29,484	34,840	17,993	34,911	18,030	. . . . Bank deposits

the government.

Table a19

FORMATION OF THE GENERAL GOVERNMENT BORROWING REQUIREMENT (1)
(on a cash basis; billions of lire and millions of euros)

	1997	1998	1999		2000	
	lire			euros	lire	euros
State budget receipts	622,037	595,727	684,688	353,612	680,174	351,281
State budget payments	600,295	657,514	750,403	387,551	702,987	363,063
State budget balance (deficit: –)	21,742	–61,787	–65,715	–33,939	–22,813	–11,782
Other Treasury operations	–53,782	10,687	61,850	31,943	–16,841	–8,698
Central government borrowing requirement	–32,040	–51,100	–3,865	–1,996	–39,654	–20,479
Local government borrowing requirement after consolidation	–6,427	–1,872	–12,007	–6,201	–11,954	–6,174
Borrowing requirement of social security institutions after consolidation	10	171	129	67	–1	–1
GGBR	**–38,457**	**–52,801**	**–15,742**	**–8,130**	**–51,609**	**–26,654**
as a percentage of GDP	*–1.9*	*–2.5*	*–0.7*		*–2.3*	
Settlements of past debts	409	–4,770	–12,118	–6,259	–8,904	–4,599
Privatization receipts	21,179	15,277	43,839	22,641	29,951	15,469
DETAIL OF STATE BUDGET RECEIPTS	**–60,045**	**–63,308**	**–47,463**	**–24,513**	**–72,656**	**–37,524**
Direct taxes						
Personal income tax	182,601	200,221	222,014	114,661	220,713	113,989
Corporate income tax	44,304	42,185	57,622	29,759	55,441	28,633
Local income tax	24,232	6,368	709	366	329	170
Withholding tax on interest income and capital gains	36,597	19,811	22,335	11,535	35,678	18,426
Direct tax condonation schemes	82	696	90	46	21	11
Other	28,327	20,672	10,544	5,446	7,354	3,798
Total adjusted direct taxes (2)	**316,143**	**289,953**	**313,314**	**161,813**	**319,536**	**165,027**
Indirect taxes						
VAT	118,051	128,856	139,531	72,062	165,037	85,234
Other business taxes	39,004	36,583	31,878	16,464	29,165	15,062
Excise taxes on mineral oils	38,075	39,026	39,199	20,245	37,965	19,607
Other excise taxes	13,581	11,416	12,973	6,700	13,409	6,925
Taxes on tobacco products	10,587	11,735	12,389	6,398	14,245	7,357
Lotto and lotteries	11,439	13,191	22,657	11,701	17,207	8,887
Indirect tax condonation schemes	342	124	46	24	18	9
Other	3,234	3,008	2,675	1,382	2,710	1,400
Total adjusted indirect taxes (2)	**234,313**	**243,939**	**261,348**	**134,975**	**279,756**	**144,482**
Accounting items	–	–	21,729	11,222	6,000	3,099
Total tax receipts, net	**550,456**	**533,892**	**596,391**	**308,010**	**605,292**	**312,607**
Taxes accruing to the EU	9,896	11,448	9,942	5,135	11,313	5,843
Other revenue	61,685	50,387	78,355	40,467	63,569	32,831
Total budget receipts	**622,037**	**595,727**	**684,688**	**353,612**	**680,174**	**351,281**

Sources: Based on data contained in *Relazione generale sulla situazione economica del Paese, Rendiconto generale dell'amministrazione dello Stato,* and *Relazione trimestrale di Cassa.*
(1) Conversion into euros and rounding may cause discrepancies. – (2) Data are adjusted to exclude accounting settlements with the Sicily and Sardinia regions and those that did not correspond to actual changes in revenue.

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
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	1
Apr.	48,507	–819	26,755	371	. .	. .
May	48,471	–11,658	31,851	429	77	. .
June	48,035	–8,493	32,865	535	. .	30
July	48,971	9,532	26,901	488	9	1
Aug.	50,084	12,673	24,992	287	. .	1
Sept.	50,688	22,267	23,878	126	. .	1
Oct.	53,800	10,436	19,754	24	. .	1
Nov.	54,263	4,126	17,210	4	. .	1
Dec.	53,528	466	22,129	4	28	2
2001 – Jan.	51,593	–10,133	20,260	389	. .	1
Feb.	51,882	–3,763	18,551	698	343	1
Mar.	50,957	5,751	17,330	833	. .	1

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)		
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
Apr.	. .	167	67,946	22,967	–28,477	12,212	80,325
May	. .	134	69,209	17,170	–29,779	12,436	81,779
June	. .	3	69,253	13,528	–22,583	12,772	82,028
July	. .	23	69,843	26,773	–23,460	12,722	82,588
Aug.	. .	25	70,744	22,926	–18,301	12,642	83,411
Sept.	. .	35	69,278	29,959	–14,841	12,529	81,842
Oct.	. .	55	68,552	20,399	–18,478	12,488	82,094
Nov.	. .	16	69,726	14,138	–20,873	12,597	82,339
Dec.	. .	8	73,223	26,051	–35,807	12,680	85,911
2001 – Jan.	. .	40	74,453	19,059	–43,734	12,292	86,785
Feb.	. .	11	70,885	27,993	–44,195	13,016	83,912
Mar.	. .	16	70,982	34,541	–43,224	12,557	83,555

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
1998	64,541	354,215	418,756	85,325	120,733	624,815
1999 – Jan. . . .	60,984	355,764	416,748	81,744	120,327	618,819
Feb. . . .	60,485	343,899	404,384	79,208	119,815	603,407
Mar. . . .	61,446	349,994	411,440	77,356	118,889	607,684
Apr. . . .	62,327	356,896	419,223	73,669	118,286	611,178
May . . .	62,940	357,570	420,510	72,354	118,698	611,561
June . . .	63,903	369,592	433,495	70,718	119,011	623,225
July . . .	65,815	364,963	430,778	67,964	119,678	618,420
Aug. . . .	63,938	350,804	414,742	67,784	120,090	602,616
Sept. . .	64,511	358,231	422,742	66,927	120,618	610,286
Oct. . . .	65,370	365,201	430,571	65,993	121,737	618,301
Nov. . . .	65,366	356,373	421,739	65,241	121,493	608,473
Dec. . . .	71,961	389,875	461,836	65,745	128,860	656,442
2000 – Jan. . . .	67,167	390,387	457,554	63,678	128,354	649,587
Feb. . . .	66,619	384,226	450,845	64,327	127,165	642,337
Mar. . . .	67,377	388,172	455,550	63,809	126,454	645,813
Apr. . . .	69,357	398,798	468,155	62,613	125,870	656,639
May . . .	68,433	396,670	465,103	62,634	126,321	654,058
June . . .	69,430	393,695	463,124	62,216	125,400	650,740
July . . .	70,641	392,528	463,170	62,506	125,345	651,021
Aug. . . .	68,709	384,401	453,110	60,422	125,516	639,047
Sept. . .	69,288	388,297	457,585	60,348	124,419	642,353
Oct. . . .	69,362	390,818	460,180	60,507	124,085	644,771
Nov. . . .	70,033	376,467	446,500	58,727	123,398	628,625
Dec. . . .	76,416	412,275	488,691	57,610	125,784	672,085
2001 – Jan. . . .	70,354	389,133	459,487	56,890	126,774	643,151
Feb. . . .	70,134	385,169	455,304	56,241	127,108	638,653
Mar. . . .	70,840	391,770	462,611	56,763	126,894	646,268

(1) Liabilities of Italian MFIs and the Post Office to the "money-holding sector", except for the items specified in footnotes (2) and (3). – (2) All Bank of Italy banknotes and Treasury coins. the MFIs of the rest of the area or 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 deposits with agreed 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

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)	
60,493	4,772	16,777	706,857	412,842	618,901	700,777	 1998
61,596	4,068	15,432	699,914	412,608	614,678	695,517	. . . . Jan. – 1999
69,333	3,979	15,182	691,901	400,386	599,409	687,588	. . . . Feb.
64,800	3,667	14,508	690,659	407,262	603,506	686,211	. . . . Mar.
61,159	4,071	13,985	690,392	414,983	606,938	685,898	. . . . Apr.
59,334	4,382	14,112	689,389	415,803	606,854	684,022	. . . . May
54,989	5,485	14,143	697,843	428,964	618,694	692,546	. . . . June
57,504	5,919	13,397	695,240	426,038	613,681	690,223	. . . . July
58,423	6,415	13,014	680,468	410,085	597,958	675,256	. . . . Aug.
55,282	7,349	12,300	685,217	418,163	605,707	679,625	. . . . Sept.
55,215	7,830	11,270	692,616	426,165	613,895	687,148	. . . . Oct.
57,015	7,846	11,409	684,742	416,666	603,400	678,391	. . . . Nov.
50,754	13,065	11,174	731,435	455,986	650,591	724,806	. . . . Dec.
54,531	13,159	10,861	728,138	452,682	644,715	722,553	. . . . Jan. – 2000
58,425	12,831	10,856	724,449	446,180	637,672	718,862	. . . . Feb.
57,443	12,351	10,511	726,118	450,981	641,243	720,403	. . . . Mar.
59,010	12,781	10,232	738,661	462,890	651,373	732,137	. . . . Apr.
64,010	10,374	10,086	738,528	460,238	649,192	732,142	. . . . May
63,662	9,898	10,169	734,469	458,363	645,978	728,475	. . . . June
67,751	9,500	10,050	738,322	457,641	645,492	731,714	. . . . July
68,244	9,381	10,084	726,756	448,135	634,073	720,649	. . . . Aug.
65,375	9,264	9,953	726,944	452,875	637,643	721,400	. . . . Sept.
69,409	9,163	10,375	733,718	455,262	639,853	728,105	. . . . Oct.
71,264	9,346	10,191	719,426	441,207	623,331	713,506	. . . . Nov.
68,303	10,075	12,113	762,577	481,954	665,348	755,425	. . . . Dec.
75,202	10,464	12,323	741,139	454,621	638,285	736,042	. . . . Jan. – 2001
77,405	11,440	12,165	739,663	450,227	633,576	734,309	. . . . Feb.
81,622	12,646	11,936	752,473	457,649	641,307	747,095	. . . . Mar.

– (3) Calculated 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 in circulation and 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, fund shares/units 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 a22

COUNTERPARTS OF MONEY:
RESIDENTS OF ITALY AND THE REST OF THE EURO AREA
(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 (1)	Capital and reserves (1)	Total		Loans
1998	706,857	29,207	23,463	0	201,253	102,704	327,420	127,039	62,915
1999 – Jan. . . .	699,914	37,012	22,844	0	202,386	105,733	330,963	135,943	63,637
Feb. . . .	691,901	38,345	21,858	0	205,844	105,267	332,970	126,215	63,273
Mar. . . .	690,659	32,116	21,297	0	208,052	106,427	335,776	132,731	62,396
Apr. . . .	690,392	27,445	20,495	0	210,533	107,013	338,041	155,363	62,297
May . . .	689,389	29,738	19,289	0	212,843	106,586	338,718	144,309	62,814
June . . .	697,843	29,080	19,268	0	213,674	108,344	341,287	169,735	63,285
July . . .	695,240	42,529	18,999	0	214,191	109,511	342,701	147,291	61,728
Aug. . . .	680,468	41,273	18,647	0	215,608	108,462	342,718	146,451	61,514
Sept. . .	685,217	37,471	18,421	0	215,637	110,622	344,679	164,790	61,766
Oct. . . .	692,616	28,464	18,036	0	217,879	109,821	345,737	146,514	62,176
Nov. . . .	684,742	41,533	17,514	0	221,065	110,001	348,580	140,685	63,034
Dec. . . .	731,435	37,039	17,005	0	222,412	113,615	353,032	142,024	64,700
2000 – Jan. . . .	728,138	32,202	16,325	0	223,189	116,819	356,333	156,772	62,611
Feb. . . .	724,449	40,582	15,611	0	226,679	117,229	359,519	144,138	61,355
Mar. . . .	726,118	36,199	15,551	0	228,978	118,542	363,071	160,685	59,518
Apr. . . .	738,661	33,075	14,930	0	231,748	119,851	366,529	163,493	59,795
May . . .	738,528	24,759	14,672	0	234,214	119,984	368,870	171,371	59,147
June . . .	734,469	41,675	14,426	0	234,679	122,864	371,968	166,683	59,702
July . . .	738,322	35,092	13,914	0	235,105	126,438	375,456	161,884	58,294
Aug. . . .	726,756	41,720	13,298	0	237,081	127,874	378,253	166,874	57,379
Sept. . .	726,944	34,967	12,805	0	240,343	128,938	382,086	167,934	57,855
Oct. . . .	733,718	31,708	12,323	0	241,513	130,797	384,633	170,084	57,858
Nov. . . .	719,426	33,186	11,966	0	243,823	129,610	385,399	160,511	58,929
Dec. . . .	762,577	26,368	11,492	0	246,822	122,581	380,895	157,963	61,644
2001 – Jan. . . .	741,139	42,472	10,476	1	249,584	125,247	385,308	160,857	60,722
Feb. . . .	739,663	47,248	9,933	0	254,203	124,940	389,076	162,578	60,820
Mar. . . .	752,473	47,078	9,046	0	258,424	125,962	393,431	176,513	60,456

(1) Calculated 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

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					
253,850	316,765	701,472	4,521	21,861	727,854	1,044,619	124,285	21,619	 1998
254,636	318,272	703,092	5,062	22,299	730,453	1,048,725	126,231	28,877	.... Jan.– 1999
259,695	322,968	702,281	5,742	24,621	732,643	1,055,611	121,184	12,365	.... Feb.
255,583	317,979	708,783	5,502	25,804	740,089	1,058,068	106,066	27,149	.... Mar.
256,224	318,521	709,985	5,289	27,285	742,559	1,061,080	115,876	34,286	.... Apr.
255,410	318,224	712,231	5,333	29,148	746,712	1,064,936	109,100	28,117	.... May
254,149	317,434	733,820	6,186	27,444	767,450	1,084,884	119,322	33,739	.... June
249,965	311,692	739,467	8,561	27,438	775,466	1,087,158	113,761	26,842	.... July
248,760	310,275	732,735	8,636	25,535	766,905	1,077,179	118,800	14,931	.... Aug.
252,278	314,044	733,718	9,663	26,219	769,600	1,083,644	112,049	36,465	.... Sept.
254,157	316,333	736,743	9,988	26,324	773,054	1,089,388	111,190	12,752	.... Oct.
245,113	308,147	765,995	10,194	29,738	805,927	1,114,073	110,460	–8,992	.... Nov.
238,551	303,251	774,105	10,495	33,806	818,406	1,121,657	109,395	32,478	.... Dec.
236,171	298,783	778,016	11,034	34,478	823,529	1,122,312	112,558	38,575	.... Jan.– 2000
237,427	298,783	785,788	11,421	37,959	835,168	1,133,951	108,170	26,568	.... Feb.
237,103	296,621	794,599	12,206	40,056	846,861	1,143,482	115,854	26,737	.... Mar.
238,150	297,945	802,806	12,879	41,332	857,017	1,154,962	118,957	27,838	.... Apr.
234,617	293,764	806,549	13,103	42,073	861,726	1,155,489	122,673	25,365	.... May
234,015	293,717	825,426	11,944	43,297	880,667	1,174,384	118,383	22,028	.... June
229,663	287,957	831,730	12,773	44,265	888,768	1,176,726	111,625	22,405	.... July
226,682	284,061	833,094	12,797	41,635	887,526	1,171,588	115,230	26,786	.... Aug.
225,525	283,380	838,694	12,822	40,934	892,450	1,175,830	120,528	15,573	.... Sept.
226,575	284,434	847,052	12,647	41,912	901,611	1,186,044	121,668	12,430	.... Oct.
222,568	281,497	861,491	13,022	43,507	918,020	1,199,518	118,853	–19,849	.... Nov.
213,837	275,481	877,123	13,528	42,927	933,577	1,209,059	116,031	2,713	.... Dec.
216,966	277,688	875,854	13,535	42,974	932,363	1,210,051	115,309	4,416	.... Jan.– 2001
219,233	280,053	874,316	13,687	42,909	930,912	1,210,965	115,467	12,133	.... Feb.
219,581	280,036	889,627	13,709	44,736	948,071	1,228,107	127,235	14,153	.... Mar.

MFIs of the rest 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 a23

BANKS AND MONEY MARKET FUNDS: SUMMARY BALANCE SHEET DATA (1)

(stocks in billions of lire and, in brackets, in millions of euros) **Assets**

	Cash	Loans							Holdings of securities other than		
		Residents of Italy			Residents of other euro-area countries			Rest of the world	Residents of Italy		
		MFIs	General govern-ment	Other sector	MFIs	General govern-ment	Other sector		MFIs	General govern-ment	Other sector
1996 – Dec. . .	9,992	289,429	122,189	1,167,168	82,827	81	10,656	199,347	51,892	379,525	2,911
1997 – ” . .	10,846	310,104	124,086	1,244,414	87,647	48	13,851	202,214	49,666	352,338	4,459
1998 – ” . .	11,915	263,006	118,861	1,337,337	119,508	66	20,902	161,562	63,500	364,567	5,577
1999 – ” . .	11,907	299,650	122,295	1,474,122	111,732	87	24,698	130,949	73,203	342,418	10,454
	(6,150)	*(154,756)*	*(63,160)*	*(761,321)*	*(57,705)*	*(45)*	*(12,756)*	*(67,629)*	*(37,806)*	*(176,844)*	*(5,399)*
2000 – Jan. . .	9,987	315,357	118,245	1,484,100	104,529	94	22,293	138,957	76,667	336,643	11,131
	(5,158)	*(162,868)*	*(61,068)*	*(766,474)*	*(53,985)*	*(49)*	*(11,513)*	*(71,765)*	*(39,595)*	*(173,861)*	*(5,749)*
Feb. . .	9,588	318,130	115,773	1,498,998	107,483	133	22,435	126,050	77,498	334,796	12,283
	(4,952)	*(164,301)*	*(59,792)*	*(774,168)*	*(55,510)*	*(69)*	*(11,587)*	*(65,099)*	*(40,024)*	*(172,908)*	*(6,344)*
Mar. . .	9,432	328,893	114,913	1,513,788	118,289	162	24,708	134,258	86,510	329,929	12,129
	(4,871)	*(169,859)*	*(59,348)*	*(781,806)*	*(61,091)*	*(83)*	*(12,761)*	*(69,339)*	*(44,679)*	*(170,394)*	*(6,264)*
Apr. . .	10,888	317,851	115,385	1,529,540	114,646	226	24,909	140,393	85,476	331,279	13,671
	(5,623)	*(164,156)*	*(59,591)*	*(789,942)*	*(59,210)*	*(117)*	*(12,864)*	*(72,507)*	*(44,145)*	*(171,091)*	*(7,060)*
May . .	10,063	333,720	114,102	1,535,179	136,098	254	26,502	150,763	84,440	322,628	13,891
	(5,197)	*(172,352)*	*(58,929)*	*(792,854)*	*(70,289)*	*(131)*	*(13,687)*	*(77,863)*	*(43,610)*	*(166,624)*	*(7,174)*
June .	9,878	358,232	115,189	1,571,390	115,367	240	26,858	144,777	85,485	320,349	12,017
	(5,101)	*(185,011)*	*(59,490)*	*(811,555)*	*(59,582)*	*(124)*	*(13,871)*	*(74,771)*	*(44,149)*	*(165,446)*	*(6,206)*
July . .	11,444	340,289	112,465	1,581,113	96,357	239	29,341	128,251	82,935	310,235	13,759
	(5,910)	*(175,745)*	*(58,083)*	*(816,577)*	*(49,764)*	*(124)*	*(15,153)*	*(66,236)*	*(42,832)*	*(160,223)*	*(7,106)*
Aug. . .	10,308	323,953	110,720	1,584,077	99,978	212	29,019	132,238	82,554	304,566	13,767
	(5,323)	*(167,308)*	*(57,182)*	*(818,107)*	*(51,634)*	*(110)*	*(14,987)*	*(68,295)*	*(42,636)*	*(157,295)*	*(7,110)*
Sept. .	9,824	324,486	111,641	1,594,237	103,117	212	29,701	134,766	84,294	301,851	13,992
	(5,074)	*(167,583)*	*(57,658)*	*(823,355)*	*(53,256)*	*(110)*	*(15,339)*	*(69,601)*	*(43,534)*	*(155,893)*	*(7,226)*
Oct. . .	10,213	352,782	111,648	1,610,920	107,570	212	29,201	134,199	82,443	303,896	13,491
	(5,275)	*(182,196)*	*(57,661)*	*(831,971)*	*(55,555)*	*(110)*	*(15,081)*	*(69,308)*	*(42,578)*	*(156,949)*	*(6,967)*
Nov. . .	10,865	372,007	113,717	1,637,520	105,103	216	30,559	133,243	82,288	295,713	13,783
	(5,611)	*(192,126)*	*(58,730)*	*(845,708)*	*(54,281)*	*(112)*	*(15,783)*	*(68,814)*	*(42,498)*	*(152,723)*	*(7,118)*
Dec. . .	13,579	363,453	118,976	1,667,813	113,776	215	30,535	134,199	84,011	282,883	15,366
	(7,013)	*(187,708)*	*(61,446)*	*(861,353)*	*(58,760)*	*(111)*	*(15,770)*	*(69,308)*	*(43,388)*	*(146,097)*	*(7,936)*
2001 – Jan. . .	9,921	329,476	117,165	1,664,525	103,902	240	31,365	130,128	78,750	286,901	15,610
	(5,124)	*(170,160)*	*(60,511)*	*(859,656)*	*(53,661)*	*(124)*	*(16,199)*	*(67,206)*	*(40,671)*	*(148,172)*	*(8,062)*
Feb. . .	10,355	313,625	117,355	1,663,255	102,709	241	29,656	133,442	77,877	289,143	15,415
	(5,348)	*(161,974)*	*(60,609)*	*(859,000)*	*(53,045)*	*(124)*	*(15,316)*	*(68,917)*	*(40,220)*	*(149,330)*	*(7,961)*
Mar. . .	10,186	336,837	116,648	1,692,381	116,839	241	30,177	152,369	81,495	290,078	15,128
	(5,260)	*(173,962)*	*(60,244)*	*(874,042)*	*(60,342)*	*(125)*	*(15,585)*	*(78,692)*	*(42,089)*	*(149,813)*	*(7,813)*

(1) ESCB harmonized statistics. The data up to June 1998 are estimated and those for the most recent periods may be revised. The amounts shown include transactions denominated in euros

Table a23

Assets

shares, at market value				Shares and other equity					Fixed assets	Remaining assets	Total assets	
Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world				
MFIs	General govern-ment	Other sector		MFIs	Other sector	MFIs	Other sector					
1,737	2,692	1,677	12,163	31,548	25,868	5,300	3,756	5,129	84,828	459,781	2,950,496	. . Dec. – 1996
1,891	2,473	1,962	19,874	34,425	26,347	4,726	6,363	4,788	84,778	523,552	3,110,851	. . . . " – 1997
3,758	6,737	3,167	32,175	55,902	32,583	8,200	6,573	5,844	86,348	265,137	2,973,223	. . . . " – 1998
8,401	5,963	9,430	34,635	75,613	41,652	9,832	10,054	8,908	86,589	286,508	3,179,102	. . . . " – 1999
(4,339)	*(3,080)*	*(4,870)*	*(17,888)*	*(39,051)*	*(21,512)*	*(5,078)*	*(5,193)*	*(4,601)*	*(44,719)*	*(147,969)*	*(1,641,869)*	
7,825	6,396	9,798	34,618	78,241	42,066	9,744	10,980	9,276	85,950	322,493	3,235,390	. . Jan. – 2000
(4,041)	*(3,303)*	*(5,060)*	*(17,879)*	*(40,408)*	*(21,725)*	*(5,032)*	*(5,671)*	*(4,791)*	*(44,389)*	*(166,554)*	*(1,670,940)*	
8,166	7,318	9,395	34,425	81,509	47,516	9,799	12,363	9,617	86,219	313,381	3,242,874	. . Feb.
(4,218)	*(3,779)*	*(4,852)*	*(17,779)*	*(42,096)*	*(24,540)*	*(5,061)*	*(6,385)*	*(4,967)*	*(44,529)*	*(161,848)*	*(1,674,805)*	
8,046	7,979	11,064	34,673	83,975	50,204	9,803	13,187	9,802	85,411	308,758	3,295,915	. . Mar.
(4,155)	*(4,121)*	*(5,714)*	*(17,907)*	*(43,370)*	*(25,928)*	*(5,063)*	*(6,811)*	*(5,063)*	*(44,111)*	*(159,460)*	*(1,702,198)*	
8,737	7,463	10,827	34,348	83,976	51,969	9,865	13,940	10,004	85,340	319,279	3,320,011	. . . Apr.
(4,512)	*(3,854)*	*(5,591)*	*(17,739)*	*(43,370)*	*(26,840)*	*(5,095)*	*(7,199)*	*(5,167)*	*(44,075)*	*(164,894)*	*(1,714,643)*	
8,401	9,150	11,040	33,877	84,663	52,733	9,940	14,630	9,919	85,357	303,560	3,350,910	. . May
(4,339)	*(4,726)*	*(5,702)*	*(17,496)*	*(43,725)*	*(27,234)*	*(5,133)*	*(7,556)*	*(5,123)*	*(44,083)*	*(156,776)*	*(1,730,601)*	
8,354	9,823	10,655	31,974	81,416	55,487	10,013	13,743	9,919	85,685	293,693	3,370,543	. . June
(4,315)	*(5,073)*	*(5,503)*	*(16,513)*	*(42,048)*	*(28,657)*	*(5,171)*	*(7,097)*	*(5,123)*	*(44,253)*	*(151,680)*	*(1,740,740)*	
8,413	9,424	10,514	31,921	80,885	56,942	10,046	14,312	10,373	86,265	297,769	3,323,292	. . . July
(4,345)	*(4,867)*	*(5,430)*	*(16,486)*	*(41,774)*	*(29,408)*	*(5,189)*	*(7,391)*	*(5,357)*	*(44,552)*	*(153,785)*	*(1,716,337)*	
7,670	9,696	10,552	32,337	81,097	51,389	10,451	14,750	10,836	85,967	278,872	3,285,007	. . Aug.
(3,961)	*(5,007)*	*(5,450)*	*(16,701)*	*(41,883)*	*(26,540)*	*(5,397)*	*(7,618)*	*(5,596)*	*(44,398)*	*(144,025)*	*(1,696,565)*	
7,234	10,127	10,376	33,939	80,991	49,818	10,729	15,089	13,640	86,191	300,455	3,326,710	. Sept.
(3,736)	*(5,230)*	*(5,359)*	*(17,528)*	*(41,828)*	*(25,729)*	*(5,541)*	*(7,793)*	*(7,045)*	*(44,514)*	*(155,172)*	*(1,718,102)*	
7,497	10,173	10,535	33,152	80,889	50,705	10,676	15,375	14,344	88,017	331,027	3,408,964	. . Oct.
(3,872)	*(5,254)*	*(5,441)*	*(17,122)*	*(41,776)*	*(26,187)*	*(5,514)*	*(7,940)*	*(7,408)*	*(45,457)*	*(170,961)*	*(1,760,583)*	
7,727	10,559	10,971	32,409	82,003	52,787	10,665	15,615	14,609	88,130	310,794	3,431,284	. . Nov.
(3,991)	*(5,453)*	*(5,666)*	*(16,738)*	*(42,351)*	*(27,262)*	*(5,508)*	*(8,065)*	*(7,545)*	*(45,515)*	*(160,512)*	*(1,772,110)*	
7,174	8,869	10,369	29,804	79,006	51,575	11,514	15,952	14,169	89,616	306,032	3,448,887	. . Dec.
(3,705)	*(4,581)*	*(5,355)*	*(15,392)*	*(40,803)*	*(26,636)*	*(5,947)*	*(8,239)*	*(7,318)*	*(46,283)*	*(158,053)*	*(1,781,201)*	
7,045	11,008	10,141	27,168	78,580	51,882	11,130	15,922	13,947	89,319	299,022	3,383,149	. . Jan. – 2001
(3,639)	*(5,685)*	*(5,237)*	*(14,031)*	*(40,583)*	*(26,795)*	*(5,748)*	*(8,223)*	*(7,203)*	*(46,130)*	*(154,432)*	*(1,747,251)*	
6,951	11,900	10,633	27,347	80,363	52,388	11,030	16,326	13,986	90,504	296,503	3,371,004	. . Feb.
(3,590)	*(6,146)*	*(5,492)*	*(14,123)*	*(41,504)*	*(27,056)*	*(5,697)*	*(8,432)*	*(7,223)*	*(46,741)*	*(153,131)*	*(1,740,978)*	
7,694	13,953	10,937	28,562	84,408	55,239	11,269	17,181	15,453	90,020	325,114	3,502,208	. . Mar.
(3,973)	*(7,206)*	*(5,648)*	*(14,751)*	*(43,593)*	*(28,529)*	*(5,820)*	*(8,873)*	*(7,981)*	*(46,492)*	*(167,908)*	*(1,808,739)*	

and euro-area currencies prior to January 1999. Rounding may cause discrepancies in totals.

BANKS AND MONEY MARKET FUNDS: SUMMARY BALANCE SHEET DATA (1)
(stocks in billions of lire and, in brackets, in millions of euros) **Liabilities**

	Deposits					
	Residents of Italy			Residents of other euro-area countries		
	MFIs	Central government	Other general government – other sectors	MFIs	Central government	Other general government – other sectors
1996 – Dec. . .	266,464	8,907	1,196,282	128,529	217	10,633
1997 – ” . .	266,036	10,711	1,131,288	151,507	167	15,095
1998 – ” . .	268,036	13,902	1,104,517	166,271	187	19,516
1999 – ” . .	351,133 *(181,345)*	15,339 *(7,922)*	1,114,360 *(575,519)*	191,020 *(98,653)*	74 *(38)*	11,876 *(6,133)*
2000 – Jan. . .	331,160 *(171,030)*	14,551 *(7,515)*	1,117,401 *(577,090)*	200,512 *(103,556)*	42 *(21)*	11,297 *(5,834)*
Feb. . .	345,116 *(178,237)*	13,895 *(7,176)*	1,110,491 *(573,521)*	201,030 *(103,823)*	543 *(280)*	13,121 *(6,776)*
Mar. . .	363,496 *(187,730)*	14,011 *(7,236)*	1,113,913 *(575,288)*	196,831 *(101,655)*	938 *(484)*	12,700 *(6,559)*
Apr. . .	363,835 *(187,905)*	14,136 *(7,300)*	1,136,923 *(587,172)*	179,265 *(92,583)*	1,872 *(967)*	8,880 *(4,586)*
May . .	390,542 *(201,698)*	14,480 *(7,478)*	1,139,133 *(588,313)*	184,454 *(95,263)*	108 *(56)*	11,019 *(5,691)*
June .	413,288 *(213,445)*	13,866 *(7,161)*	1,131,137 *(584,184)*	186,259 *(96,195)*	469 *(242)*	10,900 *(5,630)*
July . .	378,615 *(195,539)*	13,052 *(6,741)*	1,132,887 *(585,087)*	189,588 *(97,914)*	674 *(348)*	11,985 *(6,190)*
Aug. . .	360,426 *(186,145)*	13,586 *(7,017)*	1,113,393 *(575,020)*	200,031 *(103,307)*	529 *(273)*	13,108 *(6,770)*
Sept. .	353,771 *(182,708)*	13,470 *(6,957)*	1,113,450 *(575,049)*	207,813 *(107,326)*	1,287 *(665)*	14,266 *(7,368)*
Oct. . .	373,144 *(192,713)*	12,912 *(6,668)*	1,123,690 *(580,337)*	216,284 *(111,701)*	774 *(400)*	14,019 *(7,240)*
Nov. . .	394,186 *(203,580)*	13,228 *(6,832)*	1,096,757 *(566,428)*	210,562 *(108,746)*	1,373 *(709)*	12,661 *(6,539)*
Dec. . .	399,466 *(206,307)*	13,484 *(6,964)*	1,158,219 *(598,170)*	208,352 *(107,605)*	65 *(34)*	13,615 *(7,032)*
2001 – Jan. . .	345,616 *(178,496)*	14,382 *(7,427)*	1,120,315 *(578,594)*	219,587 *(113,407)*	2,815 *(1,454)*	13,621 *(7,035)*
Feb. . .	335,350 *(173,194)*	13,523 *(6,984)*	1,115,125 *(575,914)*	228,189 *(117,850)*	79 *(41)*	13,143 *(6,788)*
Mar. . .	370,385 *(191,288)*	13,781 *(7,117)*	1,130,307 *(583,755)*	230,997 *(119,300)*	70 *(36)*	17,472 *(9,024)*

(1) ESCB harmonized statistics. The data up to June 1998 are estimated and those for the most recent periods may be revised. The amounts shown include transactions denominated in euros

Table a23 *cont.*

Liabilities

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities	
240,263	4,724	286,343	190,860	617,275	2,950,497	. . . Dec. – 1996
255,776	7,143	396,409	195,959	680,760	3,110,851	. . . . ” – 1997
245,892	9,240	486,065	210,173	449,425	2,973,224	. . . . ” – 1998
262,825	25,297	525,800	228,993	452,385	3,179,102	. . . . ” – 1999
(135,738)	*(13,065)*	*(271,553)*	*(118,265)*	*(233,637)*	*(1,641,869)*	
264,771	25,479	530,163	235,590	504,422	3,235,390	. . . Jan. – 2000
(136,743)	*(13,159)*	*(273,806)*	*(121,672)*	*(260,512)*	*(1,670,940)*	
258,300	24,844	537,742	239,584	498,209	3,242,874	. . . Feb.
(133,401)	*(12,831)*	*(277,721)*	*(123,735)*	*(257,304)*	*(1,674,805)*	
280,346	23,915	550,639	241,690	497,436	3,295,915	. . . Mar.
(144,786)	*(12,351)*	*(284,381)*	*(124,823)*	*(256,904)*	*(1,702,198)*	
292,756	24,747	554,415	244,118	499,065	3,320,011	. . . . Apr.
(151,196)	*(12,781)*	*(286,332)*	*(126,076)*	*(257,745)*	*(1,714,642)*	
300,393	20,087	557,773	245,100	487,822	3,350,910	. . . May
(155,140)	*(10,374)*	*(288,066)*	*(126,584)*	*(251,939)*	*(1,730,601)*	
292,237	19,165	559,879	244,997	498,345	3,370,543	. . . June
(150,928)	*(9,898)*	*(289,154)*	*(126,530)*	*(257,374)*	*(1,740,740)*	
280,160	18,395	557,924	246,409	493,603	3,323,292	. . . . July
(144,690)	*(9,500)*	*(288,144)*	*(127,260)*	*(254,925)*	*(1,716,337)*	
297,309	18,164	561,435	246,620	460,405	3,285,008	. . . Aug.
(153,547)	*(9,381)*	*(289,957)*	*(127,369)*	*(237,779)*	*(1,696,565)*	
300,117	17,938	569,248	247,170	488,181	3,326,711	. . . Sept.
(154,997)	*(9,264)*	*(293,992)*	*(127,653)*	*(252,124)*	*(1,718,103)*	
316,773	17,742	570,472	246,958	516,198	3,408,964	. . . . Oct.
(163,599)	*(9,163)*	*(294,624)*	*(127,543)*	*(266,594)*	*(1,760,583)*	
310,486	18,096	574,432	247,380	552,121	3,431,284	. . . Nov.
(160,353)	*(9,346)*	*(296,670)*	*(127,761)*	*(285,147)*	*(1,772,110)*	
305,369	19,508	585,684	239,962	505,161	3,448,886	. . . Dec.
(157,710)	*(10,075)*	*(302,481)*	*(123,930)*	*(260,894)*	*(1,781,201)*	
310,899	20,261	586,190	243,662	505,802	3,383,149	. . . Jan. – 2001
(160,566)	*(10,464)*	*(302,742)*	*(125,841)*	*(261,225)*	*(1,747,251)*	
314,527	22,151	593,956	245,500	489,462	3,371,004	. . . Feb.
(162,439)	*(11,440)*	*(306,753)*	*(126,790)*	*(252,786)*	*(1,740,978)*	
341,509	24,486	605,302	248,676	519,222	3,502,208	. . . Mar.
(176,375)	*(12,646)*	*(312,612)*	*(128,430)*	*(268,156)*	*(1,808,739)*	

and euro-area currencies prior to January 1999. Rounding may cause discrepancies in totals.

Table a24

PROFIT AND LOSS ACCOUNTS OF BANKS BY CATEGORY OF BANK (1)
(billions of lire and, in brackets, millions of euros)

	Interest receivable					Interest payable					Balance of derivative hedging contracts	Net interest income (a)
	Deposits with BI-UIC & Treasury	Loans	Securities	Interbank accounts	Claims on non-residents	Deposits	BI-UIC financing	Interbank accounts	Bonds and subordi-nated liabilities	Liabilities to non-residents		
												Limited company
1996	3,778	110,425	28,884	10,594	13,176	59,439	956	12,007	23,739	16,215	–1,711	52,789
1997	3,765	96,966	23,030	9,424	14,149	44,034	1,201	10,192	24,836	16,432	–262	50,377
1998	2,943	87,353	17,905	9,128	12,554	29,044	788	9,322	24,895	15,969	726	50,590
1999 . . .	833	73,401	12,743	6,416	10,134	15,618	570	6,942	21,125	13,267	2,166	48,172
	(430)	*(37,909)*	*(6,581)*	*(3,314)*	*(5,234)*	*(8,066)*	*(295)*	*(3,585)*	*(10,910)*	*(6,852)*	*(1,119)*	*(24,879)*
2000 (3)	1,149	83,562	12,457	11,132	13,147	18,985	1,035	11,259	23,240	17,904	1,042	50,065
	(593)	*(43,156)*	*(6,433)*	*(5,749)*	*(6,790)*	*(9,805)*	*(535)*	*(5,815)*	*(12,003)*	*(9,247)*	*(538)*	*(25,856)*
												Cooperative banks
1996	656	17,034	5,784	2,235	761	11,881	40	1,462	980	914	–345	10,849
1997	673	15,255	4,385	1,958	902	8,658	51	1,312	1,935	966	–226	10,026
1998	480	13,492	3,079	1,756	814	5,381	29	1,123	2,430	1,210	–96	9,351
1999	107	10,688	1,971	960	882	2,497	22	799	1,961	957	4	8,377
	(55)	*(5,520)*	*(1,018)*	*(496)*	*(455)*	*(1,290)*	*(11)*	*(413)*	*(1,013)*	*(494)*	*(2)*	*(4,326)*
2000 (3) .	185	14,701	2,416	1,165	1,078	3,575	88	1,204	2,724	1,542	–122	10,289
	(95)	*(7,592)*	*(1,248)*	*(602)*	*(557)*	*(1,846)*	*(46)*	*(622)*	*(1,407)*	*(797)*	*(–63)*	*(5,314)*
												Mutual banks
1996	132	5,772	3,698	1,147	10	5,753	2	61	83	3	–6	4,851
1997	112	5,592	3,263	960	25	4,347	2	71	711	4	–11	4,808
1998	112	5,364	2,570	668	50	2,776	2	103	1,066	6	1	4,814
1999	84	4,800	1,936	268	69	1,519	. .	84	904	3	11	4,657
	(43)	*(2,479)*	*(1,000)*	*(138)*	*(36)*	*(784)*	*(. .)*	*(43)*	*(467)*	*(2)*	*(6)*	*(2,405)*
2000 (3) .	93	5,774	1,805	298	87	1,731	. .	123	1,013	4	7	5,193
	(48)	*(2,982)*	*(932)*	*(154)*	*(45)*	*(894)*	*(. .)*	*(64)*	*(523)*	*(2)*	*(4)*	*(2,682)*
												Branches of
1996	133	2,426	2,372	1,006	2,900	416	156	2,221	23	4,739	–354	928
1997	171	2,340	2,515	1,101	2,428	293	355	2,443	4	4,261	–488	710
1998	47	2,163	2,996	1,902	2,056	420	182	2,684	. .	4,720	–500	658
1999	40	1,501	1,750	611	1,312	282	116	1,286	. .	2,543	–451	536
	(21)	*(775)*	*(904)*	*(316)*	*(677)*	*(146)*	*(60)*	*(664)*	*(. .)*	*(1,313)*	*(–233)*	*(277)*
2000 (3) .	70	2,237	1,889	1,078	1,611	454	346	1,521	. .	3,728	63	901
	(36)	*(1,156)*	*(976)*	*(557)*	*(832)*	*(234)*	*(179)*	*(786)*	*(. .)*	*(1,925)*	*(33)*	*(465)*
												Total
1996	4,700	135,657	40,738	14,982	16,847	77,490	1,154	15,751	24,826	21,871	–2,415	69,417
1997	4,722	120,154	33,193	13,443	17,504	57,333	1,610	14,018	27,486	21,662	–987	65,921
1998	3,582	108,372	26,550	13,453	15,475	37,622	1,001	13,232	28,391	21,905	131	65,413
1999 . . .	1,063	90,390	18,401	8,256	12,397	19,916	708	9,111	23,990	16,771	1,730	61,741
	(549)	*(46,683)*	*(9,503)*	*(4,264)*	*(6,402)*	*(10,286)*	*(366)*	*(4,705)*	*(12,390)*	*(8,661)*	*(893)*	*(31,887)*
2000 (3) .	1497	106,275	18,567	13,673	15,924	24,745	1,470	14,108	26,977	23,178	991	66,448
	(773)	*(54,886)*	*(9,589)*	*(7,062)*	*(8,224)*	*(12,780)*	*(759)*	*(7,286)*	*(13,933)*	*(11,970)*	*(512)*	*(34,317)*

(1) Rounding may cause discrepancies in totals. – (2) Includes central credit institutions. – (3) Provisional.

Table a24

Other net income (b)	Other net income: *of which: trading*	Other net income: *of which: services*	Gross income (c)= (a)+(b)	Operating expenses (d)	Operating expenses: *of which: banking staff costs*	Operating income (e)=(c)–(d)	Value adjustments and re-adjustments and allocations to provisions (f)	Value adjustments: *of which: for loan losses*	Taxes (g)	Net profit (e)–(f)–(g)	Total resources	Capital and reserves	Number of banking staff (average)
banks													
21,936	7,780	6,423	74,725	50,380	32,695	24,345	15,423	10,691	6,190	2,732	2,084,165	144,290	273,656
24,486	6,101	9,494	74,863	51,779	32,488	23,084	17,406	14,330	6,229	–552	2,225,846	151,201	268,279
34,094	7,310	15,328	84,685	51,198	31,415	33,486	12,017	11,699	10,518	10,951	2,369,011	160,446	267,384
41,543	4,155	18,706	89,715	53,360	31,622	36,355	10,348	11,847	10,326	15,681	2,513,546	172,879	266,820
(21,455)	*(2,146)*	*(9,661)*	*(46,334)*	*(27,558)*	*(16,331)*	*(18,776)*	*(5,344)*	*(6,118)*	*(5,333)*	*(8,099)*	*(1,298,138)*	*(89,285)*	
49,709	3,574	22,258	99,774	54,603	31,082	45,171	8,518	9,480	13,807	22,846	2,715,004	190,182	260,646
(25,673)	*(1,846)*	*(11,495)*	*(51,529)*	*(28,200)*	*(16,053)*	*(23,329)*	*(4,399)*	*(4,896)*	*(7,131)*	*(11,799)*	*(1,402,183)*	*(98,221)*	
(banche popolari)													
4,097	1,648	1,329	14,946	9,393	5,801	5,553	2,071	1,636	1,855	1,628	328,606	24,811	52,221
4,781	1,665	1,850	14,807	9,620	5,845	5,186	2,019	1,547	1,533	1,634	356,518	26,247	51,948
6,376	1,602	2,957	15,727	9,225	5,470	6,502	2,550	1,557	1,951	2,001	369,930	27,812	50,242
5,961	755	3,236	14,338	8,884	5,184	5,454	1,984	1,431	1,523	1,947	363,499	29,185	47,385
(3,079)	*(390)*	*(1,671)*	*(7,405)*	*(4,588)*	*(2,677)*	*(2,817)*	*(1,025)*	*(739)*	*(787)*	*(1,006)*	*(187,732)*	*(15,073)*	
7,752	822	4,132	18,041	10,378	5,907	7,662	3,057	2,027	1,953	2,652	434,779	33,650	52,864
(4,004)	*(425)*	*(2,134)*	*(9,317)*	*(5,360)*	*(3,051)*	*(3,957)*	*(1,579)*	*(1,047)*	*(1,009)*	*(1,369)*	*(224,545)*	*(17,379)*	
(banche di credito cooperativo)													
1,178	586	193	6,029	3,884	2,111	2,144	285	417	130	1,729	113,714	12,470	19,976
1,305	597	257	6,113	4,122	2,246	1,991	392	437	90	1,509	126,937	14,013	20,604
1,796	811	468	6,610	4,235	2,241	2,375	539	483	375	1,462	135,989	15,473	20,996
1,603	384	634	6,260	4,323	2,276	1,937	663	388	286	988	144,552	16,896	21,721
(828)	*(198)*	*(327)*	*(3,233)*	*(2,233)*	*(1,175)*	*(1,000)*	*(342)*	*(200)*	*(148)*	*(510)*	*(74,655)*	*(8,726)*	
1,634	146	829	6,827	4,465	2,358	2,362	649	451	323	1,391	152,487	18,020	22,329
(844)	*(75)*	*(428)*	*(3,526)*	*(2,306)*	*(1,218)*	*(1,220)*	*(335)*	*(233)*	*(167)*	*(718)*	*(78,753)*	*(9,306)*	
foreign banks													
303	194	–46	1,232	843	469	389	–86	77	269	205	114,953	1,557	2,682
387	220	80	1,098	920	498	178	–179	111	253	104	137,447	1,320	2,691
347	54	102	1,005	1,026	540	–21	–521	99	201	299	169,533	1,453	2,806
1,463	451	603	1,999	1,367	618	632	–451	108	430	652	140,455	1,553	2,826
(756)	*(233)*	*(311)*	*(1,032)*	*(706)*	*(319)*	*(326)*	*(–233)*	*(56)*	*(222)*	*(337)*	*(72,539)*	*(802)*	
1,736	364	912	2,636	1,621	681	1,016	–6	191	457	565	156,068	1,678	3,016
(896)	*(188)*	*(471)*	*(1,362)*	*(837)*	*(352)*	*(524)*	*(–3)*	*(99)*	*(236)*	*(292)*	*(80,602)*	*(867)*	
banks													
27,515	10,207	7,899	96,932	64,500	41,076	32,432	17,693	12,821	8,444	6,294	2,641,439	183,128	348,535
30,959	8,584	11,682	96,880	66,442	41,076	30,438	19,637	16,425	8,105	2,696	2,846,749	192,781	343,522
42,614	9,778	18,853	108,027	65,685	39,665	42,342	14,586	13,839	13,045	14,712	3,044,463	205,184	341,427
50,571	5,744	23,179	112,312	67,933	39,699	44,379	12,544	13,774	12,566	19,269	3,162,052	220,513	338,751
(26,118)	*(2,967)*	*(11,971)*	*(58,005)*	*(35,085)*	*(20,503)*	*(22,920)*	*(6,478)*	*(7,114)*	*(6,490)*	*(9,952)*	*(1,633,064)*	*(113,885)*	
60,832	4,905	28,131	127,279	71,067	40,029	56,212	12,218	12,148	16,540	27,454	3,458,339	243,531	338,855
(31,417)	*(2,533)*	*(14,528)*	*(65,734)*	*(36,703)*	*(20,673)*	*(29,031)*	*(6,310)*	*(6,274)*	*(8,542)*	*(14,178)*	*(1,786,083)*	*(125,773)*	

Table a25

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
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)*	*(–)*
2000	318,807	64,511	38,474	206,672	–	2,260	630,723	–
	(164,650)	*(33,317)*	*(19,870)*	*(106,737)*	*(–)*	*(1,167)*	*(325,741)*	*(–)*
								Rede
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)*
2000	352,788	103,399	53,912	112,141	3,377	–	625,617	2,224
	(182,200)	*(53,401)*	*(27,843)*	*(57,916)*	*(1,744)*	*(–)*	*(323,104)*	*(1,149)*
								Issue
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)*	*(–)*
2000	–	4,606	–218	2,314	–	–	6,701	–
	(–)	*(2,379)*	*(–113)*	*(1,195)*	*(–)*	*(–)*	*(3,461)*	*(–)*
								Net
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)*
2000	–33,982	–43,492	–15,219	92,217	–3,377	2,259	–1,595	–2,224
	(–17,550)	*(–22,462)*	*(–7,860)*	*(47,626)*	*(–1,744)*	*(1,167)*	*(–824)*	*(–1,149)*
								Cou
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)*
2000	9,399	4,606	19,701	72,668	457	–	106,831	373
	(4,854)	*(2,379)*	*(10,175)*	*(37,530)*	*(236)*	*(–)*	*(55,174)*	*(193)*

(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 2000 is provisional.

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										
–	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)*	
–	636,435	164,707	1,504	968	35,161	–	37,633	838,775	19,967	 2000
(–)	*(328,691)*	*(85,064)*	*(777)*	*(500)*	*(18,159)*	*(–)*	*(19,436)*	(433,191)	*(10,312)*	
mption										
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)*	*(–)*	
–	628,064	131,759	3,750	324	5,249	500	10,324	770,147	–	 2000
(–)	*(324,368)*	*(68,048)*	*(1,937)*	*(167)*	*(2,711)*	*(258)*	*(5,332)*	*(397,748)*	*(–)*	
discounts										
–	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	1,592	6	–	6	–	12	7,221	–	 1999
(–)	*(2,901)*	*(822)*	*(3)*	*(–)*	*(3)*	*(–)*	*(6)*	*(3,729)*	*(–)*	
–	6,701	2,257	4	–	6	–	10	8,968	–	 2000
(–)	*(3,460)*	*(1,166)*	*(2)*	*(–)*	*(3)*	*(–)*	*(5)*	*(4,631)*	*(–)*	
issues										
–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	–39	10,877	–569	13,368	51,483	41,372	 1999
(–)	*(9,445)*	*(10,240)*	*(1,630)*	*(–20)*	*(5,611)*	*(–294)*	*(6,904)*	*(26,589)*	*(21,367)*	
–	1,666	32,285	–2,250	641	28,662	–500	26,054	60,005	19,967	 2000
(–)	*(860)*	*(16,674)*	*(–1,162)*	*(331)*	*(14,803)*	*(–258)*	*(13,456)*	*(30,990)*	*(10,312)*	
pons										
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	21,464	664	46	, , , ,	261	971	132,728	19,254	 1999
(–)	*(56,962)*	*(11,085)*	*(343)*	*(24)*	*(, , , ,)*	*(135)*	*(502)*	*(68,548)*	*(9,944)*	
–	107,204	22,894	373	50	, , , ,	234	657	130,755	31,005	 2000
(–)	*(55,366)*	*(11,824)*	*(193)*	*(26)*	*(, , , ,)*	*(121)*	*(340)*	*(67,529)*	*(16,013)*	

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

Table a26

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)
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
2000	4.58	5.94	–	5.59	4.70	5.80	6.61	7.83	6.27
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	6.02	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
May	4.43	6.07	–	5.67	4.74	5.87	6.57	8.00	6.33
June	4.76	6.09	–	5.58	4.86	5.83	6.59	7.99	6.31
July	4.26	6.33	–	5.65	4.99	5.86	6.75	8.03	6.37
Aug.	5.06	5.72	–	5.63	5.12	5.91	6.78	8.09	6.42
Sept.	5.21	6.43	–	5.71	5.12	6.00	6.85	8.08	6.49
Oct.	5.17	5.92	–	5.68	5.12	5.98	6.88	8.02	6.43
Nov.	5.29	6.02	–	5.65	5.09	5.93	6.80	7.98	6.37
Dec.	5.18	6.15	–	5.41	4.77	5.67	6.69	6.63	6.04
2001 – Jan.	4.95	5.82	–	5.27	4.49	5.37	6.56	4.87	5.62
Feb.	4.82	6.38	–	5.27	4.51	5.30	6.48	4.83	5.54
Mar.	4.88	6.07	–	5.21	4.39	5.28	6.38	4.69	5.49
Apr.	4.56	5.21	–	5.29	4.38	5.21	6.36	4.74	5.44

(1) Until September 1995 includes the bonds issued by autonomous government agencies and public enterprises.

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)	Short-term average	Lowest short-term (6)			
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
2000	1.65	1.84	3.87	3.81	2.95	3.48	6.26	3.92	5.44	6.26	7.29
1999 – Jan.	1.44	2.00	3.25	4.88	2.67	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	4.55	2.50	2.67	5.85	3.17	4.49	5.98	5.88
Apr.	1.24	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	4.18	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	2.50	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.	1.29	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	5.63	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
Apr.	1.42	1.64	3.35	3.72	2.61	3.21	5.84	3.44	4.96	5.93	6.75
May	1.48	1.69	3.51	3.73	2.73	3.31	6.03	3.57	5.35	6.10	7.00
June	1.58	1.78	3.83	3.74	2.85	3.62	6.23	3.75	5.57	6.20	7.50
July	1.71	1.89	4.13	3.77	3.05	3.64	6.46	4.08	5.65	6.31	7.50
Aug.	1.76	1.94	4.20	3.81	3.12	3.68	6.43	4.23	5.71	6.65	7.50
Set.	1.85	2.00	4.34	3.86	3.22	3.67	6.63	4.40	5.57	6.62	7.75
Oct.	1.94	2.08	4.51	3.89	3.39	3.75	6.83	4.54	6.01	6.68	8.00
Nov.	2.02	2.15	4.65	3.92	3.51	3.84	6.90	4.64	6.02	6.61	8.00
Dec.	2.08	2.20	4.71	3.94	3.52	3.82	6.88	4.71	5.79	6.51	8.00
2001 – Jan.	2.08	2.19	4.67	3.89	3.50	3.77	6.84	4.72	5.95	6.92	8.00
Feb.	2.05	2.16	4.60	3.86	3.50	3.69	6.80	4.75	6.12	6.99	8.00
Mar.	2.08	2.18	4.63	3.82	3.52	3.70	6.76	4.72	5.74	6.92	8.00

(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. – (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.

ITALY'S FINANCIAL ASSETS AND LIABILITIES IN 2000 (1)

(stocks in billions of lire)

Institutional sectors / Financial instruments	Non-financial corporations		Financial corporations							
			Monetary financial institutions		Other financial intermediaries		Financial auxiliaries		Insurance corporations and pension funds	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Monetary gold and SDRs	**–**	**–**	**45,218**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency and transferable deposits, with	**187,132**	**–**	**170,332**	**1,347,598**	**67,763**	**–**	**8,286**	**–**	**16,121**	**–**
MFIs	187,132	–	146,153	1,347,598	67,763	–	8,286	–	11,954	–
central government	..	–	1,140	–	–	–	–	–	–	–
rest of the world	..	–	23,039	–	..	–	..	–	4,167	–
Other deposits, with	**21,572**	**–**	**384,644**	**842,478**	**30,219**	**–**	**1,627**	**–**	**2,926**	**–**
MFIs	19,761	–	279,927	842,478	30,219	–	1,627	–	2,914	–
central government	1,811	–	–	–	–	–	–	–	–	–
rest of the world	..	–	104,717	–	..	–	..	–	11	–
Short-term securities, issued by	**3,976**	**4,843**	**25,604**	**8**	**16,168**	**185**	**448**	**–**	**2,514**	**–**
general government	455	–	15,142	–	7,244	–	448	–	1,553	–
other residents	6	4,843	4,274	8	99	185	–	–	–	–
rest of the world	3,515	–	6,188	–	8,825	–	–	–	961	–
Bonds, issued by	**116,685**	**29,956**	**498,728**	**526,063**	**532,193**	**41,636**	**9,594**	**–**	**256,100**	**6,902**
MFIs	19,742	–	67,310	526,063	18,588	–	..	–	34,939	–
central government: CCTs	17,196	–	120,971	–	53,428	–	6,537	–	38,659	–
central government: other	15,546	–	240,280	–	204,572	–	2,713	–	134,829	–
local government	..	–	4,397	–	36	–	2	–	140	–
other residents	6,790	29,956	1,200	–	7,678	41,636	342	–	3,694	6,902
rest of the world	57,410	–	64,570	–	247,892	–	–	–	43,839	–
Derivatives	**6,076**	**5,715**	**89,508**	**61,238**	**3,033**	**2,987**	**–**	**–**	**2,064**	**2,168**
Short-term loans, of	**95,055**	**713,290**	**1,049,459**	**129,704**	**96,193**	**239,205**	**–**	**3,742**	**–**	**2,582**
non-financial corporations	95,055	–	–	–	–	–	–	–	–	–
MFIs	–	522,101	1,049,459	43,803	–	201,373	–	3,742	–	2,582
other financial corporations	–	49,873	–	1,102	96,193	–	–	–	–	..
general government	–	–	–	–	–	–	–	–	–	–
rest of the world	–	141,316	–	84,798	–	37,832	–	–	–	–
Medium and long-term loans, of	**–**	**494,588**	**962,733**	**98,747**	**106,689**	**52,521**	**..**	**641**	**1,936**	**6,511**
non-financial corporations	–	–	–	–	–	–	–	–	–	–
MFIs	–	393,028	962,733	18,302	–	47,661	–	592	–	3,419
other financial corporations	–	67,785	–	1,030	106,689	–	..	–	1,936	122
general government	–	22,835	–	4,156	–	–	–	49	–	1,843
rest of the world	–	10,941	–	75,259	–	4,860	–	–	–	1,128
Shares and other equity, issued by	**1,134,147**	**2,018,015**	**270,600**	**726,205**	**548,584**	**62,442**	**508**	**2,274**	**183,423**	**248,540**
residents	870,834	2,018,015	236,812	726,205	189,640	62,442	508	2,274	117,159	248,540
rest of the world	263,312	–	33,788	–	358,943	–	–	–	66,264	–
Mutual fund shares, issued by	**33,597**	**–**	**8,808**	**19,508**	**21,853**	**851,680**	**1,018**	**–**	**31,101**	**–**
residents	11,310	–	5,853	19,508	–	851,680	1,018	–	29,396	–
rest of the world	22,287	–	2,955	–	21,853	–	–	–	1,705	–
Insurance technical reserves	**31,390**	**144,553**	**1,822**	**37,922**	**–**	**–**	**–**	**–**	**–**	**424,181**
net equity of households	–	144,553	–	37,922	–	–	–	–	–	326,468
prepayments and other claims	31,390	–	1,822	–	–	–	–	–	–	97,714
Other accounts receivable/payable	**578,619**	**511,334**	**18,668**	**2,438**	**9,213**	**..**	**–**	**–**	**..**	**1,166**
Trade credits	519,845	485,677	–	–	–	–	–	–	–	–
Other	58,774	25,658	18,668	2,438	9,213	..	–	–	..	1,166
Total	**2,208,249**	**3,922,295**	**3,526,123**	**3,791,911**	**1,431,908**	**1,250,655**	**21,481**	**6,657**	**496,186**	**692,050**

(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
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45,218**	**45,218**	**45,218**	**Monetary gold and SDRs**
49,319	**28,759**	**42,583**	**–**	**9,893**	**–**	**756,332**	**–**	**109,606**	**41,010**	**1,417,367**	**1,417,367**	**Currency and transferable deposits**, with
49,243	–	16,912	–	8,586	–	741,963	–	109,606	–	1,347,598	1,347,598	MFIs
–	28,759	25,000	–	..	–	2,619	–	–	–	28,759	28,759	central government
76	–	671	–	1,307	–	11,751	–	–	41,010	41,010	41,010	rest of the world
1,908	**308,466**	**3,175**	**–**	**679**	**–**	**509,734**	**–**	**299,492**	**105,031**	**1,255,976**	**1,255,976**	**Other deposits**, with
1,900	–	3,172	–	677	–	202,789	–	299,492	–	842,478	842,478	MFIs
–	308,466	–	–	–	–	306,655	–	–	–	308,466	308,466	central government
7	–	2	–	2	–	290	–	–	105,031	105,031	105,031	rest of the world
152	**194,340**	**53**	**–**	**120**	**–**	**50,415**	**–**	**121,195**	**21,268**	**220,645**	**220,645**	**Short-term securities**, issued by
152	194,340	53	–	120	–	47,979	–	121,195	–	194,340	194,340	general government
–	–	–	–	–	–	657	–	–	–	5,036	5,036	other residents
–	–	–	–	–	–	1,779	–	–	21,268	21,268	21,268	rest of the world
16,518	**2,048,392**	**7,313**	**4,582**	**15,620**	**–**	**912,173**	**–**	**867,414**	**574,806**	**3,232,338**	**3,232,338**	**Bonds**, issued by
2,930	–	959	–	2,086	–	373,751	–	5,759	–	526,063	526,063	MFIs
392	473,277	534	–	4,523	–	112,815	–	118,223	–	473,277	473,277	central government: CCTs
13,191	1,575,115	656	–	6,159	–	253,272	–	703,897	–	1,575,115	1,575,115	central government: other
..	–	1	4,582	..	–	5	–	..	–	4,582	4,582	local government
6	–	324	–	116	–	18,810	–	39,536	–	78,494	78,494	other residents
–	–	4,839	–	2,737	–	153,520	–	–	574,806	574,806	574,806	rest of the world
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**38,511**	**67,084**	**139,192**	**139,192**	**Derivatives**
11,144	**1,525**	**–**	**6,953**	**–**	**1,884**	**–**	**102,325**	**263,946**	**314,587**	**1,515,797**	**1,515,797**	**Short-term loans**, of
–	–	–	–	–	–	–	–	–	95,055	95,055	95,055	non-financial corporations
–	1,525	–	6,928	–	90	–	101,002	–	166,312	1,049,459	1,049,459	MFIs
–	–	–	25	–	–	–	1,323	–	43,870	96,193	96,193	other financial corporations
11,144	–	–	–	–	1,794	–	–	–	9,350	11,144	11,144	general government
–	–	–	–	–	–	–	–	263,946	–	263,946	263,946	rest of the world
215,781	**81,167**	**–**	**198,380**	**–**	**166**	**–**	**407,207**	**102,897**	**50,107**	**1,390,036**	**1,390,036**	**Medium and long-term loans**, of
–	–	–	–	–	–	–	–	–	–	–	–	non-financial corporations
–	57,668	–	52,336	–	166	–	368,019	–	21,541	962,733	962,733	MFIs
–	..	–	376	–	–	–	39,158	–	155	108,626	108,626	other financial corporations
215,781	12,790	–	145,667	–	–	–	30	–	28,411	215,781	215,781	general government
–	10,709	–	–	–	–	–	–	102,897	–	102,897	102,897	rest of the world
191,591	**–**	**16,362**	**195**	**1,371**	**–**	**1,241,564**	**–**	**423,543**	**954,022**	**4,011,693**	**4,011,693**	**Shares and other equity**, issued by
177,475	–	12,977	195	616	–	1,028,105	–	423,543	–	3,057,671	3,057,671	residents
14,115	–	3,385	–	756	–	213,459	–	–	954,022	954,022	954,022	rest of the world
124	**–**	**5,604**	**–**	**2,241**	**–**	**909,493**	**–**	**7,955**	**150,607**	**1,021,795**	**1,021,795**	**Mutual fund shares**, issued by
116	–	108	–	2,186	–	813,245	–	7,955	–	871,188	871,188	residents
8	–	5,496	–	56	–	96,248	–	–	150,607	150,607	150,607	rest of the world
218	**–**	**1,594**	**–**	**57**	**–**	**599,376**	**42,991**	**15,192**	**–**	**649,649**	**649,649**	**Insurance technical reserves**
–	–	–	–	–	–	551,935	42,991	–	–	551,935	551,935	net equity of households
218	–	1,594	–	57	–	47,441	–	15,192	–	97,714	97,714	prepayments and other claims
77,426	**81,562**	**41,823**	**39,279**	**36,954**	**4,312**	**58,445**	**124,556**	**59,120**	**115,620**	**880,266**	**880,266**	**Other accounts receivable/payable**
–	–	–	–	–	–	22,331	–	59,120	115,620	601,296	601,296	Trade credits
77,426	81,562	41,823	39,279	36,954	4,312	36,113	124,556	–	–	278,970	278,970	Other
564,181	**2,744,211**	**118,506**	**249,389**	**66,936**	**6,363**	**5,037,533**	**677,079**	**2,308,871**	**2,439,361**	**15,779,972**	**15,779,972**	**Total**

Table a29

ITALY’S FINANCIAL ASSETS AND LIABILITIES IN 2000 (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	**–**	**–**	**166**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency and transferable deposits, with	**20,848**	**–**	**38,206**	**94,249**	**–6,296**	**–**	**3,050**	**–**	**5,948**	**–**
MFIs	21,221	–	36,690	94,249	–6,296	–	3,050	–	4,016	–
central government	–373	–	468	–	–	–	–	–	–	–
rest of the world	..	–	1,048	–	..	–	..	–	1,933	–
Other deposits, with	**6,717**	**–**	**–29,118**	**20,431**	**2,997**	**–**	**1,071**	**–**	**51**	**–**
MFIs	6,658	–	7,509	20,431	2,997	–	1,071	–	49	–
central government	59	–	–	–	–	–	–	–	–	–
rest of the world	..	–	–36,627	–	..	–	..	–	2	–
Short-term securities, issued by	**–809**	**23**	**–20,906**	**–53**	**–4,288**	**52**	**125**	**–**	**–996**	**–**
general government	–884	–	–18,574	–	–6,204	–	125	–	–568	–
other residents	–3	23	282	–53	–108	52	–	–	–	–
rest of the world	79	–	–2,613	–	2,024	–	–	–	–428	–
Bonds, issued by	**1,873**	**–1,809**	**–20,986**	**33,683**	**–55,262**	**21,485**	**2,460**	**–**	**17,456**	**4,764**
MFIs	101	–	5,506	33,683	–329	–	–1,608	–	10,046	–
central government: CCTs	981	–	–12,967	–	–23,686	–	3,369	–	5,461	–
central government: other	–2,623	–	–18,933	–	–26,842	–	–113	–	–3,257	–
local government	66	–	730	–	–89	–	36	–	205	–
other residents	4,753	–1,809	–2,197	–	2,424	21,485	775	–	388	4,764
rest of the world	–1,405	–	6,875	–	–6,739	–	–	–	4,613	–
Derivatives	**–**	**–2,243**	**–6,141**	**–**	**–**	**1,647**	**–**	**–**	**–**	**–899**
Short-term loans, of	**8,496**	**99,761**	**165,279**	**31,600**	**5,681**	**37,617**	**–**	**–4,672**	**–**	**1,130**
non-financial corporations	8,496	–	–	–	–	–	–	–	–	–
MFIs	–	69,799	165,279	20,966	–	36,862	–	–4,672	–	1,130
other financial corporations	–	15,124	–	–2,197	5,681	–	–	–	–	..
general government	–	–	–	–	–	–	–	–	–	–
rest of the world	–	14,838	–	12,831	–	754	–	–	–	–
Medium and long-term loans, of	**–**	**53,663**	**71,822**	**–4,316**	**15,734**	**9,851**	**..**	**189**	**–13**	**–1,030**
non-financial corporations	–	–	–	–	–	–	–	–	–	–
MFIs	–	42,398	71,822	–13,681	–	6,977	–	189	–	–1,030
other financial corporations	–	11,494	–	87	15,734	–	..	–	–13	–25
general government	–	1,458	–	32	–	–	–	–1	–	–31
rest of the world	–	–1,688	–	9,246	–	2,874	–	–	–	55
Shares and other equity, issued by	**35,201**	**17,235**	**27,927**	**2,598**	**82,532**	**..**	**64**	**..**	**14,724**	**..**
residents	25,450	17,235	18,516	2,598	–9,036	..	64	..	11,664	..
rest of the world	9,750	–	9,411	–	91,567	–	–	–	3,059	–
Mutual fund shares, issued by	**245**	**–**	**1,573**	**–305**	**1,470**	**12,294**	**14**	**–**	**1,205**	**–**
residents	158	–	69	–305	–	12,294	14	–	351	–
rest of the world	88	–	1,504	–	1,470	–	–	–	854	–
Insurance technical reserves	**2,022**	**9,186**	**117**	**354**	**–**	**–**	**–**	**–**	**–**	**60,704**
net equity of households	–	9,186	–	354	–	–	–	–	–	54,119
prepayments and other claims	2,022	–	117	–	–	–	–	–	–	6,585
Other accounts receivable/payable	**13,420**	**27,356**	**3,530**	**1,213**	**1,200**	**..**	**–**	**–**	**..**	**1,022**
Trade credits	27,560	22,909	–	–	–	–	–	–	–	–
Other	–14,140	4,446	3,530	1,213	1,200	..	–	–	..	1,022
Total	**88,015**	**203,172**	**231,470**	**179,453**	**43,770**	**82,947**	**6,785**	**–4,483**	**38,375**	**65,690**

(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
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**166**	**166**	**166**	**Monetary gold and SDRs**
–21,404	**106**	**1,598**	**–**	**2,084**	**–**	**15,984**	**–**	**35,306**	**969**	**95,324**	**95,324**	**Currency and transferable deposits**, with
–21,389	–	1,607	–	1,308	–	18,736	–	35,306	–	94,249	94,249	MFIs
–	106	..	–	..	–	11	–	–	–	106	106	central government
–15	–	–10	–	776	–	–2,763	–	–	969	969	969	rest of the world
746	**17,233**	**550**	**–**	**–137**	**–**	**15,785**	**–**	**2,675**	**–36,327**	**1,336**	**1,336**	**Other deposits**, with
746	–	550	–	–137	–	–1,687	–	2,675	–	20,431	20,431	MFIs
–	17,233	–	–	–	–	17,174	–	–	–	17,233	17,233	central government
..	–	..	–	..	–	297	–	–	–36,327	–36,327	–36,327	rest of the world
100	**–34,969**	**–355**	**–**	**–167**	**–**	**–8,361**	**–**	**–37**	**–746**	**–35,693**	**–35,693**	**Short-term securities**, issued by
100	–34,969	–355	–	–167	–	–8,405	–	–37	–	–34,969	–34,969	general government
–	–	–	–	–	–	–148	–	–	–	22	22	other residents
–	–	–	–	–	–	192	–	–	–746	–746	–746	rest of the world
–1,151	**63,820**	**–1,468**	**886**	**–787**	**–**	**56,294**	**–**	**130,379**	**5,977**	**128,807**	**128,807**	**Bonds**, issued by
–421	–	–780	–	–84	–	19,329	–	1,925	–	33,683	33,683	MFIs
46	–16,535	–1,558	–	–485	–	8,188	–	4,117	–	–16,535	–16,535	central government: CCTs
–778	80,355	–370	–	–334	–	21,516	–	112,090	–	80,355	80,355	central government: other
..	–	34	886	..	–	–97	–	..	–	886	886	local government
2	–	672	–	–215	–	5,590	–	12,247	–	24,440	24,440	other residents
–	–	534	–	331	–	1,767	–	–	5,977	5,977	5,977	rest of the world
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**4,645**	**–**	**–1,496**	**–1,496**	**Derivatives**
3,552	**268**	**–**	**1,970**	**–**	**–17**	**–**	**6,168**	**28,423**	**37,609**	**211,432**	**211,432**	**Short-term loans**, of
–	–	–	–	–	–	–	–	–	8,496	8,496	8,496	non-financial corporations
–	268	–	2,012	–	–17	–	5,734	–	33,196	165,279	165,279	MFIs
–	–	–	–42	–	–	–	433	–	–7,636	5,681	5,681	other financial corporations
3,552	–	–	–	–	..	–	–	–	3,552	3,552	3,552	general government
–	–	–	–	–	–	–	–	28,423	–	28,423	28,423	rest of the world
8,706	**–20,022**	**–**	**12,499**	**–**	**16**	**–**	**46,222**	**4,276**	**3,452**	**100,525**	**100,525**	**Medium and long-term loans**, of
–	–	–	–	–	–	–	–	–	–	–	–	non-financial corporations
–	–13,354	–	4,741	–	16	–	42,239	–	3,326	71,822	71,822	MFIs
–	..	–	36	–	–	–	4,072	–	55	15,721	15,721	other financial corporations
8,706	–456	–	7,721	–	–	–	–88	–	70	8,706	8,706	general government
–	–6,212	–	–	–	–	–	–	4,276	–	4,276	4,276	rest of the world
1,238	**–**	**3,388**	**22**	**1,144**	**–**	**–6,879**	**–**	**10,184**	**149,666**	**169,522**	**169,522**	**Shares and other equity**, issued by
629	–	2,518	22	1,046	–	–41,182	–	10,184	–	19,856	19,856	residents
609	–	870	–	97	–	34,302	–	–	149,666	149,666	149,666	rest of the world
..	**–**	**5,419**	**–**	**28**	**–**	**39,370**	**–**	**..**	**37,339**	**49,328**	**49,328**	**Mutual fund shares**, issued by
1	–	1	–	30	–	11,363	–	..	–	11,989	11,989	residents
–1	–	5,418	–	–2	–	28,008	–	–	37,339	37,339	37,339	rest of the world
14	**–**	**102**	**–**	**3**	**–**	**70,063**	**3,056**	**978**	**–**	**73,301**	**73,301**	**Insurance technical reserves**
–	–	–	–	–	–	66,716	3,056	–	–	66,716	66,716	net equity of households
14	–	102	–	3	–	3,348	–	978	–	6,585	6,585	prepayments and other claims
10,240	**–6,019**	**4,500**	**–2,484**	**10,126**	**383**	**5,769**	**18,570**	**5,342**	**14,084**	**54,126**	**54,126**	**Other accounts receivable/payable**
–	–	–	–	–	–	4,092	–	5,342	14,084	36,993	36,993	Trade credits
10,240	–6,019	4,500	–2,484	10,126	383	1,677	18,570	–	–	17,133	17,133	Other
2,042	**20,415**	**13,733**	**12,894**	**12,294**	**382**	**188,025**	**74,017**	**222,170**	**212,188**	**846,679**	**846,679**	**Total**

Table a30

BANKS: CONTRIBUTION OF OPERATIONS TO SUPERVISORY CAPITAL (1)

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

	Total					Classification by size	
	of which: classification by type of bank						
	Limited cos. raising short-term funds	Cooperative banks	Mutual banks	Branches of foreign banks		Major and large banks	Other banks
				Net income			
1998	31,421	6,069	2,357	119	42,443	24,273	18,170
1999	33,025	5,711	1,933	495	43,945 *(22,696)*	25,974	17,971
2000	42,626	7,825	2,362	976	56,116 *(28,981)*	33,430	22,686
				Extraordinary expenses, net			
1998	–2,536	224	–9	–324	–3,208	–2,659	–549
1999	–7,565	–445	197	–226	–7,588 *(–3,919)*	–6,348	–1,240
2000	–5,456	–344	120	–25	–6,276 *(–3,241)*	–4,873	–1,403
				Sundry provisions			
1998	2,962	572	64	35	3,674	2,426	1,248
1999	3,851	693	66	35	4,640 *(2,396)*	2,864	1,776
2000	3,379	763	74	–98	4,428 *(2,287)*	2,860	1,568
				Charges for loan losses			
1998	10,737	1,618	435	58	14,236	8,286	5,950
1999	9,627	1,832	332	57	13,507 *(6,976)*	7,404	6,103
2000	8,762	1,926	318	59	11,320 *(5,846)*	7,067	4,253
				Taxes			
1998	9,669	1,798	368	142	12,969	7,546	5,423
1999	9,521	1,548	284	235	12,290 *(6,347)*	7,474	4,816
2000	11,755	2,120	314	424	15,076 *(7,786)*	8,866	6,210
				Dividends			
1998	6,545	1,043	44	74	7,905	4,973	2,932
1999	9,977	1,245	41	57	11,769 *(6,078)*	7,941	3,828
2000	12,414	1,779	50	330	15,131 *(7,815)*	9,518	5,613
				Allocations to supervisory capital			
1998	4,044	814	1,455	134	6,867	3,701	3,166
1999	7,614	838	1,013	337	9,327 *(4,818)*	6,639	2,688
2000	11,772	1,581	1,486	286	16,437 *(8,489)*	9,992	6,445
				ROE *(percentages)*			
1998	8.1	7.0	9.8	11.8	7.5	8.2	6.6
1999	12.0	6.7	6.0	25.2	9.6	12.7	6.1
2000	12.8	9.3	7.7	34.1	11.5	13.1	9.5

(1) Unconsolidated data. The classifications are those that were in force at the end of 2000; merged banks have been considered as belonging to the category of the bank with which they were merged.

Table a31

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 and large banks	Medium, small and minor banks	Centre-North	South
					December 1999					
Supervisory capital	**195,093** ***(100,757)***	**24,642** ***(12,726)***	**35,042** ***(18,098)***	**18,576** ***(9,594)***	**1,564** ***(808)***	**274,918** ***(141,983)***	**159,622** ***(82,438)***	**115,296** ***(59,545)***	**256,285** ***(132,360)***	**18,633** ***(9,623)***
Primary capital	153,919	20,299	28,454	17,998	1,401	222,072	120,685	101,387	205,062	17,010
of which: capital and reserves	*155,401*	*19,967*	*29,151*	*17,911*	*1,774*	*224,204*	*120,975*	*103,229*	*207,201*	*17,003*
provision for general banking risks	*4,936*	*1,455*	*1,384*	*309*	*48*	*8,131*	*3,476*	*4,655*	*6,536*	*1,595*
intangible assets and goodwill	*4,993*	*87*	*1,973*	*151*	*35*	*7,240*	*2,928*	*4,311*	*6,165*	*1,075*
Supplementary capital	45,501	5,053	8,178	604	367	59,703	42,999	16,704	57,754	1,949
of which: subordinated liabilities (2)	*39,961*	*1,403*	*7,219*	*181*	*308*	*49,073*	*36,548*	*12,525*	*47,297*	*1,776*
revaluation losses on securities	*633*	*22*	*251*	*328*	*13*	*1,246*	*462*	*784*	*965*	*282*
loan loss provisions (3)	*842*	*36*	*72*	*70*	*82*	*1,102*	*578*	*524*	*1,084*	*18*
Unconsolidated equity interests and other deductions	4,327	710	1,590	26	204	6,857	4,062	2,795	6,531	326
Memorandum item:										
Excess provisions (4)	238	672	11	77	–	1,000	438	562	980	19
					December 2000					
Supervisory capital	**224,789** ***(116,094)***	**22,124** ***(11,421)***	**40,593** ***(20,964)***	**19,848** ***(10,251)***	**3,008** ***(1,553)***	**310,362** ***(160,289)***	**187,489** ***(96,830)***	**122,873** ***(63,459)***	**292,183** ***(150,890)***	**18,179** ***(9,389)***
Primary capital	168,716	18,590	30,974	19,287	2,169	239,736	133,824	105,912	223,371	16,365
of which: capital and reserves	*171,161*	*17,268*	*33,628*	*19,155*	*2,166*	*243,378*	*134,528*	*108,849*	*226,739*	*16,639*
provision for general banking risks	*4,942*	*1,469*	*1,460*	*312*	*32*	*8,215*	*3,713*	*4,502*	*7,277*	*938*
intangible assets and goodwill	*5,338*	*73*	*3,970*	*146*	*30*	*9,557*	*2,871*	*6,686*	*8,489*	*1,068*
Supplementary capital	61,108	4,610	11,315	615	867	78,515	58,771	19,744	76,360	2,155
of which: subordinated liabilities (2)	*52,685*	*1,119*	*10,363*	*182*	*812*	*65,160*	*49,719*	*15,442*	*63,124*	*2,036*
revaluation losses on securities	*903*	*21*	*377*	*413*	*15*	*1,730*	*772*	*958*	*1,357*	*373*
loan loss provisions (3)	*742*	*26*	*60*	*69*	*12*	*910*	*500*	*409*	*873*	*36*
Unconsolidated equity interests and other deductions	5,035	1,077	1,696	53	28	7,889	5,106	2,783	7,549	340
Memorandum item:										
Excess provisions (4)	177	939	12	77	–	1,204	631	574	1,188	17

(1) Unconsolidated data excluding branches of foreign banks. The classifications are those that were in force at the end of 2000. – (2) Includes “hybrid” capital instruments and innovative instruments, which are not eligible for inclusion in core capital. – (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.

Table a32

BANKS: CAPITAL ADEQUACY (1)

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

	December 1998			December 1999			December 2000		
	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			12.0			12.7			13.1
Excess amounts	23	57,500		24	71,688		26	87,265	
Shortfalls	1	157		1	45		–	–	
Small and minor banks			15.8			15.0			14.3
Excess amounts	825	58,636		779	61,075		746	61,084	
Shortfalls	10	168		12	1,143		6	27	
Classification by type of bank									
Limited companies raising short-term funds			12.4			13.0			13.1
Excess amounts	212	73,019		206	89,268		208	104,226	
Shortfalls	6	244		5	107		2	5	
Limited companies raising medium and long-term funds			17.2			15.4			15.2
Excess amounts	29	16,229		24	14,283		23	11,896	
Shortfalls	1	62		2	921		–	–	
Cooperative banks			13.5			13.5			12.5
Excess amounts	46	14,049		47	16,616		45	17,712	
Shortfalls	–	–		–	–		2	16	
Mutual banks			22.5			21.8			21.1
Excess amounts	557	11,595		523	11,842		492	12,401	
Shortfalls	4	19		5	26		2	6	
Central credit institutions			17.2			11.6			23.6
Excess amounts	4	1,244		3	754		4	2,115	
Shortfalls	–	–		1	134		–	–	
Classification by location of head office									
Centre-Nord			13.4			13.6			13.6
Excess amounts	625	107,741		605	124,025		594	140,369	
Shortfalls	3	223		9	1,157		4	24	
South			13.4			13.4			12.7
Excess amounts	223	8,395		198	8,738		178	7,980	
Shortfalls	8	102		4	31		2	3	
Banking system as a whole			**13.4**			**13.6**			**13.5**
Excess amounts	**848**	**116,136**		**803**	**132,763** ***(68,566)***		**772**	**148,349** ***(76,616)***	
Shortfalls	**11**	**325**		**13**	**1,188** ***(614)***		**6**	**27** ***(14)***	

(1) Unconsolidated data excluding branches of foreign banks. The classifications are those that were in force at the end of 2000.

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 2000

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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Bruno BIANCHI	– Central manager for banking and financial supervision
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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
Giancarlo MORCALDO	– Central manager for economic research