BANCA D'ITALIA

ORDINARY GENERAL MEETING OF SHAREHOLDERS

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ABRIDGED REPORT FOR THE YEAR 2001

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THE INTERNATIONAL ECONOMY

The world economy, which had been slowing down since the second half of 2000 as a consequence of higher oil prices and the sharp decline in investment, was not severely affected by the terrorist attacks of 11 September, thanks to the massive support promptly provided by US monetary and fiscal policy. The economic upturn was only delayed by a few months.

Households' disposable income in the developed countries was depressed by the previous year's rise in oil prices. The slowdown in investment spending was even sharper, especially in high-tech sectors, and involved all the industrial economies to a varying extent. The contraction of demand for intermediate electronic goods weighed on the emerging economies of Asia, which are specialized in their production. During the summer some leading indicators pointed to an imminent cyclical upturn in the United States, favoured by the monetary expansion initiated by the Federal Reserve in January and by the tax-cut plan enacted in May. The September events created a climate of uncertainty, with repercussions on consumption, share prices and expectations. The further substantial lowering of interest rates and the prompt passage of a series of budget measures helped restore confidence.

World output increased by 2.5 per cent year on year, compared with 4.7 per cent in 2000; this was the smallest increase since the recession of the early 1990s. World trade in goods and services collapsed from growth of 12.4 per cent in 2000 to a contraction of 0.2 per cent. The slowdown originated mainly in the United States, which registered a decline of nearly 3 per cent in the volume of imports. From 1994 to 2000 US imports had expanded at an average annual rate of 11 per cent. The slackness of world economic activity caused a substantial and nearly unbroken decline in the price of oil, which fell from $26 a barrel in January to $18.50 in December. This had a beneficial effect on inflation.

In the developing countries and in the countries of Central and Eastern Europe and the former Soviet Union, economic activity expanded less than in 2000 but still posted appreciable growth (4 per in the former group and

5 per cent in the latter). China continued its rapid growth with a gain of more than 7 per cent. In Latin America output stagnated as a result of the worsening recession in Argentina, where it contracted by 4.5 per cent.

In 2001 US economic activity expanded by 1.2 per cent, compared with 4.1 per cent in 2000. The ten-year-long expansion came to an end in March. The subsequent recession, according to the estimates putting its termination at the start of this year, was historically short and, more important, mild. Economic policy support made an essential contribution to this result. The swift, decisive action of the Federal Reserve lowered real short-term interest rates by nearly three percentage points; in the fourth quarter they were practically nil. Fiscal policy also turned expansionary. At the end of May Congress passed the new Administration's tax plan for significant cuts in personal income taxes over the coming decade. Some reliefs were retroactive and were thus already effective in sustaining disposable income towards the end of 2001. These measures combined with the slackness of economic activity to decrease the federal budget surplus from $236 billion in fiscal 2000 to $127 billion in 2001. Recent Congressional Budget Office estimates indicate a deficit of $46 billion for the fiscal year ending in September 2002. Compared with 2000, the deterioration amounts to nearly 3 per cent of GDP. For the period 2002-2011, a cumulative budget surplus of $1.6 trillion is now projected, down from $5.6 trillion projected at the start of 2001.

US labour productivity continued to rise very rapidly last year by comparison with previous cyclical downturns. This enabled firms to counteract the profit squeeze stemming from heightened competition in the goods market. Thanks to higher productivity, private non-farm profits rose substantially even in the fourth quarter of 2001 and continued to grow rapidly in the first quarter of 2002. On the demand side, the crucial factor was the continued strength of consumption, which increased by 3.1 per cent on average for the year. Consumer spending was spurred by good terms on home refinancing following the decline in interest rates and by the possibility of taking out larger mortgages owing to the rise in real estate prices. This partially offset the reduction in financial wealth due to the fall in share prices. Households' debt increased, especially among upper-income households, which can more easily afford the related debt service. With private consumer demand holding up, public consumption increasing and the dollar appreciating, the current account deficit remained very high at more than $400 billion, or 4.1 per cent of GDP.

From mid-November on the easing of international tensions favoured a sharp improvement in the financial markets. Share prices made further gains, rising well above the level registered prior to the terrorist attacks of 11 September.

In the final months of the year the US economy improved more than had been expected. Consumer spending soared, benefiting from the sharp decline in oil prices and from incentives for car purchases.

The Japanese economy, in the throes of profound structural differences, fell into its third recession in ten years. Economic activity diminished from the second quarter on, reflecting the contraction in private investment and the sharp fall in exports. Year on year, GDP contracted by 0.5 per cent. Prices continued to decline; as the labour market deteriorated, nominal wages also fell.

There is a growing consensus that Japan's decade-long stagnation is due above all to its model of economic development, which has impeded the adaptation of the productive structure to the requirements of a changed international environment. To deal with sharper foreign competition, the more efficient manufacturing industries have been compelled by high domestic costs to relocate to other Asian countries on a major scale.

This migration has increased the relative importance within the domestic economy of less competitive industries with capital/output ratios that are very high by international standards, owing in part to the massive investment of the later 1980s. Their profitability has declined steadily since the turn of the 1990s, and in the last few years has been extremely poor. This has affected the quality of the assets of banks, 80 per cent of whose lending is to these sectors. This makes any solution to the problem of banks' bad debts particularly difficult. Despite very substantial write-offs since 1993, the quality of their assets has continued to deteriorate. It is evident that measures to buttress banks' balance-sheet positions must be complemented by action to foster a recovery in corporate profits by strengthening market mechanisms for the allocation of resources.

The worsening of the economic and financial situation and the accentuation of deflation led the Bank of Japan to change its operating objective for monetary policy in March 2001; instead of a near-zero very-short-term interest rate, it now has a quantitative target for the amount of financial institutions' current account balances at the central bank, a figure which has been raised in several steps, from ¥ 5 trillion to ¥ 15 trillion. The result was a surge in monetary base, which grew by almost 33 per cent between March 2001 and March 2002. The abundance of liquidity was eventually reflected in the weakening of the yen, which depreciated by about 12 per cent against the dollar between the end of September 2001 and the beginning of March 2002. However, the expansionary stimulus provided by bank liquidity was not transmitted to the money supply, credit or, ultimately, the economy because of the fragile state of banks' and firms' balance sheets.

Economic activity in the euro area also slowed down significantly over the year. On an annual average basis, output increased by 1.5 per cent, compared with 3.5 per cent in 2000. The sharp deterioration in expectations regarding export demand affected investment, whose growth halted. Mainly owing to the lagged effects of the surge in oil prices in 2000, household consumption grew at a considerably slower rate than in 2001. The unemployment rate, which had fallen by almost one percentage point in 2000, remained virtually unchanged at around 8.3 per cent throughout 2001. Against a background of weak economic activity, the fall in the price of oil and other raw materials helped to slow the increase in consumer prices from the spring onwards. Between May and December inflation fell from 3.4 to 2.1 per cent. The reduced risk of inflation encouraged the Eurosystem to adopt an expansionary monetary policy stance. Between May and November official rates were cut by a total of 1.5 percentage points; the rate for main refinancing operations was reduced from 4.75 to 3.25 per cent. Fiscal policy also became more expansionary; the working of automatic stabilizers was supplemented in some countries by measures to bring about a permanent reduction in the tax burden. This led to an increase in general government net borrowing to 1.3 per cent of GDP, compared with 0.8 per cent in 2000, and interrupted the adjustment process begun in 1994. On a cyclically adjusted basis, the primary surplus fell from 2.7 per cent of GDP in 2000 to 2.4 per cent.

The weak performance of the industrial economies also affected lending to the emerging countries. Net flows of private capital, while increasing slightly compared with 2000, remained at a low level; those to Latin America contracted sharply. International investors imposed different terms for access to funds on countries according to the structural conditions of their economies. In February Turkey suffered a large-scale banking and currency crisis. In December the economic and financial difficulties that had been evident in Argentina since the spring turned into a major crisis; at the end of the year the government suspended the servicing of foreign debt and at the start of 2002 abandoned the currency board regime. The international financial markets had foreseen these events well in advance, so that contagion was avoided.

At the request of the international community and in response to the serious situation that had arisen in Argentina, in February 2002 the International Monetary Fund presented a proposal to reform the system of multilateral management of sovereign debt crises, to make it more orderly and predictable. During the recent meetings in Washington, the Finance Ministers and Central Bank Governors of the leading industrial countries adopted an Action Plan to strengthen the role of market mechanisms in crisis management. In particular, the Plan calls for the inclusion in the contracts governing securities issued by emerging countries of clauses that expressly indicate what would happen in the event of a debt restructuring. The IMF has also been asked to draw up specific proposals to amend international treaties, national laws and its own Articles of Agreement to help strengthen the multilateral crisis management system. In view of the time needed to implement these changes, they will have to be complementary to those aimed at extending market mechanisms. In March 2002 the United Nations held an International Conference on Financing for Development in Monterrey, aimed at significantly increasing the level of official development aid and changing the disbursement procedures to enhance its effectiveness. On that occasion, the EU countries pledged to raise the amount of aid to 0.39 per cent of their GDP by 2006; the United States announced an increase in its own disbursements for a total of $10 billion in the next three years.

According to the IMF forecasts presented at the Washington meetings, world output was predicted to grow by 2.8 per cent and world trade by 2.5 per cent in 2002. After stagnating in the last quarter of 2001, economic activity in the leading industrial countries was expected to accelerate and show an increase of 2.7 per cent in the fourth quarter compared with the fourth quarter of 2001. In the United States growth was expected to accelerate from 0.5 to 3.2 per cent, and in the euro area to reach 2.5 per cent. In Japan, following a fall in economic activity in the last part of 2001, an upturn of 0.9 per cent was expected in the fourth quarter of this year. For the emerging economies, varied results were expected. In the Asian countries, the annual growth rate was expected to remain high, on the order of 5 per cent, while stagnation in Latin America appeared set to continue. The countries of Central and Eastern Europe were expected to achieve growth of 3 per cent, as in 2001, while in Russia the forecast was for a slowdown from 5 to 4.4 per cent.

Growth prospects improved significantly in the first few months of 2002, primarily reflecting the better-than-expected performance of the American economy, which is beginning to act as the engine of the world economy once more. In the first quarter of 2002, US output increased compared with the preceding quarter, at a rate of 5.6 per cent on an annual basis. A significant contribution came from inventory, as destocking practically ceased. Investment in machinery and IT equipment began to pick up. The increase in productivity exceeded 8 per cent. Share prices and more generally the prices of financial assets only partly reflected the more favourable economic climate. The meltdown of the Enron energy group and the doubts that this has provoked regarding the internal and external procedures and methods for assessing companies' financial stability have weighed on the US market. In the other two large industrial economic areas, positive signs have also been evident since the start of the year. In Japan, industrial output has stabilized, exports have increased significantly and consumer confidence has improved. In the euro area, according to preliminary estimates output increased slightly in the first quarter.

The international scene appears to be exposed to less risk than a few months ago. If the tensions in the Middle East do not worsen and the price of oil, which suddenly rose again last March, stays at today's level (about $26 a barrel), in line with what futures contracts suggest, growth and inflation should not change significantly. Following the good results of the first quarter, there is some uncertainty, however, as to the profile of the recovery in the US for the rest of this year. The IMF forecasts that the stimulus provided by inventories will peter out in the second quarter and that the growth of the other demand components will be slower than has traditionally been the case in the initial stages of US cyclical upturns. By contrast, most private forecasters predict a rapid acceleration in investment, fueled by the good prospects for profits, a significant increase in employment and consequent rapid growth in private consumption. This scenario would allow the US economy to achieve a growth rate of more than 3.2 per cent by the end of 2002 and to lay the foundations for an expansion of around 4 per cent next year.

RECENT DEVELOPMENTS AND ECONOMIC POLICIES

Economic developments in the industrial countries

The long period of expansion in the United States that began in March 1991 came to an end in March 2001. Compared with those in the past, the ensuing recession was mild and brief. GDP only changed for the worse in the third quarter, reflecting the terrorist attacks of 11 September. The economic effects of that shock turned out to be less severe than initially feared. In the fourth quarter the economy began to grow again at a rate of 1.7 per cent on an annual basis. The outcome was GDP growth of 1.2 per cent in 2001 as a whole compared with 4.1 per cent in 2000 (Table 1).

At the root of the downturn was the fall in fixed investment, which was particularly sharp for information and communications equipment. Gross fixed investment, which had increased by 7.6 per cent in 2000, fell by 2 per cent in 2001; its contribution to GDP growth, which had been positive by 1.3 percentage points in 2000, was negative by 0.3 points last year. The decline in fixed investment reflected the performance of the ICT sector, where the expansion of 20.4 per cent in 2000 gave way to a contraction of 3.7 per cent in 2001. It also involved investment in industrial and transport equipment. Investment in residential construction, which in the preceding recessions had tended to fall significantly, remained broadly stable in 2001, benefiting from the reduction in mortgage lending rates.

Strong support for economic activity came from consumption; its growth rate was 3.1 per cent, 1.7 percentage points less than in 2000, but very high if compared with similar cyclical phases. In the second half of the year, the reduction in energy prices bolstered households' spending capacity. In the same period, against the background of a marked deterioration in the employment situation and the greater uncertainty provoked by the events of 11 September, the resilience of consumption was decisively ensured by the economic policies adopted. The expansionary budgetary measures had a positive effect of fundamental importance on disposable income. The fall in mortgage rates, fostered by the monetary expansion, created particularly advantageous conditions for mortgage refinancing; the rise in the market value of houses allowed borrowers to take out larger loans against the same properties. The ratio of household debt to disposable income, which during past recessions remained stable, rose between the first and last quarters of

2001 from 91 to 96 per cent, a level almost 20 percentage points higher than that prevailing at the beginning of the 1990s.

Table 1

GROSS DOMESTIC PRODUCT AND DEMAND IN THE LEADING INDUSTRIAL COUNTRIES

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

	2000	2001	2001				2002
			Q1	Q2	Q3	Q4	Q1
United States							
GDP	4.1	1.2	1.3	0.3	–1.3	1.7	5.6
Household consumption (1)	4.8	3.1	3.0	2.5	1.0	6.1	3.2
General government expenditure (2)	2.7	3.6	5.3	5.0	0.3	10.2	6.7
Gross fixed private investment	7.6	–2.0	1.9	–9.7	–5.7	–11.4	–2.3
Change in stocks (3)	–0.1	–1.1	–2.6	–0.4	–0.8	–2.2	3.5
Net exports (3)	–0.8	–0.1	0.6	–0.1	–0.3	–0.1	–1.1
Japan							
GDP	2.4	–0.5	4.1	–4.8	–2.1	–4.8	....
Household consumption (1)	0.6	0.3	7.7	–4.3	–6.7	7.9	....
General government expenditure	4.6	3.1	4.5	6.4	–1.1	1.5	....
Gross fixed investment	3.2	–1.8	–0.4	–7.8	8.0	–28.6	....
Change in stocks (3)	..	..	0.1	..	–0.5	0.1	....
Net exports (3)	0.5	–0.7	–0.6	–1.2	0.2	–0.4	....
Euro area							
GDP	3.5	1.5	2.0	0.2	0.9	–0.8	....
Household consumption (1)	2.5	1.7	4.0	1.9	0.3	0.5	....
General government expenditure	1.9	2.2	2.9	1.7	1.4	2.3	....
Gross fixed investment	4.4	–0.4	–1.5	–2.6	–1.3	–1.5	....
Change in stocks (3) (4)	0.2	–0.5	–2.8	0.1	–0.8	–0.9	....
Net exports (3)	0.6	0.7	2.5	–0.7	1.5	–0.4	....

Sources: Eurostat and national statistics.
(1) Comprises spending on consumption of resident households and that of non-profit institutions serving households. – (2) Includes public investment. – (3) Contribution to GDP growth in percentage points. – (4) Includes net acquisitions of valuables.

Labour market conditions deteriorated steadily throughout 2001. Non-farm payroll employment was down by 754,000, or 0.6 per cent, in the fourth quarter compared with a year earlier, primarily owing to the large reduction in the manufacturing sector (6.6 per cent). On the other hand, employment in the service sector showed a small gain of 0.3 per cent over the same period; it only registered a decline in the fourth quarter, largely due to the impact of the events of September on the labour demand in some sectors (air transport, hotels and restaurants). The unemployment rate rose significantly during the year, from 4.2 per cent in the first quarter to 5.6 per cent in the fourth.

Labour costs in the non-farm business sector steadily decelerated, from growth of approximately 5 per cent on an annual basis in the first half of 2001 to 2.3 per cent in the fourth quarter (with an average annual increase of 5.8 per cent). Labour productivity in this sector rose by 1.9 per cent over the year as a whole, whereas it had generally fallen in the preceding recessions.

Non-farm and non-financial corporate business gross profits, calculated on the basis of national accounts, fell in the first three quarters of 2001; in the third quarter they were down by 27 per cent from a year earlier against an increase of 11.4 per cent in the same period in 2000. During this phase the dynamics of total profits was very largely determined by the strongly negative performance of unit profits, which contracted cumulatively by 28.5 per cent between the second quarter of 2000 and the third quarter of last year, in the face of the moderately positive effect of the trend in output volumes. In the last quarter of 2001 the very strong recovery of unit profits (58 per cent on an annual basis in relation to the previous quarter) led to a sharp revival in overall profits, which brought the level back to figures similar to those recorded at the beginning of the year.

In 2001, following the fall in investment, non-financial firms borrowed less intensely than in previous years. Nevertheless, the ratio of corporate debt to net worth valued at market prices, which at the end of 2000 was equal to 54.6 per cent, a level similar to that of the peak at the beginning of the 1990s, rose to 59.4 per cent.

Consumer price inflation fell over the twelve months from 3.7 per cent in January to 1.6 per cent in December, reflecting the fall in energy prices; the average annual inflation rate was 2.8 per cent, compared with 3.4 per cent in 2000. The index of core inflation, excluding the more volatile components (energy and food), maintained a basically stable twelve-month rate of increase between 2.5 and 2.8 per cent.

The improvement in the economic climate at the end of 2001 was followed by a significant recovery in economic activity in the first quarter of this year, primarily due to the attenuation of destocking. According to preliminary estimates, output grew by 5.6 per cent on an annual basis, of which more than three percentage points was attributable to changes in inventories. Consumption recorded rapid growth (3.2 per cent on an annual basis), albeit less than in the fourth quarter of 2001, when it had been temporarily boosted by the financial incentives offered for motor vehicle purchases. Moreover, the increase in transfers and tax reliefs increased disposable income by about 14 per cent in real terms on an annual basis. After falling for four quarters, ICT investment increased by an annualized 4.4 per cent.

In the first quarter of 2002 labour productivity in the non-farm business sector surged by 8.4 per cent on an annual basis, up sharply from 5.5 per cent in the preceding quarter. Unit labour costs fell by 5.2 per cent on an annual basis, indicating a further strong recovery in profits. In the same period, employment in the service sector began to grow again and the reduction in the manufacturing sector abated.

In Japan, the economy's third recession in the last ten years began in October 2000. In 2001 output fell by an average of 0.5 per cent (Table 1). The decline in economic activity was very marked in the second half of the year, when GDP contracted by 3.5 per cent on an annual basis.

Private investment, whose robust expansion had contributed to the recovery in 2000, fell in 2001 by 1.2 per cent, reflecting the collapse in residential investment. Excluding the latter, private investment remained more or less stationary, after growing by more than 10 per cent the previous year. The drastic slowdown was partly due to the fall in profits which, according to the Ministry of Finance, was equal to 16 per cent for non-financial corporations as a whole and 28 per cent for large manufacturing companies.

Exports diminished by 6.6 per cent on average for the year: investment goods and IT products were particularly hard hit. The contribution of net exports to the change in GDP was negative by 0.7 percentage points.

Household consumption, already stagnant in 2000, increased by barely 0.3 per cent year on year. It was held down in part by greater uncertainty about the employment outlook and by the weakness of disposable income. Employment fell by 0.5 per cent, after declining by 0.2 per cent the previous year. The unemployment rate rose over the year from 4.8 per cent in January to 5.5 per cent in December. Nominal wages began to decline again, falling by 1.1 per cent a year on average following the very small increase of 0.6 per cent recorded in 2000; wages also fell slightly in real terms.

This new cyclical slowdown aggravated deflation: the twelve-month decline in consumer prices went from 0.3 per cent in January to 1.2 per cent in December. Producer prices, which were virtually unchanged in 2000 owing to the increase in oil prices, began to fall again, decreasing by 1.5 per cent in the twelve months to December.

In the first few months of 2002, the recovery in foreign demand led to an improvement in economic conditions in Japan. The depreciation of the currency, from 120 yen to the dollar in the autumn of 2001 to more than 133 in February 2002, helped to support the export recovery. This brought a halt to the decline in industrial output, which at the end of 2001 had reached its lowest level since 1987. After worsening significantly during 2001, firms' and households' expectations stabilized.

In the euro area, GDP growth fell to an average of 1.5 per cent in 2001, from 3.5 per cent in 2000 (Table 1). The deceleration was particularly marked in Germany. The abrupt downturn in investment and the marked slackening in exports contributed to the deceleration in economic activity; destocking subtracted half a percentage point from GDP growth. Employment growth slowed down but was nevertheless significant at 1.4 per cent. During the year the unemployment rate remained stable at around 8.3 per cent. Following the fall in GDP in the fourth quarter, signs of recovery in the level of activity came from the improvement in the confidence indicators and the increase in industrial output, under way since December.

Consumer price inflation, which had risen to a twelve-month rate of 3.4 per cent in May 2001, subsequently benefited from the fall in oil prices and slowed to 2.1 per cent in December. At the start of 2002 the deceleration in consumer prices came to an abrupt end; in April the twelve-month change was equal to 2.4 per cent.

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 2001 amounted to $127 billion, compared with $236 billion for fiscal 2000; as a ratio to GDP, it fell from 2.4 to 1.3 per cent. Excluding the social security surplus, there was a deficit of $33 billion. In 2001 federal debt fell in relation to GDP by one percentage point, to 56.8 per cent; the debt held by the public fell from 35 to 32.7 per cent of GDP.

Against a background of economic weakness, in May 2001 Congress approved a series of permanent expansionary measures, mainly in the form of reductions in personal income tax (the Economic Growth and Tax Relief Reconciliation Act), whose impact in the decade 2002-2011 was estimated by the Congressional Budget Office (CBO) at around $1.3 trillion. The measures already significantly influenced the budget for fiscal 2001 by giving rise to tax reimbursements last summer of around $74 billion or 0.7 per cent of GDP; the effect in the current fiscal year is expected to be smaller ($38 billion).

The stance of budgetary policy was made even more expansionary in the wake of the events of 11 September. Emergency measures to increase expenditure on defence and homeland security were approved in rapid succession with an impact on the budget for fiscal 2002 of $53 billion according to CBO estimates. In addition, a plan to stimulate economic activity was approved in March; this consists primarily of tax reliefs for firms and will reduce budget revenue this year by a further $51 billion. Overall, the support measures are expected to amount to $142 billion in 2002, or some 1.4 per cent of GDP. Recent CBO estimates indicate that the federal budget will show a deficit of $46 billion.

In Japan, after being expansionary for three successive years, budgetary policy became slightly restrictive. For the fiscal year ending in March 2002, IMF estimates suggest that, excluding the social security surplus, the deficit fell to 8.8 per cent of GDP from 9.2 per cent the previous year. There was a similar fall in the cyclically adjusted balance. Despite the worsening of the economic situation, the new Government that came into power in spring 2001 decided to place a limit of ¥30 trillion on the issue of new debt securities. The budget for the 2002 financial year approved in March retained the above-mentioned limit of ¥30 trillion and should reduce the deficit slightly, to 8.7 per cent of GDP, primarily owing to a sizable reduction in investment and in the funding of state enterprises (by more than 10 per cent compared with the previous financial year). According to OECD estimates, Japan's gross public debt, which for some years has been the highest of all the industrial countries, was 133 per cent of GDP at the end of 2001 compared with 124 per cent twelve months earlier.

In the euro area general government net borrowing rose from 0.8 per cent of GDP in 2000 to 1.3 per cent last year, with a reversal of the downward trend that had been under way since 1994. The deterioration was mainly due to the effects of automatic stablizers; in some countries, including Germany, the introduction of tax reliefs also played a part. The number of countries with a balanced budget or a surplus nonetheless rose from 4 to 7. Public debt fell from 70.2 to 69.1 per cent of GDP.

Monetary policies. – In the United States, the monetary easing under way since the beginning of 2001 became even more pronounced following the 11 September terrorist attacks. The Federal Reserve moved quickly and vigorously: between January and May the federal funds target rate and the discount rate, which had remained unchanged at high levels during the entire second half of 2000 (6.5 and 6 per cent respectively), were cut by 2.5 percentage points overall to 4 and 3.5 per cent. During the summer, the pace of the easing slowed and there were just two further cuts of 0.25 points each, in June and August. The Federal Reserve responded immediately and incisively to the September events: on 17 September an extraordinary meeting of the Federal Open Market Committee held before the opening of the country's financial markets lowered the reference rates by 0.5 percentage points at the same time as other central banks, including the Eurosystem, lowered theirs; other extraordinary measures were adopted to ensure that the financial system had sufficient liquidity. At the beginning of October and again in November, the Federal Reserve cut the reference rates further, by 0.5 points on both occasions. In the first ten days of December, the rates were cut by another 0.25 points, which took the federal funds target rate to 1.75 per cent, its lowest level for fifty years. In March of this year, when the prospects for a lasting recovery in domestic demand were still uncertain, the

FOMC left official rates unchanged, but announced an improvement in its assessment of the economic situation and took a neutral position on the outlook for inflation.

In Japan, in order to combat deflation against a background of weak economic activity, the authorities intensified their efforts to make monetary policy even more expansionary and find more effective ways of ensuring abundant liquidity. In mid-March 2001 the operational objective for monetary policy was changed to the amount of financial institutions' current account balances with the central bank. The target level for this aggregate was raised in steps from ¥5 trillion in March to ¥15 trillion in December. This change in monetary policy strategy allowed the very-short-term interest rate to stay close to zero. To make monetary expansion more effective, the Bank of Japan also increased the amount of long-term government bonds that it could buy outright, from ¥400 billion a month at the beginning of 2001 to ¥1 trillion in February 2002. To hold down expected short-term interest rates and, in this way, medium and long-term rates as well, the monetary authorities further declared that the new strategy would be maintained until consumer price inflation became stably positive once more.

The expansion in bank reserves produced a very sharp acceleration of the monetary base, which increased by more than 15 per cent on average in the last quarter of 2001 in relation to the corresponding period a year earlier (3 per cent in the fourth quarter of 2000); this acceleration continued in the first few months of 2002. The growth in monetary base was not followed by corresponding growth in the broad monetary aggregate (M2+CD), which in December showed a twelve-month increase of 3.4 per cent. Banks exercised great caution in granting loans to the private sector in view of the problems, aggravated by the recession, with their balance sheets and profitability; the credit multiplier, which had been declining since 1993, registered a further sharp fall.

According to the findings published last February by the Financial Services Agency, in September 2001 banks' total non-performing loans amounted to almost ¥36 trillion or 7 per cent of GDP, as against 6.3 per cent in March; they were matched by ¥12 trillion of provisions.

Starting in May 2001 the Eurosystem also began to ease monetary conditions. Between then and the start of November, against a background of subsiding inflationary pressures and a weakening of domestic and international demand, the rate on main refinancing operations was cut in four steps from 4.75 to 3.25 per cent. At the close of 2001, the real short-term rate, calculated on the basis of actual inflation, was more than one percentage point lower than a year earlier.

The emerging countries

In 2001, in the newly industrialized Asian economies (Hong Kong, Singapore, South Korea and Taiwan), the fall in foreign demand, particularly in the technology sector, caused GDP growth to slow from 8.5 per cent in 2000 to less than 1 per cent. In the Asian developing countries most open to international trade (Indonesia, Malaysia, the Philippines and Thailand) the growth rate halved from 5.1 to 2.6 per cent. On the other hand, international economic activity benefited from the persistently high growth rates in China and India, whose shares of world GDP on a PPP basis were 11.1 and 5.3 per cent respectively in 2000.

Economic growth in Latin America in 2001 was adversely affected by the crisis in Argentina and fell from 4 to 0.7 per cent. The deterioration also reflected the close economic ties with the United States and the crisis in international tourism following the events of 11 September.

Argentina was struck by a violent financial crisis. Economic activity, which had been in almost constant decline since the third quarter of 1998, fell by 4.5 per cent on average in 2001. The situation precipitated in November when fears of an imminent devaluation of the peso triggered a bank run and capital flight. Following a period of social tension and political instability, on 23 December the authorities announced a suspension of foreign debt servicing and on 6 January 2002 they also suspended the "convertibility law", thereby putting an end to the currency board regime that had pegged the peso to the dollar since 1991. The peso rapidly lost more than 70 per cent of its value against the dollar.

In the twelve countries of Central and Eastern Europe and the Mediterranean area that are in the process of joining the European Union, economic activity slowed a little but held up quite well on the whole; sustained by internal demand, growth was more than 3 per cent. Partly owing to firm monetary policies and the fall in oil prices, inflation fell below 10 per cent in almost all the twelve countries; only in Romania did it remain very high. In some countries in the area, the implementation of expansionary policies increased the budget deficit; on average the deficit remained large.

Economic activity contracted sharply in Turkey following the financial crisis that had led the authorities to abandon the crawling-peg regime for the Turkish lira in February 2001. GDP fell by 7.3 per cent after rising by the same amount in 2000.

In Russia, the support provided by the domestic components of demand meant that although GDP growth slowed sharply it remained at a high level (5 per cent, as against 9 per cent).

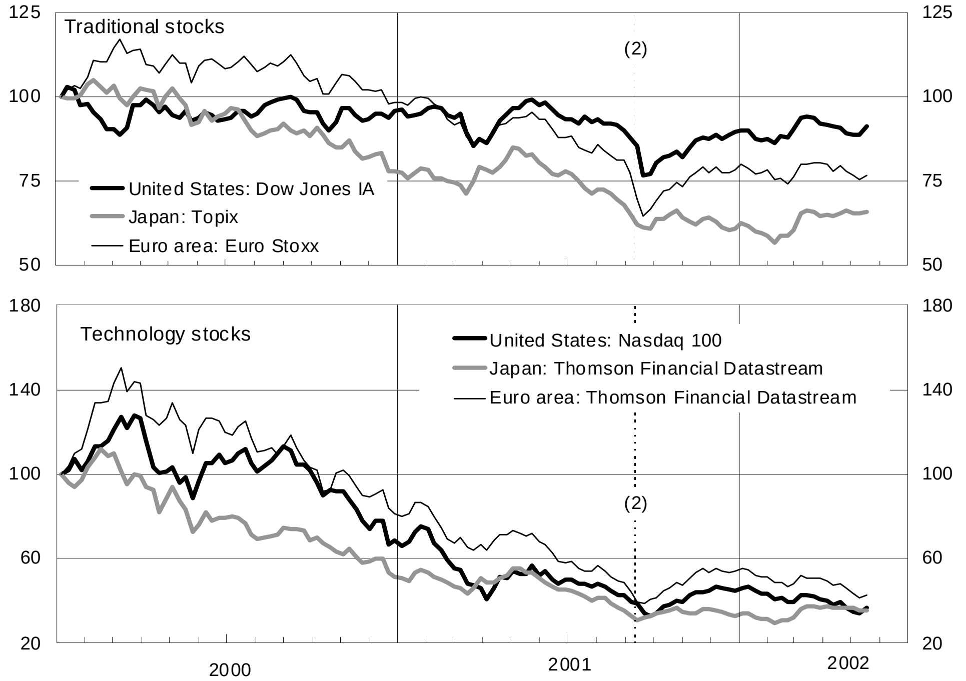
THE INTERNATIONAL FINANCIAL MARKETS

The equity and bond markets

The collapse of equity prices in the days immediately following 11 September was part of a downward trend that was already under way in all the leading world stock markets. Technology stocks, which had begun to fall in the spring of 2000, continued to decline, and the shares of companies in traditional sectors also showed more pronounced weakness from the middle of last year onwards. The synchronized fall in share prices regardless of industry or region reflected the slowdown in activity, which was particularly severe in the United States and Japan, and the consequent decline in corporate earnings. The sharper fall in the prices of technology stocks was also due partly to a decline in demand in sectors where there was still excess capacity, which led to a further downward revision of profit forecasts (Figure 1).

Figure 1

SHARE PRICES IN THE UNITED STATES, JAPAN AND THE EURO AREA
(*weekly averages; indices, first week of January 2000 = 100*) (1)



Source: Thomson Financial Datastream.
(1) The latest available data are for the second week ending on 17 May. – (2) Attacks in the United States (11 September 2001).

In the United States the Nasdaq 100 index of technology stocks fell by 42 per cent between the beginning of the year and 10 September. At the beginning of June the Dow Jones Industrial Average, which is composed mainly of the shares of companies in traditional sectors, was still close to its level of the beginning of the year, but between then and 10 September it shed 13 per cent.

The further decline in share prices on the main stock markets following the terrorist attacks of 11 September proved temporary. Swift action by the central banks and supervisory authorities and, especially in the United States, the measures immediately announced to bolster activity ensured smooth market operation and restored investor confidence. Stock markets began to recover in the last ten days of September, aided by expectations of a turnaround in the economic cycle and by the even more expansionary monetary and fiscal stance adopted in the United States. Between 10 September and the end of the year the Dow Jones gained 4 per cent and the Nasdaq 100 16 per cent.

Expectations about the performance of the US economy also affected government bond prices in the United States and the euro area. In the United States, where bond yields had fallen by 1.5 percentage points to 5 per cent in 2000 owing to expectations of a slowdown in growth and a contraction in the supply of securities because of the public sector's budget surplus, ten-year yields continued to decline for the first ten months of 2001, decreasing by almost one percentage point. In mid-November they recovered rapidly, owing partly to the easing of international tensions, and stabilized at around 5 per cent in subsequent months.

In the foreign exchange markets the US dollar appreciated by 14 per cent against the euro during the first half of 2001, to a rate of 84¢ per euro; even though the US economy was slowing down sharply and interest rate differentials narrowing rapidly, the dollar was buoyed by the growing belief among investors that the decisive easing of monetary policy by the Federal Reserve would avert a prolonged stagnation in output. The dollar depreciated for a time in the third quarter, particularly in the wake of 11 September, but between October and January of this year it recovered almost all the ground it had lost, touching 86¢. It began to weaken again at the end of January, and in mid-May it was being quoted at 91¢; it is now 6 per cent lower than at the beginning of this year and 3 per cent lower than at the start of 2001. Its nominal effective appreciation since it began to strengthen in early 1997 is 22 per cent.

In the first few months of 2002 the collapse of Enron dragged down share prices in the United States and Europe, especially those of technology companies: investors became more selective, particularly where high-tech and heavily indebted firms were concerned. Between the beginning of this year and mid-May the index of traditional stocks in the United States rose by 3 per cent, while that in the euro area declined by 4 per cent; technology indices in the two areas fell by 16 and 21 per cent respectively (Figure 1).

In Japan the decline in share prices and government bond yields that had begun in early 2000 continued last year against the background of enduring deflation. During the year the Topix share index fell by 20 per cent, returning to its level of the autumn of 1998; government bond yields declined from 1.7 to 1.3 per cent and touched a low of 1 per cent between March and June. Bond prices benefited from the abundant liquidity injected by the Bank of Japan; they were not adversely affected by Moody's reduction of Japan's credit rating at the beginning of December 2001 or the announcement by the same agency in February that it had placed Japan's debt on review for a possible further downgrade. In the first four months of this year share prices recovered slightly (by 6 per cent), owing partly to stricter enforcement of restrictions on the short selling of shares and partly to growing expectations of an improvement in the economic climate. In April and the first half of May government bond yields fluctuated around 1.4 per cent; they remained positive in real terms, at about 0.6 per cent.

Financial markets in the emerging countries

The emerging countries experienced severe turbulence in 2001; Turkey and Argentina were worst affected, to the point of suffering serious economic and financial crises. The repercussions on neighbouring countries were limited, however. Asian markets also remained immune to the upheavals in Turkey and Argentina, recording a clear improvement in the last part of the year.

Despite the large volume of Argentine government bonds held by non-residents, portfolio rebalancing by institutional investors following Argentina's default did not have an impact on other financial markets in Latin America and Central and Eastern Europe.

The decrease in financial contagion, which had been a feature of crises in the 1990s, can be attributed to a number of factors, some of which are associated with the particular nature of the Argentine crisis and others are due to changes in the behaviour of the financial markets. Argentina's economic difficulties, which were thrown into relief by three years of recession, prompted investors to reduce their exposure towards the country well in advance and gradually. In addition, portfolio investment, which in the past had exacerbated the transmission of turbulence because of its high volatility, was already well below the peaks of 1996-97. Finally, investors appear to have been better able to assess the different degrees of risk presented by the emerging economies; this hypothesis is confirmed both by the decline in the correlation between the interest rate differentials for Argentina and those for other emerging countries and by the fact that during 2001 lending to countries whose economic situation was considered more precarious fell while that to more stable emerging countries increased.

The emerging economies of Asia were immune to the effects of the crises in Turkey and Argentina; the region's greater financial stability can be attributed to a lower proportion of public debt in foreign currency, a high degree of openness to world trade and the significant progress that has been made with the implementation of structural reforms since the crisis of 1997-98. Share prices in the largest countries in the area fluctuated in the first ten months of 2001, declining significantly only in the Philippines, and then rose substantially; by mid-May 2002 share prices in South-East Asian countries were about 40 per cent higher than at the beginning of November 2001. The currencies of these countries remained stable last year, with the exception of the Indonesian rupiah, which fluctuated widely before returning in mid-May of this year to the level of January 2001. In the first ten months of 2001 yield differentials between dollar-denominated bonds issued by Asian countries and corresponding US bonds mirrored the behaviour of share prices, with wide fluctuations around the levels recorded at the end of the previous year; from November onwards they narrowed considerably. As a group, the Asian countries continue to pay much smaller risk premia than do countries in Latin America.

The dollarization of financial assets and liabilities in the emerging countries

In contrast to the 1980s, when in many emerging countries hyperinflation had encouraged the use of foreign currency as a means of payment (currency substitution), in the 1990s the adoption of fixed exchange-rate regimes and financial liberalization prompted many economic agents in these countries to denominate a large proportion of their financial assets and liabilities in foreign currency, a practice referred to as "financial dollarization". It is well known that emerging economies, and especially their public sector borrowers, cannot raise loans abroad except in foreign currency (a consequence of so-called "original sin"). A different phenomenon that has received less attention is the decision of domestic private operators – households, enterprises and banks – to negotiate financial assets and liabilities between themselves in foreign currency. For several years the authorities' response to this conduct has followed a regular pattern in many emerging countries: even where officially the exchange-rate regime is flexible, the authorities in fact tend to limit exchange rate movements by intervening in the exchange market or adjusting interest rates. One reason for this “fear of floating” is the high proportion of foreign currency liabilities in broad swathes of the economy, which could lead to heavy capital losses for borrowers in the event of a devaluation. The experience of the 1990s suggests that emerging countries fall into two groups: those where the authorities have sufficient credibility to resort to administrative means to discourage residents from using foreign currencies, with the aim of widening the scope for monetary policy and preventing financial fragility, and others where financial dollarization may be a way of fostering the development of a banking system.

In the 1990s financial dollarization occurred on a substantial scale in many emerging countries. In the larger Latin American countries the dollarization of bank deposits and loans was particularly marked in Argentina (almost 60 per cent for a good part of the decade), less significant in Chile and Mexico (in the latter country around 30 per cent of loans were denominated in dollars at the end of 2001) and nil in Brazil, where it is prohibited by law. In Asia, on the eve of the 1997 crisis the dollarization of deposits and loans reached 30 per cent in Thailand and 20 per cent in Indonesia.

Although in Argentina the economy was more highly dollarized than in other emerging countries, the foreign currency exposure of individual branches of industry, reflected in their net foreign currency position, was no greater than in other countries. Comparison with countries such as Chile, Mexico, South Korea, Indonesia and Thailand shows that on the eve of their respective financial crises firms in most of these countries had a net foreign currency debtor position (including loans raised directly abroad) equal to between 20 and 27 per cent of GDP; the exceptions were South Korea (10 per cent) and Thailand (38 per cent), while in Argentina the net position was equal to 21 per cent of GDP. Whereas banking systems in Latin America maintained a nil or creditor foreign currency position, those in Asia had taken on a significant exchange rate risk: at the end of 1996 the banks’ net foreign currency debtor position was equal to 12 per cent of GDP in South Korea and Thailand and 5 per cent in Indonesia; since then their exposure has been only partly reduced.

Action to prevent and resolve sovereign debt crises

The almost complete absence of contagion between the crisis in Argentina and the economies of other emerging countries testifies to the progress in crisis prevention, especially as regards the transparency and soundness of national financial systems. On the other hand, the Argentine case shows that the lack of mechanisms for a predictable and swift restructuring of public debt may allow the financial crises of sovereign debtors to develop in a chaotic way, at great economic and social cost. For these reasons, at the end of last year the IMF launched an initiative to formalize the mechanisms for resolving international financial crises. There followed a wide-ranging debate within the international community that led to the identification of three main options for crisis management and private sector involvement: 1) the contractual approach, in which clauses specifying the procedures to be followed in the event of default would be included in loan contracts; 2) the regulatory approach, based on the establishment of a legal procedure for resolving sovereign debt crises; and 3) the informal approach, involving the adoption of a predetermined mechanism for the temporary suspension of debt servicing, activated by the country itself.

The debate about the management of sovereign debt crises was resumed at the recent spring meetings of the IMF and the World Bank. Particular emphasis was laid on the need for stricter application of limits on IMF lending. The need for further work to define a framework for the resolution of sovereign debt crises and the involvement of the private sector was re-affirmed. In this respect it was agreed that the various options should be considered as complementary and not as alternatives.

The work of the Financial Stability Forum aimed at identifying potential weaknesses in the international financial system became highly relevant in the light of the slowdown in the world economy and the shocks that occurred in 2001. After the events of September, it helped in particular to galvanize efforts to prevent the international financial system from being used to support terrorist activities. At its meeting in Hong Kong in March the Forum defined the characteristics of the forthcoming initiatives regarding offshore centres.

In 2001 the IMF and the World Bank intensified their scrutiny of compliance with standards and codes of conduct in individual countries. By the end of the year 67 countries had agreed to cooperate in the preparation of a Report on the Observance of Standards and Codes (ROSC), 31 more than in 2000. So far, 201 ROSC modules have been completed, of which 140 have been published by the IMF. A large majority of the ROSC modules carried out in 2001 (more than 60 per cent) were conducted as part of a wider national Financial Sector Stability Assessment. During the year the IMF held a series of seminars in the main international financial centres to inform market participants about the programmes in question and to encourage their use for investment decisions. In 2001 Italy prepared to carry out four ROSC modules on the collection and publication of economic statistics, the transparency of budgetary policy, banking supervision and payment systems. The last two modules, which fall exclusively within the purview of the Bank of Italy, were completed recently.

INTERNATIONAL TRADE AND THE BALANCE OF PAYMENTS

Trade and the prices of raw materials

The slowdown in world trade, which began in the second half of 2000, was unusually steep in 2001. Trade in goods and services declined by 0.2 per cent in real terms on average for the year, following the exceptional 12.4 per cent growth recorded in 2000. Sharper contractions were registered in the course of the year. More pronounced still was the decrease in trade in goods (0.7 per cent year on year). An actual contraction of world trade had not occurred since 1982.

The downturn in trade was accentuated by the simultaneous recession in the main industrial economies. The running down of excess inventories in industry had serious repercussions on imports of raw materials and intermediate goods. The abrupt slowdown of fixed investment in the United States bore most heavily on information and communications technology (ICT), a sector whose weight in world trade (about 15 per cent of world exports of goods by value) reflects the large-scale internationalization of production. Trade in services was affected by declines in tourism and transportation, whose dollar value diminished by 3 and 2 per cent respectively.

The volume of US goods imports diminished by 2.8 per cent in 2001, mostly in the capital goods sector. The exports of countries specializing in ICT fell significantly. Japanese exports declined by 10 per cent in volume terms. Those of the group of newly industrialized and developing countries of Asia most open to trade (i.e. excluding China and India) declined by 5 per cent, compared with a rise of nearly 16 per cent in 2000.

The countries of the euro area recorded a very small increase in imports (0.4 per cent) on average for the year. Exports, though slowing down sharply, still increased by 2.4 per cent, thanks mainly to a 3.5 per cent gain in Germany. This presumably reflects the lesser importance of ICT goods in the area economies.

The price of crude oil (average for the three main grades), which had risen by 57 per cent year-on-year in 2000, fell by 29 per cent in the course of 2001; this resulted in a decline of 14 per cent on average for the year. In the second half, the real price of oil fell back to near its average for the last ten years.

In the first two months of 2002, as the world economy improved, oil prices recovered somewhat, steadying at around $20 a barrel. From the end of February onwards the heightened tensions in the Middle East led to significantly higher and more volatile prices. In the second week of May oil was back above $26 a barrel, about the same level as in June 2001.

The index of non-fuel commodities prices, which had risen by 1.8 per cent in 2000 interrupting a decline that began in 1996, fell by 5.5 per cent last year, owing mainly to a decline in the prices of metals (10 per cent) and non-food agricultural raw materials (7 per cent). The overall index turned upwards again in 2002, reflecting the partial recovery of these components, which are especially responsive to cyclical developments.

Balance-of-payments developments

The current account imbalances between the main regions of the world remained very large in 2001, with only a small reduction following the significant increase of the previous year.

In the United States, despite the pronounced slowdown in domestic demand there was only a modest correction of the large current account deficit, from $445 billion to $417 billion (4.5 to 4.1 per cent of GDP; Table 2). The further appreciation of the dollar resulted in a decline in competitiveness of nearly 5 per cent on average for the year, following a 5.5 per cent fall in 2000, and brought the overall deterioration since the start of 1997 to nearly 12 per cent. The trade deficit, while decreasing from $452 billion to $427 billion, continued to reflect goods imports that exceeded exports by almost 60 per cent.

The current account of the euro area was roughly in balance, compared with a small deficit of $65 billion in 2000. Japan’s surplus narrowed from $120 billion to $88 billion, or from 2.5 to 2.1 per cent of GDP, owing mainly to a weakening of demand in Asia. In the newly industrialized Asian economies imports decreased even more than exports, expanding their surplus to $57 billion (equal to 6 per cent of GDP), close to the peak recorded in 1998.

The large surplus of the oil exporting countries that had emerged in 2000 was greatly diminished. That of the oil-exporting developing countries shrank from $102 billion to $56 billion, or from 14.4 to 7.8 per cent of GDP, and that of Russia from $46 billion to $35 billion, or from 17.8 to 10.9 per cent of GDP. Latin America's structural current account deficit widened from $48 billion to $54 billion, or from 2.4 to 2.9 per cent of GDP, owing mainly to the decreased surplus of Venezuela, which is a leading oil exporter. The Brazilian and Mexican deficits, which are the region's largest, remained broadly unchanged at $23 billion and $18 billion respectively. However, the former rose from 4.1 to 4.6 per cent of GDP while the latter declined slightly to 2.8 per cent. Recession cut Argentina's deficit by nearly half, to $5 billion or 1.7 per cent of GDP. The countries of Central and Eastern Europe continued to run a deficit of about $20 billion, which was equal to 4.4 per cent of GDP compared with 5.1 per cent in 2000.

Table 2

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

	Billions of dollars			As a percentage of GDP		
	1999	2000	2001	1999	2000	2001
Advanced countries						
United States	–324.4	–444.7	–417.4	–3.5	–4.5	–4.1
Japan	114.7	119.6	87.8	2.6	2.5	2.1
Euro area	–28.3	–64.9	1.5	–0.4	–1.1	. .
Newly industrialized Asian economies (1)	63.3	45.1	57.1	6.8	4.4	6.0
of which: South Korea	*24.5*	*11.4*	*8.2*	*6.0*	*2.5*	*1.9*
Developing countries						
Asia	45.9	45.9	39.1	2.2	2.1	1.7
of which: Asean-4 (2)	*38.2*	*34.8*	*24.0*	*9.1*	*7.9*	*5.7*
China	*15.7*	*20.5*	*19.6*	*1.6*	*1.9*	*1.7*
India	*–3.2*	*–4.3*	*–0.1*	*–0.7*	*–0.9*	. .
Latin America	–56.7	–47.9	–54.3	–3.2	–2.4	–2.9
of which: Argentina	*–12.0*	*–8.9*	*–4.6*	*–4.2*	*–3.1*	*–1.7*
Brazil	*–25.4*	*–24.6*	*–23.2*	*–4.8*	*–4.1*	*–4.6*
Mexico	*–14.0*	*–17.7*	*–17.5*	*–2.9*	*–3.1*	*–2.8*
Venezuela	*3.6*	*13.1*	*4.5*	*3.4*	*10.8*	*3.6*
Central and Eastern Europe	**–23.3**	**–19.9**	**–18.8**	**–5.9**	**–5.1**	**–4.4**
Russia	**24.7**	**46.3**	**35.4**	**12.8**	**17.8**	**10.9**
Memorandum items:						
Oil-exporting developing countries	**18.6**	**102.0**	**56.1**	**3.1**	**14.4**	**7.8**
Non-oil-exporting developing countries	**–29.8**	**–36.4**	**–28.8**	**–0.7**	**–0.8**	**–0.6**

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

The US current account deficit was again easily financed by abundant capital inflows. Net inward portfolio investment in bonds soared from $256 billion to $424 billion, reflecting a substantial increase in non-residents' purchases of US corporate and agency paper, while that in equities fell from $94 billion to $19 billion. Net foreign direct investment inflows, which had financed about a third of the current account deficit over the previous two years, came to a halt, reflecting an abrupt reduction in new inward investment.

On the basis of current and capital account movements, the international investment position of the United States is estimated to have gone from net liabilities of $2,187 billion at the end of 2000 to about $2,600 billion at the end of last year (more than 25 per cent of GDP).

Japan's net external asset position rose to $1,370 billion (35.6 per cent of GDP), while the net external liabilities of the euro area appear to have decreased slightly, from $94 billion to $80 billion (1.3 per cent of GDP).

Capital flows to the emerging countries

Following a severe contraction in 2000, net capital flows to the emerging countries recovered last year. Net private flows rose from $8 billion to $31 billion and official flows from $6 billion to $37 billion (Table 3), reflecting the international support granted to Brazil and Turkey. However, the total flow of $69 billion was not only far below the peak of $236 billion a year in 1995-96, before the Asian crisis, but also lower than the average for 1997-99.

Foreign direct investment remained by far the largest source of financing. It rose from $153 billion to $176 billion and thus exceeded the investment flows that prevailed prior to the Asian crisis of 1997. Except in the Asian countries most severely affected by the crisis, where the capital flow declined by comparison with 1999 and 2000 owing to diminishing corporate acquisitions from abroad and the contraction of activity in the new technology sector, foreign direct investment remained constant or increased everywhere, with Latin America continuing to receive the largest amount ($67 billion).

By contrast, "other investment" (which includes bank loans) continued to represent a considerable drain on resources, with net outflows of $114 billion ($141 billion in 2000). However, whereas from 1997 to 2000 international disinvestment mainly involved the countries of Asia (to the tune of $72 billion a year), in 2001 it was concentrated in Latin America ($41 billion, compared with an annual average of $19 billion between 1997 and 2000). Portfolio investment also resulted in a net outflow of $30 billion in 2001, compared with $4 billion in 2000. This appears to have been due to the virtual halt to international bond issues in the third quarter and a sharp reduction in equity investment inflows, which had been growing very rapidly in Asia in recent years in connection with the excellent performance of new technology shares.

Table 3

NET CAPITAL FLOWS TO EMERGING COUNTRIES (1)
(billions of dollars)

	Average 1994-96	1997	1998	1999	2000	2001
	All emerging countries					
Net private flows	199.0	111.9	65.4	69.4	7.7	31.3
Direct investment	*99.3*	*142.7*	*154.7*	*163.8*	*153.4*	*175.5*
Portfolio investment	*80.4*	*46.3*	*−4.6*	*33.9*	*−4.3*	*−30.2*
Other investment	*19.4*	*−77.2*	*−84.7*	*−128.2*	*−141.4*	*−114.0*
Net official flows	9.6	64.9	60.5	13.7	5.7	37.2
	Asia (2)					
Net private flows	96.0	14.0	−47.0	1.3	−15.5	19.2
Direct investment	*51.6*	*57.5*	*59.8*	*61.9*	*54.4*	*53.5*
Portfolio investment	*23.9*	*6.8*	*−18.2*	*14.2*	*4.4*	*−14.4*
Other investment	*20.6*	*−50.3*	*−88.5*	*−75.0*	*−74.2*	*−19.9*
Net official flows	−1.1	7.1	20.1	1.6	4.5	−1.4
	Latin America					
Net private flows	52.5	70.6	71.3	43.2	42.5	27.1
Direct investment	*29.1*	*56.2*	*60.6*	*64.1*	*61.6*	*67.2*
Portfolio investment	*34.9*	*25.9*	*18.7*	*11.1*	*4.6*	*0.9*
Other investment	*−11.5*	*−11.5*	*−8.0*	*−32.0*	*−23.8*	*−41.0*
Net official flows	8.9	13.7	16.1	7.4	−0.5	29.1
	Africa					
Net private flows	14.0	8.2	11.9	10.6	3.9	7.9
Direct investment	*3.0*	*8.0*	*6.5*	*8.9*	*7.3*	*22.2*
Portfolio investment	*3.2*	*7.0*	*3.7*	*8.7*	*−2.4*	*−8.8*
Other investment	*7.8*	*−6.8*	*1.6*	*−7.0*	*−1.0*	*−5.5*
Net official flows	1.8	1.9	3.1	1.9	1.4	1.1
	Middle East, Malta and Turkey					
Net private flows	10.9	15.1	9.5	0.6	−24.0	−27.1
Direct investment	*5.3*	*5.2*	*6.3*	*5.4*	*7.3*	*8.5*
Portfolio investment	*3.8*	*−0.9*	*−13.2*	*−3.2*	*−13.7*	*−10.2*
Other investment	*1.8*	*10.8*	*16.3*	*−1.7*	*−17.6*	*−25.5*
Net official flows	4.9	9.3	2.9	2.4	−0.1	7.1
	Central and Eastern Europe and former Soviet Union					
Net private flows	25.5	3.9	19.8	13.9	0.8	4.2
Direct investment	*10.3*	*15.8*	*21.4*	*23.4*	*22.8*	*24.0*
Portfolio investment	*14.7*	*7.5*	*4.5*	*3.1*	*2.8*	*2.4*
Other investment	*0.5*	*−19.4*	*−6.1*	*−12.6*	*−24.8*	*−22.2*
Net official flows	−4.9	32.9	18.2	0.4	0.4	1.4

Source: IMF.
(1) Capital inflows less outflows. Other investment comprises bank loans and trade credit, foreign currency deposits and other assets and liabilities; it may also inlude some official flows. Rounding may cause discrepancies in totals. – (2) Includes Southern and Eastern Asia, excluding Japan and Hong Kong.

INCOME, PRICES AND THE BALANCE OF PAYMENTS

The cyclical slowdown in the euro area

Euro-area GDP grew by 1.5 per cent in 2001, two percentage points less than in the previous year (Table 4). The rise in oil prices in 2000, the end to the long expansion in the United States, and the economic deterioration in Japan braked the pace of world trade, which was virtually flat. This hit the area's exports, which rose by barely 2.5 per cent, 10 percentage points less than in 2000, and, indirectly, national demand, whose main components weakened: alongside the slight fall in gross fixed investment and the negative contribution of the change in stocks, there was only modest growth in household consumption (1.7 per cent).

It is estimated that more than half of the slowdown in economic activity in the euro area in 2001 was attributable to the deceleration in world demand.

Industrial production had begun to fall as early as the first few months of 2001, following the downturn in the United States. Signs of a possible recovery emerged during the summer, but the terrorist attacks in September caused the economic picture to worsen again; the index of industrial production fell to its low in November. In the fourth quarter the area's GDP contracted, interrupting a long phase of growth that had lasted since 1993.

The fall in world demand and the uncertain economic outlook were reflected in a decline in investment throughout the year. Consumption slowed down after growing robustly in the first quarter and stagnated in the second half of the year. The stimulus of the tax reductions enacted in various euro-area countries in 2000 was counteracted by the worsening in the general economic situation and by the loss of purchasing power due to higher inflation. Only in France did consumption maintain the previous year's rate of expansion, though easing slightly in the second half.

The cyclical slowdown had an attenuated impact on employment growth, which began to weaken in the spring. The average unemployment rate in the euro area fell to 8.3 per cent in March and remained unchanged for the rest of the year. There was further convergence among national unemployment rates; only Spain and Greece registered rates higher than 10 per cent.

Table 4

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

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

	2000	2001	2001			
	Year	Year	Q1	Q2	Q3	Q4
			GDP			
Germany	3.0	0.6	0.4	. .	−0.2	−0.3
France	3.8	1.8	0.3	−0.1	0.5	−0.4
Italy	2.9	1.8	0.8	. .	0.1	−0.2
Spain	4.1	2.8	1.0	0.2	0.9	0.2
Euro area	3.5	1.5	0.5	0.1	0.2	−0.2
			Imports			
Germany	10.0	0.1	−5.4	1.1	−1.7	. .
France	14.3	0.1	−2.3	−1.8	−1.0	−3.2
Italy	9.4	0.2	0.5	0.6	−2.8	−1.2
Spain	9.8	3.7	0.4	1.0	−1.3	1.5
Euro area	10.9	0.8	−1.9	−0.3	−1.5	−1.0
			Exports			
Germany	13.2	4.7	0.1	0.3	0.6	−1.1
France	12.7	0.5	−0.4	−2.7	−0.8	−2.4
Italy	11.7	0.8	−0.3	. .	−2.4	−0.1
Spain	9.6	3.4	−1.8	−0.1	0.4	0.1
Euro area	12.2	2.5	−0.2	−0.7	−0.4	−1.2
			Household consumption (1)			
Germany	1.4	1.1	1.0	0.7	−0.3	−0.5
France	2.5	2.6	1.2	0.2	1.0	0.3
Italy	2.7	1.1	0.4	0.3	−0.2	0.3
Spain	4.0	2.7	2.4	0.2	−0.8	1.4
Euro area	2.5	1.7	1.0	0.5	0.1	0.1
			Gross fixed investment			
Germany	2.3	−4.8	−2.2	−1.5	−1.5	−0.9
France	7.7	2.3	−0.1	−0.3	0.3	0.2
Italy	6.5	2.4	1.3	0.2	0.4	−0.1
Spain	5.7	2.5	0.8	0.4	1.0	−1.0
Euro area	4.4	−0.4	−0.4	−0.7	−0.3	−0.4
			National demand			
Germany	2.0	−1.0	−1.5	0.3	−1.0	0.1
France	4.0	1.7	−0.2	0.2	0.5	−0.6
Italy	2.1	1.6	1.1	0.2	. .	−0.5
Spain	4.2	2.8	1.7	0.5	0.4	0.6
Euro area	3.0	0.8	−0.1	0.2	−0.2	−0.1
			Net exports (2)			
Germany	1.1	1.6	1.8	−0.3	0.8	−0.4
France	−0.1	0.1	0.5	−0.3	. .	0.2
Italy	0.8	0.2	−0.2	−0.2	0.1	0.3
Spain	−0.2	−0.1	−0.7	−0.4	0.6	−0.4
Euro area	0.6	0.7	0.6	−0.2	0.4	−0.1

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.

Inflation, measured by the harmonized consumer price index, was equal to 2.7 per cent in 2001, 0.3 percentage points higher than in 2000. Initially fueled by the rise in the prices of unprocessed food products and by the lagged effects of that in oil prices, inflation gradually subsided in the second half of the year; by December the twelve-month rate was down to 2 per cent. Core inflation was equal to 2.1 per cent, 0.8 points higher than in 2000; the dispersion of rates among the countries of the area remained roughly unchanged.

Economic activity in Italy

GDP growth in Italy slackened from 2.9 per cent in 2000 to 1.8 per cent last year (Table 5).This was still slightly higher than the average for the years since 1990 (1.6 per cent) and was also better than the figure for the euro area as a whole for the first time since 1995. The slowdown in output growth, less pronounced in Italy than in the other major countries of the area, was about 50 per cent attributable to the deceleration in world trade, compared with higher values in Germany and France.

Table 5

ITALY: RESOURCES AND USES OF INCOME

	Percentage of GDP in 2001	2000			2001		
		Percentage changes		Contribution to the growth in GDP at constant prices	Percentage changes		Contribution to the growth in GDP at constant prices
		Values at constant prices	Deflators		Values at constant prices	Deflators	
Resources							
GDP	–	2.9	2.1	–	1.8	2.6	–
Imports of goods *fob* and services (1)	28.3	9.4	12.0	–2.5	0.2	1.6	. .
of which: goods	*22.1*	*11.0*	*13.4*	*–2.3*	*–0.2*	*1.1*	*–0.1*
Uses							
National demand	98.1	2.1	4.0	2.1	1.6	2.1	1.6
Consumption of resident households	59.8	2.7	2.8	1.6	1.1	2.9	0.7
Consumption of government and non-profit institutions serving households	17.6	1.7	4.4	0.3	2.3	3.4	0.4
Gross fixed capital formation	20.8	6.5	2.3	1.3	2.4	1.9	0.5
machinery, equipment and transport equipment	*11.3*	*6.9*	*1.7*	*0.8*	*1.2*	*1.2*	*0.1*
construction	*8.5*	*5.6*	*3.2*	*0.5*	*3.7*	*2.6*	*0.3*
intagible assets	*0.9*	*9.1*	*1.8*	*0.1*	*5.3*	*3.2*	. .
Change in stocks and valuables (2)	–0.2	–	–	–1.1	–	–	. .
Exports of goods *fob* and services (3)	30.3	11.7	4.5	3.3	0.8	3.3	0.2
of which: goods	*24.0*	*11.7*	*5.4*	*2.6*	*0.2*	*3.6*	. .

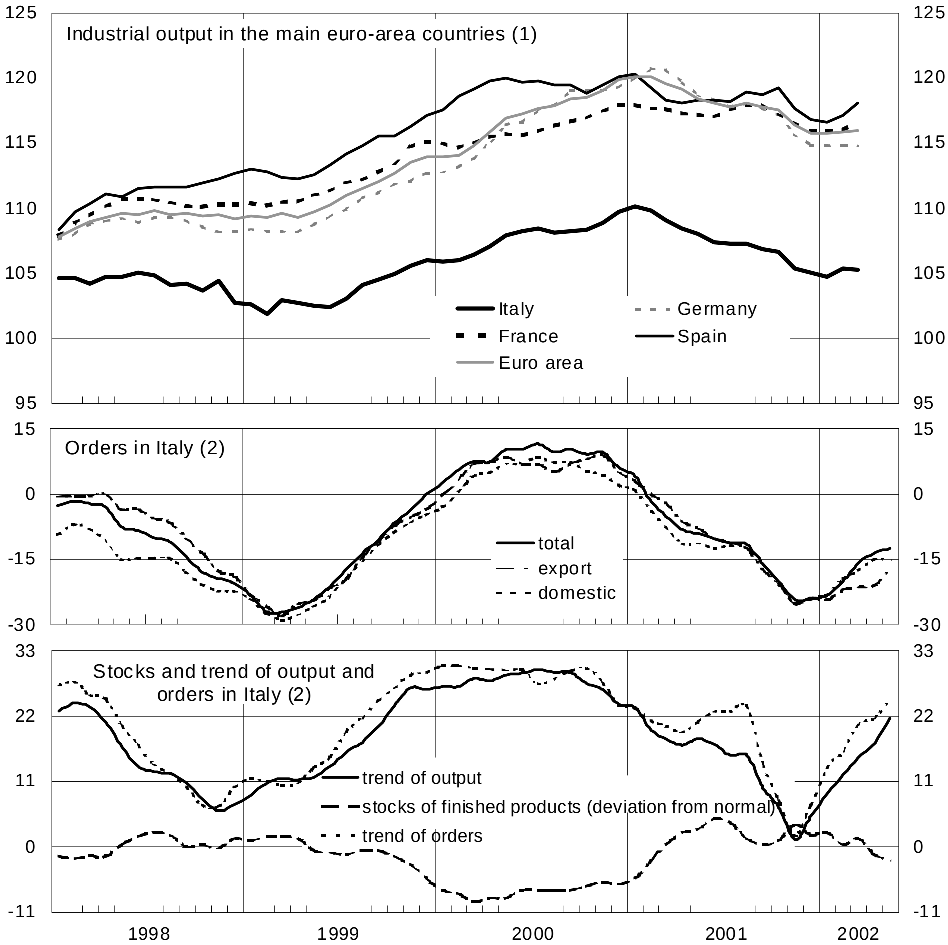
Source: Istat, national accounts.
(1) Includes residents' expenditure abroad. – (2) Includes statistical discrepancies. – (3) Includes non-residents' expenditure in Italy.

After expanding at a 3 per cent annual rate in the first quarter, GDP stagnated in the second and third quarters and contracted in the fourth. The November low of the index of industrial production, adjusted for seasonal and calendar effects, was 7 per cent below the level of December 2000 (Figure 2).

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. – (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.

In line with the development of world trade, exports of goods and services remained virtually unchanged, whereas in 2000 they had grown by 11.7 per cent. The evolution of exports, together with the weak growth in domestic demand, caused imports to stagnate. Thanks to the gain of 2 percentage points in the terms of trade (which had deteriorated by 7 points in 2000), Italy's external current account showed a deficit of just €200 million; the €6.1 billion improvement from 2000 was entirely attributable to the trade balance. In conjunction with the depreciation of the euro, the growth in exports to non-EU markets made it possible to halt the erosion of market shares.

After three years of better than 7 per cent growth, gross fixed investment other than construction slowed down abruptly. The sharp deceleration in foreign demand, the modest increase in domestic demand and the uncertain economic outlook caused corporate spending on capital goods to hold at the level of the previous year in spite of good earnings, favourable financial conditions and ample tax incentives.

Investment in construction maintained a high growth rate (3.7 per cent), thanks to the consolidation of the positive trend in residential building and the increase in public works (4.6 per cent).

Household consumption growth slowed down to 1.1 per cent, compared with 2.7 per cent in 2000. A striking aspect was the decline in purchases of durable goods after three years of robust expansion. Despite several tax relief measures introduced at the end of 2000, the protracted sluggishness of disposable income and concern over the possible consequences of the international crisis in the autumn checked the growth in spending.

In the last ten years disposable income at constant prices has remained virtually stable, owing to limited wage growth and the decline in interest income. Households have maintained their levels of consumption by steadily reducing their saving. The average propensity to save has declined by nearly half since 1990, falling to less than 12 per cent of disposable income.

In 2001 the harmonized index of consumer prices rose by 2.7 per cent in Italy as well, reflecting the inflationary pressures common to the euro area. Core inflation was equal to 2.4 per cent, 0.4 points more than in 2000. The differential with France and Germany narrowed a bit, but it remains wide in the service sector, especially in some branches where the markets are relatively non-competitive.

Despite the slowdown in economic growth, the labour force survey found that the number of persons in work rose by 2.1 per cent on average for the year. While temporary workers' share in total employment diminished, the number of full-time permanent employees continued to grow and regained the level preceding the crisis of 1993 with the aid of several specific incentives. The expansion in employment, under way since 1995, was also supported by changes in the relative prices of factors that encouraged the use of labour.

The factors of competitiveness of Italian firms

The possibility of launching a phase of rapid growth for the Italian economy with the cyclical upturn depends on the recovery of competitiveness by industry. While the volume of world trade has expanded by 7.1 per cent a year since 1994, Italian exports of goods and services have increased at an annual rate of 5.6 per cent, compared with 7 and 7.5 per cent respectively for France and Germany; since 1998, when exchange rates with the euro were irrevocably fixed, the export growth gap with these two countries has widened further (to 2.5 and 3.7 percentage points respectively).

Italy's economic infrastructure is still significantly underdeveloped compared with the other major European countries. Besides sustaining economic growth in the short term, a substantial increase in the volume of resources allocated to public investment is indispensable to attenuate the logistical constraints on the expansion of trade and improve the provision of services essential to firms' growth. It is also necessary to eliminate the geographical disparities in the infrastructural endowment which – quite apart from considerations of fairness – threaten to engender systemic inefficiencies and make the whole of Italy less attractive for private investment.

Important initiatives were begun in the nineties to modernize the sectors that produce goods and business services, in order to restore a competitive environment in activities long subject either to legal monopoly or to direct state intervention through public ownership. This objective was pursued by gradually liberalizing and privatizing financial, industrial and public utility sectors, by introducing independent sectoral regulators and antitrust authorities, and by applying Community directives for the liberalization of important aspects of the European internal market, such as public procurement.

The process of redrawing the boundaries of public ownership and restructuring markets has encountered obstacles and delays. In 2001 the change of legislature, which caused important bills to lapse, and the stock market turbulence accentuated the incompleteness and loss of momentum of the reforms, which was pointed out in last year's Annual Report.

Reform of regulation, tariffs, ownership structures and market boundaries in local public services remains of vital importance for the productive system, as does the resumption of liberalization in professional business services, retail trade, telecommunications, and energy generation and distribution.

Untapped growth potential is implicit in the small size of Italian firms in all branches of production. The persistence of this phenomenon and the widening gap vis-à-vis the other European countries, even if compensated for by Italy's characteristic industrial districts, indicate that various cultural, institutional and economic factors impede the growth of firms. The consequences of a fragmented productive structure are seen in the opportunities that go unexploited because of a sub-optimal scale of production and in Italian firms' low propensity for innovation and internationalization.

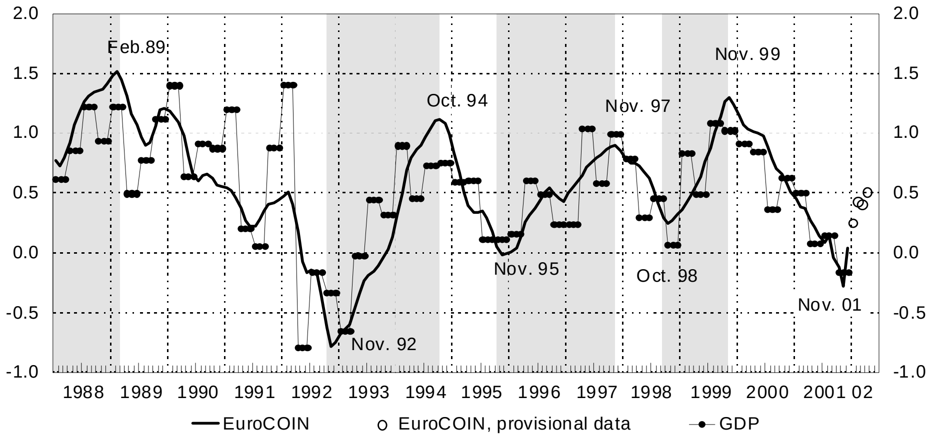
Current trends

The main cyclical indicators in the euro area show that the recession of 2001 bottomed out in November. The EuroCOIN coincident indicator of the area-wide business cycle (Figure 3) shows that GDP growth in the area began to slacken in November 1999 and confirms that the cyclical trough came in November 2001. Most of the data available since the end of the year are strongly concordant in signaling a recovery in the levels of economic activity.

Figure 3

EUROCOIN INDICATOR OF THE EURO-AREA BUSINESS CYCLE AND GDP (1)

(three-month percentage changes)



Source: Center for Economic Policy Research (www.cepr.org).

(1) GDP is estimated on the basis of that of Germany, France, Italy, Spain, the Netherlands and Belgium, which account for about 90 per cent of the area's total. For the methodology adopted in constructing the indicator, see F. Altissimo, A. Bassanetti, R. Cristadoro, M. Forni, M. Lippi, L. Reichlin and G. Veronese, *A Real Time Coincident Indicator of the Euro-Area Business Cycle*, Banca d'Italia, *Temi di discussione*, no. 436, December 2001. The shaded areas denote cyclical upturns.

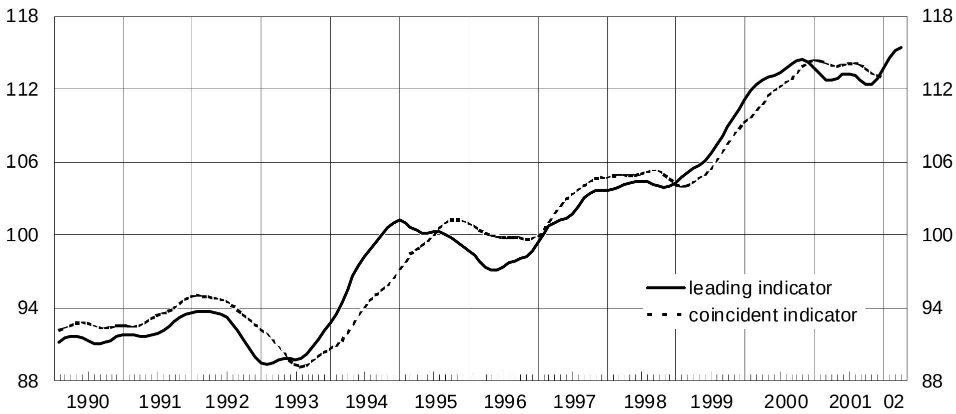
The optimism found among businessmen and, albeit in lesser degree, among consumers by the surveys conducted in the euro-area countries suggests that the recovery will continue in the months ahead, provided that world trade begins to expand again and barring shocks at the international level, particularly to oil prices.

In this setting, the main international organizations forecast that the growth in euro-area GDP in 2002 as a whole will be similar to that achieved last year. The slackness that continued into the first few months of 2002 is expected to be followed by an acceleration fueled by a recovery in exports and by the resilience of the domestic components of demand, with annualized rates of growth outstripping potential in the second half.

Figure 4

INDICATORS OF THE BUSINESS CYCLE IN ITALY

(indices, 1995=100)



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

After remaining above the threshold of stability in 2000 and 2001, inflation in the area should gradually come down to around 2 per cent in the closing months of this year.

In Italy, preliminary Istat data indicate that GDP grew by 0.2 per cent in the first quarter of 2002 with respect to the previous quarter. According to estimates based on electricity consumption, the course of industrial production in the last few months points to a slight pick-up in growth for the second quarter, consistent with the readings of the leading indicator of the Italian business cycle (Figure 4).

DEMAND

Household consumption

The rate of growth in euro-area household consumption declined from 2.5 per cent to 1.7 per cent in real terms in 2001. The slowdown involved all of the major countries except France, where demand for consumer goods continued to rise by about 2.5 per cent, thanks to the stimulus of the three-year plan for reducing direct taxes begun in 2000. Household consumption was also relatively robust in Spain, though its growth decelerated from 4 to 2.7 per cent. In Germany, where the rate of expansion had fallen by half to 1.4 per cent in 2000, it fell further to 1.1 per cent. The stimulus of the tax relief introduced early in the year was counteracted by the temporary pick-up in inflation and the deterioration in labour market conditions.

In Italy the growth in consumption decelerated more sharply than in the other countries, from 2.7 to 1.1 per cent (Table 6); there was a small gain in the first half of the year (0.7 per cent on the preceding six months), none in the second. The acceleration that had begun in the second half of the 1990s, with growth averaging 2.9 per cent per year between 1996 and 2000, came to a halt.

Spending on consumer goods in Italy was restrained in 2001 by the persistence of sluggish growth in households' disposable income, which nonetheless turned upwards, and by marked uncertainty. Consumers' opinions about the general economic outlook fluctuated widely during the year; the rapid improvement recorded in the opening months was erased between July and November, especially in the wake of the terrorist attacks of 11 September. Assessments of the employment situation followed an analogous trend, albeit with less intensity. The result was even greater volatility in the composite indicator of consumer confidence than in the preceding years (Figure 5).

Excluding resident households' spending abroad and including non-residents' spending in Italy, which dropped by 5.5 and 5.4 per cent respectively, largely in the period following the terrorist attacks, domestic consumption increased by 1 per cent, compared with 3.1 per cent in 2000. The slowdown involved all the main categories of goods but was particularly sharp for durable goods, spending on which contracted by 1.5 per cent following three years of rapid growth (5.4 per cent per year between 1998 and 2000). Spending for services, which in the last two years has accounted for the largest share of total consumption, continued to act as the mainstay of household demand, although its rate of growth slipped to 1.9 per cent.

Table 6

ITALIAN HOUSEHOLD CONSUMPTION

(at 1995 prices; percentage changes)

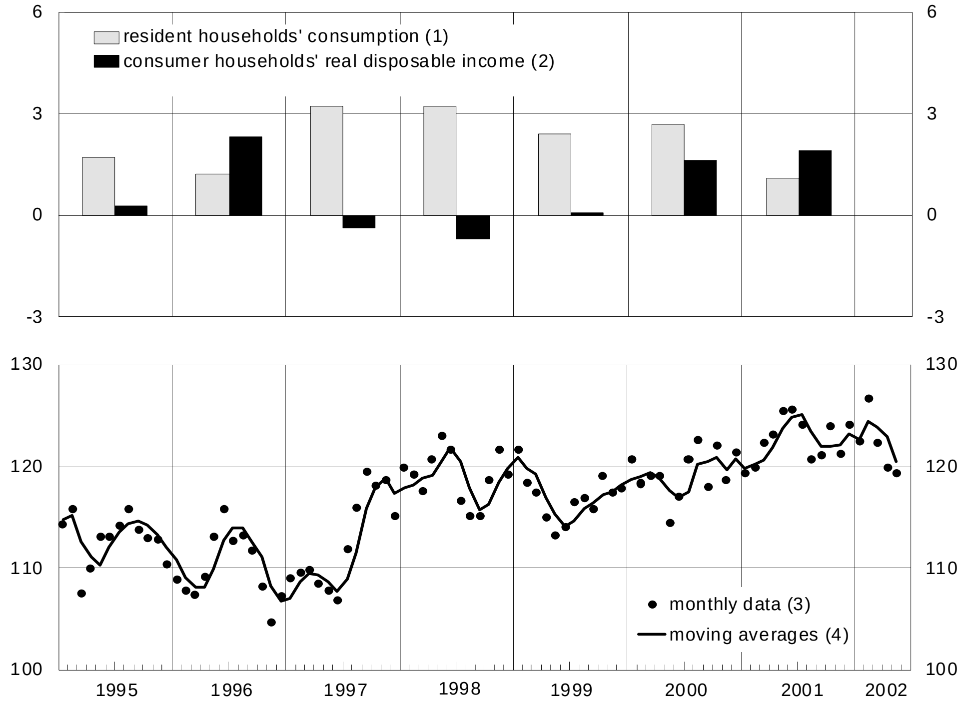
	% share in 2001	1998	1999	2000	2001
Non-durable goods	43.6	2.7	1.0	1.5	0.8
of which: food and beverages	*15.8*	*0.6*	*–0.2*	*1.9*	*. .*
Durable goods	11.9	5.0	5.4	5.9	–1.5
of which: furniture and repairs	*3.9*	*3.5*	*4.5*	*2.6*	*–1.2*
electrical household appliances and repairs	*1.4*	*8.4*	*12.4*	*3.2*	*–0.1*
television receiving sets, photographic, computer and hi-fi equipment	*1.4*	*4.3*	*19.8*	*17.8*	*5.3*
transport equipment	*3.9*	*1.8*	*–1.4*	*3.0*	*–3.8*
Services	44.4	2.8	2.6	3.9	1.9
of which: hotel and restaurant	*9.4*	*2.9*	*3.3*	*8.7*	*2.6*
communication	*3.9*	*14.6*	*20.0*	*17.6*	*4.3*
recreational and cultural	*2.8*	*5.3*	*5.4*	*8.3*	*0.8*
Total domestic consumption	**100.0**	**3.0**	**2.2**	**3.1**	**1.0**
Residents' consumption abroad	(1)	6.3	2.1	–3.2	–5.5
Non-residents' consumption in Italy	(1)	1.3	–2.3	8.4	–5.4
Total national consumption	**-**	**3.2**	**2.4**	**2.7**	**1.1**
Memorandum item:					
Deflator of national consumption	–	2.1	2.1	2.8	2.9

Source: Istat, national accounts.

(1) Residents' consumption abroad and non-residents' consumption in Italy amounted to 2.4 and 4 per cent, respectively, of total domestic consumption.

Figure 5

CONSUMPTION, REAL INCOME AND CONSUMER CONFIDENCE IN ITALY



Sources: Based on Istat and ISAE data.

(1) At 1995 prices; percentage changes on previous period. – (2) Percentage changes in gross disposable income, divided by the resident households' consumption deflator. – (3) Indices, 1980=100; seasonally adjusted data. – (4) For the three months ending in the reference month.

In 2001 Italian consumer households' gross disposable income grew by 4.8 per cent at current prices and 1.9 per cent at constant prices, slightly more than in 2000 (Table 7). Factoring in the greater erosion of the purchasing power of net financial assets due to expected inflation, the gain in income at constant prices falls to 1.6 per cent, compared with 0.4 per cent in 2000.

The growth in households' disposable income was fueled mainly by labour income from salaried employment and self-employment. Total earnings from salaried employment, net of employee social security contributions, increased by 5.1 per cent in nominal terms; since employment measured by standard labour units grew by 2 per cent, the increase in earnings per unit amounted to 3.1 per cent. Labour income from self-employment rose by 6 per cent, appreciably more than in the two preceding years. Property income growth slowed down sharply (from more than 8 to 2.5 per cent), owing mainly to a decrease in net interest income and dividend payments, which had been substantial in 2000. The contribution of general government redistributive measures to gross disposable income remained negative, although considerably less so than in the previous year (nearly 0.5 percentage points).

Table 7

GROSS DISPOSABLE INCOME AND PROPENSITY TO SAVE

(at current prices unless otherwise specified)

	1998	1999	2000	2001
	Percentage changes			
Earnings net of social contributions charged to workers	4.6	4.3	5.1	5.1
Income from salaried employment per standard labour unit	*–1.6*	*2.4*	*3.0*	*2.9*
Total social contributions (1)	*5.1*	*0.5*	*0.1*	*0.2*
Standard employee labour units	*1.0*	*1.3*	*1.9*	*2.0*
Income from self-employment net of social contributions (2)	3.6	3.2	2.5	6.0
Income from self employment per standard labour unit	*0.5*	*4.3*	*1.5*	*5.4*
Total social contributions (1)	*2.2*	*–0.6*	*–0.4*	*0.1*
Standard self-employed labour units	*0.9*	*–0.4*	*1.4*	*0.5*
Net property income (3)	–3.5	–1.8	8.0	2.5
Social benefits and other net transfers	3.2	4.3	2.8	3.9
of which: net social benefits	*2.6*	*4.3*	*3.0*	*3.8*
Current taxes on income and wealth (–)	6.6	5.5	5.0	2.6
Households' gross disposable income (4)	**1.4**	**2.3**	**4.5**	**4.8**
at 1995 prices (5)	–0.7	0.1	1.6	1.9
at 1995 prices, adjusted for expected inflation (6)	. .	0.6	0.4	1.6
at 1995 prices, adjusted for past inflation (7)	–0.4	–0.2	1.6	1.4
Private sector gross disposable income	**3.9**	**1.9**	**5.0**	**4.1**
at 1995 prices (5)	1.7	–0.2	2.1	1.2
at 1995 prices, adjusted for expected inflation (6)	2.1	0.8	0.7	0.7
at 1995 prices, adjusted for past inflation (7)	1.7	0.1	2.0	0.4
	Percentages			
Households' average propensity to save (4) (8)	**14.7**	**12.7**	**11.8**	**12.4**
calculated on income adjusted for expected inflation	12.6	11.0	9.0	9.4
calculated on income adjusted for past inflation	12.3	10.0	9.1	9.3
Private sector average propensity to save (8)	**26.0**	**24.0**	**23.6**	**23.7**
calculated on income adjusted for expected inflation	24.4	23.2	21.7	21.4
calculated on income adjusted for past inflation	24.2	22.4	21.9	21.4

Sources: Based on Istat data and Bank of Italy's estimates.

(1) Contribution in percentage points of social contributions to the change in net income; negative values indicate an increase in social contributions relative to income. – (2) Includes mixed income and income withdrawn by members of quasi-corporations. – (3) Includes gross operating result (essentially actual and imputed rents), net rents of land and intangible goods, actual net interest, dividends and other profits distributed by corporations. – (4) Consumer households. – (5) Deflated using the resident households' consumption deflator. – (6) Gross disposable income net of expected losses on net financial assets due to inflation (estimated on the basis of the *Consensus Forecasts* survey), deflated using the resident households' consumption deflator. – (7) Gross disposable income net of actual losses on net financial assets due to inflation; deflated using the resident households' consumption deflator. – (8) Ratio between the saving (gross of depreciation and amortization and net of the change in pension fund reserves) and the gross disposable income of the sector.

Measured on the basis of income adjusted for expected inflation, the propensity to save of consumer households rose slightly, to 9.4 per cent, from the low of 9 per cent registered in 2000.

For the private sector as a whole, the growth in gross disposable income slowed down in 2001 from 5 to 4.1 per cent at current prices and from 2.1 to 1.2 per cent at constant prices. There was a further slight decrease in the private sector's propensity to save, calculated on income adjusted for the loss of purchasing power of net financial assets. General government saving rose slightly in relation to gross national income (Table 8); the national saving rate also edged upwards, from 20.4 to 20.5 per cent.

Table 8

GROSS SAVING AND INVESTMENT IN ITALY

(as a percentage of gross national disposable income)

	Average 1981-1990	Average 1991-2000	Average 1993-2001	1998	1999	2000	2001
General government saving	−6.4	−3.3	−1.7	0.4	1.8	1.6	1.7
Private sector saving	28.7	24.0	22.8	21.2	19.2	18.9	18.8
of which: total households	*24.0*	*16.1*	*14.4*	*12.0*	*10.6*	*9.7*	*10.5*
Gross national saving	22.3	20.7	21.0	21.5	21.0	20.4	20.5
Gross investment	23.3	19.9	19.5	19.6	20.0	20.6	19.9
Memorandum item:							
Balance of current account transactions with the rest of the world	−1.0	0.8	1.5	1.9	1.0	−0.2	0.6

Sources: Based on Istat and Bank of Italy data.

Investment

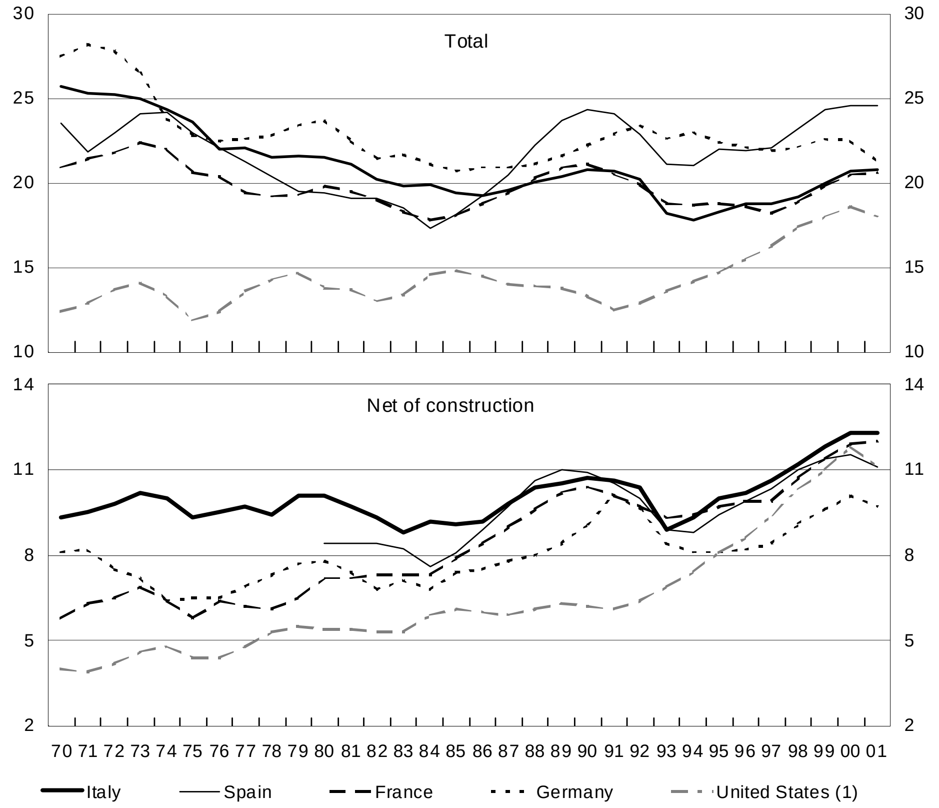
Capital formation in the euro area as a whole, which had increased by 4.4 per cent in 2000, diminished by 0.4 per cent last year. The figures were particularly negative for Germany, where growth of 2.3 per cent in gross fixed investment in 2000 gave way to a contraction of 4.8 per cent last year; the further fall of 5.8 per cent in the construction sector was compounded by a decline of 3.6 per cent in investment in other capital goods, against an increase of 8.7 per cent in 2000. Investment growth slowed down in France from 7.7 to 2.3 per cent and in Spain from 5.7 to 2.5 per cent; in Spain, investment in machinery, equipment, transport equipment and intangible assets fell for the first time since 1993. The deceleration in capital formation intensified during the year in all the major countries except for Germany, where in the second half the contraction with respect to the preceding period was slightly smaller than in the first (3.5 and 2.7 per cent, respectively).

The slowdown in gross fixed investment left its ratio to GDP practically unchanged in France and Spain both overall (20.6 and 24.6 per cent; Figure 6) and component by component. In Germany, the ratio declined from 22.5 to 21.3 per cent; the decrease was more pronounced for construction investment than for spending on capital equipment.

Figure 6

RATIO OF GROSS FIXED INVESTMENT TO GDP IN THE MAJOR EURO-AREA COUNTRIES AND THE UNITED STATES

(yearly data at constant prices; percentages)



Sources: Based on OECD and Eurostat data.
(1) Private sector.

Gross fixed investment growth also slowed down sharply in Italy, falling from 6.5 to 2.4 per cent in 2001; in the second half of 2001 the increase with respect to the preceding period was 0.4 per cent, down from 1.1 per cent in the first half. Its ratio to GDP was 20.8 per cent, virtually unchanged. Capital spending gradually lost pace from the second half of 2000 onwards, with the first signs of a slowdown in the world economy and the consequent repercussions on domestic demand.

The ISAE surveys of Italian industrial firms found a further deterioration in their assessments of the current level of domestic and foreign demand throughout much of the year, with an attenuation only in the final months. After improving during the summer, the climate of confidence languished at historic lows in fourth quarter of 2001; subsequently it regained the levels that had been registered preceding the September crisis.

The capital spending slowdown in 2001 was particularly pronounced in non-construction investment, whose annual growth fell from 7.1 to 1.5 per cent (Table 9). This was mainly the consequence of nearly flat purchases of machinery and equipment, compared with an increase of more than 6 per cent in 2000; the growth in investment in transport equipment amounted to 4.4 per cent, less than half that of the previous year. The weakness of economic activity undermined the efficacy of the tax incentives introduced in Law 383 of 18 October 2001.

Table 9

FIXED INVESTMENT IN ITALY

(at 1995 prices; percentage changes and percentages)

	Percentage change			As a percentage of GDP		
	1999	2000	2001	1999	2000	2001
Construction	2.8	5.6	3.7	8.2	8.4	8.5
residential	*1.8*	*5.2*	*3.0*	*4.5*	*4.6*	*4.6*
other	*4.1*	*6.0*	*4.5*	*3.7*	*3.8*	*3.9*
Machinery and equipment	5.2	6.1	0.3	8.6	8.8	8.7
Transport equipment	16.8	10.0	4.4	2.4	2.6	2.6
Intangible assets	10.0	9.1	5.3	0.9	0.9	0.9
Total gross fixed investment	**5.7**	**6.5**	**2.4**	**20.0**	**20.7**	**20.8**
Total excluding residential buildings	6.8	6.8	2.2	15.5	16.1	16.2
Total excluding construction	7.7	7.1	1.5	11.8	12.3	12.3
Total net fixed investment (1)	**12.0**	**13.5**	**1.0**	**6.4**	**7.0**	**7.0**

Source: Istat, national accounts.
(1) Net of depreciation.

Even though its growth slowed down from 5.6 to 3.7 per cent in 2001, investment in construction was the most dynamic component of capital formation. All the main sectors continued to expand. In residential building, an increase of 3 per cent in volume terms brought investment back to the levels obtaining before the onset of the protracted crisis at the start of the 1990s; a contributory factor was the building renovation and extraordinary maintenance work stimulated by tax incentives, applications for which rose by 16.6 per cent, compared with 7.4 per cent in 2000. The strengthening of the recovery in the property market, as evidenced by a pick-up in the number of sales, was reflected in a further rise of 7.9 per cent in the prices of new or fully renovated housing (5 per cent net of consumer price inflation).

The slowdown from 10.3 to 4.5 per cent in the growth in non-residential construction was counterbalanced by the pick-up in civil engineering, which expanded by 4.6 per cent last year after contracting by 1.4 per cent in 2000. The substantial increase in invitations to tender for public works, which rose by more than 15 per cent in value in 2001, suggests that the positive trend will continue this year.

According to the national accounts, the change in stocks and valuables was negative in Italy for the second consecutive year, although somewhat less so than in 2000, making a negligible contribution to the growth in GDP. This compares with the substantial negative effects of 0.9 and 0.8 percentage points, respectively, recorded in Germany and France. According to the surveys of business conditions, after rising in autumn to well above the levels considered normal, industrial firms' stocks of finished products have fallen back in recent months in Italy, as in the other main euro-area countries.

Exports and imports

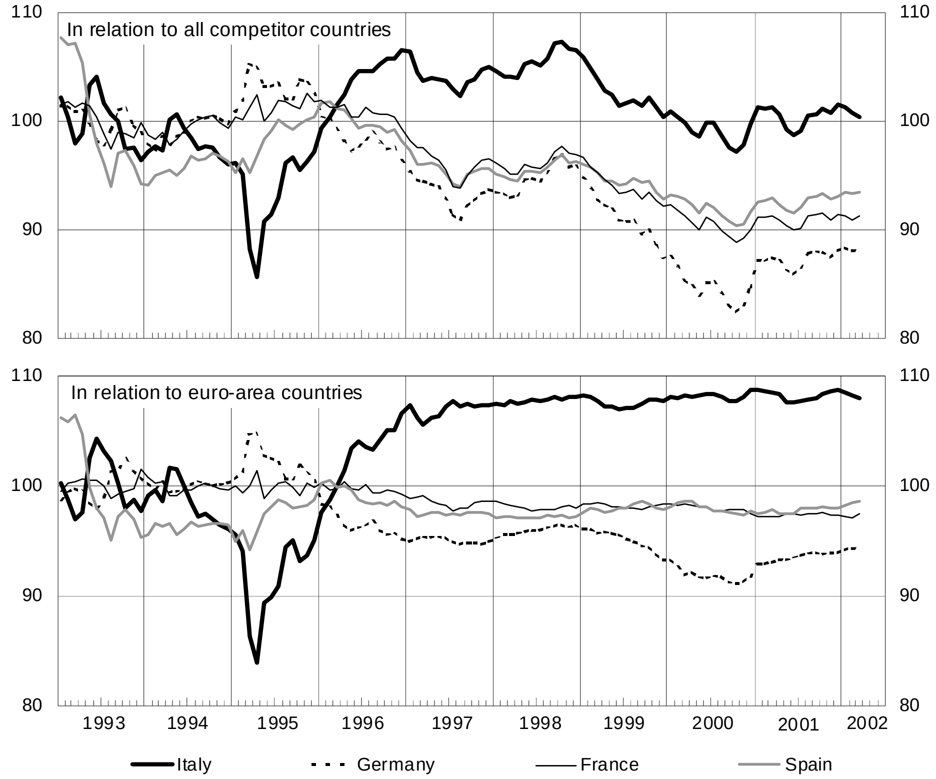
Net exports of goods and services contributed 0.7 percentage points of the growth in euro-area GDP in 2001, roughly the same as in 2000. The result reflected a larger deceleration in the growth in imports (from 10.9 to 0.8 per cent) than exports (from 12.2 to 2.5 per cent). The repercussions on exports of the sharp deterioration in world demand were attenuated by the lagged stimulus of the substantial increments in competitiveness achieved in the preceding two years with the depreciation of the euro, even if these gains were eroded in 2001. The expansion in exports was thus more rapid than that in the outlet markets, which ECB estimates put at almost 1 per cent for the euro area as a whole.

In Germany, net exports contributed 1.6 percentage points to the growth in GDP; set against broadly unchanged imports, exports recorded the fastest growth in the euro area and were fueled by past competitiveness gains, which were greater than for the other countries, given the smaller increase in producer prices in Germany (Figure 7). In France and Spain, the contribution of net exports was negligible (0.1 and –0.1 percentage points respectively).

Figure 7

INDICATORS OF COMPETITIVENESS OF THE MAJOR EURO-AREA COUNTRIES (1)

(monthly data; indices, 1993=100)



Source: Based on national statistics.
(1) Based on the producer prices of manufactures. An increase in the index indicates a loss of competitiveness.

Italian exports. – Italy's exports of goods and services expanded by 0.8 per cent at constant prices, down sharply from 11.7 per cent in 2000 (Table 10).

According to foreign trade statistics on a *cif-fob* basis, last year the volume of Italian exports of goods remained roughly the same as in 2000, when it had grown by 11.7 per cent. This was in line with the performance of world trade, which swung from growth of 13.4 to a contraction of 0.2 per cent. Italian exports to the EU fell, while those to non-EU countries expanded, but at far slower rates than in 2000.

In conjunction with a significant gain in export price competitiveness in the last two years (amounting to just under 3 per cent on the basis of producer prices), the five-year decline in Italy's share of the world market came to a halt; its share of the exports of the industrial countries was just below 6 per cent (Table 11).

Table 10

ITALY'S EXPORTS AND IMPORTS OF GOODS AND SERVICES
(percentage changes on previous year unless otherwise specified)

	1999			2000			2001		
	Goods	Services	Total	Goods	Services	Total	Goods	Services	Total
Exports (1)									
At current prices	0.6	–1.7	0.1	17.8	12.8	16.7	3.8	5.5	4.1
At 1995 prices	1.2	–3.1	0.3	11.7	11.8	11.7	0.2	3.0	0.8
Deflators	–0.5	1.4	–0.2	5.4	0.9	4.5	3.6	2.4	3.3
Imports (2)									
At current prices	6.7	2.9	5.7	25.9	12.2	22.6	0.9	4.7	1.7
At 1995 prices	7.2	–0.8	5.3	11.0	3.9	9.4	–0.2	1.6	0.2
Deflators	–0.5	3.8	0.4	13.4	8.0	12.0	1.1	3.1	1.6
Exports/imports									
At current prices, % ratio	113.3	94.8	108.8	106.0	95.3	103.6	109.0	96.0	106.0
At 1995 prices, % ratio	107.6	91.6	103.9	108.2	98.6	106.1	108.7	100.0	106.8
Terms of trade; indices, 1995=100	105.3	103.5	104.7	97.9	96.7	97.6	100.3	96.0	99.3
Contribution of net exports to real GDP growth (3)	*–1.1*	*–0.1*	*–1.3*	*0.3*	*0.5*	*0.8*	*0.1*	*0.1*	*0.2*

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

Italy's market shares increased by around half a percentage point in the countries of Eastern Europe and the former Soviet Union and to a smaller extent in the newly-industrialized Asian countries. The gains accrued mainly to producers of machinery and equipment.

Italian exports of motor vehicles and parts (accounting for around 40 per cent of total transport equipment exports) diminished in nearly all markets except the United States. The steepest declines were recorded in the European markets, which purchase more than two thirds of the total; outside the EU, the fall in sales of vehicle parts and accessories was substantial in Turkey, Poland and Brazil, countries towards which there has been a significant transfer of production.

As in the past years, the relatively poor performance of Italian exports to the EU was mainly due to weak sales to Germany. With total German imports stagnating in real terms, imports from Italy declined by 3.2 per cent, mainly reflecting heightened competition from the countries of Central and Eastern Europe, whose sales to Germany scored appreciable gains.

Table 11

EXPORTS AND IMPORTS OF GOODS AND SERVICES OF THE MAJOR EURO-AREA COUNTRIES AND INDICATORS OF DEMAND AND COMPETITIVENESS

(at constant prices; percentage changes)

	1997	1998	1999	2000	2001
Germany					
Imports of goods and services	8.3	8.9	8.5	10.0	0.1
Exports of goods and services	11.2	6.8	5.6	13.2	4.7
Outlet markets (1)	9.0	7.7	7.3	11.5	0.2
Indicators of competitiveness (2) ..					
overall	−5.1	1.5	−3.8	−7.1	3.0
export	−5.8	1.8	−4.4	−8.0	3.2
import	−4.1	1.2	−3.0	−5.9	2.9
France					
Imports of goods and services	6.9	11.6	6.2	14.3	0.1
Exports of goods and services	11.8	8.3	4.3	12.7	0.5
Outlet markets (1)	9.2	8.2	7.9	10.6	0.2
Indicators of competitiveness (2) ..					
overall	−4.7	0.1	−2.3	−3.8	0.6
export	−5.4	0.5	−3.1	−4.8	0.9
import	−3.9	−0.3	−1.5	−2.7	0.3
Italy					
Imports of goods and services	10.1	8.9	5.3	9.4	0.2
Exports of goods and services	6.4	3.4	0.3	11.7	0.8
Outlet markets (1)	8.8	8.3	8.0	11.5	0.2
Indicators of competitiveness (2) ..					
overall	0.3	1.4	−2.8	−3.3	1.4
export	−0.6	1.8	−3.7	−4.5	1.7
import	1.5	0.9	−1.7	−1.7	1.0
Spain					
Imports of goods and services	13.2	13.3	12.8	9.8	3.7
Exports of goods and services	15.3	8.2	7.6	9.6	3.4
Outlet markets (1)	8.7	8.8	7.4	11.3	0.1
Indicators of competitiveness (2) ..					
overall	−4.5	. .	−1.1	−2.8	0.9
export	−5.1	0.3	−1.8	−3.8	1.0
import	−3.9	−0.1	−0.5	−2.0	0.8

Source: Based on national statistics.

(1) Average of the changes in imports of goods and services of the principal importing countries, weighted using their respective weights in the indicator of competitiveness. – (2) Based on the producer prices of manufactures. A positive value indicates a loss of competitiveness.

The volume of Italian exports to non-EU markets expanded by 4 per cent, despite a contraction of 5.8 per cent in those to the United States. There was another surge in exports to China (37.1 per cent) and also a considerable expansion in sales to the countries of Central and Eastern Europe, whereas exports to the Mercosur and the emerging Asian countries contracted, owing to the performance of domestic demand in those areas.

Italian imports. – Imports of goods and services remained broadly unchanged last year, showing a slight decline of 0.2 per cent, as against an increase of 9.4 per cent in 2000. In the second half of the year imports were 3.1 per cent lower than in the first half, reflecting the fall in exports and the stagnation of national demand.

On a *cif-fob* basis, Italian imports of goods at constant prices fell by 1 per cent, whereas in 2000 they had grown by 9.5 per cent; those from EU countries fell more sharply than those from outside the Union. The largest decreases were in imports from France and the United Kingdom, which dropped by 4.7 and 9.7 per cent respectively. Among non-EU countries, the slump of 12.6 per cent in imports from the United States contrasted with the growth of 7.5 per cent in those from China, although the latter figure was smaller than in 2000.

The fall in Italian industrial output and the slowdown in exports and in investments in machinery and transport equipment were reflected in Italian imports of capital goods and intermediate goods, which contracted in real terms in 2001 by 5.3 and 1.7 per cent respectively. Imports of consumer goods slowed down sharply but still recorded growth of 1.8 per cent. There were large declines in imports of office machinery and computers (10 per cent, compared with an average annual increase of 12.6 per cent in the period 1996-2000), machine tools (7.2 per cent) and refined petroleum products (9 per cent).

DOMESTIC SUPPLY

Italian economic growth nearly halved in 2001, slowing from 2.9 to 1.8 per cent. For the euro area as a whole the slowdown was even sharper, from 3.4 to 1.5 per cent.

Economic sectors

Italian GDP at market prices grew by 1.8 per cent in real terms. The increase in value added at factor cost came down from 3 to 2 per cent (Table 12). The slowdown was most pronounced in industry excluding construction (from 2.7 to 0.5 per cent), owing mainly to that in manufacturing (from 3.1 to 0.7 per cent). There was a substantial pick-up in construction (from 2.3 to 4.5 per cent) and a more modest one in the production and distribution of electricity, gas and water.

Domestic production of energy, in tons of oil equivalent, declined by 0.9 per cent. The primary energy requirement increased by 1.5 per cent, and import dependency accordingly rose from 83.2 to 83.6 per cent. The "energy bill" (total expenditure on primary energy imports) came to 2.3 per cent of GDP, down from 2.5 per cent. Energy consumption increased mainly for civil uses (2.9 per cent), in agriculture (3.1 per cent) and in transportation (1 per cent), while it was roughly unchanged in industry (0.3 per cent). Continuing an established trend, the share of the primary energy requirement met by oil products fell to 48 per cent.

Industrial production contracted by 4.2 per cent in 2001. In the euro area as a whole it fell by 4.5 per cent, following a rise of 6.9 per cent in 2000. The contraction was near the area-wide average in Germany, larger in Spain and smaller in France. Capacity utilization fell from 79.3 to 78.1 per cent on average for the year, with all of the reduction coming in the second half.

Value added in services rose by 2.5 per cent in Italy, following a rise of 3.5 per cent in 2000. The largest gains came in transport and communications (5.5 per cent) and services to businesses and households (5.1 per cent). Wholesale and retail trade recorded an increase of 1.6 per cent.

Retail sales increased by 1.6 per cent at current prices (1.3 per cent in 2000). The growth differential between large and small retailers remained substantial (rates of 4.9 and 0.9 per cent respectively).

Table 12

VALUE ADDED AT FACTOR COST

Branch	2000		2001		Percentage changes			
	Current values in millions of euros	Share of value added (%)	Current prices in millions of euros	Share of value added (%)	Volumes		Deflators	
					2000	2001	2000	2001
Industry	**293,384**	**28.0**	**304,037**	**27.7**	**2.6**	**1.2**	**1.6**	**2.4**
Industry excluding construction	**242,715**	**23.2**	**249,885**	**22.8**	**2.7**	**0.5**	**1.3**	**2.4**
Extractive industries	5,627	0.6	4,952	0.5	–4.3	–7.0	33.6	–5.3
Manufacturing	214,854	20.5	221,148	20.1	3.1	0.7	0.7	2.2
Production and distribution of electricity, gas, steam and water	22,234	2.1	23,785	2.2	0.1	0.5	0.8	6.5
Construction	**50,669**	**4.8**	**54,152**	**4.9**	**2.3**	**4.5**	**3.2**	**2.3**
Services	**721,598**	**69.0**	**763,063**	**69.4**	**3.5**	**2.5**	**2.3**	**3.2**
Wholesale and retail trade, repairs	137,395	13,1	145,100	13.2	3.8	1.6	–0.1	4.0
Hotels and restaurants	38,166	3.7	41,312	3.7	8.2	3.4	2.3	4.7
Transport, storage and communications	75,612	7.2	79,810	7.3	4.1	5.5	–1.0	0.0
Financial intermediation	64,930	6.2	63,750	5.8	7.6	–3.0	5.9	1.2
Services to businesses and households (1)	207,019	19.8	223,466	20.3	4.6	5.1	2.5	2.7
Public administration (2)	55,122	5.3	57,866	5.3	–0.3	0.7	1.6	4.3
Education	52,488	5.0	54,983	5.0	0.1	0.0	5.3	4.7
Health and other social services	47,777	4.6	50,155	4.5	1.8	2.7	5.7	2.3
Other community, social and personal services	34,941	3.3	38,245	3.5	–2.4	1.3	4.7	8.1
Private households with employed persons	8,148	0.8	8,376	0.8	0.7	1.2	3.1	1.5
Agriculture (3)	**31,072**	**3.0**	**32,116**	**2.9**	**–2.8**	**–1.0**	**1.7**	**4.4**
Value added at factor cost (4)	**1,046,054**	**100.0**	**1,099,216**	**100.0**	**3.0**	**2.0**	**2.1**	**3.0**

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.

According to the Ministry for Productive Activity's national commercial observatory, net business creation in distribution amounted to about 10,000 in the first half of the year, compared with a gain of 12,000 for the whole of 2000. This brought the number of businesses to 868,000.

The value added of agriculture, forestry and fisheries declined by 1 per cent, following a fall of 2.8 per cent in 2000: it accordingly slipped from 3 to 2.9 per cent of total Italian value added.

Firm dynamics and productivity growth

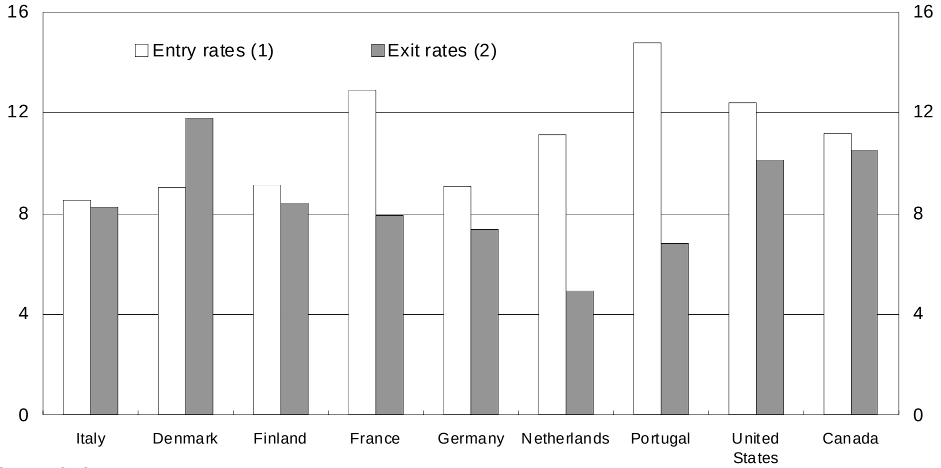
In recent years, owing above all to the strong productivity gains registered by the US economy, there has been a surge of interest in the technological, organizational and institutional factors that determine businesses performance in different countries. In the past two years the OECD has coordinated a comparative research project, in which the Bank of Italy's Economic Research Department has participated, on the role of policy and institutions for productivity growth and firm dynamics in selected developed countries. The data on business size confirm earlier findings (see "Domestic Supply" in the *Annual Report* for 1999), namely that firms are particularly large in the United States and particularly small in Italy.

Figure 8 gives the average firm turnover rates in the non-farm private sector between 1989 and 1994. For nearly all the countries surveyed, both entry and exit rates are between 8 and 12 per cent, so that annual turnover involves about a fifth of all companies. The study found that survival rates for new businesses are quite similar across countries and demonstrate how severe the selection process is: about half of all new companies leave the market within five years. Since the new companies formed and those that go out of business are generally smaller than those that survive, the share of employees involved in this turnover is about half that of firms. By this indicator, Italy is very near the average, just above the United States.

Figure 8

BUSINESS TURNOVER RATES IN THE NON-FARM PRIVATE SECTOR, 1989-94

(annual averages)



Source: OECD.
(1) Percentage ratio of firms entering to total population of firms. – (2) Percentage ratio of exiting firms to the population of origin.

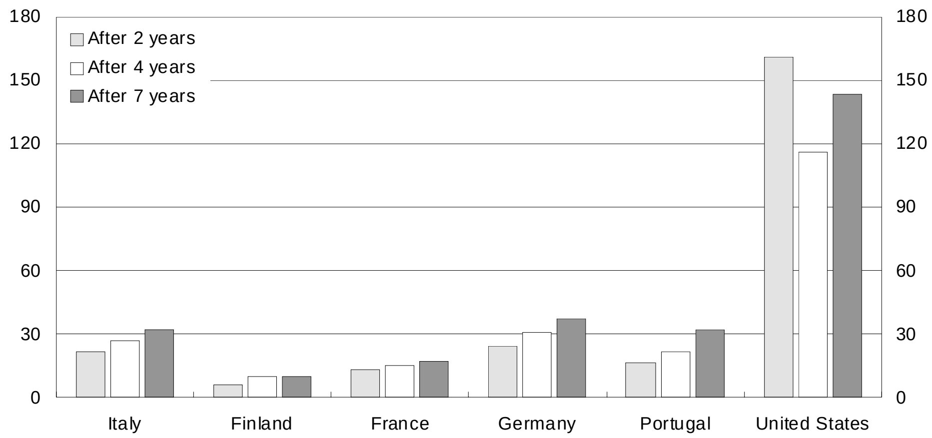
The absence of systematic differences between countries suggests that factors involved in companies' "life cycle" may be more important than institutional and environmental differences in determining market entry and exit.

Figure 9 shows the employment increase in new firms at various intervals following their formation in the six countries for which data are available. The difference between the United States and the European countries is striking. Within just two years, new American firms more than double their staff, on average, compared with increases of less than 25 per cent in Europe. Comparable disparities obtain over longer periods as well.

Figure 9

EMPLOYMENT GROWTH OF SURVIVING NEW FIRMS, 2-7 YEARS (1)

(net gains as a percentage of initial employment)



Source: OECD.
(1) The data refer to the period 1985-1995. The exact dates vary from country to country according to data availability.

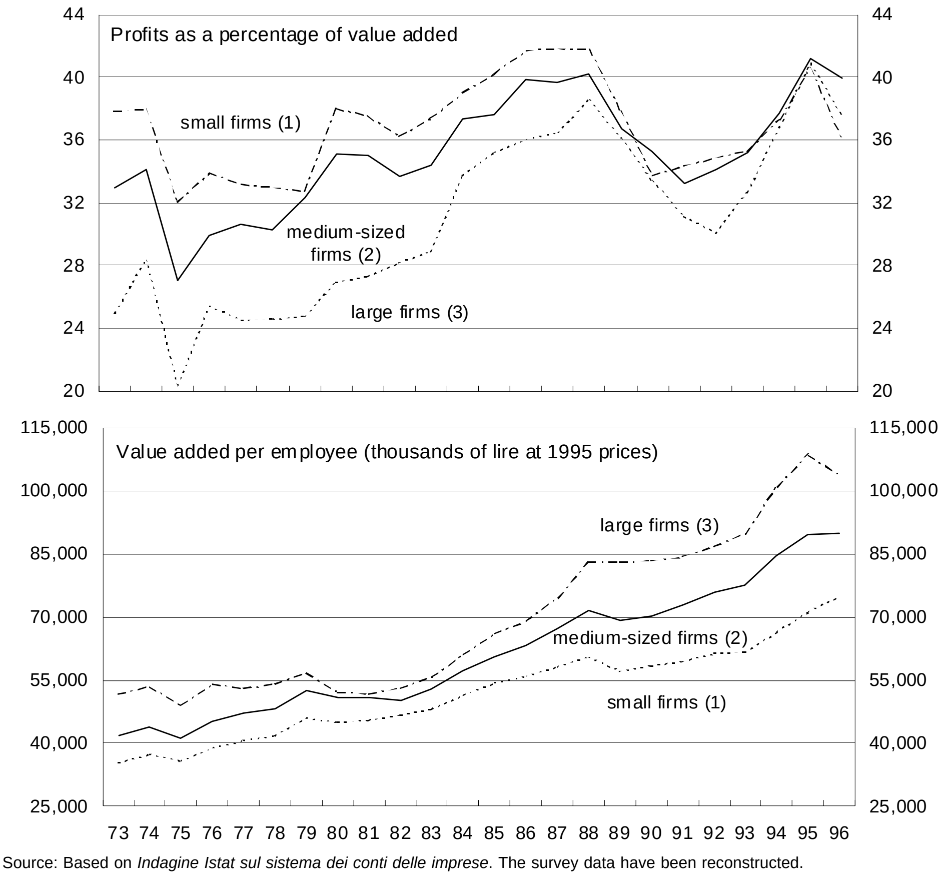
This preliminary analysis suggests that by comparison with their US counterparts, European firms face greater obstacles to increasing their size after formation rather than in initial access to the market. The speed of growth of new enterprises is also relevant to the analysis of productivity gains, which depend significantly on increases in efficiency on the part of firms already in business. This factor explains more than 50 per cent of overall productivity growth in the various countries.

In Italy new companies' limited growth is associated with the traditional fragmentation of production and pronounced specialization in traditional industries. These features appear to have adverse effects on the capacity for innovation and the use of new technologies.

In the 1990s small Italian firms attained more modest results than larger companies in terms of profitability and productivity (Figure 10). As regards the former, the gap in favour of small firms that had existed in the 1970s subsequently narrowed owing to a substantial increase in the profits of large companies. From the end of the 1980s to the mid-1990s small firms suffered a particularly severe deterioration in profitability (6 percentage points). Since 1995 the profit margins of large manufacturing firms have been higher than those of their smaller counterparts. Labour productivity has shown the same pattern (Figure 10). From the end of the 1980s to the mid-1990s productivity in large firms increased at nearly twice the annual rate achieved in small firms (3.9 per cent, as against 2.3 per cent), presumably in part because of greater use of new technologies.

Figure 10

PROFIT MARGINS AND PRODUCTIVITY IN MANUFACTURING INDUSTRY, BY SIZE OF FIRM



Source: Based on *Indagine Istat sul sistema dei conti delle imprese*. The survey data have been reconstructed.
(1) 20-49 employees.– (2) 50-249 employees. – (3) 250 employees or more.

In May 2002 Istat released provisional results from the eighth general census of industry and services, conducted on 22 October 2001. The number of local units had increased by 6.9 per cent since 1991 and the number of workers by 4.4 per cent. The average size of local units had shrunk further from 4 to 3.9 workers (Table 13).

Table 13

AVERAGE SIZE OF LOCAL UNITS BY BRANCH OF ACTIVITY IN ITALY

	1991 (definitive)			2001 (provisional)		
	Local units	Workers	Average size	Local units	Workers	Average size
Firms	**3,636,086**	**14,601,812**	**4.0**	**3,850,484**	**15,066,395**	**3.9**
Industry	1,025,009	6,857,894	6.7	988,293	6,197,002	6.3
Distribution	1,378,332	3,304,838	2.4	1,334,791	3,334,026	2.5
Other services	1,232,745	4,439,080	3.6	1,527,400	5,535,367	3.6
Institutions (1)	**236,355**	**3,374,609**	**14.3**	**287,735**	**3,707,429**	**12.9**
Total firms and institutions	**3,872,441**	**17,976,421**	**4.6**	**4,138,219**	**18,773,824**	**4.5**

Source: Istat, *Censimento generale dell'industria e dei servizi, 1991 e 2001.*
(1) Includes general government and public and private non-profit institutions.

The increasing importance of services is confirmed. Thirty-three per cent of the non-farm work force is employed in industry and 67 per cent in services: 17.8 per cent in wholesale and retail trade, 19.7 per cent in public and private institutions and 29.5 per cent in other services. In 1991 industrial employees had accounted for 38.1 per cent and services for 61.9 per cent. The proportion employed in distribution fell by 0.6 percentage points over the decade while that accounted for by institutions rose by 1 point.

Privatizations, market regulation and company law

Privatizations. – The sale of publicly-owned corporations yielded gross proceeds of €5.5 billion last year (0.45 per cent of GDP), compared with €10.3 billion (0.85 per cent) in 2000 and €25 billion (2 per cent) in 1999. Last year's proceeds were the smallest since the privatization process got under way in 1993.

On 14 February 2001, concluding a competitive bid procedure initiated in 1999, IRI sold its entire stake (93.53 per cent) in Cofiri to a group of private investors for €508 million.

The disposal of the fifth tranche of ENI shares, equal to 5 per cent of the company's equity, was concluded on 15 February 2001 by direct sale to institutional investors, using the accelerated bookbuilding technique with no public offering. The Ministry for the Economy, which took in €2,721 million from the operation, retains control of the ENI group with a shareholding of 30.33 per cent and a golden share.

At the end of November 40.24 per cent of the equity of Snam Rete Gas was sold to private investors for €2,202 million, taking account of the shares set aside for the green shoe. Twenty-five per cent of the offering went to the general public, ENI shareholders and Snam employees. Institutional investors took the remaining 75 per cent.

The state still has a substantial presence in productive activities in Italy. There are still many opportunities for share disposals.

Market regulation. – Deregulation and the fostering of competition made some progress in 2001 but the process still has some way to go.

In the electricity sector, in July ENEL concluded the sale of Elettrogen, one of three generating companies, to a consortium consisting of Endesa (the Spanish electricity company), Banco Santander Central Hispanico and ASM Brescia (a municipal utility) for €2.63 billion.

The electricity exchange market, which under Legislative Decree 79/1999 liberalizing the sector should have been operational by 1 January 2001, is still not active, despite the Ministry for Productive Activities' approval in May 2001 of the related regulations. The effective start-up of an electricity exchange would require a sufficiently competitive supply structure. In 2000 ENEL accounted for 77 per cent of total net power generation and held 75 per cent of installed capacity. Once the three new generating companies are sold, ENEL will have about 56 per cent of the market (net of self-consumption).

In the natural gas sector, where liberalization began with Legislative Decree 164/2000, the national pipeline network remains a monopoly. Snam Rete Gas owns 29,000 of the 30,000 kilometers of pipeline and also controls all the pipelines for gas imports from Algeria, Russia and the Netherlands and for shipments from the terminal in Panigaglia (La Spezia). The remaining 1,100 kilometers are owned by the Edison group.

In the area of large-scale retailing, no region had passed the measures envisaged by Legislative Decree 114/1998 (the Bersani law) by the deadline of April 1999. A number of regions reinstated restrictions on new retail outlets.

Company law. – Enabling Law 366, laying down the criteria for a Government legislative decree reforming company law, was passed on 3 October 2001. On 20 December a committee was formed at the Ministry of Justice to draft an enabling act for the reform of the procedures for out-of-court settlements in cases of insolvency by 30 June 2002.

Enabling Law 366/2001 provides for a broad range of company models; greater autonomy in drafting company bylaws; greater powers for the executive body and its exclusive responsibility for operations; new possibilities for company finance; the introduction of regulations governing corporate groups; rules to improve the quality of financial statements and lower information costs for small firms; and special procedural rules for disputes involving company law. The penal relevance of false financial statements and other corporate crimes was attenuated by Legislative Decree 61/2002.

The enlargement of the European Union

Enlargement to other European and Mediterranean countries, now in the home stretch after a lengthy preparatory phase, will be a politically important event in the history of the European Union. The entry of the candidate countries is subject to conditions laid down in the Copenhagen Council of June 1993: transposition of the *acquis communautaire* (the body of existing EU rules and regulations), the consolidation of stable democratic institutions and the creation of a market economy capable of coping with competition and integrating with the Common Market.

Twelve countries are involved in the enlargement process: ten in Central and Eastern Europe (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia) plus Cyprus and Malta. Given the progress to date in the talks and in economic convergence, it is likely that enlargement will proceed by stages. The first group (excluding only Bulgaria and Romania) is scheduled for admission in 2004. While the Central and Eastern European economies are modest in size (with a total GDP equal to 10 per cent of that of the EU, at purchasing power parity), these countries will add more than 100 million to the Union's population.

The admission of so many new members will have an impact on institutional arrangements. The Nice Council in December 2000 made a first, unsuccessful attempt to modify the Union's decision-making mechanisms, with the proposal to approve Community rules by qualified majority.

The new members, once they comply with the Maastricht standards, will also join the Economic and Monetary Union. The candidate countries have already made substantial changes to their monetary institutions. The independence of national central banks is an integral part of the *acquis communautaire* and a guarantee of rigour in the pursuit of monetary stability.

Though highly disparate among themselves, the candidate countries as a group are less developed economically and less affluent than the present members. At purchasing power parity, their per capita GDP is 40 per cent lower than that of the EU. The service sector is considerably less developed and agriculture still accounts for nearly 6 per cent of total value added, compared with 2 per cent in the EU.

This is not the first time that the Union has been enlarged to relatively less highly developed countries. The previous enlargement (which brought in Spain, Portugal and Greece in the 1980s) involved countries with a total GDP equal to about 10 per cent of that of the EU at the time and per capita GDP, at purchasing power parity, to 66 per cent.

Until the turn of the 1990s the Central and Eastern European candidate countries had centrally planned economies and accordingly had to achieve not only convergence but also a progressive transition (still under way) towards the market economy. Many of them still have fragile banking and financial systems, making it difficult to provide the necessary support to the private sector of the economy.

Enlargement will aggravate intra-EU disparities between countries and even more between regions, with a major impact on Community support and development policies. One delicate problem is determining the procedures and timetable for extending agricultural programmes, which absorb about half the EU budget, to the new members.

Community policies to reduce regional disparities and promote development are financed through structural funds, which account for about 40 per cent of the budget. Most of these resources go to Objective 1 projects to promote the development and structural adjustment of regions that lag behind. Italy, which is a net contributor to the EU budget, has some of the Union's most severe regional disparities. Unlike other countries with comparable overall per capita income, Italy receives transfers mostly under Objective 1. At present the regions of Campania, Basilicata, Puglia, Calabria, Sicily and Sardinia are benefiting from these resources. At the end of the current planning period in 2006, enlargement of the Union will reduce the funds available to current members. Some Italian regions whose per capita income is now near the limit of 75 per cent of the EU average could become ineligible for Objective 1 projects.

The integration of the candidate economies into the single market began with the Europe Agreements and the consequent progressive dismantling of trade barriers. Over the past decade this produced a gradual increase in trade and mobility of factors between these countries and the EU. Three quarters of the trade has been accounted for by the EU members bordering on Eastern Europe and has been concentrated especially in their border regions.

Among EU countries, Italy is second to Germany in trade with the countries of Central and Eastern Europe. In 2000 it took 7 per cent of their exports and supplied 8 per cent of their imports. These markets increased in importance for Italian exporters during the 1990s, partly making up for losses of market share elsewhere in Europe.

Table 14

TRADE OF ITALIAN REGIONS WITH CENTRAL AND EASTERN EUROPEAN COUNTRIES IN 2000

	Percentage share of regional total (1)		Specialization indices (2)	
	Imports	Exports	CEEC	EU
Piedmont	6.4	6.1	1.3	1.1
Valle d'Aosta	2.7	1.9	0.5	1.2
Lombardy	3.0	5.6	0.8	1.1
Trentino-Alto Adige	3.1	3.6	0.7	1.5
Veneto	9.8	7.9	1.7	1.0
Friuli-Venezia Giulia	14.5	8.1	2.1	1.0
Liguria	1.6	2.0	0.4	0.9
Emilia-Romagna	5.7	5.0	1.1	1.1
Tuscany	4.0	3.9	0.8	0.9
Umbria	5.4	6.5	1.2	1.0
Marche	10.8	9.3	2.0	0.8
Lazio	1.5	3.6	0.5	1.0
Abruzzo	3.3	6.6	1.0	1.2
Molise	6.1	3.3	0.9	1.1
Campania	1.8	2.3	0.4	0.9
Puglia	3.5	2.8	0.6	0.9
Basilicata	6.2	6.5	1.3	1.3
Calabria	1.0	3.5	0.4	1.2
Sicily	0.7	3.2	0.3	0.4
Sardinia	0.4	11.6	0.9	0.4
Italy	**4.3**	**5.7**	**1.0**	**1.0**

Source: Based on Istat data.
(1) Imports and exports from and to Central and Eastern European countries as a percentage of each region's total imports and exports. – (2) For each region, the sum of imports from and exports to the Central and Eastern European countries and the EU, respectively, is calculated as a percentage of total imports plus exports; this percentage is then expressed as a ratio to the corresponding figures for Italy as a whole.

Within Italy, the share of trade with the Central and Eastern European candidate countries varies greatly from region to region (Table 14). Piedmont, Veneto, Friuli, Emilia-Romagna, Umbria, Marche, Abruzzo and Basilicata have shares that are larger than the national average because of geographical proximity or product specialization. For these regions the repercussions of enlargement are likely to be greater. Their trade with the prospective new members is highly specialized in sectoral terms (in 2000, 60 per cent of it was accounted for by motor vehicles, engineering products, chemicals, textiles and footwear), and their productive specialization closely resembles that of the new entries. This could result in stronger competition from the latter both within their own regional markets and in the Union generally.

Regional economic developments and regional policy

Regional economic developments. – In the 1990s the average annual growth rate in the South of Italy was lower than in the Centre and North (1.2 per cent, as against 1.4 per cent). The Association for Industrial Development in Southern Italy estimates that real output in the South increased by 2.2 per cent last year (2.5 per cent in 2000), registering a smaller slowdown than in the rest of Italy (from 3.1 to 1.7 per cent), which is structurally more responsive to the international business cycle.

The difference in the growth of per capita GDP was even greater (2.3 per cent, as against 1.1 per cent), owing to continuing migration from the South to the Centre and North.

The data on business formation show a strengthening of the southern economy for the fifth consecutive year. In 2001 start-ups in the non-farm sector again outnumbered closures, with a gain of 45,000; the net business formation rate was higher than in the other parts of Italy, and the South accounted for 38 per cent of the national total.

Gross fixed investment grew by 3.7 per cent in the South last year compared with 2 per cent in the Centre and North, again according to the Association for Industrial Development in Southern Italy. Final household consumption growth slowed to 1.4 per cent in both parts of the country.

The growth in the value of exports slowed down drastically last year, especially in the southern regions, where it fell from 27.7 per cent in 2000 to 2.2 per cent. In the Centre the fall was from 21.2 to 1.2 per cent, while in the North it was from 15.5 per cent to just over 4 per cent.

The provisional results of the general census of industry and services in 2001 show that the Adriatic regions and Umbria and Basilicata have achieved the greatest employment growth since the 1991 census (8.4 per cent, compared with an average of 2.3 per cent for the other regions). The increase came mostly in services other than distribution (32.7 per cent, compared with 20.8 per cent in the other regions). Employment in distribution in these regions increased by 4.4 per cent, while declining by 1 per cent in the rest of the country.

In the second half of the 1990s unit labour costs in manufacturing in the South rose to equal those in the Centre and North. The main cause was a relative increase in the cost of labour due to the end of social security contribution relief, but slower productivity growth also played a part. However, per capita earnings rose less in the South than in the rest of Italy, partly offsetting the abolition of contribution relief.

Regional policy. – The decentralization of local development planning procedures and resources continued in 2001. The regions were given responsibility for negotiated planning and for the bulk of the funds for depressed areas. Starting with the eighth refinancing of Law 488/1992, regional governments have also been allowed to establish special rankings for selected geographical areas or economic sectors to which to allocate 50 per cent of the funds made available. Objective 1 regions initiated "integrated territorial projects", a new planning method instituted within regional operational plans.

Negotiated planning, national responsibility for which was transferred to the Ministry for Productive Activities in June 2001, is intended to jump-start local economies, triggering self-sustained development based on a combination of public and private investment and the involvement of local business and labour organizations.

Since 1996 some 230 territorial pacts have been approved, committing more than €5 billion. Last September, 89 were active. Judging by the amount of funds disbursed, the pacts' ability to activate entrepreneurial initiatives is modest. For the first 51 pacts, all approved by the end of 1999, only 35 per cent of the total amounts available had actually been spent by April 2001. The proportion was higher in the South than in the Centre and North.

Disbursements under the Community Support Frameworks for 1994-1999 had to be completed by the end of 2001. Preliminary data on the state of implementation indicate that on Objective 1 projects, which account for 60 per cent of total funding, actual spending had reached 87.2 per cent of appropriations by September.

The Community Support Frameworks for 2000-2006 were approved in August 2000 and are now being implemented. The resources available up to 2008 amount to more than €50 billion.

The role of regional development policy and the instruments used changed substantially in all the main European countries in the course of the 1990s. Incentives for the relocation of production from large cities to backward areas, which had been common from the 1960s on, were progressively abandoned. Expenditure on regional development incentives declined in relation to GDP. There was a heightened perception of the need to create an environment conducive to enterprise, chiefly in terms of infrastructure, and a growing consensus on a strategic approach based on identifying the strengths and weaknesses of particular local areas. Development aid became more selective. In Belgium, Portugal and Austria competitive bid procedures were instituted under which applications for resources were granted according to predetermined standards. In France, the United Kingdom and the Netherlands the tendency was towards greater discretionality in deciding and scaling awards.

THE LABOUR MARKET

Employment

According to estimates based on national accounts data, the average number of employed persons resident in the twelve euro-area countries increased by 1.3 per cent in 2001, continuing the upswing that began in the mid-nineties. However, the gain was significantly less than in 2000 (2 per cent) because of the slowdown in economic growth. The sharpest deceleration came in Germany, where employment expanded by just 0.2 per cent, compared with 1.6 per cent in 2000. Employment grew by 2.6 per cent in Spain and 2.0 per cent in France (as against 3 and 2.5 per cent respectively in 2000).

In Italy, following a gain of 2 per cent in 2000, one of the largest since the Second World War, the number of persons in work rose by a further 1.7 per cent. Taking the period from the third quarter of 1993 to the fourth quarter of 2001 as a single economic expansion (even though, technically, it was interrupted by brief recessions in 1996 and late 1998), Italy showed average annual employment growth of 0.7 per cent, comparable to the 0.8 per cent pace registered during the long expansion of 1983 to 1991. However, net private-sector job creation differed sharply between the two periods (0.7 as against 0.2 per cent per year), testifying to the primary role of government in sustaining employment growth during the eighties.

In the past decade, the gain in employment was accompanied by slower output growth than in earlier economic expansions. It was propelled by an evolution of the relative prices of labour and capital that was more favourable than in the expansion of the eighties; this was reflected in slower growth of the capital stock per labour unit (Figure 11). Contributory factors were much slower real wage growth than in the past and greater flexibility in staff adjustment, the organization of production and working hours.

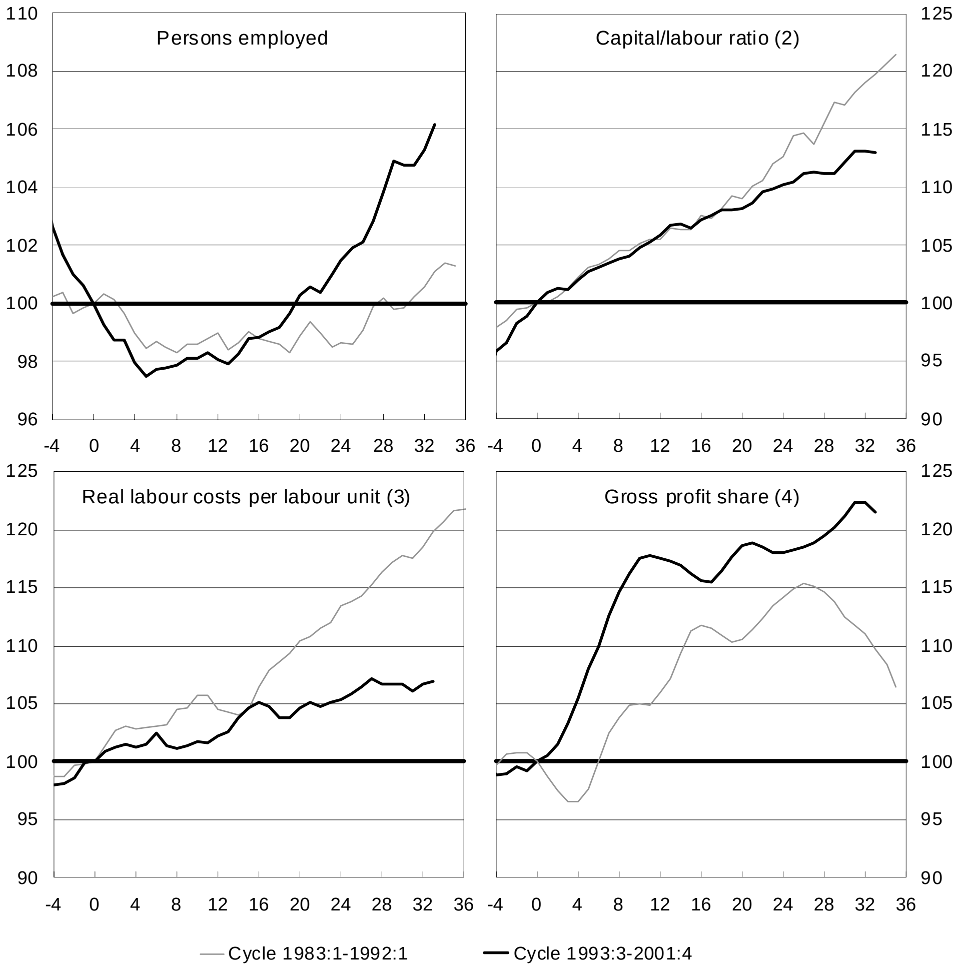
The composition of employment and labour policies in Italy

Temporary employment failed to increase last year for the first time since 1993. Conversely, the expansion in permanent, full-time jobs that got under way in mid-1999 accelerated, thanks to social security contribution incentives. Istat's labour force survey – which does not count some groups that are included in the national accounts (workers living in institutions, conscripts and non-resident aliens) – found an increase of 2.1 per cent in 2001 in the number of persons employed (Table 15). In October, the number of persons in work was 247,000 higher than twelve months earlier: 401,000 more permanent employees, 110,000 fewer fixed-term employees and 44,000 fewer self-employed. In January 2002 the number of permanent full-time employees rose above 13.3 million, regaining the historic peak of January 1993.

Figure 11

EMPLOYMENT AND COST OF LABOUR IN ITALY'S PRIVATE SECTOR IN THE LAST TWO CYCLICAL EXPANSIONS (1)

(indices, cyclical trough =100)



Sources: Based on Istat data, national accounts.

(1) Each series is rescaled setting equal to 100 the value registered in the quarter in which the cycle bottomed out, corresponding to 0 on the horizontal axis, which gives the number of quarters from that point. – (2) Ratio of net capital at 1995 prices (excluding the stock of housing) to total standard labour units. – (3) Ratio of labour income per standard employee labour unit to the value added deflator at factor costs. Values not adjusted for the introduction of IRAP. – (4) Difference between value added at factor costs and total labour income (including the imputed labour income from self-employment) in relation to value added. Moving average of four quarters to the reference quarter.

Table 15

STRUCTURE OF EMPLOYMENT IN ITALY

	2001 (1)		Change 2001/2000 (1)		Change October 2001/October 2000	
	Thousands of persons	Percentage share	Thousands of persons	Percentages	Thousands of persons	Percentages
Self-employed	5,997	27.9	49	0.8	–44	–0.7
full-time	*5,570*	*25.9*	*59*	*1.1*	*4*	*0.1*
part-time	*427*	*2.0*	*–10*	*–2.3*	*–48*	*–10.7*
Employees	15,517	72.1	385	2.5	291	1.9
permanent	14,003	65.0	401	2.9	401	2.9
full-time	*13,083*	*60.8*	*335*	*2.6*	*392*	*3.0*
part-time	*920*	*4.2*	*66*	*7.8*	*9*	*1.0*
fixed-term	1,514	7.1	–16	–1.0	–110	–6.8
full-time	*1,045*	*4.9*	*3*	*0.3*	*–55*	*–4.9*
part-time	*469*	*2.2*	*–19*	*–3.8*	*–55*	*–10.9*
Total	**21,514**	**100.0**	**434**	**2.1**	**247**	**1.2**

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

The recent increase in more stable forms of employment is due to both cyclical and fiscal factors. The rapid expansion in economic activity up to the first few months of last year was accompanied by the emergence of local labour shortages. Though these bottlenecks have been attenuated, they remain severe by historical standards in all parts of the country. Since October 2000 significant stimulus for the growth in permanent employment has come from the tax credit provided under Law 388 of 23 December 2000, Article 7. The use of this incentive was considerably greater than had been forecast. Preliminary estimates by the Ministry of Labour and Social Policies put the revenue loss for all of 2001 at €530 million and the number of workers benefiting from the programme at over 100,000 by September, including 40,000 in the South.

The tax credit entailed a further large increase in the public resources allocated to hiring incentives. Such spending rose from 6 per cent of total labour policy spending in 1996 to 17 per cent in 2000. More generally, it increased the relative importance of automatic incentives. In 2000, such incentives applied to 1.7 million jobs, 47 per cent of them in the South.

Active labour policies also include contribution relief to encourage the regularization of off-the-books labour. Istat estimates that the share of irregular workers picked up by the national accounts stabilized in 1997-2000 at just over 14.5 per cent, compared with 13.5 per cent in 1992. Overall, the number of irregular workers came to nearly 3.4 million in 2000. New measures for the emersion of underground employment were introduced by

Law 383 of 18 October 2001, subsequently amended several times. The law envisages a tax and social contribution conciliation covering past years and concessionary tax and social security treatment for three years for the firms and workers that “surface”.

Total spending for active labour policy measures held relatively stable at just over 0.6 per cent of GDP from 1996 to 2000, while the resources allocated to passive measures declined from 1 to 0.6 per cent, owing above all to the steady decline in early retirement expenditure (Table 16). Unemployment benefits turned upwards in 2001 both because of the cyclical slowdown and because of the introduction of higher ordinary unemployment benefits for non-farm workers. Although the Italian unemployment rate is still high, the ratio of unemployment spending (including wage supplementation) to GDP is among the lowest in the EU. In 1999, the last year for which comparable data are available, Italian expenditure came to 0.5 per cent of GDP, compared with an EU average of 1.8 per cent.

Table 16

PUBLIC EXPENDITURE FOR LABOUR POLICY PROGRAMMES IN ITALY
(as a percentage of GDP)

	1996	1997	1998	1999	2000	2001 (1)
Active labour policy programmes	0.62	0.62	0.69	0.65	0.64	. . . .
of which: employment incentives .	*0.25*	*0.28*	*0.40*	*0.44*	*0.49*	*0.56*
Passive labour policy programmes . .	0.97	0.85	0.76	0.68	0.63	0.62
Unemployment benefits	0.67	0.62	0.58	0.55	0.52	0.55
Early retirement	0.30	0.23	0.18	0.13	0.11	0.07
Total	**1.59**	**1.47**	**1.45**	**1.33**	**1.27**	**. . . .**

Sources: Based on data from Ministero del Lavoro e delle politiche sociali, *Rapporto di monitoraggio sulle politiche occupazionali e del lavoro*, and Istat.
(1) Preliminary budget outturn.

Labour input and sectoral developments

In 2001 labour input in Italy, measured in standard labour units, again grew more slowly than the number of persons (including non-residents) employed (1.6 as against 2.1 per cent). The bulk of the increase came in private services, while there was a further decline in public employment (Table 17). Employment in agriculture increased, for the second time since the Second World War, and in construction there was an acceleration from the strong growth of the previous two years. Labour input in industry excluding construction declined for the third consecutive year.

Table 17

SECTORAL DISTRIBUTION OF EMPLOYMENT IN ITALY

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

	Total employment					Salaried employment				
	Share		Change			Share		Change		
	1991	2001	2001/1991	2001/1996	2001/2000	1991	2001	2001/1991	2001/1996	2001/2000
Agriculture, forestry and fisheries	**8.4**	**5.8**	**-31.8**	**-12.4**	**0.8**	**4.3**	**3.2**	**-24.0**	**-4.1**	**2.7**
Industry excluding construction	**23.7**	**21.9**	**-6.6**	**1.0**	**-0.4**	**28.3**	**25.9**	**-5.7**	**2.0**	**-0.1**
of which: manufacturing	*22.7*	*21.2*	*-5.9*	*1.6*	*-0.3*	*26.9*	*24.8*	*-4.9*	*2.7*	*0.1*
Construction	**6.8**	**6.8**	**1.7**	**9.3**	**4.3**	**6.1**	**5.5**	**-6.6**	**8.3**	**4.0**
Services	**61.1**	**65.5**	**8.5**	**8.8**	**2.0**	**61.3**	**65.4**	**10.1**	**9.9**	**2.6**
Wholesale and retail trade, repair of personal and household goods	15.5	15.4	0.4	6.1	1.5	9.4	11.3	23.3	20.2	**3.5**
Hotels and restaurants	4.8	5.5	15.1	14.2	2.9	3.9	4.3	15.1	13.5	2.0
Transport, storage and communications	6.0	6.1	3.9	6.8	1.6	6.7	6.7	2.5	6.7	1.7
Financial intermediation	2.6	2.7	3.1	3.3	-0.1	3.4	3.4	3.5	3.2	0.0
Services to businesses and households (1)	7.4	10.4	43.2	32.1	4.9	6.0	8.2	40.8	36.9	8.8
Public administration (2)	6.3	5.7	-7.7	-3.4	-0.7	9.1	8.1	-7.7	-3.4	-0.7
Education	6.9	6.6	-4.5	-0.4	0.1	9.4	8.6	-6.6	-1.3	0.4
Health and other social services	5.2	5.6	9.1	5.0	1.8	6.2	6.3	6.2	4.3	1.9
Other community, social and personal services	3.7	4.4	21.6	6.3	5.4	3.2	4.1	30.4	25.4	8.0
Private households with employed persons	2.7	3.1	15.9	1.5	1.2	4.0	4.4	15.9	1.5	1.2
Total	**100.0**	**100.0**	**1.1**	**5.6**	**1.6**	**100.0**	**100.0**	**3.2**	**7.2**	**2.0**

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

According to the Bank of Italy's annual survey, employment in industrial firms with 20 employees or more remained roughly unchanged in 2001 (Table 18). For the second consecutive year hirings of permanent employees increased, most notably in firms with fewer than 50 workers and in the South. One fifth of all firms with 50 workers or more took advantage of hiring incentives in 2001; the proportion rises to 48 per cent in the South, where the contribution relief is greater. The tax credit introduced by Law 388 was applied to 10 per cent of all permanent hirings (31 per cent in the South).

Temporary employment in firms with at least 50 workers accounted for 1.2 per cent of total hours worked, compared with 0.8 per cent in 2000 and 0.4 per cent in 1999.

Table 18

EMPLOYMENT AND WORKING HOURS IN ITALIAN INDUSTRY EXCLUDING CONSTRUCTION IN 2001: FIRMS WITH AT LEAST 20 EMPLOYEES

(percentages)

	Total	Size class (number of workers)				Geographical area (1)			
		20-49	50-199	200-499	500+	North-West	North-East	Centre	South and Islands
					Salaried employment				
Average employment (2) (3)	0.1	0.7	0.8	−1.0	−1.3	−1.1	1.5	−0.2	0.5
Employment at end of year (2)	−0.6	0.5	−0.1	−0.7	−2.0	−1.5	0.5	−1.0	0.2
Proportion of fixed-term workers at end of year	6.3	7.6	6.0	5.8	5.6	5.2	7.1	6.5	7.8
					Turnover (4)				
Turnover	34.0	37.9	36.5	33.0	28.2	26.7	40.2	33.5	42.3
Hirings	16.7	19.2	18.2	16.2	13.1	12.7	20.3	16.3	20.9
permanent	*7.3*	*8.9*	*7.4*	*6.2*	*6.3*	*6.5*	*8.2*	*6.7*	*8.4*
at fixed term	*9.4*	*10.3*	*10.8*	*10.0*	*6.8*	*6.2*	*12.1*	*9.6*	*12.5*
Separations	17.3	18.7	18.3	16.8	15.1	14.0	19.9	17.2	21.4
for expiry of fixed-term contract	*9.6*	*10.1*	*11.2*	*10.6*	*6.9*	*6.5*	*12.5*	*9.4*	*12.4*
for other reasons	*7.7*	*8.6*	*7.1*	*6.2*	*8.2*	*7.5*	*7.4*	*7.8*	*9.0*
					Actual working hours				
Hours worked per employee (2)	−0.7	. .	−0.7	−1.1	−1.4	−0.7	−1.3	−0.5	0.2
Overtime (5)	4.1	3.8	4.2	4.2	4.4	4.3	4.2	3.9	3.7
Temporary employment (5) (6)	1.2	. . . .	1.1	1.4	1.2	1.3	1.2	1.0	1.0
Wage Supplementation (5) (6)	1.2	. . . .	1.0	0.9	1.5	1.0	1.2	1.1	2.0

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

(1) Actual location of employees. – (2) Percentage changes on previous year. – (3) Estimates for firms with 20-49 employees. – (4) Ratio of hirings and separations in the year to the average of employment at the beginning and at the end of the year. – (5) Percentage of total hours actually worked by firms' employees. – (6) Total refers only to firms with at least 50 employees.

Unemployment and labour supply

The Italian unemployment rate declined further last year to stand at 9.1 per cent in January 2002, seasonally adjusted. The yearly average fell from 10.6 per cent in 2000 to 9.5 per cent in 2001. The long-term unemployment rate was reduced from 6.5 to 5.9 per cent. The decline involved both men and women; it was quite pronounced among young people aged 15-24; and it involved all parts of the country. The unemployment rate fell to 4 per cent in the North, 7.4 per cent in the Centre and 19.3 per cent in the South. The number of job-seekers fell by 228,000, or 9.1 per cent, to 2,267,000.

The employment rate for the population aged 15-64 rose from 53.5 to 54.6 per cent but is still far below the euro-area average and the target set at the EU Summit in Lisbon.

Wages, labour costs and the distribution of income by function

Gross earnings per standard employee labour unit in the private sector (actual earnings as measured by the national accounts) rose by 2.5 per cent nominally and declined by 0.2 per cent in real terms (Table 19). In public and social services, the renewal of the collective bargaining agreement for public employees resulted in a rise of 4.2 per cent, following the substantial 3.9 per cent gain registered in 2000, partly making up for past slower earnings growth than the rest of the economy. For the economy as a whole, earnings per full-time equivalent worker rose by 3 per cent.

In industry excluding construction, earnings per labour unit rose by 2.9 per cent, exceeding the increments provided by the relevant industry-wide contracts by one percentage point. The cost of a standard labour unit – the sum of gross earnings and employer social security contributions – rose by only 2.7 per cent because of the reduction in contributions. Labour productivity followed a gain of 2.7 per cent in 2000 with one of 0.9 per cent last year, reflecting the slowdown in output growth. Unit labour costs rose by 1.8 per cent (after holding constant in 2000), an increase in line with those registered in France and Germany and considerably less than in Spain.

Between 1991 and 2001 the share of total private-sector value added (at base prices) going to capital increased more in Italy than in France, Spain or Germany (Figure 12). Against a gain in labour productivity that was only slightly smaller than in Germany and larger than in France and Spain, this was the result of a slower rise in labour costs in relation to the value added deflator. In industry excluding construction, the increase in capital's share was smaller, owing to slower labour productivity growth than in France and Germany.

Industrial relations

Collective bargaining agreements covering public employees, metalworkers and wholesale and retail trade were renewed in 2001. The latter two contracts, which cover a total of 3 million workers, provided for average annual wage raises of about 2.5 per cent in 2001 and 2002.

Table 19

LABOUR COSTS AND PRODUCTIVITY IN ITALY

(annual 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)	
								Un-adjusted	Adjusted
	Industry excluding construction								
Average 1981-1985	0.2	–2.7	3.0	15.9	16.2	13.0	66.9	1.3	1.8
Average 1986-1990	3.2	0.6	2.5	7.3	8.0	5.3	64.6	1.9	0.7
Average 1991-1995	1.5	–1.7	3.2	5.8	5.9	2.7	67.2	2.1	1.5
Average 1996-2000	1.2	0.1	1.1	3.4	2.6	1.5	64.2	0.4	. .
1999	0.4	–0.7	1.1	2.9	2.3	1.2	63.9	0.1	–0.3
2000	2.7	. .	2.7	2.6	2.8	. .	62.9	1.7	–0.3
2001	0.5	–0.4	0.9	2.9	2.7	1.8	62.2	–0.2	0.8
	Construction								
Average 1981-1985	0.1	–1.3	1.4	16.0	15.3	13.7	63.5	0.2	. . . .
Average 1986-1990	1.9	–0.4	2.3	9.9	10.5	8.0	66.0	2.0	. . . .
Average 1991-1995	–1.2	–0.6	–0.6	4.6	4.6	5.3	70.1	–0.5	. . . .
Average 1996-2000	1.1	0.7	0.4	3.4	2.3	2.0	70.4	–0.3	. . . .
1999	1.1	2.2	–1.1	3.1	3.1	4.2	71.2	–1.6	. . . .
2000	2.3	2.6	–0.3	2.3	2.4	2.7	71.0	–0.9	. . . .
2001	4.5	4.3	0.1	2.4	2.2	2.0	70.8	0.1	. . . .
	Market services (4) (5)								
Average 1981-1985	3.0	3.7	–0.7	14.1	13.5	14.3	75.5	–0.6	. . . .
Average 1986-1990	3.7	1.7	2.0	7.0	7.3	5.1	71.2	1.4	. . . .
Average 1991-1995	1.7	–0.2	1.9	5.8	5.5	3.6	70.3	1.0	. . . .
Average 1996-2000	3.3	2.4	0.9	3.0	2.1	1.3	65.4	0.6	. . . .
1999	1.9	2.4	–0.5	2.7	2.3	2.8	64.8	–0.9	. . . .
2000	6.2	3.8	2.3	2.9	2.9	0.5	64.6	2.3	. . . .
2001	2.9	2.5	0.4	2.2	2.1	1.7	64.3	0.1	. . . .
	Private sector (5)								
Average 1981-1985	1.7	–0.2	1.9	15.4	15.3	13.2	75.2	1.0	. . . .
Average 1986-1990	3.3	0.4	2.9	7.3	7.9	4.9	72.1	2.0	. . . .
Average 1991-1995	1.4	–1.1	2.6	5.8	5.7	3.1	72.7	1.7	. . . .
Average 1996-2000	2.5	1.0	1.4	3.4	2.5	1.1	68.1	0.8	. . . .
1999	1.7	0.8	0.9	3.0	2.5	1.7	67.5	0.1	. . . .
2000	4.6	2.1	2.5	2.8	2.8	0.3	66.8	1.8	. . . .
2001	2.0	1.7	0.3	2.5	2.3	2.0	66.5	–0.1	. . . .
	Total economy (5)								
Average 1981-1985	1.6	0.5	1.1	15.3	15.2	14.0	77.5	0.6	0.3
Average 1986-1990	2.8	0.7	2.1	8.1	8.5	6.3	74.8	1.5	1.2
Average 1991-1995	1.3	–0.8	2.0	5.1	5.3	3.2	75.1	1.4	0.9
Average 1996-2000	2.0	0.8	1.2	3.5	2.8	1.6	71.0	0.8	0.5
1999	1.4	0.8	0.6	2.8	2.4	1.8	70.2	0.1	–0.2
2000	3.4	1.7	1.7	3.1	3.0	1.3	69.8	1.3	1.2
2001	1.9	1.6	0.3	3.0	2.8	2.5	69.5	. .	–0.1

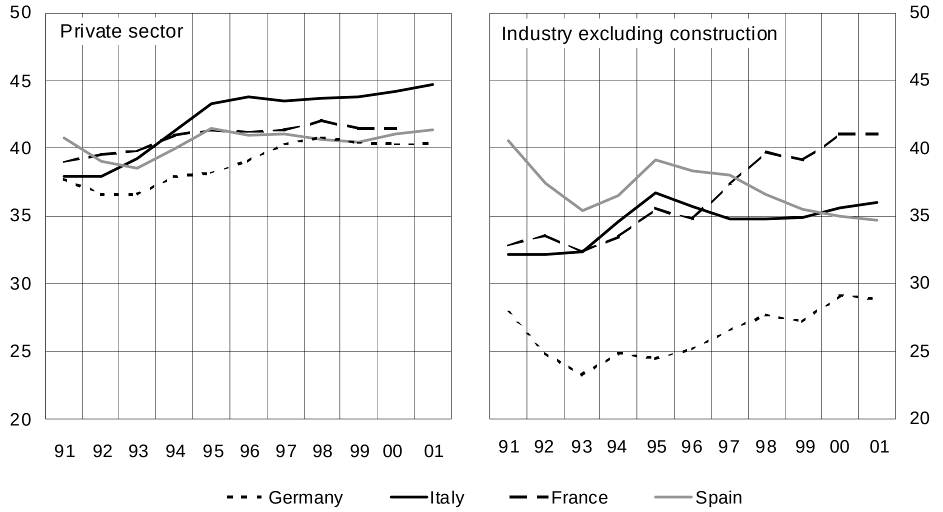
Source: Istat, national accounts.

(1) The introduction of the regional tax on productive activities (IRAP) and the simultaneous elimination of some employers' contributions in 1998 caused a break in the series. – (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 at factor costs and those in labour input 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. For 2001, partly estimated. – (4) Includes wholesale and retail trade, hotel and restaurant services, transport and communications, financial intermediation services and sundry services to businesses and households. – (5) Net of rental of buildings.

Figure 12

SHARE OF GROSS PROFITS IN VALUE ADDED IN THE MAIN EURO-AREA COUNTRIES (1)

(percentages)



Sources: Istat and Eurostat, national accounts.

1) Gross profits are calculated as the difference between value added at base prices and total labour income (including the imputed labour income from self-employment). For Italy, adjusted for the introduction of IRAP.

In November 2001 the Council of Ministers approved an enabling bill to reform labour market rules and institutions for greater flexibility. Among other things, the measure contemplates suspending Article 18 of the Charter of Labour Rights (Law 300 of 20 May 1970) for several categories of employees.

Under Italian labour law, the dismissal of an employee (except managers and domestics) must be motivated by objective reasons rooted in the production needs of the firm or subjective reasons, i.e. punishable misconduct on the part of the employee. If the worker appeals and the court finds that the dismissal is illegitimate, Article 18 provides that employees of private-sector firms with more than 15 employees are entitled to *real protection*, consisting in monetary compensation and the right to choose between reinstatement and additional monetary compensation. For workers in smaller private companies, the provision is for *obligatory protection*, i.e. monetary compensation only, unless the employer opts for reinstatement. Law 223 of 23 July 1991 governs collective redundancies (involving five or more workers for reasons inherent in production) at firms with more than 15 employees, laying down a procedure involving management, labour unions and local government.

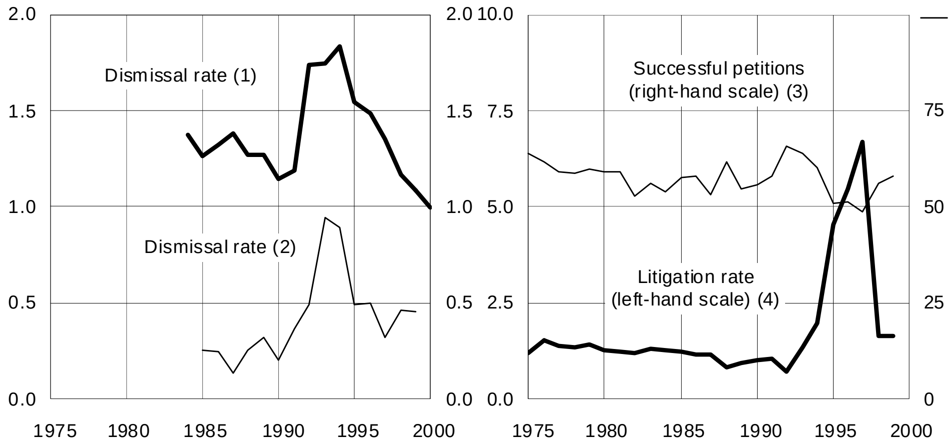
Lacking more detailed data, the number of dismissals yearly can be proxied by the number of “non-employed persons reporting that they have been dismissed from a job in the year preceding the interview,” taken from

Istat's labour force survey. This is an underestimate, because it omits dismissed workers who have found new jobs. The dismissal rate – the ratio of dismissed persons so estimated to average employment – rose sharply during the 1992-94 recession, which was the most severe since the war in terms of job losses, and then abated gradually as labour market conditions improved (Figure 13). This pattern is confirmed by the significant, if partial, evidence from the Federmeccanica surveys of engineering firms.

Figure 13

DISMISSAL RATES AND LEGAL PROCEEDINGS

(*per 100 or per 10,000 employees*)



Sources: Based on data from Istat, *Indagine sulle forze di lavoro*; Federmeccanica, *Indagine sulla situazione dell'industria meccanica*; and Istat, *Statistiche giudiziarie civili*.

(1) Number of non-employed persons who, according to the labour force survey, have been dismissed in the year preceding the survey as a percentage of total average payroll employment during the year. – (2) Number of dismissals as a percentage of average employment in engineering firms with at least 50 employees. – (3) Percentage of cases in which the ruling is in favour of the plaintiff. – (4) Number of cases concluded with a lower court ruling in matters concerning termination of employment per 10,000 employees.

The proposed change in the rules governing individual dismissals aims to ease the constraints on firms in managing personnel. A comparative study by the OECD reports that Italy is among the developed countries providing the highest levels of protection for workers in the event of illegitimate individual dismissal, owing to the number of cases in which the law envisages reinstatement and to the monetary cost of illegitimate dismissal. It is among the least restrictive in the definition of the legitimate grounds for dismissal and the procedures. The OECD index summarizing these rules puts Italy among the countries with the most stringent constraints on dismissal. However, this assessment depends heavily on the inclusion of the *trattamento di fine rapporto* (deferred salary paid upon separation for whatever reason) as part of the monetary cost of dismissal. Excluding this, Italian rules on individual dismissals would be among the least restrictive in Europe. At the same time, the OECD index refers to legislation only and does not explicitly consider the substantial international differences in frequency of legal action, in judicial interpretations and in the length of legal proceedings. In many countries the length of the trial itself is a factor in determining the amount of compensation, hence the cost to the employer, in the case of illegitimate dismissal. In Italy, in cases in which Article 18 applies, compensation is commensurate with the period elapsing between the dismissal and the sentence.

The extent of litigation over dismissals can be approximated, in Italy, by the number of lower-court judgments in proceedings against the termination of an employment relationship as a percentage of total payroll employment (Figure 13). The surge in litigation between 1995 and 1997, which stemmed from the large number of dismissals in the preceding three years, was accompanied by a decline in the share of rulings in favour of the plaintiff (presumably, the worker). During the period of sharply rising litigation – which is in any case much less frequent than in the United Kingdom, France, Germany or Spain – the duration of proceedings lengthened substantially, from an average of 14 months in 1992 to 21 months in 1999 for each level of judgment, greatly increasing the cost to firms.

The enabling bill, taking up proposals formulated in the "White Paper on the Labour Market in Italy" published by the Ministry of Labour and Social Policies, provides for the reorganization of public and private employment agencies, the systematic revision of employment incentives and social shock absorbers and a redefinition of contractual relations to introduce greater flexibility. These measures are intended to enhance the structural competitiveness of Italian firms, easing job-to-job mobility and safeguarding workers' rights.

The resumption of industrial conflict in connection with the proposed reform of the rules on individual dismissals did not prevent the conclusion, in the early months of 2002, of national contract renewals in the construction, chemical, banking, wood and furniture, clothing and textiles, and gas and water industries. The settlements called for the ex-post recouping of the differential between actual and target inflation in 2000 and 2001, while confirming wage increases for 2002 consistent with price stability. For public employees, the agreement signed in February for 2002 and 2003 calls for an average annual raise of 2.8 per cent, four fifths of this to recoup past extra-inflation and to cover the target inflation for the two years and the rest as a productivity increment.

The distribution of net earnings and household income

The Bank of Italy's survey of household income and wealth found that real per capita monthly earnings of employees (net of income tax and employees' social security contributions) rose by 0.7 per cent per year between 1998 and 2000, after declining by 1 per cent per year between 1989 and 1998 (Table 20). Dispersion of net monthly earnings has remained roughly unchanged since 1993, after a significant increase compared with 1991. The share of low-paid workers, i.e. those earning less than two thirds of the median for full-time employees, fell to 16.8 per cent in 2000 but remains far above the 10.3 per cent registered in 1991.

Table 20

REAL MONTHLY NET EARNINGS IN ITALY (1)
(at 2000 prices)

	1989	1991	1993	1995	1998	2000	
	Thousands of lire						Euros
	All employees						
Average earnings	2,396	2,297	2,329	2,240	2,183	2,213	1,143
Men	*2,562*	*2,472*	*2,541*	*2,455*	*2,368*	*2,414*	*1,247*
Women	*2,109*	*2,007*	*1,993*	*1,916*	*1,914*	*1,914*	*988*
Centre and North	*2,408*	*2,327*	*2,359*	*2,288*	*2,269*	*2,300*	*1,188*
South	*2,362*	*2,221*	*2,255*	*2,125*	*1,977*	*1,988*	*1,027*
Gini index (2)	0.193	0.194	0.241	0.234	0.241	0.240	
Interdecile ratio (3)	2.2	2.4	2.8	2.8	3.1	3.1	
Percentage of low-paid workers (4)	8.1	10.3	15.7	13.7	18.3	16.8	
Men	*4.9*	*6.1*	*9.7*	*8.2*	*13.0*	*11.1*	
Women	*13.8*	*17.2*	*25.1*	*22.0*	*25.9*	*25.4*	
Centre and North	*8.1*	*9.2*	*13.7*	*11.4*	*14.4*	*13.2*	
South	*8.2*	*13.0*	*20.6*	*19.2*	*27.6*	*26.2*	
	Full-time employees						
Average earnings	2,424	2,336	2,400	2,308	2,295	2,326	1,201
Men	*2,571*	*2,484*	*2,562*	*2,471*	*2,432*	*2,462*	*1,272*
Women	*2,155*	*2,072*	*2,112*	*2,031*	*2,069*	*2,087*	*1,078*
Centre and North	*2,441*	*2,370*	*2,438*	*2,364*	*2,371*	*2,402*	*1,241*
South	*2,379*	*2,250*	*2,304*	*2,175*	*2,109*	*2,120*	*1,095*
Gini index (2)	0.187	0.186	0.227	0.220	0.216	0.217	
Interdecile ratio (3)	2.2	2.2	2.5	2.4	2.6	2.4	
Percentage of low-paid workers (4)	6.4	7.9	11.9	9.7	12.2	10.5	
Men	*4.5*	*5.5*	*8.8*	*7.5*	*9.8*	*8.9*	
Women	*10.0*	*12.4*	*17.3*	*13.5*	*16.1*	*13.4*	
Centre and North	*6.2*	*6.7*	*9.4*	*7.0*	*8.6*	*7.4*	
South	*7.0*	*11.2*	*18.1*	*16.3*	*20.9*	*19.0*	

Source: Banca d'Italia, *Indagine sui bilanci delle famiglie italiane, Archivio storico* (Version 2.0, February 2002).

(1) Principal jobs, excluding second jobs. Earnings are deflated by the general consumer price index. – (2) The Gini concentration index ranges from 0 (perfect equality) to 1 (maximum inequality). – (3) Ratio of the wage corresponding to the 9th decile to that corresponding to the 1st (lowest) decile. – (4) Percentages. By the OECD definition, "low-paid" is less than two thirds of median earnings for full-time workers.

Table 21

EQUIVALENT HOUSEHOLD DISPOSABLE INCOME IN ITALY (1)
(*at 2000 prices)*

	1989	1991	1993	1995	1998	2000	
	Thousands of lire						Euros
Mean equivalent income	26,560	26,660	26,029	25,930	27,871	28,374	14,654
Centre and North	*30,191*	*30,276*	*30,106*	*30,115*	*32,879*	*33,087*	*17,088*
South	*20,266*	*20,280*	*18,855*	*18,611*	*19,074*	*20,061*	*10,361*
Gini index (2)	0.300	0.291	0.336	0.337	0.349	0.335	
Centre and North	*0.277*	*0.264*	*0.300*	*0.299*	*0.316*	*0.293*	
South	*0.291*	*0.291*	*0.350*	*0.357*	*0.350*	*0.357*	
Interdecile ratio (3)	3.7	3.8	4.7	4.7	4.9	4.6	
Low-income households (4)	8.2	9.0	12.4	12.5	13.0	12.4	
Centre and North	*3.7*	*4.7*	*6.4*	*5.2*	*5.9*	*4.4*	
South	*17.3*	*18.1*	*25.1*	*27.1*	*27.4*	*28.4*	
Persons in low-income households (4)	9.1	10.2	14.1	14.1	14.4	14.1	
Centre and North	*3.5*	*4.3*	*5.5*	*4.8*	*5.3*	*4.4*	
South	*18.8*	*20.8*	*29.3*	*30.4*	*30.4*	*31.2*	

Source: Banca d'Italia, *Indagine sui bilanci delle famiglie italiane, Archivio storico (*Version 2.0, February 2002).

(1) Total household income (including imputed rental income from owner-occupied homes), net of direct taxes, deflated by the general consumer price index and made comparable using the modified OECD scale of equivalence, weighted by the number of persons in the household. The modified OECD scale assigns a weight of 1 to the first adult member, 0.7 to every additional person older than 13, and 0.5 for every member aged 13 or less. – (2) The Gini concentration index ranges from 0 (perfect equality) to 1 (maximum inequality). – (3) Ratio of the disposal income corresponding to the 9th decile to that corresponding to the 1st (lowest) decile. – (4) Percentages. "Low-income" is defined as less than 50 per cent of median equivalent disposable income.

To proxy the level of individual economic well-being, the total income of each household (including imputed rental income on owner-occupied homes and net of taxes and social security contributions), has been adjusted using the OECD modified equivalence scale to take account of household composition and economies of scale from cohabitation. This "equivalent disposable income" rose by 3 per cent per year between 1998 and 2000 at current prices and 0.9 per cent at constant prices, continuing the uptrend that began in 1995. From 1995 to 2000 the annual increase was 1.8 per cent in real terms, following a decline in real income of 0.4 per cent per year in the six years from 1989 to 1995 (Table 21). Inequality in the distribution of equivalent income diminished in 2000, returning to the levels of 1993-95. The share of persons in low-income households – i.e. those with an equivalent income of less than half the median – declined slightly, to 14.1 per cent, the same as in 1993-95, thanks to an improvement in the Centre and North that more than offset a further deterioration in the South. The broad stability in the population share of persons in low-income households between 1993 and 2000 squares with Istat's statistics on poverty in Italy.

PRICES AND COSTS

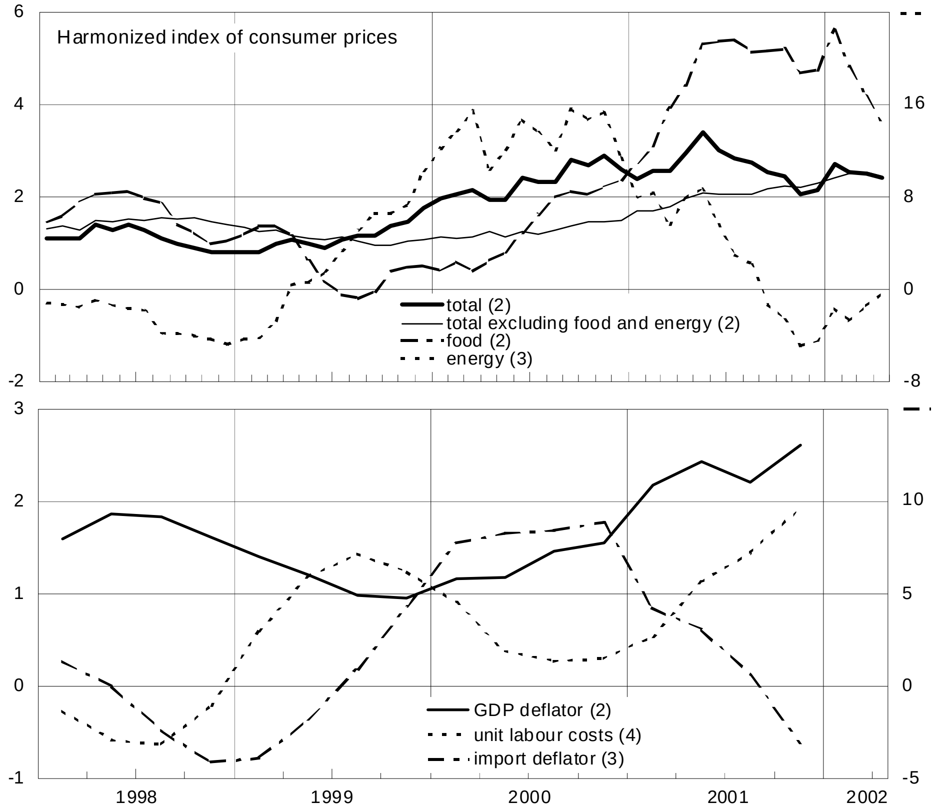
Consumer price inflation averaged 2.7 per cent in 2001 in both the euro area and Italy, compared with 2.4 and 2.6 per cent respectively in the previous year; the slight acceleration was due to a sharp rise in core inflation, as measured by the harmonized index excluding energy and unprocessed food products, and despite a slowdown in energy prices. The acceleration in core inflation from just over 1 per cent in 1999 and 2000 to 2.2 per cent in 2001 (in Italy from just under 2 to 2.4 per cent; Figure 14 and Table 22) reflected rises in import prices in the previous two years, which gradually worked through to final prices. Domestic costs rose more rapidly in 2001, whereas in the previous year they had offset inflationary pressures from abroad. Despite a moderate rise of around 2 per cent in overall labour costs in the four largest euro-area countries (2.8 per cent in Italy), a decline of about 1 percentage point in productivity growth as a result of the slowdown in activity caused unit labour costs to rise by 1.9 per cent, against 0.3 per cent in 2000. Domestically generated inflation, estimated on the basis of the GDP deflator, rose to 2.3 per cent in the area as a whole and 2.6 per cent in Italy, compared with 1.3 and 2.1 per cent respectively the previous year.

In all of the countries the more volatile components of consumer prices caused an acceleration in the twelve-month rise in the general index in the first half of 2001 and a slowdown thereafter. The rise of 2.5 per cent in the euro area in the first quarter of this year was due to one-off factors, such as large rises in fruit and vegetable prices caused by bad weather, increases in some regulated prices and changes in indirect taxation in some countries. At the beginning of this year the action taken by OPEC in concert with other large oil-producing countries to halt the decline in crude oil prices and the subsequent heightening of tensions in the Middle East caused a renewed sharp rise in oil prices, not only spot but also forward in connection with the improved prospects for a recovery in the world economy. As a result, professional forecasters made a slight upward revision of their expectations as to average inflation this year, to 1.9 per cent for the euro area and 2.1 per cent for Italy; the rate should ease in 2003. The slight deterioration in short-term price expectations is also evident from surveys of industrial firms. Over longer time horizons, forecasters expect inflation of just under 2 per cent both in the area as a whole and in Italy.

Figure 14

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. – (2) Left-hand scale. – (3) Right-hand scale. – (4) Calculated from the sum of the values for Germany, France, Italy and Spain. Moving average of the four quarters ending in the reference quarter. Left-hand scale.

Consumer and producer prices and inflation differentials

Consumer prices and the changeover to the euro. – Consumer price inflation, measured by the harmonized index of consumer prices (HICP), rose from 2.4 to 2.7 per cent on an annual average basis in the euro area and from 2.6 to 2.7 per cent in Italy (Table 22). The acceleration was due to the core components, which exclude energy and unprocessed food; it affected all the countries except Ireland, as the effects of the depreciation of the euro and large increases in raw materials prices since 1999 gradually worked through to final prices. Core inflation in the euro area was 2.2 per cent last year, around one percentage point higher than in 2000. There were similar rises in the largest countries, and the component items also behaved similarly across countries, confirming the common origin of the inflationary pressures.

Table 22

HARMONIZED INDICES OF CONSUMER PRICES IN THE EURO AREA

(percentage changes on the year-earlier period) (1)

	Italy			Germany			France			Euro area		
	2000	2001	2002 Q1	2000	2001	2002 Q1	2000	2001	2002 Q1	2000	2001	2002 Q1
General index	2.6	2.7	2.5	2.1	2.4	2.0	1.8	1.8	2.3	2.4	2.7	2.5
Core inflation (2)	1.9	2.4	2.8	0.7	1.5	2.0	0.7	1.5	2.2	1.3	2.2	2.6
Processed food	1.3	2.5	2.8	0.0	2.3	3.4	2.3	3.4	3.7	1.2	2.9	3.5
of which: Milk. dairy products, oil	*1.3*	*2.7*	*3.1*	*–0.1*	*1.2*	*1.1*	*1.2*	*1.7*	*1.2*	*0.7*	*1.8*	*1.5*
Non-alcoholic and alcoholic beverages	*1.2*	*2.4*	*3.2*	*–1.4*	*5.0*	*5.6*	*2.2*	*4.8*	*3.6*	*0.5*	*4.0*	*4.4*
Non-food and non energy products	1.7	1.8	2.3	0.3	0.8	1.3	0.1	0.9	1.1	0.8	1.5	1.8
of which: Clothing and footwear	*2.3*	*2.9*	*3.1*	*0.1*	*0.8*	*1.3*	*0.2*	*0.5*	*1.0*	*0.7*	*1.6*	*2.3*
Electrical, photographic & computer equipment	*–3.7*	*–2.4*	*–2.4*	*–3.1*	*–6.2*	*–5.3*	*–6.1*	*–5.1*	*–6.5*	*–3.9*	*–4.4*	*–4.9*
Medicaments & medical equipment	*3.0*	*–4.7*	*2.4*	*0.4*	*0.8*	*–0.7*	*1.2*	*0.6*	*0.2*	*–3.0*	*–0.3*	*0.9*
Services	2.3	2.9	3.3	1.4	1.9	2.1	0.6	1.5	2.5	1.7	2.5	3.0
of which: Transport other than air transport	*0.1*	*2.7*	*4.7*	*1.2*	*3.2*	*11.4*	*–0.5*	*5.2*	*3.6*	*1.1*	*4.5*	*4.9*
Lodging & catering, personal services	*3.1*	*3.7*	*4.4*	*1.3*	*1.9*	*3.8*	*1.8*	*2.5*	*4.0*	*2.7*	*3.4*	*4.4*
Insurance & financial	*5.8*	*11.1*	*11.6*	*4.2*	*3.7*	*2.7*	*0.7*	*1.7*	*1.7*	*3.4*	*4.4*	*4.3*
Unprocessed food products	1.8	5.8	6.2	–0.2	7.1	6.8	2.4	7.4	8.1	1.7	7.2	7.0
Energy products	11.6	1.6	–4.4	14.4	6.4	–0.8	12.1	–1.5	–2.6	13.4	2.8	–2.0

Source: Based on Eurostat data.

(1) Percentage changes for the first quarter of 2002 are calculated with reference to the indices based on the new method of recording promotional offers. – (2) General index excluding unprocessed food and energy products.

There was a pause in the decline in consumer price inflation at the beginning of 2002. The harmonized index for the area rose by 2.6 per cent in the twelve months to January, compared with 2.1 per cent in December; it remained at 2.5 per cent in February and March. A number of one-off factors conspired to keep the rise in prices high, including sharp increases in fruit and vegetable prices, the rise in energy prices (after many months of decline) owing to the renewed increase in crude oil prices on world markets, increases in tobacco prices in France and Germany and the raising of the eco-tax on energy products in Germany.

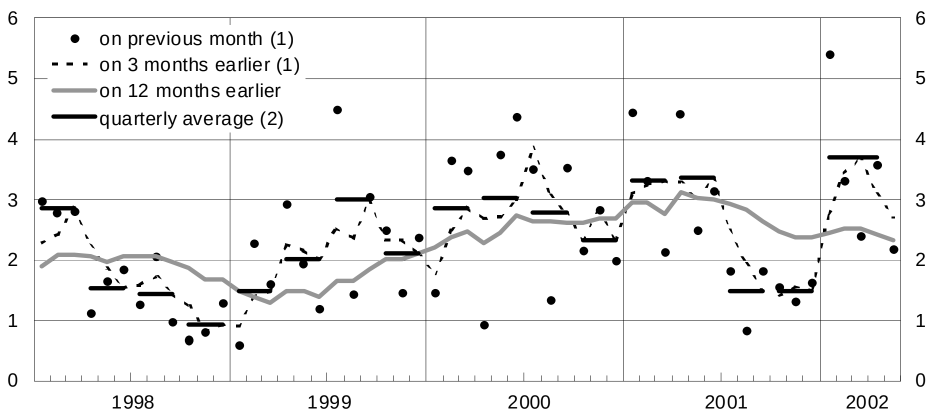
The figures for March and April confirmed that the upward pressure on the prices of unprocessed food since the beginning of the year was only temporary; by contrast, energy prices remained under pressure owing to the worsening of the conflict in the Middle East. The rise in the harmonized index for the euro area slowed down to 2.4 per cent in April. Core inflation stabilized at 2.6 per cent following a long period of gradual increases. Among its components, there were large increases in the prices of some services in several countries: the twelve-month rate rose from 2.8 per cent in the fourth quarter of 2001 to 3 per cent in April, possibly owing partly to the changeover to the single currency.

At the beginning of 2002 consumer prices in Italy were also affected by increases in particular items, in some cases in common with other countries. In January and February the general consumer price index was on average about 4.5 per cent higher than in the two preceding months on a seasonally adjusted annual basis (Figure 15) owing to increases in utility charges that are often concentrated at that time of year as well as large rises in the prices of unprocessed food. The slowdown in the seasonally adjusted index in March (to an annualized rate of 2.5 per cent in relation to February) and its rebound to 4 per cent in April were due respectively to a return to normal conditions in the fruit and vegetable markets and to further large increases in energy prices. The twelve-month rise in the index remained at 2.5 per cent between January and March, falling to 2.4 per cent in April and, on the basis of provisional data, 2.3 per cent in May.

Figure 15

ITALY: GENERAL CONSUMER PRICE INDEX

(monthly data; 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.

Since the beginning of this year the most reliable indicator of consumer price inflation in Italy has been the general consumer price index. From January onwards the HICP has been calculated in accordance with Commission Regulation 2602/2000, which requires that account be taken of temporary price reductions lasting for fifteen days or more that are due to promotional offers, sales, and so forth. This methodology had already been followed by all the statistical agencies of the euro-area countries except those of Italy and Spain. For these two countries the adoption of the new procedure caused a break in the historical series of the HICP, significantly altering the seasonal pattern of the index, particularly for goods other than food and energy. Istat has not applied the Commission Regulation to the national consumer price index, for which its use is not compulsory, with the result that it has been possible to analyze inflation in Italy during the changeover to the new currency on the basis of statistical methods whose operation is not compromised by structural breaks in the historical series.

As Eurostat has reconstructed the HICP for Italy and Spain for the whole of 2001 on the basis of the new method of recording sales prices, it will be possible to calculate the percentage changes in 2002 by comparing indices that are uniform throughout the euro area. By contrast, inflation in 2001 is measured on the basis of the series published by Eurostat up to last December using the old methodologies.

On the basis of data for the first quarter of this year, there was no general rise in prices associated with the changeover to the euro. The aggregate data available so far suggest that in the first four months of the year the impact in Italy was about 0.3 points. This estimate is obtained in the following way. In Italy the rise in consumer prices, measured in terms of the three-month changes in the seasonally adjusted general index, remained stable at an annual rate of 1.5 per cent between September and December 2001, or a monthly rate of just over 0.1 per cent (Figure 15). Using this rate as an estimate of core inflation in January and February and excluding changes due to volatile components and regulated items that often occur during this period, the “residual” of the change in the general index in the two months (0.5 and 0.4 per cent respectively) was around 0.1 per cent (for February this estimate also takes account of the rise in the prices of motor vehicles); in March and April it was probably much smaller. This can be regarded as the maximum contribution of the currency changeover to consumer price inflation. It cannot be ruled out, however, that the changeover to the euro also had an impact on the prices of unprocessed food, but the size of any effect is even more difficult to assess than for the other items in the index because of the bad weather that affected these markets at that time.

Producer prices. – The prices charged in the early stages of the marketing of products rose some months earlier than consumer prices. The index of the producer prices of final consumer goods other than food and energy (and also excluding motor vehicles), which is a better indicator of trends in the same aggregate at consumer level, rose more rapidly in the first half of 2001, at a twelve-month rate of 2.5 per cent in June in the area as a whole and around 3 per cent in Italy; at the beginning of 2002 the rate decreased by about half a percentage point, which suggests that the indirect price effects of the long period of upward pressure on import costs and the depreciation of the euro had run their course.

The dispersion of inflation and inflation differentials. – The dispersion of consumer price inflation rates, as measured by the difference between the average rate for the three countries with the highest inflation and that for the three with the lowest, remained at the same level as in the previous year (Table 23). The standard deviation computed with reference to the inflation rates in the twelve euro-area countries did not change significantly either, remaining close to one percentage point.

Table 23

DISPERSION OF INFLATION IN THE EURO AREA (1)
(percentage points)

	General index		Core inflation (2)						Volatile components (4)	
					of which:					
					Non-food & non-energy products		Services			
	Range (3)	Standard deviation	Range (3)	Standard deviation	Range (3)	Standard deviation	Range (3)	Standard deviation	Range (3)	Standard deviation
1997	1.9	1.2	2.4	1.4	3.3	1.5	3.9	2.0	3.9	2.0
1998	2.3	1.1	2.2	1.2	2.8	1.4	3.0	1.4	3.0	1.4
1999	1.7	0.7	1.9	0.8	1.8	0.8	2.6	1.1	2.6	1.1
2000	2.2	0.9	2.5	1.1	1.7	0.7	3.3	1.4	3.3	1.4
2001	2.3	1.0	2.4	1.0	2.2	0.9	3.3	1.3	3.3	1.3
H1	*2.3*	*1.0*	*2.4*	*1.0*	*2.2*	*0.9*	*3.4*	*1.4*	*6.4*	*2.5*
H2	*2.5*	*1.1*	*2.4*	*1.0*	*2.2*	*0.9*	*.3.3*	*1.3*	*6.8*	*2.9*
2002										
Q1	*2.7*	*1.1*	*2.6*	*1.1*	*2.1*	*0.9*	*3.7*	*1.6*	*6.1*	*2.6*

Source: Based on Eurostat data.
(1) Dispersion data are calculated from the percentage variations in the harmonized indices of the euro-area countries in relation to the year-earlier period. – (2) Index excluding unprocessed food products and energy products. – (3) Difference between average inflation in the 3 countries with the highest inflation and that in the 3 countries with the lowest. – (4) Unprocessed food products and energy products.

In 2001, as in the previous year, consumer price inflation in Italy measured by the HICP was in line with the average for the area; the differential in the index excluding food and energy products decreased considerably, from 0.7 points in 2000 to 0.3 points (Table 24), owing mainly to a further gradual alignment of the rate of increase in domestic costs in industry and services with the average for the euro area. Consumer price inflation in Italy was respectively 0.9 and 0.3 points higher than in France and Germany, broadly the same as the differential recorded in 2000; measured in terms of core inflation, the differential remained around one percentage point.

Table 24

INFLATION INDICATORS IN THE LARGEST EURO-AREA COUNTRIES

(percentage changes on previous year)

	Italy		Germany		France		Spain		Euro area	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Consumer prices										
General index	2.6	2.7	2.1	2.4	1.8	1.8	3.5	3.7	2.4	2.7
General index excluding food and energy products	2.0	2.4	0.9	1.4	0.4	1.2	2.8	3.4	1.3	2.1
of which: Non-food & non-energy products	*1.7*	*1.8*	*0.3*	*0.8*	*0.1*	*0.9*	*2.0*	*2.4*	*0.8*	*1.5*
Services	*2.3*	*2.9*	*1.4*	*1.9*	*0.6*	*1.5*	*3.6*	*4.3*	*1.7*	*2.5*
Producer prices										
General index	6.0	1.9	3.3	3.0	5.5	1.3	5.4	1.7	5.5	2.1
General index excluding food and energy products	2.9	1.6	2.1	1.3	1.1	1.8	3.3	1.9	3.0	1.6
Final consumption goods excluding food and energy products	1.8	2.5	0.8	1.6	0.6	1.4	1.7	3.1	1.4	2.1
Unit labour costs										
Total economy	1.7	2.3	–0.8	0.8	0.5	2.9	2.4	3.6	0.3	1.9
of which: Industry excluding construction	*0.0*	*1.8*	*–2.8*	*1.9*	*–2.9*	*2.1*	*2.3*	*4.4*	*–2.0*	*1.9*
Services	*2.4*	*2.4*	*–0.1*	*0.5*	*1.4*	*3.0*	*2.3*	*3.1*	*1.0*	*1.9*
Memorandum item:										
Added value										
Total economy	3.0	2.0	3.9	1.2	4.1	1.9	4.1	3.1	3.8	1.7
of which: Industry excluding construction	*2.7*	*0.5*	*5.8*	*0.3*	*4.9*	*1.7*	*4.0*	*1.3*	*4.8*	*0.8*
Services	*3.5*	*2.5*	*3.8*	*2.1*	*3.9*	*2.1*	*4.1*	*3.6*	*3.8*	*2.3*

Source: Based on Eurostat data.

The dispersion of price levels within the area took on greater significance with the final abandonment of national currencies. It is now much easier to make price comparisons between countries, and this should reinforce consumer pressure for a reduction in disparities.

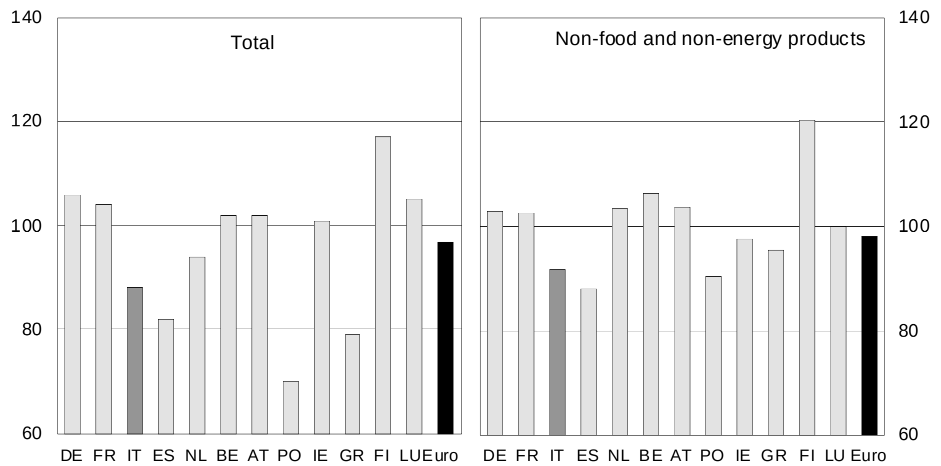
The measurement of consumer price inflation is the subject of a Community Regulation harmonizing the methods and baskets of goods and services throughout the European Union. The sole official source of information on the dispersion and convergence of price levels within the EU is the study on purchasing power parities (PPPs) coordinated by Eurostat.

The Eurostat data on consumer price levels are broken down into some thirty elementary items available with an annual frequency from 1995 onwards. The sub-indices for goods other than food and energy and for services, which are not published by Eurostat, have been obtained for each country by aggregating the PPPs of the constituent items using their weights in the national harmonized index of consumer prices. This procedure is consistent with the method adopted for calculating the national PPPs for all products.

Figure 16

LEVEL OF CONSUMER PRICES AT CONSTANT PURCHASING POWER: EURO AREA, 1999 (1)

(indices; EU average = 100)



Source: Based on Eurostat data.
(1) Purchasing power parities are calculated with reference to households' final domestic consumption in the euro-area countries.

In 1999, the last year for which official data are available, there were wide national differences in general price levels based on PPPs. If the average for the EU is set at 100, the highest level was in Sweden (125) and the lowest in Portugal (73). Italy, with an index figure of 86, was among the countries with the lowest price level (Figure 16). The overall dispersion for the euro area, as reflected in the standard deviations of the PPPs for each country, declined from 18.6 in 1995 to 13.5 in 1999. Price disparities were smaller for non-food and non-energy products than for services (8.5 and 13 respectively in 1999) and declined more rapidly, falling by about 6 points between 1995 and 1999.

The determinants of consumer prices

Wage growth in the euro area remained moderate last year; in the four largest countries labour costs per employee in the economy as a whole rose by 2.3 per cent, 0.3 percentage points more than in 2000 (Table 25). The largest increases were in Spain (4.3 per cent), Italy (2.8 per cent) and France (2.6 per cent); in Germany the rise was 1.6 per cent. In these countries gross per capita earnings in the economy as a whole rose more or less in line with consumer prices in the two years 2000 and 2001.

The sharp fall in output growth in 2001 caused a slowdown of about one percentage point in labour productivity growth in the entire economy; between 2000 and 2001 it fell from 1.7 to 0.4 per cent in the four largest countries together and from 1.3 to 0.5 per cent in Italy. This resulted in a significant acceleration in unit labour costs, from 0.3 to 1.9 per cent in the area as a whole. In Italy the rise was 2.3 per cent (compared with 1.7 per cent in 2000), in France 2.9 per cent and in Germany 0.8 per cent.

Input costs declined everywhere in 2001, but have begun to rise again since the end of last year owing to the recovery in the world prices of raw materials. Crude oil prices (average for the three main grades) fell to around $18 a barrel at the end of 2001 but rose sharply in subsequent months to stand at more than $25 in April in connection with an improvement in the prospects for economic growth and, from the spring onwards, a heightening of tensions in the Middle East. Raw materials prices, which tend to move in step with expectations regarding world demand, fell steadily from the beginning of 2000 onwards to a low in October and recovered thereafter. These developments, together with the stabilization of the euro vis-à-vis the dollar, were responsible for the marked slowdown in the prices of imported goods and services; in 2001 the import price deflator for the euro area rose by 1.3 per cent, compared with 8.3 per cent the previous year, while in Italy it increased by 1.6 per cent, against 12 per cent in 2000.

The available information on firms' costs is more detailed for Italy than for the euro area and makes it possible to examine the determinants of inflation more precisely.

Istat recently published indicators for the prices charged by Italian firms (output prices) and their costs (input prices), calculated net of intrasectoral transactions. These data, which are produced in the context of quarterly national accounts, are available for the main sectors – agriculture, energy, manufacturing industry, construction, services excluding the public sector – and for the economy as a whole. They make it possible to monitor directly the behaviour of profit margins in the various sectors within a consistent accounting framework.

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		Value added at constant prices (2)		Employment (1)		Unit labour costs	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
					Industry excluding construction					
Germany	2.1	1.8	5.1	–0.1	5.8	0.3	0.3	0.0	–2.8	1.9
France	0.6	2.4	3.7	0.3	4.9	1.7	1.2	1.4	–2.9	2.1
Italy	2.8	2.7	2.7	0.9	2.7	0.5	0.0	–0.4	0.0	1.8
Spain	3.0	4.4	0.7	0.0	4.0	1.3	3.3	1.3	2.3	4.4
Euro 4 (3)	2.0	2.3	4.1	0.4	4.8	0.8	0.7	0.4	–2.0	1.9
					Services					
Germany	0.8	1.5	0.9	1.0	3.8	2.1	2.7	1.0	–0.1	0.5
France	2.3	2.6	0.9	–0.4	3.9	2.1	3.0	2.5	1.4	3.0
Italy	3.3	3.0	0.9	0.5	3.5	2.5	2.6	2.0	2.4	2.4
of which:										
private (4)	*2.9*	*2.1*	*1.1*	*0.5*	*4.9*	*3.0*	*3.8*	*2.5*	*1.8*	*1.6*
public	*3.6*	*3.9*	*–1.0*	*–0.2*	*–0.1*	*1.1*	*0.9*	*1.3*	*4.6*	*4.0*
Spain	3.4	4.2	1.1	1.1	4.1	3.6	3.0	2.5	2.3	3.1
Euro 4 (3)	2.0	2.4	0.9	0.5	3.8	2.3	2.9	1.8	1.0	1.9
					Total economy					
Germany	1.2	1.6	2.0	0.8	3.9	1.2	1.6	0.2	–0.8	0.8
France	2.1	2.6	1.6	–0.4	4.1	1.9	2.5	2.2	0.5	2.9
Italy	3.0	2.8	1.3	0.5	3.0	2.0	1.7	1.6	1.7	2.3
Spain	3.4	4.3	1.0	0.7	4.1	3.1	3.1	2.4	2.4	3.6
Euro 4 (3)	2.0	2.3	1.7	0.4	3.8	1.7	2.1	1.4	0.3	1.9

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 France, Germany, 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".

In Italy cost pressures from imports decreased dramatically in 2001 (Table 26). In manufacturing industry the rise in unit variable costs came down from 3.3 to 1.8 per cent in connection with the abrupt slowdown in the rise of non-labour input costs from 5.9 to 1.1 per cent. Labour input costs, which had fallen by 1.2 per cent in 2000, rose by a substantial 3.1 per cent last year. The sector's output prices increased by 2.1 per cent, slightly more than the rise in unit variable costs. In the service sector (excluding services provided by the public sector) the rise in unit variable costs slowed down significantly, from 3.4 to 2.5 per cent, and that in output prices was only marginally higher, at 2.7 per cent. Given these movements, the profit margins of firms in the two sectors do not appear to have been squeezed in 2001, despite the weakness of activity.

Table 26

UNIT VARIABLE COSTS AND OUTPUT PRICES IN ITALY

(percentage changes on previous year) (1)

	Manufacturing			Services, excluding public services		
	% weight 1995	2000	2001	% weight 1995	2000	2001
Unit variable costs	100.0	3.4	1.8	100.0	3.4	2.5
Labour inputs	35.9	−1.2	3.1	73.6	2.8	2.1
Other inputs	64.1	5.9	1.0	26.4	4.7	3.4
Domestic	38.3	1.8	0.1	19.9	2.6	3.5
Imported	25.8	11.3	2.1	6.5	11.0	3.3
Output prices	100.0	3.4	2.1	100.0	3.1	2.7
Domestic	58.3	2.8	0.8	91.3	3.3	2.7
External	41.7	4.4	3.6	8.7	0.7	3.1

Source: Istat.
(1) Indicators excluding intrasectoral transactions.

In Italy the ratio of gross operating profit to value added in manufacturing and services showed a further small increase. This is also the only piece of information available in the other euro-area countries for assessing the performance of profits, which in France and Germany increased slightly in 2001.

The price deflator of exports of goods and services for all the euro-area countries rose by an annual average of 1.6 per cent in 2001, compared with 4.7 per cent the previous year, when exporters had benefited from the sharp depreciation of the euro. As in 2000, Italy's export prices rose much more rapidly last year than those of our most important trading partners (by 3.3 per cent, compared with 1 per cent in France and 0.8 per cent in Germany). On the basis of a comparison between the rates of increase in the import and export deflators, Italy's terms of trade improved by about two percentage points in 2001, whereas they had deteriorated by more than seven points in 2000.

Inflation expectations

Last year the professional forecasters surveyed each month by *Consensus Forecasts* were predicting that consumer price inflation in the euro area and Italy would average just under 2 per cent in 2002; over the course of the year their forecasts tended to fluctuate slightly, in line with actual inflation (Table 27). The broad stability of expectations about the behaviour of prices confirmed the forecasters' view that the changeover to the euro would not have a significant inflationary impact.

Table 27

EXPECTATIONS CONCERNING CONSUMER PRICE INFLATION IN THE EURO AREA IN 2002 AND 2003 OBSERVED BY *CONSENSUS FORECASTS*

(percentage changes on previous year)

	Forecasts for 2002 made in the period indicated				Forecasts for 2003 made in the period indicated	
	January 2001	June 2001	December 2001	April 2002	January 2002	April 2002
Germany	1.5	1.7	1.3	1.7	1.5	1.6
France	1.4	1.5	1.3	1.6	1.4	1.5
Italy	1.8	1.9	1.7	2.1	1.9	1.9
Spain	2.6	2.7	2.4	2.9	2.6	2.6
Euro area	1.8	1.9	1.7	2.0	1.8	1.9

Source: *Consensus Forecasts.*

The survey carried out in April revealed expectations of inflation averaging 2.1 per cent in Italy and 2 per cent in the euro area this year, implying a slowdown in consumer prices in subsequent months; the annual average rate was expected to come down only slightly in 2003. According to the forecasters, consumer price inflation in the euro area is therefore likely to remain at the stability threshold set by the Eurosystem, which it had exceeded by a wide margin in 2000 and 2001.

Other indicators of short-term inflation expectations point to an acceleration, but not sufficient to jeopardize price stability. In particular, the European Commission's survey of industrial firms' intentions regarding price changes in the subsequent three or four months showed a steady decline in intended price rises until December and a slight deterioration thereafter. The Bank of Italy-*Sole24Ore* survey of March, the sample for which also includes companies from the service sector, produced similar indications. Expectations regarding consumer price inflation have been revised upwards slightly since December for all time horizons, both for Italy and for the euro area, in line with the rise in actual inflation at the beginning of this year.

Expectations for more distant time horizons surveyed in April by *Consensus Forecasts* indicated an inflation rate of between 1.5 and 2 per cent in the coming years; interest rates in the financial markets point to a similar conclusion.

THE BALANCE OF PAYMENTS AND THE NET INTERNATIONAL INVESTMENT POSITION

Italy's current account swung back towards balance last year, showing a deficit of just €200 million, compared with one of €6.3 billion, or 0.5 per cent of GDP, in 2000 (Table 28). The improvement was due almost entirely to an increase of €7.4 billion in the surplus on merchandise trade. The deficit on income diminished slightly from €13.1 billion to €11.6 billion, while the surplus on services, which had amounted to €1.2 billion in 2000, was nearly erased. The deficit on current transfers widened from €4.7 billion to €6.7 billion.

Table 28

ITALIAN BALANCE OF PAYMENTS
(balances in billions of euros)

	1999	2000	2001
Current account	**7.7**	**–6.3**	**–0.2**
Goods	22.0	10.4	17.8
Exports	*221.5*	*260.9*	*270.9*
Imports	*199.4*	*250.5*	*253.1*
Services	1.1	1.2	0.3
Income	–10.4	–13.1	–11.6
Transfers	–5.1	–4.7	–6.7
EU institutions	*–4.7*	*–4.9*	*–5.8*
Capital account	**2.8**	**3.2**	**0.9**
Intangible assets	0.0	–0.1	–0.3
Transfers	2.8	3.3	1.2
EU institutions	*3.2*	*3.6*	*1.7*
Financial account	**–8.9**	**4.3**	**–2.9**
Direct investment	0.2	1.1	–7.4
Portfolio investment	–23.6	–26.3	–7.6
Financial derivatives	1.8	2.5	–0.5
Other investment	5.7	30.0	12.1
Banks (1)	*–7.4*	*29.5*	*27.6*
Trade credits	*0.9*	*–4.5*	*–1.0*
Change in official reserves	7.1	–3.1	0.5
Errors and omissions	**–1.6**	**–1.2**	**2.1**

(1) MFIs, excluding the Bank of Italy.

The financial account showed a deficit of €2.9 billion, as against a surplus of €4.3 billion in 2000. There was a net direct investment outflow of €7.4 billion, compared with an inflow of €1.1 billion the previous year, while the deficit on portfolio and derivatives investment contracted from €23.8 billion to €8.1 billion. Net external fund-raising by banks remained very substantial at around €30 billion.

The capital account surplus shrank from €3.2 billion to €900 million as a result of the decrease in public transfers, primarily those from the EU's Regional Development Fund and the European Agricultural Guidance and Guarantee Fund.

Trade

Italy's merchandise trade surplus on an fob-fob basis rose from €10.4 billion to €17.8 billion and from 0.9 to 1.5 per cent of GDP, owing to faster growth in exports than imports (3.8 per cent as against 1 per cent by value). The result reflected both changes in volumes – exports expanding and imports contracting – and an improvement of more than 2 per cent in the terms of trade after the sharp deterioration of 7 per cent in 2000. Import prices showed a small rise, reflecting the fall in oil prices, albeit with a lag. Export prices recorded increases of more than 4 per cent in the first half of the year, when the euro depreciated against the other main currencies.

On a cif-fob basis the trade surplus widened by €8 billion in 2001, owing almost entirely to an improvement in trade with countries outside the euro area. There was rapid growth in the value of exports of food products (6.2 per cent), clothing and textiles (6.7 per cent), leather and footwear (8.5 per cent), chemicals (5.8 per cent) and machinery and mechanical equipment (5.4 per cent). Exports of transport equipment contracted by 3.1 per cent. The traditional industries of clothing, textiles, leather and footwear and the food sector also contributed to the growth of imports, with increases ranging from 5.3 per cent (foods) to 17.5 per cent (leather and footwear). Imports of transport equipment rose by 6.3 per cent, while those of the products most closely bound up with industrial activity declined: metals and metal products by 3.5 per cent, electrical equipment and precision instruments by 4.5 per cent. Fuel imports, more than 90 per cent of which consist of crude oil and natural gas, declined in value by 3 per cent and their ratio to GDP thus diminished from 2.3 to 2.2 per cent.

The largest contribution to the increase in the overall surplus came from trade with the OPEC countries, with which Italy's deficit fell from €12.4 billion to €8 billion. The decline in the value of imports, due to the fall in oil prices, was accompanied by an appreciable increase in exports, favoured by the rise in the oil exporters' income.

Italy’s trade surplus with the countries of Central and Eastern Europe and the former Soviet Union increased by €2.1 billion, as export growth outpaced the substantial increase in imports. After four successive years of deterioration, the deficit on trade with China narrowed, reflecting further rapid expansion of 37.5 per cent in Italian exports and a sharp slowdown in import growth (from 40.5 to 6.4 per cent). Exports were fueled by the growth of the Chinese economy and concentrated in mechanical engineering products. Imports were affected by the slowdown in Italian demand; even though market shares increased, the growth of imports subsided in the fashion industries (clothing and textiles, leather and footwear) and in “other manufactures” (where toys and games account for 40 per cent of the total).

Italy’s deficit on trade with the EU remained about the same as in 2000, while that with the euro area worsened, owing entirely to an increase from €5.9 to €7 billion in the deficit vis-à-vis Germany. Exports to that country declined by almost 1 per cent, owing mainly to the performance of sectors affected by the weakness of German economic activity (electrical machinery, non-metallic minerals) or Italian losses of competitiveness (transport equipment). Imports of transport equipment, especially motor vehicles, increased substantially. Italy’s surplus on trade with the United Kingdom increased from €3.9 billion to €4.9 billion; the improvement came from a fall in imports that was concentrated in electrical machinery, rubber and plastic products and foods.

Services, income and transfers

Services. – The surplus of €1.2 billion on services that Italy recorded in 2000 gave way to balance last year, mainly because of a widening of the deficit on communications (from €700 million to €1.3 billion) and on services to government (from €500 million to €1.2 billion). Total receipts rose more slowly than in 2000, from €61.5 billion to €64.5 billion. Among the major items, receipts on account of travel and transport diminished, while those for “other business services” grew more than in 2000. Outflows increased from €60.3 billion to €64.1 billion. A sharp fall in spending on foreign travel and a decline in that on transport was offset by faster growth in many smaller items.

Italy’s payment surplus on foreign travel came to €13.1 billion in 2001, or 1.1 per cent of GDP, up from €12.9 billion in 2000. The balance reflected a fall in outflows and receipts alike, as Italians’ spending abroad contracted by 6.7 per cent after six years of virtually uninterrupted growth and foreigners’ spending in Italy declined by 3.2 per cent. The number of Italian travelers abroad and that of foreign visitors to Italy decreased by 2.5 and 3.4 per cent respectively. The events of 11 September were reflected in a large contraction in both the number and the spending of Italian and foreign travelers. From September to December, spending abroad by Italians was 19.1 per cent less than in the same period of 2000, compared with a decline of 1.6 per cent in the first eight months of the year. In the same period foreigners' spending in Italy fell by 14.5 per cent, compared with an increase of 1.8 per cent in the months through August. The per capita expenditure of Italians abroad and foreigners in Italy also diminished. In the first two months of 2002 receipts in this sector were 21.1 per cent less than a year earlier, outflows 15.8 per cent less.

Income. – Italy's deficit on income was slightly smaller than in 2000, thanks to the performance of both labour and investment income. The deficit on labour income, which had been €500 million in 2000, was practically erased last year. The deficit on investment income narrowed from €12.6 billion to €11.5 billion; within this segment, the outflows on account of direct and portfolio investment both decreased, while the net outflow on "other investment" increased.

Current account transfers. – Italy's deficit on current account transfers rose from €4.7 billion to €6.7 billion. The deterioration was due entirely to a larger deficit on private sector transfers, in particular those classed as "other transfers", which increased from €700 million to €2.8 billion. Net transfers to EU institutions rose by €900 million, with an increase of €800 million on account of VAT; receipts from the European Social Fund decreased by €500 million, while those from the EAGGF increased.

The capital account

Italy's traditional surplus on capital account decreased substantially in 2001, falling from €3.2 billion to €900 million. The main factor was the reduction from €3.6 billion to €1.7 billion in the surplus vis-à-vis EU institutions as a consequence of smaller transfers from the Regional Development Fund and the Guidance Section of the EAGGF.

The financial account

Direct investment. – There was a net direct investment outflow of €7.4 billion last year, as against an inflow of €1.1 billion in 2000, reflecting a sharp increase (about 80 per cent) in outflows and a more modest expansion in inflows (14.5 per cent). Investment towards the rest of the euro area accounted for just over 50 per cent of the total net outflow. The other main euro-area countries also recorded deficits on direct investment: France had net outflows of €32.6 billion, Germany of €12.8 billion and Spain of €6.7 billion. In Italy the first quarter of 2002 produced a net outflow of €2.1 billion, about one fifth the size of that recorded a year earlier.

While Italy's investment inflows held steady in the course of 2001, outflows accelerated rapidly in the first quarter and slowed down afterwards. The size and pattern of outflows depended almost entirely on a few large mergers and acquisitions involving major energy and communications groups. Mechanical engineering also saw important transactions.

Italian direct investment abroad, net of disinvestment, amounted to €24 billion, or 2 per cent of GDP. Although substantially larger than the previous year's figure of €13.4 billion, this flow remained modest by comparison with Italy's European partners: outward direct investment was equal to 6 per cent of GDP in France, 4.8 per cent in Spain and 2.3 per cent in Germany.

Net inward direct investment amounted to €16.6 billion in 2001 (1.4 per cent of GDP), up from €14.5 billion in 2000. Italy is also comparatively weak in attracting foreign direct investment. Inward investment in the last two years has come to 1.3 per cent of GDP (against an average of 0.4 per cent in the 1990s); inward investment in Germany was slightly higher, while Spain and France both attracted inward investment amounting to nearly 4 per cent of GDP.

Portfolio investment and derivatives. – Both outward and inward portfolio investment slowed down sharply in Italy in 2001, especially in the second half of the year. The deficit on this account decreased from €26.3 billion to €7.6 billion. The reduction in Italian outward investment was concentrated in equities, the outflow of which fell from €83 billion to €11 billion; investment in other securities rose from €3.4 billion to €28.9 billion. This change reflected more prudent portfolio choices on the part of residents, given the greater risk and lower returns of equity investment. The bulk of the decline in inward portfolio investment was in non-equity securities (the inflow fell from €61.8 billion to €32.8 billion). There were again net disposals of Italian shares, though less substantial than in the previous two years (€400 million in 2001, €1.7 billion in 2000). The reduction in investment in non-equity securities was accounted for by countries outside the euro area, that in shares by those within the area. In the first three months of 2002 there was a deficit of €14.2 billion on portfolio and derivatives investment, due mainly to continuing foreign disinvestment in Italian non-equity securities (€7.1 billion).

In the second half of 2001, the disinvestment involved mainly Italian Treasury bills, credit certificates and zero-coupon certificates. These disposals were partly offset by increased investment in private non-bank bonds, which increased by €14.1 billion.

"Other investment". – Italy had inflows of €12.1 billion in "other investment" in 2001, substantially less than the €30 billion recorded in 2000. Italian banks' net fund-raising abroad remained near the previous year's level, as a result of smaller growth in liabilities (€13.5 billion as against €26.3 billion) and a larger reduction in external assets (€14 billion as against €3.2 billion). Almost all of the rise in liabilities came outside the euro area, while the asset reduction was vis-à-vis area countries.

Table 29

ITALY'S INTERNATIONAL INVESTMENT POSITION
(millions of euros)

	Stocks at end-2000 (1)	January-December 2001					Stocks at end-2001 (1)
		Flows (2)	Value adjustments			Change in stocks	
				Exchange-rate (3)	Other (4)		
	(a)	(b)	(c)			(d)=(b)+(c)	(a)+(d)
			Resident non-banks				
Assets	**955,517**	**50,698**	**–68,917**	**10,411**	**–79,328**	**–18,219**	**937,298**
Direct investment	178,948	24,325	–11,642	1,395	–13,037	12,683	191,631
Portfolio investment	597,869	43,366	–59,487	6,865	–66,352	–16,121	581,748
Other investment	176,296	–17,948	2,197	2,151	–46	–15,751	160,545
Derivatives	2,404	955	15	. .	15	970	3,374
Liabilities	**852,966**	**46,044**	**–26,467**	**1,773**	**–28,240**	**19,577**	**872,543**
Direct investment	120,967	16,110	–15,376	10	–15,386	734	121,701
Portfolio investment	599,693	33,371	–11,981	1,502	–13,483	21,390	621,083
Other investment	130,408	–5,130	890	261	629	–4,240	126,168
Derivatives	1,898	1,693	. .	. .	. .	1,693	3,591
Net investment position	**102,551**	**4,654**	**–42,450**	**8,638**	**–51,088**	**–37,796**	**64,755**
			Resident banks				
Assets	203,420	–16,041	1,118	777	341	–14,923	188,497
Liabilities	299,436	13,477	785	3,642	–2,857	14,262	313,698
Net investment position	**–96,016**	**–29,518**	**333**	**–2,865**	**3,198**	**–29,185**	**–125,201**
			Central bank				
Assets	61,633	12,170	2,958	. . . .	. . . .	15,128	76,761
Liabilities	18,018	–15,583	58	. . . .		–15,525	2,493
Net investment position	**43,615**	**27,753**	**2,900**	. . . .	. . . .	**30,653**	**74,268**
OVERALL INTERNATIONAL INVESTMENT POSITION .	**50,150**	**2,889**	**–39,217**	. . . .	. . . .	**–36,328**	**13,822**

(1) At end-of-period prices and exchange rates. – (2) At prices and exchange rates of the date of transaction. – (3) Calculated on the basis of currency composition. – (4) Estimated on the basis of financial instrument composition.

Trade credit flows diminished in 2001. The credits received by Italian operators were outweighed by repayments, for a net reduction of €100 million (€2.8 billion in 2000), while those granted fell from €7.3 billion to €900 million.

The official reserves and the net international investment position. – Italy's official reserves amounted to €52.4 billion at the end of 2001, up from €50.4 billion a year earlier. Flows during the year reduced the reserves by €500 million, while exchange rate and valuation adjustments were positive by €2.6 billion.

Italy's net external assets contracted by €36.3 billion to €13.8 billion, or from 4 to 1.1 per cent of GDP. Against the modest positive contribution from transactions on the financial account (€2.9 billion) there were over €39.2 billion in downward value and exchange rate adjustments. The value of non-bank external assets and liabilities was adjusted downwards by €68.9 billion and €26.4 billion respectively, owing to the fall in stock market prices (Table 29).

THE PUBLIC FINANCES

General government net borrowing in the euro area rose from 0.8 per cent of GDP in 2000 (excluding the proceeds of sales of UMTS licences) to 1.3 per cent in 2001. This was the first deterioration recorded by the euro area as a whole since 1993. On the basis of the stability programmes submitted by national governments in late 2000 and early 2001, the deficit should have declined slightly. Many countries failed to attain the objectives they had set. Germany and Portugal had the largest deficits in relation to GDP (2.7 per cent). The deterioration was due to the slowdown in economic activity and above all to the tax reliefs granted in some countries. The ratio of general government debt to GDP fell by 1 percentage point to 69.2 per cent; in 2000 it had fallen by 2.4 points.

Turning to 2002, the stability programmes submitted at the end of 2001 indicated a reduction in euro-area net borrowing from 1.1 per cent of GDP, the figure estimated at the time for 2001, to 0.9 per cent. They envisaged that the deficit would fall to 0.4 per cent of GDP in 2003 and that balance would be reached in 2004. The European Commission and the main international organizations subsequently drew up less favourable scenarios, in which net borrowing was expected to rise by 0.2 percentage points to 1.5 per cent of GDP in 2002 and then decline to around 1.2 per cent in 2003.

In Italy net borrowing in 2001 was equal to 1.4 per cent of GDP, down by 0.3 percentage points from 1.7 per cent in 2000. The latter result is 0.2 percentage points higher than the preliminary figure as a consequence of revisions that mainly concerned the health sector. The objective indicated for 2001 in the Forecasting and Planning Report of September 2000 was 0.8 per cent of GDP. The Economic and Financial Planning Document of July 2001 confirmed this objective but estimated that in the absence of corrective measures the deficit would be 1.9 per cent of GDP. In view of the high level of the borrowing requirement in the first half of the year and the difficulty of forecasting the gap between this aggregate and net borrowing, the Economic and Financial Planning Document contained a second, prudential, estimate of the deficit, equal to 2.7 per cent of GDP. The Forecasting and Planning Report published in September 2001 indicated a deficit of 1.1 per cent.

In the second half of 2001 net borrowing was curbed by the restrictions imposed on disbursements, higher-than-expected receipts of some one-off taxes and the securitization of proceeds of public property sales (amounting to 0.3 per cent of GDP, of which a little more than half has already been received) and lotto and other gaming receipts (amounting to 0.25 per cent of GDP). The latter operation will result in a loss of revenue from 2002 onwards.

The reduction in the deficit between 2000 and 2001 reflects both the decrease in interest payments from 6.5 to 6.3 per cent of GDP and the increase in the primary surplus from 4.7 to 4.9 per cent. The ratio of taxes and social security contributions to GDP declined by 0.1 percentage points to 42.4 per cent of GDP. The primary current expenditure ratio rose by 0.1 percentage points; excluding the effects of the sale of UMTS licences and securitizations, the capital expenditure ratio rose by 0.3 points. The data for 2001 are still partially estimated; in the last two years the preparation of accurate preliminary figures has proved particularly difficult, especially in the health sector.

At the end of 2001 the ratio of debt to GDP was 109.4 per cent; the fall of 1.1 percentage points over the year compares with one of 4 points in 2000.

The total general government borrowing requirement rose from 2.2 to 3.4 per cent of GDP. Net of settlements of past debts and privatization receipts, it fell from 3.2 to 2.9 per cent; the difference between the latter figure and that for net borrowing continued to be large (1.5 percentage points). The difference between net borrowing on a cash basis and that calculated in accordance with ESA95 on an accrual basis increased.

The application of ESA95 to the public finances has raised interpretational problems with regard to particular transactions in some euro-area countries. The rulings Eurostat is expected to issue in the coming months may cause changes in the figures these countries transmitted to the European Commission in March.

The Economic and Financial Planning Document published in July 2001 confirmed the earlier objectives for 2002 and 2003: net borrowing equal to 0.5 per cent of GDP in 2002 and a balanced budget in 2003. For 2002 the budget provides for an adjustment on the order of 0.7 per cent of GDP; it includes temporary deficit-reduction measures amounting to around 1 per cent of GDP.

The objective for net borrowing in 2002 was confirmed in the Quarterly Report on the Borrowing Requirement published in April. The estimates are based on the assumption of a significant acceleration in economic activity in the second half of the year. The Report increased the estimate of the net borrowing requirement of the state sector in 2002 to 2.1 per cent of GDP; settlements of past debts amounting to 0.8 per cent are envisaged. The gap between the net borrowing requirement of the state sector and general government net borrowing, which was negative throughout the 1990s, is thus expected to be positive and to grow for the third successive year.

The Quarterly Report shows the public sector borrowing requirement, net of privatization receipts, as amounting to 3.2 per cent of GDP. This would result in a relatively small improvement in the debt ratio. It would also produce a further widening of the gap between general government net borrowing on a cash basis and that calculated in accordance with ESA95.

In the first four months of this year the state sector borrowing requirement, net of settlements of past debts and privatization receipts, amounted to €30.2 billion, €1.8 billion more than in the corresponding period in 2001. Achieving the objective for net borrowing will depend on the success of the action taken to control cash flows.

The medium-term budgetary policy formulated in the July 2001 Economic and Financial Planning Document is intended to achieve lasting balance, reduce the tax burden and increase the endowment of infrastructure. If it is to have a positive effect on economic agents' expectations, the reduction in the tax burden must be perceived as permanent. To this end it will need to be based on a significant reduction in the ratio of current public expenditure to GDP and structural reforms in the main spending sectors. Measures producing permanent effects will need to replace those of a temporary nature enacted to raise revenue in a period of unfavourable economic conditions.

Balancing the budget will speed up the reduction in the debt ratio and make room for counter-cyclical stabilization policies. The consequent reduction in interest payments in relation to GDP can be used to foster the decrease in the tax burden, with positive effects on expectations and economic growth.

The introduction of new methods in the management of public assets and the financing of investment can increase the efficiency with which public resources are used and contribute to the improvement of the country's infrastructure; the implications for the public finances in the medium and long term need to be carefully assessed. The mandate given to the Government in the field of social security provides for an acceleration in the growth of supplementary pensions but does not significantly affect public pension expenditure in the long run; it widens the gap between outlays and contributions. The tax reform mandate provides for a substantial reduction in taxation, especially for households, and a simplification of the central government tax system. The abolition of the regional tax on productive activities (Irap) will require the creation of new taxes giving the regions a sufficient revenue-raising capability. The increased autonomy granted to the regions by the recent reform of the Constitution must be accompanied by the introduction of rigorous budgetary rules and efficacious financial reporting systems. If the objectives for the public finances are to be achieved, every level of government must play its part.

BUDGETARY POLICY IN 2001

In 2001 the definition of net borrowing used in preparing national accounts was changed by excluding the effects of swaps from interest payments and hence from the budget balance. The definition of net borrowing used in the excessive deficit procedure laid down in the Maastricht Treaty was not changed and thus continues to include the effects of swaps. Both definitions refer to ESA95 and are the same in every other respect. The data analyzed in the chapter on the public finances are those obtained using the definition of the excessive deficit procedure.

The euro area

In 2001, for the first time since 1993, there was an increase in the euro area's budget deficit. General government net borrowing rose to 1.3 per cent of GDP (Table 30) from 0.8 per cent in 2000 (when, including the proceeds of sales of UMTS licences, there had been a surplus of 0.2 per cent).

Table 30

NET BORROWING AND DEBT IN THE EURO-AREA COUNTRIES (1)
(as a percentage of GDP)

	1998		1999		2000		2001	
	Borrowing	Debt	Borrowing	Debt	Borrowing	Debt	Borrowing	Debt
Germany	2.2	60.9	1.6	61.3	1.3	60.3	2.7	59.8
France	2.7	59.5	1.6	58.5	1.3	57.4	1.5	57.2
Italy	2.8	116.4	1.8	114.5	1.7	110.6	1.4	109.4
Spain	2.6	64.6	1.1	63.1	0.4	60.4	0.1	57.2
Netherlands . . .	0.8	66.8	−0.4	63.1	−1.5	56.0	−0.2	52.9
Belgium	0.8	119.3	0.6	115.0	−0.1	109.3	0.0	107.5
Austria	2.4	63.9	2.2	64.9	1.9	63.6	−0.1	61.8
Finland	−1.3	48.8	−1.9	46.8	−7.0	44.0	−4.9	43.6
Greece	2.4	105.0	1.7	103.8	0.8	102.8	0.4	99.7
Portugal	2.3	54.8	2.2	54.2	1.8	53.4	2.7 (2)	55.4
Ireland	−2.3	55.1	−2.3	49.6	−4.5	39.0	−1.7	36.3
Luxembourg . .	−3.2	6.3	−3.8	6.0	−5.8	5.6	−5.0	5.5
Euro area (3) .	**2.2**	**73.7**	**1.3**	**72.6**	**0.8**	**70.2**	**1.3**	**69.2**

Source: Based on European Commission data.
(1) The data on net borrowing do not include the proceeds of sales of UMTS licences but include the effects of swaps. – (2) The European Commission's estimate differs from the figure shown in the report Portugal submitted in March (2.2 per cent of GDP) because it includes the effects of the injection of fresh capital into public enterprises and of transactions carried out by local authorities. – (3) To permit uniform comparison, Greece is included in the euro area in all the years considered.

According to the stability programme updates submitted late in 2000 or early in 2001, the deficit should have fallen from 0.7 to 0.6 per cent of GDP. The overshoot was mainly due to GDP having grown by 1.5 per cent instead of 3.3 per cent as forecast.

The ratio of the deficit to GDP was increased by more than half a percentage point by the fiscal reliefs granted in some countries and reduced by 0.2 points by the further decline in interest payments. The area's primary surplus fell from 3.2 to 2.6 per cent of GDP. According to European Commission estimates, on a cyclically adjusted basis it fell from 2.7 to 2.4 per cent.

The consolidation of the euro-area's public finances slowed down in 2000 and went into reverse in 2001 (Figure 17). The ratio of total revenue to GDP, which had risen sharply in 1999, fell in the two following years as a consequence of the tax and social security contribution cuts enacted in the leading countries. In 2001 the decline of 0.6 percentage points in the area's revenue ratio to 46.7 per cent was largely due to the fall of 1.4 points recorded in Germany.

After rising slightly in 1999, the primary expenditure ratio declined significantly in 2000 and then showed a small increase in 2001, reflecting the rapid growth in GDP in 2000 and its slowdown last year. In 2001 the increase in unemployment benefits and other transfers to households was in line with the growth in nominal GDP; excluding the effects of the securitizations carried out in Italy, public investment expanded faster than GDP.

In 2001 the majority of euro-area countries failed to achieve the objectives set out in their stability programme updates. Only in Austria, Finland and Luxembourg was the outcome for the budget better than had been indicated; in Spain it was in line with the objective.

The largest deficits in relation to GDP were in Germany (2.7 per cent), Portugal (2.7 per cent), France (1.5 per cent) and Italy (1.4 per cent). The other euro-area countries already had a balanced budget or a surplus, except for Greece, which recorded a deficit equal to 0.4 per cent of GDP.

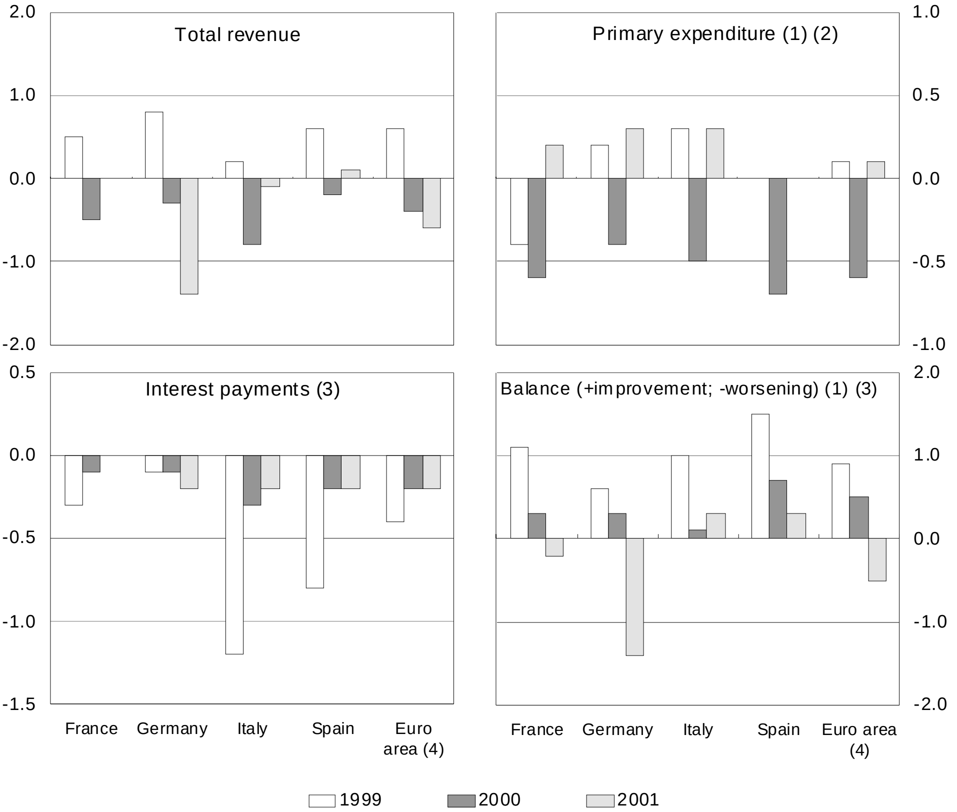
The accounting treatment of certain operations that some countries carried out has not yet been decided. Eurostat's rulings are expected in the coming months and may result in changes to the figures these countries submitted to the Commission in March.

In Germany and Portugal the ratio of the deficit to GDP was respectively 1.2 and 1.6 percentage points higher than indicated in their stability programme updates. According to the European Commission, the German overshoot was mainly due to the pronounced slowdown in economic growth, supplemented by the effects of the tax reform and the rapid rise in outlays on pharmaceuticals and spending by the Länder. In Portugal the unforeseen effects of the tax reform enacted in 2001 and the larger-than-expected increase in current expenditure were major factors; the slowdown in economic activity also played a role.

Figure 17

CHANGES IN THE MAIN BUDGET INDICATORS IN THE EURO AREA AND THE MAIN EURO-AREA COUNTRIES

(as a percentage of GDP)



Sources: Based on Istat and European Commission data.

(1) The data do not include the proceeds of sales of UMTS licences. – (2) The data do not include the proceeds of securitizations, which in the national accounts are deducted from expenditure. – (3) The data include the effects of swaps. – (4) GDP-weighted average. To permit uniform comparison, Greece is included in the euro area in all the years considered.

As part of the multilateral surveillance procedure put in place by the Stability and Growth Pact, the Commission proposed that the Council send each of these countries a Recommendation in connection with their large deficits in 2001, verging on the threshold of 3 per cent, the possibility of a further deterioration in 2002, and the wide gap between the balance indicated in the programme for 2001 and the actual outcome.

Subsequently, the governments of Germany and Portugal reaffirmed their intention to prevent the deficit from exceeding the threshold and undertook to comply with the objectives indicated in their stability programme updates and to balance their budgets by 2004. The Council deemed that these undertakings satisfied the Commission's requests and decided not to send the Recommendations.

Italy

Net borrowing. – General government net borrowing fell from 1.7 per cent of GDP in 2000 (0.5 per cent including the proceeds of the sale of UMTS licences) to 1.4 per cent in 2000 (Tables 31 and a15).

Table 31

MAIN INDICATORS OF THE GENERAL GOVERNMENT CONSOLIDATED ACCOUNTS IN ITALY (1)
(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Revenue	43.8	46.0	47.3	45.1	45.6	45.8	48.0	46.5	46.7	45.9	45.8
Expenditure (2)	55.5	56.6	57.6	54.3	53.2	52.9	50.7	49.3	48.4	47.6	47.2
of which: interest payments	*11.9*	*12.6*	*13.0*	*11.4*	*11.5*	*11.5*	*9.4*	*8.0*	*6.8*	*6.5*	*6.3*
Primary surplus (2)	0.2	2.0	2.8	2.1	3.9	4.4	6.7	5.2	5.0	4.7	4.9
Net borrowing (2)	11.7	10.7	10.3	9.3	7.6	7.1	2.7	2.8	1.8	1.7	1.4
Total borrowing requirement	11.0	10.8	10.9	9.7	7.2	7.5	1.9	2.5	0.8	2.2	3.4
Borrowing requirement net of settlements of past debts and privatization receipts	11.2	10.8	10.2	9.5	7.5	7.1	3.0	3.0	2.2	3.2	2.9
Debt	100.6	107.7	118.2	124.3	123.8	122.7	120.2	116.4	114.5	110.5	109.4

Source: The general government consolidated accounts items are based on Istat data.
(1) Rounding may cause discrepancies. – (2) The figure for 2000 does not include the proceeds of the sale of UMTS licences (equal to 1.2 per cent of GDP); in the national accounts they are deducted from expenditure. See Table a15 in the Statistical Appendix.

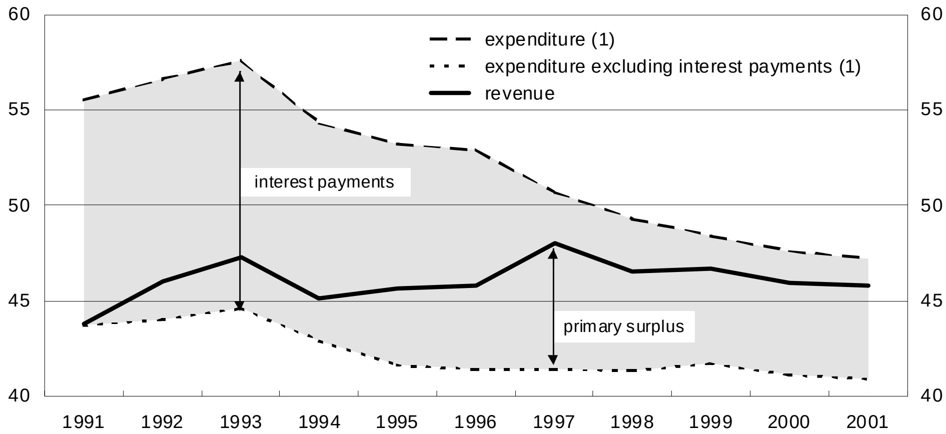
The result for 2001 benefited from the reduction in interest payments from 6.5 to 6.3 per cent of GDP (Figure 18) and from the revenue produced by securitizations (0.6 per cent). These concerned lotto and enalotto receipts until December 2006 and the proceeds of the sale of some public property. The lotto and enalotto securitization, the proceeds of which amounted to 0.25 per cent of GDP, will result in a loss of revenue from 2002 onwards.

As regards the sale of public property, in 2001 the buyer (Società per la Cartolarizzazione degli Immobili Pubblici) paid the government €2 billion as a part payment. The €3.8 billion of revenue included in calculating net borrowing in 2001 is the full value of all the buildings involved. In addition to the securitized sale of public property, there were direct sales amounting to some €1.5 billion, compared with around €1 billion in 2000.

Figure 18

GENERAL GOVERNMENT REVENUE AND EXPENDITURE IN ITALY

(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 (equal to 1.2 per cent of GDP); in the national accounts they are deducted from expenditure. See Table a15 in the Statistical Appendix.

The weak performance of the economy is estimated to have had an adverse effect on the budget balance of around 0.2 per cent of GDP (for the methodology used to obtain this estimate, see the chapter on “Budgetary policy in 2000” in the Annual Report for 2000).

The primary surplus rose from 4.7 to 4.9 per cent of GDP. Revenue decreased from 45.9 to 45.8 per cent of GDP and the ratio of taxes and social security contributions declined by 0.1 percentage points to 42.4 per cent. Among the main revenue items, direct taxes rose substantially, from 14.6 to 15.1 per cent of GDP, partly owing to the receipts of the one-off tax on the revaluation of corporate fixed assets. Excluding the proceeds of the sale of UMTS licences and securitization receipts, both of which are accounted for as a deduction from capital expenditure, the ratio of primary expenditure to GDP rose by 0.3 percentage points. The fastest growing current expenditure items were compensation of employees, following the renewal of wage agreements, and social benefits in kind, which mainly refer to the health sector. Spending on investment and investment grants rose by more than 10 per cent in nominal terms.

Budgetary policy. – The Economic and Financial Planning Document of June 2000 had set the objective for net borrowing in 2001 at 1 per cent of GDP.

In September 2000 the Planning Document Update and the Forecasting and Planning Report for 2001 revised the estimate of revenue in 2001 on a current programmes basis upwards by more than 1 per cent of GDP. At the same time tax cuts for a roughly equal amount were envisaged in the budget for 2001. The objective for net borrowing was set at 0.8 per cent of GDP, compared with the expected result in 2000 of 1.3 per cent. GDP growth in 2001 was forecast at 2.9 per cent. The update to Italy's stability programme submitted in December confirmed this scenario.

In line with the objective set for net borrowing, the Government's budget proposals envisaged an increase in the deficit compared with that on a current programmes basis. The budget approved by Parliament at the end of 2000 was little changed with respect to the original proposals and provided for an increase in the deficit of around €13 billion, of which €11 billion represented reductions in revenue.

The results for the borrowing requirement in the first few months of 2001 pointed to the risk of an overshoot. In March the Quarterly Report on the Borrowing Requirement indicated a deficit of 1 per cent of GDP in the absence of corrective action. This estimate took account of the result for net borrowing in 2000 published by Istat (1.5 per cent of GDP) and of the revision of the macroeconomic planning framework, in which the expected growth in GDP was reduced to 2.5 per cent.

In July 2001 the new Government submitted the Economic and Financial Planning Document for 2002-06. While it confirmed the objective for net borrowing of 0.8 per cent of GDP, the Planning Document estimated that the deficit would be 1.9 per cent of GDP, assuming that the wide gap recorded in 2000 between net borrowing and the borrowing requirement persisted. In view of the difficulty of forecasting the items that influenced the gap, the Planning Document contained a second prudential estimate of net borrowing equal to 2.7 per cent of GDP.

From the summer onwards the Government took steps to curb expenditure on purchases of goods and services, established a procedure based on securitizations to accelerate the sale of public buildings, and concluded an agreement with the regions on health expenditure. In addition, a series of measures were adopted with the aim of fostering the recovery in economic activity and raising the rate of growth in GDP in the medium term. The borrowing requirement began to show signs of an improvement, owing in part to the larger-than-expected receipts of the taxes on the revaluation of corporate assets and capital gains arising from the disposal of businesses.

In September, the Forecasting and Planning Report for 2002 estimated, on the basis of a forecast for GDP growth in 2001 of 2 per cent (the actual result was 1.8 per cent), that net borrowing in 2001 would be 1.1 per cent of GDP, a figure that was confirmed in the update to Italy's stability programme submitted in November.

The measures to foster the recovery in economic activity. – In the second half of 2001 the Government launched a series of measures aimed at stimulating investment, promoting the regularization of unreported employment, and encouraging the repatriation of capital and the regularization of assets held abroad in breach of tax rules.

A temporary tax incentive for investment was introduced; known as the Tremonti-*bis*, it is analogous to the 1994 measure widely used by firms until 1996. According to official estimates, in the first two years the consequent loss of revenue will be more than offset by the additional receipts from the increase in economic activity that the incentive will generate and the elimination of the existing reliefs (with a net effect of €1 billion in 2001 and €2.8 billion in 2002); by contrast, in 2003 a net revenue loss of €1.1 billion is expected.

A tax and social security contribution condonation scheme has been introduced for past years, together with rate-reductions for the years 2002-04, for cases of off-the-books employment that are regularized. A special programme of controls aimed at countering tax and social security contribution evasion has also been prepared. According to the original official estimates, these measures were expected to bring about one quarter of all off-the-books jobs into the tax net and generate about €20 billion of additional revenue in the period 2001-04. The regularization of such undeclared jobs nonetheless requires an agreement between employers and workers that could cause problems. Some aspects of the measures were subsequently amended; in particular, the deadline for submitting the necessary documentation has been extended from 30 November 2001 to 30 November 2002. At the end of April receipts from the measure amounted to €0.9 million.

A measure, known as the tax shield, has been approved permitting the repatriation or regularization of assets held abroad by individuals, non-commercial entities and non-business associations in violation of foreign exchange and tax laws. The government estimated that this measure would produce €50 million in 2001 and €1 billion in 2002, implying the repatriation or regularization of more than €40 billion. According to UIC data, the figure at the end of March was €21.9 billion; at the end of April the related receipts amounted to €0.6 billion.

Financial balances and the public debt. – The total general government borrowing requirement increased further in 2001, rising to €40.8 billion or 3.4 per cent of GDP. In 2000 it had been €25.8 billion or 2.2 per cent of GDP and in 1999 €8.5 billion or 0.8 per cent of GDP (Tables 31, 32 and a16).

Table 32

ITALY: GENERAL GOVERNMENT BALANCES AND DEBT AND STATE SECTOR BORROWING REQUIREMENT

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

	1997	1998	1999	2000	2001
General government					
Net borrowing (1)	53,679	58,471	37,597 *(19,417)*	38,876 *(20,078)*	34,105 *(17,614)*
Total borrowing requirement	38,607	52,797	16,508 *(8,526)*	50,036 *(25,841)*	79,001 *(40,801)*
Borrowing requirement net of settlements of past debts and privatization receipts (2)	60,195	63,305	48,229 *(24,908)*	71,047 *(36,693)*	67,459 *(34,840)*
Debt	2,388,743	2,417,374	2,458,276 *(1,269,594)*	2,493,127 *(1,287,593)*	2,576,605 *(1,330,705)*
State sector					
Total borrowing requirement	31,054	47,996	–725 *(–375)*	28,305 *(14,618)*	*68,770* *(35,517)*
Memorandum items:					
Settlements of past debts . . .	–409	4,770	12,118 *(6,259)*	8,904 *(4,599)*	19,925 *(10,290)*
Privatization receipts (–) . . .	–21,179	–15,277	*(–22,641)*	–29,915 *(–15,450)*	–8,383 *(–4,329)*

Sources: For net borrowing, Istat; for the state sector, the Ministry for the Economy and Finance.
(1) The figure for 2000 does not include the proceeds of the sale of UMTS licences (€13,815 million). – (2) The figures for settlements of past debts and privatization receipts are those of the state sector.

Compared with 2000, the borrowing requirement was influenced by the lower level of privatization receipts (€4.3 billion, as against €15.5 billion, deriving mostly from the sale of UMTS licences) and larger outlays classified as settlements of past debts. The latter rose from €4.6 billion to €10.3 billion (€7.2 billion if, for the sake of comparability, tax credits reimbursed via the Post Office are excluded). Excluding settlements of past debts and privatization receipts (items that do affect net borrowing), the borrowing requirement rose from 2.2 per cent of GDP in 1999 to 3.2 per cent in 2000 and then declined to 2.9 per cent in 2001 (Table 31). The wide gap that opened in 2000 between the net borrowing requirement and net borrowing remained virtually unchanged.

The gap between net borrowing on a cash basis, obtained by deducting financial items and privatization receipts from the general government borrowing requirement, and net borrowing, calculated by Istat on the basis of ESA95, widened further, from €14.5 billion to €22.2 billion and from 1.2 to 1.8 per cent of GDP.

The gap is attributable to the items reconciling the accounts on a cash and an accrual basis (including settlements of past debts) and to the discrepancy between the general government borrowing requirement, calculated by the Bank of Italy on the financing side, and the public sector borrowing requirement (which refers to an aggregate that is almost the same as general government), calculated by the Ministry for the Economy and Finance on the formation side. The latter are the data used by Istat to calculate net borrowing. In 2001, the widening of the gap attributable to the above-mentioned reconciliation items (from €6.2 billion to €18.8 billion) more than offset the reduction in the difference between the two borrowing requirement estimates (from €7.4 billion to €3.4 billion).

The worsening of the general government borrowing requirement reflects the increase in that of central government (from €19.7 billion to €39.4 billion), which was partly offset by the reduction in the local government borrowing requirement after consolidation (from €6.2 billion to €1.7 billion; Table a16). The state sector borrowing requirement rose from €14.6 billion to €35.5 billion.

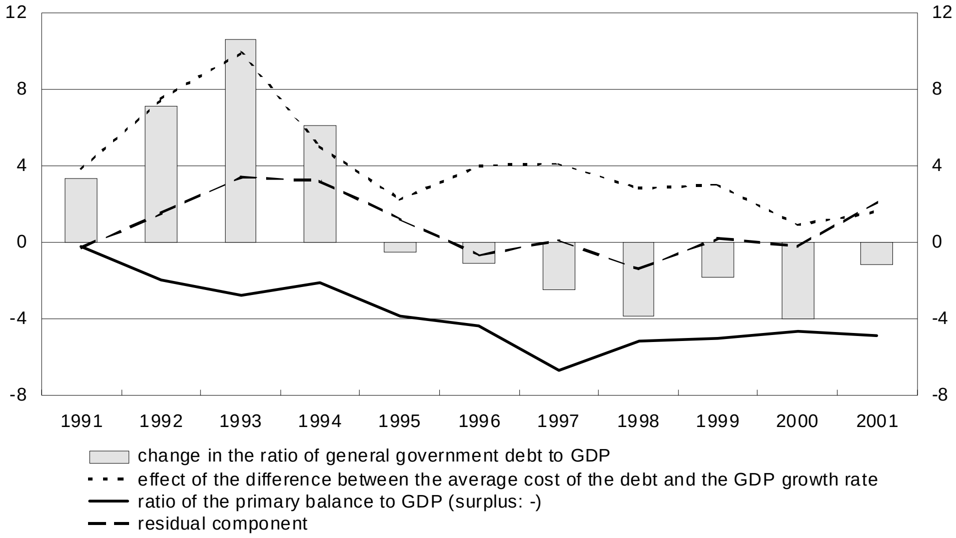
The public debt grew by €43.1 billion to €1,330.7 billion. This was €2.3 billion more than the borrowing requirement (in 2000 the increase had been €7.8 billion less). The difference reflected: a) the increase of €4 billion in the Treasury's liquid assets held with the Bank of Italy (in 2000 they had decreased by €9.6 billion); and b) issue premiums and discounts and other minor items, which resulted in a reduction in the debt of around €1.9 billion (as against an increase of €0.6 billion in 2000). The movements in the exchange rate of the euro had virtually no net effect on the value of foreign currency liabilities, whereas in 2000 exchange rate movements had increased their lira value by the equivalent of €1.2 billion.

The average residual maturity of public debt securities issued in Italy lengthened further, from 5.7 years at the end of 2000 to 5.8 years at the end of 2001. Net issues of medium and long-term securities placed on the domestic market amounted to €13.9 billion; the corresponding figure for short-term securities was €11.3 billion. Accordingly, in relation to GDP the stock of short-term securities rose to 9.3 per cent, after falling for six successive years, from 24.9 per cent in 1994 to 8.8 per cent in 2000.

Figure 19

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

(percentage points)



(1) For the methodology, see the note to Figure 18 in the *Annual Report* for 2000.

The year-end ratio of general government debt to GDP was 109.4 per cent, a fall of 1.1 percentage points. This was the smallest decrease since 1996 and 2.9 points less than that achieved in 2000 (Table 31 and Figure 19). Most of the difference was due to the net effect of the financial flows that affect the debt but not net borrowing; in 2001 these brought an increase of 2.1 percentage points in the debt ratio, whereas in 2000 they had been virtually neutral. These flows include privatization receipts, settlements of past debts and changes in the Treasury's liquid assets held with the Bank of Italy; the last of these items, of opposite sign in the two years, contributed about 1.1 percentage points. Another 0.7 points was attributable to the widening of the differential between the average interest rate on the debt and the rate of growth in nominal GDP (from 0.9 to 1.6 percentage points).

REVENUE AND EXPENDITURE IN ITALY

Revenue

In 2001 total general government revenue grew by 4.2 per cent to €557.2 billion; in relation to GDP it diminished by 0.1 percentage points to 45.8 per cent (Tables 31 and a15). Current revenue grew by 4.6 per cent and remained unchanged in relation to GDP at 45.5 per cent; capital revenue diminished by 0.1 percentage points in relation to GDP.

The ratio of taxes and social security contributions to GDP declined by 0.1 percentage points to 42.4 per cent, reflecting the performance of tax revenue (Table 33 and Figure 20). In 2001 it was higher than the average for the other EU countries (42 per cent).

Table 33

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

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Direct taxes	14.3	14.6	16.0	14.9	14.7	15.3	16.0	14.4	15.0	14.6	15.1
Indirect taxes	11.1	11.3	12.0	11.8	12.1	11.8	12.4	15.3	15.1	15.0	14.5
Current tax revenue	**25.4**	**25.9**	**28.0**	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.7**	**29.6**
Actual social security contributions	13.3	13.4	13.5	13.2	13.0	14.6	14.9	12.5	12.4	12.4	12.4
Imputed social security contributions	1.6	1.7	1.8	1.9	1.7	0.4	0.4	0.4	0.3	0.3	0.3
Current fiscal revenue	**40.3**	**41.0**	**43.3**	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.8**	**42.4**	**42.3**
Capital taxes	0.2	2.0	0.7	0.1	0.6	0.3	0.7	0.4	0.1	0.1	0.1
Fiscal revenue	**40.5**	**43.0**	**44.0**	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.5**	**42.4**

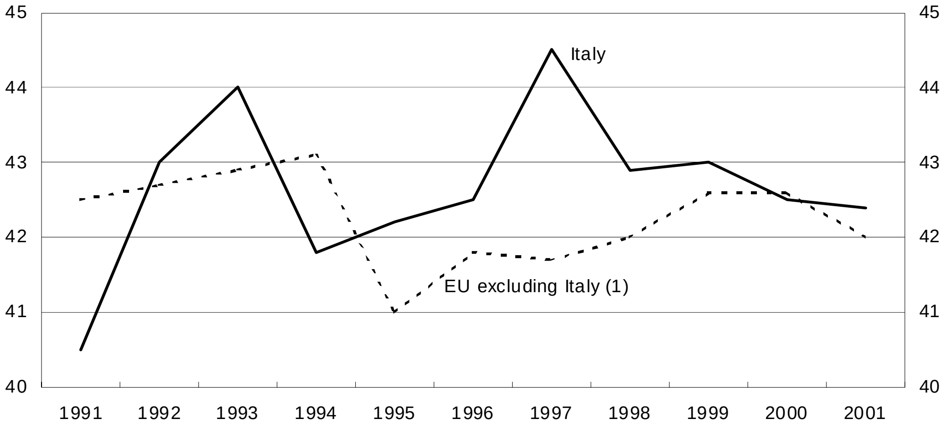
Source: Based on Istat data.
(1) Rounding may cause discrepancies. See also Table a15 in the Statistical Appendix.

After peaking at 44.5 per cent in 1997, the ratio of taxes and social security contributions to GDP fell by 1.6 percentage points in 1998, primarily owing to the lapsing of some taxes introduced the year before to ensure Italy's adoption of the single currency from the start. In the three following years the ratio declined by a total of 0.5 percentage points. Since 1997 this measure of the fiscal burden has been higher than the average for the other EU countries every year except 2000, when it was 0.1 points lower.

Figure 20

TAX REVENUE AND SOCIAL SECURITY CONTRIBUTIONS

(*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.

In view of the lack of data on receipts of the individual taxes on an accrual basis, the analysis that follows refers to data on a cash basis, which, moreover, are only available for the state sector and the regional tax on productive activities (Irap). The data are adjusted to exclude the effects of accounting settlements not accompanied by effective changes in revenue (Table a19).

Direct taxes. – This component grew by 7.9 per cent or €13.4 billion and rose in relation to GDP by 0.5 percentage points to 15.1 per cent. It was buoyed by the €5 billion of receipts of the tax on the revaluation of corporate fixed assets introduced in the budget for 2000. Revenue from personal income tax and corporate income tax rose by 4.7 and 13.5 per cent respectively. On the other hand, revenue from the withholding tax on interest income and capital gains fell by 17.7 per cent.

As regards personal income tax, payroll withholdings increased by 8.1 per cent, reflecting the rise of 3 per cent in gross wages and salaries per full-time equivalent employee and that of 2 per cent in the number of payroll workers. The reliefs granted in the budget for 2001 curbed the increase, which was boosted, instead, by the inclusion among payroll incomes of those from so-called coordinated and continuous collaboration. Withholdings from self-employment income correspondingly declined, by 17.8 per cent.

Self-assessed personal income tax increased by 2.9 per cent. The increase would have been larger had it not been for the reliefs granted in the budget.

Corporate income tax receipts benefited from the good performance of profits in 2000. They increased despite the operation of the Dual Income Tax mechanism and the lowering of the standard rate from 37 to 36 per cent, which is likely to have reduced payments on account.

Receipts of the withholding tax on interest income and capital gains were affected by the large fall in those generated by managed assets (Table a19).

Revenue from the withholding tax on securities held under management schemes contracted from €7.9 billion to €0.4 billion as a result of the fall in share prices in 2000. That from the withholding tax on interest income and capital gains in respect of securities held for administration contracted by only €0.4 billion, as a result of an increase of €0.9 billion in the interest income component and a decrease of €1.3 billion in the capital gains component. Receipts of the withholding tax on interest on bank deposits increased from €1.2 billion to €3.4 billion owing to the exhaustion of the tax credits that banks had begun to accrue in mid-1996. Lastly, receipts of the tax on capital gains arising from disposals of businesses and major shareholdings increased from €0.9 billion to €4.1 billion. This result was partly due to taxpayers no longer being allowed to pay in five annual instalments, so that some of the improvement was of a temporary nature.

Indirect taxes. – Indirect tax revenue grew by 0.9 per cent or €1.6 billion; in relation to GDP it declined by 0.5 percentage points to 14.5 per cent.

Irap receipts rose by 13.3 per cent. Net of the part accruing to the European Union, VAT receipts increased by 2.5 per cent; the increase would have been larger had it not been for the measures adopted at the end of 2000. The revenue from excise duties and sales taxes declined by 2.4 per cent; the increase of 2.4 per cent in receipts of the excise duties on oil products was more than offset by the decreases in those of the sales taxes on methane and electricity. These decreases were influenced by the renewal of the temporary reductions in the excise duties on methane and the reduction in the taxation of electricity for commercial and industrial uses introduced in the budget for 2001.

The revenue from state monopolies remained basically unchanged (–0.7 per cent), while that from lotto and other lotteries fell significantly, by 13.1 per cent.

Social security contributions. – Actual social security contributions rose by 4.5 per cent, compared with an increase of 5.1 per cent in total gross earnings; in relation to GDP they remained unchanged at 12.4 per cent.

Actual contributions paid by private-sector employers, whose ratio to GDP remained unchanged at 5.8 per cent, rose by 4 per cent, compared with an increase in earnings of 5 per cent; the difference reflected the reduction of 0.8 percentage points in the relevant contribution rate. The actual contributions paid by general government, whose ratio to GDP remained unchanged at 2.8 per cent, rose by 4.9 per cent, compared with an increase in earnings of 5.3 per cent; the difference reflects the virtual stability of the additional state contribution to the budget of INPDAP, the State Sector Employees' Social Security Institute (€7.2 billion in 2000 and €7.3 billion in 2001). The contributions paid by employees rose by 5.7 per cent, those by the self-employed by 3.4 per cent.

Expenditure

General government expenditure amounted to €574.8 billion or 47.2 per cent of GDP (Tables 34 and a15). Excluding the proceeds of sales of UMTS licences (€13.8 billion in 2000) and of securitizations (€6.8 billion in 2001), which are both deducted from capital outlays, expenditure increased by 4.8 per cent and rose from 47.6 to 47.8 per cent of GDP. Interest payments declined from 6.5 to 6.3 per cent of GDP; primary current account outlays rose from 37.4 to 37.5 per cent and capital outlays, excluding the extraordinary revenue referred to above, rose from 3.7 to 4 per cent (Figure 21).

Interest payments. – After falling significantly in relation to GDP between 1997 and 1999, interest payments declined moderately for the second year running (0.3 percentage points in 2000 and 0.2 points in 2001). The result in 2001 was due to the fall in the ratio of debt to GDP in 2000 and 2001 and was curbed by the slight increase in the average cost of the debt. After coming down without interruption from 1991 onwards and reaching 5.9 per cent in 2000, this rose to 6 per cent, the level recorded in 1999. The increase was due to the rise in short-term interest rates in 2000 and to that in medium and long-term interest rates in 1999, which more than offset the effect of the gradual redemption of high-yield securities (Figure 22).

The decline in interest payments should be larger this year as the average cost of the debt is set to fall significantly. The effects of the fall in short-term interest rates in the second half of 2001 will be supplemented by those deriving from the very substantial volumes of ten-year BTPs that matured in 2001 (€13.9 billion) and will mature in 2002 (€16.3 billion). The coupons on these securities were around 12 per cent, about 7 percentage points higher than those on new ten-year issues.

Table 34

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

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Compensation of employees	12.6	12.4	12.3	11.9	11.2	11.5	11.6	10.7	10.6	10.5	10.6
Intermediate consumption	5.0	5.1	5.2	5.2	4.8	4.8	4.7	4.8	5.0	5.1	5.1
Purchases of social benefits in kind	2.6	2.5	2.4	2.2	2.0	2.0	2.1	2.1	2.1	2.2	2.3
Social benefits in money	15.6	16.5	17.0	17.3	16.7	16.9	17.3	17.0	17.1	16.8	16.7
Interest payments	11.9	12.6	13.0	11.4	11.5	11.5	9.4	8.0	6.8	6.5	6.3
Other current expenditure	3.0	2.8	3.3	2.7	2.3	2.5	2.2	2.9	2.8	2.8	2.8
Total current expenditure	**50.6**	**52.1**	**53.3**	**50.6**	**48.5**	**49.1**	**47.2**	**45.4**	**44.4**	**43.9**	**43.8**
Gross fixed investment (2)	3.2	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5
Other capital expenditure (3) (4)	1.7	1.5	1.7	1.5	2.5	1.6	1.3	1.5	1.6	1.3	1.4
Capital expenditure adjustment item: proceeds of securitizations	–	–	–	–	–	–	–	–	–	–	–0.6
Total capital expenditure (3)	**4.9**	**4.6**	**4.3**	**3.7**	**4.6**	**3.8**	**3.5**	**3.9**	**4.0**	**3.7**	**3.4**
Total expenditure (3)	**55.5**	**56.6**	**57.6**	**54.3**	**53.2**	**52.9**	**50.7**	**49.3**	**48.4**	**47.6**	**47.2**
of which: expenditure excluding interest payments (3)	*43.7*	*44.0*	*44.6*	*42.9*	*41.6*	*41.4*	*41.4*	*41.3*	*41.7*	*41.2*	*40.9*

Source: Based on Istat data.
(1) Rounding may cause discrepancies. See also Table a15 in the Statistical Appendix.– (2) The figure for 2001 does not include the securitization of the proceeds of sales of public buildings (0.3 per cent of GDP). In the national accounts these receipts are entered as a reduction in investment expenditure. – (3) The figure for 2000 does not include the proceeds of sales of UMTS licences (1.2 per cent of GDP). In the national accounts these receipts are entered as a reduction in the item "Other capital expenditure". – (4) The figure for 2001 does not include the proceeds of the securitization of receipts from the lotto and enalotto lotteries (0.25 per cent of GDP). In the national accounts these receipts are entered as a reduction in the item "Other capital expenditure".

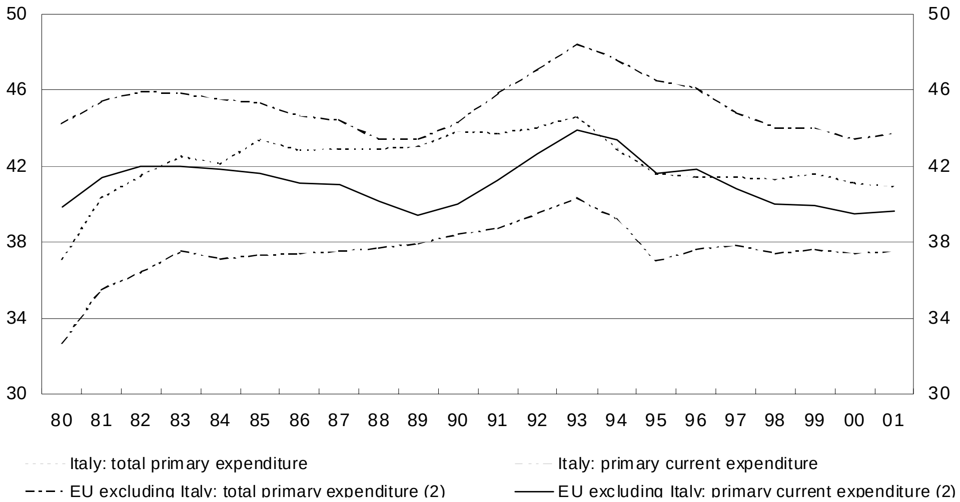
Social benefits in money. – The increase of 3.8 per cent in this item reflected the rise in outlays on pensions and annuities and the sharp fall in severance pay for general government employees. In relation to GDP total benefits of this kind declined by 0.1 percentage points to 16.7 per cent, pension expenditure remained unchanged at 15.1 per cent.

Expenditure on pensions and annuities, of both an insurance and a welfare nature, grew much faster than in 2000 (by 4.5 per cent, as against 2.8 per cent). The acceleration was attributable: a) to the automatic adjustment of pensions to the rise in prices (2.5 per cent, as against 1.6 per cent); and b) to the increase in 2000 in the retirement age for private-sector employees (from 64 to 65 for men and from 59 to 60 for women), which reduced the number of new pensions in 2000.

As regards non-pension expenditure, outlays on unemployment benefits and wage supplementation rose by 7.1 per cent overall after falling by 13.6 per cent in 2000. A contribution to the rise came from the increase in unemployment benefits (from 30 to 40 per cent of earnings) and the lengthening of the period for their payment to unemployed workers aged over 50 from 6 to 9 months. Expenditure on family allowances rose by 1.3 per cent after falling by 11.5 per cent in 2000. Outlays on severance pay for general government employees fell by 24.8 per cent; the previous year had seen the completion of the top-ups of severance pay disbursed before the end of 1994, as provided for in Law 87/1994.

Figure 21

TOTAL PRIMARY EXPENDITURE
AND PRIMARY CURRENT EXPENDITURE (1)
(*as a percentage of GDP*)

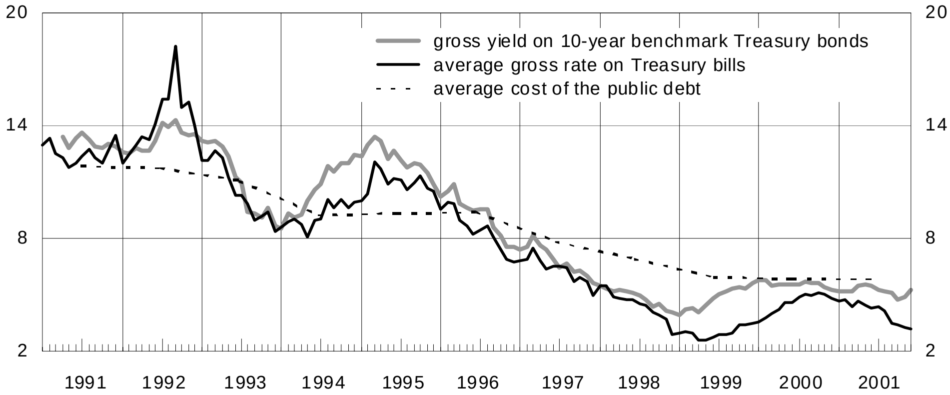


Sources: Based on Istat and European Commission data.
(1) The data do not include the proceeds of sales of UMTS licences but do include the proceeds of securitizations. – (2) GDP-weighted average. Following the switch to ESA95 there is a break in the series between 1994 and 1995.

Compensation of employees. – General government staff costs rose from 10.5 to 10.6 per cent of GDP. The increase of 5.1 per cent in outlays (4.3 per cent in 2000) reflected that of 5.3 per cent in public employees' gross earnings. By contrast, there was a relatively moderate increase of 4.4 per cent in employer social security contributions owing to the above-mentioned stability of the additional state contribution to the budget of INPDAP, the State Sector Employees' Social Security Institute. The increase in gross earnings reflected that of around 5.2 per cent in gross wages and salaries per full-time equivalent employee (excluding conscripts), which was mainly due to the cost of most of the new contracts for 2000-2001 being incurred in the latter year. After declining for nearly ten years up to 1999, employment grew for the second successive year, rising by 0.7 per cent in 2000 and 0.1 per cent in 2001.

Figure 22

AVERAGE COST OF THE PUBLIC DEBT, AVERAGE GROSS RATE ON TREASURY BILLS AND GROSS YIELD ON 10-YEAR TREASURY BONDS



Other current expenditure. – In relation to GDP this item rose by 0.1 percentage points to 10.2 per cent. Social benefits in kind increased substantially for the second year running, by 10.2 per cent in 2000 and 9.9 per cent in 2001, and rose from 2.1 per cent of GDP in 1999 to 2.3 per cent last year. The rise was due to the growth of 32.8 per cent in expenditure on pharmaceuticals; taken together, other social benefits in kind diminished by 1.8 per cent. Intermediate consumption recorded a relatively moderate rise of 4.1 per cent, down from 7.9 per cent in 2000, and remained unchanged in relation to GDP at 5.1 per cent. Subsidies to firms decreased from 1.2 to 1.1 per cent of GDP; the remaining current expenditure items remained unchanged in relation to GDP at 1.6 per cent.

Spending on pharmaceuticals increased by 32.8 per cent, compared with 18.6 per cent in 2000, and rose from €8.7 billion to €11.6 billion. The increase was due primarily to the broadening of the scope of the payments guaranteed by the National Health Service and to the abolition of prescription charges in the budget for 2001. In order to slow down the growth in this item, in the middle of last year measures were adopted setting limits on the prices of pharmaceuticals reimbursed by the National Health Service and on the number of items that can be prescribed at the same time; in addition, the prices of most of the pharmaceuticals reimbursed by the state were cut by 5 per cent.

The data on a cash basis show that total health spending grew by 15.9 per cent. Staff costs rose by 9.8 per cent, compared with 9.3 per cent in 2000, primarily as a result of the wage and salary increases provided for in the new contract for 2000-2001.

In August 2001 a new agreement was reached between the central government and the regions. It provided for the former’s contribution to the funding of the National Health Service to rise to a maximum of €71.3 billion and for transfers amounting to around €1.4 billion to cover the deficits of earlier years. The new agreement also established that the funding of the National Health Service was not to exceed 6 per cent of GDP. According to the estimates published in April in the Quarterly Report on the Borrowing Requirement, health expenditure in 2001 overshot the limit set in the agreement by around €3 billion.

Capital expenditure. – This item was reduced by the deduction of the proceeds of the sale of UMTS licences, securitizations and ordinary sales of property. In particular, the proceeds of the securitizations of property disposals reduced investment expenditure by €3.8 billion in 2001; the proceeds of the sale of UMTS licences and the securitization of lotto and enalotto receipts reduced other capital expenditure by €13.8 billion in 2000 and €3 billion in 2001; those of ordinary sales of property reduced investment expenditure by around €1 billion in 2000 and €1.5 billion in 2001. Excluding these extraordinary items, capital expenditure increased by around 13 per cent compared with 2000. Capital transfers to enterprises and direct investment accelerated sharply, growing by 19.2 and 12 per cent respectively; in relation to GDP, the former rose from 1.1 to 1.3 per cent and the latter from 2.5 to 2.7 per cent. At 0.2 per cent, the other capital expenditure items were basically unchanged.

Local government

Local government's budgetary position improved in relation to GDP by 0.5 percentage points, with a shift from close to balance in 2000 to a surplus of around €6.2 billion in 2001. The result benefited from the substantial increase in transfers from central government. Transfers from public entities rose from 41.7 to 45.9 per cent of total revenue; by contrast, tax revenue declined from 45.3 to 43.5 per cent.

The consolidated local government account for 2001 was published together with a revised version of that for 2000. This shows a balanced budget instead of a surplus of 0.1 per cent of GDP. The revision derives from an increase in expenditure of €3.3 billion that was only offset in part by an increase in revenue of €1.7 billion.

Local government revenue grew by 12 per cent. Current revenue rose by 11.3 per cent (€16.5 billion) and capital revenue by 19.2 per cent (€2.8 billion).

As regards current revenue, transfers from other public entities rose by 20.1 per cent (€11.2 billion). Most of the increase occurred in transfers to the regions, which include the ordinary statute regions' share of VAT receipts. Among local government tax receipts, those of indirect taxes rose by 6.6 per cent (€3.5 billion), primarily owing to the increase in revenue from Irap. Direct tax revenue rose by 10.8 per cent (€2 billion), partly as a result of the increase in the base rate of the Irpef regional surtax.

Legislative Decree 56/2000 implementing the mandate on fiscal federalism contained in Law 133/1999 provided for the abolition, with effect from 2001, of the earlier system of transfers of tax revenue from the central government to the ordinary statute regions. Simultaneously, it increased both the base rate of the Irpef regional surtax, from 0.5 to 0.9 per cent, and the regions' share of the excise duty on petrol, from €0.12 to €0.13 per litre, and provided for the ordinary statute regions to receive a share of VAT receipts. A Prime Ministerial decree of 17 May 2001 fixed the share at 38.55 per cent of the VAT revenue in the penultimate year preceding the year in question, net of the amounts accruing to the special statute regions and the European Community. The decree also estimated that in 2001 this would give the regions a total of €27.4 billion, to be divided on the basis of each region's consumption and then adjusted to take account of the historical level of expenditure. In coming years the amount attributed to each ordinary statute region on the basis of consumption will be adjusted to take account of the resident population, the tax base, per capita health expenditure and, for a limited period, the historical level of expenditure.

As regards capital revenue, the increase of 38.4 per cent (€4.2 billion) in transfers from other public entities was offset in part by a reduction in other receipts.

Total expenditure grew by 8.2 per cent (€13.1 billion). Among the current expenditure items, there were particularly large increases in compensation of employees (5.9 per cent), intermediate consumption (6.4 per cent) and purchases of social benefits in kind (10 per cent); the bulk of the latter item consisted of health expenditure. Capital expenditure rose by 11.1 per cent as a result of large increases in investment and investment grants.

The Domestic Stability Pact, first introduced in the budget for 1999, is intended to involve local government in the efforts to achieve the targets for the public finances agreed at European level. The Pact establishes an objective for each local authority's budget with some major revenue and expenditure items excluded: the result in 2001 was not to be worse than that in 1999 worsened by 3 per cent. The information available does not permit a complete assessment of the results for 2001.

The rules of the Domestic Stability Pact have been amended for 2002. Caps have been imposed on the primary current outlays of local authorities, excluding some items. These caps apply regardless of each authority's budgetary position. The sanctions applicable to provinces and municipalities have been made more severe.

Last year saw the reform of Title V of Part II of the Constitution. The legislative and administrative competences of the various levels of government have been changed and local authorities granted more autonomy.

The new text of the Constitution identifies the matters for which the central government has exclusive legislative authority and those for which it shares this with the regions; the regions are exclusively responsible for all other matters. Within the sphere of concurrent competences, the task of central government is exclusively to define the fundamental principles.

The principle of revenue-raising and spending autonomy is sanctioned for local authorities, which are to share in central government revenue and may impose own taxes. Provision is made for the central government to set up an equalization fund for the benefit of areas with lower per capita tax revenue. Lastly, constitutional force is given to the application of the golden rule to local authorities, which may borrow only to finance investment.

In order for the new text of the Constitution to be applied adequately, there will have to be a framework law establishing the relationship between regional laws and central government legislation defining the fundamental principles. Many aspects call for the definition of common rules, especially as regards autonomous tax-levying powers, equalization mechanisms, budgetary constraints and accounting methods.

THE OUTLOOK

Budgetary policy in the euro area

The stability programme updates submitted at the end of 2001, while reaffirming the goal of achieving budgets in balance or in surplus in the medium term, set less ambitious objectives for most countries for 2002 and 2003. The revisions reflect the performance of the public finances in 2001 and the macroeconomic situation, both of which were not as good as had been expected when the earlier programmes were drafted. Moreover, according to the forecasts for this year released by the European Commission and by the main international economic organizations, many countries will not succeed in attaining even the new objectives. There also remain uncertainties concerning the accounting treatment of some transactions carried out in 2001.

According to the stability programme updates, the ratio of euro-area general government net borrowing to GDP should improve by 0.2 percentage points in 2002 and budgetary balance should be achieved in 2004 (Table 35). In that year all the countries of the area should have a budgetary position in balance or in surplus except Ireland and, under the less favourable of the two scenarios presented, France. Between 2001 and 2004 the ratio of general government debt to the area's GDP is expected to decline by 5.4 percentage points, remaining slightly above the threshold of 60 per cent. It is forecast to exceed that threshold only in Italy (98 per cent), Belgium (93 per cent) and Greece (90 per cent).

The budgetary policies announced by the major countries have some features in common: the improvement in net borrowing between 2001 and 2004 is to come from a reduction in primary expenditure in relation to GDP, only partially offset by a reduction in revenue. In Germany a balanced budget is projected for 2004, when the ratio of expenditure to GDP is expected to be nearly 3 percentage points lower than in 2001. However, if German economic growth were to be significantly slower than expected, budgetary balance would be put off until 2006. France plans to achieve a balanced budget in 2004 or else a deficit of 0.5 per cent of GDP, depending on the macroeconomic scenario; in the first case, the planned reduction in spending with respect to 2001 amounts to 2 percentage points of GDP, in the second to 1.4 points. Spain should achieve a small surplus in 2004, with a decline of 0.2 points in the expenditure ratio compared with 2001.

Table 35

GENERAL GOVERNMENT NET BORROWING AND DEBT IN THE EURO AREA

(as a percentage of GDP)

	2001	2002	2003	2004	2005
Net borrowing (1)					
Outturn and European Commission forecasts	1.3	1.5	1.2	–	–
National stability programme update objectives (2)	1.1	0.9	0.4	−0.1	−0.3
Outturn and IMF forecasts	1.3	1.6	1.1	–	–
Outturn and OECD forecasts	1.3	1.5	1.2	–	–
Debt					
Outturn and European Commission forecasts	69.2	68.6	67.2	–	–
National stability programme update objectives (2)	68.7	67.2	65.5	63.3	61.6

Sources: Based on data published by the European Commission (*Spring Forecast*, April 2002), the IMF (*World Economic Outlook*, April 2002) and the OECD (*Economic Outlook*, April 2002) and the updates to national stability programmes submitted in the last months of 2001.

(1) The figures exclude the proceeds of sales of UMTS licences. – (2) Updates refer to the period 2001-05. For Finland, Greece, Ireland, Luxembourg and the Netherlands they refer only to the period 2001-04; the averages for 2005 are accordingly calculated using the same objectives as for 2004 for those countries.

The European Commission’s forecasts for 2002 indicate an increase in the ratio of euro-area general government net borrowing to GDP of 0.2 percentage points, bringing it to 1.5 per cent (net of the proceeds of UMTS licence sales). For some countries the Commission’s estimates differ significantly from the latest stability programme updates, owing in part to differing assumptions concerning the main macoeconomic variables. Germany and Portugal, according to the Commission, will still run deficits on the order of 3 per cent (against targets of 2 and 1.8 per cent respectively). The French deficit, in the Commission’s projection, will worsen by half a point (2 per cent of GDP against 1.4 per cent in the update). That of Italy is expected to decrease by 0.1 points to 1.3 per cent of GDP (against an objective of 0.5 per cent). Similar forecasts have been released by the OECD and the IMF, which put area-wide net borrowing at 1.5 and 1.6 per cent of GDP respectively.

The Commission and the international organizations forecast an improvement in the area’s budget balance in 2003, attributable mainly to better economic conditions. Net borrowing should come to 1.2 per cent of GDP, compared with the 0.4 per cent figure indicated by the stability programme updates.

According to the Commission's forecast, between 2001 and 2003 both the primary budget surplus and interest payments in the area will decrease by 0.2 percentage points in relation to GDP. The lower surplus is to come from a reduction of 0.5 points in revenue, that will more than offset the expected decline in primary expenditure. The cyclically adjusted primary surplus should remain basically unchanged in 2002 and 2003 at its 2001 level of 2.4 per cent of GDP.

The European Council has observed that the programmes of the principal countries are based on economic assumptions that could prove overoptimistic and pointed to several problems. Specifically, the German deficit could come closer to the threshold of 3 per cent of GDP in 2002 if economic growth proves significantly less than forecast in the Government's programme. The Council also took a negative view of the French postponement of budgetary balance to 2005 under the less favourable economic scenario. Finally, it called on Portugal to control the dynamics of its budget aggregates in order to prevent significant target overshoots.

The Stability and Growth Pact set the medium-term objective of budgetary positions for EU member countries close to balance or in surplus. The European Council subsequently explained that the reference period for this objective corresponds to a business cycle, suggesting a situation in which the budgetary position fluctuates around balance according to cyclical developments without ever showing a deficit larger than 3 per cent of GDP. The results for 2001 confirm the validity of this design of European budget rules. The countries that had already attained the medium-term objective had scope for stabilization policies without running significant deficits. It is crucial that the countries still far from budgetary balance complete the advance towards that goal on schedule. Repeated postponements, especially if not due to particularly poor cyclical conditions, could undermine the credibility of the commitment to structural equilibrium in the public finances.

Budgetary policy in Italy

The outlook for 2002. – The Economic and Financial Planning Document for 2002-06 released in July 2001 confirmed the targets for 2001 and 2002 set in Italy's stability programme update of December 2000. While noting the obstacles to their attainment, the Planning Document indicated that general government net borrowing was to fall to 0.8 per cent of GDP in 2001 and 0.5 per cent in 2002, while the primary surplus was to rise to 5.4 and 5.5 per cent. The Planning Document did not present a detailed picture of revenue and expenditure and assumed real economic growth of 2.4 per cent in 2001 and 3.1 per cent in 2002.

The Planning Document Update presented in October 2001 revised the growth forecast downwards to 2 per cent for 2001 and 2.3 per cent for 2002. Although forecast net borrowing was revised upwards to 1.1 per cent of GDP for 2001, the objective for 2002 was reaffirmed. The same figures were repeated in November in the stability programme update.

In order to achieve the target for 2002, the Government presented a budget correction amounting to 0.7 per cent of GDP. It was passed by Parliament with only limited modifications. According to official estimates, the measures will produce €11.5 billion of additional revenue (increases of €14.7 billion minus decreases of €3.2 billion) and €2.4 billion of added expenditure (increases of €6.3 billion minus decreases of €3.9 billion). The measures involving spending increases and revenue decreases are largely permanent. Those designed to raise revenue (equivalent to about 1 per cent of GDP) are mainly temporary, and more than half of the amount derives from property disposals, which will help to soften their repercussions on economic activity.

The property sales are expected to raise €7.7 billion. One third of the additional revenue projected in the budget is to come from measures to encourage the revaluation of corporate assets (€2.6 billion), the regularization of underground employment (€1 billion) and the repatriation and regularization of assets held abroad in violation of tax laws (€1 billion). Of the total of €3.9 billion in spending cuts, €1.2 billion is expected to come from the application of the domestic stability pact and €600 million from tighter controls on purchases of goods and services.

The effectiveness of the revenue measures depends on the response of economic agents. Realizing the expenditure savings that are expected from the rules on local authority finances depends on cooperation between the different levels of government.

The Quarterly Report on the Borrowing Requirement released in April 2002 confirmed both the GDP growth forecast for 2002 of 2.3 per cent and the deficit target of 0.5 per cent. By comparison with the 2001 Planning Document, it lowered the estimates for both interest payments and the primary budget surplus by 0.3 percentage points, to 5.7 and 5.1 per cent of GDP respectively. The Report attributes the projected small improvement of 0.2 points in the primary balance compared with 2001 to a 0.4-point increase in revenue to 46.2 per cent of GDP, partly offset by an increase in primary expenditure to 41 per cent. The ratio of tax and social security contribution receipts to GDP is forecast to decrease by 0.1 points to 42.3 per cent.

There are uncertainties concerning the effectiveness of the deficit-containment measures for 2002 and the realization of the economic assumptions adopted in the Government documents. In the first few months of 2002 the general government financial balances have been significantly more negative than a year earlier. Moreover, in the last two years there have been problems in estimating budget figures before the end of the year, especially in the health sector. The preliminary estimate of net borrowing for 2000 later had to be revised upwards by 0.2 per cent of GDP.

The Report on the Borrowing Requirement, while reaffirming the net borrowing target for 2002, increased the estimate of the state sector borrowing requirement. Net of privatization receipts and settlements of past debts, the estimated requirement was raised from the €18.6 billion indicated in the Economic and Financial Planning Document and the €22.2 billion projected in the October update to €26.3 billion, about €3 billion less than the figure for 2001. The Report projects that the state sector net borrowing requirement will be larger than general government net borrowing, as in 2000 and 2001; the difference is seen as increasing further, to €19.3 billion or 1.5 per cent of GDP. Settlements of past debts are expected to amount to €10.4 billion, about the same as in 2001.

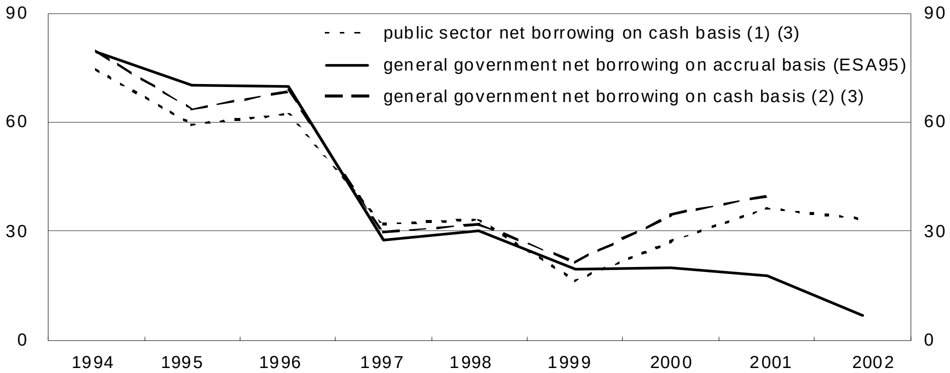
According to the Report, the public sector borrowing requirement net of privatization receipts will amount to €40.6 billion, compared with €41.7 billion in 2001 (3.2 and 3.4 per cent of GDP respectively). This would result in a relatively modest reduction in the ratio of debt to GDP.

The difference between the estimate of general government net borrowing on a cash basis and that calculated using ESA95 (on an accrual basis), which was negligible in 1999 and exceeded 1.5 per cent of GDP in 2001, will apparently increase further in 2002, to more than 2 per cent of GDP (Figure 23).

Figure 23

NET BORROWING IN ITALY ON AN ACCRUAL AND A CASH BASIS

(billions of euros)



Sources: Based on Bank of Italy, Istat and Ministry for the Economy and Finance data.
(1) Public sector deficit: borrowing requirement net of privatization receipts and the balance on the financial account (Quarterly Report on the Borrowing Requirement). – (2) Estimate obtained as general government borrowing requirement net of privatization receipts, calculated by the Bank of Italy on the funding side, less the balance on the public sector's financial account (Quarterly Report on the Borrowing Requirement). – (3) For 1997–2001 (the period for which data are available), account has been taken of the adjustments made by Istat (in accordance with ESA95) to the items classed as financial items by the Ministry for the Economy and Finance.

General government net borrowing on a cash basis can be estimated either from that sector's borrowing requirement, calculated by the Bank of Italy on the funding side, or from the public sector borrowing requirement, calculated by the Ministry for the Economy and Finance on the formation side. The difference between these two balances, which was fairly large in 1999 and 2000 at 0.5 and 0.6 per cent of GDP respectively, fell back to 0.3 per cent in 2001.

A technical committee has been set up at the Prime Minister's Office to analyze the consistency between the various public finance indicators. The committee is composed of representatives of Istat, the Ministry for the Economy and Finance and the Bank of Italy.

In the first four months of 2002 the state sector borrowing requirement net of settlements of past debts and privatization receipts came to €30.2 billion, €1.8 billion more than in the same period of 2001. The increase was curbed by controls on disbursements. A contribution came from swaps that reduced outlays by about €4 billion in April; this reduction will presumably be offset by an equal increase in outlays in the rest of the year.

The general government net borrowing requirement in the first three months came to €24.6 billion, €9.3 billion more than in the first quarter of 2001.

The outlook for the medium term. – The Economic and Financial Planning Document published in July 2001 called for budgetary balance to be achieved in 2003 and then maintained over the following three years. The stability of the overall balance was to result from concurrent reductions in interest payments and the primary surplus. The ratio of debt to GDP was to fall below 100 per cent in 2004 and be down to 92.8 per cent in 2006. These objectives were essentially reaffirmed in the stability programme update of November 2001. To achieve a balanced budget in 2003, an adjustment equal to 0.3 per cent of GDP is indicated.

The economic programme set forth in the Planning Document aims to reconcile budget balance with support for economic activity and with a significant reduction in the overall tax burden on the order of 4 per cent of GDP between 2002 and 2006. As part of this programme, the Government has taken several measures regarding the labour market and presented three enabling bills: one on infrastructure (now enacted), one on pensions and one on taxes.

The enabling law on infrastructure is intended to facilitate the completion of public works of pre-eminent national interest, especially in transport, by simplifying the procedures for determining and approving the top-priority projects. In a subsequent decree law the Government provided for the creation of two corporations, Infrastrutture S.p.A. and Patrimonio dello Stato S.p.A., with the purposes, respectively, of financing major infrastructure projects and capitalizing on State assets.

Infrastrutture S.p.A., which is wholly owned by the central government's Cassa Depositi e Prestiti, will raise the funds to finance public works in the market. The corporation can raise funds at relatively favourable rates of interest thanks to government guarantees. To prevent such guarantees from resulting in actual disbursements by the State, the corporation must be capable of earning a reasonable return on its operations. Infrastrutture S.p.A. aims at increased private sector involvement in the realization of public works. By paying an annual lease for the use of the structures instead of directly financing their construction, government can at least temporarily activate more projects with a given annual outlay.

Patrimonio dello Stato S.p.A. is the designated vehicle for all the assets, including real estate, that are comprised in the general account of the State. The corporation can retain ownership of these goods or dispose of them by direct sale or securitization. The initial transfer to the corporation of title to the State's assets should not have any impact on net borrowing; Eurostat has ruled this out in a similar case involving Austria.

The decree provides that the shares of Patrimonio dello Stato S.p.A., initially assigned to the Ministry for the Economy and Finance, can be transferred to Cassa Depositi e Prestiti and to Infrastrutture S.p.A. or to their subsidiaries. In this way Infrastrutture S.p.A. can offer collateral to providers of finance.

The enabling bill on the pension system is intended to speed up the development of supplementary private pension plans. It will not affect the long-term trends of public pension spending. Some of its provisions widen the gap between outlays and contribution receipts.

The bill provides for the compulsory payment of annual allocations to employees' severance pay funds into supplementary pension plans. It introduces freedom of choice for workers between collectively bargained occupational funds and open plans. It provides for firms to be compensated through facilitated access to credit and a reduction in labour costs. And it increases the tax reliefs for pension funds.

The incentive to continue working, consisting in reduced social security contributions for workers who are eligible to retire and elect not to, is not substantially different from that introduced with the Finance Law for 2001 and may not significantly affect workers' choices. The bill provides for a reduction of between 3 and 5 percentage points in employers' contributions for newly hired workers on permanent contracts, with no corresponding reduction in pension entitlements.

The enabling bill on tax matters provides for a gradual reform of the tax system. The reform is designed to simplify the system, eventually bringing the number of taxes down to just five: personal income tax, corporate income tax, value added tax, taxes on services and excise taxes. The most important changes will involve personal and corporate income taxes.

Personal income tax brackets are to be reduced from the present five, corresponding to rates ranging from 18 to 45 per cent, to just two, with rates of 23 and 33 per cent, while tax allowances are to be gradually converted into deductions from taxable income, concentrated on lower and middle incomes. The lack of information on the structure of the deductions makes it impossible to evaluate the revenue and income-redistribution effects of the proposed changes. As for the taxation of investment income, the measure calls for the exclusive use of withholding tax, except in the case of qualified shareholdings, and for the convergence of the tax rate on these incomes to 12.5 per cent. In addition, the taxation of accrued capital gains on managed assets will be abandoned in favour of taxation of realized gains.

As for corporate taxes, the measure provides for the abolition of the dual income tax, the lowering of the ordinary tax rate from 36 to 33 per cent, and the progressive elimination of Irap. This would mean a return to the previous tax regime of relatively more favourable treatment of debt with respect to equity. The reform aims at general tax reductions regardless of firms' financial choices. In 2001 the total tax rate on corporate profits was between 40.25 and 23.25 per cent, depending on the amount of asset increases eligible for the lower rate under the dual income tax. Under the reform proposal the total rate would go to 37.25 per cent (and to 33 per cent when Irap is completely phased out). The reform would also introduce taxation of groups on a consolidated basis.

To have a positive effect on the expectations of economic agents, the tax reductions must be perceived as permanent. To that end, they cannot produce budget deficits and must be based on a corresponding decrease in the ratio of expenditure to GDP, which in the years to come will necessarily be achieved by curbs on primary outlays. Budgetary balance will accelerate the decline in the debt ratio and help create the conditions for a further easing of the tax burden. The temporary measures will have to be supplanted by permanent ones.

The savings generated by the replacement of old, high-yield securities with new issues at lower rates are petering out. The Government estimates that the ratio of interest payments to GDP will decrease by about 1 percentage point between 2001 and 2006.

To achieve the budgetary and tax ratio objectives, structural reforms in the main areas of expenditure are indispensable. Failing such action, given the projections of the ratio of pension spending to GDP, the commitment to hold health care spending to 6 per cent of GDP and that to increase public investment, there would have to be a sharp contraction in real spending on other items, essentially on purchases of goods and services and on staff. However, the downward trend in the number of public employees that prevailed during the 1990s has halted in the last two years. If the adjustment involved all primary current expenditure, under the economic scenario set forth in the Economic and Financial Planning Document it would be sufficient for such spending to remain constant in real terms.

Achieving these objectives requires the contribution of all levels of government. The increase in regional autonomy in matters of taxation and spending envisaged by the recent constitutional reform must be accompanied by closer coordination between the central government and the regions, stricter budget rules and uniform, transparent financial reporting. Making administrators accountable for spending and taxation decisions and enabling the community to check their performance are indispensable to reap the full fruits of decentralization in terms of public sector efficiency and responsiveness to the needs of citizens.

THE SINGLE MONETARY POLICY, FINANCIAL INTERMEDIARIES AND THE MONEY AND FINANCIAL MARKETS

The Governing Council of the European Central Bank reduced the official rates by steps in the course of 2001 as inflationary pressures gradually subsided and economic activity slowed down. The expansionary action was accentuated after the terrorist attacks in the United States; the interventions decided by the Eurosystem, the Federal Reserve and the other principal central banks in the days immediately following 11 September helped to maintain orderly conditions in the financial markets. In mid-November the interest rate on main refinancing operations stood at 3.25 per cent, 1.5 percentage points lower than a year earlier. In the last part of the year and the opening months of 2002, as signs of world economic recovery gathered strength, official rates were left unchanged. In the euro area nominal and real short-term yields are currently below the average of recent decades.

The growth rate of the euro-area monetary aggregates rose to high values in the second half of the year, partly in response to temporary factors. Lending to the private sector slowed down substantially; credit conditions remained easy. The effective exchange rate of the euro weakened slightly.

Euro banknotes and coins entered into circulation on 1 January 2002 and have been the only legal tender in the area since 1 March. Despite the complexity and scale of the operation, the introduction of the new notes and coins and the simultaneous withdrawal of the old national currencies went smoothly in Italy and the rest of the area.

Interest rates and the exchange rate

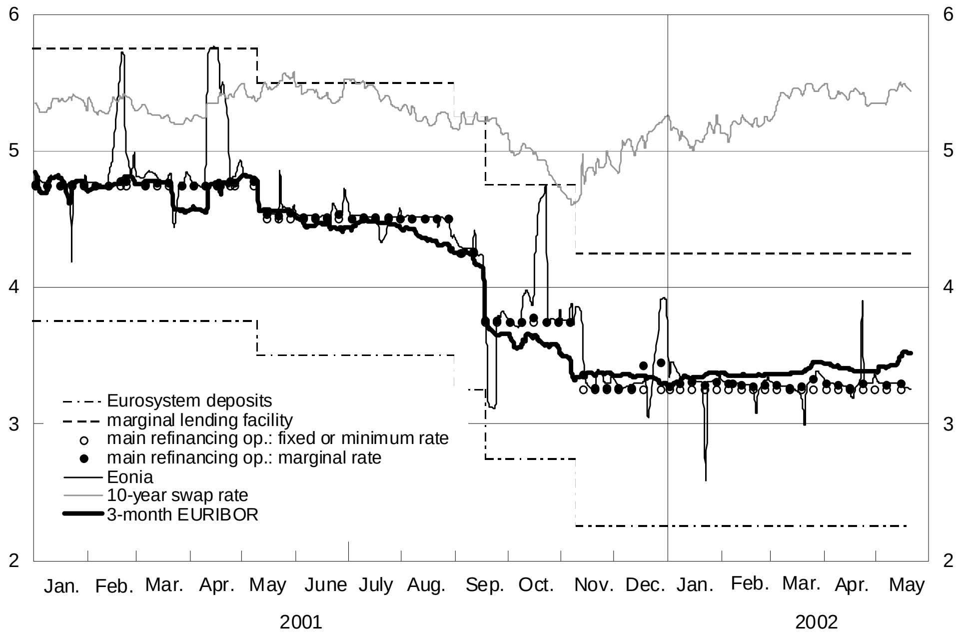
In the first months of 2001 signs emerged of a slowdown in economic activity in the euro area. The inflationary tensions that had arisen in the course of 2000 abated thanks to the fall in raw materials prices, the persistence of wage moderation and the lapsing of the effects of the rise in food prices following the spread of livestock diseases in various European countries. Consumer price inflation began to come down in June. On 10 May

2001 the Governing Council of the ECB lowered the rate on main refinancing operations by 0.25 points to 4.5 per cent (Figure 24).

Figure 24

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

(*daily data and percentages*)



Sources: European Central Bank, Reuters, Telerate.

The reduction in official rates continued in the second half of the year. On 30 August the main refinancing rate was cut by 0.25 percentage points to 4.25 per cent. Following the terrorist attacks in the United States, it was lowered by another 0.5 points to 3.75 per cent on 17 September, in conjunction with the decision of the US Federal Reserve to reduce the federal funds target rate by the same amount. Euro-area official rates were lowered by another 0.5 percentage points on 8 November. On that date the Governing Council of the ECB also decided that thereafter it would, as a rule, assess the monetary policy stance and make any changes to official rates only in the first of its two regular monthly meetings.

Signs of world economic recovery emerged in the last part of 2001 and strengthened in the first few months of this year. In the euro area the risks for price stability remained limited, despite the rise in inflation in the first quarter of 2002, due largely to temporary causes.

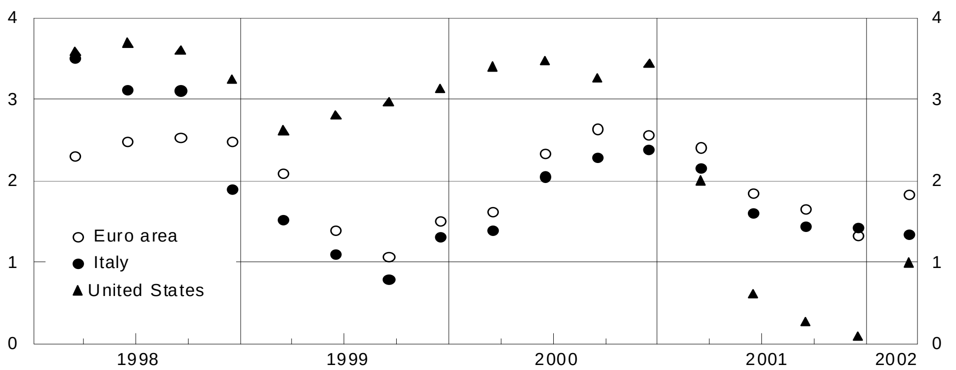
Long-term interest rates, measured by the yield on ten-year euro interest rate swaps, remained just below 5.5 per cent until the end of August. They fell following the terrorist attacks of 11 September, reaching a low of 4.6 per cent at the start of November. They rose subsequently, as the military operations got under way in Afghanistan and cyclical conditions improved; on 21 May 2002 they stood at 5.4 per cent. The yield differential between ten-year dollar and euro swaps, which had narrowed to virtually nil in the wake of the attacks, subsequently widened to around 0.6 percentage points, in line with the figure registered at the end of 2000. It is currently around 0.3 points.

The real short-term interest rate in the euro area, calculated on the basis of surveys of expected inflation, stood at 1.3 per cent in December 2001, more than one percentage point lower than a year earlier (Figure 25); in May 2002 it had increased to nearly 2 per cent, still low by comparison with the decades-long experience of the European countries characterized by price stability. The corresponding real rate in the United States, where the slowdown in economic activity was pronounced, was close to zero in December 2001, more than three points lower than in the previous December; in May 2002 it was around one percentage point lower than that in the euro area. In Italy, the real short-term interest rate remained slightly below that of the area.

Figure 25

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; from January 1999 onwards, 3-month EURIBOR.

The exchange rate of the euro continued to weaken in the first half of 2001, strengthened during the summer and then began to weaken again; it fell by 1.2 per cent in nominal effective terms in the twelve months to December. The euro reached a low against the dollar in July; with the deterioration in the US economic situation it recovered in August and September, and approached the levels recorded at the end of 2000. Subsequently it weakened again against the dollar; in December the depreciation compared with a year earlier amounted to 5.3 per cent. The appearance of the first signs of economic recovery in the United States and the consequent widening of the differential between long-term yields in dollars and euros contributed to this development. The euro's marked appreciation against the yen (7.9 per cent) reflected the stagnation of the Japanese economy. Furthermore, in 2001 there were net outflows of foreign direct and portfolio investment totaling €68.2 billion (but with net inflows of €27.2 billion in the third quarter, when the euro strengthened). In 2002, after weakening further in January the euro staged a gradual recovery; on 21 May it had appreciated by 1.8 per cent in nominal effective terms and by 4.5 per cent against the dollar since the start of the year.

The money supply and credit

The twelve-month growth in euro-area M3 accelerated during the year, rising to 8.2 per cent in December; the three-month moving average remained below the reference value of 4.5 per cent until May before rising to 7.9 per cent in December.

The rapid expansion in M3 reflected the acceleration in consumer prices in the first half of 2001 and, to a lesser extent, the reduction in interest rates in the course of the year. Stock market uncertainty may also have contributed by encouraging investors to increase the share of monetary assets in their portfolios.

In December the ECB Governing Council confirmed 4.5 per cent as the reference value for the growth of M3 in the medium term on the basis of the estimates for the macroeconomic variables considered: the area's potential output growth would lie between 2 and 2.5 per cent and M3 income velocity would decline at a trend rate of between 0.5 and 1 per cent. The Governing Council observed that the relatively high growth rate of M3 in 2001 had to be assessed in the light of both the portfolio shifts in response to the heightening of uncertainty in the financial markets and of the deceleration in total lending to the private sector (from twelve-month growth of 10.1 per cent in December 2000 to 6.7 per cent last December). For these reasons, the expansion in M3 should not be taken as signaling inflationary risks unless this behaviour persists in the future.

In Italy, as in the euro area as a whole, the growth in monetary assets accelerated in 2001. The twelve-month increase in the Italian contribution to euro-area M3 was 6.8 per cent in December, compared with 4.6 per cent in December 2000. In Italy too there was a significant pick-up in the growth in short-term deposits (9.4 per cent for overnight deposits and 7.4 per cent for deposits redeemable at notice of up to 3 months) and money market shares and units (to 126.7 per cent, compared with minus 3.1 per cent in the twelve months to December 2000); however, the latter instruments still account for only a small proportion of the aggregate (3.7 per cent in March 2002). The contraction in currency in circulation (currency held by the public and banks) only began after the summer and was equal to 13.8 per cent in December.

There was a slight let-up in the growth in total lending to the private sector, from 14.5 per cent in 2000 to 11.2 per cent last year. The slowdown, which was concentrated in bank loans, was partially offset by a recovery in loans from abroad and by substantial bond issues; against the background of expansionary supply-side conditions, it reflected the fall in corporate demand for credit, counterbalanced in part by the persistence of rapid growth in loans to households. Although corporate debt rose marginally in 2001, it remains low by historical standards.

The changeover to the euro

Euro banknotes and coins were put into circulation between 1 January and 28 February of this year; the withdrawal of banknotes denominated in national currencies is now virtually complete. Despite its complexity, the operation went smoothly, thanks to the cooperation among the parties most directly involved in the operational aspects and to the positive reception of the new currency by the public. The impact on consumer price inflation was moderate and in line with expectations both in Italy and in the euro area as a whole.

In Italy, the strategic and operational aspects of the changeover had been set out in the national plan drawn up by the Euro Committee in January 2001. The plan adopted a gradual approach, to avoid a concentration of requests for new banknotes and coins, especially at the beginning and the end of the period of dual circulation, and to minimize the inconvenience for consumers and businesses. The decision to extend the period of dual circulation to 28 February, the latest date envisaged by the Ecofin Council, was consistent with this gradualism. Special attention was paid to the security-related aspects of the changeover.

Both the delivery of euro notes and coins to post offices and banks (frontloading) and their subsequent distribution by these to commercial chains and smaller retailers (sub-frontloading) went smoothly in Italy. There were no instances of euros entering into circulation ahead of schedule. Banks and post offices took delivery of notes worth €21.2 billion, a value equal to 21.6 per cent of the amount produced, in line with the European average. Sub-frontloading was very limited: the banking system delivered 0.3 per cent of the amount it had received from the Bank of Italy to the distributive sector, compared with an average of 10.5 per cent in the area. The value of frontloaded coins was very substantial (82 per cent of the amount minted at 31 December 2001, against an area average of 73 per cent). Starting on 15 December, post offices and banks made available more than 30 million starter kits of euro coins worth €12.91 to enable people to familiarize themselves with the new coins; around one third of these kits were actually taken up.

The distribution of the new currency and simultaneous withdrawal of lira banknotes and coins was virtually complete by 28 February. A key role in distributing the euro was played by the ATM network, which was fully converted to the euro by 12 January, ahead of schedule. A measure of the speed of distribution of the euro is the ratio of the value of euro banknotes to all banknotes in circulation (the euro progress ratio). In the area as a whole it was 33 per cent on 1 January and rose to 86 per cent at the end of February. In Italy the corresponding figures were 25 and 85 per cent; the initial difference was therefore made good during the period of dual circulation. This pattern was consistent with the gradual approach set out by the Euro Committee in the national plan.

The differences in the euro progress ratio among the countries of the area were largely determined by a mechanical effect: the countries that began the period of dual circulation with a high euro progress ratio, and which as a rule subsequently maintained their “lead”, were those with a high ratio of frontloading to national currency at 31 December 2001. In Italy that ratio was relatively low (33 per cent, compared with 49 per cent on average in the area). The length of the period of dual circulation did not significantly affect the speed of the distribution of the euro.

According to data from the Ministry for the Economy and Finance, the use of the euro in retail transactions spread quickly in Italy. On 3 January around 25 per cent of cash purchases were made in euros, compared with 40 per cent on average in the area. By 14 January the proportion exceeded 90 per cent both in the area as a whole and in Italy.

The approach of the cash changeover spurred holders of cash to move up its conversion into other instruments. The contraction in currency in circulation in the countries of the area from December 2000 onwards caused an abrupt interruption in the rising trend of the currency time series.

At the end of April 2002 the total stock of euro banknotes and national banknotes still in circulation was well below the average level for 1999 and 2000 both in Italy and in the area.

With the introduction of the euro, residents in each country of the area also hold banknotes and coins put into circulation in other countries. This “migration” of the currency in circulation makes it impossible to measure the amount actually present in the country. Obtaining reliable information would require sample surveys, which at this stage are judged excessively costly. For accounting purposes, it has been decided that starting with the data for 31 January 2002 8 per cent of the total of euro banknotes is to be attributed by convention to the balance sheet of the ECB; the remaining 92 per cent is divided among the balance sheets of the NCBs in proportion to their individual percentage shares in the capital of the ECB, which for the Bank of Italy is 18.39 per cent.

THE HOUSEHOLD AND CORPORATE SECTORS

With consumption growing only moderately, in 2001 the financial surplus of the household sector rose from 7.8 to 8.6 per cent of GDP (Table 36). In a period of stock market turbulence, households showed a

Table 36

ITALY: FINANCIAL BALANCES (1)

(billions of lire, millions of euros and percentages)

	1998		1999	2000	2001
	lire	euros	euros	euros	euros
Households	89,090	46,011	71,349	90,807	104,165
of which: external balance	*50,393*	*26,026*	*33,029*	*31,943*	*34,786*
Non-financial corporations	−30,070	−15,530	−8,017	−61,058	−36,768
of which: external balance	*9,701*	*5,010*	*6.836*	*9,840*	*9,697*
General government	−61,047	−31,528	−24,480	−8,208	−20,613
of which: external balance	*−149,337*	*−77,126*	*−98,503*	*−50,390*	*−16,697*
Monetary financial institutions	29,720	15,349	−9,033	12,513	−36,538
of which: external balance	*−36,580*	*−18,892*	*−34,725*	*−26,230*	*−27,145*
Other financial intermediaries (2)	3,725	1,924	1,400	−9,831	−9,509
of which: external balance	*140,837*	*72,736*	*90,943*	*43,360*	*−797*
Insurance companies (3)	−13,155	−6,794	−23,646	−18,694	5,117
of which: external balance	*3,247*	*1,677*	*9,992*	*−2,994*	*6,012*
Rest of the world	−18,263	−9,431	−7,572	−5,529	−5,856
	As a percentage of GDP				
Households	4.3		6.4	7.8	8.6
Non-financial corporations	−1.4		−0.7	−5.2	−3.0
General government	−2.9		−2.2	−0.7	−1.7
Financial institutions (4)	1.0		−2.8	−1.4	−3.4
Rest of the world	−0.9		−0.7	−0.5	−0.5
	Adjusted for inflation, as a percentage of GDP (5)				
Households	2.5		4.3	5.7	6.7
Non-financial corporations	−1.0		0.0	−4.4	−2.2
General government	−1.3		0.0	1.4	0.1

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 financial instruments denominated in national currencies, with a fixed monetary value at maturity, are taken into consideration in calculating the adjustment for inflation.

heightened tendency to increase the shares of bonds and deposits in their financial portfolios and to reduce that of investment fund units. The sector's financial liabilities continued to grow, albeit more slowly than in the preceding years.

The ratio of firms' gross operating profit to value added remained virtually unchanged. The rise in the corporate sector's financial costs as a result of the large increase in its debt contributed to the fall in self-financing from 16.5 to 15.7 per cent of value added. In view of the limited expansion in investment and the reduction in stocks, the sector's financial deficit dropped from 5.2 to 3 per cent of GDP.

On the basis of data for the companies surveyed by the Company Accounts Data Service, net profits in 2000 were equal to 7 per cent of equity, about 2 percentage points less than in 1999. From 1996 to 2000 they averaged 8 per cent of equity, compared with 3.5 per cent in the first half of the 1990s.

Italy's total stock of financial assets amounted to €8,465 billion in 2001 and declined from 7.2 to 7 times GDP. This ratio is lower than those recorded in the other major euro-area countries.

The financial accounts of households

The financial surplus of the household sector (comprising consumer households, sole proprietorships with up to five employees and private social institutions) rose from €90.8 billion in 2000 to €104.2 billion last year (Table 37). This was equal to 8.6 per cent of GDP, more than 4 percentage points higher than the low of the last seven years recorded in 1998.

Gross financial assets grew by €126.1 billion, compared with €129.7 billion in 2000.

Holdings of currency and sight deposits rose by €19 billion; this sharp acceleration with respect to the previous year was partly due to the reduction in the opportunity cost of these instruments, which reflected the decline in interest rates on alternative short-term assets. Other bank deposits and post office deposits rose by €10.2 billion, against €8.4 billion in 2000; a contraction in bank certificates of deposit was counterbalanced by faster growth in post office time deposits. There was an ample shift in the composition of households' portfolios in favour of deposits and securities, whose proportion of their total financial assets rose by around 6 percentage points to nearly 50 per cent.

Table 37

FINANCIAL ASSETS AND LIABILITIES OF ITALIAN HOUSEHOLDS (1)
(millions of euros and percentage composition)

	End-of-period stocks			Flows	
	December 2001	Percentage composition		2000	2001
		December 2000	December 2001		
ASSETS					
Cash and sight deposits	403,591	14.1	16.3	9,687	19,016
Other deposits	273,829	9.7	11.1	8,439	10,199
bank	*101,244*	*3.8*	*4.1*	*–870*	*–3,572*
post office	*172,585*	*5.9*	*7.0*	*9,309*	*13,772*
Short-term securities	22,292	0.9	0.9	–4,885	815
Medium and long-term securities	415,344	15.0	16.9	56,026	39,318
of which: government	*191,981*	*7.3*	*7.8*	*24,369*	*–4,319*
Investment fund units	360,477	15.1	14.6	5,744	–6,637
Shares and other equity	382,725	23.7	15.5	–16,226	–1,887
External assets	232,843	8.6	9.2	31,943	34,786
of which: short-term securities	*889*	*0.0*	*0.0*	*99*	*56*
medium and long-term securities	*91,572*	*2.8*	*3.7*	*913*	*15,037*
shares and other equity	*94,012*	*3.9*	*3.8*	*17,716*	*23,865*
investment fund units	*41,492*	*1.7*	*1.7*	*14,488*	*–5,118*
Insurance and pension fund reserves (2)	364,540	12.1	14.8	40,128	35,629
Other financial assets (3)	15,370	0.8	0.7	–1,174	–5,095
Total assets	**2.471,011**	**100**	**100**	**129,682**	**126,144**
LIABILITIES					
Short-term debt (4)	55,618	15.8	14.8	3,024	–811
of which: bank	*54,958*	*15.6*	*14.6*	*2,800*	*–788*
Medium and long-term debt (5)	222,962	58.7	59.4	23,784	17,322
of which: bank	*202,821*	*53.1*	*54.0*	*21,810*	*17,111*
Other financial liabilities (6)	97,015	25.5	25.8	12,067	5,468
Total liabilities	**375,595**	**100**	**100**	**38,875**	**21,979**
Balance	**2.095,416**			**90,807**	**104,165**

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 and pension funds. – (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) Includes staff severance pay provisions and other minor items.

The world economic slowdown and the fall in share prices prompted households to build up their investment in less risky assets and to dispose of investment fund units.

Holdings of medium and long-term bonds continued to grow strongly, rising by €54.4 billion, compared with €56.9 billion in 2000; an increase in the net flow of foreign bonds was accompanied by a decrease in that of domestic bonds. Holdings of short-term debt securities began to grow again after diminishing in 2000.

Domestic shares and other domestic equity held directly by households declined by €1.9 billion. Holdings of Italian investment fund units also fell; the contraction of €6.6 billion mainly involved equity and balanced funds.

Italian households' net purchases of foreign shares and investment fund units totaled €18.7 billion, compared with €32.2 billion in 2000. Overall net purchases of foreign financial assets rose from €31.9 billion to €34.8 billion.

The growth in households' gross financial liabilities was substantial, but smaller than in the preceding years (€22 billion, compared with around €40 billion in both 1999 and 2000). The ratio of financial liabilities to assets rose to 15.2 per cent in 2001, from 12.5 per cent in 1999.

Debts towards banks and other credit intermediaries increased by €16.5 billion. A contraction in short-term debt was offset by growth in the medium and long-term component, which increased by just over 8 per cent (compared with an average of 16 per cent in 1999 and 2000).

The financing of enterprises and their liquidity

In 2001 the profitability of enterprises, measured by the ratio of gross operating profit to value added, remained broadly unchanged with respect to the previous year at 36 per cent. The further rapid expansion in debt pushed net interest expense up from 13.6 to 15 per cent of gross operating profit (Figure 26). Self-financing fell from 16.5 to 15.7 per cent of value added.

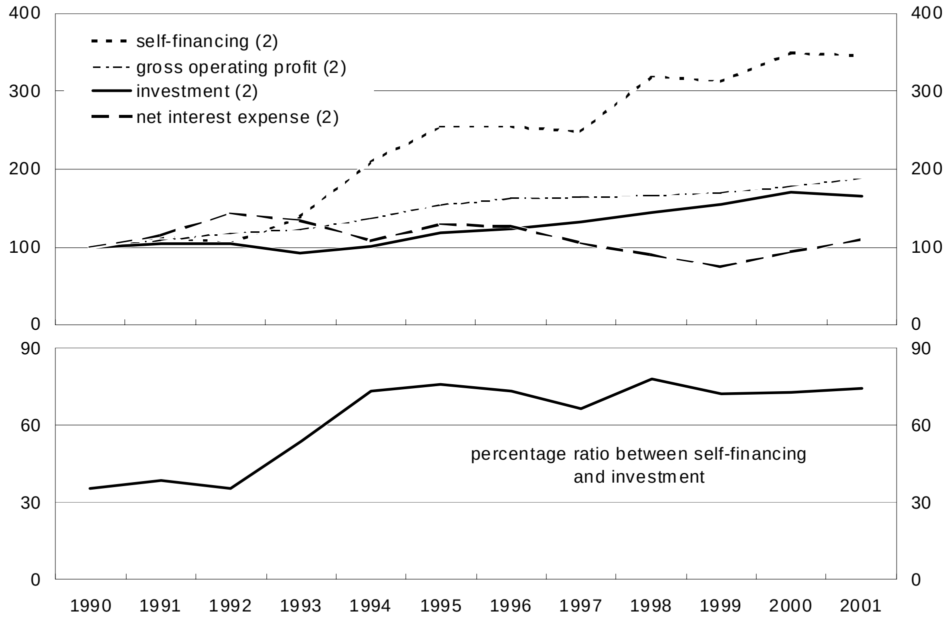
In connection with a slowdown in gross fixed investment and destocking, the proportion of investment covered by internally generated funds rose slightly (from 73 to 74 per cent). The corporate sector's financial deficit decreased from €61.1 billion to €36.8 billion (Table 38).

In 2001 gross financial liabilities grew by €96.7 billion, compared with €103.8 billion in 2000; the foreign component contributed substantially.

Figure 26

THE EXTERNAL FUNDING REQUIREMENT OF ITALIAN FIRMS (1)

(annual data)



Sources: Istat and Bank of Italy.
(1) Estimate for the sector "non-financial corporations" based on the national economic accounts of the institutional sectors according to ESA95 (1990-2000). Investment includes stocks. The data for 2001 are estimated on the basis of the national accounts for the year. The data for 2000 and 2001 are provisional. – (2) Indices, 1990=100.

The expansion in debt (in the form of loans or securities) was smaller than in 2000 (€53.3 billion, against €79.6 billion). The deceleration was attributable to loans, whose growth slowed down from €79.9 billion to €39.6 billion, while net issues of medium and long-term securities showed a sharp increase of €13.4 billion, compared with a contraction of €0.4 billion in 2000. Despite the deceleration, the stock of debt rose from 58.1 to 59 per cent of GDP, around 5 percentage points higher than the average of the past decade (Figure 27).

Leverage, measured by the ratio of debt to the sum of debt and equity, was equal to 37.9 per cent at the end of 2001, around 2 percentage points higher than at the end of 2000. However, Italian firms are still less highly leveraged than in the first half of the 1990s.

The flow of short-term debt, which had increased sharply in 1999 and 2000 owing to mergers and acquisitions carried out by several large firms, fell from €51.8 billion in 2000 to €8.3 billion, while that of medium and long-term debt rose from €27.8 billion to €45 billion. Consequently, short-term debt decreased from 58.3 to 56 per cent of the overall stock of debt; this ratio is double that for the firms of the other major euro-area countries.

Table 38

FINANCIAL ASSETS AND LIABILITIES OF ITALIAN ENTERPRISES (1)

(millions of euros and percentage composition)

	End-of-period stocks			Flows	
	December 2001	Percentage composition		2000	2001
		December 2000	December 2001		
ASSETS					
Cash and sight deposits	105,625	8.1	7.6	10,770	8,765
Other deposits	9,224	0.9	0.7	3,470	–1,928
of which: bank	*8,208*	*0.9*	*0.6*	*3,439*	*–2,008*
Short-term securities	187	0.0	0.0	–349	–504
Medium and long-term securities	32,225	3.0	2.3	2,368	–2,761
of which: government	*17,696*	*1.6*	*1.3*	*–3,031*	*–2,567*
Shares and other equity	694,307	43.6	50.0	27,697	21,251
Investment fund units	5,013	0.5	0.4	80	–92
Trade credit	216,412	17.0	15.6	–13,438	13,080
Other financial assets (2)	45,135	4.2	3.3	–3,881	–6,588
External assets	279,672	22.7	20.1	16,058	28,727
of which: trade credit receivable	*69,958*	*5.0*	*5.0*	*7,274*	*10,245*
securities	*21,831*	*1.7*	*1.6*	*–685*	*1,205*
shares and other equity	*136,516*	*11.6*	*9.8*	*5,036*	*15,109*
Total assets	**1,387,801**	**100.0**	**100.0**	**42,774**	**59,950**
LIABILITIES					
Domestic liabilities	**1,981,474**	**87.4**	**87.6**	**97,613**	**77,689**
Short-term debt (3)	319,192	13.9	14.1	44,151	12,478
of which: bank	*292,227*	*12.7*	*12.9*	*36,340*	*11,269*
Medium and long-term debt (4)	282,996	11.7	12.5	28,996	32,742
of which: bank	*221,278*	*9.3*	*9.8*	*21,661*	*23,189*
Securities	11,587	0.4	0.5	–1,349	6,902
of which: medium and long-term	*8,698*	*0.3*	*0.4*	*–1,360*	*6,515*
Shares and other equity	1,046,183	48.0	46.3	31,341	5,188
Trade credit	220,829	9.4	9.8	–13,713	13,347
Other financial liabilities (5)	100,687	4.0	4.4	8,187	7,032
External liabilities	**279,580**	**12.6**	**12.4**	**6,218**	**19,029**
of which: trade credit payable	*39,768*	*1.4*	*1.8*	*2,759*	*9,236*
debt	*104,176*	*4.7*	*4.6*	*7,780*	*1,201*
of which: medium and long-term securities	*18,606*	*0.5*	*0.8*	*989*	*6,846*
shares and other equity	*130,578*	*6.5*	*5.8*	*–3,083*	*9,226*
Total liabilities	**2,261,054**	**100**	**100**	**103,831**	**96,718**
Balance	**–873,253**			**–61,057**	**–36,768**

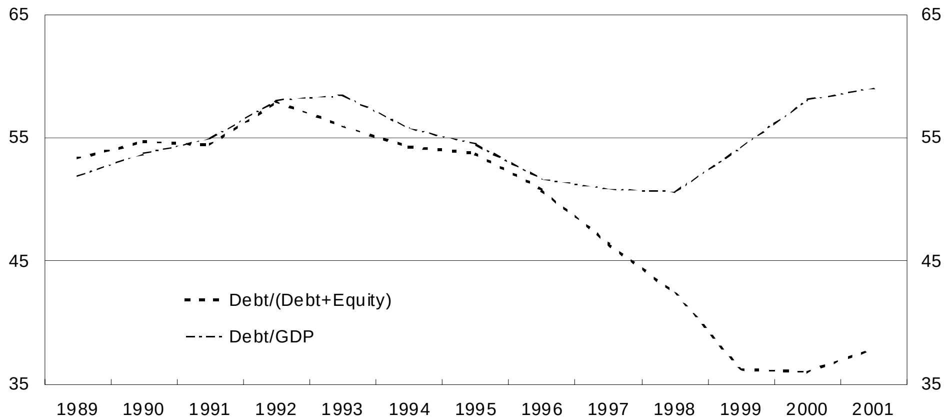
Source: Bank of Italy.

(1) The data refer to non-financial corporations. 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.– (5) Includes severance pay provisions and other minor items.

Figure 27

ITALIAN CORPORATE SECTOR DEBT (1)

(annual data; percentages)



Sources: Bank of Italy and Istat.
(1) The data refer to "non-financial corporations". From 1995 they refer to new definitions of instruments and sectors of economic activity introduced by ESA95.

Domestic and foreign trade credit payable rose by €22.6 billion, accounting for roughly a quarter of the total increase in liabilities.

In 2001 the flow of shares and other equity amounted to €5.2 billion for the domestic component and €9.2 billion for the foreign component (€31.3 billion and –€3.1 billion in 2000); the overall flow of shares and other equity accounted for 14.9 per cent of the total flow of liabilities, compared with 27.2 per cent in 2000.

Firms' gross financial assets showed a large increase of €60 billion, up from €42.8 billion in 2000. Among assets, there was a substantial rise of more than €23 billion in trade credit receivable, set against a similar increase in trade payables. The expansion in sight deposits continued but was smaller than in 2000 (€8.8 billion against €10.8 billion).

Firms' holdings of shares and other equity recorded robust growth, with the domestic component rising by €21.3 billion and the foreign component by €15.1 billion. Acquisitions of several large companies contributed to the growth.

BANKS AND OTHER CREDIT INTERMEDIARIES

In 2001 the activity of Italian banks was affected by the unfavourable economic and financial climate in Italy and the other leading economies. The slowdown in economic activity was reflected in lower growth in lending; the turbulence in the main financial markets caused a fall in the demand for asset management services; and the problems of some countries and large foreign firms, which in some cases degenerated into financial instability, required an increase in prudential provisions. The profitability of the banking system declined for the first time since 1997: the return on equity fell from 11.6 to 8.9 per cent.

The slowdown in lending was common to all categories of customer; it was more pronounced for large firms and for financial companies, whose bank borrowing in late 2000 and early 2001 to finance corporate restructuring operations had been higher than would have been expected on the basis of the level of investment and interest rates. By the end of December corporate lending was again in line with expectations. The rapid growth in consumer credit and the lively property market fueled the expansion in lending to households, which is still underdeveloped in Italy. Interest rates on short-term loans adjusted rapidly to conditions in the money market (Figure 28). Credit conditions generally remained easy.

Banks' domestic fund-raising increased more rapidly, especially in the second half of the year. High uncertainty in financial markets and the narrowing of the yield differential between government securities and bank deposits (an indicator of the opportunity cost of holding the latter) encouraged an expansion in banks' more liquid liabilities. Banks' issues of bonds, especially those of subordinated paper, continued to grow strongly.

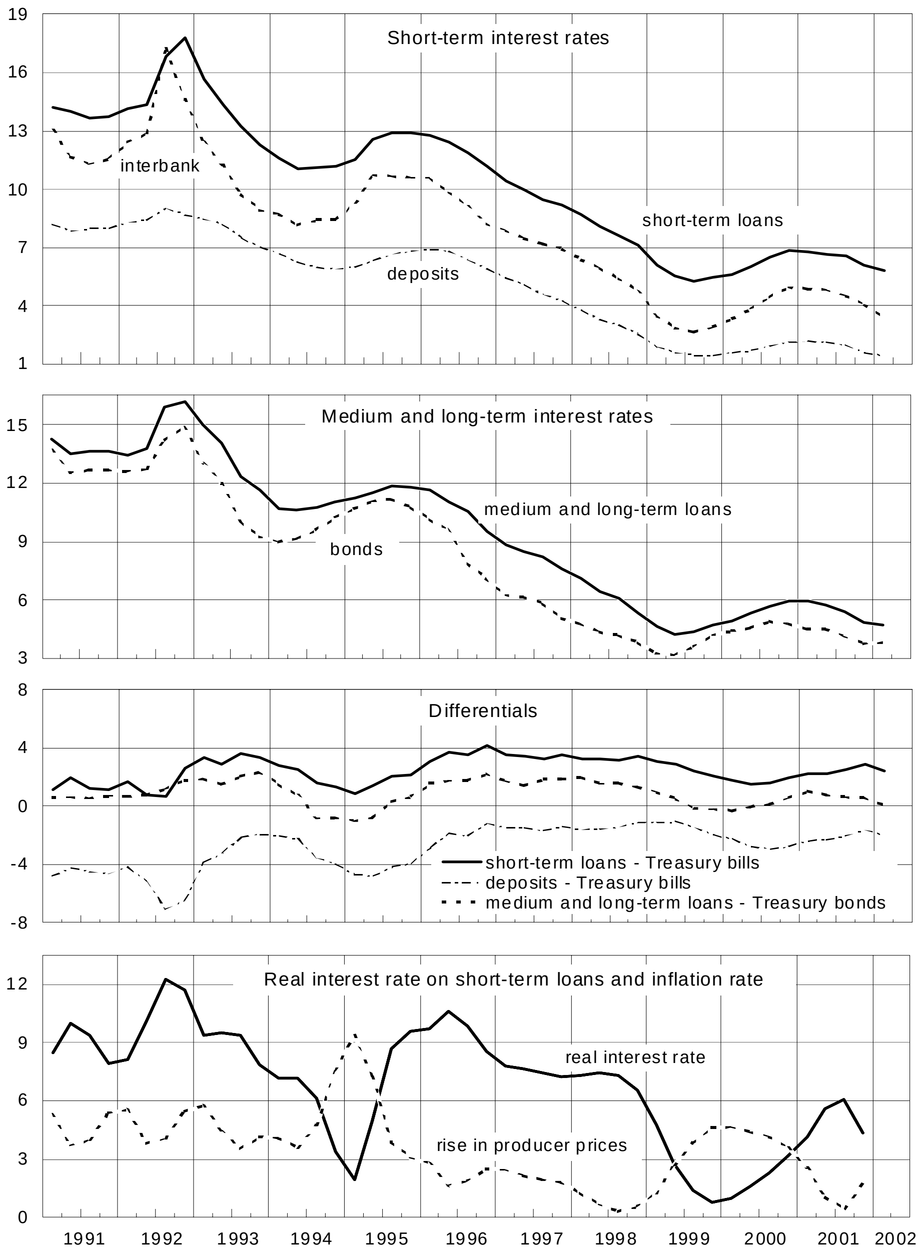
As in previous years, banks reduced their securities portfolios and increased their net external liabilities. The ratio of liquid assets (cash and securities) to loans declined further from the already low level reached in 2000 (Figure 29).

The growth in net interest income produced by the increase in lending offset the contraction in net fee income from services and income from securities trading. The increase in operating costs and the very large allocations to provisions caused net profit to fall by 19.8 per cent.

Figure 28

BANK INTEREST RATES AND DIFFERENTIALS IN RELATION TO YIELDS ON GOVERNMENT SECURITIES IN ITALY (1)

(quarterly data; percentages and percentage points)

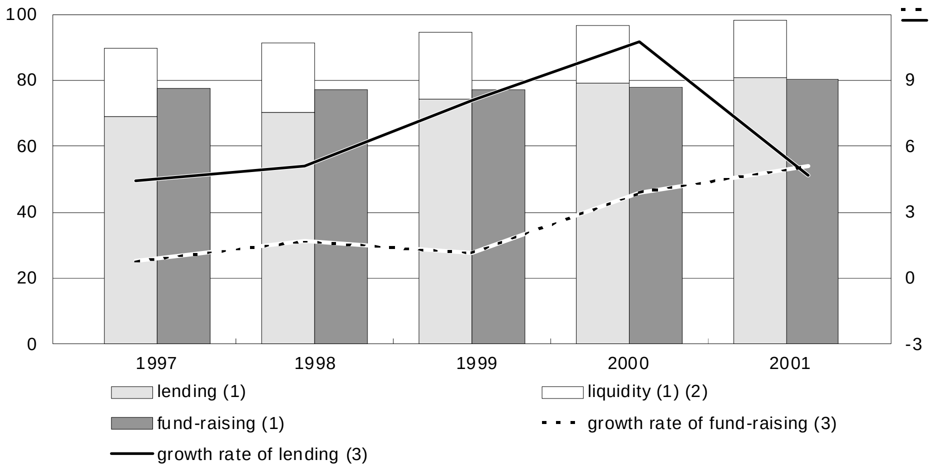


(1) The yield on Treasury bonds refers to exchange-traded bonds with a residual maturity of at least one year.

Figure 29

BANKING INTERMEDIATION IN ITALY

(*year-end data; percentages)*



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

Lending

Lending by Italian banks to residents increased by 7.4 per cent in 2001, compared with 13.1 per cent the previous year (Table 39). Despite this slowdown, the rate of increase was still higher than the growth in nominal GDP (4.4 per cent) and more than the average for the euro area (5.3 per cent; Figure 30).

The slowdown was mainly in lending to firms (from 15.6 to 8.7 per cent) and to financial and insurance companies (from 25.3 to 10.3 per cent), and was especially pronounced in large loans to finance mergers, acquisitions and other corporate restructuring operations.

In 2000 the bank debt of firms with a total exposure in excess of €103.3 million (200 billion lire) had increased by €33.3 billion, or 38.3 per cent. It accelerated further in the first few months of 2001 but then slowed down, owing partly to repayments due to greater recourse to bond issues by some large enterprises and a fall in the number of mergers and acquisitions.

At the end of 2001 syndicated loans granted to residents by Italian banks and their foreign branches amounted to €57 billion, equal to 11 per cent of total corporate lending. Although it is growing rapidly, the market in Italy is still less developed than in the other leading countries.

According to data from specialist companies on operations whose terms have been made public, in 2001 new syndicated loans to Italian firms totaled

€31 billion, or 1.7 per cent of the world total (compared with €5 billion and 0.6 per cent in 1995). Italian banks acted as lead institution for loans totaling €24 billion, 1.3 per cent of the total (€2 billion and 0.2 per cent in 1995).

Table 39

MAIN ITEMS IN THE BALANCE SHEETS OF ITALIAN BANKS (1)
(*end-of-period data*)

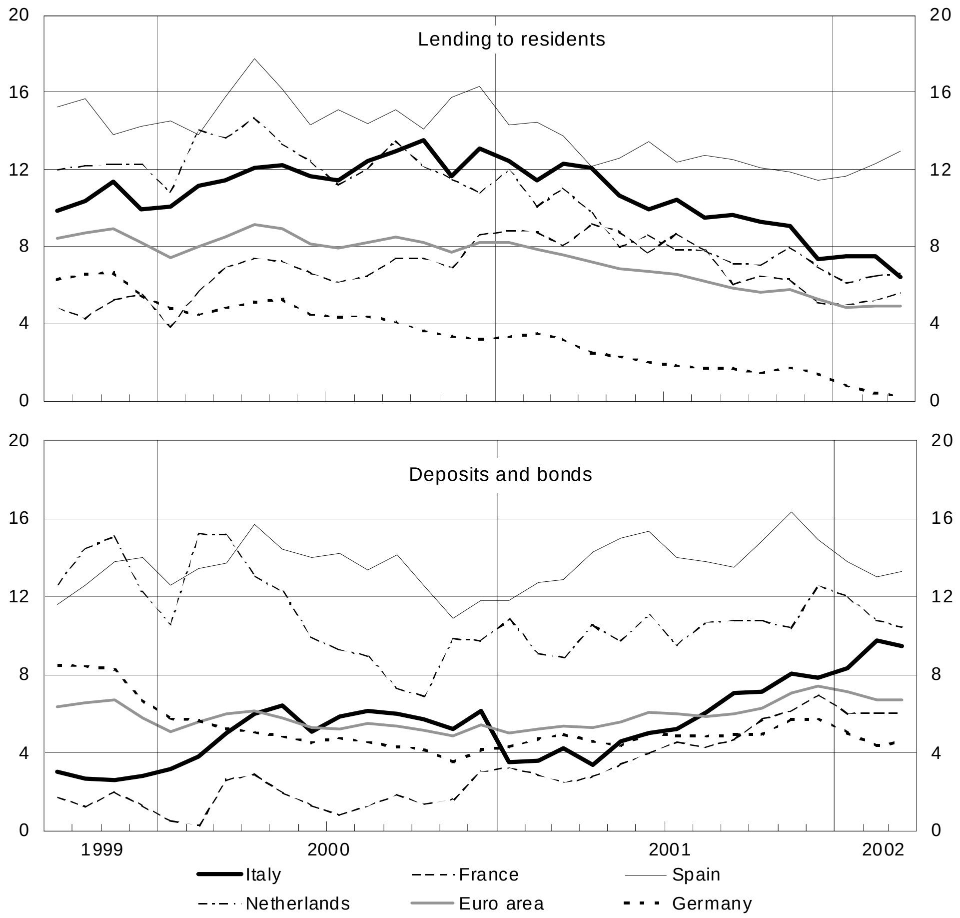
	Percentage changes							Balances (millions of euros)
	On 12 months previously			On previous quarter, annualized (2)				
	Dec. 2000	Dec. 2001	Mar. 2002	2001 Q1	2001 Q2	2001 Q3	2001 Q4	December 2001
Assets								
Securities	–16.0	–11.7	–5.3	–25.9	4.9	–11.8	–11.2	178,981
government securities	*–20.3*	*–16.4*	*–8.5*	*–31.7*	*7.9*	*–17.4*	*–19.5*	*122,985*
Loans	13.1	7.4	6.4	8.8	6.0	9.5	6.1	980,578
of which: (3)								
short-term (a)	*18.5*	*6.4*	*2.2*	*11.0*	*3.5*	*9.8*	*3.1*	*464,196*
medium and long-term (b)	*10.1*	*9.0*	*10.4*	*8.4*	*10.1*	*11.5*	*5.9*	*461,569*
(a)+(b)	*14.2*	*7.7*	*6.2*	*9.7*	*6.7*	*10.7*	*4.5*	*925,765*
repos	*–18.3*	*–18.3*	*2.2*	*–25.0*	*35.5*	*–62.5*	*17.1*	*6,803*
bad debts (4)	*–13.8*	*–12.7*	*–13.9*	*–3.7*	*–37.4*	*–1.3*	*–2.0*	*45,356*
Memorandum item:								
bad debts at realizable value	*–20.1*	*–13.6*	*–16.3*	*–5.9*	*–47.3*	*21.1*	*–6.9*	*21,216*
External assets	1.6	–8.2	–6.6	22.7	–8.6	1.0	–37.1	180,538
Liabilities								
Domestic funding (5)	6.1	7.8	9.5	4.6	7.4	10.2	8.7	978,543
Deposits	4.0	6.4	9.0	0.0	6.3	10.3	8.6	643,870
of which: (6)								
current accounts	*6.0*	*9.4*	*12.6*	*–0.4*	*8.0*	*18.8*	*10.7*	*446,113*
fixed-term	*–16.1*	*–11.7*	*–7.5*	*–21.7*	*–10.5*	*–17.1*	*4.5*	*57,202*
repayable at notice	*–6.6*	*0.1*	*4.4*	*–6.5*	*–1.1*	*2.4*	*7.1*	*57,175*
repos	*35.7*	*11.6*	*8.3*	*29.7*	*17.2*	*0.6*	*1.8*	*76,164*
Bonds (5)	10.7	10.6	10.3	13.9	9.4	10.2	8.9	334,672
External liabilities	11.6	4.1	–6.4	50.3	6.5	–9.7	–18.6	286,509

(1) The figures for March 2002 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) 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 assignments. – (5) Including bonds held by non-residents. – (6) Excluding those of central government.

Figure 30

BANK LENDING AND FUND-RAISING IN THE EURO AREA (1)

(monthly data; 12-month percentage change)



Sources: Based on ECB data and national statistics.

(1) Lending and fund-raising of monetary and financial institutions (MFIs) of the euro area, excluding the Eurosystem, to non-MFI resident customers.

Lending to manufacturing firms grew much more slowly – by 4 per cent, compared with 9.8 per cent in 2000 – owing partly to the cyclical difficulties of the sector and partly to the financial restructuring of some large groups, which used funds raised through capital increases and bond issues to reduce their bank debt. The slowdown in lending to the service sector from 19.2 to 11.2 per cent was attributable largely to the reduction in lending to telecommunications companies.

Bank lending to households continued to grow apace (by 9.4 per cent, compared with 13.3 per cent in 2000), both to finance purchases of residential property and for consumer credit. At the end of the year home mortgage loans to households amounted to €102.2 billion, equal to 10.4 per cent of total bank lending.

Consumer credit granted by banks continued to grow strongly, rising by 14.6 per cent compared with 15.4 per cent in 2000, owing partly to a large increase in credit associated with the use of credit cards (Table 40). The growth in lending by finance companies, in contrast, slowed down from 14.2 to 6.4 per cent, partly on account of the difficulties in the motor vehicle market.

Table 40

LEASING, FACTORING AND CONSUMER CREDIT IN ITALY

(end-of-period data; millions of euros and percentage changes on previous year)

	Changes			Outstanding 2001 (1)	Percentage of total
	1999	2000	2001 (1)		
			Leasing		
Total credit	22.8	22.7	15.8	53,724	100.0
Finance companies	22.0	22.8	18.6	43,614	81.2
Banks	26.2	21.9	5.3	10,109	18.8
			Factoring		
Total credit	19.9	17.1	14.2	38,495	100.0
Finance companies	19.5	17.3	12.9	35,285	91.7
of which: without recourse	*18.3*	*35.2*	*17.1*	*15,150*	*39.4*
Banks	25.5	14.8	32.1	3,210	8.3
			Consumer credit		
Total credit	18.8	14.9	10.4	41,181	100.0
of which: credit cards	*26.0*	*26.3*	*18.2*	*4,621*	*11.2*
Finance companies	25.9	14.2	6.4	17,470	42.4
of which: credit cards	*24.9*	*27.6*	*14.8*	*3,203*	*7.8*
of which: for purchase of motor vehicles	*22.9*	*7.5*	*3.7*	*10,784*	*26.2*
Banks	13.4	15.4	14.6	23,711	57.6
of which: credit cards	*28.0*	*22.8*	*26.9*	*1,418*	*3.4*

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

In the second half of the nineties the main finance companies specializing in consumer credit were converted into banks, partly in order to have access to cheaper forms of funding; three of these, which were formed between 1998 and 2001, account for around one quarter of total consumer credit granted by the Italian banking system. If banks established in the last four years that were previously specialized financial companies are excluded, the share of consumer credit granted by the banking system fell from 57.6 to 42.8 per cent.

Lending by the smallest banks increased at the fastest rate. According to the Bank of Italy's new classification by size, the share of "largest" and "large" banks (those with total assets of more than €20 billion at the end of 2001) declined by two percentage points last year to 51 per cent, while that of “small” and “smallest” banks (with total assets of less than €7 billion) rose by two points to 27 per cent.

The consolidation of the Italian banking system from the mid-nineties onwards did not reduce the market share of the smallest banks. The share of lending of “largest” and “large” banks has fallen by seven points since the end of 1995 and that of “small” and “smallest” banks has increased by three. Mutual banks (*banche di credito cooperativo*) also increased their share from 4 to 5 per cent.

Credit conditions remained generally easy. The differential between the average and lowest short-term lending rates widened by 15 basis points during 2001 to 2.3 percentage points, but this was still less than before July 2000. The rate of drawdown on overdrafts, which had fallen to an extremely low level in 2000, rose only marginally, from 42.5 to 43 per cent. The proportion of secured loans decreased slightly.

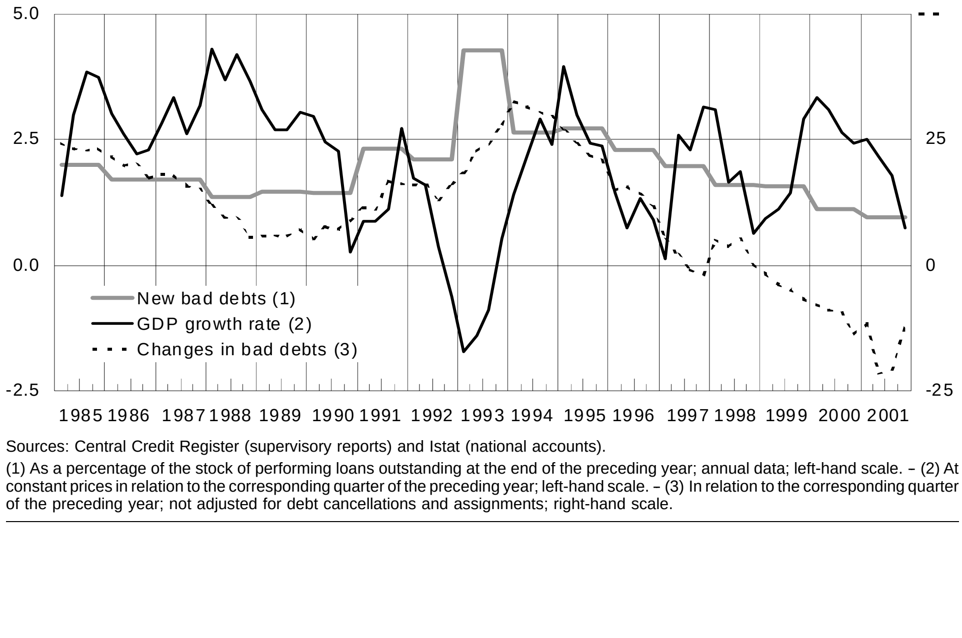
In 2001 banks assigned loans totaling €21.3 billion, equal to 2.3 per cent of loans outstanding at the end of the previous year, mainly by means of securitization operations. Assignments had amounted to €16.3 billion in 2000 and €11 billion in 1999.

Bad debts decreased by 12.7 per cent, falling to 4.7 per cent of total lending at the end of the year; this was the lowest level since 1983 and compared with 5.7 per cent in December 2000. The reduction reflected the assignment of €9.3 billion in irrecoverable loans. The flow of new bad debts in 2001 was very small, equal to 0.9 per cent of the stock of performing loans at the beginning of the year, compared with 1 per cent in 2000.

Figure 31

BAD DEBTS OF ITALIAN BANKS

(percentages and percentage changes)



Sources: Central Credit Register (supervisory reports) and Istat (national accounts).

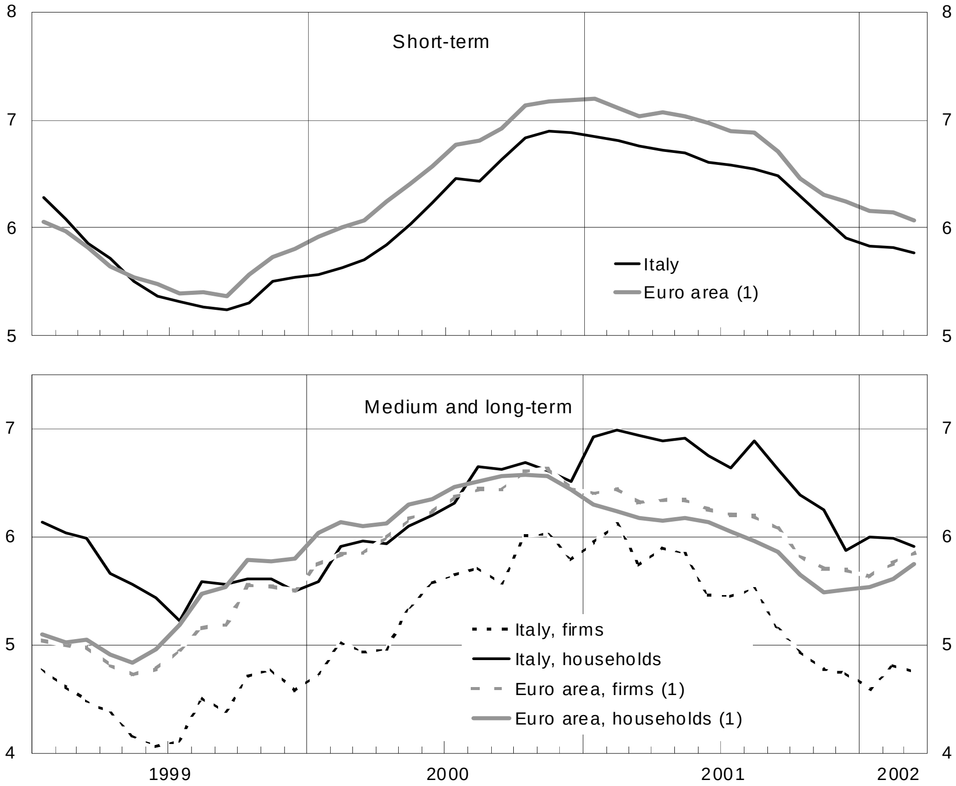
(1) As a percentage of the stock of performing loans outstanding at the end of the preceding year; annual data; left-hand scale. – (2) At constant prices in relation to the corresponding quarter of the preceding year; left-hand scale. – (3) In relation to the corresponding quarter of the preceding year; not adjusted for debt cancellations and assignments; right-hand scale.

The banks’ exposure towards customers in temporary difficulties (so-called impaired positions) rose by 2 per cent, whereas in 2000 it had fallen by 1 per cent. The increase last year was due mainly to lending to financial enterprises and consumer households; by contrast, impaired positions relating to non-financial enterprises and producer households decreased slightly.

Figure 32

BANK LENDING RATES IN ITALY AND THE EURO AREA

(monthly data; percentages)



Sources: Based on ten-day statistics and ECB data.
(1) Weighted averages of national interest rates reported to central banks. The curves indicate trends rather than relative levels of rates, as they are based on non-harmonized data.

The slowdown in economic activity was not accompanied by a rapid deterioration in loan quality, mainly for two reasons. First, the cyclical downturn was relatively short and mild. In the past, substantial increases in bad debts were recorded during prolonged periods of weak economic activity, as between 1980 and 1983, or large falls in output, as in 1992-93 (Figure 31). Secondly, at the start of the slowdown firms were in better financial health than in the past. The leverage of companies reporting to the Company Accounts Data Service, measured by the ratio of debt to the sum of debt and net worth, had been 60.1 per cent in 1992, more than ten percentage points higher than in 2000. The economic slowdown did not raise the overall company mortality rate, which in 2001 remained at the level recorded in the two previous years (5.6 per cent according to data from the Companies Register).

The adjustment of bank lending rates to changes in money market rates was in line with past experience. Short-term lending rates fell by one percentage point in 2001, to 5.9 per cent; the decrease was similar to that in the euro area as a whole (Figure 32).

Medium and long-term lending rates came down by 1.1 percentage points for firms and by 0.6 points for households, to 4.7 and 5.9 per cent respectively. In the euro area there was a slightly smaller decrease in rates for firms (0.8 points) and a slightly larger one for households (0.9 points).

Interest rates on leasing, factoring and consumer credit generally fell by less than banks' lending rates.

Domestic fund-raising

In 2001 domestic fund-raising by Italian banks rose by 7.8 per cent, compared with 6.1 per cent in 2000 (Table 39 and Figure 33). Current accounts showed a very modest increase in the first half of the year but the rate of growth steadily accelerated, especially after the terrorist attacks in the United States; in the twelve months to December they rose by 9.4 per cent (6 per cent in 2000). Funds raised by means of securities repurchase agreements increased by 11.6 per cent, compared with 35.7 per cent the previous year. Total deposits increased by 6.4 per cent (4 per cent in 2000).

Econometric estimates indicate that the growth in GDP and the narrowing of differentials between the currrent account deposit rate and Treasury bill and bond yields explain half of the increase in current account deposits. In 2001 the fall in equity prices and greater uncertainty may have prompted savers to increase further the proportion of liquid assets in their portfolios.

Banks' bond issues continued to grow rapidly in 2001, rising by 10.6 per cent, almost the same rate as in 2000. Sales of bonds in the domestic market represented 87.3 per cent of the total, five percentage points more than the previous year.

Issues of subordinated bonds increased by 30 per cent; in value terms, around one quarter of eurobond issues in the last three years has consisted of such paper.

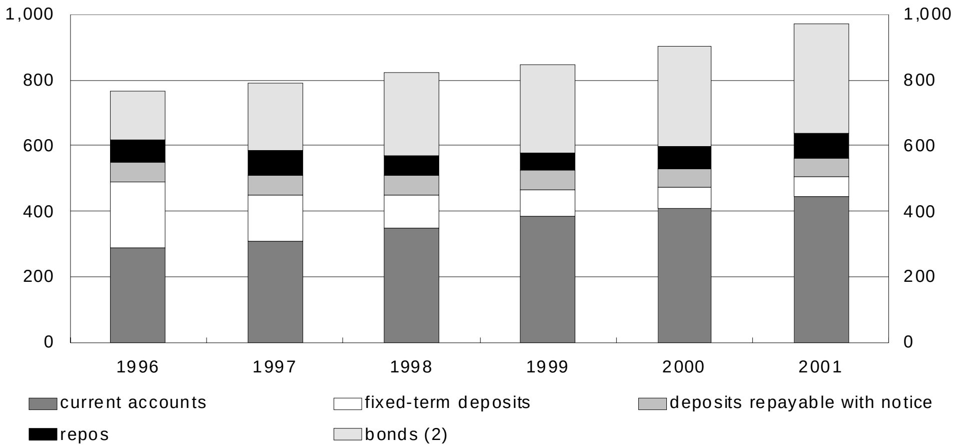
Short-term deposit rates declined, mirroring the change in money market conditions. The rate on current accounts came down by 0.7 percentage points to 1.4 per cent during the year. The negative differential in relation to Treasury bill yields, after taking account of differences in tax treatment, narrowed by 0.9 percentage points to 1.7 points.

In the euro area interest rates on fixed-term deposits of up to one year decreased by 1.2 points.

Figure 33

BANK FUND-RAISING IN ITALY (1)

(year-end data; billions of euros)



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

In Italy the rates on fixed-rate bank bonds, which vary significantly from month to month, fell by 0.7 percentage points to 4 per cent last year; the differential in relation to the rates on five-year Treasury bonds, net of withholding tax, widened from 0.2 to 0.4 percentage points. In the euro area rates on fixed-term deposits of more than two years decreased by 0.8 points.

The other balance-sheet items: the securities portfolio and the banks' net external position

In 2001 the value of the banks' securities portfolio declined by €8.4 billion; excluding the effects of variations in securities prices, the decrease amounted to 11.7 per cent. The share of government securities fell by 3.9 percentage points to 68.7 per cent. More than 5 per cent of the portfolio consisted of securities issued in connection with securitization operations; their total value was €9.8 billion, almost three times the amount of a year earlier.

The ratio of liquid assets (cash and securities) to the aggregate of liquid assets and loans diminished for the third consecutive year, from 18.1 to 16.9 per cent, 4.8 points less than the average for banks in the euro area.

Excluding the effects of exchange rate variations, the net external liabilities of Italian banks increased by €27.7 billion, more than 60 per cent of which was towards countries outside the euro area. At the end of the year the Italian banking system had a net external debtor position of €106 billion, equal to 5.6 per cent of total bank liabilities, compared with €77.9 billion and 4.4 per cent in 2000. Its net liabilities towards foreign branches amounted to €29.7 billion, equal to 28 per cent of total debt towards non-residents.

Securities deposited with banks

The face value of securities deposited with banks rose by 8.8 per cent to €1,715 billion; around two thirds of the increase was in foreign securities, which rose to 25 per cent of the total.

Securities deposited by households declined by 2.4 per cent to €722.8 billion; a reduction in government securities and investment fund units was only partly offset by an increase in foreign securities and bank bonds. Securities entrusted to banks for portfolio management fell by 6.9 per cent, owing partly to strong growth in asset management by asset management companies.

In 2001 the market value of securities traded by banks on behalf of customers (excluding derivatives) fell from €869.6 to 751.1 billion, reflecting a decline in share trading from €634.9 to 444.7 billion, due largely to the fall in equity prices.

Sales of new issues of securities to customers fell from €195.4 to 173 billion as a result of a contraction in subscriptions of investment fund units from €132.5 to 92.2 billion. Sales by financial advisers also fell, from €39.8 to 24.2 billion.

Profit and loss accounts

The growth in lending was reflected in a rise in net interest income, although a smaller one than in 2000 (5.5 per cent, compared with 8.4 per cent; Table 41). Income from services declined for the first time since 1995; the contraction of 12.5 per cent was due mainly to a fall in asset management fees. Net income from trading in securities and other assets fell by 18 per cent. However, there was a large increase in income from other financial operations, reflecting the rise in dividends. Dividends on shareholdings in other banks, which accounted for half of the total, rose from €4.2 to 6.5 billion; if they are excluded, gross income rose by 1.4 per cent.

Table 41

PROFIT AND LOSS ACCOUNTS OF ITALIAN BANKS (1)

	1998	1999	2000	2001	1998	1999	2000	2001
	As a percentage of total assets				**Percentage changes**			
Net interest income (a)	**2.15**	**1.95**	**1.94**	**1.93**	**–1.0**	**–6.4**	**8.4**	**5.5**
Non-interest income (b) (2)	**1.40**	**1.60**	**1.77**	**1.76**	**36.6**	**17.8** ***(11.6)***	**20.9** ***(16.1)***	**4.2** ***(-3.7)***
of which: trading	*0.32*	*0.18*	*0.14*	*0.13*	*14.1*	*–41.3*	*–14.0*	*–18.0*
services	*0.62*	*0.73*	*0.82*	*0.68*	*59.6*	*22.6*	*21.2*	*–12.5*
other financial operations (2)	*0.23*	*0.42*	*0.53*	*0.67*	*56.3*	*90.8* *(65.3)*	*36.1* *(18.5)*	*34.7* *(17.9)*
Gross income (c=a+b) (2)	**3.55**	**3.55**	**3.71**	**3.68**	**11.0**	**3.2** ***(0.5)***	**14.0** ***(11.6)***	**4.9** ***(1.4)***
Operating expenses (d) (3)	**2.16**	**2.15**	**2.07**	**2.03**	**2.0**	**2.7**	**5.2**	**3.8**
of which: banking staff costs (3)(4)	*1.30*	*1.26*	*1.17*	*1.11*	*2.0*	*–0.4*	*1.3*	*1.0*
Operating profit (e=c-d) (2)(3)	**1.39**	**1.40**	**1.64**	**1.65**	**28.7**	**3.8** ***(-3.1)***	**27.5** ***(22.7)***	**6.3** ***(-2.0)***
Value adjustments, readjustments and allocations to provisions (f) (2)(5)	**0.48**	**0.40**	**0.36**	**0.66**	**–25.9**	**–15.0** ***(-6.8)***	**10.8** ***(1.2)***	**91.4**
of which: loan losses	*0.45*	*0.44*	*0.35*	*0.37*	*–16.2*	*–1.5*	*–11.1*	*10.9*
Profit before tax (g=e-f) (2)(3)(5)	**0.91**	**1.01**	**1.28**	**0.99**	**110.8**	**13.7** ***(-0.9)***	**34.2** ***(34.3)***	**-17.7** ***(-34.3)***
Tax (h) (5)	**0.43**	**0.40**	**0.48**	**0.39**	**59.8**	**–4.6**	**21.1**	**-7.7**
Net profit (g-h)	**0.48**	**0.61**	**0.79**	**0.60**	**440.7**	**30.0**	**42.7**	**–19.8**
Dividends distributed	0.25	0.37	0.44	0.39	71.1	49.4	27.7	–3.9
	Other data							
	Profit before tax				**Net profit**			
Profit as a percentage of capital and reserves (ROE) (6)	13.8	15.3	18.5	14.5	7.4	9.6	11.6	8.9
	Amounts				**Percentage changes**			
Total assets *(millions of euros)*	1,571,410	1,632,225	1,771,357	1,888,159	6.3	3.8	9.9	6.2
Average total number of employees	345,697	343,615	343,050	344,897	–0.6	–0.9	0.3	0.4
of which: banking staff	*341,425*	*339,310*	*339,067*	*341,982*	*–0.6*	*–0.9*	*0.4*	*0.7*
Total assets per employee *(thousands of euros)*								
at current prices	4,546	4,750	5,164	5,475	7.0	4.8	9.7	5.9
at constant prices (7)	4,201	4,318	4,578	4,724	4.9	3.1	6.9	3.0
Banking staff costs per employee (3) *(thousands of euros)*								
at current prices (8)	58,9	59,0	60,5	61,1	2.4	0.1	2.5	0.9
at constant prices (7) (8)	54,4	53,6	53,6	52,8	0.5	–1.6	–0.1	–1.7
Memorandum items: (9)								
Total assets *(millions of euros)*	1,579,507	1,635,415	1,789,484	1,893,406	6.6	3.5	9.4	5.8
Total number of employees (10)	343,750	341,311	344,305	343,846	–1.0	–0.7	0.9	–0.1
of which: banking staff (10)	*339,415*	*337,087*	*340,841*	*341,329*	*–1.2*	*–0.7*	*1.1*	*0.1*

(1) Rounding may cause discrepancies in totals. The data for 2001 are provisional. – (2) The rates of increase calculated net of dividends on shareholdings in other banks, if included in the aggregate, 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 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 includes 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 general 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.

Banking staff costs rose by 1 per cent, compared with 1.3 per cent in 2000, as a result of a rise in the number of employees (by an annual average of 0.7 per cent) and an increase in costs per employee (by 0.9 per cent, to €61,100); the cost of early retirement incentive schemes decreased. Other administrative expenses rose by 7.5 per cent, compared with 9.8 per cent in 2000, owing mainly to expenses in connection with the use of information technology. Total operating costs increased by 3.8 per cent, against 5.2 per cent the previous year.

Operating profit declined by 2 per cent. Value adjustments on balance-sheet assets (net of corresponding value readjustments) almost doubled, rising from 22 to 40 per cent of operating profit for the sector as a whole and from 16.1 to 52.1 per cent for the largest banks. Writedowns on shareholdings rose from €1 billion to €4.1 billion, reflecting mainly those made by some large banks in respect of direct investments in Argentina. Value adjustments on loans rose for the first time since 1998; the increase of 10.9 per cent was due partly to writedowns on loans to non-residents. Further expenses stemmed from adjustments in the value of securities in the banks' portfolio and the amortization of intangible assets.

Pre-tax profit fell by 34.3 per cent, while net profit after tax fell by 19.8 per cent, or €2.8 billion (Table a24). Return on equity – obtained by summing profit, the change in the fund for general banking risks (€133 million) and net income from foreign branches (€193 million) – declined from 11.6 to 8.9 per cent.

INSTITUTIONAL INVESTORS

In 2001 the flow of savings to institutional investors picked up again. Consolidated net fund-raising amounted to €38.8 billion, an increase of 14.2 per cent on 2000 (Table 42). Consolidated assets under management rose by 2.8 per cent, a result that reflects the fall in value of the equity component; in relation to GDP they declined for the second successive year, from 80.2 to 78.8 per cent.

Table 42

ITALIAN INSTITUTIONAL INVESTORS:
NET FUND-RAISING AND ASSETS UNDER MANAGEMENT
(millions of euros; percentages)

	Net flows				End-of-period stocks			
	2000	2001	Percentage composition		2000	2001	Percentage composition	
			2000	2001			2000	2001
Investment funds (1) . .	−6,895	−20,365	−11.1	−56.2	449,931	403,689	39.6	35.5
Insurance companies (2)	33,004	27,523	53.2	75.9	216,483	244,006	19.1	21.4
Pension funds and non-INPS social security funds (2)	2,847	1,657	4.6	4.6	77,820	79,477	6.8	7.0
Portfolio management services	33,087	27,435	53.3	75.7	392,112	410,305	34.5	36.1
Total	**62,043**	**36,250**	**100.0**	**100.0**	**1,136,346**	**1,137,477**	**100.0**	**100.0**
Consolidated total (3)	**34,032**	**38,848**	**–**	**–**	**936,256**	**962,171**	**–**	**–**

(1) Harmonized investment funds and Sicavs. – (2) Technical reserves and total balance sheet assets for insurance companies and pension funds respectively. The figures for 2001 are estimated. – (3) Net of investments between the different categories of intermediary.

At the end of 2000 financial instruments supplied by institutional investors accounted for 44 per cent of households’ financial assets in the United States, 39 per cent in Germany and 32 per cent in France and Italy (Table 43). The sizeable increases recorded in 1999 and 2000 in the United States and Germany were largely due to the growth in investment fund units; in Italy, most of the growth came from insurance policies.

Table 43

FINANCIAL ASSETS OF INSTITUTIONAL INVESTORS IN THE MAIN EURO-AREA COUNTRIES AND THE UNITED STATES

(end-of-period data; percentages)

	1998				2000				2001
	Italy	France	Germany	United States	Italy	France	Germany	United States	Italy
	Percentage shares in households' financial assets (1)								
Investment funds (2)	16.3	9.0	8.8	10.7	16.8	8.7	11.3	12.6	16.3
Insurance companies	5.5	22.8	25.0	7.0	7.0	23.0	26.0	7.4	8.8
Pension funds	1.1	–	1.8	20.8	1.1	–	1.8	20.9	1.3
Other institutions (3)	7.9	–	–	3.3	6.8	–	–	3.1	8.9
Total	**30.8**	**31.8**	**35.6**	**41.8**	**31.7**	**31.7**	**39.1**	**44.0**	**35.3**
	As a percentage of GDP (4)								
Unconsolidated financial assets	79.6	113.7	70.2	205.0	97.6	133.8	80.8	197.7	93.6
Consolidated financial assets	68.1	....	....	....	80.4	....	....	....	79.2
	Composition by category of intermediary (4)								
Investment funds (2)	43.6	43.7	43.2	30.2	39.6	46.5	47.5	33.0	35.5
Insurance companies	19.7	56.3	52.2	21.6	21.3	53.5	48.4	20.6	23.8
Pension funds	3.9	–	4.6	37.1	4.6	–	4.1	35.3	4.7
Other institutions (3)	32.8	–	–	11.1	34.5	–	–	11.1	36.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
	Composition by type of financial asset (4)								
Bonds	64	54	43	34	49	46	40	33	54
Loans	..	3	30	8	..	2	27	9	..
Shares	15	34	22	48	23	44	28	48	18
Other (5)	21	9	5	10	28	8	5	10	28
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Sources: For France, Germany and the United States, OECD and Eurostat.

(1) Ratio of institutional investors' net assets held by households to households' total financial assets. The data for investment funds, insurance companies and pension funds are taken from the national financial accounts for Italy, France and Germany and from OECD for the United States. – (2) For Italy, France and Germany, includes foreign funds. – (3) For Italy, individually managed portfolios net of investments in investment fund units; includes the portfolios of sectors other than households. – (4) For Italy, the figures for pension funds include non-INPS social security funds. – (5) Cash, deposits and other items.

Italian investment funds recorded a large net outflow of savings in 2001. By contrast, funds based abroad but controlled by Italian intermediaries achieved a net inflow, albeit about half that of the previous year. Mainly as a result of the prolonged fall in stock market indexes, investors made very large net sales of equity, balanced and bond funds and substantial net purchases of money market funds. Management companies broadened the range of funds on offer and last year saw the launch of Italy's first hedge funds.

Italian investment funds showed a negative twelve-month rate of return at the end of 2001, as in 2000. The share of equities in the portfolio of investment funds decreased for the first time since 1996, falling from 43 to 34.9 per cent. Holdings of foreign equities and medium and long-term Italian government securities contracted substantially.

The high volatility of equity prices in some parts of the year fueled the flow of savings to portfolio management services, which hold a higher proportion of low-risk assets. The net inflow to these services remained relatively large, even though it contracted by 17.1 per cent compared with 2000. There was further growth in the portfolio management business of asset management companies, which account for just under half the total assets under management. The average rate of return earned by portfolio management services was also negative.

Insurance companies' technical reserves recorded another large increase (12.7 per cent). After falling sharply in 1999 and 2000, the share of Italian government securities in their portfolio showed a small rise.

The combined resources of pension funds and non-INPS social security funds increased by 2.1 per cent. The net assets of pension funds set up under the new statutory rules rose from €1.7 billion to €3.2 billion and at the end of the year their share of total pension fund net assets had risen to 9.5 per cent.

Securities investment funds

In 2001 Italian investment funds recorded net redemptions of €20.4 billion, three times as much as in 2000. By contrast, the fund-raising of investment funds established abroad by Italian intermediaries remained positive by €18.1 billion, compared with €36.2 billion in 2000. Overall, funds operated by Italian intermediaries registered net redemptions of €2.3 billion, against net subscriptions of €29.3 billion the previous year.

The different fund-raising performance of Italian funds and Italian-controlled foreign funds was partly the consequence of the portfolio choices of portfolio management services, which made €6.8 billion of net sales of units of Italian funds and €7.4 billion of net purchases of units of foreign investment funds (Italian-controlled and not). The advantage for intermediaries of placing foreign investment funds with their customers lies principally in the lower level of corporate income tax in the countries involved.

Investors carried out a substantial portfolio shift in favour of funds that invest in short-term assets. For Italian funds, net redemptions of equity, balanced and bond funds amounted to €20.5 billion, €11.5 billion and €20.8 billion respectively, while net subscriptions of money-market funds totaled

€33.1 billion. For foreign funds controlled by Italian intermediaries, there was a net inflow of savings into all the main segments, with very high figures for funds specializing in short-term assets.

In all the other main euro-area countries net fund-raising by harmonized investment funds decreased sharply or, as in Spain, was negative. In all these countries there was also a considerable shift of resources from equity and balanced funds to money-market and bond funds.

Reflecting the drop in share prices and substantial redemptions, the total net assets of all investment funds established in Italy or abroad by Italian intermediaries was equal to €509 billion at the end of 2001, 6.9 per cent less than a year earlier (Table 44). The decline was attributable entirely to the Italian funds, whose net assets fell by 10.2 per cent to €403.7 billion. In the euro area, funds' net assets grew by 3.5 per cent, principally as a consequence of the expansion in money-market and bond funds in Ireland, Luxembourg and France; the share attributable to funds controlled by Italian groups fell from 19 to 17.1 per cent.

Table 44

NET ASSETS OF INVESTMENT FUNDS IN THE MAIN EUROPEAN COUNTRIES AND THE UNITED STATES (1)

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

		Italy (2)	Germany	France	Luxembourg and Ireland (3)		Euro area (3) (4)	UK	US
						of which: controlled by Italian intermediaries			
Net assets	2000	450	253	766	938	97	2,878	415	7,485
	2001	404	240	800	1,064	105	2,980	412	7,909
as a % of GDP	*2000*	*38.6*	*12.5*	*54.1*	....	....	*43.9*	*27.4*	*70.5*
	2001	*33.2*	*11.6*	*54.7*	....	....	*43.8*	*25.3*	*68.3*
of which: (5)									
equity funds	*2000*	*156*	*154*	*217*	*351*	*50*	*1,137*	*318*	*4,258*
	2001	*111*	*125*	*207*	*318*	*46*	*937*	*310*	*3,873*
domestic	*2000*	*27*	*35*	*116*	....	*7*	*228*	*230*	*3,675*
	2001	*17*	*29*	*104*	....	*5*	*200*	*168*	....
euro-area and European	*2000*	*56*	*44*	*24*	....	*17*	*177*	*49*	....
	2001	*38*	*35*	*33*	....	*15*	*152*	*47*	....
other	*2000*	*72*	*75*	*77*	....	*25*	*314*	*38*	....
	2001	*56*	*61*	*70*	....	*26*	*268*	*95*	....
bond funds	*2000*	*156*	*57*	*129*	*264*	*36*	*774*	*36*	*868*
	2001	*159*	*60*	*139*	*328*	*47*	*825*	*42*	*1,049*
balanced funds	*2000*	*116*	*15*	*202*	*67*	*10*	*523*	*31*	*376*
	2001	*87*	*18*	*197*	*62*	*8*	*445*	*30*	*393*

Sources: Based on FEFSI, ICI and Assogestioni data.

(1) The data refer to open-end investment funds that invest in securities and are offered to the public; funds of funds are not included. – (2) 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. – (3) The available data for Ireland refer to the end of November 2001. – (4) The available data for the Netherlands refer to the end of June 2001. – (5) 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. For Ireland and Luxembourg, data for the sub-sectors are not available.

The degree of concentration of the Italian investment fund industry, measured by the market share of the five largest management companies, was equal to 46 per cent at the end of 2001. According to Lipper data, this is an intermediate value by international standards: higher than in the United Kingdom and France (14.6 and 34.2 per cent, respectively) and lower than in Spain and Germany (51.1 and 75.7 per cent).

Estimates for the period 1988-2000 indicate that, in Italy, only smaller management companies and those with a higher-than-average fee structure could have increased market share by reducing management fees. The greater price elasticity of the market shares of the smaller, less well-known management companies may be attributable to the higher information costs incurred by customers in selecting their funds. Strategies of supply differentiation based on broadening the product range appear to be able to boost individual asset management companies' market shares, while the impact of relative performance on market shares is more limited.

In 2001 a large number of new funds were created both in the category of harmonized funds and in that of funds of funds and funds reserved to professional (primarily institutional) investors. The year also saw the start of operations of the first hedge funds, whose distinguishing features are low correlation between fund returns and the performance of the general market indexes and the possibility of using leverage. In addition, a recent law has expanded the methods of fund-raising and financing for closed-end real estate funds, whose number rose from 10 to 18 in the course of last year.

The degree of development of funds of funds in Europe differs from country to country. In 2001 the resources managed by funds of funds were equal to 0.9 per cent of total net assets of harmonized funds in Spain, 1.8 per cent in Italy, 3 per cent in Germany, 4.1 per cent in the United Kingdom, 13.7 per cent in Belgium and 27.5 per cent in Austria. In all the EU countries funds of funds tend to specialize in balanced portfolios; around one third of the total operate equity portfolios and barely 5 per cent run bond portfolios.

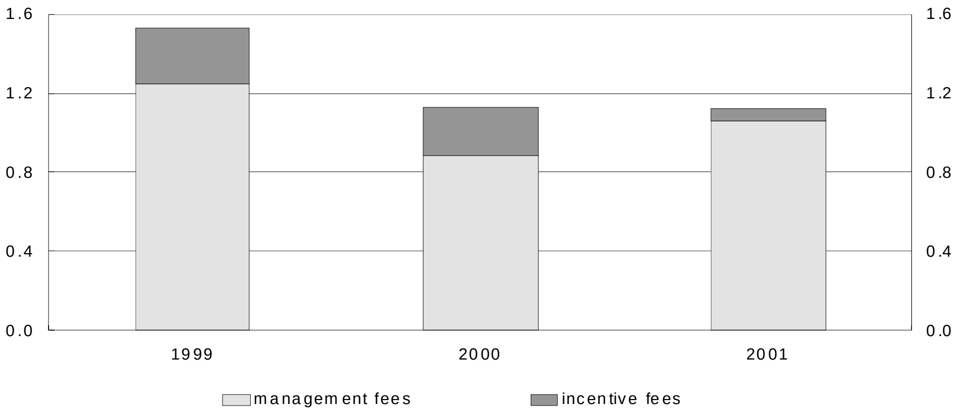
The average return of Italian investment funds was –8.7 per cent, compared with –3.6 per cent in 2000. The deterioration was due mainly to larger losses in the equity and balanced segments. Positive results were achieved almost exclusively by bond and money-market funds. Among equity funds, there was a sharp decline in the performance of those specializing in European and Italian shares.

Estimates for the period 1987-2000 indicate that the funds specializing in Italian shares that obtain a higher or lower yield than the average for the sector in a given year generally do not repeat the performance the following year. This conclusion does not change with the way the performance is measured or when yields are calculated gross rather than net of management fees. The low persistence in the rankings based on the returns of funds specializing in Italian shares is consistent with the efficient market hypothesis.

Total fees paid by Italian investment funds to management companies amounted to 1.1 per cent of funds' net assets, as in 2000 (Figure 34). A decline of around 0.2 percentage points in the ratio of incentive fees to net assets, to just under 0.1 per cent, was offset by an increase in fixed management fees from 0.9 to around 1 per cent. Fees paid to depositary banks and other operating expenses were equal to 0.2 per cent of net assets.

Figure 34

ITALIAN INVESTMENT FUNDS:
MANAGEMENT AND INCENTIVE FEES (1)
(percentages)



(1) Simple average of the values for the individual funds, equal to fees as a percentage of average annual net assets.

Management fees are higher for equity funds, whose management is more complex, and more moderate for bond funds. Total management and incentive fees on equity funds fell from 2.1 per cent of net assets in 1999 to 1.6 per cent in 2000 and 1.5 per cent in 2001; for incentive fees alone, the figures for the same three years were 0.5, 0.4 and 0.1 per cent. Total management fees on bond funds fell from 1 per cent of net assets in 1999 to 0.7 per cent in 2000 and then rose to 0.8 per cent in 2001; the incentive fee component was negligible.

According to Lipper data for various European countries, investment fund management fees remained fairly stable last year in the United Kingdom, France and Spain. In Germany they rose slightly both for equity funds (from 0.9 to 1 per cent) and for bond funds (from 0.6 to 0.7 per cent).

As a result of the fall in share prices and the large disposals made during the year, the proportion of Italian shares in Italian investment funds' portfolios declined from 10.6 per cent to a historic low of 7.1 per cent; that of foreign shares fell from 32.4 to 27.8 per cent, the level at the end of 1999. The proportion of Italian government securities rose by nearly 3 percentage points to 33.3 per cent, that of other euro-area government securities by 4 points to 14.1 per cent (Table 45). Euro-denominated assets' share of the total portfolio expanded to 71.6 per cent.

Table 45

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

(market values; end-of-period data in billions of euros)

	Securities denominated in euros			Securities denominated in non-euro-area currencies			Total portfolio		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Bonds and government securities									
Italian issuers									
Public sector	160.6	124.9	120.3	2.0	2.2	2.9	162.7	127.1	123.2
Banks	4.9	5.3	5.3	0.1	0.1	. .	4.9	5.3	5.3
Firms	2.1	2.3	4.6	. .	. .	. .	2.1	2.3	4.6
Foreign issuers									
Euro area	55.4	54.2	65.8	1.6	1.4	1.6	57.1	55.7	67.4
of which: government securities	*42.7*	*41.8*	*52.1*	*0.2*	*0.2*	*0.2*	*42.9*	*42.0*	*52.3*
Other	14.3	12.9	13.7	37.4	34.7	26.6	51.8	47.6	40.3
Shares									
Italian issuers	44.6	44.2	26.1	. .	. .	. .	44.6	44.3	26.1
Foreign issuers									
Euro area	36.1	42.7	28.8	0.6	0.6	1.5	36.6	43.2	30.3
Other	0.1	0.1	0.1	88.6	91.8	72.5	88.6	91.9	72.5
Total	**318.1**	**286.6**	**264.6**	**130.3**	**130.8**	**105.1**	**448.5**	**417.4**	**369.8**

(1) Data refer to harmonized investment funds and Sicavs.

Portfolio management services

The net flow of savings to portfolio management services decreased from €33.1 billion in 2000 to €27.4 billion last year (Table 46). Total assets under management rose by 4.6 per cent to €410.3 billion. During the year banks' market share fell from 54.4 to 44.8 per cent, to the benefit of asset management companies, whose share rose from 35.6 to 45.6 per cent, while securities firms' share held steady at around 10 per cent.

Table 46

ITALIAN PORTFOLIO MANAGEMENT SERVICES:
SECURITIES PORTFOLIO
(millions of euros and percentages)

	1999	2000	2001 (1)	1999	2000	2001 (1)
		Net flows			**End-of-period stocks** *(percentage composition)*	
Italian bonds and government securities	**–813**	**–3,561**	**19,880**	**36.3**	**31.9**	**39.5**
Short-term and floating-rate	4,743	–2,601	3,170	10.6	7.7	8.3
BOTs	4,364	–523	2,645	1.2	0.6	0.6
CCTs	971	–2,078	525	9.4	7.1	7.7
Medium and long-term	–5,556	–960	16,710	25.7	24.2	31.2
CTZs	–1,693	–392	–398	1.5	1.2	0.9
BTPs	–1,632	–625	16,274	17.9	16.4	21.2
Other government securities	–1,406	57	–126	2.0	0.6	0.7
Bonds	–559	. .	961	4.3	6.0	8.4
Italian shares	**77**	**–1,272**	**–3,191**	**5.8**	**5.8**	**5.3**
Italian investment fund units	**11,065**	**15,516**	**–6,802**	**41.5**	**44.7**	**35.6**
Foreign securities	**16,643**	**18,008**	**6,903**	**15.7**	**17.0**	**19.0**
Bonds and government securities	148	–1,518	1,730	6.1	5.1	4.5
Shares	3,231	1,729	–2,180	3.5	2.5	2.0
Investment fund units	16,265	17,797	7,353	6.1	9.4	12.5
Other financial assets	**130**	**1,909**	**1,857**	**0.7**	**0.6**	**0.6**
Total portfolio	**30,102**	**30,600**	**18,647**	**100.0**	**100.0**	**100.0**
Memorandum items:						
Net fund-raising	**53,699**	**33,087**	**27,435**	**-**	**-**	**-**
Banks	14,902	–7,303	–22,485	–	–	–
Securities firms	13,092	–110	3,039	–	–	–
Asset management companies	25,705	40,500	46,881	–	–	–
Portfolio	**-**	**-**	**-**	**357,347**	**381,644**	**398,502**
Total assets under management	**-**	**-**	**-**	**370,292**	**392,112**	**410,305**

(1) Provisional.

The sector’s financial result (the increase in net assets less new funds raised, which approximates the manager’s return on the assumption that all income is reinvested) remained negative at –2.5 per cent, compared with –0.8 per cent in 2000. The worst performance was turned in by the services run by securities firms (–6.7 per cent), the best by those operated by asset management companies (–0.4 per cent).

Less risky assets rose substantially as a proportion of the securities portfolio; Italian bonds and government securities accounted for 39.5 per cent of securities held at the end of 2001, compared with 31.9 per cent a year earlier. On the other hand, the proportion of investment fund units declined from 54.1 to 48.1 per cent.

In the services operated by banks and securities firms, the share of Italian investment fund units declined to the benefit of that of foreign investment funds, which rose from 10.4 to 16.8 per cent of the portfolio for the former and from 31.9 to 45.4 per cent for the latter. In the services operated by asset management companies, the corresponding decline was matched by an increase in the shares of Italian bonds and government securities.

Insurance companies and pension funds

Insurance companies. – The premium income of insurance companies accelerated slightly in 2001 and grew by 12.7 per cent overall, with an increase of 16.4 per cent in the life sector and 7.3 per cent in the casualty sector (Table 47).

Table 47

ITALIAN INSURANCE COMPANIES: MAIN ASSETS AND LIABILITIES (1)
(balance sheet values; end-of-period data in millions of euros)

	Assets						Liabilities		*Memorandum item:* premium income (5)
	Deposits and cash (2)	Securities (2)	Loans & annuities (3)	Real estate	Other net assets	Total	Technical reserves (4)	Net worth	
	Life sector								
1999	2,237	144,207	739	2,232	4,121	153,536	137,627	15,909	35,597
2000	4,535	174,008	953	2,174	4,069	185,739	166,959	18,780	39,784
2001 (6) . .	4,518	197,294	943	1,892	7,245	211,892	192,337	19,555	46,328
	Casualty sector								
1999	1,680	42,578	268	6,207	8,683	59,416	45,851	13,565	26,246
2000	1,825	47,907	313	6,161	9,034	65,240	49,524	15,716	27,875
2001 (6) . .	2,823	54,493	363	5,907	3,707	67,293	51,669	15,624	29,920
	Total								
1999	3,917	186,785	1,007	8,439	12,804	212,952	183,478	29,474	61,843
2000	6,360	221,915	1,266	8,335	13,103	250,979	216,483	34,496	67,659
2001 (6) . .	7,341	251,787	1,306	7,799	10,952	279,185	244,006	35,179	76,248

Sources: Based on Isvap and ANIA data.

(1) Excluding the agencies of companies based in other EU countries and including those of companies based in non-EU countries. – (2) In lire, euros and foreign currency; including assets entrusted to portfolio management services. – (3) Net of corresponding liabilities. – (4) Net of reinsurance. – (5) Italian direct insurance; includes premium income of offices in other EU countries. – (6) Partly estimated.

At the end of the year there were 202 insurance companies with their registered office in Italy: 84 in the life sector, 95 in the casualty sector, 19 operating in both sectors and 4 engaging exclusively in reinsurance. Reversing the trend of the last few years, there was an increase of two in the total number of companies.

Premium income from unit-linked and index-linked policies slowed down sharply to grow by 6.3 per cent, compared with 47.9 per cent in 2000, and declined from 55.8 to 51 per cent of the total for the life sector. By contrast, there was strong growth of 21.6 per cent in premium income from traditional life policies whose portfolios are invested predominantly in bonds and government securities.

Isvap, the Supervisory Authority for the Insurance Industry, recently introduced important changes in the regulations on index-linked and unit-linked policies. The new provisions are designed to enhance the transparency of the information disclosed to insurees, especially as regards management costs, indexation mechanisms and the risk-return profile of the investment. They also introduce prudential rules for the management of credit risk and the correct valuation of assets.

Table 48

ITALIAN INSURANCE COMPANIES: SECURITIES PORTFOLIO (1)
(balance sheet values; end-of-period data in millions of euros)

	Securities denominated in euros					Securities denominated in non-euro-area currencies		Investment fund units	Total
	Bonds and government securities			Shares (2)	Total		*of which: shares* (2)		
	Government securities	Private-sector bonds	Total						
				Life sector					
1999 . .	65,205	35,645	100,850	18,463	119,313	10,951	3,198	13,943	144,207
2000 . .	69,928	45,816	115,744	22,810	138,554	9,575	3,283	25,879	174,008
2001 (3)	84,263	55,220	139,483	18,649	158,132	9,232	3,184	29,930	197,294
				Casualty sector					
1999 . .	18,479	6,648	25,127	14,445	39,572	2,358	796	648	42,578
2000 . .	19,692	7,783	27,475	16,986	44,461	2,354	1,039	1,092	47,907
2001 (3)	22,385	8,720	31,105	19,507	50,612	2,565	1,414	1,316	54,493
				Total					
1999 . .	83,684	42,293	125,977	32,908	158,885	13,309	3,994	14,591	186,785
2000 . .	89,620	53,599	143,219	39,796	183,015	11,929	4,322	26,971	221,915
2001 (3)	106,648	63,940	170,588	38,156	208,744	11,797	4,598	31,246	251,787

Sources: Based on Isvap and ANIA data.

(1) Including assets entrusted to portfolio management services. The breakdown of the data on the portfolio of assets relating to pension funds and to unit-linked and index-linked products is partly estimated. Excluding the agencies of companies based in other EU countries and including those of companies based in non-EU countries. – (2) Includes participating interests. – (3) Partly estimated.

The proportion of insurance companies' portfolios invested in government securities, which had fallen by a total of 13 percentage points in 1999 and 2000, edged upwards from 40.4 to 42.4 per cent last year (Table 48). The proportion invested in shares fell from 19.9 to 17 per cent. In contrast with the previous years, the proportion invested in investment fund units remained virtually unchanged, at 12.4 per cent.

Pension funds and non-INPS social security funds. – At the end of 2001 the assets of pension funds and non-INPS social security funds amounted to almost €80 billion, 2.1 per cent more than a year earlier (Table 49). Non-INPS social security funds' assets increased by 1.1 per cent to €45.4 billion. Pension funds' total assets expanded more rapidly, increasing by 3.6 per cent to €34.1 billion. The assets of the funds established after the 1993 reform nearly doubled, rising to €3.2 billion and from 5.3 to 9.5 per cent of the total; the growth involved both occupational funds (whose assets rose from €1.2 billion to €2.3 billion) and open pension funds.

Table 49

ITALIAN PENSION FUNDS AND NON-INPS SOCIAL SECURITY FUNDS: MAIN ASSETS (1)

(balance sheet values; end-of-period data in millions of euros)

	2000				2001 (2)			
	Non-INPS social security funds	Pension funds (3)		Total	Non-INPS social security funds	Pension funds (3)		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	12,552	1,177	294	14,024	12,678	2,483	742	15,903
Bonds	6,911	15,228	925	23,064	7,100	14,467	1,579	23,146
of which:								
government securities (4)	*4,743*	*5,358*	. . . .	*10,101*	*4,837*	*4,329*	. . . .	*9,167*
Shares	850	5,894	358	7,102	817	5,261	614	6,693
Investment fund units	333	2,270	163	2,766	310	1,858	286	2,454
Loans and other financial assets .	3,385	2,061	2	5,448	3,192	2,265	7	5,464
Real estate	20,852	4,563	–	25,415	21,270	4,548	–	25,818
Total . . .	**44,884**	**31,193**	**1,742**	**77,820**	**45,366**	**30,882**	**3,228**	**79,477**

(1) The composition is partly estimated. – (2) Provisional. – (3) Includes the Bank of Italy and UIC employees' pension funds. – (4) For funds formed before the reform of 1993, the data relate only to intermediaries supervised by the Bank of Italy.

According to the Pension Fund Supervisory Authority, at the end of last year 27 occupational funds and 94 open funds had been authorized, respectively 23 and 85 more than a year earlier. The number of participants in occupational pension funds rose by 14.1 per cent to 1,010,000. Those in open funds expanded more rapidly, by 28.8 per cent, but their number was still relatively small at the end of the year (287,000); 55 per cent of these were members of funds set up by asset management companies (against 55.1 per cent in 2000), while 20.4 and 19.4 per cent respectively had signed up with funds established by insurance companies and banks (against 19.4 and 19.6 per cent in 2000).

According to the Italian Insurance Industry Association (ANIA), insurance technical reserves connected with individual pension plans, introduced by legislation that came into effect in January 2001, amounted to €156 million at the end of the year; this was equal to 4.8 per cent of the net assets of the pension funds established after the reform of 1993 and 16.5 per cent of those of open pension funds alone.

The proportion of liquid assets in the portfolio of pension funds formed before the 1993 reform doubled to 8 per cent, while bonds declined from 48.8 to 46.8 per cent, investment fund units from 7.3 to 6 per cent and shares from 18.9 to 17 per cent.

The difference between the portfolio preferences of the two types of pension fund established after the 1993 grew wider. Restricting the comparison to financial resources already invested at the end of 2001, deposits rose from 4.9 to 7 per cent of the total assets of occupational pension funds, while bonds fell from 73.6 to 73.1 per cent and shares from 20.2 to 18.5 per cent. Among open pension funds, the proportion of deposits in total financial assets fell by half to 6 per cent, while that of bonds rose from 28.9 to 31.1 per cent and that of shares from 28.4 to 31.9 per cent.

THE SECURITIES MARKETS

Equity prices were down over the year in Italy. The fall that occurred immediately after the terrorist attacks in the United States was made good in the last quarter. The Italian Stock Exchange general index lost more ground than the other main European indexes. The losses recorded by the stocks listed on the Nuovo Mercato were substantial, although not as large as those on the other European markets reserved to high-tech companies. There was a sharp contraction in the number of IPOs. At the end of March 2002 the capitalization of the Italian stock market had fallen to less than 50 per cent of GDP.

Medium and long-term interest rates showed small fluctuations around 5 per cent; the movements were larger in the second half of September but soon moderated. The yield differential between Italian and German ten-year government bonds narrowed. Net issues of Italian government securities more than doubled compared with 2000. The duration of the outstanding securities remained around three years and four months.

Italian banks and firms further increased their recourse to bond financing, partly owing to the rapid growth in securitizations. The proportion of securities placed abroad declined slightly. After widening significantly in the wake of the September terrorist attacks, the yield differential between private and public-sector bonds began to narrow again in the last few months of 2001.

Government securities

Supply and demand. – Net issues of Italian government securities more than doubled from €14.5 billion in 2000 to €31.4 billion in 2001 (Table 50). The increase offset the decline in receipts from disposals, which in 2000 had included the proceeds of the sale of UMTS licences.

Net issues of government securities also rose in the euro area as a whole for the first time since 1994. The 12 per cent increase mainly involved short-term securities, which showed positive net issues for the first time since 1996. Total gross issues grew by more than 8 per cent and rose from 14.7 to 15.3 per cent of GDP (Figure 35). The stock of outstanding government securities declined in relation to GDP for the third consecutive year, falling from 53.6 to 53 per cent.

Table 50

BONDS AND GOVERNMENT SECURITIES: ISSUES AND STOCKS IN ITALY (1)

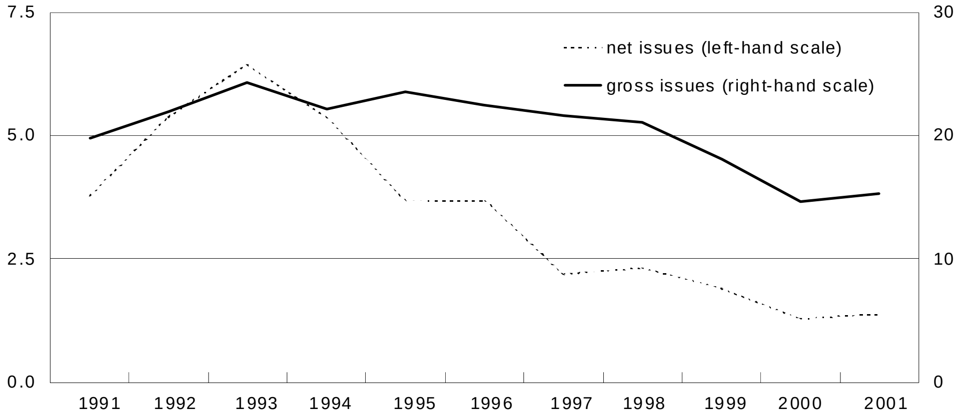
(millions of euros)

	Gross issues			Net issues			Stocks (2)		
	2000	2001	2002 Q1 (3)	2000	2001	2002 Q1 (3)	2000	2001	March 2002 (3)
Public sector	**347,836**	**397,447**	**140,424**	**14,487**	**31,423**	**41,202**	**1,119,540**	**1,151,881**	**1,194,559**
BOTs	164,650	188,677	63,471	−17,550	11,717	15,049	102,093	113,810	128,858
CTZs	33,317	35,528	13,991	−22,462	−16,476	5,978	62,415	48,577	55,561
CCTs (4)	19,870	28,330	12,511	−7,860	−9,812	4,519	235,988	225,961	230,380
BTPs	106,737	119,929	42,136	47,626	38,256	7,819	594,399	631,015	639,193
CTEs	. .	. .	. .	−1,744	−1,500	. .	1,500	. .	. .
Republic of Italy issues	19,145	22,529	8,069	13,804	9,049	7,624	70,597	79,780	87,616
Other	4,117	2,454	246	2,674	189	214	52,548	52,738	52,951
Banks	**86,915**	**95,777**	**22,833**	**30,585**	**31,834**	**10,003**	**302,481**	**334,672**	**344,766**
Firms	**22,972**	**56,052**	**8,059**	**18,112**	**52,037**	**7,855**	**82,280**	**132,411**	**136,593**
Total	**457,723**	**549,277**	**171,315**	**63,184**	**115,294**	**59,060**	**1,504,302**	**1,618,965**	**1,675,918**
Memorandum item:									
Redemptions of government securities (5)	**11,336**	**13,244**	**. .**	**-**	**-**	**-**	**-**	**-**	**-**
	Percentage composition (6)								
Public sector	**76.0**	**72.4**	**82.0**	**22.9**	**27.3**	**69.8**	**74.4**	**71.1**	**71.3**
BOTs	47.3	47.5	45.2	−121.1	37.3	36.5	9.1	9.9	10.8
CTZs	9.6	8.9	10.0	−155.0	−52.4	14.5	5.6	4.2	4.7
CCTs (4)	5.7	7.1	8.9	−54.3	−31.2	11.0	21.1	19.6	19.3
BTPs	30.7	30.2	30.0	328.7	121.7	19.0	53.1	54.8	53.5
CTEs	. .	. .	. .	−12.0	−4.8	. .	0.1	. .	. .
Republic of Italy issues	5.5	5.7	5.7	95.3	28.8	18.5	6.3	6.9	7.3
Other	1.2	0.6	0.2	18.5	0.6	0.5	4.7	4.7	4.4
Banks	**19.0**	**17.4**	**13.3**	**48.4**	**27.6**	**16.9**	**20.1**	**20.7**	**20.6**
Firms	**5.0**	**10.2**	**4.7**	**28.7**	**45.1**	**13.3**	**5.5**	**8.2**	**8.2**
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
As a percentage of GDP	*39.3*	*45.1*	*14.0*	*5.4*	*9.5*	*4.8*	*129.2*	*133.1*	*136.7*

(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 35

GOVERNMENT SECURITIES ISSUES IN THE EURO AREA (1)
(as a percentage of GDP)



Source: ECB.
(1) The data refer exclusively to the issues of government securities denominated in euros or euro-area currencies.

With the steepening of the yield curve, the Italian Ministry for the Economy increased the supply of short-term securities; net issues of BOTs amounted to €11.7 billion, against net redemptions of €17.6 billion in 2000. By contrast, net placements of BTPs declined from €47.6 billion to €38.3 billion and those of Republic of Italy issues from €13.8 billion to €9 billion. Net redemptions of CCTs rose from €7.9 billion to €9.8 billion. Notwithstanding the turnaround in net issues of BOTs, the duration of outstanding government securities lengthened slightly, from three years and one month to three years and three months; their average residual maturity increased from five years and eight months to five years and ten months (Figure 36).

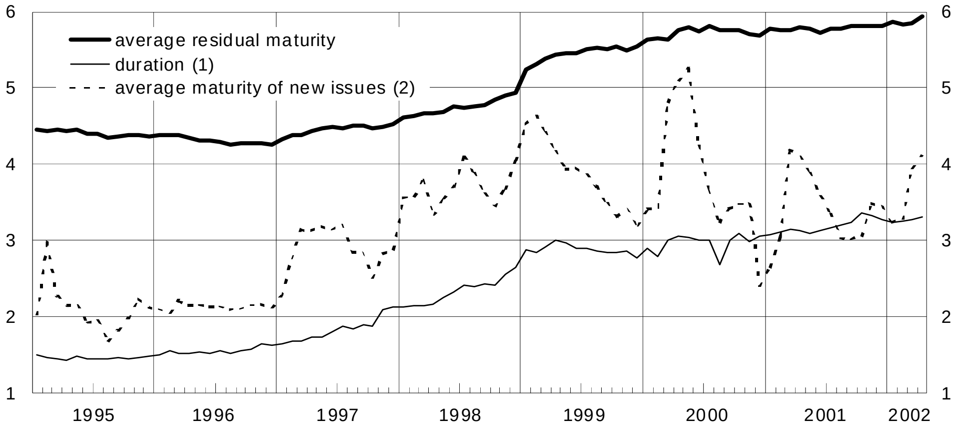
Banks, investment funds and households went back to making large net purchases of BOTs. Foreign investors made further net purchases of BTPs worth €26.2 billion, although this was half the amount of the previous year, while banks and investment funds made net disposals of €4.4 billion and €8.5 billion respectively. Foreign investors' overall purchases of government securities declined from €67.1 billion in 2000 to €16.7 billion. At the end of 2001 non-residents held 42.1 per cent of the stock of outstanding government securities.

Interest rates. – Medium and long-term rates in the euro area held relatively steady last year, fluctuating around 5 per cent at the ten-year maturity (Figure 37). After remaining stable in the first quarter of the year, they rose slightly in the next two months in response to expectations of a less severe cyclical slowdown than previously predicted. The terrorist attacks in the United States drove interest rates on government securities back down, in part as a consequence of the preference shown by investors for less risky financial assets. Rates touched bottom in November (with the yield on ten-year BTPs at 4.6 per cent). In the final part of the year the outcome of the military operations in Afghanistan and the improvement in the economic outlook in the United States and the euro area pushed rates up again; the yield on ten-year BTPs stood at 5.2 per cent at the end of the year. Medium and long-term rates continued to rise in the first four months of 2002 as the signs of cyclical recovery gained strength.

Figure 36

AVERAGE MATURITY OF OUTSTANDING ITALIAN GOVERNMENT SECURITIES AND OF NEW ISSUES (1)

(monthly data; years)



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

The volatility implied by the prices of options on ten-year Bund futures increased sharply in the second half of 2001 before receding in the first few months of this year (Figure 38).

Real medium and long-term rates, calculated from the prices of French ten-year government bonds indexed to consumer prices, moved in line with nominal rates, indicating stable inflation expectations. At the end of 2001 they stood at 3.4 per cent, the same level as a year earlier.

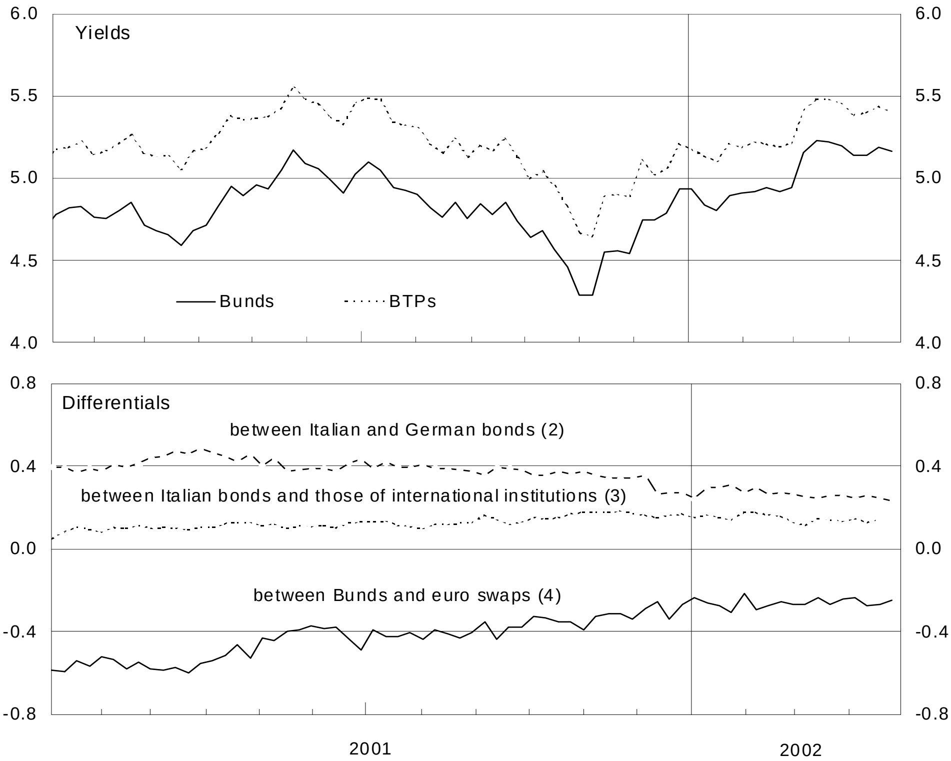
The euro-area yield curve showed a rising slope from May onwards and steepened rapidly in the second half of the year. The yield differential between ten-year BTPs and Bunds gradually narrowed to stand at 27 basis point at the end of December, compared with 40 basis points a year earlier. The decline in the differential with the Bund (which was also recorded in France, Spain and Belgium) was attributable to the deterioration in Germany’s public finances and to expectations of an increase in issues of German government securities in 2002.

The secondary market. – Average daily turnover on the screen-based market in government securities (MTS) rose by 16.5 per cent to €9.2 billion. Bid-asked spreads narrowed in all the segments. Repo trading on MTS increased further, with average daily turnover rising from €21.8 to €27.8 billion. On the other hand, average daily turnover in government securities on the MOT segment of the Italian Stock Exchange declined by 9 per cent to €460 million.

Figure 37

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

(weekly data; percentages and percentage points)



Source: BIS.

(1) Yields on benchmark ten-year bonds. – (2) Differential between the ten-year benchmark BTP and the corresponding Bund. – (3) Simple average of yield differentials between Republic of Italy issues and IBRD bonds with similar characteristics. – (4) Differential between ten-year Bunds and ten-year euro swaps.

In August MTS launched BondVision, a circuit reserved to institutional investors, who can contact different market makers over the Internet and trade euro-area government securities with them through an auction procedure.

Average daily turnover in euro-area government securities on EuroMTS in London grew further to €3.8 billion, 20 per cent more than in 2000. The shares of turnover in Italian and German securities declined from 48 to 42 and from 16 to 12 per cent respectively, primarily to the benefit of French and

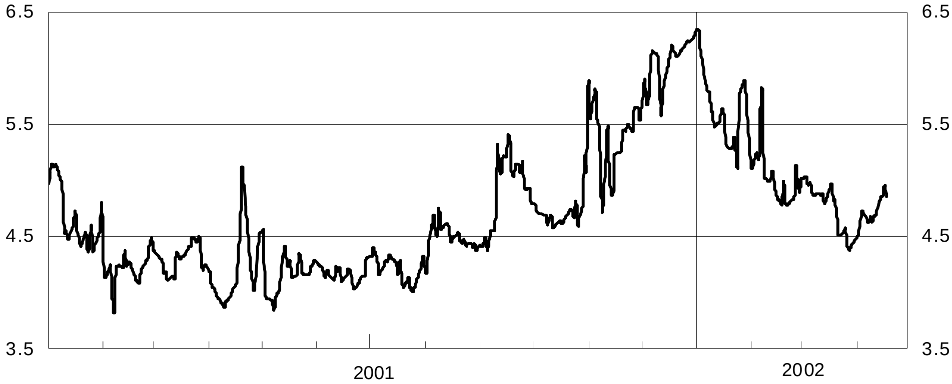
Spanish securities, whose shares rose from 16 to 17 per cent and from 7 to 12 per cent.

In October EuroMTS and Coredeal, an electronic exchange, signed an agreement for trading international debt securities on a common trading platform. The agreement became operational in February 2002.

Figure 38

EXPECTED VOLATILITY OF TEN-YEAR BUNDS (1)

(daily data; percentages on an annual basis)



Source: Bloomberg.

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

Markets in interest-rate derivatives. – Average daily turnover in futures on ten-year Bunds on the Eurex market in Frankfurt rose by 23 per cent to €76.5 billion in 2001. The volume of trading in ten-year French government bonds futures listed on the Euronext market in Paris fell sharply in the second half of the year.

Bank and corporate bonds

Net issues of medium and long-term bonds by Italian banks and firms amounted to €106.7 billion, 79.5 per cent more than in 2000 (Table 51). Net issues by banks rose from €36.1 to €46.2 billion; those by non-bank financial corporations and non-financial firms increased from €15.8 billion to €33 billion and from €7.5 billion to €27.6 billion respectively. Net placements by Italian issuers on the international market increased from €50.4 billion to €74.4 billion, continuing the trend of recent years, but their share in total net issues of Italian private-sector bonds declined from 85 to 70 per cent.

Between July 1999 and the end of 2001, following the enactment of the new legislation on claims securitization, gross issues of bonds by Italian companies in respect of these transactions expanded rapidly. In 2001 they rose nearly threefold to a total of €35 billion. The majority of the placements were made by banks and included a larger share of securities backed by performing loans. The transactions carried out by public-sector entities were also substantial, accounting for 26 per cent of the total value of securitizations.

Table 51

MEDIUM AND LONG-TERM BONDS OF BANKS AND FIRMS IN ITALY AND THE EURO AREA (1)

(at face value; millions of euros)

	Net issues			Stocks			As a % of GDP
	1999	2000	2001	1999	2000	2001	2001
				Italy			
Banks	21,939	36,071	46,188	289,489	324,427	370,890	30
Other financial companies	8,973	15,848	32,957	11,470	28,083	61,121	5
Non-financial companies (2)	23,998	7,541	27,565	55,311	63,121	90,822	7
Total	**54,910**	**59,460**	**106,710**	**356,270**	**415,631**	**522,833**	**42**
of which: international market (3)	*46,845*	*50,386*	*74,381*	*89,903*	*138,276*	*213,496*	*18*
Memorandum item: public sector	37,955	37,212	22,635	977,358	1,014,558	1,037,310	85
				Euro area			
Banks	227,296	241,097	225,038	2,431,935	2,691,217	2,924,002	43
Other financial companies	91,313	98,913	111,527	308,412	408,406	525,976	8
Non-financial companies (2)	42,295	92,261	80,911	287,849	381,861	465,429	7
Total	**360,904**	**432,271**	**417,476**	**3,028,196**	**3,481,484**	**3,915,407**	**58**
of which: international market (3)	*391,328*	*472,565*	*489,259*	*1,365,636*	*1,848,458*	*2,357,831*	*35*
Memorandum item: public sector	190,497	114,810	187,954	3,174,150	3,288,960	3,476,914	51

Sources: For the euro area, based on ECB and BIS 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 Railways. – (3) The international market consists of bond issues sold partly to residents of countries other than that of the issuer.

In the euro area as a whole, in contrast with Italy, net bond issues by banks and firms decreased by 3.4 per cent (to €417.5 billion), so that Italy’s share of the total rose from 13.8 to 25.6 per cent. The decline involved placements by both banks and non-financial firms, which diminished by 6.7

and 12.3 per cent respectively, whereas those by financial corporations increased by 12.8 per cent, reflecting, in particular, the surge in Italian transactions. As in the two previous years, the share of outstanding securities placed in domestic markets fell (from 47 to 40 per cent), while that of international bonds continued to rise, although more slowly than before.

Italian firms' recourse to the bond market is largely explained by certain characteristics of size and financial structure. Most of the companies that issued listed bonds in the last two decades are also listed on the stock exchange, are large and have been in business for many years. The median firm was 35 years old and had 605 employees and turnover of €153 million. By contrast, the median issuer of unlisted bonds was 18 years old and had 72 employees and turnover of €11 million. The firms belonging to the first group were also less heavily in debt. Their median leverage was 48.9 per cent, compared with 56.8 per cent for those of the second group. The ratio of net interest expense to gross operating profit was 15.4 per cent, against 28.5 per cent.

In recent years the growth of the international market has facilitated recourse to bond issuance by numerous Italian non-financial firms. Between the end of 1998 and the end of 2001 the share of international bonds in Italian firms' total issues rose from 37 to 88 per cent. In these three years 36 Italian non-financial firms made international bond issues, 25 of them for the first time. Compared with the companies that had already issued Eurobonds, the new issuers had lower average turnover and placed a smaller volume of securities. Their ranks also included a lower proportion of listed companies, independently rated companies and firms belonging to traditional sectors. The Euromarket debut of smaller, less-well-known companies was assisted by the presence of Italian banks in the underwriting syndicates; just under half of the securities of the new issuers were placed by Italian intermediaries, against one fifth in the case of the securities of other firms.

In the first eight months of 2001 the yield differential between Eurobonds of non-financial firms and government securities remained at the high levels reached in the final part of 2000 (Figure 39). After peaking at 1.6 percentage points in the days following 11 September, the differential narrowed rapidly to just over 1 percentage point by the end of the year. In the first four months of 2002 it widened again by around 0.2 points, owing mainly to the spread of worries about the reliability of company's accounts after the failure of Enron.

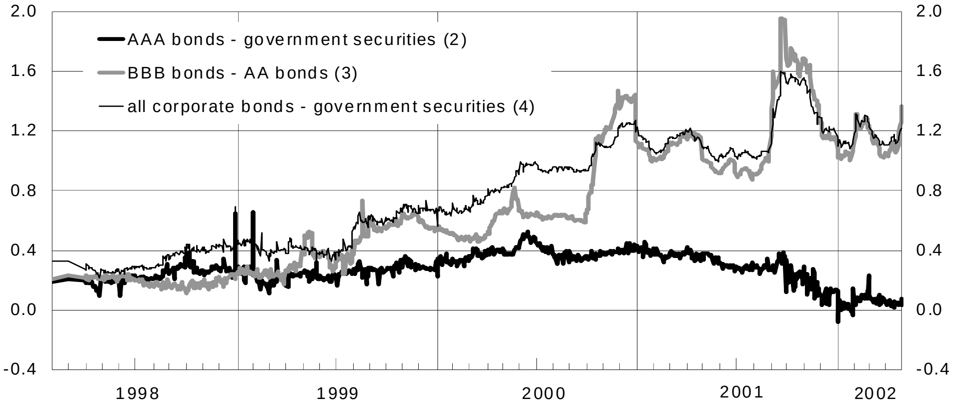
The equity market

Share prices and trading. – The downturn in share prices that began in 2000 continued in the first three quarters of 2001, with a brief interruption between March and May (Figure 40). The drop in stock market indexes following the terrorist attacks in September (between 11 and 21 September share prices fell by 21.5 per cent in Italy and 17.3 per cent in the euro area) was rapidly recouped, so that by the end of October in the euro area, and a week later in the United States, they had regained their pre-11 September level. Over the year as a whole, stock exchange indexes fell by an average of 19.7 per cent in the euro area (6.4 per cent in Spain, 18.2 per cent in Germany, 22 per cent in France and 25.1 per cent in Italy), by 13 per cent in

Figure 39

CORPORATE BOND YIELD DIFFERENTIALS (1)

(daily data; percentage points)



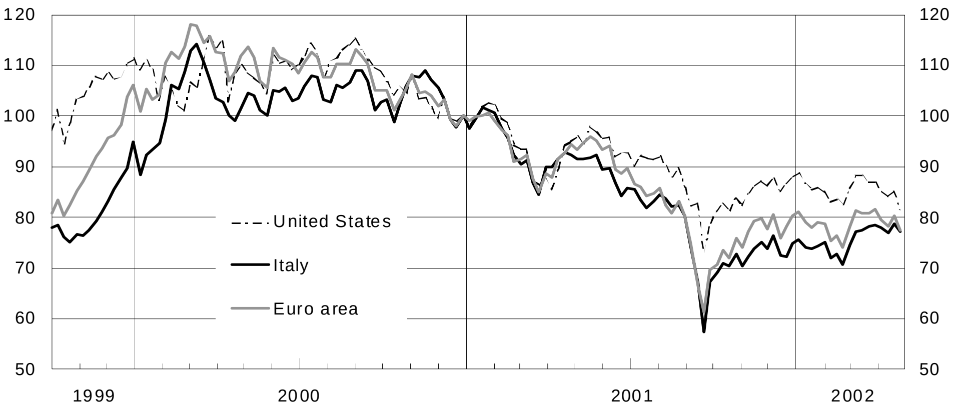
Source: Bank of Italy calculations based on Merrill Lynch indices.

(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by non-financial corporations resident in countries whose long-term foreign currency debt bears a rating not lower than BBB3 or BBB–. – (2) Yield differential between AAA-rated bonds and government securities (French and German).– (3) Yield differential between BBB-rated and AA-rated bonds. – (4) Yield differential between all bonds issued by the non-financial sector and government securities (French and German).

Figure 40

SHARE PRICES (1)

(end-of-week data; indices, 29 December 2000=100)



Source: Bloomberg.

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

the United States and by 15.4 per cent in the United Kingdom. Huge losses were recorded in the markets reserved to high-tech companies: 45.6 per cent in Italy, 60.2 per cent in Germany and 62.7 per cent in France, compared with 32.7 per cent in the United States and 42.6 per cent in the United Kingdom.

Over 2001 as a whole, the average volatility of share indexes implied by options prices and that actually recorded did not diverge substantially from the values for the previous year.

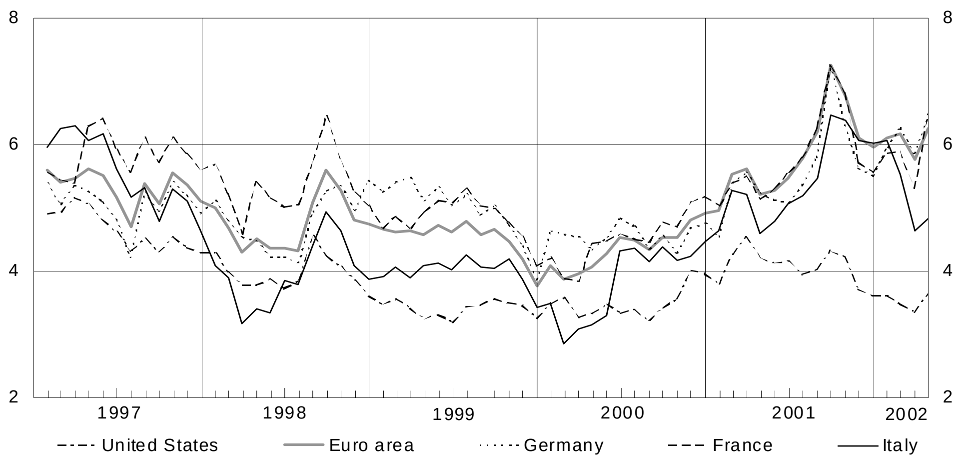
In 2001 the ratio of current earnings to stock market capitalization in the euro area rose appreciably to approach the levels prevailing at the start of 1997 (Figure 41). The increase for the Italian market was more pronounced. The rise in the ratio reflects the combination of a downward revision of forecasts for corporate earnings, which began in the autumn of 2000, and an increase in the equity risk premium, as a consequence of the cyclical slowdown.

The larger drop suffered by the Italian Stock Exchange in 2001 compared with the other major exchanges of the euro area was attributable mainly to bank shares, which fell by 29.9 per cent, against a corresponding decline of 22.5 per cent in Germany and a rise of 6.4 per cent in France. The sizable reduction in Italian banks' stock market value came after their large appreciation in the preceding years. It brought Italian banks' earnings/price ratio back into line with those of the banking sector of the other major countries of the area. The Italian Stock Exchange also underperformed the other European exchanges in the media and automobile sectors.

Figure 41

CURRENT EARNINGS/PRICE RATIOS IN SELECTED INDUSTRIAL COUNTRIES

(end-of-month data; percentages)



Source: Thomson Financial.

Turnover fell from €868 billion in 2000 to €658 billion in 2001. The turnover ratio (i.e. turnover/market capitalization) declined from 110 to 89 per cent.

Supply and demand. – The fall in share prices in 2001 discouraged companies from seeking listing on the Italian Stock Exchange, especially those with high growth potential. During the year there were 13 new listings on the main market and only 4 on the Nuovo Mercato, compared with 14 and 31 respectively in 2000. The initial capitalization of the newly-listed companies amounted to €10.6 billion, compared with €30.2 billion in 2000.

According to data collected by Thomson Financial, in the euro area the number of new listings fell from 419 in 2000 to 132 in 2001 and the amount of capital raised from €70 billion to €26 billion. In the United States and the United Kingdom, the amount raised with IPOs decreased from €54 billion to €17 billion and from €33 billion to €18 billion respectively. The slowdown in IPOs was especially sharp for high-tech companies, whose share of the resources raised decreased from 65 to 6 per cent in the United States and from 36 to 34 per cent in the euro area; in the United Kingdom, by contrast, it rose from 30 to 44 per cent.

The Italian Stock Exchange's capitalization at the end of 2001 was equal to €587.5 billion, 27.7 per cent less than a year earlier (Table 52). In March 2002 it had risen to €619.6 billion. Market capitalization fell from 69.7 per cent of GDP in 2000 to 48.3 per cent in 2001.

In 2001 Consob approved regulatory changes regarding the organization of trading on the Italian Stock Exchange. The principal change consists in the introduction of a closing auction, to give the market a representative price for transactions carried out at the end of the trading day. A second change regards the criteria for establishing the price parameters to be used in the automatic mechanisms for suspending trading in a stock.

The STAR segment of the Italian Stock Exchange, targeted to low and mid-cap companies that meet more stringent liquidity and transparency requirements, went live in April 2001.

At the end of January 2002 the discovery of irregularities in the preparation of annual accounts in connection with the failure of Enron generated fears that similar stratagems had been used by a substantial number of companies. This episode spurred the US Securities and Exchange Commission to propose measures to counter these risks by tightening accounting standards and introducing stricter rules on insider trading and transactions with subsidiaries.

In March 2002 a lawsuit brought by some US investors against a major international bank underscored the risks of potential conflicts of interest in the activity of financial analysts who make buy or sell recommendations on shares. Various investment banks consequently revised the criteria governing investment consulting services provided to customers. In Italy, at the start of 2001 Consob had already ordered that where an analyst's interest in a company was such as to compromise his independent judgement, the nature of that interest as well as its existence had to be disclosed.

Table 52

MAIN INDICATORS OF THE ITALIAN STOCK EXCHANGE (1)

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

	1996	1997	1998	1999	2000	2001
Number of listed Italian companies	213	209	219	247	276	276
of which: on the Nuovo Mercato	–	–	–	6	39	44
Total market capitalization (2)	386,156	600,042	931,472	1,396,299 (721,128)	1,573,109 (812,443)	1,137,495 (587,467)
of which: on the Nuovo Mercato	–	–	–	*13,517* *(6,981)*	*42,919* *(22,166)*	*24,182* *(12,489)*
as a percentage of GDP	*20.3*	*30.2*	*44.8*	*65.1*	*69.7*	*48.3*
percentage breakdown:						
industry	*34*	*31*	*24*	*20*	*21*	*23*
insurance	*15*	*15*	*16*	*11*	*14*	*13*
banking	*15*	*19*	*27*	*23*	*25*	*23*
finance	*4*	*4*	*3*	*3*	*3*	*3*
services	*32*	*31*	*30*	*43*	*37*	*39*
Total	**100**	**100**	**100**	**100**	**100**	**100**
Gross share issues (3)	5,506	7,933	13,689	43,649	17,714 (9,148)	11,949 (6,171)
of which: on the Nuovo Mercato	–	–	–	*411* *(212)*	*8,523* *(4,402)*	*430* *(222)*
Market capitalization of newly listed companies (4)	14,886	12,731	42,060	360,927 (186,403)	58,380 (30,151)	20,484 (10,579)
of which: foreign companies	–	–	*17,268*	*232,660* *(120,159)*	. . . .	. . . .
of which: on the Nuovo Mercato	–	–	–	*2,604* *(1,345)*	*42,807* *(22,108)*	*887* *(458)*
Dividends distributed	9,786	12,112	13,061	19,254 (9,944)	31,005 (16,013)	30,549 (15,777)
Earnings/price ratio (5)	6.9	4.6	3.9	3.4	4.5	6.0
Dividend/price ratio (5)	2.1	1.7	1.6	1.5	2.1	2.8
Turnover:						
stock exchange	*157,088*	*339,564*	*822,630*	*980,758* *(506,519)*	*1,680,638* *(867,977)*	*1,273,374* *(657,643)*
futures on MIB30 index	*400,926*	*925,005*	*1,893,190*	*1,753,953* *(905,841)*	*1,906,049* *(984,392)*	*1,605,973* *(829,416)*
options on MIB30 index	*71,359*	*242,225*	*517,462*	*511,526* *(264,181)*	*625,736* *(323,166)*	*477,397* *(246,555)*
Annual change in prices (6)	13.1	58.2	41.0	22.3	5.4	–25.1
Turnover ratio (7)	44	69	107	84	110	89

(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. End-of-period data. Percentages. Current earnings and dividends. – (6) Percentage change in the MIB index. – (7) Italian companies. Percentage ratio of turnover to average market capitalization.

The total value of listed Italian shares held directly by households fell over the year by nearly one half, from €161 billion to €84 billion. The proportion of shares in households' portfolio of financial assets declined from 28 to 19 per cent.

According to sample surveys conducted by the Italian Stock Exchange, nearly two third of the investors who traded or held listed Italian shares or equity derivatives in 1999 and 2000 had bought the securities when the company was privatized. For half of those interviewed, the reason for holding shares was to obtain a higher return; for a quarter it was portfolio diversification. Banks were the principal channel for purchasing shares (60 per cent), followed by financial salesmen (around 20 per cent) and the telephone and Internet services of banks and securities firms. In the first two cases, nearly all the purchases were made by customers in person.

The market in equity-based derivatives. – The average number of contracts traded daily on the Italian Derivatives Market rose by 25.8 per cent, while average daily turnover fell by 15 per cent. The volume of trading increased for futures contracts on the MIB30 index and for individual stock options but decreased for options on the MIB30 index. Turnover was down for all types of contract.

SUPERVISION OF BANKS AND OTHER INTERMEDIARIES

This section of the Report fulfils the Bank of Italy's obligation to publish an annual report on its supervision of banks and other intermediaries pursuant to Article 4 of Legislative Decree 385 of 1 September 1993; in particular, it sets out the criteria and methods followed in the Bank's supervisory activities and describes the actions taken in 2001.

The Bank of Italy was intensely involved in the work of supervisory authorities in the fora for international cooperation. The main issues under discussion concerned the capital adequacy of intermediaries, the protection of financial stability and action against money laundering and the financing of terrorism.

The Basel Committee concentrated on examining the comments received from operators and supervisory authorities on the proposal published in January 2001 for amendment of the Capital Accord; it carried out further studies in order to obtain a clearer picture of the effects the regulations would have on banks' capital and reserves. In November it set out new methods for calculating capital requirements in relation to credit risk based on the use of banks' internal ratings. The changes are aimed at attenuating the procyclical effects of the new rules and establishing an appropriate means of treating loans to small and medium-sized enterprises. The new regulations should be completed in the course of next year.

In view of the slowdown in economic activity and the consequences of the terrorist attacks, the Financial Stability Forum intensified its analysis of the vulnerabilities of the international financial system and took stock of the progress financial systems have made in the adoption of standards of prudential supervision and market regulation. Further studies related to the conditions for the creation and operation of effective deposit insurance systems, methods for the early identification of bank problems and to the instruments and strategies of crisis resolution. The Banking Supervision Committee of the ECB strengthened its macroprudential analysis of financial stability, examining in particular loan loss provisioning practices over the course of the economic cycle.

The United Nations and the European Union intensified their efforts to prevent and suppress the financing of terrorism; the Financial Action Task

Force (FATF) issued eight special recommendations aimed at denying terrorists access to the international financial system. In Italy, in order to give immediate support to the initiatives agreed at international level, the measures and operating procedures developed to prevent money laundering were extended to terrorism, and cooperation between the administrative and investigative authorities was strengthened.

Within the European Union, the regulations on banking and financial accounts were revised, introducing the principle of "fair value" for the valuation of certain financial instruments. The rules on asset management companies and collective investment undertakings were amended, one of the objectives being to widen the range of assets in which harmonized investment funds may invest.

As regards national legislation and regulations, measures were introduced governing the ownership of banks, expansion of the operations of intermediaries and prudential rules on financial innovation.

Amendments to the law on foundations altered the provisions on shareholdings in banks by widening the concept of control to cover situations in which control is exercised jointly by several foundations. The deadline for the disposal of shareholdings in the companies to which the foundations had transferred their banking business was postponed until June 2006 on condition that the shareholdings were entrusted to an asset management company.

The regulations on capital requirements for loan securitization operations in which banks are involved either as sellers or as investors were amended; new supervisory returns were introduced for special purpose entities for securitization operations. In the asset management field, provision was made for the formation of companies with reduced initial capital in order to permit the creation of closed-end venture capital funds in the scientific research sector; the rules for permitting non-harmonized foreign investment funds to operate in Italy were simplified.

Lastly, regulations were introduced for electronic money institutions, which are subject to supervisory regulations similar to those for banks.

The reorganization of the Italian financial system continued last year; the number of banks declined by 11 to 830 and that of asset management companies increased by 30 to 129. There are now 263 financial institutions listed in the special register pursuant to Article 107 of the 1993 Banking Law, an increase of 52, mainly as a result of the registration of special purpose entities for securitization operations.

The market share of the five largest banking groups remained unchanged at 54 per cent of total assets, while that of the ten largest rose by one point to 68 per cent. The major groups continued to expand in Eastern Europe.

Banks and groups in which foundations, local authorities and the state hold the majority of the share capital account for 10 per cent of the banking system's total assets, two points less than in 2000.

The major banking groups intensified the overhaul of their organizational structures; they are moving towards a configuration with an increasingly clear separation between governance bodies, situated in the parent company, and operating units. The separation between units that develop products, which are also offered outside the group, and those distributing them, which are specialized for particular customer segments, is also becoming more pronounced.

Banks are making growing use of distribution channels that are alternatives to branches, especially for the supply of asset management, insurance and pension products. The number of financial advisers used by banks rose by more than 40 per cent. Asset management companies widened and diversified their range of products; funds of every type provided for under the legislation are now in operation.

The slowdown in economic activity contributed to the slower growth in lending, and the downturn in the financial markets reduced household and corporate demand for services. The financial difficulties of certain countries and large foreign firms necessitated substantial allocations to loan loss reserves.

Banks' exposure towards telecommunications companies, which had increased greatly in 2000, decreased by more than a third; their exposure towards firms operating in the sectors most vulnerable to the possible repercussions of last September's terrorist attacks is small by international standards. Positions in relation to customers who became insolvent in 2001 amounted to 0.9 per cent of lending, the lowest percentage of recent years. Bad debts diminished by 12.7 per cent, partly owing to securitization operations carried out during the year; net of write-offs, bad debts were equal to 17.6 per cent of consolidated supervisory capital and reserves, compared with 22.5 per cent in 2000.

The banks' consolidated profits declined from 12.9 to 9.1 per cent of their capital and reserves; the contraction was larger for the major groups, whose ROE fell by 4.6 points to 12.5 per cent. The capital adequacy of the banking system improved, partly on account of capital increases and issues of subordinated bonds. The solvency ratio on a consolidated basis rose from 10.2 to 10.6 per cent; for the major banking groups it increased by almost one point to 9.5 per cent.

The downturn in the financial markets led to an appreciable reduction in fee income for asset management and securities intermediation companies. The ROE of financial companies decreased from 8 to 6 per cent.

Supervisory analyses indicate an improvement in banks' financial strength: the proportion of total borrowed funds attributable to banks whose situation showed anomalies declined from 19 to 17 per cent. The progress that is being made is confirmed by the findings of on-site inspections by the supervisory authority. Between 1998 and 2001 the banks for which unfavourable assessments were made had 6 per cent of total assets, whereas in the preceding four years the corresponding figure had been 11 per cent.

In the asset management and securities intermediation fields the number of firms displaying anomalies increased owing to the fall in the volume of business and, in some cases, to an inadequate adjustment of organizational and control arrangements to cope with the growth of recent years; their market share is small, however.

The supervisory authority paid particular attention to the strengthening of intermediaries' capital base, the adequacy of internal control systems and the distribution of financial instruments and asset management products.

The programme launched by the supervisory authority at the beginning of last year to strengthen the capital base of some banking groups was subsequently extended to all large groups, with the objective of achieving ratios of 6 per cent for core supervisory capital and 10 per cent for total capital and reserves. In connection with the financial restructuring of some large industrial groups, the banks' attention was drawn to loan concentration by branch of economic activity and by group of connected clients; the most exposed banks were asked to adopt appropriate prudential policies.

The supervisory authority assessed the effects of the growing use of securitization operations and credit derivatives on the various risk profiles. Intermediaries were urged to acquire adequate procedures and experienced staff to monitor the risks underlying such operations.

Analyses of the quality of internal control systems focused in particular on the effectiveness of the auditing function, not least in view of the growing tendency to entrust it to other group member companies or outside agencies. The actions taken were aimed at promoting the strengthening of organizational structures and control procedures and the integration of information technology systems. Since the regulations on internal controls were issued, considerable progress has been made in improving the effectiveness of controls and expanding the range of risk measurement instruments.

In the management of portfolios on an individual basis, some intermediaries failed to comply with the regulations or paid insufficient attention to ensuring that contractual relations with investors were in order. The attempt to meet investors' expectations as to returns during the period of rising markets led some intermediaries to guarantee minimum yields without adequately hedging the risks involved. The supervisory authority graduated its action in accordance with the scale of the anomalies uncovered.

THE REGULATORY FRAMEWORK

The revision of capital adequacy rules

In 2001 the work of the Basel Committee focused on completing the main parts of the new Capital Accord. The Committee took into account the comments it received on the second consultative document issued at the start of the year and the results of a quantitative study involving a substantial number of banks of the Group of Ten countries.

In November 2001 the Committee formulated new methods for calculating the requirements for credit risk using internal rating systems. In particular, the risk weights were reduced and the correlation between capital endowment and credit risk was attenuated. The revision curbs the pro-cyclical effects of the new rules and indirectly allows more appropriate treatment of loans to small and medium-sized enterprises. In addition, the Committee is assessing the possibility of explicitly recognizing small company size as a factor attenuating the capital requirements.

The need to take the results of the consultation into account and to adjust important aspects of the proposed rules resulted in a postponement of the deadline for publishing the new Accord, originally set for the end of 2001, and of the date of its entry into force. The new Accord should be finalized in 2003.

International cooperation and Community legislation

Measures to counter the financing of international terrorism. – Important measures were adopted in the wake of 11 September to prevent and repress the financing of terrorism.

The UN Security Council called on all States to freeze the capital, financial assets and economic resources of persons involved in committing or abetting acts of terrorism, and to make it unlawful for such capital, financial assets and economic resources to be made available to them. To implement the freeze within the European Union, the EU Council of Ministers issued numerous regulations updating the list of the individuals and organizations to which the measure applies.

In addition to actions to implement the freeze, the Bank of Italy and the Italian Foreign Exchange Office asked intermediaries to check for the existence of business relations and transactions with persons, entities and companies connected with the terrorist events, which they were to report to the national anti-money-laundering authorities. In order to make this task easier for intermediaries, lists of persons suspected of being involved in international terrorism were circulated at international level by administrative and investigative authorities and by the supervisory authorities, *inter alia* by means of the Basel Committee.

International cooperation. – The Financial Stability Forum intensified its analysis of the factors of vulnerability of the financial system in view of the economic slowdown and the effects of the terrorist attacks. In a report published in September the Forum analyzed the progress made in strengthening the incentives to apply the international standards for prudential supervision, market regulation and action against money-laundering and terrorism. The Forum called on offshore centres to take further steps to comply with the standards, participate in the evaluation programmes prepared by the International Monetary Fund and make their results public.

In 2001 the Joint Forum of banking, securities and insurance supervisors began to explore possible forms of coordination between the three sectors' prudential rules applicable to financial conglomerates.

Community legislation. – Directive 2001/97/EC amending the Anti-Money-Laundering Directive (91/308/EEC) was approved on 4 December 2001. The amended directive expands the list of money-laundering predicate offences, introduces measures to ensure customer identification in distance transactions, and extends the identification and data registration requirements to persons who do not engage in financial activity but are nonetheless deemed to be exposed to involvement in money-laundering (for example, auditors, notaries and other members of the legal professions).

Significant progress was made in implementing the plan to introduce the International Accounting Standards in Europe. In particular, Directive 2001/65/EC of 27 September 2001 amending Community legislation on individual and consolidated accounts made IAS 39 (Financial Instruments: Recognition and Measurement) applicable in the EU starting with annual accounts for 2004.

Two directives amending the UCITS Directive (85/611/EEC) were approved in December 2001. The so-called Manager Directive

(2001/107/EC of 21 January 2002) provides a complete set of rules governing management companies and regulates the simplified prospectus, while the so-called Product Directive (2001/108/EC of 21 January 2002) widens the eligible investments of funds that may be freely marketed within the Union. National primary and secondary legislation transposing the two directives must be approved by 13 August 2003 and enter into force by 13 February 2004.

On 5 February 2002 the European Parliament gave a favourable opinion on the legislative procedure proposed in the Lamfalussy Report for accelerating the integration of the securities markets in Europe.

Italian legislation

Banking foundations. – Article 11 of Law 448 of 28 December 2001 (the Finance Law for 2002) introduced several amendments to Legislative Decree 153 of 17 May 1999 concerning banking foundations. The changes regard the rules on foundations' equity interests in banks. The ban on controlling interests is extended from individual control to cases of joint control by two or more foundations. Foundations are allowed to postpone the disposal of controlling interests until June 2006, provided the shareholdings are entrusted to an asset management company that manages them in its own name. The implementing regulations are to be issued by the Ministry for the Economy and Finance.

Electronic money institutions. – Article 55 of Law 39 of 1 March 2002 (the 2001 EU Legislation Implementing Law) transposed Directives 2000/28/EC and 2000/46/EC on electronic money institutions into Italian legislation as Title V-*bis* amending the 1993 Banking Law. The new measures extend the scope of many provisions of the Banking Law. Specific amendments to the anti-money-laundering rules extend their application to the new category of intermediary.

Electronic money institutions are non-banks whose sole activity is the issue of electronic money, comprising related and instrumental activities and payment services as well. They may not grant any form of credit.

For the configuration of supervisory controls, the new legislation refers to the provisions of the 1993 Banking Law regarding regulatory powers, reporting requirements and inspections, as well as to those concerning crisis procedures (except those on depositor guarantee schemes). It amends the Banking Law's provisions on sanctions, reserved banking activities and the use of banking names, extending their application to electronic money institutions.

Pursuant to Article 146 of the 1993 Banking Law, the Bank of Italy is to take measures to assist the development of electronic money, to ensure its reliability and to promote the regular operation of the e-money payment circuit.

Real estate investment funds. – Law 410 of 23 November 2001 introduced measures to foster the development of funds that invest exclusively or prevalently in real estate, real estate property rights and shareholdings in real estate companies. It establishes a favourable tax regime for these funds.

The new law reduces the rigidity of the typical investment in closed-end funds by allowing the latter to correlate successive issues of units and partial redemptions. It permits shareholders of the management company and of other companies belonging to the same group to sell or contribute land and buildings to the fund and to buy property from the fund; the implementing regulations are to provide safeguards to reduce potential conflicts of interest. The law also raises the limits for borrowing by real estate investment funds.

Secondary legislation

Cross-border credit transfers. – With Decree 456 of 13 December 2001, the Minister for the Economy and Finance, acting on a proposal from the Bank of Italy, established the guidelines for complaints and redress procedures and the composition of the bodies appointed to settle disputes concerning cross-border credit transfers of up to €50,000.

The ministerial decree implements Articles 8 and 9 of Legislative Decree 253 of 28 July 2000, which in transposing Directive 97/5/EC required institutions executing cross-border credit transfers to prepare procedures for settling disputes with customers. These procedures may be designed by the institutions' trade associations. The decree establishes the criteria for the composition of the decision-making bodies, to ensure their impartiality and representativeness, and for the related procedures, which must be expeditious, economical and ensure effective protection.

Securitizations. – Measures were taken in December 2001 concerning the capital charges for asset securitizations in which a bank is the transferor or investor. The provision modified the regulatory framework regarding investment in securities issued by a special purpose vehicle, the different forms of credit enhancement, and the rules for transactions characterized by innovative elements, principally as a result of their combination with credit derivatives.

Supervisory rules on country risk. – New rules on country risk issued in December 2001 in view of the development of Italian banks' international operations recognize differential prudential treatment in relation to the different components of risk connected with lending in non-OECD countries.

Asset management companies and Italian collective investment undertakings. – A measure issued in July 2001 made it possible to set up asset management companies with reduced initial capital for the establishment and management of closed-end funds having the objective of financing venture capital projects in the field of scientific research.

Provisions issued in November recognized the possibility of establishing exchange traded funds, whose characteristics include passive management and low expenses for shareholders.

Foreign collective investment undertakings. – A regulation issued on 31 December 2001 introduced new, streamlined procedures for granting authorization to market units and shares of foreign collective investment undertakings not falling within the scope of the relevant Community legislation (non-harmonized foreign investment funds). The power of authorization is now within the competence of the Bank of Italy.

Financial intermediaries. – In February 2002 specific prudential rules were established for financial intermediaries (entered in the special register under Article 107 of the 1993 Banking Law) that engage exclusively or prevalently in issuing guarantees to the public. In January 2001 provisions were issued regarding the supervisory reports that special purpose vehicles set up for securitizations are required to transmit to the Bank of Italy.

THE STRUCTURE OF THE FINANCIAL SYSTEM

At the end of 2001 Italy had 830 banks and 557 other supervised intermediaries (asset management companies, securities firms and financial companies entered in the special register pursuant to Article 107 of the 1993 Banking Law; Table 53). The other institutional sectors of the economy had entrusted financial assets, including those in custody or under management, worth €1.5 trillion to banks and €550 billion to the other intermediaries and had received from the two categories of intermediary financing of €1.2 trillion and €500 billion respectively. Banks had 345,800 employees, the other intermediaries 20,200.

Table 53

THE STRUCTURE OF THE ITALIAN FINANCIAL SYSTEM

	31 December 2000			31 December 2001		
	Interme-diaries	No. of branches		Interme-diaries	No. of branches	
		Italy	Abroad		Italy	Abroad
Banks	**841**	**28,177**	**94**	**830**	**29,270**	**91**
of which: limited company banks (1)	*240*	*20,338*	*84*	*252*	*21,081*	*81*
cooperative banks (banche popolari)	*44*	*4,789*	*10*	*44*	*5,036*	*10*
mutual banks (banche di credito cooperativo)	*499*	*2,951*	–	*474*	*3,044*	–
branches of foreign banks	*58*	*99*	–	*60*	*109*	–
Securities firms	**171**	–	–	**162**	–	–
Asset management companies and Sicavs	**101**	–	–	**132**	–	–
Financial companies entered in the register referred to in Art. 106 of the Banking Law	**1,357**	–	–	**1,376**	–	–
of which: entered in the special register referred to in Art. 107	*211*	–	–	*263*	–	–

(1) Includes central credit and refinancing institutions.

The number of banks diminished by 11 during the year. That of other supervised intermediaries rose, primarily because of the formation of 30 asset management companies – mostly to operate hedge funds and closed-end funds – and the registration in the special register of 53 special purpose entities for securitizations.

At the end of the year there were 76 banking groups, encompassing 226 Italian banks, 98 asset management companies and securities firms and 217 Italian financial companies. They also included 82 foreign banks and 249 other foreign financial intermediaries. Instrumental companies belonging to groups numbered 159, including 32 foreign companies.

Banks and banking groups

Restructuring of the banking system. – After three years of substantial growth, the leading Italian banking groups accelerated the pace of reorganization. The actions already completed or still under way have focused on central and peripheral structures with the aim of reducing costs, standardizing the operating and information procedures of group members and exploiting the advantages of service specialization according to customer segment.

The principal banking groups are moving towards an organizational model that features a clear separation of the policy-making and governance unit at the parent company from the operational units, which may either be internal divisions of the parent company or separate companies, ordinarily wholly-owned subsidiaries.

As a rule, the operational units have considerable autonomy. The governance units assign them objectives, expressed as rates of return on risk-weighted capital. Specialization has resulted in a distinction between production units, which supply products or instrumental services to other group members, and distribution units, divided in turn according to customer segment.

Developments in 2001. – The number of mergers and acquisitions decreased from 57 in 2000 to 40 last year, and their combined size fell from 6.4 per cent to 1.6 per cent of banking system assets. There were also 6 intra-group mergers; these involved 6 per cent of total system assets (as against 10 per cent in 2000), mostly on account of the merger of Banca Commerciale Italiana into Banca Intesa.

Taking account of the merger of the San Paolo-IMI and Cardine groups, decided at the end of 2001 and completed early in 2002, the share of total assets controlled by the five largest banking groups remained stable at 54 per cent; that of the top ten groups rose from 67 to 68 per cent. The proportion of total assets attributable to banks and groups in which a majority interest is held by a foundation, a local government or the central government declined to 10 per cent.

Thirty-four banks began operations in 2001 (18 in 2000); 12 were converted securities firms or financial companies and 8 were foreign bank branches. Most of these new banks mainly provide investment and private banking services.

The number of Italian banking groups active abroad was unchanged at 26, and the foreign component of total consolidated assets remained stable at 16.5 per cent. Foreign banking subsidiaries increased in number from 73 to 82 while foreign branches diminished from 94 to 91; respectively 49 subsidiaries and 47 branches were located in non-EU countries.

The foreign expansion of the main Italian banking groups is directed mostly to the countries of Eastern Europe, especially those with which Italian trade is most substantial and where Italian firms have made direct investments to increase their production capacity and extend their outlet markets.

There are sixty foreign banks with establishments in Italy, with 109 branches (10 more than in 2000). Italian subsidiaries of foreign banking groups numbered 14, of which 10 belonged to EU groups.

Distribution. – Reorganization of banking groups according to customer segment led to greater integration of traditional branches with networks of financial salesmen and with telephone and Internet channels, in order to facilitate access to services. Bank branches commonly designate specially trained officers to handle relations with firms and with individuals of substantial wealth. The leading banking groups have begun to institute branches specializing in business with such customers.

The number of branches increased by 1,093 last year. The proportion having no more than 5 employees remained stable at 52.6 per cent. The number of financial salesmen used by banks rose by more than 40 per cent, from 19,650 to 27,760; of the total 23.2 per cent were bank employees, compared with 20.2 per cent the previous year. Financial salesmen for securities firms controlled by banks numbered 6,500 at the end of the year.

Relations between banks and insurance companies. – At the end of 2001 Italian banks held equity investments in 76 insurance companies (mostly in the life sector) and in 37 Italian insurance brokers; in 32 and 26 cases, respectively, they held controlling interests. The number of such investments was essentially unchanged compared with 2000. Italian banks also held investments in 17 foreign insurance companies and 5 foreign brokers (with controlling interests in 11 and 3, respectively). Insurance groups had significant holdings in 21 Italian banks, including controlling interests in 6 small banks.

Asset management companies

At the end of 2001 there were 129 registered asset management companies and 3 Sicavs (Table 54), increases of 30 and 1 in the year. The majority continued to be bank-controlled (86 out of 132). Only 9 of the new asset management companies operate open-end funds; 8 concentrate on closed-end securities or real estate funds and 13 run hedge funds. For their part, the companies already active have tended to diversify their product lines, flanking harmonized open-end funds with non-harmonized products (funds of funds, funds reserved to qualified investors) and individual portfolio management services.

Asset management companies, which are the only authorized operators of collective investment undertakings, also perform the bulk of other asset management services.

Table 54

ASSET MANAGEMENT COMPANIES AND SICAVS

	31 December 2000		31 December 2001	
	Total	*of which: bank-controlled* (1)	Total	*of which: bank-controlled* (1)
Asset management companies (2)	**101**	**68**	**132**	**86**
of which, instituting and managing:				
harmonized open-end funds	*62*	*35*	*60*	*36*
harmonized and non-harmonized open-end funds	*11*	*11*	*21*	*16*
closed-end securities funds	*11*	*10*	*18*	*13*
closed-end real estate funds	*6*	*5*	*7*	*5*
open-end and closed-end funds	*9*	*7*	*10*	*7*
hedge funds	*2*	–	*16*	*9*
Memorandum items:				
Companies with individual portfolio management services	*48*	*36*	*65*	*48*
Companies managing funds instituted by others	*14*	*8*	*16*	*10*
Companies instituting open pension funds	*20*	*15*	*19*	*15*
Foreign Sicavs and management companies (3)	**173**		**219**	
of which: Sicavs	*122*		*152*	

(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.

Italian collective investment undertakings. – At the end of 2001 all the types of funds envisaged by the implementing provisions of the Consolidated Law on Financial Intermediation were operational: harmonized open-end funds and Sicavs, non-harmonized open-end funds, closed-end funds, funds reserved to qualified investors and hedge funds.

Harmonized open-end funds and Sicavs totaled 1,234, which was 118 more than a year earlier (Table 55). In addition there were 183 non-harmonized open-end funds, most of which (160) were funds of funds. The rules of the first 21 hedge funds were approved during the year; on 31 December the 16 operational hedge funds held assets of €743 million.

Table 55

COLLECTIVE INVESTMENT UNDERTAKINGS

	31 December 2000	31 December 2001
Italian collective investment undertakings: total (1)	**1,200**	**1,485**
of which:		
Harmonized open-end funds and Sicavs	**1,116**	**1,234**
of which: equity	*465*	*523*
mixed	*65*	*73*
bond	*316*	*337*
money market	*120*	*108*
global	*16*	*23*
not operational	*134*	*170*
Non-harmonized open-end investment funds	**58**	**183**
of which: non-reserved funds of funds	*39*	*152*
funds of funds reserved to qualified investors	*0*	*8*
other non-reserved funds	*0*	*1*
other reserved funds	*19*	*22*
Closed-end investment funds	**26**	**47**
of which: non-reserved securities funds	*16*	*18*
securities funds reserved to qualified investors	*0*	*11*
non-reserved real estate funds	*10*	*17*
real estate funds reserved to qualified investors	*0*	*1*
Hedge funds	**0**	**21**
Foreign funds and sub-funds marketed in Italy	**1,844**	**2,613**
of which: equity	*1,009*	*1,527*
mixed	*145*	*196*
bond	*525*	*719*
money market	*116*	*121*
global	*49*	*50*

(1) Sectors are considered individually.

The closed-end fund segment is growing rapidly. Of the 47 such funds authorized at the end of last year, 21 were instituted during the year. There was especially strong interest in closed-end securities funds reserved to qualified investors for private equity purposes; 11 such funds were formed in 2001. A total of 28 closed-end funds were operational at the end of the year

(19 securities funds and 9 real estate funds) with assets of €3.5 billion (48 per cent more than a year earlier). Of this, €900 million was managed by securities funds and €2.6 billion by real estate funds.

Harmonized foreign collective investment undertakings. – The number of EU investment funds and Sicavs marketed in Italy under mutual recognition continues to grow rapidly. Between 1999 and 2001 it rose from 1,192 to 2,613. The shares or units owned by Italian subscribers to these funds exceeded €133 billion at the end of the year, including €105 billion under the management of funds set up in other EU countries by Italian intermediaries.

Securities firms

The number of registered securities firms (SIMs) declined by 9 last year to 162, as the result of 24 deletions and 15 new registrations (Table 56). The decline in number began in 1993, when the register, with 326 firms, counted more than twice the present number. More recently, the exit of marginal firms has been accompanied by the decision of many bank-controlled operators to revise their organizational structure for the provision of investment services.

The number of SIMs providing a full range of investment services declined from 16 to 12; those opting for one-function business decreased from 79 to 62. There remains a large number of so-called networks (42), companies authorized to sell financial instruments on account of issuers without underwriting them, sometimes in conjunction with the reception and transmission of orders.

Table 56

ITALIAN SECURITIES FIRMS

	31 December 2000	31 December 2001
Italian securities firms	171	162
of which: bank-controlled (1)	*63*	*66*
Memorandum items: authorizations issued for:		
Trading on own account	55	51
Trading on account of third parties	60	61
Underwriting	36	34
Placement without guarantee	109	109
Individual portfolio management	91	85
Reception of orders and mediation	79	92

(1) Companies in which banks hold more than 50 per cent of the equity.

The Bank of Italy received 122 communications from EU intermediaries concerning the provision of investment services in Italy; seven of these involved the establishment of a branch. More than 75 per cent of the communications came from the United Kingdom.

Financial companies

On 31 December 2001 the special register established by Article 107 of the 1993 Banking Law listed 263 financial companies, compared with 211 a year earlier. This substantial increase was due mainly to the registration of a large number of securitization companies (50 special purpose vehicles and 3 servicers), which are required to register by a ministerial decree of 4 April 2001.

The number of registered companies engaged in traditional credit business (leasing, factoring, consumer credit) continued to decline last year. The number of merchant banking intermediaries was unchanged, as was the value of the equity stakes they held for subsequent sale (about €500 million). Of late, operators appear to prefer closed-end private equity funds.

There were 15 deletions from the special register, chiefly involving factoring and leasing companies and mostly in connection with the rationalization of industrial groups. One consumer credit company and one factoring company were converted into banks; in the previous two years the conversion of five financial companies into banks had been authorized.

Securitization vehicles apart, there is a substantial foreign presence in the ownership of the intermediaries entered in the special register. At the end of 2001 French and German operators accounted for 6 and 4 per cent respectively of the assets of registered companies. French companies served a substantial share of the consumer credit market (19 per cent).

RISKS, PROFITABILITY AND CAPITAL ADEQUACY OF INTERMEDIARIES

Banks

Credit risk. – Total bank lending, at current exchange rates and net of bad debts, increased by 7.8 per cent in 2001, compared with 14.2 per cent in 2000 (Table 57). The slowdown involved all categories of banks and all sectors of the economy. The overall quality of credit again improved, continuing the trend that began in the second half of the 1990s.

Table 57

BANKS' BAD AND DOUBTFUL DEBTS AND TOTAL LENDING (1)
(end-of-period amounts; millions of euros)

	Limited company banks			Cooperative banks			Mutual banks			Total		
	Bad debts (2)	Doubtful debts	Performing loans (3)	Bad debts (2)	Doubtful debts	Performing loans (3)	Bad debts (2)	Doubtful debts	Performing loans (3)	Bad debts (2)	Doubtful debts	Performing loans (3)
1999	51,084	15,378	620,773	7,533	2,467	97,334	1,833	1,537	35,925	60,450	19,382	754,032
2000	43,412	15,053	706,224	6,632	2,452	113,637	1,897	1,680	41,345	51,940	19,185	861,205
2001	38,322	14,927	755,351	5,029	2,802	126,837	2,015	1,840	46,329	45,365	19,569	928,518

(1) Lending to resident customers of banks operating in Italy and Italian banks' branches abroad. Merged banks have been considered as belonging to the category of the bank into which they were merged. – (2) Includes unpaid and protested bills. – (3) Excludes bad debts and unpaid and protested bills.

Performing loans worth €12 billion were securitized during the year (€6.7 billion in 2000), equal to 1.4 per cent of the stock outstanding at the start of the year (0.9 per cent in 2000). Since the enactment of the law governing securitizations in 1999, €20.6 billion of performing loans has been securitized.

The terrorist attacks of 11 September made the situation of firms operating in the economic sectors directly affected more uncertain. Italian banks' exposure of €29.7 billion to such firms was small by international standards.

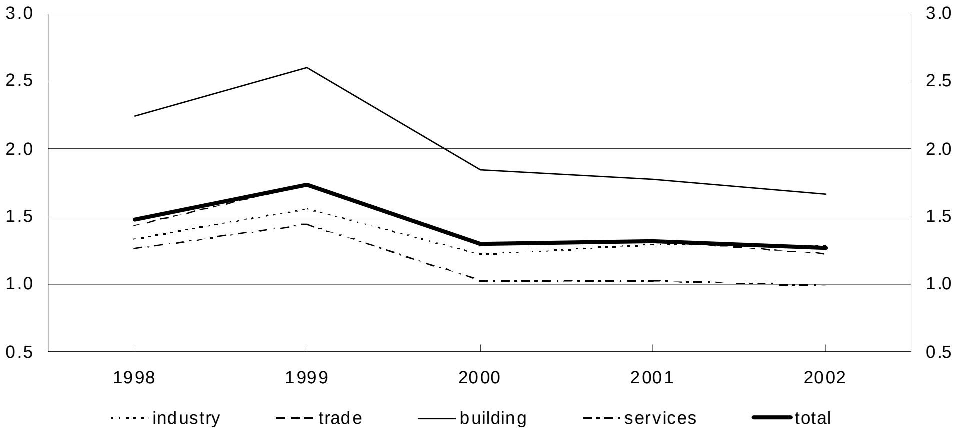
In the telecommunications sector, where lending had expanded sharply in 2000, banks' exposure fell from €42.2 billion to €26.4 billion, primarily because of the reduction in guarantee commitments (from €18.7 billion to

€5.6 billion) with the expiry of those issued in connection with the sale of mobile phone licences.

In recent years banks have inclined to direct their lending to less risky counterparties; together with the favourable trend of corporate profitability, this has been reflected in improved loan quality. A statistical study using data on company accounts and credit relationships has been conducted to estimate the probability of a firm's defaulting on its loans within a year. For the 150,000 firms covered by chambers of commerce and the Central Credit Register, which account for 70 per cent of total outstanding lending to private-sector non-financial corporations, lending to firms with an insolvency probability of less than 1 per cent (roughly corresponding to a BB credit rating) increased by 6.4 per cent in 2001, compared with 3.4 per cent for firms in the three riskiest classes. Extending the analysis backwards in time, it emerges that the average probability of a loan becoming a bad debt declined from 1.5 per cent in 1998 to 1.3 per cent in 2001. The sharpest reduction came in the construction industry. Indications for 2002 are for the overall probability to be about the same as in 2001 (Figure 42).

Figure 42

FIRMS' RISK INDICATORS (1)



(1) Vertical axis: average percentage probability of loans becoming bad debts in each year.

The diminution in bad debts continued; gross of specific provisions, they fell by €6.6 billion, or 12.7 per cent, to €45.4 billion and from 5.7 to 4.7 per cent of total lending, which was below the level recorded in the 1990s (Tables 57 and a30). Net of specific provisions, bad debts amounted to €22.7 billion, or 17.6 per cent of supervisory capital, compared with 22.5 per cent in 2000.

Bad debts amounting to €7.6 billion were securitized in 2001, compared with €8.4 billion in 2000, almost all involving claims of major, large or medium-sized banks. Securitizations were concentrated in the first half of the year, in connection with the deadline for qualifying for the tax benefits provided by the law instituting securitization. In the three years from 1999 to 2001, a total of €23.6 billion of non-performing loans was securitized.

Loans newly classed as bad debts remained roughly unchanged at €7.8 billion; this represented a slight decline to 0.9 per cent in relation to outstanding performing loans at the start of the year (Table a30). Doubtful debts increased by 2 per cent, after decreasing by 1 per cent in 2000 (Table 57).

According to supervisory statistical reports, large exposures (those which, on a risk-weighted basis, exceed 10 per cent of a bank's supervisory capital) increased from €79.3 billion to €86 billion. The number of banks with such exposures rose from 87 to 115 and the amount in excess of the related limits from €1.6 billion to €2 billion.

Country risk. – At the end of 2001, consolidated reports to the BIS put banks' outstanding lending to non-OECD countries, for which the risk is deemed to be higher, at more than €2.1 trillion. Italian banks' exposure to these countries, including guarantee commitments, amounted to €78 billion: €49 billion with developing countries and Central and Eastern Europe and €29 billion with offshore centres.

The Italian banking system continues to be less internationalized than those of the other main countries. Italy's share of on-balance-sheet lending to non-OECD countries (excluding offshore centres) is 4 per cent, compared with 17.1 per cent for the United States, 14 per cent for Germany, 12.2 per cent for the United Kingdom, 9.6 per cent for Spain, 8.2 per cent for France, 7.6 per cent for Japan and 5.9 per cent for the Netherlands. Italy's share of such lending to offshore centres is around 1.8 per cent, the lowest figure of any Group of Seven country. Italy registers its highest non-OECD market shares with the countries of Central and Eastern Europe (7.3 per cent) and Latin America (7.5 per cent).

In December 2001 Italian banks' exposures subject to the supervisory rules in effect since 1993 and modified in 2001 amounted to €18.2 billion, compared with €11.9 billion a year earlier. Required adjustments to supervisory capital amounted to €2.9 billion (€2.1 billion in 2000).

Profitability. – The profit performance of the Italian banking system on a consolidated basis was affected by the unfavourable economic conditions and the episodes of financial instability in Latin America. Consolidated net profits fell by 23.8 per cent to €8.4 billion. Return on equity decreased by 3.8 percentage points to 9.1 per cent. The decline in profitability was more pronounced for the main banking groups, whose ROE fell by 4.6 points to 12.5 per cent (Table 58). Provisional data indicate that the decline in income continued in the first quarter of 2002.

Table 58

RESULTS OF THE MAIN ITALIAN BANKING GROUPS AND OF THE BANKING SYSTEM (1)

(end-of-period amounts; millions of euros)

	Main banking groups		Banking system	
	2000	2001	2000	2001
Gross operating profit	15,706	15,574	27,150	26,934
Charges for loan losses	4,436	6,028	6,818	8,817
ROE	17.1	12.5	12.9	9.1
Allocations to supervisory capital	3,758	3,182	7,189	5,991
Capital increases (2)	774	675	4,661	4,428
Supervisory capital	61,051	66,787	118,625	129,205
Solvency ratio	8.7	9.5	10.2	10.6
Capital excesses	5,188	11,231	26,109	33,499
Capital shortfalls	–	–	9	522

(1) Consolidated reports for banking groups and individual reports for banks not belonging to groups, Excludes the Italian branches of foreign banks. – (2) Capital increases net of redemptions.

The growth in the volume of lending last year, stemming in part from the acquisition of intermediaries located in countries where traditional banking business accounts for a larger share of overall activity, caused net interest income to rise to €39.2 billion and from 2.1 to 2.2 per cent of total assets.

Non-interest income, which had risen steadily in the previous five years, contracted significantly, especially in the second half of the year. It amounted to €26.5 billion in 2001 as a whole and accounted for 40.4 per cent of total gross income, compared with 44.1 per cent in 2000. Earnings stemming directly from asset management business, which includes net commissions from portfolio management, securities trading on account of third parties, and securities placement, custody and administration, diminished by 10.7 per cent to €16.9 billion.

Gross income, which came to €65.7 billion, declined from 3.8 to 3.6 per cent of total assets (Table a31).

Operating expenses, which had already turned upwards in relation to total assets in 2000, increased by 5.4 per cent, owing both to staff costs and to other administrative expenses. They thus rose from 57.5 to 59 per cent of gross income. Net income remained roughly unchanged at €26.9 billion, while edging downwards in relation to total assets, from 1.6 to 1.5 per cent.

The financial difficulties that emerged towards the end of the year in some countries and a few large foreign corporations heavily affected the net profits of the banking system. The portion of net income absorbed by loan losses rose from 25.1 to 32.7 per cent. Non-recurring income, which was affected by value adjustments to the Argentinian investments of some large banks, fell by 16.3 per cent to €5.2 billion.

After taxes of €5.9 billion, 24.3 per cent less than in 2000, profits distributed to shareholders amounted to €3.1 billion, about one third less than the previous year. Retained earnings came to about €6 billion, 16.7 per cent less than in 2000.

Capital adequacy. – At the end of 2001 the total supervisory capital of the Italian banking system, calculated on a consolidated basis, was €129.2 billion (Table 58), an increase of 8.9 per cent for the year, as against a rise of 7.6 per cent in 2000. Capital increases contributed €4.4 billion to the increase and subordinated loans €6.4 billion (compared with €4.7 billion and €6.7 billion in 2000; Tables 58 and a32).

Given the 5 per cent increase in risk-weighted assets, the solvency ratio rose from 10.2 to 10.6 per cent; for the main banking groups, it rose from 8.7 to 9.5 per cent. In December capital charges against market risk on trading portfolios accounted for 6.8 per cent of supervisory capital, compared with 6.2 per cent a year earlier. The increase in capital contributed to a rise in free capital of 6 per cent, to €28.2 billion. Both the number of banks with negative free capital and the amounts involved diminished.

Asset management companies

Profitability. – After several years of robust growth, asset management companies’ profits decreased in 2001. The year ended with net profits of €540 million, 46 per cent less than in 2000. Of the 103 operational companies, losses were recorded by 34, most of which were recently-formed companies; the losses amounted to less than €20 million.

The decline in earnings was due mainly to the 34.8 per cent fall in net commission income, which came to slightly above €1.44 billion. Financial market trends directly affected the performance fees of asset management companies, which fell by nearly 90 per cent. The reallocation of investor portfolios into lower-risk products, which generate lower unit revenues, and the decrease in subscriptions of investment fund units also resulted in a decline in other types of commission income.

The companies' operating costs, which increased by 12.8 per cent compared with 2000, amounted to 66 per cent of net revenues. Organizational measures were taken to adapt the companies' structures to the larger volume of assets under management and the complexity of the business. A substantial increase in staff of around 25 per cent was accompanied by a decline in per capita labour costs.

Securities investment firms

Profitability. – Italian investment firms made net profits of €110 million in 2001, 80 per cent less than in 2000 (Table 59). Return on equity fell from 28.9 to 5.9 per cent. The fall in profits resulted from a decline in core business revenues, more than half of which come from intermediation services for customers (trading, placement, collection of orders). Profits from trading on own account declined less sharply than overall revenues. The only increase in revenues came from accessory activities, such as consulting and the preparation of research reports.

Table 59

PROFIT AND LOSS ACCOUNTS
OF SECURITIES INVESTMENT FIRMS (1)

	2000		2001	
	Millions of euros	Percentage share	Millions of euros	Percentage share
Revenue from trading on own account (2)	255	11.5	221	15.9
of which: interest and dividends	*203*	*9.1*	*205*	*14.8*
Revenue from trading on account of third parties (3)	1,215	*54.7*	733	*52.7*
Revenue from individual portfolio management	242	*10.9*	189	*13.6*
Revenue from "door-to-door selling"	442	*19.9*	165	*11.9*
Revenue from other business (4)	24	*1.1*	46	*3.3*
Revenue from securities administration (5)	42	*1.9*	36	*2.6*
Total revenue	**2,220**	*100*	**1,390**	*100*
Operating expenses (–)	1,251	*56.4*	1,186	*85.3*
Net income	**969**	*43.6*	**204**	*14.7*
Other revenues/expenses (6)	–36	*–1.6*	89	*6.4*
Profit before tax	**933**	*42*	**293**	*21.1*
Tax (–)	399	*18*	183	*13.2*
Net profit	**534**	24	**110**	*7.9*
Number of firms (7)	158		155	
Shareholders' equity (8)	1,841		1,876	
ROE	*28.9*		*5.9*	

(1) Profit-and-loss data from prudential reports. – (2) Including net interest income. – (3) Securities and foreign exchange trading, placement services and collection of orders. – (4) Revenue from accessory services (consulting, 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 non-recurring items. – (7) End-of-year data. Excluding non-operational firms. – (8) Average for the year.

In the face of the revenue decline, investment firms lowered personnel costs, reducing their staffs by 3.1 per cent, and cut other administrative expenses as well; only investment in technological equipment rose. Overall, operating expenses diminished by 5.2 per cent.

Capital and risks. – At the end of 2001 the supervisory capital of investment firms, consisting almost entirely of tier-one elements, came to about €1.45 billion, a slight decrease compared with December 2000. Some firms carried out capital increases during the year to cover losses, in several cases the action was taken at the request of the supervisory authorities.

Total capital requirements rose to €614 million, an increase of 5.1 per cent. This was due to the rise in operating expenses during 2000, which resulted in a significant increase of 26.8 per cent in the charge for risks other than market and credit risks. The charge for market and credit risks, equal to 65.3 per cent of the total, declined by 3.6 per cent. In December 2001 eleven investment firms had capital shortfalls (ten the previous year); five of them had supervisory capital below the minimum for engaging in securities business.

Financial companies

Credit risk. – At the end of 2001 the total lending of financial companies entered in the special register, excluding securitization vehicles, amounted to €100.2 billion, an increase of 15 per cent.

Leasing and factoring again grew strongly, with lending increases of 18 and 14 per cent respectively. Leasing activity was led by the real estate segment.

Against the background of a general slowdown in households' spending, the volume of consumer credit outstanding recorded a much smaller increase than in the last few years (7 per cent gross of securitizations, as against 15 per cent in 2000).

Bad debts amounted to €2.1 billion, 7 per cent less than a year earlier. Combined with the rise in lending, this decrease lowered bad debts from 2.6 to 2.1 per cent of the companies' total lending. The amount of loans overdue by more than 120 days rose by 26 per cent to €5.9 billion, or 5.8 per cent of total lending.

Loans newly classed as bad debts amounted to €1 billion in 2001, one third more than in 2000. In consumer credit and factoring, the ratio of new bad debts to the volume of performing loans at the start of the year was 2 per cent; in the leasing segment, it was 1 per cent.

There was a sharp reduction in financial companies' lending in excess of the large exposure limit (60 per cent of supervisory capital). Contributory factors were the increase in capital and greater diversification of lending, which had been expressly requested by the Bank of Italy. The excess amounts totaled €940 million, 25 per cent less than at the end of 2000.

Profitability. – The financial companies in the special register, excluding securitization vehicles, made net profits of €420 million in 2001, or 23 per cent less than in 2000. Despite an increase in the volume of lending and the positive contribution of non-recurring items, their return on equity declined from 8 to 6 per cent, owing to increased provisions and value adjustments for credit risk. Interest income increased by 9 per cent in absolute terms, although it diminished from 2.2 to 2 per cent in relation to total balance-sheet assets. As net revenue from services and dividends decreased, gross income remained unchanged.

Operating costs rose by 4 per cent as the result of higher administrative expenses. Staff costs rose by 1.8 per cent, in part because of a 1.3 per cent expansion of staff, accounted for primarily by companies with branch offices.

Capital adequacy. – At the end of 2001 the financial companies' supervisory capital, which consisted largely of capital and reserves, amounted to €7.9 billion, 9 per cent more than a year earlier. The increase stemmed from capital increases and issues of subordinated debt. Smaller contributions were made by retained earnings and a decrease in deductions for equity interests in banks and other financial companies as a result of the rationalization of banking groups. Net of tangible and financial fixed assets, available capital amounted to €2.08 billion, an increase of 11 per cent.

At the end of the year the ratio of capital to risk-weighted assets of leasing, factoring and consumer credit companies was 6 per cent, a slight reduction on the end of 2000 (6.4 per cent) that can be attributed to the increase of 14 per cent in risk-weighted assets.

SUPERVISION OF BANKS AND OTHER INTERMEDIARIES

Banking supervision

Analytical methods and tools. – Supervisory action to increase the capitalization of banks, especially the major ones, and contain the risk of large exposures was made more systematic in 2001. The methodology for validating banks' internal models for calculating market risk and the related capital charges was also established.

At the start of 2001 the Bank of Italy requested several banks to achieve capital ratios above the regulatory minimum. During the year this request was extended to all the major banks and to smaller banks with plans for particularly rapid growth. These banks are now asked to develop programmes to achieve a solvency ratio of 6 per cent for core capital and 10 per cent overall. These target values differ from the minimum requirements in their flexibility, inasmuch as with the approval of the authorities the banks can fall temporarily below the target depending on cyclical developments or on the occasion of corporate actions or unforeseen events.

The robust growth of investment in some branches of the economy, corporate actions by some large industrial groups, and the uncertainties of the economic situation in some countries heightened the importance of credit concentration by sector, individual borrower and geographical area. The most heavily exposed banks were asked to take prudential measures.

Last year the Bank of Italy issued its first authorization to a bank to use an internal model to calculate the capital charge against market risk on its trading portfolio. The advantages of internal models are that they lead to more precise measures of capital at risk, which should result in a decrease in the capital charge, and encourage banks to adopt the strict technical and organizational standards for the validation of the models. The Bank of Italy therefore invited banks that engage in complex financial activity to undertake similar initiatives.

Action to implement the new Capital Accord. – The use of internal rating systems to determine the capital requirements for credit risk requires banks to embark on a laborious process of identifying, designing and implementing methodological, information-system and organizational solutions. The Bank of Italy conducted a preliminary survey with fifteen of the main banking groups to assess initiatives already under way. It emerged that the projects were still at an early stage, that some methodological and organizational choices needed correction and that in some cases the data series were not sufficiently long. Consequently, it is likely that at first only a few groups will be in a position to apply for the recognition of their internal rating systems.

Prudential analysis of banks' situations. – The share of borrowed funds held by banks with unsatisfactory overall scores declined last year from 19 to 17 per cent, while that of banks with good scores rose from 41 to 44 per cent. Excluding mutual banks, the number of institutions with unsatisfactory scores fell from 55 to 45 (with 16 per cent of borrowed funds), including 26 that were members of groups whose overall situations were good. There were 79 mutual banks with unsatisfactory scores (down from 96), with about 10 per cent of the category's borrowed funds.

The quality of internal control systems was a key aspect of prudential analysis last year, with special importance being attached to verifying the effectiveness of internal audits. Preliminary inquiry found that following the issue of supervisory instructions on this matter bank managers had generally paid greater attention to internal control systems. Nevertheless, shortcomings were still found in some cases: lack of incisiveness of boards of directors in setting strategic and organizational guidelines, inadequate definition of the control procedures on the part of top management, merely formal controls by boards of auditors, which did not always cooperate effectively with the internal audit function.

Internal auditing appears to be in a phase of transition. It is still excessively bound up with an approach to inspection that is not sufficiently oriented to assessing the effectiveness of the internal control system. Much of the internal audit process focuses on checking the operations of branches and verifying compliance with internal rules; audit controls on central structures and process analysis are inadequate.

Supervisors devoted special attention to the sale of financial products, in view of the importance that this business has taken on and the presence of new risks. In several instances practices were discovered, sometimes stemming from aggressive marketing policies, that were not consistent with the rules governing this sector or with the banks' own internal rules. Banks were found to pay scant attention to the risks actually assumed by investors and to the regularity of contracts. Further anomalies were found in individual portfolio management services: minimum yield guarantees provided by unauthorized persons; failure to enter such commitments in the accounts; lack of cover against the related risks; and erroneous valuations stemming from procedural shortcomings.

Supervisory action. – Last year 372 banks were sent written reprimands or summoned to meetings with supervisors. Reprimands bore mostly on organizational inadequacies, with special reference to internal control systems and the granting of loans. There were 424 meetings; of these, 178 dealt with the overall situation of the bank, 124 with organizational matters and 84 with lending. The Bank of Italy's Head Office arranged 197 of the meetings, of which 176 were with banks belonging to 31 different groups, and the branches arranged the other 227.

Apart from verification of compliance with prudential requirements, the supervision of banks involved in rationalization following concentrations focused on the plans for adapting the organization and control systems of banking groups and on the effective control of risks by governing bodies.

The growth of the foreign networks of some large banks required special supervisory action to ensure stricter control by the parent bank over the operations and risks of subsidiaries abroad. The banks were urged to take measures to integrate information and accounting systems, to achieve uniform standards for the measurement, management and control of all risks and to monitor subsidiaries' operations continuously. Closer relations were also established with the local supervisory authorities.

The growing use of credit derivatives for both hedging and trading made it necessary to check the ways in which the risks are measured and managed. Pricing methods, which are not yet standardized internationally, are not always reliable. Despite the greater uniformity of master contracts, there are appreciable differences between financial centres as regards some clauses, most notably those bearing on the number and definition of the events covered by credit derivatives. Intermediaries were asked to introduce adequate procedures and procure properly trained personnel to evaluate and control risks, in particular legal risk.

Controls on asset management companies and investment firms

Market access. – Applications for authorization of new asset management companies and investment firms mostly involved fast-growing innovative sectors. A significant share of the applications came from intermediaries active in other sectors that wanted to move into new market areas or extend to Italy activities they were already engaged in elsewhere. Most of the applicants featured organizational arrangements designed to exploit synergies with existing structures. Asset management companies – particularly those specializing in hedge funds – frequently rely on foreign consultants in choosing the financial instruments to invest in. The Bank of

Italy requires that the companies retain an effective decision-making capacity and full responsibility for the conduct of their business.

Prudential analysis of intermediaries' situations. – In 2001 this form of supervisory action led to 28 investment firms and two asset management companies having unsatisfactory scores. The assets of the two asset management companies amounted to 0.3 per cent of the industry total; the investment firms accounted for 6.2 per cent of the industry in terms of gross revenues.

Prudential analysis resulted in the identification of a set of "problem" intermediaries, embracing not only those with unsatisfactory scores but also some with intermediate scores, which need to take action to prevent a deterioration in their situations. The number of "problem" intermediaries was 90 last year (70 investment firms and 20 asset management companies), compared with 43 in 2000. The increase reflects the decline in the volume of business, which for investment firms in particular impinged on earnings and in some cases determined capital shortfalls.

It was also found that investment firms and asset management companies more and more commonly outsource the internal control function. Of the 284 intermediaries that were operational at the end of the year, 118 had assigned this function to other group members and 46 to outside professionals or specialized institutions. The supervisory authorities check that this practice does not reduce the efficiency, rapidity or effectiveness of controls.

Supervisory action. – In 2001 the Bank of Italy made 130 interventions in the form of written reprimands or meetings with corporate officers. This action involved 122 intermediaries (84 investment firms and 38 asset management companies). In 2000 there had been 87 interventions involving 34 investment firms and 25 asset management companies.

The investment firms receiving reprimands or called to meetings were mainly small companies with limited market shares whose diversification had resulted in financial commitments that outweighed the benefits. The firms were required to recapitalize and reformulate their business plans. Additional measures were urged to make internal audits more effective and to develop risk management systems, especially as regards operational risk. In some instances the companies' supervisory bodies were asked to verify the adequacy of the initiatives undertaken following the supervisory intervention.

For asset management companies most of the interventions involved strengthening their organizational structures. Supervisors focused on the persistence of some manual operations within production processes and the shortcomings of information systems, which in some cases contributed to errors in the valuation of fund units and to the overstepping of investment limits.

Supervision of financial companies

In the course of 2001 the increased involvement of the Bank's branches and improved scheduling permitted a systematic evaluation of the financial companies entered in the special register, excluding securitization vehicles. A total of 125 intermediaries were assigned scores.

The financial companies with unsatisfactory overall scores numbered 38 and accounted for 20 per cent of the sector's total balance-sheet assets (excluding securitization vehicles). Intermediate scores were given to 57 companies with 47 per cent of total assets.

Supervisors made 144 interventions involving 111 companies. There were 106 meetings with corporate officers at the Head Office or at Bank of Italy branches. The focus was on the organizational repercussions of the rationalization of banking groups on their financial companies. The concentration in a single intermediary of business activities previously performed by a variety of companies heightens the need to integrate information and accounting systems and risk measurement and control procedures. In these cases supervisory action also involved the parent companies.

Inspections

A total of 195 inspections were completed in 2001 (180 in 2000), of which 138 were initiated by the Bank's branches (118 in 2000). Comprehensive inspections were conducted at 172 banks that accounted for 11 per cent of the banking system's total assets (164 banks and 11 per cent of assets in 2000). There were also six sectoral inspections, three of which involved large and medium-sized banking groups with assets equal to 10 per cent of the system total.

Negative judgments, which resulted from 19 per cent of the inspections, were most frequent at banks operating in the Centre and South; they represent a very minor portion of the banking system (1.6 per cent of assets).

In the fours years from 1998 to 2001 the Bank of Italy carried out 694 inspections at banks representing 54 per cent of the banking system's total assets. Positive judgments were given on banks accounting for 26 per cent of assets, partially positive judgments on banks with 22 per cent and negative judgments on banks with 6 per cent. In the previous four years, when inspections covered 52 per cent of the banking system's assets, the corresponding percentages were 12, 29 and 11.

Crisis and other special procedures

Special administration and compulsory administrative liquidation of banks. – Five special administration procedures were initiated in 2001, all involving mutual banks. Eight procedures were concluded. At the end of the year, five banks – four mutual banks and one cooperative bank – were under special administration; three of them were in the process of being taken over by other banks.

Four procedures for compulsory administrative liquidation were initiated, all involving mutual banks already under special administration. Two liquidation procedures were concluded with the deletion of the banks from the company register. On 31 December 2001 there were 31 liquidation procedures still under way, but ten of these had been practically terminated, with the Bank of Italy having authorized the filing of the final liquidation balance sheet with the courts.

The compulsory administrative liquidation of Sicilcassa continued with credit recovery, focusing chiefly on out-of-court settlements to shorten collection time compared with court proceedings. The liquidators took further action, including organizational measures, for swifter and more effective management of creditor positions.

Other special procedures. – The collection company SGA continued to recover the claims it had acquired from Banco di Napoli and Isveimer. It closed the year with a loss of €525 million, including €279 million in respect of the balance-sheet situation at 30 June 2001. The loss was made good by Banco di Napoli, which was indemnified by means of special advances from the Bank of Italy under Law 588/1996. Owing primarily to the claim recoveries carried out and the making good of losses, SGA's debt to Banco di Napoli had fallen to €2,069 million at the end of the year, about one third of the original amount.

The voluntary liquidation of Isveimer, which got under way in April 1996, has practically concluded the realization of assets and the settlement of liabilities, following the transfer of non-performing loans to SGA. On 31 December 2001 Isveimer's remaining assets consisted mainly in its claim on

SGA for the acquisition of those loans and in real estate and share holdings. The accounts of the liquidation at the end of the year essentially confirmed the estimate of a final loss of €917 million for the procedure, which had been entered in the previous interim balance sheets and already made good.

Special administration and compulsory administrative liquidation of investment firms. – Two special administration procedures were concluded in 2001 with the return of the investment firms to ordinary administration after changes in their ownership structures. No special administration procedures were under way at the end of the year.

One investment firm was placed in compulsory administrative liquidation at the proposal of the Bank of Italy. At the end of the year ten liquidation procedures were under way; in all but two cases assets have been allotted and distributed.

Transparency controls in banking and financial transactions

In 2001 the branches of the Bank of Italy conducted extensive controls of the transparency of contractual conditions, an activity which will be intensified in the future. A total of 698 checks were carried out at the branches of 154 banks to verify compliance with Title VI of the Banking Law. Transparency controls in the course of ordinary inspections uncovered irregularities at 74 banks, mostly small institutions. Administrative sanction procedures were begun against 16 banks.

Access to the securities markets

The Bank of Italy performed controls on issues and offerings of securities with the aim of fostering the orderly development of the market and financial innovation. The controls centred on the characteristics of the instruments reported by market participants, to verify their compliance with the regulations and the transparency of the indexation mechanisms adopted.

Bond issues totaled €84.5 billion, an increase of 24 per cent compared with 2000; more than 97 per cent consisted of bonds issued as part of banks' regular fund-raising activity.

There was very substantial resort to asset backed securities in 2001. The number of issues reported (57) and the large volume, equal to €32.3 billion, put Italy among the leaders in the European securitization market.

There was rapid growth in the volume of foreign financial instruments placed in Italy, which totaled €23.6 billion for the year.

Sanctions

Last year the Bank of Italy submitted 104 proposals for pecuniary sanctions for violations of banking and financial regulations, compared with 110 in 2000. Most of the proposals (90, compared with 95 in 2000) involved banks; the others concerned five investment firms (7 in 2000), one asset management company and five consumer credit companies, for failure to indicate the annual percentage rate of charge or other contractual terms. Finally, sanctions were proposed for three intermediaries for the unauthorized use of banking names.

The Minister for the Economy and Finance issued 98 decrees imposing administrative sanctions (110 in 2000). There were a total of 163 appeals against the sanctions (154 in 2000), lodged by officers of 18 banks and 2 investment firms (19 and 6, respectively, in 2000).

Cooperation with other governmental bodies and the prevention of financial crime

The Bank of Italy cooperated intensely with the judicial authorities last year. The number of requests for information and documentation from magistrates and investigative bodies rose from 441 to 524 and those for data on bank loans from the Central Credit Register from 43 to 60. Bank of Italy employees acted as consultants for judicial authorities in 26 cases, compared with 30 in 2000, and testified in 80 cases, as against 86.

The Bank submitted 33 reports to judicial authorities on suspected penal offences discovered in the course of off-site or on-site controls (47 in 2000). Under special cooperation agreements, four inspection reports were turned over to the Bureau of Antimafia Investigation.

In the course of 2001 the Bank received 60 requests for information in relation to parliamentary activity concerning matters falling within the competence of the Banking Supervision Department, mostly through the Interministerial Committee for Credit and Savings. In 2000 such requests had numbered 107; the decrease was due to the dissolution of Parliament for new elections.

COMPETITION POLICY IN THE BANKING SECTOR

The changes in the institutional and regulatory framework and in the behaviour of banks over the last five years have created conditions conducive to the development of competition in the banking sector. The opening-up of national markets, which facilitates access by companies from abroad and from other segments of the financial market, has also had a positive effect.

A large number of new institutions have entered the market in banking and financial services. Over the last five years 120 new banks have opened for business, of which 43 had previously operated as securities companies or financial companies. The number of foreign banks with branches in Italy and the Italian subsidiaries of foreign banking groups rose from 65 to 74 over the same period and that of asset management companies and SICAVs governed by Italian law increased by 67.

The reorganization of the banking system has proceeded mainly by means of mergers and the formation of groups; over the five years from 1997 to 2001 the number of banks fell from 935 to 830. Consolidation has not jeopardized competition, either in Italy or in other European countries.

The impact of competition can be seen in the changes that have occurred over the medium term in the main indicators of prices, mobility in market share and concentration of banking services. In 2001 the spread between short-term lending and deposit rates remained steady at around 4 percentage points, whereas five years earlier it had been around 5 points. The redistribution of market shares was on the order of 3 per cent in provincial deposit markets and 3.6 per cent in regional loan markets, in line with the five-year average. The trend decline in the Herfindahl-Hirschman index over the last ten years points to a reduction in the degree of concentration both in provincial deposit markets and in regional loan markets.

Competition in non-traditional financial markets intensified. It became keener in professional asset management and securities trading, partly on account of the closer attention customers paid to the return on financial products and partly owing to the presence of foreign banks and companies specializing in these types of business. The increase in the number of banks operating in the leasing, factoring and consumer credit fields led to an expansion in the supply of such services. Competition in the deposit market is also tending to increase because of the effect of growing substitutability between bank and post office deposits.

In its capacity as the Competition Authority for the banking sector, the Bank of Italy is taking particular care during the present period of large-scale reorganization in the sector to ensure that consolidation is not achieved at the expense of competition in local markets.

The Bank of Italy is also responsible for protecting competition in the payment system. Efficiency requires a high degree of cooperation, not least to ensure the complete transferability of payment instruments and to achieve economies of scale in the provision of services via networks. The Bank's actions are designed to prevent the agreements necessary for the smooth functioning of the system from harming competition.

Mergers and acquisitions. – A total of 54 mergers involving banks were notified to the Bank of Italy last year under Article 16 of Law 287 of 10 October 1990. In 28 cases an examination of the effects of the operations – which looked at the market shares of the banks involved, their interest rates compared with average rates in the markets affected and indices of the concentration of supply – found that no dominant position was either created or reinforced in the areas concerned. The Competition Authority concurred with this finding in the opinions submitted to the Bank under Article 20 of Law 287/90.

Amendment of authorization conditions. – In 2001 the IntesaBci group sold Banca Carime, thus significantly reducing its market share in Calabria, where the group had been required to freeze the number of branches for three years under the terms of the authorization of the merger between the Intesa and Banca Commerciale Italiana groups. The restriction on expansion in Calabria was therefore lifted (Order 138/A of 1 March 2001).

Agreements. – A number of complex enquiries regarding payment systems were completed in 2001; some related to new systems (the so-called bank payment slip) and others to existing ones (Pagobancomat).

The ABI/Bank payment slip enquiry. – The enquiry was opened in response to an application from the Italian Bankers' Association (ABI) for exemption under Article 4 of Law 287/90 in respect of the agreement on the setting of the maximum price that banks charge customers for payments via the OPLA service, a bank payment instrument similar to the post office payment slip. It had been agreed within ABI that payers would be charged a uniform maximum fee of 2,000 lire for each payment effected using a bank payment slip, at least during the two-year launch period. According to ABI, it was necessary to set a maximum fee so that when payers chose the method of payment they would be aware of the cost of the service provided by banks.

ABI was not granted authorization to indicate a uniform maximum price for bank payment slips; banks will each have to publish the price they charge for collecting payments by this means, as laid down in the regulations on the transparency of contractual conditions (Order 37 of 9 August 2001).

The Pagobancomat enquiry. – The procedure involving ABI and the Bancomat Convention that had been opened in June 2000 with regard to a number of agreements on collection and payment services offered by banks was closed in November 2001 as far as the Pagobancomat agreement is concerned. The investigation centred on the provision under which the Convention sets a maximum multilateral interbank fee payable to the Pagobancomat card-issuing bank by the retailer's bank in respect of each payment operation. In particular, the enquiry was aimed at assessing the correlation between the interbank fee, which the Convention set at 0.53 per cent of the transaction value in April 2000, and the costs incurred by the issuing banks.

It was found that the fee was consistent with the banks' unit costs at the time when it was set. In the light of the growth in the volume of payments via Pagobancomat during the course of the investigation, the Convention was ordered to reduce the fee to 0.41 per cent of the transaction value by 15 December 2001 and to devise a new method of calculating the fee by 1 July 2002, on pain of cancellation of the five-year authorization granted in 1998. The enquiry confirmed that there is sufficient variation in the fees banks charge to retailers and that the setting of a multilateral interbank fee did not have harmful effects on competition downstream of the interbank market segment, even though the interbank fee is the parameter on which banks base the fee charged to retailers (Order 38 of 27 November 2001).

The enquiry into bank payment cards. – The purpose of the enquiry, which was opened in February 2001, was to ascertain whether Servizi Interbancari, Deutsche Bank, BNL, Findomestic Banca and Cariplo had implemented an agreement on the conditions applied to customers, in particular charging a uniform fee of 1,500 lire, equal to €0.77, on purchases of fuel by means of credit cards. The enquiry was coordinated with the Competition Authority, which opened a similar investigation into non-bank operators.

In view of the volume and importance of the material to be examined and the number of parties involved, the two authorities deferred the deadline for completion of the investigations until 30 June 2002.

The enquiry into UniCredito Italiano/Casse di risparmio di Bra, di Fossano, di Saluzzo and di Savigliano. – The investigation, which was begun in May 2001 in view of an alleged agreement between UniCredito Italiano and Cassa di risparmio di Fossano in the provincial deposit markets of Turin and Cuneo, was widened to include Casse di risparmio di Bra, di Saluzzo and di Savigliano. It was concluded with the imposition of a fine of €500,000 on UniCredito Italiano and one of €50,000 on Cassa di risparmio di Fossano (Order 39 of 11 March 2002).

Investigations opened in 2001. – In the course of an on-site inspection at Banca Valdichiana Credito Cooperativo Tosco-Umbro, evidence emerged of a possible agreement on the division of the market between the bank in question and Banca di Credito Cooperativo di Montepulciano, an arrangement in which the Federazione Toscana delle Banche di Credito Cooperativo was allegedly also a party. This led to the opening of an investigation under Articles 2 and 14 of Law 287/90 in November 2001.

Fact-finding enquiry into treasury services for public bodies. – A fact-finding enquiry into treasury services for public bodies was launched in 2001 under Article 12(2) of Law 287/90 in order to gauge competition in the sector, with particular regard being paid to barriers to entry, the market positions of the main operators and the methods by which public bodies award contracts for the provision of such services (Order 153/A of 25 June 2001).

MARKET SUPERVISION

Against the background of a slowing world economy, trends and events last year severely tested the structures and functional efficiency of the international financial markets. However, the further decline in share prices, the events of 11 September, the crisis in Argentina and the financial difficulties of several large companies did not have significant repercussions on the functioning of trading and post-trading systems.

The flexibility and continuity of operations shown by the markets and market support structures were largely the result of the action of prevention, stimulus and coordination carried out by financial supervisors, massive investment in technology in recent years, especially for the launch of the euro and the year 2000, and ad hoc monetary policy measures. The greater solidity of the markets and support structures also reflected more balanced behaviour by participants and managers than in the preceding financial crises.

In Italy, the supervisory authorities intensified their contacts with market participants and management companies in order to ensure orderly trading and continuity in portfolio reallocation in the wake of 11 September. In the hours immediately following the attacks, the high volatility of prices and the presence of many American participants in the market prompted the wholesale market in government securities (MTS) to close trading early. The Italian Stock Exchange, in accordance with a joint decision with the other European exchanges, remained open. The interbank deposit market (e-MID) followed suit in order to foster liquidity redistribution within the system, thereby facilitating the closure of settlement procedures. In the days that followed MTS progressively reintroduced the obligation for dealers to quote prices, so as to restore the market's high levels of liquidity rapidly. Like other central counterparties, the Italian Clearinghouse increased initial margin requirements and on one occasion called intraday margins.

During the year the supervisory authorities continued to examine the implications of the growing use of electronic trading systems for the structure and functioning of the financial markets. From the supervisory perspective, crucial aspects are: the risk of liquidity being split up between different circuits, which would undermine efficient price formation; the tendency of intermediaries to carry out in-house netting of orders of opposite sign received from customers (so-called internalization); the difficulty of clearly distinguishing between regulated markets, other trading circuits and trading activity performed by individual intermediaries.

In Europe the rationalization of the supply of trading and post-trading services continued. Strong existing synergies, the need to lower costs and the drive to strengthen the positions of the main management companies in view of their stock exchange listing spurred integration between trading circuits and settlement systems.

Italian management companies concentrated on planning and developing new services. The market companies, in particular, amended operating rules to improve price formation and increase the liquidity of listed securities. Further efforts were made to expand Italian structures' international presence and improve the quality of the services offered. The upgrading and expansion of the market structures constitute an important contribution to the overall efficiency and competitiveness of the Italian financial marketplace and a prerequisite for its active participation in European integration.

The wholesale market in government securities

The cash market. – The MTS cash market benefited especially from portfolio reallocation in favour of bonds. Average daily turnover rose by 16 per cent to €9.2 billion. BTPs accounted for 69 per cent of the total (compared with 72 per cent in 2000), CCTs for 20 per cent (compared with 16 per cent) and BOTs and CTZs for 10 per cent (compared with 9 per cent).

The bid-asked spread, an indicator of the market's efficiency and liquidity, narrowed again, from 6 to 4.8 basis points. In the first quarter of 2002, despite a slight contraction in activity, it narrowed further to 4.1 basis points.

Bank mergers and the withdrawal of some small dealers caused the number of market participants to decline further, from 188 to 175, but the number of primary dealers rose by 3 to 29. The number of "remote access" intermediaries increased from 27 to 30, including 16 primary dealers, while their market share fell from 44 to 38 per cent. The top five primary dealers handled 40 per cent of turnover (compared with 37 per cent in 2000), the top ten 60 per cent (as in the previous year). Trades between primary dealers accounted for more than 80 per cent of total volume.

Specialists in government securities continued to make a very substantial contribution to market efficiency and liquidity. Their average spread was smaller than that applied by the other primary dealers and their market share rose from 59 to 68 per cent. Italian specialists again were the most active in terms of turnover; they also reduced the bid-asked spread applied and expanded the number of securities they quoted and traded.

The repo market. – Average daily turnover rose from €22 billion in 2000 to almost €28 billion, divided fairly equally between the general collateral and special repo segments (59 and 41 per cent). In the first quarter of 2002 daily turnover increased to €33 billion, with peaks of more than €44 billion. Spot-next was again the most liquid maturity and accounted for 73 per cent of all transactions, followed by tom-next with 24 per cent. In the first few months of this year the two maturities together accounted for 98.2 per cent of total trades, with a more pronounced expansion in the shorter maturity.

Of the two segments, the general collateral segment recorded the larger increase in average daily turnover (37 per cent), confirming the widespread use of this instrument in intermediaries' liquidity management. Except for tom-next, daily rates were slightly lower on average than those on the corresponding maturities on the interbank deposit market.

Turnover in the special repo segment grew by 17 per cent and effectively signaled shortages of individual securities. On some occasions participants had to conclude contracts at very low interest rates in order to fulfil their securities settlement obligations.

Trading was concentrated in the early part of the day. This phenomenon is especially pronounced in the special repo segment, where participants tend to use the morning hours to adjust positions taken during previous trading day.

The grey market. – Pre-issue trading grew appreciably in 2001. Total turnover rose from €29 billion to €35 billion. Almost all trades continued to take place on the last trading day, coinciding with the auction day. Prices were generally in line with the issue prices.

BondVision. – The new regulated market, which was launched by MTS S.p.A. in August, allows primary dealers (banks and investment firms) to trade euro-area government securities over the Internet directly with institutional investors (insurance corporations and asset management companies) by means of a competitive auction. MTS S.pA. has a similar organized trading circuit that allows participants to trade private-sector bonds.

Other segments of the bond market

EuroMTS and other national MTSs. – The growth in the volume of spot trading in benchmark government securities on EuroMTS was in line with that recorded on the Italian market, while turnover diminished further in the repo segment.

Average daily spot turnover rose from €3.1 billion to €3.8 billion. Italian securities accounted for 42 per cent of the total, down from 48 per cent in 2000. The volume of trading in German securities contracted slightly, while trading in those of the other countries expanded. Trading in Greek government securities was introduced in January 2001.

The number of national circuits within the euro area that use the MTS platform and in which MTS S.p.A. holds a minority interest rose to five with the formation in April 2002 of MTS/Finland, in which the Italian management company is a shareholder by way of MTS/Belgium. MTS/Spain and MTS/Germany, the latter currently an operating division of EuroMTS Ltd, are expected to go live this year. Volume was up on almost all the circuits.

The corporate bond market. – Trading in euro-denominated corporate bonds on the markets managed by the MTS group remained broadly at the previous year’s levels, with a slight contraction on MTS/Corporate and reasonable growth on Eurocredit/MTS. Coredeal/MTS, a joint venture by EuroMTS Ltd and the International Securities Market Association, went operational in February 2002.

The over-the-counter market. – The data on the OTC business of MTS primary dealers confirms that the regulated market is the platform on which Italian government securities trading is concentrated and within which price formation largely takes place. There is a significant correlation of activity between the two segments, and the distribution of the securities traded between the OTC market and the regulated market is consistent with the two circuits’ different degree of liquidity. Most of the trades on the OTC market are still carried out by telephone; the use of electronic systems is more common among non-resident participants.

The interbank deposit market

Daily turnover on e-MID averaged €15.4 billion in 2001 and €16.9 billion in the first three months of 2002. Turnover in overnight funds again averaged just over €12 billion per day; its share of total turnover was 79 per cent in 2001, rising to 84 per cent in the first three months of this year. Average daily turnover was also unchanged in tom-next funds, the second most important maturity, which accounted for 11 per cent of the total.

Turnover on the large-deal segment averaged €3.5 billion per day and accounted for 24 per cent of the total volume of transactions in the four maturities traded on the segment; it rose to €4.6 billion in the first quarter of 2002, equal to 29 per cent of the total for the same maturities. The large-deal procedure has succeeded in bringing major international intermediaries into MID. Foreign banks carried out most of their activity on that segment, accounting for 42 per cent of the total volume of transactions.

Bank mergers and acquisitions led to a further decrease in the number of active participants, from 199 to 187. The concentration of trading per participant, measured as the combined market share of the ten most active intermediaries, declined from 34 to 29 per cent.

The number of "remote access" participants rose from 14 to 24 during the year and 25 at the end of March 2002. Their market share increased from 8 to 13 per cent during the year and further to 18 per cent in the first three months of 2002. These intermediaries' transactions were divided rather evenly between lending and fund-raising, in contrast with the previous year, when loan contracts clearly prevailed. They were highly concentrated on the overnight maturity (91 per cent). Forty per cent of the foreign banks' activity was carried out with Italian counterparties, but this business was still conducted with a small number of banks: 64 per cent with ten counterparties in the case of funding and 84 per cent for lending.

In July e-MID S.p.A. opened a circuit for trading dollar-denominated deposits, with a range of maturities and characteristics similar in every respect to those of the market in euro deposits. There are plans to introduce deposits denominated in other currencies as well.

The overnight rate on e-MID again proved to be a good indicator of liquidity conditions throughout the euro area, thanks above all to the increasing participation of foreign intermediaries. The relationship between price volatility and turnover was not significant, testifying to the interbank market's high liquidity and its ability to absorb increases in the volume of trading with no appreciable repercussions on prices.

Interest rate derivatives

In futures on long-term European government securities, there was a further concentration of activity on the ten-year Bund contract traded on

Eurex. By contrast, LIFFE took the lion's share of trades in short-term interest rate derivatives.

Daily turnover in overnight indexed swaps on the Eonia rate, launched in November 2000 on the e-MIDER market, averaged €1.5 billion in 2001 and €1.1 billion in the first three months of 2002. The most frequently used maturities were one week (30 per cent of the total), two weeks (15 per cent) and one month (14 per cent). Volume peaks coincided with the days in which the overnight rate was most volatile. Trading remained concentrated at a small number of Italian participants, the first five of which accounted for 60 per cent of the total.

Central securities depositories

In 2001 Monte Titoli ranked fourth among European central depositories by value of securities held. At the end of the year it had more than €2 trillion worth of securities in custody, compared with €7.86 trillion at Euroclear, €7.46 trillion at Clearstream and €2.9 trillion at Crest in the UK. Its participants comprised 653 intermediaries and 1,214 issuers, compared with 630 and 952, respectively, at the end of 2000. The number of participating banks increased from 344 to 379, while that of Italian securities firms and stockbrokers declined.

At face value, bonds deposited with Monte Titoli rose by 19.1 per cent, shares by 4 per cent and government securities by 2.3 per cent, while warrants showed further strong growth of 33.4 per cent. The value of foreign securities held by Monte Titoli with central depositories of issue remained around €2.7 billion. The number of transfers effected directly by participants increased by 31.3 per cent to more than 1.8 million.

Monte Titoli activated the Web Surfer function enabling participants to access the system via the Internet, brought securities lending into operation in support of settlement operations, activated a link with the Depository Trust Company in the US, and is preparing a plan for matching transactions at European level.

Settlement of transactions in securities

Pending the launch of Express II, securities transactions in Italy continue to be settled by the securities settlement service of the Bank of Italy and the Express system operated by Monte Titoli. In 2001 Express settled transactions amounting to €1.128 trillion. The relatively low number of transactions per day (an average of 383) contrasted with their large average value (e12 million), of which around 90 per cent involved government securities. Monetary policy operations accounted for 34 per cent of the transactions settled and other government securities trades for 56 per cent. Trades in shares and private bonds made up the remaining 10 per cent. The number of participants in Express, prevalently banks, rose to reach 114 at the end of the year.

The profile of Express's operating day continues to reflect a significant link with the Bank of Italy's settlement service. Express acquires the largest number of transactions and its queues grow when the net settlement system is operating. After the close of the Bank of Italy service gross settlement volume decreases and the queues tend to dwindle away.

On 5 March 2002 the Bank of Italy and Consob approved the operating rules of Express II, the net settlement system for non-derivative financial instruments, which Monte Titoli presented in October 2001. Pending the gradual start-up of Express II, which is scheduled to begin in mid-2003, the authorities will monitor the implementation of the system, checking on its functionality and its consistency with the rules that they approved.

Express II will consist of two components. The first will settle transactions on a net basis in the initial phase of the settlement day. The second, coinciding with the current Express gross settlement system, will take in the transactions not settled during the net cycle as well as those that intermediaries will directly submit to gross settlement.

The purposes for the creation of Express II are to move up transaction settlement to the early morning of the settlement day, to concentrate operations during the nighttime, to facilitate the handling of settlement fails, in part by means of a daytime netting cycle, to permit efficient utilization of collateral in respect of intraday credit from the central bank with mechanisms for the automatic setting aside of collateral, and to attenuate the impact on intermediaries' infrastructures.

Clearing and guarantee systems

The Clearinghouse's activity, concentrated on the equity market, reflected the fall in trading volume on the Italian Stock Exchange. Turnover on the Italian Derivatives Market (Idem) fell by 15 per cent in the course of 2001 and at the end of the year open interest was 20 per cent smaller. The average daily stock of margin deposits with the Clearinghouse declined by 27 per cent.

The Clearinghouse is working on a plan for extending the central counterparty function to the regulated spot markets managed by Borsa Italiana S.p.A. In addition, it has signed a preliminary letter of intent with Clearnet and MTS S.p.A. for an agreement to offer the central counterparty service to the participants of the wholesale market in Italian government securities.

The regulatory framework

In the second half of 2001 the European Commission concluded an extensive consultation with the financial community on a document detailing the proposed amendments to the Investment Services Directive. In the light of the comments received, the Commission prepared a new version and began a new round of consultations. A text should be finalized this year.

In November 2001 the Finance Committee of the Italian Chamber of Deputies began a fact-finding inquiry into the state of implementation of the 1998 Consolidated Law on Financial Intermediation. The Committee heard representatives of the Italian financial community, experts and sectoral authorities. The results of the first four years of the Consolidated Law were viewed as basically positive, although requests were made for specific amendments to adapt it to domestic and international developments.

Legislative Decree 210 of 12 April 2001 transposed Directive 98/26/EC on settlement finality in payment and securities settlement systems.

In February 2002 the Bank of Italy and Consob issued regulations on the securities markets and central securities depositories that provide a single frame of reference for data flows from management companies to the supervisory authorities. The document consists of five parts, each treating a different area subject to supervision. The requests for information regard both the systems and the management companies and are grouped into three separate titles concerning the performance of the activity, shareholders and corporate officers, and the procedure for carrying out supervision.

Supervision of market management companies

Assessment of the efficiency of the systems subject to supervision necessitates constant monitoring based on detailed, timely and reliable information and subsequent processing and analysis. In 2001 further action was taken to improve the quality of data flows and to achieve better specification and use of the necessary indicators for evaluating the functioning and solidity of systems.

Supervisory evaluation of management companies’ ability to ensure the efficiency, orderly functioning and stability of the systems they operate involves checks on their fulfilment of the requirements for performing the activity and on the compliance of their organizational and operating rules with the regulatory framework. A second series of checks concerns the solidity of the mechanisms in place to control the risks typical of the activities performed.

Special meetings with corporate officers of the management companies were stepped up with a view to enhancing the ability to detect possible anomalies. Meetings with the supervised companies were held in order to examine the possible impact of restructuring and expansion projects on the efficiency and stability of systems. The results of these analyses were discussed with the other institutionally responsible authorities.

PAYMENT SYSTEM OVERSIGHT AND SERVICES

Cooperation in international fora in 2001 continued to concentrate on reinforcing financial stability and on the effective operation of payment systems. Central banks strengthened their commitment to enhance the security and efficiency of retail transactions in order to safeguard public confidence in the currency and in other payment instruments.

At the Bank for International Settlements, participating central banks began implementation of the core principles for guaranteeing the reliability and efficiency of systemically important payment systems, which were published in January 2001. Central banks in many industrial countries, including Italy, verified the compliance of their payment systems with the principles and that of their oversight policies with the transparency codes for monetary and financial authorities.

Following the events of 11 September the central banks, in their twofold role as oversight authorities and payment system operators, acted to reinforce security safeguards for system and market infrastructures. The mandate of the OECD's Financial Action Task Force was extended to preventing use of the financial system to support terrorist activities.

In the sphere of retail payments, BIS central banks are working together to develop common lines of action to foster innovation and respond to the integration of markets, to the increase in cross-border payments and to the growing presence of new intermediaries, including non-banks, in payment circuits.

The Eurosystem continued its review of the long-term strategy for TARGET. There is a consensus that TARGET needs to offer users a broader range of services and more efficient operating conditions while maintaining national central banks' business relationships with their respective banking communities. Central banks' activities will be directed to harmonizing access to the system, the range of services offered and pricing of TARGET core services provided at the national level.

The Eurosystem has played an active role in retail payment systems. Study has been begun to define best practices for the security of electronic money schemes and to analyze its use in electronic commerce.

With the changeover to the euro, there is a more pressing need for a single payment area in which to harmonize the features of individual instruments and reduce disparities of treatment. This was the thrust of European Commission Regulation 2560, issued in December 2001. The realization of a European cross-border payment infrastructure and the adoption of common technical and operating standards for the various instruments will contribute to the process.

In Italy, there was significant progress in the preparation of the implementing regulations for Article 146 of the 1993 Banking Law. The draft reflects international standards and the sectoral rules enacted so far by the Bank of Italy specifying jurisdictional matters and the forms in which the oversight function is to be exercised.

Verification of the efficiency of banking payment circuits and instruments continued, with broad involvement of the Bank of Italy's branches. The monitoring was extended to postal payment instruments and to progress in integrating the bank and postal circuits. Action in the area of new payment instruments, taken in cooperation with the Banking Supervision Department, sought to facilitate the development of secure, functional services.

In keeping with international initiatives, the Bank of Italy began an inquiry into potential infrastructural weaknesses and measures for improving the operational reliability of the systems it operates. It also began a survey of the Italian financial community's preparedness for disastrous events.

Work to upgrade the BI-REL gross settlement system and modify the securities settlement system proceeded. The purpose is to make the Italian financial marketplace more competitive, with a view to its becoming a pole of attraction for non-residents and for future new members of the Economic and Monetary Union.

In the operation of the state treasury service, the Bank stepped up its action to extend computerized spending procedures using the linkage of the single public administration network with the National Interbank Network. Major initiatives were undertaken for greater speed and security in the computerized public administration payment system sponsored by the Bank of Italy, the State Accounting Office, the State Audit Office, and the Authority for Computerization of the Public Administration. The progressive integration of the treasury service into the national payment system made possible the computerized operation of treasury services for the tax agencies created by the reform of the former Ministry of Finance. Contacts with other public agencies interested in using the electronic network to rationalize their collection and payment services were initiated. The Bank is participating in a major project by the Ministry for the Economy and Finance to revise and harmonize the state treasury service regulations.

Oversight activities

Institutional issues. – The international tendency to formalize and define the oversight function, its sphere of application and the ways in which it is exercised gathered force last year. Some countries enacted legislation to redefine the powers of central banks over payment systems, specifying the main areas of interest and the instruments that can be used. In others, in order to serve the need to make the institutional boundaries of the function clear to the market, in accordance with the broader principle of financial policy transparency, central banks published technical reports on their activities.

Eurosystem oversight policy was directed to establishing the conditions for the institution of an integrated euro payments area. The central banks designed actions to improve banking services, starting from an analysis of the impediments to efficient cross-border payments.

In this framework, Italian banks acted to create the technical and operating conditions for increasing the efficiency of cross-border credit transfers. In the first half of the year the assignment of international bank account numbers (IBAN) to customers was completed. In June the new IBANs were extended to national credit transfers and collections and to interbank corporate banking operations. A survey of the banking system found that IBANs are very rarely used in transactions settled via correspondent banking accounts but are relatively common in cross-border transactions involving TARGET and other private systems. Work proceeds towards finalizing the interbank and customer transaction procedures which, together with bank identification codes, are necessary for the straight through processing standard, i.e. full automation of the crediting of foreign payments to the beneficiary's account. Finally, Italian banks are involved in preparing European action to end the practice of "double charging" for cross-border credit transfers to both payer and beneficiary by adopting a single multilateral interchange fee.

Greater attention was paid to the development of electronic payments, and in particular to the requirements of security in open networks, with further study of their consequences and of the supply structure at European level. The aim is to establish the procedures for setting guidelines and monitoring the new instruments and infrastructures in a way that combines growth, financial stability and efficiency.

The drafting of the regulatory framework specifying Article 146 of the Banking Law continued, to disclose the Bank of Italy's oversight objectives in each area of interest (systems, infrastructures, instruments) and the practical procedures for exercising the function. The drafting of the provisions benefited from the extension of regulatory activity to sectoral matters, with the direct issue of provisions and the support of the competent legislative fora.

A first area for sectoral intervention was the transposition of the directives on electronic money, on the digital signature, and on cross-border credit transfers. The first of these measures empowers the Bank of Italy as oversight authority to issue provisions to guarantee the reliability of e-money schemes and the regular operation of circuits. Administrative sanctions are envisaged for violations. The law on electronic signatures (Legislative Decree 10 of 23 January 2002), transposing Directive 99/93/EC, cites the areas of interest to the oversight authority for the application of electronic signatures to payments, providing for preliminary agreement between the Prime Minister’s Office and the Bank of Italy. Finally, Decree 456 of the Minister for the Economy and Finance, 13 December 2001, issued at the proposal of the Bank of Italy, governs complaint procedures concerning cross-border credit transfers and the settlement of disputes by the competent bodies.

Other sectoral interventions include the “postal regulatory” decree (Presidential Decree 144 of 14 March 2001) and the regulatory framework for the operation of the interbank database on irregular cheques and payment cards (Legislative Decree 507 of 30 December 1999 and its implementing regulations). The former recognizes the Bank of Italy’s role as oversight authority and mandates it to further the integration of the post office into the national payment system and interoperability between the banking and postal circuits.

Traditional payment instruments. – The number of transactions settled using non-cash instruments again rose considerably, by 10.8 per cent compared with 7.1 per cent in 2000. This growth continued into 2002 as a result of the public’s large-scale use of payment cards, even for small purchases, which facilitated the cash changeover during the period of dual circulation.

Turning to individual components, there was an increase in collection orders, direct debits and bank receipts (8.5 per cent), credit transfers (6.3 per cent), and cheques (3.2 per cent). As in recent years, there was especially sharp growth in debit card transactions (33 per cent). The introduction of the euro coincided with further growth of 55 per cent in January 2002 compared with January 2001 and an average of 27 per cent in the two following months. Overall, there were nearly 23 million debit cards outstanding at the end of the year, an increase of 7.9 per cent.

The volume of ATM cash withdrawals, which rose by 6.7 per cent in 2001, increased very sharply in January 2002 (50 per cent), less rapidly in

February and March (8 per cent 2 per cent). Credit card transactions increased by 15.5 per cent in number in 2001 and continued to grow at about the same pace in the first quarter of 2002.

A longer view finds important changes in market preferences, with a substantial shift from paper to electronic instruments. However, the pace and features of this development vary between sectors of the economy. Households have switched significantly to direct debits for recurrent payments and to payment cards (from 48 per cent of total non-cash payments in 1996 to 75 per cent in 2001), corresponding to a substantial reduction in the use of cheques (from 46 to 20 per cent).

For non-financial firms, the most common means of payment was electronic bank receipts, which accounted for 50 per cent of payments, followed by cheques with 27 per cent and credit transfers with 23 per cent; in 1996, the figures had been 46, 37 and 16 per cent respectively. There were two main trends: on the one hand, greater use of electronic collection and payment procedures (bank receipts and credit transfers), owing in part to the growth of interbank corporate banking and cash management services; and on the other, a slower decline than in other sectors in the use of cheques, which despite a decrease in the period considered continued to account for nearly a quarter of all corporate payments in 2001.

Among financial institutions and in government, cheques now account for a minor share of total payments (12 per cent in 2001, compared with 32 per cent in 1996). The use of credit transfers has risen significantly (to 67 per cent, compared with 54 per cent), as has that of collection orders (to 22 from 14 per cent).

In this context, considerable importance attaches to the efficiency and transparency of payment services, which still display significant variability in the conduct of intermediaries and fall far short of the nearly uniform execution times and costs found in interbank transactions. To take account of the variability of customer treatment found in the annual survey of banks, the Bank of Italy stepped up its monitoring of payment service quality last year, extending consideration to local factors that affect relations with customers. Through its branches, the Bank carried out a survey of bank branches focusing on procedures and fees for cheques and for domestic and cross-border credit transfers. This initiative is designed to achieve close cooperation and interaction with local banks.

By the end of April 2002 a first group of 280 bank branches nationwide had been surveyed. Given its complexity, the project is being realized gradually; in the course of the year it will be extended to a larger number of branches. The survey significantly improves our knowledge of payment system developments. The results reveal the persistence of inadequate attention to the information needs of customers and to the efficiency of payment services. As to the state of individual bank branches, apart from confirming the long average time needed to cash cheques or execute credit transfers and the widespread use of implicit charges – which were already highlighted by general surveys (Table 60) – the survey observed substantial dispersion in the fees charged by the branches' banks.

Table 60

HANDLING TIME FOR CHEQUES AND CREDIT TRANSFERS
(number of working days)

	Average			Minimum			Maximum		
	1999	2000	2001	1999	2000	2001	1999	2000	2001
Cheques									
Value date	4.0	4.0	3.9	1.7	1.9	2.2	6.2	6.2	6.1
Availability of funds	6.7	6.7	6.6	4.7	5.4	5.5	8.3	8.7	7.9
Finality	8.1	10.0	9.4	6.8	8.4	8.1	9.6	11.6	10.0
Credit transfers									
Value date	1.7	2.0	2.1	1.5	1.3	1.9	3.7	4.0	4.5
Availability of funds	3.0	2.6	2.5	2.1	0.9	1.9	5.2	3.2	3.8

Action to improve integration between the bank and postal circuits continued, with interventions to prompt development of the postal circuit consistent with the broader aims of efficiency and reliability for the integrated systems, which is indispensable to quality customer services. The Bank of Italy is extending its monitoring activity to the post office, in the light of the regulation governing postal banking services.

Electronic instruments. – The market continued to furnish a raft of proposals for new electronic money products. There was a proliferation of projects by banks and other operators for multi-use prepaid cards for small amounts and usable mainly for payments via the Internet. Faced with the large number of proposals, the limited actual use of the cards, and a regulatory framework that is still in flux, the Bank initiated dialogue with operators to guide this industry towards secure, reliable and economic systems. A communication released in February 2001 publicized the objectives and the areas of interest for e-money circuits and products. Specifically, it pointed to the need for reliability, integrity and efficiency so that these circuits do not risk undermining public confidence in the currency and in non-cash instruments. The initiative, which involved the Bank's branches, proved effective in monitoring the phenomenon; it was carried out in close cooperation with the banking supervisory function and, as regards possible illicit uses, with the Italian Foreign Exchange Office.

Internet payment services. – Further surveys of the use of new information and communications technologies for payments were conducted. A Eurostat study released in February 2002 found that in Italy as in other European countries large firms rely more heavily than smaller firms on the Internet, both for payments and for electronic commerce. Special surveys focused on the main trends at Italian firms and the principal obstacles to the expanded use of Internet payment instruments.

The Bank of Italy flanked its traditional survey of manufacturing firms with one of Internet use by non-financial service firms. Virtually all service firms (95 per cent, including 70 per cent with fewer than 50 workers) were on the Internet, and 57 per cent had their own web sites. In this sector, 20 per cent of firms were engaged in electronic commerce and 30 per cent had a portal. Once they are linked up, firms make significant use of on-line banking services to check current accounts (71 per cent), to make collections and payments (63 per cent), to perform corporate banking operations (36 per cent), and to handle invoices (7 per cent). There are no significant geographical disparities in Internet use. The main obstacle in the service sector appears to be reluctance to put part of one's business or products on the web rather than lack of technology, trained personnel, or finance. Of the firms that effected on-line sales, 27.9 per cent also made payments; of those making on-line purchases, 34.2 per cent.

The survey of manufacturing firms also found a strong propensity to turn to the Internet to obtain current account information and to make collections and payments, but only marginally for on-line invoicing. Geographically, manufacturers in the South, especially the smaller ones, make less use of ICT, both in terms of web sites and for on-line banking services.

The decisive factor in households' decisions to make payments on-line continues to be certainty of outcome. While credit cards continue to be the main instrument for Internet payments – with 10,000 transactions a day, the web accounted for 2 per cent of all credit card transactions in 2001 – the dynamic introduction of new remote payment products and customers' heightened sensitivity to on-line security suggest that there is still unsatisfied demand and further growth potential.

Italian households and firms made nearly 10,000 on-line credit transfers a day in the fourth quarter of 2001 for a total of about one million, accounting for 1 per cent of all bank credit transfers. The Bank of Italy's survey of banks' use of non-branch distribution channels found that in the fourth quarter 62 per cent of bank customers who had effected at least one Internet transaction had made or received payments on-line. On-line customers clearly tend to use the new channel for all the operations that are readily standardized (monitoring current accounts, credit transfers, securities transactions, etc.). In the fourth quarter transaction orders via the Internet averaged more than 120,000 a day.

Infrastructure. – An important aspect of payment system oversight last year was the assessment of operating risks to infrastructure. Initiatives to control operating risks with potentially systemic repercussions were stepped up and the groundwork for rational guidance in this area was put in place.

The events of 11 September altered priorities, making it more urgent to guarantee continued operability of infrastructures even in case of disasters whose actual scope and development are basically unpredictable. In keeping with international guidelines, and alongside analogous initiatives by the Bank of Italy's banking supervision and market oversight divisions, the payment oversight unit undertook a study of the system to identify weak points in the emergency procedures and the security safeguards of the main payment system infrastructures.

To check the real capacity of the ATM and POS circuits to handle the predictable increase in transactions stemming from the cash changeover to the euro, the Bank conducted intensive monitoring and sensitization of the operators involved in those circuits. Combined with technical and organizational measures to circumscribe the systemic effects of possible failures, this permitted the rapid resolution of several ATM breakdowns in the first few days of January.

Given the stronger and stronger integration of markets, infrastructure operators are increasingly offering new products to ensure the security of transactions in open networks, especially cross-border. In this context, the interoperability of digital signature certificates is essential to rapid expansion in the instrument's use. In the area of interoperability in general, the Bank acted to promote the integration of the electronic identity card with bank and postal smart cards.

Direct provision of payment services

Cash settlement. – The flow of funds handled by the Bank of Italy's clearing and settlement systems last year amounted to €40 trillion, about the same as in 2000 and equal to almost 33 times the Italian GDP. Some 88 per cent of the payments were settled via the BI-REL gross settlement system, which handled a daily volume of 46,000 transactions worth €145 billion. Payments channeled through the BI-COMP retail clearing system, which accounted for 6 per cent of the total, increased by 8 per cent. The multilateral cash balances generated by the securities settlement procedure diminished by 17 per cent, reflecting the fact that in November 2000 settlement of monetary policy operations with the Eurosystem was reassigned to the Express gross settlement system operated by Monte Titoli S.p.A.

The value of domestic payments via BI-REL decreased by about 7 per cent, owing to two factors: a contraction of trading between resident banks on the electronic interbank deposit market e-MID to the benefit of transactions with non-resident institutions and the further reduction of 24 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 banking accounts to settle cross-border payments in euros.

The contraction of domestic flows was offset by an increase of about 7 per cent in cross-border payments, confirming the growing internationalization of the Italian financial marketplace. The rise in cross-border payments also reflects the increased use of BI-REL to settle commercial transactions.

TARGET consolidated its leadership among large-value euro payment systems, with average daily settlements worth €1.3 trillion, 26 per cent more than in 2000. TARGET was the recipient of 74 per cent of funds transfers through the main EU payment systems. The largest alternative system, the Euro Banking Association's Euro 1, received an average daily inflow of more than €200 billion, an increase of 5 per cent. Within TARGET, BI-REL is the fourth-largest national system in terms of value, accounting for 8.2 per cent, and the second in volume with more than 19 per cent.

The new BI-REL project. – A series of changes to BI-REL are planned to improve quality and extend the range of services. The plans, which were widely endorsed by banks, provide for the most advanced technology to facilitate international interoperability and greater interactivity. Intermediaries will be able to use the new functions flexibly under procedures that are consistent with specific operating needs.

Some of the measures planned will extend the range and heighten the efficiency of the correspondent banking services that the Bank of Italy provides to institutions outside the euro area. Enhancing these services is part of the programme to further internationalize the Italian financial marketplace and is designed to foster economic cooperation with key partners (in Central and Eastern Europe, the Mediterranean and Latin America).

The Continuous Linked Settlement (CLS) multicurrency clearing system for foreign exchange transactions will go operational in the second half of 2002. In the new system the transfer of credit in one currency depends on simultaneous transfer of the other, which reduces settlement risk. At first CLS will handle seven currencies, including the euro. Two Italian banks will belong to the system, and transactions settled in BI-REL will be channeled through a single settlement agent.

Other studies and adjustments. – With the approval by the G-10 central bank governors of the core principles for systemically important payment systems and their incorporation into the standards set by the FSF, the principles have become the most important yardstick for gauging the reliability and efficiency of domestic and international payment systems. In this context the IMF has begun a series of actions addressed both to emerging and to industrial countries to assess compliance with international standards and good practices on transparency in monetary and financial policy. As part of an exercise bearing on some essential financial standards for the Report on the Observance of Standards and Codes, the Bank of Italy conducted a self-assessment of BI-REL. The results, which confirmed the system's full compliance with the core principles, have been transmitted to the IMF and the ECB.

Securities settlement. – The net settlement procedure handled securities transactions worth €29 trillion last year, an increase of €2.5 trillion or 9.7 per cent compared with 2000. The rise reflects the increase in government securities transactions both on the MTS electronic market and on the OTC market. Turnover in shares amounted to €1.4 trillion, a decrease of 26 per cent.

The Express gross securities settlement system for OTC securities trading and monetary policy operations with the Eurosystem began activity in the final months of 2000. The cash leg of the securities transactions entered into Express is settled through BI-REL. In 2001 the system executed an average of 340 OTC payments a day for a value of €2.9 billion (2.8 per cent of all the transactions settled through BI-REL). On monetary policy repo settlement days, the daily average for these transactions was almost €7 billion. Overall, the use of Express to settle OTC trades was modest last year. Intermediaries preferred the net settlement system and used Express for just 5 per cent of their contracts (3 per cent by value).

The use of securities as collateral. – The volume of securities deposited as collateral for Eurosystem monetary policy operations and intraday liquidity from the Eurosystem averaged €690 billion in 2001, compared with €675 billion in 2000; foreign securities made up 23 per cent of the amount. The cross-border use of securities as collateral grew by 33 per cent; the increase came both through the Correspondent Central Banking Model and through bilateral links between national securities depositories. Collateral provided by Italian banks for monetary policy repos diminished significantly, while that for intraday liquidity remained broadly unchanged at around €15 billion. Within the Model the Bank of Italy continued to be the leading correspondent central bank, handling over 30 per cent of the securities deposited by non-resident intermediaries for their own central banks.

Given the difficulties of the market in creating an alternative to the Correspondent Model and in view of intermediaries' appreciation of the Model's reliability, the Eurosystem took a series of measures to enhance its operating efficiency. Accordingly, the linkage between European central banks was adapted to the new SWIFT message format, and the factors impeding rapid execution in each country were examined. Measures are now being designed to increase automation within the national central banks, to enhance the efficiency of Model transactions involving depository banks, and to utilize real-time gross settlement procedures for national securities settlement systems.

Government payment services. – The initiatives undertaken during the year to extend the use of electronic systems and interbank procedures for government payments resulted in further simplification and greater efficiency, reliability, and quality of the treasury service.

Starting on 1 January 2001 the Bank of Italy began providing an electronic data flow on revenues accruing to the Treasury, using the interlink between the Single Public Administration Network and the National Interbank Network. The Bank continued to work in cooperation with the State Audit Office to dematerialize the spending orders, acts and documents required by state accounting rules, with a view to more extensive use of electronic reporting systems.

Presidential Decree 482 of 15 December 2001 simplified government payments and collections abroad. As part of the operation of the State treasury service, the Bank of Italy was assigned to execute euro payments and collections in EMU member countries. The new procedure will go operational when the Ministry for the Economy and Finance issues the implementing rules, after consulting the Bank and the Italian Foreign Exchange Office.

The Bank is engaged, along with the State Accounting Office, the Authority for Computerization of the Public Administration and the State Audit Office, in creating a Computerized Public Administration Payment

System. The system is open to government agencies that use the State treasury service and will be extended in the future to other central and local government bodies. Participating agencies must link their information systems into the Single Public Administration Network for electronic transfer of payment and collection orders, and they must use digital signatures to guarantee authenticity and integrity.

As part of the action to create a computerized State treasury service integrated with the overall payment system, a measure in course of publication in the *Gazzetta Ufficiale* revises pension payment procedures, providing for the use of bank and postal credit transfers. A ministerial decree will extend this procedure to the payment of recurrent outlays for salaries and other compensation.

State treasury rules will be adapted to the Computerized Public Administration Payment System by revising and coordinating legislative and regulatory provisions. Initiatives were undertaken last year to optimize the flow of financial data and information on public sector payments and receipts for the use of the Ministry for the Economy and Finance. The availability of data on-line permits uniform and rapid processing and analysis of the data by the State Accounting Office for monitoring public spending.

The progressive implementation of measures for computerized treasury management and the steadily expanding use of the National Interbank Network to execute government payments 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 former Ministry of Finance. Since March 2001 electronic payments for these agencies have been increasing steadily.

THE GOVERNOR'S CONCLUDING REMARKS

The changeover to the euro has been achieved according to plan, with an orderly introduction of the new notes and coins. Two billion 454 million banknotes with a total value of €98 billion were printed between June 1999 and 31 December 2001. By yesterday, 96 per cent of the lira banknotes in circulation at the end of 2001 in terms of value had been withdrawn.

Managerial, clerical and production staff, both at Head Office and in the branches, have worked together for this important event intelligently and in a spirit of service.

The functions performed by the Bank are increasing, and are also becoming more complex.

The Bank of Italy participates in the setting of European monetary policy and is responsible for its implementation at the national level.

International cooperation calls for the Bank to make an active contribution in the European institutions, the Bank for International Settlements, multilateral organizations and the informal groups of the leading industrial and emerging countries.

The Bank is playing its part in the major changes occurring in the economy and finance through its intensive analysis, data collection and documentation, the monitoring of markets and payment systems, the supervision of the banking sector and the safeguarding of competition in that sector.

The branches have been assigned new duties in addition to their traditional activities. They have begun to verify that commercial banks' branches comply with the transparency regulations. The Regional Reports are gaining importance, partly as a result of the institutional and administrative decentralization introduced by the amendment to the Constitution. The Reports are a valuable source of information for the local economies, adding to the knowledge and analysis of the national economy.

The Bank's Departments are continuing to develop a programme for electronic treasury operations in order to integrate public sector transactions into the payment system. In collaboration with the banks, work has begun on expanding the services offered by the gross settlement system;

together with the introduction of new procedures for the settlement of securities, these measures will make the Italian financial market more competitive.

The Bank of Italy and the Italian Foreign Exchange Office, working in conjunction with state authorities, are combating the financing of terrorism, a task in which there have been important instances of international coordination.

The results of the analysis of the Italian and world economies, the work of the Bank in monetary policy and banking supervision, together with accounting data and information on internal administrative activities, are systematically presented in this Report, which has been prepared by the Economic Research Department and, where applicable, by the Banking Supervision Department, with the collaboration of all the central departments. The Report is the fundamental document through which the Bank gives a detailed account of its operations.

In performing its functions and through its analyses and proposals, the Bank of Italy pursues the general interest, aims for the common good and serves the country.

Internally, it pays constant attention to technological innovation, training and the scientific and technical preparation of its staff.

On behalf of the Board of Directors, the Directorate and myself, I wish to express heartfelt thanks to the managers and all the members of the Bank's staff.

The world economy

The tragic events of 11 September and the consequent political and military tensions caused turmoil in the financial markets and uncertainty that could have spread from the United States to other markets and economies. The prompt economic policy reaction and cooperation among the monetary authorities in the leading countries prevented the triggering of a profound worldwide crisis.

The rise in the price of oil and the abrupt slowdown in investment in technology had already put a brake on the growth of output in the industrial countries in the second half of 2000.

The growth rate in the developed economies, which was 3.9 per cent in 2000, declined to 1.1 per cent in the first six months of 2001. Output fell in the second half of the year, partly as a result of the recession in Japan and the slowdown in Europe. Growth remained rapid in the emerging economies.

World output rose by 2.5 per cent in the year as a whole, compared with 4.7 per cent in 2000.

World trade in goods and services had increased by 12 per cent in 2000 but fell sharply in the course of 2001 and remained stationary on an annual average basis.

The US economy

Economic activity in the United States declined only in the third quarter, in connection with the fall in consumption in September.

Monetary policy and tax reductions improved expectations and stimulated domestic demand. Consumption responded immediately. In the fourth quarter output began to grow once more at an annual rate of 1.7 per cent.

In view of the clear signs of an economic slowdown, official interest rates began to be cut at the very beginning of 2001. A further ten reductions were made as the year proceeded. The federal funds rate was brought down from 6.5 per cent at the end of 2000 to 1.75 per cent last December. Consumer price inflation declined from over 3 per cent in the first half of the year to 1.6 per cent at the end of 2001.

The fall in interest rates buoyed investment in housing. The liquid funds released by the renegotiation of mortgage loans increased household spending capacity.

The five-year programme of tax reductions launched in May 2001 raised consumption and firms' expectations and checked the fall in investment.

Taxes were cut by $70 billion in 2001. Revenue is scheduled to fall by $40 billion in 2002 as a result of the programme. The plan to extend the reductions for a second five-year period ending in 2011 will raise the permanent income of the private sector.

To meet defence and rebuilding costs, support the sectors worst hit by the crisis, encourage investment and increase unemployment benefits, new measures were approved immediately after 11 September and again last March, which will increase disposable income in the private sector by a further $100 billion in 2002.

The budget proposal for 2003, which was presented to Congress in February, provides for further tax cuts and increases in expenditure totaling $100 billion in 2002 as well. A new programme of expenditure on internal and external security costing around $30 billion was drawn up in April.

The budget measures adopted to date will inject the equivalent of 1.4 per cent of GDP into the economy this year. If the measures now under discussion are approved, the fiscal stimulus will rise to 2.5 per cent.

Continued productivity growth and competition have curbed inflation, allowing monetary policy ample room for manoeuvre.

Thanks to the scope for adjusting employment swiftly, labour productivity rose even as economic activity was declining. It increased by 1.9 per cent on an annual average basis in 2001 and by 5.5 per cent in the last quarter, benefiting investment earnings and encouraging the recovery to start up rapidly.

GDP growth leapt to 5.6 per cent in the first quarter of this year; labour productivity increased further, at an annual rate of 8 per cent. In April consumer price inflation was at a twelve-month rate of 1.6 per cent and the unemployment rate rose to 6 per cent; payroll employment began to rise again, after having declined by a total of 1,300,000 jobs over several months ending in March.

In the first quarter investment in housing began to rise again, consumption continued to increase, despite the fall in purchases of durable goods, and destocking virtually came to a halt. Public expenditure gave significant direct support to production.

Investment in equipment continued to fall but the decline in spending on machinery and software levelled off. After decreasing for five quarters, exports began to rise again, indicating an improvement in the world economy.

Sustainability of the recovery

During the decade-long expansion, consumption was fueled by the steady increase in employment and per capita earnings. After contracting in the first half of the 1990s, the share of value added accruing to payroll workers grew again.

The increase in consumption marginally exceeded that in GDP; as a result, households' saving rate fell to zero and their debt rose from 76 to 96 per cent of disposable income.

Consumption was also sustained by the increase in wealth in the form of securities and property.

The growth in investment lasted for ten years; its composition gradually shifted in favour of information technology and other high-tech capital expenditure. Investment was covered by firms' ample profits. The net financial flows of the corporate sector, which are normally negative in rapidly growing economies, swung from large deficits in the 1980s to balance in the first half of the 1990s; in the last few years they have turned negative again. In 2001 the sector's ratio of debt to shareholders' equity rose back to the level obtaining at the beginning of the 1990s.

The fall in share prices in the days immediately following the attacks of 11 September was rapidly reversed. Profits are still lower than in earlier years. Above all, expectations of earnings growth have been scaled back. The risk premium has risen during the period of slower economic growth; price/earnings ratios are still high. A clearer assessment of stock markets will only become possible as the recovery proceeds.

During 2001 the dollar appreciated against the euro and the yen. In the last five years non-residents' purchases of shares and bonds on US markets comfortably exceeded the increase in the country's net external debt. They created a reservoir of more than $1,500 billion for residents to invest abroad.

The inflow of investment depends on the outlook for growth and profits, but a further increase in the external imbalance may curb the volume of financial capital attracted to the United States by depressing the exchange rate of the dollar.

The structural adjustment of the public finances in the early 1990s and the prolonged rapid growth of the economy produced ever larger budget surpluses in the last few years.

According to the official forecasts published at the beginning of 2001, the budget surplus was expected to be $313 billion in 2002, rising to $800 billion in 2010 and nearly $900 billion in 2011.

The tax reductions approved in 2001 and the early months of 2002 will have a significant impact, reducing the forecast surpluses by about half.

The forecasts have been revised yet again in the light of the additional tax cuts and expenditure increases now under discussion. The budget is now expected to move close to balance during the rest of the decade. In this scenario, public debt would not rise in absolute terms and would fall from 57 per cent of GDP in 2001 to much less than that at the end of the decade.

Assuming that no additional expenditure programmes are introduced, the planned multi-year reduction in the tax burden appears sustainable in the light of the information currently available.

The spread of the new technologies in industry and services still has some way to go. Prudent estimates indicate that labour productivity will continue to increase in the next few years at an annual rate of between 2 and 2.5 per cent.

The strong growth in GDP in the first quarter was largely due to the smaller reduction in stocks, which will continue to contribute to output as restocking gets under way. The interest rate cuts made in 2001 have not yet produced their full effects.

Growth will inevitably slow down from the exceptional pace of the first quarter. The forecasts for the second half of the year indicate rates of between 3.5 and 4.5 per cent.

Outlook for the world economy

The recovery in the US economy will tend to gain momentum in 2003.

Its durability will depend in part on recovery and continued growth in the other industrial countries and the emerging countries.

The forecasts for the world economy were revised downwards several times in 2001 and again in the early months of this year.

The outlook was clouded by the difficult situation in Argentina and other Latin American countries and the fears caused by the failure of a large US corporation. The forecasts probably underestimated the effects of the expansionary economic policy in the United States.

According to the International Monetary Fund, GDP growth in China is likely to exceed 7 per cent this year and next; in India it should be between 5 and 6 per cent in both years and in the developing countries as a whole it will probably average 4 per cent this year and 5 per cent in 2003. The transition economies are expected to grow at rates of around 4 per cent.

In Japan industrial production fell by 15 per cent in the course of 2001; between the beginning of 1999 and the end of 2000 it had risen steadily by a total of 10 per cent in response to the sharp acceleration in world trade.

GDP showed a pronounced fall from the second quarter of 2001 onwards.

In the first quarter of this year industrial production began to rise again, benefiting from the recovery in the United States and the pick-up in world trade.

Japan's large current account surplus and the further increase in the country's net creditor position are responsible for the resilience of the yen, despite short-term interest rates being close to zero. Medium-term interest rates are also extremely low, but the combination of deflation, which raises the cost of funds, and the excess capacity created in the second half of the 1980s have impeded a recovery in investment. The ratio of capital to output is high.

The difficult situation and reduced profitability of firms are reflected in widespread losses on bank lending.

The allocation mechanisms are such that the enormous resources of the leading industrial economy of the Far East are underutilized. The economy is still beset by rigidities that make it difficult to switch labour and the other resources between sectors in response to market stimuli and international demand.

It is essential that the efforts to rehabilitate and consolidate the banking system continue.

For the economy to grow again, the recovery in foreign demand will have to be accompanied by an increase in domestic demand. Reforms have been sketched out that should ensure a better use of resources; by limiting investment in infrastructure, a start has been made on redirecting public expenditure with the aim of restoring the economy's flexibility and efficiency.

The European economies slowed down less than the US economy in 2001.

Against the background of cyclical weakness and a gradual easing of inflationary pressures, the Governing Council of the European Central Bank decided to reduce the reference interest rates on a number of occasions. Both nominal and real short-term euro interest rates are low today.

The growth in the monetary aggregates rose to a high level in the second half of the year, partly owing to temporary factors. The euro weakened slightly in effective terms during the year; it has strengthened appreciably in the last few weeks.

The slope of the yield curve has steepened in the early months of this year as the signs of a recovery in the world economy have strengthened; it implies that the markets expect short-term interest rates to rise by more than half a point by the end of the year.

The main euro-area economies continue to have structural rigidities that hinder the growth in productivity and a swift recovery in economic activity. Their public finances have deteriorated, reversing the earlier trend towards balanced budgets.

In Germany, where industry accounts for a larger part of the economy, output suffered more than in other countries from the sharp slowdown in world trade in manufactures. GDP grew by 0.6 per cent in 2001, compared with 1.7 per cent in the European Union as a whole.

Like other continental European economies, Germany has high costs and rigidities in the utilization of the factors of production; as a result, its ability to adjust during an economic slowdown is limited. Labour productivity in industry rose by 5 per cent in 2000, during the expansionary phase of the cycle; in 2001 it remained static. In France productivity in industry rose by 3.7 per cent in 2000 and by 0.3 per cent in 2001; in Italy it rose by 2.7 and 0.9 per cent respectively in the two years.

In economies open to international trade, the absorption of resources on a large scale by the public sector diminishes the propensity to invest and reduces competitiveness, especially if the services provided to citizens do not increase the overall efficiency of the economy.

In Germany, as in France and Italy, the ratio of taxes and social security contributions to GDP is in excess of 40 per cent, partly as a consequence of the demands of the public pension system.

The outlook for growth in Germany and other euro-area countries, and not just in the short term, appears to depend on a sustained expansion of the world economy that will generate demand for high-quality industrial products.

The transition countries of Central and Eastern Europe will be able to produce medium and low-tech goods at competitive prices, thanks to their potential for trade and integration with western Europe and their lower labour costs; they can provide a large market for exports of advanced products and services.

This is an opportunity that we must grasp at both the European and the national level.

In the first few months of 2002 the economies of the European Union also experienced a cyclical upturn. The expansion in activity will gain strength in the second half of the year; the rate of growth could rise to around 2.5 per cent in the last few months.

The growth in world trade in goods and services should accelerate during the year; it is expected to be around 7 per cent in 2003. The benefits will accrue to the countries best able to participate competitively in the recovery that is taking shape.

The monetary expansion that has been under way in Japan since the mid-1990s and in the United States since the beginning of 2001, together with the monetary policy in the euro area, has led to an increase in global liquidity and a fall in interest rates in real as well as nominal terms.

The money stock in the seven leading industrial countries rose from 66 to 73 per cent of their combined GDP between 1998 and the end of last year. Bank deposits held by non-residents have increased very rapidly. The uncertainties that affected markets last year have resulted in a pronounced preference for liquidity.

The volume of public and private sector bonds outstanding has grown in line with GDP.

Interest rates have reflected the growth in the money stock and its ratio to the volume of bonds.

Adjusted for inflation, short-term interest rates came down from 2 per cent in 1997 to less than 1 per cent at the end of last year; long-term interest rates declined from 4 to 3 per cent. The capitalization of the stock exchanges of the seven leading industrial countries rose from 60 per cent of GDP in the mid-1990s to 130 per cent in 1999; in 2001 the ratio fell to around 90 per cent.

The notional value of derivatives rose gradually until 2000 and then surged in response to the risks associated with the volatility of asset prices; by the end of 2001 it had reached 110 per cent of the GDP of the seven leading industrial countries.

Abundant liquidity, low interest rates and the reduction in the cost of capital encouraged an exceptionally large number of mergers and acquisitions. Far fewer transactions of this kind were carried out last year, owing to the fall in share prices.

The wide availability of credit and the low cost of capital also fostered investment, which increased steadily and substantially in all the industrial countries between the mid-1990s and 2000. In 2001 the upward trend came to a halt, and in several countries it was reversed.

On earlier occasions I have drawn attention to the contribution that global liquidity and financial market conditions made to the recovery in the industrial countries in 1999.

However, the growth in demand and the related rise in oil prices led to higher inflation that stifled growth, especially in economies with widespread structural rigidities.

This led to the pronounced slowdown of 2001.

Capital flows to the emerging countries contracted from 1997 onwards in the wake of the crises in Asia, Russia and Latin America. Net portfolio investment in these countries dried up completely and there were massive outflows of bank lending and trade credit.

Direct investment continued to increase; net inflows rose from $117 billion in 1996 to $155 billion in 1998 and $176 billion in 2001. Most of the resources went to countries in Asia and Latin America and to the transition countries.

Foreign investment has contributed to the development of innovative products and to the use of advanced technologies, but the volatility of financial markets and shorter-term financing can have serious consequences for the economic and political stability of the weakest countries.

The regulation and supervision of financial intermediaries are generally inadequate in these countries; inefficiency and sometimes corruption are widespread. The public finances are often precarious.

Market forces, which have driven the expansion and globalization of financial flows, are not on their own able to produce an efficient allocation of resources on a world scale.

The Mexican crisis of 1995 had already prompted the first steps towards closer cooperation between the monetary authorities of the seven leading industrial countries.

In the absence of a world government, it is necessary to rely on international cooperation to draw up and disseminate rules and practices for credit and money that the developed countries have applied for decades, ever since the Great Depression of the 1930s. An informal body has been set up to disseminate standards for the regulation and sound management of financial intermediaries and markets.

In 1999 the Group of Twenty was created to discuss issues relating to economic development and the governance of global finance.

The serious situation that has arisen in Argentina is a spur to reform the mechanisms for restructuring public debt and strengthen those that facilitate coordination among creditors in the management of crises.

In this context the Bretton Woods institutions are called upon to perform surveillance of individual economies, to provide and guide credit for investment, and to contribute to the adoption of adequate rules for the supervision of financial intermediaries.

The political initiative and strategic guidance must, of necessity, come from the informal groupings of the major countries.

The development of the backward economies

The rapid growth of the world economy from the end of the war until the early 1970s was fueled by the progressive liberalization of world trade in manufactures; the exchange rate system was set within the framework of the rules established in the Bretton Woods Agreements.

A group of highly industrialized economies emerged in which per capita income more than doubled in a span of twenty years.

The period since then has been distinguished by floating exchange rates and the liberalization of capital movements. New industrial economies have risen in which labour costs are very low compared with those in the countries where industrialization occurred earlier.

The second half of the last century saw an exceptionally rapid increase in the world population and even faster growth in output. However, the disparities between countries in terms of income and living conditions became more pronounced. While many countries made progress, others marked time or even slid backwards.

The number of persons living in extreme poverty is still enormous.

At the global level, the reduction of inequality is the social question of the beginning of the new century.

The highest moral, religious and political authorities have explicitly stated that poverty creates conditions in which terrorism can take root and flourish.

The systematic fight against poverty is a valid objective in itself; it can also be the means of achieving conditions of security and peaceful relations between peoples.

In 2000 the United Nations solemnly set itself a series of goals for reducing poverty and improving the living conditions of the most disadvantaged populations over the following fifteen years.

Rapid growth of the world economy must be accompanied by the promotion of global public goods able to ensure the sustainability of growth and its steady extension to the countries that missed out in the tumultuous expansion of recent decades.

The liberalization of trade and finance has proved to be a potent instrument of progress; however, it needs to be accompanied by rules and policies capable of eliminating or at least attenuating the most serious repercussions on income distribution.

The widespread use of information technology can make a decisive contribution to the development of the backward economies and to narrowing the gap between them and the most advanced countries. It requires adequate investment in education, in human capital.

Last year saw the start of the debt-reduction programme for the poorest heavily indebted countries, aimed at enabling them to participate in the process of economic growth.

The recent Monterrey Conference examined ways to increase development aid and improve its effectiveness. The richest countries renewed the pledge to boost their aid to at least 0.7 per cent of GDP. Programmes must be coordinated in order to avoid waste and inefficiency. This is another field in which the contributions of the IMF and the World Bank will be essential.

The development potential of many emerging economies continues to depend on exploitation of the natural and agricultural resources they possess, or can possess in abundance, given appropriate investment. The richest areas of the world – the United States, Japan and the European Union – protect their domestic producers by paying large subsidies to their farm sectors and erecting tariff and regulatory barriers to imports. Obstacles to free trade are also present in other labour-intensive sectors.

An increase in the output of the most backward countries, made possible by unfettered access to the richest markets, would also benefit consumers in the developed countries. Barriers and subsidies must be removed, in the same way as they were for industrial products in the decades following the Second World War.

The agreements signed at the WTO Ministerial Conference held in Doha last autumn move in this direction. The objective should be a new configuration of world production that gives full play to the principles of specialization and comparative advantage.

This will bring considerable benefits not only for the global economy but also for political stability in the world.

The Italian economy

Between 1995 and 2001 the economy of the fifteen European Union countries grew at an average annual rate of 2.4 per cent; growth averaged 3.6 per cent a year in the United States and 4.6 per cent in the emerging countries as a group.

In Japan growth was just over 1 per cent.

In Italy GDP increased by 1.9 per cent a year over the same period. In the fourth quarter of 2001 industrial production was 5.1 per cent higher than it had been in 1995; the corresponding increase for the twelve euro-area countries was 15.8 per cent.

Competitiveness and productivity

The underlying cause of the weak growth of the Italian economy is a loss of competitiveness in both the domestic and international markets.

The volume of Italian exports increased by 25 per cent between 1995 and 2001. Over the same period world trade grew by 45 per cent and the exports of the other eleven euro-area countries by 55 per cent. Italy's share of world trade in goods, at constant prices, fell from 4.6 per cent in 1995 to 3.7 per cent in 2001.

The output and value added of Italian industry are cyclically and structurally dependent on exports. Sectoral studies have found that firms exporting a larger proportion of their output systematically achieve higher profits, increase employment and raise productivity.

World trade in high-tech products is growing at twice the rate of trade in other goods. Innovative products enable their producers to increase market share in high-value-added sectors and to improve their countries' terms of trade.

Many industrial countries have increased their specialization in high-technology sectors over the past few decades. In Germany high-tech products rose from 12 per cent of total exports in 1991 to 15 per cent in 2000; in France they increased from 20 to 25 per cent and in the United States from 26 to 30 per cent. In Italy the proportion remained unchanged at around 8 per cent.

At the end of the nineties high-tech products accounted for about 6 per cent of total manufacturing value added in Italy. The comparable figure was 10 per cent in France, 26 per cent in the United States and 14 per cent in Japan.

Middle-technology goods manufactured at relatively low cost in the emerging economies now compete strongly in the domestic as well as the export market. Large companies, which have been slow to react because of organizational and operational rigidity, have been losing market share, as have the smallest firms. Imports of manufactures rose from 16 per cent of GDP in 1995 to 20 per cent in 2001.

Productivity is the key to competitiveness in both the domestic and international markets.

In Italy labour productivity growth slowed down perceptibly between the eighties and the nineties.

In food processing the average annual increase in productivity declined from 2.6 per cent in the eighties to 1.4 per cent in the nineties. In chemicals and synthetic fibres it fell from 9.5 to 2.7 per cent, and in machinery and transport equipment from 3.7 to 1.3 per cent.

The competitiveness of Italian industry has suffered from the fragmentation of output among a plethora of small firms. Small firms give the economy flexibility but make it more difficult to develop innovative products and techniques and limit efficiency.

The tax burden and labour market rigidity undermine the economy's productivity and competitiveness. They may push firms towards sub-optimal size.

Competitiveness is also affected by the degree of efficiency of public services, infrastructure deficiencies and the cost of energy.

The low number of persons in employment in relation to the working-age population, widespread self-employment and the abnormally large scale of underground activity are the ultimate result of arrangements that have become unsuited to the new global economic environment of fierce competition and the continual introduction of new products and technologies.

Economic growth and firm size

The extraordinary growth of the Italian economy in the fifties and sixties was fueled by large public and private firms.

In the late sixties labour market regulation and industrial relations began to be shaped in accordance with a steadily and rapidly growing economy and firms of substantial size.

The oil crises and inflation of the 1970s caused growth to slow down and to become more erratic, falling from an average annual rate of nearly 6 per cent in the two previous decades to 3.8 per cent.

Sharp conflict over the distribution of income led to an enormous increase in the cost of labour and a reduction in profit margins for large companies. Smaller firms were better able to respond to the changing economic and social environment; they increased their penetration of foreign markets by exploiting the depreciation of the lira.

In the 1980s major restructuring and substantial technological investment enabled the largest enterprises to restore their efficiency and profitability.

However, inflation and the poor state of the public finances necessitated high interest rates. Public expenditure crowded out productive investment. The growth rate slowed to 2.4 per cent a year.

In the 1990s a further slowdown in growth, greater demand volatility and intensifying international competition again curtailed investment to expand the scale of production.

The periodic currency devaluations of the seventies and eighties had offset the weaknesses of the Italian economy by producing gains in competitiveness, which proved short-lived, however. The 1992 devaluation also led to an appreciable increase in exports in the years that followed. Agreements on wages and industrial relations helped to restrain the cost of labour.

Monetary policy was tightened severely in 1995 in order to revalue the lira and reduce inflation. Italy's return to the Exchange Rate Mechanism of the EMS at the end of 1996 helped to restore monetary stability.

However, productivity growth slowed down sharply in the following years. Between the end of 1996 and the end of 2001, Italian competitiveness vis-à-vis the rest of the euro area, measured in terms of unit labour costs, deteriorated by 8.6 per cent.

The modest rise in real wages resulted in a redistribution of income in favour of profits. Adjustment of the public finances consumed an ever larger share of income.

The loss of competitiveness in foreign markets has been greatest in mature industries and in sectors with a high proportion of small firms.

The average size of firms in the industrial countries peaked in the sixties. The subsequent reduction reflected the increasing importance of the service sector and decreasing employment in large manufacturing concerns. The spread of information technology and the drive to increase efficiency through reorganization are leading to a less vertically integrated structure of production.

In Italy the average size of firm, which was already smaller than in other leading countries, has declined more sharply than elsewhere.

In manufacturing industry, firms with more than 500 employees accounted for 31 per cent of total employment in 1971; this share fell to 19 per cent in 1991 and 15 per cent in 1996. In France employment in large firms fell from 55 to 43 per cent of the total between 1977 and 1994, while in the United Kingdom it declined from 54 to 50 per cent. In the United States employment in firms with more than 500 employees accounted for nearly two thirds of the total in the mid-nineties.

Ninety-five per cent of Italian firms have fewer than ten employees. Firms in that category account for 47 per cent of total employment, compared with 21 per cent in Germany, 22 per cent in France and 27 per cent in the United Kingdom.

The average Italian firm in industry or services is about 60 per cent as large as its counterparts in the other countries of the European Union.

The proportion of medium-sized companies is especially low in Italy.

Small enterprises have made a decisive contribution to Italian economic development in past decades, but fragmentation now threatens to undermine the capacity for growth.

Innovation demands substantial initial investment, which can best be afforded by large companies or by consortia of medium-sized and small firms. The public sector and the banking system can provide important impetus.

Italian investment in information technology is low by international standards. One significant potential benefit of the spread of the new technologies is a more efficient configuration of intersectoral relationships. Some of the advantages enjoyed by firms in industrial districts can be extended nationally.

It is necessary to move towards a new employment charter that protects the rights of all working people but adapts flexibility and costs to the new realities of production and the utilization of the new technologies.

The social safety net must be strengthened. The portion of wages that depends on company performance must be increased.

Tax and social security contribution rates must be progressively lowered, in connection with the necessary reform of public expenditure.

In small firms family control is a decisive factor at the launch of new business projects and in the initial phase of development, but subsequently it may become a barrier to expansion, for lack of capital and managerial resources.

The path to restoring the efficiency and competitiveness of the entire economy necessarily passes through Italy's large firms. They are indispensable for propagating technological advances, stimulating research and creating managerial skills.

It is essential to remove the regulatory and fiscal obstacles that have curbed the growth of small firms. The conditions for a revival in investment must be created and reforms must be introduced to unlock Italy's abundant entrepreneurial resources.

It is the growth of small and medium-sized enterprises that can make the greatest contribution to an increase in employment.

Employment

Employment in the euro area expanded by 1.3 per cent in 2001 on an annual average basis. In France and Spain the increase was 2 and 2.6 per cent respectively, in Germany just 0.2 per cent.

In Italy the number of persons in work rose by 2.1 per cent last year. In 2000 the gain had been 656,000, of whom 370,000 were permanent full-time employees. Between January 2001 and January 2002 employment increased by 370,000, including 300,000 full-time positions.

As in the past, most of the jobs were created in the service sector. Employment in construction increased for the third consecutive year. However, the number of manufacturing workers decreased, continuing a decline that began in 1998.

Last year the rate of employment growth was faster in the South than in the Centre and North. As in the rest of the country, the gain was concentrated in services and construction, but there was also a continuing gradual expansion in industry.

In a setting of weak economic growth, employment was favoured by wage moderation. From 1997 to 2000 firms made extensive use of fixed-term and part-time contracts.

The tax relief introduced by the Finance Law for 2001 reduces the cost of labour for new permanent employees by 15 per cent in the Centre and North and 30 per cent in the South until the end of 2003. The direct cost to the Treasury was €530 million in 2001. This incentive helped increase the number of stable jobs. It is estimated that by the end of the year more than 150,000 workers had benefited, 60,000 of them in the South.

It can be assumed that a significant proportion of the new contracts replaced existing precarious jobs.

The underground economy remained substantial during the nineties. According to official estimates, the value added of undeclared economic activity rose from 15.8 per cent of the total in 1992 to 17.7 per cent in 1997 and then fell to 15.4 per cent in 1998.

Italy's employment rate, including undeclared work, remains the lowest in the European Union; in 2001 it was 55 per cent, 10 points below the average for the other member countries. In the South it was 43 per cent.

All countries in Europe have employment incentives in the form of public funding for training, recruitment, direct job creation and self-employment.

In Italy the budgetary cost of labour policies declined from 1.6 per cent of GDP in 1996 to 1.3 per cent in 2000.

Unemployment benefits, including payments by the Wage Supplementation Fund, amount to about 0.5 per cent of GDP. This is one of the lowest figures in the European Union. In 1999 unemployment benefits were equal to 0.8 per cent of GDP in the United Kingdom, 2.1 per cent in France and 2.5 per cent in Germany.

The reforms introduced in the last few years, together with tax relief, have led to a significant increase in employment. However, the labour market still suffers from high costs and insufficient flexibility, which keep the participation rate low and the incidence of undeclared work high.

Social security contributions, though far from sufficient to cover expenditure by the pension institutions, amount to 40 per cent of gross per capita earnings.

To reduce high unemployment, combat underground employment, which is frequently accompanied by poor safety conditions, and stimulate participation by those now discouraged from entering the labour market requires a resolute shift towards new and more modern forms of employment regulation. At the same time the pension system must be reformed to permit the lowering of social contributions, which impinge directly on labour costs and earnings.

Far-sighted action is needed to enable the potential of economically backward regions to contribute to the growth of the Italian economy, to lower the high rates of youth and female unemployment and to offer the nation the prospect of economic and social progress.

The public finances

The total general government borrowing requirement on a cash basis declined to €8.5 billion in 1999; it rose to €25.8 billion in 2000 and €40.8 billion last year.

Net of settlements of past debts and privatization proceeds, the requirement amounted to 2.2 per cent of GDP in 1999. It rose to 3.2 per cent in 2000 and then declined to 2.9 per cent in 2001.

The net borrowing requirement on a cash basis came to €34.8 billion last year. Settlements of past debts amounted to €10.3 billion, or 0.8 per cent of GDP. This amount should be attributed to the requirements for previous years.

General government net borrowing on an accruals basis, calculated in accordance with the European System of Accounts, was estimated at 1.7 per cent of GDP in 2000 and 1.4 per cent in 2001. The difference between the borrowing requirement and net borrowing, equal to 1.5 per cent of GDP in both years, is presumably due not only to financial items but also to accrued but uncollected revenues and to expenditure and tax reimbursements relating to previous years.

The reconciliation account between the two aggregates needs to be clarified.

The decrease in the general government borrowing requirement and net borrowing in 2001 was small compared with the final results for 2000. There was a considerable improvement in the second half of the year by comparison with the trend in the first six months, owing to tight control over spending, higher-than-expected revenue of €5 billion from the extraordinary tax on the revaluation of corporate assets, and securitization operations that produced €5 billion on a cash basis and €7 billion on an accruals basis.

For this year, the Quarterly Report on the Borrowing Requirement projects a net state sector borrowing requirement of 2.1 per cent of GDP. It estimates the public sector requirement, excluding privatization proceeds and including €10.4 billion of settlements of past debts, at 3.2 per cent of GDP.

The Stability Programme sets a general government net borrowing target of 0.5 per cent of GDP in 2002, based on forecast economic growth of 2.3 per cent. In 2003 the budget should be balanced. In the light of present trends, the borrowing requirement and expenditure must be carefully controlled.

Above all it is necessary to undertake a structural adjustment of the public finances in the course of this year.

The ratio of taxes and social security contributions to GDP rose by 6 percentage points between the second half of the eighties and the second half of the nineties. It must be brought down gradually in the coming years, in accordance with the plan laid out in the Economic and Financial Planning Document and along the lines of the draft enabling law now before Parliament.

The implementation of the tax reform depends on curbing the growth in public spending net of interest payments.

Efforts to contain expenditure on public sector wages must rely on hiring controls; savings can be made by outsourcing some activities. In the past, spending on health care has risen more rapidly than GDP. The measures already enacted, agreements with the regions, the rationalization of the system and the assignment of health care provision to private sector operators that meet defined standards must prevent the ratio of health spending to GDP from rising above its current level of 6 per cent. Without increasing the level of spending, these measures must provide for prompt provision of services, an increase in quantity and satisfactory quality.

Public expenditure on goods and services can be held constant in nominal terms, or even reduced, by carrying out a far-reaching rationalization of purchasing procedures.

As in other European countries, the public pension system in Italy suffers from a structural imbalance between benefits and contributions. Even excluding the outlays that actually constitute welfare benefits, the private sector employees' pension fund still shows a gap of more than 4 percentage points between the actual contribution rate of 32.7 per cent of wages and the equilibrium rate.

More than a third of the public debt derives from central government transfers to public social security institutions. Current demographic trends, which can change only very slowly, will aggravate the imbalance.

In the long run the system is unsustainable. Action must be taken, while safeguarding the entitlements and, to a large extent, the expectations of workers now approaching retirement; the average age at retirement must be raised, on a voluntary basis, but with the prospect of substantial savings; a significant part of retirement provision must be shifted to private, funded pension plans.

The importance of spending on education and research in the present situation must be emphasized. These are investments whose returns are deferred in time but high, well above current interest rates.

Expenditure on public works must be increased substantially in the more advanced regions and above all, especially in the short term, in the less developed ones, to overcome the widespread deficiencies of infrastructure.

The construction and operation of public infrastructure on which it is possible to earn a return from user fees should be entrusted to non-state operators, subject to appropriate controls. Such projects can be financed by private lenders or by the capital market. Lending which entails an indirect cost for the Treasury must be managed and supervised in accordance with banking criteria.

Privatizations and the disposal of assets not needed for the production of public services can accelerate the reduction of the public debt in proportion to GDP. Better administration of public assets can improve the efficiency of the economy.

The institutional and administrative decentralization introduced by the amendment of Title V of the Constitution offers an opportunity for a reorganization of government, in order to bring decisions concerning public services and the way they are financed closer to citizens.

This task needs to be tackled urgently, not least to avoid a further widening of the gap between economically advanced regions and less developed regions and areas. It is necessary to decide the source and amount of the envisaged solidarity fund and the criteria for distributing it.

The process of deciding budgetary policy must be reconfigured to permit coordination of the demands of the different levels of government and the preparation of an overall plan for the expenditure and revenue of central government and local authorities.

The wide range of functions and services entrusted to local government could raise the overall level of public spending.

It is necessary to reform the public accounting system, to harmonize budgetary rules and to form a timely picture of all central government and local authority expenditure and revenue with the aid of information technology. The measures under discussion in Parliament go in this direction.

Implementing provisions must be adopted that allow institutional decentralization to be achieved within a comprehensive framework.

These are momentous tasks, issues to be faced with clarity and resolution to avoid a further erosion of the efficiency of our economy.

Their solution will bring opportunities for growth.

The financial markets and banking

The large fluctuations in securities prices and the risks of instability arising from the terrorist attacks and the crises in important emerging countries, at a time when equity prices were falling back from the levels reached in the spring of 2000, were overcome thanks to the improvements in market organization, the liquidity supplied by the central banks and the use of advanced hedging techniques.

Since January of last year share prices have fallen by 13 per cent in Japan, by 19 per cent in the United States and by between 24 and 28 per cent in Germany, Italy and France.

In the euro area the number of initial public offerings declined from 419 in 2000 to 132 last year. In Italy it fell from 45 to 17 and the amount of capital raised decreased from €9 billion to €6 billion.

The difficult economic situation fueled fears about the markets' willingness to finance firms, especially those that had increased their leverage during the upswing.

Monetary policies helped to maintain easy conditions in the credit market.

Euro-area firms made net bond issues of €190 billion, as in 2000; placements by Italian companies rose from €23 billion to €61 billion.

The bankruptcy several months ago of a major US energy group that also operated in the financial sector has raised questions about the adequacy of the safeguards designed to ensure correct corporate governance and the faithful representation of business management activities.

The orderly functioning of the capital markets requires timely, correct and complete information. The importance of transparency in accounting policies grows in proportion to the intangible assets in a company's balance sheet and operations. The distortions that may stem from the performance of consulting and analysis by firms with interests in their client companies must be avoided.

Financial statements, internal controls and the auditing of accounts are governed in our law by the general principle of true and fair reporting of the company's situation. Correctness, competence and professional ethics are essential; they are the foundation on which firms' reputations and market confidence are built.

The role of the financial markets in serving the economy has wider implications in the current international context. Enhancing the scale and quality of the structures of the Italian financial marketplace is essential for the competitiveness of our economy; it contributes to the strength and efficiency of the European market.

The reorganization of market structures and operating systems is continuing with a view to improving the quality of services offered to participants. The banks are taking part in the growth of the financial markets with renewed commitment and a wider range of investment services.

Credit conditions

In 2001 bank lending continued to grow at a lively pace in Italy. Interest rates came down by one percentage point over the year.

The increase in lending was equal to 7.4 per cent, higher than in the euro area and above the rate of GDP growth. The expansion was rapid in the first half and more moderate in the second.

The cyclical downturn dampened the demand for funds to finance both investment and consumption. There was a sharp decline in demand for loans connected with corporate mergers and acquisitions. In recent years these had increased the banking system's exposure to large industrial groups; in the past few months the largest groups have embarked on debt-reduction programmes.

Net interest income, which had surged in 2000, grew by 5.5 per cent. It benefited not only from the increase in the volume of business but also from a shift in the composition of assets in favour of loans, at the expense of bonds.

Market volatility curbed households' demand for investment and asset management services; net fee income fell by 12.5 per cent.

Total operating costs rose by 3.8 per cent compared with the previous year. Expenditure on the use of information technology increased by 11.8 per cent and rose to 15 per cent of total operating costs.

Average staff costs per employee rose by 0.9 per cent to €61,100; they remain high compared with other leading European countries.

Return on equity in the banking sector fell to 8.9 per cent, compared with 11.6 per cent in 2000. The decline was largely due to losses on loans and investments, which were almost twice as large as in the previous year and equal to 40 per cent of operating profit. In particular, investments in two banks operating in Argentina were written off.

The flows of impaired loans and bad debts in the domestic portfolio were small in relation to the volume of lending. The cyclical slowdown of 2001 could affect loan quality this year, given the lag with which the health of the real economy is reflected in bank assets. However, the profitability and financial situation of firms are stronger now than during the downturn of the early nineties.

By international standards, the ratio of banks' total assets to GDP is low in Italy.

Lending to firms is in line with that in the other main euro-area countries. Lending to households is less developed. It is a sector with scope for expansion, even taking into account the specific characteristics of Italy's economic and social structure.

Borrowing can enable households to achieve a better allocation of saving over the life cycle. Competition, which has already increased, will have to grow further, in order to reduce the cost of loans and stimulate the supply of services.

Securities trading and asset management services for households have expanded substantially in the last few years.

We renew the call we have made on previous occasions for greater professionalism on the part of intermediaries and their staff in selling financial products so as to avoid the illusions and errors of the past.

The banking system is already moving in this direction.

It is necessary to strengthen and consolidate the relationship of trust with savers.

It must be made explicit that high yields entail risks of capital loss and that the nominal value of an investment is guaranteed only in the case of deposits.

Any undertaking of this kind made in respect of other financial products is subject to transparency obligations; adequate capital reserves must be set aside and the related contingent liabilities must be expressly stated in the accounts.

The concentration and reorganization of banking groups

Since the mid-nineties, the banking system has evolved from one consisting of small and medium-sized banks engaging mainly in deposit-taking and lending in local markets into a web of larger groups able to offer a wider range of products and increasingly active in international markets.

Banks have pursued high rates of return on equity by striving for efficiency in resource allocation and developing intra-group synergies. Competition has intensified in the national and local markets.

Between 1996 and 2001 mergers and acquisitions involved banks accounting for 40 per cent of total assets.

Four large banking groups were formed that hold 49 per cent of total assets. If the other two leading groups are also counted, the figure rises to 60 per cent.

In authorizing mergers and acquisitions we acted so as to prevent the formation of dominant positions in the national and local markets.

With the possible exception of one last major operation, we consider the consolidation in the top tier of Italy's banking system to be complete; further amalgamations would lead to a decrease in competition.

As we have insisted on previous occasions, it is necessary to integrate the organizational structures within groups, centralizing the functions of corporate planning, product design and risk control.

Organizational rationalization is bearing fruit, with positive effects on banks' efficiency and the quality of new lending. Nevertheless, there is still a long way to go before the scope for synergy is exhausted. There have also been uncertainties in command structures owing to tensions in important parts of the system where the influence of the previous public ownership was strongest.

We pay special attention to the availability of loans for small enterprises. Detailed studies indicate that at the provincial level bank consolidation has not led to credit rationing or a deterioration in conditions for small businesses.

Relations with local customers need to be enhanced in qualitative terms; in important cases, especially in the South, this can be accomplished by preserving the original bank names within groups.

The drive for greater scale must now primarily involve medium-sized banks. With their characteristic statutes, cooperative banks combine attention to the local economy with the supply of high-quality services; they enrich the diversity of our banking system.

The number of cooperative banks has fallen from 100 at the end of 1992 to 39, mostly as a consequence of mergers and acquisitions within the category. Their market share has increased from 12 to 15 per cent. These banks generally have good efficiency indicators.

It is important to increase collaboration within the category. A recent operation between two of the largest intermediaries points to ways of achieving further consolidation.

Ownership structures and banking foundations

The number of listed banks has increased; these institutions account for 80 per cent of the system's total consolidated assets. At the end of last year six Italian banks figured among the top thirty in the euro area by market value.

The share of total assets attributable to banks in which the government or foundations held majority interests was still 58 per cent in the mid-nineties. It has now fallen to 10 per cent.

Banking foundations have played a key role in the consolidation of the system by gradually disposing of their holdings in banks. The transfer of ownership has fostered the creation of stable cores of controlling shareholders in which major insurance companies and leading foreign intermediaries are represented.

With a single exception, the majority of the capital of all the largest banks has been sold. The foundations hold more than 50 per cent of the capital of 25 small banks with an aggregate market share of 4 per cent.

The measures introduced in the Finance Law for 2002 allow foundations to postpone the sale of controlling interests in banks until June 2006, provided the controlling shareholdings are entrusted to asset management companies with a mandate to administer them according to principles of economic efficiency.

Rigorous criteria are being defined, on the basis of which the Bank of Italy will identify control situations.

The foundations will be able to retain shareholdings in banks for income-producing purposes.

The law established the criteria for appointing the members of foundations' boards. They will be designated predominantly by the local authorities of each foundation's home area.

"Predominantly" suggests a proportion of more than 51 per cent. A proportion of around 60 per cent reflects the spirit of the law; it can constitute a balanced solution for the representation of civil society.

In foundations constituted as associations, 50 per cent of the members of the board are elected by the general meeting; the remainder are appointed in the proportions laid down for foundations with an institutional basis.

In a financial market in which institutional investors are less developed, the completion of the transfer of control of banks must proceed by ensuring that banks have stable governance.

It is necessary to complete the process that in less than a decade has led to a banking system that is largely privatized, consists of intermediaries of much greater average size, has returned to the international markets after a long pause and is able to serve savers and firms effectively.

Banking supervision

The sound and prudent management of banks is the responsibility of their directors. As confirmed by the recent Ecofin Council meeting in Oviedo, proximity to the supervised institutions is essential for effective supervision.

The supervision performed by the Bank of Italy consists first and foremost of an examination of the data supplied at regular intervals by individual intermediaries, according to reporting formats designed to give a complete view of operations and the state of the accounts.

Meetings are held on a systematic basis with banks' corporate officers to discuss aspects that point to weaknesses. A total of 424 such meetings took place last year, including 227 held at branches of the Bank. Supervisory measures are aimed at ensuring compliance with the rules and strengthening banks' organizational structures and internal controls; they may consist of formal reprimands.

On-site inspection of each intermediary takes place, on average, every six years. Inspections are more frequent for banks in difficulty.

In the four years from 1998 to 2001 inspections were performed at 694 banks accounting for 54 per cent of total assets. Assessments were completely positive for intermediaries with market shares amounting to 26 per cent of total assets and completely negative for banks with 6 per cent. Intermediate evaluations were made for the remaining 22 per cent.

Between 1994 and 1997 inspections were performed at 726 intermediaries, representing 52 per cent of the system. The banks that received completely positive evaluations accounted for 12 per cent of total assets, those with completely negative evaluations for 11 per cent.

The findings of on-site supervision confirm the improvement that can be seen in the aggregate data.

Special importance has been attached in the most recent period to organization, cost trends and performance in terms of transparency and correct conduct towards customers.

Last year, the desire to meet savers' expectations of high returns led some banks to fall short in risk evaluation, contractual regularity, disclosure of information and accounting for the commitments they had entered into.

Examination of banks' situations and on-site controls brought to light inadequacies in organizational structures, internal auditing systems and the actions of banks' governing bodies. The procedures for sanctioning the irregularities were activated. Measures were taken to restore sound and prudent management.

In 2001 Bank of Italy branches made on-site visits to check local compliance with the rules on the transparency of contractual terms and conditions for banking services. Checks at 698 branches of 154 banks uncovered instances of non-compliance for which corrective action was requested; administrative sanctions were imposed in the most serious cases.

In international fora it has been found appropriate to recommend that the largest banks, which are most exposed to the risks of the global market, raise their capital to levels substantially above the minimum requirement.

In the three years from 1998 to 2000, in connection with the rapid growth in lending, the capital of Italian banks fell from 11.4 to 10.2 per cent of their risk assets, weighted on the basis defined in the international accords. The capital adequacy ratios of the largest Italian banks, in particular, were low by comparison with those of the other Group of Ten countries.

We called for the launch of a programme to strengthen the capital base of our country's largest banks.

The capital of Italian banks grew to €129 billion in 2001. The average capital ratio rose to 10.6 per cent; the amount in excess of the minimum requirement of 8 per cent increased to €33.5 billion.

Within the Basel Committee it has been agreed that capital requirements will be computed on the basis of agency ratings or models developed by individual banks in the light of their specific operations and the composition of their assets, subject to validation by the supervisory authorities.

Criteria for assessing the credit risk of small firms in ways that avoid an increase in their cost of borrowing have been accepted, partly at our initiative.

In the light of their complexity, the problems require further study. The new Capital Accord is expected to become operative in 2006.

Corporate finance

There is an increasing tendency in all countries for large and medium-sized companies to raise funds in the capital market.

The leverage of Italian firms declined over the last decade; today it is not out of line with the levels in France, Germany and Spain.

In the last three years Italian companies raised €38 billion in equity capital, equal to an annual average of 1.9 per cent of the stock market capitalization, and issued €59 billion in eurobonds. The presence of Italian banks in underwriting syndicates enabled 25 medium-sized companies, which do not generally have a credit rating from the specialized agencies, to make their début in the eurobond market.

The gross profits of Italian companies rose from 25 to 33 per cent of value added between 1992 and 2001. The decrease in their debt from 58 to 38 per cent of their financial liabilities and the fall in interest rates reduced the ratio of net interest expenses to gross operating profit from 31 to 15 per cent.

There was no improvement in the financial structure of small enterprises during the nineties. Their investment continues to be financed almost entirely from internal resources and bank loans, mainly at short term.

Their productive efficiency is offset by the burden of interest charges due to their heavier debt. This affects their profitability, which is lower than that of European firms of comparable size and below that of larger Italian companies.

The measures taken by Parliament and the regulatory authorities in recent years have created the conditions for an improvement in the operation of the markets; they have fostered the demand for shares by increasing the protection of minority shareholders and introducing new types of institutional investor.

It has been primarily companies not belonging to listed groups that have taken advantage of the tax incentives for initial public offerings. The growth of the market has also been boosted by the listing of privatized companies.

However, Italy still appears to be caught in a vicious circle between the small size of firms and the low demand for financial services. This is hampering the development of the equity market and reducing the availability of long-term capital; firms are failing to grasp opportunities for investment and growth.

The fall in share prices discouraged firms from seeking stock market listing last year.

The ratio between stock market capitalization and gross domestic product fell to 48 per cent. The number of listed companies is small, and non-financial enterprises are under-represented.

Labour market reform and a reduction in the tax burden could help overcome the reluctance of Italian firms to operate on a larger scale and to raise external finance.

Banks should deepen the relationships they already have with firms and will have to be joined by new intermediaries that specialize in assessing and financing small and innovative enterprises in order to facilitate their access to the capital market and assist their development.

Since the end of 2000 the number of Italian venture capital companies has increased from 11 to 21 and that of closed-end investment funds from 16 to 33.

During the technology investment boom, almost half of the resources that flowed into the venture capital sector in the United States came from pension funds.

The Italian financial system needs to see a similar increase in investors with a medium-to-long-term horizon.

Despite the consequences of the attacks of 11 September, the economy of the United States is recovering strongly, thanks to its efficiency, labour market flexibility and timely, effective economic policy.

Growth is bound to slow down from the exceptional rate of the first quarter; investment is likely to rise in the second half of the year. GDP can be expected to increase by at least 4 per cent between the end of 2001 and the end of 2002.

The European economy is recovering slowly; the structural adjustment of the public finances has not been completed, the ratio of tax to GDP remains high and there are still market rigidities, especially in the labour market.

The Italian economy is also proving slow to join in the world recovery. The difficulties in initiating reforms and the consequences of the terrorist attacks have set back an upturn in economic activity by at least six months.

In the first quarter industrial production was on average 0.2 per cent higher than in the last three months of 2001.

In March production was 4 per cent lower than twelve months earlier. According to preliminary data, it recovered in May but was still between 1 and 2 per cent below the level of a year earlier.

The incipient recovery in world trade, as evidenced by the export performance of the United States, France and Germany, does not yet appear to have had significant effects on industrial production or on Italian exports, which have in fact declined.

We have regained the benefit of monetary stability, but Italian products are increasingly less competitive.

Productivity growth slowed down in too many branches of industry during the last decade. Industrial activity in Italy is tending to contract.

There is a rising trend in orders, but consumption remains weak. Productive investment stagnated in the final quarter of last year. It has begun to grow again in 2002, but more slowly than in recent years.

The possibility of achieving GDP growth of more than 2 per cent in 2002 depended on the programme of public works being launched in the first few months of the year.

A survey carried out by our branches in the first two weeks of May indicated an increase in activity in the infrastructure sector in most regions; in others there are fears that it will decline. The positive outlook that is emerging for the medium term depends on implementation of the enabling law. The infrastructure gap in relation to other European countries must be narrowed. Infrastructure is particularly deficient in the South.

The legislation and administrative formalities can be completed quickly. Conflicts between the powers of central government and those of the local authorities must be resolved.

Construction projects must get under way as soon as possible. Works in the second half of the year totaling €5 billion, equivalent to 0.4 per cent of GDP, could raise the growth rate significantly above 1.5 per cent in 2002 and generate a stronger expansion in 2003.

The crucial requirement for a growth-oriented policy is a reduction in the ratio of current public expenditure to GDP.

It is a precondition for credible tax reform; it will generate benefits for households, in terms of their spending power, and for firms, in terms of their propensity to invest.

It is necessary to proceed rapidly to define the measures for the labour market and the pensions sector.

In the background, there is the need to begin the overhaul of the public pension system. The structure and level of the social safety net must be reviewed.

The launch of far-reaching reforms can set the economy on a virtuous circle of growth, employment and balanced public finances.

It is essential that this strategy be implemented. We have the resources to bring it to fruition. The markets are calling on us to do it, and qualified international observers expect it of us. It is in the interests of society.

There is need for a profound change – a metanoia, as it were – in the way in which relations between employees and firms are conceived.

Negotiations in defence of legitimate interests must be transformed into strategic collaboration on the basics, with the ultimate objective of achieving growth, improved conditions for those already in work and the prospect of stable employment for those in precarious jobs and those others, many of whom are young, who aspire to a better future.

It is up to firms to return to the path of growth by introducing new technologies and products, in a regulatory and social setting that has been made more favourable.

In the service sector, where inventiveness and human capital are most prevalent, there is ample scope for expansion. We must grasp the opportunities.

The banking system has undergone profound change over the last five years; it has grown in size and in the range and quality of operations.

The financial markets are also extending their activities and improving their efficiency, thanks to changes in legislation and the effective action taken by the regulatory authorities.

Problems remain to be resolved and further progress must be made. But only a few years ago the country lacked a modern financial infrastructure. The banking system and the financial market now have the means to enable large industrial companies to overcome difficulties, to foster their development and to support the growth of small enterprises. We constantly monitor current events, paying attention to the general interest.

The success of the operation to repatriate capital from abroad provides our banking and financial system with €30 billion, which can be invested in Italy, in the financial market and in enterprises, if the conditions for profitable investment are created.

Italy does not make full use of the resources at its disposal. The regions in the South will be able to contribute to the growth of the economy as a whole if labour market innovations, adequate infrastructure and improvements in security foster the establishment of enterprises by reducing external diseconomies.

A more resolute economic policy is needed to achieve the necessary structural reforms, stimulate productive activity and offer better growth prospects for our economy.

The monetary stability provided by the euro must be but one element in a broader, far-sighted vision in which Europe can take effective economic policy measures by assuming a clearer political identity.

The historic signature of the Rome Declaration lays a firmer basis for security and the easing of international tension; it opens the door for closer cooperation between East and West, and between Western and Eastern Europe.

The economic benefits may be substantial; the Declaration holds out the prospect of closer integration by repairing the chain of cooperation and trade that was broken in the early decades of the last century.

It gives grounds for optimism.

We must be equal to the test of our times, each acting calmly and resolutely in his appointed field.

To a large extent, our future rests in our own hands.

ANNUAL ACCOUNTS

NOTES TO THE ACCOUNTS [1]

The Bank's results for the year 2001 were affected by the fall in short-term interest rates on international markets and the consequent effects on the prices of debt securities and by the depreciation of the euro against the dollar.

The year-end balance sheet total was equal to €179,099 million, which was basically unchanged compared with the figures for the end of the preceding year (€180,795 million). On the assets side, the substantial reduction in refinancing operations was largely offset by a claim on the Eurosystem that arose in connection with the TARGET settlement system, the growth in foreign currency assets and the increase in the value of gold. On the liabilities side the annulment of the debit balance present on TARGET accounts at the end of 2000 and the substantial reduction in banknotes in circulation were matched by the cash deposits made by banks as collateral for the euro notes they received in the front-loading phase and the increase in the deposits of general government.

Turning to the profit and loss account, total net income amounted to €4,347 million (€3,752 million in 2000); expenditure, excluding that in respect of institutional transactions, amounted to €3,840 million (€3,625 million in 2000). Net profit for the year amounted to €507 million, an increase of €380 million on the figure for 2000 (€127 million) that reflected the larger profit before tax and the smaller tax liability, which was due in part to the reduction in the standard rates of corporate income tax and the regional tax on productive activities and to the larger effects of Dual Income Tax.

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 Code, interpreted in the light of generally accepted accounting standards.

(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 addition, it does not include the external auditor's report issued by Reconta Ernst & Young.

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;
- Royal Decree 1067/1936 (the Bank's Statute) as amended, which lays down special rules for the allocation of the net profit for the year, the creation of special reserves and provisions, and 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.

1.2. *Accounting policies.* – The accounting policies applied in preparing the annual accounts for 2001 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 of EMU, if it still exists;*
– *the International Monetary Fund quota is translated on the basis of the exchange rate of the SDR communicated by the IMF for the quota originally subscribed in lire and at the exchange rate communicated by the ECB for the quota in SDRs.*

SECURITIES

– *the cost (clean price) of bonds is adjusted by the amount of the amortization of the premium/discount (the difference between the book value 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 of EMU, if it still exists;*
     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.

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. 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 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

Costs of not less than 10,000 euros are capitalized.

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

- *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 accrued income and prepaid expenses and accrued expenses and deferred income.

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 evaluating the adequacy of these 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 at the end of the year.*

The provision for staff costs includes the estimated amount of costs that had accrued (e.g. sundry bonuses, holidays not taken, contributions set aside for newly-hired staff) but not been paid at 31 December 2001.

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, who do not participate in pension funds, 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 the 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.

The items Other assets and Other liabilities include the investments and patrimony of the defined-contribution supplementary pension fund created for staff hired since 28 April 1993. The fund is invested in financial instruments, which are valued at year-end market prices. The resulting revaluation gains (losses) are treated as revenues (expenses) and, in the same way as for other operating revenues (expenses), added to (subtracted from) the fund's patrimony.

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; shares are stated on a quantity basis.

Foreign currency amounts are translated at year-end exchange rates.

The Bank's cash holdings of euro notes and those delivered in the front-loading phase are stated at face value.

2. Comment on the accounts

2.1. *Balance sheet*. – The year-end balance sheet total, excluding memorandum items, was equal to €179,099 million, compared with €180,795 million at the end of 2000 (Tables 1 and 2).

Table 1

BALANCE SHEET - ASSETS
(thousands of euros)

	Amounts at end-		Changes
	2001	2000	
1 Gold and gold receivables	**24,830,282**	**23,097,625**	**1,732,657**
2 Claims on non-euro-area residents denominated in foreign currency	**27,703,644**	**27,486,941**	**216,703**
2.1 Receivables from the IMF	4,608,324	3,983,852	624,472
2.2 Securities (other than shares)	19,833,417	19,863,830	–30,413
2.3 Current accounts and deposits	3,258,153	3,636,855	–378,702
2.4 Reverse operations	–	–	–
2.5 Other claims	3,750	2,404	1,346
3 Claims on euro-area residents denominated in foreign currency	**5,462,237**	**3,022,323**	**2,439,914**
3.1 Financial counterparties	5,462,237	3,022,323	2,439,914
3.1.1 Securities (other than shares)	*143,936*	*156,835*	*–12,899*
3.1.2 Reverse operations	–	–	–
3.1.3 Other claims	*5,318,301*	*2,865,488*	*2,452,813*
3.2 General government	–	–	–
3.3 Other counterparties	–	–	–
4 Claims on non-euro-area residents	**–**	**–**	**–**
5 Lending to euro-area banks related to monetary policy operations	**9,719,070**	**25,861,685**	**–16,142,615**
5.1 Main refinancing operations	9,474,323	25,398,507	–15,924,184
5.2 Longer-term refinancing operations	244,747	463,003	–218,256
5.3 Fine-tuning reverse operations	–	–	–
5.4 Structural reverse operations	–	–	–
5.5 Marginal lending facility	–	–	–
5.6 Credits related to margin calls	–	175	–175
6 Other claims on euro-area banks	**430**	**499**	**–69**
7 Securities issued by euro-area residents (other than shares)	**1,545,761**	**1,550,762**	**–5,001**

Table 1 *cont.*

BALANCE SHEET - ASSETS

(thousands of euros)

		Amounts at end- 2001	2000	Changes
8	**General government debt**	**40,552,273**	**40,611,403**	**–59,130**
	Government securities issued under Law 483/1993	*39,356,989*	*39,356,989*	*–*
	Items arising from the Bank's former management of stockpiling bills - securitized part	*1,161,592*	*1,167,061*	*–5,469*
	Items arising from the Bank's former management of stockpiling bills - unsecuritized part	*33,692*	*87,353*	*–53,661*
9	**Intra-Eurosystem claims**	**18,903,338**	**8,192,250**	**10,711,088**
9.1	Participating interest in the ECB	744,750	744,750	–
9.2	Claims deriving from the transfer of foreign reserves to the ECB	7,447,500	7,447,500	–
9.3	Other claims within the Eurosystem (net) ...	10,711,088	–	10,711,088
10	**Items to be settled**	**828**	**797**	**31**
11	**Other assets**	**50,380,689**	**50,971,198**	**–590,509**
11.1	Euro-area coins	7,613	6,326	1,287
11.2	UIC endowment fund	258,228	258,228	–
11.3	Investments of reserves and provisions (including shares)	28,969,311	28,675,361	293,950
	Government securities	*22,339,989*	*20,514,600*	*1,825,389*
	Shares and participating interests	*6,169,908*	*7,770,114*	*–1,600,206*
	Other securities	*459,414*	*390,647*	*68,767*
11.4	Intangible fixed assets	19,812	26,779	–6,967
11.5	Deferred charges	9,081	6,105	2,976
11.6	Tangible fixed assets (net of depreciation)	2,772,917	2,844,090	–71,173
11.7	Accrued income and prepaid expenses	1,059,482	1,226,497	–167,015
11.8	Sundry	17,284,245	17,927,812	–643,567
	Advances under Ministerial Decree of 1974 ..	*15,401,649*	*15,982,911*	*–581,262*
	Other investments of severance pay and pension provisions	*46,572*	*38,413*	*8,159*
	Other items	*1,836,024*	*1,906,488*	*–70,464*
	Total	**179,098,552**	**180,795,483**	**–1,696,931**

Table 2

BALANCE SHEET - LIABILITIES

(thousands of euros)

	Amounts at end-		Changes
	2001	2000	
1 Banknotes in circulation	**64,675,772**	**75,063,752**	**–10,387,980**
2 Liabilities to euro-area banks related to monetary policy operations	**7,573,465**	**7,752,016**	**–178,551**
2.1 Current accounts (covering the minimum reserve system)	7,569,710	7,650,936	–81,226
2.2 Deposit facility	3,453	101,080	–97,627
2.3 Fixed-term deposits	–	–	–
2.4 Fine-tuning reverse operations	–	–	–
2.5 Deposits related to margin calls	302	–	302
3 Other liabilities to euro-area banks	**18,708,179**	**-**	**18,708,179**
4 Liabilities to other euro-area residents denominated in euros	**23,697,366**	**19,453,617**	**4,243,749**
4.1 General government	23,463,305	19,370,513	4,092,792
4.1.1 Treasury payments account	*21,287,086*	*15,125,837*	*6,161,249*
4.1.2 Sinking fund for the redemption of government securities	*176,431*	*4,219,165*	*–4,042,734*
4.1.3 Other liabilities	*1,999,788*	*25,511*	*1,974,277*
4.2 Other counterparties	234,061	83,104	150,957
5 Liabilities to non-euro-area residents denominated in euros	**38,333**	**23,977**	**14,356**
5.1 Liabilities to non-euro-area EU central banks	1	1	–
5.2 Other liabilities	38,332	23,976	14,356
6 Liabilities to euro-area residents denominated in foreign currency	**-**	**-**	**-**
7 Liabilities to non-euro-area residents denominated in foreign currency	**2,455,572**	**228,658**	**2,226,914**
7.1 Deposits and balances	14,766	13,895	871
7.2 Other liabilities	2,440,806	214,763	2,226,043
8 Counterpart of SDRs allocated by the IMF	**1,000,576**	**983,420**	**17,156**
9 Intra-Eurosystem liabilities	**-**	**17,762,752**	**–17,762,752**
9.1 Promissory notes covering debt certificates issued by the ECB	–	–	–
9.2 Other liabilities within the Eurosystem (net)	–	17,762,752	–17,762,752

Table 2 *cont.*

BALANCE SHEET - LIABILITIES

(thousands of euros)

	Amounts at end- 2001	Amounts at end- 2000	Changes
10 Items to be settled	**17,880**	**26,741**	**–8,861**
11 Other liabilities	**1,921,622**	**1,958,616**	**–36,994**
11.1 Bank of Italy drafts	820,710	800,161	20,549
11.2 Cashier’s department services	751	17,012	–16,261
11.3 Accrued expenses and deferred income	83,951	22,296	61,655
11.4 Sundry	1,016,210	1,119,147	–102,937
12 Provisions	**9,902,583**	**9,879,360**	**23,223**
12.1 Provisions for specific risks:	4,423,194	4,603,328	–180,134
for losses on foreign exchange	*2,157,764*	*2,157,764*	–
for losses on securities	*1,024,287*	*1,024,287*	–
for insurance cover	*309,874*	*309,874*	–
for taxation	*931,269*	*1,111,403*	*–180,134*
12.2 Sundry staff-related provisions:	5,479,389	5,276,032	203,357
for staff severance pay and pensions	*5,395,339*	*5,198,959*	*196,380*
for grants to BI pensioners and their surviving dependents	*1,590*	*1,530*	*60*
for severance pay of contract staff	*1,351*	*1,296*	*55*
for staff costs	*81,109*	*74,247*	*6,862*
13 Revaluation accounts	**26,060,124**	**26,150,676**	**–90,552**
14 Provision for general risks	**9,798,072**	**9,098,072**	**700,000**
15 Capital and reserves	**12,742,153**	**12,286,410**	**455,743**
15.1 Capital	155	155	–
15.2 Ordinary and extraordinary reserves	8,589,063	8,184,683	404,380
15.3 Other reserves	4,152,935	4,101,572	51,363
16 Net profits for distribution	**506,855**	**127,416**	**379,439**
Total	**179,098,552**	**180,795,483**	**–1,696,931**

Some of the end-2000 data have been reclassified to take account of Greece's participation in the Eurosystem from 1 January 2001.

Assets

The item *Gold and gold receivables* rose from €23,097 million to €24,830 owing to the increase in the year-end market price communicated by the ECB (from €293.01 to €314.99 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 €27,487 million €27,704 million.

Within this item:

- *receivables from the IMF* increased from €3,984 million to €4,608 million. They comprised:
  a) Italy's net position vis-à-vis the IMF, which rose from €3,134 million to €3,646 million;
  b) freely available SDRs, which rose from €255 million to €337 million;
  c) the loan Italy made to support debt-reduction initiatives for the poorest countries (PRGF), which rose from €594 million to €625 million.
- *securities (other than shares)* totaled €19,834 million and were basically unchanged compared with the previous year (€19,864 million). At year-end the portfolio consisted of €16,017 million of securities denominated in US dollars and €3,817 million of securities denominated in yen;
- *current accounts and deposits* declined from €3,637 million to €3,258 million; sight and overnight deposits rose from €697 million to €751 million, while time deposits fell from €2,940 million to €2,507 million;
- *other assets* consisted exclusively of foreign banknotes and rose from €2 million to €4 million.

Over the year the euro depreciated against the US dollar (from 0.9305 to 0.8813) but appreciated against the yen (from 106.92 to 115.33).

Claims on euro-area residents denominated in foreign currency increased by €2,440 million (from €3,022 million to €5,462 million) and referred to transactions with financial counterparties. In particular:

- *securities (other than shares)* fell from €157 million to €144 million and at the end of the year were all denominated in US dollars;
- other assets rose from €2,865 million to €5,318 million and consisted entirely of deposits with correspondent banks, mostly in the form of time deposits in US dollars and yen.

Claims on non-euro-area residents, were equal to zero, as at the end of 2000.

Lending to euro-area banks related to monetary policy operations fell by €16,143 million (from €25,862 million to €9,719 million), primarily as a consequence of the reduction of €15,925 million (from €25,399 million to €9,474 million) in main refinancing operations, which also fell on an annual average basis (from €24,411 million to €13,562 million).

Longer-term refinancing operations fell by €218 million (from €463 million to €245 million). By contrast, the annual average value of this item was higher (€598 million, as against €457 million).

Fine-tuning operations, for which the year-end balance was zero, were used only in the two days following 11 September; the annual average value of this item rose from €2 million to €34 million.

In 2001 the first use was made in the Eurosystem of operations lasting a week in order to create additional liquidity in relation to the needs that arose in the reserve maintenance period. The operations were carried out on two occasions: 30 April (€5,220 million) and 28 November (€4,525 million). These amounts have been included under *structural reverse operations*, which consequently showed an annual average value of €187 million.

The *marginal lending facility* and *credits related to margin calls* stood at zero at the end of the year. The annual average value of the first of these items was €47 million (compared with €17 million in 2000) and that of the second €0.4 million (compared with €0.3 million in 2000).

The item *other claims on euro-area banks*, which comprises the correspondent accounts held in connection with the activity of the Bank's representative offices abroad, remained small, declining from €0.5 million to €0.4 million.

Securities issued by euro-area residents (other than shares) consisted of government securities eligible for monetary policy purposes and remained basically unchanged, declining from €1,551 million to €1,546 million.

General government debt contracted slightly, from €40,611 million to €40,522 million, 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.

Intra-Eurosystem claims increased by €10,711 million (from €8,192 million to €18,903 million) as a consequence of the increase in the subitem *other claims within the Eurosystem (net)*. This refers to the Bank's net position vis-à-vis the Eurosystem in connection with the TARGET system, which moved from a negative value of €17,763 million to a positive value of €10,711 million.

The above item also includes the Bank's *participating interest in the ECB* of €745 million and €7,447 million of *claims deriving from the transfer of reserves to the ECB* in the form of gold, foreign securities and foreign currencies at the beginning of Stage Three of EMU. The foregoing amounts were unchanged compared with 31 December 2000.

Items to be settled remained stable at around €1 million.

Other assets declined from €50,971 million to €50,381 million. In particular:

- *euro-area coins* rose from €6 million to €8 million;
- the *UIC endowment fund* remained unchanged at €258 million;
- *investments of reserves and provisions (including shares)* rose from €28,675 million to €28,969 million as a consequence of the net purchases made during the year. The annual average value of this item was €28,253 million, compared with €28,132 million in 2000;
- *intangible fixed assets* decreased from €27 million to €20 million as a consequence of the smaller volume of procedures, studies and designs developed by the EDP Department;
- *deferred charges* rose from €6 million to €9 million owing to the increase in software licences (from €4 million to €8 million) and the decrease in other deferred charges (from €2 million to €1 million);
- *tangible fixed assets (net of depreciation)* amounted to €2,773 million. The decrease of €71 million compared with 31 December 2000 was due to €89 million of purchases and capitalized own work and €161 million of depreciation;
- *accrued income and prepaid expenses* decreased from €1,227 million to €1,059 million;
- *sundry* other assets declined from €17,928 million to €17,284 million. They included:
  - *a)* €15,402 million in respect of the advance granted under Treasury Ministry Decree 27.9.1974 to Banco di Napoli pursuant to Law 588/1996 (€15,983 million at 31 December 2000);
  - *b)* €1,416 million of corporate income tax credits (€587 million), related accrued interest (€205 million), prepayments of taxes (€30 million), payments on account of income tax and the tax on productive activities (€594 million);

c) €47 million of advances on staff severance pay and related accrued interest;

d) €29 million, the balance-sheet total of the supplementary pension fund. This item is matched on the liabilities side by an equal amount entered under *other liabilities - sundry.*

Liabilities

Banknotes in circulation refers only to lira notes and amounted to €64,676 million, a sharp reduction of €10,388 million that was related to the introduction of euro notes on 1 January 2002. By contrast, the annual average value of this item rose slightly, by 1.6 per cent (from €68,226 million to €69,331 million), despite a large fall in the second half of the year.

Liabilities to euro-area banks related to monetary policy operations amounted to €7,573 million. The reduction of €179 million compared with 31 December 2000 was due to the decreases in the deposit facility (from €101 million to €3 million) and banks' current accounts (covering the minimum reserve system), which declined from €7,651 million to €7,570 million. The annual average value of the latter subitem rose from €12,472 million to €12,771 million.

Fixed-term deposits and *fine-tuning reverse operations* were both equal to zero, as at the end of 2000.

Deposits related to margin calls amounted to €0.3 million (null at 31 December 2000).

Other liabilities to euro-area banks rose from zero to €18,708 million and comprised the cash deposits banks made as collateral for the euro notes and coins they received in the front-loading phase.

Liabilities to other euro-area residents increased by €4,243 million (from €19,454 million to €23,697 million). The following changes occurred within the subitem general government:

- the *Treasury payments account* rose from €15,126 million to €21,287 million. The average balance on the account rose from €19,148 million to €20,918 million;
- the *sinking fund for the redemption of government securities* fell from €4,219 million to €176 million following withdrawals to buy back and redeem government securities. The annual average value of this item nonetheless rose from €1,853 million to €3,719 million;
- *other liabilities* to general government rose from €26 million to €2,000 million, primarily owing to the cash deposits Poste Italiane S.p.A. made

as collateral for the euro notes and coins it received in the front-loading phase (€1,964 million).

The subitem liabilities to *other counterparties* rose from €83 million to €234 million almost exclusively in connection with the movement in the balance on the UIC's current account, which rose from €79 million to €233 million.

Liabilities to non-euro-area residents rose from €24 million to €38 million owing to the increase in other liabilities, which include the accounts held by central banks and international organizations.

Liabilities to euro-area residents denominated in foreign currency were equal to zero, as at 31 December 2000.

Liabilities to non-euro-area residents denominated in foreign currency rose from €229 million to €2,456 million. In particular, *other liabilities* rose from €215 million to €2,441 million in connection with US dollar repo transactions. By contrast, the subitem *deposits and balances* remained virtually unchanged, rising from €14 million to €15 million.

The *counterpart of SDRs allocated by the IMF* rose from €983 million to €1,001 million, primarily owing to the gain of €10 million produced by the revaluation at the year-end exchange rate.

The item *intra-Eurosystem liabilities* fell to zero from €17,763 million at 31 December 2000 since the Bank's "net" position vis-à-vis the Eurosystem was positive and accordingly included in the corresponding item on the assets side.

Items to be settled fell from €27 million to €18 million.

Other liabilities declined by €37 million (from €1,959 million to €1,922 million). The subitem *sundry* fell by €103 million and *cashier's department services* by €16 million, while *accrued expenses and deferred income* rose by €62 million and *Bank of Italy drafts* by €20 million.

In particular, the subitem *sundry* other liabilities included:

- €506 million 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 2000 the negative difference had amounted to €477 million;
- €29 million, the balance-sheet total of the supplementary pension fund. This item is matched on the assets side by an equal amount entered under *other assets - sundry.*

Provisions increased from €9,879 million to €9,903 million. In particular:

– *provisions for specific risks* decreased by €180 million (from €4,603 million to €4,423 million). The decrease was due to the tax provision, from which a total of €960 million was withdrawn to pay the Bank's taxes for 2000 and to which a total of €780 million was allocated for corporate income tax and the regional tax on productive activities for the year (€777 million) and for deferred tax liabilities for the year (€3 million). The provisions for losses on foreign exchange and securities remained unchanged at respectively €2,158 million and €1,024 million, as did the provision for insurance cover at €310 million;

– *sundry staff-related provisions* rose from €5,276 million to €5,479 million. The growth in this item reflected the allocation of €145 million to the provision for pensions and of €73 million for staff severance pay, partly offset by the transfer of €22 million to the supplementary pension fund. The provision for staff costs rose from €74 million to €81 million, owing to the increase in amounts accrued but not paid at the end of the year. 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.

The provisions and the related movements in 2000 are detailed in Table 3.

Table 3

PROVISIONS

(thousands of euros)

	Amounts at end-2000	Changes		Amounts at end-2001
		Transfers from	Transfers to	
Provisions for specific risks:	**4,603,328**	**960,296**	**780,162**	**4,423,194**
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 taxation (1)	1,111,403	960,296	780,162	931,269
Sundry staff-related provisions: .	**5,276,032**	**76,141**	**279,498**	**5,479,389**
for staff severance pay and pensions	5,198,959	(2) 21,545	217,925	5,395,339
for grants to BI pensioners and their surviving dependents	1,530	49	109	1,590
for severance pay of contract staff under Law 297/1982	1,296	140	195	1,351
for staff costs	74,247	54,407	61,269	81,109
Total . . .	**9,879,360**	**1,036,437**	**1,059,660**	**9,902,583**

(1) Includes the amounts set aside for corporate income tax and the tax on productive activities for 2001, and deferred tax liabilities. – (2) Transfer to the supplementary pension fund.

The *revaluation accounts*, which show the effects of the revaluations of gold, foreign currencies and securities not held as fixed assets at market exchange rates and prices, remained largely unchanged, declining from €26,151 million to €26,060 million.

The *provision for general risks* amounted to €9,798 million following the allocation of €700 million.

The item *capital and reserves* increased in total by €456 million (from €12,286 million to €12,742 million) as a result of:

- the increase in the *ordinary reserve* from €4,158 million to €4,373 million and that in the *extraordinary reserve* from €4,000 million to €4,216 million. The total increase of €404 million was smaller than that of the previous year (€1,051 million) both because the income earned on the reserves was less and because the allocation of net profit for 2000 was smaller than that for 1999;
- the increase (from €79 million to €130 million) 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 tangible fixed assets;
- the creation, within the subitem *other reserves*, of a special reserve (€0.1 million) pursuant to Legislative Decree 124/1993 providing for the introduction of supplementary pension funds.

The other revaluation reserves and the provision for the renewal of tangible fixed assets remained unchanged at respectively €2,217 million and €1,805 million.

The holders of the Bank's capital are shown in Table 4 and the movements in the item *capital and reserves* in Table 5.

Table 4

SHAREHOLDERS

	At 31 December 2001				At 31 December 2000			
	Number	Shares held (1)	%	Votes	Number	Shares held (1)	%	Votes
Shareholders with voting rights	79	299,934	100.0	735	80	299,934	100.0	755
Limited company banks	*71*	*253,434*	*84.5*	*610*	*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 . . .	**85**	**300,000**	**100.0**	**735**	**86**	**300,000**	**100.0**	**755**

(1) With a face value of 1,000 lire each.

Table 5

MOVEMENTS IN CAPITAL AND RESERVES

(thousands of euros)

	Balance at end-2000	Increases	Decreases	Balance at end-2001
Share capital	155	–	–	155
Ordinary reserve	4,184,878	(1) 208,254	(2) 20,076	4,373,056
Extraordinary reserve	3,999,805	(1) 235,362	(2) 19,160	4,216,007
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)	866,534	–	–	866,534
Reserve for accelerated depreciation (under Art. 67.3 of the income tax code)	79,079	51,269	–	130,348
Reserve (under Legislative Decree 124/1993)	–	(3) 94	–	94
Special provision for the renewal of tangible fixed assets	1,805,044	–	–	1,805,044
Total . . .	**12,286,410**	**494,979**	**39,236**	**12,742,153**

(1) The movement was due to the allocation of the net profit for 2000 and the return earned in 2001 on the investment of the reserve. – (2) The movement was due to the dividend paid to shareholders in respect of the return earned in 2000 on the investment of the reserve (under Art. 56 of the Bank's Statute). – (3) Amount due to the creation of the special reserve under Legislative Decree 124/1993 on supplementary pension funds, with tax deferred pursuant to Article 70.2*bis* of the income tax code.

2.2. *Income statement*. – The net profit for the year amounted to €507 million (Table 6), an increase compared with the figure of €127 million for 2000 owing to the rise in pre-tax profit (from €922 million to €1,290 million) and a modest fall in corporate income tax and the regional tax on productive activities (from €795 million to €783 million).

Among the items included under *net income from institutional operations*, *net interest income* fell by €452 million since the fall in *interest income* was larger than that in *interest expense*.

Total *interest income* decreased by €1,082 million (from €3,810 million to €2,728 million).

In particular, bond premiums and discounts on securities denominated in euros and foreign currencies showed net expenses of €251 million, compared with net proceeds of €171 million in 2000. The change in this item was primarily due to securities denominated in US dollars, which recorded net expenses of €216 million, compared with net proceeds of €192 million in 2000.

Interest income on positions denominated in foreign currency declined by €80 million (from €1,387 million to €1,307 million). The breakdown of the reduction was as follows:

Table 6

ANALYSIS OF THE INCOME STATEMENT

(euros)

	2001		2000		Changes	
A) NET INCOME FROM INSTITUTIONAL OPERATIONS:		**2,708,194,302**		**1,254,818,777**		**1,453,375,525**
Interest income		2,728,084,819		3,809,953,776		–1,081,868,957
securities and other assets denominated in foreign currency	*1,173,588,845*		*1,224,659,336*		*–51,070,491*	
IMF positions	*133,595,460*		*162,221,969*		*–28,626,509*	
refinancing operations	*644,826,429*		*1,001,511,886*		*–356,685,457*	
discounts and advances	*161,895,653*		*161,804,859*		*90,794*	
claims on the State	*393,569,890*		*393,569,890*		*–*	
intra-Eurosystem balances	*373,819,840*		*598,249,610*		*–224,429,770*	
UIC current account	*133,863*		*2,535*		*131,328*	
securities denominated in euros held for monetary policy purposes	*97,310,635*		*97,274,172*		*36,463*	
bond premiums and discounts	*–250,657,116*		*170,659,519*		*–421,316,635*	
other	*1,320*		*–*		*1,320*	
Interest expense		–2,102,150,120		–2,732,157,036		630,006,916
Treasury payments account	*–1,146,667,464*		*–1,102,972,747*		*–43,694,717*	
sinking fund for the redemption of government securities	*–175,597,668*		*–68,932,166*		*–106,665,502*	
current account deposits of required reserves	*–557,967,754*		*–509,344,912*		*–48,622,842*	
overnight deposits, term deposits and deposits related to margin calls	*–390,213*		*–3,094,493*		*2,704,280*	
UIC current account	*–4,055,410*		*–4,419,850*		*364,440*	
intra-Eurosystem balances	*–93,240,937*		*–976,105,540*		*882,864,603*	
sundry interest denominated in foreign currency	*–52,574,095*		*–67,287,328*		*14,713,233*	
other	*–71,656,579*		*–*		*–71,656,579*	
Net interest income		**625,934,699**		**1,077,796,740**		**–451,862,041**
Profits and losses on financial operations		2,285,061,836		503,459,991		1,781,601,845
profits/losses on securities trading	*743,991,677*		*182,386,636*		*561,605,041*	
profits/losses on foreign exchange trading	*1,163,224,582*		*371,396,291*		*791,828,291*	
profits/losses on derivatives contracts denominated in foreign currency	*854*		*–*		*854*	
profits/losses on forward transactions in securities under Ministerial Decree 1974	*377,844,723*		*–50,322,936*		*428,167,659*	
Writedowns of financial assets and positions		–545,207,137		–479,560,368		–65,646,769
foreign securities	*–38,666,695*		*–1,779,134*		*–36,887,561*	
foreign currencies	*–5,604*		*–35,023*		*29,419*	
securities denominated in euros	*–502,684*		*–448,801*		*–53,883*	
forward transactions in securities under Ministerial Decree 1974	*–506,032,154*		*–477,297,410*		*–28,734,744*	
Transfers to/from provisions for losses on foreign exchange and securities		20,141,109		38,799,379		–18,658,270
transfers from "pre-system" revaluations reserves	*20,141,109*		*38,799,379*		*–18,658,270*	
Net result of financial operations, writedowns and risk provision transfers		**1,759,995,808**		**62,699,002**		**1,697,296,806**
Fee and commission income		21,606,242		25,070,184		–3,463,942
Fee and commission expense		–24,589,170		–19,730,788		–4,858,382
Net income from fees and commissions		**–2,982,928**		**5,339,396**		**–8,322,324**
Income from equity shares and participating interests		321,284,475		106,447,914		214,836,561
income from participating interest in ECB	*300,417,046*		*–*		*300,417,046*	
income from participating interest in UIC endowment fund	*20,867,429*		*106,447,914*		*–85,580,485*	
Net result of the pooling of monetary income		3,962,248		2,535,725		1,426,523
monetary income pooled	*6,178,721*		*6,300,490*		*–121,769*	
monetary income conferred	*–2,216,473*		*–3,764,765*		*1,548,292*	

Table 6 *cont.*

ANALYSIS OF THE INCOME STATEMENT

(euros)

	2001		2000		Changes	
B) OTHER INCOME:		**1,638,472,456**		**2,497,345,356**		**–858,872,900**
Income from the investment of reserves and provisions		1,433,588,255		2,398,623,867		–965,035,612
interest income	*1,406,159,961*		*1,512,741,253*		*–106,581,292*	
bond premiums and discounts	*–159,861,911*		*–160,585,906*		*723,995*	
dividends on equity shares and participating interests	*159,452,821*		*142,353,861*		*17,098,960*	
trading profits and gains on disposals	*27,837,384*		*904,114,659*		*–876,277,275*	
Prior-year income		126,791,936		18,831,368		107,960,568
Sundry		78,092,265		79,890,121		–1,797,856
rental income from buildings	*17,405,922*		*16,719,357*		*686,565*	
interest on tax credits	*29,353,300*		*29,360,007*		*–6,707*	
other interest income	*1,602,665*		*982,547*		*620,118*	
commissions paid by the Ministry of the Treasury	*239,744*		*774,704*		*–534,960*	
procedures, studies and designs completed	*11,513,087*		*10,448,804*		*1,064,283*	
closing stocks	*440,030*		*662,666*		*–222,636*	
other	*17,537,517*		*20,942,036*		*–3,404,519*	
TOTAL NET INCOME (A+B)		**4,346,666,758**		**3,752,164,133**		**594,502,625**
C) OTHER EXPENSES:		**–3,839,811,347**		**–3,624,748,216**		**–215,063,131**
Staff costs		–1,160,741,417		–1,219,591,592		58,850,175
wages and salaries and related costs	*–626,908,103*		*–603,842,173*		*–23,065,930*	
emoluments paid to head and branch office collegial bodies (1)	*–3,021,268*		*–2,401,580*		*–619,688*	
pensions and severance payments	*–240,072,030*		*–218,260,135*		*–21,811,895*	
other	*–11,244,494*	*–881,245,895*	*–8,606,895*	*–833,110,783*	*–2,637,599*	*–48,135,112*
transfers to:						
provision for staff severance pay and pensions	*–217,924,849*		*–333,586,573*		*115,661,724*	
provision for expenses accrued but not yet paid	*–61,268,734*		*–52,634,482*		*–8,634,252*	
other provisions	*–301,939*	*–279,495,522*	*–259,754*	*–386,480,809*	*–42,185*	*106,985,287*
Administrative costs		–360,053,902		–355,085,283		–4,968,619
Depreciation of tangible and intangible fixed assets		–191,949,730		–190,571,980		–1,377,750
Other costs:						
losses on investments of reserves and provisions		–144,147,828		–29,693,174		–114,454,654
losses on disposals	*–1*		*–11,656,232*		*11,656,231*	
writedowns	*–144,147,827*		*–18,036,942*		*–126,110,885*	
other transfers to provisions		–751,363,158		–53,200,000		–698,163,158
prior-year expense		–1,232,074		–5,855,506		4,623,432
appropriation of investment income to reserves (2)		–392,649,324		–918,736,653		526,087,329
other taxes and duties		–45,129,681		–42,911,059		–2,218,622
sundry		–9,544,233		–14,102,969		4,558,736
other interest expense	*–1,450,846*		*–3,296,316*		*1,845,470*	
opening stocks	*–662,666*		*–493,751*		*–168,915*	
miscellaneous payables	*–7,430,721*		*–10,312,902*		*2,882,181*	
Taxes on income for the year and productive activities		–783,000,000		–795,000,000		12,000,000
NET PROFIT FOR THE YEAR		**506,855,411**		**127,415,917**		**379,439,494**

(1) Includes the remuneration of the Board of Directors (1,424,707 euros in 2001 and 915,783 euros in 2000) and the Board of Auditors (32,337 euros in 2001 and 31,119 euros in 2000). – (2) Pursuant to Article 55 of the Statute.

- €51 million of income from securities and other assets denominated in foreign currency. This reflected the fall in the average overall rate of return, which was partly offset by the increase in the annual average value of the portfolio (from €26,067 million to €28,598 million);
- €29 million of income from the position with the IMF following the reduction in the interest rate paid by the Fund.

Interest income earned on positions in euros fell from €2,252 million to €1,672 million. The breakdown of the decrease of €580 million was as follows:

- €357 million of income from refinancing operations (from €1,002 million to €645 million). This reflected the decrease of €379 million in income from main refinancing operations as a consequence of the reduction in the annual average amount outstanding (from €24,411 million to €13,562 million), which was partly offset by: the increase in the average rate of return (from 4.03 to 4.47 per cent). There was also an increase (from €17 million to €27 million) in income from longer-term operations and a smaller one in income from the other types of refinancing operations;
- €224 million of income from intra-Eurosystem balances, largely as a result of the reduction of €243 million (from €339 million to €96 million) in income from the Bank's TARGET balances, which was partly offset by the increase of €19 million (from €259 million to €278 million) in interest income from the claims deriving from the transfer of foreign reserves to the ECB as a result of the higher average interest rate applied.

There was 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) or in the interest income from claims on the State under Law 483/1993 (€394 million) or in the interest earned on securities held for monetary policy purposes (€97 million).

Interest expense fell by €630 million (from €2,732 million to €2,102 million).

Overall, interest expense in respect of positions denominated in euros decreased by €615 million (from €2,665 million to €2,050 million). In particular:

- interest on intra-Eurosystem balances decreased by €883 million (from €976 million to €93 million) in connection with the net position on the Bank's TARGET accounts;
- interest on current account deposits of required reserves increased by €49 million (from €509 million to €558 million) owing to the small increases in both the average rate of return on required reserves (from 4.08 to 4.37

per cent) and the annual average amount of required reserves (from €12,472 million to €12,771 million);

- interest on the Treasury payments account increased by €44 million (from €1,103 million to €1,147 million) owing to the increase in the annual average balance (from €19,148 million to €20,918 million), which was only offset in part by the decline in the average rate of return (from 5.76 to 5.48 per cent);
- interest on the sinking fund for the redemption of government securities increased by €107 million (from €69 million to €176 million) owing to the increase in the average amount outstanding (from €1,853 million to €3,719 million) and the rise in the average rate of return (from 3.72 to 4.72 per cent);
- interest on overnight deposits, fixed-term deposits and deposits related to margin calls decreased by around €3 million (from €3 million to €0.4 million);
- interest on the current account held by the UIC (paid on the basis of the Eurosystem overnight deposit rate) remained virtually unchanged at around €4 million;
- other interest, which amounted to €72 million, included €69 million of interest on the deposits made by banks as collateral for the euro notes and coins they received in the front-loading phase.

The interest paid on positions denominated in foreign currency fell by €15 million (from €67 million to €52 million), reflecting the decrease in payments in respect of allocations of SDRs (from €45 million to €34 million) and the reduction of €4 million in payments in respect of foreign accounts and repos denominated in foreign currencies.

The *net result of financial operations, writedowns and risk provision transfers* increased by €1,697 million (from €63 million to €1,760 million) as a result of:

- the improvement of €1,782 million in the item *profits and losses on financial operations*. In particular:

  a) the increase (from €182 million to €744 million) in profits from trading in securities, primarily owing to the favourable movements in the prices of foreign securities;

  b) the increase (from €371 million to €1,163 million) in profits from foreign exchange trading, almost entirely owing to profits on sale of US dollars;

  c) the swing from a loss of €50 million to a profit of €378 million as a result of the closure of the forward position in connection with the advance granted under Treasury Ministry Decree 27.9.1974 that fell due at the end of the year;

- the increase in the item *writedowns of financial assets and positions* (from €480 million to €545 million). This was mainly due to the new forward positions connected with the renewal of the above-mentioned advance, written down by €506 million (as against €477 million in 2000) on the basis of the foreseeable difference between the repurchase price and the future market price; the remaining writedowns refer mostly to foreign securities;
- the decrease (from €39 million to €20 million) in withdrawals from the pre-system revaluation reserves as a consequence of disposals and writedowns of securities and foreign currencies (and included under *transfers to/from provisions for losses on foreign exchange and securities*).

Net income from fees and commissions, positive for €5 million in 2000, turned negative for €3 million. In more detail, *fee and commission income* declined from €25 million to €22 million as a result of the loss of the revenues from the management of the central depository for government securities following the completion on 11 December 2000 of the transfer of this activity to Monte Titoli S.p.A. under Legislative Decree 58/1998. *Fee and commission expense* increased from €20 million to €25 million as a consequence of the increase (from €14 million to €20 million) in the commission paid to the UIC for the management of the official reserves in foreign currency.

Income from equity shares and participating interests rose by €215 million (from €106 million to €321 million) and comprised:

- dividends for the year 2000 on the Bank's interest in the capital of the ECB amounting to €300 million (in 1999 the ECB did not distribute a dividend since it recorded a loss for the year of €247 million);
- the profits allocated to the Bank in respect of its interest in the UIC's endowment fund. These fell from €106 million to €21 million.

The *net result of the pooling of monetary income* was positive for €4 million (€3 million in 2000), the resultant of €2 million of monetary income contributed by the Bank and €6 million attributable to the Bank.

Other income decreased by €859 million (from €2,497 million to €1,638 million). In particular:

- *income from the investment of reserves and provisions* fell by €965 million (from €2,399 million to €1,434 million). In more detail, interest income and dividends from securities, including bond premiums and discounts, declined from €1,495 million to €1,406 million and profits from trading of assets and disposals from €904 million to €28 million. The latter had been particularly large in 2000, primarily as a result of the use made on the occasion of the renewal of the advances granted under Treasury Ministry Decree 27.9.1974 of securities in the Bank's portfolio with book values lower than the market prices;

– *prior-year income* increased by €108 million to €127 million owing to the difference of €120 million between the provision made for corporate income tax in the accounts for 2000 and the amount actually paid following a more favourable interpretation of the "Dual Income Tax" rules by the tax authorities;

– *sundry* income amounted to €78 million and was virtually unchanged compared with the previous year (€80 million). The item included interest income on tax credits (€29 million) and rental income from property (€17 million).

Staff costs fell by €59 million (from €1,220 million to €1,161 million) primarily as a result of the decrease in the transfers to the provision for severance pay and pensions from €334 million to €218 million. In accordance with ESCB accounting rules, this expense is included in staff costs together with the amount accrued but not yet paid to members of the staff at the end of the year (€61 million).

Excluding the foregoing transfers to provisions and the emoluments paid to head and branch office governing bodies, which rose from €2 million to €3 million, staff costs – comprising wages and salaries, social security contributions, pensions and severance pay, and the Bank's share of insurance policies for the staff – amounted to €878 million, an increase of €48 million on 2000, of which €23 million was due to wages and salaries and social security contributions and €22 million to disbursements of severance pay.

The breakdown of the Bank's staff by type of employment is shown in Table 7.

Table 7

THE BANK'S STAFF

	Average number of persons in service		Percentage composition	
	2001	2000	2001	2000
Managerial	1,956	1,924	23.0	22.3
Clerical	4,990	5,100	58.6	59.0
General services and security	992	1,019	11.6	11.8
Blue-collar	580	596	6.8	6.9
Total	**8,518**	**8,639**	**100.0**	**100.0**

Administrative costs rose by €5 million. In more detail building maintenance rose by €8 million (from €56 million to €64 million), professional services by €7 million (from €8 million to €15 million), and security and escort services by €7 million (from €63 million to €70 million); on the other hand, there was a decrease of €21 million in purchases of watermarked paper, which had been particularly large in 2000 in connection with the start of production of euro banknotes.

Depreciation of tangible and intangible fixed assets, which refers exclusively to ordinary depreciation, remained almost unchanged at €192 million (€191 million in 2000).

Other costs rose from €1,064 million to €1,344 million and comprised:

- *losses on investments of reserves and provisions*, which rose from €30 million to €144 million as a result of the increase (from €18 million to €144 million) in writedowns of equity investments, which was only offset in part by the reduction in losses on disposals;
- *other transfers to provisions,* which rose to €751 million (€53 million in 2000) in connection with the increase of €700 million in the provision for general risks and €51 million of accelerated depreciation allocated to the related "reserve" under Article 67.3 of the Income Tax Code;
- *prior-year expense,* which fell from €6 million to €1 million;
- *appropriation of investment income to reserves,* which amounted to €393 million, down from €919 million in 2000;
- *other taxes and duties*, i.e. excluding income tax for the year and the regional tax on productive activities, which rose from €43 million to €45 million owing to the increase in the stamp duty on notes in circulation from €28 million to €30 million;
- *sundry* other costs, which decreased by €5 million as a result of the decreases in other interest expense (from €3 million to €1 million) and other expenditure (from €11 million to €8 million).

Taxes on income for the year and productive activities declined slightly (from €795 to €783 million) notwithstanding the increase in pre-tax profit. This result is to be attributed to rate reductions — for corporate income tax rate from 37 to 36 per cent and for the regional tax on productive activities from 5.4 to 5 per cent — and to the more pronounced effects of the "Dual Income Tax". The latter were due to the increase in the Bank's net worth and the higher multiplier established by law, and were only offset in part by the reduction from 7 to 6 per cent in the ordinary rate of return on the Bank's equity. Corporate income tax rose from €610 million to €645 million, while the regional tax on productive activities declined from €145 million to €132 million; the remaining €6 million (€40 million in 2000) consisted of the deferred tax liability calculated on the basis of the weighted average rate of corporate income tax for 2001 resulting from the application of the "Dual Income Tax" and the rates for the regional tax on productive activities currently expected for 2002 and subsequent years.

3. Proposals of the Board of Directors

Pursuant to Articles 54 and 57 of the Statute and after hearing the favourable opinion of the Board of Auditors, the Board of Directors proposes the following allocation of the net profit for 2001 of €506,855,411:

	euros
– 20 per cent to the ordinary reserve	101,371,082
– an amount equal to 6 per cent of the share capital to shareholders	9,296
– 20 per cent to the extraordinary reserve	101,371,082
– an additional amount equal to 4 per cent of the share capital to shareholders	6,197
– the remaining amount to the State	304,097,754
TOTAL	506,855,411

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 €45,015,000 equal to 0.55 per cent (as in the previous year) of the total reserves at 31 December 2000.

If these proposals are approved, the total dividend will be equal to €45,030,493 corresponding to €150.101643 per share.

THE GOVERNOR
Antonio Fazio

BALANCE SHEET
AND INCOME STATEMENT
for the year ended 31 December 2001

BALANCE

ASSETS	amounts in euros	
	2001	2000
1 GOLD AND GOLD RECEIVABLES	**24,830,282,205**	**23,097,625,286**
2 CLAIMS ON NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**27,703,644,173**	**27,486,941,056**
2.1 Receivables from the IMF	4,608,324,572	3,983,851,620
2.2 Securities (other than shares)	19,833,416,871	19,863,830,346
2.3 Current accounts and deposits	3,258,152,788	3,636,855,417
2.4 Reverse operations	–	–
2.5 Other claims	3,749,942	2,403,673
3 CLAIMS ON EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**5,462,237,036**	**3,022,322,599**
3.1 Financial counterparties	5,462,237,036	3,022,322,599
3.1.1 Securities (other than shares)	*143,935,833*	*156,834,605*
3.1.2 Reverse operations	–	–
3.1.3 Other claims	*5,318,301,203*	*2,865,487,994*
3.2 General government	–	–
3.3 Other counterparties	–	–
4 CLAIMS ON NON-EURO-AREA RESIDENTS	**–**	**–**
4.1 Claims on non-euro-area EU central banks	–	–
4.2 Securities (other than shares)	–	–
4.3 Other claims	–	–
5 LENDING TO EURO-AREA BANKS RELATED TO MONETARY POLICY OPERATIONS	**9,719,069,910**	**25,861,684,987**
5.1 Main refinancing operations	9,474,322,699	25,398,507,064
5.2 Longer-term refinancing operations	244,747,211	463,002,669
5.3 Fine-tuning reverse operations	–	–
5.4 Structural reverse operations	–	–
5.5 Marginal lending facility	–	–
5.6 Credits related to margin calls	–	175,254
6 OTHER CLAIMS ON EURO-AREA BANKS	**430,026**	**499,448**
7 SECURITIES ISSUED BY EURO-AREA RESIDENTS (other than shares)	**1,545,760,828**	**1,550,761,910**
8 GENERAL GOVERNMENT DEBT	**40,552,272,808**	**40,611,402,701**
9 INTRA-EUROSYSTEM CLAIMS	**18,903,338,431**	**8,192,250,000**
9.1 Participating interest in the ECB	744,750,000	744,750,000
9.2 Claims deriving from the transfer of foreign reserves to the ECB	7,447,500,000	7,447,500,000
9.3 Other claims within the Eurosystem (net)	10,711,088,431	–
10 ITEMS TO BE SETTLED	**828,014**	**797,024**
11 OTHER ASSETS	**50,380,689,122**	**50,971,198,241**
11.1 Euro-area coins	7,613,069	6,325,953
11.2 UIC endowment fund	258,228,450	258,228,450
11.3 Investments of reserves and provisions (including shares)	28,969,310,742	28,675,361,127
11.4 Intangible fixed assets	19,811,500	26,778,847
11.5 Deferred charges	9,081,152	6,105,163
11.6 Tangible fixed assets (net of depreciation)	2,772,916,530	2,844,089,423
11.7 Accrued income and prepaid expenses	1,059,482,453	1,226,497,390
11.8 Sundry	17,284,245,226	17,927,811,888
TOTAL	**179,098,552,553**	**180,795,483,252**
13 MEMORANDUM ACCOUNTS	**567,893,503,200**	**673,896,915,980**

Audited and found correct - 24 April 2002
THE AUDITORS: Giuseppe Bruni, Enrico Nuzzo, Angelo Provasoli, Massimo Stipo, Gianfranco Zanda

SHEET

LIABILITIES	amounts in euros 2001	amounts in euros 2000
1 BANKNOTES IN CIRCULATION	**64,675,772,392**	**75,063,752,078**
2 LIABILITIES TO EURO-AREA BANKS RELATED TO MONETARY POLICY OPERATIONS	**7,573,465,398**	**7,752,015,882**
2.1 Current accounts (covering the minimum reserve system)	7,569,710,153	7,650,935,513
2.2 Deposit facility	3,452,663	101,080,369
2.3 Fixed-term deposits	–	–
2.4 Fine-tuning reverse operations	–	–
2.5 Deposits related to margin calls	302,582	–
3 OTHER LIABILITIES TO EURO-AREA BANKS	**18,708,178,607**	**-**
4 LIABILITIES TO OTHER EURO-AREA RESIDENTS DENOMINATED IN EUROS	**23,697,366,223**	**19,453,616,888**
4.1 General government	23,463,304,816	19,370,512,538
4.1.1 Treasury payments account	*21,287,086,365*	*15,125,837,391*
4.1.2 Sinking fund for the redemption of government securities	*176,430,644*	*4,219,164,624*
4.1.3 Other liabilities	*1,999,787,807*	*25,510,523*
4.2 Other counterparties	234,061,407	83,104,350
5 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN EUROS	**38,332,907**	**23,977,211**
5.1 Liabilities to non-euro-area EU central banks	827	799
5.2 Other liabilities	38,332,080	23,976,412
6 LIABILITIES TO EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**-**	**-**
6.1 Financial sector counterparties	-	–
6.2 General government	-	–
6.3 Other counterparties	-	–
7 LIABILITIES TO NON-EURO-AREA RESIDENTS DENOMINATED IN FOREIGN CURRENCY	**2,455,571,547**	**228,657,599**
7.1 Deposits and balances	14,765,282	13,894,843
7.2 Other liabilities	2,440,806,265	214,762,756
8 COUNTERPART OF SDRs ALLOCATED BY THE IMF	**1,000,575,824**	**983,419,704**
9 INTRA-EUROSYSTEM LIABILITIES	**-**	**17,762,751,755**
9.1 Promissory notes covering debt certificates issued by the ECB	–	–
9.2 Other liabilities within the Eurosystem (net)	–	17,762,751,755
10 ITEMS TO BE SETTLED	**17,880,314**	**26,741,150**
11 OTHER LIABILITIES	**1,921,621,967**	**1,958,615,943**
11.1 Bank of Italy drafts	820,709,854	800,160,667
11.2 Cashier’s department services	751,240	17,012,582
11.3 Accrued expenses and deferred income	83,951,332	22,295,788
11.4 Sundry	1,016,209,541	1,119,146,906
12 PROVISIONS	**9,902,583,255**	**9,879,360,580**
12.1 Provisions for specific risks	4,423,193,940	4,603,328,054
12.2 Sundry staff-related provisions	5,479,389,315	5,276,032,526
13 REVALUATION ACCOUNTS	**26,060,123,837**	**26,150,676,522**
14 PROVISION FOR GENERAL RISKS	**9,798,072,043**	**9,098,072,043**
15 CAPITAL AND RESERVES	**12,742,152,828**	**12,286,409,980**
15.1 Capital	154,937	154,937
15.2 Ordinary and extraordinary reserves	8,589,063,103	8,184,683,413
15.3 Other reserves	4,152,934,788	4,101,571,630
16 NET PROFITS FOR DISTRIBUTION	**506,855,411**	**127,415,917**
TOTAL	**179,098,552,553**	**180,795,483,252**
18 MEMORANDUM ACCOUNTS	**567,893,503,200**	**673,896,915,980**

THE ACCOUNTANT GENERAL
STEFANO LO FASO

THE GOVERNOR
ANTONIO FAZIO

INCOME STATEMENT

	amounts in euros 2001	amounts in euros 2000
a) Net income from institutional operations		
Interest income	*2,728,084,819*	*3,809,953,776*
Interest expense	*–2,102,150,120*	*–2,732,157,036*
Net interest income	**625,934,699**	**1,077,796,740**
Profits and losses on financial operations	*2,285,061,836*	*503,459,991*
Writedowns of financial assets and positions	*–545,207,137*	*–479,560,368*
Transfers to/from provisions for losses on foreign exchange and securities	*20,141,109*	*38,799,379*
Net result of financial operations, writedowns and risk provision transfers	**1,759,995,808**	**62,699,002**
Fee and commission income	*21,606,242*	*25,070,184*
Fee and commission expense	*–24,589,170*	*–19,730,788*
Net income from fees and commissions	**–2,982,928**	**5,339,396**
Income from equity shares and participating interests	321,284,475	106,447,914
Net result of the pooling of monetary income	3,962,248	2,535,725
b) Other income		
– *income from the investment of reserves and provisions*	1,433,588,255	2,398,623,867
– *prior-year income*	126,791,936	18,831,368
– *sundry*	78,092,265	79,890,121
Total net income (a+b)	**4,346,666,758**	**3,752,164,133**
Staff costs	–1,160,741,417	–1,219,591,592
Administrative costs	–360,053,902	–355,085,283
Depreciation of tangible and intangible fixed assets	–191,949,730	–190,571,980
Banknote production services	–	–
Other costs:		
– *losses on investments of reserves and provisions*	–144,147,828	–29,693,174
– *other allocations to provisions*	–751,363,158	–53,200,000
– *prior-year expense*	–1,232,074	–5,855,506
– *appropriation of investment income to reserves* (1)	–392,649,324	–918,736,653
– *other taxes and duties*	–45,129,681	–42,911,059
– *sundry*	–9,544,233	–14,102,969
Taxes on income for the year and productive activities	–783,000,000	–795,000,000
Net profit for the year	**506,855,411**	**127,415,917**

(1) Pursuant to Article 55 of the Statute.

ALLOCATION OF THE NET PROFIT FOR THE YEAR	amounts in euros
TO THE ORDINARY RESERVE	101,371,082
TO THE EXTRAORDINARY RESERVE	101,371,082
TO SHAREHOLDERS: 6% OF THE CAPITAL	9,296
AN ADDITIONAL 4% OF THE CAPITAL	6,197
TO THE STATE	304,097,754
TOTAL	**506,855,411**

Audited and found correct
24 April 2002. **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 108th FINANCIAL YEAR OF THE BANK OF ITALY AND THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2001

To the Shareholders

The accounts for the year ended 31 December 2001, submitted for your approval and drawn up in euros in conformity with Council Regulation (EC) No. 974/98, show the following results:

Assets	€	179,098,552,553
Liabilities	€	65,849,544,314
Capital and reserves	€	12,742,152,828
Net profit for the year (as shown in the vertical profit and loss account) .	€	506,855,411

The memorandum accounts, shown on both sides of the balance sheet for an amount of €567,893,503,200, refer to deposits of securities and sundry valuables and commitments and contingent liabilities (for purchases and sales of securities, foreign exchange and euros). The memorandum accounts also show the face value of the euro notes delivered during the front-loading phase and those held as cash by the Bank.

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, except as required for the above-mentioned inclusion of euro notes in the memorandum accounts and the entry into operation of the defined-contribution supplementary pension fund for employees hired since 28 April 1993. This fund, which is divided into two parts, constitutes an autonomous patrimony for the purposes of Article 2117 of the Civil Code and is included in the Bank's balance sheet, for an equal amount, under "other assets" and "other liabilities".

The methods referred to above, with whose adoption we agree, were found to conform with those approved by the Board of Directors and with the law in force. They are described in detail in the notes to the accounts and comply 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 current legislation.

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 having entitlement.

The Board of Directors has decided to allocate €700 million to the provision for general risks. The aim of this allocation is to strengthen the defences against the Bank's overall risk position, in view, among other things, of the variability of Eurosystem monetary income and its distribution.

Pursuant to Article 54 of the Statute, the Board of Directors proposes the following allocation of the net profit for 2001 of €506,855,411:

– 20 per cent to the ordinary reserve	€	101,371,082
– an amount equal to 6 per cent of the share capital to shareholders	€	9,296
– 20 per cent to the extraordinary reserve	€	101,371,082
– an additional amount equal to 4 per cent of the share capital to shareholders	€	6,197
– the remaining amount to the State	€	304,097,754
TOTAL	€	506,855,411

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 €45,015,000, equal to 0.55 per cent of such reserves at 31 December 2000 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 2001 that have been submitted to you (the balance sheet, the profit and loss account and the notes to the accounts) and the proposed allocation of the net profit for the year and distribution to shareholders of an additional amount pursuant to Article 56 of the Statute.

THE AUDITORS
GIUSEPPE BRUNI
ENRICO NUZZO
ANGELO PROVASOLI
MASSIMO STIPO
GIANFRANCO ZANDA

STATISTICAL APPENDIX

LIST OF TABLES

SOURCES AND USES OF INCOME IN FRANCE (1)

(at 1995 prices; billions of francs and, in brackets, billions of euros)

	Sources			Uses							
				Domestic demand							Exports of goods and services
				Gross fixed investment			National consumption		Change in stocks and valuables	Total	
	Gross domestic product	Imports of goods and services	Total	Construction	Other (2)	Total	Households (3)	General government			
1997	7,987.2	1,778.9	9,766.0	661.2	794.6	1,455.8	4,366.1	1,933.1	–6.9	7,747.6	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	56.6	8,057.8	2,186.3
1999	8,524.2	2,107.7	10,631.9	715.1	970.8	1,685.9	4,661.0	1,959.6	56.4	8,351.8	2,280.2
	(1,299.5)	*(321.3)*	*(1,620.8)*	*(109.0)*	*(148.0)*	*(257.0)*	*(710.6)*	*(298.7)*	*(8.6)*	*(1,273.2)*	*(347.6)*
2000	8,846.6	2,408.5	11,255.1	766.5	1.049.5	1,816.0	4,777.8	2,012.3	81.1	8,685.1	2,570.0
	(1,348.7)	*(367.2)*	*(1,715.8)*	*(116.9)*	*(160.0)*	*(276.8)*	*(728.4)*	*(306.8)*	*(12.4)*	*(1,324.0)*	*(391.8)*
2001	9,008.9	2,411.1	11,420.0	780.2	1.077.4	1,857.7	4,903.1	2,061.7	14.4	8,836.0	2,584.0
	(1,373.4)	*(367.6)*	*(1,741.0)*	*(118.9)*	*(164.3)*	*(283.2)*	*(747.5)*	*(314.3)*	*(2.2)*	*(1,347.0)*	*(393.9)*
1997 – I	1,971.2	425.6	2,396.9	165.3	192.2	357.5	1,083.4	480.9	–2.3	1,919.5	477.4
II	1,988.2	435.1	2,423.2	165.5	197.0	362.6	1,086.1	482.6	–6.1	1,925.2	498.0
III	2,002.4	454.1	2,456.6	164.7	200.6	365.2	1,090.7	484.1	2.1	1,942.1	514.5
IV	2,024.1	467.4	2,491.5	165.5	205.1	370.6	1,105.8	484.1	2.4	1,962.9	528.6
1998 – I	2,043.2	486.4	2,529.6	165.6	212.6	378.2	1,112.0	482.4	13.4	1,986.0	543.6
II	2,064.9	498.5	2,563.4	167.3	221.5	388.8	1,128.4	482.9	14.1	2,014.3	549.1
III	2,075.2	500.9	2,576.1	169.3	225.7	395.0	1,135.3	482.2	11.8	2,024.3	551.8
IV	2,084.6	502.7	2,587.2	171.8	227.3	399.0	1,145.9	483.2	16.1	2,044.2	543.0
1999 – I	2,099.2	508.0	2,607.2	174.6	234.7	409.3	1,152.2	486.7	13.0	2,061.2	546.0
	(320.0)	*(77.4)*	*(397.5)*	*(26.6)*	*(35.8)*	*(62.4)*	*(175.7)*	*(74.2)*	*(2.0)*	*(314.2)*	*(83.2)*
II	2,120.0	519.2	2,639.2	177.7	242.5	420.3	1,165.3	488.3	8.3	2,082.1	557.1
	(323.2)	*(79.1)*	*(402.3)*	*(27.1)*	*(37.0)*	*(64.1)*	*(177.6)*	*(74.4)*	*(1.3)*	*(317.4)*	*(84.9)*
III	2,142.1	530.5	2,672.7	179.4	248.4	427.8	1,176.3	489.5	–2.9	2,090.7	582.0
	(326.6)	*(80.9)*	*(407.4)*	*(27.4)*	*(37.9)*	*(65.2)*	*(179.3)*	*(74.6)*	*(–0.4)*	*(318.7)*	*(88.7)*
IV	2,171.0	552.3	2,723.3	182.4	250.9	433.3	1,186.6	494.9	15.5	2,130.3	592.9
	(331.0)	*(84.2)*	*(415.2)*	*(27.8)*	*(38.3)*	*(66.1)*	*(180.9)*	*(75.5)*	*(2.4)*	*(324.8)*	*(90.4)*
2000 – I	2,193.4	575.4	2,768.8	187.8	258.2	446.0	1,194.4	497.8	15.4	2,153.6	615.2
	(334.4)	*(87.7)*	*(422.1)*	*(28.6)*	*(39.4)*	*(68.0)*	*(182.1)*	*(75.9)*	*(2.3)*	*(328.3)*	*(93.8)*
II	2,215.4	596.3	2.811.7	191.7	261.0	452.7	1,200.0	502.8	14.5	2,169.9	641.8
	(337.7)	*(90.9)*	*(428.6)*	*(29.2)*	*(39.8)*	*(69.0)*	*(182.9)*	*(76.6)*	*(2.2)*	*(330.8)*	*(97.8)*
III	2,225.7	619.6	2,845.3	192.4	269.0	461.5	1,205.3	505.1	16.6	2,188.5	656.8
	(339.3)	*(94.5)*	*(433.8)*	*(29.3)*	*(41.0)*	*(70.4)*	*(183.7)*	*(77.0)*	*(2.5)*	*(333.6)*	*(100.1)*
IV	2,251.8	636.2	2,888.0	194.3	276.0	470.3	1,212.0	510.0	21.2	2,213.6	674.4
	(343.3)	*(97.0)*	*(440.3)*	*(29.6)*	*(42.1)*	*(71.7)*	*(184.8)*	*(77.7)*	*(3.2)*	*(337.5)*	*(102.8)*
2001 – I	2,259.7	626.2	2,885.9	196.8	273.9	470.7	1,226.0	511.5	4.2	2,212.4	673.5
	(344.5)	*(95.5)*	*(440.0)*	*(30.0)*	*(41.8)*	*(71.8)*	*(186.9)*	*(78.0)*	*(0.6)*	*(337.3)*	*(102.7)*
II	2,259.4	614.5	2,873.9	193.5	275.9	469.4	1,230.5	514.0	4.9	2,218.8	655.0
	(344.4)	*(93.7)*	*(438.1)*	*(29.5)*	*(42.1)*	*(71.6)*	*(187.6)*	*(78.4)*	*(0.8)*	*(338.3)*	*(99.9)*
III	2,270.6	607.1	2,877.8	194.9	275.2	470.1	1,242.7	518.4	–0.9	2,230.2	647.6
	(346.2)	*(92.6)*	*(438.7)*	*(29.7)*	*(41.9)*	*(71.7)*	*(189.4)*	*(79.0)*	*(–0.1)*	*(340.0)*	*(98.7)*
IV	2,262.8	583.1	2,845.9	194.7	275.1	469.7	1,245.8	519.1	–17.9	2,216.8	629.1
	(345.0)	*(88.9)*	*(433.9)*	*(29.7)*	*(41.9)*	*(71.6)*	*(189.9)*	*(79.1)*	*(–2.7)*	*(337.9)*	*(95.9)*

Source: National statistics.

(1) The annual data are calculated as chain indices (1995=100). 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 a2

SOURCES AND USES OF INCOME IN GERMANY (1)
(at 1995 prices; billions of marks 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			
1997	3,599.5	937.6	4,537.1	484.3	304.1	788.4	2,036.4	712.9	–9.0	3,528.7	1,008.4
1998	3,669.9	1,020.9	4,690.8	479.5	332.5	812.0	2,072.2	721.3	8.0	3,613.6	1,077.3
1999	3,737.8 *(1,911.1)*	1,107.4 *(566.2)*	4,845.1 *(2,477.3)*	486.7 *(248.8)*	359.1 *(183.6)*	845.8 *(432.4)*	2,136.6 *(1,092.4)*	732.8 *(374.7)*	–7.9 *(–4.1)*	3,707.3 *(1,895.5)*	1,137.8 *(581.8)*
2000	3,850.1 *(1,968.5)*	1,218.5 *(623.0)*	5,068.5 *(2,591.5)*	474.4 *(242.6)*	390.4 *(199.6)*	864.8 *(442.2)*	2,167.5 *(1,108.2)*	741.8 *(379.3)*	6.0 *(3.1)*	3,780.1 *(1,932.7)*	1,288.4 *(658.8)*
2001	3,871.8 *(1,979.6)*	1,219.4 *(623.5)*	5,091.2 *(2,603.1)*	446.8 *(228.5)*	376.2 *(192.3)*	823.0 *(420.8)*	2,192.3 *(1,120.9)*	754.1 *(385.6)*	–27.5 *(–14.1)*	3,741.8 *(1,913.2)*	1,349.4 *(689.9)*
1997 – I	892.9	229.0	1,122.0	120.3	75.4	195.7	510.8	178.2	–4.0	880.8	241.1
II	899.5	231.2	1,130.7	122.2	75.1	197.3	509.8	179.7	–4.0	882.8	247.9
III	902.7	237.7	1,140.3	122.4	76.1	198.5	506.6	178.5	–1.6	882.0	258.3
IV	910.4	242.3	1,152.6	122.4	78.6	201.0	511.0	176.4	0.0	888.3	264.3
1998 – I	919.3	250.7	1,170.0	123.2	80.9	204.0	516.9	179.1	2.3	902.3	267.7
II	915.0	255.2	1,170.2	119.3	82.2	201.5	512.9	179.9	3.3	897.6	272.6
III	916.7	255.5	1,172.2	119.7	83.7	203.4	517.6	181.0	0.9	902.9	269.2
IV	915.5	257.3	1,172.9	116.5	84.6	201.1	523.5	181.3	1.6	907.6	265.3
1999 – I	925.9 *(473.4)*	265.1 *(135.5)*	1,190.9 *(608.9)*	119.6 *(61.2)*	87.5 *(44.7)*	207.1 *(105.9)*	533.5 *(272.8)*	182.9 *(93.5)*	–1.2 *(–0.6)*	922.3 *(471.6)*	268.6 *(137.4)*
II	923.9 *(472.4)*	272.6 *(139.4)*	1,196.4 *(611.7)*	120.4 *(61.6)*	87.9 *(44.9)*	208.3 *(106.5)*	528.3 *(270.1)*	181.8 *(92.9)*	–1.1 *(–0.6)*	917.3 *(469.0)*	279.1 *(142.7)*
III	935.5 *(478.3)*	278.7 *(142.5)*	1,214.2 *(620.8)*	122.6 *(62.7)*	90.2 *(46.1)*	212.8 *(108.8)*	533.6 *(272.8)*	183.6 *(93.9)*	–3.4 *(–1.7)*	926.5 *(473.7)*	287.7 *(147.1)*
IV	943.3 *(482.3)*	285.2 *(145.8)*	1,228.5 *(628.1)*	121.5 *(62.1)*	90.6 *(46.3)*	212.1 *(108.4)*	537.6 *(274.9)*	184.6 *(94.4)*	–1.2 *(–0.6)*	933.0 *(477.0)*	295.5 *(151.1)*
2000 – I	952.9 *(487.2)*	289.3 *(147.9)*	1,242.2 *(635.1)*	120.1 *(61.4)*	95.1 *(48.6)*	215.2 *(110.0)*	538.6 *(275.4)*	185.6 *(94.9)*	–5.7 *(–2.9)*	933.7 *(477.4)*	308.5 *(157.7)*
II	964.2 *(493.0)*	298.3 *(152.5)*	1,262.5 *(645.5)*	119.4 *(61.1)*	96.0 *(49.1)*	215.4 *(110.1)*	544.3 *(278.3)*	185.4 *(94.8)*	1.5 *(0.7)*	946.6 *(484.0)*	315.9 *(161.5)*
III	965.2 *(493.5)*	307.4 *(157.2)*	1,272.6 *(650.7)*	118.2 *(60.4)*	100.0 *(51.1)*	218.2 *(111.6)*	543.4 *(277.8)*	184.6 *(94.4)*	–0.1 *(. .)*	946.1 *(483.7)*	326.5 *(167.0)*
IV	966.7 *(494.3)*	323.6 *(165.4)*	1,290.3 *(659.7)*	116.2 *(59.4)*	99.3 *(50.8)*	215.5 *(110.2)*	541.5 *(276.9)*	186.2 *(95.2)*	–9.5 *(4.8)*	952.7 *(487.1)*	337.6 *(172.6)*
2001 – I	970.5 *(496.2)*	306.1 *(156.5)*	1,276.6 *(652.7)*	112.5 *(57.5)*	98.3 *(50.3)*	210.9 *(107.8)*	547.1 *(279.7)*	188.3 *(96.3)*	–7.6 *(–3.9)*	938.7 *(479.9)*	337.9 *(172.8)*
II	970.9 *(496.4)*	309.6 *(158.3)*	1,280.5 *(654.7)*	112.3 *(57.4)*	95.5 *(48.8)*	207.8 *(106.2)*	551.1 *(281.8)*	188.5 *(96.4)*	–5.6 *(–2.9)*	941.7 *(481.5)*	338.8 *(173.2)*
III	969.3 *(495.6)*	304.3 *(155.6)*	1,273.6 *(651.2)*	111.7 *(57.1)*	92.9 *(47.5)*	204.6 *(104.6)*	549.7 *(281.0)*	187.8 *(96.0)*	–9.4 *(–4.8)*	932.6 *(476.8)*	341.0 *(174.3)*
IV	966.8 *(494.3)*	304.2 *(155.5)*	1,271.0 *(649.9)*	111.1 *(56.8)*	91.6 *(46.8)*	202.6 *(103.6)*	546.9 *(279.6)*	189.6 *(96.9)*	–5.4 *(–2.8)*	933.7 *(477.4)*	337.3 *(172.5)*

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 a3

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 fixed investment			National consumption		Change in stocks and valuables	Total	
	Gross domestic product	Imports of goods and services	Total	Construction	Other (2)	Total	Households (3)	General government			
1997	77,621.2	20,308.1	97,929.3	9,192.8	7,963.9	17,156.7	45,900.7	13,708.7	200.7	76,967.0	20,962.3
1998	80,987.1	23,017.3	104,004.4	9,940.2	8,884.0	18,824.2	47,966.1	14,210.4	320.6	81,321.3	22,683.4
1999	84,332.1	25,968.9	110,300.9	10,838.9	9,637.7	20,476.5	50,239.6	14,800.4	383.0	85,899.4	24,401.5
	(506.8)	*(156.1)*	*(662.9)*	*(65.1)*	*(57.9)*	*(123.1)*	*(301.9)*	*(89.0)*	*(2.3)*	*(516.3)*	*(146.7)*
2000	87,787.4	28,508.7	116,296.2	11,507.6	10,128.2	21,635.8	52,244.5	15,398.4	270.0	89,548.8	26,747.4
	(527.6)	*(171.3)*	*(699.0)*	*(69.2)*	*(60.9)*	*(130.0)*	*(314.0)*	*(92.5)*	*(1.6)*	*(538.2)*	*(160.8)*
2001	90,209.0	29,550.3	119,759.3	12,163.5	10,004.8	22,168.3	53,663.6	15,881.9	379.2	92,093.0	27,666.3
	(542.2)	*(177.6)*	*(719.8)*	*(73.1)*	*(60.1)*	*(133.2)*	*(322.5)*	*(95.5)*	*(2.3)*	*(553.5)*	*(166.3)*
1997 – I	19,104.1	4,791.6	23,895.7	2,260.5	1,958.7	4,219.2	11,255.8	3,378.1	284.4	19,137.6	4,758.1
II	19,273.3	5,006.6	24,279.9	2,283.0	1,957.2	4,240.2	11,391.9	3,405.8	48.6	19,086.5	5,193.4
III	19,446.2	5,151.6	24,597.8	2,314.1	1,931.2	4,245.3	11,564.2	3,447.0	–148.6	19,107.9	5,489.9
IV	19,797.4	5,358.5	25,155.9	2,335.2	2,116.9	4,452.2	11,688.9	3,478.0	16.3	19,635.4	5,520.5
1998 – I	19,958.5	5,494.4	25,452.9	2,383.5	2,146.9	4,530.4	11,851.3	3,512.9	14.5	19,909.1	5,543.8
II	20,109.7	5,666.9	25,776.7	2,428.9	2,169.7	4,598.6	11,875.6	3,531.9	65.4	20,071.5	5,705.2
III	20,398.3	5,822.5	26,220.8	2,525.6	2,216.9	4,742.5	12,060.0	3,569.1	119.8	20,491.4	5,729.3
IV	20,520.9	6,033.5	26,554.4	2,602.3	2,350.4	4,952.6	12,179.3	3,596.4	121.0	20,894.3	5,705.0
1999 – I	20,665.0	6,189.2	26,854.2	2,639.7	2,331.2	4,970.9	12,407.7	3,643.7	–89.5	20,932.9	5,921.3
	(124.2)	*(37.2)*	*(161.4)*	*(15.9)*	*(14.0)*	*(29.9)*	*(74.6)*	*(21.9)*	*(–0.5)*	*(125.8)*	*(35.6)*
II	21,028.0	6,397.2	27,425.2	2,703.1	2,342.5	5,045.7	12,467.5	3,679.5	190.7	21,383.3	6,042.0
	(126.4)	*(38.4)*	*(164.8)*	*(16.2)*	*(14.1)*	*(30.3)*	*(74.9)*	*(22.1)*	*(1.1)*	*(128.5)*	*(36.3)*
III	21,200.4	6,602.4	27,802.8	2,722.4	2,473.0	5,195.4	12,636.8	3,714.1	100.2	21,646.5	6,156.3
	(127.4)	*(39.7)*	*(167.1)*	*(16.4)*	*(14.9)*	*(31.2)*	*(75.9)*	*(22.3)*	*(0.6)*	*(130.1)*	*(37.0)*
IV	21,438.7	6,780.1	28,218.7	2,773.5	2,490.6	5,264.1	12,727.9	3,763.0	181.9	21,936.8	6,281.9
	(128.8)	*(40.7)*	*(169.6)*	*(16.7)*	*(15.0)*	*(31.6)*	*(76.5)*	*(22.6)*	*(1.1)*	*(131.8)*	*(37.8)*
2000 – I	21,694.9	6,866.9	28,561.8	2,819.1	2,475.8	5,294.9	13,039.7	3,808.7	98.5	22,241.8	6,320.0
	(130.4)	*(41.3)*	*(171.7)*	*(16.9)*	*(14.9)*	*(31.8)*	*(78.4)*	*(22.9)*	*(0.6)*	*(133.7)*	*(38.0)*
II	21,908.2	7,023.8	28,932.0	2,855.5	2,530.4	5,385.9	13,111.2	3,845.8	–42.6	22,300.4	6,631.6
	(131.7)	*(42.2)*	*(173.9)*	*(17.2)*	*(15.2)*	*(32.4)*	*(78.8)*	*(23.1)*	*(–0.3)*	*(134.0)*	*(39.9)*
III	21,998.9	7,296.2	29,295.1	2,892.6	2,599.9	5,492.6	13,010.2	3,857.0	169.4	22,529.2	6,765.9
	(132.2)	*(43.9)*	*(176.1)*	*(17.4)*	*(15.6)*	*(33.0)*	*(78.2)*	*(23.2)*	*(1.0)*	*(135.4)*	*(40.7)*
IV	22,185.4	7,321.8	29,507.2	2,940.4	2,522.1	5,462.5	13,083.4	3,886.8	44.8	22,477.4	7,029.8
	(133.3)	*(44.0)*	*(177.3)*	*(17.7)*	*(15.2)*	*(32.8)*	*(78.6)*	*(23.4)*	*(0.3)*	*(135.1)*	*(42.3)*
2001 – I	22,409.4	7,352.4	29,761.8	2,990.0	2,518.8	5,508.7	13,403.7	3,914.4	30.3	22,857.1	6,904.7
	(134.7)	*(44.2)*	*(178.9)*	*(18.0)*	*(15.1)*	*(33.1)*	*(80.6)*	*(23.5)*	*(0.2)*	*(137.4)*	*(41.5)*
II	22,447.6	7,428.6	29,876.3	3,027.2	2,506.1	5,533.3	13,431.7	3,950.7	62.1	22,977.7	6,898.5
	(134.9)	*(44.6)*	*(179.6)*	*(18.2)*	*(15.1)*	*(33.3)*	*(80.7)*	*(23.7)*	*(0.4)*	*(138.1)*	*(41.5)*
III	22,656.1	7,331.0	29,987.1	3,053.7	2,536.9	5,590.6	13,323.2	3,988.6	158.1	23,060.4	6,926.6
	(136.2)	*(44.1)*	*(180.2)*	*(18.4)*	*(15.2)*	*(33.6)*	*(80.1)*	*(24.0)*	*(1.0)*	*(138.6)*	*(41.6)*
IV	22,695.9	7,438.3	30,134.2	3,092.6	2,443.0	5,535.7	13,505.1	4,028.2	128.8	23,197.7	6,936.5
	(136.4)	*(44.7)*	*(181.1)*	*(18.6)*	*(14.7)*	*(33.3)*	*(81.2)*	*(24.2)*	*(0.8)*	*(139.4)*	*(41.7)*

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

ITALY: VALUE ADDED PER UNIT OF LABOUR AND UNIT LABOUR COSTS, BY BRANCH

	1995	1996	1997	1998	1999	2000	2001	1999	2000	2001
	lire							euros		
	Value added at factor cost per unit of labour (1) *(thousands of lire and euros at 1995 prices)*									
Agriculture, forestry and fishing	**34,832**	**37,098**	**38,541**	**40,557**	**45,209**	**44,826**	**44,026**	**23,348**	**23,151**	**22,737**
Industry excluding construction	**80,027**	**79,777**	**81,685**	**81,469**	**82,350**	**84,590**	**85,365**	**42,530**	**43,687**	**44,088**
of which: manufacturing	*74,165*	*73,718*	*75,820*	*75,524*	*75,805*	*78,143*	*78,887*	*39,150*	*40,357*	*40,742*
Construction	**56,688**	**59,587**	**57,571**	**58,472**	**57,845**	**57,664**	**57,748**	**29,874**	**29,781**	**29,824**
Services (2)	**67,307**	**67,547**	**68,664**	**69,332**	**69,220**	**70,273**	**70,501**	**35,749**	**36,293**	**36,411**
Wholesale and retail trade, repair of household goods etc.	*67,083*	*66,736*	*68,567*	*69,393*	*68,067*	*69,161*	*69,206*	*35,154*	*35,719*	*35,752*
Hotels and restaurants	*48,846*	*49,625*	*49,422*	*49,970*	*49,987*	*50,887*	*51,144*	*25,816*	*26,281*	*26,413*
Transport, storage and communication	*92,326*	*90,894*	*92,880*	*93,860*	*95,403*	*97,766*	*101,508*	*49,272*	*50,492*	*52,425*
Financial intermediation	*159,954*	*171,473*	*172,688*	*177,755*	*173,671*	*186,261*	*180,962*	*89,693*	*96,196*	*93,459*
Sundry business and household services (2) (3)	*71,574*	*69,411*	*70,132*	*69,400*	*70,687*	*72,382*	*73,494*	*36,507*	*37,382*	*37,956*
Public administration (4)	*65,202*	*66,238*	*67,115*	*67,477*	*68,165*	*68,393*	*69,328*	*35,204*	*35,322*	*35,805*
Education	*53,100*	*53,042*	*53,037*	*52,954*	*52,614*	*52,262*	*52,244*	*27,173*	*26,991*	*26,982*
Health and social work services	*56,692*	*58,171*	*59,061*	*59,043*	*59,390*	*59,378*	*59,853*	*30,672*	*30,666*	*30,911*
Other public, social and personal services	*61,769*	*63,316*	*65,204*	*66,850*	*66,319*	*63,376*	*60,918*	*34,251*	*32,731*	*31,462*
Private households with employed persons	*18,688*	*18,577*	*18,552*	*18,522*	*18,518*	*18,513*	*18,513*	*9,564*	*9,561*	*9,561*
Total (2)	**67,211**	**67,731**	**68,892**	**69,603**	**70,023**	**71,171**	**71,378**	**36,164**	**36,757**	**36,864**
	Unit labour costs (1) (5) *(current lire/euros per lire/euros at 1995 prices)*									
Agriculture, forestry and fishing	**0.717**	**0.694**	**0.680**	**0.637**	**0.576**	**0.579**	**0.598**	**0.576**	**0.579**	**0.598**
Industry excluding construction	**0.640**	**0.677**	**0.688**	**0.679**	**0.687**	**0.687**	**0.699**	**0.687**	**0.687**	**0.699**
of which: manufacturing	*0.670*	*0.713*	*0.723*	*0.715*	*0.730*	*0.728*	*0.740*	*0.730*	*0.728*	*0.740*
Construction	**0.718**	**0.711**	**0.758**	**0.739**	**0.771**	**0.792**	**0.808**	**0.771**	**0.792**	**0.808**
Services (2)	**0.739**	**0.784**	**0.802**	**0.780**	**0.800**	**0.814**	**0.835**	**0.800**	**0.814**	**0.835**
Wholesale and retail trade, repair of household goods etc.	*0.641*	*0.670*	*0.665*	*0.654*	*0.685*	*0.692*	*0.708*	*0.685*	*0.692*	*0.708*
Hotels and restaurants	*0.808*	*0.814*	*0.843*	*0.852*	*0.897*	*0.912*	*0.940*	*0.897*	*0.912*	*0.940*
Transport, storage and communication	*0.606*	*0.634*	*0.639*	*0.626*	*0.620*	*0.616*	*0.605*	*0.620*	*0.616*	*0.605*
Financial intermediation	*0.586*	*0.598*	*0.598*	*0.557*	*0.572*	*0.546*	*0.571*	*0.572*	*0.546*	*0.571*
Sundry business and household services (2) (3)	*0.660*	*0.705*	*0.716*	*0.730*	*0.755*	*0.788*	*0.797*	*0.755*	*0.788*	*0.797*
Public administration (4)	*0.862*	*0.940*	*0.984*	*0.946*	*0.947*	*0.954*	*0.994*	*0.947*	*0.954*	*0.994*
Education	*0.970*	*1.065*	*1.112*	*1.102*	*1.151*	*1.209*	*1.265*	*1.151*	*1.209*	*1.265*
Health and social work services	*0.895*	*0.941*	*1.022*	*0.985*	*1.022*	*1.098*	*1.133*	*1.022*	*1.098*	*1.133*
Other public, social and personal services	*0.733*	*0.757*	*0.762*	*0.727*	*0.728*	*0.777*	*0.808*	*0.728*	*0.777*	*0.808*
Private households with employed persons	*1.000*	*1.040*	*1.092*	*1.102*	*1.124*	*1.158*	*1.176*	*1.124*	*1.158*	*1.176*
Total (2)	**0.724**	**0.763**	**0.780**	**0.760**	**0.774**	**0.784**	**0.804**	**0.774**	**0.784**	**0.804**

Source: Istat, national accounts.

(1) Includes indirectly measured financial intermediation services. – (2) Excludes renting of buildings. – (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

Table a5

(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)	
1995	50,895	575,167	810,087	77,180	323,371	104,938	1,787,278	410,451	2,197,728
1996	51,714	572,609	825,354	78,219	329,629	105,728	1,806,815	409,053	2,215,867
1997	52,328	583,509	846,679	81,445	332,703	109,653	1,843,426	450,417	2,293,845
1998	52,945	591,352	866,341	82,659	336,152	112,366	1,876,497	490,428	2,366,925
1999	56,251	596,838	880,829	82,685	340,162	114,993	1,906,388	516,285	2,422,673
	(29,051)	*(308,241)*	*(454,910)*	*(42,703)*	*(175,679)*	*(59,389)*	*(984,567)*	*(266,639)*	*(1,251,206)*
2000	54,640	609,658	925,843	88,240	339,841	119,317	1,961,058	564,750	2,525,808
	(28,219)	*(314,862)*	*(478,158)*	*(45,572)*	*(175,513)*	*(61,622)*	*(1,012,802)*	*(291,669)*	*(1,304,471)*
2001	54,115	615,319	954,599	94,306	343,607	122,787	1,996,120	565,683	2,561,803
	(27,948)	*(317,786)*	*(493,009)*	*(48,705)*	*(177,458)*	*(63,414)*	*(1,030,910)*	*(292,151)*	*(1,323,061)*
1999 – I	13,693	147,424	217,257	20,670	84,902	28,566	471,172	125,387	596,559
	(7,072)	*(76,138)*	*(112,204)*	*(10,675)*	*(43,848)*	*(14,753)*	*(243,340)*	*(64,757)*	*(308,097)*
II	13,871	148,646	218,179	20,563	85,066	28,649	473,850	127,478	601,328
	(7,164)	*(76,769)*	*(112,680)*	*(10,620)*	*(43,933)*	*(14,796)*	*(244,723)*	*(65,837)*	*(310,560)*
III	14,032	150,073	220,983	20,753	85,115	28,757	478,206	128,274	606,480
	(7,247)	*(77,506)*	*(114,128)*	*(10,718)*	*(43,958)*	*(14,852)*	*(246,973)*	*(66,248)*	*(313,221)*
IV	14,654	150,696	224,410	20,701	85,080	29,019	483,157	135,146	618,305
	(7,568)	*(77,828)*	*(115,898)*	*(10,691)*	*(43,940)*	*(14,987)*	*(249,530)*	*(69,797)*	*(319,328)*
2000 – I	13,600	152,510	227,829	21,438	85,018	29,387	486,906	139,597	626,503
	(7,024)	*(78,765)*	*(117,664)*	*(11,072)*	*(43,908)*	*(15,177)*	*(251,466)*	*(72,096)*	*(323,562)*
II	13,676	152,257	229,862	21,907	84,853	29,716	488,453	140,970	629,423
	(7,063)	*(78,634)*	*(118,714)*	*(11,314)*	*(43,823)*	*(15,347)*	*(252,265)*	*(72,805)*	*(325,070)*
III	13,784	151,988	232,496	22,288	84,919	29,950	490,846	141,667	632,514
	(7,119)	*(78,495)*	*(120,074)*	*(11,511)*	*(43,857)*	*(15,468)*	*(253,501*	*(73,165)*	*(326,666)*
IV	13,579	152,901	235,660	22,604	85,053	30,264	494,853	142,513	637,368
	(7,013)	*(78,967)*	*(121,708)*	*(11,674)*	*(43,926)*	*(15,630)*	*(255,570)*	*(73,602)*	*(329,173)*
2001 – I	13,608	155,938	236,860	23,576	85,686	30,512	499,027	143,172	642,199
	(7,028)	*(80,535)*	*(122,328)*	*(12,176)*	*(44,253)*	*(15,758)*	*(257,726)*	*(73,942)*	*(331,668)*
II	13,349	153,442	239,106	23,626	85,994	30,736	499,000	144,062	643,060
	(6,894)	*(79,246)*	*(123,488)*	*(12,202)*	*(44,412)*	*(15,874)*	*(257,712)*	*(74,402)*	*(332,113)*
III	13,554	153,461	239,307	23,636	86,162	30,717	499,567	140,079	639,647
	(7,000)	*(79,256)*	*(123,592)*	*(12,207)*	*(44,499)*	*(15,864)*	*(258,005)*	*(72,345)*	*(330,350)*
IV	13,604	152,477	239,325	23,470	85,767	30,823	498,526	138,372	636,897
	(7,026)	*(78,748)*	*(123,601)*	*(12,121)*	*(44,295)*	*(15,919)*	*(257,467)*	*(71,463)*	*(328,930)*

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)							
149,201	178,650	1,041,930	326,933	17,829	483,185	491,468	105,782	467,222	204,902	859,568
154,536	185,187	1,054,737	330,407	4,816	486,188	489,086	107,815	476,208	203,000	870,109
151,521	195,292	1,088,836	331,441	9,476	517,276	499,321	125,521	483,463	206,126	902,180
151,225	209,365	1,123,606	332,516	15,175	535,040	512,935	131,837	497,089	207,223	934,638
155,508	225,463	1,150,669	337,165	17,409	536,461	518,107	139,001	510,039	207,564	959,581
(80,313)	*(116,442)*	*(594,271)*	*(174,131)*	*(8,991)*	*(277,059)*	*(267,580)*	*(71,788)*	*(263,413)*	*(107,198)*	*(495,582)*
164,143	241,401	1,181,638	343,039	–3,706	599,295	526,059	147,218	529,876	212,109	991,045
(84,773)	*(124,673)*	*(610,265)*	*(177,165)*	*(–1,914)*	*(309,510)*	*(271,687)*	*(76,032)*	*(273,658)*	*(109,545)*	*(511,832)*
170,196	245,064	1,194,642	351,086	–3,102	603,917	530,067	144,974	540,008	212,662	1,002,388
(87,899)	*(126,565)*	*(616,981)*	*(181,321)*	*(–1,602)*	*(311,897)*	*(273,757)*	*(74,873)*	*(278,891)*	*(109,831)*	*(517,690)*
38,121	54,496	286,702	83,881	4,471	128,890	129,538	34,094	126,640	51,667	238,607
(19,688)	*(28,145)*	*(148,069)*	*(43,321)*	*(2,309)*	*(66,566)*	*(66,901)*	*(17,608)*	*(65,404)*	*(26,684)*	*(123,230)*
38,671	55,310	286,405	84,059	5,253	131,630	129,426	34,402	126,944	51,700	239,069
(19,972)	*(28,565)*	*(147,916)*	*(43,413)*	*(2,713)*	*(67,981)*	*(66,843)*	*(17,767)*	*(65,561)*	*(26,701)*	*(123,469)*
38,927	57,072	287,958	84,464	2,759	135,301	129,364	34,965	127,501	51,931	239,900
(20,104)	*(29,475)*	*(148,718)*	*(43,622)*	*(1,425)*	*(69,877)*	*(66,811)*	*(18,058)*	*(65,849)*	*(26,820)*	*(123,898)*
39,786	58,588	289,606	84,760	4,924	140,641	129,778	35,538	128,954	52,264	242,007
(20,548)	*(30,258)*	*(149,569)*	*(43,775)*	*(2,543)*	*(72,635)*	*(67,025)*	*(18,354)*	*(66,599)*	*(26,992)*	*(124,986)*
40,580	58,954	293,012	85,070	1,390	147,497	130,766	36,084	131,273	52,845	245,277
(20,958)	*(30,447)*	*(151,328)*	*(43,935)*	*(718)*	*(76,176)*	*(67,535)*	*(18,636)*	*(67,797)*	*(27,292)*	*(126,675)*
40,908	60,129	295,527	85,312	2,045	145,505	131,407	37,768	132,369	53,091	247,453
(21,127)	*(31,054)*	*(152,627)*	*(44,060)*	*(1,056)*	*(75,147)*	*(67,866)*	*(18,989)*	*(68,363)*	*(27,419)*	*(127,799)*
41,392	61,382	296,131	85,999	–5,338	152,948	132,001	37,062	132,638	53,207	248,495
(21,377)	*(31,701)*	*(152,939)*	*(44,415)*	*(–2,757)*	*(78,991)*	*(68,173)*	*(19,141)*	*(68,502)*	*(27,479)*	*(128,337)*
41,264	60,936	296,970	86,658	–1,805	153,345	131,885	37,304	133,595	52,967	249,818
(21,311)	*(31,471)*	*(153,372)*	*(44,755)*	*(–932)*	*(79,196)*	*(68,113)*	*(19,266)*	*(68,996)*	*(27,355)*	*(129,020)*
42,240	61,267	298,108	87,297	416	152,870	132,147	36,640	134,350	53,073	250,063
(21,815)	*(31,642)*	*(153,960)*	*(45,085)*	*(215)*	*(78,951)*	*(68,248)*	*(18,923)*	*(69,386)*	*(27,410)*	*(129,147)*
42,557	61,155	299,086	87,579	–147	152,834	132,948	36,212	135,057	53,575	250,644
(21,979)	*(31,584)*	*(154,465)*	*(45,231)*	*(–76)*	*(78,932)*	*(68,662)*	*(18,702)*	*(69,751)*	*(27,669)*	*(129,447)*
42,519	61,577	298,325	88,011	4	149,211	132,542	35,649	135,338	53,085	250,443
(21,959)	*(31,802)*	*(154,072)*	*(45,454)*	*(2)*	*(77,061)*	*(68,452)*	*(18,411)*	*(69,896)*	*(27,416)*	*(129,343)*
42,881	61,066	299,125	88,199	–3,375	149,002	132,433	36,472	135,264	52,930	251,239
(22,146)	*(31,538)*	*(154,485)*	*(45,551)*	*(–1,743)*	*(76,953)*	*(68,396)*	*(18,836)*	*(69,858)*	*(27,336)*	*(129,754)*

services and business activities. – (3) Public administration and defence services; compulsory social security services; other community, social and personal service activities. – (4) Includes residents'

Table a6

ITALY: 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		
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
2001	115.7	100.0	103.7	107.4	103.3	110.4	119.4	107.2	105.2	101.5	107.8	106.8	106.0	107.0
1995 – I	99.3	98.8	98.2	99.9	93.1	98.7	97.4	95.6	94.8	99.9	99.4	99.4	98.7	98.9
II	99.1	99.8	99.4	99.4	97.5	98.3	97.9	98.1	96.5	99.9	99.4	99.4	99.3	99.2
III	99.5	101.5	100.9	100.4	100.6	99.2	98.9	99.9	102.9	100.4	100.6	100.4	100.4	100.3
IV	102.0	99.9	101.5	100.3	108.8	103.8	105.7	106.2	105.6	99.8	100.6	100.7	101.5	101.6
1996 – I	99.0	100.0	99.1	100.1	104.3	104.3	102.1	104.1	107.9	97.8	99.9	100.6	100.6	101.1
II	100.5	98.3	99.9	98.9	103.6	104.1	102.7	102.9	102.9	97.8	96.7	97.3	98.8	98.7
III	99.8	98.6	99.0	99.3	100.9	102.9	99.0	101.4	101.0	98.8	97.2	97.7	98.5	98.7
IV	102.8	99.6	94.8	100.1	101.8	98.2	97.7	100.5	98.7	101.6	95.3	96.4	97.6	98.0
1997 – I	104.5	100.4	101.9	101.3	100.7	105.8	99.5	100.2	97.6	101.8	98.1	97.9	98.7	99.0
II	103.8	101.4	105.8	103.2	103.2	111.7	97.4	102.9	102.6	102.0	101.5	101.4	101.7	102.1
III	105.6	100.1	103.6	104.1	102.7	111.8	95.1	103.8	102.1	101.2	102.5	103.1	103.2	103.5
IV	106.3	101.3	105.3	104.1	105.4	115.0	97.2	105.3	104.7	104.5	105.4	105.2	104.7	104.9
1998 – I	107.0	99.3	105.4	103.1	103.2	112.1	99.8	102.8	107.2	103.0	106.1	105.2	104.0	104.3
II	107.8	99.5	105.6	104.2	104.4	113.0	98.7	104.4	106.2	103.8	106.0	105.8	105.0	105.2
III	108.8	99.7	103.6	104.8	101.9	109.9	103.2	103.8	106.0	99.7	104.5	104.6	104.0	104.5
IV	108.5	98.9	102.3	103.7	97.8	108.4	100.2	100.0	102.3	97.4	105.1	104.0	102.4	103.3
1999 – I	112.4	98.8	102.2	104.4	100.5	108.7	107.7	102.0	103.6	100.4	104.9	103.7	102.6	103.5
II	110.8	95.5	102.0	103.8	98.9	107.8	104.5	101.3	101.3	98.4	103.7	103.2	102.4	103.0
III	114.3	97.3	106.4	106.3	99.3	111.8	106.3	102.1	105.0	99.0	106.2	105.2	104.2	105.0
IV	114.7	93.6	112.3	106.1	100.1	113.6	109.1	104.3	106.0	100.1	107.6	106.7	105.5	106.2
2000 – I	111.6	92.3	107.1	104.4	100.7	114.1	108.0	104.7	105.4	96.9	108.3	107.4	105.3	106.2
II	115.5	94.1	109.8	106.4	102.6	115.2	112.5	106.5	110.0	99.7	109.6	108.6	107.0	107.8
III	115.3	93.3	109.5	105.6	105.6	114.0	111.1	108.0	110.1	101.7	109.4	108.3	106.8	107.6
IV	118.1	99.1	113.0	108.0	108.4	114.1	121.8	110.1	112.3	104.0	110.5	109.5	108.9	109.3
2001 – I	114.6	101.2	106.2	108.4	106.5	114.6	120.5	110.5	106.7	101.9	109.3	108.4	108.4	108.8
II	116.0	99.8	104.0	107.5	104.0	111.2	118.8	107.7	106.7	101.9	107.8	107.0	106.5	107.2
III	116.5	100.3	102.7	107.2	103.0	109.4	118.0	106.4	106.1	102.7	108.3	106.9	105.8	106.9
IV	115.6	98.8	101.7	106.4	99.8	106.3	120.4	104.3	101.5	99.4	105.7	104.8	103.4	105.1

Source: Based on Istat data.

ITALY: 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		
1992	97.5	94.5	89.1	94.4	83.7	83.5	86.2	84.2	93.2	95.9	93.9	94.1	89.5	90.1
1993	95.7	90.5	82.6	90.8	80.6	67.7	88.7	79.9	84.3	93.7	91.9	91.3	86.1	86.9
1994	94.6	95.6	91.0	94.2	82.2	70.7	88.7	81.4	84.2	97.5	96.7	95.5	89.9	90.3
1995	93.7	98.7	95.7	96.0	92.9	81.4	94.5	91.5	92.2	97.7	99.4	98.4	93.4	93.7
1996	92.4	97.7	92.6	94.5	94.3	84.4	93.1	92.7	94.0	96.8	95.1	95.2	91.8	92.0
1997	94.7	99.5	96.8	96.9	94.6	92.9	87.6	93.0	92.6	99.5	97.7	97.3	93.6	93.8
1998	95.5	98.2	95.5	96.5	93.5	93.9	87.9	92.5	95.3	98.3	99.1	98.6	94.0	94.2
1999	98.1	95.3	95.3	96.6	91.6	94.9	90.9	91.9	93.4	97.3	97.8	97.2	92.8	93.1
2000	98.1	93.9	97.8	96.5	95.9	99.3	93.8	95.9	97.7	98.1	99.6	99.2	94.6	94.8
2001	96.9	99.3	91.8	96.8	94.9	95.9	97.8	95.7	93.7	99.1	96.4	96.4	92.8	93.1
1995 – I	93.8	97.8	94.5	95.5	87.5	80.0	92.0	87.2	87.6	97.6	99.3	97.8	91.7	92.4
II	93.1	98.5	95.3	95.6	90.9	79.9	92.5	89.6	89.1	97.3	99.1	97.8	92.9	93.1
III	93.0	100.0	96.3	96.3	93.1	80.9	93.4	91.4	94.8	98.1	100.0	99.2	94.4	94.3
IV	95.0	98.3	96.5	96.5	100.0	84.9	100.0	97.8	97.2	97.7	99.3	98.8	94.7	94.8
1996 – I	91.7	98.5	94.0	94.7	95.8	85.6	95.6	94.3	99.0	95.6	98.5	98.2	93.1	93.8
II	92.6	96.9	94.3	94.5	95.2	85.7	95.6	93.9	94.3	95.3	94.8	94.8	92.2	92.1
III	91.5	97.2	93.2	94.0	92.7	85.0	91.5	91.4	92.4	96.6	94.7	94.7	91.4	91.4
IV	93.8	98.2	88.8	94.6	93.6	81.4	89.7	91.2	90.2	99.5	92.3	92.9	90.3	90.7
1997 – I	94.8	99.0	95.2	96.4	92.5	88.0	90.3	91.4	89.0	99.5	95.0	94.8	91.5	91.7
II	93.8	100.0	98.5	97.0	94.8	93.2	88.0	93.3	93.4	99.4	97.7	97.4	93.5	93.8
III	95.0	98.8	96.0	96.6	94.3	93.6	85.4	92.5	82.9	99.0	98.1	97.6	93.7	93.8
IV	95.2	100.0	97.3	97.4	96.9	96.6	86.7	94.9	95.0	100.0	100.0	99.4	95.7	95.7
1998 – I	95.2	97.9	97.1	96.6	94.8	94.5	87.9	93.4	97.1	100.0	100.0	99.7	95.0	95.0
II	95.5	98.3	96.9	96.8	95.9	95.5	86.7	94.1	96.1	100.0	100.0	99.6	95.1	95.1
III	96.1	98.6	94.7	96.8	93.5	93.2	90.0	92.8	95.8	97.7	98.2	97.9	93.6	93.8
IV	95.3	97.9	93.1	95.9	89.9	92.3	86.9	89.6	92.3	95.3	98.2	97.2	92.4	92.9
1999 – I	98.0	97.5	92.9	96.9	92.3	92.8	92.1	92.3	93.2	98.3	97.9	97.4	92.9	93.3
II	96.4	94.5	92.3	95.0	90.8	92.4	89.1	90.7	91.0	96.0	96.3	95.7	91.4	91.8
III	99.2	96.5	95.9	97.6	91.2	96.2	90.2	91.7	94.3	97.2	98.0	97.5	92.9	93.3
IV	98.9	92.8	100.0	96.9	92.0	98.0	92.0	92.9	95.0	97.7	98.8	98.3	93.9	94.1
2000 – I	95.5	90.9	96.0	93.9	92.5	98.7	89.8	92.8	94.2	95.0	99.3	98.3	92.6	93.1
II	98.7	93.2	98.0	96.6	94.3	100.0	93.4	94.9	98.2	97.5	100.0	99.5	94.4	94.8
III	98.3	92.8	97.3	96.1	97.0	99.0	91.9	96.2	98.2	100.0	99.2	99.2	94.4	94.7
IV	100.0	98.5	100.0	99.5	99.6	99.3	100.0	99.6	100.0	100.0	99.8	99.8	97.0	96.6
2001 – I	96.2	99.4	94.3	97.0	97.8	99.3	98.2	98.1	94.8	100.0	98.5	98.2	94.6	94.5
II	97.5	99.1	92.2	97.1	95.5	96.5	97.3	96.0	95.0	99.7	96.6	96.8	93.5	93.6
III	97.5	100.0	90.9	97.2	94.7	95.1	96.9	95.2	94.5	100.0	96.6	96.7	93.0	93.4
IV	96.2	98.6	89.9	95.9	91.7	92.7	98.9	93.3	90.4	96.5	93.7	93.7	90.2	91.0

Source: Based on Istat data.

Table a8

ITALIAN CONSUMER PRICE INDICES

(percentage changes on corresponding period)

	CPI (1)														WEH (2)
	Goods and services with unregulated prices								Goods and services with regulated prices (4)			Rents	Overall index (6)	Total net of food and energy products and those with regulated prices	Overall index (6)
	Non-food and non-energy products		Services	Food products			Energy products	Total	Energy products	Non-energy products (5)	Total				
		of which: net of cars		Processed	Un-processed	Total									
Weights (3)	*32.6*	*28.6*	*26.8*	*9.9*	*7.2*	*17.1*	*3.1*	*79.6*	*3.1*	*14.3*	*17.4*	*3.0*	*100.0*	*59.4*	*100.0*
1997	1.5	1.8	2.8	0.8	–0.8	0.0	1.5	1.6	2.3	4.0	3.6	6.6	2.0	2.1	1.7
1998	1.9	1.8	2.7	0.8	1.6	1.2	–2.7	1.8	. .	2.8	2.2	5.2	2.0	2.2	1.8
1999	1.2	1.2	2.6	0.8	1.1	0.9	4.2	1.8	–2.6	2.0	1.1	3.3	1.7	1.8	1.6
2000	1.5	1.4	2.8	1.2	2.0	1.6	13.2	2.5	9.8	1.6	3.1	2.5	2.5	2.1	2.6
2001	2.0	2.0	3.3	2.4	6.4	4.0	–2.0	2.7	5.8	3.1	3.6	2.3	2.7	2.6	2.7
1999 – July .	1.2	1.2	2.7	0.6	0.8	0.8	5.1	1.8	–3.3	2.1	1.0	3.2	1.7	1.9	1.7
Aug. .	1.1	1.2	2.7	0.6	0.5	0.6	6.3	1.8	–3.2	1.9	1.0	3.2	1.7	1.8	1.6
Sept.	1.1	1.2	2.7	0.7	0.1	0.5	8.6	1.8	0.3	2.0	1.7	3.2	1.8	1.8	1.8
Oct. .	1.4	1.2	2.8	0.8	0.1	0.5	9.2	2.0	0.5	2.0	1.7	2.7	2.0	2.0	1.8
Nov. .	1.4	1.2	2.8	0.9	0.1	0.6	8.7	2.1	2.9	1.8	2.0	2.7	2.0	2.1	2.0
Dec. .	1.4	1.2	2.7	1.0	. .	0.6	12.6	2.2	2.9	1.8	2.0	2.7	2.1	2.0	2.1
2000 – Jan. .	1.4	1.2	2.8	1.0	–0.3	0.5	12.8	2.1	6.0	1.7	2.5	2.8	2.2	2.0	2.1
Feb. .	1.3	1.2	3.0	1.1	0.1	0.6	13.7	2.3	5.9	1.8	2.5	2.8	2.4	2.1	2.4
Mar. .	1.3	1.2	3.0	1.1	0.3	0.8	16.6	2.4	8.1	1.6	2.7	2.8	2.5	2.1	2.5
Apr. .	1.3	1.2	2.9	1.1	0.9	1.0	11.2	2.2	8.0	1.7	2.8	2.2	2.3	2.0	2.2
May .	1.4	1.3	2.8	1.2	1.3	1.2	11.4	2.3	10.9	1.8	3.4	2.2	2.5	2.1	2.3
June	1.6	1.4	2.9	1.2	1.8	1.5	14.9	2.6	11.0	2.0	3.5	2.2	2.7	2.2	2.7
July .	1.5	1.4	2.8	1.3	2.5	1.8	13.9	2.5	12.2	1.3	3.2	2.5	2.6	2.1	2.7
Aug. .	1.6	1.4	2.7	1.3	2.8	1.9	12.1	2.5	12.1	1.5	3.4	2.5	2.6	2.1	2.7
Sept.	1.5	1.4	2.6	1.3	3.2	2.1	14.0	2.6	11.1	1.4	3.1	2.5	2.6	2.0	2.6
Oct. .	1.5	1.5	2.6	1.4	3.4	2.2	13.3	2.6	10.3	1.5	3.1	2.4	2.6	2.0	2.6
Nov. .	1.7	1.7	2.5	1.4	3.6	2.3	14.6	2.7	11.0	1.6	3.3	2.4	2.7	2.1	2.7
Dec. .	1.8	1.8	2.6	1.5	4.5	2.7	9.9	2.6	11.0	1.6	3.3	2.4	2.7	2.1	2.7
2001 – Jan. .	1.9	1.8	2.8	1.7	4.9	3.0	5.6	2.6	13.1	3.1	4.9	2.4	3.0	2.3	3.1
Feb. .	2.0	2.0	2.7	1.8	5.8	3.5	3.4	2.6	13.3	3.1	5.0	2.4	3.0	2.3	3.0
Mar. .	2.0	2.0	2.8	1.9	5.8	3.5	0.2	2.5	11.6	3.2	4.7	2.4	2.8	2.3	2.8
Apr. .	2.1	2.1	3.2	2.2	5.5	3.6	2.2	2.8	11.8	3.5	5.0	2.2	3.1	2.6	3.1
May .	2.1	2.0	3.3	2.3	6.1	3.9	3.6	2.9	6.1	3.4	3.9	2.2	3.0	2.6	3.0
June	2.0	2.0	3.2	2.4	7.0	4.3	1.8	2.9	6.0	3.3	3.8	2.2	3.0	2.5	2.9
July .	2.0	2.0	3.4	2.5	7.6	4.6	–1.7	2.8	3.0	3.1	3.1	2.2	2.9	2.6	2.7
Aug. .	2.0	2.0	3.5	2.6	7.4	4.6	–3.2	2.8	2.9	3.0	2.9	2.2	2.8	2.7	2.7
Sept.	2.1	2.2	3.5	2.7	6.9	4.4	–6.4	2.7	1.0	3.0	2.6	2.2	2.6	2.7	2.6
Oct. .	2.1	2.2	3.5	2.7	6.9	4.4	–7.9	2.6	1.5	2.9	2.7	2.2	2.5	2.7	2.6
Nov. .	1.9	2.0	3.5	2.8	6.7	4.4	–9.9	2.4	0.4	3.0	2.5	2.2	2.4	2.6	2.3
Dec. .	1.9	2.1	3.7	2.8	6.3	4.2	–9.8	2.5	0.5	2.6	2.2	2.2	2.4	2.8	2.3
2002 – Jan. .	2.0	2.1	3.7	2.8	7.7	4.8	–6.5	2.8	–2.8	2.2	1.3	2.1	2.4	2.7	2.3
Feb. .	2.2	2.0	3.7	2.6	6.5	4.2	–5.4	2.8	–3.1	2.1	1.1	2.1	2.5	2.9	2.3
Mar. .	2.2	2.1	3.7	2.6	6.2	4.1	–4.5	2.8	–4.2	2.3	1.1	2.1	2.5	2.9	2.4
Apr. .	2.1	2.0	3.6	2.4	6.8	4.2	–1.6	2.9	–5.2	1.8	0.5	2.4	2.4	2.8	2.4

Source: Based on Istat data.

(1) Consumer price index (entire resident population); 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 2002. – (4) The sub-indices are based on the 208-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

ITALY: HARMONIZED INDEX OF CONSUMER PRICES (1)
(percentage changes on corresponding period) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of unprocessed food and energy products	Overall index
				Processed	Unprocessed				
Weights	*36.2*	*37.9*	*74.2*	*11.1*	*8.3*	*19.4*	*6.3*	*85.4*	*100.0*
1997	1.7	3.3	2.4	1.2	–0.7	0.3	1.9	2.3	1.9
1998	2.1	2.8	2.4	1.4	1.6	1.5	–1.4	2.3	2.0
1999	1.4	2.5	1.9	0.9	1.1	1.0	1.1	1.8	1.7
2000	1.7	2.3	2.0	1.3	1.8	1.5	11.6	1.9	2.6
2001	1.8	2.9	2.4	2.5	5.8	3.9	1.6	2.4	2.7
1999 – Jan.	1.5	2.6	2.0	1.6	1.8	1.6	–4.6	1.9	1.5
Feb.	1.3	2.5	1.9	1.5	2.0	1.7	–3.9	1.8	1.4
Mar.	1.3	2.4	1.8	0.6	2.1	1.3	–3.1	1.6	1.4
Apr.	1.2	2.5	1.8	0.6	2.1	1.3	–1.4	1.6	1.3
May	1.2	2.5	1.9	0.4	2.0	1.1	–0.5	1.7	1.5
June	1.2	2.5	1.8	0.5	1.5	0.9	–0.5	1.6	1.4
July	1.4	2.6	2.0	0.9	0.8	0.9	1.3	1.8	1.7
Aug.	1.3	2.5	1.9	0.8	0.5	0.8	1.9	1.8	1.6
Sept.	1.3	2.5	1.9	1.0	0.2	0.7	4.8	1.8	1.9
Oct.	1.6	2.5	2.1	1.1	0.1	0.7	5.2	1.9	1.9
Nov.	1.6	2.4	2.0	1.1	0.2	0.8	6.1	1.9	2.0
Dec.	1.6	2.3	1.9	1.2	0.1	0.7	8.0	1.8	2.1
2000 – Jan.	1.5	2.4	1.9	1.3	–0.1	0.7	9.6	1.8	2.2
Feb.	1.5	2.6	2.0	1.3	0.2	0.8	10.0	1.9	2.4
Mar.	1.5	2.6	2.0	1.3	0.3	0.9	12.7	1.9	2.6
Apr.	1.6	2.3	2.0	1.3	0.9	1.1	9.8	1.9	2.4
May	1.7	2.3	2.0	1.4	1.3	1.3	11.2	1.9	2.5
June	1.8	2.4	2.1	1.5	1.7	1.5	13.1	2.0	2.7
July	1.7	2.3	2.0	1.1	2.2	1.6	13.1	1.9	2.6
Aug.	1.7	2.4	2.1	1.2	2.5	1.7	12.1	1.9	2.6
Sept.	1.8	2.1	2.0	1.2	2.9	1.9	12.6	1.9	2.6
Oct.	1.8	2.2	2.0	1.3	3.0	2.0	11.9	1.9	2.7
Nov.	2.0	2.2	2.1	1.4	3.1	2.1	13.0	2.0	2.9
Dec.	2.0	2.3	2.2	1.3	3.9	2.4	10.4	2.1	2.8
2001 – Jan.	1.8	2.5	2.2	1.5	4.3	2.7	9.2	2.1	2.7
Feb.	1.8	2.4	2.1	1.6	5.2	3.1	8.0	2.0	2.7
Mar.	1.9	2.5	2.2	1.6	5.1	3.1	5.4	2.1	2.6
Apr.	2.0	3.0	2.5	2.5	4.9	3.5	6.7	2.5	3.0
May	1.9	3.0	2.5	2.6	5.5	3.8	4.8	2.5	2.9
June	1.8	2.9	2.4	2.7	6.2	4.2	3.7	2.4	2.9
July	1.8	3.1	2.5	2.8	6.8	4.5	0.5	2.5	2.8
Aug.	1.8	3.1	2.5	2.9	6.7	4.5	–0.3	2.5	2.8
Sept	1.9	3.2	2.6	2.9	6.3	4.4	–3.0	2.6	2.6
Oct.	1.8	3.2	2.5	2.9	6.3	4.3	–3.5	2.6	2.5
Nov.	1.7	3.2	2.5	2.9	6.2	4.3	–5.1	2.5	2.3
Dec.	1.7	3.4	2.5	3.0	5.8	4.2	–5.0	2.6	2.3
2002 – Jan.	1.6	3.3	2.5	2.9	7.1	4.6	–4.7	2.5	2.4
Feb.	2.7	3.3	3.0	2.8	5.9	4.1	–4.3	2.9	2.7
Mar.	2.5	3.3	2.9	2.8	5.6	4.0	–4.3	2.9	2.5
Apr.	2.5	3.1	2.8	1.8	6.2	3.7	–3.4	2.7	2.5

Source: Eurostat.

(1) Chain indices, 1996=100 up to December 2001; 2001=100 from January 2002. 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 2002. – (2) From January 2002, calculated with reference to the indices compiled using the new treatment of price reductions introduced in that month by Istat in accordance with Commission Regulation (EC) no. 2602/2000.

Table a10

EURO AREA: HARMONIZED INDEX OF CONSUMER PRICES (1)
(percentage changes on corresponding period) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of unprocessed food and energy products	Overall index
				Processed	Unprocessed				
Weights	*32.0*	*38.9*	*70.8*	*12.3*	*8.1*	*20.4*	*8.7*	*83.2*	*100.0*
1999	0.7	1.6	1.1	1.0	0.1	0.6	2.3	1.1	1.1
2000	0.8	1.7	1.3	1.2	1.7	1.4	13.4	1.3	2.4
2001	1.5	2.5	2.1	2.9	7.2	4.6	2.8	2.2	2.7
1999 – Jan.	0.9	1.7	1.4	1.3	1.2	1.3	–4.5	1.4	0.9
Feb.	0.9	1.7	1.3	1.3	1.6	1.4	–4.4	1.3	0.8
Mar.	0.8	1.8	1.3	1.2	1.9	1.5	–2.9	1.3	1.0
Apr.	0.7	1.7	1.2	1.2	1.2	1.2	0.2	1.2	1.1
May	0.6	1.6	1.1	0.8	0.5	0.7	0.4	1.1	1.0
June	0.6	1.5	1.1	0.8	–0.6	0.2	1.3	1.0	1.0
July	0.6	1.6	1.1	0.8	–1.3	. .	3.1	1.1	1.1
Aug.	0.6	1.5	1.1	0.8	–1.6	–0.2	4.9	1.0	1.1
Sept.	0.5	1.4	1.0	0.7	–1.1	. .	6.2	0.9	1.3
Oct.	0.6	1.3	0.9	0.9	–0.3	0.5	6.4	0.9	1.4
Nov.	0.7	1.5	1.0	1.0	–0.2	0.5	7.3	1.0	1.5
Dec.	0.7	1.6	1.1	1.1	–0.2	0.6	10.2	1.1	1.7
2000 – Jan.	0.7	1.7	1.1	1.1	–0.6	0.4	12.2	1.1	1.9
Feb.	0.6	1.6	1.1	1.1	. .	0.6	13.6	1.1	2.1
Mar.	0.7	1.6	1.1	1.0	–0.5	0.4	15.4	1.1	2.2
Apr.	0.7	1.8	1.2	1.0	0.2	0.6	10.3	1.2	1.9
May	0.7	1.6	1.1	1.1	0.5	0.8	12.1	1.1	1.9
June	0.8	1.7	1.2	1.1	1.4	1.2	14.6	1.2	2.4
July	0.6	1.7	1.2	1.0	2.6	1.6	13.5	1.2	2.4
Aug.	0.8	1.8	1.3	1.2	3.4	2.0	11.9	1.3	2.4
Sept.	1.0	1.8	1.4	1.3	3.3	2.1	15.6	1.4	2.8
Oct.	1.0	1.9	1.5	1.3	3.2	2.0	14.8	1.4	2.7
Nov.	1.1	1.9	1.5	1.5	3.4	2.2	15.4	1.5	2.9
Dec.	1.2	1.8	1.5	1.4	3.7	2.4	11.4	1.5	2.6
2001 – Jan.	1.1	2.2	1.7	1.6	4.4	2.7	7.9	1.7	2.5
Feb.	1.2	2.3	1.8	2.1	4.6	3.0	8.3	1.8	2.6
Mar.	1.3	2.3	1.8	2.2	6.5	3.9	5.6	1.9	2.6
Apr.	1.4	2.4	2.0	2.6	7.1	4.3	7.9	2.0	3.0
May	1.6	2.5	2.1	2.8	9.0	5.2	8.5	2.2	3.4
June	1.5	2.6	2.1	3.1	9.1	5.4	5.4	2.2	3.1
July	1.5	2.6	2.1	3.3	8.8	5.5	2.9	2.3	2.8
Aug.	1.6	2.6	2.1	3.4	7.8	5.2	2.1	2.3	2.8
Sept.	1.6	2.7	2.2	3.5	7.8	5.2	–1.3	2.4	2.5
Oct.	1.6	2.8	2.3	3.6	7.8	5.2	–2.7	2.5	2.4
Nov.	1.5	2.8	2.2	3.5	6.5	4.7	–5.0	2.4	2.0
Dec.	1.6	2.8	2.3	3.6	6.6	4.7	–4.6	2.5	2.1
2002 – Jan.	1.7	3.0	2.4	3.8	8.4	5.6	–1.7	2.6	2.7
Feb.	1.9	3.0	2.5	3.3	7.1	4.8	–2.8	2.6	2.5
Mar.	1.8	3.2	2.5	3.3	5.5	4.2	–1.5	2.6	2.5
Apr.	1.8	3.0	2.4	3.2	4.1	3.6	–0.5	2.6	2.4

Source: Eurostat.
(1) Weighted average of the indices of the euro-area countries (including Greece for the period prior to January 2001). The weights shown in the table are those for January 2002. – (2) From January 2002, calculated with reference to the indices compiled using the new treatment of price reductions introduced in that month by Istat in accordance with Commission Regulation (EC) no. 2602/2000.

Table a11

ITALY: INDEX OF THE PRODUCER PRICES OF MANUFACTURES SOLD IN THE DOMESTIC MARKET (1)
(percentage changes on corresponding period)

	Consumer goods (2)			Investment goods	Intermediate goods		Overall index net of food and energy products	Overall index
	Non-food products	*of which: net of motor vehicles*	Food products		Non-energy products	Energy products		
Weights	*20.5*	*18.5*	*14.5*	*9.5*	*41.0*	*14.5*	*71.0*	*100.0*
1998	1.6	1.5	1.8	1.8	0.2	–5.1	0.8	0.1
1999	1.3	1.3	–0.1	1.0	–1.1	–1.0	–0.1	–0.3
2000	1.9	2.0	1.3	1.1	4.6	24.2	3.3	6.0
2001	2.2	2.2	2.8	1.2	1.3	2.7	1.6	1.9
1999 – Jan.	1.6	1.6	0.7	1.5	–2.1	–9.3	–0.5	–1.6
Feb.	1.6	1.6	0.8	1.2	–2.5	–8.8	–0.8	–1.8
Mar.	1.4	1.4	0.1	1.1	–2.7	–8.0	–1.0	–1.8
Apr.	1.3	1.3	–0.3	1.1	–2.6	–6.7	–0.9	–1.6
May	1.0	1.0	–0.6	1.0	–2.3	–5.9	–0.8	–1.4
June	1.0	1.0	–0.8	1.0	–2.1	–5.1	–0.7	–1.4
July	1.0	1.0	–0.3	0.9	–1.7	–1.3	–0.5	–0.6
Aug.	1.0	1.2	–0.1	0.8	–0.9	0.7	–0.1	0.0
Sept.	1.2	1.4	–0.4	0.7	–0.3	5.0	0.3	0.8
Oct.	1.3	1.4	–0.1	0.7	0.8	6.5	1.0	1.6
Nov.	1.3	1.3	0.2	0.7	1.2	10.2	1.1	2.2
Dec.	1.4	1.4	0.1	0.7	1.7	13.0	1.5	2.8
2000 – Jan.	1.3	1.3	0.4	0.9	2.6	17.2	2.0	3.8
Feb.	1.5	1.5	0.4	1.1	3.2	20.5	2.4	4.6
Mar.	1.5	1.5	0.8	1.1	3.8	24.4	2.7	5.5
Apr.	1.6	1.6	1.5	1.0	4.6	21.1	3.2	5.4
May	2.0	1.9	2.0	1.1	5.2	25.3	3.6	6.4
June	2.1	2.1	1.8	1.2	5.5	27.5	3.8	6.9
July	2.2	2.3	1.1	1.2	5.5	26.6	3.9	6.7
Aug.	2.3	2.4	1.0	1.1	5.3	24.7	3.8	6.5
Sept.	2.2	2.2	1.4	1.2	5.3	26.2	3.8	6.7
Oct.	2.1	2.1	1.3	1.1	4.9	27.5	3.5	6.8
Nov.	2.2	2.2	1.4	1.2	4.8	26.3	3.5	6.7
Dec.	2.3	2.4	2.2	1.2	4.6	22.6	3.4	6.2
2001 – Jan.	2.3	2.4	2.1	1.2	3.9	18.4	3.1	5.4
Feb.	2.5	2.5	2.9	1.3	3.5	15.8	2.9	5.0
Mar.	2.5	2.6	2.4	1.2	3.2	11.9	2.8	4.2
Apr.	2.5	2.5	3.0	1.4	2.5	14.0	2.3	4.3
May	2.3	2.4	2.5	1.3	1.8	8.3	1.9	2.9
June	2.4	2.4	2.9	1.2	1.3	4.8	1.6	2.4
July	2.3	2.3	3.0	1.2	1.0	0.1	1.4	1.3
Aug.	2.1	2.1	3.1	1.2	0.7	–0.3	1.1	1.2
Sept.	2.1	2.1	3.1	1.2	0.3	–4.1	0.9	0.4
Oct.	2.1	2.1	3.1	1.3	–0.2	–8.0	0.7	–0.6
Nov.	1.8	1.8	3.0	1.1	–0.7	–10.7	0.3	–1.3
Dec.	1.9	1.8	2.2	1.2	–0.9	–10.1	0.2	–1.3
2002 – Jan.	2.4	2.3	2.1	1.1	–0.8	–9.6	0.4	–1.2
Feb.	2.1	2.2	1.1	0.9	–0.9	–9.8	0.3	–1.4
Mar.	2.2	2.2	1.3	1.1	–0.9	–9.6	0.3	–1.3

Source: Istat.
(1) Classification of goods by economic purpose, 1995=100; Istat data. The weights shown in the table are those for 1995. – (2) The item does not include energy products.

Table a12

EURO AREA AND MAJOR COUNTRIES: INDEX OF THE PRODUCER PRICES OF MANUFACTURES SOLD IN THE DOMESTIC MARKET

(percentage changes on corresponding period)

	GERMANY					FRANCE (2)				
	Consumer goods net of food products (2)	Intermediate goods		Overall index net of food and energy products	Overall index	Consumer goods net of food products (3)	Intermediate goods		Overall index net of food and energy products	Overall index
		Non-energy products	Energy products				Non-energy products	Energy products		
Weights (1)	*(15.2)*	*(31.2)*	*(18.1)*	*(69.7)*	*(100.0)*	*(15.7)*	*(28.5)*	*(16.3)*	*(65.0)*	*(100.0)*
2000	0.8	3.6	9.9	2.1	3.3	0.6	4.6	25.4	1.1	5.5
2001	1.6	0.7	9.0	1.3	3.0	1.4	2.0	–3.2	1.8	1.3
2000 – July	0.9	4.2	9.1	2.4	3.3	0.5	5.4	24.6	1.4	5.7
Aug.	0.8	4.4	9.7	2.4	3.5	0.7	5.6	23.5	1.6	5.7
Sept.	1.0	4.5	13.2	2.6	4.3	0.7	5.5	28.6	1.6	6.7
Oct.	0.6	4.1	15.6	2.4	4.6	1.2	5.3	29.5	1.4	6.8
Nov.	0.7	3.9	15.7	2.3	4.7	1.7	5.1	24.7	1.6	6.3
Dec.	0.7	3.7	12.3	2.3	4.2	1.4	5.1	13.5	2.1	4.7
2001 – Jan.	1.0	3.5	14.3	2.2	4.6	1.3	4.9	7.7	2.4	3.9
Feb.	1.1	3.1	15.0	2.2	4.7	1.6	4.5	6.1	2.5	3.6
Mar.	1.8	2.5	15.7	2.2	4.9	1.8	4.0	2.4	2.4	3.0
Apr.	1.5	1.8	16.6	2.0	5.0	1.8	3.2	4.4	1.8	3.1
May	1.6	1.3	15.6	1.6	4.6	1.8	2.5	4.1	1.5	2.8
June	2.0	1.0	14.2	1.7	4.3	1.5	2.1	1.8	1.6	2.3
July	1.7	0.2	9.9	1.1	3.1	1.4	1.4	–2.2	1.6	1.3
Aug.	1.6	–0.2	8.4	1.0	2.7	1.6	1.1	–4.2	1.6	1.0
Sept.	1.6	–0.7	5.9	0.5	1.9	1.2	0.8	–8.7	1.5	–0.3
Oct.	2.1	–1.0	–0.5	0.4	0.6	1.3	0.2	–13.8	1.6	–1.5
Nov.	1.8	–1.1	–2.3	0.3	0.1	1.0	. .	–16.9	1.9	–2.2
Dec.	1.7	–1.3	–1.1	0.1	0.1	1.0	–0.4	–13.0	1.3	–1.5
2002 – Jan.	2.5	–1.6	–2.2	0.1	–0.1	0.4	–1.0	–8.1	0.7	–1.0
Feb.	2.3	–1.8	–2.6	0.1	–0.3	0.2	–1.3	–7.9	0.2	–1.3
Mar.	1.8	–1.6	–1.4	0.1	–0.2	. .	–1.1	–3.9	0.1	–0.8

	SPAIN					EURO (3)				
Weights (1)	*(18.6)*	*(33.8)*	*(14.1)*	*(67.6)*	*(100.0)*	*(15.9)*	*(31.7)*	*(16.8)*	*(66.8)*	*(100.0)*
2000	1.7	6.9	22.7	3.3	5.4	1.4	5.0	19.2	3.0	5.5
2001	3.1	1.4	–2.0	1.9	1.7	2.1	1.1	2.7	1.6	2.1
2000 – July	1.4	7.1	23.1	3.4	5.4	1.4	5.7	19.3	3.3	5.7
Aug.	1.7	6.9	20.3	3.5	5.1	1.5	5.8	18.3	3.5	5.7
Sept.	1.9	6.9	23.7	3.4	5.5	1.6	5.9	22.1	3.5	6.4
Oct.	2.4	6.8	25.5	3.3	6.0	1.9	5.5	23.7	3.5	6.7
Nov.	2.2	6.3	23.0	3.3	5.7	1.7	5.3	21.7	3.3	6.5
Dec.	2.4	5.9	16.5	3.4	5.0	1.7	5.1	15.7	3.2	5.5
2001 – Jan.	2.6	5.1	8.6	3.3	3.9	1.7	4.5	12.5	3.1	4.9
Feb.	3.0	4.8	5.7	3.2	3.6	2.0	4.0	11.3	2.9	4.6
Mar.	3.4	4.1	2.7	3.1	3.2	2.4	3.4	9.2	2.8	4.2
Apr.	3.6	2.9	3.6	2.4	2.8	2.4	2.5	10.6	2.3	4.2
May	3.6	2.2	4.0	2.1	2.7	2.4	1.8	9.1	1.9	3.6
June	3.6	1.5	2.2	1.8	2.4	2.5	1.4	6.8	1.8	3.1
July	3.7	1.0	–0.1	1.7	2.0	2.2	0.6	2.8	1.4	2.1
Aug.	3.3	0.4	–2.4	1.4	1.6	2.0	0.1	1.4	1.1	1.6
Sept.	3.0	–0.2	–7.0	1.3	0.6	1.9	–0.4	–2.3	0.8	0.6
Oct.	2.7	–1.1	–11.4	1.0	–0.4	1.7	–1.0	–7.3	0.4	–0.7
Nov.	2.6	–1.5	–13.4	0.8	–0.8	1.8	–1.3	–9.5	0.3	–1.3
Dec.	2.6	–2.0	–11.8	0.4	–0.9	1.8	–1.5	–7.6	0.1	–1.1
2002 – Jan.	2.6	–1.8	–5.4	0.3	0.1	2.2	–1.7	–5.5	. .	–0.8
Feb.	2.4	–2.2	–4.8	0.2	–0.2	2.1	–1.7	–5.7	–0.1	–1.1
Mar.	2.0	–2.0	–3.2	0.1	. .	1.9	–1.7	–4.1	–0.1	–0.8

Source: Based on Eurostat data.
(1) 1995=100. – (2) The item does not include energy products. – (3) GDP-weighted average for the 12 euro-area countries.

Table a13

ITALY: BALANCE OF PAYMENTS
(balances in billions of lire and millions of euros)

	1997	1998	1999		2000		2001	
	lire			euros	lire	euros	lire	euros
Current account	**56,813**	**39,585**	**14,894**	**7,692**	**–12,209**	**–6,305**	**–345**	**–178**
Goods	68,102	63,091	42,683	22,044	20,075	10,368	34,417	17,775
Credits	409,126	426,181	428,853	221,484	505,184	260,906	524,491	270,877
Debits	341,024	363,089	386,170	199,440	485,109	250,538	490,074	253,102
Services	13,255	8,493	2,178	1,125	2,260	1,167	654	338
Credits	105,518	111,145	107,089	55,307	119,041	61,479	124,812	64,460
Debits	92,263	102,652	104,911	54,182	116,781	60,312	124,158	64,122
Income	–17,446	–19,109	–20,122	–10,392	–25,363	–13,099	–22,412	–11,575
Credits	72,394	77,138	84,195	43,483	81,118	41,894	83,633	43,193
Debits	89,840	96,247	104,317	53,875	106,481	54,993	106,044	54,767
Transfers	–7,098	–12,891	–9,846	–5,085	–9,181	–4,742	–13,005	–6,716
EU institutions	*–5,088*	*–11,502*	*–9,071*	*–4,685*	*–9,497*	*–4,905*	*–11,253*	*–5,812*
Capital account	**5,658**	**4,355**	**5,400**	**2,789**	**6,187**	**3,195**	**1,817**	**938**
Intangible assets	180	–234	–6	–3	–139	–72	–602	–311
Transfers	5,478	4,589	5,406	2,792	6,326	3,267	2,418	1,249
EU institutions	*6,320*	*5,320*	*6,198*	*3,201*	*7,018*	*3,624*	*3,385*	*1,748*
Financial account	**–35,393**	**2,482**	**–17,169**	**–8,867**	**8,301**	**4,287**	**–5,594**	**–2,889**
Direct investment	–12,400	–20,486	345	178	2,225	1,149	–14,284	–7,377
Abroad	–20,850	–27,917	–12,216	–6,309	–25,884	–13,368	–46,461	–23,995
In Italy	8,450	7,431	12,561	6,487	28,109	14,517	32,177	16,618
Portfolio investment	33,248	13,699	–45,763	–23,635	–50,837	–26,255	–14,793	–7,640
Assets	–91,251	–167,129	–235,243	–121,493	–167,178	–86,340	–77,586	–40,070
Liabilities	124,498	180,828	189,480	97,858	116,341	60,085	62,793	32,430
Financial derivatives	–3,158	–1,475	3,419	1,766	4,843	2,501	–924	–477
Other investment	–30,314	–26,231	11,085	5,725	57,991	29,950	23,470	12,121
Assets	–59,476	–58,501	–60,936	–31,471	1,911	987	2,970	1,534
Liabilities	29,162	32,270	72,022	37,196	56,080	28,963	20,499	10,587
Change in official reserves	–22,769	36,975	13,746	7,099	–5,921	–3,058	937	484
Errors and omissions	**–27,078**	**–46,422**	**–3,125**	**–1,614**	**–2,279**	**–1,177**	**4,122**	**2,129**

Table a14

ITALY'S EXTERNAL POSITION
(billions of lire and millions of euros)

	1995	1996	1997	1998	1999		2000		2001	
	lire					euros	lire	euros	lire	euros
ASSETS	**947,363**	**1,113,396**	**1,424,609**	**1,657,289**	**2,124,205**	**1,097,059**	**2,363,354**	**1,220,570**	**2,328,472**	**1,202,555**
Non-bank sectors	**594,340**	**676,489**	**939,566**	**1,194,543**	**1,645,623**	**849,893**	**1,850,140**	**955,517**	**1,814,861**	**937,297**
Direct investment	168,492	179,598	232,839	277,466	330,831	170,860	346,492	178,948	371,049	191,631
Real estate	9,211	8,803	9,840	10,350	11,823	6,106	12,938	6,682	14,503	7,490
Other	159,281	170,795	222,999	267,116	319,008	164,754	333,554	172,266	356,546	184,141
Portfolio investment	290,967	343,532	453,631	639,747	985,322	508,876	1,157,636	597,869	1,126,421	581,748
Loans	55,781	72,860	....	....	....	....	....	....	....	....
Trade credits	79,100	80,499	....	....	....	....	....	....	....	....
Other investment	....	....	248,744	273,974	326,807	168,782	341,357	176,296	310,858	160,545
Financial derivatives	....	....	4,352	3,356	2,663	1,375	4,655	2,404	6,533	3,374
Banks	**257,430**	**328,344**	**349,235**	**372,095**	**357,730**	**184,752**	**393,876**	**203,420**	**364,981**	**188,497**
Direct investment	....	....	12,650	15,064	19,667	10,157	28,639	14,791	29,635	15,305
Portfolio investment	....	....	27,115	51,439	67,669	34,948	70,283	36,298	70,776	36,553
Other investment	....	....	308,620	303,323	267,368	138,084	292,257	150,938	261,602	135,106
Financial derivatives	....	....	850	2,269	3,026	1,563	2,697	1,393	2,970	1,534
Central bank	**95,593**	**108,563**	**135,808**	**90,651**	**120,852**	**62,414**	**119,338**	**61,633**	**148,630**	**76,761**
Direct investment	....	....	..	7	8	4	8	4	10	5
Portfolio investment	....	....	..	525	1,118	577	1,384	715	1,766	912
Other investment	....	....	190	1,480	32,400	16,733	20,424	10,548	45,322	23,407
Financial derivatives	....	....	135,618	88,639	87,326	45,100	97,522	50,366	101,532	52,437
Gold	....	....	*37,578*	*39,814*	*44,099*	*22,775*	*44,724*	*23,098*	*47,888*	*24,732*
LIABILITIES	**1,031,883**	**1,167,314**	**1,424,751**	**1,688,606**	**2,021,337**	**1,043,934**	**2,266,250**	**1,170,420**	**2,301,709**	**1,188,733**
Non-bank sectors	**661,801**	**786,231**	**1,003,695**	**1,243,937**	**1,498,361**	**773,839**	**1,651,573**	**852,966**	**1,689,478**	**872,543**
Direct investment	103,561	114,242	149,454	178,662	208,209	107,531	234,225	120,967	235,646	121,701
Real estate	3,002	3,244	3,541	3,807	4,419	2,282	5,733	2,961	6,291	3,249
Other	100,559	110,998	145,913	174,855	203,790	105,249	228,492	118,006	229,355	118,452
Portfolio investment	374,653	510,327	677,971	894,674	1,048,115	541,306	1,161,168	599,693	1,202,584	621,083
Government securities	*291,486*	*397,937*	*515,914*	*675,718*	*822,750*	*424,915*	*910,722*	*470,349*	*939,526*	*485,225*
BOTs	*10,355*	*24,169*	*32,255*	*85,590*	*125,605*	*64,870*	*118,827*	*61,369*	*108,042*	*55,799*
BTPs	*108,221*	*189,851*	*283,139*	*317,309*	*406,655*	*210,020*	*499,546*	*257,994*	*549,320*	*283,700*
Other	*95,673*	*101,782*	*109,234*	*176,879*	*185,042*	*95,566*	*160,224*	*82,749*	*126,503*	*65,333*
Republic of Italy	*77,237*	*82,135*	*91,286*	*95,940*	*105,448*	*54,459*	*132,125*	*68,237*	*155,661*	*80,392*
Loans	136,128	119,012	....	....	....	....	....	....	....	....
Trade credits	47,459	42,650	....	....	....	....	....	....	....	....
Other investment	....	....	173,387	168,042	238,843	123,352	252,505	130,408	244,295	126,168
Financial derivatives	....	....	2,883	2,559	3,194	1,650	3,675	1,898	6,953	3,591
Banks	**365,965**	**379,171**	**420,748**	**444,576**	**480,667**	**248,244**	**579,789**	**299,436**	**607,404**	**313,698**
Direct investment	....	....	900	1,231	1,297	670	1,015	524	1,466	757
Portfolio investment	....	....	3,362	3,201	10,518	5,432	25,431	13,134	29,871	15,427
Other investment	....	....	415,553	437,614	465,795	240,563	551,523	284,838	573,024	295,942
Financial derivatives	....	....	933	2,529	3,057	1,579	1,820	940	3,044	1,572
Central bank	**4,117**	**1,912**	**308**	**93**	**42,309**	**21,851**	**34,888**	**18,018**	**4,827**	**2,493**
Direct investment	....	....	....	....	....	....	....	....	....	....
Portfolio investment	....	....	....	....	....	....	....	....	....	....
Other investment	....	....	308	93	42,309	21,851	34,888	18,018	4,827	2,493
OVERALL NET POSITION	**–84,520**	**–53,918**	**–142**	**–31,317**	**102,868**	**53,125**	**97,104**	**50,150**	**26,763**	**13,822**

Table a15

CONSOLIDATED ACCOUNTS OF GENERAL GOVERNMENT (1)
(billions of lire and millions of euros)

	1994	1995	1996	1997	1998	1999		2000		2001	
	lire						euros	lire	euros	lire	euros
Revenue											
Direct taxes	245,872	263,494	290,923	318,582	299,065	322,015	166,307	330,018	170,440	355,979	183,848
Indirect taxes	195,153	215,935	224,852	247,286	318,311	324,321	167,498	339,157	175,160	342,182	176,722
Actual social security contributions	217,766	232,928	278,359	296,935	258,978	265,894	137,323	279,208	144,199	291,670	150,635
Imputed social security contributions	30,777	30,881	7,807	7,696	7,670	7,369	3,806	7,503	3,875	7,520	3,884
Income from capital	7,265	10,921	11,728	12,252	10,440	13,870	7,163	10,841	5,599	11,802	6,095
Other	41,253	44,973	49,145	51,994	56,587	57,106	29,493	58,572	30,250	63,461	32,775
Total current revenue	**738,086**	**799,132**	**862,814**	**934,745**	**951,051**	**990,575**	**511,590**	**1,025,299**	**529,523**	**1,072,614**	**553,959**
Capital account revenue	6,779	15,336	8,259	19,595	14,274	10,793	5,574	9,885	5,105	6,281	3,244
Total revenue	**744,865**	**814,468**	**871,073**	**954,340**	**965,325**	**1,001,368**	**517,164**	**1,035,184**	**534,628**	**1,078,895**	**557,203**
as a percentage of GDP	*45.1*	*45.6*	*45.8*	*48.0*	*46.5*	*46.7*		*45.9*		*45.8*	
Expenditure											
Compensation of employees	196,521	200,521	218,559	230,627	221,606	227,974	117,739	237,793	122,810	249,833	129,028
Intermediate consumption	85,272	85,329	90,920	93,860	99,298	106,324	54,912	114,774	59,276	119,507	61,720
Social assistance benefits in kind (market purchases)	35,962	35,633	37,988	40,816	43,078	45,547	23,523	50,207	25,930	55,162	28,489
Social assistance benefits in cash	285,656	298,752	320,665	344,212	352,196	367,891	190,000	378,239	195,344	392,536	202,728
Subsidies to firms	28,201	26,256	28,251	24,286	27,921	26,492	13,682	26,959	13,923	27,011	13,950
Interest payments	189,212	205,991	218,701	186,086	166,541	144,899	74,834	145,733	75,265	149,308	77,111
Other	16,169	14,697	18,750	18,729	33,101	34,076	17,599	36,565	18,884	38,785	20,031
Total current expenditure	**836,993**	**867,179**	**933,834**	**938,616**	**943,741**	**953,203**	**492,289**	**990,270**	**511,432**	**1,032,142**	**533,057**
Gross investment	37,385	38,109	42,111	44,255	49,421	52,390	27,057	54,256	28,021	52,516	27,122
Investment grants	20,621	22,770	23,040	17,419	22,077	25,450	13,144	25,346	13,090	30,219	15,607
Other (2)	3,547	22,106	7,135	7,729	8,558	7,921	4,091	–22,561	–11,652	–1,876	–969
Total capital account expenditure (2)	**61,553**	**82,985**	**72,286**	**69,403**	**80,056**	**85,761**	**44,292**	**57,041**	**29,459**	**80,859**	**41,760**
Total expenditure (2)	**898,546**	**950,164**	**1,006,120**	**1,008,019**	**1,023,797**	**1,038,964**	**536,581**	**1,047,311**	**540,891**	**1,113,001**	**574,817**
as a percentage of GDP	*54.3*	*53.2*	*52.9*	*50.7*	*49.3*	*48.4*		*46.4*		*47.2*	
Deficit on current account	**98,907**	**68,047**	**71,020**	**3,871**	**–7,310**	**–37,372**	**–19,301**	**–35,029**	**–18,091**	**–40,472**	**–20,902**
Net borrowing (3)	**153,681**	**135,696**	**135,047**	**53,679**	**58,472**	**37,596**	**19,417**	**12,127**	**6,263**	**34,106**	**17,614**
as a percentage of GDP	*9.3*	*7.6*	*7.1*	*2.7*	*2.8*	*1.8*		*0.5*		*1.4*	

Source: Based on Istat data.
(1) Rounding and euro/lira conversions may cause discrepancies. – (2) The figures for 2000 include the proceeds of the sale of UMTS licences with a negative sign (1.2 per cent of GDP). – (3) The figures for 2000 include the proceeds of the sale of UMTS licences.

FINANCING OF THE GENERAL GOVERNMENT BORROWING REQUIREMENT (1)
(billions of lire and millions of euros)

	1994	1995	1996	1997	1998	1999		2000		2001	
	lire	lire	lire	lire	lire	lire	euros	lire	euros	lire	euros
Medium and long-term securities	**232,570**	**104,482**	**140,673**	**107,135**	**82,919**	**44,501**	**22,983**	**67,618**	**34,922**	**46,815**	**24,178**
of which:											
floating rate	*37,386*	*–25,971*	*31,404*	*9,058*	*–39,142*	*–52,157*	*–26,937*	*–14,680*	*–7,582*	*–19,296*	*–9,966*
issued abroad	*7,928*	*14,582*	*14,245*	*6,556*	*1,668*	*–5,331*	*–2,753*	*31,126*	*16,075*	*19,901*	*10,278*
Short-term securities	**11,311**	**–857**	**–27,174**	**–81,771**	**–35,371**	**–34,235**	**–17,681**	**–34,278**	**–17,703**	**22,256**	**11,494**
of which:											
issued abroad	–	–	–	–	–	*713*	*368*	*–458*	*–237*	*390*	*202*
Post Office deposits	**21,738**	**15,790**	**12,798**	**11,641**	**6,400**	**17,418**	**8,996**	**9,023**	**4,660**	**21,143**	**10,919**
of which:											
Post Office savings certificates	*14,891*	*10,718*	*12,733*	*7,183*	*5,020*	*6,790*	*3,507*	*4,599*	*2,375*	*8,000*	*4,132*
savings books	*7,276*	*5,806*	*1,606*	*5,519*	*7,483*	*10,706*	*5,529*	*4,424*	*2,285*	*13,143*	*6,788*
current accounts	*–429*	*–733*	*–1,541*	*–1,062*	*–6,104*	*–78*	*–40*	–	–	–	–
Lending by banks	**6,940**	**17,901**	**–1,490**	**4,050**	**–17,471**	**1,710**	**883**	**–11,950**	**–6,172**	**–7,491**	**–3,869**
of which:											
resident banks	*5,326*	*6,902*	*–2,738*	*3,271*	*–3,677*	*3,435*	*1,774*	*–5,056*	*–2,611*	*–4,930*	*–2,546*
non-resident banks	*1,615*	*10,999*	*1,248*	*778*	*–13,793*	*–1,725*	*–891*	*–6,894*	*–3,560*	*–2,560*	*–1,322*
Other debt	**–78,440**	**203**	**100**	**90**	**490**	**390**	**201**	**1,042**	**538**	**4,015**	**2,074**
of which:											
towards Bank of Italy	*–78,473*	*–9*	*–51*	*–47*	*133*	*–730*	*–377*	*–2,718*	*–1,403*	*–101*	*–52*
Claims on Bank of Italy	**–33,247**	**–8,430**	**17,725**	**–2,538**	**15,829**	**–13,276**	**–6,856**	**18,581**	**9,596**	**–7,737**	**–3,996**
TOTAL BORROWING REQUIREMENT	**160,873**	**129,090**	**142,633**	**38,607**	**52,797**	**16,508**	**8,526**	**50,036**	**25,841**	**79,001**	**40,801**
as a percentage of GDP	*9.7*	*7.2*	*7.5*	*1.9*	*2.5*	*0.8*		*2.2*		*3.4*	
Settlements of past debts (2)	**9,342**	**4,085**	**13,502**	**–409**	**4,770**	**12,118**	**6,259**	**8,904**	**4,599**	**19,925**	**10,290**
Privatization receipts (2)	**–5,919**	**–8,354**	**–6,226**	**–21,179**	**–15,277**	**–43,839**	**–22,641**	**–29,915**	**–15,450**	**–8,383**	**–4,329**
Borrowing requirement net of settlements of past debts and privatization receipts	**157,450**	**133,359**	**135,357**	**60,195**	**63,305**	**48,229**	**24,908**	**71,047**	**36,693**	**67,459**	**34,840**
Memorandum items:											
debts of other entities serviced by the government	*111*	*1,108*	*690*	*–6,500*	*–10,997*	*–2,213*	*–1,143*	*–4,449*	*–2,298*	*–7,953*	*–4,107*
change in bank deposits	*–641*	*1,182*	*2,835*	*–938*	*1,295*	*5,357*	*2,766*	*70*	*36*	*–1,210*	*–625*
Central government borrowing requirement	**174,180**	**128,618**	**143,193**	**32,040**	**51,100**	**4,884**	**2,522**	**38,111**	**19,683**	**75,586**	**39,037**
of which:											
securities	*243,884*	*103,626*	*112,994*	*23,585*	*45,863*	*5,891*	*3,042*	*28,328*	*14,630*	*65,481*	*33,818*
bank lending	*20,181*	*17,388*	*–467*	*–795*	*–17,530*	*–5,539*	*–2,861*	*–18,863*	*–9,742*	*–7,316*	*–3,778*
other	*–89,885*	*7,604*	*30,666*	*9,250*	*22,767*	*4,532*	*2,341*	*28,646*	*14,795*	*17,421*	*8,997*
Local authority borrowing requirement	**–12,554**	**258**	**–532**	**6,577**	**1,869**	**11,753**	**6,070**	**11,924**	**6,158**	**3,338**	**1,724**
of which:											
securities	*–3*	*–1*	*505*	*1,779*	*1,685*	*4,375*	*2,259*	*5,012*	*2,588*	*3,590*	*1,854*
bank lending	*–12,487*	*299*	*–994*	*4,854*	*231*	*7,379*	*3,811*	*6,912*	*3,570*	*–252*	*–130*
other	*–64*	*–41*	*–43*	*–56*	*–47*	–	–	–	–	–	–
Social security institution borrowing requirement	**–753**	**215**	**–29**	**–10**	**–171**	**–129**	**–67**	**1**	**1**	**77**	**40**

(1) Rounding and euro/lira conversions 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)

	1994	1995	1996	1997	1998	1999		2000		2001	
	lire						euros	lire	euros	lire	euros
Medium and long-term securities	**1,363,792**	**1,487,329**	**1,626,823**	**1,746,749**	**1,820,830**	**1,875,304**	**968,514**	**1,946,127**	**1,005,091**	**1,989,090**	**1,027,279**
held by:											
Bank of Italy	*186,333*	*197,841*	*166,478*	*137,709*	*120,169*	*112,113*	*57,902*	*120,669*	*62,320*	*124,470*	*64,283*
banks	*265,089*	*264,587*	*282,667*	*265,120*	*243,980*	*275,236*	*142,147*	*233,580*	*120,634*	*208,033*	*107,440*
other residents	*631,122*	*716,661*	*799,245*	*877,622*	*902,432*	*795,350*	*410,764*	*817,467*	*422,187*	*849,617*	*438,790*
non-residents	*281,249*	*308,239*	*378,432*	*466,298*	*554,249*	*692,605*	*357,700*	*774,410*	*399,950*	*806,971*	*416,766*
Short-term securities	**411,322**	**410,471**	**383,297**	**301,526**	**266,157**	**231,921**	**119,777**	**197,643**	**102,074**	**219,902**	**113,570**
held by:											
Bank of Italy	*14,306*	*3,327*	*1,698*	*14,331*	*230*	*–*	*–*	*150*	*78*	*–*	*–*
banks	*73,101*	*48,506*	*56,256*	*33,519*	*46,552*	*34,309*	*17,719*	*15,574*	*8,043*	*23,669*	*12,224*
other residents	*318,347*	*347,913*	*300,653*	*220,819*	*132,953*	*70,430*	*36,374*	*55,507*	*28,667*	*80,749*	*41,703*
non-residents	*5,568*	*10,725*	*24,690*	*32,858*	*86,423*	*127,182*	*65,684*	*126,412*	*65,286*	*115,485*	*59,643*
Post Office deposits	**135,968**	**151,759**	**164,557**	**176,198**	**182,598**	**200,016**	**103,300**	**209,040**	**107,960**	**230,183**	**118,879**
Lending by banks	**138,319**	**156,450**	**152,450**	**157,343**	**140,372**	**142,531**	**73,611**	**130,776**	**67,540**	**123,877**	**63,977**
of which:											
resident banks	*115,103*	*122,005*	*119,267*	*122,538*	*118,861*	*122,295*	*63,160*	*117,239*	*60,549*	*112,309*	*58,003*
non-resident banks	*23,216*	*34,445*	*33,183*	*34,805*	*21,511*	*20,236*	*10,451*	*13,537*	*6,991*	*11,568*	*5,975*
Other liabilities towards Bank of Italy	**2,902**	**2,893**	**2,842**	**2,794**	**2,927**	**2,894**	**1,495**	**171**	**89**	**68**	**35**
Other domestic debt	**3,632**	**3,844**	**3,995**	**4,133**	**4,490**	**5,610**	**2,897**	**9,369**	**4,839**	**13,486**	**6,965**
General government debt (2)	**2,055,935**	**2,212,746**	**2,333,964**	**2,388,743**	**2,417,374**	**2,458,276**	**1,269,594**	**2,493,127**	**1,287,593**	**2,576,605**	**1,330,705**
as a percentage of GDP	*124.3*	*123.8*	*122.7*	*120.2*	*116.4*	*114.5*		*110.5*		*109.4*	
held by:											
Bank of Italy	*203,541*	*204,061*	*171,018*	*154,834*	*123,326*	*115,007*	*59,396*	*120,991*	*62,486*	*124,537*	*64,318*
banks	*453,292*	*435,098*	*458,190*	*421,177*	*409,393*	*431,841*	*223,027*	*366,393*	*189,226*	*344,010*	*177,666*
other residents	*1,089,069*	*1,220,177*	*1,268,450*	*1,278,771*	*1,222,472*	*1,071,406*	*553,335*	*1,091,384*	*563,653*	*1,174,034*	*606,338*
non-residents	*310,033*	*353,410*	*436,305*	*533,961*	*662,183*	*840,022*	*433,835*	*914,359*	*472,227*	*934,024*	*482,383*
Memorandum item:											
debt issued abroad	96,106	119,473	126,752	143,064	130,442	136,959	70,733	163,382	84,380	182,106	94,050

(1) Rounding and euro/lira conversions may cause discrepancies. – (2) In accordance with the criteria laid down in Council Regulation (EC) No. 3605/93.

GENERAL GOVERNMENT DEBT: Table a18
BREAKDOWN BY INSTRUMENT AND SUBSECTOR (1)
(face value in billions of lire and millions of euros)

	1993	1994	1995	1996	1997	1998
	lire					
Medium and long-term securities	**1,118,627**	**1,363,792**	**1,487,329**	**1,626,823**	**1,746,749**	**1,820,830**
of which: in foreign currencies	101,496	123,366	130,910	126,468	132,693	126,509
in non-euro-area currencies	34,889	45,067	55,129	61,761	66,546	65,817
floating rate	502,397	540,721	517,514	548,144	557,411	517,895
issued abroad	64,633	72,890	85,028	93,569	108,259	108,931
Short-term securities	**400,005**	**411,322**	**410,471**	**383,297**	**301,526**	**266,157**
of which: in foreign currencies	7,443	–	–	–	–	–
in non-euro-area currencies	–	–	–	–	–	–
issued abroad	–	–	–	–	–	–
Post Office deposits	**114,230**	**135,968**	**151,759**	**164,557**	**176,198**	**182,598**
of which: Post Office savings certificates	72,162	87,053	97,771	110,504	117,687	122,707
memorandum item: redemption value	*117,867*	*136,556*	*152,083*	*172,844*	*187,004*	*203,098*
savings books	32,122	39,398	45,204	46,811	52,330	59,813
current accounts	9,946	9,517	8,784	7,243	6,181	78
Lending by banks	**130,704**	**138,319**	**156,450**	**152,450**	**157,343**	**140,372**
of which: in foreign currencies	21,192	20,908	30,009	25,568	25,226	12,577
in non-euro-area currencies	7,947	7,423	6,615	5,389	5,290	4,856
resident banks	109,777	115,103	122,005	119,267	122,538	118,861
non-resident banks	20,927	23,216	34,445	33,183	34,805	21,511
Other liabilities	**84,973**	**6,533**	**6,737**	**6,837**	**6,927**	**7,418**
of which: towards the Bank of Italy	81,374	2,902	2,893	2,842	2,794	2,927
GENERAL GOVERNMENT DEBT (2)	**1,848,539**	**2,055,935**	**2,212,746**	**2,333,964**	**2,388,743**	**2,417,374**
as a percentage of GDP	*118.2*	*124.3*	*123.8*	*122.7*	*120.2*	*116.4*
Central government debt	**1,791,592**	**2,012,293**	**2,168,631**	**2,290,391**	**2,338,560**	**2,365,557**
of which: securities	1,518,628	1,775,113	1,897,800	2,009,583	2,045,915	2,083,005
bank lending	74,240	95,093	112,710	109,746	109,796	92,764
other	198,724	142,086	158,121	171,062	182,850	189,788
Local authority debt	**55,806**	**43,255**	**43,513**	**43,000**	**49,620**	**51,425**
of which: securities	4	1	–	537	2,360	3,981
bank lending	55,323	42,839	43,139	42,130	46,985	47,216
other	479	415	374	332	275	228
Social security institution debt	**1,140**	**387**	**602**	**573**	**563**	**391**
Treasury assets held with the Bank of Italy	**32,507**	**65,754**	**74,184**	**56,459**	**58,997**	**43,168**
DEBT NET OF TREASURY ASSETS HELD WITH THE BANK OF ITALY	**1,816,032**	**1,990,181**	**2,138,562**	**2,277,504**	**2,329,746**	**2,374,206**
of which: debt in foreign currencies	130,131	144,274	160,919	152,035	157,919	139,085
debt in non-euro-area currencies	42,836	52,490	61,744	67,149	71,836	70,673
debt of other entities serviced by the government	42,703	43,024	44,827	44,557	38,488	27,402
Debt of other public sector bodies (3)	**1,948**	**2,658**	**2,526**	**2,017**	**2,202**	**2,002**
Public sector debt net of Treasury assets held with the Bank of Italy	**1,817,980**	**1,992,838**	**2,141,088**	**2,279,522**	**2,331,948**	**2,376,209**
Memorandum items:						
State sector debt net of Treasury assets held with the Bank of Italy	1,765,461	1,931,836	2,073,726	2,206,329	2,250,975	2,290,467
Bank deposits	25,751	25,110	26,292	29,127	28,189	29,484

(1) Rounding and euro/lira conversions may cause discrepancies. – (2) In accordance with the criteria laid down in Council Regulation (EC) No. 3605/93. – (3) Excluding debts serviced

1999		2000		2001		
lire	euros	lire	euros	lire	euros	
1,875,304	**968,514**	**1,946,127**	**1,005,091**	**1,989,090**	**1,027,279**	**Medium and long-term securities**
74,864	38,664	85,697	44,259	73,127	37,767	*of which:* in foreign currencies
74,864	38,664	85,697	44,259	73,127	37,767	. . . . in non-euro-area currencies
465,434	240,377	450,533	232,681	430,821	222,500	. . . . floating rate
116,010	59,914	149,589	77,256	169,890	87,741	. . . . issued abroad
231,921	**119,777**	**197,643**	**102,074**	**219,902**	**113,570**	**Short-term securities**
–	–	–	–	–	–	*of which:* in foreign currencies
–	–	–	–	–	–	. . . . in non-euro-area currencies
713	368	255	132	648	335	. . . . issued abroad
200,016	**103,300**	**209,040**	**107,960**	**230,183**	**118,879**	**Post Office deposits**
129,498	66,880	134,096	69,255	142,097	73,387	*of which:* Post Office savings certificates
218,963	*113,085*	*232,562*	*120,108*	*251,027*	*129,644*	. . . . *memorandum item:* redemption value
70,519	36,420	74,943	38,705	88,086	45,493	. . . . savings books
–	–	–	–	–	–	. . . . current accounts
142,531	**73,611**	**130,776**	**67,540**	**123,877**	**63,977**	**Lending by banks**
4,419	2,282	3,683	1,902	2,730	1,410	*of which:* in foreign currencies
4,419	2,282	3,683	1,902	2,730	1,410	. . . . in non-euro-area currencies
122,295	63,160	117,239	60,549	112,309	58,003	. . . . resident banks
20,236	10,451	13,537	6,991	11,568	5,975	. . . . non-resident banks
8,503	**4,392**	**9,541**	**4,927**	**13,553**	**7,000**	**Other liabilities**
2,894	1,495	171	89	68	35	*of which:* towards the Bank of Italy
2,458,276	**1,269,594**	**2,493,127**	**1,287,593**	**2,576,605**	**1,330,705**	**GENERAL GOVERNMENT DEBT** (2)
114.5		*110.5*		*109.4*		*as a percentage of GDP*
2,394,313	**1,236,560**	**2,417,179**	**1,248,369**	**2,497,201**	**1,289,697**	**Central government debt**
2,098,348	1,083,707	2,129,822	1,099,961	2,191,427	1,131,777	*of which:* securities
87,673	45,279	69,005	35,638	62,267	32,158	. . . . bank lending
208,292	107,574	218,352	112,770	243,508	125,761	. . . . other
63,701	**32,899**	**75,684**	**39,087**	**79,063**	**40,833**	**Local authority debt**
8,877	4,584	13,948	7,204	17,566	9,072	*of which:* securities
54,596	28,196	61,508	31,766	61,270	31,643	. . . . bank lending
228	118	228	118	228	118	. . . . other
262	**135**	**264**	**136**	**341**	**176**	**Social security institution debt**
56,443	**29,151**	**37,863**	**19,554**	**45,599**	**23,550**	**Treasury assets held with the Bank of Italy**
2,401,833	**1,240,443**	**2,455,264**	**1,268,038**	**2,531,006**	**1,307,155**	**DEBT NET OF TREASURY ASSETS HELD WITH THE BANK OF ITALY**
79,283	40,946	89,380	46,161	75,857	39,177	*of which:* debt in foreign currencies
79,283	40,946	89,380	46,161	75,857	39,177	. . . . debt in non-euro-area currencies
25,461	13,149	21,206	10,952	13,407	6,924	. . . . debt of other entities serviced by the government
2,163	**1,117**	**1,972**	**1,018**	**1,530**	**790**	**Debt of other public sector bodies** (3)
2,403,996	**1,241,560**	**2,457,236**	**1,269,056**	**2,532,536**	**1,307,946**	**Public sector debt net of Treasury assets held with the Bank of Italy**
						Memorandum items:
2,300,336	1,188,024	2,348,313	1,212,803	2,420,109	1,249,882	. . . . State sector debt net of Treasury assets held with the Bank of Italy
34,840	17,993	34,911	18,030	33,701	17,405	. . . . Bank deposits

by the government.

FORMATION OF THE GENERAL GOVERNMENT BORROWING REQUIREMENT (1)
(on a cash basis; billions of lire and millions of euros)

	1998	1999		2000		2001	
	lire		euros	lire	euros	lire	euros
State budget receipts	595,727	684,688	353,612	679,372	350,866	691,245	356,998
State budget payments	657,514	761,725	393,398	750,901	387,808	825,617	426,396
State budget balance (deficit: –)	–61,787	–77,037	–39,786	–71,529	–36,942	–134,373	–69,398
Other Treasury operations	10,687	72,153	37,264	33,418	17,259	58,787	30,361
Central government borrowing requirement	–51,100	–4,884	–2,522	–38,111	–19,683	–75,586	–39,037
Local government borrowing requirement after consolidation	–1,869	–11,753	–6,070	–11,924	–6,158	–3,338	–1,724
Borrowing requirement of social security institutions after consolidation	171	129	67	–1	–1	–77	–40
General government borrowing requirement	**–52,797**	**–16,508**	**–8,526**	**–50,036**	**–25,841**	**–79,001**	**–40,801**
as a percentage of GDP	*–2.5*	*–0.8*		*–2.2*		*–3.4*	
Settlements of past debts	–4,770	–12,118	–6,259	–8,904	–4,599	–19,925	–10,290
Privatization receipts	15,277	43,839	22,641	29,915	15,450	8,383	4,329
Borrowing requirement net of settlements of past debts and privatization receipts	**–63,305**	**–48,229**	**–24,908**	**–71,047**	**–36,693**	**–67,459**	**–34,840**
Direct taxes							
Personal income tax	200,221	222,014	114,661	220,676	113,970	231,118	119,362
Corporate income tax	42,185	57,622	29,759	55,420	28,622	62,895	32,483
Local income tax	6,368	709	366	320	165	372	192
Withholding tax on interest income and capital gains	19,811	22,335	11,535	35,678	18,426	29,375	15,171
Direct tax condonation schemes	696	90	46	20	10	13	7
Other	20,672	10,544	5,446	7,288	3,764	16,855	8,705
Total adjusted direct taxes (2)	**289,953**	**313,314**	**161,813**	**319,402**	**164,957**	**340,628**	**175,920**
Indirect taxes							
VAT	137,575	146,721	75,775	172,371	89,022	177,110	91,470
Other business taxes	36,583	31,878	16,464	29,125	15,042	28,101	14,513
Excise taxes on mineral oils	39,026	39,199	20,245	37,962	19,606	38,878	20,079
Other excise taxes	11,416	12,973	6,700	13,411	6,926	11,290	5,831
Taxes on tobacco products	11,735	12,389	6,398	14,245	7,357	14,145	7,305
Lotto and lotteries	13,191	22,657	11,701	17,207	8,887	14,952	7,722
Indirect tax condonation schemes	124	46	24	18	9	10	5
Other	1,424	1,310	677	1,297	670	1,227	634
Total adjusted indirect taxes (2)	**251,074**	**267,173**	**137,983**	**285,636**	**147,519**	**285,713**	**147,558**
Accounting items	–	21,729	11,222	6,054	3,127	14,085	7,274
Total budget receipts	**541,027**	**602,216**	**311,019**	**611,092**	**315,603**	**640,426**	**330,752**

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) Rounding and euro/lira conversions 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.

EURO-AREA BANKING SYSTEM'S LIQUIDITY POSITION: ITALIAN CONTRIBUTION
(maintenance period average amounts in millions of euros)

Maintenance period ending in:	Liquidity-providing factors					
			Monetary policy operations			
	Net assets in gold and foreign currency	Net claims on the Eurosystem	Main refinancing operations	Longer-term refinancing operations	Marginal lending facility	Other liquidity-providing operations
1999 – Dec.	43,126	1,837	21,586	1,726	2	6
2000 – 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.	50,958	5,751	17,330	833	. .	1
Apr.	51,942	5,512	15,738	814	91	1
May	52,554	–5,976	12,933	1,114	. .	1,219
June	52,670	–4,495	13,834	1,150	19	1
July	53,968	–281	13,214	805	37	4
Aug.	53,675	7,069	12,547	360	. .	2
Sept.	53,648	1,473	11,359	230	4	403
Oct.	51,710	–2,298	9,893	228	49	1
Nov.	51,568	–3,300	11,100	291	1	1
Dec.	51,193	7,937	10,087	270	14	1,057
2002 – Jan.	50,738	8,614	9,137	245	. .	353
Feb.	51,284	8,846	9,709	128	5	. .
Mar.	51,310	3,561	7,005	62	. .	. .

Maintenance period ending in:	Liquidity-absorbing factors					Credit institutions' current accounts with the central bank (c)	italian contribution to base money (a+b+c)
	Monetary policy operations						
	Other liquidity-absorbing operations	Deposit facility (a)	Currency in circulation (b)	Central government deposits	Other factors (net)		
1999 – Dec.	. .	45	68,285	27,888	–39,794	11,858	80,189
2000 – 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
Apr.	. .	11	71,759	32,602	–42,684	12,409	84,179
May	. .	21	72,165	20,960	–44,078	12,776	84,962
June	. .	6	71,999	21,765	–43,510	12,919	84,924
July	. .	6	72,307	24,193	–41,865	13,106	85,419
Aug.	. .	6	72,642	30,318	–42,547	13,234	85,882
Sept.	. .	10	70,100	25,436	–41,363	12,932	83,043
Oct.	. .	3	68,875	20,956	–42,869	12,619	81,497
Nov.	. .	3	67,304	19,555	–40,278	13,078	80,384
Dec.	. .	24	67,269	19,350	–29,198	13,113	80,405
2002 – Jan.	. .	30	80,101	17,420	–41,523	13,059	93,191
Feb.	. .	5	70,361	30,004	–44,345	13,947	84,313
Mar.	. .	15	57,243	32,317	–41,250	13,614	70,871

ITALIAN COMPONENTS OF THE MONETARY AGGREGATES OF THE EURO AREA: RESIDENTS OF THE AREA (1)

Table a21

(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
1999	71,961	389,876	461,837	65,747	128,860	656,444
2000	76,416	412,275	488,691	57,611	125,783	672,085
2001 – Jan. . . .	70,354	389,132	459,486	56,889	126,774	643,149
Feb. . . .	70,134	385,168	455,302	56,240	127,108	638,650
Mar. . . .	70,840	391,770	462,610	56,764	126,894	646,268
Apr. . . .	72,016	397,354	469,370	54,600	127,631	651,601
May . . .	71,439	403,462	474,901	56,277	126,945	658,123
June . . .	71,808	405,827	477,635	56,853	127,381	661,869
July . . .	72,314	403,797	476,111	54,880	127,651	658,642
Aug. . . .	69,942	392,514	462,456	55,369	128,571	646,396
Sept. . .	68,916	414,263	483,179	55,327	129,590	668,096
Oct. . . .	67,357	418,813	486,170	53,580	130,616	670,366
Nov. . . .	65,922	411,799	477,721	53,319	131,171	662,211
Dec. . . .	65,888	450,835	516,723	52,623	135,123	704,469
2002 – Jan. . . .	72,884	432,785	505,669	57,498	140,420	703,587
Feb. . . .	57,533	438,361	495,894	57,773	141,550	695,217
Mar. . . .	56,379	439,998	496,377	58,428	140,766	695,570

(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”.

Table a21

Repurchase agreements	Money-market fund share/units (3)	Debt securities up to 2 years and money-market paper (3)	Total monetary liabilities	Contribution to the monetary aggregates of the euro area (excluding currency held by the public)			
				M1	M2	M3	
50,754	13,058	10,682	730,938	389,876	584,483	658,199	 1999
68,303	10,039	11,553	761,980	412,275	595,669	685,148	 2000
75,203	10,392	11,587	740,331	389,132	572,795	669,744	. . . . Jan. – 2001
77,405	11,406	11,567	739,028	385,168	568,516	668,618	. . . . Feb.
81,622	12,613	11,334	751,837	391,770	575,428	680,582	. . . . Mar.
79,932	14,448	11,054	757,035	397,354	579,585	684,665	. . . . Apr.
87,344	14,991	10,991	771,449	403,462	586,684	669,500	. . . . May
82,567	15,763	10,584	770,783	405,827	590,061	698,625	. . . . June
84,899	16,791	10,966	771,298	403,797	586,328	698,541	. . . . July
90,837	17,892	11,111	766,236	392,514	576,454	695,807	. . . . Aug.
82,027	21,881	11,088	783,092	414,263	599,180	713,811	. . . . Sept.
83,692	23,500	10,997	788,555	418,813	603,009	720,842	. . . . Oct.
82,740	24,356	10,619	779,926	411,798	596,288	713,686	. . . . Nov.
76,213	26,103	10,496	817,281	450,835	638,581	751,015	. . . . Dec.
77,548	27,822	10,492	819,449	432,785	630,703	746,160	. . . . Jan. – 2002
82,222	29,110	10,626	817,175	438,361	637,684	758,939	. . . . Feb.
88,435	30,684	10,770	825,460	439,998	639,192	768,225	. . . . 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

ITALIAN COUNTERPARTS OF MONEY OF THE EURO AREA: RESIDENTS OF THE AREA Table a22

(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
1999	730,938	37,038	17,004	. .	222,413	113,616	353,033	142,522	64,700
2000	761,980	26,368	11,492	. .	246,821	122,581	380,894	158,559	61,644
2001 – Jan. . . .	740,331	42,472	10,476	1	249,583	125,247	385,307	161,664	60,722
Feb. . . .	739,028	47,248	9,934	. .	254,203	124,939	389,076	163,211	60,820
Mar. . . .	751,837	47,078	9,046	. .	258,424	125,907	393,377	177,149	60,456
Apr. . . .	757,035	41,296	8,467	. .	263,047	128,463	399,977	181,083	60,466
May . . .	771,449	37,027	7,650	. .	265,791	131,350	404,791	180,918	59,289
June . . .	770,783	53,710	7,302	. .	268,674	135,476	411,452	186,968	60,051
July . . .	771,298	47,181	6,762	. .	271,176	133,137	411,075	173,961	57,301
Aug. . . .	766,236	46,871	5,849	. .	273,780	132,126	411,755	168,314	55,875
Sept. . .	783,092	38,744	5,809	. .	275,463	131,650	412,922	170,264	56,716
Oct. . . .	788,555	38,869	5,635	. .	275,968	132,181	413,784	168,483	57,003
Nov. . . .	779,926	29,821	5,498	. .	278,355	132,575	416,428	169,735	57,255
Dec. . . .	817,281	30,968	6,407	. .	280,877	133,068	420,352	174,324	58,161
2002 – Jan. . . .	819,449	45,421	4,155	. .	283,367	137,042	424,564	167,247	58,027
Feb. . . .	817,175	49,349	4,106	. .	285,468	136,948	426,522	162,864	58,073
Mar. . . .	825,460	52,693	4,034	. .	288,467	136,436	428,937	165,043	58,557

(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					
238,551	303,251	774,106	10,495	33,806	818,407	1,121,658	109,395	32,478	 1999
213,837	275,481	877,123	13,527	42,926	933,576	1,209,057	116,031	2,713	 2000
216,965	277,687	875,855	13,534	42,974	932,363	1,210,050	115,309	4,415	.... Jan.– 2001
219,233	280,053	874,316	13,687	42,909	930,912	1,210,965	115,466	12,132	.... Feb.
219,580	280,036	889,627	13,709	44,682	948,018	1,228,054	127,235	14,152	.... Mar.
225,189	285,655	894,682	14,528	48,297	957,507	1,243,162	121,011	15,218	.... Apr.
223,667	282,956	887,619	16,119	49,171	952,909	1,235,865	121,678	36,642	.... May
224,967	285,018	903,315	16,057	49,472	968,844	1,253,862	123,103	45,948	.... June
221,331	278,632	910,615	16,316	47,609	974,540	1,253,172	118,689	31,654	.... July
219,413	275,288	902,872	16,521	46,312	965,705	1,240,993	114,272	37,911	.... Aug.
223,974	280,690	909,018	16,916	43,317	969,251	1,249,941	122,383	32,698	.... Sept.
226,062	283,065	914,235	16,386	44,878	975,499	1,258,564	119,239	31,888	.... Oct.
223,215	280,470	930,381	17,065	46,577	994,023	1,274,493	123,087	–1,670	.... Nov.
218,843	277,004	936,346	20,083	47,355	1,003,784	1,280,788	108,437	53,700	.... Dec.
223,915	281,942	935,466	19,355	47,731	1,002,552	1,284,494	104,266	67,921	.... Jan.– 2002
225,509	283,582	935,244	19,506	47,398	1,002,148	1,285,730	106,562	63,618	.... Feb.
232,971	291,528	939,623	20,092	50,236	1,009,951	1,301,478	110,950	59,704	.... 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”.

BANKS AND MONEY MARKET FUNDS RESIDENT IN ITALY: SUMMARY BALANCE SHEET DATA (1) Table a23
(end-of-period stocks)

	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 government	Other sectors	MFIs	General government	Other sectors		MFIs	General government	Other sectors
						(billions of lire)					
1997 – Dec. . .	10,846	310,104	124,085	1,244,415	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
2000 – ” . .	13,579	363,453	117,239	1,669,549	113,776	215	30,535	134,199	84,011	282,883	15,366
2001 – ” . .	16,820	397,082	112,309	1,786,355	96,706	239	26,664	126,040	82,268	288,792	26,156
						(millions of euros)					
1999 – ” . .	6,150	154,756	63,160	761,321	57,705	45	12,756	67,629	37,806	176,844	5,399
2000 – ” . .	7,013	187,708	60,549	862,250	58,760	111	15,770	69,308	43,388	146,097	7,936
2001 – Jan. . .	5,124	170,160	59,624	860,542	53,661	124	16,199	67,206	40,671	148,172	8,062
Feb. . .	5,348	161,974	59,709	859,900	53,045	124	15,316	68,917	40,220	149,330	7,961
Mar. . .	5,260	173,962	59,335	874,951	60,342	125	15,585	78,692	42,089	149,813	7,813
Apr. . .	5,999	172,409	59,340	881,074	57,415	124	14,522	72,557	40,146	152,974	8,243
May . .	5,609	184,235	58,149	873,099	62,599	125	15,449	70,976	39,621	151,816	9,556
June .	5,407	190,538	58,906	887,530	58,242	124	16,720	73,534	39,847	152,977	9,538
July . .	6,231	189,287	56,140	896,686	56,526	124	14,879	71,592	39,868	149,203	9,524
Aug. . .	5,737	185,695	54,702	890,320	58,217	123	13,515	68,489	39,607	147,799	9,757
Sept. .	5,654	187,910	55,547	896,353	58,972	123	13,624	75,665	40,133	153,612	9,866
Oct. . .	6,009	187,163	55,825	902,153	60,912	123	13,050	72,839	40,064	155,411	9,773
Nov. . .	6,428	202,464	57,098	917,127	52,318	123	13,254	76,603	41,323	152,927	10,327
Dec. . .	8,687	205,076	58,003	922,575	49,945	124	13,771	65,094	42,488	149,149	13,509
2002 – Jan. . .	20,214	182,749	57,869	922,274	52,519	124	13,192	60,914	41,780	156,823	12,520
Feb. . .	14,794	181,531	57,915	921,851	53,232	124	13,393	63,670	43,305	158,086	12,347
Mar. . .	9,705	195,219	58,399	925,028	56,219	124	14,595	67,652	44,717	164,851	12,443

(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 government	Other sectors		MFIs	Other sectors	MFIs	Other sectors					
(billions of lire)												
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	. . Dec. – 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
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	. . . . ” – 2000
7,820	9,045	12,158	25,725	83,176	59,081	12,550	20,124	12,498	93,709	341,299	3,636,615	. . . . ” – 2001
(millions of euros)												
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	. . . . ” – 1999
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	. . . . ” – 2000
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	. . Jan. – 2001
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	. . Feb.
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	. . Mar.
3,990	8,268	6,037	14,447	44,892	31,194	5,745	9,606	7,912	46,567	162,643	1,806,104	. . Apr.
4,386	8,002	6,316	14,541	42,673	32,603	5,990	9,534	8,566	46,834	163,904	1,814,584	. . May
4,271	8,130	6,272	14,276	40,148	32,645	6,035	9,921	8,207	47,070	165,815	1,836,151	. . June
4,352	7,646	6,545	13,982	41,073	29,832	5,961	10,796	8,046	47,075	153,652	1,819,021	. . July
4,310	6,801	6,518	13,733	41,498	28,733	5,953	10,927	8,592	47,246	143,831	1,792,105	. . Aug.
4,094	6,403	6,809	14,273	42,932	26,834	5,703	10,738	9,047	47,311	156,805	1,828,408	. . Sept.
4,287	5,743	6,370	14,885	42,935	27,941	6,208	10,878	7,339	47,884	160,436	1,838,227	. . Oct.
4,320	5,413	6,445	14,558	42,870	29,560	6,243	10,717	7,282	48,134	165,797	1,871,333	. . Nov.
4,039	4,671	6,279	13,286	42,957	30,513	6,481	10,393	6,454	48,397	176,266	1,878,155	. . Dec.
4,763	4,258	6,540	12,592	43,071	30,957	6,470	10,386	7,196	47,723	188,960	1,883,897	. . Jan. – 2002
4,776	4,365	6,864	12,591	42,798	30,843	6,206	10,305	7,038	47,771	170,548	1,864,354	. . Feb.
4,493	4,612	7,353	12,776	43,406	33,329	6,097	10,522	7,548	47,392	169,554	1,896,032	. . Mar.

and euro-area currencies prior to January 1999. Rounding may cause discrepancies in totals.

BANKS AND MONEY MARKET FUNDS RESIDENT IN ITALY: SUMMARY BALANCE SHEET DATA (1)Table a23 cont
(end-of-period stocks) **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
	(billions of lire)					
1997 – Dec. . .	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	15,339	1,114,360	191,020	74	11,876
2000 – ” . .	399,466	13,484	1,158,219	208,352	65	13,615
2001 – ” . .	373,572	13,969	1,232,738	212,160	564	10,697
	(millions of euros)					
1999 – ” . .	181,345	7,922	575,519	98,653	38	6,133
2000 – ” . .	206,307	6,964	598,170	107,605	34	7,032
2001 – Jan. . .	178,496	7,427	578,594	113,407	1,454	7,035
Feb. . .	173,194	6,984	575,914	117,850	41	6,788
Mar. . .	191,288	7,117	583,755	119,300	36	9,024
Apr. . .	177,681	7,237	587,768	124,712	87	5,906
May . .	194,392	7,103	601,017	116,814	180	6,747
June .	198,951	7,268	598,343	119,418	856	7,515
July . .	194,851	6,794	595,878	120,681	292	6,941
Aug. . .	193,141	7,045	591,304	121,302	818	6,720
Sept. .	190,580	6,783	602,121	120,673	1,129	9,193
Oct. . .	191,963	6,704	608,355	118,334	960	7,302
Nov. . .	200,154	6,681	601,448	119,567	714	5,794
Dec. . .	192,934	7,214	636,656	109,572	291	5,525
2002 – Jan. . .	181,823	7,456	619,412	118,392	925	8,978
Feb. . .	180,686	6,935	629,600	109,548	103	9,463
Mar. . .	196,211	7,156	636,801	113,440	162	9,873

(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	
		(billions of lire)				
255,776	7,143	396,409	195,959	680,760	3,110,851	. . . Dec. – 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
305,369	19,508	585,684	239,962	505,161	3,448,886	. . . . . " – 2000
331,337	50,661	648,016	258,750	504,151	3,636,615	. . . . . " – 2001
		(millions of euros)				
135,738	13,065	271,553	118,265	233,637	1,641,869	. . . . . " – 1999
157,710	10,075	302,481	123,930	260,894	1,781,201	. . . . . " – 2000
160,566	10,464	302,742	125,841	261,225	1,747,251	. . . Jan. – 2001
162,439	11,440	306,753	126,790	252,786	1,740,978	. . . Feb.
176,375	12,646	312,612	128,430	268,156	1,808,739	. . . Mar.
180,004	14,487	314,992	131,997	261,232	1,806,104	. . . Apr.
180,036	15,032	316,901	130,071	246,289	1,814,583	. . . May
184,805	15,806	319,911	131,745	251,532	1,836,150	. . . June
172,739	16,833	322,815	131,992	249,205	1,819,020	. . . July
167,260	17,936	325,303	132,554	228,722	1,792,105	. . . Aug.
168,638	21,921	327,488	132,584	247,298	1,828,408	. . . Sept.
165,644	23,540	327,829	133,015	254,579	1,838,227	. . . Oct.
167,261	24,413	331,111	133,072	281,119	1,871,333	. . . Nov.
171,121	26,164	334,672	133,633	260,372	1,878,155	. . . Dec.
165,597	27,891	336,453	136,123	280,848	1,883,898	. . . Jan. – 2002
161,776	29,174	340,214	136,181	260,674	1,864,354	. . . Feb.
163,338	30,752	344,768	136,712	256,820	1,896,032	. . . Mar.

and euro-area currencies prior to January 1999. Rounding may cause discrepancies in totals.

PROFIT AND LOSS ACCOUNTS OF RESIDENT ITALIAN BANKS BY CATEGORY OF BANK (1) Table a24

(billions of lire and 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 banks (2)												
1998 lire	2,943	87,353	17,905	9,128	12,554	29,044	788	9,322	24,895	15,969	726	50,590
1999 lire	833	73,401	12,803	6,416	10,134	15,618	570	6,942	21,125	13,267	2,166	48,231
euros ..	*430*	*37,909*	*6,612*	*3,314*	*5,234*	*8,066*	*295*	*3,585*	*10,910*	*6,852*	*1,119*	*24,909*
2000 lire	1,153	84,388	12,606	11,158	12,240	19,020	1,055	11,258	23,891	17,256	1,043	50,110
euros ..	*595*	*43,583*	*6,511*	*5,763*	*6,321*	*9,823*	*545*	*5,814*	*12,339*	*8,912*	*539*	*25,879*
2001 lire	1,305	94,184	11,633	13,856	10,353	20,465	844	13,660	24,911	17,663	–1,171	52,616
euros (3)	*674*	*48,642*	*6,008*	*7,156*	*5,347*	*10,570*	*536*	*7,055*	*12,866*	*9,122*	*–605*	*27,174*
Cooperative banks *(banche popolari)*												
1998 lire	480	13,492	3,079	1,756	814	5,381	29	1,123	2,430	1,210	–96	9,351
1999 lire	107	10,688	1,971	960	882	2,497	22	799	1,961	957	4	8,377
euros ..	*55*	*5,520*	*1,018*	*496*	*455*	*1,290*	*11*	*413*	*1,013*	*494*	*2*	*4,326*
2000 lire	185	14,700	2,411	1,166	1,077	3,575	88	1,204	2,724	1,544	–122	10,281
euros ..	*95*	*7,592*	*1,245*	*602*	*556*	*1,846*	*46*	*622*	*1,407*	*797*	*–63*	*5,310*
2001 lire	222	17,446	2,411	1,418	1,496	4,358	94	1,425	3,495	1,915	–350	11,356
euros (3)	*115*	*9,010*	*1,245*	*733*	*772*	*2,251*	*49*	*736*	*1,805*	*989*	*–181*	*5,865*
Mutual banks *(banche di credito cooperativo)*												
1998 lire	112	5,364	2,570	668	50	2,776	2	103	1,066	6	1	4,814
1999 lire	84	4,800	1,936	268	69	1,519	..	84	904	3	11	4,657
euros ..	*43*	*2,479*	*1,000*	*138*	*36*	*784*	..	*43*	*467*	*2*	*6*	*2,405*
2000 lire	93	5,773	1,804	298	88	1,731	..	123	1,014	4	8	5,192
euros ..	*48*	*2,982*	*932*	*154*	*45*	*894*	..	*64*	*523*	*2*	*4*	*2,682*
2001 lire	98	6,714	1,797	442	80	2,095	..	101	1,383	8	1	5,544
euros (3)	*51*	*3,468*	*928*	*228*	*41*	*1,082*	..	*52*	*714*	*4*	..	*2,863*
Branches of foreign banks												
1998 lire	47	2,163	2,996	1,901	2,057	420	182	2,684	..	4,720	–501	656
1999 lire	40	1,501	1,750	611	1,799	282	116	1,286	..	3,025	–451	542
euros ..	*21*	*775*	*904*	*316*	*929*	*146*	*60*	*664*	..	*1,562*	*–233*	*280*
2000 lire	48	2,198	2,031	1,157	2,046	454	777	1,544	..	3,728	50	1,027
euros ..	*25*	*1,135*	*1,049*	*597*	*1,056*	*234*	*401*	*797*	..	*1,925*	*26*	*531*
2001 lire	118	3,149	1,753	1,085	2,351	452	223	1,905	4	4,438	–476	956
euros (3)	*61*	*1,626*	*905*	*560*	*1,214*	*234*	*115*	*984*	*2*	*2,292*	*–246*	*494*
Total banks												
1998 lire	3,582	108,372	26,550	13,453	15,475	37,622	1,001	13,232	28,391	21,905	130	65,412
1999 lire	1,063	90,390	18,460	8,256	12,884	19,916	708	9,111	23,990	17,252	1,730	61,806
euros ..	*549*	*46,683*	*9,534*	*4,264*	*6,654*	*10,286*	*366*	*4,705*	*12,390*	*8,910*	*893*	*31,920*
2000 lire	1,479	107,060	18,852	13,778	15,450	24,779	1,921	14,129	27,629	22,530	980	66,611
euros ..	*764*	*55,292*	*9,736*	*7,116*	*7,979*	*12,797*	*992*	*7,297*	*14,269*	*11,636*	*506*	*34,402*
2001 lire	1,743	121,492	17,594	16,801	14,279	27,371	1,162	17,092	29,794	24,024	–1,996	70,471
euros (3)	*900*	*62,745*	*9,086*	*8,677*	*7,375*	*14,136*	*600*	*8,827*	*15,387*	*12,407*	*–1,031*	*36,395*

(1) Rounding may cause discrepancies in totals. – (2) Includes central credit institutions. – (3) Provisional.

Other net income (b)	of which: trading	of which: services	Gross income (c)= (a)+(b)	Operating expenses (d)	of which: banking staff costs	Operating income (e)=(c)–(d)	Value adjustments and re-adjustments and allocations to provisions (f)	of which: for loan losses	Taxes (g)	Net profit (e)–(f)–(g)	Total resources	Capital and reserves	Number of banking staff (average)
Limited company banks (2)													
34,094	7,310	15,328	84,685	51,202	31,415	33,482	12,017	11,699	10,518	10,947	2,369,011	160,446	267,384
41,483	4,155	18,706	89,714	53,381	31,622	36,333	10,346	11,847	10,326	15,661	2,513,851	172,905	267,379
21,424	*2,146*	*9,661*	*46,333*	*27,569*	*16,331*	*18,765*	*5,344*	*6,118*	*5,333*	*8,088*	*1,298,296*	*89,298*	
49,725	3,588	22,285	99,834	54,691	31,135	45,143	8,539	9,489	13,914	22,691	2,687,752	188,810	260,813
25,681	*1,853*	*11,509*	*51,560*	*28,245*	*16,080*	*23,315*	*4,410*	*4,901*	*7,186*	*11,719*	*1,388,108*	*97,512*	
53,482	4,126	19,430	106,098	56,790	31,152	49,308	20,222	10,789	11,770	17,316	2,838,742	195,899	261,502
27,621	*2,131*	*10,035*	*54,795*	*29,330*	*16,088*	*25,465*	*10,444*	*5,572*	*6,079*	*8,943*	*1,466,088*	101,173	
Cooperative banks *(banche popolari)*													
6,376	1,602	2,957	15,727	9,251	5,470	6,476	2,550	1,557	1,951	1,975	368,142	27,506	50,240
5,961	755	3,236	14,338	8,904	5,184	5,434	1,984	1,431	1,523	1,927	361,568	28,867	47,384
3,079	*390*	*1,671*	*7,405*	*4,599*	*2,677*	*2,806*	*1,025*	*739*	*787*	*995*	*186,734*	*14,909*	
7,759	822	4,133	18,040	10,389	5,907	7,651	3,060	2,027	1,950	2,641	432,867	33,329	52,865
4,007	*425*	*2,134*	*9,317*	*5,366*	*3,051*	*3,951*	*1,580*	*1,047*	*1,007*	*1,364*	*223,557*	*17,213*	
7,941	581	3,562	19,297	11,066	6,173	8,230	3,441	2,048	2,004	2,785	483,264	36,153	53,837
4,101	*300*	*1,839*	*9,966*	*5,715*	*3,188*	*4,251*	*1,777*	*1,058*	*1,035*	*1,438*	*249,585*	*18,671*	
Mutual banks *(banche di credito cooperativo)*													
1,796	811	468	6,610	4,237	2,241	2,372	539	483	375	1,459	135,989	15,473	20,996
1,603	384	634	6,260	4,326	2,276	1,934	663	388	286	985	144,552	16,896	21,721
828	*198*	*327*	*3,233*	*2,234*	*1,175*	*999*	*342*	*200*	*148*	*509*	*74,655*	*8,726*	
1,633	145	830	6,826	4,466	2,358	2,360	652	456	321	1,387	152,487	18,020	22,343
843	*75*	*429*	*3,525*	*2,306*	*1,218*	*1,219*	*337*	*235*	*166*	*716*	*78,753*	*9,306*	
1,555	163	671	7,099	4,729	2,476	2,370	840	448	291	1,239	167,271	19,228	23,135
803	*84*	*347*	*3,666*	*2,442*	*1,279*	*1,224*	*434*	*231*	*150*	*640*	*86,388*	*9,931*	
Branches of foreign banks													
349	55	102	1,005	1,025	538	–20	–520	99	201	299	169,533	1,453	2,806
1,457	445	603	1,999	1,367	618	632	–451	108	430	652	140,456	1,553	2,826
753	*230*	*311*	*1,032*	*706*	*319*	*327*	*–233*	*56*	*222*	*337*	*72,539*	*802*	
1,749	405	883	2,777	1,625	682	1,152	138	193	464	550	156,719	1,769	3,047
903	*209*	*456*	*1,434*	*839*	*352*	*595*	*71*	*99*	*240*	*284*	*80,938*	*914*	
1,285	–146	1,045	2,240	1,709	827	531	–316	224	319	527	166,708	2,080	3,509
663	*–75*	*540*	*1,157*	*883*	*427*	*274*	*–163*	*116*	*165*	*272*	*86,097*	*1,074*	
Total banks													
42,615	9,778	18,853	108,027	65,715	39,664	42,311	14,587	13,839	13,045	14,680	3,042,674	204,878	341,425
50,505	5,739	23,179	112,311	67,978	39,699	44,333	12,543	13,774	12,566	19,225	3,160,428	220,221	339,310
26,084	*2,964*	*11,971*	*58,004*	*35,108*	*20,503*	*22,896*	*6,478*	*7,114*	*6,490*	*9,929*	*1,632,225*	*113,735*	
60,866	4,960	28,131	127,477	71,171	40,083	56,305	12,388	12,164	16,649	27,268	3,429,825	241,928	339,067
31,435	*2,562*	*14,528*	*65,836*	*36,757*	*20,701*	*29,079*	*6,398*	*6,282*	*8,599*	*14,083*	*1,771,357*	*124,945*	
64,262	4,724	24,708	134,733	74,294	40,628	60,439	24,187	13,509	14,384	21,868	3,655,985	253,360	341,982
33,189	*2,440*	*12,761*	*69,584*	*38,370*	*20,983*	*31,214*	*12,492*	*6,977*	*7,429*	*11,294*	*1,888,159*	*130,849*	

ITALIAN FINANCIAL MARKET: GROSS AND NET ISSUES OF SECURITIES

Table a25

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

	Bonds and government							
	Public sector							
	Government securities							
	BOTs	CTZs	CCTs (1)	BTPs (1)	CTEs	Republic of Italy issues	Other (2)	Total
	Gross issues							
1996 lire	665,024	59,924	105,945	148,917	3,913	17,982	10,394	1,012,098
1997 lire	506,000	105,904	64,404	190,595	–	12,481	169	879,553
1998 lire	425,768	97,778	42,501	261,441	–	17,949	39	845,476
1999 lire	373,493	95,069	39,823	275,239	–	19,731	–	803,355
euros ..	*192,893*	*49,099*	*20,567*	*142,149*	–	*10,190*	–	*414,898*
2000 lire	318,807	64,511	38,474	206,672	–	37,070	2,260	667,792
euros ..	*164,650*	*33,317*	*19,870*	*106,737*	–	*19,145*	*1,167*	*344,886*
2001 lire	365,330	68,792	54,855	232,215	–	43,622	105	764,918
euros ..	*188,677*	*35,528*	*28,330*	*119,929*	–	*22,529*	*54*	*395,047*
	Redemptions							
1996 lire	692,476	–	76,258	92,256	8,600	3,315	20,181	893,085
1997 lire	588,310	54,276	56,214	120,963	4,354	6,101	19,921	850,139
1998 lire	461,250	84,576	84,973	119,921	12,448	12,391	25,680	801,240
1999 lire	408,599	107,300	92,850	127,323	18,879	27,499	8,192	790,643
euros ..	*211,024*	*55,416*	*47,953*	*65,757*	*9,750*	*14,202*	*4,231*	*408,333*
2000 lire	352,788	103,399	53,912	112,141	3,377	13,403	–1	639,019
euros ..	*182,200*	*53,401*	*27,843*	*57,916*	*1,744*	*6,922*	*–1*	*330,026*
2001 lire	342,642	95,588	74,270	161,315	2,904	27,179	–2	703,896
euros ..	*176,960*	*49,367*	*38,357*	*83,312*	*1,500*	*14,037*	*–1*	*363,532*
	Issue discounts							
1996 lire	–	8,409	–773	–990	48	–27	–	6,667
1997 lire	–	10,146	209	1,043	–	–99	–	11,299
1998 lire	–	6,605	–374	–7,823	–	72	–	–1,520
1999 lire	–	4,864	–304	1,057	–	–39	–	5,578
euros ..	–	*2,512*	*–157*	*546*	–	*–20*	–	*2,881*
2000 lire	–	4,606	–218	2,314	–	29	–	6,731
euros ..	–	*2,379*	*–113*	*1,195*	–	*15*	–	*3,476*
2001 lire	–	5,106	–416	–3,173	–	43	–	1,559
euros ..	–	*2,637*	*–215*	*–1,639*	–	*22*	–	*805*
	Net issues (6)							
1996 lire	–27,452	51,514	30,459	57,652	–4,734	14,480	–9,784	112,135
1997 lire	–82,311	41,485	7,982	68,590	–4,354	6,291	–19,755	17,928
1998 lire	–35,482	6,598	–42,096	149,343	–12,448	2,472	–25,643	42,743
1999 lire	–35,107	–17,097	–52,723	146,858	–18,879	–7,600	–8,192	7,261
euros ..	*–18,131*	*–8,830*	*–27,229*	*75,846*	*9,750*	*–3,925*	*–4,231*	*3,750*
2000 lire	–33,982	–43,492	–15,219	92,217	–3,377	26,728	2,261	25,135
euros ..	*–17,550*	*–22,462*	*–7,860*	*47,626*	*–1,744*	*13,804*	*1,168*	*12,981*
2001 lire	22,687	–31,902	–18,999	74,074	–2,904	17,522	104	60,582
euros ..	*11,717*	*–16,476*	*–9,812*	*38,256*	*–1,500*	*9,049*	*54*	*31,288*
	Coupons (7)							
1996 lire	31,079	–	60,398	67,582	3,817	4,097	8,352	175,325
1997 lire	18,669	10,472	48,548	70,583	3,123	4,943	6,018	162,356
1998 lire	11,740	10,374	37,111	72,734	2,689	5,209	2,982	142,839
1999 lire	7,266	10,188	22,010	72,358	1,755	5,685	1,594	120,855
euros ..	*3,752*	*5,262*	*11,367*	*37,370*	*906*	*2,936*	*823*	*62,417*
2000 lire	9,398	6,377	19,702	72,668	456	6,550	–	115,152
euros ..	*4,854*	*3,293*	*10,175*	*37,530*	*236*	*3,383*	–	*59,471*
2001 lire	9,326	6,023	25,030	74,397	184	7,945	–	122,905
euros ..	*4,817*	*3,111*	*12,927*	*38,423*	*95*	*4,103*	–	*63,475*

(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. – the public sector differs from the sum of the individual components by the amount of the bonds issued by Crediop on behalf of the Treasury. – (4) The values refer to the accounting lags. – (7) The figures refer only to fixed rate securities, except for CCTs.

Table a25

securities									
			Firms and international institutions				Total bonds and government securities	Listed shares (5)	
Autonomous government agencies and State Railways	Local governments	Total (3)	Banks	Private firms	International institutions (4)	Total			
			Gross issues						
4,000	239	1,016,338	97,075	1,423	4,500	102,998	1,119,336	5,791	. . . . . lire 1996
–	774	880,327	148,240	1,546	7,861	157,647	1,037,975	7,145	. . . . . lire 1997
–	1,095	846,572	135,981	1,115	28,208	165,303	1,011,875	13,648	. . . . . lire 1998
–	4,761	808,116	157,707	23,055	46,608	227,370	1,035,487	43,649	. . . . . lire 1999
–	*2,459*	*417,357*	*81,449*	*11,907*	*24,071*	*117,427*	*534,784*	*22,543*	. . . . . *euros*
–	5,712	673,504	168,291	38,671	5,809	212,771	886,276	17,714	. . . . . lire 2000
–	*2,950*	*347,836*	*86,915*	*19,972*	*3,000*	*109,887*	*457,723*	*9,148*	. . . . . *euros*
–	4,648	769,565	185,450	98,850	9,681	293,982	1,063,548	11,948	. . . . . lire 2001
–	*2,401*	*397,447*	*95,777*	*51,052*	*5,000*	*151,829*	*549,277*	*6,171*	. . . . . *euros*
			Redemptions						
1,000	–	894,125	32,148	1,267	280	33,695	927,820	–	. . . . . lire 1996
–	16	850,164	50,710	3,021	650	54,380	904,544	–	. . . . . lire 1997
5,000	72	806,311	77,652	1,374	500	79,526	885,838	–	. . . . . lire 1998
1,000	306	791,962	117,973	8,980	1,150	128,102	920,064	–	. . . . . lire 1999
516	*158*	*409,014*	*60,928*	*4,638*	*594*	*66,159*	*475,173*	–	. . . . . *euros*
2,250	542	641,812	108,407	7,581	500	116,488	758,299	–	. . . . . lire 2000
1,162	*280*	*331,468*	*55,987*	*3,915*	*258*	*60,161*	*391,629*	–	. . . . . *euros*
3,750	638	708,286	123,120	5,650	700	129,470	837,753	–	. . . . . lire 2001
1,937	*330*	*365,799*	*63,586*	*2,918*	*362*	*66,866*	*432,663*	–	. . . . . *euros*
			Issue discounts						
–	. . . .	6,667	211	–	1,201	1,412	8,079	–	. . . . . lire 1996
–	. . . .	11,299	302	–	1,493	1,795	13,095	–	. . . . . lire 1997
–	. . . .	–1,520	600	–	427	1,027	–493	–	. . . . . lire 1998
–	. . . .	5,578	618	6	190	813	6,392	–	. . . . . lire 1999
–	. . . .	*2,881*	*319*	*3*	*98*	*420*	*3,301*	–	. . . . . *euros*
–	. . . .	6,731	662	6	35	703	7,433	–	. . . . . lire 2000
–	. . . .	*3,476*	*342*	*3*	*18*	*363*	*3,839*	–	. . . . . *euros*
–	. . . .	1,559	691	12	77	780	2,339	–	. . . . . lire 2001
–	. . . .	*805*	*357*	*6*	*40*	*403*	*1,208*	–	. . . . . *euros*
			Net issues (6)						
3,000	239	115,334	64,715	156	1,817	66,689	182,023	5,791	. . . . . lire 1996
–	758	18,678	97,228	–1,475	5,718	101,472	120,150	7,145	. . . . . lire 1997
–5,000	1,023	38,766	57,728	–259	26,881	84,350	123,116	13,648	. . . . . lire 1998
–1,000	4,454	10,704	39,118	14,051	45,268	98,436	109,141	43,649	. . . . . lire 1999
–516	*2,301*	*5,528*	*20,203*	*7,257*	*23,379*	*50,838*	*56,366*	*22,543*	. . . . . *euros*
–2,250	5,170	28,051	59,222	29,793	5,275	94,291	122,342	17,714	. . . . . lire 2000
–1,162	*2,669*	*14,487*	*30,585*	*15,387*	*2,724*	*48,697*	*63,184*	*9,148*	. . . . . *euros*
–3,750	4,010	60,843	61,640	91,855	8,904	162,397	223,240	11,948	. . . . . lire 2001
–1,937	*2,071*	*31,423*	*31,834*	*47,439*	*4,598*	*83,871*	*115,294*	*6,171*	. . . . . *euros*
			Coupons (7)						
1,129	23	176,483	23,430	. . . .	144	23,575	200,058	9,786	. . . . . lire 1996
875	68	163,304	26,137	. . . .	260	26,398	189,702	12,112	. . . . . lire 1997
521	116	143,480	26,844	. . . .	297	27,141	170,621	13,061	. . . . . lire 1998
376	244	121,475	22,528	. . . .	1,102	23,630	145,106	19,254	. . . . . lire 1999
194	*126*	*62,737*	*11,635*	. . . .	*569*	*12,204*	*74,941*	*9,944*	. . . . . *euros*
372	480	116,004	24,805	. . . .	3,648	28,453	144,456	31,005	. . . . . lire 2000
192	*248*	*59,911*	*12,811*	. . . .	*1,884*	*14,695*	*74,605*	*16,013*	. . . . . *euros*
242	844	123,992	25,702	. . . .	3,956	29,658	153,649	30,549	. . . . . lire 2001
125	*436*	*64,036*	*13,274*	. . . .	*2,043*	*15,317*	*79,353*	*15,777*	. . . . . *euros*

(2) Includes the 76,206 billion lire of securities issued in November 1994 to consolidate the Treasury's overdraft on its current account with the Bank of Italy. – (3) The total for securities issued by international institutions listed on Borsa Italiana's MOT market and on the MTS market. – (5) Issues for cash. – (6) The net issues of Republic of Italy loans include

INTEREST RATES ON SECURITIES
(average values before tax)

	CCTs	CTEs	CTOs	BTPs	CTZs
1992	14.98	10.20	13.20	13.59	–
1993	11.77	7.81	11.12	11.32	–
1994	9.97	7.64	10.53	10.68	–
1995	11.60	8.82	11.64	11.94	11.40
1996	9.01	6.33	8.77	9.06	8.49
1997	6.81	5.42	7.17	6.76	6.45
1998	4.89	4.87	7.01	4.92	4.58
1999	3.13	4.35	–	4.71	3.21
2000	4.58	5.94	–	5.59	4.70
1991	4.34	6.02	–	5.17	4.04
2000 – Jan.	3.66	5.45	–	5.62	3.95
Feb.	3.78	5.59	–	5.60	4.09
Mar.	3.98	5.75	–	5.49	4.23
Apr.	4.21	5.79	–	5.43	4.30
May	4.43	6.07	–	5.67	4.74
June	4.76	6.09	–	5.58	4.86
July	4.26	6.33	–	5.65	4.99
Aug.	5.06	5.72	–	5.63	5.12
Sept.	5.21	6.43	–	5.71	5.12
Oct.	5.17	5.92	–	5.68	5.12
Nov.	5.29	6.02	–	5.65	5.09
Dec.	5.18	6.15	–	5.41	4.77
2001 – Jan.	4.95	5.82	–	5.27	4.49
Feb.	4.82	6.38	–	5.27	4.51
Mar.	4.88	6.07	–	5.21	4.39
Apr.	4.56	5.21	–	5.29	4.38
May	4.81	5.69	–	5.43	4.45
June	4.62	6.95	–	5.37	4.27
July	4.42	–	–	5.36	4.28
Aug.	4.43	–	–	5.19	4.06
Sept.	4.24	–	–	5.14	3.72
Oct.	3.58	–	–	4.89	3.36
Nov.	3.48	–	–	4.72	3.22
Dec.	3.35	–	–	4.91	3.36
2002 – Jan.	3.30	–	–	5.01	3.54
Feb.	3.48	–	–	5.12	3.67
Mar.	3.47	–	–	5.30	3.90
Apr.	3.58	–	–	5.32	3.94

INTEREST RATES ON SECURITIES
(average values before tax)

	Straight bonds			
	Banks	Enterprises	International institutions	Total (1)
1992	13.37	12.73	11.66	12.63
1993	11.28	10.90	10.02	11.09
1994	10.14	10.55	9.83	10.15
1995	11.58	11.35	11.00	11.45
1996	9.20	9.08	9.46	9.09
1997	7.41	7.07	7.17	7.14
1998	5.45	5.71	5.87	5.55
1999	4.80	5.49	6.32	5.19
2000	5.80	6.61	7.83	6.27
1991	5.13	6.12	–	5.31
2000 – Jan.	5.60	6.42	7.90	6.13
Feb.	5.69	6.39	7.82	6.17
Mar.	5.66	6.32	7.71	6.12
Apr.	5.57	6.33	7.71	6.05
May	5.87	6.57	8.00	6.33
June	5.83	6.59	7.99	6.31
July	5.86	6.75	8.03	6.37
Aug.	5.91	6.78	8.09	6.42
Sept.	6.00	6.85	8.08	6.49
Oct.	5.98	6.88	8.02	6.43
Nov.	5.93	6.80	7.98	6.37
Dec.	5.67	6.69	6.63	6.04
2001 – Jan.	5.37	6.56	–	5.62
Feb.	5.30	6.48	–	5.54
Mar.	5.28	6.38	–	5.49
Apr.	5.21	6.36	–	5.44
May	5.35	6.36	–	5.54
June	5.31	6.25	–	5.47
July	5.27	6.22	–	5.44
Aug.	5.11	6.08	–	5.28
Sept.	5.04	5.90	–	5.17
Oct.	4.84	5.68	–	4.95
Nov.	4.66	5.56	–	4.79
Dec.	4.90	5.65	–	5.00
2002 – Jan.	4.92	5.60	–	5.01
Feb.	5.06	5.58	–	5.10
Mar.	5.18	5.64	–	5.23
Apr.	5.20	5.53	–	5.21

(1) Until September 1995 includes the bonds issued by autonomous government agencies and public enterprises.

ITALY’S FINANCIAL ASSETS AND LIABILITIES IN 2001 (1) Table a27

(stocks in millions of euros)

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	**–**	**–**	**25,167**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency and transferable deposits, with	**105,625**	**–**	**92,275**	**693,917**	**24,800**	**–**	**15,867**	**–**	**11,555**	**–**
MFIs	105,625	–	70,968	693,917	24,800	–	15,867	–	7,968	–
central government	. .	–	660	–	–	–	–	–	–	–
rest of the world	. .	–	20,647	–	. .	–	. .	–	3,587	–
Other deposits, with	**9,224**	**–**	**186,596**	**418,881**	**17,132**	**–**	**1,453**	**–**	**1,185**	**–**
MFIs	8,208	–	136,955	418,881	17,132	–	1,453	–	1,121	–
central government	1,015	–	–	–	–	–	–	–	–	–
rest of the world	. .	–	49,642	–	. .	–	. .	–	65	–
Short-term securities, issued by	**2,175**	**2,889**	**29,101**	**4**	**12,165**	**50**	**9**	**–**	**1,928**	**–**
general government	185	–	21,291	–	7,267	–	9	–	1,207	–
other residents	2	2,889	2,678	4	65	50	–	–	–	–
rest of the world	1,988	–	5,132	–	4,833	–	–	–	721	–
Bonds, issued by	**52,067**	**27,304**	**270,614**	**272,991**	**306,681**	**53,863**	**9,294**	**–**	**161,818**	**3,894**
MFIs	8,126	–	37,605	272,991	10,869	–	2,587	–	18,307	–
central government: CCTs	10,178	–	73,591	–	33,923	–	3,633	–	21,163	–
central government: other	6,536	–	123,801	–	98,387	–	1,350	–	91,444	–
local government	981	–	2,840	–	1,007	–	460	–	727	–
other residents	6,403	27,304	626	–	22,431	53,863	1,264	–	2,235	3,894
rest of the world	19,843	–	32,152	–	140,063	–	–	–	27,942	–
Derivatives	**4,924**	**10,116**	**67,136**	**48,881**	**2,177**	**1,694**	**–**	**–**	**4,477**	**3,678**
Short-term loans, of	**41,279**	**399,313**	**573,017**	**94,015**	**63,747**	**146,176**	**–**	**2,241**	**–**	**746**
non-financial corporations	41,279	–	–	–	–	–	–	–	–	–
MFIs	–	292,227	573,017	22,854	–	114,997	–	2,241	–	746
other financial corporations	–	26,965	–	979	63,747	–	–	–	–	. .
general government	–	–	–	–	–	–	–	–	–	–
rest of the world	–	80,121	–	70,183	–	31,178	–	–	–	–
Medium and long-term loans, of	**–**	**288,445**	**525,617**	**54,640**	**65,886**	**29,032**	**. .**	**1,649**	**995**	**5,716**
non-financial corporations	–	–	–	–	–	–	–	–	–	–
MFIs	–	221,278	525,617	7,519	–	27,341	–	360	–	3,000
other financial corporations	–	41,112	–	618	65,886	–	. .	–	995	54
general government	–	20,606	–	2,457	–	–	–	1,288	–	1,193
rest of the world	–	5,449	–	44,047	–	1,691	–	–	–	1,469
Shares and other equity, issued by	**830,823**	**1,176,761**	**112,968**	**251,554**	**292,397**	**29,870**	**. .**	**2,275**	**96,936**	**99,868**
residents	694,307	1,176,761	92,163	251,554	56,873	29,870	. .	2,275	67,019	99,868
of which: listed shares	*274,230*	*387,060*	*30,448*	*129,469*	*49,166*	*738*	–	–	*18,090*	*75,052*
rest of the world	136,516	–	20,804	–	235,523	–	–	–	29,917	–
Mutual fund shares, issued by	**15,102**	**–**	**5,992**	**26,164**	**20,299**	**377,525**	**451**	**–**	**31,246**	**–**
residents	5,013	–	2,958	26,164	–	377,525	451	–	29,606	–
rest of the world	10,089	–	3,034	–	20,299	–	–	–	1,640	–
Insurance technical reserves	**17,185**	**79,723**	**971**	**17,366**	**–**	**–**	**–**	**–**	**–**	**270,557**
net equity of households	–	79,723	–	17,366	–	–	–	–	–	217,328
prepayments and other claims	17,185	–	971	–	–	–	–	–	–	53,230
Other accounts receivable/payable	**309,395**	**276,504**	**1,454**	**617**	**2,778**	**. .**	**–**	**–**	**30**	**827**
Trade credits	286,370	260,597	–	–	–	–	–	–	–	–
Other	23,025	15,906	1,454	617	2,778	. .	–	–	30	827
Total	**1,387,801**	**2,261,054**	**1,890,909**	**1,879,030**	**808,061**	**638,209**	**27,075**	**6,165**	**310,170**	**385,287**

(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
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25,167**	**25,167**	**25,167**	**Monetary gold and SDRs**
25,520	**14,784**	**22,150**	**–**	**7,016**	**–**	**408,233**	**–**	**26,256**	**30,597**	**739,298**	**739,298**	**Currency and transferable deposits**, with
25,051	–	8,632	–	6,371	–	402,379	–	26,256	–	693,917	693,917	MFIs
–	14,784	12,911	–	. .	–	1,213	–	–	–	14,784	14,784	central government
469	–	606	–	645	–	4,642	–	–	30,597	30,597	30,597	rest of the world
902	**173,600**	**1,842**	**–**	**669**	**–**	**274,067**	**–**	**149,469**	**50,058**	**642,539**	**642,539**	**Other deposits**, with
899	–	1,732	–	668	–	101,244	–	149,469	–	418,881	418,881	MFIs
–	173,600	–	–	–	–	172,585	–	–	–	173,600	173,600	central government
3	–	110	–	1	–	238	–	–	50,058	50,058	50,058	rest of the world
77	**112,532**	**15**	**. .**	**191**	**–**	**23,180**	**–**	**60,196**	**13,564**	**129,038**	**129,038**	**Short-term securities**, issued by
77	112,532	15	. .	191	–	22,094	–	60,196	–	112,532	112,532	general government
–	–	–	–	–	–	198	–	–	–	2,942	2,942	other residents
–	–	–	–	–	–	889	–	–	13,564	13,564	13,564	rest of the world
7,521	**1,078,356**	**4,095**	**9,446**	**8,632**	**–**	**506,916**	**–**	**433,218**	**315,002**	**1,760,857**	**1,760,857**	**Bonds**, issued by
1,328	–	504	–	942	–	190,486	–	2,238	–	272,991	272,991	MFIs
230	238,397	464	–	3,487	–	74,772	–	16,957	–	238,397	238,397	central government: CCTs
5,897	839,959	250	–	2,548	–	116,446	–	393,300	–	839,959	839,959	central government: other
50	–	499	9,446	. .	–	764	–	2,118	–	9,446	9,446	local government
17	–	490	–	113	–	32,877	–	18,606	–	85,061	85,061	other residents
–	–	1,888	–	1,543	–	91,572	–	–	315,002	315,002	315,002	rest of the world
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**25,920**	**40,264**	**104,634**	**104,634**	**Derivatives**
5,755	**1,781**	**–**	**4,195**	**–**	**1,021**	**–**	**55,618**	**181,481**	**160,175**	**865,280**	**865,280**	**Short-term loans**, of
–	–	–	–	–	–	–	–	–	41,279	41,279	41,279	non-financial corporations
–	1,781	–	4,137	–	95	–	54,958	–	78,982	573,017	573,017	MFIs
–	–	–	58	–	–	–	660	–	35,085	63,747	63,747	other financial corporations
5,755	–	–	–	–	926	–	–	–	4,829	5,755	5,755	general government
–	–	–	–	–	–	–	–	181,481	–	181,481	181,481	rest of the world
117,880	**34,015**	**–**	**104,917**	**–**	**80**	**–**	**222,962**	**62,090**	**31,011**	**772,467**	**772,467**	**Medium and long-term loans**, of
–	–	–	–	–	–	–	–	–	–	–	–	non-financial corporations
–	25,363	–	26,526	–	80	–	202,821	–	11,327	525,617	525,617	MFIs
–	. .	–	285	–	–	–	20,123	–	4,690	66,881	66,881	other financial corporations
117,880	. .	–	77,324	–	–	–	18	–	14,994	117,880	117,880	general government
–	8,652	–	782	–	–	–	–	62,090	–	62,090	62,090	rest of the world
84,137	**–**	**5,685**	**95**	**906**	**–**	**476,737**	**–**	**182,852**	**523,018**	**2,083,440**	**2,083,440**	**Shares and other equity**, issued by
79,538	–	4,497	95	447	–	382,725	–	182,852	–	1,560,422	1,560,422	residents
48,788	–	*1,804*	–	*212*	–	*84,498*	–	*85,084*	–	*592,319*	*592,319*	*of which: listed shares*
4,599	–	1,188	–	458	–	94,012	–	–	523,018	523,018	523,018	rest of the world
129	**–**	**6,327**	**–**	**1,044**	**–**	**401,969**	**–**	**4,115**	**82,985**	**486,674**	**486,674**	**Mutual fund shares**, issued by
51	–	48	–	969	–	360,477	–	4,115	–	403,689	403,689	residents
77	–	6,279	–	75	–	41,492	–	–	82,985	82,985	82,985	rest of the world
114	**–**	**884**	**–**	**26**	**–**	**364,540**	**23,918**	**7,843**	**–**	**391,563**	**391,563**	**Insurance technical reserves**
–	–	–	–	–	–	338,334	23,918	–	–	338,334	338,334	net equity of households
114	–	884	–	26	–	26,207	–	7,843	–	53,230	53,230	prepayments and other claims
46,945	**22,832**	**25,753**	**18,462**	**22,935**	**2,132**	**15,370**	**73,098**	**39,768**	**69,958**	**464,428**	**464,428**	**Other accounts receivable/payable**
–	–	–	–	–	–	4,417	–	39,768	69,958	330,555	330,555	Trade credits
46,945	22,832	25,753	18,462	22,935	2,132	10,953	73,098	–	–	133,873	133,873	Other
288,980	**1,437,901**	**66,750**	**137,114**	**41,420**	**3,233**	**2,471,012**	**375,595**	**1,173,209**	**1,341,798**	**8,465,386**	**8,465,386**	**Total**

ITALY'S FINANCIAL ASSETS AND LIABILITIES IN 2001 (1) Table a28

(flows in millions of euros)

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	**–**	**–**	**78**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Currency and transferable deposits, with	**8,765**	**–**	**4,133**	**10,936**	**6,085**	**–**	**–4,726**	**–**	**3,156**	**–**
MFIs	8,916	–	–4,576	10,936	6,085	–	–4,726	–	1,790	–
central government	–151	–	71	–	–	–	–	–	–	–
rest of the world	. .	–	8,638	–	. .	–	. .	–	1,366	–
Other deposits, with	**–1,928**	**–**	**–13,963**	**–573**	**3,224**	**–**	**–1,088**	**–**	**–325**	**–**
MFIs	–2,008	–	–8,508	–573	3,224	–	–1,088	–	–385	–
central government	80	–	–	–	–	–	–	–	–	–
rest of the world	. .	–	–5,455	–	. .	–	. .	–	60	–
Short-term securities, issued by	**–274**	**387**	**13,897**	**. .**	**2,525**	**–46**	**–443**	**–**	**391**	**–**
general government	–503	–	11,509	–	2,776	–	–443	–	149	–
other residents	–2	387	470	. .	10	–46	–	–	–	–
rest of the world	231	–	1,917	–	–262	–	–	–	241	–
Bonds, issued by	**–1,786**	**13,361**	**–15,302**	**31,201**	**31,593**	**32,796**	**3,427**	**–**	**32,494**	**400**
MFIs	–1,656	–	–284	31,201	1,852	–	3,149	–	2,517	–
central government: CCTs	–847	–	–3,270	–	3,813	–	–615	–	1,042	–
central government: other	–1,759	–	–8,435	–	–6,119	–	–412	–	22,154	–
local government	39	–	536	–	41	–	19	–	187	–
other residents	1,463	13,361	1	–	17,602	32,796	1,286	–	614	400
rest of the world	975	–	–3,851	–	14,404	–	–	–	5,979	–
Derivatives	**–**	**–708**	**–18**	**–**	**–**	**124**	**–**	**–**	**–**	**–109**
Short-term loans, of	**1,874**	**7,935**	**10,981**	**27,143**	**4,303**	**15,550**	**–**	**–2,304**	**–**	**–609**
non-financial corporations	1,874	–	–	–	–	–	–	–	–	–
MFIs	–	11,269	10,981	222	–	9,983	–	–2,304	–	–609
other financial corporations	–	1,208	–	410	4,303	–	–	–	–	. .
general government	–	–	–	–	–	–	–	–	–	–
rest of the world	–	–4,543	–	26,511	–	5,567	–	–	–	–
Medium and long-term loans, of	**–**	**31,641**	**38,691**	**3,568**	**7,124**	**2,202**	**. .**	**–619**	**–7**	**2,340**
non-financial corporations	–	–	–	–	–	–	–	–	–	–
MFIs	–	23,189	38,691	–1,936	–	3,017	–	18	–	1,236
other financial corporations	–	6,104	–	86	7,124	–	. .	–	–7	–9
general government	–	3,449	–	110	–	–	–	–637	–	227
rest of the world	–	–1,101	–	5,308	–	–815	–	–	–	886
Shares and other equity, issued by	**36,361**	**14,413**	**5,981**	**13,136**	**–27,780**	**983**	**–97**	**48**	**3,713**	**113**
residents	21,251	14,413	2,641	13,136	–3,602	983	–97	48	3,607	113
of which: listed shares	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .	–	–	. . . .	. . . .
rest of the world	15,109	–	3,340	–	–24,178	–	–	–	106	–
Mutual fund shares, issued by	**200**	**–**	**1,465**	**–797**	**10,405**	**–6,481**	**–8**	**–**	**338**	**–**
residents	–92	–	–46	–797	–	–6,481	–8	–	–481	–
rest of the world	293	–	1,512	–	10,405	–	–	–	819	–
Insurance technical reserves	**713**	**5,067**	**40**	**–2,220**	**–**	**–**	**–**	**–**	**–**	**32,188**
net equity of households	–	5,067	–	–2,220	–	–	–	–	–	30,008
prepayments and other claims	713	–	40	–	–	–	–	–	–	2,180
Other accounts receivable/payable	**16,024**	**24,621**	**461**	**588**	**–1,799**	**. .**	**–**	**–**	**11**	**330**
Trade credits	23,325	22,582	–	–	–	–	–	–	–	–
Other	–7,301	2,039	461	588	–1,799	. .	–	–	11	330
Total	**59,950**	**96,718**	**46,444**	**82,982**	**35,681**	**45,129**	**–2,935**	**–2,874**	**39,771**	**34,654**

(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
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**78**	**78**	**78**	**Monetary gold and SDRs**
–436	**–219**	**64**	**–**	**2,010**	**–**	**19,883**	**–**	**–17,156**	**11,061**	**21,778**	**21,778**	**Currency and transferable deposits**, with
–384	–	–104	–	1,936	–	19,156	–	–17,156	–	10,936	10,936	MFIs
–	–219	. .	–	. .	–	–140	–	–	–	–219	–219	central government
–52	–	168	–	73	–	867	–	–	11,061	11,061	11,061	rest of the world
–83	**13,852**	**3**	**–**	**319**	**–**	**10,279**	**–**	**11,434**	**–5,407**	**7,872**	**7,872**	**Other deposits**, with
–83	–	94	–	319	–	–3,572	–	11,434	–	–573	–573	MFIs
–	13,852	–	–	–	–	13,772	–	–	–	13,852	13,852	central government
. .	–	–91	–	. .	–	80	–	–	–5,407	–5,407	–5,407	rest of the world
13	**12,118**	**–8**	**. .**	**139**	**–**	**871**	**–**	**–2,469**	**2,183**	**14,642**	**14,642**	**Short-term securities**, issued by
13	12,118	–8	. .	139	–	954	–	–2,469	–	12,118	12,118	general government
–	–	–	–	–	–	–138	–	–	–	341	341	other residents
–	–	–	–	–	–	56	–	–	2,183	2,183	2,183	rest of the world
–734	**19,672**	**–122**	**1,895**	**–113**	**–**	**54,355**	**–**	**27,665**	**32,153**	**131,478**	**131,478**	**Bonds**, issued by
–107	–	–158	–	228	–	25,503	–	155	–	31,201	31,201	MFIs
–10	–11,857	89	–	–27	–	2,203	–	–14,234	–	–11,857	–11,857	central government: CCTs
–629	31,529	–49	–	–563	–	–6,417	–	33,757	–	31,529	31,529	central government: other
. .	–	40	1,895	. .	–	–106	–	1,140	–	1,895	1,895	local government
13	–	526	–	70	–	18,134	–	6,846	–	46,557	46,557	other residents
–	–	–569	–	179	–	15,037	–	–	32,153	32,153	32,153	rest of the world
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–675**	**–**	**–693**	**–693**	**Derivatives**
. .	**36**	**–**	**270**	**–**	**43**	**–**	**–811**	**27,535**	**–2,558**	**44,693**	**44,693**	**Short-term loans**, of
–	–	–	–	–	–	–	–	–	1,874	1,874	1,874	non-financial corporations
–	36	–	225	–	43	–	–788	–	–7,097	10,981	10,981	MFIs
–	–	–	45	–	–	–	–24	–	2,664	4,303	4,303	other financial corporations
. .	–	–	–	–	. .	–	–	–	. .	. .	. .	general government
–	–	–	–	–	–	–	–	27,535	–	27,535	27,535	rest of the world
5,161	**–4,694**	**–**	**1,599**	**–**	**–6**	**–**	**17,322**	**2,979**	**595**	**53,949**	**53,949**	**Medium and long-term loans**, of
–	–	–	–	–	–	–	–	–	–	–	–	non-financial corporations
–	–3,471	–	–504	–	–6	–	17,111	–	37	38,691	38,691	MFIs
–	. .	–	90	–	–	–	209	–	637	7,117	7,117	other financial corporations
5,161	. .	–	2,087	–	–	–	2	–	–78	5,161	5,161	general government
–	–1,223	–	–75	–	–	–	–	2,979	–	2,979	2,979	rest of the world
–6,539	**–**	**–232**	**6**	**233**	**–**	**21,978**	**–**	**10,335**	**15,253**	**43,953**	**43,953**	**Shares and other equity**, issued by
–3,853	–	176	6	129	–	–1,887	–	10,335	–	28,700	28,700	residents
. . . .	–	. . . .	–	. . . .	–	. . . .	–	. . . .	–	. . . .	. . . .	*of which: listed shares*
–2,685	–	–407	–	104	–	23,865	–	–	15,253	15,253	15,253	rest of the world
72	**–**	**3,434**	**–**	**32**	**–**	**–11,755**	**–**	**7**	**11,468**	**4,190**	**4,190**	**Mutual fund shares**, issued by
–1	–	–1	–	–18	–	–6,637	–	7	–	–7,278	–7,278	residents
73	–	3,435	–	50	–	–5,118	–	–	11,468	11,468	11,468	rest of the world
4	**–**	**36**	**–**	**1**	**–**	**35,629**	**1,714**	**326**	**–**	**36,751**	**36,751**	**Insurance technical reserves**
–	–	–	–	–	–	34,570	1,714	–	–	34,570	34,570	net equity of households
4	–	36	–	1	–	1,058	–	326	–	2,180	2,180	prepayments and other claims
3,306	**–8,345**	**2,371**	**–2,989**	**3,619**	**–71**	**–5,095**	**3,754**	**9,236**	**10,245**	**28,134**	**28,134**	**Other accounts receivable/payable**
–	–	–	–	–	–	267	–	9,236	10,245	32,828	32,828	Trade credits
3,306	–8,345	2,371	–2,989	3,619	–71	–5,362	3,754	–	–	–4,694	–4,694	Other
767	**32,420**	**5,547**	**782**	**6,240**	**–35**	**126,145**	**21,979**	**69,216**	**75,072**	**386,825**	**386,825**	**Total**

Table a29

BANK INTEREST RATES (1)

	Deposits (2)						Loans (2)		New medium & long-term loans to enterprises (7)	New medium & long-term loans to consumer households (7)	ABI prime rate (8)
	Average: current accounts	Overall average	Maximum (3)	Certificates of deposit			Short-term average	Lowest short-term (6)			
				Overall average	Maturities up to 6 months (4)	Maturities from 18 to 24 months (5)					
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
2001	1.87	1.96	4.33	3.62	3.26	3.52	6.53	4.41	5.47	6.67	7.75
2000 – Jan.	1.30	1.56	3.07	3.81	2.43	2.97	5.57	3.14	4.73	5.59	6.25
Feb.	1.28	1.54	3.02	3.75	2.47	3.06	5.63	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	6.04	3.57	5.35	6.10	7.00
June	1.58	1.78	3.83	3.75	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
Sept.	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	4.68	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	6.94	8.00
Apr.	2.08	2.17	4.61	3.77	3.55	3.74	6.72	4.69	5.90	6.88	8.00
May	2.03	2.11	4.56	3.70	3.48	3.69	6.69	4.69	5.84	6.91	7.88
June	1.97	2.04	4.49	3.62	3.43	3.67	6.61	4.62	5.46	6.75	7.88
July	1.96	2.03	4.44	3.58	3.40	3.66	6.59	4.55	5.45	6.63	7.88
Aug.	1.93	2.00	4.41	3.56	3.35	3.61	6.54	4.51	5.52	6.89	7.88
Sept.	1.81	1.89	4.24	3.53	3.24	3.54	6.48	4.35	5.15	6.62	7.50
Oct.	1.60	1.69	3.97	3.47	2.94	3.22	6.29	3.99	4.94	6.39	7.50
Nov.	1.50	1.59	3.77	3.37	2.73	3.06	6.10	3.78	4.77	6.25	7.25
Dec.	1.38	1.47	3.53	3.27	2.55	2.92	5.91	3.59	4.74	5.87	7.25
2002 – Jan.	1.37	1.45	3.43	3.15	2.55	2.87	5.84	3.51	4.59	6.00	7.25
Feb.	1.36	1.44	3.36	3.05	2.54	2.92	5.81	3.47	4.81	5.98	7.25
Mar.	1.36	1.44	3.34	2.98	2.54	2.97	5.77	3.47	4.75	5.91	7.25
Apr.	1.39	1.45	3.32	2.92	2.53	2.99	5.76	3.48	4.97	5.94	....

(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, also 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, also 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, also in other euro-area currencies) to enterprises ranked according to the interest rate. – (7) The rates are reported only for the last 10-day period of each month. – (8) The monthly data are end-of-period data.

Table a30

CREDIT RISK INDICATORS (1)

(end-of-period data; amounts in millions of euros and percentages)

	Loans (1)	As a ratio to loans (1): Non-performing loans	*of which: bad debts*	Adjusted bad debts	New bad debts (2)	Adjusted bad debts / Accounting bad debts
			Banking system			
1999	814,482	9.8	7.4	8.0	1.4	107.1
2000	913,145	7.8	5.7	6.2	1.0	108.5
2001	973,883	6.7	4.7	5.0	0.9	107.8
			Banks accepting short-term funds			
1999	729,140	9.9	7.4	7.9	1.5	106.9
2000	829,473	7.9	5.7	6.2	1.1	108.3
2001	893,485	6.8	4.7	5.0	0.9	107.5
			Banks accepting medium and long-term funds			
1999	85,341	9.4	7.5	8.2	1.1	109.1
2000	83,672	6.6	5.2	5.8	0.8	111.5
2001	80,398	5.8	4.5	5.0	0.8	111.4
			Major, large and medium-sized banks			
1999	608,985	9.1	6.8	7.3	1.4	106.6
2000	680,731	7.3	5.3	5.7	1.1	108.7
2001	708,413	6.0	4.0	4.3	0.9	108.1
			Other banks			
1999	205,497	11.8	9.2	9.9	1.4	108.3
2000	232,414	9.3	6.9	7.5	1.0	108.1
2001	265,470	8.5	6.4	6.8	0.9	107.3
			Banks based in the Centre or North			
1999	745,202	8.6	6.4	6.9	1.4	108.8
2000	846,248	7.1	5.1	5.6	1.0	109.9
2001	907,370	6.0	4.1	4.4	0.9	109.1
			Banks based in the South			
1999	69,280	22.5	18.6	18.8	2.3	100.9
2000	66,897	16.9	13.6	13.9	1.6	102.1
2001	66,513	15.6	13.0	13.3	1.3	102.0

(1) Gross of bad debts and unpaid and protested bills. – (2) Percentage ratio of loans newly classed as bad debts to performing loans in the previous year, net of adjusted bad debts.

Table a31

CONSOLIDATED INCOME STATEMENT:
CONTRIBUTION OF OPERATIONS TO SUPERVISORY CAPITAL (1)
(millions of euros)

	Banking system				
	Classification by size			Classification by geographical area	
	Main banking groups	Rest of the system		Centre and North	South
			Gross income		
1999	32,668	24,831	57,499	54,454	3,045
2000	36,581	27,368	63,949	62,175	1,774
2001	36,814	28,902	65,716	64,352	1,364
			Operating expenses		
1999	19,326	15,323	34,649	32,399	2,250
2000	20,876	15,923	36,799	35,628	1,171
2001	21,240	17,542	38,782	37,874	908
			Operating income		
1999	13,342	9,508	22,850	22,055	795
2000	15,706	11,444	27,150	26,547	603
2001	15,574	11,360	26,934	26,478	456
			Non-recurring items (net) and allocations to provisions		
1999	–1,070	627	–443	129	–572
2000	307	585	887	845	42
2001	1,270	1,921	3,191	3,155	36
			Loan losses		
1999	5,203	2,776	7,979	7,586	393
2000	4,436	2,382	6,818	6,553	265
2001	6,028	2,789	8,817	8,665	152
			Taxes		
1999	3,173	2,769	5,942	5,691	251
2000	4,406	3,372	7,778	7,648	130
2001	3,036	2,848	5,884	5,784	100
			Dividends		
1999	1,555	1,376	2,931	2,870	61
2000	2,804	1,674	4,478	4,448	30
2001	2,058	993	3,051	3,027	24
			Allocations to supervisory capital		
1999	4,481	1,960	6,441	5,779	662
2000	3,758	3,431	7,189	7,053	136
2001	3,182	2,809	5,991	5,847	144
			ROE *(percentages)*		
1999	15.3	7.2	10.6	10.4	14.6
2000	17.1	9.7	12.9	13.4	3.2
2001	12.5	6.5	9.1	9.3	4.4

(1) Consolidated data for banking groups and data on a solo basis for banks not belonging to a group.

Table a32

SUPERVISORY CAPITAL AND SOLVENCY RATIO (1) (2)
(end-of-period data; amounts in millions of euros)

	Primary capital	Supplementary capital		Supervisory capital	Solvency ratio (percentages)	Excess capital	Capital shortfalls	
			of which: subordinated liabilities				Number of banks	Amount
				Banking system				
1999	89,430	25,589	21,171	110,258	10.6	28,285	9	1,330
2000	91,417	33,036	27,900	118,625	10.2	26,109	3	9
2001	97,399	39,188	34,287	129,205	10.6	33,499	6	522
				Main banking groups				
1999	40,050	15,963	14,045	53,714	8.9	5,574	–	–
2000	42,184	22,025	19,491	61,051	8.7	5,188	–	–
2001	46,164	25,689	24,136	66,787	9.5	11,231	–	–
				Banks and banking groups based in the Centre or North				
1999	83,634	24,762	20,491	103,755	10.4	25,222	7	1,329
2000	87,806	32,644	27,653	114,724	10.1	24,022	1	8
2001	94,437	38,915	34,104	125,975	10.5	31,677	3	513
				Banks and banking groups based in the South				
1999	5,797	826	681	6,503	15.1	3,063	2	2
2000	3,611	392	247	3,901	17.2	2,087	2	1
2001	2,962	274	183	3,230	18.2	1,822	3	9

(1) Consolidated data for banking groups and data on a solo basis for banks not belonging to a group. – (2) Excludes the Italian branches of foreign banks.

LIST OF ABBREVIATIONS

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
IACP	–	*Indice armonizzato dei prezzi al consumo* Harmonized index of consumer prices
ICI	–	*Imposta comunale sugli immobili* Municipal real estate tax
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 2001

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Vincenzo DESARIO – Director general
Pierluigi CIOCCA – Deputy director general
Antonio FINOCCHIARO – Deputy director general and Secretary to the Board

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