OECD
ECONOMIC SURVEYS
1986/1987

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ITALY

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

AUGUST 1987

OCDE OECD

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to article 1 of the Convention signed in Paris on 14th December, 1960, and which came into force on 30th September, 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries became Members subsequently through accession at the dates indicated hereafter: Japan (28th April, 1964), Finland (28th January, 1969), Australia (7th June, 1971) and New Zealand (29th May, 1973).

The Socialist Federal Republic of Yugoslavia takes part in some of the work of the OECD (agreement of 28th October, 1961).

Publié également en français.

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DIAGRAMS

BASIC STATISTICS OF ITALY

THE LAND

Area (1 000 sq. km)	301.3	Population of major cities, 1985:	Thousands
Agricultural area (1 000 sq. km) 1984	264.0	Rome	2 826
		Milan	1 515
		Naples	1 206
		Turin	1 035

THE PEOPLE

Resident population, 1985 (thousands)	57 202		Thousands
No. of inhabitants per sq. km	190	Labour force, 1986	23 467
Net natural increase in population: annual average 1982-1985 (thous.)	62	Employment, 1986	20 826
Net rate per 1 000 inhabitants (average 1982-1985)	2.7	in agriculture	2 241
		in industry	6 821
		in services	11 794

PRODUCTION

Gross Domestic Product in 1986 (billions of lire)	894 362	Origin of gross domestic product in 1986 (at market prices) per cent of total:	
GDP per head in 1986 (US $)	10 486	Agriculture	4.6
Gross fixed capital formation:		Industry	30.4
Per cent of GDP in 1986	20.1	Construction	5.9
Per head in 1986 (US $)	2 109	Other	59.0

THE PUBLIC SECTOR

Public consumption in 1986 (percentage of GDP)	16.2	Public debt in 1986 (percentage of GDP)	88.6
Current revenue of general government in 1986 (percentage of GDP)	39.4	General government investment in 1986 (percentage of total investment)	16.6

FOREIGN TRADE

Exports of goods and services as a percentage of GDP, 1986, (OECD, SNA)	18.7	Imports of goods and services as a percentage of GDP, 1986, (OECD, SNA)	18.1
Main export categories, as a percentage of total exports, 1986 (SITC):		Main import categories, as a percentage of total imports, 1986 (SITC):	
Machinery (71 to 77)	25.3	Foodstuffs (0)	12.9
Fabrics and textile goods (65)	6.1	Machinery (71 to 77)	15.8
Chemical products (5)	7.2	Metals, ores and scrap (67 + 68)	5.8
Automobiles and parts (78 + 79)	8.3	Mineral fuels (3)	17.5
Mineral fuels (3)	2.8	Chemical products (5)	11.0

THE CURRENCY

Monetary unit: Lira		Currency units per US dollar, average of daily figures:	
		Year 1986	1 491.0
		June 1987	1 316.2

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Italy by the Economic and Development Review Committee on 29th June 1987.

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After revisions in the light of dicussions during the review, final approval of the Survey for publication was given by the Committee on 28th July 1987.

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The previous survey of Italy was issued in July 1986.

INTRODUCTION

Italy has enjoyed continued expansion of output and employment since the first half of 1983, accompanied by steadily slowing inflation, but also rising unemployment. In 1986 the current external position improved significantly as a result of the fall in oil and commodity prices. The increase in income accruing from the terms-of-trade improvement (almost 3 per cent of GDP) went chiefly to the public sector, whose borrowing requirement as a percentage of GDP declined by 1 point, and to the corporate sector whose profits increased markedly. The fall in oil prices was not fully passed on to consumer prices and, despite a further decline in inflation in 1986, Italy's performance in this area still lags behind that of its main trading partners. Construction excepted, all domestic demand components supported growth, whereas the net contribution of foreign trade volumes was negative.

Economic policy has on the whole played a neutral to slightly stimulatory role in 1986 and looks set on a more expansionary course in 1987. Fiscal policy, *inter alia* through the award of substantial wage increases, is likely to stimulate demand. The general government borrowing requirement may at best stabilize as a percentage of GDP. Money supply growth targets do not appear to be restrictive and the outturns for the early months of the year point to an overshooting.

Interest rates will probably remain high owing to the external constraint resulting from the inflation differential between Italy and its trading partners, a constraint that the liberalisation of the foreign exchange market may exacerbate in the short run. GDP growth, year-on-year, is expected to be higher in 1987 than in 1986 and inflation lower. Losses in competitiveness and the domestic demand growth differential between Italy and its main trading partners are likely to slim the current balance surplus and the rate of inflation could cease to decline in the course of the year. GDP growth could gradually slow until the end of 1988, though still remaining at around the OECD average, with unemployment continuing to increase.

High and growing unemployment, a large public sector borrowing requirement and the fact that inflation is higher than in most of Italy's EMS partners represent serious challenges for economic policy. In recent years, the need to adjust the Italian financial market to external constraints given the imperatives of the PSBR has prompted the introduction of major institutional reforms, and of new financial instruments. This process which, *inter alia*, has already led to the abandonment of credit controls and progress in foreign exchange market liberalisation, is studied in a special section of this Survey. This analysis is preceded by a review of recent economic trends, economic policies as well as short-term prospects.

I. RECENT TRENDS

Lower oil prices combined with the depreciation of the dollar had a beneficial effect on the Italian economy in 1986. The 11.3 per cent improvement in the terms of trade resulted in a current account surplus amounting to 0.8 per cent of GDP and helped bring down inflation still further. But the increased national income accruing from the improvement in the terms of trade primarily translated into higher corporate profits and a decline of 1 percent of GDP in the public sector deficit. In 1986, as in 1985, real GDP rose by 2.7 per cent. While Italy's growth was among the highest recorded by the seven major OECD countries, and around one-quarter of a point higher than the EEC average, its relative performance was less satisfactory on the inflation front – four percentage points higher than the average for the seven major countries and three points higher than the EEC average. In 1986, as in the two previous years, GDP growth was led by buoyant domestic demand, while the external contribution to growth remained negative as import volumes rose steeply. Employment (on the new national accounts concepts) expanded by 0.8 per cent in 1986, but this was not enough to prevent a further rise in unemployment[1].

Domestic developments

Demand and output

Household consumption, which had begun to pick up in early 1985, rose by 3.2 per cent in real terms in 1986 and accelerated as the year progressed. Demand was particularly brisk for non-food products, notably automobiles, up 5.6 per cent in 1986 after climbing 11.1 per cent in real terms the year before. The households' appropriation account, which could shed light on the reason for this slowdown, is not yet available on the new national accounts basis. None the less, it is noteworthy that total wages (net of social insurance contributions) did not rise nearly as fast in 1986 (6.6 per cent) as in 1985 (12.1 per cent), giving only a very small increase in real terms. This was primarily due to the fact that the triennial wage negotiations scheduled for 1986 were held over to the end of the year and even to early 1987; wages thus reflected only the effects of indexation (more limited in scope since 1985) and the 0.4 per cent increase in dependent employment.

Growth of households' real disposable income was, however, boosted by factors that were more buoyant than wages. Income from property and entrepreneurship benefited from the redistribution of national income due to the improvement in the terms of trade, as well as from exceptional factors (such as the payment in 1986 of part of the interest due in 1985 on government securities), which may have boosted non-wage incomes by 13 to 14 per cent[2]. Last, the ratio of direct taxes to households' gross income was probably unchanged or even slightly down in 1986; increases due to the reform of the income tax treatment of the self-employed were probably offset by the April inflation adjustment of income tax on wage earnings.

Table 1. **Demand and supply**

Percentage changes from previous period, at annual rates
Volume (1980 prices)

	Current prices trillion lire 1982	1984	1985	1986	1985 I	1985 II	1986 I	1986 II
Private consumption	342.5	2.2	2.7	3.2	3.3	3.5	2.8	3.7
Collective consumption	88.8	2.0	3.5	3.0	3.4	3.4	2.8	2.8
Gross fixed investment	121.7	4.4	3.3	1.2	4.8	–0.5	2.4	0.6
Machinery and equipment	43.2	8.9	7.4	3.1	11.0	0.4	5.2	1.7
Construction	66.3	0.6	–0.5	–0.7	–1.0	–1.5	–0.3	–0.6
Final domestic demand	553.0	2.7	3.0	2.7	3.6	2.6	2.7	2.9
Stockbuilding[1]	6.5	1.8	0.2	0.6	–0.4	0	0.3	1.6
Total domestic demand	559.5	4.4	3.1	3.2	3.2	2.5	3.0	4.4
Exports of goods and services	114.2	7.6	4.0	3.1	–0.7	6.1	3.8	–1.2
Imports of goods and services	128.6	11.3	5.3	5.1	3.3	3.4	5.3	6.2
Foreign balance[1]	–14.4	–0.9	–0.4	–0.5	–0.9	0.5	–0.4	–1.8
GDP at market prices	545.1	3.5	2.8	2.7	2.3	3.1	2.6	2.7
Industrial production		3.4	1.2	2.7	0.7	0	6.6	–1.9
GDP at market prices		10.2	8.8	8.0	10.1	8.3	8.6	6.8
Decomposition of GDP growth								
Agriculture		–3.6	0.4	1.7	–1.8	8.9	–3.8	6.0
Industry total		3.7	1.5	3.4	0.5	1.9	4.3	3.0
Manufacturing		4.2	1.5	3.3	–0.3	2.1	4.6	1.8
Construction		0.3	0.3	–0.2	0.3	–0.4	–0.2	–0.1
Services		5.1	4.9	3.2	4.5	3.6	2.8	2.6

1. Changes expressed as a percentage of GDP in the previous period.
Source: ISTAT, Quarterly national accounts.

Growth of fixed investment slackened in 1986 to just over 1 per cent in real terms. This overall picture, however, conceals contrasting trends according to category of investment. Investment in the construction sector declined (by 0.7 per cent), continuing the almost unbroken downward trend averaging 1.4 per cent annually since 1980. This decline is largely attributable to residential construction, with non-residential construction and civil engineering programmes recovering slightly since 1984. According to ISCO's latest six-monthly investment survey published in February 1987, the share of productive capacity enlarging investment increased from 20 to 26 per cent between 1985 and 1986. After picking up well over the period mid-1982 to mid-1984, growth of investment in machinery, equipment and transport displayed an underlying downward trend. This is primarily ascribable to purchases of transport equipment, particularly aircraft, investment in industry continuing to grow at almost the same pace in 1985 and 1986 (see Table 2).

The trend of productive investment may be put down to a number of factors. The pick-up in capacity enlarging investment in part substituted investment in building for purchases of equipment. This could betoken an easing of the effort to streamline the productive system, particularly in the major industrial sectors (automobiles, chemicals, food, clothing) after a period of active restructuring. At the same time, uncertainty as to the future source, nature

Table 2. **Gross fixed capital formation by sector and product**

Percentage changes at constant 1980 prices

	1981	1982	1983	1984	1985	1986
Total	–2.3	–5.7	–1.6	4.4	3.3	1.2
By sector						
Agriculture	–5.4	–2.4	3.9	–1.2	–6.7	–2.0
Industry	–0.1	–7.0	1.1	8.3	3.9	3.5
Marketable services	–2.5	–4.8	–2.9	2.5	3.1	0.4
Transport and communication	4.4	–7.7	–2.8	10.7	4.0	–0.8
Trade, credit, insurance, rentals and other services	–4.1	–4.1	–3.0	0.6	2.9	0.7
Non-marketable services	–5.7	–11.3	–9.6	9.2	15.2	0.8
By product						
Construction	–1.4	–6.6	0.8	0.6	–0.5	–0.7
Housing	–0.1	–5.0	3.9	0.6	–2.4	–2.0
Other	–2.9	–8.5	–2.9	0.5	1.9	0.9
Machinery, equipment	–6.9	–5.5	–1.7	9.4	7.3	4.7
Transportation goods	13.1	–1.9	–12.9	6.7	7.7	–3.3

Source: Relazione generale sulla situazione economica del paese, 1987.

and volume of demand is depressing growth of capacity enlarging investment, despite steadily rising utilisation rates since 1983. The cause of the slowdown in investment growth would not seem to lie in the terms and conditions of corporate financing. Firms' gross operating surplus continued up and 1986 did not see any rise in real interest rates. After levelling off in 1985, the share of investment income in national income and the share of profits in GDP again rose in 1986, by some 2 percentage points on 1985.

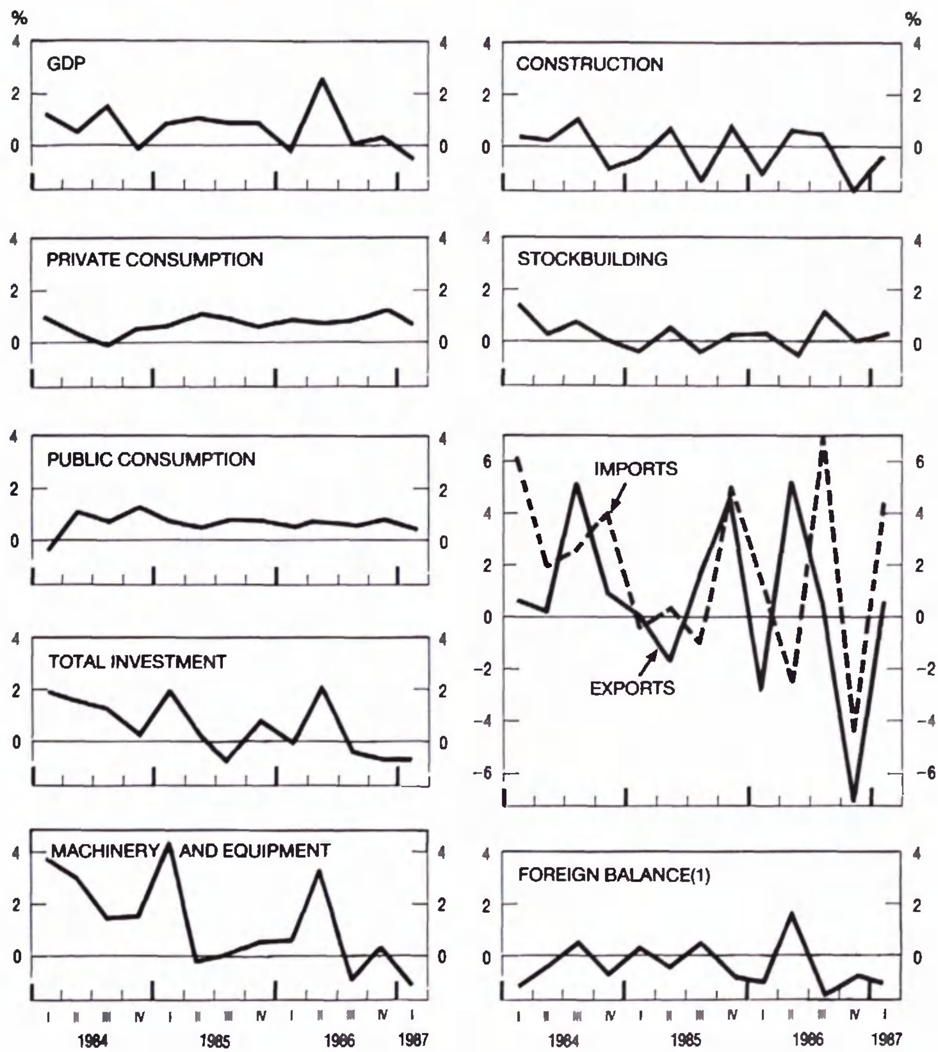
In 1986, for the third year running, stockbuilding was substantial, contributing 0.6 per cent to GDP growth. Lower oil and commodity prices as well as uncertainties during the year as to their future movements were undoubtedly instrumental in firms' precautionary stockbuilding – and this could have temporarily inhibited capital expenditure. The other major factor in inventory growth was of course agriculture's good performance in 1986.

After slightly slower growth in 1984, public consumption again played an active role in 1985 and 1986 in boosting demand. This situation, which is out of line with a fiscal strategy aimed at stabilizing the volume of current spending excluding interest payments, may be put down to the expansion of civil service jobs and wage drift.

Although, over the year as a whole, GDP growth in 1986 was the same as the year before, the intra-year trend was uneven, as can be seen from Diagram 1. In the first quarter of 1987 GDP was down 0.4 per cent (effective rate) on the year-earlier figure: domestic demand was 0.6 per cent up, boosted by private consumption; the external contribution, however, was strongly negative (–1.2 per cent) under the effect of imports. Industrial production, which rose steeply in the first quarter, peaked in the second and declined thereafter until the autumn. It picked up in the first quarter of 1987, pushing the index up 2.8 per cent on the same quarter of 1986. Value added in industry as a whole rose by 3.4 per cent in 1986, outstripping GDP growth, representing a shift relative to earlier years and pointing to a halt in the decline in the share of industry in GDP (at constant 1980 prices). Output grew most briskly in the capital goods and consumer goods sectors, particularly automobiles.

Diagram 1. **Quarterly trend of supply and demand**

Percentage changes from previous quarter: volume, 1980 price basis



1. Changes as a percentage of previous period GDP.
Source : ISTAT, *Quarterly national accounts.*

Labour market

In 1986 total employment (as shown in the quarterly surveys) grew at much the same pace as the year before; however, the number of jobseekers was up 10.8 per cent – against 3.1 per cent in 1985 – as a result of the labour force having expanded at double the previous year's rate. The rate of unemployment rose from 10.3 per cent in 1985 to 11.1 per cent in 1986, and 11.7 per cent in the fourth quarter. On the other hand, in line with the trend from 1984, the number of dependent workers registered with the Cassa Integrazione Guadagni (CIG), the compensation fund for redundant workers, again declined substantially[3]; hours compensated fell by almost 10 per cent between 1985 and 1986. If the number of hours

Table 3. **Employment and the labour market**

A. Trend in employment measured in labour units

Labour units and percentage changes

	1983 thousands	1984/1983	1985/1984	1986/1985
Total employment	22 292.0	0.8	1.4	0.8
Dependent employment	15 186.0	0.4	1.9	0.4
Agriculture	827.8	–4.0	0.2	–2.5
Industry	5 959.3	–4.1	–1.3	–1.2
Private services	4 526.3	5.6	5.8	2.4
General government	3 872.6	2.4	2.1	0.9
Self-employment	7 106.0	1.4	0.3	1.7
of which:				
Industry	1 379.3	–3.7	–1.0	2.1

Source: *Relazione Generale sulla situazione economica del paese*, 1987.

B. Labour market indicators

Percentage changes from same period of previous year

	1984 thousands	1985/1984	1986/1985	1985 I	1985 II	1986 I	1986 II
Labour force	22 905	0.9	1.5	0.6	1.2	1.8	1.2
Total employment	20 648	0.4	0.6	0.5	0.3	0.9	0.3
Dependent employment	14 478	1.2	0.4	1.6	0.8	0.8	0.0
Agriculture	873	–1.9	–3.3	–4.6	0.7	1.3	–7.4
Industry	5 885	–2.3	–1.6	–2.5	–2.0	–1.2	–2.0
Other	7 720	4.2	2.2	5.6	2.9	2.2	8.3
Self-employed	6 170	–1.4	1.1	–2.1	–0.7	1.0	1.2
Enroled at the CIG							
Total	473	–12.3	–9.6	–	–	–	–
Industry	436	–14.9	–	–2.2	–26.7	–11.6	–
	1984	1985	1986	1985 I	1985 II	1986 I	1986 II
Unemployment rate	9.9	10.3	11.1	10.2	10.4	11.1	11.2
Including enrolment at the CIG	11.9	12.1	12.7				

Sources: ISCO, *Rapporto semestrale*; Banca d'Italia, *Economic Bulletin*.

compensated annually by the CIG is expressed in terms of "equivalent man-years" and added to the number of jobseekers, this would bring the unemployment rate to 12.7 per cent in 1986[4]. On the new national accounts concept, which takes into account both multiple and undeclared employment, the number of "labour units" increased more rapidly than the number of persons employed recorded in the employment surveys. Hence, from 1983 to 1986, the number of labour units increased by 3 per cent (to 22 962 million), against a rise of 1.5 per cent in the number of persons employed over the same period (20 856 million). This suggests that the pick-up in activity primarily benefited part-time multiple employment and undeclared employment.

Dependent employment (in terms of labour units) rose by 2.7 per cent over the period 1983-86, while the number of individual workers rose even more rapidly. The growth of dependent employment was, however, confined to the service sector (14 per cent for marketable services). In industry it declined by 6.5 per cent over the same period, as did self-employment in the first two years, though 1986 saw a trend reversal with the latter growing by almost 2 per cent.

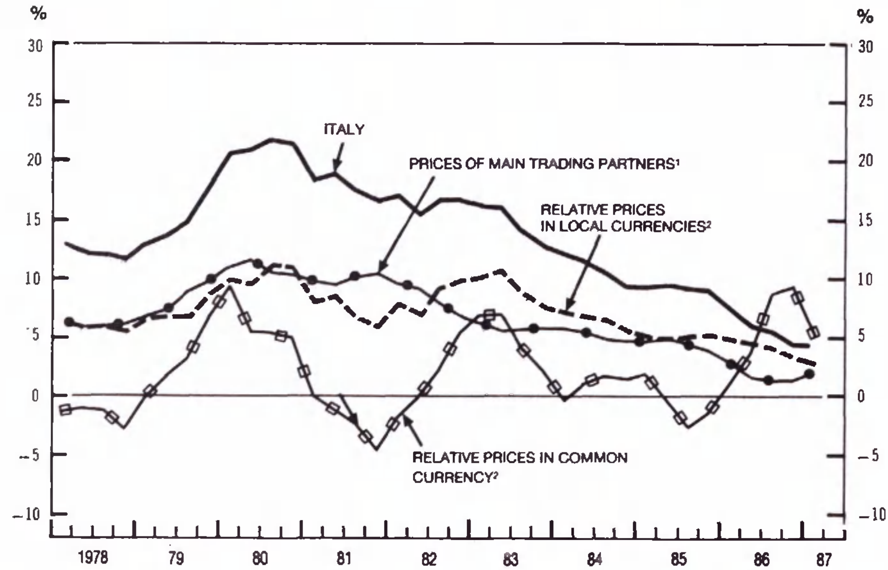
Labour productivity (measured by the change in the ratio of growth of value added to that of the number of labour units) increased by around 2 per cent in 1986, a rate close to the average in the two previous years and substantially up on the average for the period 1980-83. Productivity gains in industry were none the less sizeable, in large measure because of the continuing decline in employment.

Prices and costs

In 1986, prices and costs benefited from the fall in oil and commodity prices which reduced import prices by 16.3 per cent. Price deceleration continued throughout 1986 and into 1987. Thus, consumer price increases came down from 8.8 per cent during 1985, to 4.2 per cent during 1986, remaining at that figure until the end of the first quarter of 1987 (the deceleration of controlled prices was more marked than that of non-controlled prices). This slowdown was not, however, enough to wipe out the inflation differential between Italy and its main trading partners. In annual average terms, the consumer price deflator in 1985 was 4 percentage points higher in Italy than for the EEC countries combined, a differential which narrowed to 3 points in 1986 (the differential with Germany was down to 6.5 points in 1986 against 7.2 points in 1985). While price increases slowed more sharply for goods than for services, the fall in import prices was passed on unevenly. While the wholesale price index (total) was down 2.5 per cent in 1986, the index for commodities, including energy, dropped by over 40 per cent. On the other hand, the trend of overall domestic costs remained firmly upward; the GDP deflator rose by 8 per cent in 1986 against 8.8 per cent in 1985, while the decline in import prices depressed the rise in domestic supply prices from 8.5 per cent to 3.4 per cent over the same period. Lower energy prices were only in part passed on to households' final consumption since in 1986 the electricity and fuel item of the consumer price index was down only 6 per cent. While consumer price increases stabilised at 4.2 per cent year-on-year in the first half of 1987, they were running almost 5 per cent higher than in the second half of 1986.

As in several other OECD countries, a number of moderating factors continued to influence wage developments in 1986 and early 1987. None the less, wage growth was faster than suggested by the historical correlation between wages, unemployment, prices and productivity. There are two major factors that could have been expected to slow in wage growth: first and foremost, the high rate of unemployment; according to the equation estimated by the Secretariat[5], its negative contribution to wage growth was 2 to 2½ per cent

Diagram 2. **Comparative trend of consumer prices**
Changes over corresponding period of the previous year



1. Average of the consumer price indices of the following countries, weighted by their share in Italian exports in 1980: Germany, France, United States, United Kingdom, Switzerland, Netherlands, Belgium.
2. Index calculated relative to 15 major OECD countries.

Source : OECD.

annualised at end-1986 and early 1987, for effective wage growth of between 6 and 7 per cent; second, the steady slowing of price increases for two years continued to have a dampening effect. The contribution of higher prices is hence estimated at around 4½ per cent in the second half of 1986, against 8 per cent a year earlier. Productivity growth, which may be considered to express dependent workers' hopes of purchasing power gains in wage bargaining, has a slightly negative impact, assumed to be constant since 1980. The gap between actual wage growth and growth estimated on the basis of the usual parameters widened in 1986 and again at the beginning of 1987. Particularly substantial wage increases were indeed awarded in the triennial wage negotiations that took place at the time, despite the high and growing rate of unemployment.

The size of the wage increases recorded in 1987, however, may in large part be explained by the way the triennial public sector wage agreements were renewed. Though covering the period 1986-1988, these were only signed at the beginning of 1987. The wage increases awarded varied according to civil service category or class of government employee, with the average being around 7 to 8 per cent of annual wages. Because of the retroactive payment in 1987 of the increases due for 1986, nominal wages in the public sector may have risen by 11 to 12 per cent. In 1988 growth of public sector wages is likely to be much more subdued, both because of the "base-year effect" resulting from the catch-up paid in 1987 and the fact that automatic wage awards linked to length of service are to be smaller under the new agreement. Nominal wage increases resulting from the renewal of private sector agreements were more modest (running at around 2 to 3 per cent); retroactivity was less than in the public sector and the agreements generally provided for a reduction (of roughly 15 hours) in hours worked per year. Nonetheless, the period 1986-1987 as a whole saw a substantial rise in average real wages. The fact that corporate profits were extremely healthy in 1985 and 1986 certainly contributed to this outcome. Another explanation could lie in the segmentation of the labour market, not so much by age group or sex, but by region. The continuing upward trend in unemployment for Italy as a whole is due to a steep rise in the South – which traditionally does not wield a great deal of bargaining power – whereas in the North unemployment began to decline in 1985 (for both men and women).

Table 4. **Wage indicators**

Percentage changes from previous period, seasonally adjusted annual rates

	1983	1984	1985	1986	1985 I	1985 II	1986 I	1986 II
Total economy								
Compensation of employees	14.9	11.9	12.3	8.2	15.5	8.2	8.9	6.5
Per capita compensation	16.0	11.4	10.2	7.7	12.8	7.4	8.4	6.5
Industry								
Per capita compensation	17.0	14.0	11.6	8.4	15.3	8.2	9.2	7.0
Unit labour costs	14.1	5.2	8.8	3.3	13.7	6.5	2.8	1.2
Hourly wage rate	19.6	11.5	10.9	4.8	13.0	9.4	2.3	5.4
Government								
Per capita compensation	15.0	11.0	8.9	8.7	12.4	3.7	12.4	6.4

Source: ISTAT, Quarterly national accounts.

Wage compensation per head (labour unit) rose by 7.7 per cent in the economy as a whole and by 8 per cent in manufacturing – a deceleration of around 3.5 percentage points over the previous year. Unit wage costs in lira terms rose by a further 3.3 per cent in industry in 1986, though this was considerably down on the 8.8 per cent recorded in the previous year. No figures are yet available on how wage costs have moved since the beginning of 1987; it is likely, however, that despite uncertainties as to the timetable for their actual application, the private sector pay awards resulting from the triennial negotiations represent an acceleration.

Transactions with the external sector

Current payments

For the first time since 1983, Italy's current payments balance showed a surplus in 1986 of L 4.6 billion, or 0.8 per cent of GDP, compared with a deficit of 0.8 per cent in 1985. This swing, which derived from the surplus on merchandise trade, was due solely to the improvement in the terms of trade, amounting to 2.5 per cent of GDP between 1985 and 1986 (see Table 5). On a customs basis, growth of merchandise export volumes edged up in 1986 to

Table 5. **Breakdown of changes in the current balance**

Billion lire

	1980	1981	1982	1983	1984	1985	1986
Current balance	–8 291	–9 225	–7 412	1 183	–4 152	–6 607	6 929
Trade balance (goods)	–13 991	–12 032	–10 739	–4 682	–10 255	–11 930	5 850
Change in the current balance	–12 844	–934	+1 813	+8 595	–5 335	–2 455	+13 536
of which :							
Change in the trade balance	–13 200	+1 959	+1 293	+6 057	–5 573	–1 675	+17 780
of which :							
Due to terms of trade	–5 940	–7 684	+672	+2 822	–2 738	+1 906	+20 094
Due to volume changes	–7 260	+9 643	+621	+3 235	–2 835	–3 581	–2 314

Sources : *Relazione Generale sulla situazione economica del paese*, 1987 ; Banca d'Italia, *Annual Report*.

nearly 4 per cent, while unit export values fell by 4.7 per cent, reflecting the decision of manufacturers to give preference to export markets over the home market. Exports of manufactures rose by 1.8 per cent, resulting in an estimated 1.3 per cent market share loss for Italy. Though unit import values fell by 17.7 per cent in 1986, import volumes were up 7.7 per cent.

The beginning of 1987 saw a reversal in Italy's foreign trade position. The trade balance on a customs basis (cif/fob), broadly in surplus in the second half of 1986, showed a deficit in the first five months of 1987 of L 6 800 billion, against L 7 090 a year earlier. Another salient feature of Italy's foreign trade performance since the beginning of the year has been the narrowing of the surplus on non-energy products, which was down to L 800 billion against L 4 500 billion in the first five months of 1986. The deficit on energy products shrank by L 4 000 billion between the two periods.

The factors affecting Italian exports in 1986 were twofold: on the domestic front, the continuing erosion of competitiveness in national currency terms and, on the external front, changes in competitive position by area due to exchange-rate variations, notably against the

Table 6. **Foreign trade volumes**

Annual growth rate from previous period, seasonally adjusted

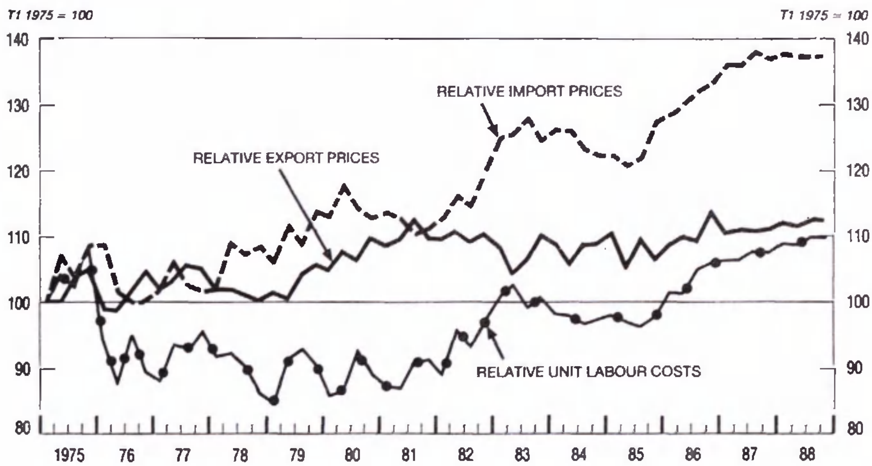
	1984	1985	1986	1985		1986	
				I	II	I	II
Imports	7.3	8.2	4.5	8.2	3.8	6.0	2.3
of which :							
Manufactured goods	15.3	7.3	4.1	3.8	8.4	9.2	–9.0
Energy	–3.5	4.1	4.6	15.7	–2.1	6.5	7.6
Exports	5.0	6.1	3.3	–0.5	13.0	–0.4	1.6
of which :							
Manufactured goods	5.8	5.3	1.8	–0.7	11.4	–0.7	–2.4

Source : OECD Secretariat.

dollar. In 1986, unit labour costs in local currency terms continued to grow more rapidly in Italy than in its main trading partners. By contrast, in common currency terms, Italy's relative costs rose more slowly than those of Germany and Japan but faster than those of its other European partners and, *a fortiori*, those of the United States and Canada. The fall in unit export values in local currency terms was roughly similar in magnitude in Italy and in its main European trading partners; relative export margins therefore undoubtedly narrowed. The difference in relative export price trends in common currency terms may be ascribed primarily to exchange-rate movements.

Diagram 3. **Measures of relative competitive position**[1]

Prices and costs are calculated in dollars



1. Manufacturing, OECD Secretariat forecasts for 1987 and 1988.
Source : OECD Secretariat.

Exports (on a lira customs basis) to the West European countries (EEC and EFTA) expanded by 8 per cent in 1986, with a major surge in exports to Spain (up 49.5 per cent) and Portugal (up 40.5 per cent), both EEC Members since the beginning of 1986. Since, over the same period, Italian imports from these countries remained virtually flat, Italy's trade deficit with Western Europe narrowed by L 5 500 billion. Exports to the East European countries (except the GDR) continued to decline (minus 14.3 per cent). However, a fall in both exports to and imports from the United States and Canada helped to limit the extent of the deterioration on a customs basis.

The invisibles surplus had begun to narrow in 1984 and continued to do so throughout 1986. In 1986 the reason was a fall in net tourism receipts and an increase in government transfers. The former fell by L 1 600 billion, primarily owing to decreasing receipts from North American tourists. On Bank of Italy estimates, the number of days spent by this group in Italy was sharplylower, though their daily spending was higher. Foreign tourism receipts, when deflated by the rise in consumer prices, were down 13.2 per cent in 1986, marking a fall in "volume" of these receipts following the 3.3 per cent reduction recorded in 1985. Italy's

Table 7. **Balance of payments**

$ million

	1984	1985	1986	1985 I	1985 II	1986 I	1986 II
	Seasonally adjusted						
Exports FOB	73 790	75 685	96 388	35 445	40 240	44 778	51 610
Imports FOB	79 628	81 934	92 465	38 991	42 943	45 937	46 528
Trade balance	–5 838	–6 249	3 923	–3 546	–2 703	–1 159	5 082
Service net	1 968	1 527	1 680	889	638	1 008	672
of which:							
Investment income	–3 902	–3 979	–5 007	–1 949	–2 030	–2 370	–2 637
Private transfers	1 456	1 324	1 458	664	660	684	774
Government transfers	52	–204	–2 985	187	–391	–1 506	–1 479
Current account balance	–2 362	–3 602	4 076	–1 806	–1 796	–973	5 049
	Not seasonally adjusted						
Current account balance	–2 362	–3 602	4 076	–3 082	–520	–2 294	6 370
Non-monetary capital	2 396	–776	–6 064	240	–1 016	956	–7 020
Long term	1 486	2 445	–2 802	2 603	–158	1 069	–3 871
Short term	–1 450	802	–1 400	616	186	983	–2 383
Errors and omissions	2 360	–4 023	–1 862	–2 979	–1 044	–1 096	–766
Balance on non-monetary transactions	34	–4 378	–1 988	–2 842	–1 536	–1 338	–650
Private short-term monetary capital	2 924	–2 775	4 329	2 291	–5 067	4 809	–480
Change in reserves	2 958	–7 153	2 340	–551	–6 603	3 471	–1 130

Sources: Banca d'Italia, *Annual Report;* OECD Secretariat.

official transfer payments rose by 54 per cent in 1986 over the earlier year, producing a deficit of L 4 400 billion; in previous years this item had been in equilibrium. This deterioration is almost entirely ascribable to the increase in Italy's contribution to the EEC budget resulting in turn from higher VAT receipts and the rise (from 1 to 1.4 per cent) in the proportion of these receipts transferred to the EEC. Declining nominal interest rates combined with the current account surplus induced a slight narrowing of the deficit on investment income.

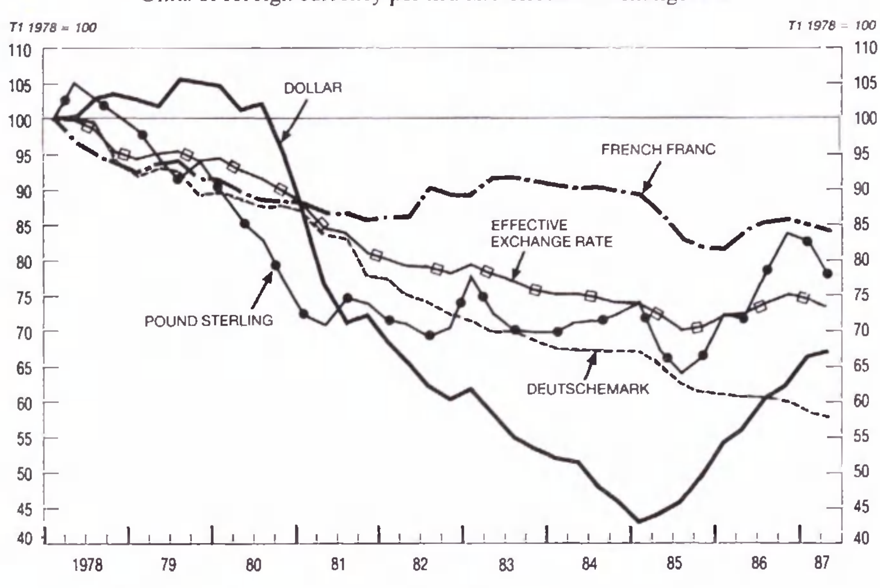
Capital movements and exchange rates

At end-1986, net non-monetary capital outflows from Italy totalled $6 billion (including errors and omissions), with two contrasting trends over the year. In the first half-year, a package of restrictive measures introduced by the Bank of Italy to curb capital flight and a drain on reserves at end-1985 and the beginning of January 1986 changed expectations on the parity of the lira after a bout of lack of confidence. Net capital inflows far exceeded the current deficit, and allowed a rebuilding of foreign exchange reserves. In the second half-year the situation changed radically. An exceptional factor (the sale of Libya's holding in Fiat) led to net disinvestment, though Italian firms continued to buy into foreign firms. Financial investment by Italian mutual funds totalled L 3 000 billion in 1986 against L 676 billion the previous year, 70 per cent in the form of shares. The volume of government-guaranteed foreign borrowing also declined with the setting of ceilings on government guarantees. Finally, many firms took advantage of their sound financial position to cut back foreign borrowing.

In the expectation of a currency realignment within the EMS, there were further major capital outflows towards the end of 1986. All told, net outflows of monetary and non-monetary capital exceeded the current payments surplus, reducing foreign exchange reserves by $1 billion. In early 1987, following the EMS parity realignment, there was a change in expectations *vis-à-vis* the lira and a massive inflow of foreign funds attracted by Italy's favourable interest-rate differential with the other European countries. This was reflected in an increase in foreign exchange reserves which by February were up by almost $3 billion. In order to curb expansion of the monetary base through this source, the authorities introduced a compulsory reserve on changes in banks' foreign currency assets.

The effective lira exchange rate appreciated by 4.7 per cent between December 1985 and April 1987. This overall appreciation was broadly due to the movement of the lira/dollar exchange rate which rose by 32.7 per cent over the same period. Against the main European currencies, the lira exchange rate moved somewhat differently. It appreciated by 18 per cent against the pound between December 1985 and April 1987. Against the EMS currencies the trend was more uneven. The lira, which had been devalued unilaterally within the EMS in July 1985, was not involved in the subsequent realignment in April 1986 and its official exchange rate against the ECU hence remained unchanged. However, in the latter months of

Diagram 4. **The lira exchange rate**
Units of foreign currency per lira and effective exchange rate[1]



1. Monthly averages of daily rates.
Source : OECD, *Main economic indicators* and *Economic Outlook*.

1986 the lira came under increasing pressure as tensions within the EMS exacerbated. In the 11th January 1987 realignment, the lira, French franc, Danish krone and Irish pound were among the currencies whose central rates remained unchanged, while those of the Deutschemark and guilder were revalued by 3 per cent and that of the Belgian franc by 2 per cent against the ECU. After this realignment, the lira was once again in a strong position within the EMS: nonetheless in mid-May it came under renewed pressure. Over 1986 as a whole, the real effective rate (deflated by the consumer price index) appreciated quite considerably, by around 9.5 per cent.

A major step towards the liberalisation of the foreign exchange market was the adoption in May of a package of measures:

- The compulsory deposit for purchases of foreign assets was lifted – initially equal to half the amount invested abroad, it had been phased down to a symbolic figure of only 10 per cent by the beginning of 1987;
- The requirement that foreign currency be borrowed from banks for advance payment of imports of goods and services was abolished;
- The maximum period for using foreign currency holdings in settlement of, or accruing from, transactions with non-residents was doubled;
- The terms on which residents can exchange their foreign currency holdings for lire were eased;
- The ceilings on foreign currency purchases and the export of Italian banknotes by Italians travelling abroad were raised. Restrictions were also eased on the use of credit cards abroad. This set of measures is consistent with the OECD Code on the Liberalisation of Capital Movements;
- Last, the ceiling on imports of Italian banknotes was lifted, but justification is required, beyond a certain amount, as to their intended use in Italy.

II. ECONOMIC POLICY

Italy's stated economic policy objectives are to bring down inflation, reduce the public sector deficit and fight unemployment. Via the setting of yearly growth targets for money supply and lending to the private sector, the Bank of Italy aims to control the amount of money creation to ensure compatibility with a real GDP growth forecast and an associated inflation target. The intermediate objectives are set with due regard to the predicted trend in the two other money supply counterparts: Treasury borrowing and the external balance. Since 1986 money supply growth has been controlled indirectly through interest rates. Fiscal policy is conducted within a medium-term framework aiming at bringing the budget (excluding interest payments) into equilibrium by 1990. Every year, the Finance Act lays down the new measures to achieve the target for the central government deficit; however, under Italian law the Finance Act may be passed before the requisite measures have been fully specifed. Thus, while in the 1987 Finance Act the deficit is budgeted at L 100 000 billion, the measures provided for in the Act would result in a deficit of L 102 600 billion. Structural policy measures, primarily designed to improve labour market and financial market operations are implemented either by way of "Plans" (such as the Employment Policy Plan) or by way of discretionary decisions (liberalisation of the foreign exchange market).

Fiscal policy

1986 was a particularly favourable year for public finance in Italy. For the first time in many years, the central government budget deficit was smaller in nominal terms than the year before; and the general government borrowing requirement, on a national accounts basis, virtually stabilized, its weight in GDP declining from 12.3 to 11.3 per cent. The initial 1986 Finance Act targeted the budget deficit at L 110 000 billion, close to the outturn for 1985 (Table 8). However, the Act as passed implies a deficit some L 3 200 billion higher than initially targeted, and this amount was to be covered by additional measures to be taken in the course of the year. On current estimates, the 1986 deficit will probably be some L 1 000 billion lower than the initial budget target – 12.1 per cent of GDP against 13.7 per cent in 1985. This outturn was due to a combination of factors, some temporary, some permanent, which had a beneficial effect on the overall trend of receipts, up almost 8 per cent on the initial budget projection. Expenditure, which overran the initial target by 1.2 per cent, was roughly as forecast. Comparing the 1986 budget outturns with those of the previous year, current expenditure and receipts were both up by more than 19 per cent and capital expenditure, including capital transfers, was up 38 per cent, against a nominal GDP growth of 11 per cent. These increases are at variance with the aim of gradually stabilizing the weight of the public sector in the economy. However, this rise in expenditure and receipts is in part due to accounting adjustments in respect of earlier expenditure and receipts of the regions. On an adjusted basis, receipts and expenditure rose by 13.7 and 15.5 per cent respectively.

Some of the expenditure and revenue factors that led to a narrowing of the deficit are transient and their impact will be very much lower in the next few years. This is particularly

Table 8. **Central government budget**

Thousand billion lire

	1984	1985		1986		1987
	Outturn	Forecasts	Outturn	Forecasts	Outturn	Forecasts
Current revenue	199.8	210.0	218.7	241.9	261.1	262.7
Direct taxes	88.9	90.6	98.6	106.2	119.7	117.6
Indirect taxes	68.6	72.4	72.8	82.1	87.1	86.3
Other	42.3	47.0	47.3	53.6	54.3	58.9
Current expenditure	243.6	269.0	264.0	310.7	314.5	313.7
of which :						
Transfers	116.8	130.6	127.9	148.1	151.7	146.7
Savings	43.8	59.0	45.3	68.8	53.4	51.0
Capital expenditure (net)	32.7	44.3	40.4	54.8	55.9	58.1
Investments	2.1	2.7	2.1	3.2	2.7	3.1
Transfers	30.6	41.5	38.4	51.6	53.2	55.0
Budget balance	76.4	103.2	85.8	123.7	109.3	109.1
Treasury operations	–2.8	1.5	–10.5	19.2	7.8	14.0
Financial transactions (net)[1]	15.9	15.8	14.3	8.7	7.5	7.5
Borrowing requirement	95.2	117.6	110.5	113.2[2]	109.0	102.6[3]

1. Not including the payment of outstanding debts.
2. Target : 110 000 thousand million.
3. Target : 100 000 thousand million.
Sources : *Relazione sulla stima del fabbisogno di cassa del settore pubblico per l'anno 1987*, and information transmitted by the Italian Authorities.

the case for revenue from the fines paid under the amnesty on unauthorised building. Others, such as the new tax system for the self-employed and higher employers' and employees' social insurance contributions, while having a "step" effect in the first year of application, will subsequently have a permanent positive impact on receipts. Taken together, these additional receipts may be estimated at around L 8 500 billion, roughly 3½ per cent of total receipts. On the current expenditure side, savings resulted from the first year's application of the new half-yearly "scala mobile" (the previously quarterly wage escalator), a decline in the number of recipients of social insurance benefits and cuts in health spending. Other financial measures with a deficit-reducing impact were the pooling of central and local government cash reserves in a single Treasury account, as well as the repayment to central government of non-utilised appropriations to local authorities[6]. On the other hand, tax revenues were adversely affected by the income tax reforms introduced in April 1986 (*inter alia*, adjusting income tax rates for inflation). On the expenditure side, the largest increase occurred in public debt service charges, due not only to a rise in the debt as such but also to the decision in 1985 to pay interest on public securities yearly instead of half-yearly (which had the opposite effect in 1985 when interest payments on the debt increased only slightly).

A comparison of the initial 1986 and 1987 Finance Acts shows a 1 per cent rise in current expenditure – and a 6 per cent rise in capital expenditure – with receipts budgeted to grow by 8.5 per cent. This would result in reducing the budget deficit by L 10 600 billion. The deficit budgeted in the 1987 Finance Act is some L 2 600 billion larger than the government target of L 100 000 billion. Compared with actual outturns last year on the adjusted accounts basis mentioned above, current receipts and expenditure are budgeted to rise by 3.4 per cent. Achievement of the 1987 budget targets seems difficult in some areas. On the receipts side, two factors point to slower growth: indirect taxes on oil products and the fine on unauthorised construction. Moreover, personal income tax will be affected by the full-year impact of the adjustment of tax brackets for inflation. On the other hand, the big wage rises and the buoyancy of private consumption will undoubtedly boost income tax and VAT revenues. All in all, the growth of government receipts will probably slacken appreciably between 1986 and 1987.

On the expenditure side, the disappearance of the exceptional factors that made for a heavier interest burden in 1986, as well as the impact of lower interest rates could help to stabilise interest payments in nominal terms in 1987 relative to 1986. On the other hand, the large public sector wage increases resulting from the triennial wage negotiations could push up spending on personnel by around 12 per cent in 1987. Since growth of transfer expenditure (pensions and health spending) does not seem to have been brought fully under control, growth of current expenditure looks set to overrun the Finance Act target. Lastly, experience has shown that, in Italy, election periods are often characterised by a spurt in budget spending. Failing the introduction of new measures in the course of the year, the budget deficit could be around L 105 000 billion, some L 2 500 billion higher than provided for in the Finance Act. Thus, to achieve the medium-term objectives for reducing the budget deficit presented in June 1986 a major effort will be needed. In 1986 the outturn was admittedly better than targeted, but the windfall tax revenues accompanying the fall in oil prices far exceeded the differential between outturn and target.

On a national accounts basis, the consolidated general government borrowing requirement increased by around L 1 500 billion between 1985 and 1986. The divergence between this trend and that of the central government deficit – which narrowed by an identical amount

Table 9. **Consolidated general government account**[1]

	As % of GDP 1986	Thousand billion lire				Percentage changes		
		1984	1985	1986	1987[2]	1985/1984	1986/1985	1987[2]/1986
Current revenue	39.4	273.7	310.0	350.4	379.7	13.3	13.0	8.3
of which :								
Direct taxes	12.9	91.3	105.1	115.2	126.0	15.1	9.6	9.4
Indirect taxes	9.2	67.4	72.9	82.0	88.0	8.1	12.5	7.3
Social security contributions	14.0	98.9	110.4	124.7	136.6	11.7	9.7	9.5
Other[3]	3.2	16.1	21.6	28.5	30.6	34.2	31.9	7.4
Current expenditure	45.9	325.5	365.1	408.2	442.4	12.2	11.8	8.4
of which :								
Consumption	16.2	117.2	131.8	144.4	161.2	12.4	9.6	11.6
Transfers to households	17.3	121.8	140.0	154.2	166.6	14.9	10.2	8.0
Subsidies	3.0	21.7	21.2	26.4	28.3	–22.0	24.6	7.0
Interest	8.5	58.4	65.4	75.7	75.5	12.0	15.7	–0.3
Other	0.8	6.4	6.7	7.5	8.1	4.7	11.9	8.4
Current savings	6.5	–51.8	–55.1	–57.8	–58.4			
Capital expenditure (net)	4.8	31.3	44.3[4]	43.1	46.9	41.5	–2.7	9.0
of which :								
Investment	3.6	25.1	29.5	29.9	32.5	17.5	1.4	8.8
Borrowing requirement		–83.1	–99.4	–100.8	–105.3			
(as percentage of GDP)		(11.5)	(12.3)	(11.3)	(10.8)			

1. National accounts basis.
2. OECD forecasts.
3. In 1986 including the fine on illegal construction.
4. Including the payment of outstanding debts for 5 200 thousand million lire.
Sources : Relazione generale sulla situazione economica del paese, 1987 ; OECD Secretariat.

over the same period – is due to the fact that the improvement in the central government account partly derived from a shift of expenditures to other general government bodies (social security and local authorities) and hence cancels out in the consolidated general government account. The general government borrowing requirement as a proportion of GDP fell by 1 percentage point between 1985 and 1986, to 11.3 per cent. This result was achieved through both an increase in the share of receipts in GDP and a decline in that of expenditure (see Table 9). It should, however, be noted with respect to the second factor that the share of current expenditure continued to expand under the pressure of interest payments and subsidies, while that of capital expenditure, including both direct investment and transfers, contracted. The borrowing requirement, excluding debt interest, fell quite steeply between 1985 and 1986 to only 2.7 per cent of GDP. Gross public debt continued to increase rapidly in 1986 – by 17 per cent on provisional estimates – its share in GDP probably rising from 82.3 to 87 per cent. Eighty per cent of the central government borrowing requirement was met by medium and long-term securities issues (around 4 percentage points more than in 1985). Treasury bill purchases by private investors and the banking sector also picked up, reducing the share of monetary financing of the public sector borrowing requirement by 50 per cent between 1985 and 1986.

In 1987 the general government account will reflect the effects of the opposite trends already mentioned in connection with the central government budget, namely slower growth of indirect taxation and interest payments on the public debt and a brisk acceleration of civil service wages. In the absence of new measures, the trend in other expenditure items, in particular health spending and social transfers, is expected to be much the same as in previous years, since radical reforms in these areas have so far proved difficult for political reasons. In 1988 growth of civil service wages will probably be sharply down, which could bring about a corresponding slowdown in the growth of current expenditure. The general government borrowing requirement could decline as a percentage of GDP in 1987 and 1988. On these forecasts, discretionary fiscal policy could be slightly expansionary in 1987, judging from the change in the structural balance, particularly on an inflation-adjusted basis. 1988 could see a return to a more neutral and even slightly restrictive stance.

Table 10. **Financing of treasury deficit and public debt**

Thousand billion lire

	1982	1983	1984	1985	1986
Total financing of Treasury deficit					
Bank of Italy	12.6	1.3	13.7	27.5	11.0
Foreign borrowing	2.6	1.3	2.3	2.9	0.9
Other borrowing	57.5	85.7	79.4	92.4	98.3
of which :					
Medium and long-term	(23.5)	(67.5)	(56.2)	(84.4)	(79.2)
Treasury bills	(28.6)	(10.5)	(15.3)	(–1.8)	(8.3)
Post Office savings deposits	(3.6)	(4.9)	(6.1)	(9.3)	(11.3)
Public debt outstanding					
Total gross debt[1]	361.5	455.4	560.2	681.7	792.7
As a percentage of GDP	66.3	72.1	77.7	84.6	88.6
Memorandum :					
GDP at current prices	545.1	631.6	720.7	805.8	894.4

1. End of period.
Source : Banca d'Italia, *Economic Bulletin*.

Monetary policy

During the early months of 1986 monetary policy was pursued against a background of capital account disequilibrium due to a bout of speculative pressure on the lira starting at the end of 1985 in the expectation of an EMS realignment. This led the authorities to abandon temporarily indirect regulation of the money supply and to reintroduce statutory controls on bank lending. Between November 1985 and January 1986 foreign exchange reserves fell by $3.5 billion. This massive outflow of capital was accompanied by problems in financing the budget deficit, causing the Treasury to overdraw its automatic credit line with the Bank of Italy. The latter, on the other hand, tightened its refinancing terms, pushing up interbank call money rates. However, this was not enough to stem the outflow of foreign exchange and in mid-January the Bank of Italy, considering that the rise in interest rates needed, on its own, to turn the tide would be such as to put an undue strain on the economy and particularly on the public debt, reintroduced a package of regulatory measures and upped Treasury bill rates quite substantially. These measures (the reinstatement of quantitative credit controls and a 75 per cent deposit requirement for export credits), coupled with a steep rise in interest rates, reversed expectations, since the authorities had, moreover, shown themselves determined to hold firm to their foreign exchange policy by refraining from participating in the April 1986 parity adjustment within the EMS. After a marked easing of interest rates (interbank rates fell from 18 per cent in the first half-year to 8½ per cent in June), credit controls were lifted in June 1986 and the Bank of Italy reverted to a policy of monetary control by way of interest rates.

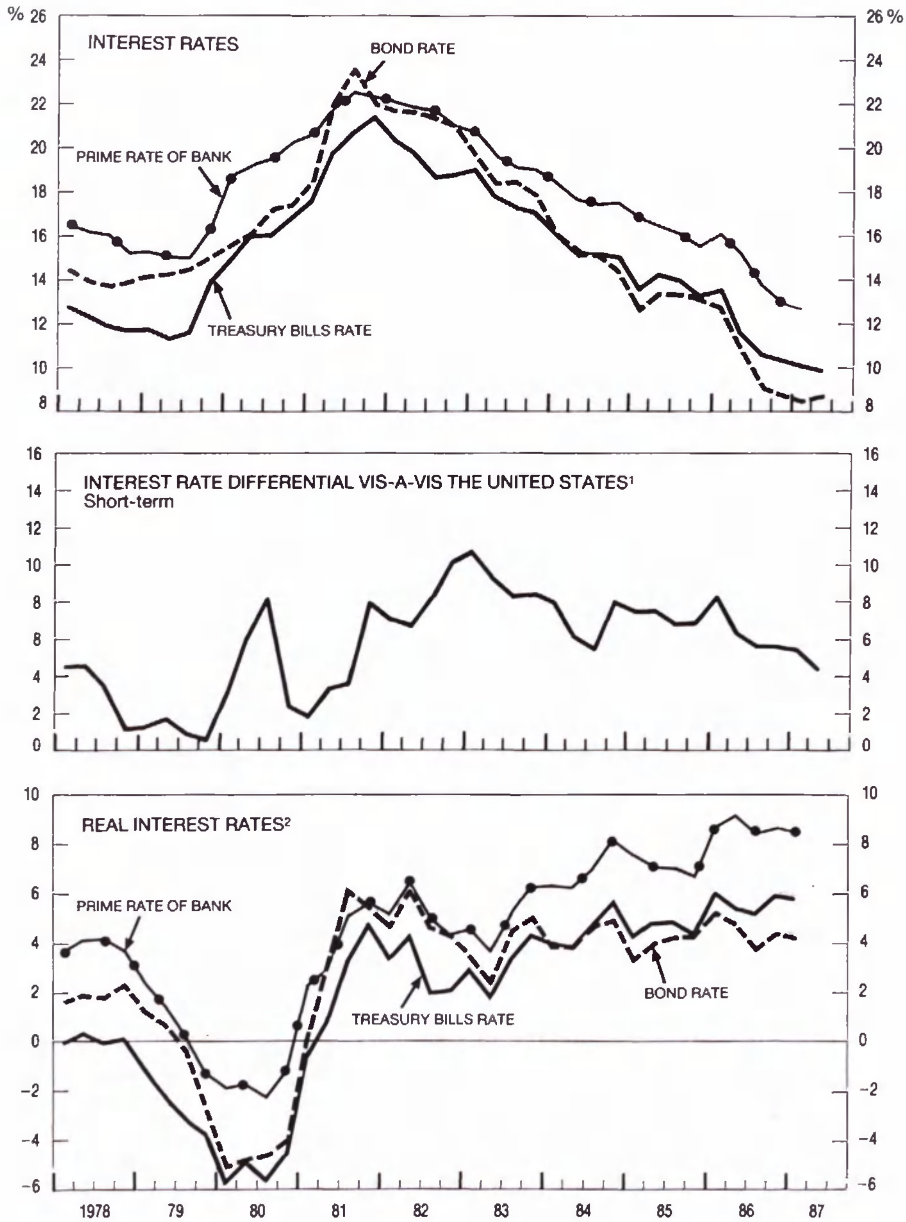
Table 11. **Money supply and counterparts**

	Thousand billion lire			Percentage change from corresponding period of previous year			
	Outstanding at 31/12/1984	Change 1985	Change 1986	June 1985	December 1985	June 1986	December 1986
Currency in circulation	39.9	3.8	3.1	11.7	9.5	8.1	7.1
Sight deposits	235.2	25.1	29.0	14.0	10.7	10.9	11.3
M1	275.1	28.9	32.6	13.7	10.5	10.5	10.7
Time deposits	231.1	27.6	20.4	15.5	12.0	6.2	7.9
M2	506.1	56.5	53.0	14.5	11.1	8.5	9.4
M3	615.9	77.1	56.8	15.2	11.7	8.3	8.3
Total domestic credit	851.2	151.4	152.3	19.1	18.1	15.3	15.2
To public sector	492.2	46.5	46.0	23.9	21.3	18.2	17.6
To private sector	359.0	104.9	106.3	12.8	12.9	11.1	11.5

Source: Banca d'Italia, *Annual Report*.

The lifting of credit ceilings was followed by a boom in domestic lending by both banks and specialised credit institutions; as a result the monetary authorities decided to impose tighter controls on bank liquidity and to stabilize Treasury bill rates. Nonetheless, the second half-year saw a further spurt in money market and financial market activity. Growth of bank lending, particularly to financial establishments and holding companies, surged in the fourth quarter. This acceleration may be explained primarily by financial considerations, in particular a restructuring of portfolios. A further explanatory factor were the fairly low rates

Diagram 5. **Interest rates**



1. Uncovered differential, Italy, interbank rate (3 months) *less* United States, Eurodollar rate (3 months).
2. Deflated by the consumer price index.

Sources : OECD Secretariat ; Banca d'Italia, *Economic Bulletin.*

of interest on bank lending compared with expected yields on the financial markets. All told, lending to the private sector rose 11.4 per cent in 1986 as a whole, a rate considerably higher than the 7 per cent targeted in autumn 1985. For most of the year M2 growth was fairly subdued, owing to only very moderate growth in bank deposits because of the preference of investors for new financial instruments – notably investment funds – and the development of portfolio management services. Thus, in August 1986, M2 growth, at 7.5 per cent, was at the bottom end of the annual target range (7 to 11 per cent), though the position was reversed in the last months of the year. The narrowing of the differential between Treasury bill and government security rates and bank deposit rates (particularly after the levy in September 1986 of a 6.25 per cent tax on interest on government securities), along with poorer stockmarket performance, resulted in a steep rise in sight deposits and certificates of deposit. Thus, over the year as a whole, M2 growth, at 10.2 per cent, moved closer to the upper limit of the target range. Growth of the monetary base slackened appreciably in 1986, down to 6 per cent against 14.6 per cent in 1985[7]. This slowdown was due to a reduction in monetary financing of the public sector and a decline in bank refinancing. However, in contrast to 1985, the external contribution to money creation was positive.

Monetary policy at the beginning of 1986 and in the first half of 1987 was influenced by exchange rate fluctuations and movements in foreign exchange reserves. Adverse expectations with regard to the lira towards the end of 1986 ceased after the EMS parity realignment in January 1987 and from then on there was a major inflow of foreign currency attracted by Italy's relatively high interest rates *vis-à-vis* a large number of countries.

For 1987 money supply growth targets for lending to the private sector were set at 7 per cent (replaced at the beginning of 1987 by a target range of 5-9 per cent) and at 6 to 9 per cent for M2. In the framework of official budget targets, public sector borrowing is projected to expand by 13.5 per cent, with total domestic lending expected to rise by 11 per cent. The rapid growth of lending to the private sector, particularly bank lending, has continued since the beginning of the year. Growth of lending to the private sector was up to 13.4 per cent on an annual basis in January and growth of bank lending alone to 14.8 per cent. At the end of the first quarter of 1987 the monetary authorities found that banks and major enterprises had borrowed heavily in foreign currency markets to take advantage of the difference between Italian and foreign interest rates and the lira's stability. Furthermore, domestic credit growth was still much faster than targeted, a large part of this credit being used to fund financial investments which were expected to give a better return than the (high) interest rates paid on bank borrowing. To limit growth of foreign currency borrowing by resident banks and to boost their main source of liquidity, the monetary authorities in mid-March 1987 introduced a compulsory 25 per cent reserve on any increase in their foreign currency liabilities. At the same time the discount rate was lowered from the 12 per cent prevailing since May 1986 to 11.5 per cent. This reduction was intended to narrow the differential between domestic and foreign market rates. The monetary authorities also hoped by these means to push down bank deposit rates and to steer a greater proportion of savings towards Treasury bills. While short-term Treasury bill rates did fall slightly in April, the decline was short-lived and was followed by a one-point rise in the rates on all 3-12-month bills at the beginning of July.

III. SHORT-TERM FORECASTS

The following forecasts are based on the technical assumptions and assessment of international developments contained in the OECD Economic Outlook No. 41:

- Exchange rates during the forecast period to remain unchanged from their 21st April 1987 levels, i.e. on average L 1 294.7 to the dollar in 1987 and 1 289.7 in 1988. This means an average appreciation of the lira against the dollar of 15.2 per cent between 1986 and 1987, and a year-on-year rise in the effective exchange rate of the lira of 10.8 per cent in 1987;
- An average price per barrel of oil of $18 during the forecast period, i.e. an increase of 20 per cent on the average 1986 price;
- Import prices to rise by 5 per cent at annual rate in the second half of 1987 and by 3.6 per cent in 1988;
- Italy's markets for manufactured goods to grow by 3½ per cent in 1987 and by 4½ per cent in 1988.

The discrepancies between the forecasts in the OECD Economic Outlook No. 41 and those in this Survey stem essentially from the fact that the latter have been based on the new national accounts, the main effect of this being to modify the weights of the different aggregates. In addition, the intra-year profiles of the new quarterly accounts are different from those of the previous accounts, resulting in marked differences in the carry-over from the previous year. Intermediate money supply growth targets are set at 6 to 9 per cent for M2 and 7 per cent for domestic credit to the private sector. Fiscal policy will have an expansionary thrust in 1987, primarily on account of wage increases, but in line with the medium-term programme it will return to a more neutral stance in 1988, notwithstanding a planned increase in investment.

In 1987 growth could accelerate slightly on 1986, fuelled mainly by domestic demand, whereas the foreign trade contribution to growth, already negative in 1986, will deteriorate further in 1987-1988. In addition to the major changes that may be expected as a result of the international economic environment, the performance of the Italian economy in 1987 will be strongly influenced by the steep wage increases resulting from the triannual wage round. Wage increases could average about 12 per cent on an annual basis in the public sector, and 8 per cent in the private sector, i.e. an increase of 9 per cent in total compensation of employees. The growth in households' other income could slow in 1987 compared with the previous year. Thus, unincorporated entrepreneurs' income will no longer benefit from the effects of the improvement in the terms of trade as in 1986; also, households' interest earnings, which had been swollen in 1986 by the change in the schedule of interest payments on government securities, can be expected to rise less rapidly in 1987. Households' total gross income should to grow by about 8½ per cent in 1987. Direct tax pressure is set to increase along with social insurance contributions which will rise rapidly as a result of their partial debudgetisation.

Table 12. **Short-term forecasts**

Percentage change from previous period at annual rate

	1986	1987	1988	1986	1987		1988	
				II	I	II	I	II
Demand and output (volume)								
Private consumption	3.2	3¾	3	3.7	3¼	3½	2¾	2½
Public consumption	3.0	3	1¾	2.8	3½	2½	1¾	1½
Gross fixed investment	1.2	2¾	3¼	0.6	3	4¾	2¾	2½
Machinery and equipment	3.1	4	4	1.7	4	6	3½	3½
Construction	–0.7	1¾	2¼	–0.6	2	3½	2	1¾
Final domestic demand	2.7	3½	2¾	2.9	3½	3½	2½	2½
Change in stockbuilding[1]	0.6	1	½	1.6	1	½	½	1/4
Total domestic demand	3.2	4¼	3	4.4	4½	4	3	2½
Exports of goods and services	3.1	2	3¾	–1.2	2¾	3½	4	3½
Imports of goods and services	5.1	6½	5¾	6.2	7	5½	6	5½
Foreign balance[1]	–0.5	–1¼	–½	–1.8	–1	–½	–¾	–¾
GDP at market prices	2.7	3¼	2½	2.7	3½	3½	2½	2
Industrial production	2.7	2½	2½	–1.9	4½	3	2½	–2¼
Prices								
GDP price deflator	8.0	6	4¼	6.8	6	5	4¼	3½
Consumer prices	6.2	4¾	4¾	4.6	5	4¾	5	4½

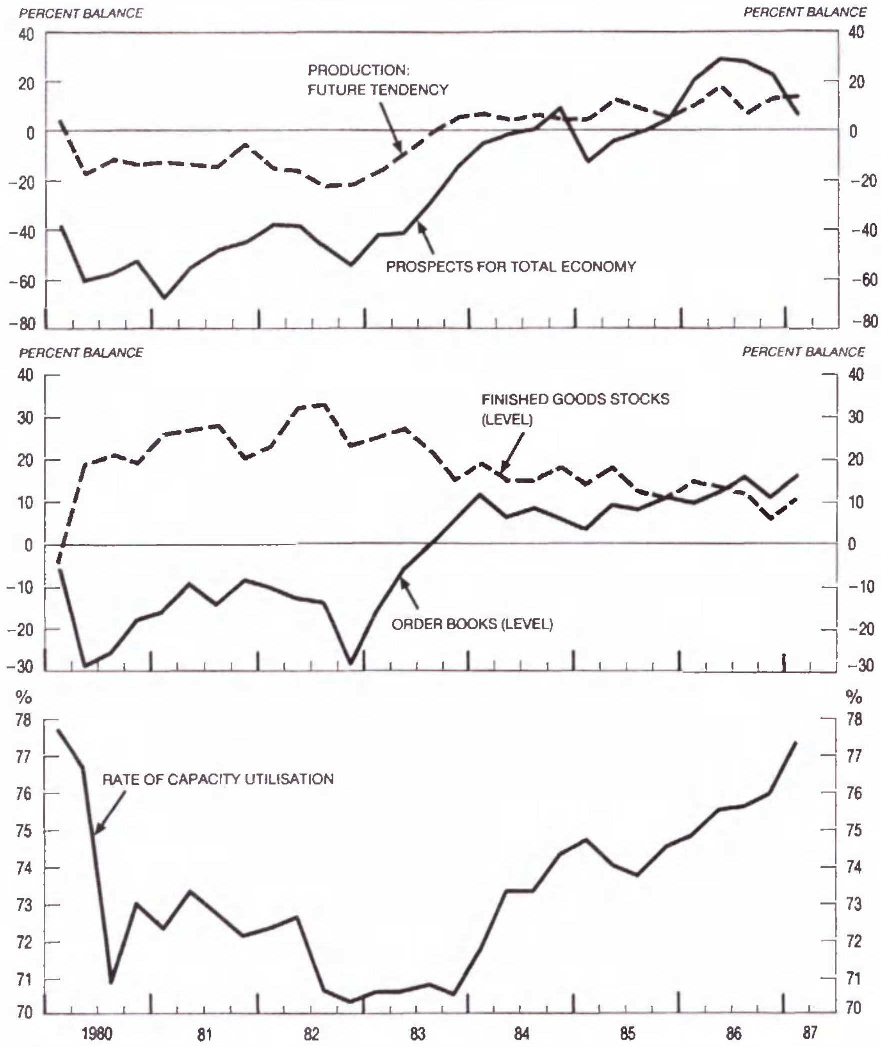
1. As percentage of GDP from the previous period.
Source: OECD Secretariat estimates and forecasts.

In 1988, growth of the total wage bill will be attributable primarily to the wage escalator mechanism and increased employment. Social transfers may also grow less rapidly than in 1987, in line with the policy of controlling public expenditure. Under these circumstances, the rate of growth of households' real disposable income could fall back to about 2 per cent in 1988. The savings ratio[8], which probably rose steeply in late 1986 on account of the rapid increase in income, should fall slightly in 1987, thereby giving a boost to private consumption. The latter, after growing briskly during the first half of 1987 as a result of the sharp rise in real wages, can be expected to drop gradually back to an annual rate of about 2.5 per cent by the second half of 1988.

There would appear to be a concurrence of a number of conditions conducive to growth of productive investment: corporate profits rose sharply in 1986, prospects for domestic demand growth are favourable, and business surveys indicate that the capacity utilisation rate is rising and that corporate investment projects, both to modernise plant and to increase capacity, are on the increase. Furthermore, late 1987, and above all 1988 could see the actual start-up of medium-term public investment projects which will stimulate investment in the construction and public works sectors. All in all, fixed investment growth could average around 3 per cent in real terms over the period 1987-1988, while investment in the construction and public works sectors will probably pick up slightly. On the basis of the 1987 budget and the settings of the medium-term programme to balance public finances, public consumption may be expected to bolster domestic demand in 1987 and ease off the following year. All told, domestic demand is likely to grow in 1987 by 4 to 4½ per cent in real terms, slowing over the forecast period to an average rate of 3 per cent in 1988.

The vigorous growth of domestic demand in 1987, and to a lesser degree in 1988, could produce a distinct surge in imports. Growth of import volumes could accelerate markedly in 1987 and remain high in 1988. Exports will be affected in 1987 by the sluggish growth of

Diagram 6. **Business indicators**



1. Mining and manufacturing.
Source : OECD, *Main Economic Indicators.*

markets and the deterioration in relative competitiveness (Italy's relative unit labour costs will probably rise by 3½ per cent in 1987). As happened in 1986, Italian firms will probably adopt different pricing policies for the international and domestic markets in order to limit their losses of export market shares. On balance, exports may perhaps pick up somewhat after losing ground during the second half of 1986, but the rate of growth in 1987 (for goods and services on a national accounts basis) is unlikely to exceed 2 per cent. In 1988, the slight improvement expected in world trade could allow exports to grow by some 3¾ per cent, notwithstanding a further deterioration in relative competitiveness. Overall, foreign trade will make a negative contribution to growth in both 1987 and 1988, averaging around 1 per cent of GDP.

The GDP growth rate could thus rise to 3¼ per cent between 1986 and 1987. In 1988, growth is likely to slow and may well not exceed 2½ per cent. Employment could rise in 1987 by about ½ per cent and slightly less rapidly in 1988, but these rates will not suffice to prevent a further rise in the number of jobless; in the second half of 1988, the unemployment rate could climb to 11¾ per cent, nearly 1 percentage point higher than in the second half of 1986.

Inflation, measured by the rise in consumer prices, will be about 1¼ percentage points lower than in 1986 in annual average terms. However, intra-year price performance is likely to be less satisfactory: the rate of increase in prices could go on climbing until the first half of 1988, falling back only in the second half to the level of the second half of 1986. Import price trends turned around in the first half of 1987, and they have again risen. On the basis of export price forecasts for Italy's main trading partners and assumptions concerning commodity and oil prices, import prices should continue to rise at an annual rate of about 3 per cent until the end of 1988. The second cause of the acceleration in prices in 1987-1988 will be the growth of wage costs. Unit labour costs throughout the economy can be expected to rise by 6 per cent in 1987 and 4½ per cent in 1988 as a result of the triannual wage agreements. A factor conducive to price rises will be the strong growth of domestic demand which will probably allow manufacturers to partly offset on the domestic market their low export prices. As these effects will probably not be felt immediately and will spread only gradually through the economy, prices may be expected to rise steadily and smoothly.

The combination of a declining real trade balance and terms-of-trade stabilization will result in a fall in net exports during the forecast period and a deficit of perhaps $4¼ billion in 1988 (L 5 300 billion). The surplus on invisibles could rise by about $800 million between 1986 and 1988, due to a decline in the interest payment burden, stabilization of the amount of official transfers and an improvement on tourism account. The current external account is thus expected to show a surplus again in 1987 ($2¾ billion), but to move back into a deficit of $1¼ billion in 1988.

IV. FINANCIAL MARKETS

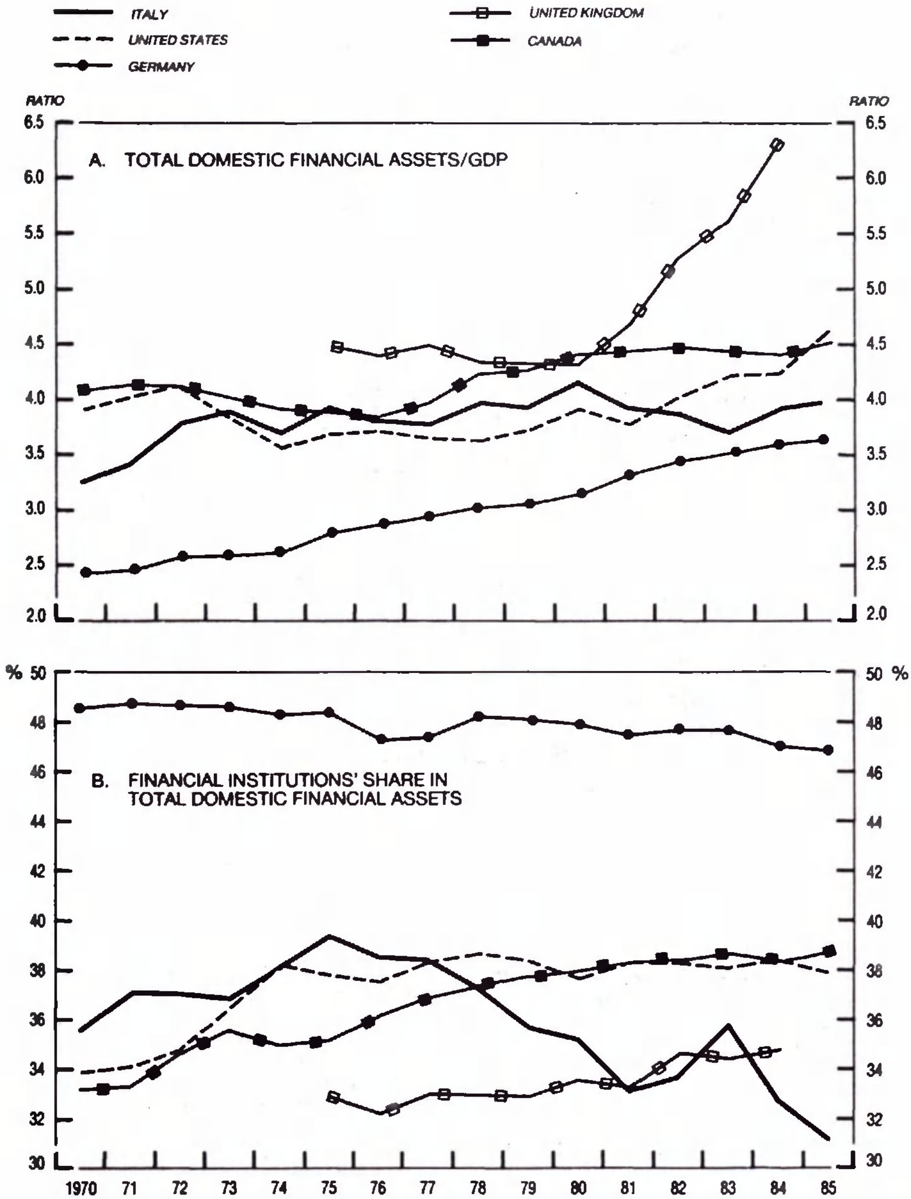
The Italian financial system, like those of virtually all Member countries, has undergone a number of profound changes over the last twenty years. Initially these changes were dictated mainly by domestic economic policy considerations: the desire, prior to the first oil shock, to ensure rapid economic growth and then the need to combat inflation and finance a public sector deficit, which began to grow as of the mid-1970s. To these domestic imperatives were added external forces (particularly since Italy's membership of the European Monetary System), which accelerated the shift in the Italian financial system towards integration and growing internationalisation. The purpose of this change, which was facilitated by the development of financial innovations and progress in management and communications techniques, was to increase the efficiency of the financial system. It has enabled the authorities to move gradually from a system of money supply regulation based almost solely on administrative-type instruments to a system of indirect control in which interest rates play an increasingly important role. However the implementation of these reforms, particularly where the internationalisation of the financial market is concerned, seems to be more gradual in Italy than in the majority of its main economic partners because of persisting major domestic disequilibria.

This part of the Survey looks at the changes in the financial market in Italy. It begins by discussing the main domestic or international forces that have acted as a stimulus to change in the financial system. There follows a brief description of the characteristics of Italy's financial structures: the institutions on one hand and the regulatory framework on the other. After a review of certain features relating to the efficiency of the system, as well as the main reforms in the regulations are analysed, as well as private sector innovations in recent years. The implications of these changes for the conduct of monetary policy are discussed in the final section, while some of the findings that can be derived from this part of the Survey will be outlined in the Conclusions.

Financial balances and saving by sector

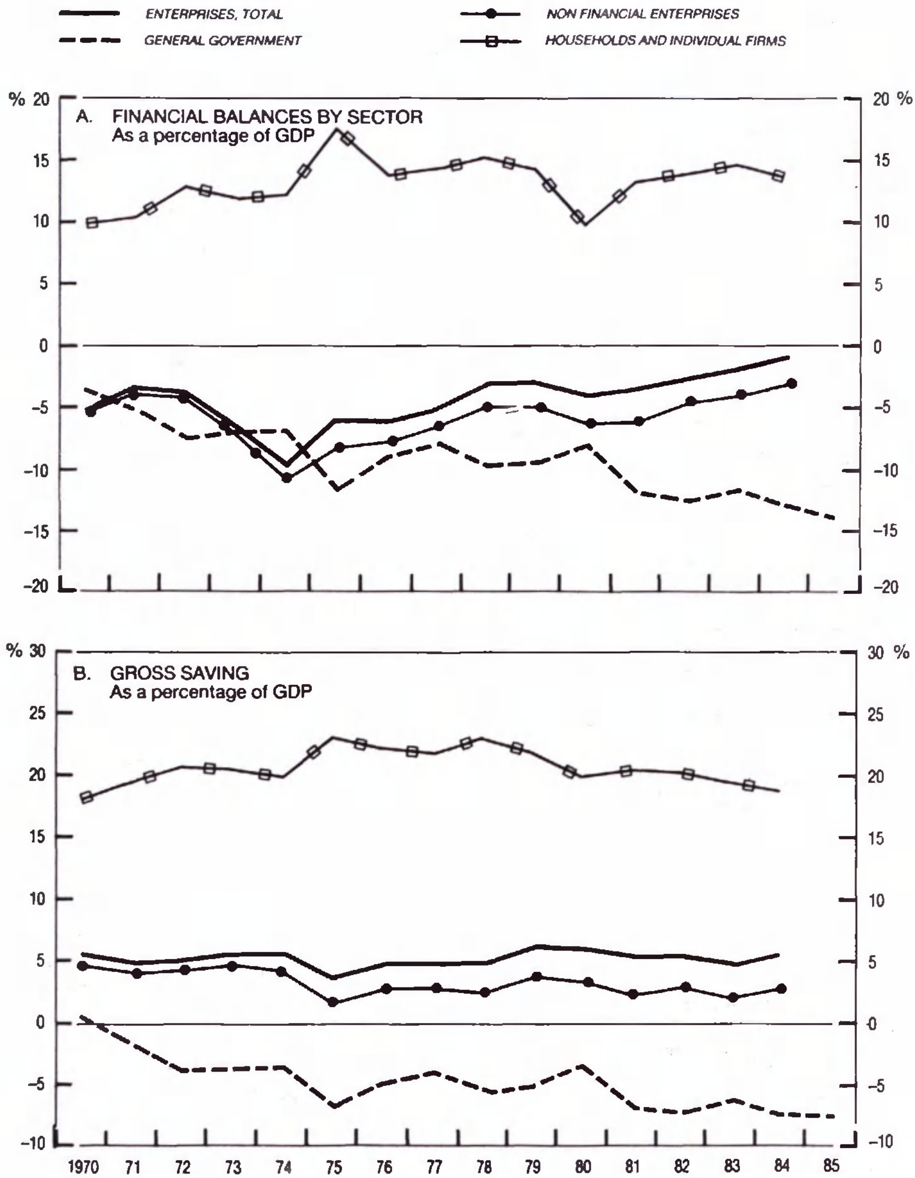
The main role of the financial system is to bring together savers and investors, applying criteria of efficiency based on the profitability of the programmes financed and by means of an exchange of securities representing investors' debt. These securities are traded either directly, or indirectly when purchased by a financial intermediary which modifies them before selling them to savers. Italy's financial structures and the way they have evolved have thus been very much influenced and shaped by the volume of domestic saving and, above all, the extent of the imbalances between the financial situations of the different sectors. In response to the growing public sector borrowing requirement, the lending capacity of households rose up till 1975 and then stabilized at a high level. There was moreover an increase in financial intermediation up till 1975, as is shown by the rise in the ratio of financial institutions' assets to total financial assets, but this has since given way to gradual disintermediation (see Diagram 7). The share of

Diagram 7. **Relative size of the financial system**



Sources: Banca d'Italia, *Annual Report* ; Federal Reserve System, *Flow of funds accounts* ; Deutsche Bundesbank, *Monthly reports* ; Central Statistical Office, *Financial Statistics* ; Statistics Canada, *The National Balance Sheet Accounts, 1961-1985.*

Diagram 8. **Financial balances and saving by sector**



1. The bank of Italy data concerning households in the strict sense show a different trend in their lending capacity. Two phases of smooth growth can be observed, 1965-73 and 1980-84, with an interruption of a few years of marked fluctuations; as a conterpart, according to this definition, the borrowing requirement of enterprises doesn't appear to continue falling after 1982 (see Table 1 in Annex II).

Source: OECD, *National Accounts*.

public sector liabilities in the total has grown almost uninterruptedly, reaching 66.5 per cent in 1984-1985 against 44 per cent in 1980.

Domestic saving in Italy represented on average 22 per cent of GDP between 1970 and 1974, a ratio close to that recorded in the other European OECD countries, which was between the slightly lower level reached in the United States and Japan's very high level. The ratio has fallen during the 1980s, in common with most OECD countries.

The composition by sector reveals disparities that are particularly marked in the case of Italy. As a percentage of GDP, household saving is amongst the highest in the OECD countries, having risen up till 1975 when it amounted to almost 23 per cent, before beginning to fall slowly after 1978[9]. Purchases of housing and land then accounted for a relatively large share of this saving, but these too have slowed since the late 1970s, while the share of financial assets increased. This shift, which has been mainly into government securities, is largely attributable to the rise in real interest rates after 1980.

Against this, there has been a continuous decline in public sector saving since 1970. Whereas general government current saving was positive up till 1970, it became negative in 1971 and then deteriorated further – down to an average level of -7 per cent of GDP between 1981 and 1986. With capital expenditure accelerating over the same period, the size of the borrowing requirement grew more rapidly, from 4 per cent of GDP in 1970 to some 12½ per cent in 1981-86[10].

Gross savings of non-financial enterprises fell as a proportion of GDP, from 4 per cent on average between 1970 and 1974 to 2 per cent between 1980 and 1984. As a result of the slowdown in fixed investment during the five years immediately following the first oil shock, and then again in 1981-83, there has been an almost continuous reduction of their borrowing requirement since 1974. In 1984 and 1985, investment by non-financial enterprises picked up and self-financing increased, meaning a rebuilding of savings.

Financial balances disequilibria were accentuated as of 1973-74 by the gathering pace of inflation. Taking into account the simultaneous depreciation that rising prices inflict on the real value of the stock of financial assets (or liabilities) of economic agents, their respective financial situations appear very different from the nominal balances. Part of the increase in the public deficit is in fact offset by erosion of the real value of public debt. On the other hand, household saving is also reduced by a similar adjustment, so that the public sector borrowing requirement still exerts considerable pressure on private saving[11]. While inflation causes distortions in financial flows between sectors, it is the nominal amounts which appear relevant to measure the scale of the borrowing requirements that the financial system has had to meet.

International influences

Rapid growth of international trade and the concomitant tendency among large firms to open subsidiaries abroad has acted as a strong stimulus for financial institutions to develop their operations abroad. This trend was accentuated by the improvement in communications and the increased liberalisation of international commodity and capital movements, which characterised the world economy up till the early 1970s. Since then, two oil shocks have aggravated international payments disequilibria and appreciably heightened demand for international financial intermediation ("recycling"). Increased volatility of interest and exchange rates following the collapse of the Bretton-Woods system generated demand for financial services and led to the creation of new instruments and lead to improved risk management via portfolio diversification. These developments have prompted spectacular growth in international banking activity over the past two decades.

Participation in this process by Italian financial institutions has been checked by the legislation on capital movements. During the 1960s Italy had begun to liberalise financial transactions and had adopted the EEC and OECD directives. In response, however, to the massive flight of capital in 1969, which stemmed from a sharp deterioration in the social, political and economic climate, the authorities decided in the early 1970s to introduce restrictive controls on foreign exchange and capital movements. As Table 13 shows, the share of foreign assets in the balance sheets of Italian banks fell between 1970 and 1980, whereas it was growing fast in most of the major OECD countries and in the area as a whole. In both Italy and the rest of the OECD area, on the other hand, there was a brisk increase in the share of international trade in total output.

Table 13. **Trend in « finanacial » and « real » integration**

	1970	1975	1980	1985
Foreign assets/total assets				
Italy	12.6	9.5	9.5	13.1[2]
OECD	14.3	14.8	20.3	23.9
Foreign liabilities/total liabilities				
Italy	12.6	9.1	13.5	16.7[2]
OECD	13.5	15.3	24.1	26.3
Exports + imports/GDP				
Italy	35.0	45.5	53.1	56.3
OECD	29.3	35.2	40.6	42.6

1. Arithmetical mean ; excluding Luxemburg and for 1985, Switzerland.
2. 1984.
Sources : IMF, *International Financial Statistics* ; OECD, *National Accounts*.

Italy's decision to join the EMS in 1979 was a turning point in the stance of economic policy and had major consequences for the financial system. This decision reflected the authorities' determination to bring Italy's economic policy increasingly into line with those of its main trading partners – particularly as regards efforts to slow inflation. The purpose of this was to create conditions in which restrictions on capital movements could be removed – this itself being a prerequisite for increasing the efficiency of the financial system and improving its competitiveness on international markets. This move towards greater openness of Italy's financial markets was given further impetus by a series of changes in the financial regulations, which will be discussed more fully below, and in particular by a formal undertaking to achieve complete liberalisation of capital movements within the EEC before 1992[12].

Structure of the financial system

The regulatory framework

Traditionally, the functioning of the financial markets in Italy has been heavily regulated. Some of the regulations are of a prudential nature, some are designed to influence resource allocation, while yet others are more directly geared to the aims of monetary policy. The existing, prudential regulations are based on the *1936 Banking Law*. Implemented in the wake of the banking crises of the late 1920s and early 1930s, the Law was designed to bring a degree of stability to the system by introducing specialisation among the various categories of financial intermediaries; it is similar to regulations in some other OECD countries. Rejecting the universal bank model adopted in certain other continental countries (e.g. Germany, Austria and Switzerland), it divides markets according to the maturity of loans and resources. According to the Law, banks take deposits and are specialised in short-term lending (maturity of less than eighteen months); Specialised Credit Institutions (hereafter referred to as SCIs) issue longer-term bonds and specialise in medium and long-term lending, in particular in the provision of State-subsidised loans. In practice, the distinction has become blurred over time, and the two types of intermediaries have established close links with one another. Many SCIs are in fact autonomous entities within banking groups. On the operational level, exceptions have been made with respect to loan maturities; banks in particular provide firms with medium-term loans for investment purposes, and these are then refinanced by the SCIs as there is sometimes a long interval, especially in the case of subsidised loans, between the moment a loan is agreed and the time the funds actually become available. Conversely, the SCIs have developed certain types of short-term lending as a result of the controls on bank credit.

In 1973, the monetary authorities introduced a *compulsory minimum security purchases* requirement (vincolo di portafoglio or portfolio constraint) that had two purposes: first, to increase the share of long-term securities in banks' holdings; second, to strengthen the long-term resources of SCIs. In the early 1970s, the latter had found it increasingly difficult to attract household savings since, following the collapse of the bond market as a result of the acceleration in inflation, households showed a marked preference for liquidity. SCIs were also particularly vulnerable in that their lending was directed to ailing industrial sectors. Until the portfolio constraint was eased in 1984, banks were obliged to invest a proportion of their deposits in certain types of long-term securities, in particular bonds issued by SCIs. This strengthened the "double intermediation" that is characteristic of the Italian financial system. Banks have provided more than half of SCIs' funds since 1976, compared with about 30 per cent in the early 1960s. Medium and long-term securities issued by SCIs against these funds accounted for approximately 15 per cent of bank assets in 1976-78, the same proportion as that of short, medium and long-term Treasury securities.

The 1936 Banking Law also established the principle of operational autonomy of banks, the purpose of which was to avoid excessive concentration of risks and also to ensure allocative efficiency. In particular it was designed to safeguard banks' autonomy vis-à-vis industrial groups by monitoring acquisitions of shareholdings between banks and firms so as to prevent loans being granted on preferential terms not justified on economic grounds. This is currently a matter of some importance, as certain industrial groups have very substantial liquid assets that would enable them to take over banking institutions[13]. This principle was also aimed at ensuring the operational autonomy of public sector banks *vis-à-vis* the central government. Furthermore, the monetary authorities control the opening of new branches. This regulation, which was recently eased, was designed to promote a fairly uniform level of competition between regions and to satisfy demand for banking services within them, while simultaneously ensuring that competition did not reach a point where it might, in the authorities' view, impair the efficiency of the system by pushing up operating costs[14].

A third aim of the regulatory system is to facilitate the implementation of monetary policy by means of quantitative credit controls and restrictions on transactions with non-residents or exchange controls. These controls are intended to influence the cost and volume of financial flows in line with the priorities of economic policy. Their implications for the conduct of monetary policy will be examined in Part V. In most industrialised countries, interest rates have been regulated for periods of varying duration, with ceilings set on deposit rates while certain types of loan are granted on preferential terms. In Italy, though, deposit rates are not controlled; bank lending has been controlled directly by means of *quantitative credit controls*, which were applied virtually without a break between 1973 and 1983. Initially the controls were selective, affecting neither the most important projects nor foreign currency loans, and not concerning loans of less than a certain amount, so that small firms remained outside the scope of controls. These exemptions were gradually whittled away. Moreover, a large subsidised credit sector, in which the SCIs operated, existed alongside the controlled credit sector. It was not subject to controls and provided loans to designated priority sectors and regions (housing, civil engineering, agriculture, Mezzogiorno, exports) which, as will be seen below, allowed regulations to be circumvented to a certain extent.

Financial transactions between residents and non-residents were governed for thirty years by a principle which, legally speaking, was highly restrictive: the Act of 1956 prohibited, unless otherwise authorised, any loans between these two categories of agent. There were a large number of complex restrictions that were periodically reinforced during foreign exchange crises; 1972 marking the beginning of a restrictive phase that lasted virtually uninterrupted for nearly ten years. The restrictions under the heading of *exchange controls* had to allow for continuing interest rate differentials between Italy and abroad so as, first, to prevent speculation on the foreign exchange market and, second, to control capital movements in general; the aim was to facilitate the regulation of domestic liquidity and official reserves. In order to control capital movements, the authorities took action on several fronts[15]:

- Suspension of the external convertibility of Italian banknotes between 1972 and 1986;
- Restrictions on the purchase of foreign assets by residents; thus, 1973 saw the introduction of a compulsory non-interest bearing deposit in lire equal to 50 per cent of investment abroad in property or financial assets. This rate applied for ten years, and was then cut to 40 per cent in 1984 and to 25 per cent in 1985. It then remained at 10 per cent until May 1987 when it was abolished altogether;
- Tight limits were set on leads and lags in foreign trade payments and receipts;
- Alongside these restrictions, residents were encouraged to borrow abroad.

In practice, exchange controls were less stringent than they seemed on paper, except during periods of emergency. Exemptions to the compulsory deposit requirement on direct investment abroad were granted on an individual basis. In addition, controls applied essentially to transactions by residents, whereas non-residents remained virtually free to invest or disinvest in Italy. At the end of 1986, a complete reform of the regulations was undertaken and the principle of the "freedom of foreign economic and financial transactions" is now embodied in law; restrictions have to be enacted explicitly by decree. The measures taken by the authorities in May 1987 (see Part I "Recent trends: transactions with the external sector") represent an important step towards the liberalisation of the foreign exchange system.

Financial institutions and instruments[16]

The Italian financial system is dominated by two types of intermediaries – banks and SCIs. Other financial institutions such as insurance companies and pension funds play an insignificant role[17]. Mutual funds, on the other hand, which were set up in 1983, have expanded very rapidly over the past two years, in line with a comparable trend on the stock exchange. Until recently, the capital market played only a limited role in the financing of the economy for institutional and historical reasons. Households channelled their savings into liquid or low-risk investments – primarily bank deposits, which in Italy bear interest, but also government securities, income on which was exempt from tax until September 1986[18]. This, together with the unfavourable tax treatment of income on private securities, certainly inhibited the growth of demand for medium-term securities. As regards the stock market, until the 1977 reform dividends were taxed twice, first as corporate profits and then as household income. By contrast, the tax treatment of bonds was less unfavourable, and the bond market played a significant role in the 1960s; however, bonds issued by public enterprises and SCIs received more favourable treatment than those of the private sector. The bulk of bond issues were made by public enterprises and SCIs, while most of them were taken up by banks. The bond market has not recovered the position it had prior to the crisis of the early 1970s.

The share of bank deposits in GDP is one of the highest among OECD countries (Table 14). Ten years ago, over half of households' financial assets – and still nearly 40 per cent nowadays – were in the form of bank sight or savings deposits[19]. In addition, banks are the major source of funds for the SCIs. They are directly responsible for half of the loans to the private sector, and nearly three-quarters if their contribution to SCI funds is taken into account (figures refer to 1983-84). There are nearly 1 100 banks, most of which are local or regional (figures at 31st December 1984); 80 per cent are publicly owned. As the main difference between commercial banks and savings banks has hardly any economic significance, banking institutions will hereafter be distinguished simply according to size.

Table 14. **Cross-country comparison of bank deposits as a percentage of GDP**[1]

	1976	1985
Italy	71.7	63.8
United States	31.5	31.5
Germany	46.4	50.1
United Kingdom	28.5	38.6
France	37.6	37.4
Japan	73.1	84.3[2]

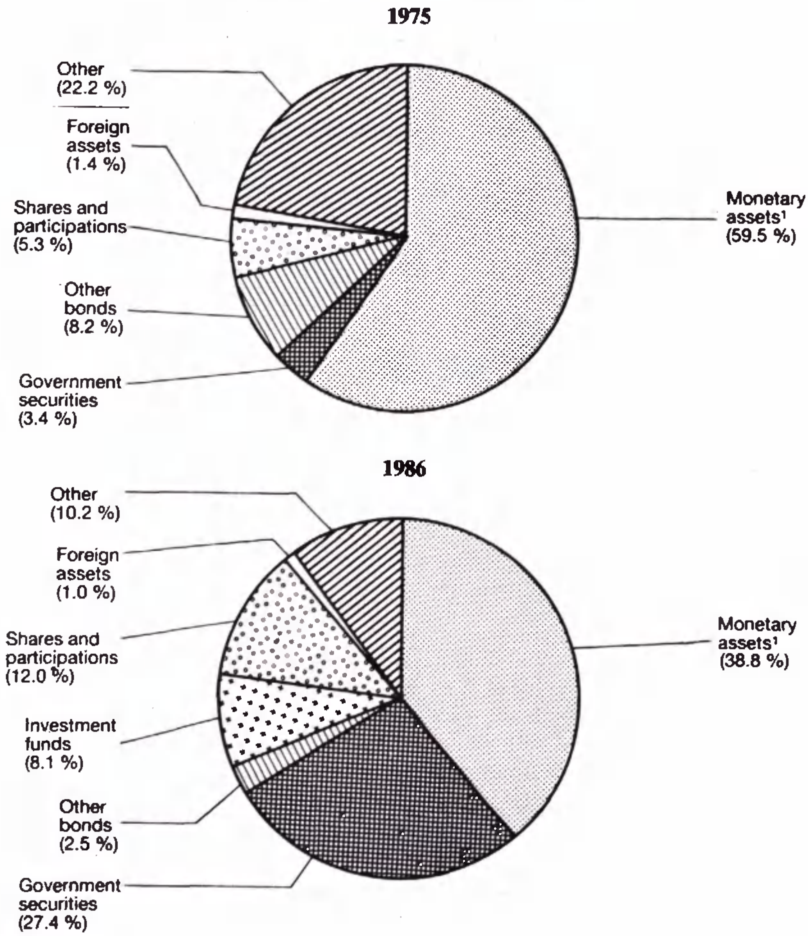
1. Bank deposits at end-period.
2. Data for 1984.
Source : Banca d'Italia, *Economic Bulletin*, n° 8, February 1987, on the basis of IMF data.

The specialised credit system has been the main vehicle for channelling subsidies to crisis or priority sectors and to the least developed regions (especially the Mezzogiorno and mountain regions). It consists of 85 SCIs specialised in the provision of medium and long-term financing to various sectors of the economy the breakdown being as follows: the mortgage market and construction (21 institutions), agriculture[13], industry[32] and civil engineering projects[19]. Loans account for three-quarters of the SCIs' use of funds – a much higher proportion than that for banks; to this should be added advances to the Treasury on the instructions of the Bank of Italy (approximately 10 per cent in 1980-81, but less than 5 per cent as of 1985). A large proportion of domestic lending is to the general government and public sectors (34 per cent) and to households (15 per cent). Households' borrowing consists primarily of mortgages, one-third of which are at subsidised rates. The strong links between banks and SCIs, reflected in the process of double intermediation, have allowed the credit ceilings imposed on banks to be circumvented; the initial intention of the authorities was to protect certain sectors of the economy.

Financial channels: bank intermediation

The trend of households' financial assets and of the liabilities of public sector and corporate borrowers is indicative of the changes that have taken place in financial channels. As in France and Germany, more than two-thirds of households' assets are in tangible form. The share of housing is even higher than in these two countries (see Table A2 in Annex II).

Diagram 9. **Households' financial assets**



1. Money and money deposits
Source: Banca d'Italia, *Economic Bulletin* n° 3, oct., 1986, p. 56.

With the process of widespread disinflation in Europe since 1980, which encouraged financial investments and lowered relative property prices, the share of financial assets rose from 28 per cent of the total in 1980 to 32 per cent in 1984, still well below the figure for the United Kingdom. The share of monetary assets has gradually declined, while that of government securities with various maturities, still insignificant in 1975, now accounts for over 25 per cent of total financial assets, excluding those held indirectly through investment funds (Diagram 9). In 1984, shares still represented less than 8 per cent of financial assets, whereas in the United Kingdom at that time the figure was twice as high. As has been seen, differences in tax treatment partly account for the composition of households' security holdings. In fact, the shift towards shares has happened only very recently, since the creation of mutual funds in 1984 and the introduction of more favourable tax provisions.

Table 15. **Cross-country comparison of corporate self-financing ratios**

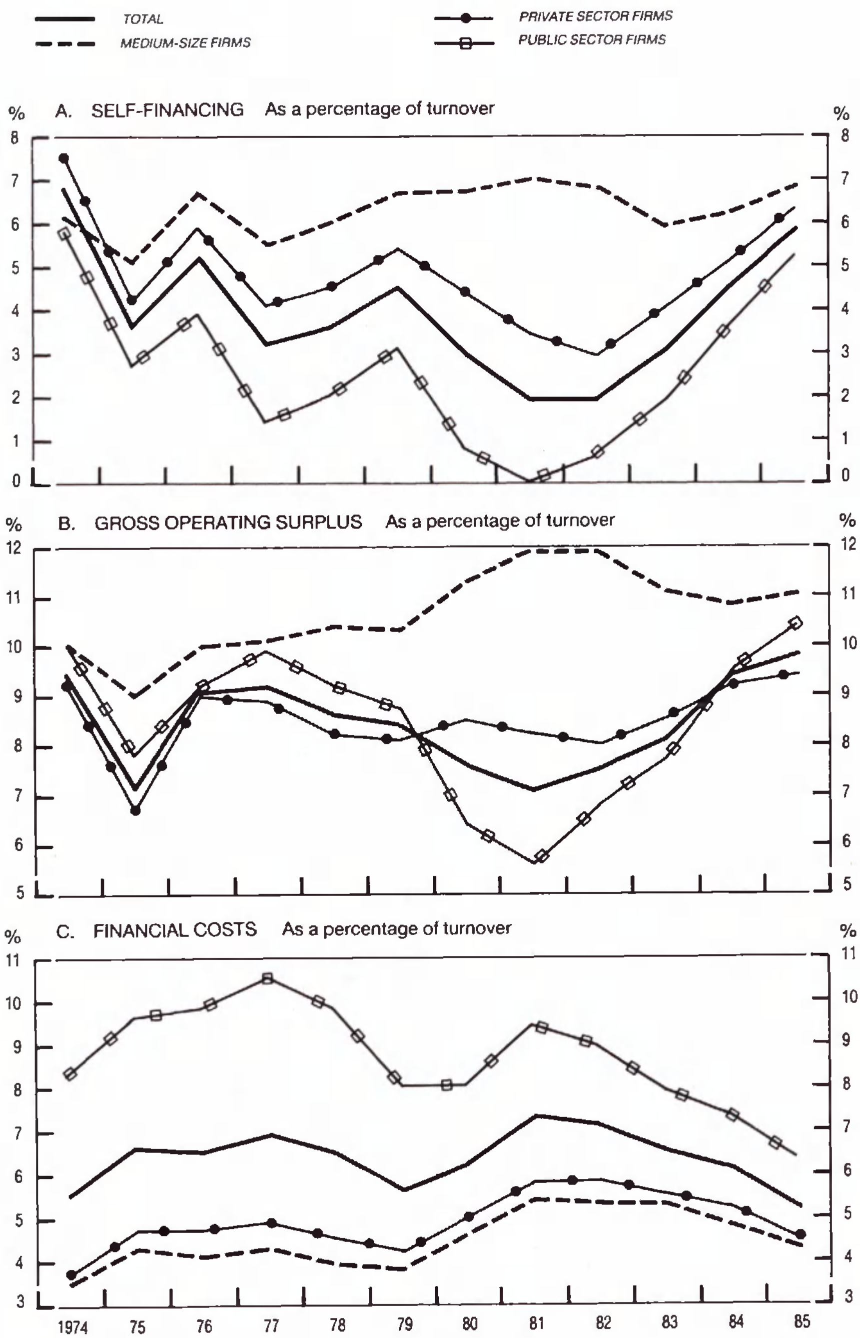
Per cent

	1970	1973	1975	1980	1983	1984	1985
Italy	57.1	53.0	19.2	48.7	20.9	–	–
United States	73.6	79.1	89.9	81.6	114.6	–	–
Japan	81.2	68.4	40.9	62.8	68.6	70.0	–
Germany	58.3	50.2	56.4	48.6	58.9	58.3	–
France	74.3	68.3	56.9	59.9	56.6	70.0	74.0
United Kingdom	70.1	98.7	51.2	73.8	113.5	121.4	–
Canada	78.4	78.7	76.5	72.1	97.1	106.4	93.9

Sources: OECD, *National Accounts*, and *Non-financial Enterprises Financial Statements*, 1986.

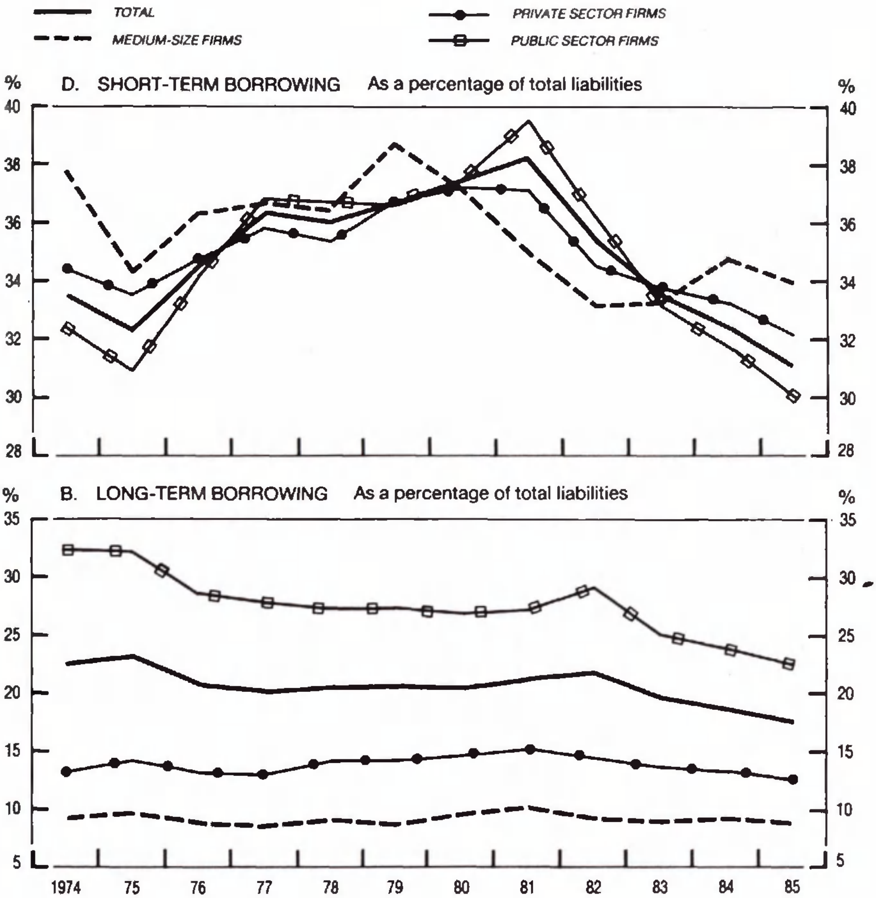
The savings that banks collected from households allowed them to expand their corporate lending during the years 1965-73, a period of high investment growth (investment in plant and equipment growing, on average, by 7.5 per cent). In 1973, prior to the onset of the oil crisis, corporate saving peaked (at 5½ per cent of GDP) and investment was rising very rapidly. The self-financing ratio for the entire corporate sector was then at over 50 per cent (and 66 per cent for the private firms in the Bank of Italy survey). Nonetheless, compared with the situation in most major countries, the self-financing ratio of Italian firms was still relatively low (Table 15). Total corporate debt continued to grow rapidly, and in 1974 accounted for nearly 60 per cent of liabilities. Despite brisk growth of medium and long-term loans, especially from SCIs, they accounted for less than half of total corporate debt, and for an even smaller proportion of the debt of private sector firms (Diagram 10). At that time, floating rate debt represented a large share of liabilities. However, financial costs were not very high because of the low level of nominal interest rates and the large amount of subsidised credit. The situation of firms deteriorated sharply after 1974: to the fall in output were added both the weaker terms-of-trade caused by the first oil shock and a rapid rise in financial costs. As a result of the massive wage increases of the late 1960s, labour costs placed a heavy burden on firms' operating accounts. Also, bank lending was squeezed by credit controls and the priority that the authorities attached to non-money financing of the Treasury deficit. It was the combination of these factors that initiated the process of bank disintermediation that was to be a feature of subsequent years.

Diagram 10. **Firms' financial position**



Source: See next page.

Diagram 10 (cont'd)



Source: Mediobanca , *Dati cumulativi di Società italiane*, various years.

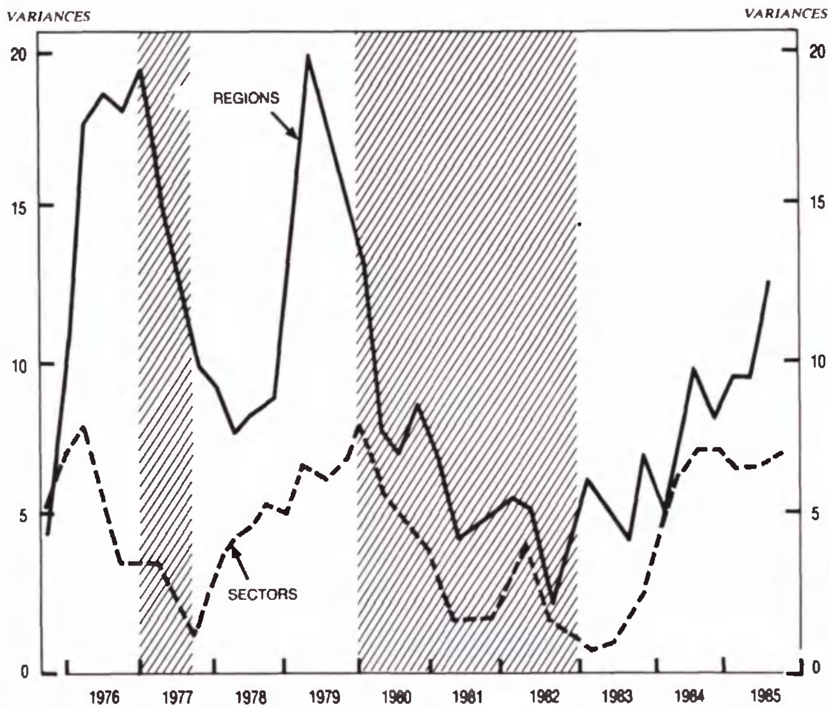
The efficiency of the system

The efficiency of the system has to be assessed on the basis of two main criteria: first, as regards resource allocation, are capital flows channelled towards the most productive real assets? Second, as regards operating conditions, are intermediation and banking services performed at the lowest cost?

Allocative efficiency

The main distortions in resource allocation resulted from the protracted application of quantitative credit controls starting in 1973. Admittedly, they may have had certain beneficial effects on the economy, for example by prompting firms to cut their external financing per production unit, or by encouraging banks to select their debtors more carefully. After ten years of almost continuous application, however, credit controls were in all likelihood a major impediment to the satisfactory working of the system. Insofar as they were effective, they raised the cost of credit for a given supply by reducing competition between banking institutions. The introduction of a credit ceiling kept interest rates low and increased banks' available funds by preventing them from allocating these to the most profitable uses. Moreover, the existence of large compulsory reserves continued to push down deposit rates. The combination of these two factors made it easier to place government securities with both banks and households. There seem to have been sectoral or regional distortions in the allocation of loans (see Diagram 11). If the variances of the annual growth rates of credit from one region and sector to another are calculated as an indicator of dispersion, they may be seen to have narrowed during the periods of credit control and to have widened during the periods when controls were eased or lifted. Since up to 1981 controls affected only loans of more than a certain amount, they would seem to have particularly penalised the bigger banks which

Diagram 11. **Credit controls and resource allocation**
Distortions by regions and by sectors



1. Variances of the annual rates of growth of bank lending by sectors and by regions. Shaded areas indicate periods when credit ceilings were binding.
Source: C. Cottarelli, G. Galli, P.M. Reedtz and G. Pittaluga, "Monetary policy through ceilings on bank lending", *Economic Policy n°3*, 1986.

traditionally provided a large proportion of such loans. However, these banks partially circumvented the regulations by dividing up their loans; they greatly expanded their foreign-currency loans, which were not subject to controls either, and also provided loans through the SCIs that they owned.

Efficiency and competition

The system's efficiency measured in terms of its operating cost depends on the degree of competition between lending institutions. It is thus affected by the protection granted by the authorities to some and by the constraints imposed. At the beginning of the 1980s, though their market share of deposits and loans had progressively contracted, 40 per cent of banking activity was still concentrated in the hands of the fourteen largest Italian banks. The decline in their share during the 1970s and part of the 1980s was due to a number of factors. For one thing, quantitative credit controls, which hit them hard, had the effect of reducing their deposit activity; for another, there was a fall-off in demand for credit by the major enterprises – their traditional clientèle. The period was also marked by the emergence and development of small firms in industry and the service sector, which particularly benefited medium-sized local banks. The small banks also were adversely affected and it is unlikely that there was any decline in the degree of concentration. Increasingly, the major banks responded by taking over other banks at home and abroad. Thus, by the end of 1984, the holdings of the nine main banking groups, including holdings of the banks they controlled in Italy and abroad and their SCIs, was double those of the parent banks.

Analysing the system's degree of concentration poses a number of problems. Consideration must be given not only to the number of institutions operating on the market but also to the distribution of market shares among them. Moreover, products and markets are not homogeneous because of differences in regulations across different categories of institutions, the regional character of some banks and the dearth of highly sophisticated services. Deposits provide a useful starting point for a quantitative analysis of concentration in the banking sector.

Calculation of concentration indices for the 200 largest Italian banks (which between them account for roughly 80 per cent of the system's total resources) shows that over the period 1976-84 the degree of concentration lessened slightly[20]. If the top fifteen banks are considered as a group, it will be found that their losses in market share at the beginning of the period (resulting in lower concentration) were recouped by the end of the period after the lifting of credit controls, so that overall their position was stable. The influence of degree of concentration on interest rates is demonstrated in a quantitative study on regional deposit markets on which a small number of institutions are in competition[21]. This study shows that there is a significant statistical relationship between concentration indices – representing the structure of supply on regional banking markets – and the level of interest rates on these markets. It will be noted that when the degree of concentration rises i) interest rates on deposits fall and ii) those on loans increase, thereby widening the gap between the yield on lending and the cost of borrowing.

Other econometric studies on the profitability of banks according to size confirm that the structure of the market has had a significant effect on the average cost of resources and intermediation margins[22]. On the one hand, operating costs are indeed higher (as a proportion of total assets) in small banks than in large ones – as suggested by the principle of economies of scale. On the other hand, net income from interest is much higher in the case of small banks. This is not due to small banks' higher lending rates but to their volume of lending, which is considerably larger as a proportion of their total assets. According to the monetary authorities, these findings warranted supervision of the number of branches opened. The authorisations given in recent years have gone precisely to regions where densities were lower, so that regulation may have had the effect of promoting greater cost efficiency within the banking sector.

Growth of competition has probably been impeded by the wide scope of such regulations as the supervision of the credit market and its segmentation (in terms of maturities, regions and sectors of activity), the portfolio constraint, which affected only banks and not the SCIs, and exchange controls, which, by partly isolating the Italian financial market from currents of international innovation, may have delayed its adjustment to the new competitive conditions abroad. Moreover, the size of the public debt provided banks with an opportunity to assign a large part of their activity to its financing and shift away from higher-risk ventures with the private sector.

It is not easy to compare margins and costs of the banking systems in different OECD countries, given the disparate nature of the groups of banks concerned, differences in accounting methods across countries and the variety of regulations. Thus, net interest earnings as a proportion of intermediated funds are affected by constraints on banks' holdings, such as the portfolio constraint and credit controls, and by reserve requirements ratios. With due regard to these limitations, it is possible to pinpoint a number of salient features of Italian banks' balance-sheet trends. Interest receipts as a percentage of funds intermediated, which were fairly stable up to 1973, surged in 1974 and fluctuated widely subsequently. The steep rise in this item may be ascribed to two main factors: an increase in operating costs – particularly labour costs – and the lag with which deposit rates adjust to the rise in lending rates; the latter occurred in 1974 and again in 1981[23]. As in most of the major OECD countries, income from activities other than lending tended to rise virtually without a break mainly reflecting, in the case of Italy, the growing importance of security dealing. In 1984

Table 16. **Costs and margins in the banking system**[1]

As a percentage of intermediated assets

	Average 1974-80	1981	1982	1983	1984	1985
Interest income, net	3.25	3.54	3.30	3.37	3.36	3.24
Other income, net	0.87	1.23	1.27	1.19	1.28	1.29
of which:						
Securities trading	0.32	0.56	0.66	0.55	0.66	0.69
Gross income	4.12	4.77	4.57	4.56	4.64	4.53
Operating costs	2.88	2.95	2.97	3.15	3.15	3.03
of which:						
Staff costs	1.93	2.14	2.06	2.31	2.27	2.18
Net income	1.24	1.82	1.60	1.41	1.49	1.50
Provisions	0.88	1.27	0.91	0.69	0.69	0.60
Profit before tax	0.36	0.55	0.69	0.72	0.80	0.90
Tax	0.19	0.27	0.40	0.43	0.44	0.47
Net profit	0.17	0.28	0.29	0.29	0.36	0.43

1. See Table 3 in Annex II for cross-country comparison.
Source: Banca d'Italia, *Annual Report*.

Italy had one of the highest levels of interest receipts and of other net receipts, along with the United States and the United Kingdom[24].

There is quite a close relationship between margins and costs, but a straight cause and effect relation cannot be inferred. In all likelihood, banks set the differential between lending and borrowing rates according to a mark-up process akin to that applied by non-financial enterprises. On the other hand, it is possible that they grant larger wage increases or provide a wider range of services to customers – pushing up operating costs – when their profitability improves as monetary policy raises interest rates. Staff costs are higher in Italy as a proportion of intermediated funds than in any other major country[25]. However, since the 1974-75 rise the underlying trend has not been upwards and in 1984-85 their share was smaller than the 1975-76 peak (Table 16). Developments in net earnings and gross profits may be roughly divided up into two periods. In the first, 1965-1973, they moved steadily up, as operating costs declined as a proportion of intermediated funds – a sign of improved efficiency of the system. On the other hand, while fluctuating sharply, they only increased slightly over the period 1974-85 and then purely as a result of larger interest revenues and other net receipts. The years up to 1981 saw an increase in provisions and reserves for depreciation, in contrast to the trend in Germany and the United States; this made it possible to raise the capital-to-assets ratio close to that of the other countries. Since 1981, reserves have been reduced, making a positive contribution to profits.

Innovation and regulatory reforms

Financial innovation is generally the outcome of the interaction of market forces and current regulations, often under the stimulus of new technologies. It sometimes occurs in response to imposed constraints, or may on the contrary be pressed for by the authorities. In Italy, the worsening macroeconomic situation in the wake of the first oil shock was one of the triggering factors. In a setting characterised by accelerating inflation, more volatile interest rates, a growing public sector deficit and balance-of-payments difficulties, the authorities had to adopt a more restrictive monetary policy stance. It then proved necessary to channel private savings to the public sector and hence to overhaul the markets for government securities.

Development of markets for government bonds

In the second half of the 1970s markets were created for new instruments designed to facilitate public debt financing by way of private savings. The rise in interest rates, which up to then had remained artificially low, was expected to mobilise these savings, reducing monetary financing of the deficit. Competition on the Treasury bill market was enhanced by a reform in tendering procedures in 1975, which increased the number of potential participants and authorised the Bank of Italy to be among these; it was thus able to influence interest rates directly. The market expanded rapidly. Of course, supply was fed by the large Treasury deficit; but a number of factors also acted on the demand side. First, special privileges attached to government securities, the interest on which was exempt from tax. Moreover, major resources were available to banks whose scope for expanding lending to the private sector was limited by the statutory ceiling. From 1980 onwards, too, real interest rates climbed steeply, becoming positive in 1981, but because of their special tax status government securities had become attractive to savers even earlier. As a result of the expanded market, what is known as the "divorce" between the Treasury and the Bank of Italy became possible, with the latter no longer required from 1981 onwards to buy unplaced securities.

Table 17. **The public sector : financing of the deficit and debt structure**

A. Financing of the deficit

	Average 1971-76	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
		Thousand billion lire									
Borrowing requirement	9.8	19.5	33.7	32.5	37.7	53.8	76.6	90.7	101.9	119.7	110.4
		As a percentage of total									
Monetary base	53.3	-20.4	14.8	2.3	25.8	26.4	16.5	5.0	9.8	23.0	10.0
Other domestic borrowing :											
Short term	33.1	74.2	37.6	51.6	77.3	58.2	44.6	14.2	26.9	3.7	18.3
Medium and long term	13.0	45.8	46.8	44.3	-5.2	10.7	35.5	79.4	61.0	70.8	70.9
Foreign	0.6	0.4	0.9	1.8	2.1	4.7	3.4	1.4	2.3	2.5	0.8

B. Debt structure

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
	Thousand billion lire										
Total public debt	102.4	123.9	158.2	190.7	228.2	283.1	361.5	455.4	560.2	681.7	792.7
of which :											
Held by households[1]	21.6	28.4	40.9	57.0	76.3	106.1	128.1	180.2	242.4	315.6	401.4
	As a percentage of total										
Treasury bills	27.0	26.0	24.0	25.0	31.9	37.6	38.6	33.1	28.4	25.3	23.0
Medium and long-term securities	31.7	40.2	44.4	41.8	34.1	30.2	30.4	39.6	43.6	49.8	53.9
of which :											
Treasury credit certificates	–	4.4	9.6	13.3	12.3	10.9	16.4	27.9	32.8	38.7	40.1
Post Office deposits	15.7	15.5	15.2	16.2	14.5	12.6	10.8	9.7	9.0	8.7	8.9
Overdraft with Bank of Italy	5.1	3.9	4.3	5.3	8.4	8.9	8.8	5.1	7.5	7.1	6.6
Foreign loans	1.4	1.3	1.2	1.3	1.5	2.3	2.7	2.7	2.7	2.7	2.2
Other	19.1	13.1	10.9	10.4	9.6	8.4	8.7	9.8	8.6	6.4	5.4
Memorandum item :											
Public debt as a percentage of GDP[2]	65.3	65.2	71.2	70.6	58.5	60.5	66.3	72.1	77.7	84.6	88.6

1. Treasury securities and Post Office deposits.
2. GDP on the old national accounts basis until 1979 and the new basis from 1980.

Source : Banca d'Italia, ***Annual Reports*** and *Economic Bulletins*.

In 1977 the Treasury issued new and particularly attractive securities, namely medium-term Treasury certificates (CCTs), with interest rates indexed on Treasury bill rates. The majority of transactions are conducted via the banks which, until the 1984 abolition of the tax exemption they enjoyed, themselves held a large proportion of these securities (around 35 per cent of Treasury bills and CCTs in 1983). Dealing takes place inside banks between buyers and sellers, and only the unplaced balance from this internal clearing arrangement ever reaches the market, substantially reducing its role and transparency. The innovations, coupled with the improvement in the Central Bank's methods of intervention on the primary and secondary markets, has the effect of encouraging savers to give preference to the purchase of securities over bank deposits. The share of the public sector deficit financed by the Bank of Italy thus contracted quite substantially, to 13 per cent of the total deficit between 1982 and 1986, compared with 32 per cent in 1974-79 and 26 per cent in 1980-81 (see Table 17). The introduction of CCTs also had the effect of extending the average public debt maturity from a low of one year in 1981-82, to four years in 1986. At a time of falling interest rates, the placing of a large part of the debt at variable rates means that the interest burden can be rapidly reduced.

Innovation by the private sector

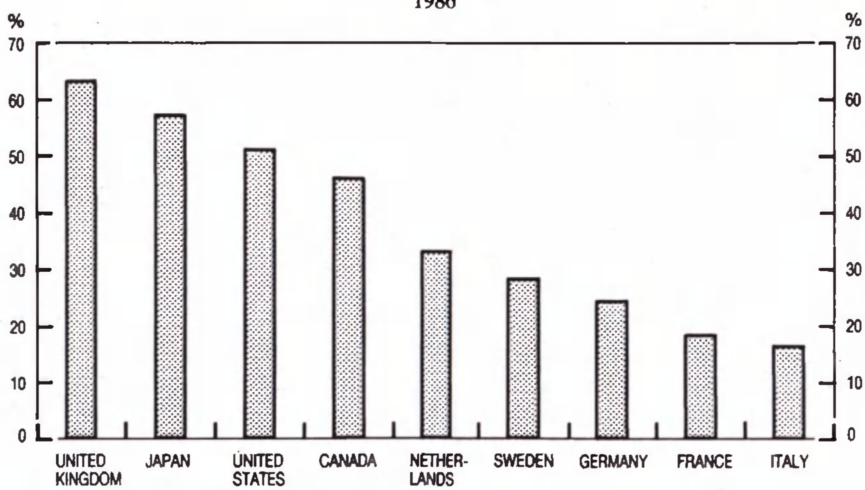
At the beginning of the 1980s, the private and banking sectors took over the lead from the public sector in promoting innovation. Italy, like other countries, has seen the emergence of new financial instruments. Some developed without any regulation or supervision by the authorities: e.g. "*atypical securites*" or certificates issued by non-financial enterprises, with yields linked to that of an investment, generally in real estate. The dubious practices of some issuers, the slowdown of inflation and the 1984 real estate crisis precipitated the disappearance of this instrument. There has been a steady expansion in *leasing* and *factoring* companies. These are neither banks nor SCIs, though the majority of their resources come from them (85 per cent in 1985); the leasing companies finance firms that do not have access to the stockmarket by supplying them with special types of loans that are both medium-term – and hence not always freely available from banks – and small scale – and hence seldom forthcoming from the SCIs. The expansion in foreign currency bank loans, short-term SCI loans and *bank acceptances* was associated with the introduction of credit ceilings. For some years bank acceptances had constituted a grey area for tax purposes, making them virtually untaxable. With the introduction of specific tax regulations and the lifting of credit controls in June 1983 remains no incentive to issue bank acceptances. In other cases, it was the monetary authorities that on occasion actively encouraged innovation, which is what distinguihes Italy from other countries. Elsewhere, *certificates of deposit* (CDs) were created so as to circumvent regulations; in Italy, the Central Bank fostered their development at the end of 1982 by paying interest at a higher rate on compulsory reserves for CDs than on reserves for ordinary deposits. The rationale was that CDs would enhance the stability of credit institutions liabilities and compete with other instruments on the money market. Since their rates are closely tied to Treasury bill rates, the authorities are able to influence bank credit and hence demand for credit more directly, thereby strengthening the role of interest rates as an instrument of monetary policy. Despite their rapid expansion, CDs are still more in the nature of a time deposit than a new money market instrument. They may have been given a further boost by the recent regulations governing the operation of the secondary market and by the abolition last October of the tax exemption on income from government securities. Last, the establishment of an *interbank callmoney market* in 1982 has helped to improve regulation of bank liquidity which tends to vary widely, with small banks generally being net suppliers of funds and major banks net demanders.

Modernising the capital market

Investment funds have boomed since their appearance in 1984 (26). From being only ten at the outset they numbered around 70 at the beginning of 1987. Half of these – the most active – are operated by banks, the others by insurance companies. The degree of concentration is still high since seven funds, belonging to three management companies, together hold almost half total assets. Total assets – close to L 20 000 billion at the end of 1985 (3 per cent of GDP) – had risen to almost L 65 000 billion one year later (8 1/2 per cent of GDP), a level higher than in the United Kingdom. Just over half of portfolios are placed in Treasury securities; but shares account for a growing proportion, – 29 per cent in December 1986. The expansion in this new source of financing reflected a voluntary move by households towards greater diversification of their financial assets, encouraged by the establishment of new specific prudential regulations.

These funds, by facilitating contacts between households and the corporate sector, have had a decisive impact on *stockmarket* performance since the beginning of 1985. The boom in the stockmarket was led by demand from investors. The emergence of demand from investment funds at home was compounded by foreign demand (particularly from North American and United Kingdom investors), whose favourable expectations were based on actual economic performance, notably the improvement in corporate profits that began at the end of 1984, and was buoyed by political stability and the trend in exchange rates. With a lag of around six months during which prices of listed securities climbed steeply, the supply-side responded by launching share flotations and listing new companies. The stockmarket value of shares quoted on the Milan exchange quadrupled between end-1984 and end-1986. For 1986 as a whole it averaged almost 20 per cent of GDP (see Diagram 12). From L 7 000 billion in 1984, total transactions in listed shares rose to L 26 000 billion in 1985 and L 66 000 billion in 1986, reflecting an increase in both prices and the volume of trading. Supervision by the authorities, particularly CONSOB (the national supervisory body), which was strengthened

Diagram 12. **Stockmarket capitalisation: cross-country comparison**
As a percentage of GDP
1986



Source: Morgan Stanley Capital international, *Perspective.*

after the troubles of 1980 and 1981, and was in conformity with EEC Directives, facilitated this development (27). At the beginning of 1987, CONSOB drew up a plan to reform the stockmarket which, once adopted and implemented, ought to stimulate competition on the capital market. The directives it contains would allow banks to operate on the stockmarket by doing away with the monopoly enjoyed by brokers; banks would be able to create brokerage firms, which in 1990 will be able to deal directly on the stock exchange. They would also be able to acquire shares in brokerage firms, though for two to three years they could not have a controlling position. At the same time regulations are to be drawn up on insider dealing, bond quotations and bond transactions, as well as for intermediaries and for those markets that have developed unsupervised. Currently, banks account outside stock exchange hours for around half of daily stocktrading. Implementation of the reform should help banks keen to pursue these activities to agree on working arrangements with stockbrokers pending application of the reform.

Recent deregulation of the banking system[28]

A major stride forward in liberalising the credit system has just been made with the approval of new regulations revising some of the principles contained in the 1936 Banking Law. This reform was introduced progressively, mainly in the first half of 1987; it is designed to integrate and streamline the credit system and is expected to enhance both efficiency and competition. In allowing banks to sell and purchase branches among themselves, it will enable them to launch out into regions that were hitherto the preserve of only some of them. In authorising new branches, the Bank of Italy is increasingly basing its decision on the efficiency of management and profitability of the banks concerned rather than simply on geographical position, which had until now tended to be the criterion. Moreover, subsidiaries of foreign banks will be able to operate freely countrywide – previously only transactions with multinational enterprises or Italian exporters were authorised outside the region in which they were set up. Specialisation by category of intermediary, already much eroded in practice, has also been further reduced, with all banks authorised to grant loans for terms of over eighteen months. This measure introduces greater standardisation of banks' operating conditions, bringing them more in line with those of the SCIs. Last, administrative obstacles to the development of merchant banks were removed and prudential rules established. Other prudential measures were also recently adopted: these included the setting of minimum asset ratios for banks and the redefinition of the rules limiting a bank's lending to the enterprises controlling it.

Initial results of the reforms and monetary policy implications

Bank disintermediation

The change in financial structures has been accompanied by a change in the behaviour of households and firms, of which the main manifestation has been the decline in bank intermediation. In ten years, the share of bank deposits in total domestic financial assets has fallen from 69 to 48 per cent, a change in banks' liabilities that reflects the greater sophistication of transactors in managing their portfolios (see Diagram 9). The process of disintermediation shows up still more clearly in bank assets. The ratio of bank lending to GDP has fallen from 43 to 35 per cent. At the same time there has been a decline in double intermediation: the contribution of commercial banks to SCI resources has diminished substantially, accounting in 1984 for only 4 per cent of the increase in bank assets, compared with an average of 21 per cent over the period 1971-75. The process of disintermediation has taken the form of a progressive reduction in the share of financial institution liabilities in total domestic financial assets, from 39 per cent in 1975-76 to less than 33 per cent in 1984. This situation is in contrast with that in most of the other major OECD countries (United States, Canada, Germany, United Kingdom) where the share has increased.

Corporate financial management has also changed. Some firms began to see an improvement in performance between the two oil shocks, an improvement facilitated above all by a reduction in financial costs under the impact of rapid inflation and weak investment. Situations varied according to firm size and category, with particularly poor results in large and public sector enterprises, whose gross operating surplus and self-financing ratios declined both relative to turnover, though their borrowing –particularly short-term – eased.

The main changes occurred from 1982 onwards, as the macroeconomic situation picked up and the performance of the various categories of firms converged. As a result of major industrial restructuring and rationalisation, the weight of labour costs eased and operating results improved. The ratio of profits to variable costs, which had fallen between 1974 to 1978, was back up to its 1970-72 level by 1982. The borrowing requirement narrowed and the ratio of self-financing to turnover steadily expanded. This ratio was at its lowest in the major and public sector enterprises in 1981 (see Diagram 10). Public enterprises were put on a sounder economic footing by means of heavy equity funding. Their debt/resources ratio fell from 65 per cent to 15 per cent in 1985. Major enterprises primarily relied on the stockmarket to raise equity, while owners of medium-sized firms continued to prefer borrowing to avoid takeovers. The financial costs of the corporate sector as a whole have fallen. Recent years have seen the emergence of financial departments within the major industrial groups, engaging in ever-more sophisticated transactions on both domestic and foreign markets, competing in many areas directly with lending institutions and even influencing the thrust of monetary policy.

Thus, alongside the traditional function of financial intermediaries in flows between savers and investors, a direct capital-market based system of financing is developing, in which the banks are playing a different role. The profitability of their traditional business has suffered not only from a fall in the volume of intermediated funds but also from the narrowing of intermediation margins as a result of the greater bargaining power of some enterprises and the growing attention paid by savers to the return on their investments. Apart from this loss of income, there is the fear that, with the access of their best customers to the capital market, the quality of banks' asset risks could be impaired. The banking sector was hence obliged to streamline its operations and develop new services to bring in additional income[29]. Banks will need in particular to increase their activity in managing of existing stocks of financial assets – placing of securities, purchasing of securities as an investment, issuing of securities for own funding, securitisation of portfolio assets.

Deregulation, recent innovations and the growth of securities markets have probably increased competition on the financial markets. After the lifting of credit controls, in particular, a number of signs point in this direction:

- Credit is growing at rates that differ between banks;
- Interest rates for comparable categories of borrowers seem to be more homogeneous than in the past, suggesting that markets are less segmented;
- The gap between lending and borrowing rates have narrowed.

Moreover, since the complete abolition of income tax exemption for interest on government securities held by the corporate and banking sectors, banks have more incentive to lend rather than invest in the financial markets, which makes for greater competition in the supply of credit. In recent years, the Bank of Italy has authorised the establishment of foreign banks and, even though up to the 1987 reform the main focus of their business was on catering for the needs of the major multinationals, their presence probably enhanced the efficiency of the banking sector as a whole. At the same time, Italian banks have become increasingly active on international markets.

Financial markets and monetary policy

The current thrust of Italian monetary policy is the outcome of three successive stages of development since the early 1960s. These stages corresponded to distinct periods from the standpoint of the domestic economic situation and the international environment. And to these stages, moreover, corresponded different financial structures whose development was itself in large part influenced by the monetary authorities for their own policy purposes.

In the first period, spanning the 1960s, monetary policy was pursued against a background of moderate inflation and a system characterised by fixed exchange rates and the stabilization of long-term interest rates at the lowest possible level. Indeed, a prime economic policy objective was to secure high GDP growth through a rapid increase in productive investment by way of favourable terms for corporate financing. The instruments used were quantitative controls on official foreign exchange reserves (via the net external position of commercial banks) and control of changes in the monetary base (through the purchase and sale of government securities, changes in central bank lending to commercial banks and the compulsory reserve requirement mechanism).

The following ten years were characterised by mounting inflation, widening public deficits and external instability, particularly in the wake of the two oil shocks. During an initial sub-period up to 1973, real interest rates fell quite steeply (by 20 points between 1969 and 1974), with heavy speculation against the lira and a worsening in Italy's external position. The authorities responded by sharply tightening economic policy, but the monetary instruments used (compulsory reserves and refinancing) proved ineffective. The second sub-period saw the end of the fixed exchange-rate regime in 1973 and the implementation in 1974 of a monetary policy based on a growth target for total domestic credit[30]. The instruments brought to bear as part of this reform focused solely on quantitative administrative controls on virtually all domestic and external financial flows, particularly bank lending, the minimum security holding requirement for banks and exchange controls.

The third stage, which led to the implementation of monetary policv in its present form, began in the early 1980s. It was greatly facilitated by the financial market reforms of earlier years and, in particular, the expansion of the government securities' market, which paved the way for the "divorce" between the Bank of Italy and the Treasury. Since that time, the Treasury has been responsible for financing the public deficit, while it is the Bank of Italy that decides on the amount of its Treasury bill purchases on the primary market on the basis of the growth targets set for the monetary aggregates. As a result, any overrun of the scheduled budget deficit no longer leads automatically to a corresponding increase in the monetary base. However, the Treasury still has an automatic line of credit with the Bank of Italy – up to a maximum of 14 per cent of total budget expenditure for the year. It is drawn on at times when the Treasury, which sets a ceiling rate on its flotations, is unable to place all the securities issued. The extent to which this facility is used is directly reflected in the change in the monetary base and hence constitutes a constraint for the Bank of Italy. The central intermediate monetary policy target at the start of the 1980s was still total domestic credit. However, since Italy joined the EMS it has been coupled with a fixed exchange rate target (within the limits of the 6 per cent margin of fluctuation around the central rate). In the years 1979-1982, growth of the money supply was still controlled solely by direct regulatory measures. Externally, the Bank of Italy has sought to fend off pressure on the lira by tough exchange controls and strict curbs on capital movements, while on the domestic front it persisted up to 1980 with a fairly accommodating monetary policy designed to boost investment.

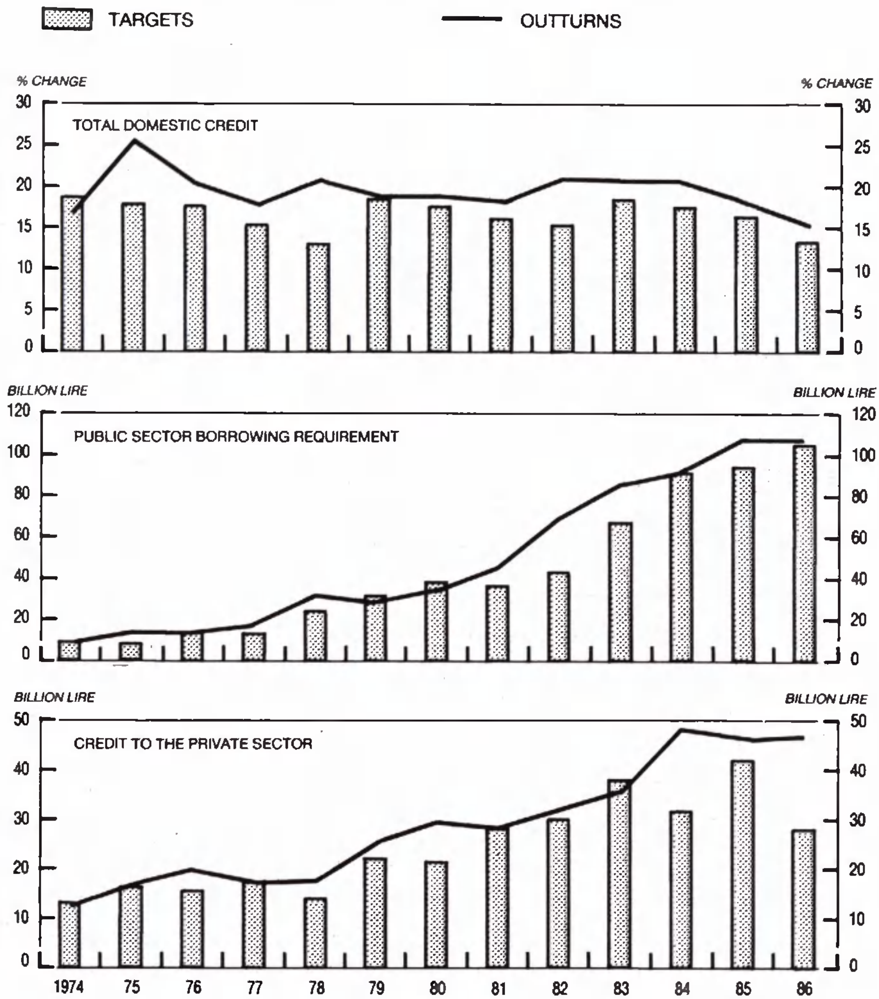
The shift to a policy of indirect control of growth of the monetary aggregates took effect in 1982, and was due in large measure to the drawbacks of prolonged direct control of bank credit. The effectiveness of interest rates in regulating the money supply was enhanced by households' growing readiness to diversify their portfolios rapidly in response to yield gaps between government securities and bank deposits. The latter were heavily "penalised" too by the increase in income tax on interest and by the cost to banks of the reserve requirement system, making the monetary base somewhat less unstable. Mid-1983 saw the end of the system of bank credit ceilings, which since 1980 had been reinforced by the introduction of penalties based on the extent of the overshoot. In the period following the lifting of these ceilings, the Bank of Italy sought to "persuade" banks and the SCIs to cut back their credit supply. After this transitional period, banks in general attempted to increase their lending and, in the first half of 1984, the amount of bank lending was already almost up to the target set for the whole year. The monetary authorities reacted by raising the discount rate.

Indirect regulation of the money supply, as currently operated, is two-pronged. First, the main focus of active and permanent intervention by the Bank of Italy is the secondary government securities market; second, the high and stable minimum reserve requirement ratio[31] acts as an automatic regulator of monetary growth by stabilising the central money multiplier. The yield on bank reserves being well below market rates, banks are finding it increasingly difficult, in the medium term, to pay interest on deposits at rates to match Treasury bills. As a result, they are still placing a large proportion of their resources in government securities (short-term Treasury bills), allowing them to hold on to an important source of secondary liquidity, which could however pose a threat to monetary policy. The abolition of the tax exemption on interest on government securities acquired by banks after November 1984 has had the effect of steering bank resources towards the private sector.

The present system is thus aimed at reasonably smooth management of domestic sources of money creation. By contrast, the trend in external sources of change in the quantity of money far more uneven. In late 1985 and early 1986, a large imbalance on the external account's attributable to a wave of speculation prompted the authorities temporarily to resort once again to statutory controls. These were admittedly accompanied by a deliberate increase in interest rates, but the monetary authorities considered that, given the debt burden, exclusive reliance on higher interest rates to change the trend would have too great an effect on the deficit. These episodes have thus demonstrated the problems that can arise with a monetary policy based primarily on interest rates, bearing in mind the twin constraints of a big deficit and a high level of public debt.

In short, Italy's present monetary policy is conducted within the EMS framework and is aimed at controlling money growth by way of interest rates, while occasionally resorting in certain circumstances to regulatory measures (credit ceilings, controls on outward capital movements) in order to prevent too sharp an increase in rates. The intermediate targets (quantified each year in the form of a target range) consist of private domestic credit and M2. The monetary authorities continue to publish a total domestic lending growth forecast that combines the target for lending to the private sector and the forecast Treasury borrowing requirement, but this forecast is no longer properly a target. The choice of these two objectives testifies to the authorities' intention to retain control over private sector activity and the extent

Diagram 13. **Monetary policy targets and outturns**

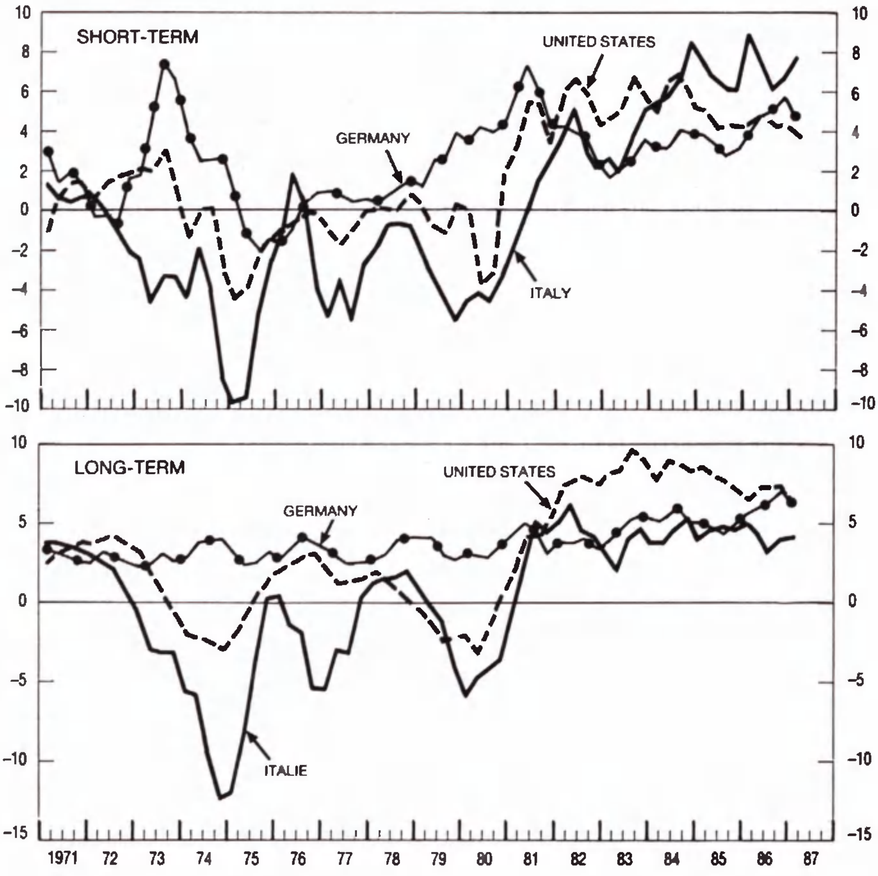


Sources : Banca d'Italia, *Annual report, Economic Bulletin.*

of money financing of the public sector borrowing requirement. Central Bank intervention on the government securities markets serves – by way of interest rates, reserve ratios and re-sale agreements – to influence economic agents in their choice between bank deposits and bond purchases, and so to control changes in banks' reserves and the monetary base. Very short-term interbank interest rates reflect the degree of bank liquidity. The official discount rate is above all considered to be a signal from the monetary authorities with respect to all other bank rates.

Interest rates, which in the 1970s were more often than not negative in real terms and far below those in Italy's major parnters (see Diagram 14), moved closer into line in the 1980s, with short-term rates significantly higher than elsewhere since 1984. This trend reflected Italy's monetary policy constraints, amply illustrating how little room for manœuvre the authorities in fact have. There are domestic and external factors that militate in favour of high real interest rates. On the domestic front, the authorities want to stimulate households' saving so as to avoid excessive demand for goods and free the resources necessary for non-money financing of the public deficit. Furthermore, in order to minimise the volatility of households' financial assets and hence that of the monetary base, the monetary authorities are having to make medium-term financial investments more attractive than bank deposits by indexing medium-term government security rates on Treasury bill rates. Externally, so long as the inflation differential between Italy and its EMS partners remains positive, the authorities will

Diagram 14. **Real interest rates**



1. Deflated by the change in the consumer price index from the same quarter of the previous year.
Source: OECD, *Monthly Financial Statistics ; Main Economic Indicators.*

feel impelled to maintain a positive real interest rate differential in order to avoid overly frequent bouts of speculation. So far, the lira's wider margin of fluctuation within the target band, the imperfect substitutability of financial assets in different currencies, the longstanding restrictions on capital movements and recourse to regulatory measures in the conduct of monetary policy have helped to ease the constraints imposed by participation in a fixed exchange-rate system.

The management of monetary policy by way of interest rates in a context of capital market liberalisation and exchange deregulation is liable to go through a difficult transition period. Unless Italy can improve its performance on the inflation front, and failing a harmonization of economic policy settings in Europe, there is the the prospect of steep increases in interest rates to relieve pressure on exchange rates. Should such increases occur too often, there would undoubtedly be major repercussions, bearing in mind the scale and composition of public debt. The latter is affected as to two-thirds by the trend in short-term rates, either directly (Treasury bills) or indirectly (indexed medium-term certificates). Moreover, investment – particularly in plant and machinery – is very quickly and strongly affected by higher interest rates. The new Act on deregulating the foreign exchange market provides for the possibility of official intervention when deemed necessary for balance-of-payments or monetary policy reasons.

V. CONCLUSIONS

The Italian economy is at present experiencing an upswing which has lasted more than four years, and its growth rate in 1986 was amongst the highest in the OECD area. By the end of last year, the rate of inflation had fallen to 4¼ per cent compared with 14 per cent three years earlier, nearer that of the OECD average. After two years in deficit, the current external balance showed a surplus in 1986 equal to 0.8 per cent of GDP; lastly, the general government borrowing requirement was reduced to 11.3 per cent of GDP, i.e. 1½ points down on the previous year, which resulted in a slowdown in the increase of the debt/GDP ratio. On the microeconomic side, the productive system has been thoroughly restructured in recent years and a number of institutional rigidities affecting the functioning of the labour market have been either removed or eased (system of indexation, system of recruitment). As in many countries, there have been substantial changes in the financial markets; a major step has just been taken towards exchange market liberalisation and a number of Italian firms have greatly expanded their domestic and international financial activity. Lastly, the Italian economy's weight in the OECD as a whole has increased on the basis of the revised national accounts which incorporate a part of economic activity not previously recorded. This has had the effect of raising the level of measured national income by some 15 per cent.

The appraisal of this performance has, however, to be qualified, for a number of major disequilibria do remain. In the first place, the upturn in growth has admittedly led to increased employment, but not enough to stem the constant rise in unemployment which, on average, affects 11 per cent of the labour force, with substantial disparities across regions and age brackets (unemployment among the labour force aged under 30 reaching 36 per cent in the Mezzogiorno). Secondly, while considerable progress has been made concerning disinflation, a gap still remains between Italy's performance and that of its main trading partners, and this could over time be an important factor of pressures on the lira. The foreign balance remains fragile, its return to equilibrium in 1986 being attributable basically to the terms-of-trade improvement deriving from lower oil and commodity prices and the depreciation of the dollar, while the trade balance in volume terms worsened. Lastly, the reduction in the general government deficit/GDP ratio was largely attributable to the benefits stemming from the fall in oil prices as well as to the reduction in inflation and interest rates. This should not mask the fact that the general government borrowing requirement still represents 11¼ per cent of GDP, and public debt, which, on the basis of revised accounts, amounts to 88½ per cent of GDP is continuing to grow faster than the latter.

The persistence of these disequilibria is partly reflected in the forecasts for 1987 and 1988. GDP growth is set to rise faster in Italy in 1987 than in the majority of Member countries, mainly thanks to the buoyancy of domestic demand, underpinned, inter alia, by an expansionary fiscal policy. However, the eclipse of the factors which had a favourable impact in 1986, combined with the consequences of the wage negotiations, might rekindle inflationary pressure during the course of the year and also reduce the external surplus. In view then of the persisting inflation differential, Italy could well be faced again with a growing problem of international competitiveness. The expansionary nature of fiscal policy, in particular through the increase in real compensation, will mean a slowdown in the reduction of the public sector deficit in 1987, while the effects of this re-expansion on production will not be sufficient to prevent a further rise in unemployment.

Steep wage increases were granted in 1987 in the public sector, and to a lesser extent in the private sector. They result largely from the renewal of the collective agreements for the years 1986 to 1988, which took place with a year's delay, and which incorporate for the public sector a catching-up of the year 1986 to be paid in 1987. As a consequence of this development, the assessment which might have been made of the moderation of wage trends in 1986 has to be qualified. While the catching-up implies that, mechanically, wage growth will be lower in 1988 because of a higher base level, the size of wage increases for the three years covered by the settlement seems inappropriate from the point of view of both the situation on the labour market, whose considerable segmentation it reflects, and Italy's competitive situation.

The fears, expressed in last year's report, that the increase in oil tax receipts might delay the process of reducing government expenditure have partly materialised. In addition to the wage readjustment in 1987, progress in controlling the growth of expenditure in such key sectors as pensions and health has been insufficient. Similarly, the 1987 Budget was adopted without a decision being reached on all of the measures needed to achieve the public sector deficit target and, judging from past experience, it is to be feared that the run-up to the elections may have resulted in some additional expenditure. With the re-estimation of the level of nominal GDP mechanically reducing the amount of tax pressure, there is a danger that efforts to restore budget equilibrium may again involve increasing receipts rather than reducing expenditure. The infrastructure improvement programmes, which appear to be justified in view of the bottlenecks that exist in this area, could result in an overall increase in the public sector's weight in the economy rather than in a shift from current to capital expenditure. The level of the budget deficit in 1987 could well be lower than that of 1986; its weight in GDP would be reduced by about 1½ points, but it would however be higher by ½ point than the forecast in the medium-term programme of fiscal consolidation. Hence, receipts from the oil "windfall" have only contributed moderately to the reduction in the deficit.

The objective of the government's medium-term fiscal programme, which serves as a reference framework for drawing up the annual Finance Acts, is to eliminate the deficit, excluding the debt service burden, by 1990. This would require that the deficit/GDP ratio continue to fall by an average of 1½ points per year. But even if this objective were achieved, it would not stop the debt/GDP ratio from rising as long as nominal effective interest rates remain higher than the rate of nominal GDP growth. To halt the rise of the debt/GDP ratio, which is already one of the highest among the OECD countries, the authorities have preferred to engage in a gradual medium-term action rather to than take radical measures. Unless they are successful in stabilizing or even reducing this ratio, the medium-term objectives of stable money supply growth, reduced tax pressure and brisk investment growth will be difficult to achieve.

The constraint on monetary policy, and particularly on control of domestic credit expansion, stemming from the need to finance a growing central government deficit eased appreciably in 1986, thanks firstly to the narrowing of the deficit and secondly to the development of non-money financing thereof. Since the adoption of a system of indirect control via interest rates over the growth of monetary aggregates, conflicts between the domestic and external objectives of monetary policy have come to light in Italy as is the case in other countries. The scale of speculation against the lira in early 1986 prompted the government to temporarily reintroduce administrative controls on domestic credit. Similarly, in early 1987, the authorities reintroduced a system of compulsory reserves on the change in the net external position of banks to stem, if necessary, big inflows of foreign capital. If the inflation rate in Italy were to remain higher than that of its partners in the EMS, it might be creating a potential source of tensions within the System. On the domestic front, the action to counter inflation and the need to mobilise household savings are arguments in favour of high interest rates, though their level is limited by the size of the public debt and the desire to encourage the growth of investment. Even though the monetary authorities have shown that they were ready to increase sharply interest rates if necessary, their room for manœuvre could however be limited during periods of unrest on the foreign exchange markets, bearing in mind also the permanently fragile state of the balance on current account.

In recent years there has been an extensive transformation of the Italian financial system. This change, encouraged by the monetary authorities and stimulated by pressure exerted by international forces, aims at integrating markets and increasing their efficiency in collecting and allocating resources. The stages completed to date have consisted above all in reducing direct State interference in the way resources are used or channelled. Thus credit ceilings have been lifted, while the financing of the public sector deficit and public enterprise investment has involved increasing recourse to capital markets. The development of new financial instruments such as mutual funds has also been facilitated by government measures. The recent deregulation of the financial system – banks in particular – are creating conditions that will increase competition.

While it is already apparent that the reforms introduced in the financing of the public sector deficit, involving increased capital market issues, have had positive effects – in particular by easing the constraints on authorities in their conduct of monetary policy – it is still too soon to assess their macroeconomic effectiveness. The reform should in time lead to a system of direct financing on the capital markets, which would reduce intermediation and firms' financial costs and thus encourage the financing of investment. Competition between banks will undoubtedly prompt them to develop new services and modernise the organisation of payments, which is at present lagging behind the other OECD countries. During the banking system's restructuring phase, the authorities have adopted new prudential regulations so as to prevent the most exposed institutions accepting too sharp a deterioration in the risk characteristics of their assets. Because of the growing financial activity, on both domestic and world markets, of the major industrial groups and the increasingly sharp competition coming to bear on banks, the need for surveillance by the monetary authorities is even greater if they are to safeguard the stability of the payments system.

The gradual and desirable liberalisation of the foreign exchange market can accentuate the scale of capital movements. The prospect of European financial integration in 1992, and the increased mobility of capital that will ensue, make it more than ever necessary for Italy to narrow its inflation differential with its partners in the EMS, and also its public deficit. Failing this, the only way for Italy to limit the risks of exchange market speculation against the lira would be either to persist with high real interest rates, or to relax its exchange rate policy. Because of the public debt size there would be a high cost attaching to the first solution, while the second would certainly rekindle inflationary expectations and could well have the effect of slowing the restructuring of the economy.

To sum up, Italy has made progress in inflation control and industrial restructuring. Yet serious problems remain, mainly regarding unemployment, the public sector deficit and to a lesser extent inflation. Solving these difficulties will involve implementing a medium-term economic policy strategy. This latter must be based on the political determination to control public spending with the object of stabilizing or even reducing the debt/GDP ratio. Fiscal consolidation would certainly facilitate a more rapid and less risky capital market adjustment to the necessities of international competition and to better resource allocation. Lastly, concerning the labour market, it would seem important to expedite completion of the reforms designed to reduce the present segmentation, adapt labour supply to demand and avoid major shocks on wages and costs trends.

NOTES AND REFERENCES

1. See Annex I. Revised national accounts.
2. The most recent estimates of households' income trends were published at end-May 1987 by the Bank of Italy in its annual report.
3. See OECD, *Economic Survey of Italy*, July 1986, p.36, for a discussion of the role played by the CIG on the labour market.
4. A rate of unemployment that includes dependent workers registered with the CIG is no more than indicative because of the wide variety of characteristics of those registered and the risk of double counting. See Table 3 showing the trend in this rate.
5. The private sector wage equation estimated for the INTERLINK model, based on seasonally-adjusted half-yearly data for the period 1971-1983, gives the following results:

   $$\underset{}{\dot{WR}} = \underset{(2.67)}{5.58} - \underset{(0.31)}{0.60}\,UNR + \underset{(0.21)}{0.96}(0.6\,\dot{PCP} + 0.4\,\dot{PCP}_{t-1}) + \underset{(1.54)}{5.07}\,D73$$

   $\bar{R}2 = 0.6$ SEE = 2.02 DW = 2.03

   $\dot{WR}$ = percentage change in wages per person employed outside general government (national accounts data)

   UNR = rate of unemployment

   $\dot{PCP}$ = percentage change in the implicit private consumption deflator

   D73 = a dummy variable for 1973.

   Figures in brackets under the coefficients are standard deviations.
   For more details, see D. Coe, "Nominal wages, the NAIRU and wage flexibility", OECD, *Economic Studies*, No.5, autumn 1985.
6. Semi-public enterprises and ENEL are also authorised to borrow from the European Investment Bank, so reducing the amount of their budgetary financing (from L 5 450 to L 1 850 billion between 1985 and 1986); the cost of repayment is still borne by the central government budget.
7. These rates were affected by the strike in some departments of the Bank of Italy at end-1985. On an adjusted basis they rose from 8.2 to 12.1 per cent.
8. At the time of writing, the households' appropriation account based on the new national accounts was not available, so the analysis is based largely on an extrapolation of the "old" savings ratio, put at approximately 21 per cent in 1986.
9. These data relate to the household sector as defined in the national accounts. Apart from households proper, the sector comprises agricultural enterprises with fewer than 20 employees, service enterprises with fewer than 50 employees and industrial enterprises with fewer than 100 employees. There is thus a distortion in the calculation of disposable income and saving since some economic agents have a productive activity. In the financial flows accounts the definition of the household sector is different, comprising only households in the strict sense and non-profit institutions.

10. According to the national accounts, general government comprises: central government (State, autonomous public enterprises in the non-market sector, motorways, etc.), local government and Social Security. According to the Bank of Italy definition, the public sector also includes market sector autonomous public enterprises, the railways, the post office and telecommunications and certain monopolies; the borrowing requirement is higher when the latter are included.

11. For further details on how the financial balances by economic agent are adjusted for inflation, see Table A1 in Annex; M. Monti, F. Cesarini, C. Scognamiglio, "Report on the Italian Credit and Financial System", special number of the Banca Nazionale del Lavoro, *quarterly review*, June 1983; Banca d'Italia, *Economic Bulletin*, No. 1, October 1985, p. 57-62.

12. See the report of the Study Commission appointed by the Treasury Minister, *Richezza finanziaria, debito pubblico e politica monetaria*, Ministero del Tesoro, 1987, reaffirming the authorities' determination to meet the challenge posed by the 1992 deadline without invoking clauses providing for the progressive liberalisation of capital movements.

13. For further details about monetary authorities' current position with regard to the revising of this principle, see the address by the Governor of the Bank of Italy, M. C. Ciampi, in Banca d'Italia, *Economic Bulletin*, No. 4, February 1987, pp. 71-96.

14. As of 1966, and for more than ten years, the Bank of Italy suspended all authorisations for the creation of new banks in an effort to promote the rationalisation of banking operations; however, this restriction did not apply to the opening of new branches by existing banks or to the setting up of foreign banks in Italy. Thus the Bank of Italy authorised the opening of 621 new branches, or about a quarter of total requests, which meant a 5 per cent increase in the network. Four years later, in June 1986, a new plan was announced under which 504 new branches were authorised (equivalent to 4 per cent of the network). The plan gives priority to the Mezzogiorno, and in particular to the rural and trades savings banks. The Bank of Italy has also favoured the most efficient banks and foreign banks – granting them more than half of their total requests for new branches. A reform was implemented in 1987 that facilitates the opening of new branches for both Italian and foreign banks (see below, Innovation and Regulatory Reforms). For further details of the objectives and criteria of the authorities' supervision of the banking system, see Banca d'Italia, *The Italian Credit Structures: Efficiency, Competition and Controls*, 1984, pp. 229-261.

15. See Annex II for the chronology of the main exchange control measures. The following measures applied specifically to banks; the first two were designed to curb speculation, while the last two related to the control of capital movements:

   - Banks' spot and forward foreign exchange transactions had to be balanced daily;
   - There was a limit to the extent to which banks could practice arbitrage between spot and forward transactions (against lira) in order to meet the previous constraint;
   - A ceiling was placed on foreign currency purchases (usually in the form of swap arrangements) from the Bank of Italy;
   - The Bank of Italy controlled the net external position of banks in line with the setting of monetary policy. From mid-1969, banks were not allowed to maintain a creditor position *vis-à-vis* non-residents; loans to the latter could not exceed their deposits. After 1977, at the same time that ceilings were placed on foreign currency loans to non-residents, banks were allowed to increase their net debtor position in foreign currency. This authorisation was withdrawn during short periods, with a freeze on net debtor positions in 1974 and 1984, in order not to fuel domestic liquidity which was considered to be excessive.

16. The following analysis is based on a number of studies, in particular: C. Borio, *Financial Markets and Monetary Policy in Italy*, Doctoral thesis, 1985; M. Monti et al., op. cit.; V. Pontolillo, *Il sistema di credito speciale in Italia*, Il Mulino, 1980.

17. Insurance companies, which had traditionally invested in real estate, switched increasingly from 1980 onwards to securities, mostly Treasury certificates. However, their holdings of financial assets still accounted for only about 1 per cent of total financial assets at end-1985.

18. The exemption had already been abolished in 1985 for securities held by firms and financial institutions.

19. Most saving deposits are not time deposits, the latter accounting for only 10 per cent of bank liabilities in 1982-83. The liquidity of the system has certainly been encouraged by the paying of interest on sight deposits, which is not the practice in most OECD countries.

20. M. Barina, S. Carletti, *Changes in the degree of concentration of the Italian banking system: an international comparison*, Research papers, No. 5, November 1986, Banca Nazionale del Lavoro.

21. C. Conigliani, G. Lanciotti, "Supply structure and rates of interest in the Italian banking markets", in Banca d'Italia, 1984, op. cit.

22. C. Conigliani, "Economies of scale and efficiency in the Italian banking system", in Banca d'Italia, 1984, op. cit.

23. For a detailed study of bank costs and margins in Italy, see M. Onado, "Venti anni di margini bancari", Banca d'Italia, *Temi di discussione*, No. 66, July 1986, and P.M. Reedtz and F. Passacantando, "La redditività bancaria in Italia", Banca d'Italia, *Temi di discussione*, No. 82, December 1986.

24. After adjusting data for distortions due to differences in accounting, it will be found that, over the three-year period 1979-81, the margins of Italian commercial banks were slightly greater, though this does not alter their position relative to the other countries. For more ample information on the adjusted data, see F. Passacantando, "Costs and margins in the Italian banking system: a comparative analysis", in Banca d'Italia, 1984, op. cit.

25. Staff costs are the largest item in operating costs; it is noteworthy, too, that in Italy depreciation is included in reserves, whereas in the United States and Germany in particular, it comes under operating costs. This adjustment having been made, the share of labour costs in Italy is slightly reduced though it was still 76.3 per cent of operating costs in 1979-81, against 68.9 in Germany and 52.7 in the United States. See F. Passacantando, op. cit.

26. Italian mutual share investment funds consist of share capital which is entirely separate from that of the management board and that of participants. Shares in these funds are of equal value and carry equal entitlement. The funds are open-ended, and participants may withdraw sums invested at any time. The recent period has seen the emergence of closed investment funds comprising a fixed number of shares, enabling medium-sized companies to come to the stockmarket. Study is currently being given to the question of their supervision and regulation.

27. Because of the small size of the share market, share prices and the amounts dealt in were extremely volatile in 1981. In particular, the prior deposit requirement for forward transactions, introduced by CONSOB in 1981, inhibited speculation, resulting in a steep slide in the volume of transactions (by around 65 per cent).

28. For more ample details, see Banca d'Italia, *Annual Report*, 1987, pp. 147-154.

29. The banking system is lagging very much behind in its handling of liquid assets; for instance, bank cheques take on average 29 days to clear in Italy against 10 days in most of the other OECD countries. For more details on recent innovations, see BIS, *Recent innovations in international banking*, April 1986, and R. Rovelli, "La presenza delle banche nei mercati finanziari", February 1987, Bocconi University, Milan.

30. Total domestic credit comprises the public sector (domestic) borrowing requirement plus domestic private sector borrowing. The latter includes bank and SCI lira and foreign-currency lending to the private resident sector as well as bonds issued by industrial and commercial firms.

31. At the end of 1982 it was decided to raise the compulsory reserve ratio on the *growth* of deposits to 25 per cent, with an automatic shift to a system of reserves on deposit *outstandings* once the reserves-to-outstandings ratio reaches 22.5 per cent.

Annexe I

REVISION OF NATIONAL ACCOUNTS

The Central Statistics Office (ISTAT) has revised the national accounts for Italy and the first results were published at the end of March 1987 in the Report "Relazione Generale sulla Situazione Economica del Paese".

General

The revision covered all the accounts: resources and uses, distribution, institutional sectors.

The accounts were compiled in accordance with the European System of Integrated Economic Accounts (ESA); the base year for the accounts in constant prices is 1980 (as recommended by international organisations), whereas previously it was 1970.

The accounts were revised as from 1970 onwards and will be available on both an annual and a quarterly basis. ISTAT intends subsequently also to compile and publish regional accounts.

At the time of drafting, the following accounts only were available for the period 1980 to 1986, on an annual and a quarterly basis: resources and uses, distribution of national income and general government.

The base year for the statistical work underlying the revision of the accounts is 1982, for which comprehensive figures from a set of large-scale surveys (on the population, housing, non-farm activities and agriculture) were available. The data for earlier and later years were compiled from the usual statistical sources.

Purpose of the revision

The purpose of the revision was twofold: to take account of changes in relative prices between 1970 and 1980 and to incorporate the data collected from the above surveys and the results of several other surveys of activities hitherto not included in the accounts.

By putting these different sources together it was possible to take into account the activity of workers in the "hidden economy" (unlicensed businesses, sending in no accounts, thus evading taxes and quasi-taxes; dependent workers not recorded on their employers' payrolls such as clandestine emigrants, students on grants and apprentices; employees with more than one job; members of a family working in the family business; and, lastly, temporary farm workers).

Main results

In order to incorporate these categories of worker it was necessary to define the concept of a *work post*. A work post does not necessarily correspond to a job in the statistical sense (i.e. a person present at work during a given week), which meant that a *standard labour unit* had to be defined, corresponding to the average volume of work carried out by workers employed full time on a work post. The number of standard labour units in 1983 was 7.6 per cent greater than the number of persons employed as recorded in the previous national accounts, or the equivalent of 1.5 million more full-time jobs.

Domestic output was re-estimated, in particular by aggregating the averages produced per labour unit which were calculated from partial or survey data. As a result the level of GDP in the base year and subsequent years had to be considerably revised (see Table 1).

Annex I - Table 1. **Ressources and uses account**

	1980 billion lire		Percentage difference	Breakdown (percentage)		Annual growth rates 1980-1985 1980 prices	
	Old base	New base	New base / Old base	Old base	New base	Old base	New base
Private consumption	212 488	244 126	14.9	62.7	62.5	0.9	1.6
Public consumption	57 013	57 013	0	16.8	14.6	2.6	2.8
GFCF	67 016	94 780	41.4	19.8	24.3	0.3	–0.5
Construction	37 769	49 915	32.2	11.1	12.8	–1.4	–1.5
Equipment	29 247	44 865	53.4	8.6	11.5	1.9	0.6
Stockbuilding	17 648	9 694	–45.1	5.2	2.5	–33.0	–1.2
Exports	77 136	77 338	0.3	22.8	19.8	4.7	4.0
Imports	92 852	93 561	0.8	27.4	24.0	2.7	2.0
GDP	338 743	390 432	15.3	100.0	100.0	0.9	1.6

Source: *Relazione generale sulla situazione economica del paese*, 1986, 1987.

The revised figure for nominal GDP in 1980 is 15.3 per cent higher than the figure on the old base. For the components of domestic demand, the biggest revision concerned gross fixed capital formation (up 41.4 per cent), while household consumption was 15 per cent higher. The figure for stockbuilding in 1980 prices was almost halved. This brought about a shift in the pattern of demand towards investment, whose GDP share increased from 19.8 to 24.3 per cent.

The breakdown of value added by sector (Table 2) shows that the biggest revision was in the figure for market services, with value added up over 24 per cent in 1980.

The breakdown of primary income into wage income and gross operating product (which includes investment income and income from self-employment) was also changed by the revision. As can be seen

Annex I - Table 2. **Value added by sector**

	1980 billion lire		Percentage difference	Breakdown (percentage)		Annual growth rates 1980-1985 1980 prices	
	Old base	New base	New base / Old base	Old base	New base	Old base	New base
Value added at market prices	344 125	387 035	12.5	100	100	1.0	1.6
Market goods and services	300 298	341 305	13.7	87.3	88.2	0.9	1.6
Agriculture	21 595	22 305	3.3	6.3	5.8	0	0.5
Industry	144 836	152 506	5.3	42.1	39.4	–0.2	0.1
In the narrow sense	118 989	124 553	4.7	34.6	32.2	–0.1	0.2
Construction	25 847	27 953	8.1	7.5	7.2	–0.8	–0.8
Market services	133 867	166 494	24.4	38.9	43.0	2.2	3.1
Non market services	43 827	45 730	4.3	12.7	11.8	1.1	1.7
Bank service charge	16 390	16 607	1.3	4.8	4.3	3.4	1.0

Source: *Relazione generale sulla situazione economica del paese*, 1986, 1987.

in Table 3, the shift was mainly towards non-wage incomes which are the main component of incomes not hitherto recorded and whose revised level was up over 40 per cent.

Annex I - Table 3. **Distribution of national income**

	1980 billion lire		Percentage difference	Breakdown (percentage)		Annual growth rates 1980-1985 1980 prices	
	Old base	New base	New base / Old base	Old base	New base	Old base	New base
Gross national disposable income	340 222	392 147	15.3	100	100	14.9	15.4
GDP at market prices	338 743	390 432	15.3	99.6	99.6	15.1	15.6
Domestic wage incomes	184 154	184 196	0	54.1	47.0	15.4	15.4
Net indirect taxes	26 287	22 496	−14.4	7.7	5.7	16.3	18.1
Gross operating surplus	128 302	183 740	43.2	37.7	46.9	14.4	15.5
Net income from abroad	492	669	36.0	0.1	0.2	–	–
Net transfers	987	1 046	6.0	0.3	0.3	9.8	7.3

Source: *Relazione generale sulla situazione economica del paese*, 1986, 1987.

The revisions also affected the growth rates of the main aggregates of supply and demand, as can be seen from the last two columns of Table 1. Thus, while the accounts on the old base 1970 indicated that Italy had seen two years of recession in 1982 and 1983, the growth rate of GDP on the new base is positive throughout. Over the period 1980-85 it averaged 1.6 per cent, compared with 0.9 per cent on the old base. This performance is ascribable to private consumption, whereas the average growth rate of investment became negative (minus 0.5 per cent instead of plus 0.3 per cent in the earlier accounts).

The annual rate of increase of the implicit GDP deflator was revised downwards; the new figure is 13.8 per cent for the period 1980-85, against the old figure of 14.1 per cent. This decrease is ascribed mainly to private consumption.

Some statistical implications

At domestic level, the ratios customarily calculated as a percentage of GDP and used for purposes of economic analysis or international comparisons have been revised downwards, as can be seen in Table 4.

At international level, the ranking of OECD countries in terms of their GDP (expressed in dollars) now puts Italy in fifth place in 1986 with a GDP of $599.8 billion, between France ($724.1 billion) and the United Kingdom ($547.4 billion).

Annex I - Table 4. **Indicators of economic performance**

As a percentage of GDP

	1980		1985	
	Old base	New base	Old base	New base
General government borrowing requirement	8.0	7.0	14.0	12.3
Public debt	67.4	58.5	99.5	84.6
Gross fixed capital formation	19.8	24.3	18.2	21.2
Exports	22.8	19.8	25.4	21.0

Source: *Relazione generale sulla situazione economica del paese*, 1986, 1987; Bank of Italy.

FINANCIAL MARKETS: BACKGROUND INFORMATION

Tables

Annex II – Table 1. **Financial balances by sector : actual and adjusted for inflation**[1]

In percentage of GDP

	Households	Enterprises	Public sector consolidated[2]	External sector	Households	Enterprises	Public sector consolidated
					Adjusted for inflation[3]		
1980	11.7	–7.5	–8.6	2.2	–0.7	–3.0	2.3
1981	12.6	–6.0	–11.1	2.2	2.2	–2.2	–1.6
1982	13.5	–4.1	–12.2	1.5	3.6	–0.9	–2.6
1983	14.7	–4.4	–12.1	–0.4	6.6	–1.9	–4.3
1984	14.7	–3.9	–13.1	0.6	8.4	–2.1	–6.5
1985	14.4	–4.9	–13.6	0.8	8.1	–3.2	–6.7
1986	14.5	–2.4	–12.1	–0.8	11.4	–1.6	–8.6

1. Financial assets and liabilities include pension and severance pay funds.
2. Net indebtedness includes actuarial reserves of social security institutions.
3. For a more detailed description of the method used see « The inflation adjustment of financial balances », Banca d'Italia, *Economic Bulletin* n° 1, October 1985.

Source : Banca d'Italia, *Annual Report*, 1987.

Annex II - Table 2. **Composition of households' assets : international comparison**

In percentage

	France		Germany	United Kingdom			Italy		
	1975	1979	1977	1975	1980	1984	1975	1980	1984
Real assets	69.0	67.4	65.4	56.6	59.0	51.9	70.3	72.5	68.4
of which :									
Dwellings	48.4	48.8	33.7	41.5	44.8	41.0	56.9	58.5	57.4
Financial assets	31.0	32.6	34.7	43.4	41.0	48.1	29.6	27.5	31.6
Money and money deposit	20.8	21.3	19.8	18.1	16.0	15.9	18.4	16.6	16.0
Government securities	–	–	–	2.5	1.8	1.7	1.0	3.6	8.3
Shares and participations[1]	5.5	5.8	1.9	7.9	5.8	7.3	1.9	2.2	2.4
Actuarial reserves and pension funds[2]	2.2	2.2	7.4	10.5	13.8	19.2	5.8	4.2	4.0
Others assets[3]	2.4	3.2	5.6	4.4	3.6	4.1	2.4	0.9	1.0
Total gross assets	100	100	100	100	100	100	100	100	100
Financial liabilities	9.5	11.5	13.9	12.6	12.5	14.7	2.5	2.0	1.9
Long-term	7.9	9.6	12.9	8.3	7.9	9.5	1.9	1.3	1.3
Other	1.6	1.9	1.0	4.3	4.6	5.2	0.6	0.6	0.6

1. For the United Kingdom, inclusive of shares in unit trust and for Italy of shares in Italian and Luxembourg based investment funds.
2. Including, for Italy, severance pay provisions.
3. For France and West Germany, other assets include claims on the public sector.

Source : Banca d'Italia, *Economic Bulletin*, n° 3, February 1986, p. 54 to 61.

Annex II - Table 3. **Costs and margins in banking in some OECD countries**

In percentage of intermediated assets

	1970-72	1975-77	[1]	1980-82	1983	1984
Italy (all commercial banks)[2]						
Net interest income	2.61	2.96	|	3.34	3.14	3.08
Other income, net	0.73	0.88	|	1.18	1.17	1.25
Gross earnings	3.34	3.84	|	4.52	4.31	4.34
Operating costs	2.17	2.44	|	2.82	2.97	3.00
Net earnings	1.18	1.39	|	1.70	1.34	1.33
Capital and reserves	(1.93)	(2.63)	|	3.13	4.24	4.53
United States (all commercial banks)						
Net interest income	2.89	3.00		3.10	3.13	3.35
Other income, net	0.68	0.63		0.96	1.13	1.10
Gross earnings	3.57	3.63		4.06	4.26	4.45
Operating costs	2.35	2.38		2.77	2.95	3.04
Net earnings	1.22	1.25		1.29	1.31	1.40
Capital and reserves	6.36	6.06		5.83	6.00	6.14
Germany (Commercial banks)						
Net interest income	2.13	2.37		2.13	2.71	2.54
Other income, net	0.64	0.63		0.86	0.90	0.89
Gross earnings	2.77	3.00		2.99	3.61	3.43
Operating costs	2.26	2.29		2.05	2.19	2.19
Net earnings	0.52	0.70		0.94	1.41	1.24
Capital and reserves	4.38	4.94		3.99	4.02	3.93
France						
Net interest income			|	2.79	2.63	2.58
Other income, net			|	0.52	0.53	0.39
Gross earnings	3.56	3.23	|	3.31	3.17	2.97
Operating costs	2.67	2.33	|	2.23	2.14	2.06
Net earnings	0.88	0.90	|	1.08	1.02	0.91
Capital and reserves	2.56	2.15	|	2.71	2.39	2.35
United Kingdom (large London banks)						
Net interest income				2.24	2.64	2.50
Other income, net				0.54	0.53	0.55
Gross earnings				2.78	3.16	3.05
Operating costs				1.77	1.80	1.81
Net earnings				1.01	1.36	1.24
Capital and reserves				3.29	3.36	3.39

1. Break in series.
2. Over the period 1970-77, data refer to all banks.

Sources: OECD, *Bank profitability, 1980-1984*, 1987; *Costs and margins in banking*, 1978 and 1983.

Calendar of main policy measures affecting financial markets 1973-1987

1973

January	*Exchange control.* Dual exchange market introduced. Period for advance payments of imports shortened from 90 to 30 days; period for deferred payments of exports shortened from 360 to 90 days.
July	*Exchange control.* Banks assets and liabilities in foreign currency must be balanced daily. Introduction of a compulsory non-interest bearing deposit at Bank of Italy for investment abroad, amounting to 50 per cent of the investment. Foreign currency financing required for advance payments of imports.
	Portfolio constraint. Introduction of requirement for all banks (except rural and artisan banks) to hold a certain amount of long-term securities (in particular, bonds issued by mortgage institutions, for agricultural improvement or to finance hospitals), amounting to 12 per cent of deposits outstanding at end-January 1973.
August	*Credit control.* Ceilings imposed on the growth of bank loans in lire to residents.

1974

March	*Exchange control.* Dual exchange market abolished. For tourism, maximum L 20 000 in Italian banknotes authorised per person and per trip.
April	*Credit control.* Ceiling on bank credit growth, set at 15 per cent for the period end-March 1974 to end-March 1975 on loans to local institutions and companies with outstanding debt of more than L 500 million. Ceiling set at 12 per cent for retail and wholesale trading, financial and insurance services and households. Agreement with IMF on a standby loan of 1 billion SDR. The Italian authorities set a target growth for total domestic credit of L 22 billion for the period end-March 1974 to end-March 1975.
May	*Exchange control.* Introduction of a compulsory non-interest-bearing deposit in lire at Bank of Italy (for 180 days) for imports of goods (agricultural products mainly) which amount to more than L 1 million; deposit to be equal to 50 per cent of the value of imports.
	For tourism, maximum L 35 000 in Italian banknotes per person and per trip. Maximum L 500 000 in foreign currency per year.
July	*Exchange control.* Freezing of net debtor foreign position of banks. Compulsory deposit on import lifted in the case of some agricultural products, lowered to 25 per cent for imports of beef meat.
	Portfolio constraint renewed for second half of 1974, set at 12 per cent of deposits outstanding at end-December 1973.
December	*Credit control.* Agreement with EEC for medium-term loan of $1.4 billion. Target for total domestic credit growth set at L 24 700 billion for the period 1st April 1975 to 31st March 1976. Ceiling lifted for exporting companies and large enterprises (outstanding loans higher than L 500 million); 15 per cent overall growth limit remains.

1975

January	*Reserve requirements.* Coefficient of required reserves in cash brought down to 15 per cent of the increase in deposits for all categories of banks[1].
	Portfolio constraint modified. Banks to invest 40 per cent of the increase in deposits over the period end-November 1974 to end-May 1975 in fixed revenue securities (to be reckoned at face value).
March	*Exchange control.* Compulsory deposit for imports of goods abolished.
	Credit control. 15 per cent credit ceiling not renewed at expiry. Total domestic credit growth target announced in December 1974 for period 1st April 1975 to 31st March 1976 remains valid.
	Financial markets. Non-bank intermediaries may participate in Treasury bill auction.
June	*Exchange control.* Freezing of net debtor foreign position of banks abolished. Ban on net creditor position vis-à-vis non-residents remains.
July	*Portfolio constraint* lowered, from 40 to 30 per cent of increase in deposits for the period end-May to end-November 1975 (securities reckoned at face value).
	Exchange control. Foreign currency financing for advance payments of imports abolished.
August	*Exchange control.* Italian exchange office to discount banks' claims in dollars against lire, at maximum rate of 7.5 per cent, in order to refinance export credit.
December	*Exchange control* eased. Period for advance payments of imports lengthened to 60 days. Period for deferred payments of exports lengthened to 120 days.
	Portfolio constraint renewed for first half of 1976, set at 30 per cent of increase in deposits over the period end-November 1975 to end-May 1976.

1976

January	*Exchange control.* Exchange market closed.
February	*Reserve requirement.* Sterilisation of bank liquidities (amounting to L 750 billion) through two channels: Reserve requirements in cash raised from 15 to 15.75 of increase in deposits since end 1975. Additional compulsory increase of cash reserves by 0.75 per cent of outstanding deposits on 31st December 1975.
	Exchange control. Reduction from 60 to 15 days of delay to convert into lire foreign exchange holdings by residents. Bank of Italy discounting of short-term bank credit for exports abolished.
March	*Exchange control.* Exchange market reopens. Infringements of exchange regulations brought under criminal law.
	Credit control. Agreement with EEC. Target for total domestic credit growth set at L 29 500 billion for 1976. In conjunction, a target of L 39 700 billion is announced for the cash deficit of the Treasury; and financing by the Bank of Italy is not to exceed L 5 700 billion.
	Exchange control. Compulsory foreign currency financing for advance payments of imports reintroduced (amounting to 100 per cent of payment).
May	*Exchange control.* Compulsory non-interest-bearing deposit on all payments abroad, set at 50 per cent of transaction, with rate decreasing from October 1976 to April 1977.

	Introduction of compulsory foreign currency financing of exports with deferred payments of up to 4 months (amounting to 30 per cent of credit).
June	*Portfolio constraint* raised, from 30 to 42 per cent of increase in deposits for the period end-May to end-November 1976 (securities reckoned at face value).
September	*Reserve requirements.* Reserves to be raised by 0.50 per cent of outstanding deposits on 30th June 1976.
	Exchange control. Compulsory foreign currency financing of exports with deferred payments raised from 30 to 50 per cent of credit.
October	*Exchange control.* Introduction of a 10 per cent tax on purchase by residents of foreign currency (for the period 1st-15th October), reconducted from end-October at a rate of 7 per cent until end-December, then progressively reduced and abolished in February.
	Credit control. In line with 1976 target for total domestic credit growth, ceiling imposed on bank credit. Credit outstanding at end-June 1976 not to increase by more than: – 7 per cent up to end-November 1976; – 11 per cent up to end-December 1976; – 10 per cent up to end-January 1977; – 11 per cent up to end-February 1977; – 11 per cent up to end-March 1977.
December	*Portfolio constraint* renewed for first half of 1977, set at unchanged 30 per cent of increase in deposits over the period end-November 1976 to end-May 1977.

1977

February	*Exchange control.* Foreign exchange tax abolished.
April	*Exchange control.* Compulsory deposit on payments abroad abolished.
July	*Portfolio constraint* renewed for second half of 1977, set at 30 per cent of increase in deposits over six months to November.
December	*Portfolio constraint* renewed for first half of 1978, set at 30 per cent of increase in deposits over six months to May 1978.

1978

March	*Credit control.* Ceilings on bank credit renewed up to end July; minimum loan subject to ceilings is set at L 30 million.
June	*Exchange control.* Compulsory foreign currency financing of exports with deferred payments abolished.
July	*Credit control.* Ceilings on bank credit renewed for the period August 1978 to March 1979. Credit accounts amounting to more than L 50 million at end-March 1978 not allowed to increase by more than: – 6 per cent up to end-September 1978; – 7 per cent up to end-November 1978; – 13 per cent up to end-January 1979; – 14 per cent up to end-March 1979.
August	*Exchange control.* Period for advance payments of imports lengthened to 120 days.
September	*Portfolio constraint* lowered, from 30 to 6.5 per cent of increase in deposits.

1979

January — *Credit control.* Ceilings on bank credit renewed. Minimum loan subject to ceiling raised from L 50 million to L 100 million. Credit outstanding at end-March 1978 not to increase by more than:

- 14 per cent up to end-January 1979;
- 15 per cent up to end-March 1979.

October — *Credit control.* Minimum credit subject to ceiling raised from 100 to 130 million lire. Credit outstanding at end-May 1979 not to increase by more than:

- 11 per cent up to end-November 1979;
- 14 per cent up to end-January 1980;
- 15 per cent up to end-March 1980;
- 16 per cent up to end-May 1980;
- 21 per cent up to end-July 1980.

1980

March — *Credit control.* Penalties introduced in case of excess lending. Commercial banks are required to make a non-interest-bearing deposit at Bank of Italy set as follows:

For excess lending	Rate of compulsory deposit		
	March	May	July
Below 3 per cent	10%	20%	30%
Above 3 per cent	10%	30%	50%

June — *Credit control.* Renewal of ceilings for 3 months. Credit outstanding at end-May 1979 not to increase by more than:

- 20 per cent up to end-September 1980;
- 26 per cent up to end-December 1980;
- 27 per cent up to end-March 1981.

Tightening of penalties for exceeding limits:

For excess lending	Rate of compulsory deposit
Below 2 per cent	30%
Between 2 and 4 per cent	50%
Above 4 per cent	75%

September — *Exchange control.* Compulsory foreign currency financing of exports with deferred payments reintroduced until December (amounting to 50 per cent of credit).

1981

January — *Portfolio constraint* renewed for first half of 1981, at 6.5 per cent of increase in deposits between end-November 1980 and end-May 1981.

Credit control. Ceiling on the growth of domestic bank credit set at 12 per cent for the year to December 1981. Month by month growth ceilings are set. Loans of less than 130 million lire, which were previously exempt, are now subject to ceiling. Penalties are maintained.

Exchange control. Freezing of foreign currency financing of resident importers: outstanding loans at 31st March to be brought back to level in lire of 31st December 1980, where they are to remain until the end of the year.

March *Credit control.* Ceiling on bank acceptances issued by any bank. They are not to exceed two fifths of its capital.

Reserve requirement. Coefficient raised from 15.75 to 20 per cent of increase in deposits.

May *Exchange control.* Compulsory non-interest bearing deposit (amounting to 30 per cent of transaction) reintroduced over period 28th May-1st October for foreign currency purchases for travelling abroad and imports of all goods except oil and cereals. To reduce impact on liquidity, banks are allowed to exceed credit ceilings by an amount equal to half their clients compulsory deposits.

August *Portfolio constraint* raised, from 6.5 to 8 per cent of increase in deposits between end-May and end-November.

September *Exchange control.* Prolongation to end-February 1982 of compulsory deposit scheme for imports, with some easing of conditions:

- gradual reduction of amount to be deposited:
- 25 per cent in October - December 1981
- 20 per cent in January 1982
- 15 per cent in February 1982
- exemptions extended to agricultural products, non-ferrous metals and various energy products.

December *Credit control.* Renewal of ceilings for each month up to end-December 1982. Maximum overall growth of domestic bank credit set at 11½ per cent during year to December 1982. Foreign currency loans subject to same ceiling (after being frozen since last January). Penalties for excess domestic credit remain with slight modifications. A penalty for exceeding ceilings on foreign currency loans is introduced (a non-interest-bearing compulsory deposit at Bank of Italy amounting to 50 per cent of excess lending).

1982

January *Portfolio constraint* lowered, from 8 to 6.5 per cent of increase in deposits for first half of 1982.

February *Exchange control.* Compulsory deposit on all payments abroad abolished.

April *Exchange control* tightened. Reduction from 120 to 60 days of period for deferred payments of exports, except for credits financed in foreign currency, for which term remains 18 months.

Credit control. Tightening of penalties for exceeding credit ceilings in 1982.

Bank regulation. Banking secret abolished for accounts of tax payers whose annual income is above L 100 million.

August *Portfolio constraint* renewed, set at 6.5 per cent of the increase in deposits between end-May and end-November 1982.

November *Exchange control.* Compulsory foreign currency financing of exports with deferred payments reintroduced (amounting to 70 per cent of credit).

December — *Portfolio constraint* renewed for first half of 1983 at lower rate, 5.5 per cent of increase in deposits between end-November 1982 and end-May 1983; 50 per cent of all securities coming to maturity to be replaced by similar bonds; in the case of borrowers other than special credit institutions the replacement must be 100 per cent.

Reserve requirements modified. Coefficient increased from 20 to 25 per cent of growth in deposits after December 1982. It remains at 20 per cent in case of decrease in deposits. Bank of Italy will pay interest of 9.5 per cent on part of required reserve which to certificates of deposits.

Credit control. Renewal of ceilings for each month to end-June 1983.

1983

April — *Refinancing of banks.* Changes in regulations concerning term advances. Option to repay a loan in advance introduced.

May — *Exchange control.* Annual foreign exchange allowance for tourism raised from L 1 100 000 to L 1 600 000 per year (of which L 100 000 in foreign currency); in addition, up to L 100 000 allowed in Italian banknotes.

July — *Credit control.* Ceilings not renewed.

Portfolio constraint renewed for second half of 1983; 50 per cent of securities coming to maturity to be replaced by other similar bonds. For borrowers other than special credit institutions replacement is 100 per cent.

October — *Taxation of financial assets.* Increase from 21.6 to 25 per cent of withholding tax on interest on deposits at banks and post office. Introduction of a 25 per cent tax on interest on atypical securities.

November — *Taxation of financial assets.* Tax rate on interest on atypical securities reduced to 18 per cent. Tax rate on interest on bonds increased from 10 to 12.5 per cent.

December — *Exchange control* eased. Period for deferred payments of exports to EEC lengthened to 5 years. Period for advanced payments of imports lengthened to 5 years.

1984

January — *Portfolio constraint* renewed for first half of 1984, set at 5.5 per cent of the increase in deposits between end November-1983 and end-May 1984. Banks are authorized not to replace by similar bonds, securities issued by special credit institutions and several "other borrowers" (ENI, IRI, ENEL) coming to maturity. In the case of other securities replacement is 100 per cent.

April — *Exchange control* liberalized for tourism. Maximum allowance increased from equivalent of L 1 600 000 per person and per year to L 1 600 000 per trip (of which L 300 000 in foreign currency).

May — *Reserve requirements.* Coefficient applied in the event of a decrease of deposits is raised from 20 to 22.5 per cent.

June — *Exchange control.* Period for deferred payments of exports to OECD set at 5 years; 360 days for non OECD countries.

July — *Portfolio constraint* renewed for second half of 1984 at lower rate, 4.5 per cent of the increase in deposits between end-May and end-November.

	Exchange control. Reduction from 70 to 50 per cent of compulsory foreign currency financing of exports with deferred payments. Ceiling on net debtor foreign position of banks reintroduced, set at level outstanding at end-June 1984.
December	*Exchange control* eased. Reduction from 50 to 40 per cent of compulsory deposit for investment abroad in securities issued in OECD; to 30 per cent for bonds issued in third countries by EEC institutions and held by residents for at least a year. Italian mutual funds exempted (up to 10 per cent of assets held). Prohibition of advance reimbursement of financing in foreign currency abolished.

1985

January	*Portfolio constraint* renewed for first half of 1985, set at 4 per cent of the increase in deposits between end-November 1984 and end-May 1985.
	Exchange control eased. Reduction from 50 to 25 per cent of compulsory foreign currency financing of exports with deferred payments.
August	*Portfolio constraint* renewed for second half of 1985, set at 4 per cent of the increase in deposits between end-May and end-November.
October	*Exchange control* eased. Compulsory foreign currency financing of exports with deferred payments abolished. Reduction to 25 per cent of compulsory non-interest-bearing deposit for purchase of foreign securities.
December	*Exchange control* eased. Ceiling on net foreign debtor position of banks abolished.
	Portfolio constraint renewed at lower rate; 1 per cent of the increase in deposits between end-November 1985 and end-May 1986 to be invested in fixed interest agricultural improvement bonds.

1986

January	*Credit control.* Ceilings reintroduced on growth of bank credit for each month up to end-June. Penalties for excess lending reintroduced.
	Exchange control tightened. Compulsory foreign currency financing of exports with deferred payments reintroduced, set at 75 per cent of credit. Prohibition of advance reimbuirsement of financing in foreign currency reintroduced.
April	*Exchange control.* Lifting of measures introduced in January.
June	*Credit control.* Non renewal of ceilings introduced in January.
July	*Portfolio constraint* renewed for the second half of 1986; banks must restore portfolio of bonds issued by mortgage institutions and fixed interest agricultural improvement bonds, outstanding at end-June (securities to be reckoned at face value). In case of securities issued by other special credit institutions, banks are allowed not to restore bonds coming to maturity.
	Reserve requirements. Interest paid by Bank of Italy on required reserves corresponding to certificates of deposits lowered from 9.5 to 8.5 per cent.
August	*Exchange control* eased. Reduction from 25 to 15 per cent of compulsory deposit for purchase of foreign securities. Convertibility of Italian banknotes reintroduced.
September	*Taxation of financial assets.* Introduction of a 12.5 per cent tax on interest of newly issued public sector securities (transitorily set at 6.25 per cent until end-September 1987).

December *Reserve requirements.* Banks belonging to Insurance Deposits Interbank Fund may deduct from the reserve requirement aggregate an amount of L 2 000 billion, corresponding to 50 per cent of Fund.

1987

March *Reserve requirements.* Introduction of a reserve requirement on bank deposits in foreign currency; 25 per cent of increase in deposits, net of the proportion reinvested abroad or reallocated at other credit institutions to be deposited in lire at Bank of Italy (coefficient also set at 25 per cent for decrease in deposits); 5.5 per cent interest to be paid on reserves thus constituted.

May *Exchange control* liberalized

- Compulsory non interest bearing deposit for investment abroad in securities abolished. Authorisation still required for investment in non-EEC countries.
- Compulsory foreign currency financing of imports with anticipated payments abolished.
- Period for holding foreign currency accounts doubled from 60 to 120 days for currency obtained directly through transactions with non resident (exports), from 30 to 60 days for currency purchased against lire for transactions with non resident (imports).
- Period doubled (from 15 to 30 days) for exchanging against lire currency holdings of residents.
- Penalties on non-authorised debit position of non residents accounts in lire abolished.
- Liberalization of tourism; ceilings for currency purchases and maximum Italian banknotes exportable raised (in line with OECD code).
- Liberalization of imports of Italian banknotes. Justification of origine and use may be required for amounts over L 500 000 in case of residents, L 5 million in case of non residents.
- Various measures aiming at facilitating transactions with new residents: such as raising of minimum amount above which forms for foreign exchange are required; introduction of overall foreign exchange financing for several commercial transactions (instead of for every single transaction).
- Introduction of "consolidated foreign currency accounts" for large groups, which allows compensation between debit and credit position of foreign currency accounts among various companies in the group.

NOTE

1. Reserve requirements for commercial banks were set in January 1962 at 22.5 per cent of deposits outstanding, of which 10 per cent minimum were to be in cash and the remainder in one year Treasury bills. From then on, banks were authorised – on condition they maintain the cash proportion – to use an increasingly wider sample of long term securities. Savings banks on the other hand were not compelled to the cash minimum and their reserves were almost entirely made up of long term securities.

Annex III[1]

MAIN ECONOMIC POLICY MEASURES

1986

1st January

Application of the new wage escalator system

2nd January

Decree-Law to neutralise the effects of inflation-generated fiscal drag in 1986

16th January

Adoption of measures to combat speculation against the lira

20th January

Extension to 30th June of the reduction of budgetisation of social insurance contributions from 7.5 to 6.85 per cent of gross wages, except in the Mezzogiorno where the rate of budgetisation will be kept at 9.4 per cent for men and 11.8 per cent for women.

28th February

Parliament approves the 1986 Finance Act

22nd March

Discount rate lowered from 15 to 14 per cent

17th April

Easing of the regulations on forward monetary transactions by the banking sector

25th April

Discount rate lowered from 14 to 13 per cent

27th May

Discount rate lowered from 13 to 12 per cent

3rd July

Extension to 30th November of the budgetisation of social security contributions

25th July

Agreement between most civil servants unions and the Government making wildcat strikes illegal and in the case of transportation exempting certain days from strike action. In return government is to speed up signing of collective agreements.

7th August

Parliament approves law on local finances for 1986. Major provisions are:

- Debarring of provinces and communes from contracting loans with any entities other than Deposits and Loans Fund.

– Requirement that where a budget deficit is anticipated, counter measures must be adopted by 15th October each year.
– Authorisation to raise certain local taxes and to impose extra levy on electricity consumption.

21st December

Parliament approves the 1987 Finance Act

22nd December

Change in the budgetisation scheme of social security contributions; deduction becomes a fixed amount instead of a proportion of salaries to be indexed to programmed inflation; the same deduction applies to all employees with no differentiation between males and females.

1987

7th January

3 year retroactive wage settlement signed between the Government and unions concerning some 250/000/civil servants. It grants pay increases exceeding budgetary guidelines of 6 per cent for 1986 and 4 per cent for 1987 and 1988. For the two major pay grades, increases (65 per cent of which will be paid in January) amount to 7.5-8 per cent a year. The automatism of increases due to seniority in the public sector are considerably reduced.

18th January

3 year wage agreement signed between employers and unions representing around 1.1 million employees in large private metal firms. In addition to inflation adjustments and seniority bonuses, the settlement grants an estimated 2.7 per cent a year rise in wages. It provides for phased monthly pay increases of an average L 110/000, a lump-sum payment of L 190 000 to compensate for the period since the supply of the last agreement at end-1985, a 16 hour cut in the working year from 1989, and, for the first time, joint management/union consultation on the impact of new technology.

22nd January

Government proposal of a reform of direct taxation as from 1988. It provides concessions amounting to L 4 700 billion in the first year and L 6 500 billion in 1989 to be financed from the new tax on public sector securities and from a 25 per cent lump on revalued company assets. They would more than compensate for fiscal drag effects since the last rate adjustment and would mainly benefit individuals with middle and high incomes. The scope for corporate depreciation allowances would also be expanded.

11th February

Parliament approves a reform of labour market regulations. Major changes are:

– The reorganisation of unemployment offices under regional employment commissions, by area rather than communes, with authorisation to impose a quota of long term unemployed on employers seeking labour.
– The setting-up of new regional employment offices controlled by the central Government.
– Greater flexibility for term contracts.

14th March

Discount rate lowered from 12 to 11.5 per cent.

NOTE

1. Measures affecting financial markets – in particular those related to monetary policy and exchange control – are recorded in Annex II.

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STATISTICAL ANNEX

Table A. Selected background statistics

	Average 1977-86	1978	1979	1980	1981	1982	1983	1984	1985	1986
A. Percentage changes from previous year										
Private consumption[1]	2.1	3.0	5.3	4.3	0.5	0.5	–0.3	1.9	1.9	3.2
Gross fixed capital formation[1]	1.5	–0.1	5.8	9.4	0.6	–5.2	–3.8	6.2	4.1	1.2
GDP[1]	2.0	2.7	4.9	3.9	0.2	–0.5	–0.2	2.8	2.3	2.7
GDP price deflator	15.1	13.9	15.9	20.6	18.3	17.8	14.9	10.8	8.8	8.3
Industrial production	1.3	2.0	6.7	5.2	–1.6	–3.0	–3.2	3.3	1.2	2.7
Employment	0.5	0.7	1.0	0.8	0.5	–0.2	0.2	0.3	0.5	0.6
Compensation of employees (current prices)	17.1	16.7	19.8	23.7	22.5	17.2	15.4	11.3	11.0	8.1
Productivity (GDP/employment)	1.5	2.0	3.9	3.1	–0.3	–0.4	–0.3	2.5	1.8	2.1
Unit labour costs (Comp./GDP)	14.8	13.7	14.2	19.0	22.3	17.8	15.6	8.3	8.5	5.2
B. Percentage ratios										
Gross fixed capital formation as % of GDP at constant prices	16.9	16.5	16.7	17.6	17.7	16.8	16.2	16.7	17.0	16.8
Stockbuilding as % of GDP at constant prices	1.0	0.9	1.6	3.6	0.6	0.5	–0.1	0.5	0.4	0.9
Foreign balance as % of GDP at constant prices	3.5	4.6	3.9	1.1	3.4	3.2	4.1	3.7	3.7	3.2
Compensation of employees as % of GDP at current prices	55.6	56.4	55.6	54.8	56.6	56.6	57.0	55.7	55.5	53.9
Direct taxes as percent of household income	9.8	7.8	7.7	9.2	10.2	11.0	11.8	11.9	11.8	11.8
Household saving as percent of disposable income	20.8	23.5	22.6	20.5	20.6	20.2	19.3	19.6	19.9	21.2
Unemployment as percent of civilian labour force	8.7	7.1	7.6	7.5	8.4	9.0	9.8	9.8	10.9	
C. Other indicator										
Curent balance (billion dollars)	–1.8	6.2	5.5	–9.7	–8.1	–5.5	0.8	–2.9	–4.2	5.1

1. At constant 1970 prices.
2. Based on old national accounts.

Source: OECD Secretariat.

Table B. **National accounts**[1]
Expenditure and output
Billion lire

	Current prices					1980 prices				
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986
Expenditure										
1. Household consumption	342 497	395 056	449 763	504 927	553 104	250 402	251 328	256 859	263 753	272 194
2. Collective consumption	88 808	104 830	119 223	134 265	147 483	61 319	63 029	64 308	66 564	68 534
3. Gross fixed capital formation	121 730	134 334	152 879	170 429	179 904	87 285	85 927	89 709	92 667	93 796
4. Change in stocks	6 461	3 076	11 626	11 218	9 311	4 021	1 328	8 307	9 107	11 503
5. Exports of goods and services	114 192	126 890	150 692	169 358	166 805	82 201	84 089	90 480	94 098	96 997
6. *less:* Imports of goods and services	128 564	132 611	163 501	184 443	162 245	89 401	87 981	97 920	103 125	108 342
7. GDP at market prices	545 124	631 575	720 682	805 754	894 362	395 827	397 720	411 743	423 064	434 682
Output										
1. Agriculture, forestry and fishing	27 944	33 306	33 929	36 582	38 841	21 842	23 663	22 803	22 884	23 265
2. Manufacturing, mining and public utilities	162 997	184 685	208 784	229 899	257 297	26 477	26 740	26 828	26 915	26 856
3. Construction	37 930	40 996	44 473	47 911	50 179	122 193	119 705	124 168	126 044	130 293
4. Services private sector[1]	218 119	256 208	299 727	343 756	385 448	157 673	159 314	168 041	176 063	181 478
5. Public administration	69 718	81 551	92 938	103 190	113 516	47 519	48 155	49 136	49 844	50 853
6. Imports duties	28 416	34 829	40 831	44 416	49 081	20 123	20 143	20 767	21 314	21 937
7. GDP at market prices	545 124	631 575	720 682	805 754	894 362	395 827	397 720	411 743	423 064	434 682

1. Less imputed bank services.
Source: Relazione Generale sulla situazione economica del paese, 1987.

Table C. **Quarterly national accounts**

a) Billion lire, 1980 prices

Seasonally adjusted

	1984 Q1	1984 Q2	1984 Q3	1984 Q4	1985 Q1	1985 Q2	1985 Q3	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4
1. GDP at market prices[1]	101 808	102 344	103 889	103 701	104 489	105 435	106 202	106 938	106 687	109 200	109 239	109 556
of which: Agriculture	5 647	5 855	5 700	5 601	5 502	5 695	5 846	5 841	5 526	5 937	5 954	5 848
Industry (including energy sector)	30 778	30 810	31 568	31 012	31 248	31 481	31 636	31 679	31 840	32 826	32 578	33 049
Construction	6 684	6 693	6 737	6 714	6 718	6 753	6 703	6 740	6 704	6 726	6 741	6 683
Services	57 695	57 967	58 717	59 259	60 057	60 558	61 045	61 730	61 721	62 752	63 057	63 054
2. Imports of goods and services	23 583	24 033	24 653	25 650	25 525	25 611	25 359	26 631	27 022	26 334	28 122	26 864
3. Exports of goods and services	21 969	22 007	23 144	23 360	23 377	22 974	23 332	24 415	23 707	24 940	25 067	23 283
4. Total domestic demand	103 423	104 370	105 398	105 990	106 637	108 072	108 228	109 153	110 001	110 595	112 293	113 136
of which: Investment	22 022	22 358	22 634	22 695	23 167	23 229	23 055	23 217	23 184	23 647	23 570	23 394
Household consumption	63 971	64 229	64 164	64 495	64 997	65 739	66 319	66 699	67 218	67 632	68 248	69 096
Collective consumption	15 843	16 015	16 124	16 326	16 454	16 547	16 710	16 852	16 951	17 084	17 171	17 329
Stockbuilding	1 587	1 768	2 476	2 474	2 019	2 557	2 144	2 385	2 648	2 232	3 304	3 317

1. Including import duties.

Source: ISTAT, Quarterly national accounts.

Table C. **Quarterly national accounts**

b) Percentage change from previous period, 1980 prices

Seasonally adjusted

	1984				1985				1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
1. GDP at market prices[1]	1.1	0.5	1.5	–0.2	0.8	0.9	0.7	0.7	–0.2	2.4	0.0	0.3
of which: Agriculture	–5.2	3.7	–2.6	–1.7	–1.8	3.5	2.6	–0.1	–5.4	7.4	0.3	–1.8
Industry (including energy sector)	2.1	0.1	2.5	–1.8	0.8	0.7	0.5	0.1	0.5	3.1	–0.8	1.4
Construction	0.1	0.1	0.7	–0.3	0.1	0.5	–0.7	0.6	–0.5	0.3	0.2	–0.9
Services	1.4	0.5	1.3	0.9	1.3	0.8	0.8	1.1	0.0	1.7	0.5	0.0
2. Imports of goods and services	6.2	1.9	2.6	4.0	–0.5	0.3	–1.0	5.0	1.5	–2.5	6.8	–4.5
3. Exports of goods and services	0.7	0.2	5.2	0.9	0.1	–1.7	1.6	4.6	–2.9	5.2	0.5	–7.1
4. Total domestic demand	2.4	0.9	1.0	0.6	0.6	1.3	0.1	0.9	0.8	0.5	1.5	0.8
of which: Investment	1.9	1.5	1.2	0.3	2.1	0.3	–0.7	0.7	–0.1	2.0	–0.3	–0.7
Household consumption	0.9	0.4	–0.1	0.5	0.8	1.1	0.9	0.6	0.8	0.6	0.9	1.2
Collective consumption	–0.4	1.1	0.7	1.3	0.8	0.6	1.0	0.8	0.6	0.8	0.5	0.9
Stockbuilding	–	–	–	–	–	–	–	–	–	–	–	–

1. Including import duties.

Source: ISTAT, Quarterly national accounts.

Table D. Prices indices

1980 = 100

		1983	1984	1985	1986	1985 Q3	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4
Wholesale prices											
Agricultural products		137.7	150.3	160.7	164.7	160.3	163.4	167.9	165.9	161.9	163.1
Non agricultural products		146.8	162.2	174.2	171.9	174.8	176.1	174.1	171.3	170.2	171.4
Investment goods		155.0	170.2	183.5	194.0	184.7	187.1	191.7	193.4	194.9	196.2
Consumer goods		146.8	161.1	174.6	179.9	175.6	178.2	179.1	179.3	179.5	181.6
Intermediate goods		143.2	158.8	169.1	159.9	169.1	169.7	166.3	159.8	156.6	157.0
	General index	145.7	160.8	172.6	171.1	173.1	174.7	173.8	170.7	169.3	170.5
Consumer prices											
Foods products		152.0	165.8	180.3	190.2	181.7	185.4	188.2	189.7	190.8	192.5
Non-food products		154.7	170.8	185.5	192.4	186.4	190.6	191.1	191.6	192.2	194.4
Services		167.5	189.7	209.4	228.0	210.6	215.3	222.6	227.2	229.4	232.8
	General index	157.3	174.3	190.3	201.5	191.5	195.7	198.7	200.8	201.9	204.3
Consumer prices for families of workers and clerical employees											
Food		152.3	166.3	180.5	190.1	181.9	185.6	187.9	189.3	190.4	192.2
Clothing		154.3	170.8	187.4	203.1	187.5	194.9	197.7	201.5	203.3	209.7
Housing		161.9	199.1	209.6	227.4	208.6	218.5	221.8	225.3	227.0	235.4
	General index	158.8	175.6	190.7	202.3	191.7	196.1	199.5	201.8	202.9	205.4

Source: ISTAT, *Bolletino mensile di statistica.*

Table E. **Employment**

Thousands

	1983	1984	1985	1986	1985				1986			
					Jan.	April	July	Oct.	Jan.	April	July	Oct.
A. **Labour force, total**	22 697	22 905	23 069	23 467	22 773	22 828	23 336	23 338	23 221	23 173	23 539	23 820
Total in % of population	40.4	40.7	40.8	41.5	40.3	40.4	41.3	41.3	41.1	41.0	41.6	42.1
1. Employment	20 557	20 647	20 742	20 856	20 427	20 606	21 037	20 897	20 686	20 696	21 009	21 049
Dependent employment	14 567	14 478	14 650	14 704	14 478	14 580	14 780	14 764	14 604	14 689	14 707	14 825
Self-employed	5 990	6 169	6 092	6 152	5 949	6 026	6 257	6 133	6 082	6 007	6 302	6 224
2. Unemployment	2 140	2 258	2 327	2 611	2 346	2 222	2 299	2 441	2 535	2 477	2 530	2 771
Formerly employed	337	457	461	501	521	452	408	465	511	495	456	511
First job-seekers	1 251	1 118	1 192	1 296	1 205	1 139	1 186	1 237	1 263	1 237	1 288	1 347
Other job-seekers	552	682	674	814	620	631	705	739	761	745	785	913
Total unemployment in percentage of labour force	9.4	9.9	10.1	11.1	10.3	9.7	9.9	10.5	10.9	10.7	10.7	11.6
B. **Other population**	33 484	33 373	33 473	33 109	33 736	33 677	33 168	33 170	33 278	33 347	33 045	32 760
C. **Total population**	56 181	56 278	56 542	56 576	56 509	56 505	56 504	56 508	56 499	56 520	56 584	56 580

Source: ISTAT, *Bolletino mensile di statistica.*

Table F. **Wages and salaries**

	1983	1984	1985	1986	1985 Q3	1985 Q4	1986 Q1	1986 Q2	1986 Q3	1986 Q4
I. Indices of wages and salaries[1] (1982 = 100)										
Agriculture	120.1	130.2	145.0	152.4	147.2	148.8	150.1	151.9	152.8	154.9
Industry	114.7	127.4	139.7	146.0	141.8	143.1	143.5	145.2	146.6	148.7
of which: Construction	114.7	126.0	137.5	143.9	139.4	140.7	141.0	142.5	144.2	148.0
Transports	111.3	120.9	130.9	139.0	133.0	134.1	137.3	138.6	139.3	140.9
Commerce	117.3	129.7	143.6	150.9	145.8	147.3	148.6	150.6	151.4	153.1
Credits and insurance	115.0	129.2	143.7	148.9	145.2	145.9	146.0	146.9	149.1	153.7
Public administration	114.2	129.5	140.3	145.8	141.9	143.0	143.2	144.7	147.0	148.3
II. Labour costs[1] (1982 = 100)										
Compensation per employee	116.0	129.3	142.5	153.4	144.8	145.2	148.2	153.8	155.0	156.6
of which: Industry	117.0	133.4	148.8	161.3	151.5	151.8	155.1	161.8	162.5	165.3
Labour cost per unit of production	114.3	123.6	135.1	142.2	137.2	136.6	140.2	141.3	142.1	144.8
of which: Industry	114.1	120.0	130.6	134.9	133.0	132.0	134.5	134.3	134.5	135.9

1. Excluding family allowances.
Sources: ISTAT, *Bolletino mensile di statistica* and Quarterly national accounts.

Table G. **Public sector accounts**

a) Central Government[1]

Billion lire, current prices

	1982	1983	1984	1985	1986
1. Tax revenue	..	128 490	150 063	168 531	186 350
2. Other current receipts	..	45 000	53 605	63 315	72 005
3. Total current receipts	..	173 005	203 668	231 846	258 355
4. Current expenditure on goods and services	..	55 909	64 245	72 191	78 980
5. Subsidies, current transfers and depreciation	..	172 888	198 467	224 230	247 751
6. Total current expenditure	..	228 797	262 712	296 421	326 731
7. Net current saving	..	–55 792	–59 044	–64 575	–68 376
8. Depreciation allowances and capital account receipts	..	7 741	3 096	1 803	1 719
9. Gross investment	..	8 740	8 890	8 821	9 401
10. Capital transfers	..	12 439	12 756	27 483	23 374
11. Borrowing requirement (+) or capacity (–)	..	+69 230	+77 594	+99 076	+99 432

1. Excluding autonomous bodies.

b) Local authorities

Billion lire, current prices

	1982	1983	1984	1985	1986
1. Tax revenue	..	8 145	8 887	9 761	11 151
2. Other current receipts	..	72 317	78 005	89 310	96 852
3. Total current receipts	..	80 462	86 892	99 071	108 003
4. Current expediture on goods and services	..	44 759	49 887	56 040	61 285
5. Subsidies, current transfers and depreciation	..	26 512	30 084	35 598	38 024
6. Total current expenditure	..	71 271	79 971	91 638	99 309
7. Net current saving	..	9 191	6 921	7 433	8 694
8. Depreciation allowances and capital account receipts	..	8 175	8 625	13 657	15 798
9. Gross investment	..	13 683	15 026	17 884	19 143
10. Capital transfers	..	4 401	5 173	2 786	7 328
11. Borrowing requirement (+) or capacity (–)	..	+718	+4 653	–420	+1 979

Table G. **Public sector accounts**

c) Social security

Billion lire, current prices

	1982	1983	1984	1985	1986
1. Social security contributions	..	77 822	85 266	95 176	108 519
2. Other current receipts	..	36 968	41 449	49 721	50 464
3. Total current receipts	..	114 790	126 715	144 897	158 983
4. Social benefits	..	81 299	89 004	100 632	111 379
5. Current expenditure on goods and services	..	2 566	3 107	3 560	4 138
6. Subsidies, current transfers and depreciation	..	27 709	34 261	38 679	41 565
7. Total current expenditure	..	111 574	126 372	142 871	157 082
8. Net current saving	..	3 216	343	2 026	1 901
9. Depreciation allowances and capital account receipts	..	33	36	36	44
10. Capital expenditure	..	1 027	1 189	2 804	1 368
11. Borrowing requirement (+) or capacity (–)	..	–2 222	+810	+742	–577

Source: Relazione generale sulla situazione economica del paese, 1987.

Table H. **Money and credit**

a) The monetary base

Changes in billion lire

	1980	1981	1982	1983	1984	1985	1986
A. Origin of liquid assets:							
1. Net impact of the foreign sector	708	25	–5 647	8 840	5 141	–13 677	3 543
2. Net impact of the public sector	9 740	14 233	12 676	4 514	10 027	27 519	10 994
3. Banks	–2 576	119	638	–3	–218	5 881	–4 333
4. Other sectors	–2	–5 738	2 670	–747	–1 103	–647	–1 004
5. Total net impact	7 869	8 639	10 336	12 604	13 847	19 076	9 200
B. Use of liquid assets:							
6. Liquidity in the hands of the public	3 670	4 430	3 528	4 081	3 861	4 002	3 143
7. Compulsory bank reserves	3 046	2 946	8 544	9 092	8 855	12 213	9 022
8. Bank liquidity	527	442	–1 218	359	1 133	2 860	–2 965
9. Compulsory bank deposits	626	821	–519	–927	–2	–	–
10. Total	7 869	8 639	10 336	12 604	13 847	19 076	9 200

Source: Banca d'Italia, *Annual Report*.

Table H. **Money and credit**

b) Selected indicators

Billion lire, outstanding end of year

	1980	1981	1982	1983	1984	1985	1986
I. Money[1]							
1. Currency in circulation[2]	24 544	28 839	32 308	36 256	39 922	43 730	46 841
2. Sight deposits	125 777	143 822	170 500	190 044	217 170	239 431	271 272
3. Saving deposits	112 163	124 214	151 744	169 687	188 103	207 866	217 675
4. Post office saving deposits	28 450	30 366	33 166	36 853	42 517	50 506	61 090
5. Treasury bills	33 737	57 983	70 024	85 561	107 550	123 224	127 200
6. Money supply M3	325 804	387 072	459 213	519 486	595 806	665 105	724 373
II. Central bank							
1. Credit to Treasury	50 320	63 738	75 135	76 399	90 127	114 583	117 588
2. Credit to banking sector	496	971	2 020	4 788	1 238	6 912	3 552
III. Banking sector							
1. Credit	126 693	142 455	155 312	178 800	215 594	244 223	266 040
2. Government securities, shares and bonds	115 559	123 875	157 109	186 694	195 637	208 680	222 869
IV. Special credit institutions							
Credit	72 174	86 105	101 515	115 354	130 651	140 575	156 855
V. Total domestic credit	405 199	481 342	583 575	705 953	849 676	1 003 623	1 156 011
Private sector	207 947	235 253	267 955	305 144	357 466	403 942	449 987

1. Data refers to households and firms only.
2. Excluding banking sector.

Source: Banca d'Italia, *Annual Report*.

Table 1. **Balance of payments**

Millions of dollars

	1980	1981	1982	1983	1984	1985	1986
Exports, fob	77 033	76 269	72 693	72 059	73 790	75 685	96 388
Imports, fob	93 956	87 933	81 535	74 503	79 628	82 934	92 465
Trade balance	–16 923	–11 664	–7 939	–3 082	–5 838	–6 249	3 923
Services, net	5 504	1 754	1 645	2 734	1 968	1 527	1 680
Balance of goods and services	–11 419	–9 910	–6 343	–391	–3 870	–4 722	5 603
Private transfers net	1 372	1 442	1 469	1 403	1 456	1 324	1 458
Official transfers net	100	–573	–469	–108	52	–204	–2 985
Current account balance	–9 947	–9 041	–6 196	1 585	–2 364	–3 602	4 076
Long-term capital (excl. spec. trans.)	3 278	8 350	5 175	656	1 486	2 445	–2 802
a) Private[1]	–319	3 911	2 806	–1 180	–1 056	145	–4 561
b) Official[2]	3 597	4 439	2 369	1 836	2 542	2 300	1 759
Basic balance	–6 669	–691	–1 021	2 241	–878	–1 157	1 274
Non-monetary short-term private capital[3]	–356	1 526	–1 527	406	–1 450	802	–1 400
Errors and omissions	–283	514	685	–150	2 360	–4 023	–1 862
Balance on monetary transactions	–7 307	1 349	–1 864	2 497	32	–4 378	–1 988
Private monetary institutions' short-term capital	8 094	–1 338	–2 264	3 289	2 925	–2 775	4 329
Balance on official settlements	1 787	11	–4 127	5 786	2 957	–7 153	2 340
Use of IMF credit	–	–	–	–	–	–	–
Varius official transactions	385	131	–277	95	–208	140	–465
Allocation of SDRs	–	–	–	–	–	–	–
Changes in reserves (+ = increase)	2 172	56	–4 404	5 881	2 749	–7 013	1 875
a) Gold	–14	–1	1	1	–	–	–
b) Currency assets	1 578	–1	–4 467	5 655	2 535	–6 751	1 643
c) Reserve position at IMF	541	–18	–2	362	135	–40	25
d) Special Drawing Rights	67	162	64	–137	79	–222	207

Exchange rates: 1980 1 $ US = 856 Lire, 1981 1 $ US = 1 137 Lire, 1982 1 $ US = 1 353 Lire, 1983 1 $ US = 1 519 Lire, 1984 1 $ US = 1 757 Lire, 1985 = 1 909 Lire, 1986 = 1 491 Lire.

1. Long-term private capital includes remittances of Italian banknotes from abroad.
2. Long-term official capital includes the item "foreign currency bonds representative of Italy's liabilities vis-à-vis the external sector", but excludes the prepayments of official debts.
3. Non-monetary short-term capital consists only of commercial credits.

Source: OECD Secretariat.

Table J. **Commodity breakdown of foreign trade**

Million U.S. dollars

	1979	1980	1981	1982	1983	1984	1985	1986
	Imports, caf							
1. Food, drink and tobacco	10 851	11 793	10 192	10 839	10 285	9 703	11 443	13 931
2. Crude oil	14 716	20 166	22 202	18 924	15 903	13 259	13 339	8 341
3. Other fuels	3 749	7 312	8 676	8 324	8 753	10 039	10 457	9 093
4. Metals, ores and scrap	7 593	9 573	5 786	5 554	5 134	6 111	6 221	7 308
5. Textile materials and products	4 178	4 517	3 702	3 636	3 554	4 221	4 525	5 258
6. Chemical products	6 992	7 993	7 020	6 890	7 307	7 813	8 476	11 001
7. Motor vehicles and parts	4 600	6 810	5 937	5 444	4 152	4 632	5 190	7 366
8. Machinery and other transport	9 635	12 835	11 352	10 368	9 633	11 172	12 619	16 787
9. Wood and produts	1 998	2 606	1 856	1 535	1 323	1 423	1 304	1 601
10. Misc. imports	6 898	9 170	7 996	7 682	7 344	7 946	8 764	12 117
11. Other imports	5 263	5 667	4 279	4 621	4 934	5 677	5 805	6 972
12. **Total imports**	76 474	98 443	88 999	83 818	78 323	81 998	88 144	99 775
	Exports, fob							
1. Food, drink and tobacco	5 419	5 286	5 415	5 299	4 723	4 804	5 562	6 221
2. Refined petroleum products	4 591	4 164	4 494	4 822	3 667	3 103	3 460	2 616
3. Mineral manufactures	5 839	6 851	6 364	5 865	5 983	5 686	5 657	7 349
4. Metals, ores and scrap	4 289	4 747	4 978	4 619	4 135	4 250	4 448	4 815
5. Textile materials and products	4 465	4 466	4 511	4 398	4 629	4 867	5 207	6 917
6. Chemical products	5 810	5 505	5 214	5 296	6 116	6 203	6 608	7 060
7. Motor vehicles and parts	5 425	5 483	4 590	4 033	4 183	4 080	4 242	6 139
8. Machinery and other transport	15 349	18 256	18 229	17 806	18 086	17 727	19 500	25 506
9. Clothing and shoes	8 120	8 205	7 444	7 890	7 949	8 300	9 038	12 323
10. Misc. manufactures	10 901	11 315	11 134	11 095	10 745	11 547	12 432	15 763
11. Other exports	3 042	4 251	2 930	2 428	2 455	2 789	2 527	3 105
12. **Total exports**	73 250	78 530	75 303	73 551	72 670	73 358	78 682	97 815

Source: OECD, *Statistics of Foreign Trade.*

Table K. **Area breakdown of foreign trade**

Million US dollars, monthly averages

	1979	1980	1981	1982	1983	1984	1985	1986
				Imports, cif				
World	6 484	8 309	7 600	7 160	6 694	7 028	7 542	8 331
OECD	4 110	5 215	4 476	4 314	4 080	4 422	4 833	6 138
EEC	2 913	3 678	3 094	2 997	2 862	3 041	3 555	4 616
of which : West Germany	1 114	1 380	1 187	1 150	1 063	1 118	1 254	1 703
Belgium-Luxembourg	231	295	235	231	227	259	280	387
France	912	1 154	948	895	843	873	940	1 213
Netherlands	272	346	314	310	326	343	384	490
United Kingdom	262	368	294	284	261	306	373	425
United States	440	578	515	484	398	429	449	474
Canada	62	85	72	62	44	49	44	48
Japan	74	109	105	91	93	112	123	174
Non-OECD	2 374	3 094	3 122	2 845	2 607	2 592	2 683	2 161
COMECON	326	449	397	436	442	510	414	351
OPEC	1 132	1 481	1 630	1 441	1 235	1 106	1 199	789
Others	916	1 164	1 095	968	930	976	1 070	721
				Exports, fob				
World	6 010	6 492	6 310	6 115	6 065	6 119	6 533	8 123
OECD	4 307	4 462	3 997	4 087	4 151	4 333	4 795	6 334
EEC	3 067	3 184	2 723	2 804	2 801	2 777	3 153	4 351
of which: West Germany	1 137	1 188	979	954	1 006	986	1 055	1 473
Belgium-Luxembourg	205	216	174	177	174	177	194	271
France	890	983	857	931	892	858	917	1 269
Netherlands	276	240	192	188	182	176	202	266
United Kingdom	393	395	366	383	385	413	455	576
United States	389	345	428	431	468	666	801	872
Canada	42	41	47	46	53	67	82	100
Japan	65	59	56	66	66	70	77	110
Non-OECD	1 703	2 030	2 235	1 946	1 848	1 725	1 673	1 744
COMECON	229	236	212	208	230	213	224	245
OPEC	646	822	1 079	887	824	717	605	518
Others	828	972	944	851	794	795	844	981

Source : OECD, *Foreign Trade Statistics, Series A.*

BASIC STATISTICS :

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy
Population														
Total	Thousands	1985	15 752	7 555	9 857	25 379	5 113	4 901	55 162	61 015	9 950	243	3 562	57 128
Inhabitants per sq.km	Number		2	90	323	3	119	14	101	245	75	2	51	190
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.1	0.1	0.4	0.5	–0.1	1.0	1.1	1.2	0.3
Employment														
Total civilian employment (TCE)[2]	Thousands	1985	6 676	3 235	35 607	11 311	2 522	2 427	20 916	25 011	3 588	114 (84)	1 056 (84)	20 509
of which: Agriculture	% of TCE		6.2	9.0	2.9	5.2	6.7	11.5	7.6	5.5	28.9	10.6	16.0	11.2
Industry	% of TCE		27.7	38.1	29.7	25.5	28.1	31.9	32.0	41.0	27.3	36.8	28.9	33.6
Services	% of TCE		66.1	52.9	67.4	69.3	65.2	56.6	60.4	53.5	43.8	52.6	55.1	55.2
Gross domestic product (GDP)														
At current prices and current exchange rates	Billion US$	1985	155.1	66.1	79.1	346.0	57.9	54.0	510.3	625.0	32.8	2.7	18.2	358.7
Per capita	US$		9 847	8 743	8 022	13 635	11 319	11 024	9 251	10 243	3 294	10 958	5 123	6 278
At current prices using current PPP's[3]	Billion US$	1984	..	85.7	119.7	382.2	68.0	59.6	694.7	811.6	62.3	..	27.6	575.1
Per capita	US$		..	11 345	12 150	15 198	13 311	12 217	12 643	13 265	6 296	..	7 795	10 093
Average annual volume growth over previous 5 years	%	1985	3.0	1.6	0.6	2.6	2.3	2.6	1.1	1.3	1.0	0.7	1.8	0.9
Gross fixed capital formation (GFCF)	% of GDP	1985	24.4	22.3	15.9	19.6	18.5	23.4	18.9	19.5	19.0	21.5	20.9	18.2
of which: Machinery and equipment	% of GDP		10.4 (84)	9.6	5.3 (84)	6.6	8.6	8.8	9.4	8.4	7.9	5.8 (84)	11.0 (84)	7.9
Residential construction	% of GDP		5.4 (84)	4.6	3.2	5.4	4.3	6.2	4.7	5.5	4.0	4.8	5.6 (83)	4.7
Average annual volume growth over previous 5 years	%	1984	1.9	–0.5	–4.0	0.9	2.1	2.6	–0.1	–1.3	–2.8	–1.0	–1.9	0.3
Gross saving ratio[4]	% of GDP	1985	20.1	24.4	15.9	19.0	14.9	23.7	18.0	22.2	12.2	16.3	18.1	17.7
General government														
Current expenditure on goods and services	% of GDP	1985	16.7	18.7	17.3	20.1	25.3	20.2	16.3	19.9	19.9	18.0	19.1	19.5
Current disbursements[5]	% of GDP	1985	33.4 (84)	44.9 (84)	52.3	43.3 (84)	56.7	37.6	49.4	43.4	43.2	26.4 (84)	51.5 (83)	51.9
Current receipts	% of GDP	1985	34.1 (84)	47.0 (84)	46.5	39.9 (84)	57.0	40.6	48.5	45.4	34.6	34.8 (84)	43.6 (83)	44.1
Net official development assistance	% of GNP	1984	0.46	0.28	0.56	0.50	0.85	0.36	0.77	0.45	..	..	..	0.33
Indicators of living standards														
Private consumption per capita using current PPP's[3]	US$	1984	6 742*	6 490	7 637	8 484	6 826	6 287	8 009	7 274	4 118	6 335*	4 338	6 254
Passenger cars, per 1 000 inhabitants	Number	1985	..	306 (81)	335 (84)	421 (82)	293	316	360 (83)	424	108 (83)	431	206 (83)	355 (84)
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)	414 (83)	664 (83)	783	615	541 (83)	621	336 (83)	525 (83)	235 (83)	448 (84)
Television sets, per 1 000 inhabitants	Number	1985	..	300 (81)	303 (84)	471 (80)	392	380	297 (80)	372	158 (80)	303	181 (80)	244 (84)
Doctors, per 1 000 inhabitants	Number	1985	..	1.7 (82)	2.8 (84)	1.8 (82)	2.5 (84)	2.1	2.1 (82)	2.5 (84)	2.8 (83)	2.4 (84)	1.3 (82)	3.6 (82)
Infant mortality per 1 000 live births	Number	1985	9.2 (84)	11.0	9.4	9.1 (83)	7.9	6.3	6.9	9.1	14.1	5.7	8.9	10.9
Wages and prices (average annual increase over previous 5 years)														
Wages (earnings or rates according to availability)	%	1986	7.7	5.0	4.4	5.5	6.2	10.2 (85)	8.7	3.7	25.1 (85)		12.0 (85)	12.6
Consumer prices	%	1986	8.2	3.8	5.7	5.8	6.3	6.9	7.4	2.6	20.4	42.4	9.0	11.3
Foreign trade														
Exports of goods, fob*	Million US$	1986	22 536	22 428	68 652[7]	86 664	21 216	16 296	119 268	242 400	5 640	1 092	12 636	97 476
as % of GDP	%		14.5	33.9	86.8	25.0	36.6	30.2	23.4	38.8	17.2	40.4	69.4	27.2
average annual increase over previous 5 years	%		0.7	7.3	4.4	4.2	5.8	3.1	3.3	6.7	5.6	3.9	10.0	5.2
Imports of goods, cif*	Million US$	1986	23 916	26 724	68 544[7]	81 312	22 824	15 300	128 760	189 684	11 340	1 116	11 616	99 972
as % of GDP	%		15.4	40.4	86.7	23.5	39.4	28.3	25.2	30.3	34.6	41.3	63.8	27.9
average annual increase over previous 5 years	%		0.1	4.9	2.1	4.1	5.4	1.5	1.3	3.1	4.9	1.6	1.8	1.9
Total official reserves[6]	Million SDR's	1986	6 202	5 778	5 724[7]	3 348	4 116	1 528	28 579	45 626	1 357	255	2 658	18 661
As ratio of average monthly imports of goods	Ratio		3.7	3.0	1.2	0.6	2.5	1.4	3.1	3.4	1.7	3.2	3.2	2.6

	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population													
Total	120 754	366	14 484	3 279	4 148	10 230	38 602	8 350	6 530	49 870	56 618	239 283	23 120
Inhabitants per sq.km	324	141	427	12	13	111	76	19	158	64	231	26	89
Net average annual increase over previous 10 years	0.8	0.1	0.6	0.6	0.3	0.6	0.8	0.2	0.2	2.1	0.1	1.0	0.8
Employment													
Total civilian employment (TCE)[2]	58 070	160	5 083	1 329	2 012	4 029	10 623	4 299	3 171	15 213	24 089	107 150	..
of which: Agriculture	8.8	4.2	4.9	11.1	7.2	23.2	17.6	4.8	6.6	57.3	2.6	3.1	..
Industry	34.9	33.4	28.1	32.4	27.8	35.3	31.8	29.9	37.7	17.6	32.4	28.0	..
Services	56.3	62.4	67.0	56.5	65.0	41.5	50.6	65.3	55.7	25.1	65.0	68.9	..
Gross domestic product (GDP)													
At current prices and current exchange rates	1 327.9	3.6	125.0	21.9	57.9	20.7	164.2	100.2	92.7	52.7	449.7	3 946.6	43.5 (84)
Per capita	10 977	9 745	8 628	6 722	13 960	2 032	4 255	12 006	14 195	1 057	7 943	16 494	1 896 (84)
At current prices using current PPP's[3]	1 468.4	5.3	168.9	..	63.6	50.9	317.8	..	..	..	625.2	3 634.6	..
Per capita	12 235	14 385	11 710	..	15 367	5 021	8 279	..	..	..	11 068	15 356	..
Average annual volume growth over previous 5 years	3.9	2.4	0.7	3.3	3.1	1.0	1.4	1.8	1.3	4.9	1.9	2.4	..
Gross fixed capital formation (GFCF)	27.5	20.2	18.6	25.4	21.7	21.8	19.1	19.1	23.8	19.8	17.2	18.6	21.9 (4)
of which: Machinery and equipment	10.1 (84)	8.9 (82)	8.1 (84)	12.3 (84)	6.3	13.7 (81)	6.1 (83)	9.1	8.0	9.1 (82)	8.1 (84)	8.4	..
Residential construction	5.0 (84)	4.7 (82)	5.0 (84)	4.3 (84)	4.1	7.1 (81)	5.2 (82)	4.1	15.8[9]	2.6 (82)	3.7 (84)	4.8	..
Average annual volume growth over previous 5 years	2.7	–2.8	–1.0	6.6	–1.2	–4.5	–1.4	1.2	2.7	4.9	2.1	5.0	..
Gross saving ratio[4]	31.4	65.3	24.1	20.9	30.0	23.1	21.0	17.8	30.0	18.7	19.2	16.5	..
General government													
Current expenditure on goods and services	9.8	15.6	16.3	16.4	18.6	14.2	14.0	27.4	13.2	8.5	21.1	18.3	14.0 (84)
Current disbursements[5]	27.1 (84)	47.8 (82)	55.9 (84)	..	44.0	37.5 (81)	32.3 (82)	59.6	30.9	..	44.8 (84)	35.3	..
Current receipts	30.3 (84)	53.0 (82)	54.3 (84)	..	56.1	33.2 (81)	31.2 (82)	59.8	34.4	..	42.8 (84)	31.1	..
Net official development assistance	0.35	..	1.02	0.25	1.02	..	..	0.80	0.30	..	0.33	0.24	..
Indicators of living standards													
Private consumption per capita using current PPP's[3]	6 751	8 540	7 270	4 041*	6 624	3 076	5 456	5 821*	8 755*	759*	6 535	10 214	966*
Passenger cars, per 1 000 inhabitants	221 (83)	414	341	455	367	135 (82)	240	377	402	18 (82)	312 (83)	473 (84)	121 (83)
Telephones, per 1 000 inhabitants	535 (83)	404 (84)	410 (86)	646	622 (84)	166 (83)	369	890 (83)	1 299	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	250 (80)	336 (83)	317 (86)	291	330	140 (80)	256 (82)	390	329	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	1.3 (82)	1.7 (84)	2.2 (84)	2.4	2.2	1.8 (82)	3.3	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.3 (83)	1.6 (82)
Infant mortality per 1 000 live births	5.9 (84)	9.0	9.6 (86)	10.8	8.4	17.8	7.0 (84)	6.8	6.9	..	9.4	10.6 (84)	31.7 (83)
Wages and prices (average annual increase over previous 5 years)													
Wages (earnings or rates according to availability)	3.9	..	3.3	10.3 (85)	9.2 (85)	19.2 (85)	15.0 (85)	8.0	..	..	9.1	4.0	..
Consumer prices	1.8	5.3	2.9	11.6	7.8	21.5	11.1	7.4	3.1	37.2	5.5	3.8	56.3
Foreign trade													
Exports of goods, fob*	210 804	..[8]	80 580	5 837	18 240	7 188	27 132	37 200	37 248	7 908 (85)	107 016	217 308	7 188
as % of GDP	15.9	..	64.5	26.7	31.5	34.7	16.5	37.1	40.2	15.0	23.8	5.5	16.5
average annual increase over previous 5 years	6.8	..	3.3	0.7	0.3	11.7	5.8	5.4	6.7	23.5	0.7	–1.4	–3.1
Imports of goods, cif*	127 668	..	75 420	6 156	20 292	9 444	34 920	32 484	40 860	11 328 (85)	126 156	369 960	8 196
as % of GDP	9.6	..	60.3	28.1	35.0	45.6	21.3	32.4	44.1	21.5	28.1	9.4	18.8
average annual increase over previous 5 years	–2.2	..	2.7	1.3	5.4	–0.6	1.7	2.4	6.0	12.6	4.2	7.2	–7.5
Total official reserves[6]	35 394	..	10 687	4 752	10 541	1 896	12 581	5 568	20 726	1 332	15 726	39 790	1 259
As ratio of average monthly imports of goods	3.9	..	2.0	0.9	7.3	2.8	5.1	2.4	7.1	1.7	1.8	1.5	2.2

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour force Statistics.*
3. PPP's = Purchasing Power Parities.
4. Gross saving = Gross national disposable income *minus* Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services *plus* current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.

Sources:
Population and Employment: OECD *Labour Force Statistics.*
GDP, GFCF, and General Government: OECD *National Accounts.* Vol. I and OECD *Economic Outlook, Historical Statistics.*
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators.*
Foreign trade: OECD *Monthly Foreign trade Statistics, series A.*
Total official reserves: IMF *International Financial Statistics.*

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