Dott. Fazio examines the progress of the Italian economy in terms of stability and recovery Address by the Governor of the Bank of Italy, Dott. Antonio Fazio, at the Annual Meeting of AIOTE/ASSOBAT/ATIC/FOREX held in Milan on 25/1/97.

Yesterday the effective exchange rate of the lira was 5 per cent higher than in December 1994. Compared with the low point reached in the March 1995 currency crisis, the lira has appreciated by 25 per cent. To find a period in which the lira recovered to such an extent and so fast, it is necessary to go back fifty years to 1947.

Inflation, measured on the basis of the cost-of-living index, fell to less than 4 per cent on average in 1996; between June and December it was around 2 per cent on an annual basis. According to preliminary figures, inflation in January of this year was less than 2 per cent.

The net external position of the Bank of Italy, excluding gold reserves, improved from $28 billion at 31 December 1993 to $45 billion at the end of last year.

In 1994 purchases of foreign currency in the market, primarily in the first half of the year, amounted to $7 billion; in 1995 there were net sales totalling $7 billion. In 1996 purchases were renewed, at an accelerating pace from March onwards. Yesterday the foreign currency reserves of the Bank of Italy and the UIC amounted to $35 billion, after using $21 billion to repurchase official ecus and redeem foreign currency swaps and other short-term liabilities.

Foreign exchange interventions have been carried out in such a way as to avoid interrupting the appreciation of the lira. Between 1 March and 22 November 1996 the effective exchange rate rose by 4.7 per cent; the lire needed to buy one German mark decreased from 1,056 to 998.

The lira’s re-entry in the European Exchange Rate Mechanism on 25 November 1996 was at the central rate of 990 against the mark and 1,906 against the ecu. The new rate corresponds to a depreciation of 19 per cent compared with that obtaining before the September 1992 currency crisis.

The lira re-entered the ERM after the performance of the economy and an appropriate combination of policies had re-equilibrated Italy’s external position, brought a sharp slowdown in inflation and improved the outlook for the public finances.

The surplus on the current account of Italy’s balance of payments and the return to external equilibrium provide a solid foundation for the maintenance of the internal and external stability of the lira.

1. The balance of payments

The actions to reduce the budget deficit, the new level of the exchange rate, wage moderation and the stabilisation of prices have produced a shift in the composition of demand since 1993 that has permitted growing surpluses on the external current account after a long series of deficits.

The surplus in 1996 is estimated to have been around 70 trillion lire, or 3.7 per cent of GDP. The surplus on goods and services was on the order of 90 trillion and in absolute terms was the largest recorded by the leading industrial countries. The increase of 18 trillion lire compared with 1995 was due to the improvement in the terms of trade, estimated at 4.7 percentage points.

Exports of goods and services, after rising in volume by 10 per cent on average in each of the three previous years, remained basically unchanged. Sales of goods and services to the other EU countries diminished-as a result of the weakness of demand, whereas exports to the emerging countries continued to increase at a good pace.

The share of Italian exports in world trade declined compared with the previous year, partly owing to a loss of competitiveness but mainly because of the unfavourable cyclical situation in Europe, where more than half of Italy's exports are directed.

Imports dropped by 2 per cent in volume, compared with increases of 9 per cent in both 1994 and 1995 and a decrease of 8 per cent in 1993; they were affected by the weakness of domestic demand for consumer and investment goods.

The competitiveness of Italian products has diminished compared with 1995, but still shows a large improvement on the period before the September 1992 currency crisis. Measured in terms of producer prices, the real exchange rate of the lira shows a gain of competitiveness of 10 per cent compared with the first half of 1992. In terms of labour costs, the gain is on the order of 18 per cent (Figure 1).

The marked appreciation of the lira in 1996 made a decisive contribution to the stabilisation of domestic costs and prices.

The effect of the good trade performance on the exchange rate and market interest rates was reinforced by that of the surplus on capital movements. Portfolio investment abroad continued regularly, generating an outflow of 53 trillion lire; foreign investment in Italy increased substantially to 122 trillion (Table 1).

2. Italy's external position. The exchange rate of the lira

At the end of 1992 the country's net liabilities amounted to 11 per cent of GDP; at the end of 1996 the ratio was well below 4 per cent (Figure 2).

The current account surpluses that are forecast will bring the net external position roughly into balance by the end of this year and then make Italy a net creditor. Part of the item "errors and omissions" consists of capital outflows that are not recorded in the capital account; accordingly, the country's external position is almost certainly already in balance.

In September 1996 non-residents' holdings of Italian government securities denominated in lire and foreign currency totalled 350 trillion lire, as against 290 trillion at the end of 1995 and 100 trillion in December 1992.

This progression is evidence of foreign investors' growing interest in the Italian securities market, but it is also the result of a policy aimed at diversifying the sources of Treasury finance. It exposes the domestic market, albeit deep and efficient, and government funding to interest rate movements in international markets and to the evaluations and decisions of international investors.

The growing volume of public debt placed abroad is matched by the steady and substantial improvement in the external balance of the private sector. Starting from a net external debtor position of around 90 trillion lire at the end of 1992, by September of last year households and enterprises had built up a net creditor position of around 200 trillion (Table 2).

The 1992 currency crisis caught Italian households and enterprises severely off balance; the latter, in particular, had built up substantial foreign currency liabilities, trusting in the stability of the exchange rate, even though this confidence was at odds with the expectations implicit in the significantly lower cost of borrowing in foreign currency compared with that in lire.

The depreciation of the lira resulted in Italian firms incurring heavy losses. In the last few months of 1992 they began to reduce their foreign currency liabilities and build up their foreign currency assets and continued to do so on a major scale in the following years. The private sector's gross external liabilities, about three quarters of which consisted of borrowings by non-financial enterprises, remained virtually unchanged at around 450 trillion lire; their composition changed, however, as the foreign currency share fell sharply.

On the other hand, the external assets of enterprises, households and other non-bank operators rose from 370 trillion lire at the end of 1992 to 650 trillion in September 1996, with a significant increase in the proportion denominated in foreign currency.

The recovery of the lira began in the spring of 1995, partly in response to domestic agents' perception of the return to a balanced external position in foreign currency (Figure 3).

Compared with a net external debtor position in foreign currency of 52 trillion lire in 1992, at the end of 1995 households and enterprises had already built up a net creditor position of 118 trillion. In September 1996 this had risen to 126 trillion (Table 3).

In 1996 a major contribution to the improvement in the exchange rate came from the net sales of foreign currency against lire by non-residents for portfolio investment purposes.

In the 1992 currency crisis the official reserves, acquired in connection with short-term capital inflows, proved evanescent in defending the exchange rate.

The central bank's foreign currency reserves are now part of an external position that is balanced overall and in surplus for the private sector.

The domestic savings accumulated in Italy over the years is now again equal to, and in prospect will exceed, the sum of the country's capital stock, created through public and private investment, and its huge public debt, contracted principally to finance the current spending of the public sector.

3. The global market

The growing international integration of the Italian economy has profoundly affected the composition of financial assets and liabilities.

The share of foreign assets, which accounted for 9.7 per cent of internal sectors' total assets at the end of 1989, has risen in the nineties and was equal to 14 per cent at the end of the second quarter of 1996 (Table 4).

The proportion in Italy is now similar to that in France; in Germany it is higher, at around 20 per cent. Neither in these two countries nor in the other leading industrial countries has it changed significantly in the nineties.

The ratio of residents' foreign financial assets to GDP is around 50 per cent in Italy, 90 per cent in France and 80 per cent in Germany.

The diversification of Italian saving through investment abroad will continue in line with the development of the financial system.

The growth in Italy's foreign assets in the last few years has been accompanied by a rapid increase in its foreign liabilities.

The total financial assets of the leading industrial countries rose from 510 to 550 per cent of GDP between 1989 and 1994. Most saving and investment in these countries still has a domestic counterpart; the share of total financial assets with a foreign counterpart is around 10 per cent and equal to around 50 per cent of GDP (Table 5).

The total of the six leading countries' holdings of foreign bonds and shares is equal to some $4 trillion, or roughly one quarter of their GDP.

International financial integration has led, especially in the nineties, to the emergence of a single, world market for currencies and securities linking all the leading national markets.

In this global market the pricing and trading of financial instruments are affected by the underlying performance of the international economy as a whole. The pattern appears to depend above all on the tendency prevailing among instruments denominated in dollars.

The influence exerted by US financial markets, and to an even greater extent by dollar-denominated instruments, predominates in the world economy.

The financial assets and liabilities of the United States, including those with both domestic and foreign counterparts, account for nearly 40 per cent of the corresponding totals for the six leading industrial countries. Japan's share is only slightly smaller, while Germany accounts for around 8 per cent of the total and Italy 4 per cent (Table 6).

The close links with the dollar of the currencies of Latin America and many of the emerging South-East Asian countries increase the importance of the US currency in determining the international financial cycle.

The correlation between the yields on medium and long-term securities across national markets appears to be close. Differentials tend to be larger during currency crises; when conditions are calmer and inflation rates converge, yields become more closely correlated and differentials smaller.

The yields on short-term assets are controlled by national monetary policies. In recent years there has been a notable reduction in the power of central banks to control long-term yields directly.

Superimposed on the underlying pattern of long-term rates in international markets there is a set of differentials that reflect the inflation expectations present in each country and the related medium-term expectations concerning the exchange rate.

The response of long-term yields to a change in official rates depends on the conditions in the economy, the economic policies in force and, in particular, on the stance and firmness of monetary policy.

The experience of the last few years in financially open economies with exchange rate flexibility between the major areas confirms the effectiveness of monetary policy in controlling inflation. This, in turn, exerts an influence on expectations and yield differentials, and thereby on the level of long-term interest rates.

The mechanism is well known in monetary theory. To the extent that monetary control is effective, it is able to influence inflation expectations and thereby interest rate differentials and hence the nominal yields on long-term securities.

At the beginning of 1995 we announced our intention of raising short-term rates with the aim of curbing, reversing, the increase in the very high yields on long-term securities (Figure 4).

In the currency crisis of spring 1995 the yield differential between long-term Italian and German securities widened to 660 basis points. The budget adjustment measures adopted, the performance of the external accounts and the improvement in inflation expectations caused the gap to narrow over the rest of the year (Figure 5).

In January of last year the yield differential with respect to Germany was still around 450 basis points; the more stable political climate and the further improvement in inflation expectations resulted in its narrowing to around 300 basis points at the end of May. The substantial budget adjustment announced in the autumn of last year, the approval of the Finance Law for 1997 and the further slowdown in inflation have reduced the differential to around 150 basis points.

As things stand today a reduction in official rates by a country's central bank is effective if it is ratification of more favourable inflation expectations. These, in turn, must be rooted in the performance of the public finances and costs. History shows many cases where the inconsistency of other policies with the objectives has resulted in longer-term rates rising instead of falling in the wake of an easing of monetary policy.

4. Market participants and the allocation of funds in the international market

The growing openness of national financial systems has accelerated the development of the market for Eurocurrencies, especially that for cross-border deposits and loans. Institutional investors, banks and the other participants in the global market need liquid funds to carry out their financial transactions.

Dollar deposits outside the United States are equal to 70 per cent of the US money stock. The ratio for the mark is slightly lower at 63 per cent; for the pound sterling and the French franc it is 13 and 16 per cent respectively.

Following the complete liberalisation of Italian short-term capital movements, in the spring of 1990 the Eurolira market also began to expand rapidly. It is now larger than the corresponding markets for the Swiss franc, the French franc and the pound sterling (Table 7).

At the end of the second quarter of 1996 the stock of Eurolire amounted to 340 trillion lire, or 30 per cent of the Italian money stock. London accounts for a major part of this market.

The mass of lire traded in the international financial market reflects a demand for financial transactions that focuses mainly on the secondary market for Italian government securities, though the demand for Eurolira bonds and derivatives is growing. The rapid expansion of this market and the size it has grown to, despite the reduction in yield differentials, are evidence of market participants' increased confidence in the lira.

The last few years have seen the activity of institutional investors in the global market grow at a rapid pace. At the end of 1995 such intermediaries in the United States, Europe, Asia and Oceania with balance sheets of at least $10 billion had total assets of $21 trillion (Figure 6).

These intermediated funds are equal to about one fifth of the estimated value of the six leading industrial countries' total financial assets with domestic and foreign counterparts, and equal to three times the GDP of the United States and twenty times that of Italy.

Institutional investors place the bulk of the funds they raise in their national markets; they are nonetheless of considerable importance in the international allocation of funds in view of how they make their investment choices and the scale of their investments.

In Italy, as in other leading countries, a large part of the funds invested abroad by enterprises and especially households is channelled through such intermediaries. They reallocate their resources according to the importance of the various economies, taking account of exchange rate expectations, yields and risks.

The proportion invested in each country is determined on the basis of portfolio optimisation criteria; the amounts involved are large enough to affect securities prices even in medium-sized financial markets

At the end of 1995 European institutional investors had raised \$7.5 trillion. They are estimated to have invested 78 per cent of their resources, or \$6 trillion, in shares and bonds. Around \$2 trillion, or roughly a quarter of the total volume of intermediated funds, was invested outside the intermediary's home country (Figure 7).

The funds raised by US institutional investors amounted to \$8 trillion at the same date and they had invested 80 per cent of the total in shares and bonds, a figure close to that for European institutional investors. In view of the depth and diversification of the US market, the greater part of these intermediaries' resources was invested in domestic securities; nonetheless, 11 per cent, or around \$900 billion, was invested in shares and bonds in foreign markets.

Although institutional investors in Asia and Oceania had also invested domestically most of the nearly \$5 trillion of funds they had raised at the end of 1995, their international investments in shares and bonds are nonetheless estimated to have amounted to \$400 billion.

Taken together, these institutional investors held more than \$15 trillion of domestic and foreign shares and bonds at the end of 1995, corresponding to around 35 per cent of the stocks of such instruments issued by the leading industrial countries.

These intermediaries' investments in shares and bonds issued outside their home countries exceeded \$3 trillion.

The configuration of exchange rates and interest rates generated in international markets interacts with the financial variables of national markets In addition to the fundamentals of each economy, an important role is played by all the information permitting the assessment of the authorities' ability to implement policies aimed at achieving growth in conditions of stability.

5. The 1995 currency crisis and the control of inflation

In the early months of 1995 the Mexican crisis and the weakening of the US dollar prompted substantial and sudden shifts of funds, out of the weaker currencies into those considered to be stronger. In addition to the US dollar, the Canadian dollar, the pound sterling, the Swedish krona and the Spanish peseta also weakened considerably. The lira was hit hard: between mid-February and mid-March it depreciated by 15 per cent.

The identification of a currency as weak or strong is linked to the general conditions in the economy, notably as regards the state of the public finances, the external position and the solidity of the country's institutions. In the background there are the stability of the currency's purchasing power, competitiveness, the outlook for economic growth and the availability of saving and the uses to which it is put.

In Italy wage moderation made it possible to avoid a cost-price spiral, but the increase in consumer prices and the depreciation of the lira caused a marked deterioration in expectations. Opinion surveys revealed that a surge in inflation was expected (Figure 8a).

At the same time as supplementary budget measures were adopted in February 1995, we raised the official discount rate and the rate on fixed-term advances; in May we raised them again.

Monetary growth was drastically curbed.

At the General Meeting of the Bank's shareholders on 31 May 1995 we announced the objective of slowing inflation in the second half of the year; we pointed out that it was both possible and essential to reduce inflation to less than 4 per cent on average in 1996.

Towards the middle of the year inflation expectations began to improve significantly (Figure 8a).

Market yields on government securities started to come down, especially for longer maturities; the lira strengthened, partly owing to the appreciation of the dollar.

On 31 May 1996, in addition to confirming that the conditions existed for inflation to fall below 4 per cent in 1996, we stated that it would be possible to achieve a more ambitious target in 1997: an inflation rate of less than 3 per cent.

Between May and December of last year the average monthly rate of inflation on an annual basis was close to 2 per cent.

The survey of consumer price expectations carried out last September indicated a rate of inflation of between 3 and 3.5 per cent in the first quarter of 1997. The survey carried out in December indicated a rate of between 2.5 and 3 per cent for the first half of this year (Figure 8a).

6. The outlook

After the breakdown of the gold exchange standard all countries' currencies became of a purely fiat nature. This is a new epoch in monetary history.

International capital movements tend to expand, with a multiplication of money and credit at the global level that makes it increasingly difficult for authorities to exercise quantitative control.

The volume of funds traded, the rapidity with which they can be shifted and the sensitiveness of market participants to economic and metaeconomic information can generate tensions in financial markets and influence the quotations of currencies and securities, with significant effects on economic activity and prices, even in medium-sized economies.

Greater monetary stability in Europe not only benefits individual economies but also contributes to the solidity of the international financial system.

The weakness of the economic cycle and the curbing of inflation have led to a fall in interest rates. Easier monetary conditions have been a major factor underlying the rise in bond and share prices.

Monetary stability, public finances in order and flexible productive structures and factor markets are necessary to protect individual economies from destabilising speculative movements, to enable them to share in the benefits of the global market and economic and financial integration in Europe.

This is the context in which policies must be implemented to permit the full employment of all the available resources of labour, saving and physical capital.

In the last four years Italy has made significant progress in re equilibrating its external position, curbing the budget deficit and controlling inflation.

In 1996 the slowdown in inflation permitted a substantial fall in interest rates; the Treasury's spending on this item declined in absolute terms, despite the increase of 6 per cent in the stock of debt. The improvement in the budget deficit suffered a setback, however. The overall borrowing requirement grew in absolute terms and remained unchanged in relation to GDP at 7.4 per cent. The supplementary budget measures adopted in the middle of the year failed to prevent a large overshoot on the order of 30 trillion lire compared with the original target set in September 1995.

In the Forecasting and Planning Report published last September the Government increased the 1997 budget adjustment to 62.5 trillion lire, compared with 37.5 trillion envisaged in the Economic and Financial Planning Document. This is a demanding commitment that is already having beneficial effects on government securities prices and the financial markets.

As I pointed out in my Parliamentary hearing on the Finance Law, the forecasts of the borrowing requirement in 1997 reflect highly favourable assessments concerning the primary surplus; these are only compensated for in part by the significantly better-than-forecast behaviour of interest rates.

The lower level of the primary surplus in 1996, with a shortfall of around 20 trillion lire compared with last September's estimates, will have repercussions on the results in 1997; these will also be affected by the cyclical slowdown that started at the beginning of 1996 and became more pronounced in the last part of the year.

The adjustment of the budget deficit will have to be pursued by curbing the growth in expenditure. On the revenue side it will be necessary to reduce tax avoidance and evasion. Further fiscal tightening would have adverse effects on domestic demand and prices.

In order to create confidence in a return to equilibrium in the medium term, budget adjustment measures will have to be of a structural nature.

There is an urgent need to revive growth.

Italy, like many other leading European countries, is far from making full use of its resources of saving, labour and entrepreneurial ability, with consequent economic and social costs.

In cyclical terms the level of economic activity remains unsatisfactory.

According to the latest forecasts, the growth in GDP in 1997 will be just over 1 per cent.

The trade surplus will remain large, as will the surplus on the current account of the balance of payments, thereby contributing to a further improvement in the country's external position and providing support for the lira.

It will be necessary to modify the composition of public expenditure, by reducing that on current account, in order to release the resources needed to return public investment to a normal level. In the last few years this component has fallen by around one percentage point of GDP. Investment will need to be directed to the areas and sectors where the shortfall in public infrastructure is greatest, to the benefit of productivity and, above all, of employment.

The latest reduction in official rates, following that enacted in 1996, was made possible by the improvement in both actual and expected inflation. Together with the ample availability of saving, it also creates the conditions for a higher level of private investment.

The fall in market interest rates will be locked in only if permanent price stability is achieved.

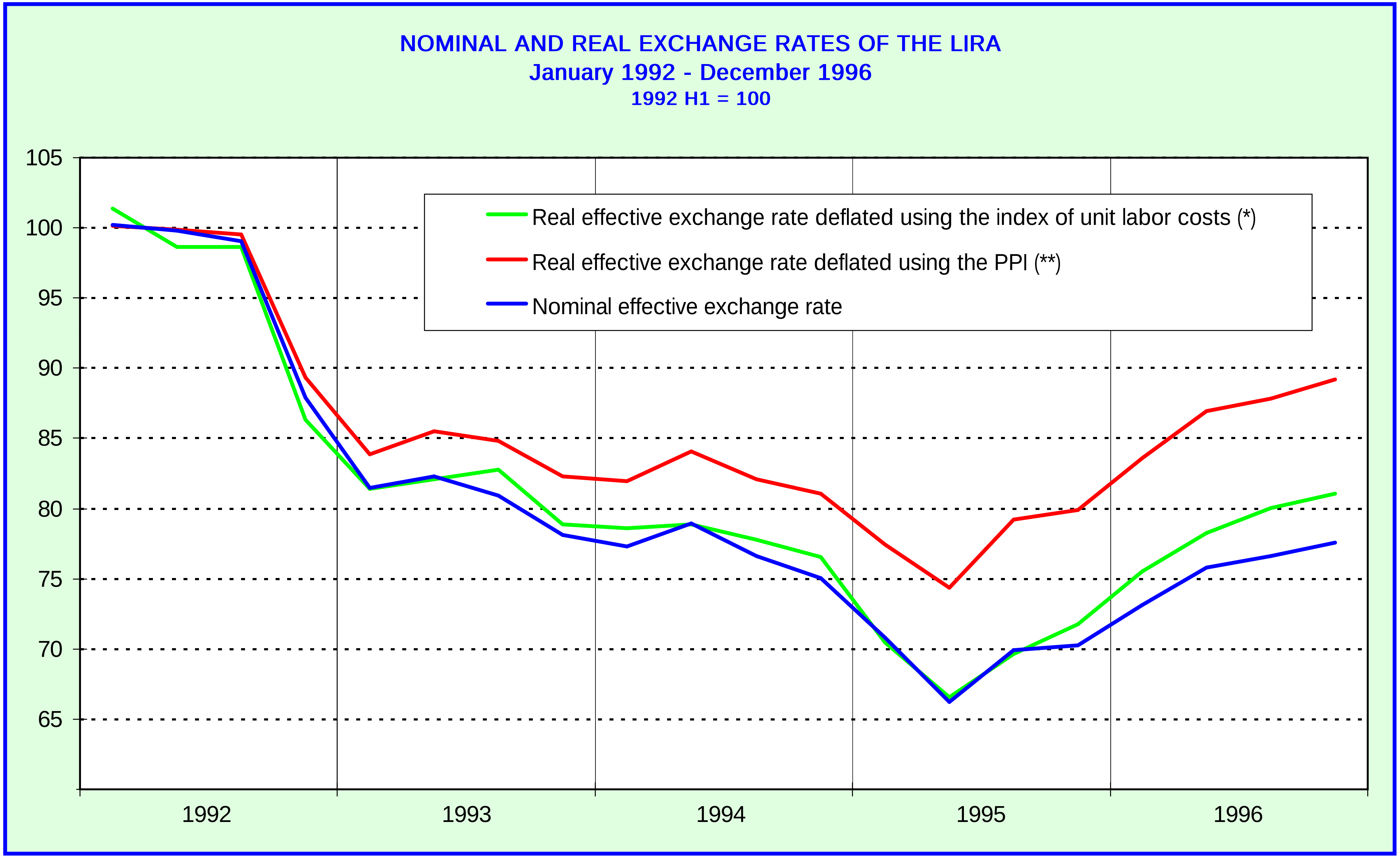
Monetary stability, consolidation of the public finances and economic growth are three closely interrelated objectives. The experience of recent years shows that failing to achieve even one of them necessarily jeopardises the other two.

The establishment and maintenance of the virtuous circle is likely to be interrupted by the reappearance of inflationary pressures, which can be engendered by labour costs, pricing policies that are short-sighted and unresponsive to competitive stimuli, by an insufficient reduction or excessive expansion of the budget deficit.

Monetary policy will remain firmly directed towards producing an expansion of money and credit that will permit balanced growth of the economy in conditions of broadly stable prices.

The rise in the incomes of those already working must not hinder the creation of employment. A smaller absorption of saving by the public sector will make resources available for investment. These are the conditions for removing the most acute, most socially unacceptable, forms of unemployment, which have been aggravated by the events of the last few years. They will allow a host of young people with qualifications and a desire to contribute to the development of our economy and society to become active members of the labour force.

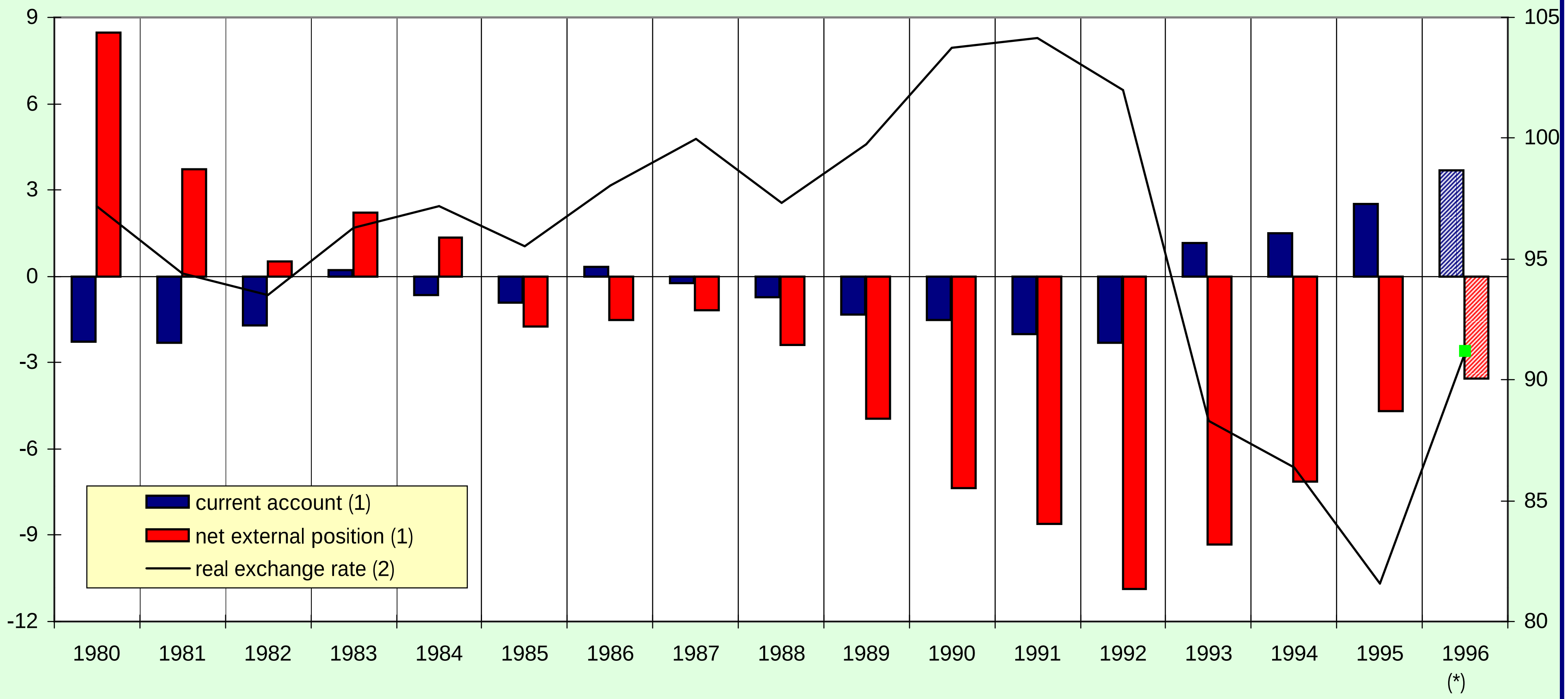
Figure 1



(*) Quarterly data, partly estimated for the last two quarters.
(**) Quarterly averages, partly estimated for the last quarter.

Figure 2

ITALY'S CURRENT ACCOUNT BALANCE, NET EXTERNAL POSITION AND THE REAL EXCHANGE RATE OF THE LIRA



(*) Partially estimated data.
(1) As a percentage of GDP; left-hand scale. (2) 1987 = 100; right-hand scale.

Figure 3

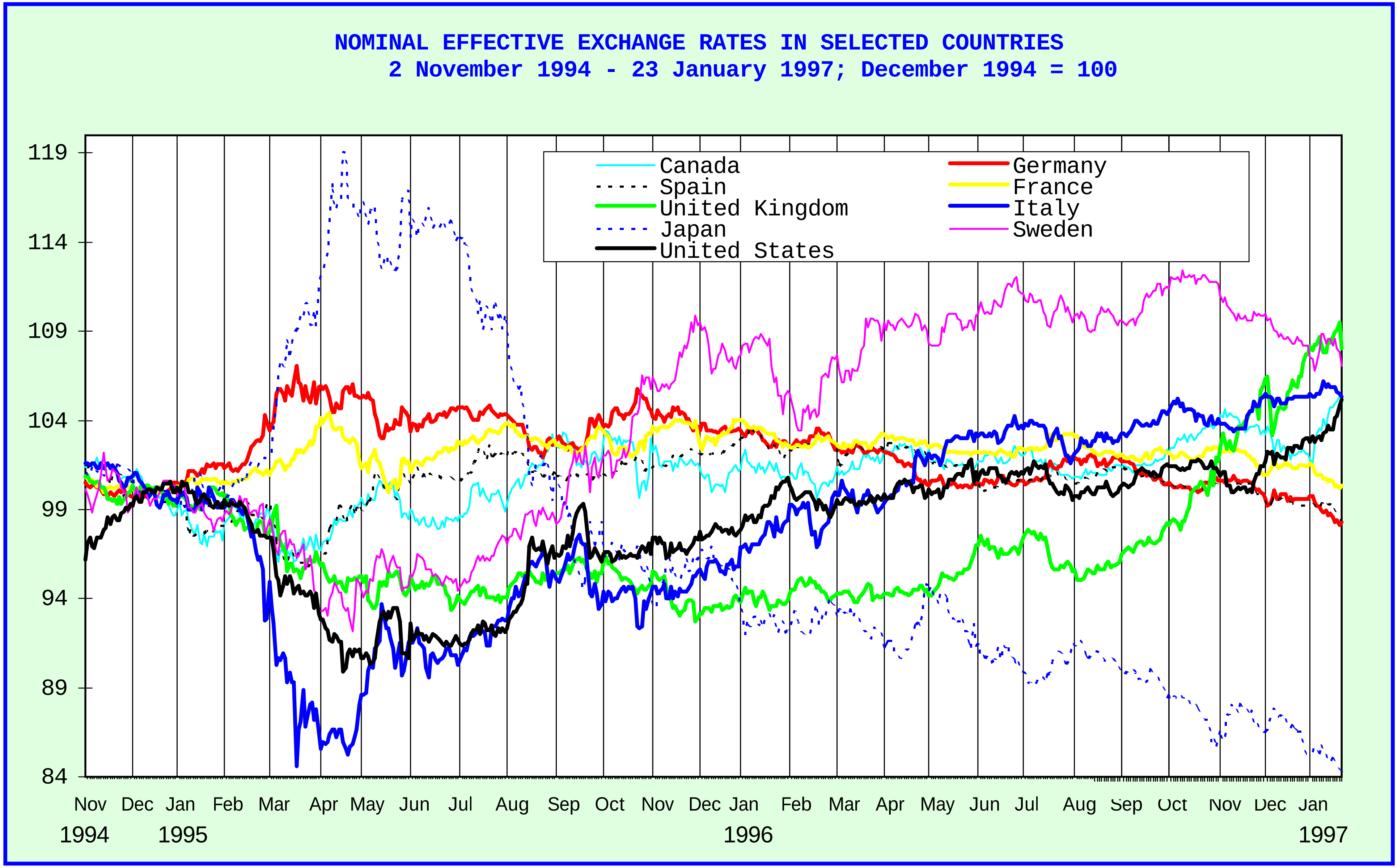
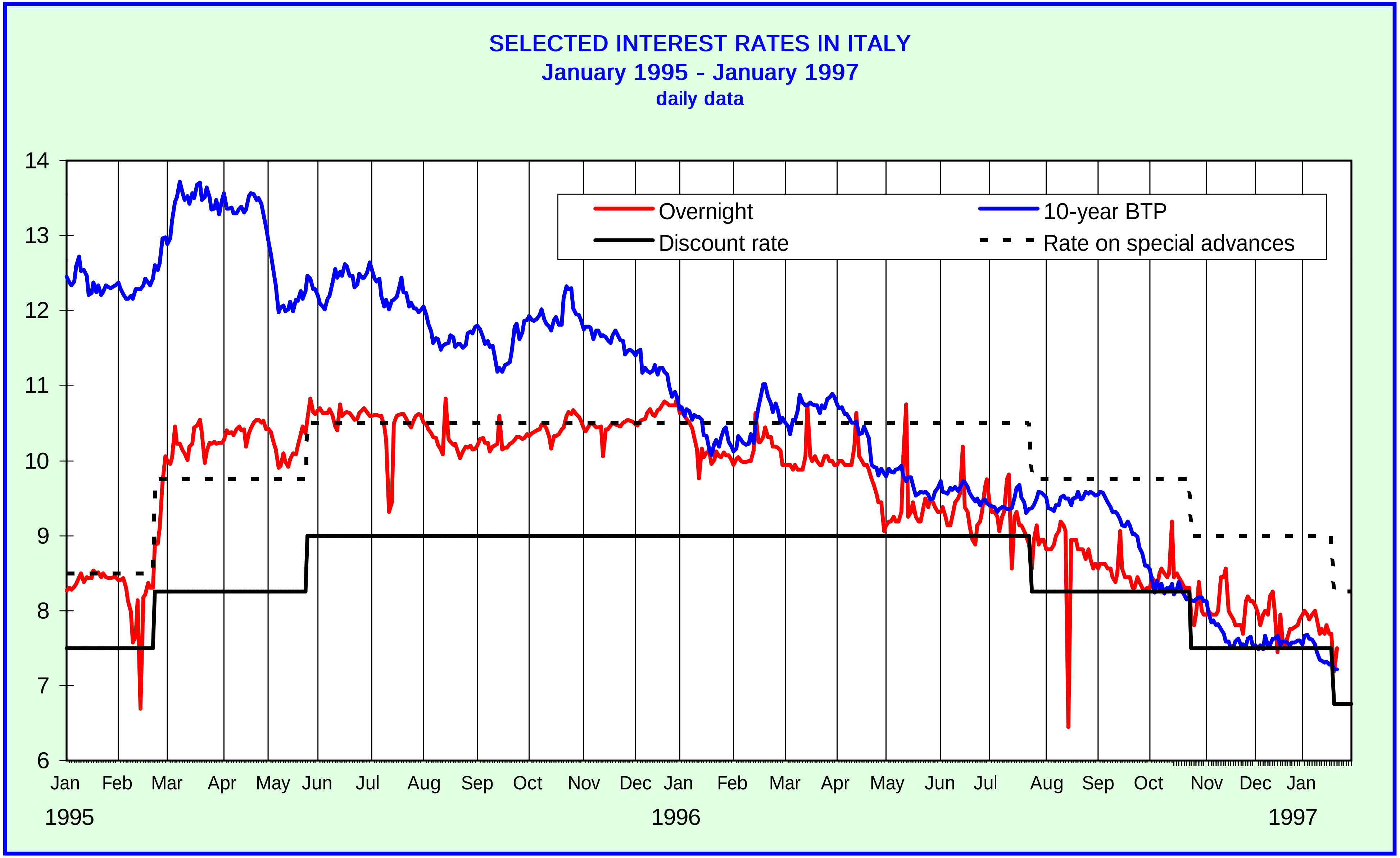

NOMINAL EFFECTIVE EXCHANGE RATES IN SELECTED COUNTRIES
2 November 1994 - 23 January 1997; December 1994 = 100
Canada
Spain
United Kingdom
Japan
United States
Germany
France
Italy
Sweden
119
114
109
104
99
94
89
84
Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan
1994
1995
1996
1997

Figure 4


SELECTED INTEREST RATES IN ITALY
January 1995 - January 1997
daily data
Overnight
10-year BTP
Discount rate
Rate on special advances
14
13
12
11
10
9
8
7
6
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
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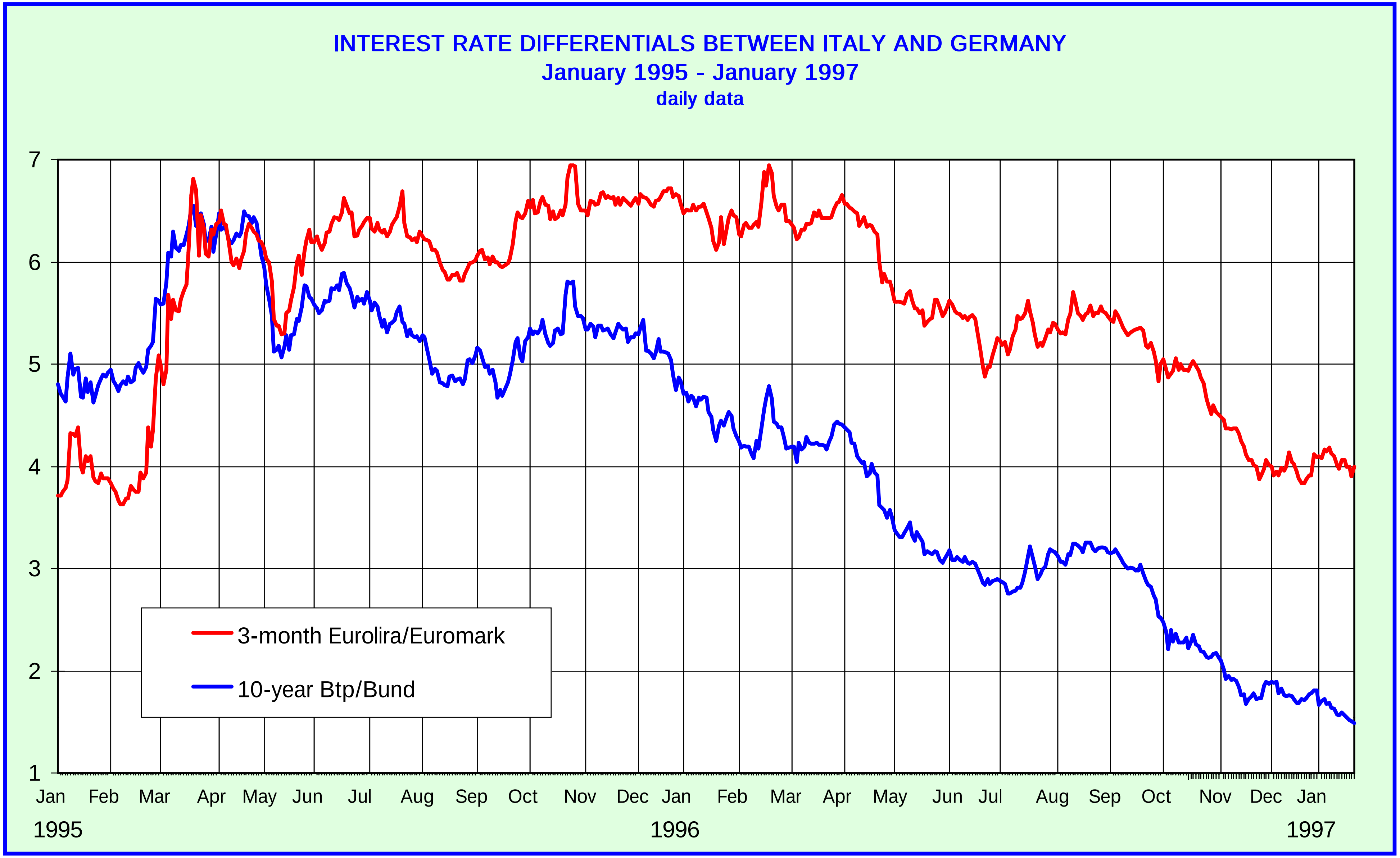
1995
1996
1997

Figure 5


INTEREST RATE DIFFERENTIALS BETWEEN ITALY AND GERMANY
January 1995 - January 1997
daily data
7
6
5
4
3
2
1
3-month Eurolira/Euromark
10-year Btp/Bund
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
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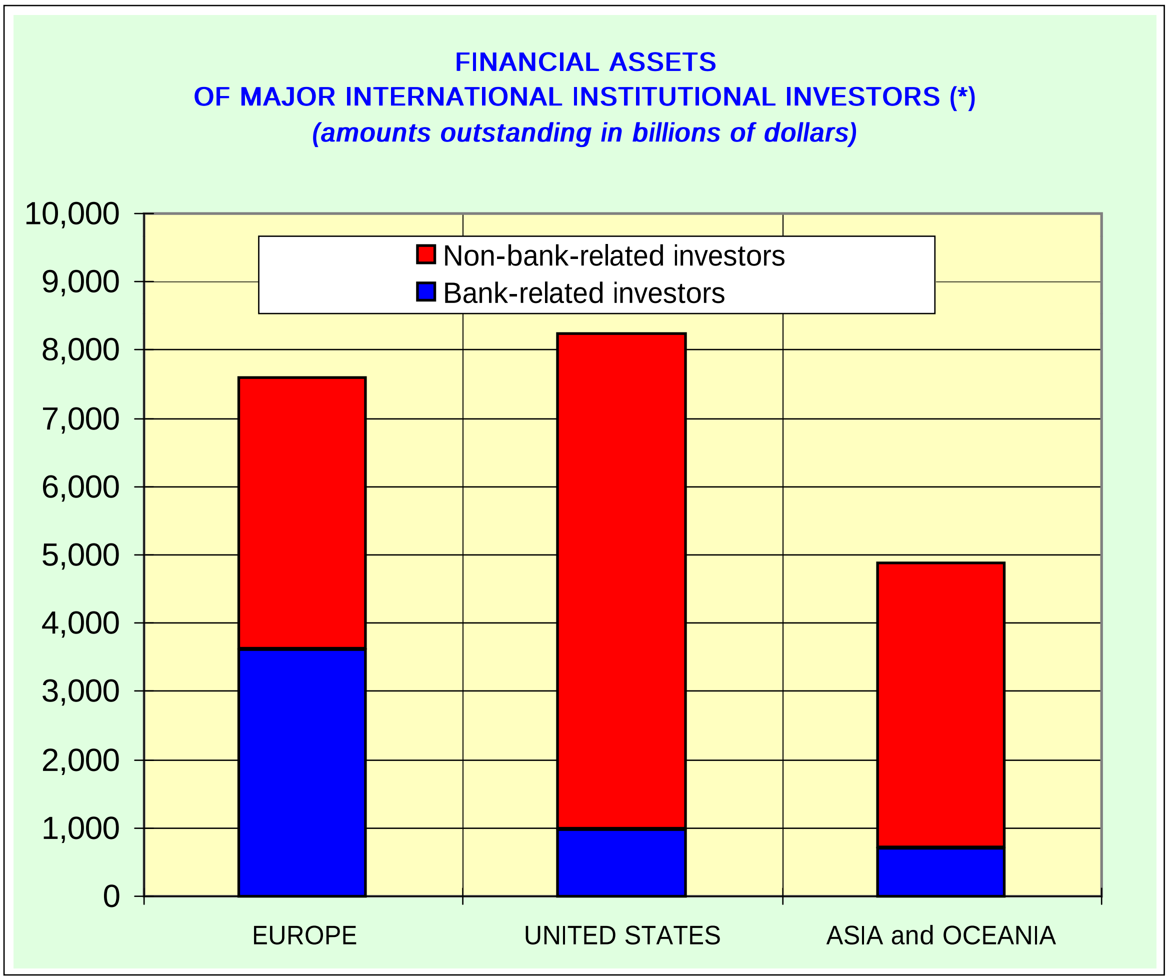
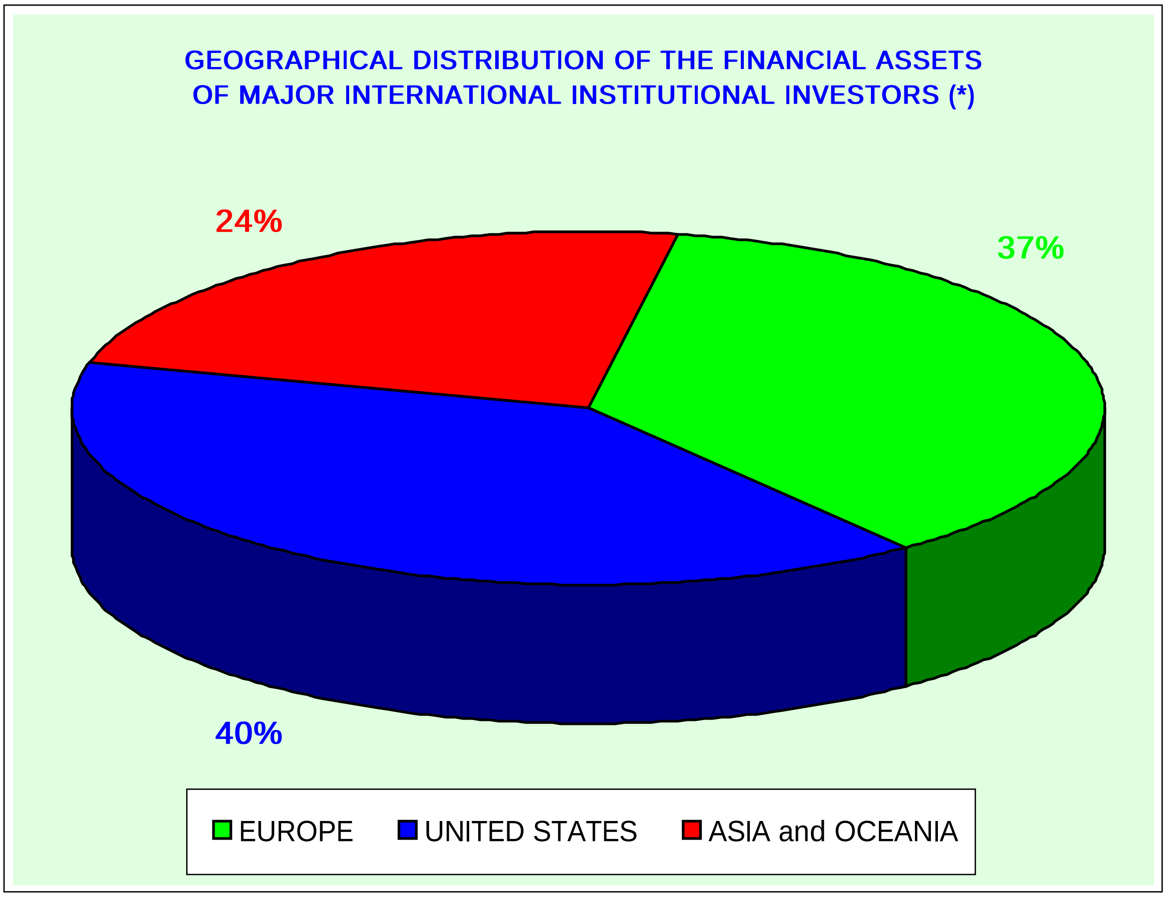
Dec
Jan
1995
1996
1997





(*) End-1995 data for institutional investors with total assets of more than $10 billion.

Figure 7a

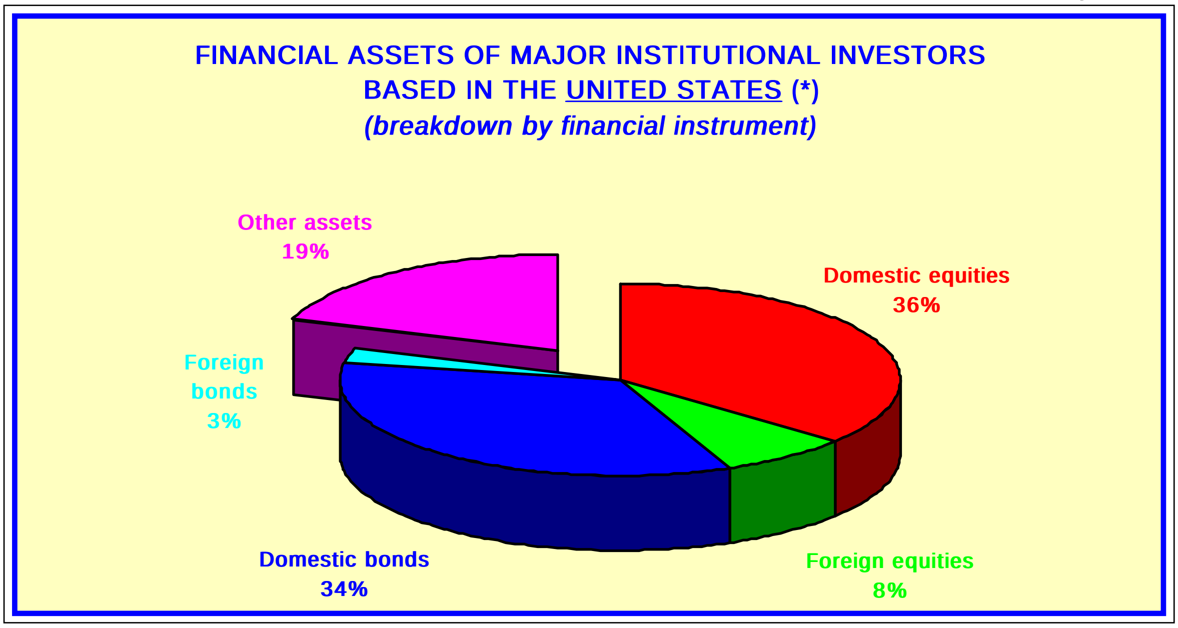


Figure 7b

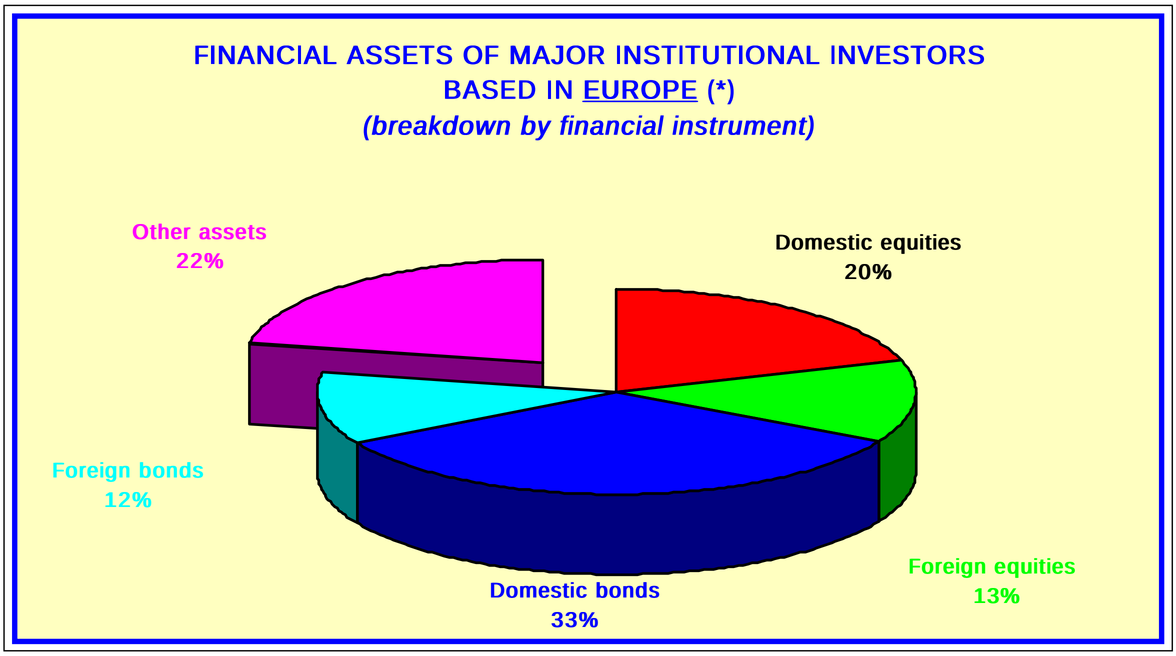
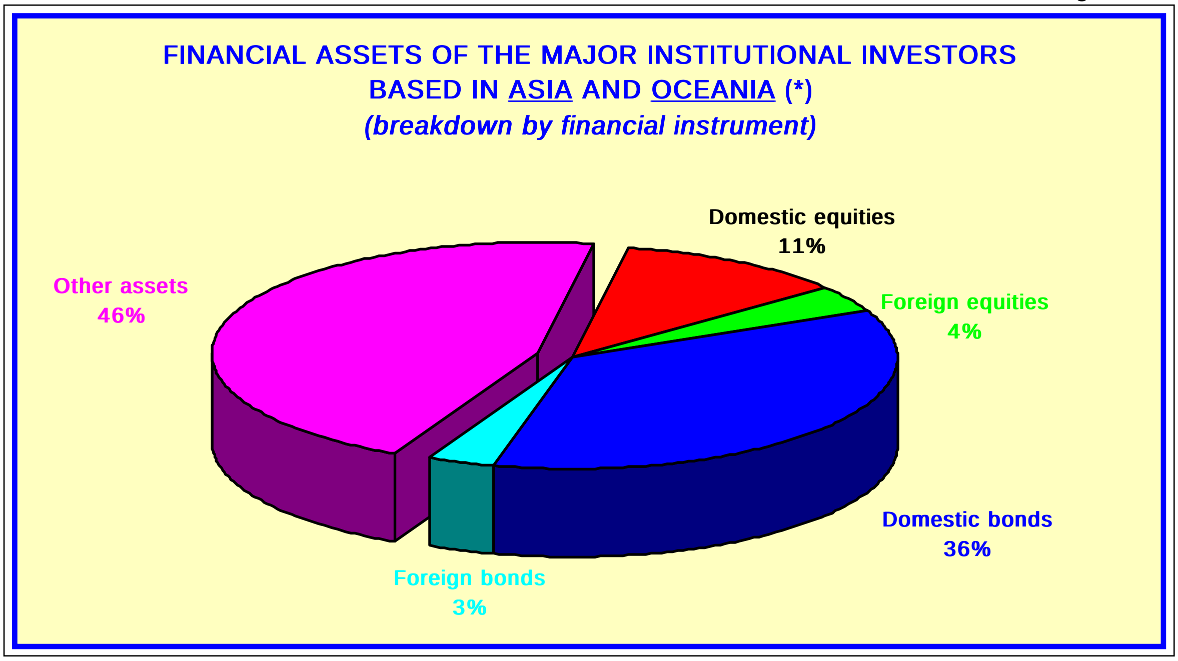


Figure 7c

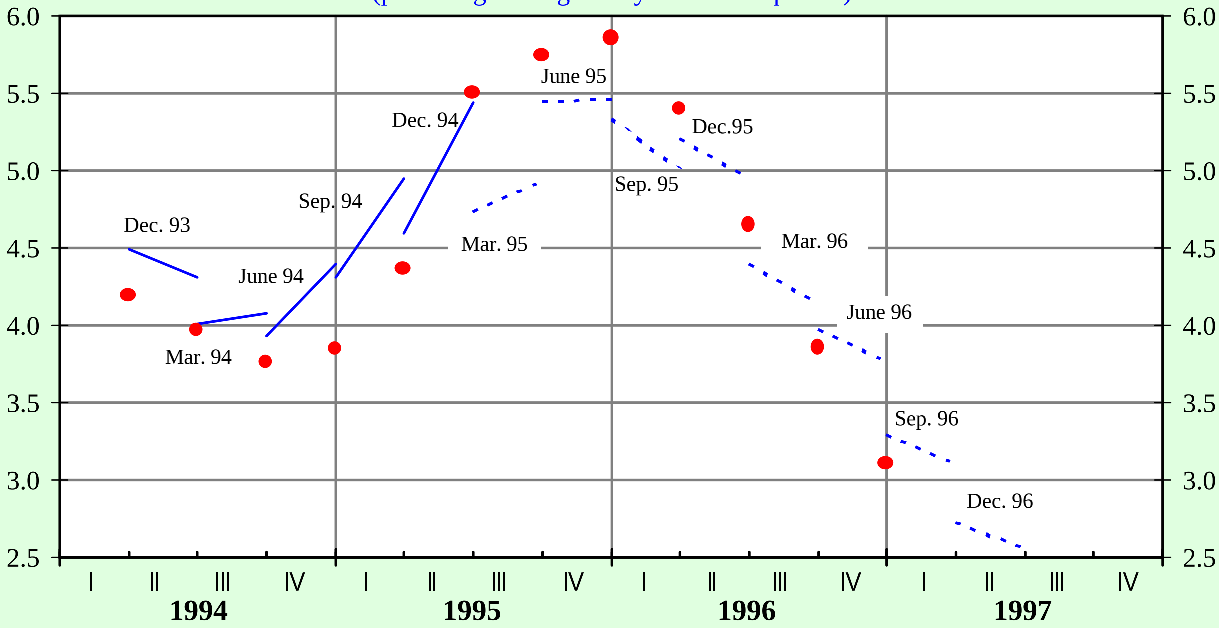


(*) Partly estimated end-1995 data for institutional investors with total assets of more than $10 billion.

Figure 8

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

(percentage changes on year-earlier quarter)

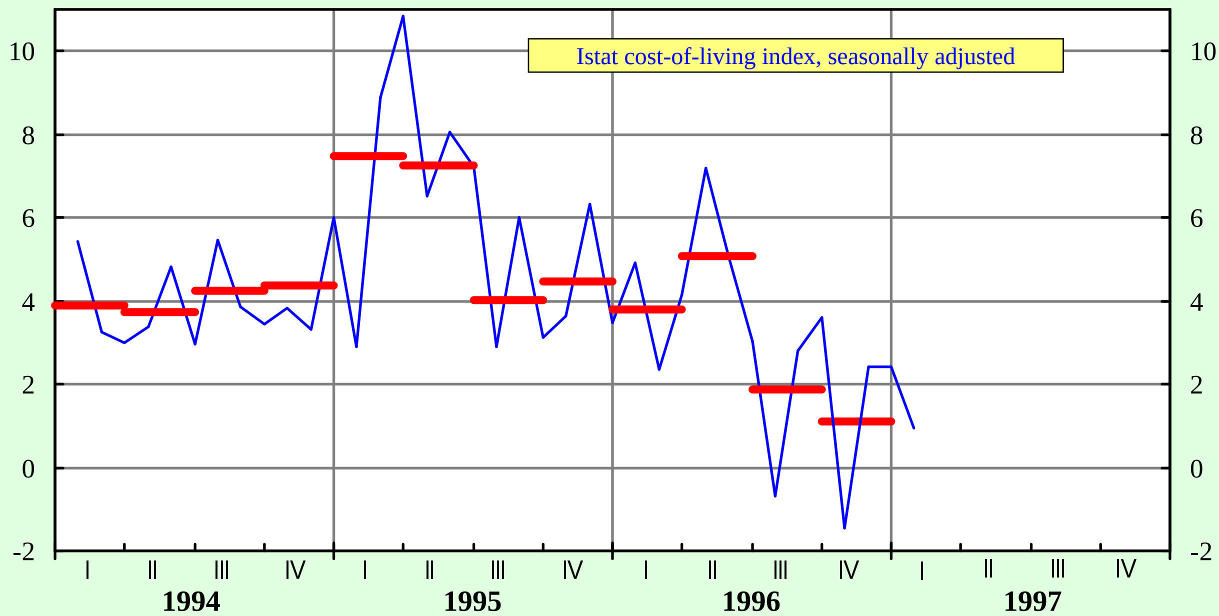


actual changes in the cost-of-living index
forecasts one and two quarters ahead (old survey)
forecasts one and two quarters ahead (new survey)

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

INFLATION

(percentages)



Annualized rate of increase in the quarter.
Annualized monthly rate of increase.

Source: Based on Istat data. Partially estimated data for January 1997.

Table 1a

BALANCE OF PAYMENTS

(net flows in billions of lire)

	1992	1993	1994	1995	1996 (*)
A. OVERALL BALANCE	-32,548	2,206	3,309	2,910	19,602
B. CURRENT ACCOUNT **(1)**	-34,225	17,824	24,329	44,583	53,771
C. CAPITAL FLOWS **(2)**	10,317	14,799	-22,273	-6,563	-10,550
C.1. BANK	12,187	-84,589	21,594	-58,102	-43,511
C.2. NON-BANK **(2)**	-1,870	99,388	-43,867	51,539	32,961
C.2.1. ITALIAN CAPITAL **(2)**	-44,911	-9,955	-84,090	-32,924	-82,664
of which: a) portfolio investment	*-27,393*	*10,095*	*-52,135*	*-11,865*	*-53,479*
b) loans	*-6,255*	*-5,076*	*-13,548*	*-4,444*	*-19,389*
C.2.2. FOREIGN CAPITAL **(2)**	43,041	109,343	40,223	84,463	115,625
of which: a) portfolio investment	*28,681*	*103,390*	*43,871*	*61,490*	*122,054*
b) loans	*9,215*	*607*	*-14,279*	*9,656*	*-8,510*
D. ERRORS AND OMISSIONS **(3)**	-8,640	-30,417	1,253	-35,110	-23,619

(*) Provisional.

(1) From October 1996 onwards includes "Trade credits", which will subsequently be attributed to capital account, and "Errors and omissions", which will subsequently be shown as a separate item.
(2) From October 1996 onwards does not include "Trade credits".
(3) In 1996, total for the period from January to September.

Table 1b

NET EXTERNAL POSITION OF BANKS AND CENTRAL BANK

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

	1992	1993	1994	1995	1996 (*)
A. BANKS' NET EXTERNAL POSITION	-191,158	-127,208	-153,247	-108,535	-53,365
A.1. IN FOREIGN CURRENCY	-187,114	-160,649	-155,841	-130,513	-104,483
A.2. IN LIRE	-4,044	33,441	2,594	21,978	51,118
B. NET EXTERNAL POSITION OF THE CENTRAL BANK					
B.1 OVERALL	67,299	83,937	91,436	91,476	106,773
of which: official Ecus	*1,925*	*7,382*	*7,554*	*9,377*	*16,323*
B.2 NET OF GOLD	37,355	47,027	50,098	51,219	68,407
Memorandum item:					
- central bank foreign currency swaps	*30,316*	*33,500*	*31,461*	*42,168*	*14,947*

(*) Provisional.

Table 2

ITALY'S EXTERNAL POSITION BY INTERNAL SECTOR (1)
(end-of-period stocks in trillions of lire)

	1992	1993	1994	1995	1996 (September)
ASSETS	**604**	**768**	**841**	**947**	**1031**
State sector	**8**	**9**	**10**	**11**	**16**
Central bank	**77**	**87**	**94**	**96**	**112**
Banks	**155**	**222**	**201**	**228**	**250**
Non-bank private sector	**366**	**451**	**537**	**612**	**653**
of which:households and investment funds	*115*	*154*	*167*	*177*	*186*
non-financial companies	*132*	*162*	*183*	*207*	*216*
other companies	*65*	*78*	*90*	*96*	*113*
unallocated items and discrepancies	*53*	*57*	*96*	*132*	*138*
LIABILITIES	**769**	**914**	**959**	**1032**	**1104**
State sector	**111**	**225**	**250**	**318**	**369**
Central bank	**41**	**37**	**35**	**46**	**32**
Banks	**165**	**191**	**226**	**234**	**247**
Non-bank private sector	**452**	**462**	**449**	**434**	**455**
of which:households and investment funds	*32*	*29*	*28*	*23*	*23*
non-financial companies	*320*	*334*	*319*	*317*	*329*
other companies	*47*	*52*	*54*	*53*	*58*
unallocated items and discrepancies	*52*	*46*	*49*	*41*	*45*
NET POSITION	**-164**	**-145**	**-118**	**-85**	**-73**
State sector	**-104**	**-216**	**-241**	**-306**	**-354**
Central bank	**36**	**50**	**59**	**50**	**80**
Banks	**-10**	**31**	**-24**	**-6**	**3**
Non-bank private sector	**-86**	**-10**	**88**	**178**	**198**
of which:households and investment funds	*83*	*125*	*139*	*154*	*163*
non-financial companies	*-188*	*-172*	*-135*	*-110*	*-113*
other companies	*18*	*26*	*36*	*43*	*55*
unallocated items and discrepancies	*1*	*11*	*47*	*90*	*93*
Memorandum item:					
Balance-of-payments errors and omissions	**-8**	**-30**	**1**	**-35**	**-24**

(1) The data on the overall external position and that of the banking system are derived from the balance of payments and those on the other items from the financial accounts (stocks are valued at current exchange rates and state sector liabilities are valued at market prices). The amounts under "unallocated items and discrepancies" include the statistical discrepancies between the two systems of accounts. The assets of the central bank and the liabilities of banks exclude foreign currency swaps. The assets and liabilities of banks exclude the components matched by domestic foreign currency positions, which are included directly in the figures for the State and private sectors.

Table 3

FOREIGN CURRENCY POSITION OF THE ITALIAN NON-BANK PRIVATE SECTOR (1)
(billions of lire)

	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996 September (2)*
1. FOREIGN CURRENCY ASSETS	68,361	102,296	158,244	210,263	242,180	262,357	262,840
1.1. Deposits	6,273	8,802	17,605	25,907	32,222	39,804	45,182
1.1.1 Vis-à-vis non-residents	*273*	*2,802*	*6,605*	*10,907*	*17,222*	*20,804*	*26,560*
1.1.2 Vis-à-vis residents	*6,000*	*6,000*	*11,000*	*15,000*	*15,000*	*19,000*	*18,622*
1.2. Loans	5,839	6,235	8,710	8,815	13,313	14,935	16,132
1.2.1 Vis-à-vis non-residents	*5,839*	*6,235*	*8,710*	*8,815*	*9,313*	*9,935*	*10,917*
1.2.2 Vis-à-vis residents	*0*	*0*	*0*	*0*	*4,000*	*5,000*	*5,215*
1.3. Securities	56,249	87,259	131,929	175,541	196,645	207,618	201,526
1.3.1 Vis-à-vis non-residents	*56,249*	*87,259*	*129,929*	*173,541*	*194,645*	*203,618*	*196,969*
1.3.2 Certificates of deposit and bonds in foreign currency issued by resident banks	*0*	*0*	*2,000*	*2,000*	*2,000*	*4,000*	*4,557*
2. FOREIGN CURRENCY LIABILITIES	128,424	134,079	206,414	179,961	154,218	126,832	114,741
2.1. Loans	126,135	133,533	205,860	179,156	153,316	123,068	113,557
2.1.1 Vis-à-vis non-residents	*67,135*	*60,533*	*74,860*	*69,156*	*60,316*	*50,068*	*45,971*
2.1.2 Vis-à-vis residents	*59,000*	*73,000*	*131,000*	*110,000*	*93,000*	*73,000*	*67,586*
2.2. Securities	2,289	546	554	805	902	3,764	1,184
2.2.1 Vis-à-vis non-residents	*2,289*	*546*	*554*	*805*	*902*	*764*	*733*
2.2.2 Vis-à-vis residents	*0*	*0*	*0*	*0*	*0*	*3,000*	*451*
3. FORWARD TRANSACTIONS	-5,000	-4,000	-4,000	-13,000	-20,000	-18,000	-21,768
4. FOREIGN CURRENCY POSITION (1. - 2. + 3.)	-65,063	-35,783	-52,170	17,302	67,962	117,525	126,331
4.1 Vis-à-vis non-residents	*-7,063*	*35,217*	*69,830*	*123,302*	*159,962*	*183,525*	*187,742*
4.2 Vis-à-vis residents	*-58,000*	*-71,000*	*-122,000*	*-106,000*	*-92,000*	*-66,000*	*-61,411*
Memorandum item: "Errors and omissions" from the Balance of Payments	*-16,630*	*-8,284*	*-8,640*	*-30,417*	*1,253*	*-35,110*	*-23,619*

(1) Net of government securities in ecus (CTEs and BTEs), trade credits and direct investment.
(2) Provisional data.

Table 4

FINANCIAL OPENNESS OF SELECTED LEADING INDUSTRIAL COUNTRIES (1)

FOREIGN ASSETS
(as a percentage of internal sectors' total financial assets (2))

Years	Italy	France	Germany	UK	US	Japan
1989	9.7	13.1	20.9	29.4	5.1	7.9
1990	10.0	14.7	19.7	28.6	5.3	9.9
1991	10.1	13.6	19.4	27.7	5.0	9.2
1992	11.1	14.5	19.6	30.0	4.6	9.2
1993	12.8	14.4	20.5	29.8	4.5	8.6
1994	12.7	14.5	20.6	30.1	4.6	8.2
1995	13.2	n.a.	n.a.	n.a.	n.a.	n.a.
1996 Q2	14.0	n.a.	n.a.	n.a.	n.a.	n.a.

FOREIGN LIABILITIES
(as a percentage of internal sectors' total financial liabilities (3))

Years	Italy	France	Germany	UK	US	Japan
1989	11.8	14.2	15.1	29.4	7.2	6.5
1990	12.3	15.6	14.2	29.9	7.8	8.1
1991	12.6	14.4	14.4	28.6	7.3	7.3
1992	14.3	15.1	15.3	31.0	7.3	6.6
1993	15.3	14.7	16.9	30.6	7.5	6.0
1994	15.8	14.7	17.3	31.2	8.0	5.6
1995	15.7	n.a.	n.a.	n.a.	n.a.	n.a.
1996 Q2	15.8	n.a.	n.a.	n.a.	n.a.	n.a.

(1) Canada is not included for lack of comparable data.
(2) Net of bank loans to internal sectors.
(3) Net of bank deposits of internal sectors.

Sources: For Italy, financial accounts; for other countries, based on OECD data.

Table 5

TOTAL FINANCIAL ASSETS AND LIABILITIES
OF SELECTED LEADING INDUSTRIAL COUNTRIES (1)
(stocks in billions of dollars and percentages)

	1989	1990	1991	1992	1993	1994
FINANCIAL ASSETS(2)	**61,951**	**67,406**	**74,260**	**75,263**	**83,970**	**92,698**
as a % *of GDP*	*509.7*	*488.5*	*505.3*	*512.8*	*552.2*	*551.8*
Of which:						
with domestic counterpart	**55,728**	**59,912**	**66,477**	**67,448**	**75,305**	**83,197**
as a % of total financial assets	*90.0*	*88.9*	*89.5*	*89.6*	*89.7*	*89.8*
as a % *of GDP*	*458.5*	*434.2*	*452.3*	*459.6*	*495.2*	*495.3*
with foreign counterpart	**6,223**	**7,474**	**7,784**	**7,815**	**8,666**	**9,501**
as a % of total financial assets	*10.0*	*11.1*	*10.5*	*10.4*	*10.3*	*10.2*
as a % *of GDP*	*51.2*	*54.3*	*53.0*	*53.3*	*57.0*	*56.6*
FINANCIAL LIABILITIES (2)	60,223	**65,361**	**72,955**	**73,987**	**82,546**	**91,078**
as a % *of GDP*	*495.5*	*473.6*	*496.4*	*504.1*	*542.8*	*542.2*
Of which:						
with domestic counterpart	**54,118**	**57,926**	**65,200**	**66,118**	**73,816**	**81,422**
as a % of total financial assets	*89.9*	*88.6*	*89.4*	*89.4*	*89.4*	*89.4*
as a % *of GDP*	*445.3*	*419.8*	*443.6*	*450.5*	*485.4*	*484.7*
with foreign counterpart	**6,106**	**7,435**	**7,755**	**7,870**	**8,730**	**9,657**
as a % of total financial assets	*10.1*	*11.4*	*10.6*	*10.6*	*10.6*	*10.6*
as a % *of GDP*	*50.2*	*53.9*	*52.8*	*53.6*	*57.4*	*57.5*
Memorandum item: Total GDP (current $)	12,154	13,800	14,698	14,677	15,208	16,792

(1) Italy, France, Germany, United Kingdom, United States and Japan. Canada is not included for lack of comparable data.
(2) Total financial assets/liabilities are the sum of assets/liabilities of the internal sectors of each country in current dollars; assets are net of bank loans to internal sectors; liabilities are net of internal sectors' bank deposits. GDP is the sum of national GDPs in current dollars.

Sources: For Italy, financial accounts; for other countries, based on OECD and IMF data.

Table 6

TOTAL FINANCIAL ASSETS AND LIABILITIES
OF SELECTED LEADING INDUSTRIAL COUNTRIES (1)
(stocks in billions of dollars and percentages)

	1989	1990	1991	1992	1993	1994
FINANCIAL ASSETS (2)	**61,951**	**67,406**	**74,260**	**75,263**	**83,970**	**92,698**
	100.0	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Of which:						
ITALY	3,000	3,645	4,032	3,452	3,345	3,708
	4.8	*5.4*	*5.4*	*4.6*	*4.0*	*4.0*
FRANCE	5,438	5,914	6,653	6,673	7,768	8,160
	8.8	*8.8*	*9.0*	*8.9*	*9.3*	*8.8*
GERMANY	4,152	5,585	5,942	6,014	6,222	7,134
	6.7	*8.3*	*8.0*	*8.0*	*7.4*	*7.7*
UNITED KINGDOM	5,227	6,151	6,422	5,929	6,881	7,290
	8.4	*9.1*	*8.6*	*7.9*	*8.2*	*7.9*
UNITED STATES	23,720	25,260	27,776	30,149	32,854	34,660
	38.3	*37.5*	*37.4*	*40.1*	*39.1*	*37.4*
JAPAN	20,414	20,852	23,436	23,047	26,900	31,747
	33.0	*30.9*	*31.6*	*30.6*	*32.0*	*34.2*
FINANCIAL LIABILITIES (2)	**60,223**	**65,361**	**72,955**	**73,987**	**82,546**	**91,078**
	100.0	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Of which:						
ITALY	2,857	3,556	4,018	3,490	3,326	3,650
	4.7	*5.4*	*5.5*	*4.7*	*4.0*	*4.0*
FRANCE	5,502	6,030	6,801	6,994	8,066	8,339
	9.1	*9.2*	*9.3*	*9.5*	*9.8*	*9.2*
GERMANY	3,910	5,228	5,717	5,795	6,186	7,219
	6.5	*8.0*	*7.8*	*7.8*	*7.5*	*7.9*
UNITED KINGDOM	4,947	5,899	6,230	5,710	6,649	6,967
	8.2	*9.0*	*8.5*	*7.7*	*8.1*	*7.6*
UNITED STATES	22,456	23,736	26,437	28,609	31,195	32,980
	37.3	*36.3*	*36.2*	*38.7*	*37.8*	*36.2*
JAPAN	20,551	20,912	23,753	23,390	27,125	31,928
	34.1	*32.0*	*32.6*	*31.6*	*32.9*	*35.1*

(1) Canada is not included for lack of comparable data.
(2) Total financial assets/liabilities are the sum of assets/liabilities of the internal sectors of each country in current dollars; assets are net of bank loans to internal sectors; liabilities are net of internal sectors' bank deposits. GDP is the sum of national GDPs in current dollars.

Sources: For Italy, financial accounts; for other countries, based on OECD and IMF data.

FOREIGN CURRENCY ASSETS AND LIABILITIES OF BANKS RESIDENT IN INDUSTRIAL COUNTRIES (*)

(billions of dollars)

	ASSETS									
	1992		1993		1994		1995		1996 (**)	
	$	%	$	%	$	%	$	%	$	%
Belgian franc	27.0	0.7	29.1	0.7	33.3	0.7	38.9	0.8	47.1	1.0
German mark	622.4	15.3	647.3	15.8	759.2	17.1	820.6	17.4	846.8	17.5
Dutch guilder	47.6	1.2	52.0	1.3	55.0	1.2	65.8	1.4	76.7	1.6
French franc	128.6	3.2	139.5	3.4	138.4	3.1	160.6	3.4	169.0	3.5
Italian lira	***83.1***	***2.0***	***113.6***	***2.8***	***146.7***	***3.3***	***166.1***	***3.5***	***220.9***	***4.6***
Japanese yen	196.7	4.8	188.7	4.6	238.4	5.4	324.1	6.9	304.8	6.3
British pound	138.6	3.4	128.4	3.1	144.5	3.3	145.5	3.1	150.7	3.1
Swiss franc	196.0	4.8	169.9	4.2	178.7	4.0	207.5	4.4	195.8	4.0
Ecu	235.6	5.8	217.2	5.3	207.8	4.7	201.5	4.3	182.0	3.8
US dollar	2,385.0	58.7	2,398.8	58.7	2,536.1	57.1	2,578.1	54.8	2,644.5	54.7
Total (*)	**4,060.5**	**100.0**	**4,084.4**	**100.0**	**4,438.1**	**100.0**	**4,708.7**	**100.0**	**4,838.1**	**100.0**

	LIABILITIES									
	1992		1993		1994		1995		1996 (**)	
	$	%	$	%	$	%	$	%	$	%
Belgian franc	34.9	0.9	41.7	1.0	47.8	1.1	50.7	1.1	58.0	1.2
German mark	685.6	16.7	715.2	17.5	830.2	18.4	883.0	18.5	865.8	18.1
Dutch guilder	55.9	1.4	61.6	1.5	68.6	1.5	79.4	1.7	86.2	1.8
French franc	150.6	3.7	178.1	4.4	155.1	3.4	200.2	4.2	191.7	4.0
Italian lira	***68.3***	***1.7***	***97.7***	***2.4***	***132.5***	***2.9***	***161.3***	***3.4***	***214.5***	***4.5***
Japanese yen	193.8	4.7	195.5	4.8	240.6	5.3	285.0	6.0	299.0	6.2
British pound	151.9	3.7	145.4	3.6	160.9	3.6	162.0	3.4	161.4	3.4
Swiss franc	200.6	4.9	181.6	4.4	198.4	4.4	249.1	5.2	236.0	4.9
Ecu	232.7	5.7	214.9	5.3	207.1	4.6	189.6	4.0	176.3	3.7
US dollar	2,320.4	56.7	2,259.2	55.2	2,472.3	54.8	2,511.5	52.6	2,501.5	52.2
Total (*)	**4,094.7**	**100.0**	**4,091.0**	**100.0**	**4,513.4**	**100.0**	**4,771.9**	**100.0**	**4,790.4**	**100.0**

(*) Data on other currencies and data not allocated due to unavailability of information are not included.
(**) For 1996, end-of-June data.

Source: *Bank for International Settlements.*