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PART A

Part A.

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Begins : 11/1/88.
Ends : 3/12/88.

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PART A

Chancellor's (Lawson) Papers:

ITALIAN ECONOMIC AND
POLITICAL SITUATION
FOLLOWING THE
RESIGNATION OF THE
GOVERNMENT

DD'S: 25 Years

Paulson

15/11/95.

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PART A

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FRAME ECONOMIC

TO FCO SAVING TELEGRAM NO 1 OF 11 JANUARY 1988
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WASHINGTON, PARIS, BONN, OTTAWA, UKDEL IMF/IBRD, UKDEL OECD,
UKREP BRUSSELS, CONSULATES IN ITALY.

MONTHLY ECONOMIC REPORT : ITALY : DECEMBER 1987

SUMMARY

1. The Financial Law and Budget leave the Senate with the PSBR Target unchanged at 103,500 billion lire and pass to the Chamber of Deputies. Parliament approves operation of provisional twelfths for January and February.

Industrial production in October reached its highest levels on the unadjusted index since 1980. Strikes in the public sector, particularly transport, continued except for a Christmas truce. Inflation was down slightly in December at 5.1%. The trade deficit continues to cause concern but exports showed some signs of picking up and the balance of payments recorded another surplus in November. Sales of Treasury bonds went well.

Forecasts have been revised downwards with GDP growth now thought by most commentators unlikely to be much above 2% compared with the Government's target of 2.8%.

DETAIL

2. ECONOMIC ACTIVITY (Tables 1 and 2)

According to press reports ISTAT's latest quarterly accounts show that GDP in Q3 registered a 0.5% increase over Q2 (Q2/Q1 was 1.8%).

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ISTAT : Quarterly accounts, % change on corresponding period of previous year.

Aggregates	Q4 1986	Q1 1987	Q2 1987	Q3 1987
GDP	2.4	2.6	2.4	2.4
Imports	0.8	5.3	12.1	6.6
Total Sources	2.1	3.2	4.2	3.2
Domestic Consumption	3.3	3.8	3.9	3.2
- private	3.5	4.3	4.5	3.6
- collective	2.4	1.8	1.3	1.6
Gross fixed investment	0.7	1.4	2.4	0.8
- machinery etc	4.6	3.3	3.4	1.4
- transport	-3.2	4.2	7.0	4.1
- construction	-1.8	-0.8	0.6	-0.3
Stock variation, statistical discrepancies	-	-	-	-
Exports	-4.6	-0.6	-3.9	4.3
Total Uses	2.1	3.2	4.2	3.2

ISTAT's unadjusted industrial production index showed a year on year increase of 1.7% in October with one less working day. The index at 117 reached its highest level since the base year was updated to 1980. The seasonally adjusted index figure was 104.6. IRS reported that their index showed the rate of increase in industrial production in November and December slowing with an average rise for 1987 of 3.5%.

Electricity consumption in December showed a year on year increase of 3.7% and in 1987 consumption rose by 4.9% over 1986.

Motor vehicle sales January-November at 1,863,568 already exceeded those for the whole of 1986 and a figure of nearly 2 million is expected by the end of the year.

According to Coldiretti the value of agricultural production in 1987 was under 50,000 billion lire compared with 50,500 billion in 1986 (both figures, current prices).

The latest ISCO-ME survey taken end October/early November found manufacturers confident that exports prospects were improving.

Unioncamere reported that 1987 had seen a 2% drop in the number of new firms set up in the country as a whole but the figure for the Mezzogiorno was a fall of 17.9%, yet another statistic showing how the South lags behind the Centre/North.

3. LABOUR AND SOCIAL AFFAIRS (Tables 2 and 3)

The outstanding feature during December was the series of strikes in the public sector, mainly affecting the transport industries, particularly air services. Despite meetings at Ministerial level and agreements with the confederal unions, unofficial action by COBAS and by disillusioned union members created chaos at airports until 17 December when the traditional truce for the holiday period began. Action in other public sectors (transport, ferries, schools, customs) was more limited, but further trouble is probable by mid-January. "Precettazione" (direction by law to work normally) was threatened but not actually invoked. The possibility of legislation to control strikes still remains a live issue, but disagreement on its form continues.

Hours lost because of industrial action from January to September (15.6 million) were slightly down on the same period in 1986 (16.1 million) but the final total for 1987 is almost certain to be higher.

Employment in large industries fell by 3.9% year on year in September, but the rate of fall continued to slow down and was 3.7% year on year in October. Year on year earnings in large industries rose by 6.6% in October and wages in the whole economy by 8.2%, the highest increase since the beginning of 1986.

ISTAT SURVEY OF MANUFACTURING FIRMS WITH 500 OR MORE EMPLOYEES

	Oct 87/Oct 86	Sep 87/Sep 86
	(percentage changes)	
Employment	-3.7 (1)	-3.8
Average number of hours worked per manual worker	-0.4 (2)	-0.7
Average monthly earnings per manual worker		
all payments (incl guaranteed wages, family allowances, one-off payments, etc) :	+6.6 (3)	+5.6
direct wage only :	+9.4	+5.6

(1) Fall affected all sectors, ranging from 1.6% in energy sector to 4.1% in metallurgical sector.

(2) Changes ranged from -5.1% for energy sector to +2.7% for chemicals/pharmaceuticals.

(3) Direct wage increases due mainly to application of recently renewed collective contracts; increases in indirect element of pay have slowed down as guaranteed wage payments under Cassa Integrazione Guadagni scheme continue to fall.

HOURLY CONTRACTUAL PAY RATES
(1982=100)

Sector	Increase Oct 87/ Oct 86	Increase due to scala mobile indexation system
Whole Economy	8.2% *	N/A
Industry	7.4%	3.3%
Commerce	6.8%	3.3%
Transport & Communications	4.5%	2.8%
Banking & Insurance	9.1%	2.1%
Public Administration	11.9%	2.7%
Agriculture	6.1%	3.6%

*Increase in cost-of-living index over same period 5.3%.

A Banco Nazionale del Lavoro study predicted continuing employment difficulties in 1988. For the past four years the rate of employment growth has been 0.3% annually while numbers of jobseekers have grown by 5%. The outlook for new jobs is gloomy except in the service sector. The Economic Adviser to the Minister of Labour estimates that clandestine jobs may be as high as 3 million while only 50% of jobs in the Mezzogiorno and 70% in the north are said to be "regular".

Italy's only large scale training scheme "Contratti di Formazione e Lavoro" is also causing disagreement. Confindustria, the private employers association whose members benefit from the scheme thinks it is satisfactory, but the Minister of Labour and the unions think changes are necessary, for example to avoid substitution.

Social Affairs

Pensions allocations in the Finance Bill were increased from 600 billion lire to 1,000 billion with the agreement of the unions. There is increasing interest in private pensions and in 1987 about 7.5 million Italians joined schemes or took out cover valued at over 10,000 billion lire, about 6,000 billion for additional pensions and the rest for main pensions.

Pensions reform is still under discussion, but two separate committees have come up with widely differing proposals, and those of the Minister have been opposed as too onerous by Confindustria.

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4 INFLATION (Table 3)

The cost of living index rose by 0.2% in December giving a year on year figure of 5.1%. The average rate for 1987 was thus 4.6%, the lowest figure since 1969.

COST-OF-LIVING INDEX (DECEMBER) (1985 = 100)

Sector of index	% change over Nov 1987	% change over Dec 1986
General index (113.5)	+0.2	+5.1*
Food	+0.2	+4.6
Clothing	+0.4	+5.8
Housing	no change	+5.2
Fuel & Elec.	+0.1	+7.5
Miscellaneous	+0.2	+5.0

* 4.1% for monitored/controlled prices and tariffs, 5.2% for other prices and tariffs.

Wholesale prices rose 0.4% in October, giving a year on year figure of 4.5%. This was the 10th consecutive monthly increase in the year on year rate but in the last 3 months the rate of increase has slowed.

The prices of many utilities and some tariffs are expected to increase in the new year as the government continues its efforts to cut back current expenditure.

Newspapers were freed from price control from 2 January but only one (Catholic) Milan daily immediately raised its price.

5. TRADE (Table 6)

In November the trade deficit was 850 billion lire compared with a deficit of 157 billion in November 1986. The cumulative deficit for 11 months is 10,210 billion (1986, -4,057 billion). Year on year November imports rose by 20.2% but exports showed some signs of recovery with a rise of 14.6% spread fairly evenly across sectors. Exporters reported an improvement in trade with North Africa and Arab countries in Q3 after a disappointing 18 months. The energy deficit in November was 1,692 billion lire, giving a surplus in other sectors of 842 billion. The foodstuffs sector continues to cause concern with a cumulative 11 month deficit over 15,000 billion lire, 4.6% higher than in the same period last year. But agri-tourism attracted some 700,000 people and brought in around 100 billion lire in 1987. Cement manufacturers accused Greece and Yugoslavia of dumping: cement exports rose by 100% between 1982 and 1986 and were expected to double in 1987 to 756,000 tonnes.

The Minister for Foreign Trade Ruggiero forecast an end year trade deficit of 11,500 billion lire (1986, -3,700 billion) but thought the balance of payments would finish in balance thanks to tourist revenue, invisibles and remittances from Italians abroad.

The balance of payments recorded a surplus of 1,371 billion lire in November compared with a deficit of 133 billion in the same month last year. The cumulative 11-month figure is +406 billion against a deficit of 2,509 billion in 1986. There was a net capital inflow of 200 billion lire in the non-banking sector and of 1,769 billion through the banks. Foreign indebtedness of the banking system at the end of the month stood at over 35,000 billion and the official reserves also rose.

OFFICIAL RESERVES
(Billion Lire)

<u>Month</u>	<u>Total net reserves</u>	<u>Gold</u>	<u>Convertible</u>	<u>ECU</u>
October	69,210	37,646	16,455	12,193
November	72,070	37,646	19,341	12,240

reserves

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

Sales of Treasury bonds to finance the public sector deficit were buoyant in December.

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective Net yield (compound)
(Billion Lire)				
3-mth BOT				
end-Nov	9,500	800	900	10.34%
mid-Dec	1,500	369	-	10.26%
end-Dec	6,000	-	oversubscribed	10.06%
6-mth BOT				
end-Nov	8,000	168	-	10.44%
mid-Dec	1,250	-	oversubscribed	10.24%
end-Dec	8,500	-	oversubscribed	10.07%
12-mth BOT				
end-Nov	7,500	1,645	-	10.49%
mid-Dec	1,250	117	-	10.25%
end-Dec	9,000	-	oversubscribed	9.77%
5-yr CCT				
November*	1,800	-	-	11.21%
December	1,000	-	oversubscribed	11.21%
January	7,000**	-	oversubscribed	10.90%
1-yr BTE				
Oct (373 days) 500m Ecu		150m	223m	7.88%
Nov (373 days) 750m Ecu		-	oversubscribed	7.66%
Dec (380 days) 500m Ecu		-	oversubscribed	7.48%

*No pre-announced issue limit; amount depends on demand and on Treasury requirements.

**Original issue 5,000bn, increased because of demand.

The annual rate of increase in bank credit in November was 7.5% for loans in lire and 8.5% for all loans. Deposits also rose by 8.5%. The comparable rates for October were loans in lire 6.9%, all loans 7.6%, deposits 9.25%.

The Bank of Italy estimated that total domestic credit rose in October by 13.5% year on year.

Bank loans to developing countries at end Q2 totalled 9,854 billion lire, a 6.8% rise on Q1: the largest increase was to Asian countries although there were also substantial increases in loans to African countries. The visit of President Alfonsin of Argentina led to the signing of an economic agreement with Italy offering a credit line of \$100 million.

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The Italian state credit institution IMI raised a loan of 15 billion (=139 billion lire) in Luxembourg.

Legislation is expected in the new year to establish a new secondary market in Treasury bonds and to make other reforms in Italian financial markets.

The stock exchange year closed with a loss of 26% over the year, 19.2% since 19 October. There is some feeling that 1988 is likely to be a rather flat year with savers cautious and the Treasury offering formidable competition with a requirement for some 40,000 billion lire each month. On 7 December the Milan exchange moved to temporary quarters for the next 3-4 years to allow for structural alterations to Palazzo Mezzanotte. Dealers complained that the new floor can accommodate only 1,200 persons against 2,000 in the old building.

The lira withstood well the renewed falls in the value of the US dollar in December and commentators have remarked upon the skill with which the Bank of Italy has used its EMS band to achieve monetary objectives.

EXCHANGE RATES - DECEMBER
(in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,212.400 (11 Dec)	2,185.625 (31 Dec)	2,185.625
\$	1,231,350 (7 Dec)	1,169.250 (31 Dec)	1,169.250
DM	738.525 (31 Dec)	734.805 (23 Dec)	738.525

Change in weighted value against other EC currencies since 9 February 1973: end-November -63.11%; end-December -63.09%.

Prime Minister Gorla and Treasury Minister Amato commenting on the 23 December G7 statement welcomed the increased emphasis on practical measures to achieve stated objectives and moves towards increasing coordination of economic policies. Amato pointed out that Italy had benefited from the fall in the US dollar as dollar-denominated imports exceeded exports but said further falls in the value of the US currency threatened growth targets.

Faced with the prospect of GDP outturn in 1987 at current prices amounting to around a million billion lire (i.e. a figure with 15 noughts) the Government has announced it will revive in 1988 its 1986 bill to institute the "heavy" lira, i.e. 1,000 lire would become 1 new lira.

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Company News

The bill to privatise Mediobanca is not now likely to be presented to Parliament before late January. A Parliamentary Committee has been set up to draft proposals for anti-Trust legislation by the end of April. Giving evidence to the Committee, the President of Confindustria suggested that it made no sense for Italy to legislate now in a national context given current EC proposals. De Benedetti of Olivetti, however, thought that national legislation might be useful so long as it did not inhibit increased international growth of Italian firms.

The state steel firm Finsider is now expected to report losses in 1987 of 1,600-1,800 billion lire.

Gardini of Ferruzzi ousted Schimberni from the leadership of the chemicals giant Montedison.

7. FISCAL POLICY

The 1987 Financial Law (on 6 December) and the 1988 Budget (on 9 December) were approved by the Senate and thus passed to the Chamber of Deputies. The latter did not begin discussion in Committee until January. Several influential Deputies including some Christian Democrats have indicated they will propose amendments: if any are adopted the bills must return to the Senate. The Government has received parliamentary approval for the operation of provisional twelfths in January and February.

During the latter stages of Senate consideration the Government made some changes, notably an additional 400 billion lire for pensions in response to union pressure. The Government also suffered some minor defeats e.g. the Communists succeeded in a proposal to cut from 60 billion lire to 10 billion funding for the Messina straits crossing project while the Demoproletari raised from 90 billion to 110 billion lire the allocation for modernisation of sports facilities. Nevertheless the consequential revisions to the Budget were made without changing the overall PSBR target of 103,500 billion lire. Meanwhile the 9-member Commission of wise men charged with finding cuts of 1,500 billion in 1988 public spending as demanded by the Liberal Party has started work.

On 23 December the Council of Ministers decided to issue a decree law scooping up not only a number of fiscal measures from the Financial Law which, in the interests of efficient administration, should be applied from 1 January 1988 (e.g. increased tax allowances for families, a 25% increase in car tax, extension of the "Visentini" VAT forfait system) but also a number of more controversial measures relating to health and employment. Decree laws are meant to be confined to cases of urgency: if not approved by Parliament within 60 days they must be repropounded with modification or fall. Parliament thus faced parallel consideration of the Financial Law and Budget alongside this unusually bulky decree. In early January the "decretone" was adjudged unconstitutional and the Government is expected to reframe the measures in a number of separate decrees.

Provisional Treasury figures for the 11 month PSBR are 106,044 billion lire, a 2.4% increase on the same period of 1986. The end year figure is likely to be around 111,000 billion. Tax revenue for the year is now expected to be at least 220,000 billion lire against an initial forecast of 205,000 billion. Tax evasion discovered in the period between January-November was over 2,000 billion lire. On the other hand VAT reimbursements due from the state since 1980 are put at over 8,000 billion lire.

The Minister for Foreign Trade Ruggiero promised an export promotions package early in the new year: the government planned to spend 60 billion lire on fairs and similar measures. The Council of Ministers approved a bill to increase aid for research under law 46 at a cost of 125 billion lire in 1988, 250 billion and 375 billion in the two succeeding years.

The new Agency for the Mezzogiorno does not yet seem to have been more successful in spending its allocations than its predecessor the Cassa per il Mezzogiorno. Of total resources available in 1987 of 15,743 billion, by end September it had spent only 19%.

One of the difficulties in controlling public expenditure is demonstrated by the fact that, despite a total stop on increases in public sector jobs imposed in 1983, the number has risen by 120,389.

The Secretaries of the political parties are reported to have put off until after the passage of the Financial Law a proposal to increase state funding of the parties by 90% to restore purchasing power to 1980 levels and in future to index such subventions to the cost of living.

8. ASSESSMENTS OF ECONOMIC PROSPECTS

Addressing Forex on 16 December, the Governor of the Bank of Italy said that the worst was over although the international situation was uncertain. The September/October economic measures had been effective: government targets for 1988 could and should be met. The public sector remained Italy's largest unresolved problem.

In December several Italian institutes followed OECD in revising downwards their forecasts for 1988 GDP growth. OECD expects Italy to grow by 2% against an OECD average of 2.3% in 1988: it also forecasts a current account deficit of some 4,000 billion lire and inflation at 5%. Unemployment is expected to rise to over 11%. CER forecasts GDP growth of 2.1%, inflation 4.8%, a surplus on current account of 1,451 billion and the PSBR at over 112,000 billion lire. Unioncamere puts GDP at 2.2% and inflation at 5%. Banche Popolari forecast GDP growth of 2.1%, inflation at 4.7%, the PSBR at 112,500 billion lire. The most severe downward revision is by Prometeia which suggests GDP will grow by only 1.7%. Confindustria's chief economist in an article in *Il Sole* 24 Ore of 31 December suggests that growth of around 2% is likely and the government's inflation target of 4.5% could well be met. But Cipolletta is gloomy about the government's ability to get the public debt under control and doubtful whether they will be successful in containing labour costs. The table of forecasts which accompanies his article is given below.

Italy 1988 Forecasts (% variations except where otherwise indicated)

Variables	Govt	ISCO	EC	IRS	WEFA	CER	Prometeia	OEC
	Sept '87	Sept '87	Oct '87	Oct '87	Nov '87	Nov '87	Dec '87	Dec '87
GDP	2.8	2.3	2.8	2.0	2.3	2.5	1.7	2.0
Imports	6.4	5.5	5.6	4.5	3.9	5.4	4.5	4.7
Exports	3.8	2.5	3.8	3.0	3.8	4.0	1.9	3.5
Family consumption	3.1	3.5	3.3	2.8	2.7	3.4	2.7	2.5
Collective consumption	2.0	1.5	2.9	2.6	-	2.0	3.0	2.5
Fixed gross investment	3.9	1.5	2.8	2.2	2.0	2.3	1.0	-
Consumer prices	4.5	5.3	4.9	5.7	5.0	5.8	5.0	4.8
Industrial wages	5.5(b)	5.6	6.0	6.6	7.0(d)	6.5	6.9(a)	-
Unemployment rate (%)	-	11.8	-	11.7	9.8	10.8	11.8	11.3
Balance of Payments (current a/c)	-1.500	-3.500	-	-1.973	-	-950	-334	-4.500

Foot Notes

(a) Hourly wage of labour, (b) Billions of lire,
(c) Income of employees, (d) Total economy.

9. MISCELLANEOUS

It has been estimated that the Government's decision to close down the nuclear power plant at Latina and not to proceed with the new series of PWR reactors of which Trino Vercellese 2 was to have been the first will cost ENEL some 2,200 billion lire. Uncertainty surrounds the reactivation of the other two small reactors (Caorso and Trino 1) and the possible conversion to gas of the almost completed 2,000 MW Montalto di Castro.

THOMAS

FRAME ECONOMIC

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TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts (revised data).

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
	(1)	Private	Govt						
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1983	397,720	251,328	63,029	85,927	1,328	401,612	84,089	87,981	631,575
1984	411,743	256,859	64,308	89,709	8,307	419,198	90,480	97,920	720,682
1985	423,064	263,753	66,564	92,667	9,107	432,091	94,098	103,125	805,754
1986	434,682	272,194	68,534	93,796	11,503	446,027	96,997	108,342	894,362
1985 Q1	104,580	64,988	16,464	23,163	2,201	106,816	23,344	25,579	193,103
Q2	105,178	65,633	16,549	23,204	2,430	107,816	23,009	25,647	198,883
Q3	106,242	66,357	16,705	23,066	2,151	108,279	23,324	25,361	204,829
Q4	107,065	66,775	16,846	23,235	2,326	109,182	24,421	26,538	208,939
1986 Q1	106,770	67,212	16,957	23,168	2,862	110,199	23,656	27,085	212,864
Q2	108,891	67,654	17,099	23,589	1,934	110,276	24,989	26,374	222,116
Q3	109,381	68,268	17,181	23,605	3,401	112,455	25,054	28,129	227,774
Q4	109,640	69,059	17,298	23,434	3,306	113,097	23,297	26,754	231,608
1987 Q1	109,755	70,076	17,327	23,539	3,261	114,203	23,532	27,980	233,715
Q2	111,324	70,791	17,363	24,039	4,024	116,217	23,841	28,732	240,606

* (2)+(3)+(4). NB Figures for 1987 provisional.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices (2)		Orders (3)		Employment '000s (4)	Unemployment '000s (5)	Unemployment rate (6)	Strikes '000 hrs lost (7)
	(1980=100)	(1980=100)							
1983	92.0	141.0	151.0	133.0	153.0	\$20,704	\$2,278	9.0	98,021
1984	95.4	157.8	180.1	152.0	175.5	\$20,648	\$2,578	9.9	58,232
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	37,673
1986 Q1	99.8	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	99.9	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	99.4	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	101.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	100.9	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,112
Q2	102.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,092
Q3	101.7					21,049	2,871	12.0	2,415
'85 OCT	96.4	197.6	217.8	199.1	213.6				6,735
NOV	97.9	181.4	202.1	180.7	203.3				6,819
DEC	97.3	185.6	204.5	198.2	182.0				2,497
'86 JAN	97.2	165.6	194.0	173.5	197.7				5,512
FEB	99.1	175.3	200.7	200.3	195.6				1,569
MAR	100.1	180.5	198.7	208.5	216.6				2,442
APR	100.4	186.2	203.5	205.4	203.3				1,758
MAY	98.6	179.5	199.1	187.2	210.8				881
JUN	100.8	178.7	208.3	194.4	194.8				1,094
JUL	100.3	196.3	241.6	189.9	214.9				568
AUG	98.7	90.9	90.1	81.1	82.1				50
SEP	99.3	197.1	210.5	224.6	221.5				798
OCT	101.0	199.3	213.5	210.7	224.6				6,504
NOV	101.2	175.7	190.6	188.2	178.3				9,997
DEC	101.7	185.9	201.1	206.8	193.6				6,500
'87 JAN	100.8	153.2	172.1	170.2	186.7				2,925
FEB	100.7	172.7	194.8	207.6	198.9				4,482
MAR	101.1	208.0	222.4	227.0	221.8				1,705
APR	101.8	196.4	198.8	211.6	196.6				1,528
MAY	104.3	189.7	206.7	192.6	183.3				842
JUN	101.6	201.8	231.9	218.9	224.2				1,722
JUL	102.5	211.3	257.6	219.7	224.2				1,339
AUG	100.9*	101.3	95.4	70.8	85.8				39
SEP	102.1*								1,037
OCT	104.6*								

(a) Seasonally adjusted.

§average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures.

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT.
Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1983	14.7	14.9	9.7	14.6
1984	10.8	10.6	10.4	12.0
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1985 Q3	9.1	8.5	6.9	10.2
Q4	8.9	8.6	5.9	9.9
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3		4.6	+4.1	8.0
Q4		5.2		
1985 NOV	8.9	8.6	5.8	9.7
DEC	8.8	8.6	5.9	9.7
1986 JAN	8.2	8.0	4.8	6.9
FEB	7.3	7.6	2.5	5.4
MAR	7.0	7.2	0.3	5.3
APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.1
SEP	5.2	5.0	4.3	8.0
OCT		5.3	4.5	8.2
NOV		5.2		
DEC		5.1		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1984	12.6		12.3	14.6	21.3
1985	16.6		14.0	14.4	19.2
1986	10.6	10.2	8.9	8.8	16.2
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8*	10.9	9.5	8.1*	15.9
1987 Q1	9.6*	9.9	10.3	7.7*	15.6
Q2	11.4*	10.8	12.0	9.0*	15.1*
Q3		10.9*	10.5*		14.5*
1985 Nov	15.2	13.6	13.3	13.3	17.9
Dec	17.3	10.4	11.1	11.7	18.0
1986 Jan	11.3	9.7	10.1	11.1	16.5
Feb	11.7	10.0	9.7	10.8	16.7
Mar	13.7	10.4	9.3	11.0	16.4
Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.7*	9.9	9.6	7.8	15.9
Feb	9.7*	10.1	10.4	7.7	15.7
Mar	8.3*	9.8	10.8	7.7	15.3
Apr	11.9*	10.4	11.6	8.6	15.0
May	10.9*	10.5	12.1	9.0	15.0
Jun	11.3*	11.5	12.4	9.5*	15.4*
Jul	11.7*	11.5*	12.0*	10.0*	14.8*
Aug		11.0*	11.5*	10.3*	14.8*
Sep		10.3*	11.0*		13.8*
Oct					13.5*

*Provisional

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana;
(5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	12-month BOT (3)		Lira/US\$ (5)	Lira/£ster
1983	17.66	19.82	18.05	92.4	1,519.2	2,301.7
1984	16.86	16.98	15.43	89.9	1,756.5	2,339.8
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.41	10.92	89.6	1,483.6	2,176.8
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3		10.92	10.88		1,331.1	2,151.8
Q4			11.88*			
1985 Dec	15.31	14.28	13.14	87.2	1,713.4	2,480.9
1986 Jan	16.19	14.14	13.19	88.3	1,665.3	2,372.0
Feb	17.69	14.65	13.08	88.6	1,587.9	2,268.7
Mar	15.06	14.53	12.88	88.8	1,542.3	2,262.7
Apr	12.81	14.01	11.84	88.2	1,556.9	2,329.3
May	12.19	13.12	11.00	88.0	1,528.7	2,325.5
Jun	12.31	12.19	10.57	88.1	1,531.5	2,310.8
Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.1	1,316.00	2,145.50
Jul		10.25	10.56		1,337.10	2,152.10
Aug		11.18	10.62		1,345.80	2,149.00
Sep		11.33	11.45		1,310.30	2,154.40
Oct			12.17		1,303.10	2,164.50
Nov			12.14		1,208.85§	2,213.12§
Dec			11.33*		1,169.25§	2,185.625§

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged.
(3) gross yield on end month issues.
§End month rates. *Provisional.

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
				billions of lire		1980=100		
1983	122,002	110,537	-11,465	+3,793	+ 706	93.3	108.4	
1984	148,162	129,027	-19,135	+ 57	-7,254	101.8	115.6	
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2	
1986	149,045	145,323	- 3,722	-2,965	+ 665	115.8	126.4	
1986	Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
	Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
	Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
	Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987	Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
	Q2	40,605*	35,471*	- 5,134*	-3,789*	- 881*	128.9	122.4
	Q3	37,954*	38,412*	+ 458*	- 660*			
1985	Nov	15,091	12,098	- 2,993	-1,931	- 693	118.4	120.6
	Dec	19,547	17,515	- 2,032	-1,433	-2,025	155.5	175.0
1986	Jan	13,888	10,816	- 3,072	-3,044	-1,265	110.9	108.5
	Feb	14,370	12,862	- 1,508	-1,578	-1,202	120.0	130.5
	Mar	13,534	12,439	- 1,095	-2,074	- 922	120.7	127.5
	Apr	13,015	12,672	- 343	+2,287	- 737	118.6	133.0
	May	12,798	11,726	- 1,072	+1,555	+ 221	120.7	123.1
	Jun	11,921	12,267	+ 346	+ 664	+1,350	113.3	130.9
	Jul	12,415	13,632	+ 1,217	+1,459	+1,935	122.1	144.7
	Aug	7,314	9,424	+ 2,111	+ 703	+2,831	75.0	100.6
	Sep	12,300	11,556	- 744	-1,697	+ 827	119.8	122.9
	Oct	13,512	13,772	+ 260	- 651	+ 791	131.7	143.8
	Nov	11,920	11,763	- 157	- 133	- 404	116.6	122.5
	Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987	Jan	11,641	10,054	- 1,587	- 380	+ 612	114.7	105.9
	Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
	Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
	Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
	May	13,120	11,685	- 1,434	-2,865*	-1,511	125.7	121.9
	Jun	14,154*	11,835*	- 2,319*	-2,503*	+ 273	133.9	122.1
	Jul	14,563*	15,380*	+ 820*	- 553*			
	Aug	8,531*	9,691*	+ 1,159*	-1,026*			
	Sep	14,860*	13,345*	- 1,515*	+ 919*			
	Oct	14,940*	14,250*	- 690*	+ 728*			
	Nov	14,330*	13,480*	- 850*	+1,371*			

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(CULL)

THE ITALIAN ECONOMY: DECEMBER 1987

SUMMARY

1. DESPITE POLITICAL PROBLEMS OVER THE 1987 FINANCIAL LAW AND 1988 BUDGET, A SPATE OF PUBLIC SECTOR STRIKES, AND THE PERENNIAL PROBLEM OF THE PUBLIC DEBT, ITALY'S REAL ECONOMY ENDED THE YEAR IN REASONABLE SHAPE.

DETAIL

2. THE GOVERNMENT'S SECOND VERSION OF THE 1987 FINANCIAL LAW AND 1988 BUDGET WAS PASSED BY THE SENATE BEFORE CHRISTMAS WITH THE REVISED PSBR TARGET OF 103,500 BILLION LIRE APPARENTLY UNCHANGED DESPITE SOME GOVERNMENT SPONSORED AMENDMENTS AND A FEW DEFEATS. THE CHAMBER OF DEPUTIES DOES NOT BEGIN CONSIDERATION UNTIL JANUARY SO PARLIAMENTARY APPROVAL WAS GIVEN TO THE GOVERNMENT'S REQUEST FOR PROVISIONAL TWELFTHS FOR JANUARY AND FEBRUARY. ON 23 DECEMBER THE COUNCIL OF MINISTERS ISSUED A DECREE LAW WHICH GAVE FORCE TO A NUMBER OF THE FISCAL PROVISIONS IN THE FINANCIAL LAW FROM 1 JANUARY BUT ALSO IMPLEMENTED SOME MORE CONTROVERSIAL MEASURES ON HEALTH AND EMPLOYMENT. THIS PORTMANTEAU 'DECRETONE' HAS SINCE BEEN ADJUDGED UNCONSTITUTIONAL AND WILL BE RE-PRESENTED AS A SERIES OF SEPARATE DECREES. DECREE LAWS LAPSE AFTER 60 DAYS UNLESS APPROVED BY PARLIAMENT, SO THESE DECREES ARE EXPECTED TO REMAIN IN FORCE UNTIL THE FINANCE BILL COMES INTO EFFECT. THIS SAGA IS ANOTHER SIGN OF THE STRAINS WITHIN THE FIVE PARTY COALITION.

3. ECONOMIC INDICATORS PAINT A MORE ROSY PICTURE. THE MEASURES OF THE EARLY AUTUMN TO RESTRICT CREDIT, REIN IN CONSUMER SPENDING, SUPPORT THE LIRA AND STRENGTHEN THE MARKET FOR TREASURY BONDS HAVE BEEN SEEN TO BE SUCCESSFUL. INFLATION AFTER RISING RAPIDLY IN SEPTEMBER/OCTOBER BEGAN TO FALL BACK IN

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NOVEMBER/DECEMBER AND THE YEAR ENDED WITH AN AVERAGE ANNUAL RATE OF 4.6%, THE LOWEST SINCE 1969. THE UNADJUSTED INDUSTRIAL PRODUCTION INDEX REACHED ITS HIGHEST LEVEL SINCE 1980 IN OCTOBER. THE DEFICIT ON TRADE CONTINUES TO CAUSE CONCERN BUT THERE WERE SIGNS THAT EXPORTS WERE BEGINNING TO PICK UP IN NOVEMBER AND BUSINESS SURVEYS CONFIRMED THIS. THE BALANCE OF PAYMENTS IS EXPECTED TO END THE YEAR IN EQUILIBRIUM OR WITH A SMALL SURPLUS, THANKS TO TOURISM, REMITTANCES AND OTHER INVISIBLES, AND A WELL EXECUTED PROGRAMME OF GOVERNMENT BORROWING ON INTERNATIONAL MARKETS DESIGNED TO SMOOTH THE GRADUAL LIBERALISATION OF CAPITAL MOVEMENTS. THE BANK OF ITALY AND TREASURY MINISTRY HAVE ALSO SHOWED GREAT SKILL IN PILOTING THE LIRA WITHIN THE EMS IN THE FACE OF THE SUCCESSIVE FALLS IN THE VALUE OF THE DOLLAR. THE MILAN STOCKMARKET FELL 26% OVER THE YEAR, AND 19 OCTOBER HAD A LESS MARKED EFFECT HERE THAN ELSEWHERE BECAUSE THE DECLINE WAS ALREADY ESTABLISHED. THE PSBR IS LIKELY TO BE 111,000 BILLION LIRE FOR THE YEAR, WELL ABOVE THE ORIGINAL TARGET OF 100,000 BILLION BUT LATTERLY TREASURY BONDS HAVE BEEN EASILY MARKETED AND ITALIAN SAVERS APPEAR ABLE TO ABSORB THE LARGE SUMS INVOLVED, AROUND 40,000 BILLION LIRE A MONTH.

4. PROBABLY THE MOST SERIOUS ECONOMIC ISSUE FOR THE GOVERNMENT IS THE SPATE OF STRIKES IN THE PUBLIC SECTOR, CHIEFLY IN TRANSPORT, ALTHOUGH SO FAR THE INDUSTRIAL SECTOR HAS BEEN RELATIVELY FREE OF THE MALAISE. THE PRIME MINISTER GORIA HAS REPEATEDLY DECLARED THAT THE GOVERNMENT WILL STAND FIRM AGAINST THE DEMANDS OF THE UNOFFICIAL COMITATI DE BASE, AWARE OF THE CONSEQUENTIAL RISK OF AN INCREASE IN THE PSBR AND THE DANGERS FOR THE ECONOMY OF A STEEP INCREASE IN LABOUR COSTS AND THUS IN INTERNALLY GENERATED INFLATION. BUT THE GENERALLY PRECEIVED POLITICAL WEAKNESS OF GORIA'S GOVERNMENT DOES NOT AUGUR WELL.

5. THE GOVERNMENT'S TARGET FOR GDP GROWTH IN 1988 REMAINS 2.8% BUT MOST COMMENTATORS WOULD REGARD ABOUT 2% AS MORE REALISTIC.

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ITALIAN APPROACH TO EUROPEAN COUNCIL

(FRAME ECONOMIC)

SUMMARY:

1. GORIA'S GOVERNMENT IS IN REAL DIFFICULTIES, AND ITS FUTURE UNCERTAIN. AT BRUSSELS HIS MAJOR STICKING POINT WILL BE TO OPPOSE ANY FORM OF DIFF TAX. OTHERWISE HE CAN PROBABLY ACCEPT THE PRESIDENCY PACKAGE.

He has resigned (see following tel, behind)

DETAIL:

2. GORIA AND ANDREOTTI WILL BE LEAVING ROME FOR BRUSSELS TOMORROW MORNING IN A TENSE AND BRITTLE POLITICAL SITUATION. THE GOVERNMENT WAS AGAIN DEFEATED THIS MORNING IN THE CHAMBER OF DEPUTIES IN THE BUDGET PROCEDURE AS A RESULT OF DELIBERATE SPOILING TACTICS, PROBABLY BY DISAFFECTED CHRISTIAN DEMOCRATS. FURTHER PROBLEMS PROBABLY LIE AHEAD WHEN THE SENATE BEGINS DISCUSSION OF THE FINANCE BILL LATER THIS WEEK. THE "CLARIFICATION" OF THE GOVERNMENT'S POSITION, WHICH GORIA PROMISED LAST WEEK, IS YET TO BE GIVEN. GORIA MAY SAY SOMETHING ON THE SUBJECT IN PARLIAMENT TONIGHT, WHEN HE IS TO MAKE A STATEMENT. BUT THE PROCESS OF "CLARIFICATION" MAY LAST SOME TIME. THE REALITY IS THAT GORIA'S POSITION IS BEING CONTINUALLY UNDERMINED BY MEMBERS OF HIS OWN PARTY, POSSIBLY EVEN BY SUPPORTERS OF ANDREOTTI, AND NO CLEAR OUTCOME CAN BE EXPECTED.

3. GORIA'S FUTURE AS PRESIDENT OF THE COUNCIL THEREFORE REMAINS HIGHLY UNCERTAIN. THE ODDS ARE THAT HE WILL LAST, THOUGH PERHAPS WITH FURTHER HICCOUGHS, AS LONG AS THE FIVE COALITION PARTIES CANNOT AGREE BETWEEN THEMSELVES ON A BETTER FORMULA. MY OWN VIEW IS STILL THAT GORIA WILL SOLDIER ON IF HE CAN UNTIL THE DC PARTY CONGRESS PLANNED FOR THE END OF APRIL WHEN CHANGES ARE EXPECTED TO TAKE PLACE WITHIN THE PARTY WHICH COULD RESULT IN A CHANGE OF PRIME MINISTER. THE TWO MOST LIKELY CANDIDATES THEN ARE DE MITA (SECRETARY GENERAL OF THE CHRISTIAN DEMOCRATS) AND ANDREOTTI HIMSELF. BUT ANDREOTTI MAY ALTERNATIVELY HAVE HIS SIGHTS ON DE MITA'S

JOB WHICH IS REGARDED HERE AS EQUALLY PRESTIGIOUS AND PERHAPS MORE POWERFUL.

4. THIS MESSY POLITICAL BACKGROUND, FULLY COMPREHENSIBLE ONLY TO THE MAIN PLAYERS, IF TO THEM, WILL NOT GIVE GORIA ANY SCOPE FOR FLEXIBILITY AT TOMORROW'S EUROPEAN COUNCIL. HE AND ANDREOTTI MUST BE EXPECTED TO FIGHT STUBBORNLY AGAINST MAKING CONCESSIONS THAT WOULD BE JUDGED HERE TO COST ITALY MORE. BUT IRONICALLY ANY SUCCESS THEY MAY HAVE IN HOLDING UP AGREEMENT BY DEFENDING ITALIAN INTERESTS WILL HAVE LITTLE EFFECT ON THE FUTURE OF THE PRESENT GOVERNMENT. IT IS A NO WIN SITUATION FOR GORIA.

5. HIS APPROACH TO THE COUNCIL IS LIKELY TO CONTAIN ONE PRINCIPAL STICKING POINT AND ONE SUBSIDIARY ONE: THE FOURTH RESOURCE, AND THE STRUCTURAL FUNDS. ON THE FOURTH RESOURCE, GORIA WILL REMAIN STRONGLY OPPOSED TO THE DIFF TAX IN ANY FORM, FOR TWO REASONS. THE FIRST, WHICH HE WILL ARGUE IN OPEN COURT, IS THAT THE 1970 DECISION OF PRINCIPLE TO DEVELOP THE SYSTEM OF OWN RESOURCES RATHER THAN REVERT TO SOME CONCEPT OF FAIR SHARES WAS AN IMPORTANT ACQUIS FOR EUROPEAN INTEGRATION AND MUST NOT BE COMPROMISED. HE IS LIKELY TO ARGUE THAT THIS RULES OUT ANY FORM OF DIFF TAX SINCE IT WOULD MIX UP THE VAT BASED SYSTEM (CORRECT PRINCIPLE) WITH A GNP BASED SYSTEM (INCORRECT PRINCIPLE). FONTANA GIUSTI, WHO TOOK GORIA'S PLACE AT THE LAST MINUTE AT A LUNCH WITH EC AMBASSADORES TODAY, SAID THAT THE ITALIAN GOVERNMENT WOULD RELUCTANTLY ACCEPT A GNP BASED ELEMENT IN A FOURTH RESOURCE AS A TEMPORARY MEASURE WHILE SOME BETTER SOLUTION WAS FOUND. THE FIGURE FOR SUCH A GNP BASED ELEMENT WOULD OF COURSE BE SUBJECT TO NEGOTIATION.

6. THE SECOND REASON, WHICH GORIA IS LESS LIKELY TO DEPLOY OPENLY, IS OF COURSE THAT WHILE THE ITALIAN GOVERNMENT ACCEPTS THAT ITS OWN NET CONTRIBUTION MUST IN FUTURE INCREASE: THEY WANT A FOURTH RESOURCE WHICH WILL KEEP THIS INCREASE TO A MINIMUM. FORTUNATELY FOR GORIA, ON THIS ISSUE, NATIONAL INTEREST AND PRINCIPLE COINCIDE. BUT BOTH ELEMENTS ARE IMPORTANT HERE. HIS IS THEREFORE LIKELY TO SUPPORT STRONGLY ALTERNATIVE TWO IN THE PRESIDENCY COMPROMISE PAPER, BUT WITH A HIGH VAT ELEMENT, POSSIBLY 1.5 PERCENT RATHER THAN 1.4 PERCENT AS AT PRESENT PROPOSED.

7. ON THE STRUCTURAL FUNDS THE PRESIDENCY COMPROMISE COMES PRETTY CLOSE TO GIVING THE ITALIANS THE SUBSTANCE OF WHAT THEY WERE AFTER. THEY MAY CONTINUE TO ARGUE FOR DOUBLING THE FUNDS BY 1992, BUT WILL SETTLE FOR LESS PROVIDED THAT THE FUNDS ARE INCREASED VERY SUBSTANTIALLY. WHAT GORIA COULD NOT ACCEPT IS ANY DISCRIMINATION

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BETWEEN MEMBER STATES, EITHER AS A TARGET FOR PERCENTAGE ALLOCATION OF THE FUNDS, OR AS THE UNIT TO WHICH ALLOCATION CRITERIA APPLY. AGAIN HE MAY ARGUE THIS ON GROUNDS OF PRINCIPLE. BUT SUCH AN APPROACH WOULD BE POLITICALLY INDEFENSIBLE WITHIN ITALY BY APPEARING TO IGNORE THE CLAIMS OF THE ITALIAN SOUTH FOR EC ASSISTANCE.

8. AS REGARDS A POSSIBLE TRADE-OFF BETWEEN OWN RESOURCES AND STRUCTURAL FUNDS (PARA 7 OF THE HAGUE TELNO 50) THERE MAY BE AN ELEMENT OF THIS IN ITALIAN MINDS. THE ITALIAN TREASURY HAS BEEN CALCULATING IN MORE DETAIL THAN WE HAVE HITHERTO BEEN AWARE THE FINANCIAL IMPLICATIONS FOR ITALY OF VARIOUS SCENARIOS. BUT THE LINE REPORTED TO HAVE BEEN IMPLIED BY GORIA IN CONVERSATION WITH LUBBERS WOULD COMPLETELY UNDERCUT THE ARGUMENTS OF PRINCIPLE WHICH ARE THE ITALIANS' MOST DEFENSIBLE LINE OF ARGUMENT.

9. FOR THE REST, THE ITALIANS CAN BE EXPECTED GENERALLY TO SUPPORT THE COMMISSION'S PROPOSALS ON FUTURE FINANCING, BUT ARE UNLIKELY TO OPPOSE THE PRESIDENCY PACKAGE. GORIA IS KEENLY AWARE THAT ITALY WILL IN ANY EVENT ONCE AGAIN BECOME AN INCREASINGLY LARGE NET CONTRIBUTOR TO EC FUNDS (WHICH SHE HAS NOT BEEN SINCE 1979) AND THAT THIS WILL PLACE A GROWING BURDEN ON THE ITALIAN TREASURY. HE WILL THEREFORE REMAIN AN ALLY ON OUR PRINCIPAL OBJECTIVE OF GETTING EFFECTIVE CONTROL ON AGRICULTURAL EXPENDITURE. AT THE SAME TIME, HE WILL PROBABLY CALCULATE THAT HE CAN RELY ON THE ITALIAN MINISTRY OF AGRICULTURE TO ENSURE THAT ITALIAN AGRICULTURAL RECEIPTS CONTINUE AT A SUBSTANTIAL LEVEL.

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MY TELNO 79
GORIA GOVERNMENT RESIGNS.
GORIA HAS THIS EVENING PRESENTED HIS GOVERNMENT'S RESIGNATION TO
PRESIDENT COSSIGA. IT WILL REMAIN IN OFFICE ON A CARETAKER BASIS
UNTIL A NEW GOVERNMENT IS SWORN IN, A PROCESS WHICH MAY TAKE
SEVERAL WEEKS.

2. WHEN HE ADDRESSED PARLIAMENT AT 1800 LOCAL, GORIA SAID THAT
LACK OF SUPPORT FROM THE MAJORITY MADE IT IMPOSSIBLE FOR HIM
TO CONTINUE, AND HE WAS THEREFORE RESIGNING.

3. GORIA'S PRIVATE OFFICE HAS TOLD US THAT HE WILL ATTEND THE
EUROPEAN COUNCIL AS PLANNED.

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MONTHLY ECONOMIC REPORT : ITALY : JANUARY 1988

SUMMARY

1. The Financial Law and Budget were much amended in the Chamber of Deputies amidst a growing government crisis. The bills now return to the Senate. Unofficial estimates put the cost of the amendments at some 11,000 billion lire.

Industrial production in November was slightly below October's record levels. The Christmas truce on strikes was observed but industrial action has since resumed, again concentrated in the transport sector. ISTAT reported that unemployment reached the record level of 12.3% in October. Inflation fell again slightly in December to 5%. The trade deficit for the year was 11,138 billion lire after December recorded another deficit but the balance of payments finished 1987 with a surplus of 1,637 billion lire. Treasury bonds sold well.

Most forecasters now predict GDP growth in 1988 will be 1.7%.

DETAIL

2. ECONOMIC ACTIVITY (Tables 1 and 2)

No official figures for Q4 1987 GDP have yet been published but Il Sole 24 Ore calculated that on the basis of OECD's latest figures and using 1985 purchasing power parities, Italy in 1987 had fallen back into sixth place behind France and the UK in the GDP league table of industrialised countries: France 669.2, UK 662.7 and Italy 653.8 although at current prices and exchange rates Italy was in fifth place: Italy 750.7, UK 662.5 (all figures billions of dollars).

ISTAT's unadjusted industrial production index showed a year on year increase of 7.3% in November with one more working day; in terms of average daily production the increase was some 2%. The unadjusted index (base year 1980) fell back from the October peak of 117 to 111.1 and the seasonally adjusted index also fell slightly from 104.7 in October to 103.7 in November. IRS reported their s.a. index (base year 1980) showed a rise in January after falling in November and December although still not regaining October levels: the figures for the four months were October 105.1, November 103.3, December 102.7, January 103.5. The January rise was attributed largely to industry rebuilding stocks.

According to provisional figures from ENEL electricity consumption in January showed a year on year increase of 2.1% with demand in the north and centre much higher (e.g. Milan +6.9%) than the south (in Sicily demand actually fell by 1.8%). Clement weather partly accounts for a slowing in the rate of increase overall. Data on electricity consumption over the 10 years (1977-86) shows industry's share of total consumption dropping from 63.2% to 55.9% while domestic consumption has risen from 21.7% to 25%. Total consumption rose over the same period from 146,184 billion Kwh to 183,030 billion Kwh.

According to press reports, ISTAT's indices for invoices and orders in the industrial sector rose in October by 9.2% and 7.5% respectively, year on year. Domestic demand was chiefly responsible in both cases. The figures are invoices 9.2% overall, 10% domestic, 6.3% exports, and orders 7.5% overall, 9.2% domestic, 4.2% exports.

Motorcar sales just failed to top the 2 million mark in 1987.

A Confindustria seminar on public investment criticised the high degree of centralisation, administrative delays and lack of adequate planning. Another on medium sized firms expressed concern over their performance particularly failure to innovate and install new technology. This was attributed in part to the difficulties they faced in raising finance, too large to rely on family savings, too small to compete in the market with the industrial giants such as FIAT.

The latest ISCO-ME survey of business confidence reports optimism on the prospects for the first part of 1988 with unemployment the only blackspot.

3. LABOUR AND SOCIAL AFFAIRS (Tables 2 and 3)

The Christmas truce was fully observed by the unions and COBAS but disruption resumed in the transport industries on 10 January and continued throughout the month. The most serious dispute involved Alitalia/ATI and ground staff at airports throughout Italy, with Rome particularly badly affected. Efforts to secure a settlement are continuing. The railway disputes organised by COBAS were less effective than previously, possibly because a widely published article showed that Italian drivers had better conditions than their counterparts in other European countries. The picture is different in education services where Italian teachers are among the most poorly paid. Assessment of pupils' progress has been firmly blocked, and there are no signs of a quick solution.

Discussions continued on the possibility of legislation to control strikes. Correspondence between the Minister of Labour Formica and Gorla suggested that any proposals would be seriously considered, and at the end of the month the general secretaries of the three confederal unions presented a joint package which Formica found acceptable. The unions are still arguing however about the extent of consultation which they ought to undertake within their membership before going any further.

The weakness of the Gorla government is a matter for serious concern in this situation. In a report to Formica an important Committee on pay pointed to the "pay jungle" of the 70s followed by excessive levelling up in the early 80s and said there was a serious risk of leap frogging pay claims especially in the public sector where reforms were badly needed. The Committee also referred to the present lack of authority of the confederal unions and the difficulties of sensible wage negotiations in these conditions. Lucchini, President of Confindustria, also expressed concern about the weakness of the government and called for a firm economic policy to improve the competitiveness of exports.

Wage increases were running well above the rate of inflation, which stood at 5.1% in December. Hourly rates at the end of 1987 were up by 8.3% year on year, with a public sector increase of 11.8%.

HOURLY CONTRACTUAL PAY RATES
(1982=100)

Sector	Increase Dec 87/ Dec 86	Increase due to scala mobile indexation system
Whole Economy	8.3% *	N/A
Industry	7.2%	3.0%
Commerce	7.3%	3.1%
Transport & Communications	4.4%	2.6%
Banking & Insurance	8.9%	1.8%
Public Administration	11.8%	2.6%
Agriculture	5.7%	3.4%

*Increase in cost-of-living index over same period 5.1%.

Unemployment reached record levels in October, according to ISTAT, and Eurostat reported that within the EC only Ireland had a higher rate. The number of young people still seeking their first job was alarmingly high.

ISTAT LABOUR FORCE SURVEY

	October 1987	July 1987	October 1986
	(thousands)		
In employment	20,901	21,049	21,049
Unemployed	2,930*	2,871	2,771
Total Labour Force	23,831	23,920	23,820
Unemployment rates	12.3%	12.0%	11.6%
Male	8.1%	8.2%	7.7%
Female	19.6	18.7%	18.5%
North	8.0%	7.5%	8.2%
Centre	9.8%	9.8%	9.7%
South	19.9%	19.8%	17.7%
Activity rates	N/A	42.2%	42.1%
Male	N/A	55.2%	N/A
Female	N/A	29.9%	N/A

* 2,126,000 were young people looking for their first job. 1,713,000 were women. 72.6% of total were under 29.

A Bank of Italy study said that with vigorous economic policies unemployment in Italy could be reduced to 8.3% by 1992. Otherwise, it would remain at about 11%.

The rate of job losses in large companies continued to slow down in November, and hours worked and wage rates both increased.

ISTAT SURVEY OF MANUFACTURING FIRMS WITH 500 OR MORE EMPLOYEES

	Nov 87/Nov 86	Oct 87/Oct 86
	(percentage changes)	
Employment	-3.4 (1)	-3.7
Average number of hours worked per manual worker	+4.1 (2)	-0.4
Average monthly earnings per manual worker		
all payments (incl guaranteed wages, family allowances, one-off payments, etc) :	+10.3 (3)	+6.6
direct wage only :	+11.2	+9.4

(1) Fall affected all sectors, ranging from 1.4% in energy sector to 3.9% in metallurgical sector.

(2) Changes ranged from -1.2% for energy sector to +7.3% for textiles and clothing.

(3) Direct wage increases due to application of recently renewed collective contracts and to increase in hours worked; increases in indirect element of pay have slowed down as guaranteed wage payments under Cassa Integrazione Guadagni scheme continue to fall.

The Finsider plan for steel is thought to involve closure of several plants and the loss of some 25,000 jobs over a 3 years period.

The estimated number of hours compensated under the CIG ordinary scheme in 1987 (81.3 million) was 10% below the 1986 level. Under the extraordinary scheme 396 million hours were compensated, a reduction of 15.5%.

Social Affairs

Formica is preparing the latest in a long series of Bills on pension reform. It is based on a 3 tier system including a compulsory basic scheme, an additional employment based scheme, and "topping-up" by private insurance.

INPS, the state insurance organisation, forecasts a deficit of 36,000 billion lire for 1988, but assistance payments which the State must reimburse will account for some 32,713 billion lire.

The AIDS Summit in London has been reported separately.

The Bank of Italy's annual survey of family income and expenditure for 1986 showed an average income of 23.5 million lire, of which 69.7% was spent. Income per capita was 14.4 million lire. There was a noticeable gap between incomes in the north and those in the south. About 60% of families were home owners.

A new 10 year plan for housing is in preparation. Under the scheme introduced by Gorla when he was Minister for the Treasury only 768 billion lire of the available 1,000 billion was spent in 1987. Of 27,500 requests, 60% were granted. A further 500 billion lire has been provided in the 1988 Finance Bill.

4. INFLATION (Table 3)

The cost of living index rose by 0.5% in January but the year on year rate fell from 5.1% in December to 5%.

The prices of goods and services rose by 0.8%, the most notable element being the increase in motor vehicle prices at the beginning of the year despite the lifting of the extra VAT imposed in September 1987 as part of the government's credit squeeze. The fall in energy prices is almost entirely accounted for by the reduction in ENEL's heating surcharge imposed last July. The rise in housing costs was largely due to quarterly rent increases and, to a lesser extent, an increase in charges for drinking water.

COST-OF-LIVING INDEX (JANUARY) (1985 = 100)

Sector of index	% change over Dec 1987	% change over Jan 1987
General index (114.1)	+0.5	+5.0*
Food	+0.2	+3.7
Clothing	+0.1	+5.7
Housing	+1.5	+5.5
Fuel & Elec.	-1.6	+3.9
Miscellaneous	+0.8	+5.5

* 3.7% for monitored/controlled prices and tariffs, 5.2% for other prices and tariffs.

Wholesale prices in November rose 0.3%, giving a year on year figure of 4.6%. Both agricultural and industrial prices were affected. ISTAT's breakdown of the year on year figures according to the economic destination of products showed the index for final consumption goods rose by 4.1%, final investment goods by 7% and intermediate goods and materials by 4.6%.

Unioncamere reported that production prices for its basket of 36 typical consumer products rose 0.5% in January and forecast an increase in Q1 1988 over Q4 1987 of 1.2%, with a year on year rate in March of 2.1% against only 0.6% in December 1987.

Confindustria's lira index of raw materials prices fell 7.2% in November (-3.6% excluding fuels) compared with October but the year on year figures were +1.7% (+5.4% excluding fuels).

The Ministerial Committee on Prices (CIP) announced that increases in controlled prices and tariffs may not exceed 4% on average in 1988 and the price of any good/service should not be raised within 12 months of the last increase. It was subsequently announced that postal charges would rise by amounts between 5% and 20% producing an estimated 425 billion lire in increased revenue.

5. TRADE (Table 6)

In December the trade deficit was 930 billion lire compared with a surplus of 335 billion in December 1986. The cumulative deficit for 1987 is 11,138 billion (1986, -3,722 billion). Imports rose by 28.2% compared with December 1986 and exports by 16.6%. The energy deficit was 1,823 billion with other sectors in surplus by 893 billion.

Although exports picked up in the latter part of 1987, imports continued to grow faster. Import penetration in areas such as clothing and textiles, motor vehicles, and engineering is becoming a major concern to Italian producers while plans to reduce the energy deficit make little or no progress.

According to Il Sole 24 Ore, contracts for large works abroad have recovered strongly. In 1987 total contracts gained amounted to 9,500 billion lire with 2,500 billion in Q4. This was the fourth best result since 1976. Contracts in USSR and Eastern Europe at 1,600 billion were up 30% on 1986, in Africa at 1,200 billion up 40% and in OPEC countries at 2,950 billion were more than twice the 1986 figure although well below the average of preceding years. OICE which represents large engineering firms confirmed there had been a significant improvement.

One sign of Italy's determination to improve its export performances came in Prime Minister Goria's trip in early January to Malaysia, Indonesia, Singapore, and India. He was accompanied by a business delegation on which all Italy's most important firms were represented and which included the Presidents of Confindustria (Lucchini) and IRI (Prodi). Lucchini said the countries had been deliberately targeted and described Asia as the key market of the year 2000. Despite public differences during the visit, both Goria and the industrialists expressed satisfaction with their reception even if there were few immediate concrete results.

The visit of the Yugoslav Prime Minister resulted in Italy offering aids and credits for over 500 billion lire. Contracts for joint ventures worth over 100 billion lire were also signed.

Two more joint ventures - in refrigeration and footwear - with Soviet companies were announced under the new Soviet rules allowing mixed companies to be created. Italy also signed an agreement with Czechoslovakia on technological cooperation in the foodstuffs sector.

The balance of payments finished 1987 with a surplus of 1,637 billion lire (1986 -2,965 billion). December recorded a surplus of 1,188 billion lire compared with -456 billion in December 1986, despite a small (300 billion) net outflow of non-bank capital and a net outflow of bank capital of 246 billion. Foreign indebtedness at the end of the year was just below 35,000 billion lire and the reserves rose to 75,154 billion lire (see table below). There was considerable satisfaction in official circles with the results which confirmed the improving trend.

OFFICIAL RESERVES
(Billion Lire)

<u>Month</u>	<u>Total net reserves</u>	<u>Gold</u>	<u>Convertible</u>	<u>ECU</u>
November	72,070	37,646	19,341	12,240
December	75,154	39,813*	20,248	12,220

*Quarterly revaluation.

reserves

6 FINANCIAL DEVELOPMENTS (Tables 4 and 5)

Sales of Treasury bonds to finance the public sector deficit were buoyant despite a small reduction in the yields of most issues. The average maturity of Treasury bonds was 4 years in 1986 but fell to 3 years in 1987: the Treasury is now trying to increase it again. An average of about 40,000 billion lire will have to be raised each month during this year.

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective yield (compound)	
				gross	net*
		(Billion Lire)		%	
3-mth BOT					
end-Dec	6,000	-	oversubscribed	11.60	10.06
mid-Jan	2,000	-	"		9.95
end-Jan	9,000	-	"	11.33	9.83
6-mth BOT					
end-Dec	8,500	-	oversubscribed	11.64	10.07
mid-Jan	2,000	-	"	11.56	10.01
end-Jan	10,000	-	"	11.33	9.81
12-mth BOT					
end-Dec	9,000	-	oversubscribed	11.33	9.77
mid-Jan	2,000	-	"	11.05	9.54
end-Jan	12,000	-	"	10.56	9.12
5-yr CCT					
December	1,000	-	oversubscribed	12.86	11.21
January	7,000 (1)	-	"	12.50	10.90
February	(2)	-	-	12.15	10.60
4-yr BTP					
February	(2)	-	-	11.64	10.15
1-yr BTE					
Oct (373 days)	500m Ecu	150m	223m		7.88%
Nov (373 days)	750m Ecu	-	oversubscribed		7.66%
Dec (380 days)	500m Ecu	-	oversubscribed		7.48%

(1) Original issue 5,000bn, increased because of demand.

(2) No pre-announced issue limit; amount depends on demand and on Treasury requirements.

* Net of 12.50% tax deducted at source.

The draft provisions for the new secondary market in Treasury bonds are said to be almost finalised.

Two months before the due date (31 March) the monetary restrictions imposed on 13 September and affecting in particular the financial of exports and imports, were lifted. Controls on bank lending remained. Official sources pointed to Italy's high international credit rating (International Financing Review's Borrower of the Year), the improvement in the balance of payments and the success of the September measures themselves as underlying the decision, also the greater calm on international exchanges and reduced pressure on interest rates in the industrialised world.

Major banks reduced their interest rates by half a point in mid January and the President of the Bankers' Association (ABI) said there was scope for a reduction in base rate. Barucci put the provisional figure for increase in bank lending in 1987 as 9.5: lending in lire rose by 7% (the ceiling is 8%) but in other currencies by 20.2%. Total deposits rose by 7-8%.

A decree published on 2 February will give effect in October to further of the provisions on liberalisation of capital movements covered by the framework law, Presidential Decree 454 of 29 September 1987. This decree mainly concerns tourism, use of cheques and credit cards outside Italy, postal transfers, authorisation for certain firms to open foreign bank accounts, foreign banknotes held by Italian residents. Measures to regularise past illegal capital movements are also expected.

The bill to create a new "heavy" lira i.e. 1,000 lire = 1 new lira is expected to be approved shortly by the Council of Ministers.

The lira remained relatively stable throughout the month although it weakened a little after the monetary restrictions were lifted on 20 January.

EXCHANGE RATES - JANUARY
(in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,197.550 (5 Jan)	2,178.675 (26 Jan)	2,185.000
\$	1,235.575 (18 Jan)	1,166.250 (4 Jan)	1,234.875
DM	737.555 (4 Jan)	734.000 (19 Jan)	736.465

Change in weighted value against other EC currencies since 9 February 1973: end-December -63.09%; end-January 1988 -63.09%

The stockmarket rose at the beginning of January but the number of transactions remained small and by the middle of the month shares were falling again largely because of uncertainties over the political situation and the Government's difficulties with the Finance bill. The market fell sharply at the beginning of February in the light of manoeuvrings by the Ferruzzi group intent on reorganising its holdings in the light of its acquisition of a majority interest in Montedison.

The major company news was De Benedetti's bid to become the major shareholder in the Belgian company Societe Generale. Fiat still dominates the domestic scene. Its 1987 consolidated turnover was 38,100 billion lire, 30% up on 1986 and its operating profit reached 3,220 billion lire (2,457 billion in 1986). Fiat's turnover in 1988 is forecast to be equal to 3.9% of Italy's GDP. The group's results also demonstrated the degree of internationalisation reached with 415 companies and 60,000 employees in 50 countries.

7. FISCAL POLICY

More than 1,500 amendments to the 1987 Financial Law and 1988 Budget were tabled in the Chamber of Deputies. Consideration began in Committee in January after a brief delay which was caused by the government's attempt to give effect to major parts of the bill in a portemanteau decree dubbed the "decretone". This had to be abandoned as unconstitutional and the measures were then issued in 3 separate decree laws. By 16 January the bills had left the Committee, already slightly amended. From then on the situation became extremely confused as the governing coalition suffered a large number of defeats in secret ballots only some of which were subsequently restored through 7 open votes of confidence. Revenue clauses had to be redrafted, amalgamated and hustled through on confidence votes. It became increasingly difficult to discern the economic consequences of the legislative chaos, most government defeats arising less from divergent views on fiscal policy than from political manoeuvring. Treasury contacts were clearly disheartened and indicated that whatever the outcome the provisions of the Financial Law would be even further from the real governance of the economy than usual while a senior Finance Ministry official confided that his Ministry had on similar occasions in the past found the tax measures as enacted by Parliament unintelligible. At the end of the first week in February the much amended bills were adopted as a whole in secret vote by the Chamber and now return to the Senate. Unofficial estimates put the likely 1988 PSBR on the basis of the current texts of the bills as some 11,000 billion over the official target of 103,500 billion lire.

The Treasury Minister Amato announced that the PSBR in 1987 was 113,700 billion lire, not only above the original target of 100,000 billion but also above all the revised targets since. Treasury contacts describe 1987 as a lost year in the programme to improve public finances: they are not unnaturally depressed about the prospects for 1988.

Tax revenue in November reached record levels at 31,671 billion lire, 61.9% up on the same month of 1986.

Revenue from the pardon for illegal building had totalled 5,581 billion lire by end November: the final total is expected to be well below original estimates.

Italy's contributions to UNIDO are due to go up from \$3 million in 1987 to \$10 million this year, making Italy UNIDO's biggest contributor as it is its largest contractor.

Additional expenditure on applied research of 3,750 billion lire over 12 years was announced to be spent on projects which are worth over 10 billion. 240 billion lire was promised for technical innovation in commerce spread over 4 years.

Amato announced that the Treasury were working on a new plan to reduce the public deficit which would entail absorption by end 1992 of the primary deficit and reduction of interest payments, increased fiscal pressure through anti-evasion measures, slower growth in current expenditure on goods and services, moderate support for production and investment, and containment of interest rates.

8. ASSESSMENT OF ECONOMIC PROSPECTS

IRS and Confindustria have joined Prometeia in predicting GDP growth of 1.7% this year although the latest IMF forecast is slightly more optimistic at 2.3%. There is a developing consensus among forecasting agencies that the Government's 4.5% inflation forecast can be met. IRS expects a current account surplus of 4,953 billion lire while Confindustria predicts equilibrium, with the improvement in the terms of trade outweighing stationary (in volume) exports and expanding imports. IRS expects exports to grow by 3% but imports by 5%; private consumption 2.5%; gross fixed investment 1.8% and wage rates 6.3%.

ISCO's mid January survey of the Italian economic situation found it pretty satisfactory, despite the uncertainties on the international scene. If the present \$:lira exchange rate (\$=1,200 Lit) could be roughly maintained, the balance of payments would be positive and there would be no significant external inflationary pressures. This would help the management of the public debt and enable the Treasury to continue its recently resumed efforts to bring down interest rates on Treasury bonds and increase sales of medium term bonds. ISCO noted that export performance had improved towards the end of 1987, as had industrial production with activity well balanced between sectors.

In contrast Lucchini, President of Confindustria, roundly described 1987 as a bad year and 1988 as likely to be worse. The political parties must cooperate to build a stable government and that government must help Italian industry gain a larger share of the world market by a programme to reduce the public debt, contain labour costs and reform the public administration. He invited the unions to open a dialogue with Confindustria on reform of the fiscal system.

At a Business International Conference at the end of the month, Prime Minister Gorla described the Italian economy as basically healthy, but could be better. He pointed out the great strides Italy had made since 1982 and focused on improvement of the public administration and services as the main task for the last decade of the century. He costed the necessary investment programme at 600-700,000 billion lire at current prices. Ciampi, Governor of the Bank of Italy, took a similar line pointing to the success in bringing down inflation but the abiding problem of the public sector.

Industry Minister Battaglia on the same occasion announced that he was formulating a new document on industrial policy designed to improve the functioning of the market, identify more efficient ways to finance businesses and reform the legal framework within which businesses operate. Special attention would be paid to SMES and to safeguarding competition.

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TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	397,720	251,328	63,029	85,927	1,328	401,612	84,089	87,981	631,575
1984	411,743	256,859	64,308	89,709	8,307	419,198	90,480	97,920	720,682
1985	423,064	263,753	66,564	92,667	9,107	432,091	94,098	103,125	805,754
1986	434,682	272,194	68,534	93,796	11,503	446,027	96,997	108,342	894,362
1985 Q1	104,550	64,988	16,464	23,163	2,201	106,816	23,344	25,579	193,103
Q2	105,220	65,633	16,549	23,204	2,430	107,816	23,009	25,647	198,883
Q3	106,221	66,357	16,705	23,066	2,151	108,279	23,324	25,361	204,829
Q4	107,073	66,775	16,846	23,235	2,326	109,182	24,421	26,538	208,939
1986 Q1	106,703	67,212	16,957	23,168	2,862	110,199	23,656	27,085	212,864
Q2	108,947	67,654	17,099	23,589	1,934	110,276	24,989	26,374	222,116
Q3	109,411	68,268	17,181	23,605	3,401	112,455	25,054	28,129	227,774
Q4	109,621	69,059	17,298	23,434	3,306	113,097	23,297	26,754	231,608
1987 Q1	109,525	70,076	17,327	23,539	3,261	114,203	23,532	27,980	233,715
Q2	111,511	70,791	17,363	24,039	4,024	116,217	23,841	28,732	240,606
Q3	112,023								

*(2)+(3)+(4). NB: Figures are revised each quarter.

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TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices Dom. Export (2)		Orders Dom. Export (3)		Employ- ment '000s (4)	Unem- poymt '000s (5)	Unem- poymt rate (6)	Strikes '000 hrs lost (7)
	(1980=100)	(1980=100)							
1983	92.0	141.0	151.0	133.0	153.0	\$20,704	\$2,278	9.0	98,021
1984	95.4	157.8	180.1	152.0	175.5	\$20,648	\$2,578	9.9	58,232
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	37,673
1986 Q1	99.8	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	99.9	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	99.4	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	101.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	100.9	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,112
Q2	102.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,092
Q3	101.7	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,415
Q4						20,901	2,930	12.3	
	(a)								
'85 NOV	97.9	181.4	202.1	180.7	203.3				6,819
DEC	97.3	185.6	204.5	198.2	182.0				2,497
'86 JAN	97.2	165.6	194.0	173.5	197.7				5,512
FEB	99.1	175.3	200.7	200.3	195.6				1,569
MAR	100.1	180.5	198.7	208.5	216.6				2,442
APR	100.4	186.2	203.5	205.4	203.3				1,758
MAY	98.6	179.5	199.1	187.2	210.8				881
JUN	100.8	178.7	208.3	194.4	194.8				1,094
JUL	100.3	196.3	241.6	189.9	214.9				568
AUG	98.7	90.9	90.1	81.1	82.1				50
SEP	99.3	197.1	210.5	224.6	221.5				798
OCT	101.0	199.3	213.5	210.7	224.6				6,504
NOV	101.2	175.7	190.6	188.2	178.3				9,997
DEC	101.7	185.9	201.1	206.8	193.6				6,500
'87 JAN	100.8	153.2	172.1	170.2	186.7				2,925
FEB	100.7	172.7	194.8	207.6	198.9				4,482
MAR	101.1	208.0	222.4	227.0	221.8				1,705
APR	101.8	196.4	198.8	211.6	196.6				1,528
MAY	104.3	189.7	206.7	192.6	183.3				842
JUN	101.6	201.8	231.9	218.9	224.2				1,722
JUL	102.5	211.3	257.6	219.7	224.2				1,339
AUG	100.9	101.3	95.4	70.8	85.8				39
SEP	102.2*	215.7	222.5	263.4	233.1				1,037
OCT	104.7*								
NOV	103.7*								

(a) Seasonally adjusted.

§Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures.

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT. Percent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1983	14.7	14.9	9.7	14.6
1984	10.8	10.6	10.4	12.0
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1985 Q4	8.9	8.6	5.9	9.9
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3		4.6	+4.1	8.0
Q4		5.2		
1985 DEC	8.8	8.6	5.9	9.7
1986 JAN	8.2	8.0	4.8	6.9
FEB	7.3	7.6	2.5	5.4
MAR	7.0	7.2	0.3	5.3
APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.1
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV		5.2	4.6	N/A
DEC		5.1		8.3
1988 JAN		5.0		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1984	12.6		12.3	14.6	21.3
1985	16.6		14.0	14.4	19.2
1986	10.6	10.2	8.9	8.8	16.2
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8*	10.9	9.5	8.1*	15.9
1987 Q1	9.5*	9.9	10.3	7.7*	15.6
Q2	11.4*	10.8	12.0	9.0*	15.1*
Q3	12.3*	10.9*	10.5*		14.5*
1985 Nov	15.2	13.6	13.3	13.3	17.9
Dec	17.3	10.4	11.1	11.7	18.0
1986 Jan	11.3	9.7	10.1	11.1	16.5
Feb	11.7	10.0	9.7	10.8	16.7
Mar	13.7	10.4	9.3	11.0	16.4
Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3*	9.9	9.6	7.8	15.9
Feb	9.4*	10.1	10.4	7.7	15.7
Mar	8.9*	9.8	10.8	7.7	15.3
Apr	11.9*	10.4	11.6	8.6	15.0
May	10.9*	10.5	12.1	9.0	15.0
Jun	11.3*	11.5	12.4	9.5*	15.4*
Jul	11.7*	11.5*	12.0*	10.0*	14.8*
Aug	12.4*	11.0*	11.5*	10.3*	14.8*
Sep	12.7*	10.3*	11.0*		13.8*
Oct					13.5*

*Provisional

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source: ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire				1980=100		
1983	122,002	110,537	-11,465	+3,793	+ 706	93.3	108.4
1984	148,162	129,027	-19,135	+ 57	-7,254	101.8	115.6
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	+ 665	115.8	126.4
1987	161,527*	150,449*	-11,138*	+1,637*			
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789*	- 881*	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660*			
Q4	44,660*	42,190*	- 2,470*	+3,287*			
1985 Dec	19,547	17,515	- 2,032	-1,433	-2,025	155.5	175.0
1986 Jan	13,888	10,816	- 3,072	-3,044	-1,265	110.9	108.5
Feb	14,370	12,862	- 1,508	-1,578	-1,202	120.0	130.5
Mar	13,534	12,439	- 1,095	-2,074	- 922	120.7	127.5
Apr	13,015	12,672	- 343	+2,287	- 737	118.6	133.0
May	12,798	11,726	- 1,072	+1,555	+ 221	120.7	123.1
Jun	11,921	12,267	+ 346	+ 664	+1,350	113.3	130.9
Jul	12,415	13,632	+ 1,217	+1,459	+1,935	122.1	144.7
Aug	7,314	9,424	+ 2,111	+ 703	+2,831	75.0	100.6
Sep	12,300	11,556	- 744	-1,697	+ 827	119.8	122.9
Oct	13,512	13,772	+ 260	- 651	+ 791	131.7	143.8
Nov	11,920	11,763	- 157	- 133	- 404	116.6	122.5
Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 612	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	- 553*		136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,026*		79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+ 919*			
Oct	14,940*	14,250*	- 690*	+ 728*			
Nov	14,330*	13,480*	- 850*	+1,371*			
Dec	15,390*	14,460*	- 930*	+1,188*			

*Provisional

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana;
(5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities 12-month		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	BOT (3)		Lira/US\$ (5)	Lira/£ster
1983	17.66	19.82	18.05	92.4	1,519.2	2,301.7
1984	16.86	16.98	15.43	89.9	1,756.5	2,339.8
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.41	10.92	89.6	1,483.6	2,176.8
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3	12.25	10.92	10.88		1,331.1	2,151.8
Q4			11.88			
1985 Dec	15.31	14.28	13.14	87.2	1,713.4	2,480.9
1986 Jan	16.19	14.14	13.19	88.3	1,665.3	2,372.0
Feb	17.69	14.65	13.08	88.6	1,587.9	2,268.7
Mar	15.06	14.53	12.88	88.8	1,542.3	2,262.7
Apr	12.81	14.01	11.84	88.2	1,556.9	2,329.3
May	12.19	13.12	11.00	88.0	1,528.7	2,325.5
Jun	12.31	12.19	10.57	88.1	1,531.5	2,310.8
Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.0	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.5	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.7	1,345.80	2,149.00
Sep	12.25	11.33	11.45		1,310.30	2,154.40
Oct	10.63	11.41	12.17		1,303.10	2,164.50
Nov			12.14		1,208.85\$	2,213.12\$
Dec			11.33		1,169.25\$	2,185.625\$
1988 Jan			10.56*		1,234.87\$	2,185.00\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged.
(3) gross yield on end month issues. (4) Wholesale prices.
\$End month rates. *Provisional.

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FM ROME

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OF 111740Z FEBRUARY 88

AND TO DESKBY 111830Z UKREP BRUSSELS

INFO PRIORITY WASHINGTON BONN PARIS MODUK

(UKREP BRUSSELS FOR PRIME MINISTER'S PARTY AND SECRETARY OF STATE'S PARTY)

MY TELNO 80

ITALIAN GOVERNMENT CRISIS

SUMMARY:

1. PROGNOSTICATIONS DIFFICULT. BETTING IS ON GORIA NOT REPEAT NOT RETURNING AS PRIME MINISTER, AND BEING REPLACED BY ANOTHER CHRISTIAN DEMOCRAT, POSSIBLY ANDREOTTI. BUT THERE ARE MANY OTHER OPTIONS, INCLUDING (JUST CONCEIVABLY) GORIA BEING ASKED TO HAVE ANOTHER SHOT.

DETAIL:

2. GORIA'S RESIGNATION LAST NIGHT HAS PRECIPITATED ANOTHER CONFUSED AND COMPLEX GOVERNMENT CRISIS. PRESIDENT COSSIGA HAS SPENT TODAY IN THE USUAL ROUND OF CONSULTATIONS OF POLITICAL AND PARTY LEADERS. HE IS EXPECTED TO REACH AN INITIAL CONCLUSION WITHIN A FEW DAYS. AT THIS EARLY STAGE, AND GIVEN THE ABNORMALLY CONFUSED INTERNAL STATE OF THE CHRISTIAN DEMOCRAT PARTY (DC), NO OBVIOUS OUTCOME IS APPARENT. BUT THE FOLLOWING ANALYSIS IS SHARED BY MOST OF THE POLITICIANS AND COMMENTATORS WITH WHOM WE HAVE TALKED TODAY.

3. IT SEEMS UNLIKELY THAT GORIA WILL BE ASKED TO FORM ANOTHER GOVERNMENT. THE REPEATED DEFEATS OF HIS GOVERNMENT IN THE CHAMBER OF DEPUTIES DURING THE PASSAGE OF THIS YEAR'S FINANCE BILL HAVE SHOWN THAT HIS GOVERNMENT CANNOT COMMAND A WORKABLE DEGREE OF SUPPORT EITHER IN PARLIAMENT OR EVEN AMONG HIS FELLOW CHRISTIAN DEMOCRATS. THE PARLIAMENTARY DEFEATS WHICH PROMPTED GORIA'S RESIGNATION YESTERDAY, EMPHASISED THIS EVEN MORE CLEARLY. HE MAY NOT HIMSELF BE THE TARGET BUT THERE IS NO CERTAINTY WHO IS. IT IS POSSIBLE THAT COSSIGA MAY TRY FIRST TO SECURE FROM THE LEADERS OF THE FIVE COALITION PARTIES A COMMITMENT TO SUPPORT GORIA AS PRIME MINISTER AT LEAST FOR A FEW WEEKS MORE IN ORDER TO SEE THROUGH THE IMPORTANT FINANCE BILL. IF HE WERE SO ASKED, THE CONSENSUS HERE IS

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AMAZINGLY THAT GORIA WOULD PROBABLY SEE IT AS HIS DUTY TO ACCEPT AND TRY TO STAGGER ON. THIS WOULD ONLY BE A SHORT TERM SOLUTION BUT PERHAPS THE MOST PROMISING MEANS OF AVOIDING A MAJOR ECONOMIC CRISIS WHICH WOULD OCCUR IF THE FINANCE BILL IS NOT APPROVED BY THE END OF APRIL. BUT GORIA WOULD AGAIN HAVE TO WIN A CONFIDENCE VOTE IN BOTH HOUSES AND, AGAINST THE BACKGROUND OF THE RECENT SUCCESSION OF FEFEATS AS A RESULT OF SABOTAGE FROM HIS OWN SIDE, IT IS DIFFICULT TO SEE HOW HE COULD COUNT ON THEIR LOYALTY THEREAFTER.

4. IT WOULD THEREFORE BE MORE RATIONAL FOR COSSIGA TO ASK A MORE AUTHORITATIVE CHRISTIAN DEMOCRAT LEADER TO FORM A GOVERNMENT. THERE SEEMS AT THIS STAGE TO BE A GENERAL ACCEPTANCE AMONG THE COALITION PARTIES THAT THE PRESENT FIVE-PARTY COALITION IS THE ONLY BASIS FOR GOVERNMENT DESPITE RECENT PROBLEMS, AND MOST THINK THAT CHRISTIAN DEMOCRATS WILL HAVE TO BE GIVEN ANOTHER CHANCE TO LEAD A GOVERNMENT SINCE THEY ARE SUBSTANTIALLY THE LARGEST GROUP IN THE COALITION. THE MOST LIKELY CHOICES FOR COSSIGA AMONG THE CHRISTIAN DEMOCRATS WOULD BE DE MITA, THE PRESENT DC SECRETARY OR ANDREOTTI. DE MITA HAS SHOWN INTEREST IN THE JOB, BUT MIGHT BE RELUCTANT TO GIVE UP THE POWERFUL PARTY SECRETARYSHIP, ESPECIALLY IN THE PRESENT TURBULENT STATE OF THE DC. HOWEVER THE DC PARTY CONGRESS, DUE IN APRIL, HAS NOW BEEN POSTPONED SINE DIE. THIS MIGHT IMPROVE DE MITA'S CHANCES IF THE SOCIALIST PARTY WERE PREPARED TO DROP THEIR PREVIOUS OPPOSITION TO HIM. ANDREOTTI HAS LESS TO LOSE AND HAS MUCH EXPERIENCE OF TAKING OVER IN SIMILARLY DIFFICULT POLITICAL CIRCUMSTANCES. ANOTHER POSSIBLE NAME THAT HAS BEEN MENTIONED IS THAT OF FORLANI, THE PRESENT DC PRESIDENT. BOTH HE AND ANDREOTTI WOULD BE SEEN AS INTERIM RATHER THAN LONG-TERM SOLUTIONS.

5. CRAXI AND THE SOCIALIST PARTY HAVE NOT YET MADE THEIR POSITION CLEAR. THEY ARE SEEKING TO MAINTAIN A STATESMAN-LIKE POSTURE WHILE LAYING THE BLAME FOR THE PRESENT MESS SQUARELY ON THE SHOULDERS OF THE DC. BUT ALTHOUGH CRAXI'S LONG-TERM AIM REMAINS BECOMING PRIME MINISTER AGAIN, HE IS GENERALLY THOUGHT TO BE STILL BIDDING HIS TIME AND THEREFORE LIKELY TO BE READY TO GO ALONG WITH A DC PRIME MINISTER FOR THE TIME BEING.

6. COSSIGA MAY HAVE TO TRY MORE THAN ONE PRIME MINISTERIAL CANDIDATE. IF ALL ELSE FAILS, THERE WOULD REMAIN THE OPTION OF CALLING EARLY GENERAL ELECTIONS. BUT ON THE BASIS OF HIS PERFORMANCE DURING LAST YEAR'S LENGTHY GOVERNMENT CRISIS, COSSIGA WILL WISH TO AVOID SUCH A DECISION IF HE POSSIBLY CAN. FEW HAVE SEEN MUCH OF AN OPENING FOR THE ITALIAN COMMUNIST PARTY IN THE

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PRESENT CRISIS.

7. IN THE MEANTIME GORIA AND HIS CABINET WILL CONTINUE IN A CARETAKER CAPACITY. GORIA IS THEREFORE LIKELY TO FEEL EVEN LESS ABLE THAN BEFORE TO MAKE CONCESSIONS AT THE EUROPEAN COUNCIL WHICH WOULD BE CONTROVERSIAL.

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ITALIAN ECONOMY: JANUARY 1988

SUMMARY

1. ITALY'S REAL ECONOMY CONTINUES TO PERFORM WELL DESPITE GRAVE POLITICAL DIFFICULTIES OVER THE FINANCE BILL AND CONTINUING PUBLIC SECTOR STRIKES.

DETAIL

2. THE FINANCE BILL AND BUDGET WERE APPROVED BY THE SENATE IN DECEMBER WITH THE GOVERNMENT'S 1988 PSBR TARGET OF 103,500 BILLION LIRE UNSCATHED. CONSIDERATION IN THE CHAMBER OF DEPUTIES, FIRST IN COMMITTEE THEN ON THE FLOOR, WAS INITIALLY DELAYED BY CONTROVERSY OVER ASPECTS OF THE GOVERNMENT'S ATTEMPTS, ULTIMATELY SUCCESSFUL, TO PRE-EMPT MANY OF THE FISCAL MEASURES BY DECREE LAW. ON THE FINANCIAL LAW ITSELF THE GOVERNMENT SUFFERED A LARGE NUMBER OF DEFEATS IN SECRET VOTING ON INDIVIDUAL CLAUSES AND SOME CLAUSES WERE ONLY PASSED WHEN THE GOVERNMENT MADE THEM MATTERS OF CONFIDENCE AND THUS TO BE VOTED OPENLY. THE CHAMBER APPROVED THE FINANCIAL LAW AS A WHOLE AT THE END OF THE FIRST WEEK IN FEBRUARY. HOWEVER THE RESULT OF ALL THE CHANGES APPROVED BY THE CHAMBER IS TO INCREASE THE PSBR BY SOME 11,000 BILLION LIRE, ACCORDING TO UNOFFICIAL ESTIMATES. THE CHAMBER'S AMENDMENTS MUST NOW BE CONSIDERED BY THE SENATE. ON 10 FEBRUARY GORIA'S GOVERNMENT RESIGNED AFTER A SERIES OF FURTHER DEFEATS ON CLAUSES IN THE BUDGET.

3. TREASURY CONTACTS DESCRIBE 1987 AS A LOST YEAR IN THE BATTLE TO REDUCE PUBLIC EXPENDITURE: THE PSBR, SWOLLEN BY A PRE-ELECTORAL SPENDING SPREE BY MPS WAS 113,700 BILLION LIRE AGAINST A TARGET OF 100,000 BILLION. THE PRINCIPLE OF CUTTING THE PUBLIC DEBT AND SPENDING MORE EFFICIENTLY IS IN THEORY SUPPORTED ACROSS THE POLITICAL SPECTRUM. HOWEVER IN THE CONSIDERATION OF THE FINANCE BILL, PARTICULARLY IN THE CHAMBER, IT IS THE CONSTANT POLITICAL SKIRMISHING WHICH OFTEN DETERMINES HOW VOTES ARE CAST RATHER THAN ECONOMIC POLICY.

4. LATEST ECONOMIC INDICATORS PRESENTED A HAPPIER PICTURE. INFLATION IN JANUARY FELL BACK ANOTHER POINT TO 5%. INDUSTRIAL PRODUCTION IN NOVEMBER WAS ONLY JUST BELOW OCTOBER'S RECORD LEVELS. BUSINESS CONFIDENCE REMAINS HIGH ALTHOUGH MOST FORECASTERS NOW AGREE IN REVISING 1988 GDP GROWTH DOWNWARDS TO 1.7% AGAINST THE GOVERNMENT TARGET OF 2.8%. EXPORT PERFORMANCE IS STILL A CAUSE OF CONCERN WITH DECEMBER RECORDING ANOTHER DEFICIT OF 930 BILLION BRINGING THE DEFICIT FOR THE YEAR TO 11,138 BILLION LIRE. THE BALANCE OF PAYMENTS HOWEVER ENDED THE YEAR WITH A SURPLUS OF 1,637 BILLION LIRE AFTER A FOURTH CONSECUTIVE MONTHLY SURPLUS IN DECEMBER OF 1,188 BILLION. UNEMPLOYMENT REMAINS A MAJOR BLACK SPOT REACHING THE RECORD LEVEL OF 12.3% IN OCTOBER. THE SERIES OF STRIKES IN THE PUBLIC SECTOR (CHIEFLY IN TRANSPORT) CONTINUED AFTER A CHRISTMAS TRUCE ALTHOUGH THERE ARE SIGNS OF A GROWING MEASURE OF AGREEMENT ON THE FORM NEW LEGISLATION TO CONTROL STRIKES IN ESSENTIAL SERVICES MIGHT TAKE.

5. WITH THE PUBLIC LESS KEEN TO PUT THEIR SAVINGS INTO STOCKS AND SHARES, SALES OF TREASURY BONDS WERE OVER-SUBSCRIBED. TAKING ADVANTAGE ALSO OF GREATER STABILITY ON INTERNATIONAL MARKETS AND THE BALANCE OF PAYMENTS FIGURES, THE AUTHORITIES LIFTED ON 20 JANUARY, SOME TWO MONTHS AHEAD OF THE DUE DATE OF 31 MARCH, THE MONETARY RESTRICTIONS IMPOSED LAST AUTUMN. THE CEILING ON BANK LENDING, HOWEVER, REMAINS FOR THE TIME BEING. FURTHER CAPITAL LIBERALISATION MEASURES TO APPLY FROM OCTOBER WERE ALSO ANNOUNCED ON 2 FEBRUARY. THERE IS INCREASING EMPHASIS BY GOVERNMENT SPOKESMEN, INDEPENDENT COMMENTATORS AND INDUSTRIALISTS ON THE NEED TO PREPARE ITALY FOR THE SINGLE EUROPEAN MARKET IN 1992. THE POLITICAL SYSTEM AND THE PUBLIC ADMINISTRATION ARE OFTEN CITED AS THE GREATEST OBSTACLES TO ITALY'S FURTHER ECONOMIC DEVELOPMENT AND COMPLETE INTEGRATION INTO THE GLOBAL INDUSTRIALISED ECONOMY.

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INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

FROM: P W FAWCETT

25 FEBRUARY 1988

1. MR ISAAC MR PAINTER
2. FINANCIAL SECRETARY

DOUBLE TAXATION: ITALY

1. Talks were held in London last week with officials of the Italian Ministry of Finance on a new comprehensive double taxation convention and on a new death and gift taxes convention with Italy to replace the present death duties convention. In both cases draft texts were initialled some years ago but further changes were necessary, particularly to cover inheritance tax (IHT) specifically in the latter agreement.

2. These changes were discussed at last week's official level talks and revised texts incorporating the necessary amendments were initialled. The texts of the proposed new conventions will be submitted to Ministers for approval in due course.

3. Meanwhile we would be grateful for your approval of the attached Press Notice, which covers both conventions.

P. W. Fawcett

P W FAWCETT

cc PS/Chancellor
Ms Sinclair
Mr Tyrie

Mr Isaac
Mr Painter
Mr Beighton
Mr Houghton
Mr Pitts
Mr Fawcett
Mr Jaundoo
Mr Thompson
Miss Graham
Mr Kent (CTO)
Mr McKean (Scotland)
Mrs Smyth
Miss McFarlane
PS/IR

DRAFT PRESS RELEASE

DOUBLE TAXATION: ITALY

Discussions were held at official level in London during the week beginning 15 February 1988 on a new comprehensive double taxation convention and a double taxation convention covering taxes on the estates of deceased persons and on gifts. The latter is intended to replace the death duties convention signed in 1966 between the United Kingdom and Italy.

Agreement was reached on the texts of both conventions which are now being submitted to the respective Governments for approval.

2785/2

1. Mr Edwards
2. Paymaster General

Agreed with

me

AJCE
26 ii

FROM: M C MERCER
DATE: 26 FEBRUARY 1988

cc: PS/Chancellor
Sir G Littler
Mr Lankester
Mr Mortimer
Mr Kaufmann
Mr Evans

WORKING DOCUMENT ON A DRAFT IGA: ITALIAN PROPOSALS

The Italian delegation tabled a communication at today's meeting of COREPER stating that they were prepared to agree to the IGA working document which the other 11 member states accepted at the Budget Council on 24 February subject to an amendment making clear that the provisional indicative total of the IGA cited in the document was a maximum. The communication and the precise terms of the amendment are attached.

2. Also attached is a draft Presidency declaration which, though not mentioned in the Italian communication, is also apparently a condition of their agreement to the draft IGA.

3. The Council Secretariat has asked member states for their views on the proposed amendment and the draft declaration by noon on Monday 29 February.

4. The amendment could be advantageous to the extent that it places a ceiling on the overall level of the IGA and thereby recognises, albeit implicitly, that the full amount of whatever figure is finally agreed would not be required if the monetary reserve was not activated. This is not, however, the purpose which the Italians have had in mind in suggesting the amendment.

5. The declaration arguably does not commit anyone to anything that is not already implicit in paragraph 3 of the draft IGA. We believe the UK could ultimately accept it provided that (a) it is a declaration by the Presidency rather than the Council; and (b) the wording is slightly amended in the interests of accuracy to make clear that the issue of interpretation concerns the financing of the UK abatement rather than the abatement itself.

6. On the other hand, the declaration does make explicit what is not explicit in the draft IGA working document, paragraph 3 viz that there is a problem over the interpretation of the Brussels European Council conclusions. The Italians would therefore gain a little more ground.

7. We understand that France and (less clearly), Spain, Luxembourg and Ireland opposed the Italian proposals at COREPER.

8. In the light of the above, we suggest that the best way ahead may be to tell the Presidency at noon on Monday that:

- i. we believe it would be much better to stick with exactly the form of words that was so laboriously agreed at the Budget Council, without any attempt by any school of thought to take further tricks;
- ii. if the Italians are not prepared to accept this, then we would not in the last resort rule out something along the lines suggested, subject to the two points in paragraph 5 above, *if that is needed to obtain unanimity in the Council.*

9. We have provisionally briefed UKREP accordingly. If you are content, we will confirm this line on Monday morning.

AJCE

M C MERCER

pp

RAPPRESENTANZA PERMANENTE D'ITALIA
PRESSO LE COMUNITA EUROPEE

Mr. ...
The Presidency want to
know whether we agree to the
amendment to the Regt-26A and
the declaration by ...
Telegram to follow. C.A. Puleo

v Edwards (CMT)
v Kerr (F.O.)
v Lardie (Lib. off.)

COMMUNICATION DE LA DELEGATION ITALIENNE
=====

26/2

Se référant aux conclusions du Président du Conseil Budget du 23 février, la délégation italienne réitère l'opportunité de ne pas préjuger, dans le contexte de la procédure pour le budget 1988, l'application et l'interprétation des conclusions du Conseil Européen du 11-12 février sur les ressources propres et sur la méthode de calcul de la compensation au Royaume Uni.

La délégation italienne réitère sa conviction que les conclusions du Conseil Européen comportent le financement de la compensation au Royaume Uni de la part des autres onze Etats membres selon la clef PNB, avec une réduction d'un tiers de la contribution de la République Fédérale et des contributions de l'Espagne et du Portugal conformément aux articles 187 e 374 du Traité d'Adhésion (page 22, point C de la note de la Présidence du 22 février).

Ce financement doit donc être fait sur la quatrième ressource, alors que le Royaume Uni continuera à retenir sur ses propres versements TVA l'équivalent du remboursement qui lui revient (page 20, point 3, dernier paragraphe de la note de la Présidence citée ci-dessus). Cette formule permet de respecter les décisions du Conseil Européen sur l'application d'un taux de 1,4% de la TVA applicable à tous les Etats Membres, avec modulation pour ceux qui ont une base imposable TVA excédant le 55% du PNB.

La proposition de la Commission aurait aussi l'effet de diminuer la portée du prélèvement fiscal, dont le rôle, comme la Commission l'a reconnu au Conseil Européen, devrait, par contre, s'accroître après 1992.

./.

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- 2 -

Les problèmes concernant l'application et l'interprétation des conclusions du Conseil Européen seront examinés dans les enceintes appropriées.

Consciente du caractère urgent de la mise en route de la procédure du budget 1988, la délégation italienne prend acte des améliorations qui ont été apportées pendant le débat au projet d'accord intergouvernemental pour souligner le caractère provisoire et indicatif de la somme nécessaire pour équilibrer le budget 1988 et de la répartition provisoire entre les Etats membres.

Pendant le Conseil Budget, la délégation italienne avait, maintes fois, fait remarquer qu'elle estimait nécessaire un aménagement ultérieur du texte afin de ne pas préjuger l'évaluation qui sera faite dans une autre enceinte des conclusions du Conseil Européen. Elle propose, en conséquence, que soit précisé dans celui-ci que l'engagement des Etats Membres ait comme plafond la somme indiquée dans le projet d'accord intergouvernemental actuellement sur la table.

En annexe un texte avec l'amendement proposé.

La délégation italienne déclare que, dans un esprit de compromis, elle pourrait donner, dans de telles conditions, son approbation à l'accord intergouvernemental.

Dans le cas où l'accord ne pourrait être atteint sur une telle base, la délégation italienne invite la Présidence à prévoir la convocation du Conseil (Affaires Générales).

WORKING DOCUMENT**DRAFT****INTERGOVERNMENTAL AGREEMENT**

1. In accordance with the conclusions of the European Council of 11 and 12 February 1988, the Representatives of the Governments of the Member States, meeting within the Council, hereby undertake to pay up to the following amount to the Community to balance the 1988 budget

..... UCE

2. This figure and the distribution among member states are provisional and indicative.

They are subject to revision at the time of the final determination of the additional amounts needed to make up the difference between the resources presently available to the community budget and the community's budgetary needs as the latter will be established at the close of the budgetary procedure.

On this basis the provisional amount and distribution among member states are the follows:

	Amounts excluding the monetary reserve	Amounts in respect of the monetary reserve	TOTAL
Belgium			
Denmark			
Germany			
Greece			
Spain			
France			
Ireland			
Italy			
Luxembourg			
Netherlands			
Portugal			
United Kingdom			
Total			

3. The amounts paid by each Member State shall constitute nonrepayable advances on the payments due after the entry into force of the decision on own resources. The amounts in question may be adjusted to conform to the payments due after entry into force of the own resources decision in accordance with the conclusions of the European Council.
4. These amounts shall be paid in monthly instalments. The conversion rate to be applied to these payments shall correspond to that laid down for the payment of own resources originating from VAT.
5. The Representatives of the Governments of the Member States note that the resources necessary to cover additional expenditure of monetary origin (= monetary reserve) will be payable only after approval of the transfer of appropriations from Chapter 100 to the operational headings of the EAGGF Guarantee Section affected by the depreciation of the dollar, and will be limited to the amount of the appropriations transferred.

.../...

6. The Representatives of the Governments of the Member States note that in some Member States the payment of these amounts pursuant to this undertaking requires certain internal procedures to be completed (1).

(1) B/DK/D/E/F/IRL/I/L/NL and UK state that "internal procedures" involve parliamentary approval.
Gr and P : scrutiny reservation.

La Présidence constate que l'approbation
du projet d'Accord Intergouvernemental ne
préjuge pas l'interprétation des conclusions du Conseil
Européen en ce qui concerne le remboursement au Royaume
Uni qui devra être traité ~~par~~ par les instances appropriées
du Conseil

DECLARATION to accompany
the ~~document~~ IGA working
document.



FROM: S P JUDGE
DATE: 29 February 1988

MR MERCER

cc PS/Chancellor
Sir Geoffrey Littler
Mr Lankester
Mr Edwards
Mr Mortimer
Mr Kaufmann
Mr Evans

WORKING DOCUMENT ON A DRAFT IGA: ITALIAN PROPOSALS

The Paymaster General has seen your submission of 26 February, and is content with the proposals in your paragraph 8.

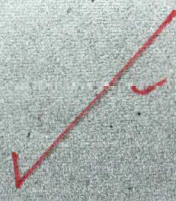
2. The Paymaster wondered if there was any procedural connection between this matter and the letter the Commission owe us by midnight tonight on the Spanish refunds and other issues. Mr Edwards thought not: the Presidency know that this letter is outstanding.

S P JUDGE
Private Secretary

MINISTER IMMEDIATE

Chancellor - ~~W. Schmidt~~ 12/2
PMG
Lith
Carstens
A. Edwards
Mayer
Mortimer

GS



EC ENVOYS TO DEBATE ITALIAN BUDGET COMPLAINTS

NRDC

BONN, MARCH 1, REUTER - NATIONAL AMBASSADORS TO THE EUROPEAN COMMUNITY WILL DISCUSS ITALY'S COMPLAINTS ABOUT ITS CONTRIBUTIONS TO EC FUNDS AT A MEETING ON THURSDAY, A WEST GERMAN FOREIGN MINISTRY SPOKESMAN SAID ON TUESDAY.

HE SAID THE AMBASSADORS WOULD AIM TO OVERCOME THIS LATEST ROW IN THE 12 NATION COMMUNITY WHICH HAS BLOCKED AGREEMENT ON AN EC BUDGET FOR 1988.

WEST GERMAN FOREIGN MINISTER HANS-DIETRICH GENSCHER WOULD DECIDE AFTER THESE TALKS IN BRUSSELS WHETHER IT IS NECESSARY TO CALL A FULL SCALE MEETING OF EC FOREIGN MINISTERS, AS HAS BEEN DEMANDED BY THE ITALIAN GOVERNMENT.

01-MAR-1652 MON223 MONQ

CONTINUED ON - NRDD

P

GRAPHICS - SEE INFO1531

EC ENVOYS =2 BONN

NRDD

ITALIAN PRIME MINISTER GIOVANNI GORIA WROTE TO WEST GERMAN CHANCELLOR HELMUT KOHL ON MONDAY, CALLING FOR AN URGENT MINISTERIAL MEETING. WEST GERMANY IS CURRENTLY PRESIDENT OF THE EUROPEAN COMMUNITY.

TALKS ON THE 1988 EC BUDGET ENDED WITHOUT AGREEMENT LAST WEDNESDAY AFTER ITALY COMPLAINED IT WAS BEING ASKED FOR TOO MUCH MONEY. IT SAID A DEAL WORKED OUT AT A SUMMIT MEETING IN BRUSSELS LAST MONTH HAD BEEN MISINTERPRETED.

ITALY SAID ITS SHARE OF THE BILL TO PAY FOR BRITAIN'S REBATE ON ITS EC CONTRIBUTIONS WAS TOO HIGH.

01-MAR-1652 MON226 MONQ
CONTINUED FROM - NRDC

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REUTER

GRAPHICS - SEE INFO1531

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INFO ROUTINE EC POSTS, STRASBOURG

FRAME ECONOMIC/AGRICULTURE

ECOFIN 7 MARCH: 1988 DRAFT BUDGET

SUMMARY

1. DRAFT BUDGET ESTABLISHED, WITH PRESIDENCY STATEMENT MEETING ITALIAN REQUEST.

DETAIL

2. OVER LUNCH STOLTENBERG (PRESIDENCY) SAID THAT FINANCE MINISTERS HAD A RESPONSIBILITY TO SOLVE THE PROBLEM OF THE 1988 BUDGET. HE SUGGESTED A DRAFT IGA WITH AN INDICATIVE TABLE, WITHOUT ANY ACCOMPANYING DECLARATIONS. DELORS (COMMISSION) AGREED AND EXPLAINED THAT THE COMMISSION'S PROPOSED METHOD WAS CONSISTENT WITH THE EUROPEAN COUNCIL'S CONCLUSIONS. AMATO (ITALY) AND SCHEER (FRANCE) BOTH SOUNDED DUBIOUS. THE FORMER WANTED IT MADE CLEAR THAT THE REFERENCE IN THE DRAFT IGA TO THE FIGURES IN THE IGA BEING SUBJECT TO REVISION AT THE TIME OF THE FINAL DETERMINATION OF THE AMOUNT OF THE IGA WOULD NOT IMPLY THAT THE FINAL DECISION MUST BE TAKEN AT THE CONCLUSION OF THE BUDGET PROCEDURE. THE ISSUE SHOULD BE SETTLED IN THE CONTEXT OF AGREEING THE NEW OWN RESOURCES DECISION.

3. AT THE SUGGESTION OF TIETMEYER (GERMANY), THE OPENING SENTENCE OF THE DRAFT IGA WAS AMENDED TO READ 'FOLLOWING THE CONCLUSION OF THE EUROPEAN COUNCIL', RATHER THAN 'IN ACCORDANCE WITH' TO SIDE-STEP ANY QUESTION OF INTERPRETING THE EUROPEAN COUNCIL'S CONCLUSIONS.

4. AFTER THE FRENCH AND ITALIANS HAD BEEN GIVEN AN OPPORTUNITY TO CONSULT THEIR CAPITALS, STOLTENBERG CONCLUDED THAT THE DRAFT BUDGET COULD BE ESTABLISHED.

5. IN THE FORMAL MEETING OF THE COUNCIL, HE GAVE A PRESIDENCY STATEMENT IN THE FORM REQUESTED BY THE ITALIANS (APPARENTLY NOT BE RECORDED IN WRITING) AND RECORDED THE AMENDMENT TO THE OPENING SENTENCE.

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COMMENT

6. PRESUMABLY THE ITALIANS WILL FEEL THAT THEY ARE NOW FREE TO FIGHT THEIR CORNER IN DISCUSSIONS OF THE ORD. BUT THE IDEA THAT THE REVENUE SIDE OF THE BUDGET CAN ONLY BE FINALLY DECIDED AS PART OF THE NEGOTIATIONS ON THE NEW ORD WILL PROBABLY COMPLICATE THE REST OF THE BUDGET PROCEDURE. THE DRAFT BUDGET WILL NOW GO TO THE PARLIAMENT, WHO MAY BE WILLING TO GIVE A FIRST READING AT THEIR PLENARY IN THE WEEK BEGINNING 11 APRIL.

HANNAY

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TO FCO SAVING TELEGRAM NO 3 OF 9 MARCH 1988
AND INFORMATION SAVING
WASHINGTON, PARIS, BONN, OTTAWA, UKDEL IMF/IBRD, UKDEL OECD,
UKREP BRUSSELS, CONSULATES IN ITALY.

MONTHLY ECONOMIC REPORT : ITALY : FEBRUARY 1988

SUMMARY

1. The government resigned after a defeat on the Budget in the Chamber of Deputies but a week later won votes of confidence in both houses. The Budget was approved on 23 February without further problems and, with the much amended Financial Law, returned to the Senate at the beginning of March. The government's target 1988 PSBR was 103,500 billion lire: after the changes to the Finance Bill the PSBR is now reckoned officially to be 122,000 billion: unofficial estimates are as high as 130,000 billion. In early March it became evident that the Government would propose few amendments leaving the task of clawing back some of the deficit later in the year to a new and hopefully politically stronger government.

Industrial production has slowed slightly. Public sector strikes continue and there is growing unrest in the steel industry as prospects of job losses come closer. Inflation fell again to 4.9%. Trade figures for January are not yet available, balance of payments was in surplus (1,396 billion lire). Treasury had no difficulty in marketing bonds despite small reductions in most yields. Some growth forecasts for Italy are being revised upwards again as world economy weathers October Stockmarkets crash better than expected.

2. ECONOMIC ACTIVITY (Tables 1 and 2)

Official figures for Q4 1987 GDP are still awaited but the Governor of the Bank of Italy said annual growth had been nearly 3%.

ISTAT's unadjusted industrial production index showed a year on year increase of 5% in December with one more working day; in terms of average daily production the increase was only 1%. The seasonally adjusted index (base year 1980) fell to 103.3 compared with November 104 and October 104.7 but was still above September 102.1. Least satisfactory results were reported in the shoes, clothing, and machine and machine tools sectors.

The increase for the whole of 1987 over 1986 was 3.9%, thus bringing industrial production back above the levels before the recession of 1981-83. Moreover there was remarkably steady growth over the period. In the early part of the year it was sustained by domestic demand but towards the end external demand picked up significantly. Intermediate goods showed the best results (4.8%), followed by final consumption goods (3.8%) and investment goods (1.9%). Consumer durables were the strongest sector.

IRS reported their industrial production index showed a year on year rise in February of 6%. The average daily rate of growth was however only 2.7% against 3.5% in January.

According to press reports, ISTAT's indices for invoices and orders in the industrial sector rose in November by 14.8% and 9.2% respectively year on year. For the first time in 1987 export orders increased more than domestic and it was the highest increase in invoicing for two years. The figures are invoices 14.8% overall, 14.9% domestic, 14.4% export and orders 9.2% overall, 8.9% domestic, 10.2% export.

According to ENEL, electricity consumption in February showed a record 6.2% year on year increase but the extra day for leap year partly accounts for this. Petroleum consumption rose by 4% in 1987 and accounted for 59% of total energy requirements.

Car sales in January were up 14.3% year on year with 60% domestically produced. The figures for 1987 showed a 2.9% increase in production over 1986 and a 6.3% increase in exports.

3. LABOUR AND SOCIAL AFFAIRS

Unemployment remained high and the gap between north and south continued to widen. The first fall in unemployment (to 7.1%) in Lombardy for seven years was recorded in February, with the main benefits going to women.

A number of major restructuring projects were under consideration during the month which if implemented, could lead to substantial job losses. The unions rejected Pirelli's proposals involving 2,400 job losses on the grounds that such an agreement could lead to other companies following suit with the loss of 20,000-30,000 jobs. They proposed an alternative package whereby cuts in hours would save jobs with the costs being met 50% by government and 25% each by employers and unions. The Italsider steelworks at Bagnoli near Naples was threatened with heavy reductions and there were some ugly clashes between demonstrators and police. Some 15,000 jobs are at risk in ancillary firms.

A further 4,500 jobs throughout Italy are likely to be lost in shipbuilding as a result of an EEC directive.

Despite a ban on recruitment there have been 175,000 engagements in public administration in the past 14 months. Even so, a substantial amount of overtime was worked, at a cost to the state of 1,300 billion in 1985.

The scheme of Contratti di Formazione e Lavoro has come under fire again and proposals for change were made by the Minister of Labour Formica. They were strongly opposed by Confindustria who like the scheme as it is.

Industrialists and unions in Turin reached agreement on a scheme for fixed term engagement of unemployed people over 29 years of age, subject to certain conditions.

New contracts were signed for 6,000 workers in private television and 12,500 in printing, without any serious difficulty. They will yield increases of 177,000 lire and 210,000 lire per month respectively phased over 3 years.

INDUSTRIAL RELATIONS

On air transport there was little movement towards a solution of the unions long running dispute with Alitalia despite some hopeful signs. Further strikes are programmed for the first half of March.

On the railways the Comitati di Base (COBAS) were reported to have reached agreement with the Confederal Unions on representation, but problems continued, culminating in further strikes at the end of February.

Disruption also continued in schools. COBAS are particularly militant in the education service and there is continuing friction between them, the confederal unions and the autonomous unions. Separate proposals for new contracts were put forward by the confederal unions which would give teachers average pay increases of anything from 400,000 lire to 650,000 lire monthly, phased over three years. The least costly of these is far above anything which the government might approve, because of its effect on the public debt and the risk of leapfrogging claims from other groups. There have been short strikes of journalists and dockers, but in general the private sector has been remarkably calm.

SOCIAL AFFAIRS

The population of Italy was reported to be falling. The average birth rate per family had fallen to 1.27 whereas a rate of 2.10 was necessary to maintain equilibrium. An international conference in Verona forecast that in the next 15 years for every young person coming on the labour market in Europe, there would be 64 in Africa.

The National Health Service deficit for 1988 is estimated by ISIS to be almost 15,000 billion lire, with contributions providing less than 70% of estimates. ISIS also reported substantial under usage of hospital beds and recommended a reduction of 38,000 (about 10%) in provision.

INPS estimated a shortfall of at least 2,000 billion lire as a result of a government decision on disability pensions for over 65s. This estimate was subsequently doubled in the event that the provisions went through Parliament unchanged, because many new claims would be made and thousands were already in abeyance.

4. INFLATION (Table 3)

The cost of living index rose by 0.3% in February giving a year on year rate of 4.9%, the first time it has fallen below 5% since August 1987. The figures were slightly better than expected, with food prices very steady.

COST-OF-LIVING INDEX (FEBRUARY) (1985 = 100)

Sector of index	% change over Jan 1988	% change over Feb 1987
General index (114.4)	+0.3	+4.9*
Food	+0.1	+3.6
Clothing	+0.3	+5.6
Housing	+0.1	+5.6
Fuel & Elec.	+1.4	+4.6
Miscellaneous	+0.4	+5.4

* 4.0% for monitored/controlled prices and tariffs, 5.0% for other prices and tariffs.

The prospects for containing inflation over the next few months are considered good although small price rises at the beginning of March for postal services, car insurance premiums and newspapers will affect the March figure.

Wholesale prices in December rose 0.3% over November, giving a year on year figure of 4.7%. A 5.9% drop in crude oil prices produced only a 0.3% fall in refined products, the difference being largely accounted for by tax. Other raw materials and semi finished products (particularly wood for building +2.9%) more than compensated the drop in crude. ISTAT's breakdown of the year on year figures according to economic destination showed the index for final consumption goods rose by 4.2%, that for final investment goods by 7.2% and intermediate goods and materials by 4.5%. The average rate of increase of wholesale prices in 1987 was 2.6%. This compares with 1986 when they actually fell by 0.9% but this was the only time in 20 years that a negative figure has been recorded. More significantly the differential with the rate of retail price rises has been almost eliminated.

Confindustria's year on year lire index of raw materials prices fell 10.4% in December (+10.8% excluding fuels). In 1987 as a whole over 1986 the lira index fell by 5.9% (by 3.4% excluding fuels) while the dollar index showed rises of 7.2% and 8% respectively.

"International" magazine reported Italy in 15th place among the most expensive countries; in 1980 it was only 34th.

5. TRADE (Table 6)

Trade figures for January are not yet available owing to changes in the method of collecting these statistics with the introduction of the Single Administrative Document (SAD).

Olivetti and the Coop League reported they are negotiating joint ventures in electronics and construction respectively with firms in Czechoslovakia. Italmimpianti said it was about to sign contracts worth nearly 1,000 billion lire in China and Indonesia. President Mubarak's visit to Rome resulted in a 65 billion lire line of credit for Egypt to purchase Italian goods.

The balance of payments recorded its fifth successive surplus in January - +1,369 billion lire compared with a deficit of 380 billion in January 1987. This was mainly attributed to loans and foreign non-bank capital investments. There was a net outflow of bank capital of 1,721 billion. Foreign debt has risen to just over 37,000 billion lire compared with 35,000 billion at the end of 1987 but reserves have also risen.

OFFICIAL RESERVES (Billion Lire)

Month	Total net reserves	Gold	Convertible	ECU
December	75,154	39,813*	20,248	12,220
January	77,803	39,813	23,963	11,154

*Quarterly revaluation.

reserves

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

Sales of Treasury bonds to finance the public sector deficit were again buoyant despite some slight further reductions in yields. BOT (3, 6 and 12 months) continued to dominate the market despite the government's announced intention of increasing the proportion of long term debt and lively demand for BTP (4 years) and CCT (5 years).

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective annual yield (compound)(1)	
				gross %	net*
		(Billion Lire)			
3-mth BOT					
end-Jan	9,000	-	oversubscribed	11.33	9.83
mid-Feb	1,500	-	"	11.01	9.48
end-Feb	8,500	-	892	10.69	9.28
6-mth BOT					
end-Jan	10,000	-	oversubscribed	11.33	9.81
mid-Feb	2,750	-	"	10.98	9.58
end-Feb	10,000	-	"	10.73	9.29
12-mth BOT					
end-Jan	12,000	-	"	10.56	9.12
mid-Feb	2,750	-	"	10.50	9.07
end Feb	11,500	871	-	10.50	9.07
5-yr CCT					
January	7,000 (2)	-	"	12.50	10.90
February	3,100 (3)	-	-	12.15	10.60
March	4,000	(offer closes 4 March)		12.15	10.60
BTP					
Feb (4-yr)	1,750 (3)	-	-	11.64	10.15
March (2-yr)	4,000	-	oversubscribed	11.53	10.06
1-yr BTE					
Nov (373 days)	750m Ecu	-	oversubscribed	8.75	7.66
Dec (380 days)	500m Ecu	-	"	8.55	7.48
Feb (373 days)	750mEcu	-	"	7.78	6.81

(1) Simple interest for BTE.

(2) Original issue 5,000bn, increased because of demand.

(3) No pre-announced issue limit; amount depends on demand and on Treasury requirements.

* Net of 12.50% tax deducted at source.

(Total BOT in circulation at 15 Feb: 207,297 bn lire)

The government's plans for the secondary market in Treasury bonds have been published in a decree and the market is expected to begin its 4 month trial period in late May/early June.

The Bank of Italy continues, in the absence of new legislation, to bully the banks into modernising their procedures in preparation for 1992. It is also facilitating bank mergers and rationalisation of branches. The Bank has also published new rules covering the relationship between banks and business to safeguard the independence of banks. The Bankers Association ABI is also taking a leading role in promoting change among its membership.

The bank-lending ceiling was breached in January, the first time since limits were reimposed in September 1987. The annual growth rate was 6%, and the overshoot in lending some 800-1,000 billion lire. There is concern that this may in part result from round-tripping as firms borrow to buy government bonds.

The Treasury Minister Amato published his ideas on European monetary integration generally supporting an increased role for the ecu, universal EC participation in the ERM and eventually a European central bank with a common European currency. Italy's leading industrialist Agnelli of FIAT spoke similarly in Paris.

The Council of Ministers has approved a bill to remove foreign exchange offences from the criminal law. An amnesty for past offences has however been shelved for the time being.

The Council of Ministers has approved a draft bill to introduce the heavy lira i.e. 1,000 lira would become 1 new lira. The text is identical to that tabled in June 1986.

Lira fluctuations within its ERM band have reflected concern over the prolonged political crisis over the Finance Bill and Budget but no serious pressure for devaluation developed. Among Amato's proposals for European Monetary Integration was a commitment from Italy to renounce its special broad band if sterling joins the mechanism.

EXCHANGE RATES - FEBRUARY
(in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,204.550 (26 Feb)	2,187.900 (2 Feb)	2,202.770
\$	1,261.200 (16 Feb)	1,243.240 (3 Feb)	1,244.400
DM	738.050 (11 Feb)	735.740 (8 Feb)	736.935

Change in weighted value against other EC currencies since 9 February 1973: end-January -63.09%; end-February -63.10%

The stockmarket fell at the beginning of the month but then staged a significant recovery. Operators expressed concern that this was too rapid and would not be sustainable. Trust funds reported record redemptions in February with redemptions exceeding new subscriptions by 2,304 billion lire. Montetitolì published its 1987 results declaring a profit of 2.4 billion lire. The value of shares deposited with it had doubled by the end of the year to 46,000 billion lire.

The giant State Participation companies IRI and ENI both reported profits for 1987. IRI produced estimated profits of 500 billion lire (300 billion in 1986) despite the losses in the steel sector and ENI profits of 660 billion. EFIM end year results showed losses halved to 105 billion lire.

The Governor of the Bank of Italy giving evidence to a Senate Committee spoke in favour of anti trust legislation and in favour of retaining the rules against banks taking major shareholdings in industrial companies and vice versa. He was however prepared to see a closer relationship between banks and insurance companies.

7. FISCAL POLICY

The government resigned on 10 February following a defeat on the Budget in the Chamber of Deputies but for lack of political consensus on an alternative was returned unchanged to win votes of confidence in the Chamber of Deputies and Senate a week later. The Budget completed its passage through the Chamber of Deputies without further problems on 24 February and then returned with the previously approved but much amended Financial Law to the Senate. For a brief period it seemed that the size of the projected increase in the PSBR because of the changes made to the bill in the Chamber of Deputies would force the government to put forward a large number of amendments at the third reading without however any certainty of getting them also through the Chamber on fourth reading. In the end the government's weakness was conclusive and only 2 token amendments - on the tax rate on certain bank and postal deposits and on tax on additional income of civil servants - were carried in committee in the Senate. By the end of the first week of March it appeared likely that this position would be maintained on the floor of the Senate and the Chamber of Deputies would avoid further amendment and thus allow the Financial Law and Budget to be finally adopted by mid to late March.

The Official Treasury estimate of the 1988 PSBR on the present version of the Financial Law is 122,000 billion lire against an original target of 103,500 billion. Unofficial estimates by reputable bodies are as high as 130,000 billion. Treasury Minister Amato indicated that mid-year action (by a new and stronger government) would be necessary to recoup some 10,000 billion. A PSBR of 112,000 billion although higher than desirable was still consistent with current Treasury plans to eliminate by 1992 the primary deficit i.e. net of interest payments on accumulated debt. The primary deficit for 1988 Amato put at 44,000 billion compared with the 26,500 billion of which Prime Minister Goria spoke in November when presenting to Parliament the second version of the Financial Law. On the other hand interest payments which Goria had then estimated at 80,000 billion were put by Amato at 75,000-78,000 billion.

Analysing the 1987 outturn on the PSBR of 113,560 billion lire, Amato pointed to a 15% increase in expenditure on salaries paid by the state, 13% in family allowances, 40% in transfers to industry, 20% in transfers to local authorities for current spending (as well as a doubling of capital transfers) and 14% in transfers to autonomous agencies.

The PSBR in January and February 1988 was held to 10,200 billion lire but experience shows that the two month figures are little guide to requirements later in the year.

The Treasury's 4 year plan to eliminate the primary deficit has been described in outline. Action would be divided equally between expenditure and revenue. The key would be to hold the increase in state spending below the nominal increase in GDP e.g. in 1988 at 6.5% against projected nominal GDP growth of 7.5%. Fiscal pressure would increase by one to one and a half points a year bringing the fiscal take as a proportion of GDP from 37.6% in 1988 to around 39% at the beginning of 1992. Most of the weight would be borne by VAT through amalgamation of the current four rates into only two. At the same time balancing action would be needed on direct taxes intended both to contain inflationary pressures and mitigate fiscal drag.

Meanwhile the committee of wise men set up to find structural savings in public spending after the government crisis provoked by the Liberals in November is due to submit its report by mid-April.

A university study has suggested that some 127 firms within the extended state participation system could with advantage be wholly privatised with a benefit to the budget of some 68,000 billion lire.

Tax revenues in 1987 reached record levels of 226,487 billion lire (net of Italy's EC VAT contribution), an increase of 14.8% over 1986. Nevertheless evasion remains a significant problem.

Allocations for spending on the environment are growing. There is a plan to spend 1,650 billion over 3 years on the Po basin and 33 projects worth 28 billion lire mostly concerned with water pollution have been approved by the Environment Minister. Expenditure of 1,000 billion on research projects in the Mezzogiorno over 3 years have also been announced.

8. ASSESSMENT OF ECONOMIC PROSPECTS

There are two main threads to recent assessments of economic prospects. The first is a noticeable recovery of confidence that the industrial world has weathered the 19 October stockmarkets crash better than expected. Forecasts of GDP growth for Italy in 1988 are now being generally revised upward from around 1.7% to over 2% e.g. ISCO 2.5%, BNL 2%. International forecasts for Italy are similar: EC +2.2%, OECD 2.1%. The latter organisations put inflation at 5% and 4.9% respectively but the domestic Unioncamera/IRS believes the government's 4.5% target can be met and predicts a further closing of the gap between Italian and G7 average inflation from 1.9% in 1987 to 1.1% in 1988.

ISCO's latest 6 monthly report considers 1988 now offers a relatively favourable outlook. Its figures for 1988 and 1989 respectively are:

	1988	1989
GDP	+2.5%	+2.3%
imports	+7%	+5.5%
exports	+3.5%	+3.5%

	1988	1989
private consumption	+3.5%	+3%
public consumption	+1.5%	-
gross fixed investment	+2.3%	+1.6%
consumer prices deflator	5%	5.3%
current account	-3,000 bn.	-6,500 bn.
unemployment	12.3%	-

But ISCO also devotes considerable space to the second main theme of Italian forecasts, the uncertainties hanging over the economy because of the parlous journey of the Finance Bill through Parliament. As ISCO points out, since last August the Government has relied on ad hoc measures to steer the economy and so many and so arbitrary have been the changes to the Finance Bill that it is now extremely difficult to predict the likely cumulative impact. The Bank of Italy has aroused considerable comment by pointedly omitting from its latest Economic Bulletin its customary short term forecasts for the economy. It merely notes drily that once the Law has been approved and it has thus become possible to quantify the effects upon the PSBR, plans for the real and financial economies will have to be revised in that light.

However the Prime Minister's office countered by drawing attention to the continuing favourable trend in leading indicators. Business is confident, dynamic and competitive. Industrial production rose by 3.9% in 1987 over 1986 ending the year with a real boom (7.3% in November and 5% in December year on year). Orders and invoices are both strong. Domestic demand is still high but in the last few months exports have shown a significant improvement. The current account is in surplus, as is the trade balance if energy is excluded. Reserves have risen. Inflation after the steep Q3 rise last year has been steadily dropping back again.

THOMAS

FRAME ECONOMIC

10

MONTHLY ECONOMIC

ECD(1)

TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	397,720	251,328	63,029	85,927	1,328	401,612	84,089	87,981	631,575
1984	411,743	256,859	64,308	89,709	8,307	419,198	90,480	97,920	720,682
1985	423,064	263,753	66,564	92,667	9,107	432,091	94,098	103,125	805,754
1986	434,682	272,194	68,534	93,796	11,503	446,027	96,997	108,342	894,362
1985 Q1	104,550	65,001	16,454	23,121	2,198	106,774	23,350	25,574	192,988
Q2	105,220	65,648	16,550	23,161	2,469	107,828	23,030	25,638	198,983
Q3	106,221	66,369	16,705	23,121	2,076	108,271	23,318	25,368	204,712
Q4	107,073	66,735	16,856	23,263	2,365	109,219	24,400	26,545	209,071
1986 Q1	106,703	67,216	16,985	23,176	2,740	110,117	23,666	27,079	212,932
Q2	108,947	67,670	17,117	23,562	1,939	110,288	25,018	26,358	222,289
Q3	109,411	68,238	17,167	23,640	3,465	112,510	25,047	28,145	227,458
Q4	109,621	69,071	17,265	23,419	3,359	113,114	23,266	26,760	231,685
1987 Q1	109,525	70,080	17,288	23,493	3,662	114,523	23,525	28,524	233,569
Q2	111,511	70,731	17,338	24,127	4,813	117,009	24,035	29,535	242,374
Q3	112,023	70,717	17,443	23,829	3,921	115,910	26,125	30,012	244,506

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 1A: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts. (All figures seasonally adjusted.)

Percentage changes (year-on-year); (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	0.5	0.4	2.8	-1.6	-	-0.4	2.3	-1.6	15.9
1984	3.5	2.2	2.0	4.4	-	4.4	7.6	11.3	14.1
1985	2.7	2.7	3.5	3.3	-	3.1	4.0	5.3	11.8
1986	2.7	3.2	3.0	1.2	-	3.2	3.1	5.1	11.0
1985 Q1	2.7	1.6	3.9	5.0	-	3.2	6.3	8.4	11.2
Q2	2.8	2.2	3.3	3.6	-	3.3	4.6	6.7	11.8
Q3	2.2	3.4	3.6	2.2	-	2.7	0.8	2.9	12.0
Q4	3.3	3.5	3.2	2.5	-	3.1	4.5	3.5	12.2
1986 Q1	2.1	3.4	3.2	0.2	-	3.1	1.4	5.9	10.3
Q2	3.5	3.1	3.4	1.7	-	2.3	8.6	2.8	11.7
Q3	3.0	2.8	2.8	2.2	-	3.9	7.4	10.9	11.1
Q4	2.4	3.5	2.4	0.7	-	3.6	-4.6	0.8	10.8
1987 Q1	2.6	4.3	1.8	1.4	-	4.0	-0.6	5.3	9.7
Q2	2.4	4.5	1.3	2.4	-	6.1	-3.9	12.1	9.0
Q3	2.4	1.3	1.6	0.8	-	2.5	4.3	6.6	7.5

* (2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices (2)		Orders (3)		Employment '000s (4)	Unemployment '000s (5)	Unemployment rate (6)	Strikes '000 hrs lost (7)
	(1980=100)	Dom.	Export	Dom.	Export				
1983	92.0	141.0	151.0	133.0	153.0	\$20,704	\$2,278	9.0	98,021
1984	95.4	157.8	180.1	152.0	175.5	\$20,648	\$2,578	9.9	58,232
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	37,673
1986 Q1	99.8	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	99.9	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	99.4	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	101.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	100.9	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,112
Q2	102.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,092
Q3	101.8	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,415
Q4	104.0*					20,901	2,930	12.3	
'85 NOV	97.9	181.4	202.1	180.7	203.3				6,819
DEC	97.3	185.6	204.5	198.2	182.0				2,497
'86 JAN	97.2	165.6	194.0	173.5	197.7				5,512
FEB	99.1	175.3	200.7	200.3	195.6				1,569
MAR	100.1	180.5	198.7	208.5	216.6				2,442
APR	100.4	186.2	203.5	205.4	203.3				1,758
MAY	98.6	179.5	199.1	187.2	210.8				881
JUN	100.8	178.7	208.3	194.4	194.8				1,094
JUL	100.3	196.3	241.6	189.9	214.9				568
AUG	98.7	90.9	90.1	81.1	82.1				50
SEP	99.3	197.1	210.5	224.6	221.5				798
OCT	101.0	199.3	213.5	210.7	224.6				6,504
NOV	101.2	175.7	190.6	188.2	178.3				9,997
DEC	101.7	185.9	201.1	206.8	193.6				6,500
'87 JAN	100.8	153.2	172.1	170.2	186.7				2,925
FEB	100.7	172.7	194.8	207.6	198.9				4,482
MAR	101.1	208.0	222.4	227.0	221.8				1,705
APR	101.8	196.4	198.8	211.6	196.6				1,528
MAY	104.3	189.7	206.7	192.6	183.3				842
JUN	101.6	201.8	231.9	218.9	224.2				1,722
JUL	102.5	211.3	257.6	219.7	224.2				1,339
AUG	100.9	101.3	95.4	70.8	85.8				39
SEP	102.1*	215.7	222.5	263.4	233.1				1,037
OCT	104.7*								
NOV	104.0*								
DEC	103.3*								

(a) Seasonally adjusted.

§Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT.
Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1983	14.7	14.9	9.7	14.6
1984	10.8	10.6	10.4	12.0
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3	4.9	4.6	+4.1	8.0
Q4		5.2		
1986 JAN	8.2	8.0	4.8	6.9
FEB	7.3	7.6	2.5	5.4
MAR	7.0	7.2	0.3	5.3
APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.1
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV	5.4	5.2	4.6	N/A
DEC		5.1		8.3
1988 JAN		5.0		
FEB		4.9		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1984	12.6		12.3	14.6	21.3
1985	16.6		14.0	14.4	19.2
1986	10.6	10.2	8.9	8.8	16.2
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8	10.9	9.5	8.1	15.9
1987 Q1	9.5	9.9	10.3	7.7	15.6
Q2	11.4	10.8	12.0	9.0	15.2
Q3	12.3	10.9	10.5		14.5
1985 Nov	15.2	13.6	13.3	13.3	17.9
Dec	17.3	10.4	11.1	11.7	18.0
1986 Jan	11.3	9.7	10.1	11.1	16.5
Feb	11.7	10.0	9.7	10.8	16.7
Mar	13.7	10.4	9.3	11.0	16.4
Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3	10.0	9.6	7.7	15.9
Feb	9.4	10.1	10.4	7.7	15.7
Mar	8.9	9.8	10.8	7.6	15.2
Apr	11.9	10.4	11.5	8.6	15.0
May	10.9	10.6	12.0	9.0	15.0
Jun	11.3	11.5	12.3	9.4	15.5
Jul	11.7	11.6	12.0	10.0	14.8
Aug	12.4	11.3	11.6	10.4	14.8
Sep	12.7	10.3	10.8	11.2	13.9
Oct	12.9	10.0	10.3	11.5	13.5
Nov		8.8	9.4	12.0	13.0
Dec			8.3		13.0

NB: Figures are revised periodically.

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana; (5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	12-month BOT (3)		Lira/US\$ (5)	Lira/£ster
1983	17.66	19.82	18.05	92.4	1,519.2	2,301.7
1984	16.86	16.98	15.43	89.9	1,756.5	2,339.8
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.41	10.92	89.6	1,483.6	2,176.8
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3	12.25	10.92	10.88		1,331.1	2,151.8
Q4		11.60	11.88		1,248.5	2,188.3
1986 Jan	16.19	14.14	13.19	88.3	1,665.3	2,372.0
Feb	17.69	14.65	13.08	88.6	1,587.9	2,268.7
Mar	15.06	14.53	12.88	88.8	1,542.3	2,262.7
Apr	12.81	14.01	11.84	88.2	1,556.9	2,329.3
May	12.19	13.12	11.00	88.0	1,528.7	2,325.5
Jun	12.31	12.19	10.57	88.1	1,531.5	2,310.8
Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.0	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.5	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.7	1,345.80	2,149.00
Sep	12.25	11.33	11.45		1,310.30	2,154.40
Oct	10.63	11.58	12.17		1,303.10	2,164.50
Nov		11.91	12.14		1,239.40	2,199.70
Dec		11.30	11.33		1,202.90	2,200.60
1988 Jan			10.56		1,215.00	2,190.20
Feb			10.50		1,244.40\$	2,202.77\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged. (3) gross yield on end month issues. (4) Wholesale prices. § End month rates.

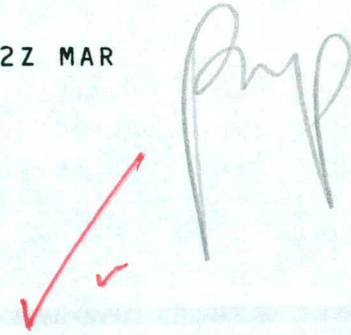
TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire				1980=100		
1983	122,002	110,537	-11,465	+3,793	+ 706	93.3	108.4
1984	148,162	129,027	-19,135	+ 57	-7,254	101.8	115.6
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	+ 665	115.8	126.4
1987	161,587*	150,449*	-11,138*	+1,637*			
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789*	- 881*	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660*			
Q4	44,660*	42,190*	- 2,470*	+3,287*			
1986 Jan	13,888	10,816	- 3,072	-3,044	-1,265	110.9	-108.5
Feb	14,370	12,862	- 1,508	-1,578	-1,202	120.0	130.5
Mar	13,534	12,439	- 1,095	-2,074	- 922	120.7	127.5
Apr	13,015	12,672	- 343	+2,287	- 737	118.6	133.0
May	12,798	11,726	- 1,072	+1,555	+ 221	120.7	123.1
Jun	11,921	12,267	+ 346	+ 664	+1,350	113.3	130.9
Jul	12,415	13,632	+ 1,217	+1,459	+1,935	122.1	144.7
Aug	7,314	9,424	+ 2,111	+ 703	+2,831	75.0	100.6
Sep	12,300	11,556	- 744	-1,697	+ 827	119.8	122.9
Oct	13,512	13,772	+ 260	- 651	+ 791	131.7	143.8
Nov	11,920	11,763	- 157	- 133	- 404	116.6	122.5
Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 612	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	+ 110	+ 645	136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,011	+1,020	79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+ 919*			
Oct	14,940*	14,250*	- 690*	+ 728*			
Nov	14,330*	13,480*	- 850*	+1,371*			
Dec	15,390*	14,460*	- 930*	+1,188*			
1988 Jan				+1,369*			

*Provisional

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MY TELNO 161: ITALIAN GOVERNMENT CRISIS

SUMMARY

1. DE MITA HAS BEEN ASKED TO TRY TO FORM A GOVERNMENT. HIS TASK IS UNLIKELY TO BE QUICK OR EASY.

DETAIL

2. PRESIDENT COSSIGA FINISHED TODAY HIS ROUND OF CONSULTATIONS WITH THE PARTY LEADERS. HE HAS ASKED CIRIACO DE MITA, THE CHRISTIAN DEMOCRAT (DC) PARTY LEADER TO TRY TO FORM A GOVERNMENT.

3. SINCE GORIA'S RESIGNATION ON 11 MARCH, THE DC HAS (FOR THE TIME BEING) CLOSED RANKS BEHIND DE MITA AS THEIR PREFERRED CANDIDATE TO LEAD THE NEW GOVERNMENT. DE MITA HAS BEEN DC LEADER SINCE 1981. HE IS A SOUTHERNER (AVELLINO, NEAR NAPLES) AND A QUINTESSENTIALLY ITALIAN POLITICIAN WITH LITTLE INTERNATIONAL EXPERIENCE. A SHORT POLICY DOCUMENT HAS BEEN DRAWN UP BY DC PARTY LEADERS WHICH SETS OUT IN GENERAL TERMS PRIORITIES FOR THE NEXT GOVERNMENT. THESE INCLUDE ALL THE OBVIOUS THINGS THAT ARE EASIER SAID THAN DONE: PARLIAMENTARY AND GOVERNMENTAL REFORM, REDUCING THE PUBLIC DEFICIT, TACKLING CORRUPTION, AND PREPARING ITALY AND ITS ECONOMY FOR THE CHALLENGES TO BE FACED AFTER 1992. THE DOCUMENT CALLS FOR POLITICAL STABILITY AND FIRM GOVERNMENT.

4. DE MITA AS A CANDIDATE TO HEAD THE GOVERNMENT IS ACCEPTED BY THE THREE SMALL PARTIES IN THE COALITION (REPUBLICANS, LIBERALS AND SOCIAL DEMOCRATS). CRAXI'S SOCIALIST PARTY (PSI) HAVE ALSO INDICATED THAT THEY WILL NOT OBJECT TO DE MITA'S CANDIDATURE. BUT THEY ARE INSISTING THAT AGREEMENT ON A NEW GOVERNMENT WILL HAVE TO BE BASED ON A DETAILED PROGRAMME, STILL TO BE NEGOTIATED. THAT WILL BE DE MITA'S MAJOR PROBLEM IN TRYING TO PUT TOGETHER A NEW COALITION. THERE ARE IMPORTANT DIFFERENCES BETWEEN THE DC AND PSI OVER MAJOR POLICIES, INCLUDING NUCLEAR

ENERGY. THE ACRID ATMOSPHERE GENERATED BY THE DIFFERENCES ON THIS ISSUE LAST WEEK, WHICH LED TO GORIA'S RESIGNATION, HAS DONE NOTHING TO HELP AGREEMENT BETWEEN THE TWO PARTIES. DE MITA THEREFORE SEEMS TO BE IN FOR A DIFFICULT SET OF NEGOTIATIONS. HIS OBJECTIVE WILL BE TO GET A BASIS AGREED FOR A STRONG AND LASTING GOVERNMENT WITH HIMSELF AT THE HEAD. CRAXI'S WILL BE THE REVERSE: TO LAY A BASIS FOR GOVERNMENT, WHETHER OR NOT LED BY DE MITA, THAT WILL SERVE TO DEMONSTRATE THE INABILITY OF THE PRESENT CHRISTIAN DEMOCRAT LEADERSHIP TO FORM A STRONG GOVERNMENT AT ALL. CRAXI'S AIM REMAINS TO FINESSE HIS OWN RETURN TO POWER IN DUE COURSE DESPITE THE RELATIVELY SMALL SOCIALIST VOTE.

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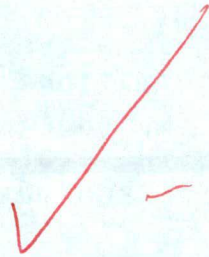
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MY TELNO 189: ITALIAN GOVERNMENT

SUMMARY:

1. DE MITA CONTINUES HIS EFFORTS TO FORM A NEW GOVERNMENT. STILL SOME WAY TO GO. USUAL DEGREE OF CONFUSION. RECOMMENDATIONS TO FOLLOW IMMEDIATELY AFTER EASTER ON WHAT TO DO ABOUT THE DATE FOR THE BILATERAL SUMMIT.

DETAIL:

2. AFTER FURTHER CONSULTATIONS WITH OTHER MEMBERS OF AN EVENTUAL COALITION, DE MITA YESTERDAY PUBLISHED A 77-PAGE DRAFT GOVERNMENT PROGRAMME. EVEN AT THAT LENGTH, THE DOCUMENT IS NOT A DETAILED MANIFESTO BUT RATHER A GENERAL LIST OF CHAPTER HEADINGS. IT CONCENTRATES ON THE IMPORTANCE OF 1992 AND THE CHANGES THIS WILL REQUIRE IF ITALY IS TO MEET ITS OBLIGATIONS WITHIN THE EUROPEAN INTERNAL MARKET. THE POLICY DOCUMENT ALSO CALLS FOR THE LOWERING OF THE PUBLIC DEFICIT, CUTS IN PUBLIC SPENDING, FURTHER INVESTMENT FOR THE SOUTH, EMPLOYMENT INCENTIVES, A NEW NATIONAL ENERGY PLAN, INSTITUTIONAL REFORM AND IMPROVEMENTS IN THE SOCIAL SECURITY SYSTEM.

3. THE PROGRAMME IS NOW BEING STUDIED BY THE OTHER COALITION PARTIES. FIRST REACTIONS HAVE BEEN GUARDED. IN PARTICULAR, CRAXI CONTINUES TO PLAY A CRAFTY GAME, BLOWING HOT AND COLD. HE HAS BLOWN COLD THIS WEEK AND IS NOW DEMANDING MAJOR CONCESSION FROM DE MITA ON A NUMBER OF ISSUES, INCLUDING THE PROBLEM OF SOUTHERN ITALY AND THE PRIVATE TV NETWORKS. CRAXI'S SOCIALISTS SEEM IN NO HURRY FOR AN EARLY END TO THE NEGOTIATIONS. IT IS NOT CLEAR YET WHETHER THEY ACCEPT DE MITA AS THE INEVITABLE NEXT HEAD OF THE GOVERNMENT OR NOT. IN THE MEANTIME ANDREOTTI, NOW BACK FROM CHINA, IS KEEPING HIS HEAD DOWN. IT IS A PIECE OF LUCK FOR HIM THAT HE WILL BE SEEN TO BE SPENDING MUCH OF THE HOLIDAY WEEKEND WITH GEORGE SHUTLZ, WHO IS SPENDING EASTER IN ROME ON HIS WAY TO THE MIDDLE EAST.

4. THE NEXT STEP IN DE MITA'S LABOURS IS A MEETING WITH THE LEADERS OF THE OTHER FOUR COALITION PARTIES TO TRY TO REACH AGREEMENT ON A DRAFT PROGRAMME. DE MITA IS HOPING THAT THIS

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MEETING CAN TAKE PLACE ON WEDNESDAY 6 APRIL. BUT THE DATE WILL INEVITABLY SLIP IF NEGOTIATIONS ON THE PROGRAMME RUN INTO FURTHER DIFFICULTIES. THEREAFTER, AN AGREEMENT WILL NEED TO BE NEGOTIATED BETWEEN THE PARTIES ON THE DISTRIBUTION OF MINISTERIAL PORTFOLIOS. THERE IS THEREFORE STILL SOME WAY TO GO.

5. DE MITA REGARDS NEXT WEEK AS CRUCIAL FOR THE SUCCESS OF HIS NEGOTIATIONS. OPINION AMONG COMMENTATORS AND POLITICIANS IS DIVIDED ABOUT HIS CHANCES OF NEGOTIATING AN OUTCOME SO SOON. THE PSI WILL CONTINUE TO HOLD OUT FOR A HIGH PRICE FOR THEIR PARTICIPATION IN A GOVERNMENT LED BY HIM. IN ADDITION THERE ARE NEW SIGNS OF TROUBLE FOR DE MITA FROM INDISDE THE DC WHICH WILL ALSO COMPLICATE THE NEGOTIATIONS TO FORM A GOVERNMENT. THE MOST OPTIMISTIC SCENARIO IS THAT, IF THE NEGOTIATIONS BETWEEN THE PARTIES PROCEED SMOOTHLY, A GOVERNMENT COULD CONCEIVABLY BE SWORN IN IN THE WEEK BEGINNING 11 APRIL. BUT IT COULD THEN TAKE A FURTHER WEEK FOR THE GOVERNMENT TO OBTAIN THE NECESSARY VOTES OF CONFIDENCE IN PARLIAMENT.

6. THIS DEGREE OF CONFUSION IS NOT UNUSUAL IN ITALIAN POLITICS AND THE PICTURE MAY CHANGE OVER THE WEEKEND. I SHALL SEND RECOMENDATIONS IMMEDIATELY AFTER THE EASTER BREAK ON WHAT WE SHOULD DO ABOUT THE SUMMIT DUE ON 20 APRIL. AS OF TODAY, THE PROSPECTS DO NOT LOOK BRIGHT.

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MONTHLY ECONOMIC REPORT : ITALY : APRIL 1988

SUMMARY

1. The new government led by the Christian Democrat (DC) De Mita received votes of confidence from both houses of Parliament. Amato (Socialist) remains Treasury Minister, Colombo (DC) moves from Budget to Finance and the new Finance Minister is Fanfani (DC). The ex Prime-Minister Gorla (DC) has no ministerial position in the new government. The government's 212 page programme is dominated by the need to prepare Italy for completion of the European single market in 1992 through institutional reform, the overhaul of the public administration and the progressive elimination of the public sector deficit.

Latest official figures show Q4 GDP rose by 2.8% year on year. Industrial production in February rose by 8.7% (unadjusted index). Intermittent mostly public sector strikes continue, affecting transport, schools, media, customs, steel, petrol stations but the footballers called theirs off. Latest unemployment figure still January record high of 12.4%. Inflation rose slightly in April to 5%. The February trade figures showed an 18.1% rise in exports but the overall deficit was 1,215 billion lire. The March balance of payments was in surplus by 646 billion lire. There was no real difficulty in servicing the public debt but the focus remained on short term BOT (the mid-month offer at 8,500 billion lire was the largest ever) BTE in ecu again proved popular. Company profits for 1987 reported so far tend to be lower than 1986 but still mostly satisfactory. Bourse trading was desultory and nervy. The lira drifted lower against most currencies. Business and family confidence still high.

The government is committed to produce a package during May to cut the 1988 PSBR by 6-7,000 billion lire although the Bank of Italy continues to argue for a 10,000 billion cut. Unemployment and the public debt are uniformly seen as the government's major economic challenges.

See Part 9 for summary of 1988 Financial Law and Budget

2. ECONOMIC ACTIVITY (Tables 1, 1A and 2)

ISTAT's figures for Q4 1987 show GDP grew by 2.8% year on year and by 0.2% over the previous quarter. Growth thus slowed in the last quarter with imports (goods and services) growing by 4.4% while exports fell by 2.9%, the worst results of the year. Compared with Q4 1986, imports grew by 17.1% and exports by 9.5%. The growth in private consumption slowed in Q4 while investment picked up after the summer lull.

	Q3/Q2	Q4/Q3	Q4/Q4 1986
GDP	1.0	0.2	2.8
Imports	1.4	4.4	17.1
Total Income/Expenditure	1.1	1.0	5.6
Fuel Consumption	0.7	0.3	3.4
Fixed Investment	-2.0	1.2	4.9
Exports	8.1	-2.9	9.5

ISTAT's unadjusted industrial production index showed a year on year increase of 8.7% in February with one more working day. The seasonally adjusted index fell to 105.9 against the record 108.8 recorded in January. Internal demand both for consumption and investment goods remains the decisive factor. Most sectors did well but the least satisfactory include petroleum products, shoes, office machinery. Rubber and transport including vehicles were the most dynamic sectors. ISCO surveys bear out the statistics but the forecasting institute expresses some apprehension about the effect on the balance of payments of poor export performance.

The IRS industrial production index predicts performance in April back at January levels after 2 quieter months.

ENEL figures for electricity consumption in April showed a 2.9% year on year increase, despite 2 less working days. Latest IRS provisional figures for demand from industry for electricity show a sharp drop in March recovering in April. Year on year percentage increases are January 3.5, February 2.8, March 1.8, April 2.4 but the incidence of the Easter holidays casts some uncertainty over the figures.

According to press reports ISTAT's indices for invoices and orders in the industrial sector in January showed a buoyant economy. Invoicing rose by 10.8% year on year with exports +11.6% just exceeding domestic +10.5%. Orders rose by 18.6% with domestic at +20% considerably stronger than exports +13.9%.

March car sales at 220,000 were an all time record. There were record sales of commercial vehicles. In the first quarter Italy took first place for European car sales with 16.06% of the total.

Employment

Over 165,000 applicants entered a competition for 1,750 posts with INPS.

Sicily region approved 2,500 projects providing work/traning contracts for 5,000 young people, an important move in an area of exceptionally heavy unemployment.

SIP (the national telephone company) announced their intention to recruit 10,000 new workers in the next 5 years, 70% with diplomas or degrees.

Unemployment

Eurostat figures showed Italy with the highest number of unemployed in Europe (6,296,900 at the end of 1987).

HOURLY CONTRACTUAL PAY RATES (1982=100)

Sector	Increase Feb 88/ Feb 87	Increase due to scala mobile indexation system
Whole Economy	8.8% *	N/A
Industry	5.9%	3.0%
Commerce	7.3%	3.1%
Transport & Communications	6.4%	2.6%
Banking & Insurance	6.0%	1.8%
Public Administration	16.7%	2.6%
Agriculture	7.6%	3.4%

*Increase in cost-of-living index over same period 4.9%.

Hourly contractual pay rates rose by 8.8% over the whole economy between February 1987 and February 1988. The rate of increase in public administration (16.7%) was almost triple that for industry (5.9%).

SOCIAL AFFAIRS

Health Matters

A decree law on the reduction of hospital beds has become permanent. It will produce savings of 1,000 billion lire this year.

An investigation showed that on average more NHS funds went to the North and Centre in 1986 than to the South. Average spending was 785,000 lire per head but Friuli in the North had 902,000 lire and Basilicata in the South only 668,000 per head.

An ISIS report showed the payment of debts accumulated by the local health offices between 1980 and 1987 cost the state 35,700 billion lire. The allocation in the Finance Act 1988 is 52,650 lire, but ISIS predicts a shortfall of 2,600 billion lire.

4. INFLATION (Table 3)

The cost of living index rose by 0.3 in April giving a year on year rate of 5%, one point up on March. The average annual rate also rose by one point to 4.8%. The income tax cuts from 1 July 1988 which enabled the Liberals to rejoin the governing coalition in November are dependent on the average annual rate of inflation not exceeding 4.5% in June and therefore now seem extremely unlikely.

COST-OF-LIVING INDEX (APRIL) (1985 = 100)

Sector of index	% change over Feb 1988	% change over Mar 1987
General index (115.3)	+0.3	+5.0*
Food	+0.2	+3.6
Clothing	+0.9	+5.8
Housing	+1.5 (1)	+6.4
Fuel & Elec.	-0.7	+4.5
Miscellaneous	+0.3	+5.7

* +4.5% for monitored/controlled prices and tariffs, +5.1% for other prices and tariffs.

(1) Quarterly revaluation.

Wholesale prices in February rose by 0.5% over January giving a year on year figure of 4.2%. This was the largest increase since September 1987. The most significant rises were in energy (crude oil 5.2%, electricity 5.1%). ISTAT's breakdown of the year on year figures according to economic destination showed the index for final consumption goods rose by 4.4%, that for final investment goods by 6.6% and intermediate goods and materials by 3.5%. The new ISTAT wholesale index confined to industrial

goods excluding construction rose by 0.7% in February over January which represented a 2.9% rise year on year (2.2% in January).

The rate of increase in costs of housebuilding which was running at 25% in 1980 fell steadily to 3.8% in 1986. However according to ISTAT, this tendency was reversed in 1987 which recorded a 4.3% increase.

The Confindustria index of raw material prices in lire showed a monthly increase in February of 2.5% principally due to the strength of sterling and the US dollar against the lira. Year on year the lira index was down by 4.8% (up 20.9% excluding fuels).

5. TRADE (Table 6)

The February trade figures were a marked improvement on January with exports recovering well and the deficit of 1,215 billion lire entirely accounted for by energy. The figure for the first two months of the year, a deficit of 3,548 billion, is virtually the same as in 1987 (-3,544 billion). Year on year in February imports rose by 9.4% and exports by 18.1%. Leading export sectors such as engineering/machine tools, textiles/clothing, chemicals and transport recorded large increases. Energy imports fell slightly (by 464 billion lire) but engineering/machine tools, chemicals and textiles/clothing were also among the major growth area for imports. Most commentators, while welcoming the improvement in export performance, think it too early to draw conclusions on trends.

The Minister of Foreign Trade Ruggiero announced ICE would spend 20 billion lire this year on promoting the image of Italian exports abroad. De Mita told the Japanese Prime Minister Takeshita during his visit to Rome that the government would welcome greater Japanese investment in Italy. The private TV magnate Berlusconi won a TV advertisement contract in the USSR but the price was not divulged.

Decree 135 of 14 April of the Minister for Foreign Trade was published in the Official Gazette on 30 April. It lifts restrictions on the import of Italian banknotes of any denomination by residents or non-residents.

The March balance of payments was in surplus by 646 billion lire compared with a surplus of 926 billion in the same month last year. There was a net outflow of bank capital of 2,147 billion but the outflow of 1,000 billion of non-bank capital was more than compensated by inward investment. At the end of March the net foreign indebtedness of the banking sector was 37,000 billion. The reserves fell from 78,033 at end February to 74,721 billion lire at end March.

OFFICIAL RESERVES (Billion Lire)

Month	Total net reserves	Gold	Convertible	ECU
February	78,033	39,813	24,243	11,166
March	74,721	38,115*	22,553	11,285

*Quarterly revaluation.

reserves

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

The middle of March saw the largest ever mid-month offer of BOT at 8,500 billion lire. 3-month bills remain the most popular: savers with an eye on rising inflation, decline to be tied in too long. Nevertheless yield increases in a mid-month 2 year BTP offer led to its being heavily oversubscribed. BTE denominated in ecu continue to be very popular. The new secondary market for Treasury bonds is expected to begin trading on 16 May.

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective annual yield (compound)(1)	
				gross %	net*
(Billion Lire)					
3-mth BOT					
end-Mar	6,500	-	771	10.70	9.29
mid-Apr	2,500	500	20	10.69	9.28
end-Apr	8,500	331	-	10.64	9.24
6-mth BOT					
end-Mar	11,500	1,750	133	10.78	9.34
mid-Apr	3,000	800	204	10.81	9.37
end-Apr	12,000	1,000	535	10.81	9.37
12-mth BOT					
end-Mar	10,500	1,750	837	10.56	9.12
mid-Apr	3,000	1,200	191	10.96	9.46
end-Apr	9,000	1,000	608	10.96	9.46
5-yr CCT					
March	4,000	-	1,470	12.15	10.60
April	2,500	-	1,450	12.15	10.60
May	2,000	-	oversubscribed	12.15	10.60
BTP					
March (2-yr)	4,000	-	oversubscribed	11.53	10.06
15 Mar(2-yr)	2,000	-	"	11.47	10.01
April (2-yr)	3,500	-	400	11.23	9.79
April (4-yr)	3,000	-	- 600	11.98	10.45
15 Apr(2-yr)	1,000	-	oversubscribed	11.47	10.01
May (2-yr)	3,500	-	1,370	11.38	9.93
May (4-yr)	3,000	-	1,370	12.15	10.61
BTE					
Dec (380 days)	500m Ecu	-	oversubscribed	8.55	7.48
Feb (373 days)	750m Ecu	-	"	7.78	6.81
Apr (373 days)	1,000m Ecu	-	"	7.49	6.55

(1) Simple interest for BTE.

* Net of 12.50% tax deducted at source.

(Total BOT in circulation at mid-April: 215,189 bn lire)

Bank loans in March, at a level of annual increase of 7.5%, were within Bank of Italy guidelines.

The Bank of Italy issued new rules on transfer of bank branches and procedures for clearing cheques in its continuing programme to modernise the Italian banking system in preparation for 1992. The Bankers' Association ABI said 1987 was a difficult year for banks with profits down by an average of 8.1%. The size of the public deficit was a serious constraint on banks with deposits in March growing only by 4.7% (below inflation). Cingano, President of Banca Commerciale Italiana, has replaced Maccanico as Chairman of Mediobanca. Maccanico is Minister for the Regions and Institutional Reform in the new government.

The lira drifted lower during the month as both sterling and the US dollar performed strongly.

EXCHANGE RATES - APRIL
(in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,346.750 (21 Apr)	2,312.075 (14 Apr)	2,340.600
\$	1,254.900 (13 Apr)	1,231.125 (5 Apr)	1,241.975
DM	744.320* (29 Apr)	741.465 (13 Apr)	744.320*

*Record high.

Change in weighted value against other EC currencies since 9 February 1973: end-February -63.10%; end-March -63.45%; end-April -63.59%.

The stockmarket had a depressing month with a very low volume of trading. The investment funds recorded an excess (-774 billion lire) of redemptions over new subscriptions for the 9th successive month. Montetitolì reported 1987 profits of 2.4 billion lire despite reduced tariffs. The nominal value of titles deposited with Montetitolì at the end of the year was 46,000 billion lire, double that for 1986, and in April this was said to have grown to 52,000 billion.

The season for company reports continues. The overall position seems to be of slightly reduced profits with the stock exchange crisis effecting company treasuries contributions. Olivetti reported profits down from 565 to 402 billion lire, ENI's profits were also lower. But Alitalia reported increased profits (66.9 billion) and ENEL record profits. The state steel giant Finsider is due to be liquidated at a shareholders meeting on 10 May: Italy has been given one month by the Commission to produce its steel restructuring plan.

7. FISCAL POLICY

The De Mita government programme aims to eliminate the primary deficit (i.e. net of interest payments) by 1992. To this end it is planned to reduce the borrowing requirement estimated at some 122,000 billion lire by 6-7,000 billion lire this year and by at least 7-8,000 billion lire in subsequent years. The government is committed to a gradual reform of the public accounts which will not threaten prospects for economic growth.

One of De Mita's first acts as Prime Minister was to send a circular to all Ministers requiring that the new rules in the Financial Law on costing legislative proposals be strictly observed. Ministers will have to find additional revenue or compensating savings not only for their own bills, decree laws or ministerial decrees but also to cover amendments by Parliament. To overcome the problem of hidden costs, all proposals must be submitted to the Accountant General's office at the Treasury in a set form and estimates must cover the whole life of the measures.

Detailed proposals on public finance are expected to be published on 25 May. The Bank of Italy has warned of the need to avoid inflationary increases in indirect taxation and pointed out that the level of fiscal pressure in Italy is not out of line generally with analogue countries: the problems lie in the degree of tax evasion and avoidance, and erosion of the tax base. The Bank also points to the importance of action to cut expenditure, in particular in the areas of health, social insurance/pensions and local finance. A Bank study estimates that the cost of servicing the public debt is currently underestimated by the Ministero del Tesoro by some 3,000 billion lire.

The tax take in February was 16.1% up on the same month last year with the greatest increases in taxes on companies (IRPEG), local income tax (ILOR) and on interest, apart from state profits from lotteries which rose by 71.1%. The general confusion and maladministration in the collection of taxes is evidenced by the latest scandal which has brought huge tax demands on some 300,000 payers who had applied to benefit from a tax pardon in 1982.

8. ASSESSMENTS OF ECONOMIC PROSPECTS

The latest ISCO-ME surveys of family and business confidence show widespread optimism on short term economic prospects is being maintained.

The De Mita Government programme is a bulky document which proposes a vast legislative programme with the object of preparing Italy for 1992. There is considerable emphasis on the need for institutional reform e.g. limitation of the secret vote and for an overhaul of the public administration. The elimination of the deficit is linked to Italy's being able to benefit fully from the single market. The Government commits itself to implement all relevant EC Directives. Unemployment and the South is the other major theme. There must be a new cycle of employment. State aids to prop up declining industries are seen to have led to lack of transparency and rationality in industrial policy. The emphasis now is on development of the services sector (including tourism) and on bringing high tech industries to the South with the Government investing heavily in infrastructure.

9. FINANCIAL LAW AND BUDGET

The passage of the 1988 Financial Law and Budget was more than usually confusing this year : a summary of the major events and outcome may be useful.

Decree law 348 of 27 August (not ratified) and Decree law 391 of 24 September together with the Decree issued by the Minister of Finance on 5 October contained measures to cut the PSBR in 1987 by raising additional revenue of 3,450 billion lire. These measures chiefly concerned raising the level of advance payments of corporation and local tax, and of withholding tax on bank interest. The increase to 12.5% in the tax rate on new government securities was brought forward to 31 August. Increases in the 18% VAT rate by 4% on private cars, furniture and electrical appliances and by 2% on audiovisual, photographic and optical equipment were imposed until the end of the year. There were also increases in excise duties, on oil and tobacco and in stamp duty on stock exchange transactions. The implementation of these measures and parliamentary consideration of them overlapped with the introduction of the Finance Bill and complicated its initial consideration since some of the provisions in the bill were related to measures in the Decrees.

The Government's first version of the Finance Bill was made public on 24 September. It was a comparatively slim document of 7 Articles which had grown to 20 by 29 September when it was presented to Parliament. On 6 October the Council of Ministers approved a number of accompanying measures covering fiscal matters, public works, employment, foreign trade, environment and regional finance. These formed an integral part of the Government's budgetary strategy designed to limit the PSBR in 1988 to 109,500 billion lire through increased revenue of 11,600 billion lire and reduced expenditure of about 8,000 billion. 85% of the increase would come from indirect taxation. Reform in direct taxation covered rates, income brackets, allowances for dependent spouses and employees. The combined effect was to reduce the tax paid at every level of income with particular benefits for single income families, and employees in low and middle income brackets at a cost to the government of 4,920 billion lire. Withholding tax on bank and Post Office interest was raised from 25 to 30% (worth 2,500 billion in 1988). Company assets would be revalued (3,000 billion in 1988 declining in subsequent years). Changes would be made in tax treatment of losses arising from mergers and of capital gains on share disposals. Banks would get tax relief on larger loss provision on loans to developing countries whose debt had been accepted for restructuring. On indirect taxes 9 and 18 per cent VAT rates were raised to 10 and 19 per cent (2,982 billion lire). Motor vehicle licences went up 25%, the surtax on diesel and liquid gas fuelled vehicles was also raised (654 billion), tax on insurance premiums also went up 25% (500 billion). Restrictions on deductibility of VAT on motor vehicles and fuels were imposed (1,200 billion) but tax relief on first house purchase was extended to end 1988 (revenue loss 360 billion). Health contribution rates for employers dropped from 9.6 to 9.4 per cent for employers and from 1.35 to 1.2 per cent for workers (1.1% in 1989). The so-called health tax on the self employed previously levied at 7.5 per cent went down in 1988 to 7% and in 1989 to 5%. The 1 per cent health tax on public sector employees was reduced to 0.5% in 1988 and zero from 1989. Estimated loss of revenue in 1988 from these measures was 1,428 billion lire. Additional contributions from the agricultural sector were estimated to raise revenue of 700 billion. Differentiated per capita relief (30% greater in South) on employers' social contributions were estimated to result in revenue

reductions of 1,006; 2,246 and 2,237 billion lire over the 3 years 1988-90. Current expenditure on the National Health Service was fixed at 5,700 billion more than forecast in the 1987 budget and 1,800 billion above the estimated 1987 outturn. Measures to limit spending included the reduction of unused hospital beds, and limitations on pharmaceutical consumption. Transfers to INPS the social security institute were limited to 36,000 billion (compared with 33,400 billion in 1987). Criteria for disability pensions would be tightened and employers would have to pay 4% of the costs of workers put on wage supplementation benefits from Cassa Integrazione Guadagni (CIG). A new employment fund would use contributions from GESCAL (former worker housing agency: this turned out to be one of the most controversial issues of the whole saga). From 1 July 1988 a new family unit allowance would replace family allowances and supplementary benefits for employees at a cost of 550 billion lire in 1988. Allocations to decentralised bodies were curbed, new laws entailing expenditure would be more strictly controlled and recourse to contingency funds would be restricted. From 1 January 1988 the (ineffective) ban on recruitment by government departments was lifted.

The Bank of Italy was from the outset concerned by the failure to reduce further the PSBR and by the inflationary implication of the indirect tax increases but with the exception of retail traders the reception was generally not unfavourable. The Senate Budget Commission acted to safeguard the PSBR by incorporating into the bill only revenue provisions of the accompanying measures. Led by their Christian Democrat Chairman Andreatta, they also tightened the rules for presenting new bills entailing unforeseen expenditure during the year. But the stockmarkets crash of 19 October caused the Senate to remit the whole bill to the government for reconsideration in the changed international economic climate. The Bank of Italy pressed its case for a tighter fiscal stance and was supported by the IMF team conducting (belatedly, owing to earlier government crises) its annual check up on the Italian economy. The second version of the Bill was approved on 10 November with the only Liberal Minister Zanone voting against. On 13 November the Liberal Party withdrew its support and Prime Minister Gorla tendered his government's resignation on 14 November. By 21 November the crisis had been resolved with minimal concessions to the Liberals.

The second Finance Bill brought the PSBR target down to 103,500 billion with the declared intention of reducing it to 100,000 billion through further measures during the year. Changes in income tax rates and brackets were postponed with a saving to the government of 3,800 billion. Increases in VAT were postponed at a cost of 3,000 billion. Reductions in employers social security contributions were rescinded at a saving of 1,000 billion but the new family unit benefit was brought forward to 1 January 1988 at a cost of 550 billion. Prescription charge increases and limitation on supply of pharmaceuticals produced an additional saving of 850 billion. The Treasury borrowing requirement was reduced by a further 3,000 billion by a reduction in planned lending to ENEL and SIP (state electricity and telecommunications companies).

The Liberals had objected to the bill because of the failure to correct public expenditure abuses and to grant relief from fiscal drag to wage earners. To satisfy them a Commission was appointed to identify within 4 months cuts in public expenditure of 1,500 billion lire during 1988 and it was agreed that provided the annual inflation rate in June was not above the government's target of 4.5% personal income tax rates would be reduced by 2% (expected cost 1,500 billion).

The Senate approved the Finance Bill on 6 December slightly modifying the Government's strategy but leaving the PSBR target unscathed. Licence charges on state concessions were increased (350 billion revenue gain). Increases in social security contribution in the agricultural sector were eased slightly as were health contributions. The provision for civil disability pensions were modified to conform to WHO guidelines. GESCAL contributions went to finance public housing programmes not employment. 1,000 billion was set aside for pension improvements. The new health charges were slightly reduced and the measures to establish more stringent control of expenditure were reaffirmed.

The Chamber of Deputies did not begin consideration of the bill until January. Meanwhile on 23 December the Government issued a comprehensive decree law dubbed the 'decretone' which not only implemented from 1 January a number of the fiscal measures approved by the Senate but included other provisions of doubtful urgency. Parliament refused to try to digest the 'decretone' simultaneously with the Finance Bill. On 13 January the Government replaced the 'decretone' by 3 separate decree laws which incorporated most of its provisions.

The Finance bill had a most difficult passage through the Chamber where over 1,500 amendments were tabled. The government suffered 13 defeats in secret votes on important articles and resorted 7 times to (open) votes of confidence to get its essential programme through. These difficulties arose from political manoeuvring within and among the coalition parties rather than a consistent opposition view on budget policy. The outcome was therefore messy. As a whole the provisions adopted were less stringent than those approved by the Senate. The increase in withholding tax on bank and postal deposits from 25 to 30% was not approved. Increases amounting to 700 billion lire in indirect taxation were passed and personal tax scales are to be adjusted annually from 1989 for inflation if this exceeds 4%. Tightening of social provisions, particularly on invalidity pensions, was not approved and the limit (39 million lire) on the level of income counting towards pension entitlement will no longer apply. From 1989 pensions will be linked to average contractual wages of all workers (public and private) rather than minimum contractual wages of industrial workers. 1,250 billion of ex GESCAL contributions should be absorbed into budgetary revenue. Special early retirement schemes in certain sectors were extended to end 1988 at a cost of 350 billion. The Senate measures on prescription charges and hospital beds were not approved but these and some other measures were simultaneously enacted by decree laws. Employment initiatives in the South up to a cost of 500 billion were approved, also the allocation of 740 billion to a Fund for Reducing Unemployment (which has yet to be set up). 870 billion lire for urgent environmental measures was authorised.

The amended Finance Bill was adopted as a whole by the Chamber on 7 February. Subsequent voting on the budget lines implementing the bill should have been a formality but political tensions led to further government defeats and Gorla tendered his resignation again on 10 February. When he returned to Parliament to seek renewed votes of confidence in his government on 19 (Chamber) and 20 February (Senate) it was on the explicit understanding that he should see the Finance Bill through, as arrangements for national funding by 'provisional twelfths' are only possible up to the end of April according to the Constitution.

The official estimate of the size of the 1988 PSBR was now 122,000 billion lire and the Government deliberated for some days over whether it was politically possible to repair some of the damage. Eventually it was decided only to re-insert the increase in tax on bank deposits from 25 to

30% and to delete a left-wing amendment imposing 80% tax on sums received by civil servants for outside work. The Senate adopted the bill as amended by the Government on 9 March and the Chamber of Deputies took less than 2 hours the following day to approve the same text. Gorla resigned on 11 March, the immediate cause being a dispute over nuclear policy.

All parties have drawn the conclusion from this bruising experience that law 468 of 5 August 1978 which governs current budgetary procedure is demonstrably inadequate and must be revised. A number of proposals to this end have already been tabled. From the point of view of the new De Mita government's plans to claw back 6-7,000 billion this year, the Chamber of Deputies' decision to minimise health cuts, break the pensions ceiling and tie pensions to average contractual wage increases (public sector wages are growing much faster than private) must be a considerable worry. Health and pensions, with local authority transfers, are areas where spending must be reduced if anything is to be done about the PSBR.

THOMAS

FRAME ECONOMIC

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TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1983	397,720	251,328	63,029	85,927	1,328	401,612	84,089	87,981	631,575
1984	411,743	256,859	64,308	89,709	8,307	419,198	90,480	97,920	720,682
1985	423,064	263,753	66,564	92,667	9,107	432,091	94,098	103,125	805,754
1986	434,682	272,194	68,534	93,796	11,503	446,027	96,997	108,342	894,362
1985 Q1	104,550	65,001	16,454	23,121	2,198	106,774	23,350	25,574	192,988
Q2	105,220	65,648	16,550	23,161	2,469	107,828	23,030	25,638	198,983
Q3	106,221	66,369	16,705	23,121	2,076	108,271	23,318	25,368	204,712
Q4	107,073	66,735	16,856	23,263	2,365	109,219	24,400	26,545	209,071
1986 Q1	106,703	67,216	16,985	23,176	2,740	110,117	23,666	27,079	212,932
Q2	108,947	67,670	17,117	23,562	1,939	110,288	25,018	26,358	222,288
Q3	109,411	68,238	17,167	23,640	3,465	112,510	25,047	28,145	227,458
Q4	109,621	69,071	17,265	23,419	3,359	113,114	23,266	26,760	231,685
1987 Q1	109,525	70,080	17,288	23,493	3,662	114,523	23,525	28,524	233,569
Q2	111,511	70,731	17,338	24,127	4,813	117,009	24,035	29,535	242,374
Q3	113,405	72,126	17,974	25,005	1,318	116,423	26,520	29,539	244,506
Q4	113,641	72,387	18,003	25,300	3,035	118,725	25,763	30,847	

*(2)+(3)+(4). NB: Figures are revised each quarter.

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TABLE 1A: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts. (All figures seasonally adjusted.)

Percentage changes (year-on-year); (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
	(1)	Private	Govt	(3)	(4)	(5)	(6)	(7)	(8)
		(2)							
1983	0.5	0.4	2.8	-1.6	-	-0.4	2.3	-1.6	15.9
1984	3.5	2.2	2.0	4.4	-	4.4	7.6	11.3	14.1
1985	2.7	2.7	3.5	3.3	-	3.1	4.0	5.3	11.8
1986	2.7	3.2	3.0	1.2	-	3.2	3.1	5.1	11.0
1985 Q1	2.7	1.6	3.9	5.0	-	3.2	6.3	8.4	11.2
Q2	2.8	2.2	3.3	3.6	-	3.3	4.6	6.7	11.8
Q3	2.2	3.4	3.6	2.2	-	2.7	0.8	2.9	12.0
Q4	3.3	3.5	3.2	2.5	-	3.1	4.5	3.5	12.2
1986 Q1	2.1	3.4	3.2	0.2	-	3.1	1.4	5.9	10.3
Q2	3.5	3.1	3.4	1.7	-	2.3	8.6	2.8	11.7
Q3	3.0	2.8	2.8	2.2	-	3.9	7.4	10.9	11.1
Q4	2.4	3.5	2.4	0.7	-	3.6	-4.6	0.8	10.8
1987 Q1	2.6	4.3	1.8	1.4	-	4.0	-0.6	5.3	9.7
Q2	2.4	4.5	1.3	2.4	-	6.1	-3.9	12.1	9.0
Q3	2.4	1.3	1.6	0.8	-	2.5	4.3	6.6	7.5
Q4	2.8	3.4	3.2	4.9	-	4.9	9.5	17.1	

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices		Orders		Employment '000s (4)	Unemployment '000s (5)	Unemployment rate (6)	Strikes '000 hrs lost (7)
		Dom.	Export	Dom.	Export				
	(1980=100)	(1980=100)		(1980=100)					
1983	92.0	141.0	151.0	133.0	153.0	\$20,704	\$2,278	9.0	98,021
1984	95.4	157.8	180.1	152.0	175.5	\$20,648	\$2,578	9.9	58,232
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	37,673
1986 Q1	99.8	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	99.9	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	99.4	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	101.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	100.9	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,112
Q2	102.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,092
Q3	101.8	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,415
Q4	104.0*					20,901	2,930	12.3	
1988 Q1						20,778	2,945	12.4	
(a)									
'86 JAN	97.2	165.6	194.0	173.5	197.7				5,512
FEB	99.1	175.3	200.7	200.3	195.6				1,569
MAR	100.1	180.5	198.7	208.5	216.6				2,442
APR	100.4	186.2	203.5	205.4	203.3				1,758
MAY	98.6	179.5	199.1	187.2	210.8				881
JUN	100.8	178.7	208.3	194.4	194.8				1,094
JUL	100.3	196.3	241.6	189.9	214.9				568
AUG	98.7	90.9	90.1	81.1	82.1				50
SEP	99.3	197.1	210.5	224.6	221.5				798
OCT	101.0	199.3	213.5	210.7	224.6				6,504
NOV	101.2	175.7	190.6	188.2	178.3				9,997
DEC	101.7	185.9	201.1	206.8	193.6				6,500
'87 JAN	100.8	153.2	172.1	170.2	186.7				2,925
FEB	100.7	172.7	194.8	207.6	198.9				4,482
MAR	101.1	208.0	222.4	227.0	221.8				1,705
APR	101.8	196.4	198.8	211.6	196.6				1,528
MAY	104.3	189.7	206.7	192.6	183.3				842
JUN	101.6	201.8	231.9	218.9	224.2				1,722
JUL	102.5	211.3	257.6	219.7	224.2				1,339
AUG	100.9	101.3	95.4	70.8	85.8				39
SEP	102.1*	215.7	219.7	263.4	232.6				1,037
OCT	104.7*	219.3	224.7	230.0	233.6				1,136
NOV	103.8*	201.8	218.1	204.9	196.4				13,569
DEC	103.5*								N/A
'88 JAN	108.7*								914
FEB	105.9*								1,494

(a) Seasonally adjusted.

§Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures.

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT.
Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1983	14.7	14.9	9.7	14.6
1984	10.8	10.6	10.4	12.0
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3	4.9	4.6	+4.1	8.0
Q4	5.4	5.2	+4.6	
1988 Q1		4.9		
1986 JAN	8.2	8.0	4.8	6.9
FEB	7.3	7.6	2.5	5.4
MAR	7.0	7.2	0.3	5.3
APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.1
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV	5.4	5.2	4.6	N/A
DEC	5.2	5.1	4.7	8.3
1988 JAN	5.2	5.0	3.9	N/A
FEB		4.9		8.8
MAR		4.9		
APR		5.0		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1984	12.6		12.3	14.6	21.3
1985	16.6		14.0	14.4	19.2
1986	10.6	10.2	8.9	8.8	16.2
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8	10.9	9.5	8.1	15.9
1987 Q1	9.5	9.9	10.3	7.7	15.6
Q2	11.4	10.8	12.0	9.0	15.2
Q3	12.3	10.9	10.5		14.5
1985 Nov	15.2	13.6	13.3	13.3	17.9
Dec	17.3	10.4	11.1	11.7	18.0
1986 Jan	11.3	9.7	10.1	11.1	16.5
Feb	11.7	10.0	9.7	10.8	16.7
Mar	13.7	10.4	9.3	11.0	16.4
Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3	10.0	9.6	7.7	15.9
Feb	9.4	10.1	10.4	7.7	15.7
Mar	8.9	9.8	10.8	7.6	15.2
Apr	11.9	10.4	11.5	8.6	15.0
May	10.9	10.6	12.0	9.0	15.0
Jun	11.3	11.5	12.3	9.4	15.5
Jul	11.7	11.6	12.0	10.0	14.8
Aug	12.4	11.3	11.6	10.4	14.8
Sep	12.7	10.3	10.8	11.2	13.9
Oct	12.9	10.0	10.3	11.5	13.5
Nov	9.7	8.8	9.4	12.0	13.0
Dec			8.3		13.0

NB: Figures are revised periodically.

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana;
(5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	12-month BOT (3)		Lira/US\$ (5)	Lira/£ster
1983	17.66	19.82	18.05	92.4	1,519.2	2,301.7
1984	16.86	16.98	15.43	89.9	1,756.5	2,339.8
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.41	10.92	89.6	1,483.6	2,176.8
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3	12.25	10.92	10.88	90.7	1,331.1	2,151.8
Q4	11.05	11.60	11.88		1,248.5	2,188.3
1986 Apr	12.81	14.01	11.84	88.2	1,556.9	2,329.3
May	12.19	13.12	11.00	88.0	1,528.7	2,325.5
Jun	12.31	12.19	10.57	88.1	1,531.5	2,310.8
Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.0	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.5	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.5	1,345.80	2,149.00
Sep	12.25	11.33	11.45	91.1	1,310.30	2,154.40
Oct	10.63	11.58	12.17	91.4	1,303.10	2,164.50
Nov	11.88	11.91	12.14		1,239.40	2,199.70
Dec	10.63	11.30	11.33		1,202.90	2,200.60
1988 Jan			10.56		1,215.00	2,190.20
Feb			10.50		1,244.40\$	2,202.77\$
Mar			10.56		1,230.90\$	2,312.63\$
Apr			10.96		1,241.97\$	2,340.60\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged.
(3) gross yield on end month issues. (4) Wholesale prices.
\$End month rates.

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire					1980=100	
1983	122,002	110,537	-11,465	+3,793	+ 706	93.3	108.4
1984	148,162	129,027	-19,135	+ 57	-7,254	101.8	115.6
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	+ 665	115.8	126.4
1987	161,587*	150,449*	-11,138*	+1,637*			
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789*	- 881*	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660*		117.6	132.9
Q4	44,660*	42,190*	- 2,470*	+3,287*			
1986 Apr	13,015	12,672	- 343	+2,287	- 737	118.6	133.0
May	12,798	11,726	- 1,072	+1,555	+ 221	120.7	123.1
Jun	11,921	12,267	+ 346	+ 664	+1,350	113.3	130.9
Jul	12,415	13,632	+ 1,217	+1,459	+1,935	122.1	144.7
Aug	7,314	9,424	+ 2,111	+ 703	+2,831	75.0	100.6
Sep	12,300	11,556	- 744	-1,697	+ 827	119.8	122.9
Oct	13,512	13,772	+ 260	- 651	+ 791	131.7	143.8
Nov	11,920	11,763	- 157	- 133	- 404	116.6	122.5
Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 612	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	+ 110	+ 645	136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,011	+1,020	79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+ 919*		137.7	137.4
Oct	14,940*	14,250*	- 690*	+ 728*		138.6	144.4
Nov	14,330*	13,480*	- 850*	+1,371*			
Dec	15,390*	14,460*	- 930*	+1,188*			
1988 Jan	12,020*	9,680*	- 2,330*	+1,369*			
Feb	13,675*	12,460*	- 1,215*	- 734*			
Mar				- 646*			

*Provisional

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TO FCO SAVING TELEGRAM NO 6 OF 10 MAY 1988
AND INFORMATION SAVING
WASHINGTON, PARIS, BONN, OTTAWA, UKDEL IMF/IBRD, UKDEL OECD,
UKREP BRUSSELS, CONSULATES IN ITALY.

MONTHLY ECONOMIC REPORT : ITALY : MAY 1988

SUMMARY

1. Treasury Minister Amato published his medium term plan to eliminate the primary deficit by 1992 and the government issued a decree law containing measures to cut the 1988 PSBR by 7,000 billion lire (4,000 billion additional revenue, 3,000 billion cuts in expenditure). The Governor of the Bank of Italy presented his annual report and the new President of Confindustria Pininfarina gave the key-note speech at the organisation's annual assembly.

Industrial production in March rose by 6.2% (unadjusted index). Intermittent public service sector strikes continue. Widespread concern about possible effects of the teachers pay settlement, estimated to give rises of over 20% over 3 years, on public sector pay policy, the primary deficit and inflation. Latest unemployment figure still January record high of 12.4%. Inflation fell slightly in May to 4.9%. The March trade deficit was the largest for many months at -2,800 billion lire. March balance of payments figures have been corrected from +646 billion to -292 billion lire and the April deficit was very large at -2,953 billion lire. Treasury bond sales to service the public sector deficit were satisfactory: the new secondary market had a quiet start. The stockmarket had another bad month despite rallying a little at the end but business confidence remains high.

2. ECONOMIC ACTIVITY (Tables 1, 1A and 2)

ISCO forecasts an increase of 11.6% this year (12% in 1988) in industrial investment. In large firms this will mostly be directed to rationalisation and automation: small and medium firms in particular say they will be investing to increase productive capacity. The proportion of investment by all sizes of firms to replace obsolescent plant declines.

The increase in the number of licences issued for residential building indicates the building trade should be coming out of the doldrums. Licences issued rose by 18.4% in Q3 1987 and by 14.3% in the first nine months of that year.

ISTAT's unadjusted industrial production index showed a year on year increase of 6.2% in March with one more working day. The average daily rise was just over 2%. This is the 14th consecutive month in which a year on year increase has been recorded. However the seasonally adjusted index fell from 106 in February to 104.8 in March.

The IRS industrial production index initially suggested a slowdown in May but latest figures indicate no slack off: year on year growth January-May was 5.9% (taking into account the number of working days).

ENEL figures for electricity consumption in May show a 6.2% rise year on year (4.3% taking into account the number of working days).

According to press reports ISTAT's indices for invoices and orders in the industrial sector in February show invoicing up by 14.2% with domestic and export invoicing rising at much the same rate: orders are up 13.1%, divided 12.4% domestic, 14.7% export.

April car sales in Italy were about 4,000 down on the same month in 1987: this was the first fall for 19 months: the volume of sales may have been affected by the incidence of Easter. FIAT remains European leader.

Latest ISCO-ME surveys of business and family confidence show optimism on economic prospects is still widespread.

GEPI the government agency established in 1971 to take over private firms in trouble and nurse them back to health if possible, announced it has returned 168 firms with 33 thousand employees to private hands. In 1987 19 firms with 2,500 employees were so 'privatized'.

3. LABOUR AND SOCIAL AFFAIRS

Industrial unrest in the transport sector continued throughout the month, but agreement was finally reached with the unions on new contracts for airport ground staff. A strike in protest was called by the Co-ordinating Committee at Fiumicino Airport in Rome, but it attracted only 15% support and there were no major delays. The situation on the railways and ferries is still very tense and there are no signs of long-term solutions.

Action reached a new peak in education services, where the situation is complicated by the existence of the three confederal unions, an autonomous union (SNALS), and two separate splinter groups, the Gilda which is relatively moderate, and the COBAS who are both strong and very militant. The Gilda and COBAS and occasionally SNALS are excluded from the

negotiations. The disruption has taken the form of a complete refusal to carry out end-of-session scrutinies and assessments which will have serious consequences for students.

Negotiations continued throughout the month and a 'final offer' valued at 5,636 billion lire yielding increases for teaching staff of around 20% over three years was finally signed by the confederal and autonomous unions, under threat of 'precettazione' (direction to work normally). The government says that with some adjustments the scrutinies have been secured. The reaction of the Gilda and COBAS is not yet clear because they are not parties to the agreement.

This settlement obviously has serious implications for the public finance policy if the other public sector unions can secure increases of the same order, and for competitiveness if the private sector follows suit.

There were several less serious disputes during the month involving buses, customs officials, court officials, dockers and journalists.

The terms of a Bill to control strikes were finally agreed by the end of May and the Bill has now been introduced in the Senate.

A report by CESOS showed that for the first time ever, strikes in the service sector 1986-87 exceeded those in industry.

EMPLOYMENT

Employment in large industries fell by 2.9% between January 1987 and January 1988, but hours worked increased because of overtime.

ISTAT SURVEY OF MANUFACTURING FIRMS WITH 500 OR MORE EMPLOYEES

	Jan 88/Jan 87	Dec 87/Dec 86
	(percentage changes)	
Employment	-2.9 (1)	-1.0
Average number of hours worked per manual worker	+4.2 (2)	+4.1
Average monthly earnings per manual worker		
all payments (incl guaranteed wages, family allowances, one-off payments, etc) :	+11.4	+7.2

(1) Fall affected all sectors, ranging from 0.9% in energy sector to 6.1% in metallurgical sector.

(2) Reflects average increase in overtime of 20.9%.

The April hourly pay index of 167.1 showed an increase of 0.1% over March and 8.7% over April 1987 with inflation running at 5%. The increase in pay of public administration staff was 16.3%.

HOURLY CONTRACTUAL PAY RATES
(1982=100)

Sector	Increase Apr 88/ Apr 87	Increase due to scala mobile indexation system
Whole Economy (167.7)	8.7% *	N/A
Industry	6.0%	3.0%
Commerce	7.3%	3.1%
Transport & Communications	6.1%	2.6%
Banking & Insurance	6.0%	1.8%
Public Administration	16.3%	2.6%
Agriculture	5.6%	3.3%

*Increase in cost-of-living index over same period 5.0%.

The Contingenza May index was up by 2.64%, producing an extra 17,000 lire for all full time workers plus a small adjustment according to pay.

Law 64 for the Mezzogiorno produced only 1,600 new jobs in 1987 despite the expenditure of 927 billion lire in capital grants and 836 billion lire in 'soft' loans.

CIPE, the committee which allocates government funds for job creation, approved 7,644-billion lire for over 300 projects in 1986-88 which it is hoped will provide 53,000 jobs. Campania, with 893 billion lire has received more than any other region.

At his inauguration as President of Confindustria, Sergio Pininfarina made an impressive speech outlining his view of the future of Italian industry to 1992 and beyond.

Research carried out by CESOS showed that the services sector created 247,000 new jobs in 1985/86 while employment fell in manufacturing, construction and agriculture by 43,000, 35,000 and 55,000 respectively.

SOCIAL AFFAIRS

Drug addiction continues to be a major problem in Italy. Official figures showed 516 deaths in 1987, an increase of 77% over 1986. The region worst affected was Lombardia with 115 deaths. Parliament has approved an extra 60 billion for 1988/90 for measures to combat drug addiction.

The proposed reorganisation of the National Health Service now seems likely to involve the creation of 80,000 new jobs with costs of 3,000 billion lire instead of the expected saving of 1,200 billion lire. It was also reported that the number of hospital beds is to be cut in all regions except Val d'Aosta (which is tiny) and Lazio, and that 1,000 items are to be struck off the list of prescribable medicines. This information is self-contradictory and there is a great deal of confusion.

Some 2 million workers are now covered by private health insurance schemes, costing around 600 billion lire annually.

A decree law revising family allowances, and one dealing with employment covering inter alia an Employment Fund, and new rates of unemployment benefit have been passed by Parliament.

4. INFLATION (Table 3)

The cost of living index rose by 0.3% in May giving a year on year rate of 4.9%, one point down on April. The average annual rate remains 4.8%.

COST-OF-LIVING INDEX (MAY) (1985 = 100)

Sector of index	% change over Apr 1988	% change over May 1987
General index (115.6)	+0.3	+4.9*
Food	+0.1	+3.4
Clothing	+0.3	+5.7
Housing	+0.2	+6.5
Fuel & Elec.	no change	+4.9
Miscellaneous	+0.3	+5.4

* +4.4% for monitored/controlled prices and tariffs, +5.0% for other prices and tariffs.

Wholesale prices in March rose by 0.2% over February giving a year on year figure of 4.3%. ISTAT's breakdown of the year on year figures according to economic destination showed the index for final consumption goods rose by 4.3%, that for final investment goods by 5.8% and intermediate goods by 3.8%. The new ISTAT wholesale index confined to industrial goods excluding construction rose by 0.1% in March over February which represented a 2.7% rise year on year.

The Confindustria index of raw material prices in lire showed a monthly increase in March of 3.7% with metals (+8.4%) and fibres (+7.3%) showing the steepest rises while foodstuffs (+1.4%) were at the lower end of the scale. Year on year the lira index continues to show a fall, 2.7% for March, because of the large reduction in combustibles (-23.3%).

Fiat has announced prices increases averaging 1.2% on its vehicles.

5. TRADE (Table 6)

March trade figures were disappointing with the worst deficit at -2,800 billion lire for sometime. Imports rose by 14.7% and exports fell by 2.5% compared with March 1987. Energy accounted for only 1,368 billion of the deficit. The figures for Q1 show a deficit of -6,460 billion lire against -3,989 billion in the same period last year. Exports have risen by 3.4% but imports by 9.4%. Increasing imports in sectors where Italian production has always been strong e.g. textiles and clothing, and machinery, not only indicate the persistence of high domestic demand but point to a loss of competitiveness by Italian manufacturers. An ICE (Istituto per il Commercio con l'Estero) report claims Italian exporters face unit costs 3 or 4 times higher than their competitors.

ICE itself faces reform under a new draft law drawn up by the Minister for Foreign Trade Ruggiero. The intention is to take advantage of the progressive lifting of exchange controls to turn the Ministry of Foreign Trade and ICE from regulatory bodies to active promoters of export effort. The bureaucracy will be streamlined and encouraged to market special services against payment as well as providing traditional services to exporters at a cost to the state of some 250 billion lire annually. The first article of the draft law states ICE's role is to promote, facilitate and develop Italian export trade with special reference to the needs of small and medium sized businesses and consortia formed by them.

SACE which provides government backed export credit guarantee has been criticised by the Corte dei Conti in its annual report to Parliament. Only 1,000 of 85,000 export businesses insure with it. The Court criticises political interference in the rating of countries with which Italy trades which causes many Italian exporters to arrange their own insurance through third countries. Nevertheless in 1987 SACE reported a profit of 652 billion lire after losses in 1985 and 1986 amounting to 950 billion.

Italy's continuing efforts to exploit Far East markets, have been marked this month by the announcement that Alfa Romeo (FIAT) cars will be sold in Japan from the beginning of June. Enichem are negotiating a joint venture in China worth over 1,000 billion lire, and a Perugia firm has won a \$43 million contract for construction of a residential quarter for Westerners in Beijing. CMEA countries are another target area. FIAT, which already has a large stake in the Soviet and Polish car industries, is discussing the modernisation of the Skoda works with the Czechoslovak government. FATA has won a contract in the same country worth 20 billion lire for milk packaging.

The March balance of payments figure, a surplus of 646 billion lire, has been altered to a deficit of 292 billion on the basis of corrected figures from the credit institutions on their foreign exposure.

The April balance of payments show a deficit of 2,953 billion lire, 2,500 billion of which is accounted for by the position on current account. The cumulative 4-month deficit is now -2,653 billion lire against a surplus

reserves

for the same period last year of 3,567 billion. In April there was a net outflow of non-bank capital of 500 billion while through the banks the net inflow was 869 billion. Part of the reason for the April deficit may lie in Italians anticipating an expected EMS realignment with devaluation of the lira in the aftermath of the French presidential election. At the end of April net foreign indebtedness of the banking system was around 38,000 billion lire. The reserves fell from 74,721 billion at end March to 72,563 billion in April.

OFFICIAL RESERVES
(Billion Lire)

Month	Total net reserves	Gold	Convertible	ECU
March	74,721	38,115*	22,553	11,285
April	72,563	38,115	20,751	10,928

*Quarterly revaluation.

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

Sales of government bonds went reasonably well with yields largely unchanged: short term BOT remain the most popular vehicle.

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective annual yield (compound)(1)	
				gross %	net*
		(Billion Lire)			
3-mth BOT					
end-Apr	8,500	331	-	10.64	9.24
mid-May	2,000	-	-	10.70	9.27
end-May	8,500	300	2,259	10.70	9.29
6-mth BOT					
end-Apr	12,000	1,000	535	10.81	9.37
mid-May	2,500	239	-	10.82	9.37
end-May	9,500	500	193	10.83	9.38
12-mth BOT					
end-Apr	9,000	1,000	608	10.96	9.46
mid-May	1,500	500	61	10.96	9.46
End-May	6,500	350	244	10.99	9.48
5-yr CCT					
April	2,500	-	1,450	12.15	10.60
May	2,000	-	oversubscribed	12.15	10.60
June	2,000	-	650	12.15	10.60

BTP

April (2-yr)	3,500	-	400	11.23	9.79
April (4-yr)	3,000	-	600	11.98	10.45
15 Apr(2-yr)	1,000	-	oversubscribed	11.47	10.01
May (2-yr)	3,500	-	1,370	11.38	9.93
May (4-yr)	3,000	-	1,370	12.15	10.61
15 May(2-yr)	1,000	-	250	11.38	9.93

BTE

Dec (380 days)	500m Ecu	-	oversubscribed	8.55	7.48
Feb (373 days)	750m Ecu	-	"	7.78	6.81
Apr (373 days)	1,000m Ecu	-	"	7.49	6.55

CTE

Apr (4-yr)	750m Ecu	-	-	8.50	7.43
May (4-yr)	1,000m Ecu	-	-	8.50	7.43

(1) Simple interest for BTE and CTE.

* Net of 12.50% tax deducted at source.

(Total BOT in circulation at mid-April: 215,189 bn lire)

The new secondary market opened on 16 May with dealings in most of the 20 titles quoted, all BTP and CCT. The nominal value of transactions was 470 billion lire. The Bank of Italy exercised a strong damping influence. The general view was that it was a cautious but satisfactory debut despite some technical teething problems.

Bank of Italy figures for the money supply in March showed monetary base growing at an annual rate of 7.5% and M2 at 6.7%.

The Bank has expressed some concern at the growth of bank lending in April following the lifting of ceilings in March. Lending rose by an average of 10% on an annual basis, at the top end of the guideline of 6-10% established by the Bank. Deposits also on an annual basis grew by only 5% and actually fell in April compared with March. Average interest rates on bank loans fell slightly to 13.36% (March 13.43%) and on deposits rose by 0.05% to 6.74%.

There was some pressure during the month on the lira as a result of speculation about an EMS realignment after the French presidential election but De Mita visiting Paris at the beginning of June strongly rebutted the rumours: Devaluation formed no part of the government's economic programme and the preparations for 1992.

The stockmarket is still depressed. The volume of transactions remains very low and the general trend is downwards despite a brief surge at the beginning of June. The May cycle ended mid-month with a fall of 8% over the month. Withdrawals from investment funds exceeded new subscriptions for the 10th month running: the difference was 1,536 billion lire.

Company results have on the whole been good with FIAT reporting profits of 805 billion lire, up 31.5%. The volume of business was 38,500 billion lire of which nearly half was from exports. Marzotto, STET, Zanussi, SNAM all reported considerably increased profits in 1987. Olivetti's 1987 profits fell by 18.9% affected by restructuring in Triumph Adler and IRI profits were also lower (190 billion lire against 367 billion in 1986) due to the problems in the steel sector and the fall in its banks' profits.

7. FISCAL POLICY

The Treasury borrowing requirement in Q1 was 26,032 billion lire, only slightly larger than the 25,362 billion of Q1 1987, but the application of 'provisional twelfths' will have held the figures down. Provisional figures for the first 5 months, however, continue to indicate that the PSBR is running at around 1987 levels and therefore appears to be on course for the government's target of some 114,500 billion. However many items of expenditure are thought to have been deliberately delayed and the underlying position remains far from clear. It is also too early yet for the effect of the Government's May measures to show up.

In mid May the Treasury Minister Amato published his plan for eliminating the primary deficit by 1992, so that Italy may enter upon the Single Market without the burden of an apparently uncontrollable public deficit : accumulated debt will still be a considerable problem.

On current trends the state borrowing requirement would grow from 122,000 billion lire (11.6% of GDP) in 1988 to 165,000 billion lire or 12.1% of GDP in 1992. Public debt over the same period would grow from 98% of GDP TO 120%.

Amato's plan is a framework laying down the broad outline but leaving many of the essential details to be filled in. The aim is to cut the deficit by around 0.6% GDP (1987 levels) annually. This process should allow the real interest rate on BOT to be gradually reduced by about half a point each year to around 3% in 1992, thus improving the climate for productive investment. The whole plan is acknowledged to depend crucially on a reform of the Financial Law and strict observation by Ministers and Parliament of restrictions on its use as a vehicle for increasing expenditure as well as on efforts to rationalize and improve the public administration.

The basic 'rules' of the manoeuvre are : an increase in fiscal pressure of 1.5% over the period 1988-92, divided 0.8% on direct taxes, 0.7% on indirect; containment of the rate of growth in current expenditure (net of interest) so that as a percentage of GDP it is reduced from 39.1% in 1987 to 38.2% in 1992 (without corrective action it is estimated to be 39.74%). Within the general principle of greater equity of fiscal treatment and improvement of efficiency in the provision of public services it is envisaged that extra revenue will mostly come from expansion of the tax base, from reduced evasion, reductions in tax concessions, and a better balance between direct and indirect taxation. The promised revisions to IRPEF (income tax) bands and rates will be implemented in January 1989 but thereafter the only changes will be relief for fiscal drag. Indirect tax charges are dependent to some extent on progress in EC moves towards fiscal harmonisation but are likely to include a reduction in the number of VAT rates, presently four. On the expenditure side action will be needed on pensions, health, local finance and transfers to business; to increase efficiency in the public administration; to realise some state assets (possible privatisation). Expenditure on personnel must grow more slowly than GDP; in particular public sector pay must not grow faster than private sector, the latter as a general rule to be held at 1% p.a. in real terms. Public sector employment is envisaged to grow by 0.5% each year.

Amato made some changes to the plan between publication and presentation to Parliament at the end of the month. The most notable was that the

increase in fiscal pressure rose from 1.5% to 1.8% and it was divided 1.1% indirect taxes, 0.7% direct taxes thus significantly changing the balance of his original proposals. The sums now also produce a surplus on the accounts (net of interest) in 1992 of 5,250 billion instead of the originally programmed minimal deficit of 30 billion (the uncorrected forecast is 43,330 billion). Some suggested means of cutting expenditure have now also been pencilled in, including the return of the health 'ticket' (charge) with the aim of limiting demand for some non-vital services/medicines and a more business orientated administration of health services. The pensionable age would be raised for women from 55 to 60 and then for both sexes to 65. The minimum period of contribution for the old age pension would increase from 15 to 20 years and cumulative pensions would be abolished. Changes in local government finance would make local authorities more responsible for collection of some taxes in return for greater income for them. A figure of 9-15,000 billion lire is put on the possible sale of state property, proceeds to be used for investment. Savings and improved productivity of the public administration will be achieved through mobility, economic incentives and management reforms.

Within the context of the medium term plan, the Council of Ministers reached agreement on 25 May on a decree law containing immediate measures to achieve the 7,000 billion cut in the deficit in 1988 promised in the Government's programme. The cuts are divided 4,000 billion additional revenue, 3,000 billion reduction in expenditure. An estimated 2,700 billion of increased revenue is represented by advancing payments of personal (IRPEF) and local (ILOR) income tax and VAT payments. The charge for registration of businesses is increased bringing in 1,100 billion and another 200 billion is raised by cancelling a reduction in the electricity surcharge due from oil price movements. On the expenditure side cuts of about 1,000 billion will be made in aid for areas hit by natural disasters (funds notoriously abused in the past). Employers' contributions for early retirement schemes and work experience/training will be increased (the Mezzogiorno and craft firms exempted). There will be cuts in loans for public works and stricter standards for civil disability pensions (another area of notorious abuse).

Reaction to the government's plans has been muted with most interested parties probably holding their fire on the medium term plan until the details become clearer. The Government of the Bank of Italy bestowed a benediction on the general approach. Academic economists have criticised the effectiveness of advancing tax payments in 1988 and further fiscal measures are widely expected this year. Employers and the Bank of Italy have focused on the inadequacies of the public administration as a major constraint on improving the public finances and preparing for 1992. Confindustria also doubts the government's determination to control public sector costs pointing to the teachers pay settlement which is variously estimated to give rises of up to between 20 and 50% over three years.

March figures show tax revenues up 13.8% over March 1987 due to direct tax payments. Receipts from IRPEG (company tax) rose by a record 116%, while IRPEF (personal income tax) rose by 13% and ILOR (local income tax) by 143%. VAT revenues increased by only 1.9% perhaps showing that the effect of the Visentini reforms has worked through and a determined drive against evasion is required. A strike by cashiers was a contributory factor. Representatives of tax inspectors point out that lack of staff and the amazing complexity of the system with its frequent limited pardons, means they cannot check out more than a small fraction of returns.

8. ASSESSMENTS OF ECONOMIC PROSPECTS

The official forecasting institute ISCO predicts GDP growth of 3.3% in 1988 against 3.1% in 1987. The reduction in inflation is expected to end this year : prices will rise again in 1989 while the rate of growth will be less and the balance of payments deficit will widen.

The independent economic institute IRS forecasts growth in 1988 of 2.3%, significantly lower than ISCO's figure. Unusually IRS predict that the government's annual average inflation target of 4.5% can be met, with the effect of any inflationary public sector wage settlements not showing up until next year. Exports after picking up in the second half of 1987 will continue to perform strongly (+4%) while the rate of growth in imports will slow from 10% in 1987 to around 6% in 1988. The balance of payments current account will show a gain of 1,600 billion lire reflecting the reduction in the deficit on trade to some 9,500 billion. Unemployment is expected to continue to be 12.2% in 1988 against 12% in 1987.

9. MISCELLANEOUS

The Governor of the Bank of Italy in his annual address to shareholders said 1987's economic results were on the whole satisfactory. But there were too many weak points in an otherwise modern industrialised economy for Italy to hope to benefit fully from 1992 unless there were significant changes. He then focused predictably on the Mezzogiorno and unemployment, the public administration, the services sector and the public debt. Ciampi devoted considerable space to changes which credit institutions in Italy were undergoing and would undergo. He concluded by emphasizing the efforts to prepare Italy for the Single Market and giving support to the basic lines of the Government's plans : 'a decisive inversion of the trend of the public finances is the condition for Italy's participation in the European Community on a basis of equality'.

Pininfarina, the new President of Confindustria also took preparation for 1992 as his theme in addressing the annual general meeting. He also saw the public debt and public administration as the major objects of reform. But he also ranged widely over the range of tasks facing government and citizens, including unemployment, infrastructure, energy policy, labour costs, relations between private and public sector, competition policy, the Mezzogiorno, and investment policy.

THOMAS

DISTRIBUTION

FRAME ECONOMIC

WED [-]

TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	399,987	252,068	63,092	87,159	1,529	403,848	84,069	87,930	633,571
1984	412,680	258,165	64,722	91,764	5,162	419,813	90,752	97,586	727,798
1985	424,581	265,792	67,004	94,074	5,927	432,797	93,927	102,146	815,630
1986	436,831	275,225	69,102	95,366	6,934	446,627	97,161	106,958	902,238
1987	450,397	287,132	71,432	100,362	8,471	467,397	100,644	117,644	982,595
1985 Q1	105,017	65,473	16,540	23,547	1,531	107,091	23,325	25,400	192,988
Q2	105,826	66,203	16,666	23,526	1,786	108,181	23,059	25,415	198,983
Q3	106,410	66,819	16,831	23,384	1,250	108,284	23,184	25,059	204,712
Q4	107,328	67,297	16,967	23,617	1,360	109,241	24,359	26,272	209,071
1986 Q1	107,086	67,787	17,128	23,299	2,092	110,306	23,610	26,830	212,932
Q2	109,094	68,315	17,258	23,962	612	110,147	25,049	26,103	222,288
Q3	110,138	69,117	17,278	23,987	2,473	112,855	24,974	27,692	227,458
Q4	110,513	70,006	17,438	24,118	1,756	113,318	23,528	26,333	231,685
1987 Q1	111,023	70,872	17,645	24,551	2,271	115,339	23,821	28,136	233,569
Q2	112,328	71,747	17,810	25,506	1,847	116,910	24,540	29,122	242,374
Q3	113,405	72,126	17,974	25,005	1,318	116,423	26,520	29,539	244,506
Q4	113,641	72,387	18,003	25,300	3,035	118,725	25,763	30,847	

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 1A: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts. (All figures seasonally adjusted.)

Percentage changes (year-on-year); (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
	(1)	Private	Govt	(3)	(4)	(5)	(6)	(7)	(8)
		(2)	(3)						
1983	0.5	0.4	2.8	-1.6	-	-0.4	2.3	-1.6	15.9
1984	3.5	2.2	2.0	4.4	-	4.4	7.6	11.3	14.1
1985	2.7	2.7	3.5	3.3	-	3.1	4.0	5.3	11.8
1986	2.7	3.2	3.0	1.2	-	3.2	3.1	5.1	11.0
1985 Q1	2.7	1.6	3.9	5.0	-	3.2	6.3	8.4	11.2
Q2	2.8	2.2	3.3	3.6	-	3.3	4.6	6.7	11.8
Q3	2.2	3.4	3.6	2.2	-	2.7	0.8	2.9	12.0
Q4	3.3	3.5	3.2	2.5	-	3.1	4.5	3.5	12.2
1986 Q1	2.1	3.4	3.2	0.2	-	3.1	1.4	5.9	10.3
Q2	3.5	3.1	3.4	1.7	-	2.3	8.6	2.8	11.7
Q3	3.0	2.8	2.8	2.2	-	3.9	7.4	10.9	11.1
Q4	2.4	3.5	2.4	0.7	-	3.6	-4.6	0.8	10.8
1987 Q1	3.7	4.6	3.0	5.4	-	4.0	-0.9	4.9	9.7
Q2	3.0	5.0	3.2	6.4	-	6.1	-2.0	11.6	9.0
Q3	3.0	4.4	4.0	4.2	-	2.5	6.2	6.7	7.5
Q4	2.8	3.4	3.2	4.9	-	4.9	9.5	17.1	

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices (2)		Orders (3)		Employment '000s (4)	Unemployment '000s (5)	Unemployment rate (6)	Strikes '000 hrs lost (7)
	(1980=100)	Dom.	Export	Dom.	Export				
1983	92.0	141.0	151.0	133.0	153.0	\$20,704	\$2,278	9.0	98,021
1984	95.4	157.8	180.1	152.0	175.5	\$20,648	\$2,578	9.9	58,232
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	39,506
1987									32,240
1986 Q1	99.8	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	99.9	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	99.4	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	101.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	100.9	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,112
Q2	102.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,092
Q3	101.8	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,415
Q4	104.0*					20,901	2,930	12.3	
1988 Q1						20,778	2,945	12.4	
	(a)								
'86 JAN	97.2	165.6	194.0	173.5	197.7				5,512
FEB	99.1	175.3	200.7	200.3	195.6				1,569
MAR	100.1	180.5	198.7	208.5	216.6				2,442
APR	100.4	186.2	203.5	205.4	203.3				1,758
MAY	98.6	179.5	199.1	187.2	210.8				881
JUN	100.8	178.7	208.3	194.4	194.8				1,094
JUL	100.3	196.3	241.6	189.9	214.9				568
AUG	98.7	90.9	90.1	81.1	82.1				50
SEP	99.3	197.1	210.5	224.6	221.5				798
OCT	101.0	199.3	213.5	210.7	224.6				6,504
NOV	101.2	175.7	190.6	188.2	178.3				9,997
DEC	101.7	185.9	201.1	206.8	193.6				6,500
'87 JAN	100.8	153.2	172.1	170.2	186.7				2,957
FEB	100.7	172.7	194.8	207.6	198.9				4,482
MAR	101.1	208.0	222.4	227.0	221.8				1,705
APR	101.8	196.4	198.8	211.6	196.6				1,528
MAY	104.3	189.7	206.7	192.6	183.3				842
JUN	101.6	201.8	231.9	218.9	224.2				1,722
JUL	102.5	211.3	257.6	219.7	224.2				1,339
AUG	100.9	101.3	95.4	70.8	85.8				39
SEP	102.1*	215.7	219.7	263.4	232.6				1,037
OCT	104.7*	219.3	224.7	230.0	233.6				1,136
NOV	103.8*	201.8	218.1	204.9	196.4				13,682
DEC	103.5*	217.2	218.4	216.5	218.4				1,346
'88 JAN	108.7*								914
FEB	106.0*								1,494
MAR	104.8*								

(a) Seasonally adjusted.

§Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures.

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT.
Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1984	10.8	10.6	10.4	12.0
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1987	4.7	4.6	2.6	7.1
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3	4.9	4.6	+4.1	8.0
Q4	5.4	5.2	+4.6	
1988 Q1		4.9		
1986 JAN	8.2	8.0	4.8	6.9
FEB	7.3	7.6	2.5	5.4
MAR	7.0	7.2	0.3	5.3
APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.2
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV	5.4	5.2	4.6	8.2
DEC	5.2	5.1	4.7	8.3
1988 JAN	5.2	5.0	3.9	9.7
FEB	5.0	4.9	4.2	8.8
MAR		4.9	4.3	9.1
APR		5.0		8.7
MAY		4.9		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1984	12.6	12.4	12.1	14.6	21.3
1985	16.6	10.4	11.0	14.4	19.2
1986	10.6	10.7	9.4	8.8	16.2
1987		7.6	8.4		
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8	10.9	9.5	8.1	15.9
1987 Q1	9.5	9.9	10.3	7.7	15.6
Q2	11.4	10.8	12.0	9.0	15.2
Q3	12.3	10.9	10.5		14.5
1985 Nov	15.2	13.6	13.3	13.3	17.9
Dec	17.3	10.4	11.1	11.7	18.0
1986 Jan	11.3	9.7	10.1	11.1	16.5
Feb	11.7	10.0	9.7	10.8	16.7
Mar	13.7	10.4	9.3	11.0	16.4
Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3	10.0	9.6	7.7	15.9
Feb	9.4	10.1	10.4	7.7	15.7
Mar	8.9	9.8	10.8	7.6	15.2
Apr	11.9	10.4	11.5	8.6	15.0
May	10.9	10.6	12.0	9.0	15.0
Jun	11.3	11.5	12.3	9.4	15.5
Jul	11.7	11.6	12.0	10.0	14.8
Aug	12.4	11.3	11.6	10.4	14.8
Sep	12.7	10.3	10.8	11.2	13.9
Oct	12.9	10.0	10.3	11.5	13.5
Nov	9.7	8.8	9.4	12.0	13.0
Dec	10.0		8.3		13.0

NB: Figures are revised periodically.

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana; (5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities 12-month		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	BOT (3)		Lira/US\$ (5)	Lira/£ster
1983	17.66	19.82	18.05	92.4	1,519.2	2,301.7
1984	16.86	16.98	15.43	89.9	1,756.5	2,339.8
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.41	10.92	89.6	1,490.8	2,187.1
1987					1,296.4	2,122.4
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3	12.25	10.92	10.88	90.7	1,331.1	2,151.8
Q4	11.05	11.60	11.88	91.7	1,248.5	2,188.3
1986 Apr	12.81	14.01	11.84	88.2	1,556.9	2,329.3
May	12.19	13.12	11.00	88.0	1,528.7	2,325.5
Jun	12.31	12.19	10.57	88.1	1,531.5	2,310.8
Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.0	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.5	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.5	1,345.80	2,149.00
Sep	12.25	11.33	11.45	91.1	1,310.30	2,154.40
Oct	10.63	11.58	12.17	91.4	1,303.10	2,164.50
Nov	11.88	11.91	12.14	91.4	1,239.40	2,199.70
Dec	10.63	11.30	11.33	92.3	1,202.90	2,200.60
1988 Jan			10.56		1,215.00	2,190.20
Feb			10.50		1,244.40\$	2,202.77\$
Mar			10.56		1,230.90\$	2,312.63\$
Apr			10.96		1,241.97\$	2,340.60\$
May			10.99		1,279.95\$	2,360.72\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged. (3) gross yield on end month issues. (4) Wholesale prices. § End month rates.

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire				1980=100		
1984	148,162	129,027	-19,135	+ 57	-7,254	101.8	115.6
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	-1,311	115.8	126.4
1987	161,587*	150,449*	-11,138*	+1,202	-3,144	127.5	129.4
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789*	- 881*	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660*		117.6	132.9
Q4	44,660*	42,190*	- 2,470*	+3,287*			
1986 Apr	13,015	12,672	- 343	+2,287	- 737	118.6	133.0
May	12,798	11,726	- 1,072	+1,555	+ 221	120.7	123.1
Jun	11,921	12,267	+ 346	+ 664	+1,350	113.3	130.9
Jul	12,415	13,632	+ 1,217	+1,459	+1,935	122.1	144.7
Aug	7,314	9,424	+ 2,111	+ 703	+2,831	75.0	100.6
Sep	12,300	11,556	- 744	-1,697	+ 803	119.8	122.9
Oct	13,512	13,772	+ 260	- 651	+ 610	131.7	143.8
Nov	11,920	11,763	- 157	- 133	- 816	116.6	122.5
Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 612	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	+ 110	+ 645	136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,011	+1,020	79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+1,172	+ 21	137.7	137.4
Oct	14,940*	14,250*	- 690*	+ 237	- 226	138.6	144.4
Nov	14,330*	13,480*	- 850*	+1,656	-1,630	134.1	137.9
Dec	15,390*	14,460*	- 930*	+1,188*		145.8	145.7
1988 Jan	12,020*	9,680*	- 2,330*	+1,369*			
Feb	13,675*	12,460*	- 1,215*	- 734*			
Mar	16,310*	13,430*	- 2,880*	- 292*			
Apr				-2,953*			

*Provisional

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MY TELNO 239: ITALY INTERNAL: THE NEW DE MITA GOVERNMENT

SUMMARY:

1. LOCAL ELECTIONS TAKE PLACE IN ITALY THIS WEEKEND. THEY WILL BE JUDGED AS A NATIONAL TEST FOR THE PARTIES. FEW STIRRING RESULTS SO FAR FROM THE DE MITA GOVERNMENT'S FIRST WEEKS IN OFFICE. STRIKES CONTINUE IN THE PUBLIC SECTOR.

DETAIL:

2. LOCAL ELECTIONS ARE BEING HELD IN VARIOUS PARTS OF ITALY ON 29 AND 30 MAY. THEY AFFECT ABOUT SEVEN MILLION PEOPLE (ONE-FIFTH OF THE ELECTORATE). THE ELECTION RESULTS ARE UNLIKELY TO HAVE ANY IMMEDIATE AFFECT ON THE FUTURE OF THE GOVERNMENT. BUT THEY WILL BE TAKEN AS A NATIONAL COMMENT ON HOW THE ELECTORATE VIEWS THE DE MITA GOVERNMENT AND THE COALITION PARTIES.

3. POLITICIANS HAVE BEEN OUT CAMPAIGNING IN THE LOCALITIES THIS WEEK. THE IMPACT OF THEIR ACTIVITY HAS BEEN REDUCED BY A STRIKE AFFECTING BOTH THE NATIONAL NEWSPAPERS AND RADIO AND TV NEWS COVERAGE. THE CENTRE PARTIES HOPE TO GAIN VOTES FROM THE EXTREME RIGHT-WING MSI, TWO OF WHOSE FOUNDER LEADERS, ALMIRANTE AND FOMUALDI, DIED LAST WEEKEND. BUT NO ONE CAN PROJECT WHETHER THE MSI, THE FOURTH LARGEST POLITICAL PARTY, WILL BENEFIT FROM A SYMPATHY VOTE, OR FROM THE RECENT SIGNS OF GROWING POPULAR SENSITIVITY TO IMMIGRATION POLICY. THE TWO SMALLEST PARTIES IN THE GOVERNMENT COALITION, THE LIBERALS AND THE SOCIAL DEMOCRATS, WILL BE ANXIOUS TO MAINTAIN THEIR DECLINING SHARE OF THE VOTE. ALL THE PARTIES ARE CONSCIOUS OF THE THREAT FROM THE UNUSUALLY LARGE NUMBER OF INDEPENDENT LOCAL GROUPS STANDING FOR ELECTION IN MANY OF THE COMMUNES. THESE ARE FOR THE MOST PART SPECIAL INTEREST GROUPS, UNRELATED TO ANY OF THE EXISTING POLITICAL PARTIES, WHICH WILL CERTAINLY CONFUSE THE ELECTORS' CHOICE.

4. IN ITS FIRST WEEKS, THE DE MITA GOVERNMENT HAS TENTATIVELY BEGUN TO ADDRESS ITS MAJOR PRIORITIES OF FINANCIAL AND INSTITUTIONAL REFORM (OUR TELNO 223). IT HAS MADE LIMITED PROGRESS. AGREEMENT HAS BEEN REACHED BETWEEN THE COALITION PARTIES ON A

SERIES OF MEASURES TO RAISE REVENUE AND REDUCE EXPENDITURE IN ORDER TO CUT THE PUBLIC SECTOR DEFICIT FOR 1988 BY SEVEN THOUSAN BILLION LIRE (APPROXIMATELY 3.5 BILLION STERLING). DE MITA HAS SENSIBLY LAID DOWN FIRM INSTRUCTIONS THAT NO RPROJECTS OR DRAFT LEGISLATION ARE TO BE SUBMITTED BY MINISTERS WITHOUT PROPER FINANCIAL COVERATE. MORE AMBITIOUS PROPOSALS ARE ALSO BEING DISCUSSED FOR CUTTING THE DEFICIT FURTHER IN 1989 TO 1991. THESE ARE LIKELY TO BE HIGHLY CONTROVERSIAL.

5. PARLIAMENT HAS BEGUN ITS FIRST DISCUSSIVN ON THE REFORM OF GOVERNMENTAL AND PARLIAMENTARY INSTITUTIONS. HOWEVER THE GOVERNMENT'S OWN PLANS REMAIN UNCLEAR, AND THERE IS NO AGREEMENT YET BETWEEN THE COALITION PARTIES, (OR WITH THE COMMUNIST PARTY, WHOSE SUPPORT WILL ALSO BE NECESSARY) ON A REFORM PROGRAMME AND A TIMETABLE.

6. THE GOVERNMENT IS HAVING TO COPE WITH CONTINUING DISRUPTION IN THE PUBLIC SECTOR. INTERMITTANT STRIKES ARE AFFECTING AIR, RAIL AND SEA TRANSPORT, BROADCASTING AND THE NEWSPAPERS. THERE IS STILL NO SETTLEMENT IN SIGHT OF THE LONG-STANDING TEACHERS' DISPUTE. DISRUPTION IN SCHOOLS IS REACHING SERIOUS PROPORTIONS. THE GOVERNMENT IS HOPING TO BUY OFF THE TEACHERS WITH A LARGE PAY RISE OF ABOUT 20 PER CENT PHASED OVER THREE YEARS. BUT THE MINISTER OF EDUCATION'S OFFER CONTAINS NO EXPLANATION OF WHERE THESE FUNDS WILL COME FROM, DESPITE DE MITA'S RECENT INJUNCTION OF SPENDING, AND THE OFFER MAY MERELY ENCOURAGE OTHER PUBLIC SECTOR EMPLOYEES TO DEMAND SIMILAR RISES, HOWEVER HARD THE GOVERNMENT TRIES TO PRESENT THE TEACHERS AS A SPECIAL CASE. THIS WOULD HAVE SERIOUS IMPLICATIONS FOR DE MITA'S PLANS TO CUT THE PUBLIC DEFICIT.

COMMENT:

7. IN PRIVATE, DE MITA HAS MADE A BUSINESSLIKE IMPRESSION ON FOREIGNERS WHO HAVE MET HIM (EG TAKESHITA AND KOHL) AND ON ITALIANS WHO HAVE SEEN HIM IN ACTION. THE WAY HE HANDLED ITALIAN SIGNATURE OF THE EFA MEMORANDUM OF UNDERSTANDING IS PERHAPS AN EXAMPLE OF THIS BUSINESSLIKE APPROACH. IN PUBLIC, HE IS NOT SO FAR MAKING ANY MAJOR IMPRESSION, GOOD OR BAD. NOR IS HE GIVING ANY SENSE OF FIRM DIRECTION TO HIS GOVERNMENT. HE MAY BE WORKING HARD BEHIND THE SCENES TO STRENGTHEN HIS POSITION WITH HIS COALITION PARTNERS, ABOVE ALL THE SOCIALISTS, BEFORE TACKLING THE MAJOR PROBLEMS HEAD ON. FOR EXAMPLE, HE HAS HAD A RECENT HIGHLY PUBLICISED AND APPARENTLY HARMONIOUS MEETING WITH CRAXI. BUT DE MITA HAS NOT GOT FAR ENOUGH IN ADDRESSING THE SERIOUS PROBLEMS CONFRONTING HIS GOVERNMENT TO MAKE IT POSSIBLE TO MAKE WORTHWHILE

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PREDICTIONS ABOUT THE LIKELY EFFECTIVENESS OR DURABILITY OF HIS
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AND INFORMATION SAVING
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UKREP BRUSSELS, CONSULATES IN ITALY.

MONTHLY ECONOMIC REPORT : ITALY : JUNE 1988

SUMMARY

1. Treasury Minister Amato indicated further action to cut the PSBR in accordance with his medium term plan to reduce the primary deficit to zero by 1992 could be expected in mid-July. Government ministers and Bank of Italy concerned at wage demands particularly in public sector. Fiscal reform continues to be much discussed.

Industrial production in April fell for the first time in 15 months but the period included Easter and the daily index was up 6.3%. The transport sector continued to be bedevilled by intermittent strikes. Latest unemployment figure still January record high of 12.4%. Inflation static at 4.9% in June. The April trade deficit was only 665 billion lire with exports recovering strongly. The balance of payments deficit in May was 966 billion lire, a marked improvement on April. Short term Treasury bonds continued to be generally oversubscribed while demand for longer term issues was mixed. The stockmarket recovered a little ground. The PSBR for the first 5 months of 1988 was 50,711 billion lire. Most mid-year economic forecasts are revised upwards.

2. ECONOMIC ACTIVITY (Tables 1, 1A and 2)

The official forecasting institute ISCO reported healthy economic growth in the first 6 months of 1988 with the balance of payments/trade casting

the only shadow.. The growth of productive activity is chiefly due to sustained internal demand brought about by an increased propensity to spend and a high utilisation of productive capacity: industry is registering the highest levels of production this decade. According to ISCO, this is unlikely to be affected by the present level of increase in raw material prices. The Government's May economic measures to cut the PSBR could, however, act as a slight break on consumption and inflation merits careful surveillance.

ISTAT's unadjusted industrial production index showed a year on year fall of 2.4% but the period included the Easter holidays. This was the first fall after 14 consecutive increases. The average daily index however showed an increase of 6.3% and the figure for the period Jan-April is +5% year on year. The seasonally adjusted index rose above February and March levels to 107.4, thus approaching January's record 108.8. According to ISTAT sectors doing well in April included office/data machines, pharmaceuticals, paper and printing, chemicals, non metallic minerals. Less satisfactory results were recorded by shoemaking, clothing/textiles, food, plastics and electricals.

The IRS industrial production index suggests that June has seen a slight slackening in growth: taking into account the number of working days year on year growth in June was 3.9% giving a figures of 5.1% for the half year.

ENEL figures for electricity consumption in June show a 4.8% increase. The 6 months figure is +4.1% or 3.5% taking leap year into account.

According to press reports, ISTAT's indices for invoices and orders in the industrial sector in March show invoicing up by 10.3% year on year divided export 12.4%, domestic 9.7%, and orders up 21.1%, divided export 25.2%, domestic 19.3%.

Car sales recovered in May from their slight dip in the previous month. Year on year May showed a 5.6% increase with 208,000 car sales, second only to the March record numbers.

Family and business surveys report continuing confidence in the economy.

3. LABOUR AND SOCIAL AFFAIRS (Tables 2 and 3)

Industrial action in the transport sector continued in June with air, rail, road and ferry services all affected at one time or another. Serious new disruption to air traffic was caused by a work to rule by customs officers annoyed by a circular limiting overtime work.

Despite some dissatisfaction with the pay agreement reached at the end of May for teachers, end of year assessments and exams were with few exceptions carried out normally. CGIL has still not signed the new contract but the more moderate of the COBAS groupings GILDA has accepted it. Arguments continue over the price. The Treasury Minister costed it at 7,700 billion lira in the third year including scala mobile and social contributions. The cost over three years was 11,000 billion: estimates as high as 17,000 billion included the costs of a 4th year and were based on particular assumptions about the number of full time as opposed to part time teachers.

For the Government the major concern now is to try and hold the line in their pay policy for the rest of the public sector. Amato's plan to

restore the public accounts allows for inflation +1% which would currently be about 6%. The teachers have got at least 20%. The Bank of Italy and Confindustria have both been critical of the teachers settlement. The unions are in discussion with the government over the next stage of the government's programme to cut the PSBR, possible fiscal measures and public sector pay. A series of regional strikes in protest against the complexity and inequality of the tax system are planned. The unions' platform on pay is not expected to be fixed however until the autumn. The government may try to make their pay offer more attractive with a package including improved training and management reforms.

After 6 months of disruption the journalists finally signed an agreement which gives them an average 640,000 lire a month over 3 years.

The bill to control strikes has been approved in Committee by the Senate and is now on the floor of the House. Considerable interest has been aroused by FIAT's proposal to relate workers pay directly to profits. Faced by union demands for wage rises which, according to the employers, would increase the cost of labour in 1988 by 20-22%, FIAT proposed that an element in workers' pay be linked to that year's profits and renegotiated annually between 1988-90. Whether payment would be by lump sum at the end of the year in question is not clear. The union response was generally cautious.

Employment

Employment in large factories fell by 2.7% in February year on year but hours worked increased and earnings were up sharply.

ISTAT SURVEY OF MANUFACTURING FIRMS WITH 500 OR MORE EMPLOYEES

	Feb 88/Feb 87	Jan 88/Jan 87
	(percentage changes)	
Employment	-2.7 (1)	-2.9
Average number of hours worked per manual worker	+6.2 (2)	+4.2
Average monthly earnings per manual worker		
all payments (incl guaranteed wages, family allowances, one-off payments, etc) :	+13.1	+11.4

(1) Fall affected all sectors but was greatest in metallurgical sector (-5.9%).

(2) Increases in all sectors except energy (-4%). Textiles +11.4%, transport vehicles +10.4%. However one working day more in 1988 (leap year).

The number of hours compensated under the Cassa Integrazione Guadagni (CIG) continues to fall sharply. In Jan-April it was down 21.5% on the same period last year - 22 million hours were compensated from the ordinary fund and 95 million from the extraordinary fund; the comparable figures in 1987 were 34 million and 119 million respectively.

The ministerial committee for economic planning CIPE has unfrozen 500 billion destined to provide temporary jobs in socially useful work for 10,500 young people. Cash incentives to a total value of 1,750 billion over 8 years are available to employers taking on new labour for an indefinite term. Another scheme gives 3,600,000 lire annually to firms with over 100 employers for each new worker employed in the Mezzogiorno. The Minister for the South Gaspari says 105,000 new jobs should be created there this year under law 64. The fiscalisation of social charges on work training contracts has been halved in all areas except the Mezzogiorno.

An ISFOL report records that in 1987 15,000 vocational training courses absorbed 220,000 trainees, 85,000 of them adults and most having previously only compulsory secondary education.

Social Affairs

An OECD report highlighting the fact that pension payments in Italy already absorb 15.6% of GDP provides useful background to the current debate between government and unions on pension increases. There appears to be provisional agreement on an increase in the minimum pension costing 3,000 billion lire over 3 years but not on pensions above the minimum level.

Proposals to reform the equo canone (fair rent act) which would allow increases in the level of rents by 30-40% in the hope of increasing the amount of property available for rent have run into strong opposition.

A controversial bill on penalties for sexual violence was approved in the Senate and now goes to the Chamber of Deputies.

4. INFLATION (Table 3)

The cost of living index rose by 0.3% in June leaving the year on year rate unchanged from May at 4.9%. The average annual rate rose by one point over May to 4.9%. Tax relief for fiscal drag from 1 July worth 1,500 billion lire in the 1988 Budget was conditional upon inflation not exceeding 4.5% in June.

COST-OF-LIVING INDEX (JUNE) (1985 = 100)

Sector of index	% change over May 1988	% change over Jun 1987
General index (116.0)	+0.3	+4.9*
Food	+0.8	+3.7

Clothing	+0.2	+5.6
Housing	no change	+6.5
Fuel & Elec.	-0.4	+4.1
Miscellaneous	+0.3	+5.4

* +4.3% for monitored/controlled prices and tariffs, +5.0% for other prices and tariffs.

Wholesale prices in April rose by 0.6% over March and by 4.4% over April 1987. Increases in raw material prices e.g. metals 2.5%, chemicals 1.4%, petroleum products 0.9% and petro chemicals 1.3% were the chief cause. ISTAT's breakdown of the year on year figures according to economic destination showed the index for final consumption goods rose by 4.8%, that for final investment goods by 5.1% and intermediate goods by 3.6%. ISTAT's production price index for industry excluding construction rose by 0.4% in April over March and by 2.8% year on year.

The Confindustria index of raw material prices in lira showed a monthly increase in April of 7.4% giving a year on year figure of 4%. Combustibles rose by 11.8% in the month although still down year on year by 13.9%. Metals were up 4.2% on March but 50.7% on April 1987. The May figures were influenced by a renewed drop in fuel prices of 3.5% over April and 16.8% year on year. The index for raw material prices as a whole increased by only 0.1% over April and 2% year on year, with metals again showing big increases, 7.8% in the month and 58% year on year.

The fact that the gap between the rate of increase of wholesale and consumer prices has closed to almost half a percentage point gives little hope that the government's target of 4.5% inflation can be reached this year. The raw material including energy indices seem to be on an upward trend despite some fluctuations and the lira seems unlikely to strengthen.

5. TRADE (Table 6)

April trade figures were better than expected with a notable recovery in exports, particularly of machinery and food. The deficit in April was 665 billion lire against 1,381 billion in the same month last year and 2,880 billion in March. Imports rose by 8.6% year on year and exports by 15.6%. The energy deficit was 1,211 billion. The cumulative 4 month deficit in 1988 is 7,130 billion lire against 5,371 billion for the same period last year.

So far this year Italian trade statistics have recorded a more erratic performance than usual, making it difficult to discern real trends. Exports for example fell year on year in January and March by 3.7% and 2.5% respectively but leapt ahead in February by 18.1% and April by 5.6%. The agrifoodstuffs sector seems to have firmly established itself at the top of the deficit table (-5,822 billion lire) although so far this year imports have held steady while exports have increased 11.4% over the same

reserves

for giving SMEs up to 85% finance for programmes of export penetration in non-EC countries are being simplified.

Contemporaneously with an EC decision to abolish from 15 July the consensus rate for commercial interest (CIRRS) to Category One countries, the Treasury Minister Amato has lifted the regulation requiring Italian firms to use the official rate lire for financing all transactions with EC countries; in future such deals can be denominated in other currencies.

The May balance of payments deficit was 966 billion lire compared with a deficit of 2,865 billion in the same month last year (but this was a period of EMS tensions and capital outflow anticipating a lire devaluation). The cumulative figures January-May are 1987 +702 billion, 1988 -3,579 billion. In May there was a net outflow of bank capital of 869 billion lire and of 200 billion of non bank capital. At the end of May net foreign indebtedness was around 39,000 billion lire compared with 38,000 billion in April. The reserves fell slightly from 72,563 billion lire in April to 72,036 billion in May.

OFFICIAL RESERVES
(Billion Lire)

Month	Total net reserves	Gold	Convertible	ECU
April	72,563	38,115	20,751	10,928
May	72,036	38,115	20,520	10,939

Latest Bank of Italy figures for the balance of payments on a payments basis are for Q3 1987: the figures are current account +3,706 billion lire, capital movements -3,261 billion, overall balance +271 billion.

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

Short term government bonds (BOT) were generally oversubscribed but demand for longer term certificates is variable. The variety of instruments reflects the Government's need to raise some 44,000 billion lire per month to cover current borrowing and accumulated debt.

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective annual yield (compound)(1)	
				gross	net*
		(Billion Lire)		%	
3-mth BOT					
end-May	8,500	300	2,259	10.70	9.29
mid-Jun	1,000	-	oversubscribed	10.70	9.29

end-Jun	5,500	-	oversubscribed	10.52	9.13
6-mth BOT					
end-May	9,500	500	193	10.83	9.38
mid-Jun	1,500	-	oversubscribed	10.52	9.14
end-Jun	10,000	-	oversubscribed	10.61	9.19
12-mth BOT					
end-May	6,500	350	244	10.99	9.48
mid-Jun	1,000	-	oversubscribed	10.99	9.48
end-Jun	7,500	-	364	10.93	9.43
5-yr CCT					
May	2,000	-	oversubscribed	12.15	10.60
June	2,000	-	650	12.15	10.60
July	4,000	-	2,950	12.58	10.97
BTP					
May (2-yr)	3,500	-	1,370	11.38	9.93
May (4-yr)	3,000	-	1,370	12.15	10.61
15 May (2-yr)	1,000	-	250	11.38	9.93
Jun (2-yr)	1,500	-	900	11.38	9.93
Jul (2-yr)	3,000	-	oversubscribed	11.82	10.30
Jul (4-yr)	2,000	-	650	12.39	10.80
BTE					
Dec (380 days)	500m Ecu	-	oversubscribed	8.55	7.48
Feb (373 days)	750m Ecu	-	"	7.78	6.81
Apr (373 days)	1,000m Ecu	-	"	7.49	6.55
Jun (378 days)	1,000m Ecu	-			
CTE					
Apr (4-yr)	750m Ecu	-	-	8.50	7.43
May (4-yr)	1,000m Ecu	-	-	8.50	7.43

(1) Simple interest for BTE and CTE.

* Net of 12.50% tax deducted at source.

(Total BOT in circulation at mid-June: 220,912 bn lire)

At the AGM of the Bankers' Association (ABI), Treasury Minister Amato announced that the fixing of a minimum purchase price for 3 month BOT would shortly be discontinued. This decision is now expected to be implemented at the mid July auction.

The major components of the public debt in 1987 were BTP 12.4%, CCT 51%, BOT 28.8%. The vast majority of debt is in short term bonds, or certificates linked to short term bonds. 1987 also saw a slight drop in the average maturity of bonds from 3 years 10 months in 1986 to 3 years 7 months but this is still a far cry from the 11 months of 1982. In 1988 260,751 billion lire of securities are due to mature against 202,974 billion in 1987. To this sum must be added the 3 and 6 month BOT to be issued during the year and maturing before the year end and the securities required to finance the current deficit this year.

ABI believe the new screen trading secondary market in Treasury securities is functioning satisfactorily although the volume of turnover is low, an average of 1,000 billion lire per week in the first month of

operation. Only BTP and CCT denominated in lire are at present quoted. The minimum transaction is 5 billion lire. This is too high for families which hold some 49.4% of state securities so dealings are confined to banks and major financial institutions and businesses. Of the 18 primary dealers, 17 are banks and none is foreign although there is no legal objection to the latter. The banks would like a more homogenous market. At present there are considerable differences in fiscal treatment, duration indexation, spread, combination of issue price and first coupon among financial instruments. Some of the reluctance of firms to buy and sell in the secondary market may be because their holdings are written in to their balance sheets at values well above current market prices. It is also suggested that one reason for the crisis in CCT is fear that yields will not in future adjust quickly enough to changes in the money markets, given the link with BOT 12 month rates.

The EC decision to liberalise capital movements, in Italy's case from 1990, has focused attention on the Treasury and Bank of Italy's technical management of the debt. Bank of Italy Deputy Governor Dini pointed to a large increase in capital movements as liberalisation grew (June saw a further easing of currency restrictions on tourism). In January and February the volume of outflow was only 230 billion lire whereas in the next 2 months it was 2,200 billion, fortunately compensated by an inflow of 3,500 billion. Treasury Minister Amato said he planned to offer yields which would be competitive with other European rates and the Treasury is studying proposals to give 12-18 months notice of quantities, maturities and technical conditions of issues of securities.

Bank loans in May were running at an annual rate of over 10% while deposits were increasing by only around 5%. Under Bank of Italy pressure, the major banks raised interest rates by around one half per cent in mid-June. There are considerable differences between rates in the north and south. Loans last month for example in the north on average attracted interest of 13.4% and deposits 7.5% while in the south the figures were 16% and 7.3%.

Dollar movements against European currencies required central bank intervention but the Italian government continued to make it clear that expectation of a lire devaluation was misguided.

EXCHANGE RATES - JUNE
(in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,340.950 (1 June)	2,295.000 (27 June)	2,307.950
\$	1,353.475 (27 June)	1,273.100 (7 June)	1,351.775
DM	745.230 (2 June)	740.855 (27 June)	741.385

Change in weighted value against other EC currencies since 9 February 1973: end-April -63.59%; end-May -63.64%; end-June -65.53%.

The stockmarket rallied a little over the period but investment funds in June again experienced net disinvestment, withdrawals exceeding new subscription by around 1,500 billion lire.

7. FISCAL POLICY

The Treasury borrowing requirement for January-May 1988 was 50,711 billion lire compared with 50,396 billion in the same period last year.

Tax revenue in April at 15,495 billion lire was 17.7% higher than April 1987. The figures for the 4 months January-April show a 15.9% increase compared with the budget forecast of a 10% increase for the year as a whole. Revenue from personal income tax (IRPEF) and VAT is well up but there are disappointing returns on company tax (IRPEG) and local income tax (ILOR). Evasion continues to be a major problem.

New government fiscal measures to reduce the public deficit are expected before the summer holidays. Informed debate focuses on revenue issues. Most ministers and commentators agree that the single most important aspect of fiscal policy is the need to broaden the tax base particularly by blocking avoidance. Another increasingly prominent theme is the desirability of moving Italy's VAT system towards the Cockfield proposals in preparation for fiscal harmonisation in the EC. It is recognised generally by Bank of Italy, Finance Ministry and commentators that Italy would find it much more difficult to join a harmonised scheme of excise duties, particularly as these affect fuel imports. A third possibility given increasing prominence is the realisation of under-utilised or under-performing state assets although as far as the major State Participation Companies are concerned there is unlikely to be any major change in policy. Private capital will not gain a majority shareholding. Parts of the steel industry which are expected to be transferred to the private sector will be one of the exceptions to this rule.

A bill to reform law 468 of 1987 which governs the procedure for the annual Financial Law and Budget has been under study since the beginning of the year by a special Parliamentary Committee. The bill is now before the Camera and could complete its passage through both houses before the summer recess. The debilitating experience of last year's Financial Law has led all parties to cooperate in trying to improve procedures. In future the intention is that the Financial Law will be a short bill which sets out the basic lines of government economic policy. It will show the financial implications of current policy and allow for changes in tax bands and rates, adjustments for inflation etc, on a rolling 3 year programme. The major special funds will be refinanced through it and there will be sums in contingency funds to cover the effects of expected new legislation. But there will no longer be the possibility of tacking major new legislation on to the basic law and budget. The outcome should be to impose cash limits on government spending. Measures which can not be funded from money voted in the Law and Budget will depend on visible new revenue provisions which will have to be adopted at the same time as the spending decision. The timing of the budget process would also be adjusted with the Government's presentation of its basic programme document by 31 May of each year; the annual and triennial forecast of spending/revenue on unchanged legislation would be available by 31 July; the Government's draft Financial Law and Budget framing its economic policy and intended legislative programme would be presented to Parliament by 30 September. After that it would be up to Parliament but there is

talk of changing parliamentary procedures including use of the secret vote. The aim would be to ensure Budget approval by the end of the year.

8. ASSESSMENT OF ECONOMIC PROSPECTS

Mid year economic forecasts are on the whole significantly more optimistic about the Italian economy. OECD puts 1988 GDP at 2.5% (still below the government target of 2.8%), inflation at 4.5% and a current account deficit of 1 million US dollars. Comparable 1989 figures are GDP 2.2%, inflation 4.2%, current account US \$1.2 million.

The EC, noting the public deficit at around 10% of GDP as the major problem area, puts growth at 3% in 1988 and 2.7% in 1989 with inflation at 4.7% and 4.5% respectively: unemployment is expected to fall from 14.2% to 14% over the two years.

Prometeia has revised its forecast considerably. It offers various scenarios in the event of e.g. a world boom and recession, a strong dollar or Government success in reducing the borrowing requirement but the basic forecast is:

	1988	1889	1990
GDP	3.2	2.2	2.3
Total Domestic Demand	4.1	2.5	2.6
Current A/C (billion lire)	-7,538	-8,152	-10,908
Consumer prices	5.3	5.6	5.9
PSBR (billion lire)	115,618	121,908	132,615
Average annual Interest BOT 3 months	10.9	11.2	11.6

9. MISCELLANEOUS

A number of problem areas for government economic policy in the future were prominent this month.

The government laid its proposals for restructuring the Italian steel industry before the EC Commission seeking approval for as much as 7,500 billion lire state aid to set the new company ILVA on its feet and to settle the debts of the now liquidated Finsider. At least 25,000 jobs will be shed and there will be a major job creation programme needed in steel making centres such as Taranto, Genoa and Bagnoli. Some plants will be sold to the private sector. The Government's plans have aroused considerable labour opposition and some violent demonstrations in the South. The Commission reaction is not expected until the autumn.

The new National Energy Plan expected in June had not in fact been published by the end of the month. However widespread authoritative leaks indicate that the current nuclear power stations are unlikely to survive although research will continue into the intrinsically safe

reactor and fusion. Coal and gas imports will increase and a major effort will be made to find energy savings. At least 10% of electricity requirements are likely to be met by direct imports (mostly from France) over the next decade. The budgetary consequences of these plans will be considerable: Italy faces a decade of even higher energy prices.

The new Energy Plan will also contain much stricter environmental standards for large combustion plants. The problems with Nigeria over dumping of Italian waste at Koko have focused attention on environmental issues this month. Even where current legislative provision is adequate, implementation and control is lacking. A start has already been made on the problem of water pollution, now land contamination and export controls are also at the top of the political agenda. But all these measures to protect the environment will be costly.

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FRAME ECONOMIC
ECD (i)

TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	399,987	252,068	63,092	87,159	1,529	403,848	84,069	87,930	633,571
1984	412,680	258,165	64,722	91,764	5,162	419,813	90,752	97,586	727,798
1985	424,581	265,793	67,004	94,074	5,927	432,798	93,928	102,145	815,630
1986	436,831	275,225	69,102	95,367	6,934	446,628	97,161	106,958	902,238
1987	450,397	287,131	71,432	100,363	8,471	467,397	100,644	117,644	982,595
1985 Q1	105,017	65,473	16,540	23,547	1,532	107,092	23,325	25,400	195,749
Q2	105,826	66,203	16,666	23,526	1,786	108,181	23,059	25,415	202,067
Q3	106,410	66,819	16,831	23,384	1,250	108,284	23,184	25,059	207,025
Q4	107,328	67,297	16,967	23,617	1,360	109,241	24,359	26,272	210,789
1986 Q1	107,086	67,787	17,128	23,299	2,092	110,306	23,610	26,830	214,752
Q2	109,094	68,315	17,258	23,962	612	110,147	25,049	26,103	224,000
Q3	110,138	69,117	17,278	23,987	2,473	112,855	24,974	27,692	230,145
Q4	110,513	70,006	17,438	24,118	1,756	113,318	23,528	26,333	233,341
1987 Q1	111,023	70,872	17,645	24,551	2,271	115,339	23,821	28,136	236,672
Q2	112,328	71,747	17,810	25,506	1,847	116,910	24,540	29,122	243,882
Q3	113,405	72,126	17,974	25,005	1,318	116,423	26,520	29,539	248,985
Q4	113,641	72,387	18,003	25,300	3,035	118,725	25,763	30,847	253,055

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 1A: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts. (All figures seasonally adjusted.)
 Percentage changes (year-on-year); (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
	(1)	Private	Govt	(3)	(4)	(5)	(6)	(7)	(8)
		(2)	(3)						
1983	0.5	0.4	2.8	-1.6	-	-0.4	2.3	-1.6	15.9
1984	3.5	2.2	2.0	4.4	-	4.4	7.6	11.3	14.1
1985	2.9	3.0	3.5	2.5	-	3.1	3.8	4.7	12.1
1986	2.9	3.5	3.1	1.4	-	3.2	3.4	4.7	10.6
1987	3.1	4.3	3.4	5.2	-	4.6	3.6	10.0	8.9
1985 Q1	2.8	1.6	3.6	4.6	-	3.2	6.0	7.8	11.9
Q2	2.9	2.7	3.5	3.9	-	3.3	4.4	5.8	12.3
Q3	2.9	3.6	3.8	0.4	-	2.7	0.4	2.3	12.7
Q4	3.0	3.6	3.2	1.3	-	3.1	4.6	3.0	11.4
1986 Q1	2.0	3.5	3.6	-1.1	-	3.1	1.2	5.6	9.7
Q2	3.1	3.2	3.6	1.9	-	2.3	8.6	2.7	10.9
Q3	3.5	3.4	2.7	2.6	-	3.9	7.7	10.5	11.2
Q4	3.0	4.0	2.8	2.1	-	3.6	-3.4	0.2	10.7
1987 Q1	3.7	4.6	3.0	5.4	-	4.6	-0.9	4.9	10.2
Q2	3.0	5.0	3.2	6.4	-	6.1	-2.0	11.6	8.9
Q3	3.0	4.4	4.0	4.2	-	3.2	6.2	6.7	8.2
Q4	2.8	3.4	3.2	4.9	-	4.8	9.5	17.1	8.4

* (2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices (2)		Orders (3)		Employment '000s (4)	Unemployment '000s (5)	Unemployment rate (6)	Strikes '000 hrs lost (7)
	(1980=100)	Dom.	Export	Dom.	Export				
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	39,506
1987	103.1								32,240
1986 Q1	100.2	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	104.4	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	88.7	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	103.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	103.3	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,411
Q2	109.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,178
Q3	91.1	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,469
Q4	108.4	212.8	220.4	217.1	216.1	20,901	2,930	12.3	16,182
1988 Q1	111.1					20,778	2,945	12.4	3,919
	(a)								
'86 JAN	100.5	165.6	194.0	173.5	197.7				5,512
FEB	99.2	175.3	200.7	200.3	195.6				1,569
MAR	100.2	180.5	198.7	208.5	216.6				2,442
APR	100.1	186.2	203.5	205.4	203.3				1,758
MAY	97.7	179.5	199.1	187.2	210.8				881
JUN	101.2	178.7	208.3	194.4	194.8				1,094
JUL	100.6	196.3	241.6	189.9	214.9				568
AUG	99.9	90.9	90.1	81.1	82.1				50
SEP	99.8	197.1	210.5	224.6	221.5				798
OCT	99.9	199.3	213.5	210.7	224.6				6,504
NOV	100.6	175.7	190.6	188.2	178.3				9,997
DEC	102.2	185.9	201.1	206.8	193.6				6,500
'87 JAN	101.5	153.2	172.1	170.2	186.7				2,957
FEB	101.2	172.7	194.8	207.6	198.9				4,733
MAR	101.7	208.0	222.4	227.0	221.8				1,721
APR	102.8	196.4	198.8	211.6	196.6				1,541
MAY	104.2	189.7	206.7	192.6	183.3				842
JUN	102.1	201.8	231.9	218.9	224.2				1,795
JUL	102.1	211.3	257.6	219.7	224.2				1,370
AUG	102.0	101.3	95.4	70.8	85.8				40
SEP	103.1	215.7	219.7	263.4	232.6				1,059
OCT	104.8	219.3	224.7	230.0	233.6				1,154
NOV	103.8	201.8	218.1	204.9	196.4				13,682
DEC	103.5	217.2	218.4	216.5	218.4				1,346
'88 JAN	108.8	169.3	192.0	205.7	212.7				914
FEB	106.0	197.2	222.3	233.4	228.1				1,609
MAR	104.8								1,396
APR	107.4*								

(a) Seasonally adjusted.

§Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures.

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT. Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1984	10.8	10.6	10.4	12.0
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1987	4.7	4.6	2.6	7.1
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3	4.9	4.6	+4.1	8.0
Q4	5.4	5.2	+4.6	8.1
1988 Q1		4.9		9.2
1986 APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.2
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV	5.4	5.2	4.6	8.2
DEC	5.2	5.1	4.7	8.3
1988 JAN	5.2	5.0	3.9	9.7
FEB	5.0	4.9	4.2	8.8
MAR	5.2	4.9	4.3	9.1
APR		5.0	4.4	8.7
MAY		4.9		
JUN		4.9		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1984	12.6	12.4	12.1	14.6	21.3
1985	16.6	10.4	11.0	14.4	19.2
1986	10.6	10.7	9.4	8.8	16.2
1987		7.6	8.4		
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8	10.9	9.5	8.1	15.9
1987 Q1	9.5	9.9	10.3	7.7	15.6
Q2	11.4	10.8	12.0	9.0	15.2
Q3	12.3	10.9	10.5		14.5
1985 Nov	15.2	13.6	13.3	13.3	17.9
Dec	17.3	10.4	11.1	11.7	18.0
1986 Jan	11.3	9.7	10.1	11.1	16.5
Feb	11.7	10.0	9.7	10.8	16.7
Mar	13.7	10.4	9.3	11.0	16.4
Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3	10.0	9.6	7.7	15.9
Feb	9.4	10.1	10.4	7.7	15.7
Mar	8.9	9.8	10.8	7.6	15.2
Apr	11.9	10.4	11.5	8.6	15.0
May	10.9	10.6	12.0	9.0	15.0
Jun	11.3	11.5	12.3	9.4	15.5
Jul	11.7	11.6	12.0	10.0	14.8
Aug	12.4	11.3	11.6	10.4	14.8
Sep	12.7	10.3	10.8	11.2	13.9
Oct	12.9	10.1	10.3	11.5	13.5
Nov	9.7	8.7	9.4	11.9	13.0
Dec	10.0	7.5	8.4	11.4	13.1

NB: Figures are revised periodically.

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana; (5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities 12-month		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average) Lira/US\$ Lira/£ster (5)	
		CCT (2)	BOT (3)			
1984	16.86	16.98	15.43	89.9	1,756.5	2,339.8
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.49	10.92	89.6	1,490.8	2,187.1
1987	11.32	10.66	10.55	91.7	1,296.4	2,122.4
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3	12.25	10.92	10.88	90.7	1,331.1	2,151.8
Q4	11.05	11.60	11.88	91.7	1,248.5	2,188.3
1986 May	12.19	13.12	11.00	88.0	1,528.7	2,325.5
Jun	12.31	12.19	10.57	88.1	1,531.5	2,310.8
Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.0	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.5	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.5	1,345.80	2,149.00
Sep	12.25	11.33	11.45	91.1	1,310.30	2,154.40
Oct	10.63	11.58	12.17	91.4	1,303.10	2,164.50
Nov	11.88	11.91	12.14	91.4	1,239.40	2,199.70
Dec	10.63	11.30	11.33	92.3	1,202.90	2,200.60
1988 Jan			10.56		1,215.00	2,190.20
Feb			10.50		1,250.30	2,196.30
Mar			10.56		1,241.40	2,272.40
Apr			10.96		1,242.20	2,330.50
May			10.99		1,258.66	2,352.81
Jun			10.93		1,351.77\$	2,307.95\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged.
 (3) gross yield on end month issues. (4) Wholesale prices.
 \$ End month rates.

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire				1980=100		
1984	148,162	129,027	-19,135	+ 57	-7,254	101.8	115.6
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	-1,311	115.8	126.4
1987	161,587*	150,449*	-11,138*	+1,202	-3,144	127.5	129.4
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789	- 881	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660	+1,686	117.6	132.9
Q4	44,660*	42,190*	- 2,470*	+3,287*			
1988 Q1	42,005*	35,570*	- 6,425*	+ 343*			
1986 Jul	12,415	13,632	+ 1,217	+1,459	+1,935	122.1	144.7
Aug	7,314	9,424	+ 2,111	+ 703	+2,831	75.0	100.6
Sep	12,300	11,556	- 744	-1,697	+ 803	119.8	122.9
Oct	13,512	13,772	+ 260	- 651	+ 610	131.7	143.8
Nov	11,920	11,763	- 157	- 133	- 816	116.6	122.5
Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 612	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	+ 110	+ 645	136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,011	+1,020	79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+1,172	+ 21	137.7	137.4
Oct	14,940*	14,250*	- 690*	+ 237	- 226	138.6	144.4
Nov	14,330*	13,480*	- 850*	+1,656	-1,630	134.1	137.9
Dec	15,390*	14,460*	- 930*	+1,188*		145.8	145.7
1988 Jan	12,020*	9,680*	- 2,330*	+1,369*			
Feb	13,675*	12,460*	- 1,215*	- 734*			
Mar	16,310*	13,430*	- 2,880*	- 292*			
Apr	14,475*	13,810*	- 665*	-2,953*			
May				- 966*			

*Provisional

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OF 191050Z JULY 88

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ITALIAN BUDGET DEFICIT

SUMMARY

1. STRAINS WITHIN COALITION AS AMATO PRESSES FOR FURTHER MEASURES THIS YEAR TO CUT THE GROWING PUBLIC SECTOR DEFICIT. A POSSIBLE MINI-PACKAGE SOON, FOLLOWED BY A DIFFICULT AUTUMN.

DETAIL

2. THE DE MITA GOVERNMENT TOOK OFFICE IN APRIL WITH THE LEAGACY OF ACCUMULATED DEBT EQUIVALENT TO 93% OF GDP AND A 1988 STATE SECTOR BORROWING REQUIREMENT OF 122,000 BILLION LIRE (11.7% GDP). THE REFORM OF THE PUBLIC FINANCES WAS RIGHTLY DECLARED A TOP ECONOMIC OBJECTIVE IN THE CONTEXT OF PREPARING ITALY FOR 1992.

3. THE POLITICAL AUGURIES WERE REASONABLY HOPEFUL. ALL PARTIES SEEMED CHASTENED BY THE BRUISING EXPERIENCE OF LAST YEAR'S FINANCIAL BILL WHICH SAW THE WEAK GORIA GOVERNMENT SUBJECT TO SONTINUAL SNIPING FROM WITHIN ITS OWN RANKS, AND UNABLE TO WITHSTAND THE SECTORAL INTERESTS WHICH PUSHED THE BORROWING REQUIREMENT FROM 103,500 TO 122,000 BILLION LIRE. PARLIAMENT HAD ALREADY EMBARKED ON A REVISION OF THE LAW WHICH GOVERNS THE PROCESSING OF THE ANNUAL BUDGET WITH THE AIM OF RESTRICTING THE POSSIBILITY OF MAJOR NEW EXPENDITURE BEING INSERTED INTO IT.

4. IN MAY TREASURY MINISTER AMATO LAID BEFORE PARLIAMENT HIS 5 YEAR PROGRAMME TO ACHIEVE A SMALL SURPLUS OF AROUND 5-6,000 BILLION LIRE ON THE STATE BUDGET (EXCLUDING INTEREST PAYMENTS) BY 1992 AND ON 25 MAY THE COUNCIL OF MINISTERS APPROVED A DECREE LAW (WHICH IS STILL BEFORE PARLIAMENT) CONTAINING MEASURES TO CUT 7,000 BILLION LIRE FROM THE DEFICIT THIS YEAR THROUGH 4,000 BILLION INCREASED REVENUE AND 3,000 BILLION REDUCED SPENDING (ROME TELNO 303).

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5. THE DE MITA GOVERNMENT THUS SEEMED TO HAVE GOT OFF TO A REASONABLE START WITH ITS FISCAL POLICY. ALSO THE REAL ECONOMY WAS DOING WELL. INDUSTRIAL PRODUCTION ROSE 6% IN Q1. DOMESTIC DEMAND WAS BUOYANT, THE TRADE AND PAYMENTS BALANCES WERE ADVERSE BUT MANAGEABLE AND GROWTH OF AROUND 2.5-3% THIS YEAR SEEMED INCREASINGLY POSSIBLE. INFLATION REMAINED STUBBORNLY AROUND 5% BUT BY END MAY THE DEFICIT AT 50,711 BILLION LIRE WAS ONLY 315 BILLION MORE THAN IN THE SAME PERIOD LAST YEAR WHILE THE 7,000 BILLION LIRE CUTS HAD YET TO TAKE EFFECT.

6. IN THE LAST 2-3 WEEKS, HOWEVER, THE CLOUDS HAVE BEGUN TO GATHER. STRIKING TEACHERS WERE RASHLY BOUGHT OFF BY THE GOVERNMENT WITH A PAY SETTLEMENT MUCH IN EXCESS OF GOVERNMENT TARGETS WITH SERIOUS IMPLICATIONS FOR THE PUBLIC SECTOR WAGE BILL AS A WHOLE. AT THE SAME TIME, CENTRAL GOVERNMENT TRANSFERS TO THE SO-CALLED AUTONOMOUS SPECNDING BODIES SUCH AS THE LOCAL AUTHORITIES, THE RAILWAYS, THE PENSIONS FUND WERE RISING FAST. THE PUBLIC ACCOUNTS WHICH NORMALLY REGISTER A SURPLUS IN JUNE RECORDED A DEFICIT OF 500 BILLION LIRE GIVING A HALF YEAR BORROWING REQUIREMENT OF 51,200 BILLION LIRE AGAINST 46,750 BILLION IN 1987. HEALTH EXPENDITURE ALONE LOOKS SET TO FINISH THE YEAR SOME 8,000 BILLION LIRE OVER BUDGET.

7. TOWARD THE END OF JUNE AMATO, SUPPORTED BY THE BANK OF ITALY, THE EMPLOYERS ORGANISATION CONFINDUSTRIA, AND THE SERIOUS PRESS, BEGAN TO SOUND THE TOCSIN WITH INCREASING VIGOUR. THERE MUST BE FURTHER MEASURES TO CUT THE DEFICIT BEFORE THE SUMMER HOLIDAYS IF THE COUNTRY WAS NOT TO RISK FACING A SERIOUS CRISIS OF FINANCIAL CONFIDENCE. PERHAPS RECOGNISING THAT A MAJOR WEAKNESS OF THE MAY DECREE WAS THAT 2,700 BILLION LIRE OF THE INCREASED REVENUE WAS REPRESENTED BY SIMPLY ADVANCING TAX PAYMENTS DUE LATER, THE TREASURY SPOKE INCREASINGLY OF RAISING SOME TAXES AS WELL AS IMPOSING REAL CONSTRAINTS ON EXPENDITURE.

8. BY LAST WEEK, IT BECAME EVIDENT THAT A DIVISION HAD OPENED UP BETWEEN CHRISTIAN DEMOCRATS, AND IN PARTICULAR THE DC MINISTER FOR FINANCE COLOMBO, AND THE SOCIALISTS OVER THE URGENCY AND SUBSTANCE OF THE ACTION TO BE TAKEN. COLOMBO SEEKING TO AVOID INFLECTING PAIN ON DC CONSTITUENTS ARGUES FOR A COMPREHENSIVE PACKAGE DEALING WITH DIRECT AND INDIRECT TAXES WHICH WILL BE AN INTEGRAL PART OF THE GOVERNMENT'S LONGER TERM PROGRAMME TO RATIONALISE THE TAX SYSTEM. APART FROM THE EFFECTS ON THEIR POPULARITY THE DC IS CONCERNED THAT EMERGENCY MEASURES WOULD HAVE IMMEDIATE REPERCUSSIONS ON INFLATION AND INTEREST RATES AND BE

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DIFFICULT TO ADMINISTER EFFICIENTLY AND FAIRLY. THEY ALSO WANT UNION AGREEMENT TO ANY PACKAGE AND ARE PREPARED TO SPEND FURTHER TIME IN DISCUSSION TO GET IT. THE SOCIALISTS, PARTICULARLY THE DEPUTY PRIME MINISTER DE MICHELIS, ALSO FAVOUR ACTION TO SHIFT THE BURDEN FROM DIRECT TO INDIRECT TAXES AND EASE EMPLOYERS SOCIAL CONTRIBUTIONS, TOGETHER WITH SIGNIFICANT INCREASES IN TAXES ON PETROL AND TOBACCO. BUT THEY SAY THE PACKAGE COULD BE IMPLEMENTED PIECEMEAL. AMATO HIMSELF FAVOURS A PHASED PROGRAMME FOR REFORM OF THE TAX SYSTEM TO MAKE IT BEAR MORE HEAVILY ON THE SELF-EMPLOYED AND TO REDUCE TAX EVASION, BUT INSISTS THAT MORE REVENUE MUST BE RAISED URGENTLY AND SOME CUTS MADE IN RUN-AWAY BUDGETS. THE REPUBLICANS AND LIBERALS FIND THEMSELVES IN SYMPATHY WITH THE SOCIALISTS BUT ARE CONCERNED THAT, IN THEIR EAGERNESS TO GET IN NEW REVENUE, THE LATTER MAY SOFT PEDAL ON EXPENDITURE CUTS. AMATO HAS PUBLICLY ACCUSED THE DC - AND BY IMPLICATION DE MITA HIMSELF - OF BEING UNWILLING TO FACE UP SERIOUSLY TO THE NEED FOR CUTS BECAUSE THEY HAVE 'TOO MANY MICE AT THE CHEESE'. THIS MAY BE PARTLY TO AVOID GETTING TOO FAR DOWN FIELD FROM CRAXI, SHOULD CRAXI DECIDE IN DUE COURSE TO MAKE ANOTHER BID FOR LEADERSHIP OF THIS OR SOME OTHER COALITION. BUT IN THE MEANTIME, DE MITA HAS TRIED TO REMAIN ALOOF FROM THE DISPUTE, CALLING FOR AN END TO THE PUBLIC EXCHANGES AND REAFFIRMING THE NEED FOR MEASURES TO BE CONSISTENT WITH THE GOVERNMENT'S OVERALL PROGRAMME TO WHICH ALL ARE COMMITTED.

9. IT IS DIFFICULT TO FORECAST THE MOST LIKELY ELEMENTS IN A PACKAGE. POSSIBILITIES INCLUDE CHANGES IN INCOME TAX BANDS GIVING 1,500 BILLION LIRE RELIEF FROM FISCAL DRAG: ALIGNING VAT RATES (CURRENTLY 2%, 9%, 18% AND 36%) MORE CLOSELY TO THE COCKFIELD PROPOSALS BY TRANSFERRING SOME GOODS BETWEEN RATES, ELIMINATING THE TOP RATE AND RAISING THE 2% AND 9% RATES BY 2% EACH: INCREASING PETROL AND TOBACCO TAXES: INCREASING PRESCRIPTION CHARGES AND REINTRODUCING CHARGES ON DIAGNOSTIC TESTS: INCREASING TAXES ON PROPERTY: AND SEEKING UNION AGREEMENT TO A FORM OF VOLUNTARY PAY RESTRAINT IN RETURN FOR EASING EMPLOYERS' SOCIAL CONTRIBUTIONS: AND OTHER MEASURES TO ENCOURAGE THE CREATION OF NEW JOBS. A FAMILIAR ENOUGH MENU.

10. AMATO HAS TOLD ME THAT HE REGARDS IT AS ESSENTIAL TO TAKE SOME INITIAL STEPS WITHIN THE NEXT TWO WEEKS. THE PARTIES SEEM UNLIKELY TO PURSUE THEIR DIFFERENCES TO CRISIS POINT BEFORE THE SUMMER HOLIDAYS BUT NOTHING CAN BE ABSOLUTELY EXCLUDED UNDER THE ITALIAN POLITICAL SYSTEM. AS FAR AS I CAN JUDGE, THE MOST LIKELY IMMEDIATE STEPS TO COMMAND SUPPORT WOULD BE A MINI-PACKAGE OF

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INDIRECT TAX INCREASES AND RISES IN HEALTH CHARGES WITH SOME MORE OR LESS EFFECTIVE CUTS ELSEWHERE, AND A STATEMENT OF INTENT ABOUT MORE COMPREHENSIVE MEASURES TO COME. BUT EVEN IF AMATO SUCCEEDS IN GETTING THAT MUCH UNDER HIS BELT, HE LOOKS LIKE HAVING A DIFFICULT AUTUMN.

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TO FCO SAVING TELEGRAM NO 8 OF 8 AUGUST 1988
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UKREP BRUSSELS, CONSULATES IN ITALY.

MONTHLY ECONOMIC REPORT : ITALY : JULY 1988

SUMMARY

1. The provisional six month figure for the government borrowing requirement was some 5,000 billion lira more than last year. The government announced a small fiscal package worth around 4,500 billion lira in a full year and promised further action in the autumn. The Council of Ministers approved draft laws on income tax reform and anti evasion measures.

ISTAT's industrial production figures for May suggested activity might be slowing but IRS indicators refute this. Inflation is steady at 4.9%. The May trade balance is not yet available but there was a surplus on current account in June of 835 billion lira. Transport sector strikes were announced, then called off. April figures showed a welcome increase in jobs particularly in industry and the unemployment rate in Q2 fell to 11.9%. Demand for Treasury securities was high but yields were up also. ISTAT reports Q1 growth of 3.1% year on year: the official forecasting institute ISCO puts GDP growth this year as high as 3.3%.

DETAIL

2. ECONOMIC ACTIVITY (Tables 1, 1A and 2)

ISTAT's figures for Q1 1988 show the economy is growing rapidly fuelled by strong domestic demand. GDP grew by 0.9% over Q4 1987 and 3.1% over Q1 1987. The annualised rate of growth for the first 3 months is 3.7%.

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Imports fell by 4.3% compared with Q4 1987 and exports by 3.7%. Domestic demand in Q1 1988 rose by 1.7% over Q4 1987 and gross fixed investment by 2.4%. The main percentage changes are Q1 1988/Q1 1987 are GDP 3.1%, Imports 4.8%, Consumer expenditure 3.4%, Gross fixed investment 6.6%, Exports 1%.

ISTAT's unadjusted industrial production index showed a year on year increase of 8.6% in May with 2 more working days. However the seasonally adjusted index fell to 105, down 2% on April. Sectors performing well over the first five months include automobiles, office machinery, rubber, non-metallic minerals, pharmaceuticals, precision instruments, printing. Badly performing sectors include shoemaking, petroleum processing, clothing and electrical energy.

Pace ISTAT, the IRS industrial production index indicates that the sustained growth of the first six months extended into July.

ENEL figures for electricity consumption in July show a 3.9% increase despite 2 less working days. The increase is partly due to hot weather and the use of air conditioning units but also supports the view that industrial production was well sustained into July.

Car sales in Italy in June rose by 6% year on year. The half yearly figure showed an 8.75% increase with 1,241,838 vehicles sold. FIAT had the largest market share in Europe at 15.8% of total sales.

Family and business surveys report continuing confidence in the economy. Industrialists expect present trends for industrial production and demand for final goods to be sustained after the summer holidays, inflation to remain stable and employment to increase.

A study by Prometeia and Banca Commerciale Italiana shows industrial investment rose by 11.4% in 1987 compared with an average of 6.3% in the three preceding years. They forecast 6.5% increase in real terms this year.

3. LABOUR AND SOCIAL AFFAIRS (Tables 2 and 3)

Air Transport

The month was notable for a series of threats of strike action, all of which were finally called off, by both pilots and ground crews. One innovation was a strike called by APPL pilots who agreed to work normally but to donate their pay to cancer research.

Rail Transport

The pattern was repeated on the railways where unusually even COBAS called off a drivers strike at the last minute following talks with Minister of Transport Santuz.

Public Sector

The Minister for Public Administration Pomicino proposed a new contract for public workers which included a ceiling of 13-14% over a three years period, a good deal less than the 20% awarded to teachers. This contract

is of vital importance to the government which is struggling to contain public spending. The confederal unions were in general not dissatisfied with the broad framework but opposed any stated limits, and agreement was finally reached on a framework without them. There was strong opposition from the sector unions (i.e. those within the three confederations) to the average rise of 300,000 lire monthly proposed by Marini, General Secretary of CISL with support from Pizzinato of CGIL. The government for its part wants to include mobility and higher productivity as conditions for increased pay and a draft law providing for movement between Ministries was under discussion at the end of the month.

The draft contract for state participated industries quotes increases of 340,000 lire per month phased over 3 years.

Labour inspectors based in Milan have left the confederal unions to form a COBAS.

Private Sector

The main interest centred on Fiat's whose new contract linking pay increases to the profitability of the company caused a major split between CGIL on one hand and CISL/UIIL on the other. Socialist Ministers De Michelis and Formica tried unsuccessfully to heal the breach, but matters on this and other contracts went from bad to worse until an intervention by Craxi towards the end of the month gave the general secretaries an opportunity to mend fences. CGIL at this point rejoined the other confederal unions and signed the teachers contract.

Legislation

The bill to control strikes was approved by the Senate with limited amendments and will go to the Camera in October.

General

Both Confindustria and ISTAT figures show a rising demand for labour. Figures issued by ISTAT for April 1988 showed unemployment up on April 1987, but there was a welcome increase in employment, including 130,000 extra jobs in manufacturing, and 139,000 in the Mezzogiorno. However the gap between north and south continued to widen with the south suffering higher unemployment and lower income growth although productivity rose by 7% in 1987 compared with 5.5% in the north.

ISTAT LABOUR FORCE SURVEY

	April 1988	January 1988	April 1987
	(thousands)		
In employment	21,113	20,778	20,672
Unemployed	2,857*	2,945	2,725
Total Labour Force	23,970	23,723	23,397

Unemployment rates	11.9%	12.4%	11.6%
Male	8.0%	8.5%	8.1%
Female	18.7%	19.1%	17.9%
North	6.7%	7.6%	7.6%
Centre	10.1%	10.0%	9.3%
South	20.2%	20.6%	18.8%
Activity rates	42.2%	41.8%	41.3%
Male	55.3%	54.5%	54.5%
Female	29.8%	29.8%	28.8%

* 1,406,000 were young people looking for their first job. 1,627,000 were women. 71.7% of total were under 29.

The Farmoplant chemical factory at Massa on the coast of Tuscany was closed following an explosion which released a large cloud of toxic gases and caused pollution of a stretch of coastline. Beaches were closed over 15 kilometres and the tourist industry suffered heavy losses, estimated at 30 billion lire. There was another incident when a cloud of sulphurous anhydride escaped from a factory belonging to Acna, Ruffolo, Minister for the Environment wanted the plant closed for 6 months while modifications were made, but following sharp disagreements between Ruffolo, a committee of experts he appointed, and the other parties involved, De Mita decided that it should be closed for 45 days.

SOCIAL AFFAIRS

The main interest centred on health costs and AIDS. Health expenditure is forecast to exceed 60,000 billion lire, 7,855 billion over estimates. In 1987 total health expenditure was 65,808 billion lire of which 35,136 billion lire, over half, was for private sector services. NHS paid 21,000 billion lire of this latter sum under conventions. The AIDS publicity programme finally got under way with a national press campaign and television spots. Cases of the disease reached 2,094, of which 720 were in Lombardy. There had been over 1,000 deaths. Donat Cattin, Minister of Health, unveiled a plan for 6,000 new hospital beds and home treatment. He estimated that cases in Italy could reach 13,000-14,000.

The government approved a bill for construction of 45,000-50,000 new homes in 1990-91 at a cost of 3,800 billion lire, more than offsetting the 24,000 which, it was claimed by the Association for Popular Housing, would be lost in 1988-89 by Formica's use of 1,000 billion lire from Gescal funds for an employment fund.

4. INFLATION (Table 3)

The cost of living index rose by 0.3% in July leaving the year on year rate at 4.9% for the third month running. The average annual rate rose by one point over June to 5%. Inflation has thus stabilised mid year around 5% against the government's target for the year of 4.5%.

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COST-OF-LIVING INDEX (JULY)
(1985 = 100)

Sector of index	% change over Jun 1988	% change over Jul 1987
General index (116.3)	+0.3	+4.9*
Food	+0.3	+4.1
Clothing	+0.1	+5.6
Housing	+0.7**	+6.7
Fuel & Elec.	no change	+3.1
Miscellaneous	+0.2	+5.1

* +3.7% for monitored/controlled prices and tariffs, +5.1% for other prices and tariffs.

** 3-monthly review

Wholesale prices rose in May by 0.5% over April and by 4.5% over May 1987. Ferrous and non-ferrous materials rose by 2.2%, crude oil by 1% and automobiles by 1.8%. There were falls in meat products and electricity. ISTAT's breakdown of the year on year figures according to economic destination showed the index for final consumption goods rose by 4.6%, that for final investment goods by 5.4% and intermediate goods by 3.9%. The production price index for industry excluding construction rose by 0.4% in May over April and by 3.3% year on year.

The price of newspapers rose on 1 August from 900 lire to 1,000 lire.

5. TRADE

The trade figures for May are not yet available.

According to the American magazine ENR Italian civil engineering and construction firms obtained overseas contracts in 1987 worth 12,000 billion lire putting them in third place behind the USA and Japan. This greatly exceeds the estimate by Italian associations of such firms which reported contracts worth 7,200 billion lire last year.

Italian firms continue to demonstrate their interest in the Communist market. Deals were announced with the USSR by the Vespa group (motor cycles), Merloni (electrical appliances), Danieli (steel plant). Italimpianti reported a contract worth 1,380 billion lire for tube making plants and Ansaldo a power station project worth 240 billion lire, both in China.

The Minister of Foreign Trade Ruggiero led a group of important industrialists to Teheran for a meeting of the Italo-Iranian Joint Commission.

The June balance of payments was in surplus by 835 billion lire. The figure for the first six months is a deficit of 2,699 billion. The comparable figures for 1987 are June -2,503 billion lira, half-year -1,801 billion but the 1987 June figures were affected by tensions in the EMS after abolition of the compulsory deposit scheme had led to significant outflow of capital. In June 1988 there was a net inflow of non-bank capital of around 700 billion lire despite 480 billion portfolio investment abroad by Italian residents. Transactions through the bank recorded an inflow of 1,513 billion lire. At the end of June net foreign indebtedness was 41,000 billion lire compared with 39,000 billion at end May. The reserves rose from 72,036 billion to 73,993 billion lire.

OFFICIAL RESERVES
(Billion Lire)

<u>Month</u>	<u>Total net reserves</u>	<u>Gold</u>	<u>Convertible</u>	<u>ECU</u>
May	72,036	38,115	20,520	10,939
June	73,993	37,500*	22,676	10,896

* quarterly revaluation

The hoteliers association reported that there was a 5.7% increase in the number of tourists in the first half of the year with 75.8 million recorded stays of which 31 million were foreigners.

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

Demand for Treasury securities in July was on the whole firm. The first auction of 3 month BOT without a floor price was oversubscribed. Yields in general were higher than in the preceding month.

GOVERNMENT SECURITIES

		Total issue	Taken by B/Italy	Unplaced	Effective annual yield (compound)(1)	
		(Billion Lire)			%	
					gross	net*
3-mth BOT						
end-Jun	5,500	-		oversubscribed	10.52	9.13
mid-Jul	3,250	700		-	11.33	9.83
end-Jul	10,500	667		-	11.52	10.00
6-mth BOT						
end-Jun	10,000	-		oversubscribed	10.61	9.19
mid-Jul	3,500	400		63	11.04	9.56
end-Jul	11,500	266		-	11.06	9.58
12-mth BOT						
end-Jun	7,500	-		364	10.93	9.43
mid-Jul	1,500	-		72	11.33	9.77
end-Jul	10,500	1,700		294	11.42	9.85
5-yr CCT						
June	2,000	-		650	12.15	10.60
July	4,000	-		2,950	12.58	10.97
Aug	2,500	-		1,190	12.58	10.97
BTP						
15 May (2-yr)	1,000	-		250	11.38	9.93
Jun (2-yr)	1,500	-		900	11.38	9.93
Jul (2-yr)	3,000	-		oversubscribed	11.82	10.30
Jul (4-yr)	2,000	-		650	12.39	10.80
Aug (2-yr)	4,000	-		1,715	11.82	10.31
Aug (4-yr)	3,000	-		1,325	12.72	11.11
BTE						
Dec (380 days)	500m Ecu	-		oversubscribed	8.55	7.48
Feb (373 days)	750m Ecu	-		"	7.78	6.81
Apr (373 days)	1,000m Ecu	-		"	7.49	6.55
Jun (378 days)	1,000m Ecu	-				
CTE						
Apr (4-yr)	750m Ecu	-		-	8.50	7.43
May (4-yr)	1,000m Ecu	-		-	8.50	7.43
Jul (5-yr)	1,000m Ecu	-		-	8.75	7.66

(1) Simple interest for BTE and CTE.

* Net of 12.50% tax deducted at source.

(Total BOT in circulation at mid-June: 220,912 bn lire)

The government floated a \$1 billion loan on the Euromarket through Credit Suisse First Boston which was fully subscribed at annual interest of 9% over 5 years, thus continuing a policy which was inaugurated with a similar operation in September last year in dollars and has seen two yen borrowings since. The Treasury emphasized the planned nature of the move which did not relate to the balance of payments position.

Bank lending remained high in June (14-15% annualised against the Bank of Italy target of 6-10%). The banks were criticised by Treasury Minister Amato for forcing increases in interest on Treasury bonds. Most major banks raised some interest rates mid month by half a point under pressure from the Bank of Italy. This follows a similar rise in mid June. But the effectiveness is doubtful, neither prime nor top rates have on the whole been affected.

Against a background of upward tendencies by the US dollar and pound sterling which met with central bank intervention, the lira strengthened slightly in the EMS.

EXCHANGE RATES - JULY
(in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,374.350 (28 July)	2,288.975 (4 July)	2,371.100
\$	1,400.125 (18 July)	1,348.260 (7 July)	1,386.445
DM	742.275 (4 July)	738.200 (29 July)	738.200

Change in weighted value against other EC currencies since 9 February 1973: end-May -63.64%; end-June -65.53%; end-July -63.45%.

The stockmarket fluctuated but the overall trend was slightly upward. For the twelfth consecutive month withdrawals from investment funds exceeded deposits but withdrawals seems to be slowing. The net imbalance in July was -1,024 billion against 1,455 billion in June.

7. FISCAL POLICY

July was dominated by rumours and debate over likely fiscal measures following the Treasury announcement of provisional figures for the first six months which put the borrowing requirement at 51,719 billion lire, some 5,000 billion more than in the same period last year. Preliminary costings of the 1988 budget put the deficit at well over 140,000 billion against the programme target of 115,000 billion.

The outcome was a modest package of measures approved in a decree law by the Council of Ministers on 29 July with the promise of further action in the autumn. The 29 July measures are reckoned to be worth about 4,500 billion in 1989 and possibly 1,000 billion this year. They comprise an increase in the 18% VAT rate to 19%, a 20% surcharge on most medical prescriptions (40% on non essential items such as vitamin supplements) small increases in fuel costs (gas, diesel, electricity, petrol) and a tax of 100,000 lire for personal, and 250,000 lire for company, registration for VAT purposes. On the spending side there is a two month freeze on new government investment and recruitment (with some exceptions). The latter is simply a holding measure to cover the period before the autumn Finance bill.

A number of draft laws on fiscal issues were widely expected before the summer holidays but by 5 August only two of them had been approved by the Council of Ministers: reform of income tax (IRPEF) bands and rates giving some relief for fiscal drag and anti evasion measures. The IRPEF reform reduces the number of bands from 9 to 7 and the top rate payable on income of over 600 million lire from 62% to 50%. The lowest rate on income up to 6 million lira moves from 12% to 10%. Most allowances are raised. The package is worth around 300,000 lire to a married man with 2 children earning 20 million (£9,000) a year. The cost to the Treasury is estimated at 7,000 billion lire. It has long been acknowledged that the fiscal burden in Italy weighs unfairly on the wage earner and the reform will be widely welcomed although it may not go far enough for the unions. The effectiveness of the anti evasion measures will depend in large part on the efficiency of the fiscal administration but the bill for reform of this is one of those so far left outstanding. The other is reform of the "Visentini" tax law for small businesses and the self-employed. A one off tax pardon to recoup some of the tax unpaid over previous years has also been mooted.

An unexpected outcome of the 5 August meeting of the Council of Ministers was agreement that cash limits should be imposed on ministerial budgets next year. These would be fixed at 14% above 1987 levels. It must be doubted however whether the Government can sustain such a decision in the face of parliamentary and interest group pressures.

The Secretaries of the five parties comprising the governing coalition have committed themselves to reform of secret voting procedures before the Financial Law begins its passage in late September. The fate of this reform will be a crucial indication of the political determination to control public spending.

A study by a Treasury Committee on public expenditure shows that over the last 20 years, spending increased by about 10% in the 3 months preceding an election : in 1987 spending rose by 37% in the 3 months preceding the election.

The Steve committee set up last November to look for means of cutting public expenditure following the political crisis provoked by the Liberal Party over the Finance Bill presented its report to the Treasury Minister. It points out that in the first 6 months of the current legislature, despite the constitutional requirements for spending proposals to be accompanied by indications of revenue cover, of 974 bills requiring new expenditure, 558 contained no quantified information on the

financial implications and 64 grossly underestimated the costs. The Report states that the influence of pressure groups must be resisted and suggests 3% cuts in ministerial budgets.

Tax revenue in May was 25,133 billion lire, 14.1% higher than the same month last year.

8. ASSESSMENT OF ECONOMIC PROSPECTS

The Club dell Economia which brings together many of Italy's leading academics and journalists forecast 2.9% growth this year.

The latest estimate by the official forecasting institute ISCO for GDP growth is 3.3% in 1988 and 2.8% in 1989.

9. MISCELLANEOUS

The new National Energy Plan covering the period to 2,000 was finally published. It assumes there will be no contribution from nuclear power and a continuing need for some years to import around 10% of electricity consumed. The contribution of oil is to be reduced and that of gas and coal increased. Efforts will be made to develop indigenous resources including hydroelectric and geothermal schemes. Investments totalling some 80,000 billion will be needed over the next 15 years.

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ADDITIONAL FRAME i

TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1983	399,987	252,068	63,092	87,159	1,529	403,848	84,059	87,930	633,571
1984	412,680	258,165	64,722	91,764	5,162	419,813	90,752	97,586	727,798
1985	424,581	265,793	67,004	94,074	5,927	432,798	93,928	102,145	815,630
1986	436,831	275,225	69,102	95,367	6,934	446,628	97,161	106,958	902,238
1987	450,397	287,131	71,432	100,363	8,471	467,397	100,644	117,644	982,595
1985 Q1	105,017	65,473	16,540	23,547	1,532	107,092	23,325	25,400	195,749
Q2	105,826	66,203	16,666	23,526	1,786	108,181	23,059	25,415	202,067
Q3	106,410	66,819	16,831	23,384	1,250	108,284	23,184	25,059	207,025
Q4	107,328	67,297	16,967	23,617	1,360	109,241	24,359	26,272	210,739
1986 Q1	107,086	67,787	17,128	23,299	2,092	110,306	23,610	26,830	214,752
Q2	109,094	68,315	17,258	23,962	612	110,147	25,049	26,103	224,000
Q3	110,138	69,117	17,278	23,987	2,473	112,855	24,974	27,692	230,145
Q4	110,513	70,006	17,438	24,118	1,756	113,318	23,528	26,333	233,341
1987 Q1	111,023	70,872	17,645	24,551	2,271	115,339	23,821	28,136	236,672
Q2	112,328	71,747	17,810	25,506	1,847	116,910	24,540	29,122	243,882
Q3	113,405	72,126	17,974	25,005	1,318	116,423	26,520	29,539	248,985
Q4	113,641	72,387	18,003	25,300	3,035	118,725	25,763	30,847	253,055

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 1A: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts. (All figures seasonally adjusted.)
 Percentage changes (year-on-year); (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
	(1)	Private	Govt	(3)	(4)	(5)	(6)	(7)	(8)
		(2)	(3)						
1983	0.5	0.4	2.8	-1.6	-	-0.4	2.3	-1.6	15.9
1984	3.5	2.2	2.0	4.4	-	4.4	7.6	11.3	14.1
1985	2.9	3.0	3.5	2.5	-	3.1	3.8	4.7	12.1
1986	2.9	3.5	3.1	1.4	-	3.2	3.4	4.7	10.6
1987	3.1	4.3	3.4	5.2	-	4.6	3.6	10.0	8.9
1985 Q1	2.8	1.6	3.6	4.6	-	3.2	6.0	7.8	11.9
Q2	2.9	2.7	3.5	3.9	-	3.3	4.4	5.8	12.3
Q3	2.9	3.6	3.8	0.4	-	2.7	0.4	2.3	12.7
Q4	3.0	3.6	3.2	1.3	-	3.1	4.6	3.0	11.4
1986 Q1	2.0	3.5	3.6	-1.1	-	3.1	1.2	5.6	9.7
Q2	3.1	3.2	3.6	1.9	-	2.3	8.6	2.7	10.9
Q3	3.5	3.4	2.7	2.6	-	3.9	7.7	10.5	11.2
Q4	3.0	4.0	2.8	2.1	-	3.6	-3.4	0.2	10.7
1987 Q1	3.7	4.6	3.0	5.4	-	4.6	-0.9	4.9	10.2
Q2	3.0	5.0	3.2	6.4	-	6.1	-2.0	11.6	8.9
Q3	3.0	4.4	4.0	4.2	-	3.2	6.2	6.7	8.2
Q4	2.8	3.4	3.2	4.9	-	4.8	9.5	17.1	8.4

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices Dom. Export (2)		Orders Dom. Export (3)		Employ- ment '000s (4)	Unem- ploymt '000s (5)	Unem- ploymt rate (6)	Strikes '000 hrs lost (7)
	(1980=100)	(1980=100)		(1980=100)					
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	39,506
1987	103.1								32,240
1986 Q1	100.2	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
Q2	104.4	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
Q3	88.7	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
Q4	103.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987 Q1	103.3	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,411
Q2	109.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,178
Q3	91.1	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,469
Q4	108.4	212.8	220.4	217.1	216.1	20,901	2,930	12.3	16,182
1988 Q1	111.1	198.2	221.4	236.7	239.5	20,778	2,945	12.4	3,919
Q2						21,113	2,857	11.9	
	(a)								
'86 APR	100.1	186.2	203.5	205.4	203.3				1,758
MAY	97.7	179.5	199.1	187.2	210.8				881
JUN	101.2	178.7	208.3	194.4	194.8				1,094
JUL	100.6	196.3	241.6	189.9	214.9				568
AUG	99.9	90.9	90.1	81.1	82.1				50
SEP	99.8	197.1	210.5	224.6	221.5				798
OCT	99.9	199.3	213.5	210.7	224.6				6,504
NOV	100.6	175.7	190.6	188.2	178.3				9,997
DEC	102.2	185.9	201.1	206.8	193.6				6,500
'87 JAN	101.5	153.2	172.1	170.2	186.7				2,957
FEB	101.2	172.7	194.8	207.6	198.9				4,733
MAR	101.7	208.0	222.4	227.0	221.8				1,721
APR	102.8	196.4	198.8	211.6	196.6				1,541
MAY	104.2	189.7	206.7	192.6	183.3				842
JUN	102.1	201.8	231.9	218.9	224.2				1,795
JUL	102.1	211.3	257.6	219.7	224.2				1,370
AUG	102.0	101.3	95.4	70.8	85.8				40
SEP	103.1	215.7	219.7	263.4	232.6				1,059
OCT	104.8	219.3	224.7	230.0	233.6				1,154
NOV	103.8	201.8	218.1	204.9	196.4				13,682
DEC	103.5	217.2	218.4	216.5	218.4				1,346
'88 JAN	108.8	169.3	192.0	205.7	212.7				914
FEB	106.0	197.2	222.3	233.4	228.1				1,609
MAR	104.8								1,396
APR	107.2								
MAY	105.0								

(a) Seasonally adjusted.

§Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures.

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT
Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1987	4.7	4.6	2.6	7.1
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3	4.9	4.6	+4.1	8.0
Q4	5.4	5.2	+4.6	8.1
1988 Q1		4.9		9.2
1986 APR	6.4	6.6	-0.8	5.3
MAY	6.1	6.4	-1.8	4.7
JUN	5.7	6.3	-1.8	4.8
JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.2
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV	5.4	5.2	4.6	8.2
DEC	5.2	5.1	4.7	8.3
1988 JAN	5.2	5.0	3.9	9.7
FEB	5.0	4.9	4.2	8.8
MAR	5.2	4.9	4.3	9.1
APR	5.1	5.0	4.4	8.7
MAY		4.9	4.5	
JUN		4.9		
JUL		4.9		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1985	16.6	10.4	11.0	14.4	19.2
1986	10.6	10.7	9.4	8.8	16.2
1987		7.6	8.4		
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8	10.9	9.5	8.1	15.9
1987 Q1	9.5	9.9	10.3	7.7	15.6
Q2	11.4	10.8	12.0	9.0	15.2
Q3	12.3	10.9	10.5		14.5
1986 Apr	11.1	10.3	8.8	9.9	16.9
May	11.2	11.5	9.1	9.4	16.7
Jun	11.3	10.5	8.4	8.2	15.3
Jul	11.4	9.1	7.9	7.4	16.1
Aug	9.4	8.9	7.6	7.0	16.0
Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3	10.0	9.6	7.7	15.9
Feb	9.4	10.1	10.4	7.7	15.7
Mar	8.9	9.8	10.8	7.6	15.2
Apr	11.9	10.4	11.5	8.6	15.0
May	10.9	10.6	12.0	9.0	15.0
Jun	11.3	11.5	12.4	9.4	15.5
Jul	11.7	11.5	12.0	10.0	14.8
Aug	12.4	11.2	11.6	10.4	14.8
Sep	12.7	10.2	10.8	11.2	13.9
Oct	12.9	10.0	10.3	11.4	13.5
Nov	9.7	8.5	9.3	11.9	13.1
Dec	10.0	7.4	8.3	11.4	13.1
1988 Jan		7.1	7.5	11.5	13.0
Feb		7.0	7.1	12.1	12.4
Mar		6.9	6.8		12.9
Apr		6.9	6.7		12.9
May		6.3	6.4		13.2

NB: Figures are revised periodically.

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana; (5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities 12-month		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	BOT (3)		Lira/US\$ (5)	Lira/£ster
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.49	10.92	89.6	1,490.8	2,187.1
1987	11.32	10.66	10.55	91.7	1,296.4	2,122.4
1986 Q1	16.31	14.44	13.05	88.6	1,599.6	2,302.3
Q2	12.44	13.44	11.13	88.1	1,538.9	2,321.9
Q3	11.46	11.47	10.38	89.7	1,436.9	2,141.3
Q4	11.79	10.63	10.03	91.9	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	92.8	1,306.2	2,016.2
Q2	10.71	9.89	9.66	91.5	1,299.8	2,135.1
Q3	12.25	10.92	10.88	90.7	1,331.1	2,151.8
Q4	11.05	11.60	11.88	91.7	1,248.5	2,188.3
1986 Jul	11.56	11.74	10.56	88.5	1,478.5	2,232.2
Aug	11.44	11.58	10.26	89.9	1,420.8	2,110.9
Sep	11.38	11.10	10.31	90.6	1,408.2	2,073.9
Oct	11.00	10.79	10.07	91.7	1,386.6	1,997.9
Nov	12.50	10.60	10.02	91.8	1,402.1	1,996.2
Dec	11.88	10.51	10.01	92.4	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	93.1	1,314.70	1,983.10
Feb	11.63	10.24	9.74	93.1	1,299.60	1,982.50
Mar	10.38	10.04	9.68	92.3	1,304.60	2,076.90
Apr	9.88	9.89	9.65	92.2	1,292.20	2,106.20
May	11.13	9.87	9.66	91.3	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.0	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.5	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.5	1,345.80	2,149.00
Sep	12.25	11.33	11.45	91.1	1,310.30	2,154.40
Oct	10.63	11.58	12.17	91.4	1,303.10	2,164.50
Nov	11.88	11.91	12.14	91.4	1,239.40	2,199.70
Dec	10.63	11.30	11.33	92.3	1,202.90	2,200.60
1988 Jan	10.88		10.56		1,215.00	2,190.20
Feb			10.50		1,250.30	2,196.30
Mar			10.56		1,241.40	2,272.40
Apr			10.96		1,242.20	2,330.50
May			10.99		1,258.66	2,352.81
Jun			10.93		1,303.43	2,320.07
JUL			11.42		1,386.45\$	2,371.10\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged. (3) gross yield on end month issues. (4) Wholesale prices. § End month rates.

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire				1980=100		
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	-1,311	115.8	126.4
1987	161,587*	150,449*	-11,138*	+1,202	-3,144	127.5	129.4
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 882	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789	- 881	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660	+1,686	117.6	132.9
Q4	44,660*	42,190*	- 2,470*	+3,287*			
1988 Q1	42,005*	35,570*	- 6,425*	+ 343*			
1986 Oct	13,512	13,772	+ 260	- 651	+ 610	131.7	143.8
Nov	11,920	11,763	- 157	- 133	- 816	116.6	122.5
Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 608	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 768	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	+ 110	+ 645	136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,011	+1,020	79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+1,172	+ 21	137.7	137.4
Oct	14,940*	14,250*	- 690*	+ 237	- 226	138.6	144.4
Nov	14,330*	13,480*	- 850*	+1,656	-1,630	134.1	137.9
Dec	15,390*	14,460*	- 930*	+1,188*		145.8	145.7
1988 Jan	12,020*	9,680*	- 2,330*	+1,369*			
Feb	13,675*	12,460*	- 1,215*	- 734*			
Mar	16,310*	13,430*	- 2,880*	- 292*			
Apr	14,475*	13,810*	- 665*	-2,953*			
May				- 966*			
Jun				+ 835*			

*Provisional

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(COLLAR)
MIPT AND 407: ITALIAN PUBLIC DEFICIT

SUMMARY:

1. ECONOMIC MEASURES TAKEN SO FAR BY THE DE MITA GOVERNMENT ARE MODEST: A HEAVY LEGISLATIVE PROGRAMME IS PLANNED FOR THE AUTUMN. THE ECONOMY IS DOING WELL BUT THE GOVERNMENT HAS NOT YET GOT A FIRM GRIP ON PUBLIC SECOR FINANCES.

DETAIL:

2. THE COUNCIL OF MINISTERS HELD ITS LAST MEETING BEFORE THE SUMMER BREAK ON 10 AUGUST: IT WILL MEET AGAIN ON 26 AUGUST. ECONOMIC MEASURES ARE HIGH ON THE AGENDA. IN REVIEWING THE FIRST 120 DAYS OF HIS GOVERNMENT DE MITA CLAIMED THAT A SIGNIFICANT, IF STEADY, START HAD BEEN MADE ON IMPLEMENTING THE GOVERNMENT'S PROGRAMME.

3. AS FAR AS PUBLIC FINANCE IS CONCERNED, THE TARGET SET BY TREASURY MINISTER AMATO IS TO ELIMINATE THE DEFICIT NET OF INTEREST PAYMENTS BY 1992. BUT THIS TARGET IS NOT STANDING STILL. THE HALF-YEAR FIGURE FOR THE BORROWING REQUIREMENT AT 51,719 BILLION LIRA WAS SOME 5,000 BILLION MORE THAN IN THE SAME PERIOD LAST YEAR. PRELIMINARY COSTINGS OF THE 1989 BUDGET NOW PUT THE DEFICIT AT WELL OVER 140,000 BILLION LIRA AGAINST THE PROGRAMME TARGET OF 115,000 BILLION. THE DELIBERATE PACE ADOPTED BY DE MITA THUS RUNS THE RISK THAT WITH EACH STEP TAKEN THE GOVERNMENT IS IN FACT FALLING FURTHER BEHIND. THIS IMPRESSION HAS BEEN REINFORCED OVER THE LAST 6 WEEKS. ACTION TAKEN BY SUCCESSIVE COUNCILS OF MINISTERS HAS PROVED MUCH LESS COMPREHENSIVE THAN SUGGESTED BY PRIOR OFFICIAL BRIEFING. REALLY DECISIVE ACTION, BEGINNING WITH THE REFORM OF SECRET VOTING PROCEDURES IN PARLIAMENT, HAS BEEN PUT OFF UNTIL THE AUTUMN.

4. THE GOVERNMENT'S STRATEGY HAS 3 MAIN STRANS: IMMEDIAT

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INCREASES IN REVENUE ENACTED BY DECREE LAW, IMPOSITION OF CUTS IN CURRENT SPENDING THROUGH PRIME MINISTERIAL FIAT OR DECREE LAW, COMPREHENSIVE LONG TERM STRUCTURAL REFORM OF THE REVENUE AND EXPENDITURE SYSTEM AND OF THE PUBLIC ADMINISTRATION THROUGH AN AMBITIOUS LEGISLATIVE PROGRAMME. DECREE LAWS TAKE IMMEDIATE EFFECT BUT FALL IF NOT APPROVED BY PARLIAMENT WITHIN 60 DAYS. PARLIAMENT HAS THE RIGHT TO MEND, NOT JUST TO REJECT, THESE LAWS.

5. THE FATE OF THE GOVERNMENT'S FIRST ECONOMIC PACKAGE, THE 25 MAY DECREE TO REDUCE THIS YEAR'S DEFICIT BY SOME 7000 BILLION LIRA (4000 BILLION LIRA INCREASED REVENUE, 3000 BILLION SPENDING CUTS) ILLUSTRATES THE DEFICIENCIES OF THIS PROCEDURE. THE GOVERNMENT HAD TO RESORT TO AN OPEN VOTE OF CONFIDENCE TO ENSURE APPROVAL OF THE BASIC THRUST OF THE DECREE AFTER MUCH OF IT HAD BEEN REWRITTEN DURING DETAILED EXAMINATION. THE MINISTRY OF FINANCE SUBSEQUENTLY ISSUED A CIRCULAR INSTRUCTING FIRMS TO COMPLY WITH THE GOVERNMENT'S ORIGINAL PROPOSALS RATHER THAN THE LAW PASSED BY PARLIAMENT. THE MINISTRY PROMISED ANY NECESSARY ADJUSTMENTS WOULD BE MADE LATER. THE ADMINISTRATIVE AND LEGAL CONFUSION SURROUNDING THESE MEASURES IS ALL TOO TYPICAL OF FISCAL ADMINISTRATION IN ITALY. THE AVERAGE TIME FOR OBTAINING A TAX REFUND IS 8 YEARS. NOT SURPRISINGLY TAX EVASION IS RIFE. MORE SERIOUSLY FROM THE POINT OF VIEW OF THE GOVERNMENT'S TARGET, SOME 2,700 BILLION LIRA OF THE INCREASED REVENUE REPRESENTED ADVANCE PAYMENTS RATHER THAN NEW REVENUE. THE EFFECTIVENESS OF THE CUTS WILL NOT BE KNOWN FOR SOME TIME.

6. THE SUBSEQUENT (29 JULY) PACKAGE OF REVENUE INCREASES, AGAIN EMBODIED IN A DECREE LAW, WAS BETTER DESIGNED IF MODEST. IT IS EXPECTED TO RAISE 4,500 BILLION LIRA IN 1989 AND PERHAPS SOME 1,000 BILLION THIS YEAR. THE PACKAGE COMPRISES AN INCREASE IN THE 18 PERCENT VAT RATE TO 19 PERCENT, A 20 PERCENT SURCHARGE ON MOST MEDICAL PRESCRIPTIONS (40 PERCENT ON NON-ESSENTIAL ITEMS LIKE VITAMIN SUPPLEMENTS), SMALL INCREASES IN ENERGY PRICES (GAS, ELECTRICITY, DIESEL, PETROL) AND A VAT REGISTRATION FEE OF 100,000 LIRA FOR INDIVIDUALS AND 250,000 FOR COMPANIES. PARLIAMENT HAS STILL TO CONSIDER THESE MEASURES. HEALTH CHARGES ARE POLITICALLY SENSITIVE AND THERE COULD WELL BE MOVES TO AMEND THE DECREE.

7. DE MITA'S REMINDER TO MINISTERS OF THE CONSTITUTIONAL REQUIREMENT FOR NEW SPENDING PROPOSALS TO BE ACCOMPANIED BY INDICATIONS OF REVENUE COVER HAS HAD LITTLE DISCERNIBLE EFFECT. THE 3,000 BILLION LIRA CUTS APPROVED IN MAY COVER SOME NOTORIOUS AREAS OF ABUSE SUCH AS DISASTER RELIEF AND CIVIL DISABILITY PENSIONS

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BUT DE MITA HAS GONE ON RECORD SEVERAL TIMES AS OPPOSING INDISCRIMINATE CUTS. THE INCLUSION OF A 2 MONTH FREEZE ON RECRUITMENT AND NEW INVESTMENT (WITH SOME EXCEPTIONS) IN THE 29 JULY PACKAGE WAS A TOKEN MEASURE, TO COVER THE PERIOD UNTIL THE FINANCE BILL. BUT BY 5 AUGUST UNDER STRONG PRESSURE FROM THE TREASURY DE MITA RELUCTANTLY AGREED TO IMPOSE CASH LIMITS ACROSS THE BOARD IN 1989 AT 14 PERCENT MAXIMUM ABOVE 1987 LEVELS. THE EFFECTIVENESS OF THIS WILL DEPEND CRUCIALLY ON PARLIAMENTARY AND PARTY DISCIPLINE, EVEN ASSUMING THAT THE INDIVIDUAL MINISTRIES CAN BE MADE TO TOE THE LINE.

8. DRAFT LAWS TO LAY BEFORE PARLIAMENT THIS AUTUMN WERE EXPECTED TO INCLUDE REFORM OF INCOME TAX, REFORM OF THE TAX ON SMALL BUSINESSES, MEASURES TO LIMIT TAX EVASION, COMPREHENSIVE CHANGES TO ALIGN THE VAT SYSTEM MORE CLOSELY ON THE COMMISSION'S PROPOSALS, STRENGTHENING OF THE FISCAL ADMINISTRATION, A TAX PARDON, RELIEF FOR EMPLOYERS' SOCIAL CONTRIBUTIONS, AND A TAX ON PERSONAL SAVINGS (CAPITAL GAINS). IN THE EVENT ONLY THE INCOME TAX (IRPEF) AND ANTI-EVASION BILLS WERE APPROVED BY THE COUNCIL OF MINISTERS. THE FORMER REDUCES THE NUMBER OF INCOME TAX BANDS FROM 9 TO 7. THE TOP RATE ON SALARIES OF OVER 600 MILLION LIRA IS REDUCED FROM 62 PERCENT TO 50 PERCENT: OTHER RATES ARE ADJUSTED DOWN BY LESS. ALLOWANCES ARE RAISED AND PROVISION MADE FOR RELIEF FROM FISCAL DRAG ABOVE 4 PERCENT INFLATION. THE COST TO THE TREASURY IN THE FIRST FULL YEAR (1990) OF OPERATION IS PUT AT 7,000 BILLION. THE ANTI-EVASION BILL CLOSES A NUMBER OF LOOPHOLES AND TIGHTENS UP CONCESSIONS.

9. SOME OTHER BILLS APPEAR CLOSE TO AGREEMENT BUT ARE HELD UP BY POLITICAL DIFFERENCES. THE REPUBLICANS ARE OPPOSING THE TAX AMNESTY, THE LIBERALS THE NEW TAX SYSTEM FOR SMALL BUSINESSES, AND THE SOCIALIST TREASURY MINISTER AMATO THE REFORM OF THE FISCAL ADMINISTRATION ON GROUNDS OF COST. THE DELAY IS DAMAGING. BUT NO PARTY SEEMS CONCERNED TO PUSH ITS DIFFERENCES TO THE POINT OF CRISIS. A MEETING OF THE 5 PARTY SECRETARIES ON 4 AUGUST REAFFIRMED SUPPORT FOR THE PROGRAMME. MORE IMPORTANTLY, THEY COMMITTED THEMSELVES TO A REFORM OF THE SECRET VOTE BEFORE PARLIAMENTARY CONSIDERATION OF THE FINANCE BILL BEGINS AT THE END OF SEPTEMBER. THIS WILL PROVIDE A REAL TEST OF THE COALITION'S COHESIVENESS. IF IT CAN BE ACHIEVED. THE PROSPECTS FOR IMPLEMENTING THE FISCAL STRATEGY WILL IMPROVE ENORMOUSLY.

10. TEMPERAMENT AND ITALY'S COALITION SYSTEM INCLINE DE MITA TO CONCILIATION NOT CONFRONTATION. ECONOMICALLY, HE IS DEEPLY

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COMMITTED TO A GRADUAL APPROACH TO THE PUBLIC FINANCES WHICH WILL NOT IMPERIL GROWTH AND THUS EMPLOYMENT. IN FACT THE CURRENT OFFICIAL FORECAST FOR GDP THIS YEAR IS 3.3 PERCENT AND THE ECONOMY APPEARS, IF ANYTHING, IN DANGER OF OVERHEATING. POLITICALLY, HE WILL ENDEAVOUR TO CARRY NOT ONLY THE COALITION BUT THE COMMUNIST OPPOSITION, THE EMPLOYERS AND THE TRADE UNIONS WITH HIM AND HE WILL BE PREPARED TO CONTINUE TALKING, RATHER THAN ACTING, FOR A CONSIDERABLE TIME TO THIS END. THE VAT REFORMS, FOR EXAMPLE, ARE HELD UP BY THE NEED TO GET UNION ACCEPTANCE THAT THEIR INFLATIONARY IMPACT ON THE INDEX-LINKING SYSTEM SHOULD BE MINIMISED. BUT LIBERALISATION OF CAPITAL MOVEMENTS IN 1990 AND THE COMPLETION OF THE SINGLE MARKET IN 1992 ARE DATES HE CANNOT PUT OFF. ASSUMING THAT ITALY WISHES TO RETAIN ITS PLACE AT THE TOP TABLE, IT SEEMS INEVITABLE THAT IN THE NEXT YEAR OR SO THE PACE WILL QUICKEN AND THE GOVERNMENT WILL HAVE TO IMPOSE SOME UNPOPULAR DECISIONS (IF IT CAN ITSELF SURVIVE THE STRAINS OF DOING SO). THE MOST LIKELY AREA FOR CONFRONTATION IS IN PUBLIC ADMINISTRATION. THE GOVERNMENT IS WIDELY PERCEIVED TO HAVE MADE A SERIOUS ERROR IN GIVING THE TEACHERS A PAY RISE WELL ABOVE PROGRAMME TARGETS. SALARIES FOR THE 3 MILLION OTHER PUBLIC EMPLOYEES MUST BE HELD DOWN TO THE PLANNED 1 PERCENT IN REAL TERMS IF THERE IS TO BE ANY HOPE OF CONTROLLING CURRENT EXPENDITURE. BUT PAY IS ONLY ONE ASPECT OF THE PROBLEM. THE MANY SURVEYS OF ITALY'S PUBLIC SECTOR STRESS THAT IT IS THE POOR QUALITY OF THE SERVICE WHICH IS ANOMALOUS AMONG INDUSTRIALISED COUNTRIES MORE THAN THE ACTUAL LEVEL OF SPENDING. TO ACHIEVE THE WHOLESALE STRUCTURAL REFORM TO WHICH THE GOVERNMENT IS COMMITTED REQUIRES A CULTURAL REVOLUTION. THIS PRESUPPOSES THAT ITALY'S POLITICIANS WILL EXPERIENCE THEIR OWN REVOLUTION AND ABANDON THE BLATANTLY POLITICAL USE OF PUBLIC FUNDS. WHILE DE MITA AND COLOMBO (THE DC FINANCE MINISTER) AND DE MICHELIS AND AMATO, THE 2 CHIEF SOCIALIST MINISTERS, APPEAR GENUINELY COMMITTED TO THE GOVERNMENT'S PROGRAMME, CRAXI DOES NOT YET APPEAR CONVINCED THAT REDUCED GOVERNMENT SPENDING IS AN ELECTION WINNER. FOR ITS PART THE DC HAS ENORMOUS VESTED INTERESTS IN THE SOUTH AND SOUTHERNERS DOMINATE THE BUREAUCRACY.

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DE MITA'S FIRST 120 DAYS

SUMMARY:

1. A SATISFACTORY START FOR THE DE MITA GOVERNMENT, BUT A LONG HAUL AHEAD TO REMEDY THE PUBLIC SECTOR DEFICIT AND TO OVERCOME WEAKNESSES IN GOVERNMENTAL AND ADMINISTRATIVE PROCEDURES.

DETAIL:

2. AS ITALIAN POLITICIANS DEPART FOR THEIR SUMMER BREAK THE MEDIA AND DE MITA HIMSELF HAVE BEEN REFLECTING ON HIS FIRST 120 DAYS IN OFFICE. DE MITA CAN BE REASONABLY SATISFIED. THE ECONOMY IS GROWING AT OVER THREE PER CENT. THE GOVERNMENT HAS EMBARKED ON THE PROGRAMME AGREED BETWEEN THE FIVE COALITION PARTNERS WITHOUT MISHAP. BUT IT STILL HAS A VERY LONG WAY TO GO TO ACHIEVE THE OBJECTIVES OF RESTORING THE PUBLIC FINANCES AND REFORMING ITALY'S INSTITUTIONS AND ADMINISTRATION.

3. THE FIRST STEPS HAVE BEEN TAKEN TOWARDS TACKLING THE PROBLEM OF PUBLIC SPENDING. MEASURES IN MAY AND JULY ARE AIMED AT REDUCING THIS YEAR'S PUBLIC SECTOR DEFICIT BY LIRE 7,000-8,000 BILLION. NEW PROCEDURES HAVE BEEN AGREED REFORMING THE WAY IN WHICH THE FINANCE BILL IS HANDLED IN PARLIAMENT. LONGER TERM MEASURES ARE PLANNED FOR THE AUTUMN IN THE FORM OF DRAFT BILLS TO SIMPLIFY THE TAX SYSTEM AND TO CUT TAX EVASION, PARTICULARLY AMONGST THE SELF-EMPLOYED. (FURTHER DETAILS IN MIFT.)

4. IN THE FIELD OF INSTITUTIONAL REFORM A PACKAGE OF MEASURES CONCERNING THE FUNCTIONS AND OFFICE OF THE PRIME MINISTER, WHICH HAD BEEN UNDER CONSIDERATION FOR SOME YEARS, WAS APPROVED BY PARLIAMENT A FEW DAYS AGO. THE MEASURES ARE INTENDED TO STRENGTHEN THE PRIME MINISTER'S HAND IN SOME DEGREE IN HIS DEALINGS WITH HIS CABINET COLLEAGUES. ALTHOUGH NO MEASURES HAVE YET EMERGED ON THE PROPOSAL TO CURTAIL THE SECRET VOTE IN PARLIAMENT, THE COALITION

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PARTNERS DO NOT SEEM TO HAVE BEEN DETERRED IN THEIR PURPOSE BY COMMUNIST PARTY OPPOSITION. A LAW TO CONTROL STRIKES HAS BEEN PASSED BY THE SENATE AND WILL GO BEFORE THE CAMERA IN THE AUTUMN. A DRAFT LAW ON LABOUR MOBILITY IN THE PUBLIC SECTOR HAS BEEN SET BEFORE PARLIAMENT, AS HAS A DRAFT LAW GIVING GREATER POWER TO LOCAL COUNCILS.

5. DE MITA HAS HAD A RELATIVELY SMOOTH PASSAGE IN THE FOREIGN POLICY FIELD AND (DUE IN LARGE MEASURE TO ANDREOTTI'S INITIATIVES) CAN CLAIM SEVERAL SUCCESSES. CRAXI'S PROPOSAL OF A EUROPEAN MANDATE FOR THE OCCUPIED TERRITORIES MADE NO IMPACT ON THE GOVERNMENT'S MIDDLE EAST POLICY. THE PROSPECT OF A CEASEFIRE IN THE GULF HAS ENABLED ITALY TO PLAY UP ITS ROLE OF PEACEMAKER (ALWAYS POPULAR DOMESTICALLY), WITH THE OFFER OF ITALIAN PARTICIPATION IN UNIIMOG. ITALY HAS CONTINUED DOING ITS BEST TO CULTIVATE BOTH IRAN AND IRAQ. THE DECISION TO ACCOMMODATE THE F16S FROM SPAIN HAS EARNED THE GRATITUDE OF THE US AND ENABLED THE ITALIAN GOVERNMENT TO CLAIM THAT ITALY IS PLAYING HER PART IN BURDEN-SHARING. DE MITA HAS BY NOW MET MOST OF HIS EUROPEAN COUNTERPARTS AND HIS OVERSEAS TRIPS, MOST NOTABLY TO WASHINGTON, HAVE DONE SOMETHING TO CORRECT THE ORIGINAL IMPRESSION OF A NOVICE IN FOREIGN AFFAIRS.

6. BUT HE HAS NOT YET ACQUIRED THE STATURE OF CRAXI, AND HIS LEADERSHIP QUALITIES HAVE NOT YET BEEN PUT TO THE REAL TEST WHICH WILL COME LATER THIS YEAR. THE FAILURE TO ACT DECISIVELY ON THE PUBLIC SECTOR DEFICIT DOES NOT AUGUR WELL FOR TACKLING THE SERIOUS PROBLEM OF PREPARING THE FINANCE BILL FOR 1989. RUMBLING LABOUR UNREST IN THE PUBLIC SECTOR, IN PARTICULAR TRANSPORT, IS LIKELY TO ERUPT AGAIN AFTER THE SUMMER BREAK. THE GOVERNMENT'S OVER-GENEROUS PAY SETTLEMENT FOR THE TEACHERS HAS HEIGHTENED EXPECTATIONS IN OTHER SECTORS. ITALIAN BUREAUCRACY IMPEDES PROGRESS IN ALMOST EVERY FIELD.

7. DE MITA ALSO FACES GROWING UNEASE AMONGST THE PUBLIC AND MEDIA ABOUT MORAL DEGENERACY IN GOVERNMENT AND ADMINISTRATION. THREE FORMER MINISTERS STAND ACCUSED OF ACCEPTING BRIBES FOR PRISON CONSTRUCTION CONTRACTS. AN INVESTIGATING MAGISTRATE HAS IMPLICATED THE INTERIOR MINISTER, GAVA, AND OTHER DC POLITICIANS IN NEGOTIATIONS SEVEN YEARS AGO WITH THE ORGANISED CRIME NETWORK OF THE NAPLES CAMORRA TO SECURE THE RELEASE OF A LOCAL DC COUNSELLOR HELD BY THE RED BRIGADES. SEVERAL RECENT EVENTS HAVE SHOWN UP THE GOVERNMENT'S INABILITY OR UNWILLINGNESS TO TACKLE LAW AND ORDER IN AREAS WHERE ORGANISED CRIME IS TRADITIONALLY RIFE

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(SICILY, CALABRIA AND SARDINIA). PRESIDENT COSSIGA HIMSELF FELT OBLIGED TO INTERVENE IN THE DISPUTE ABOUT THE STATE'S COMMITMENT TO THE FIGHT AGAINST THE MAFIA AND THE GOVERNMENT HAS BEEN FORCED TO REACT WITH EMERGENCY MEASURES IN RESPONSE TO CRITICISM ABOUT LACUNAE IN THE ENFORCEMENT OF LAW AND ORDER. NONE OF THIS REFLECTS WELL ON THE DC IN GENERAL OR ON DE MITA AND HIS DC MINISTERS.

8. THE PRESENT COALITION ARRANGEMENT HAS SERVED THE TWO MAIN PARTIES, THE CHRISTIAN DEMOCRATS AND SOCIALISTS, WELL. IN THE ADMINISTRATIVE ELECTIONS IN MAY AND JUNE BOTH PARTIES DID WELL AND CONSEQUENTLY HAVE NO ELECTORAL INTEREST AT PRESENT IN TOPPLING DE MITA AND FORCING A QUOTE CRISIS UNQUOTE. DE MITA AND CRAXI HAVE MENDED THEIR FENCES AND SEEM TO BE CONTENT FOR THE TIME BEING TO COOPERATE IN IMPLEMENTING THE GOVERNMENT'S PROGRAMME. THE FIVE-PARTY SUMMIT MEETING HELD SHORTLY BEFORE THE SUMMER BREAK ENDED IN A REMARKABLE DEGREE OF AGREEMENT ON ALL SUBJECTS.

THE COMMUNISTS FOR THE TIME BEING ARE IN NO POSITION TO MAKE SERIOUS TROUBLE FOR THE GOVERNMENT AND APART FROM TOKEN CONSULTATION, ARE VIRTUALLY BEING IGNORED. IT SUITS THE DC TO RALLY BEHIND DE MITA SO THAT HE CAN APPEAR AS A SUCCESSFUL AND EFFECTIVE HEAD OF GOVERNMENT, AND IT DOES NOT SUIT CRAXI AT PRESENT TO TRY TO UNDERMINE HIM. DE MITA HAS ALSO SHOWN HIMSELF A SKILLED CONSENSUS BUILDER WITHIN THE COALITION: HE WILL NEED THESE SKILLS TO DEAL WITH THE POLITICALLY CONTENTIOUS ISSUES THE GOVERNMENT WILL BE FACING THIS AUTUMN.

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AND TO PRIORITY BANK OF ENGLAND, HM TREASURY, ECGD CARDIFF
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ITALIAN ECONOMY: INCREASE IN OFFICIAL DISCOUNT RATE

SUMMARY

1. THE OFFICIAL DISCOUNT RATE (TUS) IS INCREASED FROM 12 PERCENT TO 12.5 PERCENT WITH EFFECT FROM 26 AUGUST.

DETAIL

2. AS PART OF THE CONCERTED MOVES ON 25 AUGUST BY EUROPEAN CENTRAL BANKS TO RAISE INTEREST RATES, ITALY'S OFFICIAL DISCOUNT RATE (TUS) GOES UP HALF A POINT TO 12.5 PER CENT WITH EFFECT FROM 26 AUGUST. THIS IS THE FIRST CHANGE IN THE DISCOUNT RATE SINCE 28 AUGUST 1987 WHEN THE RATE WAS RAISED FROM 11.5 TO 12 PER CENT BRINGING TO AN END A SERIES OF STEADY REDUCTIONS BEGUN IN JANUARY 1985 WHEN THE RATE WAS REDUCED FROM 16.5 TO 15.5 PER CENT.

3. TREASURY MINISTER AMATO EMPHASISED THAT IT HAD BEEN A DELIBERATE DECISION TO RAISE THE RATE BY ONLY HALF A POINT THUS LEAVING ITALY'S NOMINAL DIFFERENTIAL WITH MOST INTERNATIONAL RATES UNALTERED. THERE WILL ALSO BE A HALF POINT INCREASE IN INTEREST ON LONGER TERM GOVERNMENT SECURITIES TO BE ISSUED AT THE BEGINNING OF SEPTEMBER (BTP, BTB, BTQ, CCT) WHICH MAY HELP TO WEAN THE ITALIAN SAVER FROM HIS CONCENTRATION ON SHORT TERM BOT.

COMMENT:

4. THE ITALIAN AUTHORITIES HAVE BEEN RELUCTANT TO RAISE INTEREST RATES BECAUSE OF THE EFFECTS ON THE COST OF SERVICING THE PUBLIC DEBT AND WILL HOPE THAT THE PRESENT ROUND OF INCREASES WILL PROVE SHORT TERM. NEVERTHELESS THEY ARE PROBABLY RELIEVED TO HAVE THE OPPORTUNITY TO TAKE ACTION WHICH SHOULD HELP CURB DOMESTIC CREDIT EXPANSION AND FAST RISING IMPORTS. UNDER PRESSURE

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FROM THE BANK OF ITALY BANKS HAVE BEEN RAISING SOME INTEREST RATES OVER THE LAST FEW MONTHS BUT SO FAR WITH LITTLE EFFECT ON THE OVERALL LENDING FIGURE WHICH IN THE FIRST 7 MONTHS WAS RUNNING AT THE ANNUAL RATE OF 18 PER CENT AGAINST A TARGET OF 6-10 PER CENT. ISTAT HAS NOT YET ISSUED THE MAY TRADE FIGURES BUT THESE ARE ALLEGED TO REVEAL A 17 PER CENT INCREASE IN IMPORTS OVER MAY LAST YEAR AND THE CURRENT ACCOUNT POSITION IS THOUGHT TO HAVE DETERIORATED BY SOME 6,000 - 7,000 BILLION LIRE IN THE FIRST 7 MONTHS OF 1988. INITIAL REACTIONS IN ITALY FOCUSED ON THE COST OF SERVICING THE PUBLIC DEBT AND HENCE THE URGENCY OF ACTION TO CUT THE PUBLIC SECTOR DEFICIT. BUT SPENDING CUTS ARE STILL PROVING HARD TO FIND. TODAY'S MEETING OF THE COUNCIL OF MINISTERS, ITS FIRST SINCE THE SUMMER BREAK, WILL BE DEVOTED TO THIS PROBLEM.

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FROM: MISS M O'MARA
DATE: 7 September 1988

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MR PERETZ

cc Sir G Littler
Mr Lankester
Mr Mortimer
Mr N P Williams
Mr Page - B/E

ITALIAN ECU TREASURY BILLS

Professor Arcelli, special adviser to the Italian Prime Minister, called to see Mr Williams and me yesterday afternoon, in your absence, to discuss the UK's ecu Treasury Bill programme.

2. In the course of conversation, he revealed that as a result of our own announcement, the Italians are now for the first time, also thinking of issuing ecu Treasury Bills for maturities of less than one year, and that they might well wish to launch their own programme in London, dependent on our success. Arcelli seemed well informed about our plans, so this could be a serious possibility.

3. Part of the attraction of London for the Italians may lie in the need to impose a withholding tax if the bills were issued in Italy. Arcelli told us that the tax for instruments of less than one year's maturity was 12.5 per cent rather than the 30 per cent which applies to one year bills but even though 20 percentage points of the present 30 per cent tax can apparently be reclaimed under DTAs, the initial payment must represent a considerable disincentive.

Mon
MISS M O'MARA

Mr A Allan ✓ Miss O'Mara
You may be interested to see.
Al P
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YOUR TELNO 624 TO TOKYO: IMF/IBRD ANNUAL MEETING BERLIN:
27-29 SEPTEMBER

SUMMARY

1. ITALIANS ON PRESENT FORM UNLIKELY TO SPRING SURPRISES AT
BERLIN.

DETAIL

2. I CALLED ON SARCINELLI (ITALIAN TREASURY) ON 9 SEPTEMBER
AND WENT OVER THE PROSPECTS FOR THE IMF IBRD MEETING IN BERLIN
ON THE BASIS OF YOUR TELEGRAM UNDER REFERENCE. I MADE IT CLEAR
THAT THIS REPRESENTED OFFICIAL VIEWS.

3. SARCINELLI SAID THAT THE ITALIANS SAW THE MEETING VERY MUCH
IN THE SAME LIGHT. IT LOOKED LIKE BEING AN UNDRAMATIC MEETING,
PARTICULARLY GIVEN THE FACT THAT THE US ADMINISTRATION WOULD BE IN
THE MIDST OF AN ELECTION CAMPAIGN.

4. AS REGARDS THE MACRO ECONOMIC BACKGROUND, THE GENERAL
CLIMATE WAS BETTER THAN MIGHT HAVE BEEN EXPECTED. SARCINELLI
AGREED WITH US THAT THE MAIN WORRY WAS STILL INFLATION. THERE
WERE A NUMBER OF REASONS FOR THIS. ONE WAS THE RECENT INCREASES IN
COMMODITY PRICES. ANOTHER WAS THE TENDENCY OF SEVERAL MAJOR
ECONOMIES TO OVERHEAT. IN ADDITION, MORE RECENTLY, THERE HAD
BEEN A CERTAIN DEGREE OF COST-PUSH PRESSURE, FOR EXAMPLE IN ITALY
IN THE PUBLIC SECTOR AND IN THE UK IN THE PRIVATE SECTOR.

5. SARCINELLI MADE A POINT OF STRESSING THE NEED FOR CARE ON THE
MONETARY FRONT. MONETARY POLICY COULD NOT TAKE THE WHOLE BRUNT
OF ANTI-INFLATIONARY POLICY IF WE WERE NOT TO FACE UNACCEPTABLE
INCREASES IN LEVELS OF INTEREST RATES. IF DEMAND PRESSURE
CONTINUED, IT WOULD BE IMPORTANT THAT FISCAL POLICY SHOULD TAKE
A LARGER SHARE OF THE BURDEN. IN THE RECENT PAST, HE THOUGHT
THAT THERE HAD BEEN A TENDENCY TO OVER-UTILISE CONTROL OF THE

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MONEY SUPPLY IN A NUMBER OF ECONOMIES. HE HOPED THAT NO GOVERNMENTS WERE PLANNING TO TIGHTEN MONETARY CONDITIONS STILL FURTHER. HE THOUGHT THIS WAS AS IMPORTANT FOR THE UK WHERE INTEREST RATES WERE HISTORICALLY HIGH, AS FOR ITALY, WHERE THE LEVEL OF INTEREST RATES HAD A DIRECT BEARING ON THE GOVERNMENT'S ABILITY TO MANAGE THE PUBLIC DEBT. ANY FURTHER INCREASE IN INTEREST RATES WOULD MAKE IT STILL MORE DIFFICULT FOR THE ITALIAN GOVERNMENT TO IMPLEMENT THE PROGRAMME OF TAX AND SPENDING REFORMS WHICH WERE NECESSARY. FURTHER INCREASES IN INTEREST RATES WOULD ALSO GIVE RISE TO EXPECTATIONS OF EXCHANGE RATE CHANGES WHICH RISKED INCREASING INSTABILITY. HIGHER INTEREST RATES WOULD ALSO EXACERBATE THE PROBLEMS OF OVER-INDEBTED DEVELOPING COUNTRIES.

6. SARCINELLI AGREED WITH US THAT THE TRADE ITEMS WOULD BE IMPORTANT. HE WAS NOT WELL BRIEFED ON ITALIAN THINKING ON THE DETAILS BUT HE WAS CONSCIOUS OF THE FACT THAT THE NEW US TRADE ACT WOULD PUT A NUMBER OF WEAPONS INTO THE HANDS OF THE NEXT US TRADE REPRESENTATIVE. SPEAKING PERSONALLY, HE THOUGHT THIS WAS PERHAPS THE ONE AREA WHERE THERE WAS LIKELY TO BE A HEATED DEBATE IN BERLIN. ITALY WOULD NOT BE LIKELY TO TAKE THE LEAD, BUT THE JAPANESE HAD MADE IT CLEAR THAT THEY WOULD HAVE A GOOD DEAL TO SAY ON US PROTECTIONISM.

7. THE US TRADE BILL ALSO CONTAINED PROVISIONS REGARDING THE ALLEVIATION OF DEVELOPING COUNTRY DEBT AND THE SCOPE FOR INCREASING INTERNATIONAL LIQUIDITY. ITALY WOULD BE IN FAVOUR OF A FURTHER ISSUE OF SDR BUT NOT AS A MEANS OF MEETING LDC LIQUIDITY REQUIREMENTS. THIS WOULD BE TOO LIKE PRINTING MONEY. HE HOPED THERE COULD BE SOME RATIONAL DISCUSSION ABOUT THIS ISSUE.

8. SARCINELLI WAS NOT AWARE OF ANY INITIATIVES THAT WERE LIKELY TO BE LAUNCHED BY OTHER PARTICIPANTS. BUT HE RECALLED THAT THE JAPANESE HAD NOT BEEN DETERRED BY US OPPOSITION FROM LAUNCHING THEIR DEBT PROPOSALS AT THE TORONTO SUMMIT. HE DID NOT ALTOGETHER EXCLUDE THAT THEY MIGHT FLY THE SAME KITE AGAIN AT BERLIN, THOUGH HE HAD NO EVIDENCE TO SUPPORT THIS.

THOMAS

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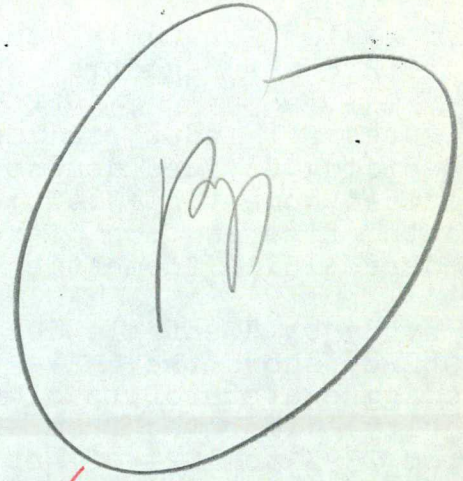
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MONTHLY ECONOMIC REPORT : ITALY AUGUST 1988

SUMMARY

1. INTRODUCTION

We have not previously produced a Monthly Economic Report for August but our customers may find this summary version useful as there have been some significant developments over the last few weeks. There are no tables with this report.

2. ECONOMIC ACTIVITY

ISTAT's industrial production figures for June show that the seasonally adjusted index rose to 105.8 (1980= 100), the revised May figure being 104.9. The year on year June figure represented a rise of 4.1% and in the first 6 months the volume of production has risen by 4.7%. The employer's association Confindustria commenting on the figures noted that the industrial base was sound, consumption was sustained but not excessive, and industrial investment was increasing this year at roughly the rate of 11% recorded in 1987.

According to ENEL electricity consumption rose in August by 8% over August 1987, the highest increase this year, bringing the eight month adjusted (for 1988 leap year) figure to +4%. The incidence of the August holidays this year meant one more working day and most factories also re-opened 2 days earlier.

Car sales in July in Europe fell by 3.6% but in Italy rose by 7% (190,228 new registrations).

Figures for industrial invoices and orders show a rise of 1.9% in April in invoicing divided domestic +1.1%, export +4.9% and a rise of 7.2% in orders divided domestic +3.4%, export +16.7%, all figures year on year. The four month figures are invoices +9.1% (domestic +8.6%, export +10.8%) and orders +15.1% (domestic +13.8%, export +17.9%).

A study by "Centrale dei Bilanci" of 10,000 industrial firms in Italy 1982-86 shows they have passed from aggregate losses of 2,700 billion lire to aggregate profits of 6,500 billion. The rate of profit (return on equity) improved from -4.9% to 10.7%. Financial indebtedness was reduced from 139% to 102% of net capital. Return on capital invested rose from 9.6% to 13%. The authors assert that this virtuous circle was initiated and sustained by the reduction in inflation and hence interest rates which were more important to the turnaround than restructuring, reorganisation and product innovation.

3. LABOUR AND SOCIAL AFFAIRS

The code of "Autoregolamentazione" was observed over the holiday period but there are threats of disruption in the transport industries and schools during September.

The trade unions have accepted an experimental scheme for mobility of public sector workers which may assist in a better distribution of staff between areas and Ministries. For example 5,600 schools are to be closed between September 1988 and 1991, 22,000 non teaching staff will move to other work, and 150,000 teachers will be transferred. The schools population is estimated to fall by 20% between 1985 and 1991.

It is estimated that 44,000 jobs need to be shed by the railways and management say that this can be achieved by natural wastage. CGIL on the other hand claim that an extra 500,000 workers are required to make the public sector efficient. Any suggestion of substantial cuts is clearly going to meet fierce opposition.

The wage index was up by 7.5% year on year in May and by 7.7% in June, in both cases well above the rate of inflation, with wages in public administration rising by 12.3% and 12.2%.

Because of intermittent industrial action throughout the period the number of hours lost during May (1,800,000) was up on the previous month (1,471,000) and on May 1987 (842,000) but for the period January to May 1988 the number of hours lost was down from 11,794,000 in 1987 to 7,563,000 in 1988.

Employment in large firms continued to fall but at a reduced rate.

Italy had the fourth highest rate of unemployment in OECD countries with 11%.

The number of hours compensated under the Cassa Integrazione Guadagni (C.I.G.) more than doubled in the four southern regions Calabria, Basilicata, Puglia and Sicily over the period January to April 1988 compared with 1987, although it fell by 21% in the rest of Italy.

SOCIAL AFFAIRS

A draft bill was presented by Formica, the Minister of Labour, providing for increases of between 30,000 and 125,000 lire monthly in social and minimum pensions. The cost is estimated at 3,000 billion lire in 1988-90.

The number of AIDS cases notified to 30 July was 2,200 but it is estimated that the total is somewhat higher, perhaps 3,000. It was estimated that the figure could reach 148,000 by 1992.

It has been decided that over 300,000 publicly owned houses are to be sold in the next few months.

4. INFLATION

The cost of living index rose by 0.4% in August giving a year on year figure of 5%. Provisional figures from large cities had indicated a steeper rise and the government will have been relieved that the July 29 package of economic measures, including raising the 18% VAT rate to 19%, has not had a more inflationary effect. Nevertheless monitored/controlled prices in August rose by 4.6% year on year (compared with 3.7% in July) while other prices and tariffs recorded the same 5.1% year on year figures in both July and August.

Wholesale prices in June rose by only 0.3% over May: the year on year rise was unchanged at 4.5%. The main influence on this result was lower oil prices. The main rises were recorded in ferrous and non-ferrous metals, electrical equipment, and precision instruments. The main decreases were in electricity, petroleum products and leather goods. ISTAT's breakdown of the year on year figures according to economic destination showed the index for consumption goods rose by 4.6%, that for investment goods by 5.3% and intermediate goods by 4.3%. The production price index for industry excluding construction rose by 0.2% in June over May and by 3.4% year on year. Building costs in May rose by 1.1% over April and by 6.7% year on year: the main element of the increase is labour.

5. TRADE

The May trade figures were not published until the beginning of September owing to industrial action in the official statistical institute ISTAT. The only indication given in August was that imports showed a rise of 17%. In the event the figures were much better than expected since exports turned out to have risen even more but most commentators regard this set of statistics with more than their usual scepticism. According to ISTAT the deficit in May was 325 billion lira compared with -1,435 billion in May last year. The 5 month deficit is 7,454 billion (-6,805 billion in same period 1987). May imports at 15,425 billion lira were 17.6% up on May 1987 and exports at 15,100 billion up 29.2%. The energy deficit was -1,184 billion and the surplus on other goods 859 billion. Export sectors which did particularly well include machinery, chemicals, clothing and agrifoodstuffs. The fall in oil prices reduced the total cost of imports. The positive balances on machinery and textiles are deteriorating.

The President of ICE, Inghilesi noted that in 1987 28% of Italy's imports and 20% of her exports were denominated in US dollars. On balance a higher dollar is damaging to Italy's trade interests, he concluded.

Il Sole's second quarter figures for large overseas contracts confirmed a robust recovery in this sector. Contracts worth 2,600 billion lira were reported in Q2 bringing the S1 figure to 5,100 billion, the best result since the record year of 1985. Most of the Q2 contracts were in OECD countries (1,800 billion), 50 billion in OPEC and 200 billion in CMEA countries.

The July balance of payments showed a surplus of 3,581 billion lira, compared with +110 billion in July 1987. The seven month figure shows a surplus of 898 billion (-1,691 billion in the same period 1987). The July result was largely due to a considerable volume of inward investment, non-bank inflow of over 4,000 billion lira and through the banks 161 billion, against outward investment of 946 billion. The inflow includes the effects of a US \$1 billion loan effected by the Treasury in July. Foreign indebtedness at the end of the month stood at 41,500 billion lira and the reserves rose from 73,993 billion lira to 78,178 billion lira.

The Bank of Italy pointed out that the surplus on tourism in 1985 of 12,362 billion lira had fallen in 1987 to 9,902 billion lira. Although the numbers of people visiting Italy were holding up well, there was only a limited increase in their spending while more Italians were holidaying abroad.

6. FINANCIAL DEVELOPMENTS

The official discount rate, in a coordinated move with other industrialised countries, was raised on 26 August from 12 to 12.5%. Yields on longer term BTP and CCT were also raised by half a point. The banks followed raggedly with rates on loans generally rising by around 0.5% but many deposit rates left unchanged. Demand for short term BOT continued to be buoyant: the longer term issues BTP/CCT became less sticky after the rise in interest rates.

According to an IMF study Italy's short term BOT was paying the highest rate of short term interest at 10.83% among industrialised countries in May. During 1987 at an average of 10.73% it was in 4th place behind New Zealand, Australia and Spain. Confindustria has expressed scepticism that Treasury Minister Amato's goal of a half point annual reduction in BOT interest leading to a real rate of 3% in 1992 can be achieved.

Il Sole 24 Ore responding to the announcement of the new HM Treasury ecu loan recalled that Italy was the largest issuer so far of ecu loans with 24 issues of BTE/CTE for a total of 16,997 billion ecu since February 1982.

The position of the investment funds improved in August. New subscriptions came to 358 billion lire and there was a sharp drop in redemptions to 869 billion. The balance was thus still negative in August at -511 billion but only half that in July -1,024 billion lire.

Bank lending rose by 12% in July year on year. Deposits increased by only 6.5% but this was better than the 5-5.5% recorded over the last few months.

The stockmarket enjoyed a slight rally in the middle of the month but was falling gently before and after.

Dollar movements against the DM produced tensions in the ERM from which the Italian lire together with the French and Belgian franc suffered. Newspaper comment hinted at the possibilities of a realignment but was discouraged by the Bank of Italy and Treasury.

7. FISCAL POLICY

Treasury sources indicated that on present trends the 1988 PSBR would be between 117 and 119 thousand billion lire against a revised target of 115,000 billion. The estimate after the amended Finance bill passed into law was 122,000 billion but the government's May measures were designed to cut 7,000 billion off this and the July package to reduce it by around another 1,000 billion. The forecast will therefore be of concern to ministers.

Tax revenue in June was 26,003 billion lire, a 6.3% increase year on year. The half year figure is 118,346 billion representing a 13.3% increase over S1 1987. Company tax, particularly that on small businesses, continues to disappoint and the tax inspectors say the 3 year Visentini experiment with a forfait regime has been ineffective.

No new fiscal measures were taken in August after the income tax (IRPEF) and tax evasion bills were approved by the Council of Ministers on 5 August as reported in July MER. Since ministers resumed work after the holidays Amato has however continued to insist on the need for the state to become more selective in its spending and thus raised the possibility of privatisation of some services and abolition of subsidies on others. Amato has had a series of bilaterals with spending ministers to enforce the 14% over 1987 levels cash limit on 1989 ministerial budgets. The Prime Minister De Mita has given strong support. Both Ministers insist that use of the secret vote for financial bills must be abolished by Parliament before the Budget begins its parliamentary passage at end September.

8. ASSESSMENT OF ECONOMIC PROSPECTS

The official forecasting institute ISCO is still indicating 3.3% GDP growth this year but some economic commentators believe up to 3.8% is quite possible.

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MY TELNO 520: DE MITA'S GOVERNMENT

SUMMARY

1. AFTER A WEEK OF ALARMS AND EXCURSIONS, THE GOVERNMENT'S POSITION IS LOOKING LESS FIRM ON THE REFORM OF THE SECRET VOTE. BACKBENCHERS, PARTICULARLY CHRISTIAN DEMOCRATS, SHOWING SIGNS OF RESTIVENESS. VOTING POSTPONED TO NEXT WEEK. CRAXI THREATENING WITHDRAWAL OF THE SOCIALISTS UNLESS THE WHOLE PROPOSED REFORM IS ADOPTED. THE GOVERNMENT'S SUCCESS NOT ASSURED.

DETAIL

2. THE GOVERNMENT HAS ENCOUNTERED PROBLEMS OVER ITS CRUCIAL PLAN TO REDUCE USE OF THE SECRET VOTE IN PARLIAMENT TO QUESTIONS REGARDING INDIVIDUALS, BASIC CIVIL RIGHTS AND FAMILY MATTERS. MANY INDIVIDUAL MEMBERS OF DE MITA'S OWN CHRISTIAN DEMOCRAT PARTY (DC) REMAIN UNHAPPY ABOUT THE PROPOSED RESTRICTIONS ON WHAT THEY FEEL IS THEIR FREEDOM OF ACTION, DESPITE THE EFFORTS BY DC LEADERS TO REASSURE PARTY MEMBERS THAT THEY WILL NOT BE PENALISED IF THEY VOTE AGAINST THE GOVERNMENT IN AN OPEN VOTE. THE GOVERNMENT COULD ONLY MUSTER DANGEROUSLY NARROW MARGINS IN DEFEATING TWO PROCEDURAL OPPOSITION MOTIONS ON 27 SEPTEMBER. SINCE THEN FURTHER DISAGREEMENTS WITHIN THE COALITION AND BETWEEN GOVERNMENT AND PCI ON THE PRECISE PROCEDURE FOR HANDLING AMENDMENTS HAVE BEEN SETTLED WITH DIFFICULTY AND NOT MUCH MUTUAL TRUST. THE VOTE, ORIGINALLY SCHEDULED FOR 29 SEPTEMBER, HAS BEEN POSTPONED UNTIL NEXT WEEK.

3. OVER THE LAST FEW DAYS, THE POSITIONS OF THE PARTIES HAVE BEEN CLARIFIED. CRAXI HAS SAID THAT HIS CONTINUED SUPPORT OF THE GOVERNMENT DEPENDS ON THE OUTCOME OF THE VOTE. ALTHOUGH PREVIOUSLY OPPOSED TO ANY EXTENSION OF THE AREA FOR WHICH THE SECRET VOTE WOULD BE CONTINUED, HE HAS NOW ACCEPTED AN EXTENSION TO COVER FAMILY MATTERS AT THE URGING OF THE DC. THE COMMUNISTS THREATEN CONTINUED OPPOSITION UNLESS OTHER ASPECTS OF PARLIAMENT

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ARE ALSO REFORMED AT THE SAME TIME. MANY IN THE DC WOULD PREFER TO NEGOTIATE SUCH REFORMS WITH PCI, BUT CRAXI IS OPPOSED ROOT AND BRANCH TO GIVING ANY MORE GROUND. DE MITA STILL CONTINUES TO ATTACH CENTRAL IMPORTANCE TO THE REFORM OF THE SECRET VOTE, ALTHOUGH HE WOULD PROBABLY BE HAPPY WITH ITS RETENTION FOR A WIDER RANGE OF ISSUES THAN CRAXI WOULD ACCEPT.

4. WHEN THE ISSUE COMES TO BE VOTED NEXT WEEK THE OUTCOME IS NOT AT ALL CERTAIN. THE MOOD IN THE CHAMBER HAS BECOME VERY TENSE. PRESENT THINKING IS THAT THE NEW MEASURES SHOULD BE CONSIDERED ITEM BY ITEM. ALTHOUGH THE GOVERNMENT IS REASONABLY CONFIDENT OF GETTING AGREEMENT TO SOME BASIC CHANGES, THE PROPOSAL OF THE MAJORITY COULD UNDERGO SOME AMENDMENT, PARTICULARLY IF THE AMENDMENTS ARE THEMSELVES DECIDED BY SECRET VOTE. IN THAT CASE CRAXI WILL HAVE TO MAKE UP HIS MIND WHETHER HE REGARDS THE REFORM HE WANTS TO HAVE BEEN CARRIED IN SUBSTANCE, OR WHETHER IT HAS BEEN SO WATERED DOWN AS TO JUSTIFY HIS TAKING THE SOCIALISTS OUT OF THE GOVERNMENT. HE HAS TOLD PRESIDENT COSSIGA HE IS FULLY PREPARED TO DO THAT. BUT HOW MUCH IS SABRE-RATTLING IS DIFFICULT TO SEE.

5. THE ODDS ARE STILL ON DE MITA MAKING IT, BUT AS OF THIS WEEKEND THEY ARE NARROWING.

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MONTHLY ECONOMIC REPORT : ITALY: SEPTEMBER 1988

SUMMARY

1. Latest statistics all point to improving economic performance. Industrial production reached its highest levels in July since the base year was adjusted to 1980. Orders are up: with export orders growing faster than domestic in May and June. There was a small fall in unemployment in April. Inflation in September fell back from 5% to 4.8% year on year. June trade figures showed exports growing twice as fast as imports: the deficit was 764 billion lira. The balance of payments showed another large surplus in August of 3,049 billion lira with strong inward investment. There was strong demand for longer as well as short term government securities in September. Most companies are reporting good half year figures. Many limitations on capital movements were lifted at the beginning of October, as planned.

Against this background of buoyant economic performance and falling oil prices, the Council of Ministers approved the draft 1989 budget with a State Sector borrowing requirement of 10.2% GDP in accordance with the Treasury programme to eliminate the primary deficit by 1992.

2. ECONOMIC ACTIVITY (Tables 1, 1A and 2)

ISTAT's seasonally adjusted industrial production index at 108.8 reached its highest level in July since the base year was adjusted to 1980. The July figure represented a 2.8% increase over June and 5.5% year on year. The unadjusted index was down 0.2% on July last year but with 2 less

working days this represented a 7.9% increase in daily production. The 7 month figure shows a 4.6% increase in 1988 over 1987 despite one less working day. Sectors showing increased production in July included pharmaceuticals, rubber, office machinery, precision instruments, vehicles, chemicals, non-metallic minerals manufactures. Poor results were reported by clothing, shoes, foodstuffs, textiles, electrical appliances, paper, printing.

The IRS seasonally adjusted industrial production index (base year 1980) gives the following figures for the last 3 months: July 109.6, August 111.9, September 113.6 showing the boom continuing into the autumn.

Car sales in Italy numbered 187,000 in July and 79,000 in August. Preliminary figures for September suggest as many as 150,000 new registrations. This would bring the total for the first 9 months to 1,670,000. FIAT continues to enjoy just over 60% of the Italian market.

According to ENEL electricity consumption in September rose by 4.3%. Demand was particularly high in the industrial centres of Milan (+5.6%) and Turin (+5.1%).

The May and June figures for orders and invoices showed domestic demand maintained and foreign demand improving. The favourable trend is underlined by the results of the latest ISCO-ME survey of business confidence with firms reporting orders in the early autumn well above normal post summer re-stocking levels. 69% of those polled thought the next few months would see a continuation of present trends, 21% forecast a further improvement and only 10% were pessimistic about short term prospects.

In May invoicing was up 14.4% year on year (domestic +14.9%, export +12.7%). Orders were up 13.9% (domestic +12.9%, export +16.3%). June 1988 shows a rise over June 1987 of 9.5% in invoicing (domestic +9.3%, export +10.1%) and in orders of 6.1% (domestic +4.7%, exports +9.4%). In the first 6 months invoicing has risen by 10.1% (domestic +9.8%, export +11%) and orders by 13.2% (domestic +12%, export +16.1%).

3. LABOUR AND SOCIAL AFFAIRS (Tables 2 and 3)

Labour Affairs

At the end of April the number of those registered as looking for jobs was 3,985,743. There were 382,800 placings and 45,880 on work training. This supports ISTAT's sample survey finding that there is a small fall in unemployment and a growth in placings but some of the increase will be accounted for by seasonal employment in agriculture. The figures for employment in large industry in the same month confirm that the rate of fall is still slowing.

ISTAT SURVEY OF MANUFACTURING FIRMS WITH 500 OR MORE EMPLOYEES

	Apr 88/Apr 87	Mar 88/Mar 87
	(percentage changes)	
Employment	-2.6 (1)	-2.7
Average number of hours worked per manual worker	-4.6 (2)	-3.4
Average monthly earnings per manual worker all payments (incl guaranteed wages, family allowances, one-off payments, etc) :	+10.8	+15.7

- (1) Fall affected all sectors but was greatest in metallurgical sector (-6.1%).
 (2) Fall due to different number of working days: April 1988 19 working days, April 1987 21.

The numbers employed in Lombardy rose by 131,000 between April 1987 and April 1988 while the number of unemployed fell by 36,000. The unemployment rate at 5.5% was the lowest since 1981 while the activity rate of 45.7% was the highest since 1980. The competition for jobs in the Mezzogiorno areas is illustrated by the 60,000 candidates for 760 vacancies in forestry in Sardinia.

The total number of public employees at end 1987 was 3,540,387 (38.2% women). This represents 17.1% of total employment. There was an increase of 39,218 over 1986 levels. Absenteeism in 1987 grew to average 9.7%. A new bill approved by the Council of Ministers on 29 September provides further incentives for employment of young people and women. According to the Ministry of Labour 65% of the registered unemployed are between 14 and 20 years old. But the sums of 500 billion lira for socially useful jobs and 570 billion for youth employment available under law 180 of 1988 are seriously underspent.

The government and unions are on a collision course over public sector pay. The 1989 budget allows for only one percent above target inflation, that is 5%. But the teachers have already got much more through recurrent strike action.

HOURLY CONTRACTUAL PAY RATES
(1982=100)

Sector	Increase Jul 88/ Jul 87	Increase due to scala mobile indexation system
Whole Economy (171.2)	6.6% *	N/A
Industry	6.2%	3.2%
Commerce	6.3%	3.1%
Transport & Communications	5.2%	2.8%
Banking Insurance	6.7%	2.0%
Public Administration	8.6%	2.6%
Agriculture	7.0%	3.5%

*Increase in cost-of-living index over same period 4.9%.

Some firms e.g. Bisider in the Lucchini Group are following FIAT's example in seeking to negotiate profit related pay deals. Olivetti proposes to freeze salaries this year and to pay increases related to gross operating profits next year.

Membership of the three confederal unions has reached record levels in 1988 at 9,166,771 members in all.

Intermittent public sector strikes resumed in September mostly in the field of transport.

Social Affairs

According to ISTAT there will be zero population growth in 1991.

The Minister of Labour Formica's new proposals for pensions reform have received a cool reception from the unions.

The bill to reform the structure of INPS (state pensions body) and separate the funding of assistance and insurance benefits has been passed by the Chamber of Deputies and now goes to the Senate.

Demand for home purchase has increased significantly in the past year: not surprisingly prices are also rising. About 600,000 evictions from rented accomodation can be expected in January unless the authorities intervene.

A decision to raise hospital standards and recruit some 75,000 new staff is to be offset by closure of all hospitals with less than 120 beds (about 257 are thought to be affected) and by some cuts in larger hospitals.

4. INFLATION

The cost of living index rose by 0.5% in September over August and year on year by 4.8%. The average 12 month rate remains at 5% for the third month running. The government target for 1988 was 4.5% but has now been revised to 4.7%. The fall in the year on year rate from 5% in August to 4.8% in September despite the highest monthly increase since January reflects the relatively high figure for inflation in September last year as a result of the government's summer measures to cut demand (including VAT and petrol price rises). The year on year rate in October is expected to be significantly lower for similar reasons. The 0.5% monthly rise in September was due largely to normal seasonal factors particularly in the case of food and clothing.

COST-OF-LIVING INDEX (SEPTEMBER) (1985 = 100)

Sector of index	% change over Aug 1988	% change over Sep 1987
General index (117.4)	+0.5	+4.8*
Food	+1.0	+4.6
Clothing	+0.5	+5.8
Housing	+0.2	+6.7
Fuel & Elec.	+0.2	+4.1
Miscellaneous	+0.3	+4.7

* +4.7% for monitored/controlled prices and tariffs, +4.8% for other prices and tariffs.

The government's target for the annual average rate of inflation next year is 4% and the draft budget has been designed to achieve this. If oil prices remain severely depressed the target may be reached. But the general trend of the budget in cutting government subventions to autonomous spending centres is inflationary. Unless there is an immediate and marked improvement in efficiency postal, transport, and medical charges can be expected to rise sharply inspite of the government's intention to keep the average increase of controlled prices and tariffs to 3%. It will also be surprising if the target for average (public and private sector) wage increases of 5% can be maintained.

Wholesale prices rose in July by 0.2% over June and by 4.7% over July 1987. It was the lowest monthly increase this year but the highest year on year rate. The most significant increases in July were in ferrous metals (+3.1%), petrochemical products (+1.5%) and vegetable fats (+5.4%). The prices of horticultural products (-1.7%), cereals (-2.5%) and fresh meat (-1.1%) all fell. ISTAT's breakdown of the year on year figures according to economic destination showed the index for final consumption goods rose by 4.6% for final investment goods by 5.5% and that for intermediate goods by 4.4%. The production price index for industry excluding construction rose by 0.5% in July over June and by 3.4% year on year.

Confindustria's index of raw material prices shows that in lira there was a rise of 3.6% in July over June: in dollar terms there was a fall of 0.5%. The year on year figures are: lira +1.4%, US dollar -0.6%.

5. TRADE (Table 6)

The June trade figures showed exports growing more than twice as fast as imports thus confirming the trend of the May figures. There are still some doubts about the reliability of the figures in view of the ISTAT strike but other evidence goes in the same direction e.g. the improved state of order books over the last few months. The overall result also benefits from the fall in energy prices.

The June trade deficit was 764 billion lira compared with -2,319 billion in June 1987. The 1988 half year figure, a deficit of 8,279 billion shows a slight improvement over 1987, -9,125 billion. The energy deficit in June was 1,191 billion lira with a surplus on other items of 427 billion. In June 1987 the energy deficit was 1,702 billion lira and there was a deficit on other items of 617 billion. In June 1988 exports are up 28% year on year and imports 12.4%. The half year figures also show the growth of exports (+13.9%) outrunning imports (+11.2%). The improvement in export performance is spread across most sectors with engineering goods and vehicles doing particularly well. On the import side, engineering again, and chemicals show significant rises while energy was down 16.1% in June.

The August balance of payments showed another large surplus as in July. The August surplus was 3,049 billion lira compared with a deficit of 1,011 billion lira in August 1987. The cumulative 8 month figures are 1988 +3,948 billion; 1987 -2,702 billion.

A surplus on capital flows above the line of 350 billion lira was recorded. Portfolio investment abroad by Italian residents amounted to around 750 billion lira. Inward investment must easily have exceeded this level indicating that foreign confidence in Italian economic performance is high. There was a net outflow through the banks (below the line) of 1,485 billion lira. Foreign indebtedness of the banking system was around 40,000 billion lira at the end of the month. The reserves rose from 78,178 billion lira in July to 79,807 billion in August.

OFFICIAL RESERVES
(Billion Lire)

<u>Month</u>	<u>Total net reserves</u>	<u>Gold</u>	<u>Convertible</u>	<u>ECU</u>
July	78,178	37,500	26,865	10,895
August	79,807	37,500	28,499	10,906

The August figures are probably particularly swollen by receipts from tourism. There is some apprehension that the September figures will be much less favourable after the tensions in the EMS at the beginning of the month.

6. FINANCIAL DEVELOPMENTS (Tables 4 and 5)

The beginning of October saw Italy take another significant step towards complete liberalisation of capital movements. The potential problems of servicing the huge public debt when there is no longer a captive pool of savings are daunting. Nevertheless the government has pursued its goal consistently with only occasional temporary tactical retreats. Under the EC Directive on short term capital movements, Italy is aiming for complete liberalisation in mid 1990.

Law 599 of 26 September 1986 was an enabling and framework law which set out the principles for "freedom of economic and financial relations with other countries." This established the change from a general prohibition on foreign transactions unless specifically authorised to freedom of such transactions except where expressly forbidden. Law 599 authorised the government to issue a complete revision of the regulations governing currency movements by 1 October 1987.

On 29 September 1987 Decree No 454 of the President of the Republic promulgated the necessary rules and amendments to existing laws. It set the date of 1 October 1988 for entry into force of the new system. In May 1988 most of the provisions concerning ordinary transactions of private citizens for e.g. tourism were anticipated. On 1 October the bulk of the provisions affecting banks and businesses duly entered into force. Import/export operations to a value of 100 million lira need not be authorised: some operations between 100 million and 20 billion, and all over 20 billion lira still have to be documented. However a declaration for statistical purposes must be made for all transactions over 10 million lira: businessmen are complaining about the bureaucratic burden of this. In general Italian residents are now free to hold property abroad and foreign stocks and to remit capital abroad when and in what quantity they wish although some restrictions and exceptions remain (see below).

On 6 October the Chamber of Deputies gave final approval to the Government's bill to make currency offences administrative misdemeanors and to remove them from the ambit of the criminal law. Past illegal transactions amounting to over 1 billion lira can be legalised by payment of 20% of the sum illegally exported: there is a sliding scale of penalties down to 5% for sums under 25 million. This completes the present stage of progress towards full liberalisation.

Among the most important controls still remaining are: the obligation to effect all transactions through banks and to surrender foreign currency within 60 days; the obligation to deposit foreign securities with banks; the prohibition on purchasing foreign bonds with a maturity of less than 180 days; limitations on discount operations involving foreign currency options; a prohibition on holding foreign lira accounts.

The generally buoyant state of the economy, the fall in the price of oil and growing hope that the governing coalition parties were at last prepared to tackle the public sector deficit all led to a feeling of increased confidence in the Italian economy which was reflected in the high demand for government securities. BOT 3 and 12 month auctions were very successful and issues of BTB and BTQ with yields up 5 points were heavily oversubscribed.

GOVERNMENT SECURITIES

	Total issue	Taken by B/Italy	Unplaced	Effective annual yield (compound)(1)	
				gross %	net*
(Billion Lire)					
3-mth BOT					
mid-Aug	3,250	-	oversubscribed	11.65	10.10
end-Aug	8,000	-	"	11.43	9.91
mid-Sep	2,500	-	"	11.42	9.91
end-Sep	8,250	-	"	11.01	9.55
6-mth BOT	-	-	"	-	-
mid-Aug	3,000	300	157	11.09	9.61
end-Aug	11,000	1,200	468	11.09	9.61
mid-Sep	2,750	386	-	11.37	9.85
end-Sep	12,000	945	-	11.42	9.89
12-mth BOT					
mid-Aug	1,750	300	37	11.42	9.85
end-Aug	7,500	430	-	11.42	9.85
mid-Sep	2,500	-	232	11.92	10.28
end-Sep	9,000	-	oversubscribed	11.89	10.25
5-yr CCT					
Jul	4,000	-	2,950	12.58	10.97
Aug	2,500	-	1,190	12.58	10.97
Sep	3,500	-	980		11.47
BTP					
3 Aug (2-yr)	4,000	-	1,715	11.82	10.31
(4-yr)	3,000	-	1,325	12.72	11.11
18 Aug (2-yr)	1,715	-	1,225	11.82	10.31
(4-yr)	1,325	-	945	12.72	11.11
1 Sep (2-yr)	5,000	-	oversubscribed	12.38	10.80
(4-yr)	3,000	-	"	13.31	11.61
14 Sep (2-yr)	1,500	-	220	11.82	10.31
16 Sep (4-yr)	1,500	-	oversubscribed	13.31	11.61
3 Oct (2-yr)	5,500	-	"	12.38	10.80
(4-yr)	7,000	-	"	13.31	11.61
BTE					
Apr (373 days)	1,000m Ecu	-	oversubscribed	7.49	6.55
Jun (378 days)	1,000m Ecu	-	"	7.80	6.68
Aug (378 days)	750m Ecu	-	"	8.93	7.80

CTE						
	May (4-yr)	1,000m Ecu	-	-	8.50	7.43
	Jul (5-yr)	1,000m Ecu	-	-	8.75	7.66
	Sep (5-yr)	1,000m Ecu	-	-	8.75	7.66

(1) Simple interest for BTE and CTE.

* Net of 12.50% tax deducted at source.

(Total BOT in circulation at mid-September: 238,642 bn lire)

The Treasury is taking the necessary legal steps for the issue of inflation-linked bonds.

A new 7 year US \$ 1 billion loan was launched by the Treasury as a previous floating rate dollar loan reached maturity. The fixed rate was 9.5% and the issue price 101.50. The lead manager was Merrill Lynch. Ninety per cent was placed within a few hours.

The rate of increase in bank lending slowed in August with lira loans 9.5% higher year on year. Deposits were up 7%. Average interest rates on loans rose slightly in August over July, 13.69% against 13.46% and again in September to 13.9% following the 26 August rise in base rate. Since May there has been a 7 point rise in average interest rates on loans whereas over the same period the average interest paid on deposits has remained at 6.6%.

At the beginning of September the lira came under pressure when the DM moved up sharply against the US dollar. The Bank of Italy intervened quite heavily in the market. Improved US trade figures moved the dollar up and for the rest of the month the lira was not under serious pressure.

EXCHANGE RATES - SEPTEMBER (in Lire)

Currency	Highest parity	Lowest parity	end-month parity
£	2,362.425 (29 Sept)	2,326.525 (5 Sept)	2,358.750
\$	1,408.200 (26 Sept)	1,376.500 (7 Sept)	1,400.300
DM	747.850* (8 Sept)	743.180 (1 Sept)	744.950

* All-time record.

Change in weighted value against other EC currencies since 9 February 1973: end-July -63.45%; end-August -63.51%; end-September -63.61%.

Companies' half year results are generally good. FIAT showed turnover up 14.3% and profits of 2,097 billion lira, better than expected. ENI reported half year profits up 23%. Olivetti's profits, however, were down 23.7% inspite of 16.1% increased turnover.

The stockmarket index was depressed at the beginning of September but, as confidence grew in the light of improving economic statistics and good company results, it bounced up sharply in the second half reaching its highest levels this year. However investment funds did badly in September with an all time low for new investment of 295 billion lira against withdrawals of 1,426 billion.

7. FISCAL POLICY

Latest Treasury forecasts for the State Sector Borrowing Requirement (SSBR) put the September figure at a record high for a single month of over 16,000 billion lira bringing the total for 9 months to around 93,000 billion lira or some 9% higher than in the same period of 1987. Interest payments and transfers to local authorities are thought to be the chief culprits.

The second Quarterly Report puts the half year SSBR at 51,779 billion lira. The official estimate for 1988 is now 118,000 billion but around 120,000 is widely seen as more likely. The revised government target is 115,000 billion.

According to the Governor of the Bank of Italy giving evidence to Parliament, accumulated debt reached in September the level of a million billion lira, in fact 1,010,000,000,000,000 lira, or 94.5% of GDP.

The Council of Ministers approved the draft 1989 budget on 29 September and it was presented to Parliament on 30 September just meeting the procedural deadline. Discussion began in the Budget Commission of the Chamber of Deputies on 6 October. The government hopes that secret voting on financial issues will be abolished before voting on the Budget begins. It was largely due to abuse of the secret vote by backbenchers that the 1988 estimated SSBR grew from 103,500 billion to 122,000 billion lira during Parliamentary consideration of this year's budget.

The budget sets the 1989 SSBR at 10.2% GDP in accordance with the Treasury plan, published in May this year, to eliminate the primary deficit by 1992. Interest payments are some 4,000 billion more than foreseen in the plan while the primary deficit is to be cut by over 2,000 billion more than programmed to 22,000 billion lira. The SSBR is set at 117,350 billion lira.

Under new budgetary procedures approved by Parliament the Financial Law contains only the overall targets. Nine accompanying bills make the necessary detailed provisions. The intention is to vote the Financial Law first and thus gain endorsement from the outset of the basic strategy. Any changes by Parliament in the government's detailed proposals would then have to be reconciled with the limits in the Financial Law.

The main themes of the Government's budget are: the elimination of waste and tax evasion thus reducing the deficit without a significant increase in fiscal pressure; cuts in unspent appropriations; strict limits on state transfers to autonomous spending centres but more power to raise revenue locally; the replacement when possible of government funding with private money e.g. in the arts.

The nine bills officially forming part of the budgetary process cover: a tax amnesty for the self employed and small businesses; transport; health; social insurance/pensions; local authorities; regional funding; public employees; public finance; the arts. Some of these measures are narrowly confined to revenue and expenditure changes essential to the government's borrowing target. Others are more wideranging. The government may find it difficult to persuade Parliament to give these the necessary priority. In addition there are other bills - on income tax (IRPEF) reform for employees, VAT and income tax reform for the self employed and small businesses, the tightening of tax loopholes and reform of the fiscal administration - which appear to be integral to the government's budgetary calculations and which have been adopted by the Council of Ministers over the past few weeks. It is difficult to see how all these can be fitted into the Parliamentary timetable.

The texts of the accompanying bills are gradually being published. Costs of the various proposals are still very vague. Government ministers speak of cutting 30,000 billion off a trend SSBR of 147,350 billion lira but so far the measures outlined seem to amount to little more than 20,000 billion. The main features of the budget include cuts in health and social insurance/pensions spending of 4,000-5,000 billion lira, cuts in transfers to local authorities of around 1,000 billion and to transport of around 650 billion and the arts 100 billion. The State Participation industries (ENI, IRI, EFIM) get only about a third (400 billion lira) of the subventions they requested. Steel is to be considered a special case with 600 billion for rationalisation and alternative employment over the 2 years 1989/90. Increased revenue of some 4,500 billion from the tax amnesty and around 5,200 billion from VAT, excise and stamp duties is expected. Against the latter must be set the cost to the Treasury of the IRPEF reform which is put at between 5,000 and 7,000 billion lira.

Elements of the manoeuvre which have not been spelt out appear to include raising the 2% VAT rate to 4% at some time during the year and an expected fall of around 1% in interest rates which will of course reduce the high cost of debt servicing.

The budget proposals as a whole represent a significant attempt to improve the financial management of the economy. The imposition of strict cash limits from the centre should in theory force local government, local health authorities, railways etc to improve efficiency or impose new taxes and higher charges. A start has been made on cutting the huge sums of unspent appropriations which complicate the annual budget exercise. Cuts of 27,000 billion lira were necessary to bring individual Ministry budgets within the ceiling of a 14% increase on 1987 levels which the Council of Ministers established in the summer. More cuts are promised with no sector immune: the Mezzogiorno Agency may lose 15,000 billion during 1989. Fiscal incentives are to be offered to private sponsors of the arts and the State Participation industries may have to look for more private capital to replace state subventions. It remains to be seen whether the Treasury can gain Parliamentary approval for their new approach and, if so, whether they can enforce it on the administrative apparatus in the coming year. One of their most difficult tasks will be to keep average wage increases to the programmed one per cent above forecast inflation. A new contract for public employees is due and the pay settlement for teachers earlier this year greatly exceeded the guidelines.

8. ASSESSMENT OF ECONOMIC PROSPECTS

The Budget Ministry's 'Relazione previsionale e programmatica' (forecast and programme report) on the Italian economy was issued as usual shortly before the Budget (we have not yet received a copy). The main figures are as follows - percentage increase, constant prices, Il Sole based on Ministry of Budget figures:

	1987	1988	1989
GDP	3.1	3.6	3.0
Imports	10.0	8.0	6.4
Family consumption	4.3	4.0	3.0
Collective consumption	3.4	2.0	2.0
Gross fixed investment	5.2	5.0	4.6
-construction	-1.3	1.5	2.4
-equipment	11.5	8.0	6.2
Exports	3.6	5.8	4.5
Inflation	4.8	4.7	4.0
*Current Account (billion lira)	-1,286	-4,800	-
Employment	0.2	1.0	0.9

*The stated target of the government (as in the Communique of the Council of Ministers on 29 September) is that the balance of current payments should be in substantial equilibrium in 1989. Presumably this refers to the overall balance of payments: the deficit on current account is expected to be around 7,000 billion lira.

The Treasury Minister Amato has suggested that economic growth could be as high as 4% this year.

The Monitor research institute issued its forecast just before the official report and budget. Its predictions were as follows (according to press reports):

	1988	1989
GDP	3.8	2.9
Inflation	5.2	5.7
Domestic demand	4.4	3.4
Consumption	4.2	-
Industrial investment	9.2	6.7
Exports	6.5	5.5
Imports	8.6	6.7
Current account (billion lire)	-5,800	-9,000

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ADDITIONAL

FRAME

TABLE 1: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts.

All figures seasonally adjusted. Billions of lire; (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	399,987	252,068	63,092	87,159	1,529	403,848	84,069	87,930	631,571
1984	412,680	258,165	64,722	91,764	5,162	419,813	90,752	97,586	727,798
1985	424,581	265,793	67,004	94,074	5,927	432,798	93,928	102,145	815,630
1986	436,831	275,225	69,102	95,367	6,934	446,628	97,161	106,958	902,238
1987	450,397	287,131	71,432	100,363	8,471	467,397	100,644	117,644	982,595
1985 Q1	105,017	65,473	16,540	23,547	1,532	107,092	23,325	25,400	195,749
Q2	105,826	66,203	16,666	23,526	1,786	108,181	23,059	25,415	202,067
Q3	106,410	66,819	16,831	23,384	1,250	108,284	23,184	25,059	207,025
Q4	107,328	67,297	16,967	23,617	1,360	109,241	24,359	26,272	210,789
1986 Q1	107,086	67,787	17,128	23,299	2,092	110,306	23,610	26,830	214,752
Q2	109,094	68,315	17,258	23,962	612	110,147	25,049	26,103	224,000
Q3	110,138	69,117	17,278	23,987	2,473	112,855	24,974	27,692	230,145
Q4	110,513	70,006	17,438	24,118	1,756	113,318	23,528	26,333	233,341
1987 Q1	111,023	70,872	17,645	24,551	2,271	115,339	23,821	28,136	236,672
Q2	112,328	71,747	17,810	25,506	1,847	116,910	24,540	29,122	243,882
Q3	113,405	72,126	17,974	25,005	1,318	116,423	26,520	29,539	248,985
Q4	113,641	72,387	18,003	25,300	3,035	118,725	25,763	30,847	253,055

*(2)+(3)+(4). NB: Figures are revised each quarter.

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TABLE 1A: EXPENDITURE ON GNP

Source: ISTAT, New National Accounts. (All figures seasonally adjusted.)
 Percentage changes (year-on-year); (1)-(7) 1980 prices, (8) current prices.

	Real GDP	Consumer Expenditure		Investment	Stockbuilding	Domestic Demand*	Exports	Imports	Nominal GDP
		Private	Govt						
		(1)	(2)						
1983	0.5	0.4	2.8	-1.6	-	-0.4	2.3	-1.6	15.9
1984	3.5	2.2	2.0	4.4	-	4.4	7.6	11.3	14.1
1985	2.9	3.0	3.5	2.5	-	3.1	3.8	4.7	12.1
1986	2.9	3.5	3.1	1.4	-	3.2	3.4	4.7	10.6
1987	3.1	4.3	3.4	5.2	-	4.6	3.6	10.0	8.9
1985 Q1	2.8	1.6	3.6	4.6	-	3.2	6.0	7.8	11.9
Q2	2.9	2.7	3.5	3.9	-	3.3	4.4	5.8	12.3
Q3	2.9	3.6	3.8	0.4	-	2.7	0.4	2.3	12.7
Q4	3.0	3.6	3.2	1.3	-	3.1	4.6	3.0	11.4
1986 Q1	2.0	3.5	3.6	-1.1	-	3.1	1.2	5.6	9.7
Q2	3.1	3.2	3.6	1.9	-	2.3	8.6	2.7	10.9
Q3	3.5	3.4	2.7	2.6	-	3.9	7.7	10.5	11.2
Q4	3.0	4.0	2.8	2.1	-	3.6	-3.4	0.2	10.7
1987 Q1	3.7	4.6	3.0	5.4	-	4.6	-0.9	4.9	10.2
Q2	3.0	5.0	3.2	6.4	-	6.1	-2.0	11.6	8.9
Q3	3.0	4.4	4.0	4.2	-	3.2	6.2	6.7	8.2
Q4	2.8	3.4	3.2	4.9	-	4.8	9.5	17.1	8.4

*(2)+(3)+(4). NB: Figures are revised each quarter.

TABLE 2: PRODUCTION AND EMPLOYMENT

Source ISTAT Figures not seasonally adjusted unless so indicated.

	Ind. Prod. Total (1)	Invoices (2)		Orders (3)		Employment '000s (4)	Unemployment '000s (5)	Unemployment rate (6)	Strikes '000 hrs lost (7)	
	(1980=100)	Dom.	Export	Dom.	Export					
1985	96.5	172.4	197.6	169.4	195.4	\$20,742	\$2,327	10.1	26,815	
1986	99.2	175.9	196.0	189.2	194.5	\$20,856	\$2,611	11.1	39,506	
1987	103.1								32,240	
1986	Q1	100.2	173.8	197.8	194.1	203.3	20,686	2,535	10.9	9,523
	Q2	104.4	181.5	203.6	195.6	203.0	20,696	2,477	10.7	3,733
	Q3	88.7	161.4	180.7	165.2	172.8	21,009	2,530	10.7	1,416
	Q4	103.3	187.0	201.7	201.9	198.8	21,049	2,771	11.6	23,001
1987	Q1	103.3	178.0	196.4	201.6	202.5	20,723	2,803	11.9	9,411
	Q2	109.6	195.9	212.5	207.7	201.4	20,672	2,725	11.6	4,178
	Q3	91.1	176.1	191.8	184.6	181.0	21,049	2,871	12.0	2,469
	Q4	108.4	212.8	220.4	217.1	216.1	20,901	2,930	12.3	16,182
1988	Q1	111.1	198.2	221.4	236.7	239.5	20,778	2,945	12.4	4,292
	Q2	105.9					21,113	2,857	11.9	
	(a)									
'86	JUN	101.2	178.7	208.3	194.4	194.8				1,094
	JUL	100.6	196.3	241.6	189.9	214.9				568
	AUG	99.9	90.9	90.1	81.1	82.1				50
	SEP	99.8	197.1	210.5	224.6	221.5				798
	OCT	99.9	199.3	213.5	210.7	224.6				6,504
	NOV	100.6	175.7	190.6	188.2	178.3				9,997
	DEC	102.2	185.9	201.1	206.8	193.6				6,500
'87	JAN	101.5	153.2	172.1	170.2	186.7				2,957
	FEB	101.2	172.7	194.8	207.6	198.9				4,733
	MAR	101.7	208.0	222.4	227.0	221.8				1,721
	APR	102.8	196.4	198.8	211.6	196.6				1,541
	MAY	104.2	189.7	206.7	192.6	183.3				842
	JUN	102.1	201.8	231.9	218.9	224.2				1,795
	JUL	102.1	211.3	257.6	219.7	224.2				1,370
	AUG	102.0	101.3	95.4	70.8	85.8				40
	SEP	103.1	215.7	219.7	263.4	232.6				1,059
	OCT	104.8	219.3	224.7	230.0	233.6				1,154
	NOV	103.8	201.8	218.1	204.9	196.4				13,682
	DEC	103.5	217.2	218.4	216.5	218.4				1,346
'88	JAN	108.8	169.3	192.0	205.7	212.7				914
	FEB	106.0	197.2	222.3	233.4	228.1				1,609
	MAR	104.8	228.1	249.9	270.9	227.8				1,769
	APR	107.2								1,690
	MAY	104.9								1,800
	JUN	105.8								

(a) Seasonally adjusted.

\$Average annual Quarterly series surveys carried out end Jan, Apr, Jul, Oct.

* Provisional.

NB August figures distorted by holiday closures

TABLE 3: PRICES AND EARNINGS

Source: ISTAT. Annual and quarterly series Bank of Italy based on ISTAT
Per cent change on a year earlier; not seasonally adjusted

	Consumer Prices (1)	Cost of Living Index (2)	Wholesale Prices (3)	Hourly Pay (Contractual) (4)
1985	9.2	8.6	7.3	10.3
1986	5.9	6.1	-0.9	4.6
1987	4.7	4.6	2.6	7.1
1986 Q1	7.5	7.6	2.5	5.8
Q2	6.0	6.4	-1.4	4.9
Q3	5.5	5.9	-2.2	3.7
Q4	4.5	4.7	-2.4	4.0
1987 Q1	4.3	4.3	-0.4	5.2
Q2	4.4	4.2	+2.4	6.8
Q3	4.9	4.6	+4.1	8.0
Q4	5.4	5.2	+4.6	8.1
1988 Q1	5.1	4.9	4.1	9.2
Q2		4.9	4.5	7.9
Q3		4.9		
1986 JUL	5.5	5.9	-2.2	4.8
AUG	5.6	5.9	-2.1	3.0
SEP	5.3	5.8	-2.3	3.3
OCT	4.7	5.1	-2.4	3.3
NOV	4.4	4.7	-2.3	4.3
DEC	4.3	4.3	-2.5	4.3
1987 JAN	4.2	4.5	-1.7	4.6
FEB	4.4	4.2	-0.2	5.4
MAR	4.2	4.2	0.6	5.6
APR	4.4	4.2	1.6	6.0
MAY	4.4	4.2	2.7	7.1
JUN	4.5	4.1	2.9	7.2
JUL	4.7	4.4	3.8	8.0
AUG	4.8	4.5	4.1	8.2
SEP	5.2	5.0	4.3	8.0
OCT	5.5	5.3	4.5	8.2
NOV	5.4	5.2	4.6	8.2
DEC	5.2	5.1	4.7	8.3
1988 JAN	5.2	5.0	3.9	9.7
FEB	5.0	4.9	4.2	8.8
MAR	5.2	4.9	4.3	9.1
APR	5.1	5.0	4.4	8.7
MAY		4.9	4.5	7.5
JUN		4.9	4.5	7.7
JUL		4.9	4.7	6.6
AUG		5.0		
SEP		4.8		

TABLE 4: MONETARY AGGREGATES

Source: Bank of Italy. Per cent change on a year earlier.

	Monetary Base (1)	M1 (2)	M2 (3)	M3 (4)	Total Domestic Credit (5)
1985	16.6	10.4	11.0	14.4	19.2
1986	10.6	10.7	9.4	8.8	16.2
1987		7.6	8.4		
1986 Q1	12.2	10.0	9.7	11.0	16.5
Q2	11.2	10.8	8.8	9.2	16.3
Q3	9.9	9.2	7.9	7.1	16.0
Q4	8.8	10.9	9.5	8.1	15.9
1987 Q1	9.5	9.9	10.3	7.7	15.6
Q2	11.4	10.8	12.0	9.0	15.2
Q3	12.3	10.9	10.5	10.5	14.5
Q4	10.8	8.6	9.3	11.5	13.2
1988 Q1	8.8	7.0	7.1	11.9	12.8
Q2		6.5	6.8		13.2
1986 Sep	8.9	9.5	8.2	7.0	15.9
Oct	9.1	10.6	9.1	7.9	16.3
Nov	10.2	11.3	9.9	8.2	16.1
Dec	7.2	10.7	9.4	8.2	15.2
1987 Jan	10.3	10.0	9.6	7.7	15.9
Feb	9.4	10.1	10.4	7.7	15.7
Mar	8.9	9.8	10.8	7.6	15.2
Apr	11.9	10.4	11.5	8.6	15.0
May	10.9	10.6	12.0	9.0	15.0
Jun	11.3	11.5	12.4	9.4	15.5
Jul	11.7	11.5	12.0	10.0	14.8
Aug	12.4	11.2	11.6	10.4	14.8
Scp	12.7	10.2	10.8	11.2	13.9
Oct	12.9	10.0	10.3	11.4	13.5
Nov	9.7	8.5	9.3	11.9	13.1
Dec	10.0	7.4	8.3	11.4	13.1
1988 Jan	9.2	7.1	7.5	11.5	13.0
Feb	8.6	7.0	7.1	12.1	12.5
Mar	8.8	6.9	6.9	12.3	12.9
Apr	6.5	6.9	6.8	11.9	12.9
May	6.6	6.1	6.4	11.9	13.2
Jun		6.6	7.2		13.5
Jul		7.4	8.2		13.4

NB: Figures are revised periodically.

TABLE 5: EXCHANGE AND INTEREST RATES

Sources: (1)(2)(3) Bank of Italy; (4) Banca Commerciale Italiana;
(5) Ufficio Italiano Cambi.

	One-month Interbank rates (1)	Govt securities 12-month		Lira real effective exch rate (1980=100) (4)	Exchange rates (Average)	
		CCT (2)	BOT (3)		Lira/US\$ (5)	Lira/£ster
1985	14.93	14.68	13.63	87.1	1,909.7	2,462.5
1986	13.00	12.49	10.92	89.6	1,490.8	2,187.1
1987	11.32	10.66	10.55	91.7	1,296.4	2,122.4
1986 Q1	16.31	14.44	13.05	91.2	1,599.6	2,302.3
Q2	12.44	13.44	11.13	89.7	1,538.9	2,321.9
Q3	11.46	11.47	10.38	91.3	1,436.9	2,141.3
Q4	11.79	10.63	10.03	93.6	1,389.5	1,985.8
1987 Q1	11.29	10.22	9.78	94.5	1,306.2	2,016.2
Q2	10.71	9.89	9.66	92.8	1,299.8	2,135.1
Q3	12.25	10.92	10.88	91.0	1,331.1	2,151.8
Q4	11.05	11.60	11.88	92.0	1,248.5	2,188.3
1986 Jul	11.56	11.74	10.56	90.1	1,478.5	2,232.2
Aug	11.44	11.58	10.26	91.6	1,420.8	2,110.9
Sep	11.38	11.10	10.31	92.3	1,408.2	2,073.9
Oct	11.00	10.79	10.07	93.4	1,386.6	1,997.9
Nov	12.50	10.60	10.02	93.5	1,402.1	1,996.2
Dec	11.88	10.51	10.01	94.1	1,380.3	1,984.6
1987 Jan	11.88	10.39	9.93	94.8	1,314.70	1,983.10
Feb	11.63	10.24	9.74	94.8	1,299.60	1,982.50
Mar	10.38	10.04	9.68	94.1	1,304.60	2,076.90
Apr	9.88	9.89	9.65	94.0	1,292.20	2,106.20
May	11.13	9.87	9.66	93.0	1,291.10	2,153.70
Jun	11.13	9.91	9.68	91.6	1,316.00	2,145.50
Jul	11.63	10.25	10.56	90.9	1,337.10	2,152.10
Aug	12.88	11.18	10.62	90.8	1,345.80	2,149.00
Sep	12.25	11.33	11.45	91.3	1,310.30	2,154.40
Oct	10.63	11.58	12.17	90.8	1,303.10	2,164.50
Nov	11.88	11.91	12.14	91.2	1,239.40	2,199.70
Dec	10.63	11.30	11.33	94.0	1,202.90	2,200.60
1988 Jan	10.88	10.92	10.56	94.0	1,215.00	2,190.20
Feb	11.00	10.62	10.50	93.7	1,250.30	2,196.30
Mar	11.00	10.58	10.56		1,241.40	2,272.40
Apr	10.00	10.86	10.96		1,242.20	2,330.50
May	10.63	11.10	10.99		1,258.66	2,352.81
Jun	10.88		10.93		1,303.43	2,320.07
Jul			11.42		1,366.46	2,329.20
Aug			11.42		1,397.87	2,371.54
Sep			11.89		1,400.30\$	2,358.75\$

(1) Bid-offer average. (2) gross yield expected if interest rates unchanged.
(3) gross yield on end month issues. (4) Wholesale prices.
\$ End month rates.

TABLE 6. TRADE/BALANCE OF PAYMENTS

Source ISTAT; (4)&(5) Bank of Italy. Figures not seasonally adjusted.

	Imports c.i.f.	Exports f.o.b.	Trade Balance	Overall Balance (Current + Capital movements, errors and omissions)	Current Account	Import Volume	Export Volume
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	billions of lire				1980=100		
1985	172,816	149,701	-23,115	-8,352	-7,761	110.8	124.2
1986	149,045	145,323	- 3,722	-2,965	-1,311	115.8	126.4
1987	161,587*	150,449*	-11,138*	+1,202	-3,144	127.5	129.4
1986 Q1	41,792	36,117	- 5,675	-6,696	-3,389	117.2	122.2
Q2	37,734	36,665	- 1,069	+4,506	+ 834	117.5	129.0
Q3	32,029	34,612	+ 2,584	+ 465	+5,593	105.6	122.7
Q4	37,491	37,929	+ 438	-1,240	-2,373	122.8	131.9
1987 Q1	38,368*	34,379*	- 3,989*	+1,988	- 880	123.9	119.4
Q2	40,605*	35,471*	- 5,134*	-3,789	- 881	128.9	122.4
Q3	37,954*	38,412*	+ 458*	- 660	+1,686	117.6	132.9
Q4	44,660*	42,190*	- 2,470*	+3,287*	-3,067	139.5	142.6
1988 Q1	42,005*	35,570*	- 6,425*	+ 189*	-3,377		
Q2	45,816*	44,062*	- 1,754*	-3,084*	-3,362		
1986 Dec	12,059	12,394	+ 335	- 456	-2,760	120.1	129.3
1987 Jan	11,641	10,054	- 1,587	- 380	+ 608	114.7	105.9
Feb	12,505	10,548	- 1,957	+1,442	- 766	121.0	109.9
Mar	14,222	13,777	- 445	+ 926	- 726	136.1	142.4
Apr	13,332	11,951	- 1,382	+1,579	+ 357	127.1	123.3
May	13,120	11,685	- 1,434	-2,865	-1,511	125.7	121.9
Jun	14,154*	11,835*	- 2,319*	-2,503	+ 273	133.9	122.1
Jul	14,563*	15,380*	+ 820*	+ 110	+ 645	136.1	159.7
Aug	8,531*	9,691*	+ 1,159*	-1,011	+1,020	79.0	101.6
Sep	14,860*	13,345*	- 1,515*	+1,172	+ 21	137.7	137.4
Oct	14,940*	14,250*	- 690*	+ 237	- 226	138.6	144.4
Nov	14,330*	13,480*	- 850*	+1,656	-1,630	134.1	137.9
Dec	15,390*	14,460*	- 930*	+1,188*	-1,211	145.8	145.7
1988 Jan	12,020*	9,680*	- 2,330*	+1,369*	- 116		
Feb	13,675*	12,460*	- 1,215*	- 887*	-1,463		
Mar	16,310*	13,430*	- 2,880*	- 293*	-1,783		
Apr	14,475*	13,810*	- 665*	-2,953*			
May	15,425*	15,100*	- 325*	- 966*			
Jun	15,916*	15,152*	- 764*	+ 835*			
Jul				+3,581*			
Aug				+3,049*			

*Provisional



Handwritten signature in black ink at the top right.
Red handwritten notes: "Party to have", "had", "him".

Ch. Your question behind.

2. For "Party procedures", 30 Deputies must first agree that there should be a secret vote. There can then be a secret vote on any party procedure, including reintroduction of the secret vote itself. And there is no rule that only the Govt. can introduce

Such a motion - anyone can.

So you are right that this rather undermines the strength of the reform!

(On the other hand, someone will still need to stand up to introduce the motion, + will presumably need to be pretty sure of victory anyway).

Handwritten signature and date: 19/10

[Chamber thinks X only approves that but... which are still secret... but will check.]

Handwritten notes and dates: 19/10, 20/10, 20/10

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Presumably X means that this change is to be secret vote. If so, that would be a major move. The cost of that is not a million. Is it?

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MY TELNO 533: DE MITA'S GOVERNMENT

SUMMARY

1. CHAMBER APPROVES PROCEDURAL REFORMS ABOLISHING SECRET VOTING EXCEPT ON SPECIFIC SUBJECT, THUS AVERTING THREATS OF POSSIBLE GOVERNMENT CRISIS. IMPORTANT VICTORY FOR COALITION AND FOR DE MITA PERSONALLY WHICH COULD INCREASE LONGEVITY OF ITALIAN GOVERNMENTS.

DETAIL

X

2. AFTER TWO WEEKS OF INTENSE AND BYZANTINE HORSE TRADING BETWEEN THE PARTIES AND REPEATED POSTPONEMENTS OF THE FINAL VOTE, THE CHAMBER APPROVED TODAY A MAJOR REFORM OF ITS VOTING PROCEDURES. THIS ESTABLISHES OPEN RATHER THAN SECRET VOTING AS THE NORM, AND IN PARTICULAR ON THE BUDGET AND ALL MEASURES WITH FINANCIAL CONSEQUENCES. AS A RESULT OF A SERIES OF DEALS BETWEEN THE PARTIES THE AREA OF EXCEPTIONS FOR WHICH SECRET VOTING WILL BE RETAINED HAS BEEN ENLARGED, AND NOW INCLUDES MATTERS REGARDING INDIVIDUALS, THE FAMILY, CIVIL RIGHTS, PARLIAMENTARY PROCEDURES AND STATE INSTITUTIONS. ON LAWS RELATING TO ELECTORAL PROCEDURES, THE CHAMBER WILL VOTE IN SECRET BUT, UNDER A PARTICULARLY CONVOLUTED COMPROMISE BETWEEN THE DC (CHRISTIAN DEMOCRAT) PRESIDENT OF THE COUNCIL DE MITA AND PSI (SOCIALIST) LEADER CRAXI, THE SENATE WILL VOTE OPENLY. THE SENATE HAS YET TO APPROVE THIS POINT FORMALLY, BUT NO DIFFICULTY IS EXPECTED.

3. THE VOTING FIGURES (323 FOR, 58 AGAINST, 222 ABSTENTIONS) EXAGGERATE THE MARGIN OF SUCCESS: WITHOUT DISSIDENTS, THE COALITION SHOULD HAVE BEEN ABLE TO MUSTER 388 VOTES, AND THE PCI (COMMUNISTS) DECIDED AT THE LAST MOMENT TO ABSTAIN. UNTIL THE END THERE HAD BEEN UNCERTAINTY WHETHER THE GOVERNMENT WOULD SECURE THE ABSOLUTE MAJORITY OF 316 WHICH WAS

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REQUIRED. THIS IS HOWEVER AN IMPORTANT VICTORY FOR THE COALITION, AND PERSONALLY FOR DE MITA, WHO HAD VIRTUALLY COMMITTED HIMSELF TO RESIGNING IN THE EVENT OF DEFEAT. THE IMMEDIATE THREAT OF A GOVERNMENT CRISIS HAS NOW BEEN AVERTED. DE MITA SHOULD BE ABLE TO LOOK FORWARD TO AN EASIER PASSAGE IN THE NEXT FEW WEEKS FOR THE FINANCE BILL (CRUCIAL IN THE GOVERNMENT'S PROGRAMME TO BRING THE PUBLIC SECTOR DEFICIT UNDER CONTROL).

4. ACCORDING TO THE AGREEMENT BETWEEN THE COALITION PARTIES, THE SENATE'S RULES OF PROCEDURE SHOULD ALSO BE AMENDED SIMILARLY. THIS IS NOT EXPECTED TO BE AS TRAUMATIC A PROCESS AS IT HAS BEEN IN THE CHAMBER, AND IN ANY CASE THE SENATE HAS IN THE PAST TENDED LESS THAN THE CHAMBER TO ABUSE THE SECRET VOTE TO DEFEAT OR AMEND IN EMBARRASSING WAYS PROPOSED GOVERNMENT LEGISLATION.

5. ITALIAN POLITICIANS SEE OPEN VOTING AS A SIGNIFICANT CHANGE IN PARLIAMENTARY PROCEDURE. IN THE LONGER TERM, IT MAY HELP TO RAISE THE LIFE EXPECTANCY OF ITALIAN GOVERNMENTS. IT WILL NO LONGER BE POSSIBLE FOR DISGRUNTLED OR OPPORTUNISTIC ELEMENTS WITHIN THE COALITION TO UNDERMINE IT COVERTLY AND WITHOUT FACING THE POLITICAL CONSEQUENCES (MY TELNO 520). IT MAY ALSO BE EASIER FOR PARTY LEADERS TO MAINTAIN DISCIPLINE, AND THUS POLICY COHERENCE, WITHIN THEIR PARTIES.

THOMAS

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INFO SAVING MILAN, NAPLES, FLORENCE (ACTIONED)

MY TELNO 560: PROCEDURAL REFORM OF ITALIAN SENATE

SUMMARY

1. THE ITALIAN SENATE ADOPTS OPEN VOTING AS THE NORM.

DETAIL

2. FOLLOWING THE ABOLITION OF SECRET VOTING AS THE NORM IN THE CHAMBER OF DEPUTIES, REPORTED IN TUR, THE SENATE VOTED BY AN OVERWHELMING MAJORITY ON 30 NOVEMBER TO ADOPT OPEN VOTING, INSTEAD OF SECRET, AS THE USUAL PROCEDURE FOR ALL EXCEPT A VERY RESTRICTED NUMBER OF SUBJECTS. IN FUTURE VOTING MUST BE OPEN ON BILLS REGARDING THE BUDGET OR WITH FINANCIAL IMPLICATIONS.
3. AS EXPECTED, THE ADOPTION OF THIS REFORM WAS LESS CONTENTIOUS IN THE SENATE THAN IN THE CHAMBER. A SMALL GROUP LED BY SIX CHRISTIAN DEMOCRAT SENATORS CAUSED A SLIGHT HOLD UP, BY SEEKING TO RETAIN SECRET VOTING FOR ALL BILLS REGARDING THE CONSTITUTION. DESPITE THEIR DETERMINED STAND, HOWEVER, THE FINAL VOTE RESTRICTED SECRET VOTING TO A VERY LIMITED RANGE OF CONSTITUTIONAL ISSUES, PARTICULARLY THOSE ON CIVIC AND SOCIAL RIGHTS AND DUTIES.
4. THE FINAL VOTE ON THE ENTIRE PACKAGE ONLY THE ITALIAN SOCIALIST MOVEMENT (MSI - EXTREME RIGHT) AND THE ONE PROLETARIAN DEMOCRAT SENATOR VOTED AGAINST. BESIDES THE EMENDMENT TO VOTING PROCEDURES, THERE ARE A NUMBER OF FURTHER CHANGES, INCLUDING REARRANGEMENTS OF THE SENATE TIME-TABLE, THE INTRODUCTION OF A QUESTION TIME, AND LIMITATION OF LENGTH OF SPEECHES. THE NEW REGULATIONS ENTER INTO FORCE ON PUBLICATION IN THE OFFICIAL GAZETTE.
5. DE MITA HAS THUS ACHIEVED THE SECOND HALF OF HIS FIRST OBJECTIVE IN REFORMING PARLIAMENTARY PROCEDURES. IT HAS BEEN ACCOMPLISHED JUST IN TIME FOR THE BUDGET AND ASSOCIATED

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FINANCIAL BILLS, WHICH ARE ALL ABOUT TO BE CONSIDERED IN THE SENATE. DESPITE THE UNEXPECTED, AND UNEXPECTEDLY DEFIANT RESISTANCE OF A FEW DC SENATORS, DE MITA HAS GIVEN A FURTHER INDICATION OF HIS COMPETENCE AT THE DIFFICULT TASKS OF MANAGING PARLIAMENT. IT IS ANOTHER FEATHER IN HIS CAP, EVEN IF THE EFFECTIVENESS OF THE REFORM AS A WAY OF GETTING ON TOP OF THE DEFICIT STILL REMAINS TO BE TESTED.

THOMAS

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