BANCA D'ITALIA

Economic Bulletin

prepared by the
Economic Research Department

Number 41 November 2005

This abridged English edition of the *Bollettino Economico* has been translated from the Italian by the Governor's Secretariat

Registration with the Court of Rome No. 426, 19 September 1985 – *Director*: SALVATORE ROSSI

CONTENTS

BOXES

SYMBOLS AND CONVENTIONS

Unless indicated otherwise, figures have been computed by the Bank of Italy.

In the following tables:

— the phenomenon in question does not occur

.... the phenomenon occurs but its value is not known

.. the value is known but is nil or less than half the final digit shown

( ) provisional

( ) estimated

This publications is available on the Internet at www.bancaditalia.it

Economic Developments and Policies

THE WORLD ECONOMY AND INTERNATIONAL FINANCE

In the first half of 2005 world economic activity continued to expand rapidly, driven by growth in the United States and China. The protraction of favourable financial conditions, reflecting positively on the value of capital assets, buoyed investment and consumer demand. In the main industrial countries economic activity was only marginally affected by the further large and unexpected rise in energy prices, thanks in part to the declining energy-intensiveness of production. In the United States the highly expansionary impetus of economic policy since 2001 waned.

Trade in goods among the main industrial countries again expanded strongly (up 4.9 per cent on an annual basis in the first half of 2005 from the previous period) albeit at a slower pace than in the second half of 2004 (7.4 per cent).

The growth gaps between the main industrial regions of the world remained large: in contrast with the strong expansion in the United States, economic activity was slack in the euro area and decelerated brusquely in the United Kingdom. Only in Japan was economic recovery faster than expected. The global payments imbalances sharpened: persistent disparities in demand trends were compounded by the rise in oil prices. This led to a massive transfer of resources from consumer to producer countries, which used only a portion to expand imports; the IMF estimates that the growth in oil-producing countries' imports, by value, will accelerate from 22 per cent in 2004 to 24 per cent this year. The deficit in the US balance of payments on current account exceeded 6 per cent of GDP, amounting in the first six months to nearly $800 billion on an annual basis; at the end of 2004 the US net foreign debtor position was 22 per cent of GDP. Nonetheless, the dollar began to strengthen at the beginning of 2005, buoyed by large inflows of private capital as current and expected short-term interest rate differentials widened in its favour.

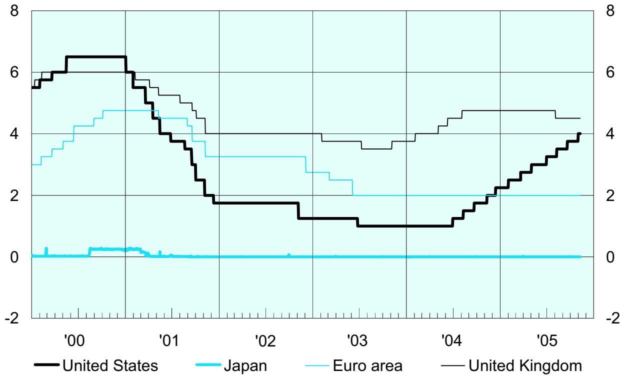
In the United States private consumption remained the main driver of output, which grew by 3.6 per cent in the first three quarters compared with the year-earlier period. The effect of the rise in oil prices on households' disposable income was offset by the rise in employment; thanks to conditions on the mortgage loan market, the further gains in property prices enabled households to increase both their debt and their liquid assets. Their propensity to save continued to decline, turning slightly negative in the summer; it has fallen by 5 percentage points since the mid-1990s. In the first half of 2005 total private sector saving diminished from 4.7 per cent to 3.9 per cent of GDP; the national saving rate, reflecting the improvement in the public finances, rose from 1.2 per cent to 1.6 per cent of GDP.

The rise in energy costs pushed consumer prices up significantly but did not affect core inflation or expectations, which remained moderate. The Federal Reserve proceeded with the gradual attenuation of expansive monetary conditions begun in the middle of 2004, raising the target rate on federal funds to 4 per cent (Figure 1).

In the euro area economic activity remained sluggish in the first half of this year as well. The expected upswing in capital spending did not materialize and investment stagnated. Exports continued to rise at a slower pace than world trade; only public and private consumption sustained growth. Early official estimates indicate an acceleration in economic activity in the third quarter.

Figure 1

Official interest rates (1)
(daily data; percentages)



Sources: ECB and national statistics.
(1) For the United States: federal funds target rate; for Japan: money market overnight rate; for the euro area: interest rate on the main refinancing operations; for the United Kingdom: repo rate. The last available data are for 11 November 2005.

Japan overcame the weakness that had characterized much of 2004: output resumed rapid growth under the stimulus of private demand, rising in the first half of the year at an annualized rate of 4 per cent; in the third quarter it slowed to 1.7 per cent. The increase in employment and wages boosted household consumption; the improvement in firms' profitability and balance sheet situation, together with the progress made in restructuring the banking sector, set investment in motion again.

In the United Kingdom output growth slowed to 1.5 per cent on an annual basis in the first half of the year. There was a further, larger-than-expected deceleration in consumption growth to 1.3 per cent, from 2.9 per cent in the second half of 2004. The lagged effects of the monetary tightening by the Bank of England between November 2003 and August 2004 were compounded by the slowdown in house prices beginning in the summer of 2004. In August this year the central bank reduced the reference rate by 0.25 basis points to 4.50 per cent.

In the United States, notwithstanding the repeated raising of official rates, yields on long-term government bonds did not vary significantly. Firms' profitability kept the risk premiums on corporate bonds low; share prices held steady at the levels of end-2004; their variability was limited. In the emerging economies the yield differentials between dollar-denominated government securities and the corresponding US Treasury securities remained narrow. They benefited not only from the strengthening of the respective underlying economic variables but also from a greater propensity to invest in more risky instruments.

In the majority of countries nominal and real long-term interest rates remained very low. This was generally believed to be due in part to a reduction in risk premiums owing to the lower observed and expected variability of economic growth and inflation. A largely unexpected structural rise in the demand for long-term securities was probably caused in the first place by an increase in liquidity and savings in some emerging areas – particularly in Asia and more recently in the oil-exporting countries – in conjunction with slower investment growth; various amendments to the regulations governing institutional investors in the industrial countries aimed at bringing the duration of assets into line with that of liabilities also contributed by causing a permanent increase in the volume of ten-year bonds in the portfolios of pension funds and insurance companies. Since neither of these factors is likely to change, at least in the short run, they will continue to curb the rise in long-term yields. However, the low levels of real long-term interest rates contrast with the sharp acceleration in productivity over the last decade, particularly in the United States.

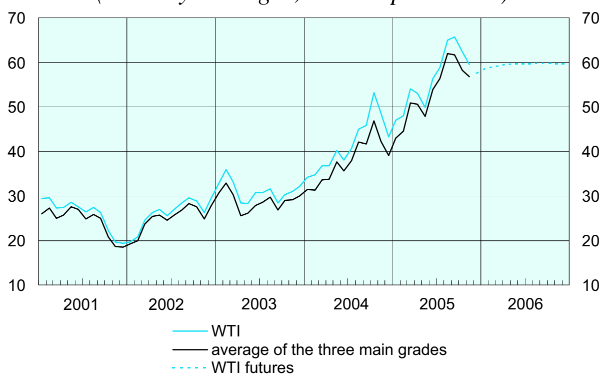
In September the Financial Stability Forum pointed to several phenomena whose persistence could cause tensions on the market. They include the exceptionally low levels of spreads and long-term interest rates, the popularity of increasingly complex financial instruments, household debt, and growing external account imbalances and budget deficits. Operators, regulators and economic policy-makers were called upon to tighten market regulations and credit rating procedures, to raise operational standards and to increase allocations to risk provisions.

In July the Chinese monetary authorities enacted a reform of the exchange rate system to increase the renminbi's flexibility and facilitate domestic liquidity control. The reorganization of the banking sector under way for the last two years, the increase in recourse to market instruments for monetary policy management and the changes to the exchange rate system are part of a policy of gradually liberalizing the financial system. Among other benefits this would make for a more efficient allocation of national savings, which amount to 49 per cent of GDP.

The strains in the oil market have worsened in recent months, partly owing to natural disasters. The average price of the three main grades rose from $40 a barrel at the end of 2004 to over $58 in October. During the year, while world energy demand increased significantly, short-term supply became progressively more rigid, amplifying price reactions. Futures prices on WTI grade contracts (on NYMEX on 11 November) indicate that in March 2006 the price of oil will top $59 a barrel, slightly more than spot prices, and remain virtually unchanged for the rest of the year (Figure 2).

Figure 2

Crude oil: spot prices and futures (1)
(monthly averages; dollars per barrel)



Sources: IMF and Thomson Financial Datastream.
(1) For futures: prices on 11 November 2005. The three main grades are Dubai, Brent and WTI.

After accelerating sharply in the first quarter of 2005, the dollar prices of non-energy raw materials slowed, mainly owing to the decline in the prices of agricultural goods, and in September were up 11.8 per cent on twelve months earlier. By contrast the prices of metals continued to rise and at the same date were 26.6 per cent higher than in the year-earlier period.

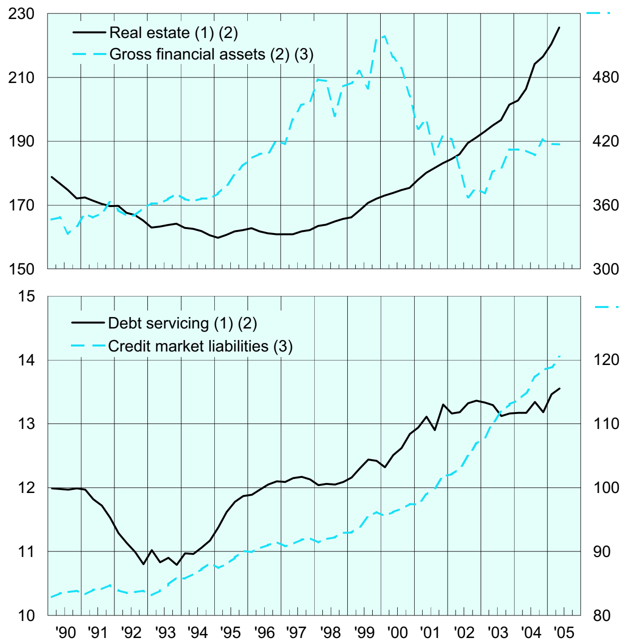
Recent developments and economic policies in the United States

In the United States output expanded by 3.8 per cent on an annual basis in the first quarter, 3.3 per cent in the second and 3.8 per cent again in the third (Table 1). According to leading private analysts the hurricanes that devastated the Gulf of Mexico in September will have limited and transitory effects on growth, mainly in the fourth quarter. The loss of output should be entirely recouped in the course of 2006, thanks in part to the stimulus of rebuilding in the afflicted areas.

Private consumption rose at an annual rate of 3.7 per cent in the first half of the year, again providing the main stimulus to demand thanks to the increase in property prices and a strengthening of the labour market. These factors more than offset the estimated loss of around 0.5 percentage points in households' purchasing power due to the rise in energy prices. In the third quarter consumption rose by 3.9 per cent on an annual basis.

Figure 3

United States: households' assets and liabilities
(end-of-period quarterly data; as a percentage of disposable income)



Source: Federal Reserve.
(1) Left-hand scale. – (2) For disposable income, moving average for the 4 quarters ending in the one indicated. – (3) Right-hand scale.

In the first half of 2005 the ratio of US households' net wealth to disposable income remained virtually unchanged at 560 per cent. The decline in the sector's gross financial assets from 421 to 417 per cent of disposable income and the increase in debt

Table 1

Economic indicators for the main industrial countries

(at constant prices; annualized percentage changes on previous period, except as indicated)

	GDP	Household consumption (1)	Government consumption	Investment (2)	Change in stocks (3) (4)	National demand	Net exports (3) (5)
United States							
2004	4.2	3.9	2.2	9.7	0.4	4.7	-0.7
2005							
H1	3.6	3.7	1.8	7.7	-0.4	3.5	-0.2
Q1	3.8	3.5	1.9	7.0	0.3	4.0	-0.4
Q2	3.3	3.4	2.5	9.5	-2.1	2.1	1.1
Q3	3.8	3.9	3.2	5.7	-0.6	3.5	0.1
Japan							
2004	2.7	1.5	2.7	1.6	0.2	1.9	0.8
2005							
H1	4.0	2.9	2.4	5.3	0.7	4.0	0.1
Q1	6.3	5.0	2.8	7.1	1.3	6.5	..
Q2	3.3	2.7	1.3	6.4	-0.6	2.7	0.7
Q3	1.7	1.4	1.2	3.7	0.2	2.1	-0.2
Euro area							
2004	2.1	1.5	1.1	1.9	0.4	2.0	0.1
2005							
H1	1.2	1.2	1.0	0.5	..	1.0	0.2
Q1	1.5	0.5	1.5	-0.6	-0.3	0.1	1.4
Q2	1.2	0.5	1.7	2.0	0.6	1.7	-0.5
Q3	2.6						
United Kingdom							
2004	3.2	3.6	2.6	4.9	0.1	3.7	-0.7
2005							
H1	1.5	1.3	1.8	1.6	-0.4	1.1	0.4
Q1	1.0	0.6	2.2	-0.2	0.1	0.8	0.2
Q2	2.0	1.4	2.0	3.9	-2.3	-0.3	2.2
Q3	1.6						
Canada							
2004	2.9	3.4	2.7	6.6	..	3.9	-1.0
2005							
H1	2.4	4.9	3.1	6.7	-1.2	4.9	-1.7
Q1	2.1	6.7	3.6	7.5	-2.5	6.2	-2.1
Q2	3.2	2.4	3.1	4.2	-1.4	2.9	1.8
Q3							

Sources: National statistics and Eurostat.

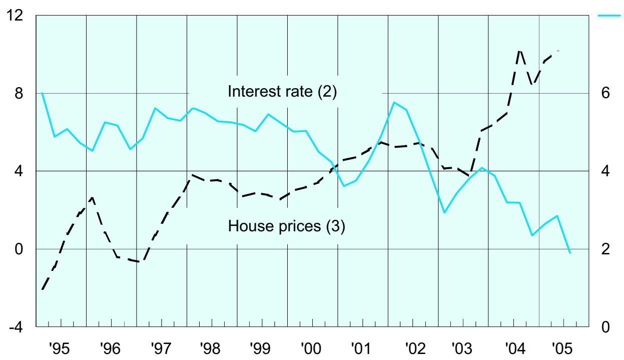
(1) Comprises consumption of resident households and non-profit institutions serving households. – (2) For the United States, private investment; public investment is included under "government consumption". – (3) Contribution to GDP growth with respect to the previous period, at an annual rate, in percentage points. For the United States, calculated following the methodology of the Bureau of Economic Analysis. For the United Kingdom and Canada, our estimates. – (4) Includes statistical discrepancies and, for the euro area and the United Kingdom, also includes changes in valuables. – (5) Goods and services.

from 118 to 120 per cent were offset by the increase in the value of real-estate assets (from 199 to 208 per cent) in conjunction with rising house prices (Figure 3), which were up 10.2 per cent year-on-year in the second quarter, net of the change in consumer prices (Figure 4). Since the middle of 2003 property values have risen sharply, partly owing to the decline in real long-term interest rates.

Figure 4

United States: real house prices and interest rates on mortgage loans (1)

(quarterly data; percentages)



Sources: Based on data from Thomson Financial Datastream and Office of Federal Housing Enterprise Oversight.

(1) Deflated using 12-month changes in the consumer price index. – (2) Right-hand scale. – (3) Twelve-month rates of increase on the year-earlier quarter; left-hand scale.

In the first six months of this year mortgage refinancing amounted to $590 billion, which is less than during the peak levels of 2002-2003 but significantly higher than the six-month average in 1991-2000 ($165 billion). The value of new mortgage contracts rose to $800 billion compared with $670 billion in the first half of 2004; recourse to innovative repayment methods designed to reduce the burden of debt service in the early years increased significantly, putting borrowers at risk of much higher payments in the future in the event of an interest rate rise. The size of the balance sheets of the two federal agencies specialized in mortgage securitization (Fannie Mae and Freddie Mac) and the discovery of irregularities in their accounts prompted Congress to begin a reform of the sector with a view to devising the best arrangement for supervision.

Non-farm payroll employment continued to grow at the rapid pace registered in the second half of 2004, rising on average by 161,000 a month between January and October. Almost all of the gain came in the service sector. In manufacturing, on the other hand, job losses continued at an average rate of 9,000 a month. In construction the number of jobs continued to rise: the increase since the beginning of the expansionary phase in November 2001 amounts to 1 million, accounting for more than a third of the total increase in non-farm sector employment (Table 2).

In the first half of the year wages, which had risen steeply since the middle of 2004, increased by 6.3 per cent on an annual basis, the same as in the previous period, while productivity gained 2.7 per cent, accelerating to 4.1 per cent in the third quarter. Together with the rise in energy prices, the increase in unit labour costs in the first nine months caused pressures on the prices of final goods to sharpen significantly, although so far they have been buffered by particularly wide profit margins.

The expansion in non-residential fixed investment continued through the first half of the year at an annualized rate of 7.6 per cent; in the high-technology goods sector the increase was 16 per cent. Residential investment, which had slowed in the second half of 2004, picked up to growth of 7.8 per cent. In the third quarter the growth in fixed investment, which was still concentrated in the information technology sector, lost impetus, falling to an annualized rate of 5.7 per cent. Capital formation was sustained by profits, with those of non-financial firms up by 21.4 per cent in the first half of the year over the year-earlier period.

In the first half of 2005 the growth in the volume of US foreign trade in goods and services was better balanced than in the second half of 2004: exports accelerated slightly, from 6.2 to 8.2 per cent, while imports slowed from 8.7 to 6.4 per cent. However, owing to the higher cost of imported energy and the large gap between aggregate goods imports and exports by value (exports covering only 70 per cent of imports) the deficit in the US balance of payments on current account widened to $394 billion, equal to 6.4 per cent of GDP compared with 4.2 per cent in 2000.

There continued to be no difficulty financing the deficit. In the first eight months of 2005 non-residents' net purchases of long-term US securities rose somewhat (6 per cent) with respect to a year earlier. Private sector purchases rose by 30 per cent, to $572 billion, while those of foreign monetary authorities fell by 54 per cent to $81 billion. The decline in the accumulation of foreign reserves by the Asian central banks reflected the dollar's appreciation, which was associated with reduced intervention on the foreign exchange market.

In the fiscal year ending in September the federal deficit diminished for the first time since 2001, falling from $413 billion to $319 billion and from 3.6 to 2.6 per cent of GDP. The deficit was less than had been projected in the spring (3.2 per cent of GDP) and reflected a higher-than-expected increase in revenues from corporate taxation while expenditure growth accelerated from 6.1 to 8 per cent, driven by the health and defence sectors. General government net borrowing also contracted, to 3.8 per cent of GDP in the first nine months of 2005 from 4.8 per cent a year earlier. According to IMF estimates, however, the reduction in the structural component of the deficit was only 0.3 percentage points. In September the total federal debt increased to 64.7 per cent of GDP (from 63.7 per cent a year earlier) and the share placed on the market rose to 37.7 per cent (from 37.2 per cent).

In July the Administration forecast that in fiscal 2006, beginning in October, the deficit would be the same proportion of GDP as in 2005. Taking into account the funds to be disbursed during fiscal 2006 for reconstruction in the hurricane areas (which the Congressional Budget Office estimates will amount to some $30 billion, about half the emergency appropriations to date), the deficit is expected to show a small increase.

The report on the reform of the federal tax system, which the Administration had commissioned from a committee of experts, was published on 1 November. The aim is to simplify the system to achieve greater equity and foster economic growth without sacrificing aggregate revenue.

The rise in the cost of energy caused consumer price inflation to increase from a twelve-month rate of 3 per cent in January to 4.7 per cent in September, while core inflation, which excludes food and energy products, held steady at around 2 per cent.

Table 2

Employment growth in construction and related activities

(thousands of persons; absolute changes and as a percentage of the overall change in the non-farm private sector)

	Nov. 2001 - Oct. 2005	Nov. 2001 - May 2003	May 2003 - Oct. 2005
Construction and related activities (1)	1,013.8	-61.6	1,075.4
	38.4	*4.7*	*27.3*
of which: building	528.0	-88.0	616.0
	20.0	*6.8*	*15.6*
real-estate	131.3	16.1	115.2
	5.0	*-1.2*	*2.9*
Including ancillary banking services	1,332.0	100.5	1,231.5
	50.4	*-7.7*	*31.2*
Including ancillary insurance and banking services	1,358.0	134.2	1,223.8
	51.4	*-10.3*	*31.0*
Memorandum item:			
Change in employment in the non-farm private sector	2,643.0	-1,299.0	3,942.0

Source: Bureau of Labor Statistics.

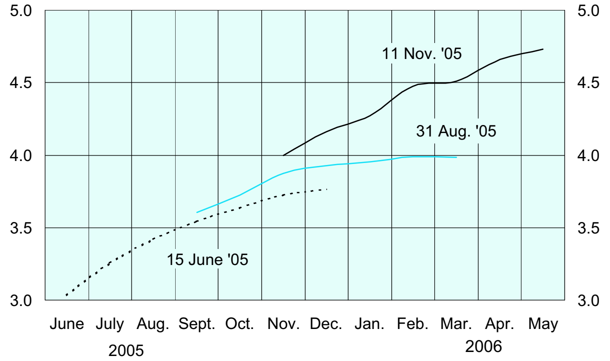
(1) Construction, real-estate, sale of furniture and household articles, sale of building materials and garden equipment and furniture, architects and engineers, other services for buildings.

In 2005 the Federal Reserve raised the target for the federal funds rate on seven occasions, for a total of 1.75 percentage points, bringing it to 4 per cent. The US central bank considers that the risks for price stability and those for lasting and sustained economic growth remain balanced. The prices of futures contracts on federal funds indicate that the markets expect reference rates to be raised by a further 0.25 percentage points at the next Federal Open Market Committee meeting in December and again at the end of January 2006 (Figure 5).

Figure 5

United States: forward interest rates implied by futures on 30-day federal funds at various dates (1)

(percentages)



Source: Thomson Financial Datastream.

(1) Each curve relates to the contract date indicated. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer.

Developments in US financial markets

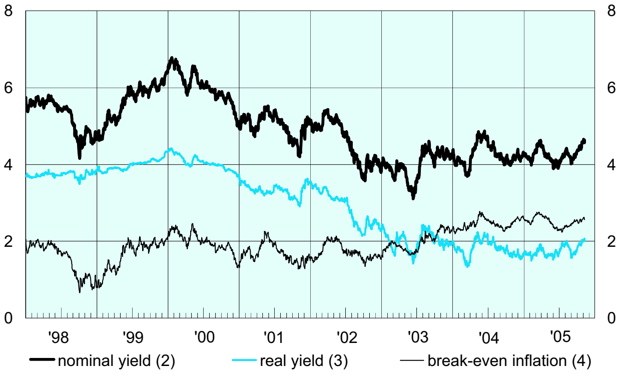
The tightening of monetary conditions was not passed on to long-term yields. The interest rate on ten-year Treasury bonds remained close to the average of just over 4 per cent recorded in the fourth quarter of 2004, partly thanks to persistently low expectations of inflation. By 10 November 2005 it had risen to 4.6 per cent (Figure 6). During the year real interest rates on ten-year bonds stood at around 2 per cent, unchanged since 2003.

The risk premiums on private bonds fell to record lows at the beginning of 2005 before rising between mid-March and mid-May as the situation in the automobile industry worsened and some leading manufacturers had their credit rating reduced. The increases were partially reabsorbed later.

Figure 6

United States: nominal and real yields on 10-year Treasury bonds and break-even inflation (1)

(daily data; percentages)



Source: Thomson Financial Datastream.

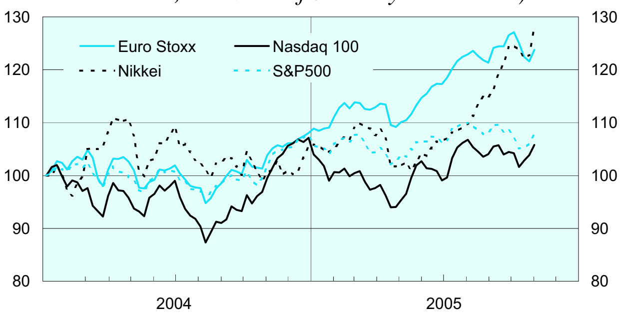
(1) The last data available are for 11 November 2005. – (2) Yield on 10-year benchmark Treasury bonds. – (3) Yields on inflation-indexed Treasury securities with residual maturity closest to 10 years. – (4) Difference between nominal and real yield.

The main US stock exchange indices have remained virtually unchanged since the end of 2004 (Figure 7), sustained by the improvement in firms' current and expected profits. Accrued profits were used to buy back own shares and distribute large dividends.

Figure 7

Stock market indices in the United States, the euro area and Japan (1)

(average weekly data; indices, 1st week of January 2004=100)



Source: Thomson Financial Datastream.

(1) The last available data are for the week ending 11 November 2005.

The price/earnings ratio, which has fluctuated downwards since 2000, declined further. In the second week of November it stood at 17:1, close to the average for 1995-1996 when share prices began to accelerate.

The dollar, which had reached a record low at the end of 2004, gained 16.4 per cent against the euro in

New indicators of price competitiveness for Italy and the leading industrial and emerging countries

In recent years the expansion in world trade has concerned both the industrial and, to an even greater extent, the non-industrial countries. As a consequence the Bank of Italy has decided to extend the geographical coverage of its monthly indicators of international competitiveness based on the producer prices of manufactures,[1] raising the number of countries from 25 to 62.

Whereas previous indicators measured competitiveness in relation to advanced economies, the new indicators also take account of competition from the main non-industrial countries. On the basis of international flows of goods and services in 2003, the 62 countries covered by the new indices represent 93 per cent of world trade, compared with 71 per cent for the 25 countries previously considered.

Weights were attributed to each country using a double-weighting system, which takes account of the competition exporters face in each market from all producers, whether local or otherwise. From 1980 to 1992 the weights are calculated on the basis of trade flows in the three years 1989-1991; for the following period the reference years are 1999-2001.

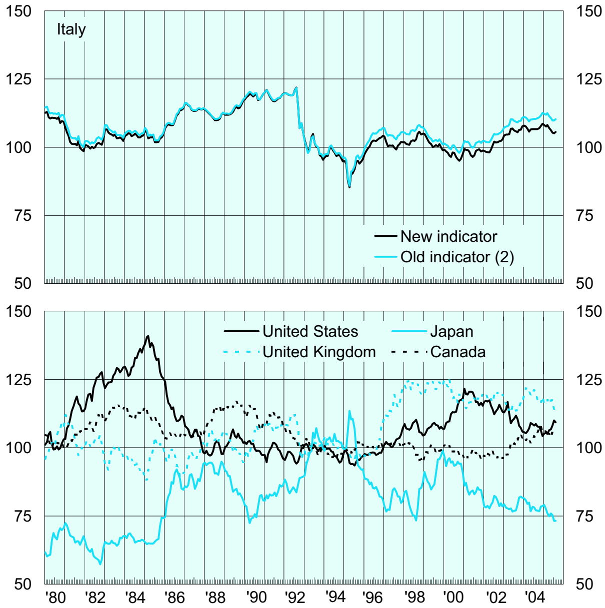
Use of the new indicators begins in this issue of the Economic Bulletin (Table a8). For a detailed description of the methodology and data the reader is referred to the note "Un nuovo indicatore di competitività per l'Italia e per i principali paesi industriali ed emergenti" in the series Supplementi al Bollettino Statistico – Note metodologiche .

According to the new indicator Italy's first four competitors remain, in order, Germany, France, the United States and the United Kingdom, whose aggregate weight is 46 per cent. Among the non-industrial countries China leads at 3.3 per cent, while the Asian economies total 9.8 per cent, the central and eastern European countries 8 per cent and Latin America just 2 per cent.

Figure 1

Indicators of price competitiveness of selected industrial countries (1)

(monthly data; indices, 1993=100)



Source: Bank of Italy calculations.

(1) Calculated with respect to 61 countries on the basis of the producer prices of manufactures. An increase indicates a loss of competitiveness. – (2) Calculated with respect to 24 countries.

In the case of Italy, the new indicator records a 5.6 per cent loss of competitiveness between 1993 and August 2005, which is less than that calculated with the old indicator (10.2 per cent; Figure 1). The difference can be attributed to two contrasting trends affecting the newly introduced countries. During the period in question

2005 and 15.2 per cent against the yen (Figure 8). The recovery occurred mainly between March and June thanks to the robust growth of the US economy in contrast with weaker performances elsewhere, principally the euro area. After appreciating further at the beginning of November, on the 10th of the month the dollar stood at $1.17 against the euro and ¥118.

With the dollar generally stable against the currencies of the United States' main emerging-economy trading partners, in 2005 the nominal and real effective exchange rates appreciated by only 3.6 and 4.9 per cent respectively (see box).

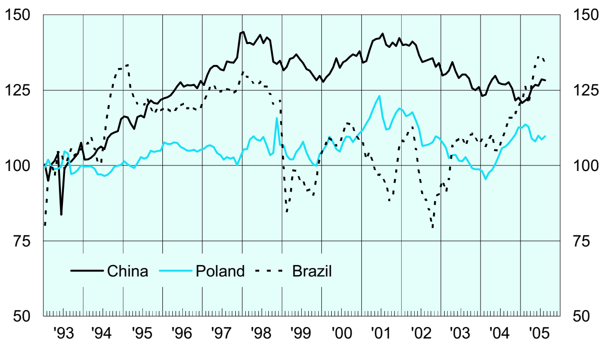
The central banks of many Asian economies continued to accumulate dollars, although at a slower pace than before. In the first half of 2005 the aggregate

Italy's competitiveness actually improved with respect to the main central and eastern European countries and, up to February 2002, even with respect to China. This more than offset the loss of competitiveness against the other emerging economies of Asia following the crisis of 1997. Italy's overall competitiveness began to deteriorate more rapidly in February 2002 in conjunction with the depreciation of the dollar; in this period it lost out considerably to China and Hong Kong.

Figure 2

Indicators of price competitiveness of selected emerging countries (1)

(monthly data; indices, 1993=100)



Source: Bank of Italy calculations.

(1) Calculated with respect to 61 countries on the basis of the producer prices of manufactures. An increase indicates a loss of competitiveness.

According to the new indicators, between May 1995 and February 2002 the competitiveness of the United States declined by 26 per cent, although about a third of this was recovered in the following period thanks to the depreciation of the dollar (Figure 1). The indicator for Japan shows a 26 per cent gain in competitiveness since the beginning of 2000, mainly due to the very slow rate of increase in prices.

China's main competitors in 1999-2001 were Japan and the United States, which accounted respectively for 18.7 and 16 per cent of trade flows; South Korea, Hong Kong and Taiwan together accounted for 26.4 per cent. Among the European countries, Germany represented 6.2 per cent and Italy just 2.3 per cent, slightly below France (2.8 per cent) and the United Kingdom (2.5 per cent). Between January 1993 and February 2002 China's competitiveness declined by 40 per cent as the nominal effective exchange rate of the renminbi appreciated by more than 20 per cent and relative prices rose by 15 per cent (Figure 2). Since the beginning of 2002, after the devaluation of the renminbi, which is pegged to the dollar, China's competitiveness improved sharply, recovering almost a third of the earlier loss.

The main competitors of Brazil (Italy's leading trade partner in Latin America) are the United States, which accounts for 30 per cent of its trade, Germany (8.5 per cent), Argentina (8.3 per cent) and Japan (6 per cent). Over the last decade the country's competitiveness has fluctuated considerably owing to the instability of the currency (Figure 2). Since October 2002, when the real reached a record low against the dollar owing to uncertainties about the outcome of the elections, Brazil's loss of competitiveness has amounted to nearly 70 per cent, ascribable partly to the 44 per cent strengthening of the nominal effective exchange rate of the real and partly to the 18 per cent increase in relative prices.

[1] The indicator of a country's international price competitiveness is based on the ratio between a price index of that country expressed in a given currency and the weighted average of the corresponding indices, expressed in the same currency, of its main international competitors; the weights reflect the importance of the individual competitor countries in all the outlet markets in the index, including that of the country considered.

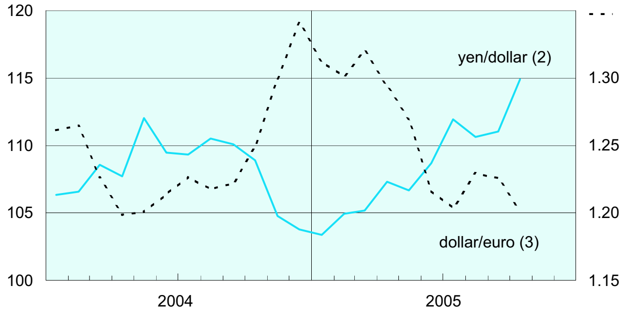
foreign reserves of the emerging economies of Asia rose by over $130 billion to $1.7 trillion, compared with an increase of about $230 billion in the second half of 2004. A large part ($100 billion) can be ascribed to China, whose foreign reserves rose to $715 billion. In the first half of 2005 the rise in oil prices pushed up the foreign reserves of the oil exporting countries by $46 billion to $431 billion.

The Japanese economy and financial markets

After stagnating for three quarters, economic activity in Japan accelerated sharply at the beginning of 2005, growing at annualized rates of 6.3 per cent in the first quarter and 3.3 per cent in the second before slowing to 1.7 per cent in the third quarter (Table 1). The expansion was fuelled by consumption and investment. In the spring exports resumed rapid growth, particularly in the automobile sector.

Figure 8

Bilateral exchange rates of leading currencies (1)
(monthly averages)



Source: ECB.

(1) Units of the first currency per unit of the second. – (2) Left-hand scale. – (3) Right-hand scale.

Household consumption, which had declined in the fourth quarter of 2004 owing partly to natural disasters, accelerated sharply, especially in the early part of the year, rising by 5 per cent in the first quarter and 2.7 per cent in the second, driven by the improvement in the labour market.

During the first nine months employment, which had remained stationary in 2004, increased by 860,000; for the first time in seven years there was a significant gain (0.8 per cent over the year-earlier period) in full-time jobs, which are more stable and better paid. This helped to reverse the downward tendency of nominal wages, which increased on average by 0.8 per cent in the first eight months of 2005 compared with the same period of 2004.

Corporate profitability fostered an upturn in investment, which had slowed to a halt in the second half of 2004. Private non-residential investment growth accelerated to 12.5 per cent on an annual basis in the first quarter and 14.3 per cent in the second, more than compensating for the decline in residential and public investment. The Tankan survey for September recorded an improvement in the climate of confidence among firms and in the propensity to expand investment.

Despite the strengthening of demand and the rise in the cost of energy the index of consumer prices continued to decline, dropping by 0.3 per cent in the twelve months to September (0.1 per cent excluding fresh food products). However, the fall in prices probably reflected factors mainly of a transitory nature, such as the reduction in electricity and telephone charges.

The Bank of Japan confirmed that it would maintain its policy of increasing the supply of liquidity, with short-term interest rates close to zero, until consumer prices began to move consistently upwards. According to the central bank's projections, this should occur by March 2006.

The recovery of economic activity led to a sharp rise in share prices. Since April the Nikkei index has gained 21 per cent (Figure 7); the index for the banking sector, which benefited from an improvement in the leading banks' balance sheets, rose even more sharply, by 50 per cent. Yields on government bonds remained low, fluctuating between 1.1 and 1.6 per cent from the beginning of 2005.

According to financial reports data for the second half of the fiscal year ending in March this year, published in May, the bad debt ratio of the largest banks was 2.9 per cent, down from 4.7 per cent in September 2004. This more than achieved the target set by the Financial Services Agency (FSA) in autumn 2002 of halving the ratio recorded in March that year (8.6 per cent) by March 2005. Lending to the private sector, excluding the disposal of non-performing loans, increased in the twelve months to August 2005 for the first time since the aggregate was first calculated in October 1998; in October the increase was 0.9 per cent.

According to the IMF, in 2005 the budget deficit will narrow to 6.7 per cent of GDP, 0.5 percentage points less than in 2004; on a cyclically adjusted basis the improvement is only 0.2 percentage points. The public sector debt is expected to amount to 174 per cent of GDP at the end of this year, compared with 169 per cent in 2004.

In the middle of October the law privatizing the postal system was passed. The sector accounts for a huge share of deposits and life insurance business, totalling ¥386 trillion or almost 80 per cent of GDP.

The main emerging economies and financial markets

Economic activity in the emerging countries continued to expand at a rapid pace in the first half of 2005. While growth was faster than expected in China and India, in the early months of the year the other main Asian economies continued to experience the effects of cyclical weakness in the ICT sector. Government subsidies for energy consumption, which were sometimes considerable, softened the impact of the rise in oil prices. The exporters of energy and other raw materials benefited from a further improvement in the terms of trade. In the main new EU member states economic growth slowed in response to the sluggishness of demand in the euro area.

In China output increased in the first nine months of the year by 9.4 per cent on a year earlier, as it had in 2004 (Table 3). The slowdown in investment growth following last year's administrative credit restriction was offset by the increased contribution of foreign trade. The sharp slowdown in import growth due to weaker investment and the still buoyant performance of exports caused the trade surplus to soar from $4 billion to over $68 billion in the first three quarters. Inward foreign direct investment exceeded $130 billion, 22 per cent higher than in the same period of 2004. Inflation fell to 0.9 per cent in September from more than 5 per cent a year earlier, mainly reflecting the sharp slowdown in food prices.

In the first nine months of the year total exports expanded by 31 per cent on the year-earlier period, those of footwear and clothing by 23 per cent. The increase in China's share of the industrial countries' imports of these products, partly at the expense of the developing countries, was fostered by the abolition of the WTO quotas in January 2005 (see the box "Italian foreign trade in textiles and clothing after liberalization"). In June the EU signed an agreement

Table 3

Economic indicators for selected emerging countries

(at constant prices; percentage change on year-earlier period, except as indicated)

	% of world GDP in 2003 (1)	GDP					Domestic demand (2)				Net exports (3)			
		2004	2004 Q4	2005 Q1	2005 Q2	2005 Q3	2004	2004 Q4	2005 Q1	2005 Q2	2004	2004 Q4	2005 Q1	2005 Q2
Latin America														
Argentina	0.9	9.0	9.3	8.0	10.1	….	11.8	10.1	7.6	11.0	-2.1	-0.5	0.7	-0.5
Brazil	2.6	5.0	4.8	2.7	3.9	….	4.2	….	….	….	0.1	….	….	….
Mexico	1.8	4.4	4.9	2.4	3.1	….	4.1	5.6	3.6	4.2	0.2	-0.9	-1.1	-1.2
Asia														
China	13.2	9.5	9.5	9.4	9.5	9.4	….	….	….	….	….	….	….	….
India (4)	5.9	7.2	6.4	7.0	8.1	….	8.4	….	….	….	0.6	….	….	….
Indonesia	1.4	5.1	6.7	6.2	5.5	5.7	9.8	10.2	6.4	6.4	-3.6	-2.5	0.2	-0.3
Malaysia	0.5	7.1	5.8	5.8	4.1	….	10.8	8.4	3.3	2.6	-2.5	-1.9	2.9	1.6
Philippines	0.7	6.0	5.3	4.6	4.8	….	2.9	3.5	1.0	4.6	2.9	1.4	3.4	-0.3
South Korea	1.9	4.6	3.3	2.7	3.3	4.4	1.3	3.3	1.2	3.1	3.4	0.2	1.6	0.5
Taiwan	1.1	5.7	3.3	2.5	3.0	….	6.4	7.3	3.1	3.9	0.0	-3.2	-0.3	-0.4
Thailand	0.9	6.1	5.3	3.3	4.4	….	8.4	4.5	10.2	12.0	-1.1	1.5	-5.6	-6.3
Europa														
Poland	0.9	5.3	4.0	2.1	2.8	….	4.4	….	….	….	0.4	….	….	….
Russia	2.6	7.2	6.4	5.2	6.1	….	9.5	8.7	7.4	9.2	-1.2	-1.4	-1.2	-2.1
Turkey	1.0	9.0	6.2	4.8	4.2	….	14.1	8.5	4.4	6.4	-4.9	-2.2	0.0	-2.8

Sources: National statistics and IMF.

(1) On the basis of purchasing power parities. – (2) Includes change in stocks and statistical discrepancies. – (3) Contribution to GDP growth in relation to the same period of the previous year in percentage points. Includes goods and services. – (4) GDP at factor cost.

with China to reintroduce, until the end of 2007, strict limits on the increase in imports of ten categories of Chinese textile and clothing products. In November the United States and China also agreed on a curb on imports of thirty-four categories of these products over the next three years.

In July the Chinese monetary authorities decided to revalue the renminbi's central parity with the dollar by 2.1 per cent and to amend the existing exchange arrangements, loosening the peg to the dollar. After China's move the Malaysian central bank also ceased to peg the ringgit to the dollar.

In the middle of October China's political authorities drew up a "Five-Year Plan for the National Economy and Social Growth" covering the period 2006 to 2010. Apart from improving general living conditions the plan aims to reduce the growing incomes inequality, strengthen the social security system and improve energy efficiency.

In Russia economic growth slowed in the first half of 2005, to 5.7 per cent year on year, compared with over 7 per cent in 2004; this result can be ascribed to weakening investment and to sluggishness in the oil sector. Inflation, which was fueled by the rise in private consumption and public spending, was again far above the official target of 8.5 per cent and in October reached a twelve-month rate of 11.7 per cent. The federal budget surplus benefited from revenue linked to energy exports, rising to 7.7 per cent of GDP in the first nine months of the year, compared with 4.9 per cent in 2004.

Table 4

Gross public and private bond issues in the emerging countries

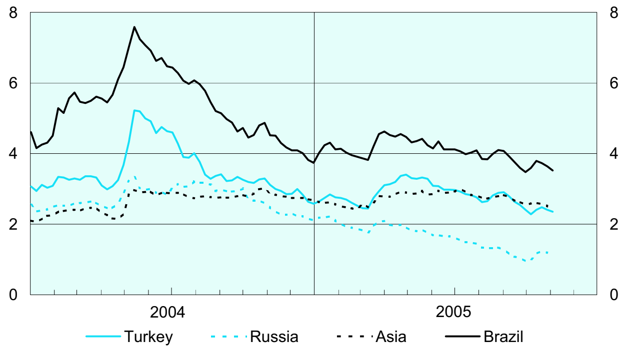
(billions of dollars)

	2000	2001	2002	2003	2004	2004		2005
						H1	H2	H1
EMERGING COUNTRIES	**80.5**	**89.0**	**61.6**	**98.8**	**128.1**	**61.8**	**66.3**	**56.1**
Africa	**1.5**	**2.1**	**2.2**	**5.5**	**2.5**	**2.3**	**0.2**	**1.9**
South Africa	1.5	1.6	1.5	4.7	2.0	1.8	0.2	1.4
Latin America	**35.6**	**33.6**	**18.3**	**31.2**	**33.4**	**17.8**	**15.6**	**18.8**
Argentina	13.0	1.5	....	0.1	1.1	1.0	0.1	0.2
Brazil	11.4	12.2	6.4	10.7	9.5	4.4	5.1	6.1
Mexico	7.1	9.2	4.9	9.1	11.4	7.3	4.1	6.6
Venezuela	0.5	1.6	....	3.7	4.3	2.0	2.3	2.9
Asia	**24.5**	**35.9**	**22.5**	**35.8**	**52.4**	**25.8**	**26.6**	**21.6**
China	1.8	2.3	0.6	2.0	4.6	0.1	4.5	1.2
Hong Kong	7.1	10.5	2.0	2.6	4.2	1.1	3.1	3.4
Indonesia	....	0.1	0.4	0.6	1.4	1.4	..	1.0
Philippines	2.5	1.8	4.8	3.8	4.5	2.8	1.7	2.6
South Korea	7.7	7.8	6.7	11.5	17.0	9.3	7.7	8.4
Taiwan	1.7	2.2	5.5	9.1	7.3	5.1	2.2	0.8
Europa	**14.2**	**11.6**	**15.0**	**24.4**	**30.8**	**10.5**	**20.3**	**9.7**
Czech Republic	....	0.1	0.4	3.2	1.0	0.3	0.7	0.2
Hungary	0.5	1.2	0.1	2.2	1.5	0.8	0.7	0.8
Poland	1.6	2.8	2.7	4.3	0.5	0.5	..	0.3
Romania	0.3	0.9	1.1	0.8	0.8	0.5	0.3	0.6
Russia	0.1	1.4	3.4	4.0	12.9	4.7	8.2	4.5
Turkey	8.5	2.2	3.3	5.3	7.6	0.9	6.7	1.0
Middle East	**4.7**	**5.9**	**3.7**	**1.9**	**9.0**	**5.5**	**3.5**	**4.1**

Source: IMF

Figure 9

Yield differentials between long-term dollar-denominated bonds issued by selected emerging countries and 10-year US Treasury bonds (1)
(average weekly data; percentage points)



Source: J.P. Morgan Chase.
(1) The last available data refer to the week ending 11 November 2005.

Since the beginning of April the interest rate differential with respect to US Treasury bonds has fallen by about 1 percentage point in Brazil and Russia, to 3.5 and 1.1 points respectively; in Turkey by 0.8 points to 2.3 points and in the main Asian economies by 0.4 to 2.4 points (Figure 9).

The protraction of favourable financial conditions prompted many emerging countries to restructure their debt: they hoped not only to reduce its cost but also to lengthen its residual life and limit the exchange rate risk by augmenting issues in domestic currency.

In the first half of 2005 the emerging economies' gross public and private issues in both dollars and local currency were valued at an aggregate $56 billion, similar to the figure for the same period of 2004 (Table 4). The largest issues were made by South Korea (about $8 billion), Brazil and Mexico (around $6 billion each) and Russia (roughly $4.5 billion). China, South Korea and Brazil considerably stepped up their international issues of debt securities denominated in local currency; in the first half of 2005 these were equivalent to about $3.3 billion, still low in absolute terms but about twice the figure for the whole of 2004.

ECONOMIC DEVELOPMENTS IN THE EURO AREA AND ITALY

Production, demand and the balance of payments

The first half of 2005 saw a modest expansion of the euro-area economy. Growth was faster in France and Spain, moderate in Germany, and negative in Italy.

The trends under way for several years in the main euro-area countries persisted. In Germany growth is driven by exports, while domestic demand is stagnant. In France and Spain, by contrast, the stimulus comes from household consumption and the other components of domestic demand, while exports are outweighed by substantial flows of imports (Figure 10).

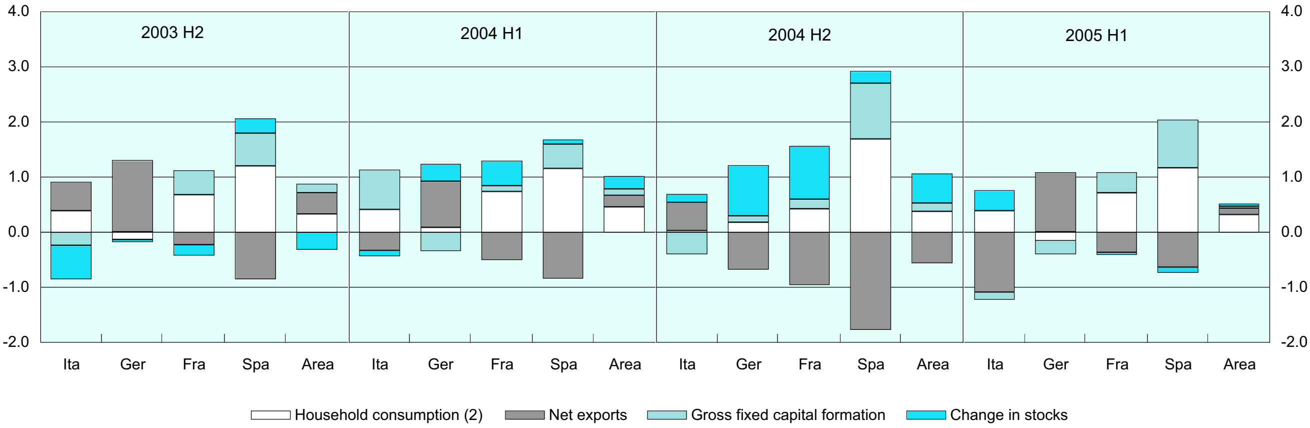
In the most recent months the available data point to an improvement in the economic situation in the euro area. In September the EuroCOIN coincident economic indicator registered its third consecutive increase (Figure 11), and since the summer the industrial cycle turning-point indicators of the three largest euro-area countries have signaled an upturn in production. The surveys of economic conditions coordinated by the European Commission also reflect an improvement.

In Italy, the contraction in GDP in the fourth quarter of 2004 and first quarter of 2005 was followed by signs of recovery in the spring, mainly in connection with the strong rebound in exports. The expansion in output in the second quarter also drew strength from the internal components of final demand; after declining in the first three months of 2005, industrial production recorded an appreciable gain, its first in more than a year. In the

Figure 10

Contributions of the main components of demand to the growth of GDP in the euro area and the major euro-area countries (1)

(seasonally adjusted at constant prices)



Source: National statistics.

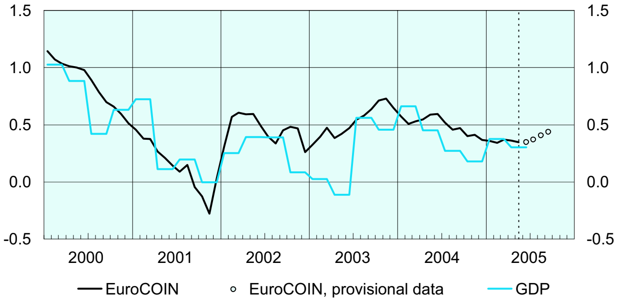
(1) Contributions to growth on the previous half-year; percentage points. Excludes consumption of general government. – (2) Consumption of resident households and non-profit institutions serving households.

third quarter GDP grew more slowly, and in October and November industrial production appears to have stagnated.

Figure 11

EuroCOIN coincident indicator of the euro-area business cycle and GDP (1)

(three-month percentage changes)



(1) The method of constructing the indicator is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2003 in Italian. For each month the change in GDP is the average variation for the relevant quarter.

According to preliminary estimates, in the third quarter GDP grew at an annual rate of 2.6 per cent in the euro area, 2.8 per cent in France, 1.2 per cent in Italy and 2.5 per cent in Germany.

The uncertainties regarding the strength of the expansion related mainly to the imbalances between the economic regions and currency areas of the world and to the high price of oil.

Production and demand in the euro area

In the first half of 2005 euro-area GDP expanded at a moderate annual rate of 1.2 per cent, as in the previous six months. In Germany growth amounted to 1.3 per cent, benefiting from the positive contribution of foreign trade, which was favoured by gains in price competitiveness; domestic demand, particularly consumption, was weak. In France and Spain growth, fueled by domestic demand, again outpaced the area average at 1.3 and 3.7 per cent respectively (Table 5). In all the major euro-area countries except Italy, GDP growth slowed in the second quarter with respect to the first.

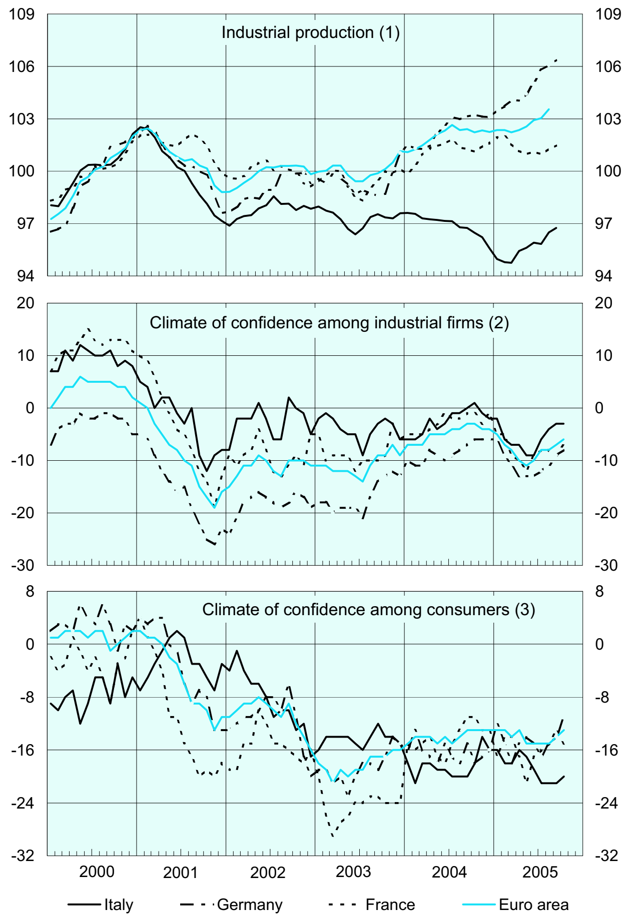
For the third quarter, preliminary data confirm the signs of improvement shown by the indicators and survey data available. The EuroCOIN cyclical indicator, which had been flat since the beginning of the year, rose over the summer, approaching its average long-term levels.

Similar signs also come from the IFO index, for the German economy, and the European Commission surveys. The climate of confidence, deteriorating since the second half of 2004, began to improve again in the spring in all the main euro-area countries (Figure 12).

Figure 12

Industrial production and the climate of confidence among firms and consumers in the euro area and selected euro-area countries

(monthly data)



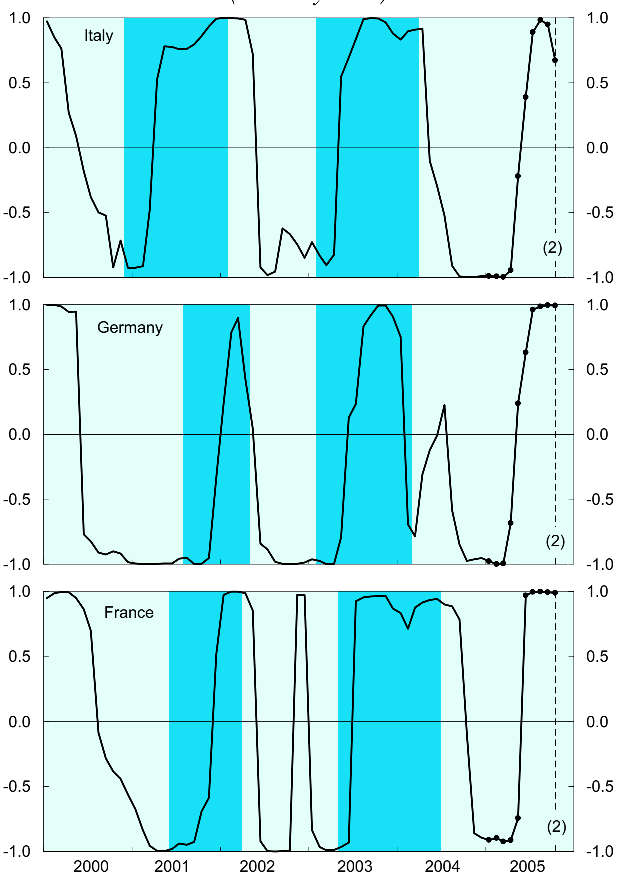
Sources: Based on national statistics and European Commission data.

(1) Index, 2000=100. Moving averages for the three months ending in the reference month. Data adjusted for the different number of working days in the month and seasonally adjusted. – (2) Climate of confidence calculated by the European Commission as the average of the seasonally adjusted percentage balances of the responses to questions regarding the level of orders, stocks of finished products and production expectations. – (3) Climate of confidence calculated by the European Commission as the weighted average of the seasonally adjusted percentage balances of the responses to questions on consumers' expectations regarding the economic situation, their personal financial situation, unemployment and the possibility of saving.

Nevertheless, there are still doubts about the solidity of the recovery. While strengthening, the rates of expansion in industrial production do not yet suggest robust, broad-based growth. In August and September manufacturing output rose by 1 per cent in Italy and 0.9 per cent in France with respect to the previous two months but fell by 0.4 per cent in Germany (Figure 12); preliminary estimates indicate a gain of 1.1 per cent for the euro area as a whole. During the summer the upswing in industrial activity, signaled by the cyclical turning-point indicators, gathered strength in France, Germany and, to a lesser extent, Italy (Figure 13).

Figure 13

Industrial production turning-point indicators (1)
(monthly data)



Source: Based on national statistics.

(1) For the method of construction of the indicators, see the box "Indicatori dei punti di svolta della produzione industriale nell'area dell'euro e nei principali paesi membri", *Bollettino Economico* No. 42, 2004. The indicators are given by the difference between the estimates of the probability of a cyclical expansion and a cyclical recession in industrial production. The shaded areas shows complete expansionary cycles from trough to peak. – (2) Updated to October.

Household consumption. – In January-June 2005 euro-area household consumption grew at an annual rate of 1.2 per cent, compared with 1.4 per cent in second half of 2004. The pace over the six months was uniform.

In Germany consumption contracted in both the first quarter and the second. The real growth in disposable income remained modest (0.2 per cent in the first half with respect to the year-earlier period), and payroll income diminished in real terms. Stagnant employment was accompanied by moderate wage growth. The climate of household confidence was characterized by caution in making spending plans, which was reinforced by the new welfare reforms. The household saving rate continues to rise. Consumption remained weak in the third quarter, according to preliminary estimates.

In France household consumption rose by 2.4 per cent in the first half of the year, although it fell by 0.8 per cent in the second quarter. Real disposable income continued to sustain consumption, with an increase of about 2 per cent over the first half of 2004, fueled essentially by wages and salaries. The household saving rate remained stable, after having diminished partly as a consequence of the tax reliefs and measures to stimulate consumption introduced by the Government in 2003 and 2004.

Some signs of a recovery in consumption emerged during the summer, particularly for manufactures. After hitting a low in May, the climate of household confidence improved rapidly and by September was back to the levels of the start of the year (Figure 12).

In the future the new measures introduced by the Government's emergency employment plan could provide additional support to consumption, thanks to a proposed lengthening of temporary employment contracts and incentives for job creation in the service sector. Flanking these measures is the recent increase in the minimum wage.

Investment. – Capital formation in the euro area was broadly stationary in the first six months of 2005, with a dip in the first quarter and a recovery in the second. It reflected the cyclical weakness in

Table 5

GDP, imports and the main components of demand in the major euro-area countries
(seasonally adjusted at constant prices; percentage changes)

	On the corresponding period							On the previous period, annualized					
	2004			2005				2004		2005			
	Q3	Q4	Year	Q1	Q2	Q3	H1	Q3	Q4	Q1	Q2	Q3	H1
							GDP						
Germany (1)	1.1	0.5	1.6	0.6	0.7	1.4	0.6	- 0.3	- 0.4	2.4	0.9	2.5	1.3
France (1)	1.9	2.1	2.3	1.8	1.1	1.7	1.5	0.4	2.4	1.2	0.4	2.8	1.3
Italy (1)	1.2	0.8	1.2	- 0.3	0.1	..	- 0.1	1.6	- 1.6	- 2.1	2.6	1.2	- 0.8
Spain (1)..................	3.1	3.2	3.1	3.3	3.4	3.5	3.4	2.7	3.7	3.8	3.4	3.1	3.7
Euro area (1)...........	1.9	1.6	2.1	1.3	1.1	1.5	1.2	1.1	0.7	1.5	1.2	2.6	1.2
							Imports						
Germany	8.8	6.6	7.0	4.3	4.6	….	4.5	9.8	2.1	- 2.4	9.5	….	1.6
France	8.0	7.2	6.9	7.5	5.1	….	6.3	8.9	5.0	2.1	4.5	….	3.4
Italy	3.3	2.8	2.5	0.2	3.1	….	1.6	4.7	0.5	-11.1	20.6	….	- 1.0
Spain	10.4	10.2	8.0	5.6	8.0	….	6.8	14.7	7.0	- 7.8	20.4	….	2.4
Euro area	7.9	7.3	6.5	4.9	4.6	….	4.8	10.0	5.6	- 5.6	9.4	….	0.7
							Exports						
Germany	7.2	6.6	9.3	5.8	3.7	….	4.7	- 2.0	1.9	10.3	4.9	….	6.8
France	2.4	2.2	3.1	1.8	1.8	….	1.8	0.8	3.9	- 1.3	3.9	….	1.2
Italy	5.4	1.9	3.2	- 1.3	0.4	….	- 0.4	19.0	-16.7	-17.4	24.1	….	- 8.3
Spain	3.7	2.3	2.7	- 1.9	1.9	….	..	5.6	- 2.9	- 7.3	13.5	….	- 1.4
Euro area	6.4	6.1	6.5	3.8	3.1	….	3.4	5.1	2.0	- 2.1	7.6	….	1.3
							Household consumption (2)						
Germany	- 0.1	1.1	- 0.1	0.1	..	….	0.1	0.2	3.1	- 2.0	- 1.1	….	- 0.5
France	1.6	2.5	2.1	2.4	1.4	….	1.9	- 0.9	4.6	3.0	- 0.8	….	2.4
Italy	0.2	1.2	1.0	0.1	1.2	….	0.7	0.1	1.8	0.3	2.6	….	1.2
Spain	4.7	4.9	4.4	4.8	4.8	….	4.8	6.2	6.6	2.5	3.8	….	3.9
Euro area	1.1	1.9	1.5	1.3	1.3	….	1.3	0.9	3.4	0.5	0.5	….	1.2
							Gross fixed capital formation						
Germany	- 0.7	- 1.7	- 0.2	- 1.0	- 0.5	….	- 0.7	3.7	- 1.6	- 4.7	0.7	….	- 2.6
France	1.4	1.5	2.5	3.5	2.3	….	2.9	- 0.7	5.0	6.1	- 0.8	….	4.1
Italy	2.2	0.9	2.1	- 3.2	- 2.1	….	- 2.7	- 6.0	- 5.3	- 3.1	6.3	….	- 1.4
Spain	5.2	6.1	4.4	7.0	7.5	….	7.2	6.9	13.9	3.7	5.7	….	6.6
Euro area	1.5	1.1	1.9	0.7	1.1	….	0.9	1.8	1.3	- 0.6	2.0	….	0.5
							National demand						
Germany	1.3	0.1	0.4	- 0.1	0.7	….	0.3	4.0	- 0.4	- 2.0	1.3	….	- 0.8
France	3.4	3.5	3.4	3.5	2.2	….	2.9	2.6	3.0	2.5	0.8	….	2.2
Italy	0.6	1.1	1.0	0.2	0.9	….	0.5	- 2.2	4.0	- 0.1	1.9	….	1.4
Spain	5.3	5.8	4.8	5.6	5.4	….	5.5	5.8	6.7	2.8	6.2	….	4.6
Euro area	2.3	1.9	2.0	1.6	1.7	….	1.7	2.8	2.1	0.1	1.7	….	1.0

Source: Based on national statistics.

(1) Interim GDP figures are provisional and not necessarily consistent with the performance of the components. – (2) Comprises consumption of resident households and non-profit institutions serving households.

construction and a fall in investment in machinery and equipment in the first quarter, when both domestic and foreign orders declined. Despite the positive trend of profits and advantageous financing conditions, firms' expectations remained prudent. Spare capacity, which had increased in the second half of 2004 and at the beginning of this year, began to shrink again but remained ample.

In Germany gross fixed investment fell at an annual rate of 2.6 per cent in the first half of the year. This result was connected with the contraction in construction investment, which was affected by the harsh weather of last winter, and the slowdown in spending on machinery and equipment.

For construction, a positive but as yet hesitant sign is offered by the improvement in business sentiment during the year, although this came to a halt in September. For the capital equipment sector, indications of a recovery in demand and orders have emerged since the summer, especially in export markets. According to initial estimates, investment made a positive contribution to the economy's growth in the third quarter, but the existence of ample spare capacity continues to act as a braking factor. Moreover, despite the good export performance, the meagerness of German economic growth in the last four years (0.7 per cent on average) may have instilled a cautious attitude in firms, dissuading them from expanding the base of production.

In France gross fixed investment grew by 4.1 per cent on an annual basis in the first half, showing strength in both the construction and the machinery and equipment sectors. In the latter, however, investment slowed sharply in the second quarter, reflecting the contraction in manufacturing activity and the deterioration, in the early part of the year, in business confidence. Construction investment continued to find support in the lively demand for buildings, buoyed by favourable financing conditions and by incentives for the purchase of houses to rent out. According to INSEE forecasts, residential construction investment will continue to grow in line with last year's rate (above 3 per cent).

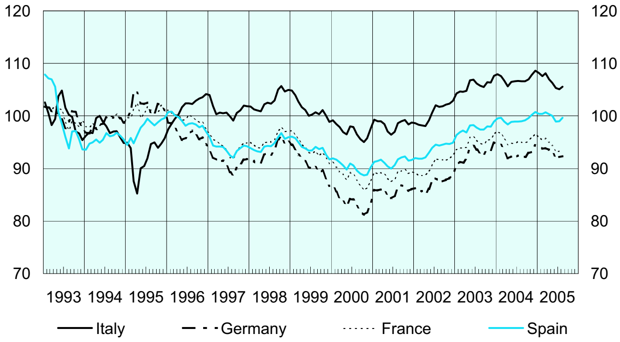
Exports and imports. – Euro-area export growth slowed sharply in the first half of 2005 to an annual rate of 1.3 per cent, down from 5.6 per cent in the previous six months. From the spring onwards exports began to expand strongly again, assisted by the depreciation of the euro and by the acceleration of world demand. Given the slower growth in imports (0.7 per cent), foreign trade made a positive contribution to GDP growth that is estimated at 0.2 percentage points on an annual basis.

As in the last few years, in the first half the growth in German exports (6.8 per cent) contrasted with more modest results for the other major euro-area economies. German exports benefited from the gain in competitiveness (Figure 14), while the persistent weakness of domestic demand limited import growth to 1.6 per cent. The contribution of net exports to GDP growth was 2.2 percentage points in the first half and is likely to have remained positive in the third quarter.

Figure 14

Indicators of competitiveness in the major euro-area countries (1)

(indices, 1993=100)



Source: National statistics.

(1) In relation to all competitor countries, whose number was recently increased (see the box "New indicators of price competitiveness of Italy and the leading industrial and emerging countries" in the preceding chapter). An increase in an index indicates a loss of competitiveness.

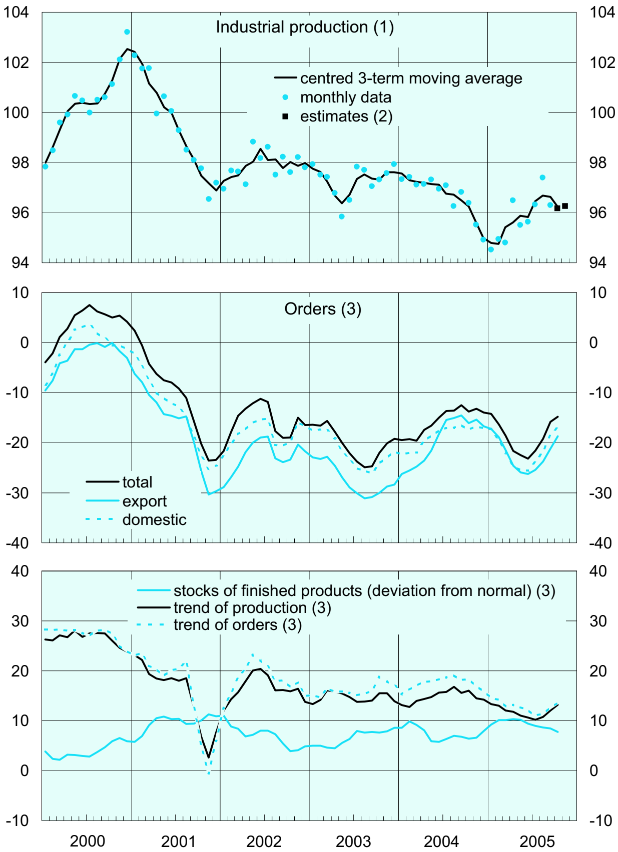
In France output was essentially absorbed by the domestic market; export growth of 1.2 per cent on an annual basis was more than offset by the increase of 3.4 per cent in imports. Consequently, the contribution of net exports to GDP growth was negative (-0.7 percentage points), as in the last three years.

Production and demand in Italy

In Italy GDP fell in the first half of 2005 by 0.8 per cent on an annual basis. Negative contributions came from net exports and, to a lesser extent, investment, while household consumption and stockbuilding provided support. The fall in exports and the weakness of domestic demand were reflected in the drop in value added in industry and agriculture (respectively 1.6 and 3 per cent), set against a broadly stationary figure in services.

Figure 15

Italy: industrial production, orders and stocks
(monthly data)



Sources: Based on Istat and ISAE data.
(1) Index, 2000=100. Data adjusted for the different number of working days in the month and seasonally adjusted. – (2) Based on electricity consumption and ISAE indicators. – (3) Moving averages for the three months ending in the reference month of the difference between the percentage of positive replies ("high", "increasing") and that of negative replies ("low", "decreasing") to ISAE surveys, weighted by size, sector and location of firm. The trend figures refer to the responses for three months ahead. Seasonally adjusted data.

The average data for the half were the result of highly divergent trends during the period. In the fourth quarter of 2004 and the first of 2005 economic activity contracted sharply, by respectively 1.6 and 2.1 per cent on an annual basis. In the second quarter it scored a decided gain (2.6 per cent), sustained by both domestic and foreign demand. In the same quarter the contribution of the change in stocks was negative by around 1.2 percentage points, owing to the continuing caution of firms.

In the third quarter the pace of GDP growth slowed to 1.2 per cent.

The cyclical situation started to improve in the spring, but the recovery has weakened in the past few months. In the second quarter industrial production rose by 1.2 per cent, the first increase in more than a year; in July and August it continued to grow at about the same rates (Figure 15), in line with the positive signals offered by the cyclical turning-point indicator and with the climate of confidence among industrial firms. In the third quarter industrial production rose by 0.9 per cent with respect to the second, although there was a contraction in September; according to estimates based on electricity consumption, in October and November it remained broadly unchanged with respect to September.

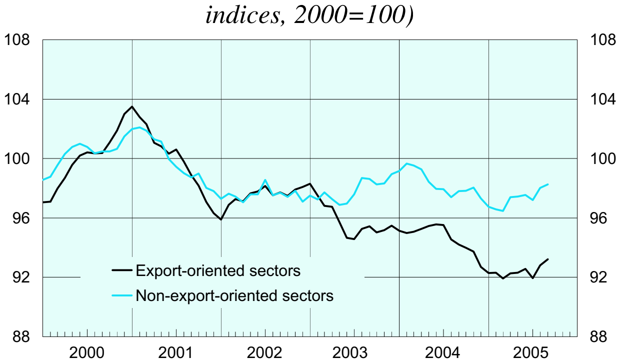
An improving outlook for demand is likely to make firms less cautious about expanding plant capacity and to bolster investment in machinery and equipment after the upturn registered in the second quarter. In addition, the cyclical recovery should help improve productivity, eventually boosting corporate profitability and the competitiveness of the economy.

Italian goods continue to show a scant ability to penetrate foreign markets. After the recovery in exports in the second quarter of the year, the early indications for the third quarter presage no further stimulus to growth from this component of demand. Confirming a pattern now about five years old, between January and July industrial activity in Italy's traditional sectors of product specialization contracted further. The recent trend has even been negative for higher-technology products, though world demand for them is growing faster and they are less exposed to the competition of emerging countries. Overall, the export-oriented sectors are those that have seen production fall most sharply in recent years (Figure 16).

Figure 16

Italy: industrial production

(monthly data; 3-term moving averages; indices, 2000=100)



Sources: Based on Istat and ISAE data.

Household consumption. – In the first half of 2005 household consumption grew by 1.2 per cent on an annual basis, after remaining basically unchanged in the preceding six months. Minuscule growth in the first quarter (0.3 per cent on an annual basis), when a rise in spending on services was offset by a fall in spending on durable and non-durable goods, was followed by a sharp increase in the second (2.6 per cent). In the second quarter the growth in demand for durable goods was especially strong (14.6 per cent) and, according to available data, was concentrated in transport equipment and household goods. It contrasted with a smaller increase of 3.1 per cent in demand for non-durable goods and a decrease of 2.7 per cent for services (Table 6).

During the first six months the growth in households' real disposable income (just over 1.5 per cent with respect to a year earlier) gave support to consumption. The increase, in line with those of recent years, was fostered by the rise in gross earnings (3 per cent at current prices), which reflected both an increase in per capita earnings and a slight rise in employment. An additional contribution to the expansion in disposable income came from the increase in imputed rents. By contrast, negative net interest income curbed households' spending capacity.

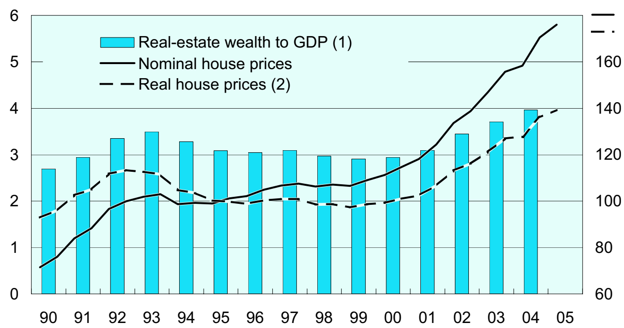
The negative balance on interest income is explained by the steady rise in mortgage loans for the purchase of houses and consumer credit for the purchase of durable goods. Despite their rapid growth, the ratio of these types of loan to both disposable income and GDP is still far below the European average.

In the first part of 2005 Italian households' propensity to save is estimated to have increased again, as in recent years. Following the long-term trend, households' net wealth appears to have grown thanks primarily to the increase in the value of real estate, which accounts for the lion's share (around 60 per cent). In January-June house prices were 9 per cent higher than in the year-earlier period in real terms. Households' total wealth was equal to about 7 times GDP in 2004. Their real-estate wealth alone was 4 times GDP (Figure 17).

Figure 17

Prices of new houses and ratio of households' real-estate wealth to GDP

(half-yearly quotations; indices, 1995=100)



Sources: Based on Bank of Italy, *Consulente Immobiliare* and Istat data.
(1) At current prices, annual data; left-hand scale. – (2) Calculated by deflating nominal house prices with the consumer price index.

After an improvement at the end of last year, the climate of consumer confidence worsened again in the first half of 2005 and then flattened over the summer. In September and October consumer confidence strengthened, with more optimistic responses about both the current situation and the outlook. The other indicators of consumer behaviour transmit discrepant signals: new car registrations, buoyed in part by the introduction of new models, rose in September, extending the positive trend since the start of the year, but retail sales show no appreciable signs of recovery.

Table 6

Italy: resources and uses of income

(seasonally adjusted at constant prices; annualized percentage changes on the previous period, except as indicated)

	As a percentage of GDP in 2004	2004				2005				
		Q3	Q4	H2	Year	Q1	Q2	Q3	H1	H1(1)
Resources										
GDP	–	1.6	-1.6	0.7	1.2	-2.1	2.6	1.2	-0.8	–
Imports of goods and services	28.3	4.7	0.5	4.4	2.5	-11.1	20.6	....	-1.0	0.3
Goods	21.8	2.4	-3.2	4.4	3.2	-17.8	24.4	....	-5.0	1.1
Services	6.5	13.1	14.3	4.4	0.2	14.0	9.3	....	12.9	-0.8
Uses										
Gross fixed capital formation	20.6	-6.0	-5.3	-3.9	2.1	-3.1	6.3	....	-1.4	-0.3
Construction	9.0	4.3	-2.5	2.1	3.1	-5.5	13.1	....	-0.4	..
Machinery, equipment and sundry products	9.2	-11.7	-6.6	-7.3	2.4	-7.5	8.1	....	-3.6	-0.3
Transport equipment	2.3	-19.4	-10.7	-12.4	-2.9	28.0	-22.2	....	3.4	0.1
Consumption of resident households	60.2	0.1	1.8	..	1.0	0.3	2.6	....	1.3	0.8
Non-durable goods	25.9	-4.0	4.0	-1.2	-0.8	-1.1	3.1	....	1.2	0.3
Durable goods	7.7	8.0	-11.6	3.8	8.0	-4.5	14.6	....	-2.0	-0.2
Services	27.3	-0.4	2.3	-0.6	1.3	2.1	-2.7	....	0.9	0.3
Other domestic uses (3)	18.8	-5.3	22.9	2.5	0.1	2.0	-4.6	....	5.0	0.9
Total national demand	99.6	-2.2	4.0	-0.3	1.0	-0.1	1.9	....	1.4	1.4
Exports	28.7	19.1	-16.7	8.1	3.2	-17.4	24.1	....	-8.3	-2.5
Goods	22.9	24.1	-19.7	10.9	3.3	-20.8	29.1	....	-10.2	-2.5
Services	5.8	0.5	-3.6	-2.3	2.8	-2.3	6.6	....	-0.5	..

Source: Based on Istat data.

(1) Contribution to the growth in GDP with respect to the previous period, annualized; in percentage points. – (2) Interim GDP figures are provisional and not necessarily consistent with the performance of the components. – (3) Comprises consumption of general government and non-profit institutions serving households, the change in stocks and valuables, and statistical discrepancies.

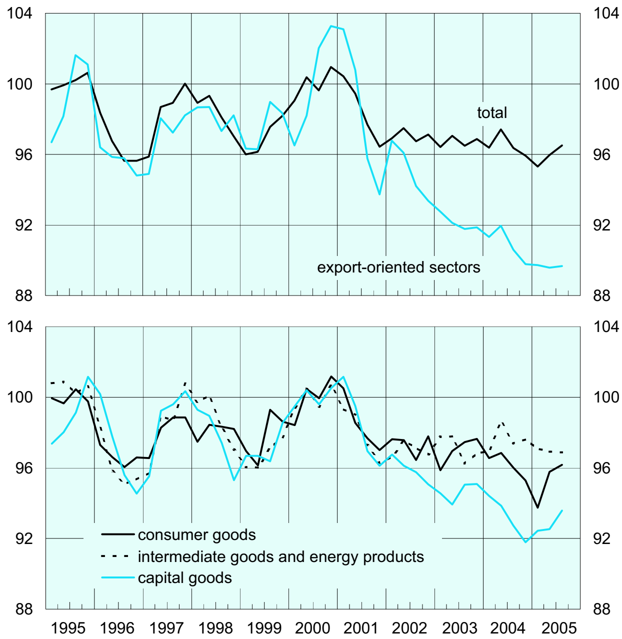
Investment. – In the first six months of 2005 gross fixed investment contracted by 1.4 per cent on an annual basis, following the decline of 3.9 per cent in the second half of 2004. The largest drop was in spending on machinery and equipment; investment in transport equipment actually rose, but only recouped part of the large fall registered in the second half of 2004.

Investment fell in the first quarter of the year and then rose at an annual rate of 6.3 per cent in the second. The growth in spending on machinery and equipment (8.1 per cent) and construction (13.1 per cent) was countered by a renewed, steep decline in purchases of transport equipment, which essentially wiped out the first-quarter gain. The further contraction in profit margins and in the profit share in value added in the first six months of the year weighed on investment decisions. The persistence of ample spare capacity, especially in export industries, is a factor holding back investment, whose future expansion is bound up with a lasting recovery in demand (Figure 18).

The upturn in construction investment in the third quarter, reverting to a long-term trend that had been temporarily interrupted in the previous quarter, was led by residential building, which continued to benefit from strong demand and rising house prices. The sector's resilience was confirmed by the climate of confidence of construction firms surveyed by ISAE, most notably in the residential component.

Figure 18

Composite indicator of capacity utilization in Italian industry (1)
(quarterly data; index, 2000=100)



Sources: Based on Istat and ISAE data.
(1) Arithmetic mean of the Bank of Italy (Wharton) and ISAE indicators.

According to the survey conducted in September by Bank of Italy branches on a sample of industrial and service firms, investment in 2005 will fall slightly short of the amount planned at the end of 2004. This projection mainly reflects developments at medium-sized industrial firms. For 2006 investment is expected to be basically unchanged, albeit with some positive signals primarily from larger firms. At all events, firms are cautiously optimistic about the possibility that economic activity will strengthen in the coming months.

The Bank of Italy branches' survey of construction firms active mainly in the public works sector paints a negative picture for the second half of this year. For public works, a contraction in real terms is expected in 2005. Indications of much more moderate growth than in 2004 are also to be found in the studies performed by the National Builders' Association for the construction sector as a whole.

Exports and imports. – In the first half of the year exports of goods and services at constant prices declined sharply, by 8.3 per cent on an annual basis, with a further fall in Italian exports' market shares. Exports were hurt above all by the weakness of domestic demand in Germany, Italy's leading outlet market, which contrasted with a much more robust world demand. Another negative factor was the lagged effects of the loss of price competitiveness. The decline in exports was concentrated in the first quarter; in the second, in parallel with the appreciation of the dollar against the euro (which led to a 3 per cent gain in Italian price competitiveness over the first half), exports staged a strong recovery, growing by 24.1 per cent on an annual basis. This figure needs to be treated with caution, however, owing to the high volatility of the quarterly time series of exports and imports.

The sluggishness of domestic demand helped to curb imports, which fell by 1 per cent on average in the first six months of 2005. Despite a trade surplus in the second quarter, in the first half of the year net exports reduced the growth in GDP by around 2 percentage points on an annual basis.

In the first seven months Italian exports of goods, at constant prices and not seasonally adjusted, edged downwards by 0.9 per cent from a year earlier (Table 7), while world demand expanded at a rapid pace, albeit more slowly than in the second half of 2004. Italy was outperformed by the exports of the other main euro-area countries.

Exports of goods at constant prices to EU countries fell by 1.4 per cent; export volumes to non-EU countries remained basically stable, declining by 0.1 per cent. In the EU, sales to Spain and France made good progress; among non-EU markets, growth was especially high in sales to Russia, modest in those to the United States. Despite the continuing expansion in Chinese demand, Italian exports to that country, which now takes 1.6 per cent of total Italian exports, showed a worrisome decline of 5.5 per cent.

Table 7

Italian exports and imports *cif-fob* by main countries and areas, January-July 2005: values and indices of average unit values and volumes (1)
(percentage changes on corresponding period of 2004, except as indicated)

	Exports				Imports			
	% composition of values in 2004	Change			% composition of values in 2004	Change		
		Values	Average unit values	Volumes (2)		Values	Average unit values	Volumes (2)
EU countries	**59.8**	**4.2**	**5.7**	**-1.4**	**60.4**	**3.4**	**6.1**	**-2.5**
EU-15	**54.3**	**4.0**	**5.4**	**-1.3**	**56.6**	**2.1**	**5.9**	**-3.6**
of which: France	*12.5*	*7.2*	*5.9*	*1.2*	*11.0*	*0.5*	*5.5*	*-4.7*
Germany	*13.7*	*2.7*	*3.1*	*-0.4*	*18.1*	*2.9*	*5.0*	*-2.1*
United Kingdom	*7.0*	*-0.4*	*3.7*	*-4.1*	*4.3*	*3.9*	*7.1*	*-3.1*
Spain	*7.3*	*10.5*	*7.1*	*3.2*	*4.7*	*0.1*	*6.8*	*-6.2*
New EU countries (3)	**5.5**	**5.0**	**8.5**	**-3.2**	**3.8**	**22.9**	**7.9**	**13.9**
Non-EU countries	**40.2**	**7.1**	**7.1**	**-0.1**	**39.6**	**13.8**	**12.0**	**1.6**
of which: China	*1.6*	*2.6*	*9.0*	*-5.5*	*4.1*	*19.7*	*0.4*	*19.4*
Japan	*1.5*	*6.6*	*9.2*	*-2.6*	*1.9*	*-14.4*	*0.6*	*-14.9*
DAEs (4)	*3.2*	*3.1*	*6.4*	*-3.2*	*2.6*	*12.0*	*2.5*	*9.2*
Russia	*1.7*	*28.8*	*5.4*	*22.0*	*3.4*	*16.6*	*27.3*	*-7.9*
United States	*7.9*	*5.6*	*5.0*	*0.4*	*3.5*	*13.2*	*6.2*	*6.5*
Total ...	**100.0**	**5.3**	**6.2**	**-0.9**	**100.0**	**7.5**	**8.4**	**-0.8**

Source: Based on Istat data.
(1) The change in values for the EU countries and for the total is calculated on data corrected for the estimate of some transactions that starting with 2003 have been observed on an annual rather than monthly basis following changes in the reporting threshold and taking account, based on past experience, of reporting delays. – (2) For the EU-15 countries, the changes in volumes are calculated on the basis of deflated average unit values. – (3) Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic and Slovenia. – (4) Dynamic Asian economies: Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.

The euro prices of Italian merchandise exports (proxied by average unit values) rose above all in non-EU countries. In the United States, where they had fallen for three years, they increased in concomitance with the depreciation of the euro against the dollar.

Export volumes contracted in all the traditional sectors (leather products and footwear, furniture, non-metallic mineral products; Table 8). In textiles and clothing, the complete elimination of import quotas in the industrial countries from 1 January of this year under the 1994 Agreement on Textiles and Clothing does not appear to have had a particularly strong impact on Italian sales: the decline in the sector's exports was smaller in the first seven months of 2005 than in the year-earlier period (3.7 against 7.3 per cent). The effects of the growing competition of countries with low labour costs had already emerged powerfully in the three years 2002-04, when the volume of Italian textile exports fell by an average of 6.5 per cent per year (see the box "Italian exports and imports of textile products and clothing after liberalization").

In January-July the volume of Italian imports of goods was slightly smaller than a year earlier (down by 0.8 per cent). The increase in imports from non-EU countries was offset by the decline in those from member countries. Imports from China continued to grow rapidly and accounted for 4.1 per cent of total Italian imports. Imports from the United States picked up. The euro prices of imported products showed a very substantial increase (8.4 per cent), owing to the sharp rise in the euro and dollar prices of basic products, notably oil and steel, on the world market. In

Table 8

Italian exports and imports *cif-fob* by branch of economic activity and balances, January-July 2005: values, indices of average unit values and volumes (1)

(*percentage changes on corresponding period of 2004, except as indicated)*

	Exports				Imports				Change in balance (millions of euros)
	% composition of values in 2004 (2)	Change			% composition of values in 2004 (2)	Change			
		Values	Average unit values	Volumes (3)		Values	Average unit values	Volumes (3)	
Total	**100.0**	**5.3**	**6.2**	**-0.9**	**100.0**	**7.5**	**8.4**	**-0.8**	**-3,609**
Products of agriculture, forestry and fishing	1.3	7.9	5.7	1.4	3.2	-3.5	1.2	-4.6	364
Energy and non-energy minerals (4)	0.3				11.2	30.8	30.3	0.3	-5,286
of which: crude petroleum and natural gas (2)	*0.1*				*9.9*	*32.5*	*31.5*	*0.6*	*-4,955*
Manufactures	96.5	5.8	6.2	-0.4	82.7	5.8	5.9	-0.1	1,363
Food products, beverages and tobacco	5.5	3.6	-1.1	4.7	6.9	1.2	2.3	-1.1	181
Textile products and clothing	9.2	2.2	6.2	-3.7	5.1	3.3	0.7	2.6	45
Leather and leather products	4.4	0.4	7.8	-6.9	2.2	4.5	2.6	1.9	-132
Wood and wood products	0.5	-2.7	4.2	-6.6	1.2	1.0	3.2	-2.1	-42
Paper and paper products, printing and publishing	2.2	5.8	2.0	3.8	2.2	4.7	0.7	3.9	30
Refined petroleum products	2.2	40.9	32.8	5.6	1.7	23.9	31.7	-4.7	801
Chemical products and man-made fibres	9.7	10.1	8.1	1.5	13.5	8.8	10.1	-1.0	-380
Rubber and plastic products	3.8	7.5	7.2	0.2	2.1	6.9	5.8	1.1	223
Non-metallic mineral products	3.2	-2.8	3.1	-5.7	1.1	5.0	4.7	0.3	-238
Basic metals and metal products	9.6	13.6	11.1	2.7	10.4	15.6	15.2	0.6	-495
Mechanical machinery and equipment	20.4	3.2	5.5	-2.1	7.4	1.8	6.6	-4.7	849
Electrical equipment and precision instruments	9.1	10.4	4.7	5.3	13.1	1.5	4.3	-2.6	1,182
Transport equipment	11.2	3.3	2.4	0.7	14.2	3.7	0.2	3.5	-273
Other manufactures (including furniture)	5.4	-2.5	6.5	-8.6	1.6	6.4	2.4	4.0	-387
Electricity, gas and water (4)	..				0.6	16.1	3.1	13.2	-197

Source: Based on Istat data.

(1) The change in values for the EU countries and for the total is calculated on data corrected for the estimate of some transactions that starting with 2003 have been observed on an annual rather than monthly basis following changes in the reporting threshold and taking account, based on past experience, of reporting delays. – (2) The values do not sum to 100 owing to the presence of unclassified average unit values. – (3) For the EU countries, the changes in volumes are calculated on the basis of deflated average unit values. – (4) Owing to the highly erratic nature of the time series and the small value of the aggregates, changes in exports are not shown.

particular, the average unit values of imported crude oil and natural gas rose by 31.5 per cent in the first half of 2005, while volume expanded only slightly. This led to a sharp deterioration of €3.8 billion in Italy's trade deficit on a *cif-fob* basis in the first seven months of 2005, compared with a basically unchanged position in the year-earlier period.

The balance of payments

The euro area. – The first eight months of the year brought a marked worsening in the euro area's balance of payments on current account, which ran a deficit of €11.4 billion, compared with a surplus of €31.1 billion in the same period of 2004 (Table 9). The deterioration, which occurred despite the modest pace of economic activity in the area, is attributable above all to the decline in the trade surplus, which reflected faster growth in imports than in exports due to the steep rises in energy prices. The deficits on income and transfers also worsened, but to a lesser extent. The financial account recorded appreciable net inflows: the surplus in the first eight months amounted to €68.5 billion, compared with €5.5 billion a year earlier.

Table 9

Balance of payments of the euro area
(millions of euros)

	2004			2005	
	Year	H1	January-August	H1	January-August
Current account	**46,760**	**19,566**	**31,120**	**-9,815**	**-11,400**
Goods	102,708	59,088	77,770	34,313	45,325
exports	*1,129,631*	*551,141*	*735,252*	*583,162*	*783,968*
imports	*1,026,923*	*492,053*	*657,482*	*548,849*	*738,643*
Services	27,689	12,198	18,512	12,690	18,328
Income	-27,955	-28,052	-29,805	-28,535	-35,611
Current transfers	-55,682	-23,668	-35,357	-28,283	-39,442
Capital account	**17,425**	**7,411**	**10,367**	**5,012**	**6,709**
Financial account	**-5,476**	**16,797**	**5,476**	**71,917**	**68,535**
Direct investment	-78,065	-35,090	-37,268	-31,653	-128,501
outward	*-155,391*	*-56,291*	*-65,888*	*-59,372*	*-154,437*
inward	*77,328*	*21,201*	*28,620*	*27,719*	*25,936*
Portfolio investment	72,780	38,330	220	110,452	169,702
Equity securities	49,002	-30,359	-25,474	15,176	125,733
assets	*-74,104*	*-46,853*	*-67,904*	*-48,932*	*-66,390*
liabilities	*123,106*	*16,494*	*42,430*	*64,108*	*192,123*
Debt instruments	23,782	68,691	25,696	95,277	43,969
assets	*-209,430*	*-101,334*	*-149,458*	*-163,896*	*-217,336*
liabilities	*233,212*	*170,025*	*175,154*	*259,173*	*261,305*
Financial derivatives	-1,724	4,072	532	-3,986	-9,436
Other investment	-10,799	2,995	31,513	-10,851	26,486
Reserve assets	12,332	6,491	10,481	7,955	10,285
Errors and omissions	**-58,707**	**-43,774**	**-46,962**	**-67,114**	**-63,843**

Source*:* ECB.

The January-August trade surplus fell from €77.8 billion in 2004 to €45.3 billion owing to the pronounced increase in the deficit on energy products, from €84 billion to €120.5 billion. Imports of goods grew in value by 12.3 per cent, exports by 6.6 per cent. In the first seven months (the period for which the breakdown of the figures between volumes and prices is available) the volume of exports rose much more slowly than in the same period of 2004 (2.7 against 9.3 per cent). The growth in exports in volume terms was also modest by comparison with the expansion in world trade, further reducing the euro area's market share (which in 2004 as a whole had slipped to 18 per cent, from 18.5 per cent in 2003). Export prices (proxied by average unit values) rose by 2 per cent. The price competitiveness of goods produced in the area remained stable: in the first seven months the real effective exchange rate of the euro, based on producer prices, strengthened moderately with respect to the year-earlier period (0.3 per cent, against 3.4 per cent in the first seven months of 2004).

The rapid growth in imports in value terms reflects the rise in prices (6.3 per cent) triggered by the continual increases in the dollar prices of oil, only marginally offset by the appreciation of the euro against the dollar. Imports also expanded in volume terms (by 3.2 per cent), gaining pace in the second quarter.

Italian foreign trade in textiles and clothing after liberalization

On 1 January 2005 the quotas that the Multifibre Arrangement (MFA) imposed on numerous developing countries' exports of textiles and clothing to most of the developed countries were eliminated. The MFA, signed for the first time in 1974 by the European Community, Austria, Canada, Finland, Norway and the United States, had set quantitative limits on textile and clothing imports from the developing countries belonging to the GATT (precursor of the World Trade Organization).[1] Renegotiated four times, it remained in force until 1994. The European Community had also signed similar bilateral agreements or established special trade regimes with non-GATT developing countries.[2] In 1995 the MFA was replaced by the Agreement on Textiles and Clothing (ATC), which provided for phasing out the MFA quotas in four stages. In complete compliance with the agreements, the developed countries chose during the first three stages to eliminate the restrictions on the products for which quota use had been lowest (i.e. those for which elimination of the MFA quotas had the smallest consequences), leaving the abrogation of the quotas on other products for fourth stage beginning at the start of this year.

In view of the surge in imports from China in the early months of this year, negotiations began between the European Union and China for the temporary reintroduction of quotas on Chinese textile and clothing exports to the EU. On 10 June an agreement was reached to limit their annual growth rates, but by the beginning of August the ceilings for the whole of 2005 had already been reached. A new agreement, signed on 5 September, allowed early use to be made this year of the quotas established for the subsequent years.

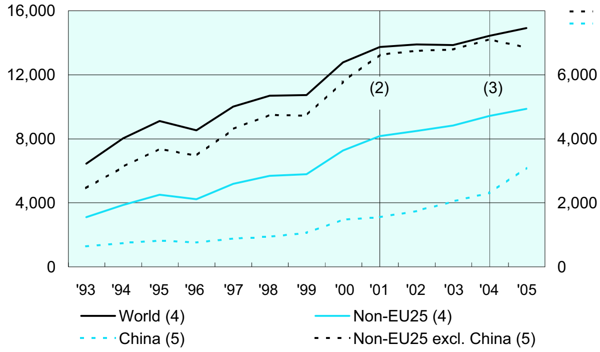
For several years the liberalization had already increased the competitive pressure on Italian products both in the domestic and in foreign markets, with a consequent sharp contraction in export volumes, especially at the expense of lower-quality products.

In Italy, as in the euro area, the rate of growth in textile and clothing imports from China was very high (especially in volume terms) in the three years 2002-04, following China's entry into the World Trade Organization (Figure 1). Nevertheless, in the first seven months of 2005 the overall impact of complete liberalization on Italian imports of textiles and clothing was limited: purchases from non-EU25 countries grew by 4.9 per cent in value and 5.8 per cent in volume with respect to the same period of the previous year; in 2004 as a whole they had increased 6.7 and 4.2 per cent respectively.

Figure 1

Italian imports of textiles and clothing at current prices by origin (1)

(annual data; millions of euros)



Source: Based on Istat data.

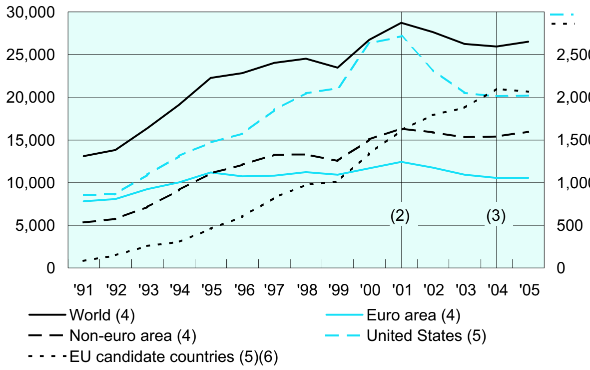
(1) Partially estimated data for 2005. – (2) China's entry into the WTO. – (3) Elimination of MFA quotas. – (4) Left-hand scale. – (5) Right-hand scale.

With the elimination of the MFA/ATC restrictions, imports from China, consisting mainly of "clothing other than knitwear and leatherwear and accessories", expanded in value by 33.9 per cent in January-July 2005 year on year, compared with 13.3 per cent in 2004; they rose to nearly one fifth of the sector's total, which itself increased by 3.3 per cent. However, as in the euro area as a whole, this marked acceleration was largely offset by slower growth or actual reductions in imports from all the other major low-labour-cost countries of Asia (except India), some of which been subject to the abrogated MFA/ATC barriers, and from Turkey, Romania and the countries of North Africa. In particular, Italian purchases from Romania, whose share of the total for the sector had grown to 10.8 per cent in 2003 thanks to production delocation and *outsourcing by Italian firms, fell by 10.1 per cent in value with respect to the first seven months of 2004, accentuating the decline that had begun last year and signaling a competitive difficulty for Italian firms with production units in Romania.*

Italian sales of textiles and clothing to third countries were also affected by Chinese competition. In the three years 2002-04, with China's entry into the World Trade Organization and the appreciation of the euro against the dollar, the renminbi and the other main currencies, the performance of Italian exports in both value and volume was decidedly negative in the main outlet markets for finished products. In Germany and the United States, which together take one fifth of Italy's total exports of textiles and clothing, sales at current prices fell respectively by 10.6 and 9.5 per cent per year.

Figure 2

Italian exports of textiles and clothing at constant prices by destination (1)
(annual data; millions of euros)



Source: Based on Istat data.
(1) Partially estimated data for 2005. – (2) China's entry into the WTO. – (3) Elimination of MFA quotas. – (4) Left-hand scale. – (5) Right-hand scale. – (6) Bulgaria, Romania and Turkey.

Attempting to stem the loss of price competitiveness, Italian firms of the sector had increasingly shifted phases of production to some European and Mediterranean countries with low labour costs. Consequently, the period 2002-04 saw a further growth in exports of semi-processed goods to these countries (notably Romania and Turkey), albeit smaller than the very large increases recorded in 2000-01 (Figure 2).

More recently, in the first seven months of 2005 Italian textile and clothing exports rose by 2.2 per cent in value (up from a modest increase of 0.3 per cent in the year-earlier period), while declining by 3.7 per cent in volume (compared with 4.2 per cent in 2004). In value terms, exports to the euro area, where they had fallen by 3 per cent in 2004, remained almost unchanged. Those to the United States edged upwards by 0.3 per cent (compared with a decline of 1.9 per cent in 2004) and those to Japan and Hong Kong expanded at decidedly higher rates (12.3 and 11.8 per cent respectively); exports to Romania fell by 6.2 per cent, in line with the reduction in imports of semi-processed and finished products from that country. In addition, there was a further acceleration in the growth in the average unit values of the sector, which in the period 2001-04 had consistently outpaced that of Italian exports overall, despite the sharply negative trend in textile and clothing export volumes (-4.7 per cent per year). The pick-up in average unit values may reflect a more pronounced shift in the mix of the sector's exports, compared with total exports, towards more expensive, higher quality products which for the time being are less exposed to competition from the emerging countries. This development presumably reflects both the marketing policies of the firms able to upgrade their output and the market exit of those unwilling or unable to abandon the lower-quality market segments.

---

[1] Argentina, Brazil, Hong Kong, Indonesia, Macao, Malaysia, Pakistan, Peru, Philippines, Singapore, South Korea, Sri Lanka and Thailand.

[2] Belarus, Bosnia and Herzegovina, China, Croatia, North Korea, Taiwan, Ukraine, Uzbekistan, Vietnam and Yugoslavia.

The financial account recorded net direct and portfolio investment inflows of €41.2 billion in the first eight months of 2005, compared with net outflows of €37 billion in the same period of 2004. Substantial net portfolio investment inflows totaling €169.7 billion, compared with a position basically in balance in the same period of 2004, more than offset the large net direct investment outflow, which grew owing to an increase in residents' investment abroad.

The increase in net portfolio investment inflows was due mainly to net purchases of equity securities and, to a lesser extent, debt securities by non-resident investors. The equity purchases, which were especially large in the period from May to July, were fueled by the rise in share prices in connection with good corporate earnings and low interest rates in the euro area. By contrast, the growth in non-residents' purchases of non-equity securities reflected plentiful issuance in some area countries, which took advantage of the persistence of favourable financing conditions on the markets. Turning to outward portfolio investment, net purchases of debt instruments increased while purchases of shares remained basically stable.

The negative entry under the errors and omissions item of the euro-area balance of payments rose from €47 billion to €63.8 billion. Reserve assets fell by €10.3 billion.

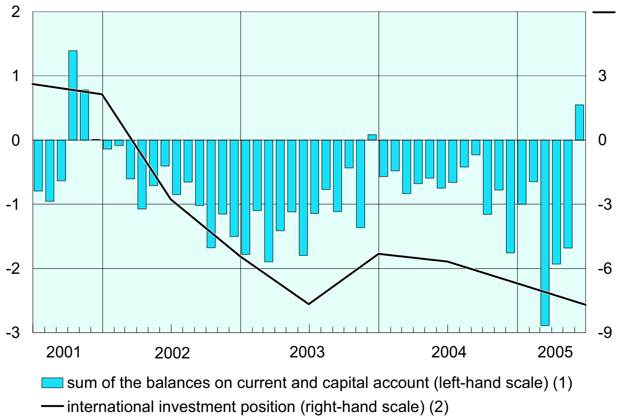
In the main euro-area countries, except for Germany, there was a deterioration in the current account due mainly to the worsening in the trade balance. In the first eight months Germany's current account surplus grew slightly, from €58.7 billion to €61.8 billion, thanks to an improvement in the balance on income, while the trade balance remained broadly unchanged. The current account deficits of France and Spain worsened. France's rose from €4.6 billion to €19.8 billion in the first eight months and Spain's from €22.5 billion to €37.7 billion in the first seven. Under the financial account, the three countries recorded an increase in inward portfolio investment, which in the case of Germany and France mainly regarded equity securities.

Italy. – Italy's current account deficit, which had diminished to €6 billion in the first eight months of 2004, rose to €14.5 billion or 1.6 per cent of GDP in January-August 2005 (Table 10). The deterioration in the balance, which has been negative since 2000, is attributable to a contraction in the surplus on goods and services and an increase in the deficit on investment income. The overall deficit of €13.7 billion on the current and capital accounts was set against a larger surplus on the financial account (€15.3 billion).

At the end of June Italy's international investment position was still negative (by almost 8 per cent of GDP; Figure 19) and worse than at the end of 2004.

Figure 19

Italy's international investment position and current and capital account balance
(as a percentage of GDP)



Sources: Based on Istat and UIC data.
(1) Seasonally adjusted, annualized data. – (2) Half-yearly data.

The *fob-fob* trade surplus narrowed in the eight months of the year from €6.9 billion to €2.7 billion, reflecting increases of 8.1 and 5.5 per cent respectively in the value of exports and imports of goods. The increase in both flows was connected with the rise in average unit values; the volumes contracted slightly. The impact of the slowdown in world demand on the volume of exports of manufactures was stronger than in the case of Germany and France, so that the loss of share of world trade was even larger for Italy than for the euro area as a whole. The persistent positive differential in the rate of increase in export

Table 10

Italy's balance of payments
(millions of euros)

	2004			2005	
	Year	H1	January-August	H1	January-August
Current account	**-12,035**	**-10,553**	**-6,029**	**-15,666**	**-14,481**
Goods	8,838	1,225	6,930	-1,312	2,667
exports	*283,331*	*136,594*	*183,350*	*144,452*	*193,376*
imports	*274,493*	*135,369*	*176,420*	*145,764*	*190,709*
Services	1,528	374	1,170	-1,320	-185
Income	-14,711	-9,103	-9,601	-9,785	-12,502
Current transfers	-7,690	-3,049	-4,528	-3,249	-4,461
Capital account	**2,081**	**488**	**626**	**738**	**797**
Financial account	**8,884**	**10,528**	**6,431**	**15,752**	**15,276**
Direct investment	-1,971	-3,216	-2,362	-1,604	-6,871
outward	*-15,513*	*-11,645*	*-13,597*	*-6,332*	*-11,197*
inward	*13,542*	*8,429*	*11,235*	*4,728*	*4,326*
Portfolio investment	26,447	22,477	11,971	52,653	50,566
Equity securities	518	-11,205	-10,417	-32,830	-28,992
assets	*-12,863*	*-4,930*	*-8,994*	*-6,498*	*-12,313*
liabilities	*13,381*	*-6,275*	*-1,423*	*-26,332*	*-16,679*
Debt instruments	25,929	33,682	22,388	85,483	79,558
assets	*-8,202*	*-2,708*	*-4,977*	*-30,185*	*-40,519*
liabilities	*34,131*	*36,390*	*27,365*	*115,668*	*120,077*
Financial derivatives	1,833	660	1,113	2,671	2,158
Other investment	-19,687	-8,007	-6,153	-38,770	-31,208
Reserve assets	2,262	-1,386	1,862	802	631
Errors and omissions	**1,071**	**-463**	**-1,028**	**-824**	**-1,592**

(1) Provisional data for July and August 2005.

prices led to a further decline in Italian goods' price competitiveness, so measured, also with respect to the other major euro-area economies.

The deterioration of €3.6 billion in Italy's *cif-fob* trade balance in the first seven months of the year can be ascribed to the growth of €4.2 billion in the deficit on energy minerals and products (including refined products), which increased to €18.6 billion owing to the exceptional rise in the price of crude oil on international markets (Table 8). By contrast, the surplus on non-oil manufactures widened slightly as a consequence of a small improvement in the terms of trade. An increase was recorded in the surplus on mechanical engineering products, the sector that makes the largest positive contribution to the trade balance. Among Italy's other sectors of specialization, after years of decline the surplus on textiles and clothing remained broadly stable, despite the unfavourable trend of exports in volume terms, thanks to a shift in the mix of exports towards more expensive products (see box "Italian exports and imports of textile products and clothing after liberalization"). By contrast, there was a further decline in the surplus on leather and footwear and, above all, "other manufactures", which includes furniture. A favourable export performance improved the balance of trade in electrical equipment and precision instruments, which is structurally in deficit. On the other hand, the deficits on transport equipment and on basic metals and metal products widened. The latter deficit derives from the intensive use of metals and metal products as intermediate goods in mechanical engineering, a branch of manufacturing in which Italy is highly specialized.

The balance on services worsened slightly, swinging from a surplus of €1.2 billion to a deficit of €0.2 billion. Between January and June, the period for which detailed data are available, transport services, foreign travel and above all "other business services" accounted for the bulk of the increase in outflows (Table 11). Among inflows, there were higher receipts from other business services and transport.

On the basis of the UIC's sample survey on tourism, in the first seven months of 2005 the surplus on tourism contracted to €6.4 billion, from €8 billion in the year-earlier period. This was due both to the reduction in spending and overnight stays by foreign tourists in Italy (down by 4.1 and 0.5 per cent respectively, in contrast with a recovery in 2004) and to the increase in the expenditure and the number of Italians traveling abroad. Receipts from travel in Italy by EU citizens, which account for about two thirds of the sector's total, fell by 5.7 per cent. There was a particularly sharp drop in the number of tourists from Germany, the leading country of origin of foreign visitors to Italy, connected with the weakness of economic activity in Germany and the increase in the supply of tourist services by non-EU Mediterranean countries. This contraction was only partly offset by increases in the number of visitors from the United Kingdom and Spain, whose expenditure per capita is higher than that of German tourists. Spending by tourists from the United States continued to increase in line with the number of arrivals from that country.

The rise in the number of Italians traveling abroad and in their expenditure (respectively 5.3 and 9.7 per cent) mainly reflected a large increase in travel to EU countries. Spending by Italian tourists in the United States remained stable, despite the increase in their number. The number of Italians visiting the Asian countries and their spending also rose significantly.

After improving in the first eight months of 2004, the deficit on income widened in January-August 2005 to €12.5 billion. The deficit on transfers remained unchanged at €4.5 billion. Remittances sent home by foreign workers in Italy rose slightly to total €1.2 billion in the first six months of this year.

Turning to the financial account, in the first eight months of the year net direct and portfolio investment inflows totaled €43.7 billion. The increase with respect to the same period of last year was due above all to the especially high level of net portfolio investment inflows, which rose from €12 billion to €50.6 billion, or 5.6 per cent of GDP. Net direct investment outflows rose further, mainly because of a fall in inward investment.

Table 11

Italy's trade in services

(millions of euros)

	2004			January-June 2004			January-June 2005		
	Credits	Debits	Balance	Credits	Debits	Balance	Credits	Debits	Balance
Total	**67,529**	**66,001**	**1,528**	**31,966**	**31,592**	**374**	**34,883**	**36,203**	**-1,320**
of which: travel	*28,665*	*16,515*	*12,150*	*13,352*	*7,332*	*6,020*	*12,804*	*7,948*	*4,856*
transport	*11,247*	*15,777*	*-4,530*	*5,252*	*7,545*	*-2,294*	*5,707*	*8,215*	*-2,508*
construction	*1,643*	*2,161*	*-517*	*790*	*1,060*	*-270*	*816*	*928*	*-112*
other business services	*19,581*	*21,438*	*-1,857*	*9,553*	*10,626*	*-1,074*	*10,370*	*11,883*	*-1,513*

Table 12

Foreign portfolio investment in Italy
(millions of euros)

	2004		2005
	Year	January-June	January-June
Government securities	9,949	25,940	96,716
BOTs	*-12,044*	*-2,133*	*36,653*
BTPs	*17,677*	*5,136*	*52,386*
CCTs	*10,630*	*14,486*	*5,180*
CTZs	*-7,145*	*2,946*	*2,549*
Republic of Italy issues	*999*	*5,470*	*-2,785*
Other government securities	*-168*	*35*	*2,733*
Bonds	24,182	10,450	18,952
Equity securities (1)	13,381	-6,275	-26,332
Total	**47,512**	**30,115**	**89,336**

(1) Including investment fund units.

The net portfolio investment inflow was the product of large net purchases by non-residents of securities other than equities (€120.1 billion, against €27.4 billion in the first eight months of 2004). In contrast with developments in France and Germany, net disposals of Italian shares rose to €16.7 billion (compared with €1.4 billion in January-August 2004, which were followed by substantial net purchases in the rest of the year).

Most of the net purchases by non-residents of securities other than shares involved government securities. After the abrupt decline recorded in 2004, these totaled €96.7 billion in the first half of 2005, compared with €25.9 billion in the first half of 2004 (Table 12). In an international context of low interest rates and abundant liquidity, the flow of funds from abroad into private-sector bonds grew further, attracted by the increase in the risk premiums on bonds issued by small or low-rated Italian non-financial corporations.

On the assets side, Italian residents made significantly larger net purchases of foreign debt securities. The increase in their net purchases of equity securities was smaller.

Net outflows of “Other investment” increased considerably, from €6.2 billion in the first eight months of 2004 to €31.2 billion in the same period this year. The Italian banking system’s net external fund-raising rose with respect to the year-earlier period, to €20.6 billion; the increase in foreign funding more than offset the growth in lending to non-residents.

Reserve assets fell by €0.6 billion. The entry under errors and omissions remained small.

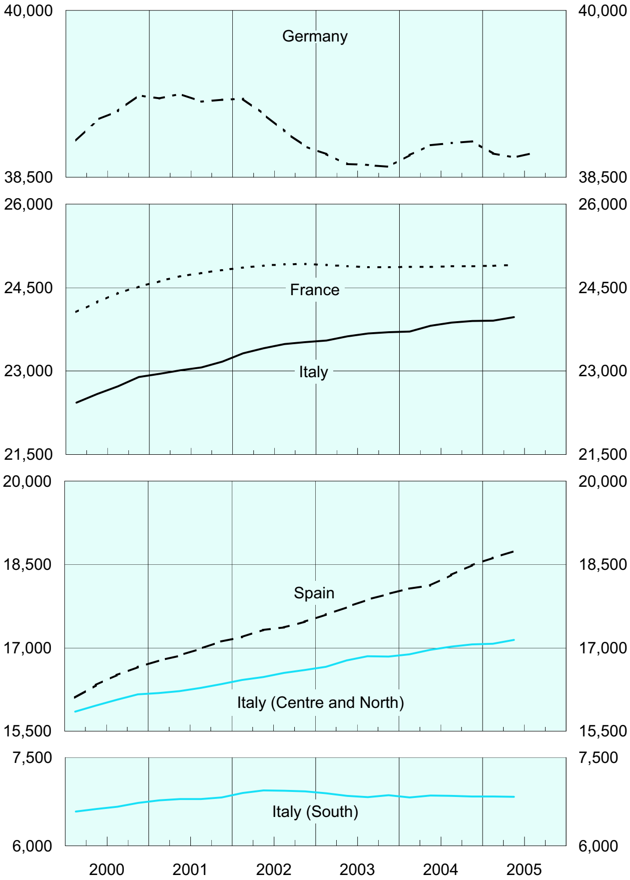
The labour market

The euro area

Employment continued to grow in the euro area in the first half of 2005. According to the provisional national accounts, the number of persons employed rose by 0.6 per cent on a year earlier. Once again there was rapid expansion in Spain (3.2 per cent) and Italy (0.8 per cent) and virtual stagnation in France and Germany at +0.1 and -0.1 per cent respectively (Figure 20).

Figure 20

Employment in the main euro-area countries
(seasonally adjusted quarterly data; thousands of persons)

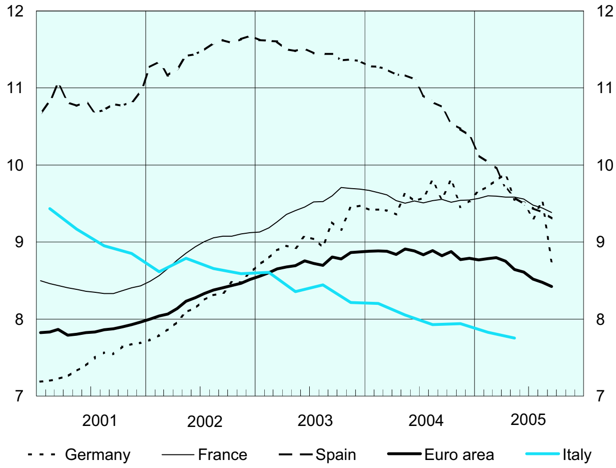


Sources: For Italy, Istat, national accounts and regional estimates; the quarterly segments are partly estimated. For the other countries, Eurostat, national accounts.

The average, seasonally adjusted unemployment rate, which had held steady at 8.9 per cent in 2004, began to fall again in early 2005 and in September stood at 8.4 per cent (Figure 21). Compared with September 2004, it declined from 9.6 to 9.4 per cent in France, from 10.8 to 9.3 per cent in Spain and from 9.6 to 8.7 per cent in Germany, where there was a sharp fall in the last month (-0.8 percentage points). In Italy the rate fell to 7.5 per cent in the second quarter of this year (7.7 per cent seasonally adjusted) from 7.9 per cent a year earlier.

Figure 21

Unemployment rates in the main euro-area countries
(seasonally adjusted data; percentages)



Sources: For Italy, quarterly Istat data; for the other countries, monthly Eurostat data.

In the four major euro-area countries as a whole per capita labour costs increased by 1.5 per cent year-on-year in the first half of 2005, compared with 1.8 per cent in 2004 as a whole; productivity rose by 0.5 per cent (1.2 per cent in 2004). As a consequence the rise in unit labour costs accelerated by 0.5 percentage points to 1 per cent (Table 13). In the service sector, while labour costs per employee grew steadily at the same pace as in 2004, 1.6 per cent, productivity gains were moderate (0.3 per cent), leading to an increase of 1.3 per cent in unit labour costs, as in 2004. In industry excluding construction, unit labour costs, which had been declining in the four countries as a whole since the middle of 2004, diminished in the first half of the year by 0.8 per cent owing to large productivity gains (2.5 per cent) and slow growth in costs per employee (1.7 per cent).

The performance of unit labour costs continued to diverge considerably between the four countries, however. While there was a further reduction of 0.9 per cent in Germany, the other countries recorded an increase. In France this amounted to 1.6 per cent and in Spain to 2.2 per cent, against 1 and 2.8 per cent respectively in 2004. In Italy, where labour productivity turned downwards again, falling by 0.7 per cent, unit labour costs rose more sharply, by 2.7 as against 2.3 per cent; in the private sector alone the increase came to 4.2 per cent.

The reduction in unit labour costs in Germany was the result of an increase in productivity while

Table 13

Unit labour costs, per capita earnings, productivity and its components

(percentage changes on corresponding period)

	Cost of labour per employee (1)		Productivity						Unit labour costs	
			2004	2005	Value added (2)		Employment (1)			
	2004	2005			2004	2005	2004	2005	2004	2005
					Industry excluding construction					
Germany	2.1	1.2	6.0	4.6	4.4	3.0	-1.5	-1.5	-3.7	-3.2
France	3.6	2.5	3.5	3.4	0.5	0.7	-2.9	-2.6	0.1	-0.9
Italy	3.3	2.5	0.7	-1.5	0.3	-2.4	-0.4	-0.9	2.5	4.1
Spain	3.8	3.2	1.8	1.2	0.9	1.6	-0.8	0.4	2.0	2.0
Euro 4 (3)	2.7	1.7	3.8	2.5	2.4	1.3	-1.4	-1.2	-1.1	-0.8
					Services (4)					
Germany	-0.3	-0.2	0.1	-0.1	1.4	0.9	1.3	1.0	-0.4	-0.1
France	3.0	3.4	1.6	1.4	1.9	1.8	0.3	0.5	1.4	2.0
Italy	2.8	1.6	0.2	-0.2	1.2	0.5	0.9	0.8	2.6	1.9
private sector	*2.4*	*3.1*	*-0.6*	*-1.2*	*0.6*	*0.4*	*1.3*	*1.6*	*3.1*	*4.4*
public sector	*3.2*	..	*2.3*	*1.6*	*2.7*	*1.0*	*0.4*	*-0.5*	*0.9*	*-1.5*
Spain	3.1	2.9	0.3	1.0	3.5	4.0	3.2	3.0	2.8	1.9
Euro 4 (3)	1.6	1.6	0.4	0.3	1.7	1.4	1.3	1.2	1.2	1.3
					Total economy					
Germany	0.3	0.1	1.7	1.0	2.1	1.1	0.4	0.1	-1.4	-0.9
France	3.0	3.2	2.0	1.6	1.9	1.6	-0.1	0.0	1.0	1.6
Italy	2.9	1.9	0.5	-0.7	1.3	-0.2	0.8	0.5	2.3	2.7
Spain	3.1	2.8	0.3	0.6	3.0	3.7	2.7	3.1	2.8	2.2
Euro 4 (3)	1.8	1.5	1.2	0.5	2.0	1.3	0.8	0.7	0.5	1.0

Sources: Based on Istat and Eurostat data.

(1) For Italy, France and Spain, standard labour units. – (2) At 1995 base prices; for Italy, value added at 1995 market prices. – (3) Weighted average for France, Germany, Italy and Spain. – (4) Comprises wholesale and retail trade, transport and telecommunications, financial and real estate intermediation, and "other sectors".

per capita labour costs remained virtually stationary owing to the slower rate of growth in actual earnings than in contractual wages connected with widespread use of the escape clauses in collective wage agreements. In the service sector, per capita labour costs, productivity and unit labour costs held steady; in industry, the sharp growth in output and decline in the number of workers caused productivity to jump by 4.6 per cent, while labour costs rose at a moderate pace; after being reduced by 3.7 per cent in 2004, unit labour costs were lowered by a further 3.2 per cent.

In France the 1.6 per cent increase in labour productivity compensated for only half the 3.2 per cent rise in per capita labour costs. Large productivity gains in industry (3.4 per cent) lowered unit labour costs by 0.9 per cent. In the service sector, although output per worker increased more than in the euro area as a whole, the gain only partly offset the rapid growth of 3.4 per cent in labour costs and unit labour costs went up by 2 per cent. In the second half of the year the Government's Emergency Employment Plan should begin to produce an effect. The scheme provides for the creation of temporary jobs in general government (an estimated 40,000 in 2005 according to INSEE) and introduces a new type of contract for freshly recruited workers in firms with fewer than 20 employees, extending their trial period from three months to two years. Government, management and unions have also agreed on the terms of fixed-term labour contracts for workers over 57 years old, designed to encourage them to stay in the labour market. In addition, in July the minimum hourly wage was raised by 5.5 per cent to €8.03.

In Spain per capita labour costs increased by 2.8 per cent in the first half of the year, compared with 3.1 per cent in 2004; the rise in unit labour costs decelerated to 2.2 per cent despite the sluggishness of labour productivity (0.6 per cent). The large increase in output, by 3.7 per cent, was accompanied by an upturn in employment to growth of 3.1 per cent, principally in the service sector, which was not reflected in the trend of labour costs. An amnesty for immigrant workers who had entered the country illegally was declared in December 2004 and by July more than 690,000 applications for regularization had been made, equal to over 4 per cent of total employment. Under a law passed in June this year, at the request of the social partners it will be possible, in the case of workers without collective labour agreements, to apply the provisions of the contracts for sectors or areas similar to those of the firms employing them. The provision could extend collective bargaining to an additional 2.6 million workers, equal to almost 15 per cent of the total.

Italy

Employment. – Employment in Italy continued to grow at the same pace as the previous year. For the first half of 2005, the annual national accounts show the number of persons in work up 0.2 per cent on the previous six months and 0.8 per cent on the year-earlier period. Employment growth was again high in relation to value added. Productivity turned downwards, falling by 0.7 per cent with respect to the first half of 2004.

According to the Labour Force Survey, 22,512,000 persons were in work in the first half of 2005 (Table 14). The increase over the year-earlier period was 1.2 per cent, more than the growth according to the national accounts. Employment has grown steadily since the mid-1990s, buoyed by moderate real wage growth and a decrease in the cost of utilizing labour. However, in the last two years, given the stagnation of production, the continuous rise in the number of persons in work can be attributed mainly to the regularization of immigrant workers. Their registration with the records office has brought progressively larger numbers within the scope of the Labour Force Survey, leading to a rise in the resident population and observed employment (see box "The impact of regularizing immigrant workers on employment growth in the Labour Force Survey"). The regularizations have less impact on the national accounts, which already include an estimate of undeclared immigrant labour.

In the first half of 2005 the employment rate for persons aged 15 to 64 rose to 57.4 per cent from 57.2 per cent a year earlier. The employment rate for women, which remains well below the EU average, increased from 45 to 45.3 per cent, that for men from 69.4 to 69.6 per cent.

Table 14

Labour force status of the Italian population
(thousands of persons and percentages)

	2003 average		2004 average		H1 2004		H1 2005	
	Number	Percentage share	Number	Percentage share	Number	Percentage share (1)	Number	Percentage share (1)
Employees	**16,040**	**72.1**	**16,117**	**71.9**	**16,003**	**71.9**	**16,405**	**72.9**
open-ended contracts	….	….	14,208	63.4	14,187	63.8	14,431	64.1
full-time	….	….	12,618	56.3	12,608	56.7	12,714	56.5
part-time	….	….	1,590	7.1	1,579	7.1	1,717	7.6
fixed-term contracts	….	….	1,909	8.5	1,817	8.2	1,975	8.8
full-time	….	….	1,491	6.7	1,402	6.3	1,544	6.9
part-time	….	….	418	1.9	415	1.9	431	1.9
Self-employed	**6,202**	**27.9**	**6,287**	**28.1**	**6,248**	**28.1**	**6,107**	**27.1**
full-time	….	….	5,454	24.3	5,392	24.2	5,343	23.7
part-time	….	….	833	3.7	856	3.8	764	3.4
Total persons in work	**22,241**	**100.0**	**22,404**	**100.0**	**22,251**	**100.0**	**22,512**	**100.0**
men	13,544		13,622		13,525		13,691	
women	8,697		8,783		8,727		8,821	
Unemployed	**2,048**		**1,960**		**2,011**		**1,924**	
Labour force	**24,289**		**24,365**		**24,263**		**24,436**	
men	14,480		14,546		14,475		14,635	
women	9,809		9,819		9,787		9,801	
Inactive population	**….**		**33,188**		**33,122**		**33,604**	
under 15	….		8,215		8,200		8,267	
from 15 to 64	….		14,389		14,418		14,525	
of which: immediately available but not actively seeking work	….		*987*		*1,005*		*1,143*	
65 and over	….		10,584		10,505		10,813	
Total population	**….**		**57,553**		**57,385**		**58,040**	
Unemployment rate	**8.5**		**8.1**		**8.3**		**7.9**	
men	6.5		6.4		6.6		6.5	
women	11.4		10.5		10.8		10.0	
Participation rate (ages 15-64)	**62.9**		**62.5**		**62.4**		**62.4**	
men	74.9		74.5		74.3		74.5	
women	51.0		50.6		50.5		50.4	
Employment rate (ages 15-64)	**57.5**		**57.5**		**57.2**		**57.4**	
men	70.0		69.7		69.4		69.6	
women	45.1		45.3		45.0		45.3	

Source: Istat, *Relazione sulle forze di lavoro.*
(1) Percentage of total persons in work.

The growth in total employment reflected a sharp expansion in payroll jobs. These were up 2.5 per cent on the year-earlier period, of which more than 60 per cent was due to the rise in open-ended contracts, fostered in recent years by the greater incidence of central age-groups and the staying-on of older workers, most of whom have permanent jobs. The number of workers on fixed-term contracts nevertheless increased rapidly (8.7 per cent) and their share of total payroll employment rose from 11.3 to 12 per cent; it is especially high in the South (Table 15). The incidence of part-time jobs also increased, from 12.5 per cent in the first half of 2004 to 13.1 per cent a year later. All sectors except agriculture were affected and the increase was concentrated among women, with those on part-time contracts up from 24.4 to 25.6 per cent of the total. By contrast, the number of self-employed workers fell by 2.3 per cent and 141,000, bringing their share of total employment down from 28.1 to 27.1 per cent. The largest decrease was recorded in trade, lodging and catering, where the number fell by 220,000.

Table 15

Fixed-term and part-time employees' share of total payroll employment in Italy

(percentages)

	Fixed-term		Part-time	
	H1 2004	H1 2005	H1 2004	H1 2005
Men	9.4	10.3	3.7	3.9
Women	14.0	14.4	24.4	25.6
North	9.1	9.7	13.0	13.9
Centre	11.4	11.4	13.9	14.2
South	15.3	16.7	10.5	10.8
Agriculture	43.4	48.5	9.2	7.4
Industry excl. construction	7.7	8.0	5.7	6.2
Construction	11.8	13.2	5.0	5.8
Services	11.6	12.2	16.1	16.9
Total economy	**11.3**	**12.0**	**12.5**	**13.1**

Source: Istat, *Relazione sulle forze di lavoro.*

Table 16

Employment by sector and geographical area in Italy, 2005

	Q2 2005	H1 2005 on H1 2004			Q2 2005 on Q1 2005 (1)
	Percentage share of national total	Absolute change	Percentage change	Contribution, percentage points	Percentage change
Sector					
Agriculture	4.1	-24,535	-2.7	-0.1	0.6
Industry excl. construction	22.1	-38,608	-0.8	-0.2	-0.3
Construction	8.6	128,903	7.2	0.6	2.5
Services	65.3	194,760	1.3	0.9	0.4
Geographical area					
North	51.2	179,020	1.6	0.8	0.4
Centre	20.3	60,402	1.3	0.3	0.9
South	28.5	21,098	0.3	0.1	0.1
Italy	**100.0**	**260,520**	**1.2**	**1.2**	**0.4**

Source: Istat, *Relazione sulle forze di lavoro.*
(1) Seasonally adjusted.

In construction, employment expanded strongly, gaining 7.2 per cent or 129,000 compared with the first half of 2004 (Table 16), thanks to the growth in output which has fostered a continuous rise since 1999.

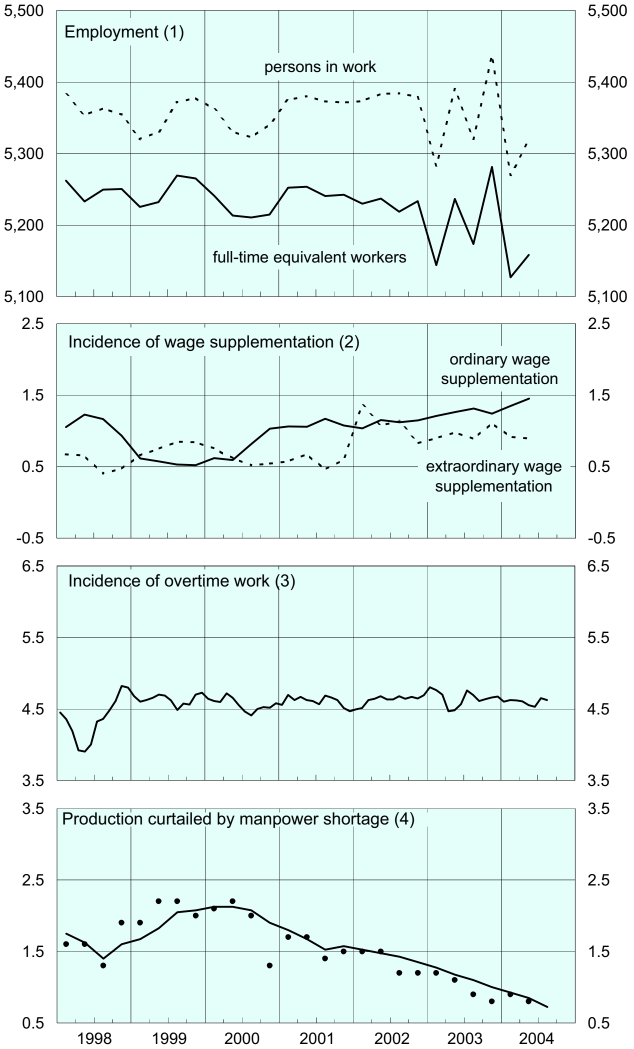
In industry excluding construction the number of workers fell by 0.8 per cent and the share receiving Wage Supplementation benefits increased (Figure 22). According to the survey of non-construction firms conducted by Bank of Italy branches, employment will contract further during the year.

The number of persons employed continued to grow in the service sector, rising by 1.3 per cent or 195,000 on the first half of 2004 and bringing the sector's share of total employment to 65.3 per cent. This result can be ascribed entirely to payroll employment, which rose by 2.7 per cent and more than offset the 2 per cent decline in the number of self-employed workers. The latter was concentrated

Figure 22

Employment, wage supplementation and overtime work in industry excluding construction in Italy

(seasonally adjusted data; thousands of persons and percentages)



Sources: Based on Istat, national accounts and *Indagine sulle grandi imprese*, and on data from INPS and ISAE, *Inchiesta sulle imprese manifatturiere ed estrattive* (revised).

(1) Respectively, total number of persons in work and standard labour units as defined in the national accounts. Quarterly data. – (2) Average number of equivalent employees on ordinary or extraordinary wage supplementation during the quarter as a percentage of the number of full-time equivalent workers according to the national accounts. – (3) Monthly data. Total number of overtime hours as a percentage of total number of regular hours in industrial companies with at least 500 employees. Moving averages of the three months ending in the reference month. – (4) Companies so reporting as a percentage of the total; quarterly data; moving averages of the four quarters ending in the reference quarter.

in wholesale and retail trade and is partly due to the sector's modernization, admittedly somewhat slow, which brought the incidence of self-employment down from 58 per cent in 1993 to 43.7 per cent in the first half of 2005. The service companies interviewed for the Bank of Italy's survey predict a further rise in employment.

Employment growth was confined almost entirely to the Centre and North (1.3 and 1.6 per cent respectively), while in the South, after contracting slightly in 2004, the number of workers rose by 0.3 per cent.

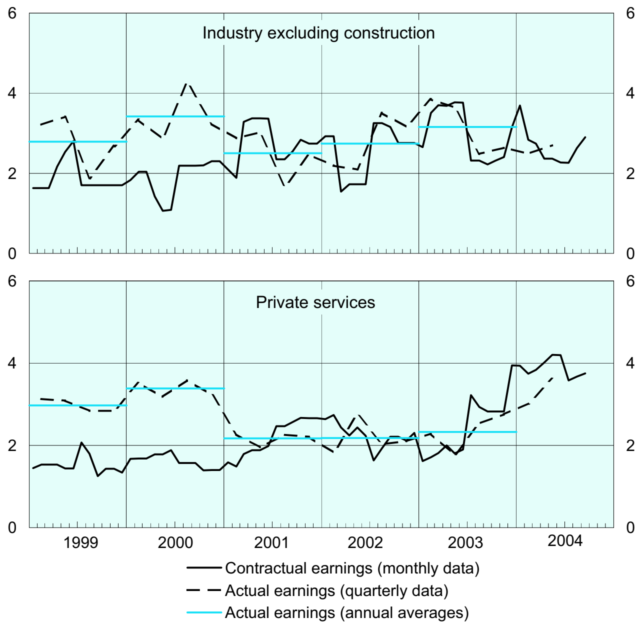
Unemployment and the supply of labour. – The seasonally adjusted unemployment rate fell from 7.8 per cent in the first quarter to 7.7 per cent in the second. The decrease was 0.4 percentage points on the year-earlier period and was largest in the South (0.9 points), where it was fostered by a contraction in the labour force. In the second quarter of 2005 the unemployment rate was 4.1 per cent in the North, 6.5 per cent in the Centre and 14.4 per cent in the South.

The labour market participation rate of the population aged 15 to 64 was unchanged from the

Figure 23

Italy: per capita contractual and actual earnings (1)

(seasonally adjusted data; percentage change on corresponding period)



Sources: Based on Istat, *Conti nazionali* and *Indagine sulle retribuzioni contrattuali.*

(1) Calculated for standard labour units.

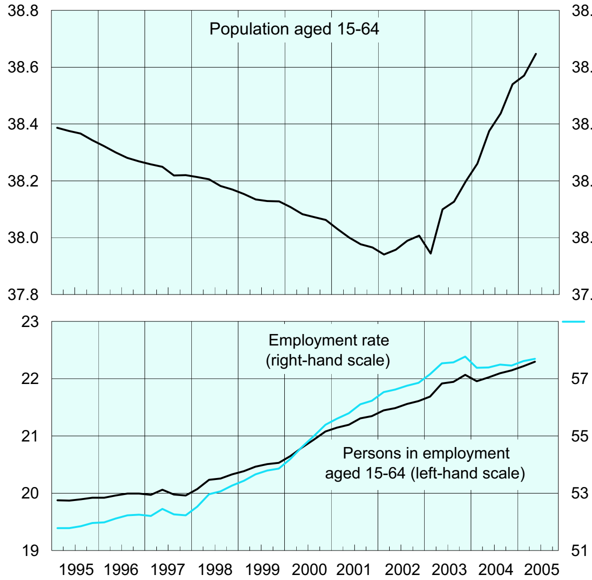
The impact of regularizing immigrant workers on employment growth in the labour force survey

Since the mid-1990s employment has grown faster than economic activity, mainly owing to wage moderation and the introduction of greater flexibility in the use of labour inputs. Recently, the increase in employment has also been due to other factors.

The labour force survey records the movement in the labour market of persons officially resident in Italy, excluding those living in communities, who account for 0.7 per cent of the total. The last two years have seen a substantial rise in the resident population. As the National Institute for Statistics, Istat, points out, much of this increase was due to the measures to regularize immigrant workers passed at the end of 2002, the effects of which carried over into 2004 because of the lengthy bureaucratic procedures involved. The measures in question concerned 624,000 workers, 52 per cent of whom resided in the North, 29 per cent in the Centre and 19 per cent in South. Although these people in fact already had jobs, they were not included in the earlier survey because they were not officially registered as resident in the country. According to registry office data, while the natural balance was negative overall, in 2003-2004 net migration from abroad, including regularized entrants, totalled 787,238. This represented 69 per cent of the total population increase, which was equal to 1,141,305. Most of the rest of the population increase was due to corrections to registry office data following the 2001 census.

Working-age population, persons in employment and the employment rate in Italy

(millions of people and percentages)



Source: Based on data published by Istat in *Rilevazione sulle forze di lavoro.*

As more immigrant workers progressively registered, the rate of growth of the resident population of working age (15-64) increased,

previous year at 62.4 per cent. While in the Centre and North the rate rose by 0.2 and 0.3 percentage points respectively, to 65.1 and 68.1 per cent, in the South it fell by 0.5 points to 53.8 per cent. The decline in the southern participation rate concerned only women, for whom it fell by 1.2 points, with a reduction in the numbers of both workers and job-seekers.

Labour costs and industrial relations. – In the entire economy, gross employee compensation per full time equivalent worker increased by 1.9 per cent in 2005, according to the national accounts, in line with inflation. Actual per capita earnings, not including employers' social security contributions, rose by 2.2 per cent. These overall figures are the result of widely divergent trends in the public and private sectors: in the former, per capita earnings were stationary at the previous year's level, while in the latter they rose by 3.1 per cent. The slower pace of growth in the public sector can be ascribed to delays in renewing the labour contracts for 2004-2005; those of employees in schools and ministries were only signed in October. The current renewals should bring pay increases into *brusquely reversing the downward trend of the 1990s (see figure). According to Istat these factors have had a profound effect on the evolution of the aggregates estimated in the labour force surveys. From the first half of 2003 to the first half of 2005 the working-age population rose by 587,000, despite the negative contribution of demographic ageing. Without regularizations and post-census adjustments, ageing would have caused a drop of over 270,000 in the population aged 15 to 64. In the same period employment grew by 436,000 and the employment rate rose from 57.2 to 57.4 per cent.*

Given the moderate increase in the employment rate that followed the rapid expansion of 1997-2003, the large rise in employment was therefore mainly due to the growth in the registered resident population. Separating the effects of the two factors, it emerges that population growth alone explains nearly 80 per cent of the total increase in the number of employed workers (see table). The rise in the number of men in work can be put down entirely to the increase in the population, given the fall in the employment rate; in the case of women, the two components contributed in equal measure. Differences were also apparent in the geographical effects: in the North and the South the increase in the number of people in work was due exclusively to the growth in the population, which contributed less than 50 per cent in the Centre. Even the slight rise in the aggregate employment rate has been fuelled in the last two years by the increase in the number of regularized immigrant workers, whose employment rate is just about 100 per cent.

Breakdown of employment in Italy between H1-2003 and H1-2005 (1)
(thousands of workers)

	Change in employment	of which: due to change in the	
		employment rate	population
Men	210	-28	238
Women	226	116	110
North	211	13	198
Centre	220	120	101
South	5	-48	53
Total (2)	**436**	**99**	**337**

Source: Based on data published by Istat in *Rilevazione sulle forze di lavoro.*

(1) Data on the population aged from 15 to 64. – (2) Summing the contributions to the growth in employment divided by gender and geographical area does not give the figures for the total owing to changes in the composition of the population by gender and geographical area.

line with the averages for recent years, which have been higher than in the private sector.

In industry excluding construction the cost of labour per standard labour unit rose by 2.5 per cent in the first half over the year-earlier period (3.3 per cent in 2004 as a whole), in line with the increase in actual per capita earnings (2.6 per cent) and contractual wages (2.7 per cent; Figure 23). The slight rise in labour costs was accompanied by a decline of 1.5 per cent in productivity growth, raising unit labour costs by 4.1 per cent.

In the private service sector unit labour costs rose by 3.1 per cent and per capita earnings by 3.3 per cent. The acceleration of labour costs from growth of 2.4 per cent in 2004 was due to the renewal of some major contracts between the middle of last year and the beginning of this (mainly those of wholesale and retail trade, transport, banking and postal workers), which pushed contractual earnings up 4 per cent in the first half of 2005 on the year-earlier period. This acceleration and the further decline in productivity brought the rate of increase in unit labour costs from 3.1 to 4.4 per cent.

In the private service sector currently valid contracts represent 90 per cent of the wage bill, against about 50 per cent in industry excluding construction. In particular, the collective bargaining agreement for metalworkers, which expired in December 2004, has not yet been renewed. The unions have set wage demands of €130 a month, of which €105, representing an average rise of 6.5 per cent, will go to all workers; the remaining €25, representing productivity bonuses, will apply to workers in firms that have not signed supplementary company-level contracts. The employers' association has countered with an offer of €60 a month. Other issues under discussion include working hours, work organization and the rules governing apprenticeship. In September the collective agreement for some 290,000 workers in the food industry was signed, providing for an increase of €96, or 6.3 per cent, in the two years. As far as schools and ministries are concerned, the renewal of general government contracts for 2004-2005 is now under way. The collective agreements signed so far will provide for a total increase of around 5 per cent.

In the first nine months of the year, contractual earnings in the economy as a whole increased by 3.3 per cent on the year-earlier period. According to available information, on average they should continue to rise at the same pace throughout the year.

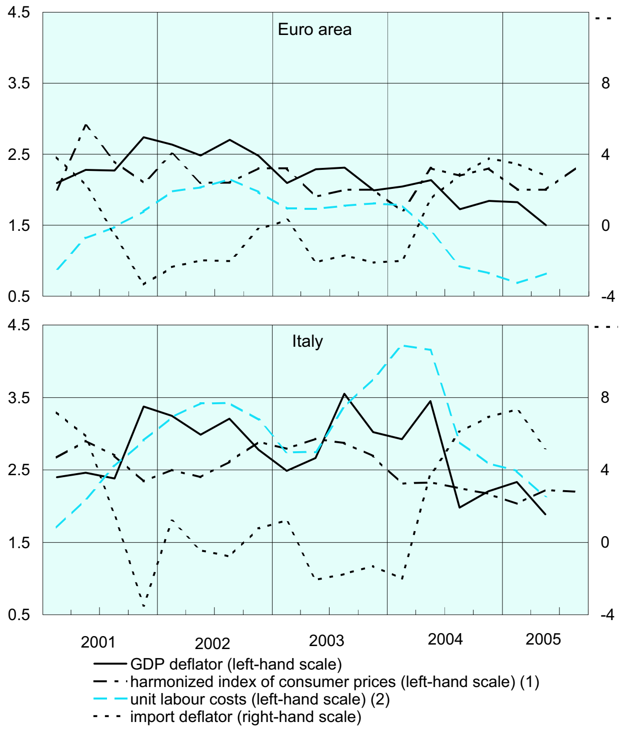
Prices and costs

Overview

In the first nine months of 2005 euro-area consumer price inflation stood at 2.1 per cent, unchanged from 2004 as a whole. The impact of the rise in the world prices of energy sources was moderated by a slower increase in unit labour costs, fostered by the cyclical upturn in productivity. In Italy the harmonized index of consumer prices rose by 2.2 per cent in the same period, compared with 2.3 per cent in 2004 (Figure 24).

Figure 24

Inflation indicators in the euro area and Italy
(quarterly data; percentage changes on year-earlier period)



Sources: Based on Istat and Eurostat data.
(1) For Italy, for 2001 the percentage changes are calculated with reference to harmonized indices that exclude price reductions for special offers. – (2) Moving average of four quarters. For the euro area, weighted average of France, Germany, Italy and Spain.

In the first ten months of 2005 the euro price of oil was more than 40 per cent higher than its average last year. Higher energy prices so far have not had repercussions on the other components of the harmonized overall index. In the first nine months core inflation (the harmonized index net of energy and unprocessed food) fell to 1.5 per cent in the euro area, compared with 2.1 per cent in 2004. In Italy the decline was smaller (from 2.3 to 2 per cent).

The forecasters surveyed by Consensus Economics in September expected inflation to fall below the 2 per cent threshold in the area and in Italy beginning in the second half of next year. These expectations are based on the assumption that the prices implied by crude oil futures contracts will basically hold steady.

Prices and costs in the euro area

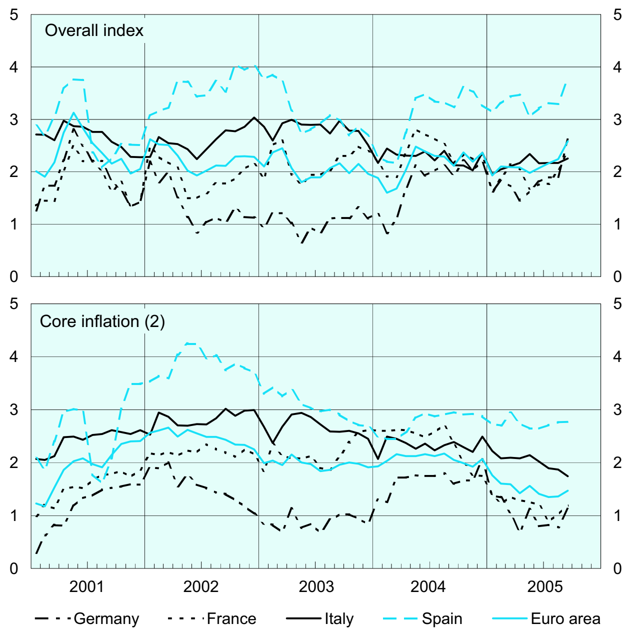
Consumer prices. – After holding at a 2 per cent rate in the first two quarters, euro-area price inflation was driven up to 2.3 per cent in the third by the steep rise in energy prices (Figure 25).

The core inflation rate, which has been on a downward path since the second half of 2004, fell to 1.4 per cent in the third quarter (compared with an average of 2.1 per cent in 2004). The reduction was common to all the major countries of the area, but it was especially sharp in Germany (from 1.7 to 0.9 per cent in the third quarter) and France (from 2.4 to 1 per cent), where the effects of last year's increases in the prices of medical and tobacco products had dissipated.

Contributions to the decline in core inflation came from the prices of goods other than food and energy, whose increase year on year fell almost to zero in the third quarter (from an average of 0.8 per cent in 2004), and those of processed food (Table a14). In the goods sector, the very moderate pace of domestic costs and the uncertain outlook for a strengthening of consumer demand in the area countered the inflationary pressures exerted by the imported component of costs.

Figure 25

Harmonized index of consumer prices (1)
(monthly data; twelve-month percentage changes)



Source: Based on Eurostat data.
(1) For Italy, for 2001 the percentage changes are calculated with reference to harmonized indices that exclude price reductions for special offers. – (2) Overall index excluding energy and unprocessed food.

The inflation rate for service prices fell by a smaller margin, remaining above 2 per cent (2.3 per cent in the third quarter). The difference with respect to the inflation rate for non-food, non-energy goods, equal to about 2 percentage points in the first half of 2005, reflects the differential in the sectoral growth rates in unit labour costs, especially in productivity (Table 16).

Energy and unprocessed food, the most volatile items of the overall price index, exerted increasing inflationary pressure during the year. The energy inflation rate rose to 12.9 per cent in the third quarter with respect to a year earlier, driven by the further increase in oil prices. The impact of these increases on the overall index was weaker in Italy: an average of 0.5 percentage points in the first nine months, against approximately 1 point in Germany and France. These differences are attributable both to the smaller weight of energy in the Italian harmonized basket and to the greater incidence of taxes on energy prices in Italy. After falling in the second half of 2004, the inflation rate for unprocessed food gradually rose during the year.

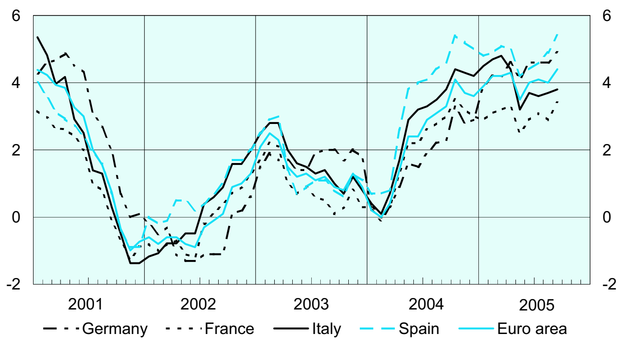
According to preliminary estimates by Eurostat, in October the twelve-month increase in the euro-area harmonized index of consumer prices fell to 2.5 per cent, from 2.6 per cent in September.

In the first nine months of 2005 the dispersion of inflation rates in the euro area, measured by the standard deviation, was 0.8 percentage points (the same as in 2004 as a whole) both for the overall index and for the index excluding energy and unprocessed food.

Producer prices and export prices. – The index of producer prices of manufactures sold within the euro area rose by 4.1 per cent in the first nine months of 2005, compared with 2.3 per cent in 2004 (Figure 26). The upward pressure exerted by energy prices was partly offset by the more favourable developments for the other components of the index. In particular, there was a marked reduction in price growth for non-energy intermediate goods, which account for about a third of the producer price index basket, thanks to the brusque slowing of the rise in non-energy raw materials prices on international markets.

Figure 26

Index of producer prices (1)
(twelve-month percentage changes)



Source: Eurostat.
(1) The index refers to the prices of manufactured goods sold on the domestic market.

Excluding food and energy prices, producer price inflation declined steadily during 2005, from 3.3 per cent in the first quarter to 1.5 per cent in the third (Table 17) The producer price inflation rate for final consumption goods, which had been rising since the second half of 2004, fell in the third quarter of this year, reflecting sharply lower growth in the costs of non-energy inputs.

The European Commission's indicator of industrial firms' pricing intentions remained at very low levels, despite a slight rise during the summer. This development reflected the gradual recovery in economic activity and, above all, the rise in input costs recorded by the Reuters survey of manufacturing firms.

The strong competition of the Asian countries prompted euro-area producers to limit the increases in their export prices, despite the expansion of world demand. In the first half of 2005 the implicit deflator of exported goods and services rose by 2.1 per cent with respect to a year earlier (1.3 per cent in 2004).

Firms of the major euro-area countries adopted differential pricing policies on foreign markets (Figure 27). The deflator registered moderate increases in Germany and France (0.8 and 1.5 per cent respectively) but sharper rises in Italy and Spain (5.3 and 3.5 per cent), driven by the faster pace of domestic costs.

Table 17

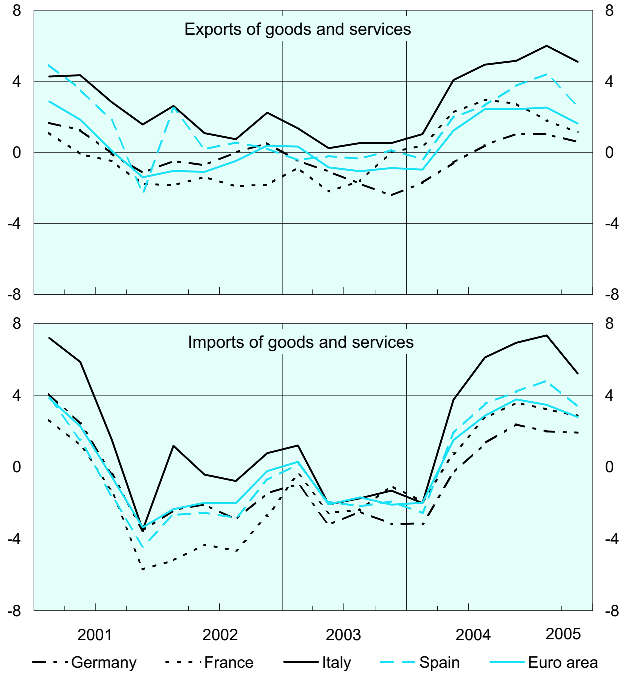
Inflation indicators in Italy and the euro area
(percentage changes on year-earlier period)

	Italy								Euro area							
	2003	2004	2004		2005			First 9 months of 2005	2003	2004	2004		2005			First 9 months of 2005
			Q3	Q4	Q1	Q2	Q3				Q3	Q4	Q1	Q2	Q3	
Harmonized consumer prices																
Overall index	2.8	2.3	2.2	2.2	2.0	2.2	2.2	2.2	2.1	2.1	2.2	2.3	2.0	2.0	2.3	2.1
Excluding energy and unprocessed food	2.7	2.3	2.3	2.3	2.1	2.1	1.8	2.0	2.0	2.1	2.1	2.0	1.7	1.5	1.4	1.5
of which: non-food and non-energy products	*1.8*	*1.6*	*1.4*	*1.7*	*1.3*	*1.7*	1.1	1.4	*0.8*	*0.8*	*0.8*	*0.8*	*0.3*	*0.3*	*0.1*	*0.2*
services	*3.2*	*2.6*	*2.7*	*2.7*	*2.7*	*2.5*	2.4	2.5	*2.5*	*2.6*	*2.6*	*2.7*	*2.4*	*2.3*	*2.3*	*2.3*
Unprocessed food	3.9	1.9	1.1	-1.8	-1.8	-1.0	-0.6	-1.1	2.1	0.7	-0.3	-0.7	0.5	0.8	0.8	0.7
Energy	3.2	2.4	3.3	5.8	6.0	8.2	10.3	8.2	3.0	4.5	6.3	8.5	7.6	8.8	12.9	9.8
Producer prices																
Overall index	1.6	2.7	3.5	4.3	4.7	3.7	3.7	4.0	1.4	2.3	3.1	3.8	4.1	3.9	4.2	4.1
Excluding energy and unprocessed food	1.2	3.0	3.8	4.4	4.0	2.3	1.3	2.5	0.5	1.7	2.3	3.1	3.3	2.3	1.5	2.4
of which: final consumption goods	*1.1*	*0.6*	*0.7*	*1.6*	*2.0*	*2.2*	*1.7*	*2.0*	*0.4*	*-0.6*	*-0.7*	*0.6*	*1.6*	*1.9*	*1.5*	*1.7*
intermediate goods	*1.5*	*4.9*	*6.4*	*6.9*	*6.0*	*2.7*	*1.0*	*3.2*	*0.8*	*3.5*	*4.7*	*5.5*	*5.1*	*3.1*	*1.7*	*3.3*
Energy	2.5	2.4	4.6	8.3	12.2	13.7	17.2	14.4	3.8	3.9	6.1	8.5	10.0	12.1	15.6	12.6
Unit labour costs (1)																
Total economy	3.9	2.3	0.4	2.8	3.5	1.8			1.8	0.5	0.3	1.1	0.9	1.1		
of which: industry excluding construction	*3.6*	*2.5*	*2.2*	*5.8*	*5.3*	*2.9*			*0.9*	*-1.1*	*-1.6*	*0.7*	*-1.0*	*-0.6*		
services	*3.9*	*2.6*	*-0.2*	*2.0*	*2.8*	*0.9*			*2.4*	*1.2*	*0.9*	*1.3*	*1.2*	*1.4*		

Source: Based on Eurostat data.
(1) For the euro area, weighted average of France, Germany, Italy and Spain; for Italy, unit labour costs are based on standard labour units.

Figure 27

Export and import deflators
(percentage changes on year-earlier quarter)



Sources: Based on Eurostat and Istat data.

Costs. – Imported inputs continued to generate considerable cost pressures for euro-area firms, reflecting the large price increases for energy raw materials and the gradual depreciation of the euro. The deflator of imported goods and services showed an increase of 3.1 per cent in the first half, up from an average of 1.5 per cent in the 2004.

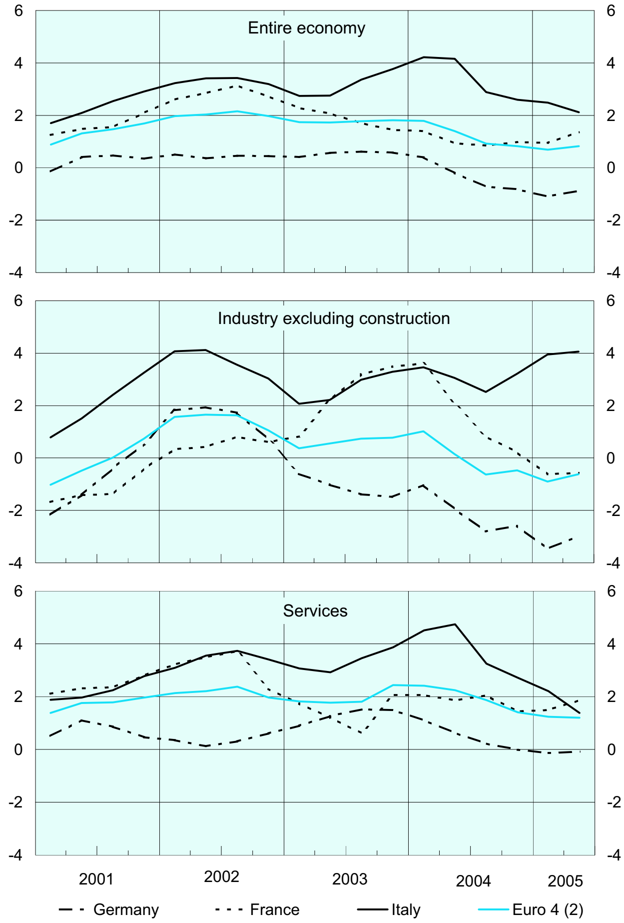
The cost strains continued to be moderated by the domestic components. Unit labour costs rose by an average of 1 per cent in the euro area in the first half of 2005, compared with an average of 0.5 per cent in 2004 (Figure 28).

Prices and costs in Italy

Consumer prices. – Inflation as measured by the index of consumer prices for the entire resident population fell to an average of 2 per cent in the first ten months of 2005, from 2.2 per cent in 2004 (Figure 29). Excluding the more volatile components and the items whose prices are regulated, the increase in consumer prices was 2 per cent, compared with 2.1 per cent in 2004.

Figure 28

Unit labour costs (1)
(percentage changes on year-earlier quarter)



Source: Based on Eurostat data.
(1) Moving average of four quarters. For France, Italy and Spain, unit labour costs are based on standard labour units. – (2) Weighted average of France, Germany, Italy and Spain.

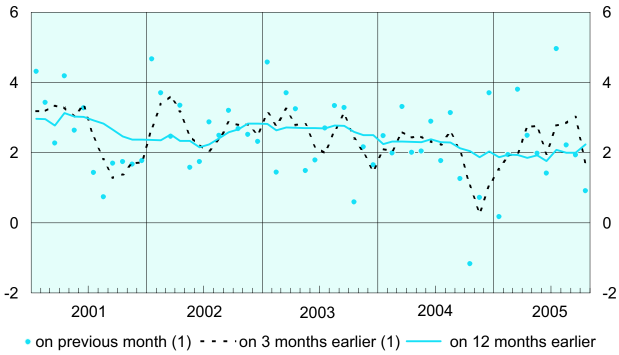
The pick-up in inflation during the summer (from 1.8 per cent in June to 2.2 per cent in October) was attributable to the rise in energy prices.

The rate of increase in unregulated non-food and non-energy prices remained moderate at just below 1 per cent in the first ten months, partly as a consequence of the weak growth in consumption. As in 2004, sharply lower prices for cellular telephones (down by 21 per cent) helped to contain inflation (Table 18).

Figure 29

Italy: index of consumer prices for the entire resident population

(percentage changes)



Source: Based on Istat data.
(1) Seasonally adjusted and annualized.

The inflation rate for services whose prices are not regulated remained well above that for goods (3.1 per cent, compared with 3.4 per cent in 2004). The factors sustaining it included the price increases for air travel (20.8 per cent, with a contribution of almost 0.2 points to overall inflation), catering services (2.6 per cent) and banking fees (8.3 per cent under the Istat definition).

The contribution of regulated prices to the average increase in the general index in the first ten months amounted to 0.3 percentage points; there were especially steep increases for tobacco and regulated energy prices (9.4 and 5.5 per cent, respectively). The latter, which depend only in part on the prices of energy raw materials, to

Table 18

Consumer prices in Italy (1)

	Percentage changes on year-earlier period		Percentage weights	Contributions to average inflation (percentage points)
	2004	January-October 2005	2004	January-October 2005
OVERALL INDEX	**2.2**	**2.0**	**100**	
Unregulated goods and services	**2.3**	**2.0**	**81.8**	**1.64**
Unprocessed food	2.0	-1.1	6.6	-0.07
of which: fruit	*3.7*	*-6.1*	*0.9*	*-0.06*
vegetables	*-0.2*	*-2.3*	*1.2*	*-0.03*
Processed food	2.3	0.7	10.0	0.07
Non-food and non-energy products	0.8	0.9	30.0	0.27
of which: computers	*-9.4*	*-10.2*	*0.2*	*-0.02*
telephones	*-23.3*	*-21.0*	*0.6*	*-0.13*
Unregulated services	3.4	3.1	31.9	0.99
of which: air transport	*11.6*	*20.8*	*0.8*	*0.17*
repairs and maintenance	*2.6*	*3.0*	*2.8*	*0.08*
coffee shops, restaurants, pizzerias, etc.	*3.3*	*2.6*	*3.3*	*0.09*
banking services	*6.6*	*8.3*	*0.7*	*0.06*
Energy	5.8	11.4	3.3	0.38
Regulated goods and services	**1.9**	**1.9**	**18.2**	**0.35**
Medical products	-1.0	-6.4	2.8	-0.18
Tobacco products	9.8	9.4	2.1	0.20
Rents	2.8	2.4	2.6	0.06
Public services and utilities	0.9	2.4	10.2	0.25
of which: energy	*-1.2*	*5.5*	*2.8*	*0.15*
refuse collection	*3.9*	*4.3*	*0.6*	*0.03*

Source: Based on Istat data.
(1) Index of consumer prices for the entire resident population.

which they are adjusted with a lag of more than six months, have been rising since the end of 2004.

Costs and profit margins. – The rate of increase in unit labour costs in the economy as a whole rose to 2.7 per cent in the first half of 2005 on a year earlier, compared with an average of 2.3 per cent in 2004. The deceleration of the rise in labour costs per employee to 1.9 per cent (from 2.9 per cent in 2004) only partly attenuated the decline in productivity (-0.7 per cent, compared with a gain of 0.5 per cent in 2004; Table 12).

In the first half of 2005 the profit share in value added in the economy as a whole fell slightly: the share declined by about 0.5 percentage points in industry excluding construction, in line with the trend of the last four years, while holding steady in private services.

More detailed information on Italian firms' costs and profit margins is provided by the input and output price indicators prepared by Istat for the national accounts (but still based on the weighting structure referring to 1995; Table 19). In the first half of 2005 unit variable costs in manufacturing rose by 5.1 per cent, compared with 3.1 per cent in 2004. Output prices rose by 3.3 per cent, with a corresponding erosion of profit margins (which had remained unchanged in 2004). Developments were similar in the service sector, where unit variable costs grew by 3.2 per cent and output prices by 2.4 per cent.

In 2005, in connection with the rapid recovery in world demand, Italian firms have raised their export prices significantly. The average unit values in euros of manufactures exported to EU countries were 5.3 per cent higher in the first half of 2005 than a year earlier, up from growth of 4.5 per cent in 2004 (Table a18). The corresponding increase in those of goods exported to non-EU markets was 7.1 per cent, up from 4.2 per cent in 2004.

Inflation expectations

In October the professional forecasters interviewed each month by Consensus Economics expected inflation in 2005 to average 2.1 per cent in Italy and 2.2 per cent in the euro area (Table 20).

Table 19

Unit variable costs and output deflator in Italy (1)
(percentage changes on year-earlier period)

	Manufacturing (2)			Private services		
	Percentage weights in 1995	2004	2005 Jan.-Sept.	Percentage weights in 1995	2004	2005 Jan.-Sept.
Unit variable costs	**100.0**	**3.1**	**5.1**	**100.0**	**2.7**	**3.2**
Labour inputs	35.9	2.5	6.2	73.6	2.4	3.0
Other inputs	64.1	3.5	4.4	26.4	3.3	3.9
Domestic	*38.3*	*1.5*	*5.2*	*19.9*	*3.9*	*5.8*
Imported	*25.8*	*5.8*	*3.5*	*6.5*	*1.7*	*2.8*
Output prices	**100.0**	**3.1**	**3.3**	**100.0**	**2.2**	**2.4**
On the domestic market	*58.3*	*2.3*	*-0.4*	*91.3*	*2.2*	*2.2*
On export markets	*41.7*	*3.8*	*7.3*	*8.7*	*3.0*	*4.6*

Source*:* Istat.
(1) Indicators excluding intrasectoral transactions. – (2) Manufacturing does not include the sub-sectors “Manufacture of coke, refined petroleum products and nuclear fuel” and “Mining and quarrying except energy producing materials”.

Inflation expectations for the area have been revised upwards by around 0.4 percentage points since the start of the year, gradually adjusting to actual price developments. On the basis of these forecasts, this year Italy's average inflation differential vis-à-vis Germany and France is expected to be 0.2 and 0.3 percentage points respectively.

Table 20

Inflation expectations for 2005 and 2006 in the euro area (1)

	Forecasts for 2005		Forecasts for 2006	
	January 2005 survey	October 2005 survey	January 2005 survey	October 2005 survey
Italy	2.1	2.1	1.9	2.0
France	1.7	1.8	1.7	1.7
Germany	1.3	1.9	1.2	1.7
Spain	2.8	3.3	2.6	3.1
Euro area	1.8	2.2	1.7	1.9

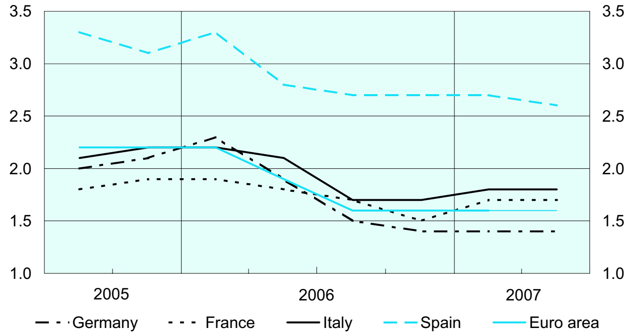
Source: *Consensus Forecasts*.
(1) Monthly survey.

Taking account of the jump in oil prices and the signals from futures contracts of basically stable oil prices in the coming months, in 2005 professional forecasters' inflation expectations for 2006 have risen to 2 per cent for Italy and 1.9 per cent for the euro area. These expectations are based on projections of favourable domestic cost developments in the major countries of the area. According to the quarterly survey conducted by Consensus Economics in September, inflation will fall below 2 per cent from the second quarter of 2006 onwards in the euro area and from the third quarter in Italy (Figure 30).

Figure 30

Professional forecasters' inflation expectations for the eight following quarters

(September 2005 survey; percentage changes)



Source: Consensus Economics survey of professional forecasters.

In the quarterly survey of a sample of around 450 Italian industrial and service firms conducted jointly by the Bank of Italy and *Il Sole 24 Ore* in September, the respondents expected to raise their prices by an average of 2.4 per cent over the next twelve months. Strains in raw materials markets were the factor most often cited as a possible source of inflationary pressures.

For the euro area, the longer-term expectations that can be derived from the prices of inflation-indexed government securities indicate inflation holding broadly stable in the euro area at about 2 per cent. Professional forecasters' expectations are also in line with this level.

THE PUBLIC FINANCES IN THE EURO AREA AND ITALY

Overview

According to the latest forecasts of the European Commission, general government net borrowing in the euro area will come to 2.9 per cent of GDP in 2005, compared with 2.7 per cent in 2004. Based on the stability programme updates presented between November and June the deficit was supposed to fall to 2.5 per cent. The results have been affected by the slowness of economic growth. Recourse to one-off measures to reduce deficits remains substantial, though less so than in 2004. The ratio of debt to GDP will rise for the third consecutive year.

The excessive deficit procedures for France, Germany and Greece continued in 2005, and procedures against Italy and Portugal were initiated.

In June the EU Council, acting on decisions taken in March, approved two regulations that modified the Stability and Growth Pact. The changes are designed above all to make the Pact more flexible. In assessing the regulations, the Governing Council of the ECB reaffirmed the necessity that the excessive deficit procedure be credible and effective.

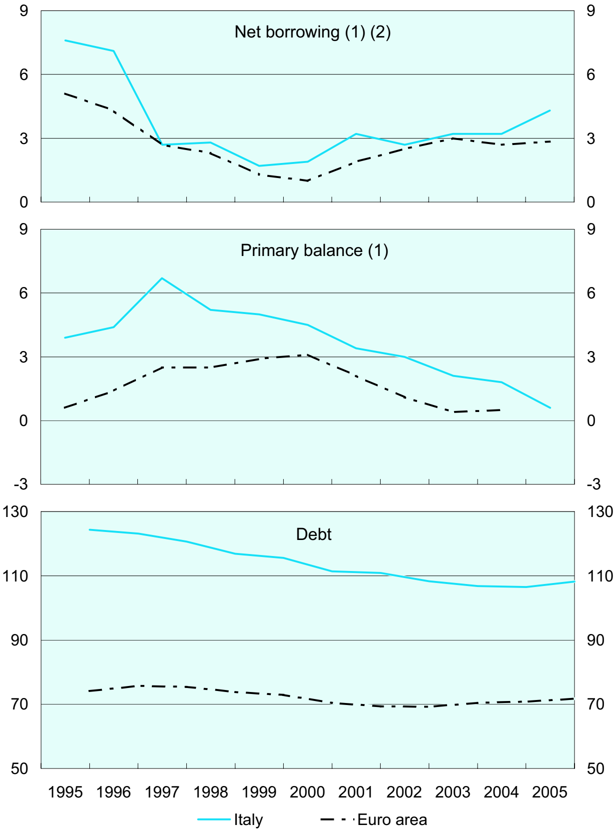
In Italy the net borrowing target for 2005 has been revised repeatedly upwards. It now stands at 4.3 per cent of GDP (Figure 31). The Economic and Financial Planning Document released in July 2004 had set a target of 2.7 per cent, against a current-programmes projection of 4.4 per cent. To attain the target, a deficit-cutting package for 2005 was passed officially valued at 1.7 percentage points of GDP.

The latest official estimates are based on a forecast of zero GDP growth this year and of significantly reduced effects of the budget package. The primary surplus is expected to continue contracting and to fall to 0.6 per cent of GDP. In 1997 it was 6.7 per cent. When Italy joined the Economic and Monetary Union, the Italian authorities had pledged to maintain it at around 5.5 per cent of GDP.

Figure 31

Italy and the euro area: general government net borrowing, primary balance and debt

(as a percentage of GDP)



Sources: Based on Istat and EU Commission data; for Italy's debt, Bank of Italy; for the 2005 forecasts, European Commission, *Autumn Forecasts*, November 2005; for Italy, the Forecasting and Planning Report for 2006.

(1) Excludes the proceeds of sales of UMTS licences. – (2) Includes the effects of swaps and forward rate agreements.

The deficit containment producer by one-off measures is much smaller. Compared with an average of over 1.5 percentage points of GDP in the three years from 2002 to 2004, the July 2005 Planning Document estimated their effects at 0.4 points. Excluding these measures, the primary surplus would be practically nil and net borrowing would come to nearly 5 per cent of GDP as in the previous two years.

In July the EU Council found that Italy had had an excessive deficit. Taking into account the statistical revisions made in the spring, net borrowing was found to have been above the threshold of 3 per cent of GDP in 2001, in 2003 and in 2004. In April the Commission had forecast that the deficit would be well above the threshold in 2005 and 2006 as well. The Council gave Italy six months to take corrective action and two years to eliminate the excessive deficit, indicating that the overall correction in 2006-07 would need to amount to 1.6 percentage points of GDP.

For the first time since 1994 the general government debt will increase in proportion to GDP. According to official estimates the ratio will rise to 108.2 per cent at the end of 2005, returning to the level registered in 2002. Between 2001 and 2004 the debt ratio was lowered by asset disposals and the restructuring of some general government assets and liabilities.

In the first nine months of the year the general government borrowing requirement net of privatization receipts amounted to €73.2 billion, €10.7 billion more than in the corresponding period of 2004.

The difference between net borrowing and the general government borrowing requirement net of privatization receipts will remain at the high levels of the last four years.

Excluding the offsetting effects of one-off measures and the cyclical stagnation, the primary borrowing requirement net of privatization receipts will be practically nil. In the medium term, under the macroeconomic scenario laid out in the Planning Document, merely stabilizing the debt ratio will require primary surpluses on a cash basis of about one percentage point of GDP; satisfactory debt reduction would require significantly larger surpluses. The Planning Document calls for the primary surplus to be raised up to 3 per cent of GDP in 2009.

Objectives and forecasts in the euro area

According to the stability programme updates presented between November and June, general government net borrowing in the euro area was supposed to decline from the 2.8 per cent of GDP then expected for 2004 to 2.5 per cent in 2005 and 1.9 per cent in 2006 (Table 21).

The budget results for 2005 in many countries, and notably in the three largest, will fall short of these objectives. The deviation is due chiefly to the worse-than-expected performance of the economy. The Commission's November forecasts put area-wide GDP growth for the year at 1.3 per cent, as against an average of 2.2 per cent indicated in the stability programmes.

In the spring the Commission had estimated net borrowing at 2.6 per cent of the area's GDP in 2005, compared with 2.7 per cent the previous year. The latest forecasts now put the deficit at 2.9 per cent in 2005 and 2.8 per cent in 2006. Trends in the various Member States differ, however.

Among the countries whose deficits were at or above the 3 per cent threshold in 2004, net borrowing will increase sharply this year in Portugal (by 3 points to 6 per cent) and Italy (by 1.1 points to 4.3 per cent) and less sharply in Germany (by 0.2 points to 3.9 per cent). It will moderate significantly in Greece (by 2.9 points to 3.7 per cent) and less substantially in France (by 0.5 points to 3.2 per cent) (Figure 32).

The Commission forecasts that the debt ratio for the area will rise by 0.9 points in 2005 to 71.7 per cent, essentially because of the increases in the three largest economies. The ratio is expected to remain unchanged in 2006.

The excessive deficit procedures for France, Germany and Greece are still under way. In July the Council found an excessive deficit for Italy, and in September the procedure was also initiated against Portugal in view of the estimates for 2005 given in June in that country's stability programme update. Considering the country's particular cyclical situation and the size of the corrections required, the Council recommended that Portugal eliminate its

Table 21

Euro area, EU15 and EU25: general government net borrowing and debt (1)

(as a percentage of GDP)

	Euro area			EU15			EU25		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
Net borrowing (2)									
Stability and convergence programmes	2.8	2.5	1.9	2.6	2.3	1.9	–	–	–
European Commission (April 2005)	2.7	2.6	2.7	2.6	2.5	2.5	2.6	2.6	2.5
OECD (June 2005)	2.7	2.8	2.7	–	–	–	–	–	–
Outturn according to Eurostat (September 2005)	2.7	–	–	–	–	–	2.6	–	–
IMF (September 2005)	2.7	3.0	3.1	–	–	–	–	–	–
European Commission (November 2005)	2.7	2.9	2.8	2.6	2.7	2.7	2.6	2.7	2.7
Cyclically-adjusted net borrowing (3)									
OECD (June 2005)	2.0	1.8	1.8	–	–	–	–	–	–
IMF (September 2005)	2.2	2.3	2.3	–	–	–	–	–	–
Debt									
Stability and convergence programmes	71.0	70.6	69.6	64.6	64.4	63.6	–	–	–
European Commission (April 2005)	71.2	71.7	71.8	64.6	65.0	65.1	63.7	64.1	64.2
Outturn according to Eurostat (September 2005)	70.8	–	–	–	–	–	63.4	–	–
European Commission (November 2005)	70.8	71.7	71.7	64.3	65.1	65.2	63.4	64.1	64.2

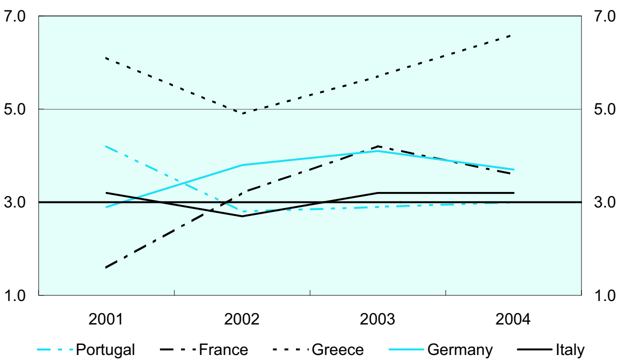
Sources: Stability and convergence programmes submitted between late 2004 and June 2005; European Commission, *Spring Forecasts*, April 2005; OECD, *Economic Outlook*, June 2005; IMF, *World Economic Outlook*, September 2005; Eurostat, press communiqué, 26 September 2005; European Commission, *Autumn Forecasts*, November 2005.
(1) GDP-weighted averages. – (2) Includes the effects of swaps and forward rate agreements. – (3) Excluding Luxembourg.

excessive deficit by 2008. In May the Commission recommended that the Council abrogate the procedure against the Netherlands concerning that country's budget for 2003.

Figure 32

Net borrowing of selected euro-area countries (1)

(as a percentage of GDP)



Source: Based on Eurostat, press communiqué, 26 September 2005.
(1) The countries considered are those whose deficit exceeded the threshold of 3 per cent of GDP in 2004. The data include the effects of swaps and forward rate agreements.

The procedure is under way for six of the new Member States (Cyprus, the Czech Republic, Hungary, Malta, Poland and Slovakia). In November, for the second time in 2005, the Council judged that the measures enacted by Hungary were not sufficient to reduce net borrowing according to the timetable set in last January's recommendation.

The revision of European budget rules decided by the Council in March was embodied in two regulations approved in June. The changes are intended mainly to increase the flexibility of the Stability and Growth Pact. The deficit targets that the Member States must pursue in the medium term are differentiated according to their debt and potential growth. As regards the excessive deficit procedure, the set of exceptional economic circumstances envisaged is extended and the significant factors that justify limited, temporary non-compliance with the 3 per cent ceiling are specified. The deadline for correction of excessive deficits is lengthened from one to two years in special circumstances. The new arrangements are more complicated and give the Council greater discretionary powers.

In its evaluation of the changes to the Stability and Growth Pact, the ECB Governing Council reaffirmed the need for the excessive deficit procedure to be credible and effective and stressed the need for strict application of the new rules, which would foster a quick return to sound budget positions and improve market expectations.

In October the EU Council approved a revised version of the *Code of conduct on the content and format of stability and convergence programmes*. The new text describes in detail the obligations of the Member States, the Commission and the Council. Some technical matters involved in the recent changes are still being settled.

In September, with the second notification to the Commission, most countries revised the net borrowing and debt figures they had given in March. The revision resulted in a lowering of the debt ratio for the euro area by an average of 0.4 percentage points each year from 2001 to 2004, mainly reflecting the higher GDP figures produced in most countries by new measurement criteria, which were only partly offset by upward revisions of the debt in some countries (above all Germany and Italy, each of which raised the figure by an average of 0.4 points for each year).

The Council, though noting the need for further improvement, observed that the statistics released on the occasion of the latest notification were generally of high quality. The Council endorsed a set of measures to strengthen the independence and operational capabilities of Eurostat and the national statistics institutes. It agreed the procedures for Eurostat to perform methodological consultations in Member States. Plans were made for the constitution of a high level advisory body to strengthen the independence and enhance the accountability of Eurostat and the European Statistical System.

Budgetary policy in Italy

The Economic and Financial Planning Document released in July 2004 revised both the current-programmes and the planning projections for the deficit from 2004 to 2007. It set a target of 2.7 per cent of GDP for general government net borrowing in 2005, against a current-programmes projection of 4.4 per cent. Economic growth of 2.1 per cent was assumed (Table 22).

The Forecasting and Planning Report and the Planning Document update in September 2004 both confirmed the target for net borrowing. The Government presented a budget correction officially estimated at 1.7 per cent of GDP.

In March 2005, on the occasion of the notification to the EU Commission, Istat released the outturn for net borrowing in 2004 (3 per cent of GDP) and revised the deficits for previous years upwards (see the box "Recent revisions of the general government accounts for 2001-03" in *Economic Bulletin* No. 40, March 2005). Pending clarification of some transactions, Eurostat did not validate the data transmitted by Italy.

In April the Commission forecast a deficit of 3.6 per cent of GDP for Italy in 2005.

In the April update of the Forecasting and Planning Report and Quarterly Report on the Borrowing Requirement, the Government raised its estimate of net borrowing for 2005 to 2.9 per cent. The change was due mainly to the downward revision of the growth forecast from 2.1 to 1.2 per cent. The Government also cited potential problems that could increase the deficit to 3.5 per cent of GDP, saying it would consider measures to keep net borrowing within 3 per cent of GDP.

In May, following Eurostat's rulings on the accounting treatment of certain transactions, Istat released a new estimate of net borrowing from 2000 to 2004, revising the deficit to 3.2 per cent of GDP in 2001, 2003 and 2004 and to 2.7 per cent in 2002.

Also in May, the Commission proposed that the Council initiate the excessive deficit procedure against Italy.

In July the Council found that Italy had an excessive deficit and observed that the situation was not exceptional and could not be considered temporary, since according to the Commission's

Table 22

Italy: public finance objectives and estimates for 2005

(billions of euros and percentages)

	State sector borrowing requirement (1)	General government				Memorandum items:	
		Net borrowing	Primary surplus	Interest payments	Debt	Real GDP growth rate	Nominal GDP
Objectives							
Economic and Financial Planning Document (July 2004) ...	….	….	….	….	….	2.1	1,409.0
as a percentage of GDP	*4.2*	*2.7*	*2.6*	*5.3*	*104.1*		
Forecasting and Planning Report and Economic and Financial Planning Document update (September 2004)	61.0	38.7	33.8	72.5	….	2.1	1,413.9
as a percentage of GDP	*4.3*	*2.7*	*2.4*	*5.1*	*104.1*		
Stability programme update (November 2004)	….	….	….	….	….	2.1	….
as a percentage of GDP	….	*2.7*	*2.4*	*5.1*	*104.1*		
Estimates released during the year							
Quarterly Report on the Borrowing Requirement and Forecasting and Planning Report update (April 2005)	44.0	41.0	29.3	70.3	….	1.2	1,394.5
as a percentage of GDP	*3.2*	*2.9*	*2.1*	*5.0*	*105.3*		
Economic and Financial Planning Document (July 2005) .	65.2	59.6	8.7	68.3	….	0.0	1,382.2
as a percentage of GDP	*4.7*	*4.3*	*0.6*	*4.9*	*108.2*		
Forecasting and Planning Report (September 2005)	65.2	59.6	8.7	68.3	….	0.0	1,384.0
as a percentage of GDP	*4.7*	*4.3*	*0.6*	*4.9*	*108.2*		

(1) Net of settlements of past debts and privatization receipts.

forecasts the deficit would remain above 3 per cent in 2005 and 2006. In keeping with the new European budget rules and considering the cyclical weakness of the Italian economy, a period of six months was allowed in which to adopt corrective measures and two years to correct the excessive deficit. The Council estimated the size of the overall correction required for 2006 and 2007 at 1.6 percentage points of GDP.

The Economic and Financial Planning Document released in July raised the estimate of net borrowing for 2005 to 4.3 per cent of GDP, close to the current-programmes projection made in the 2004 Planning Document. The primary surplus was revised downward from 2.1 to 0.6 per cent of GDP. These estimates, which were confirmed in September in the Forecasting and Planning Report for 2006, assume zero economic growth this year and significantly less-than-expected effects of the budget measures.

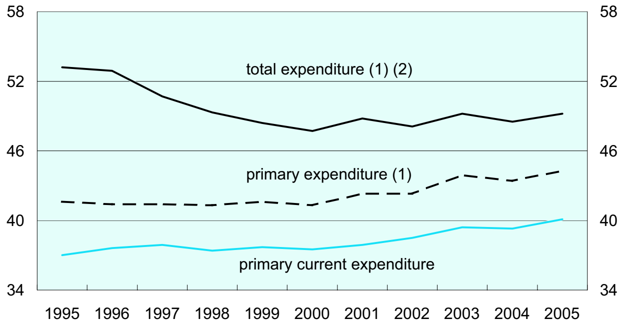
Estimates released in November indicate a decline in revenue of 0.4 percentage points compared with 2004, an increase in primary expenditure of 0.9 points and a decrease in interest expenditure of 0.2 points (Figure 33).

The impact of one-off measures will be sharply reduced this year. Counting only property disposals effected in the first ten months (€0.6 billion), they come to 0.5 per cent of GDP, compared with more than 1.5 per cent in 2004. Excluding one-off measures, the primary surplus would be virtually nil and net borrowing would be almost 5 per cent of GDP, as in the last two years.

Figure 33

Italy: general government expenditure

(as a percentage of GDP)



Sources: Based on Istat data. For 2005, forecasts from the Forecasting and Planning Report for 2006.
(1) Excludes the proceeds of sales of UMTS licences. – (2) Includes the effects of swaps and forward rate agreements.

The economic effect of fiscal policy appears moderately expansionary in 2005. The increase in the deficit stems largely from the reduction in one-off measures, whose effects on economic activity are normally modest. The small positive impact derives above all from the increase in direct expenditure (intermediate consumption and investment).

To meet the target for net borrowing, in October the Government passed corrective measures valued officially at €2 billion. They included decreases in spending on intermediate consumption and investment, property disposals and revenue increases in connection with changes to the rules on capital depreciation for corporations engaging in the shipment and distribution of gas, the management of the power grid and the distribution of electricity.

The public finances in the course of the year

In the first nine months of 2005 the total general government borrowing requirement was €69.2 billion. Excluding privatization receipts, it came to €73.2 billion, compared with €62.6 billion in the year-earlier period (Table 23).

In the first ten months the state sector borrowing requirement was €66.9 billion, or €5.5 billion more than in the corresponding period of 2004. In the final two months the requirement should be curbed by the realization of property disposals, by the proceeds of another securitization of INPS credits and by the measures recently approved by the Government. The borrowing requirement for the year should be in line with the official estimates (€65.2 billion or 4.7 per cent of GDP), an increase of some €15 billion with respect to 2004 (Figure 34).

Table 23

Italy: main public finance indicators

(millions of euros)

	2002	2003	2004	2005
	General government net borrowing			
Whole year	34,463	41,755	43,652	59,638 (1)
as a % of GDP	*2.7*	*3.2*	*3.2*	*4.3* (1)
	State sector net borrowing requirement (2)			
Jan. - Oct.	52,989	55,009	61,412	66,876
Whole year	31,008	46,419	50,125	65,187 (1)
as a % of GDP	*2.5*	*3.6*	*3.7*	*4.7* (1)
	General government net borrowing requirement (2)			
Jan. - Sept.	42,124	47,076	62,339	73,060
Whole year	38,189	47,604	56,541	–
as a % of GDP	*3.0*	*3.7*	*4.2*	–
	General government borrowing requirement net of privatization receipts			
Jan. - Sept.	44,826	51,983	62,553	73,212
Whole year	43,517	56,141	57,074	–
as a % of GDP	*3.5*	*4.3*	*4.2*	–
	Geneal government gross borrowing requirement			
Jan. - Sept.	44,649	51,983	62,537	69,187
Whole year	41,588	39,285	49,401	–
as a % of GDP	*3.3*	*3.0*	*3.7*	–
	General government debt			
At 30 September	1,405,514	1,435,699	1,485,581	1,527,919
At 31 December	1,365,009	1,389,224	1,439,810	–
as a % of GDP	*108.3*	*106.8*	*106.5*	*108.2* (1)
	Memorandum items: *Settlements of past debts*			
Jan. - Sept.	2,703	4,907	214	152
Whole year	5,328	8,537	533	–
as a % of GDP	*0.4*	*0.7*	*0.0*	–
	Privatization receipts			
Jan. - Sept.	178	1	15	4,025
Whole year	1,929	16,855	7,673	–
as a % of GDP	*0.2*	*1.3*	*0.6*	–

Sources: for general government net borrowing, Istat; for the state sector borrowing requirement, Ministry for the Economy and Finance.
(1) Estimate contained in the Economic and Financial Planning Document for the years 2006-09. – (2) Net of settlements of past debts and privatization receipts

The general government quarterly consolidated accounts

In October Istat released the general government accounts for the second quarter of 2005. According to these statistics, in the first half of the year net borrowing came to 5.1 per cent of GDP, compared with 3.6 per cent in the first half of 2004 (Table 1).

The quarterly accounts are partly estimated and may be subject to significant revisions. They are not seasonally adjusted and are highly variable over the course of the year.

Some expenditure items, notably social benefits in cash, compensation of employees and intermediate consumption, display a recurring intra-year pattern, with higher levels of spending in the last part of the year (Table 2). The profile of interest expenditure and capital expenditure, by contrast, varies considerably from one year to another.

In the first half of 2005 total general government revenue amounted to €279.8 billion (41.5 per cent of

Table 1

General government expenditure and revenue
(millions of euros)

	First half					First half			
	2004	2005	Percentage change on corresponding period 2004	Percentage change on corresponding period 2005		2004	2005	Percentage change on corresponding period 2004	Percentage change on corresponding period 2005
EXPENDITURE					**REVENUE**				
Compensation of employees	69,994	69,578	7.0	-0.6	Direct taxes	79,627	79,888	7.9	0.3
Intermediate consumption	31,007	31,927	1.2	3.0	Indirect taxes	96,102	96,927	4.3	0.9
Social benefits in cash	109,151	112,624	4.7	3.2	Social security contributions	77,842	79,618	3.8	2.3
Other current expenditure	37,913	39,047	7.0	3.0	Other current revenue	21,515	21,520	2.3	0.0
Current expenditure net of interest payments	**248,065**	**253,176**	**5.2**	**2.1**	**Current revenue**	**275,086**	**277,953**	**5.0**	**1.0**
as a percentage of GDP	*37.5*	*37.5*			*as a percentage of GDP*	*41.6*	*41.2*		
Interest payments	33,518	34,890	-4.9	4.1	Capital taxes	7,139	221	-62.5	-96.9
Current expenditure	**281,583**	**288,066**	**3.9**	**2.3**	Other capital revenue	1,237	1,641	-6.0	32.7
as a percentage of GDP	*42.6*	*42.7*			**Capital revenue**	**8,376**	**1,862**	**-58.9**	**-77.8**
Gross fixed investment	16,872	16,403	17.1	-2.8	*as a percentage of GDP*	*1.3*	*0.3*		
Other capital expenditure	8,646	9,570	-21.6	10.7	**TOTAL REVENUE**	**283,462**	**279,815**	**0.4**	**-1.3**
Capital expenditure	**25,518**	**25,973**	**0.3**	**1.8**	*as a percentage of GDP*	*42.9*	*41.5*		
Total expenditure net of interest payments	**273,583**	**279,149**	**4.8**	**2.0**	**NET BORROWING**	**23,639**	**34,224**	**68.2**	**44.8**
as a percentage of GDP	*41.4*	*41.4*			*as a percentage of GDP*	*3.6*	*5.1*		
					Primary surplus	**9,879**	**666**	**-53.4**	**-93.3**
					as a percentage of GDP	*1.5*	*0.1*		
TOTAL EXPENDITURE	**307,101**	**314,039**	**3.6**	**2.3**	*Memorandum item:*				
as a percentage of GDP	*46.5*	*46.5*			GDP	660,959	674,952	4.6	2.1

Source: Istat, *Conto economico trimestrale delle Amministrazioni pubbliche.*

Table 2

The increase in expenditure between the first and second half, 1999-2004
(percentage changes)

	Minimum	Maximum	Average
Employee compensation	11.8	19.9	17.4
Intermediate consumption ...	11.1	18.8	16.0
Social benefits	12.0	18.5	15.1
Other current expenditure	18.8	29.8	24.7
Primary current expenditure	**14.5**	**19.6**	**17.2**
Interest payments	-6.7	7.3	1.1
Current expenditure	**13.7**	**15.5**	**14.9**
Gross fixed investment	-17.1	36.8	19.9
Other capital expenditure (1)	-25.5	39.3	6.8
Capital expenditure (1) ...	**2.3**	**29.7**	**13.4**
TOTAL EXPENDITURE (1)	**14.0**	**16.7**	**14.7**

Source: Istat, *Conto economico trimestrale delle Amministrazioni pubbliche.*
(1) The change in other capital expenditure in 2000 excludes the proceedds of the sales of UMTS licenses €13,815 million).

GDP). This was 1.3 per cent less than in the same period of 2004, owing to a fall of €6.9 billion in capital taxes. This was partly due to the entry in the accounts in the second quarter of 2004 of the receipts from the tax regularization schemes that accrued in that year.

General government expenditure in the first half came to €314 billion, 2.3 per cent more than in the first six months of 2004. In relation to GDP it remained unchanged at 46.5 per cent. Primary expenditure increased by 2 per cent, holding steady at 41.4 per cent of GDP. Primary current expenditure rose at about the same rate; it too held steady in relation to GDP at 37.5 per cent.

Employee compensation diminished slightly (0.6 per cent), owing to the pattern of contract renewals. In the first six months of 2004 the collective bargaining agreements were signed for health service and local authority employees (a total of 1,115,000 workers) covering the years 2002 and 2003. Contract renewals in the first half of 2005 involved a much smaller number (66,000, mostly university employees). The raises decided in December for military and law enforcement personnel (440,000 persons) have been paid since January.

Intermediate consumption amounted to €31.9 billion in the first six months, or 3 per cent more than in the corresponding period of 2004. Since 1999 expenditure on this item has averaged 16 per cent more in the second than in the first half.

Social benefits in cash rose by 3.2 per cent to €112.6 billion. The increase also reflected the inflation adjustment of pensions (1.9 per cent). In recent years second-half spending on this item has averaged 15 per cent more than that in the first half, mainly due to the payment of the "thirteenth month" in December.

Interest payments rose by 4.1 per cent compared with the first half of 2004, when they had fallen by 4.9 per cent compared with the first half of 2003. Istat's quarterly accounts do not calculate the effects of swaps.

Capital expenditure rose by 1.8 per cent; investment declined by 2.8 per cent while other capital expenditure increased by 10.7 per cent. Excluding the proceeds of property sales, which are entered in the accounts as a reduction in investment expenditure, the decline in the latter was slightly sharper.

Tax revenue

In the first ten months of the year state budget tax revenue on a cash basis amounted to €254.7 billion, an increase of 1.9 per cent over the corresponding period in 2004 (see table). Net of lotteries, revenue rose by 0.7 per cent.[1]

One-off taxes brought in €1.9 billion, down from €10.6 billion in the year-earlier period. Receipts under tax regularization schemes fell from €6.6 billion to almost nil and those from the tax on the revaluation of company assets from €3.6 billion to €0.7 billion.

State budget tax revenue on a cash basis (1)
(millions of euros)

	January-October			
	2004	2005	% composition in 2005	% change on 2004
Direct taxes	**134,518**	**132,762**	**52.1**	**-1.3**
Personal income tax (2)	98,358	103,604	40.7	5.3
of which: withholdings from employee incomes	*78,796*	*82,147*		*4.3*
balances	*4,241*	*4,905*		*15.7*
payments on account	*6,188*	*6,588*		*6.5*
Corporate income tax (2)	14,722	17,866	7.0	21.4
of which: balances	*5,924*	*7,213*		*21.8*
payments on account	*8,675*	*10,548*		*21.6*
Tax on interest income and capital gains	9,298	7,360	2.9	-20.8
of which: interest on bank deposits	*1,946*	*2,182*		*12.1*
interest on public and private bonds	*3,176*	*3,201*		*0.8*
managed assets	*283*	*598*		*111.3*
sales of businesses and equity interests	*2,837*	*29*		*-99.0*
Other (3)	12,140	3,932	1.5	-67.6
Indirect taxes (excluding lotteries)	**113,818**	**117,363**	**46.1**	**3.1**
VAT	74,713	77,811	30.6	4.1
Other business taxes (3)	11,293	9,673	3.8	-14.3
Excise duties on mineral oils	15,732	16,678	6.5	6.0
Other excise duties and sales taxes	5,316	5,877	2.3	10.6
Monopolies	6,764	7,324	2.9	8.3
Total tax revenue (excluding lotteries)	**248,336**	**250,125**	**98.2**	**0.7**
Lotteries	1,608	4,601	1.8	186.1
TOTAL TAX REVENUE	**249,944**	**254,726**	**100.0**	**1.9**

Sources: Based on Bank of Italy and Ministry for the Economy and Finance data.
(1) The figures for 2005 are provisional. – (2) With the second step of the tax reform, the personal income tax acronym was changed from Irpef to Ire. Under the first step of the corporate income tax reform (Legislative Decree 344/2003), as of 1 January 2004 the corporate income tax acronym was changed from Irpeg to Ires. – (3) Includes receipts from tax regularization schemes, which are classified in the national accounts as capital revenue.

Receipts from some other minor one-off taxes rose overall by €0.6 billion to €1.1 billion.

Net of one-off tax revenue and some other disparities between 2004 and 2005,[2] on a cash basis tax revenue increased by 5.1 per cent in the first ten months[3] Direct taxes rose by 6.1 per cent and indirect taxes by 4 per cent.

The rise in direct tax revenue reflects the good performance of personal income tax (up 5.3 per cent) and corporate income tax (up 21.4 per cent). Withholding tax on employee income increased by 4.3 per cent, owing in part to the late entry in the accounts of the revenue for October 2004. In the last few months the cumulative increase in this item has always been less than 3 per cent, reflecting the tax reliefs introduced with the second stage of income tax reform (see Economic Bulletin No. 40, March 2005, box on "The second step in the reform of personal income tax"). Revenue from the self-assessed portion of personal income tax increased by 10.2 per cent, owing in part to changes in the rules governing tax payments on account. On an accrual basis the figure remained broadly unchanged between 2003 and 2004. Corporate income tax revenue was affected by a rise in the percentage paid on account and by changes in the tax base under the reform that went into effect in 2004.

Revenue from the flat tax on interest income and capital gains fell by 20.8 per cent, as a result of the termination of the capital gains tax on the sale of businesses. Net of that component, the yield of the tax increased by 13.5 per cent (€0.9 billion). Taxes on capital gains on assets entrusted to financial intermediaries for administration rose by €0.3 billion, as did taxes on individually and collectively managed portfolios. The revenue generated by withholdings on interest on bank deposits recovered, with growth of €0.2 billion.

Turning to indirect taxes, VAT receipts rose by 4.1 per cent (€3.1 billion). The yield of other business taxes fell by 14.3 per cent (€1.6 billion), owing to: the absence this year of the one-off payment by tax collection banks in March 2004; the elimination of revenue from indirect tax regularization schemes (€1 billion in 2004); and the recovery during the year of the payments on account of stamp tax and tax on insurance premiums made at the end of 2004. Factors working in the other direction were increases under the 2005 budget in the fixed components of the registration, stamp, mortgage loan and cadastral taxes and in government licence fees.

The yield of mineral oil excise taxes rose by 6 per cent (€0.9 billion), owing almost entirely to a change in the payment procedure in January. The increase in the yield on other excise and sales taxes (€0.6 billion) was due mostly to the excise duty on natural gas.

The receipts of state monopolies increased by 8.3 per cent (€0.6 billion) as a result of the implementation of the Finance Law for 2005.

---

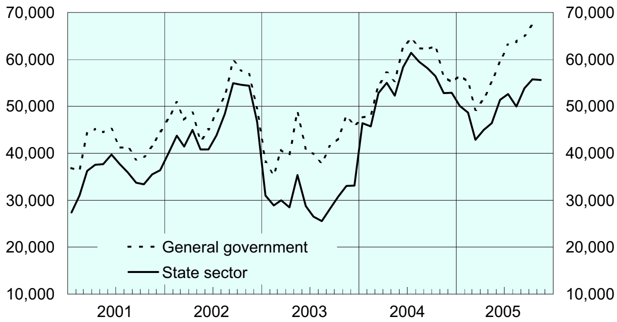
[1] The figures for lottery receipts are affected by the differences in accounting treatment between 2004 and 2005 as a consequence of the termination of the effects of the securitization of receipts in 2001. Through 2004 the securitization entailed the concentration of receipts in just a few months. For the sake of comparability the present analysis therefore excludes lottery receipts.

[2] In addition to lottery receipts, these include the capital gains tax on sales of businesses, receipts of which fell to zero this year as the tax was abrogated; the one-off payment of €0.8 billion made in March 2004 by the banks acting as tax collection agents; the delay in the entry in the accounts of withholding tax on employees' earnings for October 2004; and the modification of the procedure for payment of the mineral oil excise tax.

[3] The trend on a cash basis appears to be in line with that in assessments (i.e., the legal accrual basis). According to the latest available data, in the first seven months this aggregate rose by 4.5 per cent on a cash basis and 4 per cent on an accrual basis (for the definition of the legal accrual basis, see Economic Bulletin No. 37, November 2003, box on "Tax revenue".)

Figure 34

Italy: general borrowing expenditure (1)
(millions of euros)



(1) Net of settlements of past debts and privatization receipts.

The difference between the general government borrowing requirement (excluding privatization receipts) and net borrowing will remain at the high level of the last four years (1.1 per cent of GDP on average). This year part of the gap is due to the difference between the interest paid and that included in net borrowing on an accruals basis. A large volume of redemptions of postal savings certificates resulted in the payment of a substantial amount of interest accrued in previous years. In the past the difference had been of the opposite sign.

According to estimates released by Istat, general government net borrowing in the first half of the year amounted to 5.1 per cent of GDP, compared with 3.6 per cent in the first half of 2004. The primary surplus fell from 1.5 to 0.1 per cent, with non-interest expenditure holding stable at 41.4 per cent of GDP and revenues declining from 42.9 to 41.5 per cent (see box "The general government quarterly accounts"). In part this reflected the difference between the proceeds of tax condonations entered in the accounts in the first half of 2004 and the significantly smaller receipts from building violation regularizations in the first half of 2005.

Central government tax revenues in the first ten months were slightly greater in nominal terms than in the same period of 2004. The substantial diminution in the revenue generated by one-off tax measures was offset by the increase in other receipts, which grew more than GDP. The increase was due in part to self-assessed tax payments (see box "Tax revenue").

The public debt

The ratio of debt to GDP will rise this year for the first time since 1994. The Economic and Financial Planning Document released in July estimated that it would increase by 1.7 percentage points to 108.2 per cent.

In the first nine months the debt grew by €88.1 billion, compared with €96.4 billion in the same period of 2004 (Table 24). The difference was due to the smaller increase in the Treasury's balance on its accounts with the Bank of Italy (€20.3 billion, compared with €33.9 billion), which was partly offset by the increase in the gross borrowing requirement from €62.5 billion to €69.2 billion. Owing to issue premiums, the debt increased by €2.6 billion less than the gross borrowing requirement in the first nine months of 2005, while exchange rate movements increased liabilities by €1.2 billion. In the corresponding period of 2004 the effects of both these factors had been negligible.

Table 24

Italy: change in general government debt and its components
(millions of euros)

	Jan.-Sept. 2004	Jan.-Sept. 2005 (1)
Change in debt	**96,358**	**88,110**
General government gross borrowing requirement	62,537	69,187
Settlements of past debts	*214*	*152*
Privatization receipts	*15*	*4,025*
Change in the Treasury's deposits with the Bank of Italy	33,860	20,322
Issue discounts and premiums	167	-2,578
Euro equivalent of foreign currency liabilities	-207	1,178

(1) Provisional.

The average residual maturity of government securities shortened slightly, from 6.5 years in December 2004 to 6.4 years at the end of September 2005.

In the last quarter of the year the debt should diminish, benefiting from the reduction in Treasury balances with the Bank of Italy. These had risen to €36.8 billion at the end of October from €15.8 billion at the end of 2004, when the minimum holding was set at €15 billion. In September the minimum was lowered to €10 billion.

MONETARY POLICY IN THE EURO AREA, FINANCIAL INTERMEDIARIES AND MARKETS

Overview

In the euro area the rise in oil prices during the summer led to renewed uncertainty about the outlook for growth and to an increase in consumer prices. Long-term inflation expectations nonetheless remained close to 2 per cent; wage growth remained moderate. In October the signs of an improvement in economic conditions became more evident.

The Governing Council of the ECB kept the minimum bid rate on main refinancing operations unchanged (Figure 35). Net of inflation, short-term yields remained close to zero in both Italy and the euro area. The market expects monetary policy to become less accommodating in the first half of 2006.

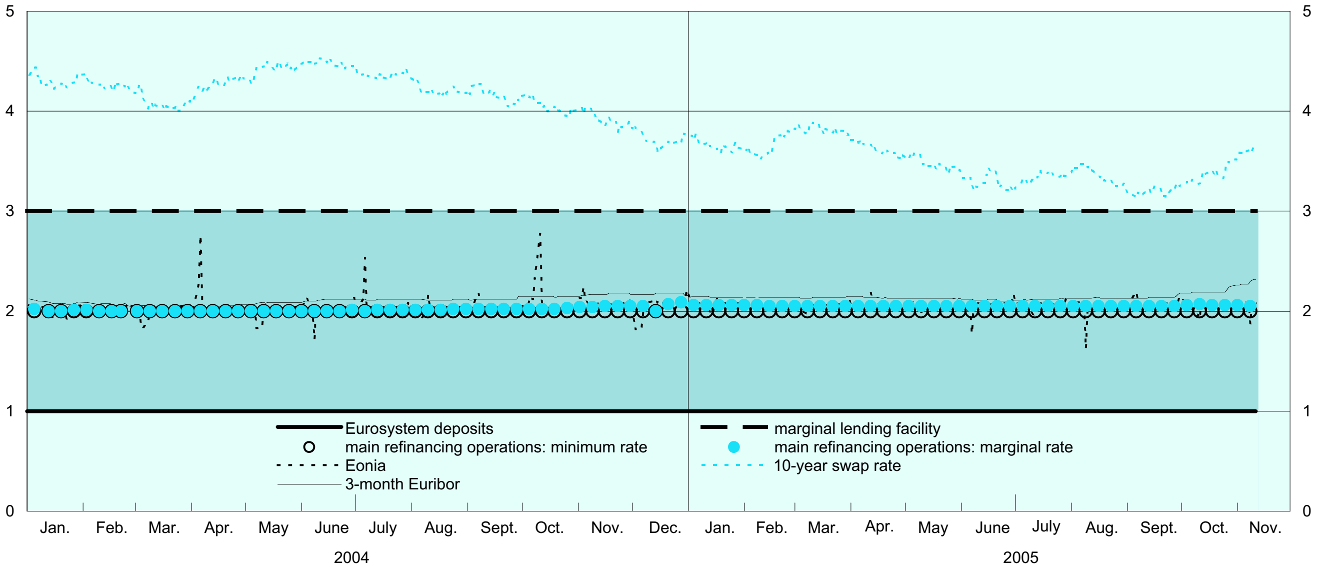
The nominal yields on long-term securities fell further in the euro area during the summer, reaching levels that were very low by historical standards; in October they turned upwards in response to more favourable prospects for economic activity and fears of increased inflationary pressures. Share prices rose from the spring onwards in both the euro area and Italy, reflecting the improvement in the current profits of listed companies and the further fall in real interest rates.

The yield differential between Italian and German ten-year government securities widened to 22 basis points between the end of March and the beginning of June. It subsequently narrowed and was 20 basis points at the beginning of November. Foreign investors increased their purchases of Italian government securities significantly; they took up the bulk of the issue of thirty-year BTPs in October.

Figure 35

Official interest rates and money and financial market rates in the euro area

(daily data; percentages)



Sources: ECB, Reuters and Telerate.

In Italy the conditions for obtaining finance remained easy. The demand for bank loans came primarily from service companies, building firms and households. There was a moderate resumption in lending to manufacturing firms, especially in the sectors in which production expanded fastest. Loan quality suffered only to a limited extent from the weak performance of the economy. In the first half of 2005 the profitability of banks increased.

In the first eight months of the year Italian banks and financial companies made very substantial issues of bonds. In the euro area the yield spread between securities with a low credit rating and government securities rose above the level at the beginning of the year but nonetheless remained small.

In the first half of 2005 firms' operating profitability declined slightly; financial leverage diminished, reflecting the increase in equity with the rise in share prices. Household debt is growing strongly, but in relation to disposable income is still low by international standards.

Interest rates and the exchange rate of the euro

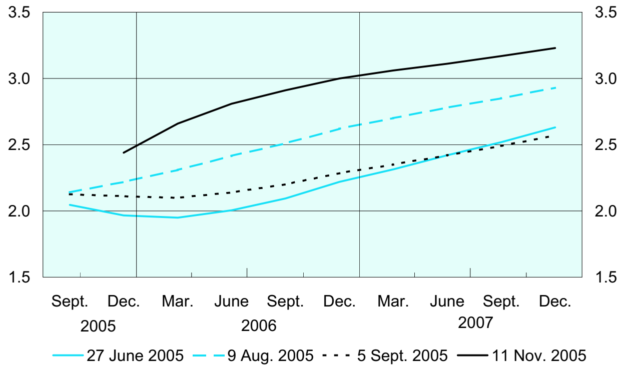
Short-term interest rates in the euro area remained low. At the beginning of the summer the signs of improvement in economic conditions and in the climate of confidence among consumers and firms led to a progressive rise in the forward yield curve, which in the first ten days of August indicated expectations of a rise in official rates in the early months of 2006 (Figure 36). In the following weeks the sharp rise in crude oil prices caused concern about growth in the area; in October there was a new upward shift at the short end of the yield curve in relation to the rise in current inflation and the indications of an improvement in economic conditions. At the beginning of November the market expected the period of rising short-term rates to start at the beginning of 2006.

Calculated on the basis of survey findings of inflation expectations, real short-term interest rates in euros remained close to zero in 2005 (Figure 37), becoming slightly negative in the third quarter in both the euro area and Italy (-0.1 per cent in September). The market expects them to remain unchanged in the last part of the year and then to become positive during 2006.

Figure 36

Rates on three-month Euribor futures contracts (1)

(percentages)



Source: Reuters.

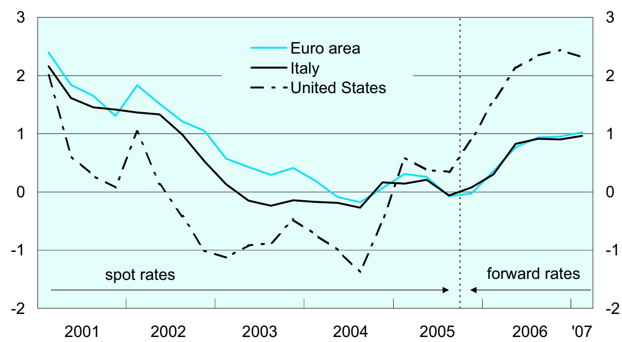
(1) The contract date of each curve is specified in the legend. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer (around the 15th of each month).

In the first nine months of 2005 nominal long-term yields fell significantly in the euro area. The ten-year rate implied by interest rate swaps in euros fell by 0.6 percentage points to 3.1 per cent, the lowest level since the start of the third stage of Economic and Monetary Union. In October and the early part of November the rate rose with the improved outlook for growth and reached 3.6 per cent.

Figure 37

Spot and forward real three-month interest rates (1)

(quarterly data; percentages)



Sources: Based on Reuters and Consensus Economics data.

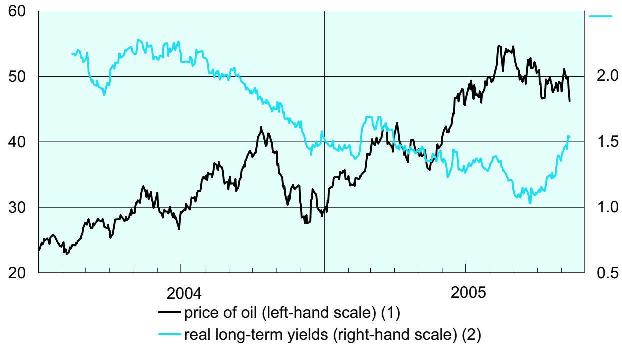
(1) Nominal three-month rates on Euromarket deposits (averages of daily data in the last month of the quarter; from December 2005, nominal rates implied by futures contracts in October), deflated using inflation expectations for the subsequent quarter measured by the quarterly Consensus Economics survey of professional forecasters.

Real long-term yields also declined until September, but in the autumn they recovered almost all the ground lost. The real long-term interest rate implied by the prices of ten-year government securities indexed to euro-area consumer prices was equal to 1.5 per cent in November (Figure 38). The fall recorded in the summer months reflected the impact of the rise in oil prices on the outlook for growth.

Figure 38

Real long-term interest rates in Italy and the oil price

(daily data)



Sources: Reuters and Bank of Italy.

(1) Euros per barrel of Brent grade. – (2) Rate of return on ten-year Italian government bonds indexed to euro-area inflation and maturing in 2014.

The fall in long-term rates was larger in the euro area than in the other leading countries. The spread between yields in dollars and euros widened by 0.5 percentage points from the beginning of the year to mid-November, when it was equal to 1.4 points. This widening of the spread can be attributed primarily to the euro area having less favourable growth prospects than the United States.

At international level the fall in yields of the last few years has been influenced by the increase in demand for low-risk long-term securities following the collapse of share prices in 2000. Another factor has been the stabilization of both expected and actual consumer prices, which has prompted a reduction in the inflation risk premium.

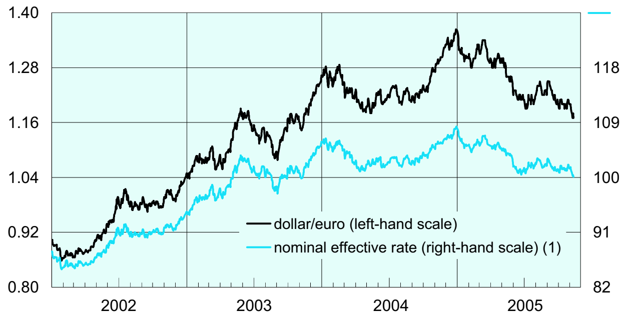
In the second quarter of 2005 the widening of the spread between long-term euro and dollar yields contributed to the weakening of the euro (Figure 39).

From the summer onwards the euro showed small fluctuations and then began to fall against the dollar again in mid-October. Overall, from the beginning of the year to mid-November the euro depreciated by 7.4 per cent in nominal effective terms as a consequence of a fall of 14.1 per cent against the dollar and smaller losses against the other main currencies.

Figure 39

Dollar/euro exchange rate and nominal effective exchange rate of the euro

(daily data)



Source: ECB.

(1) Index, first quarter of 1999=100. A rise in the index indicates an appreciation.

The money supply and credit

Euro-area M3 continued to accelerate in 2005, especially as regards the more liquid components, and grew by 8.5 per cent in the twelve months ending in September (Figure 40). Current account deposits grew by 10.4 per cent, compared with 7.6 per cent in December 2004. The demand for monetary instruments was boosted by the progressive narrowing of the difference between long and short-term interest rates.

As a ratio to GDP the quantity of money in the euro area has risen to a very high level. Only part of the increase can be attributed to the transactions component of households' demand for liquidity.

Although it slowed during the year, the growth in currency in circulation continued at a rapid pace (15.3 per cent in the twelve months ending in September). The increase in banknotes in circulation is presumably attributable more to growing use of the euro as a store of value outside the area than to residents holding liquidity for transactions purposes.

The sectoral distribution of the money supply in the euro area and Italy

The money supply in the euro area has been growing rapidly. Between the inception of Stage Three of EMU and mid-2005, the ratio of M3 to GDP rose by 14 percentage points to 89 per cent, with some acceleration in the later years (see table).

The economic consequences of rapid growth in the money supply depend, first of all, on its distribution among the principal sectors. An expansion of mainly transactional liquidity concentrated among households could foreshadow inflationary pressures. This risk would

Ratio of M3 to GDP and its composition by sector (1)

	M3/GDP	Sector					Other items (3)
		Households		Non-financial corporations	Non-bank financial intermediaries (2)	Local authorities	
			of which: *money market funds*				
				Euro area			
1998	74.3	47.6	*3.8*	11.4	3.0	2.5	9.9
2003	84.4	52.2	*7.9*	13.4	7.8	1.9	9.0
2004	86.3	52.1	*7.9*	13.7	7.7	1.9	10.1
2005 H1	88.8	52.2	*8.1*	13.8	10.0	2.0	10.8
Change 1998-2005	14.4	4.6	*4.3*	2.4	7.0	-0.5	0.9
				Italy			
1998	65.6	45.3	*0.4*	7.2	4.8	1.3	7.0
2003	77.4	54.7	*8.1*	9.1	5.4	1.9	6.2
2004	78.9	55.1	*7.3*	10.2	5.0	2.0	6.6
2005 H1	81.3	55.9	*6.8*	10.8	5.3	2.1	7.0
Change 1998-2005	15.7	10.6	*6.4*	3.6	0.6	0.8	0.0

Source: ECB and Bank of Italy.
(1) Discrepancies are due to rounding. – (2) Comprises “insurance companies and pension funds” and “other financial intermediaries”. – (3) Notes and coins, bonds with less than 2 years maturity and any discrepancies.

In the two years 2003-04 about half the growth in currency consisted of the largest denomination €500 notes; by contrast, €5, €10 and €20 notes made no contribution at all.

Credit to the private sector in the euro area continued to benefit from the low level of interest rates. The growth in loans accelerated to 8.6 per cent in September, compared with 7.2 per cent at the end of 2004.

Monetary and credit aggregates recorded strong growth in Italy too. The Italian component of M3, calculated net of currency in circulation, grew by 5.8 per cent in the twelve months ending in September. The expansion of total credit to the private sector – bank loans, foreign financing and domestic bond issues – reached 9.8 per cent in September, up from 7.7 per cent in December 2004 (Table 25).

be less acute if the build-up of money stocks reflected a change, and especially a permanent change, in agents' or intermediaries' portfolio choices.

The table breaks down the ratio of M3 to GDP in the euro area into the main sectors, namely households, non-financial firms, local authorities and non-bank intermediaries (insurance companies, pension funds and other intermediaries, including investment funds).[1] *It is not possible to identify the sector holding certain components (such as notes and coins and short-term bank bonds), which are therefore entered under "other items" and at present account for about 9 per cent of M3.*

In the euro area, households hold about 60 per cent of the money supply. However, they accounted for only about a third of the rise in the M3/GDP ratio between 1998 and 2005, just 4.6 percentage points. Essentially, the increase in households' liquid assets consisted in money market funds, which are presumably used less than the other M3 components for transactional purposes and more as a form of financial investment.

Firms' demand for liquidity increased significantly. The largest contribution to the growth in the money supply came from non-bank financial intermediaries. Insurance companies, pension funds and "other financial intermediaries", which had held a negligible portion of the M3 aggregate in 1998, accounted for half the total increment over the period, about 7 percentage points.

The substantial increase in the volume of deposits held by non-bank financial intermediaries, especially investment funds, reflected above all the growth in their total assets, not an increase in their degree of liquidity. The ratio of deposits to total investment fund assets in the euro area remained unchanged at around 8 per cent for the entire period, while their assets increased by 8.4 per cent a year.[2]

The money supply grew considerably in Italy as well. From 1998 to mid-2005, the Italian component of euro-area M3 rose by 16 percentage points in proportion to the country's GDP. About two thirds of the rise was accounted for by the household sector. As in the euro area, most of the increase was concentrated in money market funds, whose assets (which had been negligible in 1998) rose to nearly 7 per cent of GDP.

The growth of Italian non-financial firms' liquid assets was substantial (3.6 percentage points of GDP). In contrast with the rest of the euro area, in Italy the contribution of non-bank financial intermediaries was marginal (0.6 percentage points). This largely reflects the decline in the net worth of Italian investment funds since 2000 (see the section on "Italian institutional investors" in the Bank of Italy's Annual Report for the year 2004).

[1] *The table is based on data from the statistical appendix to the ECB* Monthly Bulletin, *October 2005 (Table 2.5). It assumes that all money market fund units are held by households.*

[2] *ECB* Monthly Bulletin, *October 2005, Table 2.9.*

Households' financial saving and the financing of firms in Italy

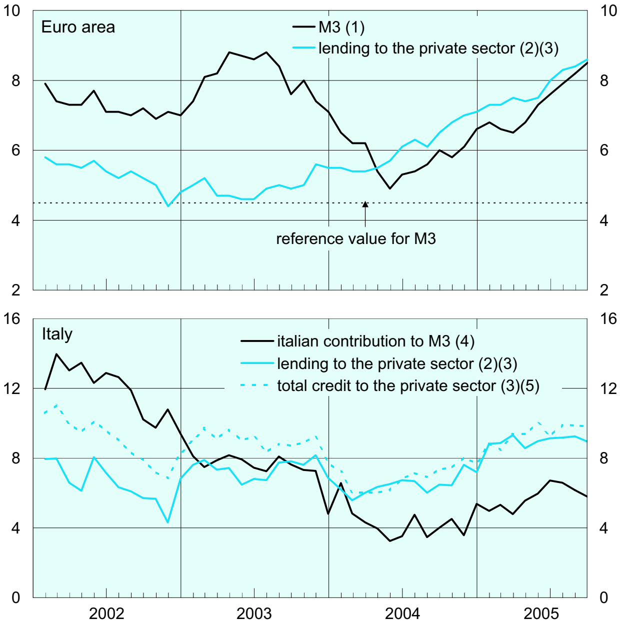
Households – In the first half of 2005 Italian households' financial saving (the balance between the changes in financial assets and liabilities) amounted to €75 billion (Table 26), compared with €54 billion in the corresponding period of 2004.

In comparison with the changes in their assets in the first half of 2004, households increased their net purchases of shares and began to buy units of foreign investment funds again; they also increased their investment in medium and long-term securities, especially corporate and bank bonds, but reduced that in short-term securities. Households' financial assets rose to €3,400 billion, or 2.4 times GDP. For the euro area as a whole they are 2 times GDP.

Figure 40

Monetary and credit aggregates

(end-of-month data; twelve-month percentage changes)



Sources: ECB and Bank of Italy.

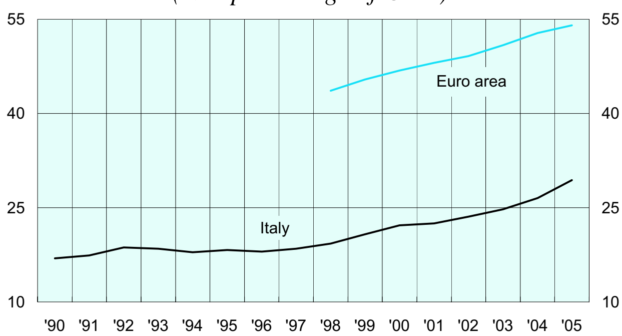
(1) Changes are calculated on the basis of seasonally adjusted data corrected for calendar effects. – (2) Lending in euros and other currencies by monetary financial institutions (MFIs). – (3) The private sector includes households, non-financial firms, insurance companies, non-profit institutions serving households, non-money-market investment funds and other financial institutions. – (4) Excludes currency in circulation. – (5) Lending by MFIs, bonds and foreign loans.

Household borrowing continued to increase, especially in the form of mortgage loans. In June 2005 Italian households' financial debt was equal to 29 per cent of GDP, compared with 27 per cent in June 2004 (Figure 41). At the end of 2004

Figure 41

Households' financial debt (1)

(as a percentage of GDP)



Sources: ECB and Bank of Italy; Eurostat and Istat for euro-area and Italian GDP.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. Stocks of financial liabilities at June of each year. GDP is for the full year (the figures for 2005 are estimated).

households' financial debt was equal to 40 per cent of disposable income in Italy, compared with 60 per cent in France, 100 per cent in Germany and Spain, 120 per cent in the United States and 140 per cent in the United Kingdom.

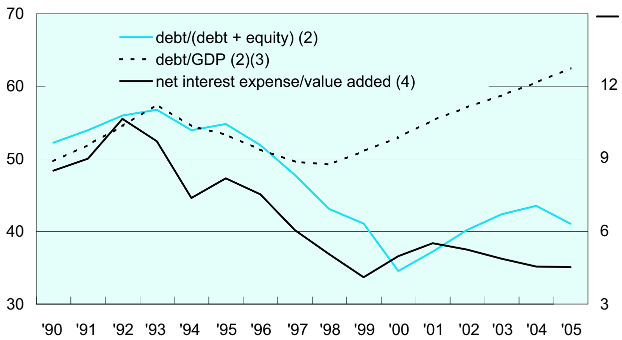
Firms. – According to estimates based on national accounts data, in the first six months of 2005 firms' operating profitability (gross operating profit in relation to value added) diminished slightly compared with the corresponding period of 2004. Financial expense was stable at 4.5 per cent of value added (Figure 42). In view of the weak growth in investment, the proportion covered by drawing on internal financial resources remained basically unchanged at around 65 per cent. The corporate sector borrowing requirement amounted to €5.3 billion, compared with €7.8 billion in the first six months of 2004.

Listed non-financial corporations, which are generally large, improved their profitability in the first half of 2005, partly as a consequence of the application of the new international accounting standards (IAS/IFRS).

Figure 42

Financial debt and net interest expense of Italian non-financial corporations (1)

(percentages)



Source: For GDP and value added, Istat.

(1) From 1995 onwards the data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. – (2) Left-hand scale. The stocks of debt and equity refer to June of each year. – (3) GDP is for the full year (the figure for 2005 is estimated). – (4) Right-hand scale. Net interest expense and value added are for the full year except for the figure for 2005, which refers to the first half. Bank of Italy estimates of net interest expense. Value added for 2005 is estimated on the basis of quarterly national accounts data.

In the first half of 2005 the corporate sector's net financial debt in the form of loans and securities increased by about 2 percentage points to 62.5 per

Table 25

Credit in Italy (1)
(end-of-period data)

	Total credit (2)	Total credit to the private sector (3)	Bank lending	Bonds	Finance from abroad
	Twelve-month percentage changes				
2002 – Dec.	5.5	8.3	6.8	40.9	8.9
2003 – Dec.	5.2	7.7	6.9	45.5	2.7
2004 – June	5.2	6.8	6.7	30.7	0.7
July	5.3	7.1	6.7	24.2	4.2
Aug.	5.2	6.9	6.0	25.0	5.6
Sept.	5.3	7.4	6.5	25.8	5.8
Oct.	4.8	7.4	6.4	26.1	6.3
Nov.	5.1	8.0	7.6	21.3	5.5
Dec.	5.5	7.7	7.2	16.1	7.0
2005 – Jan.	6.0	8.8	8.8	13.1	7.4
Feb.	5.6	8.5	8.9	16.6	4.3
Mar.	6.1	9.4	9.3	20.9	5.8
Apr.	6.2	9.4	8.6	29.7	6.6
May	6.7	10.0	9.0	33.2	7.3
June	6.5	9.3	9.1	23.7	4.8
July	6.7	9.9	9.2	….	….
Aug.	….	9.9	9.2	….	….
Sept.	….	9.8	9.0	….	….
	Percentage shares of stocks				
2005 – June	100.0	49.6	37.8	3.4	8.4

(1) Rounding may cause discrepancies in totals. The July, August and September figures for total credit and total credit to the private sector are estimated – (2) Sum of general government debt and total credit to the private sector. – (3) Italian residents other than central government and MFIs: households, non-financial corporations, insurance companies, non-profit institutions serving households, non-money-market investment funds and other financial institutions. Corresponds to "Other residents" in the harmonized statistics of the ESCB.

cent of GDP; the corresponding figure for the euro area at the end of 2004 was 77.2 per cent. The share of medium and long-term liabilities in total financial debt rose further, to 56 per cent in June. Financial leverage fell to 41.1 per cent, reflecting the increase in equity produced by the rise in stock market values.

The data published by Mediobanca on the financial statements of a sample of large and medium-sized companies indicate that the fall in 2004 in financial leverage, calculated on the basis of book-value equity, was common to nearly all the sectors of economic activity and most pronounced in the steel and electronics sectors, where operational profitability was greater.

In the first six months of 2005 firms' holdings of financial assets grew by approximately €25 billion; compared with the corresponding period of 2004, there was a significant increase in their net purchases of shares and other equity.

According to Thomson Financial, the first half of 2005 saw more than 50 mergers and acquisitions of majority shareholdings by Italian non-financial corporations, an increase on the average of the last two years. The value of the transactions, €6.2 billion, was also up on the 2003-04 average (€1.4 billion in each half year) although still small compared with the peak of more than €20 billion recorded in 1999-2000.

The sectors most affected by concentrations again included utilities and telecommunications, where economies of scale are substantial. In the first half of 2005 the proportion of transactions involving foreign companies in the same sector was higher than in the two previous years and debt financing was more frequent than in the recent past.

Table 26

Financial assets and liabilities of Italian households and firms (1)

(millions of euros)

	Households (2)			Non-financial corporations		
	Flows		Stocks	Flows		Stocks
	Jan.-June 2004	Jan.-June 2005	June 2005	Jan.-June 2004	Jan.-June 2005	June 2005
Assets						
Domestic assets	**80,866**	**90,626**	**3,167,073**	**4,736**	**8,402**	**875,864**
Cash and sight deposits	11,200	16,682	530,939	8,206	11,015	147,086
Other deposits	5,413	600	308,764	654	-937	9,593
Short-term securities	15,570	-4,433	10,922	-97	-1,180	158
Medium and long-term securities	26,344	31,138	627,536	8,510	2,395	45,179
of which: government securities	*22,827*	*12,220*	*226,170*	*-362*	*-1,522*	*12,561*
corporate bonds	*-9,147*	*1,641*	*46,025*	*8,233*	*2,714*	*18,717*
Investment fund units	-7,392	-4,808	296,330	-102	-67	4,126
Shares and other equity	2,418	27,102	840,659	2,441	10,534	398,240
Other financial assets (3)	27,313	24,345	551,923	-14,876	-13,358	271,482
of which: life insurance reserves	*20,403*	*18,189*	*328,984*	–	–	–
External assets	**-3,297**	**10,116**	**227,759**	**13,571**	**16,585**	**302,590**
of which: deposits	*-2,970*	*564*	*2,595*	*-661*	*-2,472*	*4,242*
short-term securities	*-174*	*565*	*975*	*-156*	*162*	*1,437*
medium and long-term securities	*-4,667*	*2,879*	*93,384*	*-155*	*914*	*17,921*
shares and other equity	*970*	*-214*	*81,172*	*1,902*	*810*	*145,214*
investment fund units	*3,544*	*6,321*	*49,633*	*233*	*217*	*9,736*
short-term loans	–	–	–	*8,141*	*13,842*	*62,958*
Total assets	**77,569**	**100,742**	**3,394,832**	**18,307**	**24,987**	**1,178,454**
Liabilities						
Domestic liabilities	**23,608**	**26,141**	**439,378**	**22,976**	**46,731**	**2,249,538**
Short-term debt (4)	-1,844	-204	52,981	-2,069	3,392	316,288
of which: bank	*-1,808*	*-271*	*51,257*	*-2,404*	*5,767*	*286,637*
Medium and long-term debt (5)	24,349	25,144	355,184	24,034	19,021	428,870
of which: bank	*20,548*	*22,328*	*321,185*	*16,773*	*16,602*	*344,203*
Securities	–	–	–	6,653	2,220	43,816
of which: medium and long-term	–	–	–	*5,186*	*245*	*32,482*
Shares and other equity	–	–	–	7,310	32,087	1,104,986
Other financial liabilities (6)	1,103	1,201	31,213	-12,952	-9,989	355,578
External liabilities	**–**	**–**	**–**	**3,118**	**-16,421**	**254,150**
of which: short-term debt	–	–	–	*-1,105*	*-723*	*56,676*
medium and long-term debt	–	–	–	*1,201*	*625*	*6,558*
medium and long-term securities	–	–	–	*2,534*	*-447*	*15,789*
shares and other equity	–	–	–	*-1,610*	*-21,517*	*140,940*
Total liabilities	**23,608**	**26,141**	**439,378**	**26,094**	**30,310**	**2,503,688**
Balance	**53,961**	**74,601**	**2,955,454**	**-7,787**	**-5,323**	**-1,325,234**

(1) Rounding may cause discrepancies in totals. – (2) Comprises consumer households, sole proprietorships with up to 5 workers and non-profit institutions serving households. – (3) Comprises the insurance reserves of the casualty sector and domestic trade credit; for households, also includes pension funds, severance pay provisions and the insurance reserves of the life sector; for firms, also includes domestic derivatives. – (4) Includes finance provided by factoring companies and repos. – (5) Includes finance provided by leasing companies; for households, also includes consumer credit from finance companies. – (6) Staff severance pay and pension provisions; for firms, also includes domestic trade credit and derivatives.

Bank lending

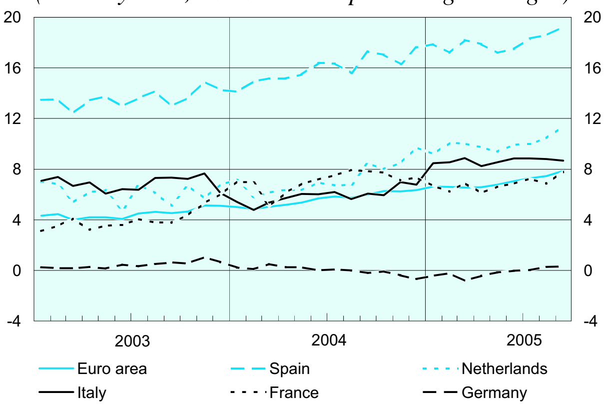
The growth in outstanding loans by euro-area banks accelerated in 2005 as a result of the strong demand of firms, largely in connection with mergers and acquisitions, and a further rise in loans to households. Supply conditions became increasingly expansionary and interest rates fell further. The twelve-month rate of growth rose to 7.9 per cent in September, compared with 6.3 per cent in December 2004 (Table 27 and Figure 43).

In Italy the acceleration was more marked, from 6.7 to 8.7 per cent (Table 28), and fueled primarily by the growth in loans to firms, which accelerated from 4.8 to 6.9 per cent (Table 29). A major contribution came from syndicated loans to some large groups for reorganization purposes. The

Figure 43

Lending by monetary financial institutions in the euro area (1)

(monthly data; twelve-month percentage changes)



Sources: Based on ECB data and national statistics.

(1) Lending by euro-area MFIs (excluding the Eurosystem) to non-MFI resident customers. The percentage changes are calculated net of reclassifications, value adjustments, exchange rate variations and other variations not due to transactions.

Table 27

Bank funding and lending in the euro area and Italy (1)

(harmonized definitions; twelve-month percentage changes)

	Funding							Lending
		Deposits					Debt securities issued (2)	
			Excluding central government					
			Overnight	With agreed maturity	Redeemable at notice	Repurchase agreements		
Euro area (3)								
2003 - Dec.	6.2	5.5	7.9	1.7	8.4	-4.4	7.5	5.1
2004 - Dec.	7.8	6.0	6.6	4.9	6.4	10.7	11.3	6.3
2005 - Mar.	7.6	6.1	7.8	5.8	5.8	3.7	10.4	6.6
June	8.5	6.9	9.5	6.5	5.2	10.2	11.5	7.1
Sept.	8.5	7.5	9.7	8.0	4.8	8.6	10.4	7.9
Italy (4)								
2003 - Dec.	4.4	2.2	5.9	-10.2	5.1	-15.7	8.6	6.7
2004 - Dec.	7.3	5.2	6.2	-4.0	4.7	5.7	10.8	6.7
2005 - Mar.	7.6	5.3	6.0	-2.0	4.2	7.3	11.5	8.9
June	9.1	7.1	7.0	-3.8	4.7	18.2	12.3	8.8
Sept.	7.9	7.2	7.0	-2.5	3.9	18.5	9.2	8.7

(1) End-of-period data. The data for September 2005 are provisional. The percentage changes are calculated net of reclassifications, value adjustments, exchange rate variations and other variations not due to transactions. The data are consistent with those published in the ECB's Monthly Bulletin. – (2) Total debt securities, including money-market securities, issued by banks. By convention they are entirely attributed to euro-area residents. – (3) Funding and lending of the monetary financial institutions (MFIs) of the euro-area countries (excluding the Eurosystem) from and to non-MFI customers resident in the area. – (4) Funding and lending of Italian banks from and to non-MFI customers resident in Italy.

Table 28

Main assets and liabilities of Italian banks (1)

(end-of-period data; percentage changes on previous period, except as indicated)

	2003 (2)	2004 (2)	2005 (3)			September 2005	
			Q1	Q2	Q3	12-month % change	Stocks (millions of euros)
Assets							
Securities	4.2	-2.8	1.9	28.4	17.7	10.1	207,040
of which: *government securities*	*-4.0*	*-12.4*	*0.8*	*25.0*	*5.5*	*4.7*	*111,641*
Loans	6.7	6.7	12.4	7.3	5.5	8.7	1,215,953
of which (4)*: short-term (a)*	*-2.0*	*-4.4*	*9.7*	*0.8*	*-1.9*	*0.0*	*433,949*
medium and long-term (b)	*13.6*	*14.2*	*14.5*	*10.7*	*12.0*	*13.9*	*717,977*
(a)+(b)	*6.2*	*6.0*	*12.6*	*6.7*	*6.5*	*8.3*	*1,151,926*
repos	*-1.2*	*88.5*	*222.0*	*28.1*	*-68.4*	*431.9*	*5,602*
bad debts (5)	*10.6*	*6.0*	*-1.6*	*2.1*	*6.8*	*2.5*	*55,317*
Memorandum item:							
net bad debts (6)	*7.9*	*-1.2*	*-13.5*	*-31.8*	*18.6*	*-7.8*	*19,839*
External assets	1.3	10.8	-4.0	24.8	7.2	12.9	264,151
Liabilities							
Domestic funding (7)	4.4	7.3	9.7	11.8	2.7	7.9	1,220,451
Deposits	2.2	5.2	7.0	11.9	4.6	7.2	749,811
of which (8)*: overnight*	*5.9*	*6.2*	*9.8*	*9.7*	*6.5*	*7.0*	*559,477*
with agreed maturity	*-10.2*	*-4.0*	*-1.7*	*-10.2*	*-4.8*	*-2.5*	*39,950*
redeemable at notice	*5.1*	*4.7*	*6.3*	*6.0*	*0.5*	*3.9*	*69,174*
repos	*-15.7*	*5.7*	*-7.2*	*50.1*	*-0.4*	*18.5*	*72,907*
Bonds (7)	8.6	10.8	14.2	11.6	-0.3	9.2	470,639
External liabilities	11.2	3.8	26.2	24.0	8.5	18.3	345,925

(1) The figures for September 2005 are provisional. The percentage changes are calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (2) Changes on previous year. – (3) Annualized changes on previous quarter. Calculated on seasonally adjusted data where appropriate. – (4) Some minor items in the aggregate are not reported. – (5) The percentage changes are not adjusted for debt cancellations and assignments. – (6) Bad debts net of write-downs. – (7) Includes bonds held by non-residents. – (8) Excludes those of central government.

growth in bank loans to smaller businesses (sole proprietorships and partnerships with fewer than 20 workers) also accelerated, from 5.8 to 6.7 per cent (Figure 44).

In sectoral terms the growth in loans was substantial for firms engaged in real-estate services, wholesale and retail trade, and construction. Loans to manufacturing industry rose by 1.9 per cent after falling by 0.2 per cent in 2004; the increases were greatest in the sectors in which production expanded most (processed food, metal products and building materials).

In line with the pattern shown since the end of the 1990s, the bulk of the increase in loans to firms was medium and long term (Table 30).

The stock of loans to consumer households grew by 15 per cent in the twelve months to September, more than twice as fast as in the euro area as a whole.

In the first nine months of 2005 new loans for house purchases amounted to €44 billion, of which more than 85 per cent at variable rates or rates renegotiable within one year, compared with a euro-area average of 60 per cent. Italian banks securitized

Table 29

Lending of Italian banks by geogeaphical area and sector of economic activity (1)

	General govern-ment	Financial and insurance companies	Non-financial corporations (a)		Households		Firms = (a) + (b)				Total
				with less than 20 workers (2)	Producer (b) (3)	Consumer		Manufac-turing	Construc-tion	Services	
					Twelve-month percentage changes (4)						
					Centre and North						
2003 - Dec.	-10.7	-2.3	8.1	6.2	9.4	11.4	8.2	1.2	13.6	14.0	5.9
2004 - Mar.	-8.6	-2.6	5.7	5.5	8.9	12.4	6.0	-0.2	12.0	11.5	5.0
June	-10.9	-3.1	6.0	4.8	7.6	14.3	6.1	0.6	11.7	10.8	5.3
Sept.	-4.2	-0.7	3.9	4.3	6.0	14.6	4.1	-1.3	9.9	8.2	5.0
Dec.	-2.5	-1.7	4.1	3.9	6.9	15.6	4.4	-0.6	8.4	7.5	5.3
2005 - Mar.	-1.0	3.9	7.0	3.7	6.8	15.0	7.0	2.2	9.1	11.0	7.8
June	2.2	2.3	6.7	4.4	7.9	15.8	6.8	0.4	11.3	11.3	7.8
Sept.	1.7	4.8	6.2	4.2	8.1	14.9	6.4	1.3	12.4	8.9	7.8
					South						
2003 - Dec.	11.1	5.9	6.2	8.2	9.1	9.6	6.7	3.0	8.0	9.9	7.9
2004 - Mar.	0.2	-1.0	6.0	7.2	9.0	11.1	6.5	2.3	6.8	9.8	7.6
June	7.5	-0.4	7.5	7.5	7.9	14.4	7.5	2.6	9.2	10.3	9.8
Sept.	10.7	12.3	7.9	7.4	7.7	15.3	7.9	2.9	10.4	11.1	10.8
Dec.	2.0	4.6	7.8	7.7	8.1	16.5	7.9	3.5	10.5	10.3	10.5
2005 - Mar.	7.0	16.5	8.6	7.5	8.2	14.7	8.6	4.5	11.7	11.0	10.9
June	1.2	8.0	8.8	8.4	9.7	16.2	9.0	5.2	11.3	11.4	11.2
Sept.	6.6	-4.0	9.7	7.4	10.9	15.5	9.9	6.6	11.4	11.4	11.5
					ITALY						
2003 - Dec.	-8.2	-2.1	7.9	6.4	9.3	11.0	8.0	1.4	12.7	13.5	6.2
2004 - Mar.	-7.5	-2.5	5.8	5.8	8.9	12.1	6.1	0.0	11.1	11.3	5.3
June	-8.6	-3.0	6.2	5.1	7.6	14.3	6.3	0.8	11.3	10.7	5.8
Sept.	-2.3	-0.4	4.3	4.7	6.3	14.7	4.5	-0.8	10.0	8.5	5.7
Dec.	-1.9	-1.6	4.5	4.4	7.2	15.8	4.8	-0.2	8.7	7.8	6.0
2005 - Mar.	0.1	4.2	7.2	4.2	7.1	14.9	7.2	2.4	9.5	11.0	8.2
June	2.1	2.4	6.9	4.9	8.3	15.9	7.0	0.9	11.3	11.3	8.2
Sept.	2.4	4.6	6.6	4.6	8.7	15.0	6.9	1.9	12.2	9.2	8.3
					Stock of lending at September 2005 (5) (6) *(millions of euros)*						
Centre and North	44,671	139,593	525,868	60,449	54,947	229,374	580,815	167,121	70,842	293,294	994,453
South	8,170	3,236	68,777	9,411	16,186	60,983	84,963	20,438	13,073	41,418	157,352
ITALY	52,841	142,830	594,645	69,861	71,133	290,357	665,778	187,559	83,915	334,712	1,151,926
					Percentage composition of lending at September 2005 (6)						
Centre and North	4.5	14.0	52.9	6.1	5.5	23.1	58.4	16.8	7.1	29.5	100.0
South	5.2	2.1	43.7	6.0	10.3	38.8	54.0	13.0	8.3	26.3	100.0
ITALY	4.6	12.4	51.6	6.1	6.2	25.2	57.8	16.3	7.3	29.1	100.0

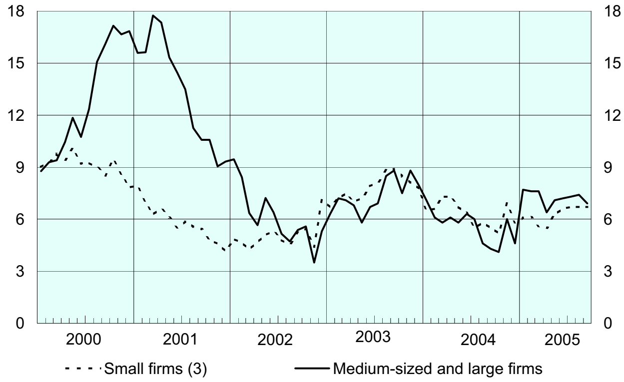
(1) The data reported differ in some cases from those published in the past. In particular, details are no longer given of loans to "Holding companies", which are now divided between those to "Non-financial corporations" (non-financial holding companies) and loans to "Financial and insurance companies" (financial holding companies), in accordance with ESA95, ESCB harmonized statistics and other Bank of Italy publications. Loans to "Firms" have been redefined as loans to non-financial corporations and producer households and no longer include loans to "Financial holding companies". Loans exclude repos, bad debts and other minor items included in the Eurosystem harmonized definition of the aggregate. The breakdown by geographical area is based on customer residence. The figures for September 2005 are provisional. – (2) Limited partnerships and general partnerships with fewer than 20 workers; informal partnerships, de facto companies and sole proprietorships with more than 5 and fewer than 20 workers. – (3) Informal partnerships, de facto companies and sole proprietorships with up to 5 workers. – (4) Calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (5) The sum of stocks according to geographical area and sector of economic activity may differ from the total, as the data are derived from different items of the supervisory reports. – (6) Rounding may cause discrepancies in totals.

residential property mortgage loans amounting to approximately €5 billion, as in the corresponding period of 2004. Consumer credit provided by banks and financial companies also continued to expand at a rapid pace (16.7 per cent).

Figure 44

Lending to firms in Italy by size of firm (1)

(monthly data; twelve-month percentage changes (2)



(1) Loans exclude repos, bad debts and some minor items included in the aggregate reported in Table 27. – (2) Calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (3) Sole proprietorships and partnerships with fewer than 20 workers.

Bank credit to customers located in the South of Italy continued to grow faster than in the rest of the country (11.5 per cent, as against 7.8 per cent). The difference between the two growth rates is greater for loans to firms (see box "Lending to firms in the South and Islands").

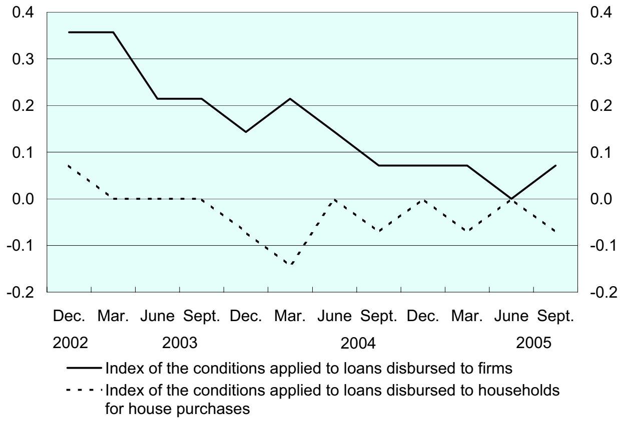
Loan quality. – New bad debts in the twelve months ending in June amounted to 0.8 per cent of the value of outstanding loans at the beginning of the period, compared with 0.9 per cent in December 2004 (Table 31). In addition, loans to customers in temporary difficulty amounting to 1.7 per cent of the initial stock were classified as substandard, compared with 1.8 per cent in 2004. The ratio of substandard loans to outstanding loans was unchanged compared with December 2004 (1.8 per cent in the Centre and North and 3 per cent in the South).

Credit conditions and interest rates. – Credit conditions remained easy in the first nine months of 2005. The spread between the average rate on short-term loans and the minimum rate, which tends to widen in periods of credit tightening, narrowed slightly to 2.5 percentage points. The dispersion of short-term interest rates applied to the different size groups of firms was stable. The undrawn margins on overdraft facilities remained ample for all customer categories.

In the first nine months of 2005 the Italian banking groups participating in the Eurosystem's quarterly survey of bank lending indicated no change in the standards for granting loans to firms and households. The index that measures the tightness of the conditions for loans to firms, calculated by aggregating the qualitative information provided by banks, remained at a very low level (Figure 45).

Figure 45

Indices of the conditions applied to new loans to firms and households (1)



(1) The indices are constructed by aggregating the qualitative responses provided by the 7 groups participating in the quarterly survey on bank credit using the following weights: 1 = considerable tightening; 0.5 = moderate tightening; 0 = basically stable; -0.5 moderate easing; and -1 = considerable easing. The field of variation of the indices is from -1 to +1.

Interest rates on bank loans in Italy fell further (Figure 46). In September the rate on outstanding short-term loans to firms was 4.8 per cent, down from 4.9 per cent at the end of 2004. The cost of new loans of less than €1 million (a proxy for the conditions applied to smaller production units) fell from 4.1 to 3.9 per cent (Figure 47); that of disbursements of more than €1 million was unchanged at 3.1 per cent. The interest rates on loans to firms in Italy are in line with those prevailing in the euro area.

The annual percentage rate of charge (APRC) on loans for house purchases also diminished slightly, both in Italy, to 3.7 per cent, and in the euro area,

Table 31

Italian bank's bad debts and substandard loans by geographical area and economic sector (1)

	General government	Financial and insurance companies	Non-financial corpora-tions (a)	Households		Firms = (a) + (b)				Total
				Producer (b) (2)	Consumer		Manufac-turing	Construc-tion	Services	
New bad debts during the year as a percentage of outstanding loans (3)										
December 2003										
Centre and North	0.0	0.2	1.7	1.3	0.7	1.7	2.5	2.2	1.2	1.1
South	0.0	0.1	2.5	2.2	0.8	2.4	3.6	2.2	2.1	1.7
ITALY	0.0	0.2	1.8	1.5	0.7	1.8	2.6	2.2	1.3	1.2
December 2004										
Centre and North	0.0	0.0	1.0	1.3	0.7	1.1	1.4	1.2	1.0	0.8
South	0.0	0.0	1.8	2.0	1.0	1.9	2.8	1.9	1.5	1.4
ITALY	0.0	0.0	1.1	1.5	0.8	1.2	1.5	1.3	1.0	0.9
June 2005										
Centre and North	0.0	0.0	1.0	1.3	0.7	1.0	1.2	1.0	0.9	0.7
South	0.0	0.0	1.6	1.9	0.8	1.6	2.3	1.9	1.2	1.2
ITALY	0.0	0.0	1.0	1.4	0.7	1.1	1.3	1.2	1.0	0.8
Twelve-month percentage changes in substandard loans										
December 2003										
Centre and North	20.4	-43.5	4.3	12.1	7.7	5.5	1.3	6.4	7.2	3.5
South	-14.9	-14.9	1.5	24.0	8.4	6.3	11.9	-4.3	5.5	6.6
ITALY	-4.4	-42.7	3.8	15.2	7.9	5.6	3.2	3.5	6.9	4.1
December 2004										
Centre and North	-36.4	-35.2	-0.2	0.1	3.8	-0.1	-5.0	-12.7	5.7	-0.3
South	-51.4	-38.8	-2.4	2.9	2.3	-1.1	-12.6	-2.6	4.6	-0.7
ITALY	-45.8	-35.3	-0.6	0.8	3.4	-0.3	-6.4	-10.1	5.5	-0.4
June 2005										
Centre and North	-25.0	-26.7	1.9	0.9	6.9	1.7	1.8	-4.4	4.9	2.1
South	-76.7	-36.0	5.8	2.4	9.2	4.9	4.3	-12.3	11.0	5.5
ITALY	-58.8	-27.2	2.6	1.3	7.5	2.3	2.2	-6.5	5.9	2.8

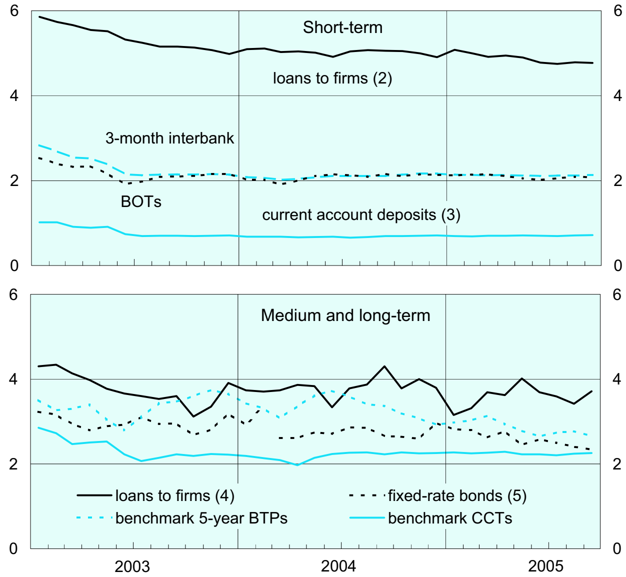
(1) The data reported differ in some cases from those published in the past. In particular, details are no longer given of substandard loans to "Holding companies", which are now divided between those to "Non-financial corporations" (non-financial holding companies) and those to "Financial and insurance companies" (financial holding companies), in accordance with ESA95, ESCB harmonized statistics and other Bank of Italy publications. Loans to "Firms" have been redefined as loans to non-financial corporations and producer households and no longer include loans to "Financial holding companies". The breakdown by geographical area is based on customer residence. – (2) Informal partnerships, de facto companies and sole proprietorships with up to 5 workers. – (3) New adjusted bad debts in the previous 12 months as a percentage of outstanding loans other than adjusted bad debts at the beginning of the period. The figures for new adjusted bad debts are taken from reports to the Central Credit Register.

to 3.8 per cent. The APRC on consumer credit in Italy fell by 0.3 percentage points to 9.3 per cent; the spread with respect to the rate in the euro area narrowed from 2 percentage points at the beginning of the year to 1.4 percentage points.

Figure 46

Bank interest rates and rates on government securities in Italy (1)

(monthly data; percentages)



Sources: Based on Bank of Italy, MTS and MID data.

(1) The bank interest rates refer to transactions in euros and are gathered and processed using the Eurosystem harmonized methodology. – (2) Average rate on loans to firms with a maturity of up to one year. – (3) Average rate on current account deposits of households and firms. – (4) Average rate on new disbursements with a rate fixed in advance for more than one year to firms resident in the euro area. – (5) Average rate on bank bonds issued during the month. Data drawn from 10-day statistical reports. The sample of reporting banks was changed in March 2004.

Italian banks' funding

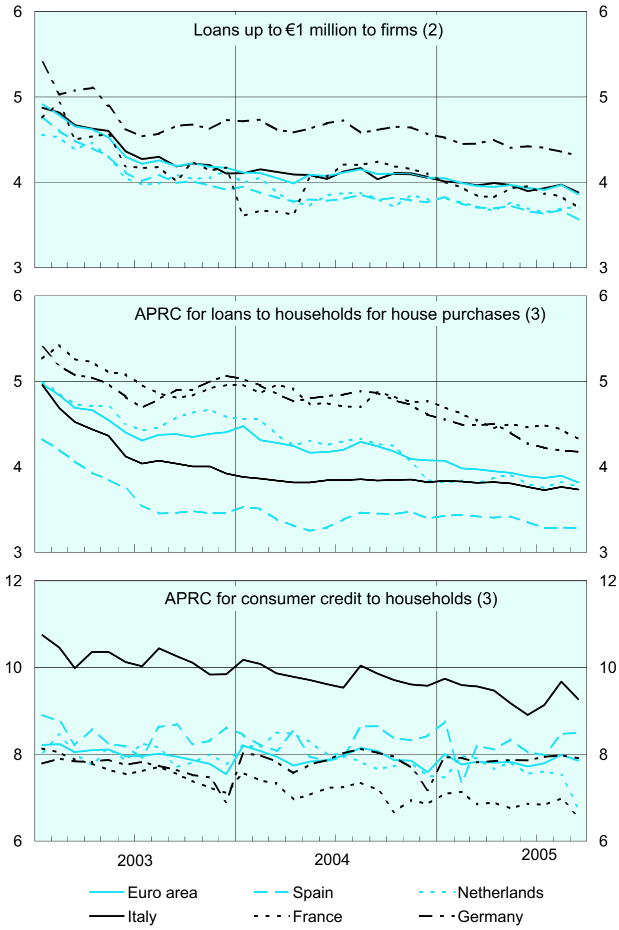
In September the twelve-month rate of growth in domestic funding was 7.9 per cent, compared with 8.5 per cent for the euro area as a whole (Table 27). There was a very large increase of 18.5 per cent in repos, especially those held by financial and insurance companies. Current account deposits grew by 7 per cent.

Bond funding showed a further large increase of 9.2 per cent, partly as a result of very substantial Eurobond issues. This helped to reduce the mismatch between the duration of assets and liabilities, respectively 12.1 and 7.4 months in September.

Figure 47

Harmonized interest rates on loans in the major euro-area countries: new business (1)

(monthly data; percentages)



Sources: Based on ECB data and national statistics.

(1) New contracts concluded during the reference period or contracts renegotiating previous terms and conditions. – (2) Average lending rate for non-financial corporations across all maturities, weighted by loan amounts. The latter refer to the amount of each individual transaction– (3) The annual percentage rate of charge includes accessory expenses (administrative expenses, loan examination fees and insurance). It is calculated as the average rate across all maturities, weighted by loan amounts. Households include producer households and non-profit institutions serving households.

Adding in off-balance-sheet assets and liabilities, which include hedging transactions in derivatives, the mismatch was equal to 1.2 months, compared with 1.4 months in December 2004.

Deposit interest rates were stable. The average rate paid on current accounts, by far the most common type among Italian households, was 0.6 per cent, compared with a euro-area average of 0.7 per cent. The cost of fixed-rate bank bonds fell from 3 per cent at the end of 2004 to 2.3 per cent.

At the end of September the Italian banking system's net debt vis-à-vis non-residents amounted to €82 billion (3.3 per cent of their liabilities), compared with €55 billion and 2.4 per cent at the end of 2004.

The profitability of Italian banks

In the first half of 2005 Italian banks' return on equity, calculated with reference to their unconsolidated financial statements, was equal to 10.8 per cent on an annual basis, compared with 9.9 per cent for the first half of 2004 and 9.5 per cent for 2004 as a whole. The improvement reflected the reduction in net value adjustments of fixed assets. By contrast, banks' operating profits fell by 4.8 per cent.

Gross income was virtually stagnant. Net interest income rose by 2.8 per cent as a result of the substantial growth in volumes. Fee income increased, whereas trading in securities and foreign exchange registered a loss, above all in relation to securities and interest rate derivatives.

Bank staff costs rose by 1.9 per cent primarily as a consequence of pay increases under the new labour contract for the sector since the number of employees remained basically unchanged. Total operating expenses grew by 3.6 per cent, partly owing to the increase in indirect taxes.

At the end of 2004 the banking system's consolidated supervisory capital amounted to €149.2 billion, 7 per cent more than a year earlier (Table a39). The solvency ratio (supervisory capital over risk-weighted assets) rose to 11.6 per cent from 11.4 per cent at the end of 2003.

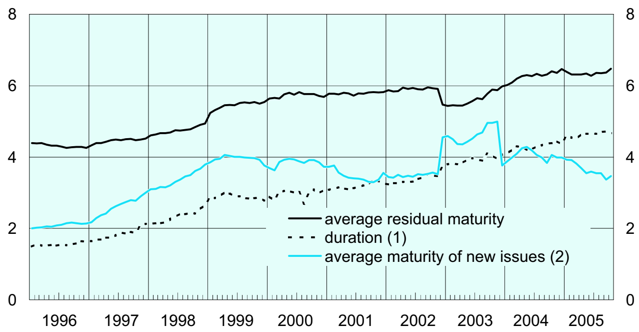
The government securities market

In the first eight months of 2005 net issues of euro-area government securities decreased in comparison with the corresponding period of 2004, from €225 billion to €181 billion. In Italy in the first nine months they fell from €73 billion to €64 billion (Table 32), of which €18 billion in the form of BTPs indexed to consumer prices. In October a new issue of thirty-year BTPs was made totaling €6 billion; some 75 per cent was taken up by non-residents and the issue was oversubscribed two times. The duration of the debt lengthened further (Figure 48).

Figure 48

Average maturity of outstanding Italian government securities and new issues

(monthly data; years)



(1) Calculated with reference to securities listed on MTS. – (2) Moving average for the twelve months ending in the month indicated. The higher level of the series between December 2002 and November 2003 is due to the government bond conversion carried out at the end of 2002 between the Ministry for the Economy and Finance and the Bank of Italy.

Net purchases of Italian government securities by non-residents were substantial in the first half of the year, amounting to €94 billion, compared with €26 billion in the corresponding period of 2004. At the end of June foreign investors held 54 per cent of the stock of Italian public debt (Table 33).

After narrowing from 14 to 10 basis points in the early months of the year, the yield spread between ten-year BTPs and German Bunds widened to 22 basis points between the middle of March and the beginning of June (Figure 49). The widening began just before the EU Council meeting of 22-23 March, which approved the guidelines for the amendment of the Stability and Growth Pact; the spreads of the securities of the other euro-area countries with ratings comparable to Italy's were similarly affected. In April the spread for ten-year BTPs widened further in response to the downward revision of Italy's GDP growth in 2004; a further widening occurred following the release on 12 May of the negative figure for GDP growth in the first quarter of 2005.

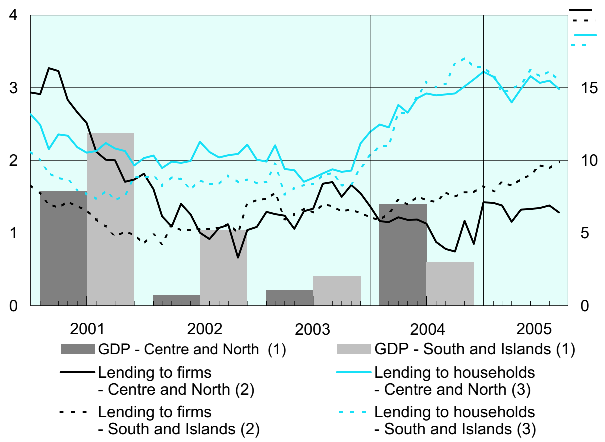
Lending to firms in the South and Islands

Bank lending to firms in Italy's South and Islands has significantly outpaced that to firms in the Centre and North since the beginning of 2004 (Figure 1).

Figure 1

Lending and GDP in the South and Islands and the Centre and North

(percentage changes)



Sources: Statistical supervisory reports and Istat, *Conti economici territoriali.*

(1) Annual data; changes on previous period, left-hand scale. – (2) Non-financial corporations and producer households; monthly data; twelve-month changes, right-hand scale. – (3) Consumer households; monthly data; twelve-month changes, right-hand scale.

The rapid growth has involved firms in all the main non-financial sectors and cuts across the different size classes (see Table 30 in the main text). Lending by leasing and factoring companies has also grown more swiftly in the South and Islands than in the rest of Italy.

Both demand and supply-side factors have contributed to the high growth rate of bank lending to southern firms. The former include the reduction in self-financing due to the weak phase of economic activity. The survey conducted by the Bank of Italy's branches on industrial and service firms with at least 20 workers shows the percentage of loss-making-firms rising from 16 per cent in 2003 to 21 per cent in 2004 in the South and Islands, while remaining basically stable at 19 per cent in the Centre and North. In 2005, according to the more recent poll of industrial and service companies by the Bank's branches, the percentage of southern firms operating at a loss has risen further; in line with this finding, firms expect their bank debt to grow further in the six months ending in March 2006.

The acceleration in lending to firms in the South and Islands has mainly been in the form of advances against trade credit receivable. Recourse to this form of financing is typically more frequent among firms with less self-financing capacity.

The reduction in some types of public transfer may have helped to fuel the demand for credit. According to data published by the Ministry for Productive Activities, disbursements to firms resident in the South and Islands under national incentive programmes fell by more than one fifth in the two years 2003-04 compared with the previous two years.

Banks have accommodated the greater demand for financing, maintaining easy lending conditions. The rapid expansion in credit granted has been

At the beginning of June the spread began to narrow again and in the middle of the month was equal to 20 basis points. It was not significantly affected when two rating agencies revised their outlook for Italian debt, at the end of June and the beginning of August respectively, in light of the less favourable prospects for economic growth and the public finances. At the beginning of November the spread was approximately 20 basis points. The credit default swap premiums for the debt of the Italian republic were equal to 9 basis points, in line with the value at the beginning of the year.

Bank and corporate bonds

Net Issues. – In the first eight months of 2005 net issues of bank and corporate bonds in the euro area amounted to €311 billion, an increase of approximately one third on the figure for the corresponding period of 2004 (Table 34). The issues of banks and other financial corporations increased further, while those by non-financial corporations were very small owing to weak growth in investment and abundant internal resources.

accompanied by an increase in undrawn overdraft facilities for all categories of firm: between the end of 2002 and September 2005 the ratio of credit drawn to credit granted fell by 6 percentage points, to 52 per cent.

The acceleration in lending to southern firms concerned mainly major banks belonging to banking groups based in the Centre and North (Figure 2), whose ratio of lending to funding in the South and Islands rose from 87 per cent in December 2002 to 106 per cent in September 2005. By contrast, although it remained rapid, the pace of lending by "small" and "minor" banks slowed.

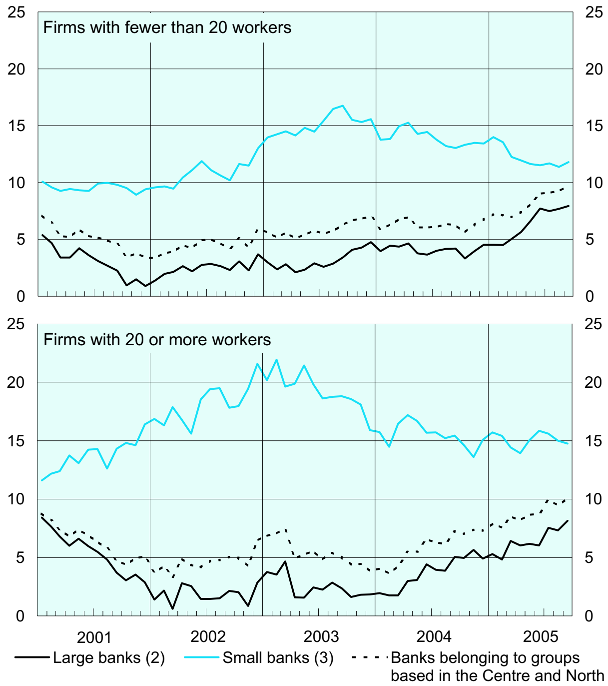
The interest rates charged to firms in the South and Islands fell both for the short-term component (by 0.3 percentage points to 8 per cent) and for the medium and long-term component (by 1.5 points to 3.9 per cent). Since the reduction in the cost of credit for firms of the Centre and North was faster, the spread between the interest rates on loans to firms in the two halves of Italy (calculated by applying the same composition by sector and size to both) widened by 0.6 points for the short-term component to 1.5 points and by 0.2 points for the medium and long-term component to 0.8 points. The widening reflects the faster growth in credit demand by firms in the South and Islands and their greater riskiness, especially in some sectors. It was most pronounced in manufacturing industry, notably in the construction materials sector, where lending growth and the ratio of new bad debts to loans outstanding are higher than in the Centre and North.

At the end of June new bad debts amounted to 1.6 per cent of total loans to firms in the South and Islands, compared with 1 per cent in the rest of Italy (the figures at the end of 2002 were 2.2 and 1.4 per cent respectively).

Figure 2

Loans to firms of the South and Islands (1)

(monthly data; twelve-month percentage changes)



Source: Statistical supervisory reports.

(1) Loans exclude repos, bad debts and some minor items that are reported in the aggregate in Table 27. – (2) "Major", "large" and "medium-sized" banks. – (3) "Small" and "minor" banks.

Issues by other financial corporations saw a considerable increase in mortgage-backed securities; issues of securities backed by asset portfolios, such as collateralized debt obligations, continued at a high level.

Italian issuers also made substantial net issues of bonds, amounting to €46 billion in the first nine months of 2005. The main banking groups increased their funding on the international market. The average duration of securities at issue lengthened considerably and the cost of funds fell further. A large proportion of securitizations originated in the transfer of mortgage loans by banks; the share of companies in the public sector was about one fifth.

At €0.5 billion net issues by Italian non-financial corporations were sharply down on the first nine months of 2004 (€9.1 billion), when large groups in the service sector had made substantial issues. As in 2004 there was only a very small volume of issues of high-yield securities with no rating.

Table 32

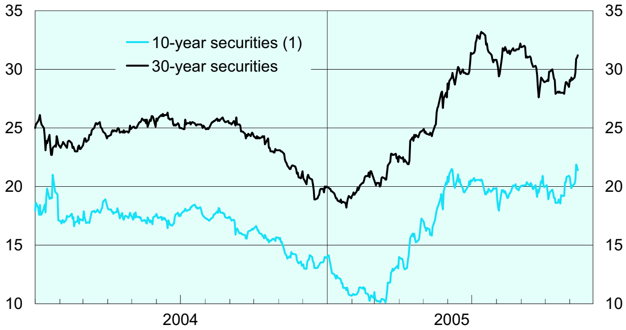
Issues of Italian government securities (1)
(millions of euros)

	2004	2004 Jan.-Sept.	2005 Jan.-Sept.	2004	2004 Jan.-Sept.	2005 Jan.-Sept.
		Gross issues			**Net issues** (2)	
BOTs	221,300	184,550	175,666	-895	24,450	22,916
CTZs	27,128	27,128	21,206	-8,198	4,512	-5,247
CCTs	34,527	29,027	22,511	325	-2,766	12,244
BTPs	134,803	122,003	111,614	33,556	40,876	30,805
Other	. .	. .	. .	-49	-49	. .
Total ...	**417,758**	**362,708**	**330,997**	**24,739**	**67,023**	**60,718**
Republic of Italy issues	13,980	13,980	10,886	2,468	5,571	3,738
Total government securities ...	**431,738**	**376,688**	**341,883**	**27,207**	**72,594**	**64,456**

(1) At face value. Rounding may cause discrepancies in totals. – (2) Net of issue discounts and premiums; includes buybacks and redemptions made by drawing on the sinking fund for the redemption of government securities.

Figure 49

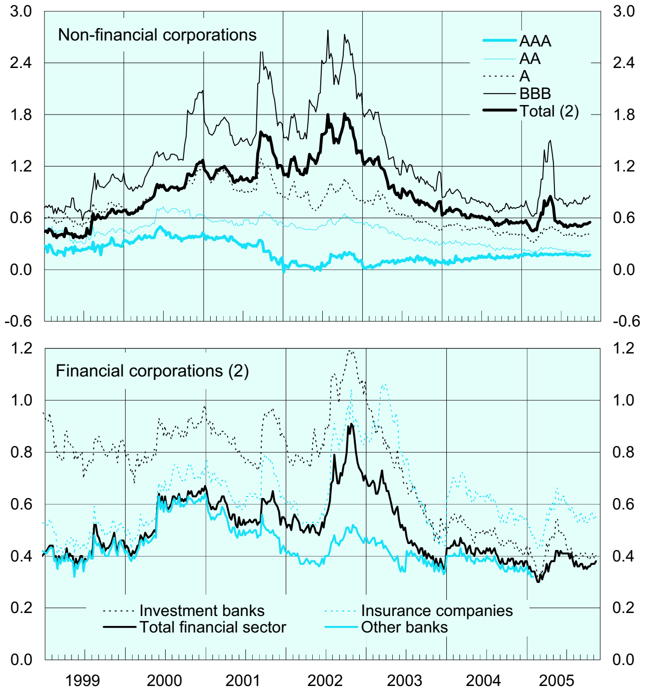
Yield spreads between Italian and German government securities
(daily data; basis points)



Source: Based on Bloomberg data.
(1) The yield spread is adjusted to take account of the different residual maturities of the reference securities.

Figure 50

Yield spreads between euro-denominated corporate bonds and government securities (1)
(end-of-week data; percentage points)



Source: Merrill Lynch.
(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by non-financial corporations resident in countries whose long-term foreign currency debt is rated at least Baa3 or BBB-. Yield spreads are calculated with respect to French and German government securities. – (2) Only includes bonds rated at least Baa3 or BBB-.

Yields. – After reaching a very low level in the early months of the year, yield spreads between euro-denominated bonds issued by euro-area firms and government securities increased temporarily between March and May at the time of the downgrading of the debt of General Motors and Ford (Figure 50). They diminished again in the following months and remained above the values obtaining at the beginning of the year only for high-yield securities.

The main indicators of credit risk do not suggest a general deterioration in issuers' creditworthiness.

Table 33

Outstanding amounts and net purchases of securities issued by residents of Italy, by holding sector (1)

(millions of euros)

	Public-sector securities						Private-sector bonds	Total public-sector securities and private-sector bonds	Listed Italian shares
	BOTs	CTZs	CCTs	BTPs	Other (2)	Total			
	Net purchases in January-August 2005								
Central bank	. .	. .	2,154	1,810	-58	3,906	1	3,907	-526
Banks (3)	5,883	1,537	5,097	342	4,402	17,261	8,386	25,648	15,948
Investment funds (4)	-10,568	-2,539	3,377	-3,965	-253	-13,949	659	-13,290	-165
Other investors (5)	25,101	-7,115	-405	40,016	5,364	62,962	33,327	96,289	-10,186
of which: non-residents (6)	*36,653*	*2,549*	*5,180*	*52,386*	*-2,785*	*93,983*	*1,122*	*95,105*	*-26,332*
Total	**20,416**	**-8,116**	**10,223**	**38,203**	**9,456**	**70,180**	**42,373**	**112,554**	**5,071**
	Outstanding amounts at end-August 2005								
Central bank	. .	. .	14,121	42,488	962	57,571	198	57,769	6,344
Banks (3)	23,286	4,809	45,831	15,285	17,484	106,695	74,180	180,875	42,895
Investment funds (4)	22,914	6,994	39,948	46,274	2,713	118,842	10,798	129,640	18,859
Other investors (5)	92,966	26,382	106,321	666,689	106,942	999,299	572,350	1,571,649	548,719
of which: non-residents (6)	*79,476*	*16,486*	*52,226*	*469,552*	*74,435*	*692,175*	. . . .	. . . .	*67,647*
Total	**139,166**	**38,184**	**206,221**	**770,736**	**128,100**	**1,282,407**	**657,526**	**1,939,933**	**616,817**
Percentage share of the total outstanding amount of public-sector securities	**10.9**	**3.0**	**16.1**	**60.1**	**10.0**	**100.0**			

(1) Outstanding amounts of public-sector securities and private-sector bonds are at face value, those of shares at market value; net purchases are at market value. Rounding may cause discrepancies in totals. – (2) Republic of Italy issues and other public-sector securities. – (3) The figure for listed Italian shares refers to end-June 2005. – (4) Italian harmonized investment funds and SICAVs. – (5) Households, enterprises, non-residents, central and local government, social security institutions, CDP S.p.A., investment firms, and insurance companies. – (6) Provisional figures as of June 2005; excludes the securities of local governments, autonomous government agencies and Ente F.S.

In particular, both the level and the variability of the yield spreads decreased after the spikes recorded in the second quarter; default rates remained at the low levels prevailing at the end of 2004. The premiums on CDS derivatives protecting against the risk of default for debt issued by euro-area companies showed a similar pattern to bond yield spreads.

The yield spreads of Italian bonds with respect to securities having a similar rating and belonging to the same sector issued by companies in other euro-area countries remained unchanged on average for large firms with a high credit rating; for smaller firms they widened in the early part of the year and then narrowed to some extent in the following months.

The stock markets

After remaining stable in the first quarter, the share price indices of the main euro-area countries rose rapidly (Figure 51). In the first ten months of 2005 the Dow Jones Euro Stoxx index, which tracks the performance of the largest listed companies in the area, gained 13 per cent. In Italy share prices rose by 6 per cent, compared with rises of between 15 and 17 per cent in France, Germany and Spain. Over the same period, the Standard and Poor's 500 index of US stocks remained unchanged.

The gains in euro-area equities were due above all to the improvement in listed companies' current profits, with the further fall in real long-term interest rates also contributing. The indicators of investors' risk aversion remained at a low level (Figure 52). At the end of September the earnings-price ratio of the main euro-area markets ranged between 5.2 and 7.4 per cent (Figure 53).

The largest rise in share prices in the euro area was that of 33 per cent for oil companies, which benefited from the increase in the price of crude. Prices in the automobile sector, which usually suffer from increases in the oil price, recorded a large rise of 21 per cent following the start of restructuring by

Table 34

Net bond issues by Italian and euro-area banks and firms (1)

(millions of euros)

	2003	2004	2004 Jan.-Aug.	2004 Jan.-Sept.	2005 Jan.-Aug.	2005 Jan.-Sept.
			Italy			
Banks	32,036	43,048	23,614	30,996	24,990	27,728
Other financial corporations	25,594	14,858	5,387	6,230	17,277	17,813
Non-financial corporations	-1,061	8,940	9,222	9,114	544	539
Total	**56,569**	**66,846**	**38,223**	**46,340**	**42,811**	**46,080**
			Euro area			
Banks	185,758	270,055	194,019	226,751	218,923	....
Other financial corporations	118,775	72,935	24,669	23,702	81,462	....
Non-financial corporations	51,216	11,966	5,319	6,673	10,921	....
Total	**355,749**	**354,956**	**224,007**	**257,125**	**311,306**	**....**

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year issued by companies resident in the area and sector indicated. The nationality and sector refer to the issuer, not to its parent company. Net issues do not include issue discounts or premiums and are therefore equal to the difference between the face value of the securities issued and that of the securities redeemed.

some groups in the industry. The electricity sector also achieved significant gains (16 per cent), while those recorded by electronics, banking and insurance stocks were below average.

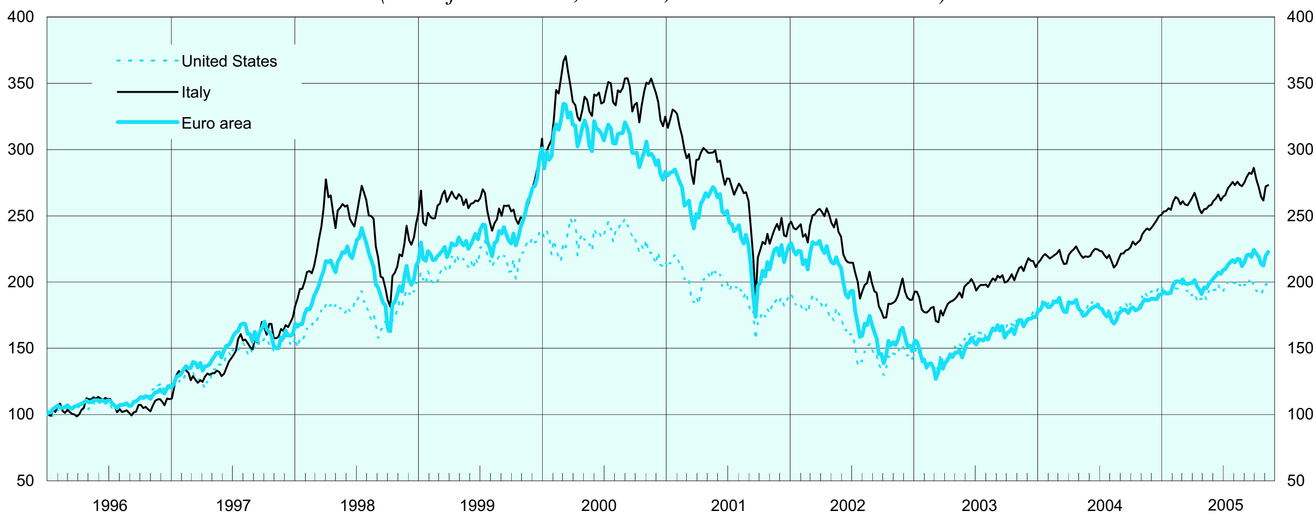
In the first nine months of the year the performance of euro-area share prices also benefited from mergers and acquisitions of listed companies, which increased significantly. About 25 per cent of the transactions involved financial companies and 33 per cent service companies.

The smaller gains recorded by share price indices in Italy was due to the performance of prices in the telecommunications and electricity sectors, where price-earnings ratios fell back into line with the values prevailing in these sectors in the rest of the euro area. In the case of the telecommunications

Figure 51

Share prices (1)

(end-of-week data; indices, 31 December 1995=100)

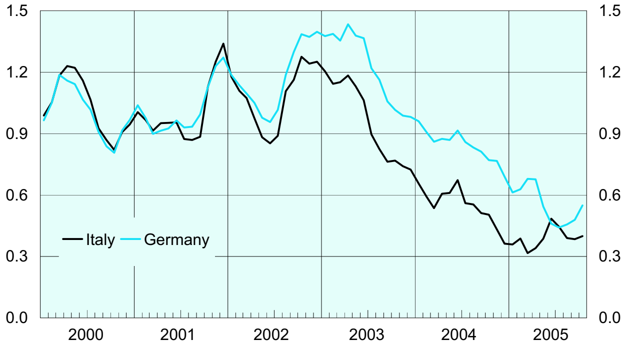


Source: Bloomberg.
(1) MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

Figure 52

Indicators of risk aversion (1)

(monthly data; moving average of the three months ending in the reference month)



Source: Based on Bloomberg.

(1) The indicator is obtained as the ratio of the probability of a 10 per cent fall in the stock exchange index derived from options prices to that derived from the actual distribution of the rates of return of the stock exchange index. A decrease in the indicator signals a greater propensity to run risks associated with investment in shares.

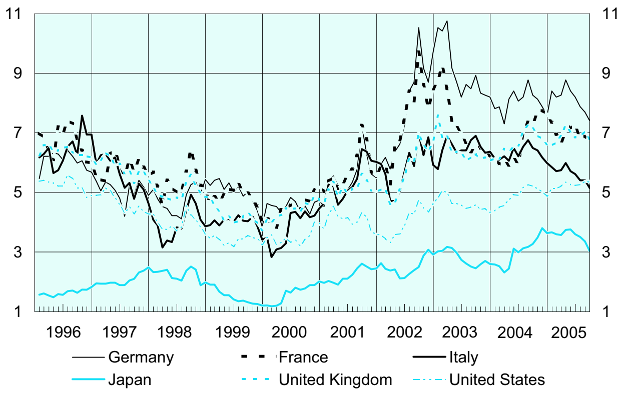
industry, the largest Italian group carried out a major corporate restructuring, while in the electricity industry the leading operator completed the programme of disposals of non-core activities begun in 2004. Significant increases in share prices were recorded instead by the automobile industry and the energy sector.

The first nine months of 2005 saw the listing of 23 companies in the euro area, less than half as many as in the corresponding period of 2004. In Italy 8 companies were listed, compared with 10 in the whole of 2004. At the end of September 271 Italian companies were listed on the markets operated by

Figure 53

Current earning/price ratios on the main stock exchanges

(monthly data; percentages)



Source: Thomson Financial.

Borsa Italiana; their market capitalization was equal to 43.5 per cent of GDP, compared with 43 per cent at the end of 2004 – values that are still low by international standards.

Investment funds and individually managed portfolios

On the basis of data for eight of the twelve euro-area countries, investment funds' net subscriptions rose to €163 billion in the first half of 2005, compared with €44 billion in the second half of 2004. Large increases were recorded by bond and money-market funds.

Table 35

Net assets and fund-raising of investment funds controlled by Italian intermediaries (1)

(millions of euros)

	2004	2004 Jan.-Sept.	2005 Jan.-Sept. (2)
		Net assets *(end-of-period stocks)*	
Open-end Italian funds	390,016	390,258	404,871
of which: harmonized ..	*358,292*	*361,060*	*361,700*
hedge funds ..	*11,768*	*10,736*	*14,711*
Closed-end Italian funds (3)	9,866	7,051	10,469
of which: real-estate funds (3)	*8,085*	*5,524*	*8,392*
Foreign funds (4)	148,548	140,440	174,609
Total ...	**548,430**	**537,749**	**589,949**
		Net fund-raising *(flows)*	
Open-end Italian funds	-18,937	-13,258	-3,930
of which: harmonized ..	*-30,632*	*-22,919*	*-12,618*
hedge funds ..	*5,500*	*4,843*	*3,798*
Closed-end Italian funds (3)	3,747	1,274	460
of which: real-estate funds (3)	*3,407*	*1,011*	*396*
Foreign funds (5)	14,774	9,834	12,677
Total ...	**-416**	**-2,150**	**9,207**

Sources: Bank of Italy and Assogestioni.

(1) Including funds of funds. – (2) Provisional. – (3) The figures for 2004 and 2005 refer to the first half of the year. – (4) Value of units held by Italian and foreign investors. – (5) Value of units bought in the period indicated by Italian and foreign investors, net of redemptions.

The net subscriptions of funds controlled by Italian intermediaries amounted to €9.2 billion in the first nine months of the year (Table 35). Investors preferred flexible funds and funds investing mainly in government securities and corporate bonds, while money-market and equity funds recorded substantial net redemptions. The growth of hedge funds continued.

In the first nine months of the year the average yield (not annualized) of harmonized funds set up under Italian law was 5.3 per cent. The best results were achieved by equity funds (14.5 per cent), the worst by bond and money-market funds (2.2 and 0.9 per cent respectively).

At the end of September the net assets of funds set up under Italian law amounted to €415.3 billion, while those of foreign funds linked to Italian intermediaries amounted to €174.6 billion, with growth of 3.9 and 17.5 per cent respectively.

In the first nine months of the year net new cash flow to individually managed portfolios amounted to €27.5 billion, compared with €13.7 billion in the corresponding period of 2004. The average yield from the beginning of the year (calculated as the percentage increase in net assets adjusted for net new cash flow) was 5.4 per cent.

SHORT-TERM ECONOMIC PROSPECTS

The world economy

The world cyclical expansion has continued this year. The IMF estimates that output will increase by 4.3 per cent in 2005, still a rapid pace although less than the 5.1 per cent recorded in 2004 (Table 36). The persistence of very favourable financial conditions has attenuated the repercussions of rising energy prices.

In the *United States*, in the third quarter GDP grew at an annual rate of 3.8 per cent. The expansion of employment and of consumption sustained the economy until August. In September industrial production declined following the natural disasters in some parts of the country, which should have a limited impact that will play itself out during the fourth quarter. Reconstruction in the disaster areas, partly with public funding, will stimulate economic activity in 2006. Uncertainties over the outlook for consumption have emerged. A rise in long-term interest rates or a slowdown in house price rises would diminish mortgage refinancing, making households' spending more dependent on trends in the labour market.

Consumer price inflation was 4.3 per cent in October. In the light of the acceleration in the prices of petroleum products in recent months and the significant rise in unit labour costs in the first half of the year, the Federal Reserve has paid increasing attention to inflation developments. At present the market is discounting two more rate increases, to 4.50 per cent, by the end of January. The budget deficit, which narrowed more than had been expected in fiscal 2005, is forecast to remain practically unchanged in 2006 despite allocations for disaster relief.

The main leading indicators do not all point in the same direction. Private analysts' estimates of the annual pace of growth in the fourth quarter differ considerably, ranging from 2.5 to 4.3 per cent. In any case, the consensus view is that GDP growth in 2005 as a whole will be at least 3.5 per cent. Next year economic activity looks set to expand slightly less, owing among other things to the lagged effect of higher energy prices; it is expected to be sustained by lively business investment and strengthening exports.

Relative to GDP, the balance-of-payments deficit on current account in 2006 is forecast to remain at the level estimated for this year, 6.1 per cent. The persistence of such a large deficit, even though it is easily financed, continues to be a factor of concern in the world scenario in view of the potential effects on US interest rates and on the dollar, which has nevertheless appreciated in recent months.

In *Japan*, GDP grew at an annual rate of 1.7 per cent in the third quarter, a significant slowdown from the first half of the year. Growth for 2005 as a whole is now put at 2 per cent, and this pace is expected to be maintained in 2006 as well. In *China*, given the robust growth of the first three quarters, GDP is likely to increase by more than the current IMF estimate (9 per cent); in 2006 growth is forecast to remain strong, at 8.2 per cent. In *India* the pace of growth next year is expected to be 6.3 per cent.

World trade is forecast to expand by 7.4 per cent next year.

For the world economy, the risk of less favourable developments than those indicated above has increased since the end of the summer. The factors of risk consist essentially in the substantial payments imbalances, the particularly low level of risk premiums on the financial markets and the volatility of oil prices in recent months.

The small margin of unexploited production capacity in the OPEC countries increases the likelihood of further oil price rises, possibly quite sharp ones, in

Table 36

Forecast performance of selected international macroeconomic variables

(percentage changes on previous year, except as indicated)

	2005 (1)		2006 (1)		
	IMF Sept. 2005	Consensus Forecasts 10.10.2005	IMF Sept. 2005	European Commission Nov. 2005	Consensus Forecasts 10.10.2005
GDP (2)					
United States	3.5	3.5	3.3	3.2	3.3
Japan	2.0	2.1	2.0	2.2	1.7
Euro area	1.2	1.3	1.8	1.9	1.6
Emerging economies	6.4	–	6.1	–	–
of which: Asia	*7.8*	–	*7.2*	*7.2*	–
of which: China	*9.0*	*9.2*	*8.2*	*8.7*	*8.1*
Latin America	*4.1*	*4.1*	*3.8*	*3.6*	*3.9*
of which: Argentina	*7.5*	*7.8*	*4.2*	–	*4.8*
Brazil	*3.3*	*3.3*	*3.5*	*3.6*	*3.6*
Mexico	*3.0*	*3.0*	*3.5*	*3.4*	*3.5*
Central and Eastern Europe	*4.1 (3)*	–	*4.4 (3)*	–	–
Consumer prices					
United States	3.1	3.3	2.8	2.9	3.0
Japan	-0.4	-0.2	-0.1	0.3	0.2
Euro area	2.1	2.2	1.8	2.2	1.9
Emerging economies	5.9	–	5.7	–	–
of which: Asia	*4.2*	–	*4.7*	–	–
of which: China	*3.0*	*2.4*	*3.8*	–	*2.5*
Latin America	*6.3*	*5.5 (4)*	*5.4*	–	*5.3 (4)*
of which: Argentina	*9.5*	*11.5 (4)*	*10.4*	–	*10.7 (4)*
Brazil	*6.8*	*5.3 (4)*	*4.6*	–	*4.8 (4)*
Mexico	*4.3*	*3.4 (4)*	*3.6*	–	*3.6 (4)*
Central and Eastern Europe	*3.5 (3)*	–	*3.3 (3)*	–	–
World trade (2) (5)	**7.0**	**–**	**7.4**	**7.4 (6)**	**–**
Oil prices					
Average of the three leading grades ($ per barrel)	54.2	–	61.7	61.4 (7)	57.3 (8)

Sources: IMF, *World Economic Outlook*, September 2005; European Commission, *Economic Forecasts,* autumn 2005; *Consensus Forecasts*, 10 October 2005; *Asia Pacific Consensus Forecasts*, 10 October 2005; *Latin American Consensus Forecasts*, 17 October 2005.

(1) Forecasts. – (2) At constant prices. – (3) Includes Malta and Cyprus, excludes Turkey. – (4) Change for the twelve months ending in December. – (5) Goods and services. – (6) Goods. – (7) Brent. – (8) WTI; end-October 2006 price.

the event of supply limitations, unexpected increases in demand or market speculation. A weakening in the factors that have sustained world economic growth in 2005 – including the low level of long-term interest rates – could make the lagged effects of higher energy costs emerge in full, with substantial repercussions on economic activity.

The euro area

Since the start of the summer the economic situation in the euro area has shown signs of improvement. According to Eurostat's preliminary estimate, GDP grew by 0.6 per cent in the third quarter, in line with the expansion in industrial production.

The qualitative indicators for firms point to an acceleration of economic activity in the fourth quarter; in Germany both the index of confidence and orders recorded a further sharp rise in October. However, the improvement in the economic picture is not readily perceived by euro-area households.

According to European Commission forecasts, which assume a slight acceleration in the second half of the year, euro-area GDP will grow by 1.3 per cent in 2005. This is well below the figure of 2 per cent predicted by the Commission a year ago and the 2.1 per cent growth recorded in 2004.

If euro-area activity continues to expand at the same rate as in the second half of this year, in 2006 growth should average 1.9 per cent, sustained by the strong performance of world trade and an acceleration in investment, which should benefit from firms' improved balance-sheet situation and profitability and the low cost of capital. Consumption is also expected to pick up gradually, although it will continue to grow slightly less than disposable income owing to the persistently cautious attitude of households.

Euro-area inflation, calculated on the basis of the harmonized index of consumer prices, rose from 2.2 per cent in August to 2.5 per cent in October and is expected to remain above 2 per cent in the coming months. The acceleration did not spread to wages, partly because of the weakness of the labour market.

The European Commission forecasts that in 2005 average inflation will be 2.3 per cent. Assuming continuing moderate wage growth and crude oil at around $61 a barrel, which is higher than the current price, inflation is expected to hold steady in 2006 at an average of around 2.2 per cent.

Monetary conditions in the area continue to be expansionary, providing substantial support to economic activity. At the beginning of November the Governing Council of the ECB concluded that the stance of monetary policy remained appropriate. However, upward pressures on prices from the rise in energy costs call for great vigilance regarding the threats to price stability: it is essential that transitory increases in the rate of inflation should not affect expectations.

Yields on ten-year government securities, which have risen slightly in recent weeks, in November stood at 3.5 per cent in nominal terms and 1.4 per cent in real terms. Benefiting from an increase in firms' profits and a reduction in real long-term interest rates in the first half of 2005, share prices rose substantially during the year.

On the bond market the main indicators of credit risk do not suggest any deterioration in issuers' creditworthiness. Since 2003 the high yield segment, which carries a greater degree of risk, has been expanding.

According to European Commission estimates, euro-area general government net borrowing will average 2.9 per cent of GDP this year, up from 2.7 per cent in 2004. The budget deficit is expected to remain above the 3 per cent threshold in Germany, France, Italy, Greece and Portugal. The excessive deficit procedure has been initiated in respect of all five countries. For the area as a whole the ratio of debt to GDP, which has been increasing since 2003, is expected to rise by 1 percentage point to 71.7 per cent. Results have been adversely affected by weak economic growth in many countries of the area.

In 2006, the acceleration in economic activity notwithstanding, the Commission forecasts that the contraction in the euro-area deficit will be marginal, to 2.8 per cent of GDP, while the debt ratio will remain unchanged.

The revision of the Stability and Growth Pact decided in recent months by the European Council widens the scope for discretionary management of the excessive deficit procedure. As the Governing Council of the ECB has noted, strict enforcement of the new rules will allow more flexible management of budget policies without jeopardizing the objectives of the Treaty and the Pact.

The Italian economy

Performance in 2005

Following a further contraction in the first quarter of 2005, economic activity in Italy turned upwards, buoyed by the recovery in exports and the stronger performance of consumption and investment, notably in the building sector.

The 0.7 per cent increase in output in the second quarter was followed by growth of 0.3 per cent in the third, which was less than the leading private analysts had forecast. There are signs of a slowdown in exports and a substantial rise in imports: the positive contribution of net exports to GDP growth in the second quarter was apparently wiped out in the third.

Lately, the performance of economic indicators has been ambiguous. According to the survey of 4,200 non-construction industrial and service firms with at least 20 employees conducted by Bank of Italy branches in September and the ISAE surveys of industrial firms in September and October, expectations are for an acceleration in demand. The climate of confidence among households showed signs of improvement in October. Preliminary estimates based on electricity consumption indicate that industrial production in October and November remained virtually stationary at the September level, which was about 0.5 percentage points below the average for the third quarter. For the year as a whole, GDP growth may turn out to be only marginally positive.

Price inflation was less affected by higher energy costs than in the other euro-area countries because in Italy changes in world prices are passed on to final prices more gradually. In October the twelve-month increase in the consumer price index rose to 2.2 per cent from 2 per cent in September. There is no evidence that the rise in oil prices has been passed on to the prices of other goods or had effects on wage growth. According to the Commission's forecasts, Italian inflation will average 2.2 per cent in 2005.

Credit supply conditions are favourable for all categories of borrowers in all areas of the country. According to the latest survey on bank lending in the euro area, Italian banks do not plan to alter their credit standards in the coming months. Demand for loans from small and medium-sized enterprises and from households should remain strong.

The quality of bank assets has not been affected by the prolonged period of sluggish economic growth. The ratio of new bad debts to total loans has remained basically unchanged this year with respect to 2004 and low by historical standards.

In the Forecasting and Planning Report the Government confirmed its estimate that general government net borrowing this year will amount to 4.3 per cent of GDP, compared with 3.2 per cent in 2004. After declining for ten consecutive years, the ratio of debt to GDP is expected to rise, from 106.5 to 108.2 per cent. The data available on the performance of the public finances during the year confirm the deterioration in the balances and the reversal of the trend for the debt. With a view to achieving the forecast budget balance, in October supplementary budgetary measures were introduced that are officially expected to reduce the deficit by around €2 billion.

The growth in the deficit is almost entirely due to the decrease in the amount of one-off measures, whose effects on economic activity are limited. The impact of budgetary policy on the economy is estimated to have been moderately expansionary in 2005, in connection with the increase in general government intermediate consumption.

The outlook for 2006

The low rate of growth of the economy is due to structural factors that hold down the productivity and reduce the competitiveness of Italian firms. Budgetary policy for 2006 is aimed at reconciling the reduction in the burden of the deficit with the relaunching of growth.

For the coming year the Government aims to reduce net borrowing to 3.8 per cent of GDP, compared with a current legislation estimate of 4.7 per cent. The latter figure initially assumed €6 billion of revenues from property disposals. To achieve the objective, budgetary measures designed to produce a net deficit reduction officially estimated at €11.5 billion were drafted in September. During the parliamentary examination of the Finance Bill, which is still under way, additional deficit-reduction measures totaling €5 billion have been envisaged, in order to compensate for the downward revision to €1 billion of the forecast receipts from the property disposals planned for 2006 (see box).

The budget includes €6.8 billion of spending increases and tax reliefs, mainly regarding the social security contributions charged to firms, designed to reinforce the expansion of economic activity. In addition, a Fund for Innovation, Growth and Employment is to be established to finance up to €3 billion of projects, still to be decided, for reviving the Lisbon Agenda objectives; the fund is to receive the proceeds of asset disposals over and above those now planned.

The reduction in the deficit depends primarily on measures aimed at limiting current expenditure, especially intermediate consumption, transfers to firms and disbursements in the health sector. A substantial share of the planned savings is entrusted to local government action. The budgetary package includes measures to expand the tax bases of various categories of firms.

The full implementation of the budget involves an increase in primary current expenditure of about 1 per cent next year, against an average of 4.7 per cent in the period 1998-2005. Net of the pension component, primary current expenditure would decrease by 0.9 per cent.

In the past, the deficit on a current legislation basis has frequently been larger than forecast and the effects of the budget corrections quite often smaller than the official estimates. Even after adjusting for less favourable effects of macroeconomic developments than initially forecast, in the three years 2002-04 the general government primary balance was on average about 1 percentage point of GDP worse than that based on the current legislation forecasts made during the preceding year and the estimates of the effects of the budget corrections given in official documents. A significant deviation appears to be likely this year as well.

The difficulties encountered in recent years in achieving the objectives confirm the need for continuous monitoring of the behaviour of revenue and expenditure during the year. In the future, limiting the growth in primary current expenditure must be based on strengthening the reforms in the main sectors.

Net of one-off measures, the general government primary surplus has fallen almost to nil; in cash terms, the primary balance is negative. These levels, even in the scenario of recovery outlined in the Economic and Financial Planning Document, do not permit a reduction in the ratio of debt to GDP, which in recent years has resulted exclusively from extraordinary transactions. A significant primary budget balance would make it possible to reduce the debt burden and cope with the impact of the unfavourable demographic prospects on the public finances.

Rigorous implementation of the planning framework contained in the Finance Bill is indispensable to increase the confidence of households, firms and financial institutions.

The most recent developments signal a slowing in economic activity in the last quarter of the year. This could affect the strength of the forecast recovery in 2006; in the coming quarters the economic cycle could derive support from public investment, not least through special procedures to ensure a prompt start on of the projects already approved and the completion of those under way.

On the basis of the latest estimates by international organizations and the main private forecasters, and

The budget for 2006

The budget adjustment to net borrowing for 2006 is estimated at €16.4 billion, or 1.1 per cent of GDP.[1] *Provision is made for €23.2 billion of additional resources, of which €15.9 billion of decreases in expenditure and €7.3 billion of increases in revenue, used in part for €3.5 billion of tax and social security contribution reliefs and €3.3 billion of additional expenditure.*

The budget also provides for the creation of a fund to give new impetus to the implementation of the Lisbon strategy. The fund's resources are to come, up to a maximum of €3 billion, from the proceeds of privatizations and asset disposals over and above those included in the estimate of net borrowing on a current legislation basis.

Increase in revenue. *– The additional tax revenue expected amounts to €7.3 billion, of which more than three quarters is to come from firms.*

Changes to corporate income tax bases are expected to generate €5 billion of additional revenue. For banks and financial companies, including insurance companies, the deductibility of loan writedowns and allocations to loan loss provisions is reduced (€1.1 billion of additional revenue) and the taxation of insurance companies' allocations to provisions for non-life claims is increased. Other measures concern the deductibility of the depreciation of capital goods by firms in the energy sector (€0.8 billion).

For all firms the period for amortizing goodwill for tax purposes is lengthened from 10 to 20 years (increasing revenue by €1.5 billion) and changes are made to the deductibility of rental payments in connection with the financial leasing of property (€0.4 billion). The tax treatment of firms' rental income from buildings not used in the business is amended (€0.1 billion), as is that of capital gains and losses arising from the sale of equity interests (€0.5 billion).

Restrictions are imposed on the tax losses the Bank of Italy may deduct annually in connection with the government bond conversion carried out in December 2002 and other losses incurred in the two subsequent years (€0.3 billion).

The above measures are permanent, but owing to the mechanism for paying self-assessed taxes part of the increase in revenue expected in 2006 will be temporary.

Firms are allowed to revalue some items of their balance sheets at 31 December 2004 against payment of a tax, a measure that is expected to generate €0.9 billion of temporary revenue. Another €0.6 billion is to come from changes to the tax treatment of gaming. Revenue recoveries are expected to come from entrusting the national tax collection service to a limited company in public ownership (€0.3 billion) and the fight against evasion will be stepped up by increasing the staff assigned and involving the municipalities (€0.3 billion).

Decrease in revenue. *– The budget introduces reliefs totaling €3.5 billion. Approximately €2 billion will be the result of a permanent reduction of one percentage point in the contribution rate for family allowances; in cases where this rate is less than one percentage point, the relief is to be applied to the maternity and unemployment contributions.*

The other reductions in revenue are connected with the extension to 2006 of temporary reliefs granted in earlier years, in particular for some energy products (€0.2 billion), agriculture (€0.5 billion) and building renovation works (€0.3 billion).

Lastly, the budget provides for fiscal, administrative and financial measures, to be specified subsequently, to foster the activity of industrial districts.

Decrease in expenditure. *– The budget contains measures to produce €15.9 billion of savings, of which €9.8 billion in central government and €6.1 billion in local government.*

The measures to curb central government expenditure concern intermediate consumption (€1.8 billion); they are restricted to non-mandatory expenditure and do not apply to security.

Savings of €0.5 billion are to be achieved in staff costs by capping expenditure on fixed-term and coordinated and continuous collaboration contracts and imposing restrictions on the resources to be used for supplementary wage agreements.

Transfers to firms are to be reduced by €3.6 billion, of which two thirds on capital account. A cap is imposed, only for 2006, on the disbursements of the Technological Innovation Fund (€1.2 billion) and transfers to Ferrovie dello Stato S.p.A. are reduced (€1.2 billion). Additional savings are to be produced by cutting gross fixed investment (€0.7 billion), curbing the outlays of ANAS (€0.6 billion) and other minor measures (€0.8 billion).

Further reductions in expenditure derive from the changes introduced with the tables attached to the Finance Bill (€1.5 billion) and lower interest payments (€0.2 billion).

Estimated effects of the budget on the general government consolidated accounts (1)
(millions of euros)

REVENUE	
Increase in revenue	**7,320**
Measures concerning tax bases	4,960
Ires and Irap for banks and insurance companies	*1,340*
Energy sector (2)	*800*
Amortization of goodwill and property leases (2)	*1,880*
Corporate property rental income	*100*
Financial valuation gains and losses (2)	*540*
Bank of Italy valuation losses (Art. 65 of Law 289/2002) (2)	*300*
Reintroduction of rules on revaluation of corporate fixed assets	910
Tax regime for gaming	600
Reform and strengthening of tax collection activity (2)	330
Fight against tax evasion	300
Updating of sanctions	100
Other measures (2)	120
Decrease in revenue	**-3,470**
Social security contributions relief	-2,000
Partial VAT deductibility for company cars	-220
Excise duty and agricultural tax reliefs extended to 2006 (2)	-850
Extension of tax relief for building renovation works	-250
Other measures	-150
Net change in revenue	**3,850**
EXPENDITURE	
Decrease in expenditure	**-14,150**
Domestic stability pact	-3,120
Health service	-2,500
Staff costs (2)	-1,000
Intermediate consumption	-1,830
Transfers to firms	-3,590
Current transfers	*-1,190*
Capital transfers	*-2,400*
Gross fixed investment	-700
Restrictions on ANAS expenditure	-600
Other measures (2)	-810
Increase in expenditure	**3,300**
Support for families (2)	1,160
Staff costs (2)	640
Social security	310
Increase in outlays under existing legislation	590
Capital expenditure	200
Other measures	400
Other effects on expenditure (3)	**-1,530**
Net change in expenditure	**-12,380**
TOTAL REDUCTION IN PRIMARY BALANCE	**16,230**
Disposals of public assets	3,000
Measures to boost the economy	-3,000
Interest expenditure	-200
TOTAL REDUCTION IN NET BORROWING	**16,430**

(1) Based on official estimates contained in the second section of the Forecasting and Planning Report. The items include the measures contained in the Finance Bill and Decree Law 203/2005. – (2) The item includes the effects of the amendments to the original measures and some marginal revisions to the initial estimates contained in the Forecasting and Planning Report. – (3) The item includes the effects of the changes introduced with the tables attached to the Finance Bill.

The decrease in local government expenditure includes €2.5 billion of savings in the health sector. Compared with a figure of €96.1 billion on a current legislation basis, the budget allocates €93.6 billion to the national health service. The regions are required to adopt measures to keep spending within this ceiling. In order to make good the deficits recorded in 2002-04, the budget makes an additional €2 billion available for the settlement of past debts.

Savings in staff costs are expected to total €0.5 billion.

Changes to the domestic stability pact are expected to save approximately €3.1 billion. For current expenditure, the budget calls for reductions compared with the outturn for 2004 of 3.8 per cent by regions and 6.7 per cent by provinces and municipalities. Capital expenditure may increase, again compared with the outturn for 2004, by up to 6.9 per cent for regions and 10 per cent for provinces and municipalities. The pact does not apply to health expenditure or staff costs, which are subject to specific measures; social expenditure, transfers to other public entities and transactions of a financial nature are also excluded.

***Increase in expenditure.** – Provision is made for €3.3 billion of additional expenditure. Measures to provide €1.2 billion of support for families are to be implemented mainly through the creation of a fund whose use will be decided during the budget's passage through Parliament.*

Expenditure on pensions is set to increase by €0.3 billion. About half of this amount is in connection with the reform of supplementary retirement benefits and will serve to create a guarantee fund to ensure firms have access to bank credit when the present system of provisions for severance pay is phased out.

Other additional outlays include the renewal of labour contracts (€0.6 billion), the funding of increased outlays under existing legislation (€0.6 billion) and some minor measures (€0.6 billion).

---

[1] The budget originally presented by the Government on 30 September 2005 was intended to reduce net borrowing by €11.5 billion (0.8 per cent of GDP). The adjustment was increased to €16.4 billion as a result of some small changes to the original estimates and subsequent amendments. The latter offset the reduction of €5 billion in the estimate of the proceeds of property sales in the baseline figures for 2006. For an analysis of the budget as originally presented, see "Fact-finding preliminary to the examination of the budget documents for the period 2006-08" in the Speeches section.

of more recent data than these forecasts could take into account, in 2006 the growth in GDP could be a little higher than 1 per cent. Benefiting above all from the cyclical strengthening in Europe, exports are expected to start growing again, though at a rate still far lower than that of world trade. Consumption is expected to increase again next year at a modest pace; the saving rate is likely to rise further. Thanks to the recovery of exports, business investment other than construction is expected to return to growth. Construction investment should continue to grow rapidly. Inflation is expected to be basically unchanged on an average annual basis.

In a longer-term perspective, action to strengthen the growth potential of the Italian economy must be intensified while adjustment of the imbalances in the public finances continues.

The recovery forecast for 2006 attenuates the problems of the Italian economy but does not solve them. In the medium term it is necessary to eliminate the factors of a structural nature that are hindering the diffusion of technological and organizational innovation in the productive system and are reflected in product specialization still very much oriented towards traditional manufacturing and a relative dearth of dynamic medium-sized companies and large firms equipped to withstand competition on global markets. The banking and financial system will have to channel an increasing volume of savings towards innovative investment able to generate an upgrading of supply.

Freeing the Italian economy from the situation of low growth in which it has been stuck for years requires wide-ranging action to release resources for infrastructure endowment, human capital formation and research, to foster the modernization of the productive system, to raise the degree of competition on the internal product markets and the market for corporate control, and to improve the efficiency of the public administration.

This chapter and the chapter "The public finances in the euro area and Italy" are based on information available at 17 November 2005. All the other chapters are updated to 15 November, the Appendix to 11 November.

Speeches

Econonomic developments and the banking system

Address by Antonio Fazio, Governor of the Bank of Italy, to the Italian Bankers' Association Annual Meeting

Rome, 13 July 2005

The expansion of economic activity in the euro area is proceeding slowly.

In 2004 euro-area output rose by 2 per cent, compared with 5 per cent for the world economy; GDP growth was 2.3 per cent in France, 1.6 per cent in Germany and 1.2 per cent in Italy. Euro-area growth this year will be lower than in 2004.

Germany's economy is suffering from the weakness of domestic demand, Italy's from a progressive loss of competitiveness.

In the early months of this year the euro-area index of industrial production continued to waver. In the spring the cyclical indicators signaled the persistence of a very cautious attitude among firms and households. Incipient signs of recovery have appeared recently; in France and in Germany, the climate of confidence among industrial firms improved in June for the first time since the start of the year; the euro-area index based on surveys of purchasing managers has risen.

The Italian economy faces the second half of the year starting out from conditions that are less favourable that those of the other main countries of the area. The fall in output in the fourth quarter of 2004 and again in the first three months of this year has made the fragility of our productive system more evident. By comparison with 2000, in January the negative gap between Italy's index of industrial production and the euro-area average was equal to 8.1 percentage points, the widest in the last four years.

The erosion of competitiveness in the international markets under way since the middle 1990s is continuing. Since 2000 Italian exports have contracted by 4.9 per cent, while the exports of the other euro-area countries have grown by 17.2 per cent. The problems of competitiveness have continued to weigh especially on firms in the Centre and North and on smaller firms.

Price strains have not emerged. Inflation has benefited from wage moderation and the appreciation of the euro; it has also been influenced by the weakness of demand. Looking ahead, the rise in oil prices and the performance of the euro could have a negative impact. Household spending is being held down by uncertainty about the outlook for income and employment; the propensity to save has been rising since 2000.

In the first quarter of this year investment in construction fell further. After declining in the second half of 2004, productive investment staged a slight recovery.

In April industrial production picked up sharply from the low levels to which it had fallen in March; the estimates for the subsequent two months indicate that the index has fallen, but not enough to cancel out the April rise.

The progressive decline of production levels in industry appears to have come to an end. After the pronounced fall recorded in the first quarter, GDP is expected to return to growth, albeit modest, in the second.

The banking system

Italian banks are continuing to ensure an ample supply of credit.

Bank lending rates are very low. In May the cost of short-term credit for businesses was 4.9 per cent in nominal terms, and 1.2 per cent net of the change in producer prices. The overall effective interest rate on loans to households for house purchases was 3.8 per cent, or 1.9 per cent net of inflation. In the middle of the 1990s lending rates were above 10 per cent and more than 6 per cent in real terms.

Despite growing concern about the evolution of the business cycle, the periodic surveys of the leading banking groups have not picked up signs of a tightening of credit disbursement standards. Lending is expanding rapidly. In the first few months of 2005, accommodating the strong demand of households and the more moderate demand of firms, it grew at a rate of more than 8 per cent, about two percentage points higher than the euro-area average.

Fueled by low interest rates, the increase in credit to households has stabilized at around 15 per cent since mid-2004. A decisive factor in all the regions of Italy has been the expansion in loans for house purchases. In 2004 new mortgage loans amounting to €49 billion were granted; disbursements in the first quarter of this year were 11 per cent up on the corresponding period of 2004.

Households' access to credit is also facilitated by the marketing policies banks are pursuing; under the stimulus of competition, they have diversified supply, adapting it to the needs of customers. Fixed-rate mortgage lending is relatively underdeveloped by international standards: about 80 per cent of outstanding loans for the purchase of houses are at variable rates or rates renegotiable within one year.

In addition to real-estate lending, consumer credit granted by banks and financial companies is also expanding rapidly.

Italian households' debt is very low by international standards. The risks to the financial system from the rapid growth in lending to households are limited. At the end of 2004 household debt was equal to 28 per cent of GDP in Italy, compared with a euro-area average of 55 per cent and about 90 per cent in the United States and the United Kingdom.

Partly as a consequence of subdued investment, the financial conditions of firms have remained good on the whole. In 2004 firms' operating profits were higher in relation to value added than during the cyclical downturn of the early 1990s. However, the data for the sample of around 40,000 non-financial corporations surveyed by the Company Accounts Data Service show a fall in profits in the period 2000-03, notably in the textile, clothing and transport equipment sectors.

Firms' interest expense has diminished thanks to the reduction in interest rates, due in part to the lengthening of the average maturity of corporate debt. Leverage is seven percentage points below the level of the 1990s; the average maturity of Italian firms' bank debt is gradually approaching that prevailing in the other European countries.

There continues to be rapid growth in financing to categories of firms that in the past encountered greater obstacles in gaining access to credit during cyclical downturns; credit to firms resident in the South of Italy increased by 8.5 per cent, two points more than the national average.

In the period 1996-2004 the value of mergers and acquisitions between banks in Italy accounted for 27 per cent of the euro-area total, compared with the Italian banking system's roughly 14 per cent share of euro-area bank assets.

The far-reaching transformation of the banking system since the middle of the 1990s has had positive effects on operations. Since 2001 loan quality has remained unchanged despite the weakness of the economy. At about 1 per cent the ratio of new bad debts to outstanding loans is very low by comparison with the past.

Households and firms have benefited from part of the banking system's efficiency gains through more favourable rates on deposits and loans.

In 2004 banks' profits amounted to €11 billion, or 10.7 per cent of capital and reserves, compared with 6.7 per cent in 2003. Contributing to the improvement in the results for the year were the decline in value adjustments to loans and a significant increase in net non-recurring income. Operating costs diminished by 0.5 per cent with respect to 2003. The ratio between costs and revenues was in line with the European average.

The growth in self-financing and capital increases have strengthened the banking system's capital base.

At the end of 2004 Italian banks' supervisory capital amounted to €149 billion. The ratio of capital to risk assets was 11.6 per cent; the difference with respect to the average ratio for banks of the EU countries has narrowed in recent years to about one percentage point. For the largest banking groups, the ratio of supervisory capital to risk assets has increased significantly since 2001.

Italy's banking system, like those of the other advanced countries, is adapting to the principles of the new Basel rules on capital.

In its supervisory capacity the Bank of Italy is evaluating whether banks' risk management systems satisfy the quantitative and qualitative requirements established by the new rules. Evaluation and validation are carried out by means of examination of the statistical documentation submitted by banks, meetings with corporate officers and direct examination of the state of progress of the project and the organizational processes.

At our request, the main banking groups performed simulations of the impact of the new international accounting standards on their balance sheets. On average for the system, the results indicate larger writedowns of bad and doubtful debts and capital gains on buildings and, to a lesser extent, shareholdings. The total capital of the groups concerned would not be significantly affected. This April the Bank of Italy began a survey extended to all banking groups, with the aim of estimating the impact of the new rules on supervisory capital, on the basis of a rigorous hypothesis regarding the prudential regulations that will enter into force at the end of the year.

The supervisory action of the Bank of Italy is increasingly oriented towards forward-looking analysis whose compass includes an evaluation of the solidity of individual banks and of the system in the face of adverse events which, though highly improbable, are nonetheless possible. It proceeds through exercises designed to check the income and capital margins in case of increases in credit and market risks deriving from major negative shocks.

Economic policy

Public-sector net borrowing looks set to exceed 4 per cent of GDP this year. The negative performance of the public finances reflects the slow growth of the economy together with difficulties in implementing some of the planned budgetary measures.

Owing in part to the lapsing of one-off measures, net borrowing in 2006 will be equal to about 5 per cent of GDP in the absence of corrective action; the primary surplus will fall to nil.

The persistent contraction of the primary surplus affects the process of bringing down the ratio of debt to GDP.

The structural situation of our public finances requires continual adjustment measures, which threaten to create distortions in the management of resources and to fuel uncertainty; the scope for stabilization policies is limited. Negative effects on the cost of the debt must be averted.

It is important that the Government and Parliament decide, on the basis of the Economic and Financial Planning Document, measures for the next four years able to reduce current expenditure in relation to GDP, increase public investment and gradually diminish firms' tax burden.

As requested of Italy by the Council of Finance Ministers of the European Union, it is necessary to reduce the deficit below the threshold of 3 per cent by 2007.

A return to higher rates of growth that are compatible with the available resources cannot be achieved without a renewed and effective commitment of economic policy to changing the structure of production.

The reduction of the tax burden on businesses should facilitate the growth in size of firms, technological innovation and investment. The efforts to make the operation of public services more efficient and to create a more stable legislative framework need to be intensified. Competition must be strengthened.

Firms must expand their scale of production, increase the professionalism of their managements, orient their specialization towards more dynamic and innovative sectors, and increase their presence in some technologically mature but high-quality segments of the international market.

The financial system must assist firms in this difficult phase of transformation, directing resources towards the companies and projects with the greatest potential.

The growth of pension funds will be of great importance for the financial market and for the supply of capital to the banking sector.

The outlook

Economic activity probably reached a low in the first quarter of this year. The figure for GDP is expected to show an increase, albeit modest, for the three months from April to June.

It is necessary that the still hesitant recovery gain momentum in the second half of the year.

If it does, we will be able to avoid a contraction in GDP this year with respect to 2004, and to achieve growth of more than 1 per cent in 2006.

The performance of GDP this year and next must be along these lines in order to give substance and credibility to the scenario projected for the public finances.

As we underscored on 31 May to the General Meeting of Shareholders of the Bank of Italy, investment is finding it hard to gain momentum, consumer demand remains weak, and the outlook for exports remains uncertain even in a favourable international context.

There is a need for a commitment by the Government, the social partners and firms not to lose the opportunity to reverse our economy’s negative trend.

Thanks to the progress made in the last decade, banks are in a position to finance the growth of production and investment. When the difficulties of businesses are cyclical and transitory, banks can, indeed must, contribute to safeguarding production capacity.

Recourse to the Wage Supplementation Fund in industry covered a number of hours equivalent to about 26,000 full-time employees in the first half of 2001; it rose rapidly in 2003 to 48,000 employees. In the early months of this year it rose further, to 58,000 employees. Use of Wage Supplementation has increased especially in the machinery and textile sectors.

Where it is possible and appropriate, banks must work for the restructuring and reorientation of production capacity and assist the business sector in the process of consolidation aimed at augmenting the average size of firms.

A major banking merger at European level has as its protagonist an Italian bank that had previously completed its own restructuring and consolidation in the context of the general reorganization of banking that began in the middle of the 1990s.

Market transactions are under way for the acquisition of control of two important banks.

Once the authorization procedures are concluded, it will be the shareholders, the market, that decide the outcome of the initiatives, which envisage different paths, instruments and objectives. We are following the developments in scrupulous observance of the law and supervisory regulations, bearing in mind the general interest and reporting on the necessary procedures in the competent fora. In any event, the transactions will lead to significant further strengthening of our banking system.

Banks are called upon to address the problems of customer relationships more effectively and systematically. Initiatives to contain the costs of services and the amount of fees are necessary and they must spread. The image banks project is fundamental for their reputations.

As we recently had occasion to argue at length, the problem of the Italian economy lies primarily in the competitiveness of industry.

But there is also a weakness of domestic demand.

According to the Bank of Italy's surveys, investment in public works in the first half of this year was at the same level as in the first half of 2004. The rise in the number of contracts and the opening of sites have yet to show up in an increase in investments actually implemented.

According to the construction firms in the sample, the outlook for the second half of the year is uncertain.

The efforts at both central and local government level must be intensified, and with urgency, to step up activity, to avert a slowing of investment that could jeopardize the recovery.

According to the legislative innovations introduced by Parliament and those now being adopted, the implementation and management of public works does not necessarily have to be totally entrusted to government; it is possible and advisable to leave room for private enterprise, on the basis of rigorous and transparent criteria. The role assigned to banks is that of giving impetus to operations in the sector and carefully evaluating the quality of investment projects.

There are signs that the world economy is slowing down with respect to its exceptional expansion last year, but growth remains robust. Its course must not be affected by the recurrence of terrorism. This requires a coordinated, effective response in the various fields, including at European level, and the continuation of the initiatives for détente and peaceful coexistence.

The present phase of the cycle is a difficult one. A favourable opportunity for recovery could take shape and must be seized. It is necessary to restore a climate of confidence. This depends on what actions are taken but also on the manifestation of a harmonious will to act for our country's economic and civil progress.

Fact-finding preliminary to the examination of the budget documents for the period 2006-08

Statement by Antonio Fazio, Governor of the Bank of Italy, to the Joint Session of the Fifth Committees of the Italian Senate and Chamber of Deputies

Rome, 18 October 2005

1. The international economy

In the first half of 2005 world economic activity continued to expand at a rapid pace. The maintenance of accommodating financial conditions helped to limit the repercussions of the large and unexpected rise in the price of oil.

In the United States GDP grew in the first half by 3.6 per cent on an annual basis, at the same rate as in the previous period. The negative impact that the sharp rise in energy prices had on consumption was countered by the favourable effect of the increase in employment and wages; investment expanded rapidly, notably in the high-tech goods sector.

In July and August economic activity continued on a favourable path. The hurricanes in the Gulf of Mexico should have limited and transitory repercussions on growth. According to recent estimates by the Congressional Budget Office, the effect will be to reduce output in the third quarter by between 1 and 1.5 percentage points on an annual basis. Congress has already allocated around $60 billion for reconstruction. The loss in output should in any case be recovered in the first half of 2006.

The rise in oil prices led to a substantial increase in consumer price inflation; so far it has not altered core inflation or inflation expectations. The Federal Reserve continued to enact a gradual tightening of monetary conditions.

An unexpected, positive outcome is the substantial decrease in the federal deficit for the fiscal year just ended. According to the latest Congressional estimates, the deficit decreased from 3.6 per cent of GDP in 2004 to 2.6 per cent, benefiting from a larger-than-expected increase in revenue from corporation tax. According to the forecasts prepared in July by the Administration, the deficit in 2006 will be unchanged as a percentage of GDP; taking into account the rise in expenditure due to reconstruction, it could turn out to be slightly larger.

Recent estimates by the International Monetary Fund set GDP growth in the United States at 3.5 per cent in 2005, compared with 4.2 per cent in 2004; in 2006 it should be virtually the same.

In Japan, GDP grew in the first half of 2005 by 3.8 per cent on an annual basis. The increase in employment boosted household consumption; investment growth resumed at a rapid pace, fostered by the reorganization of manufacturing and the progress made in restructuring the banking sector. According to IMF forecasts, output will expand by 2 per cent in 2005 and again in 2006.

In China, GDP is expected to grow by 9 per cent this year and 8.2 per cent in 2006. Growth in the other emerging economies of Asia is expected to continue at a fairly rapid pace, 5.8 per cent in both years. In Latin America, output is expected to expand by around 4 per cent in both 2005 and 2006.

Tensions in the oil market heightened during the summer. In September the price of crude oil rose to an average of more than $61 a barrel, compared with around $40 at the end of 2004. The trend and distribution of prices of futures contracts suggest there may be further increases in the short term, with possible repercussions on economic activity.

In the euro area output grew at a modest pace in the first six months of the year, expanding by just over 1 per cent on an annual basis. Among the major countries, France and Germany recorded the strongest growth; in Italy, there was a slight decline in economic activity in the first half of the year compared with the previous period.

The growth in euro-area GDP was driven mainly by consumption, with the exception of Germany, where consumption declined. Despite the continued strong expansion of world trade, exports slowed sharply.

The harmonized index of consumer prices rose by 2 per cent in the first half of 2005 compared with the same period of 2004. In Italy the increase was of a similar order of magnitude. Core inflation, calculated by excluding the most erratic components, was 1.6 per cent in the euro area and 2.1 per cent in Italy.

In recent months, information for the euro area has indicated an improvement in the economic situation. In the main economies the index of business confidence rose and in September was close to the levels recorded at the beginning of the year.

2. Cyclical developments in Italy

In Italy, GDP declined in the first half of the year by just under 1 percentage point on an annual basis. Economic activity was mainly driven by household consumption; gross fixed investment continued the decline under way since the second half of 2004.

Performances diverged in the two quarters. In the first, economic activity slowed considerably as a result of the marked decrease in exports. In the second quarter, this downward trend reversed, causing output to resume growth at a rate of almost 3 per cent on an annual basis; household consumption rose by 2.6 per cent, thanks in particular to the sharp rise in purchases of durable goods; gross fixed investment also returned to growth, mainly owing to the rise in residential building.

In the second quarter the decline in inventories, caused by production failing to keep pace with demand, reflected the cautious response of firms to the large fluctuations in orders during the course of the year.

Employment began to increase again in the spring. The rate of unemployment, calculated on the basis of the new labour force survey, continued to decline, falling in the second quarter to 7.8 per cent on a seasonally adjusted basis. The drop in the labour market participation rate, particularly of women in southern Italy, contributed.

In the other euro-area countries the rate of unemployment remained virtually unchanged; in July it was 9.7 per cent in France, 9.3 per cent in Germany and 9.5 per cent in Spain.

In Italy GDP growth has remained slack, although the increase in industrial production in the summer and the improvement in qualitative indicators point to the consolidation of the recovery in production.

In 2005 output growth is expected to be slightly positive. The Forecasting and Planning Report published in September indicates economic activity will expand by 1.5 per cent in 2006.

For the euro area the IMF forecasts growth of 1.8 per cent. According to Consensus Forecasts, average inflation in 2006 will be just under 2 per cent both in Italy and in the euro area.

3. The public finances in Italy

3.1 Fiscal balances

In an attempt to limit the budget's restrictive impact on the economy, in the last three years extensive recourse was made to temporary measures. Their effects averaged around 1.5 percentage points of GDP each year.

The increase in public spending and the reduction in the fiscal burden sustained economic activity, which had been slowing owing to the international economic situation and internal factors of a structural nature. The result was a progressive deterioration in the public finances.

General government net borrowing overshot the 3 per cent threshold fixed in the Treaty of Maastricht every year from 2001 on, except 2002. The primary surplus began to decline in 1997, falling from 6.7 per cent of GDP in that year to 3.4 per cent in 2001 and 1.8 per cent in 2004.

The deterioration in the public finances appears more marked if the effects of temporary measures are excluded.

In July this year the EU Council initiated the excessive deficit procedure in respect of Italy and called on the Government to take the necessary steps to bring the deficit gradually back below the 3 per cent threshold. The effectiveness of the measures will be assessed in January 2006.

In 2001-04 the general government borrowing requirement, net of privatization receipts, averaged about 4 per cent of GDP. Progress in reducing the debt-to-GDP ratio slowed considerably. In recent years the decline was mainly the result of extraordinary revenues, financial operations and asset disposals.

In the early months of 2004 the evolution of the borrowing requirement was such that there was a risk net borrowing would overshoot the estimate for the year.

In April the European Commission, expecting Italy's net borrowing to reach 3.2 per cent of GDP in 2004, recommended that the EU Council should serve an early warning on Italy. The Government undertook to introduce the necessary measures to keep the deficit within the 3 per cent threshold. The Quarterly Report on the Borrowing Requirement published at the beginning of May estimated net borrowing would amount to 2.9 per cent of GDP in 2004.

In view of the difficulty of controlling the public finances, at the presentation of the Economic and Financial Planning Document in July 2004 the baseline projection for the deficit in 2005 was raised to 4.4 per cent of GDP; economic growth was adjusted downwards to 1.9 per cent. At the end of the year a set of deficit-reduction measures was enacted, officially estimated at €24 billion or 1.7 per cent of GDP. The correction consisted mainly in the introduction of a 2 per cent limit on the nominal increase in general government spending, "revenue maintenance" measures – reviews of sector studies, enlargement and recovery of tax bases – and massive asset disposals.

According to the Economic and Financial Planning Document of July 2005 and the Forecasting and Planning Report of September 2005, the deficit this year will be 4.3 per cent of GDP, reflecting a significantly smaller-than-expected impact of the budgetary measures and a basically stagnant economy. The primary surplus is estimated at 0.6 per cent of GDP. Excluding the effects of one-off-measures amounting to about half a percentage point of GDP, net borrowing would remain at approximately 5 per cent of GDP and the primary surplus be basically nil.

Only a fraction of the €7.1 billion of property disposals envisaged by the Finance Law for 2005 has been completed.

The deficit could be reduced by the deferment of part of the costs connected with the renewal of public employment contracts, which are still being negotiated in many sectors, given the time needed for their implementation; in such case the deficit for 2006 would be aggravated.

To ensure that the objective of 4.3 per cent of GDP for net borrowing this year is achieved, additional budgetary measures were recently introduced that according to the official estimates will reduce the deficit by €1.9 billion, with €0.8 billion coming from revenue increases and €1.1 billion from spending cuts.

The data available on the performance of the public finances during the current year confirm the trend towards a sharp deterioration in the balances. The general government quarterly accounts, prepared by Istat on the basis of information that is still incomplete, show that net borrowing rose from 3.6 per cent of GDP in the first half of 2004 to 5.1 per cent in the first half of this year; the increase reflects the larger one-off revenues recorded in the first half of 2004. In the first eight months of 2005 the general government borrowing requirement amounted to €56.1 billion, €4.3 billion more than in the same period of 2004. In the first nine months of 2005 the state sector borrowing requirement amounted to €59.9 billion, up by €5.6 billion compared with the same period of 2004. In the last two months of 2004 about €6.5 billion of receipts from extraordinary transactions were recorded (€3.5 billion from the securitization of INPS credits and €3 billion from sales of public property).

Even assuming privatizations totaling €15 billion, of which €4 billion have been completed to date, the Planning Document estimates that the ratio of debt to GDP will turn upwards after ten years of steady decline, rising from 106.5 per cent in 2004 to 108.2 per cent.

3.2 Public expenditure

In the five years 1993-97 primary current expenditure grew by 0.7 per cent per year in real terms, compared with average annual GDP growth of 1.5 per cent. In the four years 1998-2001 expenditure grew at an average annual rate of 2.1 per cent in real terms, the same as GDP; in the three years 2002-04 the rate of increase in expenditure remained virtually unchanged at 2.2 per cent, while GDP grew by just over 0.5 per cent per year.

In the second half of the 1990s the ratio of primary current expenditure to GDP fluctuated around 37.5 per cent. In 2002-04 it rose by 1.4 percentage points, reflecting the slowdown in economic activity. The Planning Document, taking account of the stagnation of the economy and the substantial outlays connected with the renewal of public employment contracts, including arrears, estimates that the ratio will increase by a further 0.9 points this year, to 40.2 per cent.

Limiting the growth in spending will involve considerable difficulties.

The methods must necessarily be differentiated in relation to the degree to which expenditure is discretionary. For the more flexible components, they can include measures that set limits on the financial resources available to individual administrations or establish planning ceilings.

A very substantial share of Italian public spending depends on the legislative and institutional framework regulating individuals' eligibility to receive some benefits and the level of services provided to the population. Outlays for pensions are equal to more than 35 per cent of primary current expenditure, those for healthcare to more than 15 per cent. On these items, the action to reduce expenditure must be carried out through a revision of the structure and functions of the public sector.

The difficulty of limiting expenditure is confirmed by the results produced by the 2 per cent cap on the nominal increase in a part of general government outlays, introduced by the budget for 2005. For the current year, the situation of the accounts given by the Planning Document published in July indicates that the measure is not sufficiently effective: intermediate consumption is estimated to be growing by 3.8 per cent, primary current expenditure by 4.7 per cent.

The 2 per cent cap introduced by last year's Finance Law applied to the nominal increases in general government primary expenditure compared with the provisional figures for 2004 published in the Forecasting and Planning Report for 2005. Social benefits in cash, Italy's contributions to the EU budget and expenditure for the Constitutional bodies were excluded. For local authorities as a whole, the introduction of the spending cap revised the rules of the Domestic Stability Pact: for municipal and provincial governments, the constraint on the deficit was replaced by a ceiling on spending growth, in the same way as for regional governments. The ceiling referred to expenditure on a cash basis and was equal to 4.8 per cent with respect to the outturn in 2003; staff costs, transfers to other public authorities, expenses deriving from financial transactions and, for the regions, health care expenditure were excluded. The last-mentioned item was subject to specific restrictions that reduced its nominal amount with respect to the provisional outturn for 2004.

3.3 Revenue policies

In the last few years the aim of budgetary policy has been to reduce the burden of tax and social security contributions in order to foster growth. This action has encountered limits in the general conditions of the public finances. Net of capital taxes, the ratio of tax and social security receipts to GDP declined from just over 42 per cent in the two years 2000-01 to 41 per cent in 2004; over the same period the tax component fell from around 29.5 to 28 per cent of GDP.

Substantial receipts have been generated by one-off measures, in particular tax amnesties and property sales; the latter are deducted from investment expenditure in the general government consolidated accounts. Amnesties, especially if they are reiterated, are likely to have a negative effect on compliance with the rules and thus on potential future receipts.

The planned further reduction in the tax burden makes it possible to strengthen the fight against evasion, limiting the impact of taxation on productive activity. The receipts recovered will make resources available for a substantial lowering of tax rates.

An excessively heavy burden of taxes and social security contributions increases the incentives for evasion and enlarges the underground economy. These phenomena have attained major dimensions in Italy. They give rise to inequity and to serious distortions in the allocation of resources. It is urgent, as all agree, to launch a virtuous process of reducing the fiscal burden and recouping tax bases.

The budget for 2005 established measures strengthening so-called sector studies. There is no evidence of their having had a significant impact on developments on the revenue side, partly owing to amendments introduced during the budget's passage through Parliament.

The Finance Bill for 2005 indicated that €3.8 billion of additional revenue would come from rules modifying sector studies and strengthening their use for tax assessment (€1.4 billion). The introduction of a mechanism for automatic annual updates on the basis of national account indicators and the implementation of periodic revisions, already envisaged by the rules establishing sector studies. However, in December 2004 the Senate passed an amendment eliminating the automatic updates and modifying the other rules. Overall, the expected additional revenue fell to €3.6 billion.

An initial periodic revision was carried out in March 2005 and led to an increase in the tax due on incomes produced in 2004, with respect to the previous year, for numerous categories of taxpayers. Although difficult to estimate ex post, the effects appear to be smaller than expected: up to now self-assessed income tax payments for the year 2004 (mainly attributable to small firms and self-employed persons) are not larger than those for 2003.

The property disposals included in the budget for 2005 that have been carried out to date total only about €600 million. The amount predicted was €7.1 billion, of which €4.1 billion was to come from property sales and €3 billion from the transfer of part of the road network to companies under State control.

4. The public finances in 2006

The *projections on a current programmes basis* presented in July in the Planning Document indicate net borrowing amounting to 4.7 per cent of GDP in 2006. This estimate assumes receipts from property sales totaling €6 billion, or more than 0.4 per cent of GDP, which in the general government consolidated accounts are deducted from capital expenditure.

GDP growth is projected to be 1.5 per cent, against the flat result expected for this year.

The ratio of the primary surplus to GDP is projected to fall by 0.5 percentage points, to 0.1 per cent. This would reflect a much larger fall in revenue than in primary expenditure (1.2 and 0.6 points of GDP respectively). Developments on the revenue side are influenced by the full effects of the tax reliefs granted in the previous years and by the lapsing of revenue from one-off measures.

The state sector borrowing requirement, net of settlements of past debts and privatization receipts, is forecast to be 4.7 per cent of GDP, the same as is expected for 2005 and well above the 3.7 per cent recorded in 2004.

The planning scenario outlined in the Planning Document and agreed at European level indicates that net borrowing will fall to 3.8 per cent of GDP in 2006. The correction with respect to the current programmes balance amounts to 0.8 percentage points.

After the expected increase this year, the ratio of general government debt to GDP is forecast to come down again in 2006. The decline, from 108.2 to 107.4 per cent, is entrusted to financial measures of considerable size.

In these circumstances it is essential to limit the growth in the debt structurally and to prevent the deterioration in the public finances from affecting its average cost.

The average cost of the debt – the ratio of interest payments to the average stock of liabilities – diminished continuously beginning in 1992, falling from 12.5 per cent in 1991 to 4.7 per cent in 2004. Contributory factors were the sharp reduction in interest rates and, in the most recent years, the redemption of securities with relatively high coupons. The scope for further reductions through these channels is dwindling.

The gross yield on ten-year Treasury bonds fell from above 10 per cent in early 1996 to around 4 per cent at the end of 1998; it averaged 5 per cent over the following five years and now stands at 3.5 per cent.

Between 2001 and 2004 ten-year bonds worth €76 billion reached maturity. The interest rates on this paper ranged between 8.5 and 12.5 per cent. In the three years from 2005 through 2007 another €61 billion will be redeemed, with coupon ranging from 6.75 to 10.5 per cent.

If interest rates on all maturities of government paper were to rise (or fall) by one percentage point, given the maturity distribution of the debt, interest expenditure would rise (or fall) by 0.2 percentage points of GDP in the first year, another 0.3 points in the second and 0.1 points in the third.

In an economic scenario like that set out in the Planning Document, which assumes medium-term nominal GDP growth of 3.5 per cent per year and an average interest rate of 4.5 per cent on the debt, stabilizing the debt/GDP ratio requires a steady primary surplus on a cash basis of 1 percentage point. At present the structural primary borrowing requirement is practically nil.

Reducing the burden of the debt adequately will require significantly larger primary surpluses. The Planning Document takes this perspective. It envisages a progressive improvement in the primary balance to a surplus of 3 per cent of GDP in 2009. Asset disposals and other capital transactions can hasten the reduction of the debt but cannot take the place of substantial primary surpluses.

5. The budgetary correction for 2006

The budget corrections outlined on 30 September comprised spending reductions of €13.4 billion and revenue increases of €4.7 billion, for a total adjustment of €18.1 billion.

Of this amount, €11.5 billion, or 0.8 per cent of GDP, is earmarked to reduce net borrowing and €6.6 billion is divided equally between additional spending and tax cuts, directed primarily to sustaining the economy.

In addition, a fund of up to €3 billion is envisaged to finance economic measures still to be decided in pursuit of the objectives of the Lisbon Agenda. This Innovation, Growth and Employment Fund will be financed by the proceeds of asset disposals over and above those included in the estimate of net borrowing on a current programmes basis.

5.1 Expenditure

Expenditure savings estimated at €13.4 billion will be partially offset by an increase of €3.3 billion in outlays, earmarked chiefly to support household incomes. The net reduction in spending compared with the current-programmes projection thus comes to €10.1 billion.

Of the overall spending cuts, those concerning central government departments total €7.3 billion.

The reductions will involve, in particular, public employment (€0.5 billion), intermediate consumption (€1.8 billion), transfers to businesses (€2.4 billion) and to ANAS (€0.3 billion), gross fixed investment (€0.7 billion) and various minor items (€0.8 billion). In addition, the appropriations contained in the tables annexed to the budget bill are reduced by €0.8 billion.

Savings that will have to be made by local and regional governments have been put at €6.1 billion, including €2.5 billion on healthcare.

The current-programmes projection for health spending in 2006 is €96.1 billion (€95.6 billion specified in the Economic and Financial Planning Document in July plus €0.5 billion for the renewal of collective bargaining agreements). The funding of *the National Health Service under current national and regional legislation comes to €92.6 billion. The Finance Bill appropriates an additional €1 billion for the central government's contribution to fund the Service starting in 2006.*

Moreover, additional resources of €2 billion are appropriated to settle the debts accumulated by the health service in the three years from 2002 to 2004, by way of derogation from the terms of the August 2001 agreement between central government and the regions, under which the latter were required to fund any health deficits out of their own resources. The Finance Law for 2005, again by way of derogation from the above-mentioned agreement, had appropriated funds to make good the debts for the years 2001-03.

In the last ten years the deficits of the health system have totaled more than €30 billion, which the central government has made good in part, with appropriations amounting to €14 billion.

A contribution to the containment of local spending will come from the further modification of the Domestic Stability Pact, which is expected to bring savings of €3.1 billion. The Pact does not apply to healthcare and personnel costs, which are subject to specific measures. The new rules of the Pact provide for reductions in current expenditure and set limits on the increase in capital expenditure. Overall, the total outlay in 2006 on the items covered by the Pact should be brought back to its 2004 level. Additional measures worth €0.5 billion will bear on public employment at local level.

The spending limits differ between regional and local governments. Regions are required to reduce their current expenditure in 2006 by 3.8 per cent with respect to the 2004 budget outturn, and municipalities by 6.7 per cent. For capital expenditure, regions are allowed an increase of up to 6.9 per cent, provinces and municipalities up to 10 per cent.

The current expenditure items subject to this ceiling do not include personnel, healthcare, social programmes and transfers to other public bodies. The ceiling on capital spending exempts not only transfers to other public bodies but also financial transactions that are not relevant for the calculation of net borrowing. By comparison with the rules for 2005, the scope of the Pact is now extended to some smaller units. The provisions for monitoring and the sanctions for violations remain in effect. More generous ceilings may be allowed for the provinces and municipalities that recorded lower annual per capita spending than provided for their population class in the three years 2002-04.

The expenditure increases, worth €3.3 billion, include support for households (€1.2 billion), costs arising from the renewal of public employment contracts for 2004-05 in addition to those projected for next year on a current programmes basis (€0.6 billion), expenditure in connection with the reform of private pension plans (€0.2 billion) and a series of minor measures (totaling €1.3 billion).

Law 243/2004 reforming the pension system empowered the Government to introduce measures to sustain supplementary private pension plans, in particular by providing incentives to use employee severance pay funds for retirement benefit purposes.

The Finance Bill institutes, for the years 2006-10, a State-financed guarantee fund to ensure firms' access to bank credit in exchange for the transfer of severance pay provisions to pension funds. The endowment of the guarantee fund for 2006 is set at €154 million.

Firms will also be partly exonerated from social security contributions, with relief in 2006 amounting to 0.12 per cent of the earnings of workers who opt to transfer their severance pay entitlements to pension funds, reducing revenues by an estimated €46 million. The relief increases gradually to 0.28 per cent of earnings in 2014.

5.2 Revenue

The increase in taxes and social security contributions of €4.7 billion will be partially offset by reliefs of €3.3 billion, bringing the net increase to €1.4 billion. The reliefs consist in a permanent reduction of 1 per cent in the social contribution rate and the extension to 2006 of temporary reliefs accorded in previous years.

The permanent relief applies first of all to the contribution rate for family allowances; and if this is lower than 1 percentage point, the relief is extended to maternity and unemployment contribution rates.

The extensions of the temporary tax reliefs concern: a) the reduction of excise taxes on some energy products used for specific purposes; b) the subsidized tax regime for agriculture; and c) the direct and indirect tax reliefs for building renovation works.

Of the €4.7 billion of additional revenue, more than two thirds will be paid by firms, and nearly half of that will come from temporary measures. Taxes on the income of banks and insurance companies are increased, as are taxes on the owners of energy transmission networks. The provisions concerning the revaluation of corporate assets are renewed. And there are measures concerning the fiscal treatment of gaming, tax collection methods and the fight against tax evasion.

For credit and financial institutions, the increase in taxation stems from a reduction in the yearly deductibility for loan write-downs and allocations to loan loss provisions (from 0.6 to 0.4 per cent of the total value of loan assets entered in the balance sheet, including value adjustments); it is estimated that this change will increase revenues by €1.1 billion in 2006. For insurance companies, the fiscal treatment of allocations to reserves for claims in the casualty segment is modified (€0.2 billion). And for all firms the taxation of fixed-asset rental and financial income is revised (€0.1 billion). These rule changes are to be permanent, but a part of the expected revenue increase for 2006 will be temporary (€0.5 billion), in connection with the procedures for the payment of self-assessed taxes.

For companies owning major electricity and methane gas networks the Finance Bill introduces a surtax as of 1 January 2006 that is in addition to the charges and taxes they already pay for the use of public land. The related provisions are nonetheless currently in the process of being amended.

Lastly, firms can take advantage of the introduction of new time limits for the revaluation of some items of their 2004 balance sheets against payment of a tax. This measure is expected to generate €0.9 billion of temporary revenue.

Measures concerning the taxation of gambling are expected to raise €0.6 billion of additional revenue. Revenue recoveries amounting to about €0.3 billion should come from a reform of the system for the collection of the revenue of central government and other public entities which will transfer this activity from private-sector companies to a company limited by shares in public ownership; another €0.3 billion should come from stepping up the fight against evasion by increasing the number of staff assigned and involving the municipalities.

To conclude, the budget introduces measures of a fiscal, administrative and financial nature intended to foster the activity of industrial, service, tourist and agricultural development districts, to be identified through the enactment of suitable provisions.

6. Assessment of the budget

The difficulties Italy is facing have their roots in factors of a structural nature that hold back improvements in labour productivity and the competitiveness of the economy. A lasting adjustment of the public finances will be very hard to achieve in conditions of only limited economic growth. The rehabilitation of the public finances must be coupled with an economic policy aimed at enhancing the prospects of growth.

The size of the adjustment in net borrowing provided for in the budget for 2006, equal to €11.5 billion, takes account of the cyclical situation of the economy, in which the recovery has not yet fully taken hold.

The effort to include measures in the budget designed to support economic activity and foster growth is to be judged positively.

In order to give confidence to households, firms and financial institutions, it is important that next year's objective for net borrowing of 3.8 per cent of GDP be achieved, and that a start be made on improving the balance further in the following years, as indicated in the Economic and Financial Planning Document.

The performance of the public finances must be monitored continuously during the year in order to ensure the objectives are achieved.

In the last twenty years the cyclically-adjusted primary surplus was frequently smaller than that derived from the forecasts on a current programmes basis made the previous year and from the budget estimates included in official documents. In the three years 2002-04 the divergence averaged one percentage point of GDP and appears set to recur this year.

The budget is based prevalently on expenditure cuts. This meets the need to avoid increases in the ratio of taxes and social security contributions to GDP in a situation marked by a fall in the competitiveness of the productive system. The savings called for should encourage greater efficiency in the provision of public services.

As mentioned earlier, €6.1 billion of expenditure savings concern local authorities. These account for 43 per cent of general government wages and salaries and for 73 per cent of the sector's spending on intermediate consumption.

In recent years the growth in primary current expenditure has been especially pronounced for local government. In the five years 1993-97 the annual increase in this sector's expenditure averaged 0.5 per cent in real terms, which was less than for general government as a whole (0.7 per cent). In the period that followed, local government expenditure grew significantly faster than that of general government: in the four years 1998-2001 the annual increase in local government primary current expenditure averaged 4.1 per cent, which was almost twice the figure for general government as a whole. In the three years 2002-04 the figures were respectively 3.3 and 2.2 per cent.

The instruments for monitoring disbursements at local level must be strengthened in view of the less timely availability of information on this sector; implementing the General Government Transactions Information System can help to achieve this objective.

Looking ahead, the caps on the expenditure of local authorities will need to be flanked and ultimately replaced by permanent budgetary constraints that provide certainty as to the resources available and are based on the correspondence between responsibility for revenue raising and responsibility for expenditure.

A decentralized system produces tangible benefits in terms of the allocation of resources if it can combine local authorities' spending powers with a real self-financing capability. In the last few years the right to vary the rates of the regional tax on productive activities and the income surtax has been restricted by statute law, thereby further compressing local authorities' limited scope for raising revenue. The domestic stability pact, originally introduced to involve local government in achieving the public finance objectives fixed at European level, has been turned into an instrument for controlling local expenditure; the repeated amendments have eroded its credibility.

The budget does not provide for the reduction of the regional tax on productive activities announced in the Economic and Financial Planning Document or for the implementation of the third stage of the reform of personal income tax. The available resources are appropriately concentrated on labour-related reliefs, through reductions in social security contributions totaling €2 billion. In large part they are to be financed by increasing the taxation of the service sector.

One budget measure is intended to foster economic activity through the creation of a Fund for innovation, growth and employment. In the present phase of weak economic growth this choice appears appropriate. Appropriations are subject to the raising of resources through sales of property, in addition to those included in the estimation of net borrowing on a current programmes basis. In order for the planned interventions to produce their effects for a significant part of next year, the necessary formalities will have to be set in motion as soon as possible.

The measures to encourage the development of supplementary pension schemes can contribute to the growth of the funded component; the implementing provisions of the enabling law must be approved.

7. Conclusions

Italian budgetary policy must still travel a difficult road.

Half the difference between the objective of 2.7 per cent of GDP established for net borrowing when the finance bill for 2005 was presented and the result of 4.3 per cent now projected is due to the worse-than-expected performance of the economy. The rest reflects the insufficient effectiveness of the measures, albeit important, to curb expenditure and of those intended to ensure “revenue maintenance”. Most of the property sales, originally forecast at €7.1 billion, have still to be made.

The ratio of debt to GDP is set to rise, reversing the downward trend of the last ten years.

The budget for 2006 is intended to reduce net borrowing on a current programmes basis from 4.7 to 3.8 per cent of GDP, the figure agreed at European level. With the help of property sales and privatizations the debt ratio should be brought down to 107.4 per cent, from the 108.2 per cent expected this year.

The budget seeks to reconcile adjusting the public finances with relaunching the economy.

The correction of the deficit on a current programmes basis is entrusted primarily to spending cuts. It impinges on both central and local government.

Primary current expenditure, excluding the effects of the expansionary measures, is expected to remain basically unchanged in nominal terms compared with 2005; excluding the pensions component, expenditure must be reduced by more than 1.5 per cent in nominal terms to achieve the objectives.

The intention for central government is to make cuts primarily in intermediate consumption and transfers to firms.

For local government, in the first place there is a decrease in the resources allocated to health services; for the other main expenditure items a significant reduction is required in nominal terms compared with 2004.

The results of expenditure measures have usually fallen short of what was planned. Achieving savings in the health sector has proved particularly difficult; expenditure overshoots have occurred regularly and led to the need for settlements of past debts.

In view of the experience of the last few years, it is essential that the performance of the accounts be monitored during the year to ensure it is in line with the objectives.

If the curbs on expenditure are to be fully effective, at both central and local level, all the administrations involved will have to collaborate in order to achieve the planned savings.

While safeguarding the level of public services, *inter alia* by establishing a scale of priorities, there exist margins for increasing the efficiency and cost-effectiveness with which resources are used.

The reduction in expenditure should be of a structural nature.

In line with the agreements concluded at European level, the budget provides for a significant reduction in the recourse to measures of a temporary nature. It is necessary to ensure that one-off measures that reduce the deficit do not exceed those that increase it.

The lowering of the cost of labour, an important aspect of the budget, provides immediate support to industry. Implementing the fund for the revival of the Lisbon Agenda and the measures in support of development districts, which are also innovative from the legal standpoint, can contribute to improving the economy’s competitiveness.

In a medium-term perspective only a higher rate of GDP growth and the return to a sizable primary surplus can make it possible to bring down the debt and cope with the impact on the public finances of the unfavourable demographic outlook.

It is necessary to continue the structural reforms of the main expenditure items in order to reinforce the intervention strategies indicated in the budget.

Public finances that have been restored to a sound footing will allow the budget to be used for stabilization purposes and for policies to overcome regional disparities.

The implementation of territorial decentralization, on the basis of a clear division of tasks between the various levels of government and a closer link between spending and revenue-raising responsibilities, can contribute to the indispensable recovery of efficiency in the public sector.

The size and impact of the budget require that the firm political will of the Government and Parliament be matched by a corresponding commitment on the part of central and local administrations.

The fundamental objectives for the public finances in a medium-term perspective, in which the budget for 2006 must be set, remain to reduce the fiscal burden on the productive sector, increase investment in human capital and infrastructure, strengthen research and reform the apparatus of government.

Table 1

Unconsolidated central government borrowing requirement
(millions of euros)

	Year			First 8 months		
	2002	2003	2004	2003	2004	2005 (1)
Net borrowing requirement net of debts settlements and privatization receipts	**32,341**	**22,183**	**50,638**	**35,789**	**47,542**	**55,802**
Debt settlements	5,328	8,537	533	4,437	211	148
in securities	*1*	*575*	*2*	*573*	*2*	*11*
in cash	*5,326*	*7,961*	*531*	*3,865*	*209*	*138*
Privatization receipts	-1,929	-16,855	-7,673	-1	-15	-4,025
Total borrowing requirement	**35,740**	**13,865**	**43,498**	**40,226**	**47,738**	**51,925**
FINANCING						
Currency and deposits (2)	14,548	-38,593	17,112	11,166	16,082	16,129
of which: PO funds	*11,496*	*-64,806*	*-1,688*	*7,717*	*-545*	*-1,257*
Short-term securities	-430	6,083	-924	25,641	26,700	20,548
Medium and long-term securities	26,271	19,215	36,196	27,072	45,562	47,952
MFI loans	-2,890	-4,825	-2,350	-3,147	-2,896	59
Other transactions (3)	-1,759	31,984	-6,536	-20,507	-37,709	-32,763
of which: deposits with the Bank of Italy	*284*	*8,022*	*-2,578*	*-19,257*	*-34,545*	*-30,467*
Memorandum items:						
Foreign borrowings	3,448	4,135	2,314	9,724	5,647	3,770
Net borrowing requirement of the state sector (4)	31,009	46,419	50,119	33,701	45,451	49,108

(1) Provisional data. – (2) Post Office funds, currency in circulation and deposits with the Treasury of entities not included in general government. – (3) Deposits with the Bank of Italy, securitizations and loans from Cassa Depositi e Prestiti S.p.A. to central government. – (4) Sources: *Relazione Trimestrale di Cassa* and Ministry for the Economy and Finance press releases.

Table 2

General government borrowing requirement
(millions of euros)

	Year			First 8 months		
	2002	2003	2004	2003	2004	2005 (1)
Net borrowing requirement net of debt settlements and privatization receipts	**38,189**	**47,602**	**56,424**	**37,085**	**51,570**	**59,984**
Debt settlements	5,328	8,537	533	4,437	211	148
in securities	*1*	*575*	*2*	*573*	*2*	*11*
in cash	*5,326*	*7,961*	*531*	*3,865*	*209*	*138*
Privatization receipts	-1,929	-16,855	-7,673	-1	-15	-4,025
Total borrowing requirement	**41,588**	**39,283**	**49,284**	**41,522**	**51,766**	**56,107**
FINANCING						
Currency and deposits (2)	14,548	-38,593	17,112	11,166	16,082	16,129
of which: PO funds	*11,496*	*-64,806*	*-1,688*	*7,717*	*-545*	*-1,257*
Short-term securities	-372	6,057	-998	25,687	26,623	20,501
Medium and long-term securities	31,705	23,065	41,513	27,139	46,294	49,294
MFI loans	-2,747	-5,660	-1,670	-3,868	-911	717
Other transactions (3)	-1,545	54,414	-6,673	-18,602	-36,322	-30,534
of which: deposits with the Bank of Italy	*284*	*8,022*	*-2,578*	*-19,257*	*-34,545*	*-30,467*
Memorandum item:						
Foreign borrowings	7,615	6,807	4,798	10,532	5,642	5,147

(1) Provisional data. – (2) Post Office funds, currency in circulation and deposits with the Treasury of entities not included in general government. – (3) Deposits with the Bank of Italy, securitizations on loans from Cassa Depositi e Prestiti S.p.A. to central government.

Table 3

Estimated effects of the budget on the general government consolidated accounts (1)
(millions of euros)

REVENUE	
Increase in revenue	**4,670**
Measures concerning tax bases (2)	1,480
Changes to the rules on financial capital gains and losses	*40*
Changes to the Ires and Irap tax bases for banks and insurance companies	*1,340*
Taxation of corporate rental income from property	*100*
Taxation of the main energy transmission networks	800
Reintroduction of rules for the revaluation of corporate fixed assets	910
Tax regime for gaming	600
Reform and strengthening of tax collection activity	320
Fight against tax evasion (2)	300
Updating of sanctions	100
Other (2)	160
Decrease in revenue	**-3,310**
Social security contributions relief (2)	-2,000
Extension of partial VAT deductibility for company cars	-220
Extension to 2006 of excise duty and agricultural tax reliefs	-750
Extension of tax relief for building renovation works	-250
Other	-90
NET CHANGE IN REVENUE	**1,360**
EXPENDITURE	
Reduction in expenditure	**-12,630**
Domestic stability pact	-3,120
Health services	-2,500
Public employment	-980
Intermediate consumption	-1,830
Transfers to firms	-2,390
Current transfers	*-1,190*
Capital transfers	*-1,200*
Gross fixed investment	-700
Restrictions on ANAS expenditure	-300
Other (2)	-810
Increase in expenditure	**3,280**
Support for families	1,170
Public employment (2)	600
Social security (2)	310
Increase in outlays under existing legislation	590
Capital expenditure	200
Other	410
Other net effects (3)	**-790**
NET CHANGE IN EXPENDITURE	**-10,140**
TOTAL REDUCTION IN THE PRIMARY BALANCE	**11,500**
Privatization receipts	3,000
Measures to boost the economy	-3,000
TOTAL REDUCTION IN NET BORROWING (1)	**11,500**

(1) Based on official estimates. – (2) Includes the measures contained in Legislative Decree no. 203 of 30 September. – (3) Includes the effects of the changes introduced in the tables attached to the Finance Bill.

Table 4

Budget forecasts in the economic and financial planning documents for 2006-09 and 2005-08

(as a percentage of GDP)

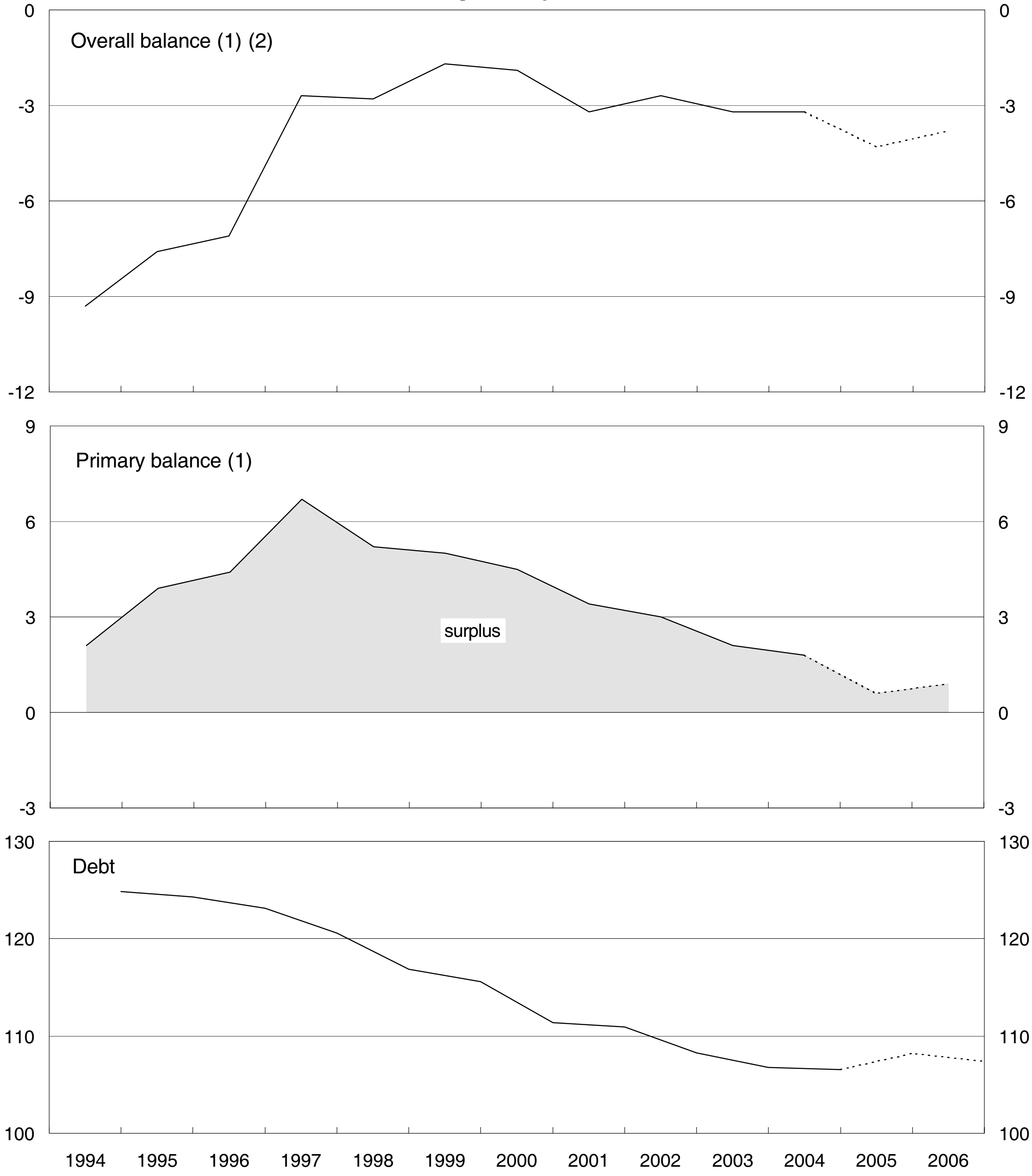
	2004	2005			2006			2007			2008			2009
	Outturn	EFPD 2005-08		EFPD 2006-09	EFPD 2005-08		EFPD 2006-09	EFPD 2005-08		EFPD 2006-09	EFPD 2005-08		EFPD 2006-09	EFPD 2006-09
		July	Sept. (1)		July	Sept. (1)		July	Sept. (1)		July	Sept. (1)		
Net borrowing	3.2	2.7	2.7	4.3	2.2	2.0	3.8	1.7	1.4	2.8	1.2	0.9	2.1	1.5
Primary surplus	1.8	2.6	2.4	0.6	3.3	3.3	0.9	4.0	4.0	1.8	4.8	4.7	2.5	3.0
Interest payments......	5.1	5.3	5.1	4.9	5.5	5.3	4.7	5.7	5.4	4.6	6.0	5.6	4.6	4.5
Debt	106.5	104.1	104.1	108.2	101.9	101.9	107.4	99.3	99.2	105.2	98.1	98.0	103.6	100.9

(1) Update of the Economic and Forecasting Planning Document for 2005-08, presented by the Prime Minister and the Minister for the Economy and Finance on 29 September 2004.

Figure 1

General government overall balance, primary balance and debt

(as a percentage GDP)

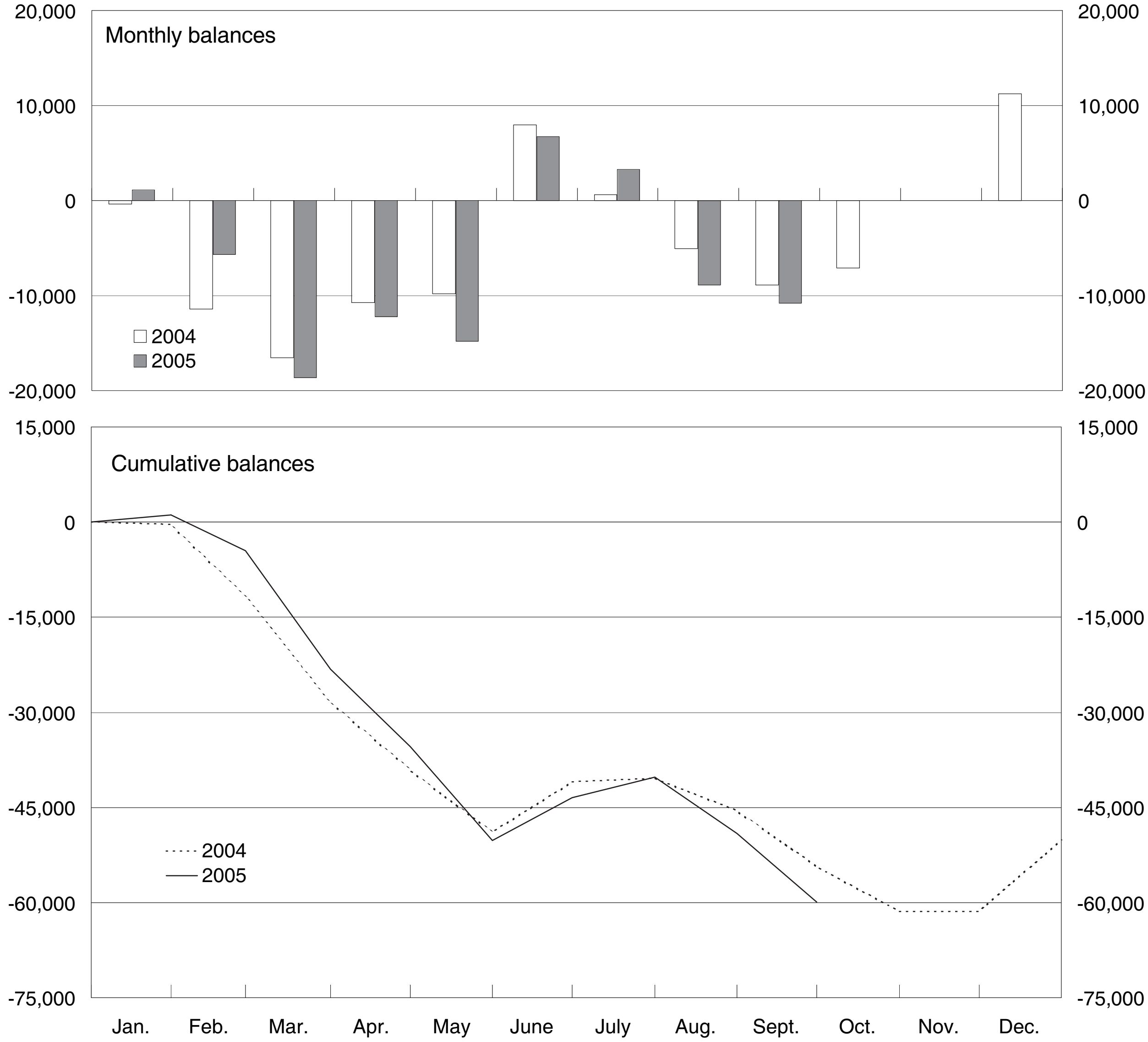


Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2005 and 2006, Economic and Financial Planning Document fo 2006-09.
(1) Excludes the proceeds of the sale of UMTS licences. – (2) Includes the effects of swaps and forward rate agreements.

Figure 2

Monthly profile of the state sector borrowing requirement in 2004 and 2005 (1)

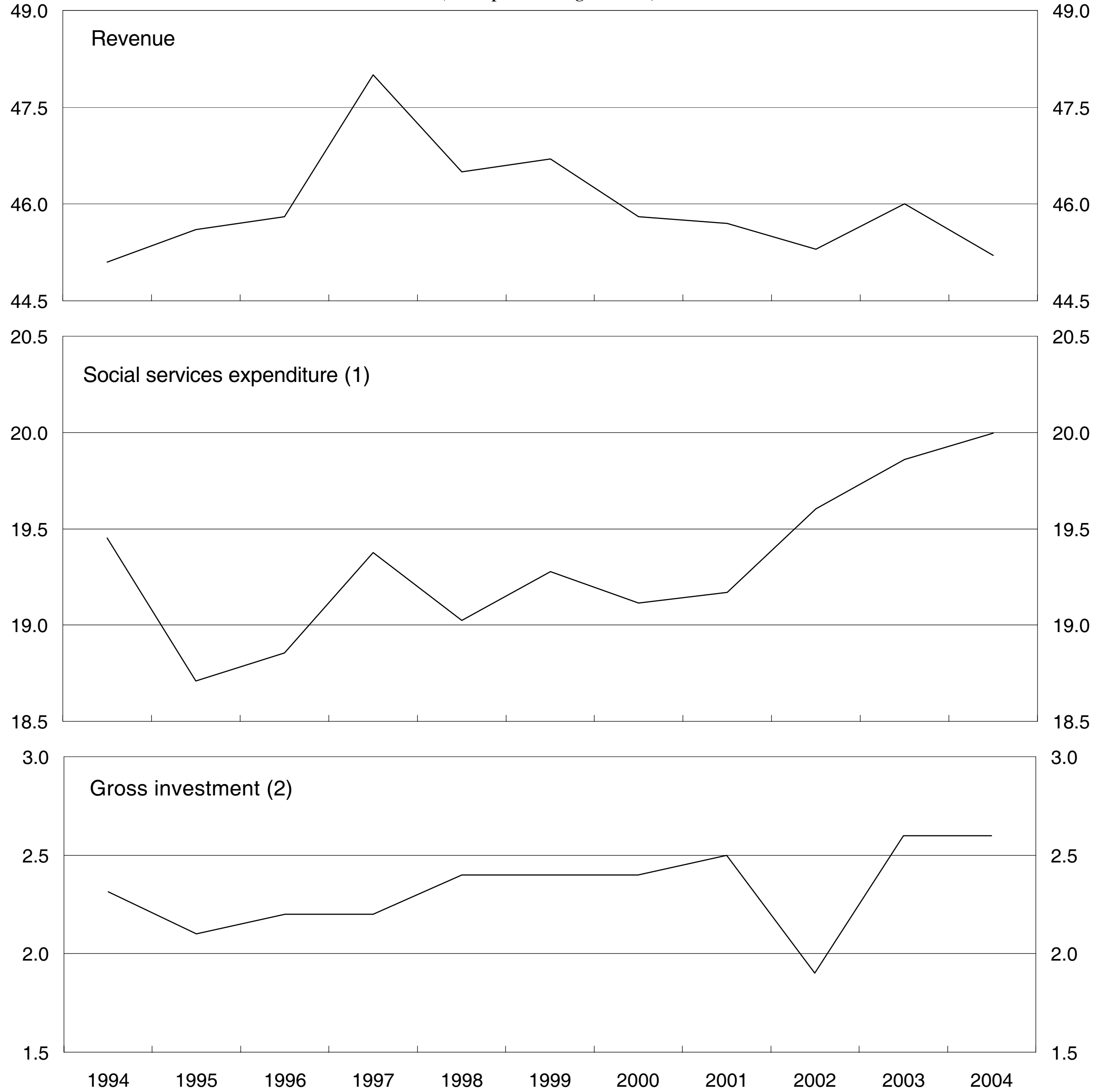
(millions o f euros)



Sources: *Relazione Trimestrale di Cassa* and Ministry for the Economy and Finance press releases.
(1) Excludes privatization receipts and settlements of past debts. A plus sign indicates a surplus, a minus sign a deficit.

Figure 3

General government revenue, social services expenditure and gross investment
(as a percentage GDP)



Source: Based on Istat data.
(1) Includes social services in money and in kind. – (2) This item includes the proceeds of sales of public property with a negative sign.

2005 World Savings Day

Address by Antonio Fazio, Governor of the Bank of Italy, to the ACRI
Association of Italian Savings Banks

Rome, 29 October 2005

1. The international economy

The tone of the world cyclical situation is basically determined by the performance of the economy in North America on the one hand and in the emerging Asian countries on the other.

In the United States GDP grew by 3.6 per cent on an annual basis in first half of the year; in the third quarter it expanded by 3.8 per cent, notwithstanding the natural disasters that hit the Gulf of Mexico.

Business investment continued to expand at a rapid pace, particularly on information technology. The growth in private consumption also remained strong; the dampening effects of the rise in energy prices were offset by the favourable impact of increased employment and higher wages and salaries. Spending also continued to be sustained by a further increase in the value of real estate. The household savings rate turned slightly negative in the summer.

Overall, the natural disasters had limited repercussions on growth. It is estimated that GDP will grow by at least 3.5 per cent this year, compared with 4.2 per cent in 2004.

Reconstruction, for which Congress has already approved appropriations totalling $62 billion, equal to 0.5 per cent of GDP, will provide a stimulus for economic activity next year.

The rise in energy prices has lead to a significant increase in inflation, which reached 4.7 per cent in September.

During 2005 the Federal Reserve has raised the federal funds target rate on six occasions for a total of 1.5 percentage points, bringing it to 3.75 per cent. The monetary authorities plan to pay very close attention to price and cost developments to prevent inflationary impulses from spreading through the economy and undermining expectations. Unit labour costs have been accelerating since the middle of last year.

An important positive development, due to higher-than-expected fiscal revenues, is the reduction in the federal deficit; in the fiscal year ending in September the deficit amounted to 2.6 per cent of GDP, compared with 3.6 per cent in 2004. In 2006 it is expected to remain close to this year's level.

The imbalance on the external current account continued to grow; inflows of private capital accelerated, however, making it easier to finance the deficit.

The dollar has appreciated with respect to the end of 2004. The euro has depreciated by 11 per cent against the dollar and by 5.7 per cent in nominal terms.

China's economy has continued to expand rapidly, growing by over 9 per cent. In India, GDP growth is forecast at 7.1 per cent in 2005. In the other emerging economies of the Far East and Southwest Asia as a whole growth is expected to be around 4.5 per cent this year.

In Japan GDP returned to significant growth in the first half of 2005, mainly under the impetus of the strong recovery in domestic demand; employment increased. The industrial system has regained efficiency as a result of the extensive restructuring under way since the end of the 1990s.

The deflationary phase is expected to come to an end during 2006.

The good economic performance of the US economy influences the economies of Canada and Latin America; all the major countries in the area will record rapid growth again this year.

The International Monetary Fund estimates that world GDP, calculated on the basis of purchasing power parities, will grow by 4.3 per cent in 2005.

Compared with the crisis of the 1970s, the negative effect on economic activity of the rise in the price of oil has been generally limited, as all the major economies have become less energy intensive. Since 2000 the price of crude oil has risen by 70 per cent in real terms, mainly owing to the rapid expansion in economic activity. A reasonable degree of certainty about the trend of prices in the medium term is essential for investment intended to increase supply.

2. The euro area and the Italian economy

In the euro area output continued to grow at a modest pace in the first six months of 2005, expanding by just over 1 per cent on an annual basis. Economic activity was sustained by domestic demand, in particular consumption. Foreign trade made a negligible contribution, despite benefiting from the depreciation of the euro; export growth, which was confined almost exclusively to Germany, was offset by the expansion in imports. Euro-area competitiveness in the world market and the internal market remains a serious problem.

In the first half of the year the pace of growth slowed slightly. In France and Germany an acceleration in the first quarter was followed by stagnation in the second.

In 2005 euro-area output is expected to grow by 1.2 per cent, compared with 2.1 per cent last year. In October twelve-month inflation was 2.5 per cent, driven by the rise in the prices of oil and other raw materials; it reached 2.4 per cent in France in September and 2.6 per cent in Germany in October.

In Italy economic activity, which had already fallen sharply in the last part of 2004, continued to decline in the first quarter of 2005 as a result of the further large contraction in exports. In the second quarter GDP returned to growth, increasing by 0.7 per cent; the reversal of trend was caused mainly by exports, which increased in real terms by 5.5 per cent with respect to the previous quarter, after contracting by almost 5 per cent in the fourth quarter of 2004 and again in the first quarter of 2005.

The improvement in the economic situation in the second quarter was largely due to the contribution of domestic demand. Household consumption rose by 0.6 per cent, mainly reflecting purchases of durable goods.

Gross fixed investment turned positive, growing by 1.5 per cent after a series of declines beginning in the second half of 2004.

The investment recovery was especially strong in the construction sector, particularly residential building. By contrast, investment in public works has tended to decline by comparison with 2004.

The upturn in economic activity in spring was accompanied by an increase in employment of 0.3 per cent with respect to the previous quarter. A significant part of the large rise in employment since 2003, amounting to 3 per cent overall, is due to the reporting of previously undeclared work by non-EC immigrants following regularization measures. National accounts data, which contain an estimate of undeclared labour, indicate a smaller increase.

The unemployment rate, calculated on the basis of the new labour force survey, continued to fall, reaching 7.8 per cent on a seasonally adjusted basis in the second quarter. The decline in the labour market participation rate, particularly among women in southern Italy, was a contributory factor.

During the summer consumer price inflation, measured by the national index, increased owing to the surge in energy prices. In October the twelve-month rate of increase in prices was 2.2 per cent. As regards unregulated prices, in September the twelve-month increase for non-food and non-energy products and services slowed slightly.

3. The financial markets, banks and firms

The increase in the external current account deficit of the United States and in the surpluses of the oil-exporting countries and China has been accompanied by an increase in the supply of dollars and an excess of saving with respect to investment capacity. The liquidity of the countries with structural surpluses has poured into the international financial markets, helping to reduce the level of interest rates.

In the euro area, where inflation expectations remain low, ten-year government bond yields have come down during the year. In the United States the yields on ten-year Treasury securities have fluctuated around historically low levels.

Real long-term interest rates, implicit in inflation-indexed securities, currently stand at around 1.3 per cent in the euro area and 2 per cent in the United States.

The profitability and improved balance sheet situation of firms have helped to support the prices of corporate bonds and equities both in the United States and in the euro area. Since the start of 2004 share indices in the United States have risen moderately, though with sharply differing sectoral performances. In the euro area they have scored sharp gains, benefiting from the fall in real long-term yields. In Japan too the stock market has risen appreciably.

In the banking sector, the positive trend recorded in all the main industrial countries last year has been confirmed in 2005.

In the euro area, lending to households has continued to expand at high rates, especially loans for house purchases. Credit demand from firms has also increased, in connection with the upturn in mergers and acquisitions involving non-financial corporations. The rapid growth in lending has sustained banks' income, albeit with marked differences among the leading countries.

In Italy, in the phase of recovery now beginning to take shape, lending conditions remain easy for all categories of customer.

In the first nine months of 2005 the growth in bank lending accelerated from 8.7 per cent, from 6.7 per cent in the year-earlier period. This was partly the result of loans to some large groups in connection with corporate restructuring. Bank lending to smaller firms also accelerated. The interest rates on loans fell marginally from their already very low levels.

Lending to manufacturing companies began to grow again in the branches where production was strongest. There was a substantial increase in lending to service and construction companies.

Continuing a trend under way since the end of the last decade, the increase in lending to businesses was concentrated in the medium and long-term component. At the end of September, 59 per cent of outstanding credit had an original maturity of more than one year, compared with 47 per cent in 1997.

In the South of Italy bank lending has continued to expand at a considerable pace this year. In September the twelve-month rate of growth in lending to firms was 9.9 per cent in the South, compared with 6.4 per cent in the rest of the country. The difference reflects the limited self-financing of southern firms; the decline in some forms of public transfers may also have been a factor.

Lending to households has shown very strong growth. In the twelve months ending in September it increased by 15 per cent, almost double the euro-area average.

Loan quality has not been affected by the long phase of sluggish economic growth. In the twelve months to September new bad debts amounted to 0.8 per cent of the total. In addition, loans worth 1.7 per cent of the total were classified as exposures to customers in temporary difficulty. These figures are in line with those recorded last year and are low by historical standards.

In the first half of 2005 Italian banks' return on equity, calculated on the basis of accounts not consolidated at group level, was equal to 10.8 per cent, compared with 9.9 per cent in the first half of last year and 9.5 per cent in 2004 as a whole. The improvement in profitability was accounted for by the decrease in net value adjustments to assets.

At the end of 2004 the Italian banking system's supervisory capital amounted to €149 billion on a consolidated basis, 7 per cent more than a year earlier. The solvency ratio had risen slightly to 11.6 per cent, from 11.4 per cent at the end of 2003.

An essential role is played by banking foundations, which hold 19 per cent of the capital of listed banks.

4. The outlook

The world economy is expected to maintain a high rate of expansion in 2006. According to the IMF, world trade will grow by around 7 per cent.

In the United States, growth is expected to be only slightly less than that estimated for 2005. In Japan, the increase in GDP is forecast to remain at this year's level of about 2 per cent. In China, economic activity is expected to expand again by 8.2 per cent, and in the other emerging Asian countries as a group by nearly 6 per cent.

In the euro area too, since the summer economic conditions show signs of improving.

In August, euro-area industrial production rose by almost 1 per cent with respect to the previous month, reflecting the recovery in France, Spain and Italy. More recent survey data on the individual countries confirm the positive signals. In October business confidence strengthened, especially in Germany.

In Italy, the index of industrial production rose in August by 1.3 per cent with respect to July, and despite an estimated decline in September apparently gained around 1 per cent in the third quarter as a whole. GDP is estimated to have increased by about 0.5 per cent in the quarter.

The survey conducted by the Bank of Italy branches on a sample of firms in industry excluding construction and in services and the monthly ISAE survey of industrial firms in October show an improvement in the economic situation compared with the first half of the year. The index of household confidence also registered a healthy increase in October.

The growth in output in 2005 should be slightly positive with respect to last year. Exports are expected to be flat for the year as a whole, recouping the decline recorded late in 2004 and early in 2005. Given forecast growth of 7 per cent in world trade, Italy's market share is expected to decline further to 2.7 per cent, compared with 4.6 per cent ten years ago.

Households' propensity to save is likely to show a further increase, reflected also in their consumption decisions.

Action is necessary to ensure that pension funds take off in 2006 on the basis of the draft legislation, whose speedy approval would be opportune. Besides providing better protection of retirement savings, they will also sustain markets and investment.

In the second half of the year total gross fixed investment is expected to make up for the drop recorded in the first quarter and thus to be basically unchanged in 2005 as a whole. Investment in machinery and transport equipment is down, in connection with the persistence of ample spare capacity; while spending for construction, above all residential building, is up.

5. The structural problems

In the past decade high taxation, the backwardness of physical and intangible infrastructure and the inefficiency of public services have impeded the modernization of the production system. The fragmentation of the business sector into many small firms was accentuated. Technological innovation was slow. Product specialization failed to meet the challenges of the new international context.

In Italy the contribution to total value added from high-technology activities, essentially ICT and biotech, is small. Middle-technology industry is also in difficulty, suffering a 15 per cent fall in output since 2000.

The price competitiveness of Italian goods continues to be undermined by the unfavourable trend in unit labour costs due to inadequate productivity growth. Between 2000 and 2004 unit labour costs in Italy rose by 13 per cent, or 16 points more than in Germany and 9 points more than in France.

The modest expansion of economic activity and the sharpening of competition have affected firms' earnings. The decline in profits has been significant, especially in manufacturing and among smaller firms. Since 2001 there has been steady increase in resort to the Wage Supplementation Fund.

The banking system has provided support to industry, financing substantial corporate restructuring, but the low rate of capacity utilization has impeded investment.

Public investment has lent significant stimulus to economic activity in recent years, expanding from 2.5 per cent of GDP in 2000 to 2.9 per cent in 2004. Investment by the State Railways, not counted as public investment, rose from 0.3 to 0.6 per cent of GDP over the same period.

According to the Bank of Italy's twice-yearly survey of a sample of 500 medium-sized and large firms, public works activity, which increased by 5.3 per cent in 2003, slowed its expansion in 2004. In 2005 it has contracted and is projected to decrease by 5 per cent for the year.

An adequate impulse to activity in this sector is essential in order to help sustain the business cycle in the next few quarters and to overcome the serious shortcomings of Italy's infrastructure.

Action, including extraordinary measures and procedures, is needed to accelerate the opening of public works projects that have been approved and in some cases to prevent projects already under way from being brought to a halt.

Industrial production, which had expanded during the summer months, weakened in September and again in October, according to preliminary estimates.

In the years to come, as well, despite the limited financial resources available, economic policy must provide for measures that can effectively improve productivity and competitiveness.

In my observations on the Finance Bill I noted the worth of the measures, though limited, to reduce the cost of labour. An interesting provision involves the possibility of revitalizing Italy's industrial districts by giving them independent legal and functional status. The Fund for Technological Innovation designed to further the Lisbon Agenda can help reinforce competitiveness.

Unflagging commitment is also necessary on the part of firms and agents outside industry, in such sectors as tourism, business services and the promotion of the cultural and environmental heritage.

Confidence has to be instilled. The budget policy embodied in the Finance Bill involves strict containment of the expenditures of central government and of transfers to local authorities. This should be accompanied by gains in efficiency in administration and in public services.

Excluding temporary measures, net borrowing has been running at 5 per cent of GDP for several years now and the borrowing requirement net of privatization receipts at about 6 per cent. Such levels are an obstacle to reducing the debt-to-GDP ratio, which turned back upwards in 2005. Achieving the net borrowing target for next year is essential. Adjustment of the public finances requires constant monitoring of trends in revenues and expenses.

An increase in confidence, which can be inspired by the economic policy approach adopted, can amplify the incipient recovery in investment. Growth in 2006 should exceed 1 per cent.

The banking system is in a position to supply the means for a more vigorous expansion of economic activity. In recent years it has been developing successfully. Progress is needed in the options offered to customers, in particular in services and in asset management, and in innovative investment support procedures such as project financing. We are following Parliament's work for the protection of savings with attention and respect.

In order to further the upturn in economic activity and the prospects for growth it is necessary to adapt product specialization while at the same time achieving a durable adjustment of the public accounts. Perceiving the signs of an improvement in the economy and successfully achieving higher growth is also a way of favouring debt reduction.

Cohesion among the social partners and the commitment of firms, the political system and institutions will help to overcome this difficult phase for our economy. A high rate of growth is within our reach. Our resources of saving, wealth and human capital can bring it within our grasp.

Appendix

Statistical tables

The world economy

The Italian economy

Money, credit and interest rates

Table a1

GDP at constant prices

	Percentage of world GDP in 2003 (1)	2000	2001	2002	2003	2004	2004 Q3	2004 Q4	2005 Q1	2005 Q2	2005 Q3
	(percentage changes on previous period on an annual basis; seasonally adjusted quarterly data)										
Industrial countries											
United States	20.9	3.7	0.8	1.6	2.7	4.2	4.0	3.3	3.8	3.3	3.8
Japan	6.9	2.4	0.2	-0.3	1.4	2.7	-0.5	0.5	5.8	3.3	....
Euro area	15.3	3.8	1.8	0.9	0.7	2.1	1.1	0.7	1.5	1.2	....
Germany	*4.3*	*3.2*	*1.2*	*0.1*	*-0.2*	*1.6*	*-0.3*	*-0.4*	*3.0*	..	....
France...................	*3.1*	*4.1*	*2.1*	*1.2*	*0.8*	*2.3*	*0.4*	*2.4*	*1.2*	*0.4*	2.8
Italy	*2.9*	*3.2*	*1.8*	*0.4*	*0.3*	*1.2*	*1.6*	*-1.6*	*-2.1*	*2.7*	....
United Kingdom	3.1	4.0	2.2	2.0	2.5	3.2	1.1	1.9	1.0	2.0	1.6
Canada	1.9	5.2	1.8	3.1	2.0	2.9	3.5	2.1	2.1	3.2	....
	(percentage changes on year-earlier period)										
Emerging countries											
Latin America											
Argentina	0.9	-0.8	-4.4	-10.9	8.8	9.0	8.7	9.3	8.0	10.1	....
Brazil	2.6	4.4	1.3	1.9	0.5	5.0	5.9	4.8	2.7	3.9	....
Mexico	1.8	6.6	-0.2	0.8	1.4	4.4	4.6	4.9	2.4	3.1	....
Asia											
China	13.2	8.0	7.5	8.3	9.5	9.5	9.1	9.5	9.4	9.5	9.4
India (2)	5.9	5.4	4.5	4.7	7.3	7.2	6.7	6.4	7.0	8.1	....
Indonesia	1.4	4.9	3.8	4.4	4.9	5.1	5.1	6.7	6.2	5.5	5.7
Malaysia	0.5	8.9	0.3	4.4	5.4	7.1	6.7	5.8	5.8	4.1	....
South Korea	1.9	8.5	3.8	7.0	3.1	4.6	4.7	3.3	2.7	3.3	4.4
Taiwan	1.1	5.8	-2.2	3.9	3.3	5.7	5.3	3.3	2.5	3.0	....
Thailand.........................	0.9	4.8	2.2	5.3	6.9	6.1	6.1	5.3	3.3	4.4	....
Europe											
Poland	0.9	4.0	1.0	1.4	3.8	5.3	4.9	4.0	2.1	2.8	....
Russia	2.6	10.0	5.1	4.7	7.3	7.2	7.1	6.4	5.2	6.1	....
Turkey	1.0	7.3	-7.5	7.9	5.8	9.0	5.2	6.2	4.8	4.2	....

(1) On the basis of purchasing power parities. – (2) GDP at factor cost.

Table a2

Industrial production

	2001	2002	2003	2004	April 2005	May 2005	June 2005	July 2005	August 2005	September 2005
	(percentage changes on previous period; seasonally adjusted data)									
Industrial countries										
United States	-3.6	-0.3	..	4.1	-0.4	0.3	0.8	..	0.2	-1.3
Japan	-6.5	-1.3	3.3	5.3	1.9	-2.8	1.6	-1.2	1.1	0.2
Euro area	0.4	-0.5	0.3	2.0	0.9	-0.3	0.5	0.2	0.8	….
Germany	0.2	-1.0	0.4	3.0	1.0	-0.4	1.2	1.2	-1.7	1.3
France	1.3	-1.4	-0.4	1.8	..	-0.1	0.5	-0.8	1.2	0.2
Italy	-0.9	-1.6	-0.6	-0.6	1.8	-0.9	..	0.9	1.3	..
United Kingdom	-1.6	-2.5	-0.5	0.8	0.7	0.2	-0.2	-0.1	-0.8	0.4
Canada	-4.0	1.7	1.0	4.0	0.2	0.8	-0.1	0.1	….	….
	(percentage changes on year-earlier period)									
Emerging countries										
Latin America										
Argentina	-4.9	-7.3	12.9	7.8	10.2	7.2	3.5	7.2	7.4	6.7
Brazil	1.6	2.7	0.1	8.3	6.4	5.6	6.4	0.5	3.8	….
Mexico	-3.4	-0.3	-0.2	3.8	5.2	2.9	0.5	-1.3	2.1	….
Asia										
China	9.7	12.7	16.7	16.2	16.0	16.6	16.8	16.1	16.0	16.5
India	2.6	4.9	6.6	8.4	8.1	10.9	11.7	6.7	7.4	….
Indonesia	4.3	3.3	5.5	3.3	-	-	-	-	-	-
Malaysia	-4.1	4.6	9.3	11.3	4.1	-0.1	3.2	0.2	4.1	4.9
South Korea	0.7	8.0	5.0	10.4	3.9	4.2	4.1	6.9	6.4	7.2
Taiwan	-7.8	7.9	7.1	9.8	0.9	-1.3	1.9	-1.7	6.5	6.2
Thailand	-10.3	24.7	13.8	11.1	6.8	8.3	9.5	5.1	10.3	4.8
Europe										
Poland	0.4	1.4	8.8	12.7	-1.1	0.9	6.9	2.6	4.6	5.5
Russia	4.9	3.7	7.0	7.3	5.0	1.4	6.9	4.9	3.4	5.2
Turkey	-8.7	9.4	8.7	9.8	5.1	2.4	1.8	-0.4	7.9	9.3

Table a3

Consumer prices

	2000	2001	2002	2003	2004	May 2005	June 2005	July 2005	August 2005	September 2005
	(percentage changes on year-earlier period)									
Industrial countries										
United States	3.4	2.8	1.6	2.3	2.7	2.8	2.5	3.2	3.6	4.7
Japan	-0.7	-0.7	-0.9	-0.3	..	0.2	-0.5	-0.3	-0.3	-0.3
Euro area (1)	2.1	2.3	2.3	2.1	2.1	2.0	2.1	2.2	2.2	2.6
Germany	*1.4*	*1.9*	*1.3*	*1.0*	*1.8*	*1.6*	*1.8*	*1.9*	*1.9*	2.6
France	*1.8*	*1.8*	*1.9*	*2.2*	*2.3*	*1.7*	*1.8*	*1.8*	*2.0*	2.4
Italy	*2.6*	*2.7*	*2.6*	*2.8*	*2.3*	*2.3*	*2.2*	*2.2*	*2.2*	2.2
United Kingdom (2)	–	–	0.9	1.4	1.3	1.9	2.0	2.3	2.4	2.5
Canada	2.7	2.5	2.2	2.8	1.8	1.6	1.7	2.0	2.6	3.4
Emerging countries										
Latin America										
Argentina	-0.9	-1.1	25.9	13.4	4.4	8.6	9.0	9.6	9.7	10.3
Brazil	7.0	6.8	8.5	14.7	6.6	8.1	7.3	6.6	6.0	6.0
Mexico	9.5	6.4	5.0	4.5	4.7	4.6	4.3	4.5	3.9	3.5
Asia										
China	0.3	0.7	-0.8	1.2	3.9	1.8	1.6	1.8	1.3	0.9
India	4.0	3.8	4.3	3.8	3.8	3.7	3.3	4.1	3.4	3.6
Indonesia	3.7	11.5	11.9	6.8	6.1	7.4	7.4	7.8	8.3	9.1
Malaysia	1.5	1.4	1.8	1.1	1.4	3.1	3.2	3.0	3.7	3.4
South Korea	2.3	4.1	2.8	3.5	3.6	3.1	2.7	2.5	2.0	2.7
Taiwan	1.3	..	-0.2	-0.3	1.6	2.3	2.4	2.4	3.6	3.2
Thailand	1.6	1.6	0.6	1.8	2.8	3.7	3.8	5.3	5.6	6.0
Europe										
Poland (2)	10.1	5.3	1.9	0.7	3.6	2.2	1.4	1.5	1.8	1.8
Russia	20.8	21.6	16.0	13.6	10.9	13.6	13.3	12.9	12.3	12.2
Turkey	54.9	54.4	45.0	21.6	8.6	8.7	9.0	7.8	7.9	8.0

(1) As of January 2001, includes Greece. – (2) Harmonized consumer prices.

Table a4

External current account

	2000	2001	2002	2003	2004	2004 Q2	2004 Q3	2004 Q4	2005 Q1	2005 Q2
	(billions of dollars; seasonally adjusted quarterly data)									
Industrial countries										
United States	-416.0	-389.5	-475.2	-519.7	-668.1	-166.6	-167.0	-188.4	-198.7	-195.7
Japan	119.6	87.8	112.8	136.4	172.1	42.6	42.4	43.4	42.8	40.0
Euro area	-66.4	-3.4	62.6	24.1	58.9	20.1	4.8	11.0	7.6	2.5
Germany	*-29.6*	*3.0*	*45.9*	*51.6*	*104.9*	*32.3*	*23.0*	*25.0*	*29.1*	*32.5*
France	*18.3*	*21.6*	*14.7*	*8.1*	*-8.1*	*-0.8*	*-2.6*	*-4.2*	*-7.8*	*-8.1*
Italy	*-5.7*	*-0.8*	*-9.4*	*-19.5*	*-15.5*	*-3.9*	*-2.6*	*-6.1*	*-7.3*	*-5.1*
United Kingdom	-36.7	-31.8	-24.6	-27.5	-42.5	-9.8	-16.4	-7.7	-13.9	-5.7
Canada	19.6	16.3	13.5	13.4	22.0	7.1	5.5	4.3	2.7	3.7
	(billions of dollars; quarterly data; not seasonally adjusted)									
Emerging countries										
Latin America										
Argentina	-9.0	-3.9	8.6	7.7	3.3	1.8	0.6	0.5	..	....
Brazil	-24.2	-23.2	-7.6	4.2	11.7	2.8	5.3	2.0	2.7	2.6
Mexico	-18.6	-17.6	-13.5	-8.6	-7.4	-0.2	-1.0	-4.7	-2.5	..
Asia										
China	20.5	17.4	35.4	45.9	68.7	–	–	–	–	–
India	-4.6	1.4	7.1	6.9	-0.8	3.3	-4.5	-5.5	0.2	-6.2
Indonesia	8.0	6.9	7.8	8.1	3.1	2.2	2.8	0.3	1.4	-0.5
Malaysia	8.4	7.3	8.0	13.4	14.9	3.3	4.4	3.4	5.5	4.7
South Korea	12.3	8.0	5.4	11.9	27.6	7.0	7.1	7.4	6.0	2.8
Taiwan	8.9	18.2	25.6	29.3	18.6	5.5	5.3	1.8	4.4	1.7
Thailand	9.3	6.2	7.0	8.0	7.1	0.6	1.2	3.1	-1.5	-4.7
Europe										
Poland	-9.9	-5.4	-5.0	-4.6	-3.6	-1.8	-1.1	0.1	0.3	0.2
Russia	46.8	33.9	29.1	35.8	59.9	13.5	15.3	18.3	22.2	22.5
Turkey	-9.8	3.4	-1.5	-8.0	-15.7	-4.6	-0.7	-5.0	-6.2	-7.1

Table a5

Short-term interest rates

(percentages)

	United States	Japan	Euro area	United Kingdom	Canada
			Official rates *(end-of-period data)*		
2000	6.50	0.50	4.75	6.00	5.75
2001	1.75	0.10	3.25	4.00	2.25
2002	1.25	–	2.75	–	2.75
2003	1.00	–	2.00	3.75	–
2004 - Oct.	1.75	–	–	4.75	2.50
Nov.	2.00	–	–	–	–
Dec.	2.25	–	–	–	–
2005 - Jan.	–	–	–	–	–
Feb.	2.50	–	–	–	–
Mar.	2.75	–	–	–	–
Apr.	–	–	–	–	–
May	3.00	–	–	–	–
June	3.25	–	–	–	–
July	–	–	–	–	–
Aug.	3.50	–	–	4.50	–
Sept.	3.75	–	–	–	2.75
Oct.	–	–	–	–	3.00
			Money market rates *(period averages)*		
2001	3.69	0.16	4.26	4.97	4.00
2002	1.73	0.09	3.32	3.99	2.63
2003	1.15	0.13	2.33	3.67	2.96
2004	1.57	0.13	2.11	4.57	2.31
2004 - Oct.	2.04	0.02	2.15	4.83	2.58
Nov.	2.26	0.10	2.17	4.82	2.70
Dec.	2.46	0.16	2.17	4.81	2.57
2005 - Jan.	2.61	0.09	2.15	4.80	2.56
Feb.	2.77	0.05	2.14	4.82	2.58
Mar.	2.97	0.02	2.14	4.92	2.63
Apr.	3.09	0.03	2.14	4.88	2.58
May	3.22	0.03	2.13	4.83	2.59
June	3.38	0.01	2.11	4.78	2.58
July	3.57	0.05	2.12	4.59	2.63
Aug.	3.77	0.07	2.13	4.53	2.77
Sept.	3.87	0.03	2.14	4.54	2.89
Oct.	4.13	0.09	2.20	4.53	3.10

Table a6

Long-term interest rates and share price indices

(period averages)

	United States	Japan	Germany	France	Italy	UK	Canada
				Bond yields *(percentages)*			
2001	5.02	1.34	4.80	4.94	5.19	5.01	5.48
2002	4.61	1.27	4.78	4.86	5.03	4.91	5.29
2003	4.01	0.99	4.07	4.13	4.25	4.58	4.81
2004	4.27	1.50	4.04	4.10	4.26	4.93	4.58
2004 - Oct.	4.10	1.49	3.89	3.98	4.13	4.81	4.55
Nov.	4.19	1.47	3.78	3.86	4.00	4.74	4.48
Dec.	4.23	1.40	3.58	3.64	3.79	4.58	4.32
2005 - Jan.	4.22	1.36	3.56	3.58	3.71	4.60	4.26
Feb.	4.17	1.38	3.54	3.60	3.68	4.66	4.21
Mar.	4.50	1.44	3.70	3.75	3.84	4.87	4.36
Apr.	4.34	1.31	3.48	3.54	3.65	4.67	4.19
May	4.14	1.26	3.30	3.38	3.55	4.45	4.07
June	4.00	1.23	3.13	3.20	3.41	4.31	3.83
July	4.18	1.25	3.20	3.27	3.44	4.31	3.90
Aug.	4.26	1.41	3.23	3.30	3.45	4.34	3.92
Sept.	4.20	1.37	3.07	3.13	3.29	4.25	3.87
Oct.	4.46	1.53	3.24	3.28	3.44	4.40	4.05
				Share price indices *(indices, 1995=100)*			
2001	220.33	86.57	218.65	268.00	258.79	162.81	175.75
2002	183.90	70.93	165.23	202.59	205.25	135.17	159.49
2003	177.91	66.50	127.17	166.49	185.17	120.11	161.00
2004	208.79	81.10	152.53	196.91	213.15	136.64	194.35
2004 - Oct.	206.42	80.41	150.25	197.74	217.34	139.98	198.76
Nov.	215.92	79.75	155.70	202.40	225.29	143.26	201.95
Dec.	221.49	80.60	159.42	202.86	233.34	144.18	206.23
2005 - Jan.	218.14	82.90	160.71	206.42	240.79	147.05	205.43
Feb.	221.50	84.01	163.90	213.27	247.59	152.37	215.43
Mar.	220.42	86.37	164.37	217.01	246.51	151.15	219.20
Apr.	214.98	83.81	162.54	215.22	246.21	148.83	214.18
May	217.71	82.14	161.53	216.38	242.90	149.09	214.12
June	221.97	83.99	170.04	224.06	249.10	153.55	222.88
July	225.41	86.18	175.97	232.95	256.20	158.78	231.65
Aug.	226.03	89.94	174.62	237.52	260.05	161.51	238.97
Sept.	226.27	96.63	183.76	240.22	266.78	164.27	246.80
Oct.	220.07	101.35	183.48	238.93	258.42	161.05	237.08

Table a7

Euro exchange rates and the price of gold

	Units of national currency per euro								Gold (dollars per ounce)
	US dollar	Japanese yen	Canadian dollar	Pound sterling	Danish krone	Norwegian krone	Swedish krona	Swiss franc	
1999	1.066	121.32	1.584	0.6587	7.436	8.310	8.808	1.600	290.25
2000	0.924	99.47	1.371	0.6095	7.454	8.113	8.445	1.558	274.45
2001	0.896	108.68	1.386	0.6219	7.452	8.048	9.255	1.511	276.50
2002	0.946	118.06	1.484	0.6288	7.431	7.509	9.161	1.467	342.75
2003	1.131	130.97	1.582	0.6920	7.431	8.003	9.124	1.521	417.25
2004	1.244	134.44	1.617	0.6787	7.440	8.370	9.124	1.544	438.00
2003 - Q3	1.125	132.14	1.553	0.6989	7.431	8.247	9.163	1.545	388.00
Q4	1.189	129.45	1.566	0.6975	7.436	8.223	9.009	1.554	417.25
2004 - Q1	1.250	133.97	1.648	0.6799	7.449	8.631	9.184	1.569	423.70
Q2	1.205	132.20	1.637	0.6670	7.439	8.263	9.145	1.537	395.80
Q3	1.222	134.38	1.600	0.6722	7.437	8.389	9.158	1.536	415.65
Q4	1.298	137.11	1.584	0.6951	7.434	8.199	9.013	1.533	438.00
2005 - Q1	1.311	137.01	1.608	0.6936	7.443	8.239	9.074	1.549	427.50
Q2	1.259	135.42	1.568	0.6786	7.446	8.048	9.208	1.544	437.10
Q3	1.220	135.62	1.467	0.6834	7.459	7.882	9.366	1.553	473.25
2004 - Oct.	1.249	135.97	1.560	0.6914	7.438	8.235	9.062	1.543	425.55
Nov.	1.299	136.09	1.554	0.6986	7.431	8.141	8.998	1.522	453.40
Dic.	1.341	139.14	1.633	0.6950	7.434	8.221	8.982	1.536	438.00
2005 - Jan.	1.312	135.63	1.606	0.6987	7.440	8.213	9.048	1.547	422.15
Feb.	1.301	136.55	1.613	0.6897	7.443	8.320	9.085	1.550	435.45
Mar.	1.320	138.83	1.606	0.6923	7.447	8.188	9.088	1.549	427.50
Apr.	1.294	138.84	1.599	0.6829	7.450	8.176	9.167	1.547	435.70
May	1.269	135.37	1.594	0.6840	7.444	8.081	9.193	1.545	414.45
June	1.216	132.22	1.511	0.6689	7.445	7.893	9.263	1.539	437.10
July................	1.204	134.75	1.473	0.6876	7.458	7.920	9.428	1.558	429.00
Aug.	1.229	135.98	1.482	0.6853	7.460	7.916	9.340	1.553	433.25
Sept.	1.226	136.06	1.445	0.6776	7.458	7.809	9.334	1.550	473.25
Oct.	1.201	138.05	1.415	0.6814	7.462	7.835	9.422	1.549	470.75

Table a8

Indicators of competitiveness (1)

(period averages; indices, 1993=100)

	US	Japan	Germany	France	Italy	UK	Canada
1999	107.3	90.8	90.7	93.8	101.3	122.6	98.9
2000	112.9	94.3	83.5	88.3	97.1	120.2	99.0
2001	118.4	84.3	85.8	88.9	98.4	117.0	97.2
2002	115.0	79.5	87.0	90.6	100.5	118.9	97.1
2003	110.7	78.8	92.9	95.0	105.8	114.9	100.9
2004	107.0	78.5	93.0	95.5	107.0	119.4	104.4
2003 - Q2	110.4	77.2	93.3	95.3	106.1	113.8	100.6
Q3	110.9	77.7	93.0	94.9	105.8	113.8	101.9
Q4	107.1	81.8	94.0	95.8	106.8	116.0	104.2
2004 - Q1	105.6	80.5	94.2	96.5	107.4	120.5	103.4
Q2	108.2	78.3	92.1	94.7	106.3	120.2	102.4
Q3	108.1	77.3	92.3	95.0	106.6	119.5	104.9
Q4	106.0	77.9	93.5	95.9	107.8	117.3	106.8
2005 - Q1	105.2	77.5	94.0	95.7	107.9	117.0	106.3
Q2	107.1	75.3	92.9	94.2	106.2	117.6	104.6
2004 - Aug.	108.6	77.0	92.2	95.0	106.6	119.8	104.6
Sept.	107.8	76.9	92.2	94.9	106.6	117.8	105.9
Oct.	107.6	76.7	92.9	95.2	107.0	116.6	106.9
Nov.	106.2	78.5	93.2	95.9	107.8	116.7	107.7
Dec.	104.2	78.6	94.4	96.5	108.6	118.6	105.9
2005 - Jan.	105.2	79.0	94.2	96.0	108.2	116.4	106.3
Feb.	105.4	77.4	93.8	95.5	107.6	117.4	105.8
Mar.	105.1	76.0	93.9	95.7	108.1	117.3	106.7
Apr.	106.5	74.8	93.6	94.9	106.9	118.2	104.9
May	106.7	75.8	93.2	94.4	106.3	117.2	103.7
June	108.0	75.3	92.0	93.2	105.3	117.5	105.4
July	110.0	73.2	92.1	93.3	105.1	114.3	105.7
Aug.	109.2	73.2	92.3	93.5	105.6	115.1	106.3

(1) Based on the producer prices of manufactures. A rise in the index corresponds to a decrease in competitiveness.

Table a9

Sources and uses of income

(percentage changes on previous period, unless otherwise indicated)

	Sources			Uses					
				Gross fixed capital formation					
	GDP	Imports	Total	Building	Machinery and equipment, sundry products and vehicles	Total	Consumption of resident households	Other domestic uses	Exports
				At 1995 prices					
1999	1.7	5.6.	2.5	2.6	6.8	5.0	2.6	3.1	0.1
2000	3.0	7.1	3.9	5.9	7.7	6.9	2.7	-4.2	9.7
2001	1.8	0.5	1.5	3.0	1.1	1.9	0.8	3.2	1.6
2002	0.4	-0.5	0.2	3.2	-0.2	1.2	0.4	4.1	-3.2
2003	0.3	1.3	0.5	1.7	-4.2	-1.8	1.4	3.7	-1.9
2004	1.2	2.5	1.5	3.1	1.3	2.1	1.0	0.1	3.2
2003 - Q2	-0.2	-1.5	-0.5	-0.8	-1.3	-1.1	0.4	1.5	-3.1
Q3	0.4	1.5	0.6	-0.9	-0.4	-0.6	0.7	-4.6	5.3
Q4	..	0.5	0.1	0.8	-0.7	-0.1	-0.5	4.0	-1.2
2004 - Q1	0.5	-0.3	0.3	2.2	4.3	3.4	1.1	-2.6	-1.5
Q2	0.3	1.9	0.7	0.7	0.3	0.5	-0.5	..	3.7
Q3	0.4	1.1	0.6	1.1	-3.5	-1.5	..	-1.3	4.5
Q4	-0.4	0.1	-0.3	-0.6	-1.9	-1.3	0.5	5.3	-4.5
2005 - Q1	-0.5	-2.9	-1.1	-1.4	-0.3	-0.8	0.1	0.5	-4.7
Q2	0.7	4.8	1.6	3.1	0.3	1.5	0.6	-1.2	5.5
				Implicit prices					
1999	1.6	0.2	1.2	1.5	0.9	1.1	2.2	-0.1	..
2000	2.2	14.2	4.5	3.2	2.1	2.5	2.9	10.0	6.3
2001	2.6	2.6	2.6	2.6	2.0	2.3	2.8	1.7	3.2
2002	3.1	0.2	2.5	3.7	1.4	2.4	3.1	1.1	1.7
2003	2.9	-1.0	2.1	3.3	0.6	1.9	2.5	2.5	0.7
2004	2.6	3.7	2.8	4.4	2.1	3.2	2.2	3.1	3.8
2003 - Q2	0.8	-2.7	0.1	0.6	-0.2	0.2	0.5	-0.1	-1.2
Q3	1.6	-0.5	1.1	0.6	0.6	0.6	0.6	5.1	0.3
Q4	-0.1	..	-0.1	0.9	-0.3	0.3	0.6	-4.2	0.9
2004 - Q1	0.7	1.3	0.8	1.1	1.0	1.0	0.6	1.2	1.0
Q2	1.3	3.0	1.6	1.5	0.4	0.9	0.7	5.2	1.8
Q3	0.1	1.7	0.4	1.5	1.4	1.6	0.4	-1.1	1.1
Q4	0.1	0.7	0.2	1.3	0.2	0.7	0.3	-2.3	1.1
2005 - Q1	0.8	1.7	1.0	1.5	1.2	1.3	0.4	1.1	1.8
Q2	0.8	0.9	0.8	1.3	-0.3	0.5	0.7	1.9	0.9

Table a10

Industrial production and ISAE business opinion indicators

(seasonally adjusted data)

	Industrial production					ISAE business opinion indicators				
						Level of orders				
	General index	Consumer goods	Investment goods	Intermediate goods	Energy	domestic	foreign	total	Expected demand in 3-4 months	Stocks of finished goods vis-à-vis normal
	(indices, 2000=100)					*(average balance of monthly responses; percentage points)*				
1998	96.8	96.9	97.0	97.2	95.6	-16.3	-12.9	-11.7	15.8	8.0
1999	97.0	98.7	97.3	95.1	97.3	-19.6	-20.8	-16.6	17.6	7.5
2000	100.0	100.0	100.0	100.0	100.0	0.1	-2.3	4.3	27.0	3.9
2001	99.4	100.4	99.8	98.2	99.6	-15.7	-18.7	-12.8	15.0	9.9
2002	97.8	98.5	97.3	95.6	103.8	-17.7	-22.3	-15.3	18.5	6.7
2003	96.8	97.6	93.7	94.4	108.3	-22.2	-27.8	-20.4	16.3	6.8
2004	97.3	97.9	93.4	95.2	110.2	-18.3	-18.6	-15.3	17.4	7.4
1998 - Q1	97.0	95.2	97.6	98.9	94.7	-10.7	-6.5	-4.8	24.1	6.7
Q2	97.2	97.0	97.7	98.4	94.7	-13.3	-8.3	-7.6	18.1	8.3
Q3	96.5	96.9	97.1	95.9	95.6	-17.6	-15.5	-13.4	11.4	7.3
Q4	95.4	96.6	93.2	94.0	97.2	-23.5	-21.4	-20.9	9.6	9.7
1999 - Q1	95.2	97.1	96.0	93.2	97.8	-27.5	-27.8	-24.5	8.8	9.3
Q2	94.8	96.1	95.6	93.5	95.3	-25.5	-26.3	-22.9	13.9	9.3
Q3	96.9	99.5	96.6	94.4	97.4	-15.5	-17.5	-13.7	20.5	5.3
Q4	98.2	99.3	98.1	97.0	98.3	-10.1	-11.4	-5.2	27.3	6.0
2000 - Q1	98.6	97.8	99.2	98.5	99.6	-2.4	-4.1	1.1	28.3	2.3
Q2	100.4	100.6	101.1	100.3	100.6	3.1	-1.3	6.4	27.6	4.3
Q3	100.4	100.2	100.7	100.2	100.3	0.9	-0.9	5.6	28.2	3.3
Q4	102.1	103.6	101.1	102.8	99.4	-1.3	-3.1	4.2	24.0	5.7
2001 - Q1	102.0	104.2	103.3	100.9	97.8	-7.4	-10.5	-4.3	21.0	9.3
Q2	100.2	100.7	100.7	99.5	98.5	-12.1	-14.6	-8.0	20.2	11.7
Q3	98.6	99.1	98.6	97.8	98.9	-18.7	-19.9	-15.7	13.0	8.0
Q4	97.1	98.0	96.5	94.9	103.2	-24.5	-29.7	-23.4	5.9	10.7
2002 - Q1	97.4	99.4	96.9	95.1	103.2	-18.4	-24.8	-14.6	18.7	8.7
Q2	98.1	98.6	97.2	95.7	104.4	-15.3	-19.0	-11.2	22.2	9.3
Q3	98.1	97.8	97.4	96.3	105.0	-20.6	-23.9	-19.0	18.1	4.0
Q4	97.9	98.5	97.6	95.5	103.0	-16.8	-21.7	-16.5	15.0	4.7
2003 - Q1	97.6	98.2	94.8	96.4	108.1	-17.6	-22.8	-15.7	16.5	5.0
Q2	96.4	97.0	93.0	94.4	107.8	-23.4	-28.9	-22.1	15.6	7.7
Q3	97.6	98.6	94.5	94.7	109.1	-26.1	-30.9	-24.7	16.0	6.3
Q4	97.5	99.0	95.2	94.3	109.1	-21.8	-28.4	-19.2	17.1	8.3
2004 - Q1	97.3	99.7	94.3	93.9	108.7	-21.9	-24.8	-19.6	17.1	9.7
Q2	97.2	97.8	94.1	95.0	108.9	-17.6	-18.3	-15.0	18.3	7.0
Q3	96.7	96.4	91.9	94.7	111.3	-16.5	-14.5	-12.5	18.2	5.3
Q4	95.6	94.9	90.0	94.5	110.6	-17.1	-16.7	-14.0	15.9	7.7
2005 - Q1	94.7	93.7	89.7	93.5	113.1	-22.1	-21.5	-18.6	12.9	10.7
Q2	95.9	96.5	91.2	93.4	112.9	-25.5	-26.2	-23.2	12.2	10.7
Q3	…..	…..	…..	…..	…..	-18.5	-21.2	-15.8	12.6	7.0

Table a11

Labour force, employment and unemployment

(thousands of persons and percentages)

	Employment					Unemploy-ment	Labour force	Unemploy-ment rate	Participation rate 15-64 years
	Agriculture	Industry excluding construction	Construction	Other	Total				
2000	1,014	5,016	1,560	13,621	21,210	2,388	23,599	10.1	61.0
2001	1,018	4,988	1,641	13,958	21,605	2,164	23,769	9.1	61.6
2002	990	5,029	1,674	14,221	21,913	2,062	23,975	8.6	62.1
2003	968	5,080	1,742	14,452	22,241	2,048	24,289	8.4	62.9
2004	990	5,036	1,833	14,546	22,404	1,960	24,365	8.0	62.5
2000 - Q1	979	4,961	1,517	13,306	20,763	2,539	23,302	10.9	60.2
Q2	989	4,925	1,538	13,609	21,062	2,437	23,499	10.4	60.8
Q3	1,032	5,079	1,582	13,754	21,447	2,298	23,745	9.7	61.4
Q4	1,057	5,097	1,601	13,814	21,569	2,279	23,848	9.6	61.6
2001 - Q1	990	5,024	1,596	13,771	21,381	2,276	23,658	9.6	61.2
Q2	1,004	4,949	1,625	13,889	21,468	2,168	23,636	9.2	61.2
Q3	1,036	4,984	1,673	14,105	21,798	2,090	23,888	8.7	61.9
Q4	1,041	4,994	1,670	14,065	21,771	2,122	23,893	8.9	61.9
2002 - Q1	953	4,990	1,638	14,124	21,705	2,095	23,800	8.8	61.7
Q2	964	5,003	1,643	14,206	21,816	2,107	23,923	8.8	62.0
Q3	1,025	5,054	1,704	14,294	22,077	1,994	24,071	8.3	62.3
Q4	1,017	5,068	1,710	14,259	22,054	2,053	24,107	8.5	62.4
2003 - Q1	890	5,045	1,730	14,170	21,835	2,186	24,021	9.1	62.4
Q2	901	5,104	1,756	14,514	22,275	2,046	24,321	8.4	63.0
Q3	1,059	5,143	1,713	14,477	22,392	1,938	24,330	8.0	62.9
Q4	1,020	5,028	1,767	14,647	22,462	2,023	24,485	8.3	63.2
2004 - Q1	903	4,957	1,746	14,459	22,065	2,099	24,164	8.7	62.2
Q2	943	5,080	1,841	14,574	22,438	1,923	24,361	7.9	62.5
Q3	1,081	5,011	1,883	14,510	22,485	1,800	24,286	7.4	62.3
Q4	1,034	5,095	1,860	14,640	22,630	2,019	24,648	8.2	63.1
2005 - Q1	870	4,959	1,901	14,643	22,373	2,011	24,383	8.2	62.3
Q2	926	5,001	1,944	14,780	22,651	1,837	24,488	7.5	62.4
Q3	1,081	5,011	1,883	14,510	22,485	1,800	24,286	7.4	62.3

Source: Istat, *Rilevazione continua sulle forze di lavoro.*

National consumer price indices: Italy

(percentage changes on year-earlier period)

	For the entire resident population (1)													WEH (2)
	Goods and services with unregulated prices (4)							Goods and services with regulated prices (4)			Rents	Overall index (6)	Total net of food and energy products and those with regulated prices	Overall index (6)
	Non-food and non-energy products	Services	Food products: Processed	Food products: Un-processed	Food products: Total	Energy products	Total	Energy products	Non-energy products (5)	Total				
Weights (3)	*30.0*	*31.9*	*10.0*	*6.5*	*16.6*	*3.3*	*81.8*	*2.8*	*12.3*	*15.2*	*3.0*	*100.0*	*61.9*	*100.0*
2001	2.0	3.2	2.4	6.4	4.0	-2.0	2.7	5.8	3.1	3.7	2.3	2.7	2.6	2.7
2002	2.2	3.9	2.4	5.3	3.6	-1.9	2.9	-3.4	1.3	0.3	2.3	2.5	3.0	2.4
2003	1.9	3.5	2.4	4.2	3.2	2.3	2.8	4.1	1.6	2.1	2.8	2.7	2.7	2.5
2004	0.8	3.4	2.3	2.0	2.2	5.8	2.3	-1.2	2.4	1.7	2.8	2.2	2.1	2.0
2003 - Jan. ...	2.2	3.8	2.1	3.1	2.5	7.2	3.0	1.5	1.3	1.3	2.7	2.8	3.0	2.7
Feb. ..	2.0	3.6	2.2	2.6	2.4	8.4	2.9	2.0	0.5	0.8	2.7	2.6	2.8	2.5
Mar. ..	2.0	3.7	2.3	2.8	2.5	9.5	3.0	3.2	0.5	1.0	2.7	2.7	2.8	2.6
Apr. ...	2.1	3.7	2.3	2.1	2.2	3.2	2.7	6.0	1.7	2.5	2.8	2.7	2.8	2.5
May ...	2.0	3.6	2.3	2.4	2.4	-0.4	2.6	6.3	2.6	3.3	2.8	2.7	2.8	2.4
June ..	2.0	3.6	2.4	3.9	3.0	-1.3	2.7	6.4	2.1	2.9	2.8	2.7	2.8	2.3
July ...	1.9	3.6	2.4	4.6	3.3	-0.2	2.7	4.5	1.9	2.4	2.9	2.7	2.7	2.5
Aug. ..	1.9	3.7	2.4	5.2	3.6	1.3	2.9	4.5	1.8	2.3	2.9	2.8	2.7	2.5
Sept. .	1.8	3.4	2.4	6.0	3.9	1.8	2.8	4.4	1.8	2.3	2.9	2.8	2.6	2.5
Oct. ...	1.6	3.4	2.6	6.3	4.2	-1.1	2.7	3.7	1.7	2.1	2.7	2.6	2.5	2.4
Nov. ..	1.4	3.3	2.7	6.1	4.1	-0.3	2.6	3.7	1.9	2.2	2.7	2.5	2.3	2.4
Dec. ..	1.4	3.2	2.8	5.4	3.9	0.3	2.5	3.7	1.9	2.3	2.7	2.5	2.3	2.3
2004 - Jan. ...	1.3	3.2	2.8	5.5	3.9	-1.7	2.4	1.6	1.6	1.6	2.7	2.2	2.2	2.0
Feb. ..	1.2	3.1	2.8	5.7	4.0	-2.4	2.4	0.6	2.6	2.2	2.7	2.3	2.2	2.2
Mar. ..	0.9	3.2	2.7	5.1	3.7	-3.2	2.2	0.2	3.6	2.9	2.7	2.3	2.1	1.9
Apr. ...	0.8	3.5	2.6	4.5	3.4	0.7	2.3	-2.4	2.4	1.5	3.0	2.3	2.1	2.0
May ...	0.7	3.3	2.6	3.8	3.1	6.4	2.4	-2.8	2.4	1.4	3.0	2.3	2.0	2.1
June ..	0.6	3.6	2.4	3.2	2.8	9.6	2.5	-2.9	2.7	1.6	3.0	2.4	2.1	2.2
July ...	0.6	3.6	2.4	2.2	2.3	9.0	2.4	-2.3	2.7	1.8	2.8	2.3	2.1	2.1
Aug. ..	0.6	3.7	2.3	1.4	1.9	9.0	2.4	-2.3	2.7	1.8	2.8	2.3	2.2	2.1
Sept. .	0.6	3.8	2.1	-0.2	1.1	7.9	2.2	-2.3	2.5	1.6	2.8	2.1	2.2	1.8
Oct. ...	0.8	3.3	1.8	-1.6	0.4	12.1	2.1	-0.9	1.9	1.4	2.7	2.0	2.1	1.7
Nov. ..	0.8	3.4	1.5	-2.3	0.0	12.2	2.0	-0.5	1.3	0.9	2.7	1.9	2.1	1.7
Dec. ..	0.8	3.6	1.3	-2.3	-0.2	11.1	2.1	-0.3	2.1	1.7	2.7	2.0	2.2	1.7
2005 - Jan. ...	0.8	3.5	1.2	-2.6	-0.4	8.3	1.9	1.7	1.5	1.6	2.5	1.9	2.2	1.6
Feb. ..	0.8	3.3	1.0	-2.2	-0.3	9.2	1.8	2.4	1.5	1.7	2.5	1.9	2.1	1.6
Mar. ..	0.9	3.4	0.9	-1.4	-0.1	10.7	2.0	2.7	0.4	0.8	2.5	1.9	2.2	1.6
Apr. ...	0.9	3.1	0.8	-1.3	-0.1	13.4	2.0	5.1	0.4	1.2	2.2	1.9	2.0	1.7
May ...	1.0	3.2	0.6	-1.0	-0.1	10.4	2.0	5.5	0.5	1.4	2.2	1.9	2.1	1.7
June ..	1.0	3.1	0.5	-1.1	-0.1	8.2	1.8	5.6	0.4	1.4	2.2	1.8	2.0	1.6
July ...	0.9	3.1	0.5	-0.8	0.0	11.9	2.0	7.4	0.9	2.1	2.4	2.1	2.1	1.8
Aug. ..	1.0	2.8	0.4	-0.7	0.0	11.8	1.9	7.4	0.9	2.1	2.4	2.0	1.9	1.8
Sept. .	0.9	2.7	0.4	-0.3	0.1	14.7	2.0	7.4	0.8	2.1	2.4	2.0	1.8	1.9

Source: Based on Istat data.

(1) Indices, 1995=100. – (2) Consumer price index for worker and employee households, excluding tobacco products; indices, 1995=100. – (3) As of January 1999 Istat changes the weights every year on the basis of estimates of households' final consumption in the previous year. The weights shown in the table are those for January 2005. – (4) The calculation of the sub-indices is based on the disaggregation into 207 elementary items. – (5) Includes medicines, for which the reference is to the aggregate calculated by Istat; around one third of this aggregate consists of products in the so-called "C" band, the prices of which are not regulated. – (6) Percentage changes published by Istat and calculated on indices rounded to the first decimal place.

Table a13

Harmonized index of consumer prices: Italy (1)

(percentage changes on year-earlier period) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of unprocessed food and energy products	Total
				Processed	Unprocessed				
Weights	*34.0*	*40.0*	*74.0*	*11.6*	*7.9*	*19.5*	*6.4*	*85.6*	*100.0*
2002	2.4	3.4	2.9	2.2	4.9	3.4	-2.6	2.8	2.6
2003	1.9	3.2	2.6	3.4	3.9	3.6	3.2	2.7	2.8
2004	1.6	2.6	2.1	3.6	2.0	2.9	2.4	2.3	2.3
2004 – Jan.	1.0	2.4	1.8	3.9	5.1	4.4	-0.1	2.1	2.2
Feb.	2.0	2.4	2.3	4.0	5.2	4.5	-1.0	2.5	2.4
Mar.	1.6	2.4	2.0	5.1	4.7	5.0	-1.5	2.5	2.3
Apr.	1.8	2.5	2.2	3.7	4.2	3.9	-0.8	2.4	2.3
May	1.6	2.4	2.0	3.7	3.6	3.7	1.9	2.3	2.3
June	1.6	2.6	2.2	3.6	3.0	3.3	3.5	2.4	2.4
July	1.3	2.6	2.0	3.6	2.1	3.0	3.4	2.2	2.2
Aug.	1.4	2.7	2.2	3.4	1.4	2.6	3.5	2.3	2.4
Sept.	1.6	2.8	2.3	3.3	-0.2	1.8	3.0	2.4	2.1
Oct.	1.7	2.6	2.2	2.9	-1.5	1.1	5.8	2.3	2.1
Nov.	1.6	2.6	2.1	2.6	-2.1	0.6	6.0	2.2	2.0
Dec.	1.7	2.9	2.3	3.5	-1.9	1.2	5.5	2.5	2.4
2005 – Jan.	1.3	2.7	2.0	3.4	-2.2	1.0	5.1	2.2	2.0
Feb.	1.1	2.5	1.9	3.3	-1.9	1.1	5.9	2.1	2.0
Mar.	1.4	2.7	2.1	1.9	-1.4	0.5	6.9	2.1	2.1
Apr.	1.7	2.5	2.1	1.9	-1.2	0.6	9.5	2.1	2.2
May	1.7	2.6	2.2	1.8	-1.0	0.6	8.1	2.1	2.3
June	1.7	2.4	2.1	1.7	-0.8	0.6	7.0	2.0	2.2
July	1.1	2.5	1.9	2.0	-0.8	0.8	9.8	1.9	2.2
Aug.	1.1	2.4	1.8	2.2	-0.7	1.0	9.8	1.9	2.2
Sept.	1.0	2.3	1.7	2.1	-0.2	1.2	11.3	1.7	2.2

Source: Eurostat.

(1) Indices, 1996=100. See the notes to the statistical tables. Chain index. The weights are updated every year on the basis of households' estimated final consumption in the preceding year. The weights shown in the table are those for January 2005. – (2) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables.

Table a14

Harmonized index of consumer prices: euro area (1)

(percentage changes on year-earlier period) (2)

	Non-food and non-energy products	Services	Total net of food and energy products	Food products			Energy products	Total net of unprocessed food and energy products	Total
				Processed	Unprocessed				
Weights	*30.8*	*41.0*	*71.8*	*12.0*	*7.6*	*19.6*	*8.5*	*83.8*	*100.0*
2001	0.9	2.5	1.8	2.9	7.0	4.5	2.2	1.9	2.3
2002	1.5	3.1	2.4	3.1	3.1	3.1	-0.6	2.5	2.3
2003	0.8	2.5	1.8	3.3	2.1	2.8	3.0	2.0	2.1
2004	0.8	2.6	1.8	3.4	0.7	2.3	4.5	2.1	2.1
2003 – Jan.	0.6	2.8	1.9	2.8	-0.7	1.4	6.0	2.0	2.1
Feb.	0.7	2.7	1.9	3.2	0.3	2.0	7.7	2.0	2.4
Mar.	0.8	2.6	1.8	3.2	0.7	2.2	7.4	1.9	2.4
Apr.	0.8	2.9	2.0	3.3	0.9	2.3	2.2	2.2	2.1
May	0.9	2.5	1.8	3.3	1.1	2.4	0.6	2.0	1.8
June	0.8	2.5	1.8	3.2	2.5	2.9	1.6	2.0	1.9
July	0.7	2.3	1.6	3.1	2.7	3.0	2.0	1.8	1.9
Aug.	0.6	2.5	1.7	3.0	3.3	3.1	2.7	1.9	2.1
Sept.	0.8	2.5	1.8	3.2	4.2	3.6	1.6	2.0	2.2
Oct.	0.8	2.5	1.7	3.5	3.8	3.6	0.7	2.0	2.0
Nov.	0.7	2.4	1.7	4.0	3.8	3.9	2.2	2.0	2.2
Dec.	0.7	2.3	1.6	3.8	3.2	3.6	1.8	1.9	2.0
2004 – Jan.	0.6	2.5	1.7	3.3	2.9	3.1	-0.4	1.9	1.9
Feb.	0.8	2.6	1.8	3.2	1.9	2.7	-2.2	2.0	1.6
Mar.	0.8	2.6	1.8	4.1	1.7	3.1	-2.0	2.2	1.7
Apr.	1.0	2.5	1.8	3.9	1.6	2.9	2.0	2.1	2.0
May	0.9	2.6	1.8	3.9	1.7	3.1	6.7	2.1	2.5
June	0.9	2.6	1.9	3.8	1.2	2.8	5.9	2.2	2.4
July	0.7	2.7	1.8	3.8	0.7	2.6	5.9	2.1	2.3
Aug.	0.9	2.7	1.9	3.6	-0.2	2.1	6.5	2.2	2.3
Sept.	0.8	2.6	1.8	3.3	-1.5	1.4	6.4	2.0	2.1
Oct.	0.8	2.6	1.8	2.8	-1.2	1.2	9.8	2.0	2.4
Nov.	0.8	2.7	1.9	2.3	-1.0	1.0	8.7	1.9	2.2
Dec.	0.8	2.7	1.9	3.2	0.0	2.0	6.9	2.1	2.4
2005 – Jan.	0.5	2.4	1.6	2.8	-0.6	1.5	6.2	1.8	1.9
Feb.	0.2	2.4	1.4	2.6	0.7	1.9	7.7	1.6	2.1
Mar.	0.4	2.5	1.6	1.6	1.3	1.5	8.8	1.6	2.1
Apr.	0.3	2.2	1.4	1.7	0.8	1.3	10.2	1.4	2.1
May	0.4	2.5	1.6	1.5	1.0	1.3	6.9	1.6	2.0
June	0.3	2.2	1.4	1.5	0.6	1.2	9.4	1.4	2.1
July	0.0	2.3	1.3	1.6	0.3	1.1	11.8	1.4	2.2
Aug.	0.0	2.3	1.3	1.7	1.1	1.5	11.6	1.4	2.2
Sept.	0.2	2.2	1.3	2.3	1.1	1.8	15.2	1.5	2.6

Source: Eurostat.

(1) Weighted average of the harmonized indices of the euro-area countries. The weights shown in the table are those for January 2005. – (2) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables.

Table a15

Harmonized index of consumer prices: main euro-area countries

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

	ITALY		GERMANY		FRANCE		SPAIN		EURO AREA (2)	
	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products	Total	Total net of unprocessed food and energy products
2001	2.7	2.4	1.9	1.2	1.8	1.5	2.8	2.6	2.3	1.9
2002	2.6	2.8	1.3	1.5	1.9	2.2	3.6	3.9	2.3	2.5
2003	2.8	2.7	1.0	0.9	2.2	2.2	3.1	3.0	2.1	2.0
2004	2.3	2.3	1.8	1.7	2.3	2.4	3.1	2.8	2.1	2.1
2003 - Jan.	2.9	2.7	0.9	0.8	1.9	1.8	3.8	3.3	2.1	2.0
Feb.	2.6	2.4	1.2	0.8	2.5	2.4	3.8	3.4	2.4	2.0
Mar.	2.9	2.7	1.2	0.7	2.6	2.1	3.7	3.3	2.4	1.9
Apr.	3.0	2.9	1.0	1.1	1.9	2.1	3.2	3.4	2.1	2.2
May	2.9	2.9	0.6	0.8	1.8	2.1	2.7	3.1	1.8	2.0
June	2.9	2.9	0.9	0.8	1.9	2.1	2.8	3.0	1.9	2.0
July	2.9	2.7	0.8	0.7	1.9	1.9	2.9	3.0	1.9	1.8
Aug.	2.7	2.6	1.1	0.9	2.0	1.9	3.1	3.0	2.1	1.9
Sept.	3.0	2.6	1.1	1.0	2.3	2.1	3.0	2.9	2.2	2.0
Oct.	2.8	2.6	1.1	1.0	2.3	2.4	2.7	2.8	2.0	2.0
Nov.	2.8	2.5	1.3	0.9	2.5	2.6	2.9	2.7	2.2	2.0
Dec.	2.5	2.4	1.1	0.8	2.4	2.6	2.7	2.7	2.0	1.9
2004 - Jan.	2.2	2.1	1.2	1.3	2.2	2.6	2.3	2.5	1.9	1.9
Feb.	2.4	2.5	0.8	1.3	1.9	2.6	2.2	2.4	1.6	2.0
Mar.	2.3	2.5	1.1	1.7	1.9	2.6	2.2	2.4	1.7	2.2
Apr.	2.3	2.4	1.7	1.7	2.4	2.6	2.7	2.6	2.0	2.1
May	2.3	2.3	2.1	1.8	2.8	2.5	3.4	2.8	2.5	2.1
June	2.4	2.4	1.9	1.8	2.7	2.5	3.5	2.9	2.4	2.2
July	2.2	2.2	2.0	1.7	2.6	2.6	3.3	2.9	2.3	2.1
Aug.	2.4	2.3	2.1	1.8	2.5	2.7	3.3	2.9	2.3	2.2
Sept.	2.1	2.4	1.9	1.6	2.2	2.4	3.2	3.0	2.1	2.0
Oct.	2.1	2.3	2.2	1.7	2.3	2.0	3.6	2.9	2.4	2.0
Nov.	2.0	2.2	2.0	1.7	2.2	1.8	3.5	2.9	2.2	1.9
Dec.	2.4	2.5	2.2	2.1	2.3	1.7	3.3	2.9	2.4	2.1
2005 - Jan.	2.0	2.2	1.6	1.4	1.6	1.4	3.1	2.7	1.9	1.8
Feb.	2.0	2.1	1.8	1.3	1.9	1.2	3.3	2.7	2.1	1.6
Mar.	2.1	2.1	1.7	1.0	2.1	1.4	3.4	2.9	2.1	1.6
Apr.	2.2	2.1	1.4	0.7	2.0	1.3	3.5	2.7	2.1	1.4
May	2.3	2.1	1.6	1.1	1.7	1.2	3.0	2.6	2.0	1.6
June	2.2	2.0	1.8	0.8	1.8	1.2	3.2	2.6	2.1	1.4
July	2.2	1.9	1.9	0.8	1.8	0.9	3.3	2.7	2.2	1.4
Aug.	2.2	1.9	1.9	0.8	2.0	1.0	3.3	2.8	2.2	1.4
Sept.	2.2	1.7	2.6	1.1	2.4	1.2	3.8	2.8	2.6	1.5

Source: Eurostat.
(1) As of January 2002 they are calculated with reference to the indices compiled using the new method for taking price reductions into account introduced by Istat in that month in compliance with Commission Regulation (EC) No. 2602/2000. See the notes to the statistical tables. – (2) Weighted average of the harmonized indices of the euro-area countries.

Table a16

Index of producer prices of manufactures sold in the domestic market: Italy (1)

(percentage changes on year-earlier period)

	Consumer goods (2)		Investment goods	Intermediate goods		Total excluding food and energy products	Overall index
	Non-food products	Food products		Non-energy products	Energy products		
Weights	*17.2*	*13.1*	*17.9*	*34.3*	*17.5*	*69.4*	*100.0*
2001	2.2	2.8	1.2	1.3	2.7	1.6	1.9
2002	2.5	1.0	1.0	0.4	-4.0	1.1	0.2
2003	1.1	2.7	0.7	1.5	2.5	1.2	1.6
2004	0.6	1.4	1.7	4.9	2.4	3.0	2.7
2003 - Jan.	1.7	2.2	0.7	2.3	5.7	1.7	2.5
Feb.	1.5	2.3	0.6	2.6	7.2	1.8	2.8
Mar.	1.5	2.0	0.6	2.5	8.1	1.7	2.8
Apr.	1.6	2.6	0.5	2.4	3.1	1.7	2.0
May	1.5	2.4	0.7	2.0	0.8	1.5	1.6
June	1.2	2.7	0.7	1.3	2.2	1.1	1.5
July	1.1	2.6	0.9	0.8	2.0	0.9	1.3
Aug.	0.8	2.9	0.9	0.4	2.9	0.6	1.4
Sept.	0.8	3.6	0.9	0.6	0.1	0.7	1.0
Oct.	0.4	3.4	0.8	0.8	-1.4	0.7	0.7
Nov.	0.5	3.3	0.8	1.0	1.0	0.8	1.2
Dec.	0.3	2.8	0.9	1.0	-1.4	0.8	0.8
2004 - Jan.	0.2	2.7	1.1	1.2	-3.6	0.9	0.4
Feb.	0.1	2.6	1.2	1.5	-5.9	1.1	0.1
Mar.	0.0	3.1	1.3	2.8	-5.6	1.7	0.7
Apr.	0.0	2.6	1.6	3.9	-1.2	2.3	1.7
May	-0.2	2.8	1.7	4.5	4.3	2.6	2.9
June	-0.1	2.9	2.0	5.2	3.8	3.1	3.2
July	0.3	2.1	1.7	5.9	3.8	3.4	3.3
Aug.	0.8	1.1	1.9	6.6	4.2	3.9	3.5
Sept.	1.0	-0.3	1.9	6.7	5.8	4.1	3.8
Oct.	1.4	-0.7	2.0	6.9	9.2	4.3	4.4
Nov.	1.7	-1.1	2.1	7.0	8.0	4.4	4.3
Dec.	1.8	-0.7	2.2	7.0	7.6	4.4	4.2
2005 - Jan.	1.8	-1.3	2.2	6.9	9.9	4.4	4.5
Feb.	2.0	-0.8	2.2	6.2	11.9	4.1	4.7
Mar.	2.3	-1.0	2.1	4.8	14.7	3.5	4.8
Apr.	2.3	-1.5	1.8	3.5	15.6	2.8	4.4
May	2.3	-1.5	1.6	2.7	10.4	2.3	3.2
June	2.1	-1.5	1.5	1.8	15.3	1.8	3.7
July	1.9	-1.2	1.5	1.4	16.0	1.5	3.6
Aug.	1.7	-0.7	1.5	0.9	17.1	1.3	3.7
Sept.	1.3	-0.5	1.5	0.6	18.3	1.0	3.8

Source: Istat.
(1) Classification by economic purpose. The weights shown in the table relate to base 2000=100. See the notes to the statistical tables. – (2) Excluding energy products and motor vehicles; the latter are included under "Investment goods".

Table a17

Index of producer prices of manufactures sold in the domestic market: main euro-area countries

(percentage changes on year-earlier period)

	GERMANY					FRANCE				
	Consumer goods excl. food products (2)	Intermediate goods		Total excl. food and energy products	Overall index	Consumer goods excl. food products (2)	Intermediate goods		Total excl. food and energy products	Overall index
		Non-energy	Energy				Non-energy	Energy		
Weights (1)	*13.5*	*31.2*	*18.1*	*68.0*	*100.0*	*13.5*	*34.3*	*17.5*	*65.2*	*100.0*
2002	0.3	-0.7	-3.7	0.1	-0.6	-0.2	-0.6	-0.7	-0.2	-0.2
2003	-0.2	0.4	7.1	0.2	1.7	0.4	0.4	2.6	0.3	0.9
2004	-0.6	2.8	2.5	1.2	1.6	-0.8	2.7	5.1	1.1	2.0
2003 - Sept.	0.0	-0.3	9.0	-0.1	2.0	0.2	-0.3	-0.8	0.1	0.1
Oct.	0.0	-0.4	7.9	-0.2	1.7	0.0	-0.1	-0.6	0.1	0.3
Nov.	0.0	-0.1	8.5	0.0	2.0	-0.2	0.2	1.0	0.2	0.8
Dec.	-0.3	-0.1	8.0	-0.1	1.8	-0.6	0.3	-1.0	0.0	0.3
2004 - Jan.	-0.3	-0.2	0.7	-0.1	0.2	-1.0	0.4	-1.7	0.1	0.3
Feb.	-0.5	0.1	-0.7	0.0	-0.1	-1.0	0.9	-4.3	0.3	0.0
Mar.	-0.7	0.6	-1.1	0.1	0.3	-1.3	1.3	-3.1	0.3	0.3
Apr.	-1.0	1.5	0.7	0.5	0.9	-1.3	1.6	2.5	0.4	1.3
May	-1.3	2.0	3.9	0.7	1.6	-1.4	1.9	7.4	0.5	2.2
June	-0.9	2.2	2.9	0.8	1.5	-1.6	2.3	6.3	0.7	2.2
July	-0.9	3.3	2.7	1.4	1.9	-1.1	3.3	6.7	1.4	2.6
Aug.	-0.6	4.0	3.1	1.8	2.2	-0.8	3.8	7.3	1.7	2.8
Sept	-0.6	4.2	3.4	1.9	2.3	-0.4	4.0	9.0	1.8	3.0
Oct.	-0.4	5.2	6.4	2.4	3.3	0.0	4.3	12.0	2.0	3.5
Nov.	-0.1	5.2	4.5	2.5	2.8	0.4	4.3	10.7	2.2	3.2
Dec.	0.4	5.1	3.3	2.6	2.9	0.5	4.1	9.2	2.3	3.0
2005 - Jan.	0.5	5.5	7.3	3.0	3.9	1.3	4.1	8.4	2.5	2.9
Feb.	0.5	5.6	8.2	3.0	4.2	1.6	3.9	10.2	2.5	3.1
Mar.	1.3	5.0	10.0	3.0	4.2	1.2	3.7	11.2	2.5	3.2
Apr.	1.2	4.2	13.2	2.5	4.6	1.6	3.3	11.5	2.5	3.3
May	1.4	3.5	11.0	2.2	4.1	1.6	2.9	7.6	2.3	2.5
June	1.3	3.4	14.4	2.1	4.6	1.5	2.2	11.5	1.8	2.9
July	1.0	2.3	16.4	1.5	4.6	0.8	1.7	13.2	1.4	3.1
Aug.	1.0	2.0	16.5	1.4	4.6	0.6	1.3	12.8	1.1	2.9
Sept	1.0	1.9	17.1	1.3	4.9	0.8	1.3	15.0	1.2	3.4
	SPAIN					EURO AREA (3)				
Weights (1)	*16.8*	*31.6*	*18.0*	*66.7*	*100.0*	*14.0*	*31.7*	*16.8*	*66.8*	*100.0*
2002	1.8	0.2	-1.3	1.1	0.7	0.8	-0.3	-2.3	0.3	-0.1
2003	2.3	0.8	1.3	1.3	1.4	0.4	0.8	3.8	0.5	1.4
2004	1.3	4.5	5.3	2.9	3.4	-0.6	3.5	3.9	1.7	2.3
2003 - Sept	2.5	0.3	-2.4	1.1	0.8	0.4	0.0	1.8	0.2	0.9
Oct.	2.2	0.7	-3.6	1.2	0.6	0.0	0.2	1.1	0.2	0.8
Nov.	2.1	0.9	-0.4	1.3	1.3	-0.3	0.4	3.2	0.2	1.3
Dec.	1.6	1.0	-1.2	1.2	1.1	-0.7	0.5	1.7	0.1	0.9
2004 - Jan.	1.3	1.4	-3.6	1.3	0.7	-0.9	0.6	-1.5	0.2	0.2
Feb.	1.1	2.0	-5.4	1.6	0.7	-0.9	0.9	-3.5	0.3	0.0
Mar.	1.0	2.6	-5.6	1.9	0.8	-1.1	1.5	-2.8	0.6	0.4
Apr.	1.0	3.7	1.3	2.4	2.6	-1.2	2.3	1.2	1.0	1.4
May	1.1	4.4	7.2	2.6	3.8	-1.3	2.9	5.5	1.3	2.4
June	1.0	4.8	7.1	2.9	4.0	-1.2	3.3	4.5	1.5	2.4
July	1.0	5.3	7.2	3.2	4.1	-0.9	4.3	5.3	2.1	2.9
Aug.	1.0	5.7	9.0	3.4	4.4	-0.7	4.8	5.6	2.4	3.1
Sept	1.2	5.9	11.0	3.5	4.6	-0.5	5.0	7.3	2.5	3.3
Oct.	1.8	6.2	14.2	3.8	5.4	0.1	5.5	10.1	2.9	4.1
Nov.	1.9	6.3	12.6	3.9	5.2	0.7	5.5	8.3	3.1	3.7
Dec.	2.6	6.2	10.7	4.0	5.0	1.0	5.4	7.0	3.1	3.6
2005 - Jan.	3.1	6.2	8.8	4.2	4.8	1.5	5.5	8.4	3.4	3.9
Feb.	3.5	5.5	11.0	4.0	4.9	1.6	5.2	10.0	3.3	4.2
Mar.	3.5	4.9	13.1	3.8	5.1	1.8	4.5	11.7	3.1	4.2
Apr.	3.7	3.7	14.5	3.2	5.0	1.9	3.7	13.2	2.6	4.3
May	3.8	3.3	11.0	3.1	4.2	2.0	3.0	9.7	2.3	3.5
June	3.6	3.1	13.5	3.0	4.4	1.9	2.6	13.4	2.1	4.0
July	3.2	3.0	15.7	2.7	4.6	1.6	1.9	15.1	1.6	4.1
Aug.	3.2	2.9	16.4	2.7	4.9	1.5	1.7	15.1	1.5	4.0
Sept	3.0	3.2	17.9	2.8	5.4	1.3	1.6	16.4	1.4	4.4

Source: Based on Eurostat data.

(1) For Germany, base 1995=100; for France, Spain and euro area, base 2000=100. – (2) Excluding energy products. – (3) Weighted average (based on GDP) of data for the 12 euro-area countries. See the notes to the statistical tables.

Table a18

Average unit values in euros of imported and exported manufactures: Italy (1)

(percentage changes on year-earlier period)

	Imports			Exports		
	EU countries	Non-EU countries	Total	EU countries	Non-EU countries	Total
1998	1.6	-6.6	-1.6	2.9	4.0	3.4
1999	0.7	3.4	1.7	1.6	4.2	2.7
2000	7.8	30.4	16.3	5.0	12.2	8.0
2001	4.7	-0.3	2.7	3.1	4.4	3.6
2002	0.7	-2.3	-0.5	1.5	1.3	1.4
2003	0.8	-1.9	-0.3	1.1	0.5	0.8
2004	4.1	5.7	4.8	4.5	4.2	4.3
2001 – Q1	6.8	9.4	7.9	2.3	8.0	4.8
Q2	6.4	6.0	6.2	3.8	6.5	5.0
Q3	2.4	0.1	1.3	3.2	3.0	3.1
Q4	3.3	-14.2	-4.1	2.9	0.1	1.6
2002 – Q1	2.3	-4.8	-0.6	3.7	1.6	2.7
Q2	0.0	-3.0	-1.2	0.7	0.5	0.6
Q3	0.9	-3.9	-1.0	0.0	0.6	0.1
Q4	-0.3	2.8	1.0	1.8	2.6	2.1
2003 – Q1	1.7	3.7	2.5	1.6	1.6	1.5
Q2	1.3	-4.7	-1.2	0.5	-0.3	0.1
Q3	0.0	-2.8	-1.2	1.2	0.6	0.9
Q4	0.3	-3.8	-1.4	1.0	0.0	0.5
2004 – Q1	0.9	-4.8	-1.4	2.2	0.2	1.3
Q2	2.9	5.9	4.1	5.2	4.4	4.8
Q3	5.4	9.9	7.4	5.0	6.3	5.6
Q4	7.4	12.3	9.4	5.7	5.9	5.7
2005 – Q1	7.2	12.4	9.3	5.9	7.3	6.5
Q2	5.3	10.0	7.4	4.7	6.8	5.7

Source: Based on Istat data.
(1) As of 2002, base 2000=100. See the notes to the statistical tables.

Table a19

Balance of payments: current account and capital account

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Transfers		Total	Intangible assets	Transfers	
					Private	Public			Private	Public
2001	-740	17,405	18	-11,635	-2,764	-3,763	936	-312	64	1,184
2002	-10,014	14,049	-3,043	-15,396	-4,567	-1,057	-67	-206	227	-88
2003	-17,351	9,922	-2,362	-17,811	-1,554	-5,547	2,494	-86	216	2,364
2004	-12,035	8,838	1,528	-14,711	-835	-6,855	2,081	-38	-26	2,144
2003 - Q2	-8,216	734	215	-6,529	130	-2,766	-313	-5	74	-382
Q3	1,696	5,425	1,707	-2,912	-118	-2,405	22	-54	22	54
Q4	-3,195	4,331	-1,082	-4,847	-478	-1,119	2,429	23	74	2,332
2004 - Q1	-4,692	-97	-1,852	-1,887	-448	-407	250	-22	1	271
Q2	-5,861	1,322	2,226	-7,216	61	-2,255	238	-64	7	295
Q3	4,304	5,697	2,062	-1,330	-158	-1,967	202	16	62	125
Q4	-5,786	1,916	-908	-4,278	-290	-2,226	1,391	33	-96	1,454
2005 - Q1	-8,212	-1,689	-2,060	-3,629	615	-1,449	355	-41	-15	411
Q2	-7,454	377	740	-6,156	-165	-2,251	382	46	7	330
2003 - Aug.	168	1,757	-128	-746	-87	-628	10	2	-31	39
Sept.	-1,181	138	592	-656	49	-1,304	-49	-32	9	-25
Oct.	1,531	3,417	234	-1,447	-44	-628	58	-4	17	45
Nov.	-1,964	975	-1,188	-1,139	-206	-407	120	18	41	61
Dec.	-2,762	-61	-128	-2,261	-228	-84	2,251	9	16	2,226
2004 - Jan.	-3,007	-1,627	-602	-422	-259	-97	133	-9	-9	151
Feb.	-1,178	-42	-379	-509	-176	-72	154	-11	5	160
Mar.	-507	1,572	-871	-956	-13	-238	-36	-3	6	-39
Apr.	-1,817	761	27	-1,674	-55	-876	11	-28	-2	41
May	-1,323	946	1,162	-2,551	-3	-878	28	-8	2	34
June	-2,721	-385	1,037	-2,991	119	-501	199	-28	7	220
July	3,568	4,004	841	-498	-211	-568	56	3	29	24
Aug.	956	1,701	-45	..	30	-731	83	34	24	25
Sept.	-220	-8	1,266	-832	23	-669	63	-21	9	76
Oct.	706	1,454	464	-743	-103	-365	-79	-30	-84	35
Nov.	-1,494	867	-669	-1,316	-145	-231	57	-9	-16	81
Dec.	-4,998	-405	-703	-2,219	-42	-1,629	1,413	72	4	1,338
2005 - Jan.	-3,513	-1,067	-803	-1,570	-118	45	76	-24	-8	107
Feb.	-1,359	-775	-783	-703	908	-6	105	-6	-9	120
Mar.	-3,340	153	-474	-1,356	-175	-1,487	175	-11	3	183
Apr.	-3,365	-396	361	-2,552	-86	-693	53	1	14	38
May	-2,687	574	-179	-2,392	1	-691	27	..	-8	35
June	-1,402	199	557	-1,212	-80	-866	302	45	..	257
July	(2,765)	(3,532)	(1,609)	(-1,729)	....	....	(35)	....	....	....
Aug.	(-1,580)	(447)	(-474)	(-988)	....	....	(24)	....	....	....

Table a20

Balance of payments: financial account

(millions of euros)

	Total	Direct investment		Portfolio investment		Other investment		Financial derivatives	Change in reserve assets
		abroad	in Italy	assets	liabilities	assets	liabilities		
2001	-3,294	-23,995	16,618	-40,070	32,430	3,007	8,709	-477	484
2002	8,532	-18,194	15,455	-16,968	33,075	8,296	-7,311	-2,710	-3,111
2003	17,319	-8,037	14,544	-51,068	54,437	-19,390	33,066	-4,827	-1,406
2004	8,884	-15,513	13,542	-21,065	47,512	-37,619	17,932	1,833	2,262
2003 - Q2	11,212	-6,934	6,168	-17,051	37,249	-12,314	6,822	-2,139	-589
Q3	-4,090	3,900	-212	-18,105	11,699	10,557	-11,274	366	-1,021
Q4	2,028	-1,156	4,861	-5,500	-9,992	3,843	7,516	-1,534	3,990
2004 - Q1	4,235	-3,165	3,463	-6,963	14,627	-17,231	12,448	335	721
Q2	6,293	-8,480	4,966	-675	15,488	4,803	-8,027	325	-2,107
Q3	-3,671	-404	2,138	-6,926	12,456	-11,049	-3,816	600	3,330
Q4	2,027	-3,464	2,975	-6,501	4,941	-14,142	17,327	573	318
2005 - Q1	7,473	-3,735	2,519	-23,017	50,595	-47,134	25,037	3,217	-9
Q2	8,279	-2,597	2,209	-13,666	38,741	-42,775	26,102	-546	811
2003 - Aug.	-1,229	2,047	-271	-6,331	-9,271	10,261	2,223	191	-78
Sept.	606	-1,345	744	-4,113	19,330	-9,654	-2,845	-885	-626
Oct.	37	3,143	661	-8,862	-6,134	10,433	1	112	683
Nov.	1,529	-2,103	1,110	-702	5,120	-5,610	3,750	-338	302
Dec.	462	-2,196	3,090	4,064	-8,978	-980	3,765	-1,308	3,005
2004 - Jan.	2,673	-1,554	1,852	-2,645	21,695	-21,704	5,246	1	-218
Feb.	1,248	-127	1,046	-2,239	-6,177	7,914	1,053	-163	-59
Mar.	314	-1,484	565	-2,079	-891	-3,441	6,149	497	998
Apr.	1,761	-2,973	2,988	-3,268	-500	14,463	-8,085	101	-965
May	819	-1,373	690	-4,077	-5,419	8,881	2,689	-117	-455
June	3,713	-4,134	1,288	6,670	21,407	-18,541	-2,631	341	-687
July	-3,588	-985	1,509	-1,801	-3,363	1,753	-2,970	333	1,936
Aug.	-509	-967	1,297	-4,532	-810	-3,217	6,288	120	1,312
Sept.	426	1,548	-668	-593	16,629	-9,585	-7,134	147	82
Oct.	-1,188	-1,330	919	-2,016	4,068	-3,784	1,139	-393	209
Nov.	1,353	-1,054	-37	-5,587	-175	-13,281	20,721	1,059	-293
Dec.	1,862	-1,080	2,093	1,102	1,048	2,923	-4,533	-93	402
2005 - Jan.	2,932	-1,455	584	-7,425	14,123	-21,568	18,534	259	-120
Feb.	1,109	-1,721	847	-6,485	25,087	-10,447	-8,395	1,879	344
Mar.	3,432	-559	1,088	-9,107	11,385	-15,119	14,898	1,079	-233
Apr.	4,147	-744	517	-3,186	8,760	-14,549	13,340	-126	135
May	3,090	-1,102	1,462	-12,241	6,626	-1,291	9,230	-7	413
June	1,042	-751	230	1,761	23,355	-26,935	3,532	-413	263
July	(-2,777)	(-1,796)	(1,185)	(-9,097)	(17,128)	(3,816)	(-14,000)	(-60)	(47)
Aug.	(2,301)	(-3,069)	(-1,587)	(-7,052)	(-3,066)	(5,266)	(12,480)	(-453)	(-218)

Table a21

Formation of the general government borrowing requirement

(millions of euros)

	Budget			Other central government operations		BR of local gov. and social security institutions after consolida-tion	General government borrowing requirement (GGBR)	Privatiza-tion and other extraordi-nary receipts	Debt settlements	GGBR net of debt settlements and privatization receipts	*Memoran-dum item:*
	Receipts (1)	Payments (-)	Balance		*of which:* collection account (1)						unconso-lidated CGBR net of debt settlements and privatization receipts
2001	352,007	426,396	-74,389	24,237	432	-1,847	-51,999	4,603	-9,310	-47,292	-45,001
2002	352,900	407,737	-54,838	18,285	-400	-5,036	-41,588	1,929	-5,328	-38,189	-32,341
2003	382,246	442,696	-60,450	45,934	-75	-24,770	-39,285	16,855	-8,537	-47,604	-22,185
2004	394,937	430,849	-35,912	-8,243	79	-5,246	-49,401	7,673	-533	-56,541	-50,755
2001 - Q1	73,661	97,057	-23,396	7,668	1,232	-280	-16,008	4,263	-1,672	-18,599	-18,255
Q2	68,753	83,893	-15,140	2,312	17,737	614	-12,214	57	-3,502	-8,769	-9,608
Q3	97,754	119,170	-21,416	15,215	-18,406	579	-5,621	1	-1,335	-4,288	-4,190
Q4	111,840	126,276	-14,437	-958	-130	-2,760	-18,155	282	-2,801	-15,636	-12,948
2002 - Q1	63,905	78,188	-14,282	-4,172	-668	-1,834	-20,288	95	-409	-19,974	-17,728
Q2	75,128	85,128	-9,999	1,797	16,644	-776	-8,978	83	-389	-8,672	-7,620
Q3	88,577	107,588	-19,011	3,073	-16,377	556	-15,382	0	-1,905	-13,477	-14,158
Q4	125,289	136,834	-11,545	17,587	1	-2,981	3,061	1,752	-2,625	3,934	7,165
2003 - Q1	68,394	88,903	-20,509	864	-138	-2,446	-22,090	0	-591	-21,499	-19,198
Q2	78,859	100,268	-21,409	10,669	15,598	-882	-11,622	1	-2,866	-8,756	-7,846
Q3	86,989	94,953	-7,964	-10,948	-14,121	641	-18,271	0	-1,450	-16,821	-18,095
Q4	148,004	158,572	-10,568	45,348	-1,415	-22,083	12,697	16,855	-3,629	-528	22,954
2004 - Q1	67,049	79,895	-12,845	-16,076	9	-2,276	-31,198	0	-158	-31,039	-28,856
Q2	77,936	113,441	-35,505	20,343	19,561	-830	-15,993	15	-17	-15,991	-15,182
Q3	97,159	84,654	12,505	-26,163	-19,433	-1,690	-15,347	0	-39	-15,308	-13,818
Q4	152,792	152,859	-66	13,653	-59	-450	13,137	7,658	-319	5,798	7,101
2005 - Q1	72,572	86,094	-13,522	-10,607	-171	-1,935	-26,064	0	-69	-25,996	-25,210
Q2	92,580	117,097	-24,517	-1,198	442	-1,910	-27,624	4	-54	-27,574	-25,610
Q3	86,411	83,552	2,859	-15,535	-256	-2,823	-15,498	4,021	-29	-19,490	-16,724
2005 - Jan.	27,287	26,121	1,166	565	-279	-957	774	0	-10	784	592
Feb.	20,906	28,420	-7,514	-1,116	339	-183	-8,813	0	-25	-8,788	-8,582
Mar.	24,379	31,553	-7,174	-10,056	-231	-796	-18,026	0	-33	-17,992	-17,220
Apr.	22,702	32,898	-10,196	-5,483	62	-159	-15,837	0	-21	-15,816	-15,647
May	29,177	37,602	-8,425	-7,019	-10	-582	-16,026	4	-16	-16,015	-15,482
June ...	40,701	46,596	-5,895	11,304	391	-1,170	4,239	0	-17	4,257	5,518
July	37,673	41,265	-3,593	10,123	-24	-1,399	5,132	4,021	-16	1,127	2,464
Aug. ...	28,468	23,006	5,463	-13,176	-273	-130	-7,844	0	-9	-7,835	-7,739
Sept. ..	20,270	19,281	989	-12,482	40	-1,293	-12,787	0	-4	-12,782	-11,449

(1) See the notes to the statistical tables.

Table a22

Financing of the general government borrowing requirement

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans	Other		Borrowing requirement	
		of which: PO funds					*of which:* change in central bank current accounts		*of which:* financed abroad
2001	17,959	16,410	11,775	23,201	-3,790	2,855	-2,024	51,999	9,058
2002	14,548	11,496	-372	31,705	-2,747	-1,545	284	41,588	7,615
2003	-38,593	-64,806	6,057	23,067	-5,660	54,414	8,022	39,285	6,807
2004	17,112	-1,688	-998	41,630	-1,670	-6,673	-2,578	49,401	4,798
2001 - Q1	3,457	2,408	13,507	21,890	-1,222	-21,623	-20,516	16,008	6,424
Q2	1,088	965	6,072	10,323	-903	-4,365	-5,111	12,214	-1,002
Q3	2,620	2,146	2,487	-10,552	-3,240	14,306	14,344	5,621	34
Q4	10,795	10,891	-10,291	1,541	1,574	14,536	9,260	18,155	3,603
2002 - Q1	3,676	2,559	14,864	27,269	560	-26,082	-23,826	20,288	7,106
Q2	-371	-401	8,191	487	-2,274	2,945	2,918	8,978	-3,985
Q3	1,202	1,099	-3,460	7,892	-1,853	11,601	10,511	15,382	2,887
Q4	10,041	8,238	-19,968	-3,944	820	9,991	10,682	-3,061	1,607
2003 - Q1	3,463	2,079	20,465	19,178	-576	-20,440	-21,955	22,090	10,284
Q2	2,433	1,727	5,779	4,791	75	-1,456	-484	11,622	-60
Q3	4,204	2,679	-27	18,533	-2,846	-1,594	-1,725	18,271	-1,529
Q4	-48,693	-71,292	-20,161	-19,435	-2,313	77,904	32,186	-12,697	-1,889
2004 - Q1	6,317	-1,322	25,031	19,806	-348	-19,609	-19,890	31,198	4,958
Q2	10,535	1,745	3,107	26,233	-148	-23,735	-22,221	15,993	1,031
Q3	901	-926	-2,200	8,367	269	8,010	8,251	15,347	-1,034
Q4	-642	-1,185	-26,936	-12,775	-1,443	28,660	31,282	-13,137	-157
2005 - Q1	930	-1,125	11,204	45,941	1,291	-33,302	-34,293	26,064	1,292
Q2	12,321	34	9,287	20,709	1,483	-16,176	-14,842	27,624	3,491
Q3	2,695	-1,329	2,547	-19,508	356	29,408	28,813	15,498	574
2005 - Jan.	-2,231	-327	8,637	22,817	951	-30,948	-31,241	-774	3,236
Feb.	2,059	871	-412	19,146	1,000	-12,980	-13,376	8,813	-1,014
Mar.	1,102	-1,669	2,979	3,978	-659	10,626	10,324	18,026	-930
Apr.	3,922	-165	4,406	4,138	1,205	2,165	1,757	15,837	383
May	2,315	-769	4,663	-4,296	271	13,074	12,844	16,026	2,091
June	6,084	968	218	20,867	6	-31,415	-29,443	-4,239	1,018
July	1,886	-124	50	-13,725	-600	7,257	7,370	-5,132	-95
Aug.	992	-42	-40	-3,409	-1,457	11,758	11,299	7,844	458
Sept.	-183	-1,163	2,538	-2,375	2,413	10,393	10,144	12,787	211

Table a23

General government debt

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans	Other	General government debt			*Memorandum item:*
		of which: PO funds						*of which:* in foreign currencies	*of which:* medium and long-term	central bank current accounts
2001	132,333	127,629	113,699	1,030,033	64,084	11,212	1,351,361	38,312	1,136,777	21,559
2002	146,881	139,124	113,325	1,034,141	61,279	9,383	1,365,009	38,110	1,134,323	21,275
2003	108,288	74,318	119,382	1,050,235	55,544	55,775	1,389,224	27,279	1,185,747	13,253
2004	125,400	72,630	118,384	1,090,476	53,870	51,680	1,439,810	26,630	1,217,027	15,831
2001 - Mar.	117,830	113,626	115,432	1,030,137	66,362	5,228	1,334,989	44,308	1,133,561	40,051
June	118,918	114,592	121,504	1,042,383	65,498	5,973	1,354,276	41,298	1,145,579	45,162
Sept.	121,538	116,738	123,989	1,029,893	62,243	5,936	1,343,599	37,940	1,130,594	30,819
Dec.	132,333	127,629	113,699	1,030,033	64,084	11,212	1,351,361	38,312	1,136,777	21,559
2002 - Mar.	136,009	130,188	128,563	1,058,399	64,647	8,957	1,396,575	41,583	1,163,214	45,385
June	135,638	129,787	136,757	1,057,508	62,323	8,983	1,401,209	39,578	1,158,954	42,467
Sept.	136,840	130,886	133,297	1,064,828	60,476	10,074	1,405,514	42,778	1,165,433	31,956
Dec.	146,881	139,124	113,325	1,034,141	61,279	9,383	1,365,009	38,110	1,134,323	21,275
2003 - Mar.	150,343	141,203	133,801	1,050,903	60,677	10,898	1,406,623	34,622	1,152,382	43,230
June	152,777	142,931	139,589	1,052,815	60,712	9,926	1,415,818	31,664	1,150,671	43,714
Sept.	156,981	145,610	139,558	1,071,228	57,874	10,058	1,435,699	29,408	1,166,954	45,439
Dec.	108,288	74,318	119,382	1,050,235	55,544	55,775	1,389,224	27,279	1,185,747	13,253
2004 - Mar.	114,606	72,996	144,416	1,070,689	55,208	56,056	1,440,974	29,614	1,205,723	33,143
June	125,141	74,742	147,523	1,096,875	55,057	54,543	1,479,139	31,648	1,228,102	55,364
Sept.	126,042	73,815	145,320	1,104,598	55,319	54,302	1,485,581	30,998	1,234,961	47,113
Dec.	125,400	72,630	118,384	1,090,476	53,870	51,680	1,439,810	26,630	1,217,027	15,831
2005 - Jan.	123,169	72,303	127,020	1,113,687	54,827	51,973	1,470,676	28,824	1,239,842	47,072
Feb.	125,228	73,174	126,608	1,132,141	55,824	52,369	1,492,171	29,308	1,258,675	60,448
Mar.	126,330	71,505	129,587	1,135,931	55,166	52,671	1,499,685	29,260	1,262,658	50,124
Apr.	130,252	71,341	133,994	1,139,633	56,373	53,079	1,513,331	29,497	1,266,695	48,367
May	132,567	70,572	138,657	1,135,984	56,649	53,309	1,517,167	30,101	1,263,395	35,524
June	138,651	71,540	138,875	1,156,782	56,652	51,337	1,542,297	26,844	1,280,299	64,966
July	140,537	71,415	138,925	1,142,693	56,051	51,224	1,529,430	26,595	1,264,771	57,596
Aug.	141,529	71,373	138,884	1,138,813	54,594	51,684	1,525,504	26,608	1,260,992	46,298
Sept.	141,347	70,211	141,422	1,136,243	56,975	51,932	1,527,919	26,601	1,258,786	36,153

ECB interest rates

Table a24

Date announced	Standing facilities			Main refinancing operations		
	Date effective	Deposit facility	Marginal lending facility	Date effective	Fixed rate *(fixed rate tenders)*	Minimum bid rate *(variable rate tenders)*
22.12.1998	1.1.1999	2.00	4.50	7.1.1999	3.00	–
22.12.1998	4.1.1999	2.75	3.25	–	–	–
22.12.1998	22.1.1999	2.00	4.50	–	–	–
8.04.1999	9.4.1999	1.50	3.50	14.4.1999	2.50	–
4.11.1999	5.11.1999	2.00	4.00	10.11.1999	3.00	–
3.2.2000	4.2.2000	2.25	4.25	9.2.2000	3.25	–
16.3.2000	17.3.2000	2.50	4.50	22.3.2000	3.50	–
27.4.2000	28.4.2000	2.75	4.75	4.5.2000	3.75	–
8.6.2000	9.6.2000	3.25	5.25	15.6.2000	4.25	–
8.6.2000	–	–	–	28.6.2000	–	4.25
31.8.2000	1.9.2000	3.50	5.50	6.9.2000	–	4.50
5.10.2000	6.10.2000	3.75	5.75	11.10.2000	–	4.75
10.5.2001	11.5.2001	3.50	5.50	15.5.2001	–	4.50
30.8.2001	31.8.2001	3.25	5.25	5.9.2001	–	4.25
17.9.2001	18.9.2001	2.75	4.75	19.9.2001	–	3.75
8.11.2001	9.11.2001	2.25	4.25	14.11.2001	–	3.25
5.12.2002	6.12.2002	1.75	3.75	11.12.2002	–	2.75
6.3.2003	7.3.2003	1.50	3.50	12.3.2003	–	2.50
5.6.2003	6.6.2003	1.00	3.00	9.6.2003	–	2.00

Table a25

Treasury bill yields and interbank rates (1)

(percentages)

	Gross Treasury bill yields					Interbank rates (2)				
	3-month BOTs	6-month BOTs	12-month BOTs	Other issues	Average	Overnight	1-month	3-month	6-month	12-month
2002	3.15	3.25	3.37	3.47	3.26	3.27	3.30	3.32	3.35	3.49
2003	2.21	2.17	2.21	2.28	2.19	2.32	2.35	2.33	2.31	2.35
2004	1.99	2.04	2.17	1.96	2.08	2.05	2.08	2.10	2.15	2.22
2004 - Jan.	1.97	2.00	2.07	–	2.02	2.02	2.07	2.08	2.14	2.17
Feb.	1.98	1.98	2.09	2.01	2.02	2.03	2.06	2.06	2.08	2.16
Mar.	1.97	1.83	1.98	1.83	1.90	2.01	2.04	2.02	2.00	2.03
Apr.	1.95	2.00	2.03	2.03	2.00	2.07	2.05	2.04	2.05	–
May	2.01	2.06	2.24	–	2.11	2.01	2.06	2.08	2.18	–
June	2.04	2.09	2.31	–	2.14	2.03	2.08	2.11	2.21	–
July	2.02	2.11	2.24	–	2.12	2.06	2.07	2.11	2.19	–
Aug.	1.98	2.06	2.19	–	2.09	2.03	2.08	2.11	2.15	2.31
Sept.	2.00	2.12	2.28	–	2.16	2.05	2.08	2.11	2.19	2.38
Oct.	2.00	2.08	2.21	–	2.10	2.11	2.09	2.14	2.17	2.28
Nov.	–	2.10	2.26	–	2.15	2.08	2.11	2.17	2.27	–
Dec.	–	2.11	2.16	–	2.13	2.06	2.16	2.16	2.20	–
2005 - Jan.	2.03	2.09	2.21	–	2.12	2.08	2.11	2.14	2.18	2.28
Feb.	–	2.10	2.18	–	2.14	2.06	2.10	2.13	2.17	–
Mar.	2.04	2.13	2.21	–	2.15	2.06	2.10	2.13	2.19	–
Apr.	2.05	2.07	2.19	2.07	2.10	2.07	2.10	2.13	2.17	2.23
May	2.02	2.05	2.07	2.05	2.05	2.06	2.10	2.12	2.15	2.21
June	2.03	2.02	2.00	–	2.01	2.06	2.11	2.11	2.11	–
July	2.04	2.06	2.07	–	2.06	2.07	2.11	2.12	2.15	2.18
Aug.	2.04	2.06	2.16	–	2.09	2.06	2.11	2.13	2.16	–
Sept.	2.04	2.09	2.10	2.07	2.08	2.09	2.11	2.14	2.19	2.29
Oct.	2.09	2.21	2.29	2.10	2.20	2.07	2.12	2.19	2.26	2.48

(1) Before tax: the annual values are obtained as the arithmetic mean of the monthly data. – (2) Weighted monthly average of the rates on transactions concluded on the interbank deposit market (MID).

Table a26

Bank interest rates on euro deposits: outstanding amounts and new business

(percentages)

	Outstanding amounts							New business		
		of which:						Deposits of households with agreed maturity		Repos
		Overnight deposits		Deposits of households with agreed maturity		Deposits of households redeemable at notice up to 3 months	Repos			
			of which: households	up to 2 years	more than 2 years				*of which:* up to 1 year	
2003	0.88	0.71	0.61	1.62	3.67	0.89	1.95	1.49	1.47	1.96
2004 – Jan.	0.87	0.68	0.59	1.59	3.66	0.91	1.94	1.52	1.50	1.91
Feb.	0.87	0.68	0.59	1.58	3.62	0.94	1.92	1.53	1.51	1.89
Mar.	0.88	0.68	0.59	1.56	3.72	1.02	1.89	1.50	1.48	1.87
Apr.	0.85	0.67	0.58	1.54	3.70	0.96	1.88	1.47	1.46	1.85
May	0.86	0.67	0.58	1.54	3.69	0.97	1.88	1.48	1.47	1.88
June	0.86	0.68	0.58	1.51	3.65	0.98	1.90	1.49	1.48	1.91
July	0.84	0.66	0.57	1.50	3.62	0.91	1.92	1.49	1.48	1.92
Aug.	0.86	0.67	0.58	1.49	3.62	0.93	1.92	1.51	1.50	1.90
Sept.	0.87	0.69	0.59	1.48	3.59	0.94	1.93	1.50	1.49	1.92
Oct.	0.87	0.69	0.58	1.47	3.58	0.95	1.94	1.51	1.49	1.93
Nov.	0.88	0.70	0.59	1.47	3.56	0.96	1.96	1.50	1.49	1.93
Dec.	0.89	0.71	0.59	1.47	3.54	1.01	1.97	1.49	1.48	1.97
2005 – Jan.	0.87	0.70	0.59	1.47	3.52	0.96	1.97	1.51	1.50	1.95
Feb.	0.87	0.68	0.58	1.46	3.51	0.98	1.97	1.52	1.51	1.93
Mar.	0.89	0.70	0.59	1.46	3.49	1.05	1.96	1.51	1.50	1.93
Apr.	0.88	0.70	0.59	1.46	3.47	1.06	1.96	1.49	1.47	1.93
May	0.89	0.71	0.59	1.45	3.45	1.07	1.97	1.51	1.49	1.92
June	0.89	0.70	0.59	1.44	3.45	1.11	1.97	1.51	1.50	1.92
July	0.88	0.69	0.59	1.44	3.43	1.07	1.97	1.52	1.51	1.95
Aug.	0.90	0.71	0.59	1.45	3.43	1.06	1.99	1.50	1.48	1.97
Sept.	(0.90)	(0.72)	(0.60)	(1.45)	(3.41)	(1.07)	(1.99)	(1.52)	(1.51)	(1.96)

Table a27

Bank interest rates on euro loans to non-financial corporations: new business
(percentages)

	Total	Loans of up to EUR 1 million				Loans of more than EUR 1 million			
			Initial period of rate fixation				Initial period of rate fixation		
			up to 1 year	from 1 to 5 years	more than 5 years		up to 1 year	from 1 to 5 years	more than 5 years
2003	3.53	4.10	4.06	4.66	4.91	3.18	3.13	3.36	3.83
2004 – Jan.	3.37	4.11	4.08	4.74	4.69	2.87	2.85	2.90	3.74
Feb.	3.46	4.15	4.10	5.22	4.84	2.90	2.86	3.19	3.21
Mar.	3.43	4.12	4.09	4.86	4.70	2.91	2.85	3.20	3.74
Apr.	3.53	4.09	4.06	4.76	4.68	3.11	2.98	3.71	3.82
May	3.51	4.08	4.06	4.70	4.55	3.07	2.97	3.34	4.01
June	3.34	4.04	4.01	4.69	4.78	2.95	2.93	2.98	3.19
July	3.47	4.13	4.10	4.95	4.75	3.07	3.02	3.43	3.79
Aug.	3.47	4.17	4.14	4.97	4.88	2.90	2.88	3.20	3.49
Sept.	3.47	4.04	4.02	4.66	4.77	3.09	2.95	3.44	5.26
Oct.	3.51	4.10	4.08	4.86	4.67	3.06	3.00	3.24	4.24
Nov.	3.45	4.10	4.08	4.80	4.53	3.00	2.88	3.35	4.74
Dec.	3.41	4.06	4.04	4.60	4.44	3.06	2.98	3.46	3.73
2005 – Jan.	3.21	4.01	3.99	4.78	4.57	2.81	2.80	2.78	3.66
Feb.	3.38	3.99	3.97	4.77	4.46	2.96	2.93	2.93	3.47
Mar.	3.39	3.96	3.94	4.67	4.53	2.98	2.93	3.29	3.81
Apr.	3.44	3.99	3.97	4.56	4.48	3.06	3.02	3.15	3.69
May	3.45	3.97	3.95	4.60	4.50	3.05	2.97	4.05	3.57
June	3.25	3.90	3.88	4.36	4.46	2.88	2.84	3.09	3.64
July	3.30	3.93	3.91	4.45	4.43	2.92	2.87	3.26	3.45
Aug.	3.53	3.97	3.94	4.87	4.44	3.27	3.29	3.00	2.87
Sept.	(3.43)	(3.88)	(3.87)	(4.42)	(4.55)	(3.15)	(3.12)	(3.38)	(3.61)

Bank interest rates on euro loans to households: new business

(percentages)

		Loans for house purchases			
		Initial period of rate fixation			
		up to 1 year	from 1 to 5 years	from 5 to 10 years	more than 10 years
2003	3.80	3.61	3.73	5.00	5.09
2004 - Jan.	3.77	3.61	3.68	5.06	5.02
Feb.	3.76	3.59	3.80	5.08	5.13
Mar.	3.69	3.53	3.79	4.97	4.98
Apr.	3.65	3.52	3.79	5.16	4.98
May	3.65	3.50	3.92	5.13	5.04
June	3.69	3.54	3.83	5.12	5.24
July	3.67	3.52	4.03	5.16	5.29
Aug.	3.71	3.55	3.90	5.31	5.28
Sept.	3.68	3.51	3.93	4.78	5.39
Oct.	3.69	3.53	3.96	4.63	5.28
Nov.	3.68	3.54	3.94	4.56	5.19
Dec.	3.66	3.54	3.80	4.51	5.02
2005 - Jan.	3.67	3.54	3.85	4.44	5.00
Feb.	3.67	3.54	3.69	4.56	4.88
Mar.	3.65	3.54	3.68	4.44	4.55
Apr.	3.66	3.53	3.69	4.17	4.91
May	3.65	3.52	3.70	4.11	4.87
June	3.61	3.49	3.58	4.13	4.76
July	3.58	3.47	3.56	3.95	4.68
Aug.	3.63	3.53	3.57	4.10	4.70
Sept.	(3.59)	(3.47)	(3.46)	(3.99)	(4.61)

Table a28

Consumer credit				Loans for other uses			APRC	
	Initial period of rate fixation			Initial period of rate fixation			Loans for house purchases	Consumer credit
	up to 1 year	from 1 to 5 years	more than 5 years	up to 1 year	from 1 to 5 years	more than 5 years		
9.10	10.87	8.65	7.34	4.54	4.88	4.93	3.92	9.84
9.31	10.57	9.23	7.75	4.58	5.10	4.90	3.88	10.18
9.20	10.42	9.17	7.79	4.68	5.12	4.83	3.86	10.08
9.02	10.80	8.75	7.57	4.43	4.99	4.99	3.84	9.87
8.93	10.76	8.65	7.41	4.38	4.91	4.81	3.82	9.79
8.85	10.80	8.66	7.39	4.53	4.77	4.96	3.81	9.71
8.82	10.73	8.59	7.63	4.68	4.91	4.84	3.84	9.61
8.80	10.90	8.55	7.62	4.91	5.03	4.92	3.84	9.54
9.21	11.69	8.79	7.58	4.62	4.86	4.84	3.85	10.04
9.09	11.20	8.81	7.69	4.73	4.93	4.91	3.84	9.86
8.96	10.88	8.81	7.61	4.76	4.86	4.92	3.85	9.71
8.85	11.21	8.55	7.65	4.78	4.94	4.94	3.85	9.61
8.77	10.99	8.49	7.39	4.48	4.83	4.64	3.82	9.58
9.04	11.06	8.91	7.61	4.58	5.00	4.79	3.83	9.74
8.75	10.57	8.76	7.43	4.81	5.02	4.80	3.83	9.60
8.73	10.83	8.67	7.34	4.06	4.45	4.98	3.81	9.57
8.62	10.65	8.61	7.24	4.70	4.91	4.93	3.82	9.47
8.33	10.45	8.35	6.99	4.59	4.89	5.11	3.81	9.18
8.02	10.44	7.92	6.87	4.39	4.67	5.13	3.76	8.91
8.21	10.48	8.06	7.00	4.62	4.71	4.70	3.73	9.13
8.71	11.24	8.31	7.26	4.35	4.90	4.75	3.76	9.67
(8.36)	(10.76)	(8.00)	(7.20)	(4.62)	(4.30)	(5.02)	(3.74)	(9.27)

Bank interest rates on euro loans: outstanding amounts

(percentages)

	Households							
		Loans for house purchases			Consumer credit and other loans			Overdrafts
			of which: from 1 to 5 years	of which: more than 5 years	up to 1 year (1)	from 1 to 5 years	more than 5 years	
2003	5.90	4.68	4.76	4.67	8.05	7.87	5.42	8.44
2004 - Jan.	5.89	4.66	4.76	4.65	8.19	7.84	5.40	8.57
Feb.	5.85	4.62	4.72	4.62	8.21	7.79	5.37	8.60
Mar.	5.80	4.57	4.69	4.57	8.14	7.75	5.33	8.52
Apr.	5.74	4.52	4.65	4.51	8.13	7.72	5.30	8.56
May	5.71	4.49	4.62	4.49	8.08	7.72	5.30	8.49
June	5.70	4.48	4.71	4.47	8.11	7.70	5.29	8.51
July	5.69	4.44	4.58	4.44	8.19	7.76	5.29	8.60
Aug.	5.68	4.44	4.56	4.44	8.23	7.75	5.28	8.64
Sept.	5.66	4.43	4.54	4.42	8.21	7.73	5.27	8.60
Oct.	5.64	4.41	4.53	4.41	8.23	7.72	5.25	8.62
Nov.	5.62	4.40	4.53	4.39	8.17	7.69	5.25	8.55
Dec.	5.57	4.37	4.49	4.37	8.04	7.66	5.22	8.39
2005 - Jan.	5.58	4.35	4.47	4.35	8.22	7.66	5.21	8.64
Feb.	5.54	4.34	4.46	4.33	8.14	7.63	5.20	8.55
Mar.	5.50	4.31	4.48	4.30	7.99	7.58	5.19	8.38
Apr.	5.48	4.29	4.46	4.29	8.11	7.53	5.21	8.53
May	5.44	4.27	4.44	4.26	8.05	7.52	5.20	8.48
June	5.40	4.24	4.38	4.24	7.89	7.46	5.19	8.40
July	5.34	4.19	4.37	4.18	7.85	7.43	5.16	8.36
Aug.	5.35	4.23	4.35	4.23	7.85	7.42	5.16	8.35
Sept.	(5.33)	(4.22)	(4.34)	(4.22)	(7.80)	(7.39)	(5.15)	(8.28)

(1) Includes overdrafts.

Table a29

	Non-financial corporations				Households and non-financial corporations	
	Loans with original maturity			Overdrafts	up to 1 year	*of which:* overdrafts
	up to 1 year (1)	from 1 to 5 years	more than 5 years			
4.44	4.98	3.92	4.05	5.62	5.45	6.12
4.48	5.10	3.92	4.03	5.77	5.57	6.26
4.47	5.11	3.92	4.01	5.79	5.59	6.29
4.41	5.03	3.84	4.00	5.67	5.51	6.18
4.39	5.04	3.82	3.94	5.67	5.52	6.18
4.37	5.02	3.81	3.93	5.61	5.49	6.11
4.33	4.91	3.81	3.92	5.54	5.39	6.06
4.40	5.04	3.86	3.92	5.71	5.51	6.22
4.40	5.07	3.84	3.92	5.75	5.55	6.26
4.38	5.06	3.84	3.90	5.72	5.54	6.23
4.38	5.05	3.85	3.90	5.70	5.54	6.23
4.36	5.00	3.84	3.90	5.62	5.48	6.14
4.31	4.91	3.83	3.89	5.49	5.38	6.00
4.36	5.08	3.74	3.88	5.73	5.55	6.23
4.33	5.00	3.77	3.88	5.62	5.47	6.13
4.29	4.91	3.80	3.87	5.51	5.38	6.01
4.30	4.95	3.80	3.86	5.54	5.42	6.05
4.27	4.90	3.80	3.86	5.46	5.37	5.97
4.21	4.78	3.75	3.84	5.36	5.24	5.88
4.18	4.75	3.75	3.80	5.33	5.21	5.84
4.20	4.79	3.76	3.83	5.36	5.25	5.88
(4.18)	(4.77)	(3.74)	(3.80)	(5.35)	(5.24)	(5.86)

Banks and money market funds: balance sheet

(end-of-period data; millions of euros)

Assets

	Cash	Loans							Holdings of securities other		
		Residents of Italy			Residents of other euro-area countries			Rest of the world	Residents of Italy		
		MFIs	General government	Other sectors	MFIs	General government	Other sectors		MFIs	General government	Other sectors
2002	9,566	285,834	56,763	979,517	72,827	110	13,544	71,406	48,040	145,094	13,127
2003	9,488	325,056	52,867	1,048,297	74,876	110	16,016	69,670	56,924	167,108	19,075
2004 - Sept. ...	7,476	325,884	53,498	1,069,264	75,978	89	12,110	73,071	63,996	179,400	23,735
Oct.	7,044	326,040	52,677	1,072,221	85,827	95	12,072	69,720	65,444	176,277	24,331
Nov.	7,981	318,567	52,378	1,092,479	89,807	92	11,723	72,762	64,681	174,363	27,230
Dec.	9,083	339,741	51,990	1,108,400	93,689	89	13,440	65,046	62,335	162,810	25,076
2005 - Jan.	7,508	327,624	52,897	1,124,949	86,065	89	12,836	60,824	62,023	164,729	24,687
Feb.	7,465	322,951	53,694	1,120,678	88,373	89	13,791	58,058	63,218	170,139	24,418
Mar.	8,045	331,823	52,809	1,128,670	89,422	89	12,622	61,964	63,590	169,638	25,430
Apr.	7,414	336,348	54,232	1,128,548	94,798	84	12,774	65,638	63,874	168,983	26,748
May	7,601	354,851	54,531	1,136,398	100,200	84	11,620	68,484	65,075	167,430	26,820
June ...	7,593	359,233	54,887	1,156,306	98,918	84	12,231	70,097	69,476	172,312	27,700
July	7,657	348,936	54,247	1,159,717	97,367	84	12,654	70,157	70,624	168,329	27,344
Aug.	7,602	356,978	52,749	1,154,688	99,912	84	15,957	64,635	70,152	167,694	26,928
Sept. ...	(7,410)	(362,821)	(55,015)	(1,160,938)	(96,382)	(84)	(16,054)	(74,349)	(73,253)	(168,590)	(27,679)

Liabilities

	Deposits					
	Residents of Italy			Residents of other euro-area countries		
	MFIs	Central government	Other general government/ other sectors	MFIs	Central government	Other general government/ other sectors
2002	285,275	7,109	689,068	111,654	8	9,279
2003	313,742	7,730	691,960	118,928	17	9,268
2004 - Sept. ...	337,100	7,570	691,813	122,448	12	12,128
Oct.	342,375	7,834	703,543	125,938	18	11,004
Nov.	335,821	7,079	693,491	134,442	14	10,810
Dec.	343,492	7,218	724,848	126,294	13	13,214
2005 - Jan.	335,004	7,588	716,222	137,623	19	10,978
Feb.	332,067	7,293	711,992	147,243	99	11,364
Mar.	344,466	7,437	717,084	143,892	94	11,551
Apr.	344,284	7,655	729,607	146,361	93	12,277
May	368,025	7,931	736,699	153,120	89	12,489
June ...	367,579	8,591	745,311	153,908	367	14,428
July	354,979	7,678	750,937	154,345	101	13,400
Aug.	362,130	7,819	734,120	154,610	90	13,383
Sept. ...	(369,922)	(8,304)	(741,508)	(153,153)	(577)	(13,841)

than shares, at market value				Shares and other equity								
Residents of other euro-area countries			Rest of the world	Residents of Italy		Residents of other euro-area countries		Rest of the world	Fixed assets	Remaining assets	Total assets
MFIs	General government	Other sectors		MFIs	Other sectors	MFIs	Other sectors				
4,456	5,692	8,333	11,354	42,179	38,105	6,692	11,073	6,818	49,992	185,600	2,066,122
7,438	17,475	9,492	15,730	51,004	43,420	5,232	12,052	7,631	46,545	190,587	2,246,094
9,271	24,731	8,675	18,675	51,345	44,317	5,617	12,327	10,295	47,071	195,227	2,312,054
10,040	24,346	8,982	19,777	51,899	45,569	5,322	12,817	10,705	47,128	199,962	2,328,295
9,925	26,949	8,699	18,763	52,796	47,501	5,335	13,010	10,633	46,835	214,884	2,367,394
9,665	25,996	8,752	16,332	52,573	45,944	5,442	12,399	8,368	47,076	214,821	2,379,067
10,217	26,741	8,838	20,086	52,955	48,482	5,236	12,222	10,009	46,544	227,233	2,392,794
11,436	27,179	8,711	19,855	53,083	49,947	5,272	12,830	10,111	46,985	225,835	2,394,118
12,511	25,878	9,204	20,982	55,456	52,587	5,086	12,881	10,273	46,990	234,183	2,430,135
12,888	25,695	9,451	20,288	59,795	57,564	5,125	12,896	10,336	46,668	235,760	2,455,906
12,762	26,555	9,321	20,561	60,915	63,169	5,252	13,614	10,736	46,786	252,659	2,515,423
13,204	24,942	9,285	20,995	57,126	58,853	5,374	13,870	9,037	46,643	254,857	2,543,022
13,535	23,410	9,294	22,915	60,824	48,626	5,134	12,536	9,335	47,278	244,116	2,514,118
13,731	22,287	8,741	22,867	60,551	48,603	5,304	12,317	9,324	47,330	238,171	2,506,606
(13,673)	(21,582)	(8,922)	(22,356)	(60,537)	(52,985)	(5,101)	(12,980)	(9,302)	(47,268)	(246,600)	(2,543,882)

Rest of the world	Money market fund shares/units	Debt securities issued	Capital and reserves	Remaining liabilities	Total liabilities
146,026	41,966	367,969	146,172	261,595	2,066,123
159,227	107,031	399,958	156,726	281,508	2,246,095
155,914	105,970	431,001	161,669	286,428	2,312,053
148,806	104,229	437,177	161,854	285,518	2,328,296
157,486	102,010	438,181	162,394	325,666	2,367,394
157,033	101,079	442,994	163,181	299,700	2,379,067
163,627	99,645	442,682	165,154	314,254	2,392,794
157,396	99,086	451,423	165,142	311,013	2,394,118
161,484	98,125	458,092	166,903	321,007	2,430,135
170,619	97,430	460,337	168,749	318,493	2,455,905
171,619	95,827	464,569	170,436	334,618	2,515,422
169,951	94,087	471,047	171,244	346,508	2,543,021
163,577	92,787	470,169	175,852	330,292	2,514,118
172,628	92,483	467,899	175,383	326,062	2,506,606
(178,354)	(91,083)	(470,639)	(175,065)	(341,437)	(2,543,882)

Table a31

Banks and money market funds: deposits and bonds

(end-of-period data; millions of euros)

	Deposits in euros: residents of Italy					Debt securities in euros	
	Overnight	Deposits with agreed maturity		Deposits redeemable at notice	Repos	up to 2 years	over 2 years
		up to 2 years	over 2 years				
2002	479,412	38,914	3,497	61,701	89,165	13,962	350,937
2003	505,648	33,109	3,050	64,814	68,074	11,074	386,198
2004 - Jan.	498,772	32,622	3,040	64,640	62,129	11,047	385,708
Feb.	491,536	32,889	2,963	64,959	63,400	11,063	388,421
Mar.	499,876	32,397	2,646	65,472	62,397	10,953	397,402
Apr.	507,798	32,341	2,622	65,497	62,687	10,712	398,901
May	508,678	31,713	2,373	65,450	61,649	10,484	405,094
June	516,507	32,284	2,307	65,472	60,593	9,709	404,929
July	516,102	31,399	2,240	65,683	63,038	9,463	407,692
Aug.	499,405	31,356	2,220	66,586	63,846	9,282	409,884
Sept.	512,352	31,358	2,196	66,531	61,415	9,208	417,379
Oct.	520,770	31,089	2,171	66,319	65,368	9,174	423,219
Nov.	510,954	30,833	2,130	66,481	65,336	9,090	424,299
Dec.	535,895	32,204	2,170	67,835	69,555	8,766	429,497
2005 - Jan.	532,163	31,565	2,141	67,545	65,621	8,505	429,325
Feb.	527,138	31,157	2,136	67,896	66,420	8,764	437,728
Mar.	530,020	32,461	2,122	68,208	66,993	8,912	442,895
Apr.	548,633	31,121	2,097	68,316	62,773	9,306	444,445
May	548,264	30,582	2,088	68,402	70,310	8,955	448,903
June	554,446	31,468	2,069	68,569	71,685	9,799	454,166
July	553,841	31,469	2,061	68,676	77,873	9,781	453,237
Aug.	535,499	31,489	2,045	69,269	78,334	9,451	451,175
Sept.	(548,932)	(31,049)	(2,049)	(69,124)	(72,684)	(9,819)	(453,452)

Table a32

Banks: loan and securities portfolios

(end-of-period data; millions of euros)

	Loans to residents of Italy						Loans to non-residents of Italy	Bad debts and unpaid and protested bills	*Memorandum item:* bad debts estimated realizable value
	Short-term		Medium and long-term		Total				
		of which: in euros		*of which*: in euros		*of which*: in euros			
2002	465,483	449,378	514,770	509,183	980,253	958,561	20,153	46,298	21,160
2003	460,122	447,831	578,592	573,681	1,038,714	1,021,512	21,514	51,253	22,841
2004 - Sept.	435,546	423,150	628,071	623,110	1,063,617	1,046,260	17,879	53,958	21,518
Oct.	425,882	414,114	635,752	630,798	1,061,634	1,044,912	16,767	54,406	22,046
Nov.	437,764	426,477	643,602	638,665	1,081,366	1,065,142	16,468	54,488	22,240
Dec.	433,968	423,113	662,245	657,550	1,096,213	1,080,663	17,052	54,347	22,562
2005 - Jan.	439,712	428,362	673,014	668,194	1,112,726	1,096,556	16,902	54,016	21,561
Feb.	434,269	422,718	676,182	671,425	1,110,450	1,094,144	17,807	53,977	20,733
Mar.	434,751	423,323	681,774	676,886	1,116,525	1,100,209	17,445	54,133	19,909
Apr.	429,311	418,064	688,798	683,744	1,118,110	1,101,808	17,497	54,285	19,510
May	428,003	415,921	698,297	693,174	1,126,300	1,109,095	16,953	54,397	18,796
June	442,477	430,173	702,316	697,433	1,144,793	1,127,605	18,432	54,410	18,702
July	439,654	427,738	710,439	705,441	1,150,093	1,133,180	18,146	54,706	19,089
Aug.	428,539	417,140	714,754	709,729	1,143,294	1,126,868	20,114	55,033	19,465

	Securities: book value							
	Italian government securities					Other securities		Total
		of which:				Total	*of which*: bonds issued by banks	
		BOTs	CTZs	CCTs	BTPs			
2002	93,746	16,091	4,430	47,676	24,569	47,831	42,195	141,577
2003	87,987	18,914	4,625	41,775	22,047	54,967	47,802	142,953
2004 - Sept.	91,782	22,490	5,524	41,061	21,898	61,514	53,576	153,296
Oct.	92,987	23,090	4,921	40,729	23,433	62,976	54,677	155,963
Nov.	89,878	23,041	4,783	41,747	19,503	63,890	54,075	153,768
Dec.	77,256	17,204	3,154	41,068	15,048	62,056	51,619	139,311
2005 - Jan.	79,312	17,960	4,124	41,430	15,001	62,144	51,623	141,456
Feb.	84,375	19,354	5,199	42,068	16,990	63,254	52,717	147,629
Mar.	86,376	19,329	6,150	42,418	17,570	63,543	52,881	149,918
Apr.	87,441	19,262	4,361	44,779	18,125	64,102	53,215	151,544
May	87,041	21,233	4,656	42,063	18,154	65,458	54,507	152,499
June	91,061	21,389	5,580	45,973	16,758	70,562	58,397	161,622
July	90,482	21,818	6,033	45,607	15,609	71,372	59,288	161,854
Aug.	91,469	23,023	4,692	46,165	15,389	71,028	58,912	162,497

Italian investment funds: securities portfolios and net assets

(end-of-period market values; millions of euros)

	Residents							
	Government securities					Bonds	Shares	Total
		of which:						
		BOTs	CTZs	BTPs	CCTs			
2002	129,505	17,260	8,040	67,665	33,821	10,342	18,123	157,970
2003	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004	136,408	34,344	9,668	52,141	36,917	10,059	18,574	165,041
2003 - Q3	143,973	26,114	7,598	67,959	39,366	10,927	15,444	170,344
Q4	141,117	29,324	8,818	62,333	37,925	11,138	16,777	169,032
2004 - Q1	134,983	29,624	7,398	57,827	37,287	10,750	16,776	162,508
Q2	137,252	33,262	7,620	56,387	36,619	11,008	17,041	165,301
Q3	140,266	37,796	8,831	51,378	39,083	9,790	16,446	166,502
Q4	136,408	34,344	9,668	52,141	36,917	10,059	18,574	165,041
2005 - Q1	130,772	27,951	9,961	50,853	38,768	10,198	18,939	159,910
Q2	123,362	22,340	7,540	50,442	39,862	10,913	18,704	152,978
2004 - Sept.	140,266	37,796	8,831	51,378	39,083	9,790	16,446	166,502
Oct.	136,163	36,989	9,303	48,723	38,060	10,112	16,977	163,252
Nov.	136,308	37,074	9,991	48,872	37,262	10,422	17,207	163,937
Dec.	136,408	34,344	9,668	52,141	36,917	10,059	18,574	165,041
2005 - Jan.	135,278	31,324	9,034	53,946	37,605	9,834	18,675	163,787
Feb.	135,432	29,461	9,134	55,834	37,655	10,072	18,847	164,351
Mar.	130,772	27,951	9,961	50,853	38,768	10,198	18,939	159,910
Apr.	126,932	24,819	7,270	51,988	39,676	10,342	18,038	155,312
May	123,340	23,936	7,180	50,149	38,924	10,352	18,450	152,143
June	123,362	22,340	7,540	50,442	39,862	10,913	18,704	152,978
July	119,317	22,877	8,339	45,328	39,574	10,883	19,454	149,654
Aug.	120,478	22,622	6,764	47,679	40,179	10,811	19,115	150,405

Table a33

Non-residents		Other financial assets	Total portfolio	Net assets	*Memorandum items:*		
	of which: shares				gross subscriptions	net subscriptions	
158,255	64,552	108	316,333	360,557	190,254	-12,340	 2002
167,792	70,138	138	336,962	378,781	212,644	6,628	 2003
158,726	65,282	134	323,901	358,292	156,552	-30,632	 2004
167,345	65,094	219	337,907	382,384	45,571	1,605	.... Q3 - 2003
167,792	70,138	138	336,962	378,781	46,581	-7,919	.... Q4
169,285	72,472	168	331,961	377,785	42,356	-6,882	.... Q1 - 2004
166,859	70,098	130	332,291	369,918	38,092	-7,959	.... Q2
159,410	64,991	103	326,015	361,060	29,194	-8,078	.... Q3
158,726	65,282	134	323,901	358,292	46,910	-7,713	.... Q4
158,750	63,883	158	318,818	354,935	43,337	-6,536	.... Q1 - 2005
167,196	64,124	132	320,307	355,878	37,692	-5,784	.... Q2
159,410	64,991	103	326,015	361,060	9,551	-3,240	.... Sept. - 2004
158,262	64,952	120	321,634	358,118	12,394	-4,162	.... Oct.
159,448	65,559	138	323,523	356,937	20,726	-3,084	.... Nov.
158,726	65,282	134	323,901	358,292	13,790	-466	.... Dec.
160,549	65,724	140	324,477	359,361	14,818	-1,331	.... Jan. - 2005
160,164	65,991	137	324,652	357,701	15,012	-2,400	.... Feb.
158,750	63,883	158	318,818	354,935	13,507	-2,805	.... Mar.
158,453	61,172	135	313,900	351,740	12,917	-2,109	.... Apr.
165,135	63,829	143	317,421	354,904	12,229	-1,601	.... May
167,196	64,124	132	320,307	355,878	12,546	-2,073	.... June
170,034	66,135	138	319,826	358,044	13,056	..	.... July
170,058	65,582	144	320,607	359,690	10,171	1,191	.... Aug.

Italian investment funds: net purchases of securities

(market values; millions of euros)

	Residents					
	Government securities					Bonds
		of which:				
		BOTs	CTZs	BTPs	CCTs	
2002	6,310	3,036	4,079	-8,608	7,812	644
2003	14,581	12,457	1,778	-4,295	4,506	802
2004	-2,930	5,524	936	-9,446	-873	-1,190
2003 - Q3	2,805	356	1,393	1,780	-843	331
Q4	-2,132	3,251	1,224	-5,025	-1,495	244
2004 - Q1	-6,266	176	-1,340	-4,566	-597	-477
Q2	3,657	3,804	296	-602	-587	65
Q3	3,279	4,858	1,187	-5,032	2,430	-1,132
Q4	-3,601	-3,314	793	754	-2,118	354
2005 - Q1	-4,772	-6,057	427	-910	1,908	53
Q2	-7,212	-5,133	-2,363	-606	1,132	717
2004 - Sept.	3,088	2,871	314	199	-430	112
Oct.	-4,061	-786	461	-2,623	-1,031	335
Nov.	60	57	662	67	-808	324
Dec.	400	-2,585	-330	3,309	-279	-305
2005 - Jan.	-776	-2,763	-490	1,817	721	-222
Feb.	428	-1,857	97	2,085	63	233
Mar.	-4,424	-1,438	820	-4,813	1,125	42
Apr.	-3,779	-2,944	-2,618	989	898	135
May	-3,511	-739	-94	-1,820	-731	14
June	78	-1,451	349	224	965	569
July	-3,463	726	805	-4,792	-258	-16
Aug.	1,466	-104	-1,408	2,344	595	-63

Table a34

Shares	Total	Non-residents	Non-residents: *of which:* shares	Other financial assets	Total portfolio	
-4,400	2,554	-15,937	-2,617	-43	-13,426	 2002
-1,377	14,006	8,562	2,308	30	22,597	 2003
-138	-4,258	-9,148	-5,878	-4	-13,409	 2004
-625	2,511	4,294	1,393	7	6,812	.... Q3 - 2003
434	-1,454	-1,683	1,259	-81	-3,218	.... Q4
-182	-6,924	-3,432	-1,131	30	-10,326	.... Q1 - 2004
-29	3,693	-92	-2,065	-38	3,563	.... Q2
-445	1,703	-4,917	-2,313	-27	-3,241	.... Q3
518	-2,729	-706	-369	31	-3,404	.... Q4
-556	-5,275	-773	-2,248	24	-6,024	.... Q1 - 2005
-149	-6,644	3,214	-2,720	-26	-3,456	.... Q2
-312	2,888	-510	-567	-24	2,353	.... Sept. - 2004
190	-3,537	-1,058	14	17	-4,577	.... Oct.
-19	365	1,638	878	18	2,021	.... Nov.
347	443	-1,287	-1,261	-4	-848	.... Dec.
-425	-1,424	637	-40	6	-780	.... Jan. - 2005
-10	651	-912	-934	-3	-264	.... Feb.
-120	-4,502	-499	-1,275	21	-4,980	.... Mar.
39	-3,606	997	-787	-23	-2,632	.... Apr.
-18	-3,516	2,763	-331	8	-745	.... May
-169	477	-546	-1,602	-11	-79	.... June
-25	-3,504	1,201	-325	6	-2,296	.... July
-250	1,153	102	-420	6	1,260	.... Aug.

Portfolio management services (1)
(end-of-period market values; millions of euros)

	Government securities	of which: BOTs	of which: BTPs	of which: CCTs	Bonds Italian	Bonds foreign	Shares Italian	Shares foreign
2003 - Q3								
Banks	43,331	1,620	19,879	18,448	5,665	19,370	3,589	2,867
Securities firms	4,519	423	1,901	1,525	910	6,011	958	696
Asset management cos	86,423	5,192	56,734	19,880	12,013	32,486	5,343	3,725
Total	**134,273**	**7,235**	**78,514**	**39,853**	**18,588**	**57,867**	**9,890**	**7,288**
2003 - Q4								
Banks	42,602	1,800	18,229	18,799	5,405	19,534	4,109	3,405
Securities firms	3,867	191	1,936	1,330	915	6,590	1,025	939
Asset management cos	85,896	5,616	52,878	22,829	13,875	35,401	5,460	4,243
Total	**132,365**	**7,607**	**73,043**	**42,958**	**20,195**	**61,525**	**10,594**	**8,587**
2004 - Q1								
Banks	42,551	2,328	16,953	19,171	4,938	19,245	3,977	3,568
Securities firms	3,575	267	1,639	1,242	904	7,574	991	1,075
Asset management cos	89,552	5,314	56,645	23,832	15,312	38,499	6,143	5,034
Total	**135,678**	**7,909**	**75,237**	**44,245**	**21,154**	**65,318**	**11,111**	**9,677**
2004 - Q2								
Banks	41,190	2,006	18,458	16,950	5,295	19,069	4,022	3,601
Securities firms	3,867	369	1,970	1,155	974	7,648	1,003	983
Asset management cos	89,269	6,033	56,435	22,637	15,801	39,700	7,573	4,072
Total	**134,326**	**8,408**	**76,863**	**40,742**	**22,070**	**66,417**	**12,598**	**8,656**
2004 - Q3								
Banks	40,674	2,454	15,992	17,887	5,560	20,019	3,983	3,360
Securities firms	3,908	339	1,979	1,138	990	8,258	1,058	948
Asset management cos	97,369	8,552	59,947	23,900	16,451	40,569	6,769	3,727
Total	**141,951**	**11,345**	**77,918**	**42,925**	**23,001**	**68,846**	**11,810**	**8,035**
2004 - Q4								
Banks	38,476	2,143	15,028	17,526	5,393	20,004	4,442	3,383
Securities firms	3,596	353	1,757	1,113	959	9,119	1,242	710
Asset management cos	99,569	6,558	63,942	23,661	18,242	42,760	9,364	4,248
Total	**141,641**	**9,054**	**80,727**	**42,300**	**24,594**	**71,883**	**15,048**	**8,341**
2005 - Q1								
Banks	38,580	1,874	16,177	16,488	5,311	20,779	4,765	3,380
Securities firms	3,151	326	1,373	1,094	876	8,798	1,181	942
Asset management cos	105,679	6,361	70,346	22,799	18,952	44,673	9,977	4,574
Total	**147,410**	**8,561**	**87,896**	**40,381**	**25,139**	**74,250**	**15,923**	**8,896**
2005 - Q2 (2)								
Banks	38,275	1,481	15,568	17,574	5,412	21,920	5,693	3,367
Securities firms	3,453	320	1,837	981	1,004	8,380	1,196	1,048
Asset management cos	106,725	6,740	71,469	21,859	20,793	50,877	11,045	4,830
Total	**148,453**	**8,541**	**88,874**	**40,414**	**27,209**	**81,177**	**17,934**	**9,245**
2005 - Q3 (2)								
Banks	38,393	2,331	15,886	17,204	5,383	23,139	6,165	3,731
Securities firms	3,306	251	1,741	930	927	8,533	1,292	1,155
Asset management cos	106,687	7,820	71,211	20,124	20,487	53,530	12,262	5,964
Total	**148,386**	**10,402**	**88,838**	**38,258**	**26,797**	**85,202**	**19,719**	**10,850**

(1) See the notes to the statistical tables. – (2) Provisional.

Table a35

Investment fund units: Italian	Investment fund units: foreign	Other financial assets	Total portfolio	Total managed funds	*of which:* gross inflow	*of which:* net inflow	
							2003 - Q3
46,668	35,541	1,301	158,331	164,681	9,339	-329	.... Banks
4,294	3,323	422	21,133	21,927	1,741	-10,397	.... Securities firms
25,830	46,692	2	212,515	218,400	32,908	5,552	.... Asset management cos
76,792	**85,556**	**1,725**	**391,979**	**405,008**	**43,988**	**-5,174**	... **Total**
							2003 - Q4
45,615	36,623	1,383	158,676	165,693	13,096	-332	.... Banks
4,148	3,350	355	21,189	22,071	2,453	-94	.... Securities firms
25,159	53,275	144	223,453	230,032	25,333	9,818	.... Asset management cos
74,922	**93,248**	**1,882**	**403,318**	**417,796**	**40,882**	**9,392**	... **Total**
							2004 - Q1
43,929	37,514	1,187	156,910	163,984	11,668	-3,419	.... Banks
4,159	3,313	278	21,869	22,626	2,112	206	.... Securities firms
25,580	56,892	192	237,204	243,441	19,901	7,090	.... Asset management cos
73,668	**97,719**	**1,657**	**415,983**	**430,051**	**33,681**	**3,877**	... **Total**
							2004 - Q2
40,857	34,816	833	149,683	155,404	10,541	-7,240	.... Banks
3,692	3,817	256	22,240	22,918	1,596	230	.... Securities firms
26,313	62,541	248	245,516	252,827	21,561	11,554	.... Asset management cos
70,862	**101,174**	**1,337**	**417,439**	**431,149**	**33,698**	**4,544**	... **Total**
							2004 - Q3
36,900	36,984	791	148,271	153,960	10,831	-1,487	.... Banks
3,261	4,039	254	22,715	23,387	1,483	464	.... Securities firms
26,275	65,261	258	256,679	262,571	18,403	6,303	.... Asset management cos
66,436	**106,284**	**1,303**	**427,665**	**439,918**	**30,717**	**5,280**	... **Total**
							2004 - Q4
33,525	38,280	697	144,200	149,259	13,270	-5,826	.... Banks
2,881	3,897	215	22,617	23,287	1,670	-595	.... Securities firms
26,149	69,605	335	270,272	276,191	19,485	7,335	.... Asset management cos
62,555	**111,782**	**1,247**	**437,089**	**448,737**	**34,425**	**914**	... **Total**
							2005 - Q1
30,547	41,771	595	145,728	150,213	27,592	-464	.... Banks
2,824	3,796	211	21,780	22,373	1,012	-1,143	.... Securities firms
25,586	73,930	386	283,757	290,654	22,739	10,701	.... Asset management cos
58,957	**119,497**	**1,192**	**451,265**	**463,240**	**51,343**	**9,094**	... **Total**
							2005 - Q2 (2)
28,610	43,743	749	147,768	152,678	14,732	-292	.... Banks
2,995	3,698	182	21,957	22,634	965	-251	.... Securities firms
25,612	80,303	439	300,624	306,723	30,403	7,367	.... Asset management cos
57,217	**127,744**	**1,370**	**470,349**	**482,035**	**46,100**	**6,824**	... **Total**
							2005 - Q3 (2)
30,388	45,894	382	153,476	158,645	13,287	3,310	.... Banks
2,977	3,991	224	22,404	22,999	1,110	45	.... Securities firms
26,756	86,444	497	312,629	319,353	18,622	8,257	.... Asset management cos
60,121	**136,329**	**1,103**	**488,509**	**500,997**	**33,019**	**11,612**	... **Total**

Italian components of euro-area monetary aggregates: residents of the euro area

(end-of-period stocks; millions of euros)

	Currency held by the public and overnight deposits	Deposits with agreed maturity up to 2 years	Deposits redeemable at notice up to 3 months	Total	Repurchase agreements
2002	572,306	50,669	151,025	774,000	89,310
2003	616,242	43,955	165,920	826,117	68,468
2004 - Jan.	608,388	46,847	167,713	822,948	62,349
Feb.	603,204	45,704	168,759	817,667	63,610
Mar.	612,016	46,435	170,351	828,802	63,229
Apr.	621,291	45,624	171,980	838,895	62,855
May	623,595	46,078	172,871	842,544	61,776
June	629,492	45,929	173,877	849,298	60,764
July	636,823	45,217	175,053	857,093	63,309
Aug.	619,657	45,933	177,992	843,582	64,023
Sept.	633,411	45,787	179,092	858,290	61,552
Oct.	643,469	43,591	179,916	866,976	65,616
Nov.	636,102	42,857	181,269	860,228	66,544
Dec.	663,072	45,664	184,358	893,094	71,318
2005 - Jan.	658,927	44,256	186,054	889,237	65,853
Feb.	656,189	43,027	188,268	887,484	67,383
Mar.	659,101	45,496	189,757	894,354	67,135
Apr.	679,445	43,082	191,649	914,176	64,125
May	681,695	42,406	192,448	916,549	70,941
June	690,276	45,278	193,494	929,048	73,106
July	692,659	45,095	194,970	932,724	78,565
Aug.	672,534	44,632	197,349	914,515	79,813
Sept.	686,558	45,544	198,356	930,459	73,766

Table a36

Money market fund shares/units	Debt securities up to 2 years and money market paper	Total monetary liabilities	Contribution to euro-area monetary aggregates (excluding currency held by the public)		
			M1	M2	M3
41,690	9,814	914,814	510,801	712,495	853,309
105,463	7,195	1,007,243	542,936	752,811	933,937
104,418	6,816	996,531	536,533	751,093	924,676
103,993	6,976	992,246	530,457	744,920	919,499
101,870	6,432	1,000,333	538,546	755,332	926,863
101,142	5,790	1,008,682	545,788	763,392	933,179
101,240	6,138	1,011,698	547,217	766,166	935,320
104,438	5,374	1,019,874	551,683	771,489	942,065
104,084	5,065	1,029,551	556,716	776,986	949,444
105,339	4,183	1,017,127	540,131	764,056	937,601
103,932	3,885	1,027,659	553,165	778,044	947,413
102,033	3,522	1,038,147	561,648	785,155	956,326
99,788	3,550	1,030,110	554,302	778,428	948,310
98,789	3,480	1,066,681	577,763	807,785	981,372
97,521	3,024	1,055,635	574,734	805,044	971,442
96,794	3,079	1,054,740	571,458	802,753	970,009
95,941	3,093	1,060,523	572,850	808,103	974,272
95,295	3,058	1,076,654	591,286	826,017	988,495
93,766	2,883	1,084,139	592,644	827,498	995,088
92,001	2,873	1,097,028	599,052	837,824	1,005,804
90,705	3,269	1,105,262	599,696	839,761	1,012,299
90,517	2,688	1,087,533	580,683	822,663	995,682
89,110	2,956	1,096,290	593,419	837,319	1,003,151

Financial assets: residents of Italy

(end-of-period stocks; millions of euros)

	Total monetary assets	Other deposits	BOTs		Medium and long-term securities			
				held by non-money-market funds	Government securities		Other debt securities	
						held by non-money-market funds		held by non-money-market funds
2002	908,645	40,478	42,896	7,020	432,554	88,532	356,885	10,021
2003	1,001,757	37,223	17,372	4,195	407,443	65,724	403,926	10,013
2004 - Jan.	988,903	37,068	17,306	4,722	406,062	63,779	401,951	10,036
Feb.	985,556	36,829	25,414	4,674	414,001	64,306	399,872	9,831
Mar.	992,561	36,336	22,393	5,944	416,886	62,928	404,362	9,563
Apr.	1,003,175	36,144	33,370	7,339	422,263	61,975	406,701	9,351
May	1,005,064	35,723	38,333	6,584	434,084	61,586	410,659	9,656
June	1,014,209	35,492	35,493	5,796	421,922	60,852	419,203	9,601
July	1,023,915	35,259	42,024	6,279	416,353	59,079	422,197	9,014
Aug.	1,011,524	34,866	39,875	5,283	421,026	60,216	425,092	8,687
Sept.	1,021,073	34,504	35,859	5,513	416,205	59,864	432,251	8,794
Oct.	1,033,154	34,116	37,620	6,148	407,868	57,946	437,977	8,912
Nov.	1,025,435	33,709	35,016	6,315	406,411	57,786	443,490	9,253
Dec.	1,059,465	33,406	29,280	5,659	402,309	58,655	451,826	8,891
2005 - Jan.	1,050,748	32,827	28,324	4,594	413,318	58,297	449,243	8,678
Feb.	1,049,913	32,312	21,292	3,845	416,823	59,335	455,024	8,782
Mar.	1,055,331	31,801	19,478	3,767	412,349	57,238	461,317	8,755
Apr.	1,071,862	31,262	23,963	3,051	393,946	57,021	468,090	8,903
May	1,079,070	30,744	20,170	3,554	385,753	54,748	474,328	8,923
June	1,090,048	30,354	18,844	3,568	380,884	55,783	480,113	9,403

Table a37

Other domestic assets held by non-money-market funds	Other financial assets	Total domestic financial assets	External financial assets		Total financial assets	Memorandum item: shares/units of investment funds	
				held by non-money-market funds			non-money-market funds
18,123	1,035	1,800,616	631,529	162,552	2,432,145	360,557	318,867
16,777	1,170	1,885,668	665,748	166,152	2,551,416	378,781	272,083
17,189	1,069	1,869,549	670,599	169,414	2,540,148	378,765	272,997
17,010	1,065	1,879,747	669,945	171,255	2,549,692	377,981	272,663
16,775	1,065	1,890,377	675,919	171,959	2,566,297	377,785	274,540
16,980	1,273	1,919,906	673,475	168,414	2,593,381	376,218	273,676
16,645	1,269	1,941,777	679,120	173,104	2,620,897	371,676	269,054
17,041	1,265	1,944,624	682,165	171,875	2,626,790	369,918	264,024
16,774	1,266	1,957,788	675,109	168,054	2,632,897	364,460	258,886
16,256	1,269	1,949,907	677,617	166,644	2,627,524	363,642	256,776
16,446	1,276	1,957,614	676,899	166,181	2,634,513	361,060	255,490
16,977	1,279	1,968,992	678,188	165,584	2,647,180	358,118	254,291
17,207	1,002	1,962,271	683,188	167,748	2,645,459	356,937	255,325
18,574	1,017	1,995,877	689,189	168,579	2,685,066	358,292	257,633
18,675	1,030	1,994,165	715,193	172,546	2,709,358	359,361	260,131
18,847	1,034	1,995,245	718,493	172,742	2,713,738	357,701	259,029
18,939	1,042	2,000,257	735,312	172,727	2,735,569	354,935	257,186
18,038	1,064	2,008,226	744,437	172,537	2,752,663	351,740	254,682
18,289	1,054	2,009,409	775,270	176,972	2,784,679	354,904	259,449
18,704	1,067	2,020,013	790,279	184,466	2,810,291	355,878	262,162

Credit: residents of Italy

(end-of-period stocks; millions of euros)

	Finance to other residents					
	Bank loans	Bonds placed domestically		Total domestic finance	External finance	Total
	A	B	held by Italian MFIs	C=A+B	D	E=C+D
2002	979,517	53,005	13,189	1,032,522	227,113	1,259,635
2003	1,048,297	77,672	19,139	1,125,969	232,695	1,358,664
2004 - Jan.	1,038,094	78,294	19,437	1,116,388	231,991	1,348,379
Feb.	1,033,912	75,435	22,029	1,109,347	238,693	1,348,040
Mar.	1,036,910	74,788	21,360	1,111,698	237,452	1,349,150
Apr.	1,044,216	74,899	21,131	1,119,115	240,816	1,359,932
May	1,046,914	75,452	22,276	1,122,366	243,028	1,365,394
June	1,063,556	84,708	23,442	1,148,264	245,165	1,393,429
July	1,066,500	84,032	23,445	1,150,533	242,850	1,393,383
Aug.	1,061,044	84,045	23,263	1,145,089	242,484	1,387,573
Sept.	1,069,264	84,340	23,788	1,153,604	241,280	1,394,884
Oct.	1,072,221	86,378	24,385	1,158,599	244,679	1,403,278
Nov.	1,092,479	91,389	27,288	1,183,868	243,047	1,426,915
Dec.	1,108,400	90,565	25,135	1,198,965	248,916	1,447,881
2005 - Jan.	1,124,949	88,661	24,747	1,213,609	249,246	1,462,855
Feb.	1,120,678	88,223	24,477	1,208,901	248,765	1,457,666
Mar.	1,128,670	90,841	25,487	1,219,511	250,971	1,470,482
Apr.	1,128,548	96,739	26,803	1,225,286	257,183	1,482,469
May	1,136,398	99,809	26,875	1,236,207	261,459	1,497,666
June	1,156,306	104,004	27,748	1,260,310	257,657	1,517,967

Table a38

General government debt			Credit		Memorandum item: shares placed domestically, held by Italian MFIs
	held domestically		Total domestic	Total	
F	G	held by Italian MFIs	H=G+C	I=E+F	
1,364,880	1,266,109	224,901	2,298,631	2,624,515	43,290
1,386,884	1,284,412	262,135	2,410,381	2,745,548	49,098
1,412,304	1,308,023	258,863	2,424,410	2,760,682	49,446
1,432,342	1,327,594	263,821	2,436,941	2,780,382	52,211
1,440,974	1,332,491	266,360	2,444,189	2,790,124	56,721
1,455,273	1,346,752	268,315	2,465,868	2,815,205	60,697
1,467,372	1,359,506	267,919	2,481,871	2,832,766	64,314
1,479,139	1,369,925	272,311	2,518,190	2,872,568	60,239
1,469,769	1,361,315	269,033	2,511,848	2,863,152	55,632
1,476,383	1,367,859	268,373	2,512,948	2,863,956	54,571
1,485,581	1,378,424	277,020	2,532,028	2,880,466	50,562
1,478,798	1,372,284	274,558	2,530,883	2,882,076	52,104
1,476,877	1,369,056	273,956	2,552,925	2,903,792	54,204
1,439,810	1,333,622	261,352	2,532,587	2,887,691	52,741
1,470,676	1,360,555	265,279	2,574,164	2,933,531	54,781
1,492,171	1,383,378	272,274	2,592,279	2,949,837	56,291
1,499,685	1,391,704	272,460	2,611,216	2,970,168	58,970
1,513,331	1,404,698	271,760	2,629,984	2,995,800	63,677
1,517,167	1,405,798	270,313	2,642,005	3,014,833	69,470
1,542,297	1,429,935	275,158	2,690,245	3,060,264	65,295

Table a39

Supervisory capital and capital requirements (1)

(millions of euros)

	Tier 1	Tier 2		Supervisory capital	Solvency ratio (percentages)	Excess capital	Capital shortfalls		
			of which: subordinated liabilities				Number of banks	Amount	Percentage of excess risk assets (2)
December 2002									
Banks in the Centre and North.....	95,802	40,004	35,920	131,093	11.1	37,769	6	196	0.2
Banks in the South	3,026	269	164	3,292	18.1	1,838	1	2	..
Total ...	**98,828**	**40,273**	**36,084**	**134,385**	**11.2**	**39,607**	**7**	**198**	**0.2**
June 2003									
Banks in the Centre and North.....	98,510	41,066	36,590	134,055	11.1	38,436	5	235	0.3
Banks in the South	3,177	298	198	3,470	18.1	1,937	1	1	..
Total ...	**101,687**	**41,364**	**36,788**	**137,525**	**11.2**	**40,373**	**6**	**237**	**0.3**
December 2003									
Banks in the Centre and North.....	101,211	41,217	36,916	136,344	11.3	40,541	–	–	–
Banks in the South	3,145	342	235	3,485	18.1	1,941	–	–	–
Total ...	**104,356**	**41,559**	**37,151**	**139,829**	**11.4**	**42,482**	–	–	–
June 2004									
Banks in the Centre and North.....	105,417	41,303	37,308	140,379	11.4	42,756	2	4	..
Banks in the South	3,286	345	238	3,630	17.7	1,989	–	–	–
Total ...	**108,703**	**41,648**	**37,546**	**144,009**	**11.5**	**44,745**	**2**	**4**	..
December 2004									
Banks in the Centre and North.....	109,488	42,032	38,231	145,411	11.6	45,442	2	14	..
Banks in the South	3,403	352	279	3,754	17.4	2,030	–	–	–
Total ...	**112,891**	**42,384**	**38,510**	**149,165**	**11.6**	**47,472**	**2**	**14**	..

(1) See the notes to the statistical tables. – (2) Capital shortfalls multiplied by 12.5 and divided by the risk-weighted assets of the banking system.

Notes to the statistical tables

Table a1

Sources: Eurostat, Istat, IMF and national statistics.

Table a2

Sources: IMF, Eurostat, Istat and national statistics.

For Italy, see the note to Table a10.

For China, industrial value added. For Indonesia and Thailand, manufacturing.

Table a3

Sources: IMF, Eurostat, Istat and national statistics.

For the euro area, Germany, France and Italy, harmonized consumer prices. For the United Kingdom, RPIX.

Table a4

Sources: IMF, ECB and national statistics.

The annual data for the current account balance may not coincide with the sum of the seasonally adjusted quarterly data.

Table a5

Sources: ECB and national statistics.

Official rates. For the United States, federal funds target rate; for Japan, discount rate; for the euro area, rate for main refinancing operations; for the United Kingdom, repo rate; for Canada, target rate on overnight deposits.

Money market rates. For the United States, rate on 3-month CDs; for Japan, 3-month call rate (uncollateralized); for the euro area, 3-month Euribor; for the United Kingdom, 3-month interbank rate; for Canada, rate on 3-month prime corporate paper.

Table a6

Source: National statistics.

Bond yields (secondary market, gross). For the United States, 10-year Treasury notes and bonds; for Germany, 9-10 year public sector bonds; for Japan, France, the United Kingdom and Canada, 10-year public sector bonds; for Italy, yield on 10-year benchmark BTPs listed on the MTS market.

Share price indices (1995=100). For the United States, S&P 500; for Japan, Topix; for Germany, FAZ Aktien; for France, CAC 40; for Italy, MIB; for the United Kingdom, FTSE All-Share; for Canada, S&P/TSX composite index.

Table a7

Source: IMF for the gold price.

Period averages except for gold prices, which are end-of-period values.

Table a8

Sources: Based on Eurostat, IMF, OECD and Statistics Canada data and national statistics.

The table shows real effective exchange rates calculated on the basis of the producer prices of manufactures of 62 countries. For the methodology, see the article “Un nuovo indicatore di competitività per l’Italia e per i principali paesi industriali ed emergenti” in the series *Supplementi al Bollettino Statistico*, *Note metodologiche*.

Table a9

Source: Istat.

Based on the European system of national accounts ESA95. The item “Other domestic uses” includes consumption of general government and non-profit institutions serving households, changes in inventories and valuables, and statistical discrepancies.

Table a10

Sources: Based on Istat and ISAE data.

The indices of industrial production are adjusted for variations in the number of working days. The seasonal adjustment of the series of the main industrial groupings and that of the general index are carried out separately using the TRAMO-SEATS procedure. Consequently, the seasonally adjusted aggregate figure may differ from the weighted mean of the seasonally adjusted components.

Tables a12 and a13

For some years Istat has published three consumer price indices: the index for the entire resident population (NIC), the index for worker and employee households (FOI) and the harmonized index (HICP). The three indicators are constructed on the basis of the same data set. For each level of disaggregation, they have been calculated as chain indices since January 1999. The "calculation base" (the period to which the prices used as the denominator for "simple average" indices refer) is December of the previous year; the "reference base of the weights" (the period with reference to which the weights are calculated) is given by the structure of households' average consumption in the previous year; and the "reference base of the indices" (the period for which they are set equal to 100) is currently 1995 for the NIC and FOI indices and 1996 for the HICP, which is published by Eurostat. The NIC and FOI indices differ from the HICP mainly with regard to how prices are defined: where sales prices differ from those actually paid by consumers (as in the case of medicinal drugs, for which the National Health Service pays a contribution), the NIC and FOI indices consider the full sales price whereas the HICP considers the price actually paid. The FOI index is now used almost exclusively for legislative purposes (revision of rents and contractual amounts, etc.) in the version that includes changes in indirect taxes and excludes tobacco products. The differences between the baskets of the NIC index and the HICP – the indices most used at present in the analysis of inflation – are very small. As of January 2002, however, the construction of the HICP complies with Commission Regulation 2602/2000, which requires account to be taken of temporary price reductions (e.g. sales and promotions), provided they last for at least 15 days. This innovation (the minimum duration used to be a month in Italy) has two effects: on the one hand, it causes pronounced monthly variations in the HICP and, on the other, it results in a difference between the intra-year performances of the HICP and the NIC, to which the regulation has not been applied since it is only mandatory for the HICP. The latter has been reconstructed for 2001 with account taken of price reductions, so as to permit the calculation in 2002 of the percentage changes with respect to the previous year. This is not sufficient, however, to obtain a reliable estimate of the seasonality present in the new series. Accordingly, for the analysis of inflation reference must be made primarily to the NIC, which does not suffer from discontinuities on a similar scale.

For the NIC index, the identification of items with regulated prices refers to the situation in May 2004. The composition of "Goods and services with regulated prices" is as follows:

Energy products: electricity and gas;

*Non-energy product*s: drinking water, medicinal drugs, tobacco products, postal services, telephone services, railway transport, maritime transport, urban transport, coach services, motorway tolls, taxis, radio and TV licences, lotteries and totalizers, certificates and stamps, secondary education, university education, rubbish collection services, religious services.

Lastly, the composition of the sub-index "Food products – not processed" is as follows: fresh meat, fresh fish, fresh fruit and vegetables, milk and eggs.

Tables a14 and a15

The harmonized indices of consumer prices for the countries of the European Union are published by Eurostat. They are available from January 1995 onwards and are produced by the national statistical institutes using harmonized methods. Consequently, they are the most suitable for comparing consumer price inflation in the different countries. The structure and breakdown of these indicators basically reflect those of national consumer price indices; consequently, in most countries, including Italy, the differences between the two sets of indicators are minimal. As of January 2002, the Italian and Spanish indices are also constructed taking account of price reductions that last for at least 15 days (in compliance with Commission Regulation 2602/2000). This innovation gives rise to pronounced monthly variations in the HICP series and has caused a discontinuity in the indices for these two countries and the euro-area average. The series have been reconstructed for 2001 with account taken of price reductions, so as to permit the calculation in 2002 of the percentage changes with respect to the previous year. In addition, the series regarding the euro-area is calculated with reference to the rebased German index (2000=100) introduced at the beginning of this year. On this occasion the German statistical institute published the indicators recalculated using the new base starting from 2000. As a consequence of these innovations it is not possible to use a single time series to calculate inflation rates in the countries affected by the above-mentioned methodological changes or the euro-area average. However, since Eurostat publishes a single series of indices for the euro-area countries and the euro-area average, the inflation for the euro area shown in the tables must necessarily be calculated without taking the above discontinuity into account. Only for Italy is recourse made in calculating percentage changes to the homogeneous indicators published until December 2001 and to the indicators based on the new method of observing price reductions from January 2002 onwards.

Tables a16 and a17

The indices of producer prices measure the changes in the prices of goods sold in the domestic market by industrial producers. The items included in the basket of each index are classified on the basis of their economic purpose (consumer goods, investment goods and intermediate goods). In contrast with the HICP, producer prices have not been fully harmonized and there are important differences across countries in the composition of the baskets. A degree of harmonization has nonetheless been carried out by Eurostat, which currently compiles indices for the EU countries on the basis of data transmitted monthly by each national statistical institute using a uniform classification of the branches of economic activity based on NACE 1st revision.

As of January 2003 Istat calculates the indices of the producer prices of industrial products sold on the domestic market using the new base 2000=100, in accordance with Community rules. The main changes to the index with respect to the previous base concern the criteria for classifying products, the composition of the index basket and the weighting structure. In particular, with reference to the classification of products by economic purpose (now known as Main Industrial Groupings), the various items are grouped as follows: consumer goods, divided into durable and non-durable products, investment goods, and intermediate goods, divided into non-energy and energy products. The allocation of individual products to these categories is now based on the “prevalent use” of each product, as recommended by Eurostat. Previously, instead, products were allocated to the various categories on the basis of their “effective use”, so that, in theory, the same product could appear in more than one category.

The classification of goods by economic purpose used by Eurostat is not sufficiently disaggregated for the short-term analysis of inflation. For consumer goods, in particular, it does not distinguish between food and non-food products. For the main euro-area countries – Italy, France, Germany and Spain – and for the area average, a more meaningful breakdown by economic purpose has been constructed, using not only data classified by economic purpose but also data classified by branch of economic activity, as follows: general index, food products, energy products, investment goods, non-energy intermediate goods, consumer goods excluding energy and food products and the general index excluding energy and food products.

Table a18

Source: Istat.

Foreign trade indicators provide summary information on the transactions of businesses of a given country, geographical area or geo-economic region with businesses of foreign countries or other areas. National statistical institutes produce three types of foreign trade indicators referred to: values, average unit values and quantities. Like producer prices, these statistics are not fully harmonized within Europe, and cross-country comparisons may not be reliable. Eurostat computes foreign trade indicators on the basis of raw data collected by the EU countries and they should be more comparable, but they are generally different from those of the national statistical institutes. In order to produce series that maintain a satisfactory level of representativeness over time, Eurostat uses chained indices. In accordance with international agreements, imports are stated “cif” and exports “fob”.

The indices of average unit values are obtained for successive stages of aggregation of elementary indicators referring to individual categories of goods and geographical areas. The starting point for the computation of the elementary indicators consists in the average unit values of the specific items, calculated as the ratio of the value of the goods exported/imported in the current month and the related quantity. For each sub-item the elementary index is thus obtained by calculating the ratio of the average unit value of the current month to the average of the average unit values of the preceding year. The indices of the average unit values for higher levels of aggregation are Fisher indices, obtained as the geometric mean of the corresponding Laspeyres and Paasche indices. In calculating the Paasche index, the weighting of the elementary items is variable, i.e. is based on the values of the goods of the current month; by contrast, the aggregate Laspeyres index uses a fixed weighting on the basis of the values of the goods for the whole year.

From July 2003 Istat calculates the indices of average unit values using the new base 2000=100 and has published the updated figures from January 2001. The new calculation of the indices, in addition to implementing the shift to the ATECO 2002 sectoral classification, involves substantial methodological changes, of which the three most important are: 1) the exclusion from the calculation of the unit values of temporary exports and imports for repairs or processing and the consequent re-imports and re-exports; 2) the calculation of the new series does not include some goods for which average values are not an accurate approximation of market prices (ships, boats and parts thereof, radioactive materials and the like, space vehicles and parts thereof, etc.); to deflate the values of these goods, reference is made to the average unit values of the next higher grouping in the ATECO economic classification; and 3) the coefficient used to chain the indices for two successive years (e.g. t and t-1) is calculated as the annual average of the index in year t-1 with reference to year t-2. Previously, the coefficient used was the index of December of year t-1 with reference to year t-2.

Consistently with the terminological changes made to the calculation of the producer price indices, the groupings by economic use have been renamed Main Industrial Groupings.

The aggregation of the elementary indices for each sub-item in indices with a higher level of aggregation is carried out using various classifications: trade type (SITC, revision 3); economic sector (NACE, revision 1.1, ATECO 2002); economic purpose (Main Industrial Groupings); and groups of countries, geographical areas or geo-economic regions.

Table a21

The figures for the budget exclude accounting items that are offset under Treasury operations, loan disbursements and repayments and settlements of debts involving state sector bodies or which merely result in accounting transactions between the budget and Treasury operations.

The tax component of state budget receipts refers to the amounts allocated each month to the various chapters of the budget. In fact, as of 1998, the time at which amounts are allocated may not coincide with the time at which they are paid. Tax revenue is not adjusted for tax refunds (included in the budget under payments) and includes VAT accruing to the European Union. The monthly figures are consistent with those published by the Ministry for the Economy and Finance in Conto Riassuntivo del Tesoro, except that they are net of accounting transactions with the Sicily and Sardinia regions. The sub-item “Collection accounts” shows the change in receipts paid using the single mandate procedure and awaiting allocation (including central government taxes, Irap due to the regions and social security contributions due to INPS). A negative (positive) sign indicates that the amounts allocated in the month were higher (lower) than the revenue received.

The formation of the central government borrowing requirement (computed as the sum of the budget plus other central government operations) includes transactions with other general government bodies. Accordingly, the borrowing requirement of local government and social security institutions refers exclusively to their financing needs over and above those covered by central government transfers.

The unconsolidated central government borrowing requirement net of debt settlements and extraordinary revenue, consisting mainly of privatization receipts, is shown as a memorandum item. The data on central government debt settlements and extraordinary revenue are used to provide an estimate of the general government net borrowing requirement.

As of December 2003 the Deposits and Loans Fund is no longer part of general government and loans to local governments are included in the item “Borrowing requirement of local government and social security institutions”. The Fund’s deposits with the Treasury and postal deposits pertaining to the Treasury appear in the item “Other central government operations”.

Tables a22 and a23

General government debt consists of the sector’s total financial liabilities at face value at issue. The debt is consolidated within and between the various sub-sectors, i.e. it does not include liabilities constituting assets in the same instruments of general government bodies, following the definition adopted in the European Monetary Union’s excessive deficit procedure. The aggregate is calculated according to the methods set out in Council Regulation 3605/93/EC by summing the financial liabilities falling in the following categories: currency and deposits, securities other than shares, and loans. Lending by monetary and financial institutions (MFIs) is allocated to the general government sub-sector of the actual borrower, i.e. the body required to make the repayment, and not to the sub-sector of the body that receives the funding.

The discrepancy between the borrowing requirement and the change in the debt is due to differences in the treatment of general government deposits with the Bank of Italy and in the accounting standards used to compute the two statistics. More specifically: a) in the case of the borrowing requirement, securities issues, excluding

BOTs, are valued on the basis of their "net proceeds" while for the debt they are stated at face value; b) for the borrowing requirement, liabilities denominated in foreign currency are converted at the exchange rate applying at the time of settlement, while for the debt they are valued at end-of-period exchange rates.

Medium and long-term securities include those issued in repayment of past debts, those issued by the former autonomous agencies, which are repaid from the budget, those issued in 1993 to set up the Treasury's current account with the central bank in accordance with Law 483/1993, and those issued in November 1994 in connection with the conversion of the temporary Treasury account pursuant to Ministerial Decree of 15/11/1994 (76,206 billion lire). The latter, which were initially held in the Bank of Italy's portfolio, were the subject of a bond conversion transaction in December 2002.

The sub-item "Change in central bank current accounts" mainly includes the Treasury payments account (Law 483/1993 and a Ministerial Decree of 19.9.2005) and the sinking fund for the redemption of government securities (Law 432/1993, amended by Decree Law 436/1994 and ratified by Law 110/1996) and, until November 1994, the Treasury's current account with the Bank of Italy and the Treasury suspense account (Law 483/1993).

As of December 2003, when the Deposits and Loans Fund ceased to be part of general government, PO deposits include only those pertaining to the Ministry of the Economy and Finance. The item includes ordinary and fixed-term postal savings certificates and postal current accounts and is included, together with the Fund's deposits with the Treasury, in the item "Currency and deposits"; from the same date lending by the Fund to general government is included in the items "Other operations" and "Other liabilities".

Following Eurostat's decision of 23 May 2005 the item "Currency and deposits" includes the payments on account made by tax collectors under Decree Law 341/2003, ratified by Law 31/2004, and Decree Law 282/2004, ratified by Law 307/2004, while the debts contracted by Infrastrutture S.p.A. to finance the high-speed train project are included in the items "Medium and long-term securities" and "MFI loans".

Table a24

The interest rates on the "Deposit facility" and the "Marginal lending facility" are set by the Governing Council of the ECB and represent respectively the lower limit and the upper limit of the corridor of official interest rates.

On 8 June 2000 the Governing Council of the ECB announced that, starting from the operation to be settled on 28 June 2000, the main refinancing operations of the Eurosystem would be conducted as variable rate tenders. For these operations the Governing Council sets a minimum bid rate, which plays the role of indicator of the stance of monetary policy previously played by the fixed rate.

Under Legislative Decree 213/1998, as of 1 January 1999, for a period of not more than 5 years, the Bank of Italy periodically determined the "official reference rate for instruments linked to the former official discount rate", which the former replaced. In determining the reference rate, the Bank of Italy followed the practice of putting it equal to the rate of the monetary instrument used by the ECB considered to be the closest equivalent to the official discount rate, i.e. the rate on main refinancing operations. As of 1 January 2004 the Bank of Italy ceased to determine the official reference rate, in accordance with the Legislative Decree.

Table a25

The average Treasury bill rate is the average, weighted on the basis of the quantities allotted, of the compound allotment rates of the auctions of three, six and twelve-month BOTs and of those with other maturities. The Treasury bill yields are calculated using the 360-day year instead of the 365-day year.

The interbank rates (overnight and at one, three, six and twelve months) are observed daily on the Interbank Deposit Market (MID); they are weighted average bid-ask rates. The average overnight rate includes transactions concluded in the large-deal segment.

Tables a26, a27, a28 and a29

The information contained in Tables a26 to a29 refers to ESCB harmonized statistics on bank interest rates, based since January 2003 on a monthly sample survey carried out in accordance with Regulation (EC) No. 63/2002 (ECB 2001/18). At the end of 2004 the sample consisted of 123 banks representing 82 per cent of the loans and 84 per cent of the deposits of the entire banking system. The interest rates reported are on outstanding amounts and new business for the main forms of fund-raising and lending in euros from/to households and non-financial corporations resident in the euro area. Households include producer households and non-profit institutions serving households.

The rates on outstanding amounts are weighted using the balances on the accounts at the end of the reference month; the rates on new business in the month are weighted using the relevant amounts. New business consists of contracts concluded in the reporting period or for which previously established terms and conditions have been renegotiated.

For new business lending rates applied to households and non-financial corporations, the breakdown by maturity refers to the initial period of rate fixation; i.e. the interval for which the contract does not provide for changes in the rate. The rates include those on supported loans, for which the total interest rate must be reported, regardless of how much the customer pays. By contrast, the rates on bad debts and restructured loans are excluded. As regards loans to non-financial corporations, the breakdown by size refers to the amount of each individual transaction and not to the bank's total exposure to the firm in question. In the case of overnight deposits, deposits redeemable at notice and overdrafts the concept of new business coincides with that of outstanding amounts. The average interest rate on the total outstanding amount of deposits is calculated as the weighted average of the interest rates on overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities.

The Annual Percentage Rate of Charge (APRC) for households includes the accessory expenses (administrative, application processing, insurance, etc.) provided for in Directive 87/102/EEC.

Tables a30 and a31

These tables refer to the harmonized statistical returns submitted by Italian banks and money market funds in accordance with the criteria laid down by the ESCB. Intermediaries subject to statistical reporting requirements in the euro area are known as Monetary Financial Institutions (MFIs). The category comprises central banks, credit institutions and all other resident financial institutions whose business consists in receiving deposits and/or close substitutes for deposits from institutions other than MFIs and in granting credit and/or making investments in securities for their own account. For further details, see the Methodological Appendix and the notes to the tables of "Monetary and Financial Indicators - Monetary Financial Institutions: Banks and Money Market Funds" in the series *Supplements to the Statistical Bulletin*.

Data are reported by banks in accordance with the harmonized definitions adopted by the ESCB for the euro area as a whole.

The annual data refer to the month of December.

In Table a30 the item "Loans" includes repo assets and bad debts. "Deposits" include overnight deposits, deposits with agreed maturities and redeemable at notice, and repo liabilities. The item "Debt securities" include subordinated issues. The item "Capital and reserves" is made up of share capital, reserves, provisions for general banking risks and the balance of prior-year profits and losses.

In Table a31 deposits and debt securities refer to those of other general government (communes and provinces and social security institutions) and other sectors (households, non-financial corporations, and financial and insurance corporations). Current account deposits include banker's drafts but not current account time deposits. Deposits with agreed maturity include certificates of deposit, current account time deposits and savings account time deposits. Deposits redeemable at notice consist of ordinary savings account deposits. The item "Debt securities in euros" comprises all the debt instruments issued by banks, including subordinated liabilities; reverse convertibles are included in the series with maturities up to two years. Debt securities originally issued in the national currencies of the euro-area countries are included in the aggregate.

Table a32

The data refer to all the banks resident in Italy and are calculated in accordance with the traditional definitions published by the Bank of Italy.

As regards residents of Italy, the table divides loans between those at short term (up to 18 months) and those at medium and long term (more than 18 months). "Other securities" refer to banks' holdings of bonds issued by residents.

The annual data refer to the month of December.

Table a33

"Other financial assets" include CDs, banker's acceptances and commercial paper. The difference between "Net assets" and "Total portfolio" consists of other net assets (mainly liquidity). SICAVs are included. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a34

"Other financial assets" include CDs, banker's acceptances and commercial paper. The data refer only to harmonized funds. Rounding may cause discrepancies in totals.

Table a35

The amounts shown for each category of intermediary refer to the portfolio management services they provide directly. "Other financial assets" include CDs, banker's acceptances and commercial paper. The items "gross inflow" and "net inflow" are calculated as the sum of monthly flows. For asset management companies the division between Italian and foreign securities refers to securities denominated in respectively euros and other currencies.

Table a36

All the items refer to the liabilities included in M3 of Italian MFIs and postal deposits towards the "money holding sector" of the entire euro area. This sector, adopted by the ESCB in the harmonization of national statistics, comprises all the residents of the euro area apart from MFIs and central governments. Accordingly, it includes "other general government" (local authorities and social security funds) and "other residents" (non-money-market investment funds, other financial institutions, non-financial corporations, insurance corporations, households, and non-profit institutions serving households).

Owing to the cross-border migration of euro notes and coins, the currency in circulation in the various countries no longer corresponds to the quantities they have issued. In order to measure the currency in circulation for inclusion here, the Bank of Italy is conventionally allocated a share of the total issue of euro notes on the basis of its share of the ECB's capital (the so-called Capital Share Mechanism). Each country's share of the ECB's capital is equal to the arithmetic mean of its shares of the euro-area's total population and total income.

The conventional share of euro currency in circulation differs from the quantity obtained by applying the harmonized accounting methods for the euro note circulation since it includes the 8% share distributed by the NCBs but allocated for accounting purposes to the ECB. As of January 2003 currency in circulation no longer includes notes and coins denominated in lire. The item "Currency held by the public and overnight deposits" comprises current accounts held with resident MFIs and the Post Office; postal current accounts for the period prior to 2003 are estimated.

Bank CDs redeemable within 24 months and 18-month postal savings certificates are included under "Deposits with agreed maturities up to 2 years"; freely available postal deposit book accounts and ordinary postal savings certificates are included under "Deposits redeemable at notice up to 3 months". Money market funds are defined as collective investment funds whose shares/units are close substitutes for deposits in terms of liquidity and/or which invest in tradable debt securities with a residual maturity of up to one year.

The contributions to the euro-area monetary aggregates are obtained excluding banknotes and coins in euros.

Table a37

All the items refer to the financial assets of the "money holding sector" comprising residents of Italy (for further details on the methods used to compile these statistics, see "Note metodologiche e informazioni statistiche - Aggregati monetari e creditizi dell'area dell'euro: le componenti italiane", *Supplementi al Bollettino Statistico*, Volume X, No. 33, 12 June 2000. The share of each item held by non-money-market funds is shown separately.

"Total monetary assets" comprise currency in circulation, current account deposits, postal current accounts, deposits with agreed maturity up to 2 years, deposits redeemable at notice up to 3 months, repos, money market fund shares/units, money market paper and debt securities up to 2 years. Postal current accounts for the period prior to 2003 are estimated.

"Other deposits" comprise deposits with agreed maturity over 2 years, deposits redeemable at notice over 3 months and forward and indexed postal savings certificates, which are measured on the basis of the price at issue.

"Government securities" comprise CCTs, BTPs, CTZs, CTEs and other medium and long-term government securities at face value. The item refers to securities acquired outright; it excludes the securities acquired by the money holding sector under repos but includes those sold.

"Other financial assets" include enterprises' surety deposits; "Other financial assets held by non-money-market funds" include shares issued by residents in Italy.

The balance-of-payments statistics used in computing the components of financial assets and credit are based on the methods established in ESA95.

Table a38

"Bonds placed domestically" are those issued by "other residents" after deducting the amounts held by residents of the rest of the euro area and the rest of the world.

"External finance" comprises the loans disbursed to "other residents" and the debt securities thereof bought at issue by residents of the rest of the euro area and the rest of the world.

"General government debt" is stated at face value and is calculated, in accordance with the EU definition, gross of the Treasury's claims on the Bank of Italy (balances on the Treasury payments account, the sinking fund for the redemption of government securities and other smaller accounts).

From January 1999 the balance-of-payments statistics used in computing the components of financial assets and credit are based on the methods established in ESA95.

Table a39

The data refer to supervisory capital and the solvency ratio, calculated on a consolidated basis (on a solo basis for banks not belonging to a banking group). The Italian branches of foreign banks are not included.

Supervisory capital is determined as the algebraic sum of a series of positive and negative items, whose inclusion in core or supplementary capital is admitted, with or without restrictions, according to the item.

Paid-in capital, reserves, provisions for general banking risks and innovative capital instruments – net of any own shares or capital parts held, intangible assets and loss for the year – are the elements of core capital, which is included in the calculation of supervisory capital without restriction. Revaluation reserves, provisions for loan losses, net valuation gains on participating interests, hybrid capital instruments and subordinated liabilities constitute supplementary capital, which is included – net of any revaluation losses on securities and participating interests – in the calculation of supervisory capital up to the amount of core capital.

Consolidated supervisory capital consists, in addition to the components of individual bank supervisory capital, of the characteristic items resulting from the consolidation itself (positive or negative consolidation differences, etc.). The deductions consist of unconsolidated shareholdings, hybrid capital instruments and subordinated loans to banks and financial companies.

The regulations governing the solvency ratio require banking groups and banks not belonging to a group to satisfy a minimum capital requirement of 8 per cent, defined as the ratio of their supervisory capital to the total of their on- and off-balance-sheet assets, weighted according to their potential riskiness.

The solvency ratio figures take account of the prudential requirements for market risks and the "other requirements".

List of abbreviations

ABI	—	*Associazione bancaria italiana* Italian Bankers' Association
ANAS	—	*Azienda nazionale autonoma delle strade statali* National Road Agency
BI	—	*Banca d'Italia* Bank of Italy
BOT	—	*Buoni ordinari del Tesoro* Treasury bills
BTP	—	*Buoni del Tesoro poliennali* Treasury bonds
CCT	—	*Certificati di credito del Tesoro* Treasury credit certificates
CIP	—	*Comitato interministeriale prezzi* Interministerial Committee on Prices
CIPE	—	*Comitato interministeriale per la programmazione economica* Interministerial Committee for Economic Planning
Confindustria	—	*Confederazione generale dell'industria italiana* Confederation of Italian Industry
Consob	—	*Commissione nazionale per le società e la borsa* Companies and Stock Exchange Commission
CTE	—	*Certificati del Tesoro in ECU* Treasury certificates in ecus
CTO	—	*Certificati del Tesoro con opzione* Treasury option certificates
CTZ	—	*Certificati del Tesoro* zero-coupon Zero-coupon Treasury certificates
ICI	—	*Imposta comunale sugli immobili* Municipal property tax
Ilor	—	*Imposta locale sui redditi* Local income tax
INAIL	—	*Istituto nazionale per l'assicurazione contro gli infortuni sul lavoro* National Industrial Accidents Insurance Institute
INPS	—	*Istituto nazionale per la previdenza sociale* National Social Security Institute
Irap	—	*Imposta regionale sulle attività produttive* Regional tax on productive activities
Irpef	—	*Imposta sul reddito delle persone fisiche* Personal income tax
Irpeg/Ires	—	*Imposta sul reddito delle persone giuridiche/delle società* Corporate income tax
ISAE	—	*Istituto di studi e analisi economica* Institute for Economic Research and Analysis
Isco	—	*Istituto nazionale per lo studio della congiuntura* National Institute for the Study of the Economic Situation
Istat	—	*Istituto nazionale di statistica* National Institute of Statistics
MTS	—	*Mercato telematico dei titoli di Stato* Screen-based market in government securities
SACE	—	*Istituto per i servizi assicurativi del commercio estero* Export Credit Insurance Institute
UIC	—	*Ufficio italiano dei cambi* Italian Foreign Exchange Office

"ARTICLES" AND "DOCUMENTS" PUBLISHED IN EARLIER ISSUES OF THE ECONOMIC BULLETIN

TITLE	ISSUE
ARTICLES	
The general government accounts: some international comparisons	No. 23, October 1996
Developments in the screen-based market in government securities	No. 23, October 1996
The financial structure of six leading industrial countries: a comparison based on their financial accounts	No. 24, February 1997
The new rules governing securities intermediaries	No. 25, October 1997
The recent reform of the tax system	No. 26, February 1998
The National Financial Changeover Plan: the transition to the euro in the Italian financial system	No. 26, February 1998
Survey of the compliance of Italian banks' information systems with euro and Year 2000 requirement	No. 26, February 1998
The regulations on intermediaries issued by the Bank of Italy in implementation of the Consolidated Law on Financial Markets	No. 27, October 1998
Summary of the 2nd Survey of the compliance of Italian banks' information systems with euro and Year 2000 requirements	No. 28, February 1999
New indicators of the Italian business cycle	No. 29, October 1999
Taxation and the cost of labour	No. 29, October 1999
The monetary transmission mechanism; evidence from the industries of five OECD countries	No. 31, October 2000
The growth of the market for Italian corporate bonds	No. 37, November 2003
DOCUMENTS	
Regulatory changes concerning rules of open-end and closed-end investment funds	No. 33, October 2001
New regulation on capital requirements for asset management companies specializing in high-tech venture capital funds	No. 33, October 2001
Bank of Italy Regulation of 31 December 2001 concerning the marketing in Italy of units or shares of non-harmonized foreign collective investment undertakings	No. 34, March 2002
Survey on bank loan recoveries	No. 34, March 2002
Supervisory instructions governing markets and support structures	No. 34, March 2002
The Interbank Database on Irregular Cheques and Payment Cards	No. 35, November 2002
Memorandum of the Bank of Italy on the Consolidated Law on Financial Intermediation	No. 35, November 2002
Bank of Italy Regulation of 17 June 2002 concerning the possibility for Italian investment firms (SIMs) to use internal models for calculating capital requirements	No. 35, November 2002
Bank of Italy Regulation of 20 January 2003 concerning guaranteed managed portfolios	No. 36, March 2003
New regulations for financial intermediaries entered in the special register established by Article 107 of the 1993 Banking Law	No. 36, March 2003
Bank of Italy Regulation of 27 August 2003 on closed-end investment funds	No. 37, November 2003
Credit risk transfer between the banking sector and the insurance industry in Italy	No. 39, November 2004

MANAGEMENT OF THE BANK OF ITALY

DIRECTORATE

Antonio FAZIO	—	Governor
Vincenzo DESARIO	—	Director General
Pierluigi CIOCCA	—	Deputy Director General
Antonio FINOCCHIARO	—	Deputy Director General

CENTRAL MANAGERS

Cesare Augusto GIUSSANI	—	Human and Technical Resources (Secretary General)
Carlo TRESOLDI	—	Payment System and Treasury Operations
Giancarlo MORCALDO	—	Economic Research
Mario MELONI	—	Organization and Logistics
Angelo DE MATTIA	—	Governor's Secretariat
Anna Maria GIANNONI	—	Note Issue
Antonio Pasquale SODA	—	Accounting and Control (Accountant General)
Ignazio VISCO	—	International Affairs
Giovanni CAROSIO	—	Central Banking and Markets
Francesco Maria FRASCA	—	Banking and Financial Supervision