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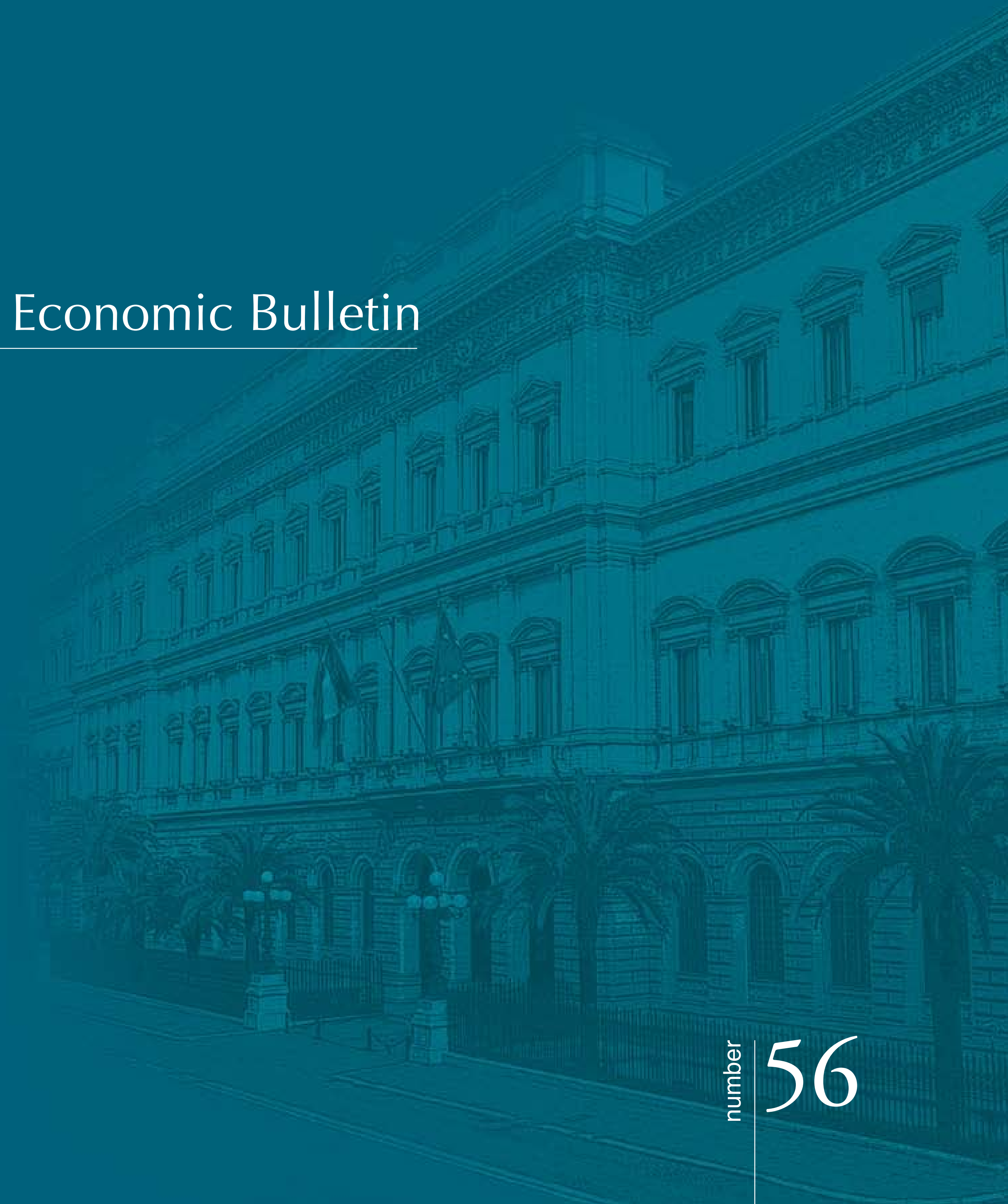
EUROSISTEMA

Economic Bulletin



April 2010

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Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
www.bancaditalia.it

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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
::	the value is not statistically significant
()	provisional; estimates are in italics

1 OVERVIEW

The world recovery proceeds, albeit unevenly

The world economic recovery proceeded in the last few months of 2009 and the early part of this year, although unevenly and at a pace that varied across countries and regions. The growth of gross domestic product accelerated in the United States, Japan and the main emerging countries in the fourth quarter. The recovery proceeded, moderately, in the euro area. In all the main advanced economies activity continues to be sustained by expansionary monetary and fiscal policies. In some, there has been a temporary boost from the rebuilding of stocks. Consumption is being held back by high unemployment, investment by uncertainty and substantial spare capacity. In the main emerging countries, by contrast, growth continued to be buoyed by the robust expansion of domestic demand.

In the forecasts of private analysts, GDP growth should come to about 3 per cent in the United States in 2010, 2 per cent in Japan and 1 per cent in the euro area, while gains of 10 per cent in China, 8 per cent in India and 5½ per cent in Brazil are expected. The IMF projections released in January, now being revised, are broadly similar. World trade is expected to start growing again, at a rate of about 6 per cent, after last year's 12 per cent contraction.

In the euro area, domestic demand remains sluggish. Industrial production and business confidence have improved in recent months, most notably in Germany, largely as a consequence of the upswing in export orders; but retail sales have continued to decline and consumer confidence appears to have slipped again.

Monetary policies remain expansionary

Inflation in the main advanced economies is quite moderate. Monetary policies are still highly expansionary. The Eurosystem is continuing to phase out its unconventional operations – no longer needed to the same extent as in the past, thanks to improved financial market conditions; it is still offering support for banking system liquidity and the economic recovery.

Strains in the government securities markets are circumscribed

Thanks in part to the availability of abundant liquidity on the markets, share prices have rallied moderately, and the risk premiums on corporate bonds and the emerging countries' sovereign debt have held stable or diminished slightly. The worries over Greece's public debt have only affected the securities markets of the leading European countries to a limited extent. On 11 April the governments of the euro-area countries announced the terms of a financial support programme for Greece that can be activated at need, to be designed and co-financed with the International Monetary Fund.

The high volatility of risk premiums on government securities since the end of 2009 testifies to investors' concern over the public finances, which have deteriorated sharply in all the advanced countries as a consequence of the crisis. The fiscal policy stance should remain expansionary in most countries in 2010, but plans for deficit reduction have been announced for the years to follow. These plans must be credible in order to prevent interest rates from spiking and ensure the sustainability of the public finances.

In Italy the recovery is still feeble

Italian GDP declined slightly in the fourth quarter of 2009. Consumption stagnated and investment (especially in construction) contracted further, while exports did not continue the modest gains of the third quarter. All in all, the expansion of economic activity in the second half of the year was modest.

The latest data on industrial production and the findings of business opinion surveys indicate a brisker pace of activity in the first few months of 2010. In particular, firms' assessment of orders and their expectations for production have improved. The phase of inventory reduction appears to have come to an end. There are also signs of improving expectations in the construction industry.

However, consumer confidence has weakened, reflecting increasing worry over the economic picture and the labour market outlook. The contraction of employment, which reduced households' disposable income perceptibly last year, continued in the early months of 2010. Firms' propensity to invest is being curtailed by the drop in profits and low capacity utilization. Firms continue to report difficulty in access to credit, even though the banks have ceased tightening supply conditions. Going forward, the factors responsible for the slackness of domestic demand could weigh on the speed and strength of the recovery.

Export difficulties reflect structural lags

Given the persistent weakness of domestic demand, the expansion in exports has so far been insufficient, by itself, to bring the economy back to high levels of growth. During the most acute phase of the crisis (from the second quarter of 2008 to the second quarter of 2009), the volume of goods exports contracted by a quarter, the same as in Germany and more than in France. In the second half of 2009, while world trade expanded by 9.3 per cent, exports gained just 2.6 per cent in Italy, compared with 10 per cent in Germany and 5.4 per cent in France. In January of this year Italian exports showed stronger signs of recovery. In value terms the data paint a very similar picture. The lag with which our exports have followed world demand growth depends on the same factors that have penalized Italy in the past: sharper losses of price competitiveness than in France and Germany, an industrial specialization tilted towards traditional manufactures and limited presence in the most dynamic emerging markets, such as those of Asia.

Inflation has steadied

Consumer price inflation rose gradually in recent months to a rate of about 1.5 per cent, close to that of core inflation, as the statistical effect on the twelve-month inflation rate produced by the sharp fall in energy prices in the second half of 2008 has now worn off completely. Inflation expectations for 2010 are at about the same level.

The worsening of the public accounts in 2009 was due mainly to automatic stabilizers

General government net borrowing rose from 2.7 per cent of GDP in 2008 to 5.3 per cent in 2009, which was in line with the official projections made last July and confirmed in subsequent months. The increase in the deficit reflects the large increase in primary expenditure and the fall in revenue, though this was less pronounced than that in nominal GDP. Budget policy responded to the crisis mainly by reallocating resources towards expenditures better suited to mitigating the social costs of recession and sustaining aggregate demand. The deterioration in the public finances was less pronounced in Italy than in the other main advanced countries, in some of which the cost of major bank rescue operations weighed heavily. Nevertheless, the ratio of public debt to GDP rose by 9.7 percentage points to 115.8 per cent, reflecting not only the large borrowing requirement but also the fall in nominal GDP.

The Stability Programme update sets the objective of bringing the deficit below 3 per cent in 2012

The Stability Programme update presented by the Government at the end of January confirms the forecast of net borrowing equal to 5 per cent of GDP in 2010. This implies an appreciable increase in revenue and a definite slowdown in primary expenditure. The deficit objectives set in the Stability Programme for 2011 and 2012 are respectively 3.9 and 2.7 per cent of GDP, in line with the deadline of 2012 set by the EU Council for Italy to eliminate its excessive deficit.

2 THE WORLD ECONOMY

2.1 THE FINANCIAL MARKETS AND ECONOMIC DEVELOPMENTS

The recovery in the world economy and international trade continues

The world economy gained strength in the fourth quarter of 2009, although still with substantial differences among the various countries and areas. The United States and Japan showed stronger performances than the euro area and the United Kingdom, where growth remained slow. As international trade in goods and services picked up, economic activity in the advanced countries continued to receive support from highly expansionary economic policies, the inventory cycle and foreign demand. Despite signs that fixed investment was stabilizing, and in some cases even expanding, domestic demand remained generally weak. In the emerging countries economic activity continued to expand at a rapid pace, particularly in China, India and Brazil. The situation improved in Russia as well and, more gradually, in central and eastern Europe. In the advanced countries, current and expected consumer price inflation remained moderate owing to still large margins of spare capacity, while in some emerging countries the strong upturn in demand was accompanied by a sharp acceleration in prices.

Cyclical indicators for the leading industrial countries provide conflicting evidence for the early months of 2010: while retail sales performed well, industrial production showed signs of weakness in February, with unemployment rates still high. Conditions on the financial markets stayed favourable under the continuing stimulus of expansionary monetary policies and were affected only marginally by investors' fears triggered by the financial troubles of Greece.

Between December and March, private forecasters polled by Consensus Economics revised their growth estimates for 2010 upwards by 0.4 percentage points for the United States and Japan, to 3.1 and 1.9 per cent respectively. Growth expectations for the euro area were instead adjusted down a little to 1.1 per cent (Table 1). Forecasts for the emerging countries showed a generalized improvement.

The price of oil (average for the three main grades) rose to $85 a barrel in March, after fluctuating around $75 from October of the previous year (Figure 1). The International Energy Agency revised its forecasts of world crude oil demand for 2010 slightly upwards, from 86.3 million barrels a day estimated in December last year to 86.6 million in March,

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		IMF		Consensus Economics	
	2009	2010	2011	2010	2011
GDP					
Advanced countries					
Euro area	-4.1	1.0	1.6	1.1	1.5
Japan	-5.2	1.7	2.2	1.9	1.6
United Kingdom	-5.0	1.3	2.7	1.4	2.3
United States	-2.4	2.7	2.4	3.1	3.0
Emerging countries					
Brazil	-0.2	4.7	3.7	5.5	4.4
China	8.7	10.0	9.7	9.9	9.1
India (1)	7.3	7.7	7.8	8.2	7.9
Russia	-7.9	3.6	3.4	4.5	4.6
World trade (2)	**-12.3**	**5.8**	**6.3**	–	–

Sources: National statistics; IMF, *World Economic Outlook Update*, January 2010; Consensus Economics, various publications, March 2010.
(1) Changes in the course of the financial year beginning in April of the year indicated and ending in March of the subsequent year. Figures for 2009 are IMF estimates. – (2) Goods and services.

reflecting higher consumption by the emerging Asian countries, particularly China. On the basis of futures contracts, the price of WTI grade oil is expected to reach almost $90 a barrel at the end of 2010. The dollar prices of non-energy raw materials rose by around 3 per cent with respect to December.

Conditions on the interbank markets remained good

Conditions on the interbank markets remained largely stable, with no evidence of specific strains. The interest rate spreads between unsecured three-month interbank deposits and three-month overnight index swaps declined slightly, to 8 basis points for the dollar, 26 for the euro and 14 for the yen, while remaining virtually unchanged at around 17 basis points for sterling (Figure 2). Conditions on the money markets having returned to normal, the Federal Reserve was prompted to dismantle in recent months the facilities introduced during the crisis to support liquidity. Only the Term Asset Backed Securities Loan Facility was left in place, and it will be available until June solely for loans guaranteed by newly issued commercial mortgage-backed securities. The balance sheets of the leading central banks continued to expand from the beginning of the year, although only moderately (Figure 3).

The profits of the leading banks contracted

The profits of the leading international banking groups contracted between the third and fourth quarters of 2009, although operators expect them to pick up during 2010, albeit to around half the value recorded before the crisis. The premiums on the credit default swaps of the leading international banks declined steadily from the middle of January, but remained nonetheless considerably higher than at the beginning of 2007.

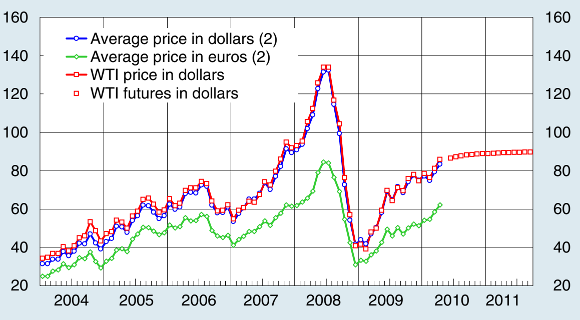
Strains on the markets for government securities increased in some European countries ...

Strains that had begun to appear towards the end of 2009 on the government securities markets of some European countries, foremost Greece, sharpened in recent months, reflecting concerns

Figure 1

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)

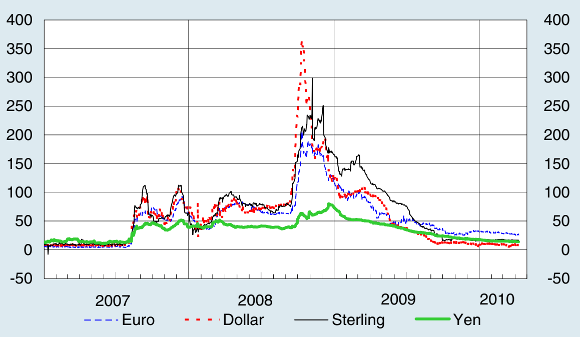


Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 12 April 2010. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Figure 2

Yield spreads between interbank rates and three-month overnight index swaps

(basis points; daily data)

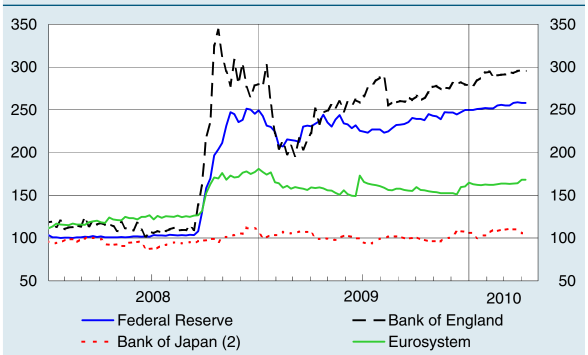


Sources: Thomson Reuters Datastream and Bloomberg.

Figure 3

Size of the balance sheets of selected central banks (1)

(indices; 5 January 2007=100; weekly data)



Source: Thomson Reuters Datastream.
(1) Total assets. – (2) For the Bank of Japan, fortnightly data.

about the sustainability of their public finances. The premiums on CDS for government securities in Greece and Portugal tripled with respect to October 2009, to 380 and 150 basis points respectively. In the other leading European countries and in the United States the increases are much less marked, although sovereign risk premiums are still well above pre-crisis values (see the box "The public finances in selected advanced countries"). On 24 March, Fitch's international rating agency cut Portugal's rating from AA to AA- and on 9 April also Greece's, from BBB+ to BBB-. On 11 April, the euro-area member states reached agreement on the terms of a three-year schedule of bilateral loans to Greece, to be activated according to need jointly with the IMF; they will provide up to €30 billion during the first year.

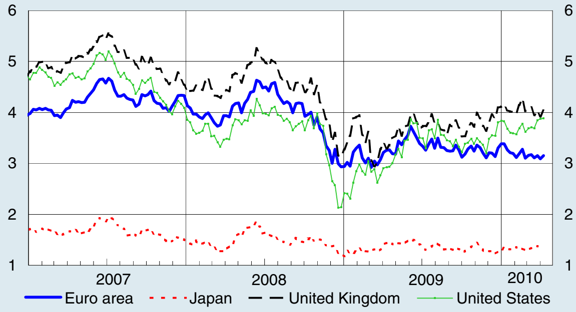
... but financial market conditions remained generally good in the leading countries ...

Despite the rise in risk premiums, which was moderate except in Greece and Portugal, average yields on ten-year government bonds in the euro area fell by 20 basis points from the beginning of 2010, to 3.2 per cent, in connection with the weakness of the economy. In the United States yields declined by around 30 basis points in January and the first ten days of February before rising back to their end-of-year level of 3.8 per cent. Yields on public bonds in Japan and the United Kingdom fluctuated around 1.4 and 4.0 per cent respectively (Figure 4).

Share prices moved in synchrony, falling by around 5 per cent between the end of 2009 and the middle of February and then gaining in the region of 13 per cent; prices in the financial segment showed a stronger performance (Figure 5). The implied volatility of prices of shares and government securities remained at moderate levels (Figure 6). Risk premiums on bonds of non-financial companies decreased further from the beginning of 2010: those on BBB-rated bonds narrowed by about 0.2 percentage points, to 1.7 for bonds denominated in dollars and 1.5 points for those in euros, while in the case

Figure 4

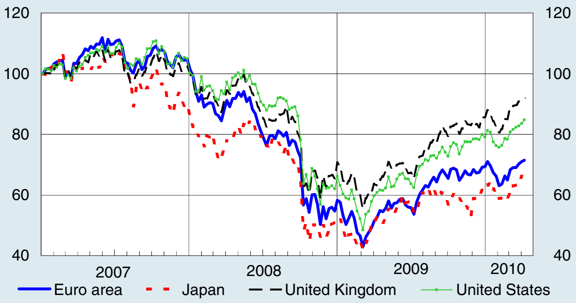
Yields on ten-year government bonds
(end-of-week data; percentages)



Sources: National statistics.

Figure 5

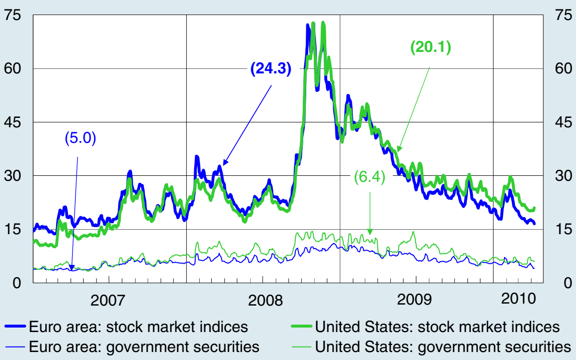
Stock market indices (1)
(end-of-week data; first week of January 2007=100)



Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom, Standard & Poor's 500 for the United States.

Figure 6

Implied volatility in the prices of shares and government securities (1)
(percentage points; averages for the period 1999-2006 in brackets)



Source: Based on Thomson Reuters Datastream.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on futures on Treasury notes for the United States.

of high-yield bonds they fell, respectively, by 0.9 and 1.5 percentage points to 5.7 and 6.2 points (Figure 7).

... and in the emerging countries

Financial market conditions also remained favourable in the emerging economies, despite a brief adjustment in the early weeks of the year. Sovereign risk premiums, measured by the yield differential between long-term dollar-denominated securities and US Treasuries, fell by around 40 basis points to 2.5 percentage points (EMBI Global index). Share prices, which had fallen from mid-February, picked up, rising to about 5 per cent above the level of the beginning of the year. These countries' bond markets continued to attract substantial portfolio investments, while their stock markets, which had recorded large inflows in the previous year, saw investments contract sharply.

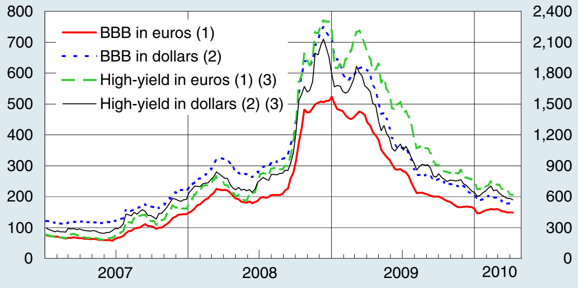
The dollar appreciated

The improvement in the economic outlook for the United States contributed to a strengthening of the dollar, which gained around 6 per cent against the euro and sterling from the middle of January, while remaining broadly stable against the yen (Figure 8). The dollar exchange rates of the leading emerging countries' currencies instead held stable or appreciated slightly; the renminbi remained closely anchored to the US currency.

Figure 7

Yield differentials between bonds of non-financial corporations and government securities in dollars and euros

(end-of-week data; basis points)

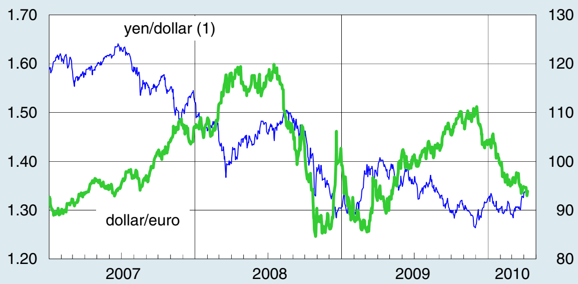


Source: Merrill Lynch.
(1) Fixed-rate bonds denominated in euros with a residual term to maturity of not less than one year issued in the Euromarket; yield differentials are calculated with respect to French and German government securities. – (2) Fixed-rate bonds denominated in dollars with a residual term to maturity of not less than one year issued in the US domestic market; yield differentials are calculated with respect to US Treasury securities. – (3) Right-hand scale.

Figure 8

Exchange rates

(daily data)



Source: ECB.
(1) Right-hand scale.

THE PUBLIC FINANCES IN SELECTED ADVANCED COUNTRIES

In 2009 the budget balances of the leading economies recorded a significant deterioration. A major contributory factor, in addition to the working of automatic stabilizers, was the adoption of mainly temporary large-scale discretionary measures, to counter the macroeconomic consequences of the international financial crisis. According to the international organizations, the increase in the deficits also reflected a deterioration in the structural primary budget balances as a result of permanent expenditure-boosting measures in some countries, a reduction over the medium to long run in receipts from the taxation of financial sector profits in countries where this industry was especially hard hit by the crisis (above all the United States and the United Kingdom), and a generalized downward revision of the estimates of potential output.

In 2010 budgets will continue to provide major support to the economies of the G20 advanced countries. In November 2009 the IMF estimated that on average discretionary anticyclical measures would amount to about 1.6 percentage points of GDP. In Greece and Spain there are signs of a restrictive stance already this year.

For the subsequent years the outlook is for a gradual reduction in budget deficits. In Europe the strategy agreed on 21 October 2009 by the Council of the EU provides for countries to begin consolidating their public finances not later than 2011, compatibly with the strengthening of the economic recovery. The strategy also provides for further structural fiscal consolidation well beyond 0.5 per cent of GDP per year and for the credibility of the consolidation plans to be bolstered by reforms aimed at strengthening national budgetary frameworks and boosting growth in the long run.

In general the increase in the public debt has exceeded the budget deficit, partly as a consequence of the measures in support of countries' financial systems – such as the recapitalization of banks – whose application should nonetheless not necessarily cause a loss for the budget in the long run. In the coming years the public debt will continue to rise in relation to GDP in nearly all the leading advanced economies.

The credibility of the medium-term budget consolidation plans appears at present to be an indispensable condition for the enormous issues of government securities foreseen in the coming years to be taken up without a sharp rise in yields. The increase over the last two years in sovereign credit default swap spreads and their growing differences across countries – with Greece recording the largest increase – are evidence of the importance the markets attribute to the state of the public finances in the advanced countries.

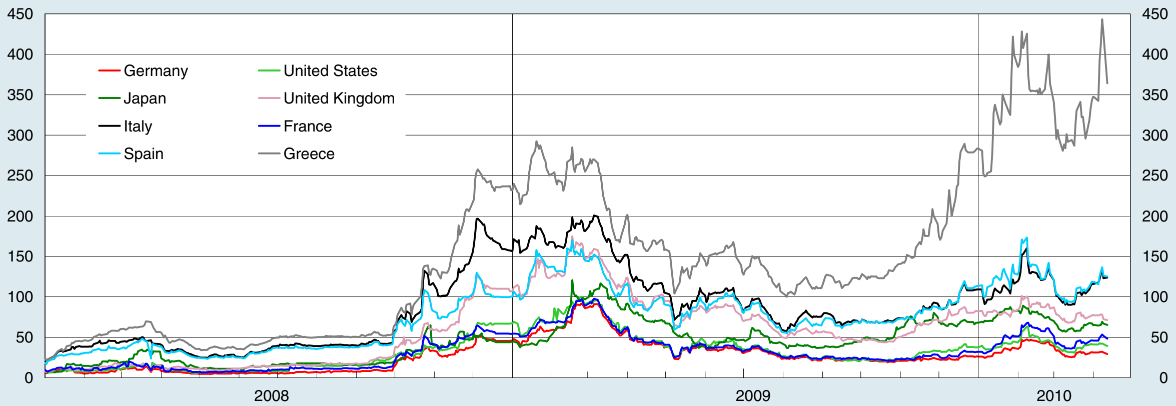
A description follows of the present state and prospects of the public finances in selected advanced countries (for Italy, see Section 3.9).

United States – In February the Administration unveiled a draft budget that, according to the Congressional Budget Office, would stabilize the federal deficit in the fiscal year 2010 (which began last October) at about 10.3 per cent of GDP (compared with 9.9 per cent in 2009), and then reduce it in the following years to 4.5 per cent in 2013; in the rest of the decade the deficit would fluctuate mildly, not exceeding 5.6 per cent. Owing to the persistence of large budget deficits, the federal debt held by the public would rise from 53 per cent of GDP at the end of fiscal year 2009 to nearly 75 per cent at the end of fiscal year 2013 and to 90 per cent at the end of fiscal year 2020. The draft budget provides for the extension beyond the original deadlines of some of the measures to support the economy introduced in February 2009 by the American Recovery and Reinvestment Act. Part

Figure

Five-year sovereign credit default swap spreads (1)

(basis points; daily data)



Source: Thomson Reuters Datastream.
(1) Spreads for insuring for 5 years against the credit risk on senior debt issued by the countries in the legend.

of the adjustment of the federal deficit in the coming years would derive from the Administration's proposal not to renew some major tax reliefs introduced for high-income earners in 2001 and 2003 and due to expire at the end of the fiscal year 2010. The health-care reform approved in March should not significantly influence the expected development of the federal deficit.

Japan – The new government, in office since September 2009, approved a supplementary budget in January that contains measures to support the economy, especially funding for local authority investment in infrastructure, totaling about 1.5 percentage points of GDP. At the same time the government halted the financing of other expansionary measures and reduced the amounts allocated to other expenditure items; consequently, the budget basically reallocates funds between different expenditure items. In the draft budget for the fiscal year 2010 (which began in April), the government established an objective for reducing the deficit of the general account budget, the cornerstone of the Japanese public finances, from about 11 per cent of GDP in 2009 to about 9 per cent in 2010.

United Kingdom – The budget that the Chancellor of the Exchequer presented in March provides for a progressive reduction in public sector net borrowing. This, according to the measure that excludes the temporary effects of financial interventions, would decline from 11.8 per cent of GDP in the fiscal year 2009-10 to 11.1 per cent in 2010-11 and to 5.2 per cent in 2013-14. The total adjustment, equal to 6.6 percentage points, would consist of a 1.3 point reduction in the cyclical component of the deficit and a 5.3 point reduction in the structural component.

Germany – The 2009 deficit was 3.3 per cent of GDP (compared with near balance in 2008); the deterioration was due to the effects of the built-in stabilizers and the measures to support the economy, amounting to more than 1.7 percentage points of GDP according to the latest European Commission estimates). In 2010 the budget will be even more expansionary as a consequence of the delay in the effects of some measures adopted in 2009 and the introduction of additional tax relief for households and firms. According to the latest update of the stability programme, consolidation will begin in 2011 and its credibility be enhanced by the gradual entry into force of a new constitutional rule requiring the structural federal fiscal balance to be near zero by 2016. In 2013 the budget deficit should be within the 3 per cent limit, while the debt will continue to rise.

Table

Budget deficit and public debt in selected advanced countries: official estimates and objectives
(as a percentage of GDP)

	Deficit						Debt					
	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013
United States (1)	3.2	9.9	10.3	8.9	5.8	4.5	40.2	53.0	63.2	70.1	73.6	74.8
Japan (2)	6.7	11.3	9.3	….	….	….	155.0	169.0	181.0	….	….	….
United Kingdom (3)	6.7	11.8	11.1	8.5	6.8	5.2	43.8	54.1	63.6	69.5	73.0	74.5
Germany	0.0	3.3	5.5	4.5	3.5	3.0	65.9	72.5	76.5	79.5	81.0	82.0
France	3.4	7.9	8.2	6.0	4.6	3.0	67.4	77.4	83.2	86.1	87.1	86.6
Italy	2.7	5.3	5.0	3.9	2.7	….	106.1	115.8	116.9	116.5	114.6	….
Spain	4.1	11.4	9.8	7.5	5.3	3.0	39.7	55.2	65.9	71.9	74.3	74.1
Greece	7.7	12.7	8.7	5.6	2.8	2.0	99.2	113.4	120.4	120.6	117.7	113.4

Sources: For the United States, the Congressional Budget Office; for Japan, the Ministry of Finance; for the United Kingdom, HM Treasury Budget 2010; for France, Spain and Greece, the most recent updates of their stability programmes; for Germany, update of its stability programme and, for the 2009 deficit, Statistisches Bundesamt Deutschland; for Italy, update of its stability programme, Istat (2009 deficit) and Bank of Italy (2008 and 2009 debt).
(1) Federal deficit and debt held by the public. – (2) General account deficit of the central government; central government and local authority long-term debt. – (3) National measures.

France – Net borrowing is estimated to have increased by 4.5 percentage points in 2009 (to 7.9 per cent of GDP), partly owing to the fiscal stimulus package (equal to 1.1 percentage points of GDP according to the European Commission). In 2010 a further, albeit small, increase in the deficit is expected as a consequence of the effects of the expansionary measures and additional provisions, especially the abolition of a local tax (the *taxe professionnelle*) and the launch of an investment programme for highly innovative projects. According to the latest update of France's stability programme, the budget will be restrictive from 2011 onwards, primarily as a result of expenditure cuts (still to be specified). France should cease to have an excessive deficit in 2013, when its debt to GDP ratio will also start to decline.

Spain – Net borrowing nearly tripled in 2009, rising to 11.4 per cent of GDP. The significant worsening of the public finances was due in large part to the deterioration in the macroeconomic environment, aggravated by the effects of the fiscal stimulus measures adopted in relation to the European Economic Recovery Plan (estimated by the European Commission at about 2.3 percentage points of GDP). Already as of this year budget policy will become restrictive and net borrowing should be reduced to 9.8 per cent of GDP. Contributory factors will include the petering out of most of the effects of the fiscal stimulus package and the introduction of measures to curb the deficit. Under the consolidation strategy this will be brought within the 3 per cent limit in 2013, when the ratio of public debt to GDP will begin to decline after breaking through the 60 per cent Maastricht threshold in 2010.

Greece – The Greek government estimates that net borrowing amounted to 12.7 per cent of GDP in 2009, up from 7.7 per cent in 2008 (after a series of upward revisions, the last of which, equal to nearly 3 percentage points of GDP, in October 2009). The significant worsening was only due in part to cyclical factors, rather it was due to difficulty in collecting revenue and a huge increase in expenditure. The seriousness of the crisis of the public finances and its repercussions on market funding have led to the start on consolidation being brought forward to 2010, when the deficit should be brought down to 8.7 per cent of GDP. The consolidation strategy announced by the government is based mainly on an increase in revenue (with measures concerning personal income tax, the taxation of property and mobile telephony, excise duties, and an intensification of the fight against tax evasion), accompanied by a reduction in current public expenditure (by means of a public-sector wage and hiring freeze, together with reductions in social and military expenditure and in the running costs of the public administration). The deficit should be within the limit of 3 per cent of GDP in 2012, when the debt to GDP ratio should also start to decline.

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

Economic activity accelerated in the United States in the fourth quarter of 2009 ...

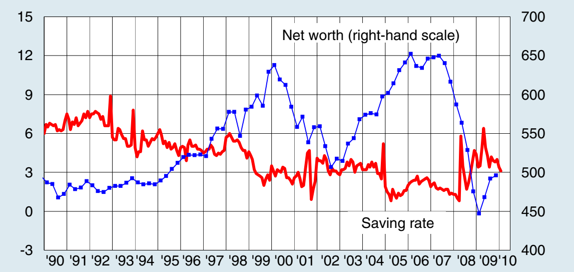
GDP growth in the United States rose in the fourth quarter to a rate of 5.6 per cent on an annual basis, from 2.2 per cent in the third quarter. Nearly all of the acceleration was due to the change in stocks, which contributed 3.8 percentage points. The growth in private consumption fell to 1.1 per cent after rising by nearly 3 per cent in the third quarter, when car sales spurred by scrapping incentives peaked. Non-residential fixed investment, which had been falling since the middle of 2008, returned to growth (5.3 per cent), while residential investment slowed abruptly to growth of 3.8 per cent after rebounding strongly in the previous quarter. Foreign trade supplied a positive, if modest, contribution of 0.3 percentage points to the growth in output, as the rate of expansion of exports rose to 22.4 per cent and that of imports fell to 15.3 per cent. Public spending, which had grown by nearly 10 per cent on an annual basis in the previous six months, contracted slightly.

... but may slacken at the beginning of 2010

The signals coming from the cyclical indicators as to the pace of growth in the first quarter of 2010 are contradictory and could point to a continuation of the recovery at a more moderate pace than in the last part of 2009. After recording rapid increases for nine months, the Conference Board Leading Economic Index nearly stabilized, albeit at a high level, while orders for capital goods net of the most volatile components declined. Following a significant, broad-based gain in January, industrial production was flat in February. By contrast, consumption and retail sales continued to expand despite stagnant disposable income. The household saving rate, which had stood at around 4 per cent in the fourth quarter in concomitance with a stabilization in net worth, fell back to 3.1 per cent in February (Figure 9).

Figure 9

United States: household saving rate and net worth (1)



Sources: Bureau of Economic Analysis and Federal Reserve.
(1) Net wealth (quarterly end-of-period data) is expressed as a percentage of disposable income (moving average of 4 quarters ending in the quarter indicated). Seasonally adjusted monthly data for the saving rate.

Employment and lending remain weak

The labour market continues to be the main risk factor for the recovery. The unemployment rate, measured on the basis of the survey of households, fell from 10 to 9.7 per cent in January and then remained unchanged. According to the survey of non-farm businesses, employment had been flat in the first two months of the year and then recorded a gain of 162,000 in March, possibly marking a reversal of trend but not yet sufficient to bring down the unemployment rate.

Lending conditions remain restrictive in a context marked by the persistent weakness of credit demand. The early months of the year saw a further decline in commercial bank lending to businesses. However, according to the Senior Loan Officer Opinion Survey published in January by the Federal Reserve, the tightening of lending conditions that had been under way for more than two years essentially came to a halt in the fourth quarter of 2009. Meanwhile, non-financial companies continued to have large recourse to the bond market, with issues amounting to $140 billion since the turn of the year.

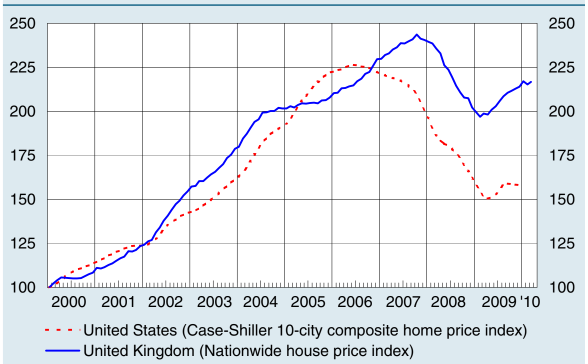
The housing market is stagnant

The Case-Shiller 10-city composite home price index has stabilized since November, interrupting its upward trend of the previous six months (Figure 10). The short-term outlook for demand remains uncertain: downside risks are posed by a possible rise in mortgage rates after the Federal Reserve terminated its purchases of mortgage-backed securities at the end of March and by the expiry in April of the tax incentives for the purchase of first homes. In these circumstances, the supply of new housing continues to stagnate; building permits and housing starts have held close to the low levels recorded last summer.

Figure 10

Real estate market: house price indices

(monthly data; indices, January 2000=100)



Source: Thomson Reuters Datastream.

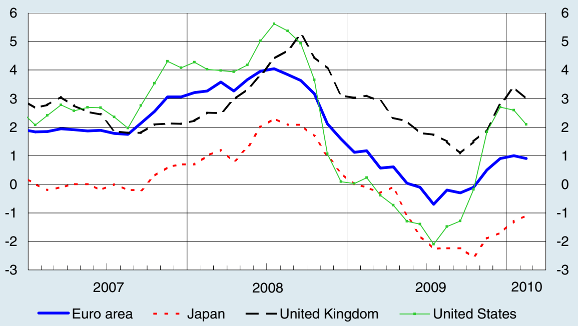
Consumer price inflation remains moderate

Consumer price inflation, which in the final part of 2009 had risen rapidly (to

2.7 per cent in December), due to base effects reflecting the steep fall in energy prices in the second half of 2008, fell back to lower levels in the opening months of this year (2.1 per cent in February; Figure 11); the increase in prices excluding energy and food products also moderated, declining from 1.8 per cent in December to 1.3 per cent. In the same period the average inflation rate expected for 2010 rose slightly to 2.3 per cent, according to the forecasters surveyed by Consensus Economics, while long-term inflation expectations, measured with the yield differential between ten-year Treasury notes and inflation-protected securities, declined from 2.4 to 2.2 per cent.

Figure 11

Consumer price inflation in the main advanced economies(1)
(monthly data; twelve-month percentage changes)



Source: Thomson Reuters Datastream.
(1) For the euro area and the United Kingdom, harmonized consumer prices.

The Federal Reserve maintains its expansionary stance and delineates its exit strategy

In the January and March FOMC meetings the Federal Reserve confirmed the 0 to ¼ per cent target range for the federal funds rate and reaffirmed its intention of maintaining a highly expansionary stance for an extended period. However, with conditions in the money market returning to normality, on 18 February it raised the discount rate by 25 basis points to 0.75 per cent. With effect from 18 March, the overnight maturity was reinstated for loans from the discount window. The markets do not expect increases in the official rates before the end of this summer.

In a hearing before Congress on 10 February, the chairman of the Federal Reserve outlined the way the central bank expects to end its exceptionally expansionary monetary policy stance after the economy has returned to a sustainable, durable growth path. The exit strategy aims initially at gradually reducing banks' reserves with the central bank by means of repos and by offering banks interest-bearing term deposits; this would be followed by an increase in the rates of remuneration on reserve balances in order to foster a rise in market rates. The long-term securities purchased as part of the strategy of quantitative easing are not expected to be placed back on the market in the near future.

In Japan, GDP rose sharply in the fourth quarter

According to the latest estimates, Japan recorded a sharp expansion in GDP in the fourth quarter (3.8 per cent on an annual basis, against a contraction of 0.6 per cent in the third quarter), thanks mainly to the robust increase of 22 per cent in exports. Private consumption performed well again, growing by 2.8 per cent thanks partly to a series of incentives for purchases of durable goods. Non-residential private investment returned to growth after a year and a half, expanding by 3.8 per cent, while residential investment declined sharply again, contracting by 12.5 per cent. The latest cyclical indicators offer contradictory signals regarding the strength of the current recovery.

The deflationary trend shows no sign of receding. The rate of decline in consumer prices moderated from 1.7 per cent in December to 1.1 per cent in February, but excluding food and energy prices it remained basically unchanged at 1.1 per cent. According to the forecasts of the private analysts surveyed by Consensus Economics, deflation will continue in 2010 at an average annual rate of 1.1 per cent. The Bank of Japan has held its monetary policy reference rate unchanged at 0.1 per cent. In order to foster a fall in long-term interest rates, in mid-March it decided to double to ¥20 trillion (about 4 per cent of GDP) the amount of liquidity that will be provided to the market by means of three-month guaranteed loans under the facility introduced in December.

Recovery has also begun in the United Kingdom

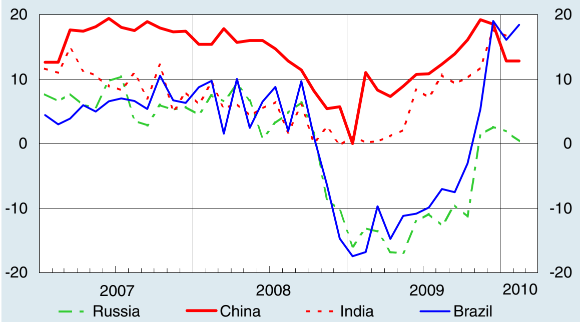
In the United Kingdom, the latest data show that GDP grew by 1.8 per cent on an annual basis in the fourth quarter of 2009, after contracting for six quarters in a row. The progress was mainly due to the change in stocks, which contributed about three percentage points, and to private consumption, which grew by 1.5 per cent. By contrast, fixed investment began to fall steeply again (by more than 10 per cent) and net exports' contribution remained negative by 1.3 percentage points.

From January to March 2010 house prices rose by 1.2 per cent, more slowly than in the preceding quarters (Figure 10). Consumer price inflation stood at 3 per cent in February; the forecasts in the Bank of England's February *Inflation Report* indicate that inflation is likely to moderate further in the coming months and to fall below 2 per cent towards the end of the year. The monetary policy reference rate was held at 0.5 per cent; the purchases of financial assets under the Asset Purchase Programme were completed by the end of January for a total amount of £200 billion.

The expansion continued in the main emerging countries

Figure 12

Industrial production in the BRIC countries
(monthly data, not seasonally adjusted; twelve-month percentage changes)



Sources: Thomson Reuters Datastream and national statistics.

The expansion of economic activity in the main emerging countries gained pace towards the end of 2009 and showed signs of strengthening in the first months of this year. Private analysts have revised their 2010 growth forecasts for all the main emerging economies significantly upwards since December. In China, GDP growth rose to 10.7 per cent year on year in the fourth quarter (from 9.1 per cent in the previous quarter), led by the rapid expansion in domestic demand, despite a let-up in investment spending by public enterprises. The increase in industrial production (Figure 12), in conjunction with a recovery in exports, suggests that economic activity remained very strong in the first quarter of 2010 as well; according to the forecasters polled by Consensus Economics, the GDP growth rate will average about 10 per cent this year. Consumer price inflation rose back to 2.7 per cent in February, pushed upwards by the prices of food products. Building prices continued to rise steeply and in January 2010 were 10.7 per cent higher than a year earlier. By contrast, the money and credit aggregates slowed their expansion following the restrictive measures taken by the central bank.

In India, the GDP growth rate came down to 5.9 per cent in the fourth quarter compared with the year-earlier period (from 7.9 per cent in the third quarter), reflecting the negative contribution of public spending and a contraction in agricultural production due to the summer drought. Wholesale price inflation rose significantly, almost reaching 10 per cent in February.

In Brazil, GDP accelerated in the fourth quarter to grow by 8.4 per cent on an annual basis, led by consumption and private investment; the contribution of net exports turned negative, owing to the large increase in import growth. The cyclical indicators available for the first two months of 2010 provide generally positive signals, with an increase in industrial production and a marked pick-up in retail sales, induced perhaps by the approaching expiry of a series of tax incentives. Current and expected inflation increased again, rising slightly above the central bank's target rate and engendering market expectations of an imminent hike in official rates.

In Russia, the latest estimates show a rapid recovery in economic activity since the middle of 2009. GDP growth of about 10 per cent on an annual basis was driven by exports, while domestic demand remained weak. Against a background of falling inflation and a strengthening of the ruble, the central bank cut official rates on two occasions. According to the forecasts compiled by Consensus Economics, the Russian economy will grow by 4.5 per cent this year.

The situation is gradually improving in the countries of central and eastern Europe as well. In the fourth quarter of 2009 GDP growth picked up sharply in Poland and the Czech Republic, to 4.9 and 2.9 per cent respectively on an annual basis. The recession eased in Hungary, but it deepened again in Romania. The outlook for 2010 is less favourable for the countries of the area than for the other emerging regions. A broad-based improvement is expected compared with last year, but it is likely to proceed only gradually owing to both domestic conditions (high unemployment and the fragility of private-sector balance sheets) and external factors (the protracted weakness of demand originating from the advanced countries of Europe).

World trade continues to revive

World trade continued to recover rapidly in the fourth quarter of 2009. The aggregate volume of exports and imports of goods of the seven largest industrial countries plus China grew by 28 per cent on an annual basis compared with the third quarter, although this was still some 15 per cent below the peaks recorded in 2008. In a setting of rising oil prices and reviving international demand, global current account imbalances began to grow again: the US deficit increased from 2.9 to 3.2 per cent of GDP, while Japan's surplus rose from 2.9 to 3.4 per cent; China's surplus remained high (5.2 per cent of GDP in the second half), though well below the levels recorded in 2008. The marked reduction in global imbalances in 2009 as a whole – the US current account deficit fell by 40 per cent, in correspondence with smaller surpluses for the oil-exporting countries, China and, to a lesser extent, Japan – is ascribable primarily to cyclical factors. Failing a significant correction in the structural determinants of these imbalances, the IMF forecasts indicate that they are likely to grow again in the two years 2010-11.

2.3 THE EURO AREA

GDP slowed in the final part of 2009 ...

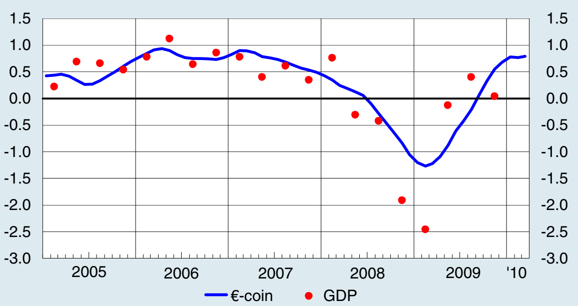
In the fourth quarter of 2009, euro-area GDP showed no change on the previous quarter (when it had grown by 0.4 per cent; Figure 13). This reflected a stagnant German economy and a contraction of 0.3 per cent in Italy, following increases of around half a percentage point in both countries in the previous quarter; in Spain GDP declined slightly, much less sharply than in previous quarters. Among the largest economies, only in France did GDP growth accelerate (from 0.2 to 0.6 per cent).

As international trade recovered, economic activity in the area was held back by persistently weak domestic demand. Further improvement in the performance of exports, which grew by 1.9 per cent thanks above all to the expansion of German exports (3 per cent), was accompanied by a 1.3 per cent increase in imports; overall, net foreign demand contributed 0.2 per cent to GDP growth. Gross fixed investment declined for the seventh consecutive quarter, by 1.3 per

Figure 13

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

(percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator, see the box "The €-coin indicator and the economic situation in the euro area" in Economic Bulletin No. 53, 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly data; change on preceding quarter. For €-coin, monthly data.

cent. Private consumption continued to stagnate, reflecting the fall of around one percentage point in Germany (partly owing to the termination in September of car purchase incentives), while in France (where the car scrapping incentives remained in place for the whole of 2009) it accelerated sharply. Changes in the stocks of finished products made almost no contribution to growth in the euro area, even though trends in the main economies varied greatly.

Overall, in 2009 GDP contracted by 4.1 per cent in the euro area; the decline was steeper in Germany and in Italy (5 per cent in both countries), less so in France (2.2 per cent based on quarterly data).

... but there are signs that economic activity gathered strength in the early months of 2010

In the first quarter of 2010 economic activity continued to draw strength from the recovery in international trade and also benefited from the depreciation of the euro. In the first two months of the year, the area-wide index of industrial production adjusted for calendar and seasonal effects, rose by 2.4 per cent. The Purchasing Managers Index (PMI), which already in the last part of 2009 had risen above the threshold compatible with an expansion in output, continued to rise until March, driven by strong growth in Germany. Business confidence improved further, thanks above all to the more positive assessments of short-term trends in production and orders, foreign orders in particular. In the service sector, the PMI declined in the first two months of the year, before recovering in March and remaining well above the threshold compatible with an expansionary phase throughout the quarter.

The €-coin indicator produced by the Bank of Italy, which estimates the rate of quarterly change in euro-area GDP adjusted for short-term fluctuations, after increasing for all of 2009, settled at a little under 0.8 per cent in the early months of 2010 (Figure 13). The indicator was buoyed by the results of the business outlook surveys, but restrained by the performance of industrial production and the labour market.

Domestic demand remains weak

The contribution of domestic demand to growth appeared negligible in the early months of 2010. Despite the slight reduction in the last part of 2009, capital formation continues to be affected by ample spare capacity and the uncertainty surrounding the strength of the recovery. The historically high unemployment rate (10 per cent in February) weighs on household expenditure and employment prospects remain uncertain. This has dampened consumer confidence, in decline since the beginning of the year. Retail sales have failed to invert the downward trend under way since the start of 2008. In the first two months of 2010, new car registrations in the main euro-area countries contracted sharply, reflecting the end of tax incentives in Italy and Germany, and their extension at less favourable conditions in France.

The professional forecasters surveyed by Consensus Economics in March expect euro-area GDP to expand by 1.1 per cent on average in 2010 (Table 2), benefiting from a marked acceleration in output in Germany (1.7 per cent) and France (1.4 per cent), accompanied by a slower recovery in Italy (0.8 per cent). GDP is forecast to drop by about half a percentage point in Spain, although its fall is expected to come to a halt within the first six months of this year.

Table 2

Forecasts of the growth in euro-area GDP (1)

(percentage changes on preceding year)

	Month released	Forecasts for 2010
ECB/Eurosystem (2)	Mar.-10	0.4 / 1.2
	Dec.-09	0.1 / 1.5
IMF	Apr.-10	0.8
	Jan.-10	1.0
OECD	Nov.-09	0.9
European Commission	Feb.-10	0.7
	Oct.-09	0.7
Consensus Economics	Mar.-10	1.1
	Feb.-10	1.3

Sources: ECB, IMF, OECD, European Commission, Consensus Economics.
(1) For the ECB, IMF and European Commission, the two most recent forecasts, released in the months indicated. For the OECD, the latest forecast, released in the month indicated. For the forecasts collated by Consensus Economics, the expectations expressed in the months indicated. – (2) Projections by Eurosystem experts for December (collated jointly by the ECB and the NCBs of the euro area) and by the ECB experts for March.

The forecasts released in February by the European Commission are for moderate growth in the euro area, averaging 0.7 per cent in 2010; the ECB experts' forecasts of March predict growth of between 0.4 and 1.2 per cent.

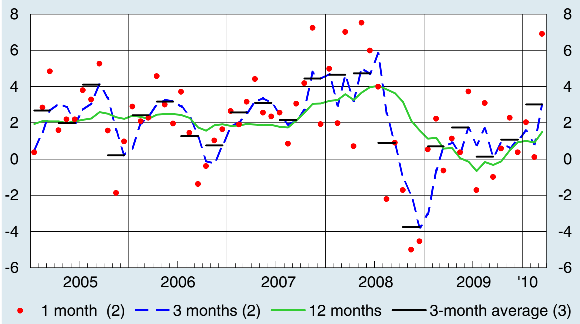
Inflation rose at the start of the year ...

According to preliminary data, the harmonized index of consumer prices rose in March by 1.5 per cent on a twelve-month basis, compared with 0.9 per cent in February (Figure 14). The increase was due to that in the energy component, linked to the recent round of hikes in oil prices denominated in dollars and the depreciation of the euro. The seasonally adjusted three-month variations in the index, having fluctuated around 1.0 per cent on an annual basis since last spring, rose by over one percentage point in March, driven by the higher prices of energy products.

Figure 14

Harmonized index of consumer prices in the euro area (1)

(percentage changes)



Sources: Based on Eurostat and ECB data.
(1) Provisional data for March. – (2) On a seasonally adjusted and annual basis. – (3) Average, in the reference quarter, of monthly growth rates, on a seasonally adjusted and annual basis.

Core inflation continues to be affected by the fragility of the economic recovery: in February, the last month for which disaggregated data are available, the twelve-month change in the index excluding food and energy products, in decline for over a year, stood at 0.8 per cent, the lowest level since the beginning of the 1990s. A contributory factor was the fall in car prices, partly owing to the statistical treatment of prices in Spain, where reductions due to scrapping incentives are reflected in list prices.

Despite remaining negative, the producer price index rose sharply in recent months, owing to the base effects of the energy component and of the recent increases in oil prices. The firms surveyed by the European Commission expect their retail prices to recover in the next few months, in keeping with the recent rise in input costs recorded by the PMI index.

... but inflation expectations remain moderate

According to the professional forecasters surveyed by Consensus Economics in March, euro-area inflation will remain moderate in the next two years, at 1.1 per cent in 2010 and 1.4 per cent in 2011.

The decline in lending to firms is showing signs of abating ...

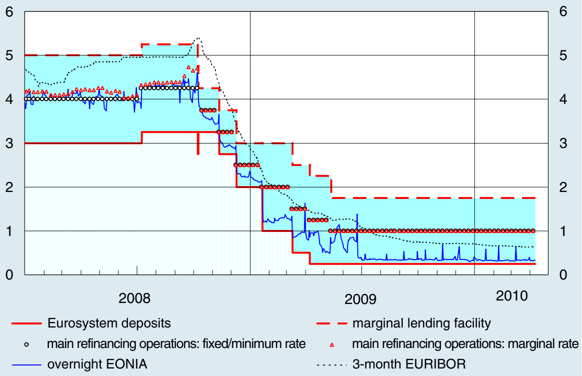
From last November onwards, bank lending to the private sector continued to stagnate, reflecting the weakness of economic activity; adjusted for the accounting effect of securitizations it fell by 0.1 per cent in the twelve months to February, while the three-month annualized contraction was 0.5 per cent. The contraction in lending to firms continued, albeit at a slower pace (1.4 per cent in the three months to February, compared with 3 per cent in November; not adjusted for securitizations. The modest expansion in lending to households continued (at a three-month rate of 2.9 per cent). The performance of lending to firms and households mostly reflects the weakness of demand; according to the Eurosystem's Bank Lending Survey, the tightening of supply, which was pronounced in the previous quarters, appeared to ease in the fourth. The rate of change of M3 remained negative (0.4 per cent in the twelve months to February); the shift towards more liquid forms of credit continued, with a robust increase in current accounts (12 per cent) and a sharp decline (22.5 per cent) in deposits with an agreed maturity of up to two years.

... while the ECB continues its gradual exit strategy

In the last few months the ECB Governing Council has kept the main refinancing rate at 1 per cent (Figure 15). At its meeting of 4 March, it continued to phase out the unconventional measures adopted in December and no longer considered indispensable. The main refinancing operations and those with a maturity equal to the reserve maintenance period will continue to be conducted by fixed-rate auctions with full accommodation of the demand for as long as it is deemed necessary and in any event at least until 12 October. From 28 April onwards, the longer-term, three-month refinancing operations will revert to variable-rate auctions. In order to avoid liquidity shortages at the beginning of July, when a major twelve-month refinancing operation will end, the Council has scheduled a one-week fine-tuning operation. The last six-month refinancing operation was conducted on 31 March by fixed-rate auction with full accommodation of the demand, equal to around €18 billion, a figure that fell short of expectations. In its meeting of 8 April the ECB Governing Council decided to keep the minimum credit threshold for assets eligible as collateral in Eurosystem refinancing operations at investment-grade level (i.e. BBB-/Baa3); the higher threshold for asset-backed securities (ABSs) was also maintained. Lastly, the Council decided to modify the haircuts applied to lower-rated assets with effect from January 2011.

Figure 15

Official interest rates and money market rates in the euro area
(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

Abundant liquidity conditions continued to keep interbank rates at very low levels. The spread between unsecured and secured loans (Euribor and Eurepo) – a measure of the risk premium – remained virtually unchanged from the levels of end-2009 (about 30 basis points on three-month funds).

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

GDP fell in the fourth quarter of 2009 ...

In the fourth quarter of 2009, Italy's GDP fell by 0.3 per cent compared with the previous quarter, following strong growth of 0.5 per cent during the summer months (Table 3). In the second half of the year as a whole, GDP growth was barely positive, below that of the leading euro-area economies. In the last quarter exports did not repeat the gains of the third; taking account of the marked acceleration of imports (3.2 per cent), net foreign demand subtracted 0.8 percentage points from growth. The domestic components of demand remained weak: household spending was slack; investment fell by 1 percentage point, reflecting the contraction in construction (-1.6 per cent) and, to a lesser extent, in machinery, equipment and transport equipment (-0.2 per cent). Stock-building made an important contribution (0.8 points).

On the basis of annual accounts (which, unlike the quarterly figures, are not adjusted for calendar effects), GDP fell by 5 per cent in 2009 (Figure 16), due largely to a drop in domestic demand of 3.8 percentage points, caused by the slump in investment (-12.1 per cent, the worst since the Second World War) and by a significant contraction in consumption (-1.8 per cent), despite the stimulus provided by government incentives to scrap the most polluting vehicles. Exports (-19.1 per cent) subtracted about 5 percentage points from growth, an effect compensated only partly by the concurrent fall in imports (-14.5 per cent).

... but activity picked up in the first few months of 2010

The recovery of industrial activity in the first two months of 2010, together with the positive signals coming from qualitative surveys, point to a return to growth in the first three months of this year.

Table 3

GDP and its main components

(chain-linked volumes; data adjusted for seasonal and calendar effects; percentage changes on preceding period)

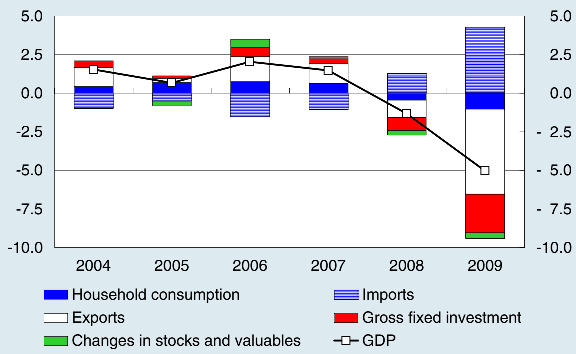
	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2009 (1)
GDP	-2.7	-0.5	0.5	-0.3	-5.0
Total imports	-9.7	-2.5	1.6	3.2	-14.5
National demand (2)	-2.4	-0.5	0.3	0.5	-3.8
National consumption	-1.0	0.4	0.4	-0.1	-1.2
households	*-1.3*	*0.3*	*0.6*	*-0.1*	*-1.8*
other (3)	*-0.2*	*1.0*	*-0.4*	*-0.2*	*0.6*
Gross fixed capital formation	-3.9	-2.7	..	-1.0	-12.1
construction	*-1.4*	*-1.4*	*-2.1*	*-1.6*	*-7.9*
other investment goods	*-6.7*	*-4.2*	*2.5*	*-0.2*	*-16.6*
Changes in stocks and valuables (4)	-2.4	-0.5	0.3	0.5	-0.4
Total exports	-11.3	-2.8	2.6	0.1	-19.1

Source: Based on Istat data.
(1) Data not adjusted for calendar effects. – (2) Includes changes in stocks and valuables. – (3) Expenditure of general government and non-profit institutions serving households. – (4) Contribution to GDP growth on the preceding period, in percentage points.

Figure 16

Contributions of the main components of demand and imports to the growth in GDP (1)

(percentages)



Source: Based on Istat data.
(1) The formula for calculating the contributions to real GDP growth in accordance with the new methodology for price deflation based on chain linking can be found on the Istat website: www.istat.it

Weak domestic demand and slow export recovery are weighing down growth prospects

The persistent weakness of household consumption and uncertainty over the Italian economy's capacity to take advantage of the revival of world trade are affecting the scale and timing of the economic recovery. Now that the temporary effects of the vehicle scrapping incentives have ended, consumption is being held back by the negative trend of its main determinants. On the basis of still incomplete data, disposable income fell by more than 2 percentage points in real terms on average in 2009. Household wealth felt the effects on real and financial assets of the economic and financial crisis. Employment prospects remain uncertain in the face of a progressive deterioration in labour market conditions. In February, Istat's preliminary estimates indicate that seasonally adjusted employment was 700,000 below the peak in April 2008. The unemployment rate was 8.5 per cent in February, the highest since March 2003. Starting in April, government support measures should temporarily stimulate consumption. But before firms begin to invest again, the reabsorption of the ample spare capacity built up during the crisis that began in the third quarter of 2009 and continued haltingly in the fourth will have to accelerate markedly. For the future, firms' investment plans will be affected by the slump in profits of the last two years.

The most recent data indicate that Italian export sales improved between December and January. This is also reflected in firms' greater optimism regarding orders and production forecasts. The relatively slower pace of the recovery of Italian exports, compared with France and Germany, is due to the cumulative loss of competitiveness in recent years, excessive specialization in sectors exposed to price competition from the emerging economies, and weaker penetration of Italian products in Asia, where demand has strengthened more rapidly.

Core inflation is at historically low levels

After reaching its lowest point (nil) in July 2009, consumer price inflation, measured by the general consumer price index, rose in the following months to reach 1.4 per cent in March, according to provisional estimates from Istat. The upturn was largely driven by increases in energy prices. Since last summer core inflation has remained at historically low levels, at just under 1.5 per cent. In 2009, on an annual basis, the harmonized index in Italy rose by 0.8 per cent, approximately half a percentage point more than in the euro area as a whole; however, this gap was closed at the beginning of this year.

3.2 FIRMS

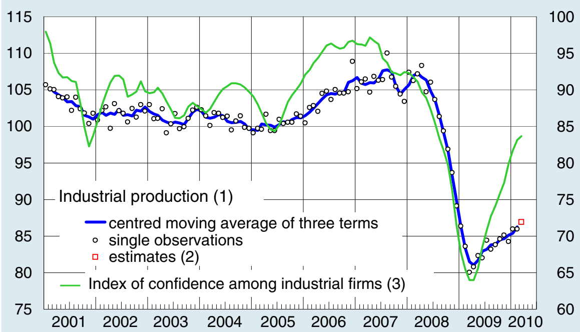
Industrial activity is recovering

Under the severe impact of the collapse in world trade, Italian industrial output hit its low point in March 2009, down by 25 per cent from a year earlier (Figure 17). Since then, according to Istat's recently revised data, the industrial production index has been recovering gradually, with the strongest gains being recorded by non-durable consumer goods and intermediate goods. On average, in January and February 2010 manufacturing activity increased by 1.4 per cent, rising to about 7 percentage points above the minimum.

Driven by exports, the index of industrial orders, deflated by producer prices, rose by an average of 1.3 per cent in the three months ending in January compared with the quarter

Figure 17

Industrial production and index of business confidence
(monthly data)



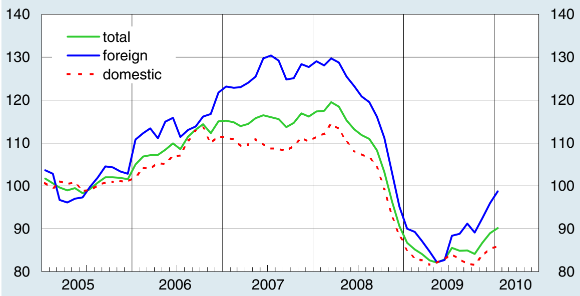
Sources: Based on ISAE, Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; 2005 index=100. – (2) Based on electricity consumption and the indicators of ISAE surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions regarding the level of demand, production expectations and stocks of finished products; index, 2000=100; three-month moving average ending in the reference month (right-hand scale).

ending in December (Figure 18). According to ISAE's surveys, firms' assessments of orders and their expectations for production, which had improved through much of 2009, have grown more favourable in the last few months, and the purchasing managers' index for manufacturing gives similar indications. In the short term a positive contribution to growth could also come from the inventory cycle. The findings of the quarterly survey conducted by the Bank of Italy and *Il Sole-24 Ore* in March indicate that the phase of inventory reduction recorded during the recession is now practically at an end.

Figure 18

New orders in industry (1)

(in volume; monthly data)



Source: Based on Istat data.
(1) The indices of new domestic and foreign orders are seasonally adjusted and deflated with the respective producer prices; the total index is calculated indirectly as the weighted average of the domestic and foreign components. Indices, 2005=100; three-month moving averages ending in the reference month.

Productive investment is stagnating ...

After a 2.5 per cent increase in the third quarter, investment in machinery and equipment, transport equipment and intangible goods stagnated in the fourth. Nor were there any signs of a significant pickup in investment in the early part of 2010. According to the Bank of Italy-*Il Sole 24 Ore* survey, against a backdrop of uncertainty over the strength of the recovery in demand, firms judged investment conditions to be slightly worse than in the previous quarter. Some support for investment could come not only from less restrictive lending terms (see the box "Credit supply and demand in Italy") but also from the tax incentives introduced last July.

... while construction investment continues to decline

Construction investment contracted by 2 percentage points in the fourth quarter, about the same as in the third. Builders' confidence has improved markedly in recent months, however, with a more optimistic assessment of building plans.

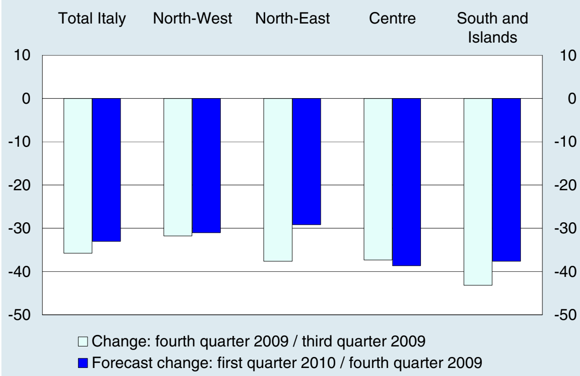
The housing market outlook stabilizes

According to data collected by the Territorial Agency, in the fourth quarter of 2009 the decline in house sales moderated sharply (to an annualized rate of 3.2 per cent, from 11.3 per cent in the third quarter), in line with the findings of the quarterly sample survey of real estate agents conducted in January by the Bank of Italy together with Tecnoborsa. The agents reported a fall in the number of still unexecuted sales mandates, even though the average time between conferral of the mandate and successful sale lengthened slightly. As to prices, the Territorial Agency found that the modest decline in the first half of the year (down 0.5 per cent from the second half of 2008) virtually ended in the second half (down 0.2 per cent). In the Banca d'Italia -Tecnoborsa's January survey, the negative balance between respondents expecting increases and decreases in house prices narrowed further (Figure 19), while the prevalence of those expecting no change increased. Overall, agents' expectations were less pessimistic than at the end of last year, especially for the longer time horizons.

Figure 19

House prices in Italy

(percentage balances between +/- assessments)



Source: Banca d 'Italia-Tecnoborsa, Italian Housing Market Survey Short-Term Outlook.

Competitiveness benefits from the depreciation of the euro ...

The international competitiveness of Italian firms, as gauged by producer prices, deteriorated by more than one percentage point, on average, in 2009. But in the last months of the year it recorded a modest recovery, thanks to the depreciation of the euro (Figure 20). This trend strengthened in the first few months of 2010.

... and from the slowing pace of productivity decline

In the fourth quarter the rise in unit labour costs for the entire economy eased markedly, to a twelve-month increase of 1.6 per cent compared to 5.0 per cent in the third quarter (Figure 21). One factor was the slowdown in hourly compensation and the halt to the decline in productivity (after the 2.2 per cent fall registered in the third quarter). For 2009 as a whole unit labour costs rose by 4.5 per cent, owing to the steep decline, especially in industry, in hourly output.

Profitability remains low

Estimates based on national accounts data indicate that non-financial firms' operating profitability (operating profit over value added) in the twelve months ending in December was basically the same as in the twelve months to September. This stabilization, after four consecutive quarters of significant contraction, reflected a fall in labour costs comparable to that in value added. Net financial costs fell further in proportion to value added, while self-financing held steady.

The borrowing requirement diminishes further ...

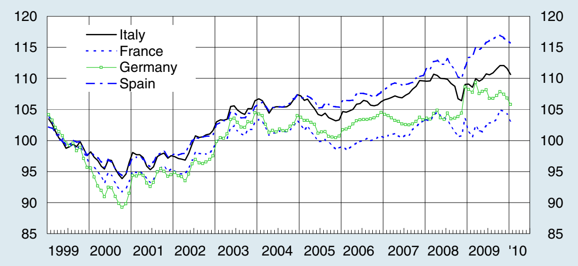
Between September and December firms' borrowing requirement – the difference between gross investment (including investment in inventory) and self-financing – continued to decline, reflecting the sharp contraction of investment due to recession. Their financial debt stabilized at 84 per cent of GDP (Figure 22), compared to a euro-area average of 100 per cent.

... and so does bank debt

Firms' debt to banks again decreased significantly with respect to the year-earlier period, especially for medium-sized and large

Figure 20

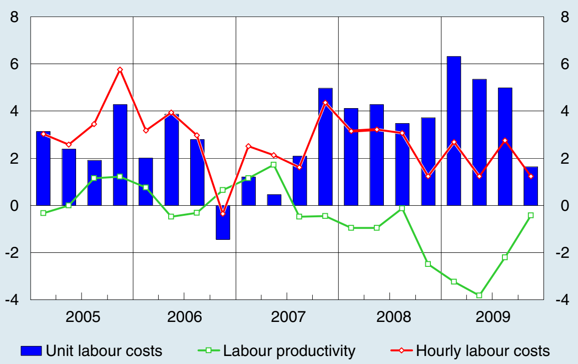
Indicators of competitiveness (1)
(indices, 1999=100)



Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in the index indicates a loss of competitiveness. Latest available data refer to January 2010.

Figure 21

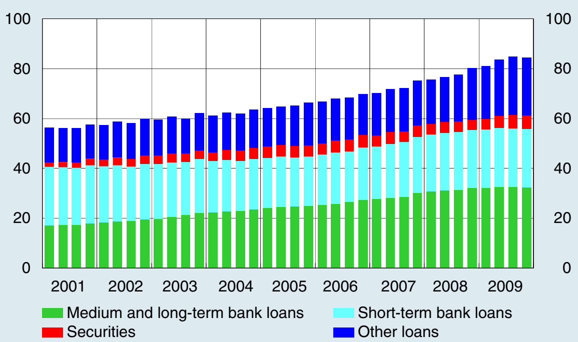
Labour costs and productivity in the total economy (1)
(percentage changes on year-earlier period)



Source: Based on Istat data.
(1) Based on hours actually worked.

Figure 22

Corporate debt (1)
(as a percentage of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized loans. The data for the fourth quarter of 2009 are provisional.

companies (Figure 23). Small enterprises' debt remained basically unchanged.

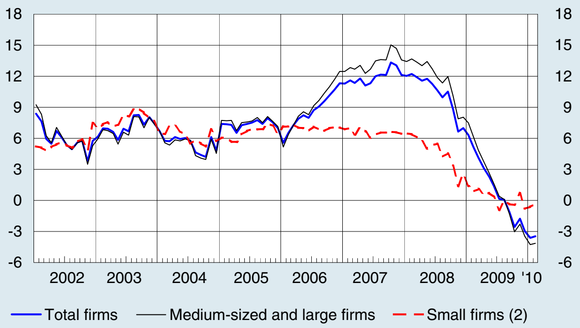
Bond issues remain modest

Net bond issues by non-financial corporations amounted to about €3 billion in the fourth quarter, as in the third. According to Dealogic data on gross issues, in the first quarter of 2010 issues by companies belonging to Italian groups amounted to €8.3 billion, down from €7.7 billion in the fourth quarter. ENEL made issues of €3.0 billion, Telecom €1.3 billion. Non-financial companies had virtually no recourse to the equity market for capital increases in the fourth quarter, as in the third. The funds raised on the bond and equity markets were not used for mergers and acquisitions, which remained modest. According to Thomson Reuters, there were 24 M&A operations worth a total of less than €2 billion, more than half of it for a single mass media operation.

Figure 23

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



(1) Data adjusted for the accounting effect of securitizations. Loans exclude repos, bad debts and some minor items included in the Eurosystem harmonized definition of the aggregate. The data are also adjusted for reclassifications and other changes not due to transactions. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

3.3 HOUSEHOLDS

Growth in consumption remained weak towards the end of 2009 ...

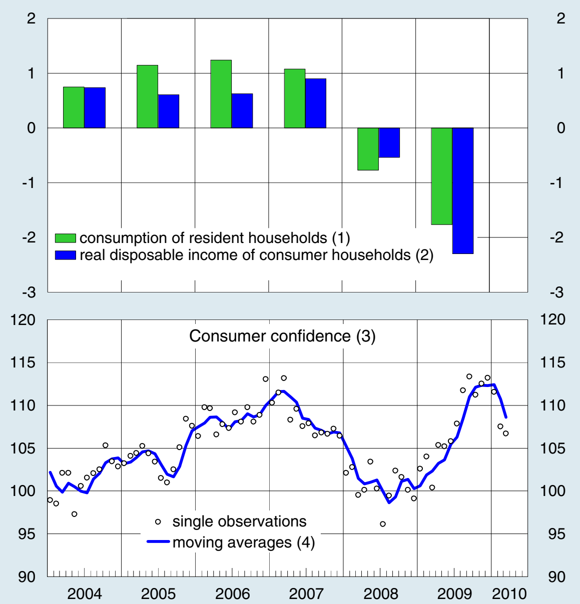
Household consumption stagnated in the last three months of 2009, after rising by more than half a percentage point in the previous quarter. The contraction of purchases of semi-durables (down 2.2 per cent from the previous quarter) and durables (-1.4 per cent despite the tax incentives for motor vehicle scrapping which ended in December) was offset by the rise in non-durable goods (0.6 per cent), the first after six consecutive falls. There was no change in spending on services.

Overall, the contraction of consumption in 2009 (-1.8 per cent, Figure 24) mainly reflected the trend in households' disposable income. On the basis of still incomplete data, it is estimated that disposable income fell for the second year running, declining in real terms by more than two percentage points compared with 2008. In the face of a slight reduction in the consumption deflator, this contraction can be fully ascribed to total nominal incomes; labour income was reduced by the sharp fall in employment, while investment income was affected by declines both in dividends and profits distributed by firms and in net interest payments to households. Starting

Figure 24

Consumption, disposable income and consumer confidence in Italy

(growth rates; percentage points and indices)



Sources: Based on ISAE and Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. – (2) Obtained using the consumption deflator for resident households. – (3) Indices: 1980=100, seasonally-adjusted data. – (4) Moving averages for the three months ending in the reference month.

from the summer months, household wealth has benefitted from the recovery in share prices.

... with no sign of a turnaround in the first few months of 2010

In more recent months, retail sales have continued to diminish, and in January there was a fall of 0.3 per cent in volume terms and net of seasonal factors. Despite the end of tax incentives for scrapping, new vehicle registrations only fell by 1.2 per cent on average during the first quarter compared with the previous one, sustained temporarily by the backlog of orders from late 2009. Data on new orders show a decidedly more negative picture, with a fall of 43 per cent from the average over the last three months of 2009. Consumer confidence, which steadily improved in the second half of 2009, has begun to worsen again this year, returning in March to the levels recorded last June. Households are more pessimistic about the general economic situation of the country and increasingly worried about labour market conditions: the number of consumer respondents who expect a sharp increase in unemployment in the next twelve months rose to more than 30 per cent in March, double that recorded last July. Consumer opinion has also been influenced by the deterioration in family finances: the prospects for saving are seen as considerably less favourable. In addition, there is a heightened perception of inflation in the last six months as the consumer price index has begun to rise again.

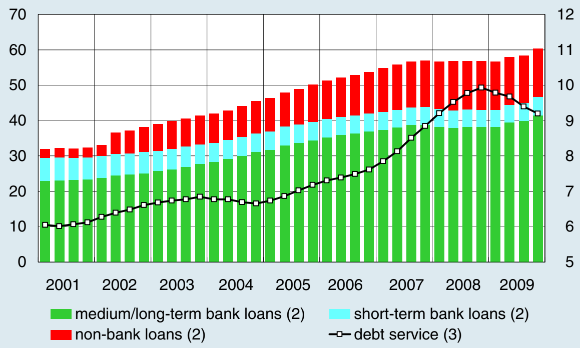
Household debt rises slightly; debt service diminishes further

The ratio of household debt to disposable income rose slightly in the fourth quarter of 2009, to 60 per cent (Figure 25). This rise mainly reflects the increase in medium and long-term bank loans and the reduction in disposable income. Nevertheless, the level of indebtedness is still well below the euro-area average (almost 95 per cent in September 2009). Italian households' debt service payments (interest and repayment of principal) continued to decline, to 9.2 per cent of disposable income, thanks in part to a further reduction in interest rates on house purchase loans (Figure 26). By contrast, consumer credit rates rose slightly.

Figure 25

Household debt (1)

(as a percentage of gross disposable income)

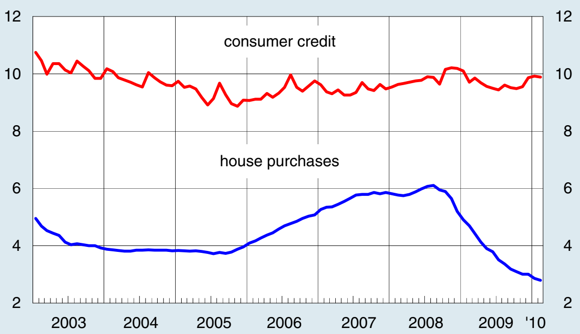


Sources: Based on Bank of Italy and Istat data.
1) Includes securitized loans. Disposable income for 2009 is estimated on the basis of quarterly national accounts data. Data on loans in the fourth quarter of 2009 are provisional. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer households and to the twelve months ending in the reference quarter. Debt service consists of payment of interest and repayment of principal. Interest is calculated by multiplying the outstanding stocks in each period by an average rate that takes account of the composition of the stock according to maturity and type of intermediary; repayments of principal are estimated on the basis of supervisory reports.

Figure 26

Interest rates on loans to households: APRC on new business (1)

(monthly data; percentages)



Source: Bank of Italy.
(1) The data on bank lending rates refer to euro transactions and are gathered and processed using the Eurosystem's harmonized method. "New business" means contracts concluded during the reference period or contracts renegotiating previous terms and conditions. The APRC (annual percentage rate of charge) includes ancillary expenses (administrative expenses, loan examination fees and insurance) and is calculated as the average rate on the transactions done during the month, weighted by the loan size.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports contracted sharply in 2009 ...

The volume of Italian exports of goods and services contracted sharply in 2009, falling by 19.1 per cent. The goods component alone recorded an even larger decline (20.4 per cent), to which all the sectors of manufacturing contributed, particularly mechanical machinery and equipment, the traditional Italian export goods industries and the transport equipment sector (see the box "The recent performance of Italian exports"). Exports fell in all the main outlet markets both within the European Union and outside it.

... and so did imports

The volume of imports also fell steeply, by 14.5 per cent overall and by 15.5 per cent in the goods component. The decline, chiefly attributable to the collapse in purchases of intermediate and capital goods, was more pronounced for imports from the EU countries. By sector, metal products, transport equipment and mechanical machinery and equipment were the largest contributors. In concomitance with the gradual improvement in cyclical conditions, Italian imports began to revive from the third quarter onwards, driven by purchases of production inputs, intermediate goods and capital goods.

Foreign trade has continued to recover in 2010

The recovery of foreign trade in the second part of the year is confirmed by more recent data, which refer to January and, only for trade in value terms with non-EU countries, to February. In the first two months of the year both imports and exports appear to have continued to grow, the latter more weakly.

The current account deficit fell

In 2009 the deficit on the current account of the balance of payments fell from 3.5 to 3.2 per cent of GDP and from €54.5 billion to €48 billion (Table 4).

The trade balance benefited from a reduction in the deficit on energy

The trade balance improved to show a slight surplus of €2.2 billion. The decline in the surplus on non-energy products was more than offset by the fall in the energy deficit to €40.2 billion; a factor in this reduction of €17.3 billion was the lower average level of oil prices compared with 2008. The deficit on services grew further to €10.9 billion, particularly under "other services" and foreign travel. The latter component was hit by the decline of 6.7 per cent in spending by foreign visitors in Italy (the largest drop since 1986), which was accompanied by a far smaller reduction in spending abroad by Italians. The deficit under "income" declined to €26.6 billion (1.7 per cent of GDP) in 2009, primarily thanks to the improvement in "other investment". In January 2010 the current account deficit was slightly smaller than in the same month of 2009, continuing to benefit from the reduction in the energy deficit.

Italians resumed investing in foreign securities

Direct investment in Italy by non-residents rose in 2009 by €9 billion from its very low level in the previous year. Direct investment abroad by Italians also expanded, but only as a result of a major transaction carried out by Enel. The balance on direct investment remained negative by €11 billion. Net portfolio investment inflows amounted to €29.6 billion, well below their historically high level in 2008, reflecting the resumption of purchases by Italians of securities issued abroad. The gradual stabilization of the international markets in 2009 determined a reversal of trend in the behaviour of Italian investors, who throughout the financial crisis had

Table 4

Italy's balance of payments (1)
(billions of euros)

	2008	2009	January 2009	January 2010
Current account	**-54.5**	**-48.0**	**-7.8**	**-5.5**
Goods	-2.1	2.2	-2.9	-2.4
Non-energy products (2)	*55.3*	*42.3*	*1.2*	*1.0*
Energy products (2)	*-57.4*	*-40.2*	*-4.1*	*-3.5*
Services	-7.3	-10.9	-1.1	-1.5
Income	-29.5	-26.6	-2.7	-0.3
Current transfers	-15.6	-12.7	-1.0	-1.3
Capital account	**0.8**	**0.6**	**..**	**..**
Financial account	**49.6**	**17.9**	**-11.7**	**-15.7**
Direct investment	-18.3	-11.0	-0.6	0.5
Portfolio investment	118.5	29.6	4.4	5.6
Financial derivatives	6.8	11.1	0.1	0.8
Other investment	-51.8	-11.9	-15.6	-22.5
Change in official reserves	-5.6	0.1	0.1	-0.1
Errors and omissions	**41**	**29.4**	**19.4**	**21.1**

(1) Provisional data for January 2010 and, only for the financial account, December 2009. – (2) Based on Istat foreign trade data.

THE RECENT PERFORMANCE OF ITALIAN EXPORTS

During the acute phase of the international financial crisis (from the second quarter of 2008 to the second quarter of 2009), Italian exports of goods in volume terms – calculated by deflating, and seasonally adjusting, the total value of exports with the average unit values reported by Istat – contracted by 24.8 per cent, compared with a decline in world demand of 17.7 per cent (Figure A). Deflating the total values with the average unit values calculated by Eurostat, the decline in exports was comparable in magnitude to that recorded in Germany (25.6 per cent) and more severe than in France (18.8 per cent). The data on exports by value closely resemble those by volume.

Exports of chemical and pharmaceutical products, metal products, transport equipment, and mechanical machinery and equipment contracted sharply in Italy, as in Germany and France. Unlike its main trading partners in the area, Italy also experienced marked slowdowns in its traditional export sectors (textiles, clothing, footwear, wood products and furniture; Figure B).

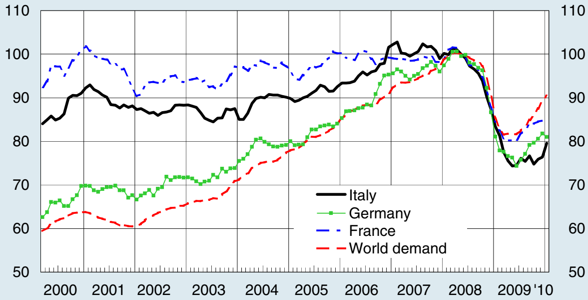
The difficulties affecting Italian exports are attributable to the structural lags accumulated over the course of this decade, first and foremost the loss of price competitiveness vis-à-vis France and Germany, of about 6 and 14 percentage points, respectively, according to the ECB's index based on GDP deflators. Secondly, Italy's presence in the markets that best withstood the collapse of world demand is still limited: sales to China and to the other East Asian economies accounted for barely 4 per cent of Italian exports in 2008, as against around 6 per cent for Germany and France.

The same factors that during the recession aggravated the contraction in Italian exports held back the recovery last year. Compared with a 9.3 per cent increase in world trade recorded from the second to the fourth quarter of 2009, Italian exports rose by 2.6 per cent in volume terms; against 5.4 per cent for exports from France and 10 per cent for Germany.

Figure A

Exports of goods in volume terms from the main European countries and world demand

(volume indices; 3-month moving averages; seasonally adjusted data; Q2 2008=100)

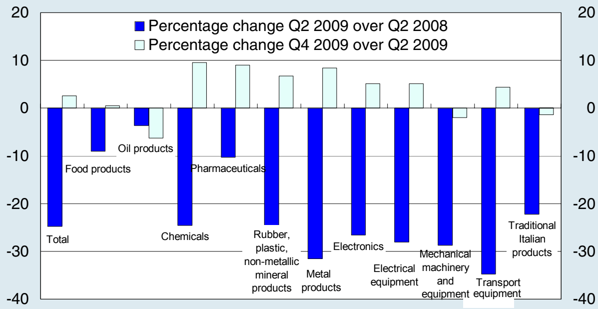


Sources: Based on data from Istat, Eurostat and, for world demand, the Netherlands Bureau for Economic Policy Analysis.

Figure B

Exports of Italian goods by sector during the crisis and recovery (1)

(percentage changes)



Source: Based on Istat data.
(1) Exports in volume terms. Percentage changes calculated as 3-month moving averages for monthly data, adjusted for seasonal and calendar effects.

The robust recovery of German exports involved almost all the industrial sectors. By contrast, in Italy and France the increase has so far been confined to a few industries, chiefly chemicals and pharmaceuticals, metal products, and transport equipment; sales of traditional Italian products, however, continued to fall.

Only in January of this year did Italian exports show stronger signs of recovery, growing by over 8 per cent in volume terms compared with the average for the last quarter of 2009.

made massive disposals of equity holdings abroad, which were considered especially risky. The revival of investment in foreign securities under way since the spring of 2009 has thus been concentrated in shares and equity funds, generating outflows of €31 billion. Purchases of Italian securities by foreign investors showed a large increase with respect to 2008 owing to the recovery of investment in equities.

Of the €95 billion of foreign assets disclosed by residents under Law 102/2009 (the so-called tax shield), transactions for the transfer to Italy of capital deriving from asset liquidation generated an inflow of about €35 billion in the period from September through December. In the balance of payments for 2009, this inflow reduces the external assets of the non-bank sector in the technical form that they had prior to repatriation, hence mainly under the item "currency and deposits".

3.5 THE LABOUR MARKET

Employment continued to fall in the early months of 2010

According to Istat's labour force survey, in the fourth quarter of 2009 employment contracted for the sixth consecutive time, falling by 0.2 per cent compared with the previous period. Provisional monthly data indicate that it continued to fall in January and February, by an average of 0.4 per cent compared with the last quarter of 2009. The number of persons in work decreased by more than 700,000, or 3.1 per cent, from the peak recorded in April 2008.

The unemployment rate reached 8.5 per cent in February, 1.2 percentage points higher than a year earlier. The youth unemployment rate rose by 4 percentage points to 28.2 per cent.

The contraction in employment between the third and fourth quarters of 2009 was limited to southern Italy and, unlike previous periods, was concentrated in services.

National accounts data show a similar decline in the number of persons in work to the labour force survey in the fourth quarter, but a sharper decline of 0.7 per cent in terms of standard labour units. The difference between the two indicators is partly due to the further increase in recourse to the Wage Supplementation Fund, which enables firms to cut the total number of hours worked while keeping the same number of employees on their books.

The employment rate for persons of working age fell to 57.1 per cent in the fourth quarter of 2009, 1.4 percentage points lower than in a year earlier (Table 5). The decline was greater for men than for women (1.7 and 1.1 percentage points respectively) and was particularly large for young

Table 5

Labour force status of the population in Italy

	Average 2008	Average 2009	Q4 2008	Q4 2009	Change on corresponding quarter (1)
	Thousands of persons				
Total persons in work	**23,405**	**23,025**	**23,349**	**22,922**	**-1.8**
Employees	**17,446**	**17,277**	**17,535**	**17,282**	**-1.4**
of which: *fixed term*	*2,323*	*2,153*	*2,255*	*2,174*	*-3.6*
part time	*2,577*	*2,585*	*2,565*	*2,612*	*1.8*
Self-employed	**5,748**	**5,959**	**5,814**	**5,640**	**-3.0**
Labour force	**25,097**	**24,970**	**25,125**	**25,066**	**-0.2**
men	*14,790*	*14,884*	*14,887*	*14,817*	*-0.5*
women	*10,213*	*10,180*	*10,238*	*10,249*	*0.1*
Population	**59,336**	**59,752**	**59,504**	**59,877**	**0.6**
	Per cent				
Unemployment rate	**6.8**	**7.8**	**7.1**	**8.6**	**1.5**
men	*5.5*	*6.7*	*6.0*	*7.4*	*1.4*
women	*8.6*	*9.3*	*8.6*	*10.2*	*1.6*
Participation rate (age 15-64)	**63.0**	**62.4**	**63.0**	**62.5**	**-0.5**
men	*74.4*	*73.7*	*74.4*	*73.7*	*-0.7*
women	*51.6*	*51.1*	*51.6*	*51.4*	*-0.3*
Employment rate (age 15-64)	**58.7**	**57.5**	**58.5**	**57.1**	**-1.4**
men	*70.3*	*68.6*	*69.8*	*68.1*	*-1.7*
women	*47.2*	*46.4*	*47.2*	*46.1*	*-1.1*
North	*66.9*	*65.6*	*66.8*	*65.2*	*-1.6*
Centre	*62.8*	*61.9*	*62.7*	*61.8*	*-0.9*
South	*46.1*	*44.6*	*45.6*	*44.2*	*-1.4*

Source: Istat, labour force survey.
(1) Changes are in percentages for persons and percentage points for rates.

people aged 15-24 (1.9 points). The contraction continued to affect only Italian workers, while the number of foreign workers rose further, albeit more slowly than in the past, rising by 5.6 per cent, or 103,000 persons, due to the increase in the officially resident immigrant population. Unlike the previous three years, in 2009 the growth in employment among the resident immigrant population of working age was considerably slower than that in the population itself (8.4 per cent against 12.7 per cent); this brought the employment rate for this category down to 64 per cent in the last quarter of 2009, 3.7 percentage points lower than a year earlier.

The number of permanent employees also declined

The decline in employment in the fourth quarter involved not only self-employed workers, whose number decreased for the seventh consecutive quarter (down by 3 per cent from a year earlier), but also employees (down by 1.4 per cent). The reduction did not spare employees on permanent contract (down by 1.1 per cent), particularly in small enterprises and in industry. By contrast, the year-on-year decline in fixed-term employment eased to 3.6 per cent, from 9.1 per cent in the third quarter.

The increase of 0.2 per cent in the labour supply compared with the third quarter can be ascribed entirely to the higher participation rate of working-age women, which rose by 0.9 percentage points.

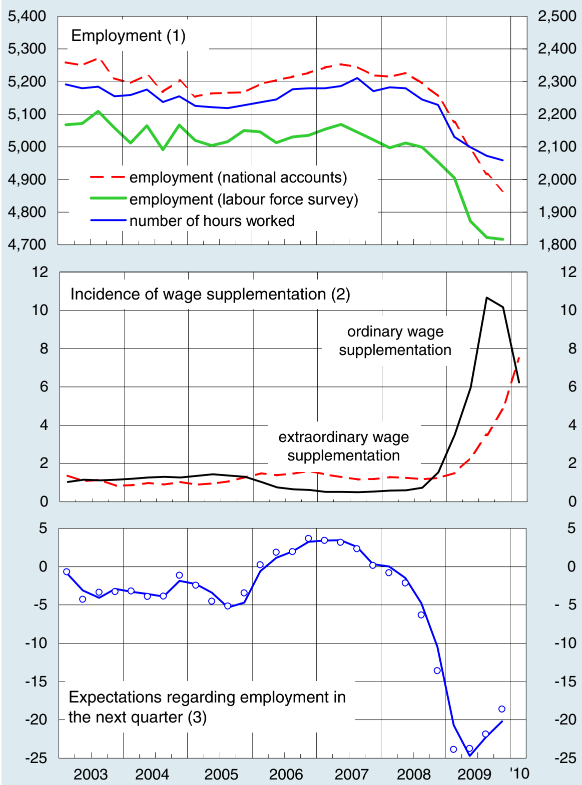
The unemployment rate continued to rise, especially among young people and immigrants

The number of job-seekers rose on a seasonally adjusted basis for the fifth consecutive quarter to 2,049,000, an increase of 4 per cent compared with the third quarter (when the increase was 4.5 per cent). The unemployment rate accordingly rose by 0.3 percentage points to 8.2 per cent. A broader measure of the imbalance between labour supply and demand, including workers on wage supplementation and discouraged workers, would indicate a figure about 2 points higher than the official unemployment rate (see the box "Estimates of unutilized available labour", *Economic Bulletin* No. 55, 2010). The increase in unemployment was particularly marked among immigrant workers (3.8 points compared with a year earlier) and young people aged 15-24 (4 points) and larger in the Centre and North (1.8 and 1.7 percentage points respectively) than in the South (1 point). The slower growth in unemployment in the southern regions can be explained entirely by the 1.1 point decline in the labour market participation rate with respect to the fourth quarter of 2008.

Figure 27

Employment, wage supplementation and employment expectations in industry excluding construction

(seasonally adjusted quarterly data; thousands of persons, millions of hours, and percentages)



Sources: Based on Istat labour force surveys and quarterly economic accounts, INPS data, and the ISAE survey *Inchiesta sulle imprese manifatturiere ed estrattive*.
(1) Total employment (persons in work) as defined by the quarterly national economic accounts and the Istat labour force surveys (left-hand scale); millions of hours worked as defined in the quarterly economic accounts (right-hand scale), adjusted for calendar effects. – (2) Average number of full-time equivalent workers for whom ordinary or extraordinary wage supplementation was authorized in the quarter as a percentage of the full-time equivalent workers as defined in the quarterly economic accounts. Partial estimates for the first quarter of 2010. – (3) Balance between percentages of firms expecting to increase/decrease their workforce in the next three months. Single observations and 3-term moving averages, data on a quarterly basis.

In the first quarter of 2010, the number of Wage Supplementation Fund hours authorized by INPS increased slightly, on a seasonally adjusted basis, compared with the previous period. In industry excluding construction, the proportion of full-time equivalent workers on wage supplementation rose by more than 1 percentage point compared with the fourth quarter, confirming the slowdown that had already emerged in the last few months of 2009 (Figure 27). The average is the result of a sharp drop in ordinary benefits and an increase in benefits granted under waiver and extraordinary benefits, which are reserved to firms in the greatest difficulties.

Both the ISAE survey of industrial firms and the Survey on Inflation and Growth Expectations carried out by the Bank of Italy together with *Il Sole 24 Ore* show less pessimistic expectations for employment than in the recent past.

Real earnings increased

In 2009 actual earnings per employee increased by 2.1 per cent on average compared with 2008 (2.2 per cent in the non-farm private sector), outpacing consumer prices. According to Istat's survey of large enterprises, the increase was due in part to changes in the composition of the workforce. The reduction in employment and recourse to the Wage Supplementation Fund affected mainly middle to low level positions, leading to an increase in average per capita earnings.

Following the renewal of labour contracts for workers in the electrical, rubber and plastics, and tourism and hotel industries at the beginning of this year, increases in actual earnings for the three-year period 2010-12 are generally in line with the ISAE forecasts for the harmonized index of consumer prices excluding energy, as is called for by the new collective bargaining framework.

3.6 PRICE DEVELOPMENTS

Consumer price inflation increases slightly ...

The consumer price index for the entire resident population (CPI) accelerated slightly in the first quarter of 2010 after a very modest increase in the second half of 2009, led by rising energy prices. According to Istat's provisional estimate, the twelve-month increase in the CPI came to 1.4 per cent in March (Table 6); the rise in the corresponding harmonized index was comparable.

In the first quarter of 2010 the short-term rate of increase in consumer prices – defined as the rise in the seasonally adjusted CPI over the previous three months (in annualized terms)– was about 1.5 per cent (Figure 28).

... but core inflation is still slow

Net of the more volatile components (food and energy products), the twelve-month rate of inflation remained moderate at about 1.5 per cent in the first three months of the year, still under the effect of feeble domestic demand.

Table 6

Indicators of inflation in Italy
(12-month percentage changes)

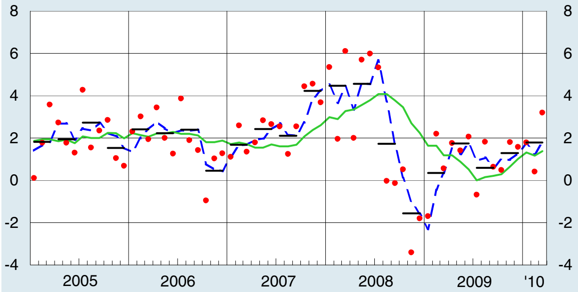
	HICP (1)		CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index	1-month (4)	Excl. energy and food	Overall index
2007	2.0	1.8	1.8		1.6	3.3
2008	3.5	2.2	3.3		2.1	5.8
2009	0.8	1.6	0.8		1.5	-5.4
2009 – Jan.	1.4	1.5	1.6	-0.1	1.9	-2.0
Feb.	1.5	1.7	1.6	0.2	1.8	-3.2
Mar.	1.1	1.4	1.2	0.1	1.5	-4.6
Apr.	1.2	2.0	1.2	0.2	1.7	-5.2
May	0.8	1.8	0.9	0.1	1.7	-6.6
June	0.6	1.6	0.5	0.2	1.5	-7.1
July	-0.1	1.3	0.0	-0.1	1.3	-8.6
Aug.	0.1	1.3	0.1	0.2	1.3	-7.8
Sept.	0.4	1.6	0.2	0.1	1.4	-7.9
Oct.	0.3	1.6	0.3	..	1.4	-6.0
Nov.	0.8	1.6	0.7	0.2	1.3	-3.5
Dec.	1.1	1.5	1.0	0.1	1.4	-1.7
2010 – Jan.	1.3	1.6	1.3	0.2	1.5	-0.3
Feb.	1.1	1.3	1.2	..	1.4	0.4
Mar.	(1.4)	….	(1.4)	(0.3)	….	….

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; it differs from the harmonized index primarily on account of the different method of recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Overall index, seasonally adjusted.

Consumer price inflation in Italy slowed to 0.8 per cent on average in 2009, from 3.3 per cent in 2008, reflecting the exceptional fall of 8.9 per cent in energy prices and the sharp deceleration in food prices (from 5.3 to 1.9 per cent growth). The decline in the cost of inputs and the cyclical weakness of the economy were factors in price declines for some services, such as air transport and hotels. Net of the volatile components, inflation came down by about half a percentage point to 1.5 per cent.

Figure 28

Inflation in Italy (1)
(consumer price index)



Source: Based on Istat data.
(1) For March, preliminary data. – (2) Seasonally adjusted annualized rate. – (3) Average, in the reference quarter, of monthly growth rates, on a seasonally adjusted and annual basis.

In the last few months of the year there was a sharp attenuation of the twelve-month rate of decline in the producer price index, as the base effects of energy price developments (which account for about a third of the PPI) dropped out. In February, for the first time in over a year, the twelve-month rate came back into positive territory (just barely, at 0.4 per cent), reflecting rising prices of energy products and investment goods. The prices of final consumer goods continued to be practically flat. The firms responding to the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* expect a rise of 1 per cent in their selling prices over the next twelve months; in their view the main factor holding prices down is the weakness of the economy.

Inflation expectations for 2010 hold at 1.5 per cent

The professional forecasters surveyed by Consensus Economics in 2009 cor-rectly anticipated the actual course of inflation in Italy, as in the rest of the euro area; in particular, they predicted the rise in the second half of the year. In March of 2010 their forecasts for this year were for inflation of around 1.5 per cent. The difference of 0.5 per-centage points over the euro-area average recorded for 2009 as a whole is expected to remain essentially unchanged this year as well.

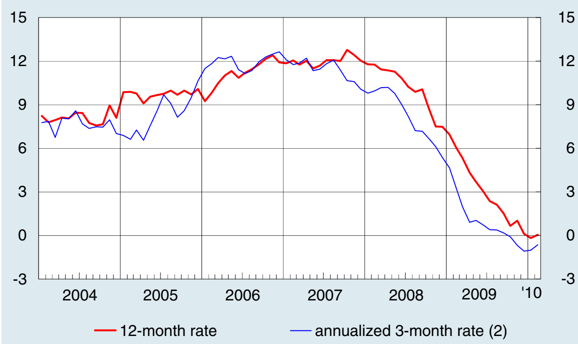
3.7 BANKS

The slowdown in lending to firms has continued ...

In February bank lending to the non-financial private sector, adjusted for securi-tizations, was basically unchanged from twelve months earlier (Figure 29). Compared with three months earlier, it was down slightly (by 0.6 per cent on a seasonally adjusted annualized basis), reflecting the further fall of 3.9 per cent in lending to non-financial companies and a modest increase of 4.4 per cent in that to households.

Figure 29

Bank lending to the non-financial private sector (1)
(monthly data; percentage changes)



Source: Based on Bank of Italy data.
(1) The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. Includes an estimate of loans excluded from balance sheets because they are securitized. – (2) Seasonally adjusted.

Lending trends again varied considerably with bank size. In February the credit granted by the five largest Italian banking groups was down by 4.1 per cent on a year earlier, while that granted by other intermediaries was up by 2.1 per cent.

... but the credit squeeze has eased

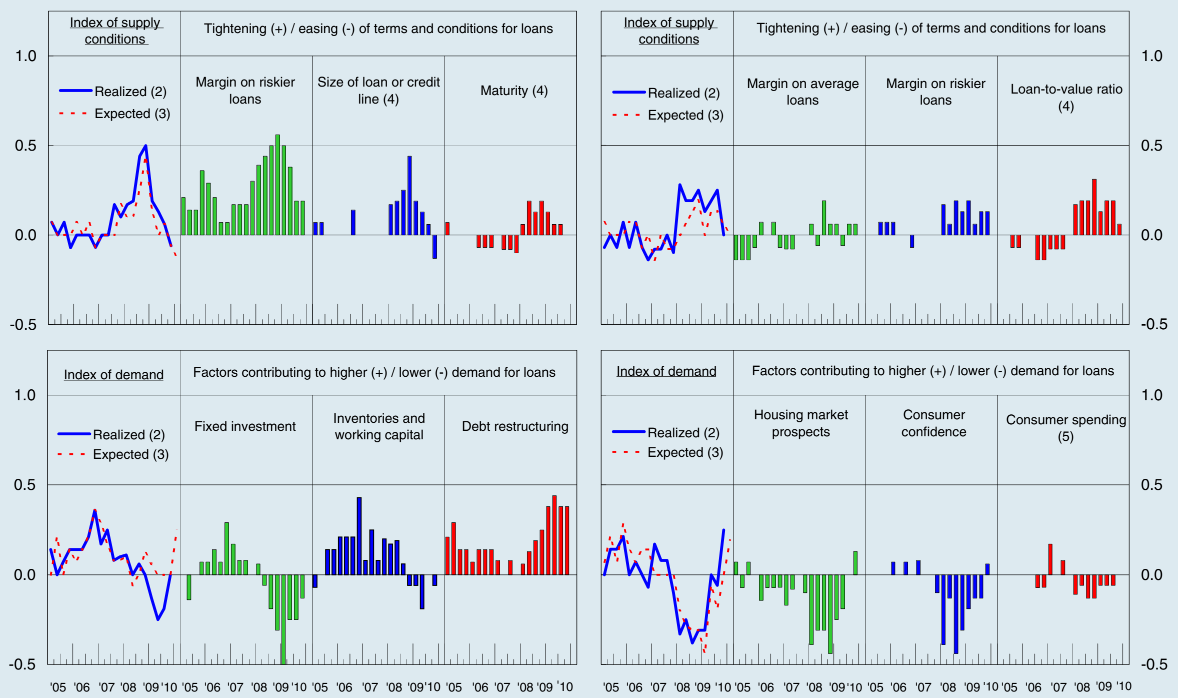
The fall in lending to firms was consistent with the prolonged decline in their borrowing needs as a consequence of the weakness of the economy. According to the Italian banks participating in the euro-area Bank Lending Survey, the tightening of credit supply conditions, which had been severe in the previous quarters, came to a halt in the fourth (see the box "Credit supply and demand in Italy"). Nevertheless, ISAE's monthly survey and the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* pointed in March to firms continuing to have difficulty in obtaining credit, albeit less acute than at the peak of the crisis.

CREDIT SUPPLY AND DEMAND IN ITALY

The responses provided by the Italian banks participating in the quarterly euro-area Bank Lending Survey indicate that the credit standards for loans to firms remained unchanged in the fourth quarter of 2009 (see Figure), reflecting the basically neutral contribution of all the main factors.[1] The absence of any signs of a further tightening of the supply conditions applied to both large and small and

Figure

Supply conditions and trends in credit demand in Italy (1)



Source: Quarterly Bank Lending Survey for the euro area.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed based on the following weighting scheme: for supply conditions, 1 = tightened considerably, 0.5 = tightened somewhat, 0 = remained basically unchanged, -0.5 = eased somewhat, -1 = eased considerably; for demand, 1 = increased considerably, 0.5 = increased somewhat, 0 = basically unchanged, -0.5 = decreased somewhat, -1 = decreased considerably. The range of variation of the index is from -1 to 1. – (2) Refers to the quarter ending at the time of the survey. – (3) Forecasts made in the preceding quarter. – (4) Positive (negative) values indicate a lesser (greater) willingness of banks to grant, respectively, large loans, long-term loans, or loans with high loan-to-value ratios. – (5) Positive (negative) values indicate that the trend in consumer spending other than for house purchases had an expansive (restrictive) effect on the demand for mortgages.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 8 January; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The results of the survey on the first quarter of 2010 and expectations for the second quarter of 2010 are not yet available; they will be released on 28 April.

medium-sized enterprises across all the various loan maturities. While not reporting any tightening of lending standards overall, a few banks reported they had tightened some specific terms and conditions, such as the spreads on the most risky loans.

Firms' demand for loans recovered moderately in the last quarter of 2009, especially as regards smaller companies and for medium and long-term loans. This development was partly the result of the less unfavourable trend in the components connected with the financing of fixed investment and company restructurings; the positive stimulus deriving from debt restructurings remained high.

Banks reported that they expected supply conditions to ease a little in the first quarter of 2010, together with a further slight strengthening of demand.

Banks also reported a halt in the tightening of banks' credit standards for house purchase loans to households in the last quarter of 2009; contributory factors included stronger competition in the banking sector and the removal of the restrictive effects connected with banks' balance sheet constraints and with prospects in the housing market. By contrast, the standards for consumer credit and other lending to households have been tightened a little more by means of an increase in lending margins, mainly due to the greater perceived risks related to consumer creditworthiness.

Banks' reported a moderate recovery of households' demand for house purchase loans, which reflected the performance of all the main determinants; the increase in demand for consumer credit and other loans to households remained unchanged at a low level. According to the banks' forecasts, the supply conditions and the increase in the demand for mortgage loans will be unchanged in the first quarter of 2010. The standards for consumer credit and other lending to households are forecast to tighten again, however, while demand is expected to show a small recovery.

On the funding side, some banks found it slightly easier to access the market for debt securities, especially long-term paper; by contrast the difficulty in carrying out securitizations remained unchanged. More than half the banks interviewed continued to state that the crisis had impacted their capital positions, which had affected the supply of credit.

In reply to a specific question, the banks reported that they expected a moderate easing of their supply policies over the next twelve months, in particular for loans to smaller firms and mortgage loans to households for house purchase. Responses concerning consumer credit and other loans to households suggest, by contrast, that the tightening of credit conditions will continue, as a result of the perception of credit risk.

In the last few months there have been further small decreases in the interest rates on new bank lending (Figure 30). The rate on short-term loans to firms, including overdrafts, declined by 0.1 points to 3.8 per cent and that on new fixed-rate mortgage loans to households fell by 0.2 points to 4.6 per cent, while that on variable-rate loans remained unchanged at 2.2 per cent. The composition of new mortgage loans to households showed a growing preference for variable-rate loans, which in February accounted for 82 per cent of total disbursements, as against 75 per cent in November 2009 and 29 per cent in September 2008.

Action to mitigate the financial difficulties created by the crisis has continued. On 18 December 2009 the Italian Banking Association and the leading consumer associations signed an agreement for the temporary suspension of payments of mortgage instalments by households hit by specially adverse events in 2009-10 (including loss of jobs). As regards the debt moratorium for small and medium-sized firms that came into force in August 2009, by 28 February about 153,000 applications had been received in relation to debt positions totaling €48 billion. At the same date about 80 per cent of the applications had been examined and mostly accepted, leading to the suspension of some €9 billion of repayments.

Loan quality is still at a historically low level

After deteriorating substantially in the preceding quarters, loan quality continues to be adversely affected by the difficult economic situation. In the fourth quarter of 2009 the seasonally adjusted ratio of annualized adjusted new bad debts to outstanding loans was equal to 1.8 per cent. Although this was down from 2.2 per cent in the third quarter, it was still about twice the average in 2008 and 2007. Besides, the recent improvement could prove to be temporary: preliminary data for the first two months of 2010 indicate that the exposure to borrowers reported for the first time as bad debts was slightly greater than in the same period of 2009. There are signs of an improvement for manufacturing firms, but there has been a further deterioration for other firms and consumer households. The data on other forms of impaired assets (substandard, restructured and overdue loans and exposures in breach of overdraft limits) indicate that the quality of lending to firms could deteriorate further in the coming months; in December 2009 such assets had risen to 7.7 per cent of total outstanding loans, from 4.7 per cent a year earlier.

Funding growth remains weak

Italian banks' total funding grew modestly in the twelve months to February (by 2.3 per cent, compared with 2.1 per cent in November; Table 7). The growth in bond funding was small (2 per cent), and for banks not belonging to the five largest groups it turned negative. Residents' deposits grew by 7.8 per cent. Current account deposits continued to expand at a rapid pace, especially those held by consumer households (13.1 per cent), boosted by the shift in holdings towards more liquid assets against a background of low interest rates. Bond yields continued to fall, in line with market rates, reaching 2.7 and 1.8 per cent respectively for fixed- and variable-rate issues.

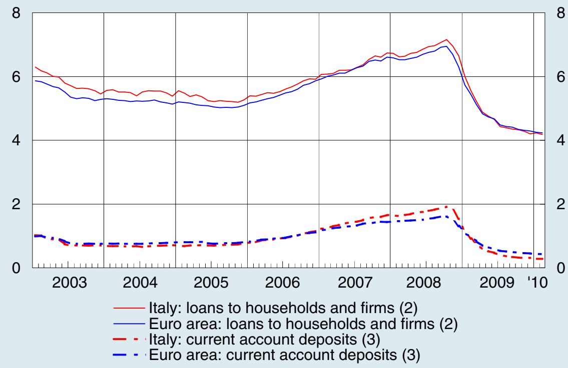
Banks' profitability is declining ...

According to the five largest banking groups' consolidated financial statements, their profitability continued to decline in 2009. Net income fell by about one third on average and the return on equity by about 2 percentage points to just under 4 per cent. Net interest income contracted by 8 per cent as a consequence

Figure 30

Short-term bank interest rates (1)

(monthly data; per cent)



Sources: Bank of Italy and ECB.
(1) The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Average rate on loans to households and firms with a maturity up to one year. – (3) Average rate on current account deposits of households and firms.

Table 7

Main assets and liabilites of Italian banks (1)

(end-of-period data; 12-month percentage changes)

	2008	2009	February 2010	
				Stocks (2)
Assets				
Securities other than shares	44.4	31.0	24.5	449,613
bonds issued by MFIs resident in Italy	*65.6*	*30.4*	*20.7*	*209,487*
Loans	5.6	2.7	2.1	1,792,965
up to 12 months	*4.0*	*-0.2*	*-0.8*	*603,494*
beyond 12 months	*6.5*	*4.2*	*3.7*	*1,189,471*
External assets	-2.3	-10.9	-6.1	333,744
Liabilities				
Total funding (3)	4.7	3.0	2.3	2,235,918
Deposits of Italian residents (3)	7.3	6.7	7.8	1,194,875
of which (4):				
current accounts	*6.6*	*11.5*	*10.4*	*755,561*
with agreed maturity	*13.4*	*8.3*	*3.5*	*64,160*
redeemable at notice	*7.0*	*8.2*	*6.9*	*268,034*
repos	*10.4*	*-25.7*	*-5.8*	*92,335*
Deposits of non-residents	-8.2	-8.6	-10.2	435,638
Bonds (3)	12.0	5.2	2.0	605,405
Memorandum item: Total bonds	20.1	10.6	6.2	814,892

Source: Based on supervisory statistical reports.
(1) The figures for February 2010 are provisional. – (2) Millions of euros. – (3) Does not include liabilities to resident MFIs. – (4) Does not include those of central government.

of falls in both lending business and interest rates; the contraction was offset by the growth in income from trading. Gross income was stable. Thanks to cost-cutting measures, which achieved savings of 6 per cent, operating profit increased by 8 per cent. The decline in profitability was caused by the increase in provisions and value adjustments; owing to the significant deterioration in the quality of lending, those in respect of loans grew by two thirds and absorbed about 60 per cent of the operating result (as against 40 per cent in 2008). Financial analysts expect the recovery in banks' profits to be gradual, with the 2008 level being reached again in 2011.

... while they continue to strengthen their capital bases

Thanks to retained earnings, disposals of non-strategic assets and, in some cases, to the completion of equity issues subscribed by the Ministry for the Economy and Finance, the capital bases of the five largest banking groups were further strengthened in the last quarter of 2009. At the end of the year these banks' core tier 1 ratios had risen to 7.2 per cent on average and their tier 1 and total capital ratios to 8.3 and 11.8 per cent respectively.

3.8 THE FINANCIAL MARKETS

Share prices are virtually unchanged from the start of the year

The general index of the Italian stock exchange fell sharply at the beginning of 2010 in connection with growing concerns over the state of the public finances in Greece and other euro-area countries. Shares subsequently recovered, and at the end of the first quarter the Italian index was practically unchanged with respect to its level at the start of the year (down by 0.4 per cent), like the index of the main listed companies of the euro area (Figure 31). Listed companies' current and prospective profitability showed no substantial change.

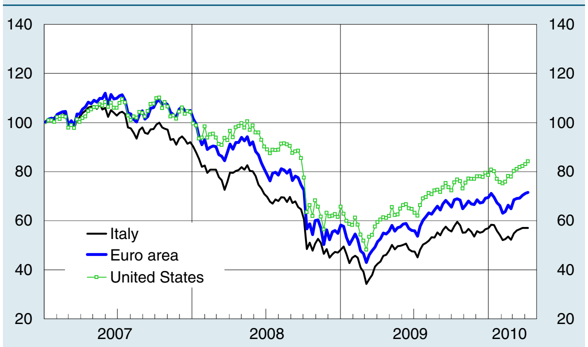
The performance of shares on the Italian stock exchange in the first quarter did not vary greatly from sector to sector. There were moderate rises for basic materials (6.4 per cent) and utilities (4.1 per cent). The bank and insurance stock indices fell slightly, losing 5.6 and 4.8 per cent respectively. Bank shares, which had also underperformed the general index in the last quarter, may have been hurt by the moderate downward revision of expected earnings for the coming years.

The ratio of current earnings to prices recovered somewhat from the lows reached at the end of 2009, rising back above its long-term average (Figure 32). The expected volatility of share prices, which increased at the beginning of February, when the indices were falling, returned in March to levels close to those of the start of the year.

Figure 31

Share prices (1)

(end-of-week data; indices, 29 December 2006=100)

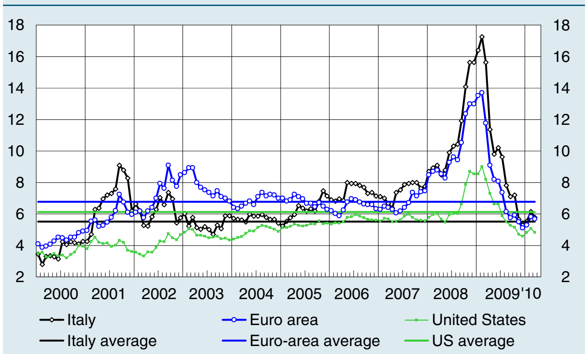


Source: Thomson Reuters Datastream.
(1) FTSE Italia MIB storico for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

Figure 32

Current earnings/price ratios for the main stock exchanges (1)

(monthly data; per cent)



Sources: Based on Thomson Reuters Datastream and Bank of Italy data.
(1) Averages are for the period from January 1986.

In the first quarter there were four initial public offerings, three on the AIM Italia alternative investment market and one on the MAC alternative capital market. At the end of March the 292 Italian companies listed on Borsa Italiana had a total market value of €459 billion (equal to about 30 per cent of GDP).

Net bond issues declined

Net bond issues by Italian companies fell from €32 billion in the third quarter of 2009 to €20 billion in the fourth; in the euro area, the decline was more pronounced (from €105 billion to €28 billion; Table 8). In Italy, the reduction involved banks, whose net issues fell by half, and other financial corporations, while those of non-financial corporations were more or less unchanged. In the euro area, net issues by banks contracted far more sharply and indeed turned negative; the closing months of 2009 saw a high volume of redemptions and a low volume of issues of government-guaranteed bonds, which had sustained placements in the first half of the year.

Table 8

Net bond issues (1)

(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2008	123,655	73,171	1,975	**198,801**
2009	77,886	45,429	13,926	**137,241**
2008 – Q1	39,938	-4,476	-106	**35,356**
Q2	45,064	14,791	-1,415	**58,440**
Q3	14,887	8,951	1,071	**24,909**
Q4	23,766	53,905	2,425	**80,096**
2009 – Q1	46,140	9,432	3,708	**59,280**
Q2	20,555	990	4,318	**25,863**
Q3	7,273	21,304	3,023	**31,600**
Q4	3,918	13,703	2,877	**20,498**
		Euro area		
2008	193,198	393,600	34,114	**620,912**
2009	181,226	291,809	141,834	**614,868**
2008 – Q1	35,543	4,895	623	**41,061**
Q2	127,587	100,501	12,164	**240,252**
Q3	21,683	45,555	7,664	**74,902**
Q4	8,386	242,649	13,663	**264,698**
2009 – Q1	75,056	125,370	38,783	**239,209**
Q2	108,538	85,871	47,742	**242,151**
Q3	37,038	35,077	33,156	**105,271**
Q4	-39,406	45,491	22,153	**28,238**

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by resident companies belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed.

The credit risk premium for non-financial companies held steady

In the first quarter of 2010 the yield spreads between investment-grade bonds issued by Italian non-financial corporations and government securities remained basically unchanged, while the corresponding spreads for non-financial firms of other euro-area countries narrowed slightly. The premiums on credit default swaps on the debt of Italian banks, like those for the major banks of the other euro-area countries, rose considerably in the first half of the quarter, in connection with growing concern about the public finances of some euro-area countries, before retreating to just above their levels at the start of the year.

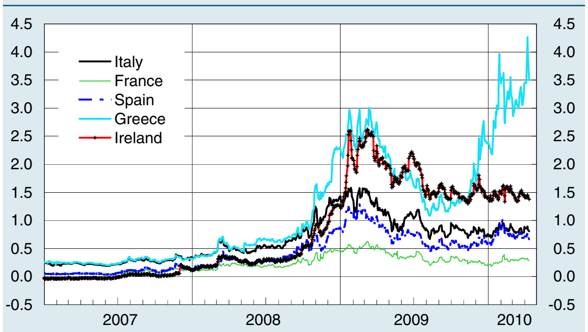
The yield spread between Italian and German government securities widened slightly

The yield spread between ten-year Italian government securities and German Bunds increased by about 10 basis points between the end of 2009 and mid-April (Figure 33). The increase, which amounted to as much as 20 basis points between the end of January and February, was due to the strains in the markets in connection with the doubts about the sustainability of Greece's sovereign debt. The premiums on credit default swaps on Italian government securities recorded a similar variation.

Figure 33

Interest rate spreads between ten-year government bonds and the corresponding German security

(daily data; percentage points)



Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Investment funds again register net inflows

In the fourth quarter of 2009 investment funds in Italy received net inflows of €7.6 billion, about the same as in the previous quarter. The inflows went entirely to foreign funds (€8.3 billion); Italian funds' fund-raising turned negative by €0.7 billion. Among Italian harmonized funds, money-market and equity funds had net outflows of respectively €1.7 billion and €0.2 billion, while the net subscriptions of bond funds contracted from €1.9 billion to €0.9 billion. For the first time in almost two years, Italian hedge funds enjoyed a small amount of net subscriptions. Italian investment funds as a whole had total net inflows of €4.1 billion in 2009, after three successive years of net outflows. At the end of the year their assets under management totaled about €470 billion. The average yield on Italian harmonized funds during the fourth quarter remained positive but was down sharply from the previous quarter (0.8 against 3.4 per cent). In particular, the return on equity funds fell from 13.2 to 3.5 per cent, reflecting the leveling off of share prices. As in the previous quarter, individually managed portfolios recorded net inflows (€9.9 billion); their average yield in the quarter is estimated at 0.3 per cent. After large outflows in the two previous years, these portfolios had net inflows of €6.7 billion in 2009 as a whole; assets under management amounted to about €450 billion at the end of the year.

Table 9

General government balances and debt (1)

(millions of euros and percentages of GDP)

	2006	2007	2008	2009
Net borrowing	49,403	23,191	42,575	80,800
as a % of GDP	*3.3*	*1.5*	*2.7*	*5.3*
Primary surplus	19,175	53,935	38,586	-9,512
as a % of GDP	*1.3*	*3.5*	*2.5*	*-0.6*
Interest payments	68,578	77,126	81,161	71,288
as a % of GDP	*4.6*	*5.0*	*5.2*	*4.7*
Debt	1,582,081	1,599,755	1,663,452	1,760,765
as a % of GDP	*106.5*	*103.5*	*106.1*	*115.8*

Source: Based on Istat data for items from the general government consolidated accounts (press release of 1 March 2010).
(1) Rounding may cause discrepancies in totals.

Table 10

Public finance objectives and estimates for 2009

(billions of euros and percentages of GDP)

	General government			*Memorandum item:* GDP growth rate
	Net borrowing	Primary surplus	Debt	
Objectives				
June 2008 (1)	32.7	50.1	....	
as a % of GDP	*2.0*	*3.1*	*102.7*	*0.9*
September 2008 (2)	34.1	49.7	....	
as a % of GDP	*2.1*	*3.0*	*102.9*	*0.5*
Estimates				
February 2009 (3)	57.7	20.2	....	
as a % of GDP	*3.7*	*1.3*	*110.5*	*-2.0*
April 2009 (4)	71.0	5.5	....	
as a % of GDP	*4.6*	*0.4*	*114.3*	*-4.2*
July 2009 (1)	81.3	-5.6	....	
as a % of GDP	*5.3*	*-0.4*	*115.3*	*-5.2*
September 2009 (2)	80.9	-6.9	....	
as a % of GDP	*5.3*	*-0.5*	*115.1*	*-4.8*
January 2010 (5)	80.5	-7.4	....	
as a % of GDP	*5.3*	*-0.5*	*115.1*	*-4.8*
Outturn (6)	80.8	-9.5	1,760.8	
as a % of GDP	*5.3*	*-0.6*	*115.8*	*-5.0*

(1) Economic and Financial Planning Document. – (2) Economic and Financial Planning Document Update and Forecasting and Planning Report. – (3) Stability Programme and Information Note 2009-2011. – (4) Combined Report on the Economy and the Public Finances. – (5) Stability Programme and Update 2010-2012. – (6) Istat press release of 1 March 2010 for net borrowing, primary surplus and GDP growth.

3.9 THE PUBLIC FINANCES

A significantly larger deficit in 2009

The public finances deteriorated considerably in Italy in 2009, although less than in the other main advanced countries (see the box "Public finances in selected advanced countries"). General government net borrowing rose to 5.3 per cent of GDP, 2.6 percentage points more than in 2008; excluding interest payments, the deficit came to 0.6 per cent of GDP, as against a surplus of 2.5 per cent in 2008 (Table 9). The results are in line with the estimates published in the Stability Programme in January (Table 10). They reflect the sharp rise in primary expenditure and the fall in revenue, though this was less pronounced than that in GDP. The marked deterioration in the public finances was due almost entirely to the economic downturn.

Net borrowing includes the effects of interest payments on swaps, as provided for under the excessive deficit procedure; excluding them, net borrowing in 2009 would have amounted to 5.2 per cent of GDP.

Revenue falls less than GDP thanks to extraordinary factors

Revenue fell by 1.9 per cent or €14 billion (Table 11). The tax component declined by 3.2 per cent or €14.4 billion, despite some significant non-recurring receipts; without them, tax revenue would have fallen by 5.7 per cent.

Direct tax revenue fell by 7.1 per cent or €17.1 billion, reflecting the contraction in receipts of self-assessed taxes. Indirect tax revenue declined by 4.2 per cent or €9.1 billion, essentially as a result of the drop in receipts of VAT and the regional tax on productive activities (IRAP). Capital taxes increased by €11.8 billion, including €6.5 billion of extraordinary revenue from the taxes introduced by Decree Law 185 of 29 November 2008 (see the box "The anti-crisis decree" in *Economic Bulletin* No. 51, 2009) and about €5 billion from the foreign assets disclosure scheme. Social security contributions declined by 0.4 per cent or €0.9 billion; the slight increase in per capita gross earnings mitigated the negative impact of the fall in employment

Total tax and contributions revenue declined by 2.3 per cent, less than the fall in nominal GDP (3 per cent); its ratio to GDP consequently rose from 42.9 to 43.2 per cent.

Total expenditure grew by 3.1 per cent in 2009, rising to 52.5 per cent of GDP; the increase was curbed by the reduction of 12.2 per cent or nearly €10 billion in interest payments.

The ratio of primary current expenditure to GDP rose by 3 points to 43.5 per cent

Primary expenditure grew rapidly again (4.2 per cent, compared with 4.5 per cent in 2008) despite the slowdown in compensation of employees, which in 2008 had been boosted by contract renewals in the health and local government sectors.

Compared with 2008 the rate of growth of all the other main current expenditure items increased. In particular, intermediate consumption grew by 7.5 per cent or €6.5 billion. Contributory factors

Table 11

General government expenditure and revenue

(millions of euros and percentage changes)

	2008	2009	% change on previous year 2008	% change on previous year 2009
EXPENDITURE				
Final consumption expenditure	317,281	327,814	4.3	3.3
of which:				
compensation of employees	*169,813*	*171,578*	*3.6*	*1.0*
intermediate consumption	*86,241*	*92,718*	*6.4*	*7.5*
soc. sec. benefits in kind	*42,768*	*44,481*	*2.2*	*4.0*
Soc. sec. benefits in cash	277,263	291,335	4.9	5.1
Interest payments	81,161	71,288	5.2	-12.2
Other current expenditure	40,563	42,647	3.0	5.1
Current expenditure	**716,268**	**733,084**	**4.6**	**2.3**
as a % of GDP	*45.7*	*48.2*		
Current expenditure, net of interest payments	**635,107**	**661,796**	**4.5**	**4.2**
as a % of GDP	*40.5*	*43.5*		
Investment (1)	34,602	37,040	-3.3	7.0
Investment grants	22,154	24,445	-11.9	10.3
Other capital expenditure (2)	1,612	4,285	1.6	165.8
Capital expenditure (1)	**58,368**	**65,770**	**-6.6**	**12.7**
Total expenditure, net of interest payments (1)	**693,475**	**727,566**	**3.4**	**4.9**
as a % of GDP	*44.2*	*47.8*		
TOTAL EXPENDITURE (1)	**774,636**	**798,854**	**3.6**	**3.1**
as a % of GDP	*49.4*	*52.5*		
REVENUE				
Direct taxes	239,740	222,655	2.8	-7.1
Indirect taxes	216,009	206,956	-4.9	-4.2
Social security contributions	215,911	215,003	5.2	-0.4
Other current revenue	56,695	57,341	4.3	1.1
Current revenue	**728,355**	**701,955**	**1.2**	**-3.6**
as a % of GDP	*46.5*	*46.2*		
Capital revenue	**3,706**	**16,099**	**-18.3**	**334.4**
of which: taxes	*488*	*12,247*	*62.1*	*2.409.6*
TOTAL REVENUE	**732,061**	**718,054**	**1.1**	**-1.9**
as a % of GDP	*46.7*	*47.2*		
of which: taxes and social security contributions	*42.9*	*43.2*		
NET BORROWING	**42,575**	**80,800**		
as a % of GDP	*2.7*	*5.3*		
Primary surplus	**38,586**	**-9,512**		
as a % of GDP	*2.5*	*-0.6*		
Memorandum item:				
GDP	1,567,851	1,520,870		

Source: Based on Istat data.
(1) Proceeds of property sales entered with a negative sign. – (2) Includes the extraordinary tax refund for personal and corporate income tax overpayments by firms in connection with the non-deduction of 10 per cent of IRAP for tax periods prior to 31 December 2008 (Article 6 of Decree Law 185/2008).

included the effects of the mid-year budget revision and the surge in the imputed costs for financial intermediation services. Social benefits in kind grew by 4 per cent or about €1.7 billion, those in cash by 5.1 per cent or about €14 billion, the growth in the latter was influenced by the increase in outlays on wage supplementation and unemployment benefits and by the introduction of cash transfers to the neediest members of the population (including the extraordinary bonus for low-income households, which gave rise to disbursements of about €1.5 billion; see the box "The anti-crisis decree" in *Economic Bulletin* No. 51, 2009).

Capital expenditure grew by 12.7 per cent or €7.4 billion. The largest increases occurred in investment grants, up by 10.3 per cent or €2.3 billion, and other capital expenditure (€2.7 billion), which was influenced by extraordinary tax refunds to firms. Investment expanded by 7 per cent or about €2.4 billion); excluding the repurchase of securitized buildings belonging to social security institutions that had not been sold under the SCIP2 programme (about €0.9 billion), the increase was just over 4 per cent. Over the last five years investment remained basically stable in nominal terms when privatization receipts are excluded.

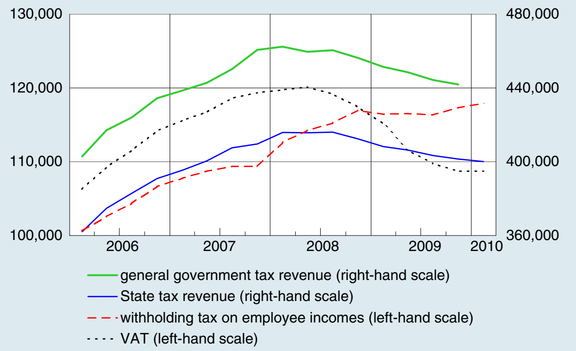
A further large increase in the borrowing requirement

The general government borrowing requirement grew significantly for the second successive year and as a ratio to GDP rose to its highest level for 13 years. Net of privatization receipts, the borrowing requirement was equal to 5.7 per cent of GDP or €86.8 billion, an increase of 2.6 percentage points or about €38 billion compared with 2008 (Figure 35 and Table 12). The difference with respect to net borrowing has remained stable over the last three years at 0.4 percentage points of GDP. The borrowing requirement of the local government subsector increased by about €7.1 billion.

At the end of 2009 the general government debt was equal to 115.8 per cent of GDP, nearly 10 percentage points higher than at the end of 2008. The growth was due both to the contraction in nominal GDP and to the rapid increase in the debt (€97.3 billion, as against €63.7 billion in

Figure 34

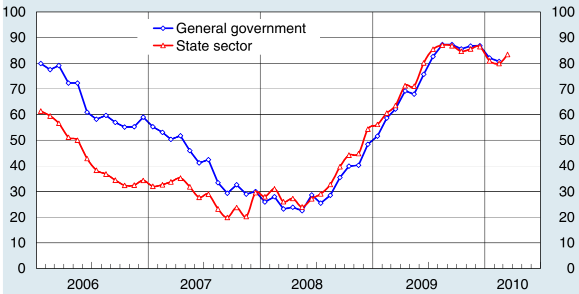
Tax revenue: rolling four-quarter totals
(millions of euros)



Sources: Istat for general government tax revenue; *Rendiconto generale dell'amministrazione dello Stato* and State budget for the other variables.

Figure 35

Rolling twelve-month borrowing requirement (1)
(billions of euros)



Source: for the state sector, Ministry for the Economy and Finance.
(1) Net of privatization receipts.

Table 12

General government financial balances and debt
(millions of euros and percentages of GDP)

	2006	2007	2008	2009
Borrowing requirement	58,910	26,462	48,356	85,964
as a % of GDP	*4.0*	*1.7*	*3.1*	*5.7*
Net borrowing requirement (1)	58,949	29,962	48,375	86,762
as a % of GDP	*4.0*	*1.9*	*3.1*	*5.7*
Debt	1,582,081	1,599,755	1,663,452	1,760,765
as a % of GDP	*106.5*	*103.5*	*106.1*	*115.8*
Memorandum item				
Privatization receipts	38	3,500	19	798
as a % of GDP	..	*0.2*	..	*0.1*

(1) Net of privatization receipts.

2008), which reflected the large total borrowing requirement and the growth in the deposits held by the Treasury with the Bank of Italy; issue discounts and premiums were virtually nil (Table 13 and Figure 36). Central government debt rose by 9.2 percentage points to 108.5 per cent of GDP; local government debt by 0.5 points to 7.3 per cent of GDP.

The 2010 budget does not increase the deficit

The 2010 budget, which had been outlined during the summer, was completed in December with the approval of the Finance Law. The summer measures included expenditure increases and tax reliefs amounting to about €4.8 billion in 2010 (see the box "Recent public finance measures" in *Economic Bulletin* No. 54, 2009); the Finance Law introduced measures amounting to an additional €6.1 billion (see the box "The 2010 Finance Law". The adjustment does not have a significant effect on the deficit because the expansionary measures are financed within the budget.

The Government expects a fall in the deficit in 2010

The Stability Programme the Government presented at the end of January contains an estimate of net borrowing equal to 5 per cent of GDP in 2010. This figure is in line with the one published in the September 2009 Forecasting and Planning Report (Table 14) and takes account of the upward revision of the expected growth in GDP (1.1 per cent, as against 0.7 per cent in the Forecasting and Planning Report).

Table 13

Changes in general government debt and its components
(millions of euros)

	2006	2007	2008	2009
Change in the debt = *(a)+(b)+(c)+(d)*	**69,316**	**17,674**	**63,698**	**97,312**
(a) Total borrowing requirement	58,910	26,462	48,356	85,964
(b) Change in the Treasury deposits with the Bank of Italy	8,230	-13,142	10,611	11,399
(c) Issue discounts and premiums	2,978	4,687	4,471	56
(d) Change in foreign currency liabilities	-801	-333	260	-106

Table 14

Public finance objectives and estimates for 2010
(billions of euros and percentages of GDP)

	General government			*Memorandum item*	
	Net borrowing	Primary surplus	Debt	GDP growth rate	Debt 2009
Objectives					
July 2009 (1)	76.9	2.6	….		
as a % of GDP	*5.0*	*0.2*	*118.2*	*0.5*	*115.3*
September 2009 (2)	77.6	-0.7	….		
as a % of GDP	*5.0*	*0.0*	*117.3*	*0.7*	*115.1*
Estimates					
January 2010 (3)	77.9	-1.6	….		
as a % of GDP	*5.0*	*-0.1*	*116.9*	*1.1*	*115.1*

(1) Economic and Financial Planning Document. – (2) Forecasting and Planning Report. – (3) Stability Programme and Update *2010-2012*.

The debt-to-GDP ratio is expected to rise further

The primary balance is forecast to be negative by 0.1 percentage points of GDP. The debt-to-GDP ratio is expected to rise by another 1.8 percentage points compared with the estimate for 2009 published in the Stability Programme.

The Update 2010-2012, presented at the same time as the Stability Programme, forecasts an increase of 1.4 per cent in revenue; in relation to GDP the latter would contract by 0.5 percentage points, above all as a consequence of the expected fall in capital taxes. Primary current expenditure is expected to increase modestly, by 1.9 per cent, reflecting the planned curbing of compensation of employees and intermediate consumption, which are expected to increase by 0.7 and 0.6 per cent respectively. Capital expenditure is expected to decrease by 11 per cent and that on investment by 13.5 per cent.

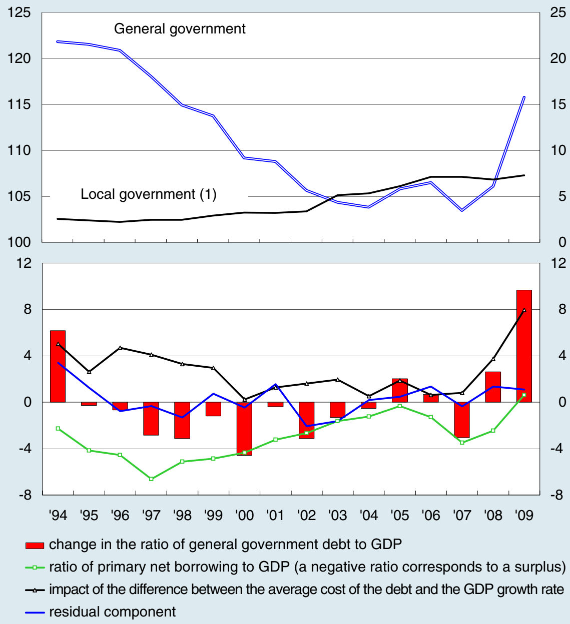
Another update of the Government's forecasts that will take account of the outturn for 2009 prepared by Istat is expected in the Combined Report on the Economy and the Public Finances, which should be published shortly.

The borrowing requirement has improved in the early part of 2010

In the first quarter of 2010 the state sector borrowing requirement amounted to €26.9 billion, about €3.2 billion less than in the same period of 2009. Contributory factors included the introduction of a new system for the offsetting of taxes, which has reduced the quantity involved. In the first two months of the year the general government borrowing requirement showed a decrease of €6.1 billion compared with the same period of 2009, much the same as that recorded by the state sector over the same period.

Figure 36

General government debt: trend and determinants of its changes
(as a percentage of GDP)



(1) Right-hand scale. The 2003 increase was mainly of an accounting nature in connection with the reclassification of Cassa Depositi e Prestiti S.p.A. outside general government.

The fall in revenue that adversely affected the results for 2009 has slowed

Budget receipts point to a slower decline in tax revenue (Figure 34). When the effect of a change to the accounting treatment of excise duties on mineral oils is excluded, in the first quarter of 2010 revenue decreased by 0.8 per cent or about €0.6 billion. The fall in VAT receipts, which had begun to slow during the summer of 2009, virtually came to a halt, while withholdings from employee incomes rose by 1.7 per cent or €0.6 billion. On the other hand, revenue was adversely affected in the first quarter by the fall of 37.2 per cent or €1.1 billion in the yield of the withholding tax on income from financial assets as a consequence of excess payments on account in 2009.

Net borrowing is set to fall below 3 per cent by 2012

Last autumn the excessive deficit procedure was launched against Italy. It is now in force for 20 of the 27 EU countries. In December the Council of the EU set 2012 as the deadline for Italy to eliminate the excessive deficit. The deficit-reduction path indicated in the latest update of the Stability Programme provides for a first adjustment in 2011 and a larger one in 2012. In particular, net borrowing is set to fall from the 5 per cent of GDP expected in 2010 to 3.9 per cent in 2011 and 2.7 per cent in 2012. For the most part the adjustment will derive from the steps to curb expenditure already taken in the budget for 2009 (see the box "The Economic and Financial Planning Document for 2009-2013 and the three-year budget proposals" in *Economic Bulletin* No. 49, 2008) and additional measures not yet specified (for a total of 1.2 percentage points of GDP).

THE 2010 FINANCE LAW

The 2010 Finance Law was approved by Parliament in December with significant amendments to the original bill presented in September. The definitive version provided for €6.1 billion in additional outlays and tax relief in 2010, €1.6 billion in 2011 and €3.1 billion in 2012,[1] as against

[1] These amounts do not include funding or utilization of the "Fund for indispensable and urgent measures" (instituted by Decree Law 5/2009, ratified by Law 33/2009), which were provided for by the Finance Law (€5 billion in 2010, €1.3 billion in 2011 and €1 billion in 2012), in that these were mere accounting operations.

Table

The effects of the 2010 Finance Law on the general government account (1)

(millions of euros)

	2010	2011	2012
EXPENDITURE			
Measures that increase expenditure	**4,855**	**1,136**	**2,625**
Current expenditure	4,151	783	1,110
Pact for Health	*984*	*419*	*0*
Expenditures listed in Annex 1	*1,721*	*113*	*60*
Extension of 5 per mille devolution	400	0	0
Support to road transport industry	400	0	0
Stabilization of socially useful workers	370	0	0
Funding of universities and non-state schools	370	0	0
Other	*181*	*113*	*60*
Social contribution relief in agriculture	*130*	*0*	*0*
End of hiring freeze for police and firefighters	*60*	*175*	*272*
Fund for new spending laws (Table A)	*780*	*20*	*720*
Fund for operation of govt. entities and other current obligations (Table C)	*272*	*0*	*0*
Other	*204*	*57*	*59*
Capital expenditure	705	353	1,515
R&D tax credit	*200*	*200*	*0*
Expenditures listed in Annex 1	*333*	*100*	*100*
Italian participation in banks and international funds	130	0	0
Free schoolbook programme	103	0	0
Agriculture solidarity fund	100	100	100
ANAS – Equity in Stretto di Messina S.p.A.	*0*	*0*	*470*
Rome infrastructure	*0*	*0*	*100*
Fund for new spending laws (Table B)	*-1*	*0*	*509*
Infrastructural projects (Table D)	*47*	*21*	*311*
Other	*126*	*32*	*25*
Measures that reduce expenditure	**-1,583**	**-1,183**	**-2,780**
Current expenditure	-1,028	-828	-2,775
Changes in financial framework of Trentino-Alto Adige, Trento and Bolzano	*-500*	*-500*	*-500*
Strategic Fund for support of economy	*-120*	*0*	*0*
Fund for public finance stabilization	*-100*	*-100*	*-100*
Rationalization of local authorities	*-58*	*-136*	*-170*
Fund for structural economic policy measures (Table E)	*-200*	*0*	*-1,928*
Other	*-50*	*-92*	*-77*
Capital expenditure	-556	-355	-5
Sale of state property	*-250*	*-350*	*0*
Fund for underutilized areas	*-205*	*-5*	*-5*
Social fund for employment and training	*-100*	*0*	*0*
NET CHANGE IN EXPENDITURE	**3,272**	**-47**	**-155**
REVENUE			
Measures that increase revenue	**4,521**	**421**	**323**
Income tax payment in settlement	3,716	0	0
Revaluation of land and equity	350	175	175
Recovery of improper state aid	270	0	0
Unified pay packet	0	200	0
Recovery of suspended taxes and contributions, Abruzzo	0	0	103
Other	185	46	46
Measures that reduce revenue	**-1,200**	**-419**	**-416**
Extension of tax relief for productivity contracts	-800	-256	0
Contribution relief on hirings of unemployed workers over 50	-132	0	0
Extension of suspension of taxes and contributions, Abruzzo	-197	-154	0
Tax credit for building renovation	0	0	-407
Other	-71	-10	-9
NET CHANGE IN REVENUE	**3,321**	**1**	**-93**
CHANGE IN NET BORROWING	**-49**	**-48**	**-62**

(1) Based on official estimates.

corresponding increases of €0.2 billion in 2010 and €1.9 billion in 2012 indicated in the September version (*Economic Bulletin* No. 54, 2009). The measures are fully funded by the Finance Law itself, mainly through cuts in previous appropriations and additional revenue deriving from the recovery in 2010 of the reduction in the payment on account of self-assessed personal income tax due at the end of 2009 (the reduction in revenue for that year was offset, in turn, by receipts from the foreign assets disclosure scheme). Overall, the measures contained in the Finance Law are expected to produce net increases in revenue and expenditures of about €3.3 billion in 2010 and to have practically no impact in the years following.

The expenditure increases and revenue decreases in the Law come on top of those already introduced for 2010-12 last summer (*Economic Bulletin* No. 54, 2009), amounting to €4.8 billion in 2010, €4.2 billion in 2011 and €3.9 billion in 2012. For these too, full financial coverage is provided for in the measures themselves.

Expenditure increases and revenue reductions – The Finance Law provides for a €4.9 billion increase in expenditure (almost entirely current expenditure) in 2010, €1.1 billion in 2011 and €2.6 billion in 2012.

Outlays of about €1 billion in 2010 and €0.4 billion in 2011 derive from the rules for the Health Pact for the three years from 2010 through 2012, which increase funding of the National Health Service and the fund for long-term elderly care. The rules for the control of health care expenditure are also further revised. The limits on staff costs laid down in the 2006 Pact are extended to 2010-12. The Law establishes the level of regional health deficits that triggers an obligation to present a three-year budget re-entry plan, and specifies a stricter procedure in case of such a deficit. In the event of failure to attain the deficit reduction targets, the regional income surtax and IRAP are automatically raised (by 0.3 and 0.15 percentage points respectively), over and above the increases already required by the Finance Law for 2005 (Law 311/2004), and there are provisions for a hiring freeze on health personnel, a ban on non-obligatory spending, and the voiding of any measures taken in violation of these provisions.

A list annexed to the Finance Law calls for additional current spending of €1.7 billion in 2010 and €0.1 billion in each of the two subsequent years. These expenditures comprise the extension of the devolution of 5 per mille of personal income tax liabilities to non-profit and research organizations; an increase in the fund for universities and in spending authorizations for non-state schools; support to the road transport industry; conventions with interested municipalities for the implementation of active labour policies to stabilize the employment positions of persons engaged in socially useful activities; and funding for additional measures for the social and economic recovery of municipalities in the April 2009 earthquake zone. Additional expenditures of some €0.2 billion in 2010 and 2011 and €0.3 billion in 2012 are mandated by the extension to the first seven months of 2010 of social contribution relief in agriculture and the end of the hiring freeze for police and firefighters.

Nearly all of the remaining current expenditure increases (€1.1 billion out of €1.3 billion in 2010 and €0.7 billion out of €0.8 billion in 2012) are set out in the tables annexed to the Law. They are assigned to the fund for new spending laws and the fund for the operation of government entities and for coverage of other current obligations. The rest is in connection with the so-called welfare package (which includes the simplification of eligibility for unemployment benefits, the extension of benefit programmes already granted under a waiver, the increase in the benefits for unemployed project workers, staff leasing contracts, incentives for employment agencies that place persons who have lost their jobs, and new rules on apprenticeship).

As regards capital expenditure, for 2010 and 2011 the Finance Law increases appropriations for the tax credit for investment in industrial R&D by €0.2 billion each year. An annex establishes, for 2010, increased outlays to discharge Italy's obligations for membership in banks and international funds, to subsidize schoolbooks and to support the farm sector (a total of €0.3 billion in 2010 and €0.1 billion in 2011 and 2012). For 2012, in addition, expenditure of €0.5 billion is authorized to enable ANAS to subscribe capital increases in Stretto di Messina S.p.A. and €0.1 billion for infrastructural projects in Rome. Finally, the tables annexed to the Law allocate additional resources to the fund for new spending laws and to infrastructural measures.

As to tax relief, the Law extends that on productivity contracts through 2010, reduces employer contributions in respect of newly hired workers over age 50, and modifies the procedures for recouping tax and social contribution payments suspended after the earthquake in Abruzzo. Revenue decreases will also be entailed by the extension from 2011 to 2012 of personal income tax deductions for home renovation and for the purchase of renovated buildings and by the permanent lowering from 20 to 10 per cent of VAT on construction work for the restoration of property assets.

Financial cover – In 2010 the funding of the measures enacted with the Finance Law comes above all from revenue increases; for the two following years it will come chiefly from reductions in current expenditure.

Payments of the final balance on personal income tax in 2010 are expected to bring in an extra €3.7 billion, in relation to the temporary reduction of 20 percentage points in the payment on account in November and an extra €0.3 billion from the recovery of state aid and from compensation to the central government in connection with the discharge of Community obligations and the execution of decisions of the European Court of Justice. An additional €0.4 billion in 2010 and €0.2 billion in each of the two following years will come from the extension of the term for the revaluation of land and equity assets. Increased revenue is also expected in 2011 from the introduction of the unified pay packet for some public employees.

There should be a net decrease in current outlays of €0.5 billion in each of the three years from the reform of the financial framework for Trentino-Alto Adige and the autonomous provinces of Trento and Bolzano. Additional expenditure reductions are expected from stepped-up controls by INPS for fraudulent disability pension claims and from the rationalization of the staff and funding of local authorities. The application of the rules on the revision of local government staff, however, has been put off to 2011 by Decree Law 2/2010 (ratified by Law 42/2010). Further savings will come from the limit to exemption from payment of the unified contribution for certain types of trial, from changes to the procedures for the publication of judicial convictions, and from the decision to eliminate telephone companies' billing charges. For 2012, more than half the cost of these measures will be covered by drawings on the amounts set aside in the fund for structural economic policy measures.

As to capital expenditure, savings are expected from the new rules simplifying the procedures for the State Property Agency's disposal of government real estate assets.

SELECTED STATISTICS

Additional tables are contained in the Statistical Appendix of the *Economic Bulletin* available on the Internet at www.bancaditalia.it/pubblicazioni

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Table A1

Sources and uses of income: United States (1)

(seasonally adjusted data; percentage changes on the previous period and contribution to growth, on an annual basis)

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2006	2.7	2.9	2.0	1.4	0.3	2.3	0.4	2.6	2.8	9.0	6.1	-0.1	0.1
2007	2.1	2.6	1.8	1.7	0.3	-2.1	-0.4	1.4	1.5	8.7	2.0	0.6	-0.3
2008	0.4	-0.2	-0.2	3.1	0.6	-5.1	-0.8	-0.7	-0.8	5.4	-3.2	1.2	-0.4
2009	-2.4	-0.6	-0.4	1.8	0.4	-18.3	-2.7	-3.4	-3.5	-9.6	-13.9	1.1	-0.7
2007 – Q1	1.2	3.7	2.5	..	..	-2.6	-0.4	1.4	1.5	3.5	4.3	-0.3	-0.6
Q2	3.2	1.1	0.8	4.4	0.8	3.6	0.6	2.4	2.5	5.2	-0.5	0.7	0.3
Q3	3.6	1.9	1.4	3.9	0.8	-0.4	..	2.1	2.2	18.5	3.7	1.4	0.2
Q4	2.1	1.2	0.9	1.6	0.3	-4.2	-0.7	-0.2	-0.1	14.5	-3.6	2.2	-0.6
2008 – Q1	-0.7	-0.6	-0.4	2.6	0.5	-6.3	-1.0	-1.1	-1.1	-0.1	-2.5	0.4	-0.2
Q2	1.5	0.1	0.1	3.6	0.7	-2.7	-0.4	-0.9	-0.9	12.1	-5.0	2.4	-1.3
Q3	-2.7	-3.5	-2.5	4.8	1.0	-8.3	-1.3	-2.5	-2.6	-3.6	-2.2	-0.1	0.3
Q4	-5.4	-3.1	-2.2	1.2	0.2	-20.2	-3.3	-5.5	-5.9	-19.5	-16.7	0.5	-0.6
2009 – Q1	-6.4	0.6	0.4	-2.6	-0.5	-39.0	-6.6	-8.6	-9.0	-29.9	-36.4	2.6	-2.4
Q2	-0.7	-0.9	-0.6	6.7	1.3	-12.5	-1.7	-2.3	-2.4	-4.1	-14.7	1.7	-1.4
Q3	2.2	2.8	2.0	2.6	0.6	-1.3	-0.2	3.0	3.0	17.8	21.3	-0.8	0.7
Q4	5.6	1.6	1.2	-1.3	-0.3	5.0	0.6	5.2	5.3	22.8	15.8	0.3	3.8

Source: National statistics.
(1) Chain-linked volumes. Public sector investment is included in government expenditure. – (2) Includes change in stocks.

Table A2

Sources and uses of income: Japan (1)

(seasonally adjusted data; percentage changes on the previous period and contribution to growth, on an annual basis)

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2006	2.0	1.5	0.9	0.4	0.1	0.5	0.1	1.2	1.2	9.7	4.2	0.8	0.2
2007	2.4	1.6	0.9	1.5	0.3	-1.2	-0.3	1.3	1.2	8.4	1.6	1.1	0.3
2008	-1.2	-0.7	-0.4	0.3	0.0	-2.6	-0.6	-1.3	-1.3	1.6	0.9	0.1	-0.4
2009	-5.2	-1.0	-0.6	1.6	0.3	-14.3	-3.3	-4.0	-4.0	-24.0	-17.0	-1.9	-0.3
2007 – Q1	5.1	3.6	2.0	1.9	0.3	-0.6	-0.2	4.0	4.0	9.6	2.7	1.1	1.8
Q2	0.8	1.8	1.0	3.8	0.7	-6.6	-1.6	-0.2	-0.2	12.6	6.8	1.0	-0.5
Q3	-0.5	-1.9	-1.1	-1.1	-0.2	-6.9	-1.6	-2.4	-2.3	6.8	-4.7	1.8	0.6
Q4	1.5	1.3	0.7	6.1	1.1	-4.2	-1.0	0.5	0.4	10.2	4.5	1.0	-0.4
2008 – Q1	2.7	2.6	1.4	-0.8	-0.1	11.8	2.5	0.8	0.8	14.8	4.2	1.9	-3.1
Q2	-4.4	-5.8	-3.4	-4.8	-0.9	-6.5	-1.5	-5.2	-5.1	-5.6	-10.4	0.7	0.7
Q3	-4.9	-0.5	-0.3	-1.0	-0.2	-8.1	-1.9	-2.9	-2.8	-2.8	10.8	-2.1	-0.4
Q4	-10.3	-3.2	-1.8	4.8	0.9	-17.5	-4.1	0.2	0.2	-46.6	0.3	-10.7	5.4
2009 – Q1	-13.7	-5.2	-2.9	3.2	0.6	-22.6	-5.4	-11.3	-11.4	-66.3	-53.9	-2.3	-3.6
Q2	6.0	4.6	2.8	1.1	0.2	-11.0	-2.5	-1.1	-1.2	42.2	-14.7	7.1	-1.6
Q3	-0.6	2.4	1.4	0.3	0.1	-11.7	-2.6	-1.9	-2.0	37.8	23.3	1.4	-0.8
Q4	3.8	2.8	1.7	2.5	0.5	-0.4	-0.1	1.5	1.6	21.7	5.1	2.2	-0.6

Source: Based on national statistics.
(1) Chain-linked volumes. Statistical discrepancies may cause differences between the sum of contributions and GDP growth. – (2) Includes change in stocks.

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2004	2.2	7.0	3.5	1.4	3.5	2.3	1.6	1.6	7.4
2005	1.7	5.8	2.8	2.1	4.4	3.2	1.8	1.6	5.1
2006	3.0	8.5	4.6	4.3	6.6	5.4	2.0	2.1	8.5
2007	2.8	5.5	3.6	2.3	7.4	4.8	1.6	2.3	6.3
2008	0.6	1.1	0.7	-1.8	0.6	-0.6	0.4	2.1	1.0
2009	-4.1	-11.5	-6.3	-7.3	-14.5	-10.8	-1.1	2.3	-12.9
2007 – Q4	0.4	-0.1	0.2	0.8	1.7	1.2	0.1	0.4	0.7
2008 – Q1	0.8	2.0	1.1	1.1	..	0.6	0.3	0.5	2.0
Q2	-0.3	-1.1	-0.6	-2.6	-0.1	-1.4	-0.4	0.8	-0.5
Q3	-0.4	0.1	-0.3	-1.7	-0.9	-1.3	..	0.5	-1.1
Q4	-1.9	-4.8	-2.8	-2.9	-5.2	-4.1	-0.6	0.6	-7.3
2009 – Q1	-2.5	-7.6	-4.0	-1.6	-8.9	-5.2	-0.5	0.6	-8.0
Q2	-0.1	-2.8	-0.9	-1.0	-2.2	-1.6	0.1	0.6	-1.1
Q2	0.4	2.9	1.1	-1.8	..	-0.9	-0.1	0.7	2.9
Q4	..	1.3	0.4	-1.9	-0.8	-1.3	..	-0.1	1.9
	Implicit prices								
2004	1.9	1.5	….	….	….	2.4	2.0	2.0	0.9
2005	2.0	3.4	….	….	….	2.5	2.1	2.3	2.4
2006	1.9	3.7	….	….	….	2.9	2.2	2.0	2.6
2007	2.4	1.4	….	….	….	2.6	2.3	1.7	1.6
2008	2.2	3.7	….	….	….	2.3	2.8	2.7	2.4
2009	1.1	-5.5	….	….	….	-0.5	..	2.3	-3.1
2007 – Q4	0.4	1.1	….	….	….	0.6	1.0	1.2	0.4
2008 – Q1	0.7	1.4	….	….	….	0.6	0.7	0.3	1.2
Q2	0.7	1.6	….	….	….	1.0	0.9	1.4	0.8
Q3	0.3	1.5	….	….	….	0.6	0.7	-0.1	0.9
Q4	0.6	-3.9	….	….	….	-0.4	-0.4	0.5	-1.5
2009 – Q1	0.1	-3.6	….	….	….	-0.7	-0.8	0.9	-2.0
Q2	..	-1.1	….	….	….	-0.4	0.1	0.4	-0.9
Q2	0.2	-0.1	….	….	….	-0.3	0.3	0.5	0.2
Q4	0.1	0.3	….	….	….	0.1	0.5	-0.3	0.6

Source: Eurostat.
(1) Quarterly data are seasonally and calendar adjusted. – (2) Includes expenditure of non-profit institutions serving households.

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2004	1.5	4.2	2.0	2.2	2.3	2.3	0.7	2.3	4.9
2005	0.7	2.1	0.9	0.4	1.2	0.8	1.1	1.9	1.1
2005	2.0	5.9	2.8	1.0	5.0	2.9	1.2	0.5	6.2
2006	1.5	3.8	2.0	0.3	3.1	1.7	1.1	0.9	4.6
2008	-1.3	-4.3	-2.0	-3.4	-4.7	-4.0	-0.8	0.8	-3.9
2009	-5.0	-14.5	-7.2	-7.9	-16.6	-12.1	-1.8	0.6	-19.1
2007 – Q4	-0.5	-1.0	-0.6	0.2	-0.9	-0.3	-0.5	0.4	0.1
2008 – Q1	0.4	0.1	0.3	0.2	-2.1	-0.9	0.3	-0.1	1.0
Q2	-0.6	-1.7	-0.9	-2.3	2.8	0.2	-0.8	0.7	-1.8
Q3	-0.9	-1.7	-1.1	-1.2	-3.3	-2.3	0.3	-0.1	-3.2
Q4	-2.2	-5.2	-2.8	-4.1	-10.5	-7.2	-1.3	0.2	-8.0
2009 – Q1	-2.7	-9.7	-4.3	-1.4	-6.7	-3.9	-1.3	-0.2	-11.3
Q2	-0.5	-2.5	-0.9	-1.4	-4.2	-2.7	0.3	1.0	-2.8
Q3	0.5	1.6	0.8	-2.1	2.5	..	0.6	-0.4	2.6
Q4	-0.3	3.2	0.4	-1.6	-0.2	-1.0	-0.1	-0.2	0.1
				Implicit prices					
2004	2.6	2.7	2.6	4.0	1.4	2.7	2.6	2.7	2.6
2005	2.1	6.3	2.9	4.7	1.2	3.0	2.3	3.3	4.0
2005	1.8	7.7	3.1	3.3	2.1	2.7	2.7	2.4	4.6
2006	2.6	2.6	2.6	3.7	2.1	2.9	2.3	0.7	4.1
2008	2.8	6.8	3.6	3.4	3.0	3.2	3.2	3.4	5.1
2009	2.1	-6.1	0.4	1.0	0.5	0.8	-0.2	2.7	-0.4
2007 – Q4	0.7	0.6	0.7	0.8	0.1	0.4	0.7	3.8	0.8
2008 – Q1	0.4	2.9	1.0	0.8	1.7	1.2	0.9	-2.2	2.1
Q2	1.4	1.7	1.4	1.0	0.7	0.9	1.0	5.1	1.0
Q3	..	3.8	0.9	1.7	0.3	1.0	1.0	-3.1	2.2
Q4	0.8	-3.9	-0.3	0.1	0.7	0.4	-0.7	0.9	-0.9
2009 – Q1	1.0	-4.2	-0.1	0.1	0.8	0.4	-0.9	2.4	-0.6
Q2	0.1	-1.8	-0.3	-0.2	-0.8	-0.5	0.5	0.1	-0.8
Q3	0.4	0.4	0.3	-0.4	-0.8	-0.6	0.3	1.7	0.2
Q4	-0.1	-0.7	-0.3	0.5	-0.9	-0.1	0.2	-4.0	-0.1

Source: Istat.
(1) Quarterly data are seasonally and calendar adjusted. – (2) Includes consumption of non-profit institutions serving households.

Table A5

Unit labour costs, per capita compensation and productivity: euro area (1)

(percentage changes on the year-earlier period)

	Per capita compensation	Productivity			Unit labour costs
			Value added (2)	Employees	
			Total industry excluding construction		
2007	2.9	2.1	2.4	0.2	0.8
2008	3.2	-0.7	-0.7	0.0	3.9
2009		-8.6	-13.3	-5.2	
2007 – Q1	2.5	2.4	2.7	0.3	0.0
Q2	3.5	2.0	2.3	0.2	1.4
Q3	2.6	2.3	2.6	0.3	0.3
Q4	3.1	1.7	1.9	0.2	1.3
2008 – Q1	3.6	2.5	3.2	0.6	1.0
Q2	2.7	1.1	1.7	0.6	1.6
Q3	3.2	-0.9	-1.0	-0.1	4.2
Q4	2.9	-6.3	-7.5	-1.2	9.8
2009 – Q1	0.5	-13.1	-16.1	-3.4	15.8
Q2	0.2	-12.0	-16.4	-5.1	13.8
Q3	0.4	-7.2	-13.0	-6.2	8.3
Q4	0.5	-1.0	-7.2	-6.2	1.6
			Services		
2007	2.5	1.1	3.3	2.1	1.4
2008	3.1	0.0	1.4	1.3	3.0
2009		-1.1	-1.6	-0.5	
2007 – Q1	2.6	1.6	3.7	2.1	1.0
Q2	2.2	1.3	3.3	2.0	0.9
Q3	2.3	0.8	3.2	2.3	1.5
Q4	2.8	0.8	2.9	2.2	2.1
2008 – Q1	2.9	0.4	2.4	2.0	2.5
Q2	3.3	0.1	1.8	1.7	3.2
Q3	3.5	0.1	1.2	1.0	3.3
Q4	2.8	-0.8	-0.1	0.7	3.6
2009 – Q1	2.1	-1.7	-1.9	-0.2	3.9
Q2	1.8	-1.3	-1.9	-0.5	3.1
Q3	1.7	-1.2	-1.8	-0.6	2.9
Q4	1.5	-0.2	-1.0	-0.7	1.7
			Total economy		
2007	2.6	1.2	3.0	1.8	1.4
2008	3.2	0.1	0.8	0.7	3.1
2009	1.3	-2.4	-4.2	-1.9	3.8
2007 – Q1	2.6	1.8	3.6	1.8	0.8
Q2	2.4	1.2	3.0	1.7	1.2
Q3	2.4	0.9	2.8	1.9	1.4
Q4	2.9	0.8	2.5	1.7	2.0
2008 – Q1	3.2	0.9	2.4	1.5	2.3
Q2	3.3	0.5	1.7	1.1	2.7
Q3	3.5	0.1	0.6	0.5	3.4
Q4	2.9	-1.7	-1.8	-0.2	4.7
2009 – Q1	1.8	-3.8	-5.1	-1.3	5.8
Q2	1.5	-3.2	-5.0	-1.9	4.8
Q3	1.4	-2.1	-4.3	-2.2	3.6
Q4	1.3	-0.3	-2.4	-2.1	1.6

Source: Based on Eurostat data.
(1) Based on persons employed; annual figures are unadjusted; quarterly data are seasonally and calendar-adjusted. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2000.

Unit labour costs, per capita compensation and productivity: Italy (1)

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly wages and salaries	Hourly productivity			Unit labour costs
				Value added (2)	Hours worked	
Total industry excluding construction						
2007	2.8	2.8	0.3	1.9	1.6	2.5
2008	3.4	3.4	-2.3	-3.6	-1.3	5.8
2009	1.3	1.2	-8.4	-15.1	-7.3	10.6
2007 – Q1	2.1	2.2	1.1	3.0	1.9	1.0
Q2	3.2	3.3	0.9	2.8	1.8	2.3
Q3	3.0	3.1	0.4	1.9	1.5	2.6
Q4	4.0	4.0	-1.8	-2.2	-0.4	5.9
2008 – Q1	4.1	4.2	-0.4	-0.3	0.1	4.6
Q2	2.5	2.5	-0.9	-1.2	-0.3	3.4
Q3	4.4	4.3	-0.6	-3.5	-2.9	5.1
Q4	2.1	2.1	-7.7	-9.4	-1.9	10.6
2009 – Q1	2.5	2.4	-11.7	-17.5	-6.6	16.0
Q2	2.8	2.7	-12.1	-19.0	-7.9	16.9
Q3	0.3	0.2	-7.5	-14.6	-7.7	8.5
Q4	0.1	0.0	-1.6	-9.1	-7.6	1.7
Services						
2007	2.2	2.2	0.5	1.7	1.2	1.7
2008	2.5	2.4	-1.0	-0.4	0.6	3.5
2009	1.8	1.7	-0.8	-2.6	-1.8	2.7
2007 – Q1	2.6	2.9	1.7	2.2	0.5	0.9
Q2	1.7	1.6	2.5	1.9	-0.6	-0.8
Q3	0.9	0.9	-0.7	1.6	2.3	1.6
Q4	4.6	4.4	-0.4	1.0	1.4	5.0
2008 – Q1	2.7	2.8	-1.4	0.7	2.2	4.2
Q2	3.6	3.5	-1.7	-0.2	1.6	5.4
Q3	3.0	2.7	0.2	-0.8	-1.0	2.8
Q4	0.6	0.7	-1.0	-1.4	-0.4	1.6
2009 – Q1	2.5	2.1	-1.2	-3.4	-2.2	3.8
Q2	0.3	0.2	-1.4	-2.9	-1.5	1.7
Q3	3.2	3.2	-0.9	-2.4	-1.6	4.1
Q4	1.3	1.3	0.2	-1.7	-1.8	1.2
Total economy						
2007	2.1	2.5	0.3	2.0	1.7	1.8
2008	2.4	2.4	0.3	1.6	1.3	2.1
2009	2.7	2.7	-1.1	-1.2	-0.1	3.9
2007 – Q2	2.2	2.1	1.7	2.0	0.2	0.5
Q3	1.6	1.6	-0.5	1.5	2.0	2.1
Q4	4.5	4.4	-0.4	0.1	0.6	5.0
2008 – Q1	3.1	3.1	-1.0	0.4	1.4	4.1
Q2	3.3	3.2	-1.0	-0.4	0.6	4.3
Q3	3.3	3.1	-0.1	-1.4	-1.3	3.5
Q4	1.1	1.2	-2.5	-3.3	-0.8	3.7
2009 – Q1	2.9	2.7	-3.2	-6.5	-3.4	6.3
Q2	1.3	1.2	-3.8	-6.6	-2.9	5.3
Q3	2.7	2.8	-2.2	-5.3	-3.2	5.0
Q4	1.2	1.2	-0.4	-3.4	-3.0	1.6

Sources: Based on Istat and Eurostat data.
(1) Based on hours effectively worked; annual figures are unadjusted; quarterly data are seasonally and calendar-adjusted. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2000.

Table A7

Harmonized index of consumer prices: main euro-area countries (1)

(percentage changes on the year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO (2)	
	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products
2006	2.2	1.8	1.8	0.8	1.9	1.3	3.6	3.0	2.2	1.5
2007	2.0	1.9	2.3	2.1	1.6	1.5	2.8	2.7	2.1	2.0
2008	3.5	2.8	2.8	1.8	3.2	2.3	4.1	3.2	3.3	2.4
2009	0.8	1.6	0.2	1.2	0.1	1.3	-0.3	0.8	0.3	1.3
2008 – Jan.	3.1	2.6	2.9	2.1	3.2	2.2	4.4	3.2	3.2	2.3
Feb.	3.1	2.5	3.0	2.2	3.2	2.3	4.4	3.3	3.3	2.4
Mar.	3.6	2.9	3.3	2.4	3.5	2.5	4.6	3.5	3.6	2.7
Apr.	3.6	2.7	2.6	1.8	3.4	2.5	4.2	3.2	3.3	2.4
May	3.7	2.8	3.1	1.8	3.7	2.4	4.7	3.3	3.7	2.5
June	4.0	3.0	3.4	1.8	4.0	2.5	5.1	3.4	4.0	2.5
July	4.0	2.7	3.5	1.8	4.0	2.4	5.3	3.5	4.0	2.5
Aug.	4.2	3.2	3.3	1.9	3.5	2.3	4.9	3.5	3.8	2.6
Sept.	3.9	3.0	3.0	1.7	3.4	2.3	4.6	3.4	3.6	2.5
Oct.	3.6	3.0	2.5	1.5	3.0	2.3	3.6	2.9	3.2	2.4
Nov.	2.7	2.8	1.4	1.4	1.9	2.1	2.4	2.7	2.1	2.2
Dec.	2.4	2.8	1.1	1.2	1.2	1.9	1.5	2.4	1.6	2.1
2009 – Jan.	1.4	2.0	0.9	1.2	0.8	1.6	0.8	2.0	1.1	1.8
Feb.	1.5	2.1	1.0	1.2	1.0	1.7	0.7	1.6	1.2	1.7
Mar.	1.1	1.8	0.4	1.0	0.4	1.5	-0.1	1.2	0.6	1.5
Apr.	1.2	2.1	0.8	1.5	0.1	1.4	-0.2	1.3	0.6	1.7
May	0.8	1.9	0.0	1.2	-0.3	1.5	-0.9	0.9	0.0	1.5
June	0.6	1.7	0.0	1.2	-0.6	1.4	-1.0	0.8	-0.1	1.3
July	-0.1	1.3	-0.7	1.1	-0.8	1.4	-1.4	0.7	-0.7	1.2
Aug.	0.1	1.2	-0.1	1.2	-0.2	1.4	-0.8	0.5	-0.2	1.2
Sept.	0.4	1.5	-0.5	1.0	-0.4	1.2	-1.0	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.2	-0.1	1.0
Nov.	0.8	1.4	0.3	1.0	0.5	1.0	0.4	0.4	0.5	1.0
Dec.	1.1	1.5	0.8	1.1	1.0	1.1	0.9	0.4	0.9	1.0
2010 – Jan.	1.3	1.4	0.8	0.8	1.2	0.9	1.1	0.3	1.0	0.9
Feb.	1.1	1.2	0.5	0.7	1.4	1.1	0.9	0.2	0.9	0.8

Source: Eurostat.
(1) Indices, 2005=100. – (2) Weighted average of the indices of the countries belonging to the euro area at the date indicated.

Table A8

Balance of payments (current account and capital account): Italy

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2006	-38,346	-10,203	-1,272	-13,573	-5,473	-7,825	1,826	-100	-60	1,986
2007	-37,714	3,204	-7,115	-19,586	-6,811	-7,405	2,261	-69	74	2,256
2008	-54,521	-2,131	-7,296	-29,477	-6,963	-8,654	832	-13	-19	864
2009	-47,989	2,172	-10,899	-26,551	-7,458	-5,253	631	-60	171	520
2008 – Q1	-15,932	-1,740	-3,013	-5,926	-2,027	-3,226	-102	23	-22	-103
Q2	-12,548	1,422	-509	-11,813	-1,526	-123	88	-26	14	100
Q3	-7,669	-344	41	-4,009	-1,855	-1,502	252	-2	6	248
Q4	-18,371	-1,470	-3,814	-7,729	-1,555	-3,803	594	-8	-17	619
2009 – Q1	-18,680	-2,227	-4,176	-7,378	-1,391	-3,508	-149	-10	71	-210
Q2	-12,603	2,380	-1,893	-9,207	-1,948	-1,936	16	-22	-34	72
Q3	-6,408	3,658	-1,080	-5,318	-1,900	-1,767	-3	-13	66	-56
Q4	-10,299	-1,639	-3,751	-4,648	-2,219	1,958	766	-15	68	713
2008 – Jan.	-6,313	-2,900	-957	-1,397	-605	-454	17	9	23	-15
Feb.	-3,651	610	-1,059	-2,238	-465	-500	-44	17	-32	-29
Mar.	-5,969	551	-998	-2,291	-957	-2,273	-75	-4	-12	-59
Apr.	-3,462	529	-431	-2,172	-756	-633	-13	-14	-7	8
May	-6,618	941	-505	-5,980	-558	-516	31	-4	1	34
June	-2,468	-48	427	-3,660	-212	1,025	70	-7	19	58
July	1,132	3,171	651	-1,435	-740	-516	71	-10	-4	85
Aug.	-4,455	-1,735	-988	-580	-512	-641	80	-1	10	71
Sept.	-4,345	-1,779	378	-1,995	-603	-346	101	9	..	92
Oct.	-3,664	226	-1,213	-1,514	-513	-651	344	-1	-10	355
Nov.	-6,176	-1,876	-1,543	-1,917	-520	-321	332	-7	-5	344
Dec.	-8,531	180	-1,059	-4,299	-522	-2,831	-81	-1	-1	-79
2009 – Jan.	-7,786	-2,872	-1,131	-2,745	-396	-642	14	-16	25	5
Feb.	-5,195	-202	-1,617	-2,045	-414	-916	38	12	23	3
Mar.	-5,699	846	-1,427	-2,588	-581	-1,949	-201	-6	23	-218
Apr.	-4,041	690	-1,200	-2,366	-540	-624	9	-13	-7	29
May	-3,725	1,767	-463	-3,825	-695	-509	23	-10	-2	35
June	-4,837	-76	-230	-3,015	-713	-802	-16	1	-25	8
July	2,987	4,927	182	-1,149	-581	-392	135	-14	65	84
Aug.	-4,097	-995	-696	-1,409	-649	-348	-45	-2	16	-59
Sept.	-5,298	-274	-567	-2,761	-670	-1,027	-93	3	-15	-81
Oct.	-3,014	-322	-886	-1,482	-821	497	279	16	23	240
Nov.	-4,740	-1,699	-1,432	-1,388	-838	617	223	-17	9	231
Dec.	-2,545	382	-1,433	-1,778	-560	844	264	-14	36	242
2010 – Jan.	(-5,461)	(-2,444)	(-1,462)	(-285)	….	….	(5)	….	….	….

Table A9

Lending by banks in Italy by geographical area and sector (1)

(12-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
				Centre and North					
2008 – June	9.3	6.3	11.4	12.8	5.0	3.3	8.0	10.3	9.9
Sept.	8.5	4.0	10.8	12.2	4.4	2.8	6.6	8.1	8.9
Dec.	6.1	-0.5	7.3	8.3	2.5	1.6	5.1	5.4	5.7
2009 – Mar.	6.2	-10.7	4.3	5.0	1.1	0.7	4.5	-0.5	2.8
June	8.3	-11.1	1.4	1.6	0.5	1.5	3.1	0.2	1.3
Sept.	5.7	-8.1	-1.2	-1.4	-0.3	0.8	2.9	-3.1	-0.1
Dec.	5.0	-6.4	-3.5	-4.1	-0.9	0.9	2.8	2.5	-1.3
2010 – Feb.	3.8	-6.0	-4.1	-4.9	-0.3	1.6	3.1	4.9	-1.5
				South and Islands					
2008 – June	-0.8	-1.2	10.6	12.1	6.7	5.3	10.8	25.1	10.0
Sept.	3.6	13.2	8.7	10.1	5.0	3.5	10.0	17.1	8.8
Dec.	6.1	11.1	5.0	5.8	2.6	1.2	9.0	9.4	6.7
2009 – Mar.	8.2	-0.9	3.3	4.1	1.1	0.0	7.5	8.3	5.3
June	8.7	3.1	1.0	1.5	-0.3	-0.9	5.8	5.3	3.6
Sept.	14.2	-0.4	-0.7	-0.8	-0.7	-0.8	5.0	2.0	2.9
Dec.	8.0	-4.4	0.5	0.7	-0.1	0.2	4.5	6.5	2.7
2010 – Feb.	7.7	-2.2	0.7	1.1	-0.4	-0.1	5.3	5.3	3.2
				ITALY					
2008 – June	7.9	6.1	11.3	12.7	5.3	3.8	8.6	11.8	9.9
Sept.	8.0	4.2	10.5	12.0	4.5	3.0	7.3	9.1	8.8
Dec.	6.1	-0.3	7.0	8.0	2.5	1.5	5.9	5.8	5.9
2009 – Mar.	6.4	-10.5	4.1	4.8	1.1	0.5	5.1	0.5	3.1
June	8.4	-10.8	1.4	1.6	0.4	0.9	3.7	0.8	1.6
Sept.	6.5	-8.0	-1.1	-1.3	-0.4	0.4	3.3	-2.5	0.3
Dec.	5.3	-6.4	-3.0	-3.5	-0.8	0.7	3.2	3.0	-0.7
2010 – Feb.	4.2	-5.9	-3.5	-4.2	-0.3	1.2	3.6	5.0	-0.9

(1) Statistics for February 2010 are provisional. Loans do not include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations and reclassifications. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with less than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Financing of the general government borrowing requirement

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)		Borrowing requirement	
		of which: PO funds					*of which:* change in deposits with the Bank of Italy		*of which:* financed abroad
2007	-13,977	-28,447	5,562	22,509	-2,512	14,880	13,142	26,462	-6,198
2008	4,224	-5,683	19,502	40,998	-1,127	-15,240	-10,611	48,356	-10,347
2009	8,487	-1,487	-7,460	94,415	2,441	-11,919	-11,399	85,964	-2,103
2007 – Q1	-1,537	-3,474	20,684	7,519	-332	-5,494	-5,753	20,840	-531
Q2	-16,496	-13,509	345	28,734	-2,190	-8,731	-8,936	1,661	2,442
Q3	-2,330	-8,550	3,074	-2,813	-1,098	7,061	5,459	3,894	-6,292
Q4	6,387	-2,914	-18,541	-10,930	1,107	22,044	22,372	67	-1,816
2008 – Q1	1,313	-1,111	25,905	23,403	147	-33,228	-31,203	17,540	462
Q2	934	-1,266	8,186	-11,243	3,741	5,508	5,968	7,126	-5,702
Q3	-2,295	-947	-1,120	4,050	-5,582	15,711	17,012	10,764	-2,291
Q4	4,272	-2,360	-13,469	24,787	566	-3,231	-2,388	12,926	-2,816
2009 – Q1	3,034	-1,264	25,111	48,835	1,437	-47,149	-47,108	31,268	1,963
Q2	4,780	-247	5,769	-2,202	1,905	9,749	9,963	20,001	-1,617
Q3	-6,276	385	-9,480	50,560	505	-12,906	-12,676	22,403	-2,706
Q4	6,948	-361	-28,860	-2,777	-1,405	38,387	38,423	12,293	257
2009 – Jan.	3,299	-344	12,229	19,873	-8	-34,157	-34,126	1,236	-2
Feb.	-2,698	-671	6,499	3,962	935	6,746	6,777	15,444	673
Mar.	2,433	-250	6,383	25,000	510	-19,738	-19,759	14,588	1,292
Apr.	1,691	-156	6,378	-2,561	1,274	12,025	12,028	18,807	1,983
May	-1,173	144	697	3,619	573	3,667	3,687	7,383	-1,561
June	4,262	-236	-1,306	-3,261	58	-5,943	-5,752	-6,189	-2,040
July	-7,305	60	-3,348	14,398	-1,847	-458	-272	1,440	-996
Aug.	-105	151	-6,590	8,984	938	4,786	4,812	8,012	-1,219
Sept.	1,135	174	458	27,178	1,414	-17,233	-17,217	12,951	-491
Oct.	2,969	-280	-4,015	14,830	932	-3,313	-3,309	11,403	1,659
Nov.	-1,111	-650	-8,098	-9,222	724	23,999	24,035	6,293	-561
Dec.	5,090	569	-16,747	-8,386	-3,061	17,700	17,697	-5,404	-841
2010 – Jan.	-88	-276	12,703	13,689	887	-30,703	-30,679	-3,513	1,741
Feb.	-3,107	-91	-810	10,037	544	7,450	7,462	14,114	-757

(1) As of September 2006 Cassa Depositi e Prestiti S.p.A. is included among MFIs; as of the same month its loans to general government bodies are included in the item "MFI loans".

Table A11

General government debt

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* Deposits held with the Bank of Italy
2007	143,029	37,175	127,869	1,190,016	128,254	10,588	1,599,755	3,465	1,333,990	9,721
2008	147,252	31,492	147,371	1,235,740	127,130	5,958	1,663,452	3,609	1,370,309	20,333
2009	155,740	30,005	139,911	1,330,105	129,571	5,438	1,760,765	2,746	1,464,931	31,731
2007 – Mar.	155,469	62,147	142,994	1,172,490	130,436	9,108	1,610,497	5,020	1,319,429	28,616
June	138,972	48,639	143,349	1,203,432	128,245	9,313	1,623,311	4,908	1,347,764	37,552
Sept.	136,642	40,089	146,422	1,200,270	127,147	10,915	1,621,396	4,678	1,345,464	32,094
Dec.	143,029	37,175	127,869	1,190,016	128,254	10,588	1,599,755	3,465	1,333,990	9,721
2008 – Mar.	144,342	36,064	153,806	1,213,966	128,401	8,562	1,649,078	3,236	1,355,570	40,925
June	145,276	34,799	161,975	1,204,362	132,141	8,102	1,651,856	3,214	1,345,857	34,956
Sept.	142,981	33,852	160,869	1,211,050	126,561	6,801	1,648,261	3,537	1,346,917	17,944
Dec.	147,252	31,492	147,371	1,235,740	127,130	5,958	1,663,452	3,609	1,370,309	20,333
2009 – Mar.	150,287	30,228	172,490	1,284,768	128,567	5,917	1,742,029	3,768	1,420,139	67,441
June	155,067	29,980	178,265	1,283,208	130,471	5,704	1,752,715	3,528	1,418,396	57,478
Sept.	148,792	30,366	168,776	1,333,357	130,976	5,474	1,787,375	2,731	1,468,766	70,155
Dec.	155,740	30,005	139,911	1,330,105	129,571	5,438	1,760,765	2,746	1,464,931	31,731
2009 – Jan.	150,552	31,148	159,600	1,256,059	127,124	5,928	1,699,263	3,910	1,390,752	54,459
Feb.	147,854	30,478	166,102	1,260,229	128,058	5,897	1,708,140	3,968	1,395,330	47,682
Mar.	150,287	30,228	172,490	1,284,768	128,567	5,917	1,742,029	3,768	1,420,139	67,441
Apr.	151,978	30,072	178,875	1,282,622	129,841	5,915	1,749,231	3,815	1,419,093	55,413
May	150,805	30,217	179,574	1,286,548	130,414	5,894	1,753,234	3,578	1,423,101	51,726
June	155,067	29,980	178,265	1,283,208	130,471	5,704	1,752,715	3,528	1,418,396	57,478
July	147,762	30,041	174,915	1,297,826	128,625	5,517	1,754,645	2,852	1,432,466	57,750
Aug.	147,657	30,192	168,320	1,306,977	129,562	5,490	1,758,006	2,798	1,442,041	52,937
Sept.	148,792	30,366	168,776	1,333,357	130,976	5,474	1,787,375	2,731	1,468,766	70,155
Oct.	151,761	30,085	164,761	1,348,280	131,908	5,470	1,802,179	2,757	1,485,017	73,463
Nov.	150,650	29,435	156,660	1,339,006	132,632	5,434	1,784,383	2,662	1,475,608	49,428
Dec.	155,740	30,005	139,911	1,330,105	129,571	5,438	1,760,765	2,746	1,464,931	31,731
2010 – Jan.	155,652	29,729	152,613	1,343,996	130,458	5,414	1,788,134	2,837	1,479,014	62,411
Feb.	152,545	29,638	151,803	1,354,313	131,003	5,403	1,795,066	2,908	1,489,238	54,949

(1) As of September 2006 Cassa Depositi e Prestiti S.p.A. is included among MFIs; as of the same month its loans to general government bodies are included in the item “MFI loans”.