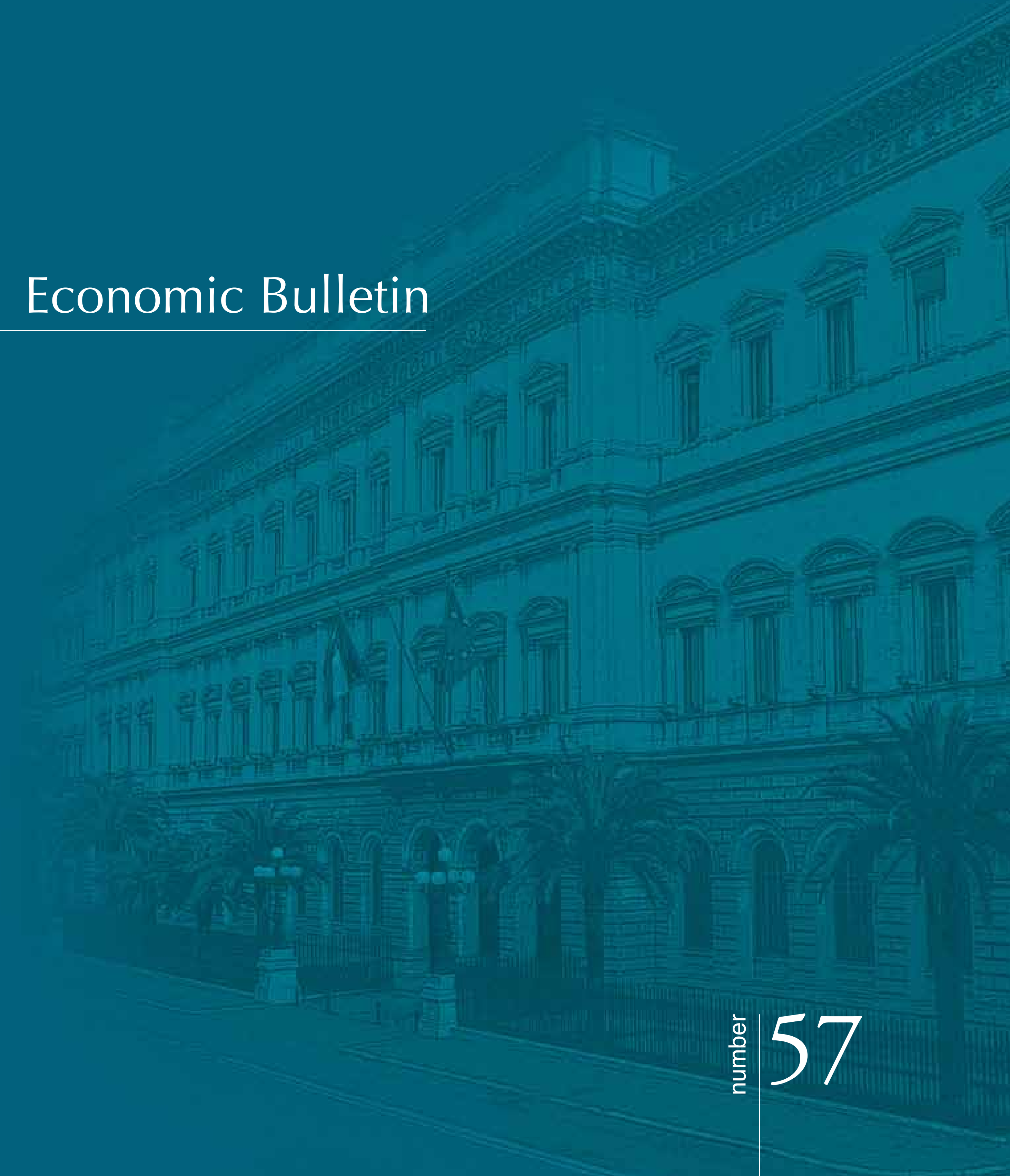
BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin



July 2010

number 57

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For the paper-based version: registration with the Court of Rome No. 426, 19 September 1985
For the electronic version: registration with the Court of Rome No. 9/2008, 21 January 2008

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ISSN 0393-7704

Based on data available on 12 July 2010, unless otherwise indicated

Printed by the Printing Office of the Bank of Italy, Rome, July 2010

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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 recovery of the world economy continues

The world economic recovery continued in the first half of 2010. The pace of growth was rapid in the emerging economies, robust in the United States and Japan, but still modest in Europe. International trade regained much of the ground lost since the peak of 2008. In the advanced countries large margins of spare capacity kept inflationary pressures in check.

The outlook is better for the countries where domestic demand is strong

The latest projections of international organizations and private forecasters point to a slowing of growth in the coming months. The future evolution of the world economy still depends in part on the expansionary anti-crisis policies; it is hampered by the poor labour market situation and recurrent financial market tensions. The outlook is better for the countries where consumption and investment demand are more robust.

In the declaration concluding the Toronto summit meeting in June, the G20 leaders placed safeguarding and strengthening the recovery among the highest priorities and emphasized the risks associated with the widening of deficits and public debts. The advanced countries pledged to cut their deficits by half by 2013 and to stabilize or reduce their debt-to-GDP ratios by 2016.

Growth and inflation in the euro area remain moderate

In the euro area GDP grew by only 0.2 per cent in the first quarter, following the modest 0.1 per cent increase in the last quarter of 2009. Economic activity was sustained largely by stockbuilding. Excluding this component, internal demand declined again; private consumption stagnated. The sharp pick-up in imports more than offset the contribution of exports to GDP growth. According to the cyclical indicators, economic activity strengthened very substantially in the second quarter, buoyed mainly by foreign demand.

Twelve-month consumer price inflation in the area rose by about half a percentage point in the first few months of the year, driven by an acceleration in the prices of energy goods. In June it reached 1.4 per cent. In the absence of demand-side pressures, the growth of the index net of the more volatile components has held at just under 1 per cent since the start of the year. Professional forecasters have been revising their inflation projections for 2010 upwards since April, and in June set them at around 1.4 per cent.

The financial market tensions in the area prompted coordinated public interventions

In the second quarter of 2010 concern about the sustainability of some euro-area countries' public debts was reflected in severe financial market turbulence. Equity prices fell, risk premiums on corporate bonds rose, and yields on the public bonds of the countries deemed to be least at risk declined. In response to these tensions the European Union launched an important financial support mechanism, to which the IMF will be able to make additional resources available and which can be activated to handle crisis situations; moreover, many countries have adopted or announced budgetary adjustment measures.

In Italy the economy is growing, but the recovery is slow

Italy's GDP grew by 0.4 per cent in the first quarter of 2010. The largest contribution came from exports. By contrast, domestic demand remained weak, with investment in machinery and equipment modest, while construction investment and household consumption were slack. According to the cyclical indicators, economic activity continued to grow in the second quarter, again led by exports.

Investment is held down by uncertainty about the future conditions of demand and the still ample margins of spare capacity. The recovery in industrial activity nevertheless is proceeding: production grew by 1.7 per cent in the first quarter and appears to have increased by 2 per cent in the second, orders, especially from abroad, have expanded, and price competitiveness has improved. Manufacturing productivity grew in the first quarter compared with a year earlier, partly owing to the reduction in hours worked. Firms' profitability increased in the twelve months ended in March after two years of practically uninterrupted decline. However, the index of industrial production is still nearly 20 points below the 2008 peak.

Employment is struggling to recover

The upturn in economic activity has not been strong enough to reverse the trend in employment, which nevertheless ceased to contract in the first quarter. Provisional data indicate no significant improvement in the second. The seasonally adjusted unemployment rate is 8.7 per cent, while the number of hours of wage supplementation has diminished slightly.

Consumer price inflation remains historically moderate

The twelve-month rate of consumer price inflation, after an uptick at the start of the year owing to energy products, settled at around 1.5 per cent, both including and excluding the more volatile components. Price rises have been curbed by persistently weak household consumption, and in June the rate came down to 1.3 per cent. Since the beginning of the year the twelve-month increase in the prices of non-food and non-energy goods has held below 1 per cent, and service price inflation has remained historically low. As measured by the harmonized index for the euro-area countries, the inflation differential between Italy and the rest of the area was closed in March after being almost constantly positive for two years.

The objectives for the Italian public finances have been confirmed

At a time of severe tensions on the government securities markets of some euro-area countries, the Government has brought forward Italy's budgetary adjustment measures, now under discussion in Parliament, to ensure attainment of the objectives. The measures are designed to reduce net borrowing compared with that on a current legislation basis by €12 billion in 2011 and €25 billion in both 2012 and 2013.

The forecasts for growth and inflation in Italy

This year and in 2011 the recovery in Italy is likely to be sustained by export demand, as in similar cyclical phases in the past. World trade, which international organizations now expect to expand more rapidly than had been forecast in January's Economic Bulletin, should boost the growth of the Italian economy to 1 per cent in both 2010 and 2011. The discontinuation of the fiscal stimulus measures in the second half of 2010 and the restrictive effects of the budgetary adjustment in 2011 will result in a slowdown in economic activity compared with the first six months of this year. Driven by the depreciation of the euro, inflation – measured by the harmonized index of consumer prices – will average 1.5 per cent this year and reach 1.9 per cent in 2011; excluding the energy and food components, the index is forecast to increase by an annual average of about 1.5 per cent in 2010-11. The strong cyclical improvement in labour productivity will trigger a considerable slowdown in unit labour costs in the private sector and a sharp fall in the domestic component of inflation, which will remain below 1 per cent this year and 2 per cent on average in 2011.

The margin of uncertainty over the international recovery remains substantial, in both directions: the emerging economies could accelerate further, but any overheating would trigger restrictive policies; in the advanced economies, once the stimulus measures that governments introduced at the start of the crisis have run their course, the solidity of the domestic components of demand will be crucial. Corresponding uncertainty surrounds the scenario presented here for the Italian economy.

2 THE WORLD ECONOMY

2.1 THE FINANCIAL MARKETS AND ECONOMIC DEVELOPMENTS

The recovery of the world economy continued in the first quarter

The recovery of the world economy that had begun in the summer of 2009 continued in the early months of this year, although performances were disparate. In the advanced countries, output growth was lower than in the last quarter of 2009, gaining pace in the United States and Japan but still modest in the euro area and the United Kingdom. Economic activity in these countries drew strength from highly expansionary economic policies and from the inventory cycle, against the backdrop of a gradual recovery in private consumption. Among the emerging countries, activity continued to expand very rapidly in Asia and Brazil and improved in Russia and central and eastern Europe. International trade regained much of the ground lost since the peak of 2008. Large margins of spare capacity kept inflationary pressures in check in the advanced countries, while prices accelerated in some emerging countries. According to the latest cyclical indicators, the world economy continued to expand in the second quarter of this year, at rates close to those recorded in the previous period.

The financial markets were affected by renewed turbulence

Despite a gradual improvement in the macroeconomic outlook, the financial markets came under heavy pressure in the second quarter, triggered by concerns about the sustainability of Greece's public debt. Volatility increased brusquely from the end of April. As a result, share prices fell sharply; risk premiums on corporate bonds rose and conditions on the interbank markets became more strained; yields on sovereign bonds issued by countries perceived to be low-risk narrowed. A large-scale financial support plan was launched at the European level to counteract the tensions, and many countries adopted or announced measures to consolidate their public finances.

The recovery is expected to slow in some areas next year

The latest projections of international organizations and private forecasters point to a slowing of growth next year in some advanced and emerging countries (Table 1). The future evolution of the world economy is rendered uncertain by the transitory nature of the factors that have underpinned the recovery to date, by the poor labour market situation, and by the recent financial market tensions.

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	1.3	1.1	1.4
Japan	-5.2	2.4	1.8	3.2	1.7
United Kingdom	-4.9	1.2	2.1	1.3	2.3
United States	-2.4	3.3	2.9	3.3	3.1
Emerging countries					
Brazil	-0.2	7.1	4.2	7.1	4.4
China	9.1	10.5	9.6	10.2	9.0
India (1)	5.7	9.4	8.4	8.3	8.5
Russia	-7.9	4.3	4.1	5.2	4.7
World trade (2)	-11.3	9.0	6.3	–	–

Sources: National statistics; IMF, *World Economic Outlook Update*, July 2010; Consensus Economics, various publications, June 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. – (2) Goods and services. Figures for 2009 are IMF estimates.

In the declaration concluding the Toronto summit meeting in June, the G20 leaders included safeguarding the recovery among the priorities and noted the risks stemming from the lack of certainty about the timing and strength of measures to consolidate public finances. In order to counter these risks the advanced countries pledged to cut their deficits by half by the end of 2013 and stabilize or reduce their debt-to-GDP ratio by the end of 2016. They also acknowledged the need for the countries whose situation has deteriorated most seriously to bring forward their fiscal consolidation plans. The G20 further confirmed their commitment to coordinate national economic policies within a framework designed to ensure their collective consistency, with the aim of establishing the conditions for sound, sustainable and balanced global growth in the future.

Strains on the financial markets caused a decrease in yields on low-risk government securities ...

The sudden loss of confidence on the markets triggered by the sovereign debt crisis of some euro-area countries led to a portfolio reallocation to safer investments, causing a sharp decline in the yields on government securities in the countries deemed less risky. From April, the yields on ten-year government bonds fell by around 80 basis points in the United States, to 3.1 per cent, and by 50 basis points in the United Kingdom, to 3.3 per cent; in the euro area, in Germany, they fell by about half a percentage point, to a historical low of 2.6 per cent (Figure 1). Market uncertainty regarding the short-term performance of yields on government securities, measured by their implied volatility, also increased during this period (Figure 2).

... a fall in share prices ...

In a situation of increased risk aversion, the leading stock market indices lost around 10 per cent on average from mid-April (Figure 3). The implied volatility of share prices in the United States and the euro area rose sharply at the beginning of May before returning to more moderate levels in June, although still higher than in the early part of the year.

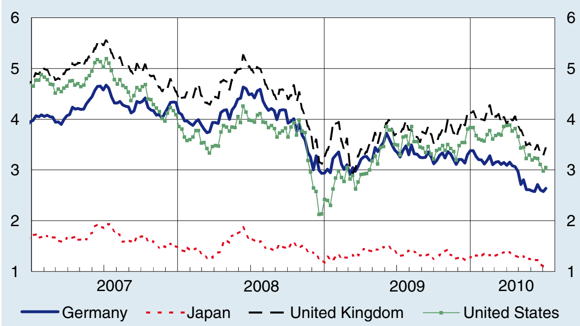
... and a widening of bond spreads

The risk premiums on corporate bonds rose for all

Figure 1

Yields on ten-year government bonds

(end-of-week data; percentages)

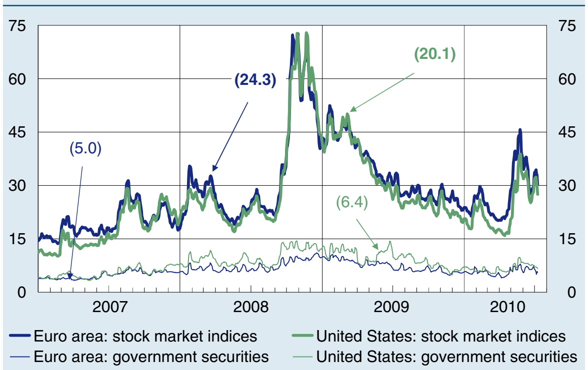


Sources: Thomson Reuters Datastream.

Figure 2

Implied volatility in the prices of shares and government securities (1)

(percentage points; averages for the period 1999-2006 in brackets)

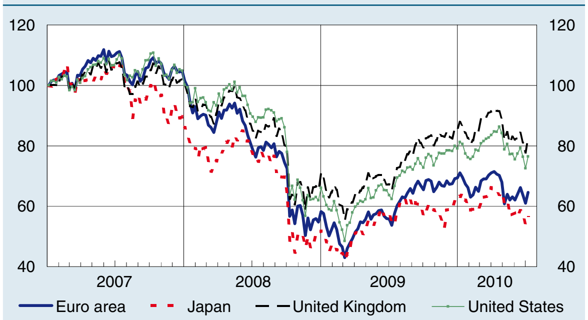


Source: Based on Thomson Reuters Datastream.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on futures on Treasury notes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

Figure 3

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.

ratings and in all the leading countries (Figure 4). Premiums on bonds of non-financial companies rated BBB or higher increased by about 0.5 percentage points, to 2.3 for bonds denominated in dollars and 2.0 for those in euros, while in the case of high-yield bonds they rose by 1.2 points, to 6.9 and 7.5 points respectively.

Conditions on the interbank markets became more strained

Tensions on the interbank markets were re-ignited in May by the heightened perception of counterparty risk due to uncertainty regarding banks' exposure to some sovereign borrowers. From mid-April the premiums on CDs for the leading international banks rose from 85 to 130 basis points. The yield spreads between unsecured three-month interbank deposits and three-month overnight index swaps widened (Figure 5).

The central banks of the main advanced countries continued to support liquidity. The re-emergence of tensions on the international interbank markets for short-term dollar-denominated funds prompted the Federal Reserve to reinstate swap lines with the ECB, the Bank of Japan and the Bank of England at the beginning of May. At the end of June, the balance sheets of the leading central banks were about the same size as they had been at the end of the previous quarter (Figure 6).

Tensions spread to the emerging economies as well

Financial market conditions in the leading emerging economies were affected by the increased risk aversion of international investors. Sovereign risk premiums, measured by the yield spread between long-term dollar-denominated securities and US Treasuries, rose by 80 basis points overall in the second quarter compared with the first, to 3.3 percentage points (EMBI Global index). There was a generalized fall in share prices, to about 7 per cent below the level of early April.

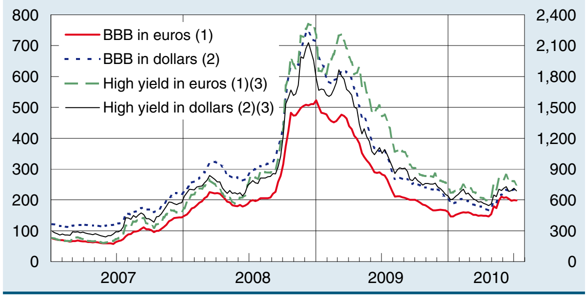
The price of oil fell

In the second quarter of the year, greater uncertainty over the outlook for world growth caused an increase in the volatility of oil prices. The average price for the three main grades,

Figure 4

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

(end-of-week data; basis points)

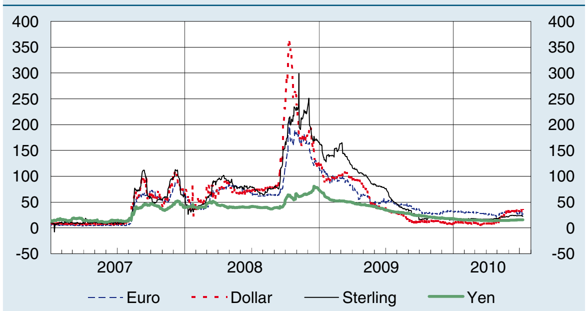


Source: Merrill Lynch.
(1) Fixed-rate bonds denominated in euros with a residual term to maturity of not less than one year issued in the Euromarket; yield spreads are calculated with respect to French and German government securities. – (2) Fixed-rate bonds denominated in dollars with a residual term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

Figure 5

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

(basis points; daily data)

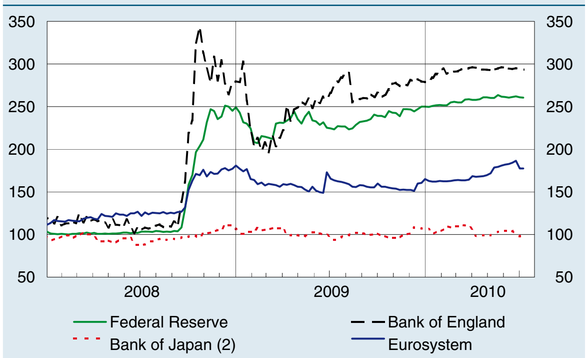


Source: Thomson Reuters Datastream.

Figure 6

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.

which stood at $84 a barrel in April, fell in the following month then picked up slightly, to $75 in June, buoyed by positive news regarding demand in the advanced countries. In response to the recovery in consumption in the OECD countries, in June the International Energy Agency revised its forecasts of world crude oil demand for 2010 slightly upwards, to 86.4 million barrels a day. The IEA has also forecast that the supply of oil by non-OPEC countries will increase, easing the pressure on prices. On the basis of futures contracts, the price of WTI grade crude oil is expected to reach $81 a barrel in July 2011. The dollar prices of non-energy raw materials rose slightly with respect to March (Figure 7).

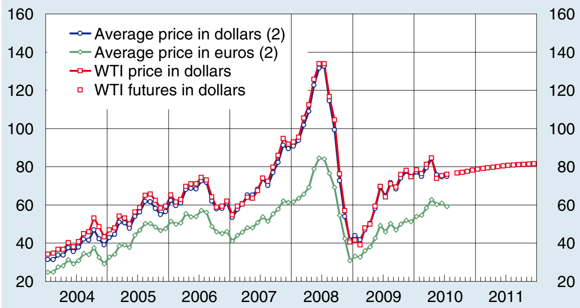
The dollar and the yen appreciated

The dollar gained around 6 per cent against the euro from April, reflecting the improved economic outlook and investors' preference for safer and more liquid assets, while the yen rose by 5 per cent against the dollar. In the same period the renminbi remained closely pegged to the US currency, appreciating by just 0.8 per cent following the Chinese authorities' decision on 19 June to allow limited flexibility of the exchange rates between the two currencies.

Figure 7

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 9 July 2010. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Figure 8

Exchange rates

(daily data)

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

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

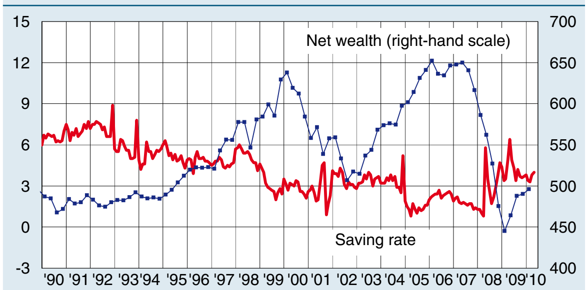
In the United States the recovery is slowing down but continues

GDP in the United States slowed in the first quarter of 2010 to 2.7 per cent on an annual basis, from 5.6 per cent in the previous quarter. Economic activity was sustained by the inventory cycle and by an acceleration in private consumption, which increased by 3 per cent. The slower growth compared with the fourth quarter of 2009 mainly reflects the smaller change in inventories and the continued negative contribution of net exports. GDP continued to grow in the second quarter at a pace similar to that experienced in the first.

Household spending continues to be held back by unfavourable conditions in the labour market and by the weak household budgets. In

Figure 9

United States: household saving rate and net wealth (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.

April and May consumption increased by scarcely 2 per cent on an annual basis, despite growth of 6 per cent in disposable income; the household saving rate climbed back to 4 per cent in May (Figure 9). Following signs of improvement in the early months of the year, the labour market situation showed only limited progress. In the second quarter, non-farm payroll employment benefited from temporary hiring in the public sector in connection with the population census, which accounted for about two fifths of the overall increase of 621,000 jobs. The unemployment rate measured on the basis of the survey of households, came down to 9.5 per cent in June, mainly as a result of a decrease in labour market participation.

Reflecting the weakness of demand and still stringent supply conditions, commercial bank lending to businesses continued to decline in the second quarter, although at a slower rate. According to the Senior Loan Officer Opinion Survey published in April, in the first quarter of 2010 supply conditions remained basically restrictive, as in the previous three months. In a context of greater risk aversion, non-financial companies made less recourse to the bond market in the second quarter than in the first.

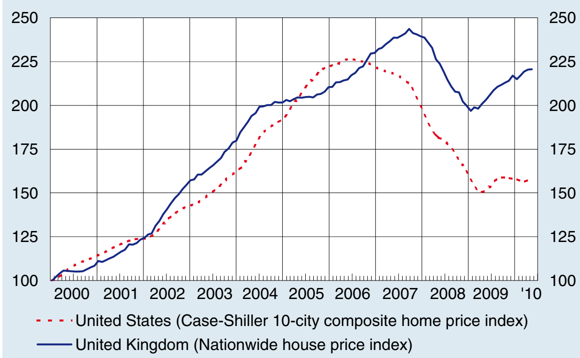
The outlook for the real-estate market is still uncertain

The residential housing market benefited temporarily from tax incentives for first-home purchases. As the expiry date of the incentives drew closer, there was a sharp recovery in the sale of new housing in April; in May, without the incentives, sales of new homes plummeted, reaching the lowest level since the start of the crisis. The stabilization of the market continues to be hindered by the high incidence of foreclosures on outstanding mortgage loans, which increases the supply of properties for sale. House prices, measured by the Case-Shiller 10-city composite home price index, continued to hold steady (Figure 10).

Figure 10

Real-estate market: house price indices

(monthly data; indices, January 2000=100)



Source: Thomson Reuters Datastream.

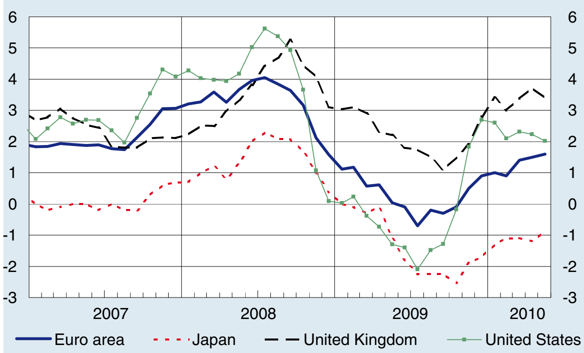
Inflation continued to slow

Consumer price inflation fell to 2 per cent in May (Figure 11), reflecting the slower rise in energy prices. Excluding energy and food products, the increase in prices declined, in April and May, to 0.9 per cent, the lowest level since 1966, a sign that core inflation pressures remained modest. Discounting a further slackening in price increases over the next few months, consumer price inflation forecasts from Consensus Economics were revised markedly downwards compared with March, to 1.7 per cent. Long-term expectations taken from the Survey of Professional Forecasters of the Federal Reserve Bank of Philadelphia remained stable at 2.4 per cent.

Figure 11

Consumer price inflation (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

At the Federal Open Market Committee's meetings in March and June 2010, the Federal Reserve confirmed the 0 to ¼ per cent target range for the federal funds rate and reaffirmed its intention of maintaining it at this level for an extended period. In the context of interventions outlined in February to progressively reduce banks' reserves and normalize money market conditions, in June the Fed held two auctions for time deposits. At the end of June, it also withdrew its Term Asset-Backed Securities Loan Facility, the main instrument used in the preceding months to support mortgage loan securitization.

In Japan in the first quarter economic activity maintained its robust rate of expansion

GDP rose at a 5 per cent annual pace in the first quarter in Japan, up from 4.6 per cent in the fourth quarter of 2009, thanks to robust export growth (30.6 per cent), driven by strong demand from the other Asian economies. Domestic demand also strengthened slightly, benefiting from the positive contribution of inventories.

More recent economic indicators show a slowdown in growth in the second quarter. The unemployment rate continued to rise in May, albeit marginally, to 5.2 per cent, which is high for the Japanese labour market.

The trend in consumer prices remained negative; the general index was down by 0.9 per cent in May compared with -1.1 per cent in March. Private analysts expect deflation to continue over the next few quarters, with an average decline of 1.1 per cent in consumer prices in 2010. At its meeting in June, the Bank of Japan kept its monetary policy reference rate unchanged at 0.1 per cent.

The rate of growth of GDP in the UK slowed in the first quarter

In the United Kingdom, GDP grew by 1.2 per cent on an annual basis in the first quarter, decelerating with respect to the previous quarter. The inventory cycle contributed less and household consumption stagnated.

Consumer price inflation remained high, at an average of 3.4 per cent in May, continuing to suffer from the lagged effects of the depreciation of sterling and also from the statistical effects of the standard rate of VAT returning to normal. The Bank of England held its monetary policy reference rate unchanged at 0.5 per cent; it also maintained its target level for medium- and long-term securities held in its portfolio at £200 billion, a figure reached last January.

In June the new government presented its proposal for an emergency budget to adjust the public finances, with the aim of cancelling the structural borrowing requirement within five years. Overall, the measures will bring a permanent correction of the public finances amounting to 6.3 percentage points of GDP each year, more than three quarters consisting in spending cuts. The impact of the measures in the current financial year will be limited (0.6 percentage points of GDP), but will then increase to around 2.7 points in the 2011-12 financial year and 4.1 in 2012-13.

In the main emerging economies economic activity strengthened further

GDP growth in the main emerging countries strengthened in the first quarter and, according to more recent indicators, output continued to grow apace in the second quarter as well, albeit with signs of easing off in some countries. Compared with March, private analysts have once again revised their growth expectations upwards for 2010 for all the main emerging countries.

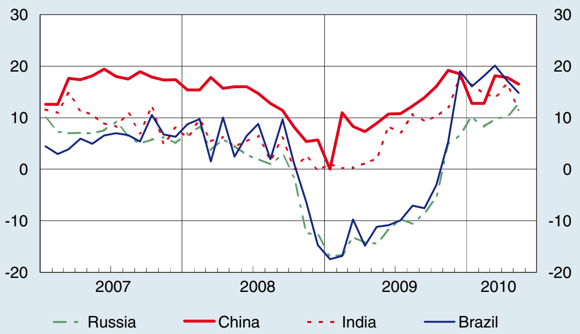
In China, GDP was up 11.9 per cent year-on-year in the first quarter (compared with 10.7 per cent the previous quarter). The contribution of consumption increased, nearly matching that of investment. Economic activity continued to expand robustly in the second quarter as well, as shown by the trend in industrial production (Figure 12) and exports. However, signs of a moderation of economic activity came from a worsening of business confidence in May and in June. Consumer price inflation rose to 3.1 per cent in May compared with 2.4 per cent in March, reflecting an acceleration of food prices and an increase in core inflation. Against the backdrop of continuing price tensions, the central bank confirmed its less accommodating monetary policy stance, by raising its compulsory reserve ratio in

May for the third time since the start of the year. In June it announced an exchange rate policy reform, foreshadowing the return to a controlled floating exchange rate regime with a basket of reference currencies, apparently similar to that in effect between July 2005 and July 2008. At the same time, it reinstated the daily fluctuation band of ±0.5 per cent in respect of the central parity of the renminbi against the dollar, which had been suspended in 2008.

Figure 12

Industrial production in the main emerging economies

(monthly data, not seasonally adjusted; twelve-month percentage changes)



Sources: Thomson Reuters Datastream and national statistics.

In India, GDP rose by 11.2 per cent in the first quarter compared with the year-earlier period (from 7.3 per cent in the preceding quarter), supported by exports and investment. Wholesale price inflation remained high (10.2 per cent in May), driven by faster core inflation. In response to mounting inflationary pressures, the central bank assumed a less expansionary monetary policy stance, increasing the reference rate by 25 basis points in March and again in April and, at the same time, raising the reserve ratio.

In Brazil, GDP growth accelerated in the first quarter of 2010 to 11.4 per cent on an annual basis (from 9.3 per cent in the preceding quarter) benefiting from strong growth in investment, while consumption increased more slowly; the contribution of net exports was still negative. The cyclical indicators signalled a slowdown in the second quarter. The private analysts surveyed by Consensus Economics in June forecast growth of around 7 per cent on an average annual basis. In the context of increased inflationary pressures, monetary policy has been tightened since April, by two consecutive increases in the reference interest rate by 150 basis points to 10.25 per cent.

In Russia the economic situation is stabilizing, thanks notably to the progressive rise in oil prices. Preliminary estimates indicate a return to a positive year-on-year growth rate (2.9 per cent) in the first quarter, compared with a 3.8 per cent contraction in the fourth quarter of 2009. The trend in industrial production suggests that the recovery has strengthened in more recent months. In a context of receding inflationary pressures and still weak domestic demand, the monetary authorities lowered the reference rate further in May.

The economic situation improved in the countries of central and eastern Europe as well. GDP grew by 2 per cent on an annual basis in Poland and the Czech Republic and accelerated to 3.6 per cent in Hungary, mostly due to increases in inventories, while in Romania the contraction eased. The most recent cyclical indicators show that economic activity strengthened in all four countries in the second quarter. The prospects for growth vary, however, according to differences in domestic demand and export dependency. Private analysts forecast GDP growth in 2010 of around 3 per cent in Poland, slightly below 2 per cent in the Czech Republic, and stagnation in Hungary and Romania.

International trade continued to pick up

According to OECD estimates, world trade in goods in services continued to expand in the first quarter of 2010, at a rate of more than 10 per cent on an annual basis. However, the volume of trade was still about 6 per cent lower than the peak recorded in 2008. Trade expanded faster in the emerging economies of Asia, mainly driven by strong domestic demand and Asia's central role in global supply chains.

The uneven pace of economic recovery and higher raw material prices contributed to a slight worsening of global current account imbalances in the first quarter. In the United States the deficit grew from

2.8 to 3.0 per cent of GDP, while Japan's surplus rose from 3.3 to 3.8 per cent; by contrast China's surplus was halved to 3.5 per cent of GDP, reflecting the decrease in the trade surplus associated with the rapid recovery of imports, in particular raw materials. With the progressive reduction of the cyclical factors that helped reduce them during the crisis, the imbalances will presumably widen in the quarters to come although, according to the international organizations' forecasts, they will remain at lower levels than in the recent past.

2.3 THE EURO AREA

GDP grew at a modest pace in the first quarter ...

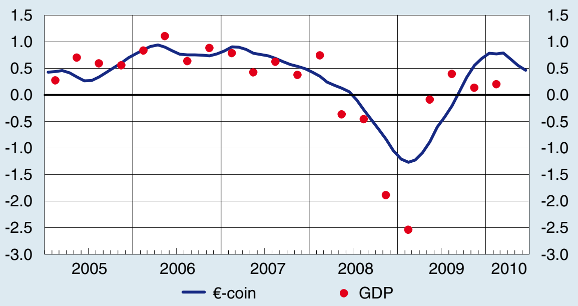
In the first quarter of 2010, euro-area GDP grew by 0.2 per cent, a modest result that followed the growth of 0.1 per cent recorded in the last quarter of 2009 (Figure 13). Economic activity was buoyed by stockbuilding and faster growth in exports (2.1 per cent compared with 1.8 per cent in the previous quarter), which benefited from the gains in competitiveness since the end of 2009 and the expansion of world demand. Net foreign trade nonetheless had a negative impact on GDP growth owing to the sharp upturn in imports. Net of stockbuilding, which contributed one percentage point to the growth in economic activity, domestic demand again made a negative contribution. Private consumption stagnated, investment continued to fall, declining by 1.2 per cent, due in part to the exceptional contraction of 3.8 per cent in construction activity in Germany caused by bad weather.

GDP growth was close to the average in the main euro-area countries: it was equal to the average in Germany, slightly lower in France and Spain (0.1 per cent), and higher in Italy (0.4 per cent), where it recouped the small downturn of 0.1 per cent recorded in the last quarter of 2009. Overall, from the beginning of the recovery to the end of the first quarter of this year, euro-area GDP grew by 0.7 per cent, with Italy recording similar growth and Germany and France faster rates of 1.5 and 1.2 per cent respectively. GDP for the area as a whole is nonetheless still about 5 per cent lower than before the crisis.

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*, July 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly data; change on preceding quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter adjusted for the most erratic components.

... but accelerated in the second

The cyclical indicators of manufacturing activity point to stronger growth in GDP in the second quarter of 2010: adjusted for calendar and seasonal effects, the area-wide index of industrial production rose by 0.8 per cent in April, driven by comparable increases in Germany and Italy. According to Bank of Italy estimates the index rose by more than 1 per cent in May. Industrial activity is fuelled mainly by foreign demand: on average in the three months ending in April export orders, deflated by the relevant producer price, grew by 4.0 per cent compared with the period January-March. By contrast, growth in domestic demand is proving slow to emerge. Motor vehicle registrations fell again in May, by 6.2 per cent, and consumer sales are stagnating. Despite the progressive improvement in productive activity, the plant capacity utilization rate remains low, thus contributing to hold back investment. The recent tensions on the international financial markets and the effects of the budgetary tightening announced by some euro-area countries have increased the uncertainty about the prospects for the second half of the year. This has adversely affected households' confidence, and halted the improvement in this index recorded in 2009. The results of business opinion surveys have been more favourable, benefiting primarily from the positive views on the performance of orders, especially in Germany, in all probability due to the gradual improvement in the euro area's competitiveness and the expansion in world trade. Although the Purchasing Managers Index declined in May and to a lesser extent again in June, it has remained well above the level compatible with an increase in output.

In June the Bank of Italy's €-coin indicator, which provides a monthly estimate of the rate of growth in GDP with respect to the previous quarter adjusted for the most erratic components, was affected by the recent financial market tensions and fell for the third successive month, reaching 0.46 per cent (Figure 13). The indicator nonetheless continues to signal underlying GDP growth in the euro area compatible with a continuation of the present upward phase of the cycle, albeit at a less lively pace than in the spring.

The professional forecasters surveyed by Consensus Economics in June expect euro-area GDP to grow by 1.1 per cent in 2010, in line with the latest IMF and European Commission forecasts (Table 2). In June the Eurosystem forecast that the area's GDP would grow by between 0.7 and 1.3 per cent in 2010 and by between 0.2 and 2.2 per cent in 2011.

Consumer price inflation stands at about 1.5 per cent

After fluctuating around 1 per cent between the last part of 2009 and the early part of 2010, twelve-month consumer price inflation in the euro area rose by about half a percentage point, driven up by the rise in energy prices. According to preliminary data it was 1.4 per cent in June (Figure 14). In the absence of pressure on the demand side, the twelve-month rate of increase in the index, excluding the most volatile components (food and energy products), has remained just under 1 per cent since the beginning of 2010.

Inflation, excluding the most volatile components, has followed divergent paths in the main euro-area countries, partly owing to their different positions in the economic cycle. In 2009 the decline was greatest in the countries with the most severe economic difficulties (Spain, Portugal and Ireland), except Greece, where the increase since March (up to 2.9 per cent in the twelve-months ending in May) was due to the effects of the recent indirect tax measures.

Short-term expectations are that inflation will remain at this level

Between March and June the professional forecasters surveyed by Consensus Economics raised their inflation expectations for 2010 slightly, from 1.1 to 1.4 per cent. They have kept those for 2011 unchanged at 1.5 per cent since the beginning of the year.

Table 2

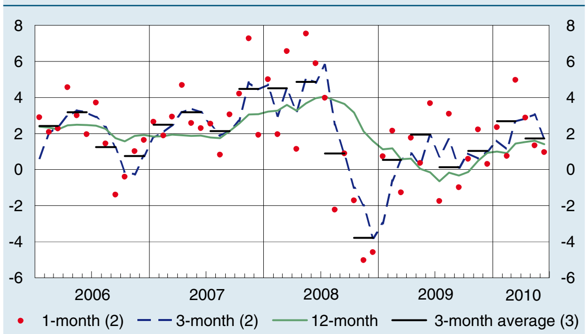
Forecasts of the growth in euro-area GDP (1)
(percentage changes on preceding year)

	Month released	Forecasts for 2010	Forecasts for 2011
ECB/Eurosystem (2)	June-10	0.7 / 1.3	0.2 / 2.2
	Mar.-10	0.4 / 1.2	0.5 / 2.5
IMF	July-10	1.0	1.3
	Apr.-10	1.0	1.5
OECD	May-10	1.2	1.8
	Nov.-09	0.9	1.7
European Commission	May-10	0.9	1.5
	Feb.-10	0.7	–
Consensus Economics	June-10	1.1	1.4
	May-10	1.1	1.5

(1) For the ECB, IMF and European Commission, the two most recent forecasts, released in the months indicated. For the forecasts collated by Consensus Economics, the expectations reported in the months indicated. – (2) Projections by Eurosystem experts for June (prepared jointly by the ECB and the euro-area NCBs) and by ECB experts for March.

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 June. – (2) On a seasonally adjusted and annual basis. – (3) Average, in the reference quarter, of the monthly rates of increase on a seasonally adjusted annual basis.

The contraction in the monetary and credit aggregates has come to a halt

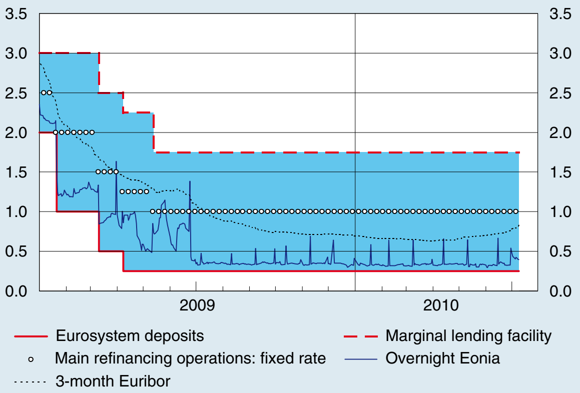
Since last February the twelve-month rate of change in euro-area M3 has remained slightly negative (-0.2 per cent in May). The three-month change in this monetary aggregate nonetheless shows a small acceleration, to an annualized rate of 1.3 per cent adjusted for seasonal effects, from -0.2 per cent in February. The movements in the various components of the aggregate remain very different. Although the expansion in overnight deposits slowed, they continued to grow rapidly, increasing by 11 per cent in the twelve months ending in May; other short-term deposits showed a further large decline, contracting by 8 per cent. On the basis of data adjusted for the accounting effect of securitizations, bank loans to the private sector in the euro area continued to stagnate in May, rising at a twelve-month rate of 0.2 per cent, compared with a twelve-month decline of 0.2 per cent in February. The contraction in loans to non-financial corporations continued, although it slowed from 2.4 per cent in February to 2 per cent in May, and the change over three months also remained slightly negative, with a contraction of 0.2 per cent. The modest twelve-month increase of 2.4 per cent in credit to households reflects the growth of 3.1 per cent in loans for house purchase, not adjusted for the accounting effect of securitizations; consumer credit stagnated. According to the results of the Bank Lending Survey, the criteria adopted for granting loans to households and firms remained basically unchanged in the first quarter of 2010. The gradual recovery in firms' demand for loans recorded in 2009 has come to a halt, primarily owing to their reduced need for financing in connection with debt restructuring.

The ECB has supported the market for euro-area countries' government securities

The Governing Council of the ECB has kept the minimum rate on main refinancing operations at 1 per cent (Figure 15) against a background of severe financial market tensions.

Figure 15

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



Sources: BCE, Thomson Reuters Datastream.

The turbulence on the market for Greek government securities, which was already severe in the early months of the year (see *Economic Bulletin*, April 2010), suddenly became more acute from the second half of April onwards. Towards the end of that month Standard & Poor's downgraded Greek debt to junk status, thereby making the replacement of maturing securities increasingly difficult. The tensions spread to the public securities of other euro-area countries, notably Portugal and, to a lesser extent, Ireland and Spain. In order to cope with the Greek crisis, on 2 May the authorities of the European Union and the euro-area countries agreed on a financial support plan that provided for bilateral loans amounting to a total of €80 billion in three years; at the same time the IMF granted €30 billion. Despite this intervention, the tension became even more pronounced in the following days and spread from the public securities market to the share and bond markets, which recorded sharp falls and increased volatility, and to the interbank markets. On 3 May, following the decision by the Council of the European Union to activate the financial support that Greece had agreed with the European Commission, the ECB and the IMF, the Governing Council of the ECB suspended the application to securities issued or guaranteed by the Greek government of the minimum rating requirements for eligibility as collateral for refinancing operations.

To reduce the risk of contagion of other member countries and safeguard the smooth operation of the euro-area markets, on 10 May the Council of the European Union established a financial stabilization mechanism that allows euro-area countries to obtain a loan on conditions similar to those applied by the IMF if it is experiencing a severe economic or financial disturbance caused by exceptional occurrences. If necessary, resources amounting to €500 billion can be mobilized, of which €60 billion to be disbursed by the European Union and €440 billion by the European Financial Stability Facility, which was established on 7 June 2010 and will raise market financing by issuing securities guaranteed by the euro-area countries. The IMF has declared that it is willing to participate in any such interventions with an additional contribution, the size of which would be pro rated to the European financing provided, as in the case of Greece. On 10 May the Governing Council of the ECB also adopted a series of measures aimed at safeguarding the proper functioning of the monetary policy transmission mechanism and the stability of the euro-area financial system. In particular, the Council launched a programme of purchases of public and private debt securities issued in the euro area to support segments of the market especially hard hit by the crisis (the Securities Markets Programme), while providing for the interventions to be sterilized by means of liquidity-absorbing operations and prevent its affecting the monetary policy stance. Lastly, the Council established that the end-May and end-June three-month longer-term refinancing operations would be conducted by way of a fixed-rate tender procedure with full allotment. A six-month refinancing operation was announced at the meeting of 10 May, to be conducted on 12 May with full allotment, at a rate which will be fixed at the average minimum bid rate of the main refinancing operations over the life of this operation. In its meeting at the beginning of June the Governing Council extended the auctions with full allotment at a fixed rate to the July, August and September longer-term refinancing operations.

The first of July saw the maturity of the twelve-month operation conducted in June 2009 in which intermediaries had been awarded an exceptionally large amount of liquidity (€440 billion). In the three-month tender conducted the previous day €130 billion were allotted; an additional €110 billion was assigned in a six-day fine-tuning operation carried out on the same day (with the explicit aim of ensuring orderly conditions in the money market when the twelve-month operation matured). The liquidity injected into the system by way of open-market operations fell to €780 billion on average in the reserve maintenance period ending in the middle of July, from about €840 billion on average in the previous period; use of the deposit facility, which had risen to €290 billion between mid-May and mid-June, fell to €230 billion on average in the reserve maintenance period ending in July. The Eonia rate rose slightly, to 0.4 per cent (Figure 15).

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

GDP accelerated in the first three months of 2010 ...

Italy's GDP grew by 0.4 per cent in the first quarter of 2010, compared with a contraction of 0.1 per cent in the fourth quarter of 2009 (Figure 16). The renewed vigour of exports, which expanded by 5.3 per cent, was not accompanied by an improvement in domestic demand. While there was a modest increase of 1.7 per cent in investment in machinery, equipment, transport equipment and intangibles, construction investment and household consumption stagnated (Table 3).

... and continues to expand in the second quarter

The cyclical indicators suggest that economic activity continued to grow in the second quarter at a similar rate. The index of industrial production rose in April and May and, according to our estimates, continued upwards in June. Manufacturing activity is continuing to be stimulated by foreign demand; exports and new orders from abroad grew by an average of 1.0 and 1.6 per cent respectively in the period from February to April compared with January-March.

The consolidation of the recovery remains uncertain

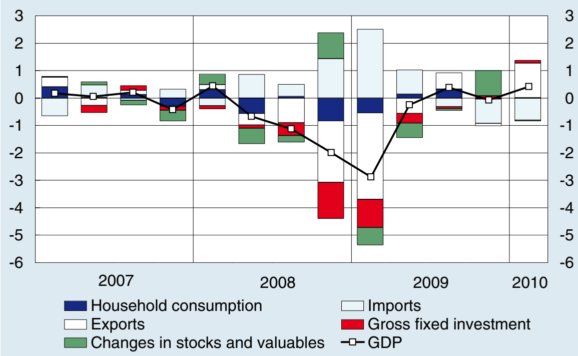
The outlook for the second half of the year is rendered uncertain by the sovereign debt crisis in some euro-area countries and the prospective effects of the consequent fiscal adjustment measures.

Household confidence weakened in the first half of 2010. Investment is conditioned by a plant capacity utilization rate which, though rising in the last three quarters, is still well below its long-term average and by the lapsing at the end of June of the tax incentives for the purchase of machinery

Figure 16

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

(percentage points)



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 Istat's website (www.istat.it).

Table 3

GDP and its main components

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

	2009			2010	2009 (1)
	Q2	Q3	Q4	Q1	
GDP	-0.3	0.4	-0.1	0.4	-5.0
Total imports	-3.3	1.2	3.4	3.3	-14.5
National demand (2)	-0.6	0.1	0.9	-0.1	-3.8
National consumption	0.4	0.3	-0.1	-0.1	-1.2
households	*0.2*	*0.5*	*-0.1*	*..*	*-1.8*
other (3)	*0.8*	*-0.3*	*-0.2*	*-0.5*	*0.6*
Gross fixed investment	-1.8	-0.4	0.4	0.6	-12.1
construction	*-1.3*	*-1.8*	*-0.7*	*-0.3*	*-7.9*
other investment goods	*-2.4*	*1.4*	*1.7*	*1.7*	*-16.6*
Changes in stocks and valuables (4)	-0.5	-0.1	0.9	..	-0.4
Total exports	-2.3	2.5	-0.4	5.3	-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.

and equipment introduced by Article 5 of Decree Law 78/2009, ratified by Law 102/2009. The recent pick-up in activity has not been sufficient to invert the employment trend. After falling for a year and a half, the number of persons in work was basically stable in the first quarter of 2010.

Inflation stays at historically low levels

Reflecting slack domestic demand, consumer price inflation as gauged by the twelve-month change in the Italian consumer price index held at low levels of about 1.5 per cent, also net of the volatile food and energy components. Some slight upward pressure came from energy products in connection with movements in international oil prices.

3.2 FIRMS

The recovery in industrial activity proceeds

The cyclical upswing in manufacturing that began a year ago and has been helped by the recovery in international demand has gathered pace in recent months. The index of industrial production followed its rise of 1.7 per cent in the first quarter of the year with gains of about 1 percentage point in April and May. However, it is still nearly 20 percentage points below its 2008 peak (Figure 17). According to our estimates, the index rose by more than 2 per cent in the second quarter overall compared with the first.

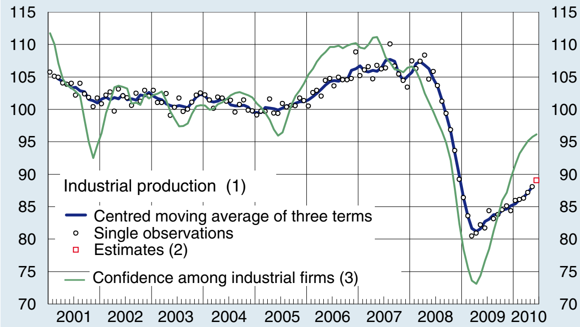
Production could continue to expand: signals come from the improvement in order books, especially foreign orders, as indicated by the Istat indices (Figure 18) and firms' responses to the ISAE business opinion surveys in the second quarter. Optimism about the trend of orders sustained the climate of confidence, which regained its mid-2008 levels between May and June. In the opinion of the firms interviewed by the ISAE, inventories of finished products have been lower than normal in recent months; however, only 5 per cent of the firms interviewed in June for the survey conducted by the Bank of Italy together with *Il Sole 24 Ore* consider the current level of inventories insufficient.

But only some sectors show investment growth

In a context of great uncertainty about the future conditions of demand, firms' investment plans remain prudent. In the recent survey by the Bank of Italy and *Il Sole 24 Ore*, the percentage of respondents that felt the conditions for investment had worsened was slightly higher than in the previous survey. Gross fixed investment grew in

Figure 17

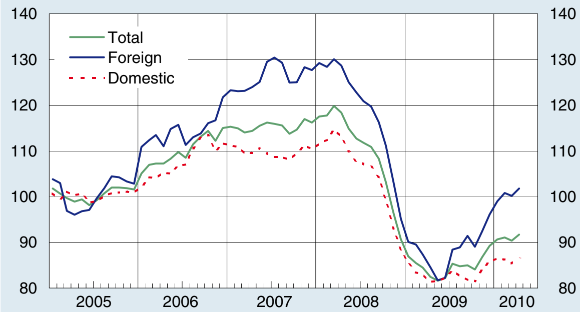
Industrial production and business confidence
(monthly data)



Sources: Based on ISAE, Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; index, 2005=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, 2005=100; three-month moving average ending in the reference month.

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.

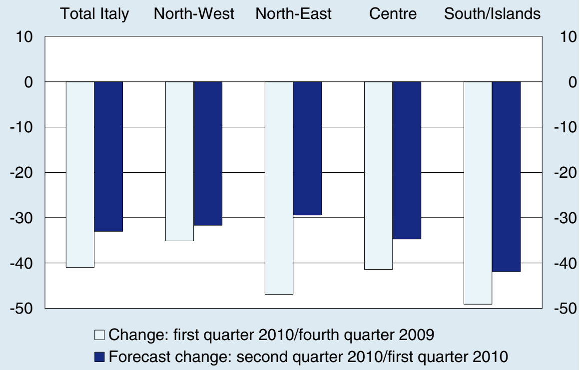
the first quarter of 2010 by 0.6 per cent, up from 0.4 per cent in the fourth quarter of 2009. For the third consecutive quarter it was led by investment in machinery, equipment and intangible assets (2.2 per cent). From July 2009 through June, this component benefited from the tax reliefs introduced by Decree Law 78/2009. By contrast, with the waning of the stimulus from incentives for motor vehicle scrapping, investment in transport equipment, which had been slowing since last summer, contracted slightly. As to construction investment, the fall in capital spending, under way since the end of 2007, came more or less to a halt.

The housing market remains weak

The latest quarterly survey of real-estate agents conducted jointly by the Bank of Italy and Tecnoborsa found that the housing market remained weak in the first quarter of 2010. The number of completed sales rose by 12 per cent, albeit with some disparities from area to area and between new and existing units. An increase in sales in non-urban areas of the North contrasted with a fall in those in urban areas of the Centre and South. The rise in the number of transactions was almost twice as great for new houses as for existing units (18.5 against 10 per cent). The downward trend in housing prices lessened only slightly. The balance between agents who reported an increase in prices rather than a decrease improved but was still strongly negative (by 41 percentage points, compared with 43.2 points in the previous survey; Figure 19). The discount compared with the initial asking price diminished from 12.1 to 11.7 per cent, but the gap between the prices asked and those offered is still the main reason for sellers taking their houses off the market. The climate of uncertainty of the past few months affected agents' opinions about the short-term outlook for the national market, which were slightly worse than in the previous survey.

Figure 19

House prices in Italy
(percentage balances between +/- assessments)



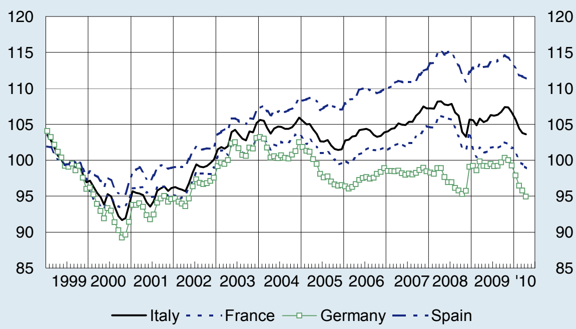
Source: Banca d'Italia-Tecnoborsa, *Sondaggio congiunturale sul mercato delle abitazioni in Italia*.

Firms' price competitiveness improves ...

Italian firms' price competitiveness, gauged by producer prices, improved in the first quarter of 2010 by 2.3 per cent compared with the last quarter of 2009, versus gains of 2.0 per cent in France and 3.2 per cent in Germany (Figure 20). The improvement in competitiveness appears to have continued in the second quarter, reflecting the further weakening of the euro's nominal effective exchange rate.

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 an index indicates a loss of competitiveness. Latest available data refer to April 2010.

... and so does productivity

Unit labour costs in the entire economy were 1.5 per cent lower in the first quarter of 2010 than a year earlier (Figure 21). The decline reflects the steep fall of 9.8 per cent in unit labour costs in industry excluding construction, resulting from the reduction of 4.4 per cent in hourly compensation and the sharp recovery in hourly productivity, which grew by 6 per cent. The productivity gain was due in equal measure to the reduction in hours worked and the growth in value added.

Non-financial firms' profitability increased ...

Estimates based on the national accounts indicate that non-financial firms' operating profitability (calculated as value added net of labour costs) increased in the twelve months ended in March after two years of practically uninterrupted decline. Net financial costs fell further in relation to value added. Self-financing grew, rising back towards the levels of the previous year.

... and borrowing requirements diminished

In the same period, owing to the stagnation of investment, there was a decline in firms' borrowing requirement – the difference between gross investment (including inventory investment) and self-financing. Their financial debt declined (as a result of the fall in the *Other loans* component, chiefly leasing and factoring loans) to 81 per cent of GDP (Figure 22); this ratio remains lower than the euro-area average, which exceeds 100 per cent.

The contraction in bank debt slows

The twelve-month change in firms' bank debt has been negative since September 2009, mainly reflecting the trend in the debt of medium-sized and large companies (Figure 23). The latest data indicate a slowing of the contraction. By contrast, small firms' bank debt has remained stable.

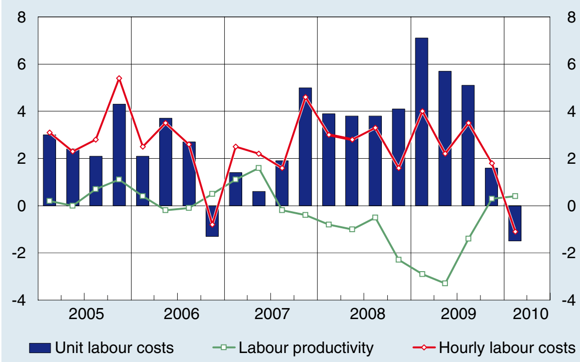
Most fund-raising on the market has been by way of bond issues

In the first quarter of 2010 Italian non-financial firms had recourse to the financial markets mainly through bond issues, which raised net resources of €6.9 billion, compared with €3.3 billion in the previous quarter. According to Dealogic data on gross issues, placements by companies belonging to Italian groups totalled €2.6 billion in the second quarter (€8.4 billion in the previous quarter), with the Fiat group accounting for €1.2 billion and the Eni group for €1 billion. In the first quarter fund-raising on the equity market was very modest (some €300 million, of which €10 million from IPOs). Mergers and acquisitions showed no signs of reviving; according to Thomson Reuters Datastream data, Italian non-financial companies carried out some fifteen transactions worth a total of less than €100

Figure 21

Labour costs and productivity in the total economy (1)

(percentage changes on year-earlier period)

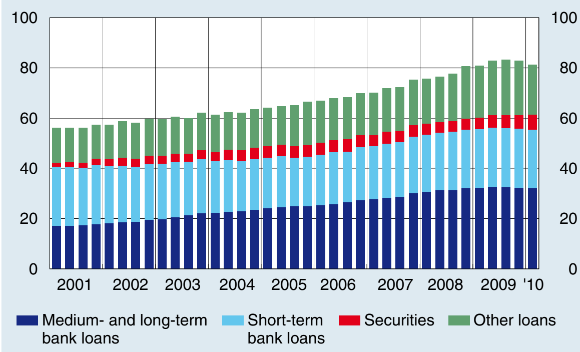


Source: Based on Istat data.
(1) Based on hours actually worked.

Figure 22

Corporate debt (1)

(as a percentage of GDP)

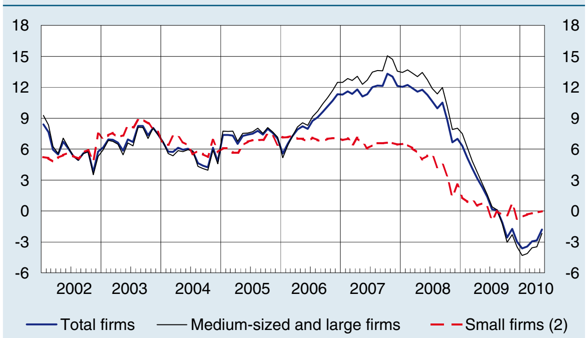


Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized loans. The data for the first quarter of 2010 are provisional.

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, exchange rate variations 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.

million. M&A activity was also down in the euro area, with the exception of a large-scale transaction in the pharmaceutical sector that involved a German company.

3.3 HOUSEHOLDS

Consumption remained weak in the first quarter ...

In the first quarter of 2010 household consumption stagnated. It was buoyed by an increase of about one percentage point in purchases of services and durable goods, but spending on food products dipped again after a temporary rise in the final part of 2009. In the second quarter household consumption may have received a transitory boost from the government incentives for the purchase of durable goods, which took effect in mid-April.

The caution that households have displayed in their spending decisions is due to several factors: wealth has been hit by the recent declines in share prices and their pronounced volatility; confidence has deteriorated; real disposable income fell, according to preliminary estimates, by about 1.5 percentage points in the first quarter of 2010 compared with the year-earlier period (Figure 24), reflecting the contraction in nominal income and the acceleration in the consumption deflator.

... and the latest data do not indicate a reversal

No signs of a rebound in private consumption have emerged in recent months. With the lapsing of the government incentives for purchases, in effect up to March, new car registrations were more than 20 per cent lower in the second quarter than in the first. Retail sales diminished slightly in April. The climate of confidence among households, surveyed by the ISAE, sagged in May and June, reflecting deteriorating views of the country's general economic situation. In the same surveys the percentage of consumers expecting unemployment to increase in the next twelve months remained at historically high levels.

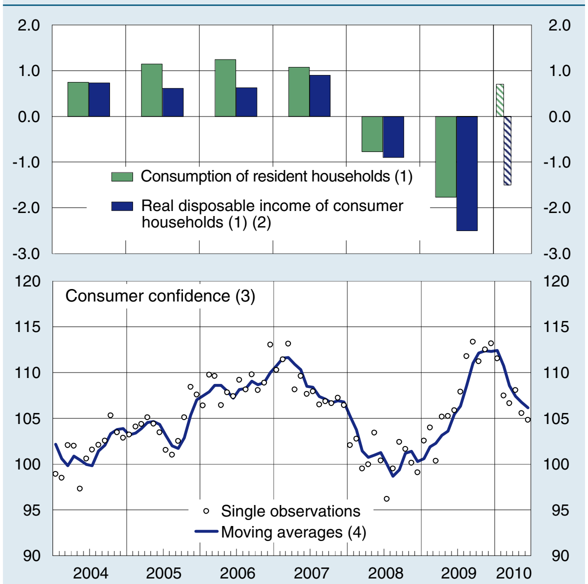
Household debt remains low but rising

As a proportion of disposable income, household debt continued to increase in the first quarter of 2010, rising to about 61 per cent (Figure 25). This is still very

Figure 24

Consumption, disposable income and consumer confidence in Italy

(growth rates; percentage points and indices)

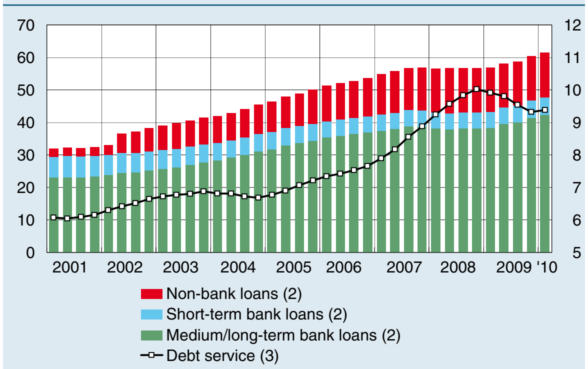


Sources: Based on ISAE and Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year; up to 2009, annual data; for 2010, quarterly data.– (2) Obtained using the consumption deflator for resident households; our estimates for the first three months of 2010 – (3) Monthly data; indices,1980=100, seasonally adjusted data. – (4) Monthly data; moving averages for the three months ending in the reference month.

Figure 25

Household debt (1)

(as a percentage of gross disposable income)

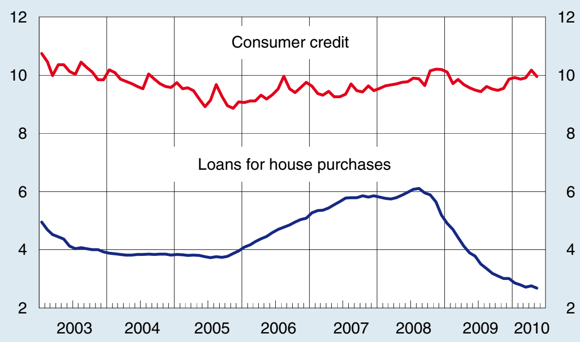


Sources: Based on Bank of Italy and Istat data.
1) Includes securitized loans. Disposable income for 2010 is estimated on the basis of quarterly national accounts data. Data on loans in the first quarter of 2010 are provisional. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer 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.

low compared with the euro-area average, which stood at about 95 per cent in December. Italian households' debt service payments (interest and repayment of principal) held steady at just above 9 per cent of disposable income. Interest rates on loans for house purchases came down a bit, while consumer credit rates rose slightly (Figure 26).

Figure 26

Interest rates on loans to households: APRC on new business (1)
(monthly data; percentages)



(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 size of the loans.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports picked up in the first quarter of 2010

The volume of Italian exports of goods and services was 5.3 per cent higher in the first quarter of 2010 than a year earlier, following a dip of 0.4 per cent in the last quarter of 2009. The recovery, due almost entirely to the goods component, reflected the acceleration in global demand. As a result, the gap that had emerged in the second half of 2009 between Italian and German export growth narrowed. The increase in exports in the first quarter mainly involved non-EU markets; within the EU, mainly Germany and the United Kingdom. The increase involved all the main sectors, in particular mechanical machinery and equipment, chemicals, and, for the first time since 2007, traditional Italian export goods (textiles, clothing, footwear and furniture).

Imports also grew

The volume of imports increased overall by 3.3 per cent, buoyed above all by goods, in particular from China and other non-EU countries. Sectoral data highlight a further increase in imports of transport equipment, metals, electronic products and mechanical machinery and equipment; there was a decrease in imports of pharmaceuticals.

Exports increased further in April and May

In April, the data on foreign trade by volume indicated a slight increase in exports and a contraction of imports. The data available for May, on trade with non-EU countries in value terms, appear to show another rise in exports, accompanied by a substantial recovery in imports.

The deficit on current account narrowed slightly

In the first four months of 2010, the external current account deficit came down slightly to €21.6 billion, compared with €23 billion in the year-earlier period (Table 4). The merchandise trade deficit worsened due to the decline in the surplus on non-energy products and the slight widening of the energy deficit.

Table 4

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

	2008	2009	Jan.-April 2009	Jan.-April 2010
Current account	**-56.8**	**-49.4**	**-23.0**	**-21.6**
Goods	-2.1	1.7	-1.7	-5.6
non-energy products (2)	*55.3*	*42.5*	*13.1*	*11.1*
energy products (2)	*-57.5*	*-40.7*	*-14.8*	*-16.7*
Services	-9.6	-11.1	-5.5	-2.8
Income	-29.4	-26.7	-9.8	-5.6
Current transfers	-15.7	-13.3	-6.1	-7.6
Capital account	**0.8**	**0.6**	**-0.1**	**-0.2**
Financial account	**49.6**	**17.1**	**26.3**	**14.4**
Direct investment	-18.3	-9.6	3.3	-3.2
Portfolio investment	118.5	24.9	61.3	-1.4
Financial derivatives	6.8	11.1	1.6	6.6
Other investment	-51.8	-9.3	-40.1	13.0
Change in official reserves	-5.6	0.1	0.3	-0.6
Errors and omissions	**6.4**	**31.6**	**-3.1**	**7.3**

(1) Provisional data for April 2010. – (2) Based on Istat foreign trade data.

The reduction in the deficit on services largely reflected the fall in imports. The structural deficit on *Income*, generated by Italy's net foreign liabilities, also diminished, benefiting from the generalized reduction in interest rates.

The recovery in outward portfolio investment was confirmed

In the financial account, from January through April, direct investment abroad by Italian residents grew more than non-residents' investment in Italy; the net outflow was €3.2 billion overall. Outward portfolio investment, in particular in investment fund units, picked up sharply and exceeded, albeit marginally, inward portfolio investment, which declined. The Greek crisis did not result in any significant disinvestment from Italian debt securities. With the attenuation of the risk aversion provoked by the 2008 financial crisis, in the second half of 2009 and the first few months of 2010, Italian investors began once again to buy equity and investment fund units. Italian residents had made substantial disposals of foreign shares at the start of 2009.

The foreign asset disclosure scheme (Law 102/2009, the "tax shield"), which was initially in force until mid-December 2009 and then extended until end-April 2010, produced operations totalling €11.4 billion in the first four months of 2010, as reported by intermediaries. The inflows of foreign assets actually liquidated, amounting to €4.1 billion, were recorded in the balance of payments as disposals of external assets in the non-bank sector, mainly under the item *Currency and deposits*.

3.5 THE LABOUR MARKET

The fall in employment comes to a halt

According to Istat's labour force survey, employment turned very slightly back upwards in the first quarter of 2010, growing by 0.1 per cent after declining for six quarters. The trend remains uncertain, however, and the further modest gain of 0.2 per cent in the month of April was completely offset by an equal loss in May. The number of vacancies rose in the first quarter to 0.7 per cent of persons employed, 0.1 points more than a year earlier.

The upturn in employment in the first quarter mainly involved personal and household services and occurred only in the North and the Centre, while the loss of jobs continued in industry excluding construction, agriculture and the South. Although the number of persons employed rose in the first quarter, there was a further decline of 0.2 per cent in labour input to the economy in terms of full-time equivalent workers. The difference between the two measures reflects the sharp rise in part-time work during the quarter and recourse to the Wage Supplementation Fund, which continued to increase.

Table 5

Labour force status of the population in Italy

	Average 2008	Average 2009	Q1 2009	Q1 2010	Change on corresponding quarter (1)
	Thousands of persons				
Total persons in work	**23,405**	**23,025**	**22,966**	**22,758**	**-0.9**
Employees	**17,446**	**17,277**	**17,169**	**16,989**	**-1.0**
of which: fixed-term	*2,323*	*2,153*	*2,035*	*2,047*	*0.6*
part-time	*2,577*	*2,585*	*2,550*	*2,684*	*5.2*
Self-employed	**5,959**	**5,748**	**5,797**	**5,769**	**-0.5**
Labour force	**25,097**	**24,970**	**24,948**	**25,032**	**0.3**
men	*14,884*	*14,790*	*14,763*	*14,813*	*0.3*
women	*10,213*	*10,180*	*10,185*	*10,218*	*0.3*
Population	**59,336**	**59,752**	**59,620**	**59,953**	**0.6**
	Per cent				
Unemployment rate	**6.8**	**7.8**	**7.9**	**9.1**	**1.2**
men	*5.5*	*6.7*	*6.8*	*8.1*	*1.3*
women	*8.6*	*9.3*	*9.5*	*10.5*	*1.0*
Participation rate (age 15-64) (2)	**63.0**	**62.4**	**62.4**	**62.4**	**-0.1**
men	*74.4*	*73.7*	*73.6*	*73.6*	*0.0*
women	*51.6*	*51.1*	*51.3*	*51.2*	*-0.1*
Employment rate (age 15-64) (2)	**58.7**	**57.5**	**57.4**	**56.6**	**-0.8**
men	*70.3*	*68.6*	*68.5*	*67.6*	*-0.9*
women	*47.2*	*46.4*	*46.3*	*45.7*	*-0.6*
North	*66.9*	*65.6*	*65.7*	*65.0*	*-0.7*
Centre	*62.8*	*61.9*	*61.7*	*61.2*	*-0.5*
South	*46.1*	*44.6*	*44.4*	*43.4*	*-1.1*

Source: Istat, labour force survey.
(1) Changes are in percentages for persons and percentage points for rates. – (2) In the first quarter of 2008 the minimum age for labour market participation was raised from 15 to 16.

The employment rate among persons of working age was down by 0.8 percentage points in the first quarter compared with a year earlier, at 56.6 per cent. The fall was larger among men (0.9 points) than women (0.6 points), and sharper still among young people (1 point in the 15-24 age group). The decrease in the number of persons employed, which was less marked than in the preceding quarters, continued to involve only workers of Italian nationality, while the employment of foreigners expanded further (by 183,000 or 10.5 per cent), owing principally to the increase in the officially registered immigrant population. The rise in the employment of immigrants, while larger than in the two previous quarters, was smaller than that in the resident non-Italian population, and the employment rate among immigrants of working age fell to 62.8 per cent in the first quarter, 2.4 percentage points less than in the same quarter of 2009.

Permanent payroll employment continues to contract

The reduction in employment with respect to the first quarter of 2009 affected employees more than the self-employed, as payroll positions diminished by 180,000 or 1 per cent, compared with 28,000 and 0.5 per cent for self-employment. The sharpest decline involved open-ended positions, above all full-time jobs, which fell by 2.2 per cent, while the reduction in fixed-term and collaboration contracts appears to have come to a halt. The contraction in full-time employment contrasts with a sharp rise in part-time work, up by 4.6 per cent compared with the first quarter of 2009 and by 5.2 per cent among employees. All of this increase involved taking part-time positions for lack of an alternative full-time job, and it was concentrated among women in the service sector.

The unemployment rate stabilizes

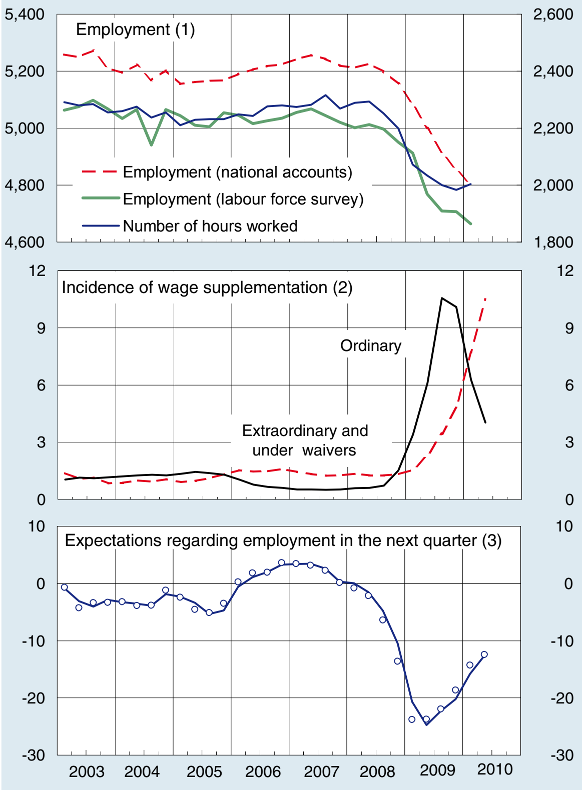
The data for March, April and May indicate that the unemployment rate has stopped rising. On a seasonally adjusted basis it stabilized at 8.7 per cent, equivalent to 2,170,000 persons.

In the first quarter the labour supply grew faster than employment (0.3 against 0.1 per cent), owing to increased labour force participation and further population growth. The number of job-seekers thus rose for the sixth consecutive quarter, albeit less rapidly (2.3 per cent on a seasonally adjusted basis, compared with 4 per cent in the fourth quarter of 2009). The unemployment rate was 1.2 percentage points higher than a year earlier; the increase in the rate was sharpest among immigrant workers (2.5 points) and among young people aged 15-24 (2.5 points); it was greater in the North and the South (1.3 and 1.1 points) than in the Centre (0.8 points).

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, extraordinary or under-waivers wage supplementation was authorized in the quarter as a percentage of the full-time equivalent employees as defined in the quarterly economic accounts. Partial estimates for the second 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, quarterly data.

The number of hours of Wage Supplementation Fund benefits authorized by INPS grew more slowly in the first quarter and diminished slightly (by 14 million, on a seasonally adjusted basis) in the second, after eight consecutive quarterly increases. In industry excluding construction the ratio of full-time equivalent workers on wage supplementation to total employment rose more slowly in the fourth and first quarters and stabilized in the second (Figure 27). The composition of wage supplementation recipients continued to shift from ordinary benefits towards benefits under waivers (workers otherwise ineligible by reason of sector, firm size or type of employment contract) and extraordinary benefits (for firms in difficulty).

The survey conducted by the Bank of Italy together with *Il Sole 24 Ore* in June reports a worsening of employment expectations. The negative balance between firms forecasting an improvement in the next three months and those expecting a worsening widened to 11.9 percentage points, from 7.7 points in March. By contrast, ISAE's survey of industrial firms reported an improvement in the balance. The discrepancy between the two surveys highlights widespread uncertainty among firms, which is typical in the periods that follow crisis.

Real earnings increase

In the first quarter of 2010 contractual wages gained 2.2 per cent over the first quarter of 2009, and 2.5 per cent in the non-farm private sector, outpacing consumer prices. Actual per capita earnings rose by 1.7 per cent (2.8 per cent in the non-farm private sector). Part of the increase depended on changes in the composition of the work force, as redundancies and wage supplementation mainly affected the less skilled. In view of the contract renewals concluded in April and May – for the construction, wood products and textile industries – it is estimated that the increase in actual earnings for 2010 as a whole will be above the Consensus Economics forecast for consumer prices.

3.6 PRICE DEVELOPMENTS

Consumer price inflation remains historically moderate

The twelve-month rise in the consumer price index (CPI), after an uptick at the start of 2010 owing to energy products, stabilized at around 1.5 per cent, also net of food and energy products. According to Istat's preliminary estimate, in June the inflation rate was 1.3 per cent (Table 6).

Slack household consumption continues to hold core inflation down. Since the turn of the year the twelve-month rate of increase in the prices of non-food and non-energy goods has held at just under 1 per cent. That of services has remained at historically very low levels of around 2 per cent, despite the temporary rise in airfares in March and April and the acceleration in hotel and insurance prices.

Food prices are gradually reflecting last year's fall in world commodity prices. Their twelve-month variation has diminished further in recent months, and in May turned negative (minus 0.3 per cent).

Table 6

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

		HICP (1)		CPI (2)			PPI (3)
		Overall index	Excl. energy and food	Overall index		Excl. energy and food	Overall index
					1-month (4)		
2006		2.2	1.6	2.1	–	1.6	5.2
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	*-0.2*	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	*0.2*	1.7	-6.6
	June	0.6	1.6	0.5	*0.1*	1.5	-7.1
	July	-0.1	1.3	0.0	*0.0*	1.3	-8.6
	Aug.	0.1	1.3	0.1	*0.3*	1.3	-7.8
	Sept.	0.4	1.6	0.2	*-0.2*	1.4	-7.9
	Oct.	0.3	1.6	0.3	*0.1*	1.4	-6.0
	Nov.	0.8	1.6	0.7	*0.0*	1.3	-3.5
	Dec.	1.1	1.5	1.0	*0.2*	1.4	-1.7
2010 –	Jan.	1.3	1.6	1.3	*0.1*	1.5	-0.3
	Feb.	1.1	1.3	1.2	*0.0*	1.4	0.5
	Mar.	1.4	1.6	1.4	*0.3*	1.5	1.7
	Apr.	1.7	1.8	1.5	*0.3*	1.6	3.2
	May	1.6	1.6	1.4	*0.0*	1.3	3.8
	June	(1.4)	....	(1.3)	*(0.1)*	....	....

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.

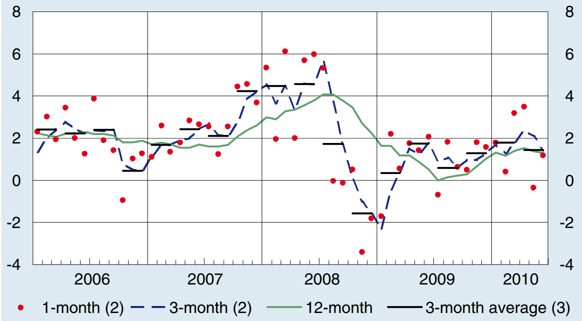
Between March and May the seasonally adjusted, annualized three-month rise in the CPI stood at around 2 per cent, while core inflation held at about 1.5 per cent, the level around which it has fluctuated since the latter part of 2009 (Figure 28).

The inflation differential between Italy and the rest of the euro area, measured by the Harmonized Index of Consumer Prices (HICP), was closed in March after being almost constantly positive for two years. A contributory factor was the more favourable trend in the prices of energy and food products. Net of these two items, Italian consumer price inflation is still nearly one percentage point higher than the euro-area average.

Figure 28

Inflation in Italy (1)

(consumer price index)



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

Producer prices reflect the acceleration in raw materials prices

The producer price index for goods sold on the domestic market turned back upwards in February, and in May it recorded a twelve-month increase of 3.8 per cent. Producer price increases have been driven by energy and by intermediate inputs. The prices of goods for final consumption have continued to reflect the slackness of domestic demand, with a twelve-month rate of increase practically nil in the first five months of the year.

Consumer price inflation forecasts for 2010 hold steady at 1.5 per cent

The professional analysts polled in June by Consensus Economics forecast an Italian inflation rate of 1.5 per cent in 2010. The quarterly survey conducted in June by the Bank of Italy together with *Il Sole 24 Ore* found that firms continue to expect to raise their prices by around 1.0 per cent over the coming twelve months, in line with previous surveys. Upward pressure is expected mainly from raw materials and, to a lesser extent, labour costs.

3.7 BANKS

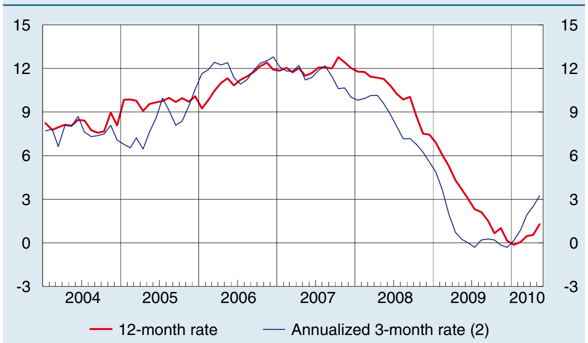
Bank credit shows signs of recovery ...

The growth in bank lending to the non-financial private sector, adjusted for the accounting effect of securitizations, continued to accelerate gradually, to 1.3 per cent in the twelve months to May, from 0.1 per cent in February (Figure 29). The annualized, seasonally adjusted three-month rate of change was 3.2 per cent, compared with 0.9 per cent in February. Lending to firms, which had contracted steadily until February (when it declined by 1.4 per cent) increased by 2.1 per cent, while lending to households grew by 5.0 per cent.

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.

In May lending by the five largest Italian banking groups, excluding bad debts and repos, was down by 1.9 per cent compared with a year earlier, while lending by other intermediaries grew at a rate of 3.1 per cent. This disparity was evident in lending to both households and firms, and within the corporate sector, in that to large and small companies alike.

... due to increased demand

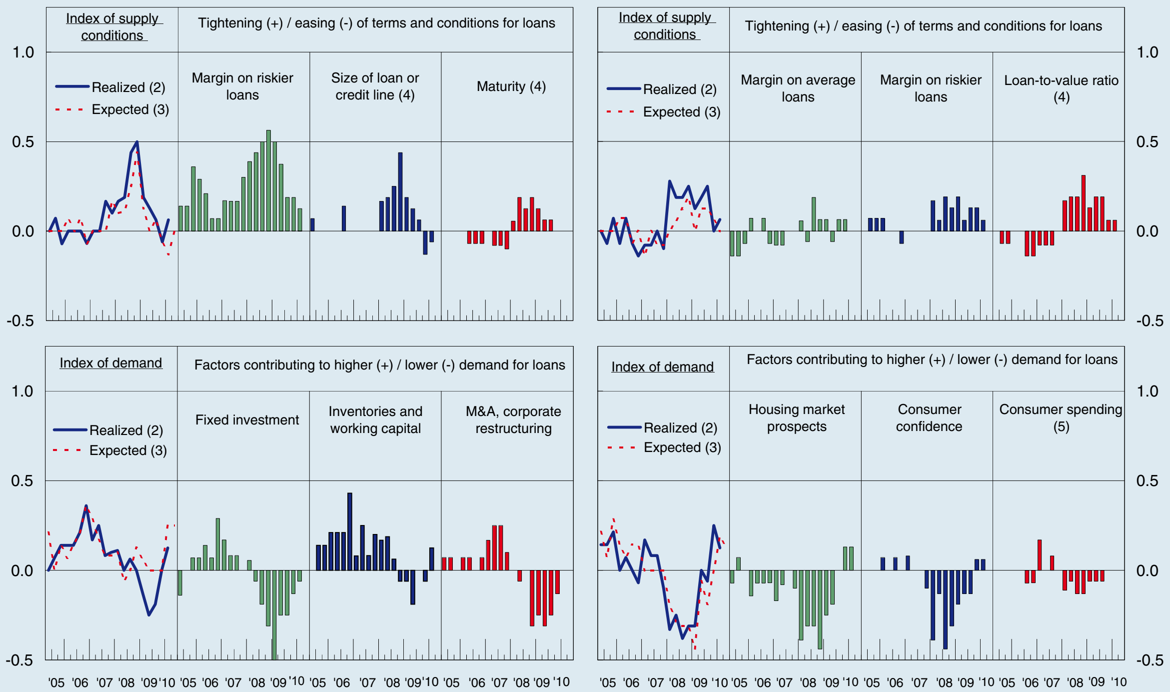
Lending to firms accelerated mainly in response to the strengthening of demand associated with the recovery in economic activity. According to the Italian banks that participated in the Bank Lending Survey for the euro area, credit supply conditions were broadly unchanged in the first quarter of 2010 (see the box "Credit supply and demand in Italy"). The ISAE's monthly survey and the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* indicate that in June there was a further drop in the balance of firms reporting a worsening in the conditions for obtaining credit.

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 broadly unchanged in the first quarter of 2010 for the third quarter running (Figure). [(1)] Although the previous survey had found

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

A) *Lending to firms* B) *Lending to households for house purchases*



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 1 April; 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 second quarter of 2010 and expectations for the third quarter are not yet available; they will be released on 28 July.

expectations of a moderate easing of credit conditions, the banks' declared stance now appears to be slightly more restrictive. Some institutions, while not reporting any tightening of lending standards overall, again reported that they had tightened some terms and conditions specific to particular sectors or firms, implying larger margins on the riskier loans.

Firms' demand for loans registered a further modest rise in the first quarter of 2010, especially as regards short-term loans. This was mainly ascribed to stronger demand for funds to finance inventories and working capital, to the less unfavourable trend in the components connected with fixed investment, and to the end of the negative effect of corporate restructurings. The positive stimulus deriving from debt restructurings, though diminishing, remained high.

Banks reported that they expected supply conditions for firms to remain unchanged in the second quarter, while credit demand was expected to strengthen somewhat.

The terms of lending to households for house purchases also remained basically unchanged in the first quarter, reflecting the neutral contribution of all the main determinants. The standards for consumer credit and other loans to households, however, were reported to have been moderately tightened again, owing mainly to the further deterioration in consumer creditworthiness, which translated above all into increased lending margins on riskier loans.

Banks reported no significant change in households' demand for credit, either mortgage loans or other forms of lending. They expected to keep the supply conditions for credit to households unchanged in the second quarter. The demand for house purchase loans was expected to be stable, that for consumer credit to expand moderately.

On the funding side, the banks interviewed reported easier access during the quarter to wholesale funds in all markets except that for securitizations via credit derivatives. For the second quarter they expected conditions to remain broadly unchanged.

Half the banks interviewed continued to state that the crisis had impacted their capital positions and through this channel the supply of credit.

The interest rates on new loans have recorded only very small variations in recent months (Figure 30). In May the cost of short-term loans to firms, including current account overdrafts, stood at 3.7 per cent, compared with 3.8 per cent in February. The rate on new variable-rate loans to households held at 2.2 per cent, while that on new fixed-rate loans fell by 0.2 points to 4.4 per cent.

Loan quality is still at a low level

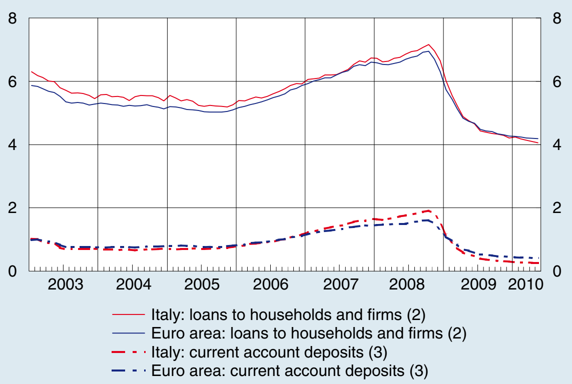
In the first quarter of 2010, adjusted new bad debts were equal to 2 per cent of outstanding loans on an annualized and seasonally adjusted basis, basically unchanged from the previous quarter and about twice the average level in 2008 and 2007.

Preliminary data for the second quarter of this year indicate that the exposure to borrowers

Figure 30

Short-term bank interest rates (1)

(monthly data; percentages)



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

reported for the first time with bad debts did not change significantly with respect to the year-earlier period. There were signs of an improvement in the quality of loans for manufacturing firms but a further deterioration in that for consumer households.

The high level of other impaired assets (substandard, restructured and overdue loans and exposures in breach of overdraft limits), which in May amounted to 7.9 per cent of total lending, indicates that the flow of new bad debts could remain substantial in the months to come.

Funding growth slows further

The growth in Italian banks' total funding continued to slow, falling to virtually nil (0.2 per cent) in May, compared with 1.0 per cent in February (Table 7). Bond issues decelerated to 0.2 per cent and residents' deposits to 3.5 per cent, although within the latter category current accounts continued to expand rapidly (7.7 per cent) given the extremely low level of interest rates. Bond yields continued to fall, in line with market rates, reaching 2.6 and 1.7 per cent respectively for fixed- and variable-rate issues.

Table 7

Main assets and liabilites of Italian banks (1)
(end-of-period data; 12-month percentage changes)

	2008	2009	May 2010	
				Stocks (2)
Assets				
Securities other than shares	44.5	29.8	13.7	478,414
bonds issued by MFIs resident in Italy	67.5	32.2	3.3	210,412
Loans	5.4	1.0	2.6	1,784,849
up to 12 months	3.3	-5.1	-1.0	581,307
beyond 12 months	6.5	4.1	4.4	1,203,542
External assets	-1.3	-10.8	-6.7	333,999
Liabilities				
Total funding (3)	4.1	2.1	0.2	2,206,919
Deposits of Italian residents (3)	6.2	5.3	3.5	1,160,222
of which: (4)				
current accounts	6.6	11.7	7.7	769,325
with agreed maturity	13.4	8.3	-7.8	61,139
redeemable at notice	7.0	8.2	5.7	268,947
repos	-1.3	-50.3	-40.1	42,798
Deposits of non-residents	-8.0	-8.8	-7.4	444,523
Bonds (3)	11.7	4.9	0.2	602,174
Memorandum item: Total bonds	20.1	10.6	1.0	812,587

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

Banks' profitability continues to decline

According to the consolidated reports of the five largest banking groups, net profits continued to fall in the first quarter of 2010, by about a third with respect to the same period of 2009. The return on equity was equal to about 4 per cent, compared with 6 per cent in March 2009. Owing to the reduction in the volume of business and in the spread between the return on assets and the cost of funds, net interest income fell by 13 per cent. This drop was wholly offset by the growth in other income, notably that from trading activities and fees. Operating profit was broadly unchanged, reflecting the stability of operating costs. The level of provisions and value adjustments to loans stood at high levels and they absorbed more than half of operating profit. The fall in profits reflected in some cases the increase in taxes due to the expiry of the benefits deriving from the special tax treatment of goodwill. Financial analysts expect the recovery in banks' profits to be gradual, with the 2008 level being reached again in 2012.

It is estimated that the core tier 1 ratio of the five largest banking groups was equal to 7.6 per cent in March 2010, up from 7.2 per cent in December 2009. Their tier 1 ratio rose from 8.3 to 8.6 per cent and their total capital ratio from 11.8 to 12.2 per cent.

3.8 THE FINANCIAL MARKETS

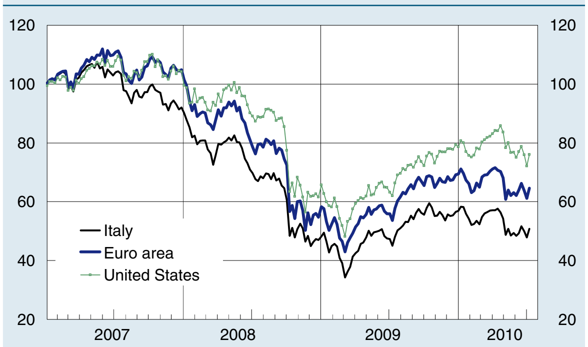
Share prices fell

In the second quarter share prices were highly volatile. In April and May, the lasting concerns over the public finances of several euro-area countries were reflected in sharp falls in stock market indices; from the end of May onwards, the stabilization measures taken by EU governments and the release of several positive macroeconomic data helped ease the tensions, leading to a recovery in share prices. In the last days of June, however, the rally came to a halt and there were fresh falls. In the second quarter as a whole, the general index of the Italian stock exchange lost 15 per cent, more than the index of the main listed companies of the euro area (11 per cent; Figure 31). The slight deterioration in listed companies' expected income may have also contributed to the fall in share prices.

Figure 31

Share prices (1)

(end-of-week data; indices, 31 December 2006=100)



Source: Thomson Reuters Datastream.
(1) Indices: FTSE Italia MIB storico for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States. Latest available data refer to 9 July.

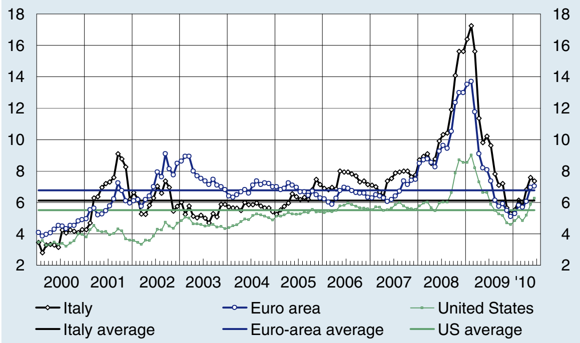
Shares in insurance companies and banks recorded the heaviest losses, falling by 20 and 18 per cent, respectively, in the wake of fears that the sovereign debt crisis could spread to the financial sector. Service sector shares also fell markedly, by 19 per cent. By contrast, raw materials and consumer goods performed better than the general index, falling by 10 and 6 per cent, respectively.

The ratio of current earnings to prices rose considerably in the second quarter, reflecting greater caution on the part of investors when assessing equity investments. At the end of June the ratio was above the long-term average (Figure 32). In May, as share prices tumbled, expectations of volatility soared, reaching over double the average values recorded in the first quarter. In June, expected volatility declined, but stayed above the historical averages.

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. Latest available data refer to 15 June.

There were no initial public offerings in the second quarter. At the end of June there were 290 Italian companies listed on Borsa Italiana, with a total market value of €390 billion (equal to about 26 per cent of GDP).

Net bond issues declined

In the first quarter Italian companies made net redemptions of bonds overall (in the previous quarter, net issues had contracted but remained positive). There were marked differences across sectors (Table 8). Non-financial corporations more than doubled their net issues, owing in part to the substantial issues by two major listed companies. By contrast, banks and other financial companies reported substantial net redemptions. In the euro area net bond issues by banks, which had been negative in the previous quarter, expanded, returning to amply positive levels; net placements by other financial corporations declined, but remained positive.

The credit risk premium rose for both non-financial and financial corporations

In the second quarter, the yield spreads between investment-grade bonds issued by Italian non-financial corporations and government securities widened by around 55 basis points, a larger increase than that recorded by similar firms in other euro-area countries (40 basis points). Reflecting fears that the sovereign debt problems of several euro-area countries could be transmitted to the banking sector, in the first ten days of May the premiums on credit default swaps for Italian banks climbed to values close to the extremely high levels seen in March 2009, at the height of the financial crisis; they later declined, while continuing to fluctuate widely and staying at values well above those recorded at the beginning of the quarter. In the period as a whole, the premiums on credit default swaps for Italian banks rose by an average of 80 basis points, more than the average for the other euro-area countries (about 60 basis points).

Table 8

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2008	122,368	73,477	1,438	**197,283**
2009	79,081	44,384	14,312	**137,777**
2009 – Q1	47,498	9,446	3,708	**60,652**
Q2	20,472	756	4,313	**25,541**
Q3	7,255	21,089	3,023	**31,367**
Q4	3,856	13,093	3,268	**20,217**
2010 – Q1	-4,240	-8,471	6,924	**-5,787**
		Euro area		
2008	190,930	393,695	34,038	**618,663**
2009	184,403	291,149	148,162	**623,713**
2009 – Q1	76,403	116,523	38,552	**231,479**
Q2	109,124	86,567	51,283	**246,974**
Q3	36,738	39,138	36,053	**111,930**
Q4	-37,863	48,921	22,273	**33,331**
2010 – Q1	66,612	12,205	29,668	**108,485**

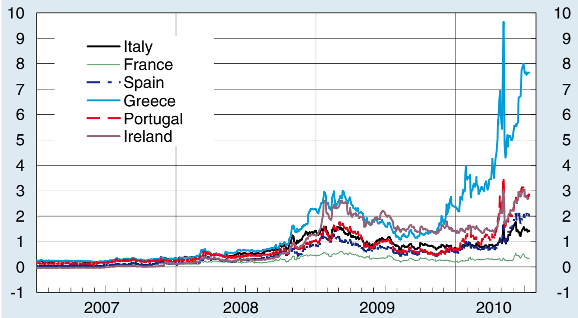
Sources: The Bank of Italy and the ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by resident companies belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed.

The yield spread between Italian and German government securities widened

During the second quarter the downgrading of several sovereign issuers in the euro area by rating agencies heightened tensions in the sovereign debt markets (Figure 33). The general increase in risk premiums also involved Italian government securities. Although the yield on the benchmark ten-year Treasury bond remained basically unchanged, the differential with the corresponding German security widened, reaching a maximum of almost 180 basis points at the beginning of June, before narrowing again and settling at around 150 basis points at the end of the month, an increase of about 70 basis points compared with the end of the previous quarter. In the first ten days of July the differential narrowed further, to 135 basis points. The widening of the differential with the German security was mainly due to the decline in the Bund yield (currently just over 2.6 per cent), following the "flight to quality", whereby investors, in situations of high uncertainly, prefer securities they believe are of superior quality. Similar trends were also recorded by the premiums on credit default swaps for Italian government securities.

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 first quarter of 2010 investment funds in Italy recorded net inflows of €7.3 billion, broadly in line with the previous quarter's €7.6 billion. While net inflows to foreign investment funds expanded considerably, rising from €8.3 billion in the previous quarter to €11.1 billion, net outflows from Italian funds increased from €0.7 billion to €3.8 billion. Net disinvestment from harmonized money market funds, in particular, rose from €1.7 billion to €5.3 billion. At the end of the first quarter of 2010, assets managed by investment funds in Italy amounted to about €485 billion. The average quarterly return on Italian harmonized funds was 1.7 per cent; all the sectors recorded positive returns, from 0.1 per cent for money market funds to 3.7

per cent for equity funds. Individually managed portfolios benefited from a substantial increase in net inflows, from €9.9 billion to €18 billion; at the end of the quarter their resources had risen to almost €475 billion. Based on estimates, the average return on these portfolios in the first quarter was 1.6 per cent.

3.9 FORECASTS

The global economy is accelerating this year, despite the ongoing uncertainty

Since the publication of our last macroeconomic scenario for 2010-11 in the January *Economic Bulletin*, international trade has accelerated sharply, nearly regaining the volumes recorded before the crisis; international organizations' forecasts for world economic growth in 2010 have accordingly been revised upwards with none now predicting growth of under 4 per cent (see the box "The assumptions underlying the 2010-11 forecasting scenario"). From the spring onwards, the markets' concerns over the sustainability of sovereign debt in some euro-area countries led to a substantial widening of spreads on the government securities of the countries concerned and the pronounced weakening of the euro, whose value against the dollar fell by over 15 per cent compared with the highs recorded last autumn. In response to these developments, the main European countries announced major budget corrections.

THE ASSUMPTIONS UNDERLYING THE 2010-11 FORECASTING SCENARIO

The assumptions regarding the growth of the world economy and world trade on which the macroeconomic scenario is based are the same as those used for the euro-area forecasts published in the ECB's *Monthly Bulletin* in June. They are less optimistic than the latest estimates of the OECD but not significantly different from those of the European Commission and the IMF. With the recession behind us, the world economy is assumed to return to rapid growth of about 4 per cent this year and next. World trade, after a contraction of more than 11 per cent in 2009, grows by just over 9 per cent this year and nearly 6 per cent in 2011.

The assumptions regarding interest rates and exchange rates and the price of oil take account of the information available in the ten working days preceding 12 July 2010. The price of Brent crude oil averages $77.00 a barrel this year and $78.50 next year. Three-month interest rates, based on the prices of Euribor futures, come to 0.8 per cent on average this year and then rise to 1.2 per cent in 2011. Long-term interest rates (corresponding to the yield of a basket of government securities with a duration of about six years) are 3.6 per cent in 2010 and 4.2 per cent in 2011. For exchange rates, the standard technical assumption that all bilateral rates remain unchanged at their average levels of the last two weeks implies a dollar/euro conversion rate of 1.25 over the entire forecasting horizon. Lending conditions for firms are assumed to become gradually easier.

The projections for the public finances take account of the corrective measures announced by the Italian Government on 31 May.

Italy's economy will continue to expand at a moderate pace this year and in 2011 …

Economic activity in Italy is likely to slow down in the second half of 2010, as the measures to stimulate consumption and investment during the crisis run their course. The economic expansion will proceed at a moderate pace in 2011, checked in part by the restrictive impact on domestic demand of the Government's measures to adjust the public finances (see the box "Measures concerning the public finances for 2011-13"). Our central scenario projects a 1 per cent increase in GDP this year and in 2011 (Figure 34 and Table 9). Compared with the forecast presented in January, the upward revision of the growth estimates for 2010, equal to 0.3 percentage points, is largely attributable to the more favourable development of world trade than was expected at that time. In 2011 the greater contribution of foreign demand should be mostly offset by the effect of the budget measures.

... driven by the marked upturn in exports

Sales abroad will be the most dynamic component of aggregate demand, outpacing the predicted increase in international trade in 2010 after nine years of declining market shares, thanks to the gains in competitiveness due to the depreciation of the euro (down by over 5 per cent in effective terms compared with the average in 2009). After the collapse of 2009, exports will expand by around 9 per cent this year and by nearly 5 per cent in 2011.

Productive investment will recover while that in construction will remain weak ...

Investment in machinery and equipment, which in the first quarter of 2010 was sustained by the tax incentives under the "Tremonti-ter" law (Decree Law 78/2009), will return to brisk expansion (by an average of over 4 per cent per year), benefiting from the recovery in demand expectations, improved profitability conditions and the easing of strains in the credit market. But the negative phase for construction investment will continue this year, owing to the protracted weakness of the property market, while in 2011 it is expected to return to growth of nearly 2 per cent.

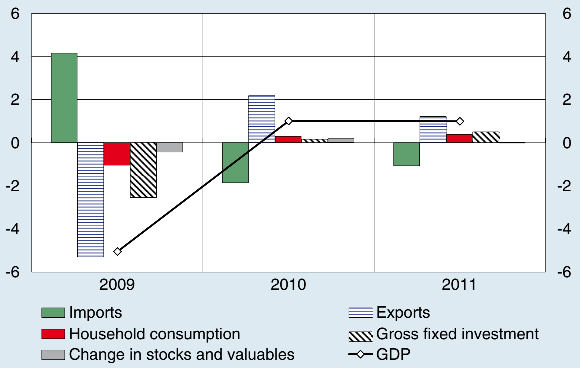
... like consumer consumption, held in check by a weak labour market and the effects of the budgetary measures

The slow strengthening of economic activity and the consequent gradual reintegration of workers on wage supplementation will further delay any robust recovery in the labour market. The unemployment rate will rise over the next few quarters to nearly 9 per cent on a seasonally adjusted basis. Continuing uncertainty over job prospects and the effects of the measures to correct the public accounts will weigh on household consumption, which will expand by about half a percentage point each year, considerably less than GDP. Once the effects of incentives to purchase energy-efficient vehicles have worn off, expenditure on durable goods will stagnate again until mid-2011.

Figure 34

GDP growth and the contributions of the main components of demand and imports (1)

(per cent and percentage points)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects.

Table 9

The macroeconomic scenario in Italy

(percentage changes on previous year unless otherwise indicated)

	2009	2010	2011
GDP (1)	**-5.1**	**1.0**	**1.0**
Household consumption	-1.8	0.5	0.6
Government consumption	0.6	0.1	-0.1
Gross fixed investment	-12.2	0.8	2.6
Exports	-19.1	9.1	4.8
Imports	-14.6	7.3	4.0
Change in stocks (2)	-0.4	0.2	0.0
HICP (3)	**0.8**	**1.5**	**1.9**
Export competitiveness (4)	**-4.1**	**2.9**	**0.0**

Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Contributions to GDP growth; percentage points. – (3) Harmonized index of consumer prices. – (4) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products); positive values indicate competitiveness gains.

MEASURES CONCERNING THE PUBLIC FINANCES FOR 2011-13

The Government has adopted, with Decree Law 78/2010, a set of adjustment measures for the public finances in the next three years. The decree law, which is being examined by Parliament for its forthcoming ratification as a law, reduces net borrowing, compared with that on a current legislation basis, by €12.1 billion in 2011 and about €25 billion in 2012 and 2013. Two thirds of the adjustment is to come from reductions in expenditure (above all current expenditure) and one third from increases in revenue, produced largely by the fight against tax evasion.

Revenue measures. – Net additional revenue of €4.1 billion is expected in 2011 and about €9 billion on average in each of the two following years (Table).

The measures that increase revenue are mainly in connection with the fight against tax evasion, and these are expected to generate €5.1 of additional revenue in 2011 and €7.2 billion on average in each of the two following years. The most important provisions concern: the introduction of caps on the offsetting of tax credits and debits (officially estimated to produce €1.6 billion of additional revenue per year); the strengthening of assessment and collection, above all by reducing the time between the notification of assessment and forced execution (€1.6 billion per year); the strengthening of the checks on firms that systematically make losses or close within a year of opening for business (€0.9 billion per year); the requirement to give electronic notification of transactions of €3,000 or more subject to VAT (€0.8 billion per year); some changes to the rules on table-based assessment of income (€0.8 billion); application of the OECD guidelines on the documentation of transfer prices (€0.5 billion); and application of a withholding tax to payments for restructuring works subject to tax benefits (€0.4 billion per year). Other increases in revenue derive mostly from the introduction of charges on the motorway network for which ANAS is responsible and increases in the cost of motorway concessions (€0.6 billion per year) and the updating of the property register with the inclusion of previously unrecorded buildings (about €0.1 billion per year).

The measures that decrease revenue mainly concern the possibility of reducing, in a future decree, the size of the payment in advance of personal income tax both in 2011 and in 2012, by a different amount in each year. It is expected that this would result in the postponement of €2.3 billion of revenue from 2011 to 2012 and of €0.6 billion of revenue from 2012 to 2013.

Expenditure measures. – The decree law is expected to bring a net decrease in expenditure of €8 billion in 2011 and of about €16 billion on average in each of the two following years (Table).

The decree law increases expenditure by €2.2 billion in 2011 and by €0.7 billion on average in each of the two following years. The expansionary measures mainly concern the allocation of resources to the Fund for structural economic policy interventions (€0.7 billion per year), the creation of a *Roma capitale* fund (with disbursements of €0.3 billion per year) and the expenditure on the censuses conducted by Istat (€0.2 billion per year).

On the other hand it provides for expenditure cuts amounting to €10.2 billion in 2011 and €16.6 billion on average in each of the two following years. More than half of the cuts are to be borne by the local authorities. More specifically, regions, provinces and municipalities are required to reduce expenditure by €5.2 billion, €0.4 billion and €2.2 billion respectively on average each year. A significant contribution is also expected from the measures regarding social security, which are expected to produce progressively larger savings over the three years that would average €2.5 billion per year; in particular, these measures concern: the postponement of the starting date for pensions that mature after 31 December 2010 (setting the interval between the retirement date and the payment of the first monthly instalment equal to 12 months for employees and 18 months for self-employed workers); the payment of public-sector severance pay in excess of €90,000 by instalments (in two or three annual payments depending on whether the amount is less or more than €150,000); and the tightening of INPS checks on disability pensions and of the requirements for eligibility for such assistance. The decree law also provides for cuts in the spending of government departments by reducing budget appropriations by 10 per cent, including on capital account, which reduce expenditure by €2.1 billion on average per year. Major adjustments are also made to the compensation of employees in the public sector, with cuts amounting to €1.4 billion on average per year. This result derives from the freezing of individual pay at the 2010 level (except for the

The effects of Decree Law 78/2010 on the general government consolidated accounts (millions of euros)			
	2011	2012	2013
REVENUE			
Measures that increase revenue	**6,413**	**10,716**	**8,204**
Fight against tax evasion:	5,063	7,607	6,795
Strengthening of assessment and collection	*955*	*1,963*	*1,763*
Ban on offsetting credits	*700*	*2,100*	*1,900*
Electronic invoices	*628*	*837*	*837*
New presumptive income tables	*741*	*709*	*815*
Regularly loss-making and "open and shut" firms	*633*	*1,025*	*1,066*
10% withholding tax on building renovation payments	*756*	*559*	*0*
Application of OECD transfer pricing guidelines	*651*	*415*	*415*
Reduction in personal income tax payments on account	0	2,300	600
Other	1,351	808	808
Measures that decrease revenue	**-2,318**	**-625**	**-200**
Reduction in personal income tax payments on account	-2,300	-600	0
10% withholding tax on building renovation payments	0	0	-168
Other	-18	-25	-33
NET CHANGE IN REVENUE	**4,095**	**10,091**	**8,004**
EXPENDITURE			
Measures that increase expenditure	**2,228**	**851**	**470**
Current expenditure	**1,908**	**531**	**150**
Fund for structural economic policy interventions	*1,700*	*250*	*0*
Health system	*0*	*0*	*0*
Istat census	*200*	*277*	*150*
Peace missions	*0*	*0*	*0*
Other	*8*	*4*	*0*
Capital expenditure	**320**	**320**	**320**
Health system (health card)	*20*	*20*	*20*
Roma capitale	*300*	*300*	*300*
Measures that decrease expenditure	**-10,186**	**-15,742**	**-17,445**
Current expenditure	**-9,436**	**-14,442**	**-15,545**
10% reduction in spending of government departments	*-665*	*-750*	*-800*
Compensation of employees	*-1,003*	*-1,485*	*-1,787*
Health system (savings on pharmaceuticals)	*-600*	*-600*	*-600*
Payment of public-sector severance pay by instalments	*-400*	*-240*	*0*
Reduction in periods eligible for retirement	*-360*	*-2,600*	*-3,500*
Tighter requirements and checks for disability pensions	*-80*	*-160*	*-220*
Local authorities	*-6,300*	*-8,500*	*-8,500*
Ordinary statute regions	-4,000	-4,500	-4,500
Municipalities	-1,500	-2,500	-2,500
Provinces	-300	-500	-500
Special statute regions and autonomous provinces	-500	-1,000	-1,000
Other	*-29*	*-107*	*-138*
Capital expenditure	**-750**	**-1,300**	**-1,900**
10% reduction in spending of government departments	*-750*	*-1,300*	*-1,900*
NET CHANGE IN EXPENDITURE	**-7,958**	**-14,891**	**-16,975**
CHANGE IN NET BORROWING (1)	**-12,053**	**-24,982**	**-24,979**

Source: Senate of the Republic, XVI Legislature, *Atti parlamentari*, no. 2228.
(1) A positive sign indicates an increase, a negative sign a decrease.

payment of the contract hiatus allowance), the extension to 2012 and 2013 of the 20 per cent limit on the replacement of departing staff in central government (excluding the police forces, firemen and university staff, to whom less stringent limits apply), and the postponement to 2011 of the effects of the reorganization of careers in the security sector and the armed forces. Lastly, provision is made for reductions in pharmaceutical expenditure of €0.6 billion per year, primarily by reducing the margins of wholesalers and pharmaceutical companies

The external accounts will improve

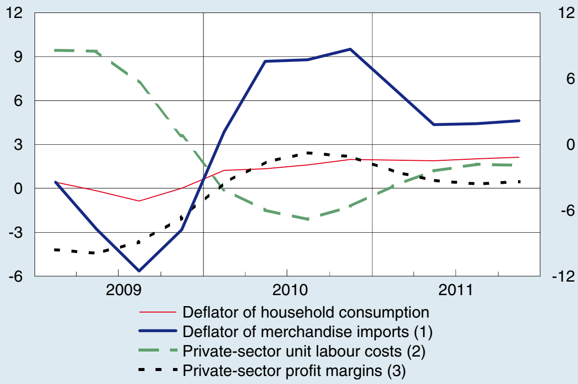
Stimulated by the recovery of the demand components most reliant on goods manufactured abroad, imports will expand by over 7 per cent on average this year and by 4 per cent in 2011. The deficit on the current account of the balance of payments will narrow by around half a percentage point of GDP, reflecting, in addition to the positive contribution of the volumes traded, the improvement in the balance on investment income.

Consumer inflation will near 2 per cent in 2011

Inflation, measured by the harmonized index of consumer prices (HICP), will come to 1.5 per cent on average for the year and 1.9 per cent in 2011, pushed up by the depreciation of the euro. The increase in the index excluding the energy and food components is estimated at around 1.5 per cent a year in 2010-11. The strong cyclical improvement in labour productivity will trigger an appreciable slowdown in the growth of private sector unit labour costs and a sharp fall in the domestic component of inflation, which will remain below 1 per cent this year and 2 per cent on average in 2011. As productive activity recovers and costs moderate, private sector profit margins, in line with the usual cyclical pattern, will expand by just over two percentage points in the two years 2010-11, recouping about half of the decrease recorded in the last two years (Figure 35).

Figure 35

The main determinants of consumer inflation
(percentage changes on year-earlier period)



Sources: Based on Bank of Italy and Istat data.
(1) Right-hand scale. – (2) Unit labour costs in the private sector (excluding energy and agriculture); calculated as the ratio between compensation of employees per standard labour unit and output per standard labour unit; output is value added at factor cost. – (3) Ratio between the deflator of value added at factor cost and unit labour costs in the private sector (excluding energy and agriculture).

Comparison with other international forecasts

For this year, our central GDP projection is in line with that of most forecasters (Table 10). For 2011 the OECD and the European Commission have estimated average Italian GDP growth in April and May of half a percentage point more than that forecast here; those scenarios did not take the recent budgetary measures into account.

Table 10

Forecasts by international organizations for Italy
(annual percentage changes)

	GDP (1)		Inflation (2)	
	2010	2011	2010	2011
IMF (July)	0.9	1.1	–	–
OECD (May)	1.1	1.5	1.4	1.0
European Commission (April)	0.8	1.4	1.8	2.0
Consensus Economics (June)	0.9	1.0	1.5	1.7

Sources: IMF, *World Economic Outlook Update*, July 2010; OECD, *Economic Outlook* 87, May 2010; European Commission, *European Economic Forecast - Spring 2010*, April 2010; Consensus Economics, *Consensus Forecasts*, June 2010.
(1) The growth rates shown in the OECD forecasts are adjusted for calendar effects, whereas those published by the European Commission and the IMF are not. – (2) Measured based on the HICP.

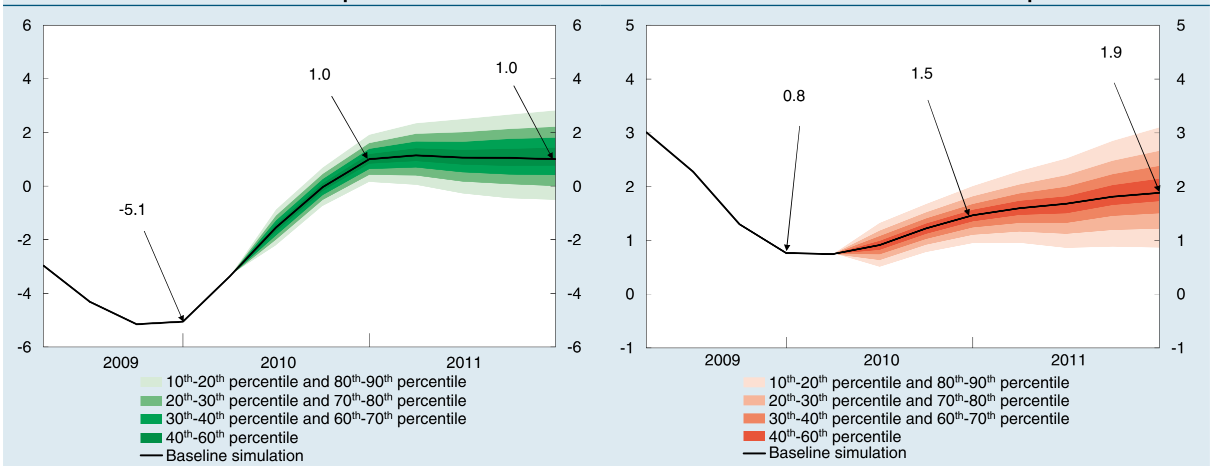
Considerable uncertainty still surrounds the forecast

Our macroeconomic scenario is subject to a high degree of uncertainty regarding the strength and evolution of the recovery, both internationally

Figure 36

Distribution of probabilities of GDP and HICP forecasts (1)

(percentage change on corresponding period of previous year; 4-term moving average)



Source: Bank of Italy calculations.

(1) The probability distribution is graphed, for percentile groups, by fan charts, based on stochastic simulations effected via random extractions from the shock distribution of the Bank of Italy quarterly econometric model. The figure shows year-on-year percentage changes of four-term moving averages. The value corresponding to the fourth quarter of each year coincides with the annual percentage change.

and in Italy (Figure 36). A vital necessity for the consolidation of growth prospects, implicit in the central GDP forecast, is a positive assessment by the markets of the measures to right the public accounts. Any fresh tensions over sovereign debts would open up a less favourable scenario with a deterioration in the lending conditions for the private sector too; additional measures to correct the budget deficit could further curtail the growth of output. On the other hand, there is also the possibility that the expansion of world trade (assumed to slow by over three percentage points in 2011) will be more vigorous than forecast. The risks surrounding the inflation forecasts also appear balanced, mirroring those related to productive activity.

SELECTED STATISTICS

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

CONTENTS

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 – 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
2010 – Q1	2.7	3.0	2.1	-1.9	-0.4	-0.5	-0.1	3.5	3.5	11.3	14.8	-0.8	1.9

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	0.8	0.4	0.1	0.5	0.1	1.2	1.2	9.7	4.2	0.9	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	1.0	0.1	-0.4
2009	-5.2	-1.0	-0.6	1.5	0.3	-14.1	-3.2	-4.0	-4.0	-23.9	-16.7	-2.0	-0.4
2007 – Q2	0.9	1.4	0.8	4.1	0.7	-6.4	-1.5	-0.2	-0.2	13.1	6.8	1.1	-0.2
Q3	-0.1	-1.8	-1.0	-1.1	-0.2	-6.2	-1.5	-1.9	-1.9	7.6	-3.7	1.8	0.7
Q4	1.9	1.3	0.7	5.9	1.0	-3.7	-0.8	0.7	0.7	11.1	4.4	1.2	-0.2
2008 – Q1	1.4	2.9	1.6	-0.9	-0.2	9.7	2.1	-0.2	-0.2	11.6	2.9	1.6	-3.7
Q2	-4.1	-6.2	-3.6	-4.4	-0.8	-6.0	-1.4	-5.1	-5.0	-4.3	-10.3	0.9	0.7
Q3	-4.3	-0.4	-0.2	-1.0	-0.2	-7.2	-1.6	-2.2	-2.1	-1.9	12.4	-2.2	-0.2
Q4	-9.6	-3.2	-1.8	4.5	0.8	-16.4	-3.9	0.9	0.9	-45.8	1.5	-10.7	6.0
2009 – Q1	-15.8	-4.7	-2.6	3.0	0.6	-25.0	-6.0	-13.1	-13.2	-68.0	-54.7	-2.7	-5.2
Q2	6.9	4.0	2.4	0.5	0.1	-9.6	-2.2	-0.5	-0.5	46.8	-13.4	7.3	-0.8
Q3	0.4	2.6	1.6	0.3	0.1	-9.8	-2.1	-0.9	-0.9	39.2	24.9	1.3	-0.3
Q4	4.6	2.9	1.7	2.7	0.5	0.8	0.2	1.7	1.8	25.2	4.1	2.8	-0.7
2010 – Q1	5.0	1.7	1.0	1.7	0.3	1.5	0.3	2.3	2.3	30.6	9.3	2.7	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	1.3	3.5	2.3	1.6	1.6	7.4
2005	1.7	5.8	2.8	2.0	4.5	3.2	1.8	1.6	5.0
2006	3.0	8.5	4.6	4.3	6.6	5.4	2.0	2.1	8.6
2007	2.8	5.5	3.6	2.1	7.4	4.6	1.6	2.3	6.3
2008	0.6	1.0	0.7	-2.1	0.9	-0.6	0.3	2.2	0.9
2009	-4.1	-12.0	-6.5	-7.7	-14.1	-10.9	-1.2	2.7	-13.3
2008 – Q1	0.7	2.0	1.1	1.0	0.4	0.7	0.3	0.4	1.8
Q2	-0.4	-1.2	-0.6	-2.6	-0.3	-1.5	-0.5	0.8	-0.5
Q3	-0.5	0.1	-0.3	-1.7	-0.7	-1.2	..	0.5	-1.1
Q4	-1.9	-4.7	-2.7	-3.1	-5.0	-4.0	-0.7	0.8	-7.3
2009 – Q1	-2.5	-8.0	-4.2	-1.7	-8.9	-5.3	-0.6	0.8	-8.4
Q2	-0.1	-2.8	-0.9	-1.3	-1.7	-1.5	0.1	0.7	-1.1
Q2	0.4	2.8	1.1	-1.9	-0.2	-1.1	-0.2	0.7	2.9
Q4	0.1	1.2	0.4	-1.7	-0.6	-1.2	0.2	-0.2	1.8
2010 – Q1	0.2	3.8	1.2	-2.1	-0.3	-1.2	-0.1	0.2	2.1
				Implicit prices					
2004	1.9	1.5	....	....	....	2.5	2.0	2.0	0.9
2005	2.0	3.4	....	....	....	2.5	2.1	2.3	2.4
2006	2.0	3.7	....	....	....	2.9	2.2	2.0	2.6
2007	2.4	1.4	....	....	....	2.6	2.3	1.6	1.6
2008	2.2	3.7	....	....	....	2.3	2.8	2.6	2.6
2009	0.9	-5.2	....	....	....	-0.8	..	2.2	-3.0
2008 – Q1	0.6	1.4	....	....	....	0.4	0.7	0.2	1.1
Q2	0.7	1.5	....	....	....	1.0	0.9	1.3	0.9
Q3	0.3	1.3	....	....	....	0.7	0.6	-0.1	0.9
Q4	0.7	-3.5	....	....	....	-0.2	-0.3	0.6	-1.4
2009 – Q1	..	-3.5	....	....	....	-0.9	-0.8	0.8	-2.0
Q2	-0.1	-1.1	....	....	....	-0.5	0.1	0.1	-0.9
Q2	0.2	-0.3	....	....	....	-0.3	0.2	0.8	0.1
Q4	0.1	0.8	....	....	....	0.1	0.6	-0.2	0.7
2010 – Q1	0.4	1.9	....	....	....	0.2	0.4	0.9	2.3

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: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				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
2008 – Q1	0.4	1.0	0.6	-0.4	-0.7	-0.5	0.5	-0.1	0.7
Q2	-0.7	-3.0	-1.2	-2.2	1.3	-0.5	-1.0	0.7	-1.4
Q3	-1.1	-1.6	-1.2	-1.2	-3.4	-2.3	0.1	-0.1	-3.1
Q4	-2.0	-5.1	-2.7	-3.4	-9.5	-6.4	-1.4	0.2	-7.9
2009 – Q1	-2.9	-8.8	-4.2	-2.4	-8.3	-5.2	-0.9	-0.1	-11.6
Q2	-0.3	-3.3	-0.9	-1.3	-2.4	-1.8	0.2	0.8	-2.3
Q3	0.4	1.2	0.6	-1.8	1.4	-0.4	0.5	-0.3	2.5
Q4	-0.1	3.4	0.7	-0.7	1.7	0.4	-0.1	-0.2	-0.4
2010 – Q1	0.4	3.3	1.0	-0.3	1.7	0.6	..	-0.5	5.3
				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
2008 – Q1	0.3	2.3	0.7	0.5	0.6	0.5	1.0	-2.4	1.8
Q2	1.4	1.7	1.5	1.2	1.1	1.1	0.9	4.4	1.3
Q3	0.1	4.0	1.0	2.5	0.6	1.6	0.9	-2.4	2.3
Q4	1.0	-3.4	-0.1	-0.3	1.2	0.5	-0.5	1.2	-1.0
2009 – Q1	0.9	-5.1	-0.3	-0.2	-0.6	-0.4	-0.8	2.3	-0.8
Q2	..	-1.3	-0.2	-0.2	-0.3	-0.3	0.3	-1.0	-0.6
Q3	0.3	0.4	0.4	..	-0.3	-0.1	0.1	2.6	..
Q4	-0.2	-0.2	-0.2	0.3	-0.4	-0.1	0.3	-3.3	0.2
2010 – Q1	..	3.7	0.8	0.3	-0.1	0.1	0.4	1.6	2.0

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)

	Compensation for hours worked		Productivity		Unit labour costs
			Value added (2)	Employees	
			Total industry excluding construction		
2007	3.0	2.2	2.5	0.3	0.8
2008	4.1	0.2	-0.7	-0.9	3.9
2009	3.4	-6.1	-13.6	-7.9	10.2
2008 – Q1	3.3	2.5	3.4	1.0	0.8
Q2	2.1	0.7	1.8	1.1	1.5
Q3	3.3	-0.8	-1.2	-0.4	4.1
Q4	5.4	-4.3	-7.7	-3.5	10.2
2009 – Q1	5.8	-9.4	-16.7	-8.1	16.8
Q2	6.0	-7.4	-16.7	-10.1	14.4
Q3	4.8	-3.9	-13.2	-9.8	9.0
Q4	1.5	-0.2	-7.1	-7.0	1.7
2010 – Q1	0.0	7.3	3.6	-3.5	-6.8
			Services		
2007	2.6	1.2	3.3	2.0	1.4
2008	3.0	0.0	1.3	1.3	3.1
2009	2.4	-0.5	-1.7	-1.2	2.9
2008 – Q1	2.7	0.1	2.4	2.2	2.5
Q2	2.8	-0.4	1.7	2.1	3.2
Q3	3.2	0.0	1.1	1.1	3.2
Q4	2.6	-0.9	-0.2	0.7	3.5
2009 – Q1	3.1	-0.9	-2.0	-1.2	4.0
Q2	2.8	-0.4	-1.9	-1.5	3.3
Q3	2.6	-0.4	-1.8	-1.4	3.1
Q4	2.1	0.1	-1.0	-1.1	2.0
2010 – Q1	1.1	0.1	0.7	0.5	1.0
			Total economy		
2007	2.7	1.2	3.0	1.8	1.4
2008	3.4	0.1	0.8	0.7	3.3
2009	2.7	-1.1	-4.3	-3.2	3.8
2008 – Q1	3.0	0.8	2.5	1.6	2.1
Q2	2.8	0.2	1.6	1.4	2.6
Q3	3.3	0.1	0.5	0.4	3.2
Q4	3.2	-1.3	-1.9	-0.6	4.6
2009 – Q1	3.8	-2.2	-5.3	-3.1	6.1
Q2	3.5	-1.6	-5.1	-3.6	5.2
Q3	3.1	-0.8	-4.3	-3.5	3.9
Q4	2.1	0.3	-2.4	-2.6	1.8
2010 – Q1	0.7	1.4	0.7	-0.6	-0.6

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.

Table A6

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	5.4	5.3	-5.5	-15.1	-10.2	11.5
2008 – Q1	3.3	3.4	-0.5	0.2	0.7	3.8
Q2	1.3	1.3	-1.2	-0.7	0.5	2.6
Q3	4.3	4.2	-1.4	-4.2	-2.8	5.8
Q4	3.9	3.9	-6.7	-9.6	-3.1	11.5
2009 – Q1	6.5	6.4	-10.1	-18.6	-9.5	18.4
Q2	7.6	7.5	-8.4	-18.8	-11.3	17.5
Q3	5.4	5.3	-3.8	-14.5	-11.1	9.6
Q4	3.2	3.2	1.8	-8.1	-9.8	1.4
2010 – Q1	-4.4	-4.5	6.0	2.5	-3.3	-9.8
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	-0.9	-2.6	-1.8	2.6
2008 – Q1	2.9	2.9	-1.2	0.7	1.9	4.1
Q2	3.4	3.3	-1.7	-0.1	1.6	5.1
Q3	2.9	2.6	-0.1	-0.9	-0.8	3.0
Q4	0.7	0.8	-1.1	-1.4	-0.3	1.8
2009 – Q1	2.8	2.4	-1.2	-3.4	-2.2	4.1
Q2	0.1	0.1	-1.5	-2.9	-1.4	1.7
Q3	2.8	2.9	-0.9	-2.4	-1.5	3.8
Q4	1.3	1.3	0.2	-1.7	-1.9	1.1
2010 – Q1	0.1	0.2	-0.4	0.2	0.7	0.5
Total economy						
2007	2.4	2.4	0.3	1.6	1.3	2.1
2008	2.7	2.7	-1.1	-1.2	-0.1	3.9
2009	2.8	2.8	-1.9	-5.5	-3.6	4.8
2008 – Q1	3.0	3.1	-0.8	0.5	1.3	3.9
Q2	2.8	2.7	-1.0	-0.2	0.7	3.8
Q3	3.3	3.0	-0.5	-1.6	-1.2	3.8
Q4	1.6	1.7	-2.3	-3.3	-1.0	4.1
2009 – Q1	4.0	3.8	-2.9	-6.8	-4.1	7.1
Q2	2.2	2.1	-3.3	-6.6	-3.4	5.7
Q3	3.5	3.6	-1.4	-5.2	-3.8	5.1
Q4	1.8	1.9	0.3	-3.2	-3.5	1.6
2010 – Q1	-1.1	-1.0	0.4	0.4	0.0	-1.5

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.

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	-0.2	0.9	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	-0.9	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.3	-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	0.5	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	0.3	0.9	0.8
Mar.	1.4	1.4	1.2	0.9	1.7	1.0	1.5	0.4	1.4	0.9
Apr.	1.6	1.7	1.0	0.3	1.9	0.9	1.6	0.1	1.5	0.8
May	1.6	1.5	1.2	0.6	1.9	0.8	1.8	0.3	1.6	0.9

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	-56,835	-2,129	-9,639	-29,393	-7,012	-8,661	834	-13	-17	864
2009	-49,361	1,748	-11,067	-26,744	-7,675	-5,624	624	-57	161	520
2008 – Q2	-12,933	1,422	-919	-11,781	-1,529	-126	88	-26	14	100
Q3	-8,570	-343	-861	-3,993	-1,869	-1,505	252	-2	6	248
Q4	-19,245	-1,469	-4,705	-7,711	-1,557	-3,803	596	-8	-16	619
2009 – Q1	-18,936	-2,327	-4,292	-7,403	-1,408	-3,506	-149	-10	71	-210
Q2	-12,701	2,260	-1,797	-9,267	-1,961	-1,936	16	-22	-35	72
Q3	-6,571	3,520	-1,070	-5,343	-1,910	-1,767	-2	-13	66	-56
Q4	-11,154	-1,705	-3,908	-4,730	-2,396	1,585	760	-12	59	713
2010 – Q1	-17,717	-4,837	-3,011	-3,509	-2,115	-4,246	-34	-3	-4	-27
2008 – Apr.	-3,507	529	-484	-2,160	-760	-633	-12	-14	-6	8
May	-6,660	941	-554	-5,972	-557	-518	31	-4	1	34
June	-2,766	-48	119	-3,650	-212	1,026	70	-7	19	58
July	780	3,171	298	-1,428	-747	-515	71	-10	-5	85
Aug.	-4,705	-1,735	-1,240	-575	-513	-642	80	-1	10	71
Sept.	-4,644	-1,779	81	-1,990	-609	-347	101	9	..	92
Oct.	-3,957	227	-1,512	-1,508	-514	-651	344	-1	-10	355
Nov.	-6,419	-1,876	-1,789	-1,912	-522	-321	332	-7	-5	344
Dec.	-8,868	180	-1,404	-4,291	-521	-2,832	-81	-1	-1	-79
2009 – Jan.	-7,959	-2,902	-1,268	-2,748	-400	-641	14	-16	24	5
Feb.	-5,292	-245	-1,654	-2,056	-421	-915	38	12	23	3
Mar.	-5,685	820	-1,370	-2,599	-586	-1,950	-201	-6	24	-218
Apr.	-4,070	657	-1,178	-2,377	-548	-624	9	-13	-7	29
May	-3,732	1,752	-429	-3,850	-695	-510	22	-10	-2	35
June	-4,899	-149	-190	-3,039	-718	-801	-16	1	-25	8
July	2,897	4,870	158	-1,155	-584	-393	135	-14	65	84
Aug.	-4,154	-1,037	-711	-1,405	-652	-349	-45	-2	16	-59
Sept.	-5,313	-313	-517	-2,783	-675	-1,025	-93	3	-14	-81
Oct.	-3,091	-338	-889	-1,502	-832	470	279	16	24	240
Nov.	-4,882	-1,726	-1,458	-1,451	-840	592	222	-17	8	231
Dec.	-3,181	359	-1,561	-1,777	-725	523	258	-11	27	242
2010 – Jan.	-5,871	-2,783	-1,417	-392	-752	-528	5	-3	3	5
Feb.	-5,885	-1,630	-1,050	-1,478	-613	-1,114	-3	..	-3	..
Mar.	-5,961	-424	-543	-1,640	-751	-2,604	-36	..	-4	-32
Apr.	(-3,844)	(-745)	(186)	(-2,047)	....	....	(-131)	....	....	....

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 – 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	0.8	4.4	-0.5	2.8
June	8.3	-11.1	1.4	1.6	0.6	1.6	3.1	0.2	1.3
Sept.	5.7	-8.1	-1.2	-1.4	-0.3	0.8	2.8	-3.1	-0.2
Dec.	5.0	-6.2	-3.5	-4.1	-0.9	1.1	2.8	2.5	-1.2
2010 – Mar.	4.0	-2.2	-3.6	-4.3	-0.2	1.6	3.3	5.5	-0.8
May	2.9	1.6	-2.3	-2.8	0.2	1.1	3.9	5.8	0.3
South and Islands									
2008 – 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	0.3	4.5	6.5	2.7
2010 – Mar.	5.8	-1.2	1.0	1.6	-0.7	-0.2	5.6	0.9	3.2
May	6.4	-1.8	1.5	2.4	-1.1	-0.8	5.6	-0.1	3.5
ITALY									
2008 – 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	0.6	5.1	0.5	3.1
June	8.4	-10.8	1.4	1.6	0.4	1.0	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	-6.2	-3.0	-3.5	-0.7	0.9	3.2	3.0	-0.7
2010 – Mar.	4.1	-2.2	-3.0	-3.6	-0.3	1.2	3.8	4.9	-0.2
May	3.3	1.5	-1.8	-2.2	0.0	0.6	4.3	5.1	0.8

(1) Statistics for May 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: Italy

(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	22,559	-2,512	14,880	13,142	26,511	-6,148
2008	4,224	-5,683	19,502	41,712	-1,125	-15,240	-10,611	49,072	-10,289
2009	8,487	-1,487	-7,460	93,749	2,820	-11,919	-11,399	85,676	-2,167
2007 – Q1	-1,537	-3,474	20,684	7,518	-332	-5,494	-5,753	20,839	-531
Q2	-16,496	-13,509	345	28,767	-2,190	-8,731	-8,936	1,694	2,474
Q3	-2,330	-8,550	3,074	-2,806	-1,098	7,061	5,459	3,902	-6,285
Q4	6,387	-2,914	-18,541	-10,920	1,107	22,044	22,372	77	-1,806
2008 – Q1	1,313	-1,111	25,905	23,411	147	-33,228	-31,203	17,547	470
Q2	934	-1,266	8,186	-11,210	3,741	5,508	5,968	7,159	-5,669
Q3	-2,295	-947	-1,120	4,058	-5,582	15,711	17,012	10,772	-2,283
Q4	4,272	-2,360	-13,469	25,454	569	-3,231	-2,388	13,594	-2,806
2009 – Q1	3,034	-1,264	25,111	48,176	1,436	-47,149	-47,108	30,608	1,961
Q2	4,780	-247	5,769	-2,206	1,903	9,749	9,963	19,996	-1,621
Q3	-6,276	385	-9,480	50,557	504	-12,906	-12,676	22,400	-2,709
Q4	6,948	-361	-28,860	-2,779	-1,024	38,387	38,423	12,672	201
2010 – Q1	-3,196	-1,413	10,530	28,479	1,118	-9,607	-9,568	27,324	178
2009 – Jan.	3,299	-344	12,229	19,976	0	-34,157	-34,126	1,347	-7
Feb.	-2,698	-671	6,499	3,200	935	6,746	6,777	14,682	676
Mar.	2,433	-250	6,383	25,000	501	-19,738	-19,759	14,579	1,292
Apr.	1,691	-156	6,378	-2,594	1,273	12,025	12,028	18,772	1,983
May	-1,173	144	697	3,652	583	3,667	3,687	7,426	-1,561
June	4,262	-236	-1,306	-3,264	48	-5,943	-5,752	-6,202	-2,043
July	-7,305	60	-3,348	14,398	-1,847	-458	-272	1,439	-996
Aug.	-105	151	-6,590	8,982	938	4,786	4,812	8,010	-1,221
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	6,292	-561
Dec.	5,090	569	-16,747	-8,386	-2,680	17,701	17,697	-5,023	-897
2010 – Jan.	-91	-276	12,703	13,689	506	-30,703	-30,679	-3,898	1,740
Feb.	-3,107	-91	-810	10,035	456	7,450	7,462	14,023	-759
Mar.	3	-1,046	-1,362	4,756	157	13,646	13,650	17,199	-803
Apr.	1,312	47	-1,510	13,261	2,940	403	433	16,405	843
May	-2,587	-507	-1,561	17,854	-557	-3,687	-3,696	9,462	-690

(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: Italy

(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	1,190,051	128,254	10,588	1,599,790	3,465	1,334,025	9,721
2008	147,252	31,492	147,371	1,236,489	127,132	5,958	1,664,204	3,609	1,370,606	20,333
2009	155,740	30,005	139,911	1,330,188	129,952	5,438	1,761,229	2,746	1,465,395	31,731
2007 – Mar.	155,469	62,147	142,994	1,172,474	130,436	9,108	1,610,482	5,020	1,319,414	28,616
June	138,972	48,639	143,349	1,203,450	128,245	9,313	1,623,328	4,908	1,347,782	37,552
Sept.	136,642	40,089	146,422	1,200,295	127,147	10,915	1,621,421	4,678	1,345,489	32,094
Dec.	143,029	37,175	127,869	1,190,051	128,254	10,588	1,599,790	3,465	1,334,025	9,721
2008 – Mar.	144,342	36,064	153,806	1,214,009	128,401	8,562	1,649,120	3,236	1,355,612	40,925
June	145,276	34,799	161,975	1,204,437	132,141	8,102	1,651,932	3,214	1,345,932	34,956
Sept.	142,981	33,852	160,869	1,211,133	126,561	6,801	1,648,344	3,537	1,347,000	17,944
Dec.	147,252	31,492	147,371	1,236,489	127,132	5,958	1,664,204	3,609	1,370,606	20,333
2009 – Mar.	150,287	30,228	172,490	1,284,858	128,569	5,917	1,742,121	3,768	1,419,768	67,441
June	155,067	29,980	178,265	1,283,296	130,471	5,704	1,752,803	3,528	1,418,043	57,478
Sept.	148,792	30,366	168,776	1,333,442	130,976	5,474	1,787,459	2,731	1,468,851	70,155
Dec.	155,740	30,005	139,911	1,330,188	129,952	5,438	1,761,229	2,746	1,465,395	31,731
2010 – Mar.	152,544	28,592	150,441	1,358,277	131,071	5,399	1,797,731	2,932	1,493,324	41,299
2009 – Jan.	150,552	31,148	159,600	1,256,911	127,133	5,928	1,700,125	3,910	1,391,149	54,459
Feb.	147,854	30,478	166,102	1,260,319	128,068	5,897	1,708,240	3,968	1,394,960	47,682
Mar.	150,287	30,228	172,490	1,284,858	128,569	5,917	1,742,121	3,768	1,419,768	67,441
Apr.	151,978	30,072	178,875	1,282,679	129,841	5,915	1,749,288	3,814	1,418,687	55,413
May	150,805	30,217	179,574	1,286,638	130,424	5,894	1,753,335	3,578	1,422,740	51,726
June	155,067	29,980	178,265	1,283,296	130,471	5,704	1,752,803	3,528	1,418,043	57,478
July	147,762	30,041	174,915	1,297,913	128,625	5,517	1,754,732	2,852	1,432,090	57,750
Aug.	147,657	30,192	168,320	1,307,061	129,562	5,490	1,758,091	2,798	1,442,126	52,937
Sept.	148,792	30,366	168,776	1,333,442	130,976	5,474	1,787,459	2,731	1,468,851	70,155
Oct.	151,761	30,085	164,761	1,348,364	131,908	5,470	1,802,264	2,757	1,485,101	73,463
Nov.	150,650	29,435	156,660	1,339,089	132,632	5,434	1,784,466	2,662	1,475,691	49,428
Dec.	155,740	30,005	139,911	1,330,188	129,952	5,438	1,761,229	2,746	1,465,395	31,731
2010 – Jan.	155,648	29,729	152,613	1,344,079	130,458	5,414	1,788,213	2,837	1,479,096	62,411
Feb.	152,541	29,638	151,803	1,354,393	130,914	5,403	1,795,055	2,910	1,489,230	54,949
Mar.	152,544	28,592	150,441	1,358,277	131,071	5,399	1,797,731	2,932	1,493,324	41,299
Apr.	153,856	28,639	148,930	1,370,625	134,011	5,369	1,812,790	2,962	1,506,421	40,867
May	151,269	28,132	147,369	1,389,633	133,454	5,378	1,827,104	3,201	1,525,144	44,563

(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".