BANCA D'ITALIA

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October 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 growth of the world economy slows

The pace of global economic growth showed signs of slowing during the third quarter. The IMF predicts less buoyant economic activity in the second half and a slight further slowdown in 2011 in both the advanced and the emerging countries, owing to the completion of restocking and the waning of the main fiscal stimulus measures. Price inflation is expected to remain generally subdued in the advanced economies; inflationary pressures are seen as persisting in the emerging countries.

In this cyclical situation, the central banks of the advanced countries have maintained or accentuated the already strongly expansionary stance of monetary policy. In some emerging economies the authorities continued to tighten monetary conditions.

Equity markets improve; some euro-area government bond markets come under renewed strain

The main stock markets rallied in the third quarter. At the beginning of August strains reappeared on the government bond markets of Greece, Ireland and Portugal, triggered by fresh concern about the state of the public finances and banks of those countries. The already ample yield spreads over the German ten-year bond rose further, peaking at the end of September; in the first half of October the tension abated, most markedly in Greece, where the spread fell back to its mid-June level. The general shift of portfolios into assets deemed to be less risky (the so-called flight to quality) also caused a widening of the spread between Italian government securities, whose yield remained virtually unchanged, and German government securities, whose yield declined.

Some measures for the reform of financial regulation are implemented

Action has proceeded with a view to revising the regulatory framework and architecture of the supervision of intermediaries and markets. The European Parliament approved the creation of a European system of financial supervision. The Basel Committee revised banks' capital requirements, acting on the recommendations of the Heads of State and Government of the G20 countries.

Growth rates in the euro area are uneven and tending to slow

The growth differentials between the major euro-area countries are tending to widen. In the area as a whole, GDP grew by 1 per cent in the second quarter with respect to the previous period, compared with 0.2 per cent in the first. The pick-up reflected the acceleration in exports and investment, while household consumption, though continuing to expand, was still held back by uncertainty over the employment outlook. The increase in GDP was much more pronounced in Germany (2.2 per cent in the second quarter); since the cyclical trough, the German economy has grown by 4.2 per cent, about three points more than the average for the other euro-area countries; in France the cumulative growth has been only 1.9 per cent and in Italy 1.3 per cent. German firms' heightened competitiveness in the more dynamic markets has been reflected in much more rapid export expansion than that of the other countries of the area.

The progressive decline of the €-coin indicator, which stood at just over 0.3 per cent in September on a three-month basis, points to a more moderate expansion in the area's GDP in the third quarter. The slowdown is corroborated by the other cyclical indicators available and by business opinion surveys. According to the professional analysts polled by Consensus Economics in September, the area's GDP will grow by 1.6 per cent this year and by somewhat less than that in 2011. These forecasts are in line with the estimates by the major international *organizations and the recent projections by the European Central Bank.*

The outlook for inflation remains stable, thanks in part to the moderation of the domestic cost component. The indicators of medium and long-term inflation expectations have been declining since the start of the year; their levels remain compatible with the objective of price stability.

In Italy, the cyclical recovery continued in the second quarter ...

Italian GDP growth accelerated slightly in the second quarter compared with the first, to 0.5 per cent. A further robust expansion in exports was accompanied by a sharp pick-up in investment in machinery and equipment, which benefited from tax incentives due to expire at the end of June. On the other hand, household consumption continued to stagnate and construction investment contracted again.

... and the third

The upswing in industrial production, under way since the spring of 2009, continued in the third quarter this year, according to Istat data through August and our estimates for September. The surveys of manufacturing firms point to a continuation of the cyclical recovery in the coming months, albeit at more modest rates. By contrast, there are no clear signs of an inversion of the downward trend of activity in construction.

On the demand side, exports fell in July and appear to have done so again in August. Retail sales remain flat; new car registrations rose a little during the summer after slumping in the wake of the termination of the tax incentives. The weak growth of incomes and the slowness with which employment is recovering continue to dampen household consumption. In the labour market, positive signs, such as the slight rise in the number of persons employed in the first half of the year and the intensification of recruitment by firms, are mixed with more uncertain signals, such as the expected staffing levels reported by recent surveys of firms.

The professional analysts polled in September by Consensus Economics expect Italian GDP growth to average 1 per cent this year, in line with the forecast published in last July's Economic Bulletin *and the projections recently released by the European Commission and the IMF.*

The objective of a slightly reduced budget deficit in 2010 is confirmed

At the end of September the Government updated its forecasts for the public finances. The new estimates are in line with the consolidation path agreed at European level and confirmed in May. Net borrowing is forecast to decline slightly this year, to 5 per cent of GDP, while the debt-to-GDP ratio is expected to continue to rise and reach 118.5 per cent. The data available for the first nine months of 2010 point to a small reduction in the deficit.

The public finances are forecast to continue improving in the next three years

According to the Government's estimates, the improvement in the public finances will gain pace in 2011, with the primary balance coming back into surplus at 0.8 per cent of GDP. From 2012 onwards net borrowing is expected to fall below 3 per cent of GDP and the debt to start declining again in relation to GDP. The fiscal adjustment for the next three years is based almost entirely on measures to curb primary expenditure, especially capital spending.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

The world economy continues to expand in the second quarter

The expansion of the world economy continued at a rapid pace in the second quarter, as in the first. In the advanced economies, while there was a marked acceleration in GDP growth in the euro area and the United Kingdom, there was a sharp slowdown in the United States and Japan. In the main emerging countries, growth maintained its high rates albeit with a slight deceleration. World trade also continued to expand rapidly, the volume of goods and services traded globally nearly regaining pre-crisis levels. Inflationary pressures remained subdued in the advanced countries, in a context of large margins of spare capacity, but were more pronounced in some of the emerging countries, in particular India and Russia.

There are signs of a slowdown in economic activity in the second half of the year

The latest data indicate a toning down of the economic cycle in the third quarter, in both the advanced and the emerging countries, now that the recovery is no longer buoyed by the inventory cycle and fiscal stimulus measures. The volume of world trade also lost momentum during the summer.

The International Monetary Fund recently forecast that world economic growth would continue in the second half of the year, but at a slower pace than in the first, working out at 4.8 per cent for 2010 as a whole and slipping back to about 4 per cent next year (Table 1). Uncertainty about future developments nevertheless remains substantial, reflecting high levels of unemployment and the still weak financial situation of households in the advanced economies.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		IMF		Consensus Economics	
	2009	2010	2011	2010	2011
GDP					
World	**-0.6**	**4.8**	**4.2**	–	–
Advanced countries	-3.2	2.7	2.2	–	–
Euro area	*-4.1*	*1.7*	*1.5*	*1.6*	*1.4*
Japan	*-5.2*	*2.8*	*1.5*	*3.0*	*1.3*
United Kingdom	*-4.9*	*1.7*	*2.0*	*1.5*	*2.1*
United States	*-2.6*	*2.6*	*2.3*	*2.7*	*2.4*
Emerging countries	2.5	7.1	6.4	–	–
Brazil	*-0.2*	*7.5*	*4.1*	*7.5*	*4.4*
China	*9.1*	*10.5*	*9.6*	*9.9*	*9.0*
India	*5.7*	*9.7*	*8.4*	*8.3*	*8.3*
Russia	*-7.9*	*4.0*	*4.3*	*4.9*	*4.4*
World trade (1)	**-11.0**	**11.4**	**7.0**	**–**	**–**

Sources: IMF, *World Economic Outlook*, October 2010; Consensus Economics, various publications, September 2010.
(1) Goods and services.

The price of oil holds stable; futures prices point to a modest upturn

In the third quarter of 2010 the average price of oil for the three main grades fluctuated between \$70 and \$80 a barrel; in September it was \$76, not very different from prices last June (Figure 1). Uncertainty about the strength of the recovery of the world economy and relatively abundant oil supplies helped keep prices down in the summer months, notwithstanding the International Energy Agency's upward revision of the estimated demand for 2010. Judging by the futures market, the price of WTI-grade oil is expected to top \$86 in September of next year. Following the peak reached in April, the dollar prices of non-fuel commodities fell in May-June only to rise again fairly significantly in July-August; higher food commodity prices were due to rises in cereal prices owing to bad weather in some of the main producer countries.

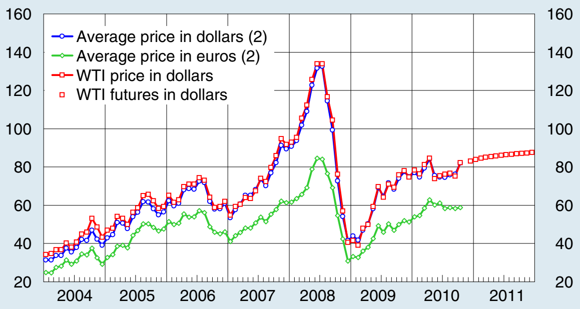
Market conditions improve but uncertainty remains high

Conditions on the financial markets improved overall in the third quarter; in August there was renewed pressure on sovereign debt in some of the euro-area countries. Gold prices, at an all-time high, signal great uncertainty and expectations of low yields. The authorities continued working to strengthen financial regulation and supervision.

Figure 1

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)



Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 11 October 2010. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

Economic activity slows in the United States ...

In the second quarter of 2010, output growth in the United States slowed to an annual rate of 1.7 per cent, from 3.7 per cent in the first. This was largely attributable to the exceptional increase in imports which, net of exports, subtracted 3.5 percentage points from GDP growth; waning support from the inventory cycle also contributed. These factors were only partly offset by a greater positive contribution from the other domestic demand components (4.4 percentage points).

Trends in industrial production and the latest indicators suggest the continuation of growth in the third quarter, albeit at a modest pace (Figure 2). The US economy is also suffering from the gradual withdrawal of the fiscal stimulus measures adopted to combat the crisis: the Congressional Budget Office estimates that the impact of the American Recovery and Reinvestment Act on GDP growth will turn negative in the second half of 2010 (see the box "The anti-crisis fiscal measures in the main advanced and emerging countries" in *Economic Bulletin*, April 2009). The feebleness of the recovery is mainly attributable to modest growth in consumption, held back by uncertainty over job prospects, the need to repair household balance sheets and stringent credit supply conditions.

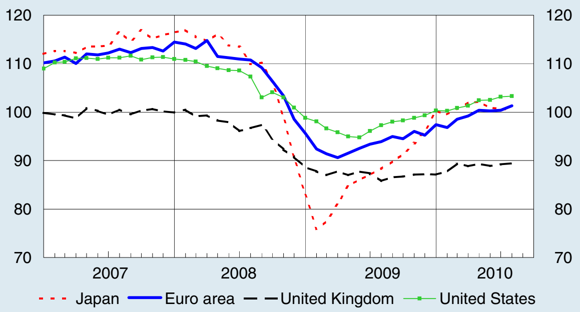
In the first nine months of 2010, non-farm payroll employment grew by 0.5 per cent (610,000 jobs), not fast enough to produce a fall in the unemployment rate, which has remained broadly unchanged since the start of the year (9.6 per cent in September). The picture is not unlike that observed in the two previous cyclical upturns, in 1991-92 and in 2001, when job creation was modest; however, the current recovery was preceded by a much sharper fall in employment (about 8.4 million jobs), compared with pre-recession levels.

Once the temporary support provided by fiscal incentives for home purchases had waned in the spring, the US property market slumped again.

Figure 2

Industrial production (1)

(monthly data)



Source: Thomson Reuters Datastream.
(1) Industrial production, adjusted for seasonal and calendar effects; index, 2003=100.

House prices in the ten largest cities measured by the Case-Shiller index slowed at the start of the summer; futures prices quoted on the same index signal expectations of a fall in the coming months.

... and in Japan

In Japan, GDP slowed markedly in the second quarter, to 1.5 per cent on an annual basis from 5 per cent in the first, affected by stagnant household consumption and the reduced contribution of net exports. The tone of the economy was basically unchanged over the summer months, with slack industrial production and a slowdown in exports, while labour market conditions remain weak; in July, the rate of unemployment was still relatively high (5.2 per cent).

In the United Kingdom GDP accelerates sharply

In the United Kingdom, GDP grew at an annual rate of 4.9 per cent in the second quarter, as against 1.3 per cent in the first. The acceleration is almost entirely attributable to trends in inventories, which contributed four percentage points to the result. The implications of the most recent cyclical indicators are conflicting, but overall they suggest that the upswing is losing momentum.

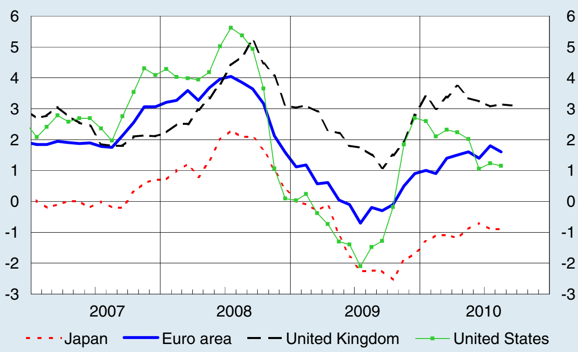
In the industrial countries inflationary pressures remain subdued

Large margins of spare capacity and persistently slack labour markets have kept inflationary pressures low in the industrial countries. In the United States twelve-month consumer price inflation stood at 1.1 per cent in August (Figure 3); net of the more volatile components, it has held steady at 0.9 per cent since April. According to the main private forecasters, the moderation in price increases will continue in the coming quarters. Net of the price effects of the increase in indirect taxes, inflation in the United Kingdom also settled at modest levels. In Japan, deflationary pressures continued to prevail.

Figure 3

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.

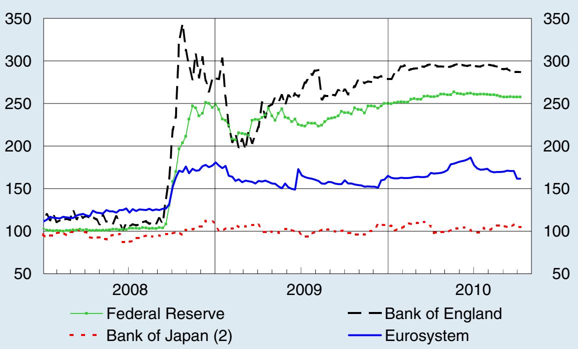
Central banks maintain an expansionary stance

With signs that the recovery is weakening and with little risk of inflation, the central banks of the industrial countries have maintained or intensified their already strongly expansionary monetary policies. In August, the Federal Reserve announced its decision to reinvest in Treasury bonds the proceeds of maturing mortgage-backed securities and government-sponsored enterprise debt in its portfolio, and roll over its maturing government securities, maintaining the total value of the financial assets in its balance sheet unchanged (Figure 4). The Fed subsequently signalled its readiness, if necessary, to adopt new expansionary measures to support the economic recovery. In early October the Bank of Japan announced further interventions aimed at making monetary

Figure 4

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

(index, 5 January 2007=100; weekly data)



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

conditions even more accommodating; in particular, it narrowly reduced the monetary policy reference rate, defining a target range of between 0.0 and 0.1 per cent, and affirmed its intention of keeping it at close to zero for an extended period. It also introduced a new purchasing programme for public and private financial assets for an amount equal to ¥5 trillion (around 1 per cent of GDP) and announced its willingness to carry out further fixed-rate financing transactions for up to ¥30 trillion. The Bank of England kept its monetary policy reference rate unchanged and did not modify its financial asset purchasing objective, which had already been met in January.

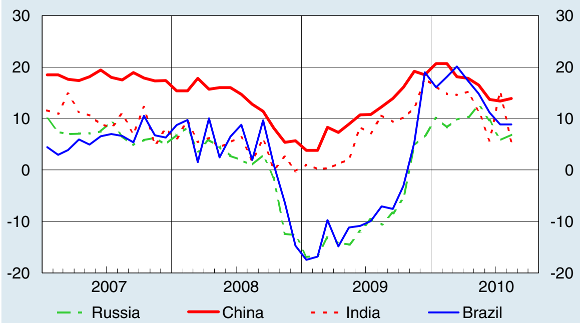
The main emerging economies show signs of a moderation in economic activity

In the second and third quarters of 2010 some of the main emerging economies, in particular China and Brazil, showed signs of a moderation in economic activity, albeit in a context of continued vigorous expansion (Figure 5). In China, the twelve-month GDP growth rate slipped to 10.3 per cent in the second quarter, from 11.9 per cent in the first. The latest indicators for the third quarter point to a slight further deceleration. The slowdown mainly reflects more modest growth in public investment.

Figure 5

Industrial production in the BRIC countries

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



Sources: Thomson Reuters Datastream and national statistics.

In Brazil, GDP growth slowed to 5.5 per cent on an annual basis in the second quarter (from 11.3 per cent in the first), reflecting the slowdown in investment expenditure and household consumption. Indications for the third quarter are for continued growth at a slower pace. In India, GDP growth remained rapid in the spring months. In the same period, the expansion also continued in Russia and in the other main countries of central and eastern Europe, which benefited from the pick-up in foreign demand from the euro area; the prospects for growth in the area remain patchy, however, and less favourable on the whole than in the other emerging economies.

Inflationary pressures in the main emerging countries generally abated this summer. In India and in Brazil, the central banks proceeded to tighten monetary policy further, while the Chinese authorities strengthened the measures previously introduced to curb the expansion of credit to the property sector, against a backdrop of continuing high house prices.

2.3 THE EURO AREA

GDP grows at a fast pace in the second quarter

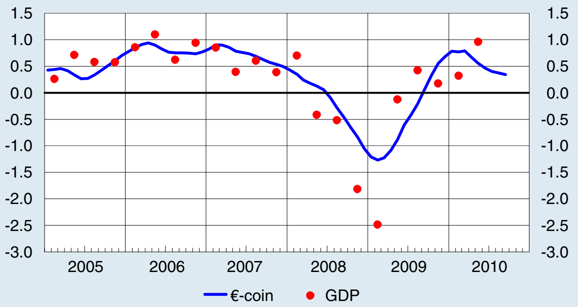
The euro-area economy grew by 1 per cent in the second quarter of 2010, accelerating sharply compared with the previous three quarters (Figure 6). The stimulus from another increase in exports (4.3 per cent, against 2.5 per cent in the first quarter), thanks to the growth of world demand and the gains in competitiveness since the start of the year, was largely offset by equally rapid growth in imports. Economic activity during the quarter was sustained mainly by domestic demand. Investment returned to growth: expenditure on machinery and equipment benefited from the stimulus from foreign demand, while construction recouped a first-quarter contraction that had been due in part to poor weather conditions in some countries. Consumer spending growth was again feeble (0.2 per cent), discouraged above all by uncertainty over the employment outlook.

Among the major euro-area countries, GDP growth was fastest in Germany, which recorded the highest quarterly growth rate since national unification (2.2 per cent), less rapid in France (0.7 per cent) and Italy (0.5 per cent). The growth gap between Germany and the other countries has tended to widen. Since the cyclical low in the first quarter of 2009, the German economy has expanded by 4.2 per cent, compared with an increase (since the second quarter of 2009) of 1.3 per cent on average for the other countries, 1.9 per cent in France and 1.3 per cent in Italy. Germany has drawn greater benefits from the robust expansion of world trade with an export gain of 18.2 per cent, against 10.2 and 9.2 per cent in France and Italy, thanks to German firms' greater ability to penetrate the most dynamic markets (see the box: "Recent macroeconomic developments in Germany").

Figure 6

€-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 previous quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter adjusted for the most erratic components.

RECENT MACROECONOMIC DEVELOPMENTS IN GERMANY

Since the beginning of this year Germany has recorded the strongest growth of all the main advanced economies. According to the latest IMF forecasts, in 2010 its GDP will grow by 3.3 per cent, about twice the rate expected for the euro area (1.7 per cent) and higher than that forecast for the United States (2.6 per cent).

The pronounced improvement in economic activity in Germany follows a long period of moderate growth due to the weakness of domestic demand. An exception to this is found in the years immediately preceding the crisis, when growth had been stronger thanks to the rapid expansion in world trade.[1] Today, the German economy is reaping the benefits of the action taken from the mid-1990s onwards to foster its modernization and internationalization and the structural reforms adopted to increase the efficiency of the labour market and reduce the social security tax burden. The reform proposals put forward by the Hartz Commission provided the basis for the revision of the legal framework for employment relationships and unemployment benefit schemes between 2003 and 2005. Under the new system the share of industry-wide contracts has progressively declined. Between 1996 and 2009 the proportion of workers covered by contracts of this kind fell from 69 to 56 per cent in the western Länder and from 56 to 38 per cent in the eastern Länder. In addition, increased use was made of "opening clauses" (*Öffnungsklauseln*), which allow firms to reformulate and derogate from specific conditions of industry-wide contracts. These clauses have been used mainly to curb wage dynamics and to lengthen working hours and make them more flexible. In some cases (including Daimler, Siemens and Volkswagen), the firm undertook to maintain the employment level in exchange for the derogations from the applicable industry-wide labour contract.

The employment rate, which had remained stable at about 65 per cent between 2000 and 2005, rose to 71 per cent in 2008, with a boost from the positive economic cycle; in the same period the unemployment rate declined from its peak of 11.2 per cent in the middle of the decade to 7.6 per cent. The impact of the structural reforms was felt primarily in manufacturing industry and above all in the sectors in which the German economy is internationally specialized, such as chemical products, machinery and transport equipment. Between 2000 and 2008 labour productivity in manufacturing

[1] See R. Sabbatini and F. Zollino, "Macroeconomic trends and reforms in Germany", *PSL Quarterly Review*, vol. 63, no. 254, forthcoming.

industry grew at an annual rate of 2.3 per cent, compared with a modest rate of increase in real per capita earnings of 0.6 per cent. This resulted in the ratio of profits to value added rising from 25.4 to 33.9 per cent and a much better performance of German exporters' competitiveness than that of their main competitors. Exports received a powerful stimulus, expanding from just under one third of GDP in 2000 to nearly one half in 2008. The effects on domestic demand were limited, however. Household expenditure grew by 0.4 per cent per year between 2000 and 2008, as against 1.9 per cent in the other euro-area countries; it was held back by the weak growth in disposable income, which rose at an annual rate of 0.7 per cent in real terms, mainly reflecting wage moderation, and by a gradual increase in the propensity to save (from 15.3 to 17 per cent), probably due to an increase in the precautionary motive in view of the more unequal distribution of incomes. Investment was affected by the long period of weakness in the construction industry after the rapid expansion triggered by German unification; it has plausibly been suggested that there was also a disincentive associated with the persistence of barriers to entry in many services, where the modernization and reform process has so far been less incisive than in manufacturing industry. The ratio of gross investment to national income declined from 22 per cent at the beginning of the decade to about 18 per cent in 2008 and fell by more than a percentage point in the following year, despite the increase in private sector saving from 19 to 23 per cent of national income (22 per cent in 2009; see the table). In this context the balance of current transactions with the rest of the world improved progressively, swinging from a deficit of 1.7 per cent of national income in 2000 to a surplus of 6.7 per cent in 2008.

Saving and gross investment in Germany
(percentage of gross national income)

	General government saving	Private sector saving	*of which: households*	Gross national saving	Gross investment	Balance of current transactions with the rest of the world
Average 1991-95	1.0	20.9	*12.3*	21.9	23.1	-1.2
Average 1996-99	0.3	20.7	*11.2*	21.0	21.7	-0.8
2000	1.6	18.9	*10.7*	20.6	22.2	-1.7
2001	0.1	19.7	*10.9*	19.9	19.9	0.0
2002	-0.9	20.8	*11.3*	19.9	17.7	2.2
2003	-1.3	21.1	*11.5*	19.8	17.7	2.1
2004	-1.3	23.3	*11.4*	22.0	17.2	4.8
2005	-0.9	23.0	*11.5*	22.1	16.9	5.2
2006	0.6	23.4	*11.3*	24.0	17.5	6.6
2007	2.4	23.4	*11.4*	25.8	18.2	7.6
2008	2.5	22.7	*12.2*	25.1	18.4	6.7
2009	-0.5	22.0	*12.1*	21.5	16.5	5.0

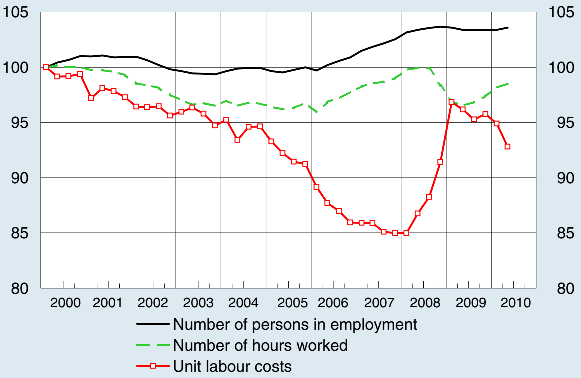
Source: National statistics.

The German economy's increased exposure to world trade meant that, like Italy's, it was hit harder by the collapse of world demand during the crisis than the rest of the euro area. The effect on employment was less pronounced, however. Moreover, the smaller contraction has given way to a progressive improvement over recent months (see the figure). In the second quarter of this year the number of persons in employment was actually 0.2 per cent higher than at the start of the crisis two years earlier, as against a fall of about 2.5 per cent in the euro area as a whole. However, the number of hours worked was still 1.4 per cent lower than two years earlier.

Various factors contributed to support employment. A system of subsidies (under the *Kurzarbeit* programme) that became more generous during the crisis made it less costly for a firm to reduce its working hours while keeping its workforce unchanged. According to the German Institute for Employment Research (Institut für Arbeitsmarktforschung, IAB), between April 2008 and

March 2009 about 50 per cent of workers in the engineering industry benefited from this scheme. Since the subsidies did not fully cover the costs deriving from the reduction in working hours, during the crisis the hourly cost of labour nonetheless rose strongly (by 8.8 per cent in 2009 compared with 2007), and this, together with a 2.9 per cent decrease in hourly productivity, caused unit labour costs to rise sharply, by 12.1 per cent. Notwithstanding this increase in labour costs, it can plausibly be assumed that firms chose to limit the reduction in their workforces to avoid having to incur the high costs of selecting and training workers when demand revived. It should be noted in this respect that a survey conducted by the IAB showed that German firms had been having difficulty in hiring skilled workers before the crisis, especially in the sectors that were hardest hit by the recession.[2] In turn, the number of job vacancies, generally considered a measure of the intensity of the search for workers, was already considerably higher in Germany than in the euro area in 2007 (respectively 3.5 and 2.2 per hundred persons in employment), even though the German unemployment rate, at 8.7 per cent, was higher than the euro-area rate of 7.6 per cent. The attenuation of the effects of the crisis may also have been enhanced by firm-level agreements that guaranteed employment levels in exchange for wage or organizational concessions.

The main variables of the German labour market: 2000-2010 (1)



Source: Based on Eurostat data.
(1) Index equal to 100 for the first quarter of 2000.

Another factor that helped to sustain the level of employment in Germany was the increase of 90,000 jobs in public services between the first half of 2008 and the first half of 2010. According to the German labour force survey, in the absence of this expansion in the public sector, there would have been a small decrease in employment.

[2] See J. Möller, "The German labor market response in the world recession: de-mystifying a miracle", *Zeitschrift für ArbeitsmarktForschung*, 42.4, 2010.

The expansion of economic activity slows during the summer months

The cyclical indicators show that growth continued through the summer, but at a slower pace. Industrial production, adjusted for seasonal and calendar effects, was practically unchanged in July, then rose 1 per cent in August. The Purchasing Managers Index, while remaining at levels consistent with a continuation of the cyclical upturn, has been declining gradually since May (save for a partial recovery in July). The climate of confidence among manufacturing firms, though progressively improving, also indicates a more cautious assessment of short-term prospects. Foreign demand has shown signs of slackening: exports measured at current prices stagnated in July, and new industrial orders from abroad, deflated by their respective producer price indices, slowed their pace in the three months to July, though they were still 1.5 percentage points higher than in April-June. New motor vehicle registrations, which had fallen sharply in the first half, showed moderate progress in the third quarter. Consumer confidence improved during the summer months owing above all to the more favourable outlook of German households, which contrasted with considerably greater caution in France and Italy, where spending continues to be dampened by the still uncertain employment outlook.

In September the Bank of Italy's €-coin indicator, which estimates three-month economic growth shorn of the most erratic components, was just over 0.3 per cent, continuing the decline under way since April (Figure 6). This performance is consistent with a third-quarter slowdown in GDP expansion from the high growth rates of the second.

The professional forecasters surveyed by Consensus Economics in September expect area-wide GDP growth of 1.6 per cent in 2010 and a slight slowdown to 1.4 per cent in 2011. Among the largest economies, output growth is expected to be distinctly faster in Germany. These estimates are in line with the recent forecasts of the European Commission (1.7 per cent growth for the euro area in 2010) and the IMF (1.7 per cent in 2010, 1.5 per cent in 2011) and with the September projections by the ECB, which foresees area-wide growth of 1.4-1.8 per cent this year and 0.5-2.3 per cent in 2011.

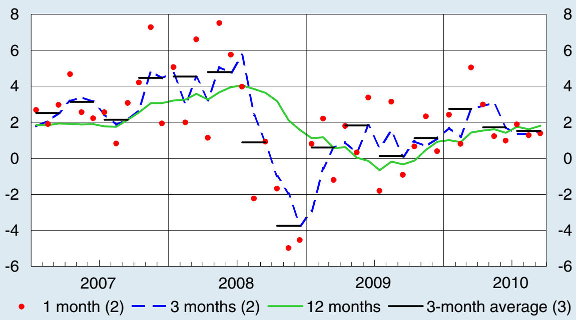
On the whole, price trends have remained moderate

According to Eurostat's preliminary estimate, the twelve-month rate of harmonized consumer price inflation fluctuated in the course of the summer, rising from 1.4 to 1.7 per cent in July, slipping to 1.6 per cent in August, then rising to 1.8 per cent in September (Figure 7). One source of the fluctuation was the dynamics of the food and energy sub-indexes, which partly reflected base effects, i.e. the statistical comparison with the year-earlier months. Net of these components, inflation stood at 1 per cent both in July and in August, about the same as in the last few months of 2009. The short-term increase in the overall price index – its annualized, seasonally adjusted, three-month rise – has steadied at around 1.5 per cent since July. Inflation differentials between euro-area countries remain significant, though receding from the maximum values recorded in the second quarter.

Figure 7

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

(percentage changes)



Sources: Based on Eurostat and ECB data.
(1) For September, provisional data. – (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 twelve-month change in the producer price index, after becoming positive in March, rose gradually to 3.6 per cent in August, led by energy and intermediate goods. The producer prices of final consumer goods have been rising since June. In August the twelve-month rise in the food component showed an acceleration to 1 per cent, from 0.4 per cent in July. The expectations of the manufacturing firms surveyed by the European Commission during the summer and the Purchasing Managers Index both point to a slower increase in list prices.

Inflation expectations are stable at 1.5 per cent

The forecasters surveyed by Consensus Economics in September expect area-wide inflation to average 1.5 per cent in 2010, with a slight quickening in the last few months, and 1.6 per cent in 2011. This is broadly in line with the projections by the ECB in September, which predicts consumer price inflation of between 1.5 and 1.7 per cent in 2010 and 1.2 and 2.2 per cent in 2011.

The monetary and credit aggregates show signs of picking up

The twelve-month growth rate of M3 in the euro area increased slightly to 1.1 per cent in August, while the seasonally adjusted, annualized three-month rate rose to 5.6 per cent (from 1.9 per cent in May). The acceleration in the monetary aggregate reflected a slower contraction in short-term deposits other than overnight deposits and in marketable instruments. However, the expansion of overnight deposits, though still rapid, slowed. Adjusted for the accounting effect of securitizations, the pace of bank lending to the private sector was slightly faster. In August its twelve-month growth rate rose to 1.3 per cent (against 0.2 per cent in May), while the annualized three-month rate rose to 3.9 per cent (from 2 per cent). Lending to households picked up moderately in the three-months ending in August (to growth of 3.1 per cent). That to non-financial firms continued to stagnate (0.8 per cent). The banks interviewed in the quarterly euro-area Bank Lending Survey reported that business lending standards had been tightened slightly in the second quarter of 2010, partly in response among other things to the banks' balance sheet situations, in particular in some of the countries most exposed to the strains in the sovereign debt market. Credit demand from firms, though still slack, reportedly increased in connection with greater financial requirements for investment and mergers and acquisitions. The terms and conditions for loans for house purchases were reported to have remained unchanged, while households' demand for such loans increased significantly.

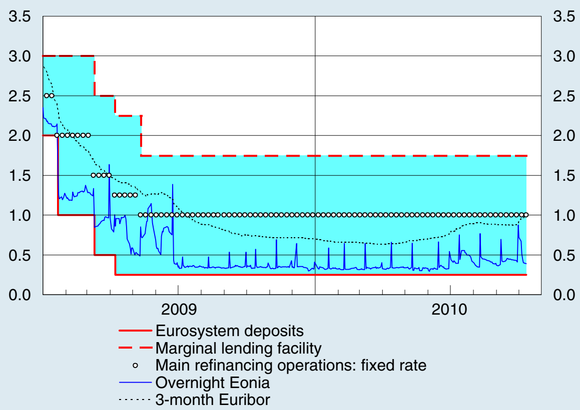
Official interest rates remain unchanged

The ECB Governing Council has kept its official rate at 1 per cent (Figure 8). Given the persistent uncertainty over financial markets, at its early September meeting the Council decided to continue to conduct the main refinancing operations and those with a maturity equal to the reserve maintenance period by way of a fixed-rate tender procedure with full allotment for as long as necessary, and in any case at least until January 2011. The remaining three-month operations this year will also be conducted with full accommodation of the demand and at a rate to be fixed at the average of the main refinancing rate over the life of these operations. On 30 September three operations (three-month, six-month, and twelve-month) matured, for a total amount of about €225 billion. At the three-month tender and the six-day fine-tuning tender settled on the same date, banks requested about €130 billion. Following the consequent reduction in excess liquidity, money market rates rose at all maturities. In mid-October three-month Euribor stood at 1 per cent. At its early October meeting the Council announced no change in its monetary policy stance.

Figure 8

Official interest rates and money market rates in the euro area

(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

From July onwards the purchases of debt securities issued in the EMU to support market segments particularly hard hit by the crisis (the Securities Markets Programme) were for quite limited amounts, far less than during the initial phase of the programme.

The medium- and long-term inflation expectations implicit in the financial markets and those of agents responding to business surveys have been declining since the start of the year and are at levels consistent with the objective of price stability.

2.4 WORLD FINANCIAL MARKETS

Conditions on the world financial markets improved overall in the third quarter, although fluctuations in August reflected a renewal of tensions over the sovereign debt of some euro-area countries.

Action to reinforce financial regulation and supervision continued. In the United States and the European Union, the architecture of banking and market supervision was re-designed with provision for the creation of bodies charged with identifying and preventing systemic risks (see the box "The reform of financial supervision in Europe"). At the international level, within the Basel Committee a new capital accord for banks was drawn up, introducing more stringent requirements (see the box "The reform of the rules on banks' capital and liquidity").

THE REFORM OF FINANCIAL SUPERVISION IN EUROPE

On 22 September the European Parliament, in plenary session, approved the package of legislative proposals for the reform of the financial architecture in Europe. Adoption by the Ecofin Council, which had already expressed a favourable opinion on 7 September, will be followed by the constitution of the new bodies envisaged by the reform. They will begin to operate on 1 January of next year.

The reform introduces a European System of Financial Supervision with two pillars. The first is the European Systemic Risk Board, responsible for macro-prudential supervision. The second, concerned with micro-prudential supervision, is based on three newly instituted European Supervisory Authorities and the national supervisory authorities.

The European Systemic Risk Board (ESRB) is assigned to conduct analysis of the European financial system, issue risk warnings and, when called on, to make non-binding recommendations, which it submits to one or more member states or national supervisory authorities, the Council, the European Commission and the European Supervisory Authorities, depending on the circumstances. It decides, after consulting the Council, whether to make its recommendations public and monitors follow-up, informing the Council and the European Supervisory Authorities where it finds the action taken to be inadequate. The ESRB does not have legal personality and is characterized by its close relationship with the European System of Central Banks and the European Central Bank (ECB); indeed, the latter provides it with the necessary logistical and administrative support and personnel. The ESRB General Board is composed of the president and vice-president of the ECB, the governors of the 27 central banks of the European Union, a representative of the European Commission, the chairmen of the three new European Supervisory Authorities, the chairman of the Advisory Technical Committee, [1] and three external members, [2] all with voting rights. In addition, the representatives of the national supervisory authorities and the chairman of the EU Economic and Financial Committee will participate in its meetings without the right to vote. The regulation instituting the ESRB assigns the chair to the president of the ECB for a five-year term; for subsequent mandates, amendment of this provision may be considered after three years from the entry into force of the regulation.

The new European Supervisory Authorities (ESAs) – the European Banking Authority, European Securities and Markets Authority and European Insurance and Occupational Pensions Authority – gather together the supervisory authorities of the EU countries, taking the place of the current third-level committees for the banking, securities and insurance sectors. They have legal personality and a legal status on a par with that of EU agencies. The new European financial architecture also includes the Joint Committee of European Supervisory Authorities, a coordinating body that will deal with intersectoral questions, including those concerning financial conglomerates.

The new authorities are assigned a range of tasks and powers. To begin with, they contribute to establishing common rules and consistent supervisory practices at European level. To this end, in the areas delegated by primary legislation they develop draft binding technical standards for the member states' supervisory authorities and financial institutions, submitting them to the European

[1] This is an advisory body made up of the representatives of the institutions participating in the General Board of the ESRB. – [2] The chairman and the two vice-chairmen of the Advisory Scientific Committee, a new advisory body made up of representatives of the academic world and trade associations.

Commission for approval. The ESAs can also issue decisions to settle disputes between national supervisory authorities (binding mediation) and remedy instances of incorrect application of European legislation. In emergency situations, they can ask national authorities to take measures to deal with risks for stability and ensure the orderly working of financial systems. Where national authorities fail to comply with the decisions of the ESAs in cases of infringement of European rules, in emergency situations or in binding mediation, the ESAs can take measures in respect of individual institutions. The new authorities are also charged with coordinating the colleges of supervisors, monitoring and assessing the risks of the financial system by gathering and managing micro-prudential information in common databases, and conducting stress-tests at European level in cooperation with the ESRB.

The accord reached at the conclusion of the negotiations among the European institutions assigns the ESAs other important functions such as identifying, with the ESRB, a set of qualitative and quantitative indicators for measuring systemic risk, developing methodologies for identifying the institutions to be subject to enhanced supervision and specific crisis management and resolution procedures, defining and developing impact-minimizing crisis management procedures, and strengthening the European system of national deposit guarantee schemes. In addition, the ESAs are given powers in the field of consumer protection and for monitoring the development of financial activities, especially innovative activities, in order to ascertain their compatibility with the integrity and proper functioning of the markets; the latter task could result in temporary bans or limits on these activities. The ESAs may also request colleges of supervisors to reconsider decisions that could give rise to an incorrect application of European legislation or do not contribute to the convergence of supervisory practices; and they may ask the authority responsible for consolidated supervision to call a meeting of the college or to put new items on the agenda.

An assessment of the effectiveness of the new financial architecture will be conducted three years after the reform's entry into force. In particular, the review will consider whether to retain an institutional arrangement based on sectoral supervision or to adopt organizational models based on the centralization of micro-prudential supervisory tasks at a single European authority, or a "twin-peaks" approach in which tasks are assigned according to purpose. The Commission will prepare an annual report in which the possibility of assigning the ESAs additional responsibilities for direct supervision of pan-European institutions and infrastructures will be examined. [3]

[3] During the negotiations, the European Parliament discussed the possibility of giving the ESAs direct supervisory powers over pan-European financial institutions and structures. This proved unfeasible in the current institutional framework except for credit-rating agencies, for which the European Securities and Markets Authority has been assigned centralized control functions.

THE REFORM OF THE RULES ON BANKS' CAPITAL AND LIQUIDITY

In a press release issued on 12 September 2010 the Governors and Heads of Supervision of the Basel Committee countries announced higher global minimum capital standards (www.bis.org/press/p100912.htm).

The reform, which completed the regulatory framework outlined on 26 July with the decisions on capital and liquidity risk, has given effect to the recommendations of the Financial Stability Board and the Heads of State and Government of the G20 countries, who in the meeting held in Toronto on 26 June had recommended the drafting of rigorous rules, to be introduced gradually, however.

In particular, the reinforcement of the prudential regulatory framework concerns the new definition of capital, the introduction of a leverage ratio and the establishment of new liquidity standards.

The capital strengthening will be pursued (a) by improving the quality of regulatory capital, both through a shift in the composition of banks' capital in favour of common equity (ordinary shares and retained earnings, net of an enlarged and harmonized list of deductions) and through the adoption of more stringent criteria for the eligibility of other capital instruments; (b) by setting higher minimum levels for top quality capital; and (c) by maintaining capital in excess of the minimum requirements (so-called capital buffers). Once the new system has been fully phased in, banks will have to have common equity amounting to not less than 4.5 per cent of their risk-weighted assets, Tier 1 capital amounting to 6 per cent and total capital amounting to 8 per cent. They will also have to have top quality capital in excess of the minimum requirements (the so-called capital conservation buffer) amounting to 2.5 per cent of their risk-weighted assets. If these resources are used to absorb losses during periods of stress, increasingly stringent constraints will apply to the distribution of banks' earnings the closer their regulatory capital ratios approach the minimum requirement. The capital conservation buffer will be supplemented by a countercyclical buffer up to a maximum of 2.5 per cent of banks' risk-weighted assets, to protect the banking system from periods of excessive growth in total lending.

The agreement provides for the new rules to be introduced gradually from 2013 onwards and for the transition to the new system to be completed by 2019 (the table shows the phase-in arrangements set out in Annex 2 of the 12 September press release). The new, more rigorous, deductions from capital will also be introduced gradually, between 2014 and 2018. Capital instruments other than ordinary shares, issued in accordance with the current rules, will remain eligible for inclusion in full in Tier 1 capital or supplementary capital until 1 January 2013, after which the amount recognized for prudential purposes will be reduced by 10 per cent each year. Capital instruments subscribed by governments will be recognized in full until 1 January 2018 (grandfathering).

As for the curbing of the system’s financial leverage, a ratio will be introduced to constrain the expansion of banks’ total assets to the availability of an adequate capital base, with two aims: preventing the destabilizing effects of forced deleveraging in the event of a crisis and strengthening risk-based capital requirements to offset shortcomings or imperfections in banks’ internal models and measurement errors. As for the assets to be considered in calculating the ratio, the rules are marked by the breadth of the definition (including both on- and off-balance-sheet assets) and the simplicity of the measurement; for capital, the definition to be used is that of Tier 1 capital. The Committee has set the minimum level of the ratio at 3 per cent, measured as the ratio of Tier 1 capital to total assets, with provision for a transitional period (supervisory monitoring and a parallel run) starting in January 2011, during which the values of the ratio will be carefully monitored to verify its performance over time and the interaction with risk-weighted capital requirements. The objective is to calibrate the ratio before the date of its entry into force on 1 January 2018. From the beginning of 2015 banks will be expected to provide the market with adequate information on the level and components of their leverage ratios.

With reference to liquidity risk, the Basel Committee has proposed the introduction of two new and complementary indicators: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR). The former, which would come into force at the beginning of 2015, is a measure of an individual bank’s ability to overcome conditions of very severe stress concentrated in a short period of time; it is aimed, in fact, at ensuring the coverage of any short-term imbalances by comparing the cash flows expected over a time horizon of 30 days, calculated taking account of a predefined stress scenario, with a liquid asset buffer available to the bank. The second indicator, which would come into force at the beginning of 2018, is designed instead to reveal any imbalances of a structural nature in the composition of a bank’s liabilities and assets over a time horizon of one year. It is based on comparison of the total sources of funding with a residual maturity of more than one year and the share of sight deposits deemed to be stable with the less liquid components of the bank’s assets.

With reference to the LCR, the amendments agreed extend the liquidity buffer to a broader range of assets and mitigate the severity of the stress scenario. As for the NSFR, changes have been made to the hypotheses contained in the consultation document of December 2009, especially with regard to the stability of deposits and short-term loans. In addition, an observation period has been proposed before

Phase-in arrangements (shading indicates transition periods)
(per cent; all dates are as of 1 January)

	2011	2012	2013	2014	2015	2016	2017	2018	As of 1.1.2019
Leverage ratio	Supervisory monitoring		Parallel run 1 Jan. 2013 – 1 Jan. 2017 Disclosure starts 1 Jan. 2015					Migration to Pillar 1	
Minimum common equity capital ratio			3.5	4.0	4.5	4.5	4.5	4.5	4.5
Capital conservation buffer						0.625	1.25	1.875	2.5
Minimum common equity plus capital conservation buffer			3.5	4.0	4.5	5.125	5.75	6.375	7.0
Phase-in of deductions from CET1 (including amounts exceeding the limit for DTAs, MSRs and financials)				20	40	60	80	100	100
Minimum Tier 1 Capital			4.5	5.5	6.0	6.0	6.0	6.0	6.0
Minimum Total Capital			8.0	8.0	8.0	8.0	8.0	8.0	8.0
Minimum Total Capital plus conservation buffer			8.0	8.0	8.0	8.625	9.25	9.875	10.5
Capital instruments that no longer qualify as non-core Tier 1 capital or Tier 2 capital			Phased out over 10 year horizon beginning 2013						
Liquidity coverage ratio	Observation period begins				Introduce minimum standard				
Net stable funding ratio		Observation period begins						Introduce minimum standard	

the entry into force of the new requirements, to assess whether business models or funding structures have unintended consequences.

The analyses carried out by the Basel Committee in cooperation with the Financial Stability Board and the Bank for International Settlements show that the impact of the reform of the minimum capital requirements on economic activity and liquidity conditions is relatively small; on the other hand they reveal significant benefits in terms of the stability of the financial system as a whole and hence of a reduction in the cost of crises (see "Assessment of the macroeconomic impact of stronger capital and liquidity requirements", www.bis.org/press/p100818.htm).

The agreement will be presented to the Seoul G20 summit meeting in November. Before the new rules are transposed at national level, they will undergo the usual process of legislative revision by the European institutions.

By international standards Italian banks' capital is lower on average, but its better quality, the smaller public intervention during the crisis and a lower degree of financial leverage will make it easier for them to adapt to the new and more stringent regulatory standards. Some of the proposals contained in last December's consultation document that would have seriously penalized Italian banks, such as the deduction from capital of all minority interests and deferred tax assets, have been attenuated. [1]

The transitional provisions will allow Italian banks to carry out the necessary capital-strenghtening programmes and to continue to support the economy and firms, especially smaller ones.

[1] In particular, an allowance of 15 per cent of common equity has been introduced for the deduction of the sum of deferred tax assets, significant investments in the common shares of unconsolidated financial institutions and mortgage servicing rights.

The outlook for the banks improves overall

There was a general improvement in investors' assessments of the outlook for banking systems following the release of positive data on the profits of the leading international groups in the second quarter and the publication of the results of the stress tests on European banks, as well as with the reduction in uncertainty about the evolving international regulatory framework. The premiums on credit default swaps for the leading international banks fell from the peaks reached in the second quarter but still remained fairly high; the premiums for European banks continued to reflect the market's perception of a risk associated with exposure to some sovereign borrowers. Conditions on the interbank markets held stable as the central banks continued to provide ample liquidity. In the third quarter, the yield spreads between unsecured three-month interbank deposits and three-month overnight index swaps narrowed to 11 basis points for the dollar and stayed at 23 points for the euro.

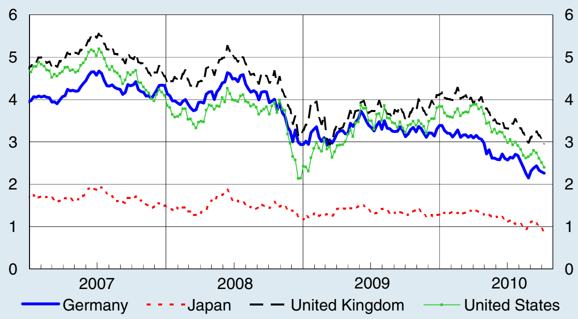
Partly in response to signs of a slowdown in world economic growth and the postponement of a prospective increase in monetary policy rates, yields on government bonds fell to extremely low levels in the third quarter (Figure 9). In the US they dropped by around 60 basis points, to 2.4 per cent, while in the euro area yields on German government bonds hit a new historic low of 2.1 per cent in August, from which they picked up only slightly in the following month.

Starting in August investors again grew worried about the public finances and the situation of the banks in Greece, Portugal and Ireland, whose ten-year government bond yield spreads vis-à-vis Germany had already reached high levels in the previous months. In Ireland and Portugal, the spreads increased by a further 155 and 195 basis points between the beginning of August and the end of September before settling at slightly lower levels in the first half of October (Figure 10). In Greece, they reached a high of 950 basis points in the first ten days of September but fell back sharply in the following weeks, returning to their mid-June levels. The difficulties that the three countries are experiencing prompted investors

Figure 9

Yields on ten-year government bonds

(end-of-week data; per cent)

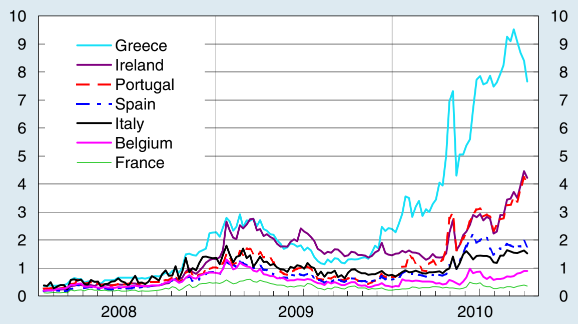


Source: Thomson Reuters Datastream.

Figure 10

Yield spreads between ten-year government bonds and the German Bund

(end-of-week data; percentage points)

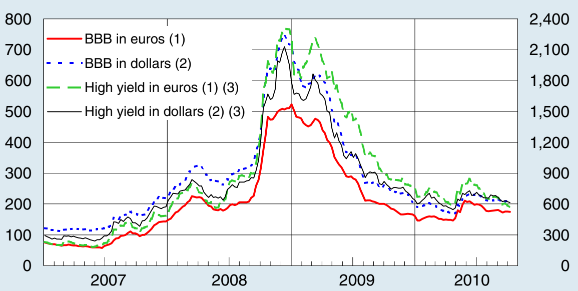


Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Figure 11

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 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 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.

to buy German government bonds. With the yield on ten-year Italian government bonds virtually stationary, the spread with the German counterpart widened again to around 150 basis points at the end of September, the same level as in June. A similar pattern was observed for the yields and spreads on Spanish government bonds, although at higher levels than for Italian securities.

In the third quarter, the international rating agencies downgraded the government securities of Ireland, Portugal and Spain.

The risk premiums on corporate bonds began once more to decline with respect to early-July levels. Premiums on BBB-rated bonds narrowed by about 0.3 percentage points for bonds denominated in dollars and euros, while the premiums on high-yield bonds fell by 1.1 percentage points for those in dollars and 2.2 points for those in euros (Figure 11). In the United States, non-financial corporations made substantial recourse to the bond market in the third quarter with around $160 billion worth of issues, the largest amount since the beginning of the year.

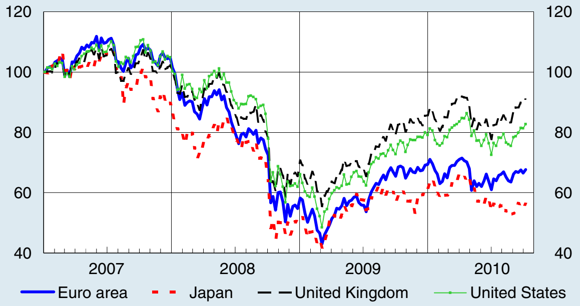
The main stock market indexes in the advanced countries returned to growth in the summer; despite a brief drop in August, they gained around 13 per cent in the United States and almost as much in the euro area, spurred by the upturn in share prices in the financial sector and improvement in the current and expected profits of listed companies (Figure 12). The implied volatility of stock market indexes in the US and the euro area, which had been fluctuating sharply, decreased in September to below the average level for the second quarter (Figure 13).

Conditions also improved on the financial markets of the emerging countries, assisted by the resumption of inflows of foreign portfolio investment. The stock market indexes followed the same pattern as those of the advanced economies, gaining 21 per cent overall during the quarter and making good the losses recorded in the spring. The yield spreads on sovereign debt in dollars (EMBI Global index) narrowed

Figure 12

Stock market indexes (1)

(end-of-week data; first week of January 2007=100)

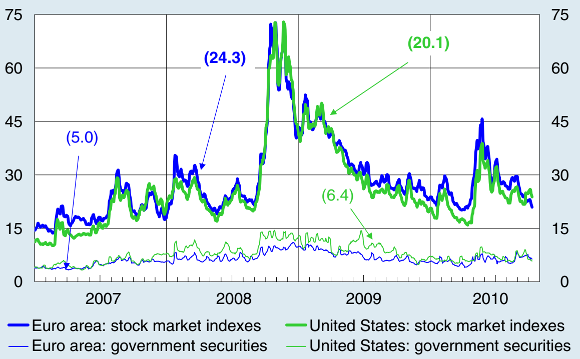


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom, Standard & Poor's 500 for the United States.

Figure 13

Implied volatility of stock market indexes and government securities (1)

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

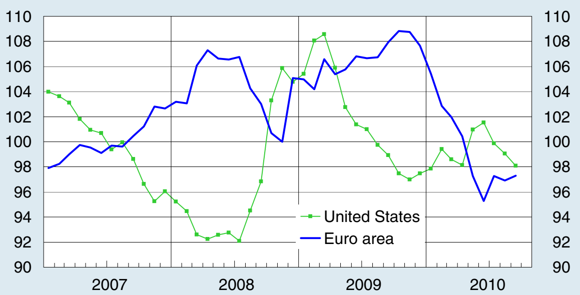


Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indexes: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on futures on Treasury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

Figure 14

Nominal effective exchange rates (1)

(monthly data)



Sources: ECB and Federal Reserve.
(1) Index, 2007=100.

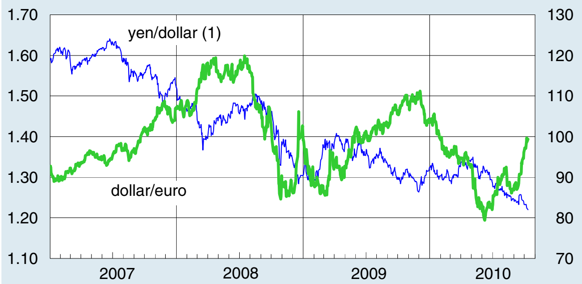
by half a percentage point, to around 3 points, remaining nonetheless higher than in the first quarter.

The dollar depreciates against the main currencies

After appreciating sharply in the second quarter, the nominal effective exchange rate of the dollar fell brusquely in the summer as the US economy weakened, returning to the same level as at the beginning of the year (Figure 14). The dollar's depreciation with respect to the euro was around 13 per cent. Against the yen, the US currency lost 6 per cent, and by the end of the third quarter had reached its lowest point since 1995. The slide came to a brief halt in mid-September when the Japanese authorities decided to intervene on the markets to counter the appreciation of the yen (Figure 15). The renminbi recorded fairly small fluctuations against the dollar.

Figure 15

Bilateral exchange rates
(daily data)



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

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

GDP growth accelerates slightly in the second quarter

In the second quarter of 2010 GDP in Italy grew by 0.5 per cent compared with the preceding period (Figure 16), in line with the performance of the first three months of the year. The further robust expansion of exports was not accompanied by a strengthening of domestic demand, which remained weak. There was a substantial increase in investment in machinery and equipment, encouraged by tax incentives that lapsed at the end of June, but household consumption stagnated and investment in construction contracted again. Changes in stocks, which had supported GDP growth in the fourth quarter of 2009 and the first quarter of 2010, made a negative contribution of 0.5 percentage points (Table 2).

Despite the positive trend in economic activity since the second quarter of 2009, GDP is still down 5.6 per cent from the cyclical peak recorded in the first quarter of 2008, a gap of about two points in relation to the euro-area average.

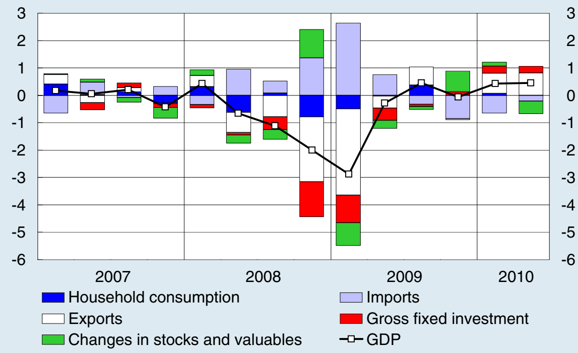
Growth continues in the third quarter

In the third quarter as a whole, according to our estimates for September, industrial production increased on average by around 2 per cent from the previous period. In September, business confidence diminished slightly. The construction sector, where activity has been declining for more than two years, has shown no clear signs of an upturn as yet. On the demand side, foreign trade data showed that exports, which had been the main stimulus for economic activity since the start of the cyclical recovery, fell in July, and on the basis of the sharp decline in sales to non-EU countries, the weakness continued in August.

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 2

GDP and its main components

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

	2009			2010	
	Q3	Q4	(1)	Q1	Q2
GDP	0.4	-0.1	-5.0	0.4	0.5
Total imports	1.3	3.3	-14.5	2.7	0.8
Domestic demand (2)	0.1	0.8	-3.8	0.3	-0.2
Domestic consumption	0.4	-0.1	-1.2	-0.1	0.1
Households	*0.6*	*..*	*-1.8*	*0.1*	*..*
Other (3)	*-0.3*	*-0.2*	*0.6*	*-0.5*	*0.4*
Gross fixed investment	-0.5	0.7	-12.1	1.4	1.3
construction	*-1.7*	*-0.6*	*-7.9*	*-0.4*	*-0.9*
other investment goods	*1.0*	*2.1*	*-16.6*	*3.3*	*3.7*
Changes in stocks and valuables (4)	-0.1	0.8	-0.4	0.2	-0.5
Total exports	2.7	-0.2	-19.1	3.0	3.3

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) Contributions to GDP growth on preceding period, in percentage points.

Retail sales continued to stagnate, while new vehicle registrations barely edged upwards in the third quarter from very low levels. Household confidence, which had been weakening since the start of the year, made a partial recovery only in September, with the contribution of a fairly slow improvement in labour market conditions. In the second quarter of the year, employment grew slightly. Our economic surveys show that firms' investment plans remain cautious in the presence of ample spare capacity and possible downward corrections to purchases of machinery and equipment following the lapsing of the related tax incentives. The forecasters surveyed by Consensus Economics in September expect GDP to grow by an average of 1 per cent in 2010, in line with the forecast published in the *Economic Bulletin* last July and the latest figures released by the European Commission and the International Monetary Fund.

Inflation increases slightly in the summer

Inflation, as gauged by the twelve-month change in the Italian consumer price index, increased slightly in the summer months from a quarterly average of 1.4 to 1.6 per cent; net of food and energy, the increase is also estimated at 1.6 per cent. The estimates of the professional forecasters surveyed by Consensus Economics in September regarding the inflation rate of consumer prices for 2010 as a whole were stable at 1.5 per cent, as in recent months; this evaluation is compatible with a modest increase in inflation at the end of the year.

3.2 FIRMS

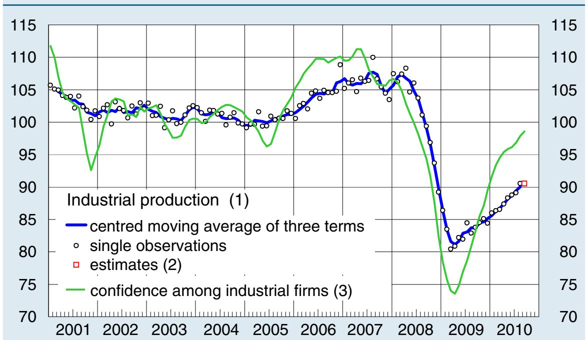
Industrial activity continues to expand during the summer months

The growth in the index of industrial production, which had begun in the spring of 2009, continued during the summer. After rising modestly in July, manufacturing activity increased in August (by 1.6 per cent over July); according to our estimates, the index gained about 2 per cent for the quarter as a whole, compared with 1.9 and 2.2 per cent in the first two quarters (Figure 17). The upturn was again driven by intermediate and capital goods, which are benefiting the most from the recovery in world trade. Among the leading indicators, the decline in the volume of new orders in June and July suggests a future slackening in the pace of output (Figure 18).

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.

Manufacturers' confidence, as registered by the ISAE business opinion survey, decreased in September for the first time in 18 months, reflecting mainly the trend in the investment goods sector. One factor behind it may have been less optimimstic expectations for demand with the lapsing in June of the tax incentives provided under the "Tremonti-ter" law (Decree Law 178/2009) (*Economic Bulletin*, October 2009). The Purchasing Managers Index peaked in July and then slipped for two months, but was still at levels consistent with growth in activity over the third quarter.

The uncertainty over the robustness of the recovery is confirmed by the quarterly survey of industrial and service firms conducted in September by the Bank of Italy jointly with *Il Sole 24 Ore*. The proportion of firms expressing a neutral assessment of the state of their market over the following three months remained very large, increasing by comparison with June to over 70 per cent. Among the remaining firms, expectations of deterioration prevailed slightly in the service sector, those of improvement in industry.

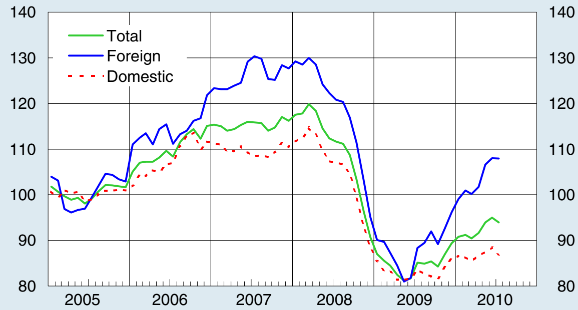
The business outlook survey conducted in September by the branches of the Bank of Italy also points to a continuation of the upswing through the rest of this year and the early part of next. Exporters' assessments are more optimistic, in particular those operating in the emerging countries (see the box "Findings of the business outlook survey of Italian industrial and service firms").

Since the latter part of 2009 firms have responded to the recovery in demand and orders by drawing heavily on stocks of finished goods, which according to ISAE's surveys of manufacturing firms are below the levels considered normal. In the Bank of Italy-*Sole 24 Ore* quarterly survey in September, the proportion of manufacturers that considered their current level of stocks adequate rose to 85 per cent, 5 points higher than in June.

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. Index, 2005=100; three-month moving average ending in the reference month.

FINDINGS OF THE BUSINESS OUTLOOK SURVEY OF ITALIAN INDUSTRIAL AND SERVICE FIRMS

Between 20 September and the first half of October the branches of the Bank of Italy carried out their traditional autumn business outlook survey based on interviews with nearly 4,000 firms with 20 or more employees, of which 2,800 are non-construction industrial firms and the rest non-financial private service firms. On the whole, the results point to a gradual recovery of uncertain strength, as evidenced by the cautious nature of investment plans and still uncertain prospects of regaining previous employment levels.

Compared with 15.1 per cent in the previous survey, 43.7 per cent of firms, chiefly in industry, report an increase in gross sales in the first nine months with respect to the year-earlier period (Table). Firms exporting a large share of their production, particularly to emerging countries such as Brazil, Russia, India and China, report a better performance. The majority of firms forecast an increase in gross sales in the next six months; again, this view is most common among exporting firms, especially those focusing on emerging countries.

In industry, a larger percentage of firms forecast an increase in the volume of production than a decline in the fourth quarter of 2010 (the balance of projections for the same period last year was negative) and in the first quarter of 2011. However, around half of firms still expect that production levels will remain stationary.

Considering the entire sample, 55 per cent expect to close the current year with a profit, up from 47 per cent last year. The share of firms that forecast a loss has dropped from 29 to 23 per cent.

The findings of the survey confirm that the tax incentives for purchases of machinery and equipment granted under the "Tremonti-ter" law, which expired in June, effectively provided support. According to around 12 per cent of respondents (16 per cent in industry), investment spending in 2010 would indeed have been less without the measure. Firms' investment plans are still cautious, with over 60 per cent expecting expenditure in 2010 to remain in line with the lower level of investment planned at the beginning of the year. Of the remainder, the majority report that investment will be lower than planned; these are mainly firms located in southern Italy and firms with 200 or more employees. Almost 80 per cent of the respondents do not expect capital formation to accelerate in 2011; the balance between expectations of increase and a decrease is virtually nil; it was negative by 6 percentage points in the 2009 survey.

Employment levels remain subject to uncertainty. The balance of opinions that the number of employees will increase or decrease during 2010 is negative by 16.9 percentage points, compared with 20.2 points in autumn 2009. According to firms' assessments, between January and September employment declined by an average of 0.9 per cent in industry, while rising slightly in the service sector; for the fourth quarter, a small decline in the number of employees, of the order of half a percentage point, is forecast in both sectors. During the year, around 40 per cent of industrial firms have applied to use the Wage Supplementation Fund, compared with 47 per cent in the 2009 survey. Some 6 per cent of firms have requested authorization to place employees on the mobility list.

Just over two thirds of firms declare there has been little or no change in their demand for credit in the last six months, while 10.4 per cent report a decrease and 21.2 per cent an increase (Table). The increase in demand can be ascribed mainly to greater requirements for working capital in connection with the longer average payment extensions granted to customers and delays in collection. About a quarter of firms say that lending conditions tightened in the previous six months, against a third last year, indicating the terms relating to cost and collateral in the case of new loans and, to a lesser extent, higher interest rates on outstanding credit. Some 52 per cent of firms forecast that bank borrowing will stay virtually stationary, while of the remainder around half expect an increase and half a decrease.

Main findings of the survey of industrial and service firms (1)
(percentage of replies)

	Industry excl. construction	Services	Total
	Gross sales in the first 3 quarters of 2010 compared with the year-earlier period		
Lower	31.1	33.9	32.4
Practically equal	19.7	29.2	24.0
Higher	49.2	37.0	43.6
	Industrial production in Q4 2010 with respect to Q3 2010		
Lower	17.1	–	–
Practically equal	47.3	–	–
Higher	35.6	–	–
	Investment expenditure in 2010 over planned investment at end-2009		
Lower	20.9	20.2	20.5
Practically equal	60.6	62.4	61.3
Higher	18.6	17.4	18.1
	Planned investment in 2011 compared with investment in 2010		
Lower	23.1	22.0	22.6
Practically equal	54.5	55.5	54.9
Higher	22.4	22.5	22.4
	Average workforce in 2010 over average in 2009 (2)		
Lower	38.9	32.1	35.3
Practically equal	45.4	42.9	44.1
Higher	15.7	25.0	20.6
	Demand for credit lines and bank loans in the last 6 months		
Lower	11.9	8.8	10.5
Practically equal	66.4	69.3	67.7
Higher	21.8	21.9	21.8

(1) Sample consisting of firms with 20 or more employees in industry excluding construction (about 2,800 firms) and non-financial private services (trade, hotels and restaurants, transport and communications, other professional services: about 1,100 firms). Percentages are estimated excluding "don't know, not answering" by using a weighting coefficient for each firm that takes account, for overall distributions of geographical area, size class and sector, of the ratio between the number of firms in the sample and the size of the universe. Standard error of the estimated percentages not exceeding 0.8 per cent, i.e. confidence intervals (at 95 per cent) equal to a maximum of 1.6 percentage points. Calculations based on a sample consisting of 95 per cent of the target sample. – (2) Weighted by the number of employees.

The recovery in manufacturing investment proceeds

In the second quarter gross fixed investment expanded again at a pace of nearly 1.5 per cent, sustained by strong growth of 3.9 per cent in outlays for machinery, equipment and intangibles. Contributing factors were the substantial stimulus from foreign demand and possibly the bringing forward of investment plans in anticipation of the termination of the "Tremonti-ter" incentives at the end of June. Investment plans remain cautious, given the still uncertain state of demand and ample spare capacity. Business surveys in the summer months pointed to some continued but abating difficulty in access to credit. The Bank of Italy-*Sole 24 Ore* survey in September found that the large majority of firms (74 per cent, more than in June) considered investment conditions to be unchanged. Among the others, positive assessments slightly outweighed the negative. The survey conducted by the Bank of Italy branches also found a certain degree of caution on investment plans. Over 60 per cent of the firms reported that investment spending in 2010 had diminished as planned. And for 2011 a similar proportion did not expect any pick-up.

… but construction investment declines again

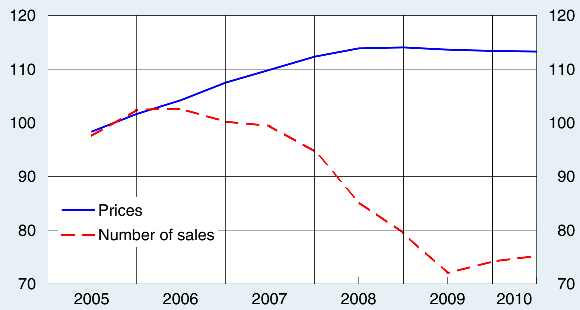
The decline in construction investment steepened in the second quarter, with a loss of 0.9 per cent compared with 0.4 per cent in the first. However, some signs of a possible reversal did emerge. Residential construction increased slightly in the quarter, by 0.6 per cent, after two years of contraction, and some indicators of activity of the industrial firms that supply inputs to builders showed an increase. Finally, the climate of confidence among construction firms improved between June and August.

Signs of stabilization have emerged in the real estate market

According to data collected by the Territorial Agency, the number of house sales recovered further in the second quarter of 2010, gaining 4.5 per cent over the same period of 2009 (Figure 19), a comparable increase was also recorded in first half of the year. At the same time, the fall in nominal real estate prices virtually ceased; in the second half of 2009 they had slipped by 0.6 per cent from the year-earlier period. These trends confirm the findings of the quarterly survey of real estate agents conducted jointly by the Bank of Italy and Tecnoborsa in July. In the second quarter the balance between respondents expecting increases and those expecting decreases in house prices, though still negative, diminished again; the gap has narrowed by nearly 20 percentage points in a year. The improvement, found in all parts of the country, was most pronounced in the South and Islands. For the third quarter, agents' assessments of their market became more uncertain, although the balance between expectations of increases and decreases in new business turned positive for the first time since the survey began in January 2009, and the balance on price expectations improved further.

Figure 19

House sales and prices in Italy
(index, 2005=100)



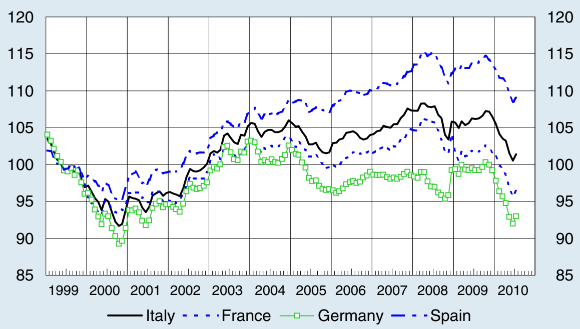
Sources: Based on data from Agenzia del Territorio, Bank of Italy and *Il Consulente Immobiliare.*

Firms' price competitiveness improves again in the second quarter …

Thanks above all to the nominal effective depreciation of the euro against the other leading currencies, Italian firms' price competitiveness, based on

Figure 20

Indicators of competitiveness (1)
(index, 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 July 2010.

producer prices, improved again in the second quarter (gaining 2.5 per cent), about 1 percentage point less than the gain in Germany (Figure 20). Preliminary estimates indicate that the improvement halted during the summer in connection with the nominal effective appreciation of the euro.

... as does productivity

During the second quarter, the cyclical recovery in labour productivity intensified. Hourly productivity rose 1.6 per cent from the second quarter of 2009 (Figure 21). The gain was significantly greater in manufacturing, confirming the advances of the preceding two quarters. Unit labour costs benefited, declining by 1.1 per cent for the entire economy during the second quarter after diminishing 1.5 per cent in the first, thanks in part to barely positive hourly earnings growth.

Profitability and self-financing improve

Estimates based on the national accounts indicate that in the twelve months ending in June non-financial firms' operating profitability (calculated as the share of value added net of labour costs) increased by nearly 1 percentage point compared with March, consolidating the recovery recorded in the first quarter. Net financial costs continued to decline in relation to value added; self-financing improved further to 11 per cent of value added, more than 3 points better than the year-earlier low.

Investment increases, the borrowing requirement diminishes, debt holds unchanged

In relation to value added, in the twelve months ending in June investment turned upwards, ending the decline under way since the end of 2007. Nevertheless, increased self-financing allowed for a further reduction in the borrowing requirement, which declined to 12 per cent of value added (compared with nearly 18 per cent at the end of 2008). Financial debt remained stable at 84 per cent of GDP (Figure 22). The ratio of Italian corporate debt to GDP remains significantly below the euro-area average of more than 100 per cent.

The contraction in bank debt slows

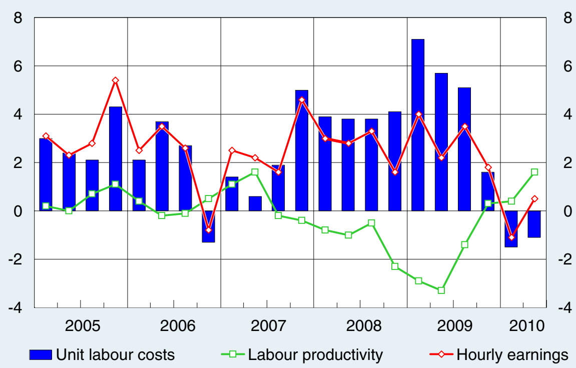
In the first half of 2010 the decline in firms' bank debt continued, measured over the previous twelve months, though at a steadily slowing pace. The trend, which continued through August, mainly reflected the debt of medium-sized and large firms (Figure 23).

Bond issues are still modest

Italy's non-financial corpo-rations made scant recourse to the financial markets in the second quarter. Net bond issues did not continue the progress registered at the start of the year. Issuance amounted to some €4

Figure 21

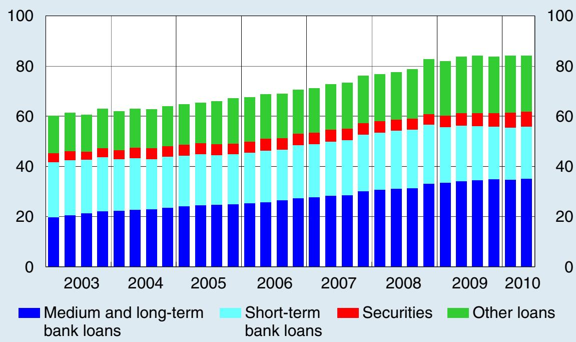
Labour costs and productivity in the total economy (1)
(percentage changes on year-earlier period)



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

Figure 22

Debt of non-financial corporations (1)
(as a percentage of GDP)



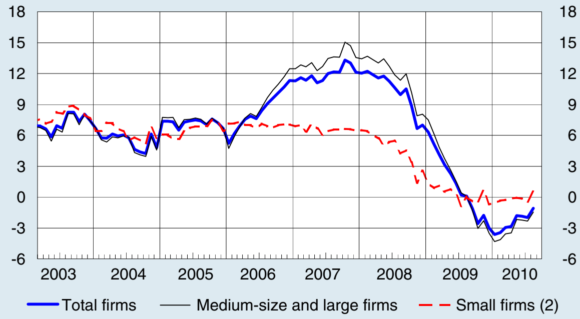
Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized loans. The data for the second quarter of 2010 are provisional. From the second quarter of 2010 onwards, the calculation methodology for securitizations has been revised; earlier data have been revised for uniformity with the new standards (see "Monetary and financial indicators. Financial Accounts" in *Supplements to the Statistical Bulletin* 39, 3 August 2010).

billion in the first half, about the same as a year earlier. This performance was broadly in line with developments in the euro area as a whole, where the upturn in the first few months flattened out in the second quarter. Preliminary data from Dealogic on gross issues indicate that in the third quarter placements by companies belonging to Italian groups amounted to some €3 billion, mostly accounted for by a single issue by Atlantia. In the second quarter fund-raising on the equity market continued to be very small, equal to some €250 million and concentrated in the month of June. Preliminary data indicate a modest rise in equity issues in July and August to about €550 million. Mergers and acquisitions showed little sign of revival; according to Thomson Reuters Datastream, in the second and third quarters Italian non-financial companies carried out some fifteen very small transactions. This contrasts with the performance of the M&A market in the other leading euro-area countries, which picked up with substantial transactions in Germany in the second quarter and France in the third.

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.

3.3 HOUSEHOLDS

Household consumption continues to stagnate ...

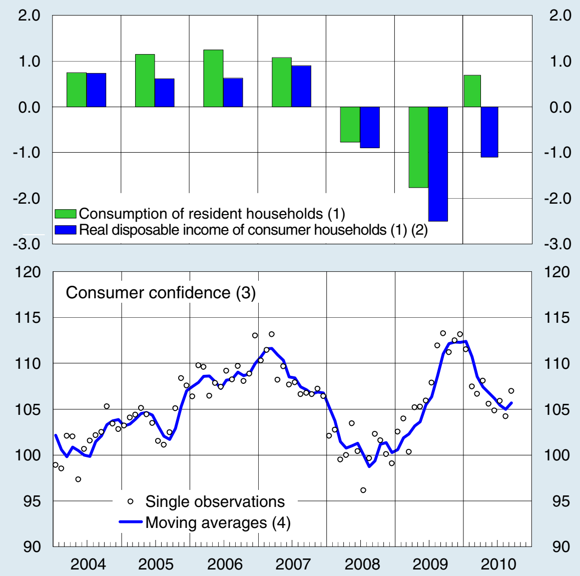
Household consumption remained stagnant in the second quarter, held back by the contraction in purchases of durable goods (down 6.8 per cent on the previous quarter). The termination of the fiscal benefits for scrapping high-polluting motor vehicles was one factor in the downturn, which was only partly offset by government incentives for the purchase of other durable goods that came into effect in April and were almost entirely used up during the quarter. Among the other components of Italian household expenditure, that on non-durable goods and services recorded a small increase.

Sluggish income continued to weigh on spending decisions (Figure 24), as did the slowness of labour market conditions to improve. By our estimates real disposable income of consumer households fell by an average of one percentage point in the first half of 2010 compared with the year-earlier period. With nominal income basically stagnant, the reduction mainly reflected a faster rise in prices.

Figure 24

Consumption, disposable income and consumer confidence in Italy

(percentage changes and indices)



Sources: Based on ISAE, Istat and Bank of Italy data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Up to 2009, annual data; the data for 2010 refer to the average percentage change in the first half compared with the same period in 2009. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data. Index,1980=100, seasonally adjusted data. – (4) Monthly data; moving averages for the three months ending in the reference month.

… and no signs of recovery emerge in the summer months

Household spending decisions remain characterized by caution. Adjusted for seasonal and calendar effects, new car registrations showed weak growth in the third quarter (after the drop recorded in the first half of the year), settling at lower levels than those reported in early 2009. Confidence among retailers deteriorated during the summer; according to the indicator calculated by Istat, the volume of retail sales stagnated in the three months ending in July. More encouraging signals came from the index of consumer confidence, which stopped the slide under way since the early part of 2010, and in September turned slightly upward.

Household debt rises slightly

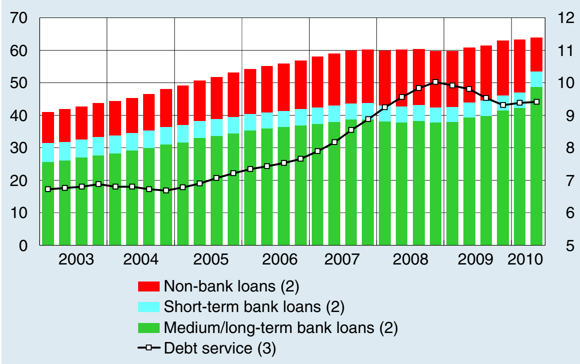
In proportion to disposable income over the previous twelve months, household debt rose by over half a percentage point in the second quarter of 2010 (Figure 25), confirming the moderate increase observed in the first quarter. Net of the effect of the recomposition of financial institutions' balance sheets following the adoption of international accounting standards, the rise mainly reflects an increase in medium and long-term bank loans. Italian households' debt remains significantly lower, in relation to disposable income, than the euro-area average (97 per cent in March).

In the second quarter debt service payments (including repayment of principal) held largely steady at just over 9 per cent of disposable income. In recent months the downward trend in interest rates on loans for house purchases (under way since autumn 2008) has come to a halt. By contrast, consumer credit rates fell sharply in the second quarter (from 9.9 per cent at end-March to 8.7 per cent at end-June; Figure 26). This decrease can be almost entirely ascribed to the statistical effect of the exclusion of credit card use from new consumer credit transactions, based on the new provisions of the European Central Bank on interest rate statistics (ECB 2009/7).

Figure 25

Household debt (1)

(as a percentage of gross disposable income)

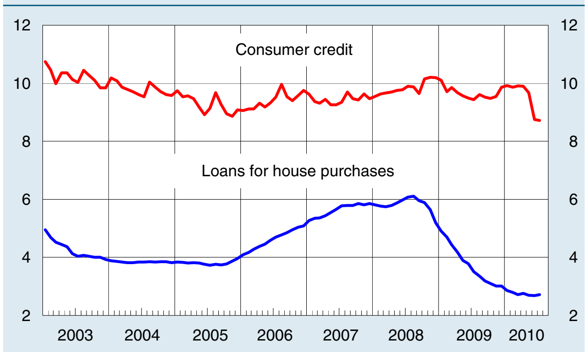


Sources: Based on Bank of Italy and Istat data.
1) Includes securitized loans. From the second quarter of 2010 the data take account of bank loans re-recognized on balance sheet under the international accounting standards on the recognition of assets previously cancelled following securitizations. Since August 2010, this procedure is described in the appendix to the *Supplements to the Statistical Bulletin* (*Monetary, banking and financial statistics. Money and banking*) dedicated to: *Le nuove statistiche sui bilanci bancari di giugno 2010*. Since the data reported by the special purpose vehicles used in the securitizations continue to include these loans, the data relative to non-bank loans have been sterilized for a corresponding amount. Disposable income for 2010 is estimated based on quarterly national accounts data. Data on loans in the second 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.

Figure 26

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

(monthly data; per cent)



(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 of the maturities during the month, weighted by the size of the loans.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the second quarter the export recovery proceeds

Exports continued to grow in volume terms in the second quarter (by 3.3 per cent, compared with 3 per cent in the first quarter). This gain was most marked in the merchandise sector, owing to the expansion of demand in outlet markets and improved price competitiveness. According to the data on foreign trade, the pace of the increase in the volume of goods exported, which involved all the main sectors, was fastest for transport equipment, traditional Italian products, metals and electrical equipment. For the most part exports were bound for markets outside the EU, in particular the United States; within the EU, the main outlets were Germany and France. In the same period, the volume of imports of goods and services also increased, although more slowly (0.8 per cent, as against 2.7 per cent in the first quarter). This reflected the sharp slowdown in purchases of goods and a further contraction in those of services (to businesses mostly). Increased imports of capital and intermediate goods were partly offset by a decline in motor vehicle purchases. Goods imports from EU countries increased (especially Germany), as did those from China.

Merchandise trade has yet to regain pre-crisis levels

Italy's trade in goods has yet to return to pre-crisis levels. In the second quarter of 2010, sales abroad were 17 per cent lower in volume terms than in the same quarter of 2008, and 12 per cent lower in value terms. The gap was narrower for imports (8 per cent by volume terms, 7 per cent by value). So far Italian exports have been much slower to recover than German exports, whose shortfall with respect to pre-crisis levels has narrowed to 5 per cent in volume and value terms, despite a contraction comparable to that seen in Italy during the recessionary phase.

The data for July and August point to a fall in exports

In July, the data on foreign trade by volume indicate a decline in the trade of goods with respect to June, in particular with EU countries. The information available for August, relative to flows in value terms with non-EU countries, point to a further fall in exports, compared with an increase in imports.

The deficit on current account worsens slightly

In the first seven months of 2010, the deficit on the current account of the balance of payments increased slightly compared with the year-earlier period (from €28.7 billion to €31.9 billion; Table 3), in connection with the worsening goods balance. This, in turn, was affected by the widening energy deficit and the decline in the surplus on non-energy products. By contrast, the balance on services improved, above all owing to reduced purchases of those to businesses. After narrowing for three years in a row, the surplus on travel widened, thanks to the increased foreign tourism in Italy favoured by the depreciation of the euro. By contrast, the transport balance began to deteriorate again. The deficit on income narrowed, in connection with the fall in interest rates.

Table 3

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

	2008	2009	Jan.-July 2009	Jan.-July 2010
Current account	**-56.8**	**-49.4**	**-28.7**	**-31.9**
Goods	-2.1	1.7	4.8	-6.4
Non-energy products (2)	*55.3*	*42.5*	*28.8*	*21.7*
Energy products (2)	*-57.5*	*-40.7*	*-24.0*	*-28.0*
Services	-9.6	-11.1	-5.9	-1.9
Income	-29.4	-26.7	-17.8	-12.3
Current transfers	-15.7	-13.3	-9.8	-11.2
Capital account	**0.8**	**0.6**	..	**-0.2**
Financial account	**49.6**	**17.1**	**19.8**	**42.5**
Direct investment	-18.3	-9.6	-8.3	-1.1
Portfolio investment	118.5	24.9	51.3	23.7
Derivatives	6.8	11.1	6.3	8.4
Other investment	-51.8	-9.3	-29.1	12.3
Change in official reserves	-5.6	0.1	-0.3	-0.8
Errors and omissions	**6.4**	**31.6**	**8.9**	**-10.5**

(1) Provisional data for June and July 2010. – (2) Based on Istat foreign trade data.

Portfolio investment in Italian government securities remains substantial

In the first seven months of 2010, net inward portfolio investment totalled €23.7 billion in the financial account, down from the €51.3 billion recorded in the same period of the previous year. This trend reflects the resumption of portfolio investment abroad by residents, who started buying foreign shares again after the sharp contraction linked to the financial market turmoil. Investment in Italian securities by non-residents remained robust, with most attention focused on medium and long-term government issues. The Italian corporate bond sector reported net disinvestment. Direct investment recorded modest flows, affected by sluggish M&A activity: Italian direct investment abroad almost halved with respect to January-July 2009; foreign investment in Italy also declined, albeit by less.

3.5 THE LABOUR MARKET

The slow recovery in employment continues in the second quarter

According to Istat's labour force survey, the slow recovery in employment under way since the beginning of this year continued in the second quarter with a seasonally adjusted increase of 0.1 per cent on the first. The number of persons in work was 40,000 more than at the end of 2009, compared with a loss of 560,000 jobs between the second quarter of 2008 and the fourth quarter of 2009.

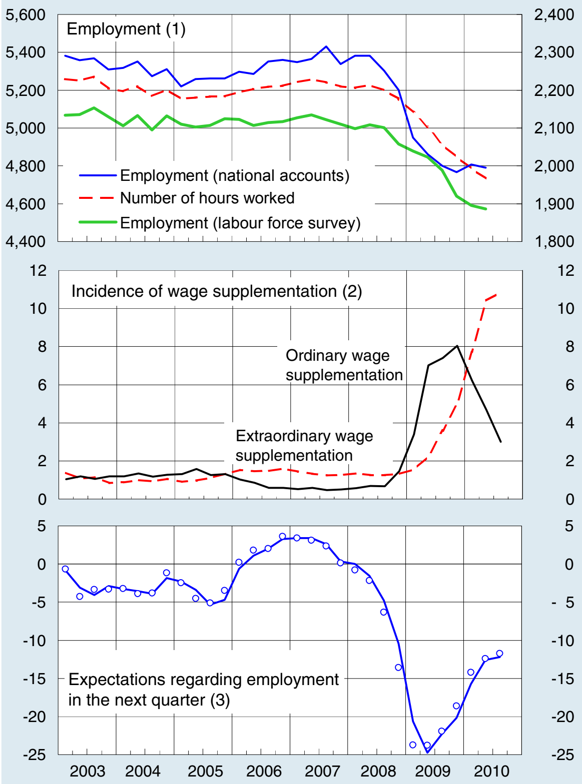
The outlook for the labour market remains uncertain

The signs of recovery, although weak, are confirmed by the intensification of firms' personnel searches. In the second quarter vacancies rose to 0.7 per cent of the number of persons employed, 0.2 points more than a year earlier. According to ISAE's survey of industrial firms, after improving steadily for about a year, employment expectations remained basically unchanged over the summer at levels below those recorded in the run-up to the crisis (Figure 27). The survey conducted in September by the Bank of Italy jointly with *Il Sole 24 Ore* found firms' short-term employment expectations to be less pessimistic than in June: while still negative, the balance between firms forecasting an improvement in the next three months and those expecting a worsening narrowed sharply from -11.9 to -3.7 percentage points. Similar indications emerge from the survey carried out in September by the Bank of Italy's branches (see the box "Findings of the business outlook survey of Italian industrial and service firms").

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.*
(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 wage supplementation (ordinary, under a waiver, or extraordinary) was authorized in the quarter as a percentage of the number of full-time equivalent workers as defined in the quarterly economic accounts. For the third quarter of 2010, partially estimated data. – (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 averages.

Employment growth was confined to the regions of central Italy, where the number of persons employed rose by 0.6 per cent, on a seasonally adjusted basis, between the first and second quarters. Employment was generally stationary in the North, but declined by a further 0.1 per cent in the South. On a sectoral level, employment increased in services (0.1 per cent), construction (0.5

per cent) and, more sharply, also in agriculture (1.9 per cent), but continued to fall in industry excluding construction (0.4 per cent).

Employment was down overall in the second quarter of 2010 compared with a year earlier (by 195,000 or 0.8 per cent; Table 4). The number of workers of Italian nationality decreased by 366,000, while the number of foreign workers rose by 171,000, owing exclusively to the increase in the officially registered immigrant population (the number of working-age immigrants rose by 348,000). The decline in the employment rate was more marked among foreigners than Italian workers at 1.6 and 0.7 percentage points respectively. For the eighth consecutive quarter the fall was larger among men (1.1 points) than women (0.3 points) and sharper still among young people (1.2 points in the 15-24 age group).

The drop in permanent payroll employment shows no sign of letting up

The reduction in employment with respect to the second quarter of 2009 affected only payroll employees, the number of which fell by 249,000 or 1.4 per cent. Self-employment, on the other hand, returned to growth with an increase of 55,000 (0.9 per cent), led by the component not employing staff. Among payroll employees, the rise in part-time employment under way since the end of 2009 continued with a further increase of 3.2 per cent, while open-ended positions again decreased (by 1.6 per cent), as did fixed-term contracts, although to a lesser extent (0.6 per cent). The contraction in payroll employment occurred for the most part in industry excluding construction and in public services (education, healthcare and general government), in contrast with the steady expansion of employment, chiefly foreign women, in household services.

Table 4

Labour force status of the population in Italy

	H1 2009	H1 2010	Q2 2009	Q2 2010	Changes (1)
			Thousands of persons		
Total persons in work	**23,084**	**22,883**	**23,201**	**23,007**	**-0.8**
Employees	**17,251**	**17,036**	**17,333**	**17,083**	**-1.4**
of which: fixed-term	*2,125*	*2,124*	*2,215*	*2,200*	*-0.7*
part-time	*2,584*	*2,692*	*2,617*	*2,701*	*3.2*
Self-employed	**5,833**	**5,846**	**5,869**	**5,923**	**0.9**
Labour force	**24,994**	**25,065**	**25,040**	**25,099**	**0.2**
men	*14,784*	*14,815*	*14,805*	*14,817*	*0.1*
women	*10,210*	*10,250*	*10,235*	*10,282*	*0.5*
Population	**59,671**	**59,987**	**59,722**	**60,021**	**0.5**
			Percentage points		
Unemployment rate	**7.6**	**8.7**	**7.3**	**8.3**	**1.0**
men	*6.6*	*7.9*	*6.3*	*7.6*	*1.3*
women	*9.2*	*10.0*	*8.8*	*9.4*	*0.6*
North	*5.0*	*6.2*	*5.0*	*5.9*	*0.9*
Centre	*7.1*	*7.8*	*6.7*	*7.1*	*0.4*
South	*12.6*	*13.9*	*11.9*	*13.4*	*1.5*
Participation rate (age 15-64)	**62.5**	**62.4**	**62.6**	**62.5**	**-0.1**
men	*73.7*	*73.6*	*73.8*	*73.6*	*-0.2*
women	*51.4*	*51.3*	*51.5*	*51.4*	*0.0*
Employment rate (age 15-64)	**57.7**	**56.9**	**57.9**	**57.2**	**-0.7**
men	*68.8*	*67.8*	*69.0*	*68.0*	*-1.1*
women	*46.6*	*46.1*	*46.9*	*46.5*	*-0.3*
North	*65.9*	*65.1*	*66.1*	*65.2*	*-0.9*
Centre	*62.1*	*61.7*	*62.5*	*62.1*	*-0.4*
South	*44.7*	*43.8*	*45.0*	*44.3*	*-0.7*

Source: Istat, labour force survey.
(1) Changes in Q2 2010 over Q2 2009; changes are in percentages for persons and percentage points for rates.

The unemployment rate stabilizes

The trend in unemployment reflected above all that in the participation rate, rising in spring and declining in July and August. On a seasonally adjusted basis, the unemployment rate rose slightly in the second quarter, to 8.5 per cent, and apparently decreased in July and August. A broader measure of labour underutilization, including discouraged persons and subsidized short-time workers, sets it above 11 per cent. The unemployment rate remains three times higher among young people aged 15-24.

After contracting by 3.7 per cent between the first and second quarters of the year, the number of hours of Wage Supplementation Fund benefits authorized by INPS increased in the third quarter, rising by 9.8 per cent, seasonally adjusted, on the previous period. At the same time, in industry excluding construction the ratio of full-time equivalent workers on wage supplementation to total payroll employment contracted by 1.3 percentage points, cancelling out the increase of the second quarter (Figure 27). Continuing the trend that began towards the end of 2009, the composition of wage supplementation recipients continued to shift from ordinary benefits (down 1.7 percentage points) 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), which rose by 0.4 points. According to the survey conducted by the Bank of Italy's branches in September, 49.0 per cent of service firms have already applied for authorization to put workers on benefits under waiver during 2010 or will do so before the end of the year.

The performance of wages depends on the indicator used to measure labour input. In the second quarter of 2010 actual earnings per full-time equivalent employee gained 3.8 per cent over the first quarter of 2009. Earnings per hour worked increased more moderately, by 1.1 per cent.

3.6 PRICE DEVELOPMENTS

Consumer price inflation remains at moderate levels in the third quarter

In September the twelve-month rise in the consumer price index (CPI) remained at 1.6 per cent, calculated on the basis of preliminary Istat data (Table 5). The three-month change in the overall index, seasonally adjusted and on an annual basis, settled at just under 2 per cent (Figure 28).

According to the disaggregated data available up to August, the slight increase in inflation over the summer was driven in particular by items with regulated prices. The rise was influenced above all by energy tariffs which reflected, with the usual lags, the higher euro prices for oil recorded since the end of 2009.

Among the other items, the twelve-month change in food prices turned slightly positive again; there are still no signs that increases in the prices of food commodities are being passed on to retail prices. Against a backdrop of continuing weak demand for consumer goods, in the summer the twelve-month rate of growth of non-food and non-energy prices remained at 1 per cent and that of unregulated services at just under 2 per cent, as in the first half of the year.

Table 5

Indicators of inflation in Italy

(12-month percentage changes)

		HICP (1)		CPI (2)			PPI (3)
		Overall index	Excl. energy and food	*Overall index*		Excl. energy and food	*Overall index*
					at 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
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	3.9
	June	1.5	1.7	1.3	0.1	1.5	3.5
	July	1.8	1.8	1.7	0.3	1.6	4.2
	Aug.	1.8	1.8	1.6	0.1	1.6	3.7
	Sept.	(1.6)	…	(1.6)	(0.1)	…	…

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the harmonized index principally 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.

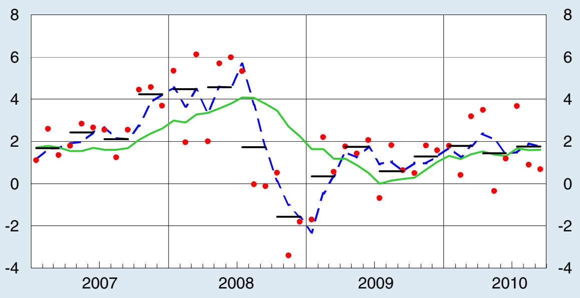
On the basis of preliminary data released by Eurostat in September, the twelve-month change in the harmonized index of consumer prices (HIPC) was 1.6 per cent, just below the euro-area average. According to the disaggregated data at our disposal, the inflation differential with the euro area, excluding food and energy, was still fairly high on average in July-August (almost 1 percentage point).

Producer price inflation fluctuates

Since last May, the twelve-month change in the producer prices of products sold on the domestic market has fluctuated greatly, in particular due to movements in energy prices. After falling to 3.5 per cent in June, it rose to 4.2 per cent in July, slipping to 3.7 per cent in August. Net of food and energy, the index stabilized at just below 3 per cent; that relating exclusively to final consumer goods, although rising steadily, remained below 1 per cent.

Figure 28

Inflation in Italy (1)
(consumer price index)



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

Consumer price inflation expectations for 2010 are stable stabili

In September, the inflation expectations of the forecasters surveyed by *Consensus Economics* remained stable at 1.5 per cent for 2010 as a whole. The quarterly survey conducted in the same month by the Bank of Italy in collaboration with *Il Sole 24 Ore* indicated that in the next twelve months firms expect to increase their list prices by 1.2 per cent. Among the factors putting upward pressure on sales prices, respondents indicated raw materials prices and, to a lesser extent, the cost of labour; the pricing policies applied by their main competitors were expected, however, to continue to curb price increases.

3.7 BANKS

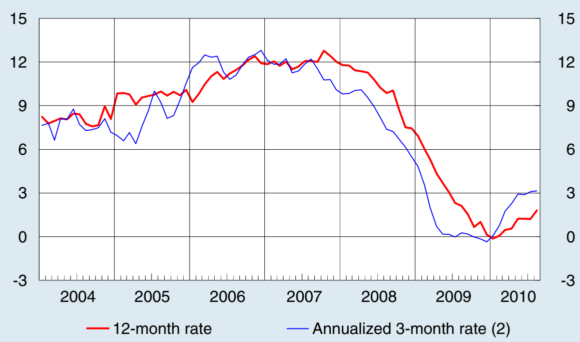
Bank credit accelerates slowly in the summer

The twelve-month growth in bank lending to the non-financial private sector rose slightly in August to 1.8 per cent (Figure 29). The acceleration was marginal, from an annualized, seasonally adjusted three-month rate of change of 2.9 per cent in May to 3.1 per cent in August, basically reflecting the upturn in lending to households for home purchases from 3.0 to 3.4 per cent. Lending to non-financial firms, which had returned to growth in the spring, remained virtually constant throughout the summer, increasing by 1.9 per cent in the three months to August.

There remain disparities between the size categories of banks: lending by the five largest Italian banking groups, excluding bad debts and repos, was down by 1.1 per cent in August compared with a year earlier, while lending by other intermediaries continued to grow (3.3 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. Data include an estimate of loans not reported in banks' balance sheets because they are securitized. – (2) Seasonally adjusted.

Credit supply conditions are virtually unchanged

The trend in lending to firms can be attributed largely to that in economic activity. According to the Italian banks that took part in the July edition of the quarterly Bank Lending Survey for the euro area, credit supply conditions were unchanged in the second quarter of 2010 (see the box "Credit supply and demand in Italy"). The ISAE monthly survey and the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* in September indicate that firms continued to signal difficulties in obtaining credit, although to a lesser extent than in the first part of the year.

Average interest rates on new short-term loans fell slightly compared with May (Figure 30); in August the average rate charged to firms, including for current account overdrafts, stood at 3.5 per cent, down 0.2 percentage points. The rate on new fixed-rate mortgage loans to households recorded very small variations, settling at 4.4 per cent, while that on new variable-rate mortgage loans increased by 0.2 points to 2.4 per cent.

Loan quality is still at a low level

In the second quarter of 2010, although the seasonally adjusted ratio of annualized adjusted new bad debts to outstanding loans decreased to 1.7 per cent, against 2 per cent in the previous quarter, it remained above the average level of 1.1. per cent recorded in 2007 and 2008.

Preliminary data for July and August indicate that banks' exposure to borrowers reported for the first time as bad debts increased with respect to the year-earlier period. The deterioration in the quality of loans was particularly marked for financial enterprises, consumer households and service firms. As regards lending to non-financial firms as a whole, the level of other forms of impaired assets (substandard, restructured and overdue loans and exposures in breach of overdraft limits) remained high, amounting in August to 7.8 per cent of total lending. This indicates that the flow of new bad debts could continue to rise significantly in the months to come.

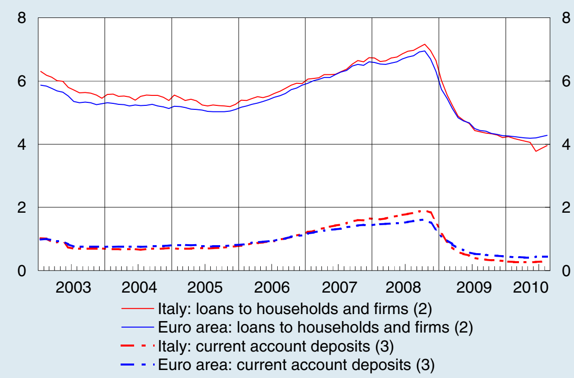
Funding growth stagnates

The growth in Italian banks' total funding was barely positive in August (0.1 per cent, compared with 0.3 per cent in May; Table 6). Bond issues decreased by 1.0 per cent, but residents' deposits continued to expand, albeit at a slower pace (2.1 per cent), as the growth in current account deposits, although still sustained

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.

Table 6

Main assets and liabilities of Italian banks (1)

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

	2008	2009	August 2010	
				Stocks (2)
Assets				
Securities other than shares	44.5	29.8	10.5	564,699
bonds issued by MFIs resident in Italy	*67.5*	*32.2*	*1.7*	*216,190*
Loans (3)	5.4	1.0	2.6	1,862,320
up to 12 months	*3.3*	*-5.1*	*0.8*	*584,247*
beyond 12 months	*6.5*	*4.1*	*4.6*	*1,278,074*
External assets	-1.3	-10.8	-3.3	337,127
Liabilities				
Total funding (3) (4)	4.1	2.1	0.1	2,336,196
Deposits of Italian residents (3) (4)	6.2	5.3	2.1	1,283,976
of which: (5)				
overnight	*6.6*	*11.7*	*4.7*	*746,705*
with agreed maturity	*13.4*	*8.3*	*-7.7*	*205,205*
redeemable at notice	*7.0*	*8.2*	*5.1*	*271,212*
repos	*-1.3*	*-50.3*	*-34.1*	*43,070*
Deposits of non-residents	-8.0	-8.8	-2.9	455,801
Bonds (4)	11.7	4.9	-1.0	596,419
Memorandum item: Total bonds	20.1	10.6	-0.3	812,610

Source: Based on supervisory statistical reports.
(1) The figures for August 2010 are provisional. – (2) Millions of euros. – (3) Does not include repos with "agencies in charge of markets' functioning". – (4) Does not include liabilities with resident MFIs. – (5) Does not include those of central government.

by the low level of interest rates on alternative assets, decreased sharply to 4.7 per cent, from 7.7 per cent in May. In the twelve months to August, total funding of the five largest banking groups diminished by 0.6 per cent, while that of the other banks, excluding the branches of foreign institutions, increased by 3.2 per cent. Yields on bank bonds increased by around half a percentage point between May and August, in line with market rates, reaching 2.9 and 2.3 per cent respectively for fixed- and variable-rate issues.

Banks' profitability continues to decline

According to the consolidated reports of the five largest banking groups, net profits continued to fall in the first half of 2010. The annualized return on equity decreased to 4 per cent, about 1 percentage point less than a year earlier. The decline in net interest income was only partly offset by the increase in other income, resulting in a drop of 7 per cent in gross income. Although operating costs were broadly unchanged, operating profit declined by 15 per cent. Provisions and value adjustments to loans decreased by 13 per cent, but their impact on operating profit remained more or less constant at 55 per cent. Profits after tax contracted by 8 per cent.

Following up on action begun in 2009, the five largest banking groups further strengthened their capital ratios in the first half of 2010. Their core tier 1 ratio reached 7.7 per cent in June, up from 7.2 per cent at the end of 2009, while the tier 1 ratio rose from 8.3 to 8.8 per cent and the total capital ratio from 11.8 to 12.2 per cent.

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 second quarter of 2010 (see Figure).[1] Some institutions again reported that they had tightened terms and conditions relating to specific aspects, such as the margins on riskier loans and collateral requirements, in connection with risks relating to the economic outlook or to specific sectors or firms, especially small-sized enterprises.

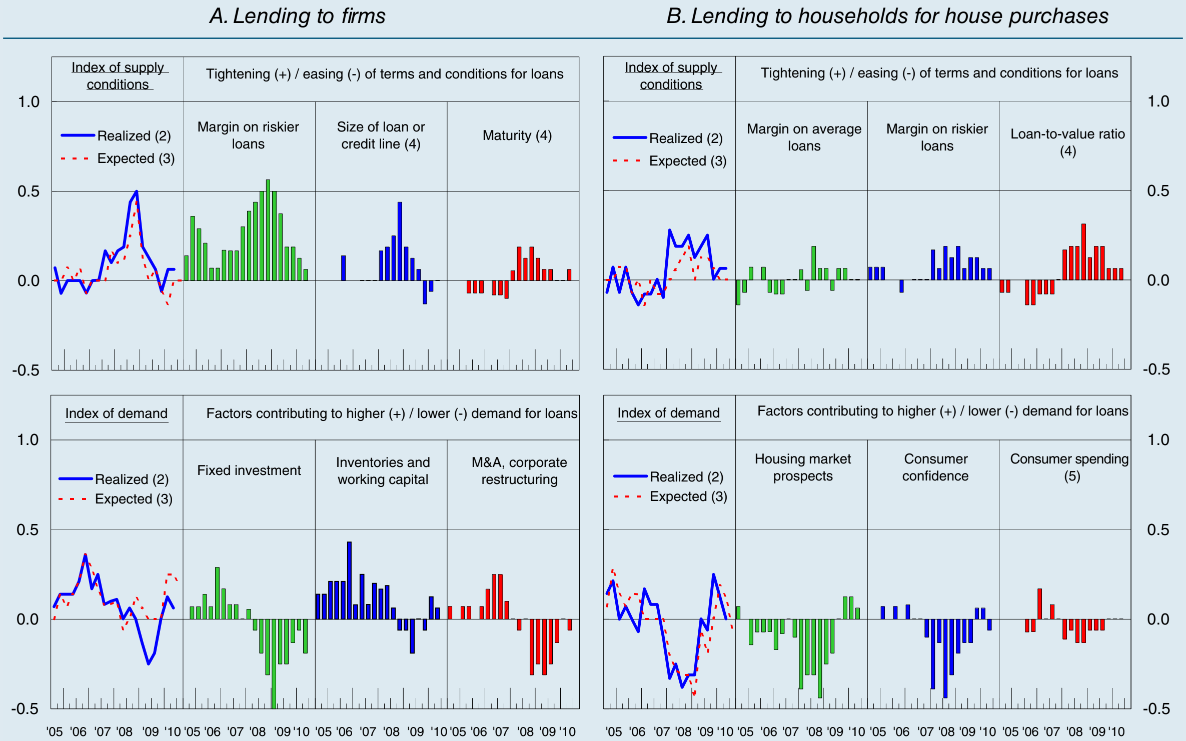
According to the banks interviewed, firms' demand for loans registered a modest deceleration in the second quarter owing to reduced borrowing requirements for fixed investment and, in respect of short-term loans, also to the evolution of inventories and working capital. However, the banks reported an expansion in the demand for medium and long-term loans, which continued to reflect growing recourse to debt restructurings. For the third quarter, they expected supply conditions to remain unchanged and that demand growth would gain pace.

The terms of lending to households for house purchases also remained basically unchanged in the second quarter. The standards for consumer credit and other loans to households, however, were reported to have been moderately tightened again, mainly as a result of banks' further downgrading of consumer creditworthiness. According to the intermediaries interviewed, households' demand for credit for house purchases decelerated owing to the drop in consumer confidence and the slightly worse outlook for the residential property market. By contrast, they reported an acceleration in the demand for consumer credit and other loans.

At the time of the survey, banks expected to keep the supply conditions for credit to households virtually unchanged in the third quarter. The demand for house purchase loans was expected to weaken slightly and that for consumer credit to gain strength.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 9 July; 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 third quarter of 2010 and expectations for the fourth quarter are not yet available; they will be released on 28 October.

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



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

On the funding side, the banks reported greater difficulty of access to wholesale funds during the second quarter, particularly in the market for funds with maturities over 1 week and in that for debt securities. For the third quarter, they expected a further slight worsening of conditions.

3.8 THE FINANCIAL MARKETS

Share prices rise, unsteadily, in the summer months

For the third quarter as a whole, the general index of the Italian stock exchange rose by 6 per cent, parallelling the 7 per cent gain posted by the main euro-area listed companies (Figure 31). There were some ups and downs, however. After improving in July, share prices turned back down in August in response to signs of a US economic slowdown and renewed fears for the sustainability of the public finances in some euro-area countries. In September, sovereign debt market uncertainties notwithstanding, share prices recovered, reflecting better current and expected profit reports for US and to a lesser extent European listed companies. The upswing continued in the first ten days of October both in Italy and in the euro area overall.

In the third quarter, increases greater than that in the general index were achieved by consumer goods (15 per cent), telecommunications (13 per cent), and automobiles (30 per cent). The raw materials and insurance sectors basically stagnated (1 per cent loss and gain, respectively). Bank shares, despite the renewed tensions in the government securities market, lagged only slightly behind the general index, with a gain of 5 per cent.

The ratio of current earnings to prices, which had risen in the first half owing to higher risk premiums, basically stabilized in the third quarter, at the end of which it was just above its long-term average (Figure 32). The expected volatility implicit in options with maturity of less than one month turned back downwards towards the levels recorded prior to the sharp increase in May. For longer maturities, however, volatility remained high. There were two initial public offerings in the third quarter. At the end of September, 290 Italian companies were listed on Borsa Italiana, with total capitalization of €418 billion (27 per cent of GDP).

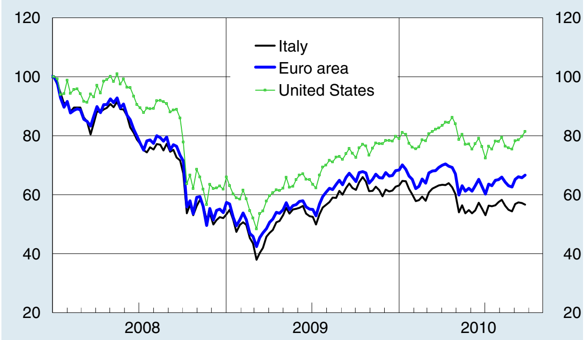
Net bond redemptions continue

Italian corporations again made net redemptions of bonds in the second quarter (Table 7). Net placements by non-financial corporations fell sharply from the first quarter, while banks and other financial corporations made substantial net redemptions as a large volume of issues reached maturity. In the euro area as well, banks started making net redemptions again, as in the fourth quarter of 2009, while the net issues of other financial corporations turned positive. Net issues by non-financial corporations declined.

Figure 31

Share prices (1)

(end-of-week data; index, 4 January 2008=100)

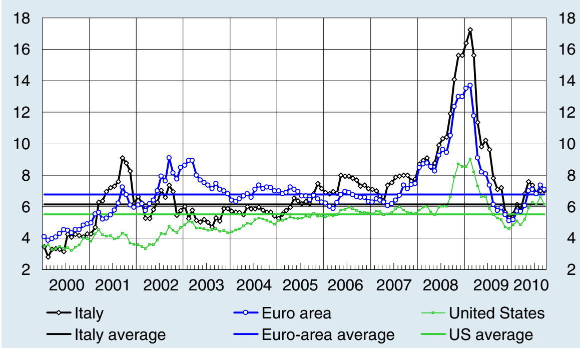


Source: Thomson Reuters Datastream.
(1) Indexes: for Italy, FTSE Italia MIB storico; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500.

Figure 32

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

(end-month data; per cent)



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

Credit risk premiums for non-financial corporations drop, those for CDSs on banks have been rising since August

In the third quarter the yield differential between Italian non-financial corporations' investment-grade bonds and government securities narrowed by 12 basis points, in keeping with that for similar firms in the other euro-area countries. The spreads on credit default swaps for Italian banks, though fluctuating, remained basically unchanged at about 170 basis points. A significant improvement in July gave way to swift deterioration in early August, reflecting market perceptions of heightening risk in connection with intermediaries' exposure to some euro-area sovereign debtors against a backdrop of renewed uncertainty over the outlook for the public finances. In the first ten days of October spreads went back downwards. The CDS spreads for euro-area banks followed a similar pattern and reached about the same level (excluding Greek, Portuguese and Irish banks, for which CDS spreads widened more markedly).

Fund-raising by investment funds plunges

In the second quarter net sales of units by investment funds in Italy amounted to €1.6 billion, sharply down from €7.5 billion in the first quarter. The net inflow of resources to foreign funds was nearly halved, from €11.1 billion to €6.0 billion, while Italian funds registered stronger net outflows (€4.4 billion as against €3.5

billion). Harmonized Italian bond funds, which for three quarters had enjoyed substantial net inflows of resources, now made net redemptions of €0.4 billion, while money market funds again saw large-scale redemptions (€5.9 billion). At the end of the second quarter investment funds in Italy had some €480 billion under management, slightly less than three months earlier. After four consecutive quarters of positive returns, the average return on Italian harmonized investment funds turned negative (by 1.4 per cent). All segments had negative yields, especially equity funds, which lost 5.1 per cent owing to the slump in the stock markets. Individually managed portfolios showed no significant change, compared with net fund-raising of €18 billion in the first quarter; on the basis of estimated data, on average for the second quarter these portfolios had slightly negative returns (a loss of 0.5 per cent).

3.9 THE PUBLIC FINANCES

The Public Finance Decision is in line with the May planning framework

With the Public Finance Decision published at the end of September, the Government updated the forecasts for the public finances contained in the May Combined Report on the Economy and the Public Finances. The new estimates take account of the effects of the three-year budgetary adjustment that was approved by the Government at the end of May and converted into law in July (see the box "Measures concerning the public finances for 2011-13" in *Economic Bulletin*, July 2010). The downward trend of the deficit is in line with the planning framework of the Combined Report; in particular, net borrowing is expected to be below the threshold of 3 per cent of GDP from 2012 onwards.

For 2010 the slight fall in net borrowing and rise in debt in relation to GDP are confirmed

Net borrowing in 2010 is projected to be 5 per cent of GDP, compared with 5.3 per cent in 2009 (Tables 8 and 9). The ratio of debt to GDP is expected to rise by 2.5 percentage points to 118.5 per cent, the highest value since 1997. For the second year running, despite a slight improvement on 2009, the primary balance is

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2008	122,368	70,207	-383	192,192
2009	79,081	43,796	13,692	136,569
2009 – Q1	47,498	9,145	3,669	60,312
Q2	20,472	651	3,556	24,679
Q3	7,255	21,024	3,020	31,299
Q4	3,856	12,976	3,447	20,279
2010 – Q1	-4,240	-10,538	6,918	-7,860
Q2	-8,508	-6,406	997	-13,917
		Euro area		
2008	190,275	394,979	31,923	617,177
2009	180,858	272,351	152,148	605,357
2009 – Q1	76,136	112,645	40,950	229,731
Q2	108,529	85,516	50,649	244,694
Q3	38,032	36,859	37,036	111,927
Q4	-41,839	37,331	23,513	19,005
2010 – Q1	66,989	-39,996	29,355	56,348
Q2	-19,187	10,239	18,602	9,654

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

Table 8

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

	General government			*Memo item:* GDP growth rate
	Net borrowing	Primary balance	Debt	
Objectives				
July 2009 (1)	76.9	2.6	….	*0.5*
% of GDP	*5.0*	*0.2*	*118.2*	
September 2009 (2)	77.6	-0.7	….	*0.7*
% of GDP	*5.0*	*0.0*	*117.3*	
January 2010 (3)	78.0	-1.6	….	*1.1*
% of GDP	*5.0*	*-0.1*	*116.9*	
Estimates				
May 2010 (4)	78.1	-6.8	….	*1.0*
% of GDP	*5.0*	*-0.4*	*118.4*	
September 2010 (5)	77.1	-5.1	….	*1.2*
% of GDP	*5.0*	*-0.3*	*118.5*	

(1) Economic and Financial Planning Document. – (2) Forecasting and Planning Report and Update of the Economic and Financial Planning Document. – (3) Stability Programme and Stability Programme Update 2010-12. – (4) Combined Report on the Economy and the Public Finances. – (5) Public Finance Decision.

expected to be negative, with a deficit of just under half a percentage point of GDP. Revenue should increase by 1.7 per cent, benefiting from the fall in taxpayers' offsets. The small increase of 1.1 per cent expected in expenditure reflects a fall of 9.6 per cent in capital expenditure (compared with a rise of 12.7 per cent in 2009), limited expansion of 2.2 per cent in primary current expenditure (compared with an average annual increase of 4.6 per cent in the last ten years) and a modest increase in interest payments.

The data available suggest that the growth in revenue and that in expenditure could both turn out to be lower than indicated in the Public Finance Decision.

The data for the first half show a slight improvement

On the basis of the estimates published by Istat, net borrowing was 6.1 per cent of GDP in the first half of 2010, as against 6.3 per cent in the first half of 2009 (Table 10). Revenue contracted by 0.8 per cent, above all owing to the large decline in capital taxes, which reflected the lapsing of most of the one-off taxes introduced by the November 2008 anti-crisis decree. Primary expenditure contracted by 0.9 per cent, reflecting the sharp fall of 20.4 per cent (€5.8 billion) in disbursements on capital account. In particular, expenditure on gross fixed investment fell by 14.2 per cent. The growth of 0.9 per cent (€2.9 billion) in primary current expenditure was driven by the 2.4 per cent increase in social benefits, which was only offset in part by the decline of respectively 0.4 and 2.2 per cent in compensation of employees and intermediate consumption. Interest payments decreased by 1.2 per cent.

The fall in offsets sustains taxpayers' payments

In the first three quarters of 2010 tax revenue recorded in the state budget on a cash basis contracted by 1.8 per cent (€5 billion) compared with the first three quarters of 2009 (Figure 33). This was due to the drying up of one-off taxes, which had sustained revenue in 2009, and the large fall in the receipts from the taxes on income from financial assets, which followed the decline in interest rates with the usual lag. Receipts from

Table 9

General government balances and debt (1)

(millions of euros and percentages of GDP)

	2006	2007	2008	2009	2010
Net borrowing	49,403	23,191	42,575	80,800	77,125
% of GDP	*3.3*	*1.5*	*2.7*	*5.3*	*5.0*
Primary balance	19,175	53,935	38,586	-9,512	-5,056
% of GDP	*1.3*	*3.5*	*2.5*	*-0.6*	*-0.3*
Interest payments	68,578	77,126	81,161	71,288	72,069
% of GDP	*4.6*	*5.0*	*5.2*	*4.7*	*4.6*
Debt	1,584,093	1,602,069	1,666,461	1,763,559	1,842,269
% of GDP	*106.6*	*103.6*	*106.3*	*116.0*	*118.5*

Sources: For 2006-09, based on Istat data for the general government accounts; for 2010, the Public Finance Decision.
(1) Rounding may cause discrepancies in totals.

Table 10

General government expenditure and revenue

(millions of euros and percentages)

	H1 2009	H1 2010	Percentage changes on first half of previous year 2009	Percentage changes on first half of previous year 2010
TOTAL EXPENDITURE	**369,872**	**366,470**	**3.4**	**-0.9**
Current expenditure, net of interest payments	305,845	308,713	4.3	0.9
of which: Compensation of employees	*79,970*	*79,675*	*1.0*	*-0.4*
Intermediate consumption	*44,995*	*44,002*	*9.2*	*-2.2*
Social benefits in cash	*135,692*	*138,998*	*5.2*	*2.4*
Interest payments	35,438	34,997	-11.4	-1.2
Capital expenditure	28,589	22,760	17.0	-20.4
of which: Gross fixed investment	*17,062*	*14,644*	*14.9*	*-14.2*
TOTAL REVENUE	**323,109**	**320,391**	**-2.4**	**-0.8**
Current revenue	315,869	315,867	-4.2	0.0
of which: Direct taxes	*94,789*	*93,564*	*-6.0*	*-1.3*
Indirect taxes	*101,110*	*102,120*	*-6.6*	*1.0*
Social security contributions	*95,236*	*95,393*	*-0.7*	*0.2*
Capital revenue	7,240	4,524	474.1	-37.5
of which: Capital taxes	*5,681*	*2,401*	*2,257.3*	*-57.7*
NET BORROWING	**-46,763**	**-46,079**		
Primary balance	**-11,325**	**-11,082**		
Memorandum item:				
GDP	746,065	757,547	-4.1	1.5

Source: Istat, general government quarterly accounts.

corporate income taxes also contracted, in line with the sharp fall in economic activity in 2009. Lastly, receipts from mineral oil excise duties decreased by a little more than 2 per cent after adjusting for some accounting differences. These reductions were partly offset by the growth in VAT receipts, to a large extent due to the 23.8 per cent increase in the component levied on imports from non-EU countries, and the rise in the withholding tax on employee incomes. Self-assessed personal income tax was boosted by the temporary reduction in the size of the payment on account due at the end of 2009 (see *Economic Bulletin*, January 2010), officially estimated to have shifted nearly €4 billion of revenue to this year. The tax revenues of the state budget discussed above differ from the amounts paid by taxpayers, which are net of the offsets they apply for. These amounts decreased considerably in 2010, thus helping to sustain the level of actual tax receipts.

The borrowing requirement diminishes over the first eight months

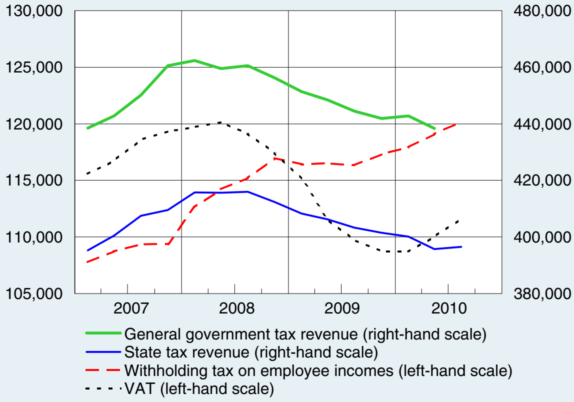
The general government borrowing requirement net of privatization receipts amounted to €53.7 billion between January and August, €7.1 billion less than in the first eight months of 2009 (Figure 34 and Table 11). In the first eight months of 2010 general government debt grew by €79.4 billion, as against an increase of €94 billion in the same period of 2009. In addition to the borrowing requirement, the main cause of the growth in the debt was the Treasury's build-up of assets held with the Bank of Italy, from €31.7 billion to €56.7 billion. Central government debt grew by €78.1 billion and that of local government by €1.3 billion, while the debt of the social security institutions remained basically unchanged.

The estimates of the Public Finance Decision indicate a progressive reduction in the deficit over the next three years

According to the Public Finance Decision, in 2011 net borrowing will be 3.9 per cent of GDP, a reduction of 1.1 percentage points on this year. The primary balance will come back into surplus at 0.8 per cent of GDP. The overall deficit will continue to be reduced in the following two years, to 2.7 per cent of GDP in

Figure 33

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



Sources: Istat for general government tax revenue; General Government Report and state sector budget for the other variables.

Table 11

General government borrowing requirement and debt
(millions of euros and percentages of GDP)

	2007	2008	2009	2010
	General government borrowing requirement net of privatization receipts			
Jan. – Aug.	24,296	22,642	60,809	53,722
Year	30,257	49,068	86,604	–
% of GDP	*2.0*	*3.1*	*5.7*	–
	Privatization receipts			
Jan. – Aug.	3,500	0	666	8
Year	3,500	19	798	–
	Change in the Treasury's asset balances with the Bank of Italy			
Jan. – Aug.	14,764	40,190	32,605	24,942
Year	-13,142	10,611	11,399	–
% of GDP	*-0.8*	*0.7*	*0.7*	–
	Issue discounts			
Jan. – Aug.	4,816	4,265	1,308	393
Year	4,694	4,471	1	–
% of GDP	*0.3*	*0.3*	*0.0*	
	Change in debt			
Jan. – Aug.	40,241	67,156	93,977	79,447
Year	17,976	64,391	97,099	–
% of GDP	*1.2*	*4.1*	*6.4*	–
	General government debt (1)			
End-year	1,602,069	1,666,460	1,763,559	1,842,269
% of GDP	*103.6*	*106.3*	*116.0*	*118.5*

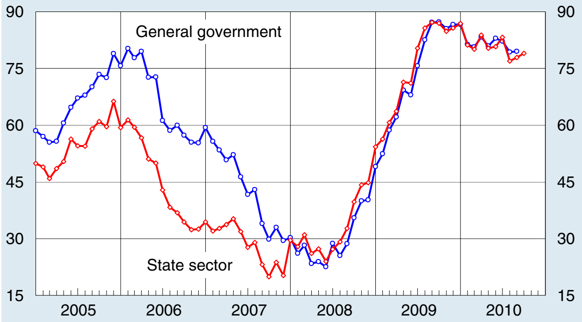
(1) For 2010, estimates in the Public Finance Decision for 2011-13.

2012 and 2.2 per cent in 2013. The improvement in the accounts is almost entirely due to the decrease in the ratio of primary expenditure to GDP (from 47.3 per cent in 2010 to 43.8 per cent in 2013). This result derives mainly from the contraction in capital expenditure (by a total of 0.8 percentage points to 3 per cent of GDP in 2013, the lowest value since 2001) and the fall in compensation of employees (by 1.2 percentage points over the three years to 10.1 per cent of GDP at the end of the forecasting horizon). The public debt begins to fall again in 2012, dropping to 115.2 per cent of GDP in 2013, about 12 percentage points higher than before the crisis (103.6 per cent of GDP in 2007).

Figure 34

Rolling twelve-month borrowing requirement (1)

(billions of euros)



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

SELECTED STATISTICS

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

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Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2006	2.7	2.9	2.0	1.4	0.3	2.3	0.4	2.6	2.8	9.0	6.1	-0.1	0.1
2007	1.9	2.4	1.7	1.3	0.3	-1.8	-0.3	1.3	1.3	9.3	2.7	0.6	-0.2
2008	..	-0.3	-0.2	2.8	0.5	-6.4	-1.0	-1.1	-1.2	6.0	-2.6	1.2	-0.5
2009	-2.6	-1.2	-0.8	1.6	0.3	-18.3	-2.7	-3.6	-3.7	-9.5	-13.8	1.1	-0.6
2007 – Q3	2.3	1.7	1.2	3.5	0.7	-1.2	-0.2	1.3	1.4	15.8	5.0	0.9	-0.3
Q4	2.9	1.4	1.0	1.2	0.2	-4.8	-0.8	-0.4	-0.3	11.6	-10.6	3.2	-0.8
2008 – Q1	-0.7	-0.8	-0.5	2.3	0.4	-6.2	-1.0	-1.6	-1.5	5.7	-1.4	0.8	-0.5
Q2	0.6	0.1	0.1	3.3	0.7	-4.6	-0.7	-0.5	-0.4	13.2	2.9	1.0	-0.5
Q3	-4.0	-3.5	-2.5	5.3	1.0	-11.9	-1.8	-3.2	-3.4	-5.0	-0.1	-0.6	-0.1
Q4	-6.8	-3.3	-2.3	1.5	0.3	-24.9	-4.0	-7.7	-8.3	-21.9	-22.9	1.5	-2.3
2009 – Q1	-4.9	-0.5	-0.3	-3.0	-0.6	-35.4	-5.7	-7.2	-7.8	-27.8	-35.3	2.9	-1.1
Q2	-0.7	-1.6	-1.1	6.1	1.2	-10.1	-1.3	-2.1	-2.2	-1.0	-10.6	1.5	-1.0
Q3	1.6	2.0	1.4	1.6	0.3	0.7	0.1	3.0	3.0	12.2	21.9	-1.4	1.1
Q4	5.0	0.9	0.7	-1.4	-0.3	-1.3	-0.1	3.0	3.1	24.4	4.9	1.9	2.8
2010 – Q1	3.7	1.9	1.3	-1.6	-0.3	3.3	0.4	3.9	4.0	11.4	11.2	-0.3	2.6
Q2	1.7	2.2	1.5	3.9	0.8	18.9	2.1	5.1	5.2	9.1	33.5	-3.5	0.8

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2006	2.0	1.5	0.9	0.4	0.1	0.5	0.1	1.2	1.2	9.7	4.2	0.8	0.2
2007	2.4	1.6	0.9	1.5	0.3	-1.2	-0.3	1.3	1.2	8.4	1.6	1.1	0.3
2008	-1.2	-0.7	-0.4	0.3	..	-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	-14.0	-3.3	-4.0	-4.0	-23.9	-16.7	-1.3	-0.4
2007 – Q3	-0.5	-1.9	-1.1	-1.0	-0.2	-6.2	-0.2	-2.2	-2.2	7.5	-3.1	1.7	0.6
Q4	1.6	1.2	0.7	5.9	1.0	-3.2	-0.6	0.5	0.5	11.0	5.4	1.0	-0.4
2008 – Q1	0.9	2.2	1.2	-1.2	-0.2	11.4	2.7	-0.4	-0.3	11.3	4.5	1.3	-3.9
Q2	-2.6	-5.3	-3.0	-4.2	-0.8	-8.2	-1.0	-4.3	-4.3	-3.7	-13.7	1.7	1.5
Q3	-4.8	-0.5	-0.3	-1.0	-0.2	-7.1	-2.2	-2.5	-2.4	-2.1	13.8	-2.4	-0.3
Q4	-10.3	-3.4	-1.9	4.6	0.8	-16.0	-4.2	0.4	0.4	-45.9	3.1	-10.9	5.4
2009 – Q1	-16.4	-5.5	-3.1	2.6	0.5	-23.3	-5.2	-13.3	-13.5	-68.1	-53.8	-3.0	-5.3
Q2	9.7	5.2	3.2	0.7	0.2	-12.2	-2.7	1.0	1.0	48.6	-18.3	8.5	0.6
Q3	-0.3	2.5	1.5	0.4	0.1	-9.2	-1.0	-1.3	-1.3	38.4	27.6	0.9	-0.8
Q4	3.4	2.7	1.6	2.8	0.5	1.7	0.8	1.0	1.0	24.8	6.1	2.4	-1.6
2010 – Q1	5.0	2.2	1.3	2.2	0.4	1.5	0.3	2.6	2.6	31.0	12.6	2.4	0.5
Q2	1.5	..	..	1.1	0.2	1.0	0.2	0.1	0.1	25.8	17.4	1.4	-0.2

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	7.1	3.5	1.3	3.4	2.3	1.6	1.6	7.4
2005	1.7	5.8	2.8	2.0	4.4	3.1	1.8	1.6	5.0
2006	3.0	8.5	4.6	4.4	6.5	5.4	2.1	2.1	8.6
2007	2.8	5.8	3.7	2.3	7.3	4.7	1.7	2.3	6.3
2008	0.5	0.8	0.6	-2.3	0.9	-0.8	0.4	2.3	1.0
2009	-4.1	-11.9	-6.5	-7.9	-14.8	-11.3	-1.1	2.3	-13.2
2008 – Q2	-0.4	-1.2	-0.7	-2.9	..	-1.5	-0.5	0.9	-0.7
Q3	-0.5	-0.3	-0.4	-1.8	-1.0	-1.4	..	0.5	-1.1
Q4	-1.8	-4.6	-2.7	-2.9	-4.6	-3.7	-0.5	0.8	-7.1
2009 – Q1	-2.5	-7.5	-4.0	-1.5	-9.1	-5.2	-0.5	0.7	-8.0
Q2	-0.1	-2.8	-0.9	-1.9	-2.8	-2.3	..	0.6	-1.3
Q2	0.4	2.2	0.9	-1.9	-0.3	-1.1	-0.1	0.5	2.4
Q4	0.2	1.2	0.5	-1.9	-0.5	-1.2	0.2	-0.1	2.0
2010 – Q1	0.3	4.2	1.5	-1.6	1.0	-0.3	0.2	0.2	2.5
Q2	1.0	4.0	1.9	1.2	1.8	1.5	0.2	0.5	4.3
					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	1.3	....	....	....	2.6	2.3	1.7	1.6
2008	2.2	3.7	....	....	....	2.3	2.8	2.7	2.5
2009	0.9	-5.2	....	....	....	-0.7	-0.1	2.2	-3.0
2008 – Q1	0.6	1.4	....	....	....	0.5	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	-1.3
2009 – Q1	0.1	-3.5	....	....	....	-0.9	-0.8	0.9	-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.

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2004	1.5	4.2	2.0	2.2	2.3	2.3	0.7	2.3	4.9
2005	0.7	2.1	0.9	0.4	1.2	0.8	1.1	1.9	1.1
2005	2.0	5.9	2.8	1.0	5.0	2.9	1.2	0.5	6.2
2006	1.5	3.8	2.0	0.3	3.1	1.7	1.1	0.9	4.6
2008	-1.3	-4.3	-2.0	-3.4	-4.7	-4.0	-0.8	0.8	-3.9
2009	-5.0	-14.5	-7.2	-7.9	-16.6	-12.1	-1.8	0.6	-19.1
2008 – Q2	-0.7	-3.3	-1.3	-2.6	1.8	-0.5	-1.1	0.7	-2.5
Q3	-1.1	-1.6	-1.2	-1.0	-3.5	-2.2	0.1	-0.1	-2.7
Q4	-2.0	-4.8	-2.6	-3.4	-9.1	-6.2	-1.3	0.2	-8.4
2009 – Q1	-2.9	-9.2	-4.3	-2.1	-8.3	-5.0	-0.8	-0.1	-11.7
Q2	-0.3	-2.9	-0.8	-1.7	-2.9	-2.3	..	0.8	-1.8
Q3	0.4	1.3	0.6	-1.7	1.0	-0.5	0.6	-0.3	2.7
Q4	-0.1	3.3	0.6	-0.6	2.1	0.7	..	-0.2	-0.2
2010 – Q1	0.4	2.7	0.8	-0.4	3.3	1.4	0.1	-0.5	3.0
Q2	0.5	0.8	0.5	-0.9	3.7	1.3	..	0.4	3.3
				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 – Q2	1.4	1.5	1.4	1.2	0.9	1.1	0.9	4.4	1.2
Q3	0.1	3.9	0.9	2.4	0.8	1.6	0.9	-2.4	2.3
Q4	0.9	-3.5	-0.1	-0.3	1.3	0.5	-0.5	1.2	-0.9
2009 – Q1	1.0	-4.8	-0.2	-0.2	-0.6	-0.4	-0.8	2.3	-0.8
Q2	-0.1	-1.4	-0.3	-0.3	-0.6	-0.4	0.3	-0.9	-0.6
Q3	0.3	0.3	0.3	..	-0.1	..	0.1	2.4	-0.1
Q4	-0.2	-0.2	-0.2	0.4	-0.4	..	0.3	-3.3	0.2
2010 – Q1	..	4.2	0.9	0.4	0.3	0.3	0.4	1.6	2.1
Q2	0.6	4.3	1.4	0.9	0.7	0.8	0.6	0.4	2.6

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)

	Hourly compensation	Productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2007	3.0	2.9	3.2	0.3	0.1
2008	4.1	-1.2	-2.1	-0.9	5.4
2009	3.5	-5.5	-13.2	-8.1	9.5
2008 – Q1	3.4	1.0	1.9	0.9	2.4
Q2	2.2	-0.7	0.2	0.9	3.0
Q3	3.4	-2.1	-2.6	-0.5	5.7
Q4	5.5	-5.7	-9.1	-3.5	11.9
2009 – Q1	5.8	-8.9	-16.3	-8.1	16.1
Q2	6.1	-6.7	-16.3	-10.3	13.8
Q3	4.8	-3.2	-12.8	-9.9	8.2
Q4	1.7	0.7	-6.7	-7.3	1.0
2010 – Q1	0.1	7.1	3.7	-3.2	-6.5
Q2	-0.7	7.6	7.0	-0.5	-7.7
			Services		
2007	2.6	1.1	3.2	2.0	1.5
2008	3.0	0.3	1.6	1.3	2.7
2009	2.5	-0.5	-1.8	-1.3	3.0
2008 – Q1	2.7	0.4	2.7	2.2	2.3
Q2	2.8	0.0	2.0	2.1	2.8
Q3	3.2	0.4	1.4	1.0	2.9
Q4	2.7	-0.4	0.1	0.5	3.1
2009 – Q1	3.3	-0.9	-2.2	-1.3	4.2
Q2	3.0	-0.4	-2.0	-1.6	3.4
Q3	2.9	-0.3	-1.8	-1.5	3.1
Q4	2.3	0.3	-0.9	-1.1	2.1
2010 – Q1	1.1	0.3	0.9	0.6	0.8
Q2	1.5	0.4	1.3	0.8	1.1
			Total economy		
2007	2.7	1.3	3.1	1.7	1.4
2008	3.4	0.0	0.7	0.7	3.4
2009	2.8	-1.0	-4.2	-3.3	3.7
2008 – Q1	3.0	0.7	2.4	1.7	2.4
Q2	2.9	0.1	1.5	1.4	2.8
Q3	3.4	0.0	0.3	0.3	3.4
Q4	3.3	-1.3	-2.0	-0.7	4.7
2009 – Q1	3.9	-2.1	-5.2	-3.2	6.1
Q2	3.6	-1.4	-5.0	-3.7	5.1
Q3	3.3	-0.6	-4.1	-3.6	3.8
Q4	2.3	0.5	-2.2	-2.7	1.8
2010 – Q1	0.9	1.5	0.9	-0.6	-0.6
Q2	1.1	1.8	1.9	0.2	-0.6

Source: Based on 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.

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	3.2	3.3	-0.5	0.3	0.7	3.7
Q2	1.5	1.5	-1.2	-0.9	0.4	2.7
Q3	4.3	4.2	-1.4	-4.2	-2.8	5.8
Q4	3.9	3.8	-6.8	-9.6	-3.0	11.4
2009 – Q1	6.4	6.3	-10.1	-18.6	-9.4	18.3
Q2	7.8	7.6	-8.5	-18.9	-11.3	17.8
Q3	5.3	5.3	-3.8	-14.5	-11.1	9.6
Q4	3.2	3.2	1.9	-8.1	-9.9	1.2
2010 – Q1	-4.3	-4.5	6.1	2.5	-3.4	-9.8
Q2	-4.7	-4.6	7.0	5.1	-1.8	-10.9
			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	3.3	3.3	-1.6	-0.1	1.6	5.1
Q3	2.9	2.6	-0.1	-0.8	-0.8	3.0
Q4	0.7	0.8	-1.1	-1.4	-0.3	1.9
2009 – Q1	2.7	2.4	-1.2	-3.4	-2.2	4.0
Q2	0.2	0.1	-1.6	-2.9	-1.3	1.8
Q3	2.8	2.8	-0.9	-2.3	-1.5	3.8
Q4	1.4	1.3	0.3	-1.7	-2.0	1.1
2010 – Q1	0.1	0.3	-0.3	0.3	0.5	0.4
Q2	2.1	2.1	0.9	0.9	-0.1	1.2
			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	3.0	-0.8	0.5	1.3	3.9
Q2	2.8	2.8	-0.9	-0.2	0.7	3.8
Q3	3.3	3.0	-0.5	-1.6	-1.2	3.8
Q4	1.6	1.7	-2.4	-3.3	-1.0	4.1
2009 – Q1	3.9	3.7	-2.9	-6.8	-4.1	7.0
Q2	2.3	2.2	-3.3	-6.6	-3.4	5.8
Q3	3.5	3.6	-1.4	-5.2	-3.8	5.0
Q4	1.8	1.9	0.3	-3.2	-3.5	1.6
2010 – Q1	-1.1	-0.9	0.5	0.4	0.0	-1.5
Q2	0.5	0.7	1.6	1.4	-0.2	-1.1

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

Table A7

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

(percentage changes on the year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO (2)	
	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed 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
June	1.5	1.5	0.8	0.6	1.7	0.9	1.5	0.5	1.4	0.9
July	1.8	1.7	1.2	0.5	1.9	1.0	1.9	0.8	1.8	1.0
Aug.	1.8	1.7	1.0	0.6	1.6	0.8	1.8	1.0	1.6	1.0

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 – 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	-18,234	-4,837	-3,011	-3,509	-2,115	-4,763	-34	-3	-4	-27
Q2	(-14,178)	(-3,901)	(1,583)	(-8,722)	....	....	(-139)	....	....	....
2008 – 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.	-6,388	-2,783	-1,417	-392	-752	-1,045	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.	-5,180	-1,667	-121	-2,069	-715	-607	-131	-164	2	31
May	-6,301	-1,122	459	-4,424	-719	-495	39	-24	29	34
June	(-2,698)	(-1,112)	(1,245)	(-2,229)	....	....	(-47)	....	....	....
July	(535)	(2,341)	(-485)	(-105)	....	....	(-2)	....	....	....

Table A9

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

(12-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
			Centre and North						
2008 – 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
June	0.7	1.5	-2.5	-3.0	0.0	1.0	3.7	6.4	-0.2
Aug.	4.0	1.1	-1.7	-2.1	0.6	2.1	3.9	12.5	0.8
			South and Islands						
2008 – Dec.	6.1	11.1	5.0	5.8	2.6	1.2	9.0	9.5	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	5.2	3.6
Sept.	14.2	-0.4	-0.7	-0.8	-0.7	-0.8	5.0	2.0	2.9
Dec.	8.0	-4.5	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
June	2.0	-2.0	2.4	3.4	-0.6	-0.5	5.3	0.5	3.4
Aug.	5.6	1.7	2.6	3.5	0.0	0.2	5.1	6.1	3.9
			ITALY						
2008 – 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	0.5	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
June	0.9	1.4	-1.9	-2.2	-0.2	0.7	4.0	5.7	0.3
Aug.	4.1	1.1	-1.1	-1.5	0.5	1.7	4.2	11.7	1.2

(1) Statistics for August 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.

Table A10

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	22,542	-2,319	14,950	13,142	26,757	-6,147
2008	4,224	-5,683	19,502	41,693	-1,132	-15,237	-10,611	49,049	-10,289
2009	8,487	-1,487	-7,460	93,883	2,814	-11,919	-11,399	85,805	-2,112
2007 – Q1	-1,537	-3,474	20,684	7,518	-333	-5,421	-5,753	20,910	-532
Q2	-16,496	-13,509	345	28,766	-1,933	-8,731	-8,936	1,950	2,474
Q3	-2,330	-8,550	3,074	-2,805	-1,100	7,080	5,459	3,919	-6,285
Q4	6,387	-2,914	-18,541	-10,937	1,047	22,022	22,372	-22	-1,805
2008 – Q1	1,313	-1,111	25,905	23,411	145	-33,225	-31,203	17,549	470
Q2	934	-1,266	8,186	-11,210	3,812	5,508	5,968	7,229	-5,669
Q3	-2,295	-947	-1,120	4,058	-5,584	15,711	17,012	10,770	-2,284
Q4	4,272	-2,360	-13,469	25,434	496	-3,231	-2,388	13,502	-2,806
2009 – Q1	3,034	-1,264	25,111	48,196	1,434	-47,149	-47,108	30,626	1,961
Q2	4,780	-247	5,769	-2,206	1,978	9,749	9,963	20,070	-1,620
Q3	-6,276	385	-9,480	50,557	502	-12,906	-12,676	22,397	-2,709
Q4	6,948	-361	-28,860	-2,663	-1,100	38,387	38,423	12,712	256
2010 – Q1	-3,196	-1,413	10,530	28,479	1,116	-9,626	-9,568	27,303	178
Q2	1,220	-929	-636	23,098	-510	-3,543	-3,474	19,630	1,095
2009 – Jan.	3,299	-344	12,229	19,976	-1	-34,157	-34,126	1,346	-7
Feb.	-2,698	-671	6,499	3,220	935	6,746	6,777	14,701	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	1,272	12,025	12,028	18,771	1,983
May	-1,173	144	697	3,651	582	3,667	3,687	7,424	-1,561
June	4,262	-236	-1,306	-3,263	124	-5,943	-5,752	-6,125	-2,043
July	-7,305	60	-3,348	14,397	-1,847	-458	-272	1,438	-996
Aug.	-105	151	-6,590	8,982	937	4,786	4,812	8,009	-1,221
Sept.	1,135	174	458	27,178	1,413	-17,233	-17,217	12,950	-492
Oct.	2,969	-280	-4,015	14,830	864	-3,313	-3,309	11,335	1,659
Nov.	-1,111	-650	-8,098	-9,222	723	23,999	24,035	6,292	-561
Dec.	5,090	569	-16,747	-8,271	-2,687	17,701	17,697	-4,916	-842
2010 – Jan.	-91	-276	12,703	13,688	505	-30,720	-30,679	-3,916	1,740
Feb.	-3,107	-91	-810	10,035	455	7,450	7,462	14,022	-759
Mar.	3	-1,046	-1,362	4,756	156	13,644	13,650	17,197	-803
Apr.	1,309	47	-1,510	13,261	2,940	403	433	16,401	843
May	-2,580	-507	-1,561	17,854	-561	-3,687	-3,696	9,465	-690
June	2,491	-470	2,436	-8,017	-2,888	-259	-211	-6,237	942
July	-2,929	-452	-3,782	22,039	943	-17,681	-17,637	-1,411	-766
Aug.	1,109	-390	-1,187	2,437	96	5,736	5,737	8,191	-19

(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	1,190,049	130,538	10,584	1,602,069	3,465	1,336,305	9,721
2008	147,252	31,492	147,371	1,236,468	129,411	5,958	1,666,460	3,609	1,372,863	20,333
2009	155,740	30,005	139,911	1,330,246	132,225	5,438	1,763,559	2,746	1,467,726	31,731
2007 – Q1	155,469	62,147	142,994	1,172,482	132,527	9,108	1,612,579	5,020	1,321,511	28,616
Q2	138,972	48,639	143,349	1,203,457	130,592	9,313	1,625,682	4,908	1,350,136	37,552
Q3	136,642	40,089	146,422	1,200,302	129,492	10,934	1,623,792	4,678	1,347,859	32,094
Q4	143,029	37,175	127,869	1,190,049	130,538	10,584	1,602,069	3,465	1,336,305	9,721
2008 – Q1	144,342	36,064	153,806	1,214,007	130,684	8,562	1,651,401	3,236	1,357,893	40,925
Q2	145,276	34,799	161,975	1,204,435	134,495	8,102	1,654,283	3,214	1,348,283	34,956
Q3	142,981	33,852	160,869	1,211,131	128,912	6,801	1,650,693	3,537	1,349,349	17,944
Q4	147,252	31,492	147,371	1,236,468	129,411	5,958	1,666,460	3,609	1,372,863	20,333
2009 – Q1	150,287	30,228	172,490	1,284,856	130,845	5,917	1,744,395	3,768	1,422,042	67,441
Q2	155,067	29,980	178,265	1,283,293	132,822	5,704	1,755,151	3,528	1,420,391	57,478
Q3	148,792	30,366	168,776	1,333,439	133,325	5,474	1,789,805	2,731	1,471,197	70,155
Q4	155,740	30,005	139,911	1,330,246	132,225	5,438	1,763,559	2,746	1,467,726	31,731
2010 – Q1	152,544	28,592	150,441	1,358,335	133,341	5,380	1,800,041	2,932	1,495,633	41,299
Q2	153,764	27,662	149,816	1,382,592	132,833	5,310	1,824,316	3,179	1,517,631	44,773
2009 – Jan.	150,552	31,148	159,600	1,256,889	129,411	5,928	1,702,380	3,910	1,393,405	54,459
Feb.	147,854	30,478	166,102	1,260,317	130,345	5,897	1,710,514	3,968	1,397,235	47,682
Mar.	150,287	30,228	172,490	1,284,856	130,845	5,917	1,744,395	3,768	1,422,042	67,441
Apr.	151,978	30,072	178,875	1,282,677	132,117	5,915	1,751,561	3,814	1,420,961	55,413
May	150,805	30,217	179,574	1,286,635	132,699	5,894	1,755,606	3,578	1,425,012	51,726
June	155,067	29,980	178,265	1,283,293	132,822	5,704	1,755,151	3,528	1,420,391	57,478
July	147,762	30,041	174,915	1,297,910	130,975	5,517	1,757,079	2,852	1,434,437	57,750
Aug.	147,657	30,192	168,320	1,307,058	131,912	5,490	1,760,437	2,798	1,444,472	52,937
Sept.	148,792	30,366	168,776	1,333,439	133,325	5,474	1,789,805	2,731	1,471,197	70,155
Oct.	151,761	30,085	164,761	1,348,361	134,189	5,470	1,804,541	2,757	1,487,379	73,463
Nov.	150,650	29,435	156,660	1,339,087	134,912	5,434	1,786,744	2,662	1,477,969	49,428
Dec.	155,740	30,005	139,911	1,330,246	132,225	5,438	1,763,559	2,746	1,467,726	31,731
2010 – Jan.	155,648	29,729	152,613	1,344,137	132,730	5,397	1,790,526	2,837	1,481,409	62,411
Feb.	152,541	29,638	151,803	1,354,451	133,185	5,385	1,797,366	2,910	1,491,542	54,949
Mar.	152,544	28,592	150,441	1,358,335	133,341	5,380	1,800,041	2,932	1,495,633	41,299
Apr.	153,853	28,639	148,930	1,370,683	136,281	5,349	1,815,096	2,962	1,508,729	40,867
May	151,273	28,132	147,369	1,389,691	135,721	5,359	1,829,413	3,201	1,527,450	44,563
June	153,764	27,662	149,816	1,382,592	132,833	5,310	1,824,316	3,179	1,517,631	44,773
July	150,836	27,210	146,034	1,404,733	133,775	5,267	1,840,644	3,004	1,539,933	62,410
Aug.	151,944	26,820	144,847	1,407,077	133,872	5,266	1,843,006	3,080	1,542,467	56,673

(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”.