BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

January 2014

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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

OVERVIEW

The global upswing continues

The expansion of global economic activity and world trade is proceeding at a moderate pace. There are signs of economic strengthening in the United States, assisted by the decreased uncertainty over budget policy. The tapering of the Federal Reserve's purchases of securities has not heightened volatility on the financial or foreign exchange markets. The emerging economies continue to grow, although with some downside risks owing to less expansive global financial conditions.

The euro area is experiencing a modest recovery with low inflation

A modest expansion has begun in the euro area, but it remains fragile. The sluggishness of economic activity is reflected in the extremely moderate pace of consumer price increases, resulting in higher real interest rates and a slower reduction of private and public debt. Given inflation persistently below the definition of price stability, the subdued growth of money and credit, and the weakness of economic activity, the Governing Council of the ECB lowered official rates in November; it has firmly reiterated that it will keep them at their current levels or lower for an extended period of time. The governing Council further confirmed that it will use all the instruments available in order to maintain an accommodative stance of monetary policy.

Financial conditions improve

Conditions on European and Italian financial markets have improved further, thanks to the prospects of economic recovery, the accommodative stance of monetary policy, the progress made in euro-area governance and the stabilization of the domestic situation in Italy. Long-term interest rates on Italian government securities have come down and the spread vis-à-vis German ten-year yields has narrowed to about 200 basis points. Non-residents' interest in Italian financial assets has revived.

The outlook for Italy brightens …

Italy's GDP stopped falling in the third quarter of 2013, sustained by exports and stock-building, and business surveys and the performance of industrial production suggest barely positive growth in the fourth. The indicators of business confidence rose further in December, regaining the levels recorded at the start of 2011.

… but is markedly uneven, and employment is still weak

However, cyclical conditions vary substantially according to the type and the geographical location of firms. The improved prospects for large industrial firms and exporters contrast with the still unfavourable situation of smaller businesses, service firms and firms in the South. Despite some signs that employment is stabilizing and an increase in the number of hours worked, labour market conditions remain difficult. The unemployment rate, which normally responds to cyclical developments with a lag, rose to 12.3 per cent in the third quarter and is estimated to have increased again to an average of 12.6 per cent in October and November.

Inflation is going down

Inflation has continued to fall in Italy, more sharply than had been forecast just a few months ago, to a twelve-month rate of 0.7 per cent in December. Core inflation, net of the most volatile components, has also declined, to 0.9 per cent. Slack demand has held down firms' prices more markedly than in the past. The VAT increase in October was only very partially passed through to final prices.

The external surplus increases

The current account balance turned positive in 2013, and the surplus should continue to grow, despite the increase in imports spurred by the expected gradual strengthening of economic activity. The improvement in the balance between 2010 and 2013 reflected not only the recession-induced fall in imports but also an increase in exports.

Credit conditions are still tense

The cost of banks' bond issues has diminished in the main euro-area economies, and in Spain and Italy in particular. Lending to firms has not yet benefited from the improvement in financial market conditions. In the three months ending in November it contracted by more than 8 per cent on an annual basis; this factor continues to hamper the economic recovery. Lending is held back by the low demand for investment purposes and, on the supply side, by high credit risk and the pressure exerted on banks' balance sheets by the recession.

Progress continues on the path to the Banking Union

The comprehensive assessment of the largest euro-area banks by the ECB and the national supervisory authorities can attenuate the fragmentation of the financial markets and benefit the banking and credit system in Italy by increasing the transparency of balance sheets and reducing uncertainty about the quality of assets. On 18 December the Council of Economic and Financial Ministers reached a compromise agreement on the characteristics of a single bank resolution mechanism; the EU Council has asked that the mechanism be approved by the European Parliament before the end of the current legislature in May. An effective single resolution mechanism marks an essential step towards completing the Banking Union.

General government net borrowing is apparently stable

The state sector borrowing requirement rose sharply in 2013, reflecting several extraordinary factors, such as the payment of general government debt arrears related to current expenditures and the lapsing of the effects of the measure on the centralized Treasury account, which had kept the borrowing requirement down in 2012. On the basis of the available data, it is estimated that general government net borrowing was close to the threshold of 3 per cent of GDP, notwithstanding the further contraction in output. According to the Government's official forecast, which the Stability Law for 2014 takes into account, net borrowing will decline each year from 2014 to 2016.

Our projections indicate a return to moderate growth in 2014-15 …

The projections for the Italian economy for the next two years published in this Bulletin confirm the indications that we published a year ago and reiterated last July, which foresaw a cyclical turning point at the end of 2013. This year we expect there to be a moderate economic recovery, which should accelerate next year, albeit slightly. After falling by 1.8 per cent in 2013, GDP is projected to grow by 0.7 per cent this year and by 1 per cent in 2015.

… driven by foreign demand and the gradual recovery of investment

The recovery is expected to be led by exports and by the gradual expansion of productive investment, favoured by the improved outlook for demand and increased corporate liquidity, thanks in part to the payment of overdue general government commercial debts. Credit conditions look set to remain tight, however. The ratio of investment to GDP is expected to remain below its historical average. Consumption is expected to stay weak. The improvement in the economy is likely to affect conditions in the labour market with the usual lag: employment is not projected to begin growing again before 2015.

Inflation is expected to stay at low levels

The forecasts for inflation have been revised downwards, to a little over 1 per cent for this year and around 1.4 per cent in 2015. Domestic price inflation, measured by the GDP deflator, is also expected to be moderate, owing to the impact on firms' pricing policies of ample spare production capacity.

Growth and price dynamics remain subject to downside risks

In this forecasting scenario, the risks for growth are again mostly on the downside. If the conditions of access to credit were to remain restrictive for longer than posited and the *payment of general government debt arrears were to be deferred, the recovery in investment would be delayed. The resurgence of fears about the determination of the national authorities to continue with fiscal consolidation and structural reform, or of the European authorities to move ahead with the reform of the Union's governance, could impact unfavourably on long-term interest rates. The risk of generalized deflation remains modest overall, but the fall in inflation could be larger and more persistent than forecast, especially if weak demand were to weigh on expectations.*

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

In the third quarter of 2013 the global economy strengthened. In the advanced countries GDP growth increased, while trends in the emerging economies were uneven. The pace of world trade benefited as a result. The agreement on the budget for the fiscal year 2014-15 reduced uncertainty over public finance decisions in the United States.

The recovery in the advanced economies continues ...

In the third quarter GDP grew at an annual rate of 4.1 per cent in the United States, accelerating from 2.5 per cent in the second quarter, reflecting the replenishment of stocks and stronger consumer spending. Growth in the United Kingdom remained rapid (3.1 per cent), in part driven by domestic demand. In Japan, following the strong expansion of the previous quarters, GDP growth slowed to 1.1 per cent as a result of the brusque slowdown in consumption and exports.

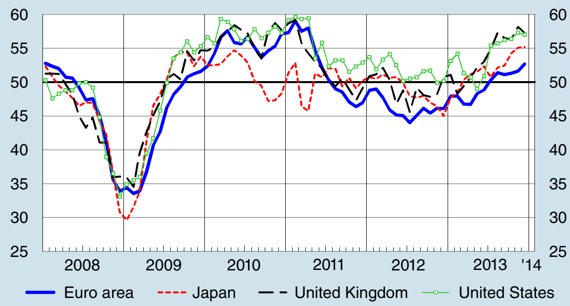
... and appears to have been consolidated in the fourth quarter ...

The fourth quarter brought further positive signs for growth in the United States: the upturn in employment growth under way since the summer was accompanied by an acceleration of consumption. The unemployment rate fell again, reaching 6.7 per cent in December (from 7.9 per cent at the beginning of 2013), in part owing to the further reduction in the labour force participation rate (to 62.8 per cent, from 63.6 per cent at the start of the year). In Japan economic activity appeared to speed up again in the fourth quarter, supported by exports and by a temporary rise in consumption, above all of durable goods, spurred by the increase in indirect taxes scheduled for this April. In the United Kingdom credit conditions for households and large firms improved; trends in the labour market and the Purchasing Managers Index are consistent with a stabilization of growth at high levels (Figure 1).

Figure 1

Manufacturing purchasing managers indices in the main advanced countries (1)

(monthly data)



Sources: Markit and Thomson Reuters Datastream.
(1) Diffusion indices of economic activity in the manufacturing sector, derived from the assessments of purchasing managers.

... while in the emerging economies it remains uneven

In the main emerging economies trends in economic activity were diversified. In the third quarter of 2013 the Chinese economy strengthened further (with growth of 7.8 per cent compared with the year-earlier period), helped by the measures taken during the summer to boost investment and exports. At 4.8 per cent the expansion in India was modest by comparison, notwithstanding the sharp depreciation of the rupee and the recovery of production in the agricultural sector; in Brazil GDP growth slowed to 2.2 per cent while in Russia output continued to stagnate.

The latest indicators confirm continued growth in China, thanks to the recovery of exports and ongoing robust consumption and investment. In November the Chinese authorities announced a major reform plan designed to strengthen the market economy and increase competitiveness in the financial and manufacturing sectors, which will be accompanied by greater exchange rate flexibility. In Brazil, India and Russia the economic outlook remains weak, with analysts predicting continued moderate growth throughout the year.

World trade is recovering

The latest data indicate that world trade accelerated again in the fourth quarter of 2013 (after turning upwards to annualized growth of 4.9 per cent in the third quarter, from 1.2 per cent in the second). These developments are consistent with growth of around 3 per cent for the year as a whole.

Oil prices remain stable

In the last quarter of 2013 the price of Brent grade crude oil fluctuated around $110 a barrel (Figure 2). The announcement of the agreement on Iran's nuclear programme, reached at the end of November, does not appear to have had a significant impact on prices. The downward pressure on prices of the increased supply from Saudi Arabia was offset by the upward pressure triggered by the resurgence of tensions in Libya, where oil production is still far below capacity.

Inflation is low

Inflation in the advanced economies stayed at very low levels (Figure 3). In November the consumer price index was up by 1.2 per cent on a year earlier in the United States and by 2.1 per cent in the United Kingdom; in Japan the change in the general index, in positive territory again since the summer, reached 1.6 per cent. Among the emerging economies, consumer price inflation remains high in India, Brazil and Russia.

The Federal Reserve starts tapering

The Federal Reserve began to taper monetary stimulus while reaffirming its intention to maintain an accommodative monetary policy stance for an extended period of time. Taking into account the signs of improvement in the economy, on 18 December the Federal Open Market Committee (FOMC) decided to cut its purchases of mortgage-backed securities and longer-term Treasury securities by a total of $10 billion dollars per month beginning in January, bringing them to $75 billion.

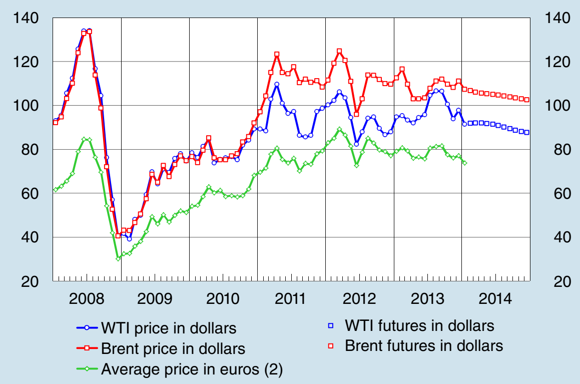
Monetary policies stay expansionary in the advanced economies…

The FOMC also declared that it is likely to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6.5 per cent, especially if projected inflation

Figure 2

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)

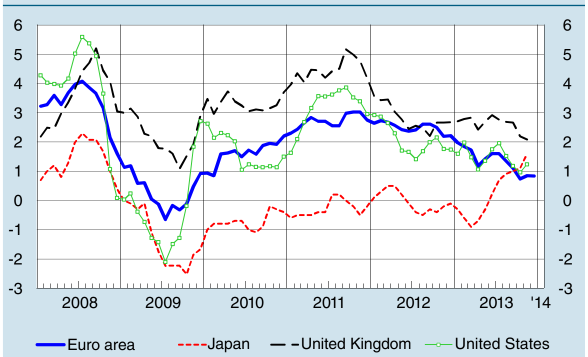


Sources: IMF and Thomson Reuters Datastream.
(1) For spot prices, monthly averages up to December 2013; the last data refer to 13 January 2014. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Figure 3

Consumer price inflation in the main advanced countries (1)

(monthly data; 12-month percentage changes)



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

continues to run below its 2 per cent target. The Bank of England revised its own expectations for growth and employment sharply upwards, but clarified that any faster-than-projected drop in the unemployment rate would not automatically trigger a rise in the Bank Rate. In conjunction with the Treasury, it announced that the extension of the Funding for Lending scheme to January 2015 would concern business lending only, with special incentives for SMEs. The Bank of Japan maintained an expansionary monetary policy stance, renewing its programme of government bond purchases and continuing to increase its monetary base.

... and are less accommodating in emerging economies

Since the autumn monetary policies in the main emerging economies have become less accommodating. China's central bank reduced the rate of liquidity expansion in order to curb the growth in credit; in India (in October) and in Brazil (October, November and January) the authorities raised the key monetary policy rates in order to contain inflationary pressures and combat capital outflows.

World growth is expected to increase in 2014 ...

According to the latest OECD estimates, after falling to 2.7 per cent in 2013, world GDP growth will rebound to 3.6 per cent this year (Table 1). The pace of growth will accelerate to 2.9 per cent in the United States and to 2.4 per cent in the United Kingdom, and slow to 1.5 per cent in Japan. In the emerging economies too, with the exception of Brazil, activity is expected to strengthen with respect to 2013. World trade growth is forecast to accelerate to 4.8 per cent, a historically low level in relation to output. Between 2002 and 2007 world GDP expanded by 4.5 per cent each year while international trade recorded an average annual increase of 9.5 per cent.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	OECD			Consensus Economics	
	2013	2014	2015	2013	2014
GDP					
World	**2.7**	**3.6**	**3.9**	**–**	**–**
Advanced countries					
Euro area	*-0.4*	*1.0*	*1.6*	*-0.4*	*1.0*
Japan	*1.8*	*1.5*	*1.0*	*1.8*	*1.6*
United Kingdom	*1.4*	*2.4*	*2.5*	*1.4*	*2.5*
United States	*1.7*	*2.9*	*3.4*	*1.7*	*2.6*
Emerging countries					
Brazil	*2.5*	*2.2*	*2.5*	*2.3*	*2.3*
China	*7.7*	*8.2*	*7.5*	*7.7*	*7.5*
India (1)	*3.0*	*4.7*	*5.7*	*4.6*	*5.4*
Russia	*1.5*	*2.3*	*2.9*	*1.6*	*2.3*
World trade (2)	**3.0**	**4.8**	**5.9**	**–**	**–**

Sources: OECD, *Economic Outlook*, No. 94, November 2013; Consensus Economics, September 2013.
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

... but downside risks remain

Future developments in the world's economy are still subject to primarily downside risks. While the decision by the Federal Reserve to modestly reduce the pace of its asset purchases has not generated an increase in volatility on the financial and foreign exchange markets, the risk remains that a faster-than-expected withdrawal of monetary stimulus could determine a tightening of global monetary and financial conditions. Moreover, notwithstanding the political agreement in mid-October on the budget for the fiscal year 2014-15, risks remain in connection with the US debt ceiling, which after being suspended in October will become legally binding again as early as February of this year.

1.2 THE EURO AREA

Output rose slightly in the euro area in the third quarter of 2013, but less than in the second. The recovery apparently continued in the fourth quarter, and modest growth is expected in the months to come as well. Inflation has reached a four-year low. In November the Governing Council of the ECB lowered its main refinancing rate and in January firmly reiterated that it expected to keep official rates at or below the current level for an extended period.

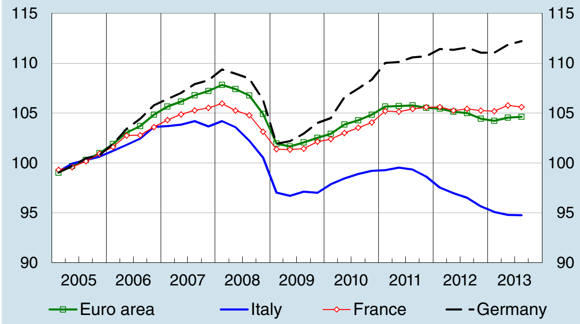
GDP rises slightly in the third quarter

Euro-area GDP rose by 0.1 per cent in the third quarter, sustained by an increase in consumption (0.1 per cent), by stock-building and by the expansion of gross fixed investment (0.5 per cent). The still rapid growth of imports (1.2 per cent) was accompanied by a slowdown in export growth (0.3 per cent). Among the major economies of the area, Germany's GDP grew by 0.3 per cent, driven by construction, France registered a contraction of 0.1 per cent, owing to the negative effect of net exports and a decline in investment, and Italian GDP was unchanged for the quarter, finally interrupting a prolonged recession (Figure 4).

Figure 4

GDP of the euro area and the main area countries (1)

(quarterly data; indices, 2005=100)



Sources: Based on national statistics.
(1) At chain-linked prices.

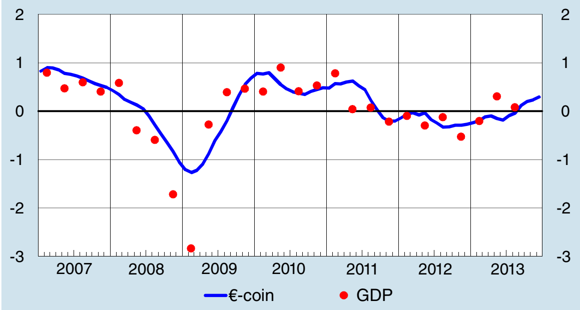
Industrial activity remains slack

The €-coin coincident indicator produced by the Bank of Italy, which gives an estimate of the quarterly change in GDP in the euro area net of the most volatile components, showed a very slight increase in December, remaining moderately positive (Figure 5). However, industrial activity is still weak. In the October-November period industrial production essentially stagnated in Germany and France, of the main countries, and in the area as a whole, while gaining about half a percentage point in Italy. Business surveys indicate moderate expansion in December and the following months. The composite purchasing managers index rose in December and was above the level consistent with an expansion of economic activity for the sixth consecutive month. The outlook for the major economies remains uneven; a rise in Germany was accompanied by a decline in the index for France, which is below the expansion threshold both in the service sector and in manufacturing.

Figure 5

€-coin coincident cyclical indicator and GDP in the euro area (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", *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 net of the most erratic components.

The domestic demand recovery is uncertain …

Household demand, des-pite some signs of im-provement, has been slow to pick up. Area-wide retail sales were stationary on average in October and November. From September through November new car registrations increased on a seasonally adjusted basis, powered by rising sales in Germany, as against a decline in Italy. According to the surveys coordinated by the European Commission, consumer confidence in the area rose in December, continuing the uptrend under way since the end of 2012.

… while foreign demand grows

The latest data confirm the upward trend in sales abroad. On average in the three months ending in October, the area's seasonally adjusted goods exports increased by 0.6 per cent at current prices by comparison with the third quarter.

The short-term outlook remains favourable. In December the foreign-order component of the area's PMI held above the level consistent with an expansion of sales for the sixth consecutive month.

The analysts polled by Consensus Economics in December estimated a decline of 0.4 per cent in area-wide GDP for 2013 as a whole and an upturn to growth of 1.0 per cent in 2014. These forecasts are in line with the Eurosystem staff projections released in December (contraction of 0.4 per cent in 2013 and growth of 1.1 per cent this year).

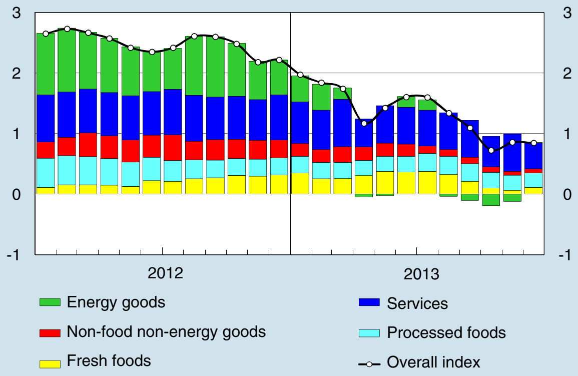
Inflation remains low

During the autumn months inflation fell to extremely low levels, and in December it fell further to a twelve-month rate of 0.8 per cent (Figure 6). Both the volatile and the core components contributed; the rise in the latter in particular was historically small in November (0.7 per cent).

Figure 6

Inflation in the euro area and contributions of the components (1)

(monthly data; 12-month percentage changes and percentage points)



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices.

Cost pressures eased further. Producer prices fell by 1.2 per cent in November, on a twelve-month basis, reflecting the decline in the prices of intermediate inputs and energy. Cyclical surveys indicate that the slack trend will continue in 2014. Firms' anticipations for their own prices and households' expectations for retail prices held steady at low levels. The analysts polled by Consensus Economics in December forecast area-wide inflation of 1.1 per cent in 2014 (down from a forecast of 1.4 per cent in October), in line with the Eurosystem staff projections.

Monetary growth slows …

The euro area's M3 aggregate decelerated to twelve-month growth of 1.5 per cent in November. Contributing factors were a portfolio shift towards non-monetary assets, characterized by higher yields, partially offset by a preference for more liquid assets that favoured the growth in overnight deposits (6.9 per cent). The expansion of the money supply was sustained by capital inflows for the purchase of euro-area issues of financial assets.

… and lending to firms diminishes

Lending to firms diminished during the three months ending in November at a seasonally adjusted annual rate of 3.6 per cent (net of the accounting effect of securitizations), while that to households slowed to 0.6 per cent. Overall, lending to the non-financial private sector contracted by 1.3 per cent. In the main countries, lending to firms again declined, on a twelve-month basis, in Spain, Ireland and less markedly in Germany, while rising marginally in France and the Netherlands.

Monetary conditions are expansive

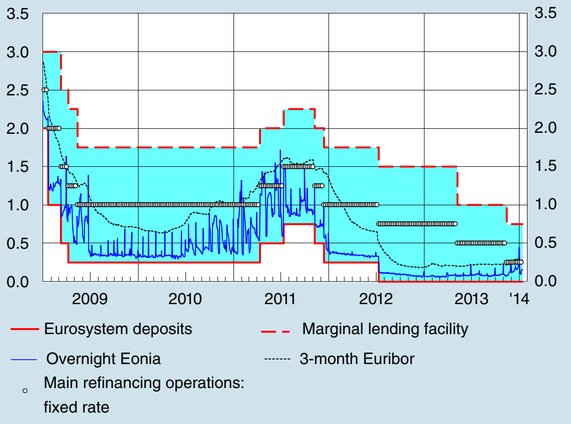
Given the prospects for protracted low inflation, modest monetary and credit growth and slack economic activity, at its meeting in early November the ECB Governing Council lowered its rates on main refinancing operations and the marginal lending facility by 25 basis points to 0.25 and 0.75 per cent respectively. The rate on overnight deposits with the Eurosystem was kept unchanged at 0.0 per cent (Figure 7). At its January meeting the Council firmly reiterated its forward guidance to the effect that it continued to expect the key ECB interest rates to remain at present or lower levels for an extended period of time. It also decided to keep on conducting all its refinancing operations by means of fixed-rate auctions with full allotment for as long as necessary and in any case at least until July 2015.

Liquidity remains abundant

Banks' deposits of liquidity with the Eurosystem in excess of the reserve requirements remained abundant, despite decreasing once again (to €155 billion in mid-January, from €216 billion at the end of September). The diminution reflects the early repayment of part of the funds the banks obtained in the two three-year refinancing operations in December 2011 and February 2012. By the end of December these repayments totalled €446 billion, or 44 per cent of the financing supplied.

Figure 7

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



Sources: ECB and Thomson Reuters Datastream.

Money market rates have risen slightly, owing in part to banks' increased demand for liquidity with a view to their end-year accounts. In mid-January overnight Eonia and the three-month unsecured interbank lending rate (Euribor) stood at 0.15 and 0.28 per cent respectively, up from 0.08 and 0.22 per cent at the end of September (Figure 7).

The countries most exposed to tensions make progress

The euro-area countries most severely affected by the strains in the sovereign debt market have made progress. The international financial assistance programme for Ireland was terminated. Moody's revised its rating of Greece upwards, and Standard and Poor's raised its rating for Cyprus. An indication of diminishing segmentation of euro-area financial markets along national lines is the reduction in the national central banks' TARGET2 balances. However, the national cost of credit to firms remains highly heterogeneous.

The construction of the Banking Union proceeds

The construction of the European Banking Union is moving ahead. In November the ECB and the national supervisory authorities began a comprehensive assessment of the balance sheets and risk profiles of the banks that will be supervised directly by the ECB. The assessment will comprise a risk analysis, an asset quality review and a stress test coordinated together with the European Banking Authority. [1]

On 18 December the Ecofin Council reached agreement on a single bank resolution mechanism and on its characteristics, with the creation of a single resolution fund. The fund will attain full financial capacity of €55 billion after a protracted transitional period. At first it will consist of national compartments, which will be gradually unified by a process of mutualization to be completed by 2025. During the transition the necessary resources will be provided either by national governments or by the European Stability Mechanism in keeping with the established procedures for the recapitalization

[1] See *Financial Stability Report* No. 6, November 2013, and the ECB's press release "ECB starts comprehensive assessment in advance of supervisory role" of 23 October 2013.

of troubled financial institutions. The single bank resolution mechanism represents one more essential step towards the completion of the Banking Union. The EU Council, at its meetings of 19 and 20 December, asked the member states to approve it before the end of the current European legislature in May.

1.3 WORLD FINANCIAL MARKETS

From November, the improvement in the growth prospects of the advanced economies triggered a rise in share prices and long-term interest rates. The recovery continued even after the Federal Reserve's announcement in mid-December that it would start to taper its monetary stimulus. Risk premiums in the public and private debt markets declined.

Long-term interest rates increase slightly

Towards the end of 2013 the interest rates on ten-year government bonds increased. The rise between the end of September and the middle of January was 25 basis points in the United States and 12 points in the United Kingdom (Figure 8), reflecting the progressive improvement in the economic situation. In Japan long-term yields remained unchanged.

Sovereign risk premiums decrease in the euro area

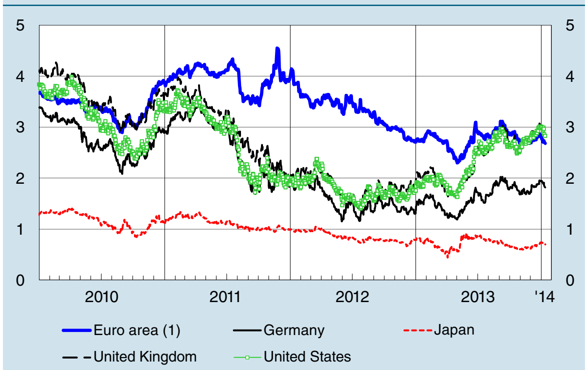
Tensions on the euro-area sovereign debt market continued to subside, thanks in part to the stronger prospects of economic recovery and to the monetary policy action of the ECB. Premiums on sovereign credit default swaps and interest-rate spreads with Germany diminished significantly in all the euro-area countries directly affected by the tensions, for both short-term and medium- and long-term maturities (Figure 9). The led to an average area-wide drop of 20 basis points in yields on ten-year securities.

Banks' and firms' risk premiums also decrease

During the same period risk premiums in the private debt market also diminished. The premiums on five-year credit default swaps of the leading banks declined by 73 basis points in the euro area and by 35 points in the United States. The yield spreads between the securities of non-financial companies and the corresponding government securities narrowed both for investment-grade securities and, more sharply, for high-yield bonds (Figure 10).

Figure 8

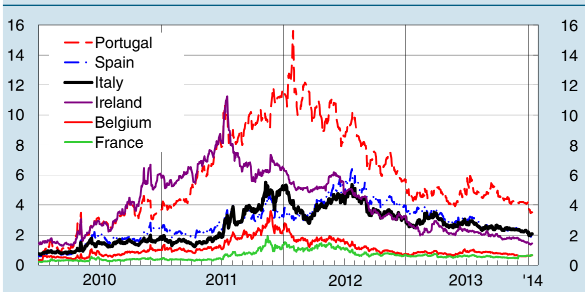
Yields on 10-year government bonds
(daily data; per cent)



Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the 10-year benchmark government securities of the euro-area countries except Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

Figure 9

Yield spreads between 10-year government bonds and the German Bund
(daily data; percentage points)

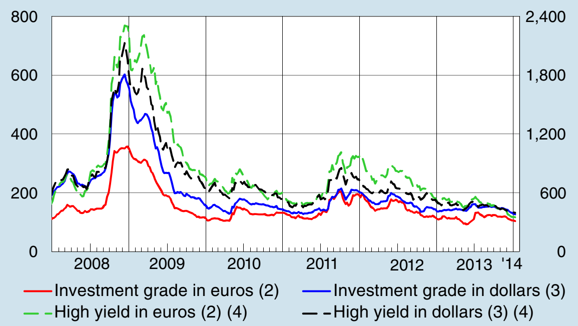


Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Figure 10

Yield spreads between bonds of non-financial corporations and government securities in euros and dollars (1)

(end-of-week data; basis points)

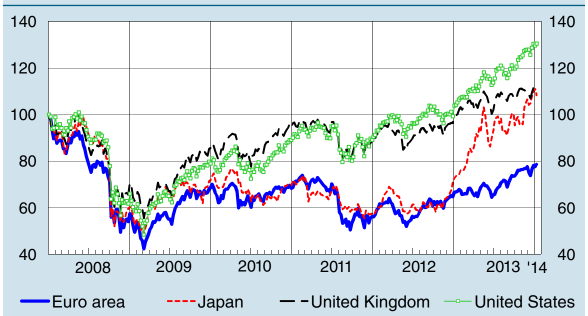


Source: Merrill Lynch.
(1) Investment-grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High-yield bonds are those issued by corporations rated below those grades. – (2) Fixed-rate bonds with a residual maturity of not less than one year, issued on the Euromarket; yield spreads are calculated with respect to French and German government securities. – (3) Fixed-rate bonds denominated in dollars with a residual maturity of not less than one year issued on the US domestic market; yield spreads are calculated with respect to US Treasury securities. — (4) Right-hand scale.

Figure 11

Stock market indices (1)

(end-of-week data; first week of January 2008=100)

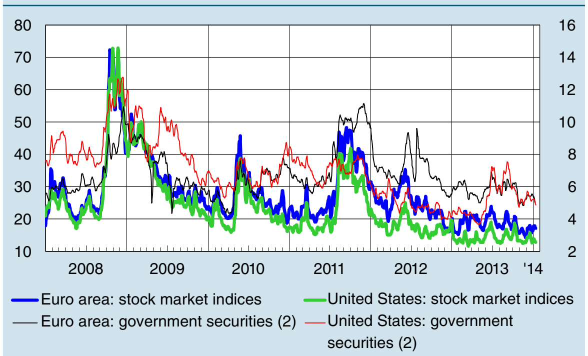


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 12

Implied volatility of stock market indices and government securities prices (1)

(daily data; percentage points)



Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for the United States. – (2) Right-hand scale.

Share prices continue to pick up in the advanced economies

From the end of the third quarter the stock market indices in the advanced countries recorded gains, mainly thanks to good data on the recovery (Figure 11). The Fed's announcement in mid-December of the cautious start of tapering, together with a reinforcement of forward guidance, led to further generalized increases. During the fourth quarter share prices rose more sharply in the United States and Japan (by 8.8 and 9.6 per cent respectively) than in the euro area (6.4 per cent) and United Kingdom (4.1 per cent). Uncertainty, measured by the volatility implied by stock index options, increased in December before diminishing slightly after the Fed's decisions (Figure 12).

Financial conditions in the emerging economies improve

Conditions on the financial markets of the emerging countries bene-fited from the generalized increase in risk appetite, which so far has more than offset the uncertainty regarding the strength of the domestic cyclical recovery and the decisions of the Federal Reserve. Share prices rose and sovereign risk premiums fell slightly. However, the gap with respect to stock market indices in the advanced countries widened: in mid-January share prices in the emerging economies were 7.6 per cent lower than at the beginning of 2013, compared with a gain of 24.8 per cent in the G7 countries.

The euro continues to strengthen

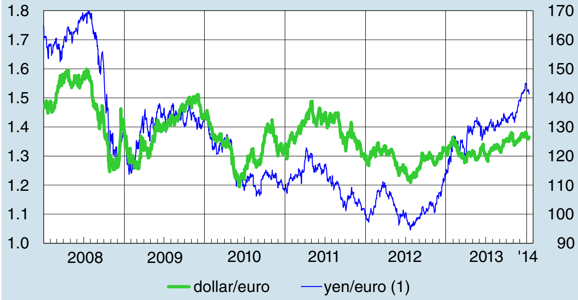
The euro continued to appreciate in the fourth quarter, mainly reflecting inward portfolio investment in the area probably associated with the decline in sovereign risk. The reduction of official interest rates by the ECB caused only a fleeting depreciation of the currency. From the end of September to mid-January, the euro gained 1.2 per cent against the dollar and 7.5 per cent against the yen, while it remained virtually stable against sterling (Figure 13). The nominal effective exchange rate appreciated by 1.3 per cent.

Following the depreciation of the currencies of the emerging countries with weaker macroeconomic fundamentals during November, conditions on the currency markets became generally relaxed, even after the start of the Fed's tapering.

Figure 13

Bilateral exchange rates

(daily data)



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

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

The prolonged decline in Italian GDP, under way since the summer of 2011, came to a halt in the third quarter of 2013. Consistent signs of moderate growth in economic activity have emerged in recent months. Industrial production appears to have increased in the fourth quarter of 2013, driven above all by foreign demand. Despite the improvement in business confidence, the recovery continues to be adversely affected by the fragility of the labour market, which is holding back the growth in disposable income, and credit market conditions.

The fall in GDP comes to a halt ...

In the third quarter of 2013 Italy's GDP stabilized, interrupting a contraction that had started in the summer of 2011 (Figure 14 and Table 2), while value added grew slightly in industry excluding construction and stopped falling in construction and the service sector.

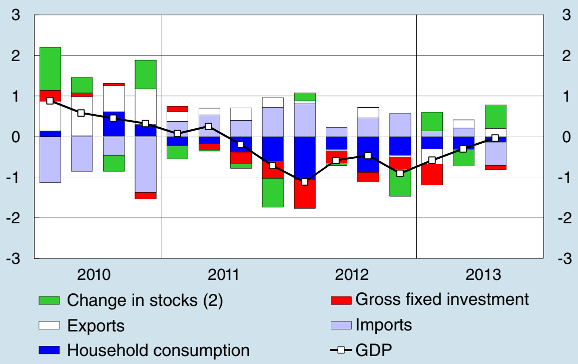
The main contribution to growth came from the change in stocks (Figure 14); this aggregate includes not only the replenishment of working capital but also statistical discrepancies, which are likely to be larger in a period of uncertainty. The decline in consumption of 0.2 per cent was smaller than in the previous quarters; it was accompanied by a fall of 1.2 per cent in investment in capital goods, after it had risen in the spring, and the stabilization of construction investment. Exports grew, while imports rose sharply after declining for ten successive quarters.

... and there are signs of a modest recovery at the end of 2013

According to the cyclical indicators GDP is likely to have grown slightly in the last quarter of 2013. The

Figure 14

GDP growth and contributions of its main determinants (1)
(quarterly data; percentage points)



Source: Based on Istat data.
(1) The formula for calculating the contributions to real GDP growth in accordance with the methodology for price deflation based on chain linking is available at www.istat.it – (2) Includes valuables.

Table 2

GDP and its main components (1)
(percentage changes on previous period)

	2012 Q4	2012 (2)	2013 Q1	2013 Q2	2013 Q3
GDP	-0.9	-2.5	-0.6	-0.3	..
Total imports	-2.0	-7.4	-0.5	-0.7	2.0
National demand (3)	-1.5	-5.3	-0.4	-0.7	0.3
National consumption	-0.6	-3.8	-0.4	-0.4	-0.2
household spending	*-0.8*	*-4.2*	*-0.5*	*-0.5*	*-0.2*
other spending (4)	..	*-2.6*	*0.1*	..	..
Gross fixed investment	-1.7	-8.3	-2.9	..	-0.6
construction	*-1.2*	*-6.4*	*-4.0*	*-0.9*	..
other investment goods	*-2.1*	*-10.4*	*-1.7*	*1.0*	*-1.2*
Change in stocks and valuables (5)	-0.7	-0.7	0.5	-0.4	0.6
Total exports	-0.1	2.0	-1.2	0.7	0.7
Net exports (6)	0.5	2.9	-0.2	0.4	-0.4

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes the change in stocks and valuables. – (4) Expenditure of general government and non-profit institutions serving households. – (5) Includes valuables. Contributions to GDP growth on previous period, in percentage points. – (6) Contributions to GDP growth on previous period, in percentage points.

persistent slackness of domestic demand, which is adversely affected by the fragility of the labour market and the weakness of disposable income, contrasted with a more positive picture for industrial activity. In December business confidence improved again, although only to a limited extent; the purchasing managers' index for manufacturing firms also rose, remaining above the level compatible with an increase in activity for the sixth successive month. According to our estimates, industrial production expanded in the fourth quarter.

Inflation falls below 1 per cent

The twelve-month rate of consumer price inflation (measured by the harmonized index of consumer prices) has been below 1.0 per cent since September, and in December it was 0.7 per cent (see the box "The recent performance of inflation"). In the same month core inflation fell from 1.1 per cent in November to a historically low level of 0.9 per cent.

2.2 FIRMS

After declining almost without interruption since the summer of 2011, industrial production rose in the last few months of last year. The qualitative indicators based on business opinion surveys are consistent with a further increase in production in the coming months.

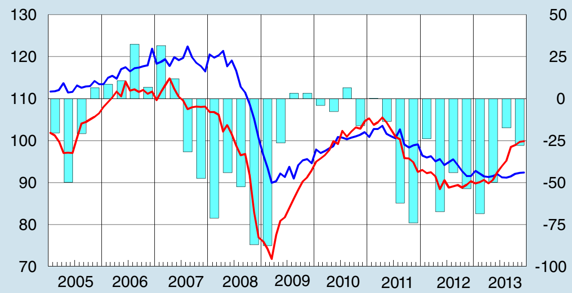
Industrial production is growing again

In November industrial production increased by 0.3 per cent on the previous month, continuing the modest upward trend that began in September (Figure 15). The main contribution to manu-facturing output came from the capital and intermediate goods and energy sectors, while the consumer goods sector declined. According to our estimates, in the last quarter of 2013 industrial production grew by about one per cent, the first quarterly increase for more than two years.

Figure 15

Industrial production and business confidence

(monthly data)



Sources: Based on Istat, Terna and Bank of Italy data.
(1) Balance in percentage points of the "better" and "worse" responses to the question in the Bank of Italy-*Il Sole 24 Ore* quarterly survey on the state of the economy reported in "Survey on inflation and growth expectations. December 2013", published in Supplements to the *Statistical Bulletin* 2, 2014; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; index, 2010=100. The figure for December 2013 is estimated on electricity consumption and the indicators of Istat surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions on firms' assessment of demand, production expectations and stocks of finished products; index, 2010=100. – (4) In June 2013 methodological changes were introduced concerning the sample and the survey techniques; accordingly the data published from that date on are not directly comparable with those of the preceding months.

Business confidence is improving ...

The qualitative indicators point to an increase in industrial production in the early months of this year as well. In December there was a further slight gain in the index of business confidence, which returned to the level observed at the beginning of 2011. For the sixth successive month the PMI indicator of the manufacturing sector remained above the level compatible with an increase in activity. In the quarterly survey conducted in December in collaboration with *Il Sole 24 Ore*, firms' assessments of the short-term outlook were almost the same as those of the previous survey, which had shown a strong recovery (see the box "The outlook for investment by Italian firms in the Survey on Inflation and Growth Expectations"). However, the dispersion of the results by firm size, sector and location remains wide (see the box "The dispersion of cyclical trends").

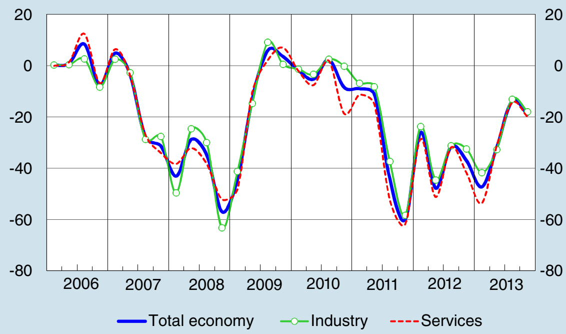
THE OUTLOOK FOR INVESTMENT BY ITALIAN FIRMS IN THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

Between 2 and 17 December the Bank of Italy together with *Il Sole 24 Ore* conducted a quarterly survey on a sample of firms with at least 50 workers. Several positive findings from September's survey were confirmed, albeit in a context of continuing uncertainty and dispersion of firms' outlooks. Their assessments of the general economic situation were mainly oriented towards the stabilization of the economic outlook and were among the most favourable of the last six quarters.

The balance of responses on conditions for investment, despite declining slightly among firms in industry (excluding construction) and services, was in line with the assessments of the period immediately prior to the most acute phase of the sovereign debt crisis in the second half of 2011 (see the figure). Following a prolonged contraction, investment was expected to stabilize this year at the levels of 2013. In all the main sectors around half of the firms expected expenditure to remain unchanged in nominal terms; the balance between plans to increase or cut spending remained negative for service firms, while it was barely positive for those in industry and more so for those in construction (see the table).

Firms said that investment had benefited from improved liquidity conditions, ascribable to an easing of the difficulty in accessing credit (see the box "Credit supply and demand in Italy"), and the payment of arrears by general government. Overall, in the second half of 2013 such payments are estimated to have been received by 10.9 of the 34.9 per cent of industrial and service firms that were entitled to them. However, despite the fact that a growing number of firms believe they have weathered the most difficult economic phase in the last six months (about one third of industry and service firms), persistent weak demand continues to weigh on investment plans.

Assessment of the conditions for investing compared with the previous quarter (1)
(percentage points)



(1) Balance between expectations of an improvement and expectations of a deterioration compared with the previous quarter in the Bank of Italy - *Il Sole 24 Ore* quarterly "Survey on Inflation and Growth Expectations, December 2013", published in Supplements to the *Statistical Bulletin*, No. 2, 2014.

Firms' expectations with regard to investment (1)
(per cent)

RESPONSES	Industry	Services	Industry and services
	Spending on investment planned for 2014 with respect to that carried out in 2013		
Higher	26.7	20.6	23.8
About the same	46.8	54.2	50.3
Lower	26.5	25.2	25.9
	Expectations of spending on investment in the first half of 2014 with respect to that carried out in the second half of 2013		
Higher	23.6	24.0	23.8
About the same	52.7	53.9	53.2
Lower	23.7	22.1	22.9

(1) Percentages weighted by the number of firms in the Bank of Italy – *Il Sole 24 Ore* quarterly "Survey on inflation and growth expectations, December 2013", published in Supplements to the *Statistical Bulletin* No. 2, 2014. Rounding may cause discrepancies in totals.

THE DISPERSION OF CYCLICAL TRENDS

The signs of stabilization and recovery in productive activity, which emerged for the economy as a whole in the last two quarters of 2013, are still highly diversified; they have not yet spread to all areas of the country or to all sectors of economic activity.

Against the backdrop of a recovery largely driven by exports and persistently weak domestic demand (especially for consumption), the outlook remains fragile for smaller businesses and for those that produce for the domestic market. Italy's South is particularly vulnerable, given its heavier reliance on domestic demand owing to the lower number of export-oriented firms (most of which are highly specialized in less dynamic sectors).

The high dispersion of cyclical trends was confirmed in surveys of firms. According to the Bank of Italy's quarterly survey conducted last autumn on a sample of around 4,000 industrial and service firms with more than 20 workers,[1] in September the indications of a recovery in investment were confined to the Centre and North of Italy and to medium-sized and large firms (with over 200 workers; Figure A).[2]

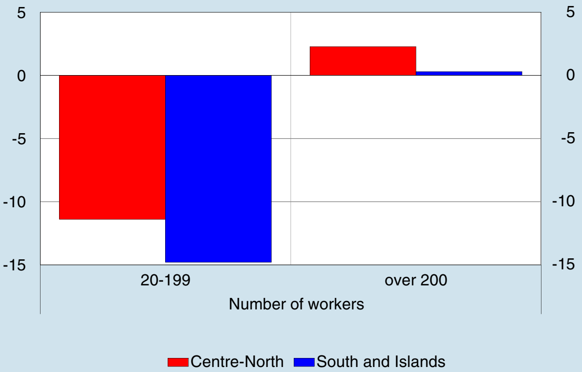
According to the same survey, the signs of an improvement in the turnover of industrial firms in the first nine months of 2013 were clearer in the Centre and North and barely perceptible in the South (Figure B).

According to Istat's monthly surveys, the improvement in businesses' assessments of trends in manufacturing and orders was confined, until the autumn, to the regions of the Centre and North, reflecting the strength of exports. However, the December survey indicates that from the third quarter onwards the improvement extended to the regions of the South.

The dispersion is also visible in employment trends. In the first three quarters of 2013 employment continued to contract rapidly in the South, while it remained substantially stable in the Centre and North (Figure C). In the same period the employment rate fell by 1.0 per cent on the corresponding year-earlier period in the Centre and North, and by 1.7 per cent in the South, owing above all to job losses among men; trends in female employment were less negative (-0.5 per cent in the Centre and North and -1.0 per cent in the South), owing to the increase in the female participation rate, above all among households in the lowest income bracket and in regions where the increase in unemployment was most marked.[3]

Figure A

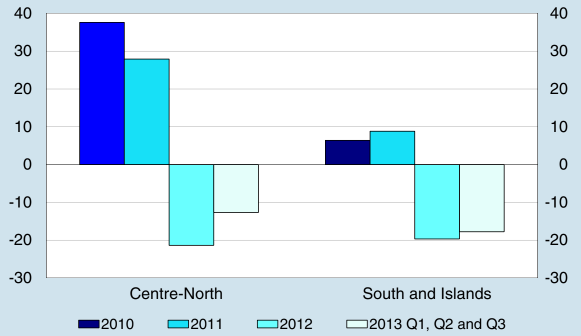
Investment by industrial and service firms by size (1)
(2013 H2 compared with 2013 H1)



Source: "Business Outlook Survey of Industrial and Service Firms" published in Supplements to the *Statistical Bulletin*, No. 56, 2013.
(1) Balance between the share of firms signalling an increase in investment and those signalling a decrease.

Figure B

Turnover of industrial firms (1)



Sources: "Business Outlook Survey of Industrial and Service Firms" published in Supplements to the *Statistical Bulletin*, No. 56, 2013 and based on the Bank of Italy's surveys of industrial firms in 2011, 2012 and 2013.
(1) Balance between the share of firms signalling an increase in investment and those signalling a decrease with respect to the previous year.

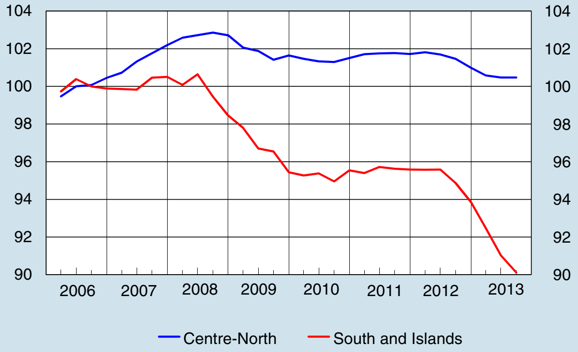
[1] See Supplements to the *Statistical Bulletin*, No. 56, 2013.

[2] See "L'economia delle regioni italiane: dinamiche recenti e aspetti strutturali", Banca d'Italia, *Regional Economies*, No. 23, 2013.

[3] See *Annual Report*, 2012.

Figure C

Employment (1)
(index numbers; 2006=100)



Source: Based on Istat labour force surveys.
(1) Data adjusted for seasonal effects.

GDP by macro area
(percentage changes; chain-linked values, reference year 2005)

	Italy	Centre-North	South and Islands
2005	0.9	0.9	1.0
2006	2.2	2.3	1.8
2007	1.7	1.8	1.1
2008	-1.2	-1.1	-1.4
2009	-5.5	-5.6	-5.1
2010	1.7	2.4	-0.3
2011	0.5	0.8	-0.5
2012	-2.5	-2.4	-2.9
2010-12	-0.4	0.7	-3.8

Source: Based on data from Istat, *Conti economici regionali*, November 2013.

Since 2009 Italy's southern regions have accumulated a 3.8 per cent reduction in GDP set against an increase of 0.7 per cent in the Centre and North (see the table). The South failed to take advantage of the brief recovery of 2010-11, owing to the lower incidence of foreign demand on economic activity and the greater weight of the public sector; output has fallen uninterruptedly since 2008.

Looking ahead, the consolidation of the recovery and its extension to all sectors of activity and to the labour market will depend crucially on the recovery of domestic demand.

... but investment remains weak

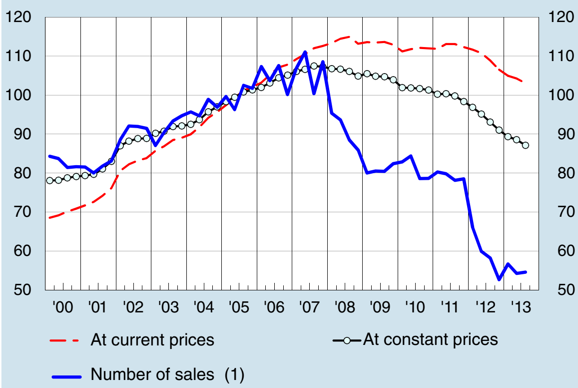
Investment in capital goods nonetheless turned downwards in the third quarter of 2013, declining by 1.2 per cent compared with the previous quarter and almost completely annulling the recovery recorded in the spring. The fall of 1.1 per cent in purchases of machinery and equipment (as against that of 0.2 per cent in the second quarter) was accompanied by an even larger one for purchases of transport equipment, although this was marked by considerable volatility. On the basis of the quarterly survey of firms conducted in December in collaboration with *Il Sole 24 Ore*, in the last three months of 2013 investment conditions, although they worsened slightly after the pronounced improvement recorded by the two previous surveys, remained at the level obtaining before the onset of the recession in 2011 (see the box "The outlook for investment by Italian firms in the Survey on Inflation and Growth Expectations").

The fall in investment in construction comes to a halt

In the third quarter investment in construction, which had been falling since the beginning of 2011, stabilized both for residential buildings

Figure 16

House prices and sales in Italy
(quarterly data; indices, 2005=100)



Sources: Based on Agenzia del Territorio, Bank of Italy, Istat and *Consulente Immobiliare* data.
(1) Adjusted for seasonal and calendar effects.

and for the rest of the sector. Territory Agency data, adjusted for seasonal and calendar effects, show that the number of house sales was at the level of the last quarter of 2012 and more than 50 per cent down on the quarterly average for 2007 (Figure 16). The fall in house prices with respect to the previous period accelerated from 0.6 per cent in the second quarter to 1.2 per cent in the third. According to the quarterly survey conducted in December in collaboration with *Il Sole 24 Ore*, construction firms expect an overall improvement in the medium-term outlook, in line with the results of the previous survey.

Price competitiveness is affected by the appreciation of the euro

Italian firms' competitiveness, measured on the basis of the producer prices of manufactures, worsened slightly in October (Figure 17); according to our estimates, the average for November and December continued to be affected by the appreciation of the euro in nominal effective terms. Firms' competitiveness is nonetheless better than in 2009.

Firms' operating profitability remains low

According to estimates based on the national accounts, in the third quarter of 2013 the operating profitability of non-financial enterprises – measured as gross operating profit over value added with reference to the twelve months to September – rose slightly but remained at a very low level. The further contraction in fixed investment and the increase in self-financing caused firms' funding needs to decline in relation to value added. On the same basis, firms' net financial costs remained virtually unchanged.

Firms' bank borrowing decreases further ...

The contraction in bank lending to firms accelerated to 5.8 per cent in the twelve months to November (Figure 18). The total outstanding debt of firms fell below 80 per cent of GDP (Figure 19).

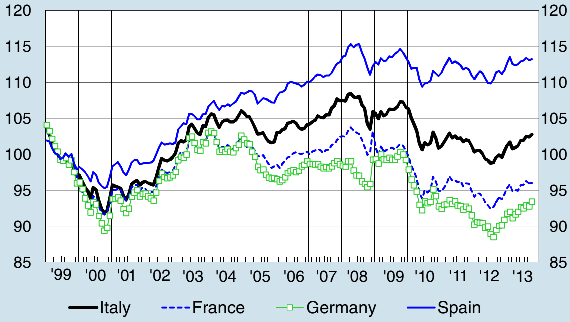
... but their net bond issues are positive

Italian firms' net bond issues rose to €9.0 billion in the third quarter, up from €3.5 billion in the second (Table 7). According to Dealogic data, gross issues in the fourth quarter

Figure 17

Indicators of competitiveness (1)

(monthly data; indices, 1999=100)

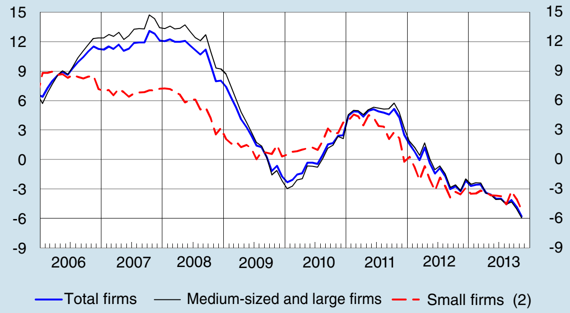


Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to October 2013.

Figure 18

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)

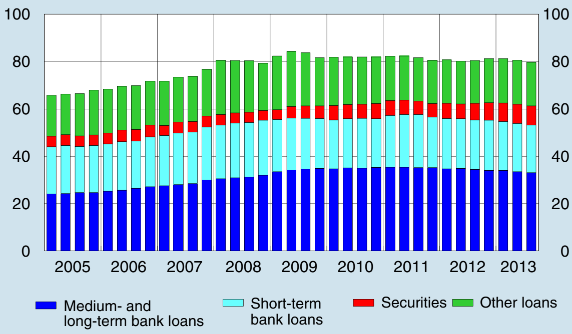


(1) Non-financial firms. Data adjusted for the accounting effect of securitizations. Loans include repos and bad debts. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Figure 19

Debt of non-financial firms (1)

(quarterly data; per cent of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the 12 months ending in the quarter in question. Debt is net of intra-sector exposures and includes securitized loans.

by companies belonging to Italian groups amounted to €6 billion. The issues were made by large firms.

2.3 HOUSEHOLDS

The decline in household consumption lessened in intensity in the third quarter of 2013 although the weakness of disposable income and difficult labour market conditions were brakes on spending. The recovery of confidence that began at the start of 2013 halted in the fourth quarter.

Household spending declines slightly ...

In the third summer months consumption fell by 0.2 per cent; the decline was the smallest since the start of the recession. Against a 1.4 per cent increase in spending on semi-durable goods, there was a fall in that on non-durable goods and services (-0.3 per cent in both cases) and, more markedly, durable goods (-1.0 per cent). The decline in spending was accompanied by a slight increase in consumer households' disposable income.

In the last part of the year some signs emerged that household spending was stabilizing. In October the volume of retail sales stagnated according to the three-month moving averages; in December new car registrations remained close to the very low levels prevailing since the beginning of 2013.

... but the recovery of confidence comes to a halt

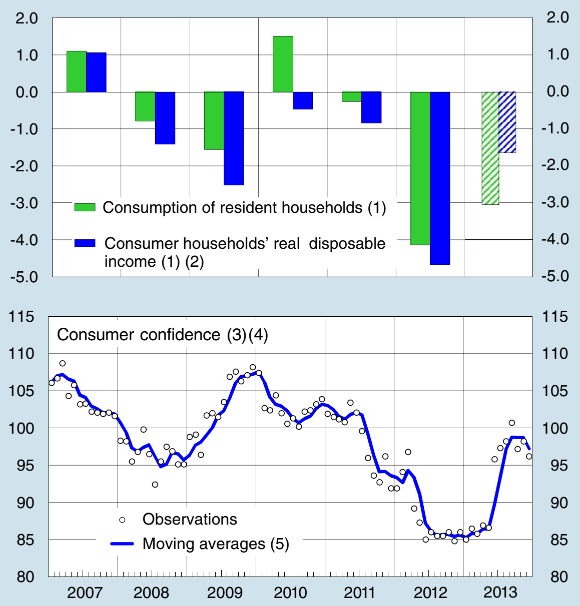
Consumer confidence had been recovering strongly since the start of last year but this trend came to a halt in the fourth quarter (Figure 20), with a slight worsening of expectations both for the economy's future performance and, to a lesser extent, for the current situation. Pessimism persists concerning the evolution of the labour market.

The debt service burden diminishes

In the third quarter the ratio of household debt to disposable income remained practically unchanged at 65 per cent (Figure 21), well below the euro-area average of about 100 per cent. Households' debt service burden (payment of interest plus repayment of principal) fell from 9.4 to 9.2 per cent of disposable income.

Figure 20

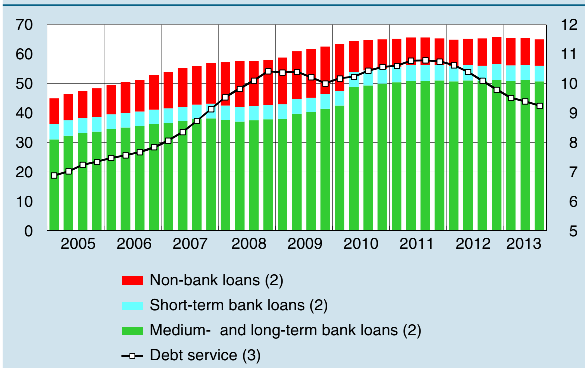
Consumption, disposable income and consumer confidence in Italy (1)
(percentage changes and indices)



Source: Based on Istat data.
(1) Chain-linked volumes; percentage changes on the previous year. Up to 2012, annual data; for 2013, percentage changes in the first 9 months compared with the same period in 2012. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices, 2005=100. – (4) In June 2013 methodological changes were introduced to the sample and survey techniques which make the latest data not directly comparable with the previous months. – (5) Monthly data; moving averages for the three months ending in the reference month.

Figure 21

Household debt (1)
(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the last quarter are provisional. Includes securitized loans. – (2) In the second quarter of 2010 there was a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. For the methodology see the note in "Monetary and Financial Indicators. Financial Accounts", Supplements to the *Statistical Bulletin*, No. 58, 2010. – (3) Right-hand scale. Estimated cost of debt service (payment of interest and repayment of principal) for consumer households only.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports of Italian goods and services continued to increase in the third quarter of 2013, benefiting from an acceleration in world trade. Imports returned to growth, in part because of temporary factors, following a decline that had lasted for ten quarters. There was further improvement in the balance on current account, in surplus since the end of 2012. In the autumn months inward capital flows continued.

In the third quarter exports increase ....

In the third quarter of 2013 exports of goods and services increased in volume by 0.7 per cent compared with the previous quarter. The goods component was sustained by exports to EU countries, notably France and Germany, set against a decline in exports to non-EU markets, which had also stagnated in the second quarter. The decline in exports to the OPEC countries and Switzerland was particularly sharp and offset only in part by an increase in sales to the more dynamic economic areas (East Asia and the United States). By sector, the growth in exports was most pronounced for machinery and equipment and, to a lesser extent, chemicals and other manufactured products; however, there was a contraction in exports of some goods that had done well in 2012 (refined petroleum products, pharmaceuticals and metals) and in most of the traditional Italian products.

... and so do imports

Following ten consecutive quarters of decline, imports of goods and services increased by 2.0 per cent in volume terms in the third quarter of 2013. There was a 1.8 per cent increase in goods purchases involving both intermediate products for rebuilding stocks and instrumental goods, in part because of temporary factors.

The outlook is favourable

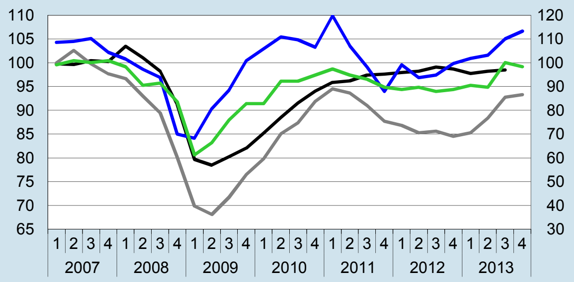
Exports declined slightly in value terms in October-November compared with the third quarter. The results of the most recent business opinion surveys are in any case consistent with a favourable trend for exports. The PMI index of foreign orders placed with manufacturing companies continued to increase, remaining well above the threshold compatible with a growth in sales; positive signals also came from firms' expectations concerning the volume of goods exported and their assessments of foreign orders, which were both stronger than in the last two years (Figure 22).

The current account surplus increases further

Italy's current account balance continued to improve, with a seasonally

Figure 22

Export volumes, foreign orders and firms' expectations
(seasonally-adjusted quarterly data; indices)



Sources: Istat and Reuters.
(1) Index: 2007=100 (national accounts data). – (2) PMI quarterly average plus 50. – (3) Quarterly average based on Istat's monthly survey of firms' opinions on the economic outlook; index, average for 2007=100 of the percentage balance of replies "increasing" and "decreasing". – (4) Based on Istat's quarterly survey of firms' opinions on the economic outlook; index, average for 2007=100 of the percentage balance between "favourable" and "unfavourable" replies.

Table 3

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

	2011	2012	Jan.-Oct. 2012	Jan.-Oct. 2013
Current account	**-48.3**	**-6.0**	**-10.0**	**7.5**
Goods	-17.4	17.8	12.4	29.5
non-energy products (2)	*42.4*	*79.3*	*64.6*	*74.4*
energy products (2)	*-59.7*	*-61.4*	*-52.2*	*-44.9*
Services	-5.7	-0.7	0.1	2.6
Income	-9.4	-7.6	-7.4	-9.8
Current transfers	-15.8	-15.5	-15.1	-14.8
Capital account	**0.6**	**3.8**	**2.2**	**-1.9**
Financial account	**72.8**	**11.0**	**20.2**	**-11.8**
Direct investment	-13.9	-6.1	-11.6	-8.4
Portfolio investment	-34.4	29.2	18.5	31.5
Financial derivatives	7.5	-5.7	-7.0	-2.3
Other investment	114.5	-4.9	22.1	-31.4
Change in official reserves	-0.9	-1.5	-1.7	-1.3
Errors and omissions	**-25.2**	**-8.8**	**-12.4**	**6.2**

(1) For October 2013, provisional data. – (2) Based on Istat foreign trade data.

adjusted surplus averaging 0.7 per cent of GDP in the first three quarters of 2013 (see the box "Italy's current account balance and merchandise exports"). Between January and October the current account was in surplus by €7.5 billion (Table 3), thanks above all to a trade surplus of €29.5 billion, an increase attributable both to the growing surplus on non-energy products and the lower energy deficit. The balance on services also improved thanks to greater inflows, in particular those related to tourism.

ITALY'S CURRENT ACCOUNT BALANCE AND MERCHANDISE EXPORTS

The current account of Italy's balance of payments has been progressively improving since the end of 2010. Having shown a persistent deficit since 2000, which reached 3.5 per cent of GDP in 2010, the balance moved into surplus at the end of 2012 and according to our estimates stood at 0.7 per cent of GDP in 2013.

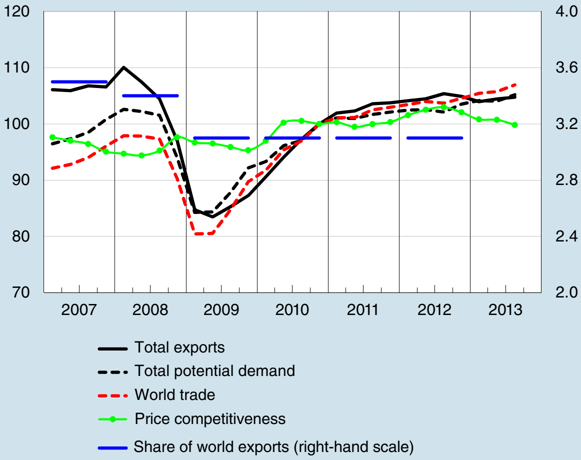
The improvement in the current account balance between the end of 2010 and the third quarter of 2013 is due not only to the contraction in imports as a result of the recession but also to the growth of exports, and in particular merchandise. The current account surplus is expected to widen further in the years to come even though the recovery is under way.

Figure A shows that over the last three years Italy's merchandise exports in volume terms have grown in line with demand in the destination markets (potential demand), measured as the sum of our trade partners' imports in volume weighted by the geographical composition of our exports. This suggests that Italian firms have mostly maintained their shares of these markets, which had instead diminished in the previous decade.

Figure A

Determinants of Italy's merchandise exports (1)

(indices, 2010 Q4=100)



Sources: Based on Istat, IMF and CPB Netherlands Bureau for Economic Policy Analysis data.
(1) The price-competitiveness index is the real effective exchange rate calculated on the basis of producer prices of manufactures. An increase denotes a gain in competitiveness. The annual share of Italian exports in world exports is calculated at constant prices and exchange rates; data for 2013 are not yet available. For the other indicators, seasonally adjusted volumes at chain-linked or constant prices.

The share of Italian exports in total world trade has also held steady since 2010 (3.1 per cent at constant prices and exchange rates), following a lengthy period of decline (Figure A). The pharmaceutical, electronics and chemical industries have performed particularly well.

Alongside these trends there has been a moderate improvement in Italy's price competitiveness. According to the indicator based on the producer prices of manufactures, the gain between the end of 2009 and the third quarter of 2013 was about 5 per cent.[1]

The potential demand for Italian exports has increased at a slightly slower pace than world trade. Contributory factors include the stagnation of imports in the euro-area countries, which are much more important for Italy than world trade: in 2010 they accounted for 44 and 25 per cent respectively, at current prices and exchange rates.

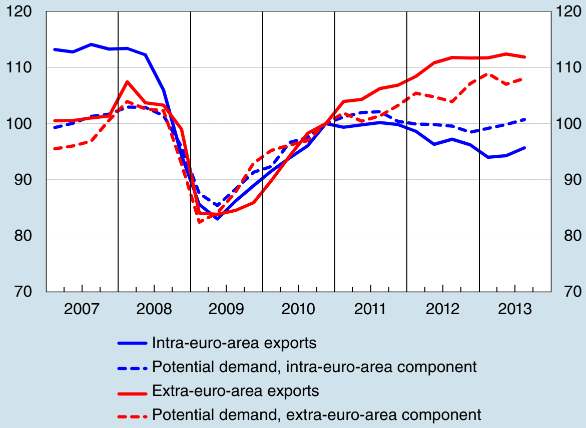
The performance of Italian exports in the last three years has also benefited from a gradual shift towards the more dynamic economies outside the euro area. Compared with the end of 2010, with exports

[1] On the difference between the various indicators of price competitiveness see C. Giordano and F. Zollino, "Going beyond the mystery of Italy's price-competitiveness indicators", *Vox*, 18 July 2013, available online at http://www.voxeu.org/article/going-beyond-mystery-italy-s-price-competitiveness-indicators.

Figure B

Geographical breakdown of Italy's merchandise exports and potential demand (1)

(indices, 2010 Q4=100)

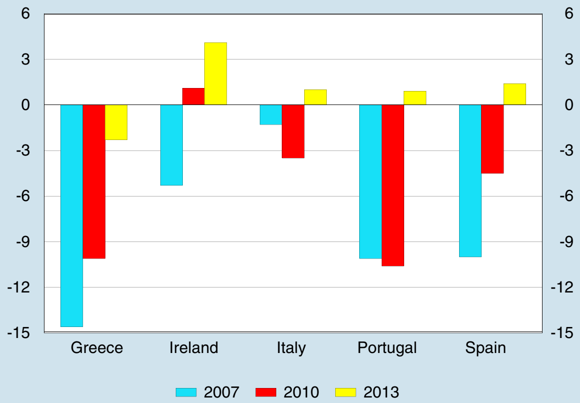


Sources: Based on Istat, IMF and CPB Netherlands Bureau for Economic Policy Analysis data.
(1) Seasonally adjusted volumes at chain-linked or constant prices.

Figure C

International comparison of current account adjustment (1)

(percentage points)



Source: Eurostat.
(1) Current account balance of each country as a percentage of GDP. For 2013, European Commission forecasts (*European Economic Forecast Autumn 2013*, November 2013).

to euro-area countries declining, the increase in those to other markets has significantly outstripped the growth in the corresponding potential demand (Figure B). There has been a particularly sharp upturn in our exports to the United States, the emerging Asian economies, Turkey and Switzerland.

In the same period, other euro-area countries that had built up much larger external imbalances than Italy since 2000 have also seen an improvement in their current account balance. The extent of the adjustment has been proportional to the magnitude of the initial deficit (Figure C). Among the economies of comparable size to Italy, a substantial adjustment has been achieved by Spain, whose exports have been growing at a particularly rapid pace since the middle of 2012.

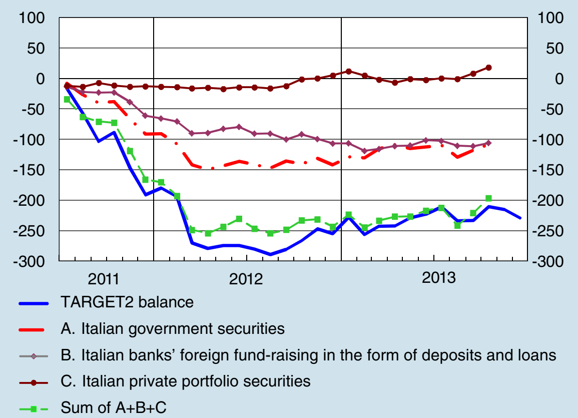
Foreign investors continue to make net purchases of Italian securities

Net foreign investment in Italian government securities turned positive in September and remained so in October; the net purchases amounted to €1.5 billion from August through October and to €33.4 billion since the beginning of the year. Non-resident investors also showed interest in equity and in bonds issued by banks and private corporations (net purchases of €8.4 billion and €9.7 billion respectively in the three months ending in October). Fund-raising by resident banks from foreign intermediaries, following the fall in August, returned to growth in the following two months. The Bank of Italy's debtor position on TARGET2 moderated to around €230 billion at the end of 2013 (an improvement of €26 billion compared with December 2012; Figure 23).

Figure 23

Cumulative capital flows of non-residents and TARGET2 balance (1)

(billions of euros)



(1) Monthly data. Bank of Italy's TARGET2 balance vis-à-vis the ECB at the end of the month; for the other variables, cumulative capital flows of non-residents from July 2011 onwards.

On the asset side, between August and October Italian residents increased both outward foreign direct investment and investment in equities and in units of foreign investment funds, while making net disinvestment in debt securities.

Italy's international investment position remains one of moderate net liability, equal to €450 billion (28.9 per cent of GDP) at the end of September. This time series has been revised to incorporate new data supplied by the Ministry for the Economy and Finance on central government departments' liabilities in financial derivatives towards foreign banks, which increased the net liability position at the end of the third quarter of 2013 by about €27 billion.

2.5 THE LABOUR MARKET

The number of persons in employment decreased again in the third quarter of 2013, although less than in the previous quarters. In the economy as a whole, the number of hours worked per employee continued to rise, most sharply in industry excluding construction, while the number of wage supplementation hours authorized was virtually stable. However, there was a further rise in the unemployment rate. Recent indications are that employment stabilized in the last quarter of the year. The moderation of labour costs per full-time equivalent employee (FTE) continued, partly owing to the cyclical weakness of the economy.

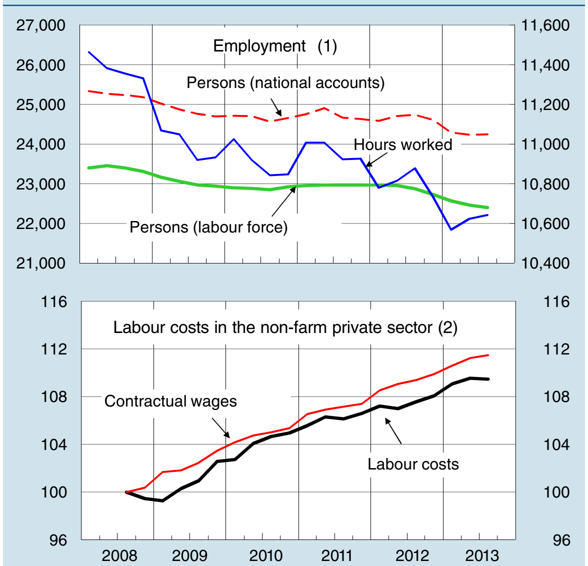
The fall in employment slows

The decline in employment under way since spring 2012 slowed further in the summer of 2013. According to Istat's labour force survey, employment fell less sharply, on a seasonally adjusted basis, than in the previous four quarters and was down 0.3 per cent on the second quarter (Figure 24). The survey also showed a year-on-year decrease of 2.3 per cent (about 520,000 persons) in the third quarter, against 2.5 per cent in the second (Table 4). Payroll employees on fixed-term contracts were again worse affected than permanent employees, with the numbers in work down by 7.4 and 1.3 per cent respectively. As full-time employment declined less rapidly than in previous quarters and the growth in part-time jobs slackened sharply, the shift towards the latter began to attenuate. According to provisional figures for October and November the decrease in employment eased slightly to 2.2 per cent compared with a year earlier. The expectations of the industrial and private service firms surveyed by Istat do not foreshadow a significant reduction in labour demand in the early months of 2014.

Figure 24

Employment and labour costs

(seasonally adjusted quarterly data; thousands of persons; millions of hours; indices)



Sources: Istat labour force survey and quarterly national accounts; calculations based on Istat survey of contractual wages.
(1) Persons in employment as defined in the quarterly national accounts and the labour force survey (left-hand scale); hours worked as defined in the quarterly national accounts (right-hand scale), calendar adjusted. – (2) Contractual wages per full-time employee and labour costs per FTE as defined in the quarterly national accounts (indices, 2008 Q3=100).

Hours worked per employee increase, particularly in industry

In the third quarter of 2013 the first signs emerged of an upturn in labour intensity: the total number of hours worked in the economy increased by 0.2 per cent with respect to the second quarter, entirely as a result of the rise in hours per employee (Figure 24). The number of

Table 4

Occupational status of the population (1)
(thousands of persons)

	Average Jan.-Sept. 2012	Average Jan.-Sept. 2013	Change (2)	2012 Q3	2013 Q3	Change (3)
Total persons in work	**22,930**	**22,424**	**-2.2**	**22,951**	**22,430**	**-2.3**
of which:						
non-farm private sector (4)	*17,447*	*17,072*	*-2.1*	*17,602*	*17,153*	*-2.6*
Employees	**17,209**	**16,881**	**-1.9**	**17,286**	**16,915**	**-2.1**
of which:						
non-farm private sector (4)	*12,528*	*12,314*	*-1.7*	*12,690*	*12,382*	*-2.4*
fixed-term	*2,378*	*2,236*	*-6.0*	*2,447*	*2,267*	*-7.4*
part-time	*3,080*	*3,177*	*3.2*	*3,081*	*3,111*	*1.0*
Self-employed	**5,721**	**5,544**	**-3.1**	**5,666**	**5,514**	**-2.7**
of which:						
non-farm private sector (4)	*4,919*	*4,759*	*-3.3*	*4,912*	*4,772*	*-2.9*
Labour force	**25,592**	**25,489**	**-0.4**	**25,432**	**25,273**	**-0.6**
Men	*14,898*	*14,784*	*-0.8*	*14,847*	*14,731*	*-0.8*
Women	*10,694*	*10,705*	*0.1*	*10,585*	*10,542*	*-0.4*
Population	**60,500**	**60,657**	**0.3**	**60,531**	**60,686**	**0.3**

Source: Istat, labour force survey.
(1) Data not seasonally adjusted. – (2) Average Jan.-Sept. 2013/average Jan.-Sept. 2012. – (3) 2013 Q3/2012 Q3. – (4) Does not include personal and household services.

wage supplementation hours requested, seasonally adjusted, held stable, although the slight increase towards the end of 2013 indicates that some uncertainty still remains. In the non-farm private sector (excluding personal and household services) hours worked per employee rose by 0.3 per cent, driven by the 0.8 per cent growth in industry excluding construction. According to Istat's quarterly survey of industrial and private service firms with ten or more employees, the increase in labour intensity was due to a further decline in the percentage of wage supplementation hours with respect to actual hours worked, notably in industry excluding construction, and to a slight increase in overtime.

Labour supply stabilizes

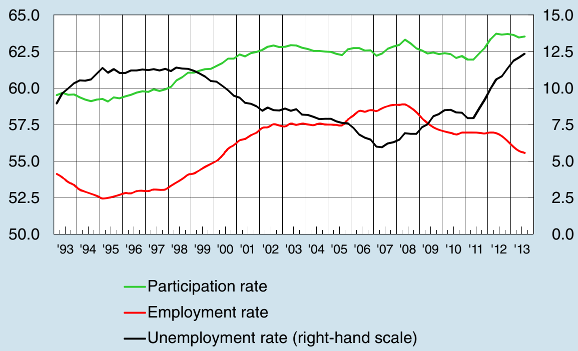
In the summer months the supply of labour, down 0.6 per cent on a year earlier, held stable at the level recorded in the second quarter (Table 4). According to provisional figures based on Istat's labour force survey for October-November, labour supply remained unchanged in the final quarter as well. The overall participation rate decreased by 0.3 percentage points with respect to a year earlier, to 62.8 per cent, and the rate for 15-to-24 year-olds by 1.4 points, to 27 per cent.

Unemployment remains high, especially among young people

With labour supply unchanged and demand falling slightly, the unemployment rate rose to 12.3 per cent in the third quarter from 12.1 per cent in the second (and from 10.8 per cent a year earlier; Figure 25).

Figure 25

Participation, unemployment and employment rates
(seasonally adjusted quarterly data; per cent)



Source: Istat, labour force survey.

Youth unemployment (in the 15-24 age group) increased from 38.9 to 40.1 per cent. Given the low participation rate of this age group, the number of persons unemployed rose to 10.1 per cent of the total reference population, from 9.1 per cent in the year-earlier quarter. Provisional data from the labour force survey indicate that on average in October and November the unemployment rate held at the September level of 12.6 per cent, while youth unemployment rose to 41.5 per cent.

The slowdown in labour costs per FTE continues

Labour costs per FTE in the non-farm private sector (excluding personal and household services) were practically stationary in the third quarter, falling by just 0.1 per cent compared with the second. They contracted by 0.6 per cent in industry excluding construction after rising modestly in the course of the previous year and recorded a further moderate increase of 0.2 per cent in private services (Figure 24). In the prevalently public sector, labour costs per FTE fell by 1.3 per cent, partly because of the freeze on contract renewals and on seniority increases in general government. In the economy as a whole and in industry excluding construction they rose only slightly compared with a year earlier (respectively by 0.6 and 1.6 per cent) and in both cases less than the underlying contractual wages, which rose by 1.4 and 2.0 per cent. As a result of the moderate growth in labour costs per FTE, unit labour costs decreased in the economy as a whole (by 0.3 per cent year-on-year in the third quarter) and slowed in industry excluding construction to an increase of 1.6 per cent in the third quarter (against 4.4 per cent in the second), the sharpest deceleration of the last three years.

2.6 PRICE DEVELOPMENTS

Consumer price inflation diminished further towards the end of 2013, falling to 0.7 per cent in the twelve months to December. The inflationary impact of the increase in the main value-added tax rate that came into force in October has been modest. Although inflation remains extremely low and domestic demand is still weak, the risk of a generalized and protracted fall in prices is limited.

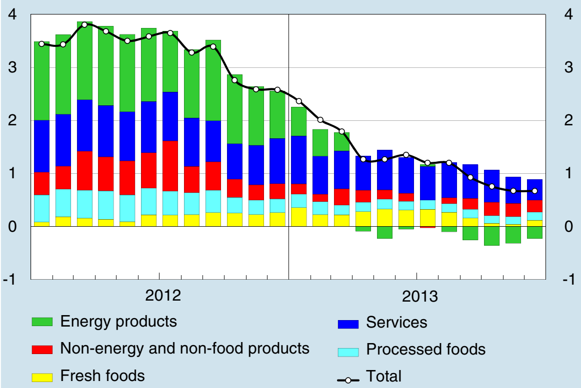
Inflation remains historically low ...

Consumer price inflation, measured by the twelve-month change in the harmonized index, was 0.7 per cent in December, the same as in November and down from 0.9 per cent in September (Figure 26 and Table 5). The downward trend in energy prices continued to be a contributory factor in keeping inflation moderate. However, core inflation (calculated by excluding the most volatile components) also fell to historically low levels (0.9 per cent), partly owing to the weakness of domestic demand (see the box "The recent performance of inflation"). The harmonized consumer price index rose by 1.3 per cent in 2013, compared with 3.3 per cent in 2012.

We estimate the impact of the VAT rate increase at the beginning of October to be slightly over 0.1 percentage points, against about 0.5 points had it been passed on in full to all the relevant items, which account for about half of the general index.

Figure 26

Consumer price inflation in Italy and its components (1)
(monthly data; 12-month percentage changes and percentage points)



Source: Based on Eurostat data.
(1) HICP.

Table 5

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

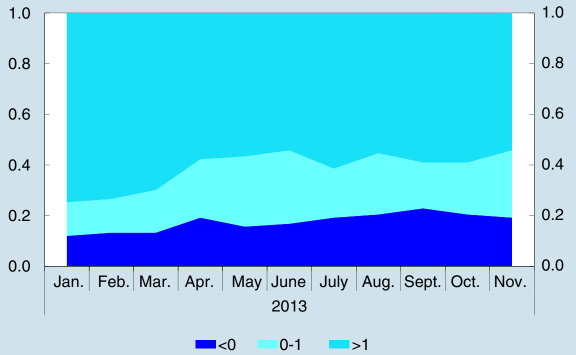
	HICP (1)			CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	at 1 month (5)	Excl. energy and food	Overall index
2011	2.9	2.0	2.6	2.8	_	1.9	5.1
2012	3.3	2.0	2.5	3.0	_	1.7	4.1
2013	1.3	1.3	1.1	1.2	_	1.2	....
2013 - Jan.	2.4	1.7	2.2	2.2	0.3	1.5	0.7
Feb.	2.0	1.4	1.9	1.9	0.0	1.3	0.5
Mar.	1.8	1.5	1.7	1.6	0.0	1.3	0.0
Apr.	1.3	1.2	1.1	1.1	-0.2	1.1	-1.1
May	1.3	1.4	1.1	1.1	0.1	1.3	-1.1
June	1.4	1.2	1.3	1.2	0.2	1.1	-0.7
July	1.2	1.0	1.1	1.2	0.0	1.0	-1.5
Aug.	1.2	1.2	1.2	1.2	0.3	1.1	-2.4
Sept.	0.9	1.3	0.9	0.9	0.0	1.2	-2.2
Oct.	0.8	1.2	0.3	0.8	-0.1	1.1	-2.5
Nov.	0.7	1.1	0.2	0.7	-0.1	1.0	-2.3
Dec.	0.7	0.9	0.3	0.7	0.1	0.8	....

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) Index calculated by Istat by subtracting from selling prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) Overall index, seasonally adjusted.

THE RECENT PERFORMANCE OF INFLATION

Figure A

Proportion of elementary items recording price declines or very small increases (1)
(percentage shares)



(1) Proportion of elementary items within the HICP basket recording 12-month price changes within each of the specified intervals.

The decrease in the rate of consumer price inflation, observed in Italy since mid-2012, proceeded faster last year than had been expected by markets and forecasting organizations. The decrease involved all the countries of the euro area, and most especially those that had been hit hardest by the tensions in the sovereign debt market. In December consumer prices were virtually flat, on a twelve-month basis, in Spain, Portugal and Ireland, while in Greece the price decline that had begun in March steepened in the fourth quarter.

In Italy the attenuation of inflation has reflected both the dynamics of energy prices – which swung from an average twelve-month rise of 15 per cent in the first half of 2012 to a decline of 3.2 per cent in December 2013, as oil prices fell and the euro appreciated – and the moderation of the core components. Net of the volatile food and energy components, the rise in the consumer price index eased from over 2 per cent in the first half of 2012 to 0.9 per cent in December, on a par with the lowest levels since the beginning of the third stage of EMU.

The slackness of prices is broad-based, involving a large number of single components. The share of elementary items in the consumer price basket recording negative variations rose to 20 per cent late last year (Figure A), roughly equalling the peak recorded at the end of 2009, when the decline in inflation was mainly due to the collapse of oil prices that followed the global financial crisis. There was also a substantial increase in the proportion of elementary items recording changes of less than 1 per cent: in November, the last month for which disaggregated data are available, this share came to 46 per cent, the highest on record since 2002 and well above the average of 27 per cent for 2002-13.

As for the core components, the weakness of inflation is most pronounced for non-energy industrial goods, where the incidence of changes of less than 1 per cent came to 57 per cent in November, compared with 29 per cent in the service sector.

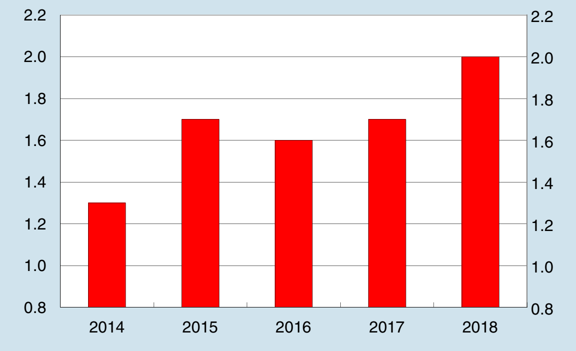
The attenuation of price pressures is due in part to the cyclical weakness of the economy, which has now built up a very substantial gap between actual and potential output.[1] This was probably a factor in the very limited pass-through to prices of the VAT increase on 1 October. According to the December Bank of Italy-*Il Sole-24 Ore* survey, 61 per cent of firms had not incorporated the rise in the ordinary VAT rate in their prices. The factors that they cited in explaining this decision were the state of demand (38 per cent of those interviewed), competitors' pricing policies (20 per cent), and difficulty in adjusting their prices in the short term (16 per cent). Only 23 per cent reported having passed the entire VAT increase on. The cyclical weakness of the economy lowered short-term inflation expectations; longer-term expectations are around 2 per cent (Figure B).

The extent of the fall in inflation in recent months has surprised professional forecasters and analysts. In the course of 2013 price rises were systematically less than had been predicted by the analysts polled by Consensus Economics (Figure C). It is possible that this pattern reflects an increase in the cyclical sensitivity of prices, probably not incorporated into the projection models. This sensitivity may be due to the amplitude of the decline in domestic demand, unparalleled since World War II, and to the length of the recession, which lasted until the last quarter of 2013. This

Figure B

Inflation forecasts of professional analysts (1)

(percentage changes on the previous period)

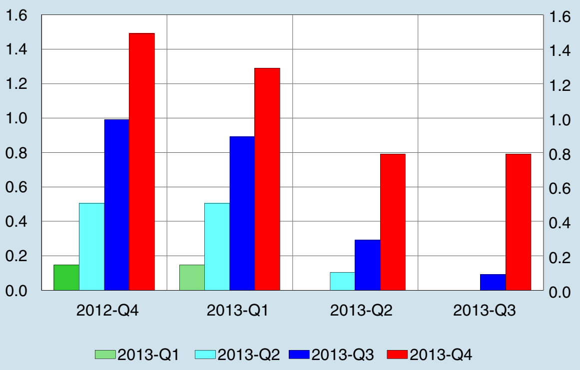


(1) Forecasts for 2014 are from Consensus Economics' monthly poll in December 2013; for subsequent years, from the half-yearly survey in October.

Figure C

Professional analysts' inflation forecasting errors for 2013 (1)

(percentage changes on the year-earlier quarter)



(1) On the horizontal axis, the quarter in which the forecasts were made.

[1] The latest estimates of the European Commission and the OECD put the output gap at 4 and 6 per cent, respectively, in 2013.

hypothesis is consistent with the available evidence on the correlation between core inflation and the cyclical component of GDP.[2] This correlation was quite tenuous before the sovereign debt crisis (0.19 in the period from 2002 to 2009) but has become much closer in the last three years (0.60 from 2010 to 2013).

[2] The cyclical component of GDP is defined as the percentage deviation of GDP from a trend estimated by a method proposed by Hodrick and Prescott, "Postwar U.S. business cycles: An empirical investigation," *Journal of Money, Credit and Banking*, 29, 1, 1997, pp. 1-16.

... and producer prices are still weak

Inflationary pressure on producer prices was still moderate, mainly as a result of the fall in the costs of energy products and intermediate inputs against a background of continuously weak domestic demand. In November, the twelve-month index of producer prices of industrial goods sold on the domestic market declined by 2.3 per cent, primarily reflecting the trend of energy prices. Producer prices were also flat in the final goods sector, where prices rose by 0.2 per cent, against 0.5 per cent in October.

The survey carried out in December by the Bank of Italy in conjunction with *Il Sole 24 Ore* found that firms expected to make only minor adjustments to price lists over the next twelve months. Similar indications came from the December release of the Purchasing Managers Index with regard to firms' assessments of trends for their own selling prices. The professional analysts surveyed in the same month by Consensus Economics expected consumer price inflation in Italy to be 1.3 per cent for the current year, down from the 1.6 per cent forecast last October.

2.7 BANKS

Retail funding remains solid for the banking system and there are timid signs of a revival of international investors' confidence in Italian banks, but lending continues to contract, reflecting both the weakness of demand and credit supply policies. Italian banks further improved their capital position even though their profitability remains modest.

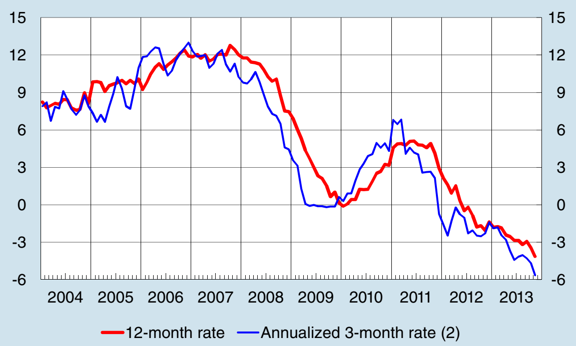
Funding stays solid

From the end of August to the end of November, residents' deposits with Italian banks increased by €7 billion (Table 6); the twelve-month growth rate was equal to 5.0 per cent at the end of November, broadly unchanged from August. In the same period the rate of contraction in non-residents' deposits eased from 5.3 to 3.8 per cent. The negative balance between gross issues and redemptions of bank bonds held by households, which did not change with respect to three months earlier, was offset by the return to a positive balance for bonds placed on wholesale markets, which, excluding the interbank component, recorded net issues of €5 billion, as against net redemptions of €4 billion in the three months to August. Net repo liabilities towards central counterparties, which reflect interbank

Figure 27

Growth in bank lending to the non-financial private sector (1)

(monthly data; percentage changes)



(1) Includes bad debts, repos and the loans not reported in banks' balance sheets because they have been securitized. The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. (2) Seasonally adjusted.

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	August 2013	November 2013	August 2013	November 2013
Assets				
Loans to Italian residents (4)	1,860,407	1,843,001	-3.6	-4.2
of which: to firms (5)	*830,075*	*816,998*	*-4.6*	*-6.0*
to households (6)	*603,655*	*602,044*	*-1.2*	*-1.5*
Claims on central counterparties (7)	76,137	84,076	66.6	51.2
Debt securities excluding bonds of resident MFIs (8)	558,537	558,939	14.8	10.2
Securities of Italian general government entities	*410,137*	*413,966*	*19.4*	*13.3*
Claims on the Eurosystem (9)	20,757	16,616	-31.2	-53.1
External assets (10)	312,802	319,277	-12.2	-8.5
Other assets (11)	1,277,692	1,276,354	-4.1	-3.8
Total assets	**4,106,332**	**4,098,263**	**-1.8**	**-2.4**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,245,740	1,252,601	5.4	5.0
Deposits of non-residents (10)	345,864	342,277	-5.3	-3.8
Liabilities towards central counterparties (7)	138,016	128,891	17.7	15.2
Bonds (13)	530,829	530,035	-9.1	-8.5
Liabilities towards the Eurosystem (14)	243,941	235,989	-14.0	-14.5
Liabilities connected with assignments of claims	154,275	148,150	4.7	1.4
Capital and reserves	383,436	387,573	3.8	5.0
Other liabilities (15)	1,064,231	1,072,747	-6.0	-8.1
Total liabilities	**4,106,332**	**4,098,263**	**-1.8**	**-2.4**

Source: Supervisory reports.
(1) The figures for November 2013 are provisional. – (2) Millions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate variations. Loans to firms and households are adjusted for securitizations. – (4) Excludes transactions with central counterparties. – (5) Harmonized definition; excludes producer households. – (6) Harmonized definition; includes producer households, non-profit institutions serving households and units not classified elsewhere. – (7) Only includes repos. – (8) Excludes bonds of resident MFIs, i.e. banks and money market funds. (9) Current accounts with the Bank of Italy (including in connection with the reserve requirement), overnight deposits and other minor deposits with the Bank of Italy. – (10) In the period considered these refer mainly to interbank transactions. – (11) Bonds issued by resident MFIs, loans to resident MFIs, shares and other equity of resident companies, cash, money market fund units, derivatives, movable and immovable goods, and other minor items. – (12) Excludes liabilities connected with assignments of claims. – (13) Excludes liabilities towards resident MFIs. – (14) Main refinancing operations, longer-term refinancing operations, marginal lending facility, fine-tuning operations, and other minor items. – (15) Bonds held by resident MFIs, deposits of resident MFIs, money market fund units, derivatives, and other minor items.

transactions with foreign institutions, showed a sharp decline of €17 billion in November, compared with one of €6 billion three months earlier, owing both to an increase in assets and to a decrease in liabilities.

The credit contraction intensifies ...

Lending to the non-financial private sector continued to shrink, contracting at an annualized rate of 5.6 per cent in the three months to November (Figure 27). Loans to firms and households fell by 8.4 and 2.1 per cent respectively. The twelve-month drop in lending to firms was sharper for banks belonging to the five largest banking groups than for other banks (7.3 and 4.6 per cent respectively). The drop in lending was generally more pronounced for firms with fewer than 20 workers.

... reflecting the weak state of the economy

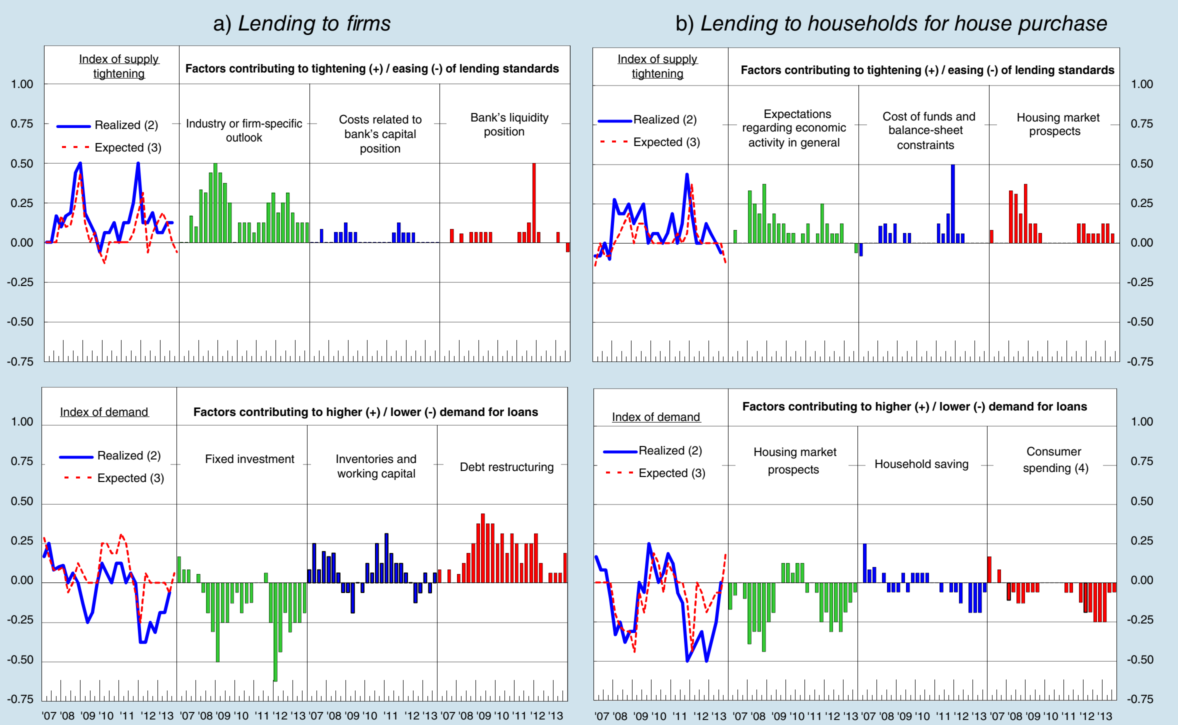
The responses to the bank lending survey for the third quarter of 2013 indicate that lending to businesses continued to be affected both by the weakness of demand and by supply criteria that remained restrictive, particularly for riskier customers, owing to the pressure of the recession on banks' balance sheets. The latest business surveys confirm the difficulty in gaining access to credit, especially for smaller firms (see the box "Credit supply and demand in Italy"). Households' demand for mortgage loans remained weak in the third quarter, while banks basically stopped tightening their supply policies.

CREDIT SUPPLY AND DEMAND IN ITALY

According to the banks interviewed for the quarterly *Euro area bank lending survey,* in the third quarter of 2013 the slightly restrictive lending conditions for firms remained basically unchanged, continuing to be influenced by perceived credit risk (Figure A).[1] Residual supply strains were above all reflected in a widening of the margins applied to riskier loans to firms. At the same time, the tightening of lending conditions for households ceased, mainly as a result of less unfavourable expectations for the housing market. Preliminary information given by the banks in the survey seems to confirm these trends in the months of October and November as well.

Figure A

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



Source: The euro area bank lending survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed on the basis of the following weighting scheme. For supply conditions: 1 = tightened considerably, 0.5 = tightened somewhat, 0 = 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 that the trend in consumer spending not associated with house purchases had an expansive (restrictive) effect on the demand for mortgage loans.

In their assessments, the banks indicated that the demand for loans in the third quarter remained weak. In the case of businesses, this reflected their low propensity for fixed investment; as regards households it was the result of difficulties in saving and the still uncertain prospects for the housing market.

The six-monthly *Regional Bank Lending Survey* conducted by the Bank of Italy's regional branches indicated that in the first half of 2013 credit supply policies were more restrictive in the Centre and the South and Islands and, among the various sectors, in the construction industry. Lending

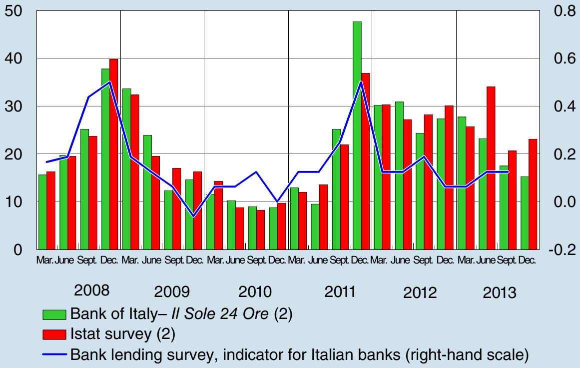
[1] Eight leading Italian banking groups took part in the survey, which was completed on 10 October. The results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The responses concerning assessments for the fourth quarter of 2013 and expectations for the next quarter are not yet available and will be published on 30 January.

conditions were tighter among small than among medium-sized and large banks.[2]

The latest business surveys indicate a moderation in the tightening of credit supply in some segments (Figure B). According to the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore,* the net percentage of firms reporting difficulties in accessing credit decreased in the fourth quarter to 15.3 percentage points from 17.5 points in the third quarter, reflecting conditions that were less unfavourable in the service sector but unchanged in industry.[3] In relation to manufacturing firms only, in the same period the corresponding credit supply indicator taken from Istat's monthly survey was still high (23.1 points in December against 20.6 in September).

Figure B

Indicators of credit access conditions for businesses in Italy (1)



(1) The Bank of Italy–*Il Sole 24 Ore* survey and the Istat survey are conducted respectively on a sample of firms in industry and services and in manufacturing. The Istat result is taken from the end-of-quarter survey; in the month of June 2013 some methodological changes involving the sample and data observation techniques were made, precluding direct comparison with previous periods. For the bank lending survey, see Figure A. – (2) Net percentages.

The terms of credit access are highly differentiated according to firm size: the net percentage of firms with under 50 workers that reported a tightening of supply conditions was double that of firms with over 249 workers (30 and 14 points respectively in December). Similarly, 18.1 per cent of the small firms surveyed stated that they had not obtained the funding they had applied for, against 9.3 per cent of the large firms. In the cases where loans were granted, the tighter supply conditions for both groups consisted mainly in higher interest rates and more substantial collateral requirements.

[2] See the Bank of Italy's geographical breakdown of credit supply and demand (only in Italian, as "*La domanda e l'offerta di credito a livello territoriale*"), *Regional Economies*, No. 44, 2013.

[3] The net percentage is calculated as the difference in percentage points between the percentage of replies indicating a tightening of lending criteria and the percentage of those indicating an easing.

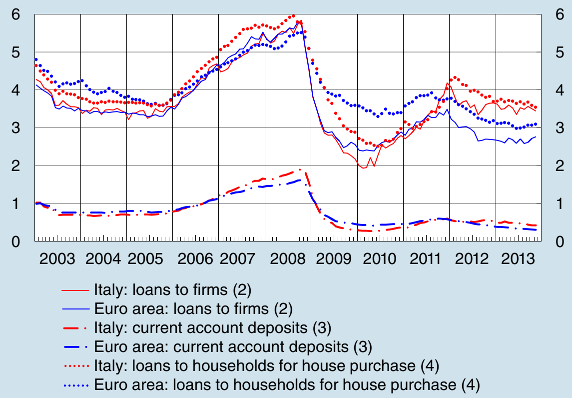
The cost of credit decreases slightly ...

In November the average cost of new loans to firms was down by 0.1 percentage points from three months earlier, to 3.4 per cent (Figure 28). The reduction reflected a decline in the rates on loans both smaller and greater than €1 million, to 4.4 and 2.8 per cent respectively. The cost of credit in Italy is still above the euro-area average, although the differential between the interest rate on new business loans in Italy and the euro-area average narrowed by 20 basis points, to 70 points. The average cost of new mortgage loans to households also edged down, declining to 3.5 per cent, and the gap with respect to the euro-area average narrowed by 20 basis points, to 45 points in November. The cut in ECB official rates at the start of November is likely to have helped bring down the cost of credit.

Figure 28

Bank interest rates (1)

(monthly data; per cent)



Sources: Bank of Italy and ECB.
(1) The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Average rate on new loans to firms. – (3) Average rate on current accounts of households and firms. (4) Average rate on new loans to households for house purchase.

... but continues to be affected by poor credit quality

In the third quarter of 2013 the ratio of the seasonally adjusted, annualized flow of new bad debts to outstanding loans, though still high, did not increase for the first time since the second quarter of 2011, coming down instead by 0.1 percentage points from the previous quarter to 2.9 per cent. The reduction came from loans to financial corporations and to non-profit institutions serving households, while for loans to households and firms the ratios remained basically unchanged at 1.3 and 4.8 per cent respectively. Preliminary data for October and November indicate that the banks' total exposure to borrowers reported to be in default for the first time was 16 per cent smaller than a year earlier; the exposure also shrank by comparison with the previous two months on a seasonally adjusted basis.

Profitability stays very low

According to consolidated quarterly reports, in the first nine months of the year the average profitability of the five largest banking groups remained very low; their return on equity came to 1.8 per cent on an annual basis, against 2.3 per cent in the same period of 2012. Compared with the first nine months of 2012, net interest income fell by 13.6 per cent and other income by 2.3 per cent; gross income was down by 8.4 per cent. The 5.4 per cent drop in operating costs cushioned the impact of the reduction in income; operating profit fell by 12.3 per cent. The deterioration in loan quality continues to weigh on banks' profitability. Loan loss provisions rose by 7.3 per cent, absorbing just over two thirds of operating profit. The non-performing-loan coverage ratio was equal to 41.1 per cent, compared with 39.6 per cent in September 2012.

Capital ratios continue to improve

The capital position of the five largest groups improved in the third quarter thanks to the reduction in risk-weighted assets. At the end of September their average core tier 1 ratio was 11.6 per cent, up from 11.2 per cent in June; their tier 1 ratio was 12.3 per cent and their total capital ratio 15.3 per cent, up from 11.9 and 15.0 per cent respectively in June.

2.8 THE FINANCIAL MARKETS

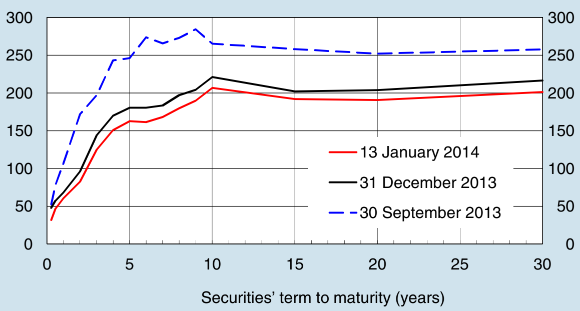
Conditions on Italy's government securities, equity and private debt markets continued to improve in the fourth quarter of 2013.

Yield spreads narrow on Italian government securities

From the end of September, the stabilization of the domestic situation and the consolidation of growth prospects in the euro area contributed to improving the conditions on the market for Italian government securities. In November the prices of these securities were also buoyed by the good outcome of a number of transactions carried out by the Treasury to exchange some securities for longer-dated ones and by the cancellation of some auctions that had been scheduled for the end of the year, thanks to a reduced financing requirement. The latter factor also reflected strong investor demand in the November auction of BTP Italia inflation-indexed bonds. Between the end of September and the middle of January the yields on BTPs came down by a hefty 55 basis points to 3.9 per cent for ten-year bonds, despite a slight rise in the yields on the reputedly safest long-term securities; the yield spread between ten-year Italian and German government bonds diminished by 58 basis points to 207 basis points (Figure 29).

Figure 29

Term structure of the yield spread between Italian and German government securities
(basis points)



Source: Based on Bloomberg data.

Private-sector risk premiums decline

From the beginning of October, the yield spreads of Italian non-financial corporations' bonds over investment-grade euro-area government securities fell by 52 basis points. The CDS spreads of the largest Italian banks declined by 178 points to 222 basis points, still well above the average CDS spreads of the main French and German banks (92 basis points in both cases). Italian banks' bond funding costs remain higher than those of banks based in countries less exposed to sovereign debt tensions.

Banks continue to make net bond redemptions

In the third quarter of 2013 banks made net bond redemptions both in Italy and in the euro area as a whole (amounting to €21 billion and €93 billion respectively; Table 7). According to Dealogic data on gross issues, Italian banks made €13 billion worth of placements in the fourth quarter, compared with €8 billion in the third.

Share prices rise further

From the end of September, share prices rose by 13 per cent in Italy and by 8 per cent in the euro area as a whole (Figure 30). With listed companies' prospective earnings broadly stable, the rise in shares appears to reflect a decrease in the risk premium demanded by investors. Share prices were up in all the main sectors of the Italian stock exchange except for commodities; insurance and bank shares posted especially large gains of 21 and 28 per cent respectively. Expected share price volatility, implied by the prices of stock exchange index options, continued to fall.

Savings continue to flow to investment funds

Open-end investment funds enjoyed a further net inflow of savings in the third quarter of 2013, although not as much as in the previous period (€7 billion against €19 billion). Net fund-raising was positive for flexible, equity and balanced funds, while money-market and bond funds recorded net redemptions.

Table 7

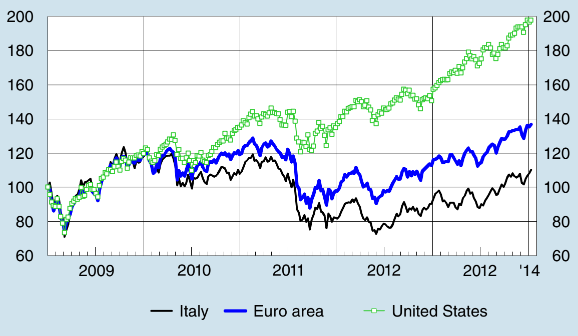
Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2011	66,330	-4,261	-153	61,916
2012	83,153	-5,608	13,347	90,892
2012 – Q1	84,907	-7,960	4,214	81,161
Q2	-7,847	-8,985	-1,432	-18,264
Q3	8,491	5,535	6,066	20,092
Q4	-2,398	5,802	4,499	7,902
2013 – Q1	-29,799	-3,195	3,769	-29,225
Q2	-14,817	-2,530	3,469	-13,878
Q3	-21,451	-3,429	9,016	-15,864
		Euro area		
2011	137,006	-25,424	33,339	144,921
2012	6,182	12,952	123,017	142,151
2012 – Q1	98,951	23,835	32,554	155,340
Q2	-23,558	-16,335	18,527	-21,366
Q3	-15,274	-51,280	40,411	-26,143
Q4	-53,937	56,732	31,525	34,320
2013 – Q1	-117,837	-17,258	18,646	-116,449
Q2	-100,013	20,660	12,569	-66,784
Q3	-92,757	-6,892	32,485	-67,164

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by companies resident in Italy or the euro area and 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.

Figure 30

Share prices (1)
(end-of-week data; indices, 2 January 2009=100)



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

2.9 THE PUBLIC FINANCES

In 2013 the state sector borrowing requirement rose sharply in response to a series of extraordinary factors affecting debt but not net borrowing. On the basis of the available data, general government net borrowing can be estimated to have remained close to the threshold of 3 per cent of GDP (it was 3.0 per cent in 2012; Table 8), notwithstanding the further contraction in output. The ratio of the debt to GDP rose by nearly 6 percentage points, with one third of this increase due to the measure regarding the general government's overdue commercial debts and the support Italy provided to euro-area countries in difficulty. In December Parliament passed the Stability Law for 2014. According to the official forecasts, which take account of its effects, net borrowing will decline in each of the three years from 2014 to 2016 and amount to less than 1 per cent of GDP at the end of the period.

The state sector borrowing requirement rises sharply in 2013 ...

Reflecting the large surplus recorded in December (€15 billion, as against €13.1 billion in December 2012), in 2013 as a whole the state sector borrowing requirement amounted to €79.7 billion or 5.1 per cent of GDP (Figure 31); this was €30.2 billion more than in 2012 and €2.8 billion less than projected by the Government in the September update to the 2013 Economic and Financial Document.

... but the data available are consistent with the stability of net borrowing with respect to 2012

In the first eleven months of 2013 the general government borrowing requirement amounted to €92.1 billion (€13.4 billion more than in the same period in 2012). The borrowing requirement was basically in line with that of the same period in 2012 if one excludes the extraordinary transactions that do not affect net borrowing, such as the disbursements to the European Financial Stability Facility (classified among the financial items) and the effects of the measure regarding general government's overdue debts related to current account expenditures, which had already been entered in the accounts. The latter amount is estimated at about €10 billion; on the one hand, the estimate considers the official announcement that the total payments made at the end of November amounted to €16.3 billion and, on the other, the fact that the maximum outlay on capital account is fixed at €7.5 billion for the whole of 2013.

The ratio of debt to GDP should be close to the official forecast released in October

At the end of November general government debt was €2,104 billion, an increase of €82.2 billion compared with the same period in 2012. As in previous years, the debt is likely to have contracted significantly in December, reflecting a large general government surplus (foreseeable on the basis of the results of the state sector) and the substantial fall expected in the Treasury's liquid assets, to a level just above that recorded

Table 8

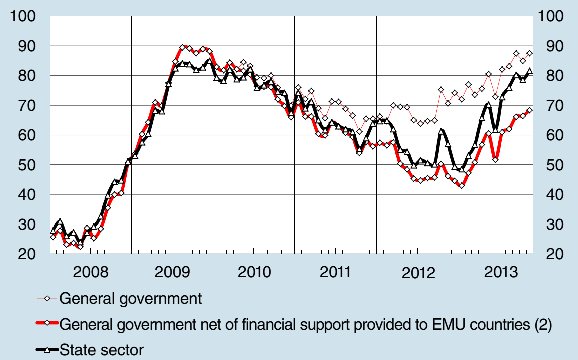
Outturns and official objectives for the main general government balances (1)
(millions of euros and per cent of GDP)

	2011	2012	2013	2014
Net borrowing	60,622	46,974	….	….
as a % of GDP	*3,8*	*3,0*	*3.0*	*2.5*
Primary surplus	17,743	39,700	….	….
as a % of GDP	*1,1*	*2,5*	*2.4*	*2.9*
Interest payments	78,365	86,674	….	….
as a % of GDP	*5,0*	*5,5*	*5.4*	*5.4*
Debt	1,907,612	1,989,431	….	….
as a % of GDP	*120,7*	*127,0*	*132.9*	*132.7*
Debt net of support to EMU countries (2)	1,894,494	1,946,767	….	….
as a % of GDP	*119,9*	*124,2*	….	….

Sources: Istat for the items of the general government consolidated accounts for the years 2011 and 2012; Italy's Draft Budgetary Plan 2014, October 2013, for the years 2013 and 2014.
(1) Rounding may cause discrepancies in totals. – (2) Net of loans to Greece, Italy's share of the loans granted by the European Financial Stability Facility and its capital contribution to the European Stability Mechanism.

Figure 31

Rolling 12-month borrowing requirement (1)
(monthly data; billions of euros)



Source: For the state sector, Ministry for the Economy and Finance.
(1) Net of privatization receipts. – (2) Excluding liabilities in respect of loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and Italy's capital contribution to the European Stability Mechanism.

at the end of 2012. Overall it can be estimated that the ratio of the debt to GDP rose by nearly 6 percentage points to close to the level projected in Italy's Draft Budgetary Plan 2014 published in October (132.9 per cent).

According to Istat estimates, in the first nine months of the year general government net borrowing amounted to 3.7 per cent of GDP, compared with 3.4 per cent in the same period in 2012 (Table 9). The primary surplus fell from 1.9 to 1.4 per cent of GDP as a result of: an increase of 1 percentage point in primary outlays (43.8 per cent of GDP in 2013) and an increase in revenue of 0.5 percentage points to 45.2 per cent. The ratio of interest payments to GDP decreased by 0.2 percentage points, from 5.3 per cent in 2012 to 5.1 per cent.

According to preliminary information, the tax revenue recorded in the State budget, net of the general government share of the municipal property tax, is expected to have increased by €5.7 billion or 1.4 per cent compared with the previous year. In particular, direct tax revenue is expected to have risen by €7.4 billion or 3.5 per cent, benefiting from the increases of €3.7 billion in the tax on income from financial assets, €2.9 billion in corporate income tax and €1.8 billion in the one-off tax on the revaluation of corporate assets; by contrast, there was a reduction of €1.5 billion in personal income tax, mainly in relation to the self-assessed component. Indirect tax revenue is expected to have decreased by €1.8 billion or by 1.0 per cent, primarily owing to the poor performance of the VAT component linked to imports.

Table 9

General government expenditure and revenue
(millions of euros and percentage changes)

	H1			
	2012	2013	% change on corresponding period of previous year	
			2012	2013
TOTAL EXPENDITURE	**557,501**	**562,277**	**1.0**	**0.9**
Current expenditure net of interest payments	464,955	471,971	0.4	1.5
of which: compensation of employees	*115,514*	*114,231*	*-1.3*	*-1.1*
intermediate consumption	*63,849*	*64,465*	*-0.5*	*1.0*
social benefits in cash	*218,305*	*224,127*	*2.4*	*2.7*
Interest payments	61,383	58,626	13.1	-4.5
Capital expenditure	31,163	31,680	-9.6	1.7
of which: gross fixed investment	*19,724*	*19,313*	*-8.0*	*-2.1*
TOTAL REVENUE	**518,438**	**519,613**	**2.8**	**0.2**
Current revenue	514,799	513,011	3.0	-0.3
of which: direct taxes	*153,691*	*155,697*	*3.6*	*1.3*
indirect taxes	*173,110*	*168,254*	*6.0*	*-2.8*
social security contributions	*150,142*	*149,037*	*0.3*	*-0.7*
Capital revenue	3,639	6,602	-18.7	81.4
of which: capital taxes	*1,222*	*3,035*	*-57.1*	*148.4*
NET BORROWING	**-39,063**	**-42,664**		
Primary balance	**22,320**	**15,962**		
Memorandum item:				
GDP	1,160,333	1,150,260	-0.7	-0.9

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

Parliament passes the 2014 Stability Law in December

According to the latest official forecasts, which take account of the Stability Law for 2014 approved at the end of December, net borrowing will decline in each of the three years from 2014 to 2016 and amount to less than 1 per cent of GDP at the end of the period.

The overall impact of the budget is basically unchanged with respect to the Government's original proposal.[1] According to the official projections, compared with the situation on a current legislation basis, the budget measures will cause an increase in net borrowing of 0.2 percentage points of GDP in 2014 (above all owing to an increase in capital expenditure) and reductions of 0.2 and 0.4 points in the following two years (primarily as a result of reductions in current expenditure). A portion of the expenditure savings will have to be defined by July 2014 by the head of the spending review. The budget does not change the overall level of revenue significantly; the main measures concern the tax wedge on employee incomes, the taxation of property and that of companies.

[1] See L. F. Signorini, "Audizione preliminare all'esame della manovra economica per il triennio 2014-2016", testimony before the fifth committees of the Senate and the Chamber of Deputies, Rome, 29 October 2013.

2.10 PROJECTIONS

The projections assume moderate growth of world trade …

Our forecasts for the performance of the Italian economy in 2014 and 2015 are based on the assumption of moderately faster growth of world trade in the next few quarters, thanks to the strengthening recovery in the advanced economies and accelerated growth in the emerging economies (see the box "Technical assumptions and the international context"). This assumption does not diverge significantly from the latest IMF estimates; it reflects slightly less favourable assessments than those underlying the projections in last July's *Economic Bulletin*.

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL CONTEXT

Our macroeconomic scenario is based on growth assumptions for world trade in line with those underlying the projections for the euro area presented by the ECB in the December issue of its *Monthly Bulletin*, updated to take account of the latest cyclical developments (see the table). World trade, which grew by just under 3 per cent in 2013, is expected to expand by around 5 per cent this year and 6 per cent in 2015. These forecasts do not differ significantly from those made last autumn by the main international organizations (the OECD, the IMF and the European Commission). Compared with last July's *Economic Bulletin* the forecast for the growth of world trade in 2014 has been revised slightly downward (by 0.2 percentage points). The expansion of the potential demand in Italy's outlet markets, measured as the sum of our trade partners' imports in volume weighted by the geographical composition of Italian exports, is estimated to be lower than that of world trade by one percentage point on average in the two years 2014-15. One contributory factor is the slower pace of imports in European countries, the most important geographical destination for Italy's exports (see the box "Italy's balance on current account and merchandise exports").

Assumptions for the main exogenous variables
(percentage changes on the previous year unless otherwise indicated)

	2013	2014	2015
World trade	2.8	5.2	6.1
Potential foreign demand	1.0	4.1	5.1
Dollar/euro (1)	1.33	1.37	1.37
Nominal effective exchange rate (2)	-2.5	-1.3	0.0
Crude oil price (3)	108.9	105.7	100.6
Three-month Euribor, per cent (1)	0.2	0.3	0.6
10-year BTP, per cent (1)	4.3	4.2	4.7

Sources: Based on Bank of Italy and Istat data.
(1) Annual averages. – (2) Positive changes indicate a depreciation. – (3) Dollars per barrel, Brent.

The assumptions for exchange rates, interest rates and oil prices are updated on the basis of market data recorded in the ten working days up to 14 January 2014. On the basis of futures contracts, the price of a barrel of Brent crude oil, equal to almost $109 a barrel in 2013, is assumed to decline slightly over the forecasting horizon to $106 this year and $101 in 2015.

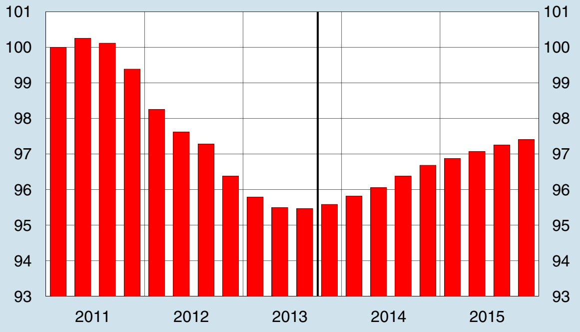
Three-month interest rates, calculated on the basis of Euribor futures, are expected to stay at 0.3 per cent in 2014 and to rise slightly in 2015. The long-term interest rates on ten-year BTPs are expected to stay close to 4.5 per cent on average for the two years.

The exchange rate is expected to be higher than the average recorded in 2013, with a dollar-euro exchange rate of $1.37. Projections for Italy's public finances take account of the measures approved with the recent Stability Law.

The forecast takes account of the effects of the measure to unblock general government commercial debts totalling €47 billion in the two years 2013-14. This provision's impact on GDP is estimated to amount to a little over half a percentage point in the three years 2013-15.

Figure 32

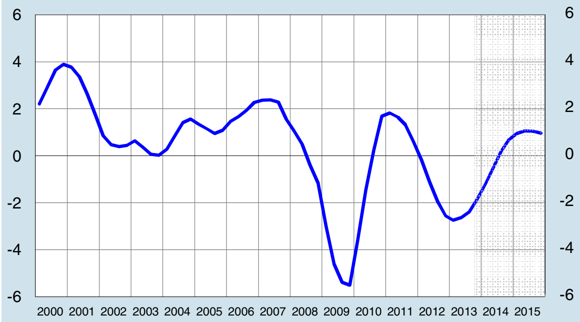
GDP projections: quarterly profile (1)
(levels, 2011 Q1=100)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. Through 2013 Q3, actual data; for subsequent quarters, projections.

Figure 33

Gross domestic product (1)
(quarterly data; percentage changes on year-earlier period, 4-term moving averages)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. Through 2013 Q3, actual data; for subsequent quarters, projections.

... and expansive monetary and financial conditions

The market expectations embodied in the yield curve reflect the ECB's lowering of its official interest rates in November and the announcement, reiterated in December and January, that they will be kept at least as low as now for an extended period. The markets expect the three-month interest rate to remain at around 0.3 per cent this year and to be only marginally higher in 2015. Conditions on the financial markets are expected to remain relaxed. The yield on ten-year BTPs are expected to remain practically unchanged in 2014; its spread vis-à-vis the German Bund is projected to be stable at about 200 basis points.

GDP is estimated to have contracted by 1.8 per cent in 2013 ...

Economic activity appears to have returned to modest expansion in the fourth quarter (Figure 32), but for 2013 as a whole Italy's GDP is estimated to have fallen by 1.8 per cent (Table 10).

... but should grow modestly this year and next

We project GDP to expand at a moderate average rate of 0.7 per cent in 2014 (Figure 33); growth is then expected to accelerate to 1.0 per cent in 2015, driven by the expansion of world trade and an albeit modest upturn in investment (Figure 34). This growth profile basically concurs with that set out in last July's *Economic Bulletin*. A larger contribution from domestic demand is now expected, thanks in part to lower interest rates than had been assumed, and a smaller contribution from foreign trade, owing mainly to the appreciation of the euro.

Table 10

Macroeconomic scenario in Italy
(percentage changes on previous year, unless otherwise indicated)

	2013	2014	2015
GDP (1)	-1.8	0.7	1.0
Household consumption	-2.4	0.2	0.7
Government consumption	-0.7	-0.5	-0.1
Gross fixed investment	-5.2	2.2	1.4
Total exports	0.0	3.0	4.4
Total imports	-2.7	2.7	3.9
Change in stocks (2)	-0.1	0.1	0.0
HICP (3)	1.3	1.1	1.4
HICP net of food and energy	1.3	1.3	1.6
Employment (4)	-1.8	-0.2	0.7
Unemployment rate (5)	12.2	12.8	12.9
Export competitiveness (6)	-2.2	-1.1	-0.1
Current account balance (7)	0.7	1.1	1.4

Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2)Includes valuables. Contribution to GDP growth; percentage points. – (3) Harmonized index of consumer prices. – (4) Standard labour units. – (5) Annual averages, per cent. – (6) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products); a positive value indicates a gain in competitiveness. – (7) As a percentage of GDP.

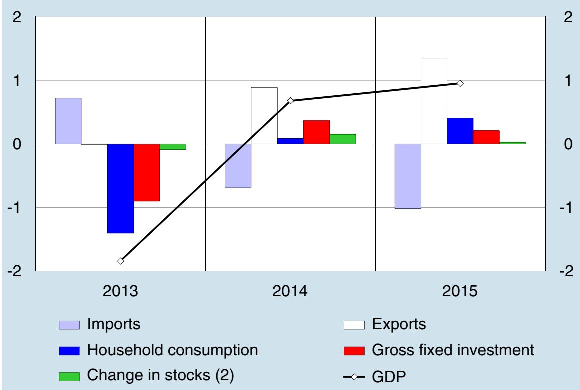
The recovery will be spurred by exports ...

Foreign sales should benefit from the expansion of world trade and grow at an annual average rate of about 3.5 per cent over the next two years. This will be less than the expansion of potential demand in Italy's outlet markets, owing to the appreciation of the euro since the start of 2013; other things being equal, the currency's appreciation is estimated to lower cumulative export growth by about 3 percentage points in the three years from 2013 through 2015.

Figure 34

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

(percentage points)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. – (2) Includes valuables.

... and investment ...

Investment is forecast to return to moderate growth of nearly 2 per cent annually over the next two years, reflecting the better demand outlook, improved liquidity deriving from the payment of general government debt arrears, and a gradual normalization of credit conditions towards the end of the projection horizon. This trajectory does not contrast with the findings of the latest business surveys (see the box "The outlook for investment by Italian firms in the Survey on Inflation and Growth Expectations"), which indicate the gradual stabilization of investment this year. Housing investment is expected to show revived modest growth this year and next.

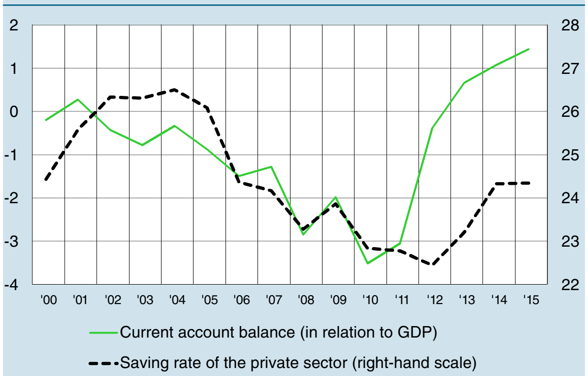
... while consumer spending remains weak ...

Diminishing fiscal adjustment requirements and declining inflation are likely to favour a recovery in households' real disposable income, which is forecast to rise by about 1.5 per cent per year in 2014 and 2015 after the 8 per cent drop registered in the past five years. The protracted weakness of the labour market will presumably continue to hold down household consumption, which is projected to stabilize this year and to grow less than GDP in 2015. Spending on durable goods, which has been severely compressed since the onset of the global financial crisis, will return to growth of 2 per cent on average in 2014 and 2015, thanks to the recuperation of purchasing power and households' greater responsiveness to the improvement in cyclical conditions. The saving rate of the private sector, which rose in 2013, is forecast to increase further in 2014 (Figure 35) and by the end of the projection horizon to regain pre-crisis levels, which were in any case relatively low by historical standards.

Figure 35

Saving rate and current account balance

(per cent)



Sources: Based on Bank of Italy and Istat data.

... as does the labour market

The quickening pace of economic activity will be transmitted to the labour market only gradually and with a lag. Employment, which contracted by 2 per cent in 2013, is forecast to diminish slightly over the next few quarters before gaining about half a percentage point in 2015. The labour force, projected as decreasing slightly in 2013 and 2014, will begin to expand again in 2015 as worker discouragement abates thanks to the cyclical economic recovery. The unemployment rate is forecast to rise further, reaching an average of 12.9 per cent in 2015.

The balance of payments will improve faster despite the expansion of imports

Imports are expected to show renewed average growth of about 3 per cent in the next two years, led by the demand components with the most substantial content of foreign goods (exports and productive investment). Even so, the current account balance, which came back into surplus at the end of 2012, is projected to improve further to 1.4 per cent of GDP, thanks to accelerating export sales and a smaller energy deficit.

Credit conditions will gradually improve

Consistently with the findings of the latest bank lending survey, there is expected to be a very gradual improvement in credit supply conditions, which continue to be affected by banks' perceptions of deteriorating loan quality. The cost of credit will decline in 2014 and 2015, thanks to the lowering of official interest rates and the slow but steady improvement in corporate profitability.

Fiscal consolidation continues

Despite the pronounced weakness of the economy, it is estimated that general government net borrowing in 2013 will turn out to be practically the same as in 2012. The deficit is expected to begin shrinking again this year and next, thanks to the moderation of primary expenditure. The ratio of the public debt to GDP should decrease again starting in 2015.

Inflation stays well below 2 per cent ...

Our consumer price projections have been revised downwards since July. Inflation, which fell to 1.3 per cent in 2013, will subside further this year and then rise towards 1.5 per cent in 2015 (Figure 36). This pattern reflects declining energy prices and the limited growth of domestic prices, as a consequence of ample idle production capacity (see the box "The recent performance of inflation"). The GDP deflator will grow by nearly 1.5 per cent on average in 2014 and 2015.

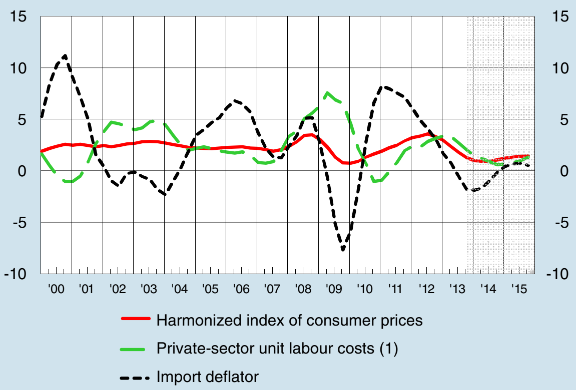
Our projection assumes that contractual wages will rise in line with the price index used for contract renewals, which will involve workers accounting for just over half of all wages in the non-farm private sector over the next two years. With the strengthening of economic activity, private-sector profits can be expected to revive moderately in 2014 and 2015, regaining about a quarter of the decline registered over the last three years.

Generally, our projections are shared by the leading forecasting organizations

The growth and inflation projections given here do not diverge significantly from those of the main international organizations (Table 11). The economic upturn predicted for 2014 is similar in extent to the forecasts of the other analysts, both public

Figure 36

Main determinants of consumer price inflation
(quarterly data; percentage changes on year-earlier period; 4-term moving averages)



Sources: Based on Bank of Italy and Istat data.
(1) Net of energy and agriculture; calculated as the ratio of compensation per standard employee labour unit to output per standard labour unit; output is value added at factor cost.

Table 11

Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2014	2015	2014	2015
IMF (October)	0.7	1.2	1.3	1.5
OECD (November)	0.6	1.4	1.3	1.0
European Commission (November)	0.7	1.2	1.6	1.5
Consensus Economics (December)	0.5	….	1.3	….

Sources: IMF, *World Economic Outlook*, October 2013; OECD, *Economic Outlook*, No. 94, November 2013; European Commission, *European Economic Forecast – Autumn 2013*, November 2013; Consensus Economics, *Consensus Forecasts*, December 2013.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

and private, with the exception of Consensus Economists, which in December projected growth of 0.5 per cent. For 2015 our projections are slightly lower than the others'.

There are downside risks for growth ...

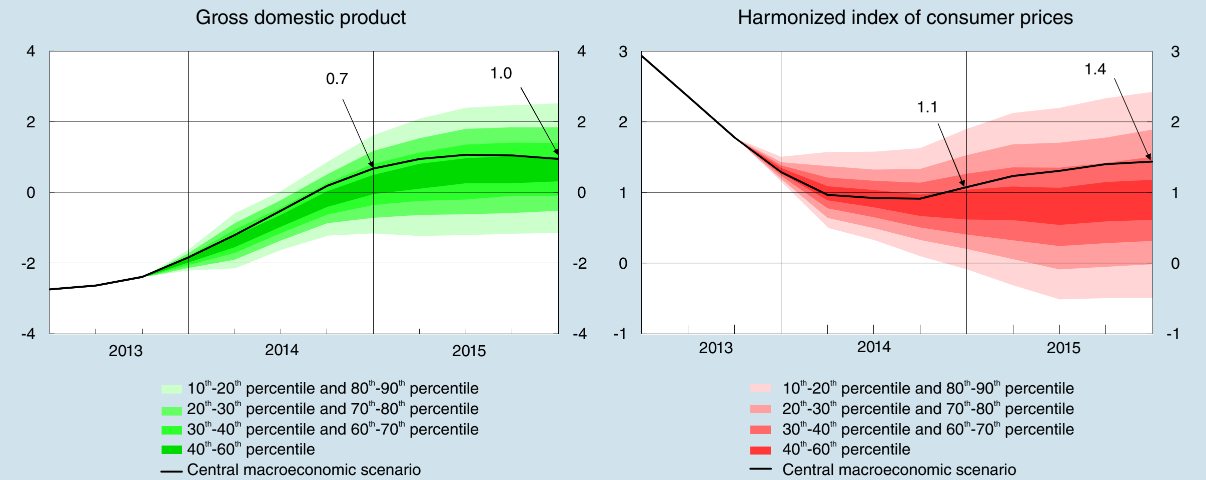
This forecasting scenario is subject to considerable uncertainty; the risks, both for growth and for inflation, are mostly on the downside (Figure 37). If the terms of access of credit were to remain restrictive longer than posited here and if firms used the resources deriving from the payment of general government arrears mainly to increase their liquidity, the investment recovery could prove less robust. In addition, a resurgence of doubt about the Italian authorities' determination to proceed with fiscal consolidation and with structural reform or the European authorities' intention to further strengthen the governance of the Union could affect long-term interest rates. We cannot rule out the risk of a less vigorous acceleration of world trade than we have assumed. The outlook for the emerging economies could be dampened by less favourable global financial conditions in connection with the beginning of monetary tapering by the Federal Reserve.

... and for inflation

For inflation, there is still a risk that ample spare capacity may have a more pronounced impact on firms' pricing policies than we have assumed. A protracted period of low inflation could induce a downward revision of medium-to-long-term expectations.

Figure 37

Distribution of probabilities of GDP and HICP projections (1)
(percentage changes on year-earlier period; 4-term moving average)



(1) The probability distribution is graphed, for percentile groups, by fan charts, based on stochastic simulations effected via random extractions from the shock distribution of the Bank of Italy quarterly econometric model. The distribution takes account of asymmetric shocks to the equations that reflect the main risk factors, by the procedure described in C. Miani and S. Siviero (2010), "A non-parametric model-based approach to uncertainty and risk analysis of macroeconomic forecasts," Bank of Italy Working Papers No. 758. The figure shows year-on-year percentage changes of 4-term moving averages. The value corresponding to the fourth quarter of each year coincides with the average annual percentage change.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2009	-2.8	-1.6	-1.1	3.2	0.6	-16.7	-2.8	-3.8	-3.9	-9.1	-13.7	1.1	-0.8
2010	2.5	2.0	1.3	0.1	..	1.5	0.2	2.9	3.0	11.5	12.8	-0.5	1.5
2011	1.8	2.5	1.7	-3.2	-0.7	6.2	0.9	1.7	1.7	7.1	4.9	0.1	-0.2
2012	2.8	2.2	1.5	-1.0	-0.2	8.3	1.2	2.6	2.7	3.5	2.2	0.1	0.2
2011 – Q1	-1.3	2.1	1.4	-7.5	-1.6	-0.5	-0.1	-1.3	-1.3	3.8	2.8	..	-1.1
Q2	3.2	1.5	1.0	-1.3	-0.3	8.6	1.2	2.6	2.7	4.9	0.7	0.5	0.7
Q3	1.4	2.1	1.4	-2.5	-0.5	14.8	2.0	1.2	1.3	7.0	4.9	0.1	-1.6
Q4	4.9	2.4	1.7	-1.5	-0.3	10.0	1.4	5.3	5.5	2.7	5.9	-0.6	2.7
2012 – Q1	3.7	2.9	2.0	-1.4	-0.3	8.6	1.2	3.1	3.3	4.2	0.7	0.4	0.4
Q2	1.2	1.9	1.3	0.3	0.1	4.7	0.7	1.1	1.1	3.8	2.5	0.1	-0.9
Q3	2.8	1.7	1.2	3.5	0.7	2.7	0.4	2.7	2.8	0.4	0.5	..	0.6
Q4	0.1	1.7	1.1	-6.5	-1.3	11.6	1.6	-0.5	-0.6	1.1	-3.1	0.7	-2.0
2013 – Q1	1.1	2.3	1.5	-4.2	-0.8	-1.5	-0.2	1.4	1.4	-1.3	0.6	-0.3	0.9
Q2	2.5	1.8	1.2	-0.4	-0.1	6.5	1.0	2.5	2.6	8.0	6.9	-0.1	0.4
Q3	4.1	2.0	1.4	0.4	0.1	5.9	0.9	3.9	4.0	3.9	2.4	0.1	1.7

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
2009	-5.5	-0.7	-0.4	2.3	0.4	-10.6	-2.4	-4.0	-4.0	-24.2	-15.7	-1.5	-1.6
2010	4.7	2.8	1.7	1.9	0.4	-0.2	-0.1	2.9	2.9	24.4	11.1	1.7	0.9
2011	-0.5	0.3	0.2	1.2	0.2	1.4	0.3	0.4	0.4	-0.4	5.9	-0.9	-0.3
2012	1.4	2.0	1.2	1.7	0.3	3.4	0.7	2.3	2.3	-0.1	5.3	-0.9	0.1
2011 – Q1	-7.1	-6.5	-3.9	-0.4	-0.1	-0.4	-0.1	-6.0	-6.1	-3.1	5.4	-1.2	-1.9
Q2	-2.9	3.4	2.0	1.5	0.3	-0.7	-0.1	1.4	1.4	-26.7	-2.4	-4.3	-0.7
Q3	10.6	6.3	3.8	0.6	0.1	5.6	1.1	6.6	6.5	44.9	13.5	3.9	1.6
Q4	1.2	2.7	1.6	1.2	0.2	19.4	3.6	4.4	4.3	-11.6	8.1	-3.1	-1.3
2012 – Q1	3.5	1.6	1.0	5.2	1.0	-1.1	-0.2	3.2	3.2	11.1	7.9	0.4	1.4
Q2	-2.0	1.5	0.9	-2.0	-0.4	0.8	0.2	-0.7	-0.7	-2.0	5.9	-1.3	-1.4
Q3	-3.2	-2.0	-1.2	1.8	0.4	-6.6	-1.4	-1.1	-1.1	-14.4	-1.4	-2.1	1.2
Q4	0.6	2.4	1.4	3.0	0.6	2.6	0.5	1.1	1.1	-11.4	-6.7	-0.6	-1.5
2013 – Q1	4.5	4.0	2.4	2.6	0.5	-0.5	-0.1	2.8	2.8	16.7	4.1	1.6	..
Q2	3.6	2.7	1.6	2.5	0.5	8.3	1.7	2.9	3.0	12.2	7.1	0.6	-0.9
Q3	1.1	0.8	0.5	1.0	0.2	7.6	1.6	2.9	2.9	-2.4	9.2	-1.9	0.7

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								
2007	3.0	6.2	3.9	3.0	8.2	5.2	1.7	2.2	6.6
2008	0.4	0.9	0.5	-3.0	0.9	-1.4	0.4	2.3	1.1
2009	-4.4	-10.9	-6.3	-9.9	-16.7	-12.8	-1.0	2.6	-12.4
2010	2.0	10.0	4.1	-4.4	5.6	-0.4	1.0	0.6	11.6
2011	1.6	4.5	2.4	-0.4	4.3	1.6	0.3	-0.1	6.5
2012	-0.7	-1.0	-0.8	-4.3	-3.8	-4.1	-1.4	-0.5	2.5
2011 – Q3	0.1	0.6	0.2	-0.9	0.3	-0.4	0.2	-0.3	1.3
Q4	-0.2	-1.2	-0.5	-0.2	-0.9	-0.5	-0.6	0.2	0.3
2012 – Q1	-0.1	..	..	-1.2	-1.1	-1.2	-0.3	-0.3	0.8
Q2	-0.3	-0.2	-0.3	-1.7	-2.0	-1.9	-0.5	-0.2	0.9
Q3	-0.2	0.3	..	-0.6	-0.6	-0.6	-0.1	-0.2	0.7
Q4	-0.5	-1.0	-0.7	-1.4	-0.9	-1.2	-0.5	..	-0.6
2013 – Q1	-0.2	-1.1	-0.5	-2.3	-1.5	-2.0	-0.1	0.3	-0.9
Q2	0.3	1.5	0.6	-0.3	1.0	0.3	0.1	..	2.1
Q3	0.1	1.2	0.4	0.7	0.2	0.5	0.1	0.2	0.3
	Implicit prices								
2007	2.3	1.2	....	....	....	2.5	2.2	1.8	1.6
2008	1.9	3.9	....	....	....	2.3	2.6	2.7	2.3
2009	0.9	-6.3	....	....	....	-0.3	-0.4	2.0	-3.5
2010	0.8	5.0	....	....	....	0.8	1.7	0.8	3.2
2011	1.2	5.6	....	....	....	1.7	2.5	0.8	3.6
2012	1.3	2.4	....	....	....	1.1	2.1	1.1	1.6
2011 – Q3	0.3	0.2	....	....	....	0.4	0.3	0.1	0.2
Q4	0.3	0.6	....	....	....	0.4	0.6	0.6	0.3
2012 – Q1	0.4	1.5	....	....	....	0.3	0.8	-0.2	1.0
Q2	0.3	..	....	....	....	0.2	0.2	0.8	..
Q3	0.3	0.2	....	....	....	0.3	0.3	0.2	0.4
Q4	0.3	-0.1	....	....	....	0.2	0.5	-0.2	..
2013 – Q1	0.5	-0.5	....	....	....	-0.2	0.3	0.9	-0.2
Q2	0.3	-0.8	....	....	....	-0.1	0.1	..	-0.3
Q3	0.1	-0.3	....	....	....	0.2	0.3	0.2	-0.3

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2007	1.7	5.2	2.5	0.5	3.3	1.8	1.1	1.0	6.2
2008	-1.2	-3.0	-1.6	-2.8	-4.7	-3.7	-0.8	0.6	-2.8
2009	-5.5	-13.4	-7.3	-8.8	-15.0	-11.7	-1.6	0.8	-17.5
2010	1.7	12.6	3.8	-4.5	6.8	0.6	1.5	-0.4	11.4
2011	0.5	0.8	0.5	-3.6	-0.6	-2.2	-0.3	-1.1	6.2
2012	-2.5	-7.4	-3.7	-6.4	-10.4	-8.3	-4.2	-2.6	2.0
2011 – Q3	-0.2	-1.4	-0.5	-1.4	-1.3	-1.4	-0.7	-0.5	1.1
Q4	-0.7	-2.5	-1.1	-0.6	-3.9	-2.2	-1.0	0.3	0.8
2012 – Q1	-1.1	-2.7	-1.5	-3.4	-4.2	-3.8	-1.8	-2.0	0.2
Q2	-0.6	-0.8	-0.6	-0.6	-2.8	-1.6	-0.5	-0.5	-0.1
Q3	-0.5	-1.6	-0.7	-1.6	-1.0	-1.3	-1.5	-0.3	0.8
Q4	-0.9	-2.0	-1.1	-1.2	-2.1	-1.7	-0.8	..	-0.1
2013 – Q1	-0.6	-0.5	-0.6	-4.0	-1.7	-2.9	-0.5	0.1	-1.2
Q2	-0.3	-0.7	-0.4	-0.9	1.0	..	-0.5	..	0.7
Q3	..	2.0	0.4	..	-1.2	-0.6	-0.2	..	0.7
	Implicit prices								
2007	2.4	1.2	2.1	3.7	1.5	2.7	2.2	0.8	2.3
2008	2.5	5.1	3.1	3.4	2.5	3.0	3.1	3.4	2.9
2009	2.1	-7.7	..	1.1	0.8	1.0	-0.1	2.1	-2.4
2010	0.4	6.6	1.7	2.7	0.5	1.7	1.5	1.1	2.6
2011	1.4	7.0	2.6	3.2	1.0	2.2	2.8	-0.3	4.0
2012	1.7	3.1	2.0	2.3	0.9	1.6	2.8	0.5	1.9
2011 – Q3	0.5	0.2	0.4	0.6	0.1	0.3	0.7	-0.6	0.5
Q4	0.3	0.5	0.3	0.5	0.2	0.4	1.0	0.3	-0.1
2012 – Q1	0.5	2.4	0.9	1.0	0.3	0.6	0.6	0.7	1.0
Q2	0.6	-0.8	0.3	0.5	0.1	0.3	0.7	0.3	0.4
Q3	..	0.8	0.2	0.1	0.2	0.2	0.5	-0.4	0.2
Q4	0.4	-0.1	0.3	0.4	0.4	0.4	0.5	-0.7	-0.1
2013 – Q1	0.7	-1.0	0.3	0.1	0.1	0.1	0.2	2.0	..
Q2	0.3	-1.0	..	0.1	0.4	0.2	0.1	-1.1	-0.3
Q3	-0.1	-0.3	-0.2	0.2	0.1	0.2	0.5	-0.9	0.1

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

Table A5

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2010	1.1	10.0	9.5	-0.4	-8.0
2011	2.6	2.2	3.0	0.8	0.4
2012	3.6	1.0	-1.1	-2.1	2.6
2011 – Q1	1.2	3.9	6.3	2.3	-2.6
Q2	3.5	3.3	3.9	0.5	0.1
Q3	2.9	2.1	2.7	0.5	0.8
Q4	2.9	-0.2	-0.3	-0.2	3.1
2012 – Q1	2.8	0.4	-0.7	-1.1	2.3
Q2	4.3	1.5	-0.9	-2.4	2.7
Q3	4.2	1.7	-0.8	-2.5	2.4
Q4	3.8	1.2	-1.4	-2.6	2.6
2013 – Q1	4.6	1.9	-1.7	-3.5	2.6
Q2	1.5	-0.4	-1.0	-0.6	1.9
Q3	1.9	-0.4	-1.0	-0.6	2.2
			Services		
2010	1.2	0.4	1.0	0.6	0.8
2011	1.5	0.9	1.8	0.8	0.6
2012	2.1	0.8	0.0	-0.8	1.3
2011 – Q1	0.9	0.8	2.0	1.2	0.1
Q2	1.7	1.0	1.9	0.9	0.7
Q3	1.7	0.9	1.8	0.9	0.8
Q4	1.8	0.9	1.4	0.5	1.0
2012 – Q1	2.5	1.1	0.5	-0.6	1.4
Q2	2.2	1.1	0.2	-1.0	1.1
Q3	2.2	0.3	-0.2	-0.5	1.9
Q4	1.5	0.5	-0.3	-0.8	1.0
2013 – Q1	2.5	1.0	-0.4	-1.4	1.5
Q2	1.5	0.3	-0.1	-0.4	1.1
Q3	1.4	0.8	0.2	-0.6	0.6
			Total economy		
2010	1.2	2.0	2.0	0.0	-0.8
2011	2.0	1.5	1.8	0.3	0.5
2012	2.6	0.9	-0.5	-1.5	1.7
2011 – Q1	1.2	1.6	2.6	1.0	-0.4
Q2	2.3	1.7	2.0	0.2	0.5
Q3	2.1	1.5	1.7	0.2	0.6
Q4	2.2	1.1	1.0	-0.2	1.1
2012 – Q1	2.8	1.2	0.0	-1.2	1.6
Q2	2.8	1.3	-0.3	-1.7	1.5
Q3	2.8	0.7	-0.6	-1.3	2.0
Q4	2.2	0.6	-0.9	-1.6	1.5
2013 – Q1	3.1	1.3	-1.0	-2.3	1.7
Q2	1.5	0.3	-0.6	-0.8	1.2
Q3	1.6	0.6	-0.3	-0.9	0.9

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 2005.

Table A6

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly earnings	Hourly productivity			Unit labour costs
				Value added (2)	Hours worked	
			Total industry excluding construction			
2010	3.1	0.8	8.2	6.0	-2.0	-4.8
2011	2.5	3.3	1.2	1.5	0.3	1.4
2012	2.9	-0.1	-0.3	-3.1	-2.8	3.2
2011 – Q1	2.3	4.5	3.8	4.9	1.0	-1.4
Q2	3.1	4.2	2.4	3.2	0.8	0.7
Q3	3.3	3.1	1.8	1.4	-0.4	1.5
Q4	0.2	1.4	-2.1	-1.0	1.1	2.3
2012 – Q1	2.8	-0.5	0.3	-2.7	-3.0	2.5
Q2	2.6	-0.8	-0.9	-4.0	-3.1	3.6
Q3	3.1	1.2	-0.7	-2.6	-2.0	3.8
Q4	3.7	-0.4	0.2	-3.7	-3.9	3.4
2013 – Q1	3.1	-0.4	0.6	-3.1	-3.7	2.5
Q2	1.8	1.9	-1.5	-2.6	-1.1	3.3
Q3	0.6	0.5	-1.9	-2.8	-0.9	2.6
			Services			
2010	2.1	1.5	1.2	1.1	-0.1	0.9
2011	0.3	1.4	0.0	0.8	0.8	0.2
2012	0.4	0.2	-1.5	-1.7	-0.2	1.9
2011 – Q1	1.2	0.9	1.0	0.9	-0.1	0.1
Q2	-0.3	1.2	-0.1	1.2	1.3	-0.1
Q3	0.1	2.3	-0.6	1.0	1.6	0.7
Q4	-0.3	1.1	-0.9	0.3	1.3	0.7
2012 – Q1	1.1	0.4	0.7	-0.6	-1.3	0.4
Q2	0.0	-0.6	-0.9	-1.5	-0.7	0.9
Q3	-0.1	0.7	-3.6	-2.4	1.2	3.7
Q4	0.5	0.4	-2.0	-2.2	-0.2	2.5
2013 – Q1	1.5	1.3	-1.5	-1.6	-0.1	3.1
Q2	0.4	0.1	-0.8	-1.4	-0.6	1.2
Q3	0.6	-1.1	1.0	-0.9	-1.8	-0.3
			Total economy			
2010	2.3	1.2	2.4	1.7	-0.7	-0.1
2011	1.0	1.8	0.3	0.6	0.3	0.6
2012	1.2	-0.2	-0.8	-2.3	-1.4	2.1
2011 – Q1	1.7	1.6	1.6	1.5	-0.1	0.1
Q2	0.7	2.1	0.4	1.2	0.8	0.3
Q3	0.9	2.3	-0.1	0.7	0.7	1.0
Q4	0.0	1.0	-0.9	-0.2	0.7	1.0
2012 – Q1	1.6	0.2	0.7	-1.4	-2.1	1.0
Q2	0.9	-1.0	-0.5	-2.2	-1.7	1.4
Q3	0.9	0.3	-2.3	-2.7	-0.4	3.3
Q4	1.5	-0.2	-1.0	-2.8	-1.8	2.6
2013 – Q1	2.1	0.0	-0.2	-2.2	-1.9	2.4
Q2	0.8	-0.6	-0.2	-1.9	-1.8	1.0
Q3	0.8	-1.1	0.7	-1.5	-2.2	0.1

Source: Based on Istat data.
(1) Based on hours effectively worked; annual figures are unadjusted data; quarterly data are seasonally and calendar-adjusted. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2005.

Harmonized index of consumer prices: main euro-area countries

(indices, 2005=100; percentage changes on the year-earlier period)

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food	Total	Total excl. energy and food
2010	1.7	1.0	1.2	0.6	1.6	1.7	2.1	0.8	1.6	1.0
2011	2.3	1.1	2.5	1.2	2.9	2.0	3.1	1.2	2.7	1.4
2012	2.2	1.5	2.1	1.3	3.3	2.0	2.4	1.3	2.5	1.5
2013	1.0	….	1.6	….	1.3	1.3	1.5	1.3	1.4	1.1
2010 – Jan.	1.2	0.9	0.8	0.9	1.3	1.6	0.7	-0.6	0.9	0.8
Feb.	1.4	1.2	0.5	0.7	1.1	1.3	0.4	-0.7	0.8	0.8
Mar.	1.7	1.1	1.2	0.9	1.4	1.6	2.7	1.6	1.6	1.2
Apr.	1.9	0.9	1.0	0.2	1.6	1.8	2.4	0.7	1.6	0.9
May	1.9	0.8	1.2	0.6	1.6	1.6	2.5	0.9	1.7	0.9
June	1.7	0.9	0.8	0.6	1.5	1.7	2.1	1.0	1.5	1.0
July	1.9	1.0	1.2	0.5	1.8	1.8	1.8	0.5	1.7	1.0
Aug.	1.6	0.8	1.0	0.6	1.8	1.8	1.6	0.6	1.6	1.0
Sept.	1.8	1.1	1.3	0.7	1.6	1.6	2.8	2.2	1.9	1.2
Oct.	1.8	1.1	1.3	0.6	2.0	1.8	2.5	1.4	1.9	1.1
Nov.	1.8	1.0	1.6	0.9	1.9	1.7	2.3	1.1	1.9	1.1
Dec.	2.0	1.0	1.9	0.7	2.1	1.7	2.9	1.1	2.2	1.0
2011 – Jan.	2.0	1.0	2.0	0.9	1.9	1.1	3.0	1.1	2.3	1.1
Feb.	1.8	0.6	2.2	0.8	2.1	1.2	3.4	1.2	2.4	1.0
Mar.	2.2	0.9	2.3	0.9	2.8	2.1	3.3	1.2	2.7	1.3
Apr.	2.2	1.2	2.7	1.6	2.9	2.1	3.5	1.5	2.8	1.6
May	2.2	1.2	2.4	1.1	3.0	2.1	3.4	1.4	2.7	1.5
June	2.3	1.2	2.4	1.3	3.0	2.3	3.0	1.4	2.7	1.6
July	2.1	0.8	2.6	1.3	2.1	1.0	3.0	1.0	2.6	1.2
Aug.	2.4	1.1	2.5	1.2	2.3	1.2	2.7	1.0	2.5	1.2
Sept.	2.4	1.0	2.9	1.3	3.6	3.1	3.0	0.9	3.0	1.6
Oct.	2.5	1.1	2.9	1.3	3.8	2.7	3.0	1.1	3.0	1.6
Nov.	2.7	1.4	2.8	1.2	3.7	2.6	2.9	1.1	3.0	1.6
Dec.	2.7	1.6	2.3	1.1	3.7	2.6	2.4	1.1	2.7	1.6
2012 – Jan.	2.6	1.5	2.3	1.3	3.4	2.0	2.0	0.9	2.7	1.5
Feb.	2.5	1.4	2.5	1.4	3.4	2.0	1.9	0.8	2.7	1.5
Mar.	2.6	1.7	2.3	1.3	3.8	2.5	1.8	0.8	2.7	1.6
Apr.	2.4	1.6	2.2	1.4	3.7	2.3	2.0	0.7	2.6	1.6
May	2.3	1.6	2.2	1.5	3.5	2.2	1.9	0.8	2.4	1.6
June	2.3	1.8	2.0	1.3	3.6	2.3	1.8	0.8	2.4	1.5
July	2.2	1.8	1.9	1.2	3.6	2.6	2.2	1.1	2.4	1.7
Aug.	2.4	1.7	2.2	1.2	3.3	2.0	2.7	1.0	2.6	1.5
Sept.	2.2	1.5	2.1	1.2	3.4	1.8	3.5	1.8	2.6	1.5
Oct.	2.1	1.2	2.1	1.2	2.8	1.4	3.5	2.3	2.5	1.5
Nov.	1.6	1.0	1.9	1.2	2.6	1.4	3.0	2.2	2.2	1.4
Dec.	1.5	1.0	2.0	1.5	2.6	1.6	3.0	2.1	2.2	1.5
2013 – Jan.	1.4	0.9	1.9	1.1	2.4	1.7	2.8	2.1	2.0	1.3
Feb.	1.2	0.7	1.8	1.2	2.0	1.4	2.9	2.1	1.8	1.3
Mar.	1.1	0.8	1.8	1.8	1.8	1.5	2.6	2.2	1.7	1.5
Apr.	0.8	0.5	1.1	0.6	1.3	1.2	1.5	1.8	1.2	1.0
May	0.9	0.6	1.6	1.1	1.3	1.4	1.8	2.0	1.4	1.2
June	1.0	0.5	1.9	1.2	1.4	1.2	2.2	1.9	1.6	1.2
July	1.2	0.7	1.9	1.2	1.2	1.0	1.9	1.5	1.6	1.1
Aug.	1.0	0.6	1.6	1.2	1.2	1.2	1.6	1.4	1.3	1.1
Sept.	1.0	0.8	1.6	1.3	0.9	1.3	0.5	0.5	1.1	1.0
Oct.	0.7	0.9	1.2	1.0	0.8	1.2	0.0	-0.1	0.7	0.8
Nov.	0.8	1.0	1.6	1.7	0.7	1.1	0.3	0.0	0.9	0.9
Dec.	0.8	….	1.2	….	0.7	0.9	0.3	-0.1	0.8	0.7

Source: Based on Eurostat data.
(1) 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
2009	-30,173	823	-8,435	-10,406	-4,658	-7,496	-89	-578	-19	508
2010	-54,516	-20,918	-9,218	-8,289	-5,425	-10,666	-556	-706	-70	220
2011	-48,259	-17,377	-5,671	-9,376	-4,549	-11,287	648	-407	-53	1,108
2012	-6,006	17,835	-741	-7,644	-5,360	-10,096	3,839	1,723	-95	2,211
2011 – Q4	-4,695	421	-1,654	-1,768	-1,048	-646	1,936	-11	-15	1,962
2012 – Q1	-13,045	-2,133	-2,542	-810	-1,241	-6,319	274	341	-12	-55
Q2	137	5,395	960	-3,144	-1,319	-1,754	380	356	-2	26
Q3	1,428	6,170	1,677	-1,915	-1,444	-3,061	656	563	-1	94
Q4	5,474	8,403	-836	-1,774	-1,357	1,038	2,529	463	-80	2,145
2013 – Q1	-5,831	4,457	-1,992	-1,837	-522	-5,937	-2,555	-2,559	-17	21
Q2	3,858	11,190	1,684	-5,407	-714	-2,896	132	-185	-2	319
Q3	5,463	9,509	2,561	-1,924	-807	-3,876	76	-98	-4	177
2011 – Oct.	-2,232	-536	-333	-753	-356	-254	687	22	-4	669
Nov.	-3,331	-1,011	-747	-1,091	-339	-143	667	27	-4	644
Dec.	868	1,968	-574	76	-353	-249	582	-60	-7	649
2012 – Jan.	-7,360	-3,968	-854	-220	-436	-1,882	133	156	-3	-20
Feb.	-4,240	-584	-852	-268	-352	-2,185	180	209	-3	-25
Mar.	-1,445	2,419	-836	-322	-453	-2,253	-40	-25	-6	-9
Apr.	-1,109	405	-29	-328	-371	-786	33	27	-1	6
May	-931	1,650	240	-2,008	-507	-307	65	51	,,	15
June	2,177	3,340	748	-809	-441	-661	282	278	-1	5
July	4,319	5,350	974	-405	-476	-1,123	279	245	,,	34
Aug.	-1,906	16	30	-456	-489	-1,007	208	177	,,	32
Sept.	-985	804	673	-1,054	-478	-931	170	141	,,	29
Oct.	1,444	2,955	47	-1,547	-509	497	885	173	-21	733
Nov.	1,464	2,879	-601	-602	-427	215	890	168	-21	743
Dec.	2,566	2,569	-282	374	-421	326	753	122	-38	669
2013 – Jan.	-4,057	-1,008	-746	-689	-303	-1,312	-592	-607	-3	18
Feb.	-1,350	1,635	-511	-495	-127	-1,852	-632	-640	-4	11
Mar.	-425	3,830	-736	-654	-93	-2,773	-1,330	-1,312	-9	-9
Apr.	529	2,529	214	-983	-191	-1,039	-28	-76	-1	49
May	857	4,559	540	-3,340	-242	-661	-23	-73	-1	51
June	2,472	4,102	930	-1,083	-282	-1,195	183	-36	-1	219
July	6,001	6,588	1,350	13	-321	-1,629	73	-9	,,	82
Aug.	-163	1,505	210	-467	-316	-1,096	42	-28	-2	72
Sept.	-375	1,416	1,000	-1,470	-171	-1,151	-39	-60	-2	23
Oct.	(4,022)	(4,374)	(338)	(-636)	....	....	(440)	....	....	....

Table A9

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

(twelve-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classifiable and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
					Centre and North				
2011 – Dec.	-0.9	-2.4	2.3	3.0	-0.6	1.3	3.7	9.8	1.7
2012 – Mar.	2.6	4.8	-0.3	0.2	-2.4	-0.5	2.8	5.7	1.4
June	0.9	6.6	-1.6	-1.2	-3.5	-1.7	1.4	5.9	0.3
Sept.	5.7	8.9	-3.3	-3.1	-4.2	-2.6	0.7	3.7	0.2
Dec.	4.6	4.4	-2.2	-2.0	-2.9	-2.4	0.2	-1.6	0.0
2013 – Mar.	0.3	1.3	-2.6	-2.5	-3.2	-2.6	-0.2	-0.9	-1.2
June	-0.7	-4.2	-4.2	-4.3	-3.8	-2.9	-0.3	-3.1	-2.8
Sept.	-4.6	-8.6	-4.3	-4.5	-3.2	-2.7	-0.6	-3.5	-3.9
Oct.	-5.0	-6.3	-5.1	-5.3	-4.1	-3.2	-0.7	-4.2	-4.2
Nov.	-4.0	-6.0	-6.2	-6.3	-5.4	-4.1	-0.9	-3.8	-4.6
					South and Islands				
2011 – Dec.	3.0	-10.4	3.5	4.4	1.0	1.2	3.9	3.2	3.4
2012 – Mar.	0.7	-9.0	1.1	1.9	-1.0	-1.0	2.5	-3.4	1.5
June	-2.3	-7.6	-0.7	-0.2	-2.0	-1.9	1.0	-3.0	-0.2
Sept.	-3.8	-8.5	-1.7	-1.3	-2.7	-2.9	0.4	-1.4	-1.1
Dec.	-1.7	-4.5	-2.1	-1.8	-2.9	-3.2	-0.4	-0.8	-1.4
2013 – Mar.	-2.5	-4.3	-2.1	-1.8	-2.9	-3.0	-0.8	1.9	-1.6
June	-2.8	-0.5	-2.9	-2.8	-3.4	-3.5	-1.2	1.1	-2.2
Sept.	-2.6	0.2	-3.3	-3.3	-3.3	-3.3	-1.6	-1.5	-2.5
Oct.	-3.9	-0.4	-3.4	-3.3	-3.6	-3.4	-1.6	-2.1	-2.7
Nov.	-4.1	-1.2	-3.8	-3.6	-4.3	-3.9	-1.6	-2.7	-2.9
					ITALY				
2011 – Dec.	-0.5	-2.6	2.5	3.2	-0.2	1.3	3.7	9.1	1.9
2012 – Mar.	2.4	4.5	-0.1	0.4	-2.1	-0.6	2.7	4.7	1.4
June	0.5	6.3	-1.4	-1.0	-3.2	-1.8	1.3	4.9	0.3
Sept.	4.7	8.5	-3.0	-2.8	-3.9	-2.7	0.6	3.2	0.0
Dec.	4.0	4.2	-2.2	-2.0	-2.9	-2.6	0.0	-1.5	-0.2
2013 – Mar.	0.0	1.2	-2.5	-2.4	-3.2	-2.7	-0.4	-0.7	-1.3
June	-0.9	-4.1	-4.0	-4.1	-3.7	-3.1	-0.5	-2.7	-2.7
Sept.	-4.4	-8.4	-4.1	-4.3	-3.2	-2.9	-0.8	-3.3	-3.7
Oct.	-4.9	-6.2	-4.8	-5.0	-4.0	-3.2	-0.9	-4.0	-3.9
Nov.	-4.0	-5.9	-5.8	-5.9	-5.2	-4.0	-1.1	-3.6	-4.3

Source: Supervisory Report.
(1) Statistics for November 2013 are provisional. Loans include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations, reclassifications and other changes not due to transactions. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with fewer 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 (1)

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other operations	*of which:* change in Treasury's liquid balances (2)	*of which:* investments of liquidity	Borrowing requirement	*of which:* financed abroad	*of which:* in connection with financial support to EMU countries (3)
2010	1,093	-4,809	-10,103	88,002	1,195	-10,336	-11,518	0	69,851	448	3,909
2011	-3,635	-3,116	1,319	43,101	18	23,056	18,994	0	63,859	-1,297	9,209
2012	6,965	-1,314	20,417	24,884	782	13,218	-10,138	0	66,265	14,729	29,547
2010 – Mar.	-3,192	-1,413	10,530	28,479	1,565	-10,057	-9,568	0	27,325	170	0
June	1,216	-929	-636	22,875	-943	-2,921	-3,474	0	19,592	1,136	2,922
Sept.	-1,315	-1,219	-1,960	22,908	1,859	-2,281	-2,188	0	19,210	3,944	987
Dec.	4,384	-1,247	-18,037	13,740	-1,286	4,923	3,712	0	3,723	-4,802	0
2011 – Mar.	-1,984	-1,605	12,380	10,484	1,232	8,632	8,309	0	30,744	-1,271	4,746
June	1,147	-895	-5,607	32,821	1,129	-13,421	-15,502	0	16,070	-669	1,371
Sept.	-3,693	-355	9,090	-23,064	-1,677	33,741	34,039	-800	14,397	2,473	1,006
Dec.	894	-261	-14,544	22,859	-666	-5,896	-7,852	800	2,647	-1,830	2,085
2012 – Mar.	8,028	-1,236	31,493	234	-1 05	-2,823	-10,202	-5,556	36,827	8,319	7,985
June	-3,934	470	-1,493	17,811	1,886	-3,131	-11,661	-2,382	11,139	4,290	8,599
Sept.	4,803	-1,243	5,063	4,197	-229	433	199	-22,727	14,268	83	499
Dec.	-1,932	695	-14,645	2,641	-770	18,738	11,525	30,665	4,031	2,037	12,464
2013 – Mar.	228	-1,443	4,992	42,536	-501	-11,089	-11,463	-10,746	36,166	563	1,074
June	-5,079	-670	6,533	32,929	473	-26,243	-30,395	-8,646	8,614	2,268	7,100
Sept.	533	488	600	-4,448	-2,105	34,280	35,472	7,310	28,859	-255	673
2012 – Jan.	-473	-483	17,980	18,755	-1,250	-32,029	-32,573	-5,655	2,983	653	863
Feb.	-816	-102	8,533	-15,769	691	15,620	16,040	1,527	8,259	228	0
Mar.	9,317	-651	4,980	-2,752	454	13,586	6,331	-1,428	25,585	7,438	7,122
Apr.	-896	-115	6,058	-10,117	1,399	13,347	6,953	-4,253	9,791	9,047	6,604
May	-1,933	38	66	14,481	-16	-6,112	-8,277	2,724	6,486	1,406	1,803
June	-1,106	547	-7,617	13,448	504	-10,366	-10,337	-853	-5,138	-6,164	192
July	1,705	-1,007	-2,183	-2,966	-2,001	1,739	597	-10,951	-3,706	-679	499
Aug.	1,120	270	-1,412	-1,337	171	7,911	8,158	-6,890	6,452	-758	0
Sept.	1,979	-505	8,658	8,500	1,601	-9,216	-8,556	-4,886	11,522	1,519	0
Oct.	-1,449	-161	4,885	16,287	-184	-7,326	-6,971	7,501	12,213	-1,261	5,732
Nov.	-3,414	-264	1,970	5,621	872	-6,230	-6,235	5,805	-1,181	-85	0
Dec.	2,931	1,120	-21,500	-19,267	-1,458	32,294	24,731	17,359	-7,001	3,384	6,732
2013 – Jan.	1,501	-1,356	6,549	28,069	-1,408	-33,848	-33,717	-13,033	863	-244	384
Feb.	-3,915	8	266	-2,194	26	19,041	18,461	-110	13,225	551	691
Mar.	2,642	-94	-1,823	16,660	880	3,718	3,793	2,397	22,078	256	0
Apr.	-3,348	-218	3,050	6,495	622	3,892	3,894	-1,111	10,711	-47	2,866
May	584	-286	3,613	24,909	301	-18,022	-20,398	-90	11,386	3,270	2,883
June	-2,315	-166	-130	1,525	-450	-12,113	-13,891	-7,445	-13,483	-956	1,350
July	1,656	400	-1,095	785	-3,481	7,604	8,053	13,000	5,469	483	481
Aug.	-1,629	-538	104	-13,089	806	21,374	21,769	-5,994	7,567	-48	0
Sept.	506	626	1,591	7,856	570	5,302	5,650	304	15,823	-689	192
Oct.	-2,424	-805	-514	21,208	-1,613	-7,011	-6,722	6,590	9,645	38	2,866
Nov.	-242	-145	-2,508	21,063	-577	-10,846	-11,518	-10,558	6,891	-190	711

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" *Supplement to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.

Table A11

General government debt: Italy (1)

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	*of which:* in connection with EFSF loans	General government debt	*Memorandum item:* Treasury's liquid balances (2)	*of which:* investments of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
2010	156,861	25,195	129,862	1,418,760	132,521	13,248	0	1,851,252	43,249	0	35,688	3,909
2011	153,226	22,080	131,181	1,473,355	132,540	17,310	3,110	1,907,612	24,255	0	35,385	13,118
2012	160,191	20,765	151,600	1,503,654	133,321	40,667	26,925	1,989,431	34,394	0	27,210	42,665
2010 – Mar.	152,576	28,592	150,496	1,358,221	132,889	11,577	0	1,805,758	41,299	0	34,965	0
June	153,792	27,662	149,865	1,382,256	131,947	12,130	0	1,829,990	44,773	0	38,230	2,922
Sept.	152,477	26,443	147,911	1,403,642	133,807	12,037	0	1,849,873	46,961	0	36,568	3,909
Dec.	156,861	25,195	129,862	1,418,760	132,521	13,248	0	1,851,252	43,249	0	35,688	3,909
2011 – Mar.	154,878	23,590	142,246	1,431,025	133,753	13,571	786	1,875,472	34,940	0	35,794	8,655
June	156,025	22,696	136,638	1,467,054	134,882	15,652	2,157	1,910,250	50,442	0	36,526	10,026
Sept.	152,332	22,341	145,736	1,445,292	133,205	15,353	2,157	1,891,919	16,403	800	36,274	11,032
Dec.	153,226	22,080	131,181	1,473,355	132,540	17,310	3,110	1,907,612	24,255	0	35,385	13,118
2012 – Mar.	161,254	20,844	162,677	1,474,193	132,434	24,689	11,095	1,955,247	34,457	5,556	33,626	21,103
June	157,320	21,314	161,186	1,496,852	134,321	33,219	19,695	1,982,898	46,118	7,938	26,507	29,702
Sept.	162,123	20,071	166,248	1,500,595	134,092	33,454	20,193	1,996,512	45,919	30,665	25,380	30,201
Dec.	160,191	20,765	151,600	1,503,654	133,321	40,667	26,925	1,989,431	34,394	0	27,210	42,665
2013 – Mar.	160,418	19,323	156,590	1,544,998	132,820	41,041	27,999	2,035,866	45,856	10,746	24,609	43,739
June	155,339	18,653	163,123	1,579,423	133,293	45,193	32,232	2,076,371	76,251	19,392	27,075	50,839
Sept.	155,872	19,141	163,724	1,573,927	131,187	44,001	32,905	2,068,710	40,779	12,082	26,270	51,511
2012 – Jan.	152,752	21,596	149,162	1,493,167	131,290	17,853	3,974	1,944,224	56,828	5,655	35,783	13,981
Feb.	151,936	21,495	157,695	1,477,788	131,980	17,434	3,974	1,936,835	40,788	4,128	31,381	13,981
Mar.	161,254	20,844	162,677	1,474,193	132,434	24,689	11,095	1,955,247	34,457	5,556	33,626	21,103
Apr.	160,358	20,729	168,739	1,464,679	133,833	31,083	17,699	1,958,694	27,505	9,809	27,813	27,707
May	158,426	20,767	168,806	1,481,711	133,817	33,249	19,503	1,976,008	35,782	7,085	28,060	29,510
June	157,320	21,314	161,186	1,496,852	134,321	33,219	19,695	1,982,898	46,118	7,938	26,507	29,702
July	159,024	20,306	159,001	1,494,051	132,320	34,361	20,193	1,978,758	45,521	18,889	28,014	30,201
Aug.	160,144	20,576	157,586	1,492,562	132,491	34,114	20,193	1,976,898	37,363	25,779	27,907	30,201
Sept.	162,123	20,071	166,248	1,500,595	134,092	33,454	20,193	1,996,512	45,919	30,665	25,380	30,201
Oct.	160,674	19,910	171,134	1,517,228	133,908	33,099	20,193	2,016,042	52,890	23,164	28,314	35,933
Nov.	157,260	19,646	173,102	1,523,593	134,780	33,104	20,193	2,021,839	59,125	17,359	27,925	35,933
Dec.	160,191	20,765	151,600	1,503,654	133,321	40,667	26,925	1,989,431	34,394	0	27,210	42,665
2013 – Jan.	161,691	19,409	158,147	1,531,230	131,913	40,535	27,309	2,023,517	68,110	13,033	26,327	43,048
Feb.	157,776	19,417	158,413	1,529,241	131,939	41,116	27,999	2,018,486	49,650	13,143	25,761	43,739
Mar.	160,418	19,323	156,590	1,544,998	132,820	41,041	27,999	2,035,866	45,856	10,746	24,609	43,739
Apr.	157,070	19,105	159,640	1,551,203	133,442	41,039	27,999	2,042,394	41,963	11,857	26,750	46,605
May	157,654	18,819	163,253	1,577,769	133,743	43,415	30,883	2,075,835	62,361	11,947	26,645	49,489
June	155,339	18,653	163,123	1,579,423	133,293	45,193	32,232	2,076,371	76,251	19,392	27,075	50,839
July	156,995	19,053	162,029	1,580,533	129,812	44,744	32,713	2,074,112	68,199	6,392	28,067	51,319
Aug.	155,366	18,515	162,133	1,567,718	130,618	44,349	32,713	2,060,183	46,429	12,386	26,803	51,319
Sept.	155,872	19,141	163,724	1,573,927	131,187	44,001	32,905	2,068,710	40,779	12,082	26,270	51,511
Oct.	153,448	18,336	163,210	1,595,378	129,574	43,711	32,905	2,085,321	47,501	5,492	26,437	54,378
Nov.	153,206	18,191	160,702	1,616,779	128,997	44,383	33,617	2,104,068	59,019	16,050	26,107	55,089

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" *Supplement to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.