BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

April 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 expansion continues, but new risks emerge

Global output and trade are continuing to expand, but with signs of weakness in some emerging countries, among which China's private sector leverage represents a risk. The tensions with Russia kindled by the crisis in Ukraine have had a limited impact to date; if they were to intensify, they could have repercussions on the euro area through energy prices and supplies and, to a lesser extent, trade with Russia.

In the euro area, financial markets are improving rapidly ...

In euro-area financial markets, the rise of bond prices and the reduction in risk premiums have gained pace. The improvement is attributable mainly to the dissipation of fears of a break-up of the Monetary Union and to the progress made in macroeconomic adjustment in member countries, but it also reflects the large inflow of capital exiting the emerging countries in search of safer investments. In Italy, the nominal yields on ten-year BTPs fell to the lowest level since their introduction in 1991. On 14 February Moody's revised the outlook for Italy from negative to stable.

... but inflation is lower than forecast

With economic growth still moderate and uneven, inflation in the euro area remains well below recent forecasts. In March it fell to 0.5 per cent, reflecting both the core and the volatile components; according to the Eurosystem's projections, inflation could remain below the definition of price stability until 2016, making it more difficult to adjust imbalances and reduce debt in the euro-area countries. The Governing Council of the ECB is resolute in its commitment to using also unconventional instruments, such as market purchases of bonds, in order to cope effectively with risks of a too prolonged period of low inflation.

In Italy, there are signs that the recovery is slowly spreading

In Italy the performance of industrial production and the results of business surveys indicate that economic activity has continued to expand at a moderate pace in the first few months of the year. The strength of the recovery differs by category of firm and geographical area, but it appears to be spreading gradually. Surveys indicate that the improvement in the prospects of large industrial firms and export-oriented companies is accompanied by initial positive signs for service businesses as well. The situation remains less favourable in the South.

Export orders grow

The latest cyclical indicators suggest that exports continued to perform well in the first quarter. The outlook remains favourable: firms report that, overall, foreign orders are on the rise.

Investment turns upwards but consumption remains weak ...

Investment has turned slowly upwards. Firms' assessments of investment conditions are now comparable with those they made before the sovereign debt crisis. There are also signs that household spending is stabilizing, with a modest upturn in new car registrations and gains in household confidence. Nevertheless, consumption remains well below its 2007 level (by nearly 8 per cent) and is still dampened by the employment outlook.

... and difficulties in the labour market persist

Despite some improvement, labour market conditions remain difficult. The contraction in employment eased slightly in the second half of 2013 and hours worked per employee rose in industry, but the unemployment rate hit 13 per cent in February. If the recovery were to continue at the moderate pace *currently projected by most forecasters, the number of persons in work would begin to grow only gradually and not before the end of the year.*

Inflation comes down sharply in Italy too

As in the euro area, in Italy harmonized inflation has continued to decline faster than projected in the past few months, falling to 0.3 per cent in March. Core inflation reached 0.9 per cent, among the lowest levels on record. The downward pressures mainly reflect the weakness of demand; the decline in producer prices and firms' declared intentions of making only very minor adjustments to their prices in the coming months suggest that these pressures will persist.

The fragmentation of banking markets diminishes but does not vanish ...

The rapid improvement in the financial markets has not yet resulted in significantly reduced fragmentation of the conditions for banks' funding on wholesale markets. The largest Italian banks' CDS spreads have diminished, consistently with those on government securities, but they are still more than 60 basis points higher than those of French and German banks.

... and credit conditions are improving very slowly

In the latest surveys firms report a slight attenuation of the restriction of loan supply conditions. The decline in lending to firms has not yet reversed. The cost of credit for non-financial corporations in Italy remains about 80 basis points higher than the euro-area average.

The single mechanism for resolving bank crises is approved

The comprehensive assessment of the main euro-area banks by the ECB and the national supervisory authorities is under way. The approval of the Single Resolution Mechanism by the European Parliament makes it possible to advance towards Banking Union and to standardize not only supervisory responsibilities but also those for crisis resolution. It now remains to move rapidly ahead in defining the operational aspects regarding the financial capacity of the single resolution fund.

The measures to support firms' liquidity have helped to sustain economic activity

According to our surveys, payments of general government's overdue commercial debts have provided support for investment by firms and the recovery in economic activity. According to the end-March report by the Ministry for the Economy and Finance, the payments (including tax rebates) made in accordance with the legislation approved last year exceeded €23 billion. Qualitative surveys indicate that debt payment times were trimmed in the course of 2013.

The Government has published its *Economic and Financial Document*

On the basis of data released by Istat, in 2013 general government net borrowing remained at 3.0 per cent of GDP, despite the contraction of economic activity. According to the Government's plans, set out in the 2014 Economic and Financial Document, *net borrowing will fall to 2.6 per cent of GDP in 2014 and 1.8 per cent in 2015; on a cyclically adjusted basis it is expected to fall to 0.6 per cent this year and 0.1 per cent next year, and to be completely eliminated in 2016. The Government has also announced that it will shortly introduce measures to reduce the tax wedge permanently (a reduction in personal income tax for low-income workers and a reduction in the regional tax on productive activities for firms). The resources will be obtained mainly through expenditure cuts.*

The incipient recovery must gain traction

Despite early signs of an improvement in domestic demand, the economic situation remains fragile. If there is to be a progressive reduction in unemployment, especially among young people who have been hit hardest by the crisis, there will have to be lasting growth and a heightened capacity for innovation among firms. Economic policies must sustain the confidence of firms and households, proceed with reforms and ensure that the ratio of debt to GDP is reduced, at a pace that will depend not only on the prudent management of the public finances but also on economic growth. In the euro area it remains essential to combat excessive disinflation.

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

The recovery of economic activity and trade, which had continued in the fourth quarter of 2013, lost impetus slightly in the first quarter of 2014. However, the most recent IMF projections suggest that the global recovery will regain strength later this year. In the main advanced countries, monetary policy remains expansionary. The effect of geopolitical tensions, which worsened in recent months, poses a risk.

The recovery continues in the advanced countries

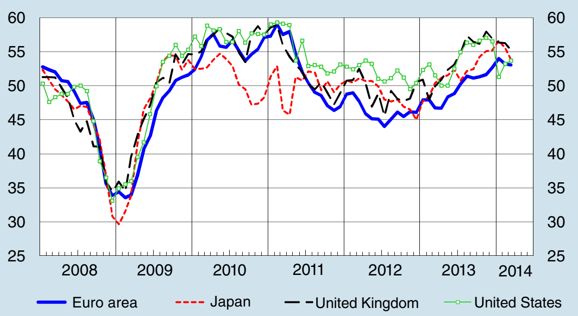
On an annual basis GDP growth in the United States slowed to 2.6 per cent in the fourth quarter of 2013, down from 4.1 per cent in the third: the marked reduction in the growth of inventories more than offset stronger consumer spending and net exports. In the United Kingdom growth declined from 3.4 to 2.9 per cent. In Japan GDP growth slowed further from 0.9 per cent to 0.7 per cent: the fall in net exports was only partially offset by internal demand.

In the opening months of 2014, economic activity in the United States was influenced by the severe weather conditions, which affected employment, especially in the construction sector. The rate of unemployment stood at 6.7 per cent in March. In Japan economic activity accelerated in the first quarter, driven by a temporary increase in consumer spending, in particular on durable goods, in view of an increase in indirect taxes that took effect at the start of April. The economy also strengthened in the United Kingdom: in March the PMI indices remained above the threshold that indicates an expansion (Figure 1); the Bank of England revised its growth forecasts upwards for 2014.

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.

Looking ahead, growth slows in the emerging countries

In the fourth quarter of 2013 GDP growth in China decreased slightly (7.7 per cent on a twelve-month basis, against 7.8 per cent in the third quarter), as the effects of last summer's tax stimulus wore off. GDP growth also slowed in India, to 4.7 per cent, held back by the modest performance of the manufacturing sector. In Brazil economic growth stood at 1.9 per cent compared with 2.1 per cent despite a recovery in investments and net exports. In Russia GDP grew in the fourth quarter by 3.6 per cent compared with 2.6 per cent in the previous quarter.

In the first quarter of this year. the pace of economic activity in China slowed further to 7.4 per cent. Investment slackened, also affected by the less accommodative financial conditions introduced by the Chinese authorities to curb the levels of public and private debt. By contrast, in India and Brazil business confidence, as shown in the PMI indices, indicates a recovery in industrial production. However, in Russia, where the fragile economy was already adversely affected by geopolitical tensions vis-à-vis Ukraine, growth expectations were sharply reduced; according to the most pessimistic forecasts, average GDP growth will contract this year.

World trade decelerates, but orders are increasing

World trade, after accelerating in the fourth quarter of 2013 to annualized growth of 6.5 per cent, from 4.6 per cent in the third, lost momentum in the early months of 2014, with a slowdown in US exports and a downturn in export volumes from the Asian region. Foreign orders as reported in PMI surveys point to a further recovery.

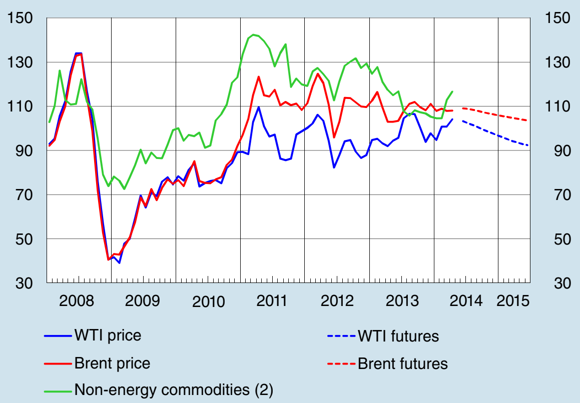
Oil prices are falling ...

In the first quarter of 2014 the price of Brent grade crude oil fell to $108.0 a barrel; the prices of futures contracts continued to record further, small reductions (Figure 2). The prices of non-energy commodities, which had fallen during 2013, continued to decline, including in the most recent months. One exception was the sharp increase in the prices of agricultural products, connected with the repercussions of the crisis in Ukraine on the cereals market, which more than offset reductions in the other components.

Figure 2

Commodities prices (1)

(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly averages up to March 2014. – (2) Goldman Sachs Commodity Index excluding energy products (January 2008=100).

... despite geopolitical tensions

Oil prices have not been affected so far by the tensions arising from the Ukraine crisis and the adoption of sanctions agagainst Russia following the annexation of Crimea. They have been held down not only by the fairly circumscribed nature of the measures envisaged so far, but also by the excess supply of crude oil on the world market, caused by the steady increase in US output and weak demand from the emerging economies.

If tensions were to worsen, the repercussions for Italy and the euro area could be transmitted via energy prices and, to a lesser extent, through trade with Russia. About a third of the EU's crude oil and gas imports come from that country. These imports, with half of their journey passing through Ukraine, are crucial, especially for the energy supplies of some eastern European countries and Germany. In Italy, the share of gas from Russia in national consumption was around one fifth of the total (one eighth for oil). In 2013 EU goods exports to Russia accounted for just under 3 per cent of the total (2.5 per cent of exports from Italy).

Inflation is falling everywhere

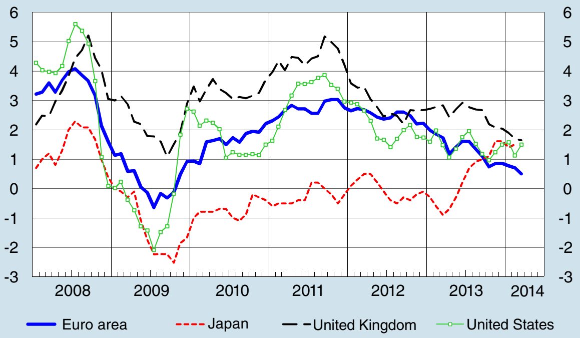
In the first few months of this year, average inflation in the advanced economies declined further (Figure 3). In March, compared with a year earlier, the consumer price index rose by 1.5 per cent in the United States and 1.6 per cent in the United Kingdom. In Japan the change in the general price index, which had been positive for eight months, reached 1.5 per cent in February. Among the emerging economies, price growth in India and Brazil, while remaining fairly high, shows signs of moderation.

The Federal Reserve reduces its stimulus but in the advanced economies monetary policies are still accommodative ...

The Federal Reserve has been gradually tapering its monetary stimulus since January: the meetings in February and March decided to make two further reductions in the monthly purchases of mortgage-backed securities and longer-term Treasury securities, for a total of $20 billion. In March, the Federal Reserve also changed its forward guidance, eliminating any reference to a threshold value for the unemployment rate and confirming that the decision to increase the reference rates will take account of a broad set of indicators for labour market conditions, inflationary pressures, inflation expectations and financial conditions. On the basis of the most recent assessments, the Federal Reserve considers it likely that the current target range for the federal funds rate will be maintained for a considerable time after the asset purchase program ends, especially if inflation continues to run below the 2 per cent target and longer-term inflation expectations remain well anchored. The Bank of England also changed its forward guidance in February; no longer focusing on a threshold unemployment rate, finding that the previously indicated rate of 7 per cent may already have been reached in the last quarter. The UK reference rates would presumibly remain unchanged for some time yet, to encourage the take up of spare capacity, and the amount of financial assets on the Bank of England's balance sheet would be kept unchanged at least until the reference rates are raised. The Bank of Japan left both the target for its monetary base and its bond purchases programme unchanged; it also strengthened two minor programmes, doubling the amount of funds available to the banks to stimulate lending.

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.

... while they are tightened in the emerging countries

In the first quarter of 2014 the monetary authorities of the emerging economies most exposed to capital outflows countered devaluation pressures on their currencies by intervening both directly on the currency market and on the reference interest rates. The rate rises were particularly marked in Turkey, following strong pressure on the currency in January. In Brazil and India the central banks continued to tighten monetary conditions to counter inflationary pressures. In China money market conditions remained relaxed overall, despite an increased perception of the risk of insolvency in some segments of the financial market; the central bank began draining liquidity again with open market operations and it widened its daily fluctuation band for the renminbi and the dollar, bringing it to 2 per cent.

Table 1

Macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2013	2014	2015	2014	2015
GDP					
World	**3.0**	**3.6**	**3.9**	–	–
Advanced countries	**1.3**	**2.2**	**2.3**	–	–
Euro area	*-0.5*	*1.2*	*1.5*	*1.1*	*1.4*
Japan	*1.5*	*1.4*	*1.0*	*1.4*	*1.3*
United Kingdom	*1.8*	*2.9*	*2.5*	*2.7*	*2.5*
United States	*1.9*	*2.8*	*3.0*	*2.8*	*3.1*
Emerging countries	**4.7**	**4.9**	**5.3**	–	–
Brazil	*2.3*	*1.8*	*2.7*	*1.8*	*2.1*
China	*7.7*	*7.5*	*7.3*	*7.4*	*7.3*
India (1)	*4.4*	*5.4*	*6.4*	*5.4*	*6.8*
Russia	*1.3*	*1.3*	*2.3*	*1.3*	*2.1*
World trade (2)	**3.0**	**4.3**	**5.3**	–	–

Source: IMF. *World Economic Outlook*, April 2014; Consensus Economics, March 2014.
(1) The Consensus Economics forecasts refer to the tax year, which begins in April of the year indicated. – (2) Goods and services.

World growth is expected to strengthen in 2014 …

According to the most recent IMF estimates, world GDP growth will accelerate to 3.6 per cent this year and to 3.9 per cent in 2015 (Table 1). Among the advanced economies outside the euro area, the improvement in 2014 is expected to include both the United States and the United Kingdom, while GDP growth is expected to slow slightly in Japan. In the main emerging economies, against a recovery in India, GDP growth is expected to be more modest in China and Brazil and to remain weak in Russia because of the geopolitical tensions in Ukraine.

… despite downside risks

World economic growth is still subject to downside risks. A faster than expected reduction of monetary stimulus in the United States or a sudden increase in risk aversion, including in connection with new tensions linked to the crisis in Ukraine, could trigger a tightening of financial conditions globally. Furthermore, in China there are greater risks of an abrupt slowdown in sectors with excess capacity, such as the real-estate sector and some of the heavy industry segments connected with it.

1.2 THE EURO AREA

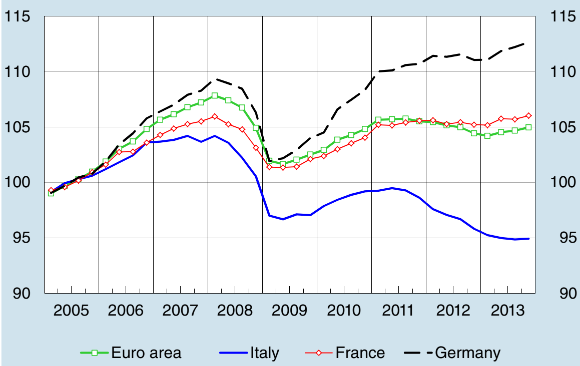
According to the latest data, economic activity in the euro area expanded in the first quarter of this year but did not accelerate significantly. There was an especially pronounced and sharper-than-expected slowdown in inflation. In April the Governing Council of the ECB announced that it was committed to using also unconventional measures to cope effectively with risks of a too prolonged period of low inflation.

GDP grows in the fourth quarter of 2013

Euro-area GDP continued to grow in the fourth quarter of 2013, increasing by 0.2 per cent on the previous quarter (Figure 4). It was sustained by the positive contributions of foreign trade and gross fixed investment; household consumption remained virtually unchanged. Although to a varying extent, economic activity expanded in the fourth quarter in all the main euro-area countries. In Germany the economy benefited from further increases in exports and investment. In France the growth came from all the main components of demand except stock-building. In Italy GDP expanded after contracting for nine quarters.

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.

The recovery continues in the early part of 2014

The latest indicators suggest that economic activity continued to expand in the first quarter of 2014, but without showing a significant acceleration. In March the €-coin coincident indicator produced by the Bank of Italy, which provides a monthly estimate in real time of the rate of change in GDP in the euro area net of the most volatile components, showed a slight increase, with a positive value for the seventh successive month (Figure 5). The average of industrial production in January and February was higher than in the fourth quarter of 2013. In March the euro-area composite PMI index was almost unchanged from February, above the threshold consistent with an increase in activity. In the first quarter of 2014 national PMI indices showed especially favourable expectations in Germany, in both industry and services; in

France they fluctuated around the threshold consistent with growth in economic activity.

Household expenditure is not gaining strength

Household demand is not improving significantly. The average of euro-area retail sales in January and February was up compared with the fourth quarter of 2013, but on a seasonally adjusted basis the average number of new car registrations was down. In March consumer confidence began to rise again, continuing the upward trend under way since the end of 2012.

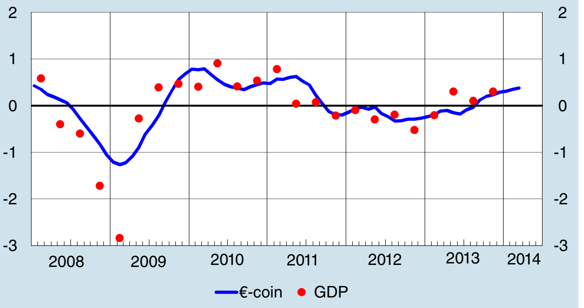
Exports continue to provide the main support for growth

Merchandise exports continued to expand in January and February. The short-term outlook remains moderately favourable: in March, for the ninth successive month the new external orders component of the euro-area PMI index remained above the threshold consistent with an increase.

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 professional forecasters surveyed by Consensus Economics in March expect GDP to grow in 2014 by 1.1 per cent, slightly less than the central projection released by the ECB in the same month (1.2 per cent); they expect growth to be 1.4 per cent in 2015, as against 1.5 per cent expected by the ECB.

Consumer price inflation continues to slow

Consumer price inflation again slowed at a faster pace than expected, falling to a twelve-month rate of 0.5 per cent in March (Figure 6). The very low level of this measure of inflation was due not only to the fall in the prices of energy products, partly as a result of the appreciation of the euro, but also to the decrease in core inflation (non-energy, non-food goods and services), which in March was only 0.7 per cent, down from 1 per cent at the end of last summer.

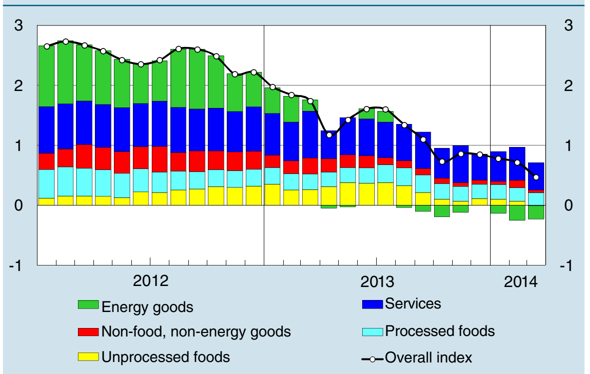
The pressure on prices remains downward

Unit labour costs in industry fell in the fourth quarter of 2013 by 0.7 per cent on the same period of the previous year, thanks to the continuation of the cyclical recovery in productivity and the smallness of the increase in hourly earnings. In February the fall in producer prices accelerated to a twelve-month rate of decrease of 1.7 per cent, compared with 1.4 per cent in January. The prices of energy products recorded a twelve-month fall of 4.4 per cent, as a result of the fall in raw material prices; the prices of non-food consumer goods continued to rise at a modest pace (0.4 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.

Inflation expectations continue to be moderate

Both business opinion surveys and surveys of professional forecasters continue to point to moderate consumer price inflation. Firms' intentions with respect to changes in their list prices and households' expectations as regards consumer price inflation are both at historically low levels. According to the data collected by Consensus Economics in March, euro-area consumer price inflation is expected to average 0.9 per cent this year and 1.3 per cent in 2015, basically in line with the projections released by the ECB in the same month.

Monetary growth is modest ...

The expansion of euro-area M3 in the first two months of 2014 was limited (1.3 per cent in the twelve months ending in February), kept down by the slackness of economic activity and the deleveraging of the financial sector. The portfolio rebalancing in favour of higher-yielding assets than money continued, offset only in part by the increase of 6.2 per cent in current account deposits. The expansion of the money supply was again sustained by capital inflows for the purchase of euro-area financial assets.

... and lending to firms continues to contract

Lending to firms diminished during the three months ending in February at a seasonally adjusted annual rate of 1.9 per cent (net of the accounting effect of securitizations), while that to households basically stagnated. Overall, lending to the non-financial private sector contracted by 0.7 per cent. Lending to firms declined in all the main euro-area countries except France.

The Governing Council of the ECB is prepared to use unconventional measures

Against a background of low inflation, contracting credit and a still uncertain outlook for growth, at its meeting at the beginning of April the Governing Council of the ECB confirmed that official rates would stay at or below current levels for an extended period. It also declared that it was unanimous in its commitment to using also unconventional measures, such as market purchases of bonds, to cope effectively with risks of a too prolonged period of low inflation.

The fragmentation of the euro-area financial markets decreases

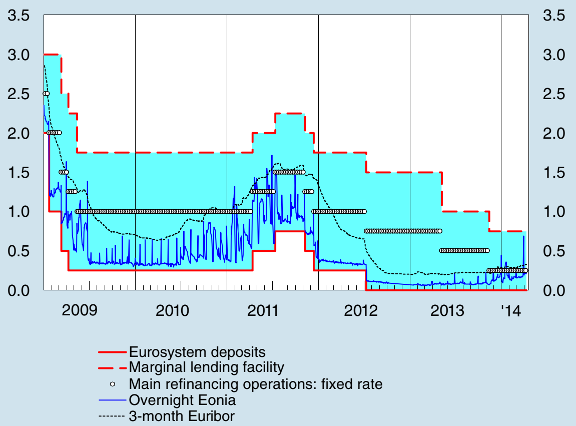
The liquidity held by banks with the Eurosystem in excess of the reserve requirement contracted further, falling from €155 billion in the middle of January to €109 billion at the end of March. The reduction was mainly due to the early repayment of funds obtained in the three-year refinancing operations. In the first quarter of this year about €56 billion was repaid. The total liquidity injected by the Eurosystem through refinancing operations has returned to its level before the first three-year refinancing operation in December 2011. The net balances in the TARGET2 payment system of the countries hardest hit by the sovereign debt crisis have decreased, confirming the reduction in the fragmentation of the euro-area's financial markets.

The Eonia rate and the three-month unsecured interbank lending rate (Euribor) have risen by 5 basis points compared with January to stand at 0.21 and 0.33 per cent respectively (Figure 7).

Figure 7

Official interest rates and money market rates in the euro area

(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

Agreement is reached on the Single Resolution Mechanism

On 20 March the Ecofin Council and the European Parliament reached agreement on the mechanism for resolving banking crises. A Single Resolution Board (consisting of permanent members, national supervisory authorities and, as observers, representatives from the European Commission and the ECB), will have the task of initiating the resolution procedure on the basis of assessments by the ECB as to whether banks are in serious difficulty. It will be possible for resolution schemes to be approved rapidly over a weekend while the financial markets are closed. The establishment of the single resolution fund will be completed over eight years and the annual contributions will be divided equally over that period. Provision is also made for a progressive mutualization of the fund whereby 60 per cent of the national compartments will be unified within two years and the remainder over the six following years. The fund will be able to turn to the market for resources, thereby enhancing its intervention capability.

1.3 WORLD FINANCIAL MARKETS

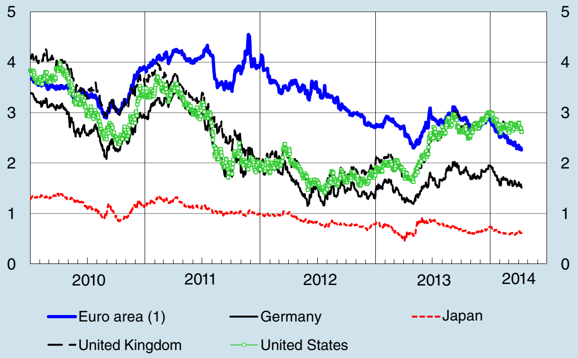
Conditions in the financial markets of the advanced economies gradually relaxed. In the euro-area countries most exposed to the debt crisis, sovereign spreads with Germany continued to diminish; lately this trend has been assisted by strengthening expectations of cyclical recovery, the expansive stance of monetary policy and capital inflows from the emerging countries. The crisis in Ukraine and the slowing of the Chinese economy have had a limited impact on global financial markets to date.

Long-term rates come down in the advanced economies

Interest rates on advanced-economy ten-year government bonds, which had risen sharply in the second half of last year, came down slightly in the first quarter of 2014, returning to their November levels. Contributory factors included the less favourable data on employment in the United States and portfolio shifts towards supposedly less risky assets in connection with renewed uncertainty about economic recovery in the emerging countries. Between the end of December and mid-April, ten-year government bond yields fell by 37 basis points in the United States, 40 in the United Kingdom and 42 in Germany (Figure 8). The decline was smaller in Japan (13 basis points).

Figure 8

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



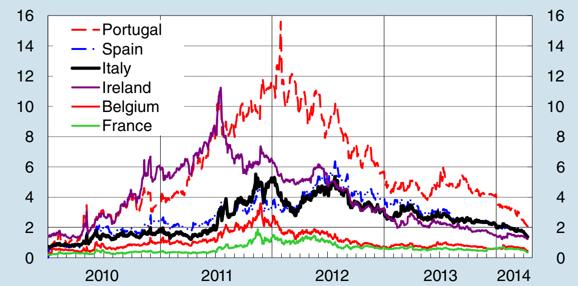
Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the 10-year benchmark government securities of the euro-area countries excluding Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

Sovereign spreads continue to shrink in the euro area ...

In the first quarter of this year the situation in euro-area sovereign debt markets continued to improve significantly, benefiting both from stronger signals of economic recovery and from the ECB's confirmation of its expansive monetary policy stance. An additional factor in the decline in sovereign spreads was the reallocation of international investors' portfolios from emerging countries to the euro area, prompted, with the start of tapering in the United States, by the search for assets offering relatively high yields but moderate volatility (Figure 9); going forward, there is a risk that these flows might be reversed.

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.

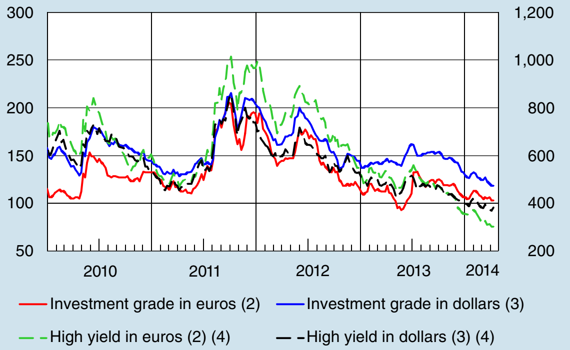
... as do corporate bond spreads

Risk premiums on private debt also diminished since the beginning of the year in both the euro area and the United States, where the spreads on major international banks' five-year credit default swaps edged down by 22 and 4 basis points respectively; the yield spreads between bonds issued by non-financial corporations and the corresponding government securities also declined for both investment-grade and, more markedly, high-yield bonds (Figure 10).

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.

Share prices are stable in the advanced countries

The stock markets of the advanced countries remained generally stable, albeit with regional differences, suffering only in passing from the tensions on emerging-country financial markets. Despite a temporary decline in late January, euro-area share indices gained 1.2 per cent overall between the end of 2013 and mid-April. In the United States and the United Kingdom, share prices edged down by 1.4 and 2.3 per cent respectively, while in Japan the market lost 13.7 per cent as a consequence of the downward revision of the forecasts for the economy's growth (Figure 11). The volatility implied by stock index options prices was temporarily affected by fresh worries about of a slowing of the emerging economies (Figure 12).

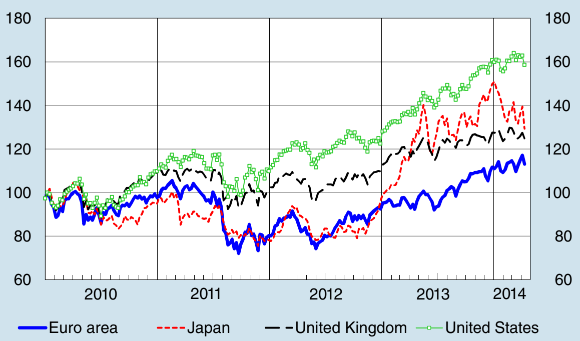
Volatility increases in emerging-country financial markets

From the end of January, signs of slowing activity in China spurred new capital outflows from the emerging countries. Outflows from the Eastern European economies intensified in March following the Ukrainian crisis. In Russia, the yield spread with respect to dollar-denominated sovereign securities rose by 77 basis points to 244, while share prices dropped by 18.0 per cent. Overall, after recording losses in the

Figure 11

Stock market indices (1)

(end-of-week data; first week of January 2010=100)

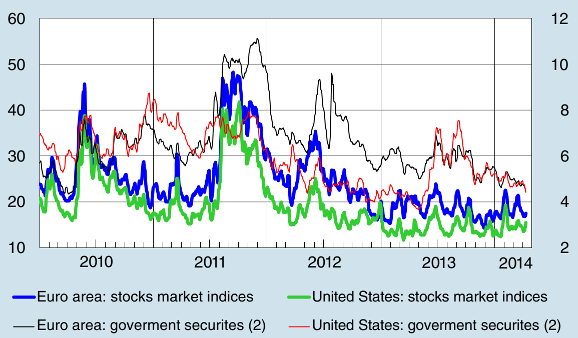


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

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.

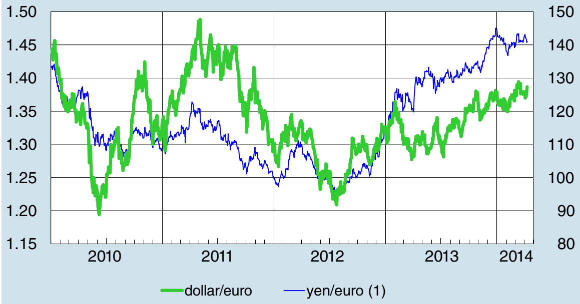
first quarter, emerging-market share indices recovered in the first half of April.

The appreciation of the euro slows

In the first quarter of 2014 the euro continued to appreciate, albeit more moderately, with the help of the portfolio inflows connected with the reduction of sovereign risk. From the start of the year the euro appreciated by about 0.3 per cent against the dollar, while it depreciated by 2.7 per cent against the yen and 0.8 per cent against the pound sterling (Figure 13). In nominal effective terms it appreciated by 0.5 per cent in the quarter and by more than 5 per cent since the beginning of last year.

Figure 13

Bilateral exchange rates
(daily data)



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

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

The cyclical indicators point to a moderate recovery in economic activity in the first quarter. While the main contribution to growth continued to come from exports, early signs of a slight improvement in domestic demand began to emerge. Business confidence surveys show more favourable judgments on the part of firms, including in the service sector.

GDP returns to growth in the fourth quarter of 2013 ...

In the fourth quarter of 2013 Italy's GDP returned to modest growth (0.1 per cent on the previous quarter), halting the recessionary phase under way since the summer of 2011 (Figure 14 and Table 2). Value added grew as the result of an increase in industry excluding construction and in agriculture, while the service sector was stationary and construction recorded a further contraction.

The main stimulus to GDP growth came from the 0.3-percentage-point contribution of net foreign demand. The acceleration in exports, which expanded by 1.2 per cent on the third quarter against an average of 0.5 per cent in the two previous quarters, contrasted with the slowdown in imports. Expenditure on investment began to increase again, driven by the transport equipment sector, while the contraction in household consumption under way since early 2011 virtually halted (-0.1 per cent).

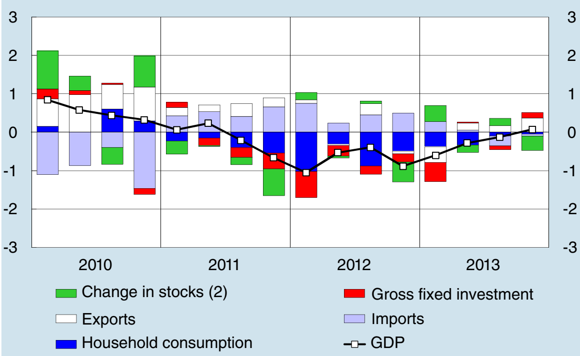
... and the recovery is expected to continue in early 2014

According to the available indicators, GDP continued to pick up slowly in the first quarter of 2014 as the performance of foreign demand remained buoyant and domestic demand began to show signs of an upturn. According to the qualitative indicators based on recent business and

Figure 14

GDP growth and the contributions of its main determinants (1)

(quarterly data; per cent)



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)

	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2013 (2)
GDP	-0.6	-0.3	-0.1	0.1	-1.9
Total imports	-1.0	-0.2	0.9	0.2	-2.8
Domestic demand (3)	-0.5	-0.5	..	-0.2	-2.7
Domestic consumption	-0.5	-0.4	-0.2	..	-2.2
household spending	*-0.6*	*-0.6*	*-0.2*	*-0.1*	*-2.6*
other spending (4)	*..*	*-0.1*	*-0.2*	*0.2*	*-0.8*
Gross fixed investment	-2.8	0.1	-0.6	0.9	-4.7
construction	*-4.1*	*-0.9*	*-0.4*	*-0.8*	*-6.7*
other investment goods	*-1.3*	*1.3*	*-0.8*	*2.7*	*-2.4*
Change in stocks (5)	0.4	-0.2	0.2	-0.4	-0.1
Total exports	-1.3	0.6	0.5	1.2	0.1
Net exports (6)	-0.1	0.2	-0.1	0.3	0.8

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes changes 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, percentage points. – (6) Contributions to GDP growth on previous period, in percentage points.

household confidence surveys, the stimulus imparted by the recovery in industrial production has begun to spread gradually to the service sector.

Core inflation stays at historically low levels

The twelve-month rate of consumer price inflation (measured by the harmonized index of consumer prices) fell to 0.3 per cent in March owing to the performance of the more erratic components. Core inflation was 0.9 per cent, among the lowest values on record.

2.2 FIRMS

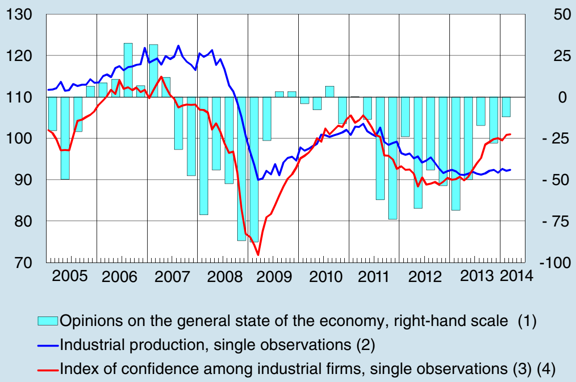
After turning upwards at the end of last summer, industrial production is expected to rise in the first quarter of this year. Business confidence improved further and spending on investment is also recovering, but continues to be held back by poor profitability and credit conditions.

Industrial production continues to grow in the first quarter

Although a decline was recorded in February, industrial production increased in the first two months of the year by 0.4 per cent on the previous period. The good performance of the consumer and capital goods sectors was offset by a drop in output in the energy sector. Our estimates for March indicate that industrial production increased by about 0.5 percentage points in the first quarter, continuing the upward trend under way since the end of last summer (Figure 15).

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 the Survey on Inflation and Growth Expectations, December 2014, published in Supplements to the Statistical Bulletin, No. 19, 2014; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; index, 2010=100. The figure for March 2014 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 to 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 improves further

The qualitative indicators point to a further improvement in business conditions in the first quarter. There was another gain in the index of business confidence of the manufacturing sector, and the PMI indicator remained at a level compatible with an increase in sales. In the same period positive signals also emerged from the service sector: the business confidence index recorded a sharp upturn and the PMI indicator fluctuated around the level compatible with increased activity. The quarterly survey conducted in March by the Bank of Italy with *Il Sole 24 Ore* pointed to a generalized improvement in the short-term outlook (see the box "Investment by Italian firms as reported in the Survey on Inflation and Growth Expectations").

INVESTMENT BY ITALIAN FIRMS AS REPORTED IN THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

Between 3 and 21 March 2014 the Bank of Italy together with *Il Sole 24 Ore* completed their quarterly survey of a sample of firms with 50 or more workers in industry and services. Firms' assessments of the general economic situation improved markedly in all sectors, returning to the levels observed before the sovereign debt crisis; short-term assessments of demand for the respondents' own products turned positive. In contrast to previous surveys, the assessments of firms that mainly rely on the domestic market also became more positive. Over 40 per cent of firms (33 per cent in December's survey) expected the recovery in production to strengthen in the months to come.

Assessments of investment conditions were more favourable than those reported in December (Figure A), especially for the largest firms and for those in services. In the first quarter of 2014 most of the firms interviewed expected investment to remain virtually unchanged from the second half of 2013 and the share of those envisaging higher or lower outlays was roughly balanced (see the table); for 2014 as a whole, firms that foresaw an increase (27 per cent of the total) outnumbered those forecasting a reduction (24 per cent), echoing the expectations of a moderate recovery in investment reported in last January's *Economic Bulletin*. The outlook appeared most favourable among firms that generate at least one third of their sales revenues from exports and those with 200 or more employees. The intention to expand investment was especially common among firms that gave the best assessments of access to credit, and those that responded positively when asked to assess demand for their products and expected liquidity conditions (Figure B). Expectations that investment

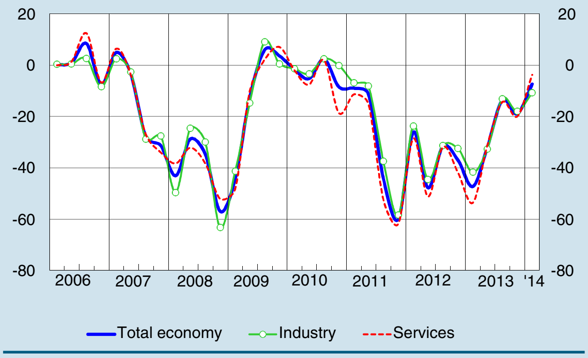
Firms' investment expectations (1)
(per cent)

RESPONSES	Industry	Services	Industry and services
Spending on investment planned for 2014 with respect to that carried out in 2013			
Higher	28.0	26.5	27.3
About the same	47.9	50.5	49.1
Lower	24.1	23.0	23.6
Expectations of spending on investment in the first half of 2014 with respect to that carried out in the second half of 2013			
Higher	28.1	23.4	25.8
About the same	47.3	50.5	48.9
Lower	24.6	26.1	25.3

(1) Percentages weighted by the number of firms in the Bank of Italy - *Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, March 2014, published in Supplements to the Statistical Bulletin, No. 19, 2014. Rounding may cause discrepancies in totals.

Figure A

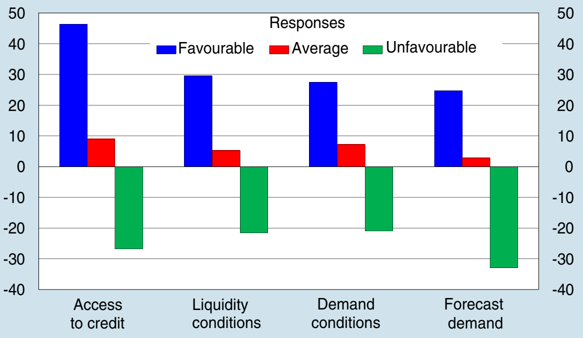
Assessment of investment conditions compared with the previous quarter (1)
(percentage points)



(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, March 2014, published in Supplements to the Statistical Bulletin, No. 19, 2014.

Figure B

Investment plans in 2014 and firms' assessments of access to credit, liquidity and demand (1)
(percentage points)



(1) Survey on Inflation and Growth Expectations, March 2014, published in Supplements to the Statistical Bulletin, No. 19, 2014. Balances between the share of firms expecting to spend more on investment in 2014 with respect to 2013 and those expecting to spend less, broken down according to the responses (favourable, average, unfavourable) to the questions, shown on the horizontal axis, regarding firms' assessments of: access to credit, expected liquidity conditions, demand conditions and forecast demand for their own products.

will grow in 2014 are more frequent in the North and Centre of Italy, as also recorded in the surveys conducted periodically by the regional branches of the Bank of Italy and in the Business Outlook Survey of Industrial and Service Firms conducted in autumn 2013 (see the box "The dispersion of cyclical trends," in *Economic Bulletin*, No. 1, 2014).

Investments return to growth

In the fourth quarter of 2013 gross fixed investment turned upwards, increasing by 0.9 per cent compared with the previous quarter. The improvement was driven by purchases of transport equipment, partly as a result of tax incentives. However, purchases of machinery and equipment stagnated. On the basis of the latest quarterly survey of firms conducted with *Il Sole 24 Ore*, in the first three months of 2014 investment conditions improved, returning to the level of early 2011.

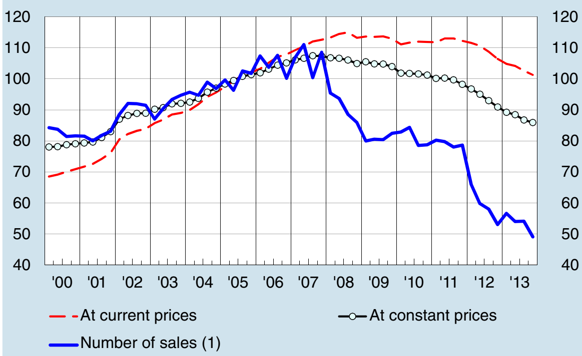
In the construction sector, pessimism eases but weakness persists

By contrast, investment in construction diminished further in the fourth quarter of 2013, both for residential buildings and for the rest of the sector. According to the housing market survey conducted in January with Tecnoborsa and the revenue agency's Property Market Observatory (OMI), estate agents were less pessimistic about the short-term outlook for their reference market. Data provided by OMI indicate that the seasonally adjusted number of house sales fell between the third and the fourth quarter, although this may have been partly due to the advantage of delaying house purchases until stamp duty, mortgage loan tax and land registry tax were reduced at the beginning of this year (Figure 16). In the same period house prices fell by 1.3 per cent, against 5.6 per cent on average in 2013.

Figure 16

House prices and sales in Italy

(quarterly data; indices, 2005=100)



Sources: Based on OMI, Bank of Italy, Istat and *Consulente immobiliare* data.
(1) Adjusted for seasonal and calendar effects..

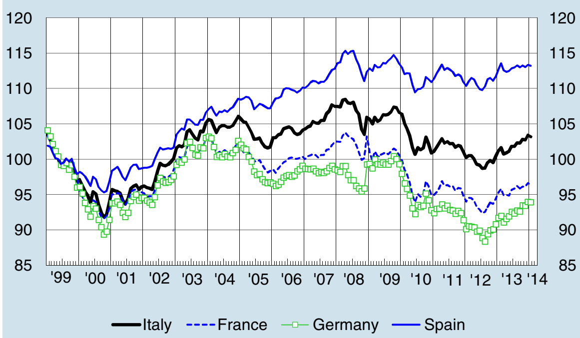
The appreciation of the euro continues to affect price competitiveness

According to preliminary estimates for February-March, Italian exporters' competitiveness, measured on the basis of the producer prices of manufactures, has worsened by about 4 percentage points since mid-2012 (Figure 17). The negative trend was experienced by all the main euro-area partners and was due entirely to the appreciation of the exchange rate.

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 January 2014.

Firms' operating profitability is unchanged

According to estimates based on the national accounts, in the fourth quarter of 2013 firms' operating profitability – measured as gross operating profit over value added with reference to the twelve months to December 2013 –

remained at a historically low level. Financial costs were virtually unchanged compared with the previous quarter, as were fixed investment, self-financing and firms' funding requirements as a ratio of value added.

Firms' bank borrowing decreases further ...

Bank lending to firms (including producer households) contracted further (-5.0 per cent) in the twelve months to February 2014 (Figure 18). The total outstanding debt of firms fell to 81 per cent of GDP in the fourth quarter, compared with 82 per cent in the previous period (Figure 19).

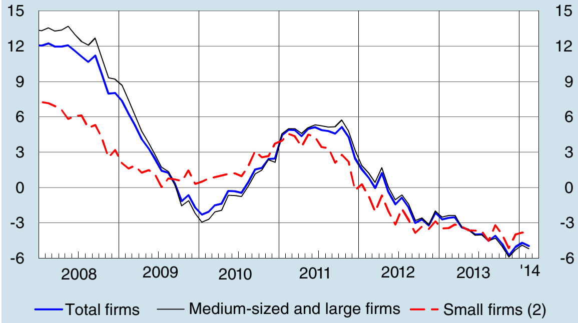
... but net bond issues are positive

Italian firms' net bond issues amounted to €6.6 billion in the fourth quarter of 2013, down from €8.6 billion in the third (Table 7). According to provisional Dealogic data, in the first two months of 2014 gross issues by companies belonging to Italian groups amounted to €9 billion.

Figure 18

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)

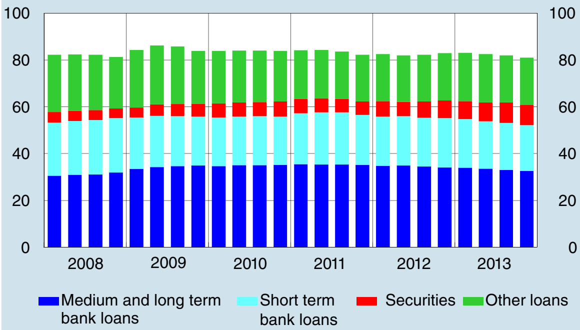


(1) Non-financial firms. Data adjusted for the accounting effect of securitizations. Loans include repos and bad debts. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Figure 19

Firms' debt (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.

2.3 HOUSEHOLDS

Last autumn the prolonged contraction in private consumption practically came to an end, and the latest cyclical indicators are consistent with a modest improvement in the first half of this year. However, consumer spending continues to be weighed down by the deep uncertainty over the outlook for income and employment.

Consumption practically stabilizes ...

Households' consumption was virtually unchanged in the fourth quarter of 2013 compared with the third (down 0.1 per cent). Spending on non-durables and semi-durables continued to fall perceptibly (by 0.8 per cent), but that on durable goods and services picked up for the first time in nearly two years, rising by about 0.5 per cent. Real disposable income also steadied at about the same level as in the third quarter (slipping by just 0.1 per cent). The propensity to save increased marginally during the quarter to 10.2 per cent; this was nearly two percentage points higher than in the fourth quarter of 2012.

... and there are signs of modest improvement

Some signs of a firming up of consumer spending have emerged in the first few months of this year. New car registrations, though still historically very low, gained 2.6 per cent in the first quarter following a slight rise in the previous quarter. In March the index of household confidence more than recouped the decline registered in February, and the average reading for the quarter was higher than in the fourth quarter of 2013 (Figure 20). The pessimism over the employment outlook moderated, and judgments on the general economic situation of the country improved. Nevertheless, consumption remains well below its 2007 level (by nearly 8 per cent).

Household debt and debt service remain low

Italian households' debt remained practically unchanged in the fourth quarter of 2013 at 65 per cent of disposable income (Figure 21), far below the euro-area average of 99 per cent. Households' debt servicing costs (interest plus repayment of principal) also remained stable, at 9.2 per cent of disposable income.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports of goods and services grew again in the fourth quarter of 2013, benefiting from the expansion of world demand. Expectations for foreign orders remain favourable, on the whole. The seasonally adjusted current account balance gained further, continuing the improvement under way since the end of 2010. Portfolio investment inflows have intensified in recent months.

Export growth strengthens in the fourth quarter ...

The volume of exports of goods and services expanded by 1.2 per cent during the fourth quarter. Merchandise sales outside the European Union, after contracting for two quarters, began to grow again, albeit at a slower pace than that of intra-EU exports, especially to Germany, Spain and the United Kingdom. Among non-EU countries, exports increased most sharply to the United States and the OPEC countries. The largest contributions to export growth came from refined petroleum products, some traditional Italian products (clothing and leather goods) and, to a lesser extent, pharmaceuticals. Exports of "other manufactures" declined.

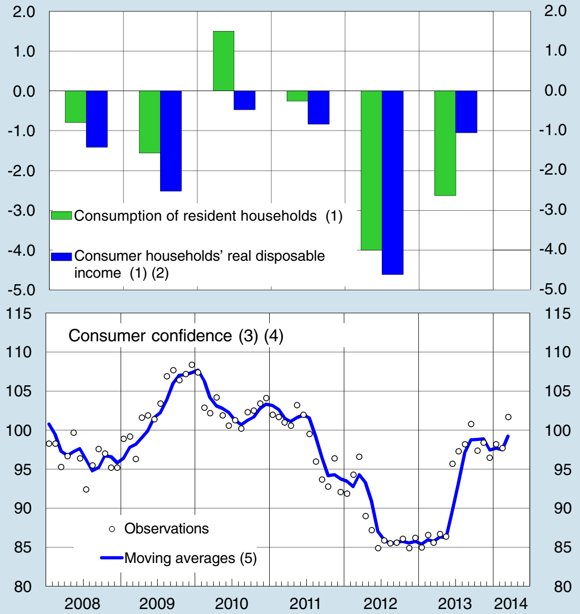
... while imports stagnate

In the fourth quarter imports of goods and services edged upwards by 0.2 per cent, consolidating the modest recovery registered in the third quarter, which had interrupted a ten-quarter contraction. Imports of goods alone diminished by 0.3 per cent, declining virtually across the board; the sharpest falls were in transport equipment, machinery and equipment, and refined petroleum products.

Figure 20

Consumption, disposable income and consumer confidence in Italy

(percentage changes and indices)

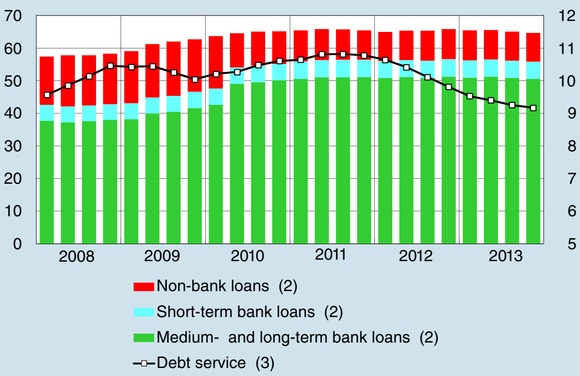


Source: Based on Istat data.
(1) Chain-linked volumes; percentage changes on the previous year. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices, 2005=100. – (4) In June 2013 methodological changes were introduced to the sample and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

Figure 21

Household debt (1)

(quarterly data; as a percentage 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.

Firms' expectations remain moderately favourable

Foreign sales were slightly higher in the first two months of 2014 than in the fourth quarter of 2013, reflecting the performance of exports to EU markets. The PMI index on foreign orders in manufacturing held above the level consistent with an expansion of sales. And firms' expectations for export volumes and assessments of foreign orders are also moderately favourable, remaining higher than in the last two years (Figure 22).

The current account surplus widens again

Italy's current account balance improved again in the fourth quarter. For 2013 as a whole the surplus amounted to nearly €16 billion, following the deficit of €4 billion recorded in 2012 (Table 3). The improvement was due almost entirely to the increase in the trade surplus, which swelled to €37.2 billion or 2.4 per cent of GDP, its highest level since 1998, thanks to a growing surplus on non-energy products and a smaller energy deficit. The balance on services also improved thanks to the growth in receipts, especially those relating to travel.

Foreign investment in Italian securities intensifies

Non-resident investors continued to show interest in Italian government securities, with net foreign purchases of €38.2 billion between October and February. Purchases of bank and corporate bonds also picked up (to €16.2 billion), as did those of shares, albeit to a lesser extent (€10.2 billion).

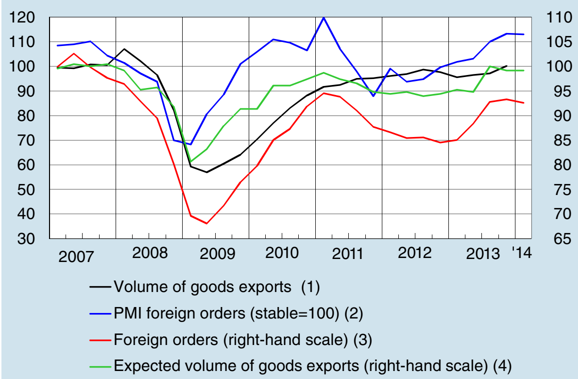
Reflecting the inflow of private capital, the Bank of Italy's debtor position on TARGET2 diminished again in the first quarter to €195 billion at the end of March, €97 billion less than in August 2012 (Figure 23).

At the end of 2013 Italy's international investment position was negative by €467.3 billion, or 30.0 per cent of GDP. The change from a year earlier largely reflects valuation adjustments: the fall in gold prices, which affected the value of the official reserves, and the increase, owing to narrowing spreads, in the prices of Italian securities in foreign investors' portfolios (which are recorded at market value as foreign liabilities).

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; percentage balance of replies of "increasing" and "decreasing". – (4) Based on Istat's quarterly survey of firms' opinions on the economic outlook; index: average for 2007=100; percentage balance between "favourable" and "unfavourable" replies.

Table 3

Italy's balance of payments (1)

(billions of euros)

	2012	2013	Oct. '12-Feb.'13	Oct.'13-Feb.'14
Current account	**-4.1**	**15.8**	**0.8**	**9.8**
Goods	17.0	37.2	8.7	16.5
non-energy products (2)	*78.7*	*90.5*	*32.8*	*37.6*
energy products (2)	*-61.7*	*-53.3*	*-24.2*	*-21.1*
Services	0.9	3.0	-1.3	-1.6
Income	-6.7	-9.8	-2.8	-1.6
Current transfers	-15.2	-14.6	-3.7	-3.5
Capital account	**3.9**	**-0.1**	**3.2**	**2.0**
Financial account	**13.4**	**-24.4**	**0.9**	**-8.8**
Direct investment	-6.1	-11.4	4.2	-3.6
Portfolio investment	25.9	13.3	69.2	60.6
Financial derivatives	-5.7	-3.0	-0.3	2.1
Other investment	0.8	-21.7	-71.5	-68.3
Change in official reserves	-1.5	-1.5	-0.8	0.3
Errors and omissions	**-13.2**	**8.7**	**-4.9**	**-3.0**

(1) For January and February 2014, provisional data. – (2) Based on Istat foreign trade data.

2.5 THE LABOUR MARKET

The positive signals regarding economic activity have not yet been transmitted to the labour market. In 2013 both the number of persons in work and total hours worked fell by 2 per cent. The decline abated progressively during the year, more markedly in industry, where hours worked per capita started growing again in the last two quarters. The slower contraction in the labour force than in employment led to a new rise in the unemployment rate. For the first half of 2014 firms project a further fall in employment.

Employment continues to shrink, except for part-time jobs

Employment in the total economy, as estimated in the national accounts, fell by 0.5 per cent in the fourth quarter of 2013 compared with the third (Figure 24); the decline was sharper in agriculture and construction (3.8 and 1.0 per cent) than in industry excluding construction and in services (0.2 and 0.3 per cent). According to Istat's labour force survey, the drop in payroll employment was larger for fixed-term than for permanent jobs, continuing a trend under way from the start of 2013, while part-time employment, rising since the beginning of 2010, scored further growth (Table 4).

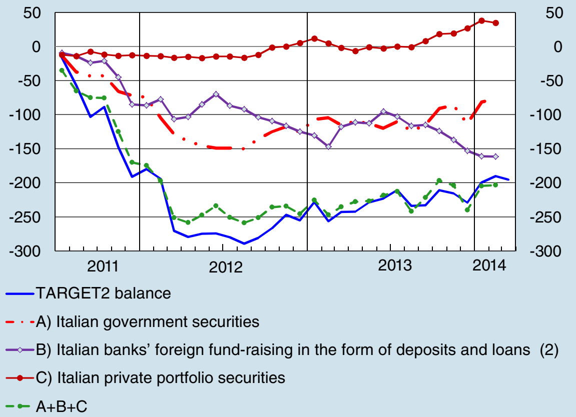
Total hours worked diminish in the final part of 2013, hours per capita increase

The number of hours worked in the economy as a whole was down by 0.3 per cent in the fourth quarter compared with the third. Developments differed across sectors: declines in agriculture, construction and household services (3.0, 1.4 and 1.2 per cent respectively) contrasted with broad stability in the prevalently public sector (general government, education and health) and slight gains in industry excluding construction and in private services (0.1 and 0.2 per cent respectively). The latter two gains, according to Istat's quarterly survey of industrial and private service firms with 10 or more employees, stemmed from a further decline in wage supplementation hours in relation to hours actually worked and from a slight increase in overtime, both developments being more pronounced in industry excluding construction. While the actual use of wage supplementation decreased, there was an

Figure 23

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

(billions of euros)

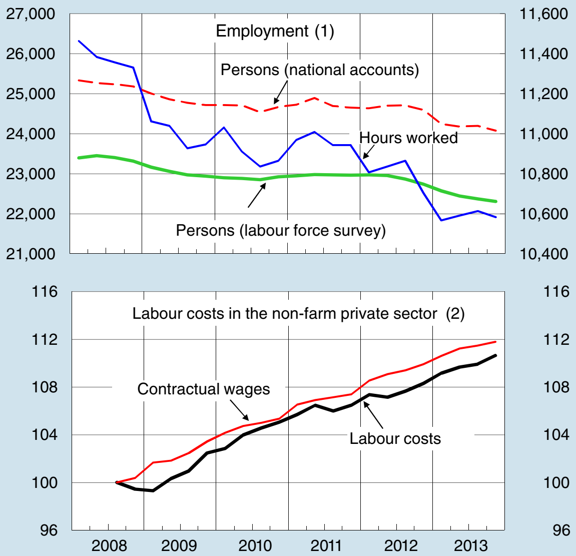


(1) Monthly data. Bank of Italy's TARGET2 balance vis-à-vis the ECB at the end of the month; for the other variables, cumulative capital flows of non-residents from July 2011 onwards. – (2) Including funds intermediated by resident central counterparties. The data were substantially revised in a more detailed breakdown by sector and instrument of the securities pledged as collateral for repos intermediated by resident central counterparties. By comparison with the data published previously, the revision resulted in a decrease in net foreign sales of Italian government securities in 2011 (from €73 billion to €48 billion), a slight increase in net sales in 2012 (from €50 billion to €53 billion), and an increase in net purchases in 2013 (from €6 billion to €12 billion).

Figure 24

Employment and labour costs

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



Sources: Istat labour force survey, quarterly national accounts, and releases on collective labour contracts and 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 full-time equivalent worker as defined in the quarterly national accounts (indices, 2008 Q3=100).

Table 4

Occupational status of the population (1)
(thousands of persons; percentage changes)

	2012	2013	Change (2)	2013 Q1-2012 Q1	2013 Q2-2012 Q2	2013 Q3-2012 Q3	2013 Q4-2012 Q4
Total persons in work (3)	**24,662**	**24,173**	**-2.0**	**-1.6**	**-2.3**	**-2.0**	**-2.0**
of which:							
industry	*6,455*	*6,211*	*-3.8*	*-4.5*	*-4.8*	*-2.9*	*-2.8*
Total hours worked (3)	**10,803**	**10,589**	**-2.0**	**-2.7**	**-2.2**	**-1.9**	**-1.0**
of which:							
industry	*1,914*	*1,892*	*-1.1*	*-3.5*	*-1.5*	*-0.1*	*0.8*
Permanent employees (4)	14,839	14,649	-1.3	-1.2	-1.3	-1.3	-1.3
Fixed-term employees (4)	2,375	2,230	-6.1	-3.1	-7.2	-7.4	-6.6
Full-time workers (4)	18,993	18,407	-3.1	-3.4	-3.4	-3.0	-2.6
Part-time workers (4)	3,906	4,013	2.8	6.2	1.5	1.2	2.2
Job seekers (4)	**2,744**	**3,113**	**13.4**	**17.0**	**13.7**	**14.6**	**9.0**
Labour force (4)	**25,642**	**25,533**	**-0.4**	**0.3**	**-0.8**	**-0.6**	**-0.5**

Source: Istat.
(1) Data not seasonally adjusted. – (2) Average 2013 – average 2012. – (3) Quarterly national accounts. – (4) Labour force survey.

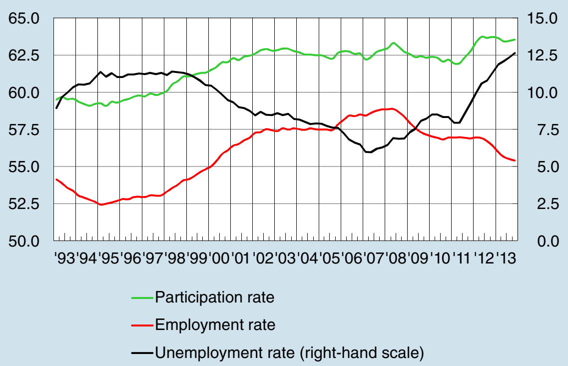
increase in firms' applications for wage supplementation authorization after two quarters of broad stability, signalling the persistence of margins of uncertainty about the trend of employment. Hours worked per capita, a measure of labour intensity, continued to grow in the non-farm private sector excluding household services; the gain of 0.3 per cent was driven by that of 0.4 per cent registered in industry excluding construction.

The unemployment rate rises ...

The supply of labour remained broadly unchanged in the fourth quarter of 2013 from the third, according to the labour force survey. The stability of supply and the fall in employment pushed the unemployment rate up again, to 12.6 per cent (Figure 25). Among persons aged 15 to 24 the rate reached 41.6 per cent in the fourth quarter (see the box "The employment conditions of young Italians during the recession"). Taking into account the growing tendency of young persons to prolong their studies, the unemployed represent 11.2 per cent of the underlying population, 0.8 percentage points higher than a year earlier.

Figure 25

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



Source: Istat, labour force survey.

THE EMPLOYMENT CONDITIONS OF YOUNG ITALIANS DURING THE RECESSION

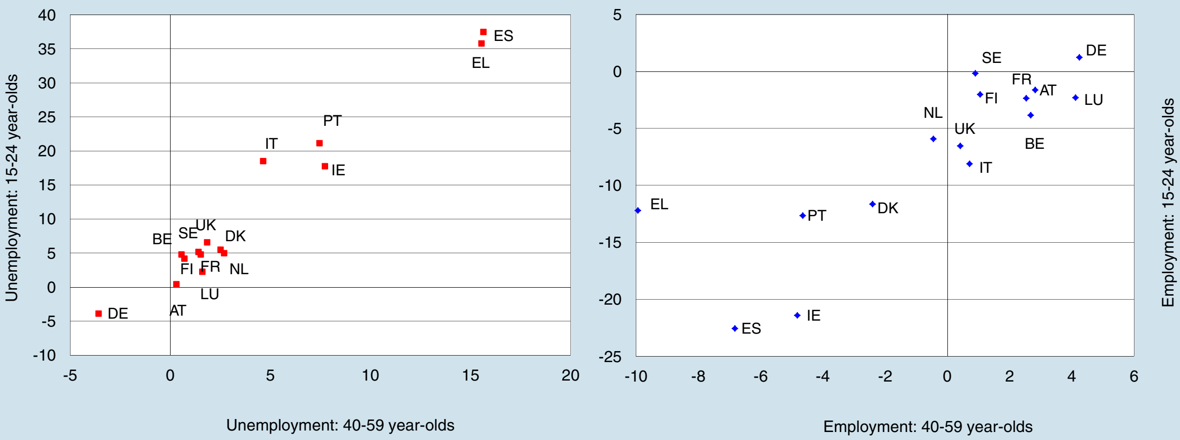
In Italy and the rest of Europe youth employment has been more severely affected than adult employment by the adverse economic situation. During a recession the decline in labour demand makes it more difficult for young people seeking their first job to enter the market. Moreover, particularly in countries where employment contract forms are more segmented, young people tend to lose their jobs more easily, either because fixed-term positions come to an end or because there is no longer the option of converting them into permanent contracts.

The unemployment rate among 15-to-24 year-olds has more than doubled in Italy from the low point of 19 per cent recorded in February 2007 to over 42 per cent in February this year. The area-wide rate has risen from 16 per cent to around 24 per cent. During the same period, Italy's overall unemployment rate has also more than doubled, from just under 6 per cent to 13 per cent, while that of the euro area has risen from below 8 per cent to almost 12 per cent (see figure).

Youth unemployment has increased more sharply in Italy mainly because the recession has been longer and deeper than in the euro area as a whole. From 2007 to 2013 Italy's GDP contracted by almost 9 per cent, compared with about 2 per cent in partner countries. Changes in youth unemployment and employment rates in Italy have not differed significantly from the levels indicated by the relationship between the occupational status of young people and that of the adult population in the euro area. Therefore, the high level of youth unemployment in Italy reflects not only the depth of the economic crisis overall, but also the previous dearth of job opportunities for young people.

The trend in the unemployment rate, particularly the rate for the population aged 15 to 24, also reflects decisions regarding participation in the labour market, mainly related to the longer duration of formal education. Participation was declining among 15-to-24 year-olds in Italy even before the recession as the educational level was brought progressively into line with the euro-area average. The participation rate fell from 41.0 per cent in 1997 to 30.9 per cent in 2007 and to 27.2 per cent in 2013. Over the same ten-year period the youth employment rate fell from 28.8 to 24.7 per cent. The further decline to 16.3 per cent between 2007 and 2013 points to a continuation of the previous decade's trend.

Change in unemployment and employment rates by age group, 2007-2013
(percentage points)



Source: Eurostat, Labour Force Survey.

... including in the last few months

Preliminary data for January and February in-dicate a further decrease in employment, of a similar size to that recorded at the end of 2013; furthermore, the number of authorized hours of wage supplementation rose slightly in the first quarter. The employment projections of firms in industry and private services surveyed by Istat remain unfavourable for the entire first half of 2014 but do not foreshadow a steepening of the decline (see the box "The response of employment to changes in economic activity in Italy"). Coupled with the fall in employment, the expansion of the labour force in January and February is estimated to have brought the unemployment rate to 13.0 per cent; the youth unemployment rate is estimated to have reached 42.4 per cent as a result of the contraction in employment and the growth in labour supply.

THE RESPONSE OF EMPLOYMENT TO CHANGES IN ECONOMIC ACTIVITY IN ITALY

Between the peak recorded in the third quarter of 2007 and the end of the economic contraction in the third quarter 2013, Italy's GDP fell by a total of 9 per cent. Employment shrank by 4 per cent over the same period.

The labour demand equations in the Bank of Italy's quarterly econometric model(1) can be used to assess whether the timing and intensity of the response of labour input to variations in GDP in the recent recession have been in line with historical experience and to help gauge the employment outlook. In fact the innovations made to the Italian labour market since the mid-1990s, giving firms greater flexibility in adapting labour input to demand trends, may have modified the relationship between economic activity and employment.

To determine how much these innovations have altered the margins in labour use, both extensive (number of workers) and intensive (hours per worker), it is helpful to distinguish the effects on the number of persons employed, standard labour units (full-time equivalent workers), and total number of hours worked.

Our analyses confirm that the number of hours worked is more sensitive to variations in value added than the number of labour units, which in turn responds more quickly than that of persons employed. Part-time jobs and wage supplementation explain the greater sensitivity of the first two variables, while the difference between hours worked and labour units can be attributed essentially to overtime.(2)

The adjustment of employment to changes in economic activity has been considerably faster in the period 2003-13 than it had been in 1992-2002. For the entire economy, 80 per cent of the adjustment in hours worked and in standard labour units is now accomplished in just three and six quarters, respectively, compared with twelve quarters during the 1990s. As regards the number of persons employed, the shortening of the response time has not been as marked, from fourteen quarters to twelve (see table). Thus the gain in flexibility entailed chiefly a more rapid response in the number of hours per worker.

For the recession that began in 2008, our estimates imply that at the end of 2013 the number of standard labour units employed in the non-farm, non-energy private sector had adjusted almost completely to the lower level of output. Looking ahead, accordingly, the recovery in output should be reflected more promptly in an increase in the demand for labour, although the demand may be affected by structural changes due to globalization and technological innovation. However, since firms tend to act first of all on the intensive margin, by increasing the number of hours per worker, the increment in the number of persons employed is likely to be slower and not as large. By our estimates it should materialize gradually starting about a year after the cyclical upturn. With the attenuation of the discouragement effect as economic activity picks up, the labour supply too should

(1) For a description of the model, see F. Busetti, A. Locarno and L. Monteforte, "The Bank of Italy's quarterly model" in G. Fagan and J. Morgan (eds.), *Econometric models of the Euro-area central banks,* Elgar, 2005.
(2) According to the national accounting definitions, the estimate of standard labour units takes into account the distribution of employment positions between full-time and part-time and resort to wage supplementation; that of hours worked also takes account of overtime and absences.

begin to expand again (see *Economic Bulletin*, No. 1, 2014). Consequently the unemployment rate is likely to be slow in showing signs of diminishing.

Response of employment to a rise of 10 per cent in value added

	Persons employed		Standard labour units		Hours worked	
	92-02	03-13	92-02	03-13	92-02	03-13
			Total economy			
Simultaneous	0.3	1.9	0.7	2.7	4.0	7.0
After two years	6.3	6.9	6.8	9.1	6.9	9.9
No. quarters for 80 per cent adjustment	14	12	12	6	12	3
			Non-farm. non-energy private sector			
Simultaneous	0.6	2.5	0.8	2.1	3.3	6.9
After two years	6.4	7.9	7.2	9.0	6.9	9.9
No. quarters for 80 per cent adjustment	14	9	12	6	11	3

Source: Based on Istat, quarterly economic accounts data.

Unit labour costs show a moderate rise

According to the national accounts, in the fourth quarter of 2013 labour costs per full-time equivalent employee were up on a year earlier by 1.5 per cent in the economy as a whole and by 2.1 per cent in the non-farm private sector excluding household services (Figure 24). The increase was slightly larger in industry excluding construction (2.3 per cent), reflecting the upturn in overtime notwithstanding a more moderate growth rate in the related contractual wages (1.9 per cent).

With the rate of labour productivity growth holding constant (0.7 per cent on a year earlier), the rise in labour costs per full-time equivalent employee entailed a modest rise of 0.8 per cent in unit labour costs overall; unit labour costs in industry excluding construction increased by 2.8 per cent.

2.6 PRICE DEVELOPMENTS

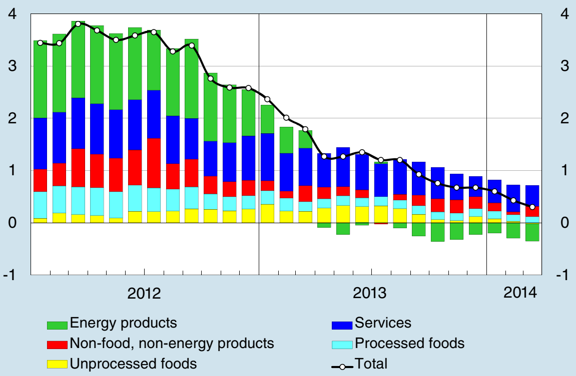
Consumer price inflation has continued to slow down significantly, more sharply than most market analysts expected, falling to a twelve-month rate of 0.3 per cent in March (Figure 26). The deceleration was due mainly to the decline in the prices of the more volatile items, against the background of persistently slack core inflation. Forecasters expect inflation to remain low over the next two years, with a rate of just over 1.0 per cent in 2015.

Inflation falls further ...

Consumer price inflation as measured by the HICP subsided further in the early months of 2014 from the already low level of the end of last year, in line with the trend in the rest of the euro area, dropping to a twelve-month

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	–	1.1	-1.2
2013 – Jan.	2.4	1.7	2.2	2.2	0.3	1.6	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	1.4	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	1.1	-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	1.1	-2.3
Dec.	0.7	0.9	0.3	0.7	0.1	0.8	-2.1
2014 – Jan	0.6	0.9	0.3	0.7	0.3	0.9	-1.5
Feb.	0.4	0.9	0.1	0.5	-0.2	0.9	-1.7
Mar.	0.3	0.9	-0.1	0.4	-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 sales prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) Overall index, seasonally adjusted.

rate of 0.4 per cent in February and 0.3 per cent in March (Table 5). The abatement of inflation stemmed from falling energy prices and a slowdown in food prices. Net of these components, inflation remained at the historically low level of 0.9 per cent.

... and the decline spreads to a large number of components

The moderation of price rises has spread to a large number of single com-ponents within the HICP basket. In March, 27 per cent of the elementary items showed negative twelve-month variations, a higher proportion than the peak registered in 2009-2010 (23 per cent). The share recording twelve-month increases of less than 1 per cent rose slightly during the month to 51 per cent, far above the average for 2009-10 (34 per cent).

Producer prices keep falling

Downward pressure on prices persists. In February the twelve-month variation in producer prices was again negative (-1.7 per cent), owing chiefly to falling energy prices (-4.6 per cent). The rise in the producer prices of final consumption goods remained very modest (0.7 per cent). According to the business survey carried out in March by the Bank of Italy in conjunction with *Il Sole 24 Ore*, list prices should rise only very slightly in the next few months. Similar indications come from the March release of the Purchasing Managers Index with regard to firms' assessments of trends for their own selling prices. Unit labour costs in industry decelerated sharply in the last quarter of 2013 thanks to the improvement in productivity.

Inflation forecasts are lower, including for the medium term

The professional analysts surveyed by Consensus Economics revised their consumer price inflation forecasts for Italy in 2014 further downwards from 1.1 per cent in February to 0.9 per cent in March, and expectations for 2015 were also trimmed, from 1.3 to 1.2 per cent. Recent inflation outturns have systematically surprised analysts on the downside both for Italy and for the euro area as a whole (see the box "The recent performance of inflation", *Economic Bulletin,* No. 1, 2014). Starting last autumn analysts have progressively lowered their inflation expectations for this year.

Price dynamics are also expected to be very moderate over a longer time horizon. The firms polled in the recent survey conducted by the Bank of Italy and *Il Sole-24 Ore* expect consumer price inflation to stay between 1.1 and 1.5 per cent in 2016-18.

2.7 BANKS

The latest business surveys report a slight attenuation of the restriction in the conditions of firms' access to credit. As yet there has been no reversal of the trend in lending to firms, which contracted further in February. The cost of credit in Italy is still about 80 basis points above the euro-area average.

Residents' deposits are stable

In the three months to February banks' funding in the form of Italian residents' deposits was practically unchanged; its twelve-month growth rate was 1.4 per cent (Table 6). Over the same months capital and reserves expanded again (by 5.8 per cent), and the decrease in net bond issues moderated, as new issues

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	November 2013	February 2014	November 2013	February 2014
Assets				
Loans to Italian residents (4)	1,843	1,847	-4.2	-3.2
of which: to firms (5)	*817*	*835*	*-5.9*	*-5.1*
to households (6)	*602*	*600*	*-1.5*	*-1.2*
Claims on central counterparties (7)	84	67	51.2	3.0
Debt securities excluding bonds of resident MFIs (8)	559	547	10.3	4.8
of which: securities of Italian general government entities	*414*	*403*	*13.3*	*6.5*
Claims on the Eurosystem (9)	17	21	-53.1	-36.2
External assets (10)	319	283	-8.4	-14.0
Other assets (11)	1,276	1,291	-3.8	-6.4
Total assets	**4,098**	**4,055**	**-2.4**	**-4.3**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,253	1,247	5.0	1.4
Deposits of non-residents (10)	342	310	-3.8	-5.3
Liabilities towards central counterparties (7)	129	114	15.2	4.0
Bonds (13)	530	520	-8.5	-9.0
Liabilities towards the Eurosystem (14)	236	224	-14.5	-20.9
Liabilities connected with assignments of claims	148	147	1.6	-3.2
Capital and reserves	388	405	4.9	5.8
Other liabilities (15)	1,073	1,090	-8.0	-8.0
Total liabilities	**4,098**	**4,055**	**-2.4**	**-4.3**

Source: Supervisory reports.
(1) The figures for August 2013 are provisional. – (2) Billions 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, money market fund units, derivatives, and other minor items.

increased and redemptions diminished. Non-residents' deposits and Italian banks' liabilities towards the Eurosystem decreased.

The credit contraction continues ...

The fall in lending to the non-financial private sector continued, although at a slower pace, with a seasonally adjusted annualized decrease of 2.3 per cent in the three months to February compared with 4.5 per cent in the three months to November (Figure 27). Lending to firms shrank faster (down 3.3 per cent) but that to households also declined (by 1.0 per cent).

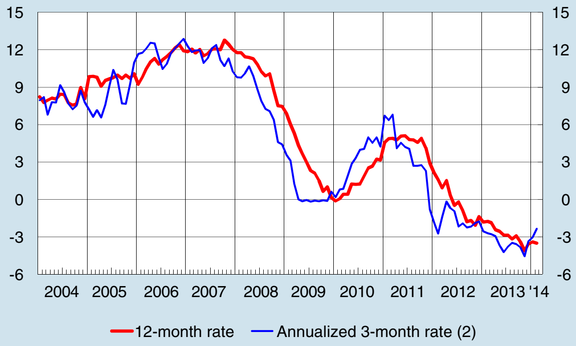
... and supply strains ease slightly

The banks responding to the Bank Lending Survey reported that in the fourth quarter of 2013 lending to firms continued to be held down both by weak demand and by persistent supply constraints, which were nevertheless judged to be less stringent than in the past. The most recent business surveys also signal an easing of the supply-side tensions; for smaller firms, however, conditions are apparently still tight (see the box "Credit supply and demand in Italy").

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..

CREDIT SUPPLY AND DEMAND IN ITALY

According to the banks interviewed in Italy as part of the quarterly euro-area bank lending survey, in the fourth quarter of 2013 loan supply policies to firms had become slightly less restrictive, benefiting from the lessening of perceived credit risk (Figure A).(1) The less pessimistic outlook for the housing market and for economic activity prompted banks to ease lending conditions for households, by increasing loan-to-value ratios and lowering the margins applied to interest rates on loans.

In their assessments, the banks indicated that the demand for loans had remained weak, mainly as a result of the low propensity to invest and of necessary outlays for consumption unrelated to house purchases; at the same time banks expected the demand for loans to pick up in the first quarter of 2014.

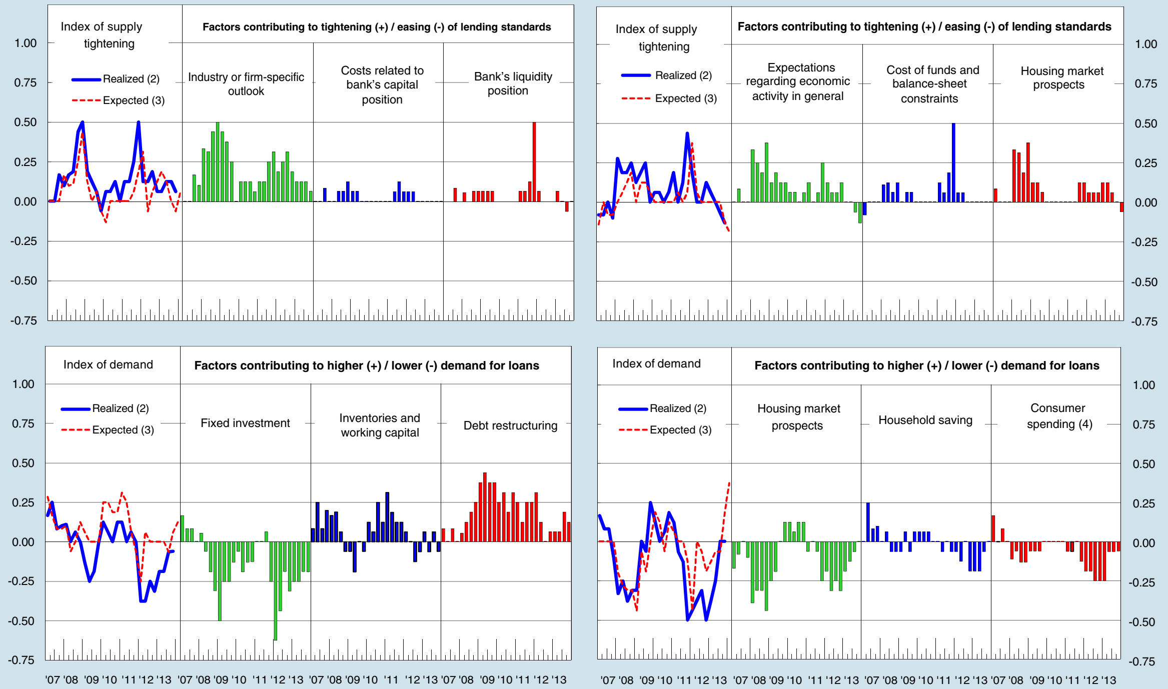
The latest business surveys indicate a moderation in the tightening of credit supply in the first quarter of this year (Figure B). According to the quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore*, the net percentage of firms reporting difficulties in accessing credit decreased in the first quarter to 13.2 percentage points (from 15.3 in the last quarter of 2013), (2) reflecting the improvement in the industrial sector (see the box "Investment by Italian firms as reported in the Survey on Inflation and Growth Expectations").

(1) Eight leading Italian banking groups took part in the survey, which was completed on 9 January. 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 first quarter of 2014 and expectations for the next quarter will be published on 30 April.
(2) The net percentage is calculated as the difference between the percentage of replies indicating a tightening of lending criteria and the percentage of those indicating an easing.

Figure A

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

(a) *Lending to firms* (b) *Lending to households for house purchase*



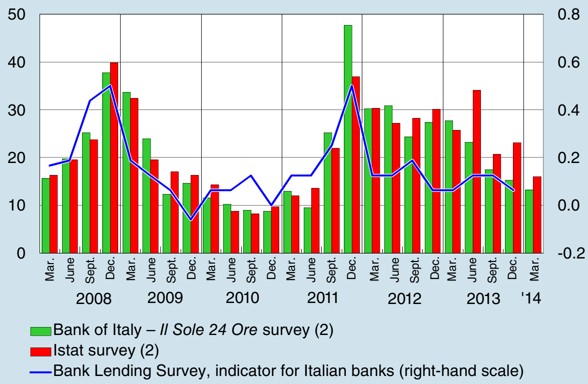
Source: Euro-area Bank Lending Survey.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed on the basis of the following weighting scheme. For supply conditions: 1 = tightened considerably, 0.5 = tightened somewhat, 0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

The indicator of credit for manufacturing firms, derived from Istat's monthly survey in March, paints a similar picture: the net percentage of firms reporting less favourable conditions fell to 16 percentage points (from 23 in December 2013).

However, the difficulty of accessing credit continues to be greater for firms with fewer than 50 workers (the corresponding indicator fell to 24, from 30 at end-2013). The share of firms reporting that they had not obtained the financing they had requested was 17.2 per cent for those with fewer than 50 workers, compared with 11.8 per cent for the largest firms (more than 249 workers). The high interest rates applied to loans and, to a lesser extent, requests for more collateral continue to be among the reasons listed for the worsening of financing conditions.

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.

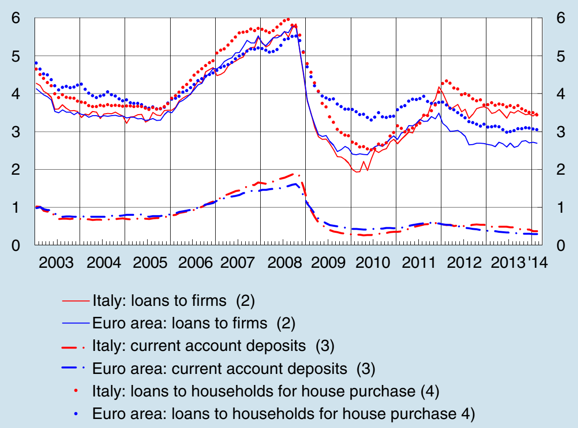
The cost of credit to firms is unchanged over the last three months

The interest rates on new loans to firms were unchanged in February: 3.5 per cent on average (Figure 28), 4.4 per cent for loans smaller than €1 million and 2.8 per cent for those above that threshold. The cost of credit to firms remains some 80 basis points above the euro-area average. However, the average rate on new mortgage loans to households declined by a tenth of a percentage point to 3.4 per cent; the spread over the area average is about 40 basis points.

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.

The new bad debt ratio for firms declines

In the fourth quarter of 2013 the ratio of the seasonally adjusted, annualized flow of new bad debts to outstanding loans came down for the first time since 2011, from 4.8 to 4.5 per cent. The considerably lower ratio for consumer households stayed essentially unchanged at 1.3 per cent. The data currently available indicate that in January and February 2014 the banks' overall exposure to borrowers reported as being in default for the first time was 16 per cent smaller than in the year-earlier period. On a seasonally adjusted basis this aggregate also declined with respect to the previous two-month period.

Banks' profitability is affected by an increase in loan loss provisions

The profitability of Italian banking groups was affected in 2013 by a decline in the volume of lending, which was a factor in the 9.9 per cent decline in net interest income, while other revenues increased by 6.0 per cent. Gross income diminished by 2.6 per cent. Despite the curbing of operating costs (which fell by 2.7 per cent), and of staff costs in particular (down 5.0 per cent), profit for the year shrank by 2.4 per cent. Profitability was eroded above all by the banks' substantial loan loss provisions, up by a third owing to the major groups' particularly prudent valuation of their balance-sheet assets which, however, helped to boost their share prices. Net of one-off items such as goodwill impairments, ROE was negative by 1.3 per cent, compared with a positive return of 0.9 per cent in 2012. At the end of 2013 the core tier 1 ratio averaged 10.0 per cent and the total capital ratio 13.8 per cent; for the five largest groups the figures were 10.4 and 14.5 per cent respectively.

2.8 THE FINANCIAL MARKETS

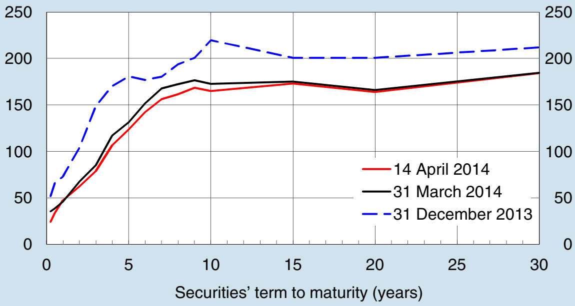
The conditions in Italy's financial markets continued to improve in the first quarter of 2014; yields on government securities and sovereign risk premiums diminished, share prices rose, and risk premiums for private-sector bonds fell.

Italian sovereign spreads decline ...

The dissipation of fears of a break-up of the euro, the advances of structural reforms in the countries hit hardest by the crisis and the progress achieved by the European institutions helped to produce a progressive decline in the yields on Italian government securities (see the box "The narrowing of Italy's sovereign spreads since the summer of 2012"). In the latest period, an additional factor was a substantial reallocation of funds coming from the emerging countries in search of safe investments with relatively high yields and low volatility. The government securities auctions held in the first quarter registered strong demand. In particular, on 28 March the Treasury placed €3.75 billion of ten-year BTPs at 3.29 per cent. The secondary market yields on ten-year Italian government bonds have come down by 95 basis points since the end of 2013 (to 3.17 per cent), while the yield spreads over the equivalent German securities have narrowed by 55 basis points, to 165 (Figure 29).

Figure 29

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



Source: Based on Bloomberg data.

... as do the risk premiums on Italian private-sector debt

The reduction in risk premiums was broadly based. The yield spreads between bonds issued by Italian non-financial corporations and euro-area government securities with the highest credit rating came down by 24 basis points from the end of 2013. The decline was greater than those recorded by Spanish, French and German firms (23, 7 and 4 basis points respectively). The largest Italian banks' CDS spreads diminished by 69 basis points, falling to 147, still well above the average for the major German and French banks (84 and 76 basis points respectively).

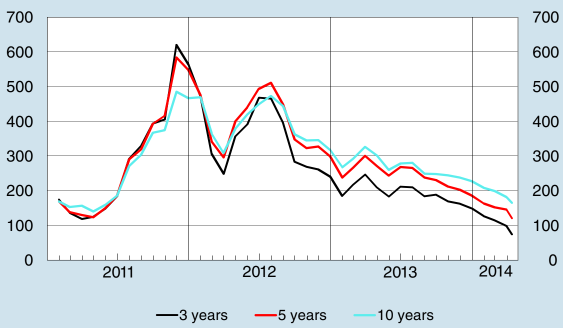
THE NARROWING OF ITALY'S SOVEREIGN SPREADS SINCE THE SUMMER OF 2012

The yield spreads between Italian government securities and German Bunds have diminished progressively since the summer of 2012 (Figure A). In the early part of April the spread on the ten-year maturity averaged 165 basis points, compared with 470 in July 2012.

The contraction is associated above all with the dissipation of fears of a break-up of the single currency. In the most acute phases of the sovereign debt crisis, these worries had given rise to significant divergences of the yield spreads in Italy and other euro-area countries from levels consistent with national macroeconomic and financial fundamentals.

Figure A

Yield spreads on Italian government securities (1)
(basis points; monthly averages)



Source: Based on Bloomberg data.
(1) Yield spreads between the benchmark Italian and German government securities at the 3, 5 and 10-year maturities.

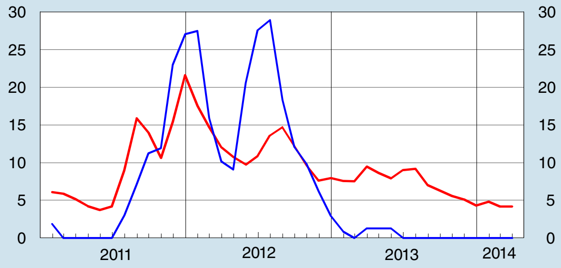
According to our estimates, in the summer of 2012 about half of the spread on ten-year Italian government securities was explained by the weaknesses of the domestic economy; the rest reflected fears about the reversibility of the euro.(1) With the announcement in the summer of 2012 of Outright Monetary Transactions (see the box "The European Central Bank's Outright Monetary Transactions", *Economic Bulletin*, October 2012), a fear indicator based on the volume of Internet searches for terms connected with the possibility of a crisis of the Monetary Union declined progressively, falling to nil around the start of 2013 (Figure B).

(1) See A. Di Cesare et al., "Recent estimates of sovereign risk premia for euro-area countries", Banca d'Italia, Occasional Papers, No. 128, 2012.

The narrowing of sovereign spreads has also been due to the further economic and institutional integration of the European Union, particularly with the creation of the Banking Union, and the progress made by the member states in consolidating their public finances and implementing structural reforms. These advances have also made it possible for some countries under financial assistance programmes set up by the international authorities to start issuing government securities again. The rise in the prices of Italian government securities has been accompanied by a sharp decline in their financial riskiness (proxied by the volatility of the corresponding interest rates; Figure B).

Figure B

Indicators of tension



Sources: Based on Bloomberg and Google data.

In recent months the tendency of investors seeking assets with relatively high yields but limited volatility to reallocate their portfolios from the emerging countries to the euro area has contributed to the reduction of spreads. However, these flows may be intrinsically subject to possibly sudden alterations, which remain a risk factor.

Banks make further net redemptions of bonds

Italian banks continued to make bond issues on international markets in the fourth quarter of 2013, but the large volume of bonds maturing on the domestic market resulted in net redemptions of bank bonds totalling €14 billion, compared with €44 billion in the euro area (Table 7). Non-financial corporations continued to make net placements (€7 billion in Italy, €27 billion in the euro area). According to preliminary Dealogic data on gross issues, Italian banks made €16 billion worth of placements in the first quarter of 2014 (compared with €14 billion in the previous quarter), including €10 billion of uncollateralized securities.

Share prices continue to rise

From the end of 2013 the Italian stock market gained 11 per cent, compared with 1 per cent for euro-area shares as a whole (Figure 30). The increase stemmed from a significant reduction in the risk premium demanded by investors, which approached the average levels in the euro area. Share prices were also buoyed by a slight rise in the expected earnings of listed companies and by the fall in long-term interest rates on the securities of public-sector issuers.

Table 7

Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2012	83.2	-5.6	12.7	90.3
2013	-80.3	-16.7	22.4	-74.5
2012 – Q1	84.9	-8.0	3.7	80.6
Q2	-7.8	-9.0	-1.4	-18.3
Q3	8.5	5.5	5.9	20.0
Q4	-2.4	5.8	4.5	7.9
2013 – Q1	-29.8	-3.2	3.8	-29.2
Q2	-14.8	-2.5	3.5	-13.9
Q3	-21.5	-3.4	8.6	-16.3
Q4	-14.2	-7.5	6.6	-15.2
		Euro area		
2012	5.7	12.9	125.0	143.7
2013	-353.3	-24.6	90.5	-287.4
2012 – Q1	99.0	23.8	31.7	154.5
Q2	-23.6	-16.3	18.5	-21.4
Q3	-15.3	-51.3	40.3	-26.3
Q4	-54.4	56.7	34.5	36.9
2013 – Q1	-117.8	-17.3	18.6	-116.4
Q2	-99.3	20.3	12.0	-67.0
Q3	-92.3	-10.7	32.7	-70.3
Q4	-44.0	-17.0	27.2	-33.7

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. 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, 1 January 2010=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.

The rise in share prices involved all the main sectors of the Italian stock market and was particularly large for banks, telecommunications and utilities companies (27, 21 and 16 per cent respectively). The share prices of some banks rose partly in connection with announcements of massive provisions for loan losses in the fourth quarter of 2013, well-received by the market. The expected volatility of share prices, derived from the prices of stock index options, rose slightly.

Savings continue to flow into investment funds

The net inflow of savings to Italian and foreign open-end investment funds diminished to €6 billion in the fourth quarter of 2013 (from €7 billion in the third). Net fund-raising was positive for flexible, equity and balanced funds, while money-market, bond and hedge funds recorded net redemptions.

2.9 THE PUBLIC FINANCES

In 2013 general government net borrowing remained stable at 3.0 per cent of GDP (Table 8), notwithstanding the further contraction in GDP. The ratio of debt to GDP rose to 132.6 per cent; of the increase of 5.7 percentage points on 2012 more than one third was due to the acceleration of payments of general government commercial debts and the financial support provided to EMU countries. The data for the first quarter of 2014 show a slight improvement in the state sector borrowing requirement and an increase in state budget revenue.

Table 8

General government balances and debt (1)

(billions of euros and per cent of GDP)

	2010	2011	2012	2013
Net borrowing	69.9	59.1	47.4	47.3
% of GDP	*4.5*	*3.7*	*3.0*	*3.0*
Primary surplus	1.2	19.3	39.1	34.7
% of GDP	*0.1*	*1.2*	*2.5*	*2.2*
Interest payments	71.2	78.4	86.5	82.0
% of GDP	*4.6*	*5.0*	*5.5*	*5.3*
Debt	1,851.3	1,907.6	1,989.5	2,069.2
% of GDP	*119.3*	*120.7*	*127.0*	*132.6*
Debt net of support provided to EMU countries (2)	1,847.3	1,894.4	1,946.8	2,013.6
% of GDP	*119.0*	*119.9*	*124.2*	*129.1*

Source: The items of the general government consolidated accounts are based on Istat data.
(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.

Table 9

Public finance objectives and estimates for 2013

(billions of euros and per cent of GDP)

	General government			*Memorandum item: GDP growth*
	Net borrowing	Primary balance	Debt (1)	
Objectives				
April 2012 (2)	8.6	79.9	1,977.1	0.5
% of GDP	*0.5*	*4.9*	*121.5*	
September 2012 (3)	….	….	….	-0.2
% of GDP	*1.8*	*3.8*	*126.1*	
September 2013 (4)	….	….	….	-1.7
% of GDP	*3.0*	*2.4*	*132.9*	
Estimates				
April 2013 (5)	45.4	38.5	2,051.4	-1.3
% of GDP	*2.9*	*2.4*	*130.4*	
September 2013 (4)	48.7	35.2	2,069.5	-1.7
% of GDP	*3.1*	*2.3*	*133.0*	
October 2013 (6)	….	….	….	-1.8
% of GDP	*3.0*	*2.4*	*132.9*	
Outcome (7)	47.3	34.7	2,068.9	-1.9
% of GDP	*3.0*	*2.2*	*132.6*	

(1) The estimates and objectives given in the official documents include, in a non-homogeneous manner, the effects of Italy's share of the financial support given to EMU countries in difficulty and its capital contribution to the European Stability Mechanism. – (2) 2012 Economic and Financial Document. – (3) Update of the 2012 Economic and Financial Document. – (4) Update of the 2013 Economic and Financial Document. – (5) 2013 Economic and Financial Document. – (6) Italy's 2014 Draft Budgetary Plan. – (7) Net borrowing, primary balance and GDP growth are based on Istat data.

Net borrowing is stable in 2013

The outturn for general government net borrowing was in line with the estimate contained in Italy's 2014 Draft Budgetary Plan published in October (Table 9) and, according to the latest European Commission forecasts, about half a percentage point lower than the average of the EU as a whole. The primary surplus was 2.2 per cent of GDP, down from 2.5 per cent in 2012, close to that of Germany and nearly 3 percentage points higher than the EU average.

Table 10

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

	2012	2013	% change on previous year 2012	% change on previous year 2013		2012	2013	% change on previous year 2012	% change on previous year 2013
EXPENDITURE					**REVENUE**				
Final consumption expenditure	313.3	310.7	-2.6	-0.8	Direct taxes	237.1	238.5	4.8	0.6
of which:					Indirect taxes	234.4	225.8	5.7	-3.6
compensation of employees	*165.2*	*164.1*	*-1.9*	*-0.7*	Indirect taxes	216.0	215.0	-0.2	-0.5
intermediate consumption	*88.4*	*86.9*	*-3.2*	*-1.7*	Other current revenue	60.2	63.1	0.1	4.9
social benefits in kind	*43.5*	*43.2*	*-2.2*	*-0.6*	**Current revenue**	**747.7**	**742.4**	**3.2**	**-0.7**
social benefits in cash	311.1	319.5	2.3	2.7	*of which:*	*47.7*	*47.6*		
Interest payments	86.5	82.0	10.3	-5.1	**Capital revenue**	**5.9**	**9.2**	**-45.2**	**57.3**
Other current expenditure	41.2	44.2	-0.9	7.2	*of which:*				
Current expenditure	**752.1**	**756.4**	**0.8**	**0.6**	*capital taxes*	*1.6*	*4.1*	*-77.8*	*167.4*
% of GDP	*48.0*	*48.5*							
Current expenditure, net of interest payments	**665.6**	**674.4**	**-0.3**	**1.3**	**TOTAL REVENUE**	**753.5**	**751.6**	**2.5**	**-0.3**
% of GDP	*42.5*	*43.2*			*% of GDP*	*48.1*	*48.2*		
Investment (1)	29.9	27.2	-6.4	-9.2	*of which: taxes and social security contributions*	*44.0*	*43.8*		
Investment grants	17.6	14.3	-3.2	-18.5	**NET BORROWING**	**47.4**	**47.3**		
Other capital expenditure (2)	1.3	1.1	189.8	-18.3	*% of GDP*	*3.0*	*3.0*		
Capital expenditure	**48.8**	**42.5**	**0.2**	**-12.8**	**Primary balance**	**39.1**	**34.7**		
Total expenditure, net of interest payments	**714.4**	**716.9**	**-0.2**	**0.3**	*% of GDP*	*2.5*	*2.2*		
% of GDP	*45.6*	*46.0*							
TOTAL EXPENDITURE	**800.9**	**798.9**	**0.8**	**-0.2**	*Memorandum item:*				
% of GDP	*51.1*	*51.2*			GDP	1.566.9	1.560.0		-0.4

Source: Based on Istat data.
(1) Includes proceeds of property sales entered with a negative sign.

The fiscal ratio decreases by 0.2 percentage points, to 43.8 per cent

Revenue contracted by 0.3 per cent in 2013 (Table 10), in line with the 0.4 per cent decrease in nominal GDP; the 0.7 per cent fall in current revenue more than offset the 57.3 per cent rise in capital revenue, which was boosted by the payment of the one-off tax on the revaluation of corporate assets. Direct taxes grew by 0.6 per cent, benefiting from the increases in the tax on income from some financial assets and corporate income tax; by contrast indirect taxes contracted by 3.6 per cent, owing above all to the fall in VAT receipts. After increasing by one percentage point between 2009 and 2012, the ratio of taxes and social security contributions to GDP decreased by 0.2 percentage points to 43.8 per cent.

Expenditure contracts slightly

General government expenditure decreased by 0.2 per cent in 2013 thanks to the fall of 5.1 per cent in interest payments and 12.8 per cent in capital expenditure; in particular, the further reduction in investment took the overall decrease in capital expenditure since 2009 to 29.3 per cent. After falling for two years running, primary current expenditure rose by 1.3 per cent, mainly as a result of the 2.7 per cent increase in social benefits in cash. The increase in this item reflected both that in pension expenditure – as a result of the adjustment of pensions to the previous year's inflation (a 3.0 per cent rise excluding the part of pensions exceeding three times the minimum pension, as laid down in the budget passed in December 2011) – and that in non-pension expenditure, driven in particular by disbursements of unemployment benefits. By contrast the freeze on hirings and the non-renewal of public-sector labour contracts produced a further reduction in compensation of employees of 0.7 per cent, as against a total of 4.0 per cent in 2011-12.

The borrowing requirement is in line with that of 2012

Last year the general government borrowing requirement net of privatization receipts amounted to €78.8 billion, as against €74.2 billion in 2012 (Table 11 and Figure 31). Excluding the financial support provided to EMU countries, totalling €13.0 billion in 2013 and €29.5 billion in 2012, and the funds amounting, according to the Ministry for the Economy and Finance, to €21.6 billion to accelerate the payment of general government commercial debts and tax refunds (see the box "General government commercial debts"), the borrowing requirement was €0.4 billion less than in 2012.

Table 11

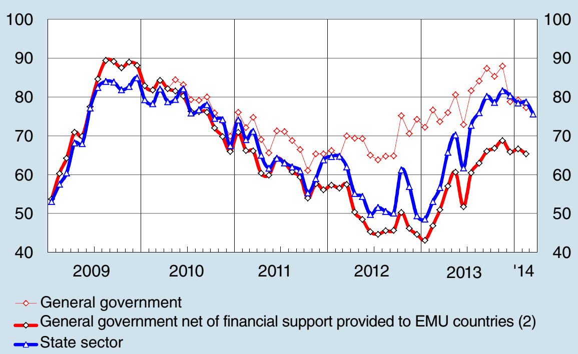
General government balances and debt
(billions of euros and percentages of GDP)

	2010	2011	2012	2013
Borrowing requirement	69.9	63.8	66.3	76.9
% of GDP	*4.5*	*4.0*	*4.2*	*4.9*
Net borrowing requirement (1)	69.9	65.3	74.2	78.8
as a % of GDP	*4.5*	*4.1*	*4.7*	*5.1*
Debt	1,851.3	1,907.6	1,989.5	2,069.2
% of GDP	*119.3*	*120.7*	*127.0*	*132.6*
Memorandum items				
Privatization receipts	0.0	1.5	7.9	1.9
% of GDP	*0.0*	*0.1*	*0.5*	*0.1*
Settlements of past debts	0.2	0.0	0.3	0.2
a% of GDP	*0.0*	*0.0*	*0.0*	*0.0*

(1) Net of privatization receipts.

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.

GENERAL GOVERNMENT COMMERCIAL DEBTS

Several measures(1) were passed last year allocating more than €40 billion(2) (about €25 billion for 2013 and €16 billion for 2014) to accelerate the payment of general government commercial debts that were assessed as "certain, liquid and collectable" at the end of 2012.(3) More specifically, the Ministry for the Economy and Finance disbursed (and will disburse again in 2014) cash advances to indebted Regions and local authorities for current liabilities. For debts for capital expenditure, financial resources will be granted out of the Domestic Stability Pact for 2013 only.(4)

There is no official census of general government commercial debts, or of the sub-category of "certain, liquid and collectable" debts that are the subject of the measures mentioned above. The Bank of Italy makes a yearly estimate of commercial debts on the basis of sample surveys of firms and supervisory reports. This is a makeshift solution, in terms of the broad scope of the survey and the accuracy and uniformity of the data, compared with collecting information on the commercial debts of each public authority. The latest estimate, referring to the end of 2012, puts the total at over €90 billion, with an average payment time of around 190 days (90 days being the contractual deadline). Given the average payment time and the magnitude of the part of public spending that may give rise to commercial debts (about €40 billion per quarter),(5) it is estimated, with a fair degree of approximation, that just over half of the debts recorded at the end of 2012 were "collectable", i.e. were overdue with respect to the contractual deadline.

According to the monitoring exercise conducted by the Ministry for the Economy and Finance at the end of January, payments made in 2013 amounted to €19.1 billion(6) (with a further €2.5 billion of tax refunds). These funds not only accelerated the payment of debts due at the end of 2012 (with respect to the amount scheduled by the authorities on the basis of their own resources), but also may have allowed the authorities to reduce the payment delays on commercial debts not directly covered by the measures (commercial debts outstanding at the end of 2012 but not yet "certain, liquid and collectable" and commerical debts acquired in 2013). The process was probably assisted by the entry into force at the beginning of last year of European Directive 2011/7/EU on combating late payments, which introduced tighter schedules for new contracts (30-60 days).

The increase in the funds available to pay commercial debts may have allowed the public authorities to reduce their exposure as well. In 2013 general government liabilities to financial intermediaries and for bond issues decreased by €6.5 billion (€2.5 billion of which for commercial debts without recourse that firms sold to financial intermediaries),(7) compared with €2.4 billion in 2012 (€0.5 billion of which relating to sales of debts without recourse).

Surveys conducted by trade associations to monitor progress in implementing the EU directive indicate that payment times diminished in 2013. The Bank of Italy's Annual Report for 2013 to be

(1) Decree Law 35/2013, ratified by Law 64/2013, and Decree Law 102/2013, ratified by Law 124/2013.
(2) A further €6.5 billion was allocated to accelerate tax refunds.
(3) A debt is certain when its existence is not challenged (i.e. it is not the subject of disputes or law suits, or contested in some other way); it is liquid when its amount has been determined or can easily be determined; and it is collectable when the deadline for payment has expired. All three conditions had to be met at the end of 2012.
(4) Payments to extinguish commercial debts for current expenditure increase the debt but not the deficit because Istat calculates such expenditure as net borrowing on an accruals basis and therefore it is entered in previous years. Payments to extinguish commercial debts for capital expenditure, on the other hand, also increase the deficit because Istat enters this expenditure under net borrowing on a cash basis.
(5) The public expenditure that contributes to the formation of commercial debts is the sum of intermediate consumption, social services in nature – excluding indirectly measured financial intermediation services, commissions and spending on general practitioners – and investment.
(6) The Ministry's last monitoring exercise at the end of March recorded €21 billion worth of payments.
(7) Commercial debts are not included in the public debt, except for those sold without recourse to financial intermediaries.

published next month will contain estimates of general government commercial debts outstanding at the end of 2013 and average payment times.

The forthcoming introduction of e-invoicing could make an important contribution to reducing payment times in general government and ensuring the transparency of the public accounts. It will become effective from June this year for ministries, tax agencies and social security agencies and from June 2015 for local government authorities and other central government departments. It will also be forbidden to pay the invoices of suppliers not present on the national electronic platform.(8)

In order to bring general government payment times into line with the requirements of the EU directive and further reduce the volume of commercial debts, on 12 March the Government passed a bill providing for (a) monthly monitoring of payment times, partly through the use of e-invoicing; (b) the allocation of additional funds to speed up the payment of arrears (supplementing the previous measures); and (c) provisions to facilitate the transfer of claims to the banking system.

(8) E-invoicing was introduced by Law 244/2007 and regulated by Ministerial Decree 55/2013.

The ratio of debt to GDP rises further

The ratio of debt to GDP rose from 127.0 per cent at the end of 2012 to 132.6 per cent at the end of 2013 (Table 11 and Figure 32). The €79.7 billion increase in the debt was due to the €76.9 billion general government borrowing requirement and the €3.2 billion increase in the Treasury's liquid balances. Issue discounts and premiums reduced the increase in the debt by €0.5 billion (Table 12).

The state sector borrowing requirement improves in the first quarter of 2014

In the first quarter of 2014 the state sector borrowing requirement amounted to €31.7 billion, about €5 billion less than in the first quarter of 2013 (when €2 billion of financial instruments issued by Banca Monte dei Paschi di Siena and €1.6 billion of European Investment Bank capital were subscribed).

State budget tax revenue increased by €1.9 billion or 2.3 per cent on the first quarter of 2013 (Figure 33). When consideration is given to the change in the way excise duties on mineral oils are accounted for, this revenue was only slightly higher than in the previous year. Indirect taxes increased instead, by €3.1 billion or 9.0 per cent, benefiting from the increase of €1.1 billion or 5.7 per cent in VAT receipts and that of €1.4 billion or 30.4 per cent in excise duties on mineral oils, mainly in connection with the above-mentioned change in accounting methods. The 2.4 per cent

Figure 32

General government debt: trend and determinants of the changes

(annual data; as a per cent of GDP)

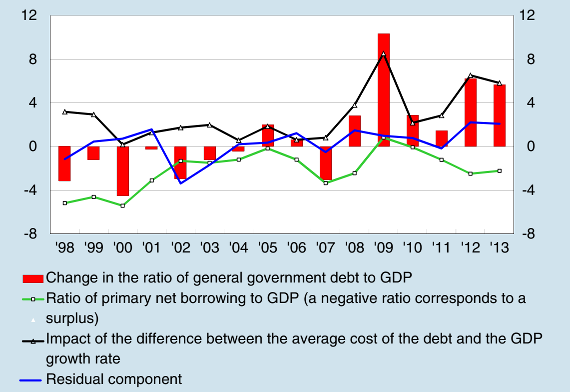


Table 12

Changes in general government debt and its components

(billions of euros)

	2010	2011	2012	2013
Change in the debt = (a)+(b)+(c)+(d)	**82.0**	**56.3**	**81.9**	**79.7**
(a) Total borrowing requirement	69.9	63.8	66.3	76.9
of which:				
support to EMU countries	3.9	9.2	29.5	13.0
(b) Change in Treasury deposits with the Bank of Italy and investment of liquidity	11.5	-19.0	10.1	3.2
(c) Issue discounts and premiums	0.4	11.3	5.8	-0.5
(d) Change in foreign currency liabilities in euros	0.3	0.2	-0.4	0.1

fall in direct taxes was mainly due to the 17.1 per cent fall in the tax on income from financial assets.

The Government plans net borrowing equal to 2.6 per cent of GDP in 2014 and 1.8 per cent in 2015

In the 2014 Economic and Financial Document approved by the Government on 8 April net borrowing in 2014 is estimated to be 2.6 per cent of GDP, 0.1 percentage points more than indicated in last October's 2014 Draft Budgetary Plan, which assumed a higher rate of GDP growth (1.1 instead of 0.8 per cent; Table 13).

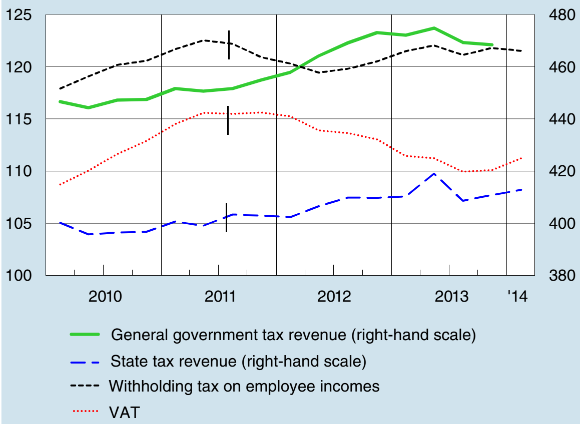
The planning framework of the Economic and Financial Document envisages net borrowing falling to 1.8 per cent of GDP in 2015 and 0.9 per cent in 2016. Compared with the projections on a current legislation basis, achieving these objectives would require adjustments of 0.3 percentage points for 2015 and 0.6 points for 2016.

Structural net borrowing (that is, net of the effects of the economic cycle and one-off measures), equal to 0.8 per cent of GDP in 2013, would fall to 0.6 per cent this year and to 0.1 per cent in 2015; structural budgetary balance would be reached in 2016 and maintained in the following years.

The planning framework of the Economic and Financial Document implies a temporary deviation from the adjustment path leading to structural budgetary balance, which must be approved by Parliament with a special procedure.(1) The admissibility of the deviation will also be assessed by the European Commission and Council in the light of the margins of flexibility allowed by the European rules. In particular, these margins concern exceptional events with major repercussions on the public finances, including a serious economic recession and the implementation of important structural reforms that, although they entail costs in the short term, improve the sustainability of the public finances.

Figure 33

Tax revenue: rolling four-quarter totals (1)
(billions of euros)



Sources: Istat for general government tax revenue; Rendiconto generale dell'amministrazione dello Stato and state budget for the other variables.
(1) From September 2011 the state budget figures do not include the revenue pertaining to the Trentino-Alto Adige region or the autonomous provinces of Trento and Bolzano

Table 13

Outcomes and official objectives for the main general government aggregates (1)
(billions of euros and percentages of GDP)

	2013	2014	2015	2016
Net borrowing	47.3	....	....	....
% of GDP (2)	*3.0*	*2.6*	*1.8*	*0.9*
Primary surplus	34.7	....	....	....
% of GDP	*2.2*	*2.6*	*3.3*	*4.2*
Interest payments	82.0	82.6	82.1	85.3
% of GDP	*5.3*	*5.2*	*5.1*	*5.1*
Structural net borrowing				
% of GDP	*0.8*	*0.6*	*0.1*	*0.0*
Debt	2,069.2	2,141.5	2,169.1	2,176.1
% of GDP	*132.6*	*134.9*	*133.3*	*129.8*
Debt net of support provided to EMU countries (2)	2.013.6	2.079.9	2.107.0	2.113.6
% of GDP	*129.1*	*131.1*	*129.5*	*126.1*

Sources: Istat for the items of the general government consolidated accounts for the year 2013 and 2012; 2014 Economic and Financial Document for the years 2014-16.
(1) Rounding may cause discrepancies in totals. – (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.

(1) See L. F. Signorini, "Audizione preliminare all'esame del Documento di economia e finanza 2014", testimony before the Chamber of Deputies, Rome, 15 April 2014.

The Economic and Financial Document contains some preliminary indications regarding the measures the Government plans to adopt soon. Without significantly altering the deficit, the intention is to introduce a permanent reduction in personal income tax for low-income employees and a reduction in the regional tax on productive activities (Irap); the resources are to be obtained mainly through expenditure cuts. Detailed information will become available when the measures are approved.

The debt-to-GDP ratio increases in 2014 and then declines in the following years

According to the Economic and Financial Document, the ratio of the debt to GDP will increase by more than 2 percentage points this year, to 134.9 per cent, primarily as a result of the acceleration in the payment of general government commercial debts. From 2015 on, the ratio will fall, reaching 120.5 per cent in 2018. Contributions to this reduction are expected to come from the termination of the programme for the payment of commercial debts in 2015, increasingly large primary surpluses, reaching 5.0 per cent of GDP in 2018, and privatization receipts amounting to 0.7 per cent of GDP per year in 2014-17.

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
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
2013	1.9	2.0	1.4	-2.2	-0.4	4.5	0.7	1.7	1.8	2.7	1.4	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
Q4	2.6	3.3	2.2	-5.2	-1.0	2.8	0.4	1.6	1.6	9.5	1.5	1.0	..

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
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
2013	1.5	1.9	1.2	2.2	0.4	2.6	0.5	1.8	1.9	1.6	3.4	-0.3	-0.3
2011 – Q1	-7.3	-6.9	-4.1	-0.4	-0.1	0.4	0.1	-6.3	-6.3	-2.9	5.2	-1.1	-2.1
Q2	-2.4	4.0	2.3	1.5	0.3	..	..	2.0	2.0	-26.7	-2.0	-4.4	-0.7
Q3	10.6	6.6	4.0	0.6	0.1	5.9	1.2	6.7	6.6	44.2	13.7	3.8	1.4
Q4	0.9	2.4	1.4	1.3	0.3	16.7	3.2	4.0	3.9	-11.5	7.8	-3.0	-0.9
2012 – Q1	3.5	1.5	0.9	5.1	1.0	0.4	0.1	3.1	3.1	11.8	8.1	0.4	1.1
Q2	-1.7	1.7	1.0	-2.0	-0.4	1.4	0.3	-0.4	-0.4	-2.1	5.9	-1.3	-1.3
Q3	-3.2	-1.9	-1.1	1.8	0.4	-6.0	-1.3	-1.0	-1.0	-15.2	-1.5	-2.2	1.1
Q4	0.1	1.8	1.1	3.0	0.6	-0.7	-0.1	0.6	0.6	-11.3	-7.2	-0.5	-0.9
2013 – Q1	4.5	4.2	2.6	2.6	0.5	1.2	0.3	2.7	2.8	17.8	4.5	1.7	-0.5
Q2	4.1	2.6	1.6	3.5	0.7	9.3	1.9	3.5	3.5	12.2	7.2	0.6	-0.7
Q3	0.9	0.8	0.5	1.0	0.2	8.9	1.8	2.9	3.0	-2.7	10.1	-2.0	0.4
Q4	0.7	1.6	1.0	1.9	0.4	6.4	1.3	2.8	2.8	1.7	14.7	-2.1	0.1

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					
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	-0.9	-0.7	-4.2	-3.8	-4.0	-1.4	-0.6	2.5
2013	-0.4	-0.1	-0.3	-4.1	-1.8	-3.1	-0.7	0.1	1.3
2011 – Q4	-0.2	-1.1	-0.5	-0.3	-1.1	-0.7	-0.6	0.2	0.3
2012 – Q1	-0.1	..	..	-1.1	-1.0	-1.0	-0.3	-0.3	0.8
Q2	-0.3	-0.2	-0.3	-1.5	-2.0	-1.8	-0.5	-0.3	0.9
Q3	-0.2	0.3	..	-0.8	-0.6	-0.7	-0.1	-0.2	0.7
Q4	-0.5	-1.0	-0.6	-1.7	-1.1	-1.4	-0.6	..	-0.6
2013 – Q1	-0.2	-1.2	-0.5	-2.0	-1.3	-1.7	-0.2	0.2	-0.9
Q2	0.3	1.7	0.7	-0.4	0.8	0.1	0.1	-0.1	2.4
Q3	0.1	0.9	0.4	0.6	0.4	0.5	0.1	0.4	0.1
Q4	0.2	0.5	0.3	0.2	2.2	1.1	0.1	-0.3	1.3
				Implicit prices					
2008	1.9	3.9	....	....	....	2.3	2.6	2.7	2.4
2009	1.0	-6.3	....	....	....	-0.3	-0.4	2.0	-3.4
2010	0.8	5.0	....	....	....	0.8	1.6	0.8	3.1
2011	1.2	5.7	....	....	....	1.5	2.4	0.8	3.6
2012	1.3	2.3	....	....	....	1.1	2.1	1.1	1.6
2013	1.4	-1.3	....	....	....	0.3	1.2	1.1	-0.4
2011 – Q4	0.3	0.5	....	....	....	0.4	0.7	0.6	0.3
2012 – Q1	0.4	1.5	....	....	....	0.3	0.8	-0.2	0.9
Q2	0.3	0.1	....	....	....	0.2	0.2	0.7	..
Q3	0.3	0.2	....	....	....	0.2	0.2	0.2	0.4
Q4	0.4	-0.1	....	....	....	0.2	0.6	-0.2	0.1
2013 – Q1	0.5	-0.4	....	....	....	-0.2	0.3	0.9	-0.3
Q2	0.3	-0.8	....	....	....	-0.1	0.1	0.1	-0.2
Q3	0.1	-0.3	....	....	....	0.3	0.3	0.2	-0.3
Q4	0.1	-0.5	....	....	....	0.3	0.1	-0.2	-0.1

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Chain-linked volumes					
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	0.4	0.8	0.5	-3.7	-0.5	-2.2	-0.3	-1.3	6.2
2012	-2.4	-7.0	-3.5	-6.1	-10.0	-8.0	-4.0	-2.6	2.1
2013	-1.9	-2.8	-2.1	-6.7	-2.4	-4.7	-2.6	-0.8	0.1
2011 – Q4	-0.7	-2.3	-1.0	-0.5	-4.0	-2.2	-0.9	0.5	0.8
2012 – Q1	-1.1	-2.5	-1.4	-3.3	-4.1	-3.7	-1.7	-1.8	0.3
Q2	-0.5	-0.8	-0.6	-0.6	-2.6	-1.5	-0.5	-0.5	-0.1
Q3	-0.4	-1.6	-0.7	-1.4	-1.0	-1.2	-1.5	-0.5	1.0
Q4	-0.9	-1.7	-1.1	-1.1	-1.3	-1.2	-0.8	-0.4	-0.2
2013 – Q1	-0.6	-1.0	-0.7	-4.1	-1.3	-2.8	-0.6	..	-1.3
Q2	-0.3	-0.2	-0.3	-0.9	1.3	0.1	-0.6	-0.1	0.6
Q3	-0.1	0.9	0.1	-0.4	-0.8	-0.6	-0.2	-0.2	0.5
Q4	0.1	0.2	0.1	-0.8	2.7	0.9	-0.1	0.2	1.2
				Implicit prices					
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	1.1	2.2	2.8	-0.3	4.0
2012	1.6	3.0	1.9	2.3	0.8	1.6	2.7	0.1	1.8
2013	1.4	-1.9	0.7	0.9	-0.2	0.3	1.3	..	..
2011 – Q4	0.4	0.5	0.4	0.5	0.3	0.4	1.0	0.1	-0.1
2012 – Q1	0.4	2.4	0.9	0.9	0.3	0.6	0.6	0.5	1.0
Q2	0.5	-0.9	0.2	0.5	0.1	0.3	0.7	..	0.3
Q3	..	0.8	0.1	0.2	..	0.1	0.5	-0.4	0.2
Q4	0.6	-0.2	0.4	0.4	0.1	0.3	0.6	-0.7	-0.1
2013 – Q1	0.8	-0.6	0.5	0.1	-0.3	-0.1	0.2	1.9	0.1
Q2	0.3	-1.7	-0.2	0.1	-0.1	..	0.1	-1.0	-0.3
Q3	-0.2	0.1	-0.1	0.2	-0.2	..	0.4	-0.8	0.1
Q4	0.2	-0.7	..	0.2	-0.1	..	..	-0.1	-0.2

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

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	2.7	2.2	3.0	0.8	0.5
2012	3.6	1.0	-1.1	-2.1	2.6
2013	....	....	-0.7	....	....
2011 – Q1	1.6	4.5	6.4	1.8	-2.7
Q2	3.6	3.5	3.9	0.4	0.2
Q3	2.9	1.9	2.7	0.8	1.0
Q4	2.7	-0.4	-0.3	0.1	3.1
2012 – Q1	2.7	0.0	-0.8	-0.8	2.7
Q2	4.1	1.3	-1.0	-2.2	2.7
Q3	4.1	1.9	-0.8	-2.6	2.2
Q4	3.9	1.3	-1.4	-2.7	2.5
2013 – Q1	4.3	1.6	-1.7	-3.3	2.6
Q2	1.6	-0.4	-1.0	-0.6	1.9
Q3	2.1	-0.3	-1.0	-0.7	2.4
Q4	1.0	1.6	1.4	-0.2	-0.7
			Services		
2010	1.2	0.4	1.0	0.6	0.8
2011	1.5	0.9	1.7	0.8	0.6
2012	2.1	0.8	0.0	-0.8	1.4
2013	....	....	0.0	....	....
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	0.8	0.7
Q4	1.8	0.9	1.4	0.5	0.9
2012 – Q1	2.4	1.0	0.5	-0.5	1.4
Q2	2.2	1.0	0.2	-0.9	1.1
Q3	2.2	0.3	-0.2	-0.5	1.9
Q4	1.6	0.6	-0.3	-0.9	1.0
2013 – Q1	2.6	1.2	-0.4	-1.6	1.4
Q2	1.5	0.6	-0.1	-0.6	0.9
Q3	1.6	1.0	0.2	-0.8	0.6
Q4	1.4	0.5	0.5	0.0	0.9
			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	2.7	0.9	-0.5	-1.5	1.7
2013	....	....	-0.4	....	....
2011 – Q1	1.3	1.7	2.6	0.9	-0.4
Q2	2.3	1.7	2.0	0.2	0.6
Q3	2.1	1.5	1.7	0.2	0.7
Q4	2.2	1.1	0.9	-0.2	1.1
2012 – Q1	2.7	1.0	-0.1	-1.0	1.7
Q2	2.8	1.2	-0.4	-1.6	1.5
Q3	2.8	0.7	-0.6	-1.4	2.1
Q4	2.3	0.7	-0.9	-1.6	1.6
2013 – Q1	3.1	1.4	-1.0	-2.4	1.6
Q2	1.6	0.4	-0.5	-0.9	1.1
Q3	1.7	0.7	-0.2	-1.0	1.0
Q4	1.2	0.9	0.6	-0.3	0.4

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 productivity			Unit labour costs
			Value added (2)	Hours worked	
			Total industry excluding construction		
2010	3.1	8.2	6.0	-2.0	-4.8
2011	2.8	1.2	1.5	0.3	1.6
2012	2.8	-0.2	-3.0	-2.8	3.0
2013	....	....	-3.2	....	....
2011 – Q1	4.1	6.1	5.0	-1.0	-1.9
Q2	3.6	2.6	3.2	0.6	1.0
Q3	3.2	0.5	1.3	0.9	2.8
Q4	-0.8	-3.1	-1.0	2.1	2.4
2012 – Q1	2.7	-1.1	-2.9	-1.8	3.8
Q2	2.1	-1.2	-3.8	-2.6	3.3
Q3	2.9	0.7	-2.2	-2.9	2.2
Q4	4.3	1.1	-3.6	-4.7	3.1
2013 – Q1	2.0	-1.0	-3.6	-2.6	3.1
Q2	2.4	-2.2	-3.6	-1.5	4.7
Q3	1.9	-3.4	-4.3	-1.0	5.5
Q4	0.2	-1.8	-1.0	0.8	2.0
			Services		
2010	2.1	1.2	1.1	-0.1	0.9
2011	0.1	0.0	0.8	0.8	0.1
2012	0.5	-1.5	-1.6	-0.2	1.9
2013	....	....	-0.9	....	....
2011 – Q1	0.9	1.0	0.8	-0.1	0.0
Q2	-0.3	-0.2	1.2	1.4	-0.1
Q3	-0.1	-0.5	1.0	1.5	0.5
Q4	-0.3	-0.8	0.3	1.1	0.5
2012 – Q1	0.4	0.2	-0.5	-0.8	0.1
Q2	-0.1	-1.1	-1.5	-0.5	1.0
Q3	0.5	-3.4	-2.3	1.1	4.0
Q4	1.0	-1.4	-2.0	-0.7	2.4
2013 – Q1	1.9	-0.4	-1.4	-1.0	2.3
Q2	0.6	0.3	-1.0	-1.3	0.3
Q3	0.9	1.7	-0.6	-2.3	-0.8
Q4	0.6	0.6	-0.5	-1.0	0.0
			Total economy		
2010	2.3	2.4	1.7	-0.7	-0.1
2011	1.0	0.3	0.6	0.3	0.6
2012	1.2	-0.7	-2.2	-1.4	2.0
2013	....	....	-1.6	....	....
2011 – Q1	1.8	2.0	1.5	-0.6	-0.2
Q2	0.9	0.3	1.2	0.9	0.6
Q3	0.9	-0.4	0.6	1.0	1.3
Q4	-0.3	-1.0	-0.2	0.7	0.7
2012 – Q1	1.2	0.0	-1.4	-1.5	1.1
Q2	0.5	-0.6	-2.2	-1.6	1.2
Q3	1.3	-1.8	-2.5	-0.7	3.1
Q4	2.1	-0.4	-2.6	-2.2	2.5
2013 – Q1	2.1	0.2	-2.1	-2.2	1.9
Q2	1.3	0.4	-1.8	-2.3	0.9
Q3	1.5	0.8	-1.5	-2.3	0.7
Q4	0.7	0.3	-0.8	-1.1	0.4

(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.

Table A7

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	0.7	1.6	1.2	1.3	1.3	1.5	1.3	1.4	1.1
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	0.8	1.2	0.7	0.7	0.9	0.3	-0.1	0.8	0.7
2014 – Jan.	0.8	0.8	1.2	1.2	0.6	0.9	0.3	-0.1	0.8	0.8
Feb.	1.1	1.4	1.0	1.2	0.4	0.9	0.1	0.0	0.7	1.0
Mar.	0.7	1.1	0.9	0.9	0.3	0.9	-0.2	-0.3	0.5	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
2010	-52,565	-20,918	-7,437	-8,117	-5,427	-10,666	30	-81	-109	220
2011	-47,303	-17,378	-5,601	-8,499	-4,538	-11,287	993	-61	-54	1,108
2012	-4,063	17,035	887	-6,738	-5,249	-9,997	3,907	1,784	-88	2,211
2013	15,802	37,239	2,985	-9,834	-2,656	-11,932	-144	-3,441	-91	3,388
2012 – Q1	-12,492	-2,286	-2,088	-597	-1,202	-6,319	-365	-299	-12	-55
Q2	768	5,113	1,621	-2,900	-1,316	-1,751	-116	-141	-1	26
Q3	1,422	5,907	1,665	-1,655	-1,438	-3,057	79	-15	..	94
Q4	6,238	8,301	-311	-1,586	-1,294	1,129	4,309	2,239	-75	2,145
2013 – Q1	-5,913	4,024	-1,582	-1,917	-572	-5,866	-2,413	-2,416	-16	19
Q2	4,839	11,178	2,473	-5,436	-531	-2,847	120	-196	-2	318
Q3	6,145	9,613	2,785	-1,611	-828	-3,814	-4	-173	-7	175
Q4	10,732	12,424	-691	-870	-725	594	2,153	-657	-66	2,875
2012 – Feb.	-4,105	-686	-703	-192	-340	-2,185	-78	-49	-3	-25
Mar.	-1,144	2,465	-666	-252	-439	-2,253	-206	-191	-6	-9
Apr.	-969	241	183	-259	-370	-765	-81	-58	..	-23
May	-752	1,623	463	-1,926	-506	-406	-82	-54	..	-27
June	2,489	3,249	975	-716	-440	-580	47	-28	..	76
July	4,398	5,297	997	-316	-474	-1,107	70	24	..	46
Aug.	-1,799	-25	47	-367	-488	-965	36	-5	..	42
Sept.	-1,177	635	621	-972	-475	-986	-28	-34	..	6
Oct.	2,109	2,913	206	-1,482	-489	960	1,626	765	-20	882
Nov.	1,754	2,593	-445	-539	-407	552	1,496	744	-19	772
Dec.	2,375	2,795	-72	434	-399	-383	1,186	731	-35	491
2013 – Jan.	-4,107	-1,210	-578	-723	-313	-1,283	-559	-573	-3	18
Feb.	-1,323	1,581	-391	-538	-152	-1,823	-592	-603	-4	15
Mar.	-484	3,653	-613	-656	-108	-2,760	-1,262	-1,240	-9	-14
Apr.	884	2,619	443	-998	-157	-1,023	-31	-80	-1	49
May	1,123	4,520	804	-3,351	-205	-645	-27	-77	-1	51
June	2,831	4,039	1,226	-1,086	-169	-1,179	178	-40	-1	218
July	6,544	6,656	1,432	123	-330	-1,337	48	-35	-2	86
Aug.	-79	1,535	264	-365	-321	-1,192	24	-50	-2	76
Sept.	-320	1,422	1,089	-1,369	-177	-1,285	-76	-87	-3	14
Oct.	4,400	4,643	70	-590	-267	544	952	-145	-18	1,115
Nov.	3,154	3,608	-514	-80	-227	367	837	-136	-17	990
Dec.	3,178	4,173	-248	-200	-231	-317	364	-375	-31	770
2014 – Jan.	(-1,223)	(1,038)	(-361)	(-506)	....	....	(-78)	....	....	....
Feb.	(298)	(3,047)	(-556)	(-257)	....	....	(-86)	....	....	....

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 – 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	-1.3	-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	-4.2	-4.5	-3.2	-2.7	-0.6	-3.5	-3.9
Dec.	-2.5	-4.9	-5.4	-5.7	-4.1	-3.1	-0.8	-3.4	-3.8
2014 – Jan.	-1.3	-4.3	-5.0	-5.3	-4.0	-3.1	-0.6	-3.7	-3.4
Feb.	0.1	-4.2	-5.3	-5.6	-4.0	-3.2	-0.6	-3.5	-3.3
				South and Islands					
2011 – Dec.	3.0	-10.4	3.5	4.4	1.0	1.2	3.9	3.2	3.4
2012 – 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	-2.8	-3.0	-0.8	1.9	-1.6
June	-2.8	-0.5	-2.9	-2.7	-3.4	-3.4	-1.1	1.1	-2.1
Sept.	-2.6	0.2	-3.2	-3.2	-3.3	-3.2	-1.6	-1.5	-2.5
Dec.	-5.4	-2.9	-3.0	-2.9	-3.4	-3.0	-1.5	-3.0	-2.6
2014 – Jan.	-3.6	-2.9	-2.7	-2.6	-3.3	-2.9	-1.5	-2.5	-2.3
Feb.	-4.5	-1.8	-2.9	-2.8	-3.3	-2.9	-1.5	1.0	-2.5
				ITALY					
2011 – Dec.	-0.5	-2.6	2.5	3.2	-0.2	1.3	3.7	9.1	1.9
2012 – 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	-0.3	-1.0	-1.3
June	-0.9	-4.1	-4.0	-4.1	-3.7	-3.0	-0.5	-2.7	-2.7
Sept.	-4.4	-8.4	-4.1	-4.3	-3.2	-2.8	-0.8	-3.3	-3.7
Dec.	-2.8	-4.9	-5.0	-5.3	-4.0	-3.1	-0.9	-3.4	-3.7
2014 – Jan.	-1.5	-4.3	-4.7	-4.9	-3.8	-3.1	-0.8	-3.6	-3.2
Feb.	-0.3	-4.2	-4.9	-5.2	-3.9	-3.1	-0.8	-3.0	-3.1

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)
2011	-3,635	-3,116	1,319	43,027	18	23,056	18,994	0	63,785	-1,297	9,209
2012	6,965	-1,314	20,417	24,957	782	13,222	-10,138	0	66,343	14,729	29,547
2013	-1,802	-2,183	-10,972	91,370	-3,524	1,867	-3,247	-10,000	76,939	2,550	12,956
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	22,786	-666	-5,896	-7,852	800	2,574	-1,830	2,085
2012 – Mar.	8,028	-1,236	31,493	308	-105	-2,823	-10,202	-5,556	36,900	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	18,742	11,525	30,665	4,035	2,037	12,464
2013 – Mar.	303	-1,367	4,992	42,536	-449	-11,089	-11,463	-10,746	36,293	615	1,074
June	-5,147	-737	6,533	32,929	473	-26,243	-30,395	-8,646	8,546	2,268	7,100
Sept.	222	178	600	-4,449	-1,970	34,280	35,472	7,310	28,683	-121	673
Dec.	2,819	-257	-23,098	20,354	-1,578	4,919	3,139	2,082	3,416	-212	4,109
2013 – Jan.	1,695	-1,162	6,549	28,069	-1,408	-33,848	-33,717	-13,033	1,057	-244	384
Feb.	-4,481	-558	266	-2,194	78	19,041	18,461	-110	12,710	603	691
Mar.	3,090	353	-1,823	16,660	880	3,718	3,793	2,397	22,526	256	0
Apr.	-3,087	43	3,050	6,495	622	3,892	3,894	-1,111	10,972	-47	2,866
May	312	-559	3,613	24,909	301	-18,022	-20,398	-90	11,113	3,270	2,883
June	-2,371	-222	-130	1,525	-450	-12,113	-13,891	-7,445	-13,539	-956	1,350
July	1,168	-88	-1,095	785	-3,481	7,604	8,053	13,000	4,981	483	481
Aug.	-209	883	104	-13,090	804	21,374	21,769	-5,994	8,984	-52	0
Sept.	-737	-616	1,591	7,856	707	5,302	5,650	304	14,719	-552	192
Oct.	-1,956	-324	-514	21,208	-1,577	-7,012	-6,722	6,590	10,148	38	2,866
Nov.	-204	-107	-2,508	21,063	-577	-10,865	-11,518	-10,558	6,909	-190	711
Dec.	4,979	174	-20,076	-21,916	577	22,796	21,379	6,050	-13,641	-60	532
2014 – Jan.	4,318	-628	6,716	10,162	926	-20,679	-20,286	-4,372	1,444	216	0
Feb.	-1,409	-93	-2,781	23,394	-1,189	-7,286	-6,835	587	10,728	29	0

(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.

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)
2011	153,226	22,080	131,181	1,473,307	132,540	17,310	3,110	1,907,564	24,255	0	35,385	13,118
2012	160,191	20,765	151,600	1,503,691	133,321	40,671	26,925	1,989,473	34,394	0	27,210	42,665
2013	158,388	18,582	140,626	1,594,620	129,797	45,784	34,148	2,069,216	37,640	10,000	24,681	55,621
2011 – Mar.	154,878	23,590	142,246	1,431,031	133,753	13,571	786	1,875,478	34,940	0	35,794	8,655
June	156,025	22,696	136,638	1,467,071	134,882	15,652	2,157	1,910,268	50,442	0	36,526	10,026
Sept.	152,332	22,341	145,736	1,445,306	133,205	15,353	2,157	1,891,933	16,403	800	36,274	11,032
Dec.	153,226	22,080	131,181	1,473,307	132,540	17,310	3,110	1,907,564	24,255	0	35,385	13,118
2012 – Mar.	161,254	20,844	162,677	1,474,216	132,434	24,689	11,095	1,955,270	34,457	5,556	33,626	21,103
June	157,320	21,314	161,186	1,496,887	134,321	33,219	19,695	1,982,933	46,118	7,938	26,507	29,702
Sept.	162,123	20,071	166,248	1,500,626	134,092	33,454	20,193	1,996,542	45,919	30,665	25,380	30,201
Dec.	160,191	20,765	151,600	1,503,691	133,321	40,671	26,925	1,989,473	34,394	0	27,210	42,665
2013 – Mar.	160,494	19,398	156,590	1,544,998	132,872	41,045	27,999	2,035,998	45,856	10,746	24,609	43,739
June	155,347	18,661	163,123	1,579,423	133,345	45,197	32,232	2,076,435	76,251	19,392	27,075	50,839
Sept.	155,570	18,839	163,724	1,573,954	131,375	44,005	32,905	2,068,627	40,779	12,082	26,270	51,511
Dec.	158,388	18,582	140,626	1,594,620	129,797	45,784	34,148	2,069,216	37,640	10,000	24,681	55,621
2013 – Jan.	161,886	19,603	158,147	1,531,230	131,913	40,539	27,309	2,023,715	68,110	13,033	26,327	43,048
Feb.	157,404	19,045	158,413	1,529,241	131,991	41,120	27,999	2,018,169	49,650	13,143	25,761	43,739
Mar.	160,494	19,398	156,590	1,544,998	132,872	41,045	27,999	2,035,998	45,856	10,746	24,609	43,739
Apr.	157,407	19,441	159,640	1,551,203	133,494	41,043	27,999	2,042,786	41,963	11,857	26,750	46,605
May	157,718	18,883	163,253	1,577,769	133,795	43,419	30,883	2,075,955	62,361	11,947	26,645	49,489
June	155,347	18,661	163,123	1,579,423	133,345	45,197	32,232	2,076,435	76,251	19,392	27,075	50,839
July	156,515	18,573	162,029	1,580,533	129,864	44,748	32,713	2,073,688	68,199	6,392	28,067	51,319
Aug.	156,306	19,455	162,133	1,567,718	130,668	44,353	32,713	2,061,177	46,429	12,386	26,803	51,319
Sept.	155,570	18,839	163,724	1,573,954	131,375	44,005	32,905	2,068,627	40,779	12,082	26,270	51,511
Oct.	153,613	18,515	163,210	1,595,378	129,797	43,715	32,905	2,085,713	47,501	5,492	26,437	54,378
Nov.	153,410	18,408	160,702	1,616,779	129,220	44,367	33,617	2,104,478	59,019	16,050	26,107	55,089
Dec.	158,388	18,582	140,626	1,594,620	129,797	45,784	34,148	2,069,216	37,640	10,000	24,681	55,621
2014 – Jan.	162,706	17,954	147,342	1,603,522	130,723	45,392	34,148	2,089,685	57,927	14,372	23,688	55,621
Feb.	161,297	17,862	144,561	1,626,824	129,534	44,941	34,148	2,107,157	64,762	13,785	22,757	55,621

(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.