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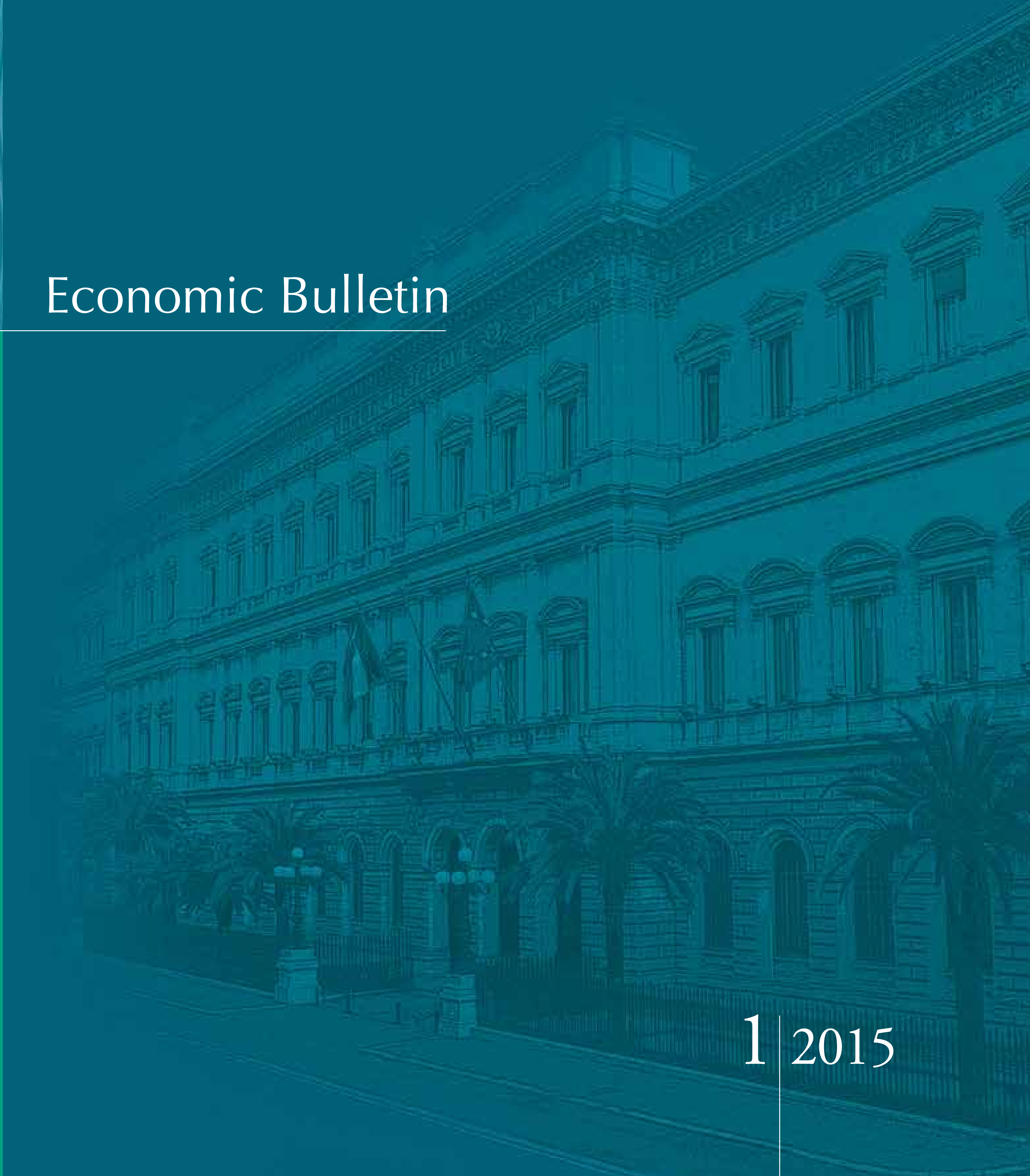
EUROSISTEMA

Economic Bulletin



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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

Activity picks up pace in the US but the global outlook is still clouded

Economic activity has accelerated sharply in the United States, with growth exceeding expectations. However, the prospects for the world economy remain uncertain in the short and medium term, owing to persistent weakness in the euro area and Japan, the protraction of the slowdown in China, and the brusque downturn in Russia. The drastic fall in oil prices, due both to expanding supply and weakening demand, may help to sustain growth, but at the same time it is not without risks for financial stability in the oil exporting countries.

Market volatility reflects political instability in Greece

Volatility has increased in the euro-area financial markets since the calling of a general election in Greece for the end of January: the possible repercussions of a change in Greece's economic policy orientation and public debt management have stoked concern about the cohesion of the euro area. Interest rates on three-year Greek government securities have topped 15 per cent. While European stock markets have fallen, risk premiums on the peripheral countries' government securities have been broadly stable, presumably owing to mounting expectations of further monetary policy measures on the part of the ECB. The downgrading of Italy's sovereign debt by Standard & Poor's in December, motivated by the uncertain prospects for growth, had no significant effect on government securities yields.

To counter deflation, the ECB Governing Council intends to expand the Eurosystem's balance sheet

Consumer prices in the euro area declined in December. The drop in oil prices will sustain consumption but could heighten the risks that expectations of persistently low inflation will take root and that real interest rates will rise, aggravating the burden on indebted sectors. To counter these risks and bring inflation expectations back up to the levels consistent with price stability, the ECB Governing Council has reaffirmed its intention to expand the Eurosystem's balance sheet until it is near the size recorded in March 2012. Recourse to targeted longer-term refinancing operations, which has fallen short of the initial expectations, could prove insufficient. The Council, which will assess the situation again at the end of January, is prepared to alter the size, pace and composition of its policy measures.

In Italy consumption grows but investment is at a standstill

Consumption has been growing modestly in Italy since the summer of 2013, mirroring disposable income, which has been sustained by government measures. Its contribution to the growth of the economy has been offset by the decline in investment, which is being held back by abundant idle capacity, pronounced uncertainty over the outlook for demand and the problems of the construction industry. The data available indicate that in the fourth quarter GDP again contracted slightly.

Employment expands in the third quarter but contracts in October and November

The number of persons employed in Italy grew, if marginally, in the third quarter. After three quarters of substantial stagnation, the number of hours worked increased both in industry excluding construction and in private services. Nevertheless the unemployment rate rose, reflecting an increase in the participation rate. The employment recovery remains fragile, however, as is shown by the preliminary data for October and November: firms' expectations for labour demand in the early months of 2015 continue to be negative.

Inflation is affected by weak demand and falling oil prices

Price dynamics are still weak. In December consumer prices fell by 0.2 per cent in the euro area and 0.1 per cent in Italy, and given declining energy prices the downward trend could continue. The latest survey by the Bank of Italy and Il Sole 24 Ore indicates that firms expect to keep their selling prices substantially unchanged in 2015.

Credit conditions are improving gradually

According to the latest surveys, credit conditions for firms have improved, but they remain tighter for small businesses. The average interest rates on new loans have come gradually down but are still about 30 basis points above the euro-area average for both firms and households. Demand factors connected with the weakness of investment, combined with perceptions of high credit risk for some categories of firm, are still impeding credit growth.

The outlook for the next two years depends on the strength of the investment recovery ...

We project modest growth of the Italian economy this year and stronger growth in 2016: around 0.4 and 1.2 per cent in the two years in our central scenario. These projections are subject to considerable uncertainty. The crucial factor will be the strength of the upturn in investment, which could be bolstered by a rapid improvement in the demand outlook and financing conditions, notwithstanding substantial spare production capacity. Economic activity would grow more if oil prices stayed at the levels of the last few days.

... and on economic policies

In addition to benefiting from falling oil prices and the gradual acceleration of world trade, economic activity is expected to be sustained by the expansive stance of monetary policy, reflected among other things in the depreciation of the euro, and by the measures enacted in the Stability Law to reduce the tax wedge. Risks for economic activity could derive from a rekindling of international financial market tensions due to the deterioration of the political situation in Greece and the crisis in Russia, as well as from the cyclical slowdown in the emerging economies. The risk that inflation could remain too low for too long stems from the persistence of ample idle capacity, whose impact on price dynamics appears to have increased in recent years, and the possibility of a further worsening of expectations.

The projections are sensitive to the assumptions on budget policy

Fiscal consolidation remains an essential objective for Italy. Our macroeconomic scenario incorporates the effects of the 2015 Stability Law, with which the Government reaffirmed its commitment to adjusting the public finances while adapting the pace of the adjustment to cyclical economic conditions. This will help to avoid prolonging the recession further, which would have an adverse effect on the debt-to-GDP ratio over the next two years.

Aggressive monetary policy measures can counter the risk of deflation

Aggressive monetary support measures can help to combat the downward pressure on prices and the weakness of economic activity. We estimate that an expansion of the Eurosystem's balance sheet resulting in a 50 basis point decrease in the interest rate on long-term government securities and a 5 per cent depreciation of the euro would raise the level of GDP by about half a percentage point in 2015-16 in Italy and the euro area; inflation would be between 0.2 and 0.3 points higher each year. Factoring in the possible impact of such measures on business and household confidence and inflation expectations, the effects would be greater.

1 THE WORLD ECONOMY

1.1 ECONOMIC DEVELOPMENTS

Economic activity is accelerating in the United States but remains weak in the emerging countries. The global outlook is subject to the risk of slower growth in China and a deterioration in the economic and financial situation in Russia. The sharp fall in oil prices has resulted from a substantial and unexpected expansion of supply and has also reflected slackening demand. The divergence in monetary policy stances among global regions has sharpened.

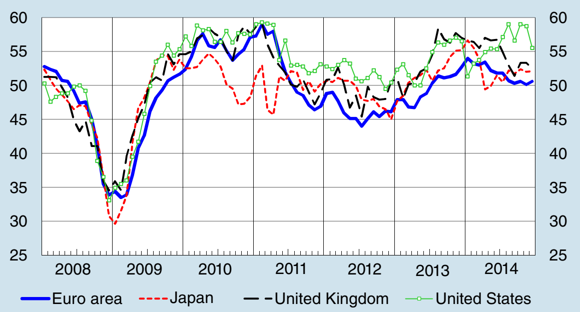
Activity picks up in the US but contracts further in Japan

In the third quarter US growth accelerated more than had been forecast (to an annual rate of 5.0 per cent), buoyed by strengthening consumption. In Japan, however, the decline in GDP unexpectedly continued in the third quarter (at an annual rate of 1.9 per cent, compared with 7.3 per cent in the second), as the new contraction in investment was only partially offset by a modest recovery in consumption. The government adopted a limited economic stimulus package for 2015 aimed at small businesses, rural areas and post-tsunami reconstruction, while rescheduling the planned increase in the consumption tax from autumn 2015 to April 2017. Gauged by the purchasing managers index (Figure 1) and the performance of the labour market, activity expanded further in the United States towards the end of the year, although at a slower pace, and returned to growth in Japan as well.

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.

Growth is still weak in the emerging economies and slowing rapidly in Russia

The decline in the twelve-month growth rate in China from 7.5 per cent in the second quarter to 7.3 per cent in the third apparently continued in the fourth. In 2014, for the first time, the actual outturn could fall below the announced target for the year (7.5 per cent). Growth was again strong in India (a twelve-month rate of 5.3 per cent in the third quarter), and some surveys suggest that it picked up further in the final months of the year. Growth continued to stagnate in Brazil (0.2 per cent in the third quarter), where output is being held back by slack investment that appears to have persisted in the fourth quarter. Russia's economic and financial conditions are deteriorating rapidly owing to the sanctions imposed by the Western powers at the end of July, plummeting oil prices and the collapse of the rouble, which have caused a further drop in consumer and business confidence. Growth slowed to 0.6 per cent in the third quarter, and in November economic activity contracted.

World trade growth stays moderate for 2014

World merchandise trade strengthened markedly in the third quarter (to an annual growth rate of 8.4 per cent) but apparently eased off in the fourth owing to a fresh slackening of demand in the euro area and Asia. Despite the upturn in the second half, for the year as a whole growth is estimated at 3.1 per cent, below its historical average and less than the growth in GDP.

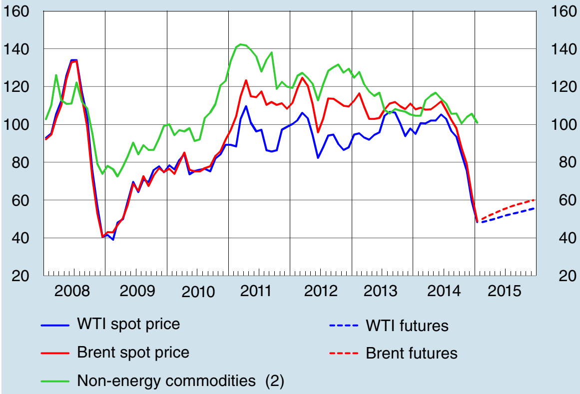
Oil prices hit their lowest level since March 2009

The fall in oil prices, under way since June, steepened in the fourth quarter (Figure 2). The decline is due both to the unexpected expansion of supply, above all in connection with the sharp increase in extraction in the United States, and to a slackening of demand, especially in Asia (see the box "The fall in the price of oil"). Prices have come down to their lowest level since March 2009 ($48.80 a barrel for Brent grade), and futures contracts point towards a very limited recovery in 2015. On the other hand, the fall in non-energy commodities prices eased in the last quarter of 2014.

Figure 2

Commodities prices (1)

(monthly data; dollars per barrel and index numbers)



Source: Thomson Reuters Datastream.
(1) For the spot price, monthly averages through December 2014; the last data refer to 9 January 2015. – (2) Goldman Sachs Commodity Index excluding energy products (January 2008=100).

THE FALL IN THE PRICE OF OIL

Between June and December last year, after remaining high for a long period, the price of oil was halved, registering a larger and steeper fall than other commodities, whose prices had already begun to decline in 2013. The sharp drop was produced by a combination of supply and demand factors.

Supply continued to expand thanks to greater than expected production in Iran, Iraq and Libya and above all to the boom in production of light tight oil (LTO) in the United States through the extension of fracking, which had already been used in the past to extract shale gas. Over the last four years US oil output has increased by more than 50 per cent, or 4 million barrels a day (mb/d), exceeding forecasts. On the demand side, the disappointing growth in Japan and in the euro-area in the second and third quarters, together with signs of a sharper than expected slowdown in China, led to repeated downward revisions in projected oil consumption for 2014 and 2015.

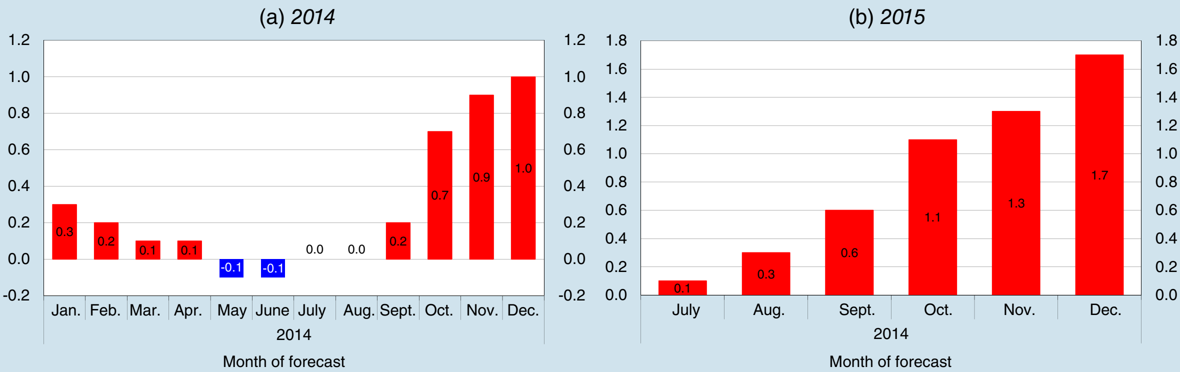
The stream of good news on oil production and bad news on consumption since last summer has been reflected in increasing forecasts of excess supply (Figure A). Between July and December the International Energy Agency lowered its demand projections for 2014 by 0.3 mb/d and for 2015 by 0.8 mb/d and raised its estimate of non-OPEC production, thus increasing its forecasts of total supply by 0.7 and 0.8 mb/d in the two years (assuming OPEC output constant at the volume of the latest quarter for which data are available). The data suggest that a significant part of the fall in crude oil prices depends on the contraction of expected demand.[1]

Looking at intraday changes in oil prices, we can quantify the impact of the events that contributed to their decline over the course of the second half of 2014. Unexpected negative developments in world

[1] It has been estimated that about 40 per cent of the fall in the price of WTI grade crude oil between June and November is explained by demand developments (http://econbrowser.com/archives/2014/12/oil-prices-as-an-indicator-of-global-economic-conditions).

Figure A

Estimated excess supply, 2014 and 2015 (1)
(million barrels per day)



Source: Based on IEA data.
(1) Excess supply in 2014 and 2015 is calculated by subtracting the IEA's monthly estimates of world oil demand from the estimates of world supply. The IEA makes supply forecasts only for non-OPEC countries. The total supply figure is therefore calculated assuming that the amount supplied by the OPEC cartel remains unchanged at the level of the latest quarter for which data are available at each forecasting date. The forecasts for 2015 are available only starting in July 2014.

demand accounted for nearly half the fall, but the sharpest daily drop (more than 8 per cent) came with OPEC's decision on 27 November not to reduce its production. This decision was interpreted as a strategy change on the part of the oil cartel, and of Saudi Arabia in particular, in order to defend market shares in the face of the expanding supply from the United States. In fact, prices significantly below $100 a barrel could make the exploitation of LTO reserves uneconomic, given its higher extraction costs, although these are being gradually reduced by technical progress in fracking. LTO output should not be affected by the price fall immediately, but new exploration and drilling at many North American sites could be discouraged.[2] In the medium term this could limit the growth of US oil output.

Crude oil prices of around $50 a barrel, instead of the price in effect last June, would imply an income transfer of nearly $1 trillion a year from the oil exporting to the oil importing countries. The IMF has estimated that if oil prices were to hold at around $50, and if 60 per cent of the decline is attributed to supply factors, world GDP would be between 0.4 and 0.8 percentage points higher at the end of the 2015-16 period. Using OECD estimates and the same set of assumptions as the IMF, the extra output would amount to 0.6 points in the advanced countries alone. The expansive effect could be smaller, however, if – given monetary policy rates near zero – the fall in crude oil prices were to result in lower inflation expectations and a consequent rise in real interest rates. The expansive effect would also be weaker if the portion of the price decline due to weak demand were underestimated.[3]

In addition, there is a risk that economic instability in the oil exporters may be transmitted to world markets, as in the past high oil prices had helped to finance the rapid growth of public spending in these countries. In the economies that are most heavily dependent on oil revenues, the price decline has already resulted in sharper currency depreciation than in the other emerging countries

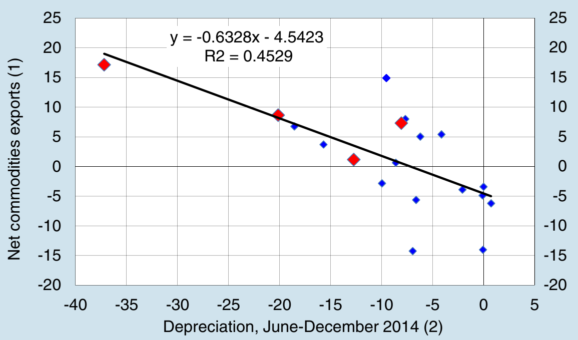
[2] Several major American oil companies (including ConocoPhillips and Continental Resources) have already announced cuts in their investment plans. The energy sector is also hampered by high levels of debt, which have translated into increasing risk premiums in the high-yield bond segment, about a fifth of which consists of energy corporation issues (see Section 1.3).
[3] E. Lippi and A. Nobili, "Oil and the macroeconomy: a quantitative structural analysis," Banca d'Italia, Temi di Discussione (Working Papers), No. 704, 2009; L. Kilian, "Not All Oil Price Shocks Are Alike: Disentangling Demand and Supply Shocks in the Crude Oil Market," *American Economic Review*, 99, 3, 2009, pp. 1053-1069.

(Figure B). In Russia the depreciation has been exceptionally pronounced owing to the stiffening of sanctions by the EU and the US in July (*Economic Bulletin*, No. 4, 2014), which has produced a massive outflow of capital and put the country's financial stability at risk.

Finally, the expansive effect of the fall in oil prices depends on agents' assessments of its persistence and on the degree of uncertainty about future developments. On the one hand the dispersion of price expectations has increased, signalling greater uncertainty, but on the other some observers believe that the fundamentals of the crude oil market have not changed and that an early recovery in consumption or a sharper reduction in oil production from unconventional sources would lead to swift price increases.[4] These factors could blunt the positive effects of the current drop in oil prices.

Figure B

Currency depreciation as a function of dependence on commodities exports



Source: Based on Thomson Reuters Datastream data.
(1) As percentage shares of GDP, 2013 data; net oil exporters in red. – (2) Change in the nominal exchange rate with the US dollar, in percentage points.

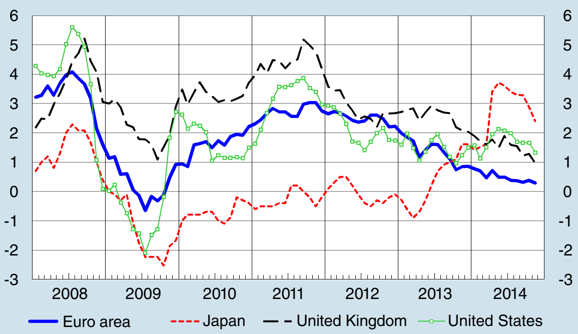
[4] The IEA's latest *World Energy Outlook* anticipates that in the medium term crude oil prices will once again exceed $100 a barrel. Some economists maintain that the "shale revolution" will have only a transitory impact on the oil market, which will continue to be characterized by a structural shortage of supply (J.D. Hamilton, "The Changing Face of World Oil Markets," NBER Working Paper No. 20355, 2014).

World inflation slows

Consumer price inflation decreased almost everywhere in the fourth quarter, owing partly to the fall in commodities prices. In the United States the rate came down from 1.7 per cent in October to 1.3 per cent in November, and the Federal Reserve's reference inflation rate (the consumption deflator net of food and energy products) also declined (Figure 3). Price growth was at its lowest since 2001 in the United Kingdom (1.0 per cent) and diminished rapidly in Japan (from a peak of 3.7 per cent in May to 2.4 per cent in November). Among the main emerging economies, inflation remained low in China (1.5 per cent) and India (5.0 per cent) and high in Brazil (6.4 per cent), while in Russia it accelerated to 11.4 per cent, owing to the severe depreciation of the rouble and rising prices of agricultural and food products as a consequence of the decision to block imports from the main advanced countries.

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.

Interest rates are expected to rise in the US and UK; monetary stimulus is stepped up in Japan

In November the Federal Reserve, as announced, ceased its purchases of mortgage-backed and Treasury securities, and at its December meeting it confirmed its target range of 0.0-0.25 per cent for the federal funds rate. In December the Bank of England's Monetary Policy Committee kept the bank rate steady at 0.5 per cent and its portfolio of financial assets unchanged at £375 billion. The markets expect a start on the normalization of monetary conditions in the US in mid-year and in the UK during the spring. At the end of October the Bank of Japan, in a surprise move, decided to step up its programme of quantitative easing.

Monetary policy stances in the emerging countries remain divergent

Monetary policies in the main emerging countries have taken divergent courses, dictated by differences in macroeconomic conditions. The People's Bank of China has stepped up supervision to limit financial leverage and shrink the shadow banking system, but on the other hand it has lowered its policy rates on loans and bank deposits. The Reserve Bank of India has confirmed its stance, which the market expects to result in a 100-basis-point reduction in the official discount rate within the first few months of 2015. The Brazilian central bank launched a new programme of monetary restriction to bring expectations into line with its inflation targets. In November the central bank of Russia announced that the rouble would no longer be pegged to the euro and the dollar. In December it decided its sharpest rise in interest rates ever, bringing the reference rate to 17 per cent, the highest since the crisis of 1998.

Table 1

Macroeconomic projections
(percentage changes on the previous year)

	OECD			Consensus Economics	
	2014	2015	2016	2014	2015
GDP					
World	**3.3**	**3.7**	**3.9**	**–**	**–**
Advanced countries					
Euro area	*0.8*	*1.1*	*1.7*	*0.8*	*1.1*
Japan	*0.4*	*0.8*	*1.0*	*0.3*	*1.2*
United Kingdom	*3.0*	*2.7*	*2.5*	*3.0*	*2.6*
United States	*2.2*	*3.1*	*3.0*	*2.3*	*3.0*
Emerging countries					
Brazil	*0.3*	*1.5*	*2.0*	*0.1*	*0.6*
China	*7.3*	*7.1*	*6.9*	*7.3*	*7.0*
India (1)	*5.4*	*6.6*	*6.8*	*5.6*	*6.3*
Russia	*0.3*	*0.0*	*1.6*	*0.4*	*-0.9*
World trade (2)	**3.0**	**4.5**	**5.5**	**–**	**–**

Sources: OECD, *Economic Outlook,* No. 96, November 2014; Consensus Economics, December 2014.
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

The outlook for gradually accelerating growth is subject to downside risks

The OECD's November forecasts once again revised world GDP growth for 2015 downwards, to 3.7 per cent, slightly better than in 2014 (Table 1), while the IMF's October forecast was 3.8 per cent. Worldwide, cyclical conditions should remain heterogeneous. Growth should continue to be robust in the US, the UK and India and slowly gain strength in Japan, the euro area and Brazil. However, the structural slowdown in China is expected to continue. The forecasting risk is still primarily on the downside, reflecting the persistent structural problems of some emerging economies and uncertainty over the timing and strength of the recovery in the euro area.

1.2 THE EURO AREA

Economic growth in the euro area remains sluggish. In December, consumer price inflation turned negative for the first time since October 2009. The two targeted longer-term refinancing operations (TLTROs) conducted in September and December resulted in only a moderate boost to the Eurosystem's balance sheet, which the Governing Council of the ECB intends to expand further; the Council plans to alter the size, pace and composition of its measures, including the use of large-scale asset purchases, in order to address risks associated with an excessively long period of low inflation.

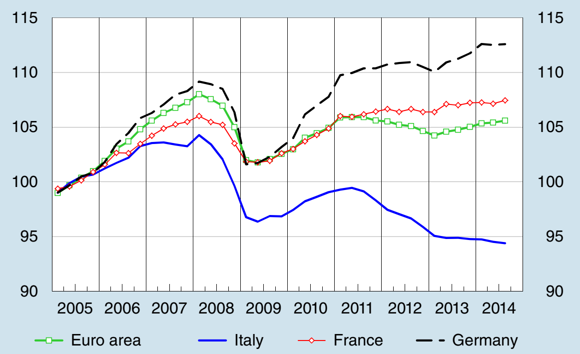
GDP showed modest growth in the third quarter ...

Euro-area GDP grew by 0.2 per cent in the third quarter (Figure 4), supported by increases of 0.5 and 0.3 per cent respectively in household and general government final consumption. National demand was undercut by a further 0.3 per cent drop in investment and by the change in stocks; net exports' contribution to growth

Figure 4

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

(quarterly data; indices, 2005=100)

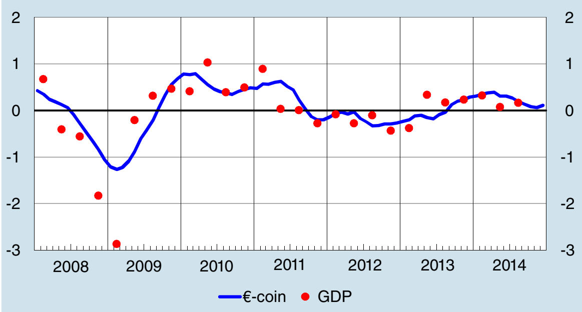


Sources: Based on national statistics.
(1) Chain-linked prices.

Figure 5

€-coin coincident cyclical indicator and euro-area GDP (1)

(percentage changes)



Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator see the box "The €-coin indicator and the economic situation in the euro area", *Economic Bulletin*, July 2009. Details on the indicator are available at http://www.bancaditalia.it/media/notizia/eurocoin-indicator-december-2014. 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.

was virtually nil. Among the major economies, output began to grow again in France (0.3 per cent) and just barely in Germany (0.1 per cent), while in Italy it diminished by 0.1 per cent. The French economy benefited from the expansion of public and private consumption and from the change in stocks. In Germany, activity received a modicum of support from the acceleration of household and general government spending.

... and is likely to do so again in the fourth

The latest indicators confirm the cyclical weakness of the euro area and point to slow growth in the fourth quarter as well, with differences from country to country. In December, the €-coin indicator developed by the Bank of Italy, which provides an estimate of the quarterly change in the area's GDP adjusted for short-term fluctuations, returned to values consistent with a modest expansion (Figure 5). In the same month, the Eurosystem staff projections for growth underwent a further downward revision, to 0.8 per cent for 2014 and 1.0 per cent in 2015.

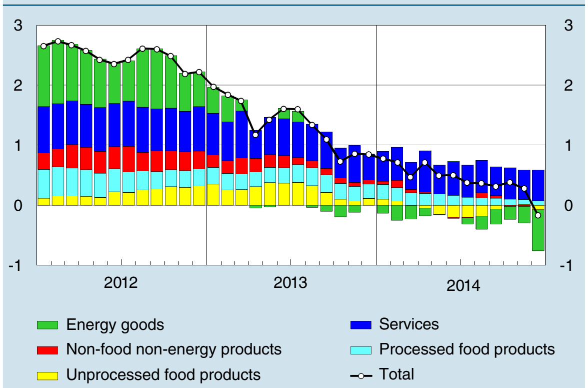
Prices fall ...

According to preliminary estimates, the twelve-month change in consumer price inflation fell below zero in December, to -0.2 per cent (Figure 6), as a consequence of the 6.3 per cent decline in energy prices; excluding the most volatile components, twelve-month inflation rose to 0.8 per cent. On the basis of final data now available, in November about one third of the elementary items included in the HICP basket showed a negative variation. Among the core components, there were price reductions for nearly 50 per cent of goods and about 10 per cent of services. Producer prices continue to exert downward pressure: they were down 1.6 per cent from a year earlier, owing to the fall in those of energy products, food and intermediate goods.

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; for December 2014, preliminary estimates.

... and inflation is expected to stay very low this year and in the medium term

According to business opinion surveys, inflation is likely to remain low in the coming months. In December, firms further trimmed their projections for the change in their list prices, which was again below the threshold compatible with an increase in prices. The analysts polled in December by Consensus Economics put the euro-area inflation rate in 2015 at 0.6 per cent, slightly below that month's Eurosystem staff projection of 0.7 per cent (which represented a further downward revision from the previous exercises); over longer horizons, euro-area inflation is expected to rise only slightly, still well below the level consistent with the definition of price stability.

Lending to firms continues to contract

Lending to firms diminished again in the three months to November but less sharply than in the previous months, declining at an annualized rate of 0.4 per cent (data adjusted for seasonal effects and the accounting effects of securitizations). Lending to households expanded at a moderate rate of 1.1 per cent. The twelve-month growth in M3 is still very low (3.1 per cent, compared with 2.0 per cent in August), although the performance of the aggregate's most liquid components has benefited from the low yields on non-monetary alternatives.

Expansive monetary operations have been conducted

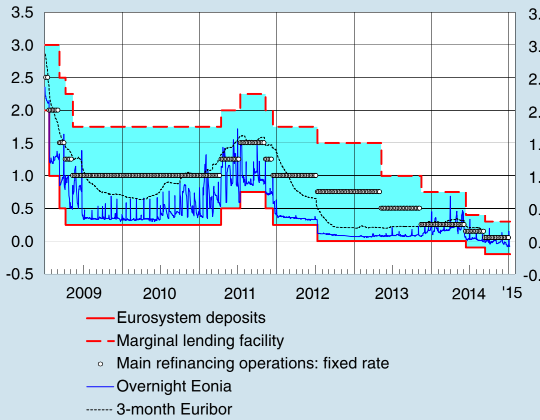
Following up on the ECB Governing Council's decisions of 2 October, the Asset-Backed Securities Purchase Programme (ABSPP) and the Covered Bond Purchase Programme (CBPP3) were launched; as of 9 January about €1.8 billion of asset-backed securities and €31.3 billion of covered bonds had been purchased. On 11 December the second TLTRO was conducted (see the box "The monetary policy measures adopted in June 2014", *Economic Bulletin*, No. 3, 2014). The 306 euro-area banks that participated obtained funds totalling €129.8 billion, compared with 255 banks and €82.6 billion in the first operation in September; Bank of Italy counterparties were allotted €28.7 billion in each of the two TLTROs. The total amount of liquidity taken up by the area's banking system in the two operations was a little more than half the maximum amount disbursable (about €400 billion); this was probably due to the weakness of the area's economy, which has reduced the demand for credit.

Liquidity held by banks with the Eurosystem in excess of the reserve requirement rose to €210 billion, helping to keep money market rates very low (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.

The ECB Governing Council stands ready to take new measures

As a result of the two targeted longer-term refinancing operations, and net of the amounts not lent out again as other operations matured, the Eurosystem's balance sheet grew to €2,170 billion, from just under €2 trillion in mid-September. The Governing Council of the ECB has stated that it intends to expand the size of the balance sheet up to the level reached in March 2012 (about €3 trillion) in order to counter the growing risks to price stability; it has also confirmed its commitment to alter, if necessary, the size, pace and composition of its measures, including the use of large-scale asset purchases, in order to address risks associated with an excessively long period of low inflation.

The political uncertainty in Greece affects volatility

In Greece, the outcome of the new elections called for 25 January could have implications for the country's economic policy; the present uncertainty has added to the volatility of international financial markets. At the beginning of December the Eurogroup expressed appreciation for the significant budget adjustment achieved by Greece and the consequent improvement in the economy's prospects. It also urged Greece to ensure swift and complete implementation of all the measures agreed with the European Commission, the ECB and the IMF. The Eurogroup supported granting the two-month extension, requested by the Greek government, of the time limits for carrying out all the reforms required for the final tranche of assistance under the current programme (€1.8 billion, to be disbursed by the end of February 2015). Finally, it declared it was willing to grant Greece a European Stability Mechanism precautionary credit line upon request, provided the agreed reforms are completed.

1.3 WORLD FINANCIAL MARKETS

There was a renewed increase in volatility in world financial markets, partly ascribable to the repercussions of the steep fall in oil prices on the emerging economies that export energy commodities and, in the euro area, the calling of early national elections in Greece. Sovereign risk premiums were basically unchanged in the euro area, save those of Greece, which rose sharply. In nominal effective terms the euro depreciated.

Long-term interest rates in the main advanced economies continue to decline

Yields on ten-year government securities have continued to fall in all the advanced economies, owing to the drop in inflation expectations and, starting in December, the shift in portfolios towards reputedly safer assets; fears of a protracted stagnation of economic activity and an attendant weakening of growth potential were likely contributory factors. At the end of 2014 yields were 2.0 per cent in the United States, 1.6 per cent in the United Kingdom, 0.5 per cent in Germany and 0.3 per cent in Japan, down 50 basis points on average since the beginning of the fourth quarter (Figure 8).

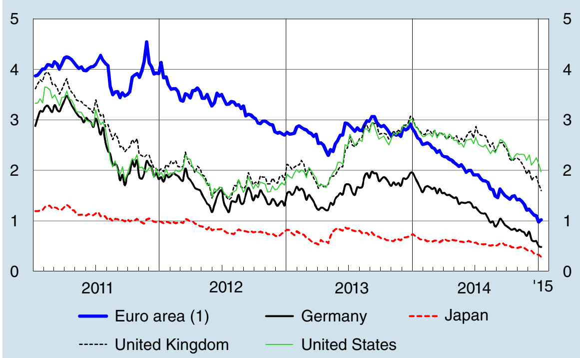
Euro-area sovereign spreads remain stable everywhere except Greece

The financial markets in the euro area were rattled by the calling of snap elections in Greece. The interest rates on three-year Greek government securities breached 15 per cent, a level last seen at the time of the first economic adjustment programme in 2010. The fall in European stock markets was accompanied, however, by basically stable yield spreads on government securities in the peripheral countries, presumably because the expectations of further monetary policy measures by the ECB were not affected (see Section 2.8). During the period as a whole ten-year yield spreads vis-à-vis Germany were virtually unchanged in Italy, Portugal and Spain, while they increased markedly in Greece (Figure 9).

Figure 8

Yields on 10-year government bonds

(end-of-week data; per cent)

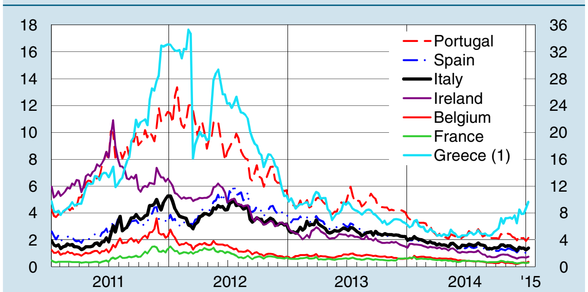


Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at chain-linked prices, of the 10-year benchmark government securities on the euro-area countries excluding Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia, Slovenia, Lithuania and Latvia.

Figure 9

Yield spreads between 10-year government bonds and the corresponding German Bund

(end-of-week data; percentage points)

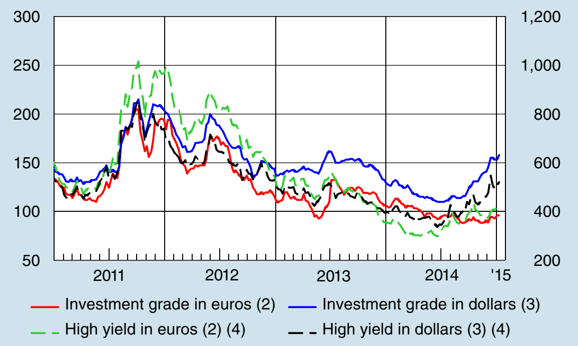


Sources: Based on Bloomberg and Thomson Reuters Datastream data.
(1) Right-hand scale.

Figure 10

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

(end-of-week data; basis points)

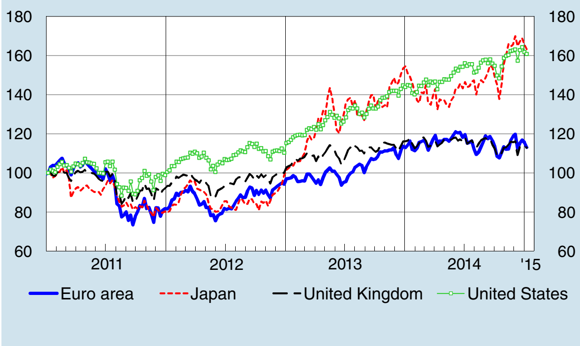


Source: Merrill Lynch.
(1) Investment grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High yield bonds are those issued by corporations rated below those grades. – (2) Fixed rate bonds with a residual maturity of not less than 1 year, issued in the Euromarket;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

Figure 11

Stock market indices (1)

(end-of-week data; 1st week of January 2011=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.

Risk premiums on corporate bonds increase

Since the end of September the risk premiums on investment grade corporate bonds have widened by 28 basis points for securities denominated in dollars (Figure 10) while remaining unchanged for those denominated in euros. Spreads on dollar denominated high yield bonds recorded much larger increases (80 basis points), mainly owing to the bonds of energy companies affected by the fall in oil prices. Banks' credit risk premiums, gauged by the spreads on 5-year credit default swaps, increased by 11 basis points in the euro area and declined by 5 basis points in the United States.

Volatility in the equity markets increases

Share prices fluctuated widely in the fourth quarter (Figure 11). Since the end of September stock market indices have posted gains only in the United States, thanks to the strong performance of the economy, and in Japan, in view of the new monetary stimulus launched by the central bank. Overall, volatility increased during the period (Figure 12).

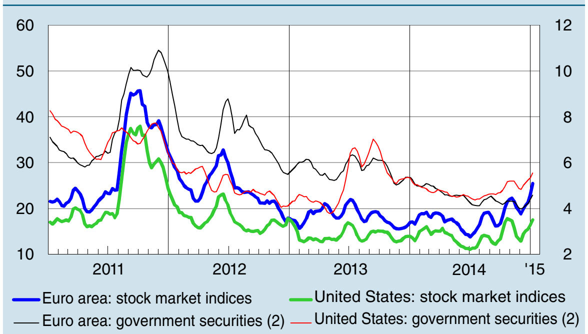
Emerging economies record capital outflows and currency depreciation

In the final part of 2014 financial conditions in the emerging markets deteriorated rapidly: volatility turned upwards again, although it stayed below the levels seen at the beginning of the fourth quarter; capital outflows increased in the equity and, less markedly, bond components. Share indices fell above all in Eastern Europe and in Latin America. Plunging

Figure 12

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

(end-of-week data; percentage points)



Source: Based on Thomson Reuters Datastream data.
(1) Moving average 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.

oil prices hit the oil exporting countries; sovereign yield spreads regained the peaks recorded in 2011 and currencies depreciated. In Russia, adversely affected by the severe economic downturn and the sanctions imposed by the West, the rouble lost 18 per cent relative to the dollar in December alone, notwithstanding the steps taken by the central bank to support the currency.

Figure 13

Bilateral exchange rates
(average weekly data)

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

In nominal effective terms the euro depreciates

In the fourth quarter the euro's nominal effective exchange rate declined by 1.7 per cent: the single currency depreciated significantly against the dollar (7.2 per cent), remained basically unchanged relative to the yen (Figure 13), and strengthened markedly against the Russian rouble (35.5 per cent).

2 THE ITALIAN ECONOMY

2.1 THE CYCLICAL SITUATION

In Italy weak investment is due to the still ample margins of spare capacity. The slow recovery of household spending that began in the summer of 2013 has instead continued. Foreign trade continues to buoy GDP growth, despite fluctuations in world demand.

The small decline in GDP ...

In the summer months of 2014, Italy's GDP fell by 0.1 per cent on the previous period (Figure 14); value added declined in industry, especially construction, while it was practically stable in services and agriculture. Economic activity was held back by a fall in investment (-1.0 per cent; Table 2), involving both construction and instrumental goods, which was only partly offset by the increase of 0.1 per cent in household spending. Net exports continued to sustain GDP growth (contributing 0.1 percentage points).

... continues to the end of 2014

The indicators now available signal that GDP fell slightly in the last quarter of 2014; in the same period, our estimates suggest that industrial production declined by almost 0.5 percentage points compared with the previous quarter. The qualitative surveys conducted last autumn show the assessments of households and businesses and the outlook for foreign demand continued to be characterized by uncertainty.

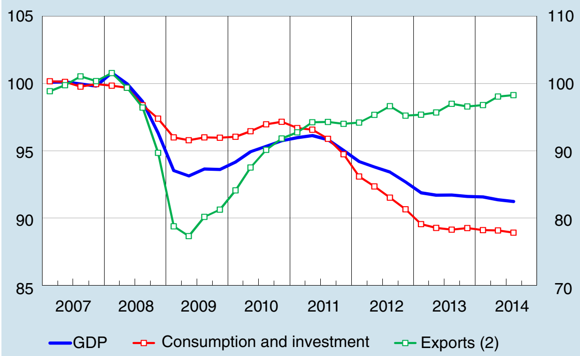
An improvement in the first part of the year is possible, but not yet certain

The main forecasters signal a possible reversal in the trend of productive activity in the first part of the year, but this would depend on capital investment returning to

Figure 14

GDP and the main components of demand (1)

(quarterly data; indices, 2007=100)



Source: Based on Istat data.
(1) Chain-linked volumes adjusted for seasonal and calendar effects. – (2) Right-hand scale.

Table 2

GDP and its main components (1)

(percentage changes on previous period)

	2013 Q4	2013 (2)	2014 Q1	2014 Q2	2014 Q3
GDP	-0.1	-1.9	..	-0.2	-0.1
Total imports	-0.6	-2.7	-0.7	0.9	0.3
National demand (3)	-0.2	-2.9	-0.3	-0.4	-0.3
National consumption	-0.2	-2.3	..	0.1	..
household spending (4)	*0.1*	*-2.8*	*-0.1*	*0.2*	*0.1*
other spending (5)	*0.7*	*-0.7*	*-0.3*	*0.1*	*-0.3*
Gross fixed investment	-0.2	-5.4	-1.1	-0.8	-1.0
construction	*-1.1*	*-6.8*	*-1.1*	*-1.1*	*-0.9*
other investment goods	*0.7*	*-3.8*	*-1.1*	*-0.5*	*-1.1*
Change in stocks (6) (7)	-0.3	..	-0.1	-0.3	-0.1
Total exports	-0.4	0.6	0.2	1.3	1.2
Net exports (7)	..	0.9	0.2	0.1	0.1

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes the change in stocks and valuables. – (4) Includes non-profit institutions serving households. – (5) General government expenditure. – (6) Includes valuables. – (7) Contributions to GDP growth on previous period, in percentage points.

positive values (see Section 2.10). The leading indicators still signal high uncertainty; our estimates suggest that the probability of a turnaround in the first part of the year is around 50 per cent.

In December prices begin to fall again

The twelve-month change in consumer price inflation, measured by the harmonized index of consumer prices, was -0.1 per cent in December, reflecting the fall in prices of the more volatile components. Even excluding energy and food, inflation remained very low as a result of the large margins of idle production capacity and stood at 0.7 per cent in December (see Section 2.6).

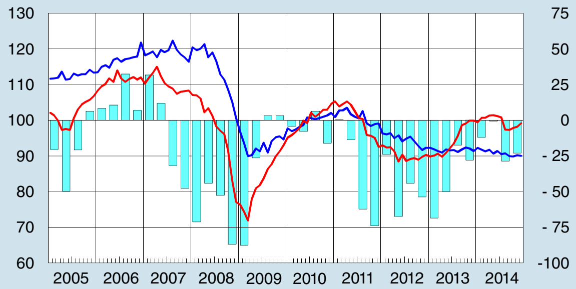
2.2 FIRMS

The fourth quarter of 2014 saw a slight attenuation of firms' pessimism about the general state of the economy. Almost half of firms expect investment spending to remain unchanged in 2015, with the share of those planning to invest more exceeding the share envisaging a cutback. Investment continues to reflect low capacity utilization and the still uncertain outlook for demand.

Figure 15

Industrial production and business confidence

(monthly data)



Sources: Based on Istat, Terna and Bank of Italy data.
(1) Balance of the "better" and "worse" responses to the question in the Bank of Italy-Il Sole 24 Ore quarterly survey on the state of the economy reported in "Survey on Inflation and Growth Expectations", December 2014, Supplements to the Statistical Bulletin, No. 2, 2015; the data refer to industrial firms only. – (2) Industrial production adjusted for seasonal and calendar effects; for December 2014, estimated data. – (3) Index, 2010=100; – (4) In June 2013 methodological changes were introduced to the sample and the survey techniques which make the data since then not directly comparable with the earlier data.

Industrial production declines further in the autumn

In November industrial production expanded by 0.3 per cent compared with a month earlier, thanks to increases in all the main sectors except energy. According to our estimates for December, industrial production fell by just under 0.5 percentage points in the last quarter of 2014 (-1.0 points in the third) and by almost 1 point in the year as a whole (Figure 15).

Business confidence stabilizes after diminishing in the summer

The qualitative indicators, which had worsened at the end of the summer following an upturn in the spring,[1] have stabilized in recent months. Business confidence has picked up only slightly in manufacturing. In the quarterly survey conducted in December in collaboration with *Il Sole 24 Ore*, firms' assessments again pointed to a deterioration in the general state of the economy, although slightly less severe (see the box "Investment by Italian firms according to the Survey on Inflation and Growth Expectations").

Investment reflects the uncertain outlook for demand

The decline in investment in the third quarter (-1.0 per cent on the previous quarter) affected both construction (-0.9 per cent) and capital goods (-1.1 per cent). According to the recent survey conducted by the Bank of Italy and *Il Sole 24 Ore*, in 2015 investment spending will remain stationary overall in nominal

[1] The discrepancy with respect to the consistently negative hard data is probably due to the downward adjustment of firms' production plans and setting of a "new normal" as a result of the prolonged recession (see A. Conti and C. Rondinelli, "Tra il dire e il fare: il divario tra giudizi degli imprenditori e andamenti della produzione nell'industria", Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), forthcoming).

terms, with a larger percentage of firms expecting to increase their investments than the share envisaging a cutback (see the box "Investment by Italian firms according to the Survey on Inflation and Growth Expectations").

INVESTMENT BY ITALIAN FIRMS ACCORDING TO THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

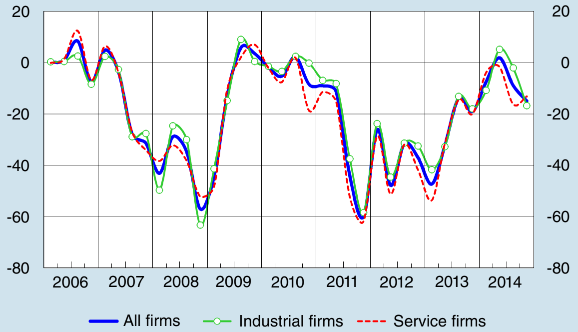
In the quarterly survey conducted between 1 and 17 December by the Bank of Italy together with *Il Sole 24 Ore* on a sample of firms with 50 or more workers operating in industry excluding construction, services and construction (see "Survey on Inflation and Growth Expectations. December 2014", Supplements to the Statistical Bulletin, No. 2, 2015), the percentage of firms seeing a worsening of the general state of the economy remains higher than the share of those finding an improvement, but the negative balance is slightly lower than in the September survey. Firms expect that their activity will be adversely affected by the uncertainty concerning the evolution of the macroeconomic and political situation.

The conditions for investing, slightly worse for industrial firms than in the previous survey, have improved somewhat in the assessments of service firms (Figure A). About half of the respondent firms expect their nominal investment expenditure in 2015 as a whole to be about the same as in 2014; the proportion of firms projecting an increase in capital spending is appreciably greater than that of those planning a reduction (see table). Projections of developments in the first half of 2015 are similar. Firms with better credit conditions and access to finance, more favourable liquidity conditions and, above

Figure A

Firms' assessment of the conditions for investing compared with the previous quarter (1)

(quarterly data; percentage points)



(1) Balance between judgments of improvement and of deterioration by comparison with the previous quarter reported in the quarterly Survey on Inflation and Growth Expectations, conducted by the Bank of Italy with *Il Sole 24 Ore* in December 2014 and published in Supplements to the Statistical Bulletin, No. 2, 2015.

Firms' investment expectations (1)

(per cent)

RESPONSES	Industry excl. construction	Services	Industry excl. construction and services
	Investment expenditure planned for 2015 compared with investment in 2014		
Higher	29.4	25.9	27.7
About the same	47.6	48.8	48.2
Lower	23.0	25.3	24.1
	Investment expenditure planned for the first half of 2015 compared with investment in the second half of 2014		
Higher	26.3	28.0	27.1
About the same	50.4	47.4	48.9
Lower	23.3	24.6	23.9

(1) Percentages weighted by the number of firms in the quarterly Survey on Inflation and Growth Expectations, conducted by the Bank of Italy with *Il Sole 24 Ore* in December 2014 and published in Supplements to the Statistical Bulletin, No. 2, 2015. Rounding may cause discrepancies.

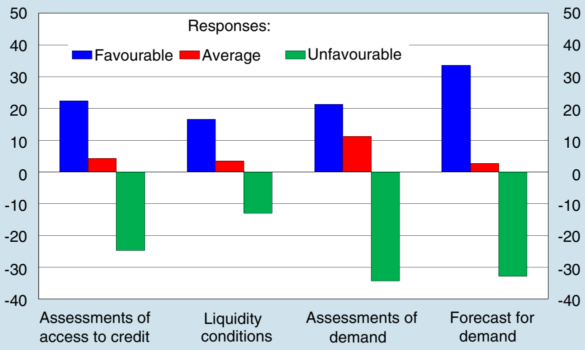
all, positive expectations of demand for their own products are more likely to step up their investment spending in the course of 2015 (Figure B).

The results for construction firms confirm the sector's cyclical difficulties and cautious investment plans. The percentage of companies expecting to cut back capital spending is higher than that of those planning to increase it both in 2015 as a whole and in the first half of the year; in any event, a majority of firms expect their investment expenditure to be unchanged.

On the basis of the surveys of manufacturing firms coordinated by the European Commission and conducted between October and November, the fall in investment observed in Italy in 2014 can be ascribed mainly to the weakness of demand, while the restraining effect of financial constraints appears to have waned considerably with respect to the preceding years. According to firms' expectations, in 2015 these factors will have a positive effect on fixed investment dynamics. However, purchases of capital goods will be mainly directed to replacing already installed machinery and equipment, while the share of spending for capacity expansion is likely to remain modest by comparison both with the levels recorded before the global financial crisis and with the average for the euro-area countries.

Figure B

Firms' expectations for investment in 2015 (1)
(percentage points)



(1) Balances between the percentage of firms in services and in industry excluding construction that expect their nominal investment expenditure to be higher in 2015 than in the previous year and the percentage that expect it to be lower, broken down according to the responses to the questions on access to credit, expected liquidity condition, and assessment and forecast of demand for the firm's own products in the quarterly Survey on Inflation and Growth Expectations, conducted by the Bank of Italy with *Il Sole 24 Ore* in December 2014 and published in Supplements to the Statistical Bulletin, No. 2, 2015.

The number of house purchases rises but the construction sector remains weak

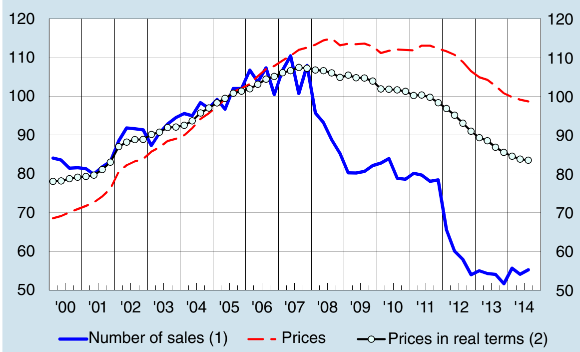
In the third quarter there was a marked rise in the number of house purchases, albeit to only just above the low point reached in 2013 (Figure 16). Sales of non-residential buildings also increased sharply. The drop in house prices under way since the end of 2011 continued, but at a slower pace. In October, output in the construction sector, calculated on the basis of three-term moving averages, rose by 0.9 per cent. According to the quarterly survey conducted in December with *Il Sole 24 Ore*, firms' assessments of the short-term outlook for the sector remain pessimistic.

Price competitiveness continues to improve

Italian firms' competitiveness, measured on the basis of the producer prices of manufactures, improved further in September and October thanks to the depreciation of the euro (Figure 17); all the main euro-area trade partners benefited from the trend. Nevertheless, Italy's competitiveness is still almost 3 percentage points down from the summer of 2012 when the euro was at its lowest point.

Figure 16

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

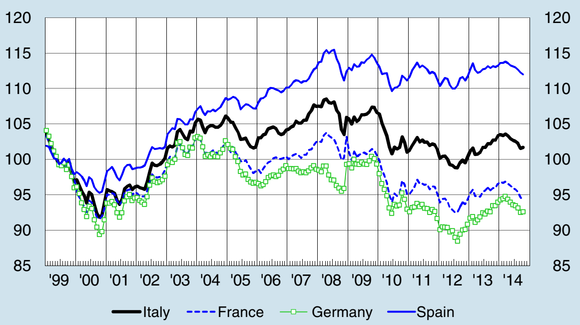


Sources: Based on Osservatorio del Mercato Immobiliare, Bank of Italy, Istat, and *Consulente immobiliare data*.
(1) Adjusted for seasonal and calendar effects. – (2) House prices deflated by the consumer price index.

Figure 17

Indicators of competitiveness (1)

(monthly data; indices, 1999=100)

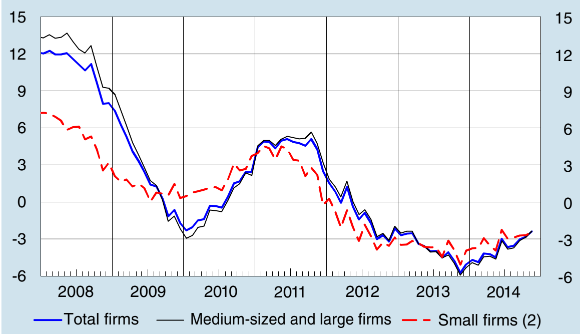


Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to October 2014.

Figure 18

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)



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

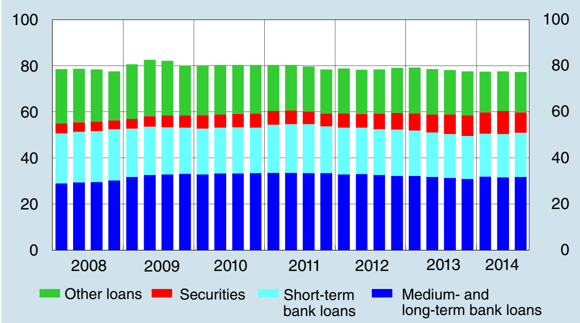
Firms' operating profitability declines slightly

According to estimates based on the national accounts, in the third quarter of 2014 the profitability of enterprises – measured as gross operating profit over value added with reference to the twelve months to September – fell slightly, to 31.9 per cent. Firms' net financial costs remained virtually unchanged, while gross fixed investment declined further in relation to value added, leading to a contraction in borrowing requirements.

Figure 19

Debt of non-financial firms (1)

(quarterly data; per cent of GDP)



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

Firms' bank borrowing decreases more slowly ...

Bank lending to firms (including producer households) continued to contract in the twelve months to November, albeit at a slower pace than in the previous months (-2.4 per cent; Figure 18). The total outstanding debt of firms fell slightly in the summer, to 77.3 per cent of GDP (Figure 19).

... but their net bond issues have been newly positive from the third quarter

Italian firms' net bond issues amounted to €2.8 billion in the third quarter, compared with €1.5 billion of net redemptions in the second (Table 7). In the same period gross share issues by non-financial companies resident in Italy diminished. According to partially estimated data, net bond funding was slightly positive from October to December.

2.3 HOUSEHOLDS

Private consumption continued to grow at a modest pace, reflecting purchases of durable goods. Households' spending, which could benefit from the increase in disposable income recorded during the summer months, is nonetheless being held back by the weakening of consumer confidence related to uncertainty about the economic outlook.

Consumption continues to expand, driven by durable goods purchases ...

Household expenditure increased by 0.1 per cent in the third quarter, confirming the trend under way since the summer of 2013. The marginal increase was supported by rises of 1.9 and 1.1 per cent in spending on durable and semi-durable goods respectively, while the other components stagnated. The gradual upswing in new car registrations continued in the fourth quarter, with a seasonally adjusted increase of 2.1 per cent with respect to the previous quarter. The recovery of disposable income recorded in the summer (1.9 per cent in real terms; Figure 20), which benefited from the Stability Law measures in favour of lower-middle-income households, was accompanied by an increase in the propensity to save (to 10.8 per cent, almost one percentage point higher than in the third quarter of 2013); poor labour market conditions (see Section 2.5) and uncertainty about the state of household finances continue to weigh on consumption expenditure.

... but household confidence wanes

In the second half of the year the consumer confidence index fell. While remaining well above the lows reached in 2012, in December it was barely above the levels of January 2014. Households' evaluations of the economic outlook, which in the first part of the year had driven a rebound in confidence, deteriorated in the second half of 2014 and weighed on households' confidence together with worsening assessments of their personal situation.

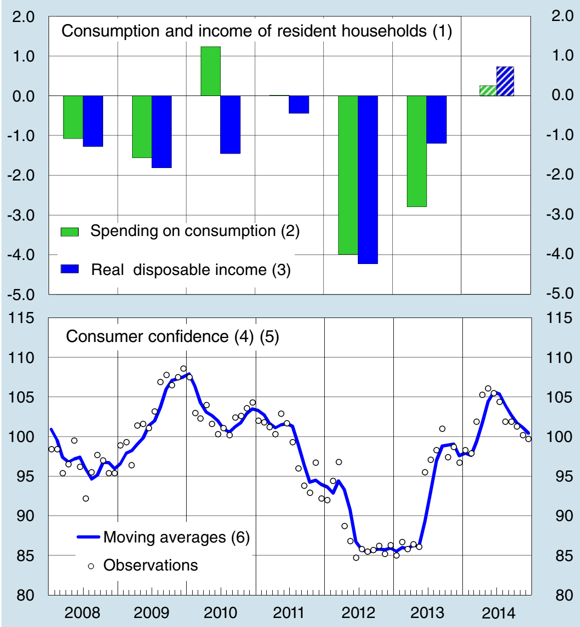
Household debt and its cost remain broadly stable

In the third quarter Italian household debt edged downward to 62.0 per cent of disposable income (Figure 21), far below the euro-area average of 97 per cent. The rates on new loans for house purchase and consumer credit continued to decline; households' debt-servicing costs (interest plus repayment of principal) fell slightly, to 8.7 per cent of disposable income.

Figure 20

Consumption, disposable income and consumer confidence

(percentage changes and indices)

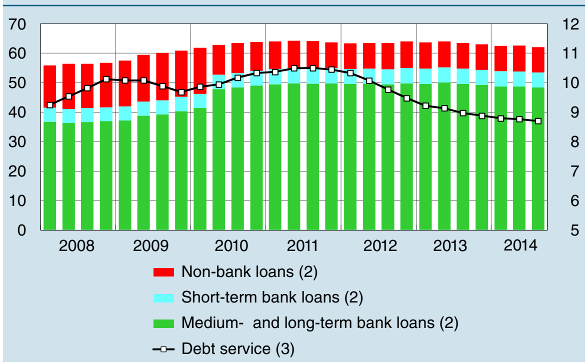


Source: Based on Istat data.
(1) Percentage changes on the previous year. Through 2013, annual data; for 2014, percentage changes in the first 9 months compared with the same period of 2013. Includes non-profit institutions serving households – (2) Chain-linked volumes. – (3) Obtained using the consumption deflator for resident households. Chain-linked values, reference year = 2010. – (4) Monthly data seasonally adjusted. Indices, 2005=100. – (5) 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. – (6) Monthly data; moving averages for the 3 months ending in the reference month.

Figure 21

Household debt (1)

(quarterly data; per cent of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the 12 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 Statistics. Financial Accounts", Supplements to the Statistical Bulletin, No. 58, 2010. – (3) Right-hand scale. Estimated cost of debt service (payment of interest and repayment of principal) for consumer households only.

2.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports slowed in the third quarter as demand originating from the euro area stagnated. The latest surveys on the outlook for foreign sales paint a picture of expansion overshadowed by uncertainty. The balance of payments on current account continued to improve and foreign purchases of Italian shares and debt securities increased.

Exports decelerate ...

The quarterly growth in exports of goods and services in volume terms fell to 0.2 per cent in the third quarter, from 1.3 per cent in the second; sales of goods expanded by 0.5 per cent, those of services contracted by 0.8 per cent.

While exports of goods to the rest of the EU basically stagnated, those to other markets increased, led by transport equipment, electronics and pharmaceuticals, the most dynamic sector in recent years; exports of machinery and equipment made a modest contribution. However, available data for the fourth quarter signal an increase in exports to EU countries and a decrease in those to the rest of the world.

... while imports fall

Imports began falling again in the third quarter, declining by 0.3 per cent in volume. The goods component registered an increase of 0.6 per cent, due to the recovery of purchases of chemical and pharmaceutical products, machinery and equipment and transport equipment, set against a sharp drop in the volume of imports of energy commodities. The latter development was reflected in the reduction in purchases from Russia and the OPEC countries, while imports from the EU and the countries of Asia expanded.

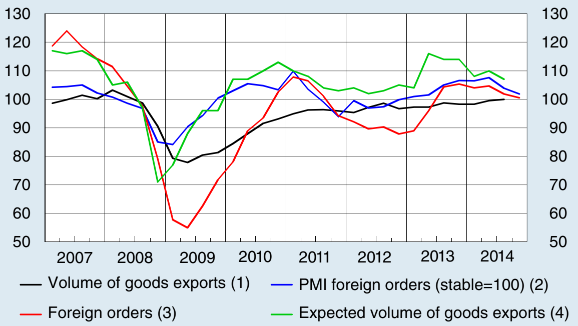
The prospects for exports are still uncertain

The latest business surveys reveal pronounced uncertainty about the prospects of the demand for Italian products abroad, reflecting developments in world trade: the manufacturing PMI index for foreign orders fell again, though staying above the threshold indicating an expansion of sales; firms' expectations for export volumes and their qualitative assessments of foreign orders both worsened (Figure 22).

Figure 22

Export volumes, foreign orders and firms' expectations

(seasonally adjusted quarterly data; indices)



Sources: Istat, Markit and Thomson Reuters Datastream.
(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; percentage balance of replies of "increasing" and "decreasing" minus the average, plus 100. – (4) Based on Istat's quarterly survey of firms' opinions on the economic outlook for the next 3 months; percentage balance between replies of "favourable" and "unfavourable" plus 100.

The current account surplus rises further

The current account balance, which swung into surplus in 2013, continued to improve: in the first eleven months of 2014 the surplus reached €24.7 billion, nearly twice as great as in the same period of the previous year (Table 3). The improvement came from the balance on goods and in particular from the reduction of nearly €10 billion in the deficit on energy products, mainly reflecting the smaller volume of imports as well as the recent trend in oil prices (see the box "The fall in the price of oil").

Italy records significant net foreign capital inflows in 2014

After a hiatus in August and September, foreign purchases of Italian government securities resumed in October and November, especially in the medium- and long-term component. As regards portfolio investment, between January and

November 2014 there were net capital inflows of €112.9 billion, thanks mainly to net purchases of government securities totalling €72.3 billion (almost twice as much as in January-November 2013), concentrated in the medium- and long-term component; in the same period, non-residents also made net purchases of private issuers' debt and equity securities amounting to €40.6 billion.

The TARGET2 balance stabilizes

At the end of December the Bank of Italy's debtor balance on TARGET2 rose to €209 billion; the monthly average, less subject to daily fluctuations, came to €187 billion, comparable to that of the previous two months (Figure 23). The widening of the debtor balance in the second half of 2014, which was concentrated in the third quarter, mainly reflected the policy adopted by the Treasury, which drew on its ample liquid balances and reduced issuance of new debt securities, just under one third of which went to foreign investors (see *Economic Bulletin*, No. 4, 2014). The temporary increase recorded at the end of December is largely ascribable to interbank transactions and was reabsorbed in the early days of the new year: on 15 January the TARGET2 deficit amounted to €190 billion, €7 billion less than at the end of September.

At the end of the third quarter Italy's net international investment position was negative by €483.3 billion, equal to 29.8 per cent of GDP. The improvement of €10.3 billion with respect to June came mainly from the current account surplus recorded in the third quarter; it also reflected valuation adjustments arising from an increase in the market value of assets, driven in part by the recent strengthening of the dollar, that was greater than the increase in the value of liabilities, associated with the reduction in the sovereign spread.

Table 3

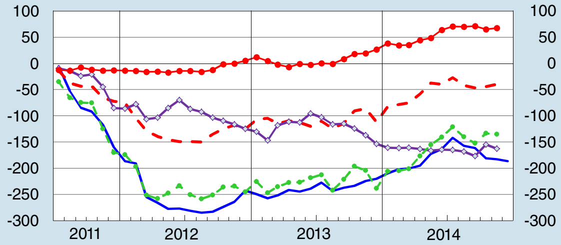
Italy's balance of payments (1)
(billions of euros)

	2012	2013	Jan.-Nov. 2013	Jan.-Nov. 2014
Current account	**-8.2**	**16.6**	**13.5**	**24.7**
Goods	15.6	36.8	32.9	44.6
non-energy products (2)	*75.2*	*88.0*	*80.0*	*82.0*
energy products (2)	*-59.6*	*-51.2*	*-47.1*	*-37.4*
Services	-0.2	2.2	2.3	1.6
Primary income	-4.1	-3.5	-3.9	-4.5
Secondary income	-19.5	-19.0	-17.8	-17.0
Capital account	**3.9**	**-0.1**	**-0.5**	**1.9**
Financial account	**-14.8**	**12.0**	**9.6**	**41.8**
Direct investment	5.3	4.3	12.3	8.2
Portfolio investment	-25.9	-14.6	-39.7	-27.9
Financial derivatives	5.8	3.0	2.2	-3.3
Other investment	-1.5	17.7	33.4	65.4
Change in official reserves	1.5	1.5	1.4	-0.7
Errors and omissions	**-10.5**	**-4.5**	**-3.5**	**15.2**

(1) According to the new international standards of the IMF's *Balance of Payments and International Investment Position Manual*. For October and November 2014, provisional data. – (2) Based on Istat foreign trade data.

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, monthly average; for the other variables, cumulative capital flows of non-residents from July 2011 onwards. – (2) Including funds intermediated by resident central counterparties.

2.5 THE LABOUR MARKET

In the third quarter of 2014 the number of persons employed rose slightly and the total number of hours worked returned to growth after nine months of virtual stagnation. But this did not lower the unemployment rate because the labour force also expanded. The further rise in the unemployment rate in October and November, however, did also reflect a slight decline in employment. Business expectations for labour demand in early 2015 are still uncertain.

In the third quarter, hours worked return to growth ...

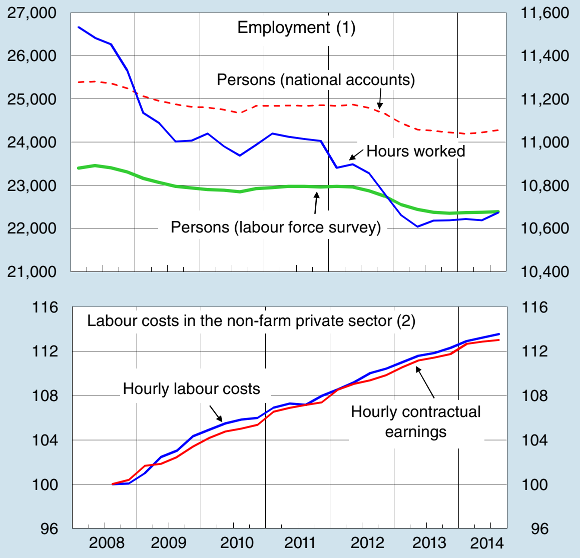
According to the national accounts, in the third quarter of 2014 the total number of hours worked in the economy as a whole returned to growth, on a seasonally adjusted basis (Figure 24). Both industry excluding construction and private services contributed to the recovery (growth on the previous period of 0.5 and 0.2 per cent respectively; Table 4). Despite the increase in the number of hours authorized, firms' actual recourse to wage supplementation was reduced compared with the spring months.

... and salaried employment increases slightly ...

The slight increase in the number of persons employed (0.2 per cent compared with the previous quarter) was due to the employees component (0.3 per cent), which grew mainly in private services and fixed term positions (thanks above all to the smaller number of fixed term contracts terminating). The self-employed component declined further (-0.1 per cent), in particular in industry, although to a lesser extent than in the first half of the year.

Figure 24

Employment and labour costs



Source: Istat labour force survey, quarterly national accounts, and survey of contractual earnings.
(1) Thousands of persons (left-hand scale), millions of hours (right-hand scale); seasonally adjusted quarterly data. – (2) Indices, Q3 2008=100; raw quarterly data for hourly contractual earnings, seasonally adjusted data for hourly labour costs.

Table 4

Employment and unemployment

(seasonally adjusted quarterly data; thousands of persons; millions of hours; percentage changes on previous quarter)

	Number	Change			
	Q3 2014	Q4 2013	Q1 2014	Q2 2014	Q3 2014
Total persons in work	**24,273**	**-0.2**	**-0.1**	**0.1**	**0.2**
of which: *industry excl. construction*	*4,297*	*0.6*	*-0.2*	*0.3*	*-0.5*
private services (1)	*10,357*	*-0.1*	..	*-0.1*	*0.5*
employees	*18,131*	*-0.2*	..	*0.3*	*0.3*
self-employed	*6,141*	*0.1*	*-0.5*	*-0.6*	*-0.1*
Hours worked	**10,673**	**..**	**0.1**	**-0.1**	**0.3**
of which: *industry excl. construction*	*1,920*	*0.6*	*1.2*	*-0.4*	*0.5*
private services (1)	*4,825*	*0.2*	*0.2*	..	*0.2*
employees	*7,265*	*-0.2*	*0.3*	*0.2*	*0.6*
self-employed	*3,408*	*0.6*	*-0.5*	*-0.6*	*-0.1*
Job seekers	**3,283**	**0.9**	**2.2**	**-0.8**	**2.2**
Labour force	**25,669**	**..**	**0.3**	**-0.1**	**0.3**

Source: Istat, quarterly national accounts (persons in work and hours worked) and labour force survey (job seekers and labour force).
(1) Excludes services to households and individuals.

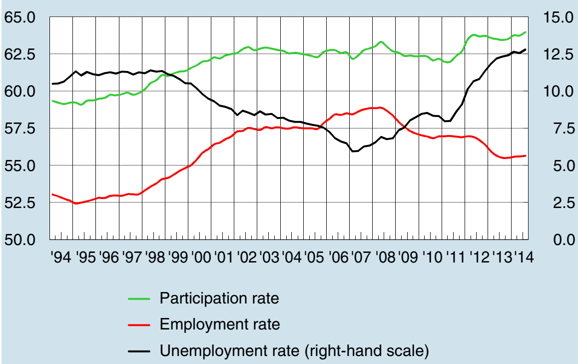
... but the unemployment rate rises

The unemployment rate rose to 12.8 per cent in the third quarter of 2014, compared with 12.6 per cent in the second, driven as in the early months of the year almost entirely by the growth in the participation rate (Figure 25). The increase in the labour force (about 80,000 persons) depended both on the older age-groups (presumably because of the new age requirements for retirement) and the younger age-groups. Overall the increase in the unemployment rate mainly involved the long-term unemployed, while the number who had been jobless for less than a year declined. In October and November the rate increased, reaching 13.4 per cent in November and 43.9 per cent among persons aged 15-24, reflecting in this case a slight fall in employment as well. A factor contributing to the decline may have been a postponement of hirings in view of the incentives introduced by the Stability Law, which came into force in January 2015.

Figure 25

Participation, employment and unemployment rates

(seasonally adjusted quarterly data; per cent)



Source: Istat labour force survey.

The rise in labour costs remains moderate

In the third quarter, on the basis of national accounts data, hourly labour costs in the non-farm private sector grew, on an annual basis, by 1.5 per cent (compared with 1.7 per cent in the year-earlier period), in line with contractual earnings. As a result of the prolonged decline in hourly productivity, unit labour costs in the non-farm private sector rose by 2.3 per cent.

The outlook remains uncertain

The business surveys conducted by Istat in the last part of 2014 did not show any clear improvement in firms' expectations for employment growth in the next three months, in line with the virtual stagnation of the job vacancy rate since the end of 2013.

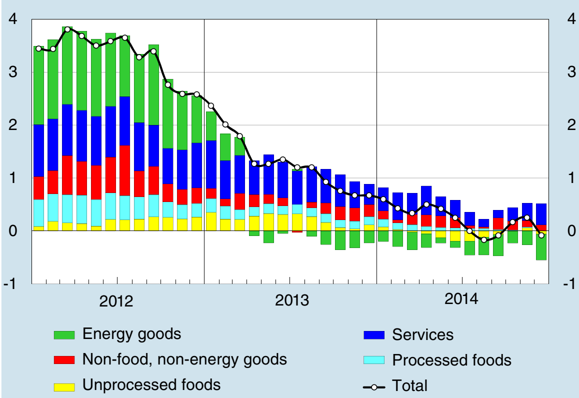
2.6 PRICE DEVELOPMENTS

In the final months of 2014 consumer price inflation stayed at an extremely low level, turning slightly negative in December. Weak inflation is due to both the drop in energy prices and the persistent moderation of the underlying components. Pressures stemming from producer prices remain limited. The risk of a protracted period of low inflation remains high, made more acute by the intensification of the fall in oil prices. According to our latest estimates, inflation is expected to be barely negative in 2015 as a whole.

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) Harmonized index of consumer prices (HICP).

The change in prices is slightly negative

In the closing months of 2014 inflation stayed close to zero (Figure 26;

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	–	1.3	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
2014	0.2	0.7	-0.1	0.2	–	0.7	....
2013 - Jan.	2.4	1.7	2.2	2.2	0.2	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	0.1	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	0.0	1.3	-1.1
June	1.4	1.2	1.3	1.2	0.1	1.1	-0.7
July	1.2	1.0	1.1	1.2	0.1	1.1	-1.5
Aug.	1.2	1.2	1.2	1.2	0.2	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	0.2	0.9	-1.5
Feb.	0.4	0.9	0.1	0.5	-0.1	0.9	-1.7
Mar.	0.3	0.9	-0.1	0.4	0.0	0.8	-1.9
Apr.	0.5	1.1	0.2	0.6	0.0	1.0	-1.7
May	0.4	0.8	0.0	0.5	-0.1	0.7	-1.7
June	0.2	0.7	-0.2	0.3	-0.1	0.7	-1.8
July	0.0	0.5	-0.3	0.1	-0.1	0.6	-1.9
Aug.	-0.2	0.4	-0.6	-0.1	0.0	0.5	-2.1
Sept.	-0.1	0.5	-0.5	-0.2	0.0	0.4	-2.0
Oct.	0.2	0.6	0.2	0.1	0.2	0.5	-1.5
Nov.	0.3	0.6	0.3	0.2	0.0	0.5	-1.6
Dec.	-0.1	0.7	-0.1	0.0	-0.1	0.7	....

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) Seasonally adjusted.

Table 5). In December the change in the harmonized index of consumer prices (HICP) with respect to the year-earlier period was negative (-0.1 per cent) owing to the drop in the prices of energy products (-5.3 per cent) and, to a lesser extent, of food products (-0.3 per cent). Core inflation, which excludes the most volatile components of the index, recorded a slight rise of 0.7 per cent; however, owing to the protracted weakness of economic activity and moderate pressures on costs it remains at very low levels by historical standards. The moderation of price rises has spread to a large number of individual items in the HICP basket: 38 per cent of them showed negative twelve-month variations in December, well above the average of about 20 per cent for the two years 2009-10. In 2014 the HICP rose by 0.2 per cent on average, against 1.3 per cent in 2013.

Producer prices are still weak

The producer prices of industrial goods sold on the domestic market continued to decline in autumn (at a twelve-month rate of -1.6 per cent in November), mainly reflecting the contraction of 5.2 per cent in the energy component; the change in the prices of non-food final consumption goods, which provides indications on the future trends of the corresponding consumer prices, remained marginal, at 0.6 per cent.

Analysts expect inflation to rise only slowly

In December the professional analysts surveyed by Consensus Economics prior to the abrupt fall in oil prices lowered their consumer price inflation forecasts for Italy in 2015 to 0.4 per cent. According to the surveys conducted by Istat in the same month, households also continued to consider that there was a high risk of excessively low inflation for a protracted period: around 55 per cent of those interviewed expect prices to fall or stabilize in the next twelve months, just below the peak recorded in September 2009. The share of households that expect a drop nonetheless remains at low levels (around 7.0 per cent). According to the latest survey conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore,* the weakness of demand will continue to have a large impact on price moderation by firms; in the next twelve months list prices are expected to rise at a slower pace than that foreseen in the previous survey.

2.7 BANKS

The contraction in lending to firms has continued, moderating somewhat with respect to the previous months. It has been affected on the demand side by slack investment and on the supply side by persistent borrower risk. Recent surveys of banks and firms indicate that credit conditions for businesses have improved slightly but remain harder for smaller firms. Interest rates on loans to businesses and households continue to decline.

Business lending keeps contracting, reflecting both low demand ...

In the three months ending in November credit to the non-financial private sector shrank at a seasonally adjusted annual rate of 1.2 per cent (Figure 27). Lending to non-financial corporations fell by 1.8 per cent – a bit better than the 2.4 per cent decline registered in August – as a result of the weakness of economic activity (see Section 2.2). The reduction in lending to households was more limited (0.4 per cent).

Figure 27

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 change is calculated net of reclassifications, exchange rate variations, value adjustments, and other variations not due to transactions. – (2) Seasonally adjusted.

In the twelve months ending in November the decline in lending to firms was slightly less pronounced at intermediaries belonging to the five largest banking groups than for other banks (2.2 and 2.7 per cent respectively). By sector of activity, the credit contraction eased in manufacturing (1.7 per cent) and services (2.4 per cent), while remaining severe in construction (5.4 per cent).

Between the end of August and the end of November, Italian banks' retail funding from resident households increased slightly, mostly owing to an acceleration in current account deposits, which grew at an annualized rate of 7.7 per cent, compared with 6.1 per cent in August. Over the same period net retail bond placements decreased, as did foreign interbank funding (Table 6).

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	August 2014	November 2014	August 2014	November 2014
Assets				
Loans to Italian residents (4)	1,814	1,816	-2.2	-1.2
firms (5)	*819*	*818*	*-3.8*	*-2.6*
households (6)	*596*	*596*	*-0.7*	*-0.5*
Claims on central counterparties (7)	85	95	9.6	-1.9
Debt securities excluding bonds of resident MFIs (8)	542	549	-6.6	-4.7
securities of Italian general government entities	*410*	*422*	*-4.3*	*-1.2*
Claims on the Eurosystem (9)	10	12	-49.7	-25.9
External assets (10)	294	304	-2.1	2.2
Other assets (11)	1,248	1,239	-5.5	-5.7
Total assets	**3,993**	**4,016**	**-3.9**	**-3.0**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,311	1,331	5.2	6.1
Deposits of non-residents (10)	304	309	-8.5	-5.3
Liabilities towards central counterparties (7)	124	130	-13.7	-6.3
Bonds (13)	483	466	-8.9	-12.1
Liabilities towards the Eurosystem (9)	164	175	-32.2	-23.2
Liabilities connected with transfers of claims	137	133	-13.3	-12.7
Capital and reserves	416	418	8.7	8.4
Other liabilities (14)	1,055	1,053	-5.6	-6.2
Total liabilities	**3,993**	**4,016**	**-3.9**	**-3.0**

Source: Supervisory reports.
(1) The figures for November 2014 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 repos. – (8) Excludes bonds of resident MFIs, i.e. banks and money market funds. – (9) Accounts with the Eurosystem for monetary policy operations; see "Monetary and Financial Indicators. Money and Banking", Supplements to the Statistical Bulletin, Tables 1.4a and 1.4b. – (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 some minor items. – (12) Excludes liabilities connected with transfers of claims. – (13) Excludes liabilities towards resident MFIs. – (14) Bonds held by resident MFIs, deposits of resident MFIs, money market fund units, derivatives, and some minor items.

... and supply conditions, which have eased only for large companies

The intermediaries participating in the bank lending survey reported for the third quarter of 2014 that credit supply conditions were unchanged from the previous quarter both for firms and for households (see the box "Credit supply and demand"); firms' demand remained weak and households' demand was increasing. Preliminary data for November indicate that – thanks in part to funds obtained in September's targeted refinancing operation – the banks have relaxed their business lending standards somewhat. The latest surveys of firms report that credit access conditions still differ with firm size: more favourable for large companies but worsening slightly for small ones.

The cost of credit comes down again for households and firms alike

The ECB's lowering of official rates in September contributed to a further reduction in the cost of credit. Between August and November the average rate on new loans to households fell by 0.2 percentage points and that on new loans to firms by 0.4 points, to 2.9 and 2.6 per cent respectively. The spread over the euro-area average narrowed again, from 40 and 65 basis points to 30 in both cases.

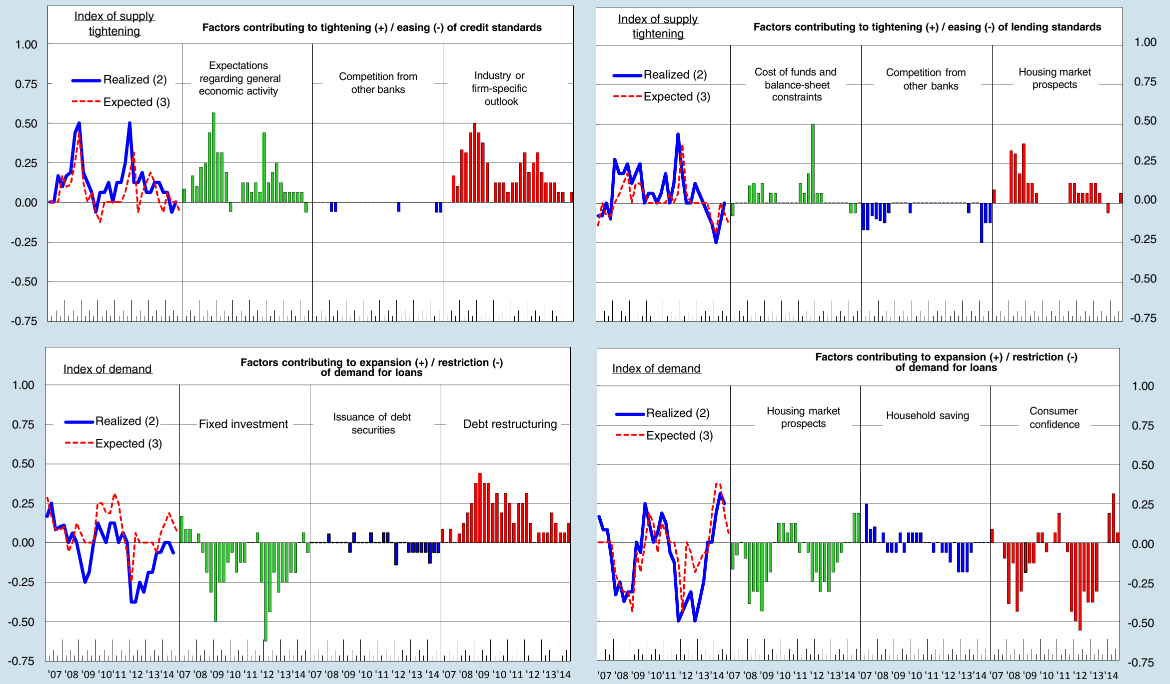
CREDIT SUPPLY AND DEMAND

According to the banks interviewed in October as part of the quarterly euro-area bank lending survey, in the third quarter of 2014 credit supply conditions remained broadly unchanged (Figure A).[1] Lending standards benefited from greater competition, favouring the more creditworthy customers, according to the response of some banks. Nevertheless, perceived risk was still high in connection with the outlook for particular sectors or firms and, in the case of households, the reduction in the value of collateral caused by the fall in house prices.

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.

The banks continued to report a reduction in the average margin on loans, while that on loans to the more risky firms increased. Firms' demand for credit turned marginally down, reflecting the contraction of fixed capital investment, while the demand for mortgage loans strengthened further, benefiting from more favourable expectations for the housing market.

The regional bank lending survey conducted in September by the Bank of Italy's regional branch offices, which provides more detailed information on banks' lending policies, showed that in the

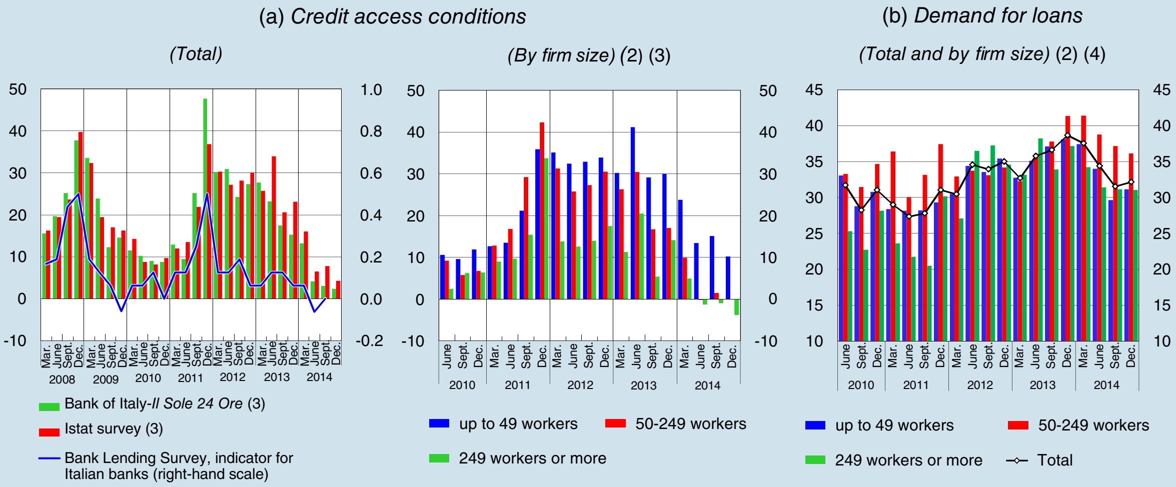
[1] Eight leading Italian banking groups took part in the survey, which was completed on 9 October. The results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The responses concerning assessments for the fourth quarter of 2014 and expectations for the next quarter will be published on 20 January.

first half of 2014 lending standards eased slightly for manufacturing firms, while tightening in the construction sector. Furthermore, minor banks applied very different conditions depending on geographical area: more relaxed in the North, more restrictive in the Centre and South.[2]

According to the latest information, the banks surveyed reported a further easing of supply conditions, attributed mainly to their making use of the ECB's recent targeted long-term refinancing operations. Some banks reported that these measures would encourage increased lending and a reduction of the margin on loans to the most creditworthy firms. However, there were no signs of a recovery in firms' demand for loans.

Figure B

Firms' access to credit and demand for loans (1)



(1) The Bank of Italy – *Il Sole 24 Ore* survey and the Istat survey are conducted respectively on samples of firms in industry and services and in manufacturing. The Istat result is taken from the end-of-quarter survey: in 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) Istat, business confidence survey in the manufacturing sector. – (3) Net percentage of firms reporting difficulty in obtaining credit. The net percentage is calculated as the difference between the percentage of replies indicating a tightening of lending conditions and the percentage of those indicating an easing. – (4) Share of firms that have contacted banks and been granted or refused the funds requested (quarterly average).

The firms surveyed continued to report that credit access conditions still vary considerably with firms' size: in December both the quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore* and Istat's monthly survey of the climate of confidence among manufacturing firms showed an improvement since September for the larger firms, but persistently unfavourable conditions of credit access for smaller businesses (Figure B). The percentage of firms reporting that they had not obtained the funding requested was also significantly higher among smaller firms (14.5 per cent against 6.5 per cent for the larger businesses).

The Istat survey reported that manufacturing firms' demand for loans, which had been falling since the start of 2014, remained weak in the fourth quarter (Figure B).

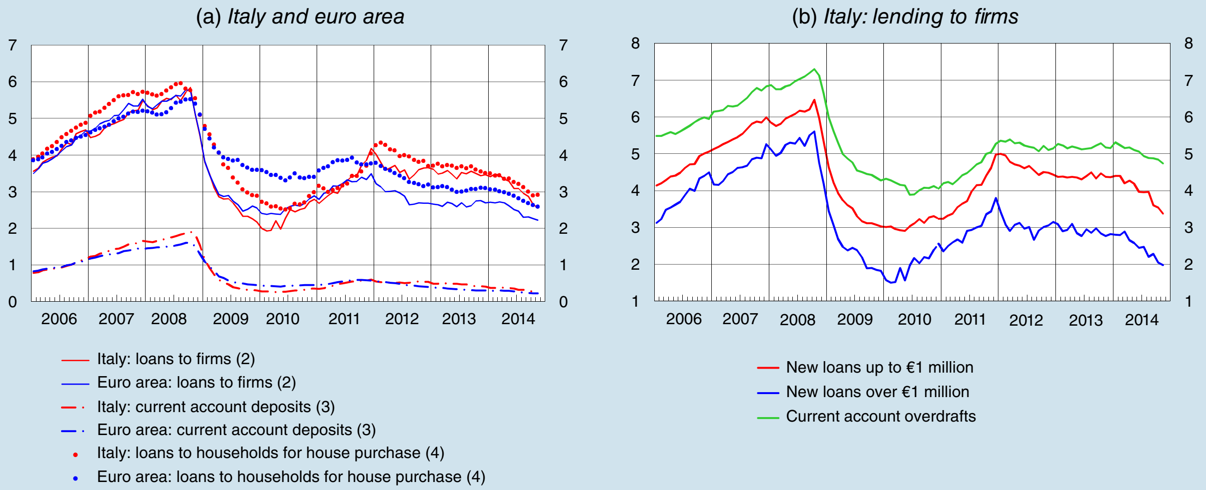
[2] See "Credit supply and demand in the macro-regions", Banca d'Italia, *Regional Economies,* No. 44, 2014.

The fall in the cost of loans to Italian firms involved both small and larger businesses. That on new loans smaller than €1 million declined by 60 basis points to 3.4 per cent (Figure 28), while that on larger loans eased by 20 basis points to 2.0 per cent.

Figure 28

Bank interest rates (1)

(monthly data; per cent)



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

The new bad debt ratio holds steady

On a seasonally adjusted annual basis the flow of adjusted new bad debts in relation to outstanding loans remained unchanged in the third quarter at 2.6 per cent. For loans to firms, it rose by a tenth of a point to 4.1 per cent. The quality of credit to construction firms worsened, while for manufacturing and service firms it improved. The new bad debt ratio for households fell by 0.3 percentage points to 1.2 per cent. Preliminary data indicate that in October and November banks' total exposure to borrowers with loans reported as bad debts for the first time was 9 per cent lower than in the year-earlier period; compared with the previous two months, the decline was smaller.

Profitability at the main banking groups makes marginal gains

According to consolidated quarterly reports, the profitability of the five largest banking groups – while still low – was higher in the first nine months of 2014 than in the year-earlier period. Annualized ROE rose from 1.5 to 2.1 per cent. The improvement can be ascribed mainly to a 6.8 per cent reduction in loan loss provisioning and a 5.3 per cent increase in fee income. Despite a 2.1 per cent increase in net interest income, gross income slipped by 0.8 per cent, as a result of a sharp decline in trading profits. The decline of 0.6 per cent in operating profit was attenuated by success in curbing operating expenses, which were cut by 1.0 per cent.

At the end of September the capital adequacy ratios of the five largest groups were broadly unchanged with respect to June. The common equity tier 1, tier 1, and total capital ratios were 12.0, 12.5 and 16.1 per cent respectively.

2.8 THE FINANCIAL MARKETS

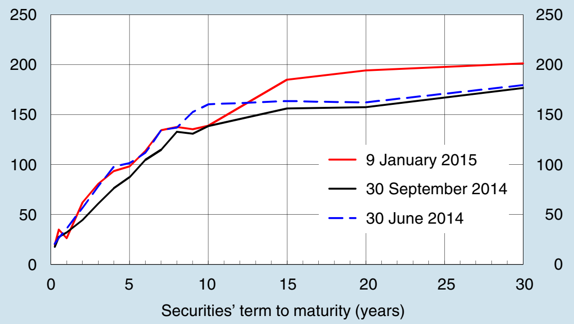
The yields on Italian government securities have not been affected to date by the political developments in Greece, although their volatility has increased. They have been held down by expectations that the ECB will adopt expansionary measures. The stock market index has declined, however.

Yields on long-term Italian government securities decrease sharply

Standard and Poor's downgrading of Italian debt from BBB to BBB- on 5 December, mainly to reflect the country's uncertain growth prospects and the risk of lower inflation, did not have repercussions on the yields on Italian government securities, which were moderated by expectations of further ECB measures to support price stability. In recent days, the political uncertainty in Greece and the potential instability generated by the sudden drop in oil prices have led to heightened volatility, but they have had little effect on our financial markets. Overall, the yield spread between ten-year Italian and German government securities has held stable at 139 basis points since the end of September (Figure 29). In the same period, the yield on Italian ten-year BTPs has come down by 45 basis points to 1.88 per cent.

Figure 29

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



Source: Based on Bloomberg data.

Risk premiums on corporate debt are stable

The yield spreads of Italian non-financial corporations' bonds over the highest rated euro-area government securities were on average stable from the end of September on, at 95 basis points. In the same period the CDS spreads of the largest Italian banks increased by 33 points to 165 basis points. The average CDS spreads of the main French banks also rose, although to just 80 basis points, while those of the German banks were unchanged.

Table 7

Net bond issues (1)
(billions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy (2)		
2012	83.2	-5.6	13.2	90.6
2013	-80.3	-16.8	22.7	-74.4
2013 – Q1	-29.8	-3.2	3.8	-29.2
Q2	-14.8	-2.5	3.5	-13.8
Q3	-21.5	-3.5	8.6	-16.3
Q4	-14.2	-7.6	6.9	-15.0
2014 – Q1	-48.5	-8.4	3.3	-53.6
Q2	-28.3	2.2	-1.5	-27.7
Q3	-37.6	-6.9	2.8	-41.7
		Euro area		
2012	5.0	-1.5	122.8	126.2
2013	-353.1	-50.7	85.6	-318.3
2013 – Q1	-117.9	-19.3	17.6	-119.5
Q2	-99.5	16.3	11.1	-72.1
Q3	-92.2	-13.0	32.1	-73.1
Q4	-43.5	-34.6	24.6	-53.5
2014 – Q1	-116.6	-35.6	17.8	-134.4
Q2	-69.5	46.6	21.2	-1.6
Q3	-80.4	-6.6	14.1	-72.9

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than 1 year, at face value, issued by companies resident in Italy or the euro area and belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed. – (2) The data on net issues in Italy differ from those published previously as a consequence of the introduction of ESA 2010 accounting standards.

Banks continue to make net bond redemptions

In the third quarter of 2014 banks continued to make net bond redemptions both in Italy and in the euro area (amounting to €38 billion and €80 billion respectively; Table 7). According to provisional Dealogic data on gross issues, Italian banks made few placements also in the fourth quarter, amounting to just €4 billion, the same as in the third quarter.

The stock exchange index falls sharply

From October share prices fell by 10 per cent in Italy and by 3 per cent in the euro area as a whole (Figure 30). The decline reflected a rise in the risk premium demanded by investors, the effects of which outweighed the positive contribution of the reduction in long-term interest rates on the highest rated securities. Expected share price volatility, implied by the prices of stock exchange index options, fluctuated widely; for the period as a whole it increased to the levels of February 2013.

The increase in net inflows to investment funds resumes

According to the asset management association Assogestioni, the net inflow of savings to Italian and foreign open-end investment funds picked up in the third quarter of 2014, amounting to €26 billion against €18 billion in the second quarter. Net fund-raising was especially positive for flexible and bond funds.

Figure 30

Share prices (1)
(daily data; indices, 3 January 2011=100)

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

2.9 THE PUBLIC FINANCES

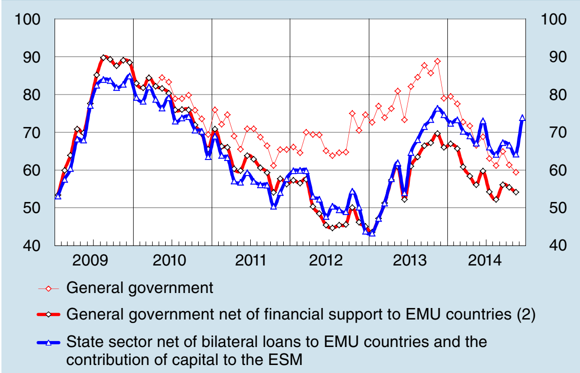
On the basis of the available data, general government net borrowing can be estimated to have remained close to 3 per cent of GDP for the third consecutive year notwithstanding the prolonged recession. According to the official forecasts, which take account of the Stability Law for 2015 passed by Parliament in December, this year net borrowing will decline from 3.0 to 2.6 per cent of GDP. In March the European Commission will assess Italy's budgetary situation, along with those of France and Belgium, also taking account of progress made in implementing the structural adjustment programme.

Excluding some extraordinary transactions, the state sector borrowing requirement rises slightly in 2014

Notwithstanding the expected reduction in the surplus in December, the state sector borrowing requirement decreased by €3.6 billion in 2014, to €76.8 billion (Figure 31). Excluding the extraordinary transactions that do not affect net borrowing, the borrowing requirement recorded a small increase.

Figure 31

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



Source: For the State sector, Ministry of 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 (EFSF), and with the contribution to the capital of the European Stability Mechanism (ESM).

The accounts indicate net borrowing of close to 3 per cent of GDP

In the first eleven months of 2014 the general government borrowing requirement, net of privatization receipts, amounted to €73.1 billion, €19.6 billion less than in the year-earlier period. The improvement, which will fade in December when the accounts are in, was largely due to the extraordinary transactions and to the decrease in Italy's share of loans granted by the EFSF, which amounted to €1.8 billion against €6.7 billion in 2013. Overall, the available data are consistent with net borrowing of close to 3 per cent of GDP (Table 8).

The debt-to-GDP ratio increases as nominal GDP growth is nil

At the end of November general government debt amounted to €2,160 billion. In December it can be presumed to have contracted significantly as a result of the general government surplus and the reduction in the Treasury's liquid assets. Overall, it is estimated that the ratio of the debt to GDP rose by about 4 percentage points during the year, to around 132 per cent. Given that nominal GDP (the denominator) was basically stable, the change in the ratio can be ascribed mainly to the increase in liabilities. Contributory factors were the financing requirements associated with net borrowing and with the payment of outstanding current account commercial debts (estimated at over €10 billion), the increase in the Treasury's liquid balance (€8.8 billion), and the support provided to euro-area countries in difficulty (€4.7 billion); on the other hand, the change in the nominal debt was curtailed by issue premiums worth €8.7 billion.

According to the estimates published by Istat, in the first nine months of 2014 general government net borrowing amounted to 3.7 per cent of GDP, 0.3 percentage points higher than a year earlier (Table 9). The deterioration was due to the 0.7 per cent drop in revenues, mainly as a result of the decrease in proceeds from direct taxes, down by 2.2 per cent. As regards disbursements, the 3.1 per cent reduction in interest payments entirely offset the moderate rise in primary current expenditure (0.5 per cent). Social benefits in cash rose by 2.3 per cent, partly owing to the introduction in May of the tax credit for payroll employees with medium-low incomes. Public employee compensation continued to contract (-0.8 per cent), reflecting the limits on hiring and the non-renewal of labour contracts in the public sector. Capital expenditure diminished by 1.4 per cent despite the increase in some tax credits entered among other capital outlays in accordance with the new European accounting rules (ESA 2010).

According to preliminary data, in 2014 the tax revenue recorded in the State budget, net of lotto and lotteries, decreased by €3.3 billion or 0.8 per cent compared with the previous year. The drop in direct tax revenue (by €8.9 billion or 3.9 per cent) was mainly due to the decrease in corporate income tax, in turn partly ascribable to the end of the temporary increase in the amount paid on account in 2013. Indirect tax revenue rose by €5.6 billion or 3.2 per cent, primarily owing to the raising of the ordinary VAT rate in October 2013 and to increased revenue from excise duties on mineral oils (up by €1.8 billion or 7.7 per cent) that reflected accounting discrepancies between 2013 and 2014. Taking that effect into account, the contraction in tax revenue becomes larger.

Table 8

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

	2012	2013	2014	2015
Net borrowing	48,618	45,958	....	....
% of GDP	*3.0*	*2.8*	*3.0*	*2.6*
Primary surplus	35,456	32,243	....	....
% of GDP	*2.2*	*2.0*	*1.7*	*1.9*
Interest payments	84,074	78,201	....	....
% of GDP	*5.2*	*4.8*	*4.7*	*4.5*
Debt	1,989,934	2,069,841	....	....
% of GDP	*122.2*	*127.9*	*131.6*	*133.1*
Debt net of support to EMU countries (2)	1,947,269	2,014,220	....	....
% of GDP	*119.6*	*124.4*	....	....

Sources: For the items of the 2012-13 general government balances, Istat; for the years 2014-15, updated tables of the Draft Budgetary Plan 2015, October 2014.
(1) Rounding may cause discrepancies. - (2) Net of Italy's bilateral loans to Greece, its share of the loans disbursed by the EFSF and its contribution to the capital of the ESM.

Table 9

General government quarterly accounts
(millions of euros and percentage changes)

	9 months			
	2013	2014	Change on corresponding 9 months of previous year	
			2013	2014
TOTAL EXPENDITURE	**581,223**	**581,302**	**0.6**	**0.0**
Current expenditure net of interest payments	480,515	483,002	1.6	0.5
of which: *employee compensation*	*113,882*	*112,944*	*-1.2*	*-0.8*
intermediate consumption	*62,546*	*62,345*	*-0.7*	*-0.3*
social benefits in cash	*224,176*	*229,402*	*2.7*	*2.3*
Interest payments	57,488	55,678	-6.0	-3.1
Capital expenditure	43,220	42,622	-1.6	-1.4
of which: *gross fixed investment*	*28,549*	*26,529*	*-3.1*	*-7.1*
TOTAL REVENUE	**540,258**	**536,615**	**0.5**	**-0.7**
Current revenue	535,471	533,324	0.1	-0.4
of which: *direct taxes*	*157,812*	*154,282*	*1.3*	*-2.2*
indirect taxes	*177,540*	*180,239*	*-2.9*	*1.5*
social security contributions	*149,884*	*150,486*	*-0.2*	*0.4*
Capital revenue	4,787	3,291	54.7	-31.3
of which: *capital taxes*	*2,673*	*1,037*	*119.5*	*-61.2*
NET BORROWING	**-40,965**	**-44,687**		
Primary balance	**16,523**	**10,991**		
Memorandum item:				
GDP	1,193,478	1,193,640	-0.7	0.0

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

Parliament passes the 2015 Stability Law

In October the Italian Government, after discussions with the European Commission, pledged to step up the adjustment of the structural balance in 2015 with respect to the original programme, to 0.3 percentage points of GDP by the Government's estimate (see the box "European budget rules and the objectives for Italy's public finances"). According to the latest official forecasts, which take account of this further plan, net borrowing will decline from an estimated 3.0 per cent of GDP for 2014 to 2.6 per cent in 2015, 1.8 per cent in 2016 and 0.8 per cent in 2017. The adjustment, which will entail a small increase in net borrowing in 2015 with respect to the projections on a current legislation basis, will bring about a significant narrowing of the tax wedge on labour, financed in part by measures to counter tax evasion and by cutbacks in spending.[2]

[2] See L. F. Signorini, "Audizione preliminare all'esame della manovra economica per il triennio 2015-2017", testimony before the Chamber of Deputies, Rome, 3 November 2013.

EUROPEAN BUDGET RULES AND THE OBJECTIVES FOR ITALY'S PUBLIC FINANCES

The European rules aim to ensure sound public finances, while at the same time providing sufficient scope for flexibility in the conduct of fiscal policy.

The preventive arm of the Stability and Growth Pact (Council Regulation (EC) No 1466/97) binds governments to a medium-term objective for structural net borrowing (i.e. cyclically adjusted and net of temporary measures), which takes account, for each country, of the level of public debt, the future costs associated with the ageing population, and the need for room to conduct appropriate countercyclical policies. In the case of Italy, the objective is a balanced budget. Generally, an annual improvement in the structural balance of at least 0.5 per cent of GDP is required until the objective is achieved.

A larger adjustment is required when there is a high debt level or in good economic times; the adjustment may be smaller in bad economic times. The code of conduct for the implementation of the Stability and Growth Pact refers to the difference between the level of output and its potential level (the output gap) in order to identify the different phases of the economic cycle. In Communication No. 12 of 13 January the European Commission specified the size of the adjustment required of member countries on the basis of their output gap (see table). In the case of Italy, for which the Commission estimates an output gap of -3.4 per cent in 2015, the preventive arm of the Pact requires an adjustment amounting to 0.25 per cent of GDP.

The preventive arm also envisages additional scope for flexibility; in particular, temporary deviations from the medium-term objective or from the adjustment path towards it are allowed in the case of (a) exceptional events with significant negative consequences for the public finances of a member state; (b) a deep recession in the euro area or the European Union; and (c) structural reforms with demonstrable positive effects on the long-term sustainability of the public finances. The recent Communication from the Commission specifies the criteria for using the flexibility (including for the corrective arm of the Pact) in the case of structural reforms, as well as of some investment expenditure (the investment clause) deemed equivalent to structural reform.[1] Moreover, national contributions to the forthcoming European Structural and Investment Fund will not be included in the calculation of

[1] The Commission has clarified that a member country may deviate temporarily from the path towards its medium-term objective in order to finance some investment expenditure (listed in the Communication) provided that (a) output growth is negative or the output gap is below -1.5 per cent; (b) net borrowing does not overshoot the 3 per cent threshold; (c) the level of total investment is not less than in the past; and (d) the deviation is absorbed within the horizon of the stability and convergence programme. The Commission also stressed that, with respect to the previous guidelines the built-in flexibility now refers to the cyclical situation of the country in question, not that of the euro area or the EU and therefore might have a broader scope.

Structural adjustment required in different cyclical situations			
CYCLICAL SITUATION		REQUIRED STRUCTURAL ADJUSTMENT	
		Debt below 60 per cent of GDP and no risk for sustainability	*Debt above 60 per cent of GDP or risk for sustainability*
GDP growth rate < 0 or output gap < -4%	*Exceptionally bad times*	No adjustment required	
-4% ≤ Output gap < -3%	*Very bad times*	0%	0.25%
-3% ≤ Output gap <-1.5%	*Bad times*	0% if output growth is below potential 0.25% if output growth is above potential	0.25% if output growth is below potential 0.50% if output growth is above potential
-1.5% ≤ Output gap < 1.5%	*Normal times*	0.5%	> 0.5%
Output gap ≥ 1.5%	Good times	> 0.5% if output growth is below potential ≥ 0.75% if output growth is above potential	≥ 0.75% if output growth is below potential ≥ 1.0% if output growth is above potential

Source: European Commission.

the structural adjustment because they are classified as temporary outlays and will not be computed (within certain limits) for the purpose of opening the excessive deficit procedure.

The corrective arm of the Pact (Council Regulation (EC) No 1467/97) stipulates that net borrowing must not exceed the threshold of 3 per cent of GDP. If the deficit remains close to that threshold, it may be exceeded in exceptional circumstances and for a limited period of time. The Regulation also stipulates that the debt must not exceed 60 per cent of GDP, otherwise it must be reduced at a "satisfactory pace". Countries that fail to comply with these rules are placed under an excessive deficit procedure, under which the timings of the necessary budget adjustments are defined and which envisages the adoption of more serious sanctions than for the preventive arm.

The rules on debt only came into full force in December 2011 following the reform of the Pact (included in the "six-pack"), which defined a "satisfactory pace" of reduction of the debt-to-GDP ratio. Accordingly, the annual reduction is satisfactory if, on average over three years, it is not less than 1/20th of the difference between the observed ratio and the 60 per cent threshold. The countries that were subject to the excessive deficit procedure in 2011 will benefit from a three-year transition period after the necessary correction, during which time they are not required to observe the debt rule but are subject to specific constraints concerning the adjustment of the structural balance. Deviations from the debt rule (including the transition rules) are assessed taking into account all the possible contributory factors.

For Italy, the adequacy of the reduction of the debt-to-GDP ratio will be assessed for the first time in 2016. The backward assessment will cover the previous three years, including and excluding the effects of the economic cycle as well as projections for 2015-17 (forward assessment); it will be sufficient to comply with the debt rule in just one of the three cases.

The three years 2013-15 constitute the transition period during which the structural balance must improve sufficiently for Italy to meet the debt rule in 2016. Immediately after the closure of the excessive deficit procedure, the adjustment was estimated at just over 1 percentage point of GDP for each of the three transition years. According to the estimates published in the Update to the 2014 Economy and Finance Document, given the structural adjustment achieved in 2013 and the expected adjustment in 2014, in order to comply with the debt rule the structural balance must improve by a further 2.2 percentage points of GDP in 2015; in the European Commission's assessment, the required adjustment in 2015 is equal to 2.5 points.

The Government's budget plan for 2015 entails an improvement in the structural balance of 0.3 percentage points according to official estimates and of 0.1 points according to the Commission: the discrepancy is due to differences in the forecasts for the deficit and in the assessment of the impact of the economic cycle. The Government aims to take full advantage of the flexibility built into the budget rules, citing in particular (a) the bad economic times; (b) the risk that, if implemented, the required adjustment would impede recovery or even provoke a further contraction in output; and (c) Italy's commitment to undertake without delay structural reform with positive effects on the growth potential of its economy and the long-term sustainability of the public finances.

At the end of October the European Commission, in its preliminary assessment of the EU countries' draft budgets for 2015, did not find instances of serious deviation from the debt rules.[2] However, on 28 November the Commission indicated that Italy was in danger of breaching the debt rule (and thus of triggering the excessive deficit procedure) and that its position, as well as those of France and Belgium, would be examined in March 2015 in the light of the finalization of their respective budget laws and the progress with the structural reforms that the three governments have undertaken to carry out.[3] At the beginning of December the Eurogroup acknowledged that adverse macroeconomic conditions and low inflation had made it more difficult to comply with the debt rule and much more burdensome to meet its targets in full. However, it also noted that the structural adjustment planned for 2015 is, in the view of the European Commission, less than that required by the preventive arm of the Pact and that effective measures will therefore be necessary to strengthen the structural adjustment.[4]

[2] See the statement of the Vice President of the European Commission of 29 October 2014 (http://europa.eu/rapid/press-release_STATEMENT-14-344_en.htm?locale=en).
[3] See the Communication from the European Commission of 28 November 2014 (http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2014/communication_to_euro_area_member_states_2014_dbp_en.pdf).
[4] See the Statement by the Eurogroup of 8 December 2014 (http://www.eurozone.europa.eu/newsroom/news/2014/12/eurogroup-statement-on-the-draft-budgetary-plans-2015/).

2.10 PROJECTIONS

The outlook for growth ...

For the Italian economy, we project a gradual return to growth this year and more rapid expansion in 2016 (Table 10 and Figure 32). Economic activity is expected to be sustained by an expansive monetary policy stance and by the budget measures of the Stability Law, which reduce the tax wedge. Growth should also benefit from a gradual acceleration of world trade, the depreciation of the euro and the fall in oil prices (see the box "The technical assumptions").

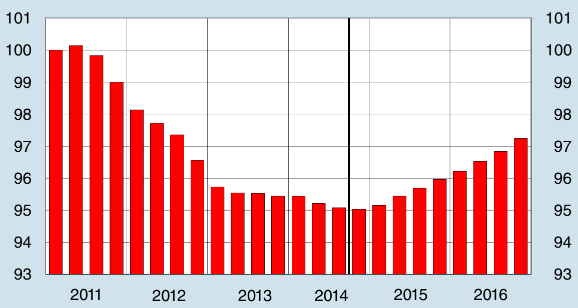
... depends on investment prospects and the international context

However, the recovery would be held back by continuing weakness of investment, and there are elements of fragility in connection with the still modest growth outlook in the euro area and some emerging economies, possible turmoil in the financial and foreign exchange markets, and the persistence of uncertainty and low levels of confidence (see Section 2.1).

Figure 32

GDP projections: quarterly profile (1)

(levels, 2011 Q1=100)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. Through 2014 Q3, actual data; thereafter, projections.

On the basis of the indicators available to date, we estimate that Italy's GDP contracted by 0.4 per cent in 2014, after decreasing by 1.9 per cent in 2013. Economic activity is projected to return to moderate growth in the early part of this year and to strengthen somewhat over the following quarters. Our central scenario puts growth at 0.4 per cent this year and 1.2 per cent next. At the end of the forecasting horizon this would still leave GDP more than 7 per cent lower than in 2007.

The scenario posits expansive monetary conditions

The projections incorporate more expansive monetary and financial conditions than were assumed in last July's forecasts, as a consequence of the measures taken by the ECB and expectations of further interventions (see Section 1.2). In accordance with market expectations, the three-month interest rate remains stable and practically nil for the entire period, while the scenario assumes that yields on ten-year BTPs will rise gradually, reaching 2.6 per cent in 2016. However, the effects of improving financial conditions are likely to be partly offset by the downward revision of expected inflation, which, with short-term nominal rates now near the lower bound, implies upward pressure on real interest rates.

Table 10

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

	2014	2015	2016
GDP (1)	-0.4	0.4	1.2
Household consumption	0.3	0.9	0.9
Government consumption	-0.2	-0.5	-0.6
Gross fixed investment	-2.6	-0.7	2.5
of which: *machinery, equipment and transport equipment*	*-1.7*	*-0.7*	*3.6*
Total exports	1.7	3.7	5.9
Total imports	0.3	3.4	5.7
Change in stocks (2)	-0.5	-0.1	0.0
HICP	0.2	-0.2	0.7
HICP net of food and energy	0.7	0.6	0.8
Employment (3)	0.0	0.5	0.3
Unemployment rate (4)	12.8	12.8	12.8
Export competitiveness (5)	0.1	3.6	0.4
Current account balance (6)	1.8	2.5	2.5

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

THE TECHNICAL ASSUMPTIONS

The main assumptions underlying the macroeconomic scenario are:

a) world trade, which expanded by less than 3 per cent on average in 2014, accelerates to 4 per cent in 2015 and to 5.2 per cent in 2016; in the two years 2015-16 foreign demand, weighted according to the importance of the markets for Italian exports, grows at an average rate of close to 4.3 per cent;[1]

b) the dollar-euro exchange rate, which averaged 1.33 in 2014, falls to 1.20 in the two years 2015-16;[2]

c) a barrel of Brent crude oil, which averaged around $100 in 2014, is assumed to be $58.5 in 2015, rising to $66.3 in 2016;

d) three-month interest rates on the interbank market (Euribor) hold almost constant at 0.1 per cent in the next two years;

[1] Our growth assumptions for world trade and potential foreign demand are in line with those underlying the projections for the euro area agreed by the Eurosystem central banks and presented in the December issue of the ECB's *Monthly Bulletin*, updated to take account of the latest cyclical developments.
[2] The technical assumptions for interest rates, exchange rates and oil prices are calculated on the basis of the spot and forward prices observed in the markets in the ten working days up to 13 January.

e) the yield on ten-year BTPs is 2.3 per cent in 2015 and rises to 2.6 per cent in 2016, in line with market expectations;

f) in keeping with the assumptions underlying the projections for the euro area presented in the December 2014 issue of the ECB's *Monthly Bulletin*, the effects of the longer-term refinancing operations and the asset-backed securities and covered bond purchase programmes are included only to the extent that they have already been incorporated in the current and expected levels of interest and exchange rates;

g) the forecasting scenario incorporates the budget provisions for 2015 as set out in the Stability Law; in particular: measures in favour of lower-middle income households; the reduction of the regional tax on productive activity (IRAP) for the labour costs component and the reduction in social security contributions for private-sector employers that hire new employees on a permanent basis in 2015.

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

	2014	2015	2016
World trade	2.9	4.0	5.2
Potential foreign demand	2.8	3.7	4.8
Dollar/euro (1)	1.33	1.20	1.20
Nominal effective exchange rate (2)	-0.2	1.7	0.0
Crude oil price (3)	99.4	58.5	66.3
Three-month Euribor (1)	0.2	0.1	0.1
1-year BOT (1)	0.5	0.3	0.3
10-year BTP (1)	2.9	2.3	2.6

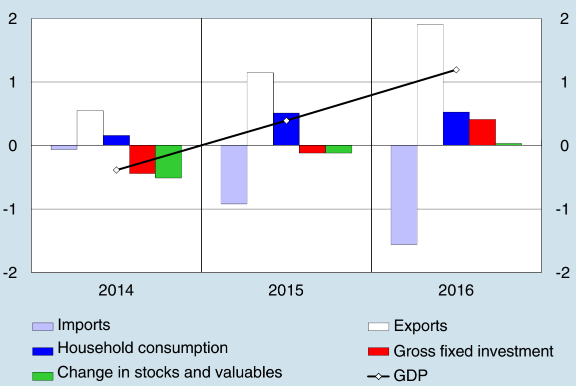
Sources: Based on Bank of Italy and Istat data.
(1) Annual averages. – (2) Calculated by attributing to the currencies of Italy's most important trading partners a weight commensurate with their share in trade with our country. Positive changes indicate a depreciation. – (3) Dollars per barrel, Brent.

World demand and the exchange rate are expected to favour exports

The baseline scenario projects a recovery in exports over the two years (to growth of 3.7 per cent in 2015 and 5.9 per cent in 2016), favoured by moderate growth of the world economy and the depreciation of the euro since mid-2014 (Figure 33). It is estimated that the depreciation – which has mainly been against the dollar – increases the rate of growth of exports by more than 1 percentage point. The growth of foreign sales should essentially parallel that of world trade.

Figure 33

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



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

Investment could begin to show gradual growth ...

The performance of investment remains crucial to the pace of growth. The central scenario – which is surrounded by considerable uncertainty – hypothesizes that the quarterly change in investment will improve as early as the first half of 2015, returning to positive territory. Nevertheless, after the contraction registered in 2014, capital formation will remain marginally negative in 2015 as a whole. It should return to growth in 2016, expanding by 2.5 per cent. The investment recovery, which has been held back so far by tight credit and abundant spare capacity, is expected to be led by spending on machinery and equipment, which should benefit more substantially from the gradual improvement in the outlook for demand, especially export demand, and from more favourable financing terms. Construction investment, still weighed down by the persistently weak housing market, is projected to decline further this year before stabilizing in 2016.

... with an improvement in credit supply conditions

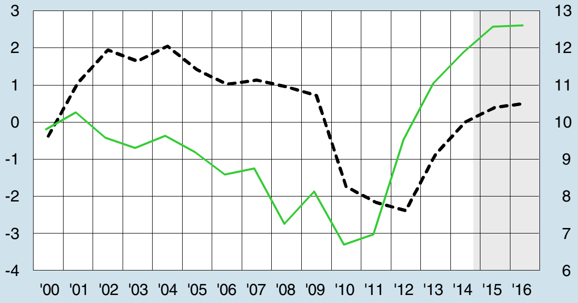
Thanks to the expansive stance of monetary policy, credit market conditions are expected to improve gradually, in line with survey indications (see Section 2.7). The average cost of loans to firms is projected to decline further this year and next. Bank rates for business loans are expected to be 3 percentage points above the corresponding money market rates. This differential is about 1 percentage point narrower than at the height of the crisis, but nevertheless wide by historical standards, suggesting that conditions are not yet entirely relaxed. Credit to firms, in this scenario, begins to grow again at the start of 2016, and lending to households picks up more quickly, especially the less risky home mortgage loan component.

Consumption continues to gain moderately ...

Consumer spending is expected to strengthen gradually as a result of the recovery in disposable income, thanks partly to the Stability Law measures to sustain lower-middle-income households. The household saving rate, which rose from 9.1 per cent in 2013 to 10 per cent last year, is projected to increase further in 2015-16 to 10.5 per cent, still lower than before the financial crisis (Figure 34).

Figure 34

Household saving rate and current account balance
(percentage changes)



Sources: Based on Bank of Italy and Istat data.

We estimate that the measures in favour of lower-middle-income households will increase consumption by about half a percentage point, cumulatively, in 2015 and 2016. In all, the expansive measures contained in the Stability Law (income support for households and the reduction of the corporate tax wedge) should boost GDP by about 0.8 percentage points in 2015-16, while the measures to cover that expenditure are expected to trim it by nearly 0.6 points. The positive effect could be greater if households and firms see the measures as part of an enduring economic policy stance.

... as the labour market slowly strengthens

Employment, measured in terms of full-time equivalent workers, was essentially unchanged in 2014; it is expected to expand by almost 1.0 per cent over the next two years; about a third of the increase should come from the tax relief measures of the Stability Law (in particular the cut in the regional tax on productive activity and social contribution relief in respect of workers hired on open-ended contracts in 2015). Labour productivity in the private sector is projected to improve by an average of just over 0.5 per cent in 2015-16. The unemployment rate is expected to remain substantially unchanged at 12.8 per cent, owing to the simultaneous expansion of the labour force.

The external accounts continue to improve ...

Thanks to the smaller energy deficit due to low crude oil prices, the current account surplus is projected to improve further, reaching 2.5 per cent of GDP in 2015 and holding at that level in 2016 as well.

... and so do the public finances

We estimate that general government net borrowing will diminish marginally this year and more significantly in 2016. In this context, the ratio of public debt to GDP will not begin to come down until 2016. The public finance estimates take account of the Stability Law measures and as such project the maintenance of a basically neutral fiscal policy stance after the very sharp adjustments of 2012-13.

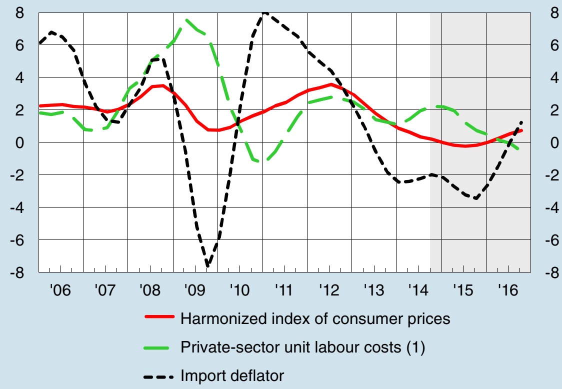
Inflation remains low

The change in the consumer price index, which diminished to 0.2 per cent on average in 2014, is projected to be marginally negative (-0.2 per cent) this year,

Figure 35

Main determinants of consumer price inflation

(quarterly data; percentage changes on year-earlier period; 4-term moving averages)

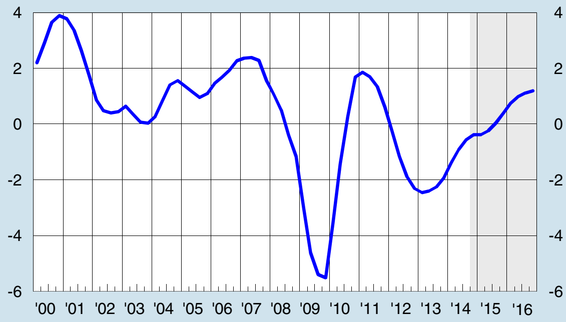


Sources: Based on Bank of Italy and Istat data.
(1) Unit labour costs in the private sector (excluding agriculture and energy), calculated as the ratio of earnings per full-time equivalent worker to output per full-time equivalent worker; output is value added at factor cost.

Figure 36

Gross domestic product (1)

(quarterly data; percentage changes on the year-earlier period; 4-term moving averages)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. Through 2014 Q3, actual data; thereafter, projections.

largely due to the sharp decline in oil prices. Even net of the energy and food components the increase in prices is still likely to be quite small, equal to 0.6 per cent in 2015 and still below 1 per cent in 2016 (Figure 35). The domestic components of inflation are expected to remain weak, reflecting abundant idle capacity. The GDP deflator is projected to rise by 0.6 per cent in 2015 and 1.0 per cent in 2016. Profit margins look set to return to moderate growth in 2016 as economic activity picks up.

The forecasts have been revised downward since July

Like those of the other leading organizations, our projections for GDP and inflation have been revised significantly downward compared with those published last July. Growth in 2015 has been lowered by 0.9 percentage points (Figure 36), owing mainly to the failure of investment to revive up to now and the slower-than-expected growth of export demand (see the box "The causes of the decline in economic activity in Italy in the first six months," *Economic Bulletin*, No. 4, 2014). These factors have outweighed the expansive effects of the exceptionally low euro price of oil (down by more than 60 per cent since mid-2014, with an estimated impact of 0.5 percentage points on GDP) and the depreciation of the currency of about 13 per cent against the dollar and almost 1.5 per cent in effective terms, corresponding to a 0.1-point rise in GDP. The estimate of inflation, revised downward by 1 percentage point for 2015, reflects the trend in the prices of imported commodities and, to a lesser extent, more moderate increases in domestic prices in connection with slack demand.

The other projections

These growth projections are in line with the latest forecasts of the other main international organizations (Table 11) except the OECD, which sees Italian GDP stagnating in 2015. The inflation projections of the European Commission and the IMF are higher.

Table 11

Other organizations' forecasts for Italy

(percentage changes on previous period)

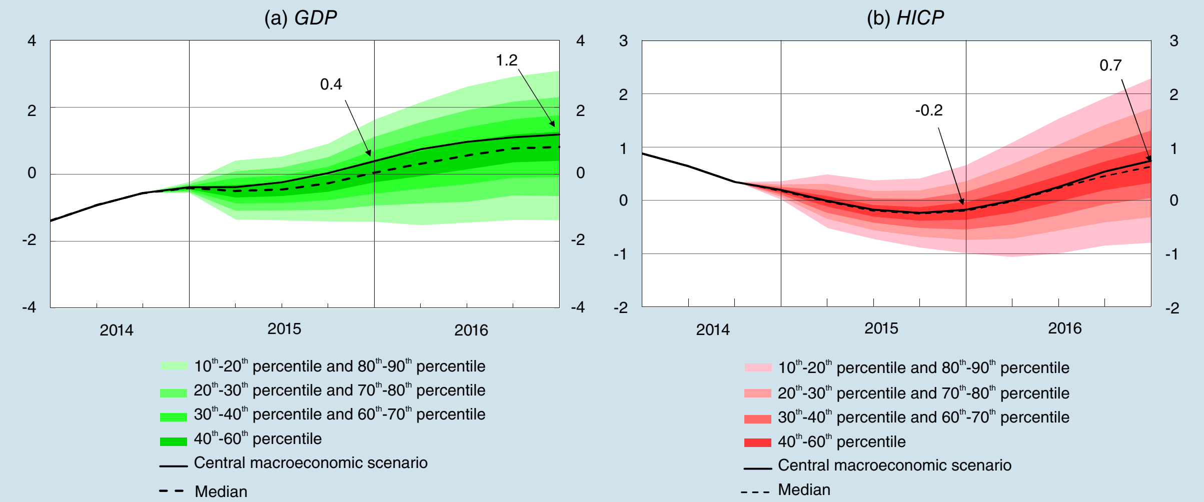
	GDP (1)		Inflation (2)	
	2015	2016	2015	2016
IMF (October)	0.8	1.3	0.5	1.1
OECD (November)	0.2	1.0	0.0	0.6
European Commission (November)	0.6	1.1	0.5	2.0
Consensus Economics (December)	0.4	…	0.4	…

Sources: IMF, *World Economic Outlook*, October 2014; OECD, *Economic Outlook*, No. 96, November 2014; European Commission, *European Economic Forecast – Autumn 2014*, November 2014; Consensus Economics, *Consensus Forecasts*, December 2014.
(1) The growth rate forecasts of the OECD are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

Figure 37

Distribution of probabilities of GDP and HICP projections (1)

(percentage changes on year-earlier period; 4-term moving averages)



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

Considerable uncertainty remains

This forecasting scenario is subject to a high degree of uncertainty (Figure 37). The expansion of economic activity could be held down by a rekindling of international financial market tensions, in connection with the evolving political situation in Greece and the crisis in Russia, and a weakening of the emerging economies. The risks for the inflation projection stem from a possible further lowering of expectations. The outlook is also sensitive to deviations of fiscal policy from the course posited (see the box "The sensitivity of the macroeconomic outlook to variations in the profile of fiscal consolidation").

A more favourable outlook could derive from an expansion of the Eurosystem's balance sheet ...

Aggressive monetary support measures could counteract low inflation and the weakness of economic activity in the euro area and Italy. We estimate that an expansion of the Eurosystem's balance sheet resulting in a 50 basis point decrease in the interest rate on long-term government securities and a 5 per cent depreciation of the euro against the other main currencies could raise the level of GDP by a total of more than 0.5 percentage points in the two years 2015-16 both in Italy and in the euro area. In addition to these two direct effects, there would very likely be other, indirect channels, no less important but hard to quantify, such as the effect on the confidence and inflation expectations of households and firms.

... a stronger expansion of foreign demand or an improvement in confidence

The economic recovery could prove to be stronger than projected here if the price of oil holds at the values registered in the last few days and the elasticity of foreign demand to world GDP increases. This elasticity depends on the product composition of trade and the phase of the business cycle; it is now below its long-term average. We estimate that in this case the impact on GDP could amount to an additional 0.5 percentage points in 2015-16. A more limited effect (0.2 points) would be produced if lessened uncertainty about the outlook for demand were to allow a faster recovery in business and household confidence, bringing it back into line with its historical average and leading to a stronger recovery in investment and consumption.

THE SENSITIVITY OF THE MACROECONOMIC OUTLOOK TO VARIATIONS IN THE PROFILE OF FISCAL CONSOLIDATION

Consolidating the public finances and in particular reducing the high ratio of public debt to GDP remain crucial objectives for Italy (see the box, "European budget rules and the objectives for Italy's public finances"). With the 2014 Economic and Financial Document Update and the Stability Law for 2015, the Government confirmed its commitment to keeping the budget deficit at or below 3 per cent of GDP and proceeding to reduce the debt-to-GDP ratio; in view of the exceptional duration and depth of the recession, and in order to avoid a recessional spiral of demand, it charted a more gradual adjustment path than that previously foreseen (see *Economic Bulletin*, No. 4, 2014).

Macroeconomic projections with and without additional corrective measures
(percentage changes on the previous year, unless otherwise indicated)

	Baseline scenario		Budget adjustment of 0.5%			
			Low multiplier		High multiplier	
	2015	2016	2015	2016	2015	2016
GDP	0.4	1.2	0.2	1.1	-0.2	1.1
Employment	0.5	0.3	0.5	0.2	0.4	0.0
Consumption deflator	-0.2	0.7	-0.2	0.6	-0.2	0.5
GDP deflator	0.6	1.0	0.6	0.9	0.5	0.8
General government net borrowing (1)	2.7	2.2	2.3	1.8	2.4	2.1
General government debt (1)	133.8	132.7	133.7	132.4	134.4	133.5

(1) As a percentage of GDP; the profile of general government debt and net borrowing in the baseline scenario coincides with that incorporated in the forecasts of the European Commission (*European Economic Forecast – Autumn 2014*).

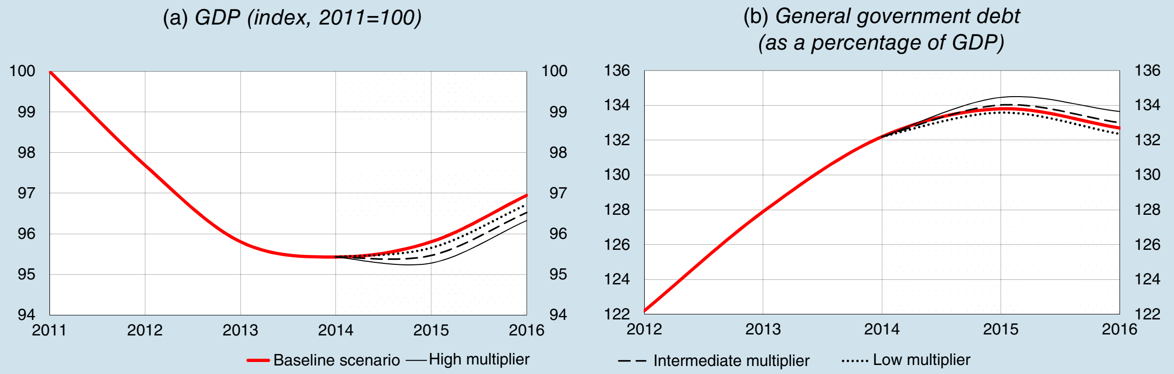
The implications for the macroeconomic outlook of a different budget adjustment from that planned by the Government can be estimated through counterfactual simulations; by way of an example, we consider here a sharper correction of the structural balance in 2015, equal to 0.5 per cent of GDP, based on a forecasting scenario that incorporates the measures included in the Stability Law for 2015 (the conclusions hold commensurately for budget corrections of different amounts).[1]

The impact of the budget measures on GDP (the so-called fiscal multiplier) is not a constant; it can vary significantly as a function primarily of the budget's composition but also depending on the cyclical phase. During recessions, budget measures can have indirect effects on the confidence and liquidity of households and firms, factors which in the past years have intensified the recession;[2] in addition, the impact of a slowdown in economic activity on prices and the GDP deflator can be particularly strong.[3]

Given this uncertainty, we ran simulations with different packages of budget adjustment measures, corresponding to values of the fiscal multiplier ranging from a relatively low minimum (0.3 in the first

[1] The baseline macroeconomic scenario is the one presented in this Bulletin; the profile of general government debt and net borrowing coincides with that incorporated in the European Commission's forecasts, published in *European Economic Forecast. Autumn 2014*.
[2] See F. Busetti and P. Cova, "L'impatto macroeconomico della crisi del debito sovrano: un'analisi per l'economia italiana" [The macroeconomic impact of the sovereign debt crisis: a counterfactual analysis for the Italian economy], Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), No. 201, 2013.
[3] See M. Riggi and F. Venditti, "Surprise! Euro area inflation has fallen", Banca d'Italia, Questioni di Economia e Finanza (Occasional Papers), No. 237, 2014.

Level of GDP and public debt



year and 0.5 in the second)[4] to a maximum of 1.1 in the first year and 1.3 in the second.[5] Considering the state of the business cycle, the actual value of the multipliers is probably relatively high at this time; the lower value of the range would be considered plausible if, for example, the budget package were composed of tax increases concentrated on taxpayers not subject to liquidity constraints.

The results for the two extreme cases are shown in the table and the figure. Given an acceleration of budget adjustment of the magnitude hypothesized, in 2015 the Italian economy would still be in recession or practically stalled at best: GDP would contract by 0.2 percentage points with a high multiplier and be little better than stagnant with a low one. There would be a further fall in inflation, already well below the level consistent with the definition of price stability: the cumulative increase in the GDP deflator would be lower by about 0.3 percentage points in the two years 2015-16 with a high multiplier and by about 0.1 points with a low one.

By aggravating the cyclical weakness, the adjustment measures might not allow the debt-to-GDP ratio to be reduced in the two years 2015-16. In the case of a high multiplier, the ratio would rise to 134.4 per cent in 2015 (instead of 133.8 per cent) and would stay well above the baseline scenario level the following year; in the more favourable case, it would come down slightly. On the whole, factoring in the effects on the change in the deflators, the simulations indicate that, with a multiplier even just a bit higher than 0.5, fiscal adjustment measures would not be able to bring down the debt ratio.[6]

A fuller picture can be obtained with a series of stochastic simulations based on the analysis of the risks presented in this section of the Bulletin. The results suggest that the probability of the Italian economy still being in recession in 2015 would be about 50 per cent in the case of corrective measures with a relatively low multiplier and nearly 60 per cent with a less favourable multiplier. The probability of the budget package having a counterproductive effect on the debt ratio in the two years is estimated at 50 per cent in the more favourable scenario and at 65 per cent in the less favourable one.

[4] In normal cyclical conditions, these values correspond to an adjustment carried out mainly through an increase in taxation or a reduction in transfers.
[5] In normal cyclical conditions, these values are obtained in the case of adjustments mainly involving cuts to direct expenditures (purchases of goods and services and investment).
[6] It should be noted that when the time horizon of the analysis is extended to 5-10 years, a budget adjustment should reduce the debt-to-GDP ratio whenever the multiplier is lower than 1.5.

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	1.9	1.3	0.1	..	1.5	0.2	2.9	3.0	11.9	12.7	-0.5	1.5
2011	1.6	2.3	1.6	-3.0	-0.7	6.3	0.9	1.6	1.6	6.9	5.5	..	-0.1
2012	2.3	1.8	1.3	-1.4	-0.3	8.3	1.2	2.2	2.3	3.3	2.3	..	0.2
2013	2.2	2.4	1.6	-2.0	-0.4	4.7	0.7	1.9	2.0	3.0	1.1	0.2	0.1
2012 – Q1	2.3	2.8	1.9	-2.7	-0.6	9.1	1.2	2.3	2.4	1.3	1.7	-0.1	-0.2
Q2	1.6	1.3	0.9	-0.4	-0.1	4.4	0.6	1.6	1.6	4.8	4.0	..	0.3
Q3	2.5	1.9	1.3	2.7	0.5	3.1	0.5	2.0	2.1	2.1	-0.6	0.4	-0.2
Q4	0.1	1.9	1.3	-6.0	-1.2	6.6	1.0	-0.7	-0.7	1.5	-3.5	0.8	-1.8
2013 – Q1	2.7	3.6	2.5	-3.9	-0.8	2.7	0.4	2.7	2.8	-0.8	-0.3	-0.1	0.7
Q2	1.8	1.8	1.2	0.2	..	4.9	0.7	2.2	2.3	6.3	8.5	-0.5	0.3
Q3	4.5	2.0	1.4	0.2	..	6.6	1.0	3.8	3.9	5.1	0.6	0.6	1.5
Q4	3.5	3.7	2.5	-3.8	-0.7	6.3	1.0	2.3	2.4	10.0	1.3	1.1	-0.3
2014 – Q1	-2.1	1.2	0.8	-0.8	-0.2	0.2	..	-0.4	-0.4	-9.2	2.2	-1.7	-1.2
Q2	4.6	2.5	1.8	1.7	0.3	9.5	1.5	4.8	4.9	11.1	11.3	-0.3	1.4
Q3	5.0	3.2	2.2	4.4	0.8	7.7	1.2	4.1	4.2	4.5	-0.9	0.8	..

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	1.8	2.3	1.4	1.7	0.3	3.4	0.7	2.6	2.6	-0.2	5.3	-0.9	0.2
2013	1.6	2.1	1.3	1.9	0.4	3.2	0.7	1.9	1.9	1.5	3.1	-0.3	-0.4
2011 – Q1	-7.1	-6.7	-4.0	-0.6	-0.1	-1.1	-0.2	-6.1	-6.2	-3.0	5.2	-1.2	-1.7
Q2	-2.4	4.5	2.6	1.9	0.4	1.3	0.3	2.1	2.0	-26.7	-1.3	-4.5	-1.2
Q3	11.0	6.4	3.9	0.5	0.1	6.7	1.3	7.0	6.8	44.9	13.7	3.9	1.7
Q4	0.5	1.8	1.1	1.1	0.2	16.1	3.1	3.5	3.4	-11.9	6.9	-3.0	-1.0
2012 – Q1	4.6	2.3	1.4	4.8	1.0	-1.8	-0.4	4.2	4.2	11.8	8.3	0.4	2.2
Q2	-1.7	2.8	1.6	-1.6	-0.3	3.1	0.6	-0.2	-0.2	-2.0	7.2	-1.5	-2.1
Q3	-2.0	-1.4	-0.9	1.8	0.4	-4.5	-1.0	-0.1	-0.1	-15.0	-2.9	-1.9	1.3
Q4	-0.9	0.4	0.3	2.7	0.5	-1.2	-0.3	-0.4	-0.4	-12.1	-7.9	-0.5	-1.0
2013 – Q1	6.0	5.1	3.1	3.3	0.7	2.1	0.4	4.1	4.1	17.9	4.1	1.7	..
Q2	3.0	3.2	1.9	2.6	0.5	10.7	2.1	2.7	2.8	12.4	9.5	0.2	-1.8
Q3	1.6	1.1	0.7	-0.4	-0.1	8.5	1.7	3.1	3.1	-2.4	7.1	-1.5	0.7
Q4	-1.5	-0.3	-0.2	0.4	0.1	5.3	1.1	0.8	0.9	0.8	15.5	-2.3	-0.1
2014 – Q1	5.8	8.9	5.3	-1.3	-0.3	15.3	3.2	6.4	6.5	28.0	27.2	-0.8	-1.8
Q2	-6.7	-18.8	-12.4	1.2	0.2	-16.2	-3.9	-10.2	-11.0	-1.8	-19.9	4.2	5.1
Q3	-1.9	1.5	0.9	1.1	0.2	-3.5	-0.8	-2.1	-2.2	5.2	3.0	0.3	-2.5

Source: 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					
2009	-4.5	-11.4	-6.4	-9.9	-12.5	-11.1	-1.0	2.4	-12.7
2010	2.0	9.7	4.0	-3.5	3.4	-0.4	0.8	0.8	11.0
2011	1.6	4.3	2.4	0.1	3.3	1.6	0.2	-0.2	6.6
2012	-0.7	-1.0	-0.8	-3.9	-2.8	-3.4	-1.3	-0.2	2.4
2013	-0.5	1.2	..	-3.5	-1.3	-2.4	-0.7	0.2	2.0
2012 – Q3	-0.1	..	-0.1	-1.0	-0.9	-1.0	-0.2	-0.2	0.9
Q4	-0.4	-0.7	-0.5	-0.9	0.2	-0.4	-0.5	0.1	-0.9
2013 – Q1	-0.4	0.1	-0.3	-2.6	-2.0	-2.3	-0.2	..	0.3
Q2	0.3	1.3	0.6	0.2	1.2	0.7	0.1	0.2	1.7
Q3	0.2	1.6	0.6	0.8	0.4	0.6	0.1	0.1	0.7
Q4	0.2	0.2	0.2	0.1	1.3	0.7	0.1	0.3	0.8
2014 – Q1	0.3	0.4	0.3	0.5	0.1	0.3	0.2	0.1	0.4
Q2	0.1	1.3	0.4	-1.7	0.5	-0.7	0.3	0.3	1.4
Q3	0.2	1.4	0.5	-0.6	..	-0.3	0.5	0.3	1.3
				Implicit prices					
2009	1.0	-6.4	....	....	....	-0.3	-0.7	2.0	-3.2
2010	0.7	5.1	....	....	....	0.9	1.6	0.6	3.1
2011	1.1	5.9	....	....	....	1.5	2.3	0.8	3.6
2012	1.3	2.5	....	....	....	1.4	1.9	0.8	1.9
2013	1.3	-1.3	....	....	....	0.4	1.1	1.3	-0.3
2012 – Q3	0.4	0.3	....	....	....	0.3	0.2	0.2	0.6
Q4	0.5	-0.3	....	....	....	0.2	0.5	-0.5	0.1
2013 – Q1	0.3	-0.5	....	....	....	..	0.2	1.3	-0.4
Q2	0.4	-0.9	....	....	....	-0.1	0.1	0.2	-0.3
Q3	0.1	-0.2	....	....	....	0.2	0.3	0.3	-0.2
Q4	0.2	-0.4	....	....	....	..	0.1	-0.3	-0.1
2014 – Q1	0.3	-0.5	....	....	....	0.1	0.2	0.5	-0.3
Q2	0.2	-0.2	....	....	....	..	0.2	..	-0.2
Q3	0.1	..	....	....	....	0.3	0.1	0.6	..

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

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2009	-5.5	-12.9	-7.1	-9.6	-10.3	-9.9	-1.6	0.4	-18.1
2010	1.7	12.4	3.7	-3.6	3.1	-0.5	1.2	0.6	11.8
2011	0.6	0.5	0.6	-3.7	..	-1.9	..	-1.8	5.2
2012	-2.3	-8.0	-3.5	-6.6	-8.3	-7.4	-4.0	-1.5	2.0
2013	-1.9	-2.7	-2.1	-6.8	-3.8	-5.4	-2.8	-0.7	0.6
2012 – Q3	-0.4	-0.4	-0.4	-2.2	-1.9	-2.1	-0.9	0.2	1.4
Q4	-0.8	-2.8	-1.2	-0.7	-1.5	-1.1	-0.8	-1.2	-1.5
2013 – Q1	-0.9	-0.1	-0.7	-4.4	-1.5	-3.1	-1.2	0.4	0.2
Q2	-0.2	-0.9	-0.3	-0.3	0.2	-0.1	-0.6	0.2	0.3
Q3	..	2.2	0.5	0.1	-0.3	-0.1	0.1	-0.9	1.3
Q4	-0.1	-0.6	-0.2	-1.1	0.7	-0.2	0.1	0.7	-0.4
2014 – Q1	..	-0.7	-0.2	-1.1	-1.1	-1.1	0.1	-0.3	0.2
Q2	-0.2	0.9	..	-1.1	-0.5	-0.8	0.2	0.1	1.3
Q3	-0.1	-0.3	-0.2	-0.9	-1.1	-1.0	0.1	-0.3	0.2
				Implicit prices					
2009	2.0	-7.8	..	1.7	-0.5	0.7	-0.4	1.9	-2.0
2010	0.3	6.6	1.6	2.5	2.2	2.4	1.4	0.4	2.3
2011	1.5	6.8	2.6	4.2	0.8	2.6	2.9	-0.2	4.0
2012	1.6	3.4	2.0	2.4	1.2	1.8	2.8	-0.1	2.0
2013	1.4	-1.8	0.7	0.8	0.2	0.5	1.2	0.4	-0.1
2012 – Q3	0.1	0.7	0.2	0.1	1.9	0.9	0.2	..	0.5
Q4	0.4	-0.4	0.2	0.6	..	0.3	0.5	-0.5	-0.2
2013 – Q1	0.3	-0.5	0.2	0.1	-0.7	-0.2	0.3	0.8	-0.1
Q2	0.5	-1.5	0.1	..	..	..	0.2	-0.5	-0.3
Q3	0.3	..	0.2	0.2	-0.1	0.1	0.2	0.4	0.1
Q4	0.1	-0.7	..	0.1	-1.1	-0.5	-0.1	0.1	-0.2
2014 – Q1	..	-0.5	-0.1	-0.4	1.4	0.5	0.2	..	-0.2
Q2	-0.1	-0.2	-0.1	-0.2	0.2	..	..	-1.3	-0.2
Q3	-0.1	0.2	..	0.3	1.1	0.7	-0.1	1.2	0.3

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	1.8	9.2	8.1	-1.0	-6.8
2011	1.9	2.2	3.0	0.8	-0.3
2012	3.7	1.6	-0.6	-2.1	2.1
2013	2.5	0.5	-0.7	-1.3	2.0
2012 – Q1	2.5	0.6	-0.1	-0.7	1.9
Q2	4.4	2.2	-0.2	-2.3	2.1
Q3	4.2	2.3	-0.4	-2.6	1.8
Q4	4.0	1.8	-1.0	-2.7	2.2
2013 – Q1	4.6	1.5	-1.6	-3.1	3.0
Q2	1.6	-0.1	-0.8	-0.7	1.7
Q3	2.2	-0.4	-1.0	-0.6	2.6
Q4	1.6	1.3	1.1	-0.2	0.3
2014 – Q1	0.8	0.0	1.0	1.0	0.8
Q2	1.8	0.3	0.6	0.3	1.5
Q3	1.4	0.0	0.7	0.6	1.4
		Services			
2010	1.6	0.8	1.2	0.3	0.8
2011	1.6	1.0	1.8	0.7	0.5
2012	2.4	0.8	-0.2	-0.9	1.6
2013	2.0	0.6	-0.2	-0.8	1.4
2012 – Q1	2.7	0.8	0.2	-0.6	1.9
Q2	2.6	1.0	-0.1	-1.1	1.6
Q3	2.6	0.6	-0.3	-0.8	2.0
Q4	2.1	0.9	-0.3	-1.2	1.1
2013 – Q1	2.4	0.9	-0.6	-1.5	1.5
Q2	1.9	0.5	-0.3	-0.8	1.4
Q3	1.9	0.7	0.0	-0.7	1.2
Q4	2.1	0.5	0.3	-0.2	1.6
2014 – Q1	1.3	0.3	1.0	0.7	1.0
Q2	1.3	0.4	0.9	0.5	0.9
Q3	1.2	0.2	0.9	0.7	1.1
		Total economy			
2010	1.7	2.5	2.1	-0.4	-0.7
2011	1.8	1.4	1.7	0.3	0.3
2012	2.9	1.1	-0.5	-1.6	1.8
2013	2.2	0.8	-0.4	-1.2	1.4
2012 – Q1	2.9	1.0	-0.1	-1.1	1.9
Q2	3.1	1.3	-0.4	-1.7	1.8
Q3	3.1	1.1	-0.5	-1.7	2.0
Q4	2.7	1.2	-0.8	-2.0	1.4
2013 – Q1	3.0	1.3	-1.0	-2.3	1.7
Q2	1.9	0.6	-0.6	-1.2	1.3
Q3	2.0	0.6	-0.3	-0.9	1.4
Q4	2.0	0.8	0.4	-0.4	1.2
2014 – Q1	1.2	0.4	1.1	0.6	0.7
Q2	1.5	0.6	0.8	0.2	0.9
Q3	1.3	0.3	0.8	0.5	1.0

Source: Based on Eurostat data, ESA 2010 accounts.
(1) Based on hours effectively worked. Annual figures are unadjusted, quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2010.

Table A6

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity	of which: Value added (2)	of which: Hours worked	Unit labour costs
			Total industry excluding construction		
2010	3.1	9.0	6.6	-2.2	-5.4
2011	2.6	1.1	1.1	0.0	1.4
2012	2.8	-0.2	-3.0	-2.8	3.0
2013	1.7	-2.0	-3.0	-1.0	3.8
2012 – Q1	2.4	-0.4	-2.8	-2.4	2.8
Q2	2.1	-0.8	-3.6	-2.8	3.0
Q3	3.6	1.0	-2.4	-3.4	2.7
Q4	3.3	-0.1	-3.8	-3.7	3.4
2013 – Q1	2.5	-1.9	-3.7	-1.8	4.5
Q2	2.3	-1.1	-3.6	-2.5	3.4
Q3	1.2	-3.4	-3.8	-0.4	4.8
Q4	1.3	-1.9	-1.1	0.8	3.3
2014 – Q1	1.3	-2.6	-0.2	2.4	4.0
Q2	1.4	-3.2	-0.5	2.8	4.8
Q3	1.6	-3.0	-1.1	2.0	4.7
			Services		
2010	2.0	0.9	1.0	0.2	1.1
2011	0.3	0.2	0.9	0.7	0.1
2012	0.5	-1.2	-1.4	-0.2	1.8
2013	1.0	0.1	-1.2	-1.4	0.8
2012 – Q1	0.8	-0.7	-1.0	-0.3	1.6
Q2	0.4	-1.5	-1.5	0.0	1.8
Q3	0.6	-2.3	-1.9	0.4	3.0
Q4	0.3	-0.5	-1.4	-0.9	0.8
2013 – Q1	0.9	-0.7	-1.5	-0.8	1.6
Q2	0.3	0.1	-1.4	-1.4	0.3
Q3	0.8	1.1	-1.0	-2.1	-0.3
Q4	1.6	0.2	-1.0	-1.2	1.4
2014 – Q1	0.6	0.1	-0.3	-0.3	0.5
Q2	0.2	-0.3	-0.2	0.0	0.5
Q3	0.1	-0.5	-0.1	0.4	0.6
			Total economy		
2010	2.3	2.3	1.8	-0.6	0.0
2011	1.0	0.5	0.6	0.1	0.5
2012	1.3	-0.5	-1.9	-1.5	1.8
2013	1.4	0.2	-1.8	-2.0	1.2
2012 – Q1	1.3	-0.2	-1.6	-1.4	1.4
Q2	1.0	-0.9	-2.0	-1.2	2.0
Q3	1.7	-0.8	-2.2	-1.4	2.5
Q4	1.4	0.1	-2.1	-2.3	1.3
2013 – Q1	1.6	-0.1	-2.1	-2.0	1.8
Q2	1.1	0.6	-2.1	-2.7	0.5
Q3	1.1	0.4	-1.6	-2.0	0.7
Q4	1.7	-0.1	-1.2	-1.1	1.7
2014 – Q1	1.0	-0.2	-0.3	-0.2	1.2
Q2	0.8	-0.7	-0.4	0.3	1.4
Q3	0.7	-0.9	-0.5	0.4	1.5

Source: Based on Istat data, ESA 2010 accounts.
(1) Based on hours effectively worked; annual figures are unadjusted, quarterly data are adjusted for seasonal and calendar effects. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2010.

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
2014	0.6	1.0	....	....	0.2	0.7	....	....	(0.4)	(0.8)
2012 – 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
Apr.	0.8	1.2	1.1	1.4	0.5	1.1	0.3	0.1	0.7	1.0
May	0.8	1.1	0.6	0.7	0.4	0.8	0.2	-0.1	0.5	0.7
June	0.6	0.9	1.0	1.1	0.2	0.7	0.0	-0.1	0.5	0.8
July	0.6	0.9	0.8	1.2	0.0	0.5	-0.4	-0.1	0.4	0.8
Aug.	0.5	1.2	0.8	1.2	-0.2	0.4	-0.5	0.0	0.4	0.9
Sept.	0.4	0.9	0.8	1.2	-0.1	0.5	-0.3	-0.2	0.3	0.8
Oct.	0.5	0.8	0.7	1.1	0.2	0.6	-0.2	-0.2	0.4	0.7
Nov.	0.4	0.7	0.5	0.9	0.3	0.6	-0.5	-0.2	0.3	0.7
Dec.	0.1	0.7	(0.1)	....	-0.1	0.7	(-1.1)	....	(-0.2)	(0.8)

Source: Based on Eurostat data.
(1) Weighted average of the indices of the countries belonging to the euro area at the date indicated.

Balance of payments (current account and capital account): Italy (1)

(millions of euros)

	Current account					Capital account		
	Total	Goods	Services	Primary Income	Secondary Income	Total	Intangible assets	Capital transfers
2010	-55,711	-21,730	-9,153	-4,826	-20,002	46	-75	121
2011	-50,385	-18,583	-6,156	-6,392	-19,253	1,032	-49	1,081
2012	-8,224	15,587	-157	-4,143	-19,510	3,912	1,788	2,124
2013	16,573	36,816	2,212	-3,492	-18,963	-82	-3,385	3,302
2012 – Q4	4,618	7,824	-652	1,033	-3,587	4,307	2,237	2,070
2013 – Q1	-5,293	4,300	-2,086	464	-7,971	-2,409	-2,412	3
Q2	5,279	11,250	1,807	-4,351	-3,428	127	-190	317
Q3	6,421	9,688	2,765	-1,103	-4,929	12	-160	171
Q4	10,167	11,578	-274	1,498	-2,636	2,188	-623	2,811
2014 – Q1	-884	8,499	-1,929	582	-8,036	-593	-520	-72
Q2	6,157	12,773	1,623	-4,664	-3,574	271	-167	438
Q3	10,446	13,245	2,155	-1,485	-3,470	425	45	380
2012 – Nov.	1,241	2,424	-559	385	-1,009	1,480	743	737
Dec.	1,757	2,636	-182	1,072	-1,769	1,216	730	486
2013 – Jan.	-3,902	-1,163	-733	176	-2,182	-561	-572	12
Feb.	-1,084	1,715	-559	319	-2,559	-595	-602	8
Mar.	-307	3,748	-795	-31	-3,229	-1,253	-1,237	-16
Apr.	1,222	2,781	228	-663	-1,124	-41	-78	37
May	1,138	4,408	573	-3,026	-816	-38	-74	36
June	2,919	4,061	1,006	-661	-1,488	206	-38	244
July	6,281	6,328	1,416	333	-1,796	52	-31	83
Aug.	423	1,952	269	-171	-1,628	27	-47	74
Sept.	-283	1,408	1,080	-1,266	-1,506	-68	-82	14
Oct.	4,129	4,351	208	258	-688	960	-138	1,098
Nov.	2,990	3,321	-387	804	-748	844	-129	974
Dec.	3,048	3,906	-95	436	-1,199	383	-356	739
2014 – Jan.	-1,471	928	-504	146	-2,040	-119	-109	-10
Feb.	267	3,162	-637	361	-2,619	-135	-116	-19
Mar.	320	4,409	-788	75	-3,376	-338	-295	-43
Apr.	2,869	4,381	155	-430	-1,237	-17	-80	63
May	953	4,452	529	-3,176	-852	-8	-72	64
June	2,335	3,940	939	-1,058	-1,485	296	-16	312
July	7,533	7,599	1,296	-54	-1,308	196	38	157
Aug.	1,528	2,839	113	-245	-1,179	158	12	146
Sept.	1,385	2,807	747	-1,186	-984	72	-5	77
Oct.	(5,461)	(5,548)	(197)	(645)	(-928)	(934)	(-9)	(944)
Nov.	(3,482)	(4,497)	(-432)	(377)	(-960)	(851)	(17)	(834)

(1) Based on the new international standards in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)*.

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				
2012 – 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	-3.1	-2.6	-0.6	-3.7	-3.9
Dec.	-2.5	-4.9	-5.4	-5.7	-4.1	-3.1	-0.7	-3.6	-3.8
2014 – Mar.	0.3	-5.5	-4.4	-4.8	-3.0	-2.5	-0.5	-3.2	-3.0
June	2.4	-3.2	-3.1	-3.3	-2.3	-1.9	-0.4	-2.2	-1.7
Sept.	2.2	-3.7	-3.2	-3.3	-2.8	-1.9	-0.2	-1.3	-1.7
Oct.	2.0	-3.1	-3.0	-3.0	-2.7	-1.9	-0.1	-1.7	-1.5
Nov.	4.1	-1.2	-2.5	-2.5	-2.5	-1.7	0.0	-1.8	-0.8
					South and Islands				
2012 – 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	0.3	-3.2	-3.2	-3.2	-3.0	-1.5	-1.4	-2.4
Dec.	-5.4	-3.0	-3.0	-2.9	-3.3	-2.8	-1.5	-3.0	-2.6
2014 – Mar.	-5.0	-1.4	-2.6	-2.6	-2.6	-2.4	-1.3	-5.0	-2.3
June	-5.1	-4.2	-2.2	-2.2	-2.2	-2.1	-1.0	-4.0	-2.0
Sept.	-4.3	36.1	-2.0	-1.8	-2.4	-2.0	-0.7	-3.5	-1.3
Oct.	-6.3	37.5	-2.1	-1.8	-2.7	-2.3	-0.6	-2.4	-1.4
Nov.	-5.7	36.6	-1.7	-1.5	-2.2	-1.6	-0.5	-1.1	-1.2
					ITALY				
2012 – 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	-3.1	-2.7	-0.8	-3.5	-3.7
Dec.	-2.8	-4.9	-5.1	-5.3	-3.9	-3.0	-0.9	-3.5	-3.6
2014 – Mar.	-0.2	-5.5	-4.2	-4.5	-2.9	-2.5	-0.7	-3.4	-2.9
June	1.6	-3.2	-3.0	-3.2	-2.2	-1.9	-0.5	-2.4	-1.7
Sept.	1.6	-2.9	-3.0	-3.1	-2.7	-1.9	-0.3	-1.5	-1.7
Oct.	1.2	-2.3	-2.8	-2.9	-2.7	-2.0	-0.2	-1.8	-1.5
Nov.	3.1	-0.5	-2.4	-2.4	-2.5	-1.7	-0.2	-1.7	-0.9

Source: Supervisory Report.
(1) Statistics for November 2014 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)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	Transactions in debt instruments	Change in Treasury's liquid balances (2)	*of which:* investments of liquidity	Borrowing requirement	*of which:* in connection with financial support to EMU countries (3)
2011	-3.6	-3.1	1.3	43.0	0.2	4.1	44.9	19.0	0.0	63.9	9.2
2012	7.0	-1.3	20.4	25.0	0.9	23.7	76.9	-10.1	0.0	66.8	29.5
2013	-1.8	-2.2	-11.0	91.4	-3.0	4.8	80.4	-3.2	-10.0	77.1	13.0
2011 – Mar.	-2.0	-1.6	12.4	10.5	1.3	0.3	22.5	8.3	0.0	30.8	4.7
June	1.1	-0.9	-5.6	32.8	1.1	2.1	31.6	-15.5	0.0	16.1	1.4
Sept.	-3.7	-0.4	9.1	-23.1	-1.6	-0.3	-19.5	34.0	-0.8	14.5	1.0
Dec.	0.9	-0.3	-14.5	22.8	-0.7	2.0	10.4	-7.9	0.8	2.6	2.1
2012 – Mar.	8.0	-1.2	31.4	0.4	-0.2	7.4	47.0	-10.2	-5.6	36.8	8.0
June	-3.9	0.5	-1.5	17.8	1.9	8.5	22.8	-11.7	-2.4	11.2	8.6
Sept.	4.8	-1.2	5.1	4.2	-0.3	0.2	14.0	0.2	-22.7	14.2	0.5
Dec.	-1.9	0.7	-14.6	2.6	-0.6	7.6	-6.9	11.5	30.7	4.6	12.5
2013 – Mar.	0.3	-1.4	5.0	42.5	-0.6	0.4	47.5	-11.5	-10.7	36.1	1.1
June	-5.1	-0.7	6.5	32.9	0.6	4.2	39.1	-30.4	-8.6	8.7	7.1
Sept.	0.2	0.2	0.6	-4.4	-2.0	-1.2	-6.9	35.5	7.3	28.6	0.7
Dec.	2.8	-0.3	-23.1	20.4	-1.0	1.5	0.6	3.1	2.1	3.7	4.1
2014 – Mar.	6.2	-0.5	3.5	46.1	-0.5	-1.3	54.0	-24.3	-6.5	29.8	0.0
June	2.4	-0.3	-1.6	50.6	-3.3	1.8	49.8	-43.3	-27.0	6.5	4.3
Sept.	-3.7	0.3	-4.9	-20.9	-0.2	-2.4	-32.1	53.7	-1.6	21.6	0.4
2013 – Jan.	1.7	-1.2	6.6	28.1	-1.6	-0.2	34.6	-33.7	-13.0	0.9	0.4
Feb.	-4.5	-0.6	0.2	-2.2	0.1	0.6	-5.8	18.5	-0.1	12.7	0.7
Mar.	3.1	0.4	-1.8	16.7	0.9	0.0	18.8	3.8	2.4	22.6	0.0
Apr.	-3.1	0.0	3.0	6.5	0.6	0.0	7.1	3.9	-1.1	11.0	2.9
May	0.3	-0.6	3.6	24.9	0.3	2.4	31.5	-20.4	-0.1	11.1	2.9
June	-2.4	-0.2	-0.1	1.5	-0.3	1.9	0.5	-13.9	-7.4	-13.4	1.3
July	1.2	-0.1	-1.1	0.8	-3.5	-0.5	-3.1	8.1	13.0	5.0	0.5
Aug.	-0.2	0.9	0.1	-13.1	0.8	-0.4	-12.9	21.8	-6.0	8.9	0.0
Sept.	-0.7	-0.6	1.6	7.9	0.7	-0.3	9.0	5.6	0.3	14.7	0.2
Oct.	-2.0	-0.3	-0.5	21.2	-1.6	-0.3	16.8	-6.7	6.6	10.1	2.9
Nov.	-0.2	-0.1	-2.5	21.1	-0.1	0.6	18.9	-11.5	-10.6	7.4	0.7
Dec.	5.0	0.2	-20.1	-21.9	0.7	1.1	-35.2	21.4	6.1	-13.8	0.5
2014 – Jan.	4.3	-0.6	6.7	10.2	0.8	-0.4	21.6	-20.2	-4.4	1.4	0.0
Feb.	-1.4	-0.1	-2.8	23.4	-1.2	-0.5	17.6	-6.8	0.6	10.7	0.0
Mar.	3.3	0.3	-0.4	12.6	-0.1	-0.4	14.9	2.8	-2.7	17.7	0.0
Apr.	-1.8	-0.1	-1.5	28.7	0.0	1.3	26.6	-15.5	2.5	11.2	4.3
May	1.1	-0.2	0.3	19.3	-0.1	-0.1	20.6	-14.9	-2.8	5.7	0.0
June	3.1	0.0	-0.4	2.6	-3.3	0.6	2.6	-13.0	-26.7	-10.4	0.0
July	-2.7	0.3	-1.6	7.3	0.1	-2.5	0.6	-4.5	-3.3	-3.9	0.2
Aug.	-0.9	0.5	-2.1	-16.7	-0.4	-0.1	-20.2	27.3	-1.6	7.1	0.2
Sept.	-0.1	-0.4	-1.2	-11.5	0.1	0.2	-12.5	30.9	3.3	18.4	0.0
Oct.	-1.5	-0.8	-3.0	30.8	-1.4	-0.5	24.4	-17.8	-1.1	6.6	0.0
Nov.	3.1	-0.6	-1.7	0.2	0.2	0.4	2.2	3.2	-9.7	5.4	0.0

(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.

Table A11

General government debt: Italy (1)

(billions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	*of which:* in onnection 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	153.2	22.1	131.2	1,473.0	132.8	17.4	3.1	1,907.6	24.3	0.0	35.4	13.1
2012	160.2	20.8	151.6	1,503.4	133.6	41.1	26.9	1,989.9	34.4	0.0	27.2	42.7
2013	158.4	18.6	140.6	1,594.3	130.6	46.0	34.1	2,069.8	37.6	10.0	24.7	55.6
2011 – Mar.	154.9	23.6	142.2	1,430.9	133.8	13.7	0.8	1,875.5	34.9	0.0	35.8	8.7
June	156.0	22.7	136.6	1,466.9	135.0	15.8	2.2	1,910.3	50.4	0.0	36.5	10.0
Sept.	152.3	22.3	145.7	1,445.1	133.4	15.5	2.2	1,892.0	16.4	0.8	36.3	11.0
Dec.	153.2	22.1	131.2	1,473.0	132.8	17.4	3.1	1,907.6	24.3	0.0	35.4	13.1
2012 – Mar.	161.3	20.8	162.6	1,474.0	132.6	24.8	11.1	1,955.3	34.5	5.6	33.6	21.1
June	157.3	21.3	161.1	1,496.6	134.5	33.3	19.7	1,982.9	46.1	7.9	26.5	29.7
Sept.	162.1	20.1	166.2	1,500.3	134.2	33.6	20.2	1,996.4	45.9	30.7	25.4	30.2
Dec.	160.2	20.8	151.6	1,503.4	133.6	41.1	26.9	1,989.9	34.4	0.0	27.2	42.7
2013 – Mar.	160.5	19.4	156.5	1,544.7	133.0	41.5	28.0	2,036.2	45.9	10.7	24.6	43.7
June	155.4	18.7	163.1	1,579.1	133.6	45.7	32.2	2,076.8	76.3	19.4	27.1	50.8
Sept.	155.6	18.8	163.7	1,573.6	131.6	44.5	32.9	2,068.9	40.8	12.1	26.3	51.5
Dec.	158.4	18.6	140.6	1,594.3	130.6	46.0	34.1	2,069.8	37.6	10.0	24.7	55.6
2014 – Mar.	164.6	18.1	144.1	1,637.0	130.1	44.7	34.1	2,120.5	61.9	16.5	25.1	55.6
June	167.0	17.8	142.5	1,686.0	126.8	46.5	35.6	2,168.8	105.3	43.5	25.8	59.9
Sept.	163.3	18.2	137.5	1,662.5	126.6	44.1	36.0	2,134.0	51.6	45.1	24.9	60.3
2013 – Jan.	161.9	19.6	158.1	1,531.0	132.0	41.0	27.3	2,024.0	68.1	13.0	26.3	43.0
Feb.	157.4	19.0	158.4	1,528.9	132.1	41.5	28.0	2,018.4	49.6	13.1	25.8	43.7
Mar.	160.5	19.4	156.5	1,544.7	133.0	41.5	28.0	2,036.2	45.9	10.7	24.6	43.7
Apr.	157.4	19.4	159.6	1,550.9	133.6	41.5	28.0	2,043.0	42.0	11.9	26.8	46.6
May	157.7	18.9	163.2	1,577.5	133.9	43.8	30.9	2,076.2	62.4	11.9	26.6	49.5
June	155.4	18.7	163.1	1,579.1	133.6	45.7	32.2	2,076.8	76.3	19.4	27.1	50.8
July	156.5	18.6	162.0	1,580.2	130.1	45.2	32.7	2,074.1	68.2	6.4	28.1	51.3
Aug.	156.3	19.5	162.1	1,567.4	130.9	44.8	32.7	2,061.5	46.4	12.4	26.8	51.3
Sept.	155.6	18.8	163.7	1,573.6	131.6	44.5	32.9	2,068.9	40.8	12.1	26.3	51.5
Oct.	153.6	18.5	163.2	1,595.0	130.0	44.2	32.9	2,086.0	47.5	5.5	26.4	54.4
Nov.	153.4	18.4	160.7	1,616.4	129.9	44.8	33.6	2,105.2	59.0	16.1	26.1	55.1
Dec.	158.4	18.6	140.6	1,594.3	130.6	46.0	34.1	2,069.8	37.6	10.0	24.7	55.6
2014 – Jan.	162.7	18.0	147.3	1,603.2	131.4	45.6	34.1	2,090.2	57.9	14.4	23.7	55.6
Feb.	161.3	17.9	144.5	1,626.5	130.2	45.1	34.1	2,107.6	64.7	13.8	22.8	55.6
Mar.	164.6	18.1	144.1	1,637.0	130.1	44.7	34.1	2,120.5	61.9	16.5	25.1	55.6
Apr.	162.8	18.0	142.6	1,665.3	130.1	46.0	35.6	2,146.7	77.4	14.0	26.8	59.9
mag	163.9	17.8	142.9	1,684.2	130.1	45.9	35.6	2,166.9	92.3	16.8	24.9	59.9
June	167.0	17.8	142.5	1,686.0	126.8	46.5	35.6	2,168.8	105.3	43.5	25.8	59.9
July	164.3	18.1	140.8	1,692.8	126.9	44.0	35.8	2,168.7	109.7	46.8	26.2	60.1
Aug.	163.4	18.6	138.7	1,675.9	126.4	43.9	36.0	2,148.4	82.4	48.4	24.4	60.3
Sept.	163.3	18.2	137.5	1,662.5	126.6	44.1	36.0	2,134.0	51.6	45.1	24.9	60.3
Oct.	161.8	17.4	134.5	1,692.5	125.1	43.6	36.0	2,157.5	69.4	46.2	24.1	60.3
Nov.	165.0	16.8	132.7	1,693.0	125.4	44.0	36.0	2,160.0	66.2	55.9	23.2	60.3

(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.