BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

First quarter

April 2007

Number 44

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With this issue, which introduces a new format and new graphics, the Economic Bulletin becomes quarterly. It will come out at the beginning of April and in the middle of July, October and January. The English version of the Bulletin had been essentially unchanged in form and content since its debut in October 1985.

In introducing the new format, the Bank intends to renew the original commitment announced by Governor Carlo Azeglio Ciampi of providing "a useful tool [for] discussion and analysis of economic developments and policies". The text has been significantly streamlined and reordered to provide prompter and more readily usable data on the Italian economy in the European and global context, broken down into the principal aspects: the real economy, the public finances, banking and the financial markets. The statistical appendix has also been adapted to the new style and considerably shortened. However, more extensive data are available in the Statistical Appendix to the Bulletin posted on the Bank's website.

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INDEX

SYMBOLS AND CONVENTIONS

Unless indicated otherwise, figures have been computed by the Bank of Italy.

In the following tables:

–	the phenomenon in question does not occur
....	the phenomenon occurs but its value is not known
..	the value is known but is nil or less than half the final digit shown
::	the value is not statistically significant
()	provisional; estimates are in italics

1 OVERVIEW

The world economy is slowing, but growth prospects remain good overall

Last year the performance of the world economy exceeded expectations, with a slight acceleration in output growth from 4.8 per cent in 2005 to over 5 per cent. In the United States, although the weakness in the property market affected residential investment, the expansion in household consumption showed no signs of easing and was further fostered in the second half of the year by the boost to disposable income from the decline in oil prices. The emerging economies continued to grow at a fast pace, partly thanks to the still favourable financial market conditions.

The international organizations estimate that world output growth will slow by around half a percentage point in 2007, mainly as a result of slower growth in the United States and, to a lesser extent, in the emerging countries as well. However, this should not alter the underlying expansionary trend, which is expected to gather strength as early as the second half of the year. The financial markets also appear to lean in this direction; the recent turbulence probably indicates a return of risk rating to normal levels by past standards rather than anxiety about growth. Inflationary tensions are being countered by the action of the monetary authorities.

These favourable scenarios are nonetheless threatened by the possibility of a larger than expected slowdown in residential and non-residential investment in the United States and the persistence of an enormous US external deficit; by the danger of sudden increases in financial market volatility; and by potential rises in oil prices.

In the euro area, after a sharp and somewhat unexpected acceleration towards the end of last year, output growth in the leading countries should ease slightly to close to the potential rate of just over 2 per cent. The decline in oil prices and the appreciation of the euro helped to reduce consumer price inflation, which has been less than 2 per cent since the summer of 2006; in March expectations for the current year also dropped below that threshold. Core inflation was 1.8 per cent in the first two months of 2007. Wages continued to rise at a moderate pace despite the speed of the economic recovery. The improvement in the economic situation, the rapid growth in money and credit, and the constant risk of an upsurge in inflation have led the European Central Bank to further reduce the expansionary stimulus of monetary policy. As a result of the cyclical upturn the reduction in the public deficit of the euro area overstepped the target. OECD estimates for December set the deficit in 2006 at 2.1 per cent of GDP, against 2.4 per cent in 2005, while recent outturns for some countries indicate a larger improvement for the area as a whole. International organizations expect that further downward adjustments will become necessary in the course of this year.

The recovery spreads to the Italian economy, possibly benefiting from early structural changes

In 2006 the rate of economic growth in Italy (1.9 per cent) was the highest of the last five years, exceeding all the estimates of public and private forecasters. Output, which was driven by export demand in the last quarter of the year, jumped by over 4 per cent on an annual basis. As in the other euro-area countries, estimates indicate a slowdown in economic activity in the early months of this year, to annual growth of between 1 and 1.5 per cent. The index of firms' confidence remained high throughout the second half of 2006, but has shown signs of slipping in *the early months of this year. Recent government estimates indicate growth of around 2 per cent this year, which, as in 2006, is higher than the estimated potential rate of increase in output. The situation regarding inflation continues to be favourable.*

As in the past, the stimulus provided by the most dynamic foreign markets, now not only European, made the largest contribution to overcoming the period of stagnation. The earning capacity and cash flow of non-financial corporations show a clear improvement, while short-term bank debt is accelerating sharply in response to an unprecedentedly low cost of borrowing even though official interest rates have been raised. In contrast with the past, greater labour market flexibility now allows firms to bring labour demand more promptly into line with the demand for their products, against a background of continued wage moderation.

The rapid surge in output growth could be attributed – although how far remains to be verified by future evidence – to an initial structural improvement in the ability of Italian industrial firms to cope successfully with competition at home and abroad. Indications of this can be gleaned not only from the favourable economic situation but also from the contemporaneous rise in employment and labour productivity in industry excluding construction.

The expansion in household consumption was generally moderate and slowed to less than 1 per cent on an annual basis in the last quarter of 2006. Available information does not point to any significant reversal of the trend in the early months of this year. Household confidence is improving slowly, although the continuing fluctuations reflect a still cautious attitude to spending decisions. According to preliminary estimates, in 2006 disposable income increased by around 1.5 per cent in real terms; whereas employment and unit wages made a positive contribution, the public sector effected a net withdrawal, which, partly owing to built-in stabilizers, was as large in proportion to GDP as in 2000. Household wealth, both real and financial, continued to expand, the latter particularly in low-risk investments, such as deposits and securities other than shares.

The public finances improve beyond expectations but the results must be consolidated

General government net borrowing rose to 4.4 per cent of GDP in 2006, compared with 4.1 per cent in 2005. Excluding two extraordinary factors that pushed up spending, it amounted to 2.4 per cent, against a forecast of 3.6 per cent at the end of September. Adjusted for cyclical effects, temporary measures and the extraordinary factors, general government borrowing fell from more than 4 per cent of GDP in 2005 to just under 3 per cent last year. The primary surplus, which was almost nil two years ago, rose to over 1.5 per cent. The improvement in the public finances was the result of a substantial increase in revenue. The incidence of taxation rose by 1.7 percentage points to 42.3 per cent, mainly due to the acceleration in output, some one-off receipts, and the measures to enlarge and recover the tax base incorporated in the package introduced at the end of 2005 and in the one launched last summer.

The net borrowing requirement amounted to 3.7 per cent of GDP, against 5.3 per cent in 2005. The gap with respect to net borrowing, excluding the two extraordinary factors, widened slightly. The debt to GDP ratio increased for the second year running, to 106.8 per cent.

Government estimates published in March set net borrowing in 2007 at 2.3 per cent of GDP, half a percentage point lower than last autumn's target. The incidence of taxation is expected to rise to 42.8 per cent.

Thanks to the performance of the public finances it is possible to speed up the deficit-reduction process. Structural balance has to be achieved rapidly in order to make significant inroads into the public debt so that the costs deriving from the ageing of the population can be tackled in good time. While this medium-term objective is being pursued, the resources must be found to reduce the incidence of taxation, which is higher than the euro-area average and close to its historical peak, and to increase public-sector *investment, which has been declining for two years but is crucial for the resumption of rapid and lasting growth in productivity and income. If these three objectives are to be achieved, primary current expenditure must be reduced without delay; it has reached 40 per cent of GDP in the last two years, exceeding even the exceptionally high levels of the early 1990s.*

2 THE WORLD ECONOMY

ECONOMIC DEVELOPMENTS AND THE PRICE OF OIL

The expansion continues while risks of a downturn persist

In 2007 world output is expected to slow slightly with respect to the very rapid growth of 2006; it will be driven by the emerging countries, which are enjoying favourable financial conditions and still high raw material prices (Table 1). The expansion in world trade in goods and services should continue to accelerate.

The protracted strong growth of the world economy thus appears set to continue. However, although the risk of a less favourable performance has not materialized to date, it should not be underestimated. In the United States, the decline in investment, including non-residential investment, could prove larger and longer-lasting than expected and might be associated with a downturn in consumption. The country's current account deficit is still very large, constantly fuelling concern for the orderly evolution of exchange rates in the future. The financial markets remain vulnerable to bursts of volatility (see the box "The recent turbulence in the financial markets") that could induce investors to restructure their portfolios, with repercussions on share prices and risk premiums.

After falling sharply between August and January, oil prices have risen again recently, heightening inflationary pressures in the leading industrial countries (Figure 1). The prices of futures contracts on WTI grade oil indicate that the price will rise from $64.1 per barrel on 28 March this year to $68.9 in December and $71.1 inclusive of the risk premium.

Table 1

Observed and projected values of some macroeconomic variables
(percentage changes on the previous year, except where indicated)

	2006	2007 (1)	
		OECD	Consensus Economics March 2007
GDP			
World	5.1 (2)		
Advanced countries			
Euro area	2.6	2.2	2.3
France	2.1 (3)	2.2	1.9
Germany	2.7	1.8	2.0
Japan	2.2	2.0	2.1
Spain	3.9	3.3	3.5
United Kingdom	2.7	2.6	2.6
United States	3.3	2.4	2.4
Emerging countries			
Brazil	2.9	3.8	3.6
China	10.7	10.3	9.7
India	9.0	7.5	8.1
Russia	6.5 (4)	6.0	6.3
Consumer pries			
Advanced countries			
Euro area	2.2	1.9	1.8
France	1.9	1.4	1.4
Germany	1.8	1.9	1.8
Japan	0.2	0.3	0.1
Spain	3.6	2.7	2.4
United Kingdom	2.3	2.0	2.1
United States	3.2	2.3	1.9
Emerging countries			
Brazil	4.2	3.8	3.8 (5)
China	1.5	1.0	2.5
India	6.2	5.8	5.7
Russia	9.8	8.5	8.2
World trade (6)	**8.9** (2)	**7.6** (2)	–

Sources: National statistics, OECD, *Economic Outlook*, December 2006, *Consensus Economics*, March 2007, IMF, *World Economic Outlook*, September 2006.
(1) Forecasts. – (2) IMF. – (3) Change estimated on quarterly data adjusted for seasonal and calendar effects. – (4) Changes in the first three months on the year-earlier period. – (5) December on December. – (6) Goods and services.

THE UNITED STATES, JAPAN AND THE EMERGING COUNTRIES

The US economy weakens

Output growth slowed from an annualized rate of 3.9 per cent in the first half of 2006 to 2.2 per cent in the second half. While consumption remained strong and the contribution of net exports turned positive, investment contracted, mainly in the residential sector. The weakness continued into the early months of 2007: housing starts and residential building permits and orders for capital goods (net of the most volatile components) worsened; consumption slowed. The leading private forecasters project growth of around 2 per cent in the first quarter on an annual basis, while the latest assessments of the OECD and Consensus Economics project a slowdown with respect to 2006 (Table 1).

THE RECENT TURBULENCE IN THE FINANCIAL MARKETS

Starting on 27 February the international financial markets were swept by a wave of instability, touched off by an abrupt fall on the Shanghai stock exchange and signs of a US economic slowdown. In the first few days of March fears that a leading US sub-prime home mortgage company was about to fail resulted in a worsening of conditions in the high-risk mortgage-backed securities market.

All the leading stock exchanges registered significant price declines. The expected volatility of share indices and of exchange rates and interest rates in the very short term soared. Risk premiums on high-yield corporate bonds and dollar-denominated government securities of the emerging countries increased. The yield on ten-year government securities in the US and the euro area declined, owing to a reallocation of investors' portfolios towards lower-risk assets. These developments also induced the unwinding of a number of currency carry trade positions – signalled by the marked appreciation of the yen and the Swiss franc – which in turn amplified the initial turbulence (see the box "The carry trade and its recent impact on the exchange rate of the yen").

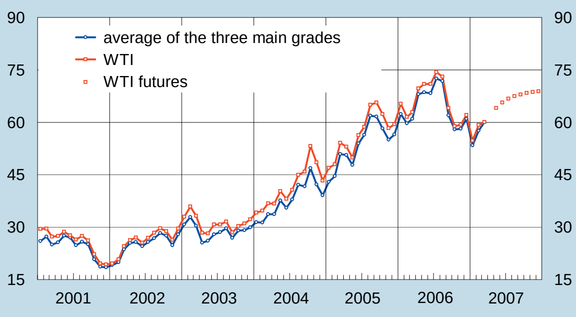
At all events, the strains do not seem to have reflected a worsening of expectations on the economic fundamentals but rather a correction of financial asset prices towards levels more closely in line with past experience. The episode also signalled the vulnerability of some speculative positions, especially foreign exchange positions. At the end of March the turbulence was practically played out. By the 27th of the month share prices were down just 1 per cent in the US and 2 per cent in the euro area compared with the eve of the turmoil, while the yen had appreciated by 2 per cent against the dollar.

In the last quarter of 2006 the US current account deficit fell to $783.2 billion on an annual basis, from $917.5 billion in the previous quarter, as a result of the decrease in the trade deficit and the improvement in the balance on income. Overall, the deficit widened from $791.5 billion in 2005 to $856.7 billion in 2006, equal to 6.5 per cent of GDP.

In February the general consumer price index accelerated to a twelve-month rate of change of 2.4 per cent (Figure 2), while core inflation held steady at 2.7 per cent. At the end of March the Federal Reserve announced that although the prospects for growth were less certain the predominant policy concern remained the risk that inflation would fail to moderate. According to the prices of futures contracts, markets do not expect any change in official rates at the next FOMC meeting on 9 May, but they do think a reduction is likely in the second half of the year (Figure 3).

Figure 1

Crude oil: spot prices and futures (1)
(dollars per barrel)



Sources: IMF and Thomson Financial Datastream.
(1) Monthly averages for spot prices. Updated to 28 March 2007. The three main grades are Dubai, Brent and WTI.

Increased volatility in the US financial markets

Share prices, which had edged up at the beginning of the year, dipped sharply on several occasions in February and March, during a period of marked turbulence (Figure 4; see the box "The recent turbulence in the financial markets"). Despite some small increases at the end of February, the risk premiums on corporate bonds remain low. The yield on ten-year government bonds fell from 4.7 to 4.6 per cent in March (Figure 5) and the yield curve continues to have a downward slope. The yield on indexed ten-year government bonds has dropped by 30 basis points to 2.1 per cent. Since the end of December 2006 the dollar has depreciated slightly in nominal effective terms.

In Japan growth slows while prices are virtually stationary

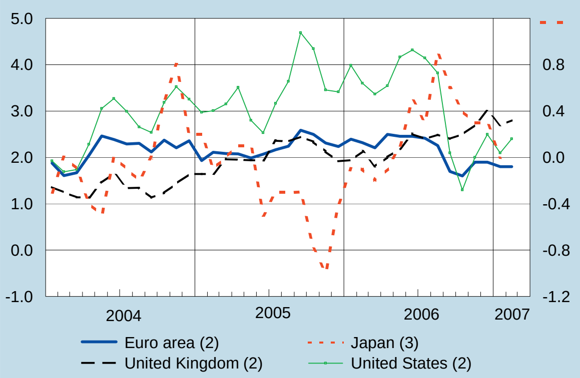
Despite its highly erratic nature, the upturn in economic activity in Japan gained strength during 2006. GDP grew at an annualized rate of 1.9 per cent in the second half of the year, driven mainly by private investment. After the exceptional growth of the last quarter of 2006, private forecasters estimate that output has slowed to between 1.3 and 2.8 per cent in the first quarter of this year on an annual basis. In January and February industrial production contracted. In 2007 as a whole output is projected to expand by 2.2 per cent, slightly less than in 2006 (Table 1).

Although the long deflationary phase had been gradually overcome, in the autumn consumer prices began to decline once more. In February they were down 0.2 per cent on twelve months earlier (Figure 2) and Consensus Economics forecasts an increase of 0.1 per cent in 2007. On 21 February of this year the Bank of Japan set the target rate on overnight deposits at 0.5 per cent, while planning to keep monetary policy accommodating beyond the short term. The prices of futures contracts on 3-month eurodeposits in yen indicate that markets do not expect further rises in rates before the end of the year (Figure 3). In the early months of 2007 the yen depreciated slightly against the dollar then rose back brusquely when some speculative carry trades were unwound (Figure 6; see the box "The carry trade and its recent impact on the exchange rate of the yen").

Figure 2

Consumer price inflation (1)

(monthly data; twelve-month percentage changes)

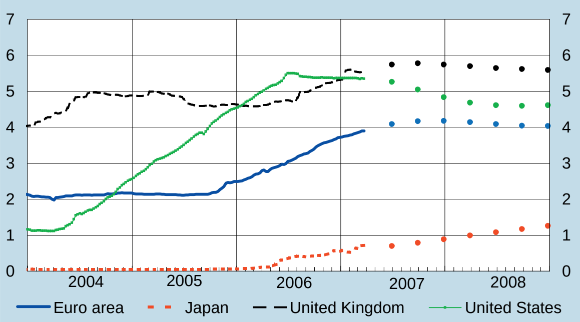


Sources: Thomson Financial Datastream and Bloomberg.
(1) General price index. For the United Kingdom, harmonized consumer prices. – (2) Left-hand scale. – (3) Right-hand scale.

Figure 3

Spot and forward three-month interest rates implied by futures on Euromarket deposits (1)

(average weekly data; per cent)

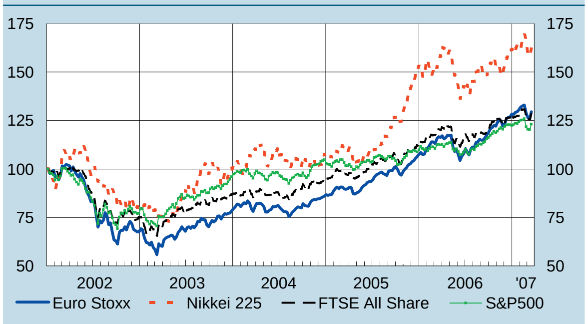


Source: Thomson Financial Datastream.
(1) Updated to the week ended 23 March 2007 for spot prices and to 28 March 2007 for futures prices.

Figure 4

Stock market indices (1)

(average weekly data; first week of January 2002 = 100)



Source: Thomson Financial Datastream.
(1) Updated to the week ended 23 March 2007.

THE CARRY TRADE AND ITS RECENT IMPACT ON THE EXCHANGE RATE OF THE YEN

An investor who uses the most common version of the financial strategy known as carry trade borrows a given amount in the currency of a country where interest rates are low (the “funding currency”) and converts that amount into the currency of a country where interest rates are high (the “target currency”) in order to buy short-term financial assets denominated in the target currency and profit from the difference in interest rates. A variant consists in selling (buying) a currency whose forward exchange rate is stronger (weaker) than its spot rate. The strategy is profitable provided the target currency does not depreciate against the funding currency during the holding period to an extent that offsets the yield differential.

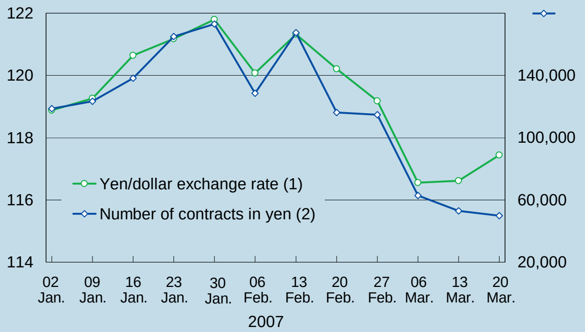
When the spot exchange rate of a currency for which interest rates are relatively high tends to strengthen – a not uncommon pattern in the past – the carry trade strategy is doubly profitable. The gains made through the carry trade can be interpreted as compensation for the exchange rate risk.

The possibility that a sudden unwinding of carry trade positions may cause a significant increase in exchange rate volatility depends in part on the total amount of transactions outstanding. This is difficult to measure, however, as many of these transactions are carried out using over-the-counter derivatives and leave no trace in official stock exchange statistics or banks’ balance sheets. A rough gauge of carry trade business is given by the volume of “speculative positions”.[1]

Figure

Speculative carry trade positions and the yen/dollar exchange rate

(weekly data)



Sources: Commodity Futures Trading Commission and Thomson Financial Datastream.
(1) Left-hand scale. – (2) Each contract is for ¥12,500,000. Right-hand scale.

The volume of speculative positions built up from 2004 onwards in response to the large yield differential between dollar and yen-denominated assets and the low volatility of exchange rates was virtually halved in the bout of turbulence that hit the financial markets at the end of February 2007 (see the box “The recent turbulence in the financial markets”). The yen appreciated against the dollar by 5.2 per cent between 23 February and 5 March as a result (see the figure). A similar though far more intense episode had occurred in the first 20 days of October 1998, when the yen appreciated by 19 per cent in connection with the unwinding of a large volume of carry trades.

[1] “Speculative” positions correspond to the excess forward supply of funding currency. They are obtained as the difference with respect to the total including “commercial” positions, classified as such when the trader reports using derivatives (futures and options) to hedge against the risks inherent in its specific sector of economic activity.

Strong growth in the emerging countries

Despite a slight deceleration, growth is expected to remain strong in the emerging countries in 2007, mainly thanks to the still favourable financial conditions (Table 1). The yield differential between these countries’ dollar-denominated government bonds and the corresponding US Treasury bonds widened briefly at the end of February owing to the turbulence in the world financial markets, then settled at exceptionally low levels at the end of March.

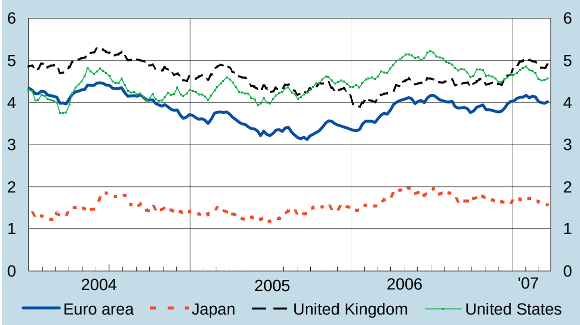
In China GDP grew by 10.7 per cent in 2006 owing to the sharp acceleration of exports; this pushed up the country's trade surplus to $177.5 billion, equal to 6.7 per cent of GDP. Capital investment proceeded at a slower pace than in previous years but was nonetheless substantial. In an attempt to control the growth in credit, on 18 March the monetary authorities imposed an increase of 27 basis points on the reference rate for commercial banks' loans to customers, which in the last three years has gone up from 5.31 to 6.39 per cent.

The renminbi continued to gain slightly against the dollar and the prices of forward contracts imply expectations of a further small appreciation.

Figure 5

Yields on ten-year government bonds (1)

(average weekly data; per cent)

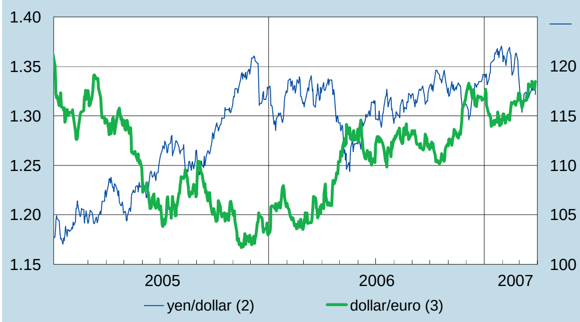


Source: National statistics.
(1) Updated to the week ended 23 March 2007.

Figure 6

Dollar/euro and yen/dollar exchange rates (1)

(daily data)



Source: ECB.
(1) Updated to 28 March 2007. – (2) Right-hand scale. – (3) Left-hand scale.

THE EURO AREA AND THE MAIN EUROPEAN COUNTRIES

A slowdown is expected after the strong growth of 2006

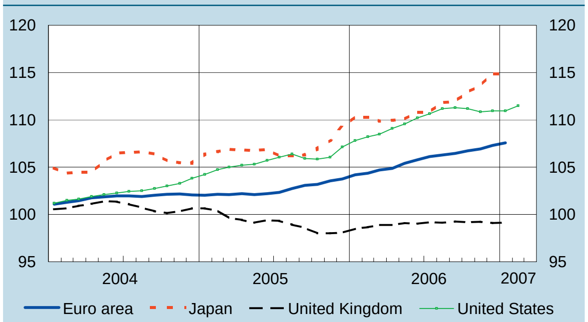
In the fourth quarter of 2006 GDP accelerated in all the main euro-area countries, increasing in Germany from 3.2 to 3.6 per cent on an annual basis. In the area as a whole growth in 2006 was driven mainly by export demand and rose from 1.4 per cent in 2005 to 2.6 per cent. According to OECD estimates released in December, the budget deficit declined by 0.3 percentage points, to 2.1 per cent of GDP. Recent outturns for some countries suggest a larger decrease for the area as a whole. The improvement is greater than indicated in individual programmes and may reflect the much larger than expected growth in output, particularly in Germany and Italy. The rises in energy prices reduced the trade surplus by half and doubled the current deficit to €18.1 billion, equal to 0.2 per cent of euro-area GDP.

In Germany GDP expanded by 2.7 per cent, compared with 0.9 per cent in 2005, thanks to the very substantial contribution of exports, up by more than 12 per cent, and of investment. The budget deficit was almost halved, from 3.2 per cent of GDP in 2005 to 1.7 per cent. In France and Spain growth was driven mainly by domestic demand.

Figure 7

Industrial production

(seasonally adjusted monthly data indices, average for 2003 = 100)



Sources: ECB and national statistics.

The pace of growth slackened in the early months of this year. Industrial production declined in January (Figure 7) and the business opinion survey among manufacturing firms indicated a slight worsening in the first two months (Figure 8). The €COIN coincident indicator of the economic cycle declined in February but remained compatible with output growth of more than 2 per cent on an annual basis (Figure 9). In Germany, industrial production increased in January; the index of manufacturers' confidence declined in the first two months before picking up in March. In the same month in France there were negative signals from industrial output and the index of confidence, which deteriorated further. In Spain the economic situation remains favourable.

According to recent forecasts GDP growth in 2007 will decline to 2.3 per cent, mainly as a result of the slowdown expected in Germany (Table 1). Estimates prepared in February by ECB staff indicate growth of between 2.1 and 2.9 per cent.

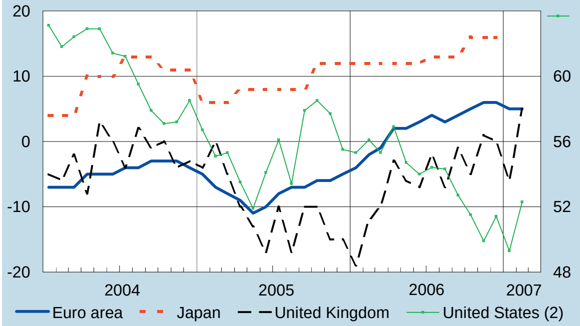
Action continues in the euro area to rein in the expansionary monetary stimulus

In February euro-area inflation was steady at 1.8 per cent, while core inflation rose by one-tenth of a point to 1.9 per cent. The Governing Council of the ECB continued to raise official interest rates throughout the second half of 2006 (Figure 10). On 8 March this year the minimum bid rate on the main refinancing operations was raised to 3.75 per cent. The curve of expected three-month euro interest rates implicit in futures contracts shifted upwards from December onwards; at the end of March it signalled expectations of a further raising of short-term interest rates before the end of the summer (Figure 11). Short-term yields are now close to 2 per cent in real terms.

In the second half of last year signals of an economic slowdown in the United States helped to bring down long-term euro interest rates. In the early months of this year they fluctuated slightly above 4 per cent as conflicting data were issued on the world economic situation. The trend reflected entirely the performance of the real component, while inflation expectations were virtually stable at slightly over 2 per cent. The differentials between the yield on international bonds issued

Figure 8

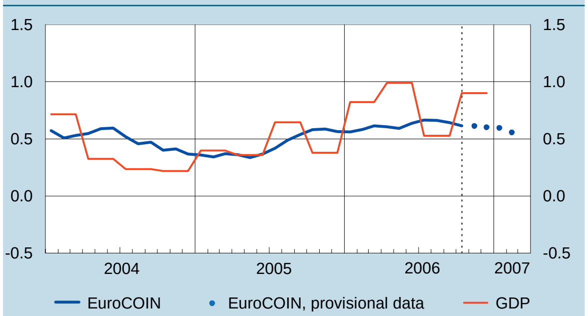
Indicators of manufacturing firms' confidence (1)



Sources: National statistics and European Commission.
(1) Percentage balance of firms' responses. – (2) Right-hand scale.

Figure 9

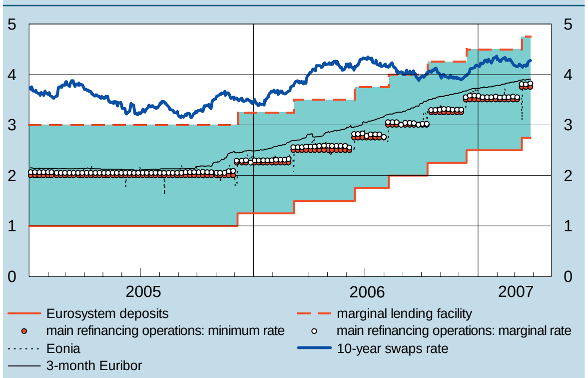
EuroCOIN coincident indicator of the euro-area business cycle and GDP (1)
(three-month percentage changes)



Source: Based on Thomson Financial Datastream data.
(1) The method of constructing the indicator is described in the "Note metodologiche" section of the Appendix to the Bank's Annual Report for 2005 in Italian. For each month the change in GDP is the average variation for the relevant quarter.

Figure 10

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



Sources: ECB, Reuters and Telerate.

by non-financial corporations and Treasury bonds narrowed further in 2007 (Figure 12).

Credit to households slows but growth in the money supply remains rapid

The slowdown in bank lending to the private sector in the euro area – to a rate of 10.3 per cent in February – is due to that in the growth of credit to the household sector, from 9.1 per cent in September to 8 per cent in February, with an especially pronounced slowdown in loans for home purchases. The drop in purchases reflects the steady increase in prices and the gradual raising of mortgage rates. Despite rising interest rates, lending to non-financial corporations is still expanding (by 12.6 per cent in February) as a result of the buoyancy of investment and the spate of mergers and acquisitions. The growth in M3 continues at a rapid pace, with a 10 per cent increase in February, mainly reflecting the low level of medium and long-term yields. The increase in short-term interest rates has led to a shift in the composition of M3 towards less liquid monetary assets, such as savings deposits and money market securities.

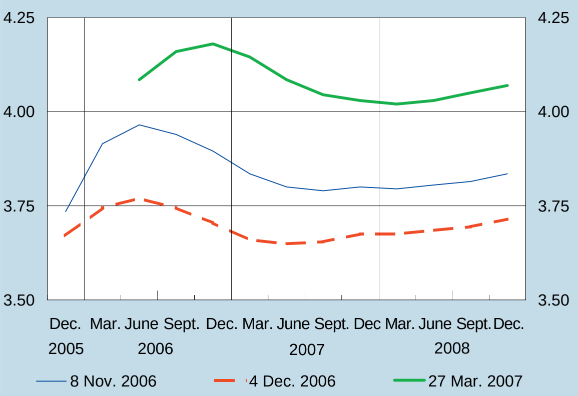
Share indices in the main euro-area countries, which have been rising strongly since the summer of last year, dipped between the end of February and the middle of March. In the following two weeks share prices increased again, especially in the motor-vehicle, industrial and public utility branches. The Dow Jones Euro Stoxx index for the leading listed companies in the euro area rose by 7 per cent with respect to the end of October.

The euro appreciates slightly

In the early months of 2007 the euro gained 0.9 per cent in nominal effective terms as it picked up against sterling and the dollar and depreciated against the yen. The volatility implicit in the main bilateral exchange rates remains extremely modest.

Figure 11

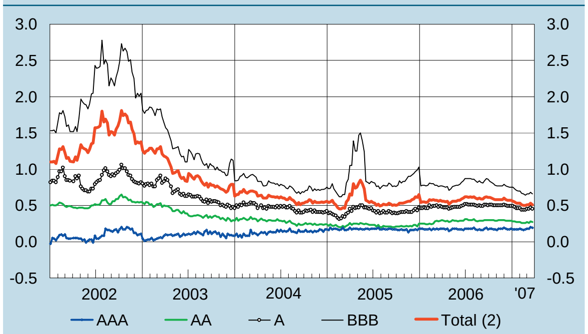
Rates on three-month Euribor futures contracts (1)
(per cent)



Source: Reuters.
(1) The contract date of each curve is specified in the legend. The horizontal axis shows the settlement dates for the futures contracts to which the yields refer (around the 15th of each month).

Figure 12

Yield differentials between euro-denominated bonds of non-financial corporations and government securities (1)
(end-of-week data; percentage points)



Source: Merrill Lynch.
(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by corporations resident in countries whose long-term foreign currency debt has a rating of not less than Baa3 or BBB- (investment grade). Yield differentials are calculated with respect to French and German government securities. — (2) Includes only bonds with a rating of not less than Baa3 or BBB-(investment grade).

GDP expands rapidly in the United Kingdom

In 2007 the rate of growth is expected to be similar to the previous year's (2.7 per cent; Table 1). Consumer price inflation, which rose sharply in the final months of 2006 (3 per cent in December) declined to 2.8 per cent in February. To bring inflation back to the 2 per cent target, in January the Bank of England raised the monetary policy reference rate by 25 basis points to 5.25 per cent. The markets expect a further increase of 25 basis points in the coming months.

3 RECENT DEVELOPMENTS IN ITALY

THE CYCLICAL SITUATION

GDP growth appears to be slowing after the acceleration at the end 2006

The Italian economy grew by 1.9 per cent in 2006, the largest increase in five years and also significantly higher than the earlier estimates of the leading Italian and international forecasting institutions. After a slowdown in the summer months, growth picked up to an annualized rate of better than 4 per cent in the autumn (Table 2), led by a strong increase in foreign demand and investment (Figure 13).

The growth of exports was substantial during the year both to European markets (Germany in particular) and to the other expanding markets, such as Russia and the countries of Asia. Italian firms responded by increasing investment and stepping up their demand for labour, which is now considerably more sensitive than in the past to cyclical conditions. In the fourth quarter the demand from Germany, Italy's leading export outlet, was buoyed by German consumers' spending on some items (especially cars, furniture and household items) in advance of the expiry of building incentives and the entry into force of new VAT rates on 1 January 2007.

The fall in the prices of raw materials, in particular of oil, together with the appreciation of the euro, underlay the modest rate of inflation, which remained at around 2 per cent, in line with the average for the euro area.

According to preliminary estimates, in the first quarter of this year GDP growth rose back to an annualized rate of slightly over 1 per cent. In the months to come the latest Government projections are for economic activity to resume expanding at rates consistent with 2 per cent growth for the year as a whole.

Table 2

GDP and its main components in 2006

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

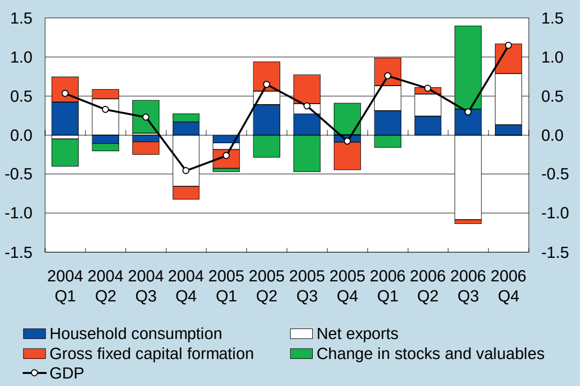
	Q1	Q2	Q3	Q4	Year (1)
GDP	0.8	0.6	0.3	1.1	1.9
Total imports	1.0	0.3	2.2	2.0	4.3
National demand (2)	0.4	0.3	1.4	0.5	1.6
National consumption	0.3	0.3	0.5	0.2	1.0
households	*0.5*	*0.4*	*0.6*	*0.2*	*1.5*
other (3)	*-0.3*	*-0.1*	*0.2*	*0.0*	*-0.3*
Gross fixed investment	1.7	0.4	-0.3	1.8	2.3
construction	*1.0*	*0.2*	*0.7*	*2.3*	*2.1*
other goods	*2.4*	*0.6*	*-1.1*	*1.4*	*2.5*
Change in stocks and valuables (4)	-0.2	0.0	1.1	0.0	0.3
Total exports	2.2	1.4	-1.8	4.5	5.3
Net external demand (4)	0.3	0.3	-1.1	0.7	0.3

Source: Istat.
(1) Not adjusted for calendar effects. – (2) Including changes in stocks and valuables. – (3) Expenditure of general government and non-profit institutions serving households. – (4) Contribution to GDP growth over previous period in percentage points.

Figure 13

Contributions of the main components of demand to the growth of GDP

(percentage points)



Source: Istat.

FIRMS

The trend in industrial output remains expansionary

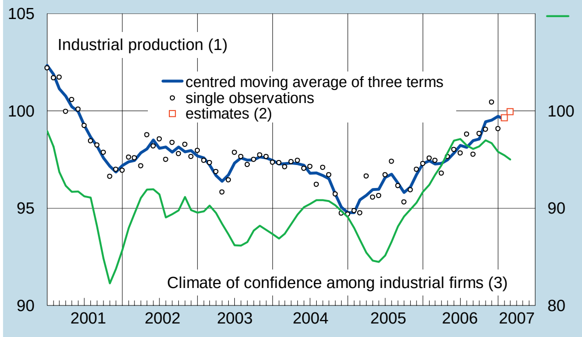
In the fourth quarter of 2006, adjusted for seasonal and calendar effects, the index of industrial production rose by 1.3 per cent, driven mainly by machinery and electrical equipment, metals and also textiles, which partly recouped the sharp contractions registered in previous years.

In January the index fell by 1.4 per cent, wiping out the gain recorded in December (Figure 14). According to our estimates, for the first quarter as a whole production held broadly stable. The swings in the index reflect the downtrend in export orders, especially from Germany. The improvement in the index of business confidence under way since the second half of 2005 came to a halt that could well be only momentary. Judgements on the state of orders remain at high levels (Figure 15), with expectations that they will pick up again in the next few months.

Figure 14

Industrial production and the climate of confidence among firms

(monthly data; indices, 2000 =100)



Sources: Based on Centro Studi Confindustria (CSC), ISAE, Enel and Istat data.
(1) Data adjusted for seasonal and calendar effects. – (2) Based on electricity consumption and the indicators of the ISAE and CSC surveys of manufacturing firms. – (3) Source: ISAE. Average of the seasonally adjusted percentage balances of the responses to questions regarding the level of orders, production expectations and stocks of finished products; moving average of three terms (right-hand scale).

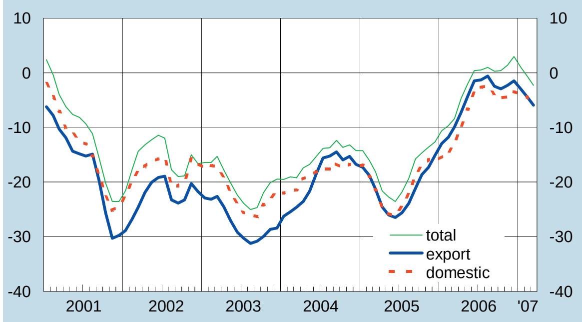
Investment is particularly intense in the construction sector

Gross fixed investment increased at an annualized rate of about 2 per cent in the second half of 2006, as in the first half. After a drop in the summer months, concentrated in non-construction components, purchases of capital goods accelerated sharply in the fourth quarter (Table 2), the expansion involving all types of goods.

Figure 15

Level of industrial orders (1)

(monthly data)



Source: Based on ISAE data.
(1) Moving average for the three months ending in the reference month of the difference between the percentage of positive replies (“high”, “increasing”) and that of negative replies (“low”, “decreasing”) to ISAE surveys, weighted by size, sector and location of firm. The trend figures refer to the responses for three months ahead. Seasonally adjusted data.

Investment in machinery, equipment and transport equipment, by contrast, remained stationary in the second half as a whole. The upward trend in the qualitative indices produced by ISAE that had been under way since 2005 came to an end, and the indicator of domestic orders for machine tools calculated by the machine tool manufacturers association retreated. Firms’ spending plans may have been curbed by uncertainty over the strength of the economic recovery, despite their good financial conditions and the relatively low cost of money.

In the construction industry the rate of growth in investment accelerated sharply between the first and second halves (from 0.4 to 1.9 per cent). It was strongest in residential building (2.2 per cent in the fourth quarter), with a continuation of the upswing under way since the start of 2004; in the last three years the average quarterly growth rate has been 1.2 per cent. However, in recent months some signs of a slowdown have emerged, notably the decline in the number of house sales.

Investment in non-residential construction appears to be recovering after a three-year recession, with a rate of expansion equal to that of residential building in the fourth quarter.

In spite of an improvement in profitability, firms' borrowing requirement remains substantial

Estimates based on the national accounts indicate that the pick-up in economic activity in the fourth quarter was reflected in a definite improvement in operating profits and corporate self-financing, although the latter was held back by an increase in net financial costs and in taxes. The profits of listed companies continued to rise, with a gain of more than 10 per cent compared with the fourth quarter of 2005. The best results were turned in by energy and construction firms.

However, the upswing in investment in the fourth quarter kept firms' borrowing requirement high, given the difference between gross investment and self-financing. The cover ratio of own resources to investment improved but remains lower than the average for the last three years.

Also during the autumn firms announced some thirty mergers and acquisitions for a total value of over €1.5 billion. They also increased their bank deposits and their securities portfolios.

On the liabilities side, firms increased their financial debt, which rose to 67 per cent of GDP (Table 3 and Figure 16). The bank debt of medium-sized and large firms accelerated sharply (Figure 17), above all owing to the short-term component.

In the fourth quarter of 2006 net bond issues, which mainly involved a few large companies, were slightly negative. Listed companies raised some €1.4 billion in the stock market, more than a third of it accounted for by seven IPOs.

The cost of bank debt, although adjusting to the rises in official interest rates, remained low by historical standards. Between the low recorded in November 2005 and the end of February 2007, the average rate on short-term corporate loans rose by 1 percentage point, against a 1.5-point rise in official rates.

... but there are no signs of financial strain

In December firms' liquidity as measured by the ratio of liquid assets to short-term debt was at an historically high level (61 per cent). The bad loan ratio for corporate borrowers remained stable during the year.

Table 3

Firms' financial assets and liabilities (1)

(billions of euros)

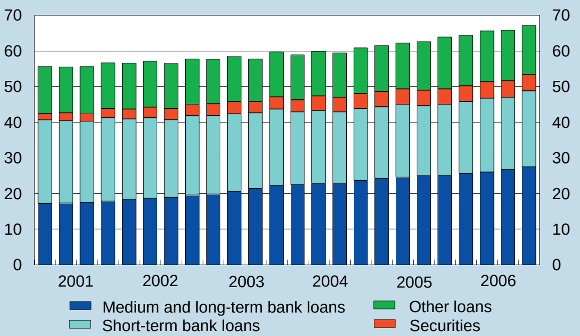
	Flows		Stocks
	Jan.-Sept. 2005	Jan.-Sept. 2006	Sept. 2006
Cash and sight deposits	22	14	261
Shares and other equity	-4	13	713
Trade credit	-31	-11	327
Other assets (2)	20	22	136
Total assets	**6**	**37**	**1,436**
Short-term debt (3)	-6	7	324
Medium and long-term debt (4)	43	39	566
Securities	2	7	68
Trade credit payable	-31	-9	302
Shares and other equity	13	14	1.306
Other liabilities (5)	5	4	109
Total liabilities	**26**	**61**	**2,675**
BALANCE	**-20**	**-24**	**-1,239**

(1) The data refer to "non-financial corporations". Rounding may cause discrepancies in totals. – (2) Comprises investment fund units, insurance technical reserves, domestic derivatives and some minor items. – (3) Includes finance provided by factoring companies. – (4) Includes finance provided by leasing companies. – (5) Staff severance pay and pension provisions, domestic derivatives and minor items.

Figure 16

Corporate debt (1)

(as a percentage of GDP)



(1) The figures for the fourth quarter of 2006 are provisional.

Competitiveness worsens slightly

Italy's real effective exchange rate, calculated on the basis of producer prices, rose by 1.2 per cent in 2006. As in the previous years, the rise was sharper when measured using unit labour costs (2.2 per cent).

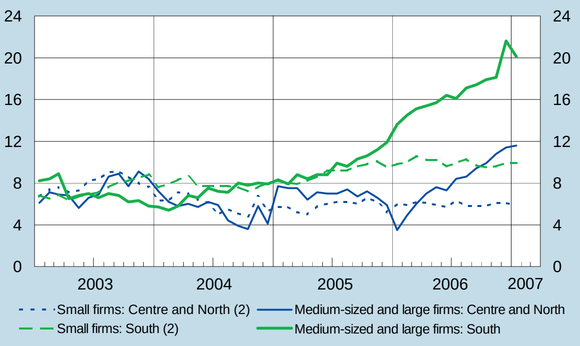
Unit labour costs in industry excluding construction slowed in the course of the year. After rising by nearly 2 per cent in the first half over the same period of 2005, they then slowed sharply and fell by 1.4 per cent in the fourth quarter (Figure 18). Both a deceleration in per capita labour costs and a gain in productivity contributed. For the year as a whole the large increase in output per worker (1.1 per cent) was associated for the first time since 1995 with an increase in labour input. This could reflect the first benefits of a restructuring of the production system to overcome the severe competitive difficulties that had arisen in the previous decade, but more evidence will be needed in order to determine the breadth and depth of the process.

For the economy as a whole the year-on-year increase in unit labour costs was slightly less than in 2005 (2.5 per cent against 2.7 per cent), while output per worker stagnated (rising by 0.1 per cent), owing to a decline of 0.3 per cent in the service sector despite a gain of 1 per cent in distribution, transport and communications.

Figure 17

Lending to firms by size and geographical location (1)

(monthly data; twelve-month percentage changes)

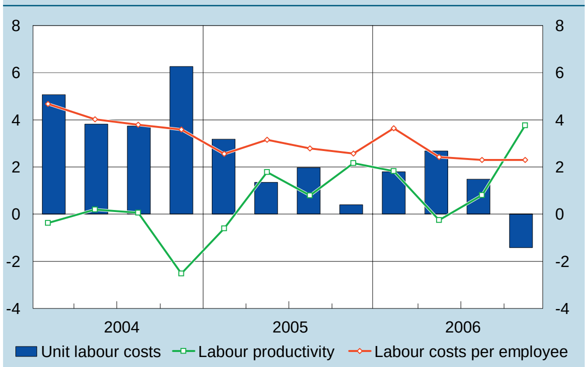


(1) Loans exclude repos, bad debts and other, minor items included in the Eurosystem harmonized definition of the aggregate. The breakdown by geographical area is based on customer residence. The percentage changes are calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Figure 18

Labour costs per employee, labour productivity and unit labour costs in industry excluding construction

(seasonally adjusted data; percentage changes on the year-earlier period)



Source: Istat.

HOUSEHOLDS

Consumption remains sluggish ...

Households' spending rose by 1.5 per cent in 2006, about 1 percentage point more than in 2005. After accelerating sharply in the first half to nearly 2 per cent on an annualized basis, the growth in consumption weakened progressively and almost came to a halt in the fourth quarter (Table 2), owing above all to a contraction in purchases of durable goods.

Households' real disposableincome grew at the same pace as consumption, according to our estimates (Figure 19). However, income growth was curbed by an increase public sector levies net of transfers to households. This effect is amplified during economic expansions by the working of built-in stabilizers. A boost came from compensation of employees, which benefited from increases in both per capita earnings (2.8 per cent) and employment, while the contribution of self-employment income was limited.

... in the opening months of 2007

According to the available indicators, consumption maintained a moderate pace in the opening months of 2007, growing at an annualized rate of about 1.5 per cent. The improvement in household confidence since the summer of 2005 (Figure 19) suggests that the uncertainty that weighed on spending decision in the past years and still emerges in individuals' pessimistic assessments of their personal economic situation is gradually dissipating. According to our estimates, household wealth continued to grow last year in both the financial and real-estate components. The latter benefited from another large increase in house prices (5.8 per cent, compared with 9.6 per cent in 2005), although prices decelerated in the second half of the year.

The slowdown in house sales from the summer onwards, especially in the large cities, which had recorded the sharpest increase in the previous two years, may signal less demand-side pressure. Real-estate brokers nevertheless estimate that the total volume of transactions for the year was only slightly down from the peak reached in 2005.

Households invested in less risky financial assets

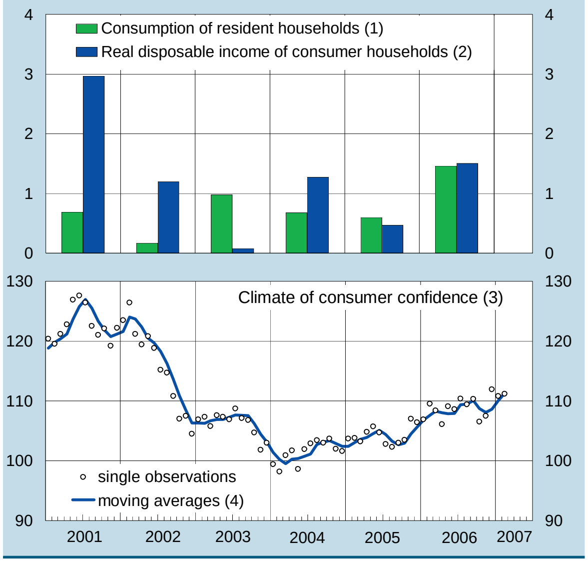
In the first nine months of 2006 investment in financial assets grew by about €115 billion (€11 billion more than in the same period of 2005; Table 4). At the end of September households held financial assets amounting to more than €3,300 billion, or 3.2 times their disposable income. Compared with the previous year, households were more attracted to financial instruments with moderate risks and yields, while they reduced their net purchases of shares and other equity and made net disposals of investment fund units. The portion of the overall portfolio invested in low-risk assets (cash, deposits and non-equity securities) approached 50 per cent; the gap with respect to the euro-area average widened.

Debt is still rising rapidly but remains low by international standards

Households' financial debt grew in 2006 by 11 per cent to about €480 billion at the end of the year. The ratio of financial debt to disposable income, rising to 46 per cent (Figure 20), is still only about half the area-wide figure.

Figure 19

Household consumption and income and consumer confidence in Italy



Sources: Based on Istat and ISAE data.
(1) Chain-linked volumes; percentages changes on previous year. – (2) Deflating using the deflator of consumption of resident households; our estimates for 2006. – (3) Index, 1980=100; seasonally adjusted data. – (4) Moving average for the three months ending in the reference month.

Table 4

Financial assets and liabilities of Italian households (1)

(billions of euros)

	Flows		Stocks
	Jan.-Sept. 2005	Jan.-Sept. 2006	Sept. 2006
Cash and deposits	21	26	900
Securities	-12	67	710
Investment fund units	9	-15	291
Shares and other equity	44	11	834
Insurance reserves (2)	42	28	605
Other assets	-1	0	5
Total assets	**104**	**115**	**3,346**
Bank debt	32	32	423
Other financial liabilities (3)	7	6	48
Staff severance pay and pension provisions	2	2	34
Total liabilities	**40**	**40**	**505**
BALANCE	**64**	**75**	**2,841**

(1) Households comprises consumer households, non-profit institutions serving households and sole proprietorships with up to 5 workers. Rounding may cause discrepancies in totals. – (2) Comprises the insurance technical reserves of the life and non-life sectors, pension funds and severance pay provisions. – (3) Includes finance provided by factoring companies and leasing companies, consumer credit from finance companies and some minor items.

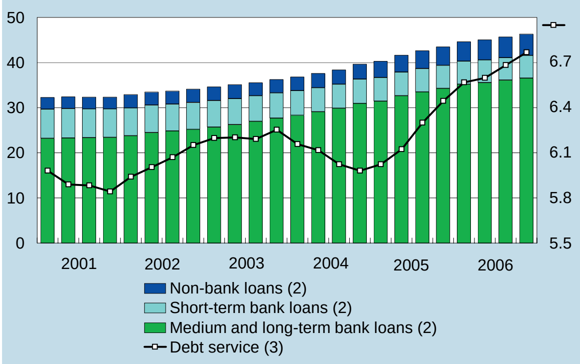
Bank loans for house purchases, the main component of household debt, slowed to growth of 12.6 per cent in 2006, reflecting the rise in interest rates (Figure 21). Consumer credit expanded rapidly but it too decelerated (to growth of 13 per cent), reflecting the slackness of spending on durable goods. The growth in lending to households is higher when the data are adjusted for the effects of bank securitizations.

The cost of debt-service (payment of interest and repayment of principal) rose to about 7 per cent of disposable income, still a low figure by international standards. The ratio of new bad debts to outstanding loans remained low at 0.8 per cent. Substandard assets (loans to households in temporary difficulty) grew more slowly.

Figure 20

Household debt (1)

(as a percentage of gross disposable income)



Sources: Istat and our estimates for gross disposable income.
(1) Consumer households, non-profit institutions serving households and sole proprietorships with up to 5 workers. Disposable income and debt service are for the twelve months ending in the reference quarter. For quarterly data on disposable income, our estimates; 2006 data, estimates. – (2) Left-hand scale. End-of-period stocks. – (3) Right-hand scale. Refers only to consumer households. Debt service includes payment of interest and repayment of principal.

FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports are up but grew less than world trade, and the current account deficit has widened

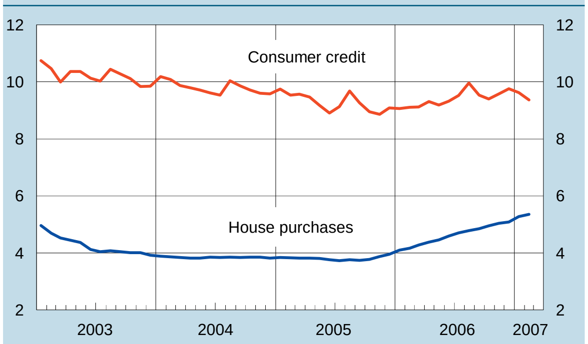
Exports of goods and services as measured by the national accounts grew by 5.3 per cent in real terms in 2006, boosted by the upturn in the euro area. According to foreign trade data on a *cif-fob* basis, exports of goods grew by 3.6 per cent at constant prices. As in the two preceding years, the average unit values of exports rose faster than producer prices on the domestic market (6.6 as against 5.6 per cent).

The expansion of Italian exports, which was concentrated in the final quarter, benefited from the acceleration of growth in Europe. Outside the European Union, sales were lively in the most dynamic markets, such as China and Russia. The recovery in exports of basic metals and fabricated metal products, transport equipment and engineering products progressed.

Figure 21

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

(monthly data; per cent)



(1) The data on bank lending rates refer to euro transactions and are gathered and processed using the Eurosystem's harmonized method. New contracts concluded during the reference period or contracts renegotiating previous terms and conditions. The annual percentage rate of charge (ARPC) includes accessory expenses (administrative expenses, loan examination fees and insurance). It is calculated as the average rate across all maturities, weighted by loan amount.

With world trade estimated to have grown by about 9 per cent in 2006, Italy's share of world exports at constant prices appears to have slipped further, from 2.7 per cent in 2005 to 2.5 per cent, handicapped by the loss of competitiveness. The share calculated at current prices showed a similar trend, diminishing by about 0.2 percentage points (from 3.7 to 3.5 per cent) over the same period.

Stimulated by the recovery of global demand, imports of goods and services measured by the national accounts grew by 4.3 per cent in real terms in 2006. According to foreign trade data on a *cif-fob* basis, imports of goods rose in volume terms by 2.7 per cent, principally in the intermediate and consumer goods sectors.

Italy's current account deficit rose from €21.9 billion in 2005 to €35.2 billion in 2006 (and from 1.5 to about 2.4 per cent of GDP; Table 5), reflecting above all the increase in the deficit on energy trade. Under services, the improvement in the balance on travel and transport contrasted with a deterioration in that on other business services, whose gross flows continued to grow rapidly in both directions. In January 2007 the current account deficit continued to widen (€6.2 billion, against €4.1 billion in January 2006), mainly because of an increase in the deficits on services and income.

In the financial account, direct and portfolio investment recorded net inflows of €17.3 billion in 2006, compared with €25.8 billion in 2005. Inward direct investment rose from €16 billion to €24.2 billion, while the halving of both inward and outward portfolio investment flows was concentrated in debt securities. In the first eleven months of the year non-residents invested €23.8 billion in Italian government securities. In January 2007 there were net direct and portfolio outflows totaling €21.8 billion (compared with €13.6 billion a year earlier), mainly due to the sharp increase in outward direct investment and to disposals of Italian securities by non-residents.

Table 5

Italy's balance of payments (1)

(millions of euros)

	2005	2006	2007 January
Current account	**-21,907**	**-35,176**	**-6,164**
Goods	535	-9,209	-3,393
Services	-500	-1,847	-1,098
Income	-13,595	-12,164	-1,464
Current transfers	-8,347	-11,956	-209
Capital account	**1,806**	**2,654**	**261**
Financial account	**19,041**	**33,947**	**5,353**
Direct investment	-17,556	-8,178	-14,092
Portfolio investment	43,398	25,490	-7,676
Financial derivatives	2,332	-1,377	651
Other investment	-9,943	20,100	27,407
Reserve assets	810	-2,088	-937
Errors and omissions	**1,060**	**-1,425**	**550**

(1) Provisional data for December 2006 and January 2007.

THE LABOUR MARKET

Further gains in employment ...

The growth in employment, as measured by the national accounts in terms of full-time equivalent workers, gradually slowed in the course of 2006: after the large increase recorded in the first half (1.8 per cent with respect to the previous six months), it was virtually flat in the second. The average increase for the year was 1.6 per cent, compared with a decrease of 0.2 per cent in 2005; it came from both payroll employment (2 per cent, up from 1.5 per cent in 2005) and self-employment, which recorded a moderate gain of 0.7 per cent after contracting sharply in 2005.

... fueled by fixed-term jobs

According to the labour force survey, which counts the number of persons in employment regardless of how many hours they work, employment rose by 1.5 per cent in the fourth

Table 6

Labour force status of the Italian population

	Average 2005	H1 2006	Q3 2006	Q4 2006	Average 2006
	Thousands of persons				
Employees	**16,534**	**16,853**	**16,992**	**16,962**	**16,915**
open-ended contracts	14,508	14,690	14,743	14,649	14,693
fixed-term contracts	2,026	2,163	2,249	2,313	2,222
Self-employed	**6,029**	**6,114**	**6,009**	**6,058**	**6,073**
Total persons in work	**22,563**	**22,967**	**23,001**	**23,018**	**22,988**
Labour force	**24,451**	**24,715**	**24,490**	**24,727**	**24,662**
men	14,640	14,773	14,695	14,720	14,740
women	9,811	9,942	9,795	10,006	9,922
Population	**58,134**	**58,376**	**58,461**	**58,531**	**58,436**
	Per cent				
Unemployment rate	**7.7**	**7.1**	**6.1**	**6.9**	**6.8**
men	6.2	5.6	4.8	5.6	5.4
women	10.1	9.2	8.0	8.8	8.8
Participation rate (ages 15-64)	**62.4**	**62.9**	**62.3**	**62.9**	**62.7**
men	74.4	74.8	74.4	74.5	74.7
women	50.4	50.9	50.1	51.2	50.7
Employment rate (ages 15-64)	**57.5**	**58.4**	**58.4**	**58.5**	**58.4**
men	69.7	70.5	70.7	70.3	70.6
women	45.3	46.2	46.1	46.7	46.2

Source: Istat, labour force surveys.

quarter with respect to the same period of 2005 (Table 6). The employment rate for the population aged 15 to 64 rose to 58.5 per cent, still low by international standards. Some four fifths of the 1.5 per cent increase in payroll employment with respect to year-earlier period is ascribable to the fixed-term component, whose share of total employment rose by 1 percentage point to 13.6 per cent. About half of the gain in employment in the fourth quarter was accounted for by foreign workers (158,000, including 37,000 women), whose number reflects the regularization of workers already working off-the-books in Italy.

The seasonally adjusted unemployment rate fell in the fourth quarter to 6.5 per cent, its lowest level since the early 1980s. It averaged 6.8 per cent for the year, 0.9 percentage points less than in 2005.

INFLATION

Consumer price inflation stable at around 2 per cent ...

In the first two months of this year consumer price inflation for the entire resident population held virtually stable at below 2 per cent (Table 7), confirming the progressive deceleration of prices since the second half of 2006. The trend is in line with price developments in the euro area as a whole. In February the overall CPI rose by 0.3 per cent month on month and 1.8 per cent year on year (the harmonized index showed an increase of 2.1 per cent).

... producer price inflation slowing as result of lower energy prices

A contribution to containing inflation in the first two months of the year came from the sharp slowdown in both regulated and unregulated energy prices. This was countered in February by a slight rise in the rate of increase of the core components, especially the prices of services. Excluding food and energy and products whose prices are regulated, inflation was equal to 1.8 per cent on an annual basis.

In recent months producer price inflation has declined progressively as a result of the fall in the prices of energy inputs. In January the overall index stood unchanged from the previous month (Table 7).

However, the prices of the core components have maintained a lively dynamic: excluding food and energy, producer price inflation has remained stable since last August at 4.4 per cent on an annual basis. This is partly due to the lagged effects of the rise in unit labour costs in industry, which remained rapid until the middle of last year.

The professional forecasters interviewed by Consensus Economics revised their forecasts for average consumer price inflation in 2007 downwards from 1.9 per cent in both January and February to 1.8 per cent in March. They expect inflation to fall below 2 per cent during the first three quarters of the year, then to rise temporarily before falling back to 1.9 per cent from the second quarter of 2008 onwards.

Table 7

Indicators of inflation in Italy

(twelve-month percentage change, except as indicated)

	HICP (1)	CPI (2)			PPI (3)
	Overall Index	Overall Index	1-month change	Core Component	Overall Index
2005	2.2	1.9		2.0	4.0
2006	2.2	2.1		1.8	5.6
2006 – Jan.	2.2	2.2	0.2	1.7	4.8
Feb.	2.2	2.1	0.2	1.8	4.9
Mar.	2.2	2.1	0.2	1.8	4.5
Apr.	2.3	2.2	0.3	1.9	5.5
May	2.3	2.2	0.3	1.8	6.6
June	2.4	2.3	0.1	1.8	6.2
July	2.3	2.2	0.3	1.7	7.0
Aug.	2.3	2.2	0.2	1.6	6.6
Sept.	2.4	2.1	-0.1	1.8	5.5
Oct.	1.9	1.8	-0.1	1.9	4.9
Nov.	2.0	1.8	0.1	1.8	5.3
Dec.	2.1	1.9	0.1	1.8	5.2
2007 – Jan.	1.9	1.7	0.1	1.7	4.0
Feb.	2.1	1.8	0.3	1.8	4.0

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Index of consumer prices for the entire resident population. The core component is defined as the change in the index excluding food and energy and products whose prices are regulated. – (3) Index of producer prices of industrial products sold on the domestic market.

BANKS

Bank lending continues to grow at a rapid pace

The expansion of lending by Italian banks (11.7 per cent over the twelve months ending in February; Table 8) still exceeds the euro-area average. The demand for short-term credit has accelerated further, in line with the recovery in economic activity; the growth in medium and long-term loans has been boosted by households' demand for mortgage loans for house purchase, fixed investment and firms' debt restructurings. In 2006 the value of the securities issued in securitizations originated by Italian banks remained almost unchanged at €28 billion. The bulk of these transactions involved performing loans (€25 billion, compared with €18 billion in 2005), while those involving bad debts fell dramatically (from €11 billion to €3 billion). If the volume of credit disbursed in 2006 is supplemented by the loans that were securitized, which continue to finance the economy although they are no longer included in banks' balance sheets, the rate of growth in lending in 2006 rises from 11 to 13 per cent.

Credit supply conditions remain relaxed; the rate of increase in bad loans is low

The absence of tensions in the supply of credit is confirmed both by sample surveys (see the box "Lending conditions and credit demand in Italy") and by indicators of the quantity and cost of credit: the increase in bank lending rates since the start of monetary tightening has been less than that in the official rates (Figure 22) and the spread between the average and the minimum rate on loans to firms, which tends to widen in periods of credit restriction, has narrowed further to 2 percentage points. Loan quality remains high. In the twelve months ending in December the ratio of new bad debts to total loans remained basically unchanged at 0.9 per cent. In the South it rose slightly to 1.5 per cent as a consequence of an increase affecting all the main sectors of economic activity.

Table 8

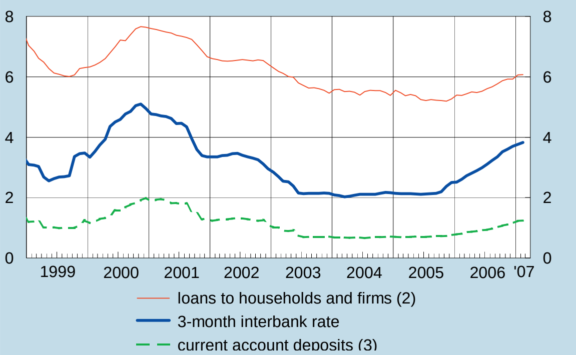
Main assets and liabilities of Italian banks (1)
(end-of-period data; 12-month percentage changes)

	2005	2006	February 2007	Stocks (2)
Assets				
Securities	19.4	5.3	5.0	226,837
Loans	8.7	11.5	11.7	1,402,646
of which: (3)				
short-term (a)	*2.0*	*10.5*	*10.7*	*486,476*
medium and long-term (b)	*13.0*	*11.6*	*11.9*	*851,001*
(a)+(b)	*8.6*	*11.2*	*11.5*	*1,337,477*
External assets	11.0	19.7	23.4	337,200
Liabilities				
Domestic funding (4)	7.8	9.9	9.6	1,385,659
Deposits	6.9	8.3	7.3	825,292
of which: (5)				
current accounts	*8.0*	*6.7*	*5.1*	*604,592*
with agreed maturity	*2.7*	*9.8*	*4.8*	*42,821*
redeemable at notice	*2.5*	*-0.8*	*-1.0*	*67,886*
repos	*4.9*	*29.4*	*33.4*	*101,943*
Bonds (4)	9.3	12.5	13.1	560,367
External liabilities	11.8	25.6	26.1	446,245

(1) The figures for February 2007 are provisional. The percentage changes are calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (2) Millions of euros.– (3) Bad debts, repos and some minor items are not shown in the breakdown. – (4) Includes bonds held by non-residents. – (5) Excludes those of central government.

Figure 22

Short-term bank interest rates (1)
(monthly data; per cent)



Sources: Based on Bank of Italy and Interbank Deposit Market data.
(1) The data on bank rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Average rate on loans to households and firms with a maturity of not more than one year. – (3) Average rate on current accounts of households and firms.

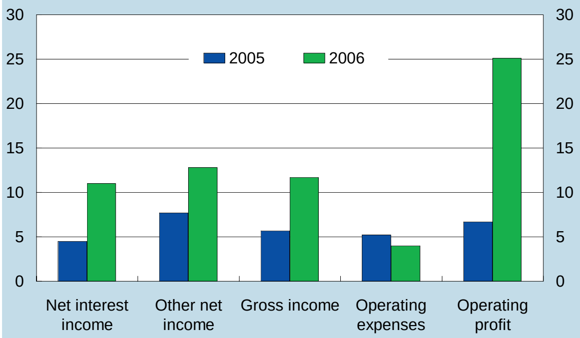
In February the twelve-month growth in domestic deposits was 10 per cent, with a particularly large increase in the bond component. As in earlier cycles and in line with developments in the euro area, current account deposit rates adjusted to the changes in monetary conditions more slowly than lending rates, increasing by about half a percentage point between the low point of November 2005 and the value prevailing at the end of February 2007. The yield on fixed rate bonds issued by Italian banks followed market rates more closely, and rose to 3.8 per cent.

Preliminary data point to a substantial increase in operating profits

Last year saw a major improvement in Italian banks' operating profits on an unconsolidated basis, which rose by 25 per cent (Figure 23). This performance needs to be interpreted with caution, however, as it may have been influenced by the application of the new international accounting standards (IAS/IFRS). Net interest income grew by 11 per cent as a result of the rapid expansion in volumes of business and the wider spread between lending and deposit rates. Other income grew by 13 per cent thanks to the increases in fee income and dividends from non-bank equity investments. Total operating costs rose by 4 per cent, primarily as a result of the rise in labour costs.

Figure 23

Main items of Italian banks' profit and loss accounts (1)
(annual percentage changes)



Source: Supervisory statistical reports.
(1) Unconsolidated financial statements. Provisional data for 2006.

THE FINANCIAL MARKET

Rise in Italian banks' bond issues

In the last quarter of 2006 Italian firms' net issues of Eurobonds amounted to €30 billion and were entirely due to banks and other financial companies; the figure for the previous quarter had been €13 billion (Table 9). By contrast, the euro area also saw an increase in the issues of non-financial corporations as a result of a high level of M&A activity and an upturn in investment. Up until the end of March the yields of Italian bonds on the secondary market continued to move in line with those of comparable securities in terms of rating and sector and were not affected by the turbulence in the financial markets at the beginning of the month. Fiat bonds were an exception in this respect as their spreads narrowed significantly, reflecting the progressive improvement in the outlook for the group on the industrial front. The credit default swap premiums of Italian banks and insurance companies have fallen further, in line with the average values for the area. In January 2007 the Ministry for the Economy and Finance issued the first 50-year government bond indexed to consumer price inflation in the euro area. The yield differential between the 10-year BTP and the corresponding German bund was about 25 basis points at the end of March.

Table 9

Net bond issues by banks and firms in Italy and the euro area (1)
(millions of euros)

	Banks	Other financial corpora-tions	Non-finan-cial corpora-tions	**Total**
		Italy		
2005	41,502	35,471	1,434	**78,407**
2006	60,382	22,519	4,371	**87,272**
2005 – Q3	-288	1,851	-99	**1,464**
Q4	13,770	19,943	882	**34,595**
2006 – Q1	20,039	1,489	509	**22,037**
Q2	12,310	5,880	3,697	**21,887**
Q3	7,155	5,608	322	**13,085**
Q4	20,878	9,542	-157	**30,263**
		Euro area		
2005	292,670	176,227	22,250	**491,146**
2006	348,210	241,125	31,572	**620,908**
2005 – Q3	27,947	11,394	5,784	**45,125**
Q4	40,642	81,366	8,576	**130,584**
2006 – Q1	100,514	45,840	1,785	**148,140**
Q2	87,655	62,251	15,511	**165,417**
Q3	61,687	34,963	2,608	**99,258**
Q4	98,354	98,071	11,668	**208,093**

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, valued at par, issued by resident companies belonging to the sector indicated. The nationality and the sector refer to the issuer and not to the company that controls it. Net issues are equal to the difference between the face value of the securities issued and that of the securities redeemed.

LENDING CONDITIONS AND CREDIT DEMAND IN ITALY

According to the Eurosystem's Bank Lending Survey, firms' demand for credit strengthened in the fourth quarter while lending conditions remained unchanged.[1] Lending conditions were shaped by two conflicting factors: the expansionary effect of perceptions of intensifying competition on one side, set against the restrictive effect of increasing risk in specific sectors of the economy on the other. On average, these countervailing trends were accompanied by a narrowing of interest rate spreads and a stiffening of guarantee requirements.

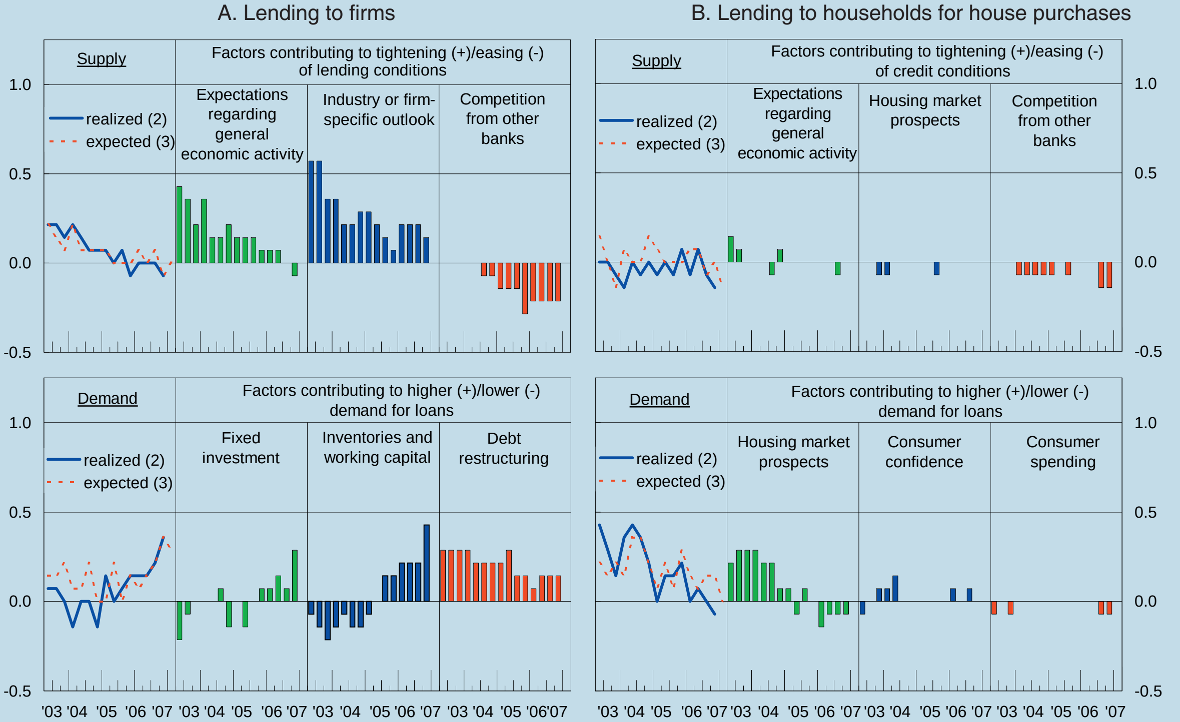
The banks reported that they intended to keep lending conditions basically unchanged in the first quarter of 2007 and expected a further increase in demand, especially from smaller firms.

The demand for loans for house purchases slackened further because of the worsening prospects in the residential property market. Lending conditions improved, as increased competition between banks resulted in higher loan-to-value ratios and a lengthening of maturities. Demand for consumer credit and other loans to households continued to be sustained by spending on consumer durables, while supply criteria remained broadly unchanged.

For the first quarter of 2007 the banks participating in the survey forecast a further slowdown in demand for home mortgages. At the same time, they expected to make their lending conditions for credit to households easier.

Figure

Trends in lending conditions and credit demand in Italy (1)



Source: Bank Lending Survey for the euro area.
(1) The indices are constructed by aggregating the qualitative replies from the 7 groups participating in the quarterly Bank Lending Survey, weighted as follows: 1 = increased considerably, 0.5 = increased somewhat, 0 = remained basically unchanged, -0.5 = decreased somewhat, -1 = decreased considerably. The range of the index is from -1 to 1. – (2) In the quarter in which the survey was conducted. – (3) Forecasts made in the preceding quarter.

[1] The results of the survey for Italy, based on the responses of senior loan officers at seven banking groups, are available at www.bancaditalia.it. For a discussion of the main features of the survey, see the box "The results of the bank lending survey for Italian banks", *Economic Bulletin* No. 43, November 2006, p. 62.

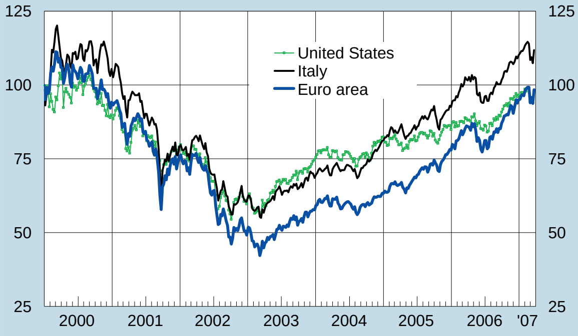
Despite the recent turbulence the Italian stock market index has risen

Between the end of October 2006 and the end of March 2007 share prices rose by 6 per cent, in line with the Dow Jones Euro Stoxx index (Figure 24); the fall in stock prices that began at the end of February (see the box "The recent turbulence in the financial markets") has been made good in part. As elsewhere, the increase in share prices on the Italian market was mainly due to the strong performance of current earnings and a decline in the risk premium, which was also signalled by the slight fall in the indicators of risk aversion obtained from options prices. The ratio of current earnings to market value is only just above the long-term average (Figure 25). The volatility of the stock market index has remained low on the whole and well below its long-term average value. The performance of prices varied across the various sectors: increases were much larger than average in the automobile sector (31 per cent), driven by the recovery in Fiat's profitability; for raw materials (11 per cent); and for public utility companies (10 per cent), whose shares benefited from the prospect of concentrations among the leading companies of the area. By contrast, the telecommunications sector recorded a substantial fall of 7 per cent, penalized by the Telecom Italia shares, which suffered from the unsatisfactory outlook for earnings and the uncertainty surrounding the plans for the company's restructuring.

Figure 24

Share prices (1)

(end-of-week data; indices, 31 December 1999=100)

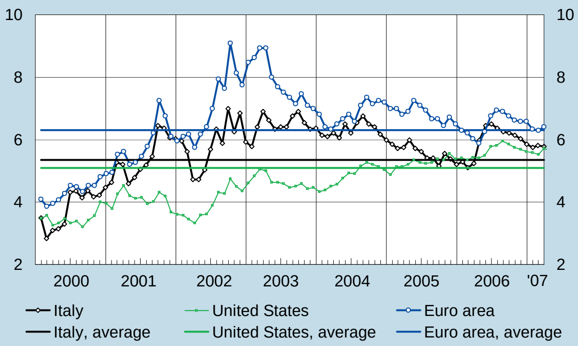


Source: Bloomberg.
(1) MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

Figure 25

Current earnings/price ratios (1)

(monthly data; per cent)



Sources: Thomson Financial and Bank of Italy calculations.
(1) The averages are calculated from January 1986 onwards.

As in the other financial centres of the euro area, new listings continued on the Italian stock exchange (21 new companies in 2006, compared with 15 the previous year). At the end of December there were 284 Italian companies listed (an increase of 9 on end-2005) and their market value amounted to €779 billion or 53 per cent of GDP.

Further outflows from investment funds

In the last quarter of 2006 funds controlled by Italian intermediaries recorded a net outflow of €6 billion, in contrast with a net inflow for the funds of the euro area as a whole. The outflow continued in January of this year. This result reflects banks' supply-side strategy, designed to encourage customers to invest in funds of management companies that they have set up in financial centres abroad where corporate income tax is lower. It was also influenced by the greater propensity Italian savers have shown in recent years to invest directly in bonds. The average rate of return of funds set up under Italian law was 2.2 per cent in the last quarter of 2006. Equity funds recorded a particularly high rate of return (5.7 per cent). Portfolio management services saw a net outflow of €3 billion in the third quarter of 2006, compared with a net inflow of €21 billion in the second quarter; the estimated average rate of return was equal to 2.3 per cent.

THE PUBLIC FINANCES

Excluding two extraordinary factors, the public finances improved

In 2006 general government net borrowing was 4.4 per cent of GDP, compared with 4.1 per cent in 2005 (Table 10). The deficit was driven up by the September 2006 ruling of the European Court of Justice, which led to estimated additional expenditure of €16 billion for VAT reimbursements for the years 2003-06, and by the cancellation of the high-speed train company's debts towards the State, which added €13 billion of expenditure. Excluding these two factors, the deficit was 2.4 per cent of GDP.

Net of cyclical effects, one-off measures and the extraordinary factors referred to above, net borrowing fell from more than 4 per cent of GDP in 2005 to less than 3 per cent; the primary surplus, which was almost nil in 2005, rose to over 1.5 per cent of GDP (Figure 26). The unfavourable effect of the economic cycle on the public finances declined from about half a percentage point of GDP in 2005 to virtually nil. One-off measures reduced net borrowing by roughly the same amount as in 2005 (about half a percentage point of GDP).

The size of the improvement was unexpected

Excluding the extraordinary factors, the deficit in 2006 was much smaller not only than the official forecast of the autumn of 2005 but also than the subsequent forecasts (Table 11).

Table 10

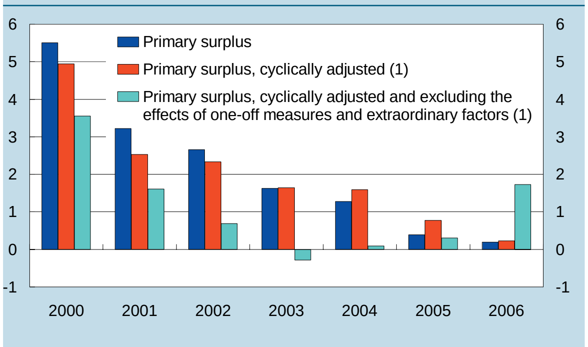
General government balances (1)
(millions of euros and percentages of GDP)

	2003	2004	2005	2006
Net borrowing	46,614	47,946	58,714	64,743
as a percentage of GDP	*3.5*	*3.4*	*4.1*	*4.4*
Primary surplus	21,736	17,748	5,499	2,809
as a percentage of GDP	*1.6*	*1.3*	*0.4*	*0.2*
Memorandum item:				
Interest payments	68,350	65,694	64,213	67,552
as a percentage of GDP	*5.1*	*4.7*	*4.5*	*4.6*

Source: Istat.
(1) Rounding may cause discrepancies in totals.

Figure 26

Primary surplus and transitory effects
(as a percentage of GDP)



Source: Based on Istat data.
(1) As a ratio to trend GDP.

The Quarterly Report on the Borrowing Requirement of April 2006 estimated that net borrowing for the year would amount to 3.8 per cent of GDP, in line with the objective set in the summer 2005 Economic and Financial Planning Document. In June 2006 the Committee set up by the new Government to survey the state of the public finances raised the estimate of the deficit to 4.1 per cent of GDP on the basis of higher revenue and expenditure estimates. Subsequently, the Government introduced a supplementary budget that increased both revenue and capital expenditure in 2006 by between €2 billion and €3 billion. The Economic and Financial Planning Document published in July took account of the results in the first half of the year; it further increased the estimates of revenue and expenditure but left the forecast deficit basically unchanged. At the end of September, considering the still strong performance of tax revenue and the additional expenditure caused by the ruling of the European Court of Justice (estimated at 1.2 per cent of GDP), the forecast of net borrowing was raised to 4.8 per cent of GDP.

The outturn for revenue and expenditure exceeded the estimate of the Quarterly Report on the Borrowing Requirement by €28 billion and €6.2 billion respectively. The divergence on the revenue side can be attributed to the faster-than-expected growth of the economy, the effects of the measures introduced in June and the extreme caution with which the estimates had been made in the spring in a context of pronounced uncertainty. Compared with the figures published in the Economic and Financial Planning Document in July, the outturn for revenue was €16.2 billion larger and that for expenditure €8.6 billion smaller.

Taxes and social security contributions rose considerably as a ratio to GDP

In 2006 general government revenue (Table 12 and Figure 27) rose by 7.7 per cent compared with 2005. As a ratio to GDP, it increased by 1.7 percentage points.

The data for central government on a cash basis show that the increase in *direct tax revenue* came from all the main components. The increase in withholdings from employee incomes (7.8 per cent and €7.8 billion) was consistent with the high elasticity of receipts with respect to the tax base, which has been accentuated by the reforms of recent years, and with the fact that earnings grew more than 1 percentage point faster than GDP, partly as a result of the growth in employment. The increase in corporate income tax (16.4 per cent and €5.5 billion) reflected the measures included in the budget for 2006 and the economic recovery. The increase in the taxes on income from financial assets (37.1 per cent and €3.3 billion) was fuelled, with the lag due to the different methods of collection, by the rise in interest rates and share prices, and by the reduction in the tax credits that had diminished receipts in recent years. Contributions to the increase in direct taxes also included €4 billion from the one-off taxes in the budget for 2006 and €0.9 billion from the tax on insurance companies' mathematical provisions, which was not paid in 2005 because it had been moved forward to 2004. The increase in *indirect tax revenue* benefited from the growth in receipts of VAT (10.4 per cent and €10.9 billion), driven by the large rise in the price of oil, and of Irap (9.1 per cent and €3.2 billion). Especially in the case of VAT, receipts may also have been influenced by a reduction in tax evasion and avoidance.

Table 11

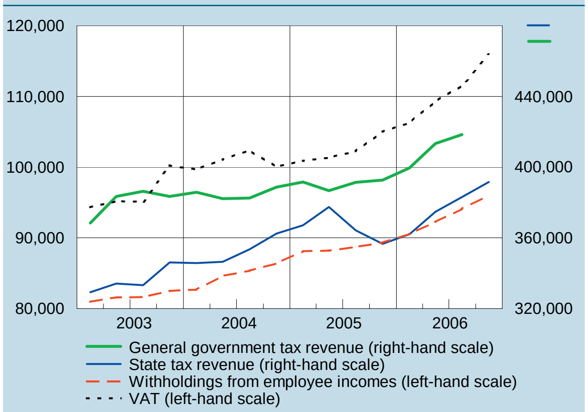
Public finance objectives and estimates for 2006
(billions of euros and percentages of GDP)

	General government			*Memorandum item:* GDP growth rate
	Net borrowing	Primary surplus	Debt	
Objectives				
July 2005 (1)	....	....	....	1.5
as a percentage of GDP	*3.8*	*0.9*	*107.4*	
September 2005 (2)	54.7	13.1	....	1.5
as a percentage of GDP	*3.8*	*0.9*	....	
December 2005 (3)	....	....	....	1.5
as a percentage of GDP	*3.5*	*1.3*	*108.0*	
Estimates				
April 2006 (4)	56.0	9.4	....	1.3
as a percentage of GDP	*3.8*	*0.6*	....	
July 2006 (1)	59.3	7.8	....	1.5
as a percentage of GDP	*4.0*	*0.5*	....	
September 2006 (2) (5)	71.1	-4.0	....	1.6
as a percentage of GDP	*4.8*	*-0.3*	*107.6*	
December 2006 (3) (6)	....	....	....	1.6
as a percentage of GDP	*5.7*	*-0.9*	*107.6*	
Outturn (7)	64.7	2.8	....	1.9
as a percentage of GDP	*4.4*	*0.2*	*106.8*	

(1) Economic and Financial Planning Document. – (2) Forecasting and Planning Report. – (3) Stability Programme. – (4) Quarterly Report on the Borrowing Requirement. – (5) The estimates include the effects of the ruling of the European Court of Justice concerning VAT (officially estimated at €18.6 billion). – (6) The estimates include the effects of the ruling of the European Court of Justice concerning VAT and the cancellation of the high-speed train company's debts (officially estimated at respectively €18.6 billion and approximately €13 billion). – (7) Istat press release of March 2007 for net borrowing, primary surplus and GDP growth rate. The effects referred to in the previous footnote are estimated at respectively €16 billion and €13 billion.

Figure 27

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



Sources: Istat for general government tax revenue; State budget for the other variables.
(1) The data on VAT and withholdings from employee incomes are derived from the State budget.

Actual *social security contributions* increased by 4.7 per cent, which was close to the growth in gross earnings (4.8 per cent) despite the reduction of one percentage point in the employee contribution rate.

Primary current expenditure remained stable in relation to GDP

The growth in primary current expenditure slowed slightly to 3.6 per cent, so that this aggregate remained virtually unchanged in relation to GDP. The level reached in the last two years, close to 40 per cent, exceeds those of the early 1990s. In nominal terms there was a decrease in intermediate consumption, curbed by some measures in the budget for 2006. Compensation of employees grew by more than 4 per cent, as in 2005. The year saw the completion of the bulk of the 2004-05 contract renewals. Purchases of social benefits in kind, mainly in the form of spending on health care, grew by 3.4 per cent; the growth was curbed by some measures affecting the prices of pharmaceuticals.

Excluding property disposals (included in the accounts as a reduction in expenditure), investment decreased by 3.4 per cent; over the two years 2005 and 2006 it decreased by 6.2 per cent.

Excluding privatization receipts, the general government borrowing requirement was equal to €54.8 billion (3.7 per cent of GDP; Table 13 and Figure 28), €20.4 billion less than in 2005. The state sector borrowing requirement showed a larger fall of €25.4 billion, to €34.6 billion. It benefited from the replacement of about €3 billion of loans granted to local authorities by the Ministry for the Economy and Finance with loans from Cassa Depositi e Prestiti S.p.A.

The borrowing requirement remains large

The net general government borrowing requirement exceeded net borrowing (calculated net of the effects of the ruling of the European Court of Justice and cancellation of the high-speed train company's debts) by 1.3 percentage points of GDP (1.2 points in 2005). There was an increase in the part of the gap attributable to the difference in accounting methods (on a cash basis for the borrowing requirement and an accrual

Table 12

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

	2005	2006	Percentage change on previous year 2005	Percentage change on previous year 2006
EXPENDITURE				
Final consumption expenditure	290,636	299,512	5.2	3.1
of which:				
compensation of employees	*156,608*	*162,999*	*4.5*	*4.1*
intermediate consumption	*78,805*	*78,172*	*5.0*	*-0.8*
purchases of social benefits in kind	*40,080*	*41,428*	*5.6*	*3.4*
Social benefits in cash	242,444	252,993	3.3	4.4
Interest payments	64,213	67,552	-2.3	5.2
Other current expenditure	35,745	36,520	-1.0	2.2
Current expenditure	**633,038**	**656,577**	**3.3**	**3.7**
as a percentage of GDP	*44.5*	*44.5*		
Current expenditure, net of interest payments	**568,825**	**589,025**	**4.0**	**3.6**
as a percentage of GDP	*40.0*	*39.9*		
Investment (1)	33,285	33,850	0.4	1.7
net of property disposals	*36,461*	*35,236*	*-2.9*	*-3.4*
Investment grants	22,108	22,067	11.5	-0.2
Other capital expenditure (2)	1,827	32,303	34.1	..
Capital expenditure (1)	**57,220**	**88,220**	**5.3**	**54.2**
Total expenditure, net of interest payments (1)	**626,045**	**677,245**	**4.1**	**8.2**
as a percentage of GDP	*44.0*	*45.9*		
TOTAL EXPENDITURE (1)	**690,258**	**744,797**	**3.5**	**7.9**
as a percentage of GDP	*48.5*	*50.5*		
REVENUE				
Direct taxes	190,132	213,664	2.6	12.4
Indirect taxes	202,471	218,250	3.6	7.8
Social security contributions	183,434	192,038	4.2	4.7
Other current revenue	49,658	51,630	-1.2	4.0
Current revenue	**625,695**	**675,582**	**3.1**	**8.0**
as a percentage of GDP	*44.0*	*45.8*		
Capital revenue	**5,849**	**4,472**	**-52.0**	**-23.5**
of which:				
capital taxes	*1,864*	*222*	*-77.7*	*-88.1*
TOTAL REVENUE	**631,544**	**680,054**	**2.0**	**7.7**
as a percentage of GDP	*44.4*	*46.1*		
of which:				
taxes and social security contributions	*40.6*	*42.3*		
NET BORROWING	**58,714**	**64,743**	**22.5**	**10.3**
as a percentage of GDP	*4.1*	*4.4*		
Primary surplus	**5,499**	**2,809**	**-69.0**	**-48.9**
as a percentage of GDP	*0.4*	*0.2*		
Memorandum item:				
GDP	1,423,048	1,475,401	2.3	3.7

Source: Based on Istat data.
(1) This item includes the proceeds of property sales entered with a negative sign. – (2) Includes the estimate of the cost of refunding taxpayers as a result of the ruling of the European Court of Justice concerning VAT (€15,982 million) and the effects of the cancellation of the high-speed train company's debts to Infrastrutture S.p.A. (€12,950 million).

basis for net borrowing), especially owing to the rapid growth in social security contributions on an accrual basis and the allocation to 2005 on an accrual basis of back pay for some public employment contracts disbursed at the beginning of 2006. By contrast there was a reduction of about half a percentage point of GDP in the part of the gap corresponding to the deficit on financial items (included in the calculation of the borrowing requirement but not in that of net borrowing); the decrease was affected by the contraction in the loans granted by Infrastrutture S.p.A. the high-speed train company.

The debt-to-GDP ratio rose further

In 2006 the ratio of the debt to GDP rose for the second successive year, rising from 106.2 per cent in 2005 to 106.8 per cent. Excluding the debt needed to increase the Treasury's balance on its account with the Bank of Italy in order to make the VAT refunds payable under the ruling of the European Court of Justice, the ratio would have remained unchanged (see the box "General government debt").

The update of the *Stability Programme* the Government submitted to the European Commission in December 2006 indicates three priority objectives for the five-year period 2007-11: to reduce net borrowing below 3 per cent of GDP in 2007 (Table 14); to move towards a balanced budgetary position in the medium term; and to set in motion a debt reduction process so as to reach a figure of less than 100 per cent in 2011.

The improvement in the public finances allows an acceleration in the reduction of the deficit

In order to achieve the objective set for net borrowing this year (2.8 per cent), in December the Parliament approved a budgetary adjustment of the order of one percentage point of GDP (see the box "The budget for 2007"). The budget provides for additional resources amounting to €35.9 billion and for €18.7 billion of additional net revenue and €3.6 billion of additional net expenditure. In March the EU Council deemed the budget to be consistent with eliminating the excessive deficit in 2007.

Table 13

General government financial balances and debt

(millions of euros and percentages of GDP)

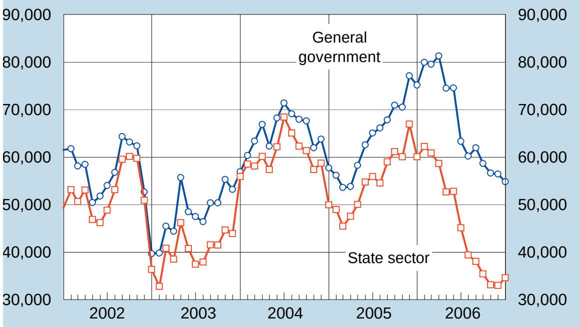
	2003	2004	2005	2006 (1)
Borrowing requirement	40,017	49,388	70,502	54,727
as a percentage of GDP	*3.0*	*3.6*	*5.0*	*3.7*
Net borrowing requirement (2)	56,883	57,704	75,120	54,765
as a percentage of GDP	*4.3*	*4.1*	*5.3*	*3.7*
Debt	1,392,278	1,442,996	1,510,926	1,575,346
as a percentage of GDP	*104.3*	*103.8*	*106.2*	*106.8*
Memorandum item:				
Privatization receipts	16,866	8,316	4,618	38
as a percentage of GDP	*1.3*	*0.6*	*0.3*	*0.0*
Settlements of past debts	8,537	529	1,864	243
as a percentage of GDP	*0.6*	*0.0*	*0.1*	*0.0*

(1) Provisional. – (2) Excluding property disposals.

Figure 28

Rolling twelve-month borrowing requirement (1)

(millions of euros)



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

Table 14

Public finance objectives and estimates for 2007

(billions of euros and percentages of GDP)

	General government			*Memorandum item:* GDP growth
	Net borrowing	Primary surplus	Debt	
Objectives				
July 2006 (1)	....	....	....	1.2
as a percentage of GDP	*2.8*	*2.1*	*107.5*	
September 2006 (2)	42.1	30.7	....	1.3
as a percentage of GDP	*2.8*	*2.0*	*106.9*	
December 2006 (3)	....	....	....	1.3
as a percentage of GDP	*2.8*	....	*106.9*	
Estimates				
March 2007 (4)	34.6	39.4	....	2.0
as a percentage of GDP	*2.3*	*2.6*	....	

(1) Economic and Financial Planning Document. – (2) Forecasting and Planning Report. – (3) Stability Programme. – (4) Report on the economy and the public finances.

GENERAL GOVERNMENT DEBT

At 31 December 2006 general government debt in Italy amounted to €1,575 billion; at the end of 2005 it had been €1,511 billion.[1] The main factors in the increase were the general government borrowing requirement and the growth of the assets that the Treasury holds with the Bank of Italy (see table).

The debt increased by 0.6 percentage points in proportion to GDP in 2006 (2.4 points in 2005) to 106.8 per cent (see figure). Changes in the debt-to-GDP ratio can be ascribed to three components: primary net borrowing, the differential between the net cost of the debt and the nominal growth of output, and a residual component. The latter in turn reflects several factors: the different accounting methods used to calculate net borrowing and the borrowing requirement (on an accrual and a cash basis respectively), net purchases of financial assets (including both those that form part of the borrowing requirement and the change in Treasury deposits with the Bank of Italy), the effects of debt restructuring, issue discounts and exchange-rate variations.

In 2006 the primary surplus diminished the rise in the debt by 0.2 percentage points of GDP, compared with 0.4 points in 2005. The impact of the differential between the average cost of the debt and the nominal rise in GDP remained adverse but narrowed to 0.8 per cent from 2.1 per cent in 2005, thanks to an acceleration in nominal GDP growth from 2.3 to 3.7 per cent, only minimally offset by the rise in the average cost of the debt for the first time in 13 years (from 4.4 to 4.5 per cent of the stock at the start of the year). The residual component was essentially neutral, whereas in 2005 it had increased the debt by 0.6 points. The impact of differing accounting methods for net borrowing and borrowing requirement – downward in 2006 owing to the inclusion in the balance on an accrual basis of expenditures not sustained during the year in connection with the European Court of Justice ruling on

Table

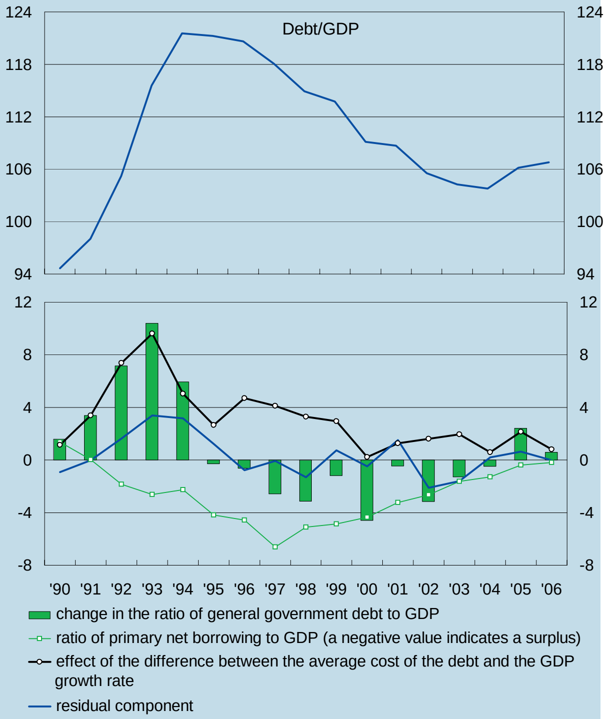
Change in general government debt and its components
(millions of euros)

	2003	2004	2005	2006 (1)
Change in debt	**25,124**	**50,718**	**67,929**	**64,421**
Total borrowing requirement	40,017	49,388	70,502	54,727
Change in Treasury deposits with the Bank of Italy	-8,022	2,578	-1,197	8,230
Issue discounts	-3,692	-227	-2,444	2,274
Value in euros of foreign currency liabilities	-3,179	-1,022	1,068	-810

(1) Provisional.

Figure

Breakdown of the change in the ratio of public debt to GDP
(percentages of GDP)



[1] The Bank of Italy calculates general government debt using the methodological standards laid down in the EU Treaty, and Council Regulation (EC) No. 3605/93 of 22 November 1993 as amended.

VAT and the cancellation of the debt relating to the high-speed rail project – and the appreciation of the euro offset the increase resulting from net purchases of financial assets and issue discounts.

By sub-sector, central government debt increased by €46 billion in 2006 to €1,467 billion, but its ratio to GDP fell from 99.9 to 99.4 per cent. The debt of local authorities held by non-government entities increased by €18.3 billion to €108.1 billion and from 6.3 to 7.3 per cent of GDP. About €3 billion of this was due to the replacement of loans from the Ministry of the Economy and Finance by loans from Cassa Depositi e Prestiti S.p.A. The increase was especially sharp for regional governments (a rise of €11.2 billion, 33.1 per cent). The increase in the debt of provinces, municipalities and other governmental entities, chiefly health care producers, came respectively to €1.4 billion (19.2 per cent), €4.5 billion (11.0 per cent) and €1.2 billion (15.3 per cent).

In March the Government updated the estimates of the public finances for the years 2007-09 taking into account the results for 2006 and the improvement in the economy's growth prospects. Net borrowing in 2007 is expected to be 2.3 per cent of GDP and revenue should rise by another 0.4 percentage points of GDP, to a level close to the peak recorded in 1997. The new estimates appear to be based on hypotheses that are generally cautious. In fact quantifying the effects of some of the measures included in the budget (especially those concerning severance pay and the fight against tax evasion and avoidance) is necessarily somewhat uncertain.

The performance of the public finances makes it possible to speed up the deficit-reduction process. Rapid achievement of a structurally balanced budget is essential if the debt ratio is to be reduced significantly in the coming years, so that the costs deriving from the ageing of the population can be tackled in good time. The large debt makes every increase in interest rates extremely costly for the public finances and reduces the resources available for productive investment. Measures to curb the growth in current expenditure could make it possible to support the recovery in public investment and reduce the ratio of taxation to GDP, which is above the average of the euro area and close to the highest values of the last few decades. A contribution to the lowering of tax rates will also need to come from progress in reducing tax evasion and avoidance.

THE BUDGET FOR 2007

The budget for 2007 makes €35.9 billion of resources available, €24.8 billion from revenue increases and €11.1 billion from expenditure cuts (see table). Of these resources €15.1 billion (about one per cent of GDP) is allocated to reducing net borrowing and €20.8 billion to financing tax and social security contribution reliefs (€6.1 billion) and increased expenditure (€14.7 billion).

These figures take account of the changes introduced during the budget's passage through Parliament, which increased expenditure by €0.7 billion, introduced new reliefs amounting to €1 billion and made €1.6 billion of additional resources available, €0.9 billion from revenue increases and €0.7 billion from expenditure cuts (see box "The budget for 2007" in Economic Bulletin No. 43, November 2006).

Changes to the original proposal: revenue

The reform of personal income tax will result in a reduction in revenue of about €0.2 billion; in the September version of the budget it would have brought an increase of €0.4 billion. Tax credits for dependents and low income relief were boosted.

As regards the taxation of motor vehicles, the planned increase in rates was restructured to take account of engine size and emission levels and motorcycles were taxed more heavily. A contribution

Table

Estimated effects of the budget on the general government consolidated accounts (1)
(millions of euros)

REVENUE	
Increase in revenue	**24,810**
Fight against tax evasion and avoidance	8,150
Revision of sector studies	*3,290*
Measures to recover tax bases	*2,130*
Collection of assessed taxes	*1,200*
Other	*1,530*
Partial transfer of severance pay to INPS	5,940
Social security contributions	4,380
Motor vehicle taxes	1,150
Domestic stability pact (municipal taxes)	1,110
Enabling law to reform taxation of financial income	1,100
Increase in social security contributions from regularizing immigrants	770
Gaming and lotteries	690
Changes in deductibility of company car expenses (net of the effects of the ECJ judgement)	120
Health sector – net increase in revenue	110
Taxation of inheritances and gifts	60
Other tax revenue	380
Other non-tax revenue	850
Decrease in revenue	**6,090**
Irap deductions	2,450
Extension of tax reliefs	1,140
Tax reliefs	660
Indirect effects of the partial transfer of severance pay to INPS	560
Indirect effects of the increase in social security contribution rates	370
Reform of Irpef	220
Social security contributions	210
Other minor receipts	480
NET INCREASE IN REVENUE	**18,720**

EXPENDITURE	
Decrease in expenditure	**11,070**
Current expenditure.	9,490
Domestic stability pact	*3,260*
Health service	*2,950*
Ministry intermediate consumption and transfer payments	*2,370*
Public employment	*390*
Other	*520*
Capital expenditure	1,580
Ministries	*830*
Other	*750*
Increase in expenditure	**14,680**
Current expenditure	8,040
Armed forces	*1,350*
Family benefits	*970*
Public employment - new contracts	*1,090*
Transfer payments to public enterprises	*1,100*
Subsidies for road haulage	*280*
Severance pay (paid by INPS)	*430*
Social benefits	*430*
Education	*320*
Other	*2,070*
Capital expenditure	4,890
Transfer payments to Ferrovie dello Stato S.p.A.	*2,020*
Removal of spending caps	*550*
Other	*2,320*
Other net effects (2)	1,750
NET INCREASE IN EXPENDITURE	**3,610**
TOTAL REDUCTION IN NET BORROWING	**15,110**

(1) Based on official estimates. The items include the measures contained in Law 296/2006 (the Finance Law for 2007) and Decree Law 262/2006, ratified with amendments as Law 286/2006. Account is also taken of the mandate concerning taxation of financial income included in the bill accompanying the Finance Bill and of the Prime Minister's Decree of 14 July 2006 on the regularization of new immigrant flows. – (2) The item includes the effects of the changes introduced with the tables attached to the Finance Bill and the accompanying decree law.

for the scrapping of the most heavily polluting vehicles was introduced that will have an impact on revenue. In the case of the simultaneous acquisition of a new vehicle with a low level of pollution, the contribution (itself increased) is supplemented by a three-year exemption from the motor vehicle tax. It is also expected that the replacement of scrapped vehicles will bring an increase in VAT receipts. Overall, the measures concerning automobiles produce an increase in budget revenue of €1.2 billion, compared with €0.7 billion in the September version.

Measures were introduced to produce an additional €0.7 billion from gaming and lotteries. New rules in the fight against tax evasion require advance notice of the tax credits that are to be used to offset liabilities (a measure that is expected to increase revenue by €0.4 billion).

As regards the taxation of gifts and inheritances, the changes diminish the projected increase in revenue by €0.2 billion. The inheritance tax was reintroduced, but with higher exempt amounts than had been in force before this tax was abolished.

The increase to 10 per cent in the social security contribution rate for apprentices was made gradual, with the introduction of much reduced rates for the first two years of apprenticeship contracts (1.5 and 3 per cent respectively). The consequent reduction in revenue amounted to about €0.4 billion in 2007.

Firms with fewer than 50 employees are exempted from the obligation to transfer 50 per cent of their severance pay provisions not allocated to pension funds to the National Social Security Institute (INPS). But firms with 50 employees or more must transfer 100 per cent of such provisions. These changes had no significant effect on the public finances.

The total amount of tax reliefs granted to specific sectors rose from €1.3 billion to €1.8 billion, of which €1.1 billion for the extension of prior-year measures. In addition, social security contribution reliefs have been granted to employers for some types of workers in particular situations, with a total reduction in revenue of €0.2 billion.

Changes to the original proposal: expenditure

Some corrections were made to the reform of family benefits, with a reduction in the increase in expenditure from €1.4 billion to €1 billion. The contribution to the scrapping of the most heavily polluting vehicles will give rise to about €0.5 billion of additional expenditure.

In the field of health care, the charge for emergency services with "green" priority was dropped, while minors under fourteen were exempted from that for those with "white" priority. The effects of these changes were partly offset by a reduction in the refund prices applicable by health-care structures for some diagnostic services.

Provision was made for the Export Credit Insurance Agency, SACE S.p.A., to reduce its share capital to bring it into line with its volume of business; for the State, the consequent receipts will bring a saving in interest payments of €0.1 billion. The transfers to Ferrovie dello Stato S.p.A. for investment in the traditional railway network were reduced from €2.4 billion to €2 billion.

Among the other changes it is worth noting: (a) the reduction in the funds available to Sviluppo Italia S.p.A. (€0.2 billion); (b) the exemption of public research centres from the 10 per cent cut in intermediate consumption introduced in the July 2006 package (with an increase in expenditure of about €0.1 billion); (c) increased financing for socially useful work (€0.1 billion); and (d) additional resources for the renewal of the contract of local public transport workers (€0.1 billion).

STATISTICAL APPENDIX

Additional tables and data 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' consumption		General government consumption		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
2002	1.6	2.7	1.9	4.4	0.8	-5.2	-0.8	2.2	2.3	-2.3	3.4	-0.7	0.4
2003	2.5	2.8	1.9	2.5	0.5	3.4	0.5	2.8	2.9	1.3	4.1	-0.4	..
2004	3.9	3.9	2.7	1.9	0.4	7.3	1.1	4.4	4.6	9.2	10.8	-0.7	0.4
2005	3.2	3.5	2.4	0.9	0.2	7.5	1.2	3.3	3.5	6.8	6.1	-0.3	-0.3
2006	3.3	3.2	2.2	2.1	0.4	2.9	0.5	3.2	3.3	8.9	5.8	..	0.2
2005 – Q1	3.4	2.7	1.9	1.6	0.3	7.8	1.2	3.4	3.6	4.7	4.1	-0.2	0.1
Q2	3.3	4.2	2.9	1.1	0.2	10.5	1.6	2.4	2.6	9.4	1.4	0.7	-2.2
Q3	4.2	3.9	2.8	3.4	0.6	6.3	1.0	4.0	4.3	3.2	2.5	-0.1	-0.2
Q4	1.8	0.8	0.5	-1.1	-0.2	2.8	0.5	2.7	2.9	9.6	13.2	-1.1	2.1
2006 – Q1	5.6	4.8	3.4	4.9	0.9	8.2	1.3	5.3	5.6	14.0	9.1	..	..
Q2	2.6	2.6	1.8	0.8	0.2	-1.6	-0.3	2.0	2.2	6.2	1.4	0.4	0.4
Q3	2.0	2.8	2.0	1.7	0.3	-1.2	-0.2	2.0	2.2	6.8	5.6	-0.2	0.1
Q4	2.5	4.2	2.9	3.4	0.6	-9,1	-1.5	0.8	0.9	10.6	-2.6	1.6	-1.2

Source: National statistics.
(1) Chain-linked volumes. Public sector investment is included in general government consumption. – (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' consumption		General government consumption		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
2002	0.3	1.1	0.6	2.4	0.4	-4.9	-1.2	-0.4	-0.4	7.5	0.9	0.7	-0.3
2003	1.4	0.4	0.2	2.3	0.4	-0.5	-0.1	0.8	0.8	9.2	3.9	0.7	0.2
2004	2.7	1.6	0.9	1.9	0.3	1.4	0.3	1.9	1.9	13.9	8.1	0.8	0.3
2005	1.9	1.6	0.9	1.7	0.3	2.4	0.6	1.7	1.6	7.0	5.8	0.3	-0.1
2006	2.2	0.9	0.5	0.3	0.1	3.5	0.8	1.4	1.4	9.5	4.5	0.8	0.1
2005 – Q1	3.4	3.4	1.9	5.4	0.9	4.6	1.0	3.5	3.4	-1.1	-1.0	..	-0.5
Q2	3.5	3.9	2.2	-2.7	-0.5	1.9	0.4	2.3	2.2	13.7	5.1	1.2	0.1
Q3	2.9	2.1	1.2	4.7	0.8	7.2	1.6	2.9	2.8	12.7	14.4	0.2	-0.8
Q4	1.4	1.1	0.6	-4.2	-0.8	-3.4	-0.8	-0.9	-0.8	16.2	-1.0	2.2	0.1
2006 – Q1	2.9	0.2	0.1	-0.7	-0.1	8.4	1.9	2.6	2.5	9.5	8.1	0.5	0.7
Q2	1.3	2.2	1.2	3.0	0.5	2.0	0.5	1.7	1.6	2.5	5.6	-0.2	-0.6
Q3	0.5	-4.2	-2.4	2.7	0.5	-0.7	-0.2	-1.3	-1.2	9.9	-1.9	1.6	0.9
Q4	5.5	4.2	2.3	0.5	0.1	13.0	2.8	5.1	4.7	2.4	-1.0	0.5	-0.4

Source: National statistics.
(1) Chain-linked volumes. – (2) Includes change in stocks.

Table A3

Sources and uses of income: euro area (1)

(percentage chages on the previous period)

	Sources: GDP	Sources: Imports	Sources: Total	Uses: Gross fixed capital formation: Construction	Uses: Gross fixed capital formation: Machinery and equip-ment, sundry products and vehicles	Uses: Gross fixed capital formation: Total	Uses: Resident households' consumption (2)	Uses: General government consumption	Uses: Exports
				Chain-linked volumes					
2001	1.9	1.8	1.9	0.4	0.7	0.5	2.0	2.0	3.7
2002	0.9	0.3	0.7	-1.0	-2.0	-1.5	0.8	2.4	1.7
2003	0.8	3.1	1.4	1.2	0.9	1.1	1.2	1.8	1.1
2004	2.0	6.7	3.3	1.3	3.1	2.2	1.5	1.4	6.9
2005	1.4	5.2	2.4	1.1	3.9	2.5	1.5	1.4	4.2
2006	2.6	7.8	4.1	....	....	4.5	1.9	2.1	8.4
2004 – Q4	0.2	1.7	0.6	0.7	0.5	0.6	0.9	..	1.3
2005 – Q1	0.4	-0.9	..	-0.3	1.2	0.4	..	0.5	-0.4
Q2	0.4	2.6	1.0	1.3	0.8	1.0	0.4	0.5	1.8
Q3	0.6	2.0	1.0	0.6	1.9	1.3	0.7	0.5	2.6
Q4	0.3	1.5	0.7	0.8	..	0.4	0.1	0.1	0.7
2006 – Q1	0.8	2.3	1.2	0.3	1.3	0.8	0.6	1.4	3.1
Q2	1.0	0.8	0.9	3.0	1.2	2.1	0.3	..	0.9
Q3	0.6	2.2	1.0	0.5	0.6	0.6	0.7	0.6	1.8
Q4	0.9	1.9	1.2	....	....	1.2	0.5	0.5	3.7
				Implicit prices					
2001	2.4	0.7	....	....	....	1.4	2.3	2.9	1.3
2002	2.6	-2.0	....	....	....	1.4	1.9	3.1	-0.2
2003	2.1	-1.8	....	....	....	1.2	2.1	2.3	-1.2
2004	1.9	1.5	....	....	....	2.5	2.1	2.2	1.2
2005	1.9	3.6	....	....	....	2.2	2.1	2.2	2.6
2006	....	....	....	....	....	....	....	....	....
2004 – Q4	0.5	0.4	....	....	....	0.4	0.3	1.1	0.5
2005 – Q1	0.4	0.8	....	....	....	0.7	0.5	0.1	0.5
Q2	0.4	0.7	....	....	....	0.4	0.6	0.6	0.5
Q3	0.5	1.8	....	....	....	0.5	0.6	0.4	0.9
Q4	0.7	0.9	....	....	....	0.6	0.5	1.6	1.1
2006 – Q1	0.1	2.1	....	....	....	0.9	0.6	-0.7	0.3
Q2	0.5	0.7	....	....	....	0.8	0.5	1.3	0.8
Q3	0.5	0.4	....	....	....	0.7	0.4	-0.6	0.7
Q4	0.4	- 0.8	....	....	....	0.5	0.1	0.5	0.1

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

Table A4

Sources and uses of income: Italy (1)
(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption (2)	General government consumption	Exports
				Building	Machinery and equipment, sundry products and vehicles	Total			
					Chain-linked volumes				
2001	1.8	-0.2	1.4	4.1	1.3	2.5	0.7	3.6	0.5
2002	0.3	-0.5	0.2	4.8	3.4	4.0	0.2	2.2	-4.0
2003	..	0.8	0.2	1.4	-4.1	-1.7	1.0	2.1	-2.4
2004	1.2	2.7	1.5	1.5	1.8	1.6	0.7	1.6	3.3
2005	0.1	0.5	0.2	0.3	-1.2	-0.5	0.6	1.5	-0.5
2006	1.9	4.3	2.4	2.1	2.6	2.3	1.5	-0.3	5.3
2004 – Q4	-0.5	1.6	-0.1	-0.4	-1.2	-0.8	0.3	0.5	-1.1
2005 – Q1	-0.3	-2.1	-0.6	-1.5	-1.0	-1.2	-0.2	1.0	-2.4
Q2	0.6	1.8	0.9	2.5	1.4	1.9	0.7	..	2.4
Q3	0.4	0.1	0.3	1.0	2.6	1.8	0.5	0.4	0.6
Q4	-0.1	1.4	0.2	-1.2	-2.2	-1.7	-0.2	-0.2	1.4
2006 – Q1	0.8	1.0	0.8	1.0	2.4	1.7	0.5	-0.3	2.2
Q2	0.6	0.3	0.5	0.2	0.6	0.4	0.4	-0.1	1.4
Q3	0.3	2.2	0.7	0.7	-1.1	-0.3	0.6	0.2	-1.8
Q4	1.1	2.0	1.3	2.3	1.4	1.8	0.2	..	4.5
					Implicit prices				
2001	3.0	3.4	3.1	2.6	2.1	2.3	2.6	4.0	4.5
2002	3.4	0.4	2.8	3.8	1.8	2.6	2.9	2.8	2.6
2003	3.1	-0.9	2.3	3.3	1.0	2.0	2.8	3.6	0.9
2004	2.9	4.2	3.1	4.6	2.0	3.2	2.6	3.4	4.2
2005	2.2	7.9	3.4	3.9	2.4	3.1	2.4	3.6	5.6
2006	1.8	9.1	3.3	3.1	1.8	2.4	2.7	3.4	5.2
2004 – Q4	0.6	0.4	0.6	1.1	0.5	0.8	0.3	2.1	0.9
2005 – Q1	0.8	2.1	1.0	0.9	0.7	0.8	0.5	0.1	1.6
Q2	0.6	1.7	0.8	0.8	0.2	0.5	0.8	0.5	1.0
Q3	0.3	4.0	1.0	0.7	0.6	0.6	0.8	0.6	1.9
Q4	1.3	1.1	1.3	0.8	0.3	0.5	0.5	6.7	1.3
2006 – Q1	-0.5	4.2	0.4	0.7	0.3	0.5	0.7	-3.8	1.1
Q2	1.0	1.5	1.1	0.9	0.7	0.8	0.8	4.5	1.3
Q3	0.3	1.3	0.5	0.8	0.2	0.5	0.8	-2.2	1.3
Q4	0.5	-1.2	0.1	0.7	1.0	0.9	..	-1.3	1.1

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

Table A5

Unit labour costs, per capita compensation and productivity: Euro 4 (1)

(percentage changes on the year-earlier period)

	Per capita compensation	Productivity	of which: Value added (2)	of which: Employees	Unit labour costs
			Total industry excluding construction		
2002	1.7	0.3	-0.7	-1.0	1.4
2003	2.1	1.4	0.2	-1.2	0.7
2004	2.5	2.9	1.6	-1.2	-0.4
2005	1.3	2.8	1.4	-1.4	-1.5
2006	2.5	4.1	3.7	-0.4	-1.6
2005 – Q1	0.9	2.2	0.9	-1.2	-1.3
Q2	1.3	2.7	1.1	-1.6	-1.4
Q3	1.4	3.3	2.0	-1.3	-1.8
Q4	1.5	4.4	2.9	-1.5	-2.8
2006 – Q1	2.6	4.3	3.4	-0.9	-1.6
Q2	2.5	4.3	4.0	-0.3	-1.7
Q3	2.8	4.6	4.3	-0.3	-1.7
Q4	2.1	4.4	4.1	-0.3	-2.2
			Services		
2002	2.4	-0.1	1.4	1.5	2.5
2003	2.0	-0.3	0.9	1.2	2.3
2004	1.8	0.2	1.6	1.4	1.6
2005	1.5	0.2	1.5	1.3	1.4
2006	1.9	0.2	2.0	1.8	1.7
2005 – Q1	1.4	0.2	1.7	1.5	1.2
Q2	1.2	0.1	1.4	1.3	1.1
Q3	1.3	0.3	1.6	1.3	1.0
Q4	2.2	0.4	1.5	1.2	1.9
2006 – Q1	1.9	..	1.5	1.5	1.8
Q2	2.4	0.2	2.2	1.9	2.1
Q3	2.2	0.1	2.1	2.0	2.1
Q4	1.1	0.6	2.6	1.9	0.5
			Total economy		
2002	2.2	0.1	0.8	0.7	2.1
2003	2.1	..	0.5	0.5	2.1
2004	1.9	1.0	1.8	0.8	0.9
2005	1.4	0.4	1.2	0.8	1.0
2006	2.0	0.9	2.4	1.4	1.0
2005 – Q1	1.2	0.3	1.2	1.0	0.9
Q2	1.1	0.2	1.1	0.8	0.9
Q3	1.3	0.7	1.4	0.7	0.5
Q4	1.9	0.9	1.6	0.7	1.0
2006 – Q1	2.0	0.8	1.9	1.1	1.2
Q2	2.3	1.0	2.6	1.5	1.3
Q3	2.2	1.0	2.6	1.6	1.2
Q4	1.4	1.4	3.0	1.6	..

Source: Based on Eurostat.
(1) Averages for Italy, Germany, France and Spain. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2000.

Unit labour costs, per capita compensation and productivity: Italy

(percentage changes on the year-earlier period)

	Per capita compensation (1)	Wages per employee (1)	Productivity	Productivity – of which: Value added (2)	Productivity – of which: Employees (1)	Unit labour costs
			Total industry excluding construction			
2002	2.5	2.7	-1.4	-0.8	0.7	4.0
2003	2.8	2.6	-2.2	-2.3	..	5.2
2004	4.0	3.9	0.2	-0.8	-1.0	3.9
2005	2.8	2.8	0.3	-1.8	-2.1	2.4
2006	2.7	3.2	1.2	2.5	1.3	1.4
2005 – Q1	2.5	2.5	-0.6	-2.8	-2.2	3.2
Q2	3.2	3.3	1.8	-1.5	-3.2	1.3
Q3	2.8	2.9	0.8	-0.6	-1.4	2.0
Q4	2.6	2.7	2.2	0.3	-1.8	0.4
2006 – Q1	3.6	4.1	1.8	2.7	0.9	1.8
Q2	2.4	2.8	-0.3	2.0	2.2	2.7
Q3	2.3	2.8	0.8	2.3	1.4	1.5
Q4	2.3	3.0	3.8	4.4	0.6	-1.4
			Services (3)			
2002	2.8	2.6	-0.9	1.0	1.8	3.7
2003	3.8	3.3	-0.8	0.3	1.1	4.6
2004	3.1	3.4	0.4	1.1	0.7	2.7
2005	3.5	3.6	0.5	1.0	0.5	3.0
2006	2.5	2.7	-0.3	1.6	1.9	2.9
2005 – Q1	2.6	2.8	0.2	1.1	0.8	2.4
Q2	1.4	1.5	0.2	1.0	0.7	1.1
Q3	3.0	3.3	0.5	0.8	0.3	2.4
Q4	6.9	6.9	1.0	1.1	0.1	5.8
2006 – Q1	3.6	3.6	-0.1	1.2	1.3	3.7
Q2	5.4	5.5	-0.9	1.6	2.5	6.3
Q3	3.8	3.8	-0.8	1.4	2.2	4.6
Q4	-2.3	-1.9	0.6	2.3	1.7	-2.8
			Total economy			
2002	2.7	2.6	-0.7	0.5	1.3	3.5
2003	3.7	3.2	-0.9	-0.3	0.6	4.6
2004	3.3	3.4	0.6	1.0	0.4	2.7
2005	3.1	3.3	0.4	0.2	-0.2	2.7
2006	2.5	2.8	0.1	1.7	1.6	2.5
2005 – Q1	2.3	2.5	-0.3	0.1	0.4	2.7
Q2	1.8	1.9	0.3	0.4	0.1	1.5
Q3	2.9	3.2	1.2	0.5	-0.7	1.7
Q4	5.3	5.4	1.2	0.7	-0.5	4.0
2006 – Q1	3.5	3.6	0.5	1.6	1.1	2.9
Q2	4.3	4.6	-0.5	1.5	2.0	4.8
Q3	3.2	3.5	-0.5	1.3	1.9	3.8
Q4	-0.8	-0.4	1.1	2.6	1.5	-1.9

Source: Based on Istat data.
(1) Standard labour units. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2000. – (3) Annual data are gross of factory rental for comparison with other countries.

Table A7

Harmonized index of consumer prices: main euro-area countries

(percentage changes on the year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO (1)	
	Total	Total excluding unprocessed food and energy products	Total	Total excluding unprocessed food and energy products	Total	Total excluding unprocessed food and energy products	Total	Total excluding unprocessed food and energy products	Total	Total excluding unprocessed food and energy products
2002	2.6	2.8	1.4	1.6	1.9	2.2	3.6	3.9	2.2	2.5
2003	2.8	2.7	1.0	0.9	2.2	2.2	3.1	3.0	2.1	2.0
2004	2.3	2.3	1.8	1.6	2.3	2.4	3.1	2.8	2.1	2.1
2005	2.2	2.0	1.9	1.0	1.9	1.2	3.4	2.7	2.2	1.5
2006	2.2	1.8	1.8	0.8	1.9	1.3	3.6	3.0	2.2	1.5
2004 – Jan.	2.1	2.1	1.1	1.2	2.2	2.6	2.3	2.5	1.9	1.9
Feb.	2.5	2.5	0.8	1.3	1.9	2.6	2.2	2.4	1.6	2.0
Mar.	2.3	2.4	1.1	1.6	1.9	2.6	2.2	2.4	1.7	2.1
Apr.	2.3	2.4	1.7	1.6	2.4	2.6	2.7	2.6	2.0	2.1
May	2.3	2.3	2.1	1.8	2.8	2.5	3.4	2.8	2.5	2.1
June	2.4	2.4	2.0	1.7	2.7	2.5	3.5	2.9	2.4	2.2
July	2.3	2.3	2.1	1.7	2.6	2.6	3.3	2.9	2.3	2.1
Aug.	2.4	2.3	2.1	1.7	2.5	2.7	3.3	2.9	2.3	2.2
Sept.	2.2	2.4	2.0	1.5	2.2	2.4	3.2	3.0	2.1	2.0
Oct.	2.1	2.3	2.3	1.6	2.3	2.0	3.6	2.9	2.4	2.0
Nov.	2.1	2.2	2.0	1.6	2.2	1.8	3.5	2.9	2.2	1.9
Dec.	2.4	2.5	2.3	2.0	2.3	1.8	3.3	2.9	2.4	2.1
2005 – Jan.	2.0	2.2	1.6	1.4	1.6	1.4	3.1	2.8	1.9	1.8
Feb.	2.0	2.1	1.9	1.3	1.9	1.2	3.3	2.8	2.1	1.6
Mar.	2.2	2.1	1.6	1.0	2.1	1.4	3.4	2.9	2.1	1.6
Apr.	2.1	2.0	1.4	0.7	2.0	1.3	3.5	2.7	2.1	1.4
May	2.3	2.1	1.6	1.1	1.7	1.3	3.0	2.6	2.0	1.6
June	2.1	2.0	1.8	0.8	1.8	1.2	3.2	2.5	2.1	1.4
July	2.1	1.8	1.8	0.8	1.8	0.9	3.3	2.5	2.2	1.3
Aug.	2.1	1.9	1.9	0.8	2.0	1.0	3.3	2.5	2.2	1.3
Sept.	2.2	1.8	2.5	1.1	2.4	1.2	3.8	2.6	2.6	1.4
Oct.	2.6	1.8	2.3	1.3	2.0	1.1	3.5	2.7	2.5	1.5
Nov.	2.4	1.9	2.2	1.2	1.8	1.1	3.4	2.8	2.3	1.5
Dec.	2.1	1.6	2.1	0.9	1.8	1.2	3.7	3.0	2.2	1.4
2006 – Jan.	2.2	1.6	2.1	0.6	2.3	1.3	4.2	3.0	2.4	1.3
Feb.	2.2	1.6	2.1	0.7	2.0	1.1	4.1	3.0	2.3	1.3
Mar.	2.2	1.8	1.9	0.8	1.7	1.2	3.9	3.1	2.2	1.4
Apr.	2.3	1.9	2.3	1.0	2.0	1.3	3.9	3.2	2.5	1.6
May	2.3	1.8	2.1	0.6	2.4	1.3	4.1	3.1	2.5	1.5
June	2.4	1.8	2.0	0.8	2.2	1.4	4.0	3.1	2.5	1.6
July	2.3	1.7	2.1	1.0	2.2	1.5	4.0	3.2	2.4	1.6
Aug.	2.3	1.6	1.8	0.8	2.1	1.4	3.8	3.1	2.3	1.5
Sept.	2.4	2.0	1.0	0.8	1.5	1.2	2.9	3.0	1.7	1.5
Oct.	1.9	2.0	1.1	1.0	1.2	1.3	2.6	2.8	1.6	1.6
Nov.	2.0	1.8	1.5	1.1	1.6	1.4	2.7	2.7	1.9	1.6
Dec.	2.1	1.9	1.4	1.0	1.7	1.5	2.7	2.5	1.9	1.6
2007 – Jan.	1.9	1.6	1.8	1.7	1.4	1.4	2.4	2.8	1.8	1.8
Feb.	2.1	2.1	1.9	1.8	1.2	1.4	2.5	2.8	1.8	1.9

Source: Eurostat.
1) Weighted average of the harmonized indices of the euro-area countries.

Table A8

Balance of payments: current account and capital account

(balances in millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2003	-17,352	9,922	-2,362	-17,811	-1,554	-5,547	2,251	-86	216	2,121
2004	-12,454	8,850	1,179	-14,817	-870	-6,796	1,820	-38	-26	1,883
2005	-21,907	535	-500	-13,595	23	-8,370	1,806	69	-66	1,803
2006	-35,176	-9,209	-1,847	-12,164	….	….	2,654	….	….	….
2005 – Q1	-8,409	-1,550	-2,429	-3,489	613	-1,553	433	-41	-13	487
Q2	-7,053	928	523	-6,067	-167	-2,271	242	46	6	190
Q3	-419	1,886	1,632	-1,631	32	-2,338	161	2	-45	204
Q4	-6,027	-729	-226	-2,409	-455	-2,208	972	62	-14	924
2006 – Q1	-12,309	-5,812	-1,854	-1,883	-975	-1,784	995	-106	64	1,037
Q2	-8,750	-1,607	1,595	-6,606	-610	-1,522	5	-19	-140	164
Q3	-6,111	-1,673	5	-750	-1,194	-2,499	320	-2	2	320
Q4	-8,006	-118	-1,593	-2,925	….	….	1,335	….	….	….
2005 – Jan.	-3,773	-1,298	-903	-1,497	-120	45	-104	-24	-7	-73
Feb.	-979	-332	-907	-642	908	-7	140	-6	-9	155
Mar.	-3,657	79	-619	-1,350	-175	-1,592	397	-11	3	405
Apr.	-3,538	-432	122	-2,447	-86	-696	57	1	14	42
May	-2,122	939	7	-2,375	..	-693	32	..	-8	40
June	-1,393	421	394	-1,245	-81	-882	153	45	..	108
July	2,757	3,527	991	-1,290	42	-513	44	1	-2	45
Aug.	-1,945	-306	-704	-354	54	-635	30	2	-21	49
Sept.	-1,231	-1,334	1,345	13	-64	-1,190	87	-1	-22	110
Oct.	-377	455	346	-536	-128	-514	64	-2	-31	97
Nov.	-2,584	-635	-213	-1,291	-63	-382	121	38	-3	86
Dec.	-3,065	-548	-359	-582	-264	-1,312	787	26	20	741
2006 – Jan.	-4,094	-3,053	-443	-535	-100	37	114	5	-42	151
Feb.	-3,152	-2,001	-468	-459	-141	-83	260	-8	100	168
Mar.	-5,062	-758	-943	-890	-734	-1,738	621	-103	6	718
Apr.	-3,266	-1,005	823	-2,321	-74	-689	-39	-9	-82	52
May	-3,237	-298	159	-2,122	-342	-633	74	3	19	52
June	-2,247	-304	614	-2,163	-194	-200	-30	-14	-76	60
July	479	1,508	628	-659	-433	-564	81	6	25	50
Aug.	-1,660	-1,460	-794	1,436	-262	-580	66	-1	2	65
Sept.	-4,930	-1,721	172	-1,527	-499	-1,355	173	-7	-25	205
Oct.	-3,208	118	-183	-2,096	-443	-603	114	23	2	89
Nov.	-2,925	-352	-694	-1,078	-424	-377	58	1	-32	89
Dec.	-1,874	117	-715	249	….	….	1,163	….	….	….
2007 – Jan.	-6,164	-3,393	-1,098	-1,464	….	….	261	….	….	….

Lending by Italian banks by geographical area and sector (1)

	General govern-ment	Finance and insurance companies	Non-financial corporations (a)	Non-financial corporations (a): with fewer than 20 employ-ees (2)	Households: Producer (b) (3)	Households: Consumer	Firms = (a) + (b)	Firms: Manufac-turing	Firms: Construc-tion	Firms: Services	Total
					12-month percentage changes (4)						
					Centre and North						
2005 – Dec.	5.5	6.7	5.7	3.7	7.0	14.6	5.8	1.3	13.0	7.2	7.8
2006 – Mar.	9.0	4.5	5.8	4.7	7.8	15.5	6.0	1.7	14.6	6.2	8.0
June	6.2	15.0	7.0	4.3	7.4	13.3	7.0	2.6	12.9	7.8	9.5
Sept.	9.0	13.7	8.8	4.5	7.3	12.8	8.7	4.1	13.5	10.2	10.3
Dec.	6.2	15.4	10.6	5.1	7.2	10.0	10.3	5.5	14.3	12.5	10.7
2007 – Feb.	7.9	13.5	11.3	5.1	7.1	10.2	10.9	….	….	….	11.0
					South and Islands						
2005 – Dec.	13.4	34.5	11.3	7.5	10.8	16.9	11.2	9.4	14.0	11.8	14.0
2006 – Mar.	14.8	13.2	14.3	9.0	11.5	18.3	13.8	10.6	15.8	15.0	15.5
June	1.6	14.3	15.3	8.5	10.3	16.4	14.4	12.5	17.6	15.3	14.5
Sept.	-3.8	12.4	16.3	9.4	9.9	15.6	15.1	11.9	20.3	16.5	14.2
Dec.	-3.7	-22.3	19.9	9.6	10.1	13.1	18.1	12.5	20.5	21.9	13.9
2007 – Feb.	-0.4	-0.3	18.1	8.8	10.6	13.9	16.7	….	….	….	14.3
					ITALY						
2005 – Dec.	6.6	7.4	6.3	4.2	7.8	15.1	6.5	2.2	13.1	7.7	8.6
2006 – Mar.	9.9	4.7	6.8	5.3	8.6	16.1	7.0	2.6	14.8	7.3	9.0
June	5.5	15.0	7.9	4.8	8.0	14.0	7.9	3.7	13.6	8.7	10.2
Sept.	7.0	13.7	9.7	5.2	7.9	13.4	9.5	5.0	14.6	11.0	10.9
Dec.	4.7	14.1	11.7	5.7	7.9	10.7	11.3	6.2	15.3	13.7	11.2
2007 – Feb.	6.6	13.1	12.1	5.6	7.9	11.0	11.7	6.5	15.9	13.7	11.5
					Stock of loans in December 2006 (5) (6) (*millions of euros*)						
Centre and North	48,072	157,557	603,206	65,507	60,525	262,837	663,731	179,232	84,032	343,493	1,132,196
South and Islands	8,087	3,948	87,586	10,772	18,350	72,201	105,936	24,236	16,694	53,589	190,172
ITALY	56,159	161,505	690,792	76,279	78,875	335,038	769,667	203,468	100,726	397,082	1,322,368
					Percentage breakdown of lending in December 2006 (6)						
Centre and North	4.2	13.9	53.3	5.8	5.3	23.2	58.6	15.8	7.4	30.3	100.0
South and Islands	4.3	2.1	46.1	5.7	9.6	38.0	55.7	12.7	8.8	28.2	100.0
ITALY	4.2	12.2	52.2	5.8	6.0	25.3	58.2	15.4	7.6	30.0	100.0

(1) Loans do not include repurchase agreements, bad debts and some smaller items included in the Eurosystem harmonized definition. The breakdown by geographical area is according to customers' place of residence. Data for February 2007 are provisional. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with 5-20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees. – (4) Net of the effects of reclassification, exchange rate changes and other modifications not due to transactions. – (5) Stocks by geographical area may not add to the total because the figures are taken from different items of the accounting supervisory reports. – (6) Rounding may cause discrepancies.

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans(1)	Other operations(1)	*of which:* change in central bank current accounts	Borrowing requirement	*of which:* financed abroad
2003	-37,658	-62,686	6,057	22,886	-5,580	54,313	8,022	40,017	6,818
2004	16,364	-1,187	-998	41,515	-1,409	-6,084	-2,578	49,388	4,811
2005	21,574	-4,177	-924	40,197	5,593	4,061	1,197	70,502	4,220
2006	7,607	-4,957	4,867	33,215	63,594	-54,557	-8,230	54,727	-7,053
2003 – Q1	2,810	2,575	20,465	19,163	-838	-20,170	-21,955	21,430	10,283
Q2	4,082	1,727	5,779	4,738	311	-1,716	-484	13,193	-59
Q3	4,178	2,679	-27	18,467	-2,728	-1,709	-1,725	18,182	-1,530
Q4	-48,729	-69,667	-20,160	-19,482	-2,325	77,908	32,186	-12,787	-1,876
2004 – Q1	6,509	-384	25,031	19,787	-513	-19,458	-19,890	31,356	4,958
Q2	12,048	2,646	3,107	26,226	144	-23,785	-22,221	17,740	1,031
Q3	-506	-2,826	-2,200	8,372	187	8,526	8,251	14,379	-1,028
Q4	-1,687	-623	-26,936	-12,870	-1,227	28,633	31,282	-14,088	-150
2005 – Q1	2,207	-516	11,204	45,940	1,198	-33,130	-34,293	27,418	1,293
Q2	12,648	149	9,287	20,709	1,952	-15,573	-14,842	29,024	3,500
Q3	3,238	-1,577	2,547	-19,414	346	29,464	28,813	16,181	424
Q4	3,481	-2,233	-23,963	-7,037	2,097	23,300	21,519	-2,121	-997
2006 – Q1	10,946	-891	18,406	13,053	2,747	-11,612	-16,246	33,540	-259
Q2	1,187	-1,615	7,154	28,808	-630	-25,477	-26,568	11,042	750
Q3	201	-1,210	-7,799	5,943	56,281	-39,101	12,948	15,525	1,290
Q4	-4,726	-1,240	-12,893	-14,589	5,195	21,633	21,637	-5,380	-8,835
2006 – Jan.	7,139	-844	9,294	20,225	883	-31,497	-31,955	6,043	-308
Feb.	2,035	370	2,388	-1,681	319	5,547	2,941	8,608	-39
Mar.	1,771	-417	6,725	-5,491	1,545	14,338	12,768	18,889	88
Apr.	-618	-370	4,549	4,722	398	681	47	9,732	-1,835
May	550	-56	2,139	4,839	-1,129	9,452	8,401	15,851	1,192
June	1,256	-1,188	465	19,246	101	-35,610	-35,016	-14,541	1,393
July	-1,513	-601	-2,755	-4,554	-935	6,202	4,564	-3,556	-190
Aug.	1,440	-28	-2,960	7,915	-151	3,237	1,153	9,481	-1,225
Sept.	274	-582	-2,084	2,582	57,367	-48,540	7,232	9,600	2,704
Oct.	-455	-216	86	3,319	719	1,949	1,870	5,618	-7,106
Nov.	-1,880	-553	2,891	2,148	-79	5,626	5,765	8,706	2,064
Dec.	-2,391	-471	-15,871	-20,056	4,556	14,059	14,002	-19,704	-3,793

(1) As of September 2006 Cassa Depositi e Prestiti S.p.A. is included among MFIs; as of the same month its loans to general government bodies are included in the item "MFI loans".

Table A11

General government debt: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* central bank current accounts
2002	148,857	138,628	113,325	1,034,061	61,564	9,347	1,367,154	38,110	1,134,493	21,275
2003	111,198	75,942	119,382	1,050,151	55,909	55,638	1,392,278	27,279	1,185,927	13,253
2004	127,562	74,755	118,384	1,090,421	54,496	52,133	1,442,996	26,630	1,218,165	15,831
2005	149,137	70,578	117,460	1,129,234	60,098	54,997	1,510,926	27,255	1,257,609	14,634
2006	156,744	65,622	122,327	1,163,921	123,684	8,670	1,575,346	10,740	1,303,531	22,864
2002 – Mar.	137,914	130,188	128,564	1,058,302	64,647	9,395	1,398,822	41,583	1,163,555	45,385
June	138,641	129,787	136,777	1,057,425	62,323	9,422	1,404,588	39,578	1,159,310	42,467
Sept.	140,182	130,886	133,319	1,064,746	60,476	10,074	1,408,796	42,778	1,165,351	31,956
Dec.	148,857	138,628	113,325	1,034,061	61,564	9,347	1,367,154	38,110	1,134,493	21,275
2003 – Mar.	151,667	141,203	133,822	1,050,824	60,700	11,132	1,408,145	34,622	1,152,567	43,230
June	155,749	142,931	139,620	1,052,735	60,971	9,900	1,418,975	31,664	1,150,854	43,714
Sept.	159,927	145,610	139,584	1,071,150	58,251	9,917	1,438,829	29,409	1,167,141	45,439
Dec.	111,198	75,942	119,382	1,050,151	55,909	55,638	1,392,278	27,279	1,185,927	13,253
2004 – Mar.	117,707	75,559	144,444	1,070,607	55,408	56,071	1,444,237	29,614	1,205,914	33,143
June	129,756	78,204	147,554	1,096,801	55,549	54,507	1,484,167	31,649	1,228,554	55,364
Sept.	129,250	75,378	145,334	1,104,534	55,730	54,782	1,489,630	30,998	1,235,871	47,113
Dec.	127,562	74,755	118,384	1,090,421	54,496	52,133	1,442,996	26,630	1,218,165	15,831
2005 – Mar.	129,770	74,239	129,589	1,135,881	55,698	53,296	1,504,233	29,260	1,263,891	50,124
June	142,418	74,388	138,877	1,156,749	57,655	52,565	1,548,265	26,844	1,282,622	64,966
Sept.	145,656	72,811	141,424	1,136,217	58,000	53,216	1,534,514	26,634	1,261,171	36,153
Dec.	149,137	70,578	117,460	1,129,234	60,098	54,997	1,510,926	27,255	1,257,609	14,634
2006 – Jan.	156,276	69,734	126,753	1,149,166	60,979	55,455	1,548,629	26,360	1,278,262	46,589
Feb.	158,311	70,104	129,141	1,148,292	61,300	58,061	1,555,104	23,446	1,279,401	43,648
Mar.	160,082	69,687	135,868	1,142,296	62,842	59,631	1,560,720	22,314	1,275,808	30,880
Apr.	159,464	69,317	140,421	1,146,781	63,239	60,265	1,570,170	19,509	1,280,234	30,834
May	160,014	69,261	142,561	1,152,303	62,110	61,317	1,578,305	17,673	1,285,926	22,433
June	161,269	68,072	143,025	1,172,261	62,210	60,723	1,599,489	18,375	1,302,934	57,449
July	159,756	67,471	140,268	1,167,803	61,276	62,361	1,591,462	18,101	1,299,277	52,885
Aug.	161,196	67,444	137,306	1,175,865	61,123	64,445	1,599,934	17,379	1,309,147	51,732
Sept.	161,470	66,862	135,224	1,178,440	118,491	8,674	1,602,299	15,116	1,312,534	44,501
Oct.	161,015	66,646	135,310	1,181,928	119,209	8,752	1,606,215	12,370	1,315,587	42,631
Nov.	159,135	66,093	138,201	1,183,929	119,130	8,613	1,609,008	10,813	1,320,228	36,866
Dec.	156,744	65,622	122,327	1,163,921	123,684	8,670	1,575,346	10,740	1,303,531	22,864

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