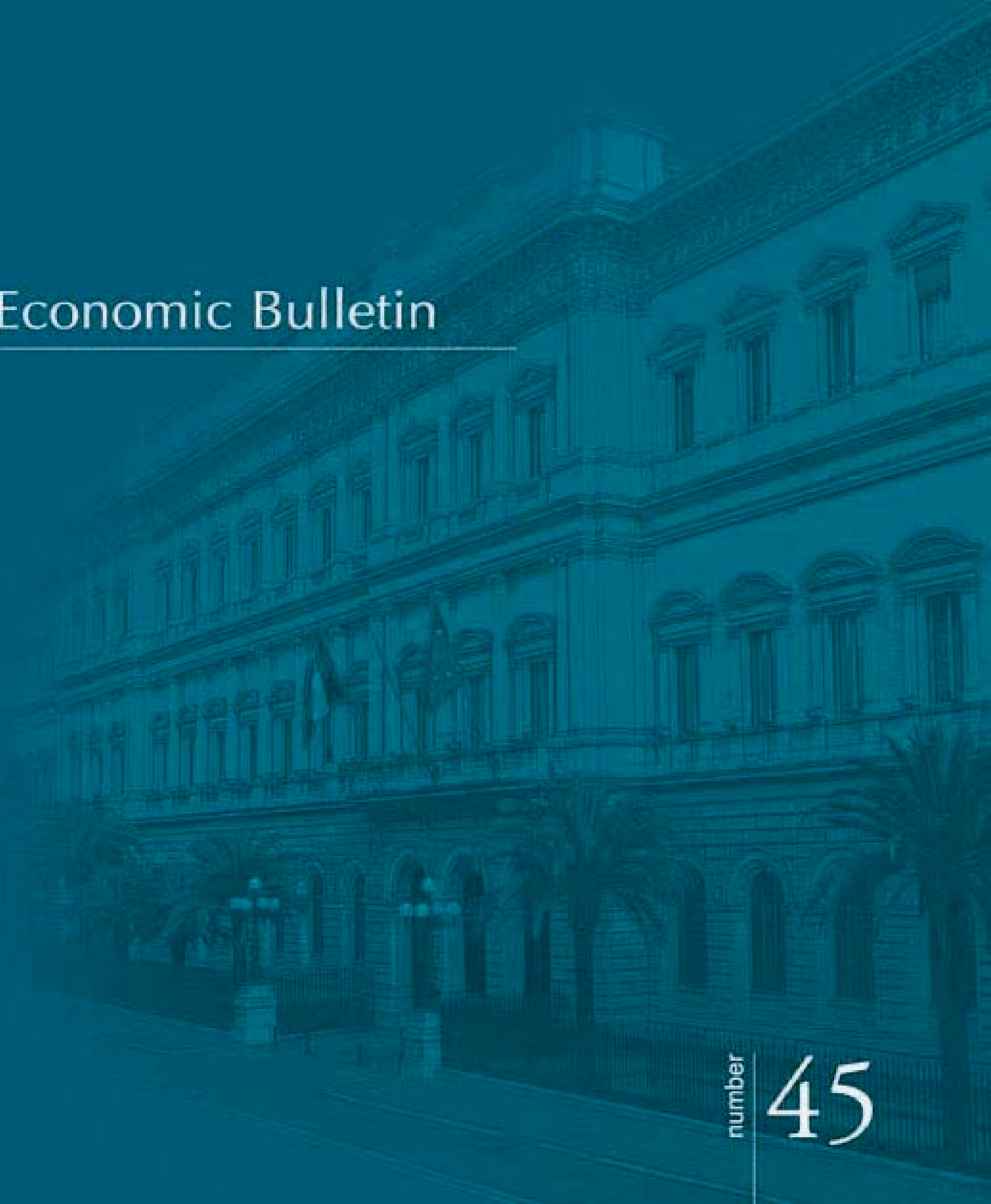
BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin



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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

The prospects for growth in the world economy remain good...

The pace of economic activity in the industrial countries slackened in the first quarter of this year. The slowdown was less pronounced in the euro area than in Japan and the United States, and was probably followed by a recovery in the spring. According to assessments by analysts and businessmen, however, only the United States is likely to see a significant deceleration in GDP over the year as a whole, with the rate of growth falling from 3.3 to 2.1 per cent. The emerging economies, benefiting from continued easy conditions in the financial markets and high raw material prices, are likely to continue to provide impetus to world economic growth, with rates of increase of around 10 per cent in China and India. World trade is forecast to continue to expand at a rapid pace, albeit slightly less strongly than last year; inflation expectations remain subdued everywhere.

...but there is still the risk that growth will be weaker than expected

In overall terms the economic picture is therefore benign, but it is marred by a number of risks, relating especially to the real and financial outlook for the US economy, such as the crisis at two hedge funds specializing in high-risk segments of the mortgage loan market. In addition, the persistence of a large deficit on the current account of the balance of payments continues to sustain fears of an abrupt fall in the value of the dollar, which could generate turmoil in world financial markets – especially if it were accompanied by sudden shifts in risk perceptions, which at present are low everywhere – and have adverse repercussions on growth, particularly in emerging countries.

In the euro area, following the slowdown in the first quarter in common with the other industrial economies, it is estimated that economic activity is growing at rates in line with estimated potential, which is put at between 2 and 2.5 per cent. Private analysts forecast growth of 2.7 per cent this year, in line with projections by the Eurosystem economists.

In an environment of rapid growth, the gradual return to a less accommodating monetary policy stance helped to anchor expectations of euro-area consumer price inflation at 2 per cent. In May the twelve-month increase in the harmonized index was unchanged at 1.9 per cent; according to preliminary estimates it remained at the same level in June.

After the slowdown in the first quarter, the acceleration in output in Italy...

The exceptional acceleration in the Italian economy in the latter part of 2006 was followed by a particularly abrupt slowdown in the first quarter of this year, with growth falling from 4.4 to 1.2 per cent on an annual basis. The main contributory factor was a fall in exports due to a pause in growth in Germany in connection with the introduction of new VAT rates. The cautious attitude of firms, which preferred to meet demand by drawing heavily on stocks, caused a sharp fall in industrial production. The slowdown in GDP growth was accompanied by a fall in employment.

The available indicators suggest that GDP growth was running at an annual rate of more than 1.5 per cent in the spring, thanks mainly to the recovery in exports.

According to national accounts data, the cooling of activity in the first quarter did not halt the rise in productivity in the economy as a whole. The profit margins of non-financial firms, which have increased for three successive quarters, continued to widen; self-financing rose from the low levels *of 2006. Investment growth weakened, but firms' borrowing requirement remained high. Bank borrowing increased by 10 per cent; by contrast bond redemptions slightly exceeded new issues. In the second quarter, with the cost of bank borrowing rising only slightly, the recovery in activity signalled by the economic indicators is likely to have given fresh impetus to demand for capital goods.*

In the first three months of the year the growth in household expenditure accelerated unexpectedly to 2.8 per cent on an annual basis, fuelled by purchases of durable goods and services. One factor was the recovery in disposable income, which is estimated to have risen by around 0.5 per cent in real terms compared with the end of 2006. Leaving aside the effect of specific factors, such as incentives to scrap motor vehicles, the qualitative and quantitative indicators signal the persistence of a degree of caution in spending decisions. Bank borrowing slowed down slightly.

Consumer price inflation fell to a twelve-month rate of 1.6 per cent in the second quarter, reflecting stable expectations, moderation in domestic costs and an easing of external price pressures.

…should lead to growth in line with potential

On the supposition that the expansion in the world economy will continue for the next two years and that the public finances will evolve in line with the estimates set out in the recent Economic and Financial Planning Document (EFPD), we expect Italian GDP to grow by 2 per cent this year and slightly less in 2008 (1.7 per cent); this latter rate is broadly in line with the estimated growth in potential output. The stimulus from exports is likely to be joined this year by a boost from consumption, thanks to the recovery in disposable income, which was squeezed last year by the sharp increase in taxation. Investment continues to benefit from the cyclical upturn, but its growth is likely to be curbed in 2008 by the increase in real interest rates and less favourable conditions in the real estate market. Overall, final national demand is expected to grow at an annual rate of more than 1.5 per cent over the two-year period.

Exports should benefit from the strong growth in world trade, rising at rates of between 3 and 4 per cent. They are being depressed this year by the lagged effects of the loss of competitiveness due to the appreciation of the euro and the rapid increase in our export prices. Looking to the future, we assume that continuation of the restructuring of Italian firms that is now under way will halt the deterioration in our competitiveness and gradually reduce the disparity between the growth in Italian exports and the growth in world demand.

On the basis of provisional and partly estimated data, the general government borrowing requirement net of asset disposals amounted to €48.5 billion in the first five months of the year, about €10 billion less than in the corresponding period of 2006. The EFPD sets a new target of 2.5 per cent of GDP for the 2007 budget deficit; this takes account of a figure of 2.1 per cent on a current programmes basis (0.2 points less than the estimate given in March) and the higher expenditure announced by the Government by decree at the time of publication of the EFPD and in the mid-year budget revision. The Government plans a modest reduction in the deficit in 2008, to 2.2 per cent of GDP, and sterner action in subsequent years, with the aim of balancing the budget in 2011. In his Testimony to Parliament on the Economic and Financial Planning Document for the years 2008-2011, delivered on 16 July 2007, the Governor of the Bank of Italy examines the situation and prospects for the public finances.

2 THE WORLD ECONOMY

ECONOMIC DEVELOPMENTS AND THE PRICE OF OIL

The expansion continues ...

In 2007 the world economy is still expanding strongly, albeit less rapidly than in 2006, and at more uniform rates in the different areas (Table 1). The main stimulus to world economic activity continues to come from the emerging countries, which are benefiting from easy financial conditions and high raw material prices. The expansion in world trade in goods and services is slowing, but rates of growth are still high.

...but growth remains at risk

This generally favourable picture is clouded by a number of risks, particularly as regards the United States. In the financial markets risk premiums remain extremely small; a change in the perception of risk could trigger sudden portfolio adjustments, with sharp price corrections. As spare capacity in the main advanced countries and some large emerging economies has been practically exhausted, the rises in raw material prices starting in the spring could presage an increase in inflationary pressures.

The prices of futures contracts on WTI grade oil indicate that the price of oil, which stood at $72.6 per barrel on 11 July (Figure 1), will rise to $73.2 in December, and to $74.9 including 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 June 2007
GDP			
World (2)	5.4	4.9	–
Advanced countries			
Euro area	2.8	2.7	2.7
France	2.1	2.2	2.1
Germany	3.0	2.9	2.7
Japan	2.2	2.4	2.3
Spain	3.9	3.6	3.7
United Kingdom	2.8	2.7	2.7
United States	3.3	2.1	2.1
Emerging countries			
Brazil	3.7	4.4	4.3
China	11.1	10.4	10.4
India	9.0	8.5	8.2
Russia	6.7	6.5	6.8
Consumer pries			
Advanced countries			
Euro area	2.2	1.8	2.0
France	1.9	1.3	1.4
Germany	1.8	1.8	1.9
Japan	0.2	-0.3	..
Spain	3.6	2.5	2.6
United Kingdom	2.3	2.4	2.4
United States	3.2	2.6	2.6
Emerging countries			
Brazil	3.4	3.5	3.5 (3)
China	1.6	1.8	3.0
India	6.8	6.4	5.9
Russia	9.0	7.5	7.9
World trade (2) (4)	**9.2**	**7.0**	**–**

Sources: OECD, *Economic Outlook, 81*, June 2007, *Consensus Economics*, June 2007, IMF, *World Economic Outlook*, April 2007.
(1) Forecasts. – (2) IMF. – (3) December on December. – (4) Goods and services.

THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

The economic outlook In the United States remains uncertain

In the first quarter of 2007 output in the United States remained broadly unchanged, in sharp contrast to the annualized growth of 2.5 per cent in the previous quarter. With strong support coming from consumption (4.2 per cent) and with investment in plant and equipment recovering, the slowdown reflected mainly the unexpected fall in exports. The economic indicators point to an acceleration in activity in the second quarter; the leading private forecasters put GDP growth at between 3 and 3.5 per cent on an annual basis.

The recovery is fragile in some respects, however, as it is being sustained by temporary factors, such as the expiry of the adjustment in stocks, and held back by the marked weakening of consumption in April and May in connection with the contraction in real disposable income. There is uncertainty about future trends in fixed investment, following the unexpected fall in orders for capital goods in May, and in residential investment, the contraction in which could prove more enduring and pronounced than predicted. The latest estimates from the OECD and *Consensus Economics*, to which frequent reference will be made below, indicate that output growth will slow to 2.1 per cent in 2007 (Table 1).

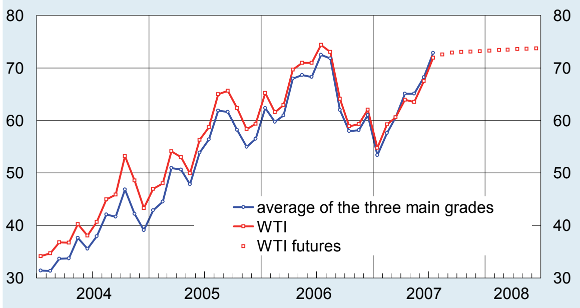
The stabilisation of the current account deficit continued in the first quarter: [1] the slight increase to $770.3 billion on an annual basis (equal to 5.7 per cent of GDP), from $751.8 billion in the preceding period, mainly reflected transient factors involving current transfers. In the light of the pick-up in oil prices, among other things, the persistence of a large deficit continues to fuel fears of an abrupt exchange rate adjustment.

Consumer price inflation rose slightly from 2.6 per cent in April to 2.7 per cent in May owing to the increase in energy prices (Figure 2); core inflation, measured in terms of the consumption deflator, continued on the downward trend that has been evident since March, falling to 1.9 per cent. At its meeting on 27 and 28 June the Federal Reserve left the target rate on federal funds unchanged at 5.25 per cent, underlining the fact that, despite moderate economic growth, inflationary pressures have still not been subdued. The yield curve of futures contracts on federal funds, indicates that

[1] When releasing data for the first quarter, the Bureau of Economic Analysis published a revision of historical balance-of-payments series, revising the current account deficit for the last five years slightly downwards. At the end of last year the net debtor position is now put at 16.2 per cent of GDP, slightly less than a year earlier (17.2 per cent); the deterioration due to the current deficit, which was revised downwards from $856.7 billion to $811.5 billion, was outweighed by the change in the dollar value of external assets and liabilities, owing mainly to the rise in equity prices, which was more pronounced abroad than in the United States, and to the depreciation of the dollar.

Figure 1

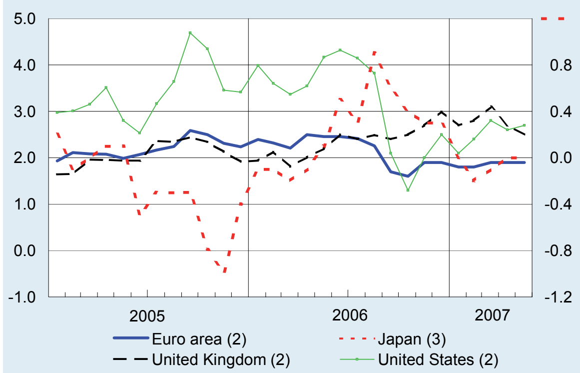
Crude oil: spot prices and futures (1)
(dollars per barrel)



Sources: IMF and Thomson Financial Datastream.
(1) Monthly averages for spot prices. Updated to 11 July 2007. The three main grades are Brent, Dubai and WTI.

Figure 2

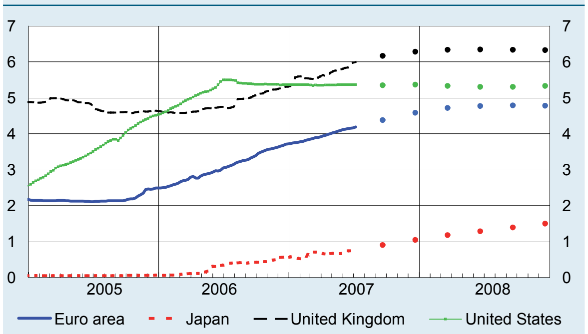
Consumer price inflation (1)
(monthly data; twelve-month percentage changes)



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; percentage rates)



Source: Thomson Financial Datastream.
(1) Updated to the week ending on 6 July 2007 for spot prices and to 11 July 2007 for futures prices.

the markets do not expect changes in reference rates at the next two meetings of the Federal Open Market Committee scheduled for 7 August and 18 September (Figure 3).

In Japan activity has weakened and prices are stationary

In Japan GDP growth slowed to an annual rate of 3.3 per cent in the first quarter of 2007, compared with 5.4 per cent in the preceding period, owing to the fall in private fixed investment. For the second quarter, indications of weak activity are to be seen in the fall in industrial production and employment and in the slight deterioration in business confidence captured by the Tankan Report; in the last two months the estimates of GDP growth in the second quarter from the leading private forecasters have been repeatedly revised downwards, while continuing to range widely between 0.6 and 2 per cent. Output is expected to expand by 2.4 per cent in 2007, benefiting from the rapid increase in economic activity in the latter part of last year (Table 1).

Against the background of a continuing fall in nominal wages (-0.6 per cent in relation to the same period of the previous year between January and May), which partly reflects an increase in the proportion of younger workers, consumer prices continue to fall; in April core inflation declined by 0.1 per cent (Figure 2). On 15 June the Bank of Japan left the monetary policy reference rate unchanged at 0.5 per cent. The prices of futures contracts on 3-month Euromarket deposits in yen indicate that the markets expect a rise of 25 basis points by the end of August (Figure 3).

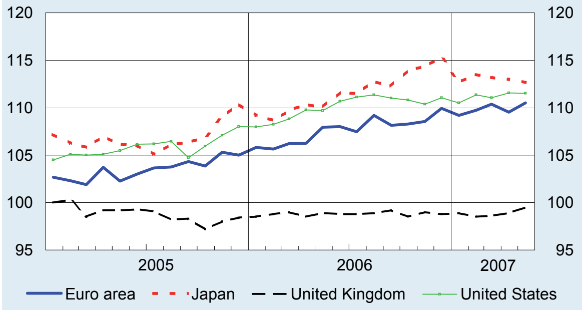
In the United Kingdom GDP is growing at a rapid pace

In the United Kingdom output grew at an annual rate of 2.8 per cent in the first quarter and is expected to continue to increase at a similar pace for the remainder of the year. Inflation came down from 2.8 per cent in April to 2.5 per cent in May (Figure 2), mainly reflecting the fall in energy prices. Having raised the monetary policy reference rate in May, on 5 July the Bank of England announced a further increase of 25 basis points to 5.75 per cent, judging that inflationary pressures were still high in a setting of strong growth and reduced margins of spare capacity. The markets expect a further rate increase by the end of the year (Figure 3).

Figure 4

Industrial production

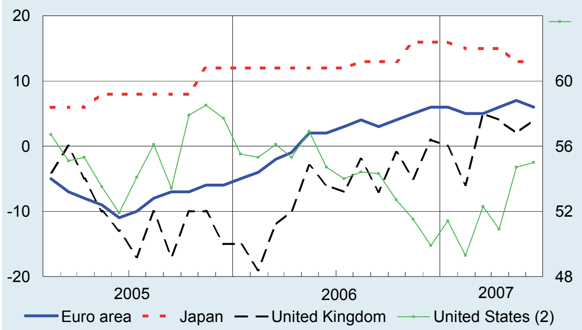
(seasonally adjusted monthly data; indices, average for 2003=100)



Sources: ECB and national statistics.

Figure 5

Indicators of manufacturing firms' confidence (1)

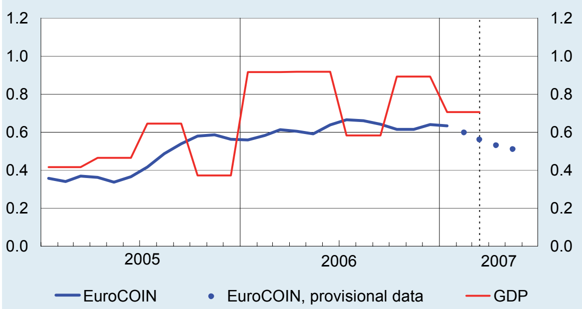


Sources: National statistics and European Commission.
(1) Percentage balance of firms' responses. – (2) Right-hand scale.

Figure 6

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.

In the emerging countries growth remains rapid

In 2007 the emerging countries, primarily China and India, are continuing to make a significant contribution to the expansion in the world economy (Table 1). In the first quarter economic activity increased by 11.1 per cent over the same period of 2006 in China and by 9.1 per cent in India. The growth in the Chinese economy, which accelerated from already exceptional rates and was still being driven by exports and investment, was accompanied by a further increase in the trade surplus, which amounted to just under $90 billion in the first five months of this year, compared with $47 billion in the same period of 2006. The rate at which international foreign exchange reserves are being accumulated by the Chinese monetary authorities also increased from an already high level: at the end of March the reserves exceeded $1,200 billion and represented more than 20 per cent of the world total.

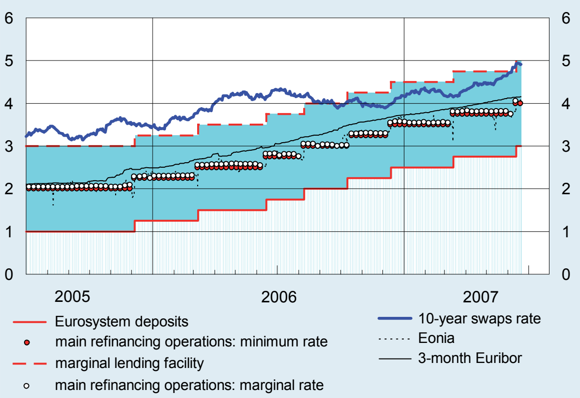
THE EURO AREA

In the euro area growth is in line with potential

Output growth in the euro area slowed from 3 per cent in annual terms in the fourth quarter of 2006 to 2.8 per cent in the first quarter of 2007. The slowdown – which was partly expected in the light of the announced increase in VAT in Germany, the signs of a slackening of industrial activity (Figure 4) and the fall in confidence indicators in the first few months of the year (Figure 5) – affected all the major economies except France, where the rate of growth was unchanged, albeit lower than the average for the area. One factor in the slowdown was the sharp deceleration in exports owing to the weakness of demand in the United States and Japan and the appreciation of the euro. Between January and April the deficit on the current account of the balance of payments totalled €6.6 billion, less than in the same period of 2006 thanks to an improvement in the trade balance.

Figure 7

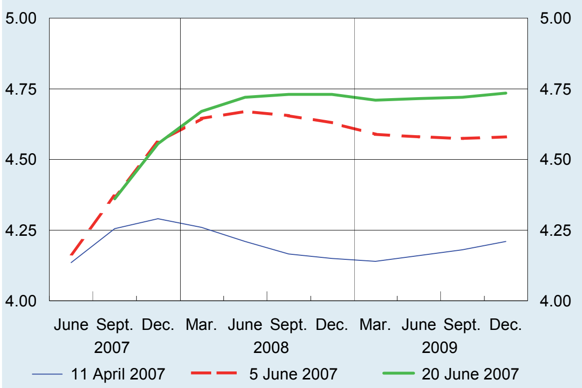
Official interest rates and money and financial market rates in the euro area
(daily data; percentages)



Source: ECB, Reuters and Telerate.

Figure 8

Rates on three-month Euribor futures contracts (1)
(percentages)



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).

According to the latest economic indicators, growth will slow slightly. The EuroCOIN coincident indicator, which provides an estimate of the monthly growth in GDP adjusted for short-term fluctuations, has been declining since the beginning of the year but remains at a level consistent with an increase in output at an annual rate of more than 2 per cent, in line with the estimated growth in potential output (Figure 6). The latest international forecasts confirm that GDP growth in 2007 should be around 2.7 per cent (Table 1); estimates made in May by Eurosystem economists indicate growth of between 2.3 and 2.9 per cent.

In Germany industrial production in May recouped almost all of the decline registered in

April. Data on retail sales point to a recovery in consumption, but less positive signs came from the IFO indicator, which showed a fall at the beginning of 2007 and a further decline in June that spread to all its components. In France industrial activity steadily strengthened in the first few months of the year, exceeding the peak reached in the third quarter of 2006. The trend is consistent with increased business optimism, which in June fully offset the fall of the previous month, and with the rise in the indicator of retail sales of manufactured goods.

In May inflation in the euro area on both the general and core measures remained unchanged at 1.9 per cent; according to the flash estimate published by Eurostat, it remained at that level in June as well. The *Consensus Economics* figures for 2007 and 2008 were revised upwards slightly in June to 2 per cent.

Money and credit signal that liquidity conditions are still expansionary

At the beginning of July the Governing Council of the European Central Bank kept the minimum rate on main refinancing operations unchanged at 4 per cent, the level to which it had been raised a month earlier (Figure 7). From April onwards the curve of 3-month euro yields implicit in the prices of futures contracts shifted progressively upwards; at the beginning of July it signalled expectations of further increases in short-term rates by the end of the year (Figure 8). Real short-term yields are currently close to 2.3 per cent.

The growth in lending to the private sector slowed down slightly, to 10.3 per cent in May, owing to a further deceleration in mortgage loans to households for house purchases (to 8.6 per cent) induced by the increase in mortgage interest rates and an easing of sales in the property markets of some euro-area countries. Lending to non-financial companies continued to grow at a rapid pace (12.6 per cent), thanks to the good performance of fixed investment. The increase in the money supply M3 remained high (10.7 per cent in May), reflecting the expansion in economic activity and the still narrow differential between long-term and short-term yields. The increase in official rates continued to encourage a shift towards less liquid components, in particular from current accounts towards deposits with an agreed maturity of up to two years.

THE FINANCIAL AND FOREIGN EXCHANGE MARKETS

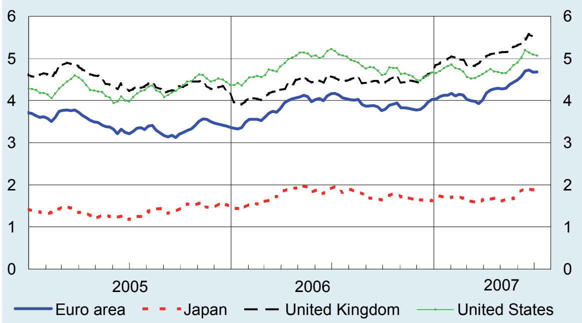
Bond yields rise

Yields on government bonds rose in all the industrial countries in the second quarter (Figure 9), reflecting both the improvement in growth prospects and the increase in term premiums. In June the volatility of yields also

Figure 9

Yields on ten-year government bonds (1)

(average weekly data; percentages)

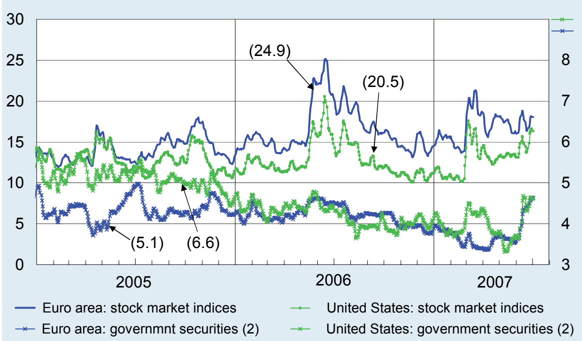


Source: National statistics.
(1) Updated to the week ending 6 July 2007.

Figure 10

Volatility implied by the prices of options on stock market indices and government securities in the euro area and the United States (1)

(percentage points; average values for 1999-2006 in brackets)



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

rose (Figure 10) and the differentials between corporate bonds and government bonds with similar characteristics widened perceptibly, most sharply in the higher-risk segments (Figure 11).

In the euro area, where nominal long-term interest rates have risen by about 60 basis points since the end of March to 4.9 per cent, a large part of the increase can be ascribed to the strengthening of growth prospects. Long-term inflation expectations rose marginally, to 2.2 per cent.

In the United States the rise in rates stemmed partly from greater uncertainty about macroeconomic developments, which led to an increase in term premiums. This contributed to the rise in nominal long-term rates to around 5 per cent, 40 basis points higher than at the end of March. The yield curve is essentially flat. The increase in uncertainty was also due to the deterioration in conditions in the mortgage market, demonstrated in particular by the difficulties encountered in the second half of June by two hedge funds specializing in structured credit instruments backed by subprime mortgage loans. Against a backdrop of rising short-term interest rates, the situation of the funds worsened as a result of the sharp increase in payment defaults on such loans.

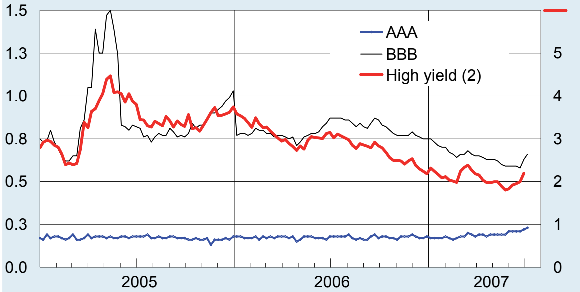
The rise in share prices continues, but with a slight fall in June

Share prices in the leading international markets rose strongly in April and May before slipping temporarily in June; in the second quarter the Dow Jones Euro Stoxx index containing the largest listed companies in the euro area and the S&P500 index rose by 6 per cent (Figure 12). The fall in the US stock market indices in June was due in part to greater uncertainty about the economic outlook and the future course of short-term interest rates. The negative effect of the rise in long-term interest rates appears to have been mitigated by the progressive improvement in actual and expected corporate profits during the second quarter. The expected volatility implied by the prices of options on stock market indices indicates a slight increase in uncertainty in the second quarter, both in the euro area and in the United States (Figure 10).

Figure 11

Yield differentials between euro-denominated bonds of non-financial corporations and government securities (1)

(end-of-week data; percentage points)

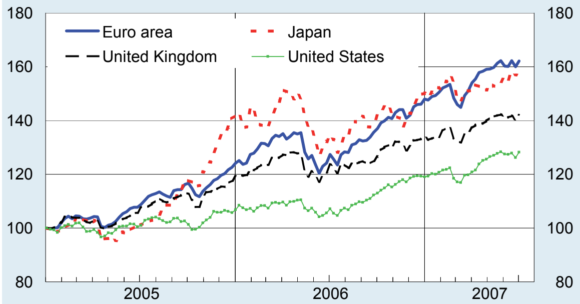


Source: Merrill Lynch.
(1) Yields on fixed-rate euro-denominated Eurobonds with a residual term to maturity of not less than one year issued by corporations resident in countries whose long-term foreign currency debt has a rating of not less than Baa3 or BBB- (investment grade). Yield differentials are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

Figure 12

Stock market indices (1)

(average weekly data; first week of January 2005 = 100)

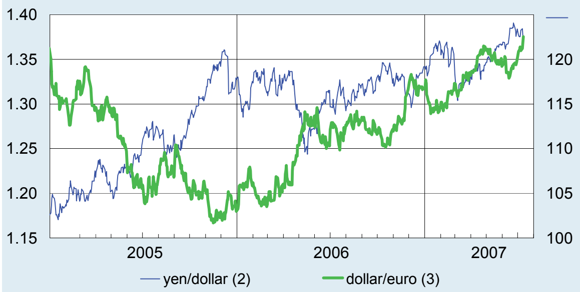


Source: Thomson Financial Datastream.
(1) Updated to the week ending 6 July 2007. Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 13

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

(daily data)



Source: ECB.
(1) Updated to 11 July 2007. – (2) Right-hand scale. – (3) Left-hand scale.

Risk premiums in the main emerging countries, measured by the yield differential between long-term dollar-denominated sovereign debt and US Treasury securities, remained low and almost unchanged.

Euro/dollar exchange rate rises to all-time high in July

After holding basically stable in the second quarter, at the start of July the dollar weakened against the euro, the exchange rate rising to almost 1.38 (Figure 13). However, the dollar appreciated significantly against the yen (by 3 per cent), reflecting the re-emergence of speculative carry trade positions. The pace of the renminbi's appreciation in relation to the dollar quickened slightly. The expected revaluation of the Chinese currency against the US dollar within one year, as implied by the prices of forward contracts, fell from 5.9 per cent at the end of March to 4.6 per cent at the beginning of July.

3 RECENT DEVELOPMENTS IN ITALY

THE CYCLICAL SITUATION

GDP grew at an estimated pace of 1.5 per cent in the first half

In the first half of 2007 the Italian GDP grew at an estimated annualized rate of 1.5 per cent, a pace in line with the present potential growth rate of the economy.

Economic activity was affected in the first quarter by the international slowdown, in particular in Germany, where expansion was curbed by the new, higher VAT rates. Given essentially flat domestic demand due to the sharply negative contribution of stocks the deceleration of Italy's GDP was determined chiefly by slower export growth after the sharp expansion of the fourth quarter of 2006 (Table 2), confirming the heavy dependence of the Italian cyclical upswing on trends in foreign demand (Figure 14).

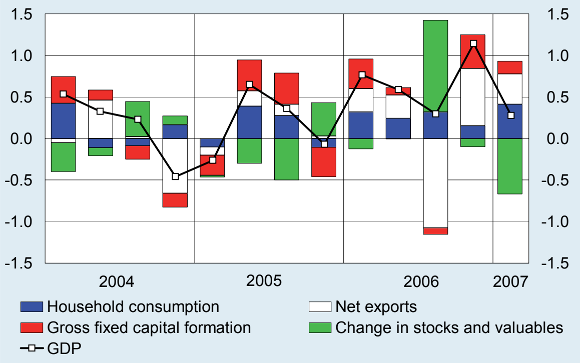
The slowdown in output growth was reflected in a contraction of employment. The demand for labour is now better aligned with GDP trends, as the protracted adjustment to the numerous regulatory and contractual changes to labour utilization since the mid-1990s is now virtually completed. Continued wage moderation helped curb inflation, which was less than 2 per cent on an annual basis.

The latest available cyclical indicators point to still moderate growth of domestic demand in the second quarter, with household consumption slowing down and investment in capital goods picking up. Exports apparently accelerated, contributing significantly to GDP growth, which we estimate at about 2 per cent on an annual basis.

Figure 14

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

(percentage points)



Source: Istat.

Table 2

GDP and its main components

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

	2006 Q2	2006 Q3	2006 Q4	2006 (1)	2007 Q1
GDP	0.6	0.3	1.1	1.9	0.3
Total imports	0.3	2.2	1.7	4.3	-0.9
National demand (2)	0.3	1.4	0.5	1.6	-0.1
National consumption	0.3	0.4	0.2	1.0	0.5
households	*0.4*	*0.5*	*0.3*	*1.5*	*0.7*
other (3)	*-0.1*	*0.2*	..	*-0.3*	*0.1*
Gross fixed investment	0.4	-0.4	2.0	2.3	0.7
construction	*0.2*	*0.6*	*2.7*	*2.1*	*1.5*
other goods	*0.6*	*-1.3*	*1.3*	*2.6*	*0.1*
Change in stocks and valuables (4)	..	1.1	-0.1	0.3	-0.7
Total exports	1.3	-1.8	4.3	5.3	0.4
Net external demand (4)	0.3	-1.1	0.7	0.3	0.4

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.

FIRMS

Industrial production picks up again after the first quarter slowdown

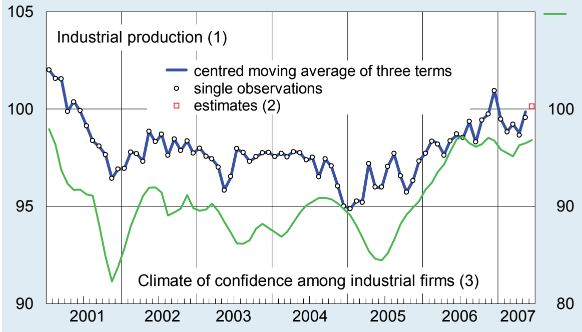
Italian manufacturing activity as gauged by the index of industrial production declined slightly in the first five months of the year compared with the previous period (Figure 15), confirming the signs of a slowdown that emerged in the second half of 2006 with the downturn in orders (Figure 16). In May the index turned upwards again, gaining nearly a full percentage point with respect to April. Strong increases in output of energy goods (4.4 per cent on a monthly basis) and capital goods (2.4 per cent) more than offset stagnation in the consumer goods sector, where the output of non-durables declined by 0.5 per cent.

Our estimates show a further increase of about half a percentage point in June. For the second quarter as a whole production activity returned to growth, partly recouping the contraction of the winter months with the expansion expected to continue during the summer. After a pause in July, according to estimates based on electricity consumption in the first half of the month, the qualitative surveys of ISAE and the survey by Bank of Italy and Sole-24 Ore indicate that growth will resume.

Figure 15

Industrial production and the climate of confidence among firms

(monthly data; indices, 2000 =100)

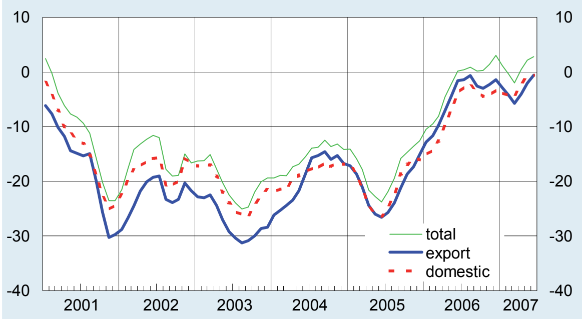


Sources: Based on Centro Studi Confindustria (CSC), ISAE, Enel and Istat data.
(1) Data adjusted for seasonal and calendar effects. – (2) Based on electricity consumption and the indicators of the ISAE and CSC surveys of manufacturing firms. – (3) Source: ISAE. Average of the seasonally adjusted percentage 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).

Figure 16

Level of industrial orders (1)

(monthly data)



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

Construction investment continues strong

The production slowdown in the first quarter was reflected in decreased investment in capital goods, while construction investment continued to expand rapidly.

Firms' purchases of capital goods remained stationary in the first quarter, after the jump recorded in the fourth quarter of 2006. The latest cyclical indicators suggest a pick-up in the second quarter, fostered by a recovery in demand and the persistence of good financial conditions.

Building investment has continued to grow at a very rapid pace, albeit less strongly than in the fourth quarter of last year. In the six months to March gross fixed investment in the construction industry increased by more than 4 per cent on an annual basis, comparable to the pace of growth in the protracted phase of expansion at the end of the 1990s. Contributory factors were the moderate cost of money, the continuing rise in property prices (which were 6.2 per cent higher in the first six months than in the first half of 2006) and the Government's new incentives for energy saving.

Firms' price competitiveness worsens, but with signs of improvement ...

The competitiveness of Italian firms, measured by the real effective exchange rate based on producer prices, declined slightly in the first quarter, owing above all to the appreciation of the euro. However, the recent deceleration in producer prices suggests the possibility of improvement in the next few months.

... especially in productivity

The slowdown in industry excluding construction in the first quarter was reflected in an increase in unit labour costs of 1.6 per cent over the year-earlier period (Figure 17). This does not appear to have halted the downward trend in this indicator that has been under way for a year now, thanks above all to the growth of productivity.

In the service sector, after their sharp fall in the fourth quarter of 2006, unit labour costs continued to decline. This was due above all to a strong gain in productivity, which increased at an annualized rate of nearly 2 per cent, thanks chiefly to the modest rise in employment. The productivity surge kept unit labour costs for the economy as a whole unchanged.

Profitability improves ...

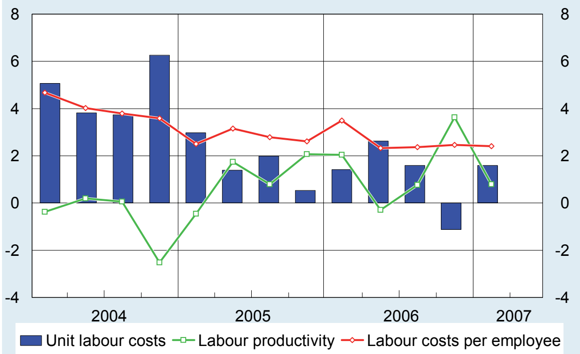
According to estimates based on the national accounts, the economic expansion under way since the start of 2005 has been reflected in corporate operating profits, which improved for the third consecutive quarter. This more than offset the increase in net financial costs, helping to increase self-financing significantly from the lows registered in 2006.

... but firms' borrowing requirement is still high

Firms' borrowing requirement (the difference between gross investment and self-financing) remained large and virtually unchanged. Their financial debt continued to rise, to €1 trillion (Table 3) and 68 per cent of GDP, 3 percentage points higher than in March 2006 (Figure 18), though this is still lower than the euro-area average. In the first quarter of 2007 net bond issues were negative by €1.2 billion. There were no significant capital increases by listed firms. The growth in corporate bank debt came to 11.9 per cent

Figure 17

Labour costs per employee, labour productivity and unit labour costs in industry excluding construction
(seasonally adjusted data; percentage changes on corresponding period)



Source: Istat.

Table 3

Italian non-financial corporations' financial assets and liabilities (1)
(millions of euros)

	Flows		Stocks
	Jan.-Mar. 2006	Jan.-Mar. 2007	Mar. 2007
Cash and sight deposits	8	-3	282
Shares and other equity	1	3	815
Trade credit	-24	-23	331
Other assets (2)	11	5	151
Total assets	**-4**	**-17**	**1,579**
Short-term debt (3)	4	5	430
Medium and long-term debt (4)	9	16	517
Securities	2	-2	65
Trade credit payable	-27	-25	305
Shares and other equity	3	3	1.642
Other liabilities (5)	1	0	113
Total liabilities	**-7**	**-4**	**3,071**
BALANCE	**3**	**-13**	**-1,492**

(1) The data refer to "non-financial corporations". Rounding may cause discrepancies in totals. The figures for the first quarter of 2007 are provisional. – (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.

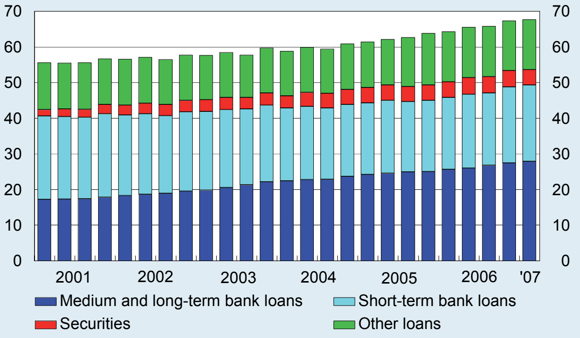
in May, slightly less than in March. Medium-sized and large firms and firms located in the South recorded larger-than-average increases (Figure 19).

The cost of bank debt, while adjusting to the rises in official interest rates, is still low by historical standards.

Italian corporations announced 30 mergers or acquisitions in the first quarter, for a value of nearly €5 billion, of which €3.6 billion was for a single merger between two municipal companies, AEM and ASM. In April ENEL and a Spanish partner announced a takeover bid for the leading local energy producer. The acquisition of Telecom Italia by Telco, whose shares are owned by Telefonica and leading Italian financial institutions, is in course of approval.

Figure 18

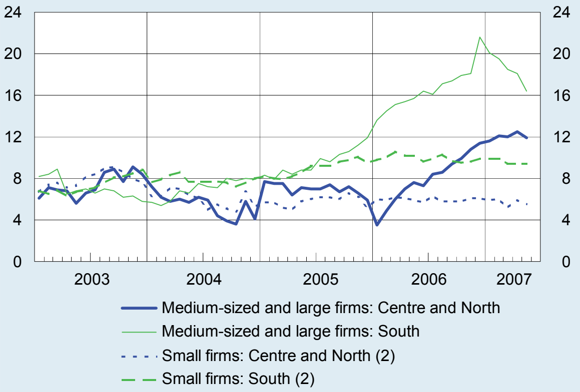
Corporate debt (1)
(as a percentage of GDP)



(1) The figures for the first quarter of 2007 are provisional.

Figure 19

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 fewer than 20 workers.

HOUSEHOLDS

Consumer spending unexpectedly accelerates in the first quarter ...

Against the predictions of the main forecasting agencies, household consumption expanded at an annualized rate of 2.8 per cent in the first quarter with respect to the fourth quarter of 2006. The increase was sharpest in spending for services and durable goods, thanks to purchases of transport equipment. New car registrations gained 3.3 per cent on the quarter, fostered in part by the 2007 Finance Law's incentives to replace old vehicles. Non-durable consumption was flat, owing to the fall of 0.2 per cent in spending on food products.

... but households remain prudent about the future

After stagnating in the fourth quarter, the disposable income of consumer households returned to growth in the first three months of the new year, according to our estimates. Real disposable income was about 0.5 percentage points higher than in the previous quarter and 1.5 points higher than a year earlier (Figure 20). About half of the overall rise was due to the increase in gross compensation of employees.

The faltering of household confidence in recent months (Figure 20) and the slow growth in retail sales suggest that the uncertainties that have curbed the growth of consumption in recent years have not been completely dispelled. Aside from new car sales, which remained lively in the second quarter thanks to incentives for scrapping old vehicles, households' spending decisions are still apparently dictated by prudence.

The growth in household debt slows but remains fast

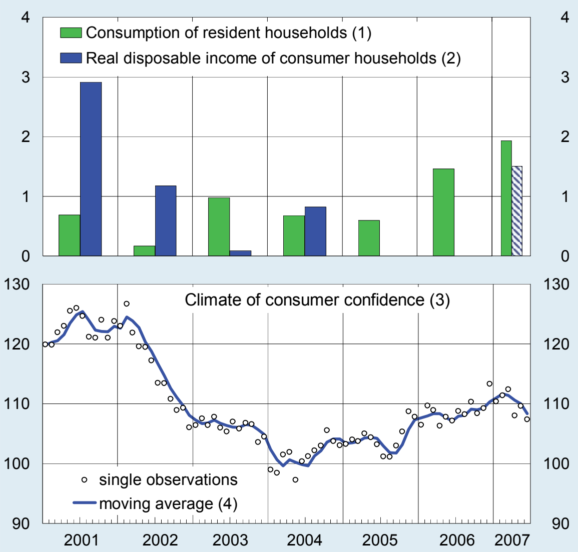
According to preliminary data, investment in financial assets diminished in the first quarter (Table 4). Households purchased bonds (chiefly bank bonds and short-term government paper) and equity, while disposing of sight deposits and investment fund units.

Households' debt continued to increase at a rapid pace. Their financial debt, at €493 billion, was 11 per cent greater in March than a year earlier; in relation to disposable income it was up 3 percentage points to 48 per cent (Figure 21), still a low ratio by international standards. The 12-month increase in bank loans, which make up nearly 80 per cent of household debt, slowed to 9.6 per cent in May in response to the slowdown in property sales and the rise in interest rates. The rate of increase in consumer credit also slowed, though remaining high at 10.8 per cent.

The cost of debt service (payment of interest and repayment of principal) rose to 7.1 per cent of disposable income, 0.1 points more than at the end of 2006. Almost half of the increase was due to the rise in interest rates last year (Figure 22).

Figure 20

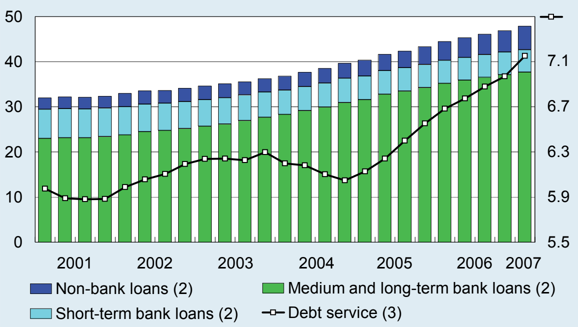
Household consumption and income and consumer confidence in Italy



Sources: Based on Istat and ISAE data.
(1) Chain-linked volumes; percentage changes on previous year. Data for the first quarter of 2007 are adjusted for seasonal and calendar effects. – (2) Deflated using the deflator of consumption of resident households; for the first quarter of 2007, our estimates. – (3) Index, 1980=100; seasonally adjusted data. – (4) Moving average for the three months ending in the reference month.

Figure 21

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; data for 2006 and 2007 are estimated. – (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 have slowed as the international cycle has eased, and imports have fallen

In the first quarter of 2007 Italian exports of goods and services as measured by the national accounts slowed sharply to quarter-on-quarter growth of 0.4 per cent (Table 2). The increase was slightly higher for goods alone (0.7 per cent, compared with 3.2 per cent in the fourth quarter of 2006), while exports of services contracted by 0.9 per cent after having surged by 9 per cent in the previous quarter. Factors in these developments were the appreciation of the euro, which led to a worsening of competitiveness, and the slowing pace of economic activity at international level.

An analysis of the volumes sold on the different foreign markets shows resilience of Italian exports to the EU: a decline in exports to Germany was countered by a sharp rise in sales on the Spanish market. Outside the EU, the overall performance of exports reflected the contraction in sales in the United States and the dynamic Asian economies.

Imports of goods and services fell by 0.9 per cent compared with the previous quarter, led downwards by the decline of 1.9 per cent in those of goods. By contrast, imports of services accelerated to growth of 3.1 per cent, from 0.2 per cent in the fourth quarter of 2006. The sectors having the greatest impact on the evolution of the volume of foreign trade were transport equipment, engineering products and basic metals; only the first two recorded an improvement in the trade balance in value terms.

The current account deficit is stable

In the first four months of 2007 the deficit on Italy's balance of payments on current account (€15.8 billion, or about 3 per cent of GDP) was roughly the same as in the year-earlier period (Table 5). The reduction in the deficit on goods, due essentially to an improvement in the balance on energy, almost entirely offset the increase in those on income and services; the surplus on the foreign travel component of the latter was virtually unchanged with respect to the first quarter of 2006.

The financial account recorded net direct and portfolio investment outflows of €21.3 billion in the first four months of the year, compared with net inflows of €34.8 billion in the corresponding period of 2006. Outward direct investment increased from €6.7 billion to €18.4 billion, while inward direct investment declined. Portfolio investment outflows and inflows both diminished. The reduction in outflows was due to the equity component, in contrast with a moderate increase in purchases of foreign non-equity securities, while that in inflows mainly involved debt securities, along with disposals equity securities (though less than in the same period of 2006). The figures on investment by non-residents in Italian debt securities continued to reflect net disposals of

Table 4

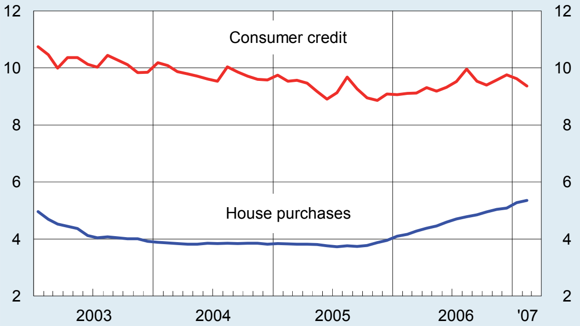
Financial assets and liabilities of Italian households (1)
(millions of euros)

	Flows		Stocks
	Jan.-Mar. 2006	Jan.-Mar. 2007	Mar. 2007
Cash and deposits	10	-12	933
Securities	12	33	703
Investment fund units	-5	-10	294
Shares and other equity	3	9	997
Insurance reserves (2)	12	-2	609
Other assets	0	0	6
Total assets	**31**	**18**	**3,543**
Bank debt	12	9	439
Other financial liabilities (3)	2	5	54
Staff severance pay and pension provisions and some minor items	0	0	33
Total liabilities	**14**	**14**	**526**
BALANCE	**17**	**4**	**3,017**

(1) Households comprises consumer households, non-profit institutions serving households and sole proprietorships with up to 5 workers. Rounding may cause discrepancies in totals. The figures for the first quarter of 2007 are provisional. – (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.

Figure 22

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 (APRC) includes accessory expenses (administrative expenses, loan examination fees and insurance). It is calculated as the average rate across all maturities, weighted by loan amount.

BTPs and other Italian government securities; these amounted to €3 billion in the first two months of 2007 (against net purchases of €26.7 billion in the corresponding period of 2006).

THE LABOUR MARKET

The employment trend is back in line with cyclical conditions

Employment fell in the first quarter of 2007 with respect to the previous quarter by 0.2 per cent according to the national accounts. According to Istat's periodic labour force surveys, the number of persons in work declined by 0.3 per cent (and was down by 0.9 per cent or 147,000 persons from the year-earlier period; Table 6). The reduction was practically uniform throughout the country. The latest developments in employment are more in tune with the trend of economic activity, marking the end of the long transition towards more labour-intensive allocations of factors as a result of the reforms initiated during the last decade and the prolonged period of wage moderation. Corroborating this is the stabilization of the proportion of employees working on fixed-term or part-time contracts, which had increased sharply in the past years.

Wage growth remains moderate

The phase of wage moderation persists. In the first quarter of 2007 gross earnings per employee as measured by the national accounts were 2.1 per cent higher than a year earlier. The increase was greater in industry excluding construction (2.4 per cent) and more modest in services (1.6 per cent). The latter figure reflected the essentially flat earnings of workers in the distribution sector, whose contract expired in December; in April, however, an interim payment caused per capita earnings to rise by about 3 per cent.

The contraction in the supply of labour ...

The cyclical slowdown was reflected in the contraction of 0.5 per cent in the supply of labour, with an increase in discouraged workers. The reduction was more pronounced in the South (–0.7 per cent), particularly among unemployed workers who have stopped looking for a new job.

Table 5

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

	2006	Jan.-Apr. 2006	Jan.-Apr. 2007
Current account	**-37,869**	**-16,109**	**-15,840**
Goods	-9,532	-6,934	-2,761
Services	-1,474	-718	-3,765
Income	-13,607	-4,492	-6,890
Currernt transfers	-13,256	-3,965	-2,424
Capital account	**1,891**	**449**	**983**
Financial account	**35,526**	**15,505**	**15,699**
Direct investment	-2,296	9,578	-9,508
Portfolio investment	54,829	25,253	-11,777
Financial derivatives	-416	565	-876
Other investment	-17,034	-20,172	39,118
Reserve assets	443	281	-1,258
Errors and omissions	**452**	**155**	**-842**

(1) Provisional data for May and April 2007.

Table 6

Labour force status of the Italian population

	Q1 2006	H1 2006	H2 2006	Average 2006	Q1 2007
	Thousands of persons				
Employees	16,691	16,853	16,977	16,915	16,838
open-ended contracts	14,579	14,690	14,696	14,693	14,712
fixed-term contracts	2,112	2,163	2,281	2,222	2,126
Self-employed	6,056	6,114	6,033	6,073	6,008
Total persons in work	22,747	22,967	23,010	22,988	22,846
Labour force	24,622	24,715	24,608	24,662	24,402
men	14,699	14,773	14,707	14,740	14,606
women	9,923	9,942	9,901	9,922	9,796
Population	58,333	58,376	58,496	58,436	58,736
	Per cent				
Unemployment rate	7.6	7.1	6.5	6.8	6.4
men	6.1	5.6	5.2	5.4	5.3
women	9.9	9.2	8.4	8.8	8.0
Partecipation rate (age 15-64)	62.7	62.9	62.6	62.7	61.9
men	74.6	74.8	74.4	74.6	73.8
women	50.9	50.9	50.7	50.8	50.0
Employment rate (age15-64)	57.9	58.4	58.4	58.4	57.9
men	69.9	70.5	70.5	70.5	69.9
women	45.8	46.2	46.4	46.3	46.0

Source: Istat, labour force surveys.

The labour force has been shrinking in the South almost uninterruptedly since the end of 2002, with a cumulative loss of about half a million persons (6.3 per cent of the South's total labour force). While the employment rate held basically stable in all parts of Italy, in the first quarter of 2007 the labour force participation rate fell, most notably in the South.

... pushes down the unemployment rate

The outcome was a further fall in the unemployment rate, which in the first three months of the year decreased on a seasonally adjusted basis to 6.2 per cent, 0.2 percentage points lower than in the previous quarter. The decline was even larger in the South, where the unemployment rate fell by 0.5 points to 10.9 per cent.

PRICE DYNAMICS

Consumer price inflation is falling ...

In the second quarter of this year consumer price inflation fell to the lowest levels since June 1999, reflecting the moderation of domestic costs, the easing of foreign cost pressures and basically stable inflation expectations. After touching 1.5 per cent in April and May, the twelve-month increase in the consumer price index for the entire resident population rose slightly to 1.7 per cent in June, when the corresponding figure for the harmonized index of consumer prices was 2 per cent (Table 7).

The fall in average inflation for the quarter was due above all to the slowdown in the prices of regulated goods and services, especially energy and telephone prices. The contribution of unregulated energy products to curbing inflation came on average to about 0.1 percentage points, as in the first quarter of the year.

Excluding food and energy and products whose prices are regulated, core inflation held broadly stable at around 1.8 per cent.

... and producer price inflation too

Thanks to the deceleration in the prices of energy inputs, the rate of producer price inflation continued on the downward path that it took at the end of 2006. In May the twelve-month increase in the producer price index came down to 3 per cent, having remained above that level for about two years. The slowdown in prices also involved the core components. Excluding food and energy products, the pace of producer prices slowed progressively over the last three months, benefiting from the lagged effects of the moderate dynamics of unit labour costs in industry in the second half of last year.

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	3.9
Feb.	2.1	1.8	0.3	1.8	4.0
Mar.	2.1	1.7	0.2	1.9	3.8
Apr.	1.8	1.5	0.2	1.7	3.3
May	1.9	1.5	0.3	1.9	3.0
June (4)	2.0	1.7	0.2		

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. – (4) Provisional.

Expectations are stable

The expectations of the professional forecasters polled by Consensus Economics for average annual consumer price inflation in Italy in 2007 and 2008 have remained stable since March at 1.8 and 1.9 per cent, respectively.

BANKS

Lending slows but continues to grow rapidly ...

Lending by Italian banks continued to expand rapidly in May, showing twelve-month growth of 10.7 per cent (Table 8). Short-term lending maintained its rapid pace, in line with the recovery in economic activity, while medium and long-term lending slowed down, reflecting both lower demand by households for loans for house purchases and the accounting effect of securitizations. In the first five months of the year the volume of loans securitized amounted to €14.5 billion, compared with €9 billion in the same period of 2006. If new business is calculated inclusive of the bank assets that were securitized, which continue to finance the economy even if they are cleared from banks' balance sheets, the growth in lending in the twelve months to May rises to 12.8 per cent.

... especially in the South of Italy

The rate of growth in lending to customers resident in the South remained two percentage points higher than that in rest of Italy (Figure 23). The differential involved all the main sectors and was especially large for firms.

No signs of strains on the supply side

Lending conditions remain relaxed, as is confirmed both by survey information (see the box "Lending conditions and credit demand in Italy") and by indicators based on the cost of credit. The spread between the average and the minimum interest rate on short-term loans to firms, which tends to increase during periods of credit restriction, fell to a ten-year low of 1.9 percentage points.

Table 8

Main assets and liabilities of Italian banks (1)

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

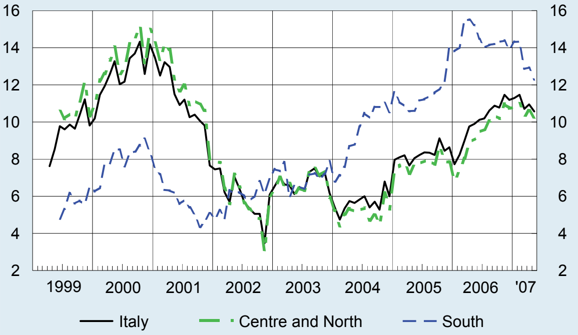
	2005	2006	May 2007	May 2007 Stocks €mn
Assets				
Securities	19.4	5.3	10.0	234,445
Loans	8.7	11.5	10.7	1,430,942
of which: (2)				
short-term (a)	*2.0*	*10.5*	*10.4*	*491,626*
medium and long-term (b)	*13.0*	*11.6*	*10.6*	*873,254*
(a)+(b)	*8.6*	*11.2*	*10.6*	*1,364,880*
External assets	11.0	19.8	31.2	390,745
Liabilities				
Domestic funding (3)	7.8	9.9	8.6	1,428,889
Deposits	6.9	8.3	5.8	850,065
of which: (4)				
current accounts	*8.0*	*6.7*	*3.6*	*621,701*
with agreed maturity	*2.7*	*9.8*	*5.8*	*43,612*
redeemable at notice	*2.5*	*-0.8*	*-0.6*	*68,187*
repos	*4.9*	*29.4*	*25.6*	*107,304*
Bonds (3)	9.3	12.5	13.0	578,825
External liabilities	11.8	25.6	33.0	498,677

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

Figure 23

Bank lending by geographical area (1)

(monthly data; twelve-month percentage changes)



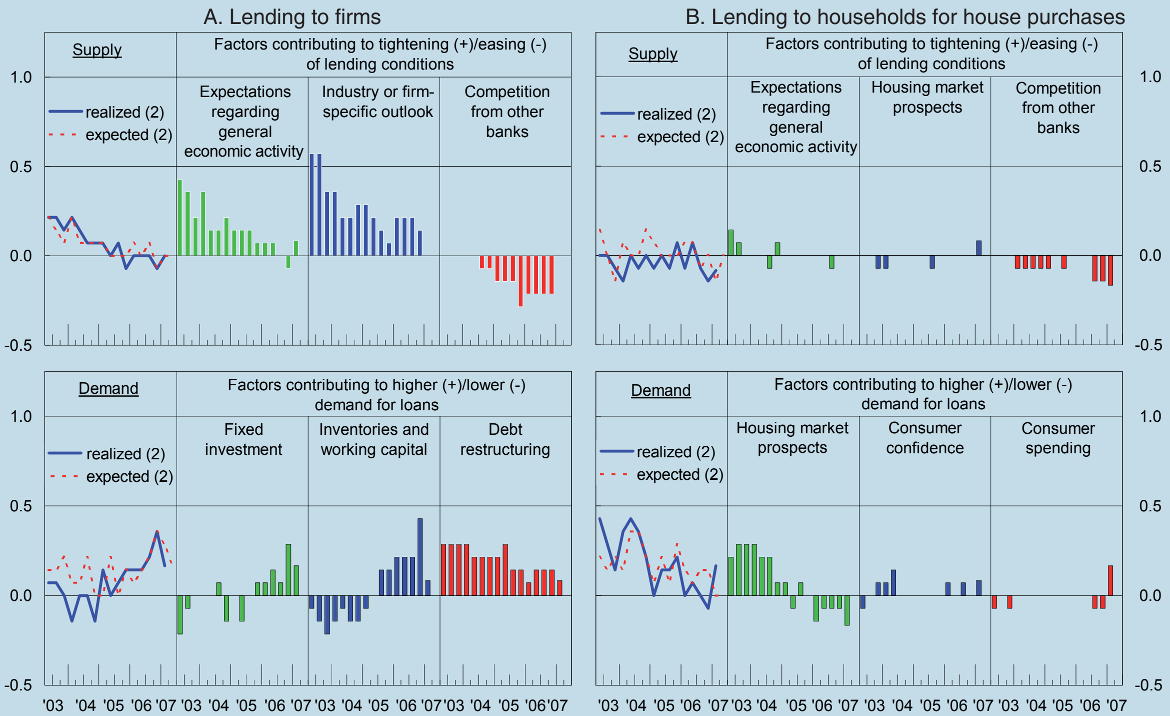
Source: Based on Bank of Italy data.
(1) Loans include repos, bad debts and some minor items that are included in the Eurosystem's harmonized definition. The percentage charges are calculated net of reclassifications, exchange rate variations and other variations not due to transactions. The breakdown by geographical area is based on customer residence.

LENDING CONDITIONS AND CREDIT DEMAND IN ITALY

According to the banks participating in the Eurosystem's most recent Bank Lending Survey in April, firms' demand for credit remained strong in the first quarter, albeit slackening slightly with respect to the fourth quarter of 2006 (see figure). Lending conditions remained broadly unchanged. According to the banks, the restrictive effect of a slight deterioration in expectations for economic activity were offset by the expansive effect of perceptions of intensifying competition between banks. There was a slight tightening of the lending conditions for small and medium-sized enterprises, with a widening of interest rate spreads and a stiffening of guarantee requirements. The banks reported that they intended to keep lending conditions basically unchanged in the second quarter of 2007 and expected a moderate slowdown in credit demand.

According to the banks surveyed, the demand for loans for house purchases remained strong. The expansive effect of improving consumer confidence and increased consumer spending outweighed the restrictive impact of the worsening prospects in the residential property market. The banks reported that they had improved lending conditions further owing to increased competition, resulting in a slight narrowing of spreads, an increase in loan-to-value ratios and above all a lengthening of maturities. Demand for consumer credit and other loans to households continued to be buoyant. Supply criteria remained broadly unchanged. For the second quarter of 2007 the banks forecast a slowdown in demand for home mortgages, while consumer credit should continue to expand at a rapid pace with no significant changes in supply criteria.

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 bank groups participating in the quarterly Bank Lending Survey, weighted as follows – for lending conditions: 1= tightened considerably, 0.5=tightened somewhat, 0=basically unchanged, -0.5=eased somewhat, -1=eased considerably; for demand: 1=increased considerably, 0.5 = increased somewhat, 0 = basically unchanged, -0.5 = decreased somewhat, -1 = decreased considerably. The range of the index is from -1 to 1. – (2) In the quarter in which the survey was conducted. – (3) Forecasts made in the preceding quarter.

Fund-raising is slowing, deposit rates are edging upwards

The twelve-month growth in banks' domestic fund-raising declined to 8.6 per cent, reflecting the trend of deposits. Sales of bonds grew by 13 per cent, increasing their share of total funding to 41 per cent. Bank deposit rates adjusted more slowly than lending rates to the changes in monetary conditions, a pattern also observed in similar phases in the past (Figure 24). Between the low recorded in the final part of 2005 and the end of May 2007, the average interest rate paid on current accounts of households and firms rose by 0.7 percentage points to 1.4 per cent. The yield on fixed-rate bank bonds followed market rates more closely, increasing by 1.7 points to 4.1 per cent.

Covered bonds expand the range of funding instruments available to banks

The secondary legislation recently issued in Italy on covered bonds will enable Italian banks to widen their range of fund-raising instruments, reduce funding costs and improve maturity matching between assets and liabilities. In the future this should be reflected in a reduction in lending rates.

THE FINANCIAL MARKET

Italian banks continue to issue bonds

In the first quarter of 2007 Italian enterprises made net issues of Eurobonds of €24 billion, compared with €29 billion in the previous quarter (Table 9), thanks to the substantial issues of banks and other financial corporations, while non-financial corporations made modest net redemptions. Until May the yield spread between euro-denominated securities issued by Italian enterprises and government securities and the credit default swap premiums of Italian banks and insurance companies remained quite narrow. Starting in early June, they widened in line with the corresponding euro-area averages.

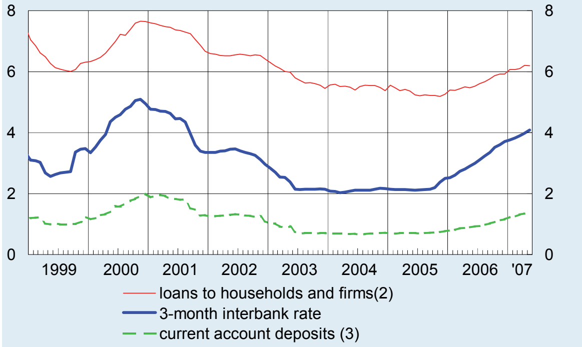
The stock exchange index holds unchanged

In the second quarter of 2007 the Italian share index rose by 1 per cent, compared with 6 per cent for the Dow Jones Euro Stoxx

Figure 24

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 account deposits of households and firms.

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 corpo-rations	Total
		Italy		
2005	41,502	35,471	1,434	78,407
2006	60,371	15,280	4,465	80,116
2006 – Q1	20,039	1,264	514	21,817
Q2	12,310	1,753	3,750	17,813
Q3	7,155	4,193	351	11,699
Q4	20,867	8,070	-150	28,787
2007 – Q1	21,619	3,382	-1,238	23,763
		Euro area		
2005	292,670	176,227	22,250	491,147
2006	346,451	232,640	33,432	612,523
2006 – Q1	100,624	45,485	1,751	147,860
Q2	87,157	58,290	16,855	162,302
Q3	62,332	33,290	2,654	98,275
Q4	96,338	95,575	12,173	204,086
2007 – Q1	142,173	82,908	920	226,001

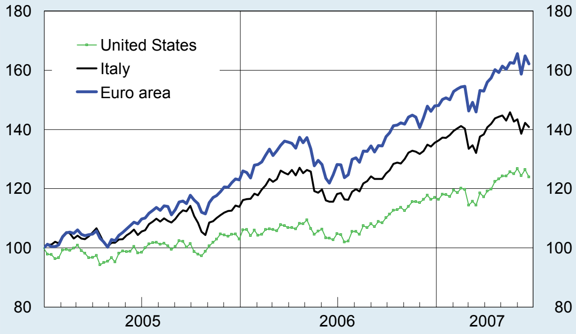
Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, valued at par, issued by resident companies belonging to the sector indicated. The nationality and the sector refer to the issuer and not to the company that controls it. Net issues are equal to the difference between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

index (Figure 25). The difference reflects the relatively poor performance of bank, telecommunications and utilities shares in Italy. Share prices rose sharply until mid-May, then dropped. The uptrend in the first part of the quarter can be attributed to strong current earnings and substantial merger and acquisition activity. The subsequent correction may have been prompted in part by the rise in long-term interest rates.

Figure 25

Share prices (1)

(end-of-week data; indices, 31 December 2004=100)



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

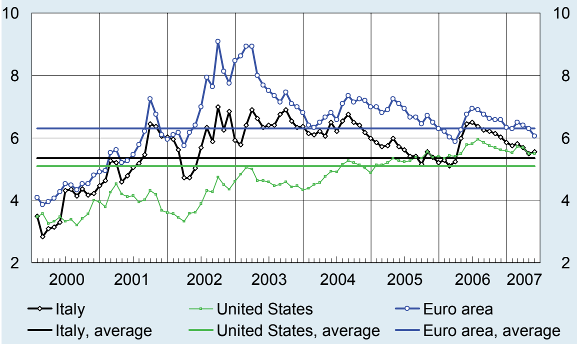
The ratio of current earnings to market value is now only just above its long-term average (Figure 26). The volatility of the share price index, after a temporary increase in late February, returned to a low level only slightly above that at the start of the year.

Like other euro-area exchanges, Borsa Italiana continued to see new listings (15 in the first six months of 2007, compared with 10 in the year-earlier period). At the end of May there were 284 Italian companies listed – the same number as at the end of 2006 – with a total market value of €837 billion or 54.8 per cent of GDP).

Figure 26

Current earnings/price ratio

(monthly data; per cent)



At the end of June a proposal for the merger of Borsa Italiana and the London Stock Exchange was officially announced. This would create the largest group in Europe in terms of market capitalization, number of companies listed and daily turnover.

Faster outflows from investment funds

Net redemptions of Italian harmonized open-end investment funds increased to €16 billion in the first quarter, in contrast with trends elsewhere in the area, where there was a sharp increase in net fund-raising. The disinvestment involved all types of harmonized funds and was most pronounced for bond and equity funds. Non-harmonized funds had positive net fund-raising (€2 billion), while that of foreign funds controlled by Italian intermediaries was negligible. These trends appear to reflect Italian households' increased propensity to invest in low-risk financial assets directly. The net outflow from Italian funds also stems from banks' continuing strategy of marketing funds of management companies that they have set up in financial centres abroad where corporate income tax is lower.

In the first quarter of 2007 the average rate of return of harmonized funds set up under Italian law was 0.8 per cent; the highest yields were recorded by equity funds (1.6 per cent). The outflow of resources from portfolio management services fell to €1 billion in the first quarter, thanks above all to net fund-raising by asset management companies. The average yield was estimated at 0.1 per cent.

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL ENVIRONMENT

The assumptions underlying these short-term forecasts are quite similar to those used within the Eurosystem for the forecasts for the euro-area economy released in the ECB's June Monthly Bulletin. What slight differences there are concern the assumptions regarding exchange rates, oil prices and interest rates, which have been updated to take account of the observations of the ten working days to 4 July.

The expansionary phase of the world economic cycle is expected to continue for all of this year and next, with world trade expanding by about 6 per cent in 2007 and 7 per cent in 2008. Oil prices, as implied by futures contracts, average around $67 a barrel this year and rise to $73.5 next year. The assumption regarding short-term interest rates, as measured by 3-month Euribor, is based on market expectations and implies a progressive rise to 4.5 per cent. Long-term rates, corresponding to the yield of a basket of government securities with a duration of about 6 years, average 4.5 per cent in 2007 and 4.8 per cent in 2008. The assumption that bilateral exchange rates remain stable at the average registered between 20 June and 3 July 2007 implies a dollar/euro conversion rate of 1.35.

Projections for the public finances take account only of the effects of measures already adopted or drafted in sufficiently detailed form. They do not diverge significantly from the estimates presented by the Government in the recent Economic and Financial Planning Document for 2008-2011.

SHORT-TERM FORECASTS

The outlook for economic growth remains favourable

Starting from the spring of this year and for the whole of 2008 the Italian economy is expected to expand at rates in line with or slightly above our estimates for potential growth. GDP is forecast to grow by 2 per cent on average in 2007 and by 1.7 per cent in 2008 (Table 10). The figure for 2007 reflects the strong carryover effect produced by the sharp acceleration in GDP in the fourth quarter of 2006. The recovery in economic activity, driven as in previous quarters by export and investment demand, also benefits in 2007 from the upturn in household expenditure. After the sharp increase in 2006, the incidence of taxation is beginning to stabilize.

Table 10

Forecasts of the main macroeconomic variables

(annual percentage changes, except as indicated)

	2006	2007	2008
GDP	1.9	2.0	1.7
Domestic demand excluding stocks	1.3	1.9	1.5
Household consumption	1.5	1.9	1.5
Government consumption	-0.3	0.4	0.2
Gross fixed capital formatiion	2.4	3.5	2.8
Total exports	5.5	3.7	3.3
Total imports	4.5	2.5	2.6
Change in stocks and valuables (1)	0.4	-0.2	0.0
HIPC (2)	2.2	2.0	2.0
World trade	9.1	5.8	6.9
Export competitiveness (3)	-3.9	-6.6	-1.3

Sources: Istat and Bank of Italy. Chain-linked volumes; changes estimated on the basis of data adjusted for seasonal and calendar effects.
(1) Contributions to GDP growth; percentage points. – (2) Harmonized index of consumer prices. – (3) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products).

The Government projects GDP growth of 2 per cent this year and 1.9 per cent in 2008 (Economic and Financial Planning Document for 2008-2011). The OECD expects Italian GDP to increase by 2 per cent this year but by 1.7 per cent in 2008 (Table 11), with annual inflation forecast at 2 and 2.1 per cent respectively. The IMF offers a slightly lower prediction for GDP this year. The projections of the private analysts surveyed by Consensus Economics are identical to those of the European Commission for GDP growth (1.9 per cent this year, 1.7 per cent in 2008), but slightly more favourable as regards consumer price inflation.

Exports continue to fuel growth

According to our projections, world trade, after slowing in 2007 compared with the previous year, continues to sustain Italian exports, which expand by 3.7 per cent and contribute 1 percentage point to GDP growth. However, the lagged effects of the prolonged loss of competitiveness due to the strengthening of the euro and the rapid rise in export prices hold back sales abroad. The forecasting exercise envisages the decline in the competitiveness of Italian producers coming to a gradual end, thanks to the effects of corporate restructuring programmes initiated in recent years. The increased internationalization of firms, the improved quality of the human capital used in production and the enlargement of the range of products supplied are reflected in a slowdown in costs and a realignment of the price dynamics on internal and external markets. The quarterly rate of expansion of exports rises from about 2 per cent on an annual basis in the early part of 2007 to more than twice that at the end of next year. The average annual increase falls to 3.3 per cent in 2008 and the contribution to GDP growth to 0.9 percentage points (Figure 27), but the slowdown is entirely due to the smaller carryover effect than in 2007. There remains a large growth differential, of about 3 percentage points, with respect to world demand (Figure 28); this is reflected in a further fall in Italy's market share at constant prices and exchange rates, from 2.5 per cent in 2006 to 2.3 per cent. At current prices, instead, the share is unchanged compared with last year, at 3.5 per cent. The gap tends to narrow progressively.

Table 11

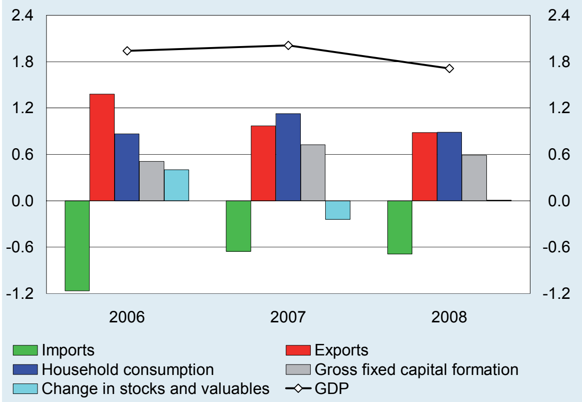
Forecasts by other organizations
(annual percentage changes)

	GDP (1)		Inflation (2)	
	2007	2008	2007	2008
IMF	1.8	1.7	2.1	2.0
OECD	2.0	1.7	2.0	2.1
European Commission	1.9	1.7	1.9	2.0
Consensus Economics	1.9	1.7	1.8	1.9

Sources: IMF, *World Economic Outlook*, April 2007; OECD, *Economic Outlook*, no. 81 – June 2007; European Commission, *Economic Forecasts*, June 2007; and Consensus Economics, June 2007.
(1) The growth rates in the OECD forecasts are adjusted for calendar effects, in contrast with those published by the European Commission and the IMF. – (2) Based on the harmonized index of consumer prices (HICP).

Figure 27

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



Sources: Istat and Bank of Italy.

In 2007 the acceleration in consumption strengthens domestic demand

The recovery in consumption observed in 2006 gathers pace this year, with that of households growing by 1.9 per cent. Purchases of durable goods, stimulated by tax incentives, continue to grow at a lively pace (2.2 per cent). Households' disposable income accelerates to 2 per cent in real terms after stagnating in 2006 owing to the exceptionally large increase in taxation. The propensity to save, after falling by more than a percentage point in 2006, holds steady at 11 per cent. In 2008 the growth in consumption slows to 1.5 per cent, falling into line with the rise in permanent income.

The expansionary phase of the cycle and the favourable financial conditions give a boost to investment, which grows by 3.5 per cent in 2007; the temporary slowdown in purchases of machinery is offset by a sharp acceleration in construction. In 2008 the increase in real interest rates and the cooling of the property market reduce the rate of capital formation to below 3 per cent. After falling in the two previous years, in the period 2007-08 general government investment, excluding privatization receipts, accelerates significantly.

In the two years covered by the forecast imports expand at an average rate of 2.5 per cent, 2 percentage points less than in 2006; the contribution of net exports to the growth in GDP rises to 0.3 percentage points this year and falls back to 0.2 points in 2008.

The internal and external pressure on prices diminishes

Inflation, as measured by the HICP, falls to 2 per cent in both 2007 and 2008, thanks to the return to a neutral monetary policy stance, the steadying of the oil price and the slowdown in unit labour costs (Figure 29). The latter is entirely due to productivity, which, partly owing to the fading away of the effects of the "Treu" and "Biagi" reforms on the demand for labour, improves at a pace more in line with the past.

The risks for growth are downside, those for costs and prices balanced

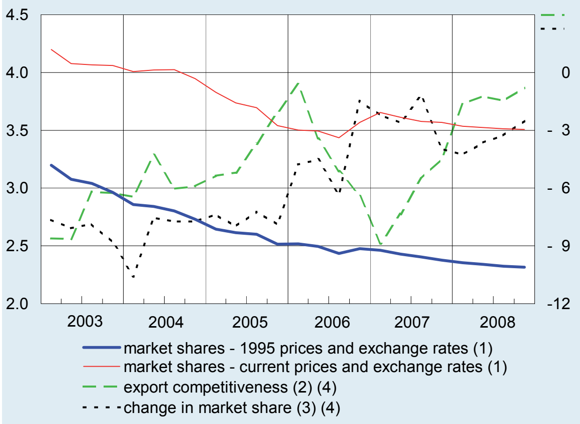
The assumptions concerning the external environment include a moderate slowing of economic activity in the United States and the persistence of relaxed conditions on the capital markets. If turbulence arises on the financial markets or cyclical developments are less favourable than expected, the forecasts for both GDP growth and consumer price inflation in Italy would have to be revised downwards.

The domestic risks are connected instead with the performance of exports. The forecasts assume that the restructuring and market repositioning begun in recent years by Italian firms will progress, containing costs and raising productivity growth. Italian products would thus cease losing price competitiveness and the gap between the rate of growth of Italian exports and that of world trade would diminish. If the assumption proves unrealistic, the outlook for growth would worsen and inflationary pressures would intensify.

Figure 28

Market shares and competitiveness

(percentages)

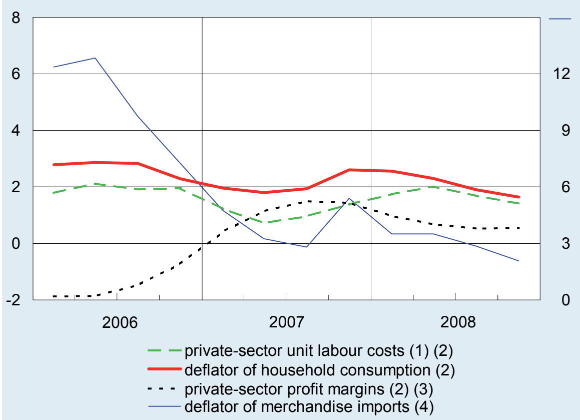


Sources: Istat, Bank of Italy and IMF.
(1) As a percentage of world merchandise trade; left-hand scale. – (2) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products). – (3) Growth differential between Italian exports and world merchandise trade in real terms. – (4) Percentage change on the year-earlier period; right-hand scale.

Figure 29

Main determinants of inflation

(year-on-year percentage changes)



Sources: Istat and Bank of Italy.
(1) Private-sector unit labour costs (excluding the energy and agricultural sectors), calculated as the ratio between compensation and output per standard labour unit (output is value added at factor cost). – (2) Left-hand scale. – (3) Ratio between the deflator of the value added at factor cost and unit labour costs of the private sector (excluding the energy and agricultural sectors). – (4) Right-hand scale.

THE ECONOMIC AND FINANCIAL PLANNING DOCUMENT FOR THE YEARS 2008-2011

The priority objective of the Economic and Financial Planning Document is to provide support for economic growth while complying with the budget constraints.

The growth-oriented policies must tackle the problem of infrastructure shortcomings, increase the efficiency of government action, enhance redistribution, reduce taxation and increase competition.

Strategic importance is attributed to the renewal of the education system, protection of the environment and reduction of Italy's dependence on imported energy.

The Planning Document contains updated figures on a current legislation basis for 2007 and the following years.

For this year the figure indicated for the deficit is 2.1 per cent of GDP, or 0.2 percentage points less than in the Combined Report on the Economy and Public Finances published in March.

Compared with the Combined Report, revenue is more than €2 billion higher, to take account of the favourable performance of receipts in the early months of the year; expenditure is nearly €1 billion less, partly owing to the postponement of some public sector contract renewals to 2008.

Together with the Planning Document, the Government issued a Decree Law and a mid-year budget revision that will result in additional expenditure, officially estimated at 0.4 percentage points of GDP in 2007 and 0.1 percentage points of GDP in each of the following years. In particular, these measures provide for increases in the resources for the functioning of government, in minimum pensions and in expenditure on investment and support for developing countries.

Taking account of these measures, the Planning Document sets a new target for the deficit in 2007 of 2.5 per cent of GDP (down from the 2.8 per cent indicated in the Planning Document published in the summer of 2006, which had been confirmed in the subsequent budget documents and most recently in the Stability Programme update of December 2006). The public debt is seen as falling from 106.8 to 105.1 per cent of GDP.

From 2008 onwards, the adjustment path set for the public finances in the Planning Document is analogous to that indicated in the Stability Programme update, which was based, however, on much less favourable projections. The deficit should fall to 2.2 per cent of GDP in 2008 and to 1.5 per cent in 2009 and come close to balance in 2011. The primary surplus should rise from 2.7 per cent of GDP in 2008 to nearly 5 per cent at the end of the forecasting period. The public debt should fall to 95 per cent of GDP in 2011.

Achievement of the objective for the budget deficit in 2008 does not require any corrective measures with respect to the forecast on a current legislation basis. The Planning Document points out, however, that the use of this criterion leads to the exclusion of a series of outlays that are not yet provided for by law but which it is highly probable, and in some cases certain, will occur. The Planning Document mentions three categories of expenditure, in descending order of "mandatoriness": outlays in relation to commitments entered into by the Government; those deriving from firmly established practices, such as appropriations for future rounds of wage negotiations and in favour of the National Road Agency (ANAS) and the State Railways; and, lastly, those associated with new Government initiatives. The Planning Document estimates the expenditure for commitments already entered into at €4 billion and that for the other two categories referred to above at respectively €7 billion (excluding the resources necessary for the next renewal of public sector labour contracts) and €10 billion.

The Planning Document also clarifies that the inclusion in the budget accounts of the outlays of the first and second category gives an indication of the deficit on a current programmes basis. It is estimated that this would be 2.9 per cent of GDP in 2008, thus revealing the need for corrective measures amounting to about 0.7 percentage points of GDP, plus measures to provide the resources for future contract renewals and new Government initiatives. The Planning Document reaffirms the Government's priority commitment to reducing taxation, so that additional costs will have to be financed by expenditure savings.

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' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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
2007 – Q1	0.7	4.2	2.9	1.0	0.2	-3.9	-0.6	1.4	1.5	0.7	5.5	-0.8	-1.0

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	0.7	9.2	3.9	0.6	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	0.5	1.7	1.6	7.0	5.8	0.3	-0.1
2006	2.2	0.8	0.5	0.4	0.1	3.4	0.8	1.4	1.3	9.6	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	2.2	-0.5	-0.3	-0.1	0.0	9.2	2.0	2.0	1.9	9.2	8.1	0.4	0.2
Q2	1.8	2.4	1.3	2.7	0.5	1.3	0.3	2.0	1.9	3.3	5.4	-0.1	-0.2
Q3	0.3	-4.1	-2.3	2.6	0.4	-0.8	-0.2	-1.3	-1.3	9.6	-1.5	1.5	0.8
Q4	5.4	4.3	2.3	0.3	0	11.7	2.6	4.9	4.5	3.4	-0.7	0.6	-0.3
2007 – Q1	3.3	3.1	1.6	-0.4	-0.1	-0.5	-0.1	1.4	1.3	13.8	1.7	1.8	-0.1

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			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' expenditure	General government expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	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	1.3	1.0	1.1	1.2	1.8	1.1
2004	2.0	6.8	3.3	1.3	3.1	2.3	1.5	1.4	6.9
2005	1.5	5.0	2.5	1.4	3.9	2.6	1.5	1.4	4.2
2006	2.7	7.9	4.2	4.1	5.2	4.9	1.7	2.0	8.3
2005 – Q1	0.4	-1.0	..	-0.2	1.1	0.4	0.1	0.5	-0.4
Q2	0.4	2.4	1.0	1.4	0.6	1.0	0.4	0.6	1.9
Q3	0.6	2.2	1.1	0.6	2.5	1.6	0.6	0.4	2.6
Q4	0.4	1.7	0.8	0.7	0.3	0.5	0.2	..	0.8
2006 – Q1	0.9	2.7	1.4	0.2	2.1	1.2	0.5	1.1	3.6
Q2	0.9	0.8	0.9	3.0	1.4	2.1	0.3	0.1	1.0
Q3	0.6	2.1	1.0	0.6	1.3	1.0	0.7	0.6	1.4
Q4	0.9	1.7	1.1	1.6	1.5	1.5	0.4	0.4	3.5
2007 – Q1	0.6	1.6	0.9	....	....	2.5	-0.1	0.8	0.3
	Implicit prices								
2001	2.4	0.7	....	....	....	1.4	2.4	2.8	1.3
2002	2.6	-2.0	....	....	....	1.4	1.9	3.1	-0.2
2003	2.1	-1.8	....	....	....	1.2	2.1	2.4	-1.2
2004	1.9	1.5	....	....	....	2.5	2.1	2.2	1.1
2005	1.9	3.7	....	....	....	2.3	2.0	2.4	2.7
2006	1.8	3.9	....	....	....	2.7	2.2	1.9	2.6
2005 – Q1	0.4	0.8	....	....	....	0.6	0.4	0.2	0.5
Q2	0.4	0.8	....	....	....	0.4	0.6	0.7	0.5
Q3	0.5	1.8	....	....	....	0.6	0.7	0.5	1.0
Q4	0.6	0.8	....	....	....	0.5	0.5	1.7	0.9
2006 – Q1	0.1	2.0	....	....	....	0.7	0.6	-0.6	0.3
Q2	0.5	0.5	....	....	....	0.9	0.5	1.2	0.8
Q3	0.6	0.3	....	....	....	0.7	0.4	-0.4	0.7
Q4	0.4	-0.7	....	....	....	0.5	0.2	0.3	0.1
2007 – Q1	0.9	0.3	....	....	....	0.9	0.5	0.2	0.8

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

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

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' expenditure (2)	General government expenditure	Exports
				Building	Machinery & equipment, sundry products & 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
2005 – Q1	-0.3	-2.0	-0.6	-1.5	-0.9	-1.2	-0.2	1.0	-2.4
Q2	0.6	1.8	0.9	2.4	1.4	1.9	0.7	..	2.5
Q3	0.4	..	0.3	1.1	2.5	1.8	0.5	0.4	0.6
Q4	-0.1	1.3	0.2	-1.3	-2.1	-1.7	-0.2	-0.2	1.4
2006 – Q1	0.8	1.2	0.9	0.8	2.6	1.8	0.5	-0.3	2.3
Q2	0.6	0.3	0.5	0.2	0.6	0.4	0.4	-0.1	1.3
Q3	0.3	2.2	0.7	0.6	-1.3	-0.4	0.5	0.2	-1.8
Q4	1.1	1.7	1.3	2.7	1.3	2.0	0.3	..	4.3
2007 – Q1	0.3	-0.9	..	1.5	0.1	0.7	0.7	0.1	0.4
					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
2005 – Q1	0.8	2.1	1.0	0.9	0.6	0.7	0.5	0.1	1.5
Q2	0.6	1.7	0.8	0.8	0.3	0.5	0.8	0.5	1.0
Q3	0.2	4.0	1.0	0.7	0.6	0.7	0.8	0.6	2.0
Q4	1.3	1.1	1.3	0.7	0.4	0.5	0.5	6.9	1.4
2006 – Q1	-0.6	4.2	0.4	0.7	0.2	0.4	0.7	-3.7	0.8
Q2	1.1	1.5	1.2	0.9	0.7	0.8	0.8	4.4	1.3
Q3	0.3	1.3	0.5	0.8	0.3	0.5	0.7	-2.4	1.5
Q4	0.4	-1.1	0.1	0.8	1.2	1.0	..	-1.1	1.4
2007 – Q1	1.0	2.1	1.2	0.9	1.1	1.0	0.4	1.4	2.3

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			Unit labour costs
			of which:		
			Value added (2)	Employees (1)	
			Total industry excluding construction		
2002	1.8	0.2	-0.7	-0.9	1.6
2003	2.0	1.5	0.2	-1.2	0.5
2004	2.6	2.8	1.6	-1.2	-0.2
2005	1.3	2.8	1.4	-1.4	-1.5
2006	2.5	4.2	3.8	-0.4	-1.6
2005 – Q1	1.0	2.2	1.0	-1.2	-1.2
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	2.5	4.3	3.4	-0.8	-1.8
Q2	2.5	4.3	4.0	-0.2	-1.7
Q3	2.8	4.5	4.3	-0.2	-1.6
Q4	2.4	4.5	4.3	-0.2	-2.1
2007 – Q1				-0.1	
			Services		
2002	2.4	-0.1	1.4	1.5	2.5
2003	2.1	-0.3	0.9	1.2	2.4
2004	1.8	0.2	1.6	1.4	1.6
2005	1.6	0.2	1.5	1.3	1.5
2006	1.8	0.3	2.0	1.8	1.6
2005 – Q1	1.5	0.2	1.7	1.5	1.3
Q2	1.3	0.1	1.4	1.3	1.3
Q3	1.4	0.3	1.6	1.3	1.1
Q4	2.3	0.4	1.5	1.1	1.9
2006 – Q1	1.9	..	1.5	1.5	1.9
Q2	2.3	0.3	2.2	1.9	2.0
Q3	2.1	0.2	2.1	1.9	1.9
Q4	1.2	0.7	2.6	1.8	0.4
2007 – Q1				1.6	
			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	1.9	0.9	0.9
2005	1.5	0.5	1.3	0.8	0.9
2006	2.0	1.0	2.4	1.4	1.0
2005 – Q1	1.3	0.4	1.4	1.0	0.9
Q2	1.3	0.4	1.2	0.8	0.9
Q3	1.4	0.9	1.5	0.7	0.5
Q4	2.0	1.0	1.7	0.7	1.0
2006 – Q1	2.0	0.9	2.0	1.1	1.1
Q2	2.3	1.0	2.6	1.5	1.2
Q3	2.2	1.1	2.6	1.5	1.2
Q4	1.5	1.4	3.0	1.5	0.1
2007 – Q1		1.6	2.9	1.3	

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.

Table A6

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	0.0	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	-0.5	-2.7	-2.3	3.0
Q2	3.1	3.3	1.7	-1.4	-3.1	1.4
Q3	2.8	2.9	0.8	-0.7	-1.5	2.0
Q4	2.6	2.7	2.1	0.2	-1.8	0.5
2006 – Q1	3.5	4.0	2.0	2.9	0.8	1.4
Q2	2.3	2.8	-0.3	1.9	2.2	2.6
Q3	2.4	2.9	0.8	2.3	1.5	1.6
Q4	2.5	3.0	3.6	4.3	0.6	-1.1
2007 – Q1	2.4	2.4	0.8	1.4	0.5	1.6
			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	1.0	0.9	2.4
Q2	1.3	1.4	0.2	1.0	0.7	1.1
Q3	2.9	3.2	0.5	0.8	0.2	2.4
Q4	7.0	7.0	1.1	1.1	..	5.9
2006 – Q1	3.6	3.7	-0.2	1.2	1.4	3.8
Q2	5.4	5.6	-0.9	1.6	2.4	6.3
Q3	3.7	3.7	-0.8	1.4	2.2	4.5
Q4	-2.3	-2.0	0.6	2.3	1.7	-2.8
2007 – Q1	1.5	1.6	1.9	2.3	0.5	-0.4
			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	-0.4	0.1	0.5	2.7
Q2	1.7	1.9	0.3	0.4	0.1	1.5
Q3	2.8	3.1	1.2	0.5	-0.7	1.6
Q4	5.4	5.5	1.2	0.7	-0.5	4.1
2006 – Q1	3.5	3.7	0.5	1.6	1.1	2.9
Q2	4.3	4.6	-0.5	1.5	2.0	4.8
Q3	3.2	3.4	-0.5	1.3	1.9	3.8
Q4	-0.8	-0.4	1.1	2.6	1.5	-1.8
2007 – Q1	2.0	2.1	2.0	2.2	0.2	..

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 excl. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products	Total	Total excl. 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 – 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
Mar.	2.1	2.0	2.0	1.7	1.2	1.3	2.5	2.5	1.9	1.9
Apr.	1.8	1.8	2.0	1.9	1.3	1.4	2.5	2.5	1.9	1.9
May	1.9	1.9	2.0	2.1	1.2	1.4	2.4	2.5	1.9	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): Italy

(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	-13,057	8,854	1,179	-14,817	-1,477	-6,796	1,700	-38	-26	1,764
2005	-23,403	536	-523	-13,643	-1,451	-8,323	998	69	-66	995
2006	-37,869	-9,532	-1,474	-13,607	-5,251	-8,004	1,891	-100	-60	2,051
2005 – Q2	-7,370	929	510	-6,081	-488	-2,240	184	46	7	131
Q3	-773	1,887	1,632	-1,640	-324	-2,328	129	2	-44	171
Q4	-6,680	-729	-234	-2,420	-1,091	-2,207	396	62	-14	348
2006 – Q1	-12,577	-5,924	-1,470	-2,125	-1,274	-1,784	488	-106	65	529
Q2	-9,365	-1,714	1,688	-6,803	-1,014	-1,522	-26	-19	-139	132
Q3	-6,484	-1,675	130	-970	-1,468	-2,501	293	-2	1	294
Q4	-9,444	-219	-1,822	-3,709	-1,496	-2,197	1,136	26	14	1,096
2007 – Q1	(-12,176)	(-2,962)	(-3,063)	(-4,620)	....	....	(941)	....	....	....
2005 – Apr.	-3,606	-432	122	-2,449	-186	-662	56	1	14	42
May	-2,191	939	5	-2,378	-103	-654	-26	,,	-8	-18
June	-1,573	422	383	-1,254	-200	-925	153	45	,,	108
July	2,637	3,527	991	-1,291	-77	-513	43	1	-3	44
Aug.	-2,063	-306	-707	-360	-56	-635	30	2	-21	49
Sept.	-1,346	-1,334	1,348	10	-191	-1,180	56	-1	-21	78
Oct.	-556	455	349	-538	-328	-494	64	-2	-31	97
Nov.	-2,781	-635	-210	-1,293	-254	-389	121	38	-2	85
Dec.	-3,343	-549	-373	-589	-508	-1,324	212	26	20	166
2006 – Jan.	-4,213	-3,070	-377	-605	-196	35	114	5	-42	151
Feb.	-3,257	-2,075	-338	-522	-239	-84	185	-8	101	93
Mar.	-5,107	-779	-755	-998	-839	-1,735	189	-103	7	285
Apr.	-3,532	-1,010	752	-2,367	-216	-691	-39	-9	-82	52
May	-3,466	-343	179	-2,183	-485	-634	75	3	19	52
June	-2,367	-361	756	-2,252	-313	-197	-62	-14	-76	28
July	264	1,462	658	-755	-537	-564	80	6	25	50
Aug.	-1,679	-1,366	-750	1,384	-367	-581	65	-1	2	65
Sept.	-5,068	-1,771	222	-1,599	-564	-1,356	147	-7	-26	179
Oct.	-3,315	107	-53	-2,209	-558	-603	114	23	2	89
Nov.	-3,183	-473	-761	-1,063	-507	-378	-76	2	-33	-45
Dec.	-2,945	147	-1,009	-437	-431	-1,216	1,099	2	44	1,053
2007 – Jan.	-5,454	-2,324	-1,291	-1,494	-515	170	260	-3	10	253
Feb.	-3,302	-751	-736	-1,271	-167	-377	266	-6	8	264
Mar.	(-3,420)	(113)	(-1,036)	(-1,855)	....	....	(414)	....	....	....
Apr.	(-3,664)	(201)	(-702)	(-2,270)	....	....	(42)	....	....	....

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

	General govern-ment	Finance and insurance companies	Non-financial corporations (a)		Households		Firms = (a) + (b)				Total
				under 20 employ-ees (2)	Producer (b) (3)	Consumer		Manufac-turing	Construc-tion	Services	
					12-month percentage changes (4)						
					Centre and North						
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.	4.9	15.4	10.7	5.1	7.2	10.0	10.4	5.7	14.3	12.4	10.7
2007 – Mar.	4.8	13.7	11.1	4.1	6.3	8.6	10.7	4.7	14.4	12.1	10.3
May.	5.6	14.6	11.1	4.9	6.2	7.7	10.6	….	….	….	10.3
					South and Islands						
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.	-3.0	-22.3	19.9	9.6	10.1	13.1	18.1	12.5	20.5	22.2	13.9
2007 – Mar.	-9.5	-1.7	17.2	9.0	9.6	12.7	15.8	13.8	21.2	18.1	12.9
May.	-6.9	5.3	15.5	9.6	9.3	12.3	14.4	….	….	….	12.3
					ITALY						
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.	3.7	14.1	11.8	5.7	7.9	10.7	11.4	6.5	15.3	13.7	11.2
2007 – Mar.	2.5	13.2	11.8	4.8	7.1	9.4	11.3	5.8	15.5	12.8	10.7
May.	3.6	14.4	11.6	5.6	6.9	8.7	11.1	6.6	16.6	12.2	10.6
					Stock of loans in March 2007 (5) (6) (*millions of euros*)						
Centre and North	49,580	154,867	616,921	65,549	61,002	267,557	677,924	179,777	87,032	349,676	1,149,928
South and Islands	8,140	4,107	89,090	11,056	18,883	74,254	107,973	24,911	17,483	54,683	194,475
ITALY	57,720	158,974	706,012	76,605	79,885	341,811	785,897	204,679	104,516	404,370	1,344,402
					Percentage breakdown of lending in March 2007 (6)						
Centre and North	4.3	13.5	53.6	5.7	5.3	23.3	59.0	15.6	7.6	30.4	100.0
South and Islands	4.2	2.1	45.8	5.7	9.7	38.2	55.5	12.8	9.0	28.1	100.0
ITALY	4.3	11.8	52.5	5.7	5.9	25.4	58.5	15.2	7.8	30.1	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

Formation of the general government borrowing requirement: Italy

(millions of euros)

	Budget: Receipts (1)	Budget: Payments (–)	Budget: Balance	Other central government operations	Other central government operations: *of which:* collection account (1)	BR of local gov. and social security institutions after consolidation	General government borrowing requirement (GGBR)	Privatization and other extraordinary receipts	Debt settlements	GGBR net of debt settlements and privatization receipts	*Memorandum item:* unconsolidated CGBR net of debt settlements and privatization receipts
2004	394,897	430,849	-35,951	-9,344	79	-4,380	-49,675	8,316	-529	-57,462	-52,542
2005	388,262	435,512	-47,251	-11,448	-224	-11,594	-70,293	4,618	-1,864	-73,047	-61,580
2006	415,048	447,576	-32,528	-3,618	750	-18,390	-54,535	38	-243	-54,331	-36,031
2004 – Q1	67,049	79,895	-12,845	-16,501	9	-2,010	-31,356	0	-40	-31,316	-29,399
Q2	77,936	113,441	-35,505	18,579	19,561	-861	-17,787	15	-33	-17,770	-16,929
Q3	97,159	84,654	12,505	-26,014	-19,433	-871	-14,379	0	-377	-14,003	-13,331
Q4	152,753	152,859	-106	14,592	-59	-638	13,848	8,301	-79	5,626	7,117
2005 – Q1	72,572	86,094	-13,522	-11,884	-171	-2,012	-27,418	0	-65	-27,354	-26,492
Q2	92,580	117,097	-24,517	-1,489	442	-3,065	-29,071	4	-93	-28,982	-25,863
Q3	86,411	83,552	2,859	-17,512	-256	-1,528	-16,181	4,021	-219	-19,983	-18,512
Q4	136,699	148,770	-12,071	19,438	-238	-4,990	2,377	593	-1,488	3,272	9,287
2006 – Q1	79,793	89,427	-9,633	-18,728	85	-4,873	-33,234	0	-41	-33,193	-29,261
Q2	103,378	100,961	2,417	-9,878	536	-3,464	-10,925	38	-38	-10,925	-7,070
Q3	90,252	100,508	-10,256	687	-548	-5,689	-15,258	0	-100	-15,158	-8,916
Q4	141,625	156,681	-15,056	24,302	676	-4,363	4,882	0	-63	4,945	9,215
2007 – Q1	85,331	84,725	607	-21,353	-726	-2,532	-23,278	3,500	-71	-26,706	-24,354
2006 – Jan.	28,291	22,039	6,253	-9,150	3	-2,878	-5,775	0	-14	-5,761	-3,554
Feb.	24,777	28,316	-3,539	-4,551	183	-482	-8,572	0	-11	-8,561	-8,124
Mar.	26,725	39,071	-12,347	-5,027	-100	-1,513	-18,887	0	-16	-18,871	-17,583
Apr.	23,714	23,801	-87	-9,291	208	-354	-9,732	0	-16	-9,716	-8,842
May	31,849	37,499	-5,650	-8,681	-306	-1,515	-15,846	0	-14	-15,833	-14,298
June	47,815	39,660	8,155	8,094	634	-1,596	14,653	38	-9	14,624	16,070
July	38,137	39,132	-996	6,807	-343	-2,313	3,499	0	-9	3,508	6,292
Aug.	30,095	44,095	-14,000	6,743	165	-1,900	-9,157	0	-11	-9,146	-7,448
Sept.	22,021	17,280	4,740	-12,864	-370	-1,476	-9,600	0	-79	-9,520	-7,759
Oct.	30,242	28,925	1,317	-5,327	6	-677	-4,687	0	-12	-4,676	-4,209
Nov.	33,516	33,866	-350	-6,924	942	-1,463	-8,737	0	-14	-8,724	-7,488
Dec.	77,867	93,889	-16,023	36,553	-272	-2,224	18,307	0	-38	18,344	20,912
2007 – Jan.	29,346	26,657	2,689	-4,753	-171	-915	-2,980	0	-38	-2,942	-1,998
Feb.	30,049	34,544	-4,495	1,135	-471	-265	-3,624	3,500	-31	-7,093	-6,967
Mar.	25,936	23,524	2,413	-17,735	-83	-1,352	-16,674	0	-2	-16,671	-15,389
Apr.	25,864	40,315	-14,450	4,079	60	-642	-11,014	0	-2	-11,012	-10,308
May	30,350	39,473	-9,123	....	-33	....	....	0	-32	....	-10,901

(1) See the Methodological Notes.

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
2004	127,562	74,755	118,384	1,090,639	54,496	52,327	1,443,407	26,630	1,218,576	15,831
2005	149,137	70,578	117,460	1,129,325	60,098	55,190	1,511,210	27,255	1,257,893	14,634
2006	156,737	65,622	122,327	1,163,956	123,684	8,743	1,575,447	10,740	1,303,639	22,864
2004 – Mar.	117,707	75,559	144,444	1,070,730	55,408	56,071	1,444,360	29,614	1,206,038	33,143
June	129,756	78,204	147,554	1,096,971	55,549	54,507	1,484,337	31,649	1,228,724	55,364
Sept.	129,250	75,378	145,334	1,104,705	55,730	54,782	1,489,800	30,998	1,236,041	47,113
Dec.	127,562	74,755	118,384	1,090,639	54,496	52,327	1,443,407	26,630	1,218,576	15,831
2005 – Mar.	129,770	74,239	129,589	1,136,099	55,698	53,489	1,504,645	29,260	1,264,303	50,124
June	142,418	74,388	138,877	1,157,015	57,655	52,759	1,548,724	26,844	1,283,081	64,966
Sept.	145,656	72,811	141,424	1,136,484	58,000	53,409	1,534,974	26,634	1,261,631	36,153
Dec.	149,137	70,578	117,460	1,129,325	60,098	55,190	1,511,210	27,255	1,257,893	14,634
2006 – Mar.	160,045	69,687	135,868	1,142,387	62,574	59,824	1,560,699	22,314	1,275,825	30,880
June	161,232	68,072	143,025	1,172,318	61,943	60,839	1,599,357	18,375	1,302,841	57,449
Sept.	161,464	66,862	135,224	1,178,524	117,899	8,790	1,601,902	15,116	1,312,143	44,501
Dec.	156,737	65,622	122,327	1,163,956	123,684	8,743	1,575,447	10,740	1,303,639	22,864
2007 – Mar.	155,278	62,147	142,994	1,172,651	125,943	8,802	1,605,669	5,020	1,314,791	28,616
2006 – Jan.	156,276	69,734	126,753	1,149,257	60,711	55,649	1,548,645	26,360	1,278,278	46,589
Feb.	158,275	70,104	129,141	1,148,383	61,032	58,254	1,555,085	23,446	1,279,417	43,648
Mar.	160,045	69,687	135,868	1,142,387	62,574	59,824	1,560,699	22,314	1,275,825	30,880
Apr.	159,426	69,317	140,421	1,146,874	62,971	60,459	1,570,150	19,509	1,280,252	30,834
May	159,976	69,261	142,561	1,152,391	61,842	61,510	1,578,280	17,673	1,285,939	22,433
June	161,232	68,072	143,025	1,172,318	61,943	60,839	1,599,357	18,375	1,302,841	57,449
July	159,750	67,471	140,268	1,167,886	61,008	62,477	1,591,388	18,101	1,299,209	52,885
Aug.	161,190	67,444	137,306	1,175,948	60,532	64,562	1,599,537	17,379	1,308,756	51,732
Sept.	161,464	66,862	135,224	1,178,524	117,899	8,790	1,601,902	15,116	1,312,143	44,501
Oct.	161,008	66,646	134,652	1,181,740	118,618	8,869	1,604,888	12,370	1,314,923	42,631
Nov.	159,128	66,093	137,550	1,183,700	118,627	8,706	1,607,712	10,813	1,319,590	36,866
Dec.	156,737	65,622	122,327	1,163,956	123,684	8,743	1,575,447	10,740	1,303,639	22,864
2007 – Jan.	160,025	65,358	134,674	1,162,824	124,497	8,494	1,590,514	6,968	1,303,697	34,247
Feb.	157,996	65,562	137,702	1,168,466	125,615	8,433	1,598,211	6,845	1,309,607	37,736
Mar.	155,278	62,147	142,994	1,172,651	125,943	8,802	1,605,669	5,020	1,314,791	28,616
Apr.	151,022	57,551	143,093	1,177,603	128,554	8,853	1,609,124	4,907	1,320,217	21,067

(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".

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