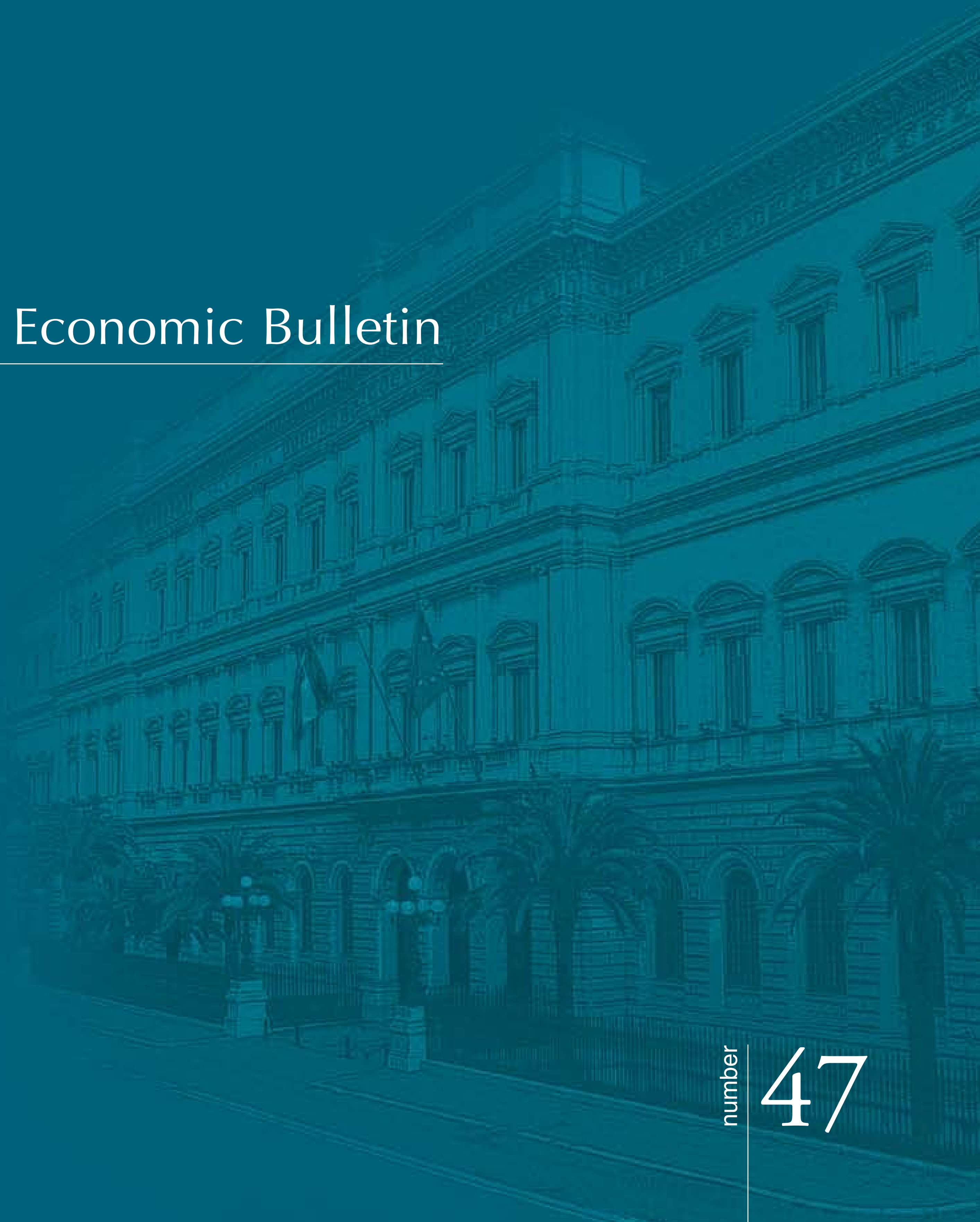
BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin



January 2008

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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 global economy has been shaken by the subprime mortgage crisis and rising raw material prices

Worldwide the macroeconomic picture continues to be dominated by the crisis in the US subprime mortgage market that began last summer and its implications for financial markets and economic growth. Tensions on markets have increased volatility as operators react to a series of reports on the losses of several intermediaries, the downturn in the American property market, and economic growth in the major areas. A second important feature of the global economy has been the sharp increase in raw material prices for energy and food products, caused by a multiplicity of factors including strong demand from emerging economies.

The overall outlook becomes more uncertain

These developments have led to a downward revision of last autumn's growth expectations while inflation forecasts have been revised upwards. Dimmer prospects for the year ahead have concerned the United States in particular; the Federal Reserve responded by cutting official interest rates on three successive occasions, by a total of one percentage point, to 4.25 per cent. Market operators expect a further cut to be approved at the upcoming meeting of the Federal Open Market Committee. Growth in the euro area in 2007 exceeded potential on an annual basis but declined in the last quarter. According to the Eurosystem's staff projections, published last December, growth in 2008 should be barely in line with the potential rate; inflation is expected to remain at over 2 per cent for most of the year. In this climate the Governing Council of the ECB has kept official rates unchanged at 4.0 per cent. In contrast to the present difficulties in the main industrialized countries, emerging economies have continued to grow at a strong pace and look set to sustain the global economy again in 2008.

Italy's economy also slowed at end-2007

Following a modest upturn in the third quarter, industrial output in Italy apparently fell in the last three months of the year. The decline in growth is confirmed by the survey qualitative indicators, including those relating to the service sector. In the first nine months of 2007 productivity growth in the industrial sector remained limited; price competitiveness suffered further setbacks. Unit labour costs grew more than in the same period in 2006. Bank loans proved able to satisfy the rising borrowing requirements of businesses. The increase in bank debt, which was particularly marked in the case of medium and large enterprises, may have reflected, in more recent months, the worsening bond market conditions, which have precipitated a fall in net bond issuance. Corporate profitability remained stable.

Consumer spending has shored up domestic demand but is now slowing

It is estimated that after strong growth in the first half of 2007, consumption all but stagnated in the second. In recent months spending is likely to have been adversely affected by rising prices due to the higher cost of raw materials. Fixed investments slowed in line with GDP. Foreign demand has been increasingly affected by the strong euro and slowing growth in major market outlets.

Data on employment for the same period in 2007 are positive: more people were in work and the rate of unemployment fell. In the third quarter the participation rate returned to growth, including in the South of Italy; the number of women participating in the labour market rose *while the decline in the participation rate of young people was halted.*

As elsewhere in the euro area, consumer price dynamics were unsettled by the rising prices of raw materials, which according to the harmonized consumer price index increased by an average of 2 per cent in 2007.

The borrowing requirement has dropped sharply; the debt to GDP ratio is falling again

The data on public finances point to a significant improvement in closing balances compared with 2006. The state sector borrowing requirement fell to its lowest level since 2000. Net borrowing and debt are expected to come in below Government estimates of end-September (equal to 2.4 and 105 per cent of GDP respectively), which were already lower than the objectives established a year earlier in the 2007 budget package (2.8 and 106.9 per cent). In the first nine months of 2007 the ratio of taxes and social security contributions to GDP increased with respect to the same period in 2006; the ratio of primary current expenditure to GDP declined; finally, capital expenditure remained substantially unchanged in nominal terms, not counting the estimate of the refunds to be paid following the European Court of Justice VAT ruling in 2006.

Forecasts for Italy have also been adversely affected by the global shocks

Since the publication of our forecasts for the Italian economy in the July Economic Bulletin, the world economic outlook has deteriorated sharply as a result of the developments described above. It is now expected that Italy's economy will expand at an annual rate of around 1 per cent in the two years 2008-09, below the potential growth rate. The downward revision for the current year with respect to last July, equal to 0.7 percentage points, is attributable essentially to the deteriorating external situation, whose effects began to be felt in the fourth quarter. Similar revisions are being made to the forecasts for the other euro-area economies.

Estimates also predict that consumption growth will not exceed around 1 per cent both in 2008 and 2009; investments are expected to experience a sharp slowdown, above all in the housing sector. The contribution of foreign trade to GDP, almost nil in 2007, is forecast to dip just below zero in 2008. Exports are likely to expand at a slower pace than international trade, reflecting the loss of price competitiveness of Italian goods, which is forecast to continue in 2008 and 2009.

Consumer inflation is expected to average just over 2.5 per cent in 2008, dropping to around 2 per cent towards the end of the year and averaging that level in 2009. This scenario reflects above all the price increases in world crude oil and agricultural goods, and is only partly due to rising domestic costs. Finally, unit labour costs are expected to rise by over 3 per cent in the private sector, owing in part to the cyclical slowdown in productivity.

This forecast is subject to significant uncertainty, reflecting the uncertain world scenario. There is a risk that the cyclical slowdown in the United States and the other advanced economies will be sharper than assumed here. The rises in raw material prices could be more sustained than market prices now imply. On the other hand, there is still the possibility that increasing numbers of Italian firms may acquire the capability to work for structural competitive advantage based on technology and innovation.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS AND THE FINANCIAL MARKETS

World growth is slowing...

World economic activity showed signs of slowing during the fourth quarter. However, the symptoms were mostly evident in the major advanced economies, in particular the United States, whereas the expansion in the emerging economies remained strong. From last summer onwards international organizations and private analysts progressively revised downwards their forecasts of growth in the world economy. Overall, the forecasts available for 2008 still indicate that growth in the main areas should be only slightly below the average for 2007 (Table 1), although this scenario is hedged about with a high degree of uncertainty, linked first and foremost to the unfolding of the crisis that originated in the American sub-prime mortgage market (see *Economic Bulletin* no. 46). The repercussions of the crisis on the financial system, and especially on US and European banks, are still being assessed; there remains a genuine risk that households and firms will face considerably tighter borrowing conditions (see the box "The impact of the turmoil on financial intermediaries and credit").

Table 1

Projected values of some macroeconomic variables
(percentage changes on the previous year)

	OECD		Consensus Economics	
	2007	2008	2007	2008
GDP				
Advanced countries				
Euro area	2.6	1.9	2.6	1.9
Japan	1.9	1.6	1.9	1.5
United Kingdom	3.1	2.0	3.1	1.9
United States	2.2	2.0	2.2	2.1
Emerging countries				
Brazil	4.8	4.5	5.2	4.7
China	11.4	10.7	11.4	10.5
India (1)	8.8	8.6	8.6	8.1
Russia	7.3	6.5	7.5	6.9
Consumer prices				
Advanced countries				
Euro area	2.2	2.2	2.1	2.3
Japan	-0.5	-0.3	0.0	0.4
United Kingdom	2.6	2.2	2.3	2.1
United States	2.6	2.1	2.8	2.6
Emerging countries				
Brazil (2)	3.9	4.0	4.2	4.1
China	4.5	4.0	4.6	4.1
India (1)	6.4	5.8	6.0	5.6
Russia	11.0	9.5	11.7	9.7

Sources: *OECD Economic Outlook*, December 2007; *Consensus Economics*, December 2007.
(1) Changes during the financial year beginning in April of the year indicated in relation to the preceding financial year. – (2) December on December.

... while rises in the prices of basic energy and food products are pushing up inflation

Demand could also be affected by the loss of purchasing power associated with the recent acceleration in inflation, reflecting mainly the rise in the prices of oil and certain food products, in particular cereals, meat and dairy produce. The rise in the dollar price of oil (by 24 per cent since September and by more than 80 per cent since the beginning of 2007; Figure 1) is attributable to high demand from emerging countries, stagnation in supply and a heightening of geopolitical tensions. The prices of agro-food products were affected partly by temporary reductions in supply due to bad weather and partly by more persistent factors, such as the growing use of certain agricultural products in the bio-fuel industry.

From October there was a heightening of financial market tensions…

The turmoil in the international financial markets eased in the second half of September but erupted again in the fourth quarter on account of several factors: the further worsening of conditions in the US property sector; the downgrading of mortgage-linked securities and other structured financial products; the massive write-downs on such securities announced or booked by financial intermediaries; and consequent concerns about their capital situation.

From mid-October onwards share prices on the main world stock exchanges again declined substantially (Figure 2). The falls were marked in the case of US financial corporations (16 per cent since the beginning of October). Yield differentials between corporate bonds and government securities began to widen again for all rating classes (Figure 3). The volume of asset-backed commercial paper on the US market, which had contracted more slowly in October, began to fall rapidly again; at the beginning of January it was almost one third below the peak recorded in mid-August. The price volatility of fixed-income securities and shares again rose, in some cases surpassing the levels reached in August (Figure 4). The shift in portfolios towards more liquid and less risky assets was one factor accentuating the fall in the yields on the long-term government bonds of industrial countries; in the United States increasing expectations of an economic slowdown helped push them below 4 per cent (Figure 5).

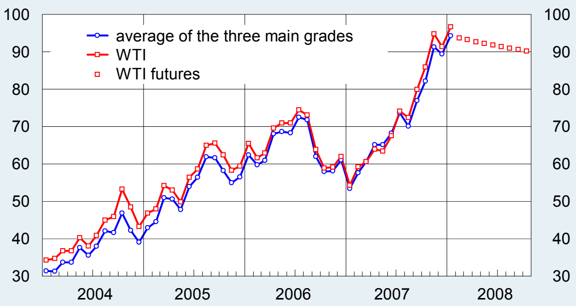
…but the impact on the markets of emerging countries remained slight

In the emerging countries risk premiums, measured by the yield differential between their long-term dollar-denominated government securities and US Treasury bonds, rose in November above the levels recorded in August but were still small by historic standards. Despite the increase in volatility in stock markets and exchange rates, no signs have emerged that international investors are fleeing these countries.

Figure 1

Crude oil: spot prices and futures (1)

(dollars per barrel)

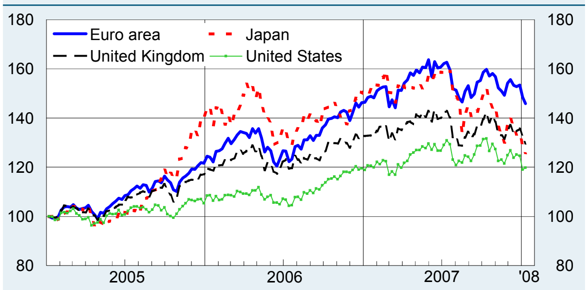


Sources: IMF and Thomson Financial Datastream.
(1) Monthly averages for spot prices. Updated to 10 January 2008. The three main grades are Brent, Dubai and WTI.

Figure 2

Stock market indices (1)

(end-of-week data; first week of January 2005 = 100)

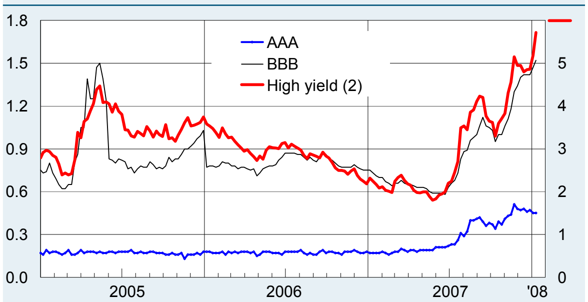


Source: Thomson Financial Datastream.
(1) Updated to the week ending on 11 January 2008. Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 3

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

(end-of-week data; percentage points)



Source: Merrill Lynch.
(1) The latest available figures relate to the week ending on 11 January 2008. 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).

Central bank intervention is easing strains in the interbank markets

In November interest rates in the leading interbank markets rose sharply, reflecting an increased perception of counterparty risk and efforts by the banks to minimize their exposure, not least with a view to the preparation of year-end accounts. In order to counter these strains, the Federal Reserve, the ECB and the Bank of England announced, and subsequently implemented, a series of refinancing operations with longer maturities than usual in order to span the year-end. On 12 December the three institutions, together with the central banks of Canada and Switzerland, carried out coordinated action to meet the demand for dollar liquidity from European banks. These interventions maintained orderly market conditions over the year-end and eased the pressure on interbank rates, though they did not eliminate it. At the beginning of January the differentials between the 3-month interbank rate and the 3-month rate on secured deposits was 50 basis points for euros, 60 for dollars and 40 for sterling; before last August they had averaged about 10, 20 and 15 basis points respectively.

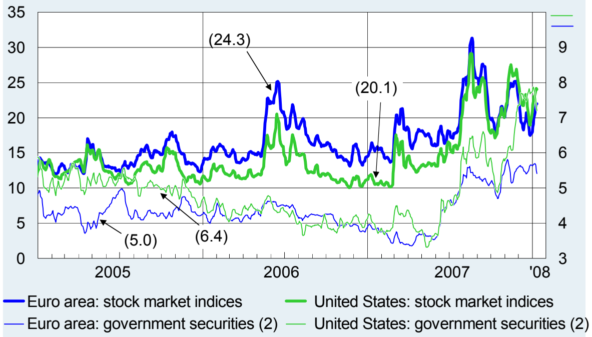
The dollar continued to depreciate

The US dollar continued to weaken against the euro until the end of November, when it recorded a new historic low of $1.49 (Figure 6). In subsequent weeks it recovered part of its losses, and at the beginning of January it was trading at $1.47. It depreciated less against the yen and the renminbi, by 3 and 2.7 per cent respectively in the fourth quarter. Since the onset of the latest bout of weakness in February 2002, the dollar has depreciated by 24 per cent in nominal effective terms.

The deficit on the current account of the US balance of payments decreased slightly in the third quarter, and the OECD estimates that it amounted to 5.6 per cent of GDP in 2007 as a whole. However, it is not expected to decline significantly in 2008. The surpluses of China and the oil-exporting countries are likely to remain substantial.

Figure 4

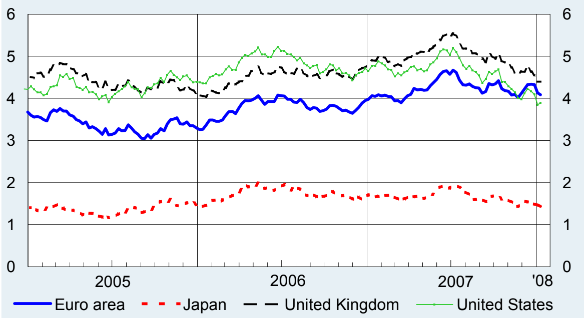
Volatility implied by the prices of options on stock market indices and government securities (1)
(percentage points; averages for the period 1999-2006 in brackets)



Source: Based on Bloomberg data.
(1) The latest available figure relates to 10 January 2008. Moving averages 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.

Figure 5

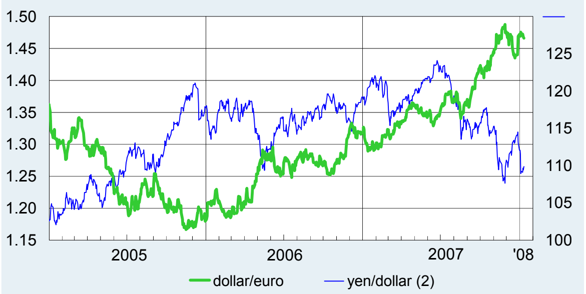
Yields on ten-year government bonds (1)
(end-of-week data; percentage rates)



Source: National statistics.
(1) Updated to the week ending on 11 January 2008.

Figure 6

Exchange rates (1)
(daily data)



Source: ECB.
(1) The last available figure relates to 10 January 2008. – (2) Right-hand scale.

IMPACT OF THE TURMOIL ON FINANCIAL INTERMEDIARIES AND CREDIT

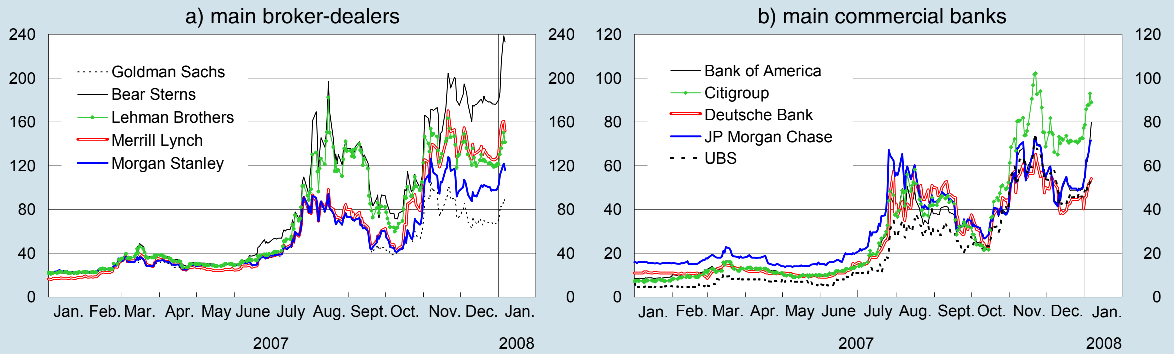
International financial markets continued to reflect the uncertainty about the amount and distribution of individual intermediaries' exposure to structured credit products directly or indirectly linked to US mortgage loans (see the box "The recent turmoil in the money and credit markets" in *Economic Bulletin*, no. 46). House prices have continued to fall in the United States, while mortgage delinquency rates have risen further, and not only in the subprime sector, with a consequent increase in the total defaults expected.

Some US and European banks have been hit hard by these developments. In the first place they held large quantities of mortgage-linked assets and other structured products. The write-downs on these instruments announced or carried out in the third and fourth quarters of 2007 amount to around $100 billion. In the second place some banks have had to intervene to support sponsored entities (conduits and structured investment vehicles). In many cases the latter have had increasing difficulty in financing their investments by issuing asset-backed commercial paper and have made substantial use of the credit lines previously granted by banks. In other cases banks have intervened directly; even in the absence of a contractual obligation, they have acted to limit the damage to their reputations by acquiring the assets of the sponsored entities or by injecting fresh capital.

In the wake of these events, the capital ratios of the most seriously affected banks have suffered sharp falls, offset only in part by recapitalizations. Some of the latter involved Asian and Middle Eastern sovereign funds, which in 2007 invested a total of $55 billion in financial institutions in advanced countries. The consequences have been downgrades of some leading banks by the main rating agencies, sharp increases in the risk premiums on these banks' credit default swaps (see figure), sudden falls in their share prices, and renewed widening of the differentials between dollar, euro and sterling interbank rates and the corresponding rates on secured loans.

Figure

Premiums on 5-year CDS contracts of selected financial intermediaries (1)
(basis points; weekly data)



Source: Thomson Financial Datastream.
(1) Premiums for 5-year insurance against credit risk on senior debt issued by the above intermediaries.

Leading private analysts indicate that total losses could be somewhere between $300 billion and $600 billion. These estimates are nonetheless subject to a high degree of uncertainty, especially as regards their distribution among the intermediaries involved.

There is still a real risk that these losses may significantly reduce the supply of credit to households and firms, possibly as a consequence of the fall in banks' capital ratios, their greater difficulty in securitizing new loans and raising medium and long-term funds in today's market conditions, the increase in the cost of short-term funds, and the necessity of holding liquidity for precautionary motives.

The surveys conducted by the US Federal Reserve, the Eurosystem and the Bank of England indicate that the quantity and cost of credit were already tightening in the third quarter of 2007, both for mortgage loans for residential and commercial real estate and for loans to firms (for Italy, where the effects of the crisis on credit were less severe, see the box "Credit supply and demand in Italy" in *Economic Bulletin*, no. 46). In the United States the main reasons reported by banks were the deterioration in the economic situation and the increased uncertainty, the decrease in the liquidity of secondary markets for loans, and increased risk aversion. The results of the surveys on the fourth quarter, available only for the United Kingdom, indicate that these tendencies have become more pronounced, especially for home mortgages and loans to firms.

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

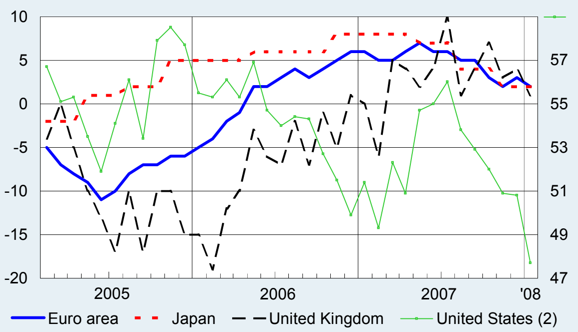
Growth in the United States was still rapid in the third quarter but is now slowing

The US economy continued to grow rapidly in the third quarter (at an annual rate of 4.9 per cent), fuelled mainly by an increase of 9.3 per cent in corporate fixed investment and a strong acceleration in exports (to a rate of 19.1 per cent), which benefited from the weakness of the dollar. Demand was also sustained by consumption, the growth of which has not yet been affected by the fall in house prices or, more generally, by the effects of the crisis in the mortgage market. By contrast, the fall in residential investment became more pronounced, declining from 6.2 per cent of GDP in 2005 to 4.5 per cent in the third quarter of 2007.

Household consumption continued to increase in October and November, buoyed by the favourable trend in employment despite a reduction in real disposable income. In December, however, employment growth slowed sharply; other economic indicators (such as capital goods orders and business confidence; see Figure 7) indicate a slowdown in investment and a further deterioration in the construction sector and the housing market in the fourth quarter. Overall, according to estimates by the OECD and leading private analysts, the GDP of the United States should grow at an annual rate of around 1-1.5 per cent in the fourth quarter of 2007 and the first half of this year and then gradually pick up in the second half of the year and in 2009. However, this scenario is susceptible to particularly high downward risk.

Figure 7

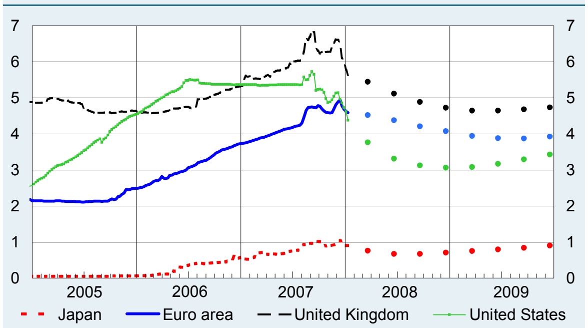
Indicators of business confidence (1)



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

Figure 8

Spot and forward three-month interest rates (1)
(average weekly data; percentage rates)



Source: Thomson Financial Datastream.
(1) Forward rates are those implied by futures on Euromarket deposits. Spot rates are updated to the week ending on 11 January 2008 and forward rates refer to 10 January 2008.

Monetary policy is reacting promptly…

In order to counter the increased risk of recession resulting from the possible effects of the financial turmoil on credit conditions for households and firms, the Federal Reserve followed up the half-point cut in official rates of mid-September with two further reductions of a quarter of a point each at the end of October and on 11 December. The markets expect a further reduction at the end of January (Figure 8).

…despite the acceleration in inflation

The Federal Reserve has nevertheless indicated its concern about the risk of inflation, which rose rapidly in the final months of 2007. The private consumption deflator showed an increase of 3.6 per cent in November, compared with one of 1.8 per cent in August (Figure 9). The indicator excluding food and energy products also showed an acceleration, albeit a smaller one, from 1.9 to 2.2 per cent.

In order to increase the transparency of its actions and the effectiveness of its pronouncements, in November the Federal Reserve revised the methods for formulating and publishing its macroeconomic forecasts; among other changes, forecasts will now be published every three months for a time horizon lengthened to cover the next three years.

In Japan activity is being sustained by exports

Japan's GDP increased at an annual rate of 1.5 per cent in the third quarter, after contracting by about the same amount in the second. The strong growth of 11 per cent in exports and the revival in corporate fixed investment contributed to the recovery, while public and residential investment continued to decline. Consumption growth remained muted, owing partly to wage stagnation. The forecasts for 2008 paint a picture of moderate growth sustained mainly by exports, in particular to other Asian economies, contrasting with a weak expansion in domestic demand.

The recent rise in consumer price inflation (from -0.2 per cent in August to +0.6 per cent in November) is ascribable essentially to food and energy prices; excluding these items, the twelve-month change in the price index remained slightly negative. Official interest rates remained unchanged, having stood at 0.5 per cent since last February; market expectations of an imminent increase have gradually waned in recent months.

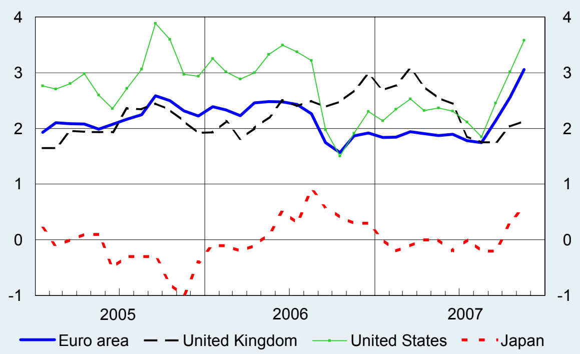
The UK economy is beginning to slow

In the United Kingdom economic activity continued to expand at a sustained annual rate of 2.7 per cent in the third quarter, propelled by strong growth in consumption (4.4 per cent) and corporate fixed investment (8.2 per cent). The economic outlook deteriorated in the last few months of 2007, however. The trend in the housing market suddenly reversed; whereas prices had risen on average at an annualized rate of 7 per cent in the first ten months of 2007, in November and December they fell by 0.8 and 0.5 per cent respectively in relation to the preceding month. In response to these developments and against the background of a modest acceleration in inflation to 2.1 per cent in November, at the beginning of December the Bank of England reduced its reference rate by a quarter of a percentage point; the markets have factored in a further reduction in early 2008. Partly as a reflection of these expectations, in the last three months sterling has depreciated by 7 per cent against the euro and by 6.5 per cent in nominal effective terms.

Figure 9

Consumer price inflation (1)

(monthly data; twelve-month percentage changes)



Sources: Thomson Financial Datastream and Bloomberg.
(1) General price index. For the euro area and the United Kingdom, harmonized index of consumer prices. For the United States, personal consumption deflator. For Japan, consumer price index.

Growth in the leading emerging countries remains strong

In the first three quarters of 2007 economic activity continued to expand rapidly in China, where it was fuelled by exports, and in Brazil, Russia and India, where the greatest stimulus came from consumption and investment; Brazil and Russia also benefited from an improvement in their terms of trade. The OECD and leading private analysts predict that growth in these countries will be only slightly lower this year than it was in 2007 (Table 1).

In China the rise in the world prices of food and energy products pushed consumer price inflation up to 6.9 per cent in November, the highest level since 1996. The authorities continued to make monetary conditions less accommodating and announced their intention to introduce administrative controls on bank lending. The appreciation of the renminbi during the year remained modest (1.8 per cent in effective terms). In Brazil and India inflationary pressures were offset by the appreciation of the currency, driven by inflows of capital attracted by high interest rates and only partly curbed by official intervention.

2.3 THE EURO AREA

Euro-area GDP continued to grow…

In the third quarter of 2007 the growth in euro-area GDP in relation to the previous quarter accelerated to 0.8 per cent, reflecting continued growth in household consumption (0.5 per cent) and a recovery in gross fixed investment (1.2 per cent), which had been strongly affected in the preceding quarter by the fall in investment in construction.

…but the signs of a slowdown are becoming stronger …

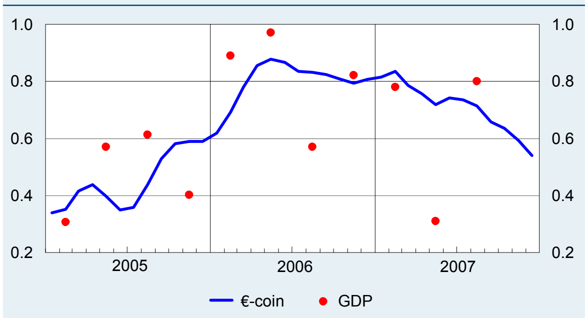
Economic indicators for the fourth quarter point to a slowdown in activity. Our €-coin indicator, which provides a real-time estimate of GDP growth in the area that filters out short-term fluctuations, showed a decline from the beginning of the year onwards (Figure 10), although in December it was still signalling that growth was only slightly below the estimated growth in potential output. Industrial production, which in October was 0.4 per cent higher over the month (Figure 11), was down slightly in November, according to our forecasts. Qualitative business surveys also confirm the progressive deterioration in the economic climate, which gradually spread to the service sector.

The surveys indicate slight differences between the major economies of the area. In December confidence among industrial firms began to sour again in Germany and Italy, according to the IFO and ISAE surveys respectively, while

Figure 10

€-coin coincident indicator of the euro-area business cycle and GDP (1)

(percentage changes)

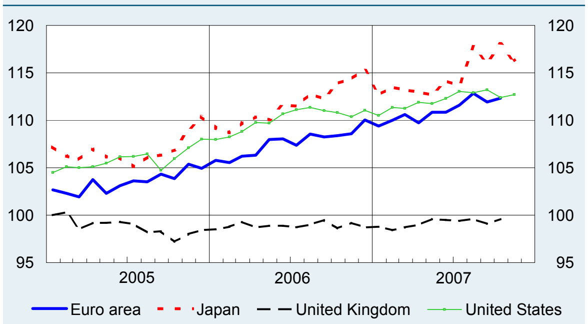


Sources: Eurostat and based on Thomson Financial Datastream data.
(1) For information on the construction of the indicator, see the box "€-coin, a real-time estimate of growth in the euro area" in Economic Bulletin no. 46. For GDP, quarterly data, change in relation to the preceding quarter. For €-coin, monthly data, change in relation to three months previously.

Figure 11

Industrial production

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



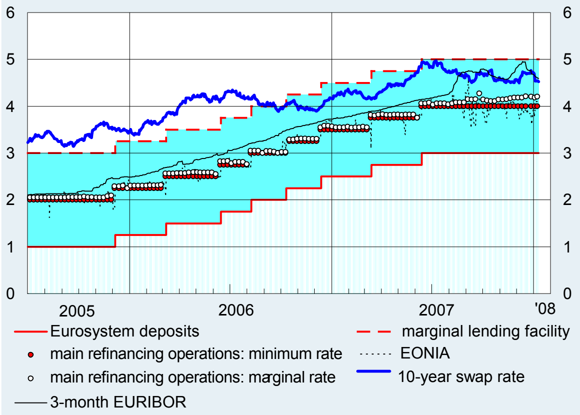
Sources: ECB and national statistics.

assessments by French businesses interviewed by INSEE remained at historically high levels. Viewed overall, the economic climate appears to be better in France than in the other major countries.

Figure 12

Official interest rates and money and financial market rates in the euro area (1)

(daily data; percentage rates)



Sources: ECB, Reuters and Telerate.
(1) The lastest data relate to 10 January 2008.

... while inflation is accelerating

Consumer price inflation accelerated appreciably in the fourth quarter of 2007, touching 3.1 per cent in December on the basis of provisional data. The acceleration reflects pressures in world markets for basic energy and food products. In the twelve months ending in November the prices of energy products rose by 7.6 per cent and those of processed food by 4.6 per cent. The acceleration in the prices of processed food also pushed up the core inflation rate to 2.3 per cent in November, compared with about 2 per cent in preceding months. By contrast, there was no acceleration in the prices of non-food, non-energy industrial goods or in services; a contributing factor here was the slower rise in labour costs per unit of output and an easing of demand pressures.

These developments prompted the professional forecasters polled by Consensus Economics to revise upwards their inflation forecasts for 2008 to 2.3 per cent in December. The longer-term inflation expectations that can be deduced from yields on price-indexed government securities rose slightly from the end of the summer onwards before stabilizing at the end of the year at just over 2 per cent.

Credit continues to expand

The growth in bank lending to the private sector remained strong (11 per cent in November); the gradual slowdown in lending to households persisted, while lending to firms continued to grow at a rapid pace. According to the latest available data relating to the period from July to October, net bond issues fell (Table 7) and there was a widening of bond spreads that continued for the remainder of the year. Liquidity conditions remain expansionary: the growth in M3 reached a new record of 12.3 per cent in both October and November, aided by strong demand for low-risk assets and a further flattening of the yield curve.

The ECB kept official interest rates unchanged

Attention to the risk of a rise in inflation, against a background of continuing strong growth in bank credit, was balanced by concern about the persisting uncertainty as to the way in which the financial strains will evolve and the impact they will have on the real economy. The Governing Council of the European Central Bank kept its minimum bid rate on main refinancing operations unchanged at 4 per cent (Figure 12). In the second half of December the many injections of liquidity carried out by the ECB helped lower interbank rates, though they remain higher than they were before the start of the crisis.

3 RECENT DEVELOPMENTS IN ITALY

3.1 THE CYCLICAL SITUATION

GDP growth in 2007 remained just under 2 per cent, but slowed in the course of the year

On the basis of estimates for the fourth quarter, GDP growth in 2007 as a whole was 1.9 per cent (1.7 per cent after adjustment for the higher number of working days with respect to 2006), in line with the preceding year. The expansion in output was attributable to the domestic components of demand, both investment and consumption, especially the latter, which was boosted by the rise in disposable income and policies to encourage spending on durable goods (Figure 13 and Table 2). By contrast, it is estimated that almost no contribution to growth came from external demand, which was affected by the appreciation of the euro and the slowdown in Italy's main export markets.

In the course of the year economic activity gradually lost momentum, albeit with fluctuations, and it appears to have stagnated in the final quarter. The acceleration in the prices of energy and food products and the tightening of credit conditions associated with the turmoil in the financial markets were among the factors curbing household spending in the second half of the year. Qualitative indicators for the most recent months confirm that economic activity will remain rather weak in the early part of 2008.

The continuation of the upward phase of the cycle generated an expansion in employment in all areas of the country in 2007, although at a slower pace than in 2006. The unemployment rate declined further to historically low levels.

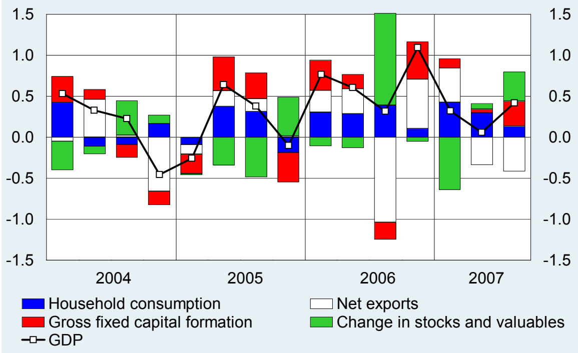
Inflationary pressures intensified towards the end of the year

On an annual average basis, consumer price inflation (measured by the harmonized index) declined

Figure 13

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		2007		
	Q4	Year (1)	Q1	Q2	Q3
GDP	1.1	1.9	0.3	0.1	0.4
Total imports	1.8	4.3	-1.2	-0.2	2.4
National demand (2)	0.5	1.6	-0.1	0.4	0.8
National consumption	0.1	1.0	0.5	0.4	0.2
households	*0.2*	*1.5*	*0.7*	*0.5*	*0.2*
other (3)	*-0.1*	*-0.3*	*..*	*-0.1*	*0.2*
Gross fixed capital formation	2.2	2.3	0.6	0.2	1.5
construction	*2.9*	*2.1*	*1.6*	*-1.2*	*1.4*
other goods	*1.6*	*2.6*	*-0.4*	*1.5*	*1.5*
Change in stocks and valuables (4)	-0.1	0.3	-0.6	0.1	0.4
Total exports	4.1	5.3	0.2	-1.4	0.9
Net external demand (4)	0.6	0.3	0.4	-0.3	-0.4

Source: Istat.
(1) Not adjusted for the number of working days. – (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.

slightly in 2007, to 2.0 per cent. From the summer onwards, however, the twelve-month rate of increase in prices accelerated sharply, to 2.6 per cent in the fourth quarter, propelled by rising pressures in the markets in basic energy and food products. The core inflation rate nevertheless remained around 2 per cent, partly reflecting wage moderation.

3.2 FIRMS

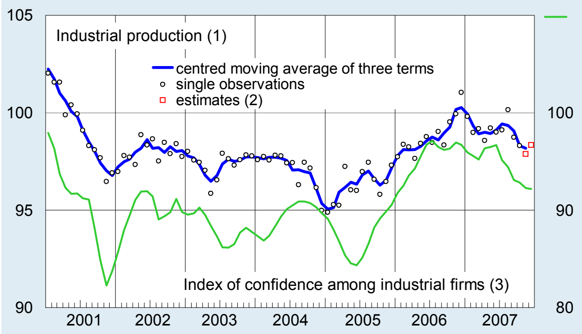
Industrial production turns down again

After the small increase recorded in the summer, industrial production seems to have declined again by around 1 per cent in the final quarter of the year (Figure 14). According to our estimates, the contraction recorded in October (0.3 per cent over the preceding month, with a particularly large fall in capital goods) appears to have been followed by broadly no change in the index averaged over the subsequent two months. The signs of a slowdown in economic activity are confirmed by the qualitative cyclical indicators. The business confidence index compiled by ISAE continued on the declining path it has followed since last spring, in connection with the gradual worsening of expectations about domestic and export orders (Figure 15). By December the PMI index for manufacturing industry, which had been falling since mid-2006, was only marginally above the level compatible with continued expansion; in the last few months the indicator for the service sector registered a similar movement. Indications from the survey conducted by the Bank of Italy in conjunction with Il Sole 24 Ore at the end of December confirm firms' increasing pessimism about the short-term prospects.

Figure 14

Industrial production and index of business confidence

(monthly data; indices, 2000 =100)

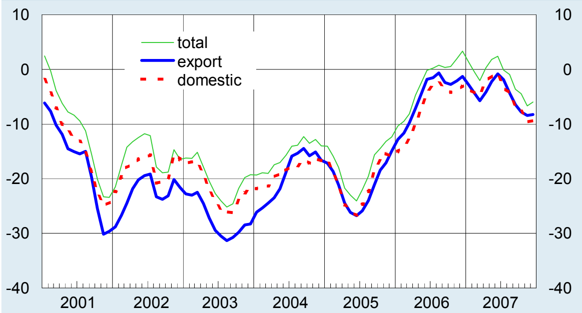


Sources: Based on Centro Studi Confindustria (CSC), ISAE, Enel and Istat data.
(1) Data adjusted for seasonal and calendar effects. – (2) Based on electricity consumption and the indicators of the ISAE and CSC surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances 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 15

Industrial orders (1)

(monthly data)



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

Investment follows the GDP cycle

The growth in output in the third quarter of 2007 was generated by an acceleration in gross fixed investment (1.5 per cent higher than in the preceding quarter), in particular in machinery and equipment (2 per cent), which probably benefited from the high level of plant utilization in the first half of the year. Activity in the construction sector also recovered strongly in the summer, rising by 1.4 per cent in relation to the preceding quarter and making good the fall suffered in the second quarter. The growth involved both housing and non-residential construction in almost equal measure. However, the recent deterioration in confidence among firms in the sector presages a slowdown in construction activity in the final months of the year. Investment in transport equipment was only slightly down from the high levels reached in the second quarter in response to tax incentives for the replacement of motor vehicles.

Price competitiveness deteriorates owing to the appreciation of the euro

After holding its own in the first half of 2007, the international competitiveness of firms declined from the end of the summer onwards (Figure 16). Our estimates indicate that the deterioration continued in the last two months of the year owing to the further appreciation of the euro; in nominal effective terms its average rate for December was around 1.6 per cent higher than in October. Measured on the basis of unit labour costs, the trend of competitiveness has been downwards since the beginning of 2007, especially vis-à-vis the other major euro-area countries.

Productivity improves slightly in the third quarter

The pick-up in industrial activity in the third quarter was reflected in a recovery in labour productivity, against the background of virtually no change in employment (Figure 17). This caused the rise in unit labour costs to slow to 3 per cent in relation to the year-earlier period, from 3.6 per cent in the second quarter. The increase in unit labour costs in the first nine months of the year is nevertheless higher than in the corresponding period of 2006.

Corporate profitability remains stable

According to estimates based on the national accounts, firms' operating profits in the twelve months ending in September 2007 remained broadly the same as in the year ending in June. As net interest charges increased, self-financing fell slightly.

The increase in the borrowing requirement...

The borrowing requirement of firms, defined as the difference between gross investment (including stocks) and self-financing, increased slightly in the twelve months ending in September, owing partly to the quicker pace of investment. Financial debt continued to rise, reaching the equivalent of 69.7 per cent of GDP at the end of September (Figure 18), half a point more than in June.

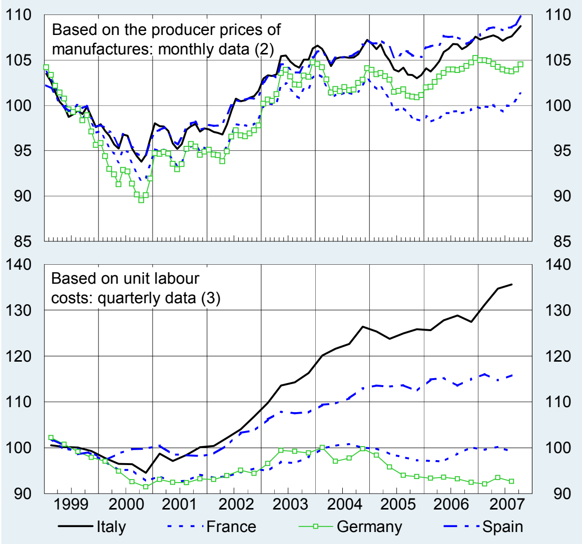
...is being met by recourse to bank credit

Bank borrowing continued to grow apace, particularly by medium-sized and large companies (Figure 19), despite an increase in cost. The acceleration in the last few

Figure 16

Indicators of competitiveness for Italy and the main euro-area countries (1)

(indices, 1999=100)

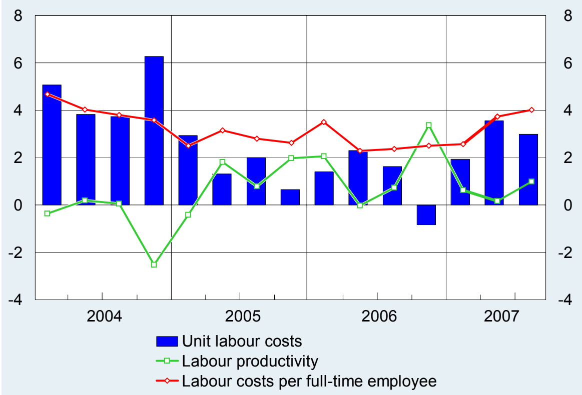


Sources: Based on IMF, OECD and Eurostat data.
(1) An increase in the index signals a loss of competitiveness. – (2) In relation to 61 competitor countries; latest available data refer to October 2007. – (3) In relation to 24 competitor countries; latest available data refer to the third quarter of 2007.

Figure 17

Labour costs and productivity in industry excluding construction

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



Source: Istat.

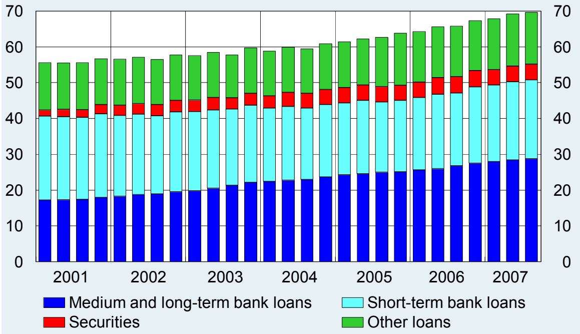
months may be connected partly with developments in the bond market, where redemptions by non-financial companies exceeded new issues. Capital increases by listed companies remained very small. These developments reflect the rise in the cost of fund-raising and, in general, less favourable capital market conditions as a result of the subprime mortgage crisis in the United States.

In the third quarter of 2007 Italian firms announced 21 mergers and acquisitions, all small in scale. They acquired significant or controlling interests totalling about €2 billion (compared with €18 billion in the second quarter). In the same period Spanish, German and French firms acquired interests worth €4 billion, €18 billion and €22 billion respectively; four large transactions involved a total of €30 billion.

Figure 18

Corporate debt (1)

(as a percentage of GDP)

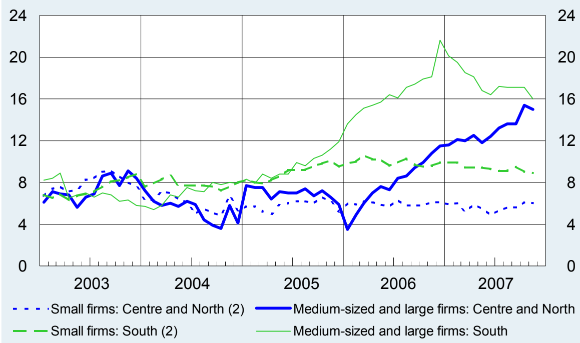


(1) The figures for 2007 are provisional.

Figure 19

Bank lending to firms by size and geographical location of firm (1)

(monthly data; twelve-month percentage changes)



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

3.3 HOUSEHOLDS

Consumption slows ...

According to our estimates, in the first nine months of 2007 the real disposable income of Italian consumer households increased overall by about 1.5 per cent with respect to the same period of 2006 (Figure 20). Around half of this appears to have been due to an increase in employees' compensation, ascribable mainly to the growth in employment. Over the same period consumption grew by around 2 per cent, although in the summer the rate of growth in relation to the preceding quarter (0.2 per cent) was less than half the average for the first two quarters.

The slowdown in consumption in the summer was the result of lower spending on durable goods and food, which was only partly offset by an increase in expenditure on services. The fall in spending on food, which has been under way since the end of 2006, may have become more pronounced in recent months owing to the rise in food prices caused by the higher cost of raw materials.

The weakening of consumption growth reflected greater prudence on the part of households. In recent months the climate of confidence, as measured by the ISAE, has remained almost stationary at the low levels recorded in early summer, reflecting principally the deterioration in consumer expectations about the general economic situation.

...and a recovery in the last quarter seems unlikely

The latest data on retail sales indicate a further slowdown in purchases of non-durable goods in the fourth quarter of 2007. The more favourable signs provided by the growth in registrations of motor vehicles (up by 4.6 per cent in relation to the third quarter) may have reflected specific factors associated with the expected expiry of tax incentives to replace motor vehicles, which were only recently extended to 2008. Overall, the current weakening of the economic cycle and the acceleration in prices may keep the rate of growth in consumption subdued in the months to come.

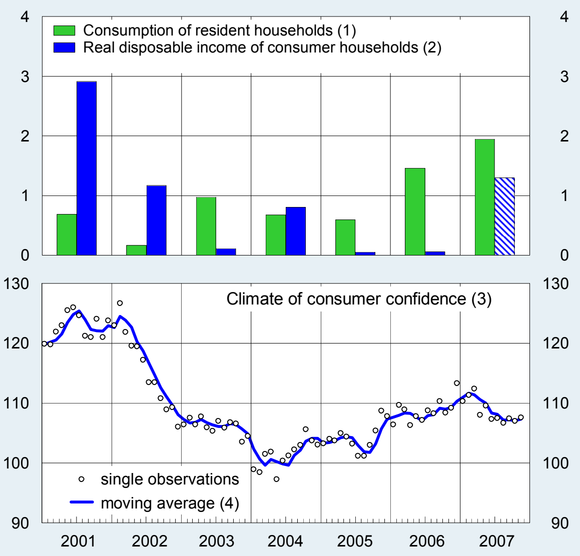
The rise in household debt slows

The rise in household debt is slowing slightly, continuing a trend that began in the second quarter of 2006 and has its origins in the progressive raising of interest rates, but it nevertheless remains high (10.4 per cent in the twelve months to September 2007). The increase in debt is a long-term development that is narrowing the wide disparity between Italy and the other advanced countries, where household debt is far higher. At the end of September the ratio of debt to disposable income was 50 per cent (Figure 21), com-pared with an average of around 90 per cent in the euro area. The latest data on bank lending, which relate to November, indicate a slowdown in consumer credit and a slight acceleration in the rate of growth of mortgage lending.

The cost of debt servicing (payment of interest and repayment of principal) increased to 7.6 per cent of disposable income in the year ending in September, 0.3 percentage points more than in the twelve months to June. Around half of the rise was due to the increase in interest rates, especially those on mortgage loans (Figure 22). Variable-rate mortgages, which represent more than three quarters of the total, have been affected since August by the significant rise in interbank rates associated with the deepening of the crisis in the US real estate sector. It is estimated that a half-point increase in the interbank rate causes the debt-servicing costs of households with an indexed mortgage to rise by an average of around 0.6 per cent of disposable income. The increased burden is greater for households on lower incomes, for whom the ratio of instalments to income tends to be higher.

Figure 20

Household consumption and income and consumer confidence in Italy

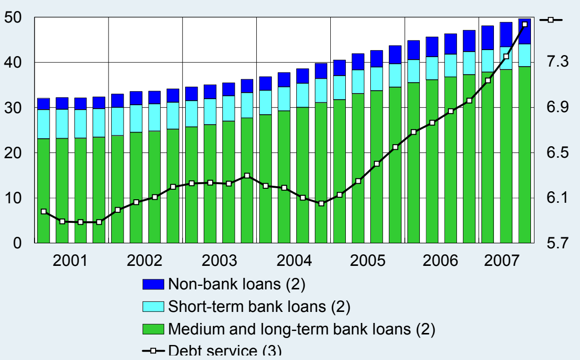


Sources: Based on ISAE and Istat data.
(1) Chain-linked volumes; percentage changes in relation to preceding year. For 2007, data for the first nine months, seasonally adjusted and adjusted for the number of working days. – (2) Obtained using the deflator of consumption of resident households; for 2007, our estimates for the first nine months. – (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: For gross disposable income, Istat and our estimates.
(1) The data relate to the new definitions of instruments and sectors of economic activity introduced by ESA95. Disposable income for 2007 is estimated on the basis of quarterly national accounts data. Figures for loans in the first quarter of 2007 are provisional estimates. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer households and to the twelve months ending in the reference quarter. Debt service includes payment of interest and repayment of principal. Interest is calculated by multiplying the stocks outstanding in each period by an average interest rate that takes account of the maturity composition and the type of intermediary; the amounts of principal repaid are estimated from supervisory returns.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports increased in the third quarter...

Exports of goods and services in volume terms, which had fallen in the first half of the year, began to increase again in the third quarter; according to national accounts data they were 0.9 per cent higher than in the preceding quarter (Table 2). The growth in services was smaller than that in goods (0.6 per cent, compared with 1 per cent). On the basis of foreign trade data, exports of goods alone increased at similar rates to both EU and non-EU countries; those to the more dynamic markets, such as China and Russia, were brisker, whereas those to the United States declined further. Machinery and mechanical equipment and transport equipment contributed to the improvement, but exports by the sectors producing textiles and garments, leather and leather goods continued to fall.

...but less than imports

Imports increased by more than exports in volume terms. Growth was concentrated in the sectors of machinery and mechanical equipment, transport equipment and chemicals, reflecting the rise in industrial production, and hence the high demand for inputs in these sectors of our economy.

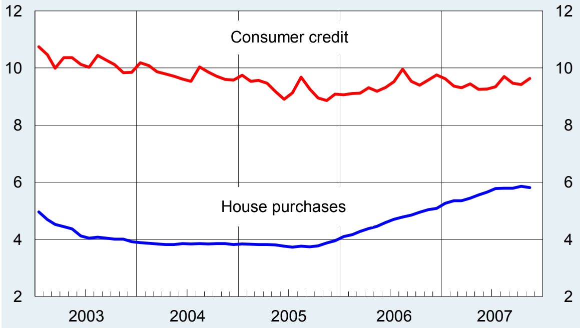
The current account deficit contracted, thanks to the good performance of exports in value terms

In the first ten months of the year the deficit on the current account of the balance of payments came to €26.6 billion, equal to about 2.1 per cent of GDP, and was thus below the high level of 2006 (Table 3). According to foreign trade data, exports of goods rose by 11.6 per cent in value terms; in contrast to earlier years, this was more rapid than both the growth in world trade (owing partly to the valuation effect caused by the appreciation of the euro) and the growth in the exports of the leading European countries. The appreciable improvement in the merchandise balance was brought about mainly by the increase in exports by the sectors of mechanical engineering and oil products and the contraction in the deficit on mineral fuels. The deterioration in the balance on services reflected strong growth in imports of "other business services" and, to a lesser extent, transport services and foreign travel. The deficit in respect of "income" is structural, averaging around 1 per cent of GDP

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" are contracts concluded during the reference period or contracts renegotiating previous terms and conditions. The annual percentage rate of charge (APRC) includes ancillary expenses (administrative expenses, loan examination fees and insurance) and is calculated as the average rate across all maturities, weighted by loan amount.

Table 3

Italy's balance of payments (1)

(millions of euros)

	2006	Jan.-Oct. 2006	Jan.-Oct. 2007
Current account	**-37,869**	**-31,741**	**-26,586**
Goods	-9,532	-9,206	4,324
non-energy products (2)	*38,847*	*31,516*	*40,220*
energy products (2)	*-48,379*	*-40,722*	*-35,896*
Services	-1,474	295	-5,344
Income	-13,607	-12,106	-16,595
Current transfers	-13,256	-10,723	-8,971
Capital account	**1,891**	**860**	**1,559**
Financial account	**35,526**	**31,292**	**24,092**
Direct investment	-2,296	4,868	-35,324
Portfolio investment	54,829	47,368	4,858
Financial derivatives	-416	2,042	-168
Other investment	-17,034	-23,333	57,236
Change in official reserves	443	347	-2,510
Error and omissions	**452**	**-412**	**935**

(1) Provisional data for September and October 2007. – (2) Based on Istat data on foreign trade.

over the last ten years; the increase in the first ten months of 2007 may be the effect of the lower euro value of interest on dollar-denominated assets and the banks' increased debtor position in the Euromarket.

Italian direct investment increased

The financial account shows a net outflow of €35.3 billion in respect of direct investment. The considerable increase in outflows (from €22.2 billion to €57.2 billion) reflected two large acquisitions by Unicredit and Enel; inflows were lower than in 2006, falling from €27.1 billion to €21.8 billion, but still higher than in earlier years. Both outflows and inflows of portfolio investment decreased; outflows fell from €43.4 billion to €21.1 billion, with most of the change occurring in equity investment, while inflows declined more sharply, from €90.8 billion to €26 billion, owing to a steep fall in purchases of Treasury bonds and disposals of shares.

3.5 THE LABOUR MARKET

Employment growth continued...

In the third quarter of 2007 employment increased on a seasonally adjusted basis by 0.3 per cent by comparison with the preceding quarter according to the national accounts and by 0.6 per cent (147,000 persons) on the basis of Istat's Continuous Labour Force Survey. The increase involved all areas of the country, but it was more pronounced in the North than in the South and Centre (0.9, 0.5 and 0.2 per cent respectively). Both the composition of employment according to labour force status and the proportion of fixed-term contracts remained essentially unchanged; the proportion of part-time workers rose by more than one percentage point, from 12.7 to 13.8 per cent. The number of foreign workers in employment rose by 201,000, compared with 129,000 in the preceding quarter, to account for 6.8 per cent of total employment (6 per cent in the third quarter of 2006).

The participation rate for the population aged between 15 and 64 rose to 59.1 per cent, 0.7 points higher than a year earlier (Table 4); the increase involved both the male and female population.

...as did wage moderation

According to the national accounts, in the first nine months of 2007 gross per capita earnings in the non-farm private sector were 2.8 per cent higher than a year earlier; in the economy as a whole the rise was more modest (1.7 per cent) owing to the non-renewal of the wage agreement for the public sector. The rise in industry excluding construction (3.9 per cent) was larger than that in private services (1.9 per cent) and was inflated by accounting effects; according to Istat's Survey of Employment, Wages and Social Security Charges (OROS), which is based on INPS returns to meet contribution requirements, the increase came to 3 per cent.

Table 4

Labour force status of the Italian population

	Average Jan.-Sept. 2006	Average Jan.-Sept. 2007	Q3 2006	Q3 2007	Change in relation to year-earlier quarter (1)
	Thousands of persons				
Total persons in work	**22,978**	**23,187**	**23,001**	**23,417**	**1.8**
Employees	**16,899**	**17,106**	**16,992**	**17,326**	**2.0**
of which: fixed-term contracts	*2,192*	*2,264*	*2,249*	*2,361*	*5.0*
part-time contracts	*2,273*	*2,394*	*2,227*	*2,472*	*11.0*
Self-employed	**6,079**	**6,081**	**6,009**	**6,092**	**1.4**
Labour force	**24,640**	**24,644**	**24,490**	**24,818**	**1.3**
men	*14,747*	*14,754*	*14,695*	*14,858*	*1.1*
women	*9,893*	*9,890*	*9,795*	*9,960*	*1.7*
Population	**58,404**	**58,825**	**58,461**	**58,936**	**0.8**
	Per cent				
Unemployment rate	**6.7**	**5.9**	**6.1**	**5.6**	**-0.5**
men	*5.4*	*4.8*	*4.8*	*4.4*	*-0.4*
women	*8.8*	*7.6*	*8.0*	*7.4*	*-0.6*
Participation rate (age 15-64)	**62.7**	**62.4**	**62.3**	**62.7**	**0.4**
men	*74.7*	*74.3*	*74.4*	*74.7*	*0.3*
women	*50.7*	*50.4*	*50.1*	*50.7*	*0.6*
Employment rate (age 15-64)	**58.4**	**58.6**	**58.4**	**59.1**	**0.7**
men	*70.6*	*70.7*	*70.7*	*71.3*	*0.6*
women	*46.2*	*46.5*	*46.1*	*46.9*	*0.8*

Source: Istat, labour force surveys.
(1) Percentage change for persons and change in percentage points for rates.

The collective agreements affecting a total of more than half a million workers in the banking sector and the chemical and pharmaceutical industry that were renewed in December will not have a significant impact on the behaviour of labour costs. The wage increases anticipated in the engineering and metals industry and in the distribution sector are likely to confirm this trend.

The participation rate began to rise again

In the third quarter of 2007 the labour supply was 0.5 per cent higher than in the preceding period on a seasonally adjusted basis. The participation rate for the population aged between 15 and 64, which had fallen in the first half of the year, especially in the South, began to rise again in all areas of the country, reflecting mainly higher female participation (Table 4). The decline in the rate for persons between 15 and 24 more or less halted; it had begun to fall in the first quarter of 2004, the starting date of the new statistical series.

The unemployment rate declined further

The unemployment rate declined further, to 5.9 per cent on a seasonally adjusted basis, compared with 6 per cent in the preceding quarter. The reduction was 0.2 points in the South, taking the rate there to 10.8 per cent.

3.6 PRICE DEVELOPMENTS

Inflation is rising…

The increase in the cost of food and energy inputs on the international markets has led to a sharp rise in inflation in Italy as well. The twelve-month increase in the consumer price index for the entire resident population rose in the fourth quarter after fluctuating around 1.7 per cent in the first three quarters, reaching 2.6 per cent in December. The harmonized index performed similarly, rising to 2.8 per cent in December (Table 5).

…driven by the increase in raw material prices…

Oil prices have been rising since the beginning of 2007, countered only partly by the euro's appreciation against the dollar. As a consequence, the twelve-month rate of increase in the non-regulated energy component of the national index jumped from 1.9 per cent in January to 9.9 per cent in November. Food prices also accelerated, to 3.7 per cent in November, especially those of "dairy products" and "pasta and cereals." This is also the result of tensions in the international market for agricultural raw materials. Despite a slight increase, core inflation has remained around 2 per cent in the last few months.

Producer price inflation reached a twelve-month rate of 4.6 per cent in November; net of energy and food products, it has fallen by around one percentage point since last summer, to 2.2 per cent.

…and will presumably remain high over the best part of 2008

During 2008 consumer inflation is expected to remain fairly high, influenced in

Table 5

Indicators of inflation in Italy

(twelve-month percentage changes)

	HICP (1)	CPI (2)			PPI (3)
	Overall index	Overall index	1-month	Core component	Overall index
2005	2.2	1.9		2.0	4.0
2006	2.2	2.1		1.8	5.6
2007 – Jan.	1.9	1.7	0.1	1.7	4.0
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	1.9	1.7	0.2	1.9	2.8
July	1.7	1.6	0.2	2.0	2.0
Aug.	1.7	1.6	0.2	2.1	2.1
Sept.	1.7	1.7	0.0	1.8	3.5
Oct.	2.3	2.1	0.3	2.0	3.7
Nov.	2.6	2.4	0.4	2.1	4.6
Dec. (4)	2.8	2.6	0.3		

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 excludes food and energy and products whose prices are regulated. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Preliminary data.

the short term by some utility price increases, partly due to the sharp acceleration of oil prices in the last few months. It should return to around 2 per cent only at the end of the year.

3.7 BANKS

Bank lending continues to grow steadily...

Bank lending continues to expand at a steady pace (10.6 per cent in the twelve months through November; Table 6), and demand from households and firms remains strong overall. The value of securitizations fell sharply between August and November, but there are no signs that this stimulated credit demand artificially. In fact, if the assets securitized are attributed to the aggregate of credit disbursed by banks, lending growth remains close to the rates registered prior to the summer.

...but with signs of strain on the supply side

The data provided by the banks participating in the euro-area Bank Lending Survey indicate that the subprime mortgage crisis resulted in a moderate tightening of criteria for business lending (see the box "Credit supply and demand in Italy: The effects of the recent turmoil in the financial markets", *Economic Bulletin* no. 46). The rates on loans are adapting to rising money market rates as gradually as in the past.

Table 6

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

	2005	2006	November 2007	
				Stocks (2)
Assets				
Securities	19.4	5.3	3.8	228,869
Loans	8.7	11.5	10.6	1,668,942
of which:				
up to 12 months	*3.4*	*10.8*	*7.6*	*565,723*
beyond 12 months	*11.5*	*11.9*	*12.0*	*1,103,220*
External assets	11.0	19.8	18.2	405,445
Liabilities				
Domestic funding (3)	7.8	9.9	7.2	1,603,818
Deposits	6.9	8.3	4.5	995,302
of which: (4)				
current accounts	*8.0*	*6.7*	*3.8*	*609,561*
with agreed maturity	*2.7*	*9.8*	*18.5*	*47,499*
redeemable at notice	*2.5*	*-0.8*	*-1.2*	*222,253*
repos	*4.9*	*29.4*	*3.8*	*102,566*
Bonds (3)	9.3	12.5	11.4	608,517
External liabilities	11.8	25.6	26.4	530,684

(1) The figures for November 2007 are provisional. Data include Cassa Depositi e Prestiti S.p.A., which is classified as a credit institution from October 2007. The percentage changes are calculated net of reclassifications, exchange rate variations and other variations not due to transactions. – (2) Millions of euros. – (3) Includes bonds held by non-residents. – (4) Does not include those of central government.

Bad loans are still growing more slowly than total lending

The volume of loans classed as bad debts increased by 4.2 per cent in the twelve months through November, with an increase of 7.6 per cent for households and 3.7 per cent for firms. Given the strong growth of lending, however, the ratio of bad debts to total lending declined slightly to 3.3 per cent (3 per cent for households and 4.2 per cent for firms), from 3.5 per cent a year earlier.

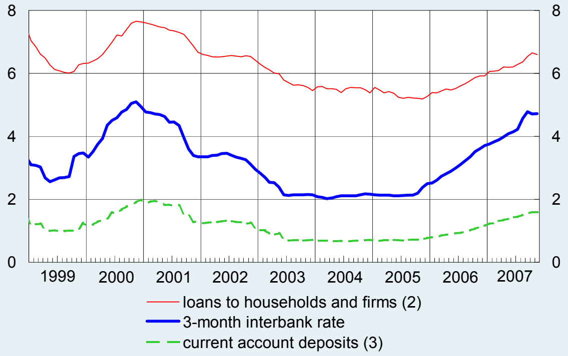
The shift of funding abroad continues

Banks' domestic funding slowed further (growth of 7.2 per cent in the twelve months through November), chiefly in the current account component. Net external liabilities rose sharply to €125 billion in November, around a third higher than a year earlier. The interest rates on the most liquid funding instruments have been slow to reflect the increases in official rates. Between November 2005 and November 2007 average yields on current account deposits rose by 0.9 percentage points, less than half the increase in the interbank rate, which has also been affected by the rise in the money market risk premium since August (Figure 23). The adjustment on bonds was faster, with the yield on new variable-rate issues rising to 4.8 per cent.

Figure 23

Short-term bank interest rates (1)

(monthly data; percentages)



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 up to one year. – (3) Average rate on current account deposits of households and firms.

Profits have been only moderately affected by the subprime mortgage crisis

Based on their consolidated quarterly reports, the profits of the main Italian banking groups remained high in the first nine months of 2007. For the time being the summer turmoil's impact on profits appears to be small by international standards. Net of non-recurring income related to mergers and acquisitions, ROE is estimated at 12 per cent on an annual basis, or about one percentage point less than in the first nine months of 2006. Net interest income increased by 10 per cent owing both to an expansion in lending volume and to a widening of the spread between the average lending rate and the average cost of funds. However, gross income gained only 6 per cent, as a result of the slow growth of income from services and smaller profits on trading. Operating profits increased by 12 per cent, thanks in part to the moderate rise in operating expenses; staff costs diminished by about 1 per cent. Loss provisions and value adjustments increased by 15 per cent; the component relating to loans amounted to some 18 per cent of operating profits, as in the first nine months of 2006.

In June the consolidated capital ratio of the Italian banking system was slightly higher than at the end of 2006. The overall solvency ratio of supervisory capital to risk-weighted assets rose from 10.7 to 10.9 per cent, and the tier 1 ratio rose from 7.8 to 8.1 per cent. For the four largest groups the overall capital ratio was 10.2 per cent, the tier 1 ratio 7.2 per cent.

3.8 THE FINANCIAL MARKET

Figure 24

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 latest availlable figure refers to 10 January 2008.

The stock market ended the year down

The general index of the Italian stock exchange fell by 5 per cent in the fourth quarter, compared with the euro-area average of 1 per cent (Figure 24). The sharper slide in Italian share prices was due in part to less favourable earnings developments. At sectoral level, the decline reflected, above all, the fall in oil and tele-communications shares. The drop in the share prices of Italian banks and insurance companies was generally smaller than that in the respective euro-area sectoral indices. At the end of the year, the current earnings/price ratio in Italy stood more than two percentage points above its long-term average (Figure 25), indicating a prudent evaluation of listed Italian companies' growth prospects by investors. The expected volatility of share prices remained higher than before the financial turbulence of the summer.

Thirty-two companies made their debut on the Milan stock exchange in 2007, compared with 21 in 2006; in the euro area, the number of newly listed companies rose from 204 to 211. At the end of December the 300 Italian companies listed on the Milan exchange had a total market value of €734 billion (equal to 48 per cent of GDP). Three companies were listed on the new Alternative Capital Market for trading in the shares of small and medium-sized companies by professional investors.

Net bond issues have come to a halt...

Net issues of bonds by Italian companies fell to nil in the third quarter (Table 7); the drop involved all categories of issuer. Similar trends were observed in the euro area as a whole.

...in the face of sharply higher premiums for credit risk

The contraction in bond issues came in concomitance with the increase in credit risk premiums in the second half of the year. The yield differentials with respect to government securities for Italian non-financial corporations widened by about half a percentage point, in line with the increase registered by similar firms in other countries of the area. The bonds of the companies Enel and Eni were hit by unfavourable decisions on the part of the rating agencies (respectively, downgrades and a change of outlook from stable to negative). The premiums on the credit default swaps of Italy's major banks rose by an average of 30 basis points, in line with the increase for the other leading banks in the euro area.

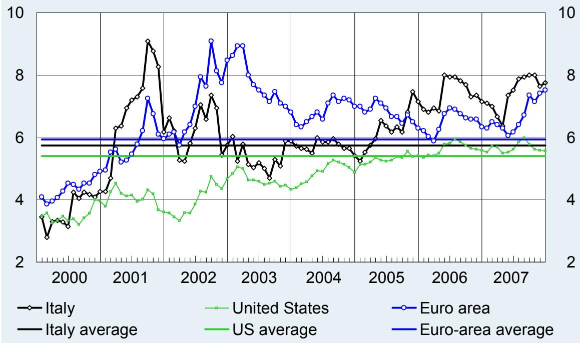
The net outflow of savings from investment funds continued

In the third quarter of 2007, marked by acute uncertainty on the financial markets, the net outflow of savings from investment funds almost doubled from the previous quarter, to €12.5 billion, and extended to funds controlled by foreign intermediaries (€1.4 billion). Hedge funds continued to see net inflows. A very substantial net outflow of resources was also recorded by investment funds of the other major euro-area countries, concentrated in the bond and money-market segment. The average rate of return of Italian harmonized funds was negative

Figure 25

Current earnings/price ratios in the principal stock exchanges (1)

(monthly data; per cent)



Sources: Based on Thomson Financial Datastream and Bank of Italy data.
(1) Averages are from January 1986 on.

Table 7

Net bond issues by banks and firms (1)

(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2005	41,502	35,471	1,434	**78,407**
2006	60,371	15,906	4,561	**80,838**
2006 – Q1	20,039	1,320	520	**21,879**
Q2	12,310	1,757	3,752	**17,819**
Q3	7,155	4,501	357	**12,013**
Q4	20,867	8,328	-68	**29,127**
2007 – Q1	21,619	3,452	-1,222	**23,849**
Q2	15,371	10,302	7,606	**33,279**
Q3	1,794	-1,850	-1,170	**-1,226**
		Euro area		
2005	292,670	176,227	22,250	**491,147**
2006	348,472	236,273	29,215	**613,959**
2006 – Q1	100,683	44,462	2,820	**147,965**
Q2	87,073	57,518	16,353	**160,944**
Q3	64,414	36,001	228	**100,643**
Q4	96,302	98,292	9,814	**204,408**
2007 – Q1	141,149	94,854	972	**236,975**
Q2	101,303	60,572	22,258	**184,134**
Q3	13,194	41,481	-1,531	**53,144**

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by resident companies belonging to the sector indicated. The nationality and 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.

(-0.9 per cent). The worst performances were turned in by equity funds and flexible funds (-3.5 and -1.2 per cent, respectively), while bond funds gained 0.9 per cent thanks to the fall in medium and long-term interest rates.

Individual portfolio management accounts also saw a net withdrawal of savings (€6 billion, not counting an extraordinary transaction by an insurance group). The average rate of return for the quarter is estimated at -0.2 per cent.

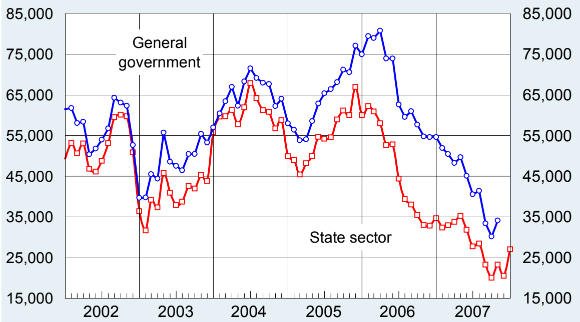
3.9 THE PUBLIC FINANCES

The data on the public finances currently available for the whole year concern the state sector borrowing requirement and state budget tax revenue. The provisional outturns for the borrowing requirement, debt and net borrowing of the broader general government aggregate will be released in March.

Figure 26

Rolling twelve-month borrowing requirement (1)

(millions of euros)



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

In 2007 the state sector borrowing requirement was €27 billion, down from €34.6 billion in 2006 (Figure 26). In relation to GDP it fell from 2.3 per cent to about 1.7 per cent (as in other parts of this section, the ratio to GDP for 2007 is based on the estimate of the nominal product contained in last November's Stability Programme), the figure the Government had indicated in September. In December there was a surplus of €15 billion, €6.5 billion less than in December 2006. The decrease reflects the decision to bring forward to December some payments to local authorities (referring to earlier years) and the elimination of the payment on account that tax collection agencies had been required to make since 1997 (in 2006 it had produced €4.7 billion). On the other hand the surplus benefited from the significant increase in self-assessed tax revenue.

The general government borrowing requirement at its lowest level for several decades

In the first ten months of the year the general government borrowing requirement net of privatization receipts was €43.6 billion, €20.5 billion less than in the corresponding period in 2006. The gap between this aggregate and the state sector borrowing requirement was more than halved. If in the last two months of the year the general government borrowing requirement were nearly €5 billion larger than that of the state sector, as in 2006, for the year as a whole it would be close to €38 billion or about 2.5 per cent of GDP (the lowest figure in the last four decades).

In 2007 state budget tax revenue increased by 4.8 per cent (€18.8 billion) compared with 2006 (Table 8); in relation to GDP it remained basically stable at 26.5 per cent. Excluding the payment on account that tax collection agencies had been required to make, the ratio to GDP rose by 0.3 percentage points.

Corporate income tax grew by 27.8 per cent

The main contribution to the growth in revenue came from direct taxes, which increased by 7.7 per cent despite the fall in receipts of one-off taxes that were not renewed in 2007. Corporate income tax, which is marked by a high degree of volatility, recorded substantial growth that benefited from the economic recovery in 2006 and measures to broaden the tax base, intended in part to offset the effects of the European Court of Justice's 2006 VAT ruling. Self-assessed personal income tax also recorded substantial growth, influenced by the measures regarding sector studies and the rules introduced between July and December 2006 to counter tax evasion and avoidance. The modest growth in withholding tax on employee incomes, which was affected by the reform of personal income tax introduced in the budget for 2007, was influenced by the measure in favour of low-income taxpayers introduced in October. The large increase in receipts of substitute taxes on income from financial assets can be attributed to the rise in interest rates.

Receipts of indirect taxes grew by 1.7 per cent. The growth was 4.3 per cent excluding the above-mentioned payment on account by tax collection agencies, which included other business taxes. The provisional data on VAT receipts indicate that they grew faster than consumption, possibly as a consequence of the measures adopted to counter tax evasion and avoidance. The decline in excise taxes on mineral oils was due to the decrease in consumption.

Table 8

State budget tax revenue on a cash basis (1)
(millions of euros and percentages)

	2006	2007	% change
Direct taxes	**203,352**	**218,930**	**7.7**
Personal income tax	142,062	149,997	5.6
of which: *withholding tax on employee incomes and the like*	*106,628*	*109,326*	*2.5*
balance	*5,461*	*7,432*	*36.1*
payment on account	*16,742*	*18,917*	*13.0*
Corporate income tax	39,475	50,468	27.8
of which: *balance*	*8,978*	*13,122*	*46.2*
payment on account	*30,154*	*36,840*	*22.2*
Withholding taxes on interest income and capital gains	12,193	13,693	12.3
interest on bank deposit and bonds (2)	*8,659*	*10,620*	*22.6*
dividends	*733*	*529*	*-27.8*
capital gains	*1,138*	*1,146*	*0.7*
asset management	*1,663*	*1,398*	*-15.9*
One-off taxes	5,812	1,222	-79.0
Tax on insurance companies' mathematical reserves	1,049	1,105	5.3
Other	2,761	2,445	-11.4
Indirect taxes	**187,586**	**190,779**	**1.7**
VAT	114,166	120,177	5.3
Other business taxes	24,972	21,698	-13.1
Excise duties on mineral oils	21,353	20,335	-4.8
Other excise duties and sales taxes	7,550	6,985	-7.5
Monopolies	9,354	9,790	4.7
Lotto and lotteries	10,191	11,794	15.7
Total tax revenue	**390,938**	**409,709**	**4.8**

Source: Based on State budget data.
(1) For 2007, provisional data. – (2) Includes the withholding tax on interest earned on post office savings certificates, which was particularly large in 2006 and 2007 owing to the bunching of redemptions.

In the first nine months the ratio of net borrowing to GDP improved considerably; the fiscal burden increased further

A significant improvement in the public finances can also be seen in the general government consolidated accounts for the first three quarters recently published by Istat. Net borrowing in the first nine months of 2007 was equal to 1.3 per cent of GDP, as against 4 per cent in the corresponding period in 2006. Excluding the refunds payable following the European Court of Justice's VAT judgment, estimated at about €16 billion and included under expenditure in the third quarter of 2006, the deficit decreased by 1.2 percentage points. This result reflected growth in expenditure that was slower than that in GDP and growth in revenue that was faster. Primary current expenditure grew by 2.1 per cent, influenced by the temporary decline in the compensation of employees, which is likely to rise sharply in the last quarter owing to the renewal of the labour contracts in the school system and government departments. The growth in total revenue has been sustained by direct taxes and social security contributions. The latter, which rose by 6.4 per cent, benefited both from the payments connected with the transfer to INPS of the severance pay provisions for the year and from the increases in some contribution rates introduced in the budget for 2007.

The information available on local authority revenue in the first ten months of the year shows that there were large increases in the main taxes. Receipts of the regional tax on productive activities grew by 5.9 per cent (€1.4 billion) compared with the corresponding period in 2006, despite the reliefs connected with the cost of labour introduced by the budget for 2007. The revenue deriving from the regional and municipal income surtaxes grew respectively by 19.5 and 41.4 per cent (€1 billion and €0.6 billion respectively). The increase in regional tax revenue was due in part to the automatic raising of the tax rates applicable in the regions with large health service deficits.

The debt-to-GDP ratio is falling after the increases of the previous two years

In the first ten months of the year general government debt rose by €54.3 billion (€93.7 billion in the corresponding period in 2006) to €1,629.8 billion. The slowdown compared with the previous year mainly reflects the smaller borrowing requirement (€40.1 billion, as against €64.1 billion) and the smaller increase in the Treasury's deposits with the Bank of Italy (€11.1 billion, as against €28 billion). Taking into account the substantial reduction in these deposits in the last two months of the year (down to the limit of €10 billion permitted by law) and of the estimates for the borrowing requirement, the ratio of debt to GDP should fall from the 106.8 per cent recorded in 2006 to below the forecast in last November's Stability Programme (105 per cent).

3.10 SHORT-TERM FORECASTS

Italian economic growth slows

The world economic environment has deteriorated markedly since our previous forecast for the Italian economy was released with the July issue of the *Economic Bulletin*, with greatly heightened uncertainty over the macroeconomic outlook for the leading economies induced by the financial market turmoil caused by the US subprime mortgage crisis. Over the same period, reflecting the changing market expectations for the performance of the leading economies, the euro continued to appreciate, further undercutting the price competitiveness of national products. The spot price of oil rose by $25 a barrel and the futures price by $20, reducing households' purchasing power and strengthening inflationary pressures; there were sharp increases for a number of agricultural commodities as well.

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL ENVIRONMENT

The assumptions on the growth of world output and trade underlying these short-term forecasts are the same as for the euro-area projections released in the ECB's December *Monthly Bulletin*. By contrast, the assumptions on exchange rates, interest rates and oil prices have been updated based on observations at the end of December and the start of January. They are less favourable than those underlying the Eurosystem's December projections. The price of oil, close to $100 a barrel in the first few days of the year, follows the pattern of futures contracts, which imply an average of about $93 in 2008 and $89 in 2009. Three-month interest rates decline progressively from the level of nearly 5 per cent reached towards the end of last year to just over 4 per cent, according to Euribor futures, in the final months of 2009. 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 over the two years. For exchange rates, the usual technical assumption that all bilateral exchange rates remain stable at the average of recent observations implies a dollar/euro rate of 1.46 over the forecast horizon.

Projections for the public finances take account of the effects of measures enacted in the budget for 2008 and do not diverge significantly from the estimates presented by the Government in the recent Programming and Planning Report for 2008.

Against this background, like the other large advanced economies the Italian economy is projected to grow less than potential output over the next two years. Average GDP growth, which was 1.7 per cent in 2007, is expected to decline to 1 per cent in 2008 and to rise slightly in 2009 on a calendar-adjusted basis

(Table 9 and Figure 27). The downward revision for this year, equal to 0.7 percentage points with respect to the July forecast, is due essentially to three causes: the effect on households' disposable income of higher raw material prices (in six months the price of oil in euros rose by nearly 20 per cent and that of foodstuffs by more than 10 per cent); the appreciation of the euro (by 4 per cent in nominal effective terms in the second half of 2007), which has undercut the price competitiveness of Italian goods on all markets; and a lowering of the starting point, reflecting the slackening of economic activity in the last part of 2007. Comparable downward revisions are being made to growth forecasts in the other euro-area economies.

Table 9

Forecasts of the main macroeconomic variables
(annual percentage changes, except as indicated)

	2007	2008	2009
GDP (1)	**1.7**	**1.0**	**1.1**
Private consumption	2.0	1.1	1.0
Government consumption	0.3	0.5	0.2
Gross fixed capital formation	2.8	2.0	1.5
Exports	2.2	1.5	2.5
Imports	2.5	2.4	1.9
Change in stocks and valuables (2)	0.1	0.1	0.0
HICP (3)	**2.0**	**2.6**	**2.0**
Export competitiveness (4)	**-8.2**	**-3.3**	**-1.4**

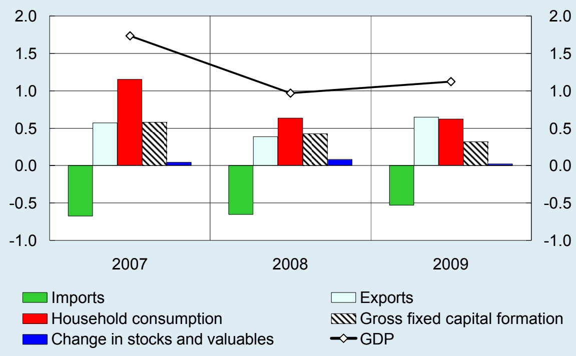
Sources: Istat and Bank of Italy.
(1) For GDP and its components, chain-linked volumes; changes estimated on the basis of data adjusted for seasonal and calendar effects. On an unadjusted basis, the average GDP growth rates for the three years are estimated at 1.9, 1.0 and 1.2 per cent respectively. – (2) Contributions to GDP growth; percentage points. – (3) Harmonized index of consumer prices. – (4) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products) in common currency.

Exports flag due to cumulative loss of competitiveness

Export growth, which is estimated to have declined to just over 2 per cent in 2007, is expected to slow to 1.5 per cent in 2008 and regain strength in 2009. This forecast takes account of the current and lagged effects of the constant deterioration in price competitiveness for Italian goods (a cumulative loss of about 30 percentage points over the last five years, and projections of 5 more points over the next two).

Figure 27

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



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

Domestic demand is losing steam, both consumption...

Household consumption growth should slow by about a percentage point in 2008. Real disposable income, adjusted for the loss of purchasing power of financial wealth, will slow even more sharply, as a result of rising inflation. The usual increase in the propensity to consume during cyclical downturns will keep consumer spending ahead of the growth in income.

...and investment

The yearly increase in capital formation is expected to decline from 2.5 per cent in 2007 to 2 per cent in 2008 and 1.5 per cent in 2009. The sharpest slowdown will be in residential construction, as the housing market softens. A contributing factor is likely to be the lagged effect of the gradual tightening of financial conditions over the last two years on the real cost of capital and on investment decisions.

The external accounts worsen

The moderate pace of exports and investment – the demand components most reliant on goods made abroad – is expected to contribute to a gradual slowing of imports. However, because of the loss of price competitiveness for national products the slowdown will not suffice to prevent the contribution of net imports to GDP growth, which was virtually nil in 2007, from turning slightly negative this year (–0.3 per cent) before becoming positive again in 2009. The deficit on the current account of the balance of payments is forecast to increase by about 0.5 percentage points of GDP, owing in part to deterioration in the terms of trade.

Inflation to remain above 2 per cent for most of 2008

Consumer price inflation is forecast to rise to just over 2.5 per cent this year; the rate is expected to drop back to 2 per cent by the autumn and remain there in 2009 as a whole (Table 9). The revisions to the July forecasts mainly reflect the increases in the world prices of crude oil and agricultural commodities. In 2008 wage growth is expected to be affected by the conclusion of a number of industry-wide contracts that were not renewed in 2007: the rate of increase in unit labour costs is forecast at just under 3.5 per cent in the private sector and a little more than that in the whole economy (respectively, about 1 and 2 percentage points higher than in 2007); a contributing factor will be the cyclical weakening of productivity, which will return to stagnation. In a context of moderate growth and stepped-up competitive pressure from abroad, the acceleration in unit labour costs is likely to be accompanied by a temporary contraction in profit margins.

The forecasts are subject to great uncertainty

The inherent uncertainty of economic forecasting is heightened at present by the doubts that still surround the likely evolution of international financial market turmoil. New difficulties on the financial markets and corrections on the property markets, particularly in the United States, could cause many economies to slow more sharply than expected, which would result in a definite slackening of world demand, whereas the Eurosystem's December projections, adopted here, actually assume a slight pick-up. The uncertainty over the performance of oil prices, marked by high volatility, remains great. A further element of downside risk is the impact on consumer price inflation, hence on household income and consumption, of the recent sharp rises in the prices of foodstuffs, which have reflected both temporary restrictions in supply and probably non-contingent demand-side factors. The futures prices incorporated in the forecast signal a sharp slowdown in the prices of foodstuffs from the middle of this year, which could prove to be optimistic.

Turning to upside forecasting risk, it is worth noting that a crucial factor in the expected slowdown in exports is Italy's long-term loss of price competitiveness. However, at least for some sectors and some firms this could be offset by new structural advantages stemming from product innovation and technology. Econometric forecasting instruments like those used to produce this scenario cannot detect such processes, but ad hoc studies have found evidence that they are under way. The interpretation of the recent performance and prospects of exports is complicated by doubts on the statistical attribution of total export values between volumes and average unit values. Istat has announced that a revision of these data will be performed in the first few months of the year.

STATISTICAL APPENDIX

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	3.6	3.6	2.6	1.4	0.3	7.3	1.1	4.1	4.3	9.7	11.3	-0.7	0.4
2005	3.1	3.2	2.2	0.7	0.1	6.9	1.1	3.1	3.3	6.9	5.9	-0.2	-0.2
2006	2.9	3.1	2.2	1.8	0.4	2.4	0.4	2.8	3.0	8.4	5.9	-0.1	0.1
2005 – Q1	3.1	2.4	1.7	1.3	0.3	4.0	0.7	2.6	2.8	6.0	2.1	0.3	0.2
Q2	2.8	3.5	2.4	1.2	0.2	7.9	1.3	1.9	2.0	9.5	0.8	0.8	-1.9
Q3	4.5	4.1	2.8	3.2	0.6	8.0	1.3	4.3	4.6	2.1	2.1	-0.1	-0.1
Q4	1.2	1.2	0.8	-1.9	-0.4	2.3	0.4	2.5	2.6	10.6	16.2	-1.4	1.7
2006 – Q1	4.8	4.4	3.0	4.9	0.9	7.9	1.3	4.5	4.7	11.5	6.9	0.1	-0.5
Q2	2.4	2.4	1.6	1.0	0.2	-1.9	-0.3	1.9	1.9	5.7	0.9	0.5	0.5
Q3	1.1	2.8	1.9	0.8	0.1	-4.7	-0.8	1.3	1.4	5.7	5.4	-0.3	0.1
Q4	2.1	3.9	2.7	3.5	0.7	-7.1	-1.2	0.8	0.9	14.3	1.6	1.3	-1.3
2007 – Q1	0.6	3.7	2.6	-0.5	-0.1	-4.4	-0.7	1.1	1.1	1.1	3.9	-0.5	-0.7
Q2	3.8	1.4	1.0	4.1	0.8	3.2	0.5	2.4	2.5	7.5	-2.7	1.3	0.2
Q3	4.9	2.8	2.0	3.8	0.7	-0.7	-0.1	3.3	3.5	19.1	4.4	1.4	0.9

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
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	1.3	0.7	1.6	0.3	3.1	0.7	1.7	1.6	7.0	5.8	0.3	-0.1
2006	2.4	2.0	1.1	-0.4	-0.1	1.3	0.3	1.6	1.5	9.5	4.2	0.9	0.2
2005 – Q1	2.6	1.5	0.8	4.8	0.8	7.7	1.7	2.8	2.7	-1.3	-1.1	-0.1	-0.7
Q2	4.6	3.9	2.1	-2.1	-0.4	3.7	0.8	3.4	3.2	14.0	4.7	1.3	0.7
Q3	1.4	2.2	1.2	3.5	0.6	3.4	0.8	1.5	1.4	12.2	15.1	0.1	-1.2
Q4	3.1	2.6	1.4	-3.9	-0.7	-2.3	-0.5	0.7	0.7	16.5	-1.6	2.3	0.5
2006 – Q1	1.8	2.3	1.3	-1.7	-0.3	-0.6	-0.1	1.4	1.4	9.2	7.2	0.5	0.6
Q2	3.2	3.2	1.8	1.8	0.3	5.0	1.1	3.4	3.2	2.8	4.2	-0.1	0.1
Q3	-0.4	-3.7	-2.1	1.6	0.3	-1.9	-0.4	-1.9	-1.8	9.3	-0.6	1.4	0.4
Q4	5.3	4.9	2.6	-1.2	-0.2	8.7	1.9	4.6	4.3	4.2	-1.0	0.7	..
2007 – Q1	3.3	2.6	1.4	0.7	0.1	1.2	0.3	1.8	1.7	13.3	3.9	1.5	-0.1
Q2	-1.8	0.8	0.4	1.1	0.2	-9.8	-2.3	-2.1	-2.0	3.9	2.8	0.3	-0.3
Q3	1.5	1.2	0.7	0.7	0.1	-3.3	-0.7	-0.4	-0.4	11.0	-0.8	1.7	-0.4

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

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' expenditure (2)	General government expenditure	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	0.9	2.4	1.7
2003	0.8	3.1	1.4	1.3	1.0	1.3	1.2	1.8	1.1
2004	2.0	6.7	3.3	1.2	3.1	2.2	1.6	1.3	7.0
2005	1.5	5.2	2.5	1.6	3.9	2.7	1.5	1.4	4.5
2006	2.8	7.6	4.1	4.0	5.2	4.9	1.8	1.9	7.8
2005 – Q3	0.6	1.9	1.0	0.9	1.8	1.4	0.6	0.3	2.2
Q4	0.4	1.9	0.9	0.7	1.0	0.9	0.1	0.1	0.9
2006 – Q1	0.9	2.1	1.2	-0.2	1.4	0.6	0.7	1.1	2.9
Q2	1.0	1.2	1.0	2.6	2.8	2.7	0.4	0.1	1.6
Q3	0.6	1.7	0.9	1.2	0.3	0.8	0.5	0.5	1.1
Q4	0.8	1.7	1.1	1.6	1.7	1.6	0.5	0.4	3.0
2007 – Q1	0.8	1.2	0.9	2.4	1.3	1.9	..	0.9	0.8
Q2	0.3	0.3	0.3	-1.0	0.9	-0.1	0.6	0.1	0.9
Q3	0.8	2.6	1.3	1.0	1.4	1.2	0.5	0.6	2.2
				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	2.2	-1.7	….	….	….	1.2	2.1	2.4	-1.2
2004	2.0	1.6	….	….	….	2.5	2.1	2.3	1.1
2005	1.9	3.8	….	….	….	2.4	2.1	2.6	2.7
2006	1.9	4.0	….	….	….	2.7	2.2	2.1	2.6
2005 – Q3	0.4	1.7	….	….	….	0.6	0.7	0.6	0.9
Q4	0.7	0.9	….	….	….	0.7	0.5	1.7	0.8
2006 – Q1	0.2	1.9	….	….	….	0.6	0.5	-0.2	0.8
Q2	0.5	0.5	….	….	….	0.7	0.6	1.1	0.5
Q3	0.5	0.3	….	….	….	0.7	0.5	-0.3	0.6
Q4	0.4	-0.6	….	….	….	0.6	0.2	0.1	0.2
2007 – Q1	0.7	0.6	….	….	….	1.0	0.4	0.7	0.4
Q2	0.7	0.8	….	….	….	0.7	0.6	0.3	0.8
Q3	0.4	0.3	….	….	….	0.4	0.5	0.5	0.2

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' expenditure	General government expenditure (2)	Exports
				Construction	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 – Q3	0.4	..	0.3	1.0	2.1	1.5	0.5	0.4	0.6
Q4	-0.1	1.3	0.2	-1.4	-2.1	-1.7	-0.3	-0.2	1.4
2006 – Q1	0.8	1.2	0.9	0.4	3.0	1.8	0.5	-0.3	2.2
Q2	0.6	0.4	0.6	1.1	0.7	0.9	0.5	-0.1	1.5
Q3	0.3	2.0	0.7	0.1	-2.0	-1.0	0.7	0.3	-1.9
Q4	1.1	1.8	1.2	2.9	1.6	2.2	0.2	-0.1	4.1
2007 – Q1	0.3	-1.2	..	1.6	-0.4	0.6	0.7	..	0.2
Q2	0.1	-0.2	..	-1.2	1.5	0.2	0.5	-0.1	-1.4
Q3	0.4	2.4	0.9	1.4	1.5	1.5	0.2	0.2	0.9
				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 – Q3	0.2	4.0	1.0	0.7	0.6	0.7	0.8	0.5	2.0
Q4	1.4	1.1	1.3	0.7	0.4	0.6	0.5	7.0	1.4
2006 – Q1	-0.5	4.2	0.5	0.5	..	0.3	0.7	-3.7	0.8
Q2	1.0	1.5	1.1	1.0	0.8	0.9	0.8	4.5	1.2
Q3	0.2	1.3	0.5	0.9	0.3	0.6	0.7	-2.7	1.5
Q4	0.5	-1.1	0.1	0.9	1.2	1.1	..	-1.0	1.4
2007 – Q1	0.9	2.7	1.3	1.2	1.5	1.4	0.4	1.1	2.3
Q2	0.7	1.3	0.9	0.7	0.6	0.7	0.6	0.4	1.8
Q3	0.5	1.0	0.7	0.9	0.6	0.7	0.8	0.9	0.9

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

Table A5

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

(percentage changes on the year-earlier period)

	Per capita compensation	Productivity	Productivity, of which: Value added (2)	Productivity, of which: Employees	Unit labour costs
			Total industry excluding construction		
2002	2.2	1.2	-0.1	-1.2	1.0
2003	2.2	1.8	0.3	-1.5	0.4
2004	2.8	3.1	2.4	-1.3	-0.2
2005	1.5	2.3	0.7	-1.3	-0.7
2006	3.3	4.3	3.7	-0.3	-1.0
2005 – Q1	1.2	1.6	0.4	-1.2	-0.4
Q2	1.6	2.0	0.4	-1.5	-0.4
Q3	1.5	2.1	1.0	-1.1	-0.6
Q4	1.8	3.2	2.0	-1.2	-1.5
2006 – Q1	3.2	4.2	3.5	-0.7	-1.0
Q2	3.2	4.0	3.8	-0.3	-0.8
Q3	3.6	4.3	4.1	-0.2	-0.7
Q4	3.1	4.5	4.4	-0.1	-1.3
2007 – Q1	2.0	3.2	4.5	1.2	-1.2
Q2	2.8	2.7	4.0	1.2	0.1
Q3	2.3	3.3	4.7	1.3	-1.0
			Services		
2002	2.7	-0.1	1.4	1.5	2.8
2003	2.3	-0.1	1.1	1.2	2.4
2004	1.9	0.2	1.8	1.5	1.8
2005	1.9	0.6	2.0	1.4	1.3
2006	1.9	0.4	2.4	2.0	1.4
2005 – Q1	1.8	0.7	2.1	1.4	1.1
Q2	1.6	0.6	2.0	1.4	1.0
Q3	1.7	0.6	2.0	1.4	1.1
Q4	2.5	0.7	2.0	1.3	1.8
2006 – Q1	2.0	0.3	2.0	1.7	1.7
Q2	2.3	0.3	2.5	2.2	2.0
Q3	2.1	0.5	2.5	2.0	1.6
Q4	1.3	0.7	2.8	2.0	0.5
2007 – Q1	1.9	0.5	3.0	2.5	1.5
Q2	1.2	0.1	2.7	2.6	1.1
Q3	1.4	..	2.8	2.9	1.4
			Total economy		
2002	2.6	0.3	1.0	0.7	2.3
2003	2.3	0.3	0.7	0.4	2.0
2004	2.1	1.0	2.1	0.8	1.1
2005	1.8	0.7	1.5	0.9	1.0
2006	2.2	1.3	2.7	1.5	0.9
2005 – Q1	1.6	0.5	1.5	1.0	1.1
Q2	1.6	0.5	1.4	0.9	1.1
Q3	1.6	0.9	1.7	0.8	0.8
Q4	2.2	1.0	1.8	0.9	1.2
2006 – Q1	2.2	1.1	2.3	1.2	1.1
Q2	2.4	1.1	2.8	1.6	1.3
Q3	2.4	1.3	2.9	1.6	1.1
Q4	1.8	1.6	3.2	1.6	0.2
2007 – Q1	2.0	1.1	3.6	2.5	0.9
Q2	1.6	0.5	3.0	2.5	1.1
Q3	1.7	0.5	3.2	2.6	1.2

Source: Based on Eurostat.
(1) Averages for countries belonging to the euro area at the date shown. – (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	..	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	-0.4	-2.7	-2.3	2.9
Q2	3.1	3.2	1.8	-1.4	-3.2	1.3
Q3	2.8	2.9	0.8	-0.7	-1.5	2.0
Q4	2.6	2.7	2.0	0.2	-1.7	0.6
2006 – Q1	3.5	4.0	2.1	2.8	0.8	1.4
Q2	2.3	2.7	..	2.0	2.0	2.3
Q3	2.4	2.8	0.7	2.3	1.5	1.6
Q4	2.5	3.1	3.4	4.2	0.8	-0.8
2007 – Q1	2.6	2.6	0.6	1.4	0.8	1.9
Q2	3.7	4.0	0.2	0.8	0.6	3.6
Q3	4.0	4.4	1.0	1.1	0.1	3.0
			Services			
2002	2.8	2.6	-0.9	1.0	1.8	3.7
2003	3.8	3.3	-0.8	0.3	1.1	4.6
2004	3.1	3.4	0.4	1.1	0.7	2.7
2005	3.5	3.6	0.5	1.0	0.5	3.0
2006	2.5	2.7	-0.3	1.6	1.9	2.9
2005 – Q1	2.6	2.8	0.2	1.1	0.9	2.4
Q2	1.3	1.4	0.2	1.0	0.8	1.1
Q3	2.9	3.2	0.6	0.8	0.2	2.3
Q4	7.1	7.1	1.1	1.1	0.1	6.0
2006 – Q1	3.6	3.7	-0.2	1.2	1.4	3.8
Q2	5.3	5.5	-1.0	1.5	2.5	6.3
Q3	3.7	3.8	-0.7	1.4	2.2	4.4
Q4	-2.2	-1.9	0.6	2.3	1.6	-2.8
2007 – Q1	1.4	1.6	1.4	2.3	0.9	..
Q2	-0.9	-0.8	1.3	2.0	0.7	-2.1
Q3	0.8	0.9	-0.3	2.0	2.3	1.1
			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	2.6	-0.4	0.1	0.4	2.7
Q2	1.7	1.8	0.3	0.4	0.1	1.4
Q3	2.8	3.1	1.2	0.5	-0.8	1.6
Q4	5.4	5.5	1.1	0.6	-0.5	4.2
2006 – Q1	3.4	3.6	0.5	1.6	1.1	2.9
Q2	4.3	4.6	-0.5	1.5	2.0	4.8
Q3	3.2	3.4	-0.5	1.4	1.9	3.7
Q4	-0.7	-0.4	1.0	2.6	1.5	-1.7
2007 – Q1	1.9	2.1	1.5	2.2	0.7	0.4
Q2	0.6	0.7	1.1	1.7	0.6	-0.5
Q3	1.8	2.0	0.1	1.9	1.7	1.7

Source: Based on Istat data.
(1) Standard labour units. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2000.

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. unproc-essed food and energy products	Total	Total excl. unproc-essed food and energy products	Total	Total excl. unproc-essed food and energy products	Total	Total excl. unproc-essed food and energy products	Total	Total excl. unproc-essed 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
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
June	1.9	1.9	2.0	2.1	1.3	1.4	2.5	2.5	1.9	1.9
July	1.7	1.8	2.0	2.1	1.2	1.4	2.3	2.4	1.8	1.9
Aug.	1.7	1.9	2.0	2.2	1.3	1.6	2.2	2.5	1.7	2.0
Sept.	1.7	1.8	2.7	2.3	1.6	1.6	2.7	2.6	2.1	2.0
Oct.	2.3	2.1	2.7	2.2	2.1	1.7	3.6	3.1	2.6	2.1
Nov.	2.6	2.2	3.3	2.4	2.6	1.8	4.1	3.3	3.1	2.3

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

Table A8

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
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	994
2006	-37,869	-9,532	-1,474	-13,607	-5,251	-8,004	1,891	-100	-60	2,051
2005 – 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	-12,354	-2,094	-3,144	-4,149	-1,247	-1,720	1,212	-1	29	1,184
Q2	-9,136	2,169	-1,033	-8,263	-1,728	-282	33	-27	-15	75
Q3	(-4,254)	(2,410)	(-905)	(-2,726)	....	....	(248)	....	....	....
2005 – Oct.	-556	455	349	-538	-328	-494	59	-2	-31	92
Nov.	-2,781	-635	-210	-1,293	-254	-389	116	38	-2	80
Dec.	-3,343	-549	-373	-589	-508	-1,324	222	26	20	176
2006 – Jan.	-4,213	-3,070	-377	-605	-196	35	76	5	-42	113
Feb.	-3,257	-2,075	-338	-522	-239	-84	147	-8	101	55
Mar.	-5,107	-779	-755	-998	-839	-1,735	265	-103	7	361
Apr.	-3,532	-1,010	752	-2,367	-216	-691	-48	-9	-82	43
May	-3,466	-343	179	-2,183	-485	-634	65	3	19	42
June	-2,367	-361	756	-2,252	-313	-197	-43	-14	-76	47
July	264	1,462	658	-755	-537	-564	67	6	25	37
Aug.	-1,679	-1,366	-750	1,384	-367	-581	37	-1	2	37
Sept.	-5,068	-1,771	222	-1,599	-564	-1,356	188	-7	-26	220
Oct.	-3,315	107	-53	-2,209	-558	-603	106	23	2	81
Nov.	-3,183	-473	-761	-1,063	-507	-378	-83	2	-33	-52
Dec.	-2,945	147	-1,009	-437	-431	-1,216	1,114	2	44	1,068
2007 – Jan.	-5,454	-2,324	-1,291	-1,494	-515	170	259	-3	10	252
Feb.	-3,302	-751	-736	-1,271	-167	-377	266	-6	8	264
Mar.	-3,599	981	-1,116	-1,385	-565	-1,514	687	7	11	669
Apr.	-4,275	-217	-856	-2,115	-502	-584	37	-8	..	46
May	-3,984	747	-232	-3,502	-541	-456	19	-18	-4	41
June	-878	1,639	55	-2,645	-684	758	-22	..	-10	-12
July	2,672	3,363	443	-321	-528	-285	41	21	-21	41
Aug.	-3,475	-302	-994	-1,130	-460	-589	38	,,	5	32
Sept.	(-3,451)	(-651)	(-354)	(-1,275)	....	....	(169)	....	....	....
Oct.	(-842)	(1,839)	(-263)	(-1,457)	....	....	(66)	....	....	....

Table A9

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

	General government	Finance and insurance companies	Non-financial corporations (a)		Households		Firms = (a) + (b)				Total
				under 20 employees (2)	Producer (b) (3)	Consumer		Manufacturing	Construction	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
June	4.8	9.8	11.5	4.2	5.5	8.1	10.9	5.7	14.7	10.5	9.8
Sept.	-1.1	7.8	12.7	5.5	5.7	8.5	12.1	7.1	15.3	12.1	10.0
Nov.	4.9	8.2	14.0	6.0	5.9	8.8	13.3	….	….	….	11.2
					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
June	2.5	4.4	15.4	9.4	9.2	12.0	14.3	11.3	20.9	16.2	12.6
Sept.	-3.8	-4.8	16.3	10.4	8.9	12.2	14.9	12.4	21.3	16.4	12.6
Nov.	-1.5	-5.2	15.2	9.5	8.6	12.4	14.0	….	….	….	12.2
					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
June	4.4	9.7	12.0	5.0	6.4	9.0	11.4	6.4	15.7	11.2	10.2
Sept.	-1.4	7.5	13.1	6.1	6.5	9.3	12.4	7.7	16.3	12.7	10.4
Nov.	4.1	7.9	14.2	6.5	6.5	9.6	13.4	7.6	15.7	11.7	11.3

(1) Statistics for November 2007 are provisional; they include data for Cassa Depositi e Prestiti S.p.A., which has been classified as an MFI since October. 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. Net of the effects of reclassification, exchange rate changes and other modifications not due to transactions. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with 6-19 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)		Borrowing requirement	
		of which: PO funds					*of which:* change in central bank current accounts		*of which:* financed abroad
2004	16,364	-1,187	-998	41,609	-1,409	-5,890	-2,578	49,675	4,904
2005	21,574	-4,177	-924	39,989	5,593	4,061	1,197	70,294	4,007
2006	7,601	-4,957	4,867	33,156	63,594	-54,677	-8,230	54,541	-7,104
2004 – Q1	6,509	-384	25,031	19,787	-513	-19,458	-19,890	31,356	4,958
Q2	12,048	2,646	3,107	26,273	144	-23,785	-22,221	17,787	1,077
Q3	-506	-2,826	-2,200	8,372	187	8,526	8,251	14,379	-1,028
Q4	-1,687	-623	-26,936	-12,823	-1,227	28,826	31,282	-13,847	-104
2005 – Q1	2,207	-516	11,204	45,940	1,198	-33,130	-34,293	27,418	1,293
Q2	12,648	149	9,287	20,756	1,952	-15,573	-14,842	29,071	3,546
Q3	3,238	-1,577	2,547	-19,414	346	29,464	28,813	16,181	424
Q4	3,481	-2,233	-23,963	-7,292	2,097	23,300	21,519	-2,377	-1,256
2006 – Q1	10,908	-891	18,406	13,053	2,479	-11,612	-16,246	33,234	-259
Q2	1,187	-1,615	7,154	28,768	-630	-25,553	-26,568	10,926	732
Q3	232	-1,210	-7,799	5,973	55,958	-39,101	12,948	15,263	1,294
Q4	-4,726	-1,240	-12,893	-14,639	5,787	21,590	21,637	-4,882	-8,871
2007 – Q1	-1,459	-3,474	20,664	7,523	2,261	-5,598	-5,753	23,391	-519
Q2	-16,435	-13,509	345	28,700	-587	-8,731	-8,936	3,291	2,499
Q3	-2,331	-8,550	3,074	-2,809	-279	7,202	5,459	4,858	-6,282
2006 – Jan.	7,139	-844	9,294	20,225	615	-31,497	-31,955	5,775	-308
Feb.	1,999	370	2,388	-1,681	319	5,547	2,941	8,572	-39
Mar.	1,770	-417	6,725	-5,491	1,545	14,338	12,768	18,887	88
Apr.	-618	-370	4,549	4,722	398	681	47	9,732	-1,834
May	550	-56	2,139	4,834	-1,129	9,452	8,401	15,846	1,187
June	1,256	-1,188	465	19,212	101	-35,686	-35,016	-14,653	1,379
July	-1,482	-601	-2,755	-4,529	-935	6,202	4,564	-3,499	-190
Aug.	1,440	-28	-2,960	7,915	-475	3,237	1,153	9,157	-1,225
Sept.	274	-582	-2,084	2,587	57,367	-48,540	7,232	9,604	2,709
Oct.	-455	-216	-571	3,047	719	1,949	1,870	4,687	-7,105
Nov.	-1,880	-553	2,898	2,108	10	5,602	5,765	8,737	2,052
Dec.	-2,391	-471	-15,220	-19,793	5,058	14,039	14,002	-18,306	-3,819
2007 – Jan.	3,287	-263	12,347	-1,824	815	-11,536	-11,383	3,089	-756
Feb.	-2,029	204	3,027	5,059	1,118	-3,550	-3,489	3,624	-291
Mar.	-2,717	-3,415	5,290	4,289	328	9,488	9,120	16,678	528
Apr.	-4,256	-4,597	99	4,960	2,811	7,554	7,549	11,168	352
May	-3,092	-1,584	2,261	18,325	-1,489	-4,732	-5,066	11,273	505
June	-9,087	-7,329	-2,015	5,415	-1,910	-11,553	-11,419	-19,150	1,643
July	-812	-4,856	377	110	-204	-2,154	-3,963	-2,683	-2,645
Aug.	-950	-1,934	358	-728	-1,335	3,831	3,887	1,176	-448
Sept.	-569	-1,760	2,340	-2,191	1,260	5,526	5,534	6,365	-3,189
Oct.	-739	-580	5,213	5,089	868	-1,843	-1,859	8,588	70

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

Table A11

General government debt: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* central bank current accounts
2004	127,562	74,755	118,384	1,090,626	54,496	52,327	1,443,395	26,630	1,218,564	15,831
2005	149,137	70,578	117,460	1,129,313	60,098	55,190	1,511,198	27,255	1,257,881	14,634
2006	156,737	65,622	122,327	1,163,949	123,684	8,743	1,575,441	10,740	1,303,632	22,864
2004 – Mar.	117,707	75,559	144,444	1,070,717	55,408	56,071	1,444,347	29,614	1,206,025	33,143
June	129,756	78,204	147,554	1,096,958	55,549	54,507	1,484,324	31,649	1,228,711	55,364
Sept.	129,250	75,378	145,334	1,104,692	55,730	54,782	1,489,787	30,998	1,236,028	47,113
Dec.	127,562	74,755	118,384	1,090,626	54,496	52,327	1,443,395	26,630	1,218,564	15,831
2005 – Mar.	129,770	74,239	129,589	1,136,087	55,698	53,489	1,504,632	29,260	1,264,291	50,124
June	142,418	74,388	138,877	1,157,003	57,655	52,759	1,548,712	26,844	1,283,069	64,966
Sept.	145,656	72,811	141,424	1,136,472	58,000	53,409	1,534,962	26,634	1,261,619	36,153
Dec.	149,137	70,578	117,460	1,129,313	60,098	55,190	1,511,198	27,255	1,257,881	14,634
2006 – Mar.	160,045	69,687	135,868	1,142,375	62,574	59,824	1,560,687	22,314	1,275,793	30,880
June	161,232	68,072	143,025	1,172,307	61,943	60,839	1,599,346	18,375	1,302,809	57,449
Sept.	161,464	66,862	135,224	1,178,518	117,899	8,790	1,601,895	15,116	1,312,136	44,501
Dec.	156,737	65,622	122,327	1,163,949	123,684	8,743	1,575,441	10,740	1,303,632	22,864
2007 – Mar.	155,278	62,147	142,994	1,172,660	125,945	8,898	1,605,776	5,020	1,314,899	28,616
June	138,843	48,639	143,349	1,203,569	125,357	9,103	1,620,220	4,908	1,344,803	37,552
Sept.	136,512	40,089	146,414	1,200,410	125,079	10,846	1,619,261	4,678	1,343,707	32,094
2006 – Jan.	156,276	69,734	126,753	1,149,245	60,711	55,649	1,548,633	26,360	1,278,406	46,589
Feb.	158,275	70,104	129,141	1,148,371	61,032	58,254	1,555,073	23,446	1,279,406	43,648
Mar.	160,045	69,687	135,868	1,142,375	62,574	59,824	1,560,687	22,314	1,275,793	30,880
Apr.	159,426	69,317	140,421	1,146,862	62,971	60,459	1,570,139	19,509	1,280,220	30,834
May	159,976	69,261	142,561	1,152,379	61,842	61,510	1,578,269	17,673	1,285,907	22,433
June	161,232	68,072	143,025	1,172,307	61,943	60,839	1,599,346	18,375	1,302,809	57,449
July	159,750	67,471	140,268	1,167,874	61,008	62,477	1,591,377	18,101	1,299,068	52,885
Aug.	161,190	67,444	137,306	1,175,937	60,532	64,562	1,599,526	17,379	1,308,614	51,732
Sept.	161,464	66,862	135,224	1,178,518	117,899	8,790	1,601,895	15,116	1,312,136	44,501
Oct.	161,008	66,646	134,652	1,181,733	118,618	8,869	1,604,881	12,370	1,314,917	42,631
Nov.	159,128	66,093	137,550	1,183,694	118,627	8,706	1,607,705	10,813	1,319,583	36,866
Dec.	156,737	65,622	122,327	1,163,949	123,684	8,743	1,575,441	10,740	1,303,632	22,864
2007 – Jan.	160,025	65,358	134,674	1,162,829	124,500	8,591	1,590,618	6,968	1,303,800	34,247
Feb.	157,996	65,562	137,702	1,168,470	125,617	8,529	1,598,315	6,845	1,309,710	37,736
Mar.	155,278	62,147	142,994	1,172,660	125,945	8,898	1,605,776	5,020	1,314,899	28,616
Apr.	151,022	57,551	143,094	1,177,613	128,756	8,902	1,609,387	4,907	1,320,479	21,067
May	147,930	55,967	145,358	1,196,907	127,267	9,236	1,626,699	4,960	1,340,476	26,133
June	138,843	48,639	143,349	1,203,569	125,357	9,103	1,620,220	4,908	1,344,803	37,552
July	138,031	43,782	143,731	1,204,220	125,153	10,911	1,622,048	4,837	1,347,003	41,515
Aug.	137,081	41,848	144,089	1,203,591	123,819	10,855	1,619,435	4,847	1,346,354	37,628
Sept.	136,512	40,089	146,414	1,200,410	125,079	10,846	1,619,261	4,678	1,343,707	32,094
Oct.	135,773	39,508	151,629	1,205,577	125,946	10,862	1,629,787	4,591	1,268,337	33,953

(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".