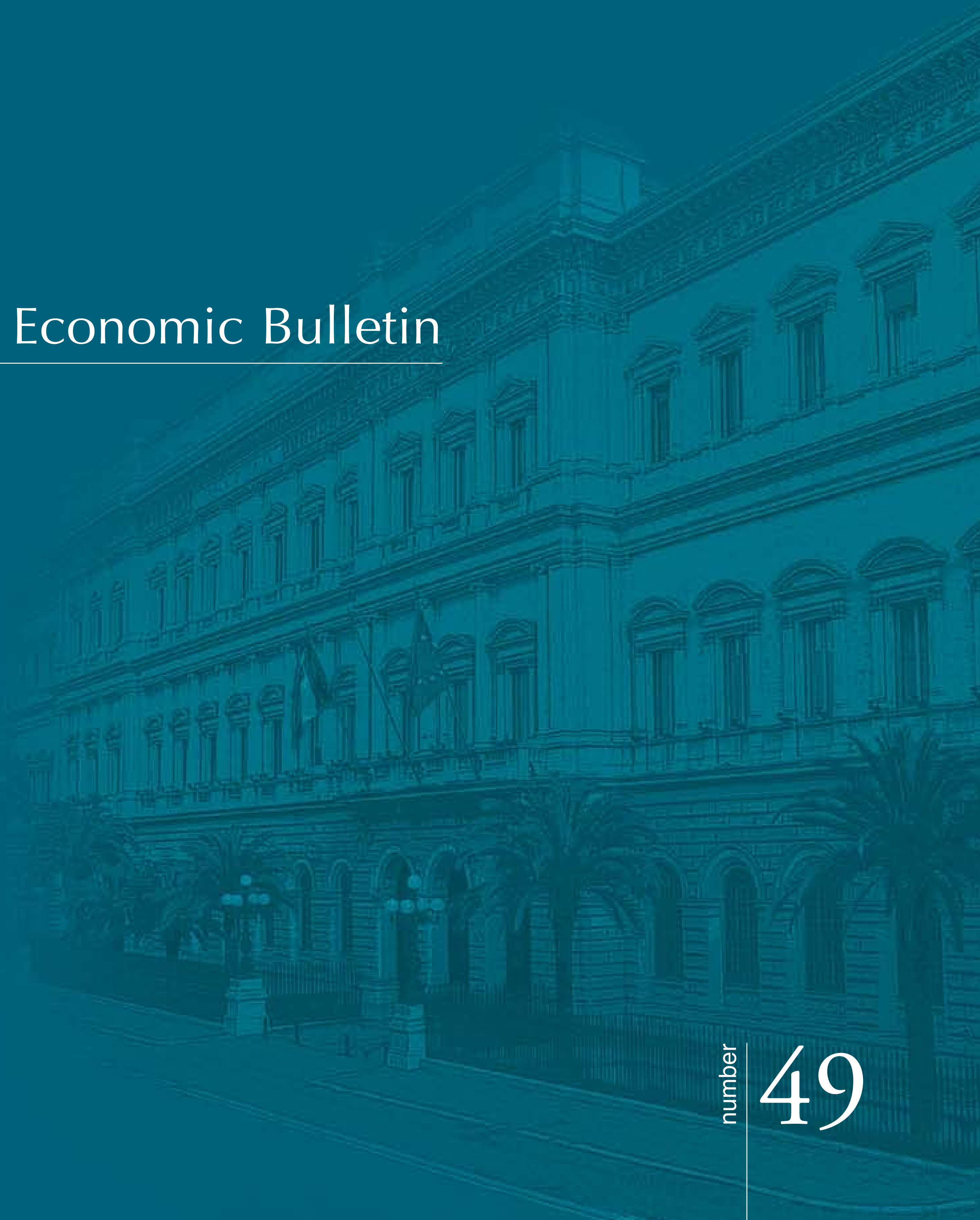
BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin



July 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 international context remains highly uncertain

World energy commodity prices have surged further in recent months. Compared with a year ago, the price of oil in dollars has doubled. New factors of fragility have emerged in the financial markets of the main advanced economies. In the United States, where the real-estate crisis shows no sign of abating, economic activity will remain weak for the entire year according to the forecasts of the international organizations.

In the euro area economic activity is slowing...

In the euro area, the strong growth in activity in the first quarter appears to have been temporary; cyclical indicators point to a sharp slowdown in the second quarter. According to the projections published by the Eurosystem at the beginning of June, growth will be positive but below its potential level. The recent forecasts of the OECD, leading private analysts and Consensus Economics concur with this assessment.

...and, as in most of the world, inflationary pressures are mounting

The increases in the prices of energy and food products are driving up inflation, which has risen appreciably in both the industrial and the emerging countries. In the euro area, inflation continued to increase in the second quarter of 2008, rising to 4 per cent in June, the highest level since the adoption of the single currency; it is expected to moderate, but only gradually, in the course of next year.

Against this background, in order to keep medium and long-term inflation expectations in line with the objective of price stability and prevent the increase in current inflation from affecting the setting of wages and prices, on 3 July the Governing Council of the ECB decided to raise the reference interest rates by 25 basis points. On the following days the upward trend of the inflation expectations derived from the financial markets appears to have come to a halt.

In Italy consumption and investment are stagnating

The latest indicators signal a sharp deceleration in activity in the second quarter of 2008 in Italy as well. The relatively brisk growth in GDP in the preceding quarter came mainly from net exports. Consumption continues to be weighed down by the modest growth in households' real disposable income, compressed by the steep increases in the prices of energy and food products. The pessimism of firms, shown by business surveys, and the increase in financing costs have held down investment, above all in machinery, equipment and transport equipment.

Low productivity growth continues to affect competitiveness

Industrial activity began the year well but then weakened. It fell sharply in May and, according to the Bank's estimates, also in the second quarter as a whole. Price competitiveness continues to be adversely affected by a rate of productivity growth that remains below that of the other euro-area countries and by the effect – common to them – of the appreciation of the euro. Wages and salaries recorded a sharp acceleration between the final months of 2007 and the early months of 2008, due largely to one-off payments to cover periods of contractual hiatus. This resulted in a marked acceleration in unit labour costs.

Bank lending to firms continued to grow rapidly, although signs have emerged of a slowdown alongside that under way for some time in lending to households.

After the good result for 2007, employment scored a further slight gain in the first quarter of 2008. Compared with the same period of the *previous year, the increase was most pronounced for women and for fixed-term and part-time jobs. The appreciable expansion in labour force participation in the first quarter was reflected in an increase in the unemployment rate on a seasonally adjusted basis to 6.5 per cent, from 6.2 per cent in the previous quarter.*

Inflation rises to the highest levels since the mid-1990s

In the first six months of 2008 inflation also accelerated in Italy, driven by increases in the prices of food and energy inputs in world markets. The twelve-month rise in the harmonized index of consumer prices reached 4 per cent in June, the same as the euro-area average. The price increases have also involved some services that are particularly susceptible to movements in the prices of raw materials.

The Planning Document confirms the objective of a balanced budget by 2011

The Economic and Planning Document for 2009-13 sets the new objective for net borrowing in 2008 at 2.5 per cent of GDP, compared with 1.9 per cent in 2007. It plans a reduction in the budget deficit to 2 per cent of GDP in 2009 and more vigorous adjustment efforts in the subsequent two years with the aim of achieving a balanced budget in 2011. Together with the Planning Document, the Government approved a decree law setting out almost all of the corrective measures necessary to achieve the objectives laid down in the Document for the period covered. The situation and outlook for the public finances were examined in the Testimony of the Governor of the Bank of Italy to Parliament on 2 July 2008.

According to the Bank's forecasts, economic activity will barely grow either this year or next

Since the publication of the preceding forecasts in the January issue of the Economic Bulletin the international context has deteriorated further. The consequence is a sharp downward revision of the projected growth of Italian GDP, which is now put at less than 0.5 per cent for both this year and next. The downward revision by comparison with the projection made in January (amounting to 0.6 percentage points for 2008) is attributable first and foremost to the effect of the increase in the prices of imported raw materials: by reducing households' spending capacity, it is dampening the growth in private consumption and causing firms to scale back their investment plans because of the poorer outlook for demand.

Domestic demand is expected to stagnate this year and to grow little in 2009, reflecting barely positive rates of change in consumption and investment. Braked by the loss of price competitiveness, exports are expected to slow down considerably but still to grow by about 2 per cent this year and a little less than that in 2009. The deceleration in imports is expected to be greater. Despite this overall favourable trade performance in volume terms, the expected pronounced deterioration in the terms of trade is likely to lead to a substantial increase in the deficit on the current account of the balance of payments.

Harmonized consumer price inflation is expected to rise to an average of 3.8 per cent this year and then to fall back towards 2 per cent in the course of 2009. The large upward revisions in relation to the estimates made in January (1.2 percentage points for this year and 0.8 points for 2009) mainly reflect the further increases in the price of oil. Domestic inflation, as measured by the GDP deflator, is expected to increase by much less (from 2.3 per cent in 2007 to 2.5 per cent this year and next): the impact of the acceleration in labour unit costs should be offset by a narrowing of margins in response to the weakness of economic activity and competitive pressures.

These forecasts are subject to upside risks for inflation and downside risks for growth in connection with possible further increases in energy prices and a more unfavourable evolution of the international macroeconomic and financial picture.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS AND THE FINANCIAL MARKETS

The outlook: slower growth and rising inflation

The data on GDP growth in the first quarter point to cyclical phase differences between the main advanced economies. In contrast with the persistent weakness of growth in the United States – which nonetheless outperformed the more pessimistic forecasts – and the deceleration of the British economy, Japan and the euro area registered rapid expansion. Nevertheless, the consensus among international organizations and private forecasters is that there will be a sharp, generalized slowdown in the remainder of the year. The prime factors in this is expected to be the further substantial rise in oil prices and the persistent effects of financial turmoil (Table 1). The continual increases in commodity prices have also brought an upward revision of inflation forecasts for 2008 and aggravated the risk of a worsening of medium and long-term inflation expectations.

The rise in oil prices continues...

Between the end of March and the first part of July oil prices accelerated again, reaching a peak of $143 per barrel for the average of the three main grades, roughly twice as high as a year earlier (Figure 1). In real terms, crude oil prices are now about 20 per cent higher than the peak of November 1979. The price rise of recent months has come, according to the International Energy Agency, in the context of downward revisions of forecasts for world oil demand in 2008 and simultaneous reductions in the expected growth in the supply of non-OPEC producers, accompanied by firm control of output by members of the OPEC cartel, which in recent months has exceeded its production targets only marginally (see the box "The factors underlying the recent rise in oil prices" in *Economic Bulletin* No. 48, April 2008). On the basis of futures contracts, the price of WTI grade oil is expected to remain virtually unchanged for the rest of 2008 and in 2009 at around $145 a barrel.

...while other commodity prices appear to have stabilized

After March, non-fuel commodity prices showed signs of stabilizing. The IMF's index of the dollar

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		OECD		Consensus Economics	
	2007	2008	2009	2008	2009
GDP					
World	4.9	–	–	–	–
Advanced countries					
Euro area	2.7	1.7	1.4	1.7	1.4
Japan	2.1	1.7	1.5	1.3	1.5
United Kingdom	3.0	1.8	1.4	1.7	1.3
United States	2.2	1.2	1.1	1.5	1.7
Emerging countries					
Brazil	5.4	4.8	4.5	4.8	4.1
China	11.9	10.0	9.5	10.1	9.4
India	9.3	7.8 (1)	8.0 (1)	7.6 (1)	8.1 (1)
Russia	8.1	7.5	6.5	7.5	6.9
Consumer prices					
Advanced countries					
Euro area	2.1	3.4	2.4	3.3	2.3
Japan	0.1	0.9	0.4	1.1	0.8
United Kingdom	2.3	3.0	2.5	3.1	2.4
United States	2.9	3.9	2.2	4.0	2.5
Emerging countries					
Brazil	3.6	4.9 (2)	4.5 (2)	5.8 (2)	4.7 (2)
China	4.8	6.1	4.2	7.0	4.5
India	6.4	6.7 (1)	5.5 (1)	7.1 (1)	5.9 (1)
Russia	11.9	13.0	10.0	12.8 (2)	10.1 (2)
World trade (3)	7.1	6.3	6.6	–	–

Sources: National statistics, IMF, *World Economic Outlook*, April 2008; OECD, *Economic Outlook*, June 2008; Consensus Economics, June 2008.
(1) Changes during the financial year beginning in April of the year indicated in relation to the preceding financial year. – (2) December on December. – (3) Goods and services.

prices of metals declined by 7 per cent between March and June, while that of food prices increased by around 4 per cent, compared with 18 per cent in the previous three months. The prices of the crops used for biofuel production nevertheless continued to rise rapidly, presumably affected by oil prices.

Stock markets turn down again in mid-May...

The financial markets of the main industrial countries are still marked by great uncertainty. The total value of write-downs and loan losses taken or announced by financial intermediaries since the onset of the subprime mortgage crisis rose from $230 billion at the end of March to $400 billion at the end of June. Between mid-March and mid-May the US, UK and euro-area stock markets rose by about 10 per cent (Figure 2). A new downswing then more than wiped out those gains and resulted in falls of 3, 4 and 8 per cent respectively. The shares of financial corporations, whose gains had been in line with the market average during the upswing, were heavily penalized during the downturn, falling by 24 per cent both in the United States and in the euro area. In the United States the shares of the government sponsored enterprises Fannie Mae and Freddie Mac specializing in mortgage securitization lost around 50 per cent of their value in the first part of July following the emergence of concerns about their solvency. Share prices in Japan, however, are still about 10 per cent above their March low. In the last few weeks implicit price volatility has begun to increase again, though it is still well below the levels observed in the first few months of the year (Figure 3).

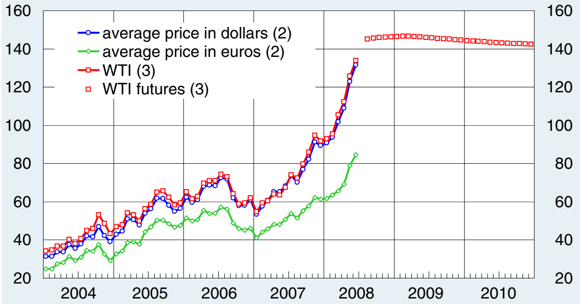
...while bond spreads widen once more

The risk premiums on high-yield corporate bonds, which diminished between mid-March and mid-May, began to increase again both in the United States (to 790 basis points at the beginning of July, still some 50 points below previous peaks) and in the euro area, where they reached 830 basis points, 40 more than in mid-March. The yield spreads between high-rated corporations (BBB) and government securities did not widen as much. At the start of July they stood at 300 basis points in the United States and 200 in the euro area (Figure 4).

Figure 1

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)

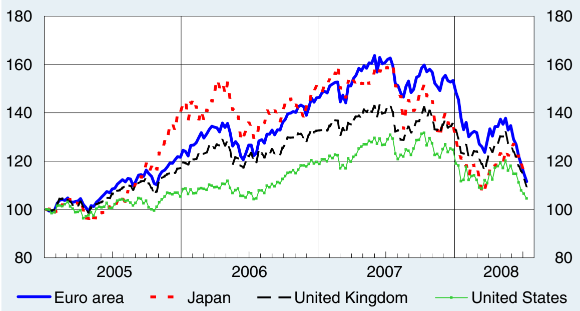


Sources: IMF and Thomson Financial Datastream.
(1) Monthly averages for spot prices. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI). – (3) Dollars per barrel.

Figure 2

Stock market indices (1)

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

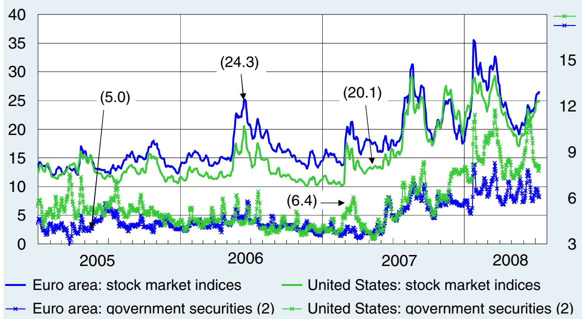


Source: Thomson Financial Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 3

Implied volatility (1)

(percentage points; averages for the period 1999-2006 in brackets)



Source: Based on Bloomberg data.
(1) 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.

The yields on ten-year government bonds increased significantly in all the main advanced economies between mid-April and mid-June – by 70 basis points in the United States, the euro area and the United Kingdom and 50 basis points in Japan – owing mainly to changing expectations concerning monetary policy stances as inflationary pressures intensified. Yields turned downwards again in mid-June and in the first part of July were 3.9 per cent in the United States, 1.6 per cent in Japan, 4.4 per cent in the euro area and 4.9 per cent in the United Kingdom (Figure 5).

Central banks continued to ensure the orderly functioning of the money markets

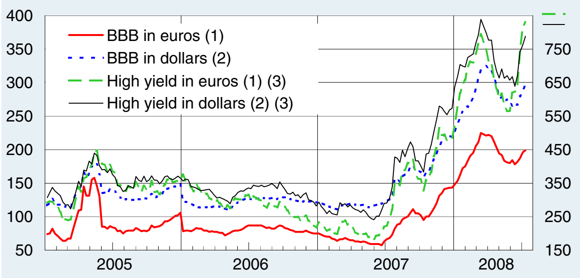
Conditions on the interbank markets remained tense, reflecting persistent liquidity and counterparty risks. The differentials between secured and unsecured interbank loans, which had risen sharply in the weeks following the crisis at Bear Stearns in mid-March, narrowed slightly thereafter, but have remained well above the values recorded prior to the summer of 2007. They now stand at 90 basis points for three-month interbank deposits in dollars and 60 points in euros and pounds. The Federal Reserve has continued its action to sustain the regular functioning of the market, increasing its monthly provision of liquidity through the Term Auction Facility from $100 billion to $150 billion. On 21 April the Bank of England introduced its Special Liquidity Scheme, which enables banks and building societies, through one-year asset swaps, to swap mortgaged-backed securities for UK Treasury bills. In order to preclude any transfer of credit risk from the financial industry to the public sector, the value of the securities must be significantly greater than that of the Treasury bills. The original design of the Bank of England was to permit asset swaps for an estimated total of £50 billion.

In the emerging countries risk premiums, measured by the difference between their long-term dollar-denominated government securities and US Treasury bonds, remain modest by historical standards; the spread narrowed sharply between mid-March and mid-June (by about one percentage point) but then began to widen again. Stock market trends were similar to those in the industrial countries, with substantial rises until mid-May more or less offset by subsequent declines.

Figure 4

Yield differentials between dollar-denominated and euro-denominated bonds of non-financial corporations and government securities

(end-of-week data; basis points)

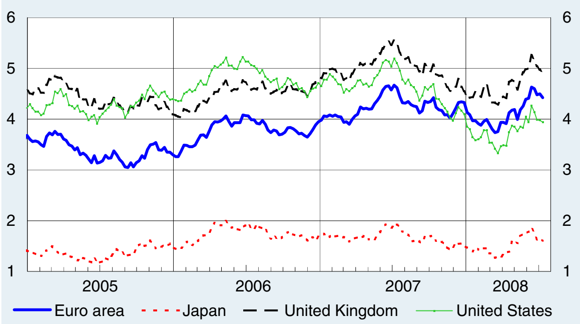


Source: Merrill Lynch.
(1) Yields on fixed-rate bonds denominated in euros with a residual term to maturity of not less than one year issued in the Euromarket; yield differentials are calculated with respect to French and German government securities. – (2) Yields on fixed-rate bonds denominated in dollars with a residual term to maturity of not less than one year issued in the US domestic market; yield differentials are calculated with respect to US Treasury securities. – (3) Right-hand scale.

Figure 5

Yields on ten-year government bonds

(end-of-week data; percentages)

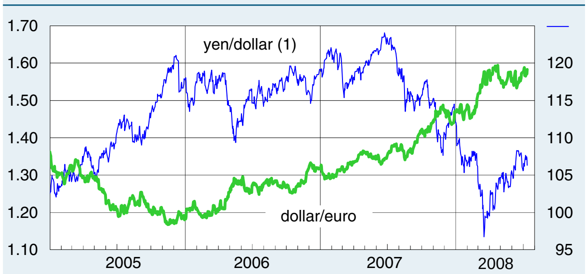


Source: National statistics.

Figure 6

Exchange rates

(daily data)



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

The depreciation of the dollar has halted

In the second quarter the weakening of the dollar came to a halt; between the beginning of the year and the first part of July the US currency's effective exchange rate fell by 4 per cent, with the fall occurring almost entirely in the first quarter. After hitting a historic low of 1.59 to the euro in April, the dollar steadied at an exchange rate of around 1.56, while gaining around 6 per cent against the yen (Figure 6). From the beginning of the year the dollar depreciated by 7 per cent against the euro and 3 per cent against the yen; against the Chinese renminbi it depreciated by close to 6 per cent, with the fall continuing in the second quarter, albeit at a slower pace than in the first.

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

In the United States economic activity remains weak...

After the sharp slowdown in the fourth quarter of 2007, the rate of growth in the GDP of the United States remained weak in the first quarter of this year (1 per cent at an annual rate). There was a further marked contraction in residential investment and a pronounced weakening of consumption and private non-residential fixed investment; exports continued to make a significant contribution to growth. Consumption regained some of its vigour in April and May, benefiting from the disbursement of about 50 per cent of the tax rebates to households under the Economic Stimulus Act of February 2008, equal in total to about $100 billion. Payroll employment in the non-farm sector continued to fall in the second quarter at more or less the same rate as in the first. International organizations and private analysts, which in the early months of the year had revised their growth forecasts sharply downwards, have raised them again slightly of late, but warn that the current slowdown could prove to be more protracted than had initially been thought.

...and the crisis in the real estate market continues

The performance of the real estate market remains the main risk factor. The high ratio of unsold new houses to the monthly volume of sales suggests that the contraction in residential investment will continue for the rest of 2008. House prices in the ten largest cities, measured by the Case-Shiller index, fell by 8.8 per cent in the first four months of 2008 and were almost 20 per cent down from the peak of mid-2006; futures prices point to a further fall of more than 15 per cent next year. A further decline in property prices could increase the share of residential mortgages entering foreclosure – which is already high and increased substantially in the first quarter of 2008 (Figure 7) – and exacerbate the attendant risks for the financial sector.

Up to now, the tightening of lending to firms has manifested itself in an increase in borrowing costs; there has been no evidence of a contraction in the volume of lending, however, at least up to the first quarter of 2008. Positive indications for the second quarter are to be seen in the high level of gross bond issues.

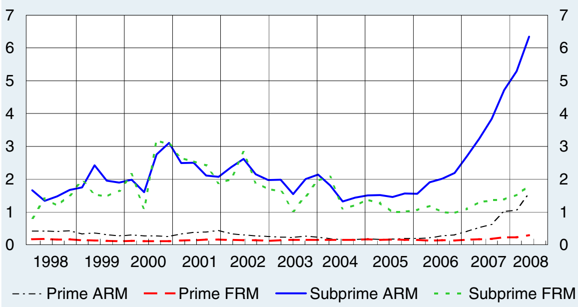
Inflation expectations are rising...

Consumer price inflation reached 4.2 per cent in May, reflecting mainly the continued rise in energy and food prices (Figure 8). Inflation expectations five years ahead sampled in the consumer survey carried out by the University of Michigan showed a substantial rise between March and June; expectations over a ten-year

Figure 7

Residential mortgages: foreclosures initiated as a proportion of outstanding mortgages according to type of mortgage (1)

(quarterly seasonally adjusted data; percentages)



Source: Thomson Financial Datastream.
(1) ARM: adjustable-rate mortgages; FRM: fixed-rate mortgages.

timespan, which can be deduced from yield differentials between nominal 10-year Treasury securities and their inflation-linked counterparts, rose, albeit only marginally.

...fuelling expectations of an increase in official rates

In a situation defined on the one hand by the rise in inflation expectations and on the other by the continuation of the crisis in the real estate market and financial turmoil, the Federal Reserve left its federal funds target rate unchanged at 2 per cent at the end of June, bringing to an end the series of substantial rate reductions that had begun last September. Futures prices embody expectations of an increase of around one quarter of a point by the end of the year (Figure 9).

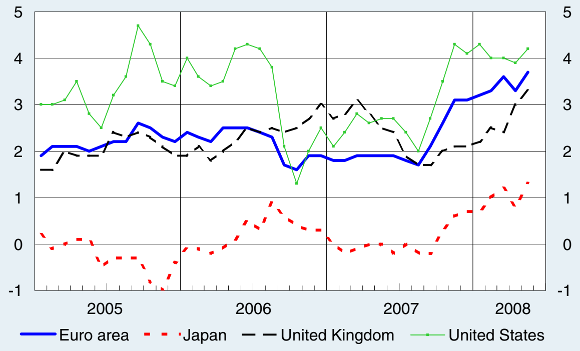
The correction of the external imbalance comes to a halt

The current account deficit, which had fallen from 5.8 to 4.8 per cent of GDP during 2007, began to increase slightly again in the first quarter of 2008, rising to 5 per cent. The United States' net debtor position amounted to 17.6 per cent of GDP at the end of 2007. The deterioration by comparison with the end of 2006 was small; more than two thirds of the net capital inflows needed to finance the external deficit were in fact offset by the revaluation of the stock of foreign assets denominated in currencies other than the dollar.

Figure 8

Consumer price inflation (1)

(monthly data; twelve-month percentage changes)

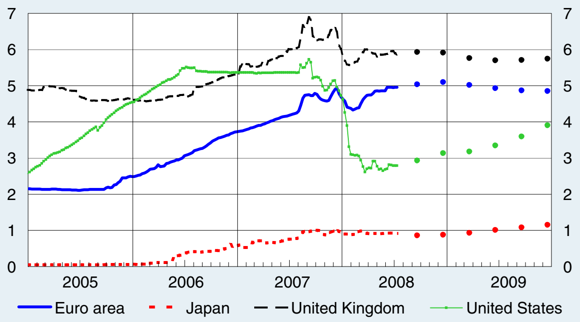


Source: Thomson Financial Datastream.
(1) For the United Kingdom, harmonized consumer prices.

Figure 9

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

(end-of-week data; percentage rates)



Source: Thomson Financial Datastream.
(1) The interest rates implied by futures prices are indicated by the broken lines.

In Japan, after a favourable first quarter, growth is likely to weaken

In Japan economic activity grew at an annual rate of 4 per cent in the first quarter, well above expectations. Contributory factors were the strength of exports, an acceleration in consumption and a marked recovery in residential investment in connection with the adjustment of the construction industry to the more rigorous earthquake protection requirements introduced last year. However, both the Japanese authorities and private forecasters consider it probable that economic activity will weaken during the remainder of the year. Consumer price inflation rose from 1 to 1.3 per cent between February and May owing to increases in energy and food prices. The Bank of Japan kept its monetary policy reference rate unchanged at 0.5 per cent; the markets do not expect any change before the end of the year.

In the United Kingdom economic activity is slowing and inflationary pressures are building

The British economy suffered a sharp slowdown in the first quarter of this year, growing at an annual rate of barely 1.1 per cent, owing mainly to the weakening of the inventory cycle and the contraction in investment. Consumption remained robust, and the substantial increase in retail sales by volume in April and May suggests that it may have continued to grow strongly in the second quarter as well. It appears not to have been affected so far by the fall in house prices, which began last November and has gathered pace in the last few months (a decline of about 8 per cent between October and June); the impact of developments in the property market on consumption is one of the main sources of uncertainty about the outlook for the British economy. According to forecasts by analysts and international organizations, activity will remain weak for the remainder of 2008, hit by the tightening of credit conditions for households and firms documented by the Credit Conditions Survey published by the Bank of England at the beginning of July. Consumer price inflation has risen appreciably in recent months (from 2.4 per cent in March to 3.3 per cent in May). The Bank of England, which in May revised upwards its inflation forecasts for the next two years, has kept its monetary policy reference rate unchanged at 5 per cent, having previously reduced it by a total of 75 basis points between December 2007 and April of this year.

In the main emerging economies activity is slowing moderately and inflation is rising

Activity in the main emerging economies decelerated slightly in the first quarter of 2008 and is expected to continue to slow for the rest of the year. According to the OECD, the GDP of China will increase by 10 per cent this year, compared with 11.9 per cent in 2007. The slowdown is likely to be less pronounced in Brazil (from 5.4 to 4.8 per cent), Russia (from 8.1 to 7.5 per cent) and India (from 8.7 to 7.8 per cent). In the face of mounting inflationary pressure, the central banks have implemented a moderate tightening of monetary policy (see the box: "Inflation in the emerging economies").

INFLATION IN THE EMERGING ECONOMIES

Consumer price inflation in the emerging countries, which had already begun to quicken in the summer of 2007, accelerated further in the first five months of 2008; the average for the 16 main emerging countries rose to 7.6 per cent, compared with 4.5 per cent in the first half of 2007 (see the Table). The upsurge in inflation mainly reflects the impact of the global rise in the prices of energy and food commodities; albeit to differing degrees, domestic demand pressures were contributory factors everywhere in the context of a gradual erosion of spare productive capacity.

From the beginning of 2008 onwards the acceleration in food prices (to an average increase of 16.2 per cent in May; Figure A) was the main factor in the rise in overall inflation, contributing on average about 60 per cent to the overall rise, but 100 per cent in Brazil and China and 90 per cent in Russia. The size of the contribution reflects the high weight of food products in the consumption baskets of households in these countries, equal to 40 per cent in Russia, around 30 per cent in China and India and 22 per cent in Brazil, compared with an average of 13 per cent in the main advanced countries. Moreover, in the emerging countries the more widespread consumption of unprocessed food products or those with a low value added means that the transmission of increases in agricultural commodity prices to overall inflation is particularly rapid.

For these reasons the sharp increase in the prices of agricultural commodities poses a threat to social stability in many emerging and developing countries and causes genuine humanitarian emergencies in the poorest of them. In recent months many governments have sought to mitigate the inflationary effects of the rises in food prices by introducing measures to equalize and control prices.

In the first five months of 2008 the rise in the prices of energy products (by 6 per cent on average) reflected in many cases one-off increases in administered fuel prices in the face of the continuous escalation in the cost of crude. Despite such adjustments, domestic fuel prices (on average around 80 US cents a litre) remain below world prices (around $1.10 a litre in the United States and $2.20 in the euro area and the United Kingdom).

If world prices remain at current levels, the subsidies could prove unsustainable for the public finances. Moreover, by making demand less elastic, they have in turn exacerbated pressures on world oil prices. According to recent IMF estimates, the rise in energy prices may have greater adverse repercussions

Table

Consumer price inflation and the contribution of food and energy prices in selected emerging countries

(year-on-year percentage changes unless otherwise indicated)

	Consumer price index (1)			Expenditure share (2) of:		Change in consumer price inflation in period Jan.-May 2008 (5)	Contribution to change in consumer price inflation in period Jan.-May 2008 of prices (2) of:	
	H1 2007	H2 2007	Jan.-May 2008	Food products (3)	Energy products (4)		Food products	Energy products
Czech Republic (6)	2.1	3.8	7.2	17.1	14.6	3.4	0.9	1.2
Hungary (6)	8.7	7.2	6.9	17.2	13.6	-0.3	0.3	0.3
Poland (6)	2.1	3.0	4.4	20.9	12.9	1.4	0.3	0.4
Russia (7)	7.8	10.2	13.6	40.2	11.3	3.4	3.0	0.5
South Africa (6)	6.5	7.7	10.5	28.6	11.6	2.8	0.9	0.1
Turkey (6)	9.9	7.7	9.4	28.6	9.0	1.7	0.3	1.0
China (7)	3.2	6.4	8.1	32.7	3.6	1.7	1.7	0.0
India (7)	6.0	3.7	6.6	27.0	14.2	2.9	0.3	1.0
Indonesia (7)	6.2	6.6	8.5	24.7	5.8	1.9	0.6	0.1
Philippines (6)	2.6	2.9	6.9	46.6	7.0	4.0	1.9	0.8
South Korea (6)	2.2	2.8	4.1	14.0	5.7	1.3	0.0	0.1
Thailand (6)	2.2	2.3	5.8	38.5	8.8	3.5	1.9	1.1
Argentina (7)	9.1	8.5	8.7	31.3	12.3	0.2	-1.1	0.2
Brazil (6)	3.1	4.1	4.9	21.9	9.5	0.8	0.9	0.1
Chile (6)	2.8	6.0	8.2	27.2	11.1	2.2	0.9	0.2
Mexico (6)	4.0	3.9	4.2	22.1	7.9	0.3	0.1	0.1
Average (8)	**4.5**	**5.7**	**7.6**	**29.6**	**7.8**	**1.9**	**1.1**	**0.3**

Sources: Based on data from Datastream, JPMorgan, IMF and national central banks.
(1) Average in the period considered; for India wholesale prices. – (2) Percentages. – (3) Excluding alcoholic beverages and tobacco. – (4) For countries with no official aggregate for energy prices the average of the indices of fuel and electricity prices has been used. – (5) Difference in percentage points with respect to the second half of 2007. – (6) Countries with an inflation targeting regime. – (7) Countries with other monetary policy regimes. – (8) Weighted average on the basis of GDP at the purchasing power parities of 2007.

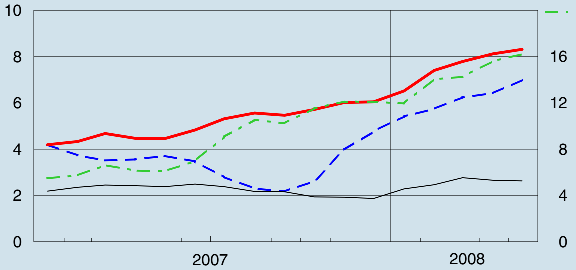
on the balance of payments of net oil-importing emerging countries than the rise in food commodity prices.

Core inflation, which excludes the prices of food and energy products, was generally low in 2007, but in the first part of this year it rose to an average of 2.6 per cent in the 16 main emerging countries, compared with 2.2 per cent in 2007. Given the high weight of food products in the consumption basket and the high degree of capacity utilization in many countries, there is a risk that the rise in commodity prices will affect domestic wage and price determination, as is already evident in the rapid increase in producer prices, especially in Asia and Latin America, and in the acceleration in wage growth, particularly in Central and Eastern European countries and Russia.

Figure A

Average consumer price index in emerging countries (1)

(monthly data)



Sources: Based on data from Datastream, JPMorgan, IMF and national central banks.
(1) Year- on-year changes; weighted averages on the basis of the purchasing power parities of 2007.

Since mid-2007 the emerging countries have generally adopted a less accommodating monetary policy, to differing degrees and using different means. Overall, the tightening has been small and of limited effectiveness, tempered as it has been by concern about the potential repercussions on domestic demand at a time of slowing foreign demand and by a desire to avoid an excessive appreciation of the currency.

In countries that have adopted inflation targeting regimes, such as Brazil and some countries in Central and Eastern Europe and Asia, the substantial appreciation of their currencies against the dollar in 2007 initially helped ease inflationary pressures, but they reappeared with renewed vigour at the end of last year owing to the further surge in energy and food prices. In view of the systematic overshooting of the inflation targets, the authorities were forced to adopt more stringent monetary measures: since the beginning of 2008 policy rates have been raised by 50 basis points in Brazil and by 100 basis points in Hungary, Turkey and South Africa. In May and June Indonesia and Thailand also raised their policy rates, by 75 and 25 basis points respectively, partly owing to the tendency for their currencies to depreciate.

The room for manoeuvre has been more limited in the countries with fixed exchange rates or managed floating regimes. In China, Russia and, to a lesser extent, India the monetary authorities have had to contend with excessive liquidity creation due to the massive accumulation of foreign exchange reserves to counter upward pressure on their exchange rates against the dollar. In order to sterilize the excess liquidity the authorities of these countries resorted primarily to raising the banks' compulsory reserve ratio and more rarely to raising interest rates in an attempt to contain the cost of intervention and limit the incentives for inflows of capital from abroad. Despite these measures, the money supply continued to expand more rapidly than the authorities wished, increasing in May by an average of 20 per cent for these three countries.

The rise in inflation despite increases in policy rates translated into a fall in real short-term interest rates, by an average of three percentage points between September 2007 and May of this year (Figure B); such rates are still positive in countries with inflation targeting regimes in Latin America and Central and Eastern Europe (exception the Czech Republic), but they have turned negative in the other areas as the rapid expansion of their economies has continued. In particular, real short-term interest rates in China and Russia fell below -3 and -8 per cent respectively in May.

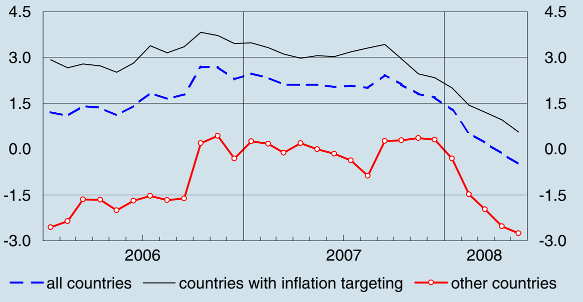
Inflation expectations have worsened everywhere in recent months, the more so in countries where real interest rates have fallen the most. According to the June forecasts by Consensus Economics, consumer price inflation in the emerging countries will average 7.4 per cent in 2008 and 5.4 per cent in 2009, respectively two and one percentage points more than forecast in January.

With world prices of raw materials continuing to soar and exchange rates insufficiently flexible, it appears ever more difficult for many emerging countries to ensure that monetary policy will be effective in the effort to curb inflationary pressures.

Figure B

Average real short-term interest rates in emerging countries (1)

(monthly data)



Sources: Based on data from Datastream and national central banks.
(1) Three-month interbank rates deflated using consumer price indices; weighted averages on the basis of purchasing power parities in 2007.

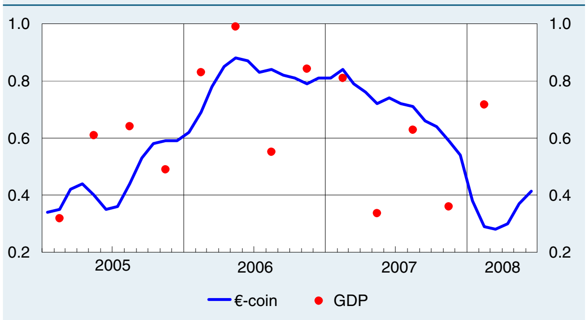
2.3 THE EURO AREA

The acceleration of activity in the opening months of 2008, owing in part to temporary factors...

In the first quarter of 2008 euro-area GDP grew by 0.7 per cent on the previous period, well above expectations (Figure 10). This expansion – which was mostly attributable to the exceptional growth of 1.5 per cent in Germany – was in part a reflection of temporary factors. The main contribution came from the increase in investment (1.6 per cent), which benefited from the effects of particularly mild weather on investment in construction, whereas household consumption remained weak (0.2 per cent). The strong stimulus from exports, which expanded by 1.9 per cent, was offset by the growth in imports.

Figure 10

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



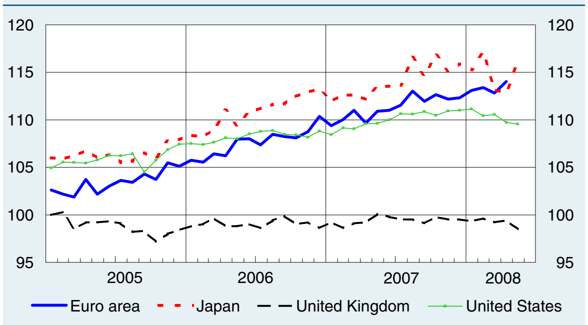
Sources: Bank of Italy (www.eurocoin.bancaditalia.it) and Eurostat.
(1) For information on the construction of the indicator, see the box "€-coin: a real-time estimate of growth in the euro area" in Economic Bulletin No. 46, October 2007. For GDP, quarterly data; change in relation to the preceding quarter. For €-coin, monthly data.

...is set to be followed by a sharp slowdown in the second quarter

The most recent data point to a slowdown in activity in the second quarter. On the basis of Bank of Italy estimates, the increase in industrial production in April (0.9 per cent; Figure 11) will be followed by a fall about two percentage points in May. For the first time since the end of 2005, the Purchasing Managers' Index (PMI) for the manufacturing sector, which has been falling since the beginning of the year, dipped below the expansion threshold (and similar indications are coming from the services sector surveys). Business and consumer confidence levels reported in European Commission surveys continue to decline.

Figure 11

Industrial production
(seasonally adjusted data; indices; average 2003=100)



Sources: ECB and national statistics.

The €-coin indicator, which estimates GDP growth in the euro area net of erratic factors, currently stands at around 0.4 per cent on a quarterly basis (Figure 10). If the gross output of the area were to be substantially stagnant in the second quarter, the average growth in the first six months of 2008 would be in line with the indicator.

Inflation rises...

In the second quarter of 2008 inflation continued to rise and according to early estimates reached 4 per cent in June, the highest level since the launch of monetary union. The deterioration in the inflation figures, under way since last autumn, is wholly attributable to the large and persistent increases in the international prices of basic commodities, offset only in part by the moderation of domestic costs and the appreciation of the euro. In the twelve months ending in May, the prices of energy and processed food products increased by 13.7 and 6.9 per cent, respectively.

...and inflation expectations worsen

The professional forecasters polled by Consensus Economics have progressively revised their inflation forecasts for 2008 and 2009 upward, to 3.3 and 2.3 per cent respectively in June. Long-term inflation expectations inferable from the differential between nominal government bonds and those indexed to euro-area inflation rose to around 2.5 per cent at the end of June, strengthening fears of their detachment from the price stability objective. While core inflation – net of food and energy products – remained basically stable, the first signs recently emerged of an acceleration in unit labour costs, attributable to the cyclical slowdown in productivity and the wage increases negotiated in some euro countries.

Bank lending growth declines, but stays at a high level

In the first part of 2008 growth in bank lending to the private sector decreased slightly (to 10.4 per cent in the twelve months ending in May), reflecting the slowdown in loans to both households and non-financial corporations. M3 continued to expand at a rapid pace (10.5 per cent), driven above all by the strong growth in deposits with agreed maturity up to two years.

The ECB has raised official rates

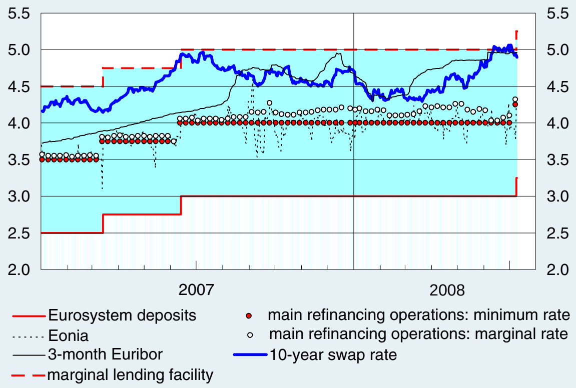
In order to keep medium and long-term inflation expectations in line with the price stability objective and prevent the rise in current inflation from affecting the wage and price determination process, at the beginning of July the Governing Council of the European Central Bank raised the minimum bid rate on its main refinancing operations by 25 basis points to 4.25 per cent (Figure 12). In the week that followed the upward trend of medium to long-term inflation expectations derived from the financial markets apparently came to a halt.

Compared with the rise in interbank rates, which has recently reflected the change in expectations regarding the stance of monetary policy, since mid-March there has been a slight reduction in the differentials with respect to secured interbank loans which nonetheless remain high – as in the other major economies (see Section 2.1) – signalling the persistence of the tensions that emerged in the summer of 2007.

Figure 12

Official interest rates and money and financial market rates in the euro area

(daily data; percentages)



Sources: ECB, Reuters and Telerate.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

Economic activity accelerated in the first quarter...

In the first quarter of 2008, GDP grew by 0.5 per cent compared with the previous period, recouping the fall of 0.4 percentage points recorded in the last quarter of 2007 (Figure 13). Exports expanded by 1.4 per cent despite the worsening of price competitiveness (Table 2). By contrast, the domestic components of demand remained sluggish. Firms' growing pessimism, signalled by business surveys, and the increase in financing costs held down investment, above all in machinery, equipment, and transport equipment. Household consumption continued to be adversely affected by the low growth in real disposable income, which was curbed by continuing sharp increases in energy and food prices.

...but the improvement seems temporary

For the second quarter, the most up-to-date indicators point to GDP growth of virtually nil. Following a positive early part of the year and despite a larger-than-expected increase in April, industrial production fell sharply in May and, according to our estimates, contracted by about one percentage point in the second quarter as a whole. The June surveys of economic conditions indicate a further decline in business and household confidence, after a temporary improvement in May. The number of new car registrations fell sharply in the first half of the year, retail sales continued to decline and spare capacity increased progressively.

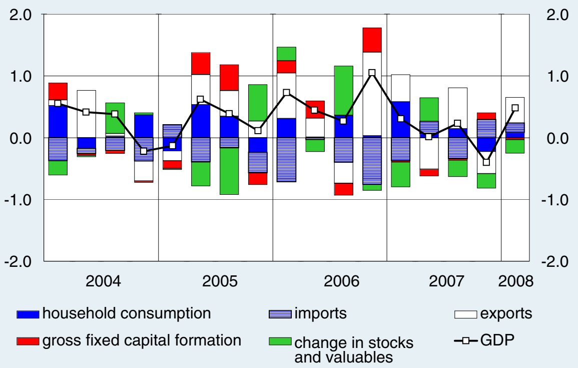
Employment continued to grow

Following the good result for 2007, employment recorded a slight further gain in the first quarter of 2008. Compared with the year-earlier period, there was a considerable

Figure 13

Contributions of the main components of demand and imports to the growth in GDP

(percentage points)



Source: Istat.

Table 2

GDP and its main components

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

	2007			2007 (1)	2008
	Q2	Q3	Q4		Q1
GDP	..	0.2	-0.4	1.5	0.5
Total imports	-0.7	1.2	-1.0	4.4	-0.5
National demand (2)	0.3	-0.1	-0.3	1.3	-0.1
National consumption	0.1	0.3	-0.3	1.4	0.2
households	*0.1*	*0.2*	*-0.4*	*1.4*	*0.1*
other (3)	*..*	*0.3*	*0.1*	*1.3*	*0.4*
Gross fixed capital formation	-0.5	-0.1	0.5	1.2	-0.2
construction	*-2.0*	*1.1*	*0.7*	*2.2*	*0.3*
other goods	*1.1*	*-1.5*	*0.3*	*0.2*	*-0.7*
Changes in stocks and valuables (4)	0.4	-0.3	-0.2	..	-0.2
Total exports	-1.8	2.3	-1.2	5.0	1.4

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

increase in employment of women and in part-time and fixed-term jobs. An appreciable increase in labour market participation was reflected in a rise in the unemployment rate.

Inflationary pressures intensified

Inflation, measured by the twelve-month change in the harmonized index of consumer prices, increased in the first half of 2008, in line with the average for the area, reaching 4 per cent in June, the highest figure since the middle of the last decade. The worsening of inflation reflected the sharp increases in energy and food commodity prices, which have been driving it since last autumn. Core inflation, calculated by excluding food and energy products from the general index, has remained lower, but has increased to just over 2 per cent since the start of the year. Recent contract renewals have led to an acceleration in wages and salaries, mainly as a consequence of one-off payments. In the medium term, wage growth is expected to stay in line with the wage moderation that has characterized recent years. In connection with a cyclical slowdown in labour productivity, domestic costs have also accelerated since the end of 2007.

3.2 FIRMS

Industrial production falls in the second quarter

After rising sharply in January, industrial production slowed again. The rise in April (0.4 per cent with respect to March) was followed by a significant fall in May (-1.4 per cent). According to Bank of Italy estimates, in the second quarter there was a contraction of about one percentage point against a background of steadily eroding business confidence (Figure 14) and falling domestic and export orders (Figure 15). The index compiled from interviews with purchasing managers of manufacturing firms (PMI), which has been declining since the summer of 2007, fell in March below the threshold between expansionary and recessionary phases of the economic cycle; in June it fell further and reached its lowest level since December 2001. The Bank of Italy's indicator of turning points in the industrial cycle also confirmed the persistence of the weakness of production in June.

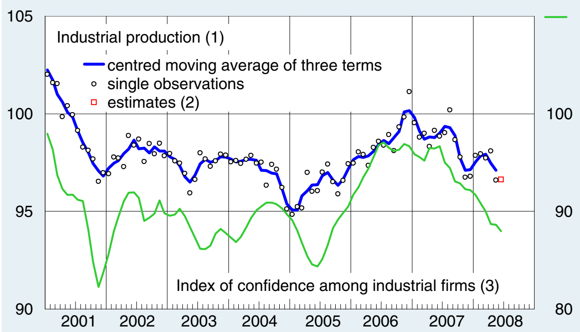
Investment activity remains weak

Gross fixed investment decreased slightly in the first quarter of 2008, falling by 0.2 per cent with respect to the previous period. The progressive increase in spare capacity and the growing pessimism about the outlook for demand had an adverse effect on investment in machinery, equipment and transport equipment, which contracted by 0.7 per cent. The growth in investment in construction slowed but nonetheless

Figure 14

Industrial production and index of business confidence

(monthly data; indices, 2000=100)

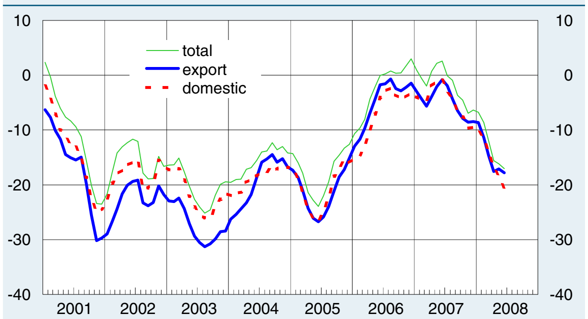


Sources: Based on ISAE, Terna and Istat data.
(1) Data adjusted for seasonal and calendar effects. – (2) Based on electricity consumption and the indicators of the ISAE surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions regarding the level of demand, 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 averages 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 the request to assess the level of orders. Seasonally adjusted. The replies are weighted by size, sector and location of firm.

remained positive (0.3 per cent), driven both by residential building, although this decelerated, and by non-residential construction.

Competitiveness deteriorates

The price competitiveness of Italian goods continued to be adversely affected by a rate of productivity growth that remains below that of the other leading euro-area countries and the effect – common to them – of the appreciation of the euro (Figure 16). In April the index based on producer prices showed a deterioration compared with the beginning of the year that, according to the Bank of Italy's estimates, came to a halt in the following two months as the exchange rate of the euro stabilized. The competitiveness gap with respect to the other leading euro-area countries is larger when measured using the indicator based on unit labour costs, which is available on a quarterly basis up to the first quarter of 2008 and provides more significant indications for the medium term.

Unit labour costs accelerate

In 2007 and the early months of this year wages and salaries recorded a sharp acceleration as a result of labour contract renewals and one-off payments (see Section 3.5). This led to an acceleration in the rate of increase in unit labour costs between the beginning of 2007 and the first quarter of 2008, from 1.7 per cent to more than 5 per cent in industry (Figure 17) and from 0.3 to 4.5 per cent in the economy as a whole.

The profitability of firms is declining...

Estimates based on national accounts data show that firms' operating profitability declined in the twelve months ending in March 2008 compared with the previous twelve months, prolonging a downward trend that has been under way, albeit with stops and starts, since the first half of the decade. Together with the increase in net financial costs, the lower level of profitability has led to a further reduction in self-financing, which has fallen to the lowest level of the last ten years in relation to value added.

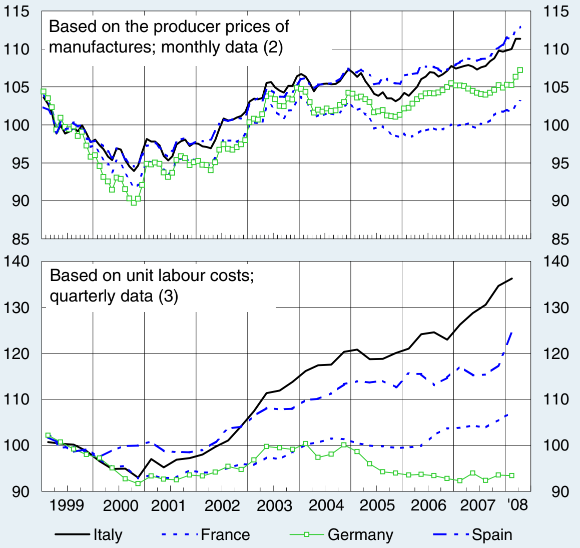
...and their external funding needs are increasing

With investment virtually stagnating, the contraction of self-financing has resulted in an increase in firms' external funding needs (defined as the difference between gross investment and self-financing). At the end of March firms'

Figure 16

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

(indices, 1999=100)

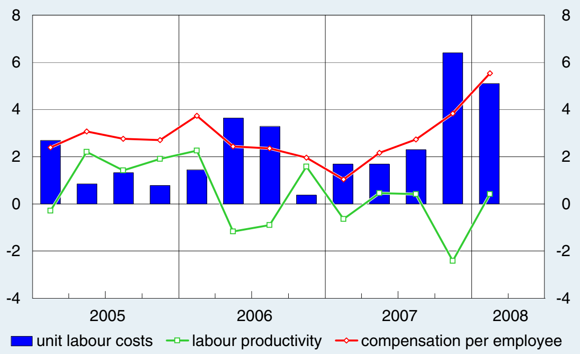


Sources: Based on IMF, OECD and Eurostat data.
(1) An increase in the index indicates a loss of competitiveness. – (2) Indices calculated in relation to 61 competitor countries; latest available data refer to April 2008. – (3) Indices calculated in relation to 24 competitor countries; latest available data refer to the first quarter of 2008.

Figure 17

Labour costs and productivity in industry excluding construction

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



Source: Istat.

financial debt amounted to 74.3 per cent of GDP (Figure 18), 0.7 percentage points higher than at the end of 2007.

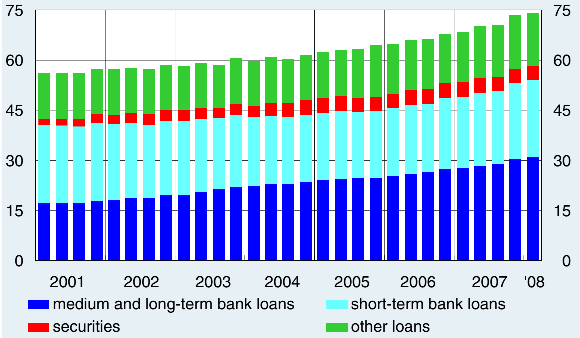
Bank lending to firms is still growing rapidly

Corporate loans continue to grow at a brisk pace, although there was a slowdown between the end of 2007 and the early months of this year (to 11.6 per cent in May) in all the categories of firm-size (Figure 19) and geographical areas (see Section 3.7). Firms' net bond issues, which had been especially large in the fourth quarter of 2007 as a result of substantial placements by Eni and Enel, dried up in the first quarter of 2008 (see Section 3.8); according to Dealogic data on gross issues, placement activity was very subdued in the following quarter as well.

In the first half of 2008 there were virtually no capital increases by Italian non-financial companies listed on the stock exchange. Fifteen mergers and acquisitions amounting to €2 billion were announced in the first quarter and two large transactions worth about €6 billion in the second.

Figure 18

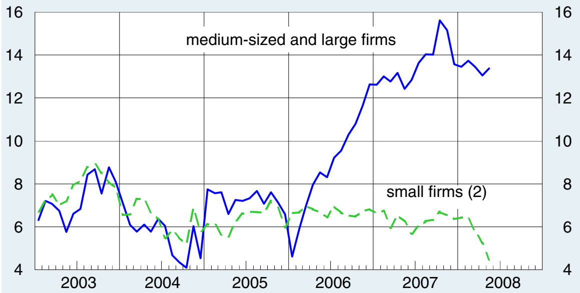
Corporate debt (1)
(as a percentage of GDP)



(1) The figures for the first quarter of 2008 are provisional.

Figure 19

Corporate loans by firm size (1)
(monthly data; twelve-month percentage changes)



Source: Supervisory reports.
(1) Corporate loans do not include repos, bad debts or some minor items that are included in the Eurosystem's harmonized definition. The percentage changes are calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (2) Limited and general partnerships, informal partnerships, de facto companies and sole proprietorships with fewer than 20 workers.

3.3 HOUSEHOLDS

Consumption has stagnated...

Following the contraction recorded between the third and fourth quarters of 2007 (-0.4 per cent), household spending virtually stagnated in the first quarter of 2008 (+0.1 per cent compared with both the previous period and the year-earlier period; see Table 2 and Figure 20, respectively). Consumption continues to be affected by the only modest rise in households' disposable income. According to preliminary Bank of Italy estimates, it rose by less than half a percentage point in real terms compared with the first quarter of 2007. Historically low levels of consumer confidence can also be presumed to have had an impact.

Spending on durable goods fell sharply (-2 per cent, the third consecutive drop), above all due to the marked decline in new car registrations (-10.4 per cent). Purchases of foodstuffs continued to slow, curbed by further price increases. By contrast, spending on services continued to grow faster than overall consumption.

...and there is no sign of a recovery in the second quarter

The downturn in the transport equipment market continued into the second quarter of 2008, and the data on orders provide no sign of an imminent recovery. In an economic climate dominated by uncertainty and stagnant purchasing power, spending on durable goods is likely to remain lacklustre. In light of the performance of retail sales, which have been falling since the beginning of the year and dropped further in April, demand for other goods is also likely to be flat. Moreover, the repeated increases in the prices of food and energy products, whose effects weigh above all on the budgets of less well-off households, have continued to depress consumers' confidence (which fell again in June, after a brief recovery in April and May) and, in all likelihood, affected their spending decisions.

Household debt continued to slow...

Household debt decelerated further, above all for medium and long-term loans. As a proportion of disposable income it remained around 50 per cent (Figure 21), markedly lower than the euro-area average (see the box "Household debt in Italy", *Economic Bulletin* No. 52, April 2008).

...but the debt servicing burden continues to rise...

Households' debt service (payment of interest and repayment of principal) continued its upward trend. In the twelve months ending last March it reached 8.1 per cent of disposable income (one percentage point more than in the year-earlier period). In addition to larger capital repayments, the increase reflects higher interest rates (Figure 22).

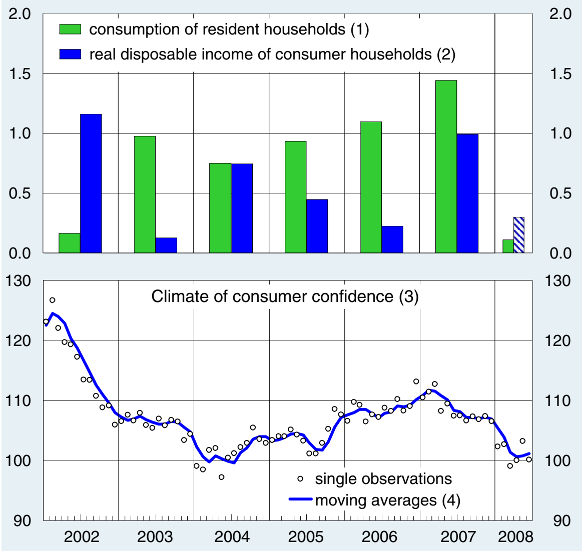
...and exposure to changes in payment flows on variable-rate loans remains high

Despite the shift in demand to fixed-rate mortgages, which accounted for two thirds of new loans in the first five months of 2008, the high percentage of variable-rate loans granted in the past means that Italian households' exposure to variations in interest rates on such loans continues to be higher than the European average. Around 70 per cent of the total stock of mortgage loans is indexed to market rates. The law on the early termination and portability of mortgages and the recent agreement between the Italian Banking Association and the Ministry of the Economy and Finance aim to allow the renegotiation of contractual terms or other arrangements serving to stabilize the payment flows of borrowers. In 2007 the value of

Figure 20

Household consumption and income and consumer confidence in Italy

(percentage rates of increase; indices)

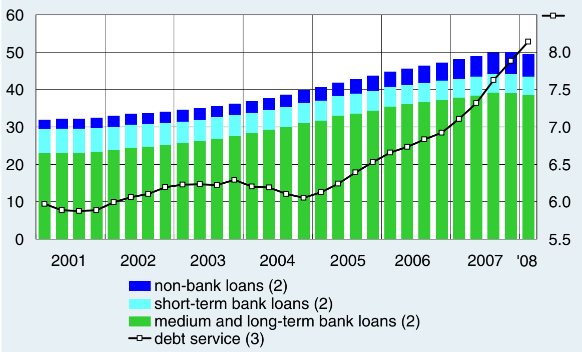


Sources: Based on ISAE and Istat data.
(1) Chain-linked volumes; percentage changes in relation to preceding year. For the first quarter of 2008 data are adjusted for seasonal and calendar effects and changes are computed with respect to the corresponding quarter of 2007. – (2) Obtained using the deflator of consumption of resident households; our estimates for the first quarter of 2008. – (3) Indices, 1980=100; seasonally adjusted data. – (4) Moving average for the three months ending in the reference month

Figure 21

Household debt (1)

(as a percentage of gross disposable income)



Sources: Istat and our estimates for gross disposable income.
(1) The data refer to the new definitions of instruments and sectors of economic activity introduced by ESA95. Disposable income for 2008 is assessed on the basis of quarterly national accounts data. Data on loans is preliminary for the first quarter of 2008. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer households and the twelve months ending in the reference quarter. Debt service includes payment of interest and repayment of principal. The interest is calculated by multiplying the outstanding stocks in each period by an average rate that takes account of the stock by expiry and type of intermediary; the repayments of principal are estimated on the basis of supervisory reports.

replacement mortgages is estimated to have been only 1 per cent of the stock.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

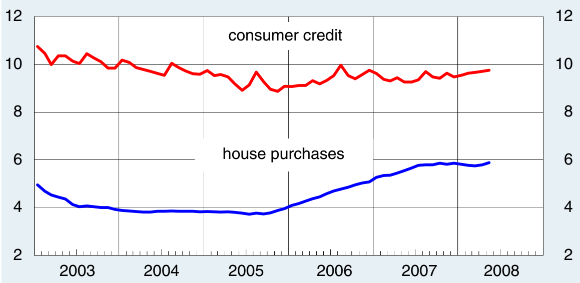
In the first quarter of 2008 exports increased…

In the first quarter of 2008 exports of goods and services increased in volume by 1.4 per cent by comparison with the preceding quarter, making up for the contraction in the last quarter of 2007. The marked increase of 2.8 per cent in the merchandise component made a significant contribution, even by comparison with a quarter that was anomalous because of the strike by Italian lorry drivers in December. Refined petroleum products, metal products and mechanical equipment showed above-average growth, while exports of traditional Italian products (textiles, clothing, leather goods, furniture and wood products) remained weak. The recovery in sales involved the great majority of export markets: there were increases in exports not only to Russia, the OPEC countries and China, where they benefited from continued strong demand, but also to Germany and the other EU countries. The weakness of the dollar and the slowdown in the US economy, by contrast, caused a further contraction in the volume of exports to the United States.

Figure 22

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

(monthly data; percentages)



(1) The data on bank lending rates refer to euro transactions and are gathered and processed using the Eurosystem's harmonized method. "New business" refers to 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 amounts.

…and imports of services declined

Whereas the volume of merchandise imports increased in line with the performance of the economy (0.5 per cent), there was a substantial fall of 4.5 per cent in imports of services, ending three years of growth. This sharp contraction was attributable to "other business services", where growth weakened steadily from the second quarter of 2007 onwards, probably reflecting the deterioration in the economic climate and the strains in financial markets. As far as goods are concerned, imports from EU countries increased but those from non-EU countries declined further, despite the appreciation of the euro and the increase in purchases of mineral fuels.

The recent publication by Istat of producer price indices for industrial exports (see the box: "The statistical problems in portraying Italy's foreign trade") confirms the need for caution in interpreting the data on Italy's foreign trade in volume terms.

The figures for April and May give conflicting indications

The April figures on foreign trade in value terms appear to indicate that exports held up well, despite the weakness of the global economic cycle, and that imports slowed. The data for May on trade with

Table 3

Italy's balance of payments (1)

(billions of euros)

	2006	2007	2007 Jan.-Apr.	2008 Jan.-Apr.
Current account	**-38.5**	**-37.4**	**-17.2**	**-19.8**
Goods	-10.2	2.9	-2.8	-1.8
non-energy products (2)	*37.5*	*47.7*	*11.8*	*16.7*
energy products (2)	*-47.7*	*-44.7*	*-14.6*	*-18.4*
Services	-1.3	-7.0	-4.2	-3.3
Income	-13.6	-19.7	-6.2	-8.4
Current transfers	-13.5	-13.7	-4.0	-6.3
Capital account	**1.9**	**2.7**	**1.1**	**1.2**
Financial account	**25.4**	**26.1**	**7.8**	**13.3**
Direct investment	-2.3	-37.0	-14.2	-5.0
Portfolio investment	44.3	18.1	-16.3	66.7
Financial derivatives	-0.4	0.4	-1.8	1.4
Other investment	-16.7	46.1	41.3	-47.8
Change in official reserves	0.4	-1.5	-1.3	-2.0
Errors and omissions	**11.2**	**8.6**	**8.3**	**5.3**

(1) Provisional data for April 2008. – (2) Based on Istat data on foreign trade.

non-EU countries tend to confirm the slowdown in imports, but they show a contraction in exports that outweighs the improvement seen in April.

The current account deficit worsened slightly

In the first four months of 2008 the deficit on the current account of the balance of payments increased to €19.8 billion, compared with €17.2 billion in the corresponding period of 2007 (Table 3); in relation to GDP it increased to 4.2 per cent in the first quarter of 2008 from 3.4 per cent a year earlier. The merchandise deficit fell to €1.8 billion; the increase in the surplus on non-energy products more than offset the growth in the energy deficit caused by the relentless rise in the price of crude oil and its derivatives. The deficit on services decreased slightly, to €3.3 billion, and that in the income account continued to rise, reaching €8.4 billion.

Risk aversion appears to continue to shape portfolio decisions

In the first four months of 2008 the financial account showed a net outflow of €5 billion in direct investment. There was a decline in both inflows and outflows, which in the corresponding period of 2007 had been affected by a major acquisition in the foreign banking sector. Portfolio investment showed net inflows of €66.7 billion, due mainly to purchases of Italian debt securities by non-residents and the repatriation of residents' funds invested in foreign shares. It appears that the high risk aversion triggered by the turmoil in the international financial markets from last summer onwards continues to hold sway.

THE STATISTICAL PROBLEMS IN PORTRAYING ITALY'S FOREIGN TRADE

Istat published producer price indices for industrial exports (PPIXs) for the period from January 2002 to March 2008[1] for the first time on 11 June. The data are recorded monthly for a sample of 900 products and 1,600 industrial firms with production facilities in Italy and directly exporting all or part of their output.[2]

By comparison with the index of average unit values (AUVs), which is the only export price indicator hitherto available in Italy, sample-based indices such as the PPIXs are less susceptible to distortions due to changes in the composition and quality of exported goods. Since by construction they are limited to goods sold directly by the producer, the PPIXs exclude goods exported by commercial firms other than the producer and those sold by the manufacturer to a foreign firm belonging to the same multinational group, which amounted to respectively 12 and 20 per cent of the value of total Italian exports in 2006.

The increase in the PPIXs is on average almost two percentage points a year lower than that in the index of AUVs over the period 2003-2007 (2.5 points in the last three years; see the Table), confirming the supposition expressed in the Economic Bulletin of April 2008 that the AUV index still overstated movements in

Table

Prices of goods sold in the domestic and foreign markets
(percentage changes)

	Domestic market	Foreign market	
	Producer price	Producer price	Average unit values
2003	1.6	-0.9	-0.3
2004	2.7	0.9	2.6
2005	4.0	2.1	4.8
2006	5.6	2.9	5.1
2007	3.5	2.3	4.9

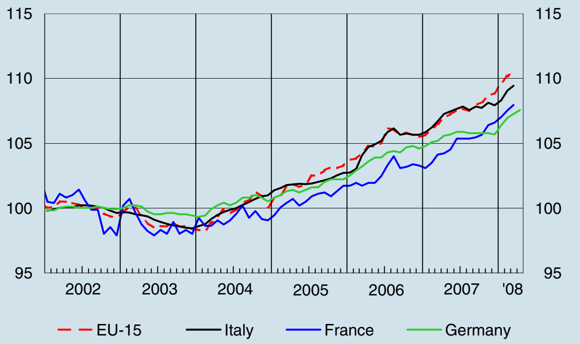
Source: Based on Istat.

[1] These indices are prescribed in European Council Regulation 1165/98/EC of 19 May 1998, which aims to establish a harmonized European framework for the production of short-term statistics on the business cycle.
[2] The data will be published quarterly in 2008; from January 2009 onwards publication will be monthly and will include an overall index of producer prices, calculated as the weighted arithmetic mean of the PPIXs and the comparable index for industrial products sold in the domestic market.

export prices, even after the revision carried out last February.[3] The discrepancy is particularly large for exports of traditional goods: the PPIXs for textiles and clothing showed increases of a few tenths of a point per year, compared with an annual increase of 2.8 per cent in their AUVs; in 2007 the PPIX for the leather and footwear sector was lower than it had been in 2002, whereas the index of AUVs indicated an increase of 25 per cent.

Figure

Producer prices of goods sold in foreign markets
(indices, 2002=100)



Sources: Based on Istat and Eurostat data.

The rise in the PPIXs is barely larger than that recorded in France and Germany, and broadly in line with the average for the EU-15 (see the Figure). The average annual increase in the Italian PPIXs is about two percentage points less than that in the prices of the same goods sold in the domestic market; the difference is even larger for exports to countries outside the euro area, probably owing to the recent appreciation of the euro. This indicates the propensity of Italian exporters to defend their shares of foreign markets.

If the difference in behaviour between the PPIXs and the AUV indices were attributable entirely to changes in the composition of exports and improvements in quality, the PPIXs would more closely represent the ideal deflator of values at current prices. This would imply stronger growth in the volume of Italian exports than estimated on the basis of the AUV indices. Italy's loss of world market share at constant prices between 2002 and 2007 would be broadly similar to that recorded at current prices – from 4 to 3.7 per cent – and less than half the loss calculated on the basis of AUVs (from 3.6 to 2.8 per cent).

[3] See the box: "The recent statistical revision of the average unit values and the volumes of Italian exports and imports", in Economic Bulletin, No. 48, April 2008.

3.5 THE LABOUR MARKET

Employment expanded slightly in the first quarter of 2008...

According to Istat's labour force surveys, the number of persons employed rose by 0.1 per cent in the first quarter on a seasonally adjusted basis (putting it 1.4 per cent higher than in the first quarter of 2007, with 324,000 more persons in work; Table 4); in the fourth quarter of 2007 employment had contracted by 0.3 per cent. During the quarter, employment rose in the North (0.2 per cent) and the Centre (0.4 per cent) but fell in the South (0.3 per cent). The number of people working in agriculture and services increased, while the number industry and especially in construction diminished. The national accounts figures, which include non-resident workers (whether officially registered as employed or not), recorded a modest fall in employment during the period (0.2 per cent).

...with a major contribution by the female component

The gain in employment compared with a year earlier was sharpest for women (2.7 per cent against 0.6 per cent for men), fixed-term contracts (2.9 per cent) and part-time jobs (8.4 per cent); the latter's incidence on total employment thus rose from 13.2 to 14.2 per cent. The share of non-Italian workers also rose, from 5.8 to 6.6 per cent. The overall increase in the employment rate for the population aged 15-64 was due exclusively to the female component (Table 4).

The supply of labour returned to growth

The labour force began to expand again, with seasonally adjusted growth of 0.4 per cent after a contraction of 0.2 per cent in the previous quarter. The participation rate for the population aged 15-64 rose by nearly one percentage point by comparison with the first quarter of 2007, thanks above all to increasing participation by women. The supply of labour among 15-24-year-olds returned to growth after four consecutive years of decline.

The unemployment rate rose

The sharp increase in labour market participation produced a quarter-on-quarter increase in the unemployment rate, which rose by 0.3 percentage points to 6.5 per cent on a seasonally adjusted basis (Figure 23). The seasonally adjusted figures (keeping the unadjusted data constant) now show the rate to have been rising since the second quarter of 2007. The rise in the first quarter of this year involved all parts of the country but was sharpest in the South (0.4 points, to 11.8 per cent).

Earnings accelerated, reflecting one-off payments

According to the national accounts, gross per capita earnings in the entire economy increased by 4.5 per cent in the first quarter year on year (3.5 per cent in the previous quarter), outpacing the household consumption deflator by more than one percentage point. However, this acceleration was due largely to one-off payments covering periods of contract hiatus. The rise was sharpest in industry excluding construction (6.2 per cent) and in the private service sector (5.9 per cent). The year-on-year rise in contractual wages in these two sectors was 3 and 2.6 per cent respectively.

In the private sector the acceleration in earnings growth should be confirmed for 2008 as a whole, as the effects of contract renewals negotiated in late 2007 and the first part of this year feed through. New agreements were concluded for workers in textiles, metalworking, chemicals and pharmaceuticals, construction, and credit. The moderate wage growth pattern of recent years is expected to be restored in 2009.

Table 4

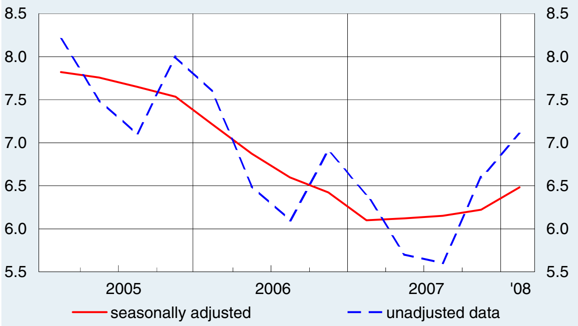
Labour force status of the Italian population
(thousands of persons and percentages)

	Average 2006	Average 2007	Q1 2007	Q1 2008	Change Q1 2008/ Q1 2007 (1)
Total persons in work	**22,988**	**23,222**	**22,846**	**23,170**	**1.4**
Employees	**16,915**	**17,167**	**16,838**	**17,103**	**1.6**
of which:					
fixed-term contracts	*2,222*	*2,269*	*2,126*	*2,189*	*2.9*
part-time contracts	*2,290*	*2,422*	*2,314*	*2,508*	*8.4*
Self-employed	**6,073**	**6,055**	**6,008**	**6,067**	**1.0**
Labour force	**24,662**	**24,728**	**24,402**	**24,932**	**2.2**
men	*14,740*	*14,779*	*14,606*	*14,762*	*1.1*
women	*9,922*	*9,949*	*9,796*	*10,170*	*3.8*
Population	**58,435**	**58,880**	**58,736**	**59,158**	**0.7**
Unemployment rate	**6.8**	**6.1**	**6.4**	**7.1**	**0.7**
men	*5.4*	*4.9*	*5.3*	*5.7*	*0.4*
women	*8.8*	*7.9*	*8.0*	*9.0*	*1.0*
Participation rate (age 15-64)	**62.7**	**62.5**	**61.9**	**62.8**	**0.9**
men	*74.6*	*74.4*	*73.8*	*74.0*	*0.2*
women	*50.8*	*50.7*	*50.0*	*51.6*	*1.6*
Employment rate (age 15-64)	**58.4**	**58.7**	**57.9**	**58.3**	**0.4**
men	*70.5*	*70.7*	*69.9*	*69.7*	*-0.1*
women	*46.3*	*46.6*	*46.0*	*46.9*	*1.0*
North	*66.2*	*66.7*	*66.1*	*66.6*	*0.4*
Centre	*62.0*	*62.3*	*61.1*	*62.9*	*1.8*
South	*46.6*	*46.5*	*45.7*	*45.3*	*-0.4*

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

Figure 23

Unemployment rate
(percentages)



Source: Istat, labour force surveys.

3.6 PRICE DEVELOPMENTS

Inflation continues to rise…

In the first six months of 2008 inflation also accelerated in Italy, driven by increases in the prices of food and energy inputs in world markets; on the basis of the harmonized index of consumer prices, it rose from 3.1 per cent in January to 4 per cent in June, according to provisional estimates (Table 5). In recent months price increases have occurred not only in the energy and food sectors but also in some services that are particularly susceptible to movements in the prices of raw materials (air and maritime transport, restaurants and lodging services).

…driven by increases in commodity prices…

The soaring price of crude oil, which almost doubled between July 2007 and July 2008 (see Section 2.1), caused a sharp acceleration in energy and fuel prices. In May the unregulated energy component of the overall price index was 16.1 per cent higher than a year earlier. Energy products as a whole showed an increase of 13 per cent. In the first five months of 2008 their average contribution to consumer price inflation increased to 0.8 percentage points, compared with less than 0.2 points in the second half of 2007.

Table 5

Indicators of inflation in Italy

(twelve-month percentage changes)

	HICP (1)		CPI (2)		PPI (3)
	Overall index	Excl. energy and food	Overall index	1-month	Overall index
2006	2.2	1.6	2.1		5.6
2007	2.0	1.8	1.8		3.5
2007 – Jan.	1.9	1.5	1.7	0.1	4.0
Feb.	2.1	2.0	1.8	0.3	4.0
Mar.	2.1	2.0	1.7	0.2	3.8
Apr.	1.8	1.8	1.5	0.2	3.3
May	1.9	1.8	1.5	0.3	3.0
June	1.9	1.9	1.7	0.2	2.7
July	1.7	1.7	1.6	0.2	2.0
Aug.	1.7	1.8	1.6	0.2	2.1
Sept.	1.7	1.7	1.7	..	3.5
Oct.	2.3	1.9	2.1	0.3	3.7
Nov.	2.6	1.9	2.4	0.4	4.8
Dec.	2.8	2.0	2.6	0.3	4.7
2008 – Jan.	3.1	2.1	3.0	0.4	5.4
Feb.	3.1	2.0	2.9	0.2	5.9
Mar.	3.6	2.4	3.3	0.5	6.4
Apr.	3.6	2.1	3.3	0.2	6.3
May	3.7	2.2	3.6	0.5	7.5
June (4)	4.0		3.8	0.4	

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Index of consumer prices for the entire resident population; it differs from the harmonized index primarily on account of the different method of recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Provisional data.

The consumer prices of food products have continued to escalate owing to the rapid rise in input prices on world markets. Unprocessed food rose by 4 per cent in the twelve months to May and processed food by 6.3 per cent. The largest increases in the recent past were in “dairy products” and “pasta and cereals”, which according to early indications from Istat also rose the most in June.

The core components of the overall index, which are less volatile and less directly affected by increases in commodity prices, followed a steadier path. However, even excluding energy and food products, inflation was higher than last autumn, rising above 2 per cent at the beginning of the year and remaining above that threshold in recent months. This tendency is evident in the prices of services, especially those of transport and restaurants.

Producer price inflation reached 7.5 per cent in May; excluding energy and food, it rose to 2.6 per cent, mainly reflecting increases in the prices of non-energy intermediate products. Domestic input prices have also accelerated sharply in the last few quarters, reflecting the fact that productivity gains remain far lower than in the other main euro-area economies, combined with the effects of numerous recent wage settlements (see Section 3.2).

…and will return only gradually to more moderate levels

The acceleration in consumer price inflation is temporary, but more stubborn than previously foreseen. Inflation will remain above 3 per cent throughout 2008, not least on account of increases in energy charges, which react with a lag to changes in commodity prices. Assuming that the current spike does not affect wage and price determination and that the rate of increase in domestic costs remains moderate, inflation should gradually come back down towards 2 per cent in 2009 (see Section 3.9).

3.7 BANKS

Bank lending growth remains rapid but is slowing…

In the first five months of 2008 the growth in bank lending in Italy remained very substantial but declined to a twelve-month rate of 8.7 per cent in May, from 10.1 per cent in December 2007 (Table 6). The slowdown, under way for about two years for lending to households, has now begun to involve lending to non-financial corporations. The recent developments mainly reflected the let-up in credit demand from firms and, above all, from households for house purchases (see Section 3.3). However, more than half of the apparent slowdown in mortgage lending is ascribable to the recovery in mortgage securitization transactions, which had contracted sharply in the second half of 2007.

…especially in the southern regions

The slowdown in bank lending involved all parts of Italy, but it was most pronounced in the South, where lending had been expanding faster than in the rest of the country since 2003 (Figure 24). The slowdown in the South was sharpest in lending to manufacturing and service companies. This does not appear to reflect a worsening in relative credit supply conditions; in particular, controlling for the sectoral and size composition of borrower firms, the differential between the cost of credit for firms resident in the South and those resident in the Centre and North, which had narrowed in 2007, continued to diminish in the opening months of this year.

The moderate tightening of lending conditions continues

The Italian banks participating in the Bank Lending Survey for the euro area reported in the survey for the first quarter of 2008 a further, moderate tightening of credit standards for new loans to firms. After almost two years of easing, some signs also emerged of tighter standards being adopted in lending to households (see the box: "Credit supply and demand in Italy"). However, average bank interest rates continued to adjust gradually to money-market yields (Figure 25).

Table 6

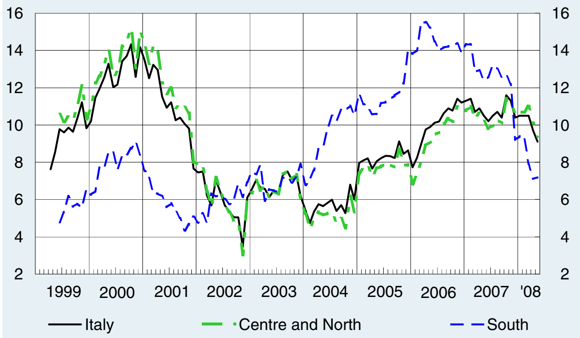
Main assets and liabilities of Italian banks (1)
(end-of-period data; 12-month percentage changes)

	2006	2007	May 2008	Stocks (2)
Assets				
Securities	5.3	7.3	26.0	293,162
Loans	11.5	10.1	8.7	1,708,499
up to 12 months	*10.8*	*7.5*	*6.7*	*583,327*
beyond 12 months	*11.9*	*11.3*	*9.5*	*1,125,172*
External assets	19.8	12.5	6.8	418,070
Liabilities				
Domestic funding (3)	9.9	7.3	11.2	1,770,924
Deposits	8.3	4.2	7.5	1,082,954
of which: (4)				
current accounts	*6.7*	*2.9*	*5.5*	*656,084*
with agreed maturity	*9.8*	*14.3*	*29.9*	*55,182*
redeemable at notice	*-0.8*	*-0.5*	*2.9*	*232,616*
repos	*29.4*	*12.1*	*16.3*	*124,746*
Bonds (3)	12.5	11.9	17.3	687,970
External liabilities	25.6	22.9	8.9	532,090

(1) The figures for May 2008 are provisional. From October 2007 onwards the data include Cassa Depositi e Prestiti S.p.A. The percentage changes are calculated net of reclassifications, exchange rate variations and other changes not due to transactions. – (2) Millions of euros. – (3) Includes bonds held by non-residents. – (4) Excludes those of central government.

Figure 24

Lending by geographical area (1)
(monthly data; twelve-month percentage changes)



Source: Supervisory reports.
(1) Lending excludes repos, bad debts and some less important items that are included in the harmonized definition at Eurosystem level. The classification 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.

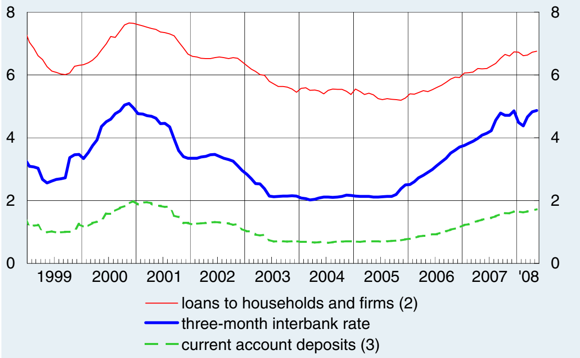
Domestic funding accelerates and net external liabilities diminish

Banks' domestic funding gained pace (growth of 11.2 per cent in the twelve months ended in May), most notably in the components consisting of deposits with agreed maturity and negotiable instruments. Since the start of the year the yield on fixed-rate bank bonds has risen by a quarter of a point, to 4.6 per cent; for floating-rate issues the increase has been twice as large, to 5.4 per cent. Net external liabilities diminished from €131 billion at the end of 2007 to €114 billion in May, reflecting the change in Italian banks' exposure in euros on the interbank market.

Figure 25

Short-term bank interest rates (1)

(monthly data; percentages)



Sources: Based on Bank of Italy and Interbank Deposit Market data.
(1) The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem 's harmonized method. – (2) Average rate on loans to households and firms with a maturity up to one year. – (3) Average rate on current account deposits of households and firms.

Banks' profitability declines

According to their consolidated quarterly reports, the worsening in the main banking groups' profitability recorded in the second half of 2007 continued in the first three months of this year. Compared with the first quarter of 2007, return on equity, calculated on an annual basis excluding capital gains and extraordinary income, fell by nearly five percentage points, to 9 per cent. Gross income decreased, owing to losses incurred on the trading book and the decline in net fee income. With operating costs broadly unchanged and an increase in the sum of allocations to provisions plus value adjustments, profit on ordinary activities diminished by about a third.

The measure regarding the partial non-deductibility of banks' interest expense is equivalent to an increase in funding costs of nearly 10 basis points. As for other taxes it is difficult to predict how this cost will be divided; depending on the evolution of market conditions, it could fall on the terms and conditions offered to depositors and borrowers, profits distributed or resources allocated to reserves.

CREDIT SUPPLY AND DEMAND IN ITALY

Based on the responses of the Italian banks interviewed in the quarterly Bank Lending Survey conducted in the first ten days of April,[1] in the first quarter of 2008 there was a moderate further tightening of lending conditions for firms, especially the larger ones. The tightening of credit standards, which mainly reflected the perception of heightened risk in connection with the worsening outlook for economic activity, was mainly implemented via an increase in margins, both on the riskier and on average loans (Figure A), but there also emerged some initial signs of a moderate restriction of lending volumes as well. For the second quarter, respondent banks expected a limited further restriction of credit standards for loans to firms and a simultaneous deceleration of demand.

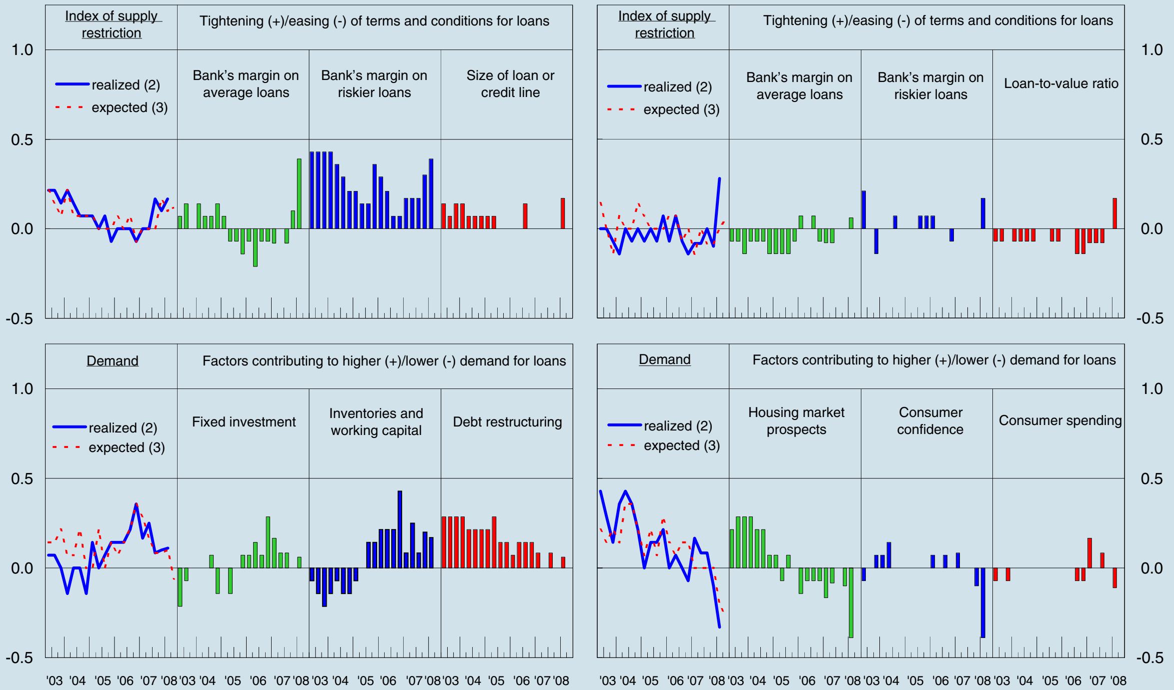
After nearly two years of easing, the banks reported that in the first quarter they had tightened their credit standards for lending to households for house purchases. About a third of the respondents stated that they had increased their margins on the riskier loans and lowered the loan-to-value ratio.

[1] The nine leading Italian banking groups participated in the survey; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The results of the survey conducted in the first ten days of July, not yet available, will be released on 8 August.

Figure A

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

A) *Lending to firms* B) *Lending to households for house purchases*

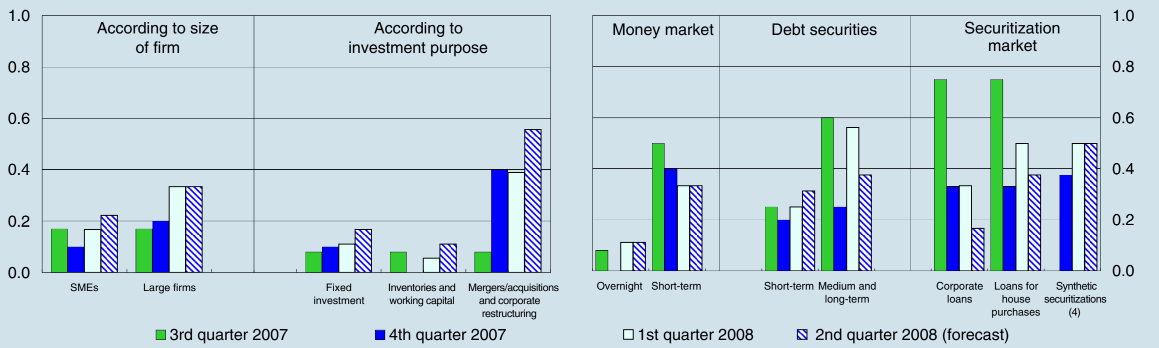


Source: Quarterly Bank Lending Survey for the euro area.
(1) Diffusion indices constructed by aggregating the qualitative replies from the groups participating in the survey, weighted as follows: for supply conditions, 1 = tightened considerably, 0.5 = tightened somewhat, 0 = basically unchanged, -0.5 = eased somewhat, -1 = decreased considerably; for demand, 1 = increased considerably, 0.5 = increased somewhat, 0 = basically unchanged, -0.5 = decreased somewhat, -1 = decreased considerably. The range of variation of the index is from -1 to 1. – (2) Refers to the quarter ending at the moment of the survey. – (3) Forecasts made in the preceding quarter.

Figure B

Effects of the subprime mortgage crisis in Italy (1)

Index of tightening of the criteria for lending to firms (2) *Index of the difficulty of obtaining funds in the wholesale market* (3)



Source: Bank Lending Survey for the euro area.
(1) Diffusion indices constructed by aggregating the qualitative replies to the special questions on the effects of the subprime mortgage crisis added to the quarterly Bank Lending Survey. – (2) Weighted as follows: 1 = tightened considerably, 0.5 = tightened somewhat, 0 = basically unchanged, -0.5 = eased somewhat, -1 = eased considerably. The range of variation of the index is from -1 to 1. – (3) Weighted as follows: 1 = considerable difficulty, 0.5 = some difficulty, 0 = basically no difficulty. The range of variation of the index is from 0 to 1. – (4) These imply recourse to credit derivatives. Data for the third quarter of 2007 are not available for this indicator.

The survey found a further sharp slowdown in the demand for mortgages, due to the deterioration in the outlook for the housing market and to the developments in consumer confidence.

Like the two preceding surveys, the April poll included specific questions on the possible repercussions on lending conditions of the market turmoil triggered by the subprime mortgage crisis. The responses indicate that the turmoil was a factor in the tightening of credit standards both for firms – above all in relation to merger, acquisition and corporate restructuring operations (Figure B) – and for households for house purchases. On the funding side, the banks observed that the market strains continue to affect their ability to place securities on the wholesale bond and securitization markets. However, there was a slight attenuation of the difficulty of obtaining funds on the short-term money market. A third of the banks surveyed reported that the crisis has had an impact on the costs relating to capital requirements and, through this channel, on the supply of credit. Overall, the survey found expectations of a modest easing of difficulties on the funding side in the second quarter of the year.

3.8 THE FINANCIAL MARKET

Share indices continued to fall

From the beginning of April to early July the Italian stock market index registered wide fluctuations, falling by 11 per cent (with the cumulative loss since the start of the year reaching 26 per cent; Figure 26). Its performance, in line with the average for the euro area, reflected the sharp downward revision of forecasts for corporate profits this year and for the two following years. The risk premium demanded by investors appears to have remained unchanged. Sectoral performances varied markedly. The indices for banks, service companies and consumer goods suffered massive losses (18, 27 and 28 per cent respectively), reacting to new signs of deterioration in the conditions of the financial markets and in the short-term economic outlook, while the shares of companies in the oil-products and basic materials sectors rose by 3 and 32 per cent respectively, pushed up by the increases in the prices of crude oil and non-energy commodities.

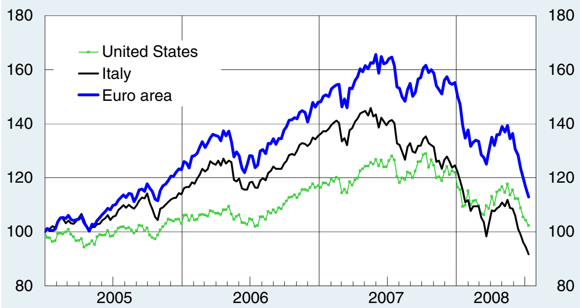
Current earnings/price ratios remained at historically very high levels (Figure 27). The volatility of share prices implied by options prices was lower than in the first quarter.

In the first six months of 2008 five initial public offerings were made on Borsa Italiana, compared with 16 in the corresponding period of the previous year; in the euro area a total of 28 IPOs were made. At the end of June there were 300 companies listed in Italy, with a total market capitalization of €551 billion.

Figure 26

Share prices (1)

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

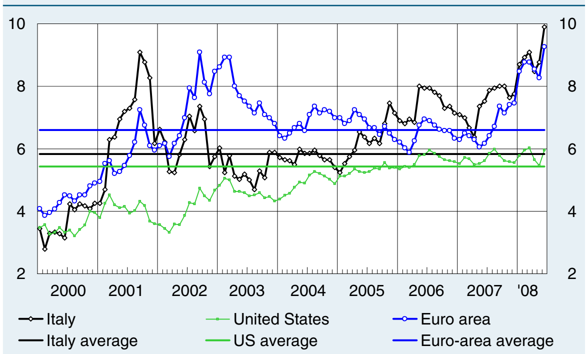


Source: Bloomberg.
(1) MIB for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

Figure 27

Current earnings/price ratios for the main stock exchanges (1)

(monthly data; percentages)



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

Bond issues by banks remained at a high level

In the first quarter of 2008 net issues of bonds by Italian corporations continued to be substantial, thanks to the large volume of net issues by banks (Table 7). The latter development contrasted with a decline in net issues or with net redemptions (in some cases very considerable) by banks in other euro-area countries (in some of which this form of funding was hit by the weakness of the bond market segment linked to house prices). Other financial corporations and non-financial corporations, whose net issuance had recovered markedly in the last quarter of 2007, made net redemptions.

Risk premiums declined

Between the beginning of April and early July the yield spreads between investment-grade bonds issued by non-financial corporations and government securities narrowed by 0.3 percentage points, a larger decline than that observed on the international market for issuers of other countries (see Section 2.1). The premiums on credit default swaps on Italian banks also decreased by 0.3 percentage points, in line with the average for the area.

The outflow of savings from investment funds accelerated

Investment funds in Italy recorded net redemptions of €37.5 billion in the first quarter of 2008, up from €23.3 billion in the previous quarter; €16.6 billion of the outflow was from Italian funds and €20.8 billion from foreign funds. Among Italian harmonized funds, bond funds alone had a net inflow. The average rate of return was strongly negative for equity, balance and flexible funds (-14.7, -5.8 and -4.6 per cent respectively) and slightly positive for money-market and bond funds (0.6 and 0.4 per cent). Individually managed portfolios also registered a large net outflow (€17.4 billion).

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2006	60,371	13,127	3,452	**76,950**
2007	63,928	15,746	10,089	**89,763**
2007 – Q1	21,619	2,342	-1,192	**22,769**
Q2	15,371	7,576	7,588	**30,535**
Q3	1,793	-2,472	-761	**-1,440**
Q4	25,145	8,300	4,454	**37,899**
2008 – Q1	39,930	-2,210	-184	**37,536**
		Euro area		
2006	346,467	235,191	28,199	**609,856**
2007	283,467	327,398	28,012	**639,192**
2007 – Q1	141,146	95,178	1,014	**237,337**
Q2	100,521	59,120	22,245	**181,886**
Q3	14,088	37,532	-6	**51,613**
Q4	28,028	135,568	4,760	**168,355**
2008 – Q1	34,361	12,877	-4,107	**43,130**

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 placed and that of the securities redeemed.

3.9 SHORT-TERM FORECASTS

The short-term forecasts for the Italian economy presented here are based on the assumptions about the main international variables and interest rates set out in the box "Assumptions underlying the forecasts" and take account of the budgetary measures described in the box "The Economic and Financial Planning Document for 2009-2013 and the three-year budget proposals".

ASSUMPTIONS UNDERLYING THE FORECASTS

The assumptions regarding the growth of the world economy and world trade on which these forecasts are based are the same as those used for the projections for the euro-area economy published in the ECB's *Monthly Bulletin* in June. The slowdown of the American economy, the ongoing rise in commodity prices and the persistent turbulence in financial markets induce a considerable worsening of the world economic cycle: in both 2008 and 2009 the growth in global GDP is more than one percentage point lower than in 2007; that in world trade, which fell to just above 6 per cent in 2007, declines further this year, by about one percentage point, and then barely exceeds 5.5 per cent in 2009.

The assumptions regarding exchange rates, interest rates and oil prices, updated to take account of the average observations of the ten working days preceding 11 July, are generally less favourable than those underlying the Eurosystem's June projections. Oil prices average over $125 a barrel this year and, consistently with the prices implied by futures contracts, are close to $140 next year. Three-month interest rates, calculated on the basis of Euribor futures, rise to 5.2 per cent in the first quarter of 2009 (from 4.7 per cent in the first half of 2008), reflecting both the anticipated evolution of monetary policy and expectations that spreads on the interbank markets remain high; long-term interest rates, corresponding to the yield of a basket of securities with a duration of about six years, rise on average by around 30 basis points between 2008 and 2009. The assumption that bilateral exchange rates remain unchanged at the average levels recently observed implies a dollar/euro conversion rate of 1.57 for the entire forecasting period.

Projections for the public finances, which take account of the measures decided by the Government last month, are in line with those presented by the Government in the Economic and Financial Planning Document for 2009-2013.

With the world economic outlook darkening...

Since publication of the preceding forecasts for Italy in the January issue of the *Economic Bulletin* the outlook for GDP and world trade has become less favourable and more uncertain. Commodity prices have continued to soar. The projections for the price of oil this year and next are now respectively almost $35 and $55 a barrel higher than those made in January. Inflationary pressures have increased everywhere. The weakening of economic activity in the United States and the consequent easing of monetary conditions by the Federal Reserve have caused a further marked depreciation of the dollar in the last six months, by about 7.5 per cent against the euro. Although on the one hand the strengthening of the euro is increasing households' purchasing power, on the other it is undermining the competitiveness of goods produced in the euro area.

...activity in Italy is slowing down further

As a result of the deterioration in external conditions, the growth in the Italian economy estimated for the two years 2008-09 is now well below that forecast in January. After increasing fairly strongly in the first three months of this year, GDP is expected to stagnate in the subsequent seven quarters. It is predicted that its average annual rate of growth, which had been 1.4 per cent in 2007, will fall to 0.4 per cent both this year and next (Table 8 and Figure 28). The downward revision of growth forecasts by comparison with those made in January (by 0.6 percentage points for 2008 and by 0.7 points for 2009) is attributable first and foremost to the effect of the increase in the prices of imported raw materials on final consumer prices; by reducing households' spending capacity, it is damping the growth in private consumption and causing firms to scale down their investment plans because of the less favourable outlook for demand.

Table 8

Forecasts of the main macroeconomic variables in Italy

(percentage changes on preceding year unless otherwise indicated)

	2007	2008	2009
GDP (1)	**1.4**	**0.4**	**0.4**
Private consumption	1.5	0.2	0.3
Government consumption	1.3	0.6	0.3
Gross fixed investment	0.9	0.3	0.3
Exports	4.5	2.1	1.7
Imports	4.0	0.2	1.7
Change in stocks (2)	0.0	-0.4	0.0
HICP (3)	**2.0**	**3.8**	**2.8**
GDP deflator (3)	**2.3**	**2.6**	**2.5**
Export competitiveness (4)	**-5.3**	**-4.5**	**-1.2**

Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Contributions to GDP growth; percentages. – (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).

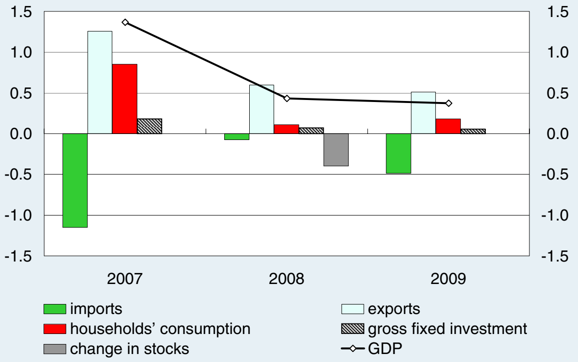
Exports continue to stimulate growth, but they are slowing markedly

Exports are reacting to the slowdown in world trade and the loss in price competitiveness (more than 5.5 percentage points in the two years 2008-09). It is estimated that the rate of growth in exports, which had already declined appreciably in 2007 (from 6.5 per cent in 2006 to 4.5 per cent), will be just over 2 per cent this year and 1.5 per cent next.

Figure 28

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

(percentages)



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

Domestic demand will stagnate over the two years, as regards both consumption...

Domestic demand is expected to stagnate this year and to grow little in 2009, reflecting barely positive rates of change in consumption and investment. The private sector's real disposable income is likely to be squeezed by higher inflation, both directly (owing to the deterioration in the terms of trade) and indirectly (reflecting losses in the real value of financial assets due to the acceleration in inflation). It is forecast that at the end of the two-year period purchasing power will still be below the average for 2007. Despite a sharp fall in the saving rate, which is normal during an economic downturn, private consumption is expected to do little more than stagnate both this year and next. It is estimated that had it not been for the acceleration in prices from 2007 onwards the growth in real disposable income by the middle of this year would have been more than one point higher than actually occurred, and 3 points higher if the loss in the real value of financial assets is taken into account. As a result, the overall growth in consumption in the two years 2008-09 would have been about 2 percentage points higher than forecast here.

...and investment

Gross fixed investment is expected to remain almost unchanged at the 2007 level, rising by about half a percentage point over the two-year period. Investment in construction, which increased by 2 per cent in 2007, will gradually slow, almost to the point of stagnation in 2009. Investment in productive capital, which had already declined in the second half of last year, is likely to contract by 0.7 per cent in 2008 and stagnate in 2009. These assessments reflect primarily the effects of the poor and uncertain demand prospects on investment decisions; it is estimated that adjustments in the cost of borrowing will have a less marked effect.

The external accounts worsen

In parallel with the slower growth in exports and the stagnation in investment (the demand components most reliant on goods manufactured abroad), there is expected to be a marked slowdown in imports, which are likely to be virtually unchanged this year and to grow by about 1.5 per cent in 2009, whereas they had grown by 4 per cent in 2007. Despite this overall favourable trade performance in volume terms, the expected pronounced deterioration in the terms of trade (by more than 7 percentage points over the two years) is likely to lead to a substantial increase in the deficit on the current account of the balance of payments (by about 2 per cent of GDP over the two-year period, taking it from 2.4 per cent in 2007 to 4.5 per cent in 2009).

Inflation will rise in 2008 and begin to fall again in 2009

Consumer price inflation is expected to average 3.8 per cent this year, on a harmonized basis, and to fall to 2.8 per cent in 2009 (Table 8). The upward revisions by comparison with the estimates made in January (1.2 percentage points for this year and 0.8 points for 2009) mainly reflect the further increases in the price of oil.

Domestic inflation, measured on the basis of the GDP deflator, will be affected by the acceleration in unit labour costs (their rate of increase will rise from about 2 per cent in 2007 to almost 4 per cent in 2008 before falling to around 2.5 per cent in 2009; Figure 29), but is expected to increase by much less, from 2.3 per cent in 2007 to around 2.5 per cent this year and next: the impact of unit labour costs on domestic prices should be largely offset this year by a narrowing of profit margins, reflecting, among other factors, the weakness of demand and competitive pressure generated by the appreciation of the euro. Mark-ups are likely to remain almost unchanged in 2009.

Comparison with other forecasters

Compared with those of other forecasters, our assessments are based on more recently updated assumptions, which is particularly relevant now, given the rapidity with which the reference framework is changing. Our estimate of GDP growth this year is in line with the average of those from the other leading forecasters (Table 9), but that for 2009 is lower. Our inflation forecasts for both years are higher than those of the other analysts. The differences regarding both economic activity and prices mainly reflect the recent increases in world energy prices.

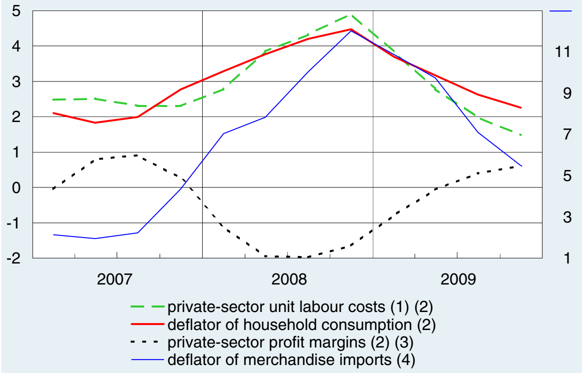
The forecasts are subject to great uncertainty

The uncertainty that surrounds these forecasts is particularly great. One significant ground for caution lies in the possibility that energy prices will continue to increase rapidly, further reducing households' spending capacity. The situation in the international financial market also remains uncertain, and may have repercussions on the prospects for growth in the world economy.

Figure 29

Main determinants of consumer price inflation

(percentage changes on year-earlier period)



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

Table 9

Forecasts by other organizations

(annual percentage changes)

	GDP (1)		Inflation	
	2008	2009	2008	2009
IMF (April)	0.3	0.3	2.5	1.9
OECD (June)	0.5	0.9	3.6	2.1
European Commission (April)	0.5	0.8	3.0	2.2
Consensus Economics (June) (2)	0.4 [0.1-0.7]	0.9 [0.3-1.5]	3.2 [2.7-3.6]	2.5 [2.1-3.1]

Sources: IMF, *World Economic Outlook*, April 2008; OECD, *Economic Outlook*, No. 83, June 2008; European Commission, *Economic Forecasts*, April 2008; Consensus Economics, *Consensus Forecasts*, June 2008.
(1) The growth rates shown in the OECD forecasts are adjusted for calendar effects, whereas those published by the European Commission and the IMF are not. – (2) Average of projections made, on various dates, by 16 private forecasters; the numbers within square brackets are the highest and lowest values of the projections in the sample.

THE ECONOMIC AND FINANCIAL PLANNING DOCUMENT FOR 2009-2013 AND THE THREE-YEAR BUDGET PROPOSALS [1]

In the Economic and Financial Planning Document for 2009-2013, which was presented to Parliament at the end of June, the Government revised the estimates of net borrowing on a current programmes basis upwards by 0.1 percentage point of GDP for 2008 and by about half a point per year for the subsequent three years (see the Table). The new estimates take account of the effects of Decree Law

[1] For an analysis of the Planning Document and Decree Laws 93 of 27 May 2008 and 112 of 25 June 2008, see the Testimony delivered to Parliament on 2 July 2008 by the Governor of the Bank of Italy, which will shortly be available on the Bank's website (www.bancaditalia.it).

Table

Estimates and objectives for net borrowing between 2008 and 2013
(as a percentage of GDP)

	2008	2009	2010	2011	2012	2013
Figures on a current programmes basis in the Combined Report (March 2008)	**2.4**	**2.1**	**1.7**	**1.4**		
DL 93 (May 2008) (1)(2)	0.0	0.0	-0.1			
of which: net revenue (2)	*-0.1*	*-0.1*	*-0.1*			
net expenditure (2)	*-0.1*	*-0.1*	*-0.2*			
Figures on a current programmes basis in the Planning Document (June 2008**)**	**2.5**	**2.6**	**2.1**	**2.0**	**1.9**	**1.8**
Objectives in the Planning Document (June 2008)	**2.5**	**2.0**	**1.0**	**0.1**	**0.0**	**-0.1**
Correction necessary to achieve objectives (1)	0.0	-0.6	-1.1	-1.9	-1.9	-1.9
of which: DL 112 (June 2008) (1) (2)	*0.0*	*-0.6*	*-1.0*	*-1.8*		
of which: net revenue (2)	*0.1*	*0.4*	*0.4*	*0.3*		
net expenditure (2)	*0.1*	*-0.2*	*-0.7*	*-1.4*		
Structural net borrowing (Planning Document – June 2008)	**2.3**	**1.7**	**0.6**	**-0.3**	**-0.2**	**-0.2**

(1) A minus sign indicates an improvement in the balance. – (2) Based on official estimates.

93 of 27 May 2008, which introduced tax reliefs[2] that are financed by cuts in expenditure, and of the further deterioration in the economic outlook, which led to a downward revision of revenue.

The Planning Document aims to achieve a gradual reduction in net borrowing, from the figure of 2.5 per cent of GDP expected in 2008 (1.9 per cent in 2007) to broad budget balance in 2011, in line with the commitments made at European level. By comparison with the Combined Report on the Economy and Public Finances presented last March, the objective for 2009 is reined back from 1.8 to 2 per cent of GDP whereas those for subsequent years remain essentially unchanged. The structural budget deficit, calculated net of the effects of the economic cycle and one-off measures, is expected to worsen this year from 1.7 to 2.3 per cent of GDP but to improve by 0.6 points in 2009 and by about one point in both 2010 and 2011. It is estimated that public debt will stand at 103.9 per cent of GDP in 2008, broadly the same as last year, and will come down to 97.2 per cent in 2011.

The Planning Document sets out the objectives for the individual items in the general government account for the entire forecasting period, something that has not happened since the Document presented in June 1999. Together with the Planning Document, the Government approved Decree Law 112 of 25 June 2008, which outlines almost all of the measures necessary to achieve the objectives set for the three years from 2009 to 2011. Previously the practice had been to indicate in the Planning Document the objectives for the entire reference period and the scale of the corrections in relation to the estimates on a current programmes basis that were needed to achieve them, and then in September to present the budget proposals setting out the measures for attaining the objective for the first year.

The Government plans to achieve a large reduction of 2.8 percentage points in the ratio of expenditure to GDP between 2008 and 2013. Capital expenditure as a proportion of GDP is set to fall by almost one point to its lowest level of recent decades (excluding from the 2000 figure the proceeds of

[2] The Decree Law abolished municipal property tax on primary residences (it had already been reduced in the Finance Law for 2008) and reduced taxation on overtime pay and other variable components of wages, including productivity bonuses.

UMTS licences, which are recorded with a minus sign in this aggregate); primary current expenditure should come down by 1.7 points of GDP, owing mainly to the sharp contraction in compensation of employees and intermediate consumption. The ratio of tax and social security contributions to GDP should remain broadly unchanged after the reduction of 0.3 percentage points of GDP expected for 2008, at 43 per cent.

Achievement of the objectives calls for an escalating correction of net borrowing on a current programmes basis equal to 0.6 percentage points of GDP in 2009, rising to 1.9 points from 2011 onwards. The Decree Law of June reduces net borrowing by 0.6 percentage points of GDP in 2009, 1 point in 2010 and 1.8 points in 2011. The remainder will be achieved by means of the other measures that will make up the budget package: the Finance Bill and two draft enabling laws on fiscal federalism and the code of autonomy for local authorities.

The budget proposals for 2009 are based mainly on increases in revenue, whereas reductions in expenditure take centre stage in the two subsequent years. The measures to increase revenue are targeted in particular on branches of activity that have enjoyed high profits in recent years; the provisions to reduce expenditure mainly take the form of financial constraints and leave it for subsequent legislation to define precisely how they will be achieved. Many of the curbs will be effective only if decisive action is taken to increase the efficiency of public services.

The measures on the revenue side are expected to generate increases in receipts of about €2 billion in 2008 and more than €7 billion a year from 2009 onwards, offset partly by the effects of a reduction in revenue caused by certain measures to curb expenditure. The tax increases affect banks, insurance companies, firms in the energy sector and cooperatives.

On the expenditure side, the Decree lays down net increases of €1.7 billion in disbursements in 2008 and expenditure savings of €10.4 billion in 2009, €17.2 billion in 2010 and €31.2 billion in 2011, offset partly by an increase of about €6.5 billion in spending from 2009 onwards, mainly in connection with the renewal of labour contracts, the abolition of the prohibition on receiving pension and labour incomes simultaneously and incentives for public employees to take early retirement. Around half of the reduction in expenditure relates to central government and consists in cuts in appropriations for the major "missions" into which the central government budget is divided; almost one third relates to local authorities and will be achieved by revising the Stability Pact, a change that will be approved in the next few months. In the health sector, notwithstanding complete compliance with the deficit elimination plans, the responsibility for reducing expenditure is delegated to the Regions under an agreement with central government. The rise in staff costs will be held in check by further tightening the limits on the replacement of departing staff and capping appropriations for the renewal of labour contracts.

STATISTICAL APPENDIX

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

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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
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
2007	2.2	2.9	2.0	2.0	0.4	-2.9	-0.5	1.5	1.6	8.1	1.9	0.6	-0.3
2005 – 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
Q4	0.6	2.3	1.6	2.0	0.4	-4.0	-0.6	-0.4	-0.4	6.5	-1.4	1.0	-1.8
2008 – Q1	1.0	1.1	0.8	2.1	0.4	-6.9	-1.1	0.2	0.2	5.4	-0.7	0.8	..

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government 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
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	1.7	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	1.6	9.7	4.2	0.8	0.2
2007	2.1	1.5	0.8	0.7	0.1	-0.5	-0.1	1.0	1.0	8.6	1.8	1.1	0.1
2005 – Q3	1.9	3.2	1.7	3.3	0.6	3.8	0.9	2.0	1.9	12.3	14.8	0.1	-1.3
Q4	2.6	2.1	1.2	-3.9	-0.7	-2.5	-0.6	0.2	0.2	16.1	-1.4	2.3	0.4
2006 – Q1	1.9	1.7	1.0	-1.4	-0.2	0.4	0.1	1.5	1.5	9.1	6.9	0.5	0.7
Q2	3.0	3.2	1.8	2.0	0.3	3.5	0.8	3.0	2.9	3.9	4.2	0.1	..
Q3	0.6	-2.5	-1.4	1.4	0.2	-1.0	-0.2	-0.9	-0.8	8.9	-0.7	1.3	0.6
Q4	4.6	4.4	2.4	-1.3	-0.2	8.0	1.8	4.1	3.9	4.1	0.6	0.5	-0.1
2007 – Q1	4.5	2.3	1.2	1.2	0.2	2.8	0.6	2.8	2.6	13.8	3.2	1.6	0.5
Q2	-2.5	0.7	0.4	0.7	0.1	-11.6	-2.8	-3.0	-2.9	5.1	2.6	0.5	-0.6
Q3	0.9	0.2	0.1	0.4	0.1	-3.6	-0.8	-1.0	-1.0	11.9	-0.2	1.8	-0.3
Q4	2.9	1.5	0.8	3.4	0.6	-1.5	-0.3	1.7	1.6	10.8	3.9	1.2	0.5
2008 – Q1	4.0	3.3	1.8	-1.7	-0.3	3.9	0.8	2.0	1.8	17.1	5.6	2.0	-0.5

Source: National statistics.
(1) Chain-linked volumes. Statistical discrepancies may cause differences between the sum of contributions and GDP growth. – (2) Includes change in stocks.

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' expenditure (2)	General government expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2002	0.9	0.4	0.8	-0.5	-2.5	-1.4	0.9	2.4	1.8
2003	0.8	3.3	1.4	1.6	1.2	1.4	1.3	1.8	1.2
2004	2.1	7.0	3.4	1.4	3.4	2.4	1.6	1.4	7.2
2005	1.7	5.6	2.8	2.1	4.2	3.1	1.7	1.5	4.7
2006	2.8	7.6	4.2	4.8	5.7	5.2	1.8	2.0	7.9
2007	2.7	5.3	3.4	3.6	5.5	4.5	1.6	2.3	6.1
2006 – Q1	0.8	2.3	1.2	..	0.9	0.4	0.8	1.1	3.0
Q2	1.0	1.2	1.1	2.9	2.9	2.9	0.4	0.3	1.6
Q3	0.6	1.5	0.8	1.1	0.4	0.8	0.5	0.4	1.0
Q4	0.8	1.8	1.1	1.7	1.8	1.8	0.5	0.6	3.1
2007 – Q1	0.8	1.5	1.0	1.2	1.3	1.3	0.1	1.1	0.9
Q2	0.3	0.3	0.3	-1.1	1.3	..	0.6	0.2	1.0
Q3	0.6	2.4	1.2	0.7	0.8	0.7	0.5	0.6	2.0
Q4	0.4	-0.2	0.2	0.7	1.5	1.1	-0.1	0.1	0.4
2008 – Q1	0.7	2.0	1.1	2.0	1.1	1.6	0.2	0.4	1.9
				Implicit prices					
2002	2.6	-2.1	....	....	....	1.4	1.9	3.1	-0.4
2003	2.2	-1.8	....	....	....	1.1	2.1	2.4	-1.3
2004	1.9	1.5	....	....	....	2.5	2.1	2.2	1.0
2005	2.0	3.5	....	....	....	2.6	2.1	2.5	2.5
2006	1.9	3.9	....	....	....	2.9	2.2	1.9	2.7
2007	2.2	1.2	....	....	....	2.7	2.1	1.5	1.4
2006 – Q1	0.3	1.7	....	....	....	0.7	0.5	-0.5	0.9
Q2	0.5	0.6	....	....	....	0.7	0.6	1.2	0.4
Q3	0.5	0.2	....	....	....	0.8	0.5	-0.3	0.7
Q4	0.4	-0.4	....	....	....	0.5	0.3	-0.1	0.1
2007 – Q1	0.8	0.1	....	....	....	0.9	0.5	0.8	0.2
Q2	0.6	0.9	....	....	....	0.7	0.6	0.4	0.7
Q3	0.5	0.4	....	....	....	0.4	0.5	0.4	0.2
Q4	0.4	1.3	....	....	....	0.4	1.1	0.7	0.4
2008 – Q1	0.6	1.4	....	....	....	0.7	0.8	0.6	0.9

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				
2002	0.5	0.2	0.4	5.9	1.9	3.7	0.2	2.5	-2.9
2003	..	1.2	0.2	2.4	-4.6	-1.2	1.0	1.9	-2.0
2004	1.5	4.2	2.0	2.2	2.3	2.3	0.7	2.3	4.9
2005	0.6	2.2	0.9	0.5	0.9	0.7	0.9	1.9	1.0
2006	1.8	5.9	2.7	1.5	3.5	2.5	1.1	0.9	6.2
2007	1.5	4.4	2.1	2.2	0.2	1.2	1.4	1.3	5.0
2006 – Q1	0.7	2.7	1.2	0.4	1.6	1.0	0.5	-0.1	2.8
Q2	0.4	0.1	0.4	1.0	1.7	1.3	..	0.4	1.1
Q3	0.3	1.5	0.5	-0.5	-1.4	-0.9	0.6	0.2	-1.3
Q4	1.0	2.8	1.4	3.0	0.7	1.9	..	0.7	5.1
2007 – Q1	0.3	1.3	0.5	0.6	-0.9	-0.1	1.0	0.4	1.6
Q2	..	-0.7	-0.1	-2.0	1.1	-0.5	0.1	..	-1.8
Q3	0.2	1.2	0.4	1.1	-1.5	-0.1	0.2	0.3	2.3
Q4	-0.4	-1.0	-0.5	0.7	0.3	0.5	-0.4	0.1	-1.2
2008 – Q1	0.5	-0.5	0.2	0.3	-0.7	-0.2	0.1	0.4	1.4
					Implicit prices				
2002	3.3	-0.3	2.5	3.7	2.2	2.9	2.9	2.6	1.4
2003	3.1	-1.3	2.2	2.8	0.3	1.6	2.8	3.7	0.4
2004	2.6	2.7	2.6	4.0	1.4	2.7	2.6	2.7	2.6
2005	2.1	6.2	2.9	4.6	1.2	2.9	2.3	3.3	4.0
2006	1.7	7.6	3.0	3.2	2.0	2.6	2.7	2.0	4.5
2007	2.3	2.3	2.3	3.5	1.6	2.6	2.2	0.4	3.6
2006 – Q1	-0.3	2.8	0.3	0.5	0.9	0.7	0.7	-3.9	1.6
Q2	1.3	1.5	1.3	1.0	0.7	0.9	0.9	5.0	0.9
Q3	-0.3	1.2	..	0.9	0.2	0.6	0.7	-3.0	1.3
Q4	..	-1.0	-0.2	0.8	..	0.5	0.1	-2.3	0.2
2007 – Q1	1.3	0.1	1.0	1.1	0.9	1.0	0.4	1.3	1.2
Q2	0.7	1.5	0.9	0.7	0.4	0.5	0.7	1.0	1.2
Q3	0.4	1.4	0.7	0.7	0.3	0.6	0.9	..	0.5
Q4	0.2	0.4	0.2	0.7	-0.1	0.3	0.8	1.8	0.9
2008 – Q1	0.2	2.1	0.7	0.8	1.5	1.2	0.8	-2.1	1.6

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	of which: Value added (2)	of which: Employees	Unit labour costs
			Total industry excluding construction		
2003	2.3	1.8	0.3	-1.5	0.6
2004	2.9	4.1	2.7	-1.4	-1.2
2005	1.8	2.2	1.1	-1.1	-0.5
2006	3.4	3.8	3.4	-0.4	-0.4
2007	2.8	3.1	3.4	0.3	-0.3
2006 – Q1	3.6	4.4	3.5	-0.8	-0.8
Q2	3.5	3.8	3.4	-0.4	-0.3
Q3	3.7	3.9	3.7	-0.3	-0.3
Q4	3.1	4.0	4.0	-0.1	-0.9
2007 – Q1	2.4	3.3	3.6	0.3	-0.8
Q2	3.1	3.0	3.3	0.3	0.1
Q3	2.4	3.2	3.5	0.3	-0.8
Q4	3.0	2.8	3.1	0.4	0.2
2008 – Q1	3.3	2.3	2.8	0.5	1.0
			Services		
2003	2.3	..	1.1	1.2	2.3
2004	1.9	0.4	1.9	1.5	1.5
2005	1.9	0.7	2.1	1.4	1.3
2006	1.9	0.4	2.6	2.2	1.5
2007	2.3	0.5	2.7	2.1	1.7
2006 – Q1	1.7	0.2	2.1	1.9	1.5
Q2	2.2	0.3	2.7	2.4	1.9
Q3	2.0	0.6	2.8	2.2	1.4
Q4	1.5	0.8	3.0	2.2	0.7
2007 – Q1	2.4	1.1	3.0	1.9	1.3
Q2	1.9	0.7	2.6	1.9	1.2
Q3	2.1	0.4	2.7	2.3	1.7
Q4	2.6	0.1	2.4	2.3	2.5
2008 – Q1	2.6	..	2.1	2.1	2.7
			Total economy		
2003	2.3	0.3	0.7	0.5	2.1
2004	2.1	1.5	2.2	0.7	0.7
2005	1.8	0.7	1.7	1.0	1.1
2006	2.2	1.2	2.8	1.6	1.0
2007	2.4	1.0	2.8	1.8	1.4
2006 – Q1	2.1	1.1	2.5	1.3	1.0
Q2	2.4	1.2	2.9	1.7	1.2
Q3	2.4	1.4	3.0	1.6	1.0
Q4	2.0	1.6	3.3	1.7	0.4
2007 – Q1	2.4	1.6	3.4	1.8	0.8
Q2	2.2	1.0	2.8	1.7	1.1
Q3	2.2	0.8	2.7	1.9	1.3
Q4	2.8	0.6	2.4	1.8	2.1
2008 – Q1	2.9	0.6	2.2	1.6	2.2

Source: Based on Eurostat.
(1) Euro-15. – (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) (1)

	Per capita compensation (2)	Wages per employee (2)	Productivity	of which: Value added (3)	of which: Employees (2)	Unit labour costs
			Total industry excluding construction			
2003	2.8	2.6	-2.6	-2.7	..	5.6
2004	4.0	3.9	1.9	0.9	-1.0	2.0
2005	2.7	3.1	0.7	-0.4	-1.0	2.0
2006	2.6	3.4	0.1	1.2	1.0	2.5
2007	2.4	2.8	-0.1	0.8	0.9	2.5
2006 – Q1	3.7	4.6	2.3	2.5	0.2	1.4
Q2	2.4	3.1	-1.2	0.5	1.7	3.6
Q3	2.4	3.1	-0.9	0.3	1.3	3.3
Q4	2.0	2.8	1.6	2.6	1.0	0.4
2007 – Q1	1.0	1.3	-0.6	1.2	1.8	1.7
Q2	2.2	2.6	0.5	1.8	1.3	1.7
Q3	2.7	3.1	0.4	1.0	0.5	2.3
Q4	3.8	4.0	-2.4	-2.3	0.1	6.4
2008 – Q1	5.5	5.6	0.4	-1.1	-1.5	5.1
			Services			
2003	3.8	3.3	-0.7	0.4	1.1	4.5
2004	3.1	3.4	0.9	1.6	0.7	2.3
2005	3.6	3.8	0.7	1.1	0.4	2.9
2006	2.5	2.9	0.1	2.1	2.1	2.5
2007	1.6	1.6	0.7	1.8	1.1	0.9
2006 – Q1	3.4	3.7	0.1	1.5	1.4	3.3
Q2	5.6	6.0	-0.6	2.0	2.6	6.2
Q3	3.6	3.9	..	2.3	2.3	3.6
Q4	-2.2	-1.7	0.7	2.6	1.9	-2.9
2007 – Q1	1.6	2.0	1.6	2.3	0.7	..
Q2	-0.3	-0.2	1.4	1.8	0.4	-1.8
Q3	1.0	0.9	0.1	2.0	1.9	0.9
Q4	4.0	3.9	-0.6	1.2	1.7	4.6
2008 – Q1	3.4	3.9	-1.2	0.9	2.1	4.6
			Total economy			
2003	3.7	3.2	-0.9	-0.3	0.6	4.7
2004	3.3	3.4	1.4	1.7	0.4	1.9
2005	3.2	3.4	0.6	0.7	0.2	2.6
2006	2.5	3.0	0.1	1.8	1.7	2.4
2007	1.9	2.1	0.6	1.6	1.0	1.4
2006 – Q1	3.3	3.8	0.6	1.8	1.1	2.7
Q2	4.4	5.0	-0.5	1.6	2.1	5.0
Q3	3.1	3.6	-0.4	1.5	1.9	3.5
Q4	-0.9	-0.3	0.9	2.5	1.7	-1.7
2007 – Q1	1.7	2.0	1.3	2.2	0.8	0.3
Q2	0.5	0.7	1.2	1.8	0.6	-0.6
Q3	1.6	1.6	0.2	1.7	1.5	1.4
Q4	3.9	3.9	-0.9	0.3	1.1	4.8
2008 – Q1	3.9	4.3	-0.6	0.4	1.0	4.5

Sources: Based on Istat and Eurostat data.
(1) There may be discrepancies between the sum of quarterly results and the annual accounts. – (2) Standard labour units. – (3) 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. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products	Total	Total excl. unprocessed food and energy products
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
2007	2.0	1.9	2.3	2.1	1.6	1.5	2.8	2.7	2.1	2.0
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
Dec.	2.8	2.3	3.1	2.4	2.8	1.9	4.3	3.4	3.1	2.3
2008 – Jan.	3.1	2.6	2.9	2.1	3.2	2.2	4.4	3.2	3.2	2.3
Feb.	3.1	2.5	3.0	2.2	3.2	2.3	4.4	3.3	3.3	2.4
Mar.	3.6	2.9	3.3	2.4	3.5	2.5	4.6	3.5	3.6	2.7
Apr.	3.6	2.7	2.6	1.8	3.4	2.5	4.2	3.2	3.3	2.4
May	3.7	2.8	3.1	1.8	3.7	2.4	4.7	3.3	3.7	2.5

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	-13,077	8,854	1,179	-14,817	-1,477	-6,816	1,700	-38	-26	1,764
2005	-23,628	536	-541	-13,624	-1,676	-8,323	998	69	-66	995
2006	-38,506	-10,203	-1,272	-13,573	-5,473	-7,985	1,890	-100	-60	2,050
2007	-37,366	2,941	-6,978	-19,675	-6,762	-6,891	2,674	-69	71	2,671
2006 – Q2	-10,566	-2,858	1,707	-6,791	-1,109	-1,514	-25	-19	-139	133
Q3	-6,222	-1,464	217	-967	-1,515	-2,494	292	-2	1	293
Q4	-9,034	143	-1,732	-3,695	-1,549	-2,200	1,136	26	14	1,096
2007 – Q1	-12,471	-2,133	-3,345	-4,077	-1,278	-1,638	1,132	-1	29	1,104
Q2	-10,186	1,044	-1,091	-8,184	-1,742	-213	-32	-27	-15	10
Q3	-4,515	2,807	-871	-2,724	-1,620	-2,106	572	25	-30	577
Q4	-10,194	1,223	-1,671	-4,689	-2,123	-2,934	1,002	-65	87	980
2008 – Q1	-15,683	-1,482	-3,100	-6,135	-2,029	-2,936	1,224	23	-21	1,223
2006 – Apr.	-3,923	-1,381	760	-2,365	-246	-691	-48	-9	-82	43
May	-3,859	-714	188	-2,181	-518	-634	65	3	19	42
June	-2,784	-763	759	-2,245	-345	-189	-42	-14	-76	48
July	52	1,264	658	-753	-554	-564	67	6	25	37
Aug.	-1,117	-862	-680	1,387	-382	-581	37	-1	2	37
Sept.	-5,156	-1,866	239	-1,601	-579	-1,349	187	-7	-26	219
Oct.	-3,238	168	-23	-2,205	-575	-603	106	23	2	81
Nov.	-2,813	-104	-748	-1,059	-524	-378	-83	2	-33	-52
Dec.	-2,983	79	-962	-431	-450	-1,219	1,114	2	44	1,068
2007 – Jan.	-5,505	-2,265	-1,444	-1,443	-524	170	259	-3	10	252
Feb.	-3,474	-892	-822	-1,209	-174	-377	266	-6	8	263
Mar.	-3,492	1,024	-1,079	-1,426	-579	-1,432	607	7	11	589
Apr.	-4,725	-635	-896	-2,095	-516	-584	-4	-8	..	5
May	-4,358	319	-209	-3,470	-541	-456	18	-18	-4	40
June	-1,103	1,360	14	-2,619	-685	827	-46	..	-10	-35
July	2,351	3,078	313	-230	-525	-285	35	21	-21	35
Aug.	-2,881	320	-1,053	-1,100	-459	-589	36	..	5	31
Sept.	-3,985	-591	-131	-1,394	-637	-1,232	500	3	-14	511
Oct.	-1,274	1,591	-82	-1,512	-797	-474	65	-47	1	111
Nov.	-3,884	693	-923	-2,502	-668	-485	153	-11	81	83
Dec.	-5,036	-1,061	-667	-675	-658	-1,975	784	-7	4	786
2008 – Jan.	-6,118	-2,753	-810	-1,675	-607	-273	322	9	23	290
Feb.	-3,416	771	-1,174	-2,228	-464	-321	275	17	-32	290
Mar.	-6,149	500	-1,116	-2,232	-958	-2,342	627	-4	-12	643
Apr.	(-4,129)	(-283)	(-246)	(-2,306)	….	….	(20)	….	….	….

Table A9

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

(12-month percentage changes)

	General govern-ment	Finance and insurance companies	Non-financial corporations (a)		Households		Firms = (a) + (b)				Total
				under 20 employ-ees (2)	Producer (b) (3)	Consumer		Manufac-turing	Construc-tion	Services	
					Centre and North						
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.	-0.1	7.7	12.7	5.5	5.7	8.5	12.1	7.1	15.3	12.1	10.1
Dec.	7.9	5.6	13.2	6.8	5.2	8.2	12.4	6.5	13.5	11.1	10.6
2008 – Mar.	6.0	14.2	13.1	7.1	3.9	5.3	12.2	8.6	13.3	10.6	11.0
May	6.7	7.2	12.7	5.7	2.3	4.1	11.7	....	....	....	9.4
					South and Islands						
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
Dec.	-3.6	-7.0	10.8	9.8	6.6	10.5	10.1	7.3	18.5	9.7	9.2
2008 – Mar.	0.7	-3.8	11.0	9.7	5.0	6.0	9.9	6.1	17.5	9.5	7.9
May	-2.2	1.3	12.2	8.7	4.6	3.2	10.9	....	....	....	7.2
					ITALY						
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.	-0.7	7.4	13.1	6.1	6.5	9.3	12.4	7.7	16.3	12.7	10.4
Dec.	6.4	5.3	12.9	7.2	5.5	8.7	12.1	6.6	14.4	10.9	10.4
2008 – Mar.	5.4	13.7	12.8	7.5	4.2	5.5	11.9	8.3	14.0	10.5	10.5
May	5.6	7.1	12.6	6.1	2.9	3.9	11.6	6.6	12.6	10.3	9.1

(1) Statistics for February 2008 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

(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
2005	20,743	-4,177	-924	39,948	5,593	4,061	1,197	69,421	3,982
2006	7,476	-4,957	4,867	33,131	63,596	-54,677	-8,230	54,393	-6,868
2007	-13,977	-28,447	5,542	22,466	1,750	14,688	13,142	30,468	-6,054
2005 – Q1	2,510	-516	11,204	45,935	1,198	-33,130	-34,293	27,716	1,288
Q2	12,725	149	9,287	20,745	1,952	-15,573	-14,842	29,136	3,536
Q3	2,758	-1,577	2,547	-19,414	346	29,464	28,813	15,701	424
Q4	2,751	-2,233	-23,963	-7,317	2,097	23,300	21,519	-3,132	-1,266
2006 – Q1	10,657	-891	18,406	13,053	2,479	-11,612	-16,246	32,983	-19
Q2	1,162	-1,615	7,154	28,758	-627	-25,553	-26,568	10,892	724
Q3	232	-1,210	-7,799	5,973	55,958	-39,102	12,948	15,262	1,294
Q4	-4,575	-1,240	-12,893	-14,653	5,787	21,590	21,637	-4,744	-8,866
2007 – Q1	-1,537	-3,474	20,664	7,518	2,340	-5,597	-5,753	23,388	-522
Q2	-16,496	-13,509	345	28,696	-632	-8,731	-8,936	3,182	2,499
Q3	-2,330	-8,550	3,074	-2,809	-1,099	7,061	5,459	3,897	-6,284
Q4	6,387	-2,914	-18,541	-10,939	1,140	21,955	22,372	1	-1,748
2008 – Q1	1,313	-1,111	25,905	23,264	201	-32,635	-31,123	18,048	471
2007 – Jan.	3,209	-263	12,347	-1,825	848	-11,536	-11,383	3,043	-759
Feb.	-2,029	204	3,027	5,059	1,082	-3,549	-3,489	3,590	-291
Mar.	-2,718	-3,415	5,290	4,284	410	9,488	9,120	16,754	528
Apr.	-4,256	-4,597	99	4,960	3,164	7,554	7,549	11,521	352
May	-3,081	-1,584	2,261	18,326	-2,062	-4,732	-5,066	10,711	506
June	-9,159	-7,329	-2,015	5,410	-1,734	-11,553	-11,419	-19,050	1,641
July	-203	-4,856	377	110	-241	-2,262	-3,963	-2,219	-2,646
Aug.	-1,558	-1,934	358	-728	-1,751	3,798	3,887	119	-448
Sept.	-569	-1,760	2,340	-2,191	892	5,526	5,534	5,997	-3,189
Oct.	-35	-580	5,213	5,095	412	-1,846	-1,859	8,841	70
Nov.	404	-1,152	-380	-5,344	1,656	8,713	8,860	5,049	460
Dec.	6,017	-1,182	-23,374	-10,691	-928	15,087	15,372	-13,888	-2,278
2008 – Jan.	3,013	-36	14,516	7,081	-171	-26,482	-26,389	-2,043	2,124
Feb.	-3,532	-659	4,821	1,657	-634	6,506	7,061	8,819	243
Mar.	1,833	-415	6,568	14,525	1,006	-12,659	-11,795	11,273	-1,896
Apr.	-1,101	-195	4,215	10,690	650	-2,626	-2,622	11,827	1,972

(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

(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
2005	149,530	70,578	117,460	1,129,256	60,098	55,190	1,511,534	27,255	1,257,824	14,634
2006	157,006	65,622	122,327	1,163,868	123,687	8,742	1,575,630	10,740	1,303,552	22,864
2007	143,029	37,175	127,869	1,190,085	125,434	10,288	1,596,705	3,465	1,331,021	9,721
2005 – Mar.	131,297	74,239	129,589	1,136,066	55,698	53,489	1,506,139	29,260	1,264,270	50,124
June	144,021	74,388	138,877	1,156,971	57,655	52,759	1,550,284	26,844	1,283,037	64,966
Sept.	146,779	72,811	141,424	1,136,440	58,000	53,409	1,536,053	26,634	1,261,587	36,153
Dec.	149,530	70,578	117,460	1,129,256	60,098	55,190	1,511,534	27,255	1,257,824	14,634
2006 – Mar.	160,186	69,687	135,868	1,142,318	62,574	59,824	1,560,772	22,314	1,275,736	30,880
June	161,349	68,072	143,025	1,172,239	61,945	60,839	1,599,397	18,375	1,302,744	57,449
Sept.	161,581	66,862	135,224	1,178,450	117,902	8,789	1,601,945	15,116	1,312,070	44,501
Dec.	157,006	65,622	122,327	1,163,868	123,687	8,742	1,575,630	10,740	1,303,552	22,864
2007 – Mar.	155,469	62,147	142,994	1,172,602	126,027	8,898	1,605,989	5,020	1,314,922	28,616
June	138,972	48,639	143,349	1,203,507	125,394	9,103	1,620,324	4,908	1,344,777	37,552
Sept.	136,642	40,089	146,422	1,200,348	124,295	10,705	1,618,412	4,678	1,342,719	32,094
Dec.	143,029	37,175	127,869	1,190,085	125,434	10,288	1,596,705	3,465	1,331,021	9,721
2008 – Mar.	144,342	36,064	153,802	1,214,254	125,636	8,777	1,646,811	3,236	1,353,307	40,845
2007 – Jan.	160,215	65,358	134,674	1,162,771	124,535	8,590	1,590,784	6,968	1,303,776	34,247
Feb.	158,186	65,562	137,702	1,168,412	125,617	8,529	1,598,447	6,845	1,309,652	37,736
Mar.	155,469	62,147	142,994	1,172,602	126,027	8,898	1,605,989	5,020	1,314,922	28,616
Apr.	151,213	57,551	143,094	1,177,554	129,189	8,902	1,609,952	4,907	1,320,854	21,067
May	148,131	55,967	145,358	1,196,849	127,128	9,236	1,626,702	4,960	1,340,279	26,133
June	138,972	48,639	143,349	1,203,507	125,394	9,103	1,620,324	4,908	1,344,777	37,552
July	138,769	43,782	143,726	1,204,158	125,153	10,803	1,622,610	4,837	1,346,832	41,515
Aug.	137,211	41,848	144,084	1,203,529	123,403	10,714	1,618,941	4,847	1,345,735	37,628
Sept.	136,642	40,089	146,422	1,200,348	124,295	10,705	1,618,412	4,678	1,342,719	32,094
Oct.	136,608	39,508	151,631	1,205,522	124,706	10,719	1,629,185	4,591	1,347,969	33,953
Nov.	137,012	38,357	151,251	1,200,427	126,362	10,572	1,625,624	3,490	1,342,673	25,093
Dec.	143,029	37,175	127,869	1,190,085	125,434	10,288	1,596,705	3,465	1,331,021	9,721
2008 – Jan.	146,042	37,139	142,388	1,197,971	125,264	10,196	1,621,860	3,431	1,339,032	36,111
Feb.	142,510	36,479	147,217	1,199,835	124,630	9,641	1,623,833	3,391	1,339,821	29,050
Mar.	144,342	36,064	153,802	1,214,254	125,636	8,777	1,646,811	3,236	1,353,307	40,845
Apr.	143,241	35,869	158,046	1,225,141	126,285	8,773	1,661,486	3,284	1,364,957	43,466

(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".