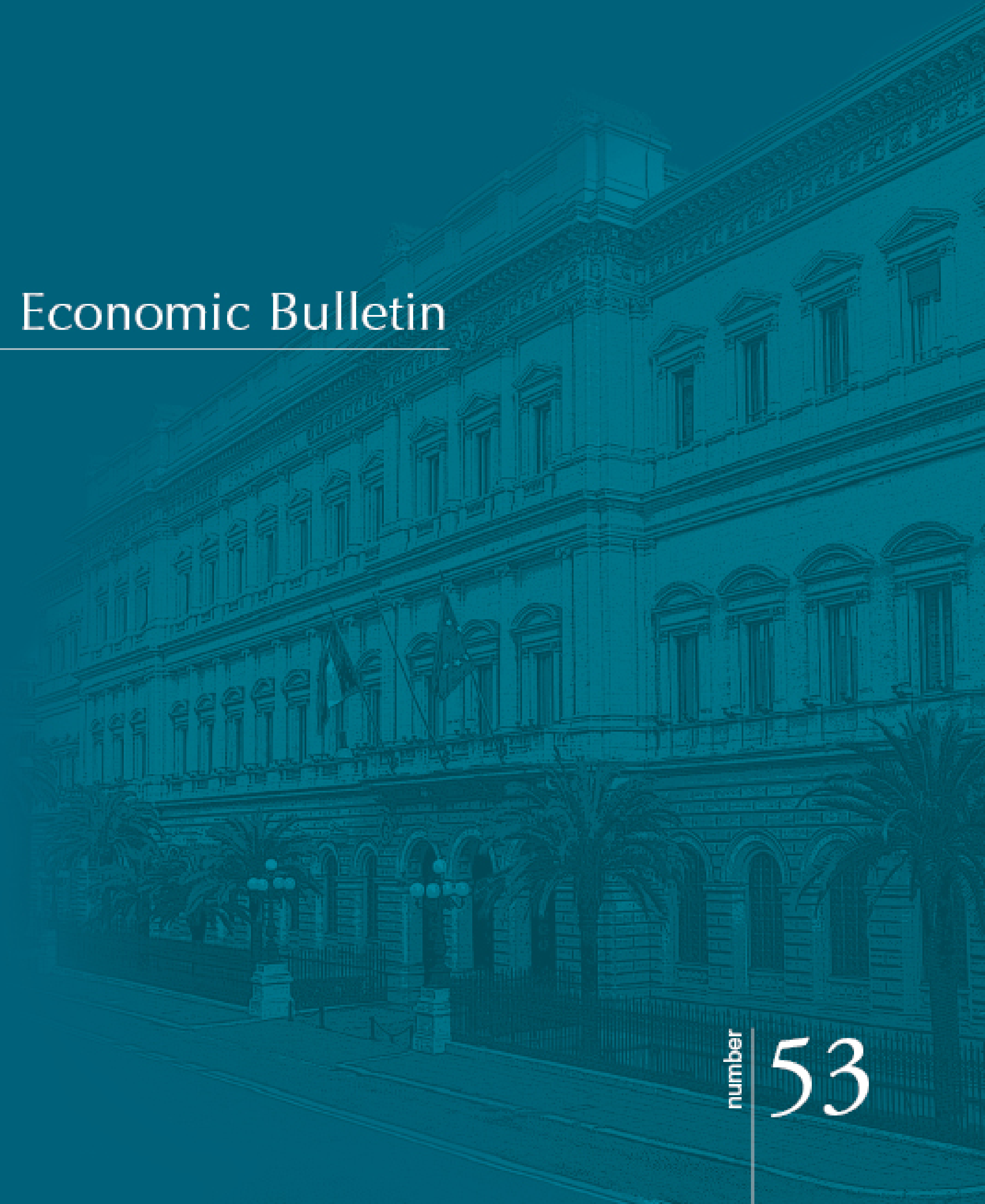
BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin



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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

The global recession is slowing but the timing and strength of the recovery remain uncertain

The global recession is easing. The need to rebuild stocks is providing an initial spur to production. Opinion surveys have shown signs of diminished pessimism. The decline in GDP and in world trade had deepened in the first quarter of 2009, but industrial output and other coincident indicators point to an abatement in the pace of the fall in the second quarter. Economic activity and trade flows in the Asian economies have shown particular improvement. The International Monetary Fund estimates that the contraction in global economic activity could stay within 1.5 per cent on average this year, still the worst result since the Second World War. Global GDP is predicted to return to growth of 2.5 per cent in 2010. These are encouraging signs, but the timing and strength of the recovery are uncertain. In particular, the risk remains that the adverse effects of the recession on the labour market could still have significant repercussions for final domestic demand.

Economic policies should help the recovery

Economic policies, whose full effects will unfold in the next few months, should help the recovery. The main countries took steps to guarantee the liquidity of the financial system, reinforce banks' stability, support demand and sustain employment. The recent G8 Summit in L'Aquila pledged to keep these measures in place for as long as necessary, but also, once the recovery has gained strength, to prepare appropriate exit strategies from the extraordinary economic policies adopted.

The strains in banking and financial markets abate but do not cease

The strains in money and financial markets have eased, thanks to a partial recovery of confidence and the plentiful liquidity supplied by central banks. An adequate supply of loans will be essential once the demand for financing for new productive investment revives. The signals coming from the credit markets are not unequivocal. After a phase of improvement, since the end of May the premiums on credit default swaps for the main international banks have been increasing again and some banks have undergone credit rating downgrades. The supply of credit is still conditioned by the amount of banks' capital. It remains important to make the quality of the assets in their balance sheets more transparent so as to reactivate the private channels of bank recapitalization.

Signs of an easing of the recession are also seen in the euro area …

In the euro area, business and consumer confidence improved further in June. The same month saw the Bank of Italy's €-coin coincident indicator of the euro-area business cycle score its fourth successive increase, although it remained deep in negative territory. In May industrial production showed a first increase, buoyed mainly by the improvement in the automobile sector in Germany and France. According to our estimates, industrial production continued to contract over the second quarter of 2009 as a whole, but more moderately than in the two previous quarters: in the first quarter of 2009 the euro area had recorded an especially sharp fall in industrial activity, the fourth consecutive one and particularly severe in Germany; in France the growth in consumption, though modest, tempered the fall in production. Unemployment is rising in all the main countries. The Eurosystem forecasts released in June indicate a fall in area-wide GDP of between 4.1 and 5.1 per cent in 2009. Output growth is expected to be weak in 2010 as well, within a range of -1 to +0.4 per cent.

… and in Italy

In Italy, the decline in industrial production came *to a halt in the spring: an uptick in April was followed by a basically flat result for May and, by our estimates, for June. Business and household opinion surveys also trace a picture of less pessimism in June. By contrast, the figures on the labour force and on the number of hours of wage supplementation authorized, updated respectively to March and June, show a worrisome deterioration in the labour market. Complete national accounts data are only available for the first quarter. They indicate persistent caution in Italian households' consumption plans, an effect of the uncertainty of employment prospects; they also signal a sharp contraction in investment, held down by the low rate of capacity utilization. We estimate that GDP diminished by 0.6 per cent on a quarterly basis in the second quarter after a decline of 2.6 per cent in the first. Even assuming no more than that output stays at its first-quarter level for the rest of the year, the average annual decline would approach 5 per cent. Taking all the currently available information into account, we estimate the fall in Italy's GDP in 2009 at 5.2 per cent. The large downward revision with respect to the forecast given in the* Economic Bulletin *in January (-2 per cent) is entirely due to the worsening of the global economic context delineated by the main international organizations, which we take as exogenous in our forecasting scenarios.*

Recovery could get under way in 2010

Benefiting from a world economic upturn that the main international organizations forecast as getting slowly under way within the next few months, economic activity in Italy should begin growing again in 2010. The Government's recent measures should help, in particular the temporary tax relief for investment in machinery and the increase in the funds allocated to settle general government trade payables with firms. Taking this into account, gross domestic product is expected to remain unchanged on average next year. In the fourth quarter it could be about half a percentage point higher than in the fourth quarter of 2009.

Inflation is likely to rise gradually from autumn onwards

Consumer price inflation is forecast to decline to a year-on-year rate of 0.8 per cent in 2009, reflecting above all the fall in raw material prices in the second half of 2008. It is expected to rise to 1.5 per cent in 2010.

The outlook remains highly uncertain

The uncertainty connected with the forecasting scenario for 2010, especially as regards the timing and strength of the economic recovery, is considerable. The zero growth forecast for GDP on average for the year is the mid-point of quite a wide range. The probability that the actual outturn will fall between ± 1.5 per cent is 70 per cent. The baseline scenario depends on the assumption that the credit market returns to normal functioning, which is essential to firms' ability to invest. If the recession's impact on the labour market were to be more severe than forecast, it would further curtail households' spending capacity and prompt additional precautionary saving. On the other hand, the signs of improvement in the world business cycle, halting as they are, could be the prelude to a somewhat sharper acceleration in the growth of world trade than is assumed in the present forecasts. As for price trends, the risk of deflation would appear to be small but not negligible.

2 THE WORLD ECONOMY

2.1 THE FINANCIAL MARKETS AND ECONOMIC DEVELOPMENTS

The financial crisis deepened in the first quarter of the year ...

In the first quarter of 2009 the GDP of the OECD countries declined by 8.3 per cent on an annual basis, marking the second consecutive quarter of deep recession. Output decreased sharply in the rest of the world as well. World trade contracted by more than 30 per cent on an annual basis.

... but there are now early signs that economic activity is stabilizing

In response to strongly expansionary economic policies, the fall in output in the advanced countries apparently slowed in the second quarter, according to the trend of industrial production and several leading indicators. Among the emerging economies, there are signs that the economic situation is picking up in Asia (China in particular), while activity continues to be slack in the countries of central and eastern Europe. In recent months, indications of a less sharp contraction have also come from the foreign trade performance of some industrial countries and the Asian economies.

Financial market strains ease ...

From the middle of March, as recessionary pressures gradually let up, the strains in the international money and financial markets eased. Share prices rose sharply against a background of diminishing volatility; risk premiums on corporate bonds decreased in the advanced countries; yields on public sector securities increased, reflecting a lessening of the portfolio shift towards less risky assets; on the interbank markets liquidity returned to the levels prevailing before the Lehman Brothers collapse.

... but there is still considerable uncertainty about the timing and extent of the recovery

According to the projections of international organizations and private forecasters, world output will tend to stabilize during the current quarter before resuming growth in the next, although initially at a very slow pace. The recovery is expected to be slower in the advanced countries, particularly in Europe (Table 1). However, there is still considerable uncertainty regarding its timing and extent.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	OECD			Consensus Economics	
	2008	2009	2010	2009	2010
GDP					
Advanced countries					
Euro area	0.7	-4.8	0.0	-4.2	0.3
Japan	-0.7	-6.8	0.7	-6.6	1.3
United Kingdom	0.7	-4.3	0.0	-3.7	0.7
United States	1.1	-2.8	0.9	-2.8	1.9
Emerging countries					
Brazil	5.1	-0.8	4.0	-0.9	3.1
China	9.0	7.7	9.3	7.5	8.4
India (1)	6.5	5.9	7.2	5.8	7.0
Russia	5.6	-6.8	3.7	-5.0	2.4
Consumer prices					
Advanced countries					
Euro area	3.3	0.5	0.7	0.4	1.2
Japan	1.4	-1.4	-1.4	-1.2	-0.6
United Kingdom	3.6	1.9	1.2	1.7	1.8
United States	3.8	0.2	0.8	-0.6	1.7
Emerging countries					
Brazil (2)	5.9	4.2	4.2	4.1	4.2
China	5.9	-1.0	-0.9	-0.3	1.6
India (1)	8.8	4.5	3.0	5.5	5.6
Russia (2)	13.3	8.0	6.5	11.3	9.3
World trade (3)	2.5	-16.0	2.1	–	–

Sources: National statistics, OECD, Consensus Economics.
(1) Changes in the course of the financial year beginning in April of the year indicated and ending in March of the subsequent year; OECD forecasts for the 2008 financial year. – (2) Changes from December to December. – (3) OECD estimates for 2008.

Economic policies remain expansionary ...

The governments and central banks of the leading countries have continued to sustain demand and employment through strongly expansionary fiscal and monetary policies, fulfilling the commitments they undertook in April at the summit meeting of Heads of State and Government of the G20 (see *Economic Bulletin* No. 52, 2009).

... while reflection on "exit strategies" begins

The authorities of the various countries and the international financial institutions have also begun to reflect on the "exit strategies" from the extraordinary measures adopted to tackle the crisis. At the recent meeting in L'Aquila, the G8 countries, while reaffirming their commitment to counter the adverse economic cycle and limit the heavy employment and social costs of the recession, have agreed on the need to dismantle the fiscal and monetary stimuli once the recovery gets firmly under way, in order to safeguard the sustainability of the public finances, reduce the incidence of the public debt, and contain inflationary expectations.

The review of financial market regulations proceeds

In line with the intention asserted by the G20 to overhaul the present financial system, the G8 leaders agreed on the need to develop a set of common principles and standards of propriety, integrity and transparency in the conduct of international economic and financial activities (known as the Lecce framework). These principles will be on the agenda of the next G20 meeting in Pittsburgh in September.

In the second half of June, the US Government announced the guidelines of a proposal for the reform of the financial system which, in order to limit the risk of systemic crises, intends to step up the oversight and regulation of markets and institutions, protect consumers and investors from financial abuse, improve crisis-management tools, raise international regulatory standards, and foster international cooperation. While the project would not diminish the fragmentation of oversight powers in the United States, it would strengthen those of the Federal Reserve, subjecting to the central bank's regulation and supervision any financial company whose size, leverage or interconnections with other companies make it relevant for systemic financial stability, whether or not they own an insured depository institution. The Fed's duties in connection with payment, clearing, and settlement system oversight would also be extended.

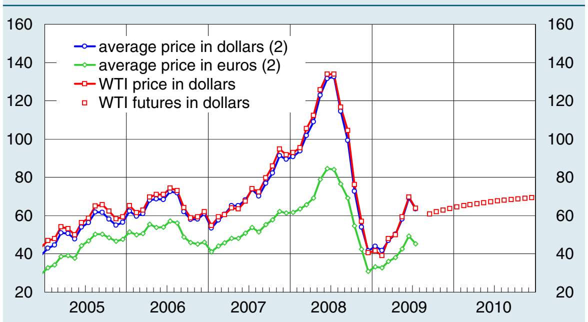
Commodity prices have risen

Oil prices (the average for the three main grades), after fluctuating between $40 and $50 a barrel during the first four months of 2009, rose rapidly, reaching $70 at the end of June. The increase reflects spreading expectations that the slackness of consumption will be overcome as well as the reduction of stocks in the OECD countries in April. In June, the International Energy Agency revised its forecasts of world crude oil demand for 2009 upwards for the first time since August 2008, from 83.2 to 83.3 million barrels a day. In the first days of July oil prices slid back a little, partly owing to the rapid replenishment of stocks in May and the heightening of tensions in Nigeria. On the basis of futures contracts, the price of WTI grade oil is expected to rise over the coming months, although much more slowly, moving from the current level of $60 to around $67 in June next year (Figure 1). The dollar prices of non-energy raw materials also rose steeply in April and May.

Figure 1

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)



Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 10 July 2009. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

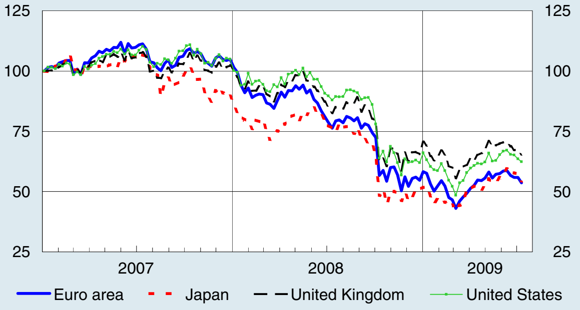
Share prices rise, led by financial stocks

From the middle of March the main stock markets recorded huge gains, driven by the substantial recovery in the prices of financial stocks. The increase in official intervention in support of financial systems and the increasingly diffuse signs that growth was stabilizing helped to strengthen investors' belief that the worst of the crisis was over. In the first few days of July stock market prices in the United States, the euro area and Japan were around 30 per cent above the low points of March; they gained slightly less in the United Kingdom (18 per cent), where in any case the decline at the beginning of the year had not been as marked (Figure 2). The implicit volatility of share prices in the United States and the euro area abated greatly, returning to the values recorded prior to the collapse of Lehman Brothers (Figure 3).

Figure 2

Stock market indices (1)

(end-of-week data; first week of January 2007=100)



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

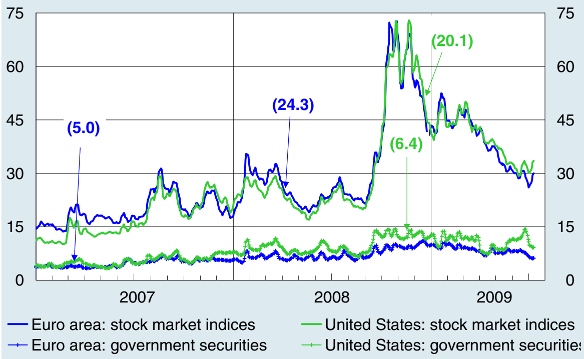
Bond spreads narrow

Risk premiums on corporate bonds decreased sharply for all risk classes and all the main countries. The reduction was especially large, around 8 percentage points, for premiums on high-yield bonds: compared with the peaks reached in March, premiums fell from 18.7 to 10.9 basis points for dollar bonds and from 22.4 to 14.3 for bonds denominated in euros. Premiums on BBB-rated bonds, both in dollars and euros, fell by around 2.5 basis points (Figure 4).

Figure 3

Implicit volatility in the prices of shares and government securities (1)

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



Source: Based on Thomson Reuters Datastream.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on futures on Treasury notes for the United States.

Interest rates on ten-year government securities rise

In all the main advanced countries except Japan, yields on ten-year government bonds rose sharply. In the United States the upward trend had been under way since the beginning of the year, when yields on ten-year Treasury bonds stood at 2.1 per cent; they rose to almost 4 per cent in the first few days of June and are currently 3.3 per cent, 0.8 percentage points higher than in March. Improved expectations regarding the economic situation and the progressive return to easier conditions on the financial markets help to undercut the flight to quality into government paper. Another factor is the lessening of the risk of deflation: the inflation expectations implicit in the yield differentials between ten-year non-indexed securities and TIPS gradually rose, partly owing to the return to normal of liquidity premiums, which had distorted the indicator in previous months. At the end of June they were close to 2 per cent, in line with the Federal Reserve's inflation targets. In the euro area and the United Kingdom yields on ten-year government bonds rose by 0.3 and 0.8 percentage points with respect to the low points of March, to 3.3 and 3.7 per cent respectively. In Japan yields fluctuated around 1.4 per cent (Figure 5).

Strains on the interbank markets ease ...

Strains on the interbank markets eased considerably. The interest rate spreads between unsecured three-month interbank deposits and three-month overnight index swaps fell to about half the peak levels recorded in March, amounting to around 30 basis points for dollar funds, 50 points for euro and 60 points for sterling (Figure 6). The improvement was fostered, among other things, by the publication at the beginning of March of the results of the supervisory authorities' stress-tests on the balance sheets of the 19 leading US banks. These showed that overall the banks possess sufficient capital to absorb losses even in an adverse scenario.

... but some elements of risk remain

The risks that still weigh on the balance sheets of the banks, which stem from the possibility of a worsening of the crisis, are reflected in the credit default swaps for the leading international banks. The risk premiums, which are a measure of the probability of insolvency, fell sharply between the beginning of April and the end of May but rose considerably in the following weeks, undoing part of the gains. Moreover, the main rating agencies downgraded dozens of US and European banks, particularly small-sized ones.

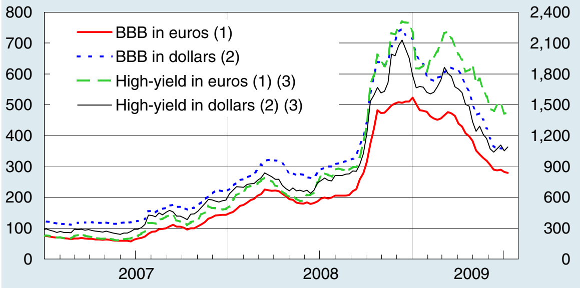
The central banks continue to support the markets

The central banks of the main advanced countries continued to foster the smooth operation of the markets by ensuring an abundant supply of liquidity. At the same time, thanks to the improved financial situation, they began to restructure their programmes for providing liquidity. In June, the Federal Reserve extended until 1 February 2010 the most heavily used facilities that were about to lapse and, in the case of those that were used less often, suspended or reduced the frequency of auctions and reduced the amount of financing. At the end of June the ECB launched its first longer-term (twelve-month) refinancing operation, meeting the total demand for liquidity of the banks. Moreover, in a coordinated action, the ECB, the Bank of England and the Swiss National Bank announced the suspension, from August, of auctions for 28-day dollar financing and the continuation until September 2009 of those for 7 days and 84 days. In the second quarter of 2009 the size of the balance sheets of the Fed, the ECB and the Bank of Japan was the same as at the end of the previous quarter; that of the Bank of England continued to increase, partly owing to large purchases of long-term securities (Figure 7).

Figure 4

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

(end-of-week data; basis points)

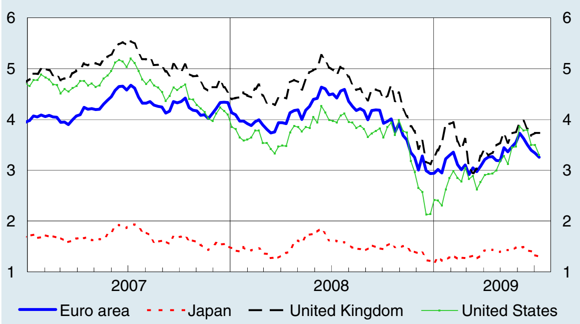


Source: Merryll Lynch.
(1) Fixed-rate bonds denominated in euros with a residual term to maturity of not less than one year issued in the Euromarket; yield differentials are calculated with respect to French and German government securities. – (2) Fixed-rate bonds denominated in dollars with a residual 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)

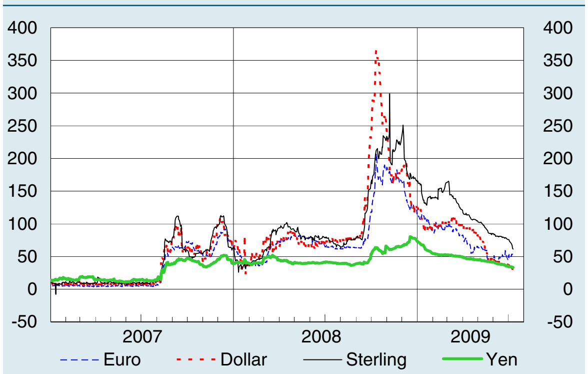


Source: National statistics.

Figure 6

Yield spreads between interbank rates and three-month overnight index swaps

(basis points; daily data)



Sources: Thomson Reuters Datastream and Bloomberg.

The financial situation improves in the emerging economies too

Financial market conditions showed a clear improvement in the leading emerging economies as well. In Asia the rise in share prices rose from the low point of March was even sharper than in the advanced countries, around 50 per cent. The yield differential between the dollar-denominated long-term sovereign securities of these countries and US Treasuries narrowed by 2.6 percentage points to 4.6; the decrease was larger than the corresponding rise in long-term interest rates in the United States, effectively reducing the cost of financing for these economies.

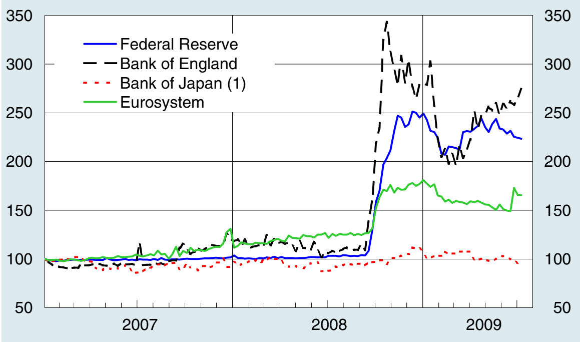
The upward trend of the dollar resumed in January and February but reversed in March

In the first few days of March the dollar began to lose ground rapidly against the other main currencies (Figure 8). It depreciated particularly sharply with respect to the euro (by 10 per cent to 1.39 dollars) and sterling (by 15 per cent to 1.62 dollars), less so against the yen (by 4 per cent to 92 yen). The nominal effective exchange rate of the US currency fell by 9 per cent from the peak recorded in March owing to the drying up, and partial inversion, of the capital outflows from the emerging countries into dollar-denominated securities that had been observed towards the end of 2008. Throughout the period of depreciation, the Chinese renminbi remained stationary with respect to the dollar.

Figure 7

Size of the balance sheets of selected central banks

(indices, 5 January 2007=100; weekly data)

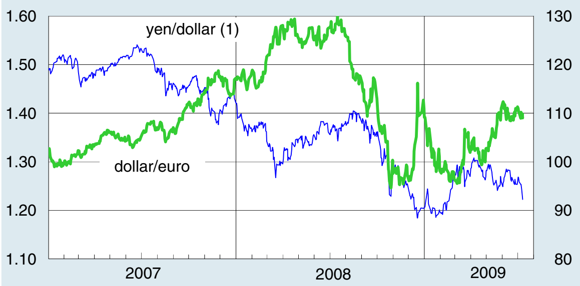


Source: Thomson Reuters Datastream.
(1) For the Bank of Japan, fortnightly data.

Figure 8

Exchange rates

(daily data)



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

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

In the United States the sharp contraction in output continued in the first quarter, despite the pick-up in consumption ...

In the first quarter of 2009 the GDP of the United States fell at an annual rate of 5.5 per cent, compared with a decline of 6.3 per cent in the previous period. The recovery in private consumption (which grew at an annual rate of 1.4 per cent after contracting sharply in the previous two quarters) and the positive contribution of net exports, amounting to 2.4 percentage points of GDP, more than offset the acceleration in the decline in productive and residential fixed investment, helping to slow the fall in GDP. The reduction in stocks subtracted 2.2 percentage points from growth. In the second quarter there were signs that the pace of economic contraction was slowing. There was a deceleration in the fall in payroll employment in the non-farm sector, 6.5 million units since the outbreak of the recession (of which almost 5 million in the last eight months alone). In April and May consumption nonetheless remained basically stagnant.

... which benefited from fiscal stimulus measures

In the first quarter households' spending decisions benefited from the growth in real disposable income, which increased at an annual rate of 6.5 per cent, thanks to the substantial reduction in tax payments. Following the fall in consumer prices and tax benefits for pensioners, growth in real disposable income was even more pronounced in April and May, despite a further rise in unemployment (which reached 9.5 per cent in June). By contrast, consumption continues to be adversely affected by the decline in net wealth and the reduced availability of bank credit. At the end of March households' net wealth had fallen to about 470 per cent of disposable income, some 15 percentage points less than at the end of September and 180 points below the peak of June 2007 (Figure 9). Banks' tightening of the lending conditions continues to restrain the supply of consumer credit, which contracted further in the first five months of 2009.

Bank lending to businesses declines, recourse to bond markets increases

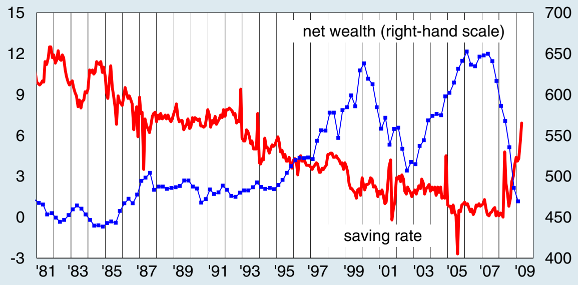
Investment declined mainly as a result of slackening demand but was also affected by the reduced supply of bank credit. The contraction in loans to commercial and industrial businesses, which began in the last part of 2008, continued in the first five months of 2009. The Federal Reserve's Senior Loan Officer Opinion Survey revealed that banks continued to make the conditions for access to funds more stringent in the first quarter of 2009. In the same period, gross bond issues by non-financial corporations of both investment grade and high yield securities even surpassed the high levels recorded before the crisis; they continued to grow at a rapid pace in the second quarter.

Housing market conditions remain weak

There were no signs of improvement in the housing market, one of the US economy's most vulnerable points. Since the beginning of 2009 building permits and housing starts have proved volatile, partly owing to the steep decline in the related quantities, and difficult to interpret. Foreclosures initiated on residential mortgages continued to run at a high level in the first quarter, for all types of mortgage loan (Figure 10). House prices in the ten largest cities, as measured by the Case-Shiller index, continued to decline in the first four months of 2009; in April the fall in relation to the peak of June 2006 was about one third (Figure 11). Futures prices imply a further reduction of 8 percentage points by February 2010.

Figure 9

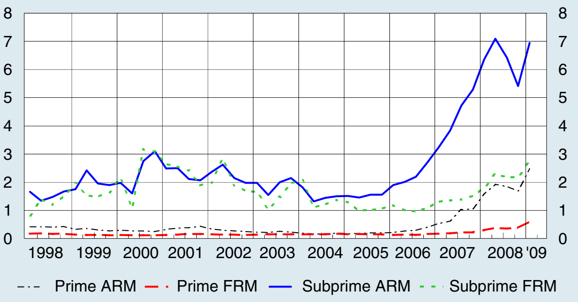
United States: household saving rate and net wealth (1)



Sources: Bureau of Economic Analysis and Federal Reserve.
(1) Net wealth (quarterly end-of-period data) is expressed as a percentage of personal disposable income (moving average of 4 quarters ending in the quarter indicated). Seasonally adjusted monthly data for the saving rate.

Figure 10

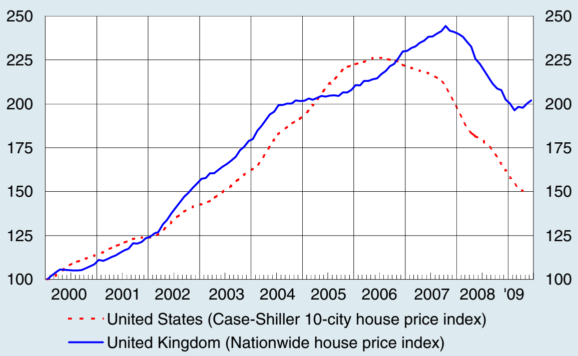
Residential mortgages in the United States: foreclosures initiated as a proportion of outstanding mortgages, according to type of mortgage (1)
(seasonally adjusted quarterly data; percentages)



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

Figure 11

Real estate market: house prices indices
(monthly data; indices, January 2000=100)



Source: Thomson Reuters Datastream.

Signs that inflation is stabilizing are confirmed

Inflation measured by the personal consumption deflator, which showed signs of stabilizing in the first few months of 2009, fell to 0.1 per cent in May. Excluding energy and food, however, prices continued to grow at a rate close to 2 per cent. Although negative on average in 2009 (-0.6 per cent), the latest consumer inflation expectations for 2009 of the professional forecasters surveyed by Consensus Economics point to a slight increase in prices in the coming months.

The Federal Reserve continues its strategy of purchasing longterm securities

On 24 June this year the Federal Reserve, which in December 2008 set the target range for the federal funds rate at 0 to 0.25 per cent, confirmed its intention to maintain this range for an extended period. Federal funds futures prices reflect expectations that monetary policy rates will remain unchanged for the whole of 2009. To support mortgage lending to households and property markets, it further confirmed its decision to purchase up to $1.25 trillion of agency mortgage-backed securities and up to $200 billion of agency debt by the end of the year; the Federal Reserve will also buy up to $300 billion of Treasury securities by the end of the autumn.

In Japan the recession deepened in the first quarter ...

In Japan the economic downturn that began in the second quarter of last year continued: in the first quarter of 2009 output again declined markedly (at an annual rate of 14.2 per cent). Compared with the previous period, when GDP contracted by a similar amount (13.5 per cent), the negative contribution of net exports eased, but consumption fell appreciably (by 4.2 per cent) as did industrial investment (by 31 per cent).

... followed by signs of a recovery

In April and May despite further job losses (0.5 million) and the corresponding rise in the unemployment rate (to 5.2 per cent in May), signs emerged of a pick-up in economic activity. Industrial production recovered markedly after the sharp decline in the previous six months and business confidence improved, while data on flows of goods indicate that the contribution of net exports should become positive again in the second quarter. Strongly expansionary budgetary policies and the stabilization of demand from other Asian economies helped bring about these results. Consumer inflation, which turned negative in February, stayed below zero in the months that followed (-1.1 per cent in May; Figure 12).

The Bank of Japan has kept its key policy rate unchanged at 0.10 per cent. In May, in a move designed to promote the smooth functioning of the money markets, it decided to expand the range of financial instruments it accepts as collateral for lending to banks by including public securities of the United States, the United Kingdom, Germany and France.

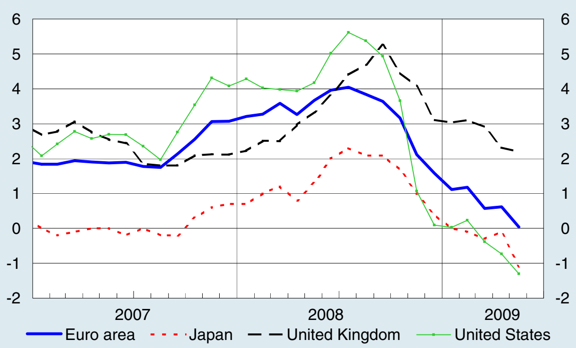
In the United Kingdom the contraction in economic activity also sharpened

In the first quarter of 2009, economic activity in the United Kingdom also declined markedly (at an annual rate of 9.3 per cent); the contraction was larger than that recorded in the previous quarter (7 per cent). The drop in GDP reflected a more pronounced decline in consumption, which fell at an annual rate of 5.3 per cent, and investment, while the positive contribution of net exports was virtually nil (at 0.4 percentage points, compared with 2.1

Figure 12

Consumer price inflation (1)

(monthly data; twelve-month percentage changes)



Source: Thomson Reuters Datastream.
(1) For the euro area and the United Kingdom, harmonized consumer prices.

percentage points in the previous quarter). The decline in households' net wealth and the prolonged contraction in funding to households and non-financial corporations, continue to depress consumption and industrial investment. The reduction in stocks took 1.6 percentage points from growth. Labour market conditions have weakened further: in March the rate of unemployment reached 7.2 per cent, an increase of 2 percentage points on April 2008, while growth in private sector wages slowed considerably. In March the fall in house prices that began in November 2007 came to a halt and in May prices recorded a first significant recovery, increasing by 1.2 per cent. The *Credit Conditions Survey* published by the Bank of England on 2 July reported signs of a slight increase in lending to households and businesses in the second quarter, thanks to greater availability of funds and an increase in demand. Consumer inflation continued to fall, reaching 2.2 per cent in May.

The Bank of England, which in March this year had cut its key monetary policy rate to 0.5 per cent and announced a programme to purchase Treasury bonds and private sector assets to meet its inflation target in the medium term, in May voted to expand the asset purchase programme considerably, from £75 billion to £125 billion (equal to over 8 per cent of GDP). In early July it had already purchased securities totalling £112.1 billion, of which £109.4 billion of government debt, £1.8 billion of commercial paper and £0.8 billion of corporate debt.

Growth in the main emerging Asian economies remains strong

Economic conditions in the emerging economies remain highly disparate. In the larger economies, thanks in part to the substantial support lent to domestic demand by economic policies, the repercussions of the fall in global demand have been more limited. Signs of an improvement in the prospects for growth are coming from the Asian economies, especially China, where according to the latest OECD assessments, in 2009 GDP will grow by 7.7 per cent, benefiting from the massive fiscal and monetary stimulus package adopted by the Chinese authorities. In India economic activity grew by 5.8 per cent in the first quarter, unchanged from the last quarter of 2008. Despite the deterioration in terms of trade following the collapse in raw material prices, output is expected to fall only slightly in Brazil, by 0.8 per cent. In Russia, instead, GDP is forecast to fall sharply, by 6.8 per cent, affected by both the decline in energy revenue and weaknesses in the financial system. In central and eastern European countries, which are more vulnerable to the fall in euro-area demand and have larger current account imbalances, economic activity continued to contract rapidly; foreign capital outflows and the attendant difficulties in financing current liabilities and maturing external debt continue to compel these countries to apply for international financial assistance.

International trade declined markedly in the first quarter ...

According to OECD estimates, in the first quarter of 2009 world trade contracted at an annual rate of more than 30 per cent, following the fall of 26 per cent recorded in the last quarter of 2008. The decline in trade is ascribable above all to the deep recession in the world economy, which has been particularly intense in the traded goods sectors. The tightening of conditions for access to bank loans probably also played a part, with foreign trade credit particularly badly hit (although the effect of this is difficult to quantify).

... while indications of a reduction in global disequilibria were partially confirmed

The reduction in global balance-of-payments imbalances continued in the first quarter of 2009: the United States' current account deficit fell to 2.9 per cent of GDP (from 4.4 per cent in the fourth quarter of 2008), primarily owing to the drop in the energy deficit; Japan's current account surplus fell from 1.7 to 1.4 per cent of GDP. By contrast, no signs have emerged of a decline in China's substantial surplus, which benefited from the drop in imports, especially of raw materials.

In 2008 the net debtor position of the United States deteriorated

The net debtor position of the United States, which increased dramatically from 11 per cent in 2007 to 28 per cent of GDP last year, continues to give cause for concern. The deterioration was only partially due to the deficit on the current account of the balance of payments (4.9 per cent of GDP in 2008). The greatest contribution came from the effects of the revaluation of external assets and liabilities, which had been positive for six years before turning strongly negative in 2008 following the appreciation of the dollar and the fall in share prices. Assets were worst hit by the decline in share prices, given that the value of shares held abroad by residents in the United States exceeds that of the shares held by non-residents.

2.3 THE EURO AREA

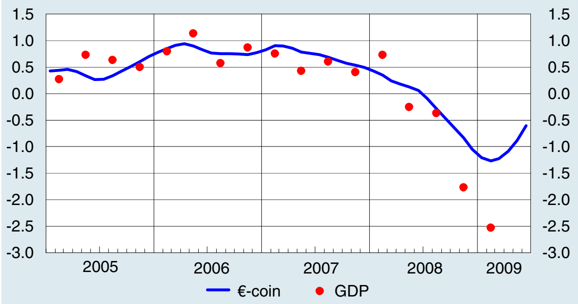
The decline in economic activity sharpened in the first months of the year ...

The GDP of the euro area fell by 2.5 per cent in the first quarter of 2009 compared with the preceding period, declining for the fourth consecutive quarter and by the largest amount since the 1970s (Figure 13). The deepening crisis in the rest of the industrial countries and in the emerging economies led to a further, severe contraction in exports (8.1 per cent), which was particularly pronounced in Germany (9.7 per cent). The negative impact on growth was offset to a large extent by the decline in imports (7.2 per cent), mainly due to the rapid running down of inventories from the high levels of end-2008. According to national accounts, the reduction in stocks shaved 0.8 percentage points off GDP growth in the area as a whole. In addition, there was a renewed contraction of 4.2 per cent in investment, almost entirely due to the cut-back in purchases of capital goods, whose utilization rate in industry hit an all-time low. The uncertain outlook for the labour market and for the value of assets, particularly in real estate, acted as a brake on household expenditure, which fell by 0.5 per cent despite increased purchasing power thanks to lower inflation and the car scrapping schemes introduced in a number of countries. The recession worsened in the first quarter in all the main euro-area countries except France, where GDP declined by 1.2 per cent since final domestic demand was sustained by an albeit small increase in consumption; the contraction in economic activity was particularly pronounced in Germany (3.8 per cent), slightly less marked in Italy (2.4 per cent).

Figure 13

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

(percentage changes)



Sources: Eurostat and based on Thomson Reuters Datastream data.
(1) For information on the construction of the indicator, see the box "The €-coin indicator and the economic situation in the euro area". For GDP, quarterly data; change in relation to the preceding quarter. For €-coin, monthly data.

... but signs that the recession is lifting emerged in the second quarter

The latest available data point to an easing of the recessionary trend during the second quarter of this year. In May, the index of industrial production recorded the first increase in a year (0.4 per cent on the preceding period), reflecting larger-than-expected increases in Germany (3.7 per cent) and France (2.6 per cent); a substantial contribution came from the automobile industry, which benefited from government incentives to scrap old cars. The Bank of Italy's estimates indicate that industrial output in the euro area declined slightly in June, falling by 2.6 per cent in the second quarter as a whole with respect to the previous period (-7.3 per cent in the first quarter). In manufacturing, the Purchasing Managers' Index recorded an increase for the fourth time running, although it remained below the threshold compatible with an expansion in output. In the service sector, the index stabilized at a value close to the threshold, confirming a marked recovery with respect to the low point of the beginning of the year. The improvement in the business climate and consumer confidence recorded in the European Commission surveys was also borne out in June. The upturn in the qualitative indicators mainly reflects the outlook for the future; assessments of the current situation remain negative, especially concerning labour market conditions, highlighting the risk of adverse repercussions on the timing and strength of the recovery. In June the €-coin indicator, which provides a synthesis of all the available economic data adjusted for short-term fluctuations (see the box "The €-coin indicator and the economic situation in the euro area"), rose for the fourth consecutive month, although still indicating a decline in output of around 0.6 per cent on a quarterly basis (Figure 13). Were economic activity in the area to contract by that amount in the second quarter and then remain at that level in the following periods, the decline in 2009 as a whole would come to 4.4 per cent. This result is worse than the forecasts made at the beginning of the year by the main international organizations, based on expectations of a smaller contraction in output in the first quarters of the year. The latest estimates released by the OECD in June and by the IMF in July indicate that euro-area GDP will contract by 4.8 per cent this year and remain virtually stationary in 2010 (Table 2). The Eurosystem projections issued in June indicate GDP will decline by between 5.1 and 4.1 per cent in 2009 and range between a contraction of 1.0 per cent and growth of 0.4 per cent in 2010.

Table 2

Forecasts of the growth in euro-area GDP (1)
(percentage changes on preceding year)

	IMF	OECD	European Commission	Consensus Economics
For 2009				
Q1 2009	-3.2	-4.1	-1.9	-2.6
Q2 2009	-4.8	-4.8	-4.0	-4.2
For 2010				
Q1 2009	0.1	-0.3	0.4	0.5
Q2 2009	-0.3	0.0	-0.1	0.3

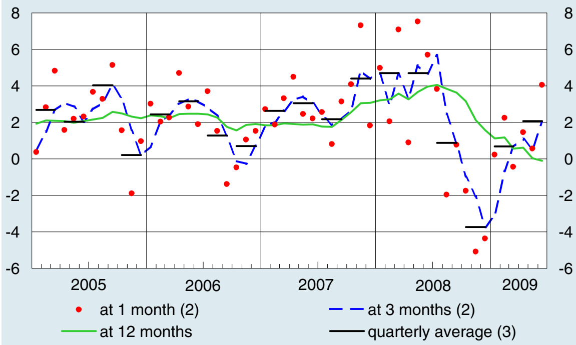
Sources: European Commission, IMF, OECD and Consensus Economics.
(1) Forecasts for the average of the year indicated, published in one of the months of the reference quarter; for the forecasts collated by Consensus Economics, the expectations expressed in the last month of each quarter are reported.

The 12-month rate of inflation continues to plunge ...

The rapid deceleration of the harmonized index of consumer prices, calculated on a twelve-month basis, continued through the second quarter of 2009. According to provisional Eurostat data, in June the rate of inflation was negative (-0.1 per cent) for the first time since the time series was instituted in 1991 (Figure 14). The result conforms with analysts' expectations and largely reflects the inertia of twelve-month changes in the overall index, which continue to reflect the re-absorption, in the second half of 2008, of the earlier tensions caused by the rise in oil prices. In the twelve months to May, consumer prices of energy products fell by 11.6 per cent, accentuating the decline that had begun in December.

Figure 14

Harmonized index of consumer prices in the euro area (1)
(percentage changes)



Sources: Based on Eurostat and ECB data.
(1) Provisional data for June. – (2) On a seasonally adjusted and annual basis. – (3) Average, in the reference quarter, of monthly growth rates, on a seasonally adjusted and annual basis.

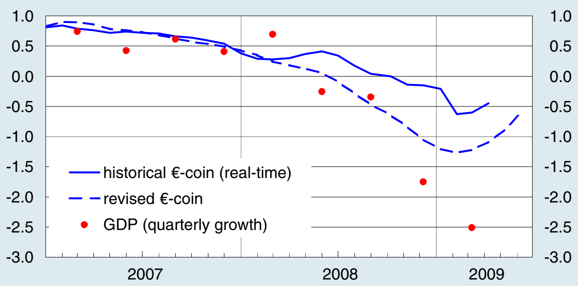
THE €-COIN INDICATOR AND THE ECONOMIC SITUATION IN THE EURO AREA

The Bank of Italy publishes at regular intervals the €-coin indicator for the euro-area economy, which it has produced since 2001 in collaboration with the Centre for Economic Policy Research (CEPR). The indicator eliminates the lag in the availability of quarterly national accounts data and their volatility due to measurement difficulties and erratic fluctuations by using a wealth of data that are promptly and frequently available: stock market performance, commodity and finished product prices, industrial production and turnover, economic agents' opinions of the state of their markets and of the economy in general, and so on. The data, which are obtained from a variety of sources and offer only a partial picture of the economic situation, must be summarized into a single reliable signal; this is what the €-coin indicator does, producing a real-time estimate of underlying trend of GDP, i.e. growth adjusted for short-term fluctuations.[1]

The €-coin was first revised in September 2007, when major changes were made to the method of computation, and then again in May of this year. The latest revision became necessary owing to major changes affecting many of the statistical series used: more than 30 per cent of these series were affected by the change of base year and the switch to the new Ateco 2007 classification (industrial production, turnover and prices). Moreover, the depth of the recession that has hit the euro area made it advisable to review the €-coin methodology of calculation and enlarge the database to incorporate new phenomena and indicators.

The outcome of these changes is displayed in the figure below, which compares the new and the old indicators for the period January 1999-April 2009. It is clear from the chart that the revision has lowered the indicator in the last two years – the minimum now being minus 1.3 – but has not altered its profile. The €-coin reached that level in the first quarter of 2009 and has since risen slowly, though remaining significantly negative.

€-coin: version published up to April 2009 and revised version (1)



	€-coin revised	€-coin historical		€-coin revised	€-coin historical
2007 – Jan.	0.83	0.81	2008 – Apr.	0.18	0.30
Feb.	0.90	0.84	May	0.13	0.37
Mar.	0.89	0.79	June	0.06	0.41
Apr.	0.85	0.76	July	-0.09	0.34
May	0.78	0.72	Aug.	-0.28	0.17
June	0.76	0.74	Sept.	-0.47	0.04
July	0.73	0.73	Oct.	-0.65	0.00
Aug.	0.68	0.71	Nov.	-0.84	-0.14
Sept.	0.62	0.66	Dec.	-1.05	-0.15
Oct.	0.57	0.64	2009 – Jan.	-1.21	-0.21
Nov.	0.53	0.59	Feb.	-1.27	-0.63
Dec.	0.49	0.54	Mar.	-1.22	-0.60
2008 – Jan.	0.43	0.38	Apr.	-1.09	-0.45
Feb.	0.35	0.29	May	-0.89	
Mar.	0.24	0.28	June	-0.61	

Sources: Eurostat and based on Thomson Reuters Datastream data.
(1) The historical €-coin is the version published up to April 2009. The revised €-coin shows the effect of the changes in the database on the indicator in the last three years. For the previous period the differences between the two versions are negligible.

[1] This component of growth is usually obtained by applying a bilateral filter (i.e. a filter that weights past, present and future data from the series in question) to eliminate fluctuations with a frequency of less than one year, which by its nature provides reliable estimates only with a sufficient number of "future" observations. For further details see http://eurocoin.bancaditalia.it/files/eurocoin_tutorial.pdf.

... but the crisis has had little effect so far on core inflation

Consumer prices, excluding food and energy products in order to approximate the core components, rose at a twelve-month rate of 1.5 per cent in May, in line with the trend of the first quarter. The three-month variation in the index, on a seasonally adjusted annual basis, showed a slight increase on the first quarter, driven by the service sector.

The risks of deflation have eased a little, as a closer analysis of the performance of the single items confirms: since the beginning of the year the frequency of positive and negative price changes has differed little, overall, with respect to the past. The goods component of core inflation may fall slightly in the future, reflecting the slowdown in the producer prices of non-food and non-energy goods for final consumption, which were 0.1 per cent higher in May than twelve months earlier. The prices of some services (particularly catering and transport) might respond more rapidly to the recent upturn in the dollar prices of commodities and, given less competitive pressure than in industry, to the moderate rise in unit labour costs, which appeared to accelerate in the first quarter owing to the sharp deterioration in labour productivity.

... and expectations are stabilizing

According to the professional forecasters interviewed in June by Consensus Economics, euro-area consumer prices will increase at an average rate of 0.4 per cent in 2009, confirming the indications obtained in the preceding two months. These expectations assume negative twelve-month variations during the summer due to the comparison with the upsurge of inflation in the same period of 2008, followed by a return to an upward trend towards the end of the year. Expectations for 2010 consistently indicate price growth of 1.2 per cent.

Money supply and credit growth continue to slow

Bank lending to the private sector continued to expand only slowly in the euro area: the twelve-month rate of growth, taking into consideration the accounting effect of securitization operations, fell from 5.9 per cent in February to 3.4 per cent in May, while the three-month rate fluctuated around zero. Lending to non-financial companies slowed to twelve-month growth of 4.4 per cent, compared with 7.8 per cent in February (figures not adjusted for securitizations); lending to households continued to stagnate. The performance of credit reflected the poor economic situation, the deterioration in the outlook for the real-estate market, and the worsening of conditions for the supply of credit. Responses by euro-area banks to the Bank Lending Survey carried out by the Eurosystem in April indicate that the criteria for granting loans were tightened further in the first quarter of this year, although not as much as in previous quarters. The monetary aggregates also continued to slow. The rate of growth in M3 fell from 5.8 per cent in February to 3.7 per cent in May. The low level of interest rates led to a shift towards the less liquid components and, in particular, towards current account deposits (up from growth of 4.8 to 6.9 per cent) and deposits redeemable at notice up to three months, which accelerated from 5.8 to 9.3 per cent. Notes and coin continued to expand at a rapid pace (13.1 per cent).

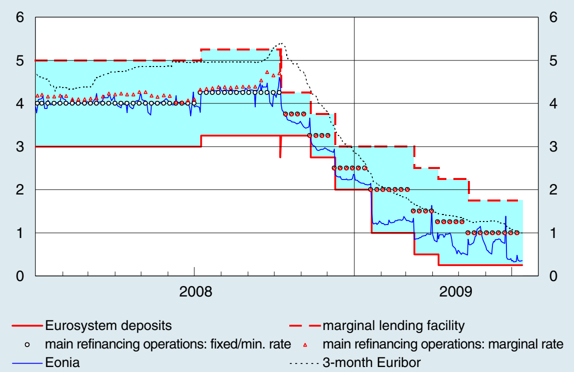
The ECB has adopted additional unconventional measures

Against the background of weak economic conditions, at its meeting in early May the ECB reduced official rates by 25 basis points to 1.0 per cent, the lowest level ever recorded (Figure 15). On the same occasion the Governing Council announced its decision to purchase €60 billion worth of euro-denominated covered bonds issued within the area in order to contribute further to financing the economy. The first longer-term refinancing operation (with a twelve-month maturity) announced at the May meeting was conducted at the end of June via a fixed-rate (1 per cent) auction, with demand being met in full. The demand for liquidity by the banks was heavy, amounting to around €440 billion; a substantial part of the liquidity provided was placed in the Eurosystem deposit facility, which currently yields 0.25 per cent. The ample availability of funds led to a sharp reduction in the Eonia rate. Conditions continued to improve on the interbank market. The differentials between rates on unsecured loans (Euribor) and their secured equivalents (Eurepo), which provide a measure of the risk premium on the interbank market, narrowed further; that on three-month contracts fell to around 50 basis points. The markets continue to consider the Eurosystem's monetary policy credible: excluding risk premiums, inflation expectations for five to ten years ahead derived from the prices of financial assets were generally in line with the objective of price stability.

Figure 15

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

(daily data; percentages)



Sources: ECB, Thomson Reuters Datastream.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

The rate of decline in activity is much less severe in the second quarter of 2009 ...

After the sharp contraction recorded in the final part of 2008 and the early part of this year, in the last few months economic activity has continued to decline but at a slower pace. From the spring of 2008 onwards, GDP had declined at an increasing rate as the international crisis deepened. The fall in activity, already considerable in the fourth quarter of 2008 (-2.1 per cent compared with the previous period) worsened further in the first quarter of 2009 (-2.6 per cent; Figure 16 and Table 3). The two quarterly declines indicate an overall contraction that is unprecedented in its intensity and duration (see the box "The behaviour of the macroeconomic aggregates in the main postwar recessions in Italy"). On the basis of cyclical indicators, in the second quarter GDP is estimated to have fallen by 0.6 per cent compared with the previous period. The weakness of industrial production is likely to continue to have an impact, although its fall in the second quarter, according to our estimates, was about a third of that recorded in the first quarter (-3.1 per cent).

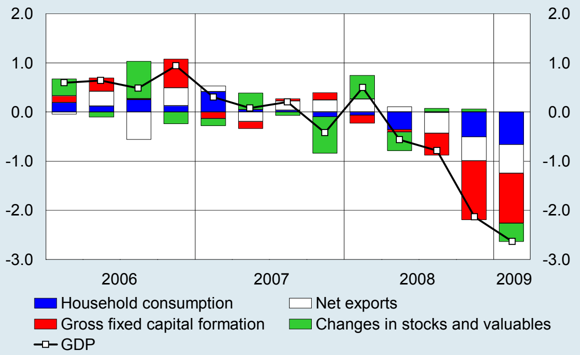
... but the prospects of recovery are still very uncertain

Despite a moderate revival of household and business confidence, there is still great uncertainty about the timing and strength of the recovery in domestic demand, which is also subject to the risk of a further deterioration in labour market conditions. Consumption plans are still cautious, despite the partial recovery of automobile sales in recent months, encouraged by new scrapping incentives. More promising signs for export sales are coming from international economic developments, as activity and trade improve in the emerging countries of Asia, in particular China.

Figure 16

Contributions of the main components of demand and imports to the growth in GDP (1)

(percentages)



Source: Istat.
(1) The changes in GDP are with respect to the previous period. The formula for calculating the contributions to real GDP growth in accordance with the new methodology for price deflation based on chain linking can be found on the Istat website: www.istat.it

Table 3

GDP and its main components (1)

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

	2008			2009	2008 (1)
	Q2	Q3	Q4	Q1	
GDP	-0.6	-0.8	-2.1	-2.6	-1.0
Total imports	-1.6	-1.5	-5.7	-9.2	-4.5
National demand (2)	-0.7	-0.4	-1.6	-2.0	-1.3
National consumption	-0.3	..	-0.6	-0.8	-0.5
households	*-0.6*	*..*	*-0.9*	*-1.1*	*-0.9*
other (3)	*0.6*	*0.1*	*..*	*..*	*0.6*
Gross fixed capital formation	-0.2	-2.1	-5.8	-5.0	-3.0
construction	*-1.8*	*-1.2*	*-4.2*	*-0.8*	*-1.8*
other goods	*1.5*	*-3.0*	*-7.4*	*-9.7*	*-4.2*
Changes in stocks and valuables (4)	-0.4	0.1	0.1	-0.4	-0.3
Total exports	-1.2	-2.9	-7.4	-11.8	-3.7

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

Twelve-month inflation continues to fall but the 3-month changes show signs of stability

The rapid reduction in inflation calculated over twelve months, which began at the end of 2008, continued in the first half of 2009: according to provisional data from Istat, in June inflation stood at 0.5 per cent (0.6 per cent on a harmonized basis). The slowdown in both consumer and producer prices of the core components is less marked. The three-month changes, seasonally adjusted and annualized, indicate a stabilization in the last few months, mitigating the risk that the profound weakness of the economy might usher in deflation.

THE BEHAVIOUR OF THE MACROECONOMIC AGGREGATES IN THE MAIN POSTWAR RECESSIONS IN ITALY [1]

From the peak of the most recent expansion, which the ISAE dates to the third quarter of 2007, [2] through the first quarter of 2009, the cumulative loss of Italian GDP amounted to 5.9 per cent in real terms. This is already substantially greater than the contractions recorded in what had been the Italian economy's two most severe postwar recessions, those of 1974-75 and 1992-93, corresponding, respectively, to the first oil crisis and the currency crisis, which saw cumulative output losses of 3.8 and 1.9 per cent.

As in the two earlier recessions, industry excluding construction has felt the effects of the negative cyclical shock more quickly than other sectors. The decline is larger than in the past, with a cumulative decrease in the sector's value added of nearly 17 per cent, against 14 per cent in the recession of the mid-1970s and 5 per cent in that of the early 1990s (left-hand side of the figure). Between April 2008 and March 2009 the index of industrial production fell back to around its level of 1987, a decline without precedent in the official statistics; in the 1974-75 recession, which was also very deep in the industrial sector, the index only retreated to its level of two years earlier.

Historically, construction is the sector in which recessions are most persistent. The contractions in the sector's value added that began in 1974 and 1992 lasted for an average of more than two years, twice as long as in industry. The magnitude of the decline that has now been under way for four quarters is still relatively small, though the average quarterly rate of decline is similar to that seen in the other two episodes considered.

The service sector so far has displayed the most attenuated cyclical profile, as in the other recessions. However, whereas in both of those downswings the negative effects were limited to a pronounced slowdown in the growth in value added, this time an actual contraction has been under way since the second quarter of 2008.

On the demand side, the global nature of the crisis and the consequent plunge in exports represent the most striking differences between the current recession and the earlier ones (right-hand side of the figure). In the other main postwar recessions exports bucked the trend, expanding strongly and contributing to the eventual recovery, with a boost in 1974-75 from the robust acceleration in world trade and in 1992-93 from the sharp devaluation of the currency. By contrast, since the end of 2007 exports have slumped (by 21.4 per cent in volume through the first quarter of 2009), reflecting the drastic drop in demand in the main outlet markets (estimated at about 15 per cent over the same period of time) and depriving the Italian economy of an important factor of growth.

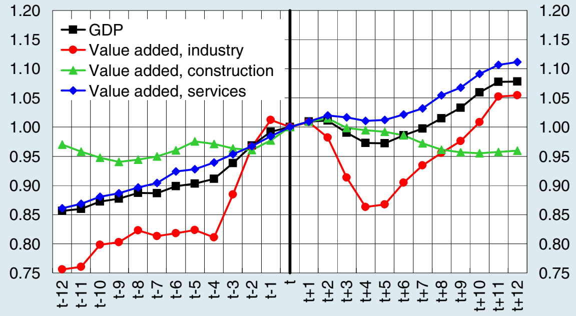
Among the domestic components of demand, the reduction in household consumption reflects above all the drop in spending on durable and semi-durable goods (down by about 15 and 10 per cent, respectively, since the last quarter of 2007), a feature shared by the past recessions. Compared with these, greater weakness is signalled by purchases of non-durable goods: the small contractions recorded in 1974-75 and 1992-93 (1 and 1.9 per cent respectively) have already been surpassed, albeit slightly, by the current decline of about 2.5 per cent, exacerbating a weakening trend that has lasted for five years.

[1] For a deeper analysis see A. Bassanetti, M. Cecioni, A. Nobili and G. Zevi, "Le principali recessioni italiane: un confronto retrospettivo", forthcoming in the series *Questioni di economia e finanza*, Banca d'Italia, 2009.
[2] The ISAE regularly updates the dating of expansions and recessions of the Italian economy. For the complete sequence of cyclical peaks and troughs see *Rapporto ISAE: Le previsioni per l'economia italiana. Ciclo, imprese, lavoro*, February 2009.

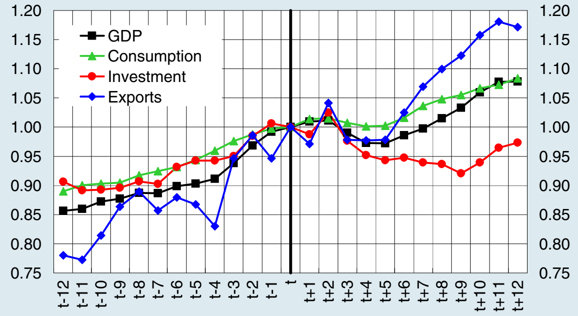
Lastly, the large fall in gross fixed investment has followed the pattern observed in the previous recessions: a relatively slow and prolonged reduction for construction investment, a faster decline for capital goods. The cumulative contraction is already greater than that of the mid-1970s and close to that of the early 1990s.

Recession 1974 Q1 – 1975 Q2 (1)

GDP and components of supply
(indices=1 in the quarter of cyclical peak t; t=1974 Q1)

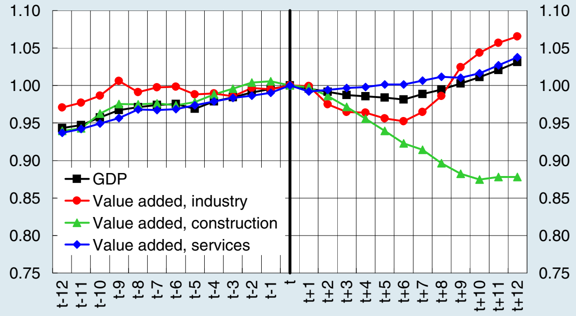


GDP and components of demand
(indices=1 in the quarter of cyclical peak t; t=1974 Q1)

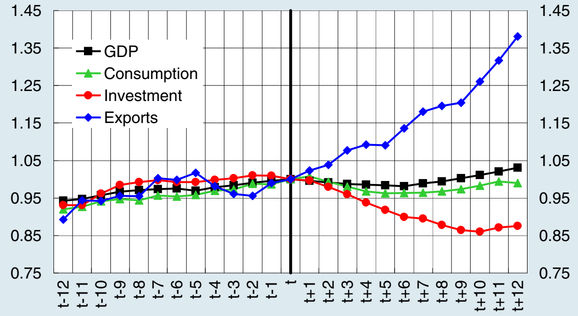


Recession 1992 Q1 – 1993 Q3 (1)

GDP and components of supply
(indices=1 in the quarter of cyclical peak t; t=1992 Q1)

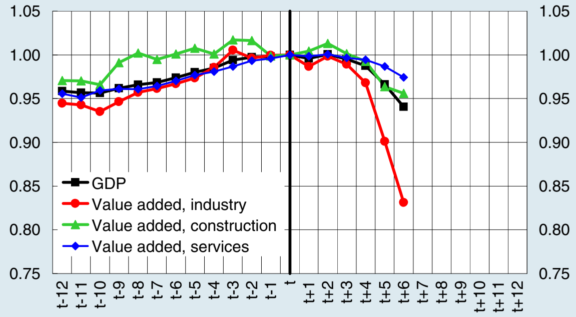


GDP and components of demand
(indices=1 in the quarter of cyclical peak t; t=1992 Q1)

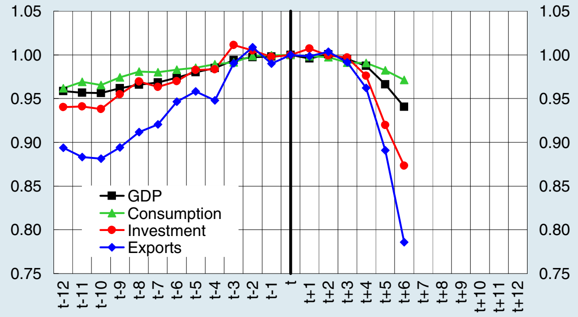


Recession 2007 Q3 – 2009 Q1 (1)

GDP and components of supply
(indices=1 in the quarter of cyclical peak t; t=2007 Q3)



GDP and components of demand
(indices=1 in the quarter of cyclical peak t; t=2007 Q3)



Source: Based on Istat data.
(1) The dating of the business cycle is that proposed by the ISAE. The data, expressed as chain-linked volumes, are adjusted for seasonal and calendar effects.

3.2 FIRMS

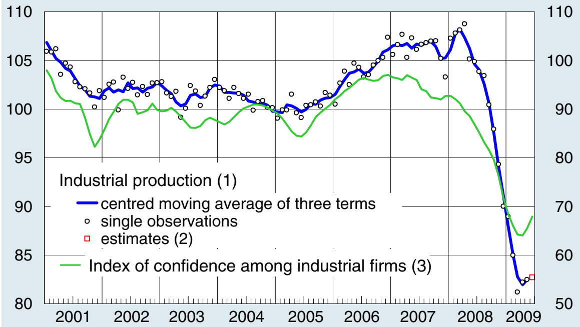
The exceptionally sharp fall in industrial activity ceases in the second quarter

The recession in industry that had begun in the spring of 2008 steepened abruptly in the fourth quarter and the first quarter of 2009. The slump was the sharpest since the 1970s, with an overall decrease in output of 25.3 per cent between April 2008 and March this year (Figure 17; see the box "The behaviour of the macroeconomic aggregates in the main postwar recessions in Italy"). The contraction appears to have come to a halt during the second quarter; an upturn in April (a monthly gain of 1.2 per cent) was followed by stability in May that basically continued, by our estimates, in June. For the quarter as a whole the decline was much less pronounced than in the first quarter (a quarterly fall of 3.1 as against 9.7 per cent). According to the available data the easing of the recession is more evident in the consumer goods industries but less clear for durable goods, notwithstanding the incentives for the scrapping of old vehicles that went into effect in February.

Figure 17

Industrial production and index of business confidence

(monthly data)



Sources: Based on ISAE, Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; index, 2005=100. – (2) Based on electricity consumption and the indicators of ISAE surveys of industrial 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; index, 2000=100; moving average of three terms (right-hand scale).

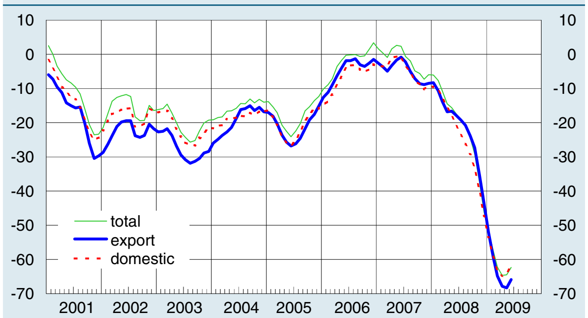
Business confidence is improving, even though the outlook remains highly uncertain

Business surveys confirm the gradual dissipation of pessimism, especially over the general economic outlook. The ISAE survey in June registered its third consecutive monthly improvement in the climate of confidence among manufacturing firms, sustained by a pick-up in short-term expectations for production and the reduction in stocks of finished products, while assessments of orders showed some initial signs of stabilizing (Figure 18). Also in June, the Purchasing Managers' Index in manufacturing and services continued to rise and approached the threshold compatible with the expansion of activity, after the low reached at the beginning of the year. The quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore* found that the proportion of firms expecting a short-term worsening in their operating conditions fell from 60 per cent in March to 26 per cent in June, while the proportion expecting an improvement rose from under 4 to 10 per cent. The majority, in any case, now expect stagnation, which signals the great uncertainty that still prevails.

Figure 18

Industrial orders (1)

(monthly data)



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

The slump in investment continues ...

The contraction in investment under way since the start of 2008 continued in the first quarter of 2009, with a decrease of 5 per cent from the fourth quarter. The downtrend was sharpest for machinery, equipment and transport equipment (down 9.7 per cent), purchases of which were discouraged by the fall in capacity utilization to historically low levels and by the uncertain outlook for demand. The quarterly survey conducted in June by the Bank of Italy and *Il Sole 24 Ore* found that a large majority of firms (59 per cent) considered that investment conditions had not changed from three months earlier, but the negative balance between expectations of improvement and of deterioration narrowed by 31 percentage points. The recovery was sharpest in industry, where the worsening during the acute phase of the recession had been especially severe.

... with an attenuation in the construction industry

The fall in construction investment eased to 0.8 per cent, compared with 4.2 per cent at the end of 2008. The attenuation in the downturn affected residential and non-residential building to approximately the same extent. Builders' confidence stabilized during the spring at slightly above its January low, indicating persistence of cyclical weakness.

The pessimism over the outlook for real estate abates

According to the second quarterly survey of real-estate agents conducted by the Bank of Italy and Tecnoborsa, the short-term prospects for the real-estate market were less unfavourable in April and May than in January and February. For the medium term (two years ahead) the balance between expectations of improvement and deterioration, already positive, registered an appreciable gain. The quantitative data available confirm the cyclical slowdown in the real-estate market after the sustained expansion of the first half of the decade. Based on data from the Territorial Agency of the Ministry for the Economy and Finance, it is estimated that in the first quarter of 2009 the number of sales declined by 17 per cent from the previous quarter, accentuating the downtrend that began in mid-2006 (Figure 19). Property prices were affected, decelerating progressively: according to our estimates, in the first half of 2009 the increment over the previous period was more than halved from a year earlier to about 1 per cent.

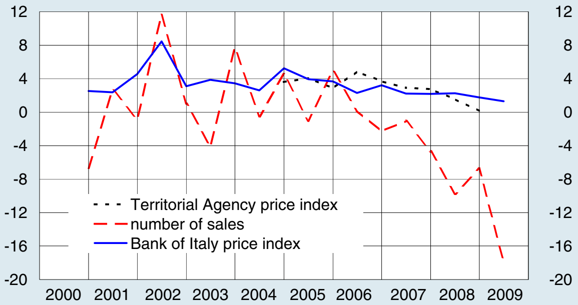
Property prices should soften further in the future, following the cyclical downturn in the number of sales with a lag, as in the past. However, the contracting volume of sales results in a larger margin of error in measuring prices, as is shown by the greater difference in 2008 between the Territorial Agency's indicator and that of the Bank of Italy (Figure 19). The qualitative assessment of real-estate agents, according to the Bank of Italy-Tecnoborsa survey, is that the fall in prices had already begun at the end of last year, as had the lengthening of the time required to sell properties.

Export price competitiveness continues to deteriorate ...

According to our estimates the price competitiveness of Italian exporters, gauged by producer prices, deteriorated by 0.5 percentage points between March and May, following a 2.6-point decline between November

Figure 19

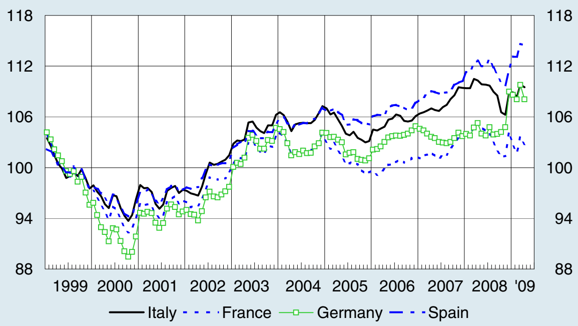
House sales and prices in Italy
(percentage changes on previous period)



Sources: Based on Territorial Agency, Bank of Italy, Istat and *Il Consulente Immobiliare* data.

Figure 20

Indicators of competitiveness (1)
(monthly indices, 1999=100)



Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactures; latest available data refer to March 2009; an increase in the index indicates a loss of competitiveness.

and March (Figure 20). For the entire period, the loss of competitiveness was three times greater than the nominal appreciation of the euro against the other main currencies. Measured by unit labour costs, the loss of competitiveness of industrial products in Italy came to nearly 7 percentage points in the six months ending in March (compared with 1.5 points in France and 12.5 in Germany).

... and unit labour costs continue to rise despite wage moderation

At the current, historically low levels of output, measuring labour input by the number of persons employed is less reliable, given firms' tendency to resort to provisions for workforce flexibility (early vacations, Wage Supplementation, and other forms of temporary suspension of work) to limit the impact of the recession on employment. Using the actual number of hours worked as the gauge, the yearly rise in unit labour costs in the first quarter of 2009 came to 4.9 per cent for the entire economy. Half of the increase was due to the sudden fall in labour productivity, itself due above all to the contraction of output (down 5.8 per cent). Hourly labour costs rose by 2.8 per cent, less than the average rise of 3.4 per cent for 2008. Information on collective bargaining indicates that wage increases will be modest this year and next in Italy and in the euro area as a whole.

Figure 21

Labour costs and productivity in total economy (1)

(percentage changes on corresponding period of previous year)

Source: Istat.
(1) Labour input measured on the basis of hours worked.

Profitability declines further ...

Estimates based on the national accounts indicate that the operating profits of non-financial firms fell further in the first quarter, reflecting the adverse trend for the economy as a whole. Net financial expense held stable in relation to value added; self-financing diminished further.

... while firms' borrowing requirement holds steady

Investment also declined. The borrowing requirement (the difference between gross investment, including investment in inventory, and self-financing) remained practically unchanged at its highest level in a decade. Corporate financial debt (including securitized debt), though slowing down, rose slightly to exceed 80 per cent of GDP, 5 percentage points more than in December 2007 (Figure 22). In the euro area as a whole corporate debt increased last year by more than 4 percentage points to 96 per cent of GDP in December.

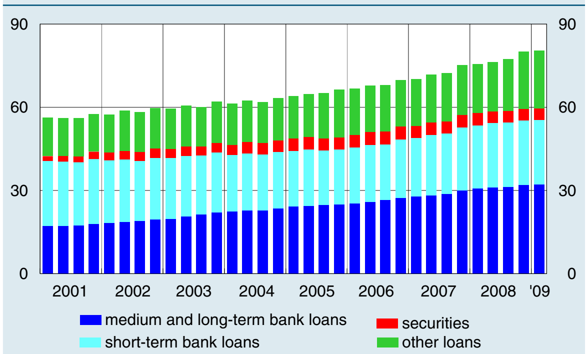
The growth in debt to banks slows further

Companies' debt to banks stayed at about 70 per cent of their total debt. The rate of growth of borrowing from banks continued to decline, to 3 per cent on an annual basis (Figure 23). The slowdown involved all sizes of firms and all parts of the country. Among small

Figure 22

Corporate debt (1)

(as a percentage of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized debt. The data for the first quarter of 2009 are provisional.

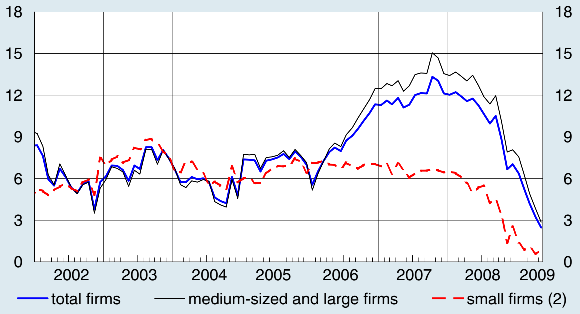
firms, bank debt was stable for the fourth consecutive quarter.

Bond issues increase Large Italian non-financial corporations continued to tap the bond market. In the first quarter of 2009 net issues came to about €3.6 billion, up from €1.9 billion in the previous quarter. In the second quarter, according to Dealogic data on gross issues, Telecom Italia and Atlantia made significant placements totalling €3.8 billion. Equity issues in the first quarter, by contrast, had been almost nil. In the second quarter Snam carried out a capital increase of about €3.5 billion. Mergers and acquisitions diminished substantially for the third straight quarter. According to Thomson Reuters data, in the first three months of the year Italian non-financial corporations announced about 30 transactions for a total of less than €300 million. In the second quarter the entry of the Fiat group in the capital of Chrysler Corporation was announced.

Figure 23

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



(1) Adjusted for the accounting effect of securitizations. Excludes repos, bad debts and other minor items included in the Eurosystem harmonized definition of the aggregate. The data are also adjusted for reclassifications, exchange rate variations, and other changes not due to transactions. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

3.3 HOUSEHOLDS

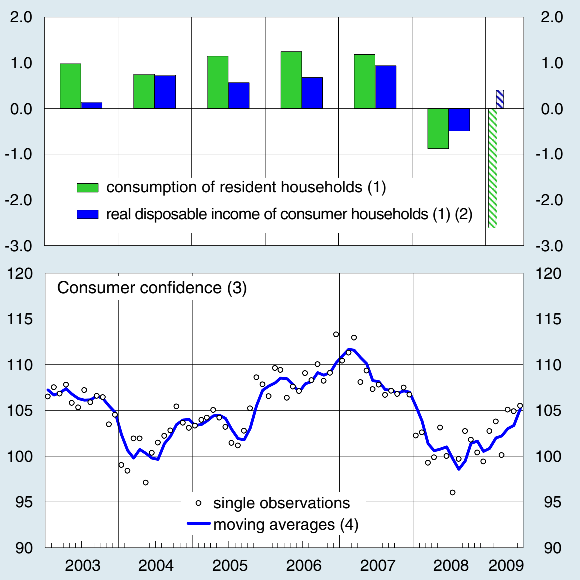
Consumption continues to fall in the first quarter ... In the first quarter of this year, household consumption in real terms fell by 1.1 per cent on the preceding period (-2.6 per cent in relation to the same period a year earlier; Figure 24), following an only slightly lower decline at the end of 2008. The contraction in spending affected semi-durable goods the most (-6.1 per cent), followed by durable goods (-3.6 per cent), spending on which has been diminishing for almost two years, corresponding to the weak market for automobiles. Spending on services was the only area with a very slight increase (0.1 per cent).

... while real disposable income increases slightly By our estimates, following an average fall of 0.5 per cent in 2008, disposable income at constant prices rose by almost the same amount in the first quarter of 2009 year-on-year. The abatement of inflation sustained real income in the presence of a sharp slowdown in nominal income, which rose by less than 1 per cent (as against 2.7 per cent on average in 2008). The slowdown

Figure 24

Consumption, real income and consumer confidence in Italy

(percentage changes and indices)



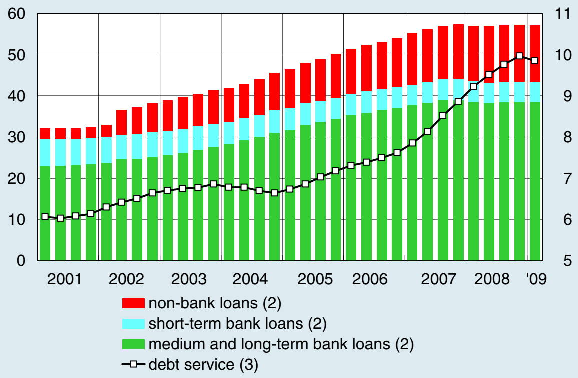
Sources: Based on ISAE and Istat data.
(1) Chain-linked volumes; percentage changes in relation to previous year. Data on consumption and income in the first quarter of 2009 are changes with respect to the first quarter of 2008. – (2) Obtained using the deflator of consumption of resident households; our estimates for the first quarter of 2009. – (3) Indices, 1980=100, seasonally adjusted data. – (4) Moving averages for the three months ending in the reference month.

influenced all the main components, more markedly labour income, from both salaried and self-employment, which was most severely affected by the fall in employment. The steepening drop in spending in the first quarter, even against a background of an increase in disposable income, can be attributed to a new upturn in households' propensity to save, which is consistent with the low levels of confidence recorded in late 2008 and early 2009.

Figure 25

Household debt (1)

(as a percentage of gross disposable income)



Sources: Based on Bank of Italy and Istat data.
1) Includes securitized loans. Disposable income for 2009 is estimated on the basis of quarterly national accounts data. Data on loans in 2009 are provisional. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer households and to the twelve months ending in the reference quarter. Debt service includes payment of interest and repayment of principal. Interest is calculated by multiplying the outstanding stocks in each period by an average rate that takes account of the composition of the stock according to maturity and type of intermediary; repayments of principal are estimated on the basis of supervisory reports.

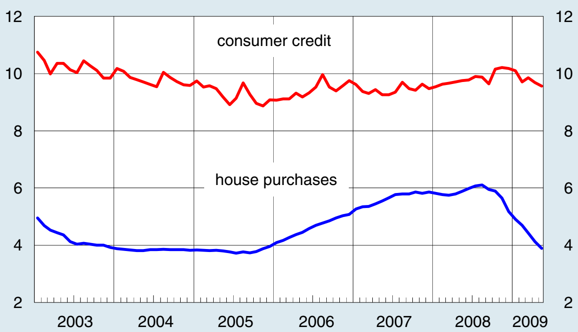
No indications yet of any improvement in the second quarter

During the second quarter, households' confidence was gradually recouped but the outlook for demand is threatened by the repercussions of the weakening labour market and by a further loss in asset values, in particular real estate wealth which, according to our estimates, fell by more than 1 per cent overall between the third quarter of 2008 and the second quarter of 2009. There are more encouraging signs coming from the automobile sector where, in the last few months, the positive effects of the new scrapping incentives in force since the beginning of February have been gathering strength. New vehicle registrations increased by 12 per cent between May and June, resulting in an increase of almost 10 per cent on average in the second quarter, by comparison with the first. Given the increase in new orders, the positive trend should continue for the next few months. The new contraction in retail sales of consumer goods in April will probably be reflected in the results for the second quarter. However, the fall in inflation will increase households' spending capacity.

Figure 26

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

No change in household debt and debt service

From the second half of 2007, the ratio of Italian household debt to disposable income has been stable at around 57 per cent (this figure also includes securitized loans; Figure 25). By contrast, in the euro area household debt increased slightly and by December reached 93 per cent of disposable income. Household debt service costs (interest and repayment of principal) stayed more or less the same at just under 10 per cent of disposable income. Interest rates continued to fall, notably on loans for house purchases, and less sharply for consumer credit (Figure 26). During the year, this decline will lower debt service costs in proportion to the share of variable rate loans, which is more than two thirds.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the first quarter of 2009 exports continues to decline sharply ...

Down for the fourth quarter running, exports of goods and services contracted in volume terms by 11.8 per cent in the first three months of 2009 compared with the previous quarter. Considering the six-month period from September, the fall in Italy's exports was more or less in line with that of the euro area as a whole; it was only slightly greater than that of Germany, much greater than that of France, and less than that of Spain. The slump in sales in the first quarter of the year reflected the very sharp decline in world demand and was greater for goods (-13.1 per cent). Goods exports fell in all the main outlet markets, especially Spain and the United States. All the manufacturing industries contributed to the sharp contraction in the first quarter, in particular the transport equipment and machinery and mechanical equipment sectors which continue to be influenced by the marked weakening of demand for investment goods.

... more than imports

Total imports in volume terms also continued to decline (by -9.2 per cent); the reduction was larger in the services sector (-14.2 per cent). In the goods sector, the largest reduction was in imports of intermediate goods, which are more closely linked to the purchase of inputs for industrial production.

Trade in goods continues to decline in value terms in April and May

The data on foreign trade in value terms in April revealed a further contraction in both exports and imports. In May, the figures for trade outside the EU area showed a further reduction in imports, while exports were stationary.

The current account deficit decreases slightly

In the first four months of 2009 the deficit on the current account of the balance of payments fell to €17.2 billion, from €20.3 billion in the same period in 2008 (Table 4); seasonally adjusted, the deficit fell from 4 per cent of GDP in the last quarter of 2008 to 3.5 per cent in the first quarter of 2009. In the goods sector, the reduction of the energy deficit, which fell to €14.9 billion (3.8 per cent less than in the same period of 2008), broadly compensated for the reduction in the surplus in non-energy products.

The deficit on services increased from €3.4 billion to €4 billion, mainly due to a sharp reduction in net revenue from foreign travel. Despite the steady worsening of Italy's net debtor position, the deficit on the income account widened no more than marginally, benefiting from the fall in interest rates on the international markets.

Direct investment is picking up again

In the financial account, direct investment showed a positive balance of €2.8 billion in the first four months of 2009 following a recovery in inflows and outflows in the non-bank sectors. Portfolio investment continued to register high net inflows (€58.6 billion). There was further growth in the share of Italian securities – especially government securities – held by

Table 4

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

	2007	2008	Jan.-Apr. 2008	Jan.-Apr. 2009
Current account	**-37.7**	**-53.6**	**-20.3**	**-17.2**
Goods	3.2	-0.7	-2.0	-1.1
non-energy products (2)	*47.9*	*56.6*	*16.7*	*13.8*
energy products (2)	*-44.7*	*-57.3*	*-18.7*	*-14.9*
Services	-7.1	-7.4	-3.4	-4.0
Income	-19.6	-29.5	-8.1	-9.5
Current transfers	-14.2	-16.0	-6.8	-2.7
Capital account	**2.3**	**0.8**	**-0.1**	**1.1**
Financial account	**26.2**	**49.6**	**13.5**	**22.8**
Direct investment	-37.0	-18.3	0.8	2.8
Portfolio investment	18.1	118.5	61.5	58.6
Financial derivatives	0.4	6.8	1.4	1.5
Other investment	46.2	-51.8	-48.2	-40.4
Change in official reserves	-1.5	-5.6	-2.0	0.3
Errors and omissions	**9.2**	**3.2**	**6.9**	**-6.6**

(1) Provisional data for March and April 2009. – (2) Based on Istat foreign trade data.

foreign investors, whose purchases amounted to €44.8 billion in the first four months of the year. Albeit at a slower pace, Italian residents continued to dispose of their foreign securities, especially equities, which generated an inflow of €13.8 billion.

3.5 THE LABOUR MARKET

Employment and working hours are falling

According to the labour force survey, in the first quarter of 2009 the number of residents in employment declined, on a seasonally adjusted basis, by 0.3 per cent with respect to the previous period (76,000 persons). The fall was most pronounced in the Centre and North (-0.4 per cent) and less so in the South (-0.2 per cent). The decrease corresponds to the data in the national accounts, which include both regular and unreported non-resident workers: the fall in employment was sharper in construction (-1.3 per cent) and in industry excluding construction (-0.6 per cent), and more moderate in the services sector (-0.1 per cent). Measured in terms of hours actually worked (and therefore net of recourse to the Wage Supplementation Fund), the decrease was more pronounced (-1.4 per cent; -2.9 per cent in industry excluding construction), accelerating sharply with respect to the previous period (-0.7 per cent). These trends are substantially borne out by the results of Istat's surveys on the work force and earnings in large firms in industry and the services sector, conducted in April.

Again, according to the labour force survey, in the first quarter of 2009 employment was 0.9 per cent lower than a year earlier (204,000 persons; Table 5). The decline was greater in the South (-1.8 per cent; 114,000 persons). Female employment fell (-0.4 per cent; 42,000 jobs) for the first time since the fourth quarter of 2005; the decline in male employment that began in the third quarter of 2008 intensified (-1.2 per cent; 162,000 jobs). The employment rate of foreigners fell by 0.5 percentage points, to 65.2 per cent: the growth in non-Italian employment (222,000 persons) is entirely attributable to the increase in foreigners entered on civic registers. Overall, the rate of employment fell to 57.4 per cent (-0.9 percentage points).

Workers with fixed-term contracts are the worst hit by the crisis

Workers with fixed-term contracts and contingent workers have borne the brunt of the current economic downturn. The number of self-employed workers registered a sharp fall (-4.5 per

Table 5

Labour force status of the population in Italy

	Average 2007	Average 2008	Q1 2008	Q1 2009	Change Q1 2009/ Q1 2008 (1)
	thousands of persons				
Total persons in work	**23,222**	**23,405**	**23,170**	**22,966**	**-0.9**
Employees	**17,167**	**17,446**	**17,103**	**17,169**	**0.4**
of which: fixed-term	*2,269*	*2,323*	*2,189*	*2,036*	*-7.0*
part-time	*2,422*	*2,577*	*2,508*	*2,550*	*1.7*
Self-employed	**6,055**	**5,959**	**6,067**	**5,797**	**-4.5**
Labour force	**24,728**	**25,097**	**24,932**	**24,948**	**0.1**
men	*14,779*	*14,884*	*14,762*	*14,763*	*0.0*
women	*9,949*	*10,213*	*10,170*	*10,185*	*0.2*
Population	**58,880**	**59,336**	**59,158**	**59,620**	**0.8**
	percentages				
Unemployment rate	**6.1**	**6.7**	**7.1**	**7.9**	**0.8**
men	*4.9*	*5.5*	*5.7*	*6.8*	*1.1*
women	*7.9*	*8.6*	*9.0*	*9.5*	*0.5*
Participation rate (age 15-64)	**62.5**	**63.0**	**62.8**	**62.4**	**-0.4**
men	*74.4*	*74.4*	*74.0*	*73.6*	*-0.4*
women	*50.7*	*51.7*	*51.6*	*51.3*	*-0.3*
Employment rate (age 15-64)	**58.7**	**58.8**	**58.3**	**57.4**	**-0.9**
men	*70.7*	*70.3*	*69.7*	*68.5*	*-1.2*
women	*46.7*	*47.2*	*46.9*	*46.3*	*-0.6*
North	66.7	66.9	66.6	65.7	-0.9
Centre	62.3	62.8	62.9	61.7	-1.2
South	46.5	46.1	45.3	44.4	-0.9

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

cent), two fifths of which as a result of the reduction in the number of collaboration contracts and of project workers (-107,000 persons). The increase in the number of payroll workers (0.4 per cent; 66,000 jobs) regards permanent positions only; fixed-term contracts fell at an annual rate of 7 per cent (154,000 workers). The share of fixed-term employment declined to 11.9 per cent of the total, from 12.8 per cent a year earlier.

The unemployment rate rises, especially among the younger generations

The seasonally adjusted unemployment rate rose to 7.3 per cent, 0.3 percentage points more than in the preceding period. The increase was limited by the third consecutive contraction in the labour force (-0.1 per cent). On an annual basis the number of those unemployed increased by 221,000 (the unemployment rate grew by 0.9 percentage points); male employment was hardest hit (164,000 workers, of whom 135,000 had been employed one year earlier). A slowdown in hiring and the greater difficulties linked to the renewal of temporary contracts were reflected in the rate of unemployment among young people up to 24 years of age, which reached 26.3 per cent: 5 percentage points more than a year earlier and the steepest increase since when these statistics began to be collected in 1992. The participation rate for the 15-64 age group fell by 0.4 percentage points; the drop was particularly pronounced in the South (-0.8 per cent).

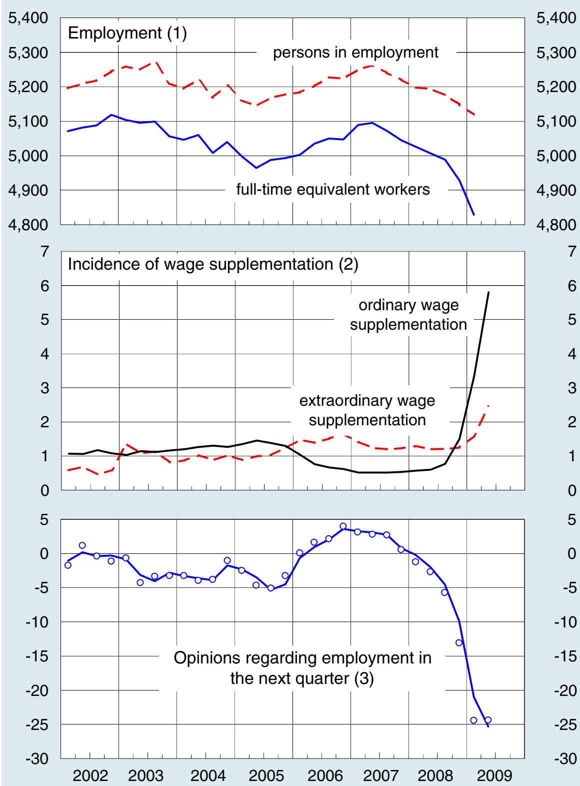
According to INPS data, the number of hours of Wage Supplementation authorized rose again in the second quarter (by 60 per cent over the first quarter, when seasonally adjusted). In industry excluding construction the number of full-time equivalent workers on ordinary wage supplementation reached 8.2 per cent of the total, 3.3 percentage points more than in the first quarter and the highest value recorded since 1985 (Figure 27). Recourse to the extraordinary scheme, reserved to firms in greater difficulty and which had not undergone significant increases at the beginning of the crisis, accounted for about one fourth of the increase in total Wage Supplementation authorized. According to the ISAE survey, however, industrial firms' expectations for employment in the next three months ceased to deteriorate, holding at the levels recorded during the crisis of the early 1990s.

Real earnings should return to growth in 2009

Actual gross earnings per full-time equivalent employee increased by 3.3 per cent in 2008, in line with the rise in consumer prices. In the first quarter of 2009, the twelve-month increase equalled 1.3 per cent. Expectations are for moderate growth in nominal earnings over the course of the year; the sharp fall in inflation should permit growth in real earnings.

Figure 27

Employment and wage supplementation in industry excluding construction
(seasonally adjusted quarterly data; thousands of persons and percentage points)



Sources: Based on Istat, INPS and national accounts data, and on the ISAE survey *Inchiesta sulle imprese manifatturiere ed estrattive*.
(1) Total employment (persons in employment) and standard labour units (full-time equivalent workers) as defined in the national accounts. – (2) Average number of equivalent workers for which ordinary or extraordinary wage supplementation was authorized in the quarter as a percentage of the number of equivalent employees as defined in the national accounts. Partial estimates for the second quarter of 2009. – (3) Balance between percentages of firms expecting employment to increase and to decrease in the next three months. Exact values and three-point moving averages.

3.6 PRICE DEVELOPMENTS

Twelve-month inflation continues to fall across the board ...

The twelve-month change in the index of consumer prices for the entire resident population (CPI) averaged 1.2 per cent in the first half of 2009, taking account of the preliminary figure for June released by Istat (0.5 per cent; Table 6). Reflecting the sharp decline in the international prices of food and energy inputs, inflation has abated rapidly since the end of last summer; in recent months its fall has also been due to the severe deterioration in economic conditions. Year on year, inflation declined from an average of 1.5 per cent in the first quarter to 0.9 per cent in the second. The harmonized index (HICP) showed a similar change. As in the rest of the euro area, this outcome largely reflects statistical effects associated with the high rate of inflation recorded in the first half of 2008.

The behaviour of the basic components of the CPI indicates that up to now the sharp contraction in demand has not generated anomalous price movements akin to those seen in the last decade, except for food and energy products. The moderation of the pressure on those two components affected price inflation for the most frequently purchased goods and services, which have a greater impact on the purchasing power of low-income households; it fell to 0.6 per cent in May compared with a year earlier.

Table 6

Indicators of inflation in Italy
(twelve-month percentage changes)

	HICP (1)		CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index		Core component (5)	Overall index
				1-month (4)		
2007	2.0	1.8	1.8	–	1.6	3.3
2008	3.5	2.2	3.3	–	2.1	5.8
2008 – Jan.	3.1	2.1	3.0	0.4	1.9	5.9
Feb.	3.1	2.0	2.9	0.2	1.8	6.3
Mar.	3.6	2.4	3.3	0.5	2.1	6.5
Apr.	3.6	2.1	3.3	0.2	2.0	6.3
May	3.7	2.2	3.6	0.5	2.0	7.3
June	4.0	2.3	3.8	0.4	2.2	8.2
July	4.0	1.9	4.1	0.5	2.2	8.8
Aug.	4.2	2.5	4.1	0.1	2.3	8.2
Sept.	3.9	2.3	3.8	-0.3	2.1	7.4
Oct.	3.6	2.4	3.5	0.0	2.2	4.7
Nov.	2.7	2.2	2.7	-0.4	2.1	1.2
Dec.	2.4	2.3	2.2	-0.1	2.1	-0.7
2009 – Jan.	1.4	1.5	1.6	-0.1	1.9	-2.0
Feb.	1.5	1.7	1.6	0.2	1.8	-3.2
Mar.	1.1	1.4	1.2	0.1	1.5	-4.6
Apr.	1.2	2.0	1.2	0.2	1.7	-5.3
May	0.8	1.8	0.9	0.2	1.7	-6.7
June	(0.6)	....	(0.5)	(0.1)	....	....

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) Overall index, seasonally adjusted. – (5) Overall index excluding energy and processed and unprocessed food products.

... though less sharply for the core components

The core components of the CPI, less directly influenced by commodity prices, have slowed down steadily since last summer. The twelve-month rate of increase gradually diminished, falling from an average of 2.1 per cent in the last quarter of 2008 to one of 1.7 per cent in April and May 2009.

Three-month inflation rises moderately

The annualized three-month changes in the overall index, calculated on a seasonally and calendar adjusted basis, which had been negative from November 2008 onwards, turned positive again in April and rose to about 2 per cent in June. On the basis of currently available data, a decisive factor was the rise in the price of petrol and other fuels connected with the upswing of international oil prices. For the index's core components, the annualized, seasonally adjusted three-month change stood at about 1.5 per cent in May, following a slight dip in the first quarter.

The twelve-month decline in producer prices is much more pronounced

The year-on-year decline in inflation was much more pronounced upstream of distribution. The producer price index (PPI) came down by 6.7 per cent in May on a twelve-month basis, further accentuating the decline under way since the end of 2008. Excluding energy and food, the decrease came to 2.6 per cent and was determined mainly by the behaviour of the prices of intermediate goods associated with the sharp fall in the dollar prices of commodities. The rate of growth in the producer prices of consumer goods also began to fall gradually in the autumn and turned negative in April and May (-0.7 per cent year on year), plausibly pointing to a further slowdown in the corresponding consumer prices in the coming months.

The gap between year-on-year inflation in Italy and the rest of the euro area widened progressively from the beginning of the year, to an average of 0.7 percentage points in the second quarter according to preliminary data for June (0.4 points in the first). The main factors were the faster growth in the prices of unprocessed food and of non-food, non-energy products and the lower weight of energy products in the Italian index basket.

From the autumn onwards consumer price inflation is forecast to rise gradually

The inflation predictions of the professional forecasters surveyed by Consensus Economics in June stabilized at 0.8 per cent for 2009; those for 2010 were trimmed to 1.5 per cent. Over the summer consumer price inflation is expected to fall to just about nil, in part owing to the reduction in electricity tariffs and the costs of some mobile telephone services in July; it is forecast to rise gradually in the final part of the year, in line with the expected trends in the rest of the euro area. According to the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore*, the recent upturn in international commodity prices is prompting firms to revise their selling prices upwards slightly more than they had foreseen in March, though the expected increase over the next twelve months is still less than 1 per cent. The interruption of the downtrend in pricing policies is confirmed by the findings of the ISAE monthly survey of industrial firms as regards firms' intentions to change their price lists, in conjunction with the improvement in short-term projections for the trend in production.

3.7 BANKS

Bank lending slows further ...

The growth in bank loans to the private sector, adjusted for the accounting effect of securitizations, slowed further, to 3 per cent over the twelve months ending in May (Figure 28). The three-month growth rate, on a seasonally adjusted annualized basis, was slightly negative (-0.9 per cent). Lending contracted to every sector of economic activity, except households, where it expanded by 2.2 per cent.

The loans disbursed by the five leading Italian banking groups decreased by 3.2 per cent over twelve months, while those disbursed by other banks continued to expand at a rapid, if slightly slower, pace (6.8 per cent). The growth differential was present in all the sectors of economic activity; among non-financial corporations it was especially large for smaller firms.

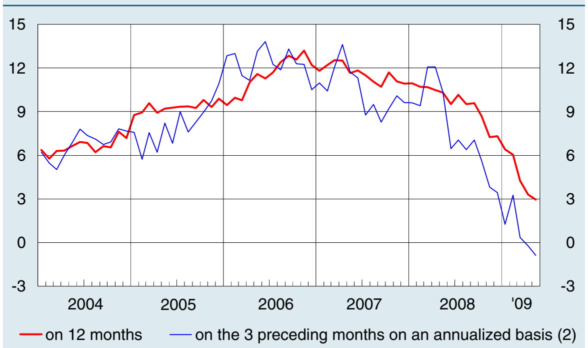
... reflecting both demand and supply factors

The growth in credit continues to reflect the weakness of economic activity; for loans to firms, whose funding needs remain large, the more restrictive supply conditions imposed by banks also played a part. The Italian banks participating in the Bank Lending Survey reported a further,

Figure 28

Bank loans to the private sector (1)

(monthly data; percentage changes)



(1) The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other changes not due to transactions. Includes loans derecognized in connection with securitizations and other loan sales to non-MFIs, with the related repayments estimated. – (2) The data are adjusted for the seasonal component, where present.

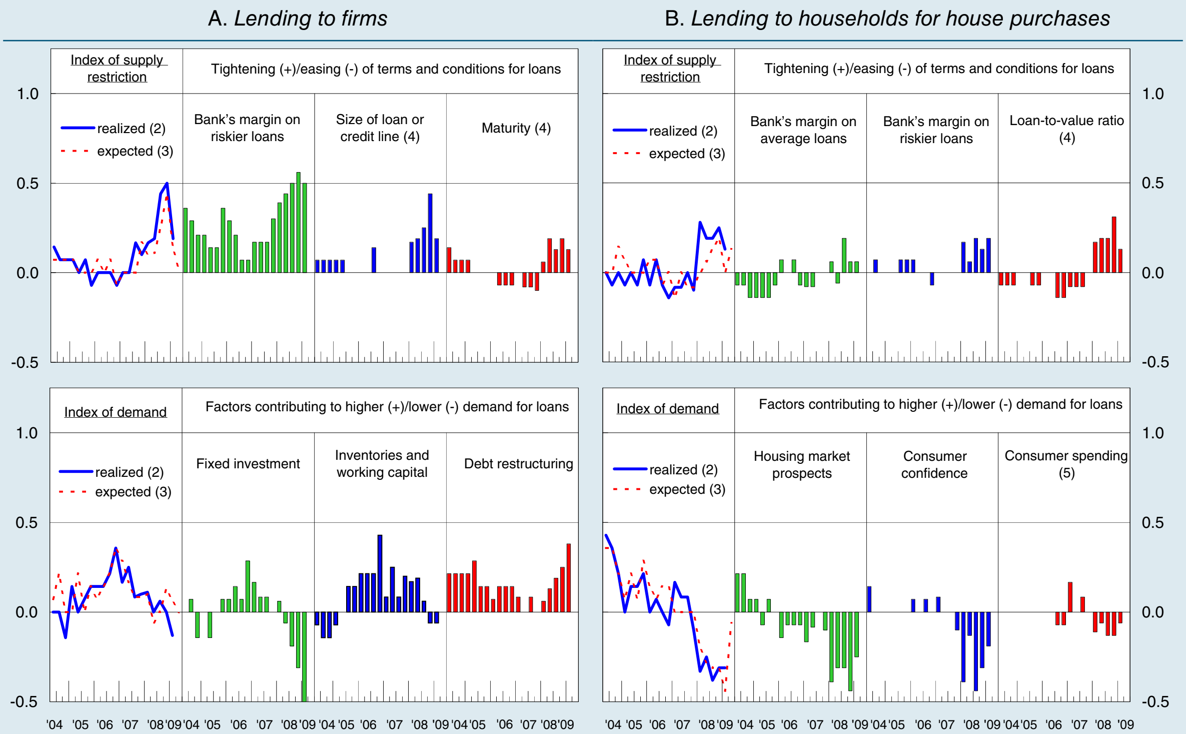
but significantly less marked, tightening of the criteria used to grant loans in the first quarter of 2009 (see the box "Credit Supply and Demand in Italy"). According to the Survey of Industrial and Service Firms conducted by the Bank of Italy in the early months of this year, about one third of the firms interviewed had met with more restrictive credit conditions than in October 2008.

CREDIT SUPPLY AND DEMAND IN ITALY

The responses provided by the Italian banks participating in the quarterly euro-area Bank Lending Survey indicate that credit standards for loans to firms tightened further in the first quarter of 2009, but less sharply than in the preceding quarters (Figure A).[1] The tightening, which was more pronounced for long-term loans and for large firms, was mainly reflected in an increase in the margins applied and, to a lesser extent, a reduction in the quantities disbursed. It can be ascribed primarily to the further deterioration in the economic situation and the related heightening of risk; funding costs and balance sheet constraints, especially with respect to policies on lending to large firms, continued to play a part.

Figure A

Supply conditions and trends in credit demand in Italy (1)



Source: Quarterly Bank Lending Survey for the euro area.
(1) Diffusion indices constructed by aggregating the qualitative responses from the Italian groups participating in the survey, weighted as follows: for supply conditions, 1 = tightened considerably, 0.5 = tightened somewhat, 0 = remained basically unchanged, -0.5 = eased somewhat, -1 = eased considerably; for demand, 1 = increased considerably, 0.5 = increased somewhat, 0 = basically unchanged, -0.5 = decreased somewhat, -1 = decreased considerably. The range of variation of the index is from -1 to 1. – (2) Refers to the quarter ending at the moment of the survey. – (3) Forecasts made in the preceding quarter. – (4) Positive (negative) values indicate a lesser (greater) willingness of banks to grant large loans, long-term loans, or loans with high loan-to-value ratios. – (5) Positive (negative) values indicate that the trend in consumer spending other than for house purchases had an expansive (restrictive) effect on the demand for mortgages.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 3 April; 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 on the second quarter of 2009 and expectations for the third quarter are not yet available; they will be released on 29 July.

The respondent banks reported a further weakening in firms' demand for credit, reflecting reduced financing needs for fixed investments, inventories and working capital, which more than offset the increased demand for loans for debt restructuring and the lesser availability of alternative sources of funds. For the second quarter of 2009 they expected the tightening in business loan supply conditions to halt and the rate of growth in loan demand to remain unchanged.

Banks also reported a further tightening of their supply policies for loans to households, this too more moderate than in the preceding quarters. For mortgage loans the tightening reflected the increase in perceived risk, while for other loans it was connected with the unfavourable outlook for the economy, the deterioration in households' creditworthiness and risks on the value of collateral. The banks stated that they had increased the margins they applied to loans and, for mortgage loans, reduced the loan-to-value ratio.

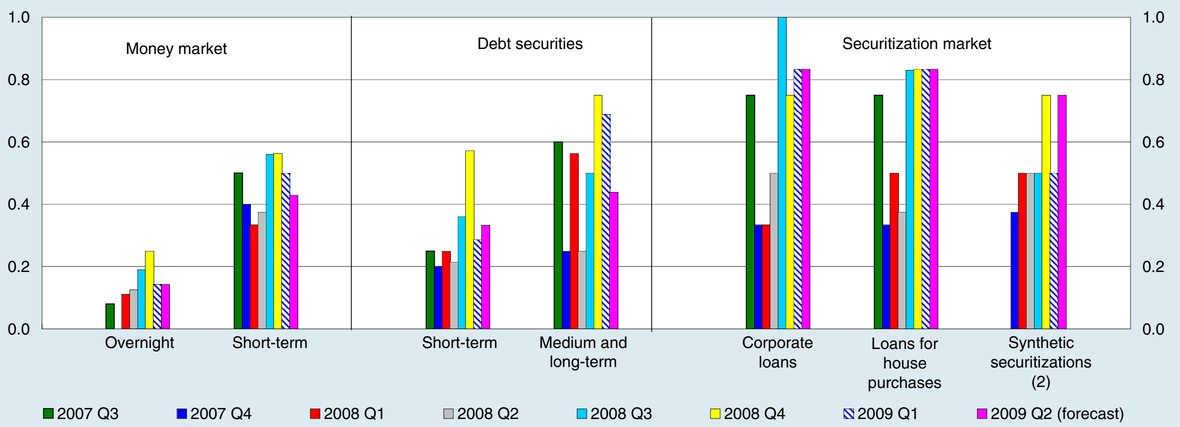
The banks again reported slackening demand for both consumer credit and mortgages. For the second quarter of 2009 they expected demand expansion and supply conditions to remain basically unchanged.

On the funding side, the difficulty of procuring funds on the wholesale market remained significant but lessened as regards both recourse to the money market and the issue of debt securities, in contrast with the securitization market (Figure B). Banks continued to report that the crisis had increased the costs associated with capital requirements and in this way had affected credit supply. For the second quarter of 2009 they expected ongoing repercussions of the crisis on access to wholesale funding and on the supply of credit.

The Italian banks' responses to the survey were broadly in line with those observed for the euro area as a whole regarding both the degree of credit supply restriction and its attenuation by comparison with the previous quarter.

Figure B

Index of the difficulty of obtaining funds in the wholesale market (1)



Source: Quarterly Bank Lending Survey for the euro area.
(1) Diffusion indices constructed by aggregating the qualitative responses to the special questions, added to the survey questionnaire, on the effects of the subprime mortgage crisis. 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. – (2) These imply recourse to credit derivatives. Data for the third quarter of 2007 are not available for this indicator.

Bank interest rates continued to adjust to the reduction in official rates. Between October 2008 and May 2009 the cost of firms' short-term borrowing, including current account loans, fell by two and a half percentage points to 4.4 per cent. The cost of new mortgage loans to households fell by 2.6 percentage points to 3 per cent for those at variable rates and by about one point to 5 per cent for those at fixed rates. The differential between the interest rate on short-term loans to firms and households and that on current account deposits fell by one percentage point to 4.2 per cent; in the euro area it fell by 1.2 percentage points to 4.1 per cent (Figure 29).

Loan quality is affected by the deterioration in economic conditions

In the early months of 2009 the quality of banks' assets continued to deteriorate. In the first quarter the annualized ratio of adjusted new bad debts to total outstanding loans was 1.6 per cent on a seasonally adjusted basis (1 per cent in the whole of 2007). The deterioration continued in the following months. Preliminary data indicate that the total exposure of borrowers reported for the first time as having bad debts in the second quarter of 2009 was more than twice the value in the corresponding period in 2008. The increase was most pronounced in the Centre and North and mostly concerned firms, especially in manufacturing industry. Positions vis-à-vis firms in temporary difficulty also increased: in May they amounted to 3.5 per cent of total loans, compared with 2.2 per cent in 2008. The quality of lending to consumer households deteriorated much less.

Fund-raising slows further

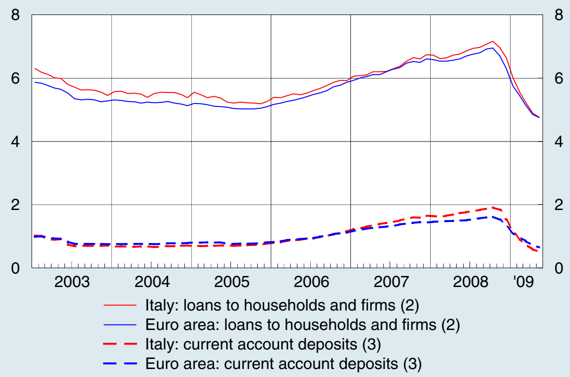
The rate of expansion in Italian banks' total funding declined further, falling in May to 1.6 per cent on a twelve-month basis (Table 7). The low level of interest rates led to a shift away from less liquid forms of deposit (especially repos) in favour of current accounts, which expanded by 8.3 per cent. There continued to be significant differences between the performance of deposits in the various sectors of economic activity: those of households continued to grow at a rapid pace, while those of non-financial corporations contracted, reflecting the latter's greater financial difficulties. The contraction of non-residents' deposits accelerated to 12.4 per cent and was especially pronounced for other euro-area banks.

On 19 June the Ministry for the Economy and Finance approved the first subscription of

Figure 29

Short-term bank interest rates (1)

(monthly data; percentages)



Sources: Bank of Italy and ECB.
(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.

Table 7

Main assets and liabilities of Italian banks (1)

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

	2007	2008	May 2009	Stocks (2)
Assets				
Securities other than shares	7.3	44.4	44.4	418,849
bonds issued by MFIs resident in Italy	*15.1*	*65.6*	*45.8*	*200,383*
Loans	10.1	5.6	3.4	1,759,880
up to 12 months	*7.5*	*4.1*	*-0.7*	*593,492*
beyond 12 months	*11.3*	*6.5*	*5.7*	*1,166,388*
External assets	12.5	-2.0	-15.5	348,662
Liabilities				
Total funding (3)	11.0	4.7	1.6	2,213,451
Deposits of Italian residents	4.2	7.3	4.3	1,135,389
of which: (4)				
current accounts	*2.9*	*6.6*	*8.3*	*713,172*
with agreed maturity	*14.3*	*13.5*	*10.7*	*65,110*
redeemable at notice	*-0.5*	*7.0*	*9.4*	*254,446*
repos	*12.1*	*10.4*	*-29.3*	*88,225*
Deposits of non-residents	22.9	-8.1	-12.4	473,330
Bonds (3)	11.4	12.0	10.1	604,732
Memorandum item: Total bonds	11.9	20.1	17.2	805,114

Source: Based on banks' supervisory reports.
(1) The figures for May 2009 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 variations not due to transactions. – (2) Millions of euros. – (3) Does not include liabilities to resident MFIs. – (4) Does not include those of central government.

instruments issued to recapitalize a bank (see the box “The instruments for recapitalizing Italian banks”, *Economic Bulletin*, No. 52, 2009). Other banks have applied to be allowed to issue such securities. According to the responses given in the quarterly Bank Lending Survey, these capital-strengthening measures will help to mitigate the difficulty of raising funds on wholesale markets.

Banks' profitability continues to decrease

Last year's deterioration in banks' profitability continued in the early months of 2009. On the basis of the consolidated accounts of the five leading banking groups, in the first quarter of this year their profits were down by 40 per cent on the year-earlier period; their ROE on ordinary activities halved to 4.5 per cent.

The growth in net interest income that lasted throughout 2008 came to a halt. The decrease in other income continued as a consequence of the reduction in fee income. The result for trading turned slightly positive. Gross income decreased by 3 per cent. Operating profit remained unchanged thanks to the reduction in operating costs. Transfers to loan loss provisions more than doubled and absorbed half of operating profit, compared with less than a quarter in the first three months of 2008.

3.8 THE FINANCIAL MARKETS

From March the stock markets staged a rally, which faded in July

In the second quarter of 2009 the general index of the Italian stock exchange gained 20 per cent, more than the average increase recorded by the other euro-area stock markets (16 per cent; Figure 30). The rally appears to have been sparked by the signs of lessening recessionary pressures and by an increase in investors' risk appetite; in May the release of the results of the stress-tests of US banks' capital adequacy helped to reduce uncertainty in the euro-area markets as well. A marked reduction in equity risk premiums appears to have more than made up for the further reduction in listed companies' current and forecast earnings. The Italian and euro-area share market indices rose by 46 and 32 per cent, respectively, from their mid-March lows. In the first ten days of July, however, European stock markets fell.

Figure 30

Share prices (1)

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

Source: Thomson Reuters Datastream.
(1) FTSE Italia Mib for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States. The latest available figure is for 10 July 2009.

The sectors scoring the largest share price gains were the automobile industry (38 per cent), basic materials (26 per cent) and banking (23 per cent). The automotive index benefited from the performance of Fiat, whose share price was boosted by the announcement of its acquisition of an equity interest in Chrysler. The shares of basic materials companies were pushed up by the surge in commodity prices in response to the improvement in the outlook for global economic growth. Bank shares, lastly, benefited from the easing of financial strains at international level. The telecommunication stock index remained unchanged, reflecting the performance of Telecom Italia's share price.

The current earnings/price ratio fell sharply, but nevertheless remains above its long-term average (Figure 31). The volatility of share prices implied by options prices also came down significantly and is now in line with the levels recorded last September.

Initial public offerings remain rare. The first five months of 2009 saw three new listings on the Italian stock exchange – two on the AIM Italia alternative investment segment and one on the MAC alternative capital market. At the end of May the 289 Italian companies listed on Borsa Italiana had a total market value of €392 billion (equal to 25.3 per cent of GDP).

Italian banks continue to raise funds on bond markets

Like firms of the other euro-area countries, Italian companies continued to be highly active in the bond markets. In the first quarter of 2009 net issues amounted to €61 billion, compared with €80 billion in the fourth quarter of 2008 (Table 8). There was a marked increase in net issues by banks (in particular, the UniCredit and Intesa Sanpaolo groups), set against a drastic fall in those by non-bank financial corporations, which in the previous quarter had carried out large securitizations. As in the euro area, non-financial corporations kept making net issues (€3.5 billion), the bulk of which came from large placements by Eni and Telecom Italia: net issues by small companies remained marginal.

The risk premium on corporate bonds shrinks ...

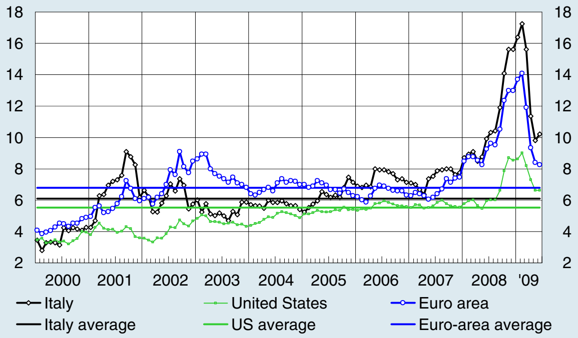
In the second quarter the yield spreads of investment-grade bonds issued by non-financial corporations with respect to government securities narrowed by 0.9 percentage points, in line with the reduction recorded by bonds with comparable characteristics issued by companies of other euro-area countries. In the same period the premiums on credit default swaps on Italian banks diminished by 0.8 percentage points, less than the reduction recorded for banks of the other euro-area countries.

... while that on government securities starts to widen again

Between the end of May and the first ten days of June Standard & Poor's revised down the outlook for British government securities and downgraded Irish ones. This drove up the risk premiums demanded by investors to hold government securities; the increase was particularly large for the securities of countries with a lower credit rating than Germany's. The spread between ten-

Figure 31

Current earnings/price ratios for the main stock exchanges (1)
(monthly data; per cent)



Source: Based on Thomson Reuters Datastream data.
(1) Averages are from January 1986.

Table 8

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2007	63,928	15,029	10,546	**89,503**
2008	123,932	78,985	1,215	**204,132**
2007 – Q1	21,619	2,404	-1,143	**22,880**
Q2	15,371	7,527	7,630	**30,528**
Q3	1,793	-3,231	-706	**-2,144**
Q4	25,145	8,329	4,765	**38,239**
2008 – Q1	39,930	-3,763	-133	**36,034**
Q2	45,023	16,045	-1,409	**59,659**
Q3	15,213	12,361	844	**28,418**
Q4	23,766	54,342	1,913	**80,021**
2009 – Q1	46,140	11,065	3,541	**60,746**
		Euro area		
2007	284,783	325,780	28,777	**639,339**
2008	193,687	392,946	29,955	**615,925**
2007 – Q1	140,945	95,957	894	**237,795**
Q2	101,876	59,790	25,112	**186,777**
Q3	14,464	33,574	-4,378	**43,660**
Q4	27,498	136,459	7,149	**171,106**
2008 – Q1	35,450	8,581	-2,508	**41,522**
Q2	127,637	102,229	11,845	**241,711**
Q3	22,041	49,340	7,487	**78,868**
Q4	7,896	232,797	13,132	**253,825**
2009 – Q1	80,110	98,570	38,453	**217,132**

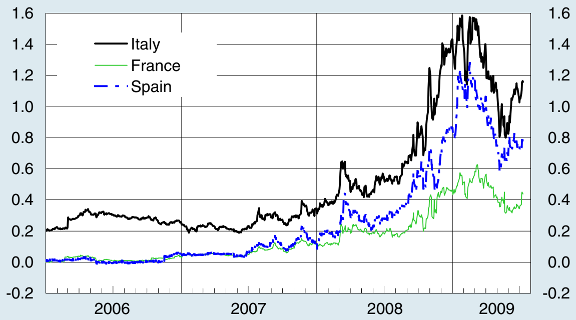
Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by resident companies belonging to the sector indicated. The nationality and sector refer to the issuer and not to the company that controls it. Net issues are equal to the difference between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

year Italian government securities and German Bunds, which had narrowed from 135 to 80 basis points between April and mid-May, widened again to reach 115 basis points by mid-July (Figure 32). The premiums on credit default swaps on the sovereign debt of the Italian Republic and other euro-area countries behaved in similar fashion.

Figure 32

Interest rate spreads between ten-year government bonds and the corresponding German security

(daily data; percentage points)



Source: Based on Bloomberg data.

The outflow of savings from investment funds slows down

In the first quarter of 2009 the net outflow of savings from investment funds fell in Italy to €13.8 billion, from €40.6 billion in the previous quarter. Net redemptions diminished for both Italian funds (to €8.9 billion) and foreign funds (to €4.9 billion). In particular, among the latter, net redemptions fell sharply for bond funds (to €1.6 billion, from €6.6 billion) and money-market funds (to €1 billion, from €5.9 billion). By contrast, at euro-area level net fund-raising turned positive, mainly as a result of the large net inflow into French money-market funds (which account for 51 per cent of euro-area money-market funds' total net assets). The average return on Italian harmonized funds was negative for the seventh consecutive quarter (-0.5 per cent), though slightly better than in the previous quarter. The decline of the international stock markets continued to penalize equity funds, which on average lost 6.8 per cent, while bond funds returned 0.9 per cent net of fees. Individually managed portfolios instead recorded net outflows in line with those of the previous quarter (€22.9 billion); their average return is estimated at -0.8 per cent.

3.9 FORECASTS

The crisis has impacted world trade and economic growth

The deepening of the financial crisis since September triggered a recession that swept through first the advanced and then the emerging economies. In the fourth quarter of 2008 world GDP contracted at an annual rate of about 7 per cent compared with the third quarter, and the steepness of the decline appears to have been confirmed in the early part of this year. These developments led to a drastic revision of the forecasts for world trade in 2009, which have now been lowered by more than 10 percentage points since December. The IMF's recent estimates indicate that world economic activity will decline by 1.4 per cent in 2009, by far the worst result since the Second World War. Output is expected to return to growth (of 2.5 per cent) in 2010.

In Italy the recession is easing and should end in 2010

The pronounced worsening of the world economy has affected Italy's GDP and led to a deep revision of short- and medium-term growth forecasts. The Bank of Italy had already revised its growth forecast sharply downwards, to -2 per cent, in January (*Economic Bulletin* No. 51), when the forecasts of the other main analysts were more optimistic. The data on world economic trends that have become available since then have confirmed the worsening of the cyclical situation we had predicted in January, necessitating an even sharper downward revision (see the box "The construction of the forecasting scenarios"). Adjustments to the growth forecasts of a magnitude comparable to those described here have been made or are being made in the other euro-area countries as well.

In the light of these developments (see the box "Technical assumptions and the international environment"), we estimate that Italy's GDP, which diminished by 1 per cent in 2008, will contract by 5.2 per cent this year and hold steady in 2010 (Table 9). Thanks to the gradual recovery in world trade, the powerful stimulus provided by monetary policy – in part through "unconventional" measures – and the countercyclical provisions enacted by the Government (see the box "Recent public finance measures"), the recession should ease considerably in the second half of 2009, and economic activity should return to growth in 2010.

Exports remain the prime factor in the fall in demand ...

The performance of the Italian economy chiefly reflects slumping sales abroad (Figure 33). The marked decline in world trade penalizes exports, which are expected to fall by more than 20 per cent in 2009 and by just over 2 per cent in 2010. Italian exports are not forecast to return to rapid growth until the second half of next year, and Italy's world market share will likely decrease further, reflecting the appreciation of the euro and the pricing policies of Italian exporters in a situation of low profitability.

... followed by investment

Investment is expected to undergo a record decline of nearly 15 per cent this year, more than the overall decrease during the 1992-93 recession (see the box "The behaviour of the macroaggregates in the main postwar recessions in Italy"). For machinery and transport equipment, the contraction will presumably be sharper still, more than 20 per cent. The fall in investment, induced by the worsening prospects for economic growth, will most likely also reflect the persistent strains in the credit market (see the box "Credit supply and demand in Italy"). The full unfolding of the expansive impulse from monetary policy, more favourable corporate credit conditions and the measures recently enacted by the Government, which provide for tax exemption of profits reinvested in machinery (ATECO classification, Division 28) before the end of June 2010, should encourage the resumption of investment activity. Investment in machinery is expected to expand by 1.2 per cent in 2010 as a whole, and total investment by 0.1 per cent. It is estimated that without the tax incentives next year would have registered the third consecutive decline in the country's stock of physical capital. These assessments posit that the share of total machinery investment accounted for by the subsidized expenditures is in line with the official estimates; the forecasting scenario assumes not only the recovery of world trade but also the absence of liquidity constraints on firms.

Table 9

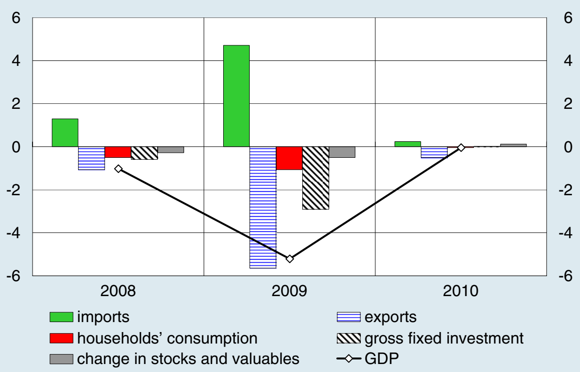
Forecasts of the main macroeconomic variables in Italy
(percentage changes on previous year unless otherwise indicated)

	2008	2009	2010
GDP (1)	**-1.0**	**-5.2**	**0.0**
Household consumption	-0.9	-1.8	-0.1
Government consumption	0.6	1.1	0.7
Gross fixed investment	-2.9	-13.9	0.1
Exports	-3.7	-20.2	-2.2
Imports	-4.5	-16.8	-1.0
Change in stocks (2)	-0.3	-0.5	0.1
HICP (3)	**3.5**	**0.8**	**1.6**
Export competitiveness (4)	**-4.2**	**-1.2**	**-1.3**

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; percentage points. – (3) Harmonized index of consumer prices. – (4) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products).

Figure 33

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



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

THE CONSTRUCTION OF THE FORECASTING SCENARIOS

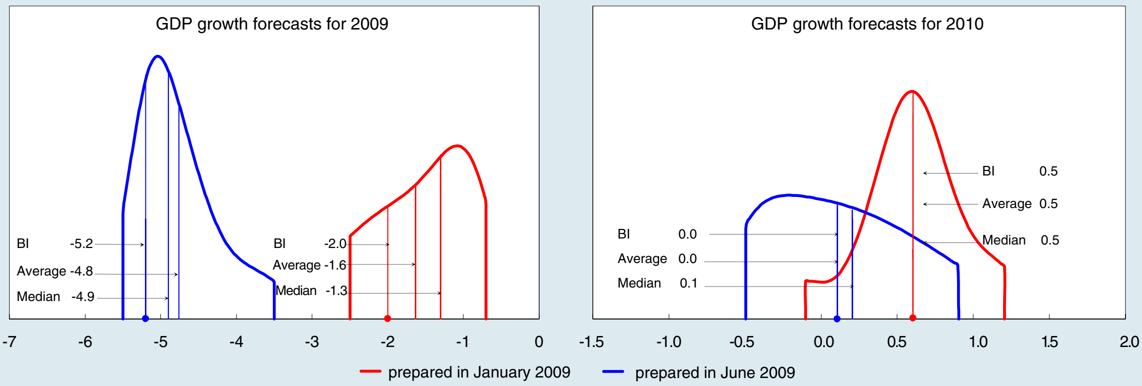
The scenario presented here is the result of a simulation exercise conducted using the Bank of Italy's quarterly econometric model. The model contains about 800 equations, of which nearly 100 are stochastic, and provides a detailed description of the private sector and the public finances. In the short term the performance of the economy is determined by the evolution of aggregate demand, taking rigidities in the price and wage formation mechanisms into account; in the long term supply factors prevail, and economic growth is the result of capital accumulation, productivity and demographic trends. [1]

The macroeconomic scenario depends on a set of assumptions that mainly concern: (a) the performance of the international economy (which is estimated by the leading international organizations); (b) fiscal policy (which reflects measures already approved by Parliament or outlined by the Government in sufficient detail); (c) short and long-term interest rates (based on market expectations); (d) the exchange rate (assumed constant at the average level observed in the two weeks before the publication of the *Economic Bulletin*); and (e) the prices of oil and other raw materials (based on futures).

The projection also depends on the initial conditions of the economy (given the time taken to process the national accounts, these are known with a lag of about 75 days) and takes account of discretionary assessments, suggested by supplementary analyses and information external to the model, and of any instability in the estimated economic relationships, associated, for example, with structural changes under way in the economy. [2]

The differences between scenarios prepared at different times mainly reflect the updating of the underlying assumptions and, to a lesser extent, changes in the initial conditions (due, for example, to revisions of the data published by statistical institutes), as well as different assessments of the information "external to the model". Compared with the estimates published in the January *Economic Bulletin*, the growth in GDP in the macroeconomic scenario presented here has been revised downwards by more than three percentage points for this year and by half a point for next year. The largest revisions to the exogenous variables concerned the evolution of the international environment: the rate of growth in world trade is now assumed to be more than ten percentage points lower in 2009 and more than five points lower in 2010, in line with the latest estimates of the leading international organizations, while the price of oil is

Distribution of the forecasts of Consensus Economics and the Bank of Italy's point forecasts



Source: Based on Consensus Economics data.

[1] For a detailed description of the econometric model, see "Modello trimestrale dell'economia italiana", *Temi di discussione*, Banca d'Italia, no. 80, 1986. A summary description of the latest version of the model is to be found in F. Busetti, A. Locarno and L. Monteforte, "The Bank of Italy's Quarterly Model", in G. Fagan and J. Morgan (eds.), *Econometric Models of the Euro-area Central Banks*, Edgar Elgar Publishing, Cheltenham, Northampton (MA), 2005.
[2] See I. Visco, "The financial crisis and economists' forecasts", University of Rome, La Sapienza, Rome, 4 March 2009, available on the Bank of Italy's website.

assumed to be nearly 13 per cent higher on average in the two years. Nor are the changes to interest rates negligible: those at short term are about 100 basis points lower both in 2009 and in 2010; those at long term are 40 points lower this year and almost unchanged next year. Taken together, the changes to the exogenous variables subtract more than three percentage points from the forecast of GDP growth in 2009 and imply a correction to the estimates for 2010 slightly larger than is envisaged here; the effect is almost entirely due to the new assumptions concerning world trade. Revisions on a similar scale were also made to the forecasts released by Consensus Economics.

The figure shows the distribution of GDP growth forecasts made in January and June by private analysts and, for the sake of comparison, by the Bank of Italy. The average revision made by the analysts for 2009 is 3.2 percentage points, while the median, which is a more reliable statistic because it is less sensitive to outliers, is 3.6 points. The revision for 2010 is equal to about half a percentage point in both cases. These corrections are of the same order of magnitude as those made by the Bank of Italy.

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL ENVIRONMENT

The assumptions regarding the growth of the world economy and world trade on which the macroeconomic scenario is based are the same as those used for the euro-area forecasts published in June in the ECB's Monthly Bulletin and are not significantly different from the estimates recently published by the World Bank and the IMF. The continued fall in activity in the first months of the year in the major advanced economies and the sharp slowdown in the emerging countries translate into a marked contraction in the volume of international trade in 2009. From the end of the year, the attenuation of the decline in output in the advanced economies and the recovery of the emerging countries bring a steady improvement in world trade, which is forecast to contract by more than 13 per cent in 2009 and then to return to a path of moderate growth next year (0.8 per cent).

The assumptions regarding interest rates and exchange rates and the price of oil take account of the information available in the ten working days preceding 12 July 2009. The price of crude oil averages $60.10 a barrel this year and, on the basis of futures contracts, is forecast to rise to $72.70 next year. The gradual reduction of risk premiums, with respect to the exceptionally high levels observed in the last quarter of 2008 and the first quarter of 2009, together with the strongly expansionary stance of monetary policy in the last six months, induce a fall in short-term interest rates of more than three percentage points compared with the second half of last year. According to futures contracts, three-month Euribor averages 1.4 per cent this year and 1.5 per cent in 2010. Long-term interest rates (corresponding to the yield of a basket of government securities with a duration of about 6 years) are 3.9 per cent this year and 4.6 per cent in 2010. The assumption that all bilateral exchange rates remain unchanged at recent average levels implies a dollar/euro conversion rate of 1.37 this year and 1.40 over the forecasting horizon.

The projections for the public finances take account of the provisions approved at the end of June (see the box "Recent public finance measures").

RECENT PUBLIC FINANCE MEASURES

At the end of June two measures were approved that are officially estimated to modify the composition of revenue and expenditure without affecting the public finance balances.

The law in favour of the population hit by the earthquake in Abruzzo. – Law 77/2009, which ratified Decree Law 39/2009, specifies the interventions in favour of the population in Abruzzo hit by the earthquake in April. The immediate aim of the legislation is to tackle the emergency and in the longer term the objective is to finance reconstruction activity through 2032. For the part of the plan that is quantified, the impact on net borrowing in the three years 2009-11 is virtually nil.

The increase in expenditure over the three years is estimated to be €2.9 billion (of which €1.2 billion in 2009). This year resources are absorbed primarily to cope with the emergency (relief and assistance for the population and construction of temporary housing); in the two years 2010-11 they will mostly be used to disburse grants and state-guaranteed subsidized loans for the reconstruction of buildings damaged or destroyed by the earthquake.

The funding of the interventions planned for the three years consists of an increase in revenue of about €1.7 billion (of which €0.5 billion in 2009) and a decrease in expenditure of more than €1.3 billion (of which €0.8 billion in 2009). In particular, the increase in revenue will come from a broadening of the range of gaming activities offered to the public (with the introduction of new lotteries and the opening of tobacconists on public holidays) and a tightening of controls in the sector. In 2009 expenditure savings will derive from a revision of the mechanisms for reimbursing the prices of generic drugs (accompanied by a reduction from 14 to 13.6 per cent in the ceiling established for pharmaceutical expenditure) and a decrease in the use of the fund for family bonuses. In 2010-11 the interventions will draw mainly on funds set up for other purposes (the flexibility fund, the fund for offsetting financial effects and the fund for underutilized areas).

The law provides for other interventions, including the payment of an unspecified amount of compensation to firms. On the funding side, no indication is given of the amount to come from fines imposed by the Antitrust Authority or of that to come from the fund that will receive the proceeds of future measures to counter tax evasion, nor does the law specify the distribution over time of the resources diverted from the fund for underutilized areas, approved by the Interministerial Committee for Economic Planning for a total of €4 billion.

The end-of-June anti-crisis decree. – At the end of last month the Government issued Decree Law 78/2009, which includes provisions to counter the effects of the economic crisis and supplement those contained in the decrees issued in November and February (see the boxes "The anti-crisis decree", *Economic Bulletin*, no. 51, 2009, and "February's anti-crisis decree", *Economic Bulletin*, no. 52, 2009). According to the official estimates the anti-crisis interventions will cause an increase in expenditure of €6.4 billion in the period 2009-12 (of which €0.7 billion this year) and a decrease in revenue of €5.2 billion (concentrated largely in 2010-11). The interventions will be financed by measures contained in the decree, which is therefore estimated not to affect net borrowing, either this year or in the three following years.

In 2009 the increase in expenditure mainly concerns the refinancing of peace missions (€0.5 billion); in the three following years there are important interventions in the health field (about €0.9 billion per year), which are to be defined in later ministerial decrees. The provisions aimed at strengthening the social safety net will cause an increase in expenditure of €0.3 billion in 2009-10. Among other things, these provisions provide for: employees on wage supplementation to do on-the-job training; an increase in wage supplementation for employees included in defensive solidarity contracts; the extension to 24 months of extraordinary wage supplementation in the event of firms closing; and the possibility for workers benefiting from discretionary stabilizers under a waiver to be able to apply for payment of the benefits not yet received in order to start a business.

The most important anti-crisis measure in quantitative terms is the provision of tax incentives for new investments in machinery (division 28 of the ATECO classification of economic activities), which account for four fifths of the decrease in revenue the decree is expected to produce. The measure provides for the exclusion from firms' income of half the cost of machinery purchased in the next twelve months; the consequent loss of revenue is expected to occur over the next two years and to amount to about €2 billion per year.

Estimates of net borrowing and effects of the June legislative measures (1)
(billions of euros and percentages)

	Outturn 2008	2009	2010	2011
Estimates on a current legislation basis – April 2009 (2)	**43.0**	**71.0**	**71.3**	**69.6**
as a % of GDP	*2.7*	*4.6*	*4.6*	*4.3*
Abruzzo Law (3)		0.0	0.0	0.0
increase in revenue	–	*-0.5*	*-0.7*	*-0.5*
decrease in revenue	–	*0.0*	*0.1*	*0.0*
increase in expenditure	–	*1.2*	*1.0*	*0.7*
decrease in expenditure	–	*-0.8*	*-0.4*	*-0.2*
End-June anti-crisis decree (4)		0.0	0.0	0.0
increase in revenue	–	*-1.1*	*-2.7*	*-2.5*
decrease in revenue	–	*0.5*	*1.9*	*2.5*
increase in expenditure	–	*0.7*	*1.9*	*0.9*
decrease in expenditure	–	*-0.2*	*-1.1*	*-0.9*
Memorandum item:				
April 2009 (2)				
Nominal GDP	1,572	1,529	1,555	1,601
Rate of real GDP growth	-1.0	-4.2	0.3	1.2

(1) A negative sign indicates an improvement in net borrowing. – (2) Taken from the *Combined Report on the Economy and the Public Finances*. – (3) Based on official estimates (*Atto parlamentare della Camera dei deputati*, 16th Legislature, no. 2468). – (4) Based on official estimates (*Atto parlamentare della Camera dei deputati*, 16th Legislature, no. 2561).

More than two thirds of the resources needed to finance the expansionary measures are to come from additional revenue, amounting to €8.4 billion in the period as a whole and to €1.1 billion in 2009. In particular, the increase in revenue in 2009 is related to the revision of the procedures for issuing gaming licences (€0.5 billion), the strengthening of tax collection activities (€0.2 billion) and the introduction of more stringent requirements for offsetting tax credits (€0.2 billion). From 2010 onwards substantial increases in revenue of about €1 billion per year are expected from the introduction of rules to counter tax evasion in relation to tax bases held in tax havens and international tax arbitrage.

Lastly, as regards expenditure savings (expected to amount to €3.2 billion over the whole period, of which €0.2 billion in 2009), a significant part concerns the health sector and derives from the savings realized in pharmaceutical expenditure (by means of the mechanisms for reimbursing the prices of generic drugs and a further reduction, from 13.6 to 13.3 per cent, in the expenditure ceiling established at national level).

After falling for 2 years, consumption will stabilize in 2010

Private consumption is forecast to diminish by nearly 2 per cent this year and to stagnate in 2010. The transfer payments to low-income households decided by the Government, the extension of social buffers and the sharp decline in inflation should sustain disposable income, thereby attenuating the fall in household spending in real terms. Expenditure on consumer durables, although boosted by the increase in motor vehicle sales thanks to the scrapping incentives, is expected to decrease significantly (by nearly 6 per cent over the two years).

The external accounts should improve in 2009, but only temporarily

Imports will be affected by the slump in the demand components with the greatest import content – namely investment and exports – and will fall by 16.8 per cent in 2009. Even so, this reduction should be less than that estimated for exports. Imports are expected to pick up again towards the end of the year, driven by purchases of capital goods stimulated by the tax relief on reinvested profits, but then to contract again in the third quarter of 2010 as this fiscal effect is exhausted. On average for 2010, imports should decline by 1 per cent. The external current account deficit is forecast to narrow temporarily this year, benefiting from the improvement in the terms of trade, but then to widen significantly in 2010.

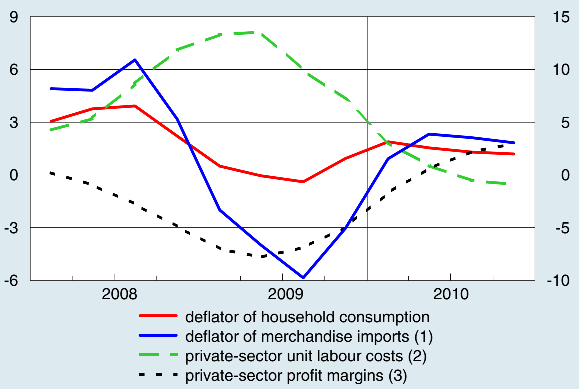
Consumer price inflation should bottom out during the summer and rise to over 1 per cent in the latter part of the year

Harmonized consumer price inflation in Italy is forecast to average 0.8 per cent in 2009, nearly 3 percentage points less than in 2008. After recording a twelve-month minimum in the third quarter owing to the lower level of energy prices than a year earlier, the inflation rate will gradually come back upwards. Net of the energy component the index will rise by 1.7 per cent this year, compared with 2.9 per cent in 2008. The pronounced decline in labour productivity will result in a substantial acceleration in unit labour costs, which are expected to rise by more than 6 per cent in the private sector. The higher unit labour costs are expected to be partially offset by a compression of profit margins (Figure 34). In 2010, as raw materials prices rise, consumer prices can be expected to increase by 1.6 per cent (either gross or net of the energy component). Thanks to strong gains in productivity, unit labour costs in the private sector should rise very little (just 0.4 per cent).

Figure 34

Prices, margins and labour costs

(percentage changes on year-earlier period)



(1) Right-hand scale. – (2) Unit labour costs in the private sector (excluding energy and agriculture); calculated as the ratio between compensation of employees per standard labour unit and output per standard labour unit; output is value added at factor cost. – (3) Ratio between the deflator of value added at factor cost and unit labour costs in the private sector (excluding energy and agriculture).

Comparison with other forecasts

For this year, our forecast of GDP growth is slightly more optimistic than that of the OECD, in line with that of the IMF, and about half a point worse than the average of the analysts consulted by Consensus Economics. The European Commission's more optimistic estimates were made in April. For 2010 the OECD forecasts positive GDP growth of 0.4 per cent for Italy, while the IMF forecasts another, modest decrease (-0.1 per cent) and Consensus Economics predicts stagnation. Our inflation estimate for 2009 does not differ significantly from that of the other forecasters (it is in line with those of the OECD and the IMF, slightly below that of the Commission and the Consensus Economics average). Inflation forecasts for 2010 are more variable.

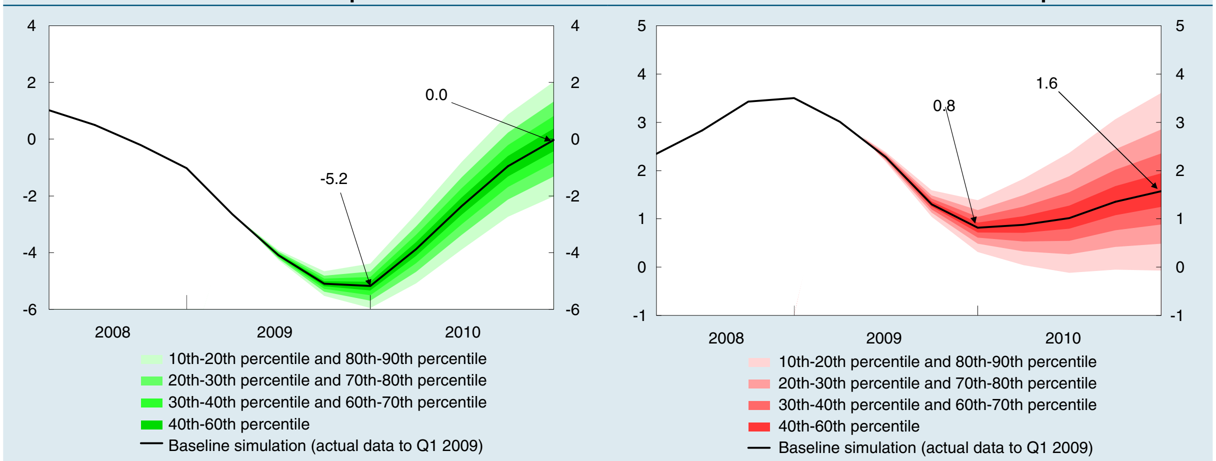
The uncertainty over the forecast for 2009 is relatively limited ...

The growth forecast for 2009 is based mainly on already acquired data on economic activity through the first quarter. Even just assuming that the pace of economic activity remains constant for the rest of 2009, there would be a fall of nearly 5 per cent in annual GDP, and estimates based on the indicators available to date (such as industrial production and surveys) suggest that the second quarter witnessed a further marked contraction in activity at an annual rate of about 2.4 per cent. The effects of the Government's end-June anticrisis measures should mostly be felt in 2010.

Figure 35

Distribution of probabilities of GDP and HICP forecasts

(percentage change on corresponding period of previous year; four-term moving average)



... but that surrounding 2010 remains substantial

Considerable uncertainty continues to characterize the scenario for 2010 – in particular, the timing and strength of the recovery (Figure 35). [1] First of all, the forecasts are based on the hypothesis that the credit markets return to normal operation. Second, if the cyclical weakness of the economy were to persist, then starting in the second half of the year Italian firms could undertake more decisive staff downsizing, which would translate into a further curtailment of households' spending power and a more severe contraction of domestic demand. Consumption might also be curbed by an expansion of precautionary saving, which tends to increase, other things being equal, as job security decreases. On the other hand, there are also signs – albeit weak and intermittent – that the world economy is steadying, which could be the prelude to a somewhat sharper acceleration in the growth of world trade in 2010 than is assumed in the present forecasts. As for price developments, the risk of deflation would appear to be small but still present.

[1] Uncertainty is graphed by fan charts, based on 50,000 stochastic simulations effected via random extractions from the historically observed distributions of model shocks. The figure shows year-on-year percentage changes of four-term moving averages. The value corresponding to the fourth quarter of each year coincides with the annual percentage change.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2005	2.9	3.0	2.1	0.4	0.1	6.8	1.1	3.0	3.1	7.0	5.9	-0.2	-0.1
2006	2.8	3.0	2.1	1.7	0.3	1.9	0.3	2.6	2.8	9.1	6.0	..	..
2007	2.0	2.8	2.0	2.1	0.4	-3.1	-0.5	1.4	1.4	8.4	2.2	0.6	-0.4
2008	1.1	0.2	0.2	2.9	0.6	-5.0	-0.8	-0.3	-0.3	6.2	-3.5	1.4	-0.3
2006 – Q1	4.8	4.3	2.9	3.9	0.7	8.3	1.4	4.5	4.7	16.7	10.3	0.1	-0.2
Q2	2.7	2.8	1.9	1.3	0.2	-2.5	-0.4	2.0	2.1	5.4	0.1	0.6	0.4
Q3	0.8	2.2	1.5	1.7	0.3	-4.8	-0.8	0.9	0.9	3.5	3.1	-0.1	-0.1
Q4	1.5	3.7	2.6	1.6	0.3	-7.6	-1.3	0.2	0.2	15.6	2.0	1.3	-1.4
2007 – Q1	..	3.9	2.7	0.9	0.2	-3.4	-0.6	1.2	1.3	0.6	7.7	-1.2	-1.1
Q2	4.8	2.0	1.4	3.9	0.8	3.0	0.5	2.9	3.1	8.8	-3.7	1.7	0.5
Q3	4.8	2.0	1.4	3.8	0.8	-0.9	-0.2	2.6	2.8	23.0	3.0	2.0	0.7
Q4	-0.2	1.0	0.7	0.8	0.2	-6.2	-1.0	-1.0	-1.1	4.4	-2.3	0.9	-1.0
2008 – Q1	0.9	0.9	0.6	1.9	0.4	-5.6	-0.9	0.1	0.1	5.1	-0.8	0.8	..
Q2	2.8	1.2	0.9	3.9	0.8	-1.7	-0.3	-0.1	-0.1	12.3	-7.3	2.9	-1.5
Q3	-0.5	-3.8	-2.8	5.8	1.1	-5.3	-0.8	-1.5	-1.6	3.0	-3.5	1.1	0.8
Q4	-6.3	-4.3	-3.0	1.3	0.3	-22.0	-3.4	-5.9	-6.2	-23.6	-17.5	-0.2	-0.1
2009 – Q1	-5.5	1.4	1.0	-3.1	-0.6	-37.6	-6.0	-7.5	-7.9	-30.6	-36.4	2.4	-2.2

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
2005	1.9	1.3	0.7	1.6	0.3	3.1	0.7	1.7	1.6	7.0	5.8	0.3	-0.1
2006	2.0	1.5	0.8	0.4	0.1	0.5	0.1	1.2	1.2	9.7	4.2	0.9	0.2
2007	2.3	0.7	0.4	1.9	0.3	0.8	0.2	1.2	1.1	8.4	1.5	1.1	0.3
2008	-0.7	0.6	0.3	0.8	0.1	-5.0	-1.1	-0.9	-0.9	1.8	0.9	0.2	-0.2
2006 – Q1	0.8	1.3	0.7	-1.2	-0.2	-1.0	-0.2	0.8	0.7	7.2	7.5	0.2	0.5
Q2	3.4	2.4	1.3	4.3	0.7	3.6	0.8	2.9	2.8	8.5	5.8	0.6	..
Q3	1.6	-3.1	-1.7	6.6	1.1	-1.8	-0.4	..	..	8.2	-2.4	1.4	1.0
Q4	2.8	3.8	2.1	-4.6	-0.8	6.8	1.5	2.4	2.3	2.1	-0.8	0.4	-0.5
2007 – Q1	4.6	0.3	0.2	1.6	0.3	11.5	2.5	3.9	3.7	8.9	4.9	0.8	0.7
Q2	-0.1	1.3	0.7	6.2	1.0	-12.7	-3.1	-1.6	-1.6	12.6	3.1	1.5	-0.2
Q3	0.6	-1.1	-0.6	-1.8	-0.3	-4.0	-0.9	-1.6	-1.6	11.3	-2.4	1.9	0.3
Q4	2.6	0.5	0.3	7.6	1.3	-3.2	-0.7	1.5	1.4	7.8	1.5	1.0	0.6
2008 – Q1	1.5	5.7	3.0	-1.5	-0.3	2.5	0.5	1.4	1.3	9.8	10.1	0.5	-1.9
Q2	-2.2	-3.8	-2.1	-3.5	-0.6	-9.3	-2.1	-4.4	-4.2	-3.2	-15.7	1.3	0.6
Q3	-2.9	0.5	0.3	-0.6	-0.1	-9.2	-2.1	-2.7	-2.6	4.0	6.3	..	-0.6
Q4	-13.5	-3.1	-1.8	6.5	1.1	-14.0	-3.2	-1.3	-1.3	-47.1	13.1	-11.1	2.5
2009 – Q1	-14.2	-4.2	-2.5	0.1	..	-24.3	-5.9	-8.8	-9.2	-70.0	-47.8	-8.3	-0.6

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

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2003	0.8	3.2	1.4	1.8	0.7	1.3	1.2	1.7	1.3
2004	2.2	7.0	3.5	1.2	3.5	2.3	1.6	1.6	7.4
2005	1.7	5.7	2.8	2.3	4.6	3.3	1.8	1.5	5.0
2006	2.9	8.2	4.5	4.5	6.6	5.5	2.0	1.9	8.3
2006	2.7	5.3	3.5	3.1	6.6	4.8	1.6	2.2	5.9
2008	0.7	1.1	0.8	-0.8	0.9	..	0.4	1.8	1.0
2007 – Q1	0.8	1.0	0.8	1.4	0.9	1.2	-0.1	0.9	0.5
Q2	0.4	0.6	0.5	-1.2	1.6	0.1	0.6	0.2	1.0
Q3	0.6	2.0	1.0	0.5	1.3	0.9	0.4	0.5	1.6
Q4	0.4	-0.1	0.2	0.4	1.6	1.0	0.3	0.4	0.7
2008 – Q1	0.7	1.5	1.0	1.6	0.4	1.0	0.1	0.4	1.7
Q2	-0.3	-1.0	-0.5	-2.5	..	-1.3	-0.3	0.9	-0.3
Q3	-0.4	0.9	..	-1.7	-0.4	-1.1	..	0.5	-0.6
Q4	-1.8	-5.2	-2.8	-3.1	-5.0	-4.1	-0.4	0.4	-7.3
2009 – Q1	-2.5	-7.6	-4.0	-0.6	-7.6	-4.1	-0.5	0.2	-8.8
	Implicit prices								
2003	2.2	-1.8	....	....	....	1.2	2.2	2.5	-1.3
2004	1.9	1.5	....	....	....	2.5	2.1	2.0	1.0
2005	2.0	3.3	....	....	....	2.5	2.1	2.4	2.4
2006	1.9	3.9	....	....	....	2.9	2.2	2.1	2.7
2006	2.3	1.4	....	....	....	2.6	2.2	1.6	1.7
2008	2.3	3.8	....	....	....	2.3	2.9	2.9	2.5
2007 – Q1	0.8	0.3	....	....	....	1.0	0.5	0.3	0.5
Q2	0.6	0.9	....	....	....	0.7	0.7	0.5	0.5
Q3	0.5	0.5	....	....	....	0.2	0.6	0.3	0.2
Q4	0.5	1.2	....	....	....	0.6	1.0	1.1	0.4
2008 – Q1	0.6	1.6	....	....	....	0.8	0.7	0.4	1.4
Q2	0.8	1.4	....	....	....	0.9	1.0	1.5	0.7
Q3	0.5	1.4	....	....	....	0.7	0.8	-0.3	0.9
Q4	0.6	-3.9	....	....	....	-0.5	-0.5	0.6	-1.7
2009 – Q1	-0.2	-3.3	....	....	....	-0.9	-0.8	0.9	-2.7

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: GDP	Sources: Imports	Sources: Total	Uses: Gross fixed capital formation: Construction	Uses: Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Uses: Gross fixed capital formation: Total	Uses: Resident households' consumption expenditure	Uses: General government consumption expenditure (2)	Uses: Exports
				Chain-linked volumes					
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	0.7	2.1	0.9	0.4	1.2	0.8	1.1	1.9	1.1
2006	2.0	5.9	2.8	1.0	5.0	2.9	1.2	0.5	6.2
2007	1.6	3.8	2.1	1.0	3.1	2.0	1.2	1.0	4.6
2008	-1.0	-4.5	-1.8	-1.8	-4.2	-3.0	-0.9	0.6	-3.7
2007 – Q1	0.3	1.4	0.6	0.5	-1.7	-0.6	0.7	0.3	1.9
Q2	0.1	-1.1	-0.2	-2.3	0.9	-0.7	0.1	0.2	-1.8
Q3	0.2	0.3	0.2	0.4	0.1	0.2	0.1	0.1	1.0
Q4	-0.4	-1.0	-0.5	0.6	0.8	0.7	-0.2	0.2	-0.2
2008 – Q1	0.5	-0.4	0.3	1.1	-2.7	-0.8	-0.1	-0.1	0.5
Q2	-0.6	-1.6	-0.8	-1.8	1.5	-0.2	-0.6	0.6	-1.2
Q3	-0.8	-1.5	-0.9	-1.2	-3.0	-2.1	..	0.1	-2.9
Q4	-2.1	-5.7	-2.9	-4.2	-7.4	-5.8	-0.9	..	-7.4
2009 – Q1	-2.6	-9.2	-4.1	-0.8	-9.7	-5.0	-1.1	..	-11.8
				Implicit prices					
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	6.3	2.9	4.7	1.2	3.0	2.3	3.3	4.0
2006	1.8	7.7	3.1	3.3	2.1	2.7	2.7	2.4	4.6
2007	2.4	2.6	2.5	3.5	1.6	2.5	2.2	0.7	4.0
2008	2.8	6.9	3.7	3.6	2.9	3.2	3.2	3.8	5.0
2007 – Q1	1.0	0.1	0.8	1.2	0.8	1.0	0.5	..	1.2
Q2	0.7	1.9	1.0	0.7	0.3	0.5	0.6	1.1	1.5
Q3	0.6	1.5	0.8	0.4	0.5	0.4	0.8	..	0.7
Q4	0.6	0.7	0.6	0.8	0.1	0.5	0.8	3.4	0.8
2008 – Q1	0.4	2.8	0.9	0.8	1.7	1.3	0.8	-1.8	2.0
Q2	1.7	1.6	1.7	1.0	0.7	0.8	1.3	6.2	1.0
Q3	0.1	3.8	0.9	1.6	0.4	1.0	1.0	-3.8	2.1
Q4	0.9	-3.4	-0.1	0.7	0.3	0.5	-0.9	1.1	-0.5
2009 – Q1	0.8	-4.5	-0.3	0.8	0.6	0.7	-1.0	2.2	-0.2

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			Unit labour costs
			of which:		
			Value added (2)	Employees	
			Total industry excluding construction		
2006	3.4	4.2	3.9	-0.3	-0.7
2007	3.0	3.3	3.6	0.3	-0.3
2008	3.0	-0.5	-0.8	-0.2	3.5
2006 – Q1	3.5	4.7	3.9	-0.8	-1.1
Q2	3.4	4.4	4.0	-0.4	-0.9
Q3	3.7	4.3	4.2	-0.1	-0.5
Q4	3.1	4.3	4.5	0.1	-1.2
2007 – Q1	2.5	3.6	4.0	0.4	-1.1
Q2	3.4	3.0	3.4	0.3	0.3
Q3	2.6	3.4	3.7	0.2	-0.8
Q4	3.3	3.0	3.2	0.2	0.3
2008 – Q1	3.4	2.5	2.9	0.4	0.9
Q2	2.8	1.3	1.4	0.2	1.5
Q3	3.2	-0.9	-1.1	-0.2	4.1
Q4	2.6	-6.1	-7.3	-1.3	9.2
2009 – Q1	0.7	-13.1	-15.7	-3.0	15.8
			Services		
2006	1.9	0.5	2.8	2.2	1.3
2007	2.5	0.7	2.8	2.1	1.7
2008	3.1	-0.1	1.5	1.5	3.2
2006 – Q1	1.6	0.3	2.2	2.0	1.4
Q2	2.2	0.5	2.9	2.4	1.7
Q3	2.0	0.7	3.1	2.3	1.2
Q4	1.7	1.0	3.2	2.2	0.7
2007 – Q1	2.6	1.2	3.2	2.0	1.4
Q2	2.1	0.9	2.8	1.9	1.2
Q3	2.3	0.5	2.8	2.3	1.8
Q4	2.9	0.3	2.5	2.2	2.6
2008 – Q1	3.0	0.2	2.3	2.1	2.8
Q2	3.2	-0.1	1.8	1.9	3.3
Q3	3.5	0.0	1.3	1.3	3.4
Q4	2.9	-0.7	0.1	0.8	3.6
2009 – Q1	2.1	-1.3	-1.5	-0.2	3.5
			Total economy		
2006	2.3	1.2	2.9	1.6	1.0
2007	2.6	1.1	3.0	1.8	1.4
2008	3.1	0.1	0.9	0.8	3.1
2006 – Q1	2.0	1.1	2.5	1.4	0.9
Q2	2.4	1.2	3.0	1.8	1.2
Q3	2.4	1.4	3.1	1.7	1.0
Q4	2.1	1.7	3.4	1.7	0.4
2007 – Q1	2.6	1.7	3.5	1.8	0.9
Q2	2.4	1.2	2.9	1.7	1.2
Q3	2.4	1.0	2.8	1.9	1.4
Q4	2.9	0.8	2.5	1.7	2.1
2008 – Q1	3.1	0.8	2.4	1.6	2.3
Q2	3.2	0.5	1.6	1.1	2.7
Q3	3.5	0.1	0.7	0.6	3.4
Q4	2.9	-1.5	-1.6	-0.1	4.5
2009 – Q1	1.9	-3.4	-4.7	-1.3	5.5

Source: Based on Eurostat data.
(1) Euro-16. – (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			
2006	2.8	3.6	2.2	3.1	1.0	0.6
2007	2.8	3.1	0.9	1.8	0.8	1.8
2008	3.3	3.1	-1.5	-3.2	-1.7	4.8
2006 – Q1	3.7	4.6	3.3	3.4	0.1	0.4
Q2	2.5	3.2	1.4	2.8	1.4	1.1
Q3	2.6	3.3	1.7	3.0	1.3	0.8
Q4	2.4	3.3	3.5	4.6	1.1	-1.0
2007 – Q1	1.6	1.8	1.3	3.0	1.7	0.3
Q2	3.0	3.6	1.5	2.7	1.2	1.6
Q3	2.9	3.4	1.0	1.4	0.4	1.9
Q4	3.6	3.8	-1.8	-1.9	-0.1	5.5
2008 – Q1	4.5	4.6	1.4	0.2	-1.2	3.0
Q2	3.1	2.9	0.7	-1.0	-1.7	2.4
Q3	3.4	3.0	-1.6	-3.2	-1.7	5.0
Q4	2.2	2.0	-6.5	-8.7	-2.3	9.3
2009 – Q1	0.7	0.6	-13.3	-16.7	-3.9	16.1
			Services			
2006	2.7	3.1	0.0	1.8	1.8	2.7
2007	1.8	2.0	0.8	1.9	1.1	1.1
2008	3.3	3.3	-0.8	-0.2	0.6	4.1
2006 – Q1	3.3	3.6	0.0	1.1	1.1	3.3
Q2	5.6	6.1	-0.7	1.6	2.3	6.4
Q3	3.9	4.3	0.0	2.1	2.1	3.8
Q4	-1.6	-1.1	0.7	2.3	1.7	-2.2
2007 – Q1	2.3	2.6	1.9	2.4	0.5	0.4
Q2	0.2	0.3	1.8	2.0	0.1	-1.6
Q3	1.0	1.1	0.0	1.9	1.9	1.0
Q4	3.9	3.9	-0.6	1.2	1.8	4.5
2008 – Q1	3.6	3.9	-1.2	0.7	2.0	4.9
Q2	4.6	4.5	-1.4	0.1	1.5	6.1
Q3	3.2	3.0	-0.2	-0.6	-0.3	3.5
Q4	1.8	1.9	-0.4	-1.2	-0.8	2.2
2009 – Q1	1.7	1.3	-1.0	-2.6	-1.7	2.7
			Total economy			
2006	2.7	3.2	0.5	2.0	1.5	2.2
2007	2.2	2.3	0.7	1.7	1.0	1.4
2008	3.3	3.3	-0.8	-0.9	-0.1	4.0
2006 – Q1	3.3	3.7	0.8	1.8	0.9	2.4
Q2	4.5	5.0	-0.1	1.9	1.9	4.6
Q3	3.4	3.9	0.2	2.0	1.8	3.2
Q4	-0.3	0.2	1.1	2.7	1.6	-1.4
2007 – Q1	2.2	2.5	1.7	2.5	0.8	0.6
Q2	1.1	1.2	1.4	1.9	0.5	-0.3
Q3	1.5	1.8	0.1	1.6	1.5	1.4
Q4	3.7	3.8	-0.8	0.3	1.1	4.5
2008 – Q1	3.8	4.0	-0.4	0.5	0.9	4.2
Q2	4.1	4.1	-0.4	-0.1	0.3	4.5
Q3	3.3	3.0	-0.4	-1.1	-0.7	3.8
Q4	1.9	1.9	-1.9	-2.8	-1.0	3.8
2009 – Q1	1.5	1.3	-3.8	-5.8	-2.0	5.6

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. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products
2004	2.8	2.7	1.0	0.9	2.2	2.2	3.1	3.0	2.1	2.0
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
2008	3.5	2.8	2.8	1.8	3.2	2.3	4.1	3.2	3.3	2.4
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
June	4.0	3.0	3.4	1.8	4.0	2.5	5.1	3.4	4.0	2.5
July	4.0	2.7	3.5	1.8	4.0	2.4	5.3	3.5	4.0	2.5
Aug.	4.2	3.2	3.3	1.9	3.5	2.3	4.9	3.5	3.8	2.6
Sept.	3.9	3.0	3.0	1.7	3.4	2.3	4.6	3.4	3.6	2.5
Oct.	3.6	3.0	2.5	1.5	3.0	2.3	3.6	2.9	3.2	2.4
Nov.	2.7	2.8	1.4	1.4	1.9	2.1	2.4	2.7	2.1	2.2
Dec.	2.4	2.8	1.1	1.2	1.2	1.9	1.5	2.4	1.6	2.1
2009 – Jan.	1.4	2.0	0.9	1.2	0.8	1.6	0.8	2.0	1.1	1.8
Feb.	1.5	2.1	1.0	1.2	1.0	1.7	0.7	1.6	1.2	1.7
Mar.	1.1	1.8	0.4	1.0	0.4	1.5	-0.1	1.2	0.6	1.5
Apr.	1.2	2.1	0.8	1.5	0.1	1.4	-0.2	1.3	0.6	1.7
May	0.8	1.9	0.0	1.2	-0.3	1.5	-0.9	0.9	0.0	1.5

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

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2005	-23,647	538	-541	-13,624	-1,676	-8,344	1,347	69	-66	1,344
2006	-38,346	-10,203	-1,272	-13,573	-5,473	-7,825	1,826	-100	-60	1,986
2007	-37,712	3,204	-7,115	-19,586	-6,804	-7,410	2,258	-69	71	2,255
2008	-53,597	-743	-7,350	-29,477	-6,996	-9,031	825	-13	-17	855
2007 – Q2	-9,382	1,877	-1,106	-8,161	-1,752	-240	381	-27	-15	423
Q3	-4,492	2,411	-881	-2,705	-1,631	-1,687	875	25	-30	880
Q4	-10,899	1,130	-1,729	-4,671	-2,133	-3,495	864	-65	87	842
2008 – Q1	-16,373	-2,057	-2,956	-5,926	-2,048	-3,385	-128	23	-21	-129
Q2	-12,608	1,537	-507	-11,813	-1,529	-297	31	-26	14	42
Q3	-7,818	-397	15	-4,009	-1,858	-1,569	248	-2	6	244
Q4	-16,799	174	-3,903	-7,729	-1,561	-3,780	674	-8	-16	698
2009 – Q1	(-14,488)	(-2,025)	(-3,466)	(-6,972)	....	....	(1,096)	....	....	....
2007 – Apr.	-4,370	-305	-873	-2,089	-520	-584	164	-8	..	173
May	-4,188	510	-233	-3,464	-545	-456	186	-18	-4	208
June	-824	1,672	-1	-2,608	-687	800	32	..	-10	42
July	2,519	3,115	298	-224	-530	-140	186	21	-21	186
Aug.	-3,125	-107	-1,019	-1,091	-461	-447	188	..	5	182
Sept.	-3,886	-597	-160	-1,390	-640	-1,100	501	3	-14	512
Oct.	-1,431	1,608	-135	-1,505	-800	-599	116	-47	1	162
Nov.	-4,173	603	-947	-2,497	-672	-660	204	-11	81	134
Dec.	-5,295	-1,081	-648	-669	-661	-2,236	543	-7	4	546
2008 – Jan.	-6,640	-3,264	-913	-1,397	-613	-452	18	9	23	-15
Feb.	-3,363	902	-1,056	-2,238	-470	-501	-43	17	-32	-28
Mar.	-6,370	305	-987	-2,291	-965	-2,432	-103	-4	-12	-87
Apr.	-3,941	68	-450	-2,172	-755	-633	-10	-14	-6	10
May	-6,316	1,247	-505	-5,980	-560	-518	32	-4	1	35
June	-2,350	222	448	-3,660	-214	855	9	-7	19	-3
July	1,081	3,109	664	-1,435	-742	-515	71	-10	-5	85
Aug.	-4,423	-1,665	-1,023	-580	-514	-642	82	-1	10	73
Sept.	-4,476	-1,841	374	-1,995	-603	-411	95	9	..	85
Oct.	-3,271	663	-1,254	-1,514	-515	-651	346	-1	-10	357
Nov.	-4,918	-580	-1,580	-1,917	-520	-321	333	-7	-5	345
Dec.	-8,610	91	-1,068	-4,299	-525	-2,809	-5	-1	-1	-4
2009 – Jan.	-7,159	-3,111	-1,042	-2,381	-396	-229	342	-16	24	333
Feb.	-5,063	21	-1,636	-2,759	-414	-275	358	12	23	323
Mar.	(-2,266)	(1,065)	(-788)	(-1,832)	....	....	(396)	....	....	....
Apr.	(-2,736)	(970)	(-533)	(-2,509)	....	....	(8)	....	....	....

Table A9

Lending by banks in Italy by geographical area and sector (1)

(12-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classifiable and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
					Centre and North				
2007 – Dec.	8.6	6.1	12.4	13.9	6.1	5.5	10.8	3.8	11.1
2008 – Mar.	6.6	14.7	12.1	13.6	5.8	4.6	9.2	7.4	11.7
June	9.3	6.3	11.4	12.8	5.0	3.3	8.0	10.3	9.9
Sept.	8.5	4.6	10.8	12.2	4.4	2.8	6.3	8.1	8.9
Dec.	6.1	-0.1	7.3	8.3	2.5	1.6	4.8	5.4	5.7
2009 – Mar.	6.2	-10.3	4.3	5.0	1.1	0.7	4.1	-0.5	2.8
May	6.8	-11.5	2.4	2.7	1.0	1.6	3.0	3.2	1.5
					South and Islands				
2007 – Dec.	-3.8	-7.3	10.6	11.5	8.1	6.9	12.9	11.7	10.4
2008 – Mar.	-0.5	-4.2	10.4	11.5	7.6	6.2	11.4	23.1	10.1
June	-0.8	-1.2	10.6	12.1	6.7	5.3	10.8	25.1	10.0
Sept.	3.6	13.2	8.7	10.1	5.0	3.5	9.9	17.1	8.8
Dec.	4.0	11.1	5.3	6.3	2.6	1.2	8.9	9.4	6.7
2009 – Mar.	6.1	-0.9	3.7	4.6	1.1	0.0	7.4	8.3	5.3
May	8.2	-0.5	2.8	3.8	0.0	-1.0	6.4	8.2	4.7
					ITALY				
2007 – Dec.	6.9	5.7	12.1	13.6	6.4	5.8	11.2	4.6	11.0
2008 – Mar.	5.7	14.2	11.9	13.4	6.1	5.0	9.6	9.0	11.5
June	7.9	6.1	11.3	12.7	5.3	3.8	8.6	11.8	9.9
Sept.	8.0	4.8	10.5	12.0	4.5	3.0	7.1	9.1	8.8
Dec.	5.9	0.1	7.0	8.1	2.5	1.5	5.7	5.9	5.8
2009 – Mar.	6.2	-10.1	4.2	4.9	1.1	0.5	4.8	0.5	3.1
May	6.9	-11.2	2.5	2.8	0.8	0.9	3.7	3.8	2.0

(1) Statistics for May 2009 are provisional. Loans do not include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations and reclassifications. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with less than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)	*of which:* change in central bank current accounts	Borrowing requirement	*of which:* financed abroad
2006	7,476	-4,957	4,847	33,102	68,075	-54,689	-8,230	58,811	-7,011
2007	-13,977	-28,447	5,562	22,516	-2,522	14,791	13,142	26,370	-6,189
2008	4,224	-5,683	19,502	40,994	-1,086	-15,353	-10,611	48,282	-10,338
2006 – Q1	10,657	-891	18,406	13,007	2,474	-11,612	-16,246	32,932	-24
Q2	1,162	-1,615	7,154	28,740	-695	-25,553	-26,568	10,807	656
Q3	232	-1,210	-7,819	5,993	56,489	-39,102	12,948	15,792	1,289
Q4	-4,575	-1,240	-12,893	-14,638	9,807	21,578	21,637	-721	-8,933
2007 – Q1	-1,537	-3,474	20,684	7,519	-261	-5,494	-5,753	20,910	-531
Q2	-16,496	-13,509	345	28,738	-2,142	-8,731	-8,936	1,714	2,446
Q3	-2,330	-8,550	3,074	-2,813	-1,126	7,061	5,459	3,867	-6,292
Q4	6,387	-2,914	-18,541	-10,928	1,006	21,955	22,372	-122	-1,812
2008 – Q1	1,313	-1,111	25,905	23,401	266	-33,228	-31,203	17,657	462
Q2	934	-1,266	8,186	-11,248	3,759	5,508	5,968	7,139	-5,697
Q3	-2,295	-947	-1,120	4,050	-5,615	15,711	17,012	10,731	-2,291
Q4	4,272	-2,360	-13,469	24,791	503	-3,343	-2,388	12,754	-2,812
2009 – Q1	3,034	-1,264	25,111	48,835	1,341	-47,148	-47,108	31,173	1,963
2008 – Jan.	3,013	-36	14,516	7,221	-124	-26,608	-26,459	-1,983	2,123
Feb.	-3,532	-659	4,821	1,656	-655	6,201	6,883	8,491	241
Mar.	1,833	-415	6,568	14,524	1,046	-12,821	-11,627	11,149	-1,902
Apr.	-1,102	-195	4,215	10,693	615	-2,778	-2,661	11,644	1,971
May	-1,248	-333	5,125	-19,454	1,016	23,216	23,393	8,655	-5,154
June	3,283	-738	-1,153	-2,488	2,129	-14,931	-14,763	-13,160	-2,514
July	-3,084	342	-2,111	11,940	-5,146	-7,086	-6,948	-5,487	-2,744
Aug.	643	-321	796	12,459	-1,767	-8,814	-8,007	3,316	473
Sept.	146	-968	195	-20,349	1,299	31,611	31,967	12,902	-20
Oct.	1,541	-2,403	5,424	14,005	379	-8,219	-8,181	13,129	-569
Nov.	2,303	56	-4,078	16,092	1,514	-10,544	-10,492	5,286	-833
Dec.	428	-12	-14,815	-5,305	-1,390	15,420	16,285	-5,661	-1,410
2009 – Jan.	3,299	-344	12,229	19,873	-80	-34,157	-34,126	1,164	-2
Feb.	-2,698	-671	6,499	3,962	918	6,746	6,777	15,428	673
Mar.	2,433	-250	6,383	25,000	503	-19,738	-19,759	14,581	1,292
Apr.	1,692	-156	6,378	-2,561	1,290	12,025	12,028	18,824	1,984
May	-1,173	144	697	3,619	557	3,667	3,687	7,367	-1,571

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

Table A11

General government debt: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* central bank current accounts
2006	157,006	65,622	122,307	1,163,789	130,125	8,730	1,581,957	10,740	1,309,900	22,864
2007	143,029	37,175	127,869	1,190,057	127,600	10,379	1,598,934	3,465	1,333,170	9,721
2008	147,252	31,492	147,371	1,235,778	126,519	5,638	1,662,558	3,609	1,369,523	20,333
2006 – Mar.	160,186	69,687	135,868	1,142,223	63,826	59,824	1,561,928	22,314	1,276,892	30,880
June	161,349	68,072	143,025	1,172,126	63,129	60,839	1,600,468	18,375	1,303,814	57,449
Sept.	161,581	66,862	135,204	1,178,356	120,320	8,789	1,604,250	15,116	1,314,394	44,501
Dec.	157,006	65,622	122,307	1,163,789	130,125	8,730	1,581,957	10,740	1,309,900	22,864
2007 – Mar.	155,469	62,147	142,994	1,172,524	129,864	8,989	1,609,840	5,020	1,318,772	28,616
June	138,972	48,639	143,349	1,203,471	127,721	9,194	1,622,706	4,908	1,347,160	37,552
Sept.	136,642	40,089	146,422	1,200,308	126,595	10,796	1,620,764	4,678	1,344,831	32,094
Dec.	143,029	37,175	127,869	1,190,057	127,600	10,379	1,598,934	3,465	1,333,170	9,721
2008 – Mar.	144,342	36,064	153,806	1,214,005	127,868	8,354	1,648,375	3,236	1,354,867	40,925
June	145,276	34,799	161,975	1,204,395	131,626	7,894	1,651,166	3,214	1,345,166	34,956
Sept.	142,981	33,852	160,869	1,211,083	126,013	6,593	1,647,538	3,537	1,346,194	17,944
Dec.	147,252	31,492	147,371	1,235,778	126,519	5,638	1,662,558	3,609	1,369,523	20,333
2009 – Mar.	150,287	30,228	172,473	1,284,805	127,860	5,598	1,741,023	3,768	1,419,336	67,441
2008 – Jan.	146,042	37,139	142,390	1,198,082	127,477	10,230	1,624,221	3,431	1,341,392	36,181
Feb.	142,510	36,479	147,224	1,199,945	126,822	9,548	1,626,049	3,391	1,342,030	29,297
Mar.	144,342	36,064	153,806	1,214,005	127,868	8,354	1,648,375	3,236	1,354,867	40,925
Apr.	143,241	35,869	158,037	1,225,253	128,482	8,238	1,663,250	3,284	1,366,731	43,586
May	141,993	35,537	163,148	1,206,041	129,497	8,061	1,648,740	3,290	1,347,657	20,193
June	145,276	34,799	161,975	1,204,395	131,626	7,894	1,651,166	3,214	1,345,166	34,956
July	142,192	35,141	159,861	1,217,554	126,480	7,756	1,653,844	3,237	1,355,517	41,905
Aug.	142,835	34,820	160,668	1,230,909	124,713	6,949	1,666,074	3,435	1,366,330	49,912
Sept.	142,981	33,852	160,869	1,211,083	126,013	6,593	1,647,538	3,537	1,346,194	17,944
Oct.	144,522	31,449	166,283	1,225,642	126,395	6,554	1,669,396	3,962	1,359,702	26,125
Nov.	146,824	31,505	162,200	1,242,769	127,909	6,502	1,686,205	3,979	1,377,555	36,617
Dec.	147,252	31,492	147,371	1,235,778	126,519	5,638	1,662,558	3,609	1,369,523	20,333
2009 – Jan.	150,552	31,148	159,600	1,256,097	126,440	5,607	1,698,296	3,910	1,389,944	54,459
Feb.	147,854	30,478	166,076	1,260,267	127,357	5,577	1,707,130	3,968	1,394,518	47,682
Mar.	150,287	30,228	172,473	1,284,805	127,860	5,598	1,741,023	3,768	1,419,336	67,441
Apr.	151,979	30,072	178,840	1,282,660	129,150	5,595	1,748,224	3,815	1,418,289	55,413
May	150,806	30,217	179,515	1,286,586	129,706	5,574	1,752,188	3,578	1,422,300	51,726

(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".