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 has halted ...

The global recession has halted and a recovery is shaping up, thanks largely to the expansionary economic policies of the leading economies. GDP had already begun to grow again in the second quarter in many of the industrial and emerging economies where it had fallen steeply. In China and in India it had accelerated. In the United States and in several European countries it had continued to contract, but at a much more moderate pace. In the third quarter favourable signs came from the increases in industrial production and retail sales and the improvement in business and consumer confidence in many countries. Conditions on the international financial markets continued to improve, buoyed by strengthening investor sentiment. Rapidly rising share prices, narrowing yield spreads on corporate bonds and the easing of conditions on the interbank markets were all confirmed.

... but the recovery is likely to be slow and not free from risk

According to the forecasts of international organizations, however, the recovery will proceed at a modest pace until next year: in 2010 world growth is expected to average 3 per cent, that of the advanced countries to be just over 1 per cent. Moreover, there is considerable uncertainty over how solid the recovery will prove: there is the risk that when fiscal and monetary stimulus measures lapse and the cycle of inventory building has run its course, private demand could stagnate again, curtailed in many economies by high and rising unemployment, the limited availability of credit, and households' need to put their finances in order.

The euro-area economy appears to have returned to growth in the third quarter

In September, the Bank of Italy's €-coin coincident indicator of the euro-area business cycle was positive, though just barely, for the first time in fifteen months. The indicators of business and household confidence improved further; the Purchasing Managers' Index rose back above the threshold compatible with an expansion of output in the service sector and closely approached it in industry. Industrial production continued to rise in August. According to the professional forecasters surveyed by Consensus Economics, euro-area GDP returned to growth in the third quarter, with an increase in the order of half a point. The latest forecasts released by leading international organizations point to a contraction of economic activity of around 4 per cent in 2009 followed, according to the International Monetary Fund, by an expansion of a few tenths of a point in 2010. The twelve-month rate of consumer price inflation continued to fall and turned negative in the third quarter, reflecting the statistical comparison with a year earlier, when the price level had been kept high by international commodity prices. The forecasters surveyed by Consensus Economics expect euro-area inflation to average 0.3 per cent in 2009 and 1.3 per cent in 2010, with a return to positive twelve-month rates already in the final months of this year and a gradual increase in the course of 2010. The Governing Council of the European Central Bank has held its main refinancing rate at 1 per cent since May and continues to ensure abundant liquidity.

Recovery in the third quarter is estimated for Italy too ...

It is estimated that in the third quarter Italian GDP also returned to growth after five consecutive quarters of contraction, which had brought production down to levels last seen almost a decade ago. The increase can be estimated at about 1 per cent compared with the second quarter. This appears to be largely due to the sharp increase in industrial production (a result that should be treated with caution given the great volatility of seasonal factors in the summer months), which finally turned upward after plummeting between *the second quarter of 2008 and the second quarter of 2009. It is likely that part of this recovery is due to the replenishment of inventories, which had fallen to extremely low levels in some sectors.*

... but there is still no sign of an upturn in domestic demand ...

The improvement in household and, to a lesser degree, business confidence gathered strength, especially as regards future conditions. However, there was a further worsening in intentions to purchase durable goods and in evaluations of the state of the labour market. Firms' propensity to invest remains very low, with historically high levels of unutilized capacity. It is likely that households' spending decisions are held back by the drop in employment under way since mid-2008. In the second quarter there were job losses of more than half a million compared with a year earlier, not counting the effect of the rising number of immigrant workers included in civic registers. About 300,000 people commonly termed "precarious workers" lost their jobs, most of them young. In the third quarter there was still greater resort to the Wage Supplementation Fund: the total number of hours authorized rose by about 30 per cent compared with the preceding quarter.

... or in foreign demand

Although global demand conditions have improved, the data available for Italian exports for July and August indicate persistent weakness. Italian industrial firms continued to lose price competitiveness in the first eight months of the year, due to the very poor performance of labour productivity: measured by the number of hours worked (to take account of the ample resort to the Wage Supplementation Fund), productivity fell by 3.6 per cent in the first half after declining by an average of 0.8 per cent in 2008; this affected unit labour costs, which grew by 5.4 per cent even though the hourly cost of labour rose very modestly.

Credit growth continues to slow

Bank lending to the non-financial private sector continued to reflect slack demand for credit by firms owing to the cyclical downturn in the economy and supply conditions that remained restrictive despite signs of an easing. In August lending rose by 2.2 per cent compared with August 2008, when the year-on-year expansion had been much faster, at around 10 per cent. The seasonally adjusted three-month rise was practically nil as lending to non-financial firms contracted and that to households increased only slightly. The quality of banks' assets and their profitability continued to deteriorate; fund-raising slowed further. The capital ratios of the leading Italian banking groups improved.

Inflation is rising moderately

After falling rapidly since the end of 2008, the twelve-month rate of consumer price inflation reached a low in July of -0.1 per cent according to the HICP, reflecting the statistical effect of the comparison with the particularly high figure for July 2008; since then it has risen slightly to stand at 0.3 per cent in September according to preliminary data. The increase, also observable in core inflation, is expected to continue to the end of the year and gradually gather pace in 2010, in line with projections for the whole of the euro area. The professional forecasters surveyed by Consensus Economics predict inflation will remain moderate, averaging 1.5 per cent for 2010.

The public finances are deteriorating rapidly

The public finances are worsening significantly, owing mainly to the particularly negative trend in revenue. In the first nine months of 2009 tax revenue on a cash basis declined by 3.2 per cent, despite the steep rise of the receipts of some one-off substitute taxes. September's Forecasting and Planning Report basically confirmed the projections set out in the Economic and Financial Planning Document of July. This year net borrowing is expected to be almost double the figure for 2008, amounting to 5.3 per cent of GDP, and the debt ratio is forecast to rise by more than nine percentage points to 115.1 per cent. The European Commission has opened an excessive deficit procedure against Italy; all the euro-area countries are subject to this procedure at present, with the exception of Finland, Cyprus and Luxembourg. The outlook for the public finances is still burdened by the great uncertainty regarding the timing and strength of the economic recovery. The 2010 Finance Bill provides for measures on a limited scale that have no impact on the budget balances. The target for net borrowing is set at 5 per cent of

GDP, the same as the current-legislation projection; under current legislation this envisages an increase in tax revenue, a marked slowdown in primary current expenditure, and a sharp cutback in public investment. Adjustment measures to consolidate the public finances are planned from 2011, once the adverse cyclical phase is past. In the Government's planning scenario, the deficit should be brought back below the 3 per cent threshold in 2012; the public debt ratio, projected to decrease starting in 2011, is expected to remain over 112 per cent of GDP in 2013, more than 9 percentage points higher than in 2007.

2 THE WORLD ECONOMY

2.1 THE FINANCIAL MARKETS AND ECONOMIC DEVELOPMENTS

The decline in world output came to a halt in the second quarter of 2009

The world recession came to an end in the second quarter of 2009, with GDP increasing by an estimated 3 per cent on an annual basis. In many industrial and emerging countries output expanded once more, after falling steeply for two quarters. In China and India, where GDP growth had continued throughout the recession, it accelerated, and even in countries that had experienced a protracted contraction, such as the United States and some European countries, this slowed considerably. The decline in trade eased and in June signs of an upturn emerged.

The performance of output was positive in the third quarter as well

The world recovery is supported by the expansionary economic policies of the leading countries. For the third quarter in succession, favourable signs came from the increases in industrial production and retail sales and the improvement in business and consumer confidence in many countries. A further boost could come from the replenishment of inventories, which had fallen to extremely low levels in some countries at the end of June. Conditions on the financial markets continued to improve, with investors once again seeking out high-yield assets. This benefited share prices, which rose substantially in both the advanced and the emerging countries, while risk premiums on corporate bonds declined and liquidity in international interbank markets increased.

According to the projections of international organizations, the growth in world output persisted, albeit at a modest pace, in the third quarter; it is expected to remain sluggish overall, around 3 per cent in 2010, and particularly in the advanced countries, where it will barely top 1 per cent (Table 1). The future remains shrouded in uncertainty: there is the risk that when fiscal and monetary stimuli are withdrawn and the cycle of inventory building runs its course, private demand will suffer the effects of high and rising unemployment, limited availability of credit, and households' desire to put their finances in order.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		IMF		Consensus Economics	
	2008	2009	2010	2009	2010
GDP					
Advanced countries	0.6	-3.4	1.3	–	–
Euro area	0.7	-4.2	0.3	-3.9	1.0
Japan	-0.7	-5.4	1.7	-5.7	1.5
United Kingdom	0.7	-4.4	0.9	-4.3	1.1
United States	0.4	-2.7	1.5	-2.6	2.4
Emerging and developing countries	6.0	1.7	5.1	–	–
Brazil	5.1	-0.7	3.5	-0.1	4.2
China	9.0	8.5	9.0	8.3	9.4
India (1)	7.3	5.4	6.4	6.1 (1)	7.5 (1)
Russia	5.6	-7.5	1.5	-7.0	3.0
The world	3.0	-1.1	3.1	–	–
Consumer prices					
Advanced countries	3.4	0.1	1.1	–	–
Euro area	3.3	0.2	0.8	0.3	1.2
Japan	1.4	-1.1	-0.8	-1.3	-0.8
United Kingdom	3.6	1.8	1.5	1.9	1.8
United States	3.8	-0.5	1.3	-0.5	1.9
Emerging and developing countries	9.3	5.5	4.9	–	–
Brazil (2)	5.9	4.2	4.4	4.3	4.3
China	5.9	-0.1	0.6	-0.6	2.3
India	8.3	8.7	8.4	7.6 (1)	6.4 (1)
Russia (2)	13.0	11.0	9.0	10.7	9.1
World trade (3)	3.0	-11.9	2.5	–	–

Sources: IMF, *World Economic Outlook*, October 2009; Consensus Economics, various publications, September 2009.
(1) Changes in the course of the financial year beginning in April of the year indicated and ending in March of the subsequent year. – (2) Changes from December to December. – (3) Goods and services.

The G20 will maintain expansionary economic policies until the recovery is firmly under way

To counter this threat, at September's summit meeting in Pittsburgh the Heads of State and Government of the G20 pledged that they would continue to adopt expansionary monetary and fiscal policies until a durable recovery was secured and would withdraw stimulus gradually and in a coordinated fashion. The G20 also took a number of decisions designed to reinforce the global financial architecture and ensure strong, sustainable and balanced growth (see the box "The decisions taken at the Pittsburgh G20 summit").

The fluctuations in oil prices are easing

After the sharp rises at the beginning of the year, in June the oil price (the average for the three main grades) fluctuated between $60 and $70 a barrel. This trend can be put down, on the one hand, to the news of an upturn in demand for crude oil, particularly on the part of China, and on the other to the increase in stocks in the OECD countries. From the spring on, the International Energy Agency repeatedly revised its forecasts of world crude oil demand for 2009 upwards, from 83.2 to 84.6 million barrels a day. On the basis of futures contracts, the price of WTI grade oil is expected to rise from the present $72 a barrel to around $75 in June 2010 (Figure 1). The dollar prices of non-energy raw materials also rose steeply in the summer, reflecting increases in those quickest to react to the economic cycle, such as metals and some agro-industrial products.

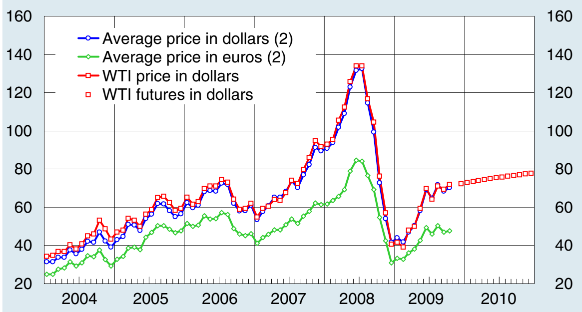
Share prices continue to rise in the main advanced economies ...

The strong recovery of share prices that had begun in mid-March continued through the third quarter. In many of the advanced countries contributory factors were the progressive improvement in the economic situation and the growth in corporate profits, especially of financial companies. At the beginning of October, share prices in the United States, the euro area, the United Kingdom and Japan were between 40 and 60 per cent up from the low point registered in March (Figure 2), with those of financial companies more than doubling in the first three. The implied volatility of share prices in the United States and the euro area continued to abate (Figure 3).

Figure 1

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)

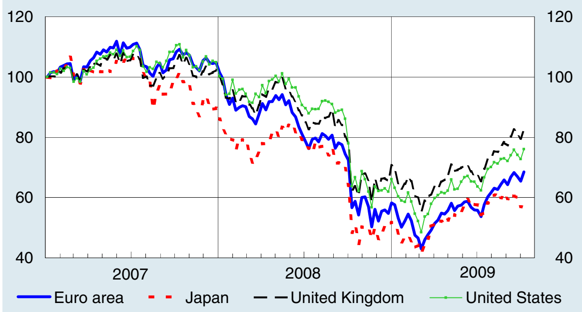


Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 9 October 2009. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Figure 2

Stock market indices (1)

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

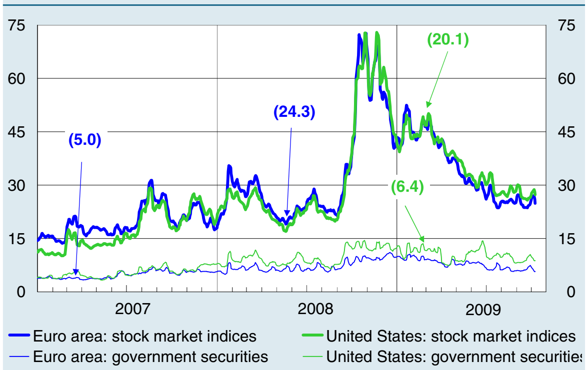


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 3

Implied volatility 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.

THE DECISIONS TAKEN AT THE G20 SUMMIT IN PITTSBURGH

On 24 and 25 September, the Heads of State and Government of the G20 countries met in Pittsburgh to review the effect of the sweeping measures taken to tackle the global crisis and to carry ahead the reform of the international financial architecture. In their statement at the close of the Summit the leaders note the presence of faint signs of a recovery in economic activity and confirm their pledge to pursue an expansionary monetary and fiscal policy until a durable recovery is secured. Stimulus must be withdrawn gradually and in a cooperative and coordinated way so as to maintain the commitment to fiscal responsibility and financial and price stability in the medium term.

The G20 announced their agreement on a number of measures: (i) to create a new framework to coordinate the economic policies of member countries for strong, sustainable and balanced growth; (ii) to make sure that the new regulatory system will prevent a recurrence of the financial excesses that led to the present crisis; (iii) to reform the international financial institutions (IMF, World Bank and regional development banks) and increase their financial resources; (iv) to increase access to food, fuel and finance among the world's poorest; (v) to phase out and rationalize over the medium term inefficient fossil fuel subsidies; (vi) to maintain openness and move toward greener, more sustainable growth.

With this meeting the G20 has evolved from forum of discussion and consultation among countries to main body responsible for international economic cooperation. The most important decisions taken at the summit are the following.

1. New framework for the coordination of economic policies. – The Finance Ministers will launch a cooperative process of mutual assessment of each country's policy framework: (1) to agree on shared economic policy objectives; (2) to set out medium-term policy frameworks to assess the collective implications of national policies for global growth and identify potential risks to financial stability; (3) to agree on any corrective actions. This process will only be successful if it is supported by candid, even-handed, and balanced analysis of policies. Crucial technical assistance will be provided by the IMF, to analyse whether the policies pursued individually are collectively consistent, and by the World Bank, to assess the repercussions on development and the reduction of poverty.

2. Modernizing and increasing the funds of international financial institutions. – Following the commitments announced at the London Summit in April, the funds available to the IMF have been trebled, to $750 billion; over $500 billion of this sum will be used to expand the New Arrangements to Borrow (NAB). The IMF has also made two Special Drawing Rights (SDR) allocations of $283 billion in total and has reformed its ordinary and concessional credit facilities. For the future, the G20 pledges to promote a stronger "surveillance" role of the IMF over member countries' economic policies and the modernization of its governance with a view to enhancing its legitimacy and effectiveness. To ensure that the distribution of quotas – and hence of voting rights – reflects the relative weights of IMF members in the world economy, the G20 is committed to increase the quota share of dynamic emerging market and developing countries by at least 5 per cent, while protecting the voting share of the poorest. It also agrees to review the size and composition of the Executive Board and involve the Fund Governors in the strategic oversight of the IMF.

The Multilateral Development Banks (MDBs) responded to the G20's April call to expand lending to mitigate the impact of the crisis on the world's poorest. They are on track to deliver the promised $100 billion in additional lending in the three years 2009-2011. The G20 urged the MDBs to continue providing financial support, making full use of their balance sheets, and promised to ensure that they would be adequately funded in the future to carry out their mandate to reduce global poverty. It was decided that in the next shareholding review a significant increase of at least 3 per cent would be made in the World Bank voting power of developing and transition countries (currently standing at 44 per cent) by adopting a dynamic formula which primarily reflects countries' evolving economic weight and their contribution to the Bank's development mission.

The G20 agreed that the heads and senior management of all international institutions should be appointed through an open, transparent and merit-based process.

3. Strengthening the international financial regulatory system. – The G20 underlined the progress made so far in the areas of financial regulation, transparency and public disclosure, risk management and the reinforcement of international cooperation. Measures have been taken to enhance and expand the scope of regulation and oversight, with tougher regulation of over-the-counter (OTC) derivatives, securitization markets, credit rating agencies, and hedge funds. The G20 endorsed the central role of the Financial Stability Board (FSB) in monitoring the full and consistent implementation of needed reforms and approved its Charter. It also pledged to continue to reform the international financial regulatory system by carrying through important initiatives in the following areas:

– Strengthening the prudential framework. The Basel Committee is currently finalizing proposals to:

  a) *build high quality capital*, based on the following principles: Tier 1 capital will include a predominance of ordinary shares and retained earnings (or instruments of equivalent quality for banks not incorporated as public limited companies); the prudential treatment of capital deductions and prudential adjustments to the accounting definition of capital (so-called filters) will be harmonized; full transparency of the components of capital will be ensured. The introduction of the new rules must not hamper the economic recovery and should be completed by the end of 2012;

  b) *mitigate pro-cyclicality in prudential regulation and discourage excessive leverage among banks*: higher capital requirements and loan loss provisions will be phased in as the economy recovers, with the option of using these resources during negative phases; a leverage ratio will be introduced as a supplementary measure to the Basel II capital requirements in order to limit banks' leverage.

  c) *introduce new liquidity risk requirements* to assess the banks' ability to withstand a sudden demand for liquidity at times of market tension and to identify longer-term structural maturity mismatching.

The Basel Committee will draw up its proposals by the end of the year. The changes should be approved in full by the end of 2010, following a detailed and wide-ranging impact study.

All major G20 financial centres have committed to adopting the Basel II Capital Framework by 2011.

– Reforming compensation practices in banks. The FSB has issued new standards aimed at aligning compensation with long-term value. The main elements include: i) eliminating multi-year guaranteed bonuses; ii) requiring a significant portion of compensation to be variable and to be vested in the form of stock or stock-like instruments; (iii) requiring a significant portion of variable compensation to be deferred, tied to performance and subject to appropriate clawback; iv) limiting variable compensation as a percentage of total net revenues when it is inconsistent with the maintenance of a sound capital base; v) ensuring that committees overseeing compensation policies are able to act independently; vi) making firms' compensation policies and structures more transparent.

  Supervisors should have the responsibility to review banks' compensation policies and apply corrective measures, such as higher capital requirements, and should have the ability to modify compensation structures in the case of institutions that fail or require extraordinary public intervention. The FSB is called upon to monitor the implementation of standards and propose additional measures as required by March 2010.

– Improving over-the-counter derivatives markets. All standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms and cleared through central counterparties by end-2012 at the latest. Contracts that are not centrally cleared should be subject to higher capital requirements. The FSB and its members will assess implementation on a regular basis.

– Addressing the risks posed by systemically important financial institutions and facilitating cross-border crisis resolution. The G20 called for measures to reduce significantly the costs to the community of failures of systemically important financial institutions and reduce moral hazard. To this end the institutions should prepare suitable emergency and crisis resolution plans by the end of 2010; the authorities will have the task of establishing crisis management groups for the major cross-border institutions and a legal framework for crisis intervention as well as improving information sharing in times of stress. The FSB should propose, by the end of October 2010, possible measures for systemically important institutions, including heightened supervision and specific additional capital, liquidity, and other prudential requirements.

The G20 called on the international accounting bodies to redouble their efforts to improve the quality of global standards, with particular reference to the classification, measurement and valuation of financial instruments and to provisioning practices, and to complete their convergence by June 2011.

The G20 confirmed its commitment to fight non-cooperative jurisdictions (NCJs). In relation to favourable tax systems, it welcomed the expansion of the Global Forum on Transparency and Exchange of Information and announced the adoption of countermeasures against tax havens from March 2010. Regarding money laundering and terrorist financing, the G20 called upon the Financial Action Task Force (FATF) to issue a public list of high-risk jurisdictions by February 2010. In the field of prudential standards, it called on the FSB to report progress by NCJs with regard to international cooperation and information exchange in November 2009 and to initiate a peer review process by February 2010.

... bond spreads to narrow ...

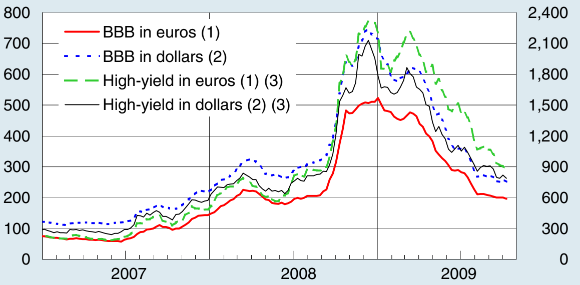
Risk premiums on corporate bonds decreased for all risk classes and all the main countries (Figure 4). Compared with the peaks reached in March, premiums on high-yield bonds fell by 13.5 percentage points for dollar bonds and by 10.9 points for bonds denominated in euros, while premiums on BBB-rated bonds fell by 2.8 and 3.7 points respectively. Because of the low level of yields on public bonds, the cost of funding for firms in the latter category was close to 5 per cent in the euro area and to 4 per cent in the United States, below the levels recorded at the beginning of 2007 prior to the crisis.

From June onwards interest rates on ten-year government securities were generally stable in all the main advanced economies. In the United States, the euro area and the United

Figure 4

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

(end-of-week data; basis points)



Source: Merrill 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.

Kingdom they held steady at between 3 and 4 per cent and in Japan at just under 1.5 per cent (Figure 5).

... and strains on the interbank markets to ease

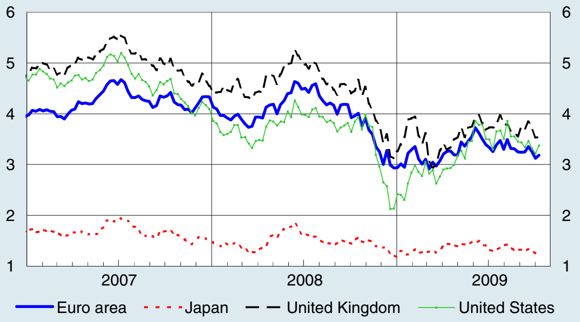
Strains on the interbank markets eased further. From the end of June the interest rate spreads between unsecured three-month interbank deposits and three-month overnight index swaps fell by around 18 basis points for the dollar, 19 basis points for the euro and 47 basis points for sterling to 12, 28 and 18 basis points respectively (Figure 6). The spreads for dollar and sterling funds are now close to what they were in the first half of 2007. The marked improvement of recent months has been aided above all by the intervention of the central banks, which have ensured an abundant supply of liquidity. In the second quarter, favourable signals also came from banks' balance sheets: the value of writedowns of financial assets announced or entered in the books and of other losses on loans decreased; several intermediaries were able to recapitalize with private financing and reduced their recourse to injections of public funds. The credit default swaps of the leading international banks declined, and for almost all of them returned to the values prevailing before the collapse of Lehman Brothers.

The central banks continue to support the markets

The central banks of the main advanced countries continued to ensure an abundant supply of liquidity. At the same time, thanks to the improved financial situation, they were able to limit use of some of the special instruments brought into play during the crisis. Starting in August, the Federal Reserve considerably reduced the amount of funds available through the Term Auction Facility and the Term Securities Lending Facility. The supply of liquidity against asset-backed securities guaranteed by loans to households and firms and against commercial mortgage-backed securities was prolonged instead until 31 March and 30 June 2010 respectively. The Bank of Japan extended its dollar financing facility for banks until 1 February 2010. On 24 September, the ECB, the Bank of England and the Swiss National Bank jointly announced the suspension, with

Figure 5

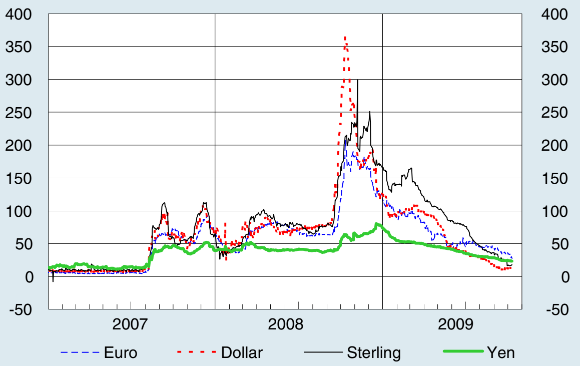
Yields on ten-year government bonds
(end-of-week data; percentages)



Source: National statistics.

Figure 6

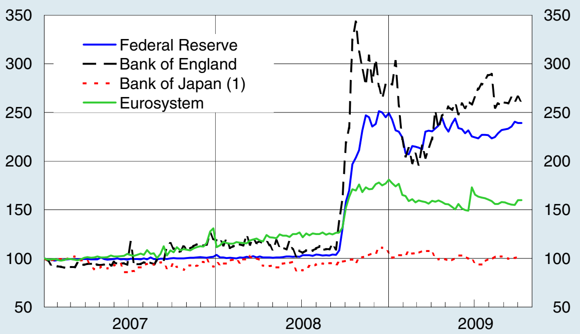
Yield spreads between interbank rates and three-month overnight index swaps
(basis points; daily data)



Sources: Thomson Reuters Datastream and Bloomberg.

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.

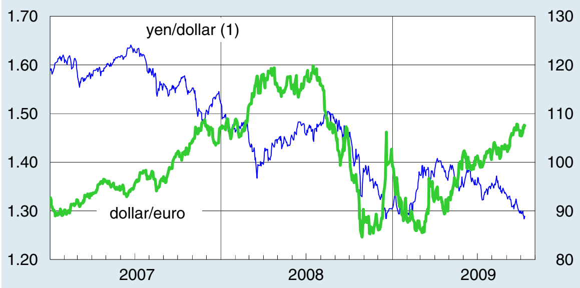
effect from October, of auctions for 84-day dollar financing and the continuation until the end of January 2010 of those for 7 days. In the third quarter of 2009 the size of the balance sheets of the leading central banks was unchanged from the end of the previous quarter (Figure 7).

The financial situation improves further in the emerging economies

Financial market conditions improved further in the leading emerging economies as well. In Asia and Latin America share prices in dollars almost doubled with respect to the low point of March. The yield differential between the dollar-denominated long-term sovereign securities of the emerging countries and US Treasuries narrowed on average by around 4 percentage points to 3 points, lower than the level prevailing before the collapse of Lehman Brothers.

Figure 8

Exchange rates
(daily data)



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

The dollar depreciated more sharply

The dollar, which had been depreciating against the other main currencies since the beginning of March, lost further ground in the third quarter (Figure 8). As the situation on the international markets improved, investors stopped restructuring their portfolios in favour of currencies deemed to be safer. The dollar began to fall again, as it had prior to the crisis, mainly owing to the United States' persistent external imbalance. Compared with the peak recorded in March, the dollar depreciated more sharply against the euro and sterling (by around 14 per cent) than against the yen (by 9 per cent). The nominal effective exchange rate of the US currency fell by 10 per cent. The Chinese renminbi was stationary with respect to the dollar, as it had been for over a year.

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

In the United States the economic contraction eased in the second quarter ...

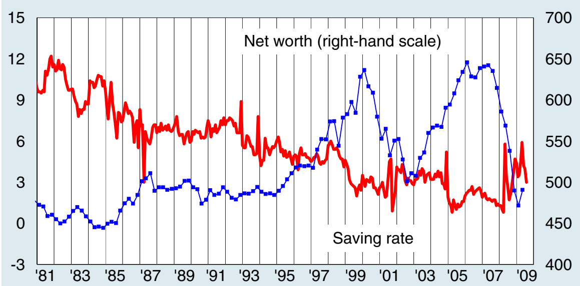
In the second quarter of 2009 the GDP of the United States declined at an annual rate of 0.7 per cent, compared with a fall of 6.4 per cent in the previous period. Public expenditure and net exports made positive contributions (1.3 and 1.7 percentage points, respectively); negative contributions came from the reduction in stocks (1.4 percentage points), private consumption (0.6 percentage points), productive investment and, as has been the case for over three years, residential investment.

... and economic activity seems to have picked up in the third, driven by massive fiscal stimulus

Economic activity apparently returned to growth in the third quarter. In July and August private consumption expanded, despite the moderate decline in real disposable income. Households benefited from the halt to the slide in net wealth which, after hitting a low point in the first quarter, grew from the second onwards, in both the financial and real estate components (Figure 9). Beginning in the spring, consumption was also sustained by the ongoing disbursement of funds drawn from the

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 disposable income (moving average of 4 quarters ending in the quarter indicated). Seasonally adjusted monthly data for the saving rate.

American Recovery and Reinvestment Act approved by Congress in February: of the $787 billion allocated (equal to around 5.5 per cent of GDP), $150 billion had been spent by the end of August – between public investment, tax cuts for households and fiscal incentives for firms – and a further $220 billion had been committed. According to the Council of Economic Advisers the maximum impact of these measures on GDP growth (estimated at an annual rate of around 3 per cent), was to come in the third quarter; this estimate is substantially in line with those of other public and private institutions. The increase in consumption was driven in part by a surge in purchases of motor vehicles under the Car Allowance Rebate System (CARS), also known as the "Cash for Clunkers" scrapping scheme, which was launched at the beginning of July and terminated at the end of August, well before the original closing date of 1 November. By contrast, household expenditure on other items remained slack. It was braked by the fall in non-farm payroll employment; despite an easing from July onwards, by September job losses since the outbreak of the recession had reached a total of 7.2 million. In the same month, the unemployment rate rose to 9.8 per cent, double the level in December 2007. In the first nine months of 2009 the decline in the supply of consumer credit by banks, which began in the second half of 2008, continued.

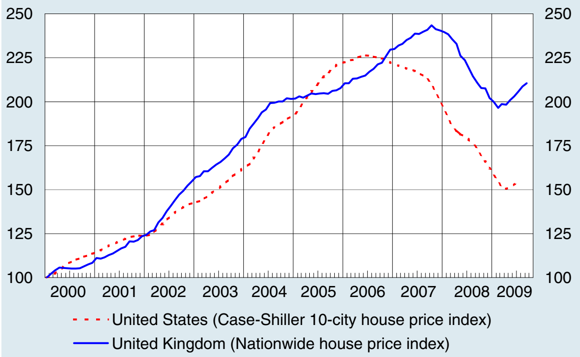
As bank lending to firms continues to slow, there is greater recourse to bond markets

In July and August industrial output also made a significant recovery, for the first time since the beginning of the recession. Productive investment continued to be affected by the sharp contraction in loans to commercial and industrial businesses, which began at the end of 2008. The Federal Reserve's Senior Loan Officer Opinion Survey indicates that this trend can be ascribed both to slackening demand for loans and the restriction of supply conditions, mainly connected with the deterioration in firms' creditworthiness; this tightening appears to have continued into the second quarter of 2009, albeit at a less intensive pace. During the same period bond issues by non-financial corporations continued apace, for all categories of creditworthiness; based on preliminary data, bond issues slowed in the third quarter.

Figure 10

Real estate market: house price indices

(monthly data; indices, January 2000=100)



Source: Thomson Reuters Datastream.

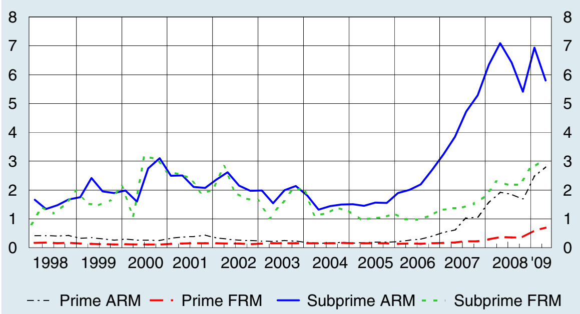
Signs of stabilization in the housing market

Housing market conditions have been improving since the summer months. House prices in the ten largest cities as measured by the Case-Shiller index, and those measured by the Federal Housing Finance Agency, which covers a broader geographical area, rose in July for the third consecutive month (Figure 10); based on futures prices measured by the Case-Shiller index, prices should remain stable until mid-2010. After reaching a low in April 2009, building permits and housing starts posted moderate growth. Foreclosures initiated on residential mortgages nevertheless continued to run at a high level in the second quarter, for all types of mortgage loan (Figure 11).

Figure 11

Residential mortgages in the United States: foreclosures initiated as a proportion of all mortgages, by type (1)

(seasonally adjusted quarterly data; percentages)



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

The anti-inflationary impact of crude oil prices is easing

Inflation measured by the personal consumption deflator, which turned negative from May onwards, stood at -0.5 per cent in August, as against -0.8 per cent in July; the attenuation of the fall was entirely ascribable to the weakening statistical effect linked to the past performance of oil prices, which peaked in July 2008. Excluding energy and food, consumer inflation continued its downward trend, falling from a twelve-month rate of 1.4 per cent in July to 1.3 per cent in August. According to the most recent forecasts collated by Consensus Economics, consumer inflation will average -0.5 this year, then return to levels close to 2 per cent in 2010.

The Federal Reserve continues its purchases of long-term securities

On 23 September the Federal Reserve, which has maintained the target range of the federal funds rate at 0 to 0.25 per cent since last December, confirmed its intention to maintain this range for an extended period. Federal funds futures prices reflect expectations that monetary policy rates will remain stable for the whole of 2009. The central bank also confirmed its decision to purchase up to $1.25 trillion of mortgage-backed securities issued by the federal agencies Fannie Mae, Freddie Mac and Ginnie Mae, and up to $200 billion of their debt; in order to allow the purchase programme to be conducted more gradually it was decided to extend the deadline for completion from 31 December 2009 to the end of the first quarter in 2010. The purchase of $300 billion of Treasury securities announced in March is due to be completed by the end of October 2009.

In Japan economic activity picked up in the second quarter

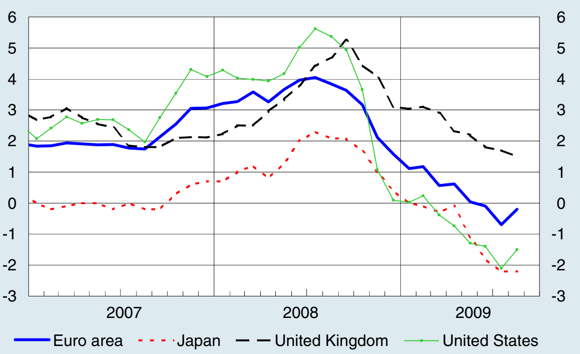
In the second quarter of 2009 Japanese GDP grew at an annual rate of 2.3 per cent, compared with a decline of 12.4 per cent in the first. Factors contributing to the growth of GDP included resurgent net exports (6.5 percentage points), private consumption (1.8 percentage points), and public expenditure (1 percentage point); domestic demand, however, declined, due to the sharp contraction of private investment (-4 percentage points) and the decumulation of stocks.

In July and August there were signs of a slight strengthening of cyclical conditions. In August, the number of persons employed rose by 290,000 and the unemployment rate, which in July hit 5.7 per cent – the highest value since the Second World War – fell to 5.5 per cent. Industrial production grew in August for the sixth month running, but the Tankan survey in September gave conflicting results: despite a further improvement in business sentiment, firms predict that the contraction in investment during the current fiscal year will be sharper than had been forecast in June. Consumer inflation, which has been negative since February, equalled -2.2 per cent in August (Figure 12); excluding energy and food it remained at levels close to -1 per cent.

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.

The Bank of Japan has kept its key policy rate unchanged at 0.10 per cent. With a view to facilitating funding to firms and ensuring the stability of markets, in July the Bank moved to extend the quantitative expansion measures it adopted in the past months, including the purchase of commercial paper and corporate bonds, to the end of the year.

But in the United Kingdom the contraction continued

In the second quarter of 2009 economic activity in the United Kingdom contracted at an annual rate of 2.3 per cent, a marked attenuation of the first quarter's 9.3 per cent fall. All components showed an improvement: the positive contribution of net exports and public expenditure grew, the fall-off in consumption and private investment eased, and the contribution of changes in stocks turned positive. Consumption and productive investment benefited, respectively, from the partial recouping of households' financial wealth, connected with rising share prices, and from an increase in fund-raising by non-financial corporations, thanks to greater recourse to bond issues as bank lending declined. The economic downturn was reflected in the labour market by a further increase in the unemployment rate, which despite the marked deceleration of wages in the private sector, rose to 7.9 per cent in June, two percentage points more than the low point of April 2008. House prices picked up during the summer and by September had gained 7.2 per cent on last February's low. Consumer inflation continued to fall (to 1.6 per cent in August, almost four percentage points less than the peak of September 2008).

On 30 July the Bank of England, which since March has kept its key monetary policy rate at 0.5 per cent, included secured commercial paper among the financial assets that will be purchased as part of its quantitative expansion strategy; in August it raised the amount of these purchases from £125 to £175 billion. By the beginning of October it had purchased securities totalling £162 billion, of which £160 billion in government bonds, £1.3 billion in corporate bonds, and £0.7 billion in commercial paper but had not yet begun buying collateralized commercial paper.

Growth strengthened in the main emerging economies

In the second quarter of 2009 GDP growth in the emerging economies accelerated, albeit with differences among the main countries and geographical areas. In China and India economic activity strengthened and, according to the IMF estimates, in 2009 will grow by 8.5 per cent and 5.4 per cent, respectively. In China, as in the other emerging Asian economies, activity was sustained by massive fiscal stimulus, enacted in a context of sound public finances (see the box: Recent macroeconomic developments in the main emerging Asian countries). In India growth continued to benefit from the strongly expansionary budgetary measures of end-2008, before the general elections of last spring. In Brazil, following two quarters of sharp contraction, growth expanded considerably (at an annual rate of 7.8 per cent); the marked increase in private consumption and net exports contributed to the turnaround, while investment stagnated. In Russia, where outflows of international capital continued, though at a slower pace, GDP declined further. The IMF estimates that on average in 2009 GDP in Brazil and Russia will fall by 0.7 and 7.5 per cent, respectively. The recession continues in most central and eastern European countries, where the effects of the crisis have been particularly severe due to their large current account deficits and dependence on foreign funding. The decline of GDP in 2009 will be particularly steep in the Baltic countries, in Romania and in Bulgaria (with values varying between 7 and 19 per cent); meanwhile already in the second quarter there were signs of a pick up in economic activity in Poland, where GDP is expected to increase slightly this year (0.5 per cent).

Signs of a recovery in international trade

Judging by the exports and imports of the leading industrial countries, in the second quarter of 2009 the pace of the contraction in international trade abated significantly, thanks above all to an increase in demand from Asia. Data on trade flows in June and July point to renewed expansion. There have been no signs, however, of any significant, structural reduction in global payments imbalances. In the second quarter the US current account deficit stopped narrowing and held at the same level as in the first (2.8 per cent of GDP); Japan's surplus, which was almost halved over the four previous quarters, began to grow again (reaching 3.2 per cent of GDP, from 1.5 per cent in the previous period); according to preliminary data China's massive surplus has fallen only slightly. The IMF estimates that the US deficit will fall to 2.6 per cent of GDP this year (as against 4.9 per cent in 2008), thanks above all to the decline in oil prices; the Japanese and Chinese surpluses are expected to narrow to 1.9 and 7.8 per cent, respectively (from 3.2 and 9.8 per cent), but should grow again in 2010; the euro area is expected to maintain rough balance, with a deficit of -0.7 per cent.

RECENT MACROECONOMIC DEVELOPMENTS IN THE MAIN EMERGING ASIAN COUNTRIES

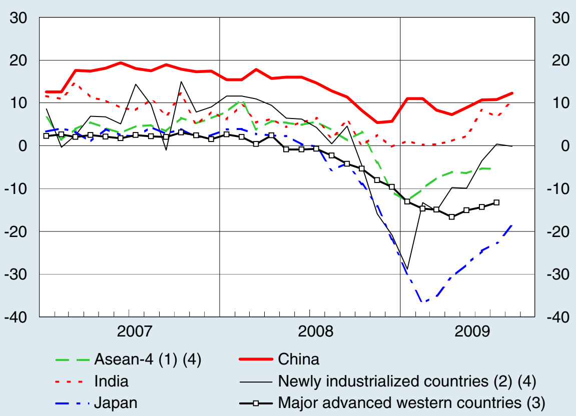
The emerging economies of Asia, whose output (at purchasing power parities) accounts for one quarter of world GDP, were hit by the global financial crisis mainly through the contraction in world trade. In the newly industrialized countries (Hong Kong, Singapore, South Korea and Taiwan) and in Malaysia and Thailand, traditionally very open to international trade and specialized in the production of durable goods, GDP plunged year on year by an average of 6 per cent in the fourth quarter of 2008 and the first quarter of 2009; for some of these countries, the contraction was of a severity equalling or surpassing that recorded at the height of the economic and financial crisis of 1997-98. In the developing economies – China, India, Indonesia and the Philippines, less exposed to international trade and with relatively isolated financial systems – output slowed but continued to expand, with growth rates above 4 per cent in India and Indonesia and 6 per cent in China.

The collapse of foreign demand in the fourth quarter of 2008 and the first quarter of 2009 was accompanied by that in industrial production. In response to falling demand and higher financing costs, firms drew down their inventories drastically, thereby helping to aggravate the contraction of activity, above all in the countries specialized in manufacturing durable goods, where the decline in production exceeded 20 per cent in some cases (Figure A).

Figure A

Industrial production in the major Asian and western countries

(monthly data, not seasonally adjusted; changes on the year-earlier period)



Sources: IMF, Thomson Reuters Datastream and national statistics.
(1) Indonesia, Malaysia, the Philippines and Thailand. – (2) Hong Kong, Singapore, South Korea and Taiwan. – (3) Euro area, United Kingdom and United States. – (4) Weighted average on the basis of industrial value added.

Economic activity showed widespread signs of recovery as early as the second quarter of 2009, however, and this was especially evident in China, where GDP is officially estimated to have grown at an annualized rate of about 15 per cent with respect to the previous quarter. The most recent data on industrial production indicate that activity continued to recover rapidly in the third quarter. Nevertheless, in the three months ending in August the overall level of industrial activity in the main emerging economies of the region, excluding China and India, was still about 6 per cent lower than in the first half of 2008; in China it was higher by about 11 per cent and in India by 4 per cent.

In the light of the recent positive developments, the IMF has made a further upward revision to its forecasts for the overall growth of the region's emerging countries, to 5 per cent in 2009 and 6.8 per cent in 2010.

The rebound in economic activity is due primarily to the massive fiscal stimulus plans and the measures to support bank credit introduced in late 2008. In a context of solid public finances – India is the main exception in this respect – governments were able to adopt more extensive support measures than those introduced in the other emerging regions. In some countries, such as China and Thailand, the resources in question, totalling more than 13 per cent of GDP, were allocated largely to infrastructure investment projects that are to be completed by the end of next year. Elsewhere, including in the newly industrialized countries, the fiscal stimulus packages consisted mainly in tax cuts and measures to support household incomes.

Assisted by a rapid slowdown of inflation following the fall in the prices of energy and food raw materials, the region's central banks eased monetary and credit conditions. Between October 2008 and March 2009 official interest rates were reduced in all the region's main countries, by up to 325 basis points in India and South Korea; some countries' currencies depreciated very significantly. Thanks to national financial systems' limited exposure to the international crisis – except for Hong Kong and Singapore – and the public support provided to banks (injections of liquidity, including in foreign currency, deposit guarantees, etc.), the expansion of lending to the private sector continued, although generally at slower rates than in the first half of 2008, thus countering the effects of the outflow of international capital.

Partly as a result of the measures taken to support demand, starting in February trade within the area began to show signs of recovery. Following the massive fiscal stimulus given to investment, in China imports began to grow again, especially of raw materials and semi-finished metal products, but also of motor vehicles and other durable goods. This benefited not only producers of raw materials in Latin America and the Middle East but above all exporters in South Korea, Japan and Taiwan, which send some 20 per cent of their exports to China.

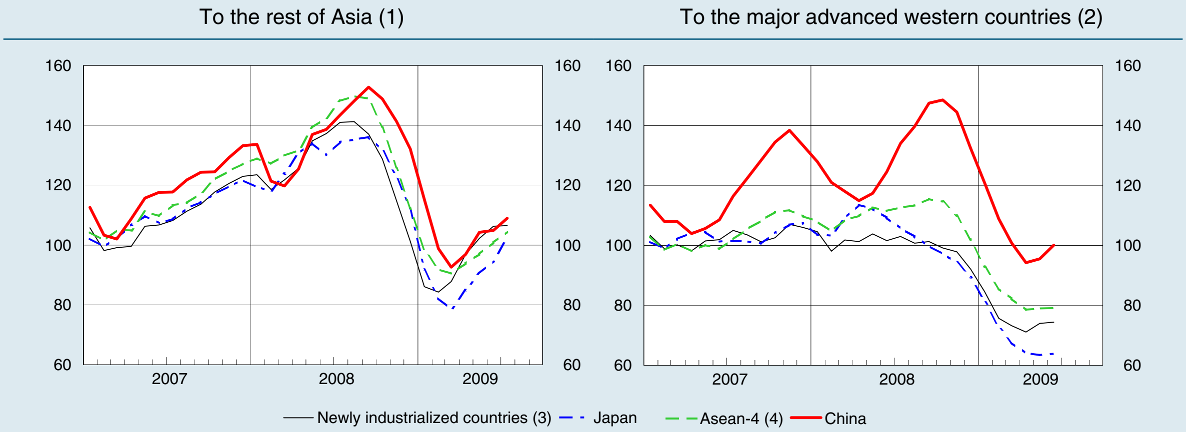
Exports, which had fuelled the region's economic expansion through the first half of 2008, contracted at annualized rates of 30 per cent and more in the fourth quarter of 2008 and the first of this year; imports plummeted. The contraction in intra-Asian trade, consisting mainly of intermediate goods, was comparable to or larger than that of exports to the major western markets, the main destination of finished products. The recent recovery in trade flows within the area has been much more vigorous than that in exports to the major western countries (Figure B).

Overall, the rapid (and still partial) recovery in the levels of economic activity in the countries of the region is largely sustained by temporary factors: the rebuilding of inventories in the manufacturing sector will run its course this year; the strong impulse imparted to domestic demand by fiscal stimulus, and in some cases by the easing of monetary conditions, is likely to fade away in 2010. Moreover, the ample margins of unused capacity in the main countries of the region and the still difficult conditions of the labour market pose a potential obstacle to the recovery of consumption and investment. Against this background, there are doubts about the

Figure B

Exports of selected Asian countries by destination

(monthly data at current prices in US dollars; indices 2006 = 100; 3-month moving averages ending in the period indicated)



Source: National statistics.
(1) Includes China, Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan and Thailand. – (2) Euro area, United Kingdom and United States. – (3) Hong Kong, Singapore, South Korea and Taiwan. – (4) Indonesia, Malaysia, the Philippines and Thailand.

ability of the private sector to step in quickly enough as a source of autonomous, stable demand supplanting that of the public sector.

In any event, the expansion of domestic demand is not likely to make a significant dent in the structural trade balances that characterize the main emerging countries of the region (with the exception of India). For these countries as a group (excluding India), the external current account surplus fell from 7.5 per cent of GDP in 2008 to about 7 per cent in the first half of 2009. According to IMF forecasts, the region's surplus will start to grow again as early as 2010, mainly as a consequence of the expansion in that of China (to 8.6 of GDP, from 7.8 per cent in 2009).

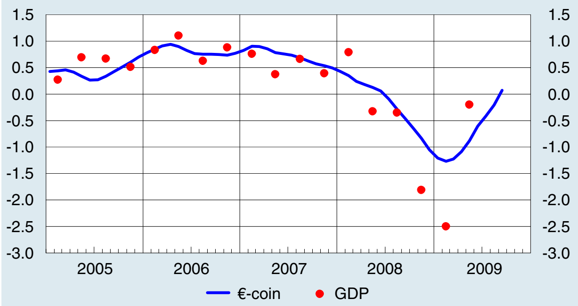
2.3 THE EURO AREA

The euro-area economy stopped contracting in the second quarter ...

Economic activity in the euro area reached a cyclical low during the second quarter of 2009. After the sharp contractions recorded in the two previous quarters, GDP was roughly unchanged with respect to the first quarter, with a loss of just 0.2 per cent (Figure 13). Expansion of 0.3 per cent in Germany and France was offset by further declines in the other large economies (0.5 per cent in Italy and 1.1 per cent in Spain and the Netherlands). The strengthening of world demand, combined with the lagged effect of the depreciation of the euro in the second half of 2008, attenuated the fall in the area's exports, which shrank by 1.5 per cent (as against 9.2 per cent in the first quarter), while imports decreased by 2.9 per cent. The result was a positive contribution of 0.6 percentage points of net exports to GDP growth. A negative contribution of the same size came from the running down of stocks, which outpaced even the first quarter's substantial rate of decrease. Final domestic demand held practically unchanged, as a rise in public consumption (0.7 per cent) and stable household spending (up just 0.1 per cent), which stopped falling thanks to incentives for car scrapping, contrasted with a further fall in investment (2.3 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 the methodology used in constructing the indicator, see the box "The €-coin indicator and the economic situation in the euro area" in Economic Bulletin No. 53, July 2009. For GDP, quarterly data; change in relation to the preceding quarter. For €-coin, monthly data.

... and appears to have returned to expansion in the third

The qualitative cyclical indicators strengthened further over the summer. In September the rise in the Purchasing Managers' Index continued, passing the threshold compatible with an expansion of output in the service sector and remaining just below the threshold for industry. In the same month the indicators of household and business confidence again improved, especially as regards expectations. In August area-wide industrial production rose for the fourth consecutive month (by 0.9 per cent on the previous period), with an advance that embraced all the main countries. However, retail sales continued to contract in August, at a monthly rate of 0.2 per cent in real terms. The persistent weakness of consumer spending reflects the poor state of the labour market. The unemployment rate rose again in August to 9.6 per cent, two points higher than a year earlier.

The €-coin indicator, which estimates quarterly GDP growth in the area net of erratic fluctuations, scored its first rise in fifteen months in September, an increase of 0.1 per cent after the 0.2 per cent decline registered in August (Figure 13). According to the professional forecasters surveyed by Consensus Economics in September, euro-area GDP returned to growth in the third quarter, with an increase on the order of half a point. The latest forecasts of the IMF and the OECD are for a contraction of economic activity of around 4 per cent in 2009 followed by an expansion of a few tenths of a point in 2010 (Table 2); the OECD forecast is updated only for the current year. This scenario is consistent with the ECB experts' forecasts released in September, which put the fall in GDP at between 3.8 and 4.4 per cent in 2009 and predicted performances ranging between –0.5 and +0.9 per cent in 2010.

Table 2

Forecasts of the growth in euro-area GDP (1)

(percentage changes on preceding year)

Source	Month released	Forecasts for 2009	Forecasts for 2010
ECB/Eurosystem (2)	Sept.-09	-4.4 - -3.8	-0.5 - 0.9
	June-09	-5.1 - -4.1	-1.0 - 0.4
IMF	Oct.-09	-4.2	0.3
	July-09	-4.8	-0.3
OECD (3)	Sept.-09	-3.9	-
	June-09	-4.8	0.0
European Commission	Sept.-09	-4.0	0.4
	May-09	-4.0	-0.1
Consensus Economics	Sept.-09	-3.9	1.0
	June-09	-4.2	0.3

Sources: ECB, IMF, OECD, European Commission, Consensus Economics.
(1) Two most recent forecasts, released in the months indicated; for the forecasts collated by Consensus Economics, the expectations expressed in the months indicated. – (2) Projections by ECB experts for September and by the Eurosystem for June. – (3) For September, Interim Assessment for 2009 only.

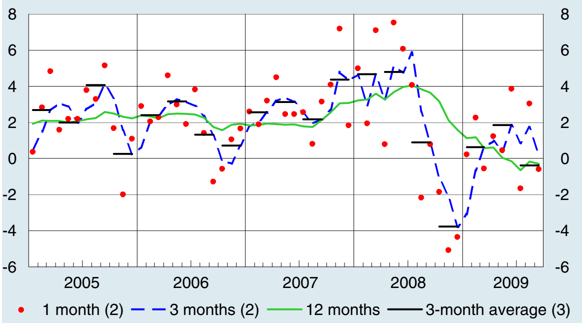
Consumer inflation turns slightly negative ...

The twelve-month rate of consumer price inflation continued to fall during the summer, notably because it had risen rapidly in the corresponding period of 2008, driven by world raw materials prices. According to preliminary Eurostat data, inflation was negative in September by 0.3 per cent (Figure 14), and also in the third quarter as a whole (by 0.4 per cent), following an average rise in prices of 0.2 per cent in the second quarter.

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 September. – (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.

... but the core components continue to rise moderately

In August, the last month for which disaggregated data are available, the twelve-month rate of increase in the core components of the index, proxied by excluding energy and food products, came to 1.3 per cent, the same as in July. The modest deceleration with respect to the second quarter average of 1.6 per cent was due largely to the behaviour of service prices (up by 1.8 per cent in August compared with 2.2 per cent in the second quarter). The annualized, seasonally adjusted three-month rise in the core components also eased, from 1.4 per cent in the second quarter to 1.1 per cent. Examination of the individual items within the core components, at a more highly disaggregated level, indicates that the risks of deflation in July and August remained small.

Inflation is likely to rise moderately beginning in the autumn

The professional forecasters surveyed by Consensus Economics in September expect euro-area inflation to come to 0.3 per cent in 2009 and 1.3 per cent in 2010, as the result of the return to very slightly positive levels in the rest of this year and a gradual strengthening in 2010. The projections of the ECB experts, also released in September, put the increase in the harmonized index of consumer prices at between 0.2 and 0.6 per cent in 2009 and 0.8 and 1.6 per cent in 2010.

Credit and money growth is still slowing sharply

Bank lending to the private sector continued to slow sharply in the euro area in the summer months. The twelve-month growth rate fell to 1.3 per cent in August, net of securitizations, down from 3.3 per cent in May and 9.8 per cent a year earlier. The three-month variation was negative (by 0.4 per cent) on a seasonally adjusted annualized basis. The slowdown was especially sharp for firms, where twelve-month growth (gross of securitizations) fell from 4.4 per cent in May to 0.7 per cent in August. Lending to households continued to stagnate, remaining negative by 0.2 per cent, as in May. Credit trends reflected both the demand impact of the weak and uncertain state of the economy and persistently restrictive supply conditions, as indicated by the Eurosystem's Bank Lending Survey. The monetary aggregates also slowed. M3 registered twelve-month growth of 2.5 per cent in August compared with 3.8 per cent in May. There was a further shift towards the more liquid components in response to the low level of interest rates; current account balances, in particular, rose from 6.9 to 13.6 per cent of the total.

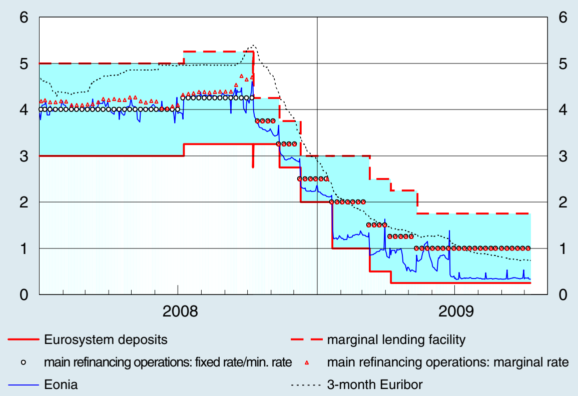
The ECB keeps policy rates unchanged and liquidity abundant

The Governing Council of the ECB has kept its main refinancing rate at 1 per cent since the beginning of May (Figure 15). Money market liquidity remained abundant during the summer. At the end of September the ECB conducted its second twelve-month refinancing operation at a fixed rate equal to the official rate, with full accommodation of the volumes demanded. Requests for funds came to about €75 billion, much less than the €442 billion requested at the previous such operation in June. The abundance of liquidity nevertheless kept the Eonia rate just above the Eurosystem deposit rate of 0.25 per cent. Since July about €17 billion worth of covered bonds issued in the area have been purchased, of a total of €60 billion envisaged in the programme that the Governing Council approved in June. Conditions on the interbank market continued to improve over the summer. The spread between unsecured and secured three-month loans (Euribor and Eurepo) – a measure of the risk premium – fell to 29 basis points, far below the peak of 180 at the height of the crisis but still above pre-crisis levels.

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 decline in economic activity was interrupted during the summer ...

There was a further decline in GDP in the second quarter of 2009 for the fifth time in succession (down 0.5 per cent on the preceding period) as a result of another fall in exports and investment (Figure 16; Table 3). Compared with the same period in 2008, there was an overall contraction of 6 per cent in activity. Production returned to the level recorded at the end of 2000. According to the cyclical indicators, in the third quarter GDP apparently began to recover, with a gain of almost one percentage point compared with the preceding quarter. This seems to have been due to a sharp improvement in industrial production for the period as a whole, the first since the severe contraction of 22.1 per cent between the second quarter of 2008 and that of 2009. Nevertheless, this result mainly reflects the marked recovery in August, in part due to the statistical effects of the highly unstable seasonal component.

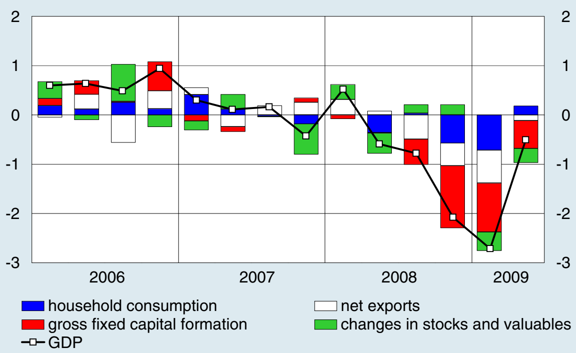
... but the strength of the recovery remains uncertain

Despite a more favourable scenario for world demand, Italian exports did not follow a clear upward path during the summer. Foreign trade data show that Italian exports made a strong recovery in July but suffered a sharp downturn in August vis-à-vis non-EU countries and also, according to our estimates, a decline in sales to EU countries as well. In the same period, the rapid fall in imports continued. The recovery in industrial production was in part due to stocks being built up again, having fallen to extremely low levels in some sectors. Final domestic demand has not yet shown any clear turnaround. There has been a strengthening of household confidence, above all in expectations, and a less marked

Figure 16

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

(percentages)



Source: Istat.
(1) 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	
	Q3	Q4	(1)	Q1	Q2
GDP	-0.8	-2.1	-1.0	-2.7	-0.5
Total imports	-1.6	-5.7	-4.5	-9.0	-3.0
National demand (2)	-0.3	-1.6	-1.3	-2.0	-0.4
National consumption	0.1	-0.7	-0.5	-0.8	0.6
households	*0.1*	*-1.0*	*-0.9*	*-1.2*	*0.3*
other (3)	*0.1*	*0.1*	*0.6*	*0.2*	*1.3*
Gross fixed capital formation	-2.5	-6.1	-3.0	-5.0	-2.9
construction	*-1.3*	*-4.4*	*-1.8*	*-1.0*	*-1.6*
other goods	*-3.6*	*-7.9*	*-4.2*	*-9.4*	*-4.6*
Changes in stocks and valuables (4)	0.2	0.2	..	-0.4	-0.3
Total exports	-3.3	-7.4	-3.7	-11.8	-3.7

Source: Istat.
(1) Data not adjusted for calendar effects. – (2) 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.

improvement in the indicators of business confidence. However, the labour market indicators and intentions to buy consumer durables continue to worsen. In the second quarter, the unemployment rate rose to 7.4 per cent from 6.7 per cent a year earlier, notwithstanding a substantial contraction in the labour force. New car registrations slowed down in the third quarter, after the strong recovery of the second quarter due to scrapping incentives. Firms' propensity to invest is still very low, in the presence of historically high levels of unutilized capacity. The forecasters surveyed by Consensus Economics in September revised their forecasts slightly upwards, indicating a fall in GDP of 5 per cent for 2009 as a whole, to be followed by a recovery of 0.5 per cent in 2010. According to the latest projections by international organizations, the decline in 2009 will be just over 5 per cent; the IMF expects stagnation for 2010 (-0.1 per cent). The Government's Forecasting and Planning Report, updated in September, forecasts a slightly smaller decline this year (-4.8 per cent) and an expansion of 0.7 per cent in 2010.

Inflation has begun to rise moderately

The 12-month rate of consumer price inflation, which had been falling rapidly since end-2008, reached its lowest point in July (-0.1 per cent according to the harmonized index), partly reflecting the statistical effect of the large increases recorded a year earlier; subsequently it rose moderately, to 0.3 per cent in September according to preliminary data released by Istat. The rise, which also involved core inflation, should continue for the rest of this year and gradually gather pace during 2010, in line with expectations for the euro area as a whole. According to the professional forecasters surveyed by Consensus Economics, inflation will nevertheless remain subdued at 1.5 per cent over the whole of next year.

3.2 FIRMS

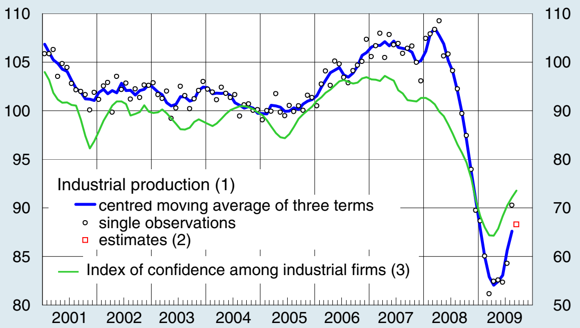
Industrial production scored a first gain in the third quarter

Industrial production began to grow again over the summer, after a contraction that had brought it back to the levels of the mid-1980s. The increase in July (2.4 per cent on the previous month; Figure 17) was followed in August by a sharp acceleration (7 per cent), driven by the recovery of the sectors where activity had slumped to particularly low levels in the preceding months (intermediate goods, machinery and durable consumption goods). In part, this result reflected statistical effects due to the high volatility of the seasonal component. According to our estimates, industrial production turned downwards in September, falling by about 2 per cent compared with August.

Figure 17

Industrial production and index of business confidence

(monthly data)



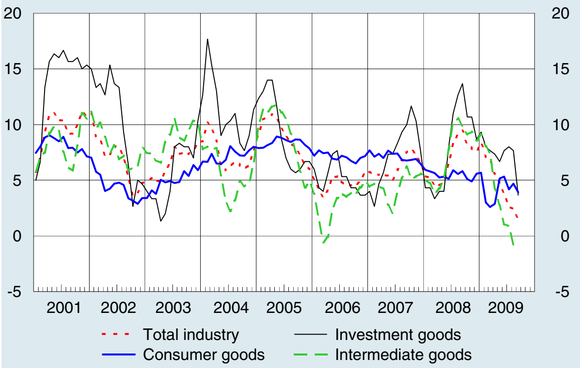
Sources: Based on ISAE, Istat and Terna data.
(1) Adjusted for seasonal and calendar effects. – (2) Based on electricity consumption and the indicators of ISAE surveys of industrial firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions regarding the level of demand, production expectations and stocks of finished products; moving average of three terms (right-hand scale).

After five consecutive months of improvement, the index of confidence among manufacturing firms, surveyed by the ISAE, also retreated slightly in September, to stand at levels a little below those of October 2008. There was a slight growth of pessimism regarding both the current state of demand, especially in the consumer goods sector, and the short-term outlook for production. The indicator of stocks of finished products fell slightly in industry as a whole, to levels close to those deemed normal (Figure 18); it declined more sharply in the sectors where the recovery in production has been more pronounced, suggesting that the pick-up in activity could in part reflect the need to rebuild inventories. The intensity of the recovery remains uncertain: in the quarterly survey of industrial and service firms conducted in September by the Bank of Italy together with *Il Sole 24 Ore*, the balance between the percentage of respondents who expected an improvement in their own markets and those who expected a worsening was nil (it had been negative in the survey carried out in June). A very high proportion of firms (63.4 per cent) again expected no appreciable change. In the business outlook survey conducted in September by the Bank of Italy's branches, 23 per cent of firms expected their own markets to be in recession in the next six months while 17 per cent predicted an expansion (51 and 5 per cent, respectively, in their opinions of the situation in the six preceding months; see the box "The indications of the business outlook survey of a sample of Italian industrial and service firms").

Figure 18

Stocks of finished products in industry (1)

(monthly data)



Source: Based on ISAE data.
(1) Moving averages of three terms ending in the reference month of the balance between responses higher than and lower than the level deemed normal by firms. Seasonally adjusted data. The responses are weighted by size, sector and location of firm.

THE INDICATIONS OF THE BUSINESS OUTLOOK SURVEY OF A SAMPLE OF ITALIAN INDUSTRIAL AND SERVICE FIRMS

Between 22 September and 14 October the branches of the Bank of Italy conducted the customary autumn business outlook survey on a sample of industrial and service firms with 20 or more workers. While assessments on developments in the current year remain negative, some signs of prospective improvement emerge in the case of larger firms and for those that export.

In 2009 as a whole, investment expenditure will be lower than the already modest volume planned at the end of last year for three firms out of ten (Table A); the proportion is even greater (more than four out of ten) among industrial firms with 200 or more workers. The main reason indicated for the decline in investment is changes in demand, followed by financial factors and greater uncertainty. Looking ahead, 19 per cent of firms expect to invest more in 2010 and 25 per cent less; the negative balance between forecasts of increases and those of decreases is larger in industry (8 percentage points). The weakness of investment in industry this year and next is accompanied by that of production capacity, which diminished in the last twelve months according to 40 per cent of the firms in the sector.

The assessments indicating a smaller average workforce in 2009 than in 2008 amply outweigh those indicating an increase (36 against 16 per cent; 44 against 10 per cent in industry). The decline in employment from the start of the year to September averaged 1.6 per cent (0.8 per cent in services, where it was concentrated in the smaller firms, and 2.5 per cent in industry). A further contraction of 0.8 per cent is expected in the fourth quarter (0.5 per cent in services and 1.1 per cent in industry). The reduction in the workforce is taking place mainly through a freeze on hiring and non-renewal of expiring fixed-term contracts; recourse to individual dismissals or collective redundancies is minimal. About half of the industrial firms have applied to use the Wage Supplementation Fund this year.

Two thirds of the firms report that their demand for credit was broadly unchanged in the last six months, while 23 per cent indicate it was higher and 11 per cent lower. Almost one third report a tightening of borrowing conditions during the same period; of these, 61 per cent cite a higher interest rate or a demand for additional collateral, 28 per cent rejection of applications for new loans, and just over 20 per cent requests for partial or full repayment of outstanding loans. Firms' difficult situation was reflected in trade credit: a much larger share of respondents report an increase in grants of extended terms of payment to customers between July and September than report a decrease; the gap of 42 percentage points is similar to that in assessments looking back over the six preceding months.

In the third quarter orders were decreasing for 46 per cent of firms and increasing for 17 per cent. The numbers for the projected six-month trends are less unfavourable (29 and 31 per cent, respectively); nearly all of the firms that expect orders to decrease report having already observed a downtrend in the summer. Among industrial firms, exporters' expectations for orders are more favourable than those of firms that sell only in the domestic market, and this applies equally to their exports and their domestic sales. This could indicate that these companies, the hardest hit by the recession, have a better ability to capture the first signals of strengthening demand. This finding is confirmed by firms' projections of production in the fourth quarter compared with the third: the balance between firms expecting output to be higher and those expecting it to be lower is negative by 4 percentage points among exporters but by more than 11 points among firms that sell only in the domestic market. By size class, the balance in this regard is negative across the entire sample except for firms with at least 500 workers.

Some 51 per cent of firms (58 per cent in industry, 44 per cent in services) judge the

Table A

Main results of the business outlook survey of industrial and service firms (1)

(percentage frequency of responses)

RESPONSES	Industry excl. construction	Services	Total
	Fixed investment in 2009 compared with that planned at end of previous year		
Less	34.6	24.7	30.0
About the same	55.1	64.0	59.2
More	10.3	11.3	10.8
	Fixed investment planned for next year compared with 2009		
Less	27.7	21.8	25.0
About the same	52.7	59.5	55.8
More	19.6	18.7	19.2
	Average workforce in 2009 compared with average in 2008 (2)		
Smaller	44.4	28.9	36.3
About the same	45.6	49.3	47.5
Larger	10.0	21.8	16.2
	Demand for credit lines and bank loans in last 6 months		
Lower	11.7	9.6	10.7
About the same	62.0	70.6	65.9
Higher	26.3	19.8	23.4
	Orders: 6-month projection		
Decreasing	31.9	26.1	29.3
Stable	34.9	46.1	40.0
Increasing	33.2	27.8	30.7
	Industrial production in the fourth quarter of 2009 compared with the third		
Lower	33.2		33.2
About the same	39.2		39.2
Higher	27.6		27.6

(1) Sample composed of firms with at least 20 workers in industry excluding construction (2,795 units) and non financial services (distribution, hotels and restaurants, transport and communications, other services: 1,079 units). Percentage responses, net of "don't know" and "no answer", estimated by assigning each sample firm a weighting coefficient that takes account of the ratio of number of firms sampled to number of firms in the reference population in respect of the marginal distributions by geographical area, size of workforce and branch of activity. Standard errors of the percentage estimates do not exceed 0.8 per cent, i.e. confidence intervals (at 95 per cent) of 1.6 percentage points at most. – (2) Weighted by the number of workers.

market for their products to have been in recession in the six months ended in September, while 5 per cent indicate an expansion (Table B). The gap is narrower when it comes to assessments of developments over the next six months: 23 per cent expect a market in recession and 17 per cent an expansion. Among the firms indicating that their market was in recession in the past six months, about 40 per cent confirm this assessment for the next six months while just over 50 per cent change it to one of stagnation.

Table B

Firms' assessments of their reference market (1)
(percentage frequency of responses)

In the last 6 months	In the next 6 months			
	Recession	Stagnation	Expansion	Total
Recession	21.1	26.2	4.3	51.5
Stagnation	2.1	32.3	8.8	43.2
Expansion	0.2	1.0	4.0	5.3
Total	23.5	59.4	17.1	100.0

(1) For details on the composition of the sample, estimation method and standard errors, see Table A, note 1. The totals by row and column indicate the assessment of firms on the situation of their own reference market in the last six and next six months respectively. By row and by column, distribution of the percentage frequency for each type of response referring, respectively, to the last six months and the next six months.

The slump in investment eases ...

In the second quarter gross fixed investment declined again, falling by 2.9 per cent compared with the first quarter, but its contraction moderated from 5 per cent in the first quarter. The cumulative contraction in investment since the summer of 2008 came to 15.4 per cent (23.2 per cent just for machinery, equipment and transport equipment). Looking ahead, the first signs of a possible improvement can be seen. In the quarterly survey conducted in September by the Bank of Italy with *Il Sole 24 Ore*, positive opinions about the investment outlook outweighed negative opinions for the first time in more than two years, although a very high proportion of firms continued to foresee no substantial change. In the business outlook survey conducted by the Bank's branches, nearly all firms expected their actual investment expenditure over the whole of 2009 to equal or fall short of the initial plans, which were already generally very modest; for 2010, the share of firms expecting to increase investment is slightly smaller than that expecting to retrench (19 and 25 per cent, respectively). The prospects of recovery in investment are weighed down not only by the continuing uncertain outlook for demand but also by the capacity utilization rate, which according to our estimates fell to a new historic low in the third quarter.

... but that in construction intensifies

The decline in construction investment worsened in the second quarter (1.6 per cent on the previous period, compared with 1 per cent in the first quarter) and was again slightly more intense in residential building (1.7 per cent). After a modest improvement in the second quarter, the climate of confidence among construction firms showed fresh signs of weakness over the summer. The indicators of activity of the industrial firms that supply production inputs to the construction sector edged upwards in August, but remained close to the low level at which they had started the year.

House sales continue to slide

According to data collected by the Territorial Agency, the number of house sales was 15.9 per cent lower in the first half of 2009 than in the year-earlier period, accentuating the downward trend that began in mid-2006. The protracted weakness of turnover affected house prices, which according to the Territorial Agency registered a first, albeit slight, decline in the first half of 2009 (0.5 per cent with respect to the second half of 2008). The fall was more pronounced in the provincial capitals (0.8 per cent), where the preceding rise in prices had been greater. In the quarterly survey of real-estate agents conducted by the Bank of Italy with Tecnoborsa, the balance between positive and negative assessments of house price trends in the second quarter and forecasts for the third quarter remained negative (Figure 19). Overall, agents expect a short-term worsening both in their local markets and nationally, thereby partially correcting the forecasts of sharp improvement given in the previous survey.

Italian exports' loss of price competitiveness intensifies ...

Italian firms' competitiveness, estimated on the basis of producer prices, suffered a further deterioration of about 0.7 percentage points between June and August after that of nearly two points accumulated in the first half of the year; overall, the gains achieved in the second half of 2008 thanks to the depreciation of the euro were more than offset. The gap with respect to German exporters, which had nearly closed in the first half of the year, began to widen again (Figure 20).

... reflecting a fresh fall in productivity

In the second quarter of 2009 labour productivity in Italian industry, measured on the basis of hours worked so as to take account of the extensive recourse to the Wage Supplementation Fund during the crisis, diminished by 3.3 per cent with respect to the year-earlier period. The decline averaged 3.6 per cent in the first half, almost three points higher than the average annual loss in 2008. There was an impact on unit labour costs, which, notwithstanding the moderate trend in hourly labour costs, rose in the first half of the year by 5.4 per cent (4.1 per cent in 2008; Figure 21).

Firms' profitability hits decade low

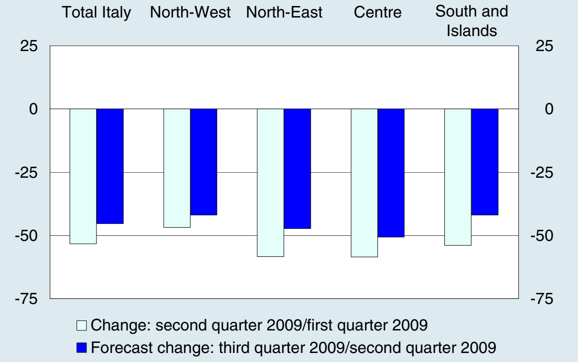
Estimates based on the national accounts indicate that the operating profitability of non-financial firms worsened in the second quarter for the eighth consecutive quarter, falling to a decade low. Net financial expense decreased slightly in relation to value added. Self-financing fell further, to the lowest levels since 1993.

Firms' borrowing requirement holds steady

Firms' borrowing requirement (the difference between gross investment, including inventory investment, and self-financing) remained broadly unchanged. The ratio of corporate financial debt (including securitized debt) to GDP continued to rise, increasing by about a point and half from

Figure 19

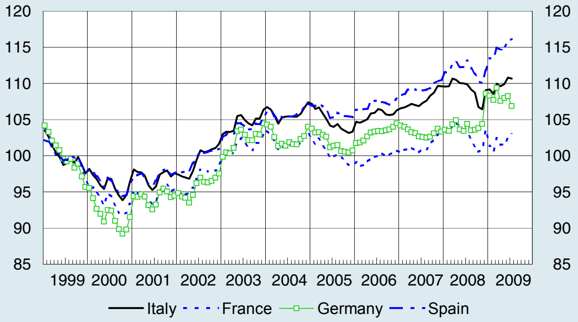
House prices in Italy
(percentage balances between +/- assessments)



Source: Banca d'Italia Tecnoborsa, *Italian Housing Market Survey – Short-Term Outlook*.

Figure 20

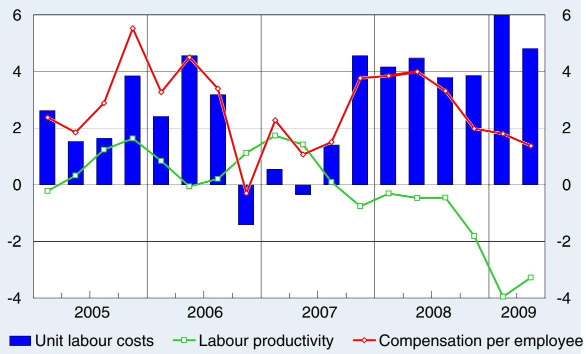
Indicators of competitiveness (1)
(indices, 1999=100)



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

Figure 21

Labour costs and productivity in industry excluding construction (1)
(percentage changes on year-earlier period)



Source: Based on Istat data.
(1) Based on hours actually worked.

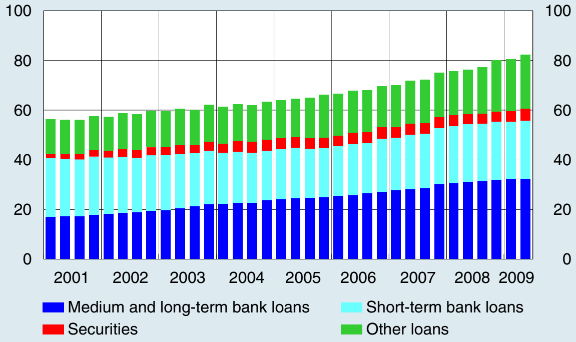
March to reach 82 per cent (Figure 22); the increase was almost equally divided between new debt with financial companies and bond issues. Corporate debt in Italy nevertheless remains low by comparison with the euro-area average (98 per cent of GDP in March).

Firms' bank debt stagnates

Firms' debt to banks continued to slow down sharply (Figure 23). In August it was practically unchanged from a year earlier both for medium-sized and large companies and for small firms. In survey responses, businesses continue to report difficulty in obtaining loans, even if the latest surveys indicate lending standards, though still tight, are being made somewhat less restrictive. In the survey conducted by the Bank of Italy with *Il Sole 24 Ore*, the balance between the percentage of firms reporting a worsening and those reporting an improvement in access to credit in the last three months fell in September to 12 percentage points, from 24 points in June 2009 and 38 in December 2008.

Figure 22

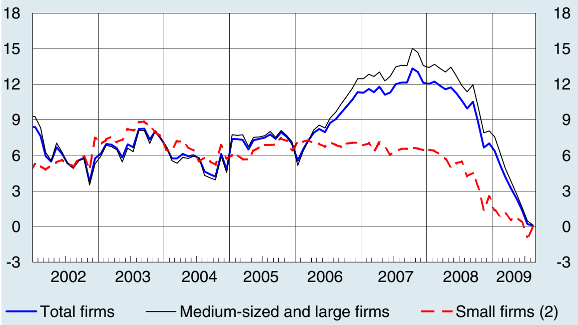
Corporate debt (1)
(as a percentage of GDP)



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

Figure 23

Firms' bank debt by size of firm (1)
(monthly data; twelve-month percentage changes)



(1) Data adjusted for the accounting effect of securitizations. Loans exclude repos, bad debts and some minor items included in the Eurosystem harmonized definition of the aggregate. The data are also adjusted for reclassifications 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.

Bond issues increase

Large Italian non-financial companies increased their fund-raising in the bond and equity markets. In the second quarter of 2009 net bond issues amounted to €4.3 billion, compared with €3.6 billion in the first quarter. In the third quarter, according to Dealogic data on gross issues, placements were made totalling €18 billion. In the second quarter non-financial companies also resumed fund-raising in the stock exchange for a total of almost €12 billion; nearly the entire amount came from capital increases by Enel (€8 billion) and Snam Rete Gas (€3.5 billion). Merger and acquisition activity continues to be very modest: according to Thomson Reuters data, during the second quarter Italian non-financial firms announced 35 operations worth a total of just under €500 million. In the same period M&A transactions totalled €1.2 billion in Germany and €3 billion in France, while in Spain the market for corporate control was virtually at a standstill.

3.3 HOUSEHOLDS

Consumption rose slightly in the second quarter

The decline in household spending ended in the second quarter, and consumption increased by 0.3 per cent compared with the first quarter, although it was still 1.8 per cent less than a year earlier. The increase was due mainly to a substantial rise in purchases of durable goods (4 per cent compared with the first quarter), which thus returned to growth for the first time since the summer of 2007, powered by incentives for motor vehicle scrapping. Spending for services also turned upwards, but with a much more modest gain. Spending on non-durable goods, half of which is accounted for by food, registered its fifth consecutive quarterly decline, falling by 0.4 per cent. Overall, household spending contracted by 1.5 per cent during the first half of 2009 and was down 2.3 per cent from the first half of 2008; all the main components were affected by the sharp fall registered in the fourth quarter of 2008 and the first quarter of 2009.

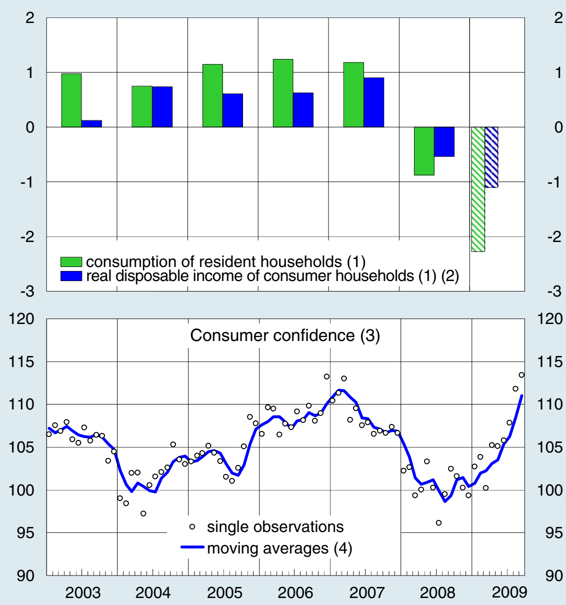
Estimates based on still broadly incomplete data suggest that the real disposable income of consumer households in the first half was about 1 per cent lower than a year earlier, thus contracting less than spending (Figure 24). Above all this reflects a decline in nominal incomes, in concomitance with the very low rate of increase in the consumption deflator. The deterioration, after the better performance recorded in the first quarter, was due to the more pronounced reduction in labour incomes in connection with the sharp decline in employment and to the decreased flow of dividends and profits from firms.

Indications for the third quarter remain uncertain, but households' pessimism moderates

Household confidence continued to recover during the summer months and in September regained the level recorded at the end of 2006, reflecting improvement in evaluations of both the present situation and the outlook. As regards the future prospects in particular, the gain was due to a rise in the proportion of households expecting stability, while there was no increase in the share expecting an improvement. And there was a further worsening of the indicators of intentions to purchase durable goods and in evaluations of the state of the labour market, which are presumably affecting household demand. Spending plans are also being weighed down by fears of further declines in property wealth, given the widespread signs of lower house prices. New car registrations, adjusted for seasonal and calendar effects, diminished in August but returned to growth of 8 per cent in September. In the third quarter the increase on the prevoius period dropped to 6 per cent, from 16 per cent in the second. New orders also regained buoyancy

Figure 24

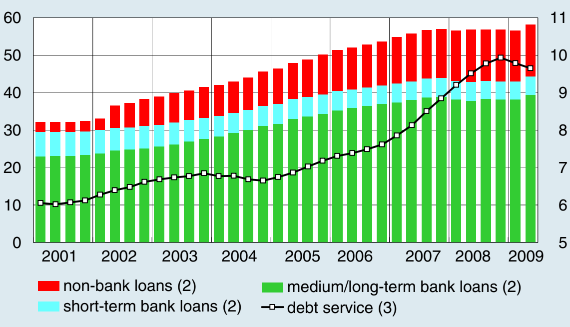
Consumption, real disposable income and consumer confidence in Italy
(percentage changes and indices)



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 half of 2009 are changes with respect to first half of 2008 – (2) Obtained using the deflator of consumption of resident households; our estimates for the first half of 2009. – (3) Indices: 1980=100, seasonally adjusted data. – (4) Moving averages for the three months ending in the reference month.

Figure 25

Household debt (1)
(as a percentage of gross disposable income)



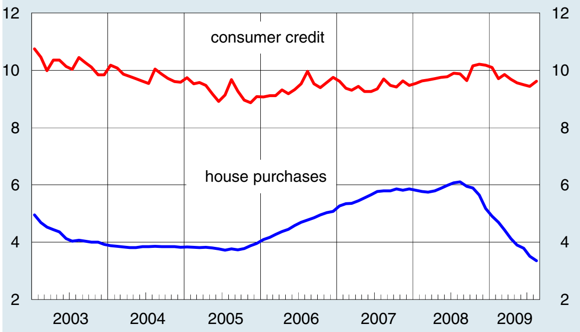
Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized loans. Disposable income for 2009 is estimated on the basis of quarterly national accounts data. Data on loans in the second quarter of 2009 are provisional. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer 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.

in September, with the approach of the scheduled termination of the scrapping incentives in December (their extension is still under discussion). Expenditure on non-durable goods shows no signs of improvement. Retail sales contracted by 0.4 per cent in July compared with June.

Figure 26

Interest rates on 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.

Household debt increases slightly, debt service diminishes

After holding steady for two years, the ratio of household debt to disposable income rose slightly in the second quarter to 58 per cent (gross of securitized loans; Figure 25), still far below the euro-area average, which was 91 per cent in March. By contrast, Italian households' debt service payments (interest and repayment of principal) declined further to 9.6 per cent of disposable income. The downward movement in mortgage interest rates continued during the summer months (Figure 26), and this will affect debt service payments during the rest of the year in proportion to the share of mortgages that are at variable rates. Consumer credit rates remained virtually unchanged.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the second quarter of 2009 the contraction was less marked for both exports ...

Exports of goods and services in volume terms continued to decline in the second quarter of 2009, but at a noticeably slower pace than in the first quarter (by 3.7 as against 11.8 per cent). Reflecting the less unfavourable performance of world trade, the decline moderated especially as regards goods (to 3.2 as against 12.7 per cent), which had suffered the greatest contraction in the preceding quarters. The reduction was slightly greater than in Germany, whereas in France and in Spain there were upturns following four quarters of contraction. Italian goods exports to EU markets declined further, in particular to Germany and France, but stopped falling in non-EU markets. The sectors contributing to the fall in exports were mechanical engineering, metal products and the traditional Italian product industries, while transport equipment, chemicals and refined oil products showed signs of recovery.

... and imports

Total imports in volume terms also declined, but at a lower rate than in the preceding quarter (3 compared with 9 per cent); the extent of the reduction was similar for the services and the goods components. The fall in imported goods was greater from EU than from non-EU countries. The marked decline in imports of machinery and electrical equipment continued, still subdued by the contraction in demand for investment goods and by the persistent weakness in the domestic industries producing this type of good, which reduced the acquisition, including abroad, of intra-industry inputs. The fall in spending on transport equipment, extremely abrupt from October 2008, moderated considerably.

The foreign trade data available in value terms for the month of July and, for non-EU countries only, for August, indicate that Italian export performance is still weak.

The current account deficit narrowed

In the first seven months of 2009 the deficit on the current account of the balance of payments narrowed to €19.4 billion from €27.9 billion in the corresponding period of 2008 (Table 4); seasonally adjusted, the deficit fell from 3.6 per cent of GDP in the first quarter to 2.2 per cent in the second. In the goods sector, the reduction in the surplus for non-energy products more than offset the contraction of the energy deficit, which fell to €23.4 billion (almost €11 billion less than in January-July 2008). The energy deficit was affected both by the fall in the price of oil in euros from the very high levels of the first part of 2008 and by a reduction in the volume of imports in connection with the fall in industrial activity. The deficit on services increased from €2.8 billion to €5.3 billion, in particular as regards the sector "Other business services", in line with the trend of the last three years. The surplus on tourism contracted as a result of a sharp fall in proceeds from visits to Italy. The deficit on "Income" fell from €19.2 billion to €14.7 billion as a consequence of the contraction in payments on portfolio investment (in particular share dividends), which reflects the economic recession and corporate dividend policies in Italy in 2008, which had been more generous, relatively speaking, than in the counterpart countries.

Table 4

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

	2007	2008	Jan.-July 2008	Jan.-July 2009
Current account	**-37.7**	**-53.6**	**-27.9**	**-19.4**
Goods	3.2	-0.7	2.6	4.7
non-energy products (2)	*47.9*	*56.6*	*36.6*	*28.1*
energy products (2)	*-44.7*	*-57.3*	*-34.0*	*-23.4*
Services	-7.1	-7.4	-2.8	-5.3
Income	-19.6	-29.5	-19.2	-14.7
Current transfers	-14.2	-16.0	-8.5	-4.1
Capital account	**2.3**	**0.8**	**..**	**..**
Financial account	**26.2**	**49.6**	**23.0**	**12.7**
Direct investment	-37.0	-18.3	-12.7	-7.9
Portfolio investment	18.1	118.5	73.7	44.3
Financial derivatives	0.4	6.8	5.9	8.3
Other investment	46.2	-51.8	-41.5	-31.8
Change in official reserves	-1.5	-5.6	-2.3	-0.3
Errors and omissions	**9.2**	**3.2**	**4.9**	**6.7**

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

Foreign investment in Italian securities remains strong

On the financial account, direct investment again showed a negative balance, which came to €7.9 billion in the first seven months of 2009, even though inflows increased more than outflows. Portfolio investment registered net inflows of €44.3 billion, a sharp reduction compared with the same period a year earlier. Purchases of Italian securities by foreign investors – especially government securities – remained substantial, although less so than in the first seven months of 2008. Albeit at a slower pace, Italian residents continued to dispose of their foreign securities, especially equities, which generated an inflow of €6.6 billion.

3.5 THE LABOUR MARKET

The number of persons in work keeps falling ...

According to the labour force survey, the number of Italian residents employed fell by 58,000 or 0.3 per cent in the second quarter, on a seasonally adjusted basis. The decline thus continued at about the pace recorded since the second half of last year.

Compared with the second quarter of 2008, the contraction in employment came to 378,000, or 1.6 per cent, as the result of a still larger decrease in employment of Italian nationals (562,000) and an increase in the number of foreigners in work (184,000). This increase, however, depended exclusively on the entry into civic registers of the growing foreign population (which increased by 307,000); that is, it might involve persons who were already employed. According to the national accounts estimates, which were able to factor in the labour force survey data only partially, the employment decline in the second quarter came to 0.9 per cent. The reduction in the number of hours worked in the entire economy, however, appears to have been considerably sharper (a fall of 2.9 per cent), as resort to the Wage Supplementation Fund enables firms to cut the number of man-hours while keeping all their workers still on the books as employed.

... especially in the South, among men ...

The decline in the number of persons employed came mostly in the South (a fall of 271,000 or 4.1 per cent compared with the second quarter of 2008) and among men (down 310,000). The trends by gender reflect sectoral variations in labour demand. In industry and in construction, with their mainly male workforce, the number of persons in work fell by 3.9 and 2.1 per cent respectively; in the service sector the decline came to 0.9 per cent. The employment rate for Italian nationals of working age fell by 1.3 percentage points to 57.4 per cent. For resident foreigners too it fell, by 0.7 points to 65.2 per cent.

... and young people

Self-employment continued to decline (by 210,000 or 3.5 per cent); about one third of the decrease was accounted for by workers on collaboration contracts. Payroll employment also fell (by 1 per cent), owing to the sharp drop in the number of fixed-term workers, the group hit hardest by the recession (a decline of 9.4 per cent or 229,000 employees). The consequences were especially severe for younger workers. Overall, almost 300,000 of the job losses registered during the twelve months involved those commonly termed "precarious workers" (temporary workers and workers with collaboration contracts). About a quarter of them are under 25 and three fifths are under 35.

Table 5

Labour force status of the population in Italy

	H1 2008	H1 2009	Q2 2008	Q2 2009	Changes (1)
	Thousands of persons				
Total person 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 contracts*	*2,269*	*2,323*	*2,189*	*2,036*	*-7.0*
part-time contracts	*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) Changes between 2nd quarter 2008 and 2nd quarter 2009; for persons in percentages, for rates in percentage points.

The labour force contracted by 0.2 per cent during the second quarter and by 1.0 per cent compared with the second quarter of 2008. The participation rate of the working-age population fell 0.9 percentage points to 62.6 per cent. The decrease was sharpest in the South (2.2 points, to 51.2 per cent), owing chiefly to the substantial contraction of 2.7 points in male participation.

Many have given up looking for work

The contraction of the labour supply, which reflects discouragement over the prospects of finding a job, moderated the rise in the unemployment rate, which went up by just 0.1 percentage points in the second quarter to 7.4 per cent; a year earlier it had been 6.7 per cent. The rate rose by 0.9 points among men and 0.1 among women. For foreigners the rise came to 2.2 points (to 11 per cent). Owing in part to the plunge in fixed-term employment, the unemployment rate for young people aged 15-24 increased by 3.6 points to 24 per cent. As in other cyclical downturns, in the South the contraction in employment was accompanied by an accentuation of the "discouraged worker" syndrome, i.e. a fall in the number of persons reporting that they were actively seeking work, so that the unemployment rate remained broadly unchanged at 12 per cent. In the Centre the rate was 6.7 per cent (0.3 points more than a year earlier); in the North it was up 1.2 points at 5 per cent, one of the highest rates recorded since 2000.

According to INPS data, the total number of Wage Supplementation Fund hours authorized rose by about 30 per cent, on a seasonally adjusted basis, between the second and third quarters. In industry excluding construction, Fund authorizations rose to the equivalent of around 15 per cent of the total workforce, owing almost entirely to the increase in ordinary benefits (Figure 27). According to the ISAE cyclical survey, since the low point registered in the first half of 2009, during the summer the expectations of industrial firms for employment over the subsequent three months showed signs of improvement.

Real wages grow slightly

In the first half of 2009 actual per capita earnings increased by 1.6 per cent by comparison with the first half of 2008 (1.2 per cent in industry excluding construction, 1.3 per cent in the private service sector). The reduction in inflation resulted in a slight gain in real earnings.

3.6 PRICE DEVELOPMENTS

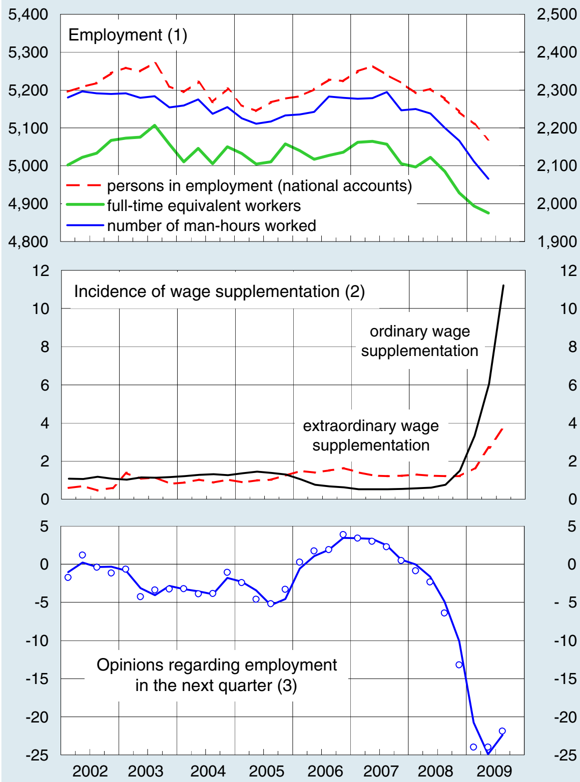
Twelve-month inflation stops falling ...

In line with expectations, twelve-month inflation reached its low point in the summer, reflecting in part the statistical effect of the rapid rise in prices that had occurred in the same period in 2008. The twelve-month change in the index of consumer prices for the entire resident population (CPI) was nil in July and just barely positive in August (Table 6). Preliminary data released by Istat indicate that the modest upturn was still under way in September (reaching 0.2 per cent), reflecting a slight acceleration in the prices of some goods, such as products for telephony, and less of a drop in the prices of energy products. Overall in the third quarter the change was 0.1 per cent; the harmonized index (HICP) showed a similar change. The small differences were due to the different time frames of promotional sales, which are not included in the CPI. The difference compared with the euro-area average (0.5 percentage points in the third quarter) is mainly due to the trend in the prices of unprocessed food products which, since the start of the year, have decelerated less in Italy than in the rest of the area.

Figure 27

Employment and wage supplementation in industry excluding construction

(seasonally adjusted quarterly data; percentage points and thousands of persons and hours worked)



Sources: Based on Istat labour force surveys and quarterly economic accounts, INPS data and on the ISAE survey *Inchiesta sulle imprese manifatturiere ed estrattive*.
(1) Total employment (persons in employment) as defined by the quarterly economic (national) accounts and the Istat labour force surveys (left-hand scale); number of hours worked as defined in the quarterly economic accounts (right-hand scale), adjusted for calendar effects. – (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 quarterly economic accounts. Partial estimates for the 3rd quarter of 2009. – (3) Balance between percentages of firms expecting employment to increase and to decrease in the next three months. Single observations and three-point moving averages.

It is estimated that core inflation, excluding food and energy products, has continued to decline gradually since the summer of last year, reaching an average of 1.4 per cent in the third quarter.

... while three-month inflation stabilizes at a low level

Short-term variations, which are not affected by statistical comparisons with year-earlier events, show that prices are increasing slightly faster than the twelve-month rates. During the summer the seasonally adjusted, annualized three-month change in the CPI was basically stable around 0.5 per cent, after showing marked variability during the first half of the year. On the basis of currently available data, for the index's core components alone, in September the rate of change increased slightly to 2 per cent (1.9 per cent over the second quarter as a whole).

Upstream of the distribution chain, inflation is still falling fast

In August, the twelve-month fall in producer prices for the domestic market continued, although it eased for the first time this year (to a drop of 7.8 per cent). For the core components alone, there was a decline of 4.1 per cent; the fall was particularly marked in the case of intermediate goods (8 per cent) which are more strongly affected by the reduction (albeit less pronounced in recent months) in basic commodity prices. There was also a further drop in the producer prices of consumer goods (1.4 per cent over twelve months), concentrated on non-durables, which were probably influenced by the persistent weakness of demand.

Table 6

Indicators of inflation in Italy

(twelve-month percentage changes)

	HICP (1)		CPI (2)			PPI (3)
	Overall index	Excl. overall index	Overall index		Core component (5)	Overall index
			Energy and food	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	1.6	0.5	0.1	1.5	-7.1
July	-0.1	1.3	0.0	-0.1	1.3	-8.6
Aug.	0.1	1.3	0.1	0.2	1.3	-7.8
Sept	(0.3)	....	(0.2)	(0.1)	....	....

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index 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 food and energy products.

The moderate rise in consumer price inflation is forecast to continue for the rest of the year

The upturn in the twelve-month rate of inflation should continue for the rest of this year, with the waning of the statistical effect connected with the sharp increases in the prices of oil products through the summer of 2008. This trend is forecast to become moderately more pronounced next year as a result of the improvement in the cyclical situation, as in the rest of the euro area. The professional forecasters surveyed by Consensus Economics in September put consumer price inflation at 0.8 per cent in 2009 and 1.5 per cent in 2010. According to the quarterly survey conducted in the same month by the Bank of Italy together with *Il Sole 24 Ore*, over a twelve-month horizon firms expect to revise their own sales prices upwards by 1.1 per cent (0.8 per cent in the June survey), assuming a recovery in commodity prices and, with more uncertainty, a strengthening of demand for their products. This is confirmed by the monthly ISAE surveys of industrial firms, which in September showed a further increase in the balance between plans to raise and to lower list prices in the short term.

3.7 BANKS

The pronounced slowdown in bank lending continues ...

The twelve-month increase in banks' lending to the non-financial private sector fell to 2.2 per cent in August, adjusted for the accounting effect of securitizations (Figure 28), compared with a much faster expansion of about 10 per cent in the year to August 2008. The seasonally adjusted three-month rise was practically nil, as lending to non-financial firms diminished at an annual rate of 2.1 per cent and that to households increased at a rate of 2.8 per cent.

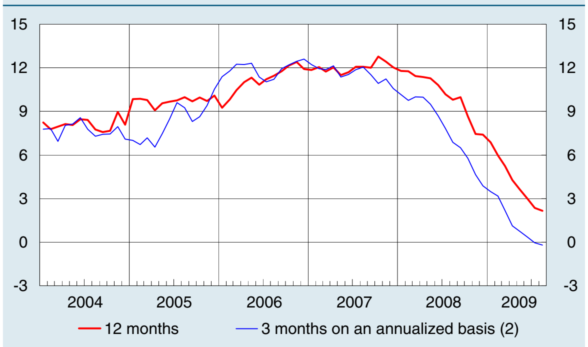
Lending by the top five Italian banking groups (net of bad debts and repos) fell by 3.5 per cent in August by comparison with August 2008. That of other banks continued to grow, albeit more slowly, at a rate of 5.4 per cent. The divergence involved loans to households and to both small and large firms.

... reflecting both demand and supply factors

The pattern of bank lending in the course of the summer reflected both the impact on demand of the cyclical downturn in the economy and supply conditions, which remained restrictive. The Italian banks participating in the Eurosystem Bank Lending Survey reported another tightening of the criteria used to grant loans in the second quarter, though definitely less severe than those of the previous two quarters (see the box "Credit Supply and Demand in Italy"). Business surveys continue to indicate difficulties in access to bank credit; here too, however, signs have emerged that the speed at which restrictions are being introduced is decreasing.

Figure 28

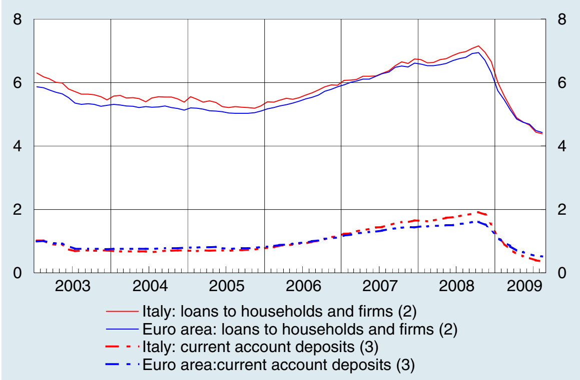
Bank loans to the private sector (1)
(monthly data; percentage changes)



Source: Based on Bank of Italy data.
(1) The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. Includes an estimate of loans excluded from balance sheets because they are securitized. – (2) Seasonally adjusted.

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.

An agreement was reached in August between ABI and the main business organizations to help SMEs with sound business prospects to get over any temporary financial difficulties. Firms can apply (before the end of June 2010) for the temporary suspension of repayments of principal on loans (for 12 months) and of the principal implicit in leasing contracts (for 6 or 12 months depending on the type of transaction); they may also request the postponement of the due dates on advances or special financing to increase their capital.

Banks' interest rates continued to diminish, broadly in line with trends in the rest of the euro area (Figure 29). The cost of short-term credit to firms, including current account overdrafts, fell to an average of 4 per cent in August (2.8 percentage points lower than in October 2008, when the lowering of official rates in the euro area began). The average cost of new loans to households has come down to 2.5 per cent for variable-rate and 5 per cent for fixed-rate loans (by 3 and 0.8 points respectively).

The spread between short-term lending rates to households and firms and the rate on current account deposits narrowed, on average, by 4 percentage points, as in the rest of the area.

Loan quality deteriorates further

The quality of banks' assets worsened again in the second quarter of 2009. The annualized ratio of adjusted new bad debts (i.e. taking account of the debtor's position vis-à-vis the entire banking system, not just the single bank) to total outstanding loans rose to 1.9 per cent on a seasonally adjusted basis, from 1.6 per cent in the first quarter. The increase was especially pronounced among firms (from 2.1 to 2.6 per cent). Nearly all of the increase was accounted for by lending to firms in the Centre and North, whose default rate thus approached that, historically higher, on loans to southern firms. Preliminary data indicate that the deterioration in asset quality continued in the third quarter as well. Lending to manufacturing and to service firms was the most severely affected; the quality of credit to consumer households is also declining significantly.

Fund-raising slows again

The rate of expansion in Italian banks' total funding declined further, to 1.1 per cent in the twelve months ending in August (Table 7). Residents' deposits grew by 6.1 per cent. The low level of interest rates continued to foster a shift away from the less liquid forms of deposit (repos contracted by nearly 40 per cent) to current accounts, which expanded by almost 14 per cent. There was a further fall in deposits held by firms, a sign of the financial difficulties they are facing. Fund-raising via domestic bond issues decelerated further to growth of 6.5 per cent. The contraction of liabilities vis-à-vis non-resident customers continued.

Table 7

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

	2007	2008	August 2009	
				Stocks (2)
Assets				
Securities other than shares	7.3	44.4	42.7	434,667
bonds issued by MFIs resident in Italy	*15.1*	*65.6*	*49.4*	*207,908*
Loans	10.1	5.6	2.8	1,761,073
up to 12 months	*7.5*	*4.1*	*-2.4*	*588,062*
beyond 12 months	*11.3*	*6.5*	*5.5*	*1,173,011*
External assets	13.4	-2.2	-15.6	337,450
Liabilities				
Total funding (3)	11.0	4.7	1.1	2,200,900
Deposits of Italian residents (3)	4.2	7.3	6.1	1,130,615
of which: (4)				
current accounts	*2.9*	*6.6*	*14.4*	*711,992*
with agreed maturity	*14.3*	*13.5*	*11.1*	*64,056*
redeemable at notice	*-0.5*	*7.0*	*10.0*	*258,162*
repos	*12.1*	*10.4*	*-39.6*	*82,347*
Deposits of non-residents	22.9	-8.1	-14.3	463,739
Bonds (3)	11.4	12.0	6.5	606,546
Memorandum item Total bonds	11.9	20.1	14.8	814,453

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

The large increase in loan losses in the first half resulted in a large decline in banks' profitability. According to consolidated financial statements, the profits of the five largest groups fell by 58 per cent compared with the first half of 2008 while their annualized ROE on ordinary activities dropped from 11.4 to 4.7 per cent. Net interest income remained practically unchanged; gross income declined slightly, as the decrease in fee income more than offset the increase in income from trading. Operating profit did improve marginally (by less than 1 per cent) thanks to the significant reduction in operating expenses, especially staff costs, which were cut by about 8 per cent. Transfers to loan loss provisions and value adjustments more than doubled to absorb 54 per cent of operating profit, compared with around 20 per cent in the first half of 2008.

Capital ratios improve

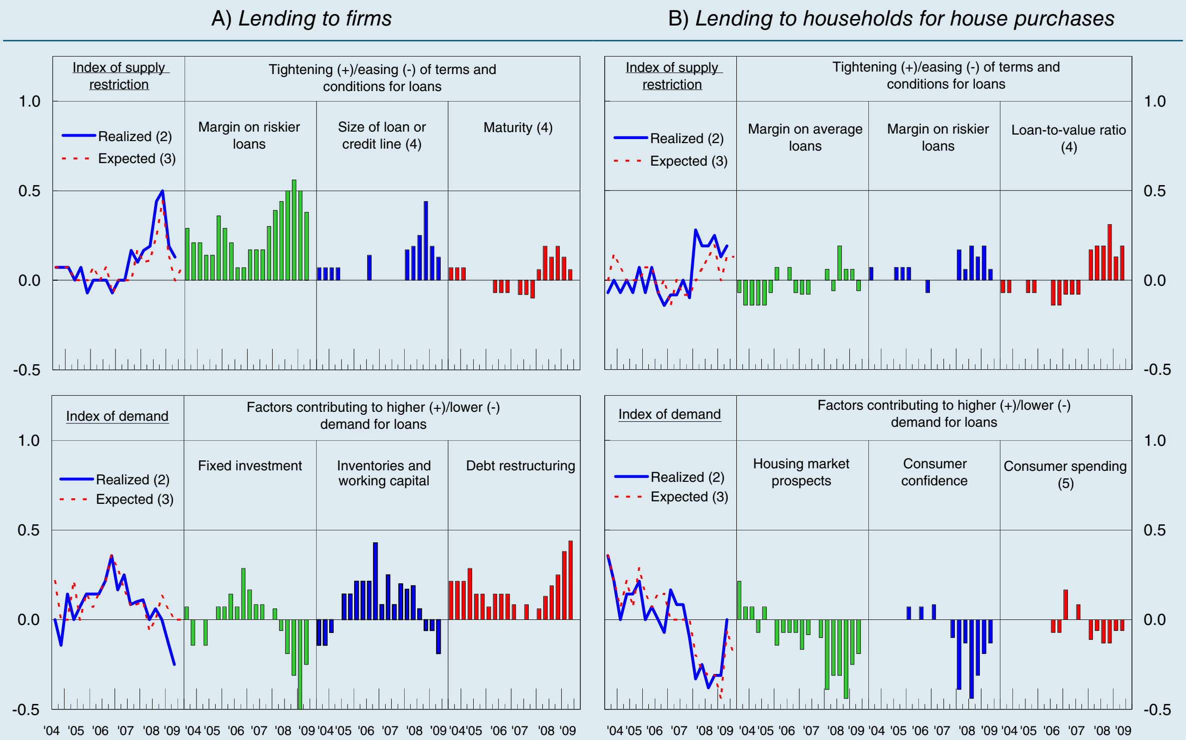
The consolidated statements of the five largest banking groups for the first half of 2009 (which do not yet reflect the public recapitalization of some of the banks) show that capital ratios improved during the six months. The total capital ratio, i.e. the ratio of total capital and reserves to risk-weighted assets, went up by 0.6 percentage points to 11 per cent and the tier 1 ratio by 0.7 points to 7.4 per cent. The core tier 1 ratio (net of hybrid capital instruments), which comprises the prime quality components with the greatest loss-absorption capacity, gained 0.8 points to 6.6 per cent. The improvement in the capital ratios resulted both from the expansion of capital and reserves, owing principally to retained profits, and from a contraction in risk-weighted assets and the limitation of their average riskiness. The banks' capital management operations also made a positive contribution. Leverage – total balance-sheet assets over tier 1 capital – was lowered to 24, from 26 at the end of 2008; the average for the leading banks in other European countries is around 34.

CREDIT SUPPLY AND DEMAND IN ITALY

The responses provided by the Italian banks participating in the quarterly euro-area Bank Lending Survey indicate that the tightening of credit standards for loans to firms, while continuing into the second quarter of 2009, eased further (Figure A).[1] The new moderate restriction, which the banks associated with the

Figure A

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



Source: Quarterly Bank Lending Survey for the euro area.
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed based on the following weighting scheme: 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 time of the survey. – (3) Forecasts made in the preceding quarter. – (4) Positive (negative) values indicate a lesser (greater) willingness of banks to grant, respectively, 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 July; 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 third quarter of 2009 and expectations for the fourth quarter are not yet available; they will be released on 28 October.

risks linked to expectations about broader economic trends and specific sectors or firms, primarily affected the margins applied to riskier loans. In the case of large enterprises only, lending was also affected by costs related to the banks' capital position, albeit less intensively than in the previous quarters.

The respondent banks reported the protracted weakness in firms' demand for loans, among small and medium-sized enterprises in particular; demand continued to be adversely affected by the negative trend in fixed investments (albeit to a lesser extent than in the previous quarter), while the share of demand for debt restructuring loans expanded further. Banks stated that they expected a halt in the worsening of supply conditions and a moderate recovery in demand in the third quarter.

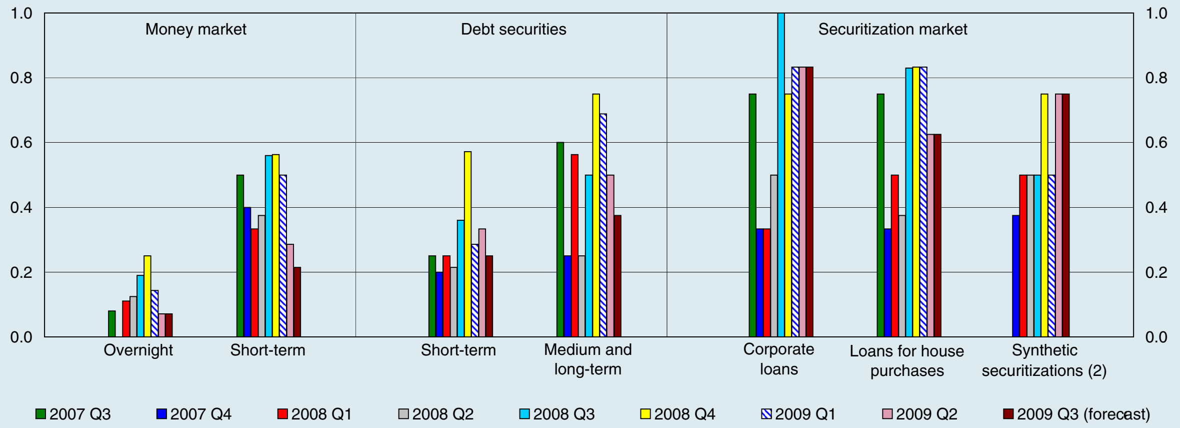
Banks also indicated a further slight tightening of their supply policies for loans to households, similar in intensity to that reported in the previous survey; this consisted primarily in a reduction of the loan-to-value ratio for mortgage loans and an increase in the margins applied to other sources of finance. Banks linked their cautiousness to expectations about economic activity, risks on the effective value of collateral and housing market prospects.

The responses point to a recovery in demand for loans by households and specifically for house purchase loans. For the third quarter of 2009 banks expect a further slight tightening of credit supply policies, and supply conditions to remain basically unchanged.

On the funding side, the difficulties of procuring funds on the money market and on that for medium to long-term debt securities lessened further, with banks stating they anticipated more improvement in the third quarter; nevertheless, difficulties in the securitization market remained significant (Figure B). Banks continued to report that the global financial crisis had increased the costs associated with capital requirements and in this way had affected credit supply.

Figure B

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



Source: Quarterly Bank Lending Survey for the euro area.
(1) Diffusion indices constructed by aggregating the qualitative responses to the ad hoc questions, added to the survey questionnaire, on the effects of the subprime mortgage crisis. The weighting scheme is 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.

The Italian banks' responses to the survey were in line with those observed for the euro area as a whole. The main difference regards restrictions in the indices of supply restriction for loans and consumer credit, which, while remaining at similar levels to the Italian banks, recorded a slight improvement in the area as a whole.

3.8 THE FINANCIAL MARKETS

The share price rally that began last March continues

In the third quarter of 2009 the general index of the Italian stock exchange gained 19 per cent, about the same as the average increase in the euro area (18 per cent; Figure 30). With the improvement in investor sentiment, equity premiums have declined; this effect prevailed over the still unfavourable trend in listed companies' current and forecast earnings. From the low of mid-March, Italian and euro-area share prices rose by 66 and 48 per cent, respectively, returning to the levels of October last year. They remain well short of the peaks reached in March 2007.

Figure 30

Share prices (1)

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

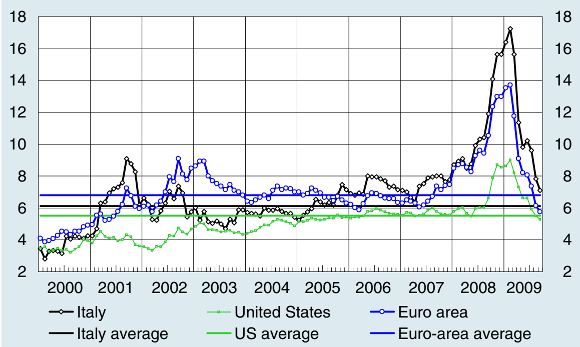
Source: Thomson Reuters Datastream.
(1) FTSE Italia Mib for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States.

Among the Italian stock exchange's main sectors, in the third quarter bank shares made particularly strong gains (30 per cent), aided by the positive results reported by the sector at the international level. The automotive index, which continued to benefit from the improved profit outlook of the Fiat group, rose by 23 per cent in the same period; this was in line with the French index (26 per cent) and in contrast to the corresponding German index (-16 per cent), which was adversely affected by activity in the market for corporate control. The telecommunication stock index, pushed up by Telecom Italia's share price, outperformed the euro-area average (18 per cent, as against 14 per cent).

Figure 31

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

(monthly data; per cent)



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

At the end of September the current earnings/price ratio stood below the levels of mid-June, but remained above the long-term average (Figure 31). The volatility of share prices implied by options prices also declined, falling back to levels similar to those preceding the collapse of Lehman Brothers.

There were no initial public offerings in the third quarter and just three in the first nine months of the year, compared with seven in January-September 2008. At the end of September there were 287 Italian companies listed on Borsa Italiana, for a total market value of €465 billion, or 31 per cent of GDP.

Net bond issues diminished for banks, increased for firms

In the second quarter of 2009 net bond issues by Italian financial corporations amounted to €22 billion (Table 8); this was less than half as much as in the previous quarter, in part owing to large redemptions. In the euro area net issues by financial corporations instead maintained their rapid pace of the first quarter, thanks in part to the surge in placements of securities backed by public guarantees and of covered bonds, which accounted for more than one quarter and one third of the total, respectively. New issues by Italian non-financial corporations continued to grow at a high rate, totalling €4.3 billion, and preliminary estimates indicate an even sharper increase in the third quarter; in September, in particular, Enel, ENI and Fiat made substantial placements (€10 billion, €1.5 billion and €1.3 billion, respectively).

Credit risk premiums fell further, both for bonds issued by private sector companies ...

Between the beginning of July and the end of September, the yield spreads of bonds issued by non-financial corporations with a high credit rating over government securities narrowed by 0.5 percentage points, in line with the reduction recorded by bonds issued by comparable companies of other euro-area countries. In the same period the premiums on credit default swaps on Italian banks diminished by 0.3 percentage points, compared with an average decline of 0.7 percentage points in the euro area.

... and for government securities

The yield spread between ten-year Italian government securities and German Bunds declined, in line with the pattern for the other euro-area countries, falling to less than half of the peak levels recorded in January (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.

The outflow of savings from investment funds halts

In the second quarter of 2009, and for the first time in over three years, net fund-raising by investment funds was slightly positive (€935 million, compared with a net outflow of €12.3 billion in the previous quarter). The net inflows went to foreign funds in particular (€3.6 billion), while Italian funds overall continued to report net redemptions, though less than in the previous quarter (€2.7 billion as against €7.3 billion). After almost two years, the average yield on Italian harmonized funds was positive (2.7 per cent): the highest yields were delivered by equity funds (12.5 per cent), the lowest by money-market funds (0.6 per cent). Individually managed portfolios also recorded net inflows (€2.8 billion); their average yield, which turned positive after seven quarters of consecutive losses, was 3 per cent.

Table 8

Net bond issues (1)

(millions of euros)

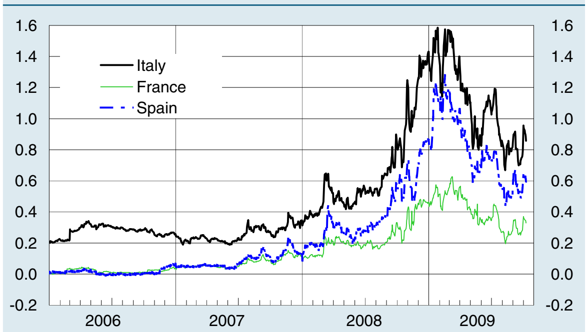
	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2007	63,928	12,733	10,598	87,259
2008	123,655	73,946	1,505	199,106
2008 – Q1	39,938	-3,980	-128	35,830
Q2	45,064	14,814	-1,424	58,454
Q3	14,887	8,975	1,059	24,921
Q4	23,766	54,137	1,998	79,901
2009 – Q1	46,140	9,895	3,587	59,622
Q2	20,555	1,521	4,304	26,380
		Euro area		
2007	284,873	323,519	28,655	637,047
2008	193,516	398,149	30,414	622,080
2008 – Q1	35,458	6,362	-2,335	39,484
Q2	127,632	100,805	11,830	240,267
Q3	21,716	45,696	7,703	75,114
Q4	8,711	245,287	13,218	267,216
2009 – Q1	77,398	126,890	38,675	242,962
Q2	105,869	87,411	45,389	238,669

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.

Figure 32

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

(daily data; percentage points)



Source: Based on Bloomberg data.

3.9 THE PUBLIC FINANCES

The Forecasting and Planning Report confirms the estimates for 2009

In September the Government updated the framework for the public finances on a current legislation basis set out in the July Economic and Financial Planning Document. The new estimates basically confirm the earlier ones; they take account of the amendments made to the July anticrisis decree during its ratification (see the box "Recent public finance measures"), some changes suggested by the performance during the year of revenue and expenditure, the movements in interest rates and macroeconomic developments slightly more favourable than expected in the Planning Document.

A large increase in net borrowing is expected

The net borrowing estimate for 2009 is confirmed at 5.3 per cent of GDP (up from 2.7 per cent in 2008); the ratio of debt to GDP is expected to rise by more than 9 percentage points to 115.1 per cent (Tables 9 and 10). In 2009, for the first time since the beginning of the 1990s, a primary deficit is expected, equal to 0.5 per cent of GDP; in 2008 there was a surplus of 2.4 per cent. Primary current expenditure is expected to increase by 3.8 per cent, rising from 40.4 to 43.1 per cent of GDP; capital expenditure is expected to increase by 17.6 per cent compared with 2008, when it fell by 6.1 per cent. Revenue is expected to fall by 1.4 per cent and as a ratio to GDP to rise from 46.6 to 47.1 per cent. Interest payments are forecast to fall by 8.5 per cent, from 5.1 to 4.8 per cent of GDP.

Table 9

Public finance objectives and estimates for 2009
(billions of euros and percentages of GDP)

	General government			Memo item:
	Net borrowing	Primary surplus	Debt	GDP growth rate
Objectives				
June 2008 (1)	32.7	50.1	....	0.9
% of GDP	*2.0*	*3.1*	*102.7*	
September 2008 (2)	34.1	49.7	....	0.5
% of GDP	*2.1*	*3.0*	*102.9*	
Estimates				
February 2009 (3)	57.7	20.2	....	-2.0
% of GDP	*3.7*	*1.3*	*110.5*	
April 2009 (4)	71.0	5.5	....	-4.2
% of GDP	*4.6*	*0.4*	*114.3*	
July 2009 (1)	81.3	-5.6	....	-5.2
% of GDP	*5.3*	*-0.4*	*115.3*	
September 2009 (2)	80.9	-6.9	....	-4.8
% of GDP	*5.3*	*-0.5*	*115.1*	

(1) Economic and Financial Planning Document. – (2) Update of the Economic and Financial Planning Document; Forecasting and Planning Report. – (3) Stability Programme and the Information Note. – (4) Combined Report on the Economy and the Public Finances.

On the basis of the Government's estimates for the public finances in 2009, on 7 October the European Commission opened an excessive deficit procedure against Italy. At present, all the euro-area countries are subject to such a procedure except Finland, Cyprus and Luxembourg. The overshoot of net borrowing with respect to the 3 per cent threshold, although of an exceptional nature because it was triggered by a serious economic recession, is neither small nor temporary.

The revenue data available suggest slightly less favourable trends than those indicated for the year as a whole in the Forecasting and Planning Report. The shortfall in revenue may be offset in part by the growth in capital expenditure, which is also likely to be less than expected.

Table 10

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

	2005	2006	2007	2008	2009
Net borrowing	61,432	49,312	23,225	42,979	80,945
% of GDP	*4.3*	*3.3*	*1.5*	*2.7*	*5.3*
Primary surplus	4,633	19,266	53,990	37,912	-6,933
% of GDP	*0.3*	*1.3*	*3.5*	*2.4*	*-0.5*
Interest payments	66,065	68,578	77,215	80,891	74,013
% of GDP	*4.6*	*4.6*	*5.0*	*5.1*	*4.8*
Debt	1,512,777	1,581,997	1,599,579	1,663,031	–
% of GDP	*105.8*	*106.5*	*103.5*	*105.8*	*115.1*

Sources: Based on Istat data for the general government accounts for 2005-2008; for 2009, estimates set out in the Forecasting and Planning Report for 2010.
(1) Rounding may cause discrepancies in totals.

The deterioration was already visible in the accounts of the first half

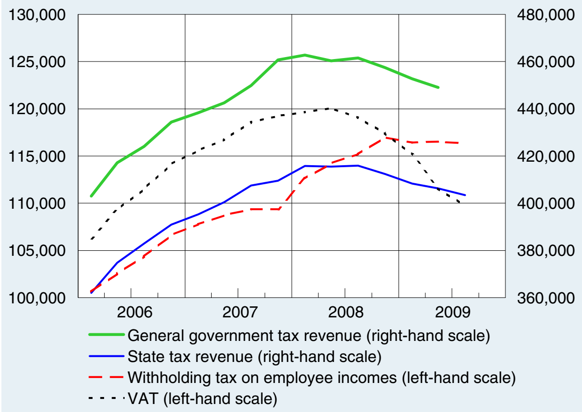
According to estimates published by Istat, in the first half of 2009 net borrowing was equal to 6.3 per cent of GDP, against 3.5 per cent in the year-before period. The primary balance worsened by more than three percentage points to record a deficit of 1.6 per cent of GDP (Table 13). This result reflects the large 4.5 per cent increase in primary current expenditure, notably intermediate consumption and social benefits in cash. Capital expenditure increased by a substantial 10 per cent, partly owing to the repurchase of real estate unsold in SCIP securitizations. Revenue decreased by 2.7 per cent, reflecting large falls in direct taxes (6 per cent) and indirect taxes (7.1 per cent), partly offset by the sharp rise in capital taxes, which included the payments of one-off substitute taxes on firms' voluntary revaluations and value realignments (introduced by Decree 185/2008; see the box "The anti-crisis decree" in *Economic Bulletin*, no. 51, 2009). Interest payments fell significantly, by 10.8 per cent.

Tax revenue falls in the first nine months

In the first nine months of the year state tax revenue on a cash basis decreased by about €9 billion and 3.2 per cent compared with the year-earlier period (Figure 33 and Table 11). This result is largely explained by the fall in indirect tax revenue (5.5 per cent), especially that in VAT (9.5 per cent). The fall in direct tax revenue was smaller (1.4 per cent). In particular, the withholding tax on employee incomes declined by 0.7 per cent while the substitute taxes on income from financial assets fell by 9.4 per cent. The sharp fall of about €6 billion and 15.8 per cent in self-assessed corporate and personal income tax was largely offset by the receipts of the one-off substitute taxes introduced by Decree Law 185/2008, which are included in the general government accounts under capital taxes. The sharply negative performance of self-assessed corporate and personal income tax is likely to be confirmed when the second payment on account is made in November, while the above-mentioned substitute taxes have almost all been paid. In the last part of the year total revenue will be influenced by the receipts from the capital repatriation and regularization scheme (see the box "Recent public finance measures").

Figure 33

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



Sources: Istat for general government tax revenue; General Government Report and state sector budget for the other variables.

The borrowing requirement is also growing considerably ...

In the first eight months of the year the general government borrowing requirement, net of privatization receipts, was €61.3 billion, more than €38.8 billion up on the year-earlier period (Figure 34 and Table 12). In addition to the factors mentioned above, which affected net borrowing, the increase was due to larger tax refunds and the start of subscriptions of bonds issued by banks under the measures to support the financial system (€1.5 billion). The growth of the borrowing requirement in the rest of the year will also be influenced by the effects of the mid-year budget revision.

... and causing the debt to accelerate

In the first eight months of 2009 general government debt grew by €94.5 billion (Table 12). Apart from the change in the borrowing requirement, this mainly reflects the increase in Treasury assets held at the Bank of Italy (€32.6 billion) and the issue of securities below par (€1.3 billion). Central government debt rose by €91 billion and that of local government by €3.7 billion. By contrast, the debt of the social security institutions fell by €0.2 billion.

Table 11

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

	January-September			
			Percentage changes on	
	2008	2009	2007	2008
Direct taxes	**154,267**	**152,145**	**3.8**	**-1.4**
Personal income tax	113,024	110,506	6.1	-2.2
of which: withholding tax on employee incomes	*88,619*	*87,990*	*7.0*	*-0.7*
balance	*5,881*	*4,527*	*0.5*	*-23.0*
payment on account	*7,393*	*6,856*	*4.2*	*-7.3*
Corporate income tax	25,867	21,557	-5.8	-16.7
of which: balance (2)	*10,269*	*9,048*	*-11.7*	*-11.9*
payment on account	*15,069*	*11,724*	*-3.1*	*-22.2*
Substitute taxes on interest income and capital gains	10,666	9,664	-0.3	-9.4
interest on bank deposits	*3,219*	*4,257*	*3.8*	*32.2*
interest on bonds	*5,521*	*4,540*	*13.3*	*-17.8*
dividends	*569*	*317*	*44.4*	*-44.3*
capital gains	*603*	*315*	*-38.8*	*-47.8*
managed assets	*754*	*235*	*-43.8*	*-68.8*
One-off substitute taxes (2)	1,849	7,016	66.3	279.4
Other	2,861	3,402	2.4	18.9
Indirect taxes	**125,783**	**118,922**	**0.6**	**-5.5**
VAT	80,923	73,212	-0.2	-9.5
Other business taxes	14,451	13,276	25.6	-8.1
Excise duties on mineral oils	15,097	14,909	1.6	-1.2
Other excise duties and sales taxes	3,939	5,470	-23.4	38.9
Monopolies	7,417	7,589	0.7	2.3
Lotteries	3,956	4,466	-21.8	12.9
TOTAL TAX REVENUE	**280,050**	**271,067**	**2.4**	**-3.2**

Source: Based on State budget data.
(1) For 2009, provisional data. – (2) In this table receipts of the substitute taxes introduced with effect from 2009 by Decree Law 185/2008 (which in part are shown in the State budget under corporate income tax) are included under "One-off substitute taxes". The data for corporate income tax for both 2008 and 2009 include receipts of the substitute taxes introduced by Decree Law 244/2007.

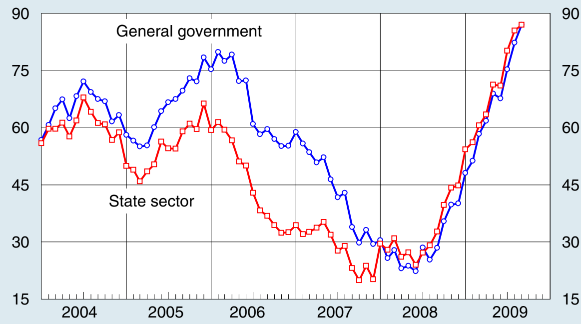
The adjustment of the public finances is to begin again in 2011

For 2010 the Forecasting and Planning Report confirms the July Planning Document's objective for net borrowing of 5 per cent of GDP. This coincides with the estimate on a current legislation basis, based on a recovery of tax revenue as early as 2010, a sharp slowdown of growth in primary current expenditure, by 2.5 points to 1.3 per cent, and a decline of 13.1 per cent in public investment, expected to return in nominal terms to the average of the last three years.

For the three years 2011-13 the Forecasting and Planning Report contains unchanged-legislation and macroeconomic planning framework figures that are more favourable than those of the July

Figure 34

Rolling twelve-month borrowing requirement (1)
(billions of euros)



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

Table 12

General government borrowing requirement and debt
(millions of euros and percentages of GDP)

	2006	2007	2008	2009
		General government borrowing requirement		
Jan.-Aug.	49,437	23,911	22,512	61,336
Year	58,853	29,871	48,129	–
% of GDP	*4.0*	*1.9*	*3.1*	–
		Privatization receipts		
Jan.-Aug.	38	3,500	–	666
Year	38	3,500	19	–
		Memo item: Settlements of past debts		
Jan.-Aug.	100	2,136	58	322
Year	243	3,129	1,653	–
		Total general government borrowing requirement		
Jan.-Aug.	49,399	20,411	22,512	60,671
Year	58,814	26,371	48,111	–
% of GDP	*4.0*	*1.7*	*3.1*	–
		Change in Treasury asset balances with the Bank of Italy		
Jan.-Aug.	37,098	14,764	40,190	32,605
Year	8,230	-13,142	10,611	–
		Issue discounts		
Jan.-Aug.	2,068	4,816	4,265	1,329
Year	2,978	4,687	4,471	–
		Change in euro equivalent of foreign currency liabilities		
Jan.-Aug.	-656	-134	59	-79
Year	-801	-333	260	–
		Change in debt		
Jan.-Aug.	87,908	39,857	67,026	94,503
Year	69,220	17,582	63,452	–
% of GDP	*4.7*	*1.1*	*4.0*	–
		General government debt		
End-August	1,600,685	1,621,854	1,666,605	1,757,534
End-year	1,581,997	1,599,579	1,663,031	–
% of GDP	*106.5*	*103.5*	*105.8*	*115.1* (1)

(1) Estimate in the Forecasting and Planning Report for 2010.

RECENT PUBLIC FINANCE MEASURES

In the last few months the Government has adopted a series of budgetary measures affecting the period 2009-12: the mid-year budget revision for 2009; the Decree Laws 78/2009 and 103/2009 (ratified respectively by Laws 102/2009 and 141/2009), which contain new measures to counter the effects of the economic crisis; and the 2010 Finance Bill.

Among other things, the mid-year budget revision increased the resources available to general government in 2009 with a view to reducing the delay in payments to firms. The July Economic and Financial Planning Document estimated that this measured increased net borrowing by about €5 billion.

The decree laws issued in the summer raise €4.2 billion in 2009 and a total of €12.9 in the three years 2010-12 (€4.8 billion in 2010, €4.2 billion in 2011 and €3.9 billion in 2012). The expansionary interventions are to be covered by measures contained in the same decree laws: in 2009 they are to be financed mainly by expenditure savings, while in the three following years increased revenue is to be the main source of their financing.

Some amendments were made to the measures contained in Decree Law 78/2009 during its ratification (see the box "Recent public finance measures" in *Economic Bulletin*, no. 53, 2009). The most important were the easing, exclusively for 2009, of the constraints of the domestic stability pact on local authorities' capital spending, which is expected to bring €2.3 billion of additional expenditure, and the increase in the allocations for reconstruction in Abruzzo, about €0.3 billion in the two years 2009-10.

On the financing side the ratification law provided for additional revenue, primarily in connection with the introduction of a procedure for regularizing domestic helps (about €1.5 billion over the four years 2009-12); the law also provided for an extraordinary tax on financial and real assets held abroad illegally, although no estimate has been given of the expected proceeds. Additional resources will come from expenditure savings due to cuts in allocations to funds (especially to those for writing back expenditure carryovers, reduced by more than €2.3 billion) and the gradual raising from 60 to 65, starting in 2010, of the retirement age for female public employees (about €0.6 billion in the three years 2010-12). Provision is also made, with effect from 2015, for the retirement age to be adjusted in accordance with life expectancy.

The 2010 Finance Bill does not have any overall effect on net borrowing. Additional resources, amounting to €0.2 billion in 2010 and about €1.9 billion in 2012, are obtained by reducing prior-year budgetary appropriations. In 2012 most of the additional resources are to be reallocated to expenditure items, while the remainder (€0.4 billion) is to be used to finance the extension from 2011 to 2012 of the personal income tax reliefs for building refurbishments and the reduction from 20 to 10 per cent of the related VAT.

The bill also quantifies the cost of public-sector employment contracts at €0.7 billion in 2010, €1.1 billion in 2011, and €1.7 billion in 2012; these amounts correspond to those, already included in the budget on a current legislation basis, serving to ensure payment of the inflation adjustment for contracts pending renewal.

Effects on the general government consolidated accounts of Law 102/2009 as amended (1)
(millions of euros)

	2009	2010	2011	2012
REVENUE				
Increase in revenue	1,473	3,444	3,095	2,652
Crackdown on tax havens and international arbitrage	0	1,021	996	819
Compensation of tax credits	200	1,000	1,000	1,000
Gaming concessions	500	300	0	0
Detaxation of investments	160	0	0	0
Recovery of duties in Abruzzo	0	257	257	0
Regularization of domestic helps	280	402	421	412
Other	333	464	421	421
Decrease in revenue	513	2,006	2,687	495
Detaxation of investments	0	1,861	2,406	240
Suspension of duties and contributions in Abruzzo	513	0	0	0
Writedown of credits	0	39	79	112
Other	0	106	202	143
NET CHANGE IN REVENUE	960	1,438	408	2,157
EXPENDITURE				
Decrease in expenditure	2,690	1,317	1,141	1,261
Funds for writing back expenditure carryovers	2,315	0	0	0
Health system	50	850	850	850
Reduction in social fund	85	230	0	0
Raising of general government retirement age	0	120	242	242
Other	240	117	49	169
Increase in expenditure	3,642	2,660	1,449	3,318
Domestic stability pact	2,250	0	0	0
Health system	117	1,050	1,050	1,050
Income support measures	185	230	0	0
Extension of peace missions	510	0	0	0
Alitalia securities	0	230	0	0
Participation in banks and international funds	0	284	0	0
Fund for structural economic policy interventions	2	203	4	1,907
Increase in Underutilized Area Funds for reconstruction in Abruzzo	201	88	0	0
Strategic projects fund (social and family policies)	0	120	242	242
Other	377	455	153	119
NET CHANGE IN EXPENDITURE	952	1,343	308	2,057
CHANGE IN NET BORROWING	-8	-95	-100	-100

(1) Based on the Forecasting and Planning Report for 2010.

Table 13

General government expenditure and revenue
(millions of euros and percentages)

	H 1			
	2008	2009	Percentage changes on first half of previous year	
			2008	2009
EXPENDITURE				
Compensation of employees	79,675	80,828	7.6	1.4
Intermediate consumption	40,847	45,022	5.6	10.2
Social benefits in cash	129,302	136,081	5.2	5.2
Other current expenditure	43,274	44,253	6.8	2.3
Current expenditure, net of interest payments	**293,098**	**306,184**	**6.1**	**4.5**
% of GDP	*37.7*	*40.7*		
Interest payments	39,533	35,271	6.5	-10.8
Current expenditure	**332,631**	**341,455**	**6.2**	**2.7**
% of GDP	*42.7*	*45.4*		
Gross fixed investment	15,306	16,878	-2.3	10.3
Other capital expenditure	9,632	10,557	22.7	9.6
Capital expenditure	**24,938**	**27,435**	**6.0**	**10.0**
Total expenditure, net of interest payments	**318,036**	**333,619**	**6.1**	**4.9**
% of GDP	*40.9*	*44.4*		
TOTAL EXPENDITURE	**357,569**	**368,890**	**6.2**	**3.2**
% of GDP	*45.9*	*49.0*		
REVENUE				
Direct taxes	101,572	95,434	4.1	-6.0
Indirect taxes	108,099	100,429	-4.0	-7.1
Social security contributions	95,476	93,718	4.7	-1.8
Other current revenue	24,188	25,406	7.4	5.0
Current revenue	**329,335**	**314,987**	**1.7**	**-4.4**
% of GDP	*42.3*	*41.9*		
Capital taxes	239	5,697	88.2	2,283.7
Other capital revenue	945	1,017	-38.2	7.6
Capital revenue	**1,184**	**6,714**	**-28.5**	**467.1**
% of GDP	*0.2*	*0.9*		
TOTAL REVENUE	**330,519**	**321,701**	**1.5**	**-2.7**
% of GDP	*42.5*	*42.8*		
NET BORROWING	**-27,050**	**-47,189**		
% of GDP	*-3.5*	*-6.3*		
Primary surplus/deficit	**12,483**	**-11,918**		
% of GDP	*1.6*	*-1.6*		
Memorandum item:				
GDP	778,208	752,095	1.4	-3.4

Source: Istat, General government quarterly accounts.

Planning Document, owing to a reduction in the ratio of interest payments to GDP. Budgetary consolidation is to begin in 2011, once the negative phase of the cycle has been overcome.

Net borrowing is expected to fall to 3.9 per cent of GDP in 2011, to 2.7 per cent in 2012 and to 2.2 per cent in 2013 following a correction totalling 1.3 percentage points of GDP; the primary balance is expected to improve by about 1.1 percentage points of GDP per annum in the three years 2011-13. Over the same period, after peaking at 117.3 per cent of GDP in 2010, the public debt is expected to decrease by about 1.5 percentage points per annum; at the end of the planning horizon it is forecast to be more than nine percentage points higher than in 2007.

Together with the Forecasting and Planning Report, the Government submitted the 2010 Finance Bill to Parliament. This provides for measures on a limited scale that have no impact on the budget balances. In particular, the bill reduces earlier budget appropriations by about €1.9 billion in 2012. The resources procured in this way are mostly reallocated among the various expenditure items; the remainder (€0.4 billion) is to be used to finance the extension of the incentives in the building sector (see the box "Recent public finance measures").

The bill also quantifies appropriations for public-sector employment contracts, in the amounts, already included in the budget on a current legislation basis, that serve to ensure payment of the inflation adjustment for contracts pending renewal (about €3.5 billion in the three years 2010-12).

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	3.1	3.4	2.3	0.3	0.1	6.5	1.1	3.2	3.4	6.7	6.1	-0.3	-0.1
2006	2.7	2.9	2.0	1.4	0.3	2.3	0.4	2.6	2.8	9.0	6.1	-0.1	0.1
2007	2.1	2.6	1.8	1.7	0.3	-2.1	-0.4	1.4	1.5	8.7	2.0	0.6	-0.3
2008	0.4	-0.2	-0.2	3.1	0.6	-5.1	-0.8	-0.7	-0.8	5.4	-3.2	1.2	-0.4
2006 – Q1	5.4	4.5	3.1	4.1	0.8	9.5	1.6	4.7	5.0	16.5	7.8	0.4	-0.5
Q2	1.4	2.2	1.5	0.3	0.1	-1.9	-0.3	1.4	1.4	6.9	4.5	..	0.2
Q3	0.1	2.5	1.7	0.6	0.1	-5.0	-0.9	0.8	0.8	0.6	4.9	-0.7	-0.1
Q4	3.0	4.1	2.8	1.1	0.2	-5.3	-0.9	1.0	1.1	17.8	-0.5	1.9	-1.1
2007 – Q1	1.2	3.7	2.5	..	..	-2.6	-0.4	1.4	1.5	3.5	4.3	-0.3	-0.6
Q2	3.2	1.1	0.8	4.4	0.8	3.6	0.6	2.4	2.5	5.2	-0.5	0.7	0.3
Q3	3.6	1.9	1.4	3.9	0.8	-0.4	..	2.1	2.2	18.5	3.7	1.4	0.2
Q4	2.1	1.2	0.9	1.6	0.3	-4.2	-0.7	-0.2	-0.1	14.5	-3.6	2.2	-0.6
2008 – Q1	-0.7	-0.6	-0.4	2.6	0.5	-6.3	-1.0	-1.1	-1.1	-0.1	-2.5	0.4	-0.2
Q2	1.5	0.1	0.1	3.6	0.7	-2.7	-0.4	-0.9	-0.9	12.1	-5.0	2.4	-1.3
Q3	-2.7	-3.5	-2.5	4.8	1.0	-8.3	-1.3	-2.5	-2.6	-3.6	-2.2	-0.1	0.3
Q4	-5.4	-3.1	-2.2	1.2	0.2	-20.2	-3.3	-5.5	-5.9	-19.5	-16.7	0.5	-0.6
2009 – Q1	-6.4	0.6	0.4	-2.6	-0.5	-39.0	-6.6	-8.6	-9.0	-29.9	-36.4	2.6	-2.4
Q2	-0.7	-0.9	-0.6	6.7	1.3	-12.5	-1.7	-2.3	-2.6	-4.1	-14.7	1.7	-1.4

Source: Based on 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 consumption 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	0.8	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	0.9	0.4	0.1	0.5	0.1	1.2	1.2	9.7	4.2	0.8	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	-1.2	-0.9	-0.8	1.8	0.9	0.2	-0.2
2006 – Q1	0.8	1.2	0.7	-1.5	-0.3	-1.6	-0.4	0.4	0.4	10.5	8.5	0.4	0.3
Q2	3.8	2.3	1.3	4.8	0.8	5.7	1.3	4.1	4.2	4.4	7.2	-0.3	0.6
Q3	0.4	-3.1	-1.8	6.3	1.1	-3.3	-0.8	-0.8	-0.8	5.0	-3.4	1.2	0.6
Q4	3.3	4.0	2.2	-4.7	-0.9	6.3	1.4	2.1	2.1	5.5	-2.4	1.2	-0.7
2007 – Q1	5.3	0.1	0.1	1.5	0.3	11.7	2.7	3.6	3.6	17.4	6.6	1.8	0.5
Q2	0.1	1.3	0.7	6.8	1.2	-11.1	-2.7	0.2	0.2	4.1	5.8	-0.2	1.1
Q3	-1.3	-1.2	-0.7	-2.0	-0.4	-5.5	-1.3	-3.0	-3.0	5.0	-5.4	1.7	-0.7
Q4	3.4	0.8	0.5	7.0	1.2	-4.2	-1.0	1.1	1.1	13.1	-0.7	2.3	0.5
2008 – Q1	3.5	5.4	3.0	-1.4	-0.2	3.3	0.7	1.0	1.1	26.0	12.7	2.4	-2.5
Q2	-2.8	-3.7	-2.1	-2.7	-0.5	-7.2	-1.7	-1.7	-1.8	-15.5	-11.7	-1.1	2.6
Q3	-5.1	0.5	0.3	-0.7	-0.1	-10.5	-2.4	-4.5	-4.6	-2.9	0.7	-0.7	-2.1
Q4	-12.8	-2.9	-1.6	5.5	1.0	-15.8	-3.6	-1.8	-1.9	-44.2	10.3	-11.2	2.6
2009 – Q1	-12.4	-4.6	-2.7	0.4	0.1	-22.3	-5.3	-9.2	-9.1	-63.9	-47.7	-3.3	-1.3
Q2	2.3	3.0	1.8	-1.3	-0.3	-11.8	-2.7	-4.2	-4.0	28.1	-18.9	6.5	-3.1

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

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
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	4.2	3.2	1.8	1.5	5.0
2006	3.0	8.3	4.5	4.5	6.7	5.5	2.1	2.0	8.3
2007	2.8	5.3	3.5	3.1	6.9	4.9	1.6	2.2	6.1
2008	0.7	1.1	0.8	-0.8	0.2	-0.3	0.4	2.1	1.2
2007 – Q2	0.4	0.6	0.4	-1.2	2.1	0.4	0.6	0.2	1.0
Q3	0.6	1.8	1.0	0.3	1.0	0.7	0.5	0.5	1.6
Q4	0.4	0.1	0.3	0.5	1.8	1.2	0.2	0.4	0.8
2008 – Q1	0.8	1.8	1.1	1.2	0.2	0.7	0.2	0.5	2.0
Q2	-0.3	-1.1	-0.6	-2.5	..	-1.3	-0.4	0.8	-0.5
Q3	-0.4	0.3	-0.2	-1.8	-1.1	-1.5	..	0.5	-1.0
Q4	-1.8	-4.6	-2.7	-2.6	-4.4	-3.5	-0.5	0.6	-7.0
2009 – Q1	-2.5	-7.9	-4.1	-1.1	-9.7	-5.4	-0.5	0.6	-9.2
Q2	-0.2	-2.9	-1.0	-0.8	-2.3	-1.5	0.1	0.7	-1.5
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
2007	2.3	1.4	....	....	....	2.6	2.2	1.6	1.7
2008	2.3	3.8	....	....	....	2.1	2.9	2.9	2.5
2007 – Q2	0.6	0.9	....	....	....	0.7	0.7	0.6	0.4
Q3	0.5	0.4	....	....	....	0.2	0.6	0.5	0.1
Q4	0.4	1.1	....	....	....	0.5	1.0	1.2	0.6
2008 – Q1	0.6	1.7	....	....	....	0.6	0.7	0.4	1.2
Q2	0.8	1.4	....	....	....	1.0	1.0	1.6	0.8
Q3	0.4	1.4	....	....	....	0.5	0.7	-0.3	0.8
Q4	0.5	-3.8	....	....	....	-0.4	-0.4	0.6	-1.4
2009 – Q1	0.1	-3.5	....	....	....	-0.5	-0.8	0.9	-2.6
Q2	..	-1.1	....	....	....	-0.4	0.1	0.4	-0.8

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				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 – Q2	0.1	-1.0	-0.1	-2.0	1.0	-0.5	0.2	0.2	-1.9
Q3	0.2	0.3	0.2	0.2	-0.3	..	..	0.1	0.9
Q4	-0.4	-1.0	-0.6	0.5	0.3	0.4	-0.3	0.2	-0.1
2009 – Q1	0.5	-0.4	0.3	1.1	-1.9	-0.4	..	-0.1	0.7
Q2	-0.6	-1.5	-0.8	-1.6	1.6	-0.1	-0.6	0.6	-1.2
Q3	-0.8	-1.6	-1.0	-1.3	-3.6	-2.5	0.1	0.1	-3.3
Q4	-2.1	-5.7	-2.9	-4.4	-7.9	-6.1	-1.0	0.1	-7.4
2009 – Q1	-2.7	-9.0	-4.1	-1.0	-9.4	-5.0	-1.2	0.2	-11.8
Q2	-0.5	-3.0	-1.0	-1.6	-4.6	-2.9	0.3	1.3	-3.7
				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 – Q2	0.7	1.9	1.0	0.7	0.3	0.5	0.6	1.0	1.5
Q3	0.6	1.4	0.8	0.4	0.5	0.4	0.9	..	0.7
Q4	0.6	0.7	0.6	0.8	0.1	0.5	0.7	3.5	0.7
2008 – Q1	0.3	2.8	0.9	0.8	1.7	1.2	0.8	-1.8	2.0
Q2	1.7	1.7	1.7	1.1	0.7	0.9	1.2	6.1	1.1
Q3	0.1	3.8	0.9	1.5	0.4	1.0	1.1	-3.8	2.0
Q4	1.1	-3.4	..	0.6	0.3	0.4	-0.7	1.2	-0.6
2009 – Q1	0.8	-4.4	-0.3	0.7	0.5	0.6	-1.0	2.2	-0.5
Q2	0.3	-1.9	-0.1	0.3	-1.1	-0.3	0.7	0.1	-0.6

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

Table A5

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

(percentage changes on the year-earlier period)

	Per capita compensation	Productivity	of which: Value added (2)	of which: Employees	Unit labour costs
			Total industry excluding construction		
2006	3.4	3.9	3.6	-0.3	-0.5
2007	2.8	2.2	2.5	0.3	0.6
2008	3.1	-0.6	-0.8	-0.2	3.8
2006 – Q1	3.6	4.5	3.6	-0.8	-0.9
Q2	3.3	4.0	3.7	-0.3	-0.7
Q3	3.7	4.0	3.8	-0.2	-0.3
Q4	3.1	4.1	4.3	0.1	-1.0
2007 – Q1	2.3	2.5	2.9	0.4	-0.2
Q2	3.3	2.1	2.4	0.3	1.2
Q3	2.4	2.4	2.6	0.2	0.0
Q4	3.0	1.9	2.1	0.2	1.1
2008 – Q1	3.5	2.8	3.3	0.5	0.6
Q2	2.8	1.3	1.7	0.4	1.4
Q3	3.2	-1.0	-1.2	-0.2	4.2
Q4	2.7	-6.5	-7.7	-1.3	9.9
2009 – Q1	0.5	-13.8	-16.5	-3.1	16.6
Q2	-0.5	-13.3	-17.2	-4.5	14.8
			Services		
2006	1.9	0.7	2.9	2.2	1.3
2007	2.5	1.1	3.2	2.1	1.4
2008	3.1	0.1	1.5	1.4	3.0
2006 – Q1	1.7	0.3	2.3	2.0	1.4
Q2	2.2	0.6	3.0	2.4	1.6
Q3	2.1	0.9	3.2	2.2	1.2
Q4	1.7	1.1	3.3	2.2	0.6
2007 – Q1	2.7	1.6	3.7	2.0	1.1
Q2	2.1	1.2	3.2	2.0	0.9
Q3	2.2	0.8	3.1	2.3	1.4
Q4	2.8	0.7	2.9	2.2	2.1
2008 – Q1	2.9	0.3	2.4	2.1	2.6
Q2	3.3	0.1	1.8	1.7	3.2
Q3	3.6	0.2	1.3	1.1	3.3
Q4	3.0	-0.6	0.1	0.8	3.6
2009 – Q1	2.2	-1.4	-1.5	-0.2	3.7
Q2	2.1	-0.9	-1.5	-0.5	3.1
			Total economy		
2006	2.3	1.3	3.0	1.6	1.0
2007	2.5	1.2	3.0	1.8	1.3
2008	3.1	0.1	0.9	0.8	3.0
2006 – Q1	2.1	1.1	2.5	1.4	1.0
Q2	2.5	1.3	3.1	1.7	1.1
Q3	2.5	1.5	3.2	1.6	1.0
Q4	2.1	1.8	3.5	1.7	0.4
2007 – Q1	2.6	1.8	3.6	1.8	0.8
Q2	2.4	1.2	2.9	1.7	1.2
Q3	2.2	0.9	2.8	1.9	1.3
Q4	2.8	0.8	2.5	1.7	2.0
2008 – Q1	3.1	0.9	2.5	1.5	2.2
Q2	3.2	0.5	1.7	1.1	2.6
Q3	3.5	0.2	0.7	0.5	3.3
Q4	3.0	-1.6	-1.7	-0.1	4.6
2009 – Q1	1.9	-3.7	-4.9	-1.3	5.7
Q2	1.6	-3.1	-4.8	-1.8	4.9

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	1.5	1.8	1.2	2.9	1.7	0.3
Q2	3.0	3.6	1.5	2.8	1.3	1.5
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	4.6	4.7	1.5	0.2	-1.3	3.0
Q2	2.9	2.7	0.6	-1.0	-1.6	2.3
Q3	3.3	3.0	-1.6	-3.2	-1.6	5.0
Q4	2.3	2.1	-6.5	-8.7	-2.4	9.4
2009 – Q1	1.1	0.9	-13.2	-16.8	-4.2	16.4
Q2	1.8	1.7	-11.0	-17.7	-7.6	14.4
			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	2.4	2.6	2.0	2.4	0.5	0.4
Q2	0.2	0.3	1.8	1.9	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	1.9	4.9
Q2	4.4	4.4	-1.5	0.0	1.5	6.0
Q3	3.2	3.1	-0.3	-0.6	-0.3	3.5
Q4	1.9	1.9	-0.3	-1.1	-0.7	2.2
2009 – Q1	2.0	1.5	-1.1	-2.7	-1.6	3.1
Q2	0.8	0.7	-0.9	-2.3	-1.4	1.7
			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	2.3	2.5	1.7	2.5	0.7	0.5
Q2	1.1	1.2	1.4	2.0	0.5	-0.3
Q3	1.5	1.7	0.1	1.6	1.5	1.4
Q4	3.8	3.8	-0.8	0.3	1.0	4.6
2008 – Q1	3.8	4.1	-0.3	0.5	0.8	4.2
Q2	4.0	3.9	-0.5	-0.2	0.3	4.5
Q3	3.3	3.1	-0.5	-1.1	-0.6	3.8
Q4	2.0	2.0	-1.8	-2.7	-1.0	3.9
2009 – Q1	1.8	1.5	-4.0	-5.8	-1.9	6.0
Q2	1.4	1.3	-3.3	-5.8	-2.6	4.8

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 unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products
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
June	0.6	1.7	0.0	1.2	-0.6	1.4	-1.0	0.8	-0.1	1.3
July	-0.1	1.3	-0.7	1.1	-0.8	1.4	-1.4	0.7	-0.7	1.2
Aug.	0.1	1.2	-0.1	1.2	-0.2	1.4	-0.8	0.5	-0.2	1.2

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

Table A8

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
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 – 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	-16,621	-2,521	-4,146	-6,915	-1,390	-1,648	-153	-10	71	-214
Q2	(-6,125)	(3,786)	(-1,577)	(-7,310)	….	….	(-14)	….	….	….
2007 – 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	15	-16	24	6
Feb.	-5,063	21	-1,636	-2,759	-414	-275	38	12	23	3
Mar.	-4,399	569	-1,468	-1,775	-581	-1,144	-206	-6	24	-223
Apr.	-4,079	302	-1,078	-2,382	-540	-381	10	-13	-7	30
May	-929	2,027	-429	-1,801	-694	-32	23	-10	-2	35
June	(-1,117)	(1,457)	(-70)	(-3,127)	….	….	(-47)	….	….	….
July	(3,334)	(3,440)	(425)	(-512)	….	….	(134)	….	….	….

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-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	-10.1	4.3	5.0	1.1	0.7	4.1	-0.5	2.8
June	8.3	-10.5	1.4	1.6	0.6	1.5	2.8	0.2	1.3
Aug.	5.9	-7.1	0.1	0.1	0.0	0.8	2.9	-3.3	0.7
				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
June	6.8	3.1	1.4	2.0	-0.3	-0.9	5.6	5.3	3.6
Aug.	10.4	-1.5	-0.1	0.0	-0.5	-0.6	5.1	0.5	2.8
				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	0.4	7.0	8.1	2.5	1.5	5.7	5.8	5.9
2009 – Mar.	6.2	-9.9	4.2	4.9	1.1	0.5	4.8	0.5	3.1
June	8.2	-10.2	1.4	1.6	0.4	0.9	3.4	0.8	1.6
Aug.	6.3	-7.0	0.1	0.1	-0.1	0.5	3.4	-2.8	1.0

(1) Statistics for August 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.

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)		Borrowing requirement	
		of which: PO funds					*of which:* change in central bank current accounts		*of which:* financed abroad
2006	7,476	-4,957	4,847	33,102	68,078	-54,689	-8,230	58,814	-7,011
2007	-13,977	-28,447	5,562	22,507	-2,512	14,791	13,142	26,371	-6,198
2008	4,224	-5,683	19,502	40,986	-1,248	-15,353	-10,611	48,111	-10,347
2006 – Mar.	10,657	-891	18,406	13,007	2,474	-11,612	-16,246	32,931	-24
June	1,162	-1,615	7,154	28,740	-696	-25,553	-26,568	10,806	656
Sept.	232	-1,210	-7,819	5,993	56,488	-39,102	12,948	15,792	1,289
Dec.	-4,575	-1,240	-12,893	-14,638	9,812	21,578	21,637	-715	-8,933
2007 – Mar.	-1,537	-3,474	20,684	7,519	-332	-5,494	-5,753	20,840	-531
June	-16,496	-13,509	345	28,734	-2,190	-8,731	-8,936	1,661	2,442
Sept.	-2,330	-8,550	3,074	-2,813	-1,098	7,061	5,459	3,894	-6,292
Dec.	6,387	-2,914	-18,541	-10,932	1,107	21,955	22,372	-25	-1,816
2008 – Mar.	1,313	-1,111	25,905	23,401	147	-33,228	-31,203	17,538	462
June	934	-1,266	8,186	-11,252	3,741	5,508	5,968	7,116	-5,702
Sept.	-2,295	-947	-1,120	4,050	-5,582	15,711	17,012	10,764	-2,291
Dec.	4,272	-2,360	-13,469	24,787	446	-3,343	-2,388	12,693	-2,816
2009 – Mar.	3,034	-1,264	25,111	48,835	1,350	-47,149	-47,108	31,181	1,963
June	4,780	-247	5,769	-2,203	1,909	9,749	9,963	20,005	-1,627
2008 – Jan.	3,013	-36	14,516	7,221	-121	-26,608	-26,459	-1,979	2,123
Feb.	-3,532	-659	4,821	1,656	-776	6,201	6,883	8,370	241
Mar.	1,833	-415	6,568	14,524	1,044	-12,821	-11,627	11,147	-1,902
Apr.	-1,102	-195	4,215	10,693	625	-2,778	-2,661	11,654	1,971
May	-1,248	-333	5,125	-19,454	1,024	23,216	23,393	8,663	-5,154
June	3,283	-738	-1,153	-2,492	2,092	-14,931	-14,763	-13,201	-2,519
July	-3,084	342	-2,111	11,940	-5,141	-7,086	-6,948	-5,482	-2,744
Aug.	643	-321	796	12,459	-1,744	-8,814	-8,007	3,339	473
Sept.	146	-968	195	-20,349	1,304	31,611	31,967	12,907	-20
Oct.	1,541	-2,403	5,424	14,005	383	-8,219	-8,181	13,133	-569
Nov.	2,303	56	-4,078	16,092	1,512	-10,544	-10,492	5,283	-833
Dec.	428	-12	-14,815	-5,309	-1,448	15,420	16,285	-5,724	-1,414
2009 – Jan.	3,299	-344	12,229	19,873	-67	-34,157	-34,126	1,177	-2
Feb.	-2,698	-671	6,499	3,962	923	6,746	6,777	15,432	673
Mar.	2,433	-250	6,383	25,000	494	-19,738	-19,759	14,572	1,292
Apr.	1,691	-156	6,378	-2,561	1,291	12,025	12,028	18,824	1,984
May	-1,173	144	697	3,619	544	3,667	3,687	7,355	-1,571
June	4,262	-236	-1,306	-3,261	74	-5,943	-5,752	-6,174	-2,040
July	-7,303	60	-3,348	14,398	-1,851	-420	-272	1,476	-995
Aug.	-105	151	-6,590	8,984	935	4,786	4,812	8,009	-1,219

(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”.

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	130,164	8,730	1,581,997	10,740	1,309,939	22,864
2007	143,029	37,175	127,869	1,190,048	128,254	10,379	1,599,579	3,465	1,333,814	9,721
2008	147,252	31,492	147,371	1,235,761	127,010	5,638	1,663,031	3,609	1,369,997	20,333
2006 – Mar.	160,186	69,687	135,868	1,142,223	63,861	59,824	1,561,963	22,314	1,276,927	30,880
June	161,349	68,072	143,025	1,172,126	63,163	60,839	1,600,503	18,375	1,303,849	57,449
Sept.	161,581	66,862	135,204	1,178,356	120,354	8,789	1,604,284	15,116	1,314,429	44,501
Dec.	157,006	65,622	122,307	1,163,789	130,164	8,730	1,581,997	10,740	1,309,939	22,864
2007 – Mar.	155,469	62,147	142,994	1,172,524	130,436	8,989	1,610,413	5,020	1,319,345	28,616
June	138,972	48,639	143,349	1,203,467	128,245	9,194	1,623,226	4,908	1,347,680	37,552
Sept.	136,642	40,089	146,422	1,200,304	127,147	10,796	1,621,311	4,678	1,345,379	32,094
Dec.	143,029	37,175	127,869	1,190,048	128,254	10,379	1,599,579	3,465	1,333,814	9,721
2008 – Mar.	144,342	36,064	153,806	1,213,996	128,401	8,354	1,648,900	3,236	1,355,392	40,925
June	145,276	34,799	161,975	1,204,382	132,141	7,894	1,651,669	3,214	1,345,669	34,956
Sept.	142,981	33,852	160,869	1,211,070	126,561	6,593	1,648,073	3,537	1,346,729	17,944
Dec.	147,252	31,492	147,371	1,235,761	127,010	5,638	1,663,031	3,609	1,369,997	20,333
2009 – Mar.	150,287	30,228	172,490	1,284,788	128,360	5,597	1,741,521	3,768	1,419,818	67,441
June	155,067	29,980	178,263	1,283,229	130,268	5,383	1,752,210	3,528	1,418,063	57,478
2008 – Jan.	146,042	37,139	142,390	1,198,074	128,133	10,230	1,624,869	3,431	1,342,040	36,181
Feb.	142,510	36,479	147,224	1,199,937	127,357	9,548	1,626,575	3,391	1,342,557	29,297
Mar.	144,342	36,064	153,806	1,213,996	128,401	8,354	1,648,900	3,236	1,355,392	40,925
Apr.	143,241	35,869	158,037	1,225,245	129,026	8,238	1,663,785	3,284	1,367,266	43,586
May	141,993	35,537	163,148	1,206,032	130,049	8,061	1,649,283	3,290	1,348,200	20,193
June	145,276	34,799	161,975	1,204,382	132,141	7,894	1,651,669	3,214	1,345,669	34,956
July	142,192	35,141	159,861	1,217,541	127,000	7,756	1,654,351	3,237	1,356,025	41,905
Aug.	142,835	34,820	160,668	1,230,896	125,257	6,949	1,666,605	3,435	1,366,860	49,912
Sept.	142,981	33,852	160,869	1,211,070	126,561	6,593	1,648,073	3,537	1,346,729	17,944
Oct.	144,522	31,449	166,283	1,225,629	126,947	6,554	1,669,935	3,962	1,360,241	26,125
Nov.	146,824	31,505	162,200	1,242,756	128,459	6,502	1,686,742	3,979	1,378,091	36,617
Dec.	147,252	31,492	147,371	1,235,761	127,010	5,638	1,663,031	3,609	1,369,997	20,333
2009 – Jan.	150,552	31,148	159,600	1,256,080	126,944	5,607	1,698,782	3,910	1,390,431	54,459
Feb.	147,854	30,478	166,102	1,260,250	127,866	5,576	1,707,647	3,968	1,395,009	47,682
Mar.	150,287	30,228	172,490	1,284,788	128,360	5,597	1,741,521	3,768	1,419,818	67,441
Apr.	151,978	30,072	178,909	1,282,643	129,650	5,594	1,748,774	3,815	1,418,772	55,413
May	150,805	30,217	179,582	1,286,569	130,194	5,573	1,752,723	3,578	1,422,770	51,726
June	155,067	29,980	178,263	1,283,229	130,268	5,383	1,752,210	3,528	1,418,063	57,478
July	147,764	30,041	174,913	1,297,847	128,417	5,234	1,754,175	2,852	1,432,172	57,750
Aug.	147,659	30,192	168,319	1,306,997	129,352	5,207	1,757,534	2,798	1,442,219	52,937

(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”.