BANCA D'ITALIA
EUROSISTEMA

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January 2010

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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 world recovery is proceeding ...

The economic recovery, under way since the summer in the major advanced economies and rapidly gaining strength in the emerging economies, proceeded in the final part of the year, boosted by the expansionary policies of the main countries. In the third quarter GDP began to grow again in the United States and the euro area, continued to expand in Japan and gained pace in the emerging economies of Asia and Latin America. The volume of world trade also began to grow again, although it remained about 10 per cent below the level of a year earlier. In the fourth quarter industrial production continued to recover from the lows registered in the first half of the year and the climate of confidence improved further; in the United States and Japan the employment decline slowed. The strains in the international financial markets eased and the tightening of lending conditions was moderated. Although the prices of oil and other raw materials are gradually moving back up, inflation remains moderate in a context of ample unutilized resources.

The markets expect the central banks to keep official rates at their present low levels for some time yet. Low rates and the abundance of liquidity have encouraged demand for risky assets. A worsening of the economic situation or expectations that interest rate hikes might come sooner could generate corrections in the market value of financial assets.

... at an uneven pace

The forecasts for 2010 of private analysts and the main international organizations have been revised upwards. According to the OECD's most recent forecasts, the advanced economies as a group will grow by about 2 per cent, a relatively moderate pace by comparison with the initial phases of previous cyclical expansions. By contrast, growth is expected to continue at high rates in China, India and Brazil, fuelled by more robust domestic demand.

The expansion is struggling to gain traction in the advanced economies ...

Some factors of weakness could condition the recovery in the advanced economies. The expansionary effect of the fiscal stimulus measures is likely to fade in the second half of the year, and the positive contribution from the expected rebuilding of inventories will necessarily be temporary. The possibility of fresh impetus for the recovery coming from consumption is burdened by uncertainty over the state of the labour market; unemployment rates are expected to rise further or at least to remain high for much of 2010. In some countries, including the United States, the desire of households to repair their finances is a factor curbing their propensity to spend. The low capacity utilization rate tends to hold down investment in capital goods, while the excess supply of homes and buildings tends to discourage investment in construction in the countries where the property market has fallen most sharply.

... including the euro area

According to the cyclical indicators, the recovery also continued in the euro area in the last few months of 2009, but without gaining strength compared with the third quarter. The sharp improvement in the climate of confidence among firms and consumers has not yet been matched by an equally strong increase in production and business turnover. In the face of a relatively favourable performance of exports, this reflects the persistent weakness of domestic demand; the consumption component is affected by the fall in employment, which continued during the autumn. According to OECD forecasts, basically in line with those of the Eurosystem experts, euro-area GDP growth will be slightly under 1 per cent in 2010. Consumer price *inflation, which stood at about 1 per cent towards the end of last year, is likely to increase slightly in 2010. The ECB has kept reference rates unchanged and begun gradually to remove the unconventional measures no longer deemed indispensable, nevertheless confirming the Eurosystem's pledge to supply all necessary liquidity to the banking system.*

In Italy growth is continuing at a modest pace ...

In Italy GDP, which returned to growth in the third quarter (0.6 per cent on the previous quarter) after five consecutive quarters of contraction, is estimated to have continued to expand in the final part of 2009, albeit at a slower pace. Despite the continual improvement in the climate of confidence, firms are still reluctant to increase production in light of the uncertain pick-up in orders. The partial recovery of industrial activity registered in the third quarter, from the very low levels to which it had fallen in the second, did not continue in the autumn.

... led by the moderate expansion of foreign demand ...

The recovery in exports that began during the summer also weakened in October and November, according to the data available. However, foreign sales are expected to accelerate gradually during this year to an average rate of close to 3 per cent, still about one percentage point lower than the forecast growth in world trade. In recent years Italian goods' loss of price competitiveness has reflected both the appreciation of the euro and a larger increase in unit labour costs than in competitor countries, due mainly to the stagnation of productivity.

... while domestic demand remains weak

The growth of consumption and private-sector investment, despite an upturn in the third quarter of 2009, remains weak. Consumer spending has been dampened by the state of the labour market. The fall in employment has reduced households' disposable income, while uncertainty over the outlook is curbing their propensity to consume. The unemployment rate rose to 8.3 per cent in November, 2.4 points above the low of April 2007. However, for a comprehensive assessment of the degree of utilization of the available labour force we should add to the unemployed proper also workers on Wage Supplementation benefits and discouraged workers, i.e. those who are not actively looking for work and are thus not officially defined as unemployed but who actually have about the same chance of finding a job as those who are. We estimate that by this broad definition, the unutilized portion of the labour force was above 10 per cent in the second quarter of 2009, nearly 3 percentage points over the formal unemployment rate. Given ample idle capacity, firms' investment in capital goods too can be expected to be modest.

The recovery will still be sluggish in 2010 and 2011 ...

The domestic components of demand are likely to make only a minor contribution to growth over the next two years. As has often been the case in comparable phases of the cycle in the recent past, the main support for the recovery will come from foreign demand, but in a context in which the world economy is struggling to get back on a path of rapid growth. Overall, we estimate that the Italian economy should expand by 0.7 per cent this year and accelerate to 1 per cent in 2011.

... with low if gradually rising inflation

Consumer price inflation, practically nil last summer, went back up during the autumn to a twelve-month rate of 1 per cent in December. Core inflation – excluding energy and food products – has stabilized at just under 1.5 per cent. Our forecast is for the rate of consumer price inflation to rise gradually to 1.5 per cent in 2010 and 1.9 per cent in 2011, partly in response to the upward trend in energy prices.

The forecast is still surrounded by considerable uncertainty

This forecasting scenario is nevertheless subject to quite considerable uncertainty. The margin for error is connected on the one hand with world demand, which could turn out to be more robust than assumed, and on the other with the risk that labour market conditions may remain weak longer than expected. The GDP growth forecast of less than 1 per cent for 2010 as a whole *is the central value in a broad range, with a 70 per cent probability that the GDP outturn will fall within a confidence interval of ±1 percentage point.*

The public finances have worsened, although less than the euro-area average

General government net borrowing is estimated to have exceeded 5 per cent of GDP in 2009, compared with 2.7 per cent in 2008. The widening of the deficit is significantly less marked than that expected for the euro area as a whole. The ratio of the public debt to GDP should increase by about 10 percentage points. The effect of the economic downturn on the deficit has been attenuated by the fall in interest expenditure. The measures to mitigate the social repercussions of the crisis and to support demand, valued at a total of about 1 percentage point of GDP, were financed by reductions in appropriations made earlier and by the introduction of one-off substitute taxes.

The Finance Law for 2010 envisages, in addition to the extension of measures already in place, some increases in current expenditure. In this case again, an important part of the financing is to come from reductions in previous appropriations and from extraordinary revenue measures, which should have only a limited effect on economic activity. The reference here is primarily to the foreign assets disclosure scheme (the "tax shield"), whose effects on the deficit have mostly been shifted to the current year by the reduction in the size of the advance personal income tax payment due at the end of 2009. Overall, the Finance Law leaves the budget balance unchanged, with a net increase of 0.2 percentage points of GDP in both revenue and expenditure.

2 THE WORLD ECONOMY

2.1 THE FINANCIAL MARKETS AND ECONOMIC DEVELOPMENTS

The world economy strengthened in the third quarter ...

The world economy gained strength in the third quarter of 2009, although performances differed among the various countries and areas. In the advanced economies output returned to growth, albeit at a modest pace overall, while it accelerated in the emerging countries. International trade began to expand again, mainly thanks to demand from the emerging countries of Asia. The world economy continued to draw strength from highly expansionary policies, gaining new impetus from the anticipated slowdown in inventory reduction in some countries, as well as from favourable conditions on the financial markets.

... and continued to expand in the fourth

The increase in industrial production and improvement in business and consumer confidence indicate that the recovery continued during the fourth quarter. The contraction in employment was attenuated in some countries, including the United States, even though unemployment rates reached extremely high levels. The improvement in the short-term outlook and the abundant liquidity provided by central banks continued to boost demand for risky assets; share prices maintained or even increased the gains recorded between March and October, while risk premiums on corporate bonds declined further. Conditions on interbank markets were practically restored to normal. The rapid increase in the prices of financial assets since the spring was boosted by the decline in risk aversion and the low level of interest rates in the leading economies, encouraging carry trade. There remains the danger that a worsening of the economic situation or expectations of an earlier rise in official interest rates might prompt corrections in the value of financial assets.

According to the OECD's projections, the growth of output in the organization's member countries as a group should be around 2 per cent in 2010, with the United States showing a stronger performance and the euro area, Japan and the United Kingdom a weaker one. GDP growth is expected to accelerate in the main emerging countries (Table 1). Inflation should remain

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	OECD			Consensus Economics	
	2008	2009	2010	2009	2010
GDP					
Advanced countries					
Euro area	0.5	-4.0	0.9	-3.9	1.3
Japan	-0.7	-5.3	1.8	-5.3	1.5
United Kingdom	0.6	-4.7	1.2	-4.5	1.4
United States	0.4	-2.5	2.5	-2.5	2.7
Emerging countries					
Brazil	5.1	0.0	4.8	-0.1	5.1
China	9.0	8.3	10.2	8.5	9.6
India (1)	6.1	6.1	7.3	6.6	7.7
Russia	5.6	-8.7	4.9	-7.9	4.1
Consumer prices					
Advanced countries					
Euro area	3.3	0.2	0.9	0.3	1.2
Japan	1.4	-1.2	-0.9	-1.3	-1.0
United Kingdom	3.6	2.1	1.7	2.1	2.3
United States	3.8	-0.4	1.7	-0.4	2.1
Emerging countries					
Brazil (2)	5.9	4.2	4.4	4.3	4.5
China	5.9	-1.1	0.1	-0.7	2.5
India (1)	9.1	7.8	7.1	10.4	7.2
Russia (2)	13.3	9.2	6.7	9.1	7.9
World trade (3)	3.0	-12.5	6.0	–	–

Sources: National statistics; OECD, Economic Outlook, November 2009; Consensus Economics, Consensus Forecasts, December 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.

moderate overall, despite the rise in the prices of energy raw materials under way since last spring. The future of the world economy remains shrouded in uncertainty, however; this is due to the transitory nature of the main sources of stimulus to date and to the continued dampening effect on consumer demand from the still wide margins of idle capacity, high unemployment, and the need in some economies for households to put their finances in order.

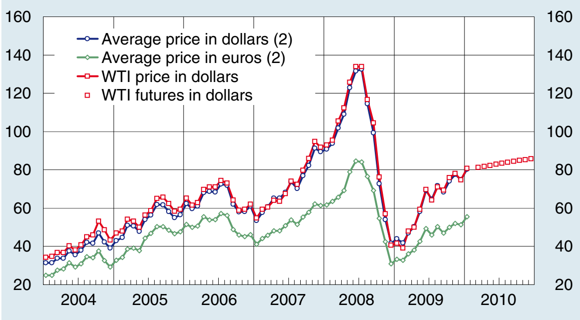
The price of oil (average for the three main grades) rose by $5 a barrel since mid-October, to $80 (Figure 1). This trend can be put down to the upturn in demand, particularly on the part of China. The International Energy Agency revised its forecasts of world crude oil demand for 2010 upwards, from 85.7 million barrels a day estimated in September to 86.2 million in December. On the basis of futures contracts, the price of WTI grade oil is expected to rise to almost $90 a barrel at the end of 2010. The prices of non-energy raw materials continued to rise in the fourth quarter of 2009, increasing by around 9 per cent.

Conditions on the interbank markets remained good

After the sharp improvement recorded between March and September, in late 2009 and the early weeks of this year conditions on the interbank markets remained generally good. The interest rate spreads between unsecured three-month interbank deposits and three-month overnight index swaps were virtually stationary at 11 basis points for the dollar, 17 basis points for the yen and sterling and 30 basis points for the euro (Figure 2). In the fourth quarter, the size of the balance sheets of the leading central banks was largely unchanged (Figure 3). However, at the 16 December meeting of the Federal Open Market Committee the Federal Reserve announced that most of the facilities introduced to supply liquidity to the market during the crisis and the swap lines agreed with the main central banks would no longer need to be renewed when they expired at the beginning of February. The Fed also announced that it would further reduce the amount of funds available through the Term Asset-Backed Securities Loan Facility.

Figure 1

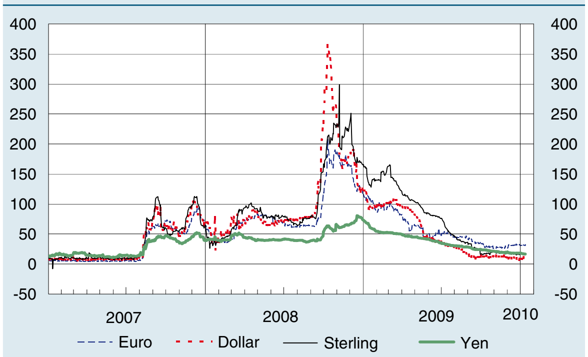
Crude oil: spot and futures prices (1)
(dollars and euros per barrel)



Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 12 January 2010. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI)

Figure 2

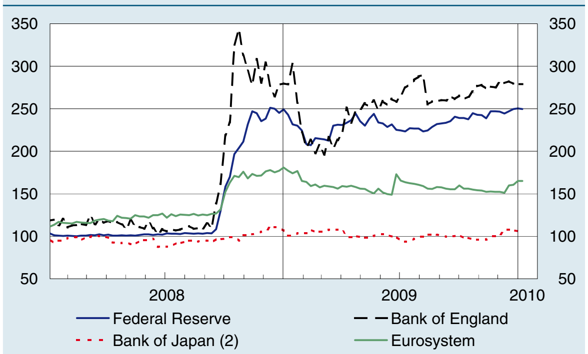
Yield spreads between interbank rates and three-month overnight index swaps
(basis points; daily data)



Sources: Thomson Reuters Datastream and Bloomberg.

Figure 3

Size of the balance sheets of selected central banks (1)
(indices, 5 January 2007 = 100; weekly data)



Source: Thomson Reuters Datastream.
(1) Total assets. – (2) For the Bank of Japan, fortnightly data.

The banks' balance sheets strengthened

The balance sheets of the leading international banks continued to improve and in the third quarter of 2009 profits, overall, were larger than expected. At the same time the value of writedowns of financial assets announced or effected decreased sharply, becoming nil in the fourth quarter. A number of European intermediaries recapitalized in the second half of the year, most of them with private financing. The premiums on the credit default swaps of the leading international banks, which in October had already returned to the values prevailing before the collapse of Lehman Brothers, continued to decline in the final quarter of the year, although they are still much higher than they were in the first half of 2007.

Since the middle of October interest rates on ten-year government securities have risen by around 40 basis points in the United States and the United Kingdom, to 3.8 and 4.2 per cent respectively (Figure 4). In the US this was mainly due to the improved expectations for economic growth, while in the UK it reflected mainly expectations that the Bank of England was about to stop its purchases of public bonds amid serious concerns about the public finances. In the euro area and Japan yields on public bonds have held steady at around 3.4 and 1.3 per cent respectively.

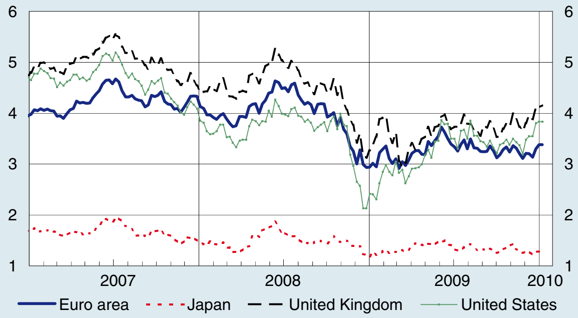
Share prices stabilized

Share prices, which had risen rapidly in the spring and summer in the main industrial economies, stabilized in the last three months of 2009 (Figure 5). The stock market indices were between 50 and 70 per cent up from the low point registered in March. The implied volatility of prices of shares and government securities in the United States and the euro area remained at the moderate levels recorded in October (Figure 6).

Risk premiums on corporate bonds decreased for all risk classes and all the main countries. The premiums on high-yield bonds in euros and dollars fell by 1.8 percentage points to 6.7 and 6.0 points respectively. Premiums on BBB-rated bonds narrowed by around 0.5 points, to 1.5 points for bonds denominated in euros and 1.9 points for those in dollars, close to the levels recorded at the beginning of 2008 (Figure 7).

Figure 4

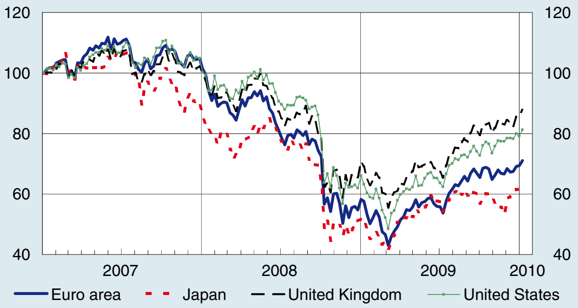
Yields on ten-year government bonds
(end-of-week data; percentages)



Source: National statistics.

Figure 5

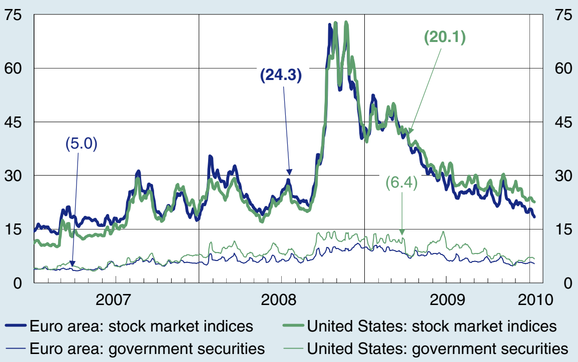
Stock market indices (1)
(end-of-week data; first week of January 2007=100)



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

Figure 6

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.

Financial market conditions also remained favourable in the leading emerging economies, which continued to benefit from substantial inflows of portfolio investment, which was sustained not only by the improved growth prospects in many of these economies but also by the low level of interest rates in the advanced countries and the general decline in risk aversion. Since mid-October the yield differential between the long-term dollar-denominated sovereign securities of the emerging countries and US Treasuries has remained broadly stable at around 3 percentage points (EMBI Global index). Share prices have continued to rise, albeit not as rapidly as in the spring and summer; overall they have almost doubled with respect to March.

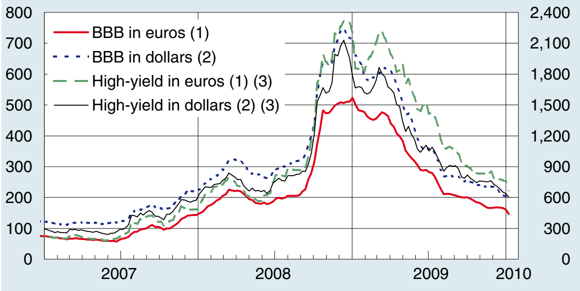
The phase of the weak dollar has ended

The period of weakness of the dollar came to a halt in December, with an appreciation of around 5 per cent against the euro and the yen (Figure 8). By contrast, the dollar has held stable since October against the currencies of the leading emerging countries, whose tendency to appreciate was in many cases countered by central bank intervention. The renminbi remained pegged to the dollar, and the Chinese central bank intensified its efforts to mop up the excess liquidity caused by the increase in foreign exchange reserves. The Brazilian central bank introduced a number of restrictions on capital inflows to counter the appreciation of the real.

Figure 7

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

(end-of-week data; basis points)

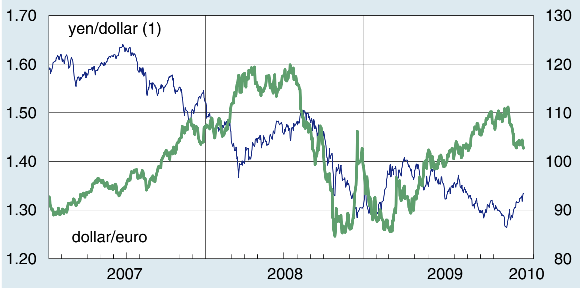


Source: Merrill Lynch.
(1) Fixed-rate bonds denominated in euros with a residual term to maturity of not less than one year issued in the Euromarket; yield differentials are calculated with respect to French and German government securities. – (2) Fixed-rate bonds denominated in dollars with a residual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

Figure 8

Exchange rates

(daily data)



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

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

Economic activity in the United States began to expand again in the third quarter ...

In the third quarter of 2009 GDP resumed growth in the United States, recording an increase of 2.2 per cent on an annual basis, after a contraction of 0.7 per cent in the previous quarter. Output was sustained mainly by private consumption, which contributed two percentage points to the growth in GDP. Positive contributions also came from the change in stocks (0.7 points) and public expenditure (0.6 points); by contrast, fixed investment made a negative contribution, despite a recovery in the residential component. Exports expanded for the first time in more than a year, increasing by about 18 per cent on an annual basis; their contribution to GDP growth was more than offset, however, by the even larger increase in imports (21 per cent). Overall, US economic activity derived fundamental support from the implementation of the American Recovery and Reinvestment Act (ARRA), the fiscal stimulus package approved in February 2009. Of the allocation of $787 billion (about 5.5 per cent of GDP) nearly a third had been disbursed to date, divided among public investment, tax cuts for households and tax incentives for firms. According to official estimates, the growth in GDP recorded in the third quarter was mainly a reflection of the direct and indirect contribution made by the ARRA, whose positive effects on growth peaked in that period and will gradually peter out by the middle of this year.

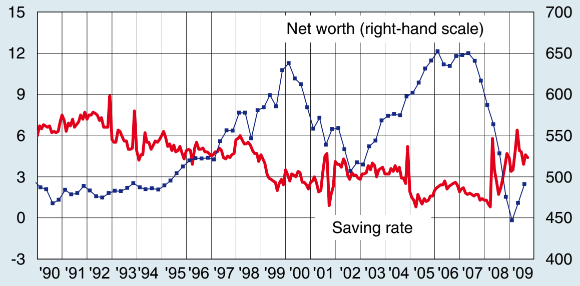
Various factors suggest that the expansion in economic activity continued in the fourth quarter. After stagnating in October, industrial production increased again in November, growing significantly and across all sectors. In the last three months of the year the fall in non-farm payroll employment slowed and the number of hours worked increased. In October and November consumption increased, albeit moderately; the saving rate of US households stabilized just below 5 per cent.

... but there are still weaknesses

The recovery is still exposed to major risks, however. In the coming quarters consumption may be held back by households' desire to restore their finances to a sound footing since, even though their net worth began to grow again in the second and third quarters of 2009, it remained considerably below the pre-crisis level (Figure 9). The labour market remains weak: the rise in the unemployment rate, which reached 10 per cent, was curbed by the significant decrease in the labour force participation rate. Investment continues to be depressed by the high level of idle capacity and the bank credit squeeze. Commercial bank lending to firms fell by 17 per cent from the peak recorded about one year earlier, partly owing to the decline in the demand for credit. The Federal Reserve's Senior Loan Officer Opinion Survey published in October nonetheless indicated an attenuation of the credit tightening as early as the third quarter. However, in the last part of 2009 non-financial corporations continued to have substantial recourse to the bond market, although to a lesser extent than in the first nine months of the year: in the fourth quarter bond issues amounted to about $100 billion, in line with the average of the previous decade.

Figure 9

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



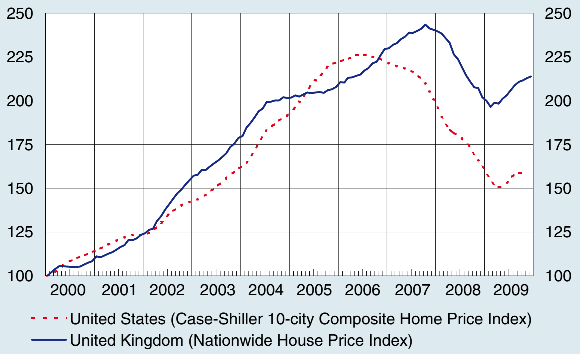
Sources: Bureau of Economic Analysis and Federal Reserve.
(1) Net worth (quarterly end-of-period data) is expressed as a percentage of disposable income (moving average of 4 quarters ending in the quarter indicated). Seasonally adjusted monthly data for the saving rate.

The housing market has stabilized but the outlook remains uncertain

Conditions in the housing market have stabilized. After rising by 5 per cent from April to September, the Case-Shiller 10-city composite home price index remained unchanged in October (Figure 10); the prices of the futures contracts on the index indicate expectations of stable home prices in 2010. On the supply side, building permits and housing starts have settled at the very low level of last summer. The gap between supply and demand continued to narrow, thanks in part to the low interest rates on mortgage loans and the tax incentives for purchases of first homes. In November the time needed to clear the stock of unsold homes (a little less than seven months) had almost halved compared with the end of 2008 and was close to the historical average. Looking ahead, demand could be depressed by the expiry of the above-mentioned tax incentives and a possible

Figure 10

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



Source: Thomson Reuters Datastream.

increase in interest rates in March, when the Federal Reserve stops buying mortgage-backed securities issued and guaranteed by the federal agencies in connection with the securitization of mortgage loans. In addition, the high rate of default on home mortgages and the significant proportion of new repossessions could increase the quantity of housing for sale to an extent that would exert new downward pressure on prices. The situation in the commercial property market appears even more uncertain; after falling by about 40 per cent, average prices continued on a downward trend in October.

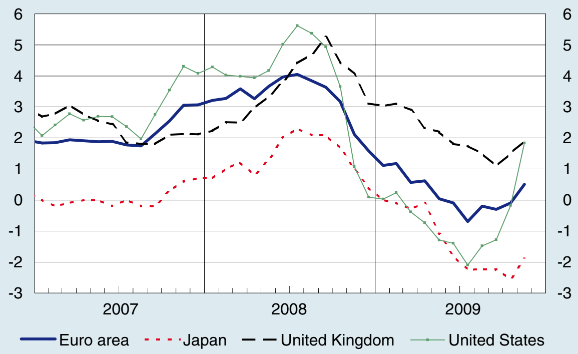
Inflation has turned positive again

Consumer price inflation turned positive in November (a twelve-month rate of 1.8 per cent), reflecting the end of the effect produced by the sharp fall in the prices of energy sources in the second half of 2008 (Figure 11). In the same month the increase in prices excluding energy and food products was 1.7 per cent. According to the latest forecasts surveyed by Consensus Economics, consumer price inflation in 2010 will be around 2 per cent.

Figure 11

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 Federal Reserve has maintained its expansionary stance

In the November and December FOMC meetings the Federal Reserve confirmed the 0 to ¼ per cent target range for the federal funds rate and reaffirmed its intention of maintaining a highly expansionary stance for an extended period; the markets do not expect increases in the official rates in the first half of this year. Quantitative easing continued with purchases of mortgage-backed securities and federal agency bonds, while the programme of purchases of Treasury securities announced in March was completed in October for a total of $300 billion.

The recovery in Japan has grown weaker ...

According to the latest estimates, Japanese GDP expanded by 1.3 per cent in the third quarter, down from 2.7 per cent in the second. The expansion was mainly due to the contributions from the growth in private consumption (2.3 percentage points) and exports, the latter primarily thanks to the demand of the emerging Asian countries. By contrast, private investment recorded a further significant contraction.

The cyclical indicators for the fourth quarter are conflicting. The expansion in exports and industrial production continued from September to November, although the latter was still about 20 per cent below its peak in 2008. After continuing to fall in October, the unemployment rate rose to 5.2 per cent in November, a high level by historical standards (the peak had been reached in July, at 5.7 per cent). The December Tankan survey indicated a further improvement, compared with September, in the climate of confidence among firms but a worsening of large firms' investment expectations for the current fiscal year. The deflationary trend has continued, with consumer prices down in November by 1.9 per cent compared with a year earlier; excluding energy and food products, they fell by 1 per cent. According to the latest forecasts surveyed by Consensus Economics, there will be a further drop in prices in 2010, of around 1 per cent.

The Bank of Japan kept the monetary policy reference rate unchanged at 0.1 per cent. After announcing at the end of October that it did not intend to extend some of the measures adopted to create liquidity, in an extraordinary meeting held at the beginning of December it decided, in order to foster a fall in long-term interest rates, to provide the market with ¥10 trillion (about 2 per cent of GDP) of additional liquidity by means of three-month guaranteed loans at 0.1 per cent.

... while in the United Kingdom, although less sharp, the recession has continued

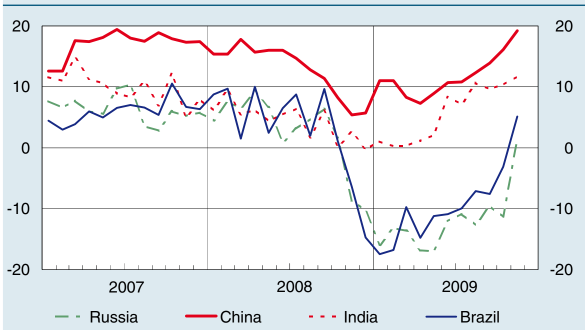
In the United Kingdom GDP continued to fall in the third quarter of 2009, although at an annualized rate of 0.6 per cent, compared with that of 2.7 per cent in the second quarter. The contraction was due above all to the large negative contributions of stocks (1.3 percentage points) and net exports (0.8 points). Private consumption stabilized, while investment turned up after the large fall in the previous quarters. According to the Bank of England and the leading professional forecasters, economic activity was expected to turn up in the fourth quarter. Positive signs have appeared in the labour market, where, between August and October, employment stopped falling and the unemployment rate settled at 7.9 per cent. For its part the Credit Conditions Survey indicated an improvement in bank credit availability in the last part of the year. The recovery in house prices also continued (Figure 10), while the prices of commercial property stabilized, albeit down nearly 50 per cent from their peak in 2007. Consumer price inflation rose from just over 1 per cent in September to nearly 2 per cent in November. The Bank of England kept its reference rate at 0.5 per cent and announced a further increase (from £175 billion to £200 billion) in the total purchases of financial assets envisaged under its quantitative easing strategy.

Economic activity in the main emerging economies has continued to gather strength

Figura 12

Industrial production in the BRIC countries

(monthly data, not seasonally adjusted; twelve-month percentage changes)



Sources: Thomson Reuters Datastream and national statistics.

Economic activity continued to gather strength in the main emerging countries in the third quarter of 2009. The performance of industry (Figure 12) and the projections of the main international organizations and professional forecasters indicate that the expansion probably stretched into the fourth quarter and should continue in 2010, thus contributing to the recovery in the industrial countries. Compared with the year-earlier period, the growth in Chinese GDP accelerated to 8.9 per cent, reflecting the rapid increase in private consumption and, above all, fixed investment. After expanding rapidly in response to the fiscal stimulus package adopted in 2008, the investment of public enterprises appears to have slowed in the last few months. However, the 19.2 per cent increase in industrial production in November compared with the year-earlier period and the 15.8 per cent increase in retail sales in nominal terms indicate that the expansion in economic activity continued at a rapid pace in the last quarter. Consumer price inflation has turned positive again, although it remains low (0.6 per cent in November). The monetary and credit aggregates have continued to expand very fast (by about 30 per cent over twelve months), thereby fuelling a rapid rise in property prices. In order to counter the risk of excessive speculation and limit the exposure to this sector in banks' balance sheets, the authorities have eliminated a series of tax incentives introduced recently to support the property sector; in the last few days, in order to curb the growth in credit, the central bank has raised banks' compulsory reserve ratio and intensified its efforts to mop up market liquidity through open-market operations.

In the third quarter of 2009 the growth in output (measured from the supply side) accelerated significantly in India as well, thanks above all to the effects of fiscal stimulus measures, reaching 7.9 per cent compared with the year-earlier period. In Brazil GDP grew at an annualized rate of 5.1 per cent, boosted by a sharp acceleration in consumption and private investment. In Russia preliminary estimates indicate that a timid recovery got under way (about 1 per cent on an annual basis), although GDP was still about 9 per cent lower than in the year-earlier period; the good prospects for the energy sector are likely to foster a return to stronger growth in 2010, of around 4 per cent year on year according to the forecasts surveyed by Consensus Economics. Among the central and eastern European countries, the contraction appears to have eased in Hungary and Romania in the third quarter of 2009 and to have come to a halt in the Czech Republic. By contrast, the Polish economy, less severely affected by the crisis owing to its lower dependence on exports and the resilience of its domestic demand, continued to expand, growing by 2 per cent.

World trade has begun to expand again

According to the OECD, world trade began to expand again in the third quarter of 2009, recording an increase of 10 per cent on an annual basis; the recovery was due to the demand of the Asian emerging countries and was especially pronounced in the industrial countries most present in those markets. Despite this upturn, world trade in 2009 was estimated at 12.5 per cent below its level in 2008. Once again there were no signs in the third quarter of 2009 of a lasting reduction in global imbalances: the US current account deficit increased to 3 per cent of GDP, from 2.8 per cent in the second quarter, primarily owing to the rise in the cost of oil imports, while the Japanese surplus remained unchanged at about 3.2 per cent of GDP. The Chinese trade surplus, although significantly smaller than in 2008, was still very large (about 5 per cent of GDP in the first eleven months of last year).

2.3 THE EURO AREA

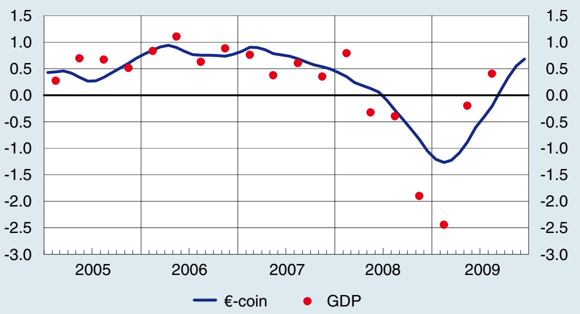
GDP returned to growth during the summer ...

The GDP of the euro area registered a quarterly gain of 0.4 per cent in the third quarter of 2009, ending a series of five consecutive contractions (Figure 13). Among the main countries, in both Germany and France the growth (0.7 and 0.3 per cent respectively) continued from the second quarter, while Italy recorded its first quarterly expansion (0.6 per cent) since the spring of 2008 and Spain was still in recession (a contraction of 0.3 per cent). For the area as a whole, output growth was almost entirely accounted for by the increase in value added in industry excluding construction, while agriculture and services stagnated and construction activity declined. On the demand side, economic activity was sustained largely by exports, which returned to growth (3.1 per cent) for the first time since the second quarter of 2008, thanks to the gradual strengthening of the world economic cycle; export growth was especially strong in Germany (3.4 per cent). Domestic demand remained slack: household consumption continued to stagnate (diminishing by 0.1 per cent), while gross fixed investment again contracted (by nearly a full percentage point), reflecting the further slump in construction (by 1.5 per cent) and the basic flatness of investment in capital goods. The change in inventories contributed half a point to GDP growth.

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 on preceding quarter. For €-coin, monthly data.

... and in the fourth quarter, but without accelerating

The cyclical indicators available show that euro-area GDP continued to grow in the fourth quarter but not at an increasing rate. The indices drawn from the survey of purchasing managers (PMI) were just above the threshold of compatibility with an expansion of activity both in industry and in the service sector. And the gradual improvement in the climate of confidence of firms, from the historic lows of early 2009, continued. After the mild contraction recorded in October, in November industrial production resumed the upward trend that had begun during the spring, although it was still about 16 per cent below the cyclical peak of April 2008. The improvement in the economic picture is confirmed by the €-coin indicator of quarterly change in the euro-area GDP adjusted for short-term fluctuations (Figure 13). The indicator returned to positive figures in the last four months of the year, and in December foreshadowed an annualized growth rate of around 2.5 per cent.

Economic recovery, fostered by the livelier expansion of world trade, is still being impeded by the pronounced weakness of the domestic components of demand. During the autumn months retail sales continued to fall, reflecting prudent consumption behaviour in the face of a deteriorating labour market as the unemployment rate reached 10.0 per cent in November. New car purchases slowed, affected from September onwards by the end of scrapping incentives in Germany, which was only partially offset by the pick-up in sales elsewhere as the expiry date for similar incentives in other countries neared. Given the weakness of final demand and the historically low level of capacity utilization, despite a moderate rise during the summer, the resumption of robust investment activity will be relatively slow. Some support to economic activity could come from the end of the reduction in inventories, which the available indicators now put at around their medium-term average.

Since the end of the third quarter the cyclical improvement has resulted in upward revisions of GDP forecasts. The analysts surveyed by Consensus Economics in December estimated a decline in area-wide GDP of 3.9 per cent in 2009 and forecast growth of 1.3 per cent for 2010 (Table 2). The Eurosystem experts' estimates, also released in December, put the contraction in 2009 at between 3.9 and 4.1 per cent and forecast growth in 2010 in a range from 0.1 to 1.5 per cent.

Table 2

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

	Month released	Forecasts for 2009	Forecasts for 2010
ECB/Eurosystem (2)	Dec.-09	-4.1 / -3.9	0.1 / 1.5
	Sept.-09	-4.4 / -3.8	-0.5 / 0.9
IMF	Oct.-09	-4.2	0.3
	July-09	-4.8	-0.3
OECD	Nov-09	-4.0	0.9
	Sept.-09	-3.9	–
European Commission	Oct.-09	-4.0	0.7
	Sept.-09	-4.0	0.4
Consensus Economics	Dec.-09	-3.9	1.3
	Sept.-09	-3.9	1.0

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 Eurosystem experts (prepared jointly by the ECB and the euro-area NCBs) for December and by the ECB for September.

Measures to sustain demand were reinforced in 2009

The expansive stance of budget policies in the euro-area countries, already taken in the second half of 2008, was intensified last year (see the box "The anti-crisis fiscal measures in the main advanced and emerging countries", *Economic Bulletin* No. 52, April 2009). According to the latest estimates of the European Commission, the cyclically adjusted primary deficit worsened by 1.9 percentage points to 2.3 per cent of GDP for the area as a whole. About half of the deterioration is attributed to discretionary measures to support aggregate demand in response to the recession. The structural deficit is projected to increase by a further 0.3 points in 2010.

Consumer price inflation turned positive again in the final months of the year ...

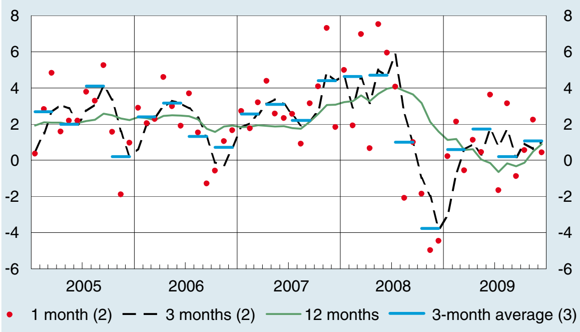
According to the data available, the rate of inflation in the euro area was 0.3 per cent in 2009 as a whole, compared with 3.3 per cent in 2008. In keeping with expectations, in November the harmonized index of consumer prices returned to growth on a twelve-month basis, ending the decline that had begun in mid-year (Figure 14); the rate of increase was very modest, however (0.9 per cent in December, according to preliminary data). The increase was due mainly to the energy component, whose rate of change was significantly affected by the sharp decline that had been registered in the corresponding period of 2008. The seasonally adjusted three-month variations in the index have averaged an annualized rate of 1 per cent since spring.

Core inflation, excluding energy and food products, continued to decline gradually during 2009 to a rate of 1.0 per cent in November, the last month for which disaggregated data are available. Both the goods and the services components contributed to the slowdown.

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 December. – (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.

... and expectations are for a gradual pick-up in 2010

The Consensus Economics forecasters surveyed in December expect consumer price inflation in the euro area to accelerate gradually in 2010 to an average year-on-year rate of 1.2 per cent. These expectations are consistent with the December forecasts of the Eurosystem experts, who estimate a rise in the harmonized index of between 0.9 and 1.7 per cent for 2010.

Monetary financial institutions have continued deleveraging

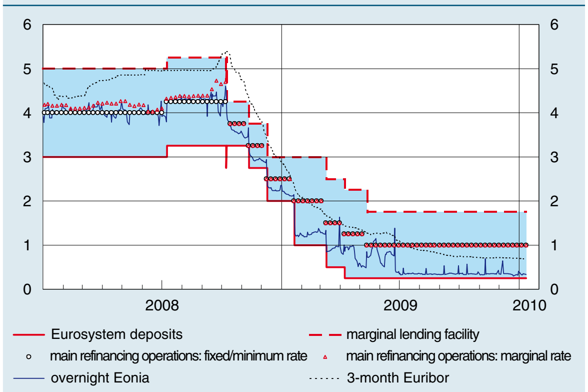
In November the twelve-month change in M3 turned slightly negative (by 0.2 per cent, compared with growth of 2.6 per cent in August), reflecting the contraction of banks' balance sheets. Within the M3 aggregate, the shift towards the more liquid components continued, in a context of historically low interest rates.The reduction in fixed-term deposits with agreed maturity of two years or less was accentuated to 23.8 per cent compared with 15.2 per cent three months earlier, while overnight deposits expanded rapidly (13.8 per cent).

The twelve-month growth of bank lending to the private sector, including securitized loans, was practically nil, compared with 1.3 per cent in August. The seasonally adjusted three-month change in this aggregate shifted from contraction of 0.5 per cent in August to expansion of 0.4 per cent in November but nevertheless indicated near-stagnation. The twelve-month variation in lending to firms turned negative (-1.9 per cent, compared with +0.7 per cent in August, not including securitized loans). The contraction was sharpest for short-term lending, which diminished by 12.1 per cent. Lending to households made a modest recovery, growing by 0.5 per cent after the 0.2 per cent decline of August, mainly reflecting the trend in mortgage loans. According to the Eurosystem's Bank Lending Survey, factors in the strengthening of households' credit demand in the third quarter were an easing of pessimism about the property market and improving consumer confidence. The tightening of supply conditions ceased for both household and corporate lending.

Figure 15

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

(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

The ECB has kept policy rates unchanged while starting to phase out unconventional measures that are no longer needed

The ECB Governing Council kept the main refinancing rate at 1.0 per cent (Figure 15). At its meeting at the beginning of December it made several other decisions bearing on the implementation of monetary policy with a view to phasing out unconventional refinancing operations no longer considered indispensable while still reaffirming the Eurosystem's commitment to supply the liquidity needed by the euro-area banking system. The Council determined that as long as necessary, and in any case at least through the third reserve maintenance period of 2010 (13 April), the main refinancing operations would continue to be conducted by fixed-rate auctions with full accommodation of the amounts demanded. This operating procedure will also be used in the one-month refinancing operations and in the conventional three-month operations conducted in the first quarter of 2010. The last six-month refinancing will be concluded by this procedure on 31 March. A twelve-month refinancing operation with full accommodation was conducted as scheduled on 16 December. The Governing Council set the rate equal to the average minimum offered rate on main refinancing operations over the duration of the operation. The funds requested came to about €97 billion, far less than in June (€442 billion) and slightly more than in September (€75 billion). Purchases of covered bank bonds issued in the area continued, amounting to about €28 billion of the €60 billion provided for through July 2010 in the plan approved by the Council last June. Abundant liquidity helped keep interbank rates extremely low. The spread between unsecured and secured loans (Euribor and Eurepo) held virtually unchanged from the end of September (about 30 basis points on three-month funds).

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

GDP growth turned positive in the third quarter of 2009 ...

In the third quarter of 2009, Italy's GDP increased for the first time since spring 2008, notching a gain of 0.6 per cent on a quarterly basis (although it was still down 4.6 per cent from a year earlier). This largely reflects the rebound in exports after five consecutive quarterly declines, supplemented by a moderate rise in the domestic components of demand (Figure 16 and Table 3). Inventories, which in the national accounts include valuables and statistical discrepancies between demand and supply, were further reduced, reflecting a cyclical situation that is still weak. The contribution to GDP growth of the change in stocks, which was about the same as in the second quarter, was negligible. Among the main productive sectors, the growth in value added in industry excluding construction (2.8 per cent) more than offset the persistent decline in construction and agriculture (1.5 and 2.8 per cent respectively); the service sector stagnated, after contracting for over a year. The latest cyclical indicators suggest a further increase in GDP in the fourth quarter of 2009, although at a slower pace due to the slowdown in industrial production which, after a partial recovery in the summer, is expected to fall slightly in the final part of the year.

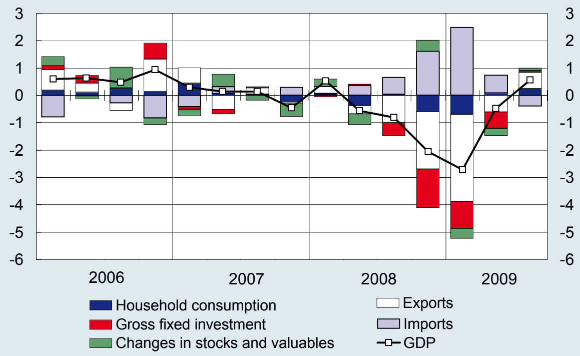
... but the recovery seems to be weak

There is still great uncertainty about the pace of the recovery. While continued improvement in the cyclical situation emerges from the economic surveys, no correspondingly robust response from the quantitative indicators has yet been seen. On the basis of last autumn's foreign trade data, the recovery in exports – decisive in other recent upswings – has continued but failed to take off, while domestic demand has been weak, apparently through the fourth quarter of 2009. Net of increased spending on consumer

Figure 16

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

(percentages)



Source: Based on Istat data.
(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

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

	2008		2009		
	Q4	(1)	Q1	Q2	Q3
GDP	-2.1	-1.0	-2.7	-0.5	0.6
Total imports	-5.7	-4.5	-8.8	-2.5	1.5
National demand (2)	-1.6	-1.3	-2.0	-0.5	0.4
National consumption	-0.7	-0.5	-0.8	0.4	0.3
households	*-1.0*	*-0.9*	*-1.2*	*0.1*	*0.4*
other (3)	*0.2*	*0.6*	*0.2*	*1.2*	*-0.2*
Gross fixed capital formation	-6.8	-3.0	-4.9	-3.1	0.3
construction	*-4.5*	*-1.8*	*-1.2*	*-1.6*	*-2.1*
other goods	*-9.2*	*-4.2*	*-9.2*	*-4.9*	*3.4*
Changes in stocks and valuables (4)	0.4	-0.3	-0.4	-0.3	0.1
Total exports	-7.4	-3.7	-11.7	-2.5	2.5

Source: Based on Istat data.
(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.

durables, for the most part driven by incentives to scrap the most polluting vehicles, household consumption has presumably been curbed by a sharp reduction in purchasing power which, in the presence of very modest price increases, stemmed from the decline in nominal incomes. The fall in real disposable income has aggravated a stagnation that has lasted for a decade and a half now, a situation unparalleled in the other leading euro-area countries. Added to this are the protracted effects of the crisis in the labour market: in the third quarter of 2009, employment was 508,000 less than a year earlier and the unemployment rate rose to 7.8 per cent (its lowest level was 6.0 per cent in the second quarter of 2007), increasing further to 8.3 per cent in November according to monthly data from Istat's labour force survey. Despite the marked increase during the summer of spending on machinery and equipment, ample spare capacity could slow down the recovery in investment from the low levels recorded at the depth of the recession, as indicated by the recent ISAE bi-annual survey and the quarterly survey conducted jointly by the Bank of Italy and *Il Sole 24 Ore*. Although there is less pessimism about the medium-term outlook, the slump in construction is expected to continue.

Inflation is rising gradually

According to the available data, year-on-year, consumer price inflation, measured by the general consumer price index, fell to 0.8 per cent in 2009 from 3.3 per cent in 2008. After reaching its lowest point in July, the twelve-month rate inched up to 1.0 per cent in December, according to the preliminary estimates. Since October, three-month changes in the seasonally adjusted index, which are not influenced by the statistical effects of the sharp fall in energy prices at the end of 2008, have also been moving at a rate close to 1 per cent on an annual basis. Core inflation more or less stabilized in the second half of 2009 at a twelve-month rate of just under 1.5 per cent.

3.2 FIRMS

Industrial activity registered a strong rebound in the third quarter of 2009 ...

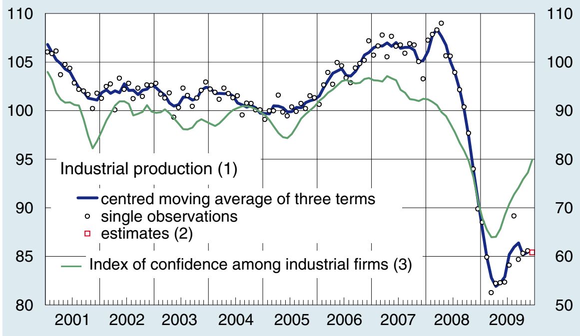
In the third quarter of 2009 industrial activity recorded robust growth of 4.4 per cent compared with the previous quarter, the first increase in more than a year (Figure 17). The expansion was led by intermediate, capital and durable consumer goods, which had suffered the sharpest contractions. With demand remaining weak, production of non-durable consumer goods showed a more moderate gain.

... but appeared to decline slightly in the fourth

In the fourth quarter, however, taking our estimates for December into account, industrial activity appears to have fallen slightly on average compared with the third, remaining at very low levels, close to those of the early 1990s and some 20 per cent below the cyclical peak registered in the first quarter of 2008.

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; 2005 index=100. – (2) Based on electricity consumption and the indicators of ISAE surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions regarding the level of demand, production expectations and stocks of finished products. Index, 2000=100; three-month moving average ending in the reference month (right-hand scale).

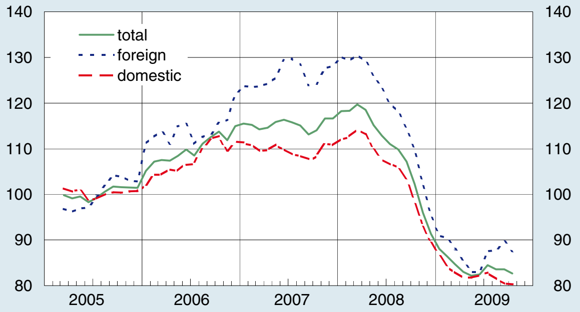
Demand has been slow to revive

Although there was a marked improvement in the climate of business confidence, which returned to the levels seen in the summer of 2008, and in the PMI index, which in November surpassed the threshold compatible with an expansion in production, the feebleness of the recovery in activity reflected the hesitant growth of demand. On the basis of Istat data, the volume of new orders in industry has not yet recovered significantly from the lows recorded in the second quarter of last year (Figure 18). The internal component, which makes up the largest share, continued on the downward trend that began at the start of 2008, albeit with an appreciable mitigation; foreign orders did not improve on the modest gains of the early summer months.

Figure 18

New orders in industry (1)

(in volume terms; monthly data)



Source: Based on Istat data.
(1) The indices of new domestic and foreign orders are seasonally adjusted and deflated with the respective producer prices; the total index is calculated indirectly as the weighted average of the domestic and foreign components. Indices, 2005=100; three-month moving averages ending in the reference month.

Going forward, industrial activity could find some support from the rebuilding of stocks, which according to the ISAE survey of business opinion have now fallen below the levels deemed normal. According to the same survey, short-term expectations for the trend of orders and production are also less pessimistic. Roughly the same indications can be drawn from the results of the quarterly survey conducted in December by the Bank of Italy together with *Il Sole 24 Ore* on a sample of industrial and service firms. Businesses that reported an improvement in demand conditions compared with the three previous months rose to outnumber, albeit barely, those that saw a deterioration (23.7 against 20.6 per cent), while a majority (55.7 per cent) still considered the situation virtually unchanged. Firms for which exports account for at least one third of turnover gave more favourable responses than those that operate mainly in the domestic market.

Investment in machinery and equipment grew ...

Ending a string of four quarterly declines, gross fixed investment began to grow again slightly in the third quarter of 2009; this was entirely due to the sharp gain in the machinery and equipment component (4.2 per cent), which nonetheless remains at very low levels, close to those of ten years ago. Given ample spare capacity and the persistent weakness of current demand, spending on capital goods presumably benefited from the improvement in expectations for production, from the initial effects of the tax incentives for investment introduced on 1 July of last year, and from the need to replace obsolete plant, as found by the ISAE's recent half-yearly survey. However, the same survey also shows that businesses remain cautious in expanding their investment plans. The results of the quarterly survey conducted in December by the Bank of Italy and *Il Sole 24 Ore* also point to a substantial weakness of investment; 70.5 per cent of the firms interviewed considered investment conditions unchanged with respect to the previous quarter; 16.5 per cent reported an improvement and 13 per cent a worsening, with a reduction in the positive balance compared with the September survey.

... and the decline in construction investment eased

In the first nine months of 2009 investment in construction contracted by an average of about 8 per cent compared with a year earlier, largely owing to the negative carryover of the sharp slump in the final part of 2008. During 2009 the slump eased, however, and the decline stood at about 2 per cent in the third quarter compared with the second (2.3 per cent for residential buildings). Signs of a moderation of the construction downturn also emerge from the ISAE survey of the climate of confidence among construction firms, which began to revive in the summer, despite remaining far below the average level for the last ten years.

The outlook for the housing market is less pessimistic

According to data collected by the Territorial Agency, the number of house sales fell again in the third quarter of 2009, although the decline (11.3 per cent from the year- earlier level) was less steep than the particularly sharp contraction registered between the end of 2008 and the beginning of last year. The moderation of the downward trend is confirmed, as regards sales made through real-estate agents, in the quarterly survey carried out in October by the Bank of Italy together with Tecnoborsa. That survey also shows that the downward pressure on prices is easing: the negative balance between expectations of increasing versus decreasing house prices shrank for the first time since the survey's inception in January 2009 (Figure 19). Moreover, the October survey also found a slight decrease in the percentage discounts that sellers accepted with respect to their original asking price (11.3 per cent, compared with 12.2 per cent in July) and a higher percentage of sellers who decided to take their houses off the market until prices were more favourable. In any case, the majority of agents (about 65 per cent) again indicated that asking prices which potential buyers considered too high were the main reason for houses going unsold or being taken off the market. For the fourth quarter of 2009, real-estate agents' expectations were less pessimistic about the trend of their local markets, with indications of a recovery in the number of houses entrusted for sale. Over a longer horizon (two years), forecasts of the trend of the market at national level were also more favourable, with an improvement from the previous survey.

Italian exports continue to lose price competitiveness ...

During the autumn Italian firms' loss of price competitiveness grew worse; gauged by producer prices, in the first ten months of 2009 the loss came to 2.7 per cent compared with the end of 2008 (Figure 20). In addition to the gradual nominal appreciation of the euro, which affected all the countries of the area, the loss of competitiveness also reflected a relatively unfavourable trend in producer prices, particularly vis-à-vis German firms, which in the same period enjoyed a slight gain in competitiveness (0.7 per cent). In France the indicator showed a limited worsening, while Spain recorded the sharpest deterioration among the main euro-area countries.

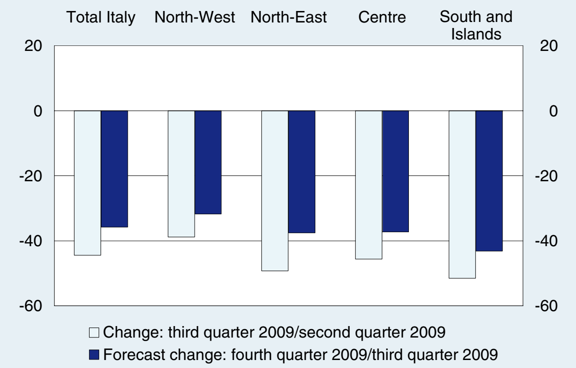
... reflecting a still marked decline in productivity

One factor in the loss of competitiveness in Italy was the continuing fall in labour productivity: measured on the basis of hours worked, in order to take account of the persistently large recourse to the Wage Supplementation Fund, it fell by 1.7 per cent in the total economy in the third quarter of 2009

Figure 19

House prices in Italy

(percentage balances between +/- assessments)

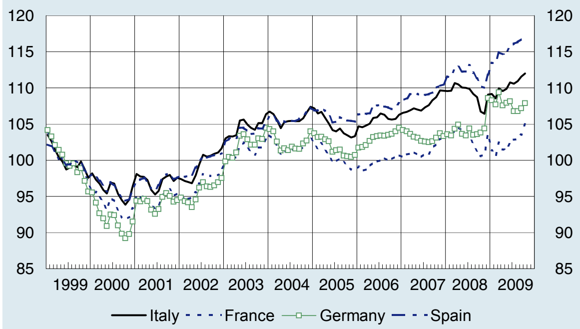


Source: Banca d'Italia-Tecnoborsa, Italian Housing Market Survey – Short-Term Outlook.

Figure 20

Indicators of competitiveness (1)

(indices, 1999=100)

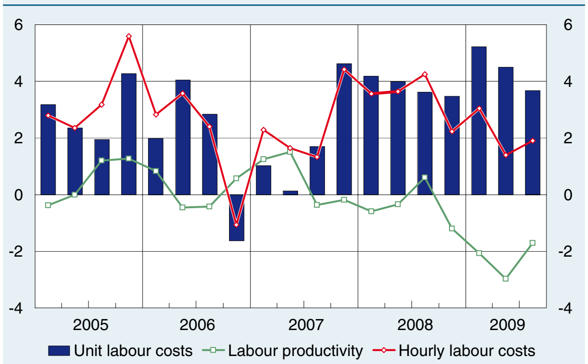


Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in the index indicates a loss of competitiveness. Latest available data refer to October 2009.

Figure 21

Labour costs and productivity in the total economy (1)

(percentage changes on year-earlier period)



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

compared with a year earlier (Figure 21). In the first nine months of the year as a whole, the decline in productivity from a year earlier amounted to 2.2 per cent (against 0.1 per cent in the first nine months of 2008) and was particularly pronounced in the industrial sector. Given a moderate rate of increase in hourly labour costs, the drop in productivity showed up in the marked increase in unit labour costs: 4.5 per cent compared with a year earlier (against 3.9 per cent in the first nine months of 2008).

Firms' profitability continues to sag ...

According to estimates based on the national accounts, non-financial firms' operating profitability fell slightly in the twelve months to September compared with the twelve months ended in June. Net financial expense declined again in relation to value added and self-financing fell further.

... but their borrowing requirement declines owing to the low level of investment

However, firms' borrowing requirement (the difference between gross investment, including inventory, and self-financing) also fell in the same period, reflecting the sharp contraction in investment during the recession. The ratio of firms' financial debt to GDP stabilized at about 83 per cent (Figure 22); this is still low by comparison with the euro-area average, which is now approaching 100 per cent.

Firms' bank debt declines ...

Firms' debt to banks continued to slow perceptibly, and in the most recent months has even contracted by comparison with a year earlier, mainly as a consequence of debt paydown by medium-sized and large companies (Figure 23).

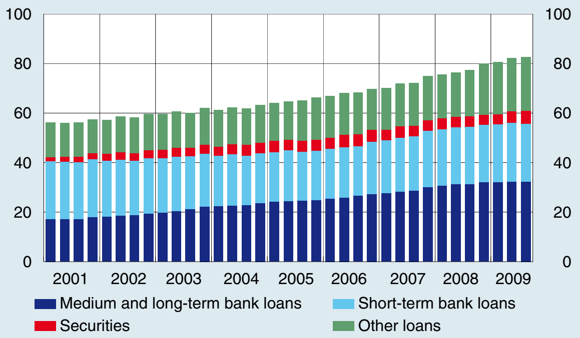
... and so do their bond issues

Fund-raising by Italian non-financial companies on the bond and equity markets slowed after proceeding at a very intense pace in the first half of 2009. In the third quarter of the year, net bond issues amounted to €3 billion, down from €4.3 billion in the second quarter. According to Dealogic data on gross issues, in the fourth quarter issues by companies belonging to Italian groups amounted to €7.7 billion (€19.2 billion in the previous quarter), including significant placements by the Fiat group (€2.7 billion) and the multi-utility A2A (€1 billion). After sizable capital increases in the second quarter, non-financial companies had practically no recourse to the equity market in the third. There was no sign of a pick-up in mergers and acquisitions, which were limited to small-scale transactions. According to Thomson Reuters data, in the third quarter Italian non-financial companies announced 33 transactions for a total value of just over €500 million, two thirds of which with foreign companies. Apart from a substantial operation between two

Figure 22

Corporate debt (1)

(as a percentage of GDP)

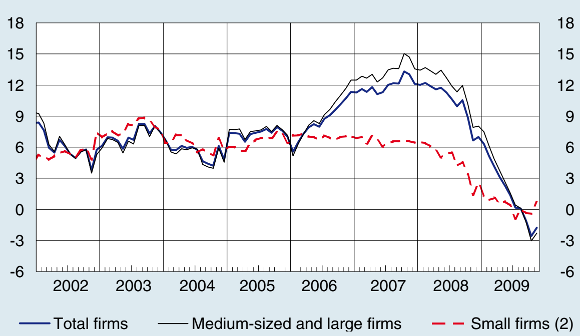


Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized loans. The data for the third quarter of 2009 are provisional.

Figure 23

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



(1) Data include securitized loans. 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, exchange rate variations and other changes not due to transactions. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

German car companies, M&A activity remained at modest levels in the other main euro-area countries as well.

3.3 HOUSEHOLDS

Growth in consumption remained weak in the third quarter

In the third quarter of2009 household consumption rose 0.4 per cent on the second quarter, when it had virtually stagnated. The increase was sustained mainly by purchases of durable goods (2.7 per cent), aided by the tax incentives for motor vehicle scrapping, and of semi-durables (3.5 per cent). Growth in spending for services was very restrained (0.4 per cent), while the fall in consumption of non-durable goods steepened (1.2 per cent, and 3.1 per cent on the year-earlier period), aggravating the downward trend under way for about three years now.

Overall, household spending was 2.1 per cent lower in the first nine months of 2009 than in the same period of 2008, continuing to be braked by a decline in real disposable income, estimated at more than 1.5 per cent during that time (Figure 24). Given that the personal consumption deflator was virtually flat, the deterioration in households' purchasing power reflected the contraction in nominal incomes, owing in particular to the fall both in overall labour incomes (due to the sharp drop in the number of persons in work) and in investment income, mostly as a result of the marked decline in dividends and the profits distributed by firms. Spending decisions may also have been affected by the reduction in property wealth, which followed the fall in house prices after a decade of sharp rises, only partially offset by the recovery in share prices recorded during the spring.

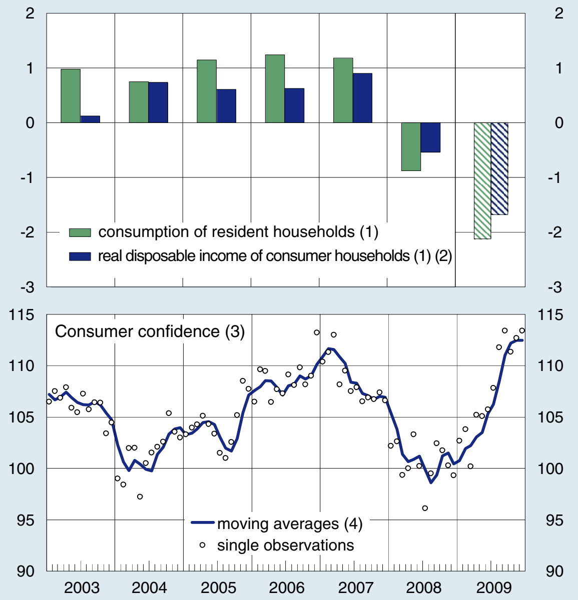
With no signs of a significant strengthening in the short term

Household confidence indicators are better, despite considerable volatility, and in the closing months of 2009 they regained the levels reached before the sharp drop recorded during the recession (Figure 24). Since assessments of the current situation remained cautious, the improvement mainly reflected better expectations. In particular, the benefits of purchasing durable

Figure 24

Consumption, disposable income and consumer confidence in Italy

(growth rates, percentage points and indices)

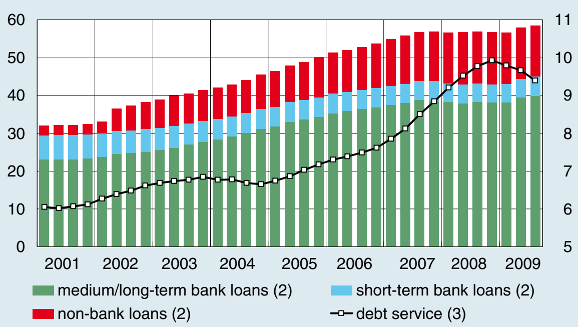


Sources: Based on ISAE and Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Data on consumption and income in the nine months of 2009 are changes with respect to the corresponding period of 2008. – (2) Obtained using the consumption deflator for resident households; our estimates for the first nine months 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)



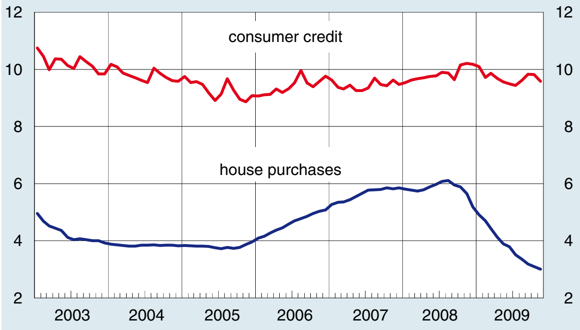
Sources: Based on Bank of Italy and Istat data.
(1) Includes securitized loans. Disposable income for 2009 is estimated on the basis of quarterly national accounts data. Data on loans in the third quarter of 2009 are provisional. – (2) End-of-period stocks. – (3) Right-hand scale. Refers only to consumer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

goods and future saving prospects were both judged less negatively. By contrast, there was no significant improvement in opinions of personal or general economic situations; labour market expectations continue to generate deep concern. Towards the end of 2009 spending on durable goods increased, powered by incentives to purchase motor vehicles, which terminated at the end of December and whose terms of renewal are still under discussion. On average in the fourth quarter new car registrations were up by 8.3 per cent compared with the third. However, as yet there is no sign of an upturn in the consumption of non-durable goods: in October the volume of retail sales continued the downward slide that began in the summer of 2007, which now comes to more than 7 per cent in cumulative terms.

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 remains stable; debt service diminishes further

The ratio of household debt to disposable income remained stable in the third quarter of 2009, at around 58 per cent (Figure 25), still significantly lower than the euro-area average (about 94 per cent in June). Italian households' debt service payments (interest and repayment of principal) continued to decline, reaching 9.4 per cent of disposable income, thanks in part to a further reduction in interest rates on house purchase loans (Figure 26). By contrast, consumer credit rates rose slightly.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the third quarter of 2009 exports returned to growth ...

Exports of goods and services in volume terms returned to growth in the third quarter of 2009 (increasing by 2.5 per cent, as against a decrease of 2.5 per cent in the second), after five consecutive quarters of contraction had brought them to the levels last seen a decade ago. Reflecting the recovery of world trade, the increase primarily concerned the goods component (2.8 per cent, as against a decrease of 2.8 per cent), which had suffered the heaviest fall in the previous quarters. The increase was in line with those observed in France and Spain and slightly lower than in Germany. The growth in Italian goods exports was led by sales to non-EU markets, while exports to EU countries stagnated compared with the second quarter. Overall, contributions to the export recovery came from transport equipment, which benefited from motor vehicle incentives in the main European countries, and from chemicals and pharmaceuticals. Exports of mechanical engineering products declined again, though much less sharply than in the previous quarters, while the contraction in exports of traditional Italian products became more severe.

... as did imports

Total imports in volume terms also turned upwards (increasing by 1.5 per cent, as against a decrease of 2.5 per cent in the previous quarter); the increase was similar for the services and the goods components. The recovery in goods imports, which reflected a higher level of investment in machinery, involved greater purchases from EU countries and especially from Germany, while imports from non-EU markets continued to contract. The sectors contributing to the revival of imports were electrical equipment, metal products and pharmaceuticals, and to a lesser degree, transport equipment. Imports of mechanical engineering products continued to diminish, albeit at a more moderate pace.

The data for October and November point to a still uncertain picture

The foreign trade data in value terms for the month of October and, for trade with non-EU countries only, for November paint a picture of continuing uncertainty: in the two months both exports and imports appear to have stagnated.

The current account deficit remained the same

In the first ten months of 2009 the deficit on the current account of the balance of payments was €40.3 billion, basically unchanged from the corresponding period of 2008 (Table 4); seasonally adjusted, the deficit fell from 3.5 per cent of GDP in the second quarter to 2.8 per cent in the third. In the first ten months, the balance of trade improved slightly, with a surplus of €3.9 billion. The decline in the surplus on non-energy products was more than offset by the reduction in the energy deficit (to €33.2 billion, almost €15 billion less than in the first ten months of 2008), which reflected both the lower prices of oil compared with the historically high levels of the first half of 2008 and the reduction in the volume of imports due to the fall in industrial activity. The deficit on services rose from €4.7 to €6.9 billion. Overall, in the first nine months of 2009 the surplus on travel and tourism narrowed, as a result of the steeper drop in spending by tourists in Italy compared with that of Italians abroad. The deficit on income expanded slightly, from €23.3 to €24.5 billion, as a consequence of the contraction in receipts from portfolio investments (especially interest on debt securities).

Table 4

Italy's balance of payments (1)

(billions of euros)

	2007	2008	Jan.-Oct. 2008	Jan.-Oct. 2009
Current account	**-37.7**	**-53.6**	**-40.1**	**-40.3**
Goods	3.2	-0.7	-0.3	3.9
non-energy products (2)	*47.9*	*56.6*	*47.6*	*37.1*
energy products (2)	*-44.7*	*-57.3*	*-47.9*	*-33.2*
Services	-7.1	-7.4	-4.7	-6.9
Income	-19.6	-29.5	-23.3	-24.5
Current transfers	-14.2	-16.0	-11.9	-12.7
Capital account	**2.3**	**0.8**	**0.5**	**0.6**
Financial account	**26.2**	**49.6**	**40.2**	**17.2**
Direct investment	-37.0	-18.3	-15.7	-10.9
Portfolio investment	18.1	118.5	107.2	73.8
Financial derivatives	0.4	6.8	5.4	7.4
Other investment	46.2	-51.8	-51.8	-52.5
Change in official reserves	-1.5	-5.6	-4.9	-0.6
Errors and omissions	**9.2**	**3.2**	**-0.6**	**22.5**

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

Investment in foreign securities recover

In the financial account, direct investment again showed a negative balance, which came to €10.9 billion in the first ten months of 2009: both investment in Italy by non-residents and that by Italians abroad accelerated sharply compared with the same period of 2008, which had been affected by the financial market turmoil. Net portfolio investment inflows were markedly lower (€73.8 billion), reflecting the upturn in purchases by Italians of securities issued abroad, which generated outflows of €27.4 billion. Investment in foreign securities, which has been strengthening since the second quarter of 2009, was mostly concentrated in relatively riskier assets such as shares and investment fund units; the latter had recorded massive repatriations throughout the financial crisis. Purchases by foreign investors of Italian securities, equities especially, were also up sharply compared with the first ten months of 2008.

According to preliminary data from the Ministry for the Economy and Finance, from mid-September onwards, as a result of Decree Law 78 of 1 July 2009 ratified by Law 102 of 3 August 2009 (the foreign assets disclosure scheme), some €95 billion of hitherto undeclared assets held by Italian residents abroad have been regularized. These operations, which are recorded in the balance of payments only when they involve a "repatriation after liquidation", in other words the transfer into Italy of the capital deriving from the liquidation of the assets held abroad, had not generated significant inflows in the financial account up to October, given that most regularizations took place in December.

3.5 THE LABOUR MARKET

Employment falls for the fifth consecutive quarter

According to Istat's labour force survey, in the third quarter of 2009, on a seasonally adjusted basis, employment contracted on the previous period for the fifth time, by 120,000 persons or 0.5 per cent (compared with a reduction of 0.3 per cent in the second quarter). The fall involved all parts of Italy and was concentrated in construction (-1.6 per cent) and the other industrial sectors (-1.2 per cent); it was less marked in agriculture (-0.8 per cent) and in the service sector (-0.1 per cent).

National accounts data show a similar decline in the number of persons in work but a sharper fall in standard labour units (-0.8 per cent). The difference between the two indicators is partly due to the further increase in recourse to the Wage Supplementation Fund, which enables firms to cut the number of hours worked while keeping the number of employees on the books unchanged.

The latest monthly labour force surveys indicate that employment continued to fall in October and November as well (by 0.1 and 0.2 per cent on the previous month).

The number of permanent employees has also declined

The survey also showed that, in the third quarter, the number of persons in work was down by 2.2 per cent (508,000 persons) from the same period of 2008. The employment rate for persons of working age fell to 57.5 per cent (1.5 percentage points less than a year earlier). The fall was greater for men than for women (-1.9 and -1.1 percentage points respectively) and particularly sharp for young people aged 15-24 (-2.9 points). The fall in employment continued to affect Italian workers (-588,000 persons) while the number of foreign workers rose further (by 80,000). This simply reflected the increase in the officially resident immigrant population, while the employment rate for foreigners of working age actually fell by almost 5 percentage points compared with a year earlier, to 63.8 per cent. On a twelve-month basis, the number of self-employed

Table 5

Labour force status of the population in Italy

	Average Jan.-Sept. 2008	Average Jan.-Sept. 2009	Q3 2008	Q3 2009	Changes on the quarter (1)
	Thousands of persons				
Total person in work	**23,423**	**23,060**	**23,518**	**23,010**	**-2,2**
Employees	**17,416**	**17,272**	**17,650**	**17,320**	**-1,9**
of which: *fixed-term contracts*	*2,346*	*2,145*	*2,406*	*2,186*	*-9,1*
part-time contracts	*2,580*	*2,577*	*2,594*	*2,563*	*-1,2*
Self-employed	**6,007**	**5,788**	**5,868**	**5,690**	**-3,0**
Labour force	**25,087**	**24,939**	**25,045**	**24,824**	**-0,9**
men	*14,883*	*14,781*	*14,900*	*14,773*	*-0,9*
women	*10,204*	*10,158*	*10,145*	*10,050*	*-0,9*
Population	**59,281**	**59,711**	**59,390**	**59,791**	**0,7**
	Per cent				
Unemployment rate	**6.6**	**7.5**	**6.1**	**7.3**	**1.2**
men	*5.3*	*6.5*	*4.9*	*6.4*	*1.6*
women	*8.5*	*9.0*	*7.9*	*8.6*	*0.7*
Participation rate (age 15-64)	**63.0**	**62.4**	**62.8**	**62.1**	**-0.8**
men	*74.5*	*73.7*	*74.4*	*73.7*	*-0.7*
women	*51.6*	*51.1*	*51.3*	*50.5*	*-0.8*
Employment rate (age 15-64)	**58.8**	**57.6**	**59.0**	**57.5**	**-1.5**
men	*70.4*	*68.8*	*70.7*	*68.9*	*-1.9*
women	*47.2*	*46.4*	*47.2*	*46.1*	*-1.1*
North	*67.0*	*65.7*	*67.2*	*65.4*	*-1.8*
Centre	*62.8*	*62.0*	*62.7*	*61.8*	*-0.9*
South	*46.2*	*44.8*	*46.4*	*45.0*	*-1.5*

Source: Istat, labour force surveys.
(1) Changes between third quarter 2008 and third quarter 2009; for persons in percentages, for rates in percentage points.

workers fell for the sixth consecutive quarter (-177,000 or -3.0 per cent), although the decline was less ample than in the previous two quarters. However there was a stronger contraction in the number of employees (-1.9 as against -1.0 per cent). This fall, as in the previous quarter, was particularly marked for fixed-term workers (-220,000 jobs or -9.1 per cent), but for the first time since 1999 the number of permanent workers also fell sharply (-110,000 jobs or -0.7 per cent), in particular in small enterprises.

ESTIMATES OF UNUTILIZED AVAILABLE LABOUR

The standard criteria established by the International Labour Organization (ILO) defines the unemployed as persons who are without work, seeking employment, immediately available for work and have undertaken at least one job search in the month preceding the survey. Individuals who have not worked in the reference week are classified as employed if they are temporarily absent from an employment relationship (for example, if they are on sick leave or on wage supplementation). If even just one of the criteria established by the ILO is not satisfied, they are instead classified as inactive. The inactive therefore include persons who, despite being available for work, have not been sufficiently proactive (at least one initiative in the month prior to the survey) because they are discouraged about their prospects of success.

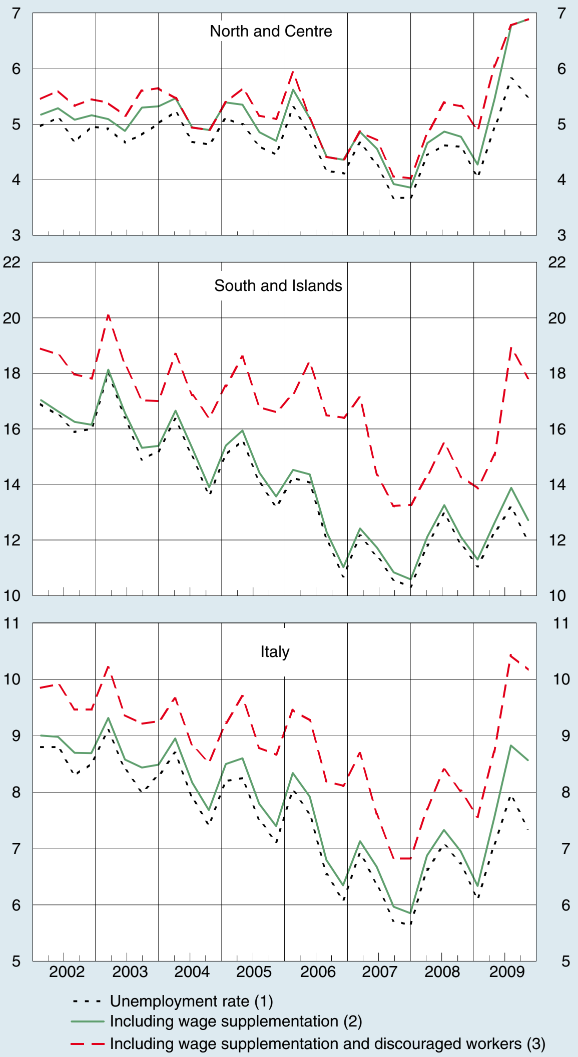
Our econometric analyses based on data from the Istat labour force survey show that the chances of finding a job in the next three months for those who made their last attempt to secure employment over one month before the survey (the "discouraged") do not necessarily differ from those who did seek work in the previous month and are therefore classified as unemployed. This result demonstrates that even among those who sought work less intensively, there are individuals who, like those officially classed as unemployed, could join the production process immediately. For the most part, these are people who last attempted to find work in the year before the survey; they are concentrated in the South, among 15-34-year-olds and among women aged over 35.

The figure shows Italian unemployment rates based on the ILO criteria, and two other indicators of the quantity of unutilized available labour. One includes workers temporarily excluded from the production process because they are on wage supplementation; the second

Figure

Trends in unemployment and alternative measures of unutilized available labour

(quarterly data, not seasonally adjusted; percentages)



Source: Based on Istat labour force survey data.
(1) Unemployment rate, equal to the unemployed as a percentage of the labour force. – (2) Rate of unemployment including wage supplementation, equal to the sum of the unemployed and workers on wage supplementation as a percentage of the labour force. – (3) Rate of unemployment including wage supplementation and discouragement, equal to the sum of the number of unemployed, workers on wage supplementation and the discouraged, as a percentage of the labour force plus discouraged workers.

also includes discouraged job seekers who, not counted as unemployed because they did not seek work in the previous four weeks, nonetheless have the same statistical probability of finding a job as the unemployed.[1]

Since the last quarter of 2008, especially in the regions of the Centre and North, recourse to wage supplementation has greatly limited the rise in unemployment. Based on the Istat survey, between October 2008 and October 2009 payroll employment fell formally by 1.9 per cent in large enterprises, but by 3.7 per cent if the workers on wage supplementation are not counted. Had these workers, for whom the likelihood of returning to work is nonetheless greater, been included in the category of the unemployed, in the second quarter of 2009 the rate of unemployment in the Centre and North would have been 1.4 percentage points higher, at 6.9 per cent; in the South it would have been 0.7 percentage points higher at 12.7 per cent. In the southern regions, where historically the discouragement syndrome weighs heavily, if unemployment is defined to comprise not only the workers on wage supplementation but also the discouraged, the unemployment rate in the second quarter of 2009 would have been 17.8 per cent, 5.8 percentage points more than the indicator calculated on the basis of the ILO criteria. In the same period, in the Italian economy as a whole the rate of unemployment considering both phenomena would have been 10.2 per cent, rather than the officially recorded 7.4 per cent: 1.2 percentage points of the difference is ascribable to wage supplementation and 1.6 points to discouragement. Adding the workers on wage supplementation and the discouraged to the unemployed would increase the number of persons out of employment but potentially employable by 800,000 units to about 2.6 million (from 2 million in the second quarter of 2008).

[1] For more details on the estimation methodology see A. Brandolini, P. Cipollone and E. Viviano (2006) "Does The ILO Definition Capture All Unemployment?", *Journal of the European Economic Association*, Vol. 4, no. 1, 2006, pp. 153-179.

The fall in employment continues to go hand in hand with a contraction in the labour supply, which fell by 0.2 per cent in the third quarter compared with the second and by 0.9 per cent in comparison with the situation a year earlier. The contraction of the labour force is due to a steady fall in the participation rate, which fell to 62.1 per cent (-0.8 percentage points compared with a year earlier). This involved both men and women and was more marked in the South, where the rate fell from 52.3 to 51.0 per cent and where the discouraged worker effect is stronger (see the box "Estimates of unutilized available labour").

The unemployment rate has continued to climb, especially among young people and immigrants

The fall in participation in the labour market has limited the increase in the rate of unemployment as a result of the recession. Nevertheless, the number of job-seekers rose for the fourth consecutive quarter to 1,942,000 on a seasonally adjusted basis, with an increase of 3.8 per cent compared with the previous period (the increase was 1.7 per cent in the second quarter). The unemployment rate accordingly rose by 0.3 percentage points to 7.8 per cent, bringing the twelve-month rise to 1.2 percentage points. The increase was particularly marked among young people aged 15-24 (4.1 points) and among immigrants (3.7 points).

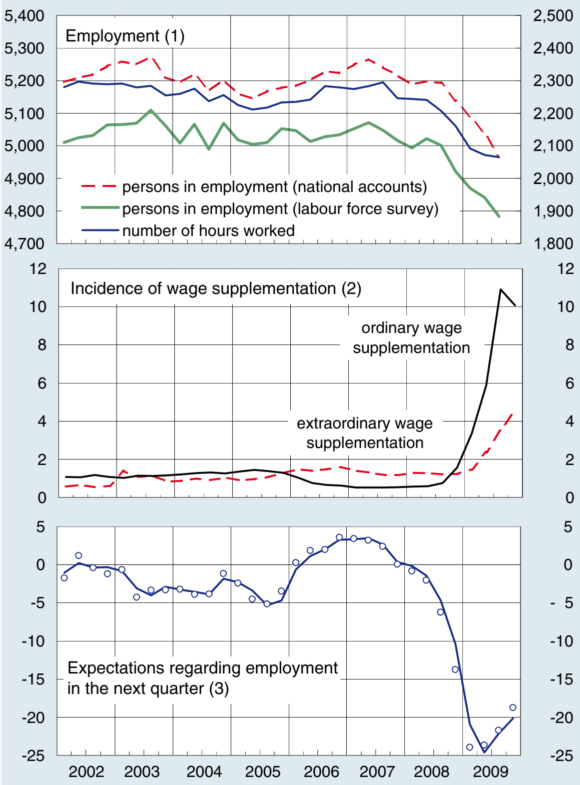
The monthly data indicate a further rise in the unemployment rate to 8.2 per cent in October and 8.3 per cent in November, 2.4 points above the low of April 2007.

In the fourth quarter, adjusted for seasonal factors, the number of Wage Supplementation Fund hours authorized by INPS increased, although to a lesser extent than in the previous quarters. Over the year as a whole, 918 million hours were authorized, the most since the start of the series in 1970, 12.5 per cent more than the previous peak recorded in 1984, and 81.6 per cent more than the average for the period 1992-93. In industry excluding construction, the proportion of full-time equivalent workers on wage supplementation to the total work force rose by 1.2 per cent in the fourth quarter – far less than the 75.2 per cent jump recorded three months earlier (Figure 27). The overall figure is the result of a fall in ordinary benefits (-7.7 per cent) and an increase in extraordinary benefits (29.0 per cent), which are reserved for firms in the greatest difficulties. Still in reference to the fourth quarter, the ISAE survey found that industrial firms were less pessimistic over the outlook for employment in the following three months, although the balance between those expecting an upturn and those expecting a decline was still at a historically low level. According to the Survey on Inflation and Growth Expectations carried out jointly by the Bank of Italy and *Il Sole 24 Ore,* expectations for employment in the first quarter of 2010 were still pessimistic, in particular for medium-sized and large enterprises and for industry. The balance between firms expecting to increase and those expecting to reduce employment was slightly worse than in the previous survey (September 2009); the freeze on hiring was judged to be the most likely way of reducing labour inputs, followed by reductions in hours and non-renewal of fixed-term contracts.

Figure 27

Employment, wage supplementation and employment expectations in industry excluding construction

(seasonally adjusted quarterly data; thousands of persons and percentages)



Sources: Based on Istat labour force surveys and quarterly economic accounts, INPS data, and the ISAE survey *Inchiesta sulle imprese manifatturiere ed estrattive.*

(1) Total employment (persons in work) as defined by the quarterly national economic 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 full-time equivalent workers for whom ordinary or extraordinary wage supplementation was authorized in the quarter as a percentage of the full-time equivalent workers as defined in the quarterly economic accounts. Partial estimates for the fourth quarter of 2009.– (3) Balance between percentages of firms expecting to increase/decrease their workforce in the next three months. Single observations and 3-term moving averages, quarterly averages.

Real earnings have increased

In the first nine months of 2009, actual per capita earnings increased by 1.9 per cent by comparison with the same period in 2008 (1.6 per cent in the non-agricultural private sector), outpacing consumer prices. The contracts renewed last autumn for food processing, chemical, telecommunications and engineering workers (the latter contract was not signed by the largest union in the sector) provided for increases for the three-year period 2010-12 that were in line with the ISAE forecasts for the harmonized index of consumer prices excluding energy, consistent with the new collective bargaining framework.

3.6 PRICE DEVELOPMENTS

The moderate rise in inflation continued in the last quarter of 2009

The twelve-month rise in the consumer price index for the entire resident population (CPI), including the still provisional data available for December, fell from 3.3 per cent in 2008 to 0.8 per cent in 2009 (Table 6). In the fourth quarter prices were 0.7 per cent higher than a year earlier, compared with the

0.1 per cent increase registered in the third quarter. Core inflation, excluding food and energy products, practically stabilized in the second half of the year, at 1.4 per cent in the fourth quarter according to our estimates (1.5 per cent over the year as a whole).

The twelve-month growth in the CPI was close to nil in July, then picked up gradually to reverse the decline that had begun a year earlier and settle at 1.0 per cent in December. The seasonally adjusted, annualized three-month change was stable around this level from October. The rise in the twelve-month rate of inflation can be put down mainly to the milder deceleration in energy prices with respect to the first half of the year.

Developments in the harmonized index (HICP) were in line with those in the CPI. Towards the end of the year the difference in growth compared with the euro-area average, which was mainly due to the less pronounced deceleration in the prices of unprocessed food products in Italy, narrowed only slightly compared with the third quarter, from 0.5 to 0.3 percentage points.

Table 6

Indicators of inflation in Italy

(twelve-month percentage changes)

	HICP (1)		CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index	1 month (4)	Excl. energy and food	Overall index
2007	2.0	1.8	1.8	–	1.6	3.3
2008	3.5	2.2	3.3	–	2.1	5.8
	(0.8)	....	(0.8)	–	....	....
2008 – Jan.	3.1	2.1	3.0	0.4	1.9	5.9
Feb.	3.1	2.0	2.9	0.1	1.8	6.3
Mar.	3.6	2.4	3.3	0.4	2.1	6.5
Apr.	3.6	2.1	3.3	0.3	2.0	6.3
May	3.7	2.2	3.6	0.5	2.0	7.3
June	4.0	2.3	3.8	0.5	2.2	8.2
July	4.0	1.9	4.1	0.4	2.2	8.8
Aug.	4.2	2.5	4.1	0.0	2.3	8.2
Sept.	3.9	2.3	3.8	0.0	2.1	7.4
Oct.	3.6	2.4	3.5	0.1	2.2	4.7
Nov.	2.7	2.2	2.7	-0.3	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	-0.2	1.9	-2.0
Feb.	1.5	1.7	1.6	0.1	1.8	-3.2
Mar.	1.1	1.4	1.2	0.0	1.5	-4.6
Apr.	1.2	2.0	1.2	0.3	1.7	-5.2
May	0.8	1.8	0.9	0.2	1.7	-6.6
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.	0.4	1.6	0.2	0.1	1.4	-7.9
Oct.	0.3	1.6	0.3	0.1	1.4	-6.0
Nov.	0.8	1.6	0.7	0.1	1.3	-3.5
Dec.	(1.1)	....	(1.0)	(0.3)	....	....

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.

Producer prices continue to fall, but more slowly

The gradual rise in raw material prices in the second half of the year helped to brake the rapid twelve-month decline in producer prices, particularly of intermediate goods and energy products. In November the producer prices of industrial goods for the domestic market were 3.5 per cent lower than a year earlier, compared with a record drop of 8.6 per cent in July. On the other hand, the producer prices of consumer goods continued to decline at a steady rate of 1.3 per cent, mainly driven by food products, presumably as a result of the persistent cyclical weakness.

Consumer price inflation will rise moderately this year as well

The professional forecasters surveyed by Consensus Economics in December expect consumer price inflation of 1.4 per cent in 2010, 0.2 points higher than forecast for the euro area as a whole. 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 (in line with the amount reported in the September survey). This is confirmed by the monthly ISAE surveys of industrial firms, which in the closing months of 2009 found no substantial increase in plans to raise list prices in the short term.

3.7 BANKS

The slowdown in bank lending intensified ...

Bank lending to non-financial private sector firms, adjusted for the accounting effect of securitizations, grew by 1 per cent in the twelve months to November, down from 2.1 per cent in August (Figure 28). The annualized, seasonally adjusted three-month rate of change was negative by 1.3 per cent, compared with an increase of 0.2 per cent in August, owing mainly to the further contraction in lending to non-financial companies; the three-month change in lending to households remained positive.

There continue to be differences according to bank size. The decline in lending by the five largest Italian banking groups, which account for half of total lending in Italy, continued at a twelve-month rate of 3.5 per cent, while lending by other intermediaries grew further, albeit at a sharply reduced rate of 3 per cent.

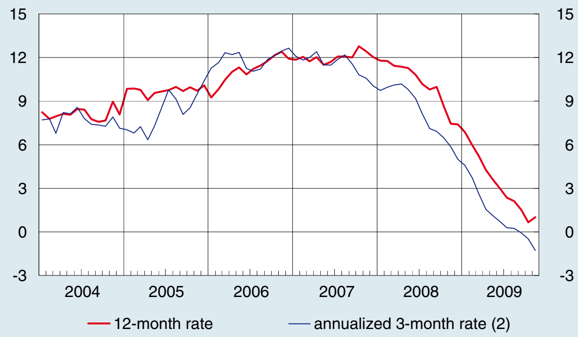
... even though the tightening of credit supply conditions gradually attenuated

On the demand side, the decline in lending to firms is broadly in line with the reduction in borrowing requirements. On the supply side, among the Italian banks that participated in the Bank Lending Survey for the euro area the balance between those reporting a tightening and those reporting an easing of standards for lending to firms continued to fall back from the end-2008 peak (see the box "Credit supply and demand in Italy"). By contrast, analogous indicators derived from more recent surveys of firms, such as the ISAE's monthly survey and the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore*, though down sharply from the peaks of a year earlier, still stood at positive levels in December, showing that credit supply conditions remained strained.

Figure 28

Growth in bank lending to the non-financial private sector (1)

(monthly data; percentage changes)

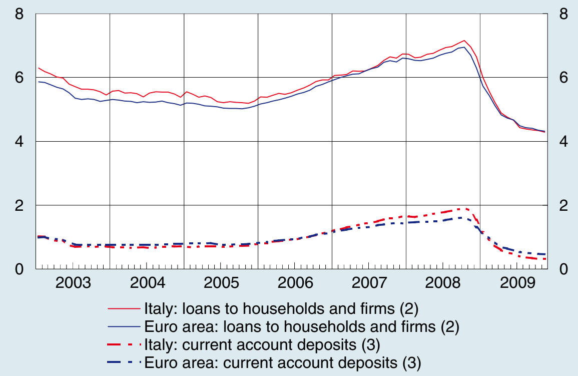


Source: Based on Bank of Italy data.
(1) The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. Includes an estimate of loans excluded from balance sheets because they are securitized. – (2) Seasonally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

Bank lending rates continued to adjust gradually to the earlier cuts in official rates. The cost of short-term loans to firms, including current account overdrafts, fell by 0.1 percentage points from August, to 3.9 per cent. The rate on new variable-rate loans to households came down by 0.3 points to 2.3 per cent, that on new fixed-rate loans by 0.2 points to 4.9 per cent. The changes and levels of bank lending rates in Italy are in line with those in the rest of the area (Figure 29).

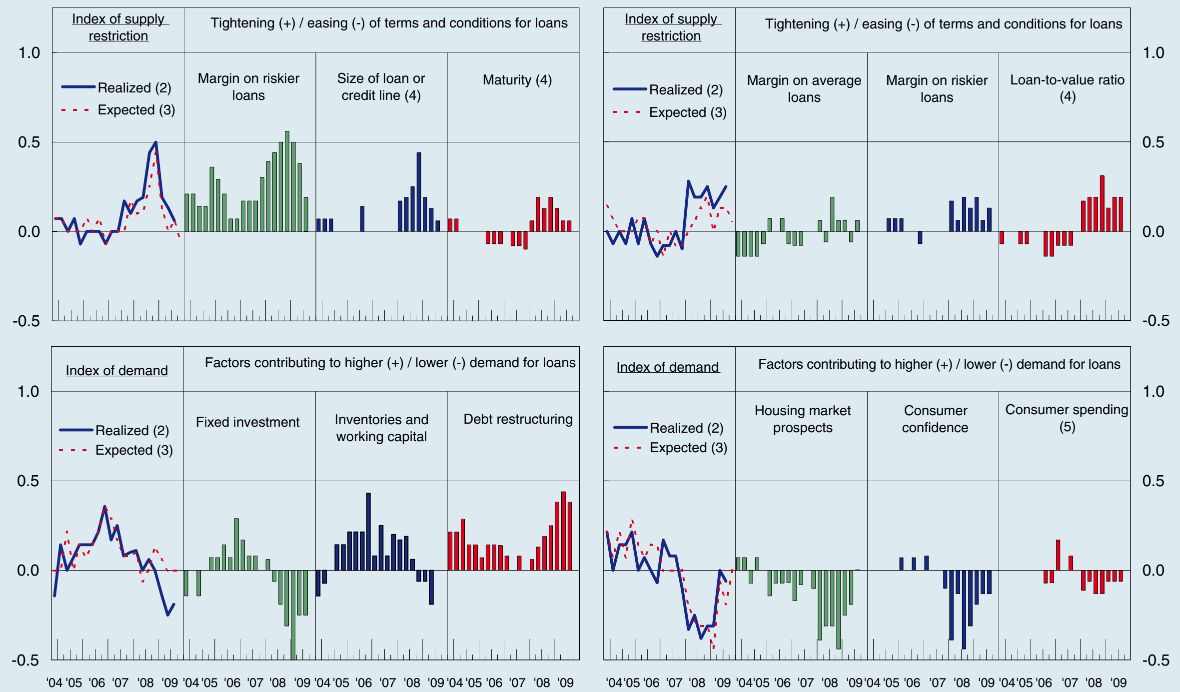
CREDIT SUPPLY AND DEMAND IN ITALY

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 moderated further in the third quarter of 2009 (Figure A).[1] Conditions were tightened mainly by increasing margins on riskier loans, in connection with the uncertainty about economic trends. The moderation mainly concerned the conditions for lending to large enterprises, influenced by the disappearance, in respect of past surveys, of any negative effects related to the banks' capital position.

Figure A

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

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



Source: Quarterly Bank Lending Survey for the euro area.
(1) 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.

The respondent banks reported that credit demand from firms had stopped slowing but remained weak, especially for short-term loans; there was, however, further expansion in demand for debt restructuring loans. Banks stated that they expected a recovery in firms' demand for loans in the fourth quarter of 2009 and that supply conditions would remain substantially unchanged.

For households, by contrast, the third quarter saw a slight further tightening of banks' lending policies. The restriction of credit conditions for mortgage loans consisted mainly in a lowering of loan-to-value ratios and an increase in margins on riskier loans; as regards consumer credit and other sources of finance, the tightening involved an increase in collateral requirements, a shortening of

[1] Eight leading Italian banking groups took part in the survey, which was completed on 2 October; 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 fourth quarter of 2009 and expectations for the first quarter of 2010 are not yet available; they will be released on 29 January.

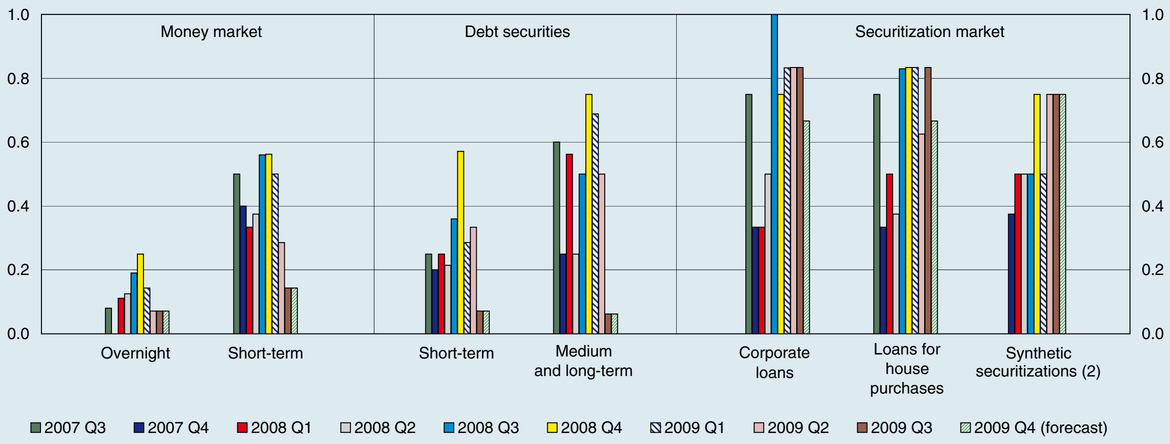
loan maturities, and an increase in margins. As to the factors underlying their greater cautiousness in lending to households, banks mainly cited the worsening of economic activity expectations and of consumer creditworthiness.

The replies of the banks surveyed indicate that the demand for loans by households remained substantially unchanged. With reference to mortgage loans, the adverse effects of property market prospects which had been influential, even if increasingly less so, in the preceding quarters, vanished entirely. For the fourth quarter of 2009 banks expected demand conditions to remain basically unchanged and a further slight tightening of credit supply policies.

On the funding side, once again the difficulties of raising large-scale funds on the money market and on that for medium to long-term debt eased again, and more markedly, in the third quarter of 2009, although there were still significant difficulties in the securitization market (Figure B). As regards the fourth quarter of 2009, banks stated they did not expect any changes in conditions of access to the various sources of funds on the wholesale market. Government intervention to support the banking sector is reported to have had a positive effect on access conditions to the wholesale market that was expected to continue in the fourth quarter as well.

Figure B

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



Source: Quarterly Bank Lending Survey for the euro area.
(1) Diffusion indices constructed by aggregating the qualitative responses to the 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.

An agreement signed by the Ministry for the Economy and Finance, the Italian Banking Association and representatives of firms in every sector of the economy, in effect since 3 August 2009, grants small and medium-sized enterprises that apply by 30 June of this year the possibility of suspending principal repayment on loan instalments for up to twelve months. Under the agreement, subscribed by practically all credit institutions, applications received from firms that satisfy certain requirements - in particular, timeliness in loan repayments - will be automatically accepted unless there is an explicit, reasoned refusal by the subscribing bank. As of 30 November some 84,000 applications had been received corresponding to debts for a total value of €27 billion (about a fifth of all loans outstanding to smaller companies). More than two thirds of the applications have been examined and nearly all of these accepted, leading to a suspension of payments amounting to €5 billion.

Loan quality deteriorates further

The quality of bank assets continued to deteriorate in the third quarter of 2009. The annualized, seasonally adjusted flow 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) rose to 2.2 per cent of the stock of outstanding loans, the highest ratio since 1998. The increase in the ratio was especially pronounced for loans to firms (from 2.6 to 3.1 per cent). It was steepest for loans to firms based in the South, whose new bad debt ratio reached 4.3 per cent, compared with 2.8 per cent for firms in the Centre and North. The quality of loans to consumer households also worsened again: the new bad debt ratio rose to 1.5 per cent, from 1.3 per cent in the second quarter. On the basis of preliminary data, the quality of bank assets appears to have deteriorated further in October and November. Loans to manufacturing and construction firms show the sharpest deterioration.

Table 7

Main assets and liabilities of Italian banks (1)

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

	2007	2008	November 2009	
				Stocks (2)
Assets				
Securities other than shares	7.3	44.4	32.9	446,398
bonds issued by MFIs resident in Italy	*15.1*	*65.6*	*28.8*	*212,224*
Loans	10.1	5.6	2.8	1,785,368
up to 12 months	*7.5*	*4.0*	*-0.8*	*603,448*
beyond 12 months	*11.3*	*6.5*	*4.7*	*1,181,919*
External assets	13.4	-2.3	-13.8	331,815
Liabilities				
Total funding (3)	11.0	4.7	2.1	2,198,877
Deposits of Italian residents (3)	4.2	7.3	6.2	1,163,737
of which: (4)				
current accounts	*2.9*	*6.6*	*11.2*	*740,036*
with agreed maturity	*14.3*	*13.4*	*10.8*	*67,708*
redeemable at notice	*-0.5*	*7.0*	*9.4*	*259,961*
repos	*12.1*	*10.4*	*-30.6*	*82,011*
Deposits of non-residents	22.9	-8.2	-10.6	431,600
Bonds (3)	11.4	12.0	5.2	603,540
Memorandum item Total bonds	11.9	20.1	10.4	815,764

Source: Based on supervisory statistical reports.
(1) The figures for November 2009 are provisional. The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. – (2) Millions of euros. – (3) Does not include liabilities with resident MFIs. – (4) Does not include those of central government.

Funding growth stabilizes at low levels

Italian banks' total funding grew by 2.1 per cent in the twelve months to November (Table 7), up slightly from a historic low of 0.5 per cent in September. Contributory factors were the acceleration in residents' deposits to growth of 6.2 per cent and the smaller decline in non-residents' deposits, which fell by 10.6 per cent. The low level of interest rates continued to be associated with a high rate of expansion in current accounts (11.2 per cent) and contraction in repos (30.6 per cent). The variation in non-financial companies' deposits turned negative by 0.9 per cent, while the growth in households' deposits rose to 5.3 per cent. Among banks' assets, there was further rapid expansion in securities other than shares, particularly government paper.

Bank profitability remains low

According to the consolidated reports of the five largest banking groups, in the first nine months of 2009 net profits were down by about 50 per cent from the same period of 2008, reflecting the sharp increase in loan losses. The return on equity fell to 4.2 per cent on an annualized basis, from 9 per cent in the year-earlier period. All the largest banks suffered a drop in net interest income and net fee income (down by 5.5 and 16.1 per cent, respectively), set against a positive contribution from trading activities and a reduction in operating expenses (down by 5.9 per cent). With operating profit broadly unchanged, the decline in earnings was due to the increase in writedowns on loans, which absorbed more than half of operating profit (€11 billion), compared with about a quarter in the first nine months of 2008 (€5 billion). However, examination of the statements quarter by quarter reveals a tendency of the income results to stabilize.

Capital ratios continue to improve

The capital ratios of the five largest banking groups improved in the third quarter of 2009, partly as a consequence of the completion of a public recapitalization operation. Compared with June, the total capital ratio and the tier 1 ratio both rose by 0.5 percentage points, to 11.5 and 7.9 per cent, respectively. The core tier 1 ratio rose by 0.8 points, to 7.3 per cent.

3.8 THE FINANCIAL MARKETS

Share prices were generally stable

After the large gains recorded between March and September, in the fourth quarter of 2009 the general index of the Italian stock exchange was virtually unchanged (-0.7 per cent), as was the index of the main listed companies in the euro area (Figure 30). Although share prices rose by 20.7 per cent in 2009 as a whole (and by 23.4 per cent in the euro area), they continue to be well below the levels recorded prior to the collapse of Lehman Brothers. The flat trend of share prices from October on reflected, first and foremost, investors' perception of the persistent fragility of the present economic recovery. Another factor may have been the further contraction in the current earnings of listed companies, with stable expectations for the years to come.

Figure 30

Share prices (1)

(end-of-week data; indices, 30 December 2005=100)

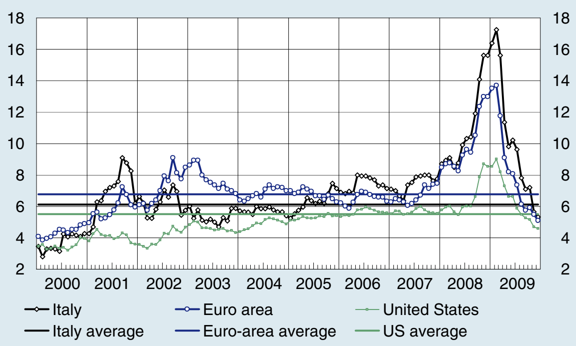
Source: Thomson Reuters Datastream.
(1) FTSE Italia Mib storico for Italy, Dow Jones Euro Stoxx for the euro area, Standard & Poor's 500 for the United States. The last available data are for 8 January.

The main sectors of the Italian stock exchange followed widely differing patterns in the last quarter of 2009. Automotive industry shares rose by 16.4 per cent, reflecting the strong recovery of profits for the Fiat group. Commodity shares also made gains (23.5 per cent), boosted by the prospects of a rise in raw material prices. Instead bank shares lost 6.3 per cent and telecommunications shares 8.1 per cent. The fall in the prices of bank shares was in line with that seen in the euro area as a whole and reflected investors' cautious view of the improvement in the situation of this sector.

Figure 31

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

(monthly data; per cent)



Sources: Thomson Reuters Datastream and Bank of Italy data.
(1) Averages are for the period from January 1986.

At the end of December the current earnings/price ratio showed a further decline, to below the long-term average (Figure 31). The volatility of share prices implied by options prices continued to decline.

There were five initial public offerings in the fourth quarter and seven overall during the year, the same number as in 2008. At the end of December there were 291 Italian companies listed on Borsa Italiana, for a total market value of €457 billion (equal to about 30 per cent of GDP).

Net bond issues increased

In the third quarter of 2009 net bond issues by Italian companies amounted to €32 billion, up from the previous quarter's €26 billion. In the euro area net issues fell by more than half (Table 8). In Italy, as in the rest of the euro area, issues of securities by banks declined sharply, while issues by other financial corporations picked up thanks to substantial securitizations; most of these securities were not placed on the market, however, but were repurchased by the banks that had originated the underlying assets, presumably for use as collateral in Eurosystem financing operations. In Italy, as in the rest of the euro area, net issues by non-financial corporations declined.

Credit risk premiums for non-financial corporations fell further

In the fourth quarter of 2009 the yield spreads of investment grade bonds issued by Italian non-financial corporations over government securities narrowed by 0.2 percentage points, in line with developments in the other euro-area countries. The premiums on credit default swaps on Italian banks instead rose by 0.2 percentage points, similar to the increase for banks in the rest of the euro area.

The yield spread between ten-year Italian government securities and German Bunds declined slightly

The yield spread between ten-year Italian government securities and German Bunds narrowed by around 10 basis points between the end of September and 8 January. However, it had widened briefly between November and December when the leading international rating agencies downgraded Greek government securities, which affected Italian issues and those of other countries with a similar credit rating (Figure 32). By contrast, the premiums on credit default swaps on Republic of Italy debt and that of the other euro-area countries rose, increasing between the end of September and 8 January by 130 basis points for Greece, 45 for Spain, 30 for Italy and 15 for Ireland. The premiums on swaps on German and French securities remained largely unchanged.

The inflow of savings to investment funds increases

In the third quarter of 2009, as in the second, net fund-raising by investment funds in Italy was positive (€6.9 billion, compared with €1 billion in the previous quarter). The net inflows went both to foreign funds (€4.9 billion) and, for the first time in four years, to Italian funds (€2 billion). Among the latter, net subscriptions grew markedly for bond and money-market funds (€1.9 billion and €1 billion respectively), but remained modest for equity funds (€0.2 billion). Balanced, flexible and hedge funds continued to report net redemptions. As in the previous quarter, the average yield on Italian harmonized funds was positive (3.4 per cent): the highest yields were delivered by equity funds and balanced funds (13.2 and 5.9 per cent respectively), the lowest by money-market funds (0.5 per cent) and bond funds (1.8 per cent). Individually managed portfolios also recorded net inflows (€22.7 billion) for the first time since the third quarter of 2007; their average yield is estimated at 2.2 per cent.

Table 8

Net bond issues (1)

(millions of euros)

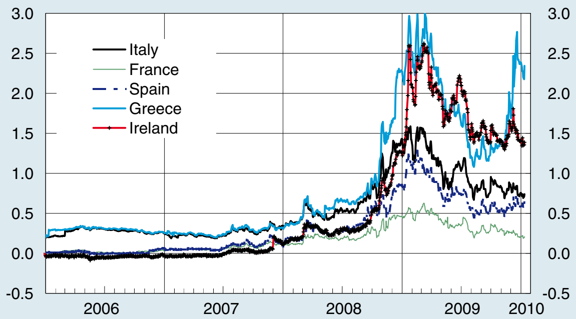
	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2007	63,928	12,655	10,593	**87,176**
2008	123,655	73,234	1,745	**198,634**
2008 – Q1	39,938	-4,480	-115	**35,343**
Q2	45,064	14,809	-1,421	**58,452**
Q3	14,887	8,972	1,071	**24,930**
Q4	23,766	53,933	2,210	**79,909**
2009 – Q1	46,140	9,777	3,685	**59,602**
Q2	20,555	1,557	4,308	**26,420**
Q3	7,273	21,788	2,983	**32,044**
		Euro area		
2007	284,873	323,457	28,676	**637,005**
2008	193,251	393,679	30,664	**617,594**
2008 – Q1	35,458	4,914	-2,338	**38,033**
Q2	127,632	100,563	11,857	**240,052**
Q3	21,717	45,704	7,695	**75,116**
Q4	8,445	242,498	13,450	**264,393**
2009 – Q1	77,390	125,885	38,717	**241,991**
Q2	108,172	86,466	47,724	**242,362**
Q3	36,299	35,833	33,094	**105,226**

Sources: Bank of Italy and ECB.
(1) Face value of 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)



Sources: Based on Bloomberg and Thomson Reuters Datastream data.

3.9 THE PUBLIC FINANCES

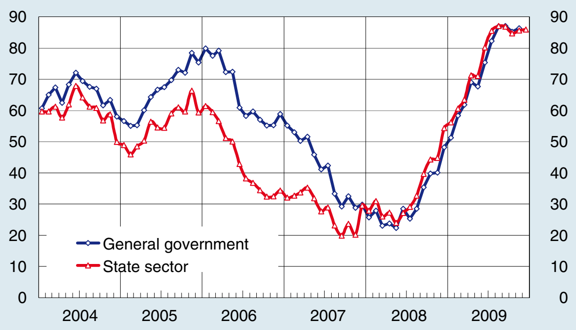
A much larger borrowing requirement for the second year running ...

In 2009 the state sector borrowing requirement rose to €85.9 billion (5.6 per cent of the nominal GDP estimated in the forecasting exercise presented here; see Section 3.10), just below the estimate (5.7 per cent of GDP) contained in the Forecasting and Planning Report published in September 2009. The large increase on 2008 (€31.6 billion and 2.2 per cent of GDP; Figure 33) was mainly due to the fall in revenue caused by the deterioration in economic conditions. The borrowing requirement was also pushed up €4.1 billion by the subscription of the bonds issued by banks under the measures to support the financial system. Revenue in December was boosted by the foreign assets disclosure scheme, which yielded nearly €5 billion (see the box "Recent public finance measures" in *Economic Bulletin* No. 54, 2009), and was diminished by the temporary loss of revenue (officially estimated at nearly €4 billion) caused by the reduction towards the end of the year in the size of the personal income tax payment on account.

Figure 33

Rolling twelve-month borrowing requirement (1)

(billions of euros)



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

In the first eleven months of 2009 the general government borrowing requirement, net of privatization receipts, amounted to €92 billion (against €53.9 billion in the corresponding period of 2008). This was €3.6 billion more than the state sector borrowing requirement, which instead had been €3.2 billion larger in the first eleven months of 2008, primarily owing to the advances amounting to just under €6 billion granted by central government to the regions to settle past health service debts.

... as a result of a sharp fall in tax revenue

The fall in tax revenue that had begun at the end of 2008 continued. In 2009 state tax revenue on a cash basis decreased by 2.6 per cent or €10.6 billion (Table 9), against increases of 9.6, 4.8 and 0.7 per cent in the three previous years. Revenue in 2009 was boosted by the extraordinary receipts from the one-off withholding taxes introduced by the first anti-crisis decree (Decree Law 185/2008) and the foreign assets disclosure scheme. If these amounts are excluded, tax revenue decreased by 5.1 per cent.

Revenue from corporate income tax and self-assessed personal income tax fell by 20.3 per cent or €15 billion. The amount of self-assessed personal income tax was influenced by the reduction towards the end of the year in the size of the payment on account. VAT receipts fell by 6.6 per cent or €7.8 billion and receipts from the withholding tax on financial assets dropped by 7.3 per cent or €1 billion. The amounts withheld on payroll workers' earnings remained basically unchanged. Revenue in 2009 benefited, instead, from the temporary increase in receipts from excise duties on methane (€1.6 billion) and lotteries (€1.4 billion).

Social security contributions also contracted in 2009. In the first nine months they were 1.3 per cent lower than in the year-earlier period (see Istat, *Conto economico trimestrale delle Amministrazioni pubbliche. III trimestre 2009*).

Turning to local government revenue, the figures published by the Ministry for the Economy and Finance for the first eleven months of 2009 show a reduction of 10.9 per cent or €3.9 billion in receipts of the regional tax on productive activities (IRAP) and virtually no change in those of the regional and municipal personal income surtaxes.

Table 9

State budget tax revenue on a cash basis (1)

	Millions of euros		Percentage changes	
	2008	2009	2008	2009
Direct taxes	**226,140**	**220,209**	**3.2**	**-2.6**
Personal income tax	158,263	153,402	5.4	-3.1
of which: *withholding tax on employee incomes*	*116,969*	*117,262*	*6.9*	*0.3*
balance	*7,430*	*5,809*	*-0.1*	*-21.8*
payment on account	*19,065*	*15,506*	*0.6*	*-18.7*
Corporate income tax (2)	47,438	37,638	-6.1	-20.7
of which: *balance*	*12,003*	*9,825*	*-8.7*	*-18.1*
payment on account	*34,618*	*26,479*	*-6.1*	*-23.5*
Withholding taxes on interest income and capital gains	14,257	13,214	4.1	-7.3
interest on bank deposits and bonds	*12,093*	*12,087*	*13.9*	*0.0*
dividends	*676*	*421*	*27.5*	*-37.7*
capital gains	*702*	*458*	*-38.9*	*-34.8*
managed assets	*786*	*248*	*-43.8*	*-68.4*
Other	6,182	15,955	28.9	158.1
of which: *one-off withholding taxes – Decree Law 185/2008*	–	*6,531*	–	
foreign assets disclosure scheme (3)	–	*3,816*	–	
Indirect taxes	**186,178**	**181,468**	**-2.2**	**-2.5**
VAT	117,444	109,692	-1.5	-6.6
Other business taxes	21,396	20,925	-2.2	-2.2
Excise duties on mineral oils	20,291	20,817	-0.2	2.6
Other excise duties and sales taxes	5,823	7,249	-20.6	24.5
Monopolies	9,909	10,075	1.2	1.7
Lotteries	11,315	12,710	-4.1	12.3
TOTAL TAX REVENUE	**412,318**	**401,677**	**0.7**	**-2.6**

Source: Based on State budget data.
(1) For 2009, provisional data. – (2) The figures for both years include the receipts from withholding taxes introduced in the budget for 2008. – (3) In 2009 only a part of the receipts from the scheme (overall nearly €5 billion) was included in the State budget.

The large deterioration in the public finances is also revealed by the general government consolidated accounts for the first three quarters, published by Istat. Compared with the corresponding period of 2008, revenue fell by 2.4 per cent (against a fall of 2.9 per cent in nominal GDP) and primary expenditure rose by 5.1 per cent. Net borrowing increased from 2.8 to 5.2 per cent of GDP, despite the significant decline in interest payments. Primary expenditure grew by 3.4 percentage points of GDP; the increase, which was less than in 2008, was kept down by the compensation of employees (driven up in the previous year by particularly onerous contract renewals) but boosted by the rapid growth in intermediate consumption and investment.

The deterioration in the deficit is smaller than the average expected for the euro-area

In 2009 general government net borrowing is expected to increase significantly. According to the Forecasting and Planning Report it is likely to be 5.3 per cent of GDP, up from 2.7 per cent in 2008 (Table 10). The deterioration is smaller than the average expected for the euro area (from 2 per cent of GDP in 2008 to 6.4 per cent in 2009).

On the basis of the results expected for 2009, in December the Council of the European Union opened excessive deficit procedures against Italy and seven other euro-area countries. At present, only Cyprus, Finland and Luxembourg are not subject to the procedure. The Council has called upon Italy to bring the deficit below the 3 per cent threshold by 2012, an objective in line with the reduction planned in last September's Forecasting and Planning Report.

Table 10

Estimates and objectives of the main general government balances

(millions of euros and percentages of GDP)

	2008 (1)	2009 (2)	2010 (3)	2011 (3)
Net borrowing	42,979	80,945	77,647	63,312
as a % of GDP	*2.7*	*5.3*	*5.0*	*3.9*
Primary balance	37,912	-6,933	-690	21,104
as a % of GDP	*2.4*	*-0.5*	*0.0*	*1.3*
Interest payments	80,891	74,013	76,957	84,416
as a % of GDP	*5.1*	*4.8*	*4.9*	*5.2*
Debt	1,663.03	....	....	....
as a % of GDP	*105.8*	*115.1*	*117.3*	*116.9*

Sources: Based on the Forecasting and Planning Report for 2010; for the debt figure for 2008, see "The Public Finances, Borrowing Requirement and Debt" in *Supplements to the Statistical Bulletin*, no. 3, 13 January 2010.
(1) Outturn. – (2) Estimates. – (3) Objectives.

The ratio of debt to GDP also continues to rise

In the first eleven months of 2009 general government debt rose by €120.8 billion (€87.2 billion in the year-earlier period) to €1,783.9 billion. The sharp acceleration compared with 2008 was due to the higher overall borrowing requirement (€91.3 billion against €53.8 billion) and, to a lesser extent, to the larger increase in the Treasury assets held with the Bank of Italy (from €20.3 billion at the end of 2008 to €49.4 billion in November 2009, compared with a rise from €9.7 billion at the end of 2007 to €36.6 billion in November 2008). Factors operating in the opposite direction included the reduction in issue discounts and the appreciation of the euro, which together increased the debt by €0.5 billion in the first eleven months of 2009, against €6.4 billion in the year-earlier period.

At the end of the year the stock of assets held by the Treasury with the Bank of Italy was equal to €31.7 billion, against €20.3 billion at the end of 2008. The increase reflects a prudential approach to the management of the public debt in a period marked by low borrowing costs and considerable uncertainty about developments in the financial markets. In 2009 the ratio of debt to GDP is likely to have risen by about 10 percentage points, from 105.8 per cent in 2008.

The 2010 Finance Law

At the end of December Parliament passed the 2010 Finance Law, whose effects will supplement those of the measures adopted during the summer. The bill submitted at the end of September provided for a small number of measures of limited size. As enacted, the law, which contains a much larger number of measures, provides for a net increase of €3.3 billion in both revenue and expenditure in 2010, thus again having no effect on the balance. Provisions that extend those that have already been adopted are accompanied by others to stimulate employment, additional allocations for universities and supplementary transfers to the National Health Service under the Health Pact for 2010-12. An important part of the financing is to come from extraordinary revenue measures, which should have only a limited effect on economic activity. The reference here is primarily to the foreign assets disclosure scheme, whose effects on the deficit have mostly been shifted to this year by the above-mentioned reduction in the size of the personal income tax payment on account due at the end of 2009.

The Finance Law also amends the provisions governing the control of health expenditure. It extends to 2010-12 the constraints on staff compensation established in the Health Pact of 28 September 2006, specifies the size of regional deficits that will trigger the requirement to submit a three-year plan to eliminate the overshoot and makes the procedure to be followed in the event of imbalances more stringent. In addition, it provides, in the event of failure to achieve the deficit-reduction objectives, for automatic rate increases, on top of those provided for by the Finance Law for 2005, of respectively 0.3 percentage points and 0.15 points for the personal income surtax and IRAP, a freeze on the hiring of health staff, a ban on non-mandatory expenditure and the nullity of acts and contracts that violate the latter two provisions.

3.10 FORECASTS

The recovery of the world economy and trade ...

Since our last forecasts issued in the July *Economic Bulletin*, world output and the volume of world trade have returned to growth, drawing strength from fiscal and monetary stimulus and the improvement in financial market conditions, even though lending to the private sector has remained sluggish. The forecasts of the main international organizations for world growth in 2010 have been revised upwards to around 3 per cent. The improvement in the current situation and in the outlook has been reflected in rising spot and futures prices for energy commodities, but their prices are still far below the peaks registered in the summer of 2008 (see the box "Assumptions underlying the forecasts").

ASSUMPTIONS UNDERLYING THE FORECASTS

The assumptions regarding the growth of the world economy and world trade on which the macroeconomic scenario is based are the same as those used for the euro-area forecasts published in December in the ECB's *Monthly Bulletin*. They are less optimistic than the latest estimates of the OECD but not significantly different from those of the European Commission. The world economy is assumed to continue to grow this year and next at an annual rate of between 3 and 4 per cent, slower than in the recent past. World trade, after a contraction of nearly 12 per cent in 2009, is assumed to grow by just over 4 per cent this year and nearly 5 per cent in 2011.

The assumptions regarding interest rates and exchange rates and the price of oil take account of the information available in the ten working days preceding 12 January 2010. The price of Brent crude oil averages $83 a barrel this year and $88 next year. Three-month interest rates, based on the prices of Euribor futures, are assumed to hold at just over 1 per cent on average for 2010 and then rise to 2.2 per cent in 2011. Long-term interest rates (corresponding to the yield of a basket of government securities with a duration of about 6 years) are 3.8 per cent in 2010 and 4.2 per cent in 2010. For exchange rates, the technical assumption that all bilateral rates remain unchanged at their average levels of the last two weeks implies a dollar/euro conversion rate of 1.44 over the entire forecasting horizon. Lending conditions to firms assume the easing of credit market strains in the course of 2010, in keeping with the indications of the Bank Lending Survey for a substantial easing of lending standards (see the box "Credit supply and demand in Italy").

The projections for the public finances take account of the Finance Law for 2010 and the other government measures of recent months.

... is pulling Italy out of the recession

In Italy the 0.6 per cent growth of GDP in the third quarter marked the end of a protracted recession during which output declined by 6.5 per cent over 15 months, falling back to its end-2001 level. The recovery in economic activity is expected to proceed slowly in the course of the year, restrained by the slackness of domestic demand in a situation in which, in Italy as elsewhere, the effects of the stimulus measures taken to combat the crisis will be waning. Not until 2011, in fact, is quarterly GDP forecast to grow at least as fast as potential output, reflecting a further acceleration in the expansion of world trade and better labour market conditions. The central scenario calls for GDP, after a contraction of 4.8 per cent in 2009, to grow by 0.7 per cent on average in 2010 and accelerate to 1 per cent the following year (Figure 34 and Table 11). This represents an upward revision of the July forecasts of 0.4 percentage points for 2009 and 0.7 for 2010, due almost entirely to more favourable assumptions on world trade, which is now expected to grow by more than 4 per cent for 2010 as a whole (compared with our July forecast of 0.8 per cent).

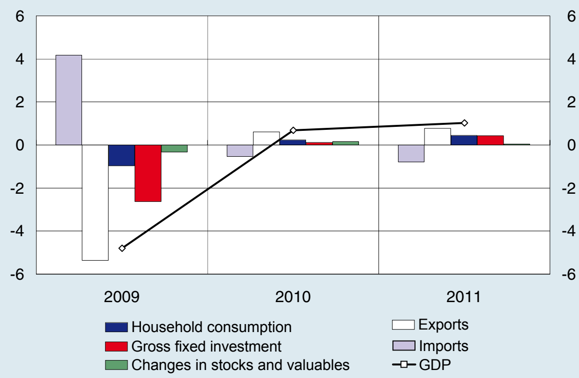
Exports are rising but more slowly than world demand

In the third quarter Italian exports gained renewed impetus from the upswing in world trade. We estimate that foreign sales will increase by about 3 per cent both this year and next, after contracting by nearly 20 per cent in 2009. However, exports will grow more slowly than world trade, owing to the lagged effect of the substantial losses of competitiveness accumulated in years past and the more limited losses expected over the forecasting horizon. This will result in a further shrinking of Italy's world market share, which has fallen steadily since 2001.

Figure 34

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

(percentages)



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

Investment should start to grow again ...

After a contraction of more than 15 per cent in the last two years – a sharper fall than in the 1992-93 recession – capital formation should begin to increase again, fostered by the easing of strains in the credit market (see the box "Credit supply and demand in Italy"), expansive monetary conditions and tax incentives for expanding production capacity (see the box "Recent public finance measures", *Economic Bulletin* No. 53, July 2009). Total investment is forecast to increase by 0.7 per cent on average in 2010 and to accelerate to growth of more than 2 per cent in 2011. Investment in productive capital, which enjoys greater tax advantages, is expected to increase by over 6 per cent in 2010-11, despite a pause in the second half of the current year with the waning of the effects of the tax incentives for machinery purchases (which expire on 30 June). Even considering the government incentives for the enlargement of dwellings, residential investment is expected to remain slack for much of the forecasting period, as a consequence of the continuing weakness of the real estate market; it will not return to relative buoyancy until the end of 2011.

Table 11

Forecasts of the main macroeconomic variables in Italy

(percentage changes on previous year unless otherwise indicated)

	2009	2010	2011
GDP (1)	**-4.8**	**0.7**	**1.0**
Household consumption	-1.7	0.4	0.7
Government consumption	1.5	0.3	0.4
Gross fixed investment	-12.6	0.7	2.3
Exports	-19.2	2.6	3.1
Imports	-14.9	2.1	3.0
Change in stocks (2)	-0.3	0.2	0.0
HICP (3)	0.8	1.5	1.9
Export competitiveness (4)	-2.8	-1.1	-1.2

Sources: Based on Bank of Italy and Istat data.
(1) For GDP and its components: chain-linked volumes; changes estimated on the basis of quarterly data adjusted for seasonal and calendar effects. – (2) Contributions to GDP growth; percentage points. – (3) Harmonized index of consumer prices. – (4) Calculated by comparing the price of foreign manufactures with the deflator of Italian merchandise exports (excluding energy and agricultural products).

... and also consumption, despite the persistent weakness of the labour market

The slowness of the recovery in industry, whose November output was about 20 per cent below pre-crisis levels, will continue to weigh on labour demand, which is not forecast to return to growth until 2011. The poor employment outlook and the consequently greater caution in spending decisions will affect household consumption, which should rise by barely 1 per cent overall in 2010-11, slower than GDP despite the support to disposable income deriving from large-scale recourse to the Wage Supplementation Fund.

The external accounts are likely to worsen

Spurred by the upturn in the demand components with the greatest foreign content, imports should grow by about 2 per cent in volume terms in 2010 and 3 per cent in 2011. The deficit on the current account of the balance of payments would widen by nearly one percentage point of GDP, reflecting a deterioration in the terms of trade as energy prices rebound from the lows of early 2009.

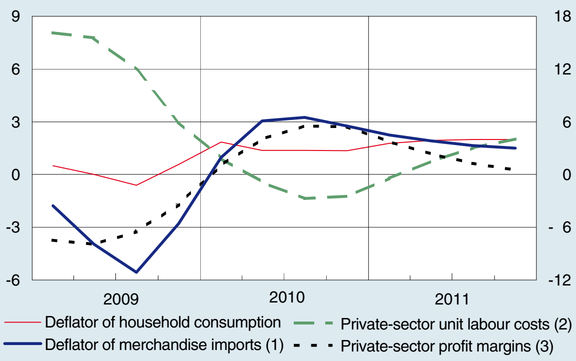
Consumer price inflation will be between 1.5 and 2 per cent

Consumer prices – measured by the harmonized index of consumer prices – are forecast to rise by 1.5 per cent on average for 2010 and 1.9 per cent for 2011; and core inflation is expected to be roughly the same. The marked cyclical improvement forecast for labour productivity should result in a sharp slowdown in the rise of unit labour costs in the private sector (after the rapid increases registered in 2008 and 2009) and a significant diminution in the domestic component of inflation, which should fall to less than 2 per cent. As activity recovers while the rise in costs moderates, private sector profit margins, following the usual cyclical pattern, should increase by a total of 3 percentage points in 2010-11, recouping more than half the decline of the last two years (Figure 35).

Figure 35

Main determinants of consumer price inflation

(percentage changes on year-earlier period)



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

Table 12

Forecasts of other organizations

(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2010	2011	2010	2011
IMF	0.2	–	0.9	–
OECD	1.1	1.5	0.9	0.8
European Commission	0.7	1.4	1.8	2.0
Consensus Economics	0.9	–	1.4	–

Sources: IMF, World Economic Outlook, October 2009; OECD, Economic Outlook No. 86, November 2009; European Commission, European Economic Forecast – Autumn 2009, October 2009; Consensus Economics, Consensus Forecasts, December 2009.
(1) The growth rates given in the OECD forecasts are adjusted for calendar effects, unlike those of the European Commission and the IMF. – (2) HICP.

Most forecasters expect the recovery to be gradual

Our GDP forecast for 2010 is less optimistic than that of the OECD or the average of the forecasters surveyed by Consensus Economics in December. It is in line with the forecast of the European Commission and 0.5 percentage points higher than that of the IMF (Table 12). For 2011 the OECD and the Commission forecasts are about half a percentage point higher than our own. The discrepancy with respect to the OECD is due largely to our more prudent assessment of the recovery in world trade (and also to a less optimistic evaluation of the effects of the termination of the fiscal stimulus measures). The forecasting scenario of the Commission, instead, assumes a faster return of the household saving rate to pre-crisis levels, and hence faster growth of consumption. Our inflation estimates are in line with the Consensus Economics average but lower than the Commission's forecast (consistently with the differences in the domestic demand forecasts) and considerably higher than those of the IMF and the OECD.

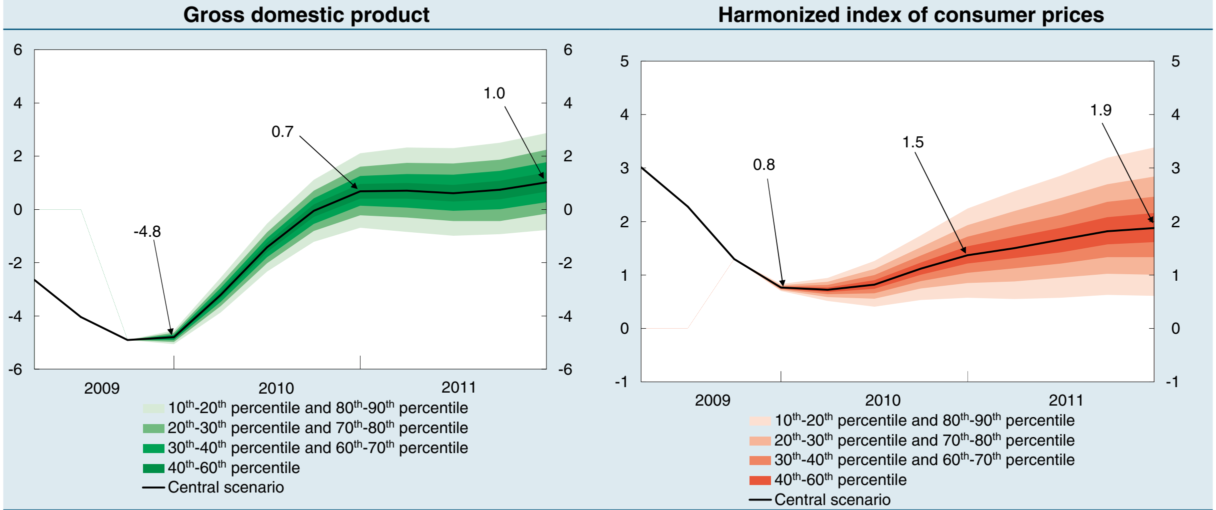
Considerable uncertainty still surrounds the forecast scenario

The macroeconomic scenario set out here is subject to very considerable uncertainty as regards the strength and course of the recovery both in Italy and worldwide (Figure 36). The GDP growth forecast for Italy of less than 1 per cent for 2010 as a whole is the central value in a broad range, with a 70 per cent probability that the

Figure 36

Distribution of probabilities of GDP and HICP forecasts (1)

(percentage changes on corresponding period of previous year; 4-term moving average)



(1)The probability distribution is graphed, for percentile groups, by fan charts, based on stochastic simulations effected via random extractions from the shock distribution of the Bank of Italy quarterly econometric model. The figure shows year-on-year percentage changes of four-term moving averages. The value corresponding to the fourth quarter of each year coincides with the average annual percentage change.

GDP outturn will fall within a confidence interval of ± 1 percentage point. Among the factors that could produce a better growth scenario are the possibilities of faster expansion in world trade (especially in 2011, for which our scenario assumes growth still considerably lower than the average for the last 20 years) and – in the short term – of faster inventory replenishment. One of the main sources of downside risk is the possibility, despite the emergence from the recession, that a protracted period of weak demand could slow the return to productive employment of workers now receiving Wage Supplementation benefits. This would result in a further reduction in households' purchasing power, making the recovery feebler. The deterioration in the public finances of the leading advanced countries, caused by the crisis and aggravated by fiscal stimulus measures, could lead to a significant increase in the cost of borrowing, and not only for the public sector. As for inflation, upside risks would come from the possibility of even faster rises in oil and other raw material prices, driven by the world economic recovery and fuelled in part by abundant global liquidity; slower price increases, by contrast, could be the result of a weaker economic recovery than forecast here.

SELECTED STATISTICS

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

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Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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
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	-2.4	-4.1	-14.7	1.7	-1.4
Q3	2.2	2.8	2.0	2.6	0.6	-1.3	-0.2	3.0	3.0	17.8	21.3	-0.8	0.7

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	1.7	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	2.4	1.6	0.9	1.5	0.3	-1.2	-0.3	1.3	1.2	8.4	1.6	1.1	0.3
2008	-1.2	-0.7	-0.4	0.3	..	-2.6	-0.6	-1.3	-1.3	1.6	0.8	0.2	-0.4
2007 – Q1	6.8	3.9	2.2	1.7	0.3	0.3	0.1	5.1	5.0	20.1	9.4	1.8	2.5
Q2	-1.6	1.6	0.9	3.7	0.6	-7.3	-1.7	-1.2	-1.2	4.6	8.2	-0.4	-1.2
Q3	0.1	-1.9	-1.1	-0.8	-0.1	-7.6	-1.8	-1.7	-1.6	1.3	-9.9	1.8	1.4
Q4	1.5	1.1	0.6	6.1	1.1	-3.6	-1.1	-0.7	-0.7	12.8	-0.4	2.1	-1.5
2008 – Q1	5.6	2.9	1.6	-1.1	-0.2	13.5	2.9	2.8	2.7	30.6	14.9	2.8	-1.6
Q2	-8.1	-6.2	-3.4	-4.8	-0.8	-7.8	-1.8	-6.9	-6.6	-15.1	-9.0	-1.5	-0.5
Q3	-4.0	-0.6	-0.3	-0.6	-0.1	-9.7	-2.3	-2.2	-2.1	-7.7	2.9	-1.9	0.6
Q4	-10.2	-3.5	-2.0	4.7	0.9	-15.9	-3.7	-1.4	-1.4	-44.9	-6.2	-9.0	3.6
2009 – Q1	-11.9	-4.9	-2.8	2.8	0.6	-21.9	-5.3	-9.0	-9.1	-61.7	-47.7	-2.8	-1.5
Q2	2.7	4.8	2.8	1.1	0.2	-12.2	-2.8	-2.7	-2.8	28.8	-13.0	5.5	-3.0
Q3	1.3	3.8	2.3	-0.5	-0.1	-12.4	-2.8	-0.2	-0.2	28.6	13.9	1.5	0.4

Source: Based on national statistics.
(1) Chain-linked volumes. – (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	3.0	1.4	1.8	0.8	1.3	1.2	1.7	1.1
2004	2.2	7.0	3.5	1.2	3.6	2.3	1.6	1.6	7.4
2005	1.7	5.8	2.8	2.3	4.2	3.2	1.8	1.6	5.1
2006	3.0	8.5	4.6	4.5	6.6	5.5	2.0	2.1	8.5
2007	2.8	5.5	3.6	3.1	6.7	4.8	1.6	2.3	6.3
2008	0.6	1.0	0.8	-0.8	-0.1	-0.4	0.4	2.0	1.0
2007 – Q3	0.6	1.6	0.9	0.3	1.0	0.6	0.6	0.5	1.5
Q4	0.3	..	0.2	0.6	1.8	1.2	0.2	0.4	0.7
2008 – Q1	0.8	1.9	1.1	1.2	0.3	0.7	0.2	0.5	2.1
Q2	-0.3	-1.0	-0.5	-2.6	-0.1	-1.4	-0.4	0.7	-0.5
Q3	-0.4	..	-0.3	-1.4	-1.0	-1.2	..	0.5	-1.3
Q4	-1.9	-4.8	-2.8	-2.9	-5.1	-4.0	-0.5	0.6	-7.2
2009 – Q1	-2.5	-7.4	-3.9	-1.2	-9.7	-5.4	-0.4	0.6	-8.6
Q2	-0.1	-2.8	-0.9	-0.9	-2.4	-1.6	0.1	0.6	-1.2
Q3	0.4	3.0	1.1	-1.5	-0.1	-0.8	-0.1	0.6	3.1
Implicit prices									
2003	2.2	-1.7	....	....	....	1.2	2.2	2.5	-1.2
2004	1.9	1.5	....	....	....	2.5	2.1	2.0	0.9
2005	2.0	3.4	....	....	....	2.5	2.1	2.3	2.4
2006	1.9	3.7	....	....	....	2.9	2.2	2.0	2.6
2007	2.3	1.4	....	....	....	2.6	2.3	1.7	1.6
2008	2.3	3.8	....	....	....	2.3	2.9	2.8	2.5
2007 – Q3	0.4	0.5	....	....	....	0.3	0.6	0.5	0.2
Q4	0.4	1.2	....	....	....	0.5	0.9	1.1	0.5
2008 – Q1	0.6	1.4	....	....	....	0.7	0.8	0.3	1.2
Q2	0.8	1.6	....	....	....	1.0	0.9	1.6	0.8
Q3	0.4	1.3	....	....	....	0.5	0.7	-0.4	0.7
Q4	0.6	-3.8	....	....	....	-0.4	-0.4	0.6	-1.4
2009 – Q1	..	-3.5	....	....	....	-0.5	-0.9	0.8	-2.7
Q2	0.1	-1.0	....	....	....	-0.4	0.2	0.5	-1.1
Q3	0.2	..	....	....	....	-0.2	0.3	0.5	-0.3

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

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' 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 – Q3	0.1	-0.1	0.1	0.5	-0.1	0.2	..	..	0.8
Q4	-0.5	-1.0	-0.6	0.5	-0.4	..	-0.4	0.2	-0.2
2008 – Q1	0.5	-0.1	0.4	0.9	-1.6	-0.3	0.1	-0.1	0.8
Q2	-0.6	-1.2	-0.7	-1.7	2.3	0.2	-0.6	0.5	-1.0
Q3	-0.8	-2.2	-1.1	-0.9	-3.7	-2.2	0.1	0.1	-3.5
Q4	-2.1	-5.7	-2.9	-4.5	-9.2	-6.8	-1.0	0.2	-7.4
2009 – Q1	-2.7	-8.8	-4.1	-1.2	-9.2	-4.9	-1.2	0.2	-11.7
Q2	-0.5	-2.5	-0.9	-1.6	-4.9	-3.1	0.1	1.2	-2.5
Q3	0.6	1.5	0.8	-2.1	3.4	0.3	0.4	-0.2	2.5
				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 – Q3	0.6	1.4	0.8	0.4	0.5	0.5	0.9	-0.1	0.7
Q4	0.6	0.7	0.6	0.8	0.1	0.5	0.7	3.6	0.8
2008 – Q1	0.3	2.7	0.9	0.8	1.7	1.2	0.8	-1.9	1.9
Q2	1.6	1.6	1.6	1.1	0.6	0.9	1.2	6.2	1.2
Q3	0.1	3.8	0.9	1.8	0.4	1.1	1.1	-3.9	2.1
Q4	1.1	-3.4	..	0.4	0.3	0.4	-0.7	1.3	-0.6
2009 – Q1	0.7	-4.4	-0.3	0.5	0.5	0.5	-1.0	2.1	-0.6
Q2	0.3	-2.0	-0.1	0.2	-1.0	-0.4	0.7	0.2	-0.7
Q3	0.3	0.4	0.3	-0.1	-0.8	-0.4	0.3	1.1	0.5

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

Table A5

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

(percentage changes on the year-earlier period)

	Per capita compensation	Productivity			Unit labour costs
			of which:		
			Value added (2)	Employees	
			Total industry excluding construction		
2006	3.4	4.0	3.6	-0.3	-0.5
2007	2.8	2.0	2.3	0.3	0.8
2008	3.1	-0.5	-0.6	-0.1	3.6
2007 – Q1	2.4	2.2	2.6	0.4	0.1
Q2	3.4	1.8	2.1	0.3	1.6
Q3	2.4	2.1	2.4	0.2	0.3
Q4	3.0	1.8	2.0	0.2	1.2
2008 – Q1	3.6	2.9	3.4	0.5	0.7
Q2	2.7	1.5	1.9	0.4	1.2
Q3	3.3	-0.9	-1.0	-0.1	4.2
Q4	3.0	-6.5	-7.7	-1.3	10.1
2009 – Q1	0.4	-13.8	-16.5	-3.1	16.5
Q2	0.1	-12.9	-17.0	-4.7	14.9
Q3		-8.3	-13.6	-5.8	
			Services		
2006	2.0	0.7	2.9	2.2	1.3
2007	2.5	1.1	3.3	2.1	1.4
2008	3.2	0.0	1.4	1.4	3.2
2007 – Q1	2.8	1.7	3.8	2.0	1.0
Q2	2.2	1.3	3.3	2.0	0.9
Q3	2.3	0.9	3.2	2.3	1.4
Q4	2.8	0.7	2.9	2.2	2.1
2008 – Q1	2.9	0.3	2.3	2.0	2.6
Q2	3.3	0.0	1.8	1.7	3.3
Q3	3.6	0.1	1.2	1.1	3.5
Q4	3.0	-0.7	0.0	0.7	3.7
2009 – Q1	2.3	-1.5	-1.6	-0.1	3.8
Q2	1.9	-1.1	-1.6	-0.4	3.1
Q3		-1.0	-1.5	-0.5	
			Total economy		
2006	2.3	1.3	3.0	1.6	1.0
2007	2.6	1.2	3.0	1.8	1.4
2008	3.2	0.1	0.9	0.7	3.1
2007 – Q1	2.7	1.8	3.6	1.8	0.9
Q2	2.4	1.2	2.9	1.7	1.3
Q3	2.3	0.9	2.8	1.9	1.4
Q4	2.8	0.8	2.5	1.7	2.1
2008 – Q1	3.2	0.9	2.4	1.5	2.2
Q2	3.3	0.6	1.7	1.1	2.7
Q3	3.6	0.1	0.6	0.5	3.5
Q4	3.1	-1.6	-1.7	-0.1	4.7
2009 – Q1	1.9	-3.7	-4.9	-1.3	5.9
Q2	1.6	-3.1	-4.9	-1.8	4.9
Q3	1.4	-2.1	-4.1	-2.0	3.6

Source: Based on Eurostat data.
(1) Based on persons employed; annual figures are unadjusted; quarterly data are seasonally and calendar-adjusted. – (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 (1)

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly wages and salaries	Hourly productivity			Unit labour costs
				of which:		
				Value added (2)	Hours worked	
			Total industry excluding construction			
2006	2.1	2.8	1.6	3.1	1.5	0.5
2007	2.8	3.1	0.8	1.8	0.9	1.9
2008	4.2	4.0	-0.5	-3.2	-2.7	4.8
2007 – Q1	2.1	2.4	1.3	3.0	1.7	0.8
Q2	2.6	3.1	1.0	2.9	1.8	1.5
Q3	2.9	3.4	1.0	1.6	0.5	1.9
Q4	4.5	4.7	-0.7	-2.1	-1.5	5.2
2008 – Q1	4.6	4.6	1.2	-0.1	-1.3	3.3
Q2	2.7	2.5	0.8	-1.0	-1.8	1.9
Q3	5.4	5.1	0.7	-3.1	-3.8	4.7
Q4	4.3	4.1	-4.9	-8.5	-3.7	9.7
2009 – Q1	3.6	3.5	-10.7	-16.7	-6.8	15.9
Q2	4.4	4.4	-11.2	-17.9	-7.5	17.5
Q3	0.2	0.2	-7.8	-13.7	-6.4	8.7
			Services			
2006	2.3	2.7	0.0	1.8	1.8	2.2
2007	1.9	2.1	0.5	1.9	1.4	1.5
2008	3.1	3.2	-0.7	-0.2	0.5	3.8
2007 – Q1	2.4	2.6	1.8	2.4	0.5	0.5
Q2	1.4	1.4	2.4	2.0	-0.4	-1.0
Q3	0.6	0.8	-0.8	1.9	2.7	1.4
Q4	4.4	4.4	-0.4	1.2	1.6	4.8
2008 – Q1	3.1	3.3	-1.6	0.8	2.4	4.8
Q2	4.0	4.1	-1.6	0.0	1.6	5.6
Q3	3.9	3.7	0.6	-0.6	-1.2	3.3
Q4	1.4	1.5	-0.3	-1.1	-0.8	1.8
2009 – Q1	2.4	2.0	-0.2	-2.7	-2.5	2.6
Q2	0.1	-0.1	-0.7	-2.2	-1.5	0.8
Q3	2.3	2.2	-0.4	-1.7	-1.4	2.7
			Total economy			
2006	2.1	2.5	0.3	2.0	1.7	1.8
2007	2.2	2.3	0.3	1.7	1.3	1.8
2008	3.4	3.4	-0.3	-0.9	-0.5	3.8
2007 – Q1	2.3	2.5	1.3	2.4	1.2	1.0
Q2	1.6	1.8	1.5	2.0	0.5	0.1
Q3	1.3	1.6	-0.4	1.6	2.0	1.7
Q4	4.4	4.5	-0.2	0.3	0.5	4.6
2008 – Q1	3.6	3.7	-0.6	0.5	1.1	4.2
Q2	3.6	3.7	-0.3	-0.2	0.2	4.0
Q3	4.3	4.0	0.6	-1.1	-1.7	3.6
Q4	2.2	2.3	-1.2	-2.7	-1.5	3.5
2009 – Q1	3.0	2.8	-2.1	-5.8	-3.8	5.2
Q2	1.4	1.3	-3.0	-5.8	-2.9	4.5
Q3	1.9	2.0	-1.7	-4.6	-2.9	3.7

Sources: Based on Istat and Eurostat data.
(1) Based on hours effectively worked; annual figures are unadjusted; quarterly data are seasonally and calendar-adjusted. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2000.

Harmonized index of consumer prices: main euro-area countries (1)

(percentage changes on the year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO (2)	
	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products
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
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
Sept.	0.4	1.5	-0.5	1.0	-0.4	1.2	-1.0	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.2	-0.1	1.0
Nov.	0.8	1.4	0.3	1.0	0.5	1.0	0.4	0.4	0.5	1.0

Source: Eurostat.
(1) Indices, 2005=100. – (2) Weighted average of the indices of the countries belonging to the euro area at the date indicated.

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2005	-23,647	538	-541	-13,624	-1,676	-8,344	1,347	69	-66	1,344
2006	-38,346	-10,203	-1,272	-13,573	-5,473	-7,825	1,826	-100	-60	1,986
2007	-37,712	3,204	-7,115	-19,586	-6,804	-7,410	2,258	-69	71	2,255
2008	-53,597	-743	-7,350	-29,477	-6,996	-9,031	825	-13	-17	855
2007 – 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	-18,845	-2,521	-4,146	-7,409	-1,390	-3,379	-153	-10	71	-214
Q2	-12,329	2,485	-1,594	-9,505	-1,946	-1,769	15	-22	-35	72
Q3	(-5,781)	(3,730)	(-755)	(-5,840)	….	….	(372)	….	….	….
2007 – 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.	-8,025	-3,111	-1,042	-2,836	-396	-641	15	-16	24	6
Feb.	-4,970	21	-1,636	-2,025	-414	-915	38	12	23	3
Mar.	-5,850	569	-1,468	-2,548	-581	-1,823	-206	-6	24	-223
Apr.	-4,429	301	-1,078	-2,488	-540	-624	10	-13	-7	30
May	-3,466	2,026	-429	-3,859	-694	-510	23	-10	-2	35
June	-4,434	158	-87	-3,158	-713	-634	-17	1	-25	7
July	2,650	4,874	93	-1,342	-582	-393	136	-14	65	85
Aug.	-4,237	-1,006	-480	-1,753	-650	-349	91	-2	16	77
Sept.	(-4,194)	(-138)	(-368)	(-2,745)	….	….	(145)	….	….	….
Oct.	(-3,310)	(230)	(-446)	(-1,754)	….	….	(388)	….	….	….

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									
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	4.0	10.8	12.2	4.4	2.8	6.6	8.1	8.9
Dec.	6.1	-0.5	7.3	8.3	2.5	1.6	5.1	5.4	5.7
2009 – Mar.	6.2	-10.7	4.3	5.0	1.1	0.7	4.5	-0.5	2.8
June	8.3	-11.0	1.4	1.6	0.5	1.5	3.1	0.2	1.3
Sept.	5.7	-8.1	-1.2	-1.4	-0.3	0.8	2.9	-3.1	-0.1
Nov.	5.6	-8.9	-2.0	-2.5	0.8	2.0	3.0	-0.8	-0.6
South and Islands									
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	10.0	17.1	8.8
Dec.	6.1	11.1	5.0	5.8	2.6	1.2	9.0	9.4	6.7
2009 – Mar.	8.2	-0.9	3.3	4.1	1.1	0.0	7.5	8.3	5.3
June	8.7	3.1	1.0	1.5	-0.3	-0.9	5.7	5.3	3.6
Sept.	14.2	-0.4	-0.7	-0.8	-0.7	-0.8	5.0	2.0	2.9
Nov.	10.1	-1.0	-0.4	-0.6	0.4	1.1	4.5	-2.9	2.5
ITALY									
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	4.2	10.5	12.0	4.5	3.0	7.3	9.1	8.8
Dec.	6.1	-0.3	7.0	8.0	2.5	1.5	5.9	5.8	5.9
2009 – Mar.	6.4	-10.5	4.1	4.8	1.1	0.5	5.1	0.5	3.1
June	8.4	-10.7	1.4	1.6	0.4	0.9	3.6	0.8	1.6
Sept.	6.5	-8.0	-1.1	-1.3	-0.4	0.4	3.3	-2.5	0.3
Nov.	6.0	-8.7	-1.8	-2.3	0.7	1.8	3.4	-1.1	-0.2

(1) Statistics for November 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	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)	*of which:* change in central bank current accounts	Borrowing requirement	*of which:* financed abroad
2006	7,476	-4,957	4,847	33,102	68,078	-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	20,004	-1,628
Sept.	-6,276	385	-9,480	50,560	520	-12,906	-12,676	22,418	-2,706
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	18,823	1,983
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	-7,305	60	-3,348	14,398	-1,851	-458	-272	1,436	-995
Aug.	-105	151	-6,590	8,984	935	4,786	4,812	8,009	-1,219
Sept.	1,135	174	458	27,178	1,436	-17,234	-17,217	12,973	-491
Oct.	2,973	-280	-4,015	14,830	924	-3,313	-3,309	11,398	1,659
Nov.	-1,111	-650	-8,098	-9,222	692	23,999	24,035	6,262	-561

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

Table A11

General government debt: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* Central bank current accounts
2006	157,006	65,622	122,307	1,163,789	130,164	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	178,265	1,283,228	130,268	5,383	1,752,211	3,528	1,418,063	57,478
Sept.	148,792	30,366	168,776	1,333,377	130,789	5,153	1,786,886	2,731	1,468,436	70,155
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	178,875	1,282,642	129,650	5,594	1,748,739	3,815	1,418,771	55,413
May	150,805	30,217	179,574	1,286,568	130,194	5,573	1,752,715	3,578	1,422,769	51,726
June	155,067	29,980	178,265	1,283,228	130,268	5,383	1,752,211	3,528	1,418,063	57,478
July	147,762	30,041	174,915	1,297,846	128,417	5,196	1,754,137	2,852	1,432,134	57,750
Aug.	147,657	30,192	168,320	1,306,996	129,352	5,169	1,757,495	2,798	1,441,709	52,937
Sept.	148,792	30,366	168,776	1,333,377	130,789	5,153	1,786,886	2,731	1,468,436	70,155
Oct.	151,764	30,085	164,761	1,348,299	131,712	5,149	1,801,685	2,757	1,484,686	73,463
Nov.	150,654	29,435	156,660	1,339,025	132,405	5,113	1,783,858	2,663	1,475,256	49,428

(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".