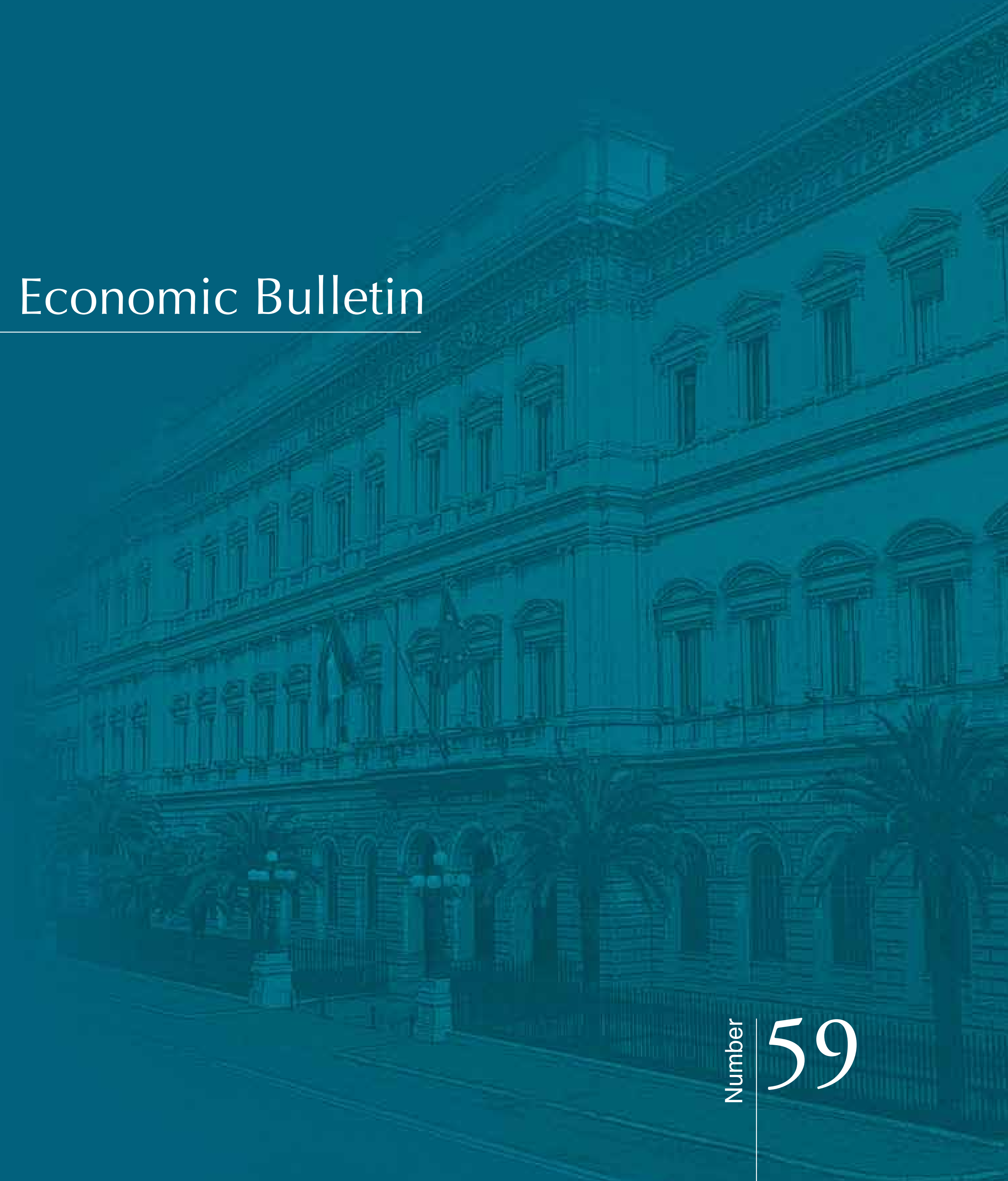
BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin



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CONTENTS

1 OVERVIEW 5

2 THE WORLD ECONOMY
- 2.1 Economic developments 7
- 2.2 The main industrial and emerging countries 8
- 2.3 The euro area 12
- 2.4 World financial markets 14

3 THE ITALIAN ECONOMY
- 3.1 The cyclical phase 19
- 3.2 Firms 20
- 3.3 Households 23
- 3.4 Foreign demand and the balance of payments 25
- 3.5 The labour market 28
- 3.6 Price developments 31
- 3.7 Banks 32
- 3.8 The financial markets 36
- 3.9 The public finances 38
- 3.10 Forecasts 40

SELECTED STATISTICS 45

LIST OF BOXES

The proposals to reform European economic governance 16

The new data collection system for Italy's balance of payments 25

Credit supply and demand in Italy 33

The assumptions underlying the 2011-12 forecasting scenario 40

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 economy continues to expand

The prospects of global economic growth appear firmer and more broadly based than three months ago (see Economic Bulletin*, October 2010). Robust expansion continues in the emerging economies and, among the advanced economies, in Germany; assessments of growth in the United States have improved. After vigorous growth in 2010 boosted it back to its pre-recession levels, the volume of world trade is expanding at a slower but nonetheless historically rapid pace this year. External current account imbalances began widening again in the first nine months of 2010, although the merchandise trade balance of the United States has recently narrowed. At the G20 summit in Seoul in November, the Heads of State and Government approved an action plan based on economic policy coordination in pursuit of more balanced growth at global level.*

Higher raw material prices show up in higher consumer prices

In the advanced countries, consumer price inflation since the autumn reflects the increase in raw material prices, driven up mainly by expanding demand in the emerging economies; it is restrained by the ample margins of unused capacity, so that, net of energy products, the variations in prices are still modest; monetary policies remain expansionary. In the emerging countries, where the inflationary pressure is greater, the authorities are tending to make monetary conditions less accommodating.

The sovereign debt of some euro-area countries is under renewed strain

In the last few months of 2010 the yields on the long-term government securities of the major advanced economies rose gradually. After abating temporarily in October, the tensions on the sovereign debt of some euro-area countries grew more acute from the beginning of November, owing in part to fears of contagion sparked by the severe problems of the Irish banking system. The spreads between the yields on the ten-year government bonds of Greece, Ireland, Spain and Portugal and those of Germany widened sharply; a more moderate increase was recorded in Italy and Belgium. In the second week of January the pressures moderated. From November onwards the Eurosystem increased its purchases of public bonds under the Securities Markets Programme. At the end of that month, the finance ministers of the EU countries approved a plan of financial support for Ireland at the request of the Irish Government. At the same time, the ministers of the Eurogroup agreed on the main features of the European Stability Mechanism as a permanent safeguard for the euro area's financial stability.

Growth continues in the euro area ...

Euro-area GDP grew by 0.3 per cent in the third quarter of 2010 compared with the previous period, after an increase of 1.0 per cent in the second. The expansion appears to have continued in the fourth quarter. From October the Bank of Italy's €-coin indicator turned upwards, showing quarterly growth in euro-area GDP of between 0.4 and 0.5 per cent. Output growth in Germany appears to be continuing well above the euro-area average. According to the professional analysts polled by Consensus Economics, the area's GDP grew by 1.7 per cent in 2010 and will expand a little less than that this year, in line with the Eurosystem's recent projections. Consumer price inflation rose to just above 2 per cent in December, essentially owing to the pick-up in energy prices; indirect tax increases in the second half of the year in some countries of the area were also a factor. The indicators of medium- and long-term inflation expectations remain consistent with the Eurosystem's objective of price stability.

… and in Italy

Italian GDP growth slowed in the third quarter to 0.3 per cent with respect to the second, the same as in the euro area overall. The main impetus to economic activity continued to come from exports, while the already modest contribution of domestic demand diminished in connection with the slowdown in investment in machinery and equipment following the termination of tax incentives. Economic activity, specifically industrial production, appears to have weakened in the fourth quarter. Households' spending continues to be governed by caution, in view of the weakness of disposable income and the uncertain outlook for the labour market.

Employment is not yet recovering

Employment contracted again in the third quarter, if only marginally. Confirming the pattern seen since the onset of the crisis, the fall was sharpest among young people. With the return to pre-recession levels of output expected to be slow, firms prefer more flexible forms of employment to permanent full-time contracts.

The government borrowing requirement diminished significantly in 2010

The state sector borrowing requirement declined by nearly 1.5 percentage points of GDP last year. Based on the data available, net borrowing should be below the target of 5 per cent. The improvement may be ascribed mainly to a contraction in capital expenditure. Revenue, after falling in 2009, is expected to rise again in 2010 thanks also to the introduction in January of new restrictions on VAT offsets. The public debt should rise to about 119 per cent of GDP, from 116.0 per cent at the end of 2009. This is smaller than the European Commission's estimate of the rise for the euro-area countries as a group, and in part it reflects the increase (equal to 0.7 percentage points of GDP) in the Treasury's liquid balance with the Bank of Italy. For the three years 2011-13 the Public Finance Decision calls for a further, gradual improvement in net borrowing, as the result of the three-year budget approved at the end of May. The Stability Law enacted in December does not alter the Decision's plans for reducing net borrowing.

Italian growth will remain moderate in 2011-12

Our latest estimates – based on the same assumptions concerning world demand growth that underlay the Eurosystem's December projections for euro-area growth – are for Italian gross domestic product to maintain last year's low rate of growth in both 2011 and 2012, about 1 per cent. Held back by the slackness of domestic demand, Italian GDP expansion would thus be slower than that of the euro area, which consensus estimates put at 1.5 per cent. In this scenario no buoyant recovery in employment can be expected. Consumer price inflation should be about 2 per cent in 2011-12.

There are both upside and downside forecasting risks

Considerable uncertainty surrounds this forecasting framework. On the downside, renewed fears for the sustainability of some euro-area countries' sovereign debt could result in higher costs of finance for the private economy as well. On the upside, the growth of world demand could prove to be stronger than assumed here, even though since our July forecast it has been revised upwards by more than one percentage point to 7 per cent. It is essential to remove the structural obstacles that have prevented the Italian economy, so far, from participating fully in the world economic upswing.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

Global economic growth continues at different rates

In the third quarter of 2010 the world economy continued to expand, albeit at a slower pace than in the previous quarter and with disparities between different countries and economic areas. In the main emerging countries growth remained robust, especially in China and India; in the advanced economies it was more modest, with a slackening of pace in the euro area. After regaining pre-crisis levels in the first half of the year, the volume of trade slowed.

Based on the latest data on industrial production and household consumption, in the fourth quarter economic activity in the United States strengthened; growth remained modest in the euro area, save for a stronger performance in Germany, and decelerated in the UK. Japan appears to have recorded a contraction as the support from the inventory cycle and other temporary factors waned, while in the emerging economies activity continued to expand at the high rates of the previous quarter.

OECD projections suggest that in 2010 as a whole world output grew by 4.6 per cent (Table 1). This year growth is forecast to drop to 4.2 per cent, with the main contribution (over two thirds) again coming from the emerging countries. But the outlook is still uncertain, above all in the advanced economies, where private consumption is affected by the slack labour market and the need to adjust the public finances in several countries and those of households in others, while conditions in real estate markets remain highly vulnerable.

The price of oil rose from the summer onwards

Beginning in the summer the price of oil began to climb again, reaching $95 a barrel at the end of the second week in January (average for the three main grades), some $20 more than at the end of August; from November onwards, the euro price rose more rapidly, reflecting the currency's depreciation against the dollar (Figure 1). The increase also reflected the strengthening of demand, above all in the United States and China. However, given the large margins of spare capacity in the OPEC countries and the uncertainty

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		OECD		Consensus Economics	
	2009	2010	2011	2010	2011
GDP					
World	**-1.0**	**4.6**	**4.2**	**–**	**–**
Advanced countries					
Euro area	*-4.1*	*1.7*	*1.7*	*1.7*	*1.5*
Japan	*-6.3*	*3.7*	*1.7*	*4.3*	*1.2*
United Kingdom	*-4.9*	*1.8*	*1.7*	*1.7*	*2.1*
United States	*-2.6*	*2.7*	*2.2*	*2.9*	*3.2*
Emerging countries					
Brazil	*-0.6*	*7.5*	*4.3*	*7.5*	*4. 5*
China	*9.1*	*10.5*	*9.7*	*10.1*	*9.2*
India (1)	*7.7*	*9.1*	*8.2*	*8.7*	*8.3*
Russia	*-7.9*	*3.7*	*4.2*	*3.9*	*4.2*
World Trade (2)	**-11.1**	**12.3**	**8.3**	**–**	**–**

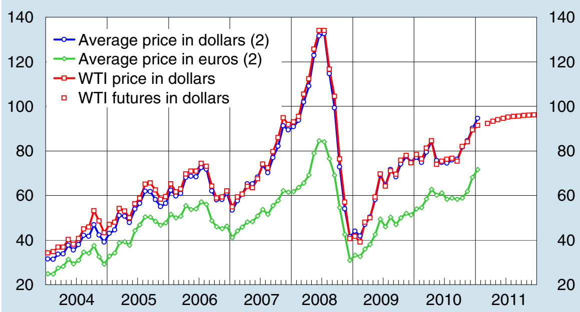
Sources: OECD, *Economic Outlook*, 88, November 2010; Consensus Economics, various publications, January 2011; for Brazil and Russia, December 2010; national statistics.
(1) Data refer to the fiscal year. – (2) Goods and services.

surrounding the prospects for world growth, the prices of WTI futures do not indicate any substantial further increase in the coming months ($96 a barrel for contracts at December 2011). In the fourth quarter, the rise in the prices of food commodities continued (up 12.0 per cent on the previous quarter), especially for those subject to supply-side constraints, such as sugar, maize and soybeans. Several metals recorded substantial price increases, reflecting strong demand from the emerging countries, especially China.

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 13 January 2011. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Global current account imbalances start to widen again, but the US deficit has diminished recently

In the third quarter of 2010, current account imbalances widened a little further, although they were still considerably smaller than before the crisis. The US deficit rose to 3.3 per cent of GDP in the first nine months of the year (2.7 per cent in 2009); however, in October and November trade flows indicate an attenuation of the upward trend in the deficit due to faster growth in exports and the basic stabilization of imports. Among the surplus countries, China recorded a substantial increase during the summer, its surplus amounting to 5.8 per cent of GDP on average in the first nine months of the year, almost the same level as that recorded for the whole of 2009. In the same period, Japan's surplus also rose to 3.5 per cent (2.8 per cent in 2009).

To mitigate the risk of a new, excessive widening of global imbalances, at the G20 summit held last November in South Korea, the Heads of State and Government adopted the Seoul Action Plan, committing countries to implement coordinated economic polices to redress these persistent disequilibria. For this purpose and with the technical support of the IMF, the G20 is currently completing a difficult exercise, the Mutual Assessment Process (MAP), which aims to produce a set of indicators for the timely identification of imbalances that threaten to become unsustainable and require the countries involved to take corrective action.

Tensions surrounding sovereign debt are intense again

After the improvement observed from June to October, last November fresh tensions emerged in the sovereign bond markets of several euro-area countries. The price of gold remains high, indicating continuing strong uncertainty over the value of financial assets.

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

In the United States economic activity has accelerated ...

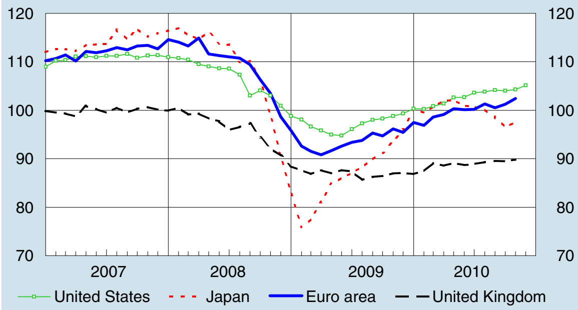
In the United States, GDP grew at an annual rate of 2.6 per cent in the third quarter, up from 1.7 per cent in the second and outstripping the preliminary estimates. Activity was sustained mainly by private consumption and inventory building. Public spending also made a positive contribution, while fixed investment, after a surge in the second quarter, stagnated once again, reflecting the fall in residential construction. Net foreign trade lopped 1.7 percentage points off the growth rate, as imports continued to grow strongly while exports slowed for the third straight quarter.

The latest economic data show GDP accelerating further in the fourth quarter. Industrial production, after falling in October, resumed its upward course in November and December (Figure 2). On the demand side, in conjunction with a slight increase in real disposable income in October and November, household consumption strengthened, especially durable goods purchases. The saving rate fell for the fifth consecutive month in November to 5.3 per cent, compared with the June peak of 6.3 per cent.

Figure 2

Industrial production in the main advanced economies (1)

(monthly data)



Source: Thomson Reuters Datastream.
(1) Industrial production, adjusted for seasonal and calendar effects; index, 2003=100.

... although factors of uncertainty persist

Elements of uncertainty continue to weigh on the strength of the cyclical upswing. The recovery in employment has been modest so far and the outlook remains poor. The number of payroll jobs created was again less than expected in December, and the fall in the unemployment rate during the same month, from 9.8 to 9.4 per cent, was due partly to a decline in labour force participation. The average duration of unemployment lengthened during 2010 to about 34 weeks in December, much more than in previous recessions, during which it never went above 20 weeks. More than 40 per cent of the jobless are long-term unemployed, and the difficulty in finding another job tends to discourage their participation. In 2010 some 390,000 workers, 0.3 per cent of the labour force, dropped out, classing themselves as "discouraged."

The weakness of the labour market is compounded by the persistent immobility of the real-estate market. In the last few months of 2010 the number of house sales stagnated, and the imbalance between supply and demand remained severe. In November the time required to clear the stock of unsold new homes was about eight months, compared with an average of five over the decade preceding the crisis. The negative slope of the curve of futures on the Case-Shiller 10-city index – an indicator that analysts use in forecasting house prices – suggests that prices will come down over the next few months, aggravating the trend that began in August. A further weakening of the demand for houses could come from the recent rise in mortgage rates, which went up by 60 basis points in the fourth quarter.

In order to boost the recovery, the Administration introduced a new stimulus package of about $800 billion in December (5.5 per cent of GDP), to be implemented in 2011-12. It provides for the extension of the tax cuts for the higher income brackets passed by the previous administration and of special unemployment benefits up to 99 weeks. The plan also includes new income and investment support measures, such as a 2-percentage-point reduction in workers' social security tax in 2011 and the possibility for firms to deduct the entire amount of investment made in 2011 and 50 per cent of that in 2012. Some analysts estimate that the package will have a positive impact of 0.5 percentage points on GDP growth in 2011; the main effect will be on consumer spending, with implications for employment and inflation.

In the fourth quarter economic activity apparently diminished in Japan ...

The Japanese economy accelerated unexpectedly in the third quarter. GDP grew at an annual rate of 4.5 per cent, up from 3.0 per cent in the second quarter, mainly reflecting household consumption, which was sustained largely by temporary factors. Private non-residential investment and inventories also made positive contributions to growth, while public investment contracted and the substantial support from net exports evaporated. However, the latest indicators suggest a contraction of output in the fourth quarter. Industrial production declined in October and recouped only part of the loss in November. The volume of exports diminished in October and November, while unemployment turned upwards (from 5.0 per cent in September to 5.1 per cent in October and November). The Bank of Japan's quarterly Tankan survey in December found a deterioration in business confidence for the first time in six quarters. The estimates of the leading private analysts indicate that GDP contracted at an annual rate of about 1.5 per cent in the fourth quarter.

... and decelerated in the United Kingdom

In the United Kingdom gross domestic product grew at an annual rate of 2.9 per cent in the third quarter, down from 4.6 per cent in the second. Growth was sustained by domestic demand, while net exports made a negative contribution. The latest cyclical indicators suggest a further slowdown in the fourth quarter, owing in part to the first effects of fiscal tightening.

Higher basic materials prices nudged inflation in the industrial countries upwards

The weakness of domestic demand and substantial spare capacity continue to limit price increases in the industrial economies, countering the pressures from the rising costs of foreign inputs. In the United States, consumer price inflation rose from 1.1 per cent in November to 1.5 per cent in December (Figure 3); net of the food and energy components it held at 0.8 per cent. The leading private forecasters expect inflation to be slightly higher starting this spring. In Japan the deflationary tendency eased towards the end of 2010, but largely in response to temporary factors. In the United Kingdom inflation increased again in November, to 3.3 per cent. And prices picked up in the euro area as well, the inflation rate rising to 2.2 per cent in December, driven by raw materials prices.

Central banks have maintained an expansionary stance

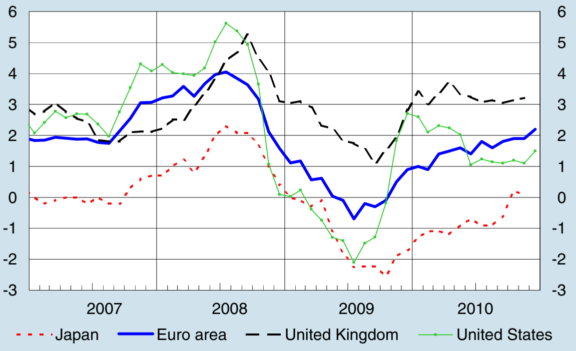
In the presence of still fragile domestic demand and limited inflationary risk, monetary policy in the main industrial countries continued to be strongly expansionary, with official rates at historic lows. At the start of November the Federal Reserve launched a new plan for the purchase of long-term Treasury securities for a total of $600 billion, to be completed by mid-2011. This parallels the plan for the reinvestment in Treasury bonds over the same period of principal payments on agency debt and agency mortgage-backed securities, amounting to $250-300 billion. The total volume of government securities purchases thus comes to $850-900 billion. According to the published calendar, some $210 billion in securities was scheduled to be acquired between the start of the programme and 11 January; over the same period the financial assets on the Fed's balance sheet increased by about $130 billion (Figure 4).

Nor have the Japanese and British central banks altered their stance. The Bank of Japan left its reference rate target range at 0.0 to 0.1 per cent and set guidelines for its purchases of equity and real-estate funds worth ¥500 billion, about 0.1 per cent of GDP, as part of the quantitative

Figure 3

Consumer price inflation in the main advanced economies (1)

(monthly data; twelve-month percentage changes)

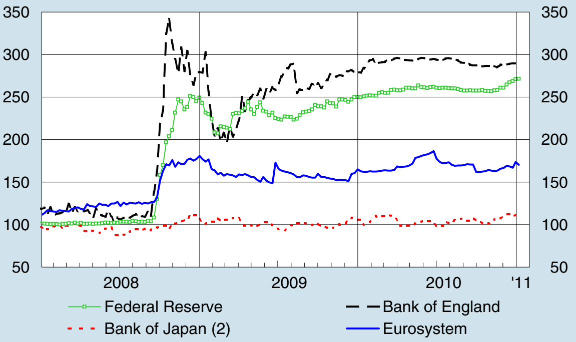


Source: Thomson Reuters Datastream.
(1) For the euro area and the United Kingdom, harmonized consumer prices.

Figure 4

Size of the balance sheets of selected central banks (1)

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



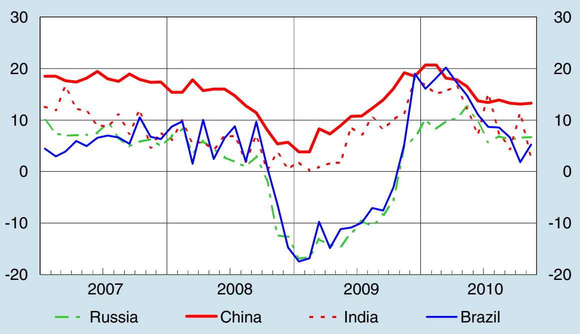
Source: Thomson Reuters Datastream.
(1) Total assets. – (2) Fortnightly data.

easing announced on 5 October. The Bank of England also kept its policy rate unchanged, at 0.5 per cent, and did not alter its financial asset purchase target (£200 billion, equal to 14 per cent of GDP), which had already been attained in January 2010. The increasing uncertainty over the inflation forecast, which is now above the target of 2 per cent, makes an imminent expansion of the purchase plan less likely.

Figure 5

Industrial production in the BRIC countries

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



Sources: Thomson Reuters Datastream and national statistics.

Growth remains buoyant in the main emerging economies ...

The main emerging countries recorded generally solid growth in industrial activity in the second half of 2010, though with some signs of moderation, especially in Brazil (Figure 5).

China recorded twelve-month GDP growth of 9.6 per cent in the third quarter, compared with 10.3 per cent in the second and an average of 10.6 per cent for the first nine months of the year; the expansion was powered by domestic demand, while net exports contributed a mere 0.7 percentage points. The latest indicators show continuing robust economic activity in the fourth quarter, still driven chiefly by domestic consumption and investment demand, despite the waning effects of fiscal stimulus measures. In India too, the third quarter showed rapid expansion of 8.9 per cent on a twelve-month basis. In Brazil GDP growth slowed to an annual rate of 2.1 per cent in the third quarter, as the rapid growth in domestic consumption, fuelled by a surge in credit and a strong labour market, was offset by a sharp widening of the trade deficit, which detracted from growth. Even so, output expansion was robust over the first three quarters, 8.4 per cent with respect to the year-earlier period. In Russia the upswing remained fragile, owing in part to the severe drought during the summer months. In the third quarter GDP recorded twelve-month growth of 2.7 per cent but contracted vis-à-vis the second quarter. However, there are signs of recovery in the fourth quarter. In the other Central and Eastern European countries – where the cyclical recovery came late (and not at all in Romania, still in recession) – growth accelerated slightly in the third quarter to rates between 4 and 5 per cent. In a context of still weak domestic demand, the beginning of fiscal adjustment in 2011 makes these countries' growth prospects generally less favourable than those of the other emerging economies.

... and inflationary pressures have intensified

In the fourth quarter inflationary pressures built up in the emerging economies as a group, owing above all to higher food prices (whose weight in the consumer basket is substantial), in connection with the surge in the corresponding world commodity prices. The monetary authorities intervened almost everywhere to make monetary conditions less accommodating. In China the tightening mainly took the form of repeated increases in the banks' compulsory reserve ratio (to 18.5 per cent in December), while in India it involved raising the repo and reverse repo reference rates to 6.25 and 5.25 per cent, respectively, in November. In Brazil, however, where growth is slowing down, the central bank has kept its reference rate at 10.75 per cent over the last few months, for fear among other things of further encouraging massive capital inflows. Such inflows, attracted by solid growth prospects and high yields, also pose a dilemma for policymakers in other emerging countries, who are concerned over the impact on the prices of goods and financial assets, especially where policy aims at containing the appreciation of the currency. In recent months, therefore, some of these countries have introduced measures to control short-term capital inflows, such as taxes on bond purchases by non-resident investors and limits on residents' external debt.

2.3 THE EURO AREA

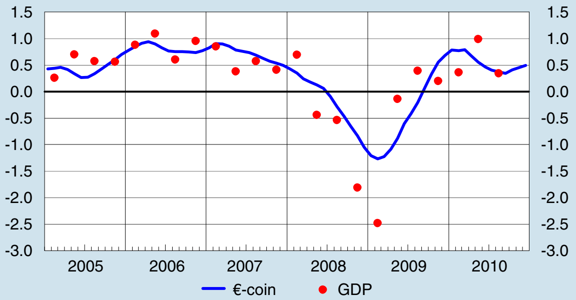
GDP growth continues

Euro-area GDP grew by 0.3 per cent in the third quarter of 2010, compared with 1.0 per cent in the second (Figure 6). Although the German economy slowed from growth of 2.3 per cent to 0.7 per cent, it continued to expand at a much faster pace than the rest of the euro area. Exports, the main driver of recovery in the area, slipped from growth of 4.4 per cent in the second quarter to 1.9 per cent in the third owing to the slower expansion of world economic activity; net foreign trade accounted for about half of the euro area's third-quarter increase in output. The marginal growth in domestic demand (0.2 per cent, against nearly 1 per cent in the previous two quarters) reflected the extremely small rise in household consumption and slightly larger growth in government consumption (0.4 per cent). Investment instead contracted slightly owing to the fading of the temporary factors that had underpinned the second-quarter increase, the first in two years. Contributory factors were the decline in investment in construction and the sharp slowdown of spending on capital goods.

Figure 6

€-coin coincident cyclical indicator and GDP in the euro area (1)

(percentage changes)



Sources: Bank of Italy and Eurostat.
(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,* July 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly data; change on previous quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter net of the most erratic components.

The cyclical indicators point to a continuation of economic growth in the euro area in the closing months of 2010, albeit with persistent divergences between the leading economies. In October, the Bank of Italy's monthly €-coin indicator, which estimates three-month economic growth net of short-term fluctuations, began to increase once more, to between 0.4 and 0.5 per cent. The assessments given in surveys of firms indicate a fairly positive outlook for the short term. Industrial production, adjusted for seasonal and calendar effects, rose by 1 per cent on average in October and November, in line with the increase recorded in the summer. Among the leading countries, the performance was again much stronger in Germany in the two months considered. In the euro area, the volume of new industrial orders from abroad increased further in October although at a slower pace than in the third quarter; surveys forecast a further rise at the end of 2010. With regard to domestic demand, while consumer confidence improved gradually during the autumn, before halting in December, the average index of euro-area retail sales slipped slightly on average in October and November; new motor vehicle registrations, which hit bottom in the summer, picked up only slightly in the fourth quarter. According to the surveys conducted among firms and households, if confirmed, the improved job outlook, particularly in Germany, should help to sustain the so far modest recovery in consumption. Firms' investment activity is influenced by the still large margins of spare capacity, although these have gradually narrowed in recent months.

The professional forecasters surveyed by Consensus Economics in January expect area-wide GDP growth of 1.5 per cent in 2011, a slight slowdown from the 1.7 growth estimated for 2010. Among the largest economies, output growth is projected to be distinctly faster in Germany (3.6 per cent in 2010 and 2.5 per cent in 2011), substantially in line with the area-wide average in France, and below it in Italy (0.9 per cent). The December projections of area-wide growth by the Eurosystem experts ranged from 1.6 to1.8 per cent in 2010 and from 0.7 to 2.1 per cent in 2011.

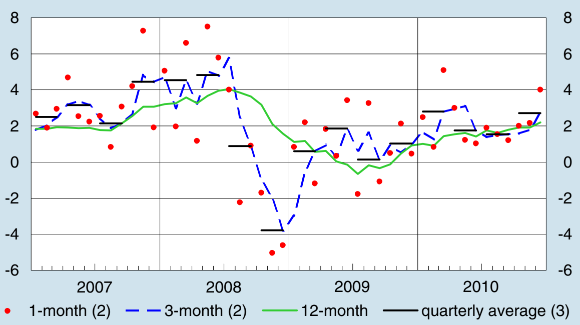
Inflation rose at the end of 2010, driven up by the foreign components

Euro-area inflation, measured by the harmonized consumer price index, averaged 1.6 per cent in 2010, against 0.3 per cent in 2009. The twelve-month rate increased progressively to 2.2 per cent in December (Figure 7). This trend was due to a large extent to the acceleration in food and energy prices, which kept pace with the continuous rise in raw material prices; in the second half of 2010 a further contribution came from the increase in indirect taxes and regulated prices in some euro-area countries. Net of food and energy prices, inflation increased at a much more moderate pace, only just topping 1 per cent in the last quarter of 2010, against 0.9 per cent in the first quarter, as internal pressures remained modest.

Figure 7

Inflation in the euro area (1)

(percentage changes)



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices. – (2) On a seasonally adjusted and annual basis. – (3) Average, in the reference quarter, of the monthly rates of increase on a seasonally adjusted annual basis.

The twelve-month rate of growth in the producer price index for the internal market continued to gain pace in the second half of 2010, standing at 4.5 per cent from September. The acceleration was the result of rises in the prices of energy and non-energy intermediate goods and food products; the latter in particular reflected increases in the international prices of some commodities. According to our estimates, the producer prices of final consumer goods excluding food remained virtually unchanged in the twelve months to November. According to recent surveys, manufacturing firms expect their prices to continue to increase slowly in the coming months.

According to the December projections of Eurosystem experts, consumer price inflation will be between 1.3 and 2.3 per cent this year. The indicators of medium- and long-term inflation expectations implicit in the financial markets and those of financial analysts remain in line with the objective of price stability. The ECB Governing Council, at its 13 January meeting, while judging price trends in the euro area to be still consistent with medium-term stability, announced its intention to monitor price developments very closely.

The growth in the money supply remains modest ...

The twelve-month growth rate of M3 in the euro area increased slightly from 1.2 per cent in August to 1.9 per cent in November. Yield differentials between the various instruments widened; the expansion in overnight deposits slowed from 8 per cent in August to 4.4 per cent in November and the contraction in time deposits up to two years eased from 15 to 7.5 per cent.

... but credit to firms picks up

Bank credit accelerated slightly. Adjusted for the accounting effects of securitizations, lending to non-financial firms grew by 1.8 per cent in the twelve months to November, against 1 per cent in August. The annualized three-month growth rate, seasonally adjusted, rose from 1.8 to 3.1 per cent. Lending to households held stable at a three-month growth rate of 3 per cent, while credit to non-financial firms picked up to 3.2 per cent. The banks interviewed in the euro-area Bank Lending Survey for the third quarter of 2010 reported that the slight tightening of business lending standards in the second quarter had been reversed, reflecting the improvement in the banks' capacity to raise funds on the market and in their liquidity position. There continue to be marked differences between the various countries, however. An easing of lending standards in Germany and France contrasted with a further sharp tightening in the countries most exposed to the sovereign debt crisis. In the area as a whole, credit demand from firms continued to pick up in connection with the less unfavourable trend in fixed investment and greater funding requirements for inventories and working capital.

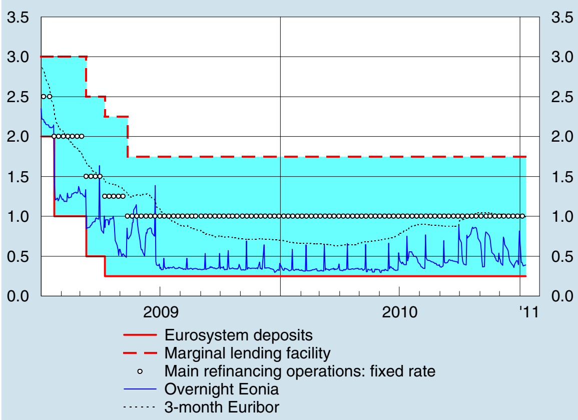
The Eurosystem maintains accommodating monetary conditions

The ECB Governing Council, again in January, kept its minimum rate on main refinancing operations at 1.0 per cent (Figure 8). Given the increasingly turbulent situation on the sovereign debt markets of some euro-area countries, at its early December meeting the Council had decided to continue to conduct the main refinancing operations and those with a maturity equal to the reserve maintenance period by way of a fixed-rate tender procedure with full allotment for as long as necessary, and in any case at least until 12 April. The forthcoming three-month operations on 26 January, 23 February and 30 March this year will also be conducted with full accommodation of the demand and at a rate to be fixed at the average of the MRO rate over the life of these operations.

Figure 8

Official interest rates and money market rates in the euro area

(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

In view of the greater volatility of exchange rates, interest rates and gold prices, as well as the increased credit risk, on 16 December 2010 the ECB had also decided to increase its own capital by €5 billion, underwritten entirely by the national central banks, raising it to €10.76 billion.

The purchases of debt securities to support market segments particularly hard hit by the crisis (the Securities Markets Programme), which had continued last October for limited amounts, were increased during the last two months of the year. By the middle of January 2011 the total stock of securities purchased amounted to €76.5 billion. On 23 December, the last one-year MRO and one three-month operation matured, for a total amount of about €200 billion. At the three-month tender and the 13-day fine tuning tender settled on the same date, banks requested about €170 billion. Despite the consequent reduction in excess liquidity, money market rates remained virtually unchanged at all maturities. In mid-January, Eonia stood at 0.4 per cent and three-month Euribor at 1 per cent.

2.4 WORLD FINANCIAL MARKETS

In the last few months of 2010 the yields on the long-term government securities of the main advanced economies increased. In November the tensions affecting the sovereign debt of some euro-area countries intensified. Conditions on the interbank markets remained stable on the whole; the risk premiums on corporate bonds continued to decline; stock markets improved.

Long-term interest rates have risen since the autumn

Since the middle of October long-term government bond yields have gradually increased in the main advanced countries, despite remaining at historically low levels (Figure 9). At the end of the second week in January they had risen by 80 basis points in the United States, to 3.3 per cent, and by about 70 basis points in Germany and the United Kingdom, to 3 and 3.7 per cent respectively. For the most part the increases have reflected more favourable prospects for economic growth, in the United States in connection with the start of the Federal Reserve's new quantitative easing programme and the introduction of new fiscal stimulus measures. In Japan the increase in long-term interest rates was smaller, with a rise of no more than 30 basis points to 1.2 per cent.

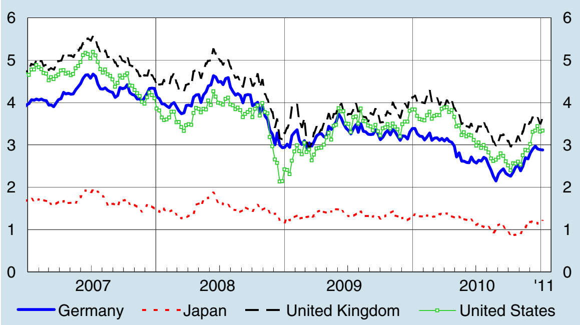
The tensions affecting sovereign debt in the euro area have intensified again

The tensions affecting some euro-area countries' sovereign debt, which had eased in October, have intensified since the beginning of November. Contributory factors have included the serious difficulties of the Irish banking system and uncertainty about the new rules for resolving sovereign debt crises in Europe. On 21 November Ireland made an official request for a loan to the European Union and the IMF, which was accepted on 28 November. On the same day the finance ministers of the euro-area countries established the main features of a permanent mechanism for safeguarding the financial stability of the area (the European Stability Mechanism; see the box "The proposals to reform European economic governance"), which, among other things, provide for losses not to be shared with private investors until July 2013. Between November and December the three main international rating agencies reduced Ireland's credit rating. On 23 December Fitch downgraded Portugal as well. From the middle of October the yield spreads between ten-year government bonds and their German equivalents began to widen again, before recording a decline in the second week of January. By the middle of January in Greece the increase amounted to 155 basis points (widening the spread to 8.1 percentage points), in Ireland the figures were 155 basis points and 5.3 percentage points, in Spain 70 basis points and 2.3 percentage points, in Portugal 40 basis points and 3.8 percentage points. In Italy the spread had risen by 25 basis points to 1.6 percentage points; in Belgium by 20 basis points to 1 percentage point.

Figure 9

Yields on ten-year government bonds

(end-of-week data; percentage points)

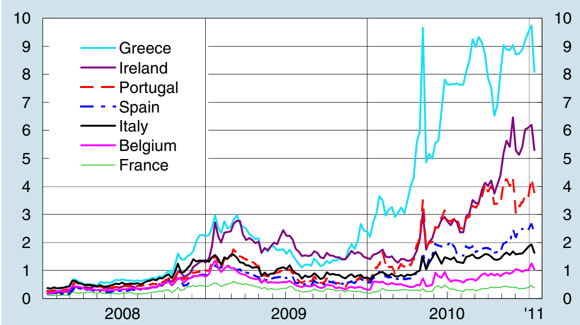


Source: Thomson Reuters Datastream.

Figure 10

Yield spreads between ten-year government bonds and the German Bund

(end-of-week data; percentage points)



Sources: Based on Bloomberg and Thomson Reuters Datastream data. The latest available data refer to 14 January.

The riskiness of the largest banks increased; conditions on the interbank market remained stable on the whole

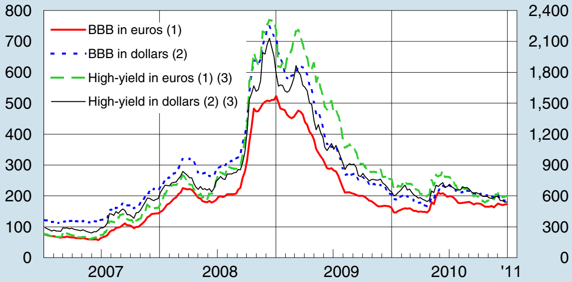
During the fourth quarter of 2010 the riskiness of the major European and US international banks began to increase again. Their credit default swap spreads, which had fallen from the peaks recorded in the spring in connection with the Greek crisis, began to increase again in November, to stand on average at around 210 basis points in mid-January, up by 50 basis points with respect to three months earlier. The increases mainly concerned the European banks, following the intensification of the fears about the sustainability of Ireland's sovereign debt. With the central banks making ample liquidity available, the interest rates on the interbank markets remained generally stable.

International coordination activity continued

International coordination continued with the aim of strengthening the regulation and supervision of banking and financial systems. At the G20 summit held in Seoul in November, the Heads of State and Government endorsed the framework of rules and recommendations drawn up by the Financial Stability Board with the aim of strengthening macro-prudential monitoring and market infrastructures in order to reduce both the risk associated with financial institutions of systemic importance and moral hazard. The guidelines for the new prudential regulation of banks drawn up by the Basel Committee, which strengthen the capital and liquidity requirements for banks, have also been approved (see the box "The reform of the rules on banks' capital and liquidity" in *Economic Bulletin*, October 2010). The agreement provides for all the member countries to adopt the requirements; the new criteria will be translated into national laws and regulations and implemented gradually over six years, starting from 1 January 2013.

Figure 11

Yield spreads 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 spreads 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 spreads are calculated with respect to US Treasury securities. – (3) Right-hand scale.

The risk premiums on corporate bonds have declined; stock markets have strengthened

The risk premiums on corporate bonds have continued on a slightly downward trajectory, to stand in mid-January well below 2 percentage points for BBB bonds and 6 points for high-yield bonds (Figure 11).

THE PROPOSALS TO REFORM EUROPEAN ECONOMIC GOVERNANCE

In March 2010 the Council of the European Union appointed a task force chaired by the President of the European Council, Herman Van Rompuy, and comprising representatives of the member states, the European Commission, and the ECB, to formulate proposals to strengthen European economic governance. In its meeting of 17 June, the Council approved the task force's first set of orientations. The Commission's contribution to the debate initially consisted in two Communications, released on 12 May and 30 June, followed by a detailed reform proposal, published on 29 September. On 21 October the task force presented a report containing broader recommendations than those of the Commission. On 28 October the European Council endorsed the report, agreeing in particular on the need to set up a permanent crisis mechanism to safeguard the financial stability of the euro area as a whole. [1]

The proposed reforms address three main problematic aspects of the current arrangements highlighted by the economic and financial crisis. First, in favourable economic phases not all countries adopted policies to achieve adequate consolidation of their public accounts; therefore several faced the crisis with budget balances nowhere near the medium-term targets established by the Stability and Growth Pact and agreed at European level, and with public debt well over the limit of 60 per cent of GDP laid down in the protocols annexed to the Maastricht Treaty. The reform envisages strengthening the Pact through the introduction of monetary sanctions, including in the preliminary phase (i.e. before opening the excessive deficit procedure). It is also proposed that a numerical rule be devised to implement the possibility contemplated in the Treaty of opening the

[1] See I. Visco's testimony before the Chamber of Deputies (Rome) on 8 July 2010, concerning the coordination of economic policies, *Rafforzare il coordinamento delle politiche economiche*, and on 10 December 2010, concerning the reform of European economic governance, *La riforma della governance economica europea*.

procedure not only when the deficit exceeds 3 per cent of GDP, but when a country's efforts to reduce its debt towards 60 per cent of GDP are deemed unsatisfactory.

Second, the crisis has highlighted how budgetary discipline alone cannot prevent financial tensions, which in some instances were triggered by large current account payment deficits and excessive private sector debt. It was therefore proposed that the surveillance of the public accounts be flanked by a new procedure for the timely identification, based on a set of quantitative indicators currently being defined, of macroeconomic imbalances liable to undermine the financial stability of the area and of the measures to redress them.

Finally, as the Greek crisis demonstrated, the lack of mechanisms to assist euro-area countries that find themselves in grave difficulty, generates uncertainty and pushes up the costs and timescale of intervention. In response to fresh tensions in the markets threatening the financial stability of the area as a whole, and coinciding with the decision to grant support to Ireland, on 28 November the euro-area finance ministers agreed on the main features of a European Stability Mechanism or ESM, a permanent crisis management tool to be activated when countries get into difficulty. The mechanism, which is due to replace the European Financial Stability Facility (EFSF) in June 2013, envisages financial support to countries that request assistance subject to strict conditions, similar to those currently laid down by the EFSF.[2] Assistance is also subject to a rigorous debt sustainability analysis. For countries considered solvent, private sector creditors would be encouraged to maintain their exposure and loans under the new mechanism would enjoy preferred creditor status, junior only to an IMF loan. If instead, a country appeared to be insolvent, the member state would have to negotiate a restructuring plan with its private creditors. To facilitate this process, standardized and identical collective action clauses will be included in the terms and conditions of all new euro-area government bond issues. In mid-December the European Council decided what changes were required in the Community treaties to introduce the new mechanism.

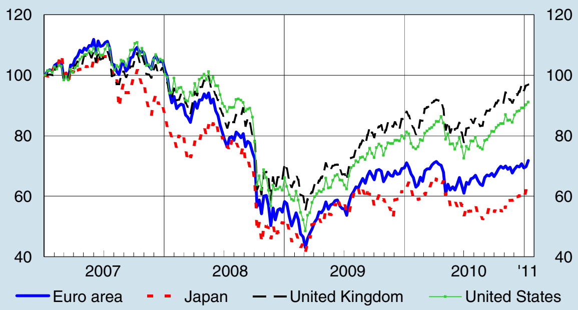
[2] See Banca d'Italia, *Financial Stability Report* No. 1, December 2010.

The rise in equity prices has continued in the main industrial countries. The gains have been substantial in Japan and the United States (of the order of 13 per cent between the beginning of October and the middle of January). The S&P 500 index has returned to its level before the collapse of Lehman Brothers in September 2008 (Figure 12). Smaller gains have been recorded in the United Kingdom (9 per cent) and the euro area (7.5 per cent). Share prices have benefited from the good performance of corporate profits. The volatility implicit in US and euro-area share prices has continued its downward trend, despite some larger fluctuations in December (Figure 13).

Figure 12

Stock market indexes (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.

After the worsening recorded in November, conditions on the financial markets of the emerging countries improved. In the second week of January the dollar-based stock market indexes had returned to levels about 4 per cent higher than the peak recorded at the beginning of November. The yield differentials on long-term dollar-denominated sovereign bonds with respect to the corresponding US Treasury bonds have fluctuated around values just below 300 basis points. Net purchases of equities and bonds by international investment funds specializing in emerging markets remained substantial in October and November.

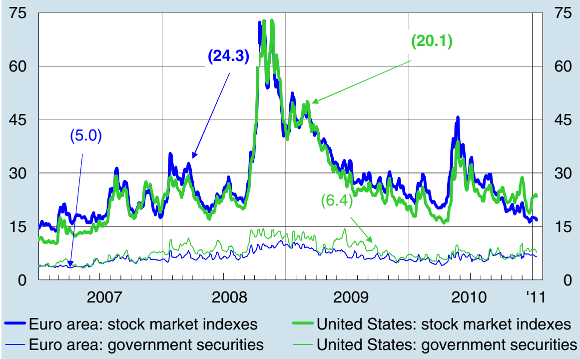
The phase of dollar weakness came to an end

In the fourth quarter the nominal effective exchange rate of the dollar fell by 1.6 per cent on average (Figure 14). However, the period of dollar weakness that had begun in the summer came to an end in November. Compared with the low recorded at the beginning of that month, in the middle of January the dollar had appreciated by 7.9 per cent against the euro, partly owing to the tensions affecting some euro-area countries' sovereign debt, and by 2.6 per cent against the yen (Figure 15). In the same period the deprecation of the dollar against the renminbi was limited, amounting to 1.2 per cent; since 19 June, when the Chinese authorities restored greater exchange rate flexibility within daily fluctuation bands of ±0.5 per cent, the renminbi has appreciated against the dollar by 3.6 per cent. In December the nominal effective exchange rate of the euro fell by 3.3 per cent on average compared with October (Figure 14).

Figure 13

Implied volatility of stock market indexes and government securities (1)

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

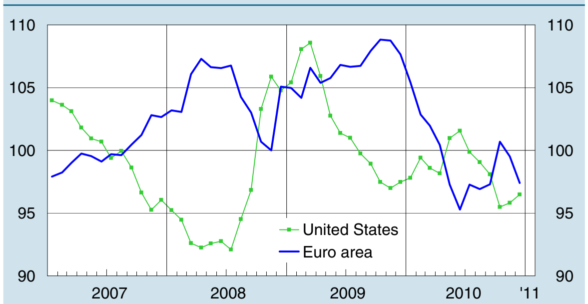


Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indexes: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on futures on Treasury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

Figure 14

Nominal effective exchange rates (1)

(monthly data)



Sources: ECB and Federal Reserve.
(1) Index, 2007=100. An increase implies an appreciation.

Figure 15

Bilateral exchange rates

(daily data)

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

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

The expansion continues, with a slowdown in the third quarter

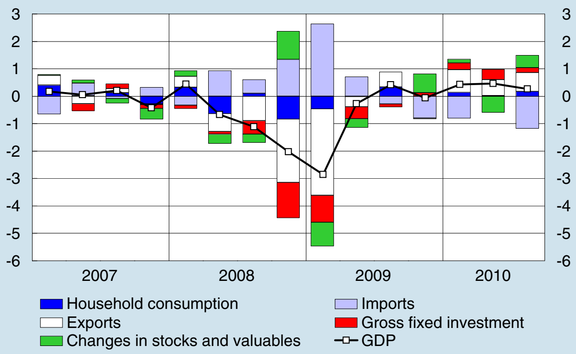
Italy's GDP grew by 0.3 per cent in the third quarter of 2010, slowing with respect to its pace in the first half of the year (Figure 16). On the demand side, the modest increase in household consumption was coupled with a slowdown in investment (Table 2) resulting from a decline in purchases of transport equipment and a deceleration in spending on machinery and equipment. The latter component was affected by the termination of the tax incentives under the Tremonti-*ter* law, which expired at the end of June (see *Economic Bulletin*, October 2009). Construction investment, buoyed by non-residential building, expanded by 0.6 per cent, ending the decline under way since the beginning of 2008. The chief impulse to GDP growth continued to come from exports, which gained 2.8 per cent in the quarter. Nevertheless, given the simultaneous sharp rise in imports, net foreign trade curtailed GDP growth by 0.5 percentage points.

The recovery is much less vigorous in Italy than in Germany (see the box "Recent macroeconomic developments in Germany", *Economic Bulletin*, October 2010). From the cyclical trough – the first quarter of 2009 for Germany and the second for Italy – to the third quarter of last year, cumulative GDP growth amounted to 1.5 per cent in Italy, against 5.2 per cent in Germany. The gap reflects Italy's weaker export growth (11.1 against 18.9 per cent) in conjunction with an only slightly smaller increase in imports. The net contribution of foreign trade to GDP growth was negative by around 0.5 percentage points in Italy, positive (2.5 points) in Germany. Among the components of domestic demand, the contribution of gross fixed investment was

Figure 16

GDP growth and contributions of its main determinants (1)

(changes on previous quarter; percentage points)



Source: Based on Istat data.
(1) The formula for calculating the contributions to real GDP in accordance with the new methodology for price deflation based on chain linking can be found on Istat's website (www.istat.it).

Table 2

GDP and its main components

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

	2009 Q4	2009 (1)	2010 Q1	2010 Q2	2010 Q3
GDP	-0.1	-5.0	0.4	0.5	0.3
Total imports	3.0	-14.5	3.3	-0.1	4.7
National demand (2)	0.8	-3.8	0.4	-0.1	0.8
National consumption	..	-1.2	..	0.1	0.2
household spending	..	*-1.8*	*0.2*	..	*0.3*
other (3)	*-0.2*	*0.6*	*-0.5*	*0.4*	*-0.2*
Gross fixed investment	0.7	-12.1	1.3	2.0	0.9
construction	*-0.5*	*-7.9*	*-0.5*	*-0.3*	*0.6*
other investment goods	*2.1*	*-16.6*	*3.4*	*4.5*	*1.2*
Change in stocks and valuables (4)	0.7	-0.4	0.1	-0.6	0.5
Total exports	-0.2	-19.1	3.4	2.4	2.8

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

smaller in Italy (0.8 percentage points, compared with 1.4 points in Germany), owing mainly to the slump in construction. Public consumption also had divergent effects in the two countries, subtracting from growth in Italy but adding to it in Germany. Household consumption added 0.6 percentage points to GDP growth in Italy compared with 0.3 points in Germany; since last spring, however, it has expanded more rapidly in Germany. Restocking accounted for 0.7 percentage points of the growth in GDP, about twice as much as in Germany.

The pace of the recovery appears to have remained modest in the fourth quarter

The latest cyclical indicators suggest that GDP growth in Italy slowed further in the fourth quarter of 2010. The index of industrial production was virtually unchanged in October from September and recorded an increase of about 1 per cent in November. Taking account of our estimates for December, manufacturing activity appears to have weakened in the quarter as a whole. More favourable signs come from business surveys, which indicate that the cyclical upswing will continue, although at a slow tempo: ISAE's business confidence survey has shown progressive improvement, while the Purchasing Managers Index of manufacturing firms holds at levels compatible with an expansion. On the demand side, foreign trade data indicate that the volume of goods exports stagnated in October and November. Household spending remains cautious, reflecting the contraction in real disposable income and the persistent weakness of the labour market. On the basis of the quarterly survey conducted in December by the Bank of Italy together with *Il Sole 24 Ore*, the slowdown in spending on machinery and equipment recorded during the summer after the termination of the tax incentives continued in the last quarter of 2010, also reflecting ample margins of spare capacity and more cautious assessment of the medium-term outlook for growth. Investment is expected to pick up this year.

Inflation is still low, despite upward pressure from external factors

Consumer price inflation, measured by the twelve-month change in the consumer price index (CPI), averaged 1.5 per cent in 2010 (0.8 per cent in 2009). The inflation rate rose progressively during the year to reach 1.8 per cent in the fourth quarter (1.6 per cent in the third), pushed upwards by the acceleration in the components most directly affected by the rise in prices of basic materials.

3.2 FIRMS

Industrial activity slowed during the summer ...

The pace of the upswing in manufacturing eased over the summer months, the industrial production index gaining 1.3 per cent in the third quarter compared with 1.7 per cent in the second (Figure 17). The production of consumer durables showed a further decline after turning downwards in the spring in connection with the end of the tax incentives for motor vehicle scrapping. Output of non-durable consumer goods continued to stagnate, while the recovery in capital goods production, which had suffered the worst losses during the recession, proceeded at a rapid pace.

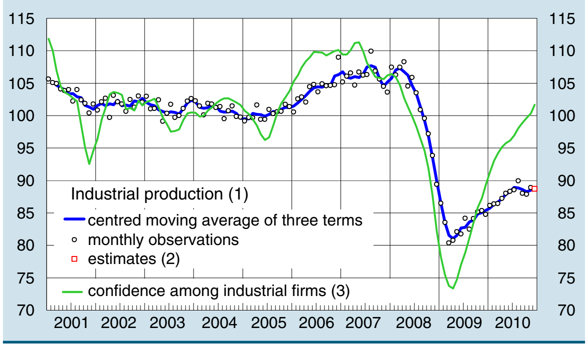
... and remained weak in the fourth

According to our estimates for December, industrial activity declined slightly on average in the fourth quarter. This confirms the

Figure 17

Industrial production and business confidence

(monthly data)



Sources: Based on ISAE, Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; index, 2005=100. – (2) Based on electricity consumption and the indicators of ISAE surveys of 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, 2005=100; three-month moving average ending in the reference month.

lag with which industrial output is recovering its pre-recession levels in Italy by comparison with the other major euro-area economies. In November industrial production was some 18 percentage points below its spring 2008 level in Italy, compared with 10 points in France and 7 in Germany.

Other indicators corroborate a picture of sluggish expansion of activity during the fourth quarter. The index of new industrial orders, deflated by producer prices, slowed in the third quarter, though still rising (by 1.7 per cent on the previous period, compared with a 7 per cent gain in the second quarter) and held practically stable in October. The Purchasing Managers Index for manufacturing fell from July onwards, but recovered in December to regain the levels registered during the spring. Towards the end of the year industrial activity may have been affected by the completion of the inventory replenishment cycle. According to the ISAE survey, stocks of finished products returned to levels considered normal in October, after having been lower than normal through the first part of the year. Signs of a possible slackening of demand are also found in the quarterly sample survey of industrial and service firms conducted by the Bank of Italy and *Il Sole 24 Ore* in December. The percentage of firms that reported a worsening of demand conditions compared with the previous quarter rose sharply to surpass those reporting an improvement. Exporters also indicated less lively foreign demand. The balance between judgments of improvement and deterioration in the general economic situation also fell back into negative territory, more markedly among service firms.

Investment in productive capital eased ...

Gross fixed investment continued to recover during the third quarter, albeit more slowly than in the second, growing by 0.9 as against 2.0 per cent (Table 2). The expected deceleration in purchases of machinery, equipment and intangibles following the expiry of tax incentives in June was accompanied by a decline in spending on transport equipment after three quarters of expansion. Overall, investment was 13 per cent below the cyclical peak registered prior to the crisis. Investment is restrained by substantial idle capacity and by uncertainty over the strength of the cyclical upswing. ISAE's half-yearly survey in October found that manufacturing firms' investment plans for 2011 remain cautious, held back by the sluggishness of demand growth and directed mainly to the replacement of obsolete equipment, even though the survey did find some indications of an expansion in the productive base. The Bank of Italy/*Il Sole 24 Ore* quarterly survey in December also found a worsening in investment conditions: assessments of deterioration outnumbered those of improvement by nearly 10 percentage points.

... but spending on construction returned to growth

Construction investment increased in the third quarter for the first time in more than two years, growing by 0.6 per cent compared with the second quarter, as a slight contraction of 0.4 per cent in housing construction was more than offset by the gain of 1.4 per cent in non-residential building. The upturn is likely to have continued in the fourth quarter: the climate of confidence among construction firms improved markedly in October and November, with more positive judgments both of the present situation and of the outlook.

The housing market has stabilized

According to the data collected by the Territory Agency, the number of house sales was down 2.4 per cent in the third quarter from a year earlier, but over the first nine months it was up 2.2 per cent, confirming the faintly positive indications of opinion surveys. The quarterly survey of real-estate agents conducted in October by the Bank of Italy together with Tecnoborsa and the Territory Agency found an easing of the downward pressure on house prices during the third quarter. The proportion of agents judging prices to be basically stable rose to 65 per cent, from 52 per cent a year earlier, and the margin by which assessments of falling prices outweighed those of rising prices narrowed (Figure 18). Assessments of the number of new sale mandates also improved. Agents were more optimistic over the prospects for their local markets and the number of mandates in the fourth quarter.

Italian firms' gains in price competitiveness were partly offset in the third quarter ...

Measured by the real effective exchange rate based on producer prices, the competitiveness of Italian firms worsened slightly – by 2.6 per cent – between July and October, but this development did not completely wipe out the gains scored in the first half of the year (Figure 19). It was due mainly to the nominal appreciation of the euro, which came to a halt towards the end of the year. Between January and October Italian firms benefited from an average 3.5-percentage-point gain in competitiveness, only slightly less than German firms (about 5 points).

... while the growth of productivity continued

Labour productivity continued to grow in the third quarter. In the private sector it was nearly 2 per cent higher than in the third quarter of 2009 (Figure 20); the gains were sharpest in industry excluding construction (4.0 per cent) and in services (1.5 per cent). Given broad stagnation in hourly earnings, unit labour costs continued to fall and were 1.7 per cent lower than in the year-earlier period (compared with a decline of 2.6 per cent in the second quarter).

The upturn in profitability and self-financing has been consolidated

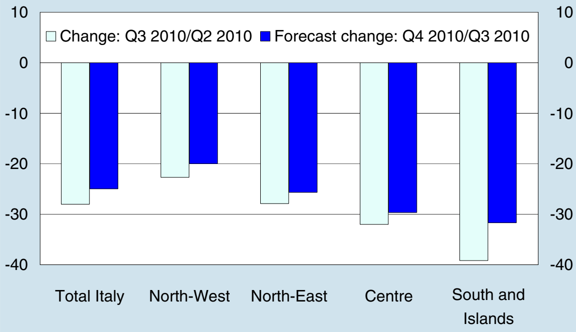
According to estimates based on the national accounts, the operating profitability of non-financial firms – the ratio of gross operating profit to value added over the previous twelve months – was higher in September than in June, thus consolidating the gain registered in the first half of the year. The decline in net financial expense in relation to value added, under way since the beginning of 2009, continued in the third quarter of 2010, and self-financing accordingly rose to nearly 12 per cent of value added.

Investment and funding needs both rose slightly; debt held steady in proportion to GDP

In the twelve months ending in September, investment – gross of inventories – continued the rise in proportion to value added that had begun in June, causing a slight increase in firms' external funding

Figure 18

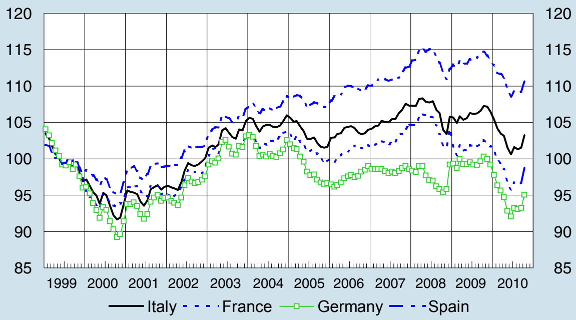
House price trends in Italy
(percentage balances between +/- assessments)



Source: Banca d'Italia, Tecnoborsa and Agenzia del Territorio, *Sondaggio congiunturale sul mercato delle abitazioni in Italia*, October 2010.

Figure 19

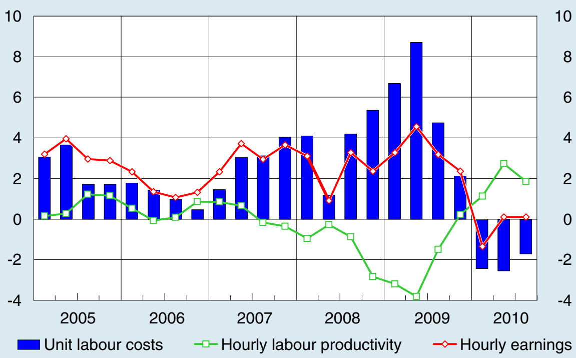
Real effective exchange rates (1)
(indices, 1999=100)



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 an index indicates a loss of competitiveness. Latest available data refer to October 2010.

Figure 20

Labour costs and productivity in the private sector (1)
(percentage changes on year-earlier period)



Source: Based on Istat data.
(1) Based on hours actually worked. The private sector comprises the following: agriculture, industry excluding construction, construction, commercial services, lodging and catering, transport and communication, credit and insurance, real estate and professional services.

requirement. Firms' financial debt rose in line with the rest of the economy, holding at 84 per cent of GDP (Figure 21), nearly 20 percentage points below the euro-area average.

Firms' bank debt ceased to shrink

After being negative from the summer of 2009 onwards, the twelve-month change in non-financial firms' debt to banks turned positive again at the end of 2010 (Figure 22).

Bond issues remain modest ...

In the third quarter Italian non-financial companies' recourse to the financial markets was modest. Net bond issues, worth just €1 billion, remained limited, as in the rest of the euro area. Preliminary Dealogic data on gross bond issues put fourth-quarter placements by companies belonging to Italian groups at over €6 billion, more than half of it consisting in two large issues by Wind and Eni.

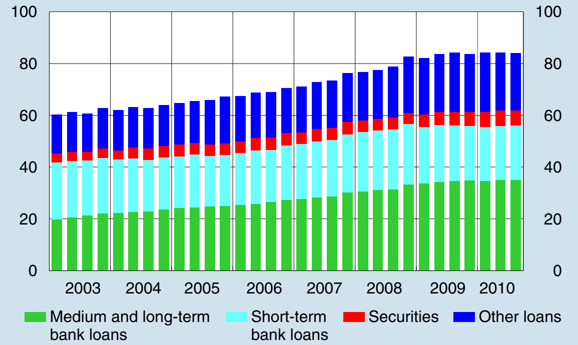
... as does recourse to the equity market

Fund-raising in the equity market remained modest in the third quarter of 2010 at €550 million, although this was nearly twice the volume recorded in each of the previous three quarters. There was no significant pick-up in mergers and acquisitions. According to Thomson Reuters Datastream data, Italian firms made just 40 such deals for a total value of scarcely €600 million in the quarter. Italian market developments were in line with those in Germany and Spain, where very substantial M&A activity in the second quarter was followed by a modest volume of transactions in the third (€1 billion and €150 million respectively). France was an exception, with M&A deals worth €17 billion in the third quarter. Preliminary data offer some faint signs of recovery in the Italian market in the fourth quarter, with non-financial companies carrying out some 40 transactions worth €1.5 billion.

Figure 21

Debt of non-financial firms (1)

(as a percentage of GDP)

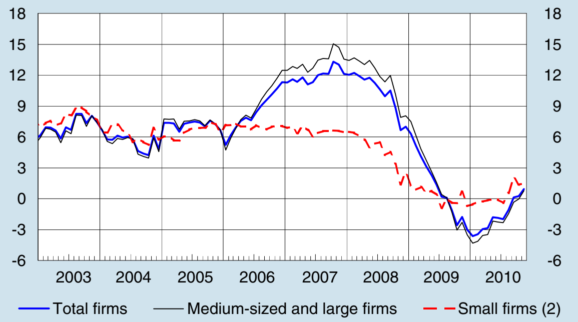


Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the third quarter of 2010 are provisional. Includes securitized loans.

Figure 22

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



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

3.3 HOUSEHOLDS

Household consumption grew slightly in the third quarter

Household consumption, which had stagnated in the spring, increased slightly in the third quarter of 2010 by 0.3 per cent on the second quarter (Table 2). This can be ascribed in part to the 1.3 per cent growth in spending on durables following the sharp contraction of the previous quarter when the effects of the tax incentives for scrapping high-polluting motor vehicles expired. Among the other components of household consumption, spending on non-durable goods rose by only 0.2 per cent and that on services contracted by the same amount.

Household consumption grew by just 0.7 per cent overall in the first nine months of 2010 compared with the same period in 2009 as it continued to be affected by the weakness of real disposable income, which contracted by around 1 per cent in the three quarters (Figure 23). Since nominal income recorded a slight increase, the reduction reflected a larger rise in prices.

There are no signs of a pick-up in the closing months of 2010

In a context of persistent uncertainty, it is estimated that household expenditure remained weak in the fourth quarter of 2010 as well. According to the indicator calculated by Istat, in October the volume of retail sales stayed at the low level recorded in the middle of 2009. Although new car registrations rose by 3.5 per cent between the third and fourth quarter, they recouped only a very small part of the contraction recorded in the first six months and in December their level was only slightly higher than at the beginning of 2009, when the car scrappage incentives were introduced. After falling in the first half of 2010, the ISAE indicator of confidence among households improved from August on. However, opinion surveys among consumers again reveal significant, if slightly diminished, concerns about labour market conditions, which influence spending decisions.

Household debt increases further

Household debt increased further, reaching 65 per cent of disposable income at the end of September (Figure 24). This proportion is nonetheless still well below the average for the euro area, which stood at 98 per cent in June. Debt service payments by Italian households (interest and repayment of principal) turned slightly upwards, to 9.6 per cent of disposable income. The interest rate on loans for house purchases remained virtually unchanged (Figure 25).

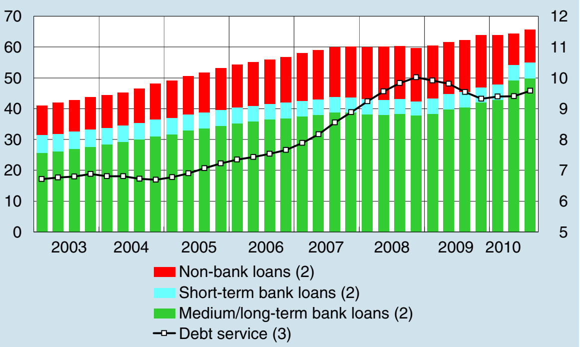
Figure 23

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

Sources: Estimates and calculations based on ISAE, Istat and Bank of Italy data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Up to 2009, annual data; the data for 2010 refer to the average percentage change in the first three quarters compared with the same period in 2009. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices, 1980=100. – (4) Monthly data; moving averages for the three months ending in the reference month.

Figure 24

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



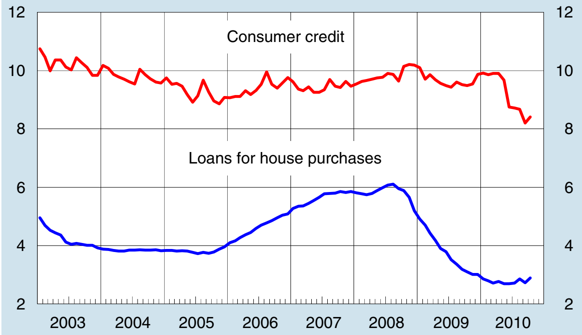
Sources: Based on Bank of Italy and Istat data.
1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the last quarter of 2010 are provisional. Includes securitized loans. – (2) There is a break in statistics on the distribution between bank and non-bank loans for the second quarter of 2010. For the methodology see the section “Notice” in *Supplements to the Statistical Bulletin – Financial Accounts*, 58, 5 November 2010. – (3) Right-hand scale. Estimated cost of debt service (payment of interest and repayment of principal) for consumer households only.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In September 2010 the method of collecting data for the compilation of Italy's balance of payments underwent a transformation (see the box "The new data collection system for Italy's balance of payments"). The statistics for the three years 2008-10 have consequently been revised and the new data will be incorporated in Istat's national accounts in the coming months.

Figure 25

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 for the different maturities, weighted by the size of the loans.

Merchandise exports continued to grow in the third quarter, above all to EU markets

On the basis of the new data and the national accounts deflators, exports of goods and services at constant prices (with the latter affected to a greater extent by the revision) are estimated to have increased by 3.2 per cent in the third quarter (as against 2.7 per cent in the second). In more detail, the growth in exports of goods accelerated from 2.4 to 4.1 per cent, while exports of services contracted by 0.5 per cent after two quarters of significant expansion. The disaggregated trade data show that the increase in exports of goods at constant prices concerned all the main sectors, but especially engineering products, transport equipment and traditional Italian exports (textiles and clothing, leather and footwear, wood products, furniture and other manufactures). As regards geographical developments, the largest increases were in exports to other EU countries, especially Germany and the United Kingdom, while outside the European Union, significant contributions to export growth came from trade with China, Russia and Switzerland.

THE NEW DATA COLLECTION SYSTEM FOR ITALY'S BALANCE OF PAYMENTS

With effect from September 2010 the data collection system for the compilation of Italy's balance of payments underwent major changes. During the experimental phase, launched in 2008, the new method had been used in parallel with its predecessor. This box provides a summary description of the reasons for the changes and of the structure of the new data sources; it also contains a comparison between the new and the old data collection methods for 2009, in which the reduction in *Errors and omissions* suggests an overall improvement in the quality of the statistical information.

The globalization of international markets has greatly augmented the scale of financial transactions. The technical complexity of many transactions has increased and this has reduced the reliability of the methods of collecting balance-of-payments data based on bank settlements, which are suitable for recording relatively simple operations. At the end of a long period of reflection involving the ECB, Eurostat and the EU countries' central banks and national statistical institutes, a new approach was adopted for data collection, based mainly on direct reporting by the entities taking part in foreign trade transactions. Overall the recourse to sample surveys has been increased and banks' statistical reporting burden on behalf of their clients significantly reduced.

The new Italian method uses a series of different sources: (a) censuses, such as the statistical reports of entities supervised by the Bank of Italy; (b) sample surveys, with special reference to those carried out at non-financial corporations and insurance corporations; and (c) administrative data collected for other than statistical purposes to comply with legal obligations. For an overview of the sources, see Table A.

Table A

Sources of the data for compiling Italy's balance of payments (1)
(by item and resident economic sector)

	General government	Monetary authorities	Banks	Non-financial corporations	Insurance corporations	Other financial institutions	Households and non-profit institutions
Goods	COE/ST	COE/ST	COE/ST	COE/ST	COE/ST	COE/ST	COE/ST
Transport and tourism	IND	IND	IND	IND	IND	IND	IND
Other services	BI	BI	IBR	DR	DR	OFIR	FA
Compensation of employees	BI	BI	IBR	DR/ST	DR	ST	IND/ST
Direct investment income	–	–	IBR/ST	DR/ST	DR/ST	OFIR/ST	FA/ST
Portfolio investment income	SDB/ST	BI	SDB/ST	SDB/ST	SDB/ST	SDB/ST	FA/ST
Other investment income	ST	BI	IBR	DR/ST	DR/ST	OFIR/ST	FA/ST
Current transfers	OS/BI/ST	BI	IBR	DR	DR	ST	FA/MTO/ST
Capital account	OS/BI	BI	IBR	DR	DR	ST	FA
Direct investment	–	–	IBR	DR	DR	OFIR	FA/OS
Portfolio investment (2)	IBR/SDB	BI	IBR/SDB	IBR/SDB/ DR	IBR/SDB/DR	IBR/SDB/ OFIR	IBR/SDB/OS
Other investment	BI	BI	IBR	DR	DR	OFIR	FA/OS
Financial derivatives	BI	BI	IBR	DR	DR	OFIR	FA/OS

(1) The blue zones show the new sources. – (2) For this item the new method came into force at the end of 2009.
Legend:
BI = Bank of Italy; COE = foreign trade statistics (Istat); FA = administrative data (e.g. Revenue Agency data); IBR = banking and other financial intermediary data; IND = existing sample surveys (tourism and merchandise transport); DR = new sample surveys (*direct reporting*); MTO = money transfer operator reports on migrant remittances; OFIR = other financial sources; OS = other sources (e.g. foreign assets disclosure scheme data and other Istat data); SDB = security database register; ST = estimates based on data deriving from surveys and other sources or based on models.

As regards non-financial and insurance corporations, the new reports on transactions with abroad are collected directly at a sample of about 7,000 Italian companies, selected on the basis of their size and total volume of business with the rest of the world. For financial transactions, provision is made for the reporting of both flows and stocks. The periodicity of the measurements varies from quarterly to annual, except for a small sample of about 300 larger corporations, from which data are collected monthly to capture the movements in certain highly volatile financial phenomena.

Table B shows the comparison between the data produced by the new and the old methods for 2009. Among the *Current account* items, *Investment income* is the most affected, with an increase in the credits and a decrease in the debits. The application of specific rates of return to the stock data has made it possible to obtain more accurate estimates of investment income than with the previous method based on bank settlements, which were distorted by commingling with non-income components. Within the item *Other services* the adoption of direct reporting has permitted a more accurate allocation of the transactions in question, thereby reducing the importance of the residual items frequently used in the old method. For 2009 as a whole there is a reduction of €17.7 billion in the *Current account* deficit (from €49.4 billion to €31.7 billion), corresponding to 1.2 per cent of GDP.

Table B

Italy's balance of payments: comparison between the new and the old data collection methods for 2009
(billions of euros)

	CREDITS/ASSETS			DEBITS/LIABILITIES			BALANCES		
	Old method (A)	New method (B)	Difference (B-A)	Old method (A)	New method (B)	Difference (B-A)	Old method (A)	New method (B)	Difference (B-A)
1. Current account	428.9	439.8	10.9	478.3	471.4	-6.8	-49.4	-31.7	17.7
1.1 Goods	292.3	292.3	0.0	290.6	291.5	0.9	1.7	0.8	-0.9
1.2 Services	70.1	68.6	-1.5	81.2	78.4	-2.8	-11.1	-9.9	1.2
1.2.1 Tourism	*28.9*	*28.9*	*0.0*	*20.0*	*20.0*	*0.0*	*8.8*	*8.8*	*0.0*
1.2.2 Transport	*9.1*	*9.2*	*0.1*	*16.0*	*16.2*	*0.2*	*-6.9*	*-7.0*	*-0.1*
1.2.3 Other services	*32.2*	*30.5*	*-1.6*	*45.2*	*42.2*	*-3.0*	*-13.0*	*-11.7*	*1.4*
1.3 Income	45.8	58.1	12.2	72.6	68.1	-4.5	-26.7	-10.0	16.7
1.3.1 Compensation of employees	*1.6*	*3.7*	*2.1*	*2.5*	*2.5*	*-0.1*	*-0.9*	*1.3*	*2.2*
1.3.2 Investment income	*44.2*	*54.4*	*10.2*	*70.1*	*65.7*	*-4.4*	*-25.9*	*-11.3*	*14.5*
1.4 Current transfers	20.6	20.7	0.2	33.9	33.4	-0.5	-13.3	-12.6	0.7
2. Capital account	2.1	2.1	0.0	1.5	2.2	0.7	0.6	-0.1	-0.7
3. Financial account	-30.9	-18.3	12.6	48.1	42.8	-5.3	17.1	24.4	7.3
3.1 Direct investment	-31.6	-28.2	3.4	22.0	12.3	-9.6	-9.6	-15.9	-6.2
3.2 Portfolio investment	-36.3	-38.5	-2.2	61.2	66.6	5.4	24.9	28.1	3.2
3.3 Other investment	27.7	39.0	11.3	-37.0	-31.7	5.3	-9.3	7.4	16.6
3.4 Financial derivatives	9.2	9.3	0.1	1.9	-4.5	-6.4	11.1	4.8	-6.3
4. Errors and omissions							31.6	7.3	-24.3

The new method also permits a more accurate definition of the causes of the flows of the non-bank sectors in the *Financial account*. Moreover, direct reporting by the companies involved makes it easier to identify corporate links between counterparties. These changes have led to the reallocation of some flows between *Direct investment* and *Other investment*. The changes in *Portfolio investment* are not particularly significant since the new method was already in force for this item; its introduction had mainly entailed some reclassifications between sectors, between public and private and between short and long term. For 2009 the new method brought a considerable reduction in "Errors and omissions", from €31.6 billion to €7.3 billion.

Merchandise imports also increased

In the third quarter of 2010 imports of goods and services at constant prices are estimated to have increased by 2.7 per cent. Goods imports are estimated to have increased by 3.4 per cent (as against 1.4 per cent in the second quarter), buoyed in particular by the rise in imports of electronic products and the recovery in those of motor vehicles; in geographical terms, imports from other EU countries and China continued to grow fastest. Imports of services at constant prices appear to have stagnated.

Merchandise exports nonetheless weakened in October and November

The seasonally adjusted foreign trade figures at constant prices show that on average exports remained virtually unchanged in October and November, as demand weakened in the main outlet markets. The current price data point to a slowdown in the growth of exports; accompanied by a recovery in imports (also at constant prices); this led to a further deterioration in the trade balance.

The current account deficit worsened

In the first ten months of 2010 the deficit on the current account of the balance of payments increased compared with the corresponding period of 2009 (from €28.8 billion to €43 billion; Table 3). The increase mainly reflected the deterioration in the balance on merchandise trade, caused both by the increase in the energy deficit and by the reduction in the surplus on other products. By contrast, the lower average interest rates caused the deficit on income to diminish, especially in the early months of 2010. The deficit on services also narrowed, despite the slight contraction in the surplus on travel as a result of the larger increase in Italians' spending abroad and the widening of the deficit on transport owing to the recovery in trade.

Table 3

Italy's balance of payments (1)

(billions of euros)

	2008	2009	Jan.-Oct. 2009	Jan.-Oct. 2010
Current account	**-46.0**	**-31.7**	**-28.8**	**-43.0**
Goods	-2.1	0.8	0.9	-13.1
Non-energy products (2)	*55.3*	*41.5*	*34.6*	*27.2*
Energy products (2)	*-57.5*	*-40.7*	*-33.7*	*-40.3*
Services	-9.0	-9.9	-7.7	-6.7
Income	-19.2	-10.0	-9.8	-7.7
Current transfers	-15.6	-12.6	-12.2	-15.5
Capital account	**-0.2**	**-0.1**	**-0.4**	**0.2**
Financial account	**29.8**	**24.4**	**19.8**	**61.4**
Direct investment	-55.0	-15.9	-17.3	-4.2
Portfolio investment	75.2	28.1	75.7	26.7
Financial derivatives	2.9	4.8	4.4	-2.2
Other investment	12.2	7.4	-42.4	42.2
Change in official reserves	-5.6	0.1	-0.6	-1.1
Errors and omissions	**16.4**	**7.3**	**9.3**	**-18.5**

(1) Provisional data for October 2010. – (2) Based on Istat foreign trade data.

Portfolio investment in foreign shares increased

In the first ten months of 2010 residents' net purchases of foreign shares and funds continued to rise, but the increase was partially offset by smaller net purchases of foreign debt securities. Calmer equity market conditions than in 2009 fostered portfolio choices directed towards riskier assets. The period in question saw €26.7 billion of net inward portfolio investment, as against €75.7 billion in the corresponding year-earlier period. Turning to direct investment, the first ten months of 2010 saw a reduction in net outflows from €17.3 billion to €4.2 billion as a result of a sharp reduction in net investment abroad accompanied by a small fall in net foreign investment in Italy. According to preliminary data, M&A activity appears to have picked up in the last part of 2010.

3.5 THE LABOUR MARKET

Employment is still not recovering ...

Employment continued to contract in the third quarter of 2010, falling by 0.2 per cent (57,000 persons) on a seasonally adjusted basis. With the release of updated data, Istat has revised its seasonally adjusted estimates of the number of persons in work downwards; they now show a slight decline between the first and second quarters. According to the provisional monthly data published by Istat, between October and November employment grew slightly.

Average employment was 0.9 per cent lower in the first nine months of 2010 than in the same period of 2009 (Table 4). Geographically, the contraction was sharpest in the South (1.9 per cent), while sectorally it was most pronounced in industry excluding construction (4.7 per cent).

Table 4

Labour force status of the population in Italy

	Average Jan.-Sept. 2009	Average Jan.-Sept. 2010	Change (1)	Q3 2009	Q3 2010	Change (1)
			Thousands of persons			
Total persons in work	**23,059**	**22,851**	**-0.9**	**23,011**	**22,789**	**-1.0**
Employees	**17,275**	**17,050**	**-1.3**	**17,323**	**17,077**	**-1.4**
of which: fixed-term	*2,146*	*2,148*	*0.1*	*2,186*	*2,198*	*0.5*
part-time	*2,576*	*2,685*	*4.2*	*2,562*	*2,671*	*4.3*
Self-employed	**5,784**	**5,802**	**0.3**	**5,687**	**5,712**	**0.4**
Labour force	**24,938**	**24,928**	**0.0**	**24,824**	**24,653**	**-0.7**
men	*14,780*	*14,744*	*-0.2*	*14,773*	*14,601*	*-1.2*
women	*10,157*	*10,184*	*0.3*	*10,051*	*10,052*	*0.0*
Population	**59,711**	**60,019**	**0.5**	**59,791**	**60,082**	**0.5**
			Per cent			
Unemployment rate	**7.5**	**8.3**	**0.8**	**7.3**	**7.6**	**0.3**
men	*6.5*	*7.5*	*0.9*	*6.4*	*6.8*	*0.3*
women	*9.0*	*9.6*	*0.6*	*8.6*	*8.7*	*0.1*
North	*5.1*	*5.8*	*0.8*	*5.1*	*5.2*	*0.1*
Centre	*6.9*	*7.5*	*0.6*	*6.5*	*7.0*	*0.5*
South	*12.3*	*13.3*	*1.0*	*11.7*	*12.1*	*0.4*
Participation rate (age 15-64)	**62.4**	**62.1**	**-0.3**	**62.1**	**61.4**	**-0.6**
men	*73.7*	*73.3*	*-0.4*	*73.7*	*72.7*	*-1.0*
women	*51.1*	*51.0*	*-0.1*	*50.5*	*50.2*	*-0.2*
Employment rate (age 15-64)	**57.6**	**56.9**	**-0.7**	**57.5**	**56.7**	**-0.8**
men	*68.8*	*67.7*	*-1.1*	*68.9*	*67.6*	*-1.2*
women	*46.4*	*46.0*	*-0.4*	*46.1*	*45.8*	*-0.3*
North	*65.7*	*65.0*	*-0.7*	*65.4*	*64.8*	*-0.6*
Centre	*62.0*	*61.5*	*-0.5*	*61.8*	*61.2*	*-0.6*
South	*44.8*	*43.9*	*-0.9*	*45.0*	*43.9*	*-1.1*

Source: Istat labour force survey (data not seasonally adjusted).
(1) Changes are in percentages for persons and percentage points for rates.

... but recourse to wage supplementation has diminished

In 2010 the number of hours of Wage Supplementation Fund benefits authorized by INPS increased by 31.7 per cent to 1.2 billion, but the closing months of the year saw an inversion of trend. In the fourth quarter the number of authorized benefit hours decreased with respect to the third by 11.4 per cent on a seasonally adjusted basis. The drop was sharpest for ordinary benefits, but it involved both extraordinary benefits and benefits granted under waivers as well. The reduction came to 14.8 per cent in industry excluding construction, while in construction recourse to wage supplementation grew further by 5.6 per cent. For the second consecutive quarter the percentage of full-time equivalent workers in industry on wage supplementation diminished (by 0.5 percentage points on a seasonally adjusted basis; Figure 26). After increasing uninterruptedly since the spring of 2008, in the third quarter the combined share of benefits under waivers and extraordinary benefits declined by 0.2 percentage points.

The fall in employment continues to be sharpest among young people and men

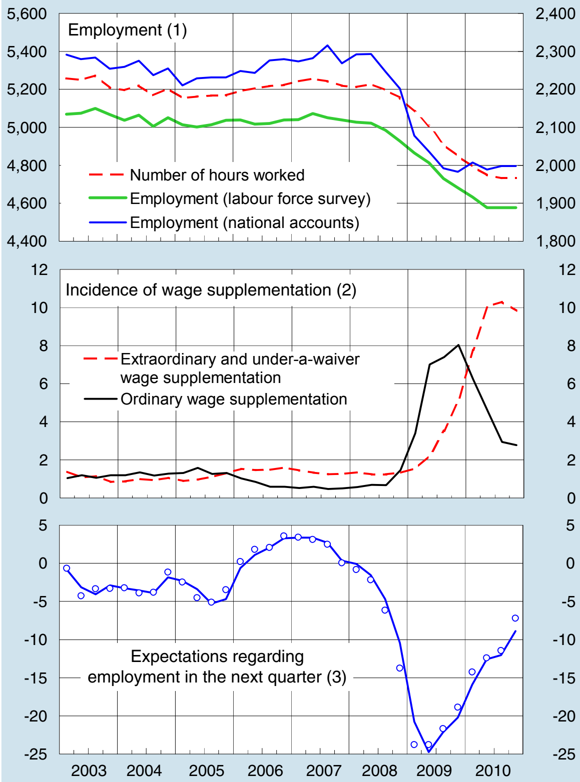
The employment rate of the working-age population fell in the third quarter of 2010 to 56.7 per cent, from 57.5 per cent a year earlier. Continuing the pattern since the start of the crisis, the decline was sharpest in the 15-24 age group (from 22.3 to 20.5 per cent) and among men (from 68.9 to 67.6 per cent). The reduction in employment was concentrated in the Italian component (2.0 per cent, or 422,000), whose employment rate fell from 56.9 to 56.1 per cent. By contrast, the component consisting of foreigners grew again, boosted by a further increase in the officially resident immigrant population, though at a considerably lower rate than in recent quarters. After plunging during the crisis (from a peak of 67.5 per cent in the third quarter of 2008 to 61.7 per cent in the first quarter of 2010), the employment rate among foreigners has stabilized at between 62 and 63 per cent.

The employment outlook remains uncertain

The ISAE's surveys of firms show a gradual reduction of the negative balance between the percentage of manufacturing firms that expect to reduce their workforce in the following quarter and those that expect to expand it. By contrast, the corresponding balance in construction has been worsening. The quarterly survey conducted in December by the Bank of Italy with *Il Sole 24 Ore* signals the persistence of uncertainty as to the employment outlook in the first three months of this year: the negative balance between firms expecting to take on more workers and those expecting to cut jobs widened to 8.8 percentage points, from 3.7 in September. According to Istat's provisional estimate, the number of job vacancies rose slightly in the third quarter compared with a year earlier (to 6 per 1,000 persons employed, 5 per 1,000 in industry and 8 per 1,000 in services).

Figure 26

Employment, wage supplementation and employment expectations in industry excluding construction
(seasonally adjusted quarterly data; thousands of persons, millions of hours and percentages)



Sources: Based on Istat labour force surveys and quarterly economic accounts, INPS data, and the ISAE survey *Inchiesta sulle imprese manifatturiere*.
(1) Total employment (persons in work) as defined by the quarterly national economic accounts and the Istat labour force surveys (left-hand scale); millions 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 wage supplementation (ordinary, under a waiver, or extraordinary) was authorized in the quarter as a percentage of the number of full-time equivalent workers as defined in the quarterly economic accounts. For the fourth quarter of 2010, partially estimated. – (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 data.

Firms modify the composition of their demand for labour ...

Against the background of persistent uncertainty about the strength of the economic recovery and expectations that the return to pre-crisis levels of output will be slow, firms prefer employment relationships offering more flexibility than full-time permanent jobs. In fact, the drop in employment in the third quarter with respect to a year earlier was limited to full-time permanent employees (down by 349,000, or 2.7 per cent), while the number of self-employed workers rose by 24,000, or 0.4 per cent, as did those of part-time and fixed-term employees (by respectively 109,000 and 11,000, or 4.3 and 0.5 per cent). On the basis of national accounts data, after contracting progressively during the crisis, the number of hours actually worked per employee rose during the summer for the third quarter in a row (by 0.6 per cent compared with a year earlier) among both employees and self-employed workers. The increase came mainly in industry (2.9 per cent).

... and the supply of labour shrinks, particularly among young people with no work experience

The weak employment outlook tends to discourage job search, especially among those with little work experience. Net of seasonal factors, in the third quarter of 2010 the labour force shrank by 0.4 per cent (93,000 persons) compared with a year earlier and the labour force participation rate fell slightly. A factor in this was the decline of 1.7 per cent (36,000 persons) in the number of job seekers. The contraction, which came after two years of rapid increase, mainly involved young people and first-job seekers. The drop in participation allowed the unemployment rate to edge down to 8.3 per cent, from 8.4 per cent in the second quarter. Istat's provisional monthly data do not confirm these developments for the fourth quarter, when instead the number of non-participants fell and that of job-seekers rose. As a result, the unemployment rate is estimated to have risen to 8.7 per cent in November. According to preliminary estimates, an indicator of labour underutilization that includes the equivalent of Wage Supplementation Fund benefit hours plus discouraged workers who have become less active in seeking work stands at least two percentage points above the unemployment rate (see the box "Estimates of unutilized available labour", *Economic Bulletin*, January 2010).

According to national accounts data, in the first nine months of 2010 actual gross earnings per hour worked in the non-farm private sector were practically unchanged from the year-earlier period, rising by 0.1 per cent overall, with a decrease of 1.6 per cent in industry and an increase of 0.6 per cent in services. In the same period, earnings per labour unit recorded an increase virtually in line with that of the previous years (3.1 per cent overall, 4.2 per cent in industry and 2.3 per cent in services), compared with a consumer price inflation rate of 1.5 per cent.

3.6 PRICE DEVELOPMENTS

Inflation remains low; the rise in the second half of 2010 reflects pressures from abroad

In the second half of 2010 inflation, measured by the twelve-month change in the consumer price index (CPI), came to about 1.7 per cent, compared with 1.3 per cent on average in the first half of the year; it rose to 1.9 per cent in December (Table 5).

The increase, which is in line with that in average euro-area inflation, was largely due to the performance of energy prices. These rose by 6.4 per cent in the fourth quarter compared with the year-earlier period, driven in part by items with regulated prices, which began rising again in October after a year of decline. As in the other euro-area countries, pressure on consumer price inflation also came from the acceleration in food prices, which are gradually incorporating the increases in food commodity prices.

In December, the three-month change in the overall CPI, seasonally adjusted and on an annual basis, increased to 2.4 per cent, largely owing to the rise in energy prices (Figure 27).

Table 5

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

	HICP (1)		CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index		Excl. energy and food	Overall index
				at 1 month (4)		
2006	2.2	1.6	2.1	–	1.6	5.2
2007	2.0	1.8	1.8	–	1.6	3.3
2008	3.5	2.2	3.3	–	2.1	5.8
2009	0.8	1.6	0.8	–	1.5	-5.4
2010	1.6	1.7	1.5	–	1.5	....
2010 – Jan.	1.3	1.6	1.3	0.1	1.5	-0.3
Feb.	1.1	1.3	1.2	0.0	1.4	0.5
Mar.	1.4	1.6	1.4	0.3	1.5	1.7
Apr.	1.6	1.8	1.5	0.3	1.6	3.2
May	1.6	1.6	1.4	0.0	1.3	3.9
June	1.5	1.7	1.3	0.1	1.5	3.5
July	1.8	1.8	1.7	0.3	1.6	4.2
Aug.	1.8	1.8	1.6	0.1	1.6	3.7
Sept.	1.6	1.6	1.6	0.1	1.5	4.2
Oct.	2.0	1.8	1.7	0.2	1.6	4.0
Nov.	1.9	1.7	1.7	0.1	1.5	4.1
Dec.	2.1	1.7	1.9	0.3	1.5	....

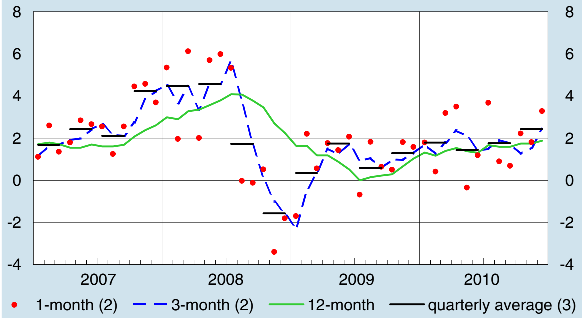
Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the harmonized index principally on account of the different method of recording the prices of pharmaceutical products and promotional sales.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

During 2010, the twelve-month rise in consumer prices, excluding food and energy (core inflation), held steady at around 1.5 per cent, against a background of modest pressure of domestic origin. Among the components of core inflation, the slight acceleration in non-food and non-energy prices from the summer onwards, from an average of 1.0 per cent in the first half of the year to 1.4 per cent in December, contrasted with a slowing, from 1.8 to 1.5 per cent, in the prices of unregulated services over the same period.

Figure 27

Inflation in Italy (1)

(percentage changes)



Source: Based on Istat data.
(1) General consumer price index. – (2) Seasonally adjusted annualized rate. – (3) Average, in the reference quarter, of monthly growth rates, on a seasonally adjusted and annual basis.

The twelve-month change in the harmonized index of consumer prices (HICP) was 2.1 per cent in December; in 2010 it averaged 1.6 per cent (against 0.8 per cent in 2009), largely in line with the projections of the forecasters surveyed by Consensus Economics from the beginning of last year. The inflation differential between Italy and the euro area, which stood at 0.5 percentage points in 2009, closed in 2010 as a whole owing to the more favourable performance of food and energy prices. Excluding these components, it widened to 0.7 points, compared with 0.2 points in 2009, reflecting increases both in non-food and non-energy prices and in the prices of services. In 2010, the latter rose by around 0.6 points more than the average for the euro area, after remaining largely in line during the previous two years. Higher increases in Italian prices of air transport and tourism-related services were the main contributory factors.

Producer prices continue to rise

In the second half of 2010, producer price inflation continued to fluctuate widely within an underlying upward trend, mainly due to movements in energy prices. The twelve-month change in the producer prices of products sold on the domestic market rose from 2.1 per cent in the first six months of the year to 4.1 per cent in November. The acceleration reflected the increase in food prices, which rose by 3.9 per cent in the twelve months to November, compared with 0.2 per cent to June, as well as in the prices of intermediate inputs (5.9 against 5.0 per cent) in response to higher raw material prices on international markets. The persistent weakness of the components of domestic demand during 2010 helped to keep the prices of non-food consumer goods virtually stable.

Consumer prices could accelerate moderately in the coming months

Against a background of modest domestic pressure, consumer price inflation could be driven up further at the beginning of this year by increases in the prices of raw materials and of some regulated goods and services. It is expected to be just above 2 per cent for the year as a whole, in line with the average for the euro area. The quarterly survey conducted in December by the Bank of Italy in collaboration with *Il Sole 24 Ore* indicated that in the next twelve months firms expect to increase their list prices slightly more than reported in September. As in the previous survey, among the main factors driving up selling prices is the cost of raw materials. Indications coming from the Purchasing Managers Index at the end of 2010 were along the same line.

3.7 BANKS

The gradual recovery in lending continued in the autumn

The growth in bank lending continued to gather strength in the autumn, although it remained modest (Figure 28). In November, on the basis of data adjusted for securitizations, the three-month rate of growth in lending to the non-financial private sector rose to 5.1 per cent, from 3.5 per cent in August, on an annualized, seasonally adjusted basis. The acceleration was more pronounced for lending to non-financial firms, from 2.5 per cent in August to 5.1 per cent in November and, within this sector, greater for manufacturing firms than for firms in the service sector and the construction industry. The three-month rate of growth in lending to households for house purchases was equal to 4.1 per cent in November, up from 3.6 per cent in August.

Excluding bad debts and repos, lending by the five largest Italian banking groups was down on a twelve-month basis by 0.1 per cent in November compared with a decrease of 1.1 per cent in August; the growth rate of lending by other intermediaries increased to 4.7 per cent.

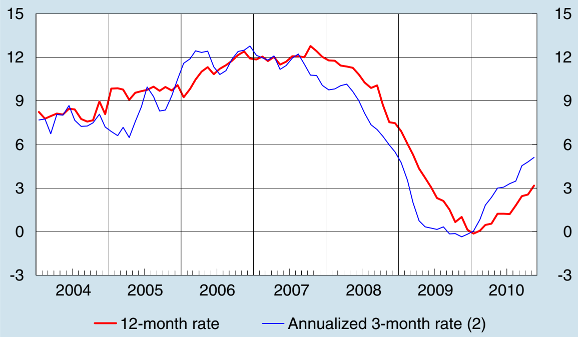
Credit supply conditions have been tightened slightly in some sectors

The recovery in lending to firms can be attributed largely to the performance of demand, which has been sustained by the modest growth in productive activity. According to the responses given in October by the Italian banks participating in the Eurosystem's quarterly Bank Lending Survey, in the third quarter of 2010 lending standards were tightened slightly, notably for the largest firms (see the box "Credit supply and demand in Italy"). The ISAE monthly survey and the quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* in December show a small increase in the percentage of firms that reported difficulty in obtaining bank credit. Compared with August 2010, the average interest rates on new loans to firms and households remained virtually unchanged (Figure 29); in November the rate on new short-term loans to firms, including for current account overdrafts, stood at 3.6 per cent. In the same period the rate on new fixed-rate mortgage loans to households declined by 0.2 percentage points to 4.2 per cent, while that on new variable-rate mortgage loans increased by 0.1 percentage points to 2.5 per cent.

Figure 28

Bank lending to the non-financial private sector (1)

(monthly data; percentage changes)

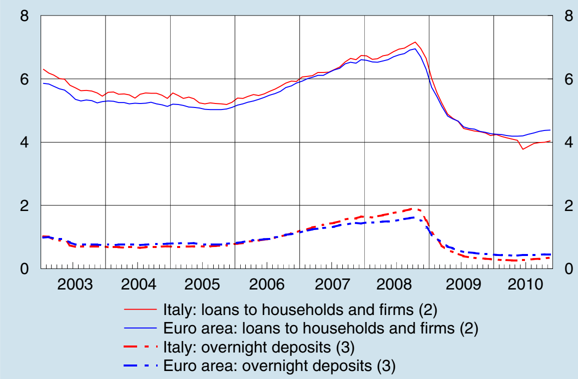


(1) The percentage changes are calculated net of reclassifications, exchange-rate variations, value adjustments and other variations not due to transactions. Data include an estimate of loans not reported in banks' balance sheets because they are securitized. – (2) Seasonally adjusted.

Figure 29

Short-term bank interest rates (1)

(monthly data; percentages)



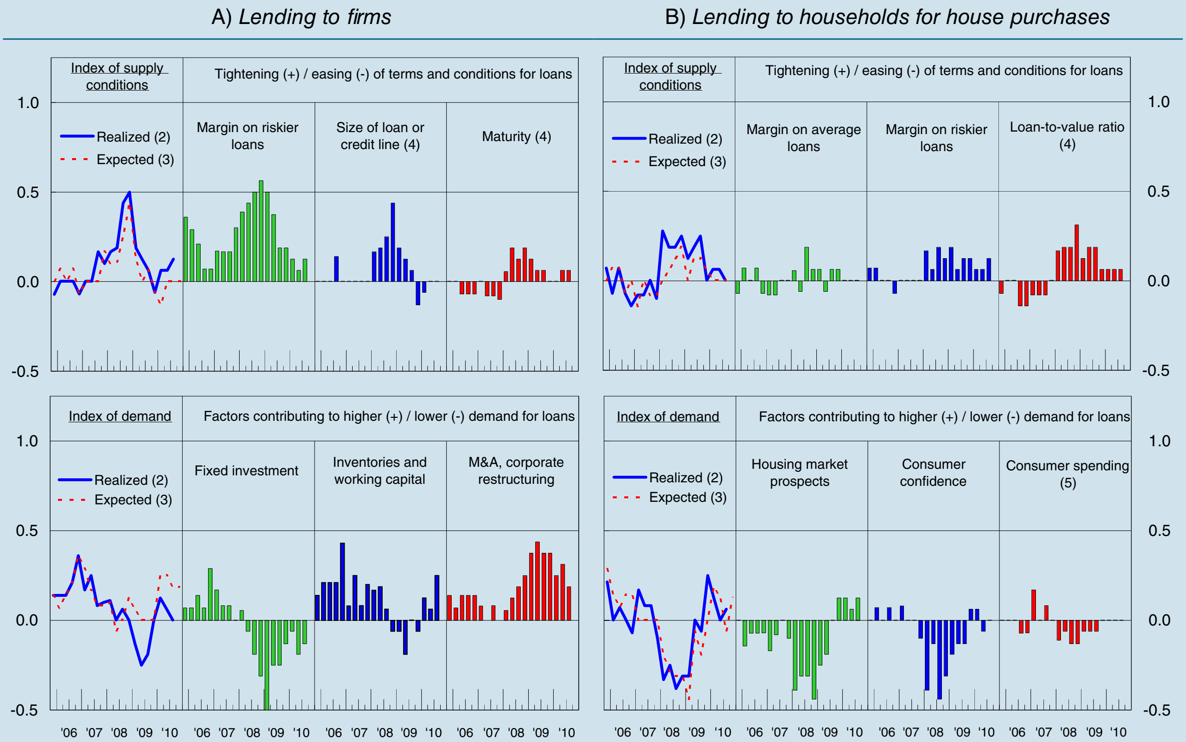
Sources: Bank of Italy and ECB.
(1) The data on lending and deposit rates refer to transactions in euros and are gathered and processed using the Eurosystem's harmonized method. – (2) Average rate on loans to households and firms with a maturity up to one year. – (3) Average rate on overnight deposits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

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 terms and conditions for loans to firms were tightened slightly in the third quarter of 2010 (see Figure). [1] Greater caution on the part of banks, including by comparison with

[1] Eight leading Italian banking groups took part in the survey, which was completed on 1 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 2010 and expectations for the first quarter of 2011 are not yet available; they will be released on 27 January.

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



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

the expectations recorded in the previous survey, reflected the uncertainty over the general economic outlook and that of certain sectors and firms. A number of intermediaries reported that they had tightened credit standards relating to specific aspects, such as the margins on riskier loans and collateral requirements, especially in connection with lending to large firms.

According to the banks interviewed, firms' demand for loans registered a modest deceleration in the third quarter, reflecting reduced medium and long-term borrowing requirements for debt restructurings. By contrast, demand for funds to finance inventories and working capital was reported to have made a positive contribution. For the fourth quarter, supply conditions were expected to remain virtually unchanged and credit demand to accelerate.[2]

The terms of lending to households for house purchases were reported to have remained unchanged overall in the third quarter, although banks did signal a tightening of cost conditions for riskier

[2] The banks interviewed as part of the survey conducted by the Bank of Italy's regional branch network, completed between the end of September and early October 2010, reported that they expected supply conditions to differ across economic sectors in the second half of 2010, with credit standards still slightly restrictive for firms operating in the construction sector, especially in the North East; see Banca d'Italia, *La domanda e l'offerta di credito a livello territoriale*, Regional Economies series, January 2011.

loans. The standards for consumer credit to households were also reported to have remained basically unchanged. According to the intermediaries interviewed, demand for loans for house purchases accelerated moderately, in connection with the slight improvement in the outlook for the residential property market. By contrast, demand for consumer credit and other loans slowed, as households' expenditure on durable goods continued to be weak.

For the fourth quarter banks expected the terms of lending to households to remain stable. Demand for loans for house purchases was expected to expand slightly and that for consumer credit to weaken.

On the fund-raising side, banks confirmed a general improvement in the conditions of access to wholesale funds during the third quarter, following the sharp deterioration reported in the previous survey. However, according to the intermediaries interviewed, the turbulence in sovereign bond markets would continue to produce negative effects on the very-short-term segment of the money market. A slight improvement was expected in all the technical forms of fund-raising in the fourth quarter.

The flow of new bad debts remains substantial

In the third quarter of 2010 the ratio of adjusted new bad debts to outstanding loans was equal, on an annualized, seasonally adjusted basis, to 2 per cent, a high value that was basically in line with that for the whole of 2009. The increase derived from the loans granted to financial companies and, to a lesser extent, from those granted to non-financial firms. The outlook for the quality of credit in the coming months remains uncertain. Preliminary data indicate that banks' exposure to borrowers reported as bad debts for the first time decreased slightly in the fourth quarter of 2010 with respect to the year-earlier period. The improvement concerned both households and firms. For the latter, however, the share of loans marked by temporary problems (substandard and restructured loans) remained high, amounting in November to 5.7 per cent of total lending.

Bank fund-raising has contracted marginally

After stagnating in August, Italian banks' total fund-raising declined by 0.5 per cent in November compared with the year-earlier period (Table 6). This result reflected the fall of 1 per cent in residents' deposits, compared with a rise of 2 per cent in August; the fall was mainly due to that in overnight deposits. The growth rate of bond fund-raising remained unchanged. Compared with August the growth rate of the five largest banking groups' fund-raising declined further to -1 per cent; the fund-raising of the other banks, excluding the branches of foreign institutions, showed virtually no growth in November. In the three months ending in November the rates of return on fixed-rate bank bonds increased by 0.4 percentage points to 3.3 per cent; by contrast, those on new issues of variable-rate bonds decreased by 0.2 percentage points to 2.2 per cent.

Table 6

Main assets and liabilities of Italian banks (1)

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

	2008	2009	November 2010	
				Stocks (2)
Assets				
Securities other than shares	44.5	29.8	10.3	571,412
bonds issued by MFIs resident in Italy	*67.5*	*32.2*	*-1.8*	*206,379*
Loans (3)	5.4	1.0	4.1	1.895,293
up to one year	*3.3*	*-5.1*	*2.5*	*601,712*
over one year	*6.5*	*4.1*	*4.8*	*1.293,581*
External assets	-1.2	-10.9	-3.4	328,417
Liabilities				
Total funding (3) (4)	4.1	2.1	-0.5	2.330,123
Deposits of Italian residents (3) (4)	6.2	5.3	-1.0	1.280,901
of which: (5)				
overnight	*6.6*	*11.7*	*-1.0*	*734,234*
with agreed maturity	*13.4*	*8.3*	*-10.6*	*216,125*
redeemable at notice	*7.0*	*8.2*	*5.1*	*273,333*
repos	*-1.3*	*-50.3*	*-36.1*	*39,611*
Depositsi of non residents	-8.0	-8.8	0.8	443,187
Bonds (4)	11.7	4.9	0.0	606,035
Memorandum item: Total bonds	20.1	10.6	-0.5	812,414

Source: Based on supervisory statistical reports.
(1) The figures for November 2010 are provisional. – (2) Millions of euros. – (3) Does not include repos with "post-trading service providers". – (4) Does not include liabilities with resident MFIs. – (5) Does not include those of central government.

Banks' profitability declined further

According to the consolidated reports of the five largest banking groups, profitability in the first nine months of 2010 was down on that in the corresponding year-earlier period. The annualized rate of return on equity declined from 4.3 to 3.7 per cent. Operating profit decreased by 13 per cent: the decrease of 9 per cent in net interest income, caused by the fall in interest rates and, for some banks, by a contraction in lending, was accompanied by basically stable other income and operating expense. Value adjustments to loans and writedowns decreased by 16 per cent compared with the first nine months of 2009 but they continued to absorb more than 50 per cent of operating profit. Overall, banks' profits decreased by 8 per cent.

In the third quarter of 2010 the five largest Italian banking groups achieved a further small increase in their capital ratios: in September their core tier 1 ratio was 7.8 per cent, up from 7.2 per cent at the end of 2009; their tier 1 ratio rose from 8.3 to 9 per cent and their total capital ratio from 11.8 to 12.5 per cent.

3.8 THE FINANCIAL MARKETS

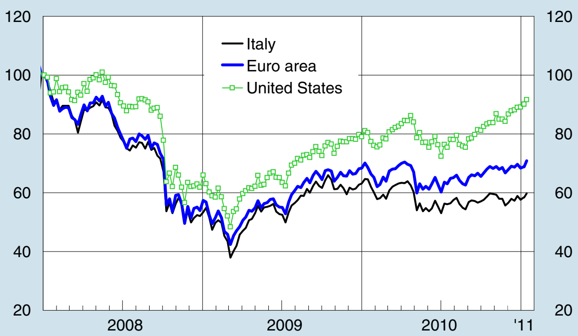
Share prices were unchanged in the fourth quarter as a whole

Share prices continued to fluctuate widely in the fourth quarter of 2010. After a small gain in October, thanks mainly to expectations of quantitative easing by the US Federal Reserve, the markets headed downwards in November as the pressure on the sovereign debt of some euro-area countries turned acute again. Since the beginning of December, they have recovered modestly. The Italian stock exchange index was little changed for the fourth quarter as a whole (a rise of about 1 per cent), while the index of the main euro-area listed companies gained 4 per cent (Figure 30). In the first two weeks of the new year, share prices have gained 4 per cent, both in Italy and in the euro area.

Figure 30

Share prices (1)

(end-of-week data; indices, 4 January 2008=100)



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

In the fourth quarter uncertainty penalized financial sector equities, with bank shares losing 14 per cent and insurance shares 5 per cent, as well as those of electricity, media and telecommunications companies (down by 4, 9 and 4 per cent respectively). Raw material, automotive and consumer goods shares, instead, gained 30, 27 and 18 per cent respectively. Given the greater incidence of the banking sector on the overall index in Italy, the fall in bank share prices explains part of the negative yield differential between Italy and the other area countries; another factor was the poorer growth outlook.

The current earnings/price ratio began rising again in the fourth quarter, as investors displayed greater caution in their valuations of equity investments. At the end of the year the ratio was above its long-term average (Figure 31).

There were three initial public offerings in the fourth quarter. At the end of the year, there were 291 companies listed on Borsa Italiana for a total market value of €425 billion, equal to about 27 per cent of GDP.

Net bond redemptions by Italian corporations diminished

Italian corporations as a whole made net bond redemptions in the third quarter, but much less than in the second quarter owing to an upturn in bank issues (Table 7). Non-financial corporations made modest net issues in both quarters. In the euro area banks again made net redemptions in the third quarter, while the issues of other financial corporations increased and the net issues of non-financial corporations fell by more than half.

Credit risk spreads widened

In the fourth quarter of 2010 the yield spread between investment grade bonds issued by Italian non-financial corporations and government securities widened by 15 basis points, compared with a smaller increase of 5 basis points in the euro area as a whole. Since the end of November, in conjunction with the heightening sovereign risk fears for some euro-area countries, the spreads on credit default swaps on Italian banks have widened and stood at 228 basis points on 14 January after peaking a few days earlier at 260. These levels are similar to those for the other euro-area banks save those of Greece, Ireland and Portugal, where spreads have become very wide.

The yields on long-term government securities have turned upwards

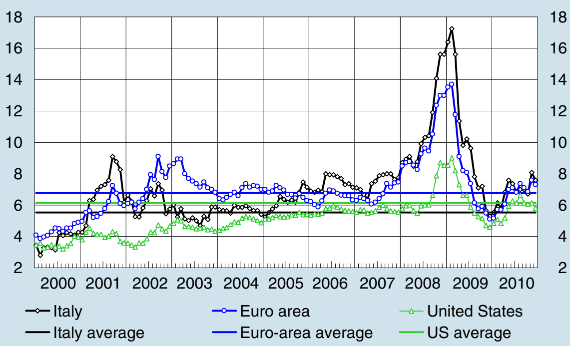
After fluctuating around 4 per cent since the beginning of 2010, the gross yield on ten-year Italian government bonds rose gradually from the first half of October on to reach 4.8 per cent at the end of the year, in line with the pattern in all the advanced economies.

The net inflow of savings to investment funds increased

Open-end investment funds in Italy registered a net investment inflow of €1.3 billion in the third quarter, compared with practically none in the second. Apart from a slight increase in net inflows to foreign funds (€6.2 billion as against €6.0 billion), there was a decrease in the net redemptions of Italian funds (from €6.0 billion to €4.9 billion). However, Italian harmonized money market funds made substantial net redemptions (€3 billion). At the end of the third quarter open-end investment funds in Italy had assets of €456 billion, up slightly from €449 billion at the beginning. For the quarter as a whole the average

Figure 31

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



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

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	**Total**
		Italy		
2008	122,368	71,158	22	193,548
2009	79,081	44,314	14,262	137,657
2009 – Q1	47,498	9,470	3,696	60,664
Q2	20,472	769	4,315	25,556
Q3	7,255	21,055	3,019	31,329
Q4	3,856	13,020	3,232	20,108
2010 – Q1	-4,240	-10,602	6,997	-7,845
Q2	-8,508	-6,711	987	-14,232
Q3	8,776	-12,568	984	-2,808
		Euro area		
2008	190,327	392,278	32,997	615,601
2009	180,853	269,176	152,705	602,734
2009 – Q1	76,134	112,473	40,850	229,457
Q2	108,528	84,812	51,395	244,735
Q3	38,030	36,285	37,036	111,351
Q4	-41,839	35,606	23,424	17,191
2010 – Q1	66,982	-39,823	29,424	56,583
Q2	-21,361	104	17,976	-3,281
Q3	-6,228	9,382	8,839	11,993

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by resident companies belonging to the sector indicated. Net issues are equal to the difference between the face value of the securities placed and that of the securities redeemed.

yield on Italian harmonized funds was 1.3 per cent; that on equity funds (4.0 per cent) benefited from the performance of stock exchanges during the summer.

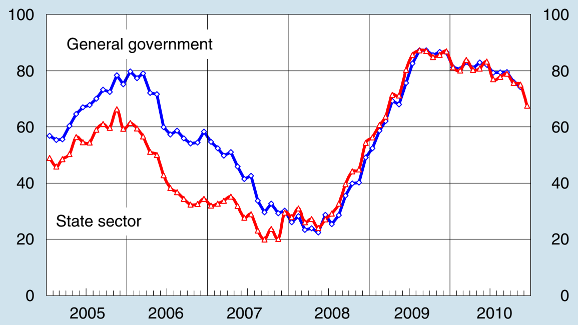
3.9 THE PUBLIC FINANCES

In 2010 the borrowing requirement came down significantly from the previous year

The 2010 state sector borrowing requirement amounted to €67.5 billion or 4.4 per cent of nominal GDP as estimated in Section 3.10 of this Bulletin, about one percentage point less than the estimate published in the Public Finance Decision in September. The decline of more than €19 billion or 1.4 percentage points of GDP with respect to 2009 (Figure 32) derived from the contraction in outlays; receipts were broadly unchanged. Only part of the reduction in expenditure was due to extraordinary components: there were outlays in 2009 for the subscription of special bank bonds (€4 billion) and for the repurchase of buildings involved in the SCIP2 securitization (€2 billion), in 2010 for financial support to Greece (about €4 billion). Finally, there was the deferral of some expenditure items to 2011, though the amount involved appears to have been relatively modest. The borrowing requirement for the wider general government sector also shrank: in the first eleven months of the year it amounted to €79.1 billion, compared with €91.5 billion in the same period of 2009.

Figure 32

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.

Net borrowing also declined

According to general government consolidated accounts data released by Istat, the ratio of net borrowing to GDP fell in the first three quarters of 2010 compared with a year earlier by 0.4 percentage points to 5.1 per cent. In particular, primary expenditure declined by 0.4 per cent: capital expenditure contracted sharply, by 18.2 per cent, while primary current expenditure expanded by 1.2 per cent, owing mainly to the growth of 2.4 per cent in social benefits in cash. Revenue rose moderately (0.3 per cent), while interest payments on the debt remained basically unchanged. Overall, the available information suggests that net borrowing in 2010 was lower than the figure indicated in the Public Finance Decision in September (Table 8).

Table 8

General government balances: official forecasts and objectives (1)
(millions of euros and percentages of GDP)

	2009 (2)	2010	2011	2012	2013
Net borrowing	80,863	77,125	63,137	44,319	38,846
as a % of GDP	*5.3*	*5.0*	*3.9*	*2.7*	*2.2*
Primary balance	-9,512	-5,056	12,533	35,832	44,934
as a % of GDP	*-0.6*	*-0.3*	*0.8*	*2.2*	*2.6*
Interest payments	71,351	72,069	75,670	80,151	83,780
as a % of GDP	*4.7*	*4.6*	*4.7*	*4.8*	*4.8*
Debt	1,763,559	1,842,269	1,909,970	1,956,434	1,993,799
as a % of GDP	*116.0*	*118.5*	*119.2*	*117.5*	*115.2*

Sources: For the items of the general government consolidated accounts for 2009, based on Istat data; for all the data for the subsequent years, the Public Finance Decision.
(1) For 2011-13, the forecasts coincide with the objectives. – (2) Outturns.

In 2010 tax revenue recorded in the state budget fell by 1.0 per cent (€3.9 billion). This revenue differs from the payments made by taxpayers, which are net of the tax offsets they request. The amount of offsets diminished considerably in 2010 (by about €6 billion in the first eleven months according to data from the Ministry for the Economy and Finance), owing mainly to the introduction in January 2010 of new restrictions on VAT offsets, which bolstered the growth in actual receipts.

A factor holding down tax revenue compared with the previous year was the reduction of receipts from the foreign assets disclosure scheme and from the substitute taxes introduced with the 2008 anti-crisis decree. A factor of opposite sign was the postponement of receipts to 2010 as a result of the temporary reduction in the percentage of the personal income tax payment on account due at the end of 2009. Personal income tax receipts, buoyed by that measure, rose by 4.5 per cent (€6.9 billion). VAT receipts registered relatively high growth of 4.6 per cent (€5.0 billion), fuelled particularly by those from imports, while receipts from flat-rate withholding taxes on income from financial assets fell significantly, by 42.5 per cent (€5.6 billion), and those from excise duties decreased by 5.7 per cent (€1.6 billion).

The rise in the debt/GDP ratio was lower than the euro-area average

General government debt grew by €106.4 billion in the first eleven months of 2010; almost all of the increase came in the central government subsector. In addition to the borrowing requirement, the main cause of the growth in the debt was the Treasury's build-up of assets held with the Bank of Italy, from €31.7 billion at the end of 2009 to €58.8 billion in November. At the end of December the amount of these assets had fallen to €43.2 billion, €11.5 billion above the historically very high end-2009 level. Maintaining a high level of these liquid resources increases the room for manoeuvre in public debt management in a context in which the conditions on government securities markets remain uncertain. According to available data, the debt/GDP ratio increased from 116.0 per cent at the end of 2009 to about 119 per cent at the end of last year (net of the Treasury's assets with the Bank of Italy, the debt/GDP ratio would have risen less sharply, by just under 2.5 percentage points from 113.9 per cent in 2009). This increase was smaller than that indicated for the euro-area countries as a whole in the European Commission's autumn forecasts (5 percentage points, to 84.1 per cent of GDP).

The Stability Law for 2011 does not modify the Public Finance Decision's estimates of net borrowing

For the three years 2011-13 the Public Finance Decision forecasts a further gradual improvement in net borrowing, part of which is expected to come from the freeze on public sector employees' pay at the 2010 level (see the box "Measures concerning the public finances for 2011-13", *Economic Bulletin*, July 2010). The Stability Law for 2011, approved by Parliament on 7 December, has no impact on net borrowing in the next three years. The law, which from this year onwards replaces the finance law (pursuant to Law 196/2009 on public accounting and finances), brings in additional resources totalling €6.0 billion in 2011, €1.6 billion in 2012 and €1.2 billion in 2013.

For the current year these resources go mainly to financing tax relief for productivity bonuses, the repeal of the increase of 0.09 percentage points in social security contribution rates introduced at the end of 2007, and, on the expenditure side, peace missions, measures to support the economy (particularly the publishing industry) and universities, the extension of some measures regarding wage supplementation, and a relaxation of the constraints of the domestic stability pact. The funding for increases in expenditure is based largely on the award of the rights to use radio frequencies (€2.4 billion), the reduction in allocations to the funds for structural economic policy measures (€1.8 billion) and action to crack down on tax evasion and illegal gambling (€0.5 billion). Overall, the Stability Law increases the level of both expenditure and revenue by about €2 billion. Capital expenditure is increased by €1.2 billion, attenuating the sharp contraction of €5.1 billion (8.5 per cent) envisaged by the Public Finance Decision.

On 22 December the Council of Ministers approved a decree law (the so-called Omnibus Extension Decree), again without any impact on net borrowing, whose provisions include refinancing of €0.4 billion in 2011 for the fund allocating 5 per mille personal income tax contributions to voluntary organizations and to research.

Revisions to the public finance estimates and objectives may be made by the Government in the Stability Programme update, which must be presented in April on the basis of the new EU-wide programming cycle, the so-called European Semester, which coincides with the first half of each year and is intended to permit ex ante economic policy coordination among the member countries, with the incorporation of the invitations and recommendations from the European Council into national budget documents. In Italy, an amendment to Law 196/2009 on public accounting and finances is being examined with a view to adapting Italian legislation to the new European procedures (see Daniele Franco, "Indagine conoscitiva nell'ambito dell'esame della proposta di legge C.3921 di riforma della Legge di contabilità e finanza pubblica", testimony before the Chamber of Deputies, Rome, 18 January 2011).The institution of the European Semester is part of the wider reform of European Union governance now under discussion (see the box "The proposals to reform European economic governance").

3.10 FORECASTS

The outlook for world economic growth strengthens

Since our last forecasts issued in the July *Economic Bulletin* the international organizations have revised their estimates for world trade and economic activity upwards. Improving prospects for the world economy have driven up the dollar prices of commodities, including in the futures markets. World trade essentially regained its pre-recession volume last year; our forecasting framework assumes that in 2011-12, though slowing, it will expand by close to 7 per cent per year, in line with its average growth rate over the 20 years preceding the crisis (see the box below). The robust expansion of trade can still be attributed mainly to the continuing vigorous growth of the emerging economies. The recovery in the euro area remains modest and uneven from country to country, with those most severely affected by the sovereign debt crisis still in recession.

THE ASSUMPTIONS UNDERLYING THE 2011-12 FORECASTING SCENARIO

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 the ECB's *Monthly Bulletin* in December. They are less optimistic than the latest estimates of the OECD but not significantly different from those of the European Commission and the IMF. With the recession behind us, the world economy is assumed to return to rapid growth of more than 4 per cent in both 2011 and 2012. World trade, after expanding by more than 11 per cent in 2010, grows by just over 7 per cent this year and nearly 7.5 per cent in 2012. 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 14 January 2011. The price of Brent crude oil averages $95.70 a barrel this year and the same next year. Three-month interest rates, based on the prices of Euribor futures, come to 1.2 per cent on average this year and then rise to 1.8 per cent in 2012. Long-term rates (corresponding to the yield of a basket of Italian government securities with an average duration of about six years) are 4.4 per cent in 2011 and 4.9 per cent in 2012. For exchange rates, the standard technical assumption that all bilateral rates remain unchanged at their average levels of the first two weeks of January implies a dollar/euro conversion rate of 1.31 over the entire forecasting horizon.

Growth in Italy will remain modest in 2011-12 ...

Italian GDP is estimated to have grown by 1.0 per cent in 2010. In 2011-12 expansion is expected to be led again by exports but held back by the weakness of domestic demand and by the consequences of last summer's public finance adjustment measures (see the box "Measures concerning the public finances for 2011-13" in *Economic Bulletin*, July 2010, and Section 3.9 above for recent developments). According to our estimates, economic activity will expand by about 1 per cent both this year and next (Table 9; Figure 33). At the end of 2012 Italian GDP will thus have recouped about half of the almost 7-percentage-point loss suffered during the recession. Such a modest pace of activity will not allow any significant recovery in employment, which is forecast to grow by about 0.5 per cent in the private sector both in 2011 and in 2012. These forecasts do not diverge significantly from the previous forecasts in the July *Bulletin*, as the effects of the faster growth now expected for world trade are offset by less favourable developments in medium- and long-term interest rates, oil prices and the exchange rate.

... sustained by exports

We forecast Italian exports to expand by 6.0 per cent this year and 5.3 per cent next. This is less than the expected growth in world trade, reflecting Italian firms' losses of price competitiveness.

Non-residential fixed investment is expected to maintain growth, residential investment to stagnate in 2011

Despite a slowdown in the second half of 2010 owing to the termination of the tax incentives for expanding production capacity, in 2011-12 investment in machinery and equipment is forecast to increase by an annual average of 3.5 per cent, benefiting from the improving outlook for demand and firms' profits. Residential investment, after plummeting by more than 15 per cent from 2008 through 2010, will stagnate this year and return to growth of 2 per cent in 2012. Public investment is forecast to contract both this year and next. Overall capital formation is expected to expand at a pace of between 2 and 3 per cent over the forecasting horizon.

Table 9

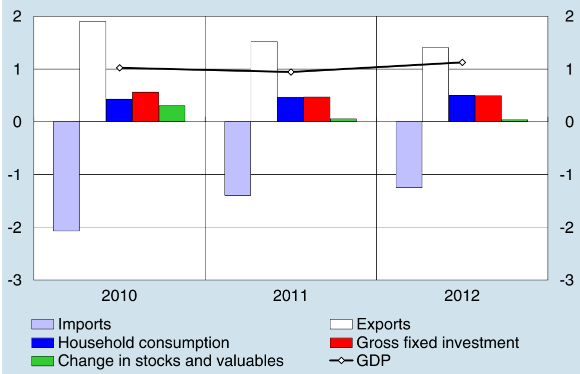
Forecasts of the main macroeconomic variables in Italy
(percentage changes on previous year unless otherwise indicated)

	2010	2011	2012
GDP (1)	1.0	0.9	1.1
Household consumption	0.7	0.8	0.8
Government consumption	-0.5	-0.8	-0.3
Gross fixed investment	2.9	2.5	2.4
Exports	8.0	6.0	5.3
Imports	8.2	5.1	4.4
Change in stocks (2)	0.3	0.1	0.0
HICP (3)	1.6	2.1	2.0
Export competitiveness (4)	0.7	-0.7	-0.5

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); a positive value indicates a gain in competitiveness.

Figure 33

GDP growth and the contributions of its main determinants (1)
(percentage points)



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

Consumption growth will remain slow

Private consumption is forecast to keep growing at a barely lower rate than GDP: 0.8 per cent in 2011 and 2012. Households' spending will be curbed not only by a gradual rise in the cost of credit (implied in market expectations for medium- and long-term interest rates) but also by the persistent uncertainty over the outlook for jobs and by a decrease in government transfers. These factors will very likely orient Italian households towards increased saving. Durable goods purchases, which fell by more than 10 per cent between 2008 and 2010, are expected to return to relatively substantial growth (nearly 2 per cent) only in 2012.

The external current account deficit is not expected to improve

Imports, spurred by the growth in the demand components with the greatest content of goods from abroad, are forecast to rise by about 5 per cent this year and over 4 per cent in 2012. The external sector's contribution to GDP growth, which was negative in 2010, should be positive both this year and next. The deficit on the current account of the balance of payments, which came to about 3.0 per cent of GDP in 2010, will not show significant improvement during the period owing to changes in the terms of trade.

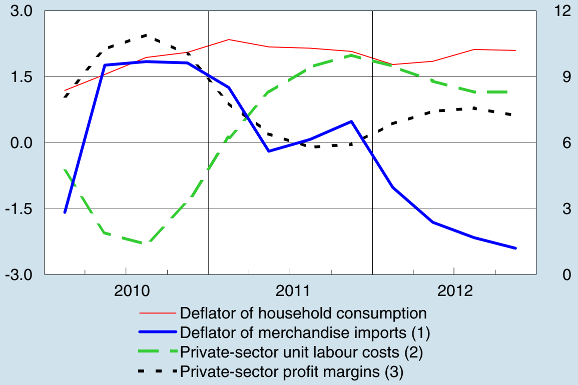
Inflation will be around 2 per cent in 2011-12

Inflation, measured by the harmonized index of consumer prices (HICP), is forecast to rise to 2.1 per cent on average this year (from 1.6 per cent in 2010) and then settle down to 2.0 per cent in 2012. The recent strong pressures from the costs of imported inputs are expected to ease in the course of 2011. The effect of the domestic components, though exerting an increasingly upward pressure over the forecast horizon, will remain moderate (Figure 34). Unit labour costs in the private sector, after declining in 2010 due to the cyclical rebound in productivity, will rise by an average of 1.5 per cent in 2011-12. Profit margins, which widened by nearly 2 percentage points last year, will rise slightly, by less than 1 point, in 2011-12.

Figure 34

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 10

Forecasts of other organizations for Italy

(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2011	2012	2011	2012
IMF (October)	1.0	–	1.7	–
OECD (November)	1.3	1.6	1.4	1.4
European Commission (November)	1.1	1.4	1.8	1.9
Consensus Economics (January)	0.9	1.1	1.7	1.8

Sources: IMF, *World Economic Outlook*, October 2010; OECD, *Economic Outlook* No. 88, November 2010; European Commission, *European Economic Forecast – Autumn 2010*, November 2010; Consensus Economics, *Consensus Forecasts*, January 2011.
(1) The growth rates given in the OECD forecasts are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

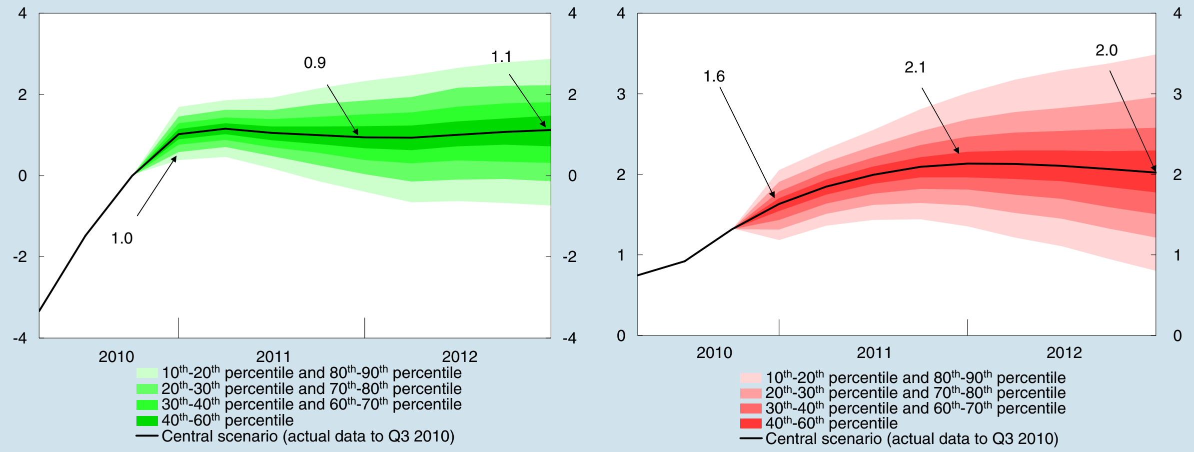
This growth forecast for 2011 is fundamentally in line, on average, with those of the analysts surveyed by Consensus Economics in January and with the estimates of the IMF and the European Commission. The OECD's November estimates predicted cumulative growth of the Italian economy of nearly 3 per cent in 2011-12 (Table 10). The lower forecast here is due largely to our less favourable assumptions on world trade growth – nearly 1 percentage point less each year than that of the OECD – and on long-term interest rates, reflecting the latest market developments. The Commission's forecasts for 2012 assume a more lively upturn in private consumption in connection with a slower increase in households' propensity to save. For inflation, our estimates for 2011 are 0.4 percentage points higher than the Consensus Economics average and the IMF forecast and marginally higher than those of the Commission for the two-year forecasting horizon. The OECD, while predicting a more robust increase in economic activity, puts inflation about 0.5 percentage points lower both in 2011 and in 2012.

Figure 35

Distribution of probabilities of GDP and HICP forecasts (1)

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

Gross domestic product | **Harmonized index of consumer prices**



(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.

Considerable forecasting uncertainty subsists

Our macroeconomic scenario is subject to a significant degree of uncertainty as regards the strength and course of the expansion (Figure 35). On the upside, faster expansion of economic activity could derive from more vigorous growth of the US economy than is assumed here, thanks to December's $800 billion stimulus package, which has been only partly factored into our assumptions. On the downside, renewed fears for the sustainability of some euro-area countries' sovereign debt could result in higher costs of finance for the private economy as well. As to inflation, the principal upside risk factor is a faster-than-assumed rise in the euro prices of raw materials; a slower correction of the difference between actual and potential output, instead, would result in price rises smaller than predicted.

SELECTED STATISTICS

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

CONTENTS

A1	Sources and uses of income: United States	49
A2	Sources and uses of income: Japan	49
A3	Sources and uses of income: euro area	50
A4	Sources and uses of income: Italy	51
A5	Unit labour costs, per capita compensation and productivity: euro area	52
A6	Unit labour costs, per capita compensation and productivity: Italy	53
A7	Harmonized index of consumer prices: main euro-area countries	54
A8	Balance of payments (current account and capital account): Italy	55
A9	Lending by banks in Italy by geographical area and sector	56
A10	Financing of the general government borrowing requirement: Italy	57
A11	General government debt: Italy	58

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
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	1.9	2.4	1.7	1.3	0.3	-1.8	-0.3	1.3	1.3	9.3	2.7	0.6	-0.2
2008	..	-0.3	-0.2	2.8	0.5	-6.4	-1.0	-1.1	-1.2	6.0	-2.6	1.2	-0.5
2009	-2.6	-1.2	-0.8	1.6	0.3	-18.3	-2.7	-3.6	-3.7	-9.5	-13.8	1.1	-0.6
2008 – Q1	-0.7	-0.8	-0.5	2.3	0.4	-6.2	-1.0	-1.6	-1.5	5.7	-1.4	0.8	-0.5
Q2	0.6	0.1	0.1	3.3	0.7	-4.6	-0.7	-0.5	-0.4	13.2	2.9	1.0	-0.5
Q3	-4.0	-3.5	-2.5	5.3	1.0	-11.9	-1.8	-3.2	-3.4	-5.0	-0.1	-0.6	-0.1
Q4	-6.8	-3.3	-2.3	1.5	0.3	-24.9	-4.0	-7.7	-8.3	-21.9	-22.9	1.5	-2.3
2009 – Q1	-4.9	-0.5	-0.3	-3.0	-0.6	-35.4	-5.7	-7.2	-7.8	-27.8	-35.3	2.9	-1.1
Q2	-0.7	-1.6	-1.1	6.1	1.2	-10.1	-1.3	-2.1	-2.2	-1.0	-10.6	1.5	-1.0
Q3	1.6	2.0	1.4	1.6	0.3	0.7	0.1	3.0	3.0	12.2	21.9	-1.4	1.1
Q4	5.0	0.9	0.7	-1.4	-0.3	-1.3	-0.1	3.0	3.1	24.4	4.9	1.9	2.8
2010 – Q1	3.7	1.9	1.3	-1.6	-0.3	3.3	0.4	3.9	4.0	11.4	11.2	-0.3	2.6
Q2	1.7	2.2	1.5	3.9	0.8	18.9	2.1	5.1	5.2	9.1	33.5	-3.5	0.8
Q3	2.6	2.4	1.7	3.9	0.8	1.5	0.2	4.2	4.3	6.8	16.8	-1.7	1.6

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government 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
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	0.5	0.1	-3.6	-0.8	-1.4	-1.4	1.6	0.4	0.2	-0.2
2009	-6.3	-1.9	-1.1	3.0	0.6	-11.7	-2.7	-4.8	-4.8	-23.9	-15.3	-1.5	-1.5
2008 – Q1	1.2	2.7	1.5	-0.2	..	5.7	1.3	..	..	11.3	5.3	1.2	-2.7
Q2	-2.9	-5.6	-3.2	-4.3	-0.8	-6.6	-1.5	-4.4	-4.3	-4.5	-13.2	1.4	1.2
Q3	-4.6	-0.2	-0.1	-1.0	-0.2	-7.3	-1.7	-4.1	-4.0	0.6	4.7	-0.6	-2.1
Q4	-11.9	-5.4	-3.1	4.7	0.8	-15.7	-3.6	..	..	-47.2	9.3	-12.2	6.2
2009 – Q1	-19.9	-7.5	-4.2	4.3	0.9	-17.5	-4.0	-15.8	-15.9	-68.1	-49.2	-4.2	-8.5
Q2	11.3	6.0	3.7	3.6	0.7	-8.6	-2.0	2.3	2.4	46.8	-19.3	8.7	0.1
Q3	-1.2	0.9	0.5	4.7	0.9	-10.3	-2.3	-2.9	-3.0	43.2	24.5	1.8	-2.2
Q4	5.7	2.4	1.5	3.8	0.8	2.4	0.5	3.1	3.1	21.1	2.8	2.5	0.3
2010 – Q1	6.8	2.4	1.4	-1.3	-0.2	2.2	0.4	4.4	4.3	32.0	13.5	2.4	2.8
Q2	3.0	1.2	0.7	4.1	0.8	4.1	0.8	1.9	1.9	24.6	18.0	1.2	-0.5
Q3	4.5	4.8	2.8	0.9	0.2	3.3	0.7	4.6	4.5	10.2	12.5	-0.1	0.9

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

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
Chain-linked volumes									
2004	2.2	7.1	3.5	1.3	3.4	2.3	1.6	1.6	7.4
2005	1.7	5.8	2.8	2.0	4.4	3.1	1.8	1.6	5.0
2006	3.0	8.5	4.6	4.4	6.5	5.4	2.1	2.1	8.6
2007	2.8	5.8	3.7	2.3	7.3	4.7	1.7	2.3	6.3
2008	0.4	0.8	0.6	-2.3	0.8	-0.8	0.4	2.4	1.0
2009	-4.1	-11.9	-6.5	-7.8	-15.0	-11.4	-1.1	2.4	-13.2
2008 – Q3	-0.6	-0.4	-0.5	-1.8	-1.0	-1.4	-0.1	0.5	-1.3
Q4	-1.8	-4.4	-2.6	-2.8	-4.7	-3.8	-0.5	0.8	-7.1
2009 – Q1	-2.5	-7.7	-4.0	-1.5	-9.0	-5.2	-0.5	0.7	-8.0
Q2	-0.1	-2.7	-0.9	-1.8	-2.9	-2.3	..	0.6	-1.3
Q3	0.4	2.1	0.9	-1.9	-0.4	-1.2	-0.2	0.5	2.2
Q4	0.2	1.2	0.5	-1.8	-0.5	-1.2	0.3	-0.1	2.0
2010 – Q1	0.4	4.2	1.5	-1.6	1.0	-0.4	0.3	0.1	2.6
Q2	1.0	4.3	2.0	1.7	2.3	2.0	0.2	0.1	4.4
Q3	0.3	1.5	0.7	-0.8	0.3	-0.3	0.1	0.4	1.9
Implicit prices									
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	2.4	1.3	....	....	....	2.6	2.3	1.7	1.6
2008	2.0	3.9	....	....	....	2.3	2.7	2.6	2.6
2009	1.0	-5.8	....	....	....	-0.7	-0.2	2.1	-3.2
2008 – Q3	0.3	1.2	....	....	....	0.6	0.6	-0.2	1.1
Q4	0.6	-4.0	....	....	....	-0.5	-0.6	0.7	-1.1
2009 – Q1	0.2	-3.0	....	....	....	-0.5	-0.6	0.9	-3.2
Q2	..	-1.5	....	....	....	-0.4	0.1	0.2	-0.8
Q3	0.1	0.1	....	....	....	-0.2	0.2	0.7	0.8
Q4	0.1	1.1	....	....	....	0.2	0.5	-0.3	0.9
2010 – Q1	0.3	2.0	....	....	....	0.5	0.5	1.0	1.6
Q2	0.4	2.3	....	....	....	0.9	0.8	0.5	1.6
Q3	0.4	0.4	....	....	....	0.4	0.5	..	0.9

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
Chain-linked volumes									
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
2005	2.0	5.9	2.8	1.0	5.0	2.9	1.2	0.5	6.2
2006	1.5	3.8	2.0	0.3	3.1	1.7	1.1	0.9	4.6
2008	-1.3	-4.3	-2.0	-3.4	-4.7	-4.0	-0.8	0.8	-3.9
2009	-5.0	-14.5	-7.2	-7.9	-16.6	-12.1	-1.8	0.6	-19.1
2008 – Q3	-1.1	-1.8	-1.3	-1.3	-3.4	-2.3	0.2	-0.1	-3.1
Q4	-2.0	-4.7	-2.6	-3.3	-9.3	-6.2	-1.4	0.2	-8.2
2009 – Q1	-2.9	-9.2	-4.3	-1.9	-8.2	-4.9	-0.8	-0.1	-11.7
Q2	-0.3	-2.7	-0.8	-1.6	-3.1	-2.3	..	0.8	-1.5
Q3	0.4	1.1	0.5	-2.2	1.3	-0.6	0.6	-0.3	2.2
Q4	-0.1	3.0	0.6	-0.5	2.1	0.7	..	-0.2	-0.2
2010 – Q1	0.4	3.3	1.0	-0.5	3.4	1.3	0.2	-0.5	3.4
Q2	0.5	-0.1	0.4	-0.3	4.5	2.0	..	0.4	2.4
Q3	0.3	4.7	1.2	0.6	1.2	0.9	0.3	-0.2	2.8
Implicit prices									
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
2005	1.8	7.7	3.1	3.3	2.1	2.7	2.7	2.4	4.6
2006	2.6	2.6	2.6	3.7	2.1	2.9	2.3	0.7	4.1
2008	2.8	6.8	3.6	3.4	3.0	3.2	3.2	3.4	5.1
2009	2.1	-6.1	0.4	1.0	0.5	0.8	-0.2	2.7	-0.4
2008 – Q3	..	4.0	0.9	2.5	0.7	1.6	0.9	-2.5	2.3
Q4	1.0	-3.5	-0.1	-0.3	1.4	0.5	-0.5	1.2	-0.9
2009 – Q1	1.0	-4.8	-0.2	-0.2	-0.5	-0.3	-0.8	2.4	-0.8
Q2	..	-1.5	-0.3	-0.3	-0.6	-0.5	0.3	-0.9	-0.6
Q3	0.3	0.3	0.3	..	-0.2	-0.1	0.2	2.3	-0.2
Q4	-0.2	-0.1	-0.2	0.4	-0.2	0.1	0.3	-3.3	0.2
2010 – Q1	0.3	4.1	1.1	0.3	0.2	0.3	0.4	2.2	2.2
Q2	0.6	4.7	1.5	0.7	0.9	0.8	0.6	0.3	2.7
Q3	0.7	0.4	0.7	0.5	0.4	0.5	0.5	1.7	0.9

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

Table A5

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity	Value added (2)	Hours worked	Unit labour costs
			Total industry excluding construction		
2007	2.7	2.5	3.2	0.6	0.2
2008	3.6	-1.6	-2.2	-0.5	5.3
2009	4.6	-4.8	-13.3	-8.9	9.8
2008 – Q1	3.5	1.1	1.9	0.8	2.4
Q2	2.1	-0.9	0.2	1.1	3.0
Q3	3.4	-2.2	-2.6	-0.5	5.7
Q4	5.5	-5.8	-9.1	-3.6	12.0
2009 – Q1	5.6	-9.1	-16.4	-8.0	16.2
Q2	6.2	-6.7	-16.4	-10.4	13.8
Q3	4.9	-3.2	-12.9	-9.9	8.4
Q4	1.7	0.5	-6.8	-7.2	1.2
2010 – Q1	0.2	7.2	3.6	-3.3	-6.5
Q2	0.1	7.2	6.8	-0.4	-6.7
Q3	0.2	4.5	5.2	0.7	-4.1
			Services		
2007	2.4	1.0	3.2	2.1	1.4
2008	2.9	0.2	1.6	1.5	2.7
2009	2.8	-0.3	-1.7	-1.4	3.2
2008 – Q1	2.9	0.6	2.7	2.1	2.3
Q2	2.7	-0.1	2.0	2.1	2.8
Q3	3.2	0.3	1.3	1.0	2.9
Q4	2.7	-0.4	0.1	0.6	3.1
2009 – Q1	3.2	-0.9	-2.2	-1.3	4.2
Q2	3.0	-0.3	-2.0	-1.6	3.3
Q3	2.8	-0.2	-1.7	-1.5	3.1
Q4	2.3	0.3	-0.9	-1.1	2.0
2010 – Q1	1.1	0.3	0.9	0.6	0.8
Q2	1.2	0.4	1.3	0.9	0.7
Q3	0.7	0.3	1.6	1.2	0.4
			Total economy		
2007	2.5	1.3	3.1	1.7	1.2
2008	3.2	0.0	0.7	0.7	3.2
2009	3.2	-1.0	-4.2	-3.3	4.2
2008 – Q1	3.2	0.8	2.4	1.6	2.4
Q2	2.8	0.0	1.5	1.5	2.7
Q3	3.4	0.0	0.3	0.3	3.4
Q4	3.3	-1.3	-2.1	-0.7	4.7
2009 – Q1	3.8	-2.2	-5.2	-3.1	6.1
Q2	3.7	-1.4	-5.0	-3.7	5.1
Q3	3.3	-0.5	-4.1	-3.6	3.8
Q4	2.2	0.4	-2.3	-2.7	1.8
2010 – Q1	0.9	1.5	0.9	-0.6	-0.6
Q2	1.1	1.7	1.9	0.2	-0.6
Q3	0.7	1.2	1.9	0.6	-0.5

Source: Based on 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.

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
				Value added (2)	Hours worked	
Total industry excluding construction						
2007	2.8	2.8	0.3	1.9	1.6	2.5
2008	3.4	3.4	-2.3	-3.6	-1.3	5.8
2009	5.4	5.3	-5.5	-15.1	-10.2	11.5
2008 – Q1	3.2	3.2	-0.4	0.4	0.8	3.6
Q2	1.4	1.4	-1.3	-0.9	0.5	2.8
Q3	4.5	4.3	-1.2	-4.1	-3.0	5.7
Q4	3.8	3.8	-6.9	-9.7	-3.0	11.6
2009 – Q1	6.2	6.1	-10.2	-18.6	-9.3	18.2
Q2	7.5	7.3	-8.6	-18.9	-11.2	17.6
Q3	5.7	5.6	-3.6	-14.5	-11.3	9.7
Q4	3.3	3.3	2.0	-8.1	-9.9	1.3
2010 – Q1	-4.5	-4.4	6.0	2.4	-3.4	-9.9
Q2	-1.2	-0.9	7.9	5.4	-2.3	-8.4
Q3	-1.2	-1.0	4.0	4.3	0.3	-5.0
Services						
2007	2.2	2.2	0.5	1.7	1.2	1.7
2008	2.5	2.4	-1.0	-0.4	0.6	3.5
2009	1.8	1.7	-0.9	-2.6	-1.8	2.6
2008 – Q1	2.8	2.8	-1.3	0.7	1.9	4.1
Q2	3.4	3.4	-1.7	-0.1	1.6	5.1
Q3	2.9	2.6	0.0	-0.9	-0.9	2.9
Q4	0.7	0.8	-1.1	-1.4	-0.3	1.8
2009 – Q1	2.9	2.5	-1.1	-3.4	-2.4	4.0
Q2	0.0	0.0	-1.7	-2.9	-1.2	1.8
Q3	2.9	2.9	-1.0	-2.4	-1.4	3.9
Q4	1.3	1.3	0.3	-1.7	-2.0	1.0
2010 – Q1	0.0	0.1	-0.3	0.3	0.6	0.3
Q2	1.9	1.8	1.3	0.7	-0.6	0.6
Q3	0.2	0.3	0.4	0.7	0.3	-0.2
Total economy						
2007	2.4	2.4	0.3	1.6	1.3	2.1
2008	2.7	2.7	-1.1	-1.2	-0.1	3.9
2009	2.8	2.8	-1.9	-5.5	-3.6	4.8
2008 – Q1	3.0	3.0	-0.9	0.5	1.3	3.9
Q2	2.9	2.9	-0.9	-0.2	0.7	3.8
Q3	3.3	3.1	-0.4	-1.6	-1.2	3.8
Q4	1.6	1.7	-2.4	-3.4	-1.0	4.1
2009 – Q1	4.0	3.8	-2.8	-6.8	-4.1	7.0
Q2	2.1	2.0	-3.4	-6.6	-3.3	5.7
Q3	3.6	3.7	-1.5	-5.2	-3.8	5.2
Q4	1.8	1.8	0.3	-3.2	-3.5	1.5
2010 – Q1	-1.2	-1.0	0.5	0.4	0.0	-1.7
Q2	1.2	1.3	2.1	1.4	-0.7	-0.8
Q3	0.0	0.1	1.0	1.3	0.2	-1.0

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.

Table A7

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
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
2009	0.8	1.6	0.2	1.2	0.1	1.3	-0.2	0.9	0.3	1.3
2010	1.6	1.5	1.2	0.6	1.7	0.9	1.8	0.7	1.6	1.0
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	-0.9	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.3	-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
Dec.	1.1	1.5	0.8	1.1	1.0	1.1	0.9	0.5	0.9	1.0
2010 – Jan.	1.3	1.4	0.8	0.8	1.2	0.9	1.1	0.3	1.0	0.9
Feb.	1.1	1.2	0.5	0.7	1.4	1.1	0.9	0.3	0.9	0.8
Mar.	1.4	1.4	1.2	0.9	1.7	1.0	1.5	0.4	1.4	0.9
Apr.	1.6	1.7	1.0	0.3	1.9	0.9	1.6	0.1	1.5	0.8
May	1.6	1.5	1.2	0.6	1.9	0.8	1.8	0.3	1.6	0.9
June	1.5	1.5	0.8	0.6	1.7	0.9	1.5	0.5	1.4	0.9
July	1.8	1.7	1.2	0.5	1.9	1.0	1.9	0.8	1.8	1.0
Aug.	1.8	1.7	1.0	0.6	1.6	0.8	1.8	1.0	1.6	1.0
Sept.	1.6	1.5	1.3	0.6	1.8	1.0	2.1	1.0	1.8	1.0
Oct.	2.0	1.7	1.3	0.7	1.8	1.0	2.3	1.0	1.9	1.1
Nov.	1.9	1.6	1.6	0.8	1.8	1.0	2.2	1.1	1.9	1.1
Dec.	2.1	1.5	1.9	0.7	2.0	0.9	2.9	1.4	2.2	1.1

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
2006	-38,346	-10,203	-1,272	-13,573	-5,473	-7,825	1,826	-100	-60	1,986
2007	-37,714	3,204	-7,115	-19,586	-6,811	-7,405	2,261	-69	74	2,256
2008	-46,002	-2,129	-9,002	-19,241	-5,785	-9,845	-179	-1,044	..	865
2009	-31,677	823	-9,856	-10,040	-5,134	-7,470	-79	-578	-19	518
2008 – Q4	-14,075	-1,470	-3,212	-3,737	-1,215	-4,441	353	-267	..	620
2009 – Q1	-16,144	-3,168	-5,282	-2,645	-1,190	-3,859	-378	-167	..	-211
Q2	-6,896	1,676	-1,174	-4,342	-1,151	-1,905	-68	-140	..	72
Q3	-4,320	2,438	-667	-2,435	-1,470	-2,186	-110	-54	..	-56
Q4	-4,317	-123	-2,733	-618	-1,322	480	476	-218	-19	713
2010 – Q1	-17,920	-6,399	-4,202	-800	-926	-5,593	-288	-241	-3	-44
Q2	-12,594	-4,194	-1,134	-4,259	-1,698	-1,309	458	-218	-12	688
Q3	-9,955	-2,055	-1,089	-2,206	-1,318	-3,287	-114	-5	-4	-105
2008 – Oct.	-3,266	227	-768	-1,420	-592	-713	260	-95	..	355
Nov.	-5,773	-1,877	-1,277	-1,596	-218	-806	251	-93	..	344
Dec.	-5,036	180	-1,168	-721	-405	-2,922	-158	-79	..	-79
2009 – Jan.	-7,027	-3,179	-1,698	-1,056	-361	-734	-18	-23	..	5
Feb.	-4,416	-503	-1,813	-761	-255	-1,085	-99	-53	..	-45
Mar.	-4,700	514	-1,771	-828	-575	-2,040	-262	-91	..	-171
Apr.	-2,412	444	-550	-1,360	-371	-575	-15	-45	..	29
May	-1,963	1,626	-507	-2,430	-342	-310	-6	-41	..	35
June	-2,521	-394	-117	-552	-439	-1,019	-46	-54	..	8
July	2,710	4,045	400	-555	-518	-662	81	-3	..	84
Aug.	-3,434	-1,134	-850	-462	-505	-483	-80	-21	..	-59
Sept.	-3,596	-473	-217	-1,418	-447	-1,041	-111	-30	..	-81
Oct.	-1,400	-52	-574	-375	-607	207	157	-76	-7	240
Nov.	-2,703	-467	-1,151	-954	-429	299	108	-74	-6	188
Dec.	-214	396	-1,008	711	-286	-26	211	-68	-6	285
2010 – Jan.	-6,425	-3,449	-1,259	-204	-233	-1,281	-47	-50	-1	4
Feb.	-5,161	-2,121	-1,344	-72	-158	-1,467	-81	-63	-1	-17
Mar.	-6,334	-829	-1,600	-525	-535	-2,846	-160	-128	-1	-31
Apr.	-3,033	-507	-569	-586	-685	-687	-41	-67	-4	30
May	-5,556	-1,398	-448	-2,951	-467	-293	-36	-68	-3	34
June	-4,004	-2,289	-118	-722	-546	-329	536	-83	-6	624
July	946	2,579	161	-443	-381	-969	27	-1	-1	29
Aug.	-5,604	-2,829	-1,121	-281	-414	-959	11	-11	-1	23
Sept.	-5,297	-1,805	-129	-1,481	-522	-1,360	-153	6	-2	-157
Oct.	(-2,580)	(-428)	(-271)	(-467)	....	....	(176)	....	....	....

Table A9

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

(twelve-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									
2009 – Mar.	6.2	-10.7	4.3	5.0	1.1	0.8	4.4	-0.5	2.8
June	8.3	-11.1	1.4	1.6	0.6	1.6	3.1	0.2	1.3
Sept.	5.7	-8.1	-1.2	-1.4	-0.3	0.8	2.8	-3.1	-0.2
Dec.	5.0	-6.2	-3.5	-4.1	-0.9	1.1	2.8	2.5	-1.2
2010 – Mar.	4.0	-2.2	-3.6	-4.3	-0.2	1.6	3.3	5.5	-0.8
June	0.7	2.0	-2.5	-3.1	0.0	1.0	3.7	6.4	-0.1
Sept.	3.9	3.5	-0.4	-0.9	2.2	4.3	3.6	12.3	1.6
Nov.	3.3	4.6	0.5	0.2	1.7	3.0	4.2	17.5	2.2
South and Islands									
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	5.8	5.2	3.6
Sept.	14.2	-0.4	-0.7	-0.8	-0.7	-0.8	5.0	2.0	2.9
Dec.	8.0	-4.5	0.5	0.7	-0.1	0.3	4.5	6.5	2.7
2010 – Mar.	5.8	-1.2	1.0	1.6	-0.7	-0.2	5.6	0.9	3.2
June	2.0	-2.0	2.4	3.5	-0.6	-0.5	5.3	0.5	3.4
Sept.	1.6	-0.4	3.4	4.2	1.3	1.4	4.7	3.6	3.7
Nov.	0.4	-1.4	3.9	5.1	0.8	0.5	4.7	3.2	3.8
ITALY									
2009 – Mar.	6.4	-10.5	4.1	4.8	1.1	0.6	5.1	0.5	3.1
June	8.4	-10.8	1.4	1.6	0.4	1.0	3.7	0.8	1.6
Sept.	6.5	-8.0	-1.1	-1.3	-0.4	0.5	3.3	-2.5	0.3
Dec.	5.3	-6.2	-3.0	-3.5	-0.7	0.9	3.2	3.0	-0.7
2010 – Mar.	4.1	-2.2	-3.0	-3.6	-0.3	1.2	3.8	4.9	-0.2
June	0.8	1.9	-1.9	-2.3	-0.1	0.7	4.0	5.7	0.4
Sept.	3.7	3.4	0.1	-0.3	2.0	3.6	3.9	11.2	1.9
Nov.	3.0	4.4	0.9	0.8	1.5	2.4	4.3	15.8	2.4

(1) Statistics for November 2010 are provisional. Loans do not include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations and reclassifications. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with less than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)		Borrowing requirement	
		of which: PO funds					*of which:* change in deposits with the Bank of Italy		*of which:* financed abroad
2007	-13,977	-28,447	5,554	22,522	-2,319	14,950	13,142	26,730	-6,147
2008	4,224	-5,683	19,502	41,657	-1,132	-15,237	-10,611	49,014	-10,289
2009	8,487	-1,487	-7,405	93,737	2,814	-11,919	-11,399	85,714	-2,112
2007 – Q1	-1,537	-3,474	20,684	7,518	-333	-5,421	-5,753	20,910	-527
Q2	-16,496	-13,509	345	28,735	-1,933	-8,731	-8,936	1,919	2,470
Q3	-2,330	-8,550	3,074	-2,805	-1,100	7,080	5,459	3,919	-6,282
Q4	6,387	-2,914	-18,549	-10,925	1,047	22,022	22,372	-18	-1,809
2008 – Q1	1,313	-1,111	25,905	23,411	145	-33,225	-31,203	17,549	473
Q2	934	-1,266	8,186	-11,241	3,812	5,508	5,968	7,198	-5,672
Q3	-2,295	-947	-1,120	4,058	-5,584	15,711	17,012	10,770	-2,282
Q4	4,272	-2,360	-13,469	25,430	496	-3,231	-2,388	13,497	-2,809
2009 – Q1	3,034	-1,264	25,111	48,196	1,434	-47,149	-47,108	30,626	1,962
Q2	4,780	-247	5,769	-2,237	1,978	9,749	9,963	20,039	-1,621
Q3	-6,276	385	-9,480	50,557	502	-12,906	-12,676	22,397	-2,708
Q4	6,948	-361	-28,805	-2,778	-1,100	38,387	38,423	12,652	255
2010 – Q1	-3,196	-1,413	10,530	28,479	1,116	-9,626	-9,568	27,303	179
Q2	1,218	-929	-636	23,067	-510	-3,544	-3,474	19,595	1,094
Q3	-1,313	-1,219	-1,960	23,629	1,707	-2,247	-2,188	19,816	3,979
2009 – Jan.	3,299	-344	12,229	19,976	-1	-34,157	-34,126	1,346	-6
Feb.	-2,698	-671	6,499	3,220	935	6,746	6,777	14,701	676
Mar.	2,433	-250	6,383	25,000	501	-19,738	-19,759	14,579	1,292
Apr.	1,691	-156	6,378	-2,594	1,272	12,025	12,028	18,771	1,983
May	-1,173	144	697	3,624	582	3,667	3,687	7,397	-1,561
June	4,262	-236	-1,306	-3,267	124	-5,943	-5,752	-6,130	-2,043
July	-7,305	60	-3,348	14,397	-1,847	-458	-272	1,438	-995
Aug.	-105	151	-6,590	8,982	937	4,786	4,812	8,009	-1,222
Sept.	1,135	174	458	27,178	1,413	-17,233	-17,217	12,950	-490
Oct.	2,969	-280	-4,015	14,830	864	-3,313	-3,309	11,335	1,659
Nov.	-1,111	-650	-8,098	-9,222	723	23,999	24,035	6,292	-562
Dec.	5,090	569	-16,692	-8,386	-2,687	17,700	17,697	-4,975	-842
2010 – Jan.	-91	-276	12,703	13,688	505	-30,720	-30,679	-3,916	1,740
Feb.	-3,107	-91	-810	10,035	455	7,450	7,462	14,022	-759
Mar.	3	-1,046	-1,362	4,756	156	13,644	13,650	17,197	-802
Apr.	1,309	47	-1,510	13,261	2,940	403	433	16,401	843
May	-2,583	-507	-1,561	17,827	-561	-3,687	-3,696	9,436	-690
June	2,491	-470	2,436	-8,021	-2,888	-260	-211	-6,242	942
July	-2,929	-452	-3,782	22,039	943	-17,681	-17,637	-1,411	-766
Aug.	1,109	-390	-1,187	2,434	97	5,717	5,737	8,169	-19
Sept.	507	-377	3,009	-843	668	9,717	9,713	13,057	4,764
Oct.	-1,000	-390	167	23,310	-116	-14,567	-14,547	7,794	-153
Nov.	2,746	-161	-864	-119	148	2,710	2,730	4,620	599

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

General government debt: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt			*Memorandum item:*
		of which: PO funds						*of which:* in foreign currencies	*of which:* medium and long-term	Deposits held with the Bank of Italy
2007	143,029	37,175	127,869	1,190,049	130,538	10,584	1,602,069	3,465	1,336,305	9,721
2008	147,252	31,492	147,371	1,236,468	129,411	5,958	1,666,461	3,609	1,372,863	20,333
2009	155,740	30,005	139,966	1,330,191	132,225	5,438	1,763,559	2,746	1,467,671	31,731
2007 – Q1	155,469	62,147	143,002	1,172,474	132,527	9,108	1,612,579	5,020	1,321,503	28,616
Q2	138,972	48,639	143,357	1,203,449	130,592	9,313	1,625,682	4,908	1,350,128	37,552
Q3	136,642	40,089	146,430	1,200,294	129,492	10,934	1,623,792	4,678	1,347,851	32,094
Q4	143,029	37,175	127,869	1,190,049	130,538	10,584	1,602,069	3,465	1,336,305	9,721
2008 – Q1	144,342	36,064	153,806	1,214,007	130,684	8,562	1,651,401	3,236	1,357,893	40,925
Q2	145,276	34,799	161,975	1,204,435	134,495	8,102	1,654,283	3,214	1,348,283	34,956
Q3	142,981	33,852	160,869	1,211,131	128,912	6,801	1,650,694	3,537	1,349,350	17,944
Q4	147,252	31,492	147,371	1,236,468	129,411	5,958	1,666,461	3,609	1,372,863	20,333
2009 – Q1	150,287	30,228	172,490	1,284,856	130,845	5,917	1,744,396	3,768	1,422,042	67,441
Q2	155,067	29,980	178,265	1,283,293	132,822	5,704	1,755,151	3,528	1,420,391	57,478
Q3	148,792	30,366	168,776	1,333,439	133,325	5,474	1,789,806	2,731	1,471,197	70,155
Q4	155,740	30,005	139,966	1,330,191	132,225	5,438	1,763,559	2,746	1,467,671	31,731
2010 – Q1	152,544	28,592	150,496	1,358,280	133,341	5,380	1,800,041	2,932	1,495,578	41,299
Q2	153,762	27,662	149,865	1,382,537	132,833	5,310	1,824,307	3,179	1,517,576	44,773
Q3	152,448	26,443	147,911	1,404,663	134,541	5,250	1,844,814	2,892	1,540,581	46,961
2009 – Jan.	150,552	31,148	159,600	1,256,890	129,411	5,928	1,702,381	3,910	1,393,405	54,459
Feb.	147,854	30,478	166,102	1,260,318	130,345	5,897	1,710,515	3,968	1,397,235	47,682
Mar.	150,287	30,228	172,490	1,284,856	130,845	5,917	1,744,396	3,768	1,422,042	67,441
Apr.	151,978	30,072	178,875	1,282,677	132,117	5,915	1,751,562	3,814	1,420,961	55,413
May	150,805	30,217	179,574	1,286,635	132,699	5,894	1,755,607	3,578	1,425,012	51,726
June	155,067	29,980	178,265	1,283,293	132,822	5,704	1,755,151	3,528	1,420,391	57,478
July	147,762	30,041	174,915	1,297,910	130,975	5,517	1,757,079	2,852	1,434,437	57,750
Aug.	147,657	30,192	168,320	1,307,058	131,912	5,490	1,760,438	2,798	1,444,473	52,937
Sept.	148,792	30,366	168,776	1,333,439	133,325	5,474	1,789,806	2,731	1,471,197	70,155
Oct.	151,761	30,085	164,761	1,348,362	134,189	5,470	1,804,541	2,757	1,487,379	73,463
Nov.	150,650	29,435	156,660	1,339,087	134,912	5,434	1,786,744	2,662	1,477,969	49,428
Dec.	155,740	30,005	139,966	1,330,191	132,225	5,438	1,763,559	2,746	1,467,671	31,731
2010 – Jan.	155,648	29,729	152,668	1,344,082	132,730	5,397	1,790,526	2,837	1,481,354	62,411
Feb.	152,541	29,638	151,858	1,354,396	133,185	5,385	1,797,366	2,910	1,491,487	54,949
Mar.	152,544	28,592	150,496	1,358,280	133,341	5,380	1,800,041	2,932	1,495,578	41,299
Apr.	153,853	28,639	148,985	1,370,628	136,281	5,349	1,815,096	2,962	1,508,674	40,867
May	151,270	28,132	147,424	1,389,636	135,721	5,359	1,829,410	3,201	1,527,395	44,563
June	153,762	27,662	149,865	1,382,537	132,833	5,310	1,824,307	3,179	1,517,576	44,773
July	150,833	27,210	146,084	1,404,678	133,775	5,266	1,840,636	3,004	1,539,877	62,410
Aug.	151,942	26,820	144,897	1,407,019	133,872	5,246	1,842,977	3,080	1,542,390	56,673
Sept.	152,448	26,443	147,911	1,404,663	134,541	5,250	1,844,814	2,892	1,540,581	46,961
Oct.	151,449	26,052	148,078	1,428,201	134,425	5,230	1,867,384	2,846	1,564,049	61,508
Nov.	154,195	25,891	147,214	1,428,732	134,573	5,210	1,869,924	3,016	1,566,046	58,778

(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".