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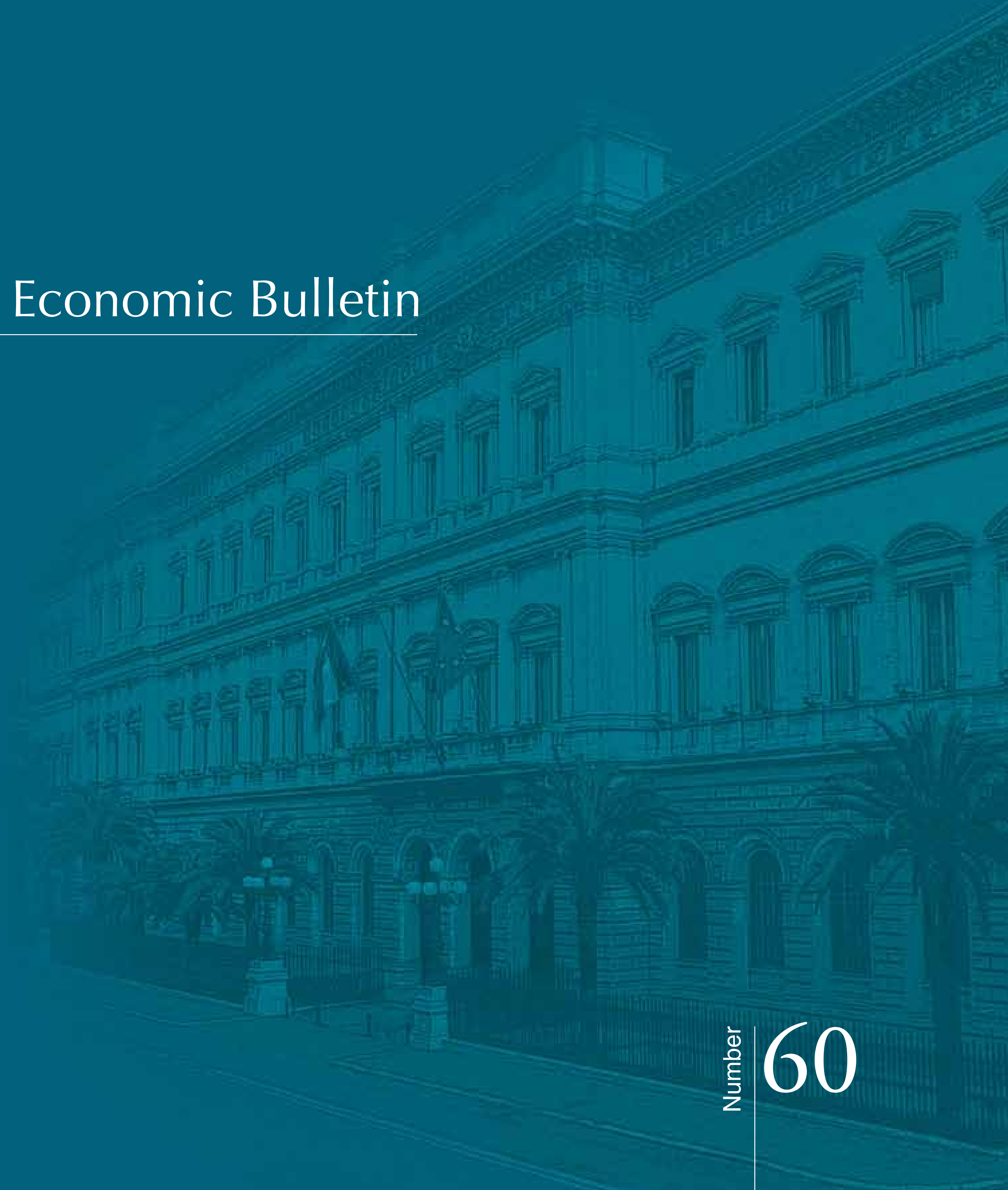
EUROSISTEMA

Economic Bulletin



Number 60

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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

Global growth remains robust

The world economy is continuing to expand, driven by the rapid growth of the emerging countries, the upturn in the United States and the firming up of the recovery in the euro area. According to IMF projections, the expansion of world GDP, which came to 5.0 per cent in 2010, will continue this year and next at a pace of about 4.5 per cent. World trade has accelerated again since the end of 2010 after a lull during the autumn. In Japan, where output recovered in the first two months of this year, the effects of the March earthquake are difficult to assess for the moment, given the scale of the disaster and the involvement of the Fukushima nuclear power plant.

Commodity prices continue to rise

In the first few months of the year the prices of raw materials continued to rise. Oil prices, which have been moving upwards since last summer owing to the strengthening of world demand, rose further in February following the revolts in North Africa and in the Middle East; futures contracts indicate they will stabilize in the coming months. The prices of food commodities rose again in the first four months, exceeding the peaks recorded in August 2008. In the advanced countries, the repercussions on consumer price inflation have been significant, but core inflation remains moderate. In the emerging countries, the inflationary pressures have intensified, stoked by economic growth close to potential growth rates.

Sovereign debt is still under pressure in some euro-area countries

The pressure on the sovereign debt of some euro-area countries, which has waxed and waned for over a year, intensified in February and early March, abating only in part following the 11 March meeting of the euro-area Heads of State and Government, who decided to expand the lending capacity of the European Financial Stability Facility and defined the characteristics of the European Stability Mechanism that will supersede it in 2013. The government crisis in Portugal and reductions in the country's credit rating subsequently caused a sharp increase in the risk premiums on its public debt, which subsided after approval of the official application for assistance from the European Union and the IMF.

In the euro area growth may have strengthened in the first quarter ...

Euro-area GDP continued to expand in the fourth quarter of 2010, with an increase of 0.3 per cent from the third quarter. Growth for the year as a whole came to 1.8 per cent, but with national disparities: it was strong in Germany (3.6 per cent), more moderate in France and Italy (1.6 and 1.3 per cent) and virtually nil in Spain. In the first few months of 2011 economic activity may have strengthened; signals to this effect come from the index of industrial production and qualitative surveys of firms, which are reflected in the level reached by the €-coin indicator in March.

... while consumer prices have accelerated

Consumer price inflation has increased, averaging 2.5 per cent year on year in the first quarter of 2011 (compared with 2.0 per cent in the previous quarter). This is largely attributable to the pick-up in energy and food prices, due to the rise in the prices of raw materials.

The Governing Council of the ECB raises official rates

With the economic recovery gaining traction and commodity prices rising sharply, in April the Governing Council of the European Central Bank increased the minimum rate on main refinancing operations by 25 basis points to 1.25 per cent.

In Italy, GDP continues to grow but at a slow pace

In the fourth quarter of 2010 Italy's GDP grew by 0.1 per cent compared with the previous quarter. On average for the year, it expanded by 1.3 per cent. Positive contributions came from the performance of domestic demand (1.7 percentage points) and the recovery of exports (2.2 points); however, foreign trade's net contribution was negative by 0.4 points, owing to the rapid growth of imports induced by domestic demand. A modest acceleration in economic activity seems likely in the first quarter, as indicated by the slight recovery of industrial production and the livelier pace of exports in January and February. Industrial firms' confidence and their expectations for demand have improved to good levels.

Consumer spending is held back by declining real income

Households are still spending cautiously, in the light of labour market conditions and the trend in disposable income, which declined again in 2010 in real terms. Consumption returned to growth last year, but in recent months the upswing has not gathered momentum, judging by the performance of retail sales, which contracted in January, and by consumer confidence, which saw a gradual improvement come to a halt early in 2011. Expectations of price increases have also worsened slightly, in line with current trends in inflation.

Consumer prices reflect raw material costs

Consumer price inflation, which was stable at around 1.7 per cent in the second half of 2010, rose to an average of 2.3 per cent in the first three months of 2011 year on year, as measured by the general consumer price index. The increase was due above all to higher food and energy prices, which weigh more heavily on the purchasing power of the less affluent households, accounting for over 40 per cent of their consumption. Net of these components, core inflation remained low, despite a slight pick-up in the early months of the year due to increases for transport services and some items whose prices are regulated.

No recovery in employment

Output far below the pre-recession level and the large number of workers still on Wage Supplementation have impeded the revival of job creation. After a slight gain in the fourth quarter, in January and February the number of persons employed slipped back to last summer's lows. Hiring for flexible and part-time employment returned to growth and the decline in permanent full-time positions continued. The unemployment rate was stable at its 2010 average, while the incidence of long-term and youth unemployment increased.

The budget deficit improves in 2010

General government net borrowing came down by nearly one percentage point of GDP by comparison with 2009, to 4.6 per cent, 0.4 points lower than the official projections made in September. Net of interest payments the budget was broadly in balance. The deficit reduction was the result of decreases in the incidence of capital expenditure (0.9 percentage points of GDP), primary current expenditure (0.3 points), and interest expenditure (0.1 points). Current revenue returned to growth (0.9 per cent in nominal terms), benefiting from a sharp rise in VAT receipts, owing in part to the adoption of stricter rules on offsets. The ratio of the public debt to GDP rose from 116 to 119 per cent, less than the average increase forecast for the euro area.

The objective of a deficit below 3 per cent in 2012 is confirmed …

The Economy and Finance Document for 2011-12 reaffirms the deficit forecasts and objectives. For 2011 net borrowing is expected to come down to 3.9 per cent of GDP. The better initial position thanks to the smaller-than-forecast deficit in 2010 is offset in this projection by the more prudent GDP growth forecast (1.1 instead of 1.3 per cent) and expected higher interest outlays. The net borrowing objective for 2012, which coincides with the current-legislation estimates, is set at 2.7 per cent of GDP, whose forecast growth has been revised downwards from 2.0 to 1.3 per cent.

… and rough balance is planned for 2014

The Government aims to achieve a broadly balanced budget in 2014 through corrective measures amounting to 2.3 percentage points of GDP in 2013-14.

2 THE WORLD ECONOMY

2.1 CYCLICAL CONDITIONS

The world economy continues to grow, but with regional disparities

In the fourth quarter of 2010 the world economy expanded at similar rates to those recorded in the previous quarter, with disparities persisting between the main countries and geographical regions. Economic activity strengthened moderately in the United States, expanded slowly in the euro area, contracted in Japan and the UK, and grew vigorously in the main emerging countries, above all in China. Since the turn of the year, world trade has accelerated further. A fresh round of rises in the prices of food and energy raw materials resulted in gradual and limited increases in consumer inflation in the advanced countries, while in the emerging economies, where production is close to capacity, the increases were faster and sharper.

Based on the latest data on industrial production and household consumption, in the first quarter of 2011 the pace of the expansion of economic activity in the United States was close to that recorded in the previous quarter and strengthened in the euro area. After lively growth in January and February, output in Japan was hurt by the halt in economic activity in several areas of the country due to damage to the transport and energy infrastructures caused by the earthquake on 11 March. The strength of the recovery in the UK continues to be uncertain. In the main emerging economies, despite the restrictive actions taken by the monetary authorities, growth proceeded at a fast pace.

Recent projections by the International Monetary Fund indicate that the world economy, which expanded by an average of 5.0 per cent in 2010 (Table 1), will slow to growth of around 4.5 per cent in 2011 and 2012. In the advanced countries GDP is expected to grow by 2.5 per cent, as against 6.5 per cent in the emerging economies. There are lingering risks ahead. In the advanced countries consumption demand is being held back by many factors. In particular, with labour and property markets still weak, the recent increases in international raw material prices and the fiscal policies aimed at containing wider post-crisis deficits are dampening households' purchasing power. In Japan, the earthquake's effects on productive activity in the current year remain uncertain. In the emerging economies, instead, the intensification of restrictive action by the monetary authorities in response to inflationary pressures, if too intense, could lead to abrupt slowdowns in economic activity.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		IMF		Consensus Economics	
	2010	2011	2012	2011	2012
GDP					
World	**5.0**	**4.4**	**4.5**	**–**	**–**
Advanced countries	**3.0**	**2.4**	**2.6**	**–**	**–**
Euro area	*1.7*	*1.6*	*1.8*	*1.7*	*1.7*
Japan	*3.9*	*1.4*	*2.1*	*0.3*	*2.7*
United Kingdom	*1.3*	*1.7*	*2.3*	*1.8*	*2.1*
United States	*2.8*	*2.8*	*2.9*	*2.9*	*3.3*
Emerging countries	**7.3**	**6.5**	**6.5**	**–**	**–**
Brazil	*7.5*	*4.5*	*4.1*	*4.1*	*4.4*
China	*10.3*	*9.6*	*9.5*	*9.3*	*8.9*
India (1)	*10.4*	*8.2*	*7.8*	*8.2*	*8.5*
Russia	*4.0*	*4.8*	*4.5*	*4.6*	*4.6*
World Trade (2)	**12.4**	**7.4**	**6.9**	**–**	**–**

Sources: IMF, *World Economic Outlook,* April 2011; Consensus Economics, various publications, April 2011; for Brazil and Russia, March 2011.
(1) The Consensus Economics forecasts refer to the fiscal year. – (2) Goods and services.

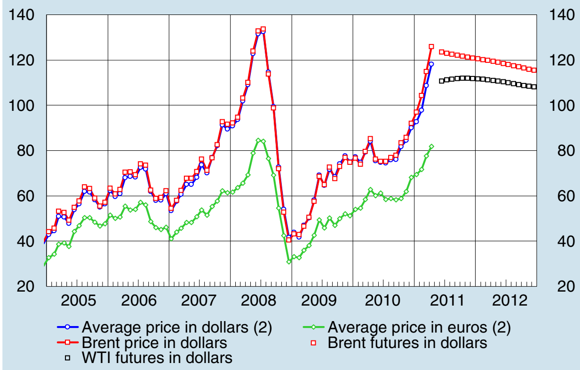
The price of oil rises again but futures prices suggest it will stabilize in the coming months

In the early months of 2011, raw material prices continued to increase. Oil prices, which have been rising since last summer in response to strengthening global demand, have undergone a new round of increases beginning in February owing to the Libyan crisis and concerns that the popular revolts could spread to other major oil producers in the region. On 11 April, prices topped \$118 a barrel (average of the three main grades), about \$25 dollars higher than at the beginning of the year. So far the ample margins of spare capacity in Saudi Arabia and other OPEC countries have offset the interruption of the Libyan supplies, which represent around 2 per cent of global crude oil supplies. Brent oil futures prices, which best reflect the supply risks of Middle Eastern countries, point to a stabilization of prices in the coming months at levels just below the current ones (\$119 a barrel is the price for contracts maturing in April 2012, about \$6.5 dollars less than current prices; Figure 1).

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

In January and February, the rise in food commodity prices continued, especially maize and wheat, the crops of which were hit by bad weather. Stocks fell sharply, as demand remained strong from emerging economies. After dropping temporarily in March, dollar prices began to climb again in April; since the beginning of the year, the increase has exceeded 7 per cent, bringing the index back above the peaks recorded in August 2008.

Current account imbalances lessens slightly in the fourth quarter

In the fourth quarter of 2010, current account imbalances attenuated somewhat: the US deficit narrowed, thanks to the acceleration in exports of goods and services. The widespread increases in raw material prices caused China's surplus to contract. Although higher than the low figures recorded in 2009, overall in 2010 the imbalances remained well below the pre-crisis levels. The US deficit amounted to at \$470 billion (3.2 per cent of GDP), compared with a surplus of \$306 billion in China (5.2 per cent of GDP) and \$195 billion in Japan (3.6 per cent of GDP).

According to the most recent forecasts of the IMF, by 2012 the US deficit on current account will narrow slightly (to 2.8 per cent of GDP), and Japan's surplus will decline (to 2.4 per cent), while China's surplus will widen to 6.3 per cent of GDP. The recent further rise in oil prices should also favour an increase in the surplus of the producer countries.

Uncertainty on financial markets remains intense

Since the end of January the price of gold has begun to climb again, pointing to persistent uncertainty over the prices of financial assets, fuelled by the unrest in North Africa and in the Middle East and by the earthquake in Japan. The pressure on sovereign debt in the euro area remains high.

2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

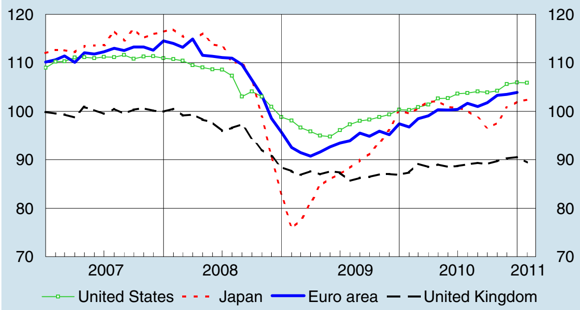
In the United States, economic activity picks up

Gross domestic product grew at an annual rate of 3.1 per cent in the United States in the fourth quarter of 2010 (up from 2.6 per cent in the third), in line with forecasters' expectations. Activity was sustained mainly by household consumption (which grew at a 4.1 per cent pace, the fastest since the onset of the recovery) and by foreign trade. Net exports, in fact, contributed 3.3 percentage points to the growth, reflecting a sharp drop in imports and an acceleration in exports. The inventory cycle, which in previous quarters had made a substantial positive contribution to growth, this time subtracted 3.4 points. For the year as a whole GDP grew by 2.9 per cent, following the contraction of 2.6 per cent in 2009.

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.

The latest data give conflicting signals. Industrial production, despite a slight decline in February, is at considerably higher levels than the average for the fourth quarter (Figure 2). On the demand side, private consumption weakened in January and February, especially for non-durables. As disposable income accelerated, the household saving rate rose to 5.8 per cent from 5.4 per cent in December.

Labour market conditions are improving slowly ...

A gradual improvement is under way in the labour market, but there remain elements of fragility. The unemployment rate continued its decline in March to 8.8 per cent, 1 point lower than in November. However, in recent months the downward trend has reflected not only an expansion of employment (by 955,000 since November) but also a contraction in the labour force (by 540,000), as participation has diminished. The participation rate remained unchanged in March at 64.2 per cent, well below its pre-recession levels. Also, the average duration of joblessness continued to lengthen, to more than 39 weeks in March, when the share of the long-term unemployed (over 27 weeks) rose to 46 per cent of the total.

... but the real estate market remains depressed

The US real estate market remained severely depressed in the early months of 2011. Sales continued to stagnate and the supply overhang remained substantial. In February the time required to clear the stock of unsold homes was around nine months. In these circumstances house prices declined further, while housing starts remained at the low reached in January 2009. Futures on the Case-Shiller 10-city index point to a further 5 per cent fall in prices this year.

In Japan, GDP contracts in the fourth quarter ...

Japanese GDP declined at an annual rate of 1.3 per cent in the fourth quarter of 2010, following a 3.3 per cent rise in the third. The fall, which was in line with forecasts, mainly reflected the 3.3 per cent decline in household consumption consequent to the termination of incentives for the purchase of durable goods. Exports also contracted, while investment in residential construction and inventories contributed to growth. For the year as a whole GDP grew by 3.9 per cent, after falling by 6.3 per cent in 2009.

... before the devastating earthquake in March

The indicators of industrial production and household consumption signalled a resumption of recovery in January and February, but then came the devastating earthquake and tsunami of 11 March, with its great loss of life and enormous damage to transport and energy infrastructure. The repercussions on economic activity in the first quarter and the next remain uncertain, but it seems likely that subsequently reconstruction will contribute to GDP growth (see the box below).

THE ECONOMIC CONSEQUENCES OF THE EARTHQUAKE IN JAPAN

The earthquake that struck the Tohoku region in north-east Japan on 11 March, followed by a devastating tsunami and the accident at the Fukushima nuclear power station, will have major repercussions on the country's economy. The damage to industrial facilities and the effects on GDP are difficult to quantify at present, especially owing to the uncertainty about the consequences of the nuclear disaster. The approach adopted by analysts has been to base their assessments on the last powerful earthquake, which struck the Kobe area in January 1995. The prefectures directly involved – Hyogo in 1995 and Iwate, Miyagi and Fukushima in March 2011 – are comparable in terms of their size and economic output (respectively 3.7 and 4 per cent of Japan's GDP). Although Kobe was an important urban and industrial area that included the sixth largest port in the world, the scale of this year's disaster appears much greater, since, among other things, it affected two nuclear plants and transport infrastructure, with effects on production in the rest of the country as well. The estimates of the direct damage inflicted by the recent earthquake far exceed the 1995 figure of ¥10 trillion (2 per cent of GDP).

According to the Japanese authorities, the damage to infrastructure, housing and industrial facilities, including the destruction of the Fukushima nuclear power station, amounts to between ¥16 trillion and ¥25 trillion, that is between 3.3 and 5.2 per cent of GDP (see Table). The estimates of the losses prepared by international institutions and private forecasters are lower on average, ranging between 1.5 and 4.2 per cent of GDP.

The evidence currently available on the economic consequences of the recent earthquake is still limited: the index of manufacturers' confidence compiled by Markit recorded its largest drop since it was introduced in 2001 and fell to a two-year low. The first results of the Tankan survey conducted by the Bank of Japan point to a pronounced worsening of the climate of confidence among firms, starting in the second quarter of this year. The recovery in output could prove slower than in 1995. In the short term economic activity could be held back not only by the destruction of infrastructure and industrial facilities but also by the reduction in the supply of electricity in the areas hit by the disaster and in the 13 prefectures served by the Tokyo Electric Power Company (Tepco), which are already experiencing rolling blackouts due to the inadequate production of electricity as a consequence of the closure of the Fukushima nuclear power station. Its reactors, with an average age of more than 32 years, had accounted for about 19 per cent of Japan's nuclear power generating capacity and 3.8 per cent of its total capacity. Other negative consequences will derive from the interruption of production in the firms in the disaster-struck area manufacturing intermediate goods, especially for the automobile and electronics industries, and from the decline in the confidence of consumers and firms.

According to estimates prepared by the Japanese Government, however, the overall effect on GDP will already be positive in the first half of the 2011 fiscal year (i.e. from April through September). The fall in output as a result of the damage to industrial facilities in the area hit by the earthquake (between 0.2 and 0.5 per cent) and the interruption of supplies of intermediate goods (0.1 per cent) will be more than offset by a positive impulse (between 0.8 and 1.2 per cent) imparted by reconstruction (assuming that this is spread over three years). These estimates do not consider the negative effect on GDP of the reduction in the supply of electricity, which it is hard to estimate, even for the Japanese Government.

For 2011 as a whole the IMF expects Japanese GDP to grow by 1.4 per cent, two tenths of a point less than it had forecast before the earthquake, and by 2.1 per cent in 2012. The median growth projection for 2011 by the main private forecasters fell from 1.6 to 0.5 per cent between February and March, while that for 2012 rose from 2 to 3.1 per cent. During 2011 the economy is expected

Estimates of the direct damage caused by the earthquake and short-term economic growth forecasts

	Latest publication date	Direct damage caused by the earthquake/ tsunami (*as a % of GDP*)	GDP (1) (*percentage change on the previous period*)					
			2011	2012	2011			
					Q1	Q2	Q3	Q4
IIF	15/03/2011	2.5-4.2						
World Bank	21/03/2011	2.5-4.0						
Cabinet Office	23/03/2011	3.3-5.2						
IMF	25/03/2011		1.4 (1.6)	2.1 (1.8)				
Morgan Stanley (2)	22/03/2011		-2.0 (2.0)	1.0 (1.9)				
Consensus Economics	08/04/2011		0.3 (1.4)	2.7 (2.1)				
JP Morgan	01/04/2011	3.0	0.8 (1.7)	3.2 (1.8)	0.5 (2.2)	-3.5 (2.2)	5.0 (2.5)	6.5 (2.0)
Merrill Lynch	01/04/2011		0.5 (1.7)	3.1 (2.2)	0.5 (2.3)	-2.2 (1.8)	1.3 (3.3)	4.4 (2.8)
CSFB	01/04/2011	1.5-1.7	0.0 (1.4)	3.5 (1.9)	-5.0 (1.9)	0.8 (1.7)	4.5 (1.4)	4.9 (1.6)
Goldman Sachs	01/04/2011	3.0	0.7 (1.3)	2.3 (2.0)	0.6 (1.7)	-0.7 (0.9)	1.5 (2.1)	2.7 (2.3)
Deutsche Bank	01/04/2011		-2.1 (1.6)	1.9 (2.2)	-5.2 (0.8)	-8.1 (3.2)	2.2 (2.5)	3.8 (1.9)
Median (3)			0.5 (1.6)	3.1 (2.0)	0.5 (1.9)	-2.2 (1.8)	2.2 (2.5)	4.4 (2.0)

(1) For the IMF, the estimates in parentheses are those published in *World Economic Outlook Update* in January 2011; for the private forecasters, the estimates in parentheses are those available at 28 February 2011. – (2) The forecast is the mean of the range of expected values. – (3) Excludes the estimates of Consensus Economics, the IMF and Morgan Stanley.

to stagnate in the first quarter and then to contract significantly in the second, followed by a recovery in the third quarter and a vigorous expansion in the fourth. These forecasts are marked, however, by a high degree of uncertainty, revealed by the wide dispersion of the figures.

The effects of the earthquake on the Japanese public finances, already weighed down by a deficit equal to almost 10 per cent of GDP and a gross debt of more than 220 per cent, are still uncertain, as are the repercussions on long-term interest rates. In addition to the expense of reconstruction in the strict sense, there will be the provision of assistance to the categories that have been harmed, a loss of tax revenue and the costs connected with any further worsening of the situation at the nuclear power station, which cannot be quantified at the moment.

The implications for the world economy are likely to be modest, overall, considering the relatively low degree of international openness of the Japanese economy. The greatest risks concern the interruptions in the supply of intermediate goods used in global production chains. On the other hand, the impact of Japan's greater demand for fossil fuels (liquid gas and coal) to offset the decrease in the production of nuclear power appears negligible at the moment; it could become significant if Japan decided to decommission all its most obsolete nuclear plants (i.e. those more than 30 years old), which currently supply more than 9 per cent of the total electric power produced in Japan.

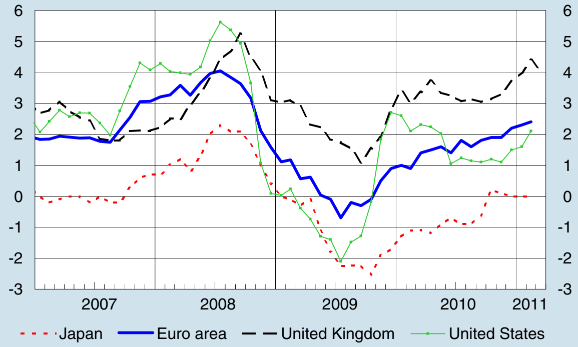
In the United Kingdom, GDP unexpectedly decreases at the end of the year

In the United Kingdom, gross domestic product fell unexpectedly in the fourth quarter at an annual rate of 1.9 per cent, after 2.9 per cent growth in the third. The decline involved all the components of demand, above all fixed investment. According to the UK Statistics Authority, this development was due to very bad weather in December. Net of this effect, economic activity remained unchanged from the third quarter. For 2010 as a whole GDP grew by 1.3 per cent, after falling by 4.9 per cent in 2009. The latest indicators signal a return to growth in the first quarter, but the correction under way in the property market, persistently restrictive credit conditions and the Government's austerity plan for fiscal adjustment point to very modest expansion of domestic demand.

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.

In the industrial countries inflation, though rising, remains low

Inflationary pressures increased in the main advanced economies during the early part of 2011, owing to higher raw material prices. Overall price rises remain modest, reflecting slack domestic demand and ample spare capacity. In the United States consumer price inflation rose to a twelve-month rate of 2.1 per cent in February, compared with 1.6 per cent in January (Figure 3); net of energy and food products, the increase was only from 1.0 to 1.1 per cent. Prices continued to rise more rapidly in the United Kingdom, reflecting the sharp depreciation of sterling, the recent rise in indirect taxes on consumer goods, and higher energy prices. Consumer price inflation rose from 4.0 per cent in January to 4.4 per cent in February (2.8 per cent net of the indirect tax increase), before falling back to 4.0 per cent in March. In Japan, by contrast, inflation was nil in February for the third consecutive month; net of the most volatile components it was still negative by 0.6 per cent on a twelve-month basis.

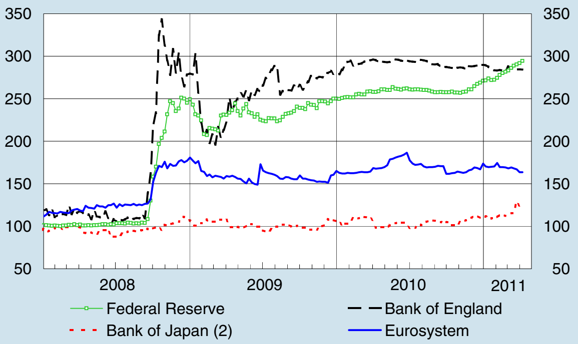
Central banks maintain their expansive stance

Against the background of persistently weak domestic demand components and moderate risk of inflation, monetary policy in the advanced countries remained expansive, with official rates at historical lows. At its March meeting the Federal Reserve decided to keep on expanding its securities portfolio, as announced last November. The decision envisages further purchases of Treasury securities, for a total of $600 billion by mid-2011, as well as the reinvestment in Treasury paper of the principal payments from the Fed's holdings of federal agency bonds and of mortgage-backed securities. Between the beginning of November and the first ten days of April the financial assets on the Fed's balance sheet increased by some $340 billion (Figure 4). The Federal Open Market Committee left its target range for the federal funds rate unchanged at 0.0-0.25 per cent, reaffirming that given the high degree of idle capacity and stable inflation expectations the official rates will probably be kept at exceptionally low levels for an extended period.

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.

The Bank of Japan, at its meeting on 14 March, increased its securities purchase programme by ¥5 trillion to a total of ¥40 trillion (7.4 per cent of GDP), for completion by mid-2012. The move was intended to alleviate the effects of the earthquake on economic activity and on consumer and business confidence. The additional purchases will involve mostly risky securities, including corporate bonds, equity and real estate funds (for a total of

¥3.5 trillion), and to a lesser extent government debt (¥1.5 trillion). In the face of persistent deflationary pressures, at its 7 April meeting the Bank left its reference policy rate range unvaried at 0.0-0.1 per cent and instituted a ¥1 trillion fund to back bank loans to enterprises in the earthquake area. The Bank of England too, notwithstanding the rapid rise in prices, elected at its meeting on 7 April to keep its policy rate at 0.5 per cent and maintained its financial asset purchase target of £200 billion (14 per cent of GDP). Financial market developments indicate expectations of a first rise in the policy rate towards mid-year.

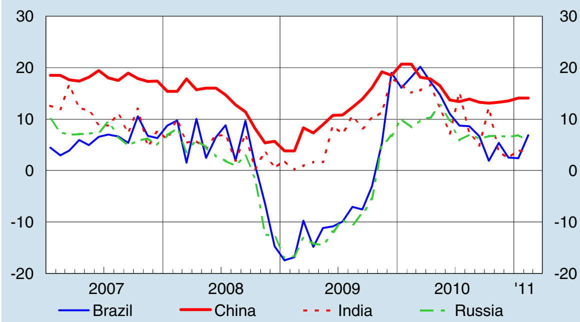
In the main emerging economies, growth remains strong in the fourth quarter

Accompanied by the strong growth of credit, the expansion of economic activity was still very rapid in the emerging economies in the fourth quarter (Figure 5). In China, GDP grew by 9.8 per cent on a twelve-month basis in the fourth quarter and by 10.3 per cent for the year (9.2 per cent in 2009). The growth was led mainly by domestic demand, especially investment; net exports made a positive contribution (0.8 percentage points) after subtracting 3.7 points from growth in 2009. The most recent data indicate a slight slowdown in the first quarter of 2010, owing in part to restrictive monetary measures to counter the threat of overheating. In India growth proceeded in the fourth quarter at better than 9 per cent on a twelve-month basis. GDP expanded by 10.4 per cent for the entire year, led by infrastructural investment. In Brazil, economic activity expanded further in the last quarter, though slowing significantly to an annual pace of 2.8 per cent. GDP grew by 7.5 per cent in 2010 as a whole, sustained mainly by household consumption, itself fed by the rapid growth of credit and a robust labour market. The growth of domestic demand was accompanied by a worsening of the current account balance. In Russia, the economic recovery accelerated in the fourth quarter to a twelve-month growth rate of 4.5 per cent, benefiting from higher energy prices. For the year as a whole GDP increased by 4.0 per cent (after falling by 7.8 per cent in 2009). In the other central and eastern European countries activity remained sluggish, affected by still restrictive credit conditions and budget adjustment measures.

Figure 5

Industrial production in the BRIC countries

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



Sources: Thomson Reuters Datastream and national statistics.

Price pressures increase further

In late 2010 and early this year inflationary pressures in the main emerging economies intensified in response to higher food and energy prices, against a backdrop of lively domestic demand and full capacity utilization in many countries. Central banks intervened almost everywhere to make monetary conditions less accommodating. In China, the compulsory reserve ratios were raised repeatedly (to 20 per cent in March for large banks), as was the reference rate for bank loans (to 6.31 per cent in April). In India, reference rates were raised in March for the third time since the start of the year. In Brazil and Russia too, reference rates rose significantly in the first few months of the year (to 11.25 and 8.0 per cent respectively). Fearing that the widening interest-rate spreads might spur further inflows of short-term capital, thereby augmenting the expansion of credit and heightening the upward pressures on financial asset prices and exchange rates, many emerging countries, including China and Brazil, reinforced their controls on capital inflows, in particular those via banks.

2.3 THE EURO AREA

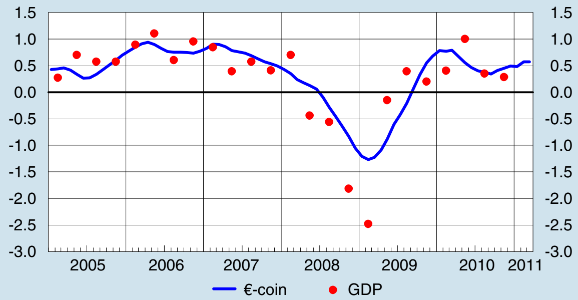
GDP growth slows slightly in the fourth quarter ...

Euro-area GDP growth continued in the fourth quarter of 2010, although slowing to 0.3 per cent compared with 0.4 per cent in the third quarter (Figure 6). The German economy again expanded at a livelier pace than the average for the euro area (0.4 per cent against 0.7 per cent in the third quarter), despite a sharp contraction in the building industry caused by December's bad weather. Owing to the slower expansion of world trade in the second half of 2010, euro-area exports slipped from growth of 2.1 per cent in the third quarter to 1.5 per cent in the fourth; with import growth also decreasing, from 1.5 to 1.0 per cent, net foreign trade still made a positive contribution to the increase in output (0.2 percentage points). Domestic demand remained slack; the small acceleration in private consumption from 0.2 to 0.4 per cent was offset by a further contraction in investment (by 0.5 per cent), entirely ascribable to construction.

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.

Overall, based on the quarterly accounts, euro-area GDP expanded by 1.8 per cent in 2010, compared with a contraction of 4.1 per cent in 2009. Growth was fastest in Germany (3.6 per cent), where GDP recovered about two thirds of the previous year's loss, but slacker in France and Italy, which recorded growth rates of 1.6 and 1.3 per cent respectively. In Spain, output was virtually stationary.

... but apparently gains strength at the beginning of 2011

The cyclical indicators point to an acceleration of economic growth in the euro area in the opening months of 2011. One of the contributory factors is the pick-up in building activity, particularly in Germany, following the decline recorded at the end of last year. There continue to be significant growth gaps between the leading countries. At the beginning of the year, the Bank of Italy's monthly €-coin indicator, which estimates quarterly economic growth net of short-term fluctuations, began to increase, reaching 0.57 per cent in March. The Purchasing Managers Index rose further in the first quarter on average. The climate of confidence among manufacturing firms improved until February, mainly reflecting the very positive assessments of German firms. The trend came to a halt in March, however, presumably due to the uncertainty triggered by the earthquake in Japan. Industrial production, adjusted for seasonal and calendar effects, rose by 0.5 per cent on average in January and February, again with a stronger performance in France and Germany. The climate of confidence among construction firms, instead, was still poor by historical standards, despite the upturn in building activity at the beginning of this year.

There continues to be some uncertainty regarding domestic demand

Although economic growth is gaining strength, some uncertainty remains regarding the future performance of domestic demand. Industrial orders in the euro area, whose growth had slowed somewhat towards the end of 2010, contracted slightly in January, reflecting weak domestic demand. Household consumption remained slack. Euro-area retail sales stagnated in the first two months of the year; new motor vehicle registrations picked up only slightly. Household spending could be sustained in the future by a recovery in employment, although the recent increase in inflation might curtail the real growth in disposable income, which was already weak in 2010.

The professional forecasters surveyed by Consensus Economics expect area-wide GDP growth of 1.7 per cent both this year and next. Among the largest economies, output growth is projected to be fastest in Germany, despite a slowdown to 2.7 per cent in 2011 and 1.9 per cent in 2012. The March projections of area-wide growth by the Eurosystem experts ranged from 1.3 to 2.1 per cent for 2011 and from 0.8 to 2.8 per cent for 2012.

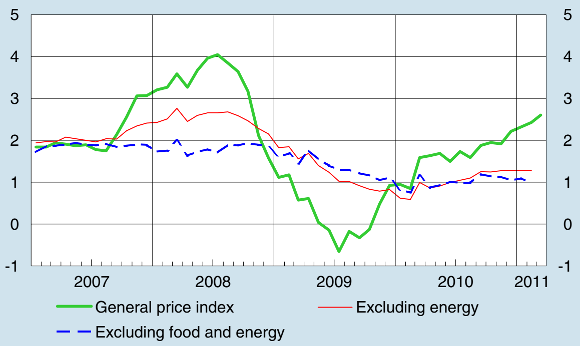
Inflation rises at the beginning of 2011, driven up by the most erratic components

Euro-area inflation, measured by the harmonized index of consumer prices, rose gradually at the beginning of 2011 according to Eurostat's flash estimate, reaching a twelve-month rate of 2.6 per cent in March, against 2.2 per cent in December (Figure 7). In the first quarter of the year the rate averaged 2.5 per cent, against 2.0 per cent in the fourth quarter of 2010. This trend was due to a large extent to the acceleration in food and energy prices, which reflected the continuous rise in raw material prices. Since summer 2010, a contribution to inflation has also come from the increase in indirect taxes in some of the euro-area countries with the gravest public finance difficulties: according to Eurostat, since July the twelve-month rise in the HICP net of changes in taxes has been about 0.3 percentage points lower than the rise in the general index. Core inflation, i.e. net of the food and energy components, is virtually stationary at the level recorded last summer, which was just over 1 per cent.

Figure 7

Inflation in the euro area (1)

(12-month percentage changes)



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices. Provisional data for March.

The acceleration in the producer price index for the internal market continued early this year to a twelve-month rate of 6.6 per cent in February, against 4.3 per cent in the second half of 2010. The increase was the result of rises in the prices of energy and non-energy intermediate goods and food products; the prices of non-food consumer goods increased moderately, averaging a twelve-month rate of 0.6 per cent in January and February. Recent surveys of manufacturing firms indicate a sharpening of upward cost pressures from imported inputs, which has been offset in part by the slowdown in domestic input costs as a result of productivity gains and wage moderation.

Inflation is expected to top 2 per cent in 2011 and decline in 2012

According to the projections of the analysts surveyed by Consensus Economics in April, average consumer price inflation will rise to 2.4 per cent this year, compared with 1.6 per cent in 2010, before falling to 1.8 per cent in 2012. These expectations are largely in line with the March projections of Eurosystem experts, who predict consumer price inflation of between 2.0 and 2.6 per cent this year and 1.0 and 2.4 per cent next. These figures do not take account of the recent further rise in oil prices and assume that wage increases will remain moderate.

The growth in the money supply remains modest ...

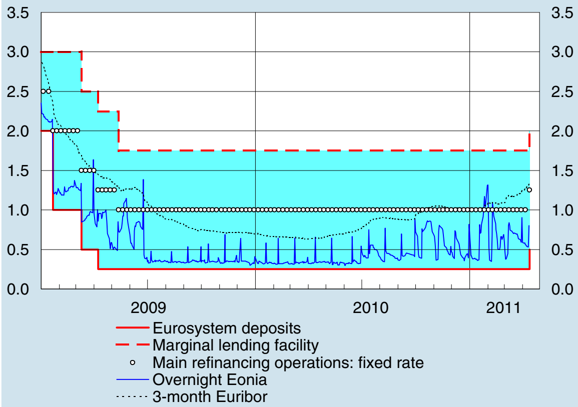
The twelve-month growth rate of M3 in the euro area remained very moderate at 2.0 per cent to February. The expansion in overnight deposits slowed from 4.4 per cent in November to 2.4 per cent in February and time deposits up to two years contracted further, by 1.5 per cent.

... but credit picks up

Bank credit continued to gain strength. Adjusted for securitizations, in February the twelve-month growth rate of lending to non-financial firms rose to 2.3 per cent and the seasonally adjusted annualized three-month rate to 2.5 per cent. Lending to firms jumped to growth of 1.7 per cent in the twelve months to February, while that to households picked up to 2.9 per cent. The banks interviewed in the euro-area Bank Lending Survey for the fourth quarter of 2010 reported that business lending conditions remained unchanged. Credit demand from firms continued to increase in connection with greater funding requirements for corporate restructuring, on the one hand, and the less unfavourable trend in credit demand for fixed investment, on the other. While households' demand for loans for house purchases increased, mortgage terms offered were tightened slightly owing to the continuing risks associated with the prospects for the economy and the property market.

Figure 8

Official interest rates and money market rates in the euro area
(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

The ECB Governing Council raises official rates

In view of the recovery in economic activity and the sharp rise in raw material prices, at its meeting at the beginning of April the ECB Governing Council decided to raise the minimum rate on main refinancing operations by 25 basis points, to 1.25 per cent (Figure 8).

At the beginning of March the Governing Council had decided to persevere with its abundant liquidity support by continuing to conduct the main refinancing operations and the forthcoming three-month operations by way of a fixed-rate tender procedure with full allotment.

At the end of March, the total stock of debt securities purchased under the Securities Markets Programme designed to support the orderly functioning of some market segments amounted to €77 billion, which was generally in line with the figure for mid-January.

On 18 March, in response to the variations in the exchange rate of the yen associated with the earthquake in Japan, the ECB joined the other leading central banks in a concerted intervention to avoid the potential repercussions of excessive foreign exchange market volatility and disorderly movements on economic and financial stability.

2.4 WORLD FINANCIAL MARKETS

In the first few months of 2011 financial markets were marked by increased volatility, reflecting the effects of the Libyan conflict and the Japanese earthquake. The sovereign debt of some euro-area countries came under renewed pressure. Overall, however, the losses on the equity markets were limited, and the risk premiums on bank and corporate bonds diminished.

Long-term interest rates hold stable in the main industrial countries ...

Government bond yields in the main advanced countries, after gradually rising in response to the improvement in the cyclical outlook, reversed course in mid-February amidst the uncertainty generated by the Libyan crisis and the Japanese earthquake. From mid-March yields began rising again and by mid-April were at about the levels recorded at the start of February, standing at 3.6 per cent in the United States, 3.8 per cent in the United Kingdom, 3.5 per cent in Germany and 1.3 per cent in Japan (Figure 9).

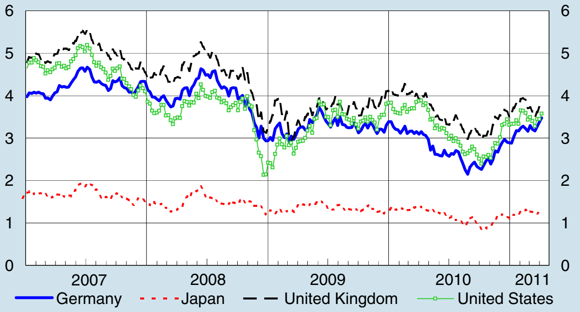
... while the pressure on the sovereign debt of some euro-area countries intensifies

After easing in January, the pressure on the sovereign debt of some euro-area countries intensified again between the beginning of February and the first ten days of March. The three main rating agencies downgraded the debt of Ireland, Greece and Spain and of some banks headquartered in those countries. The turbulence abated temporarily following the extraordinary meeting of Heads of State and Government of the euro-area countries on 11 March, which increased the effective lending capacity of the European Financial Stability Facility (EFSF) from €255 billion to €440 billion and established the characteristics of the European Stability Mechanism (ESM). These measures were finalized by the decisions of the European Council of 24 and 25 March (see the box below). Subsequently the yield spreads on Portuguese over German government securities rose sharply (to a peak of 538 basis points on 5 April; Figure 10), reflecting that country's government crisis and the downgrading of its debt. On 8 April Portugal requested assistance from the European Union and the IMF, which the EU finance ministers approved the same day. The European assistance will be arranged under the framework of the EFSF and the European Financial Stabilisation Mechanism (EFSM). The yield spreads on Portuguese government paper fell back to levels only 10 basis points higher than at the end of March. The strains affecting Portugal's public debt do not appear to have spread to the other countries of the area.

Figure 9

Yields on ten-year government bonds

(end-of-week data; percentages)



Source: Thomson Reuters Datastream.

Yield spreads have widened since the beginning of the year by 150 basis points for Portugal, while they have narrowed by 74 basis points for Spain, 63 for Italy, 43 for Ireland, 22 for Belgium, 14 for Greece and 11 for France.

THE DECISIONS OF THE EUROPEAN COUNCIL OF 24 AND 25 MARCH 2011

The far-reaching programme of reforms to reinforce European economic governance[1] in which all the EU countries and institutions have been engaged since spring 2010 has made further progress with the adoption of measures by the European Council on 24 and 25 March this year. On that occasion, the Heads of State or government endorsed the proposals to tighten budgetary discipline and improve the surveillance of macroeconomic imbalances,[2] which had been submitted in 2010 by the European Commission and the task force chaired by Herman Van Rompuy and approved by the EU finance ministers on 15 March. These proposals will strengthen the Stability and Growth Pact in the preliminary phase, by introducing sanctions, and during the adjustment phase, by devising a numerical rule that will open the excessive deficit procedure not only when a country's deficit exceeds 3 per cent of GDP but also when efforts to reduce its debt towards 60 per cent of GDP are deemed unsatisfactory.[3] They form the basis for negotiations with the European Parliament with a view to obtaining final approval of the reforms in June 2011.

To reinforce the mechanisms for euro-area stability and financial assistance to member states in difficulty the Council approved an increase in the effective lending capacity of the European Financial Stability Facility from €250 billion to €440 billion and set down the details of the permanent crisis management system, the European Stability Mechanism, most of which had already been agreed on

[1] See the box "The proposals to reform European economic governance", *Economic Bulletin*, January 2011.
[2] For a more in-depth analysis of the reform proposals see I. Visco's paper, "La governance economic europea: riforme e implicazioni", given at the 20th anniversary of the Economics Faculty, University of L'Aquila, 8 March 2011.
[3] The rule requires the public debt to be reduced each year by 5 per cent of its deviation from the reference value of 60 per cent of GDP. Some details of methodology are still under discussion.

28 November last year by the euro-area finance ministers. These decisions will also be finalized by the end of June.

The ESM, which will replace the EFSF in July 2013, will provide financial support to countries that request assistance subject to strict conditions and a thorough debt sustainability analysis. If the analysis reveals a state of insolvency, in order to become eligible for ESM support, the member state will have to negotiate a restructuring plan with its private creditors.

The ESM will have a lending capacity of €500 billion. Its total subscribed capital will amount to €700 billion, of which €80 billion in the form of paid-in capital provided by the euro-area member states over a period of five years starting in July 2013. The remainder will consist of a combination of committed callable capital and of guarantees from euro-area member states. The contribution of each member state will be calculated on the basis of its paid-in capital key of the European Central Bank, which in the case of Italy is about 18 per cent. Regarding the governance of the ESM, its highest decision-making body will be the Board of Governors, consisting of the ministers of finance of the member states. The European Commissioner for Economic and Monetary Affairs and the President of the ECB will take part as observers.

The pricing of the ESM will be in line with IMF pricing principles; there will be a charge of 200 basis points on the entire amount of loans and a surcharge of a further 100 basis points for loan amounts outstanding after three years. ESM loans will enjoy preferred creditor status with respect to other lenders, while remaining junior to IMF loans.

To facilitate agreement between creditors and debtors in the event of default or debt restructuring, all government securities with maturity above one year issued as of 2013 will contain identical and standardized collective action clauses. These CACs will allow a qualified majority of creditors to agree to a restructuring of the terms of payment of their claims and make these decisions binding on all creditors.

On 24 and 25 March the Euro Plus Pact was agreed by the euro-area Heads of State and Government and joined by six countries outside the area (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania). The Pact, the general lines of which were agreed at the extraordinary meeting of the European Council held on 11 March, follows a proposal made by the French and German governments at the beginning of February and aims to strengthen the economic pillar of the monetary union, notably by improving the competitiveness and convergence of the national economies. Compared with the original Franco-German proposal, which contained six specific points, the final text calls for stronger political commitment to four objectives relating, respectively, to competitiveness, employment, sustainable public finances, and financial stability.

The measures to foster competitiveness include, among other things, setting wages in line with productivity, abolishing indexation mechanisms and opening up sheltered sectors. There is also a call for reforms to improve the business environment for small and medium-sized enterprises and to promote research and innovation. The measures to foster employment centre mainly on a gradual reduction of taxation of labour income and on labour market reforms that promote flexibility and security and lifelong learning. In the field of public finances, attention is paid to the need for a rigorous assessment, on the basis of common indicators, of the sustainability of pension schemes, healthcare and social benefits. Where necessary, the effective retirement age will be aligned with life expectancy and limitations will be placed on early retirement systems. The euro-area countries have agreed to transpose the fiscal rules adopted at the European level into national legislation according to the methods decided by the individual member states. The Euro Plus Pact also requires each country to introduce banking crisis resolution mechanisms that will reinforce the stability of the financial system. Lastly, the Pact calls for closer tax policy coordination and, in particular, for the harmonization of the corporate tax base as a way of ensuring consistency among national tax systems while respecting each country's autonomy.

On the basis of the priorities identified at the European level, the member states will agree on a set of concrete measures to be achieved within twelve months in order to reach the common objectives (France, Spain, Belgium and Germany have already drawn up some undertakings). These measures will be incorporated in the National Reform Programmes and the Stability Programmes to be presented in April and will be assessed by the Commission and the Council within the framework of the European semester.[4]

The European Council has also laid down the economic policy guidelines that must be reflected in the member states' programming documents. In particular, it has called for priority to be given to rebalancing budgets and achieving sustainable public finances, to reducing unemployment through labour market reforms, and to renewed efforts to foster growth. With regard to the public finances, it has been further pointed out that in most cases this will entail an annual structural adjustment above 0.5 per cent of GDP.

The European Council of 24 and 25 March further highlighted the key role of the single market in promoting growth and competitiveness, and welcomed the adoption of suitable initiatives to bring new impetus to it, calling on the member states to fully implement the recent directive aimed at strengthening the single market for services.[5]

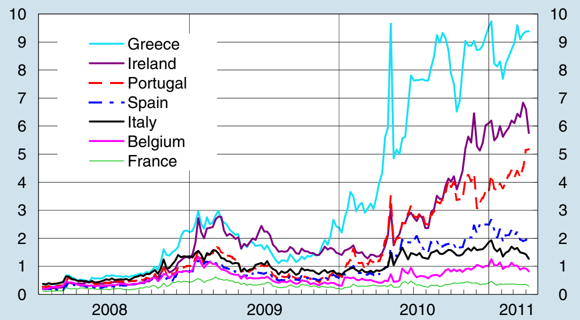
[4] See *Economic Bulletin*, January 2011.
[5] See Directive 2006/123/EC on services in the internal market.

Risk premiums on bank and corporate debt diminish

In the fourth quarter of 2010, the profitability of the main international banking groups improved; capital ratios continued to be strengthened and financial leverage reduced. The perceived riskiness of the major European and US international banks has gradually diminished since the second half of January. In the first ten days of April the spreads on credit default swaps averaged about 150 basis points, 70 less than three months earlier.

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 8 April 2011.

The risk premiums on corporate bonds have also continued to decline. In mid-April CDS spreads on euro-denominated corporate bonds stood at about 1.4 percentage points for bonds rated BBB and 4.7 points for high-yield bonds; for the corresponding dollar-denominated securities they were about 1.6 and 4.5 percentage points respectively, having fallen back near their end-2007 levels (Figure 11).

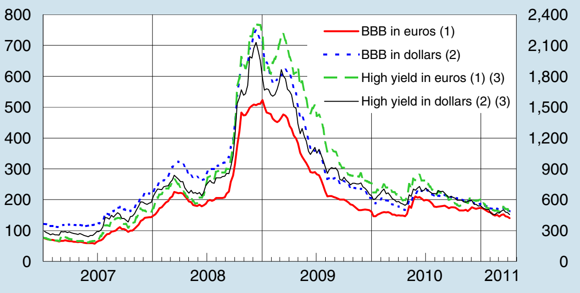
Share prices suffer only a temporary setback

Share prices in the main industrial countries registered sizeable gains through the first twenty days of February, benefiting from positive corporate earnings performance. Subsequently, the outbreak of the Libyan crisis on 21 February and the Japanese earthquake of 11 March caused sharp slumps in shares and a temporary surge in market volatility. Shares turned back upwards in the last ten days of March. From the start of the

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 with a 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 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.

year through the first ten days of April the Japanese stock exchange lost 5 per cent, against share price gains of 5.3 per cent in the United States, 5.4 per cent in the euro area and 2.3 per cent in the United Kingdom (Figure 12). After the peaks recorded in March, the volatility implied by share prices receded to more moderate levels (Figure 13).

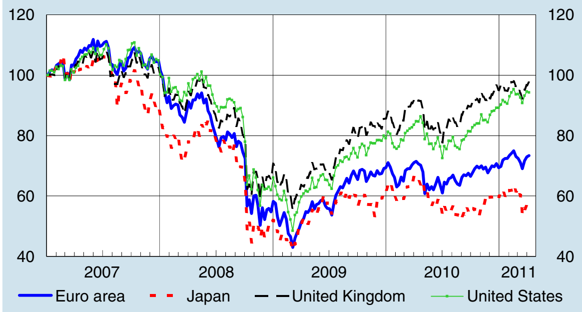
The repositioning of investors towards the US and European markets caused a slight worsening in January and February of conditions on emerging-country financial markets, which began to improve again at the end of March. The share price indexes (in dollars) on these markets rose by an average of 10 per cent between the last ten days of March and the first ten days of April, regaining the levels at which they had started the year. Net disposals of portfolio holdings by international investors came to a halt for debt securities and diminished for equities. Yield spreads on dollar-denominated foreign debt held stable at an average of about 290 basis points.

The euro strengthens In the first quarter of 2011 the euro turned back upwards against the main currencies. In nominal effective terms it recorded a limited appreciation (2.8 per cent, against a depreciation of 2.9 per cent for the dollar; Figure 14). Bilaterally, the euro gained 5.9 per cent against the dollar and 7.6 per cent against the yen. The Japanese currency,

Figure 12

Stock market indices (1)

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

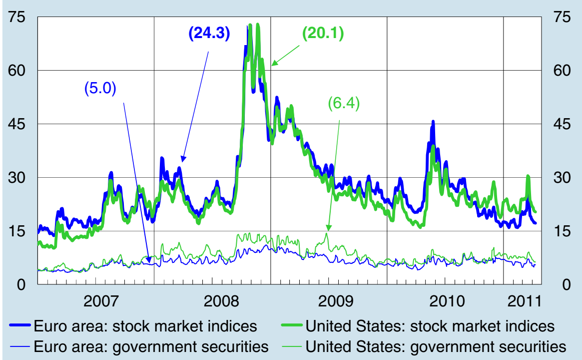


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom, Standard & Poor's 500 for the United States.

Figure 13

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

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

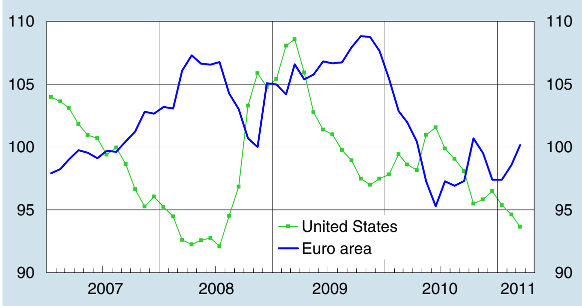


Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for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

Figure 14

Nominal effective exchange rates (1)

(monthly data)



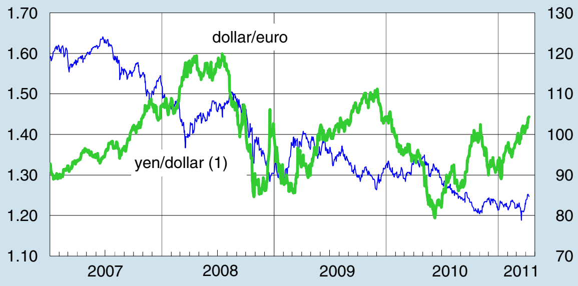
Sources: ECB and Federal Reserve.
(1) Index, 2007=100. An increase implies an appreciation.

which in the days immediately after the earthquake had gained more than 5 per cent against the dollar mainly as a result of the unwinding of carry trade positions, fell by about 3 per cent on 18 March following the coordinated intervention of the central banks of the G7 countries and continued to depreciate gradually after that (Figure 15). The renminbi recorded a modest appreciation of 1 per cent against the dollar in the first quarter; its nominal effective exchange rate remained unchanged. Since 19 June 2010, when the Chinese authorities restored a more flexible exchange rate, the renminbi has appreciated by a total of 3.6 per cent against the dollar while depreciating by 7.4 per cent against the euro.

Figure 15

Bilateral exchange rates

(daily data)



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

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

The recovery continues, but with a slowdown at the end of 2010

Italy's GDP grew by barely 0.1 per cent in the fourth quarter of 2010 compared with 0.3 per cent in the third (Table 2). There was moderate growth in household consumption; gross fixed investment contracted for the first time since the end of 2009, reflecting a decline in construction and a deceleration in spending on machinery, equipment and intangibles. The weakness of domestic demand was compounded by the negative contribution of net exports, which curtailed GDP growth by 0.8 percentage points. In a context of less dynamic world trade, exports decelerated sharply to growth of 0.5 per cent in the fourth quarter compared with 2.6 per cent in the third, while imports continued to grow strongly (3.4 per cent compared with 4.9 per cent). By contrast, the change in stocks made a very positive contribution of about 1 percentage point to GDP growth.

On the basis of the annual accounts, GDP rose by 1.3 per cent overall in 2010 following the sharp contraction of 5.2 per cent in 2009, a greater decline than had previously been estimated (Figure 16). Growth in national demand contributed 1.7 percentage points, driven by a 1.0 per cent increase in household consumption and a 9.9 per cent gain in investment in machinery, equipment and intangibles. Exports provided the main impulse to growth, increasing by 9.1 per cent, recuperating almost half the loss sustained in 2009; nevertheless, as a result of the 10.5 per cent increase in imports, net exports shaved 0.4 percentage points from GDP growth.

GDP apparently continues growing in the first quarter ...

The latest cyclical indicators point to continued recovery in the first quarter of 2011. The manufacturing

Table 2

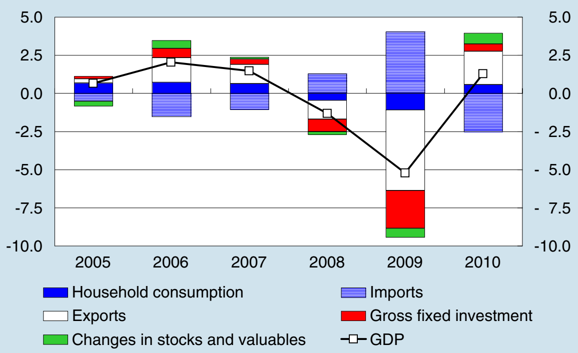
GDP and its main components
(chain-linked volumes; data adjusted for seasonal and calendar effects; percentage changes on previous period)

	2010				2010
	Q1	Q2	Q3	Q4	(1)
GDP	0.5	0.5	0.3	0.1	1.3
Total imports	4.0	0.4	4.9	3.4	10.5
National demand (2)	0.5	..	0.9	0.9	1.7
National consumption	..	0.2	0.2	..	0.6
household spending	*0.2*	*0.1*	*0.4*	*0.3*	*1.0*
other (3)	*-0.7*	*0.5*	*-0.3*	*-0.6*	*-0.6*
Gross fixed investment	1.2	1.4	0.8	-0.7	2.5
construction	*-0.9*	*-0.5*	*1.0*	*-1.3*	*-3.7*
other investment goods	*3.7*	*3.4*	*0.6*	*-0.2*	*9.6*
Change in stocks and valuables (4)	0.3	-0.4	0.6	1.0	0.7
Total exports	4.2	2.5	2.6	0.5	9.1

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.

Figure 16

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



Source: Based on Istat data.
(1) The formula for calculating the contributions to real GDP growth in accordance with the methodology for price deflation based on chain linking is available at: www.istat.it.

Purchasing Managers Index has risen progressively since the end of last year, and over the first three months business confidence, as surveyed by Istat, regained the levels recorded prior to the international crisis. The Bank of Italy's quarterly survey conducted together with *Il Sole 24 Ore,* which had forecast the slowdown in economic activity at the end of 2010, recorded a cautious improvement in March in firms' assessments of the general economic situation. The quantitative indicators point to an extremely small average increase in industrial production in the first quarter following the decline recorded at the end of last year.

... led by exports

Growth continues to be sustained mainly by foreign demand: at the start of this year the volume of exports appears to have increased at a faster pace than in the last quarter of 2010. Households are still spending cautiously as a result of the contraction in real disposable income and the poor job market. In February the number of persons employed was still close to the lows of last summer; the unemployment rate has remained basically unchanged since the end of last year. The forecasters surveyed in April by Consensus Economics expect GDP growth of 1.0 per cent on average in 2011 and 1.1 per cent in 2012; the leading international organizations forecast similar results.

Inflation goes up as a result of price pressures from abroad

Consumer price inflation, measured by the twelve-month change in the CPI, after holding basically stable in the second half of 2010, increased in the first quarter of 2011, owing mainly to the acceleration in food and energy prices. Although core inflation (i.e. net of food and energy prices) is still rising it remains at a historically low level. According to the forecasters surveyed by Consensus Economics in April, the rate of growth of consumer prices will be 2.4 per cent in 2011 (in line with expectations for the euro area as a whole), falling back to 2.0 per cent in 2012.

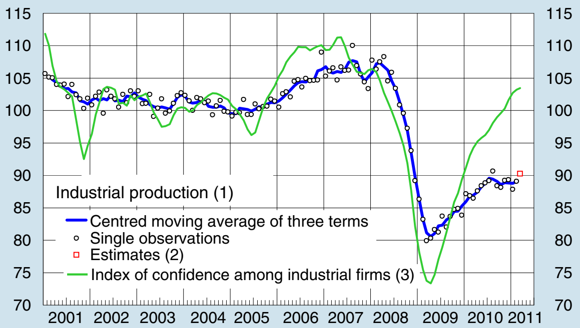
3.2 FIRMS

Industrial activity slackens in the last part of 2010 ...

In the fourth quarter of 2010 industrial activity slackened, failing to match the more optimistic indications of business opinion surveys. The index of industrial production fell by 0.6 per cent compared with the previous period, as against a rise of 1.1 per cent in the third quarter (Figure 17). The fall in the index mainly reflected the contraction in the production of capital goods, which had shown the strongest recovery from the end of 2009 onwards, driven in part by the tax incentives introduced by the so-called Tremonti-*ter* law. This contraction was accompanied by a further weakening in the production of durable consumer goods, albeit less pronounced than in the two previous quarters, and a more pronounced weakening in the production of non-durable consumer goods. A continuation of the recovery in the production of intermediate goods partially offset the negative results in the other sectors.

Figure 17

Industrial production and business confidence
(monthly data)



Sources: Based on Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; index, 2005=100. – (2) Based on electricity consumption and the indicators of Istat surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions on the assessment of demand, production expectations and stocks of finished products; index, 2000=100; three-month moving average ending in the reference month.

... in the first quarter of 2011 it appears to have recovered slightly

In January the index of industrial production recorded an unexpected fall that was partly made good in February. On the basis of our estimates for March, the index showed a marginal increase in the first quarter. The growth of the manufacturing sector is less robust than in the other main euro-area countries; compared with its level before the crisis, in February industrial production was down by about 18 per cent in Italy, against 9 per cent in France and 5 per cent in Germany.

Qualitative indicators paint a better picture

Qualitative indicators are more encouraging. In the early months of this year the Purchasing Managers Index for manufacturing industry continued to rise, reaching a high level by historical standards. According to the latest Istat surveys (conducted by ISAE until December), the index of confidence among industrial firms, after rising in 2010, stabilized in the first quarter of this year at levels close to those prevailing before the crisis. The quarterly survey by the Bank of Italy and *Il Sole 24 Ore* of a sample of industrial and service firms carried out in March also provided favourable indications: the balance between positive and negative assessments of the demand for firms' products, which had been slightly negative in December, was positive by 7 percentage points.

Productive investment slows in the fourth quarter

Investment in capital goods increased by 9.6 per cent in 2010, thereby recovering part of the large contraction recorded in the two previous years. In the fourth quarter gross fixed investment decreased for the first time in a year, falling by 0.7 per cent with respect to the previous quarter, as against an increase of 0.8 per cent in the third quarter (Table 2). Investment in transport equipment continued to decline, at much the same rate as in the summer months; that in machinery and equipment and intangible goods came almost to a halt. The quarterly survey conducted in March by the Bank of Italy and *Il Sole 24 Ore* does not point to a significant recovery in investment in the first part of the year: the percentage of firms expecting an improvement was nearly 10 points lower than that of firms expecting a deterioration, in line with the result of the previous survey.

A modest recovery is expected in construction activity

Construction investment contracted by 1.3 per cent in the fourth quarter, almost completely annulling the growth recorded in the third. In the second half of the year as a whole it stagnated; the increase in residential construction was offset by the fall in non-housing investment. In a context marked by considerable uncertainty, the most recent indicators point to a modest expansion in building activity in the early part of this year. The output of the industrial sectors that provide the main inputs for the construction industry increased in January, regaining the levels that prevailed at the end of 2008. After improving in the second half of 2010, the index of confidence among building firms stabilized in the first two months of 2011.

The housing market remains weak

According to data collected by the Territory Agency, in the fourth quarter of 2010 house sales fell by 4.1 per cent compared with the fourth quarter of 2009, after a fall of 2.7 per cent in the third quarter. Consequently almost the entire increase recorded in the first half of the year was annulled, and for the year as a whole the number of sales was not significantly different from that recorded in 2009. Despite the decline in the number of sales, in the second half of 2010 prices rose for the first time since the beginning of 2009, recording a small increase of 0.4 per cent with respect to the second half of 2009; this was less than the rise in the general index of consumer prices (more than 1.5 per cent over the same period). The quarterly survey conducted in January by the Bank of Italy together with Tecnoborsa and the Territory Agency found a worsening of estate agents' short-term expectations regarding their local markets; they do not expect house prices to rise in the first quarter of 2011 (Figure 18). On the other hand, medium-term expectations for the national market remain favourable, albeit less so than in the October survey.

Firms' price competitiveness improves ...

The international competitiveness of Italian firms, based on producer prices, improved in the last two months of 2010 (Figure 19). The improvement mainly reflected the fall in the nominal effective exchange rate of the euro, which came to a halt, however, at the beginning of 2011. For 2010 as a whole, the gain in competitiveness amounted to about 3.5 per cent, somewhat less than that recorded by German firms (about 5 per cent).

... and productivity continues to rise

In the fourth quarter unit labour costs in the private sector declined further, falling by 0.6 per cent with respect to the year-earlier period. For 2010 as a whole they fell by 0.5 per cent, as against a rise of about 5 per cent in 2009 (Figure 20). With hourly earnings following a similar path, the fall reflected the gains in productivity (2.5 per cent) deriving from the recovery in economic activity.

The recovery in profitability comes to a halt while self-financing continues to rise

Estimates based on national accounts data indicate that non-financial firms' operating profitability (operating profit over value added) in the twelve months ending in December was lower than in the twelve months to September, reversing the upward trend that had marked the first nine months of the year. Thanks to the continuation of the fall in net financial costs, under way since the beginning of 2009, firms' self-financing capacity increased, rising to 11 per cent of value added.

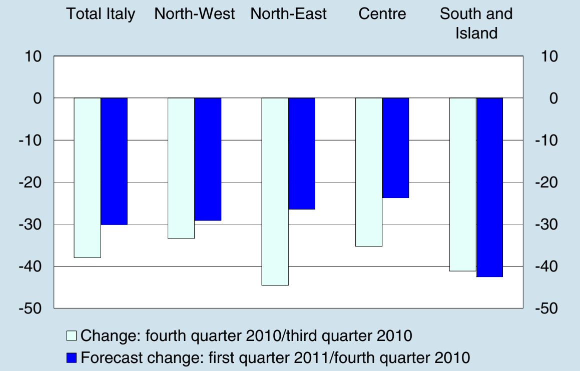
Investment and the borrowing requirement rise

In December, investment in the twelve preceding months – measured gross of inventories and as a ratio to value added – continued the recovery that had begun in June. The rise, larger than that in self-financing, caused an increase in firms' borrowing requirement. Although their financial debt increased in absolute terms, it remained stable in relation to GDP at 84.2 per cent (Figure 21), nearly 20 percentage points less than the euro-area average.

Figure 18

House price trends in Italy

(percentage balances between +/- assessments)

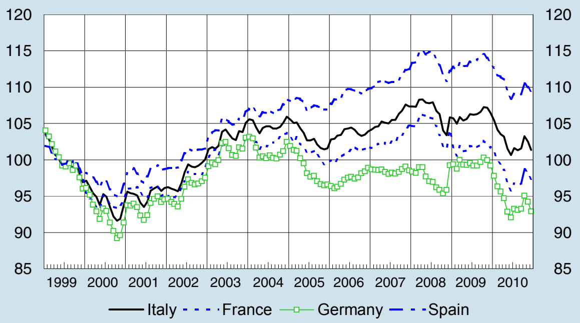


Source: Banca d'Italia, Tecnoborsa and Agenzia del Territorio *Sondaggio congiunturale sul mercato delle abitazioni in Italia*, January 2011.

Figure 19

Indicators of competitiveness (1)

(indices, 1999=100)

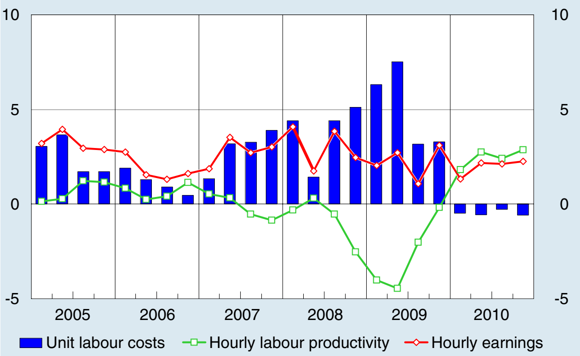


Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to December 2010.

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: agriculture, industry excluding construction, construction, wholesale and retail trade; accommodation and food services, transport and communication, credit and insurance, real estate and professional services.

Bank debt begins to grow again

The twelve-month rate of change in non-financial corporations' debt to banks, which had turned positive in the last quarter of 2010, rose further in the early months of 2011, reaching 3.4 per cent in February (Figure 22). The rate of growth in medium-sized and large firms' debt came into line with that of small and medium-sized enterprises.

Bond issues rise ...

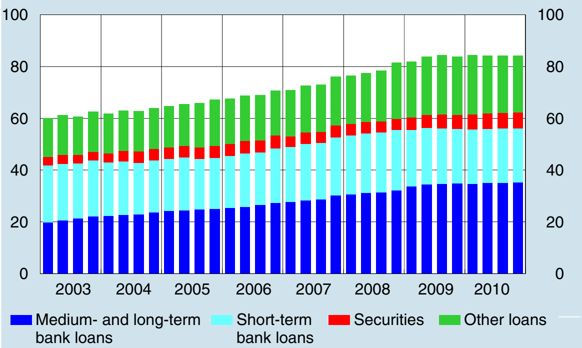
Non-financial corporations' recourse to the bond market increased in the fourth quarter. Net issues rose to €2.3 billion, from about €1 billion in each of the two preceding quarters, as against a small fall in the euro area as a whole. According to provisional Dealogic data on gross issues, in the first quarter of 2011 placements by companies belonging to Italian groups amounted to €6.7 billion (of which Fiat alone accounted for €3.4 billion), a small increase on the previous quarter.

... as does M&A activity

Recourse to the equity market was negligible in the fourth quarter (€44 million) and down on the third, when it had shown a slight increase. M&A activity, by contrast, has shown signs of recovery. According to Thomson Reuters Datastream, in the last three months of 2010 Italian firms carried out 44 transactions worth a total of €1.7 billion, which was more than in the rest of the year. The increase in the volume of transactions in Italy was in line with that in France and greater than in Germany and Spain, where large transactions in the first six months of the year were followed by smaller ones in the last quarter (respectively €1.1 billion and €0.7 billion). On the basis of provisional data the recovery in the Italian market continued in the first quarter of 2011, with transactions amounting to more than €1.2 billion.

Figure 21

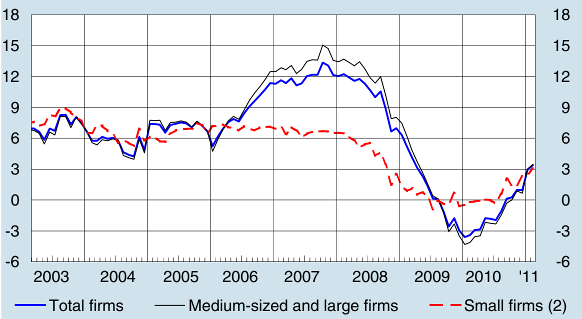
Debt of non-financial firms (1)
(as a percentage of GDP)



Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the twelve months ending in the reference quarter and include securitized loans. Those for the fourth quarter of 2010 are provisional.

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 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

Growth in household consumption remains moderate ...

In the fourth quarter of 2010 household consumption increased by 0.3 per cent compared with the previous quarter, slightly less than the moderate increase of 0.4 per cent recorded in the third. Growth was mainly driven by spending on services, up by 1.2 per cent after virtually stagnating for two quarters. Consumption of non-durable goods increased slightly (0.3 per cent), in line with the gradual recovery under way since the beginning of 2010. By contrast, purchases of durable goods declined by 3.5 per cent compared with the previous period, confirming that the effects of government incentives to purchase new cars had waned; purchases of semi-durable goods fell by 1.5 per cent.

After declining for two years, private consumption grew by 1.0 per cent in 2010 as a whole, at a similar pace to that of the three years prior to the crisis. This partly reflected the recovery in purchases of non-durable goods, which had fallen to exceptionally low levels in the period 2008-09. Household spending grew while real disposable income fell, for the third year running (by about half a percentage point; Figure 23). Set against an increase in income at current prices, the fall is ascribable to the acceleration of the consumption deflator, which last year increased by 1.5 per cent after remaining basically unchanged in 2009. The stabilization of household wealth at levels that remain historically high appears to have supported consumption.

... and the indications for the first few months of 2011 do not point to any improvement

Against the backdrop of stagnation in the labour market and upward pressure on prices, the rate of growth of consumption does not appear to have improved in the early months of 2011. The indicator calculated by Istat shows that the volume of retail sales fell in January, after remaining almost unchanged for a year and a half. New vehicle registrations, which were already historically low at the end of 2010, fell by 2 per cent in the first quarter of 2011 compared with the previous period. The recent trend for dealers' order books does not indicate any imminent improvement. Household confidence, steadily improving in the second half of 2010, began to weaken at the beginning of this year. In particular, consumers are pessimistic about the general economic situation in Italy and worried about their household's situation; fears about conditions in the labour market remain significant. Expectations of inflationary pressures have increased in recent months, in line with the trend in the consumer price index.

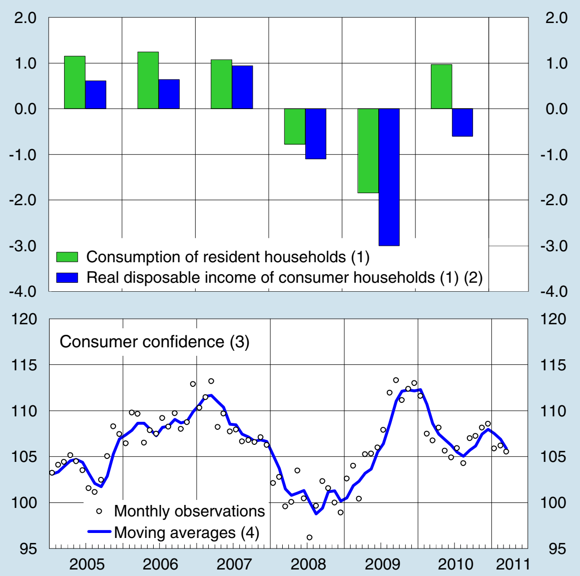
Household debt remains relatively low

In the fourth quarter of 2010 household debt again increased slightly, reaching 65.6 per cent of disposable income in December (Figure 24). The rise of about 0.3 percentage points since September mainly reflected the increase in medium- and long-term bank loans. The level of debt remains, however, significantly lower than the euro-area average of 98 per cent in September. Spending by Italian households to service their debt (interest payments and repayment of principal) was stable at 9.8 per cent of disposable income. For the second

Figure 23

Consumption, disposable income and consumer confidence in Italy

(percentage changes and indices)

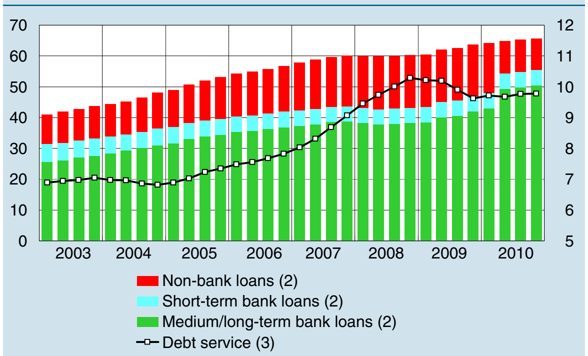


Sources: Calculations and estimates based on Istat and Bank of Italy data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices:1980=100. – (4) Monthly data; moving averages for the three months ending in the reference month.

Figure 24

Household debt (1)

(as a percentage of gross disposable income)



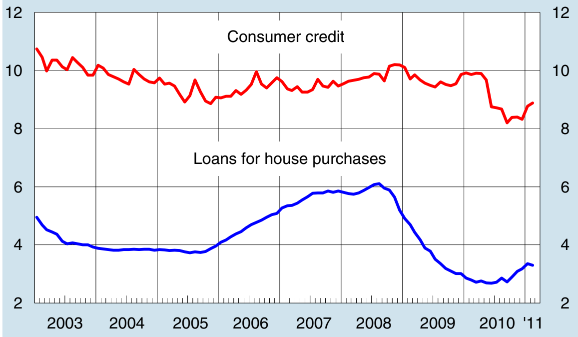
Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the last period are provisional. Includes securitized loans. – (2) There is a break in statistics in the distribution between bank and non-bank loans in the second quarter of 2010. For the methodology see the "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.

quarter running, interest rates went up on loans for house purchases, confirming the reversal of the downtrend that had begun in the autumn of 2008 (Figure 25); in the first quarter of 2011 rates rose again, reaching in February an average of 3.3 per cent across the different types of loans.

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 collected 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 amounts of the loans.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports, returning to growth in 2010, slow in the fourth quarter ...

In the last quarter of 2010 trade flows between Italy and the rest of the world slowed. The deceleration was more marked for exports (to quarter-on-quarter growth of 0.5 per cent, from 2.6 per cent in the third), reflecting the stabilization of demand in the main outlet markets.

For the year as a whole exports of goods and services at constant prices returned to growth (9.1 per cent), after contracting by 18.4 per cent in 2009. The recovery was stronger in the goods component (9.8 per cent), with all the branches of manufacturing contributing, particularly Italian traditional products (textiles and clothing, leather and footwear, wood products, furniture and other manufactures), and the chemical and transport equipment industries.

The sharpest increase was in exports to countries outside the EU. Their contribution to overall export growth was nonetheless substantially similar to that from sales within the EU, which accounted for a larger share of the total. The leading contributions to export growth came from trade with Germany, France, and the United States; exports to China rose by almost 25 per cent, but their share of the total remains low.

Table 3

Italy's balance of payments (1)

(billions of euros)

	2009	2010	Jan. 2010	Jan. 2011
Current account	**-31.7**	**-51.0**	**-6.4**	**-8.1**
Goods	0.8	-18.5	-3.4	-5.3
non-energy products (2)	*41.5*	*31.3*	*0.4*	*0.4*
energy products (2)	*-40.7*	*-49.7*	*-3.8*	*-5.6*
Services	-9.9	-8.9	-1.3	-1.5
Income	-10.0	-7.9	-0.2	0.2
Current transfers	-12.6	-15.7	-1.5	-1.6
Capital account	**-0.1**	**0.1**	**..**	**-0.1**
Financial account	**24.4**	**88.9**	**-16.2**	**-9.5**
Direct investment	-15.9	-11.3	-5.1	-2.1
Portfolio investment	28.1	38.5	27.4	7.2
Financial derivatives	4.8	0.7	1.1	1.0
Other investment	7.4	62.2	-39.6	-14.6
Change in official reserves	0.1	-1.0	-0.1	-1.1
Errors and omissions	**7.3**	**-38.1**	**22.7**	**17.7**

(1) Provisional data for January 2011. – (2) Based on Istat foreign trade data.

Notwithstanding the recovery, in the fourth quarter of 2010 exports of goods at constant prices were still around 14 percentage points below the pre-crisis peak, reached in the first quarter of 2008. The corresponding shortfall narrowed to around 4 per cent in France and was basically made good in Germany, where the contraction in exports had been comparable to that recorded in Italy.

... while imports grew at a faster pace

The rapid expansion in imports at constant prices in 2010 (10.5 per cent) was wholly ascribable to the goods component (13.3 per cent) and concentrated in intermediate goods, in particular electronic equipment. In this sector substantial state incentives encouraged purchases of photovoltaic cells over the year, especially from China and Germany, both specialized in the supply of components for solar plants.

The recovery in trade continues in the early months of 2011

According to the foreign trade data available, in the first two months of this year exports picked up pace from the closing months of 2010.

The earthquake that struck Japan is not expected to have any significant direct effects on trade in goods between Italy and Japan, considering that flows to and from Japan in 2010 made up just 1.2 per cent of Italy's total foreign trade, with a deficit of €0.2 billion. Imports from Japan are concentrated in the transport equipment, machinery, electronic equipment and chemicals sectors; exports are mainly of "made in Italy" goods, food, and chemical and pharmaceutical products.

The current account deficit worsens

In 2010 the deficit on the current account of the balance of payments increased to 3.3 per cent of GDP (€51 billion; Table 3), from 2.1 per cent in 2009 (€31.7 billion).

The deterioration reflected that in the balance on merchandise trade which went from a very slight surplus of €0.8 billion in 2009 to a deficit of €18.5 billion. Around three-quarters of the deterioration in the balance are ascribable to just two sectors: basic energy commodities, whose deficit increased by €9.0 billion, above all owing to higher oil prices, and photovoltaic cells, which recorded a larger deficit of €6.1 billion.

The deficit on services diminished slightly (€0.9 billion less than in 2009), thanks to the "other business services" item. The surplus on travel, equal to €8.7 billion in 2010, was much the same as in the previous year. By contrast, the deficit on "income" (€7.9 billion) narrowed in 2010, mainly reflecting the improvement in the balances on income from direct investment and, to a lesser extent, from labour.

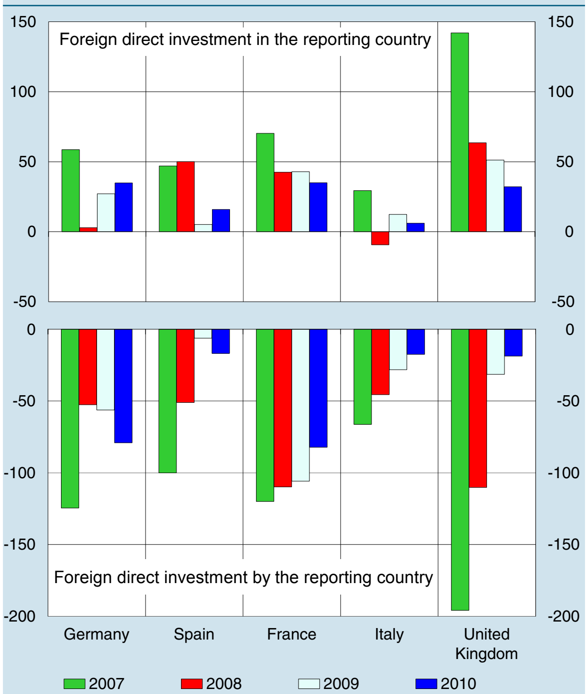
Italian direct investment abroad contracts

In 2010 Italian direct investment abroad and foreign investment in Italy diminished further, confirming the downtrend triggered by the financial crisis in 2008. Investment by non-residents fell by almost half (to €6.1 billion); Italian direct investment abroad fell by almost 40 per cent (to €17.4 billion). The drop with respect to the 2007 peak was common to all the main European economies; already in 2009, however, Germany recorded a recovery in both outward and inward direct investment (Figure 26).

Italian portfolio investment abroad also declined with respect to the previous year, falling by €7.3 billion. In 2010 the recovery of Italian investment in shares issued by non-residents, under way since

Figure 26

Direct investment for the main European economies (1)
(billions of euros)



Source: National central banks and statistics institutes.
(1) The (-) sign referred to investment abroad is equivalent to an increase.

mid-2009, continued, following the sharp disinvestment of the previous period; Italians invested €40.6 billion in equity securities issued by non-residents (€12.2 billion in 2009) and made disposals of €9.2 billion of foreign bonds (compared with investment of €27.9 billion in 2009). The portfolio of external assets accordingly appears to be gradually returning to a composition of investment similar to the one preceding the financial crisis. A similar pattern is emerging on the liabilities side: foreign investors have reduced portfolio investment in Italian shares and monetary instruments, while they have made large purchases of medium- and long-term bonds, totalling €64.6 billion in 2010 (€51.6 more than in 2009), close to, even if still below, pre-crisis levels.

The balance of portfolio investment in 2010 recorded net inflows of €38.5 billion (€10.4 billion more compared with 2009).

3.5 THE LABOUR MARKET

Employment has not yet turned up

The fall in employment that began in 2008 ended in the second half of 2010, but output well below the pre-recession level and the large number of workers receiving Wage Supplementation benefits have impeded a return to growth.

In the fourth quarter the number of persons employed increased for the first time since the onset of recession, gaining 36,000, or 0.2 per cent on a seasonally adjusted basis. According to provisional monthly data, the upturn has not continued in the early months of this year. On average for January and February employment declined by 0.3 per cent with respect to the fourth quarter and in February was back down to the low registered in the third quarter, with some 650,000 jobs fewer than in the first quarter of 2008. The unemployment rate rose from 8.4 per cent in the third quarter to 8.5 per cent in the fourth and held at that level in the first two months of 2011 (Table 4).

Dismissals ease while flexible and part-time employment increase

The reports to job centres by a number of regional and provincial labour market observatories in the Centre and North (Piedmont, Liguria, Veneto, Friuli Venezia Giulia, Marche, Bolzano, Trento) show that after rising sharply in 2009 the number of dismissals decreased last year, while hiring on temporary and collaboration contracts resumed. But the number of new permanent positions remained extremely limited. The still uncertain strength of the recovery in economic activity favoured flexible forms of employment. According to Ebitemp estimates based on INAIL data, the number of hours worked under temporary agency contracts rose steadily throughout 2010, with a year-on-year increase of 24 per cent. These indications are corroborated by Istat's labour force survey for the fourth quarter, which show a further decline in the number of full-time permanent jobs (down by 223,000 or 1.7 per cent from the fourth quarter of 2009) and an increase in fixed-term and part-time jobs (by 231,000 or 5.4 per cent).

Firms' expectations for employment improve

According to Istat's business opinion surveys, the net percentage balance between firms expecting to increase their workforce in the short term and those that expect to reduce it was less negative in March, continuing the improvement of the previous quarter (Figure 27). The quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* also found more optimistic employment expectations.

Wage Supplementation decreases further

In the first three months of the year, although still high, the number of hours of Wage Supplementation authorized fell again, to 22.1 per cent below its year-earlier level. The reduction involved both ordinary and extraordinary benefits (down by 48.5 and 13.3 per cent respectively) but not those under waivers (up 7.4 per cent). The seasonally adjusted ratio of full-time equivalent workers on benefits to total standard

Table 4

Labour force status of the population in Italy

	Average 2009	Average 2010	Change (1)	Q4 2009	Q4 2010	Change (2)
			Thousands of persons			
Total persons in work	**23,025**	**22,872**	**-0.7**	**22,922**	**22,935**	**0.1**
Employees	**17,277**	**17,110**	**-1.0**	**17,282**	**17,290**	**0.0**
of which: fixed-term	*2,153*	*2,182*	*1.4*	*2,174*	*2,285*	*5.1*
part-time	*2,585*	*2,715*	*5.0*	*2,612*	*2,803*	*7.3*
Self-employed	**5,748**	**5,763**	**0.2**	**5,640**	**5,645**	**0.1**
Labour force	**24,970**	**24,975**	**0.0**	**25,066**	**25,115**	**0.2**
men	*14,790*	*14,748*	*-0.3*	*14,817*	*14,760*	*-0.4*
women	*10,180*	*10,227*	*0.5*	*10,249*	*10,355*	*1.0*
Population	**59,752**	**60,051**	**0.5**	**59,877**	**60,150**	**0.5**
			Per cent			
Unemployment rate (3)	**7.8**	**8.4**	**0.6**	**8.3**	**8.5**	**0.2**
men	*6.8*	*7.6*	*0.8*	*7.3*	*7.7*	*0.5*
women	*9.3*	*9.7*	*0.4*	*9.8*	*9.7*	*-0.1*
North	*5.3*	*5.9*	*0.6*	*5.9*	*6.0*	*0.2*
Centre	*7.2*	*7.6*	*0.4*	*7.7*	*7.6*	*-0.1*
South	*12.6*	*13.4*	*0.8*	*13.0*	*13.6*	*0.6*
Participation rate (age 15-64)	**62.4**	**62.2**	**-0.2**	**62.5**	**62.5**	**-0.0**
men	*73.7*	*73.3*	*-0.4*	*73.7*	*73.4*	*-0.3*
women	*51.1*	*51.1*	*-0.0*	*51.4*	*51.7*	*0.3*
North	*69.3*	*69.2*	*-0.1*	*69.5*	*69.5*	*-0.0*
Centre	*66.8*	*66.6*	*-0.2*	*67.3*	*66.7*	*-0.6*
South	*51.1*	*50.8*	*-0.3*	*51.0*	*51.2*	*0.2*
Employment rate (age 15-64)	**57.5**	**56.9**	**-0.6**	**57.1**	**57.0**	**-0.1**
men	*68.6*	*67.7*	*-0.9*	*68.1*	*67.6*	*-0.6*
women	*46.4*	*46.1*	*-0.2*	*46.1*	*46.5*	*0.3*
North	*65.6*	*65.0*	*-0.6*	*65.2*	*65.1*	*-0.1*
Centre	*61.9*	*61.5*	*-0.5*	*61.8*	*61.3*	*-0.5*
South	*44.6*	*43.9*	*-0.7*	*44.2*	*44.1*	*-0.1*

Source: Istat, labour force survey.
(1) 2010/2009; in percentages for persons and percentage points for rates. – (2) 2010Q4/2009Q4; in percentages for persons and percentage points for rates. – (3) Seasonally adjusted.

labour units in industry excluding construction came down by a further 1.8 percentage points in the quarter (Figure 27).

The demand for labour increases only in the service sector

The modest 12-month rise in employment in the fourth quarter (0.1 per cent, 14,000 persons) was due to an increase in women's employment (1.2 per cent, 114,000 jobs), over half accounted for by foreign women, which more than offset the further fall in male employment (down by 0.7 per cent, 100,000 jobs). The increase came entirely in the private service sector, notably household services (up 114,000, or 8.9 per cent) and in the hotel and restaurant sector (up 37,000, or 3.3 per cent). The decline in industry continued (down 159,000, or 2.4 per cent).

Uncertain job prospects lengthen periods of idleness and discourage participation

The employment rate for the population of working age was slightly lower in the fourth quarter than a year earlier at 57.0 per cent. The number of unemployed persons was higher (by 1.6 per cent or 35,000), as was that of non-participants (0.4 per cent, 65,000). The number of long-term unemployed (for more than 12 months) increased by 73,000 or 7.4 per cent, coming to account for about half of all job seekers. The number of persons who, though not actively seeking employment because they do not think they can find a job, would be available to work (discouraged workers) increased by a further 92,000 or 6.5 per cent. The job market difficulties are worst for young people: employment among those under age 25 decreased by 51,000 or 4.0 per cent, as against a fall of 25,000 or 1.4 per cent for the labour force as a whole; the unemployment rate for this age group rose to 29.8 per cent.

According to preliminary estimates for the fourth quarter, 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 more than 2 percentage points above the unemployment rate (see the box "Estimates of unutilized available labour", *Economic Bulletin*, January 2010).

Earnings growth slows in the latter part of the year

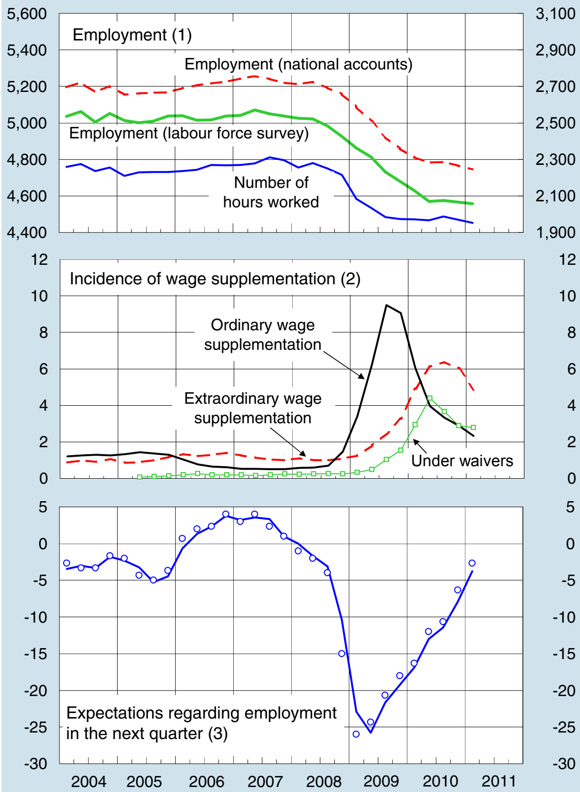
Average actual earnings per full-time equivalent worker in the non-farm private sector increased by 2.7 per cent in 2010. The growth was driven by upward wage drift – the difference between the rise in actual earnings and the contribution of the component set by industry-wide collective bargaining agreements – due largely to the shift in the composition of the workforce towards positions with higher-than-average earnings (see the box "The changing composition of the workforce and average wages in the private sector"). For the entire economy the increase was smaller (2.1 per cent), given the modest rise in public-sector earnings. In the fourth quarter the pace of wage growth slowed to 1.6 per cent in the private sector and 1.3 per cent in the economy overall.

Contractual earnings in the non-farm private sector rose by 2.4 per cent on average in 2010. This year and in 2012, according to our projections based on the main industry-wide contracts, the rise in contractual earnings per full-time equivalent worker is likely to be just over 2 per cent. Given the broad coverage of the contracts now in force (over 80 per cent of the total wage bill), the projections primarily reflect the raises established by contracts that have already been renewed. Over the next two years the growth rate of actual earnings in the private sector should be about the same. In the public sector wage growth can be expected to be lower, given the salary freeze enacted for the three years from 2011 through 2013.

Figure 27

Employment, wage supplementation and employment expectations in industry excluding construction

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

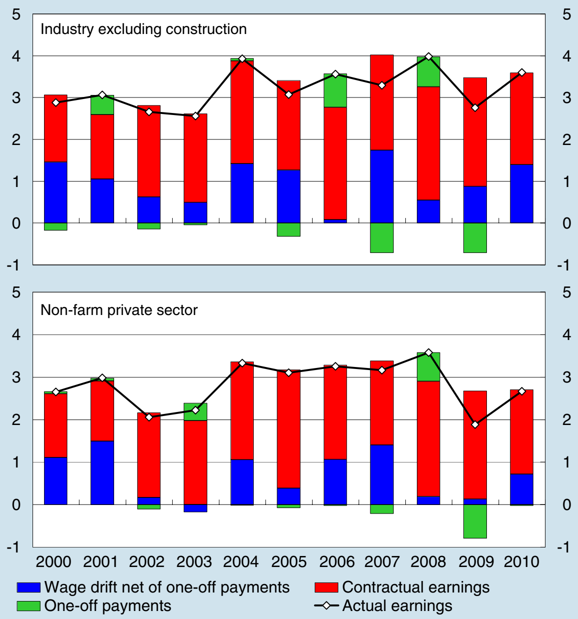


Sources: Based on Istat labour force surveys and quarterly economic accounts, INPS data, and the ISAE/Istat survey *Indagine sulla fiducia delle imprese manifatturiere*.
(1) Total employment (persons in work) as defined by the quarterly national economic accounts and the Istat labour force surveys (left-hand 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 waivers, 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. – (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.

THE CHANGING COMPOSITION OF THE WORKFORCE AND AVERAGE WAGES IN THE PRIVATE SECTOR

The effects of the new collective bargaining model established by the framework agreement of 22 January 2009 and subsequent understandings have begun to be felt over the past two years. Retaining the two-level bargaining framework, the agreement set the duration of the national, industry-wide contract at three years both for wages and for other conditions. Wage increases should refer to the forecast rise in the harmonized index of consumer prices (HICP) net of imported energy products, which until May 2010 was estimated by ISAE. In the non-farm private sector the main contract renewals since the start of 2009 (some of them without the signature of the CGIL trade union) all reflected the new arrangement, with increases to the contract minimums for the following three years broadly in line with the HIPC forecasts. In 2010 contractual wages rose by 2.4 per cent (2.8 per cent in industry excluding construction, 2.1 per cent in construction and 2.2 per cent in private services), which was 0.7 percentage points less than in 2009 and in line with the average for 1999-2008. Actual earnings per full-time equivalent worker increased at a slightly higher rate of 2.7 per cent compared with 1.9 per cent in 2009 and 2.9 per cent on average in 1999-2008. A slowdown in wage growth in the construction industry (from 4.2 per cent in 2009 to 2.5 per cent in 2010) was offset by an acceleration in services (from 1.0 to 2.1 per cent) and in industry excluding construction (from 2.8 to 3.6 per cent).

Growth and contributions to growth of earnings per full-time equivalent employee
(percentage points)



Sources: Based on Istat, national economic accounts and surveys of contractual wages and salaries.

Against a slowdown in the wage component determined by the industry-wide contracts, the acceleration in industry excluding construction reflected upward wage drift (the difference between the rise in actual earnings per full-time equivalent worker and the contribution of contractual earnings) that was unusually large, considering the general state of the economy, and accounted for two fifths of the overall rise. The amplitude of wage drift depends on several factors: collectively bargained one-off payments that are not part of contractual earnings; company-level wage components, such as bonuses and overtime pay; and changes in the composition of the workforce by occupation and earnings level. The contribution of one-off payments to earnings growth was practically nil in 2010 after being negative by 0.7 percentage points in 2009 (see Figure). According to our estimates based on Istat's labour force surveys, the contribution of overtime pay was negative in 2009 and slightly positive in 2010. By contrast, significant effects arose from changes in the composition of the workforce, due to the decline in the share of low-wage jobs (those of young people and production workers in particular), where the contraction in industrial employment was concentrated during the two years. In 2009 the substantial positive contribution of the change in workforce composition was offset by the negative effect of one-off payments (see figure).

The growth in hourly earnings was more limited in 2010, averaging 2.4 per cent in the non-farm private sector as a whole, as in 2009. It was held back by the increase last year in the number of hours worked per capita in industry after the decline in 2009 due in part to longer vacation time during the most acute phase of the recession.

3.6 PRICE DEVELOPMENTS

The recent increase in consumer price inflation mainly reflects pressures from abroad

Inflation, measured by the twelve-month change in the consumer price index for the entire resident population, held practically stable at about 1.7 per cent in the second half of 2010 but has increased in recent months, reaching 2.5 per cent in March according to provisional data (Table 5). In the first quarter of 2011 it averaged 2.3 per cent. The increase was largely ascribable to the most erratic components (energy and food products), which have gradually incorporated the rises in international commodity prices, as they have in the other leading euro-area countries. The acceleration in energy and food prices weighs more heavily on the purchasing power of households with low levels of expenditure, for whom these products represent over 40 per cent of total consumption.

Core inflation, measured net of the food and energy components of the CPI, was curbed in part by slack domestic demand and remained low by historical standards. However, it rose very slightly at the beginning of the year, from an average twelve-month rate of 1.5 per cent in the last quarter of 2010 to 1.6 per cent in the first quarter of this year. The seasonally adjusted three-month rate jumped to 2.4 per cent in March (Figure 28), reflecting price rises in the transport sector, where the pressure of energy costs is heaviest. Several local and national tariffs were also raised: the twelve-month rate of increase in regulated prices averaged about 2.5 per cent in January and February, against 1.6 per cent in the fourth quarter of 2010.

According to provisional data for March, the twelve-month growth in the harmonized index of consumer prices (HICP) averaged 2.2 per cent in the first quarter, compared with 2.0 per cent in the last quarter of 2010. Since January, the performance of this indicator reflects Istat's adoption of a new method of calculating the price index of seasonal products (i.e. goods sold only in certain periods of the year, which account for around 12 per cent of the total basket) in implementation of a European regulation. The break in the time series at the beginning of this

Table 5

Indicators of inflation in Italy

(twelve-month percentage changes)

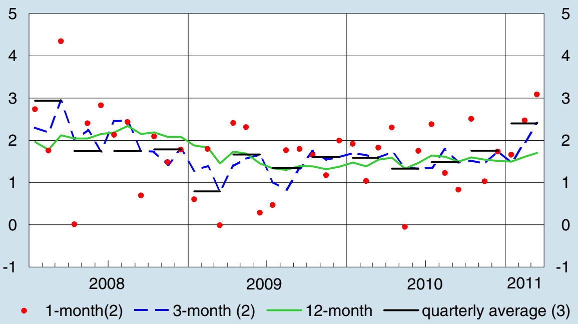
	HICP (1)		CPI (2)			PPI (3)
	Overall index	Excl. energy and food	Overall index		Excl. energy and food	Overall index
				at 1 month (4)		
2006	2.2	1.6	2.1	–	1.6	5.2
2007	2.0	1.8	1.8	–	1.5	3.3
2008	3.5	2.2	3.3	–	2.1	5.8
2009	0.8	1.6	0.8	–	1.5	-5.4
2010	1.6	1.7	1.5	–	1.5	3.1
2010 – Jan.	1.3	1.6	1.3	0.2	1.5	-0.3
Feb.	1.1	1.3	1.2	0.1	1.4	0.5
Mar.	1.4	1.6	1.4	0.2	1.5	1.7
Apr.	1.6	1.8	1.5	0.2	1.6	3.2
May	1.6	1.6	1.4	0.1	1.3	3.9
June	1.5	1.7	1.3	0.1	1.5	3.5
July	1.8	1.8	1.7	0.2	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	4.0
Dec.	2.1	1.7	1.9	0.3	1.5	4.7
2011 – Jan.	1.9	1.1	2.1	0.4	1.5	5.3
Feb.	2.1	1.2	2.4	0.3	1.6	5.7
Mar.	(2.6)	....	(2.5)	(0.3)	(1.7)	....

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.

Figure 28

Core Inflation in Italy (1)

(percentage changes)



(1) Consumer price index excluding food and energy; provisional data for March.– (2) Seasonally adjusted annualized rate. – (3) Average, in the reference quarter, of monthly growth rates, seasonally adjusted and annualized.

year, which is less evident in the case of the CPI, is likely to increase the volatility of twelve-month changes in the HICP over the whole year. According to the information published by Istat, in January and February the twelve-month growth in the HICP (1.9 and 2.1 per cent respectively) was about half a percentage point lower than with the previous method; no estimate for March is available at present.

Producer prices continue to accelerate

The twelve-month rate of change in producer prices, which fluctuated around 4 per cent from July to November 2010, began to increase sharply in December, reaching 5.7 per cent in February this year. In addition to the further acceleration in the prices of energy and non-energy intermediate inputs and food products, which foreshadow corresponding increases in retail prices in the following months, there was also an increase in the rate of growth of prices of non-food final consumer products from 0.3 per cent in December to 1.2 per cent in February.

Inflation could increase slightly in the coming months

Consumer price inflation could be driven up further this year by the recent increases in the prices of raw materials. The professional forecasters surveyed by Consensus Economics in April expect consumer prices in Italy to increase by 2.4 per cent on average in 2011, in line with expectations for the euro area as a whole. According to the quarterly survey conducted in March by the Bank of Italy in collaboration with *Il Sole 24 Ore*, in the next twelve months firms expect to increase their list prices by an average of 1.8 per cent, which is more than was envisaged in December. As in the previous survey, the main factors driving up selling prices include the cost of raw materials. Similar indications come from the Purchasing Managers Index. These pressures on firms' costs coming from abroad are apparently offset in part by the moderate growth in domestic input costs, which are kept down by the productivity gains associated with the cyclical upturn.

3.7 BANKS

The upswing in bank lending continues

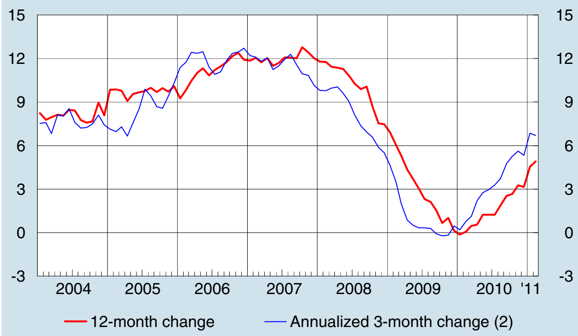
Adjusted for securitizations, the growth in bank credit to the non-financial private sector rose to 4.9 per cent in the twelve months to February, from 3.3 per cent in November (Figure 29), while the three-month growth rate, on a seasonally adjusted annual basis, rose from 5.5 to 6.7 per cent. The acceleration reflected the increase in lending to non-financial firms (8.0 per cent in the three months ending in February), principally in manufacturing and services, while the expansion of credit to the construction industry remained unchanged at a moderate level. The three-month rate of increase in lending to households for house purchases held steady at around 5 per cent.

Net of bad debts and repos, the twelve-month variation in lending by the five largest Italian banking groups came well back into positive territory (2.1 per cent in February), mainly reflecting the resumption of loans to the larger firms. The growth of lending by the other banks was broadly unchanged at 5.0 per cent.

Figure 29

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.

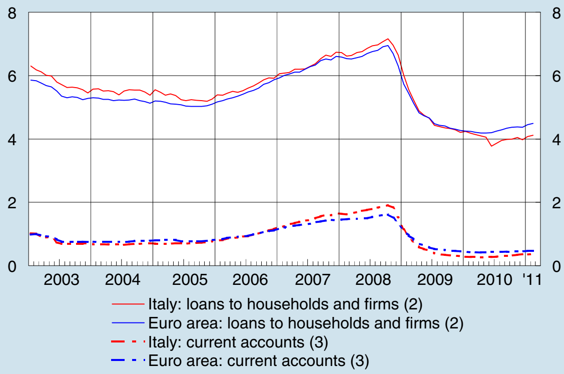
Credit supply conditions have not changed

The trend in credit to firms is governed by demand developments, which on the whole are still consistent with the state of the business cycle. According to the responses of the Italian participants in the euro-area Bank Lending Survey, in the fourth quarter of 2010 the increase in firms' borrowing needs was largely in connection with debt restructuring (see the box "Credit supply and demand in Italy"). Lending conditions were kept broadly unchanged, despite modest strains in specific segments involving customers deemed to be riskier. In the Istat monthly survey and the quarterly survey conducted in March by the Bank of Italy together with *Il Sole 24 Ore*, a relatively limited number of firms continued to report difficulty in obtaining bank credit.

Figure 30

Short-term bank interest rates (1)

(monthly data; percentages)



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

Rates on new bank loans showed minor variations compared with November (Figure 30). The average rate on new short-term lending to firms, including current account overdrafts, rose by 10 basis points to 3.7 per cent in February. The cost of new mortgage loans to households went up by 20 basis points in the fixed-rate segment (to 4.4 per cent) and by 10 basis points in the floating-rate segment (to 2.6 per cent). The shift towards fixed-rate mortgages continued, reaching 28 per cent of total new business in February, compared with 22 per cent in November and 11 per cent in August.

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 remained unchanged in the fourth quarter of 2010 (see Figure).[1] However, the replies given on specific contractual conditions continued to show a slightly restrictive trend, in particular as regards the margins on riskier loans. These residual tensions, which can be ascribed to forecasts for the general economic outlook and for specific sectors or firms, seem to have affected lending to smaller firms and long-term loans.

In the fourth quarter of 2010, banks reported a slight acceleration in firms' demand for loans, mainly connected to greater funding requirements for debt restructurings; the contribution of the component relating to the funding of fixed investment seems instead to have remained negative.

For the first quarter of 2011, banks expected supply conditions to remain unchanged and credit demand to accelerate further.

The terms for lending to households for house purchases were reported to have remained basically unchanged. Banks continued to signal a slight tightening of cost conditions for riskier loans and of the loan-to-value ratio, set against a decrease in the margins applied to the average loans. Lending conditions for households for consumer purchases do not appear to have changed significantly either.

Demand for loans for house purchases continued to strengthen, driven by the slight improvement in the outlook for the residential property market and in consumer confidence. Applications for consumer credit and other loans were reported to have remained stable.

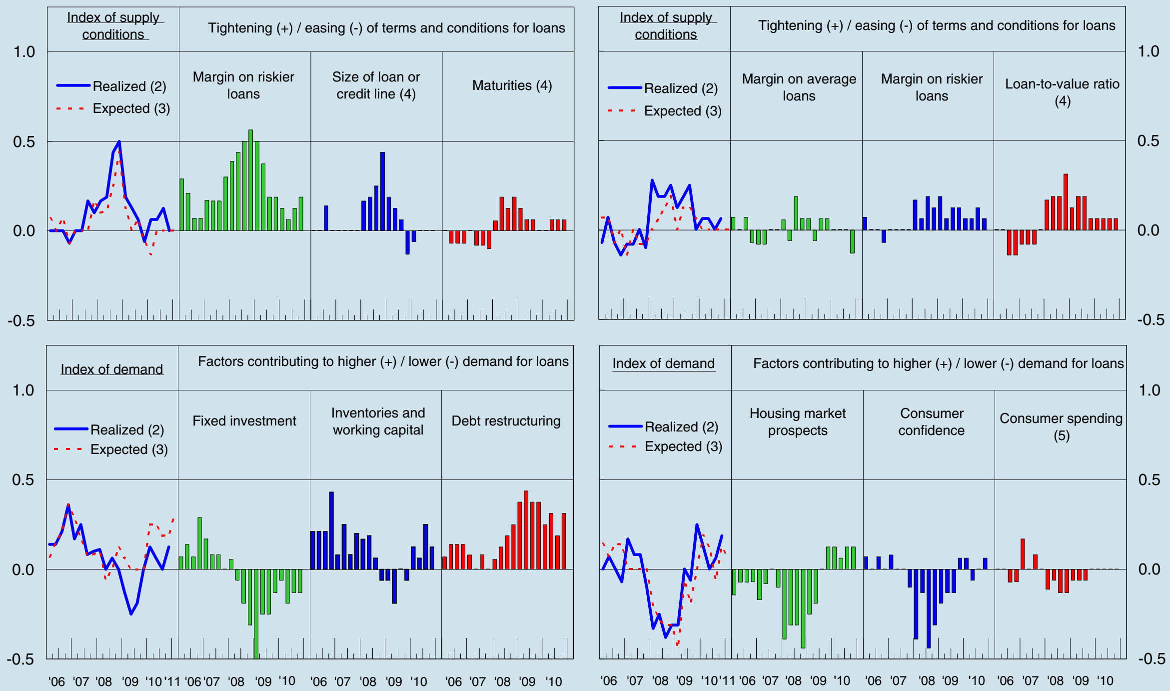
[1] Eight leading Italian banking groups took part in the survey, which was completed on 7 January; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The results of the survey on the first quarter of 2011 and expectations for the second quarter are not yet available; they will be released on 27 April.

Banks expected that the terms of lending to households would remain unchanged in the first quarter of 2011 as well; the increase in credit demand for house purchases was expected to slow slightly and credit demand for consumer purchases to increase.

The banks signalled a moderate worsening in the conditions of access to wholesale funds – following the improvement reported in the previous survey in relation to the third quarter – mainly involving the short-term money market and that for debt securities; banks said they expected a further deterioration in fund-raising from bond issues in the first quarter of 2011. However, they did confirm an improvement in the capacity to raise funds through securitizations in the fourth quarter of 2010 and they expected this to continue in the first quarter of 2011.

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

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



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

In February the Government, the Italian Banking Association and the main employers' organizations signed an agreement extending to 31 July the deadline for taking advantage of the moratorium proclaimed in August 2009 on loan repayments by small and medium-sized enterprises in temporary financial difficulty. Firms that have already used the programme can lengthen their debt maturity by up to three years and use special instruments for managing interest rate risk. Firms that recapitalize continue to be eligible for loans in proportion to the capital increase. According to the Ministry for the Economy and Finance, through

December 2010 some 190,000 applications for the moratorium had been accepted for a total amount of over €56 billion.

Credit quality remains poor

In the fourth quarter of 2010 the ratio of adjusted new bad debts to outstanding loans came down, on an annualized, seasonally adjusted basis, to 1.7 per cent, from 2.0 per cent in the third quarter. It was still considerably higher than the 1.1 per cent average registered in 2007-08. The quality of loans to financial companies improved; to a lesser extent, so did that of credit to firms in the South and to households, while that of loans to firms in the Centre and North was unchanged. Preliminary data indicate that banks' exposure to borrowers reported as in default for the first time was very slightly lower in the first two months of 2011 than in the year-earlier period. The reduction mainly concerned firms, but these nevertheless saw a slight increase in the share of substandard loans to 5.9 per cent in January.

Table 6

Main assets and liabilities of Italian banks (1)

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

	2009	2010	February 2011	
				Stocks (2)
Assets				
Securities other than shares	29.8	10.2	7.3	555,522
bonds issued by MFIs resident in Italy	*32.3*	*-1.0*	*-1.5*	*203,012*
Loans (3)	1.0	4.5	5.3	1,929,557
up to one year	*-5.1*	*5.2*	*7.2*	*624,889*
over one year	*4.1*	*4.2*	*4.3*	*1,304,668*
External assets	-10.9	1.4	1.1	339,521
Liabilities				
Total funding (3) (4)	2.1	-0.4	0.6	2,209,851
Deposits of Italian residents (3) (4)	5.3	-1.0	-1.1	1,140,673
of which: (5)				
overnight	*11.7*	*-2.2*	*-1.8*	*742,453*
with agreed maturity	*8.3*	*-4.9*	*-6.0*	*62,737*
redeemable at notice	*8.2*	*5.4*	*4.5*	*280,182*
repos	*-50.3*	*-17.2*	*-18.5*	*39,036*
Deposits of non-residents	-8.8	2.9	5.9	461,077
Bonds (4)	4.9	-1.7	-0.1	608,102
Memorandum item: Total bonds	10.6	-1.6	-0.5	811,114

Source: Based on supervisory statistical reports.
(1) The figures for February 2011 are provisional. – (2) Millions of euros. – (3) Does not include repos with "post-trading service providers" or deposits involved in securitizations. – (4) Does not include liabilities with resident MFIs. – (5) Does not include those of central government.

Bank fund-raising stagnates

Total fund-raising by Italian banks has remained weak (growth of 0.6 per cent in the twelve months through February; Table 6). Total current account balances diminished by 1.8 per cent, with modest growth in the balance on households' accounts and a sharp contraction in non-financial companies' accounts, in connection with the shift in portfolio composition towards higher-yield instruments. Bond issues also contracted, if only by 0.1 per cent, in keeping with the worsening of lending conditions reported by the Italian banks participating in the euro-area Bank Lending Survey. Bond fund-raising by the top five groups declined by 1.8 per cent in February, while that of the other banks, not counting the branches of foreign banks, stagnated. By comparison with November, the yields on floating-rate bank bonds rose by half a percentage point to 2.7 per cent in February.

Banks' profitability remains low

According to the consolidated reports of the five largest banking groups, profitability in 2010 was broadly in line with 2009, with return on equity again around 4 per cent. Gross profit increased by 5 per cent thanks to disposals of non-strategic assets, the containment of operating expenses, and the reduction in allocations to provisions and value adjustments, in particular writedowns to loans, which diminished by 16 per cent. This item nevertheless continued to absorb more than half of operating profit. Net interest income fell by 7 per cent, reflecting the low level of interest rates and sluggish lending. The other sources of income were stable; the increase in fees made up for the decline in trading profits, which were affected by the strains in the sovereign debt market. Gross income diminished by 4 per cent.

In the fourth quarter of 2010 the capital ratios of the five largest Italian banking groups were stable. At the end of the year their core tier 1 ratio averaged 7.8 per cent, their tier 1 ratio 9.0 per cent and their total capital ratio 12.6 per cent. In the first quarter some major groups carried out or announced capital increases.

3.8 THE FINANCIAL MARKETS

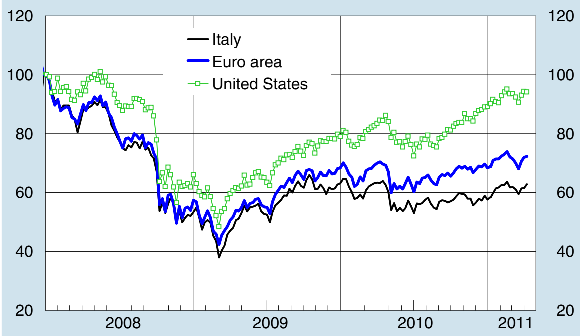
The Italian stock market rises in the first quarter, albeit with considerable variations

In the first quarter of the year the general index of the Italian stock exchange recorded a moderate recovery, gaining 6 per cent, compared with 4 per cent for euro-area stock markets as a whole (Figure 31). Until 18 February share prices were pushed up by good corporate earnings reports and a temporary abatement of the pressure on sovereign debts in the euro area. Subsequently they lost ground, in connection with the turbulence on government securities markets, the uncertainty regarding the new mechanisms for resolving sovereign debt crises in the euro area and the geopolitical tension in North Africa. In March, worries over the economic effects of the earthquake in Japan triggered a fresh drop in stock prices. In the first ten days of April the Italian and euro-area stock indices both rose by about 2 per cent.

Figure 31

Share prices (1)

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

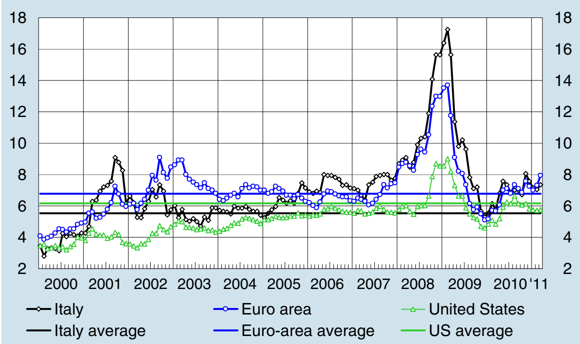


Source: Thomson Reuters Datastream.
(1) Indices: for Italy, FTSE Italia MIB storico; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500.

Figure 32

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

(end-of-month data; per cent)



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

In Italy, the heightened uncertainty in the second part of the quarter penalized shares in the commodity and automotive sectors most heavily (down by 5 and 1 per cent respectively for the quarter as a whole). By contrast, electricity, telecommunications and insurance stocks outperformed the general index, gaining 18, 12 and 7 per cent respectively.

The ratio of current earnings to prices diminished slightly in the first quarter of 2011, but remained above its long-term average (Figure 32). After declining through the first twenty days of February, the expected volatility of share prices flared up in concomitance with the events in North Africa and Japan; on average for the quarter, it was slightly higher than in the last quarter of 2010 (Figure 13).

There were three initial public offerings in the first three months of the year. At the end of March the Italian companies listed on Borsa Italiana numbered 291, with a total market value of €458 billion (equal to 29 per cent of GDP).

Italian banks and other financial corporations make net bond redemptions

Italian companies as a whole made net bond redemptions in the fourth quarter of 2010, as in the rest of the year (Table 7). The value of the securities maturing exceeded that of new issues for banks and other financial corporations, while non-financial corporations continued to make net issues. In the euro area, net redemptions by the banking sector contrasted with the vigorous resumption of issuance on the part of other financial corporations; net issues by non-financial corporations remained at the previous quarter's modest levels.

The credit risk premiums for Italian non-financial corporations and banks declines

In the first quarter of the year the yield spreads between investment-grade bonds issued by Italian non-financial corporations and government securities narrowed by 24 basis points; in the euro area as a whole, the decline was smaller (19 basis points). The spreads on credit default swaps on Italian banks also declined, falling by 20 basis points to end the quarter in line with those on the banks of the other main euro-area countries.

Investment funds registers a fresh outflow of resources

In the fourth quarter of 2010 open-end investment funds in Italy had net redemptions amounting to €2.3 billion, compared with net subscriptions of €1.3 billion in the previous quarter. Compared with a small increase (from €6.2 billion to €7.1 billion) in the net inflow of resources to foreign funds, Italian funds saw a jump in net outflows (from €4.9 billion to €9.5 billion). Net redemptions were recorded by Italian harmonized funds in every sector and were especially large for money market funds (€4.2 billion). In 2010 as a whole, open-end investment funds in Italy booked net subscriptions of €6.3 billion (€1.1 billion in 2009); at the end of the year they had €463 billion worth of assets under management, up from €430 billion at the end of 2009. In the fourth quarter of 2010 the average yield of Italian harmonized funds remained positive (0.9 per cent), thanks in part to the recovery of the stock markets.

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2009	79,081	44,228	14,496	137,805
2010	-11,799	-35,961	11,298	-36,462
2009 – Q1	47,498	9,463	3,705	60,666
Q2	20,472	692	4,318	25,482
Q3	7,255	21,051	3,015	31,321
Q4	3,856	13,022	3,458	20,336
2010 – Q1	-4,240	-10,601	7,011	-7,830
Q2	-8,508	-6,823	990	-14,341
Q3	8,788	-12,611	994	-2,829
Q4	-7,839	-5,926	2,303	-11,462
		Euro area		
2009	181,126	267,685	151,570	600,381
2010	23,728	42,490	66,175	132,394
2009 – Q1	76,120	112,512	40,863	229,495
Q2	108,786	84,201	51,407	244,394
Q3	38,103	35,407	37,043	110,553
Q4	-41,883	35,565	22,257	15,939
2010 – Q1	67,180	-38,790	29,839	58,229
Q2	-22,779	10,074	18,386	5,681
Q3	-4,116	6,310	9,094	11,289
Q4	-16,557	64,896	8,856	57,195

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.

3.9 THE PUBLIC FINANCES

A smaller deficit in 2010

The public finances improved significantly in 2010. General government net borrowing diminished from 5.4 to 4.6 per cent of GDP, and net of interest payments the budget was roughly in balance, against a deficit of 0.7 per cent of GDP in 2009 (Table 8). The final outturn for net borrowing was about half a point lower than the estimates given in last September's Public Finance Decision (Table 9). The ratio of public debt to GDP rose by 2.9 percentage points to 119.0 per cent. The results for Italy are somewhat better than those of the euro area as a whole.

Table 8

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

	2007	2008	2009	2010
Net borrowing	23,541	42,705	81,741	71,211
as a % of GDP	*1.5*	*2.7*	*5.4*	*4.6*
Primary surplus	53,911	38,608	-11,333	-1,059
as a % of GDP	*3.5*	*2.5*	*-0.7*	*-0.1*
Interest payments	77,452	81,313	70,408	70,152
as a % of GDP	*5.0*	*5.2*	*4.6*	*4.5*
Debt	1,602,115	1,666,603	1,763,864	1,843,015
as a % of GDP	*103.6*	*106.3*	*116.1*	*119.0*

Source: Based on Istat data for items from the general government accounts (press release dated 1 March 2011).
(1) Rounding may cause discrepancies in totals.

According to the IMF's latest estimates, the area-wide deficit decreased marginally, from 6.3 per cent of GDP in 2009 to 6.1 per cent last year, while the debt ratio rose by over 5 points.

The ratio of primary spending to GDP is reduced and capital spending falls

The deficit reduction was due to the decline in expenditure, which fell by more than a percentage point in relation to GDP to 51.2 per cent (Table 10). There was an especially large contraction in capital spending, which fell by 0.9 points to 3.5 per cent of GDP, one of the lowest levels in decades.

Table 9

Public finance objectives and estimates for 2010

(billions of euros and percentages of GDP)

	General government			*Memorandum item:* GDP growth rate
	Net borrowing	Primary balance	Debt	
Objectives				
July 2009 (1)	76.9	2.6	....	0.5
as a % of GDP	*5.0*	*0.2*	*118.2*	
September 2009 (2)	77.6	-0.7	....	0.7
as a % of GDP	*5.0*	*0.0*	*117.3*	
January 2010 (3)	77.9	-1.6	....	1.1
as a % of GDP	*5.0*	*-0.1*	*116.9*	
Estimates				
May 2010 (4)	78.1	-6.8	....	1.0
as a % of GDP	*5.0*	*-0.4*	*118.4*	
September 2010 (5)	77.1	-5.1	1,842.3	1.2
as a % of GDP	*5.0*	*-0.3*	*118.5*	
Outturn (6)	71.2	-1.1	1,843.0	1.3
as a % of GDP	*4.6*	*-0.1*	*119.0*	

(1) *Economic and Financial Planning Document*. – (2) *Forecasting and Planning Report* and *Economic and Financial Planning Document Update*. – (3) *Stability Programme* and *2010-12 Update*. – (4) *Combined Report on the Economy and the Public Finances*. – (5) *Public Finance Decision*. – (6) Istat press release dated 1 March 2011 for net borrowing, primary balance and GDP growth.

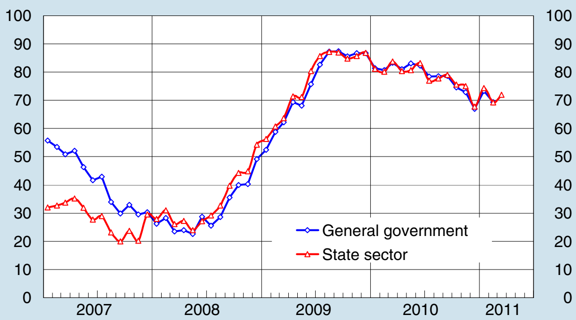
Primary expenditure decreased by 0.5 per cent in nominal terms in 2010, and interest payments contracted by 0.4 per cent. While current primary spending rose by 1.3 per cent (€8.5 billion), capital spending fell by 18.5 per cent (more than €12 billion). Investment fell by 16.2 per cent (14.2 per cent when the figure for 2009 is adjusted to exclude the repurchase of social security institution properties unsold in the SCIP2 securitization) and investment grants by 14.2 per cent. Among current outlays, social benefits in cash rose by 2.3 per cent (compared with an average of 4.4 per cent in the previous decade). There were particularly small increases in intermediate consumption (0.4 per cent) and employee compensation (0.5 per cent), which reflected a reduction in employment of 1.0 per cent and the modest rise in per capita earnings. Per capita compensation rose by about 1.5 per cent per year in 2009-10, compared with an average of 3.5 per cent over the previous decade. The three-year budget package for 2011-13 approved last summer froze individual salaries at their 2010 levels, save for compensation for contract hiatus.

The change in expenditure reflected the termination of several extraordinary outlays on both current and capital account, as well as the spending cuts mandated by the three-year budget passed in the summer of 2008 (see "Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the period 2009-13", Testimony of the Governor of the Bank of Italy, Mario Draghi, before the Chamber of Deputies, Rome, 2 July 2008). These reductions in expenditure have been attenuated by the provisions of the anti-crisis decree enacted in the summer of 2009 and the Finance Law for 2010 (see *Economic Bulletin,* October 2009 and April 2010).

Figure 33

Rolling twelve-month borrowing requirement (1)

(billions of euros)



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

The tax burden eases

The ratio of taxes and social security contributions to

GDP declined by 0.5 percentage points in 2010 to 42.6 per cent. A comparable decrease, from 47.1 to 46.6 per cent, was registered for total revenue. The growth of revenue in nominal terms (0.9 per cent) was modest, reflecting the fall in capital revenue due to the reduction in receipts under the foreign assets disclosure scheme (by an estimated €4 billion) and in the one-off proceeds of the substitute taxes introduced with the 2008 anti-crisis decree (by €4.7 billion in the state budget on a cash basis). Current revenue increased in line with nominal GDP, led by indirect tax receipts, which grew by 5.1 per cent or €10.5 billion, and in particular by VAT receipts. The rise in the latter was favoured, according to Ministry for the Economy and Finance data, by a sharp reduction of some 30 per cent or nearly €6 billion in offsets due to the stricter rules introduced in January 2010. Direct taxes increased by 1.2 per cent (€2.6 billion), thanks above all to personal income tax receipts, which were sustained by the rise in withholdings on employee incomes (€3.8 billion on a cash basis) and by the reduction in the size of on-account payments enacted at the end of 2009, which shifted revenue estimated officially at nearly €4 billion from 2009 to 2010. A countervailing effect derived from the reduction in the substitute tax on income from financial assets by €5.6 billion on a cash basis, which reflected interest rate developments with the usual lag. Finally, effective social security contributions increased by 0.5 per cent, while total wages rose slightly more (1.0 per cent). According to official assessments, part of the rise in revenue in 2010 consisted of increased proceeds from formal controls and action against tax evasion.

The borrowing requirement also begins to contract

After two years of rapid expansion, last year the general government borrowing requirement fell from €85.9 billion to €67.0 billion, though it remains far higher than before the crisis (Table 11 and Figure 33). It came to 4.3 per cent of GDP and was 0.3 points lower than net borrowing.

The debt ratio continues to rise

The increase in the ratio of general government debt to GDP (by 2.9 points to 119.0 per cent) was entirely accounted for by central government debt, which rose by 3.1 points

Table 10

General government expenditure and revenue
(millions of euros and percentage changes)

	2009	2010	% change on previous year 2009	% change on previous year 2010
EXPENDITURE				
Final consumption expenditure	326,248	328,607	3.1	0.7
of which:				
compensation of employees	*171,026*	*171,905*	*0.8*	*0.5*
intermediate consumption	*91,202*	*91,600*	*6.5*	*0.4*
social benefits in kind	*44,975*	*45,409*	*5.1*	*1.0*
Social benefits in cash	291,468	298,199	5.2	2.3
Interest payments	70,408	70,152	-13.4	-0.4
Other current expenditure	43,215	42,656	7.0	-1.3
Current expenditure	**731,339**	**739,614**	**2.2**	**1.1**
as a % of GDP	*48.1*	*47.8*		
Current expenditure, net of interest payments	**660,931**	**669,462**	**4.2**	**1.3**
as a % of GDP	*43.5*	*43.2*		
Investment (1)	38,060	31,879	8.8	-16.2
Investment grants	23,822	20,442	6.6	-14.2
Other capital expenditure (2)	4,258	1,578	158.7	-62.9
Capital expenditure	**66,140**	**53,899**	**12.2**	**-18.5**
Total expenditure, net of interest payments	**727,071**	**723,361**	**4.9**	**-0.5**
as a % of GDP	*47.8*	*46.7*		
TOTAL EXPENDITURE	**797,479**	**793,513**	**3.0**	**-0.5**
as a % of GDP	*52.5*	*51.2*		
REVENUE				
Direct taxes	222,857	225,494	-7.0	1.2
Indirect taxes	206,000	216,530	-4.5	5.1
Social security contributions	213,542	214,508	-1.1	0.5
Other current revenue	57,692	58,583	2.3	1.5
Current revenue	**700,091**	**715,115**	**-3.8**	**2.1**
as a % of GDP	*46.1*	*46.2*		
Capital revenue	**15,647**	**7,187**	**294.1**	**-54.1**
of which:				
capital taxes	*12,255*	*3,392*	*2,411.3*	*-72.3*
TOTAL REVENUE	**715,738**	**722,302**	**-2.2**	**0.9**
as a % of GDP	*47.1*	*46.6*		
of which:				
taxes and social security contributions	*43.1*	*42.6*		
NET BORROWING	**81,741**	**71,211**		
as a % of GDP	*5.4*	*4.6*		
Primary balance	**-11,333**	**-1,059**		
as a % of GDP	*-0.7*	*-0.1*		
Memorandum item:				
GDP	1,519,702	1,548,816		

Source: Based on Istat data.
(1) Includes proceeds of property sales entered with a negative sign. – (2) In 2009 this item included the extraordinary reimbursement of the larger personal and corporate income tax payments made by firms in connection with the omitted deduction of 10 per cent of the regional tax on productive activities (IRAP) in the tax period up to 31 December 2008 (Article 6 of Decree Law 185/2006).

to 111.8 per cent (Figure 34). The incidence of local government debt fell, instead, by 0.2 points to 7.2 per cent. The increase in the debt ratio was due not only to borrowing but also, for the third consecutive year, to an increase in the Treasury's assets with the Bank of Italy, which rose by €11.5 billion (Table 12). This large liquid balance (€43.2 billion at the end of 2010) provides an ample reserve with which to meet refinancing needs. Together with the progressive lengthening of the average residual maturity of the debt, it reflects prudent debt management in what remains an uncertain and volatile environment.

In the early months of 2011 the borrowing requirement, net of the loans to Greece, is broadly stable ...

In the first quarter of 2011 the state sector borrowing requirement came to €31.3 billion. This was €4.2 billion more than in the first quarter of 2010. The increase was partly due to the third and fourth tranches, totalling €3.9 billion, of the loan to Greece under the European support plan agreed in May 2010 (Italy's share amounts to nearly €15 billion in the three years from 2010 to 2012). In the first two months the general government borrowing requirement also rose, to €12.4 billion, €2.3 billion more than a year earlier, following the same pattern as the state sector requirement. This aggregate also includes Italy's share in the European Financial Stability Facility's loans to Ireland (€0.7 billion), which under the Eurostat decision of 27 January is counted as general government debt.

... and revenue picks up

State budget tax revenue increased strongly in the first quarter, rising by €3.9 billion (4.9 per cent) with respect to the year-earlier period (Figure 35). The rise was due mainly to increased VAT receipts (€1.6 billion or 8.1 per cent), partly owing to higher oil prices, and to increased withholdings on employee incomes, which rose by €1.1 billion or 3.0 per cent.

The Government forecasts a reduction in the deficit in 2011

The introduction of the European semester has altered the calendar and procedures of the budget and planning cycle. As part of the new system, on

Table 11

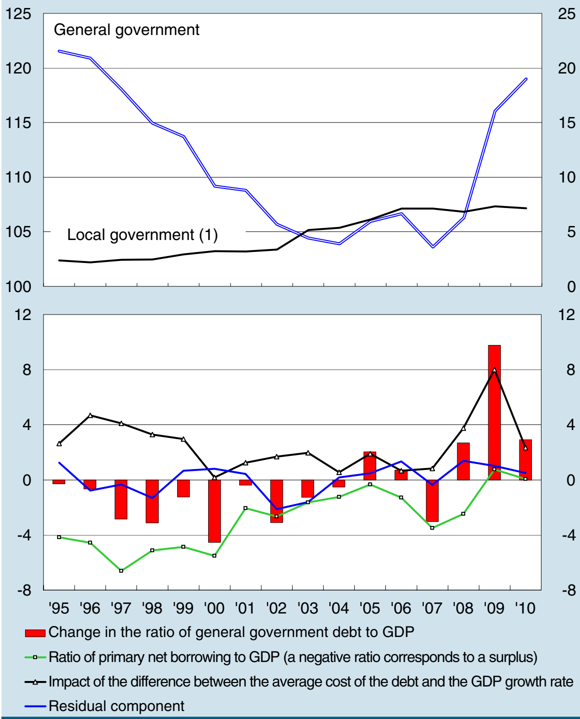
General government balances and debt
(millions of euros and percentages of GDP)

	2007	2008	2009	2010
Borrowing requirement	26,809	49,146	85,912	67,013
as a % of GDP	*1.7*	*3.1*	*5.7*	*4.3*
Net borrowing requirement (1)	30,309	49,165	86,710	67,021
as a % of GDP	*2.0*	*3.1*	*5.7*	*4.3*
Debt	1,602,115	1,666,603	1,763,864	1,843,015
as a % of GDP	*103.6*	*106.3*	*116.1*	*119.0*
Memorandum items				
Privatization receipts	3,500	19	798	8
as a % of GDP	*0.2*	*0.0*	*0.1*	*0.0*
Settlements of past debts	3,129	1,653	1,519	187
as a % of GDP	*0.2*	*0.1*	*0.1*	*0.0*

(1) Net of privatization receipts.

Figure 34

General government debt: trend and determinants of its changes
(as a percentage of GDP)



(1) Right-hand scale. The increase in 2003 was mainly of an accounting nature in connection with the reclassification of Cassa Depositi e Prestiti S.p.A. outside general government.

13 April the Government approved the Economy and Finance Document, which includes the preliminary version of the Stability Programme and the National Reform Programme, which must be submitted jointly to the European Commission and the European Council by the end of April. The Economy and Finance Document also contains the most significant information published in the old Combined Report on the Economy and the Public Finances and the Public Finance Decision, which have been suppressed. In addition to updating the public finance estimates and objectives for the current year, and for the three following years for general government, the document sets out the size of the budget measures for the years 2013-14.

The Economy and Finance Document basically confirms the estimates and objectives for net borrowing in 2011 and 2012.

The estimate for the deficit for this year (3.9 per cent of GDP; Table 13) takes account not only of the more favourable outturn for 2010 but also of a lower GDP growth forecast, down by about 0.2 percentage points to 1.1 per cent, and an increase in interest payments. The updating of the public finance projections on a current legislation basis includes the effects of the Stability Law for 2011, which does not affect the deficit. The ratio of the public debt to GDP is projected to rise to 120 per cent.

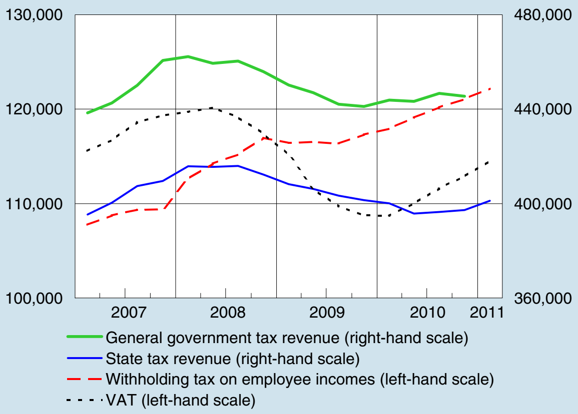
The Government sets budgetary balance as an objective for 2014

The Economy and Finance Document confirms the objective of net borrowing at 2.7 per cent of GDP for 2012, in line with the recommendations of the Council of the European Union under the excessive deficit procedure launched against Italy in December 2009. This objective coincides with the deficit estimated for the same year on a current legislation basis. Compared with the estimates made in September, the growth rate of GDP is revised downwards from 2 to 1.3 per cent, and interest payments are revised upwards; the impact on the budget of these revisions is offset by a smaller-than-expected increase in primary expenditure.

A significant improvement in the public finances in 2011-12 is also expected for the euro area as a whole. The IMF forecasts that the deficit will

Figure 35

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



Sources: Istat for general government tax revenue; *Rendiconto generale dell'amministrazione dello Stato* and state budget for the other variables.

Table 12

Changes in general government debt and its components
(millions of euros)

	2007	2008	2009	2010
Change in the debt = (a)+(b)+(c)+(d)	**18,019**	**64,488**	**97,260**	**79,151**
(a) Total borrowing requirement	26,809	49,146	85,912	67,013
(b) Change in the Treasury deposits with the Bank of Italy	-13,142	10,611	11,399	11,518
(c) Issue discounts and premiums	4,687	4,471	56	363
(d) Change in foreign currency liabilities	-333	260	-106	257

Table 13

Public finance objectives and estimates for 2011
(percentages of GDP)

	General government			*Memorandum items:*	
	Net borrowing	Primary balance	Debt	GDP growth rate	Debt 2010
Objectives					
January 2010 (1)	3.9	1.3	116.5	2.0	116.9
May 2010 (2)	3.9	1.0	118.7	1.5	118.4
September 2010 (3)	3.9	0.8	119.2	1.3	118.5
Estimates					
April 2011 (4)	3.9	0.9	120.0	1.1	119.0

(1) *Stability Programme* and *2010-12 Update*. – (2) *Combined Report on the Economy and the Public Finances*. – (3) *Public Finance Decision*. – (4) *Economy and Finance Document*.

decline from the 6.1 per cent of GDP registered last year to 3.6 per cent in 2012, in part owing to the termination of support for the banking sector in some countries.

As regards the subsequent years, the Government plans to achieve a broadly balanced budget in 2014. This will require a total adjustment of about 2.3 percentage points of GDP in 2013-14. The reduction in net borrowing indicated for 2013-14 should be sufficient to ensure compliance with the debt requirement laid down in the European Commission's proposals for the reform of European governance, approved by the Council of the European Union in March (see the box: "The decisions of the European Council of 24 and 25 March 2011"). The public debt should start to come down in 2012 and reach 112.8 per cent of GDP in 2014.

At the end of March the European Council approved the strategic guidelines for economic policies. In particular, it reiterated the need for fiscal consolidation through annual structural adjustments larger than 0.5 per cent of GDP, accompanied by a request for labour market reforms and new efforts to enhance growth. These guidelines are set in the broader framework for economic policy coordination to improve competitiveness and convergence, established with the approval of the Euro Plus Pact.

SELECTED STATISTICS

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

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Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contribution	Change	Contribution	Change	Contribution	Change	Contribution	Change	Change	Contribution	Contribution
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
2010	2.9	1.7	1.3	1.0	0.2	3.9	0.5	3.3	3.4	11.7	12.6	-0.5	1.4
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
Q4	3.1	4.0	2.8	-1.7	-0.3	6.8	0.8	-0.2	-0.2	8.6	-12.6	3.3	-3.4

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	Contribution	Change	Contribution	Change	Contribution	Change	Contribution	Change	Change	Contribution	Contribution
2006	2.0	1.5	0.8	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
2010	3.9	1.8	1.1	2.3	0.5	-0.2	..	2.1	2.1	24.0	9.8	1.8	0.6
2008 – Q1	1.2	2.7	1.5	-0.2	..	5.6	1.2	..	..	11.3	4.9	1.2	-2.8
Q2	-3.3	-6.0	-3.4	-4.2	-0.8	-6.6	-1.5	-4.6	-4.6	-5.2	-13.3	1.3	1.2
Q3	-5	-0.6	-0.3	-1.2	-0.2	-7.5	-1.7	-4.3	-4.2	-0.9	4.5	-0.8	-1.9
Q4	-11	-4.5	-2.5	4.7	0.9	-15.4	-3.6	0.6	0.6	-45.3	10.4	-11.8	6
2009 – Q1	-20	-7.4	-4.2	4.3	0.9	-17.7	-4	-15.7	-15.8	-68.4	-49.4	-4.3	-8.3
Q2	10.7	5.2	3.2	3.8	0.8	-8.7	-2	1.8	1.9	45.1	-19.7	8.6	..
Q3	-1.9	0.4	0.2	4.5	0.9	-10.7	-2.4	-3.2	-3.3	40.1	24.0	1.5	-2.0
Q4	7.2	3.9	2.4	3.8	0.8	3.7	0.8	4.0	4.1	28.1	4.1	3.2	0.1
2010 – Q1	6.1	2.1	1.2	-1.2	-0.2	1.3	0.3	4.2	4.0	29.3	12.7	2.1	2.7
Q2	2.1	-0.1	..	4.6	0.9	3.9	0.8	1.2	1.1	22.9	16.8	1.1	-0.5
Q3	3.3	3.6	2.1	1.2	0.2	2.9	0.6	4.0	3.8	6.3	12.0	-0.6	1.1
Q4	-1.3	-3.2	-1.9	1.2	0.2	-1.6	-0.3	-0.8	-0.8	-3.0	-0.5	-0.4	1.1

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

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
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	3.1	8.5	4.6	4.4	6.5	5.4	2.1	2.2	8.6
2007	2.8	5.8	3.7	2.3	7.3	4.7	1.7	2.2	6.3
2008	0.4	0.8	0.6	-2.2	0.8	-0.7	0.4	2.3	0.9
2009	-4.1	-11.8	-6.5	-7.9	-14.8	-11.3	-1.1	2.5	-13.1
2008 – Q4	-1.8	-5.0	-2.8	-2.9	-4.7	-3.8	-0.5	0.8	-6.6
2009 – Q1	-2.5	-6.8	-3.8	-1.5	-8.9	-5.2	-0.5	0.7	-8.7
Q2	-0.2	-2.8	-0.9	-1.8	-2.7	-2.2	..	0.6	-1.0
Q3	0.4	1.8	0.8	-2.1	-0.5	-1.3	-0.2	0.5	2.7
Q4	0.2	1.1	0.5	-1.9	-0.2	-1.1	0.3	..	2.2
2010 – Q1	0.4	3.6	1.3	-1.8	1.4	-0.2	0.3	-0.1	3.0
Q2	1.0	4.2	1.9	1.7	2.4	2.1	0.2	0.2	4.5
Q3	0.4	1.5	0.7	-0.9	0.4	-0.2	0.2	0.4	2.1
Q4	0.3	1.0	0.5	-1.6	0.6	-0.5	0.4	0.1	1.5
				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	2.5
2009	1.0	-5.9	....	....	....	-0.7	-0.2	2.0	-3.3
2008 – Q4	0.6	-3.4	....	....	....	-0.5	-0.5	0.6	-1.7
2009 – Q1	0.1	-3.8	....	....	....	-0.4	-0.5	0.9	-2.4
Q2	0.1	-1.4	....	....	....	-0.6	0.1	0.2	-0.9
Q3	0.1	0.4	....	....	....	-0.2	0.2	0.7	0.4
Q4	0.1	1.0	....	....	....	0.1	0.4	-0.6	0.7
2010 – Q1	0.2	2.4	....	....	....	0.4	0.5	0.9	1.1
Q2	0.3	2.4	....	....	....	0.7	0.7	0.2	1.6
Q3	0.4	0.4	....	....	....	0.4	0.5	-0.1	0.8
Q4	..	1.5	....	....	....	0.3	0.6	-0.2	0.8

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2005	0.7	2.1	0.9	0.4	1.2	0.8	1.1	1.9	1.1
2006	2.0	5.9	2.8	1.0	5.0	2.9	1.2	0.5	6.2
2007	1.5	3.8	2.0	0.3	3.1	1.7	1.1	0.9	4.6
2008	-1.3	-4.4	-2.0	-3.0	-4.7	-3.8	-0.8	0.5	-4.3
2009	-5.2	-13.7	-7.2	-8.7	-15.3	-11.9	-1.8	1.0	-18.4
2010	1.3	10.5	3.1	-3.7	9.6	2.5	1.0	-0.6	9.1
2008 – Q4	-2.0	-5.0	-2.7	-3.9	-8.6	-6.2	-1.4	0.4	-8.2
2009 – Q1	-3.0	-8.6	-4.3	-1.9	-7.5	-4.5	-0.8	-0.1	-11.4
Q2	-0.3	-2.3	-0.7	-2.0	-3.1	-2.5	-0.1	1.1	-0.9
Q3	0.4	1.2	0.6	-2.5	1.4	-0.8	0.6	-0.2	2.5
Q4	..	3.1	0.7	-1.1	3.6	1.1	0.1	-0.1	0.2
2010 – Q1	0.5	4.0	1.2	-0.9	3.7	1.2	0.2	-0.7	4.2
Q2	0.5	0.4	0.5	-0.5	3.4	1.4	0.1	0.5	2.5
Q3	0.3	4.9	1.3	1.0	0.6	0.8	0.4	-0.3	2.6
Q4	0.1	3.4	0.8	-1.3	-0.2	-0.7	0.3	-0.6	0.5
				Implicit prices					
2005	2.1	6.3	2.9	4.7	1.2	3.0	2.3	3.3	4.0
2006	1.8	7.7	3.1	3.3	2.1	2.7	2.7	2.4	4.6
2007	2.6	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	3.5	5.0
2009	2.3	-7.4	0.2	1.1	0.8	1.0	..	2.0	-1.4
2010	0.6	8.6	2.3	2.0	0.9	1.5	1.5	1.3	4.9
2008 – Q4	0.9	-3.6	-0.2	-0.3	1.3	0.5	-0.5	0.6	-1.0
2009 – Q1	1.2	-6.0	-0.3	-0.1	-0.2	-0.2	-0.6	1.6	-1.4
Q2	..	-1.6	-0.3	-0.3	-0.6	-0.5	0.2	-0.7	-0.7
Q3	0.3	0.3	0.3	0.1	-0.4	-0.1	0.1	2.9	-0.2
Q4	-0.1	..	-0.2	0.5	..	0.3	0.3	-4.0	0.1
2010 – Q1	-0.1	4.4	0.9	0.4	0.2	0.3	0.5	2.5	2.2
Q2	0.6	5.0	1.5	1.0	0.9	0.9	0.4	0.6	2.6
Q3	0.6	0.5	0.7	0.5	0.6	0.6	0.5	1.6	1.0
Q4	-0.5	0.8	-0.1	0.6	0.4	0.5	0.5	-2.4	1.0

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			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2007	2.7	2.5	3.2	0.6	0.2
2008	3.7	-1.6	-2.2	-0.5	5.3
2009	4.3	-4.8	-13.3	-8.9	9.6
2010	0.8	6.5	6.1	-0.4	-5.4
2008 – Q1	4.1	1.6	1.9	0.4	2.4
Q2	2.2	-0.7	0.2	1.0	3.0
Q3	3.4	-2.2	-2.6	-0.4	5.7
Q4	5.6	-5.6	-9.1	-3.7	11.9
2009 – Q1	5.2	-9.5	-16.3	-7.7	16.2
Q2	5.8	-6.8	-16.4	-10.4	13.5
Q3	4.4	-3.1	-12.8	-10.1	7.8
Q4	2.0	0.8	-6.8	-7.5	1.2
2010 – Q1	0.9	8.0	3.8	-3.4	-6.6
Q2	0.4	7.7	7.1	-0.2	-6.8
Q3	0.2	4.4	5.2	1.1	-4.0
Q4	0.9	4.6	6.1	1.4	-3.6
		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	-0.4	-1.7	-1.4	3.2
2010	0.8	0.3	1.3	1.1	0.5
2008 – Q1	3.0	0.7	2.7	2.0	2.3
Q2	2.8	0.0	2.0	2.0	2.8
Q3	3.3	0.4	1.3	0.9	2.9
Q4	2.6	-0.4	0.1	0.6	3.1
2009 – Q1	3.1	-1.0	-2.2	-1.2	4.1
Q2	2.9	-0.4	-2.0	-1.6	3.3
Q3	2.7	-0.4	-1.7	-1.3	3.1
Q4	2.2	0.1	-0.9	-1.0	2.1
2010 – Q1	0.9	0.1	0.8	0.7	0.8
Q2	1.1	0.2	1.2	1.0	0.9
Q3	0.5	0.3	1.5	1.2	0.2
Q4	1.0	0.5	1.6	1.2	0.6
		Total economy			
2007	2.5	1.3	3.1	1.8	1.2
2008	3.2	0.1	0.7	0.6	3.1
2009	3.2	-1.0	-4.2	-3.2	4.3
2010	0.9	1.4	1.8	0.4	-0.6
2008 – Q1	3.4	1.0	2.4	1.4	2.4
Q2	2.8	0.1	1.5	1.4	2.7
Q3	3.4	0.1	0.3	0.3	3.4
Q4	3.3	-1.3	-2.1	-0.8	4.7
2009 – Q1	3.6	-2.3	-5.2	-3.1	6.0
Q2	3.5	-1.4	-5.0	-3.7	5.1
Q3	3.0	-0.6	-4.1	-3.5	3.7
Q4	2.2	0.3	-2.3	-2.6	1.9
2010 – Q1	0.9	1.5	0.9	-0.5	-0.6
Q2	1.0	1.6	1.9	0.4	-0.6
Q3	0.5	1.0	1.8	0.8	-0.5
Q4	1.1	1.4	2.1	0.7	-0.3

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						
2008	4.1	4.0	-1.8	-3.4	-1.7	5.9
2009	3.7	3.9	-5.9	-15.6	-10.3	10.3
2010	2.1	2.5	7.2	4.8	-2.2	-4.8
2008 – Q1	5.5	5.4	1.3	0.6	-0.7	4.1
Q2	2.3	2.2	-0.8	-0.6	0.1	3.1
Q3	4.4	4.2	-1.5	-4.1	-2.6	6.0
Q4	4.1	4.1	-6.3	-9.6	-3.5	11.1
2009 – Q1	3.1	3.1	-12.4	-19.0	-7.6	17.6
Q2	3.9	4.0	-9.7	-19.5	-10.8	15.1
Q3	2.3	2.5	-3.8	-15.2	-11.9	6.3
Q4	5.6	5.8	2.7	-8.5	-10.9	2.9
2010 – Q1	2.0	2.4	9.1	3.2	-5.4	-6.5
Q2	2.6	3.0	9.7	6.1	-3.3	-6.5
Q3	1.5	1.9	4.5	4.7	0.2	-2.8
Q4	2.1	2.5	4.5	4.3	-0.2	-2.3
Services						
2008	2.8	2.7	-0.5	-0.4	0.1	3.3
2009	0.9	0.8	-1.5	-2.6	-1.1	2.4
2010	1.6	1.7	1.0	1.0	0.1	0.6
2008 – Q1	3.2	3.1	-0.8	0.6	1.5	4.1
Q2	3.9	3.8	-0.9	-0.1	0.8	4.8
Q3	3.5	3.2	0.6	-0.9	-1.5	2.9
Q4	0.5	0.6	-0.9	-1.4	-0.5	1.4
2009 – Q1	1.7	1.5	-1.6	-3.5	-1.9	3.4
Q2	-1.0	-1.1	-2.5	-3.0	-0.6	1.5
Q3	1.5	1.7	-1.8	-2.3	-0.5	3.4
Q4	1.1	1.1	-0.2	-1.7	-1.5	1.3
2010 – Q1	0.9	1.1	0.2	0.6	0.4	0.7
Q2	3.1	3.1	1.6	1.0	-0.6	1.5
Q3	1.3	1.4	1.6	1.1	-0.5	-0.3
Q4	1.1	1.2	0.7	1.4	0.8	0.5
Total economy						
2008	3.1	3.0	-0.7	-1.2	-0.5	3.9
2009	1.8	2.0	-2.4	-5.6	-3.3	4.3
2010	1.7	1.9	1.9	1.5	-0.4	-0.2
2008 – Q1	3.8	3.7	-0.3	0.5	0.8	4.0
Q2	3.5	3.3	-0.4	-0.2	0.2	3.8
Q3	3.8	3.5	0.0	-1.6	-1.6	3.9
Q4	1.6	1.7	-2.2	-3.4	-1.2	3.8
2009 – Q1	2.5	2.5	-3.6	-7.0	-3.5	6.4
Q2	0.6	0.7	-4.1	-6.8	-2.9	4.9
Q3	1.8	2.2	-2.1	-5.3	-3.3	4.0
Q4	2.3	2.4	0.1	-3.4	-3.5	2.2
2010 – Q1	0.9	1.2	1.3	0.7	-0.6	-0.4
Q2	2.9	3.0	2.5	1.6	-0.9	0.4
Q3	1.4	1.5	2.0	1.6	-0.4	-0.5
Q4	1.7	1.7	1.8	1.8	0.0	-0.1

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

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

(percentage changes on the year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO (2)	
	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products
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	2.1	0.9	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	-1.0	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.2	-0.1	1.0
Nov.	0.8	1.4	0.3	1.0	0.5	1.0	0.4	0.4	0.5	1.0
Dec.	1.1	1.5	0.8	1.1	1.0	1.1	0.9	0.4	0.9	1.0
2010 – Jan.	1.3	1.4	0.8	0.8	1.2	0.9	0.7	-0.4	0.9	0.8
Feb.	1.1	1.2	0.5	0.7	1.4	1.1	0.4	-0.5	0.8	0.7
Mar.	1.4	1.4	1.2	0.9	1.7	1.0	2.7	1.6	1.6	1.1
Apr.	1.6	1.7	1.0	0.3	1.9	0.9	2.4	0.8	1.6	0.8
May	1.6	1.5	1.2	0.6	1.9	0.8	2.5	0.9	1.7	0.9
June	1.5	1.5	0.8	0.6	1.7	0.9	2.1	1.1	1.5	1.0
July	1.8	1.7	1.2	0.5	1.9	1.0	1.8	0.6	1.7	1.0
Aug.	1.8	1.7	1.0	0.6	1.6	0.8	1.6	0.7	1.6	1.0
Sept.	1.6	1.5	1.3	0.6	1.8	1.0	2.8	2.1	1.9	1.2
Oct.	2.0	1.7	1.3	0.7	1.8	1.0	2.5	1.4	1.9	1.1
Nov.	1.9	1.6	1.6	0.8	1.8	1.0	2.3	1.1	1.9	1.2
Dec.	2.1	1.5	1.9	0.7	2.0	0.9	2.9	1.3	2.2	1.1
2011 – Jan.	1.9	1.2	2.0	0.9	2.0	0.9	3.0	1.4	2.3	1.2
Feb.	2.1	1.3	2.2	0.9	1.8	0.7	3.4	1.6	2.4	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
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
2010	-50,987	-18,461	-8,917	-7,914	-5,438	-10,256	119	-697	-68	885
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
Q4	-10,518	-5,813	-2,492	-649	-1,497	-67	64	-233	-49	346
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	-1,258	-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.	-1,346	-1,216	-598	-46	-550	1,063	155	-74	-10	239
Nov.	-4,486	-2,599	-1,086	-578	-432	209	116	-71	-13	200
Dec.	-4,686	-1,998	-808	-25	-515	-1,340	-208	-88	-26	-93
2011 – Jan.	(-8,129)	(-5,254)	(-1,479)	(227)	....	....	(-117)	....	....	....

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 – 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	0.9	2.8	-3.2	-0.2
Dec.	5.0	-6.2	-3.5	-4.1	-0.8	1.3	2.8	2.5	-1.2
2010 – Mar.	4.0	-2.2	-3.6	-4.3	-0.1	1.8	3.3	5.5	-0.8
June	0.7	2.0	-2.5	-3.1	0.1	1.2	3.7	6.5	-0.1
Sept.	3.9	3.4	-0.4	-0.9	2.2	4.3	3.7	12.3	1.6
Dec.	4.3	7.0	0.6	0.2	2.4	5.1	3.8	16.3	2.7
2011 – Feb.	3.8	5.0	3.3	3.2	3.4	5.6	3.7	17.8	3.7
South and Islands									
2009 – June	8.7	3.1	0.9	1.4	-0.4	-0.9	5.8	5.1	3.6
Sept.	14.2	-0.4	-0.7	-0.6	-0.7	-0.9	4.9	1.9	2.9
Dec.	8.0	-4.5	0.7	0.9	0.0	0.4	4.5	6.5	2.8
2010 – Mar.	5.8	-1.2	1.1	1.7	-0.6	-0.1	5.6	0.9	3.3
June	2.0	-2.0	2.6	3.7	-0.5	-0.4	5.3	0.5	3.5
Sept.	1.6	-0.4	3.4	4.2	1.3	1.4	4.8	3.6	3.7
Dec.	0.9	-3.9	3.1	3.6	1.6	1.9	4.4	0.6	3.3
2011 – Feb.	0.8	-3.4	4.1	5.0	1.6	2.0	4.3	0.8	3.7
ITALY									
2009 – June	8.4	-10.8	1.3	1.6	0.4	1.0	3.7	0.7	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	-0.6	1.1	3.2	3.0	-0.7
2010 – Mar.	4.1	-2.2	-2.9	-3.6	-0.2	1.4	3.8	4.9	-0.2
June	0.9	1.9	-1.8	-2.3	0.0	0.9	4.1	5.8	0.4
Sept.	3.7	3.3	0.1	-0.3	2.1	3.6	3.9	11.2	1.9
Dec.	4.0	6.8	1.0	0.6	2.3	4.3	3.9	14.4	2.8
2011 – Feb.	3.5	4.8	3.4	3.5	3.0	4.8	3.9	15.7	3.7

(1) Statistics for Febraury 2011 are provisional. Loans do not include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations and reclassifications. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with less than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)	*of which:* change in deposits with the Bank of Italy	Borrowing requirement	*of which:* financed abroad
2008	4,224	-5,683	19,502	41,693	-1,132	-15,141	-10,611	49,146	-10,289
2009	8,487	-1,487	-7,405	93,773	2,814	-11,757	-11,399	85,912	-2,112
2010	57	-4,809	-10,103	87,924	968	-11,834	-11,518	67,013	391
2008 – Q1	1,313	-1,111	25,905	23,411	145	-33,225	-31,203	17,549	470
Q2	934	-1,266	8,186	-11,210	3,812	5,508	5,968	7,229	-5,669
Q3	-2,295	-947	-1,120	4,058	-5,584	15,711	17,012	10,770	-2,284
Q4	4,272	-2,360	-13,469	25,434	496	-3,134	-2,388	13,598	-2,806
2009 – Q1	3,034	-1,264	25,111	48,196	1,434	-47,149	-47,108	30,626	1,961
Q2	4,780	-247	5,769	-2,206	1,978	9,749	9,963	20,070	-1,620
Q3	-6,276	385	-9,480	50,557	502	-12,906	-12,676	22,397	-2,709
Q4	6,948	-361	-28,805	-2,774	-1,100	38,549	38,423	12,818	256
2010 – Q1	-3,196	-1,413	10,530	28,479	1,116	-9,651	-9,568	27,278	178
Q2	1,218	-929	-636	23,098	-510	-3,544	-3,474	19,627	1,095
Q3	-1,316	-1,219	-1,960	22,647	1,707	-2,247	-2,188	18,831	3,978
Q4	3,352	-1,247	-18,037	13,700	-1,346	3,608	3,712	1,276	-4,860
2010 – Jan.	-91	-276	12,703	13,688	505	-30,745	-30,679	-3,940	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	-803
Apr.	1,309	47	-1,510	13,261	2,940	403	433	16,401	843
May	-2,583	-507	-1,561	17,854	-561	-3,687	-3,696	9,463	-690
June	2,491	-470	2,436	-8,017	-2,888	-260	-211	-6,237	942
July	-2,929	-452	-3,782	21,051	943	-17,681	-17,637	-2,398	-767
Aug.	1,109	-390	-1,187	2,439	97	5,717	5,737	8,174	-19
Sept.	504	-377	3,009	-843	668	9,717	9,713	13,055	4,764
Oct.	-1,000	-390	167	22,728	-116	-14,567	-14,547	7,212	-154
Nov.	2,745	-161	-864	-119	189	2,710	2,730	4,661	599
Dec.	1,607	-696	-17,340	-8,908	-1,419	15,465	15,529	-10,596	-5,306
2011 – Jan.	2,762	-812	8,290	24,135	620	-33,451	-33,424	2,356	468
Feb.	-5,988	-394	1,643	-3,377	1,671	16,128	15,455	10,077	-6

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

Table A11

General government debt: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* Deposits held with the Bank of Italy
2008	147,252	31,492	147,371	1,236,468	129,411	6,101	1,666,603	3,609	1,373,006	20,333
2009	155,740	30,005	139,966	1,330,191	132,225	5,742	1,763,864	2,746	1,467,975	31,731
2010	155,797	25,195	129,862	1,418,733	133,196	5,426	1,843,015	2,897	1,555,056	43,249
2008 – Q1	144,342	36,064	153,806	1,214,007	130,684	8,608	1,651,447	3,236	1,357,939	40,925
Q2	145,276	34,799	161,975	1,204,435	134,495	8,148	1,654,329	3,214	1,348,329	34,956
Q3	142,981	33,852	160,869	1,211,131	128,912	6,847	1,650,740	3,537	1,349,396	17,944
Q4	147,252	31,492	147,371	1,236,468	129,411	6,101	1,666,603	3,609	1,373,006	20,333
2009 – Q1	150,287	30,228	172,490	1,284,856	130,845	6,060	1,744,538	3,768	1,422,185	67,441
Q2	155,067	29,980	178,265	1,283,293	132,822	5,846	1,755,294	3,528	1,420,534	57,478
Q3	148,792	30,366	168,776	1,333,439	133,325	5,617	1,789,948	2,731	1,471,340	70,155
Q4	155,740	30,005	139,966	1,330,191	132,225	5,742	1,763,864	2,746	1,467,975	31,731
2010 – Q1	152,544	28,592	150,496	1,358,280	133,341	5,660	1,800,320	2,932	1,495,858	41,299
Q2	153,762	27,662	149,865	1,382,537	132,833	5,590	1,824,587	3,179	1,517,855	44,773
Q3	152,446	26,443	147,911	1,403,663	134,541	5,531	1,844,091	2,892	1,539,861	46,961
Q4	155,797	25,195	129,862	1,418,733	133,196	5,426	1,843,015	2,897	1,555,056	43,249
2010 – Jan.	155,648	29,729	152,668	1,344,082	132,730	5,677	1,790,805	2,837	1,481,634	62,411
Feb.	152,541	29,638	151,858	1,354,396	133,185	5,665	1,797,646	2,910	1,491,766	54,949
Mar.	152,544	28,592	150,496	1,358,280	133,341	5,660	1,800,320	2,932	1,495,858	41,299
Apr.	153,853	28,639	148,985	1,370,628	136,281	5,629	1,815,376	2,962	1,508,954	40,867
May	151,270	28,132	147,424	1,389,636	135,721	5,639	1,829,690	3,201	1,527,675	44,563
June	153,762	27,662	149,865	1,382,537	132,833	5,590	1,824,587	3,179	1,517,855	44,773
July	150,833	27,210	146,084	1,403,678	133,775	5,546	1,839,916	3,004	1,539,157	62,410
Aug.	151,942	26,820	144,897	1,406,019	133,872	5,526	1,842,257	3,080	1,541,670	56,673
Sept.	152,446	26,443	147,911	1,403,663	134,541	5,531	1,844,091	2,892	1,539,861	46,961
Oct.	151,446	26,052	148,078	1,426,601	134,425	5,511	1,866,061	2,846	1,562,729	61,508
Nov.	154,191	25,891	147,214	1,427,147	134,615	5,491	1,868,657	3,016	1,564,784	58,778
Dec.	155,797	25,195	129,862	1,418,733	133,196	5,426	1,843,015	2,897	1,555,056	43,249
2011 – Jan.	158,560	24,384	138,152	1,444,008	133,816	5,399	1,879,935	2,833	1,579,927	76,673
Feb.	152,571	23,989	139,797	1,442,039	135,487	6,072	1,875,965	2,804	1,578,119	61,218

(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”.