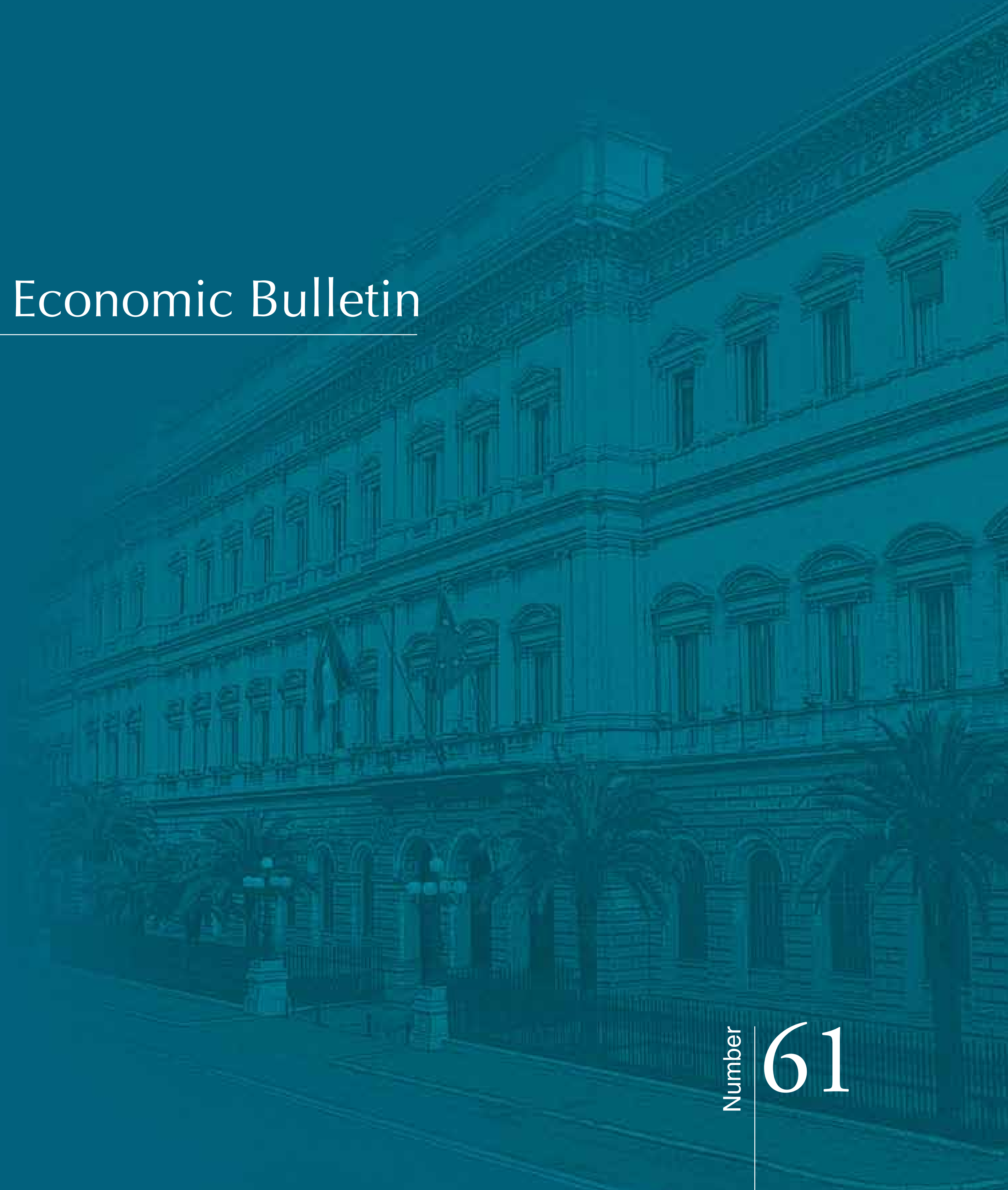
BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin



July 2011

Number 61

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For the paper-based version: registration with the Court of Rome No. 426, 19 September 1985
For the electronic version: registration with the Court of Rome No. 9/2008, 21 January 2008

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ISSN 0393-7704

Based on data available on 13 July 2011, unless otherwise indicated

Printed by the Printing Office of the Bank of Italy, Rome, July 2011

CONTENTS

LIST OF BOXES

SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

The prospects for growth and the performance of the financial markets are weighed down by the sovereign debt crisis in the euro area. In recent weeks the tensions have increased and spread, now also involving Italy.

The world economy continues to grow, but more moderately

The world economy slowed in the first quarter of 2011, restrained by the slackening of growth in the United States and the sharp contraction in Japan, where the economic repercussions of the earthquake have proved worse than expected. In the emerging countries output has continued to expand at a rapid pace, although signs of a slowdown have been observed in some.

Inflation increases, especially in the emerging economies

Commodity prices, which had risen in previous months, declined in the second quarter, although not below the levels obtaining at the beginning of the year. In the advanced economies core inflation remains fairly low; the rise in raw material prices has not significantly affected inflation expectations. In the emerging countries, on the other hand, higher commodity prices are driving a sharp rise in inflation, which is being countered with measures to make monetary conditions less accommodating.

Euro-area growth strengthens in the first quarter, and continues at a more moderate pace in the second

The acceleration in euro-area GDP in the first quarter of the year reflects the recovery of investment in construction – which had contracted in earlier months, especially in Germany, owing to bad weather – and faster growth in expenditure on capital goods. The expansion in output appears to have continued in the second quarter at a more moderate pace. The €-coin indicator developed by the Bank of Italy, which estimates quarterly economic growth net of the most volatile components, fell slightly in June.

The ECB Governing Council raises official interest rates

Inflation as measured by the harmonized index of consumer prices in the euro area rose to a twelve-month rate of 2.7 per cent in June. To contain the risk of an increase in inflation and to prevent a worsening of expectations, in July the Governing Council of the ECB increased its minimum rate on main refinancing operations by 25 basis points to 1.50 per cent. The main government and private forecasters estimated that inflation would fall back below 2 per cent in 2012.

Tensions in the financial markets increase ...

Volatility in the financial markets began to increase again in spring, as a result of mounting uncertainty about the strength of the international recovery and renewed pressures on euro-area sovereign debt. Despite the fact that Greece's Parliament approved a new package to adjust the public finances, and the Eurogroup decided on 2 July to disburse a further tranche of the loan to Greece, since the start of June pressures on the financial markets have increased and spread as a result of the persistent uncertainty about the outlook for the public finances in some countries.

... and also affect Italy

In the last few days, these tensions have also affected Italy. This is reflected in share prices and the spread between 10-year BTP yields and those of the corresponding German bonds, which reached its highest level since the beginning of the Monetary Union, making consolidation of the public finances even more urgent.

The Government presents its package to balance the budget

On 30 June the Government drew up a package for the public finances to achieve a balanced budget in 2014 and to rapidly reduce the debt/GDP ratio. This took the form of a decree law and a draft enabling *law for fiscal and social welfare reform. In the original draft, the measures of the decree law were valued at almost €18 billion in 2013 and more than €25 billion in 2014; the measures to be defined with the implementation of the enabling law would have reduced the deficit by almost €2 billion in 2013 and €15 billion in 2014. The amendments to the decree law introduced during parliamentary discussions strengthened the package and further improved the budget outturns for the four-year period 2011-14.*

The budgetary adjustment is in addition to the measures approved in 2010, which in 2012 were already officially estimated to bring the deficit below the threshold of 3 per cent of GDP and achieve an initial reduction in the debt ratio.

Growth in Italy continues to be modest in the first quarter ...

In the first quarter of this year growth in Italy was barely positive. Compared with the last part of 2010, an improvement in exports was offset by stagnant domestic demand. Households' spending decisions were affected by the weak growth in real incomes, which are held back by conditions in the labour market and accelerating consumer prices.

... but catches up with the euro-area average in the second

According to Bank of Italy estimates, growth nonetheless gathered pace in the second quarter and proceeded in line with the euro-area average. It was sustained by the recovery in industrial production, which ended the stagnation dating back to the previous autumn. The latest cyclical indicators suggest that the strength of the recovery is uncertain: after accelerating in April, industrial activity weakened.

Inflation has risen but should fall gradually towards the end of the year

In June inflation, as measured by the consumer price index, rose to 2.7 per cent. Excluding the energy and food components, it amounted to 2.0 per cent. Consumer price inflation is expected to decline to below 2 per cent in 2012 as the effects of the rise in commodity prices wear off.

The growth in lending remains strong and bank profitability improves

Bank lending to the private sector continues to expand at a rapid pace, faster than the euro-area average. Credit institutions' fund-raising has accelerated significantly. Their profitability has improved, thanks to increased operating profit and a reduction in provisioning and value adjustments for deterioration in loan quality. Largely as a result of capital strengthening, the capital ratios of the largest Italian banking groups have risen significantly. The core tier 1 ratio rose from 7.4 in December to 7.8 in March and is estimated to have risen further, to about 8.6, thanks to recapitalizations completed since then.

Italian growth will remain moderate

We project Italian GDP growth of 1.0 per cent this year and 1.1 per cent in 2012. The main contribution to growth will continue to come from exports, but given the simultaneous expansion of imports the net contribution of foreign trade will be practically nil in 2011 and slightly positive in 2012. The recovery in investment will strengthen gradually. Consumption will grow less than GDP.

The risks

The macroeconomic scenario is subject to considerable uncertainty. The main risks involve the possible slackening of the global recovery and developments in the sovereign debt crisis within the euro area. In the short term the cost of the recent widening of yield spreads on Italian government securities will be limited, but if the current spreads were to persist they would entail very substantial costs for the public finances and have repercussions on the cost of finance to the economy. The consolidation of the public finances is essential to foster a fall in risk premiums, a decline in long-term interest rates, and hence the expansion of economic activity. The Government's budget package is a step in this direction. Recourse to increased taxation must be limited. The public finance correction must be accompanied by credible and effective structural measures to raise the potential growth rate of the Italian economy.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

The world economy continues to grow moderately

The world economy slowed in the first quarter of 2011, despite continuing robust growth in the emerging countries; the deceleration reflects a weakening in some of the main advanced countries. Among these, the contraction in activity in Japan and the slowdown in the United States more than offset the strengthening of the euro area and the UK's return to growth.

Prices continued to accelerate, driven by rising commodity prices, primarily in the emerging countries where food and energy goods weigh more heavily in the consumer basket and production is close to capacity.

The most recent economic indicators show that in the second quarter the rate of growth in the United States remained the same as in the first and diminished in the euro area and the UK. In Japan, following the sharp contraction in the first quarter, GDP apparently declined in the second as well. The rate of growth in the main emerging economies showed signs of easing. Since April, the data indicate a weakening in the growth of international trade, following an acceleration in the first quarter.

The IMF's latest forecast is that the world economy will slow to average growth of 4.3 per cent this year and accelerate slightly in 2012 (Table 1). The forecast was revised downwards, from 4.4 per cent, mainly due to the worsening of the outlook for the Japanese economy. It was confirmed that the recovery is not uniform: in the advanced countries GDP growth is expected to work out at 2.2 per cent, against 6.6 per cent in the emerging economies. The main risk factors for the former are the persistent weakness of the labour and real-estate markets in the United States, and the sovereign debt pressure in the euro area. In the emerging economies fears are linked to the risk of overheating and a possible inflationary spiral.

The price of oil falls and futures prices suggest it will stabilize

In recent months pressures on commodity prices have eased with the slowdown in the world economy. According to the indications implicit in futures contracts for Brent grade, the price of oil, which was $119.70 a barrel at the beginning of July,

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

		IMF		Consensus Economics	
	2010	2011	2012	2011	2012
GDP					
World	**5.1**	**4.3**	**4.5**	–	–
Advanced *countries*	**3.0**	**2.2**	**2.6**	–	–
Euro area	*1.8*	*2.0*	*1.7*	*2.0*	*1.7*
Japan	*4.0*	*-0.7*	*2.9*	*-0.7*	*3.2*
United Kingdom	*1.3*	*1.5*	*2.3*	*1.6*	*2.1*
United States	*2.9*	*2.5*	*2.7*	*2.5*	*3.1*
Emerging countries	**7.4**	**6.6**	**6.4**	–	–
Brazil	*7.5*	*4.1*	*3.6*	*4.1*	*4.2*
China	*10.3*	*9.6*	*9.5*	*9.2*	*8.8*
India (1)	*10.4*	*8.2*	*7.8*	*8.0*	*8.4*
Russia	*4.0*	*4.8*	*4.5*	*4.6*	*4.5*
World Trade (2)	**12.4**	**8.2**	**6.7**	–	–

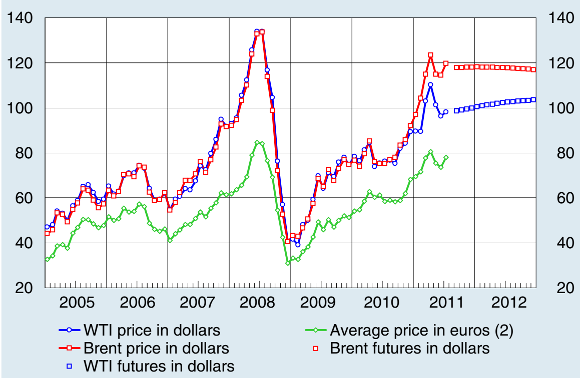
Sources: IMF, *World Economic Outlook Update,* June 2011; Consensus Economics, various publications, June 2011.
(1) The Consensus Economics forecasts refer to the fiscal year. – (2) Goods and services.

should stabilize slightly below that level in the next few months (Figure 1).

In the first quarter the US deficit on current account increased slightly to 3.2 per cent of GDP, while China's surplus more than halved to 2.0 per cent, owing to seasonal effects and the increase in value of imports due to higher commodity prices. Japan's surplus was also significantly reduced, to 2.6 per cent, while those of the ASEAN-4 countries (Indonesia, Malaysia, the Philippines, and Thailand) increased.

Figure 1

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



Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 13 July 2011. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

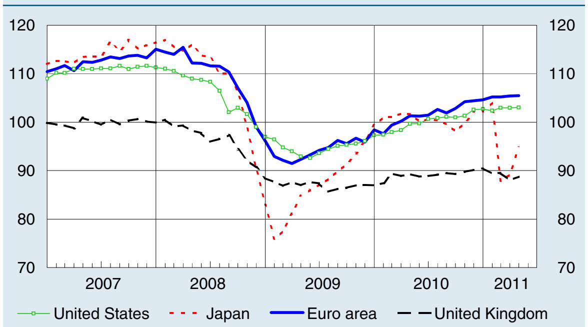
2.2 THE MAIN INDUSTRIAL AND EMERGING COUNTRIES

In the United States economic activity slows ...

In the first quarter of 2011, GDP growth in the United States fell to an annualized rate of 1.9 per cent, below analysts' expectations. The decline in public expenditure, especially military spending, subtracted 1.2 percentage points from the growth in output. The weakening of activity also reflected the slowdown in investment and household consumption, which were restrained by the rise in prices of energy and food products, among other factors. The build-up of inventories added 1.3 percentage points to growth, while the contribution of net exports was barely positive.

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; indices, 2003=100.

According to the main forecasters, in the second quarter the economy continued to grow at about the same moderate pace as in the first. Industrial activity remained weak (Figure 2), presumably suffering from the impact of the Japanese earthquake on the supply chain of intermediate goods. On the demand side, private consumption, held back by the stagnation in disposable income, was flat in April and May.

... and unemployment begins to grow again

Following its decline in the first quarter, the US unemployment rate turned upwards, rising to 9.2 per cent in June from 8.8 per cent in March. The increase reflected both the fall in employment (530,000 in the second quarter) and the expansion of the labour force (about 1.5 million). The same period also saw applications for unemployment benefits increase and the average term of unemployment lengthen to nearly 40 weeks. The participation rate and the employment rate remained practically unchanged, both well below the pre-recession levels.

The housing market remained in the doldrums. In April and May the number of new house sales was very low again and prices continued to decline. The prices of futures on the Case-Shiller 10-city index indicate that in 2011 prices will decline again over the year as a whole, falling by about 3 per cent in nominal terms compared with 2010.

Japan's GDP falls sharply in the first quarter and appears to contract again in the second

In Japan, the effects of the recent earthquake have proved worse than expected (see the box "The economic consequences of the earthquake in Japan", *Economic Bulletin*, April 2011). In the first three months of 2011 GDP fell by 3.5 per cent on an annualized basis (compared with 2.9 per cent in the previous quarter). All the components of demand except residential investment and public consumption expenditure contributed to the decline. The latest data point to a further drop in GDP in the second quarter.

Activity begins to expand again in the United Kingdom

British GDP grew at an annualized rate of 1.9 per cent in the first quarter, lifted by general government expenditure and net exports, whose contribution was due in part to the decline in imports following the introduction of new indirect taxes on some categories of goods purchased abroad. However, the latest cyclical indicators suggest a slowdown in activity: in April and May retail sales stagnated and the PMI indices, though holding above the threshold compatible with an expansion, declined both in manufacturing and in services.

Inflation rises further in the advanced countries

Inflation continued to pick up during the spring in the main advanced economies, although it remained moderate if the most volatile components are stripped out. In the United States the twelve-month inflation rate rose to 3.6 per cent in May from 3.2 per cent in April (Figure 3); net of the energy and food components, it increased to 1.5 per cent (from 1.3 per cent). In the United Kingdom the inflation rate remained high (4.5 per cent in May and 4.2 per cent in June), still reflecting the recent increase in indirect taxes; however, core inflation came down to 2.7 per cent, 1 point lower than in April. In Japan, after months of stability, prices turned upwards in April: twelve-month inflation rose to 0.3 per cent and then maintained the same pace in May.

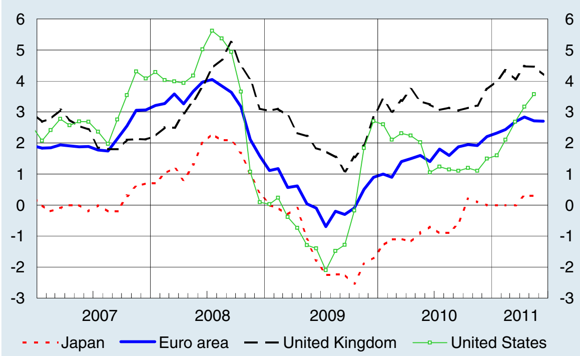
The central banks maintain an expansive stance

The stance of monetary policy in the advanced countries has remained extremely expansive. In June the Federal Reserve lowered its forecast for US economic growth both this year and next and left the target range for the federal funds rate unchanged at 0 to 0.25 per cent. The Fed confirmed that, given ample spare capacity and stable inflation expectations, official rates will probably continue to be held at exceptionally low levels for an extended period of time. The programme of purchases of public bonds announced last November (so-called QE2) ended in June as scheduled; by contrast, the Fed will not end its reinvestment in Treasury securities of principal

Figure 3

Consumer price inflation in the main advanced economies (1)

(monthly data; twelve-month percentage changes)

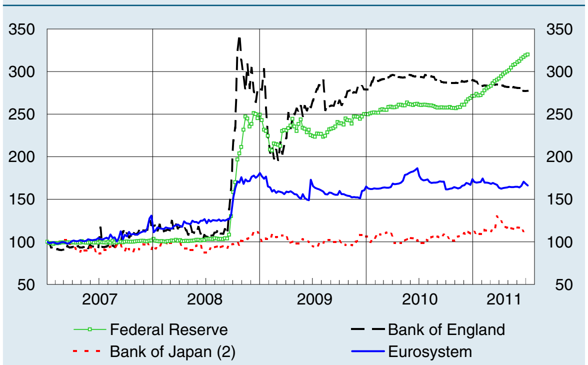


Source: Thomson Reuters Datastream.
(1) For the euro area and the United Kingdom, harmonized consumer prices.

Figure 4

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

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



Source: Thomson Reuters Datastream.
(1) Total assets. – (2) Ten-day data.

payments on its holdings of federal agency debt and mortgage-backed securities. From the beginning of April to 8 July, the financial assets on the Fed's balance sheet grew by about $257 billion (Figure 4).

The Bank of Japan, faced with the persistent slackness of prices, left the monetary policy reference rate corridor unchanged at 0 to 0.1 per cent. In addition, to supply liquidity to financial institutions located in the areas stricken by the earthquake and to assist equity investment by the financial institutions already admitted as counterparties in its securities purchase programme, in April and June it established two new credit lines amounting respectively to ¥1 trillion for one year and ¥500 billion for two years. The securities purchase programme is continuing. The Bank of England left its policy rate unchanged at 0.5 per cent and maintained its financial asset purchase target of £200 billion (14 per cent of GDP).

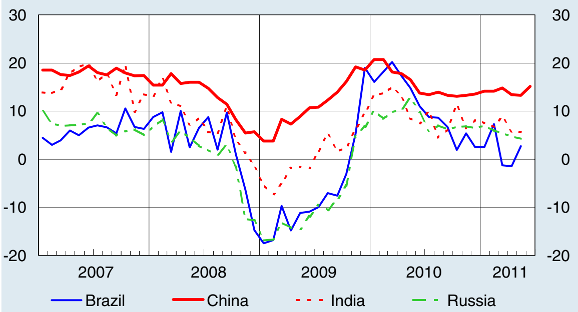
Growth remains robust in the main emerging economies at the start of the year, but there are signs of its moderating

In the first quarter of 2011 economic activity continued to expand at generally high rates in the main emerging economies. In China, GDP grew by 9.7 per cent year on year; in contrast with the pattern of the past, contributions came from an expansion in public and private consumption, set against a deceleration in investment and a braking effect from net exports. Economic activity gained pace in Brazil, the annualized increase in GDP rising to 5.4 per cent. In the same quarter it moderated slightly in both India and Russia, to 7.8 and 4.1 per cent, respectively, year on year. Despite some recent signs of easing (Figure 5), the rapid growth in these countries (9.5 per cent in China in the second quarter) threatens to reinforce the inflationary pressures deriving from the rise in commodity prices, which are passing through to unit labour costs (see the box below). To counter these developments, the central banks proceeded to make monetary conditions less accommodating, both by raising interest rates (all four countries) and by increasing compulsory reserve ratios (China and Russia).

Figure 5

Industrial production in the BRIC countries

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



Sources: Thomson Reuters Datastream and national statistics.
(1) Total assets. – (2) Ten-day data.

INFLATION IN THE MAIN EMERGING COUNTRIES

For some months inflation has gathered pace again in many emerging economies; between August 2010 and May 2011 consumer price inflation in the 22 main countries rose from 4.7 to 6 per cent. In China, India, Brazil, Russia, Poland and Turkey inflation is above the average of the last five years and the objective set by the monetary policy authorities (Figure A). According to the data available to date, inflation rose further in June, particularly in China and Brazil.

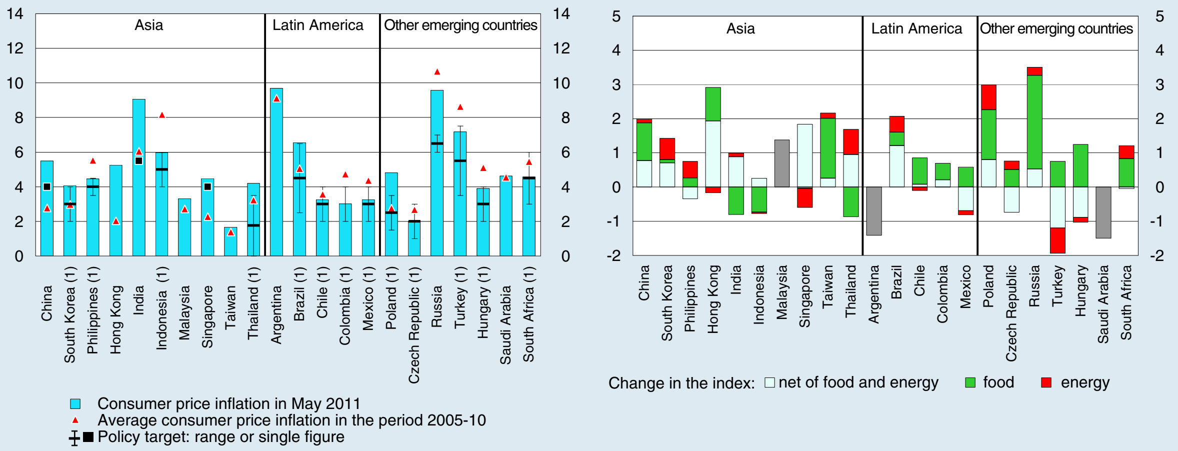
The acceleration in inflation was triggered by the rise in the international prices of food and energy commodities, by 33 and 40 per cent respectively in the twelve months ending in May 2011. In addition to interruptions, sometimes temporary, on the supply side, the increases reflected demand factors related to the rapid economic growth in the emerging countries, which has lately been faster than expected.

The swift transmission of the increases in international prices to domestic prices is due to the importance of food products in the consumption baskets of many emerging countries (about 38 per cent in Russia, 30 per cent in China and 23 per cent in Brazil) and the growing share of energy

Figure A

Consumer price inflation and contributions to the change in the period August 2010-May 2011 (1) (2)

(per cent)



Sources: Based on OECD data and national statistics.
(1) Countries with an inflation-targeting regime. – (2) For India, wholesale prices.

products. In economies that were hardly affected by the 2008-09 crisis, such as China, India and Brazil, the sharp recovery in domestic demand coupled with almost full utilization of the factors of production caused inflation to spread rapidly to the rest of the economy, owing in part to larger wage demands (Figure A). In the main emerging countries as a whole, underlying inflation rose to 4 per cent in May, about one percentage point higher than in August 2010.

The increase in domestic demand was driven by abundant liquidity, especially in Asia and Latin America. In the largest economies the growth in bank lending to the private sector remained robust, both during and after the crisis, thanks to the counter-cyclical support provided by the authorities. From the second half of 2009 onwards the recovery in capital inflows also contributed. In these countries as a whole the twelve-month expansion in domestic credit in May was still close to 20 per cent. In many emerging countries the ratio between lending to the private sector and GDP rose above the pre-crisis level, pushing up the prices of financial assets and real estate (Figure B).

The central banks of the emerging countries gradually tightened monetary conditions from the early months of 2010 onwards. Faced with evidence of economic overheating and deteriorating inflation expectations, the restrictive measures were intensified from the spring of this year. The official interest rate was raised by a total of 3.5 percentage points in Brazil (to 12.25 per cent), by 4.75 points in Chile (to 5.25 per cent) and by 2.75 points in India (to 7.5 per cent).

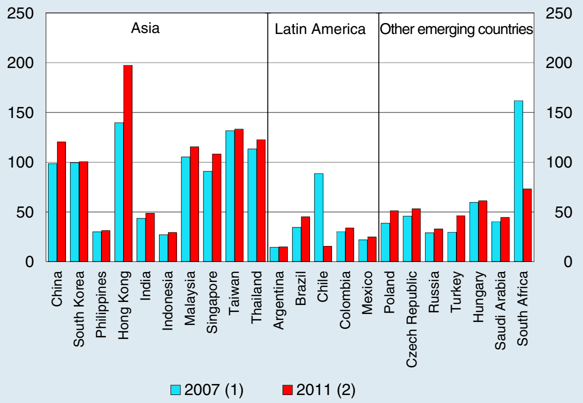
Fearing that wider interest rate differentials could further encourage speculative inflows of capital from abroad, some countries adopted other measures to absorb liquidity, such as raising banks' compulsory reserve requirement. The Chinese authorities increased the ratio by 6 percentage points to 21.5 per cent, as against an increase of only 1.25 percentage points in the reference interest rate, to 6.6 per cent. In Turkey the ratio was raised by 10 percentage points to 16 per cent on sight and short-term deposits, as against a small reduction in the official interest rate. In Russia the authorities raised the compulsory reserve ratio on liabilities denominated in foreign currency by 3 percentage points to 5.5 per cent and the official interest rate by only half a point, to 8.25 per cent. In many cases the interventions were accompanied by macro-prudential measures aimed at restricting the flow of credit to sectors that showed signs of overheating (including the property sector). In the countries with more open financial systems and flexible exchange rates, such as Brazil, upward pressure on the exchange rate was countered by imposing taxes on capital inflows in order to discourage those of a speculative nature.

Despite the restrictive measures, monetary conditions are still expansionary in many cases. Real interest rates have fallen in several countries, especially in Asia, and have turned negative in India, South Korea, Russia and Turkey. Although the growth in the monetary aggregates has slowed, it is still rapid, especially in the countries where the authorities have continued to counter the upward pressure on the exchange rate by accumulating only partly sterilized foreign currency reserves.

Figure B

Domestic credit to the private sector

(as a percentage of GDP)



Sources: Based on IMF data and national statistics.
(1) End of period. For Indonesia, November 2009. – (2) Latest figure available. For the Philippines, December 2010.

In the last month, faced with a weakening of international commodity prices and signs of a slowdown in economic activity, inflation expectations have stabilized, albeit at higher levels than those prevailing at the beginning of the year. According to the June figures published by Consensus Economics, consumer price inflation in the main emerging countries is expected to be 5.6 per cent in 2011 and to fall to 4.8 per cent in 2012.

In the countries in which the credibility of the central bank is less firmly established, such as China, India and Russia, inflation could prove to be more persistent than expected and lead the monetary authorities to intensify their restrictive action. If this is overdone, it could adversely affect these countries' short-term growth prospects and be accompanied by instability in the prices of financial assets. At present, however, these risks appear limited.

2.3 THE EURO AREA

GDP accelerates in the first quarter ...

Euro-area GDP grew by 0.8 per cent in the first quarter of 2011, following the modest increase recorded at the end of 2010. The acceleration was partly temporary, reflecting an upturn in investment in construction, which grew by 1.2 per cent after contracting in the fourth quarter owing to bad weather, and growth of 2.6 per cent in purchases of capital goods. Household expenditure continued to expand slowly, increasing by 0.2 per cent. The 1.9 per cent surge in exports was partly offset by the rise in imports (1.4 per cent).

Divergences between the main countries persisted. The German economy expanded at almost twice the pace of the area as a whole; in France GDP growth was 0.9 per cent and in Italy 0.1 per cent.

... returning to slower growth in the following months

The cyclical indicators point to a return to slower economic growth in the second quarter. In June, signs of greater uncertainty about the strength of the recovery came from the deterioration in the Purchasing Managers Index for manufacturing and service firms. In the same month, the Bank of Italy's monthly €-coin indicator, which estimates quarterly economic growth net of the most volatile components, reached 0.52 per cent, more or less in line with the average value recorded since the middle of 2010 (Figure 6).

Consumer price inflation is 2.7 per cent in June

Euro-area inflation, measured by the harmonized index of consumer prices, reached a twelve-month rate of 2.7 per cent in June (Figure 7). The acceleration in the second quarter was due to the rise in the prices of processed food products and services, which was partly offset by the slowdown in energy prices.

Producer prices continue to rise at a rapid if decelerating pace

Producer prices continued to increase sharply in May (6.2 per cent) but slowed with respect to the previous months. Surveys of firms' expectations regarding selling prices point to a gradual easing of inflationary pressures.

Area-wide GDP is forecast to grow by 2.0 per cent in 2011 and 1.7 per cent in 2012

The professional forecasters surveyed by Consensus Economics in June project area-wide GDP growth of 2.0 per cent in 2011 and 1.7 per cent in 2012, generally in line with the forecasts of the main international institutions. According to the projections of Eurosystem experts, output growth will be between 1.5 and 2.3 per cent this year and between 0.6 and 2.8 per cent in 2012. According to the Consensus Economics June survey average inflation will fall to 1.9 per cent in 2012. Eurosystem projections released in the same month estimate that the price index will increase by between 2.5 and 2.7 per cent this year and between 1.1 and 2.3 per cent in 2012, assuming that medium- and long-term expectations remain anchored to the objective of price stability.

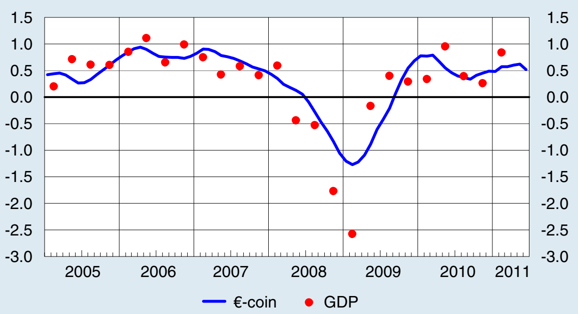
The growth in the money supply remains modest ...

The twelve-month growth rate of M3 in the euro area remained moderate at 2.4 per cent in May. The raising of official rates led to a widening of the yield differential between the various instruments included in the aggregate and continued to favour a shift from current accounts to fixed-term deposits up to 2 years.

Figure 6

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

(percentage changes)

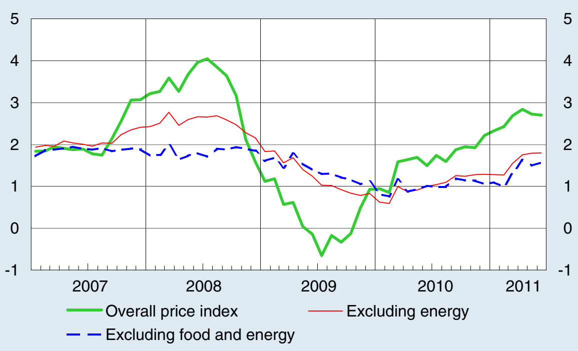


Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator, see the box "The €-coin indicator and the economic situation in the euro area" in *Economic Bulletin*, July 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly data; change on previous quarter. For €-coin, monthly estimates of the change in GDP on the previous quarter net of the most volatile components.

Figure 7

Inflation in the euro area (1)

(twelve-month percentage changes)



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

... as does the growth in credit

Bank credit to the non-financial private sector continued to expand in recent months, albeit moderately, reaching a seasonally adjusted annualized three-month growth rate, net of securitizations, of 2.2 per cent in May; lending to non-financial firms grew by 1.2 per cent and that to households by 3.0 per cent. According to the euro-area Bank Lending Survey, in the first quarter of 2011 lending conditions for firms became slightly more restrictive on average, mainly in the countries affected by sovereign debt tensions. Credit demand from firms apparently accelerated further, driven by the upturn in investment, the need for working capital, and persistently large funding requirements for debt restructuring. Terms were also tightened slightly on loans for house purchases, demand for which slackened.

The ECB Governing Council raises official rates

With monetary policy still accommodating, at its meeting at the beginning of July the ECB Governing Council decided to raise the rate on main refinancing operations by 25 basis points (the same as in April), bringing it to 1.50 per cent, in order to counter the risk of an increase in inflation and keep expectations stable (Figure 8).

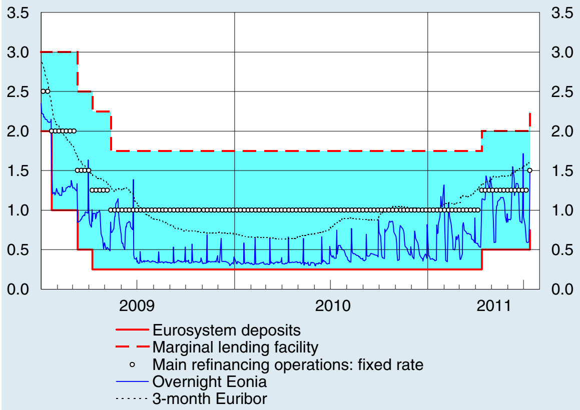
The Governing Council maintains its abundant support for liquidity. At the beginning of June it decided to continue conducting the main refinancing operations and the forthcoming three-month operations by way of a fixed-rate tender procedure with full allotment.

Given the situation of a moderate excess of liquidity, in recent months the average Eonia rate has been slightly below the fixed rate on main refinancing operations, albeit with large fluctuations. In the middle of July, three-month Euribor stood at 1.6 per cent, compared with 1.3 per cent in mid-April.

Figure 8

Official interest rates and money market rates in the euro area

(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

2.4 WORLD FINANCIAL MARKETS

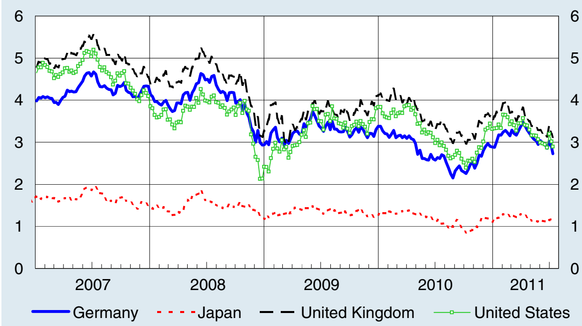
Long-term interest rates fall in the main advanced countries ...

In the second quarter of 2011 world financial markets were characterized by a fresh increase in volatility, triggered by mounting uncertainty over the outlook for US economic growth and renewed sovereign debt strains in some euro-area countries. The ensuing portfolio reallocation contributed to a fall in the yields on the government securities of the countries not involved in the public debt crisis, a stock market correction and a modest increase in the risk premiums on bank and corporate bonds.

Figure 9

Yields on ten-year government bonds

(end-of-week data; per cent)



Source: Thomson Reuters Datastream.

Government securities yields fell during the second quarter in nearly all the main advanced countries (Figure 9). From the levels of April the reduction ranged from 60 basis points in Germany to 15 basis points in Japan. After the end of May, there was also an increase in volatility in connection with the resurgence of pressure on euro-area sovereign debt and the continued weakness of the US labour and real-estate markets. The yield spreads between corporate bonds and government bonds with comparable characteristics widened, especially in the higher-risk segments (Figure 11).

... but sovereign debt tensions keep volatility high

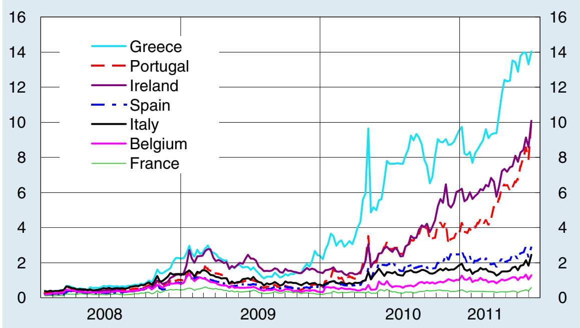
The pressures in the government securities markets of some euro-area countries intensified further during the second quarter. At its meeting of 17 May the European Council approved a financial assistance plan of €78 billion for

Portugal. Subsequently, the yield spreads between ten-year Portuguese, Greek and Irish government bonds and the corresponding German Bunds rose to new highs, reflecting both fears over Greek debt restructuring and new downgrades of Greece's and Portugal's credit rating (Figure 10). Financial markets improved temporarily following the Greek Parliament's approval of a new adjustment plan at the end of June and the Eurogroup's decision on 2 July to disburse a new loan tranche to Greece.

Figure 10

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

(end-of-week data; percentage points)



Source: Based on Bloomberg data. The latest available data refer to 8 July 2011.

The tensions increase in July ...

The sovereign debt tensions nonetheless flared up again after 5 July, following Moody's decision to downgrade Portuguese government paper to high-default-risk. On 12 July Irish government securities were similarly downgraded.

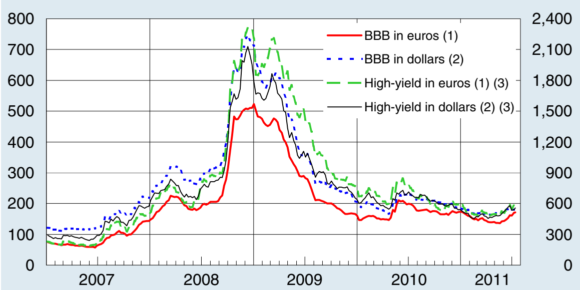
... and involve Italy

After narrowing in the first quarter, the spreads on Spanish, Italian and Belgian bonds also widened in the second quarter, by 48, 39 and 12 basis points respectively. In the first thirteen days of July they widened still further, and on the 11th of the month that between the benchmark Italian BTP and the corresponding Bund rose to the highest level since the adoption of the euro, 301 basis points, and stayed high in the following days. The increase in risk premiums on Italian government paper stemmed from investors' mounting worry over sovereign debt in the euro area. The widening was due partly to the fall in the yield on Bunds, reflecting the flight to quality.

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.

On 20 May Standard and Poor's revised its outlook for Italy to negative in connection with the risks of the debt reduction path, given the weakness of economic growth. On 17 June, for basically the same reasons, Moody's placed Italy's rating on review for possible downgrade; a few days later it did the same for 16 Italian banks.

Risk premiums on bank and corporate debt rise slightly

In the first quarter the leading international banking groups reported broadly stable earnings and improved balance-sheet situations compared with the previous quarter. The level of balance-sheet risk continued to diminish, and the other main indicators of financial soundness also improved. In May, however, the perceived default risk of the leading US and European banks began increasing, although it remained low. On 13 July CDS spreads averaged around 160 basis points, 35 more than at beginning of April.

CDS spreads on corporate bonds also increased. Those on euro-denominated bonds were about 1.7 percentage points on investment grade bonds (BBB) and 6.1 points for high-yield bonds. The spreads on the corresponding dollar-denominated securities were 1.8 and 5.6 percentage points, slightly lower than at the end of 2007 (Figure 11).

The main international stock markets, after recouping the losses that followed the Japanese earthquake in March, have fallen steeply since the beginning of May, and volatility has jumped. On 13 July the S&P 500 index for the United States was at about the same level as at the start of April, while the Dow Jones Euro Stoxx index of the largest euro-area corporations was down by 7.0 per cent (Figure 12). At first the corrections beginning in May reflected the signs of economic slowdown discernible in the latest cyclical indicators, subsequently the new flare-up of sovereign debt tensions within the euro area. The expected variability implied by the prices of index options increased slightly in the euro area (Figure 13).

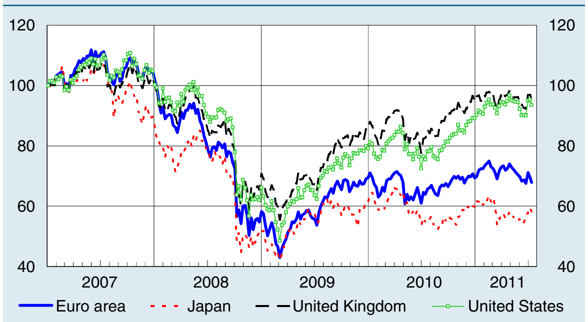
In the emerging countries financial conditions have remained generally relaxed. However, since May the shift in international portfolios towards less risky securities and the expectations of further rises in reference rates have reduced inflows of foreign capital to the share markets and lowered prices. The pressure on some euro-area government securities has had no significant repercussions on the debt of the emerging countries. Yield spreads between their long-term dollar-denominated sovereign debt and US Treasury bonds remained broadly stable and CDS spreads widened only marginally. International investment funds continued to purchase emerging-country bonds.

The euro remains stable

The strengthening of the euro against the main currencies ended in the second quarter. The tendency to appreciate produced by higher yields on short-term euro-denominated assets was offset by the worsening tensions in some member states' sovereign debt markets. After some fluctuations, the overall nominal effective exchange rate settled at the historically high levels reached in early April (Figure 14). In the three months to the end of June the euro appreciated against the dollar and sterling (by 1.7 and 2.1 per cent respectively), while depreciating against the yen (1.0 per cent).

Figure 12

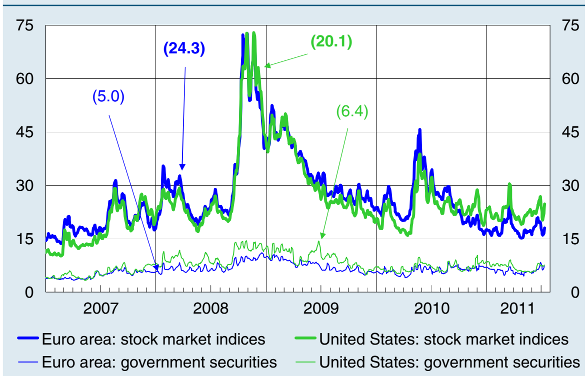
Stock market indices (1)
(end-of-week data; first week of January 2007=100)



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

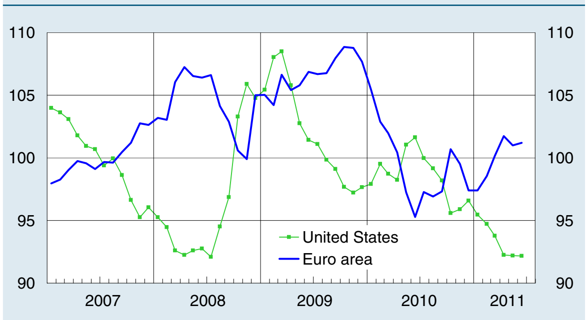
Implied volatility of stock market indices and government securities prices (1)
(percentage points; averages for the period 1999-2006 in brackets)



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.

In the first thirteen days of July the euro weakened against all the major currencies (Figure 15).

The renminbi continued to appreciate against the dollar in the second quarter, gaining about 1.3 per cent. In nominal effective terms the Chinese currency depreciated slightly; in real effective terms it remained practically unchanged. Since 19 June 2010, when the Chinese authorities restored greater exchange-rate flexibility, the currency has appreciated by 5.6 per cent overall against the dollar and depreciated by 7.2 per cent against the euro. Heightened risk aversion has been reflected in the sharp appreciation of the Swiss franc against all the other major currencies.

Figure 15

Bilateral exchange rates
(daily data)

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

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

Growth remains moderate in the first three months of 2011 ...

In the first quarter of 2011 Italy's GDP continued to grow at the same modest rate as at the end of 2010 (0.1 per cent on the previous period; Figure 16). While the contribution of international trade improved, thanks to an acceleration in exports and a slowdown in imports, national demand stagnated (Table 2).

The progress in household consumption was modest, as spending was discouraged by the still uncertain outlook for income and by levels of employment that were generally at a standstill in the early months of 2011. A recovery in investment in construction was almost entirely offset by reduced investment in capital goods.

... but strengthens in the second quarter

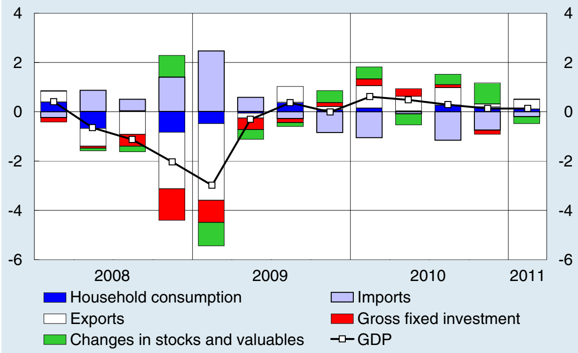
At the start of the second quarter, the cyclical indicators signalled slightly improved growth. The Bank of Italy estimates that industrial production averaged growth of about 1.5 per cent in the second quarter compared with the first, ending the standstill that had lasted since last autumn; the rate of GDP growth is expected to have risen to about 0.4 per cent.

The short-term outlook is still uncertain

However, in recent months the indicators resulting from the qualitative surveys, which incorporate firms' forecasts, seem to be more uncertain. The Purchasing Managers Index and manufacturing firms' confidence have worsened. The Bank of Italy's quarterly survey, conducted together with *Il Sole 24 Ore*, suggests a weakening of demand in the second half of the year.

Figure 16

GDP growth and the 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.

Table 2

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

	2010			2011	2010
	Q2	Q3	Q4	Q1	(1)
GDP	0.5	0.3	0.1	0.1	1.3
Total imports	0.4	4.5	2.8	0.7	10.5
National demand (2)	..	0.7	0.8	..	1.7
National consumption	0.2	0.2	0.1	0.3	0.6
household spending	*0.1*	*0.4*	*0.3*	*0.2*	*1.0*
other (3)	*0.4*	*-0.3*	*-0.6*	*0.5*	*-0.6*
Gross fixed investment	1.6	0.6	-0.8	0.1	2.5
construction	*-0.4*	*1.0*	*-1.2*	*0.4*	*-3.7*
other investment goods	*3.6*	*0.2*	*-0.5*	*-0.2*	*9.6*
Change in stocks and valuables (4)	-0.4	0.4	0.9	-0.3	0.7
Total exports	2.4	2.8	0.4	1.4	9.1

Source: Istat.
(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.

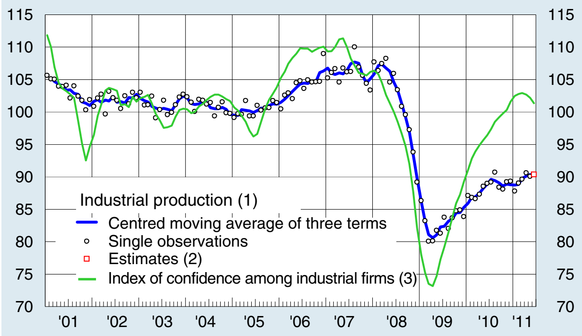
Inflation is expected to attenuate at the end of the year

The twelve-month rate of consumer price inflation rose to 2.7 per cent in June, driven by higher prices for processed food and some services; it should go down towards the end of the year. The risk of an upturn consists mainly in the possibility of renewed energy price rises.

Figure 17

Industrial production and business confidence

(monthly data)



Sources: Based on ISAE, Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; index, 2500=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, 2005=100; three-month moving average ending in the reference month.

3.2 FIRMS

Industrial production turns upwards in the second quarter ...

After slackening in the last part of 2010 and the early part of 2011, industrial activity showed signs of strengthening in the following months, rising in April by 1.1 per cent on the previous month (Figure 17). Even when account is taken of the renewal of the slowdown in the following two months based on the downturn observed in May and Bank of Italy figures for June, production is estimated to have increased in the second quarter by about 1.5 per cent compared with the first. From the start of the expansionary phase the rate of growth in industrial activity is in line with that in France but less than that in Germany (see the box "Export performance and the industrial recovery in Germany, France and Italy").

... but the strength of the recovery remains uncertain

Looking ahead, the strength of the recovery is still uncertain. In the spring the rising trend of the volume of orders weakened; the results of business opinion surveys deteriorated, ending the improvement under way for about two years. Similar signals came from the quarterly survey of a sample of industrial and service firms conducted in June by the Bank of Italy and *Il Sole 24 Ore*. Compared with March there was an increase in both the percentage of firms that considered economic conditions to be flat and of those that saw a deterioration. However, exporting firms, which were again the most dynamic, continued to have a strongly favourable view of the demand for their products. Assessments of the conditions for investment remained cautious.

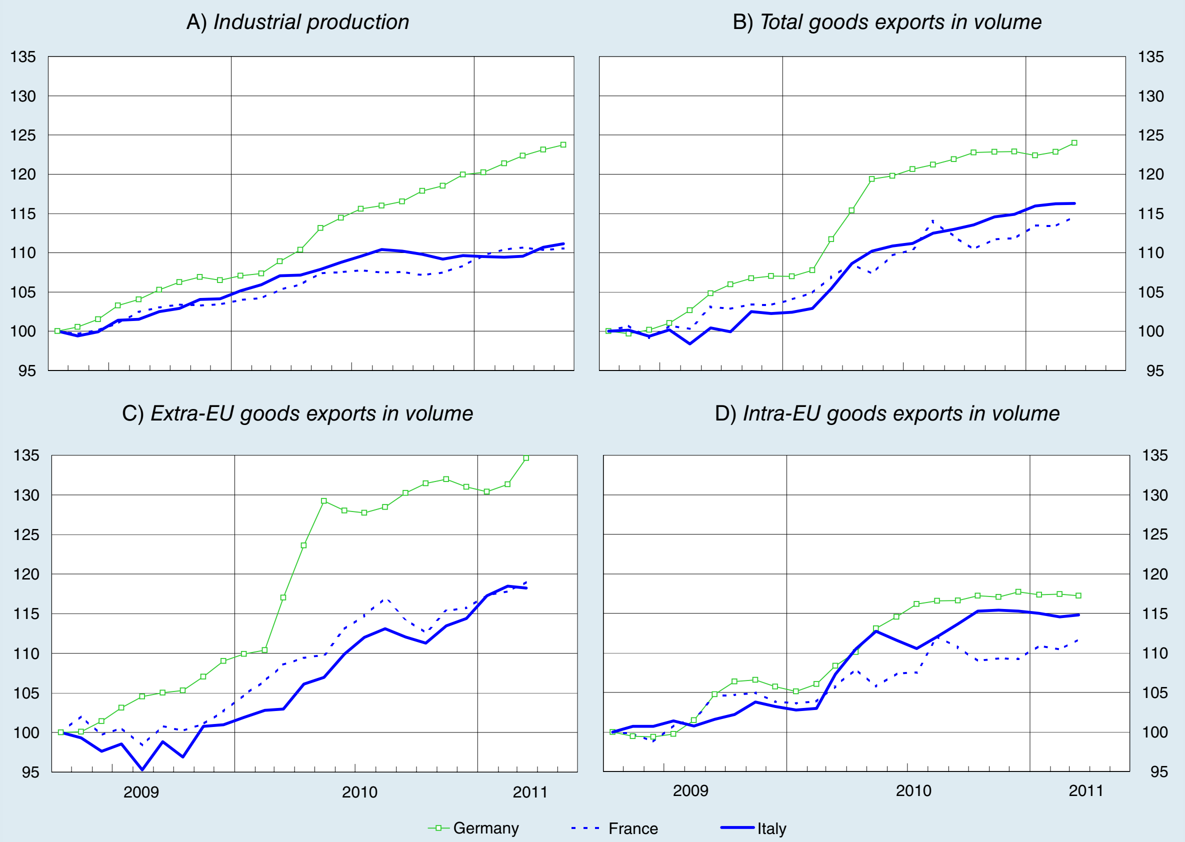
EXPORT PERFORMANCE AND THE INDUSTRIAL RECOVERY IN GERMANY, FRANCE AND ITALY

Between the cyclical low in the spring of 2009 and May of this year, industrial production grew by about 11 per cent in Italy and in France and by 24 per cent in Germany (figure).[1] In all three countries the expansion was led mainly by exports, thanks to the recovery in world trade. The greater support that exports provided in Germany reflects certain characteristics of the German economy.

The share of production going to exports is larger in German industry, and it has been increasing steadily for a decade now. Some 47 per cent of output in Germany is exported, compared with 37 per cent in France and 34 per cent in Italy. The greater importance of foreign sales for Germany holds for virtually all sectors of industry.

[1] To adjust for the volatility of the data, the variations reported here are based on three-term moving averages.

The recovery in industrial production and exports
(indices, April 2009 = 100; seasonally adjusted, three-term moving averages)



Sources: Based on Istat and Eurostat data.

In the course of the economic recovery, German producers have had great success in the emerging markets, where the expansion of world trade has been most rapid during this phase. Eurostat's trade figures indicate that between April 2009 and March 2011 the volume of German goods exports to non-EU countries increased by 35 per cent, nearly twice as much as French or Italian exports. The increase in the three countries' intra-EU exports, by contrast, was similar, in a range between 12 and 17 per cent.[2] Over the last two years the geographical distribution of German exports has changed significantly, to the benefit above all of China and the other emerging Asian economies (table). The geographical distribution of French and Italian exports has also shifted, but less substantially. Germany's exports to the most dynamic markets have been sustained both by its product specialization and by the steady strengthening of German manufacturers' competitive capacity over the last decade.

[2] The exact measure of the export growth gap between Italian or French and German exports during this period, while always significant, varies according to the source of the data. Foreign trade statistics for goods only, released by Eurostat based on a uniform methodology for all three countries, show Italy lagging by about 6 percentage points at current prices and 8 points at constant prices, France by 9 points both in value and in volume. According to national accounts data, the Italian lag widens to more than 11 percentage points at constant prices while the French lag holds at 9 points. The difference is due in part to different price deflation methodologies used by the national statistical institutes.

Geographical structure of exports at current prices
(per cent)

	German			French			Italian		
	2007	2009	2010	2007	2009	2010	2007	2009	2010
EU-27	64.7	62.4	60.4	65.5	62.4	60.9	60.9	57.6	57.3
EU-15	*53.4*	*51.6*	*49.3*	*60.4*	*57.6*	*56.0*	*51.8*	*48.7*	*48.4*
of which: Germany	–	–	–	*15.3*	*15.9*	*16.0*	*13.0*	*12.7*	*13.0*
Eastern Europe (1)	*11.2*	*10.7*	*11.0*	*4.9*	*4.6*	*4.7*	*8.7*	*8.3*	*8.4*
Extra EU-27	35.3	37.6	39.6	34.5	37.6	39.1	39.1	42.4	42.7
Russia and Turkey	*4.4*	*4.0*	*4.4*	*2.7*	*2.8*	*3.2*	*4.6*	*4.1*	*4.7*
US	*7.6*	*6.7*	*6.8*	*6.1*	*5.7*	*5.7*	*6.6*	*5.9*	*6.0*
OPEC (2)	*2.2*	*2.8*	*2.7*	*3.9*	*5.0*	*5.2*	*4.7*	*6.1*	*5.3*
China and DAEs (3)	*6.2*	*7.8*	*9.2*	*5.4*	*6.0*	*7.1*	*4.4*	*5.3*	*5.7*
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Based on Eurostat data.
(1) Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia. – (2) Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, Venezuela. – (3) Dynamic Asian economies: Hong Kong, Malaysia, Singapore, South Korea, Taiwan, Thailand.

The stimulus from exports also sustained parts of the German economy upstream from the export sectors proper. This indirect stimulus was especially significant for basic metals and chemicals, which supply intermediate inputs for the fastest-growing export industries, such as transport equipment. The value of German sales of transport equipment to non-EU markets jumped by 54 per cent in 2010, twice the gain recorded by France and four times that of Italy (sectoral trade flows within the Union varied more moderately and less unevenly, slightly to the advantage of Italian exports). Taking account of the relative shares of the various segments in industry overall, the German advantage over France and Italy in aggregate output depends on just a handful of sectors: transport equipment and electrical, electronic and precision machinery explain much of the gap for Italy and over half of it for France.

Total investment stagnates in the first quarter

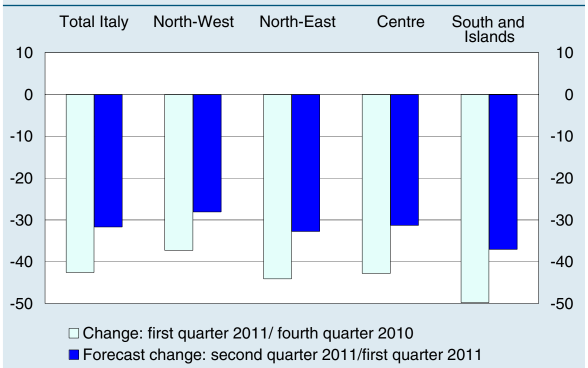
Weakened by the termination of incentives in June 2010, investment stagnated in the first quarter of 2011. A modest increase in spending on machinery, equipment and intangible assets was accompanied by a contraction in purchases of transport equipment. By contrast, investment in construction increased, driven by the non-residential component, although the outlook for the sector as a whole remains uncertain. Construction investment remained subdued in the spring.

The property market has not yet benefited from the recovery

The residential sector has not picked up yet. Housing sales, monitored by the Agenzia del Territorio, were down by almost 4 per cent in the first quarter of 2011 compared with a year earlier. On the basis of the quarterly survey of estate agents conducted in April by the Bank of Italy, Tecnoborsa and the Agenzia del Territorio, the difference between the percentage of respondents expecting a fall in prices and those forecasting a rise widened (Figure 18). Increases in the number

Figure 18

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



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

of new mandates to sell and in the number of outstanding mandates were accompanied by a further lengthening in the average time to sale; estate agents' assessments of the outlook for their local markets and for the national market deteriorated.

The appreciation of the euro impinges on competitiveness

The price competitiveness of Italian exporters, calculated on the basis of the producer prices of manufactured goods, deteriorated in the early months of this year (Figure 19), cancelling the improvement recorded in the last part of 2010. This result, which to a large extent reflected the appreciation of the euro, was comparable to that of France, whereas Germany achieved a small improvement, of just over one percentage point in April compared with six months earlier, thanks to the slower rise in producer prices.

Labour costs turn upwards

After falling for four successive quarters, unit labour costs in the private sector began to increase again in the first quarter of 2011, when they rose by 0.6 per cent compared with the year-earlier period (Figure 20). The increase in industry of 3.5 per cent, as against a decrease of 1.1 per cent in the last quarter of 2010, more than offset the fall in services. Above all the increase was due to cyclical factors, reflected in the acceleration of hourly earnings and the slowdown in productivity gains.

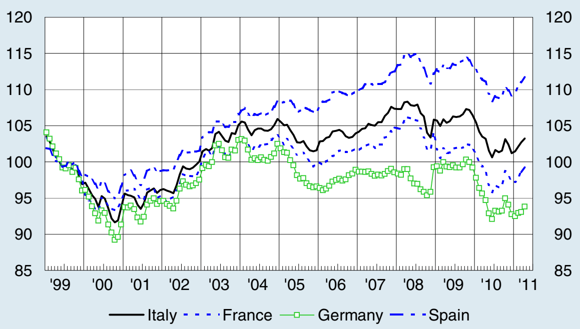
The decline in profitability continues and self-financing decreases

According to estimates based on national accounts data, firms' operating profitability (operating profit over value added) in the twelve months ending in March was slightly lower than in the twelve months to December, the second consecutive quarterly decline. Following the increase in net financial costs, firms' self-financing declined in relation to value added. At the same time the ratio of investment, including inventories, to value added rose, so that firms' borrowing requirement increased. Non-financial firms' debt increased in March, rising to 85.3 per cent of GDP (Figure 21), which was still nearly 20 percentage points below the euro-area average.

Figure 19

Indicators of competitiveness (1)

(indices, 1999=100)

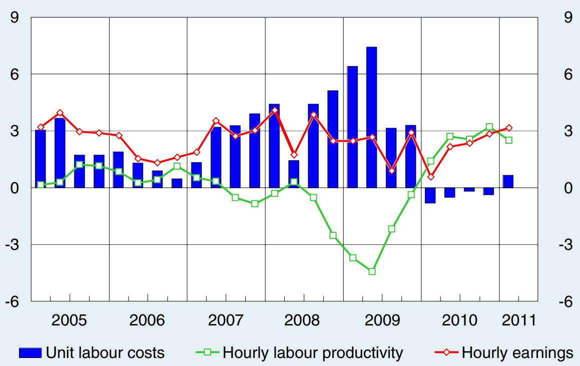


Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in the index indicates a loss of competitiveness. The latest data refer to April 2011.

Figure 20

Labour costs and productivity in the private sector (1)

(percentage changes on year-earlier period)

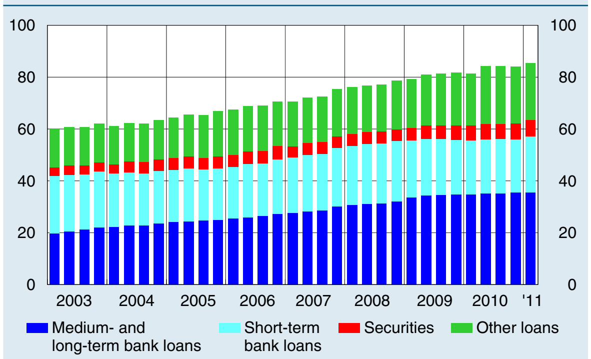


Source: Based on Istat data.
(1) Based on hours actually worked. The private sector comprises: agriculture, industry excluding construction, construction, wholesale and retail trade, lodging and catering, transport and communication, credit and insurance, real-estate and professional services.

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 first quarter of 2011 are provisional.

The growth rate of firms' bank debt remains unchanged

The twelve-month rate of change in non-financial firms' bank debt was 3.4 per cent in May, as in February. The rate for small firms continued to be lower than that for medium-sized and large firms (Figure 22).

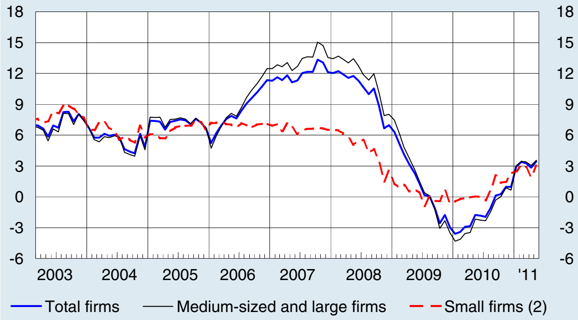
Firms make limited recourse to the bond market ...

In the first quarter of 2011 Italian non-financial corporations had limited recourse to the financial markets. Net bond issues fell to €413 million from €3 billion in the previous quarter, a larger fall than the average for the euro area. According to provisional Dealogic data on gross issues, in the second quarter of 2011 placements by companies belonging to Italian groups were again quite small, amounting to less than €2 billion.

Figure 22

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



(1) Non-financial corporations. 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.

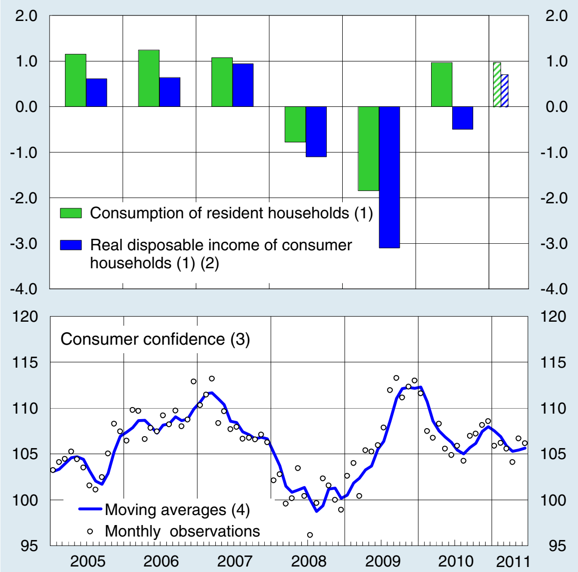
... while M&A activity picks up

After falling significantly in the previous quarter, fund-raising on the equity market picked up in the first quarter of 2011, rising to €315 million. M&A activity confirmed the signs of recovery shown in the fourth quarter of 2010; according to Thomson Reuters Datastream, in the first three months of 2011 Italian firms carried out 25 transactions worth a total of more than €2 billion. This result was in line with that in Germany (€2.6 billion) but much less than in France and Spain, where transactions amounted to €11 billion and €7 billion respectively. On the basis of provisional data, in the second quarter of 2011 M&A activity in Italy resulted in transactions amounting to about €1.6 billion.

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.

3.3 HOUSEHOLDS

Household spending remains sluggish ...

Household consumption grew by a modest 0.2 per cent in the first quarter. Most components of spending stagnated, with the exception of durable goods purchases, which recovered after contracting towards the end of 2010.

Consumption continues to be held back by the weakness of consumer households' disposable income, but some signs of recovery can be discerned. Preliminary estimates indicate that income rose by nearly 1 per cent in the first quarter in real terms compared with the year-earlier period (Figure 23), or by about 3 per cent in nominal terms.

... as the most recent indicators show

Cyclical indicators point to continued caution in consumer spending decisions in recent months. Retail sales were practically flat during the spring, new car registrations rose only slightly in the second quarter, and consumer confidence fell back to the levels registered in the middle of last year. Looking ahead, however, households' expectations for the labour market have improved recently, while fears of higher inflation are gradually subsiding.

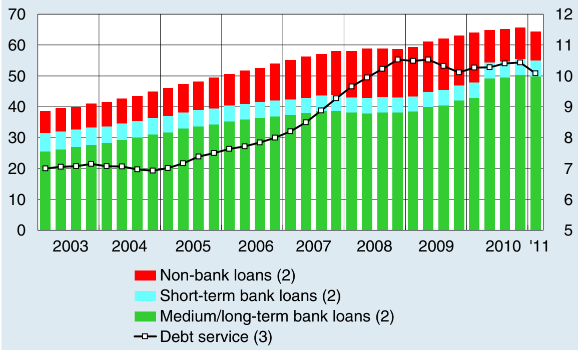
Households' debt diminishes

In the first quarter household debt diminished, falling to 64.4 per cent of disposable income in March (Figure 24). The ratio to income of medium- and long-term debt to banks and of debt to other intermediaries decreased, while that of short-term bank debt increased. Italian households' indebtedness is still considerably below the euro-area average of 99 per cent of disposable income in December, and their debt service payments (interest and principal) fell from 10.4 per cent of disposable income in December to 10.1 per cent in March. The interest rates on loans for house purchases and consumer credit rose marginally on average in the first quarter (Figure 25).

Figure 24

Household debt (1)

(as a percentage of gross disposable income)

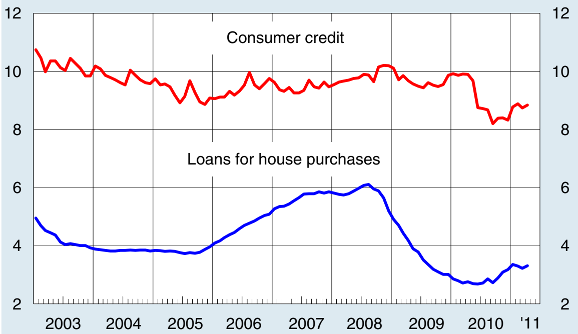


Sources: Based on Bank of Italy and Istat data.
1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the last period are provisional. Includes securitized loans. – (2) There is a break in statistics on the distribution between bank and non-bank loans for the second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

Figure 25

Interest rates on loans to households: APRC on new business (1)

(monthly data; per cent)



(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 size of the loans.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Exports accelerate in the first quarter of 2011

Exports of goods and services accelerated in the first three months of 2011 to quarter-on-quarter volume growth of 1.4 per cent, from 0.4 per cent in the previous quarter, buoyed by the progress of demand in the main outlet markets. According to foreign trade data, the increase in exports of goods was concentrated in markets outside the EU, particularly the United States, China and other emerging countries of Asia. After significant increases in the preceding quarters, exports to Germany stagnated, and those to the other major EU countries diminished. Non-electronic machinery and equipment, electrical apparatus and chemicals were among the sectors that drove the increase in volumes. Exports of goods at constant prices are still 13 per cent below the pre-recession peaks; from a comparative perspective, the recovery in exports has been stronger in Germany (see the box "Export performance and the industrial recovery in Germany, France and Italy").

Imports slow after two quarters of sharp gains

Imports of goods and services slowed in the first quarter to volume growth of 0.7 per cent, after expanding rapidly in the second half of 2010 (4.5 per cent in the third quarter and 2.8 per cent in the fourth). The deceleration reflected the drop in purchases of electronic products, especially photovoltaic cells for electricity generation: imports in this sector remained massive but were far below the exceptional levels of the fourth quarter, when they were spurred by the impending expiry of public incentives (subsequently renewed on less generous terms). The impact of the decline was greatest on imports from China, which is specialized in photovoltaic technology. By contrast, imports of non-electronic machinery and equipment, transport equipment and metals expanded.

Table 3

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

	2009	2010	Jan-Apr. 2010	Jan.-Apr. 2011
Current account	**-30.3**	**-53.5**	**-20.1**	**-27.9**
Goods	0.8	-20.4	-7.0	-14.9
non-energy products (2)	*41.5*	*30.9*	*9.5*	*6.8*
energy products (2)	*-40.7*	*-51.3*	*-16.5*	*-21.6*
Services	-8.4	-8.8	-3.7	-4.2
Income	-10.4	-8.2	-1.6	-1.2
Current transfers	-12.3	-16.1	-7.8	-7.6
Capital account	**-0.1**	**-0.5**	**-0.4**	**-0.2**
Financial account	**37.3**	**88.7**	**14.4**	**2.7**
Direct investment	-0.9	-8.7	-0.3	-8.4
Portfolio investment	28.1	38.5	0.3	-0.2
Financial derivatives	4.3	2.4	0.7	3.8
Other investment	5.7	57.6	14.3	6.9
Change in official reserves	0.1	-1.0	-0.6	0.6
Errors and omissions	**-7.0**	**-34.7**	**6.0**	**25.4**

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

Signs of trade weakness appear in April and May

Against the background of a slowing in world trade, imports and exports expanded at a more moderate pace in April. In May, the data in value terms limited to non-EU countries showed a decrease in both exports and imports.

The current account deficit widens

The deficit on the current account of the balance of payments widened further in the first four months of 2011, reaching €27.9 billion, compared with €20.1 billion a year earlier (Table 3). The chief contributor was the increase of more than €5 billion in the deficit on energy products due to the jump in oil prices; the surplus on non-energy goods declined by €2.7 billion, largely because of the expansion in imports of photovoltaic components with respect to the first four months of 2010. In services, the deficit on transport and "other services" widened, while the balance on foreign travel remained practically unchanged. The balance on income continues to show a very modest deficit, benefiting from low interest rates which, given Italy's debtor position, impinge more on outflows than on inflows.

Direct investment resumes growing

Direct investment, which did not revive in 2010 as it did in other countries, has now returned to growth. In the first four months of 2011 both Italian direct investment abroad and foreign direct investment in Italy nearly equalled their totals for all of the previous year (€14.4 billion and €6.0 billion, respectively), driven by the resurgence of mergers and acquisitions. Italian portfolio investment abroad (€11.0 billion) went exclusively to equities and investment fund units, continuing the gradual reallocation of assets under way since the second half of 2009, after investors displayed a preference for debt securities during the worst phase of the crisis. Foreign portfolio investment in Italy amounted to €10.9 billion, of which €6.6 billion in equities and €4.3 billion in debt securities; purchases of Italian government securities did not match the high levels of the previous year.

3.5 THE LABOUR MARKET

Employment stagnates and the unemployment rate declines slightly

Employment stagnated over the first five months of the year and in April and May was at the average level of the last few months of 2010. The tentative recovery that had begun during the autumn was countered by the still high proportion of employees on wage supplementation and the persistent troubles of the construction industry (the only sector where employment is still falling). Owing to continuing contraction in labour market participation, the unemployment rate declined by 0.2 percentage points in the first quarter to 8.2 per cent (Table 4). Provisional monthly data indicate that it dipped to 8.1 per cent in May.

Firms' expectations for employment worsen, the decline in wage supplementation ceases

For the third quarter, there are no indications that employment will improve significantly. According to the business surveys conducted both by Istat and by the Bank of Italy jointly with *Il Sole 24 Ore*, firms' labour market expectations have deteriorated slightly. During the spring the reduction in wage supplementation was interrupted temporarily, and the number of authorized benefit hours rose by 0.7 per cent on average in the second quarter. Ordinary benefit hours diminished, while extraordinary benefits and benefits under waivers increased. The ratio of full-time equivalent workers

Table 4

Labour force status of the population in Italy

	Average 2009	Average 2010	Change (1)	Q1 2010	Q1 2011	Change (2)
			Thousands of persons			
Total persons in work	**23,025**	**22,872**	**-0.7**	**22,758**	**22,874**	**0.5**
Employees	**17,277**	**17,110**	**-1.0**	**16,989**	**17,054**	**0.4**
of which: fixed-term	*2,153*	*2,182*	*1.4*	*2,047*	*2,131*	*4.1*
part-time	*2,585*	*2,715*	*5.0*	*2,684*	*2,751*	*2.5*
Self-employed	**5,748**	**5,763**	**0.2**	**5,769**	**5,820**	**0.9**
Labour force	**24,970**	**24,975**	**0.0**	**25,032**	**25,029**	**0.0**
men	*14,790*	*14,748*	*-0.3*	*14,813*	*14,717*	*-0.6*
women	*10,180*	*10,227*	*0.5*	*10,218*	*10,313*	*0.9*
Population	**59,752**	**60,051**	**0.5**	**59,953**	**60,232**	**0.5**
			Percentages and percentage points			
Unemployment rate (3)	**7.8**	**8.4**	**0.6**	**8.5**	**8.2**	**-0.3**
men	*6.8*	*7.6*	*0.8*	*7.5*	*7.5*	*0.0*
women	*9.3*	*9.7*	*0.4*	*10.0*	*9.2*	*-0.8*
North	*5.3*	*5.9*	*0.6*	*6.0*	*5.7*	*-0.4*
Centre	*7.2*	*7.6*	*0.4*	*7.8*	*7.2*	*-0.6*
South	*12.6*	*13.4*	*0.8*	*13.4*	*13.3*	*-0.1*
Participation rate (age 15-64)	**62.4**	**62.2**	**-0.2**	**62.4**	**62.2**	**-0.2**
men	*73.7*	*73.3*	*-0.4*	*73.6*	*73.1*	*-0.5*
women	*51.1*	*51.1*	*-0.0*	*51.2*	*51.4*	*0.2*
North	*69.3*	*69.2*	*-0.1*	*69.5*	*69.5*	*0.0*
Centre	*66.8*	*66.6*	*-0.2*	*66.9*	*66.1*	*-0.8*
South	*51.1*	*50.8*	*-0.3*	*50.7*	*50.6*	*-0.1*
Employment rate (age 15-64)	**57.5**	**56.9**	**-0.6**	**56.6**	**56.8**	**0.1**
men	*68.6*	*67.7*	*-0.9*	*67.6*	*67.2*	*-0.4*
women	*46.4*	*46.1*	*-0.2*	*45.7*	*46.4*	*0.7*
North	*65.6*	*65.0*	*-0.6*	*65.0*	*65.3*	*0.3*
Centre	*61.9*	*61.5*	*-0.5*	*61.2*	*61.1*	*-0.1*
South	*44.6*	*43.9*	*-0.7*	*43.4*	*43.4*	*0.0*

Source: Istat, labour force survey.
(1) Changes 2010/2009; variations are in percentages for persons and percentage points for rates. – (2) Changes Q1 2011/Q1 2010; variations are in percentages for persons and percentage points for rates. – (3) Seasonally adjusted.

receiving benefits to total employment in industry excluding construction also increased marginally, by 0.6 percentage points compared with the previous quarter (Figure 26). The number of hours authorized turned back downwards in June.

Hiring under flexible and part-time contracts increases

Against a persistent backdrop of economic uncertainty, firms continue to prefer flexible and part-time positions. According to estimates (based on INAIL data) by Ebitemp, a joint employer-union organization for the temporary employment industry, the number of hours of temporary employment rose by more than one percentage point in the first quarter, and by 24.3 per cent compared with the first quarter of 2010. According to the labour force surveys, the number of fixed-term employees was 4.1 per cent higher than a year earlier, while open-ended positions had decreased by 0.1 per cent. The number of part-time employees rose by 2.5 per cent, while self-employment, which includes project collaborators, rose by 0.9 per cent.

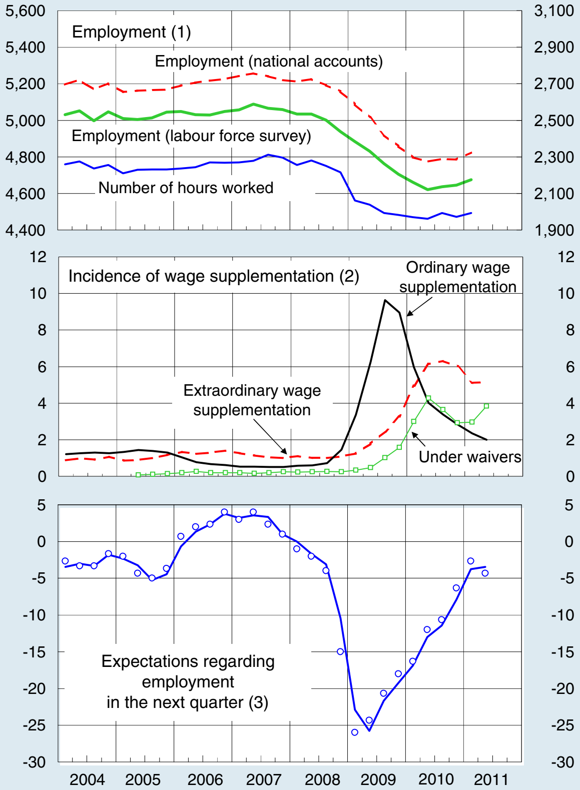
Employment rises in all sectors except construction

The year-on-year increase in employment in the first quarter of 2011 (116,000 jobs, 0.5 per cent) was due entirely to the growth of women's employment (178,000 jobs, 1.9 per cent), which involved mainly foreign women providing services to households. Men's employment fell further, by 62,000 or 0.5 per cent. Employment returned to growth in industry excluding construction, but in construction it continued to contract significantly. In services and agriculture the expansion that began in the second half of 2010 continued. The employment rate for the population aged 15-64 rose by 0.1 percentage points to 56.8 per cent. The labour market participation rate fell from 62.4 to 62.2 per cent, again owing to discouragement.

Figure 26

Employment, wage supplementation and employment expectations in industry excluding construction

(*seasonally adjusted quarterly data; thousands of persons, millions of hours and per cent*)



Sources: Based on Istat, *Fiducia delle imprese manifatturiere e di costruzione*, labour force surveys and quarterly economic accounts, and INPS data.
(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. For the second quarter of 2011, data partly estimated. – (3) Balance between percentages of firms expecting to increase/decrease their workforce in the next three months. Single observations and three-term moving averages, quarterly data.

Actual earnings in the private sector slightly outpace contractual wages

In the first quarter contractual wages were 2.1 per cent higher than a year earlier in the entire economy; in the private sector alone, the increase came to 2.3 per cent. Actual earnings per full-time equivalent employee increased by 2.4 per cent overall and 2.9 per cent in the private sector. Upward wage drift – the difference between the rise in actual earnings and the contribution of the component set by industry-wide collective bargaining agreements – continues to reflect 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," *Economic Bulletin*, April 2011).

The agreements in effect in 2011-12 cover more than 85 per cent of the total wage bill in the non-farm private sector. In 2013, after a good many contracts have run out, the coverage of those already in force will fall to 30 per cent. Our forecasts are for actual earnings growth of slightly more than 2 per cent each year.

On 28 June Confindustria and the principal trade unions, CGIL, CISL and UIL, signed an agreement on verification of unions' representativeness and company-level bargaining. The agreement introduces substantial innovations that should reduce the level of uncertainty in this matter and facilitate mutual undertakings by employers and unions. In particular, the new rules provide for the application to all personnel of second-level contracts approved by majority vote of the trade union representatives at company level and confirm the possibility of company-level derogation from the national contracts within limits established by the latter.

3.6 PRICE DEVELOPMENTS

Inflation continues to increase in spring

Inflation, measured by the twelve-month change in the consumer price index for the entire resident population, increased to 2.7 per cent in June, against an average of 2.3 per cent in the first quarter (Table 5). The price increases during the spring months were largely ascribable to rises in transport services, notably air fares, and food products. Both components were affected by the increases in commodity prices from the second half of 2010 to the first quarter of this year.

Energy prices continued to increase at a rapid pace, rising by almost 10 per cent, although there has been a gradual deceleration in recent months. The rise in fuel prices between the end of June and the beginning of July was due to the increase in excise duties.

Core inflation, measured net of food and energy, rose from a rate of 1.6 per cent in the first quarter to 1.9 per cent in the second (Figure 27).

The twelve-month rate of change in the harmonized index of consumer prices (HICP),

Table 5

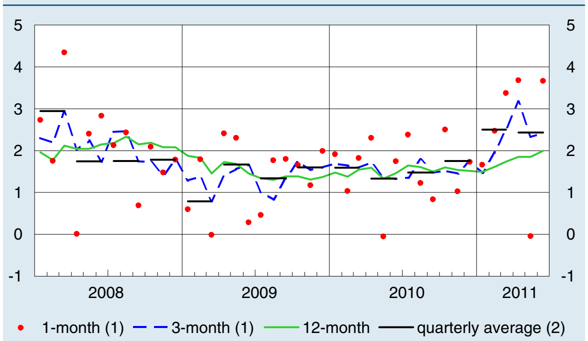
Indicators of inflation in Italy
(twelve-month percentage changes)

		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	5.8
	Mar.	2.8	2.1	2.5	0.3	1.7	6.2
	Apr.	2.9	2.1	2.6	0.4	1.9	5.6
	May	3.0	2.1	2.6	0.1	1.9	4.8
	June	3.0	....	2.7	0.2	2.0	....

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 27

Core inflation in Italy (1)
(percentage changes)



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

which had risen from March onwards, was 3.0 per cent in June. The difference with respect to the increase in the CPI (0.3 percentage points) was partly due to the performance of the prices of pharmaceutical products, which the consumer price index records at full price and the HICP at the quota effectively paid by households.

Inflation will ease in the coming months

Consumer price inflation is expected to diminish in the months ahead, falling below 2 per cent in 2012. It will benefit from the gradual fading of the effects of the rises in commodity prices already foreshadowed by the slowdown in producer prices further upstream. After peaking in March, the index of producer prices slowed to 4.8 per cent in May.

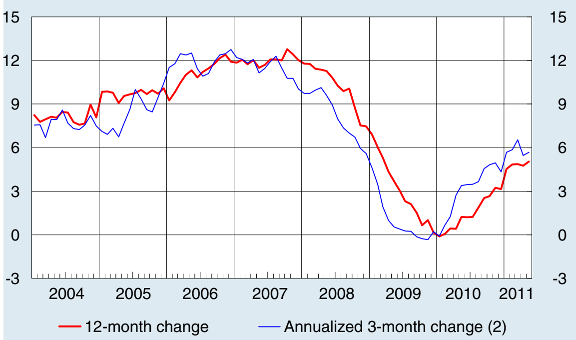
3.7 BANKS

The growth in bank credit remains strong ...

Bank lending to the non-financial private sector continues to expand at a rapid pace. Adjusted for the accounting effects of securitizations, in the three months ended in May the annualized, seasonally adjusted rate of growth was equal to 5.7 per cent (Figure 28). Lending to firms grew by 6.1 per cent and that to households, driven by loans for house purchases, increased by 5.2 per cent.

Figure 28

Bank lending to the non-financial private sector (1)
(monthly data; percentage changes)



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

Excluding repos and bad debts, lending by the five largest Italian banking groups to the entire economy slowed to growth of 1.4 per cent (from 2.1 per cent in February), while the expansion in lending by other banks remained basically stable at 5.3 per cent.

... reflecting developments in demand

The high rate of growth in lending to firms continues to be ascribable mainly to the expansion in demand deriving from the need to finance inventories and working capital. In the first quarter of the year banks' supply policies were slightly more restrictive only for some customer segments (see the box "Credit supply and demand in Italy"). According to the surveys of firms conducted in June by Istat and by the Bank of Italy together with *Il Sole 24 Ore*, only a small percentage of firms continued to report difficulty in access to bank credit.

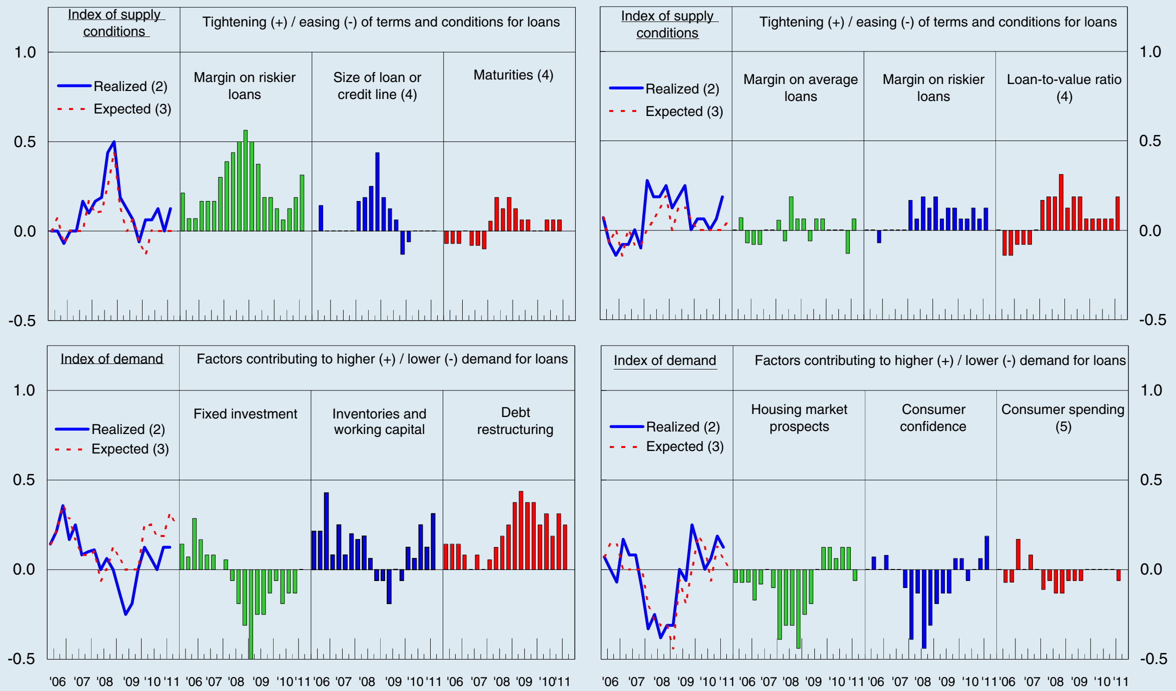
CREDIT SUPPLY AND DEMAND IN ITALY

The responses given by the Italian banks participating in the quarterly euro-area Bank Lending Survey conducted in April indicate that the terms and conditions for loans to firms tightened somewhat in the first quarter of 2011 (see figure), especially at the largest banks and for medium- and long-term loans.[1] The slight tightening, mainly due to the perceived risk on the outlook for specific sectors or firms, consisted above all in an increase in the margins on the riskiest loans, not in limits on the amounts disbursed.

[1] Eight leading banking groups took part in the survey, which was completed on 6 April; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The results of the survey on the second quarter of 2011 and expectations for the third quarter are not yet available; they will be released on 28 July.

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

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



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

The banks consider that the increase in firms' demand for loans continued at more or less the same pace as at the end of 2010, driven by the growing funding requirement for inventories and working capital, while the contribution of investment, continuously negative since mid-2008, is now apparently neutral.

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

In the first quarter of 2011, the conditions for loans to households also seem to have tightened; for loans for house purchases, this took the form of an increase in margins and a lowering of the loan-to-value ratio. The demand for mortgages seems to have decreased slightly, against a modest acceleration in the demand for consumer credit. For the second quarter, for both types of household loan, the banks forecast less restrictive supply conditions and a slowing of demand.

The banks surveyed reported a worsening of conditions for access to wholesale finance in the money market and the bond market in the first quarter.

Lending rates go up

Bank lending rates have increased (Figure 29), reflecting the rise in money market rates. From the end of March, the average cost of short-term loans to firms (including overdrafts) rose by 0.2 percentage points to 3.9 per cent in May; that of new loans increased by 0.3 points for small businesses but was unchanged for large firms. The cost of new mortgage loans to households also rose, by 0.2 points to 2.8 per cent for variable-rate financing and by 0.1 points to 4.8 per cent for fixed-rate mortgages.

The flow of adjusted new bad debts shows signs of slowing

In the first quarter of 2011, although still high, the flow of adjusted new bad debts (i.e. the total amount of loans to customers with a significant share of their exposure reported as bad debts) of intermediaries operating in Italy showed some signs of slowing. On an annual, seasonally adjusted basis, the flow amounted to 1.8 per cent of loans, 0.1 percentage points lower than the end-2010 figure. Loans to financial corporations and to firms based in the South contributed to the reduction. The outlook for the evolution of credit quality in the coming months remains uncertain. Preliminary data suggest that banks' exposure to borrowers reported for the first time with positions classed as bad debts diminished in April with respect to a year earlier. However, the share of lending to firms in difficulty – substandard or restructured loans – remained high, amounting to 5.9 per cent of total lending.

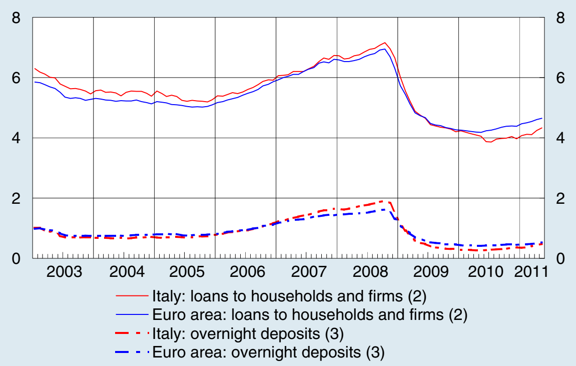
Banks' fund-raising increases

Fund-raising by Italian banks has accelerated significantly, growing by 1.8 per cent in the twelve months ended in May (Table 6), despite the slight decrease of 0.7 per cent in funding by the five largest groups. The expansion reflected the growth in bond issues and non-residents' deposits, the latter increasing in connection with the recovery in interbank transactions. By contrast, there was a sharp contraction in overnight deposits, concentrated mainly among financial corporations. For households, the reduction was smaller (0.4 per cent) and entirely offset by the growth in other deposits. The adjustment of deposit rates to the new monetary conditions was limited. With respect to March, the yield on households' deposits rose by 0.1 percentage points both for overnight deposits and for deposits with agreed maturity up to two years (to 0.5 and 1.7 per cent respectively), while that on new bank issues of variable rate bonds was virtually stable at 3.1 per cent.

Figure 29

Short-term bank interest rates (1)

(monthly data; percentages)



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

Table 6

Main assets and liabilities of Italian banks (1)

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

	2009	2010	May 2011	Stocks (2)
Assets				
Securities other than shares	29.7	8.2	-1.0	551,271
bonds issued by MFIs resident in Italy	*32.3*	*-2.6*	*3.0*	*215,877*
Loans (3)	1.0	4.5	4.5	1,940,031
up to one year	*-5.1*	*5.2*	*6.3*	*623,642*
over one year	*4.2*	*4.1*	*3.9*	*1,316,390*
External assets	-10.9	2.1	-0.8	335,146
Liabilities				
Total funding (3) (4)	2.0	-0.2	1.8	2,239,076
Deposits of Italian residents (3) (4)	5.1	-0.9	-1.3	1,143,097
of which: (5)				
overnight	*11.2*	*-1.5*	*-3.4*	*741,923*
with agreed maturity	*8.3*	*-6.1*	*2.9*	*62,507*
redeemable at notice	*8.2*	*5.4*	*3.6*	*278,575*
repos	*-50.3*	*-15.7*	*-0.1*	*42,718*
Deposits of non-residents	-8.8	2.9	6.5	465,892
Bonds (4)	4.9	-1.2	4.6	630,086
Memorandum item: Total bonds	10.6	-1.6	4.2	845,963

Source: Based on supervisory statistical reports.
(1) The figures for May 2011 are provisional. – (2) Millions of euros. – (3) Does not include repos with central counterparties, deposits involved in securitizations and liabilities towards the Eurosystem. – (4) Does not include liabilities with resident MFIs. – (5) Does not include those of central government.

Banks' profitability improves

According to the consolidated reports of the five major banking groups, in the first quarter of 2011 banks' profitability was somewhat better than a year earlier. Profits increased by 18 per cent; the annualized rate of return on equity rose from 3.0 to 3.4 per cent. The improvement was due to an increase of 3.0 per cent in operating profit and a reduction of 12 per cent in provisioning and value adjustments for the deterioration in loan quality. Operating profit benefited from a reduction of 2.0 per cent in operating expenses, while gross profit was broadly stable: the growth in non-interest income (primarily net trading profits) was offset by the contraction in net interest income.

In the first quarter of 2011 the capital ratios of the five largest groups increased overall as a result both of capital strengthening and of the reduction in risk-weighted assets. At the end of March the core tier 1 ratio averaged 7.8 per cent (7.4 per cent at end-2010); the tier 1 and total capital ratios stood at 9.4 and 12.9 per cent respectively (9.0 per cent and 12.6 per cent at end-2010).

3.8 THE FINANCIAL MARKETS

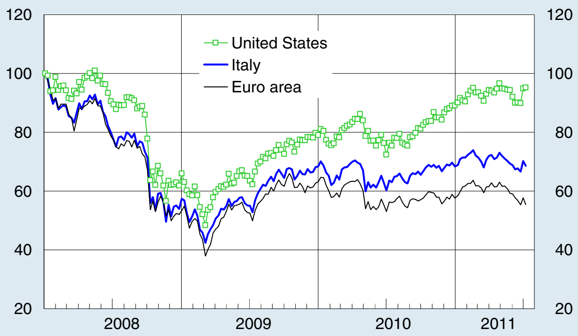
The Italian stock market falls sharply in the second quarter

In the second quarter of the year the general index of the Italian stock exchange fell by 7 per cent, compared with a 2 per cent loss for the index of the main euro-area listed companies (Figure 30). After recovering slightly in April, partly thanks to good corporate earnings reports, share prices began to fall again at the beginning of May. Growing fears of a restructuring of Greece's debt and the uncertainty spawned by the rise in commodity prices and the slowing of economic recovery in the United States contributed to the renewed weakness of equities. In the first thirteen days of July the Italian and euro-area stock market indices lost 5 and 4 per cent respectively.

Figure 30

Share prices (1)

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



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

Bank shares in Italy are affected by sovereign debt tension

Compared with the other European indices, the performance of the Italian index was affected by the high incidence of the banking sector and the sharp fall in bank shares (down by 14 per cent in the second quarter and 11 per cent in the first thirteen days of July), which were particularly vulnerable to turbulence on the euro-area government securities markets. On 23 June, Moody's put sixteen Italian banks on review with a view to possible downgrading; bank shares plummeted before turning upwards at the end of the month in conjunction with the adoption of adjustment measures by the Greek Parliament. July brought another fall in bank shares following the downgrading of Portugal's debt to high-yield status and pressure on Italian government securities.

The decline in stock prices since May also heavily penalized shares in the telecommunications, industrial and service sectors. By contrast, consumer goods (including automotive) and electricity stocks outperformed the general index.

The ratio of current earnings to prices rose by about 1 percentage point in the second quarter of 2011, remaining above its long-term average (Figure 31). The expected volatility of share prices diminished slightly on average for the quarter, despite a spike in the second half of June in response to heightened tension on the euro-area government securities markets.

There were three initial public offerings in the second quarter. At the end of June, the Italian companies listed on Borsa Italiana numbered 292, with a total market value of €432 billion (equal to 27 per cent of GDP).

Italian banks resume net bond issues

Italian companies as a whole made net bond issues in the first quarter of 2011 amounting to around €15 billion (Table 7). In Italy, as in the rest of the euro area, banks resumed making net issues, while for other financial corporations the value of the securities maturing exceeded that of new issues. Net issues by non-financial corporations fell sharply, to very low levels.

The credit risk premiums for Italian firms and banks increase

In the second quarter of the year the yield spreads between investment-grade bonds issued by non-financial corporations and euro-area government securities widened by 6 basis points for firms in Italy and in the other main area countries (Germany, France and Spain). CDS spreads on Italian banks rose by 32 basis points, to just below the average for those on the banks of the other main euro-area countries. At the end of June, they reflected Moody's decision regarding Italian banks. In the first thirteen days of July the yield spreads for Italian non-financial corporations widened by 25 basis points, compared with 5 basis points for those in the other main euro-area countries. CDS spreads on Italian banks increased more sharply (by 74 basis points, against 29 basis points for the banks of the other main euro-area countries). The increase reflected heightened pressure on Italian government securities.

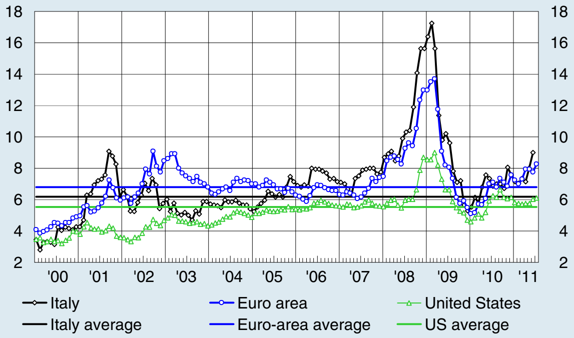
Investment funds registered a further outflow of resources

In the first quarter of 2011 open-end investment funds in Italy had net redemptions amounting to €3.1 billion, compared with €2.3 billion in the previous quarter. While there was a small decrease (from €9.5 billion to €8.6 billion) in the net outflow of resources from Italian funds, foreign funds saw a contraction in

Figure 31

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.

Table 7

Net bond issues (1)

(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2009	79,081	44,210	14,649	137,940
2010	-11,799	-36,284	12,201	-35,882
2010 – Q1	-4,240	-10,714	7,032	-7,922
Q2	-8,508	-6,824	998	-14,334
Q3	8,788	-12,609	1,096	-2,725
Q4	-7,839	-6,137	3,075	-10,901
2011 – Q1	25,567	-10,888	413	15,092
		Euro area		
2009	180,998	264,052	150,181	595,231
2010	24,422	20,117	66,750	111,289
2010 – Q1	67,169	-38,992	29,859	58,036
Q2	-23,948	9,213	18,119	3,384
Q3	-4,174	5,704	9,501	11,031
Q4	-14,625	44,192	9,272	38,839
2011 – Q1	82,584	-47,951	7,299	41,932

Sources: Bank of Italy and ECB.
(1) Bonds with a maturity at issue of more than one year, at face value, issued by companies resident in Italy (upper section) and the euro area (lower section) and 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.

net inflows (from €7.1 billion to €5.5 billion). Net redemptions were recorded by Italian harmonized funds in every sector and were especially large for bond and money market funds (€3.8 billion and €1.9 billion respectively). At the end of the first quarter, open-end investment funds in Italy had €458 billion worth of assets under management, down slightly from €463 billion at the end of 2010.

For the first quarter as a whole the average yield of Italian harmonized funds was nil: the negative yield on equity and balanced funds (0.5 per cent for both) was offset by the positive yields on money market and bond funds (0.7 and 0.2 per cent respectively).

3.9 FORECASTS

The world economic expansion is proceeding; financial market volatility is increasing

The main international organizations' estimates of global output and world trade growth have remained nearly unchanged since our last forecast in the January *Economic Bulletin*, despite the recent signs of slowing in some economies. The dollar prices of energy commodities are now higher, and the volatility of financial markets has increased considerably (see the box "The assumptions underlying the forecasting scenario"). Our forecasts assume that world trade – which regained its pre-crisis level in 2010 – will grow by around 8 per cent this year and next, thanks above all to the emerging economies. The forecasts for the Italian public finances take account of the corrective measures approved by the Government on 30 June (see the boxes "Implementation of the first European semester" and "The public finance adjustment"). As usual, the assumptions on government securities yields are based on the average market rates in the days preceding the finalization of the forecasting scenario.

THE ASSUMPTIONS UNDERLYING THE FORECASTING SCENARIO

The assumptions regarding the growth in world output and international trade are consistent with those used to formulate the projections for the euro area published in the European Central Bank's *Monthly Bulletin* for June. The world economy is forecast to expand by over 4 per cent annually in 2011-12, with the emerging countries recording significantly faster growth. World trade, which expanded by about 12 per cent in 2010, is expected to grow by almost 8 per cent on average in the same two years. These assessments are less optimistic than the OECD's estimates, but they do not differ greatly from those of the European Commission or the International Monetary Fund. The projections for exchange rates, interest rates and oil prices have been updated on the basis of the prices recorded in the ten working days up to 12 July 2011. On the basis of the prices of futures contracts, the price of a barrel of Brent crude oil is assumed to average $112.6 in 2011 and $113.2 in 2012. Three-month interest rates, measured by the prices of Euribor futures, are expected to average 1.6 per cent in 2011, rising to 2.1 per cent in 2012. Long-term interest rates (corresponding to the yield on a basket of government securities with a duration of about six years) are assumed to stand at 4.5 per cent this year and 5.2 per cent next year. Regarding exchange rates, the assumption that all bilateral rates will remain unchanged at the average levels recorded in the last two weeks implies an exchange rate of $1.43 to the euro over the entire forecasting horizon. Projections for Italy's public finances take account of the adjustment measures approved by the Government on 30 June.

Italian growth will remain moderate and domestic demand weak in 2011-12

The cyclical indicators show an acceleration in Italian economic activity in the second quarter of the year, after six months of substantial stagnation during which Italy fell further behind the other main euro-area economies. Output is expected to continue to expand at a moderate rate, slightly lower than that of the second quarter, for the rest of the forecasting period. Economic activity will be affected by the persistent weakness of private-sector domestic demand and by the measures for adjustment of the public finances. Italian GDP is forecast to grow by 1.0 per cent this year and 1.1 per cent in 2012 (Table 8 and Figure 32). These forecasts are essentially in line with those presented in the January *Economic Bulletin*. The faster growth now expected for world trade is likely to be offset by the appreciation of the euro and higher oil prices.

Exports should regain their pre-recession level in 2012

Exports of goods and services are predicted to grow at a fairly rapid pace of nearly 6 per cent a year in 2011 and 2012, thanks in part to a strong performance within the euro area. Italy's world market share – computed at current prices and exchange rates – is expected to remain virtually unchanged with respect to 2010. In volume terms it will decrease marginally to 2.2 per cent. By the end of next year practically all of the overall export loss during the crisis will have been made good.

Investment in machinery and equipment will increase

Capital spending on machinery and equipment – after stagnating late last year and early this year, owing in part to the expiry of tax incentives in effect until mid-2010 – should pick up again starting in the third quarter, fuelled by improving prospects for demand and company earnings. The protracted slump in residential building is likely to come to an end; spending in this sector is forecast to remain flat for 2011 as a whole but to expand by more than 2 per cent in 2012.

Table 8

Forecasts of the main macroeconomic variables in Italy

(percentage changes on previous year unless otherwise indicated)

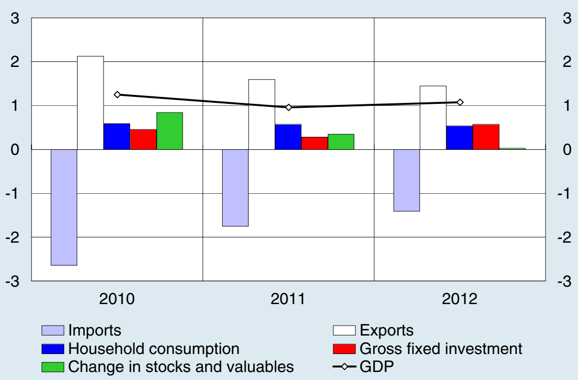
	2010	2011	2012
GDP (1)	1.2	1.0	1.1
Household consumption	1.0	0.9	0.9
Government consumption	-0.6	-0.4	-0.5
Gross fixed investment	2.3	1.5	2.9
Exports	8.9	6.2	5.3
Imports	10.3	6.3	4.8
Change in stocks (2)	0.7	0.3	0.0
HICP (3)	1.6	2.7	1.9
Export competitiveness (4)	1.8	-3.9	-1.4

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

Figure 32

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

(percentage points)



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

The recovery in employment, disposable income and consumer spending will proceed gradually

The expansion of employment is expected to be slow. Job creation will still be modest this year, reflecting among other things the gradual return to work of employees now on wage supplementation. This will have repercussions on disposable income, which is also expected to be affected by curbs on government transfers and by accelerating inflation this year. Household consumption will continue to grow slightly less than GDP. Durable goods purchases, which fell by over 10 per cent between 2008 and 2010, will not resume relatively rapid growth until 2012. The household saving rate will fall, if only marginally.

The balance of payments this year will be affected by energy prices

Import volumes are expected to increase by 5.5 per cent per year in 2011-12, slowing sharply from the 10.3 per cent growth registered in 2010. Net exports, which trimmed GDP growth by a total of more than 1.5 percentage points in 2009-10, should be neutral this year and make a slightly positive contribution in 2012. The deterioration in the terms of trade due to the sharp rise in energy prices will produce a temporary widening of the external deficit this year; the current account deficit is expected to approach 4 per cent of GDP this year before diminishing in 2012.

Consumer price inflation will fall below 2 per cent next year

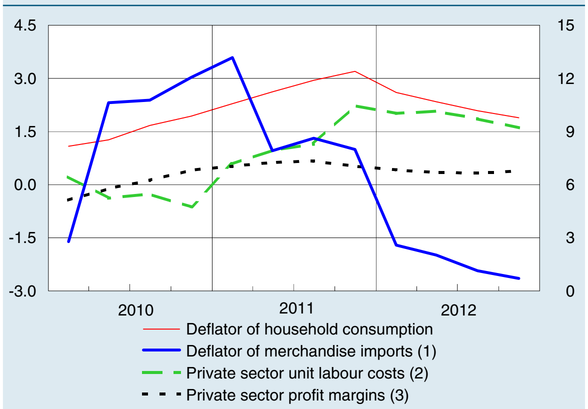
Consumer price inflation as measured by the HICP is forecast to rise temporarily to 2.7 per cent on average this year, driven up by sharp rises in commodity prices, but to fall below 2 per cent in 2012. Net of food and energy products, core inflation should remain between 1.5 and 2 per cent. Unit labour costs in the private sector are projected to rise by an average of 1.5 per cent per year through 2012, continuing to benefit from productivity gains, albeit less marked than those registered in 2010 (Figure 33). The domestic component of inflation – measured by the private-sector value-added deflator – is expected to rise gradually to around 2 per cent, pushed up by a recovery in profit margins.

Limited differences with respect to other forecasts

Our central GDP projection for this year is in line with that of the analysts surveyed in June by Consensus Economics and with the IMF and European Commission forecasts (Table 9). For 2012 our projection is not significantly different from those of other forecasters, except for the OECD, which assumes faster growth of foreign demand reflected in considerably more rapid Italian export growth. For both years our inflation forecast is near the Consensus Economics average and the Commission and OECD estimates.

Figure 33

Main determinants of consumer price inflation
(percentage changes on year-earlier period)



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

Table 9

Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2011	2012	2011	2012
IMF (June)	1.0	1.3	–	–
OECD (May)	1.1	1.6	2.4	1.7
European Commission (May)	1.0	1.3	2.6	1.9
Consensus Economics (June)	0.9	1.1	2.6	2.0

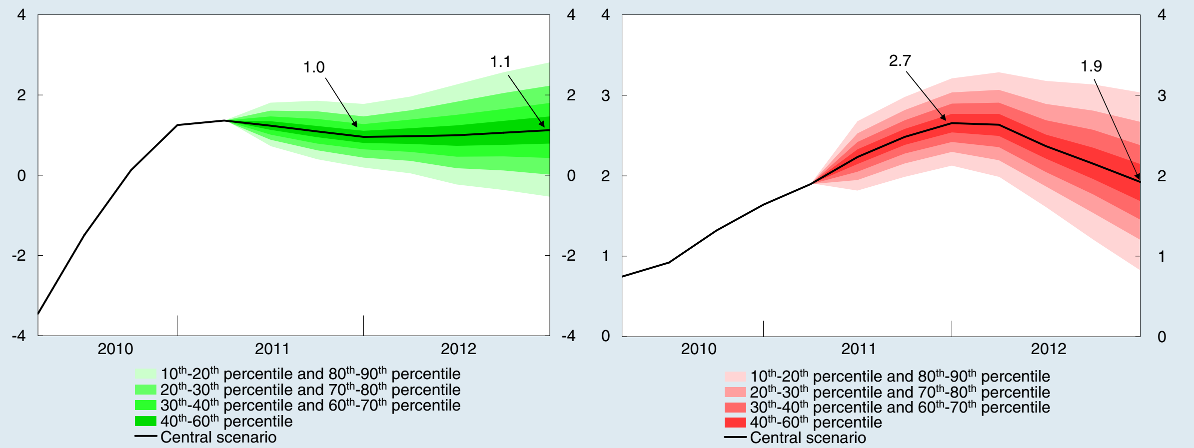
Sources: IMF, *World Economic Outlook Update*, June 2011; OECD, *Economic Outlook* No. 89, May 2011; European Commission, *European Economic Forecast* – Spring 2011, May 2011; Consensus Economics, *Consensus Forecasts*, June 2011.
(1) The growth rates given in the OECD forecasts are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

Considerable forecasting uncertainty remains

The macroeconomic scenario set out here is subject to considerable uncertainty (Figure 34). The risk as far as economic activity is concerned depends mainly on the strength of the world economic expansion and developments in the sovereign debt crisis within the euro area. In the short term the cost of the recent widening of yield spreads on Italian government securities will be limited, but if the current spreads were to persist they would entail very substantial costs for the public finances and have repercussions on the cost of finance to the economy. The consolidation of the public finances is essential to foster a fall in risk premiums, a decline in long-term interest rates, and hence the expansion of economic activity. The Government's budget package is a step in this direction.

Figure 34

Distribution of probabilities of GDP and HICP forecasts
(percentage changes on corresponding period of previous year; four-term moving average)



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

IMPLEMENTATION OF THE FIRST EUROPEAN SEMESTER

As part of the reform of European economic governance,[1] this year saw the introduction of the European semester. It provides for all the EU countries to adopt a common budget planning cycle in the early part of the year, with the aim of strengthening the ex ante coordination of member states' economic policies and their consistency with the European guidelines. The European semester began in January with the publication of the Annual Growth Survey, in which the European Commission identified the priorities for budget consolidation, macroeconomic stability, labour market reform and action to enhance growth. In March, in the light of the Survey, the European Council established the strategic guidelines for the preparation of the member states' stability (or convergence) programmes and their national reform programmes. In particular, it noted that, as things stand, the reduction of excessive deficits to below the threshold of 3 per cent of GDP and the sustainability of the public finances require most countries to achieve an annual structural adjustment of more than 0.5 per cent of GDP.[2] In June the European Commission published an assessment of member states' planning documents and made specific recommendations on the budget policies and reforms to be implemented in order to comply with the priorities established at European level and the shared commitments outlined in the Euro Plus Pact. At the end of the European semester the guidelines were approved by the meeting of the European Council on 23 and 24 June and a few days ago by the EU finance ministers. The member states are to prepare their budgets by the end of the autumn, taking into account the recommendations addressed to them.

The Commission considers it essential that rapid consolidation of the public finances be accompanied by reforms to foster an increase in employment and gains in competitiveness. In particular, the Commission suggests that expenditure be reallocated in favour of items that can boost the potential for growth. The Commission stresses the need to reduce the tax burden on labour and curb the fragmentation of the labour market and unemployment benefits. There is also a call to counter the

[1] See the boxes "The decisions of the European Council of 24 and 25 March 2011" in *Economic Bulletin*, April 2011 and "The proposals to reform European economic governance" in *Economic Bulletin*, January 2011.
[2] See *Economic Bulletin*, April 2011.

underground economy and to foster youth and female employment. The measures suggested to improve competitiveness include promoting company- and local-level wage negotiations and linking wage dynamics to productivity. The Commission also recommends reducing the administrative costs borne by firms and making it easier for small and medium-sized enterprises to access the capital markets. Lastly, it hopes to see the liberalization of services, especially those of a professional nature, and measures providing incentives for research and innovation.

With reference to Italy, the Commission expressed its appreciation of the commitment, entered into by the Government as part of the Euro Plus Pact, to present a constitutional reform bill in Parliament to strengthen fiscal discipline; it also considered the annual structural budgetary adjustment indicated in the Stability Programme presented by the Government in April – 0.5 per cent of GDP in 2011 and 0.8 per cent in the three following years – to be in line with the European Council guidelines (see the box "The public finance adjustment"). The Commission called on Italy to take advantage of any developments that turned out more favourable than expected to reduce the deficit and the debt more rapidly and urged the Government to adopt further measures to strengthen fiscal discipline and enhance the budget's credibility.

THE PUBLIC FINANCE ADJUSTMENT

The Stability Programme set out in the Economy and Finance Document (EFD) in April aims to reduce net borrowing to below 3 per cent of GDP in 2012 and achieve substantial budget balance in 2014. According to the estimates set out in the EFD, attaining the deficit target in 2012, and at the same time lowering the debt/GDP ratio, requires no further adjustment beyond those laid down in the three-year budget approved in the summer of 2010. The objective of balancing the budget, however, does require additional corrective measures totalling 2.3 percentage points of GDP in 2013-14 (1.2 points in 2013 and 1.1 points in 2014).

On 30 June, against a backdrop of marked financial instability within the euro area, the Government approved a budget correction in fulfilment of the undertakings set out in the Stability Programme. The objective is to achieve substantial budget balance in 2014 by cutting net borrowing by about €20 billion in 2013 and €40 billion the following year with respect to the current-legislation projections, consistent with the EFD estimates. The package consists of a decree law (Decree Law 98 of 6 July 2011) containing urgent provisions for financial stabilization plus a draft enabling law for tax and welfare reform. The measures in the decree law should achieve virtually all of the deficit correction planned for 2013 and about 60 per cent of that projected for 2014. The rest (€2.2 billion in 2013 and €14.7 billion in 2014) will derive from the implementation of the enabling law.

Compared with current legislation, the decree law reduces expenditure by €10.9 billion in 2013 and €18.8 billion in 2014. About two thirds of the expenditure reduction involves government departments and local authorities. Some new elements of selectiveness are introduced, with measures to be decided on the basis of funding standards for the former and "virtuousness" parameters for the latter. About a quarter of the reduction in expenditure will concern the health service. Revenue-side measures, worth about €7 billion in each of the two years, will account for two fifths of the adjustment in 2013 and more than a quarter in 2014. The revenue boost is to come mainly from the higher stamp tax on securities accounts, the increase in the regional tax on productive activities (Irap) for banks and insurance companies, some measures on gaming and others to combat tax evasion; a further contribution will come, in 2014, from the revision of tax depreciation rates. According to official estimates, the measures enacted with the decree alone will accelerate the reduction of the debt ratio, lower the deficit to 1.6 per cent of GDP in 2013 (against a target of 1.5 per cent) and to 1.1 per cent in 2014.

In the course of the parliamentary debate of recent days, the decree law was amended to strengthen the correction and improve the balances still further with respect to the previous targets. The most important contribution is to come from an automatic mechanism for raising funds in the event that the enabling law is not implemented by 30 September 2013, instituting measures that reduce the deficit by €4 billion in 2013 and €20 billion in 2014.

The draft enabling law (available on the Ministry for the Economy and Finance website) envisages a tax reform to be implemented within three years. It provides for a tax system based on five levies: Irpef, Ires, VAT, excise duties and taxes on services. As regards Irpef (the personal income tax), there is to be a reduction in the number of tax brackets. The rates applicable to investment income, except for that deriving from government securities, and other income of a financial nature are to be made the same, while a preferential rate may be introduced for long-term savings plans and supplementary pension and health-care plans. VAT rates are to be gradually revised and, as regards the taxation of corporate income, a deduction is to be introduced for return on equity. Turning to welfare, the bill establishes the general principles for a restructuring of expenditure and gives the Government two years to issue provisions revising the criteria for access to benefits, integrate the various income support instruments currently in existence, transfer the provision of services to the level of government closest to beneficiaries where appropriate, and foster complementary interventions by households and social service organizations.

For a more extensive assessment of the budget measures and the international context, see I. Visco, "Preliminary statement on Decree Law 98/2011" to the Italian Senate, Rome, 13 July 2011.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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 – 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
2011 – Q1	1.9	2.2	1.5	-5.8	-1.2	1.3	0.2	1.7	1.8	7.6	5.1	0.1	1.3

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	4.0	1.8	1.1	2.2	0.4	-0.2	..	2.1	2.1	23.9	9.8	1.8	0.6
2008 – Q2	-4.3	-6.1	-3.5	-4.1	-0.7	-7.2	-1.7	-5.6	-5.6	-5.1	-13.1	1.3	0.3
Q3	-5.1	-0.7	-0.4	-1.1	-0.2	-7.8	-1.8	-4.4	-4.2	-0.6	5.0	-0.9	-1.8
Q4	-11.6	-5.2	-3.0	4.7	0.9	-15.7	-3.6	-0.1	-0.1	-45.5	10.2	-11.8	5.9
2009 – Q1	-18.0	-6.3	-3.5	3.9	0.8	-16.2	-3.7	-13.8	-13.9	-68.4	-49.7	-4.3	-7.3
Q2	8.7	5.0	3.0	4.1	0.8	-9.6	-2.2	0.1	0.1	45.4	-19.5	8.5	-1.4
Q3	-2.0	0.2	0.1	4.6	0.9	-11.2	-2.5	-3.3	-3.4	40.6	24.6	1.5	-1.9
Q4	6.3	2.9	1.7	3.8	0.8	2.8	0.6	3.2	3.2	27.4	4.0	3.1	0.1
2010 – Q1	9.4	3.9	2.3	-1.8	-0.4	4.4	0.9	7.3	7.1	29.5	12.1	2.3	4.2
Q2	..	-0.6	-0.4	4.8	0.9	2.6	0.5	-0.8	-0.8	22.4	17.5	0.9	-2.0
Q3	3.6	3.3	1.9	1.3	0.3	1.7	0.3	4.4	4.2	6.6	12.2	-0.5	1.8
Q4	-2.9	-4.0	-2.4	1.5	0.3	-3.1	-0.6	-2.5	-2.5	-3.3	-1.2	-0.3	0.1
2011 – Q1	-3.5	-2.2	-1.3	3.8	0.7	-4.0	-0.8	-2.8	-2.9	2.8	8.0	-0.6	-1.4

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								
2005	1.7	5.7	2.8	2.0	4.4	3.1	1.8	1.6	5.0
2006	3.1	8.4	4.6	4.5	6.5	5.4	2.0	2.2	8.6
2007	2.8	5.8	3.7	2.3	7.3	4.7	1.6	2.2	6.2
2008	0.4	0.8	0.5	-2.3	0.7	-0.8	0.4	2.2	1.0
2009	-4.2	-11.9	-6.5	-8.4	-15.2	-11.8	-1.2	2.4	-13.1
2010	1.8	9.5	4.0	-3.7	2.5	-0.8	0.8	0.6	11.1
2009 – Q1	-2.6	-7.0	-3.9	-2.1	-9.4	-5.7	-0.5	0.6	-8.7
Q2	-0.2	-2.7	-0.9	-2.0	-2.6	-2.2	..	0.8	-1.1
Q3	0.4	1.8	0.8	-1.8	-0.5	-1.2	-0.2	0.4	2.6
Q4	0.3	1.2	0.6	-1.5	0.1	-0.7	0.2	0.4	2.3
2010 – Q1	0.3	3.8	1.3	-1.9	0.6	-0.7	0.4	-0.3	3.4
Q2	0.9	4.1	1.9	1.7	2.7	2.2	0.2	0.3	4.3
Q3	0.4	1.3	0.7	-0.7	0.3	-0.2	0.2	0.1	1.7
Q4	0.3	1.2	0.5	-1.6	1.1	-0.2	0.3	-0.1	1.6
2011 – Q1	0.8	1.4	1.0	1.2	2.6	1.9	0.2	0.5	1.9
	Implicit prices								
2005	1.9	3.4	....	....	....	2.5	2.1	2.3	2.3
2006	1.9	3.8	....	....	....	3.0	2.2	2.0	2.5
2007	2.4	1.3	....	....	....	2.7	2.3	1.7	1.7
2008	2.0	3.9	....	....	....	2.3	2.7	2.7	2.5
2009	1.0	-5.9	....	....	....	-0.7	-0.2	2.0	-3.3
2010	0.9	5.4	....	....	....	1.0	1.8	0.9	3.4
2009 – Q1	0.2	-4.2	....	....	....	-0.3	-0.6	0.9	-2.6
Q2	..	-1.3	....	....	....	-0.7	0.1	0.1	-0.9
Q3	0.1	0.5	....	....	....	-0.2	0.2	0.8	0.4
Q4	0.1	1.2	....	....	....	0.1	0.4	-0.9	0.7
2010 – Q1	0.3	2.0	....	....	....	0.5	0.4	1.0	1.0
Q2	0.4	2.5	....	....	....	0.7	0.7	0.2	1.5
Q3	0.4	0.7	....	....	....	0.5	0.5	0.1	0.9
Q4	..	1.5	....	....	....	0.4	0.7	-0.3	0.9
2011 – Q1	0.5	3.6	....	....	....	1.1	0.9	0.9	1.9

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
	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
2009 – Q1	-3.0	-8.7	-4.3	-1.9	-7.4	-4.5	-0.8	..	-11.6
Q2	-0.3	-2.2	-0.7	-2.0	-2.9	-2.4	-0.1	1.1	-0.8
Q3	0.4	1.1	0.5	-2.4	1.1	-0.8	0.6	-0.3	2.7
Q4	..	3.2	0.7	-1.0	2.9	0.8	0.1	-0.1	0.5
2010 – Q1	0.6	4.3	1.3	-1.2	4.4	1.5	0.2	-0.6	3.7
Q2	0.5	0.4	0.5	-0.4	3.6	1.6	0.1	0.4	2.4
Q3	0.3	4.5	1.2	1.0	0.2	0.6	0.4	-0.3	2.8
Q4	0.1	2.8	0.7	-1.2	-0.5	-0.8	0.3	-0.6	0.4
2011 – Q1	0.1	0.7	0.3	0.4	-0.2	0.1	0.2	0.5	1.4
	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
2009 – Q1	1.2	-6.0	-0.2	-0.1	-0.2	-0.1	-0.6	1.6	-1.4
Q2	..	-1.6	-0.3	-0.4	-0.6	-0.5	0.3	-0.6	-0.7
Q3	0.2	0.3	0.2	0.1	-0.4	-0.1	0.2	2.9	-0.3
Q4	-0.2	-0.1	-0.2	0.6	..	0.3	0.3	-4.0	0.1
2010 – Q1	-0.2	4.2	0.7	0.1	0.1	0.1	0.5	2.5	2.2
Q2	0.7	5.2	1.7	1.3	0.9	1.1	0.4	0.6	2.8
Q3	0.7	0.6	0.8	0.6	0.7	0.7	0.4	1.6	0.9
Q4	-0.4	1.0	..	0.9	0.4	0.6	0.6	-2.4	1.0
2011 – Q1	0.6	4.5	1.5	1.5	..	0.8	0.8	0.8	2.7

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	2.7	3.2	0.5	0.0
2008	3.8	-1.9	-2.5	-0.6	5.8
2009	4.5	-4.3	-13.1	-9.2	9.2
2010	0.6	6.6	6.2	-0.3	-5.6
2009 – Q1	5.7	-9.0	-16.3	-8.0	16.1
Q2	5.9	-6.5	-16.3	-10.5	13.3
Q3	4.4	-2.7	-12.6	-10.2	7.3
Q4	1.8	1.0	-6.5	-7.4	0.8
2010 – Q1	-0.3	7.8	4.4	-3.2	-7.6
Q2	-0.6	7.9	7.6	-0.4	-7.9
Q3	-0.7	4.6	5.8	1.1	-5.0
Q4	0.5	4.8	6.4	1.5	-4.1
2011 – Q1	....	3.5	5.8	2.2	....
		Services			
2007	2.7	1.2	3.1	2.0	1.5
2008	2.8	0.1	1.6	1.5	2.6
2009	3.1	-0.3	-1.9	-1.6	3.4
2010	0.8	0.3	1.3	1.0	0.5
2009 – Q1	3.1	-1.0	-2.2	-1.3	4.1
Q2	3.0	-0.4	-2.0	-1.6	3.4
Q3	2.8	-0.4	-1.8	-1.4	3.2
Q4	2.4	0.2	-0.9	-1.1	2.2
2010 – Q1	1.0	0.0	0.9	0.8	0.9
Q2	1.0	0.1	1.2	1.1	0.9
Q3	0.5	0.3	1.5	1.2	0.3
Q4	0.9	0.3	1.4	1.1	0.6
2011 – Q1	....	0.6	1.4	0.8	....
		Total economy			
2007	2.7	1.4	3.1	1.6	1.3
2008	3.1	-0.1	0.6	0.7	3.2
2009	3.4	-0.8	-4.2	-3.5	4.2
2010	0.8	1.5	1.8	0.4	-0.6
2009 – Q1	3.7	-2.2	-5.3	-3.2	6.0
Q2	3.6	-1.4	-5.1	-3.8	5.1
Q3	3.2	-0.6	-4.2	-3.6	3.8
Q4	2.3	0.4	-2.3	-2.7	1.9
2010 – Q1	0.8	1.4	1.0	-0.4	-0.6
Q2	0.8	1.5	2.0	0.5	-0.7
Q3	0.4	1.1	1.9	0.8	-0.7
Q4	0.9	1.3	2.0	0.7	-0.4
2011 – Q1	1.3	1.5	2.3	0.8	-0.2

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

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly wages and salaries	Hourly productivity			Unit labour costs
				Value added (2)	Hours worked	
			Total industry excluding construction			
2007	2.8	2.8	0.3	1.9	1.6	2.5
2008	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
2009 – Q1	4.5	4.5	-11.3	-18.9	-8.6	17.8
Q2	3.8	3.9	-9.8	-19.4	-10.6	15.1
Q3	1.6	1.9	-4.2	-15.2	-11.5	6.1
Q4	5.0	5.1	2.0	-8.7	-10.5	2.9
2010 – Q1	0.0	0.4	8.3	3.5	-4.4	-7.6
Q2	2.7	3.2	10.2	6.0	-3.8	-6.8
Q3	2.0	2.4	4.6	4.7	0.0	-2.5
Q4	3.6	3.9	4.7	4.1	-0.5	-1.1
2011 – Q1	3.3	3.4	-0.2	0.9	1.1	3.5
			Services			
2007	2.2	2.2	0.5	1.7	1.2	1.7
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
2009 – Q1	1.6	1.4	-1.7	-3.5	-1.9	3.3
Q2	-1.0	-1.1	-2.4	-3.0	-0.6	1.4
Q3	1.6	1.7	-1.8	-2.3	-0.5	3.4
Q4	1.2	1.2	-0.2	-1.8	-1.6	1.4
2010 – Q1	0.8	1.0	-0.1	0.6	0.7	0.8
Q2	3.1	3.1	1.4	1.0	-0.4	1.7
Q3	1.4	1.5	1.7	1.1	-0.7	-0.3
Q4	1.2	1.3	1.0	1.5	0.5	0.2
2011 – Q1	1.9	1.9	2.6	1.2	-1.4	-0.7
			Total economy			
2007	2.4	2.4	0.3	1.6	1.3	2.1
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
2009 – Q1	2.8	2.7	-3.4	-7.0	-3.7	6.4
Q2	0.6	0.7	-4.1	-6.8	-2.9	4.8
Q3	1.7	2.1	-2.2	-5.4	-3.2	4.0
Q4	2.2	2.3	0.0	-3.4	-3.4	2.3
2010 – Q1	0.4	0.7	1.0	0.7	-0.2	-0.6
Q2	2.9	3.0	2.5	1.6	-0.9	0.5
Q3	1.6	1.7	2.1	1.6	-0.5	-0.5
Q4	2.1	2.1	2.0	1.9	-0.2	0.0
2011 – Q1	2.5	2.5	2.0	1.1	-0.9	0.5

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

Table A7

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

(percentage changes on the year-earlier period)

	ITALY		GERMANY		FRANCE		SPAIN		EURO (2)	
	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products
2006	2.2	1.8	1.8	0.8	1.9	1.3	3.6	3.0	2.2	1.5
2007	2.0	1.9	2.3	2.1	1.6	1.5	2.8	2.7	2.1	2.0
2008	3.5	2.8	2.8	1.8	3.2	2.3	4.1	3.2	3.3	2.4
2009	0.8	1.6	0.2	1.2	0.1	1.3	-0.2	0.9	0.3	1.3
2010	1.6	1.5	1.2	0.6	1.7	0.9	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	-0.9	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.3	-0.1	1.0
Nov.	0.8	1.4	0.3	1.0	0.5	1.0	0.4	0.4	0.5	1.0
Dec.	1.1	1.5	0.8	1.1	1.0	1.1	0.9	0.5	0.9	1.0
2010 – Jan.	1.3	1.4	0.8	0.8	1.2	0.9	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
Mar.	2.8	2.1	2.3	1.0	2.2	1.0	3.3	1.6	2.7	1.5
Apr.	2.9	2.2	2.7	1.7	2.2	1.3	3.5	2.0	2.8	1.8
May	3.0	2.2	2.4	1.4	2.2	1.4	3.4	2.0	2.7	1.7

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	-45,506	-2,129	-8,606	-19,354	-5,618	-9,799	-184	-1,044	..	860
2009	-30,283	823	-8,435	-10,406	-4,866	-7,398	-91	-578	-19	506
2010	-53,509	-20,403	-8,819	-8,214	-5,614	-10,459	-544	-697	-68	221
2009 – Q2	-6,363	1,675	-662	-4,377	-1,111	-1,888	-68	-140	..	72
Q3	-4,580	2,437	-928	-2,530	-1,393	-2,166	-110	-54	..	-56
Q4	-3,575	-120	-1,978	-732	-1,244	499	464	-218	-19	701
2010 – Q1	-17,077	-6,434	-3,298	-847	-928	-5,571	-330	-241	-3	-86
Q2	-12,679	-4,419	-592	-4,501	-1,777	-1,390	-211	-218	-12	20
Q3	-11,509	-3,258	-1,431	-2,031	-1,359	-3,430	-68	-5	-4	-58
Q4	-12,244	-6,292	-3,498	-835	-1,551	-67	64	-233	-49	346
2011 – Q1	-22,311	-11,748	-3,886	70	-735	-6,012	-167	-39	-15	-112
2009 – Apr.	-2,221	444	-385	-1,343	-366	-571	-15	-45	..	29
May	-1,772	1,626	-329	-2,435	-328	-306	-6	-41	..	35
June	-2,370	-395	52	-599	-417	-1,011	-46	-54	..	8
July	2,632	4,045	293	-535	-513	-658	81	-3	..	84
Aug.	-3,508	-1,134	-921	-513	-461	-479	-80	-21	..	-59
Sept.	-3,704	-474	-300	-1,482	-419	-1,029	-111	-30	..	-81
Oct.	-1,198	-50	-325	-467	-568	212	157	-76	-7	240
Nov.	-2,506	-467	-908	-1,041	-394	303	108	-74	-6	188
Dec.	130	397	-745	776	-282	-16	199	-68	-6	273
2010 – Jan.	-6,202	-3,485	-982	-226	-236	-1,273	-81	-50	-1	-30
Feb.	-4,851	-2,104	-1,035	-102	-156	-1,454	-107	-63	-1	-43
Mar.	-6,023	-845	-1,281	-518	-535	-2,843	-141	-128	-1	-12
Apr.	-3,007	-582	-381	-746	-700	-598	-41	-67	-4	31
May	-5,521	-1,471	-301	-3,015	-467	-267	-82	-68	-3	-12
June	-4,151	-2,366	91	-740	-610	-525	-88	-83	-6	..
July	781	2,368	40	-210	-372	-1,045	-63	-1	-1	-61
Aug.	-5,842	-2,859	-1,218	-310	-443	-1,012	13	-11	-1	24
Sept.	-6,448	-2,767	-253	-1,511	-544	-1,373	-18	6	-2	-22
Oct.	-2,439	-1,527	-932	-474	-569	1,063	155	-74	-10	239
Nov.	-5,026	-2,773	-1,402	-610	-449	209	111	-71	-13	194
Dec.	-4,779	-1,992	-1,165	249	-532	-1,340	-202	-88	-26	-88
2011 – Jan.	-8,909	-5,768	-1,391	-150	-294	-1,306	-7	41	-4	-44
Feb.	-7,264	-2,849	-1,316	-447	-172	-2,481	-45	6	-3	-48
Mar.	-6,139	-3,131	-1,179	666	-270	-2,226	-115	-87	-8	-21
Apr.	(-5,604)	(-3,104)	(-295)	(-1,310)	....	....	(-17)	....	....	....

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 – Sept.	5.7	-8.0	-1.2	-1.4	-0.3	0.9	2.8	-3.2	-0.1
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	-1.0	2.2	4.3	3.7	12.3	1.6
Dec.	4.3	7.0	0.5	0.1	2.6	5.2	3.8	16.2	2.6
2011 – Mar.	3.4	2.5	3.1	3.2	3.1	5.6	3.7	18.4	3.3
May	3.9	-0.1	3.3	3.3	3.2	5.9	3.8	15.7	3.2
				South and Islands					
2009 – Sept.	14.2	-0.4	-0.2	-0.6	1.0	1.9	4.4	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	3.8	-0.5	-0.4	5.3	0.5	3.5
Sept.	1.6	-0.4	3.8	4.6	1.3	1.4	4.8	3.6	3.9
Dec.	0.9	-3.9	3.5	4.2	1.7	2.0	4.4	0.6	3.5
2011 – Mar.	-0.3	-7.3	4.2	5.0	1.9	2.0	4.3	4.6	3.6
May	1.0	-9.4	4.4	5.2	2.2	2.3	4.3	3.7	3.8
				ITALY					
2009 – Sept.	6.5	-7.8	-1.1	-1.3	-0.1	1.1	3.1	-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	2.4	4.4	3.9	14.4	2.8
2011 – Mar.	3.0	2.3	3.3	3.4	2.9	4.8	3.8	16.7	3.3
May	3.6	-0.3	3.4	3.5	3.0	5.1	3.9	14.3	3.3

(1) Statistics for May 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.

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)		Borrowing requirement	
		of which: PO funds					*of which:* change in deposits with the Bank of Italy		*of which:* financed abroad
2008	4,224	-5,683	19,502	41,678	-1,132	-15,141	-10,611	49,132	-10,289
2009	8,487	-1,487	-7,405	93,997	2,814	-11,757	-11,399	86,136	-2,112
2010	57	-4,809	-10,103	87,920	962	-11,833	-11,518	67,003	437
2008 – Q1	1,313	-1,111	25,905	23,411	145	-33,225	-31,203	17,549	470
Q2	934	-1,266	8,186	-11,211	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	-2,283
Q4	4,272	-2,360	-13,469	25,420	496	-3,134	-2,388	13,585	-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	-1,979	1,978	9,749	9,963	20,297	-1,620
Q3	-6,276	385	-9,480	50,557	502	-12,906	-12,676	22,397	-2,707
Q4	6,948	-361	-28,805	-2,777	-1,100	38,549	38,423	12,815	255
2010 – Q1	-3,196	-1,413	10,530	28,480	1,565	-9,651	-9,568	27,728	179
Q2	1,218	-929	-636	22,871	-948	-3,544	-3,474	18,961	1,094
Q3	-1,316	-1,219	-1,960	22,875	1,768	-2,247	-2,188	19,120	3,979
Q4	3,352	-1,247	-18,037	13,695	-1,424	3,608	3,712	1,193	-4,816
2011 – Q1	-2,134	-1,605	12,380	10,452	1,946	9,089	8,309	31,734	-2,021
2010 – Jan.	-91	-276	12,703	13,688	577	-30,745	-30,679	-3,868	1,740
Feb.	-3,107	-91	-810	10,035	385	7,450	7,462	13,952	-759
Mar.	3	-1,046	-1,362	4,757	603	13,644	13,650	17,644	-802
Apr.	1,309	47	-1,510	13,260	2,499	403	433	15,960	843
May	-2,583	-507	-1,561	17,851	-556	-3,687	-3,696	9,464	-690
June	2,491	-470	2,436	-8,240	-2,890	-260	-211	-6,463	941
July	-2,929	-452	-3,782	21,279	942	-17,681	-17,637	-2,171	-765
Aug.	1,109	-390	-1,187	2,439	86	5,717	5,737	8,164	-19
Sept.	504	-377	3,009	-843	740	9,717	9,713	13,127	4,764
Oct.	-1,000	-390	167	22,728	-116	-14,567	-14,547	7,212	-153
Nov.	2,745	-161	-864	-123	144	2,710	2,730	4,612	599
Dec.	1,607	-696	-17,340	-8,910	-1,452	15,465	15,529	-10,631	-5,262
2011 – Jan.	2,762	-812	8,290	24,134	641	-33,451	-33,424	2,377	468
Feb.	-5,995	-394	1,643	-3,375	1,659	16,226	15,455	10,157	-6
Mar.	1,099	-399	2,447	-10,308	-354	26,315	26,278	19,199	-2,483
Apr.	-36	250	-474	21,057	1,128	-11,800	-11,805	9,874	-67
May	-1,835	-987	-693	5,771	1,712	1,658	1,682	6,614	-1,659

(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	1,330,192	132,225	5,742	1,763,864	2,746	1,467,976	31,731
2010	155,797	25,195	129,862	1,418,738	133,190	5,427	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	1,284,857	130,845	6,060	1,744,538	3,768	1,422,185	67,441
Q2	155,067	29,980	178,265	1,283,294	132,822	5,846	1,755,294	3,528	1,420,535	57,478
Q3	148,792	30,366	168,776	1,333,440	133,325	5,617	1,789,949	2,731	1,471,340	70,155
Q4	155,740	30,005	139,966	1,330,192	132,225	5,742	1,763,864	2,746	1,467,976	31,731
2010 – Q1	152,544	28,592	150,496	1,358,281	133,791	5,660	1,800,771	2,932	1,495,872	41,299
Q2	153,762	27,662	149,865	1,382,312	132,844	5,590	1,824,373	3,179	1,517,644	44,773
Q3	152,446	26,443	147,911	1,403,665	134,614	5,531	1,844,166	2,892	1,539,936	46,961
Q4	155,797	25,195	129,862	1,418,738	133,190	5,427	1,843,015	2,897	1,555,056	43,249
2011 – Q1	153,664	23,590	142,246	1,430,990	135,136	6,207	1,868,243	2,730	1,566,873	34,940
2010 – Jan.	155,648	29,729	152,668	1,344,082	132,802	5,677	1,790,878	2,837	1,481,718	62,411
Feb.	152,541	29,638	151,858	1,354,397	133,188	5,665	1,797,649	2,910	1,491,770	54,949
Mar.	152,544	28,592	150,496	1,358,281	133,791	5,660	1,800,771	2,932	1,495,872	41,299
Apr.	153,853	28,639	148,985	1,370,628	136,289	5,629	1,815,385	2,962	1,508,964	40,867
May	151,270	28,132	147,424	1,389,636	135,734	5,639	1,829,704	3,201	1,527,687	44,563
June	153,762	27,662	149,865	1,382,312	132,844	5,590	1,824,373	3,179	1,517,644	44,773
July	150,833	27,210	146,084	1,403,680	133,786	5,546	1,839,929	3,004	1,539,170	62,410
Aug.	151,942	26,820	144,897	1,406,021	133,872	5,526	1,842,259	3,080	1,541,672	56,673
Sept.	152,446	26,443	147,911	1,403,665	134,614	5,531	1,844,166	2,892	1,539,936	46,961
Oct.	151,446	26,052	148,078	1,426,604	134,498	5,511	1,866,136	2,846	1,562,804	61,508
Nov.	154,191	25,891	147,214	1,427,149	134,642	5,491	1,868,686	3,016	1,564,813	58,778
Dec.	155,797	25,195	129,862	1,418,738	133,190	5,427	1,843,015	2,897	1,555,056	43,249
2011 – Jan.	158,560	24,384	138,152	1,444,049	133,831	5,399	1,879,992	2,833	1,579,975	76,673
Feb.	152,565	23,989	139,799	1,442,063	135,490	6,170	1,876,087	2,804	1,578,146	61,218
Mar.	153,664	23,590	142,246	1,430,990	135,136	6,207	1,868,243	2,730	1,566,873	34,940
Apr.	153,628	23,841	141,772	1,452,641	136,263	6,212	1,890,516	2,615	1,588,913	46,745
May	151,793	22,854	141,075	1,460,441	137,975	6,188	1,897,472	2,696	1,597,357	45,063

(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".