BANCA D'ITALIA

EUROSISTEMA

Economic Bulletin

Number 62

October 2011

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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

The world economy slows down

The global economic outlook worsened abruptly in the course of the summer. Economic activity in the advanced economies slowed significantly, held back not only by temporary factors – the rise in energy prices and the consequences of the earthquake in Japan – but also by persistent slack in employment, a less expansionary stance of fiscal policies and widespread uncertainty over the successful resolution of the financial imbalances. In the emerging economies activity decelerated slightly but keeps growing at a sustained pace. The international organizations cut their global growth forecasts for this year and next significantly.

The cyclical slowdown leads to financial market instability

The sudden dimming of the prospects for growth resulted in pronounced instability on financial markets. The strains affected the sovereign debt of a growing number of euro-area countries, with repercussions on banks' funding capacity and share prices. Volatility increased. A broad-based "flight to quality" fuelled demand for US and German government securities and such safe assets as gold and the Swiss franc; it caused a slide in the prices of shares and corporate bonds, especially bank securities, and provoked an outflow of capital from the emerging countries.

Euro-area growth weakens significantly

The worsening outlook for global growth and the spreading financial tensions sapped the strength of the economy of the euro area. GDP growth slowed in the second quarter. A further weakening is expected in the third. The monthly €-coin indicator of the underlying growth trend in the area's GDP fell steadily over the summer, and in September was at a level consistent with growth close to nil. Consumer price inflation, which rose in September, should decline over the next few months in response to lower raw materials prices and the global economic slowdown.

The ECB resumes government securities purchases and steps up liquidity support

The ECB Governing Council has taken a series of measures to bolster banks' liquidity and prevent the turmoil from upsetting the smooth functioning of financial markets and hence of the monetary policy transmission mechanism. In August the Eurosystem central banks increased their secondary market purchases of government paper under the Securities Markets Programme. The intervention prevented an aggravation of the tensions. At the start of October the Council further strengthened its tools to support banks' liquidity and therefore their lending capacity with the addition of auctions for one-year refinancing with full allotment and the revival of purchases of banks' covered bonds.

Uncertainty over the adequacy of the available crisis management tools persists

Slowness in setting up crisis management procedures fuelled doubts in the markets as to the adequacy of the euro-area authorities' toolkit. On 21 July a new programme of financial assistance for Greece was approved and measures were taken to enhance the EFSF's effectiveness; their ratification process was completed on 13 October.

After narrowing in August, the yield spreads vis-à-vis the German Bund of the government securities of a number of member countries, including Italy and Spain, reached high levels again in September.

Italy is under particularly severe strain

The repercussions of the global economic slowdown and market turmoil were particularly severe in Italy.

Despite the fundamental soundness of the banking system, the low level of household debt and the absence of significant property market imbalances, Italy was hit hard by the crisis as a consequence of its large public debt, dependence on world trade, and poor medium-term growth prospects.

Growth slows in Italy in the third quarter ...

Italy's GDP rose by 0.3 per cent in the second quarter after virtually stagnating for six months. Growth continued to be sustained principally by exports, while domestic demand remained feeble. During the third quarter the economic picture worsened. The latest indicators confirm the weakness of domestic demand, which is depressed by the poor employment outlook and mounting uncertainty over the general economic situation. Exports are languishing in a context of less lively world demand.

... while inflation rises temporarily

In September twelve-month consumer price inflation rose to 3.1 per cent. Prices may well have already partly incorporated the VAT increase enacted at the start of the month, which will continue to exert modest upward pressure through the autumn. Core inflation remains low. The pressure on input costs is easing, as the latest business surveys indicate.

The banks are sound, but market tensions are affecting their funding capacity

The fundamental conditions of Italian banks remain sound. In the first half of 2011 the profitability of the top five groups was unchanged from a year earlier, albeit at a low level. Capital ratios benefited from the capital increases carried out by some groups. Nevertheless, the financial market turmoil has affected banks' wholesale funding costs and capacity. Lending growth remained high, though decelerating, in August, but there is a risk that the protraction of the tensions may increasingly influence the terms of access to credit.

The Government passes two budget adjustments during the summer

In the summer, in response to the strains in the financial markets, the Government passed two public finance adjustment packages for the four years 2011-14. The first package, enacted in early July, was designed to achieve a budgetary position close to balance in 2014, in line with Italy's European commitments. In the face of aggravated market tensions, on 13 August the Government enacted a second decree law to bring forward to 2013 the achievement of a balanced budget. During its parliamentary passage, the decree was reinforced by a series of amendments, focusing chiefly on the revenue side. Together, the two packages provide for reductions of net borrowing officially estimated at €3 billion in 2011, €28 billion in 2012, €54 billion in 2013 and €60 billion in 2014. About a third of the adjustment in 2014 will come from spending cuts, a third from revenue increases, and a third from the enabling act for tax and welfare reform.

In addition, some initial measures to foster economic growth were taken. They include rules liberalizing local public services and access to and exercise of economic activities. The rules on trade union representation and the possibility for company-level contracts to derogate from the terms of industry-wide collective bargaining agreements, introduced by a recent agreement between employer and trade union confederations and extended by Law 148/2011, broaden the scope for company-level bargaining, permitting closer alignment with the conditions of individual firms.

Now the provisions for growth have to be strengthened

The tensions affecting Italy make it all the more urgent to adopt economic policies that guarantee the consolidation of the public finances, thereby helping to contain interest rates, and tackle the country's structural deficiencies in order to sustain growth and facilitate fiscal adjustment.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

The world economy slows in the second quarter ...

The world economy slowed in the second quarter of 2011, mainly as a result of the abrupt and generalized reduction in the rate of growth in the advanced countries. One contributory factor, besides low employment growth and some temporary situations (an upswing in energy prices and the interruption of supplies of intermediate goods from Japan), was the less expansionary stance of budgetary policy in the United States and the United Kingdom. By contrast, despite slowing slightly, growth remained robust in the emerging countries, largely driven by domestic demand. Prices continued to rise apace but the deterioration in growth prospects for the world economy, reflected, *inter alia*, in a fall in the prices of oil and other commodities, should contribute to easing inflationary pressures, at least in the advanced countries.

In the second quarter, for the first time in two years, international trade contracted, falling by 2.1 per cent with respect to the previous period, essentially as a result of the contraction of trade in Asia. A weak recovery appears to have begun in the summer months, buoyed by the revival in Japan.

... and continues to grow at a modest pace during the third quarter

The latest cyclical indicators suggest that in the third quarter economic activity in the main advanced countries outside the euro area continued to expand at rates similar to or only slightly higher than in the previous period, with the exception of Japan, where growth appears to have been stimulated by reconstruction. The rate of growth of the main emerging economies remained at high levels overall.

The IMF's most recent forecasts indicate that the world economy will slow to average growth of 4 per cent this year and next (Table 1). The performance is not uniform: in the advanced countries GDP growth is expected to be only 1.6 per cent, against 6.4 per cent in the emerging economies. The outlook for growth in the world economy is subject to great uncertainty as a consequence of growing fears about sovereign debt and banks' stability.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2010	2011	2012	2011	2012
GDP					
World	**5.1**	**4.0**	**4.0**	–	–
Advanced countries	**3.1**	**1.6**	**1.9**	–	–
Euro area	*1.8*	*1.6*	*1.1*	*1.7*	*1.0*
Japan	*4.0*	*-0.5*	*2.3*	*-0.5*	*2.4*
United Kingdom	*1.4*	*1.1*	*1.6*	*1.2*	*1.8*
United States	*3.0*	*1.5*	*1.8*	*1.6*	*2.1*
Emerging countries	**7.3**	**6.4**	**6.1**	–	–
Brazil	*7.5*	*3.8*	*3.6*	*3.6*	*3.9*
China	*10.3*	*9.5*	*9.0*	*9.1*	*8.6*
India (1)	*10.1*	*7.8*	*7.5*	*7.5*	*8.0*
Russia	*4.0*	*4.3*	*4.1*	*4.2*	*4.0*
World Trade (2)	**12.8**	**7.5**	**5.8**	–	–

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

The price of oil declines and futures contracts indicate it is stabilizing

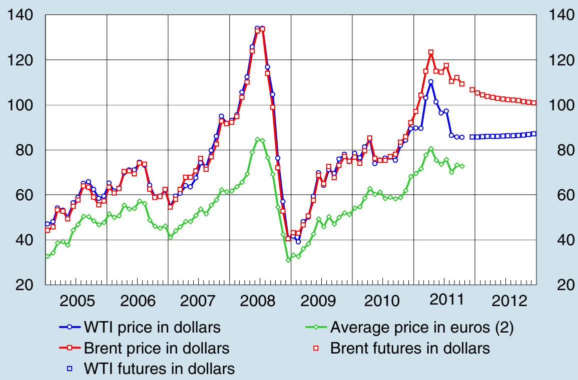
In the third quarter the prices of the main commodities continued to fall, influenced by the slowdown in the world economy. The average price of oil fluctuated above $100 a barrel, but was down on the previous quarter. According to the indications implicit in futures contracts, the price of Brent oil should fall by around $10 over the next 12 months (Figure 1).

In the second quarter the external deficit of the United States decreased slightly to 3.1 per cent of GDP. In the same period, thanks to strong exports, China's surplus grew to 4.2 per cent, although this was lower than last year's 4.8 per cent. Japan's surplus was reduced considerably to 1.6 per cent, affected by the sharp fall in exports after the earthquake in March. The external position of the euro area remained basically unchanged.

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

2.2 THE MAIN INDUSTRIAL AND EMERGING ECONOMIES

In the United States economic activity remains weak ...

In the second quarter of 2011 GDP in the United States grew at an annualized rate of 1.3 per cent. Since the end of July, the forecasts for the cyclical upswing have been progressively revised downwards, partly in connection with the annual National Economic Accounts Review (see box).

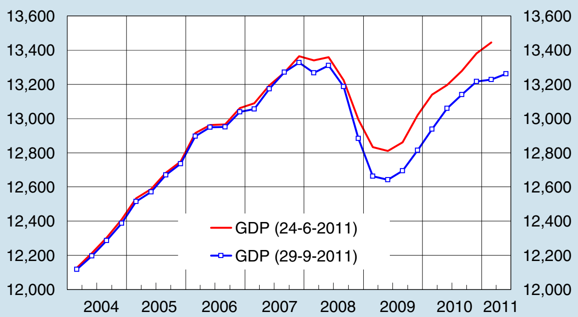
THE CYCLICAL UPSWING IN THE UNITED STATES

On 29 July the Bureau of Economic Analysis released its annual revision of the US national accounts with new quarterly estimates from the beginning of 2003. The revised data (newly updated on 29 September) present a profile of GDP in the last three-year period that is clearly lower than that published previously (Figure A). In the last period of recession, officially dated between the fourth quarter of 2007 and the second quarter of 2009, GDP declined by 5.1 per cent compared with previous estimates of 4.1 per cent. Between the second quarter of 2009 and the first quarter of 2011 GDP increased by 4.6 per cent against the previously estimated 5.0 per cent. The new data shows that in the second quarter of 2011, GDP was still down by about 0.5 per cent compared with the pre-crisis high, while the previous estimates indicated that it had already passed that peak in the first quarter of 2011.

Figure A

GDP before and after the revision of the US national accounts

(billions of dollars; values chain-linked to 2005 prices)



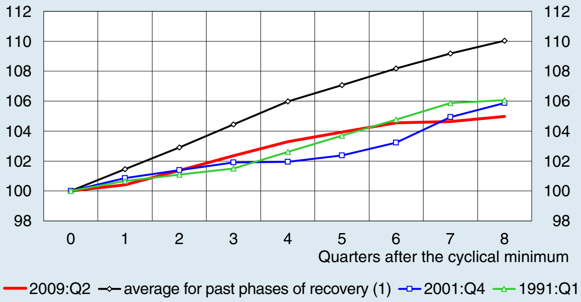
Source: Bureau of Economic Analysis.

In the eight quarters following the last low point of the cycle, GDP grew at an annual average rate of 2.5 per cent, about half the average rate recorded in similar phases of recovery over the last sixty years (Figure B). This is in line with international empirical evidence, which shows that after a financial crisis economic activity is very slow to recover. Current GDP growth is not very different from that of the last two episodes of recovery, (beginning, respectively, in the first quarter of 1991 and the fourth quarter of 2001), although in the last two recessions economic activity declined only slightly or remained stationary. As in the two most recent phases of recovery, but differently from the average of past recoveries, the recovery currently under way is also characterized by particularly disappointing employment growth.

Figure B

GDP in the phases of recovery

(index, cyclical minimum=100)



Source: Based on Bureau of Economic Analysis data.
(1) Average for all the phases of cyclical recovery, since the first quarter of 1954, of a duration of at least eight quarters, excluding the current one.

The revised data indicate that consumption and fixed investment have contributed less than half the amounts they contributed to the average rate of GDP growth in previous phases of recovery (respectively 1.5 and 0.5 percentage points on an annual basis). The input of inventory investment and net foreign demand was of the same order of magnitude as in the previous phases while public spending, which had curbed the fall in GDP during the recession, subtracted 0.1 percentage points from growth (against a contribution of 0.3 points in previous recessions). Contributions to growth from consumption of housing services and residential investment appear particularly modest, highlighting the fact that the weakness of the real-estate market has significantly affected the recovery of the US economy.

The main support for growth came from investment (1.1 percentage points on an annualized basis), while the contribution of consumption amounted to barely 0.5 percentage points and net exports added just 0.2 points. The prolonged decline in publics spending, mainly due to local government spending cuts, and the evolution of the inventory cycle subtracted respectively 0.2 and 0.3 percentage points from the growth in output.

According to the latest data, in the third quarter the economy continued to grow at a moderate pace. Industrial production picked up slightly (Figure 2), but on the demand side private consumption, held back by the decline in disposable income, remained weak.

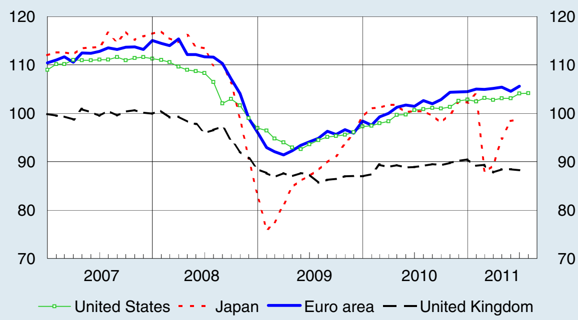
... and unemployment continues to stagnate

The US unemployment rate stayed high in the third quarter (9.1 per cent in September against 9.2 per cent in June) owing to disappointing employment growth. The same period also saw applications for unemployment benefits decrease, but the average duration of unemployment lengthened further, to over 40 weeks. The participation rate and the employment rate remained well below the pre-recession levels.

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.

The housing market remains in the doldrums

The housing market remains weak. During the summer the number of new house sales was very low and, despite a slight upturn in property prices, futures on the Case-Shiller 10-city index point to a further decline, of about 3 per cent in nominal terms, in the next six months.

Japan's GDP continues to contract but there are signs of recovery

In Japan, GDP again contracted in the second quarter, falling by 2.1 per cent on an annual basis compared with 3.7 per cent in the first quarter. The decline, which was less sharp than expected, can be put down to the large reduction in private investment and in exports, the latter due to supply problems following the earthquake. Private consumption decreased only slightly, while public consumption and investment expenditure increased. The latest forecasts point to a marked upturn in activity in the third quarter, driven by reconstruction work.

Activity slows in the United Kingdom as well

British GDP growth slowed sharply in the second quarter, to an annualized rate of 0.4 per cent. According to the latest cyclical indicators the economy will remain persistently weak: in July and August retail sales stagnated and the PMI indices both in manufacturing and in services declined with respect to June.

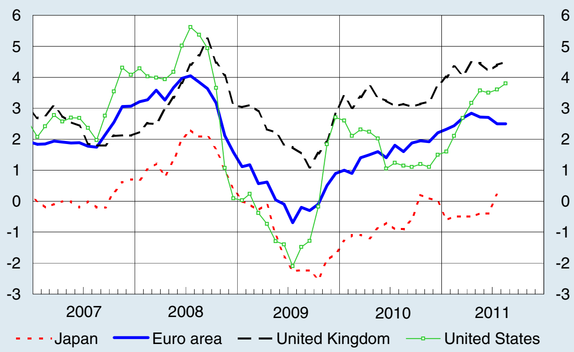
Inflation remains high in the advanced countries

Consumer prices continued to rise rapidly during the summer in the main advanced economies, reflecting the hike in commodity prices at the beginning of the year. In the United States the twelve-month inflation rate rose to 3.8 per cent in August from 3.6 per cent in the previous three months (Figure 3); net of the energy and food components, it increased from 1.8 per cent in July to 2.0 per cent. In the United Kingdom the inflation rate, which had fallen unexpectedly in June, returned in August to high levels (4.5 per cent; 3.2 per cent for core inflation). In Japan, prices turned upwards in July (twelve-month inflation of 0.2 per cent), including core inflation (0.1 per cent).

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.

The stance of monetary policy remains expansive

The stance of monetary policy in the advanced countries remained expansive against a backdrop of weak demand, the risks associated with financial instability and fairly low inflation expectations, despite the acceleration in prices in the summer. In September the Federal Reserve left the target range for the federal funds rate unchanged at 0.0 to 0.25 per cent. It also confirmed that, given ample spare capacity and stable inflation expectations, official rates would be held at the same level at least until the middle of 2013. In order to reduce long-term interest rates, the Federal Open Market Committee also announced it would extend the average residual maturity of the securities it holds by purchasing, before the end of the June 2012, $400 billion of Treasury securities with a residual maturity of over six years and at the same time selling an equal amount of Treasury paper with less than three years to maturity. The Bank of Japan, faced with the persistent slackness of prices, left the monetary policy reference rate corridor unchanged at 0.0 to 0.1 per cent. In addition, in August it decided to increase the Asset Purchase Programme by ¥10 trillion to ¥50 trillion in order to supply additional liquidity to financial institutions for purchases of public and private financial assets and for fixed-rate financing operations. The Bank of England left its policy rate unchanged at 0.5 per cent but raised the target for its purchases of financial assets by £75 billion to £275 billion, equal to 19 per cent of GDP.

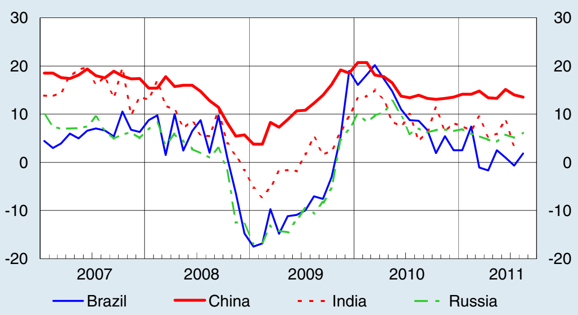
Growth slows in the main emerging economies but is still strong overall

In the second quarter of 2011 economic activity slowed slightly in the main emerging economies, albeit to varying extent (Figure 4). While in China and India GDP continued to expand at a rapid pace, respectively by 9.5 and 7.7 per cent year on year, growth slowed sharply in Brazil (to an annualized rate of 3.1 per cent with respect to the previous period, from 5.0 per cent in the first quarter) and in Russia (to 3.4 per cent on the year-earlier period, from 4.1 per cent). The performance of industrial production and surveys of businesses point to a further slight slowdown in the third quarter, more marked in India and Brazil. While the growth in domestic demand continues to be generally robust, development in the main emerging countries could be adversely affected by the slackening of trade with the advanced countries.

Figure 4

Industrial production in the BRIC countries

(monthly data; twelve-month percentage changes)



Sources: Thomson Reuters Datastream and national statistics.

Inflationary pressure remained high in all the countries concerned, although it showed signs of easing in Russia and, to a smaller extent, in China. From August onwards, partly in view of the worsening economic situation, the central banks of the main emerging countries ceased to raise their reference rates, and Brazil even reduced its (by 50 basis point in August). The only exception was India, where, given worsening inflation expectations, the central bank continued its restrictive action, raising interest rates by a total of 75 basis points between August and September.

2.3 THE EURO AREA

Economic activity slows during the spring ...

Against a backdrop of slowing world trade and the spreading sovereign debt crisis, the growth of the euro-area economy slowed during the spring owing to the waning of the temporary factors that had powered growth at the start of the year.

Euro-area GDP grew by 0.2 per cent in the second quarter, compared with 0.8 per cent in the first. Domestic demand stagnated. Household consumption contracted by 0.2 per cent after six consecutive quarters of modest expansion. Gross fixed investment rose by just 0.1 per cent, reflecting the fall in construction investment, which was accompanied by a further increase in spending on instrumental goods. Exports, while easing to a gain of 0.7 per cent, continued to provide the main support for output growth. Taking the modest rise in imports into account, net export demand contributed 0.2 percentage points to growth.

In the first half of 2011 economic activity expanded by 1.0 per cent compared with the second half of last year. Growth was stronger in Germany (1.6 per cent), in line with the average in France and barely positive (0.3 per cent) in Italy.

... and remains modest during the summer

The data available indicate that euro-area growth weakened further in the third quarter. The Bank of Italy's monthly €-coin indicator, which estimates three-month economic growth net of the most volatile components, recorded a progressive deterioration in the course of the summer, reflecting above all the tensions in the financial markets and the growing pessimism of households and businesses (Figure 5). Since August the Purchasing Managers Index for manufacturing has been below the level considered consistent with an expansion of activity.

The professional forecasters surveyed by Consensus Economics in September project area-wide GDP growth of 1.7 per cent for this year, slowing to 1.0 per cent in 2012. The highest growth forecast among the main countries is for Germany. The euro-area forecasts for next year made in September by the ECB range from 0.4 to 2.2 per cent. The IMF forecasts GDP growth of 1.1 per cent in 2012.

Inflation decreases slightly in the third quarter ...

For the third quarter as a whole, the flash estimates released by Eurostat in September put the twelve-month growth in the harmonized index of consumer prices at 2.7 per cent, compared with 2.8 per cent in the second quarter. The decline in inflation reflects a deceleration in the prices of fresh foods and non-energy industrial goods. Energy prices continued to increase at the rapid pace of previous months. The rise in the twelve-month consumer inflation rate from 2.5 per cent in August to 3.0 per cent in September (Figure 6) should be temporary and was due in part to the especially sharp rise in the harmonized index in Italy.

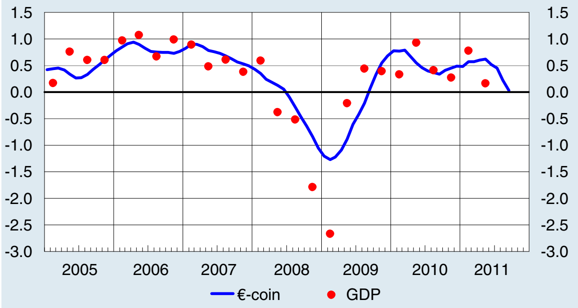
... and should improve further in 2012

Recent business surveys have recorded an easing of input cost pressures and intentions to moderate list prices. The forecasters surveyed in September by Consensus Economics predict year-on-year inflation of 2.6 per cent in the euro area in 2011 and 1.8 per cent in 2012. These projections are in line with those released in September by the ECB staff, which predict a rise in the HICP of between 2.5 and 2.7 per cent this year and between 1.2 and 2.2 per cent in 2012.

Figure 5

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

(percentage changes)

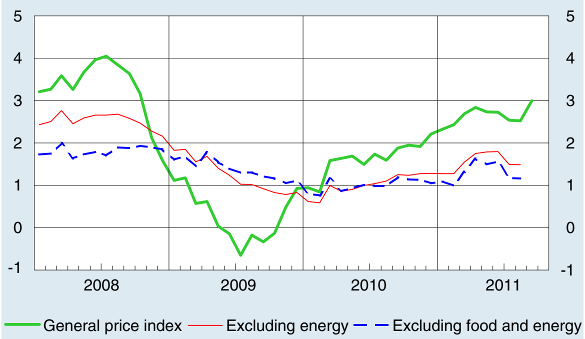


Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator, see the box "The €-coin indicator and the economic situation in the euro area" in *Economic Bulletin,* July 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly 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 6

Inflation in the euro area (1)

(twelve-month percentage changes)



Sources: Based on Eurostat and ECB data.
(1) Harmonized index of consumer prices. For September 2011, provisional data.

A recent Eurosystem report analyses the relationship between the structure of the distributive trades sector and price levels and dynamics in the euro-area countries (see box).

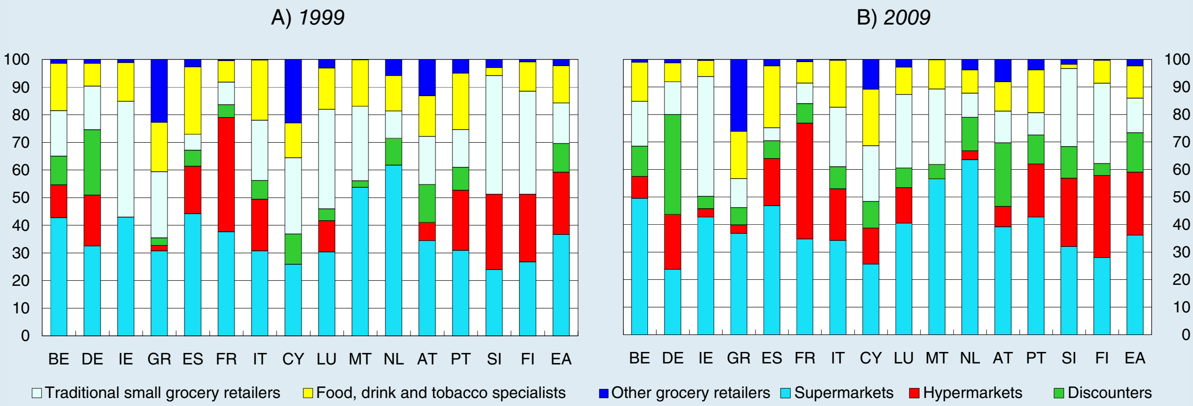
STRUCTURAL FEATURES OF THE DISTRIBUTIVE TRADES AND CONSUMER PRICES

The distributive trades sector, which mainly comprises wholesale and retail trade, plays a key intermediation role between producers and consumers; competitive conditions in this segment of the economy influence the level and dynamics of consumer prices.

According to a Eurosystem report [1] presented to the European Parliament on 4 October 2011, the euro-area distributive trades sector accounts for about one third of the number and sales of private non-farm non-financial firms [2] and one fifth of their value added. Women and young workers make up a large share of the sector's workforce; self-employed workers account for more than 30 per cent of the total and part-time employment contracts are very common. Jobs in the sector are mostly unskilled, productivity and earnings are low; they account for a significant proportion of the employment created in the last 15 years.

Distribution of retail grocery sales by type of outlet

(percentage points; 1999 and 2009)



Sources: Eurosystem calculations based on Euromonitor data.

Just under 60 per cent of the firms in distribution engage in retail trade, which has been studied much more than wholesale trade. [3] The sector is quite heterogeneous across the euro area. In the case of grocery stores, in 2009 supermarkets were the most common type of outlet, accounting, on average, for more than one third of total grocery sales (see figure). [4] Hypermarkets came next with an average share of 25 per cent, but with much higher figures for Finland, Slovenia and especially France (more than 40 per cent). Discount stores accounted for just under 14 per cent of grocery sales, with Germany and Austria recording the highest values (36 and 23 per cent respectively). Traditional outlets, such as small grocery shops, and specialist retailers account for a relatively large share of grocery sales in Italy, Ireland and Cyprus.

Since 1999 the share of discount stores has grown, at the expense of that of traditional outlets (see figure). A relatively recent phenomenon is the spread of superettes, small self-service outlets that are often linked to large chain stores by franchising agreements.

[1] Task Force of the Monetary Policy Committee of the European System of Central Banks, *Structural features of distributive trades and their impact on prices in the euro area*, ECB Occasional Paper Series, No. 128, September 2011.

[2] This proportion is lowest in Germany and highest in Slovakia, partly as a result of firms' different average size in the two countries.

[3] See, for example: Euromonitor International, *Country Market Insights*, 2000-2010; PricewaterhouseCoopers, *Consumer Nation: Retailing 2010. Global Retailing in a Consumer-Centric Universe*, 2000.

[4] The classification of outlets is based on their sales area (square metres) and the range of goods sold (number and variety), with some national differences. Hypermarkets tend to have a sales area of more than 2,500 square metres, supermarkets between 400 and 2,500 square metres, and discounters between 400 and 1,000 square metres with a relatively limited range of goods.

In the last ten years there has been an increase in the number of buying groups, consortia set up by large-scale distributors to negotiate with suppliers that have shifted the balance of bargaining power between producers and retailers and influenced the supply of goods to final consumers. Their net effect on competition in the distributive sector, final prices and consumers' wellbeing is uncertain. On the one hand the increase in members' bargaining power vis-à-vis large producers ensures purchases at better conditions and, potentially, lower sales prices; on the other hand lower costs can translate into wider profit margins for members of buying groups, with no benefit for consumers.

An analysis of the market structure and the degree of competition of large-scale retailers,[5] conducted for some euro-area countries (Germany, Spain, Finland, Italy, Austria and Portugal) shows an irregular pattern.[6] The highest degree of concentration at the buying group level is found in Finland, where the largest operator has a market share of about 50 per cent; the lowest is in Italy, where that figure is reached only by summing the shares of the three largest consortia (22, 18 and 11 per cent respectively). Considering parent companies, the biggest has a market share of 40 per cent in Finland, 33 per cent in Germany and 11 per cent in Italy.

According to a statistical analysis, for some goods (including "clothing and footwear" and "furnishings, household equipment and routine household maintenance") the degree of concentration among large retailers (computed both at the buying group and at the parent company level) is negatively correlated with price growth, whereas for others (including "food and non-alcoholic beverages" and "alcoholic beverages and tobacco") there is a positive correlation. This disparity indicates that for some products buying groups' higher bargaining power tends to offset the power of producers (countervailing power), while for others buyer power appears to prevail. The analysis of the competitive structure of the distributive trades and its impact on the level and dynamics of prices in some euro-area countries is important for the purpose of verifying that the Services Directive has been applied in full with a view to improving convergence towards the Single Market.

[5] Excluding traditional outlets and specialist retailers.
[6] E. Ciapanna and C. Rondinelli, *Retail Sector Concentration and Price Dynamics in the Euro Area: a Regional Analysis*, Occasional Papers, Banca d'Italia, forthcoming.

Money supply growth is still weak

The growth of M3 in the euro area remained slow (2.8 per cent in the twelve months ending in August, compared with 2.3 per cent in May). Current account deposit growth accelerated slightly (to 1.1 per cent), as did repos, against a modest slowdown in short-term deposits other than current accounts.

Credit conditions reflect funding difficulties

The growth of bank credit also continues to be sluggish. Adjusted for the accounting effects of securitizations, lending to the non-financial private sector grew at a seasonally adjusted annual rate of 2.2 per cent in the three months ended in August. The growth in lending to non-financial corporations quickened to 2.8 per cent, while that to households slowed to 1.7 per cent.

According to the euro-area Bank Lending Survey, credit conditions for firms were tightened during the third quarter, reflecting growing difficulty in market fund-raising and increased risk due to the worsening outlook for the economy. Credit demand reportedly weakened, reflecting diminished corporate financial requirements, deteriorating prospects for the real-estate market and declining consumer confidence.

Interbank market strains intensify

The strains in the interbank market sharpened, signalling segmentation and funding difficulties. The spread between unsecured loans (Euribor) and secured loans (Eurepo), which is an indicator of the counterparty risk premium on the interbank market, widened considerably. On 10 October the spread on three-month funds was around 90 basis points, compared with 30 basis points at the end of May. There was greater recourse to Eurosystem operations (an average of about €570 billion in the reserve maintenance period beginning in September) and an increase in precautionary demand for liquidity. During the same period the balance on the Eurosystem deposit facility reached about €170 billion.

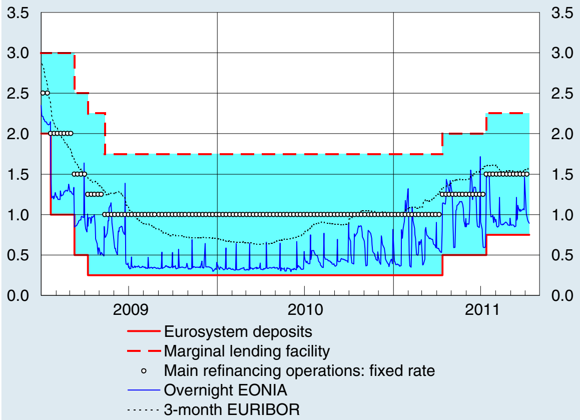
The ECB Governing Council steps up liquidity support

At its October meeting the Governing Council of the ECB kept its rate on main refinancing operations unchanged at 1.50 per cent (Figure 7). In addition to the operations already in being, the Council reactivated some instruments to support bank liquidity and lending. These measures were designed to make sure that banks did not face funding constraints, confirming the Eurosystem's determination to use all available tools to ensure orderly market conditions.

Figure 7

Official interest rates and money market rates in the euro area

(daily data; per cent)

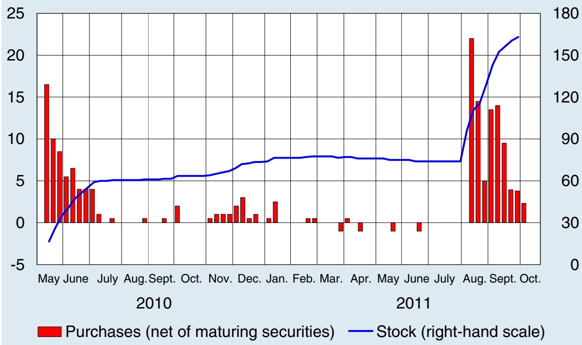


Sources: ECB and Thomson Reuters Datastream.

Figure 8

Purchases under the Securities Markets Programme

(billions of euros; weekly data)



Source: ECB.

The Council also announced two new longer-term refinancing operations in October and December, with maturity of 12 and 13 months respectively, at fixed rates and with full allotment. Starting in November, the programme of purchases of covered bank bonds will resume for up to a total of €40 billion. For the other refinancing operations, the Council confirmed the continuation of fixed-rate auctions and full allotment until July 2012.

On 7 August the Council decided to resume active use of the Securities Markets Programme for the purchase of debt securities in the euro area, which had been instituted in May 2010 to safeguard the proper working of the monetary policy transmission mechanism. The stock of securities held, which had remained practically constant at around €75 billion through July, rose to €163 billion at the end of the first week of October (Figure 8). All the liquidity generated by the Programme was neutralized by weekly operations.

To ease area banks' foreign currency funding difficulties, in mid-September the Governing Council announced, in coordination with the other main central banks, three refinancing operations in dollars to be conducted from October to the end of the year, with three-month maturities and full allotment.

2.4 WORLD FINANCIAL MARKETS

The third quarter of 2011 saw a pronounced increase in financial market volatility, triggered by deteriorating growth expectations for the advanced economies, which interacted, especially in the euro area, with the pressures on sovereign debt and the banking system. Heightened risk aversion accelerated the process of portfolio reallocation, boosting demand for the government securities of the reputedly soundest countries and for safe goods and currencies, such as gold and the Swiss franc. This caused slumps in share and private bond prices; the declines were steepest for bank securities. In addition, there was an outflow of capital from the emerging countries.

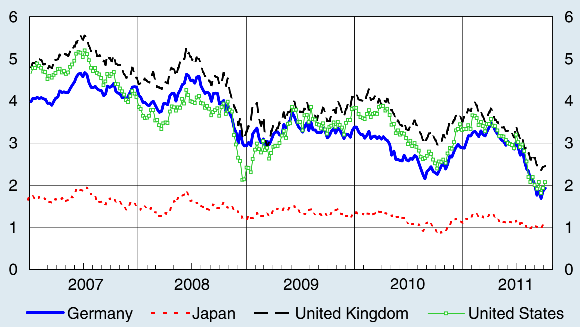
Heightened uncertainty provokes a flight to quality

Government securities yields reflected investors' preference for what they deemed to be safer financial assets and in this flight to quality they fell to historically very low levels (Figure 9). From the beginning of July they came down in the United States by 110 basis points, despite Standard and Poor's announcement on 5 August of the downgrading of US sovereign debt (from AAA to AA+ with a negative outlook). Comparable declines were recorded in Germany (110 basis points) and the United Kingdom (90 basis points); a smaller one was registered in Japan (20 basis points), despite the announcement on 24 August of the downgrading of that country's sovereign debt (from Aa2 to Aa3 with a stable outlook).

Figure 9

Yields on ten-year government bonds

(end-of-week data; percentages)



Source: Thomson Reuters Datastream.

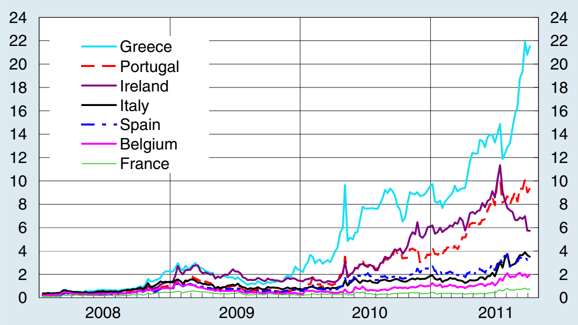
Tensions on sovereign debt in the euro area intensify ...

From the beginning of July the yield spreads on the government bonds of a number of euro-area countries with respect to the German Bund began to widen markedly again (Figure 10). The decisions of the Council of the European Union on 21 July concerning a new financial assistance programme for Greece and measures to stem the risk of contagion (see box) failed to mitigate the tensions. At the beginning of August the spreads of several countries reached new highs since the introduction of the euro, reflecting fears of a global economic slowdown and investors' doubts as to the adequacy of existing instruments (particularly the European Financial Stability Facility) to avoid contagion.

Figure 10

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

(end-of-week data; percentage points)



Sources: Based on Bloomberg data. The latest available data refer to 7 October 2011.

THE DECISIONS OF THE EU COUNCIL OF 21 JULY 2011

The sharpening of sovereign debt tension in the euro area at the beginning of July prompted the Heads of State and Government, at their meeting on 21 July, to decide on some important measures to safeguard the financial stability of the eurozone, proceeding along three main lines.

First, in order to increase the sustainability of Greek debt, the Council agreed on a new assistance programme for Greece amounting to around €160 billion, of which €109 billion to be provided jointly by the International Monetary Fund and the European Financial Stability Facility (EFSF) and

€50 billion by the private sector.[1] The programme is overshadowed by uncertainty over the terms of voluntary private sector involvement. The Council has also altered the characteristics of future financing from the EFSF, including the new loans to Ireland and Portugal: maturity will be between 15 and 30 years (against the present maximum of 7 years and 6 months) and the lending rates will be the same as those on the balance-of-payments facility, currently standing at 3.5 per cent.

Second, the Council drew up a set of measures to prevent the risk of financial contagion in the euro area. In particular, the flexibility of the EFSF was increased and, as of 2013, also that of the European Stability Mechanism. This flexibility is, however, linked to appropriate conditionality. The EFSF will henceforth be able to a) take preventive action, based on precautionary programmes, to support countries that have not made a formal application; b) finance the recapitalization of financial institutions through loans also to governments including in non-programme countries; and c) purchase government securities in the secondary market subject to the mutual agreement of the EFSF member states and to verification by the European Central Bank of the existence of exceptional financial market circumstances and risk to financial stability (intervention in the primary market had already been approved by the extraordinary European Council of 11 March).

Third, the Council reiterated its intention to complete the reform of European economic governance,[2] calling for a rapid convergence towards agreement on the legislative package designed to reinforce the Stability and Growth Pact and extend multilateral surveillance to macroeconomic disequilibria. On 28 September the European Parliament passed the bills. The main innovations agreed upon relate to the Council's voting procedures in the preventive part of the Stability Pact, the introduction of partial symmetry of the indicators of macroeconomic disequilibria, closer dialogue between European institutions, greater coordination of economic and budgetary policies within the European semester, and the introduction of a sanction in the event of fraudulent manipulation of national statistics. The package was approved by the EU finance ministers on 4 October. Last, the Council mandated the Presidency of the European Council to present by the end of October a set of proposals to enhance crisis management in the euro area.

[1] Private holders of eligible Greek government bonds can take part in a voluntary transaction, choosing from four options: i) exchange into 30-year bonds at par; ii) renewal at maturity with 30-year bonds (committed financing facility); iii) exchange into 30-year bonds at discount with higher coupons; iv) exchange into 17-year bonds at discount with redemption amortized from the 13th year.
[2] On the reform process designed to reinforce European economic governance see the box "The decisions of the European Council of 24 and 25 March 2011", *Economic Bulletin*, April 2011.

... particularly in Italy and Spain

In early August the spreads on the sovereign debt of Italy and Spain rose to just under 4 percentage points, partly as a consequence of the further lowering of Greece's credit rating and the uncertainty surrounding private-sector participation in the programme of financial assistance to Greece. The decision of the ECB on 7 August to reactivate purchases of government bonds under the Securities Markets Programme so as to ensure the orderly functioning of these markets contained the pressures and averted further deterioration. At the start of September Italian spreads moved upwards again in connection with the uncertainty that had accompanied approval of the budget correction. From the start of July the spreads also rose for Greece, Portugal, Belgium, Spain and France; the decline in ten-year German Bund yields, which fell from 3.0 to 2.0 per cent over the period, played a part in this. Ireland alone registered a narrowing of spreads, benefiting from the gradual improvement in the situation of its economy and public finances.

Risk premiums for banks and firms increase

In the third quarter of 2011 the abrupt drop in demand for reputedly risky financial assets penalized the banking sector, particularly European banks, exposed to sovereign risk because of their holdings of government securities. The credit default swap spreads of both US and euro-area banks rose considerably, but they are currently significantly higher in the euro area.

The risk premiums on corporate bonds also increased sharply. At the end of the first week of October the yield spreads on euro-denominated securities stood at about 280 basis points for investment-grade bonds (rated BBB) and topped 1,000 basis points for high-yield bonds. Those on the corresponding dollar-denominated securities stood at about 290 and 850 basis points, levels not seen since mid-2009 (Figure 11). For both currencies, the increase in risk premiums was more pronounced for bank bonds.

The further surge in risk aversion causes slumps in share prices ...

From the end of July onwards, share prices also tumbled. Over the third quarter as a whole, the Dow Jones Euro Stoxx index of the largest euro-area listed companies and the S&P 500 for the United States fell by 24 and 16 per cent respectively (Figure 12); the slide was steeper for bank shares. Expected variability, implied by the prices of options on stock market indices, increased sharply, rising in the euro area to levels not seen since May 2010 (Figure 13).

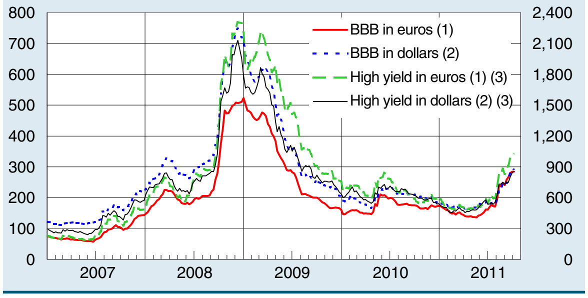
... and an outflow of capital from the emerging countries

Financial conditions also took a sharp turn for the worse in the emerging countries, in a context characterized by a sudden shift in the composition of international portfolios towards less risky assets. There were capital outflows, particularly large in the equity sector, and a halt in inflows into the bond sector. In the stock markets, large, broadly based losses took the indices to two-year lows. The yield spread between dollar-denominated long-term sovereign bonds and US Treasury paper increased, as did sovereign CDS spreads. The weakness of the emerging-country currencies against the dollar, already perceptible in August, intensified in September.

Figure 11

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

(end-of-week data; basis points)

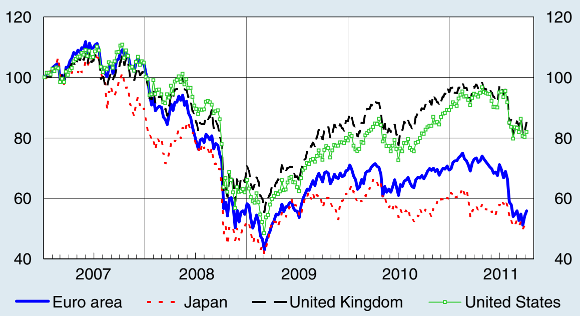


Source: Merrill Lynch.
(1) Fixed-rate bonds with a term to maturity of not less than one year issued in the Euromarket; yield spreads are calculated with respect to French and German government securities. – (2) Fixed-rate bonds with a residual term to maturity of not less than one year issued in the US domestic market; yield spreads are calculated with respect to US Treasury securities. – (3) Right-hand scale.

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.

The euro depreciates

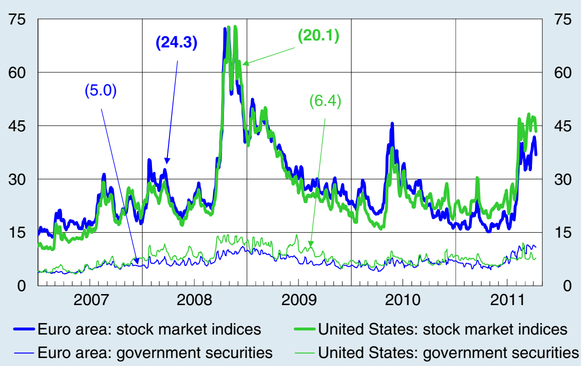
In the three months through September the euro depreciated by 7 per cent against the dollar and 4 per cent against sterling and more markedly still vis-à-vis the yen (11 per cent). The yen also registered a strong gain against the dollar, as had already occurred in previous US economic slowdowns (Figure 14). The overall depreciation of the euro in nominal effective terms was more limited (1 per cent), owing to the weakness of the emerging countries' currencies (Figure 15).

The gradual appreciation of the Chinese renminbi against the dollar continued in the third quarter (about 1.7 per cent); in nominal effective terms the renminbi appreciated by 3.6 per cent in the quarter.

Figure 13

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

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

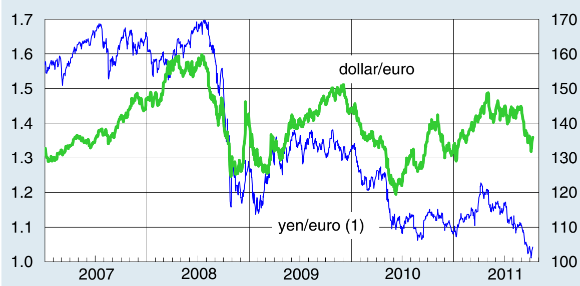


Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for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

Figure 14

Bilateral exchange rates (1)

(daily data)

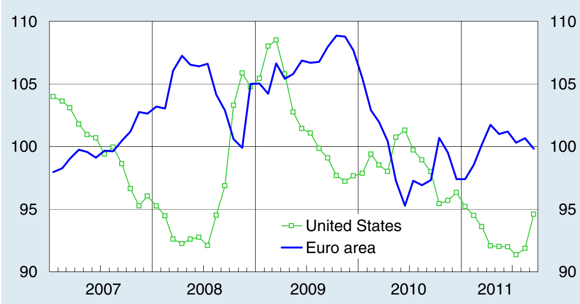


Source: ECB.
(1) Right-hand scale.

Figure 15

Nominal effective exchange rates (1)

(monthly data)



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

However, in September the rising trend came to a halt and the expectations of further appreciation implied by twelve-month forward contracts collapsed, reflecting fears that the continuing instability on international markets could prompt the authorities to adopt a more rigid peg to the dollar.

To counter the strengthening of the Swiss franc, the Swiss National Bank first took exceptional measures aimed at fostering an expansion of liquidity and then decided to set a floor for the franc's exchange rate against the euro (1.20 francs). To keep the franc from appreciating beyond that level, the central band declared it was ready to intervene without limits in the foreign exchange market. Following that decision, the franc's exchange rate against the euro, which had strengthened by 9 per cent between the end of June and early September, weakened by 8 per cent; it has never fallen below the threshold rate of 1.20 francs to the euro since then.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

Italian economic growth has been affected by the global slowdown and, since the summer, by the strong pressures in the sovereign debt market.

Moderate GDP growth in the spring

In the second quarter of 2011 Italy's GDP grew by 0.3 per cent on the previous period, after two quarters of virtual stagnation (Table 2). Exports continued to supply the main support to growth; taking account of the simultaneous decline in imports, the contribution of foreign trade was about one percentage point (Figure 16). Domestic demand remained weak. Household consumption increased slightly; investment was discouraged by the contraction in construction, against a recovery in capital goods. Changes in inventories subtracted 0.8 percentage points from GDP growth.

Economic activity appears to weaken in the third quarter

The economic picture worsened during the summer. The marked increase in industrial production in August, after three successive quarters of decline, could be partly due to statistical factors, as was the case in the month of August in years past. Taking account of our estimates for September, industrial activity appears to have slowed sharply in the quarter overall. The available indicators confirm the weakness of domestic demand, which is affected by the outlook for employment and greater uncertainty about the economic situation as a whole. Export sales are continuing to grow, however, even if more slowly in a context of less robust world demand.

The expectations of firms and households are increasingly pessimistic for the short term. Recent surveys conducted by the Bank of Italy have found that businessmen's assessments of investment conditions are worsening.

Table 2

GDP and its main components

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

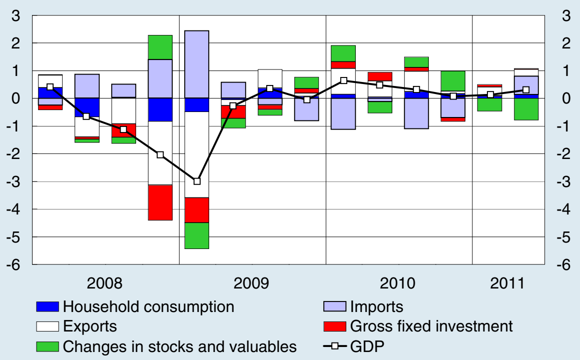
	2010 Q3	2010 Q4	2010 (1)	2011 Q1	2011 Q2
GDP	0.3	0.1	1.3	0.1	0.3
Total imports	4.3	2.6	10.5	-0.1	-2.3
National demand (2)	0.7	0.7	1.7	-0.1	-0.6
National consumption	0.2	0.1	0.6	0.2	0.2
household spending	*0.4*	*0.3*	*1.0*	*0.1*	*0.2*
other (3)	*-0.4*	*-0.4*	*-0.6*	*0.5*	*..*
Gross fixed investment	0.7	-0.7	2.5	0.5	0.2
construction	*1.0*	*-1.3*	*-3.7*	*0.4*	*-1.6*
other investment goods	*0.4*	*-0.2*	*9.6*	*0.6*	*2.0*
Change in stocks and valuables (4)	0.4	0.7	0.7	-0.5	-0.8
Total exports	2.9	0.4	9.1	1.1	0.9

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.

Figure 16

GDP growth and contributions of its main determinants (1)

(percentage points)



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

Inflation expectations remain stable

In September the twelve-month rate of consumer price inflation, measured by the consumer price index for the entire economy, rose to 3.1 per cent; the growth in prices could have been affected in part by the increase in VAT, decided at the beginning of the month, the effects of which will continue to exert modest upward pressure during the autumn. Pressures on input costs are easing, as reported by firms in the most recent business surveys. The professional forecasters surveyed in September by Consensus Economics expect inflation to be 2.6 per cent for this year overall and 1.9 per cent in 2012.

3.2 FIRMS

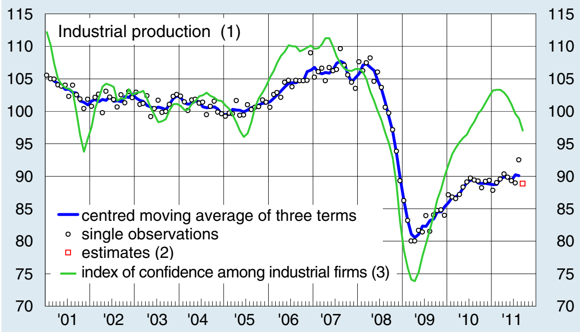
Industrial production slows in the third quarter

After falling for three consecutive months, the index of industrial production showed a jump of 4.3 per cent in August from the previous month. Part of the increase was due to a spurious component tied to the different distribution of summer holidays compared with previous years. According to our estimates, the index fell considerably in September and on average industrial production slowed in the third quarter, thus extending the practically flat trend under way since the end of 2010 (Figure 17).

Figure 17

Industrial production and business confidence

(monthly data)



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

Firms' short-term concerns mount

Firms' assessments of cyclical developments deteriorated. According to the results of the quarterly survey of a sample of industrial and service firms conducted in September by the Bank of Italy and *Il Sole 24 Ore*, about two third of firms judged the general economic situation worse, compared with 26 per cent in the survey conducted in June. More than half the sample firms did not expect an improvement in the next three months. Greater pessimism was also expressed by export-oriented firms. The overall view that the short-term outlook for economic activity was highly uncertain was confirmed by the results of the annual survey that the Bank of Italy's branches conducted in September (see box).

THE RESULTS OF THE SAMPLE SURVEY OF ITALIAN INDUSTRIAL AND SERVICE FIRMS

From 20 September to 12 October the branches of the Bank of Italy conducted the habitual autumn survey of a sample of firms with 20 or more employees in industry excluding construction and non-financial private services. Overall, the results point to great uncertainty over future production, investment plans and employment levels.

Of the firms surveyed, 42.6 per cent report an increase in turnover in the first nine months of 2011 with respect to the year-earlier period, while 28 per cent report a decline (see the table); exporting firms express slightly more favourable opinions about foreign markets. Nearly half the industrial firms expect production to remain unchanged between the third and fourth quarters; the balance between those projecting an increase and a decrease is only just positive. Projections for 2012 are more pessimistic, especially among the smallest firms. Overall, just 12.7 per cent of respondents predict that the market for their products and services will pick up in the next six months.

The percentage of firms expecting to close the current year with a profit is about the same as in the previous year's survey (57.4 per cent). The proportion of those who forecast a loss has risen by over 1 percentage point, to 23.6 per cent. The selling prices applied in Italy and abroad are expected to remain stable.

Investment plans continue to reflect caution. Over 60 per cent of firms confirm that investment spending in 2011 as a whole will be in line with the modest programmes drawn up at the beginning of the year, while about a quarter, mostly firms with fewer than 50 employees, report they have revised their plans downwards. The balance between the firms predicting an increase and a decrease in investment spending in 2012 is negative by about 10 percentage points. Around 43 per cent of respondents expect the effects of the recent financial market turmoil to compress investment plans for next year. This pessimism is more widespread among firms in the South.

Employment shows signs of picking up, albeit slowly. In the opinion of the firms surveyed, between January and September the number of workers in the service sector was up slightly, while employment in industry stagnated. During the year, recourse to both extraordinary and ordinary wage supplementation has diminished, the latter being requested by 22 per cent of industrial firms compared with 29 per cent in last year's survey. About 5 per cent of firms have requested authorization to place employees on the mobility list. Expectations regarding staffing levels in 2012 are more pessimistic, with a third of respondents believing they will be adversely affected by financial market tension.

Just under two thirds of firms report that their demand for bank loans was virtually unchanged in the first half of this year compared with six months earlier, while 11.2 per cent report a decrease and 25.4 per cent an increase. Similar developments are expected for the second half of this year.

Main results of the survey of industrial and service firms (1)
(percentage frequency of answers)

	Industry excl. construction	Services	Total
	Turnover in the first three quarters of 2011 compared with the year-earlier period		
Lower	26.2	29.9	28.0
About the same	23.9	35.3	29.4
Higher	50.0	34.8	42.6
	Industrial production in the fourth quarter of 2011 compared with the third		
Lower	25.4	–	–
About the same	45.7	–	–
Higher	28.9	–	–
	Investment expenditure in 2011 over planned investment at end-2010		
Lower	24.3	22.3	23.3
About the same	60.8	67.3	63.9
Higher	15.0	10.3	12.7
	Planned Investment for next year compared with investment in 2011		
Lower	26.3	27.7	26.9
About the same	56.1	55.8	55.9
Higher	17.7	16.6	17.1
	Average workforce in 2011 over average in 2010 (2)		
Lower	29.1	28.0	28.5
About the same	51.3	49.0	50.0
Higher	19.6	23.1	21.5
	Demand for bank loans in the first six months of 2011 compared with the second half of 2010		
Lower	12.9	9.3	11.2
About the same	60.4	66.8	63.4
Higher	26.8	23.9	25.4

(1) Sample consisting of firms with 20 employees and over in the sectors of industry excluding construction (about 2,650 firms) and private non-financial services (trade, hotels and restaurants, transport and communications, other professional services; about 1,050 firms). Percentages estimated net of "don't know, no answer" responses using for each firm a weighting coefficient which takes account, for overall distributions of geographical area, size class and sector, of the ratio between the number of firms in the sample and the size of the universe. Standard errors of estimated percentages do not exceed 0.8 per cent, i.e. confidence intervals (at 95 per cent) equal to a maximum of 1.6 percentage points. Calculations based on a sample representing 95 per cent of the target sample. – (2) Weighted by the number of employees.

The growth in investment is modest

Gross fixed investment for the total economy grew by 0.2 per cent in the second quarter with respect to the first. All of the increase came from the 2.0 per cent rise in spending on machinery, equipment and transport equipment, which on average had barely grown in the three previous quarters. The investment outlook is unfavourable, taking into account the ample margins of spare capacity and the uncertainty of demand in connection with, among other factors, the effects of the mounting tensions in the financial markets. Half of the firms polled in the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore* reported a deterioration in the conditions for investment. The survey conducted in the same month by the Bank of Italy's branches also found cutbacks to investment plans.

The property market remains weak

After a modest increase in the first three months of the year construction investment turned downwards in the second quarter, falling by 1.6 per cent compared with the first; the residential component continued its declining trend. The seasonally adjusted number of housing sales was down in the second quarter by 6.6 per cent compared with a year earlier. In the first half of the year house prices showed a slight gain in nominal terms (0.5 per cent on the second half of 2010) but continued to fall net of the change in consumer prices. Conditions also remained weak in the non-residential property market, where sales showed a further decline that was particularly sharp in the case of shops (5.5 per cent compared with the year-earlier period).

Signs of improvement in the real-estate cycle failed to emerge in the third quarter. The quarterly survey of estate agents conducted in July by the Bank of Italy, Tecnoborsa and the Agenzia del Territorio showed an increase in the negative balance between expectations of rising versus declining house prices; for the first time in a year, estate agents' expectations for their local markets turned negative (Figure 18). Assessments for the longer term (two years) referring to the national market continued to be marked by optimism but showed a deterioration.

Labour costs reversed part of their 2010 decline

After falling in 2010, unit labour costs in the private sector rose by 3.0 per cent in the first half compared with the year-earlier period (Figure 19). The increase reflected the acceleration in hourly earnings and a slowdown in labour productivity gains, which was presumably connected with the gradual return to work of employees who had been on wage supplementation. The increase recorded in industry was significantly higher than that in services.

Competitiveness improves slightly

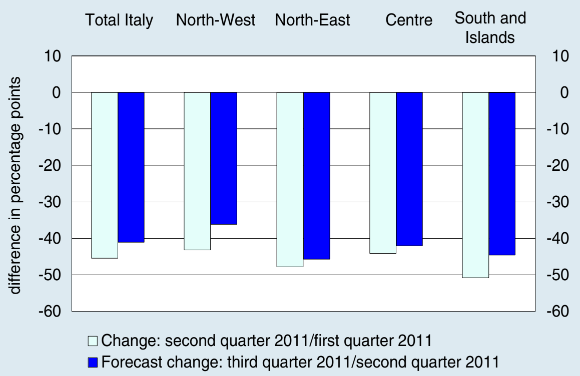
On the basis of preliminary estimates, in the third quarter as a whole Italian firms' competitiveness, measured using the producer prices of manufactured goods, recouped some of the decline registered in the second quarter, in line with the trend in the other major euro-area countries (Figure 20).

Operating profitability and self-financing decline

According to estimates based on national accounts data, non-financial firms' operating profitability (gross operating profit over value added) fell in the twelve

Figure 18

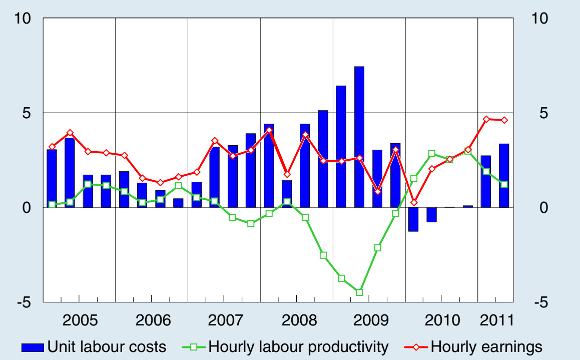
House price trends in Italy
(percentage balances between +/- assessments)



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

Figure 19

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



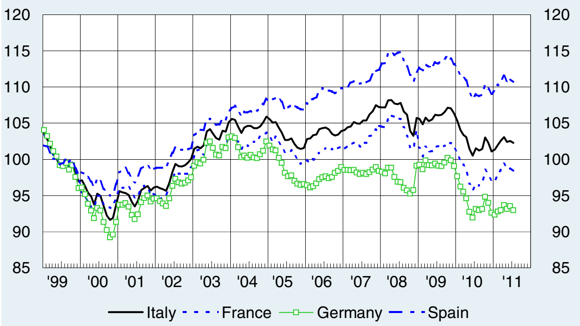
Source: Based on Istat data.
(1) Based on hours actually worked. The private sector comprises agriculture, industry excluding construction, construction, wholesale and retail trade, lodging and catering, transport and communications, credit and insurance, real-estate and professional services.

months ending in June compared with the twelve months to March; this third consecutive quarterly decline brought the indicator to its lowest level since the introduction of the euro. Following the increase in net financial costs, firms' self-financing also fell in relation to value added. At the same time investment held stable, so that firms' borrowing requirement increased. Non-financial firms' debt grew slightly, rising in June to 82.6 per cent of GDP (Figure 21), which was still nearly 20 percentage points below the euro-area average.

Figure 20

Indicators of competitiveness (1)

(indices, 1999=100)



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

The growth in small firms' bank debt shows signs of slowing

The twelve-month rate of increase in non-financial firms' bank debt, which rose throughout 2010, hovered from January 2011 onwards at just over 3 per cent and was equal to 2.9 per cent in August (Figure 22). The rate of increase for small firms came down during the summer to 1.7 per cent in August from 2.9 per cent in June.

Firms make net bond redemptions ...

In the second quarter of 2011 Italian non-financial firms made net redemptions of bonds (worth more than €2 billion) for the first time since the second quarter of 2008, compared with a slight increase in net issues in the euro area as a whole. According to provisional Dealogic data on gross issues, in the third quarter of 2011 placements by companies belonging to Italian groups were about the same as in the second quarter, amounting to about €4 billion.

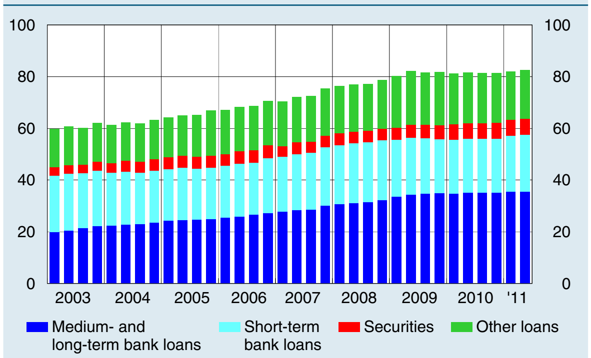
... while M&A activity picks up

After picking up slightly in the first quarter, fund-raising on the equity market came to a halt in the second. By contrast, M&A activity confirmed the signs of recovery shown since the end of 2010; according to Thomson Reuters Datastream, in the second quarter of 2011 Italian firms carried out 29 transactions worth a total of €1.6 billion. M&A activity in Italy was much less dynamic than in France and Germany, where transactions amounted to €15 billion and €7 billion respectively. In Spain, instead, the market came practically to a standstill. On the basis of

Figure 21

Debt of non-financial firms (1)

(as a percentage of GDP)

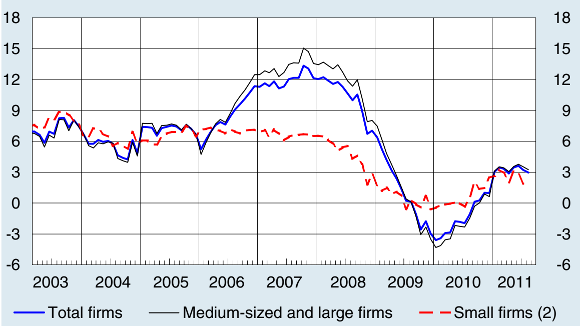


Sources: Based on Bank of Italy and Istat data.
(1) The data refer to the twelve months ending in the reference quarter and include securitized loans. Those for the second quarter of 2011 are provisional.

Figure 22

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



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

provisional data, in the third quarter of 2011 M&A activity in Italy gained pace, with transactions amounting to more than €3 billion.

3.3 HOUSEHOLDS

Household spending remains sluggish in the spring ...

Household consumption continued to grow at a modest pace in the second quarter of 2011, increasing by 0.2 per cent compared with the first. All the components of spending showed a slight gain except for non-durable goods purchases, which maintained the downward trend under way since the beginning of the year.

Spending is restrained by the weakness of households' gross disposable income, which according to data released by Istat grew by only 0.2 per cent in real terms in the first half of 2011 compared with the year-earlier period (Figure 23). After a partial recovery in the second half of 2010, households' real income fell quarter on quarter in both the first and the second three months of this year, by 0.7 and 0.2 per cent respectively.

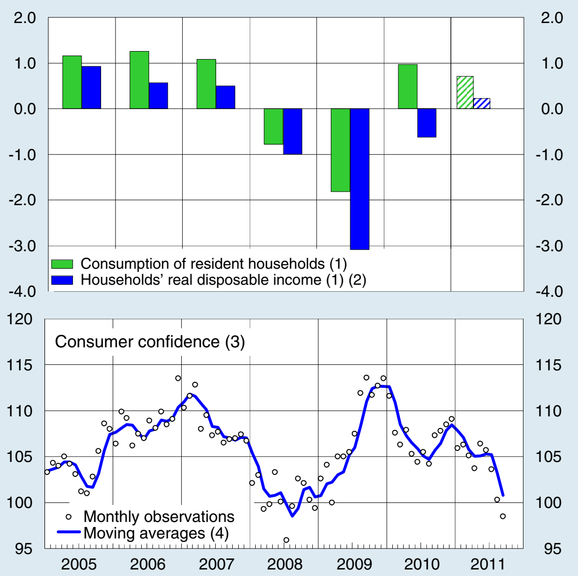
... and summer

During the summer retail sales continued to slow and new car registrations returned to the low levels of spring 2010. In September consumer confidence fell back to the lows registered in the summer of 2008, reflecting growing concern over the economic situation and the acceleration of the sovereign debt crisis.

Household debt in proportion to disposable income remained unchanged in the second quarter compared with the first, holding at close to 66 per cent in June (Figure 24). The greater incidence of medium- and long-term bank loans was offset by the decrease in that of non-bank loans. The level of debt in relation to disposable income remains significantly lower than the euro-area average (99 per cent at the end of the first quarter). The burden borne by Italian households for debt service (payment of interest and repayment of principle) also remained stable at 10.4 per cent of disposable income for the fourth consecutive quarter. The interest rates on loans for house purchases and for consumer credit rose on average in the second quarter and continued to move upwards in the third quarter.

Figure 23

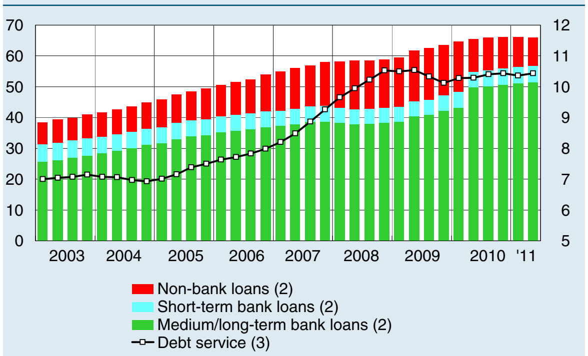
Consumption, disposable income and consumer confidence in Italy
(percentage changes and indices)



Sources: Calculations and estimates based on Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Up to 2010, annual data; for 2011, percentage changes in the first half compared with the same period of 2010 – (2) Includes income of consumer households, producer households and non-profit institutions serving households; obtained using the consumption deflator for resident households and non-profit institutions serving households. – (3) Monthly data, seasonally adjusted. Indices, 1980=100. – (4) Monthly data; moving averages for the three months ending in the reference month.

Figure 24

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



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

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Export growth slows in the second quarter

Against the backdrop of a slowdown in world trade, during the second quarter of 2011 Italian exports of goods and services expanded by 0.9 per cent in volume terms. The growth, slightly less than the 1.1 per cent registered in the first quarter, was accounted for entirely by goods exports, while the service component made a small negative contribution of 0.2 per cent. According to foreign trade data, the expansion of exports was due largely to trade with EU countries, in particular France and Germany, while sales to markets outside the Union grew by a modest 0.3 per cent in volume terms. The sector contributing most to export volume was engineering products, which accounted for nearly half of the overall growth; lesser contributions came from basic metals, transport equipment and the traditional Italian export product sector, which improved on its first-quarter performance.

Imports contract, especially goods imports

Italy's imports of goods and services decreased by 2.3 per cent in volume terms in the second quarter. The contraction was more pronounced for the goods component (2.5 per cent), which reversed a two-year upswing. Imports of services declined by 1.2 per cent, falling for the third consecutive quarter. The decline in goods imports can be ascribed above all to electronic products; the photovoltaic sector, which accounts for about a fifth of the total, registered a contraction of 25 per cent with respect to the first quarter, gradually returning to normal after the exceptional growth induced by the subsidies provided in 2010. Imports of transport equipment also declined, and to a lesser extent those of engineering products. The decrease involved only imports from outside the European Union, although the contribution of those from China was positive. Imports from other EU members increased modestly, due mainly to trade flows from France and Germany.

The balance of trade worsens in July and August

According to the foreign trade data, the volume of exports increased during July but that of imports increased more strongly. The data available for August, consisting only of trade flows vis-à-vis non-EU countries by value, signal a contraction of exports and an increase in imports.

The deficit on current account widened to €35.5 billion in the first seven months of the year, compared with €29.6 billion in the same period of 2010, owing to the worsening energy balance (Table 3).

The deficit on trade in services also worsened, by €0.4 billion, owing in significant part to transport. Since May the monthly current account balance has nevertheless been improving by comparison with a year earlier, reflecting the slightly better balance on merchandise trade.

Foreign direct investment grows strongly, portfolio investment decreases

From January through July, outward direct investment amounted to €27.1 billion, compared with €4.3 billion in the first seven months of 2010; this was greater than the flow for all of

Table 3

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

	2009	2010	Jan.-July 2010	Jan.-July 2011
Current account	**-30.1**	**-54.1**	**-29.6**	**-35.5**
Goods	0.8	-20.4	-8.5	-14.0
non-energy products (2)	*41.5*	*30.9*	*20.4*	*22.3*
energy products (2)	*-40.7*	*-51.3*	*-28.9*	*-36.3*
Services	-8.4	-9.0	-4.0	-4.4
Income	-10.4	-8.8	-6.1	-6.9
Current transfers	-12.1	-15.9	-11.0	-10.2
Capital account	**-0.1**	**-0.6**	**-0.6**	**-1.1**
Financial account	**37.3**	**86.7**	**49.6**	**15.9**
Direct investment	-0.9	-17.7	0.2	-14.6
Portfolio investment	28.1	38.5	24.2	13.8
Financial derivatives	4.3	-4.7	-1.1	3.6
Other investment	5.7	71.8	27.1	13.3
Change in official reserves	0.1	-1.0	-0.8	-0.2
Errors and omissions	-7.2	-32.1	-19.3	20.8

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

2010. Inward direct investment rose more moderately during the period, from a net inflow of €4.5 billion to €12.5 billion.

As for portfolio investment, Italian residents reduced their purchases of foreign equity from €31.7 billion in the first seven months of 2010 to €15.4 billion this year and made net foreign bond disposals of €16.0 billion. Non-residents greatly reduced their purchases of Italian securities, especially government securities. There was a net inflow of €14.1 billion from January through July, compared with €56.3 billion in the same period of 2010.

3.5 THE LABOUR MARKET

Employment grows moderately, wage supplementation diminishes

The upward trend in employment that began at the end of 2010 continued during the second quarter, albeit still at a modest pace. There remains considerable uncertainty over the strength of the recovery. On a seasonally adjusted basis the number of persons in work rose by 27,000 compared with the first quarter. This growth was not enough to raise the employment rate for the population of working age (15-64), which has been unchanged at 56.9 per cent for three quarters now (Table 4) after falling by nearly 2 points between 2008 and 2010. As the size of the labour force was roughly unchanged, the unemployment rate declined from 8.1 to 8.0 per cent. On the basis of the latest provisional monthly data, in August the number of persons in work topped 23 million for the first time since August 2009. Hours of wage supplementation authorized during the third quarter fell to 22.1 million, the lowest figure in the last two years. In industry excluding construction, the ratio of full-time equivalent workers receiving benefits to total employment was still higher than before the recession, despite having come down by 1.1 percentage points, on a seasonally adjusted basis, from the second quarter (Figure 25).

Table 4

Labour force status of the population in Italy

	Average 2009	Average 2010	Change (1)	Q2 2010	Q2 2011	Change (2)
			Thousands of persons			
Total persons in work	**23,025**	**22,872**	**-0.7**	**23,007**	**23,094**	**0.4**
Employees	**17,277**	**17,110**	**-1.0**	**17,083**	**17,214**	**0.8**
of which: fixed-term	*2,153*	*2,182*	*1.4*	*2,200*	*2,350*	*6.8*
part-time	*2,585*	*2,715*	*5.0*	*2,701*	*2,866*	*6.1*
Self-employed	**5,748**	**5,763**	**0.2**	**5,923**	**5,880**	**-0.7**
Labour force	**24,970**	**24,975**	**0.0**	**25,099**	**25,041**	**-0.2**
men	*14,790*	*14,748*	*-0.6*	*14,817*	*14,714*	*-0.7*
women	*10,180*	*10,227*	*0.9*	*10,282*	*10,327*	*0.4*
Population	**59,752**	**60,051**	**0.5**	**60,021**	**60,309**	**0.5**
			Percentages and percentage points			
Unemployment rate (3)	**7.8**	**8.4**	**0.6**	**8.5**	**8.0**	**-0.6**
men	*6.8*	*7.6*	*0.8*	*7.7*	*7.1*	*-0.6*
women	*9.3*	*9.7*	*0.4*	*9.7*	*9.2*	*-0.5*
North	*5.3*	*5.9*	*0.6*	*6.0*	*5.4*	*-0.7*
Centre	*7.2*	*7.6*	*0.4*	*7.6*	*7.0*	*-0.6*
South	*12.5*	*13.4*	*0.9*	*13.6*	*13.2*	*-0.4*
Participation rate (age 15-64) (3)	**62.4**	**62.2**	**-0.2**	**62.3**	**61.9**	**-0.4**
men	*73.7*	*73.3*	*-0.4*	*73.5*	*72.8*	*-0.7*
women	*51.1*	*51.1*	*-0.0*	*51.2*	*51.2*	*0.0*
Employment rate (age 15-64) (3)	**57.5**	**56.9**	**-0.6**	**57.0**	**56.9**	**0.0**
men	*68.6*	*67.7*	*-0.9*	*67.7*	*67.5*	*-0.2*
women	*46.4*	*46.1*	*-0.2*	*46.2*	*46.4*	*0.2*

Source: Istat, labour force survey.
(1) Changes, 2010/2009; variations are in percentages for persons and percentage points for rates. – (2) Changes, Q2 2011/Q2 2010; variations are in percentages for persons and percentage points for rates. – (3) Seasonally adjusted.

Employment expectations worsen; the demand for temporary staff rises

According to the business surveys conducted in September both by Istat and by the Bank of Italy jointly with *Il Sole 24 Ore*, firms expect a marked decline in staffing levels over the next few months. In a context of uncertainty, firms continue to opt for flexible contract forms. Fixed-term employment was 6.8 per cent higher (149,000 jobs) in the second quarter than a year earlier, while permanent positions remained broadly stable and self-employment contracted for the first time after a year of moderate growth (down by 0.7 per cent or 43,000 positions). According to estimates by Ebitemp, a joint employer-union organization for the temporary employment industry, the rapid rise in temporary employment agency work continued, reaching the level of 200,000 full-time equivalent workers (over 29 million hours paid) in July.

By sector, the continuing contraction in construction employment (by 2.8 per cent, a loss of 56,000 jobs) was offset by gains in services (0.9 per cent or 133,000 jobs) and industry excluding construction (1.1 per cent, 50,000 jobs). The growth was concentrated in the North (53,000) and the South (32,000).

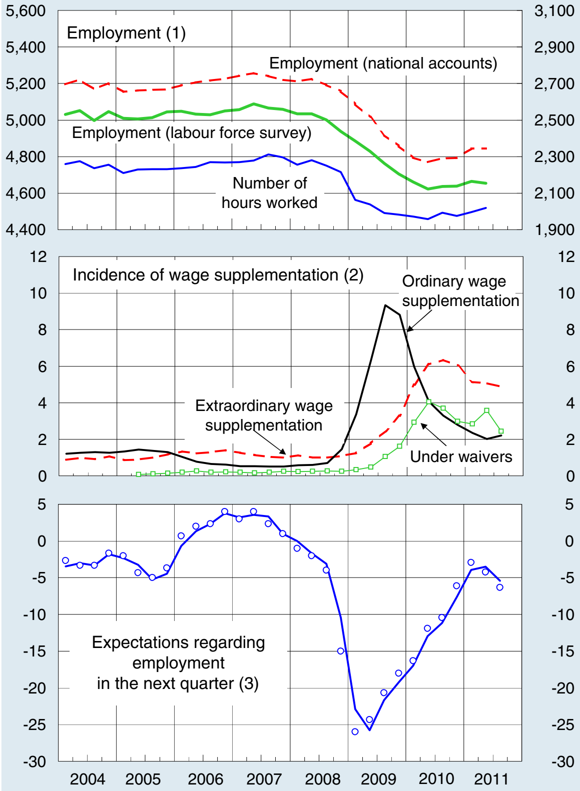
A worsening outlook for young people and the less educated

Firms increased their demand for skilled staff in the second quarter, by comparison with the year-earlier period, and decreased that for manual workers. After nearly three years of steady reduction, the employment rate held virtually stable. However, this was the result of sharply divergent trends for different labour force groups. The less well-educated and young people were penalized. The employment rate for persons with only lower secondary school diplomas fell from 48.2 to 47.6 per cent, that for people aged 15 to 34 from 45.9 to 45.0 per cent.

Figure 25

Employment, wage supplementation and employment expectations in industry excluding construction

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



Sources: Based on Istat, *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 third 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.

The reduction in the unemployment rate (by 0.6 percentage points with respect to the second quarter of 2010) was due in part to a contraction in the labour supply (by 0.2 per cent or 59,000 persons), and the consequent decline in the participation rate from 62.3 to 61.9 per cent. While the number of job seekers fell sharply (by 146,000 or 7.0 per cent), the number of first job seekers increased by 30,000, or from 25.1 to 28.5 per cent of total unemployment, and the number of long-term unemployed also rose (by 23,000, from 48.1 to 52.9 per cent of the total). The unemployment rate among people under 25 was reduced from 27.9 to 27.4 per cent owing exclusively to a fall in participation; the employment rate of this group fell from 20.5 to 19.0 per cent and the participation rate from 28.4 to 26.2 per cent. About two thirds of the additional non-participants were either in school or vocational training (126,000 and 82,000 persons respectively).

Earnings keep pace with prices

Actual earnings in the non-farm private sector rose by 2.7 per cent in the second quarter by comparison with the year-earlier period, in line with the rise in consumer prices. Growth was moderate in the service sector (1.7 per cent), stronger in industry (4.2 per cent). Nearly two thirds of the increase was the effect of wage drift, mostly owing to the change in workforce composition towards higher-paid workers (see the box "The changing composition of the workforce and average wages in the private sector", *Economic Bulletin*, April 2011). In the economy as a whole, actual earnings rose more modestly (1.6 per cent over the year-earlier quarter); they were held back by a decline in public sector earnings (0.7 per cent) owing to salary restrictions under last year's budget package.

3.6 PRICE DEVELOPMENTS

Inflation increases in the summer

Inflation increased in September but core inflation, which also rose, remained moderate. According to provisional figures released by Istat, the twelve-month change in the consumer price index for the entire resident population increased to 3.1 per cent, against 2.8 per cent in August (Table 5), possibly already reflecting some of the effects of the increase in VAT rates decided at the beginning of the month. When the new rates come into force the impact on the consumer price index, assuming the rise is passed on in full, will be less than half a percentage point.

Core inflation remains moderate

During the summer the acceleration in food prices under way since the middle of last year came to a halt, partly owing to statistical factors related to the new method of recording the prices of seasonal products (see *Economic Bulletin*, April 2011). Energy prices, on the other hand, increased faster. Measured net of food and energy, inflation rose from 1.9 per cent in the second quarter to 2.1 per cent in the third (Figure 26). The goods component was stable, with prices rising by around 1 per cent, while services accelerated from 2.4 to 2.6 per cent in response to rises in the transport sector linked to the performance of oil prices.

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	at 1 month (4)	Excl. energy and food (5)	Overall index
2006	2.2		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
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	2.3	2.7	0.2	2.0	4.6
July	2.1	1.0	2.7	0.2	1.9	4.9
Aug.	2.3	1.2	2.8	0.1	1.9	4.8
Sept. (6)	(3.5)	....	(3.1)	(0.4)	(2.4)	....

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. Our calculations – (5) Our calculations. – (6) For September, preliminary data.

The twelve-month rate of change in the harmonized index of consumer prices (HICP) was particularly volatile during the year, reaching 3.5 per cent in September against 2.3 per cent in August. The index reflects the methodological changes introduced at the beginning of the year, the effects of which are more pronounced in months in which sales take place and those immediately after. This distorts any comparisons with the previous year, when the changes had not yet been introduced.

The pressure from costs and producer prices is lessening

Since May supply chain pressures have been lessening. Producer price inflation fell gradually from a peak of 6.2 per cent in March to 4.8 per cent in August, in synchrony with the easing of tensions on input costs. After topping $120 a barrel in April, oil prices settled around $115 in the following months. The prices of other commodities came down from the peak values recorded in the early months of the year. In September, prices in euros jumped sharply owing to the currency's depreciation from €1.43 to the dollar in August to €1.38.

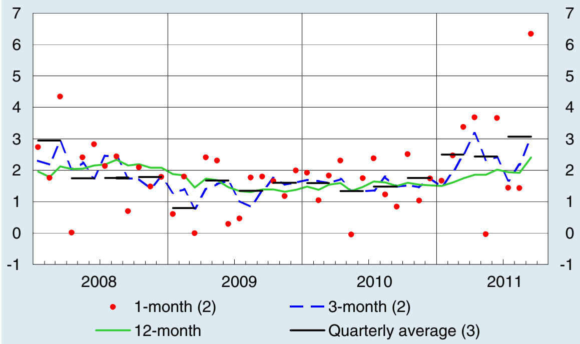
According to professional forecasters inflation will ease in 2012

Inflation is expected to diminish in 2012, although in the coming months consumer prices will continue to be affected by the increase in VAT. In September the projections of professional forecasters surveyed by Consensus Economics stood at 2.6 per cent for this year and 1.9 per cent for 2012, in line with those for the euro area. According to the quarterly survey conducted in September by the Bank of Italy in collaboration with *Il Sole 24 Ore*, in the next twelve months firms expect to increase their list prices less than was envisaged in June, given the situation of cost moderation and weakened demand.

Figure 26

Core inflation in Italy (1)

(consumer price index excluding food and energy; percentage changes)



Source: Based on Istat data.
(1) Provisional data for September. – (2) Seasonally adjusted annualized rate. – (3) Average, in the reference quarter, of monthly growth rates, seasonally adjusted and annualized.

3.7 BANKS

The tensions on the sovereign debt market have affected banks' ability to raise funds, especially on the wholesale markets. There is the risk that the difficulties will be increasingly reflected in the terms and conditions on which banks supply credit.

Table 6

Main assets and liabilities of Italian banks (1)

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

	2009	2010	August 2011	
				Stocks (2)
Assets				
Securities other than shares	29.7	8.2	5.3	586,014
bonds issued by MFIs resident in Italy	*32.3*	*-2.6*	*6.1*	*225,777*
Loans (3)	1.0	4.5	4.0	1,941,668
up to one year	*-5.1*	*5.2*	*6.3*	*625,653*
over one year	*4.2*	*4.3*	*3.0*	*1,316,015*
External assets	-10.9	2.1	3.1	343,265
Liabilities				
Total funding (3) (4)	2.0	-0.2	0.6	2,189,856
Deposits of Italian residents (3) (4)	5.1	-0.9	-0.1	1,135,250
of which: (5)				
overnight	*11.2*	*-1.5*	*-1.8*	*731,999*
with agreed maturity	*8.3*	*-6.1*	*4.3*	*63,396*
redeemable at notice	*8.2*	*5.4*	*3.3*	*280,114*
repos	*-50.3*	*-15.7*	*4.2*	*42,922*
Deposits of non-residents	-8.8	2.9	-2.5	432,213
Bonds (4)	4.9	-1.2	4.2	622,393
Memorandum item:				
Total bonds	10.6	-1.6	4.7	848,170

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

Bank fund-raising slows ...

Fund-raising by Italian banks, excluding domestic interbank deposits and liabilities towards the Eurosystem and central counterparties, grew by 0.6 per cent over the twelve months ending in August, as against 1.8 per cent over the twelve months to May (Table 6). The slowdown was mainly due to the performance of non-residents' deposits, a sizable portion of which are raised on the foreign interbank market; their twelve-month growth of 6.6 per cent in May gave way to a contraction of 2.5 per cent in August. Bond issues, excluding those on the interbank market, recorded twelve-month growth of 4.2 per cent in August (down from 4.4 per cent in May), a result sustained by the issues made in the early part of the year; in July and August issues on the wholesale markets dried up almost completely. By contrast, the contraction in residents' deposits slowed from 1.3 to 0.1 per cent; those of households and non-financial corporations continued to expand.

As a consequence of the difficulties encountered in raising funds on the wholesale markets, Italian banks' recourse to Eurosystem refinancing increased to about €89 billion at the end of August, from about €34 billion at the end of May.

Over the twelve months ending in August the borrowed funds of the five largest banking groups decreased by 3.4 per cent, while those of the other banks (excluding the branches of foreign banks) increased by 2.1 per cent.

... and its cost increases

The changed monetary conditions and the recent tensions on the sovereign debt market have pushed up the cost of banks' funds. Compared with the situation in May, the yield on households' current accounts increased by 0.1 percentage point to 0.4 per cent, that on deposits with agreed maturity up to two years by 0.4 percentage points to 2.1 per cent, and that on new variable-rate bond issues by 0.7 points to 3.8 per cent.

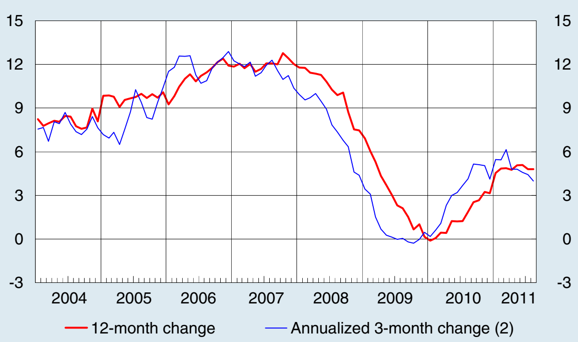
Bank lending slows ...

The growth of bank lending to the non-financial private sector has weakened. Adjusted for the accounting effects of securitizations, it fell from an annualized seasonally adjusted rate of 4.8 per cent over the three months ending in May to one of 4.0 per cent over the three months ending in August (Figure 27). This result reflected both the decline in the growth of lending to households to 3.7 per cent, with especially marked slowdowns for consumer credit and other non-mortgage loans, and that in lending to firms to 4.2 per cent.

Figure 27

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, the growth of lending to the entire economy slowed to 2.5 per cent, from 3.2 per cent in May, reflecting the decline in the growth of lending by the five largest banking groups, to 1.2 per cent, and in that by other banks, to 3.6 per cent.

... partly as a result of supply-side factors

The slowdown in lending to firms reflects both demand-side factors, especially the scaling back of investment plans and the reduced need to obtain loans for working capital to finance inventories, and supply-side factors. In the third quarter of 2011 the terms and conditions for granting loans to firms were tightened (see the box "Credit supply and demand in Italy"). According to Istat's monthly survey and the quarterly survey conducted in September by the Bank of Italy and *Il Sole 24 Ore*, there was a substantial increase in the proportion of firms reporting difficulty in obtaining bank credit, to 28.6 per cent from 15.2 per cent in June according to the quarterly survey. Lending to households mainly reflected developments in demand, which was affected by weak spending on durable goods.

CREDIT SUPPLY AND DEMAND IN ITALY

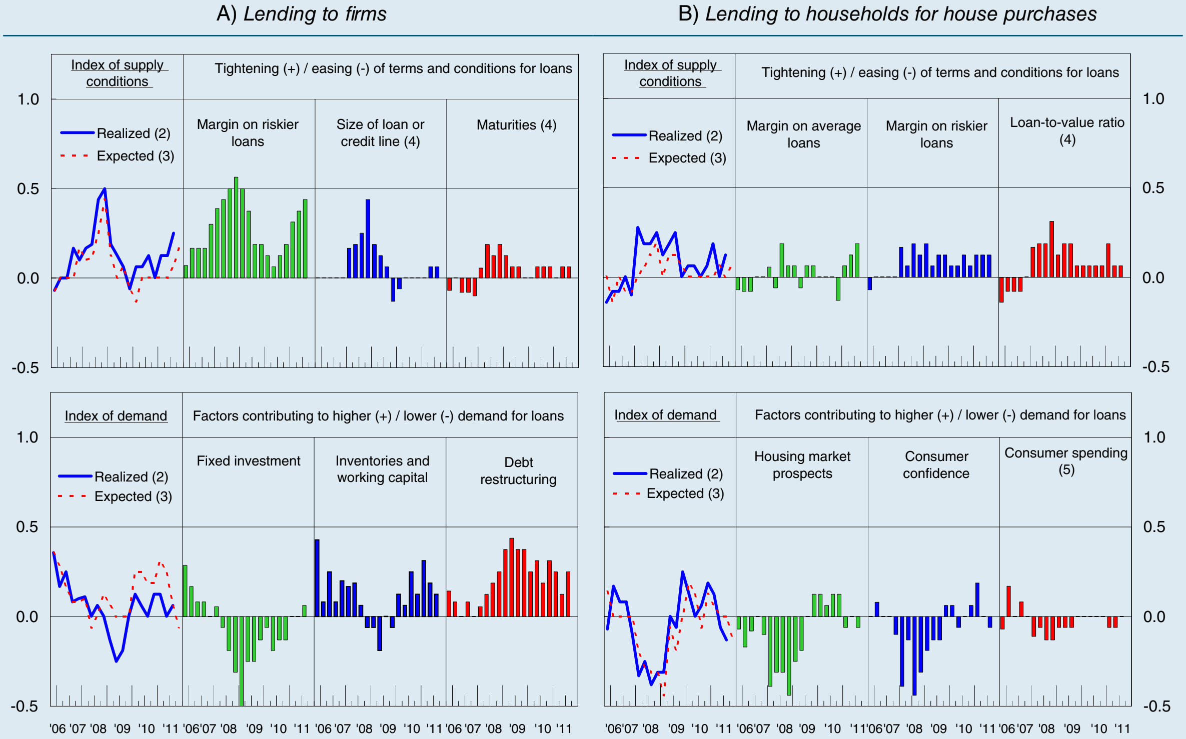
The responses given by the Italian banks participating in the quarterly euro-area Bank Lending Survey conducted in the third quarter of 2011 indicated a greater tightening of the terms and conditions for loans to firms than in the previous two quarters (see figure), ascribable to the growing difficulty of raising funds on the markets and the perceived risk concerning the outlook for specific sectors or firms.[1] The tightening mainly affected lending to large firms and medium- and long-term loans, and chiefly took the form of an increase in the margins, particularly on the riskiest loans.

According to banks' assessments, firms' demand for loans picked up slightly, impelled by the growing demand in connection with debt restructuring, which more than offset the reduction in that for the financing of inventories and working capital.

For the fourth quarter of 2011, banks expect a further tightening of credit supply conditions and a slight slowdown in demand.

In the third quarter of 2011, the banks also reported a slight tightening of the terms for lending to households for house purchases and those for consumer credit and other loans, which took the

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



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

[1] Eight leading banking groups took part in the survey, which was completed on 27 September; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int.

form of slightly more stringent cost conditions. The greater cautiousness of lenders reflected both the worsening of their own balance-sheet constraints and an increase in the perceived prospective risk of the housing market and consumers' creditworthiness.

Households' demand for loans slowed, reflecting, besides the deterioration of consumer confidence, the worsening of the outlook for the property market, in the case of mortgages, and the weakness of purchases of durable goods, in the case of consumer credit.

The banks expect a further moderate tightening in the terms and conditions of lending to households in the fourth quarter. The growth in the demand for house purchase loans is expected to remain unchanged, that for consumer credit to increase slightly.

The banks surveyed reported a sharp worsening in the terms of access to all sources of wholesale funding during the third quarter. They expect the deterioration to continue at about the same intensity in the fourth quarter.

There is the risk of further increases in the cost of bank loans

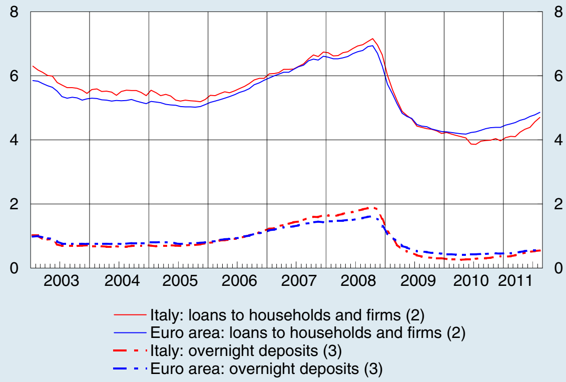
Compared with May, the average interest rates on new loans rose (Figure 28), reflecting the increase in money market rates; the increase in the cost of funding has begun to push up lending rates. If the yields on government securities remain at their present levels, there is the risk that a further increase in the cost of bank loans will follow.

In August the average interest rates on new loans to firms rose by 0.5 percentage points, to 3.4 per cent. The increase affected the rates on loans of more than €1 million, which rose to 3.0 per cent, and those on smaller loans, which rose to 4.2 per cent. The average rate on new variable-rate mortgage loans to households rose by 0.4 percentage points, to 3.1 per cent, while that on new fixed-rate mortgage loans was unchanged at 4.8 per cent. The APRC on consumer credit rose further, to 9.2 per cent.

Figure 28

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.

Credit quality remains poor

In the second quarter of 2011 intermediaries operating in Italy recorded a further substantial flow of adjusted new bad debts. On an annual, seasonally adjusted basis, the flow amounted to 1.8 per cent of loans, unchanged compared with the first quarter and 0.2 percentage points less than in the last quarter of 2010. There have been signs of an improvement in the ratio of the flow of adjusted new bad debts to the stock of outstanding loans for consumer households and for firms in the Centre and North; for firms in the South and Islands the ratio has increased.

Preliminary data suggest that banks' exposure to borrowers reported for the first time with positions classed as bad debts diminished in July and August with respect to a year earlier. However, the share of lending to firms in difficulty – substandard and restructured loans – remained high in August, 6.0 per cent of total lending to the corporate sector, suggesting that banks' bad debts could increase quite rapidly in the coming months.

In the first half of 2011 the five largest banking groups' profitability remains stable

According to the consolidated reports of the five major banking groups, banks' profitability remained basically unchanged in the first half of 2011 compared with the year-earlier period. The annualized rate of return on equity remained equal to 4.5 per cent. The small decrease of 1.8 per cent in net interest income was more than offset by the increase in profit from trading. Gross income grew by 2.5 per cent while operating expenses remained stable, with the result that operating profit grew by 6.3 per cent. Transfers to provisions were down by 13.1 per cent; those against the deterioration in loan quality were down by 15.3 per cent. Net profit rose by 8.5 per cent.

Banks' capital ratios benefit from their capital raisings

In the first half of 2011 the capital ratios of the five largest banking groups benefited from the increases in capital some of them implemented. At the end of June the core tier 1 ratio averaged 8.6 per cent, up from 7.4 per cent at end-2010; the tier 1 ratio and the total capital ratio stood at 10.1 and 13.7 per cent respectively.

3.8 THE FINANCIAL MARKETS

Yields on long-term government bonds rise ...

The gross yield on ten-year BTPs increased sharply from the beginning of July as tension on the government bond markets of some euro-area countries spread to Italy. In the first days of August it reached the highest level since the introduction of the euro, exceeding 6 per cent.

... and although ECB purchases help to stabilize them, they remain high

From 8 August, the European Central Bank's purchases under the Securities Market Programme helped to bring the yield on BTPs back to around 5 per cent and greatly improved the liquidity of their market, as indicated by the pronounced narrowing of the bid/ask spread. However, from the beginning of September the yield on ten-year BTPs rose back to around 5.5 per cent, reflecting the uncertainty leading up to approval of the public finance adjustment measures and doubts about the Italian economy's growth prospects. Between mid-September and the first ten days in October the three leading rating agencies (Standard and Poor's, Moody's and Fitch Ratings) downgraded Italy's debt, with a negative outlook.

The credit risk premiums for Italian firms and banks increase significantly

At the beginning of July the yield spreads between investment-grade bonds issued by non-financial corporations and the reputedly safest euro-area government bonds widened by about 200 basis points, considerably

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
Italy				
2009	79,081	44,235	14,664	137,980
2010	-11,799	-36,405	12,341	-35,863
2010 – Q1	-4,240	-10,714	7,032	-7, 922
Q2	-8,508	-6,824	998	-14,334
Q3	8,788	-12,605	1,136	-2,681
Q4	-7,839	-6,262	3,175	-10,926
2011 – Q1	25,567	-10,895	421	15,093
Q2	12,001	-11,958	-2,281	-2,238
Euro area				
2009	180,141	257,847	153,149	591,137
2010	22,008	19,928	65,905	107,840
2010 – Q1	66,171	-38,779	29,676	57,068
Q2	-23,952	8,847	18,062	2,956
Q3	-4,237	5,633	9,307	10,703
Q4	-15,974	44,228	8,859	37,113
2011 – Q1	81,805	-47,997	6,904	40,712
Q2	49,685	-1,927	7,368	55,126

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 are (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.

more than for firms in Germany (about 60 basis points), France (around 80) and Spain (120). CDS spreads on Italian banks doubled to around 430 basis points, higher by some 170 basis points than those on both Germany's and France's leading banks, but around 180 lower than for Spanish banks.

Italian banks' net bond issues fall sharply

In Italy, as in the rest of the euro area, banks continued to make net bond issues in the second quarter of 2011, although for much smaller amounts than in the first quarter, while for other financial corporations redemptions exceeded new issues (Table 7). Non-financial corporations in Italy recorded net redemptions for the first time since the second quarter of 2008, while in the euro area as a whole they again made a small volume of net issues as in previous quarters. According to Dealogic data on gross issues, placements by Italian banks fell further in the third quarter.

The Italian stock exchange index slumps in the third quarter...

The general index of the Italian stock exchange fell by 19 per cent in the period beginning in July, roughly the same as the index of the main euro-area listed companies (Figure 29). Share prices reflected the worsening of the sovereign debt crisis in the euro area and fears of a slowdown of the global and national economy.

... mainly reflecting the fall in bank shares

The fall in share prices involved all segments of the Italian stock exchange index. In particular, the performance of the general index was affected by the high incidence of the banking sector and the sharp fall in bank shares (down by 25 per cent), owing to their greater exposure to sovereign debt tension. After downgrading Italy's debt, Standard & Poor's and Moody's reduced the credit rating of several banks.

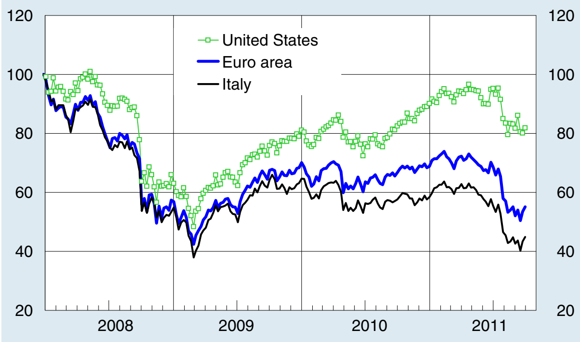
The performance of stock prices was particularly negative in the automotive and commodity sectors, with decreases of 33 and 34 per cent respectively, while telecommunications shares fell less than the index as a whole, declining by 9 per cent.

Given the fall in share prices, the ratio of current earnings to prices rose by over 1 percentage point at the end of June, remaining well above its long-term average (Figure 30). The expected volatility of share prices increased sharply, doubling on average for the quarter with respect to the previous three months.

Figure 29

Share prices (1)

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

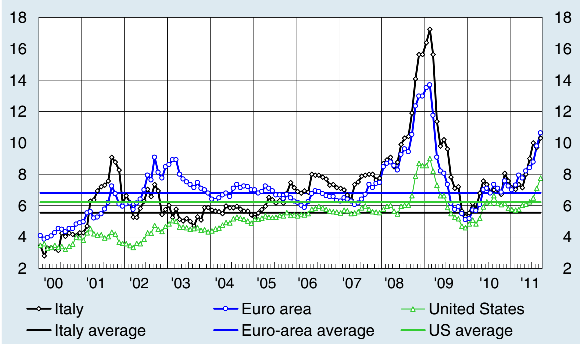


Source: Thomson Reuters Datastream.
(1) Indices: for Italy, FTSE Italia MIB storico; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500.

Figure 30

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.

There was only one initial public offering in the third quarter, on the MAC (Mercato Alternativo del Capitale). At the end of September, the Italian companies listed on Borsa Italiana numbered 289, with a total market value of €337 billion (equal to 21 per cent of GDP).

Investment funds continue to register outflows

In the second quarter of 2011 open-end investment funds in Italy had net redemptions amounting to €2.6 billion, compared with €3.1 billion in the previous quarter. While there was a decrease (from €5.5 billion to €3.4 billion) in the net inflow of resources to foreign funds, Italian funds saw a contraction in net outflows (from €8.6 billion to €6.0 billion). Net redemptions were recorded by Italian harmonized funds in every sector and were especially large for bond and money market funds (€2.2 billion and €1.0 billion respectively). At the end of the second quarter, Italian and foreign open-end investment funds in Italy had €461 billion worth of assets under management, up slightly from €457 billion three months earlier. For the second quarter as a whole, the average yield of Italian harmonized funds was slightly negative (-0.3 per cent): the positive yield on bond funds (0.3 per cent) was more than offset by the negative yields on equity, balanced and flexible funds (-1.6, -0.6 and -0.7 per cent respectively).

3.9 THE PUBLIC FINANCES

Two adjustment packages are passed during the summer, bringing budget balance forward to 2013

In the course of the summer, in response to the tensions on the financial markets, the Government passed two budget adjustment packages for the four years 2011-14 (see box). The first measure, consisting in a decree law enacted at the beginning of July and a draft enabling act for the reform of the tax and welfare systems, was designed to achieve a budget close to balance in 2014, in line with Italy's European commitments (see the box "The public finance adjustment", *Economic Bulletin*, July 2011). Including the stronger provisions decided at mid-month, the measures adjust previously projected trends by amounts officially estimated at 1.5 per cent of GDP in 2013 and 2.8 per cent in 2014. In the face of growing market tensions, on 13 August the Government enacted a second decree law to balance the budget already in 2013. During its parliamentary passage, the decree was reinforced by a series of amendments, focusing chiefly on the revenue side.

THE PUBLIC FINANCE ADJUSTMENTS APPROVED DURING THE SUMMER

In the course of the summer the Government passed two public finance adjustment packages for the four years 2011-14. The first, enacted for the immediate fulfilment of Italy's Stability Programme commitments, consists in Decree Law 98/2011, approved on 6 July, and a draft enabling act for the reform of the tax and welfare systems. The objective was a budget close to balance in 2014. The second package, passed by the Council of Ministers on 13 August as Decree Law 138/2011, is designed to bring budgetary balance forward to 2013.[1] In addition to measures to consolidate the public finances, Decree Law 138 includes provisions whose impact on the accounts is negligible or not quantified. Those provisions include measures to support employment and reduce the cost of governmental institutions and measures to foster economic growth by improving the efficiency of the judicial system and liberalizing the professions. Two draft constitutional amendments were also presented, one to make budgetary balance a constitutional requirement and the other to suppress provincial governments, replacing them with associations of municipalities to be instituted by regional law.

Together, the two packages provide for reductions of net borrowing with respect to current-legislation projections, officially estimated at €2.8 billion in 2011, €28.3 billion in 2012, €54.3 billion in 2013 and €59.8 billion in 2014. About two thirds of the adjustment in 2014 will come from revenue increases (more than half deriving from the enabling act for tax and welfare reform), one third from spending cuts.

[1] Decree Law 98/2011 was converted into law as amended on 15 July and Decree Law 138/2011 as amended on 14 September. For a detailed discussion of the two packages, see I. Visco, "Audizione preliminare sul decreto legge 6 luglio 2011, n. 98 (AS 2814)", 13 July 2011 and "Audizione preliminare sul decreto legge 13 agosto 2011, n. 138 (AS 2814)", to the Italian Senate, Rome, 30 August 2011.

Effects of Decree Laws 98/2011 and 138/2011 on the general government consolidated accounts
(millions of euros)

		2011	2012	2013	2014
Reduction of net borrowing (Decree Laws 98/2011 and 138/2011)		**2,840**	**28,275**	**54,265**	**59,795**
(as a % of GDP)		*0,2*	*1,7*	*3,3*	*3,5*
Decree Law 98/2011 (ratified by Law 111/2011)		**2,108**	**5,578**	**24,406**	**47,973**
Decree Law 138/2011 (ratified by Law 148/2011)		**732**	**22,698**	**29,859**	**11,822**
Revenue measures (1)		**2,603**	**20,676**	**35,406**	**38,816**
DL 138	Corporate income surtax on energy sector	0	1,800	900	900
DL 98 and 138	Other corporate income measures	364	1,479	1,198	1,967
DL 138	Increase in VAT rate from 20% to 21%	700	4,236	4,236	4,236
DL 138	Tax on income from financial assets	0	1,421	1,534	1,915
DL 98	Increase in stamp tax on securities accounts	725	1323	3800	2525
DL 98 and 138	Measures against tax evasion and rules on tax collection	225	2,191	3,744	3,720
DL 98 and 138	Gaming and excise taxes	443	4,073	4,003	4,042
DL 98 and 138	Other personal taxes (solidarity contributions and surtax on luxury cars)	62	127	217	217
DL 98	Side effects of public employment and pension measures	-6	-202	-471	-976
DL 98 and 138	Fiscal and welfare reform and/or safeguard clause	0	4,000	16,000	20,000
DL 98 and 138	Other measures	89	229	245	270
Expenditure measures (1)		**-237**	**-7,599**	**-18,859**	**-20,978**
DL 98	Rationalization of health spending	0	0	-2,500	-5,000
DL 98	Public employment measures	0	0	-64	-1,104
DL 98	Local public transport and infrastructure fund	400	650	900	1,200
DL 98 and 138	Reduction of ministries' spending	-1,700	-7,400	-6,300	-5,000
DL 98 and 138	Reduction of local government spending	0	-4,000	-6,400	-6,400
DL 98 and 138	Pension system	0	-1,041	-3,459	-3,377
DL 98 and 138	Other structural measures	835	4,850	0	0
DL 98 and 138	Measures concerning funds, budgetary arrears, participations in banks and international funds	155	-1,002	-1,342	-1,642
DL 98 and 138	Other measures	73	344	306	345

Source: Based on Update of Economic and Financial Document 2011.
(1) A minus sign indicates a reduction in revenue or in expenditure.

Revenue measures. – Revenue-raising measures account for virtually the entire adjustment in 2011 and about two thirds over the following three years. For 2012-14 the main provisions include a 1-percentage-point rise in the ordinary VAT rate (which will bring in more than €4 billion a year) and a 4-point rise in the corporate income tax rate for companies in the energy sector (including those using renewable energy sources); the additional receipts expected in the first year (€1.8 billion) will be allocated to reduce the cuts in transfers to local governments.

As regards the taxation of financial assets and companies, the stamp tax on securities accounts is increased and the tax rate on all investment income is equalized at 20 per cent (except for government and equivalent securities and supplementary pension plans) and the rate of the regional tax on productive activities (IRAP) applying to banks and insurance companies is raised (with expected additional receipts of €4.8 billion a year). Other provisions include the introduction of new lotteries and other games, the raising of the excise tax on tobacco products, and measures against tax evasion (lowering the allowable size of cash transactions, tougher sanctions for tax crimes and stronger incentives for municipalities to take part in tax verifications, and stricter rules on shell companies). The tax evasion measures are expected to produce additional revenues of €3.2 billion a year.

In addition, two solidarity contributions are introduced: one on high incomes (3 per cent of income above €300,000) for the three years 2011-13 and one on pensions of more than €90,000 (equal to 5 per cent of the part above that threshold and 10 per cent of the part above €150,000) for the four years 2011-14.

Lastly, the revenue measures include the projected effects of the fiscal and welfare reform to be enacted by 30 September 2012 under the enabling act (€20 billion in 2014). A safeguard clause provides that in the event of non-exercise of this mandate by the Government or less-than-expected revenue, there will be a flat across-the-board cut in tax allowances and the possibility of remodulating indirect taxes.[2]

Expenditure measures. – About 80 per cent of the expenditure reductions bear on ministries, local governments and the health system. The measures concerning local governments will be adopted on the basis of specific standards of "virtuousness" to be applied starting in 2012. The health system measures are concentrated in 2013 and 2014.

Further savings should come from measures affecting the pension system. In 2012 and 2013, the cost-of-living adjustment for pensions of more than five times the minimum will be only 70 per cent for the part up to three times the minimum. Further, starting in 2014 (savings to begin in 2015), the retirement age for women in the private sector will be gradually raised; and the adjustment of the age requirements for retirement to take account of life expectancy is brought forward to 2013. Also, the payment of severance benefits to public sector workers eligible to retire from 2012 onwards is postponed by 6 months in the case of old age pensions and seniority pensions and by 24 months in the case of early retirement. The total savings expected from the pension measures will be about €1 billion in 2012 and €3.4 billion a year in 2013 and 2014.

[2] For a detailed discussion, see V. Ceriani and D. Franco, "Audizione nell'ambito dell'indagine conoscitiva sulla riforma fiscale e assistenziale", testimony to the Italian Senate, Rome, 13 October 2011.

Together, the two measures provide for adjustments of the balance, with respect to current-legislation projections, officially estimated at 0.2, 1.7, 3.3 and 3.5 percentage points of GDP in 2011, 2012, 2013 and 2014 respectively. For 2013, the adjustment is nearly three times greater than had been set out in the Stability Programme approved by the Council of the EU in July.

At the end of September the Government revised its public finance projections with the update of the 2011 Economic and Financial Document (EFD). The new forecasting framework shows a rapid reduction of the deficit, with a position close to balance attained in 2013 and a small surplus in 2014. Already in 2012 the ratio of public debt to GDP should diminish. The projections are based on significantly less favourable GDP trends than were assumed in the EFD in April. Specifically, the growth projections are revised downwards from 1.3 to 0.6 per cent for 2012 and from 1.5 to 0.9 per cent for 2013. Assuming an even worse macroeconomic scenario, with GDP growth of just 0.3 per cent in 2012 and 0.5 per cent in 2013, the International Monetary Fund estimates net borrowing at 1.1 per cent of GDP in 2013, the year in which it expects the debt-to-GDP ratio to turn down.

For 2011, declining net borrowing and a rising debt ratio are confirmed

The EFD update forecasts a reduction of net borrowing to 3.9 per cent of GDP in 2011, from 4.6 per cent in 2010 (Tables 8 and 9). The ratio of public debt to GDP is projected to rise by 1.6 percentage points to 120.6 per cent, the highest level since 1997. In part the increment reflects Italy's increased contributions to European programmes in support of members in difficulty (worth about 0.3 per cent of GDP). After two years the primary balance is projected to return to a surplus of nearly 1 per cent of GDP, a sharp improvement over 2010. Revenue should increase by 2.2 per cent, sustained mainly by indirect and to a lesser extent direct tax receipts. The modest increase in expenditure (0.8 per cent) is the result of a sharp rise (9.2 per cent) in interest payments, the limited increase in current primary expenditure (just 0.9 per cent, compared with 1.3 per cent in 2010), and the sharp drop, for the second year running, in capital expenditure, which declined by 11.2 per cent (7.6 per cent counting only gross fixed investment and capital grants, which are not affected by receipts for broadband frequency concessions).

Table 8

Public finance objectives and estimates for 2011

(billions of euros and percentages of GDP)

	General government			*Memorandum item*:
	Net borrowing	Primary balance	Debt	Real GDP growth rate
Objectives				
May 2010 (1)	....	....	....	1.5
as a % of GDP	*3.9*	*-1.0*	*118.7*	
September 2010 (2)	63.1	-12.5	....	1.3
as a % of GDP	*3.9*	*-0.8*	*119.2*	
Estimates				
April 2011 (3)	61.9	-14.2	....	1.1
as a % of GDP	*3.9*	*-0.9*	*120.0*	
September 2011 (4)	61.7	-14.9	....	0.7
as a % of GDP	*3.9*	*-0.9*	*120.6*	

(1) Combined report on the economy and public finances. – (2) *Public Finance Decision*. – (3) *Economic and financial document*. – (4) *Economic and financial document update*.

Table 9

General government balances (1)

(millions of euros and percentages of GDP)

	2010	2011	2012	2013	2014
Net borrowing	71,211	61,668	25,296	1,690	-2,839
as a % of GDP	*4.6*	*3.9*	*1.6*	*0.1*	*-0.2*
Primary balance	-1,059	14,925	60,510	89,102	97,141
as a % of GDP	*-0.1*	*0.9*	*3.7*	*5.4*	*5.7*
Interest payments	70,152	76,593	85,806	90,792	94,302
as a % of GDP	*4.5*	*4.8*	*5.3*	*5.5*	*5.5*
Debt	....	....	....	....	....
as a % of GDP	*119.0*	*120.6*	*119.5*	*116.4*	*112.6*
Memorandum item:					
Real GDP growth	*1.3*	*0.7*	*0.6*	*0.9*	*1.2*

Sources: For the general government consolidated accounts for 2010, Istat; for 2011-14, Economic and Financial Document update.
(1) Rounding may cause discrepancies in totals.

In the first half the accounts show marginal improvement

According to Istat's estimates, net borrowing came to 5.3 per cent of GDP in the first six months, compared with 5.4 per cent in the first half of 2010 (Table 10). Revenue increased by 1.9 per cent, sustained by social security contributions and indirect tax receipts, while capital receipts diminished, above all owing to the drying up of the revenue from several one-off levies. Primary expenditure rose by 0.9 per cent, reflecting a 2.8 per cent rise in social benefits in cash, which more than offset the cut in investment outlays (4.2

per cent) and the 1.1 per cent decrease in public employee compensation. Interest payments increased by 10.2 per cent.

VAT drives the gain in tax receipts

In the first three quarters of 2011 tax revenue recorded in the state budget on a cash basis increased by 2.5 per cent (€6.6 billion) compared with the same period of 2010 (Figure 31). Net of gaming receipts the increase amounted to 1.7 per cent (€4.4 billion). Most of the improvement (€3.4 billion) was due to VAT receipts, driven by imports from outside the EU; excise taxes on energy products also increased (by 3.1 per cent). Self-assessed income tax receipts diminished by 7.9 per cent with respect to the first three quarters of 2010, when they had been boosted by the after-effects of the reduction in payments on account due in 2009 (*Economic Bulletin*, October 2010). Withholding tax on employee incomes increased moderately (1.8 per cent). Corporate income tax receipts fell by 4.0 per cent, owing to the termination of the effects of several substitute taxes introduced by the Finance Law for 2008 and included under this head.

The borrowing requirement diminishes in the first eight months

The general government borrowing requirement, net of privatization receipts, came to €50.5 billion through August, €2.2 billion less than in the same period of 2010 (Figure 32). Excluding outlays in support of Greece and Italy's share of loans by the European Financial Stability Facility, the requirement was cut by €6.3 billion. General government debt increased by €6.2 billion more than the borrowing requirement (€56.7 billion, compared with €78.4 billion in the first eight months of 2010), owing mainly to issue discounts and to a lesser extent the Treasury's build-up of assets held with the Bank of Italy, which rose from €43.2 billion to €44.6 billion. Central government debt increased by €54.7 billion, that of local governments by €2 billion. The social security institutions' debt remained practically unchanged.

The EFD update projects a balanced budget in 2013

The Economic and Financial Document update projects a reduction in net borrowing of 2.3

Table 10

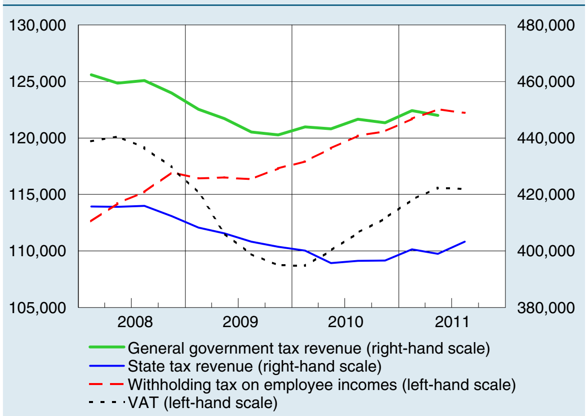
General government consolidated accounts
(millions of euros and percentages)

	H1			
	2010	2011	Percentage changes on first half of previous year	
			2010	2011
TOTAL EXPENDITURE	**366,388**	**372,949**	**-0.8**	**1.8**
Current expenditure, net of interest payments	309,241	312,608	1.3	1.1
of which: compensation of employees	*79,977*	*79,103*	*0.9*	*-1.1*
intermediate consumption	*44,116*	*44,896*	*-0.5*	*1.8*
social benefits in cash	*138,930*	*142,774*	*2.3*	*2.8*
Interest payments	33,605	37,023	-4.4	10.2
Capital expenditure	23,542	23,318	-18.6	-1.0
of which: gross fixed investment	*14,695*	*14,072*	*-17.0*	*-4.2*
TOTAL REVENUE	**325,317**	**331,584**	**1.3**	**1.9**
Current revenue	320,570	328,222	2.1	2.4
of which: direct taxes	*94,464*	*95,479*	*-0.4*	*1.1*
indirect taxes	*105,410*	*107,345*	*5.8*	*1.8*
social security contributions	*95,436*	*97,887*	*0.4*	*2.6*
Capital revenue	4,747	3,362	-33.5	-29.2
of which: capital taxes	*2,424*	*2,041*	*-57.4*	*-15.8*
NET BORROWING	**-41,071**	**-41,365**		
Primary balance	**-7,466**	**-4,342**		
Memorandum item:				
GDP	756,451	774,044	1.6	2.3

Source: Istat, General government quarterly consolidated accounts.

Figure 31

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

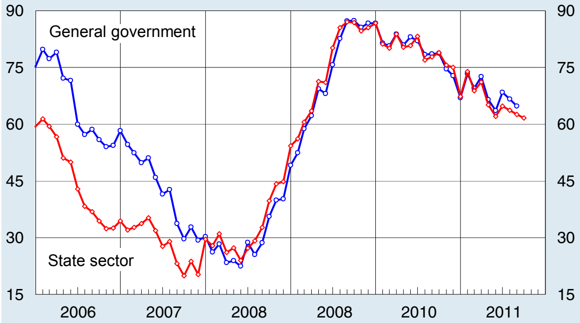


Sources: For general government tax revenue, Istat; for the other variables, General Government Report and state sector budget.

percentage points of GDP in 2012 to 1.6 per cent and an increase in the primary surplus of 2.8 points to 3.7 per cent. The decline in the deficit is forecast to continue over the following two years and to produce a surplus of 0.2 per cent in 2014. The prospective improvement in the accounts over the three years will reflect a reduction of 2.4 points in the ratio of primary expenditure to GDP, bringing it down to 43.3 per cent in 2014, and a 1-point increase in that of taxes and social security contributions, to 43.7 per cent, plus the expected effects of fiscal and welfare reform or the alternative safeguard clause (equal to 1.2 points in 2014). The lowering of the primary spending ratio will reflect a reduction in employee compensation (by 0.8 points to 10.0 per cent of GDP in 2014) and intermediate consumption (by 0.6 points to 8.1 per cent) and a further contraction in nominal terms in capital spending (which is projected to decline by 0.6 percentage points over the three years to 2.4 per cent of GDP). The public debt ratio is expected to begin coming down in 2012 and to fall to 112.6 per cent of GDP in 2014, still 9 points higher than in 2007.

Figure 32

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



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

SELECTED STATISTICS

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

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Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2007	1.9	2.3	1.6	1.3	0.3	-1.9	-0.3	1.2	1.3	9.3	2.4	0.6	-0.2
2008	-0.3	-0.6	-0.4	2.6	0.5	-7.1	-1.2	-1.5	-1.5	6.1	-2.7	1.2	-0.5
2009	-3.5	-1.9	-1.3	1.7	0.3	-18.8	-2.8	-4.4	-4.6	-9.4	-13.6	1.1	-0.8
2010	3.0	2.0	1.4	0.7	0.1	2.6	0.3	3.4	3.5	11.3	12.5	-0.5	1.6
2008 – Q3	-3.7	-3.8	-2.7	4.3	0.9	-12.3	-1.9	-4.2	-4.5	-3.5	-6.6	0.8	-0.7
Q4	-8.9	-5.1	-3.5	1.6	0.4	-25.2	-4.1	-8.3	-8.8	-21.4	-14.9	-0.1	-1.5
2009 – Q1	-6.7	-1.5	-1.0	-1.7	-0.3	-32.2	-5.1	-8.6	-9.1	-29.0	-34.0	2.4	-2.7
Q2	-0.7	-1.9	-1.3	5.9	1.2	-17.0	-2.3	-2.8	-2.9	-0.5	-15.0	2.2	-0.6
Q3	1.7	2.3	1.7	1.3	0.3	0.7	0.1	2.2	2.3	13.9	16.3	-0.6	0.2
Q4	3.8	0.4	0.3	-0.9	-0.2	-3.8	-0.4	3.5	3.7	23.5	17.4	0.2	3.9
2010 – Q1	3.9	2.7	1.9	-1.2	-0.3	1.2	0.2	4.8	4.9	7.2	12.5	-1.0	3.1
Q2	3.8	2.9	2.1	3.7	0.8	19.5	2.1	5.6	5.7	10.0	21.6	-1.9	0.8
Q3	2.5	2.6	1.9	1.0	0.2	2.3	0.3	3.1	3.2	10.0	12.3	-0.7	0.9
Q4	2.3	3.6	2.5	-2.8	-0.6	7.5	0.9	0.9	0.9	7.8	-2.3	1.4	-1.8
2011 – Q1	0.4	2.1	1.5	-5.9	-1.2	1.2	0.2	0.7	0.7	7.9	8.3	-0.3	0.3
Q2	1.3	0.7	0.5	-0.9	-0.2	9.2	1.1	1.0	1.1	3.6	1.4	0.2	-0.3

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	0.5	-0.2	..	2.2	2.1	23.9	9.8	1.8	0.6
2008 – Q2	-5.2	-0.8	-0.4	-0.8	-0.1	-7.7	-1.7	-4.3	-4.2	-2.2	4.6	-1.1	-1.8
Q3	-11.1	-4.8	-2.7	4.7	0.9	-15.5	-3.6	0.2	0.2	-45.1	9.6	-11.7	5.9
Q4	-18.1	-6.2	-3.5	4.2	0.8	-16.1	-3.6	-13.7	-13.8	-68.9	-50.0	-4.4	-7.3
2009 – Q1	8.1	4.2	2.6	3.5	0.7	-10.4	-2.4	-0.6	-0.7	50.4	-17.9	8.6	-1.4
Q2	-1.7	0.4	0.3	4.9	1.0	-10.7	-2.4	-2.9	-2.9	37.3	23.6	1.2	-1.7
Q3	6.8	3.3	2.0	3.8	0.8	3.1	0.7	3.5	3.5	27.3	3.0	3.3	..
Q4	9.3	3.9	2.3	-1.4	-0.3	4.8	1.0	7.4	7.2	26.9	11.2	2.1	4.1
2010 – Q1	-0.7	-1.7	-1.0	4.0	0.8	1.5	0.3	-2.0	-2.0	29.7	21.1	1.4	-2.0
Q2	4.0	4.0	2.3	1.7	0.3	2.3	0.5	5.2	5.0	2.9	10.9	-0.9	2.0
Q3	-2.4	-3.4	-2.0	1.5	0.3	-3.0	-0.6	-2.1	-2.1	-3.9	-2.6	-0.3	0.2
Q4	-3.7	-2.5	-1.4	3.4	0.7	-4.2	-0.9	-2.9	-2.9	..	5.8	-0.8	-1.3
2011 – Q1	-2.1	-0.1	-0.1	2.3	0.5	-0.1	..	0.9	0.8	-18.1	-0.2	-3.0	0.4

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	2.7	2.0	4.8	3.2	1.8	1.6	5.2
2006	3.2	8.7	4.7	4.4	6.9	5.5	2.1	2.2	8.9
2007	3.0	6.1	3.9	2.4	7.7	4.7	1.7	2.2	6.6
2008	0.4	0.9	0.6	-2.6	0.8	-1.1	0.4	2.4	1.0
2009	-4.2	-11.7	-6.3	-8.8	-15.6	-12.0	-1.2	2.6	-12.8
2010	1.8	9.3	3.8	-4.3	3.6	-0.8	0.9	0.4	10.1
2009 – Q2	-0.2	-2.7	-0.9	-2.3	-2.7	-2.5	..	0.7	-1.0
Q3	0.4	2.1	0.9	-1.8	-0.2	-1.1	..	0.4	2.7
Q4	0.4	1.1	0.6	-1.5	0.1	-0.8	0.2	0.4	1.7
2010 – Q1	0.3	3.8	1.3	-2.1	1.2	-0.7	0.4	-0.4	3.0
Q2	0.9	3.9	1.8	1.6	2.9	2.2	0.2	0.2	4.2
Q3	0.4	1.5	0.7	-0.7	0.7	..	0.3	..	1.8
Q4	0.3	1.1	0.5	-1.5	1.3	-0.2	0.3	..	1.2
2011 – Q1	0.8	1.6	1.0	2.0	1.6	1.8	0.2	0.4	1.4
Q2	0.2	0.2	0.2	-0.5	0.9	0.1	-0.2	-0.1	0.7
	Implicit prices								
2005	1.9	3.4	….	….	….	2.5	2.2	2.3	2.1
2006	1.8	3.5	….	….	….	3.0	2.2	2.1	2.2
2007	2.3	1.2	….	….	….	2.6	2.2	1.8	1.6
2008	1.9	3.9	….	….	….	2.3	2.7	2.7	2.4
2009	0.9	-5.9	….	….	….	-0.5	-0.2	1.9	-3.4
2010	0.8	5.2	….	….	….	1.2	1.8	0.9	4.1
2009 – Q2	..	-1.4	….	….	….	-0.5	0.2	0.1	-1.0
Q3	0.1	0.2	….	….	….	-0.2	0.3	0.9	0.2
Q4	0.1	1.1	….	….	….	0.2	0.4	-0.6	0.8
2010 – Q1	0.2	1.8	….	….	….	0.4	0.4	0.9	1.3
Q2	0.3	2.6	….	….	….	0.6	0.7	-0.1	2.0
Q3	0.5	0.8	….	….	….	0.3	0.4	0.3	1.2
Q4	..	1.3	….	….	….	0.2	0.6	-0.4	0.7
2011 – Q1	0.5	3.4	….	….	….	0.9	0.8	0.8	2.4
Q2	0.4	0.4	….	….	….	0.1	0.6	0.2	0.2

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

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation – 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 – Q2	-0.3	-2.2	-0.7	-1.9	-2.9	-2.3	-0.1	1.0	-0.9
Q3	0.4	0.9	0.5	-2.5	1.1	-0.8	0.6	-0.3	2.7
Q4	..	3.1	0.6	-1.1	3.1	0.9	0.1	..	0.5
2010 – Q1	0.6	4.6	1.4	-1.2	4.1	1.3	0.2	-0.6	3.9
Q2	0.5	0.5	0.5	-0.2	3.6	1.6	0.1	0.3	2.3
Q3	0.3	4.3	1.1	1.0	0.4	0.7	0.4	-0.4	2.9
Q4	0.1	2.6	0.6	-1.3	-0.2	-0.7	0.3	-0.4	0.4
2011 – Q1	0.1	-0.1	0.1	0.4	0.6	0.5	0.1	0.5	1.1
Q2	0.3	-2.3	-0.3	-1.6	2.0	0.2	0.2	..	0.9
	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 – Q2	..	-1.6	-0.3	-0.4	-0.6	-0.5	0.3	-0.7	-0.8
Q3	0.2	0.3	0.2	0.1	-0.4	-0.1	0.2	2.9	-0.3
Q4	-0.1	-0.1	-0.2	0.6	..	0.3	0.3	-3.9	0.1
2010 – Q1	-0.2	4.2	0.7	..	0.1	..	0.5	2.5	2.2
Q2	0.8	5.2	1.7	1.6	0.9	1.2	0.4	0.6	2.8
Q3	0.7	0.6	0.7	0.5	0.6	0.6	0.5	1.7	0.9
Q4	-0.4	1.0	-0.1	0.7	0.4	0.6	0.6	-2.5	1.0
2011 – Q1	0.7	4.7	1.6	1.7	..	0.9	0.9	0.9	2.7
Q2	0.1	0.9	0.2	0.3	0.2	0.2	0.7	-0.9	1.1

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	2.6	2.9	3.5	-1.2	-0.3
2008	3.8	-1.8	-2.4	-1.3	5.8
2009	4.4	-4.3	-13.1	-12.4	9.1
2010	0.5	6.6	6.3	-3.4	-5.7
2009 – Q1	5.6	-9.1	-16.4	-8.0	16.2
Q2	6.0	-6.2	-16.4	-10.9	13.0
Q3	4.4	-2.5	-12.7	-10.4	7.1
Q4	1.8	1.2	-6.3	-7.4	0.5
2010 – Q1	0.3	8.2	4.6	-3.3	-7.3
Q2	0.2	7.9	7.7	-0.2	-7.2
Q3	0.2	4.7	5.8	1.1	-4.3
Q4	1.3	4.9	6.3	1.3	-3.4
2011 – Q1	1.8	3.5	5.8	2.2	-1.7
Q2	3.6	3.1	4.3	1.1	0.5
			Services		
2007	2.7	1.4	3.3	2.6	1.3
2008	2.8	0.2	1.7	2.7	2.6
2009	3.0	-0.2	-1.8	-1.9	3.2
2010	0.8	0.3	1.4	0.0	0.4
2009 – Q1	3.4	-1.0	-2.2	-1.3	4.4
Q2	3.3	0.0	-2.1	-2.1	3.3
Q3	3.0	-0.1	-1.9	-1.7	3.1
Q4	2.3	0.4	-0.8	-1.2	1.8
2010 – Q1	0.8	0.3	1.0	0.7	0.5
Q2	0.7	0.1	1.3	1.2	0.6
Q3	0.5	0.4	1.6	1.2	0.1
Q4	1.1	0.3	1.4	1.0	0.7
2011 – Q1	1.8	0.5	1.4	0.9	1.2
Q2	2.4	0.7	1.1	0.5	1.8
			Total economy		
2007	2.7	1.6	3.3	1.8	1.0
2008	3.2	-0.1	0.6	0.2	3.3
2009	3.4	-0.8	-4.2	-6.3	4.2
2010	0.8	1.5	1.9	-1.7	-0.7
2009 – Q1	3.9	-2.2	-5.3	-3.1	6.3
Q2	4.0	-0.9	-5.2	-4.3	5.0
Q3	3.3	-0.4	-4.2	-3.9	3.6
Q4	2.2	0.6	-2.1	-2.7	1.5
2010 – Q1	0.7	1.7	1.2	-0.5	-1.0
Q2	0.6	1.5	2.1	0.6	-0.9
Q3	0.6	1.2	2.0	0.8	-0.7
Q4	1.3	1.4	2.0	0.5	-0.1
2011 – Q1	1.9	1.4	2.2	0.8	0.5
Q2	2.8	1.5	1.6	0.1	1.3

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.

Table A6

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly wages and salaries	Hourly productivity	Value added (2)	Hours worked	Unit labour costs
Total industry excluding construction						
2008	4.1	4.0	-1.8	-3.4	-1.7	5.9
2009	3.7	3.9	-5.9	-15.6	-10.3	10.3
2010	2.1	2.5	7.2	4.8	-2.2	-4.8
2009 – Q1	4.4	4.5	-11.4	-18.9	-8.5	17.8
Q2	3.8	3.9	-9.8	-19.4	-10.6	15.1
Q3	1.7	1.9	-4.2	-15.2	-11.5	6.1
Q4	5.0	5.1	2.1	-8.6	-10.5	2.9
2010 – Q1	0.1	0.4	8.3	3.5	-4.4	-7.6
Q2	2.7	3.1	10.3	6.0	-3.9	-7.0
Q3	2.0	2.4	4.6	4.7	0.1	-2.5
Q4	3.6	4.0	4.6	4.1	-0.4	-0.9
2011 – Q1	3.5	3.7	-0.2	1.1	1.3	3.8
Q2	3.5	3.4	-1.3	1.8	3.1	4.9
Services						
2008	2.8	2.7	-0.5	-0.4	0.1	3.3
2009	0.9	0.8	-1.5	-2.6	-1.1	2.4
2010	1.6	1.7	1.0	1.0	0.1	0.6
2009 – Q1	1.6	1.4	-1.7	-3.5	-1.9	3.4
Q2	-1.1	-1.1	-2.5	-3.0	-0.5	1.4
Q3	1.5	1.6	-1.7	-2.3	-0.6	3.3
Q4	1.3	1.3	-0.1	-1.8	-1.6	1.5
2010 – Q1	0.4	0.6	0.0	0.6	0.6	0.3
Q2	3.0	3.0	1.5	1.0	-0.5	1.5
Q3	1.6	1.7	1.7	1.1	-0.6	-0.1
Q4	1.5	1.5	0.8	1.4	0.7	0.7
2011 – Q1	3.7	3.7	2.1	1.2	-0.9	1.6
Q2	2.3	2.2	1.2	0.8	-0.4	1.1
Total economy						
2008	3.1	3.0	-0.7	-1.2	-0.5	3.9
2009	1.8	2.0	-2.4	-5.6	-3.3	4.3
2010	1.7	1.9	1.9	1.5	-0.4	-0.2
2009 – Q1	2.7	2.7	-3.4	-7.0	-3.7	6.4
Q2	0.5	0.6	-4.1	-6.8	-2.8	4.8
Q3	1.7	2.0	-2.2	-5.3	-3.3	3.9
Q4	2.3	2.4	0.0	-3.4	-3.4	2.3
2010 – Q1	0.1	0.4	1.1	0.8	-0.3	-0.9
Q2	2.8	3.0	2.6	1.6	-1.0	0.3
Q3	1.7	1.9	2.1	1.6	-0.5	-0.3
Q4	2.3	2.3	1.9	1.8	-0.1	0.4
2011 – Q1	3.7	3.7	1.6	1.1	-0.5	2.1
Q2	2.7	2.6	0.9	0.9	0.0	1.8

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

(percentage changes on the year-earlier period) (1)

	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
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
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
June	3.0	2.3	2.4	1.6	2.3	1.5	3.0	1.6	2.7	1.8
July	2.1	1.3	2.6	1.7	2.1	1.2	3.0	1.4	2.5	1.5
Aug.	2.3	1.5	2.5	1.6	2.4	1.4	2.7	1.3	2.5	1.5

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

Table A8

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2008	-45,224	-2,129	-8,606	-19,354	-5,336	-9,799	-184	-1,044	..	860
2009	-30,075	823	-8,435	-10,406	-4,658	-7,398	-91	-578	-19	506
2010	-54,073	-20,403	-9,025	-8,762	-5,424	-10,459	-553	-706	-68	221
2009 – Q3	-4,520	2,437	-928	-2,530	-1,333	-2,166	-110	-54	..	-56
Q4	-3,578	-120	-1,978	-732	-1,247	499	464	-218	-19	701
2010 – Q1	-17,536	-6,434	-3,363	-1,229	-939	-5,571	-330	-241	-3	-86
Q2	-12,722	-4,419	-638	-4,525	-1,749	-1,390	-220	-227	-12	20
Q3	-11,276	-3,258	-1,480	-1,827	-1,281	-3,430	-68	-5	-4	-58
Q4	-12,539	-6,292	-3,543	-1,181	-1,455	-67	64	-233	-49	346
2011 – Q1	-23,395	-11,748	-4,040	-979	-613	-6,015	-167	-39	-15	-112
Q2	-13,808	-5,472	-802	-5,214	-1,189	-1,132	-780	-131	-2	-646
2009 – July	2,656	4,045	293	-535	-489	-658	81	-3	..	84
Aug.	-3,492	-1,134	-921	-513	-445	-479	-80	-21	..	-59
Sept.	-3,684	-474	-300	-1,482	-400	-1,029	-111	-30	..	-81
Oct.	-1,201	-50	-325	-467	-571	212	157	-76	-7	240
Nov.	-2,500	-467	-908	-1,041	-387	303	108	-74	-6	188
Dec.	123	397	-745	776	-289	-16	199	-68	-6	273
2010 – Jan.	-6,328	-3,485	-1,003	-330	-237	-1,273	-81	-50	-1	-30
Feb.	-4,988	-2,104	-1,056	-215	-160	-1,454	-107	-63	-1	-43
Mar.	-6,220	-845	-1,304	-684	-543	-2,843	-141	-128	-1	-12
Apr.	-3,083	-582	-396	-815	-692	-598	-49	-76	-4	31
May	-5,502	-1,471	-317	-3,009	-438	-267	-82	-68	-3	-12
June	-4,137	-2,366	75	-701	-619	-525	-88	-83	-6	..
July	637	2,368	20	-367	-340	-1,045	-63	-1	-1	-61
Aug.	-5,948	-2,859	-1,232	-423	-422	-1,012	13	-11	-1	24
Sept.	-5,965	-2,767	-268	-1,037	-520	-1,373	-18	6	-2	-22
Oct.	-2,536	-1,527	-946	-593	-533	1,063	155	-74	-10	239
Nov.	-5,145	-2,773	-1,415	-744	-421	209	111	-71	-13	194
Dec.	-4,858	-1,992	-1,182	156	-500	-1,340	-202	-88	-26	-88
2011 – Jan.	-8,709	-5,768	-1,451	113	-298	-1,306	-7	41	-4	-44
Feb.	-7,442	-2,849	-1,366	-570	-177	-2,481	-45	6	-3	-48
Mar.	-7,245	-3,131	-1,223	-523	-139	-2,228	-115	-87	-8	-21
Apr.	-5,502	-2,874	-367	-1,276	-521	-464	-268	-57	-1	-210
May	-5,192	-1,515	-306	-2,923	-301	-147	-249	-41	-1	-207
June	-3,114	-1,083	-129	-1,014	-367	-521	-263	-33	-1	-229
July	(1,663)	(3,179)	(486)	(-718)	....	....	(-175)	....	....	....

Table A9

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

(twelve-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
Centre and North									
2009 – 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	0.6	0.1	2.6	5.3	3.8	16.2	2.6
2011 – Mar.	3.3	2.3	3.2	3.2	3.1	5.7	3.7	18.2	3.3
June	3.9	0.3	3.5	3.6	3.1	5.9	3.4	12.2	3.2
July	2.5	0.8	3.1	3.3	2.1	4.8	3.3	12.4	2.9
Aug.	1.9	-0.7	2.8	3.0	2.0	4.6	3.1	13.9	2.4
South and Islands									
2009 – 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	4.9	2.0	2.1	4.3	3.9	3.6
June	3.8	-10.2	4.1	4.8	1.9	2.1	3.9	3.5	3.8
July	5.6	-18.8	3.9	4.9	1.2	1.6	3.8	1.1	3.7
Aug.	1.1	-21.0	3.9	5.0	0.9	1.2	3.6	-1.9	3.1
ITALY									
2009 – 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.	3.9	6.8	1.0	0.6	2.5	4.5	3.9	14.4	2.8
2011 – Mar.	2.9	2.1	3.3	3.4	2.9	4.9	3.8	16.5	3.3
June	3.9	0.0	3.6	3.8	2.9	5.0	3.5	11.1	3.3
July	2.8	0.4	3.2	3.5	1.9	4.0	3.4	11.0	3.0
Aug.	1.8	-1.1	2.9	3.2	1.7	3.8	3.2	12.0	2.5

(1) Statistics for August 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	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)	*of which:* change in deposits with the Bank of Italy	Borrowing requirement	*of which:* financed abroad
2008	4,224	-5,683	19,502	41,656	-1,132	-15,152	-10,611	49,098	-10,288
2009	8,487	-1,487	-7,405	93,739	2,814	-11,752	-11,399	85,884	-2,112
2010	57	-4,809	-10,103	87,885	962	-11,834	-11,518	66,967	444
2008 – Q1	1,313	-1,111	25,905	23,411	145	-33,225	-31,203	17,549	474
Q2	934	-1,266	8,186	-11,242	3,812	5,508	5,968	7,198	-5,672
Q3	-2,295	-947	-1,120	4,058	-5,584	15,700	17,012	10,758	-2,282
Q4	4,272	-2,360	-13,469	25,430	496	-3,134	-2,388	13,594	-2,808
2009 – Q1	3,034	-1,264	25,111	48,196	1,434	-47,149	-47,108	30,626	1,962
Q2	4,780	-247	5,769	-2,236	1,978	9,749	9,963	20,040	-1,621
Q3	-6,276	385	-9,480	50,557	502	-12,912	-12,676	22,392	-2,708
Q4	6,948	-361	-28,805	-2,777	-1,100	38,561	38,423	12,826	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	22,843	-948	-3,544	-3,474	18,933	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	13,687	-1,424	3,608	3,712	1,185	-4,809
2011 – Q1	-2,134	-1,605	12,380	10,453	1,946	9,082	8,309	31,727	-2,021
Q2	1,292	-895	-5,607	32,843	459	-14,140	-15,502	14,847	-2,081
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	17,827	-556	-3,687	-3,696	9,440	-690
June	2,491	-470	2,436	-8,244	-2,890	-260	-211	-6,467	941
July	-2,929	-452	-3,782	21,279	942	-17,681	-17,637	-2,171	-766
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	-120	144	2,710	2,730	4,614	599
Dec.	1,607	-696	-17,340	-8,920	-1,452	15,465	15,529	-10,641	-5,254
2011 – Jan.	2,762	-812	8,290	24,134	641	-33,467	-33,424	2,362	468
Feb.	-5,995	-394	1,643	-3,374	1,659	16,235	15,455	10,168	-7
Mar.	1,099	-399	2,447	-10,308	-354	26,313	26,278	19,197	-2,483
Apr.	-42	250	-474	21,057	1,128	-11,807	-11,805	9,861	-67
May	-1,835	-987	-693	5,748	1,712	1,658	1,682	6,590	-1,659
June	3,168	-158	-4,440	6,038	-2,381	-3,991	-5,378	-1,605	-354
July	-2,572	-123	-1,378	14,379	-1,120	-13,291	-13,253	-3,982	-116
Aug.	-1,056	-165	-241	-10,760	-660	19,068	19,067	6,350	223

(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		Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt			*Memorandum item:*
		of which: PO funds						*of which:* in foreign currencies	*of which:* medium and long-term	Deposits held with the Bank of Italy
2008	147,252	31,492	147,371	1,236,460	129,411	6,090	1,666,584	3,609	1,372,986	20,333
2009	155,740	30,005	139,966	1,329,962	132,225	5,737	1,763,628	2,746	1,467,740	31,731
2010	155,797	25,195	129,862	1,418,556	133,190	5,420	1,842,826	2,897	1,554,867	43,249
2008 – Q1	144,342	36,064	153,806	1,213,998	130,684	8,608	1,651,438	3,236	1,357,930	40,925
Q2	145,276	34,799	161,975	1,204,426	134,495	8,148	1,654,320	3,214	1,348,320	34,956
Q3	142,981	33,852	160,869	1,211,122	128,912	6,835	1,650,719	3,537	1,349,375	17,944
Q4	147,252	31,492	147,371	1,236,460	129,411	6,090	1,666,584	3,609	1,372,986	20,333
2009 – Q1	150,287	30,228	172,490	1,284,849	130,845	6,049	1,744,519	3,768	1,422,165	67,441
Q2	155,067	29,980	178,265	1,283,060	132,822	5,835	1,755,049	3,528	1,420,289	57,478
Q3	148,792	30,366	168,776	1,333,205	133,325	5,599	1,789,697	2,731	1,471,089	70,155
Q4	155,740	30,005	139,966	1,329,962	132,225	5,737	1,763,628	2,746	1,467,740	31,731
2010 – Q1	152,544	28,592	150,496	1,358,051	133,791	5,654	1,800,535	2,932	1,495,636	41,299
Q2	153,762	27,662	149,865	1,382,085	132,844	5,584	1,824,140	3,179	1,517,411	44,773
Q3	152,446	26,443	147,911	1,403,438	134,614	5,525	1,843,933	2,892	1,539,703	46,961
Q4	155,797	25,195	129,862	1,418,556	133,190	5,420	1,842,826	2,897	1,554,867	43,249
2011 – Q1	153,664	23,590	142,246	1,430,789	135,136	6,193	1,868,028	2,730	1,566,645	34,940
Q2	154,956	22,696	136,635	1,466,876	135,594	7,555	1,901,616	2,656	1,601,172	50,442
2010 – Jan.	155,648	29,729	152,668	1,343,852	132,802	5,671	1,790,642	2,837	1,481,482	62,411
Feb.	152,541	29,638	151,858	1,354,166	133,188	5,659	1,797,413	2,910	1,491,533	54,949
Mar.	152,544	28,592	150,496	1,358,051	133,791	5,654	1,800,535	2,932	1,495,636	41,299
Apr.	153,853	28,639	148,985	1,370,398	136,289	5,623	1,815,149	2,962	1,508,728	40,867
May	151,270	28,132	147,424	1,389,410	135,734	5,633	1,829,471	3,201	1,527,455	44,563
June	153,762	27,662	149,865	1,382,085	132,844	5,584	1,824,140	3,179	1,517,411	44,773
July	150,833	27,210	146,084	1,403,453	133,786	5,540	1,839,696	3,004	1,538,937	62,410
Aug.	151,942	26,820	144,897	1,405,795	133,872	5,520	1,842,026	3,080	1,541,440	56,673
Sept.	152,446	26,443	147,911	1,403,438	134,614	5,525	1,843,933	2,892	1,539,703	46,961
Oct.	151,446	26,052	148,078	1,426,377	134,498	5,504	1,865,903	2,846	1,562,571	61,508
Nov.	154,191	25,891	147,214	1,426,924	134,642	5,484	1,868,455	3,016	1,564,582	58,778
Dec.	155,797	25,195	129,862	1,418,556	133,190	5,420	1,842,826	2,897	1,554,867	43,249
2011 – Jan.	158,560	24,384	138,152	1,443,831	133,831	5,378	1,879,753	2,833	1,579,736	76,673
Feb.	152,565	23,989	139,799	1,441,862	135,490	6,158	1,875,874	2,804	1,577,920	61,218
Mar.	153,664	23,590	142,246	1,430,789	135,136	6,193	1,868,028	2,730	1,566,645	34,940
Apr.	153,622	23,841	141,772	1,452,463	136,263	6,191	1,890,312	2,615	1,588,702	46,745
May	151,787	22,854	141,075	1,460,264	137,975	6,168	1,897,269	2,696	1,597,147	45,063
June	154,956	22,696	136,635	1,466,876	135,594	7,555	1,901,616	2,656	1,601,172	50,442
July	152,384	22,573	135,258	1,482,136	134,475	7,516	1,911,769	2,697	1,614,218	63,695
Aug.	151,328	22,408	135,017	1,471,876	133,815	7,517	1,899,553	2,661	1,604,386	44,627

(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”.