BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

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Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
www.bancaditalia.it

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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 global economy is slowing

Sovereign debt strains in the euro area and the persistent uncertainty over the consolidation of the public finances in the United States are affecting the growth prospects of the advanced economies. In Japan, recovery in the third quarter gave way to a weakening as the year closed. There are signs that world trade slowed in the fourth quarter.

The sovereign debt strains in the euro area have become systemic ...

Sovereign debt strains in the euro area worsened and spread, becoming systemic. In many countries government securities' prices suffered as a result of uncertainty over crisis management mechanisms at European and intergovernmental level, despite the important corrections to public finances made by national governments; the uncertainty was heightened by deteriorating growth prospects. Investors' risk aversion increased, as did their preference for instruments considered safe, such as US and German government securities. On 13 January the rating agency Standard & Poor's downgraded the sovereign debt of nine euro-area countries, including France, Italy and Spain.

... although they are easing on shorter maturities

The spread between the yields on Italian and German ten-year government securities, which reached 550 basis points in November, the highest figure since the introduction of the euro, narrowed significantly at the start of December following the announcement of new, incisive measures to correct the public finances; it began to increase again as concerns that the crisis was systemic mounted. However, the risk premiums on government securities with shorter maturities have contracted sharply in recent weeks, following the launch of the ECB's three-year refinancing operations.

Economic activity in the euro area weakens in the fourth quarter; inflation is easing

In the last part of 2011 the economic situation of the euro area weakened. The €-coin indicator which estimates underlying quarterly GDP growth in the area, turned negative from last October. Growth expectations for 2012 were also revised downwards. On the positive side, inflationary pressures abated, benefitting from the reduction in pressure on input costs.

The Eurosystem eases monetary conditions and supports lending to the economy

The ECB Governing Council lowered official interest rates on two occasions, bringing the rate on main refinancing operations down to 1 per cent; it introduced important new measures to support banks' lending to households and firms, which has been hampered by growing difficulties in funding and the segmentation of the interbank markets. The first refinancing operation at 36 months with full allotment of the sums requested took place on 21 December. Following this operation, the increased liquidity in the banking system and the reduction of concerns over banks' ability to raise funds were reflected in a contraction in the risk premiums implicit in the interbank rates and an improvement in the spreads on banks' credit default swaps.

In Italy economic activity is influenced by the domestic and international situation

In the third quarter of 2011, Italy's GDP declined by 0.2 per cent compared with the second, and according to our estimates contracted in the fourth quarter as well. The weakness of domestic demand is confirmed by the latest data and by business surveys. GDP growth has been affected by an increase in the cost of borrowing, as a result of the worsening sovereign debt crisis, and by the slowdown in world trade, which has nevertheless continued to contribute positively to economic activity. Domestic demand was also adversely affected by the measures to correct the public finances, which were nevertheless essential to avoid even more severe consequences for economic activity and financial stability. Firms' competitiveness improved slightly thanks to the depreciation of the euro.

Labour market recovery comes to a halt

The recovery in employment that began in the last quarter of 2010 came to a halt in the closing months of 2011; in October and November there was a reduction in the number of persons in work and an upturn in the unemployment rate, which reached 30.1 per cent among young people. Even if recourse to wage supplementation continued to decline, firms' expectations of their employment levels were more pessimistic.

Inflationary pressures ease, despite price rises induced by indirect taxation

Inflationary pressures are waning in a context of cost moderation and slack demand. In the closing months of 2011 an increase in indirect tax rates caused a rise in consumer prices; another rise could result from the higher excise tax on fuels enacted at the start of this year in some regions and rises in some regulated prices.

The Eurosystem is acting to counter the strains on bank funding, which could impinge on the credit supply

In recent months the tensions in the government securities market and the resulting financial market uncertainty have affected banks' funding, especially in the wholesale segment. There are signs that these difficulties are being transmitted to the supply of credit to the economy. The problem should be mitigated by the possibility of ample recourse by banks to the new Eurosystem refinancing operations. In the meantime, Italian banks have strengthened their capital bases further. Following the indications of the European authorities, the main banking groups are required to submit plans for additional increases in their capital base, which must not result in a reduction of lending to the economy.

The state sector borrowing requirement and public sector net borrowing decline

The state sector borrowing requirement came down from 4.3 per cent of GDP in 2010 to 3.9 per cent last year. The final figure for net borrowing should be near the Government's early-December estimate of 3.8 per cent of GDP, significantly lower than the 4.6 per cent registered in 2010. The ratio of debt to GDP, which was 118.4 per cent in 2010, appears to have risen to about 120 per cent, a smaller increase than the estimated average for the other euro-area countries.

The Government passes a third budget correction in December

The drastic aggravation of the European sovereign debt crisis necessitated a further adjustment in December of the public accounts for the three years from 2012 through 2014, the third correction since July. Enacted by Parliament on 22 December, the package is designed to fulfil Italy's European commitment to balance the budget in 2013.

The structural adjustment amounts to about 5 percentage points of GDP

According to official estimates, the December measures will reduce net borrowing by more than €20 billion (1.3 percentage points of GDP) in each of the three years from 2012 through 2014. They also raise resources (some €15 billion in 2013) for measures to stimulate growth and to diminish the part of the deficit reduction left to the implementation of tax and welfare reform. The adjustment depends largely on revenue increases, but expenditure savings are increasing over the three years. The measures on pensions will produce their full effects over an extended period of time. The combined effect of the three sets of measures enacted from July to December is a structural correction estimated at €80 billion, which is expected to yield a primary surplus of about 5 per cent of GDP in 2013 according to the macroeconomic forecasting scenarios set out in this Bulletin.

The uncertainty over the outlook for growth is exceptionally pronounced

The worsening of the sovereign debt crisis and the slowdown in world trade have resulted in a deterioration of growth prospects in Italy and the euro area. For Italy, the plausible scenarios vary considerably, depending on developments in the sovereign debt crisis and its repercussions on banks' lending capacity.

A normalization of financial market conditions is crucial

Assuming that for the next two years the interest rates on government securities are those indicated by the yield curve at the start of January, GDP is forecast to contract by an average of 1.5 per cent this year. Economic activity would not start to expand again until next year. There is the risk that if deteriorating expectations entail a further tightening of sovereign debt and credit market conditions the downturn will be more marked. On the more favourable assumption that the Government's fiscal consolidation package together with the crisis-response measures agreed at European level succeed in at least partly restoring investors' confidence, thereby reducing financing costs for all economic agents (public sector, banks, firms and households), the Italian economy could recover more rapidly. A return of the BTP-Bund spread to around last summer's levels would imply an average contraction in economic activity in 2012 not greatly different from the first scenario, but with activity levels stabilizing in the second half and a quicker return to growth in 2013.

Structural measures to strengthen the economy's capacity for growth could have effects even in the short term

Now that the package of measures to adjust the public finances has been finalized, the priority is to create favourable conditions to revive the Italian economy. The structural measures for economic growth now being finalized, which reinforce those introduced last summer, have not been factored into the forecasting scenarios. But if well designed and promptly implemented, these measures, by stimulating potential output growth, could affect market expectations and the spending decisions of households and firms positively, with benefits not only in the longer run but also for the performance of the economy this year and next.

It is urgent that the European instruments for financial stability become operational

Ambitious policies to restore confidence and normalize market conditions are necessary at national and European level. It is crucial to implement all the elements of the EU economic governance framework that recently came into force. At the same time, it is of vital importance that the strengthened European tools for financial stability, such as the EFSF and the ESM, rapidly be made operational, enhancing their effectiveness and quickly exploiting their potential.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

The world economy slowed in the second half of 2011. The latest data indicate that economic activity picked up in the third quarter in the United States, Japan and the United Kingdom while slowing slightly in the emerging countries, where the rate of growth nonetheless remains high. However, in view of the heightened sovereign debt strains in the euro area and the pronounced uncertainty surrounding the consolidation of the public finances in the United States, expectations that growth in the advanced countries would become progressively more robust faded towards the end of the year (Table 1). International trade, which had picked up in the third quarter, appears to have slowed sharply in the fourth. There was a generalized easing of inflationary pressures as a result of the decline in commodity prices.

GDP accelerates in the advanced countries in the third quarter ...

In the third quarter of 2011, economic activity accelerated in the main advanced countries outside the euro area. In the United States, GDP grew at an annualized rate of 1.8 per cent on the previous quarter, supported by the recovery in consumption and private gross fixed capital formation, which offset the negative effect of destocking. In Japan, the contraction in GDP in the first half of the year gave way to a sharp upturn, with growth of 5.6 per cent. Contributory factors were the stronger performance of consumption and the recovery of exports, which had been affected by breaks in the production chain following the earthquake. In the United Kingdom, GDP accelerated to 2.3 per cent under the stimulus of stock-building, while consumption stagnated and net exports made a negative contribution.

... while growth weakens in the emerging countries

Economic activity slowed slightly in the main emerging countries in response to the economic policy tightening enacted in the first half of the year. In the third quarter of 2011, GDP nonetheless continued to grow at a rapid pace in China and India, respectively 9.1 and 6.9 per cent year on year, thanks to the still buoyant performance of domestic demand. In Brazil, growth slowed to an annualized rate of 2.2 per cent owing to the brusque decline in industrial output. By contrast,

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	OECD			Consensus Economics	
	2011	2012	2013	2011	2012
GDP					
World	**3.8**	**3.4**	**4.3**	**–**	**–**
Advanced countries					
Euro area	1.6	0.2	1.4	1.6	-0.3
Japan	-0.3	2.0	1.6	-0.8	1.9
United Kingdom	0.9	0.5	1.8	0.9	0.5
United States	1.7	2.0	2.5	1.8	2.2
Emerging countries					
Brazil	3.4	3.2	3.9	2.9	3.2
China	9.3	8.5	9.5	9.2	8.4
India (1)	7.6	7.5	8.4	7.0	7.3
Russia	4.0	4.1	4.1	4.2	3.5
World trade (2)	**6.7**	**4.8**	**7.1**	**–**	**–**

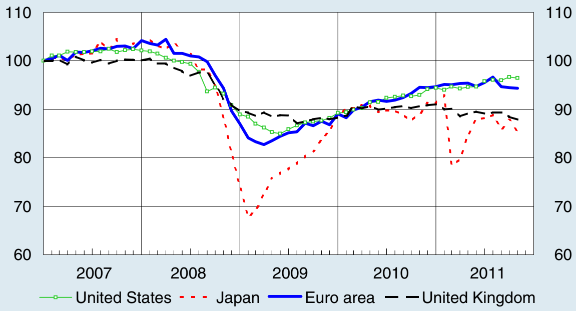
Sources: OECD, *Economic Outlook,* 90, November 2011; Consensus Economics, January 2012, for the advanced countries, China and India, December 2011, for Brazil and Russia; national statistics.
(1) The Consensus Economics forecasts refer to the fiscal year. – (2) Goods and services.

in Russia, GDP growth accelerated to 4.8 per cent.

Figure 1

Industrial production in the main advanced countries (1)

(monthly data)



Source: Thomson Reuters Datastream.
(1) Industrial production, adjusted for seasonal and calendar effects; index, January 2007=100.

According to recent cyclical indicators (Figure 1), economic activity weakened considerably in the main advanced countries in the fourth quarter. The only exception was the United States, where GDP appears to have accelerated to an annualized rate of growth of almost 3 per cent thanks to the improvement in labour market conditions. The US unemployment rate fell from over 9 per cent in the summer to 8.5 per cent in December, while applications for unemployment benefits nearly reached the minimum values recorded in July 2008; the average duration of unemployment lengthened further, however, to 41 weeks and the participation and employment rates remained well below their pre-recession levels.

In the emerging countries, the performance of industrial production and business surveys point to a further slowdown in the fourth quarter, particularly in India and Brazil. In China, growth is expected to fall below 9 per cent in response to the further contraction in export demand and decreased activity in the real-estate sector.

World trade, which had slowed abruptly in the spring as a result of the contraction in Asia, picked up in the third quarter of 2011. However, it appears to have decelerated sharply in the fourth quarter, held back by slack demand in the main advanced countries.

The recovery will remain modest and irregular in 2012

According to the latest estimates by the OECD, the world economy expanded on average by 3.8 per cent in 2011 and is expected to slow to growth of 3.4 per cent this year. The recovery will not be uniform: in the advanced countries, GDP is expected to stagnate in Europe, while growth of 2.0 per cent is forecast for the United States and Japan; among the emerging countries, growth is expected to slow slightly in China and India and more sharply in Brazil.

The outlook for the world economy is still subject to considerable uncertainty stemming from the effects of the consolidation of the public finances in the advanced countries. On the one hand, the repercussions of the sovereign debt crisis in Europe are not easy to quantify: the persistent funding difficulties of Europe's banking industry could diminish its ability to lend to the real economy, setting in motion a negative spiral of declining production, weakening financial sector and sovereign debt risks. On the other hand, if some of the fiscal stimulus measures enacted in the United States in recent years are not carried forward into 2012, GDP growth will be reduced by 2 percentage points this year.

The price of oil falls slightly and futures contracts indicate a further decline

In the fourth quarter the prices of the main non-energy commodities and food products continued to fall, the first (notably metals) affected by the weakness of the world economy and the second reflecting larger-than-expected crop yields. The price of Brent oil dropped only slightly, by around $4 at the end of September, as a result of heightened geopolitical tensions in the Middle East. According to the indications implicit in futures contracts, over the next twelve months it will fall from $114 a barrel at the end of the second week in January to $109 a barrel for contracts ending in December 2012 (Figure 2).

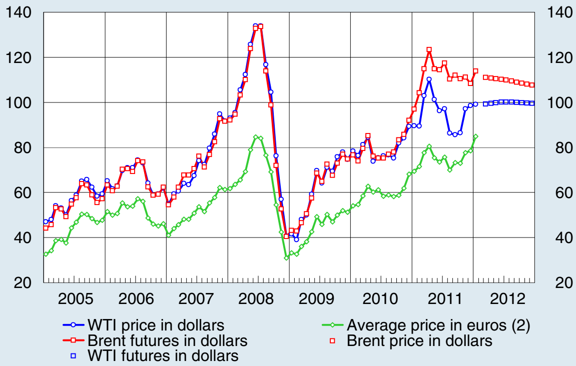
Inflation diminishes in the advanced and the emerging countries

Inflationary pressures eased both in the main advanced countries and in the emerging countries in response to the decline in commodity prices. In the United States, the twelve-month inflation rate fell to 3.4 per cent in November from 3.9 per cent in September (Figure 3); net of the energy and food components, it increased from 2.0 per cent in September to 2.2 per cent. In the United Kingdom, the inflation rate fell to 4.8 per cent, just below the peak of 5.2 per cent recorded in September, partly owing to the drying up of the effects of the increase in VAT; core inflation fell to 3.3 per cent. In Japan, prices turned slightly downwards, both the general index and the core components.

Figure 2

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)



Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 12 January 2012. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

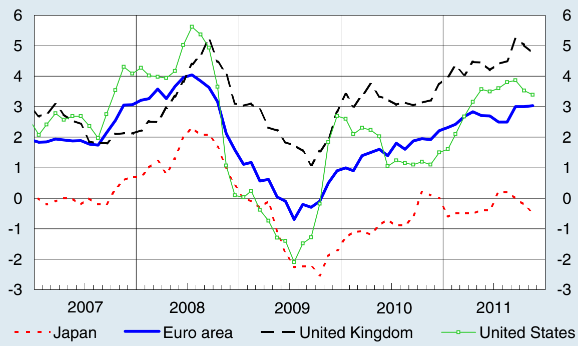
The stance of monetary policy remains expansive in the advanced countries ...

The stance of monetary policy in the main advanced countries outside the euro area remained robustly expansive against a backdrop of risks of slacker growth, tensions on the financial markets, persistently weak demand and fairly low inflation expectations. The Federal Reserve left the target range for the federal funds rate unchanged at 0.0 to 0.25 per cent. It also continued to restructure its portfolio of Treasury securities, extending the average residual maturity, and to reinvest the proceeds from redemptions of mortgage-backed securities in similar instruments.

Figure 3

Consumer price inflation in the main advanced countries (1)

(monthly data; twelve-month percentage changes)



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

The Bank of England kept its policy rate unchanged at 0.5 per cent and the Bank of Japan left the monetary policy reference rate corridor at 0.0 to 0.1 per cent, while both continued to implement their programmes of securities purchases.

... and turns expansive in the emerging countries

The central banks of the main emerging countries responded to the deterioration in the economic outlook and the easing of price strains by gradually relaxing monetary conditions. In China, the authorities reduced the compulsory reserve requirement at the beginning of December, while in Brazil the central bank, after reducing official interest rates for the first time in the summer, cut them by a further 50 basis points in October and again in November. By contrast, in India, which experienced higher-than-expected inflation and a depreciation of its currency, the central bank raised interest rates by 25 basis points in October.

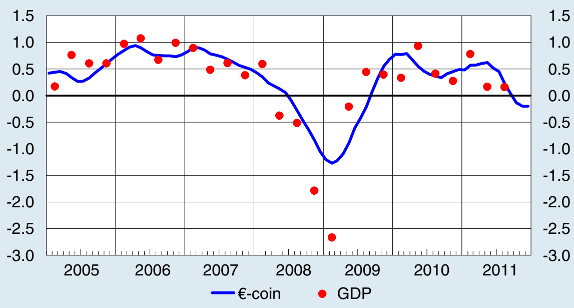
In the third quarter of 2011 there was a further small improvement in the most severe current account imbalances. The United States' deficit decreased to 2.9 per cent of GDP, while China's surplus contracted to 3.2 per cent, a much lower figure than in 2010. By contrast, Japan's surplus widened to 2.2 per cent of GDP in response to the recovery of exports.

2.2 THE EURO AREA

As a consequence of weakening world economic growth and the spreading tensions in the sovereign debt market, the economic situation in the euro area worsened in the latter part of 2011. On the positive side, inflationary pressures eased. Given the slow expansion of the monetary and credit aggregates and banks' increasing funding difficulties, the Governing Council of the ECB eased monetary conditions and adopted important measures in support of banks' liquidity.

Figure 4

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



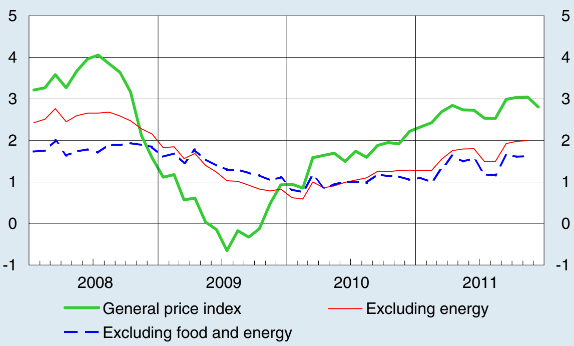
Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator, see the box "The €-coin indicator and the economic situation in the euro area" in *Economic Bulletin*, July 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly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

Area-wide GDP growth remains modest in the third quarter ...

The area's GDP grew by 0.1 per cent in the third quarter, following 0.2 per cent in the second. Exports (which expanded by 1.2 per cent) continued to provide the main stimulus for growth. Taking the simultaneous increase in imports into account, foreign trade contributed 0.2 percentage points to GDP growth. Household spending increased by 0.2 per cent, not enough to make up for the contraction in the previous quarter. Gross fixed investment stagnated.

Figure 5

Inflation in the euro area (1)
(twelve-month percentage changes)



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

... and weakens in the fourth

The economic situation in the euro area has worsened since the summer, reflecting the world economic slowdown and the aggravation of the sovereign debt crisis. The €-COIN indicator calculated by the Bank of Italy, which gauges three-month growth net of the most erratic components, turned negative in October; however, the deterioration came to a halt in December, when the indicator held at minus 0.2 per cent (Figure 4). Business surveys of firms' expectations for the short term have found widespread pessimism.

According to the professional forecasters surveyed by Consensus Economics in January, GDP will decline by 0.3 per cent in 2012. The forecasts made in December by the Eurosystem experts range from a contraction of 0.4 per cent for the year to growth of 1.0 per cent.

Consumer prices decelerate in December

The twelve-month rise in consumer prices, which had held at 3.0 per cent from September through November, eased to 2.8 per cent in December, according to the flash estimate of Eurostat (Figure 5). The definitive data, available up to November, indicate that the higher inflation in the area in the autumn months reflected the trend in the core component (the harmonized index net of energy and food products), which nevertheless remained moderate at 1.6 per cent (1.2 per cent in July and August). Significant factors were the high volatility of the goods component induced by the new method of calculating the price indices for seasonal products introduced in January (see *Economic Bulletin*, April 2011) and changes in indirect taxes in some countries. Energy and food prices have also accelerated slightly in recent months.

Inflation should subside to below 2 per cent in 2012

The latest euro-area business surveys have found a lessening of pressures on the cost of inputs and a tendency to price moderation on the part of firms. The analysts surveyed by Consensus Economics forecast average annual inflation in the euro area at 1.9 per cent in 2012, compared with 2.7 per cent in 2011. The Eurosystem projections released in December put consumer inflation in a range of 1.5 to 2.5 per cent.

The growth of the money supply remains weak

The rate of expansion of M3 in the area remains very low, having diminished on a twelve-month basis from 2.8 per cent in August to 2.0 per cent in November. The growth in overnight deposits was unchanged at 1.2 per cent, while other short-term deposits decelerated from 3.3 to 2.1 per cent, mainly reflecting the deposits of non-monetary financial institutions and non-financial corporations. There was also a pronounced slowdown in marketable instruments, aboved all repos.

Credit growth slows, with disparities between countries

The growth of bank lending has also been weak. Adjusted for the accounting effect of securitizations, the annualized, seasonally adjusted rate of growth in lending to the non-financial private sector was practically unchanged at 1.9 per cent in the three months ending in November. The slowdown in the growth of lending to non-financial corporations (to 1.7 per cent from 2.3 per cent in August) offset a pickup in lending to households from 1.4 to 2.1 per cent. The trend in lending to the non-financial private sector remains sharply differentiated between countries. In particular, credit to firms and households continued to contract in November in a number of the countries most directly affected by the sovereign debt crisis.

Interbank market strains remain severe

The banks' difficulties in wholesale fund-raising have worsened. The spread between unsecured loans (Euribor) and the rate on Eonia swaps – a gauge of credit risk on the interbank market – has widened further. In mid-January that on three-month funds was around 90 basis points. Banks have had greater recourse to Eurosystem refinancing, which amounted to an average of €630 billion in the reserve maintenance period ending on 13 December compared with €570 billion in the period ending in October. In the same period the funds held by banks with the Eurosystem deposit facility amounted to €250 billion (€170 billion in October).

The ECB eases monetary conditions

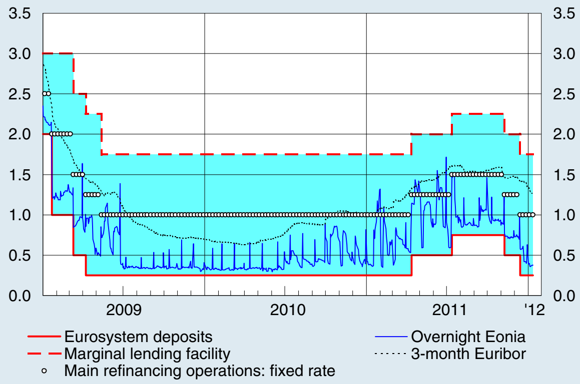
In the face of heightened financial market tensions, the unfavourable outlook for growth in the euro area and the weakening of inflationary pressures, the Governing Council of the ECB lowered the fixed rate on its main refinancing operations by 25 basis points at both the early-November and the early-December meetings, bringing it to 1.0 per cent (Figure 6).

New measures in support of banks' liquidity and lending to households and firms were decided in December. Two new longer-term refinancing operations were announced with maturity at 36

Figure 6

Official interest rates and money market rates in the euro area

(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

months and full allotment, with the option of early repayment after one year. The rate will be fixed at the average rate of the main refinancing operations over the life of the respective operation.

In the first operation, on 21 December, banks requested €490 billion. The effective injection of new liquidity by the Eurosystem, net of maturing operations, came to €210 billion. The second operation will be conducted on 29 February.

The ECB also provided for increasing the availability of collateral, lowering the rating threshold for eligibility of some types of asset-backed securities and allowing national central banks, on their own responsibility, to accept bank loans that fulfil specified criteria. Starting with the first reserve maintenance period in 2012, the compulsory reserve ratio is reduced from 2 to 1 per cent in order to free eligible assets and sustain money market activity.

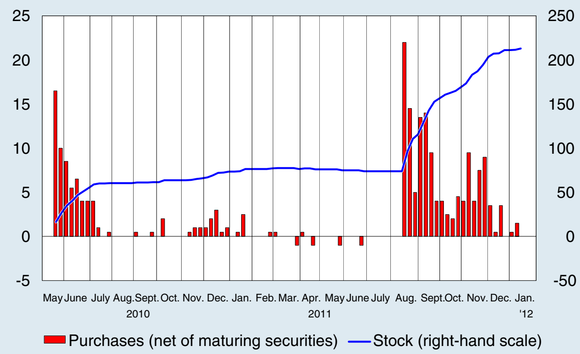
Securities Markets Programme purchases continue

The Eurosystem central banks have purchased government bonds under the Securities Markets Programme in order to prevent the malfunctioning of the monetary policy transmission mechanism owing to the sovereign debt crisis. Purchases amounted to €31 billion in November, €8 billion in December and €1 billion in the first week of January. On 6 January the stock of securities purchased was €213 billion (Figure 7).

Figure 7

Purchases under the Securities Markets Programme

(billions of euros; weekly data)



Source: ECB.

To alleviate area banks' foreign currency funding difficulties, on 30 November the ECB took coordinated action together with the Federal Reserve and other major central banks, lowering the pricing on the US dollar swap facilities at one-week and three-month maturities. The Governing Council also announced that it would continue to conduct liquidity-providing tenders in dollars as long as necessary. Finally, it introduced swap lines in currencies other than the dollar, to be activated as required.

2.3 WORLD FINANCIAL MARKETS

Euro-area sovereign debt strains worsened in the closing months of 2011, spreading to many countries of the area and taking on systemic importance. Government securities prices were affected by uncertainty about the crisis management mechanisms and the dimming of the area's growth prospects. Investors' risk aversion accentuated the flight to quality and spurred capital outflows from the emerging countries. Euro-area share and corporate bond markets, characterized by high volatility, penalized the securities of the banking sector. Equity market conditions and the risk premiums on bank securities improved somewhat after the Eurosystem refinancing operation of 21 December.

As euro-area sovereign debt strains intensify ...

Despite the decisions taken by the European summit meetings of 26 October and 9 December (see box), euro-area sovereign debt came under mounting pressure, reflecting deteriorating macroeconomic conditions, repeated downgrades of the sovereign debt and bank securities of several European countries by rating agencies, and market participants' doubts as to the adequacy of the crisis management mechanisms prepared by the European authorities. Since the end of September ten countries of the area have undergone a debt downgrade by at least one of the main rating agencies. In addition, in early December the rating agencies put the sovereign debt of nearly all the euro-area countries, including those with AAA status such as Germany, France and the Netherlands, under review. On 13 January Standard and Poor's downgraded the sovereign debt of nine of them, including France, which lost its AAA rating, Spain and Italy.

THE DECISIONS OF THE EURO-AREA HEADS OF STATE OR GOVERNMENT OF 26 OCTOBER AND 9 DECEMBER 2011

In a situation still marked by exceptional pressure on sovereign debt in the euro area, on 26 October and 9 December the euro-area heads of state or government took a series of additional decisions to: (a) improve European governance, (b) clarify the role of private investors in resolving the Greek crisis, (c) reinforce the instruments for financial stabilization (European Financial Stability Facility and European Stability Mechanism), (d) enhance the quality and quantity of banks' capital and favour their access to longer-term funding, and (e) increase the financial resources at the disposal of the International Monetary Fund to support countries in difficulty.

European economic governance. – The process of reform, under way since the spring of 2010, registered further advances at the euro summits in October and December. The heads of state or government reaffirmed their March commitment to transpose into national legal systems at constitutional or equivalent level budget rules consistent with those laid down in the Stability and Growth Pact. The December summit further established that the rules must contain automatic correction mechanisms triggered in the event of deviations and recognized the jurisdiction of the European Court of Justice to verify the transpositions at national level. The summit also called on the Council and the European Parliament to rapidly examine the new rules proposed by the Commission at the end of November, which provide for: (a) closer coordination in the drafting of member states' budgets, with a common calendar for the presentation of drafts to the Commission prior to their approval by national parliaments; and (b) the strengthening of the Commission's economic and budgetary surveillance over the countries that are receiving financial assistance or that are experiencing or threatened with serious financial difficulties.

The adoption of the measures decided in December would have required the amendment of the European treaties with the consent of all EU members, but the United Kingdom declared its opposition. The other member countries not belonging to the euro area stated that they would underwrite the pact only after consulting their parliaments. Failing unanimity, some of the measures announced on 9 December – together with the strengthening of the automatic application of the excessive deficit procedure already envisaged in the legislative package bearing on the Stability and Growth Pact that went into effect on 13 December – will be adopted by intergovernmental accords. However, it has not yet been made clear which specific measures will be approved in this way.

Private sector involvement in resolving the sovereign crises and support for Greece. – It was decided that any future involvement of private investors in the resolution of sovereign debt crises will strictly adhere to the principles and practices of the IMF. It was reaffirmed that the past decisions concerning Greek debt must be considered unique and exceptional, and that standardized and identical collective action clauses will be included in the terms and conditions of all new euro-area government bond issues. In addition, the Greek government and private investors were called on to reach a voluntary agreement designed to bring the public debt back down to 120 per cent of GDP by 2020, by means of a 50 per cent reduction in the nominal value of the Greek bonds in private hands. The euro-area member states would contribute to such an agreement with a financial commitment of up to €30 billion. Further, Greece would receive additional financing of €100 billion through 2014 in order to recapitalize the country's banks. Finally, the EFSF will provide guarantees on the collateral provided by Greek banks to gain access to Eurosystem refinancing operations.

EFSF intervention capacity and entry into force of the ESM. – It was decided to enhance the EFSF's capacity to intervene by increasing its leveraging through two options, possibly used in tandem: first, partial guarantees on new bond issues by euro-area countries and second, the formation of one or more co-investment funds to purchase government bonds on the primary and secondary markets using financial resources supplied by private investors and the EFSF. Under this second option, the EFSF would sustain the first losses that the co-investment funds might incur. In both cases the intervention would be conditional on the beneficiary country's acceptance of strict conditions on the measures enacted to restore financial stability. The ECB will act as agent for the EFSF's financial transactions.

The heads of state or government agreed on an acceleration of the entry into force of the treaty instituting the European Stability Mechanism, which becomes effective as soon as it is ratified by member states representing 90 per cent of the capital commitments. The objective is entry into force in July 2012. The EFSF will remain active in financing programmes that begin by mid-2013, flanking the ESM for a year. The overall lending capacity of €500 billion of EFSF and ESM was confirmed. The adequacy of this ceiling is to be reassessed in March 2012. An emergency procedure was instituted allowing the ESM to take decisions not unanimously but by a qualified majority of 85 per cent, where the ECB and the Commission conclude that the financial and economic sustainability of the euro area is threatened.

Capitalization of European banks. – Following the Council decision in October, the European Banking Authority approved a recommendation that the major EU banks constitute a capital buffer to achieve a significantly higher core tier 1 capital ratio of 9 per cent by end-June 2012, taking the market prices of sovereign debt holdings at the end of September 2011 into account. This capital increase should come first from private sources of funds and from reducing dividend and bonus payments. The capital strengthening must not lead to a reduction in the credit flow to the real economy. If necessary, national governments should provide support, and where they lack the resources they should turn to EFSF loans.

In order to mitigate the difficulties banks are having in raising medium- and long-term funds, the Council asked the Commission to consider the options available to grant national public guarantees of new issues of bank liabilities. To avoid the recurrence of the problems that arose in 2008, when public guarantees were provided under standards varying from country to country (see the box "The interventions in support of the financial system", *Financial Stability Report* No. 1, December 2010), the Commission has established uniform rules for all EU countries governing access, costs, and conditions for banks.

Additional resources for the IMF. – The EU member states committed to consider the possibility of supplying additional resources of up to €200 billion to the IMF, to adapt its resources to the necessities of the crisis. As in 2009 and 2011, the additional resources will be provided in the form of bilateral loans. The European Council expressed the hope that countries outside the EU would contribute to the strengthening of the Fund's financial endowment. Subsequently, the euro-area countries confirmed their willingness to supply up to €150 billion. The United Kingdom made its participation (for €30 billion) conditional on the broader involvement of non-EU IMF member countries.

... yield spreads over Bunds hit new highs

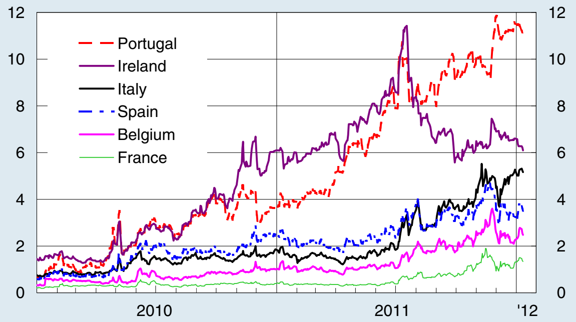
The yield spreads of euro-area government securities over German Bunds reached new highs since the introduction of the euro in Greece, Portugal, Italy, Spain, Belgium and France (Figure 8), despite massive purchases of government securities by the ECB under its Securities Market Programme. Ireland's spreads rose during the quarter but are still well below their mid-July peak.

Yields on reputedly safer government securities continue to decline

The yields on the government securities of the United States, Germany and the United Kingdom held at the low levels reached during the summer, reflecting investors' flight to quality. Ten-year yields fell by about half a percentage point in the United Kingdom, while in Germany and the United States they remained practically unchanged (Figure 9).

Figure 8

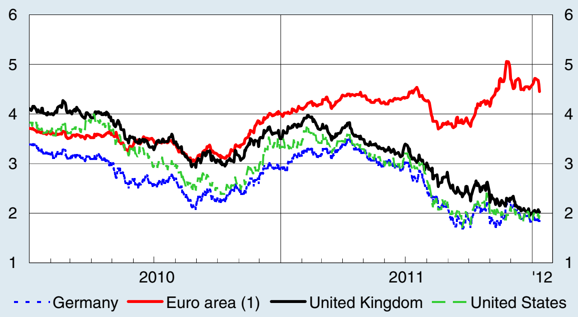
Yield spreads between ten-year government bonds and the German Bund
(daily data; percentage points)



Source: Based on Bloomberg data. The latest data refer to 11 January 2012.

Figure 9

Yields on ten-year government bonds
(daily data; percentages)



Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the ten-year government securities of the euro-area countries except Cyprus, Estonia, Luxembourg, Malta, Slovakia and Slovenia.

Risk premiums on banks and corporate bonds increase

The fall in demand for risky financial assets penalized the banking sector heavily, especially euro-area banks, exposed to sovereign risk also by way of their large holdings of government securities (see *Financial Stability Report*, No. 2, 2011). Between the end of September 2011 and the middle of January euro-area banks' credit default swap spreads rose by 22 basis points while those of US banks fell by 65, but in both cases they remain elevated. The risk premiums on non-financial corporations' bonds, which had fallen in October amidst expectations of new European plans to support the banks and government securities of the countries in difficulty, returned to the high levels recorded at the start of that month (Figure 10).

The ECB's three-year refinancing operation relieves some of the strains in the markets

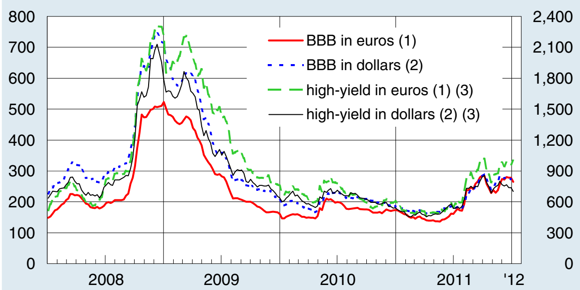
Countering the possibility of a bank funding crisis, the support measures taken by the ECB at the end of December have helped to reduce the perceived risk. Compared with the days preceding the operation, euro-area banks' CDS spreads have declined slightly (by about 20 basis points), while euro-area share prices have recovered somewhat, gaining 5 per cent.

Share prices recoup only part of their summer loss

In the autumn share prices recovered part of the ground lost during the summer, benefiting from better-than-expected earnings reports by listed companies in the United States. Between the end of September

Figure 10

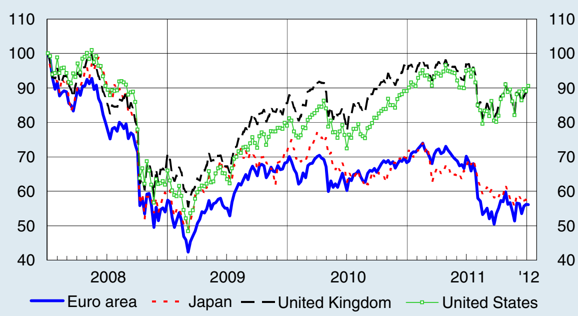
Yield spreads between bonds of non-financial corporations and government securities in dollars and euros
(end-of-week data; basis points)



Source: Merrill Lynch.
(1) Fixed-rate bonds with a residual 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 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 11

Stock market indices (1)
(end-of-week data; first week of January 2008=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.

2011 and the middle of January, the Dow Jones Euro Stoxx index of the largest euro-area corporations and the S&P500 index in the United States gained 6.7 and 14.2 per cent respectively (Figure 11). Expected volatility, implied by the prices of options on these indices, fell sharply compared with the summer peaks (Figure 12).

The outflow of capital from the emerging countries continues

Financial conditions have deteriorated in the emerging countries, as a consequence of worsening growth prospects, continuing uncertainty about the repercussions of the sovereign debt crisis in Europe and, in some countries, fears of a reduction of European banks' exposure. Yield spreads between emerging countries' dollar-denominated long-term sovereign bonds and US Treasury securities widened further, as did their sovereign debt CDS spreads. Share prices, in local currency, fluctuated around their lows for the last two years. Equities continued to fall in Asia, notably in China and India, while in Brazil they staged a recovery. In a context of persistently high risk aversion, there were further international capital outflows, above all from equities; this was accompanied by a weakening of local currencies against the dollar, with a particularly sharp depreciation for the Indian rupee and the Brazilian real.

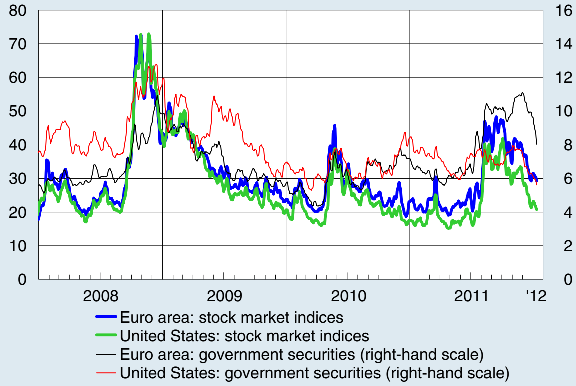
The euro depreciates

Between the end of last September and mid-January the euro depreciated against the US dollar, British pound and Japanese yen by 6.2, 4.9 and 6.0 per cent respectively (Figure 13). In nominal effective (trade-weighted) terms, the euro's depreciation was smaller (1.7 per cent; Figure 14), owing to the weakness of the emerging countries' currencies. In particular, the currencies of the main central and eastern European countries, more directly exposed to developments in the European sovereign debt crisis, weakened against the euro: by 4.7 per cent in the case of the Czech koruna and 8.6 per cent in that of the Hungarian forint, which was also affected by acute political uncertainty.

During the fourth quarter the gradual appreciation of the Chinese renminbi slowed both in nominal effective terms (1.9 per cent) and against the dollar (1.4 per cent). At the end of December the expectations implied by twelve-month non-deliverable forward contracts with respect to the dollar pointed to a slight depreciation of the renminbi (1.2 per cent) as speculative capital inflows petered out and foreign demand slackened.

Figure 12

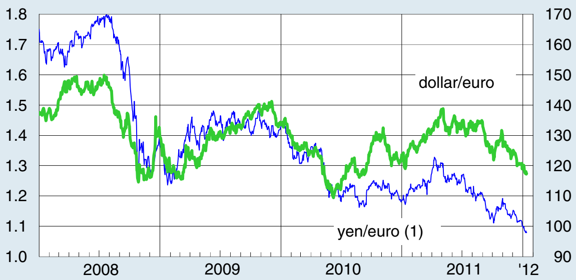
Implied volatility of stock market indices and government securities prices (1)
(percentage points)



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 13

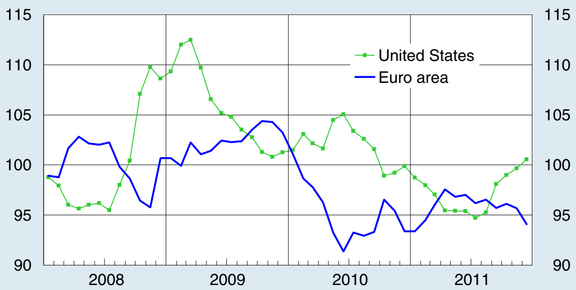
Bilateral exchange rates
(daily data)



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

Figure 14

Nominal effective exchange rates (1)
(monthly data)



Sources: ECB and Federal Reserve.
(1) Indices, 2008=100. An increase implies an appreciation.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

Economic activity in Italy has been affected by the slowdown in world trade, the worsening of the sovereign debt crisis, which has pushed up the cost of raising funds, and the impact on disposable income of the budget consolidation measures, which have nonetheless warded off more serious consequences for the real economy.

GDP falls in the third quarter of 2011 ...

In the third quarter of 2011 Italy's GDP contracted by 0.2 per cent on the previous quarter (Table 2), the first downturn since the beginning of 2010 (Figure 15). GDP was held back by the weakness of domestic demand, with a decline in both household consumption (-0.2 per cent) and investment (-0.8 per cent). Foreign trade continued to support its growth, contributing about 0.8 percentage points. Exports grew by 1.6 per cent on the previous period, while imports declined further (by 1.1 per cent) in connection with the weakening of domestic demand. The change in stocks subtracted about half a percentage point from GDP growth.

... and even more in the fourth

The cyclical situation deteriorated further in the autumn. Industrial production appears to have declined by about 3 per cent in the fourth quarter compared with the third, the largest fall since the spring of 2009. Surveys on the short-term outlook indicate a deterioration in business opinion. Based on our own estimates, GDP contracted in the fourth quarter by about half a percentage point.

Economic indicators confirm the weakness of domestic demand, a reflection of that of households' disposable income. Exports, by contrast, continued to support growth, even though they were adversely affected by the slowdown in world trade.

Table 2

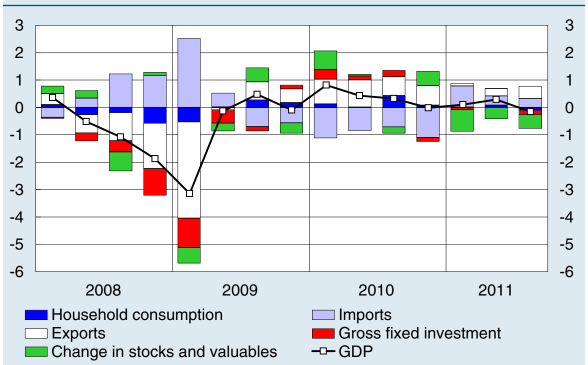
GDP and its main components
(chain-linked volumes; data adjusted for seasonal and calendar effects; percentage changes on previous period)

	2010 Q4	2010 (1)	2011 Q1	2011 Q2	2011 Q3
GDP	..	1.5	0.1	0.3	-0.2
Total imports	4.1	12.7	-2.6	-1.2	-1.1
National demand (2)	0.4	1.7	-0.7	-0.3	-0.9
National consumption	..	0.6	0.1	0.1	-0.3
household spending	*0.1*	*1.0*	*..*	*0.1*	*-0.2*
other (3)	*-0.4*	*-0.5*	*0.4*	*..*	*-0.6*
Gross fixed investment	-0.8	2.4	-0.5	0.1	-0.8
construction	*-0.6*	*-4.0*	*-0.4*	*-1.1*	*-1.2*
other investment goods	*-0.9*	*10.2*	*-0.6*	*1.3*	*-0.5*
Change in stocks and valuables (4)	0.5	0.7	-0.8	-0.4	-0.5
Total exports	2.7	12.2	0.4	1.0	1.6

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 15

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.

The increases in indirect taxes drove up prices in the closing months of 2011

From the summer onwards consumer prices rose in response to the increase in indirect taxes, while the pressure exerted by domestic demand and imported raw materials eased. Consumer price inflation, measured by the twelve-month change in the consumer price index for the entire economy, was 3.3 per cent in December according to a preliminary estimate. At a time of diminishing pressure on input prices, the forecast of the analysts surveyed in January by Consensus Economics was for average consumer price inflation in 2012 of 2.3 per cent. However, this figure does not take full account of the further increases in indirect taxes enacted at the end of 2011 (see the box "The public finance correction enacted in December").

3.2 FIRMS

Industrial activity weakened in the fourth quarter. Firms' assessments of the state of the economy and the short-term outlook have worsened. Operating profitability has remained unchanged while self-financing has declined. The financial situation of firms has been affected by financial market tensions and slack demand. Difficulty in accessing bank credit has increased and there are substantial strains on liquidity.

Industrial production declines in the autumn ...

In November the index of industrial production gained a mere 0.3 per cent over October (Figure 16), and based on our own estimate for December, manufacturing activity contracted by about 3 per cent on average in the fourth quarter. The recent decline has involved all the main industrial product groups; consumer goods production has continued the downtrend under way for more than a year.

... and the cyclical indicators do not point to an imminent upturn

Firms' opinions of the prospects for the short term are unfavourable. In the quarterly survey conducted in December by the Bank of Italy together with *Il Sole 24 Ore* some three quarters of the respondents reported that the economy had worsened since the previous quarter (compared with 63 per cent in the September poll). More than half expected no improvement in the first quarter of this year. Judgments on foreign demand were more favourable.

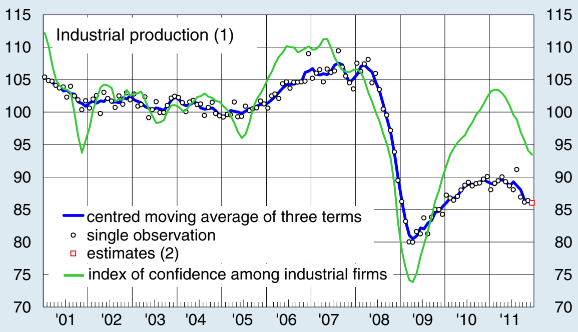
Investment activity remains slack

Ample idle capacity and the poor demand outlook

Figure 16

Industrial production and business confidence

(monthly data)

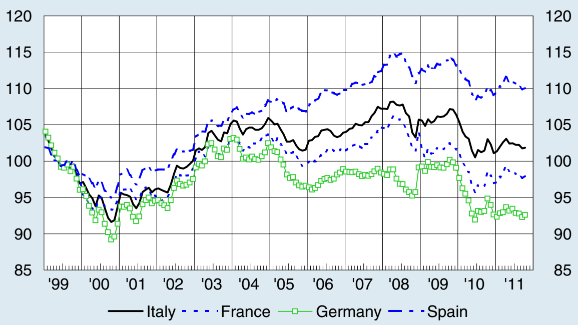


Sources: Based on Istat and Terna data.
(1) Adjusted for seasonal and calendar effects; index, 2005=100. – (2) Based on electricity consumption and the indicators of Istat surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions on the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

Figure 17

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 October 2011.

are holding back investment. Spending on machinery, equipment and transport equipment contracted by 0.5 per cent in the third quarter. According to the Bank's December survey in collaboration with *Il Sole 24 Ore*, two thirds of firms saw a worsening of investment conditions in the closing months of 2011. Construction investment diminished by an average of 1.2 per cent in the third quarter compared with the second. The downward trend apparently continued in the fourth quarter, and views of the short-term outlook remain pessimistic.

Competitiveness shows a marginal improvement

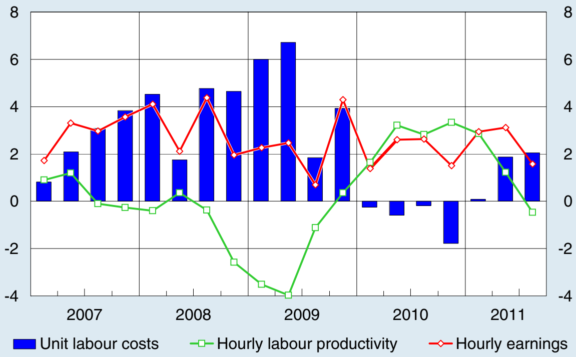
Preliminary data indicate that during the autumn months the international competitiveness of Italian firms improved slightly, gauged by producer prices, more or less in parallel with the gain in the other euro-area countries, reflecting the depreciation of the euro (Figure 17).

Unit labour costs in the private sector rose moderately in the third quarter, by 2.0 per cent compared with the third quarter of 2010 (Figure 18). The sharp slowdown in hourly earnings (a rise of 1.6 per cent against 3 per cent in the previous quarter) was partially offset by a fall of 0.5 per cent in hourly productivity, after a rise of 1.2 per cent in the second quarter. This decline reflected the cyclical slowdown in value added, while the number of hours worked increased.

Figure 18

Labour costs and productivity in the private sector (1)

(percentage changes on year-earlier period)



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

Operating profitability holds stable

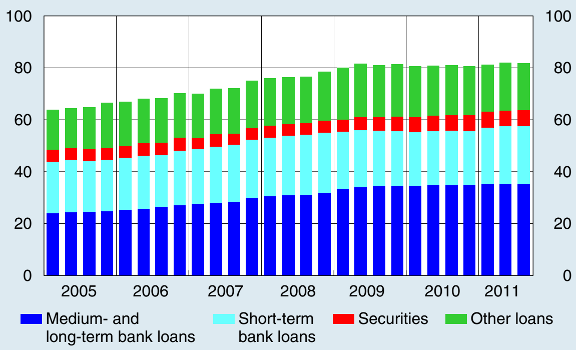
Based on the revised quarterly accounts released by Istat in December, the operating profitability of non-financial corporations (gross operating profit over value added) in the twelve months to September was unchanged from three months earlier and slightly better than the lows recorded at the end of 2009. Following an increase in net financial costs, firms' self-financing also fell and as a consequence their borrowing requirement increased slightly.

Non-financial firms' debt was stationary and in September amounted to 81.7 per cent of GDP, remaining some 20 percentage points lower than the euro-area average (Figure 19).

Figure 19

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 third quarter of 2011 are provisional.

Bank lending to firms slows

Banks' lending to firms, net of bad loans and repos, continued to record twelve-month growth rates of around 3 per cent throughout 2011, settling at 2.5 per cent in November (Figure 20). The expansion of credit to small firms virtually came to a halt, with growth of just 0.4 per cent. The most recent business opinion surveys signal increasingly difficult access to credit and strains on corporate liquidity. In the Bank of Italy-*Il Sole 24 Ore* survey, a third of firms assessed their overall liquidity position for the first quarter of 2012 as unsatisfactory.

Firms make net bond redemptions ...

In the third quarter of 2011 Italian non-financial firms made net redemptions of bonds for the second time running (worth more than €500 million), while in the euro area as a whole there were net issues of nearly €3 billion. The data for October and November show an improvement in Italian firms' capacity for bond fund-raising.

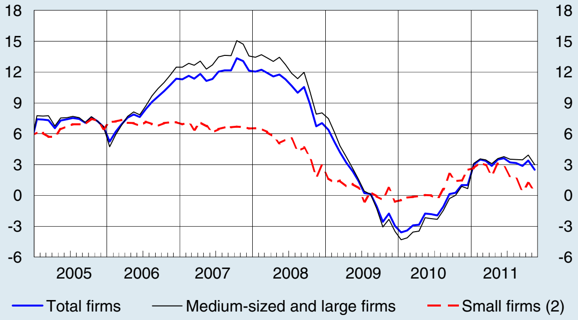
... while the recovery in M&A activity continues

After picking up slightly in the first three months of 2011, fund-raising on the equity market came to a halt in the second and third quarters. By contrast, the signs of recovery in M&A activity shown since the end of 2010 were confirmed; according to Thomson Reuters Datastream, in the third quarter of 2011 Italian firms carried out 31 transactions (of a friendly nature, and originated mostly by manufacturing or service firms) worth €3 billion, more or less on a par with M&A activity in France and Germany and significantly more than in Spain.

Figure 20

Firms' bank debt by size of firm (1)

(monthly data; twelve-month percentage changes)



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

3.3 HOUSEHOLDS

In the final months of 2011 consumer confidence deteriorated; consumption was influenced by the weakness of disposable income and the pessimistic outlook for the labour market.

Household spending weakens

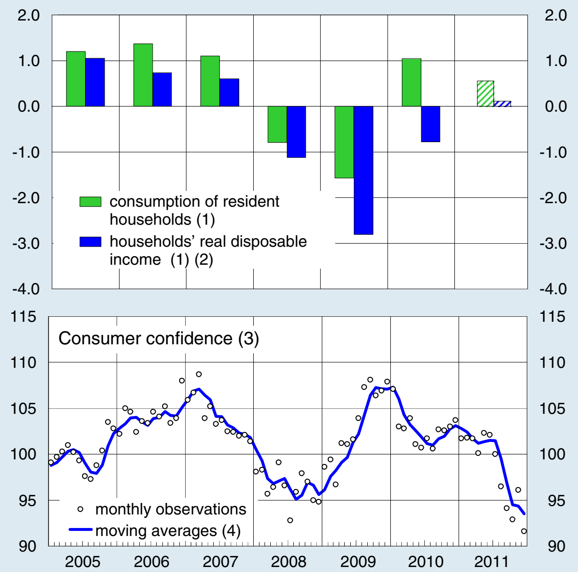
Household consumption fell by 0.2 per cent in the third quarter compared with the second, after three consecutive quarters of substantial stagnation. Among the components, there was a contraction in purchases of goods, especially semi-durables, while the modest growth in spending on services continued. The downward trend in retail sales and new car registrations persisted in the autumn; order books do not point to a recovery in the short term.

Spending reflects changes in disposable income, which was stagnant in real terms in the first nine months of 2011 compared with the same period in 2010, according to Istat estimates (Figure 21).

Figure 21

Consumption, disposable income and consumer confidence in Italy

(percentage changes and indices)



Sources: 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 nine months compared with the same period in 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, 2005=100. – (4) Monthly data; moving averages for the three months ending in the reference month.

The 2.6 per cent increase in nominal income was eroded by price increases.

Consumer confidence has slumped since last summer, falling in December below the levels recorded in 2008.

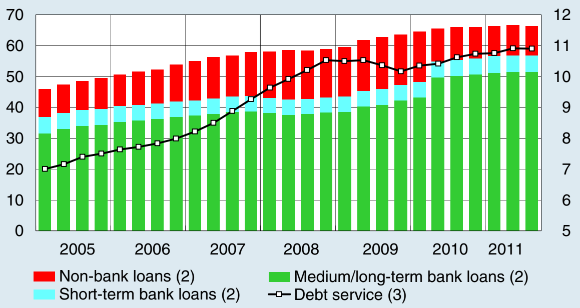
Households' debt is still stable but the cost of debt service rises slightly

Household debt in proportion to disposable income remained virtually unchanged in the third quarter of 2011 compared with the second, holding at 66 per cent (Figure 22).

Figure 22

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 *Monetary and Financial Indicators. Financial Accounts, Supplements to the Statistical Bulletin*, 58, 5 November 2010. – (3) Right-hand scale. Estimated cost of debt service (payment of interest and repayment of principal) for consumer households only.

The level of debt is still significantly lower than the euro-area average, which was 99.6 per cent of disposable income at the end of the second quarter of 2011. Interest rates on loans for house purchases and for consumer credit rose on average in the third quarter. The cost borne by Italian households for debt service (payment of interest and repayment of principle) remained unchanged at 10.8 per cent of disposable income.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the third quarter of 2011 the volume of Italian exports of goods and services expanded, while that of imports contracted. The deficit on current account continues to narrow. Tensions over euro-area sovereign debt triggered substantial disposals of Italian government securities and a significant reduction in Italian banks' foreign liabilities.

Exports of goods and services continue to expand ...

Exports grew by 1.6 per cent in the third quarter, compared with 1 per cent in the second. The growth rates were almost identical for goods and services. According to foreign trade data, the increase in the volume of exports was slightly higher to EU countries, in particular France and Germany, while Switzerland made the largest contribution to trade with non-EU markets. Exports of pharmaceuticals, basic metals, electronics and mechanical engineering products recorded the highest rates of increase. A significant contribution to the growth of services exports came from transport.

... while imports continue to slow

Imports of goods and services contracted by 1.1 per cent in volume terms. Purchases of oil and other minerals and of electronic products continued to decline, while those of pharmaceutical and mechanical engineering products increased. As in the previous quarter, the contraction involved imports from non-EU countries, including China. However, imports from EU countries increased, due mainly to trade with Germany and Spain. The contraction involved the entire services sector.

The foreign trade data for October and November point to a slowdown

Trade data for October indicate significant reductions in volumes compared with the previous month, with exports hardest hit, in particular those to non-EU countries. By contrast, the data available for November, consisting only of the value of trade flows to non-EU markets, signal a partial recovery of 3.1 per cent in exports compared with October, and a small rise of 0.5 per cent in imports.

The deficit on current account continues to improve

The deficit on current account continued to narrow, confirming a trend under way since May and reflecting the improved balance on merchandise and, to a lesser degree, services. In the first ten months of 2011 the deficit on current account was nonetheless still slightly larger than in the same period in 2010, mainly owing to the deterioration in the energy products balance (Table 3).

Table 3

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

	2009	2010	Jan.-Oct. 2010	Jan.-Oct. 2011
Current account	**-30.1**	**-54.1**	**-44.1**	**-47.9**
Goods	0.8	-20.4	-15.6	-19.1
non-energy products (2)	*41.5*	*30.0*	*25.1*	*30.8*
energy products (2)	*-40.7*	*-50.4*	*-40.7*	*-49.9*
Services	-8.4	-9.0	-6.4	-4.7
Income	-10.4	-8.8	-8.2	-10.2
Current transfers	-12.1	-15.9	-13.8	-13.9
Capital account	**-0.1**	**-0.6**	**-0.5**	**-1.4**
Financial account	**37.3**	**86.7**	**54.8**	**46.7**
Direct investment	-0.9	-17.7	-6.4	-16.9
Portfolio investment	28.1	38.5	28.4	6.0
Financial derivatives	4.3	-4.7	-6.5	6.3
Other investment	5.7	71.8	40.3	51.7
Change in official reserves	0.1	-1.0	-1.1	-0.4
Errors and omissions	**-7.2**	**-32.1**	**-10.3**	**2.6**

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

Foreign direct investment records strong growth ...

In the first ten months of 2011 outward direct investment amounted to €38.3 billion, as against €13.2 billion in the same period in 2010. Most of the increase involved the non-equity component (intra-group loans). Inward direct investment grew at the same rate, recording net inflows of €21.4 billion (up from €6.9 billion in the same period in 2010), almost entirely concentrated in the equity component.

... while portfolio investment falls sharply

Portfolio investment pre-sented a different picture. In the first ten months of 2011 Italian residents reduced their foreign equity purchases drastically (€3.8 billion, as against €41 billion in the same period in 2010) and made foreign disposals of €24.9 billion. Non-residents made net purchases of Italian equity of €7 billion (as against €0.7 billion in 2010), and disposed of €22.1 billion of debt securities (mostly government securities). This contrasted with net investments of €65.4 billion in 2010.

Since July, *other investment* (mostly comprising deposits and loans) has shown significant reductions in the banking sector's foreign liabilities, after the recent difficulties Italian banks encountered in raising funds on the international markets. This has been accompanied by a substantial increase in recourse to Eurosystem refinancing, reflected in the TARGET2 account balances (see the box "Recent evolution of the balances of the TARGET2 payment system").

RECENT EVOLUTION OF THE BALANCES OF THE TARGET2 PAYMENT SYSTEM

Since the start of the sovereign debt crisis there has been a sharp increase in the volume of payments made via TARGET2 from the euro-area countries most affected by the crisis to those the market judged to be sounder. These payments have caused wide swings in the credit and debit positions – recorded under *other investment* in countries' balance-of-payments statistics – of national central banks (NCBs) vis-à-vis the ECB.

The transactions between banks located in different euro-area countries using TARGET2 are reflected at the end of each business day in the – credit or debit – balance each NCB holds with the ECB. A bank that transfers funds records a reduction in its deposits with its country's NCB, the accounts of which record a liability towards the ECB, which acts as a central counterparty. Conversely, a bank that receives funds records an increase in its deposits with its country's NCB, the accounts of which record a claim on the ECB.

The Bank of Italy's TARGET2 account with the ECB, which showed a credit at the end of 2010, turned negative in July 2011 and at the end of December showed a debit of €191 billion. This pattern, which had already occurred in other euro-area countries in 2010 following strains in the sovereign debt market, is the counterpart of a smaller inflow (or larger outflow) of private capital, due in part to banks raising a smaller volume of funds on international wholesale markets.

The banks of the countries most directly affected by the market tensions have increased their recourse to Eurosystem refinancing in recent years. The Italian banking system's demand for funds, which had remained very low in 2010 and the early part of 2011 (at about €30 billion), rose from the summer onwards to reach some €210 billion at the end of December. The ratio of Italian banks' demand for reserves to the total refinancing provided by the Eurosystem rose from 5 to 25 per cent, which was just above the share of the ECB's equity capital held by the Bank of Italy.

The progressive increase in the liquidity provided by the Eurosystem to the banks of the countries most affected by the financial market tensions has been accompanied by a decline in the recourse to refinancing by the banks of other countries and an increase in their NCBs' positive TARGET2 balances. Between the beginning of 2010 and the end of 2011 the banks of Germany and the Netherlands gradually replaced the liquidity they had obtained from the Eurosystem with that received from the banks of the peripheral countries via TARGET2. In this period the positive TARGET2 balances of these two countries increased by about €430 billion.

The increase in the TARGET2 balances is a sign of the difficulty of raising wholesale funds and the segmentation of the international financial markets caused by the sovereign debt crisis. It does not, however, correspond to the disbursement of a direct loan by one country to another, it does not create any specific risk not already contained in monetary policy refinancing operations nor does it interfere with the conduct of monetary policy or the objective of price stability within the area.

Any balance-sheet losses in connection with main refinancing operations are divided among all the NCBs on the basis of their holdings of the ECB's capital, regardless of which NCB disbursed the loan and the distribution of the TARGET2 balances within the Eurosystem. More generally, the TARGET2 balances do not represent a bilateral obligation between two countries but are held by NCBs with the ECB.

The reduction in the funds disbursed by the Eurosystem to the banks of the countries less exposed to financial market tensions does not have adverse effects either on the availability of liquidity in their banking systems or on the latter's ability to grant credit to the economy. The smaller demand for refinancing operations of these countries' banks reflects a reduced need for liquidity as a consequence of the larger net inflow of capital from the countries in difficulty.

The fact that for some banking systems, such as Germany's, the refinancing obtained from the Eurosystem, net of the funds placed with the deposit facility, is close to nil or negative in no way limits the ability of the Eurosystem to control the monetary base. What is important for the transmission of monetary policy is the net liquidity provided to euro-area banks, not how it is distributed. More generally, the existence of a large positive TARGET2 balance in some euro-area countries does not entail a risk of inflation; the Eurosystem maintains its ability to mop up all the excess liquidity with appropriate instruments whenever changes in economic and financial conditions make this necessary.

3.5 THE LABOUR MARKET

The employment expansion that began in the fourth quarter of 2010 came to a halt in the closing months of 2011: provisional data for October and November point to a fall in the number of persons in work compared to the previous month and an upturn in the unemployment rate, which among young people has reached very high levels. Although recourse to wage supplementation continues to diminish, firms' employment expectations have worsened. Earnings are falling in real terms, partly due to the public pay freeze.

The growth in employment in the third quarter of 2011 ...

On a seasonally adjusted basis, the number of persons in work rose by 33,000 or one tenth of a percentage point in the third quarter compared with the second; the employment rate for the population aged 15-64 held at 57.0 per cent (Table 4). The participation and unemployment rates also remained basically unchanged, at 62.1 and 8.1 per cent respectively. By sector, the drop of 2.0 per cent in construction employment was offset by gains of 0.4 per cent in services and 0.2 per cent in industry excluding construction. The growth in employment was concentrated in the North (0.3 per cent), nil in the Centre, and slightly negative in the South (-0.1 per cent).

... has ceased in recent months

Compared with the moderately positive trend for the third quarter, provisional data signal a downturn in the closing months of 2011. In both October and November the number of persons in work is estimated to have fallen by 0.1 per cent with respect to the previous month. In November the unemployment rate rose to 8.6 per cent, the highest level since May 2010. Among workers aged between 15 and 24, the rate was 30.1 per cent, the highest since the monthly survey began in January 2004.

Table 4

Labour force status of the population in Italy

	Average Jan.- Sept. 2010	Average Jan.- Sept. 2011	Change (1)	Q3 2010	Q3 2011	Change (2)
	Thousands of persons					
Total persons in work	**22,851**	**22,972**	**0.5**	**22,789**	**22,948**	**0.7**
Employees	**17,050**	**17,192**	**0.8**	**17,077**	**17,309**	**1.4**
of which:						
fixed-term	*2,148*	*2,282*	*6.2*	*2,198*	*2,364*	*7.6*
part-time	*2,685*	*2,788*	*3.8*	*2,671*	*2,748*	*2.9*
Self-employed	**5,802**	**5,780**	**-0.4**	**5,712**	**5,639**	**-1.3**
Labour force	**24,928**	**24,973**	**0.2**	**24,653**	**24,848**	**0.8**
men	*14,744*	*14,700*	*-0.3*	*14,601*	*14,670*	*0.5*
women	*10,184*	*10,272*	*0.9*	*10,052*	*10,178*	*1.2*
Population	**60,019**	**60,302**	**0.5**	**60,082**	**60,363**	**0.5**
	Percentages and percentage points					
Unemployment rate (3)	**8.3**	**8.0**	**-0.3**	**8.2**	**8.1**	**-0.1**
men	*7.5*	*7.2*	*-0.3*	*7.4*	*7.2*	*-0.2*
women	*9.6*	*9.2*	*-0.4*	*9.3*	*9.4*	*0.1*
Participation rate (age 15-64) (3)	**62.1**	**62.0**	**-0.1**	**62.0**	**62.1**	**0.2**
men	*73.3*	*72.9*	*-0.4*	*73.0*	*73.1*	*0.1*
women	*51.0*	*51.1*	*0.1*	*51.0*	*51.3*	*0.3*
Employment rate (age 15-64) (3)	**56.9**	**57.0**	**0.1**	**56.8**	**57.0**	**0.2**
men	*67.7*	*67.6*	*-0.1*	*67.5*	*67.7*	*0.2*
women	*46.0*	*46.4*	*0.4*	*46.2*	*46.4*	*0.2*

Source: Istat, labour force survey.
(1) Changes, Jan.-Sept. 2011/Jan.-Sept. 2010; variations are in percentages for persons and percentage points for rates. – (2) Changes, 2011Q3/2010Q3; variations are in percentages for persons and percentage points for rates. – (3) Seasonally adjusted.

According to estimates by Ebitemp, a joint employer-union organization for the temporary employment industry, after the strong increases recorded during 2010 and in the first half of 2011, the growth in temporary employment came to a halt. The latest available data, for October, indicate a reduction of 3.8 per cent in the number of hours paid compared with the same period in 2010; on a seasonally adjusted basis, the number of full-time equivalent workers employed was down by 5,000 compared with last July's peak of 202,000.

Firms' expectations worsen

The survey of businesses conducted in December by the Bank of Italy jointly with *Il Sole 24 Ore* suggests that there will be a decline in employment in the next three months: the balance between firms expecting to shed jobs and those expecting to take on workers reached its highest level since December 2009.

Recourse to wage supplementation declines

In the fourth quarter of 2011 hours of wage supplementation authorized fell by 5.3 per cent with respect to the previous quarter. During the year 953 million hours were authorized, 20.8 per cent less than in 2010. In industry excluding construction the number of full-time equivalent workers on wage supplementation as a share of the total was equal to 9.0 per cent, higher than before the recession, though down 0.5 percentage points from the previous quarter on a seasonally adjusted basis (Figure 23).

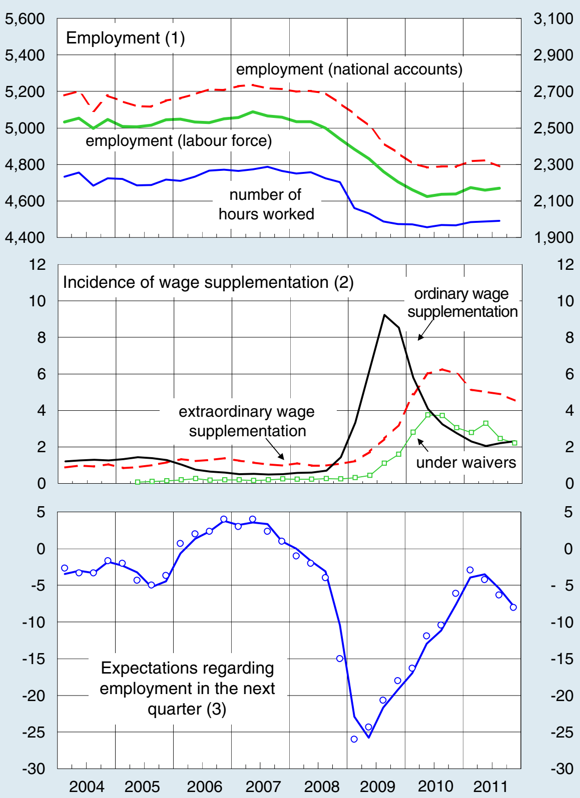
Earnings fall in real terms

In the third quarter of 2011 actual earnings in the non-farm private sector rose by 1.8 per cent compared with the same period in 2010, nine tenths of a percentage point less than the change in consumer prices. The increase was moderate in the private services sector (1.2 per cent) and stronger in industry (2.5 per cent), partly owing to the change in workforce composition towards higher-paid workers. In the economy as a whole, actual earnings rose even more modestly (1.0 per cent), held back by the decline in public services earnings (-0.5 per cent). According to our estimates, real earnings growth will remain negative for the two years 2012-13.

Figure 23

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 fourth 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.

3.6 PRICE DEVELOPMENTS

Growth in consumer prices strengthened in the final months of 2011, mainly reflecting increases in indirect taxes. Pressures from producer prices gradually lessened.

Prices are affected by the increase in VAT

According to provisional figures released by Istat, in December 2011 inflation, measured on the basis of the national consumer price index (CPI), was 3.3 per cent, the same as in November (Table 5). The increase in consumer prices from September reflected the increase in VAT rates decided at the beginning of that month, the effect of which on retail prices was almost entirely absorbed in the autumn months, with an overall impact of just under half a percentage point. The VAT increase is at the origin of the rise in core inflation (measured by the CPI net of food and energy) to more than 2 per cent in the closing months of 2011 (Figure 24); in particular, the goods component, more directly affected by the fiscal measures, increased to 1.6 per cent in the fourth quarter from 1.1 per cent in the third.

In addition to higher duties on fuel imposed last December, some regions introduced further fuel taxes at the start of 2012; together with increases in some regulated prices (electricity in particular), these will contribute to pushing prices upwards in the short term.

On average in 2011 the CPI grew by 2.8 per cent, against 1.5 per cent in 2010. The harmonized index of consumer prices (HICP) recorded a slightly larger increase of 2.9 per cent, displaying high volatility during the year as a result of the new methodology introduced in January 2011.

The pressure from costs and producer prices continues to lessen

Other pressures on prices are easing steadily. The twelve-month rate of change in producer prices continued to slow in November, falling to 4.5 per cent from 4.7 per cent in October. The deceleration was a result of the intermediate component as the prices of non-energy commodities continued to decline.

Cost moderation could be offset by higher taxes in 2012

In January, the consumer price inflation projections of professional forecasters surveyed by Consensus Economics were revised upwards to 2.3 per cent for 2012; however, these forecasts might not have completely included the effects of the indirect tax measures approved at the end of 2011 (see the box "The public finance correction enacted in December"). According to the quarterly survey conducted in December by the Bank of Italy in collaboration with *Il Sole 24 Ore*, firms' intentions as regards changes to their list prices in the next twelve months are basically the same as in September's survey, in a context of further cost moderation and weaker demand.

Table 5

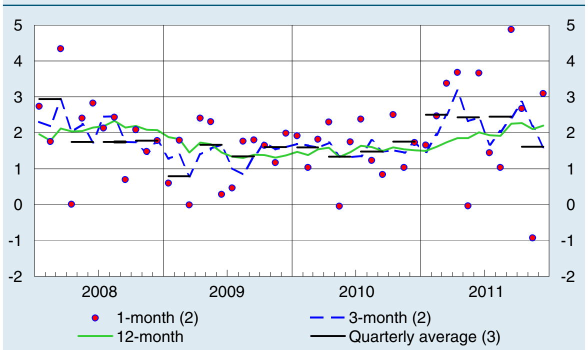
Indicators of inflation in Italy
(twelve-month percentage changes)

	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
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	2.9	....	2.8	–	1.9	....
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.	3.6	3.1	3.0	0.3	2.3	4.7
Oct.	3.8	2.7	3.4	0.6	2.3	4.7
Nov.	3.7	2.6	3.3	0.0	2.1	4.5
Dec. (6)	(3.7)	....	(3.3)	(0.3)	(2.2)	....

Sources: Istat and Eurostat.
(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 December, preliminary data.

Figure 24

Core inflation in Italy (1)
(consumer price index excluding food and energy; percentage changes)



Source: Based on Istat data.
(1) Provisional data for December. – (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 Italian government securities market have reduced banks' ability to raise funds. There are signs that this difficulty has had repercussions on the terms and conditions of lending, which, going forward, could be mitigated by banks' ample recourse to the new Eurosystem refinancing operations. Supply conditions could be adversely affected by the deterioration in loan quality. Italian banks' capital endowment has strengthened further.

Bank funding declines

Fund-raising by Italian banks, excluding domestic interbank deposits and liabilities towards the Eurosystem and central counterparties, declined by 0.7 per cent in the twelve months ending in November, compared with a rise of 0.6 per cent three months earlier (Table 6). This mainly reflected the accentuation of the twelve-month contraction in deposits from non-residents to 4.3 per cent, but also, though to a smaller extent, that in deposits from residents to 0.8 per cent. In addition, given the persistent difficulty of placements on the wholesale markets, the growth in bond funding (excluding the interbank component) slowed further to 2.1 per cent.

The change in deposits remained moderately positive for households (0.7 per cent), while the 6.1 per cent drop in the deposits of firms may have stemmed in part from the decline in their cash flow.

The contraction in funding was especially pronounced for large banks. The funding of the five largest banking groups shrank by 5.5 per cent in the twelve months ending in November, mainly owing to the fall in non-residents' deposits and overnight deposits, against an expansion recorded by the other banks (1.7 per cent excluding the branches of foreign banks).

Table 6

Main assets and liabilities of Italian banks (1)
(end-of-period data; twelve-month percentage changes)

	2009	2010	November 2011	
				Stocks (2)
Assets				
Securities other than shares	29.7	8.2	10.5	609,276
bonds issued by MFIs resident in Italy	*32.3*	*-2.6*	*18.5*	*241,376*
Loans (3)	1.0	4.5	3.2	1,961,836
up to one year	*-5.1*	*5.2*	*4.8*	*636,574*
over one year	*4.2*	*4.3*	*2.3*	*1,325,261*
External assets	-10.9	2.1	8.4	354,731
Liabilities				
Funding (3) (4)	2.2	-0.3	-0.7	2,154,618
Deposits of Italian residents (3) (4)	5.1	-0.9	-0.8	1,115,814
of which: (5)				
overnight	*11.2*	*-1.5*	*-4.1*	*703,349*
with agreed maturity	*8.3*	*-6.1*	*27.1*	*77,487*
redeemable at notice	*8.2*	*5.4*	*2.3*	*279,525*
repos	*-50.3*	*-15.7*	*-3.6*	*38,099*
Deposits of non-residents	-8.4	2.7	-4.3	417,046
Bonds (4)	4.9	-1.2	2.1	621,757
Memorandum item:				
Total bonds	10.6	-1.6	6.3	863,133

Source: Based on supervisory statistical reports.
(1) The figures for November 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.

The Government takes measures for the stability of the banking system

Against the background of the stress in the financial markets and the mounting difficulty in raising funds, Decree Law 201 of 6 December 2011 (see the box "The public finance correction enacted in December") introduced a number of measures for the stability of the Italian banking system. It empowers the Ministry for Economy and Finance up to 30 June 2012 to grant a government guarantee covering Italian banks' new liabilities, so as to ease banks' funding problems and thus sustain their capacity to lend to the economy. Thanks in part to this measure, which has made new eligible collateral available, Italian banks' recourse to Eurosystem refinancing has expanded substantially, reaching €210 billion at the end of December (from €85 billion at the end of August). In December the volume of liquidity they demanded in Eurosystem refinancing operations grew by €57 billion, partly as a consequence of the three-year tender. Most of these funds were used on the market by the banks that obtained them and not deposited back on the deposit facility.

The cost of some funding components rises

The worsening sovereign debt strains drove up the cost of some components of bank funding. Between August and November the interest rate on households' new deposits with agreed maturity up to one year rose by 0.7 percentage points to 3.7 per cent and that on new fixed-rate bond issues by 0.6 points to 4.3 per cent. The interest rate on households' current accounts remained stable at 0.4 per cent, while that on new variable-rate bond issues diminished by 0.5 percentage points to 3.3 per cent.

Bank lending continues to expand in November ...

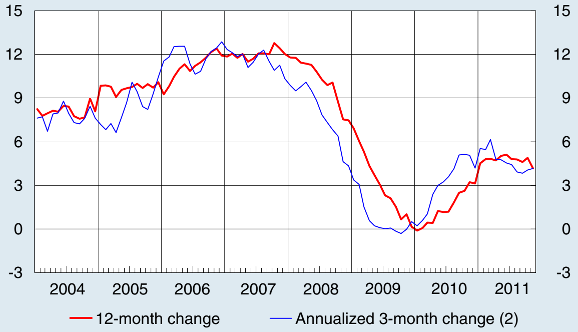
Bank lending to the non-financial private sector grew at a seasonally adjusted annualized rate of 4.2 per cent in the three months ending in November compared with 3.9 per cent in August, based on data adjusted for the accounting effects of securitizations (Figure 25). The rate of growth in lending to firms picked up slightly from 4.4 per cent in August to 5.4 per cent, while that in lending to households declined from 3.4 to 2.5 per cent. Excluding repos and bad debts, however, the three-month growth in lending to the non-financial private sector diminished from 2.1 per cent in August to 1.7 per cent in November.

There continues to be a wide differential in the growth rates of lending by the different categories of bank. In particular, excluding repos and bad debts, lending to the entire economy by the five largest Italian banking groups grew by 0.3 per cent in the twelve months ending in November, compared with an increase of 3.3 per cent in lending by other banks (buoyed by the 9.3 per cent growth in loans granted by the branches of foreign banks).

Figure 25

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.

... but there are signs of tension

The shift in the composition of loans to firms towards shorter maturities continued. Loans with a maturity up to one year grew by 6.9 per cent in the twelve months to November, those with a maturity beyond five years by 3.3 per cent. These developments reflected both demand-side factors (less self-financing capacity, unfavourable outlook for the growth in fixed investment) and supply-side factors. Regarding the latter, there was a significant increase in the utilization of available credit lines, presumably connected with the liquidity strains.

Surveys of banks and firms signal difficulties in obtaining credit

According to the responses given by the Italian banks participating in the quarterly euro-area Bank Lending Survey conducted in October, lending standards for loans to firms had been tightened in the third quarter, chiefly in connection with the difficulty of raising funds (see *Economic Bulletin*, October 2011; the results of the survey for the fourth quarter of 2011 will be made public on 1 February). Both the monthly Istat survey and the quarterly survey conducted in December by the Bank of Italy jointly with *Il Sole 24 Ore* recorded a sharply higher percentage of firms reporting a worsening in credit access conditions. According to the quarterly survey, that share rose from 28.6 per cent in September to 49.7 per cent in December, higher than at the end of 2008 in the most acute phase of the financial crisis. Going forward, however, credit conditions could be favourably affected by the liquidity support provided by the new Eurosystem operations.

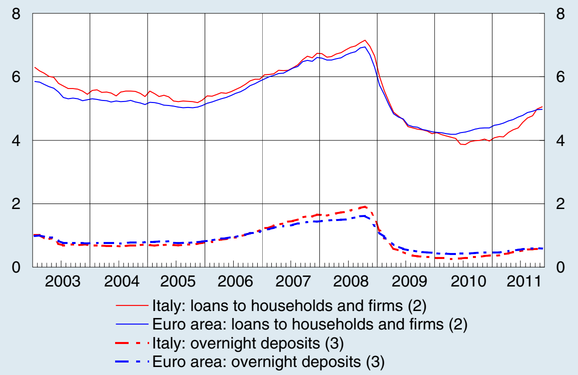
The cost of bank credit increases

Average bank lending rates have risen, reflecting both the increase in the cost of funds and mounting tensions on the market for Italian government securities (Figure 26). Between August and November the average interest rate on new loans to firms rose by 0.4 percentage points to 3.9 per cent; rates increased both for large loans

Figure 26

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.

and for smaller transactions. The average rate on new variable-rate mortgage loans to households rose by 0.2 percentage points to 3.3 per cent, while that on fixed-rate mortgages came down by 0.3 points to 4.5 per cent. The increases were sharper than those recorded in the same period in the euro area and were largely correlated with the movements in Italian government securities yields.

The flow of new bad debts remains high

The improvement in the indicators of credit quality under way since the end of 2010 came to a halt. In the third quarter of 2011 the flow of adjusted new bad debts, though lower than in the same period a year earlier, was equal to 1.7 per cent of outstanding loans on an annualized, seasonally adjusted basis. The decline in adjusted new bad debts on loans to firms resident in the South and Islands was more than offset by the deterioration in loans to firms in the Centre and North and to consumer households. There are significant risks of a worsening in the trend of credit quality, in connection with the current contraction in economic activity and the increase in bank lending rates. Preliminary data indicate that banks' exposure to borrowers reported for the first time with positions classed as bad debts started to grow again in October and November, reaching significantly higher levels than in the same period of 2010. The increase involved both households and firms. Loans to firms "in difficulty" – substandard and restructured loans – amounted to 6.2 per cent of total lending to the corporate sector at the end of November, up from 6.0 per cent in August.

In the first nine months of 2011 the profitability of the five largest banking groups remains broadly stable

According to the latest consolidated quarterly reports, the profitability of the five largest Italian banking groups was basically unchanged in the first nine months of 2011 compared with the same period a year earlier. The annualized rate of return on equity was negative (-5 per cent), reflecting the large loss booked by one of the groups in the third quarter for write-downs of goodwill.

The slight decline of 1.4 per cent in net interest income was practically offset by the increase of 1.2 per cent in other income. Gross income was unchanged (-0.3 per cent). Operating expenses held stable, and operating profit also remained broadly unchanged (-0.9 per cent). Transfers to provisions plus value adjustments grew by 3.4 per cent; however, the component of this aggregate connected with the deterioration in loan quality diminished by 8.4 per cent and its ratio to operating profit fell from 56 to 51 per cent.

Capital ratios strengthen further

In the first three quarters of 2011 the capital base of the five largest banking groups strengthened further as a result of several capital raising initiatives launched in the first half of the year. A further capital strengthening will ensue from the actions agreed at European level for the recapitalization of the largest European banks and well on their way to being completed. The core tier 1 capital ratio averaged 8.8 per cent at the end of September, up from 7.4 per cent at the end of 2010; the tier 1 ratio and total capital ratio stood at 10.2 and 13.6 per cent respectively, compared with 9.0 and 12.6 per cent at the end of 2010. The leverage ratio of the five largest groups, measured as total balance-sheet assets over tier 1 capital, was far lower than the average for a sample of large European banks (19 against 33).

3.8 THE FINANCIAL MARKETS

Italy's financial markets were especially hard hit by the euro-area sovereign debt crisis: the yield spread on ten-year Italian government bonds over German Bunds reached new highs since the introduction of the euro. The measures adopted by the Government brought a reduction in the spread, which nevertheless proved temporary given the protracted uncertainty over the effectiveness of European policies and the deterioration in growth prospects. In recent weeks tensions have remained high, but the risk premiums on short-term Italian government paper (up to three years) have fallen sharply.

Yield spreads with respect to German government securities reach new highs since the introduction of the euro

Between early October and the first ten days in January, the spread between the gross yield on ten-year BTPs and their German equivalent recorded a significant increase, rising on 9 November to the highest levels seen since the introduction of the euro. This reflected the intensification of the euro-area sovereign debt crisis and, in particular, operators' misgivings about the European authorities' response to the crisis. Tensions were also exacerbated by the weakening macroeconomic outlook for the euro area and repeated downgrades of the sovereign debt and banks of several European countries, including Italy.

From the beginning of November yields rose markedly on shorter maturities as well, leading to a flattening of the yield curve and even, on some days, an inversion of its slope, signalling growing investor worries about the sustainability of Italy's public debt. Liquidity on the secondary market in BTPs deteriorated and the bid/ask spread widened, notwithstanding the bond purchases made by the European Central Bank under its Securities Market Programme. A small number of clearing houses called for an increase in trading margins.

The new Government's measures temporarily reduce the spread

The swearing in of the new Government, on 16 November, and the announcement of public finance adjustment measures on 4 December, led to significant reductions in the yield spread between ten-year BTPs and Bunds, which on the two days following these events declined by 0.5 and 0.9 percentage points respectively, to 4.7 and 3.7 per cent. The spread then widened again, presumably reflecting investors' doubts about the adequacy and actual implementation of the decisions taken by the European summit of 9 December (see the box "The decisions of the euro-area heads of state or government of 26 October and 9 December 2011"), in addition to concerns over growth prospects.

In recent weeks the positive slope of the yield curve signals an easing of fears over Italy's debt

From the end of December until mid-January, the spreads on ten-year government securities fluctuated at around 500 basis points; however, the spreads on shorter maturities have fallen rapidly and significantly. For one-year paper it stands at just over 300 basis points. The slope of the government securities yield curve has turned positive again, signalling an easing of fears over Italian government debt, especially for shorter maturities. On 13 January, Standard and Poor's announced a two-notch downgrade (from A to BBB+) of Italy's sovereign debt rating.

CDS spreads on Italian banks fall in December, partly thanks to the ECB's operation

From the end of September until mid-January, the yield spreads between investment grade bonds issued by Italian non-financial

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2009	79,081	44,349	14,553	137,983
2010	-11,799	-36,459	12,384	-35,874
2010 – Q1	-4,240	-10,746	7,046	-7,940
Q2	-8,508	-6,824	998	-14,334
Q3	8,788	-12,623	1,154	-2,681
Q4	-7,839	-6,266	3,186	-10,919
2011 – Q1	25,567	-10,894	420	15,093
Q2	12,001	-11,967	-2,167	-2,133
Q3	15,663	-5,292	-556	9,815
		Euro area		
2009	180,134	258,035	152,495	590,664
2010	22,160	25,008	64,428	111,596
2010 – Q1	66,173	-34,740	28,738	60,171
Q2	-23,806	2,835	16,905	-4,066
Q3	-4,231	7,678	9,967	13,415
Q4	-15,976	49,234	8,818	42,076
2011 – Q1	82,209	-50,013	6,825	39,021
Q2	49,910	-16,830	7,050	40,130
Q3	8,564	-12,920	2,847	-1,509

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

corporations and the reputedly safest euro-area government bonds continued to rise, increasing by around 10 basis points. For Spanish and French firms, the yields remained basically unchanged, while for firms in Germany they narrowed by 35 basis points. CDS spreads on the leading Italian banks recorded further increases, rising by 166 basis points to a peak of 618 basis points on 29 November, reaching levels well above the average for the main German and French banks (by around 280 basis points), and below that of the Spanish banks (by around 85 basis points). CDS spreads subsequently declined, especially after the ECB launched its three-year refinancing operation.

Italian banks continue to make net bond issues

In the third quarter of 2011 Italian banks continued to make net bond issues (Table 7). In October and November net issues fell significantly, though remaining positive. In the euro area as a whole net issues, while positive, also declined drastically. In Italy non-financial corporations recorded modest net redemptions, but for a smaller volume than in the previous quarter, while in the euro area as a whole they more than halved the net volumes of issuance compared with the previous quarters.

The Italian stock exchange index remains unchanged ...

Reflecting the euro-area sovereign debt crisis, in the fourth quarter the volatility implied by options prices remained high, comparable to its level in the previous quarter. From the end of September through mid-January, the general index of the Italian stock exchange remained basically unchanged, down 0.6 per cent, while that for the euro area rose by 6.7 per cent (Figure 27).

... reflecting the sharp rise in the energy sector and the drop in bank shares

Some sectors recorded sharp falls: the bank, utilities and insurance indices slumped 23, 8 and 4 per cent respectively. By contrast, the commodity and oil products indices recorded large gains, of 59 and 26 per cent respectively.

The earnings to prices ratio fell by over 1 percentage point, mainly reflecting a significant decline in the current earnings of listed companies. Nevertheless, the ratio continues to be above its long-term average (Figure 28).

In the fourth quarter of 2011 two initial public offerings were completed on AIM Italia, the Alternative Investment Market dedicated to small and medium-sized Italian enterprises. At the end of December the Italian companies listed on Borsa Italiana numbered 287, with a total market value of €332 billion (equal to 21 per cent of GDP).

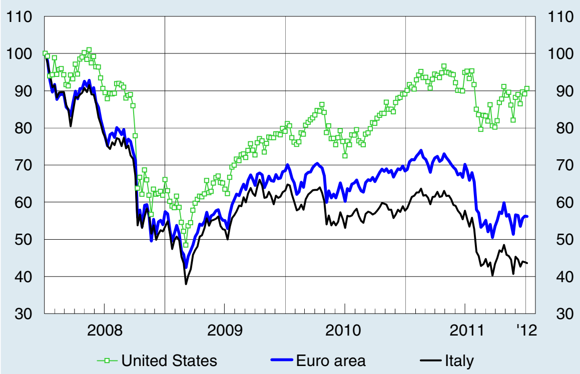
Investment funds continue to register outflows

In the third quarter of 2011 open-end investment funds in Italy had net redemptions amounting to €9.3 billion, up sharply from €2.7 billion in the previous

Figure 27

Share prices (1)

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

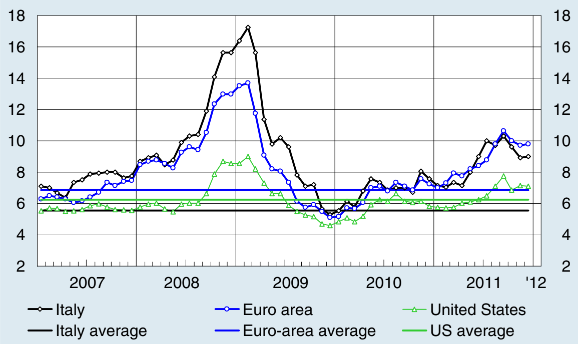


Source: Thomson Reuters Datastream.
(1) Indices: for Italy, FTSE Italia MIB storico; for the euro area, Dow Jones Euro Stoxx; for the United States, Standard & Poor's 500.

Figure 28

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

(end-of-month data; percentages)



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

quarter. Net outflows from Italian funds were accompanied by net redemptions for foreign funds. At the end of September Italian and foreign open-end investment funds had €431 billion worth of assets, down by around €30 billion compared with three months earlier.

3.9 THE PUBLIC FINANCES

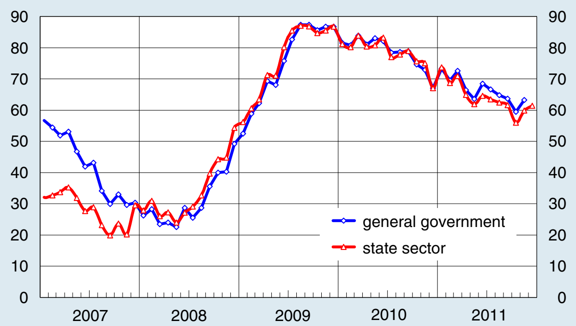
In 2011 the state sector borrowing requirement amounted to 3.9 per cent of GDP, down from 4.3 per cent in 2010. Preliminary data indicate that general government net borrowing also declined with respect to 2010, from 4.6 per cent of GDP to a level close to that projected in the Government's *Relazione al Parlamento 2011* published on 4 December (3.8 per cent). The result reflects a sharp fall in total expenditure in relation to GDP, despite the increase in interest payments, accompanied by a basically stable revenue ratio. The public debt is estimated to have risen by about 1.5 percentage points of GDP, which is less than the average for the other euro-area countries. The three budget packages approved in the last six months should bring about a significant improvement in the public finances over the next three years. Their effects on net borrowing are officially estimated at 3.0 percentage points of GDP in 2012 and at 4.7 points a year in 2013 and 2014. The expenditure measures will bring a reduction of 1.6 percentage points of GDP in 2014; significant savings derive from the measures concerning pensions, which will produce their full effects over a longer time span.

For 2011 the borrowing requirement is lower than in 2010

The state sector borrowing requirement, net of privatization receipts, came to around €61.5 billion in 2011 (Figure 29), €5.5 billion lower than in 2010 and almost €8 billion lower excluding outlays in support of Greece. The improvement was due to the higher tax revenue resulting mainly from social security contributions, VAT and the exceptional revenue obtained in December from the substitute tax on the alignment of fiscal and book values, which totalled over €4 billion against an official estimate of €0.5 billion. The borrowing requirement was further reduced by the initial proceeds of the auction of broadband frequencies (€2.9 billion out of a total of €3.9 billion). The general government borrowing requirement also decreased, declining to €73.9 billion in the first eleven months of the year, €3.8 billion less than in the same period of 2010 and down €8.6 billion net of the increased outlays in support of Greece and Italy's share of loans by the European Financial Stability Facility.

Figure 29

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.

The debt-to-GDP ratio rises less than the expected average for the rest of the euro area

In the first eleven months of 2011 general government debt grew by €62.2 billion, against €104.8 billion in the same period of 2010, reaching €1,905 billion; almost all of this growth was attributable to central government debt. The increase in the debt reflects the general government borrowing requirement and issue discounts (around €10 billion), while a contribution in the opposite direction came from the withdrawal of €20.1 billion of the Treasury's liquid assets, with a corresponding reduction in issuance. These assets, amounting to €23.1 billion in November 2011, included funds held with the Bank of Italy, down from €43.2 billion at the end of 2010 to €17.7 billion in November 2011, and funds with the banking system (up from nil to €5.4 billion), following the adoption of new cash management procedures for the Treasury's payments account (Ministry for the Economy and Finance

Decree 25391/2011). Preliminary data indicate that the debt-to-GDP ratio grew by about 1.5 percentage points in 2011, from 118.4 per cent in 2010. This is less than the European Commission's estimate of 2.5 per cent for the rest of the euro area formulated in the fourth quarter of last year.

Net borrowing declines in the first nine months of 2011

According to Istat's estimates, general government net borrowing came to 4.3 per cent of GDP in the first nine months of 2011, down 0.3 percentage points with respect to the year-earlier period. In nominal terms revenue rose by 1.6 per cent, mainly owing to the increase of 2.7 per cent in indirect tax receipts and 1.5 per cent in social security contributions. Non-interest expense was virtually stationary. While investment outlays contracted by 8.8 per cent and public employee compensation by 0.9 per cent, social benefits in cash rose by 2.4 per cent and intermediate consumption by 0.8 per cent. Interest payments increased by 9.4 per cent.

The increase in tax revenue is sustained by indirect tax receipts

In 2011 tax revenue recorded in the state budget increased by €6.4 billion (1.6 per cent) compared with the previous year. The improvement reflected the rise in indirect taxes, with VAT receipts up by €3.9 billion (3.5 per cent) owing to higher oil prices and the 1 point rate hike in the last quarter of the year decided as part of the summer emergency measures. In addition, a one-off gain of €1.3 billion came from the substitute tax on real-estate leasing introduced under the 2011 Stability Law. Direct taxes increased by €0.4 billion, partly owing to the one-off revenue from the enlarged scope of the substitute tax on the alignment of fiscal and book values, which brought in €4.2 billion. By contrast self-assessed income tax receipts diminished by €2.3 billion (9.6 per cent) partly as a result of the 17 percentage point reduction in the payment on account due in 2011 introduced by the Prime Ministerial Decree of 21 November 2011 (instead in 2010 revenue increased as a result of the reduction in payments on account due in 2009). Withholding tax on employee incomes remained practically stationary, while corporate income tax receipts fell by €1 billion (2.6 per cent) following the termination of the effects of several substitute taxes introduced by the Finance Law for 2008 and included under this head.

For 2011 the projected deficit is around 3.8 per cent of GDP

In December last year the Government revised the estimate for net borrowing in 2011 to 3.8 per cent of GDP, a slight improvement on the projection of 3.9 per cent given in the Update to the 2011 Economic and Financial Document and a reduction with respect to the deficit of 4.6 per cent recorded in 2010.

The measures passed in 2011 aim to achieve budget balance in 2013

The Government has updated the macroeconomic scenario for the period 2012-14 as well as the estimates of public finance trends based on the legislation in force prior to the December measures. The new forecasting framework, which envisages a decline of 0.4 per cent in GDP in 2012, is more favourable than the ones outlined in this Bulletin. Net borrowing is expected to fall to 2.5 per cent of GDP in 2012, 1.3 per cent in 2013 and 1.1 per cent in 2014. The September forecasts had indicated a reduction in the deficit to 1.6 per cent in 2012, virtual balance in 2013 and a small surplus in 2014. According to Government estimates the measures introduced in December last year will allow balance to be achieved in 2013; they will produce an annual reduction in net borrowing of 1.3 per cent of GDP on each of the next three years (see the box "The public finance correction enacted in December").

THE PUBLIC FINANCE CORRECTION ENACTED IN DECEMBER

The drastic worsening of the terms for public borrowing necessitated another public finance adjustment package for 2012-14, the third since July. The measures – passed by the Council of Ministers on 4 December (Decree Law 201/2011 dated 6 December, ratified as Law 214/2011 of

22 December) – aim at the lasting consolidation of the public finances and the fulfilment of Italy's European commitment for a balanced budget in 2013.[1]

According to official estimates the package will raise €32.1 billion in 2012, €34.8 billion in 2013 and €36.7 billion in 2014. These resources will be used to lower the budget deficit by more than €20 billion (1.3 percentage points of GDP) each year, to finance a set of measures for economic growth and to reduce the contribution to deficit containment that will have to come from tax and welfare reform. Revenue increases (which moderate from €19.4 billion in 2012 to €14.9 billion in 2014) will contribute more than two thirds of the reduction in the deficit. Expenditure savings, which will come mostly from pensions, are estimated to rise from €0.9 billion in 2012 to €6.5 billion in 2014. Last summer's measures and the Stability Law for 2012 had already provided for corrections worth €28.6 billion in 2012, €54.4 billion in 2013 and €59.9 billion in 2014.[2] Overall, the measures taken since July should reduce the deficit by 3.0 percentage points of GDP in 2012 and 4.7 points in each of the following two years.

Table A

The combined effect of the recent public finance corrections on net borrowing
(millions of euros)

	2012	2013	2014
Summer measures and Stability Law for 2012	**-28,593**	**-54,423**	**-59,891**
as a % of GDP	*-1.8*	*-3.3*	*-3.5*
D.L. 98/2011 (ratified by Law 111 of 15 July 2011)	*-5,578*	*-24,406*	*-47,973*
D.L. 138/2011 (ratified by Law 148 of 14 Sept. 2011)	*-22,698*	*-29,859*	*-11,822*
Stability Law 2012	*-318*	*-158*	*-97*
Revenue	20,822	35,224	38,823
Expenditure	-7,771	-19,199	-21,069
December correction (1)	**-20,245**	**-21,320**	**-21,430**
as a % of GDP	*-1.3*	*-1.3*	*-1.3*
Revenue	19,366	16,962	14,891
Expenditure	-879	-4,358	-6,540
Effect on net borrowing	**-48,838**	**-75,743**	**-81,322**
as a % of GDP	*-3.0*	*-4.6*	*-4.8*
Revenue	40,188	52,186	53,713
Expenditure	-8,651	-23,557	-27,608
Memorandum item:			
*GDP (*Relazione al Parlamento 2011)	*1,612,279*	*1,648,533*	*1,693,748*

Sources: Based on official estimates of the State Audit Office and the Update of the 2011 Economic and Financial Document.
(1) Decree Law 201/2011, ratified by Law 214 of 22 December 2011.

In addition, the December measures eliminate the uncertainty over the way in which the safeguard clause of the enabling law for tax and welfare reform will be implemented and specifies some measures to combat tax evasion, including a reduction of the limit for cash transactions. Prudentially, no positive revenue effects are associated with these measures. Lastly, the package

[1] For an analysis of the Government's decree law, see "Fact-finding with regard to the decree law containing urgent measures for growth, equity and the consolidation of the public finances". Testimony of the Governor of the Bank of Italy, Ignazio Visco to the Chamber of Deputies, Rome, 9 December 2011.

[2] On last summer's measures, see the box "The public finance adjustments approved during the summer", *Economic Bulletin*, October 2011.

includes measures to promote economic growth, whose effects on the public finances are negligible or not quantified, such as liberalization in some sectors (retail trade and transport), measures to sustain innovation and facilitate infrastructure projects, and provisions to foster the stability of the banking system.

Revenue measures. – The decree produces additional revenue averaging €26.6 billion a year from 2012 through 2014. Nearly half of the increase comes from property taxes. The decree brings forward from 2014 to 2012 the application of the municipal property tax instituted by the legislative decree on municipal fiscal federalism (Legislative Decree 23 of 14 March 2011) and significantly broadens its tax base by including the primary residence and revaluing the

Table B

Effects of the December package on general government consolidated accounts
(millions of euros)

	2012	2013	2014
Sources of funds	**32,079**	**34,773**	**36,683**
Revenue increases (A)	**26,636**	**26,806**	**26,496**
Municipal property tax and revaluation of imputed property incomes	*10,660*	*10,930*	*11,330*
Increase in excise taxes (including VAT effect)	*5,967*	*5,945*	*5,923*
VAT increases	*3,280*	*0*	*0*
Regional income surtax	*2,215*	*2,215*	*2,215*
Stamp duty on securities and financial instruments and products	*1,223*	*1,221*	*737*
Stamp duty on assets declared under the foreign assets disclosure scheme	*1,461*	*1,987*	*559*
Increase in self-employment contribution rate	*1,063*	*1,471*	*1,886*
Realignment of fiscal with balance-sheet values	*0*	*987*	*1,973*
Municipal tax on waste disposal and services	*0*	*1,000*	*1,000*
Tax on luxury cars, aircraft and boats	*408*	*408*	*408*
Revenue effects of pension measures	*126*	*124*	*125*
Tax on real estate and assets held abroad	*107*	*107*	*112*
Other	*126*	*412*	*228*
Expenditure decreases (B)	**-5,443**	**-7,967**	**-10,187**
Pensions	*-2,450*	*-5,004*	*-7,170*
Local government	*-2,785*	*-2,785*	*-2,785*
Elimination of organizations and entities	*-22*	*-51*	*-101*
Other	*-187*	*-127*	*-130*
Uses of funds	**-11,834**	**-13,453**	**-15,252**
Revenue decreases (C)	**-7,270**	**-9,844**	**-11,605**
Reduction of impact of tax and welfare reform	*-4,000*	*-2,881*	*-3,600*
Allowance for corporate equity	*-951*	*-1,446*	*-2,929*
Deductibility of Irap from corporate and personal income tax	*-1,475*	*-1,921*	*-2,042*
Deductibility of Irap for hiring of women and young people	*-149*	*-1,690*	*-994*
Revenue effects of pension measures	*-667*	*-1,544*	*-1,569*
Other	*-28*	*-362*	*-472*
Expenditure increase (D)	**4,564**	**3,609**	**3,647**
Tax credit for road haulage industry	*1,074*	*1,074*	*1,074*
Measures concerning funds	*1,305*	*1,335*	*1,372*
Local public transport fund	*800*	*800*	*800*
Peacekeeping missions	*700*	*0*	*0*
Pensions	*448*	*300*	*301*
Other	*238*	*100*	*100*
Net change in revenue (E = A+C)	**19,366**	**16,962**	**14,891**
Net change in expenditure (F = B+D)	**-879**	**-4,358**	**-6,540**
Change in net borrowing (G= F-E)	**-20,245**	**-21,320**	**-21,430**

Source: Based on official estimates (Decree Law 201/2011, ratified by Law 214 of 22 December 2011).

estimates of imputed property income upon which it is calculated.[3] The most significant measures also include an increase in excise taxes, a rise in the base rate for the regional income surtax and changes to the stamp duty, which is extended to financial products not held in a securities account. Taxes on the value of real estate and financial instruments held abroad are introduced, as well as on the financial wealth regularized under earlier foreign asset disclosure schemes. Lastly, the contribution rates for self-employed workers are raised and the solidarity contribution levied on pensions larger than €200,000 a year is increased from 10 to 15 per cent of the amount above that threshold.

Part of the resources raised by the decree (€4.0 billion in 2012, €2.9 billion in 2013 and €3.6 billion in 2014) will make it possible, at unchanged budget balances, to reduce the amount projected to come from the exercise of the enabling law for tax and welfare reform, which is lowered to nil in 2012, €13.1 billion in 2013 and €16.4 billion in 2014. For 2012, €3.3 billion of the additional €4.0 billion will come from a 2-point rise in the reduced and standard VAT rates (to 12 and 23 per cent respectively) starting next October. The enabling law's safeguard clause is amended: the VAT increase will become permanent and will be followed by a further half-point increase in 2014 unless implementing provisions under the law or changes to the system of tax exemptions and reliefs such as to produce the expected amount of revenue have gone into effect by September 2012.

Excluding the impact from the enabling law, the measures taken in December entail a reduction in revenue of €3.3 billion in 2012, €7.0 billion in 2013 and €8.0 billion in 2014, mainly reflecting tax relief for firms: a new allowance for corporate equity provides for deductibility of the normal return on new equity capital, and employee compensation is to be fully deductible for purposes of income tax and the regional tax on productive activities (Irap). The amount of the Irap deduction is increased in the case of hiring of certain categories of worker (women and young people) for permanent positions.

Expenditure measures. – Expenditure cuts mainly involve pensions and transfers to local government. The savings expected from measures to reduce the costs of some public entities and the reform of the provinces (postponed to the end of 2012) are negligible.

The pension reform extends the pro-rata contribution-based benefit formula to all workers starting in 2012. Eligibility requirements are also revised. For the old-age pension, the gradual raising of the minimum age for women workers in the private sector will now begin in 2012 and align them completely with other workers in 2018 at the age of 66, not counting possible further rises in connection with lengthening life expectancy. As for long-service pensions, the quota system is abrogated, the contribution requirements for eligibility are tightened (starting in 2013 these requirements too are adjusted for changes in life expectancy) and the benefits of those retiring before age 62 are subjected to a penalty. The so-called retirement "windows" are eliminated, with a corresponding increase in the minimum retirement age. The cost-of-living indexation of pensions greater than three times the minimum is suspended for 2012 and 2013 (with net savings of €3.1 billion from 2013 onwards).

The package also includes measures that increase spending. The provisions augment the endowment of the funds for development and for local transport and provide for additional transfers to the road haulage industry as compensation for the higher excise tax on fuels.

[3] The property tax is differentiated, with a lower rate for the primary residence (0.4 per cent) than for other properties (0.76 per cent); there is also a minimum deductible amount and a further deduction on the basis of household composition.

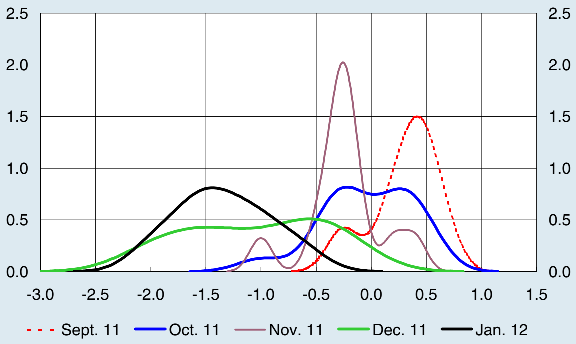
3.10 FORECASTS

Financial conditions and the world economic outlook have worsened; uncertainty remains high

Compared with the forecasting framework set out in last July's *Bulletin*, the worsening of the sovereign debt crisis and the slowdown in world trade have resulted in a deterioration of growth prospects in Italy and the euro area, which international organizations and private analysts have progressively factored into their estimates. On average, the analysts surveyed by Consensus Economics in January predict a significant contraction of Italian GDP in 2012, whereas last September they had still been oriented towards positive growth. The dispersion of the forecasts has also increased substantially in the past two months (Figure 30).

Figure 30

Distribution of Italian GDP forecasts for 2012 (1)



Source: Based on Consensus Economics data.
(1) Average annual rates of change; percentages. The vertical axis gives the value of probability density that approximates the distribution of the forecasts; a higher value corresponds to a forecast on which a larger number of analysts concur.

The outlook depends primarily on the evolution of the sovereign debt crisis

The degree of uncertainty over the course of the sovereign debt crisis is exceptional and is reflected also in interest rates, banks' balance sheets and lending volumes. One cannot rule out the possibility that funding difficulties may give rise to a tightening of lending policies, which would reduce the spending capacity of households and firms. These difficulties can be mitigated by the Eurosystem's aggressive interventions in support of the banking industry. A restoration of confidence in Italy's ability to honour its debt could reduce the cost of credit to households and firms. However, interest rates and credit trends also depend on developments in the international financial markets and decisions taken at European level.

In our first forecasting scenario, as usual, it is assumed that the interest rates on government securities reflect the recent shape of the yield curve. This results in a spread between ten-year BTP and Bund rates of about 500 basis points for all of 2012 and 2013 (see the box "Forecasting assumptions and the international context"). In order to evaluate the sensitivity of the forecast to financial and credit market developments, a second forecasting scenario posits the partial normalization of conditions in the financial and credit markets. It assumes, starting in the first quarter, yields on long-term Italian government securities lower than those currently incorporated in financial market prices and a faster easing of credit supply strains. The risk of a substantial worsening of financial conditions even with respect to the first scenario cannot be ruled out, however.

The assumptions on world trade are based on the estimates of international institutions, updated in the light of the latest data (for further details on how projections are made using the Bank of Italy's econometric model, see the box "The construction of the forecasting scenarios", *Economic Bulletin*, July 2009). World economic growth has slackened despite positive signals from the United States. World trade is expected to expand by less than 3 per cent this year (half the estimate of its growth in 2011) and to accelerate to about 7 per cent in 2013.

Italy's GDP declines this year and turns upwards during 2013

The cyclical indicators signal that the mild contraction of Italian GDP registered in the third quarter deepened in the fourth. We consider that the recession will continue through 2012. The first forecasting scenario has GDP contracting, on average, by 1.5 per cent this year, after growing by 0.4 per cent in 2011 (Table 8).

Economic activity is expected to return to expansion in the first quarter of 2013 (Figure 31), although owing to the effect of this year's decline average growth in 2013 will be nil. By comparison with the July forecasts, these projections have been revised significantly downwards owing to the deterioration in lending terms and conditions, the public finance correction measures and the worsening international economic situation.

Exports continue to expand in 2012, albeit more slowly

Exports should continue to expand, although at a slower pace than in the past two years, with growth dropping from 6.1 per cent last year to 0.7 per cent in 2012 before picking up again to 5 per cent in 2013. They will go mainly to markets outside the euro area. Italy's share of world merchandise trade is expected to diminish slightly, declining to 2.8 per cent in 2013 in nominal terms. Given practically stable relative prices, this pattern reflects the smaller presence of Italian products in the fastest-growing product sectors and geographical areas.

Investment will be affected by the terms of financing

The worsening terms of financing and the poorer outlook for demand are likely to have repercussions on capital formation. Investment in machinery, equipment and transport equipment is forecast to contract by more than 5 per cent in 2012-13. Residential construction investment, which has been falling since 2008, will continue to contract, as will public investment, owing to the fiscal consolidation measures enacted in recent years.

Table 8

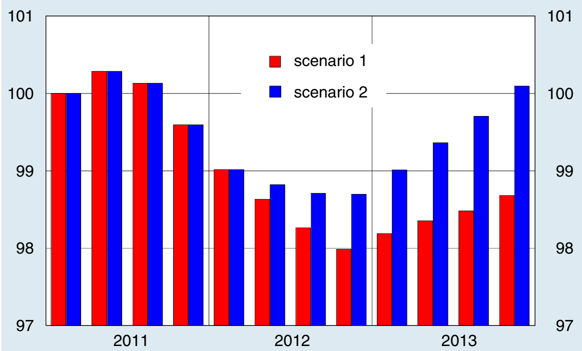
Scenario 1: the main macroeconomic variables
(percentage changes on previous year unless otherwise indicated)

	2011	2012	2013
GDP(1)	0.4	-1.5	0.0
Household consumption	0.4	-1.3	-1.1
Government consumption	-0.4	-2.1	-0.2
Gross fixed investment	-1.0	-4.9	0.7
Exports	6.1	0.7	4.9
Imports	0.8	-3.0	3.1
Change in stocks and valuables (2)	-1.0	-0.4	0.0
HICP(3)	2.9	3.1	2.4
Export competitiveness (4)	-0.2	1.6	-0.4

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

Figure 31

Quarterly GDP projections (1)
(index, 2011 Q1=100)



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

Consumer spending will be held back chiefly by the fall in disposable income

Household spending is expected to be curtailed by the significant drop in disposable income. Purchasing decisions will also be affected, albeit to a lesser extent, by rising interest rates and continuing uncertainty over the employment outlook. The forecast is for a decline in household consumption of about 1 percentage point both in 2012 and in 2013. The saving rate is expected to decline significantly this year, continuing the trend under way since 2005, and to stabilize in 2013.

The balance of payments will improve

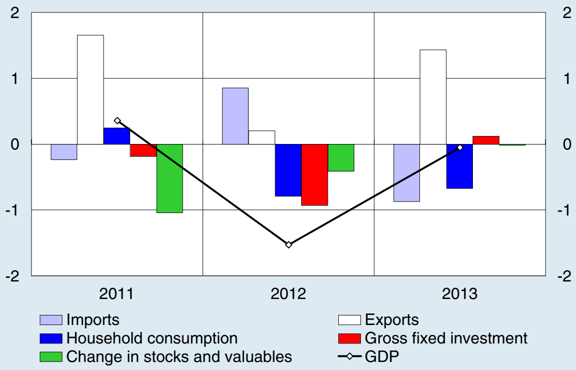
The decline in domestic demand will be accompanied by a significant improvement in the external accounts. Imports are forecast to contract by about 3 per cent this year before returning to growth in 2013 in response to the pickup in exports (the demand component with the largest import content). Overall, foreign trade will make a positive contribution to GDP, appreciably buffering the depressive effects of the fall in consumption and investment (Figure 32). In the absence of significant variations in the terms of trade, the deficit on the current account of the balance of payments should improve markedly, falling to under 2.5 per cent of GDP in 2013.

Restored confidence would improve the outlook substantially

Our second scenario assesses the forecast's sensitivity to the return to normal conditions in the credit and financial markets, thanks to the restoration of investors' confidence in Italy's ability to honour its debt and the full implementation of the measures decided at European level. Instead of the assumption of constant spreads on government securities we posit a reduction in the cost of borrowing for public and private sectors alike. Starting in the first quarter of 2012 the yields on ten-year BTPs are assumed, for the sake of example, to be 200 basis points lower than those embodied in financial market prices at present and factored into the first forecasting scenario (see the box "Forecasting assumptions and the international context"). This puts them at around last summer's levels. Banks' funding difficulties are overcome and the credit supply strains that emerged in the second half of 2011 are attenuated.

Figure 32

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



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

FORECASTING ASSUMPTIONS AND THE INTERNATIONAL CONTEXT

The latest data show a significant slowing of the world economy and international trade compared with the first part of 2011. World trade, estimated to have grown by more than 6 per cent in 2011, is forecast to expand by less than 3 per cent in 2012 and then return to growth of around 7 per cent in 2013. The forecasts for this year are much less favourable than those made last autumn by the main international organizations (the European Commission, the International Monetary Fund and the OECD) because they take account of the latest short-term data. The projections for exchange rates, interest rates and oil prices have been made on the basis of the prices recorded in the ten working days up to 12 January 2012. On the basis of futures contracts, the price of a barrel of Brent crude oil is assumed to decline slightly over the forecasting horizon to $108.8 in 2012 and $103.9 in 2013. Three-month interest rates, calculated on the basis of Euribor futures, are forecast to fall just below 1 per cent on average in 2012 and to stay at that level in 2013; the average interest rates on Treasury Bills are expected to fluctuate just below 3 per cent in the first scenario and 1.5 per cent in the second. Long-term interest rates (corresponding to the yield on a basket of government securities with a duration of about six years) are assumed to be slightly below 7 per cent in 2012-13 in the first scenario and about 5 per cent in the second. Regarding exchange rates, the assumption is that the bilateral rates will remain unchanged at the average levels recorded in the last two weeks; this implies an exchange rate of $1.29 to the euro over the entire forecasting horizon. Projections for Italy's public finances take account of the substantial adjustment measures approved by the Government in the second half of 2011, which it is officially estimated will reduce the deficit by €75.6 billion in 2013.

In this scenario, economic activity contracts significantly only in the first quarter of 2012, stabilizes in the latter part of the year and returns to expansion in 2013 (Figure 31). On average for the year, GDP declines by 1.2 per cent in 2012 and increases by 0.8 per cent in 2013 (Table 9). This puts GDP in 2013 more than 1 percentage point higher than in the first scenario. Thanks to lower costs of financing and greater availability of credit, investment is forecast to diminish less sharply in 2012 and to grow by about 5 per cent in 2013. Household consumption falls by an average of 1 per cent this year but begins to expand again at the start of 2013.

The debt/GDP ratio declines in 2013

In both scenarios the public finance adjustments enacted from July to December result in a primary surplus of about 5 per cent of GDP in 2013 and an initial diminution of debt to GDP. The reduction is larger in the second scenario: in 2013 the ratio comes back down to the level recorded in 2010 and budget balance is essentially achieved.

Consumer prices reflect the increase in VAT rates

The behaviour of inflation, which reflects variations in aggregate demand with a lag, is essentially the same in the two scenarios. It is affected by the slowdown in economic activity and by the increases in VAT rates and excise taxes that have already kicked in and those scheduled for the fourth quarter of this year, which are assumed to remain in effect in 2013. The harmonized index of consumer prices (HICP) is forecast to rise by 3.1 per cent on average in 2012 (up from 2.9 per cent in 2011) before falling back to 2.4 per cent in 2013. Net of the indirect tax increases, consumer price inflation will be around 2.0 per cent in 2012 and 1.5 per cent in 2013. Domestic inflation, measured by the GDP deflator, is projected at slightly over 2 per cent in both years. Despite a modest slowdown in employee earnings, unit labour costs in the private sector are forecast to rise by an average of 2 per cent per year, reflecting a decline in productivity (Figure 33). Profit margins will narrow this year and recover slightly in 2013.

Table 9

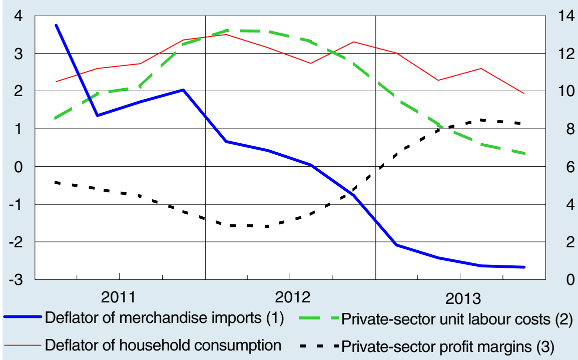
Scenario 2: the main macroeconomic variables
(percentage changes on previous year unless otherwise indicated)

	2012	2013
GDP (1)	-1.2	0.8
Household consumption	-1.0	-0.3
Government consumption	-2.1	-0.2
Gross fixed investment	-3.5	4.9
Exports	0.7	5.1
Imports	-2.2	5.0
Change in stocks and valuables (2)	-0.3	0.1
HICP (3)	3.1	2.4
Export competitiveness (4)	1.6	-0.3

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

Figure 33

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



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

The risks are pronounced

As noted, the degree of uncertainty surrounding the medium-term outlook for the Italian economy is extraordinarily high (Figure 34) and is closely bound up with the euro-area sovereign debt crisis. Serious additional downside risks for economic activity cannot be excluded. A deterioration in confidence in the European governments' ability to cope with the debt crisis could have even more severe repercussions on interest rates and lending terms than posited in these forecasts; and a world economic slowdown is also possible.

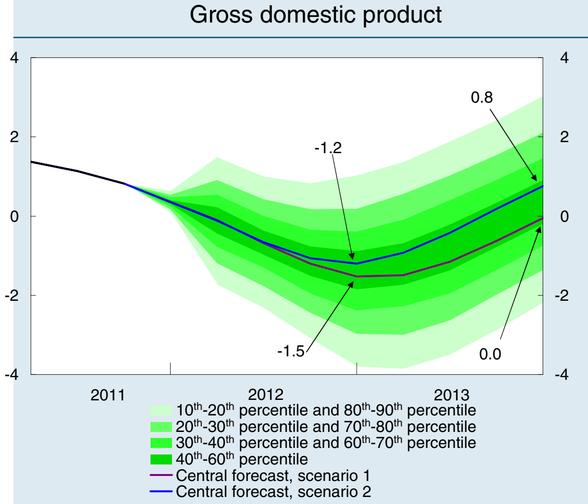
The projections do not factor in any positive effects of structural measures for economic growth

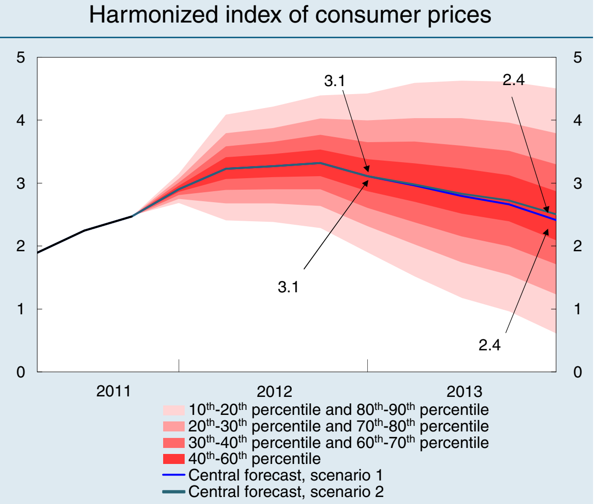
However, a boost to growth could derive from the approval of the structural measures for economic growth now being finalized, which are not factored into this forecast. These measures might be such as to stimulate the growth of potential output and positively affect market expectations and the spending decisions of households and firms, thereby improving the results both this year and next.

Figure 34

Distribution of probabilities of GDP and HICP forecasts (1)

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





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

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contribution	Change	Contribution	Change	Contribution	Change	Contribution	Change	Change	Contribution	Contribution
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
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	3.6	23.5	17.4	0.2	3.9
2010 – Q1	3.9	2.7	1.9	-1.2	-0.3	1.1	0.2	4.8	4.9	7.3	12.6	-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	1.1	1.1	3.6	1.4	0.2	-0.3
Q3	1.8	1.7	1.2	-0.1	0	13.0	1.5	1.3	1.4	4.7	1.2	0.4	-1.4

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contribution	Change	Contribution	Change	Contribution	Change	Contribution	Change	Change	Contribution	Contribution
2007	2.2	0.9	0.5	1.1	-0.1	0.3	0.3	1.1	1.1	8.7	2.3	1.0	0.3
2008	-1.0	-0.9	-0.5	-0.1	-0.3	-4.1	-0.6	-1.3	-1.2	1.4	0.5	0.2	0.2
2009	-5.5	-0.7	-0.4	2.3	0.7	-10.6	-2.6	-4.0	-4.1	-24.2	-15.7	-1.5	-1.6
2010	4.4	2.6	1.5	2.1	0.4	-0.2	0.0	2.7	2.6	24.2	11.1	1.7	0.7
2009 – Q1	-14.3	-3.4	-2.1	4.6	0.9	-9.1	-2.0	-10.3	-11.0	-68.7	-51.2	-4.1	-7.1
Q2	6.4	6.3	3.6	2.3	0.4	-12.7	-3.0	-0.9	-0.9	44.6	-13.8	7.3	-2.1
Q3	-0.8	-0.2	-0.1	4.9	0.9	-7.5	-1.5	-2.2	-2.2	38.3	22.4	1.5	-1.4
Q4	7.8	6.2	3.6	2.0	0.4	1.6	0.3	4.7	4.7	30.1	6.6	3.0	0.2
2010 – Q1	6.5	2.9	1.7	-1.6	-0.3	1.4	0.3	4.2	3.9	29.0	10.0	2.5	2.2
Q2	4.6	0.7	0.4	6.2	1.1	5.9	1.1	4.5	4.2	25.9	26.9	0.3	1.5
Q3	2.0	1.4	0.8	1.3	0.3	2.0	0.4	2.6	2.5	2.7	6.8	-0.4	1.1
Q4	0.1	1.4	0.8	1.4	0.3	-4.1	-0.8	0.3	0.3	-0.5	0.7	-0.2	0.0
2011 – Q1	-6.6	-4.9	-3.0	1.9	0.4	-2.9	-0.6	-6.0	-6.0	-0.2	4.5	-0.6	-2.8
Q2	-2.0	1.1	0.7	2.9	0.6	3.4	0.6	2.0	1.9	-21.7	1.7	-3.9	0.0
Q3	5.6	3.0	1.7	0.9	0.2	0.9	0.2	3.3	3.3	32.7	14.9	2.3	1.0

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	2.2	4.6	3.2	1.8	1.6	5.2
2006	3.3	8.7	4.7	4.9	7.0	5.8	2.1	2.1	8.9
2007	3.0	6.2	3.9	2.1	8.4	4.7	1.7	2.2	6.6
2008	0.4	0.9	0.5	-2.6	1.0	-1.1	0.4	2.3	1.0
2009	-4.3	-11.7	-6.4	-9.5	-15.2	-12.0	-1.2	2.5	-12.8
2010	1.9	9.7	4.0	-4.5	4.7	-0.6	0.9	0.6	11.5
2009 – Q3	0.5	2.7	1.1	-1.8	0.6	-0.8	..	0.4	3.2
Q4	0.4	0.8	0.5	-1.5	0.1	-0.8	0.3	0.6	1.6
2010 – Q1	0.4	3.6	1.2	-1.9	1.6	-0.4	0.2	-0.4	3.3
Q2	0.9	4.2	1.8	1.5	2.4	1.9	0.1	0.2	4.7
Q3	0.4	1.7	0.8	-0.8	1.5	0.2	0.4	0.1	2.1
Q4	0.3	1.3	0.6	-1.7	1.2	-0.4	0.3	..	1.5
2011 – Q1	0.8	1.1	0.9	2.0	1.6	1.8	..	0.2	1.8
Q2	0.2	0.5	0.2	-0.7	0.6	-0.1	-0.5	-0.1	1.2
Q3	0.1	0.8	0.3	-0.9	0.8	-0.1	0.2	-0.1	1.2
	Implicit prices								
2006	1.8	3.5	....	....	....	2.9	2.2	2.0	2.2
2007	2.3	1.2	....	....	....	2.5	2.2	1.8	1.6
2008	1.9	3.9	....	....	....	2.3	2.7	2.8	2.4
2009	0.9	-5.9	....	....	....	-0.5	-0.4	2.1	-3.3
2010	0.7	5.0	....	....	....	1.1	1.7	0.8	2.7
2011	1.3	5.9	....	....	....	1.9	2.5	0.9	3.8
2009 – Q3	0.1	0.3	....	....	....	-0.2	0.2	0.8	0.1
Q4	0.1	1.4	....	....	....	0.4	0.4	-0.2	0.5
2010 – Q1	0.2	1.3	....	....	....	0.3	0.3	0.4	0.6
Q2	0.3	2.6	....	....	....	0.9	0.7	..	1.7
Q3	0.3	0.8	....	....	....	0.1	0.4	0.2	1.0
Q4	0.1	1.4	....	....	....	0.2	0.7	..	0.6
2011 – Q1	0.4	2.7	....	....	....	0.7	0.7	0.4	1.4
Q2	0.4	0.4	....	....	....	0.5	0.8	0.1	0.2
Q3	0.4	0.3	....	....	....	0.1	0.4	0.2	0.6

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

Table A4

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure	General government consumption expenditure (2)	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2005	0.9	3.5	1.4	0.9	1.7	1.3	1.2	1.9	3.4
2006	2.2	7.9	3.4	1.2	5.9	3.4	1.4	0.6	8.4
2007	1.7	5.2	2.5	0.5	3.3	1.8	1.1	1.0	6.2
2008	-1.2	-3.0	-1.6	-2.8	-4.7	-3.7	-0.8	0.6	-2.8
2009	-5.1	-13.4	-6.9	-8.9	-14.9	-11.7	-1.6	1.0	-17.5
2010	1.5	12.7	3.7	-4.0	10.2	2.4	1.0	-0.5	12.2
2009 – Q3	0.5	2.7	0.9	-2.3	1.0	-0.8	0.4	-0.5	2.7
Q4	-0.1	2.1	0.4	-1.1	2.9	0.7	0.3	0.2	2.0
2010 – Q1	0.8	4.6	1.5	-2.2	6.4	1.8	0.2	-0.6	3.7
Q2	0.4	3.3	1.0	0.4	1.1	0.7	..	0.3	4.0
Q3	0.3	2.7	0.8	0.6	1.9	1.2	0.7	-0.4	2.7
Q4	..	4.1	0.9	-0.6	-0.9	-0.8	0.1	-0.4	2.7
2011 – Q1	0.1	-2.6	-0.5	-0.4	-0.6	-0.5	..	0.4	0.4
Q2	0.3	-1.2	..	-1.1	1.3	0.1	0.1	..	1.0
Q3	-0.2	-1.1	-0.4	-1.2	-0.5	-0.8	-0.2	-0.6	1.6
	Implicit prices								
2005	1.8	5.2	2.5	4.7	1.1	3.0	2.2	3.3	2.1
2006	1.7	5.6	2.5	3.3	1.9	2.6	2.6	2.5	2.3
2007	2.4	1.2	2.1	3.7	1.5	2.7	2.2	0.8	2.3
2008	2.5	5.1	3.1	3.4	2.5	3.0	3.1	3.4	2.9
2009	2.1	-7.7	..	1.1	0.8	1.0	..	2.0	-2.4
2010	0.4	6.9	1.8	2.0	0.7	1.3	1.5	1.4	2.4
2009 – Q3	-0.2	0.5	-0.1	..	..	..	0.2	2.2	0.1
Q4	..	0.6	0.1	0.4	0.3	0.3	0.2	-1.8	..
2010 – Q1	0.1	3.8	0.9	-0.3	0.4	..	0.5	0.8	0.9
Q2	0.5	3.2	1.1	2.2	0.3	1.3	0.4	0.8	1.5
Q3	-0.2	0.6	..	0.3	-0.1	0.1	0.5	0.9	0.7
Q4	0.3	0.9	0.5	0.5	-0.1	0.2	0.5	-0.2	0.4
2011 – Q1	0.6	4.8	1.5	2.7	1.4	2.1	0.8	-0.8	1.8
Q2	0.3	1.0	0.4	..	0.8	0.4	0.7	-0.5	0.9
Q3	0.3	0.3	0.3	0.4	0.2	0.3	0.6	0.5	0.4

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			
2008	3.8	-1.8	-2.4	-0.6	5.8
2009	4.4	-4.3	-13.1	-9.2	9.1
2010	0.5	6.6	6.3	-0.3	-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			
2008	2.7	0.1	1.7	1.6	2.6
2009	3.0	-0.2	-1.8	-1.6	3.2
2010	0.8	0.3	1.4	1.0	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			
2008	3.1	-0.2	0.6	0.8	3.3
2009	3.3	-0.9	-4.3	-3.4	4.2
2010	1.0	2.0	2.0	0.0	-0.9
2009 – Q1	3.9	-2.4	-5.3	-3.0	6.4
Q2	4.0	-1.1	-5.2	-4.2	5.1
Q3	3.1	-0.4	-4.2	-3.8	3.5
Q4	2.4	0.7	-2.1	-2.8	1.7
2010 – Q1	0.9	2.0	1.2	-0.8	-1.1
Q2	0.8	2.0	2.2	0.2	-1.1
Q3	0.9	1.6	2.1	0.4	-0.8
Q4	1.6	1.9	2.1	0.1	-0.4
2011 – Q1	1.8	1.5	2.2	0.8	0.3
Q2	2.5	1.4	1.7	0.3	1.1
Q3	2.1	0.8	1.4	0.6	1.3

Source: Based on Eurostat data.
(1) Based on hours effectively worked; annual figures are unadjusted data; quarterly data are seasonally and calendar-adjusted. – (2) Value added at base prices, volumes at chain-linked prices – reference year 2005.

Table A6

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly wages and salaries	Hourly productivity			Unit labour costs
				Value added (2)	Hours worked	
			Total industry excluding construction			
2008	4.4	3.9	-1.3	-3.0	-1.6	5.9
2009	3.4	3.8	-5.2	-14.6	-9.9	9.1
2010	2.1	2.5	7.5	5.2	-2.1	-5.0
2009 – Q1	3.2	3.3	-10.7	-18.1	-8.4	15.5
Q2	3.1	3.4	-9.1	-18.1	-10.0	13.3
Q3	-0.6	0.0	-3.4	-13.7	-10.7	2.9
Q4	7.4	7.8	2.8	-7.9	-10.4	4.5
2010 – Q1	1.5	1.9	8.6	3.8	-4.4	-6.5
Q2	3.6	3.9	9.9	5.8	-3.7	-5.8
Q3	3.7	4.0	5.6	4.6	-1.0	-1.8
Q4	1.1	1.4	4.4	4.1	-0.3	-3.2
2011 – Q1	3.2	3.3	1.1	1.7	0.6	2.1
Q2	5.2	5.2	0.5	2.1	1.6	4.6
Q3	3.4	3.3	0.1	1.3	1.2	3.3
			Services			
2008	2.7	2.3	-0.6	-0.5	0.0	3.3
2009	1.1	1.1	-1.2	-2.5	-1.3	2.3
2010	1.6	1.7	1.3	1.3	0.0	0.3
2009 – Q1	1.9	1.7	-1.6	-3.2	-1.7	3.5
Q2	-0.8	-0.9	-2.5	-2.9	-0.4	1.7
Q3	1.8	2.2	-0.6	-2.1	-1.5	2.5
Q4	1.7	1.7	0.1	-1.6	-1.7	1.7
2010 – Q1	1.0	1.4	0.4	1.2	0.8	0.7
Q2	2.9	3.1	2.2	1.4	-0.9	0.7
Q3	1.1	1.3	1.6	1.3	-0.3	-0.4
Q4	1.2	1.2	1.3	1.5	0.2	-0.1
2011 – Q1	1.6	1.8	1.7	0.8	-0.9	-0.1
Q2	0.2	0.2	0.3	0.5	0.3	-0.1
Q3	-0.5	-0.4	-1.8	0.2	2.1	1.4
			Total economy			
2008	3.2	2.8	-0.7	-1.1	-0.5	3.9
2009	1.9	2.1	-2.1	-5.3	-3.3	4.1
2010	1.7	1.9	2.1	1.7	-0.4	-0.4
2009 – Q1	2.6	2.5	-3.3	-6.7	-3.4	6.1
Q2	0.6	0.8	-3.8	-6.4	-2.8	4.6
Q3	1.5	2.0	-1.2	-4.9	-3.7	2.7
Q4	3.2	3.3	0.3	-3.2	-3.5	2.8
2010 – Q1	0.9	1.3	1.3	1.1	-0.1	-0.3
Q2	2.9	3.2	2.8	1.7	-1.0	0.1
Q3	1.8	2.0	2.1	1.7	-0.4	-0.3
Q4	1.4	1.6	2.3	1.8	-0.5	-0.9
2011 – Q1	2.2	2.4	1.9	0.9	-0.9	0.3
Q2	1.5	1.5	0.7	0.7	0.0	0.8
Q3	0.5	0.5	-1.0	0.3	1.2	1.4

Source: Based on Istat 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 2005.

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 unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products
2007	2.0	1.9	2.3	2.1	1.6	1.5	2.8	2.7	2.1	2.0
2008	3.5	2.8	2.8	1.8	3.2	2.3	4.1	3.2	3.3	2.4
2009	0.8	1.6	0.2	1.2	0.1	1.3	-0.2	0.9	0.3	1.3
2010	1.6	1.5	1.2	0.6	1.7	0.9	2.1	0.9	1.6	1.0
2008 – Jan.	3.1	2.6	2.9	2.1	3.2	2.2	4.4	3.2	3.2	2.3
Feb.	3.1	2.5	3.0	2.2	3.2	2.3	4.4	3.3	3.3	2.4
Mar.	3.6	2.9	3.3	2.4	3.5	2.5	4.6	3.5	3.6	2.7
Apr.	3.6	2.7	2.6	1.8	3.4	2.5	4.2	3.2	3.3	2.4
May	3.7	2.8	3.1	1.8	3.7	2.4	4.7	3.3	3.7	2.5
June	4.0	3.0	3.4	1.8	4.0	2.5	5.1	3.4	4.0	2.5
July	4.0	2.7	3.5	1.8	4.0	2.4	5.3	3.5	4.0	2.5
Aug.	4.2	3.2	3.3	1.9	3.5	2.3	4.9	3.5	3.8	2.6
Sept.	3.9	3.0	3.0	1.7	3.4	2.3	4.6	3.4	3.6	2.5
Oct.	3.6	3.0	2.5	1.5	3.0	2.3	3.6	2.9	3.2	2.4
Nov.	2.7	2.8	1.4	1.4	1.9	2.1	2.4	2.7	2.1	2.2
Dec.	2.4	2.8	1.1	1.2	1.2	1.9	1.5	2.4	1.6	2.1
2009 – Jan.	1.4	2.0	0.9	1.2	0.8	1.6	0.8	2.0	1.1	1.8
Feb.	1.5	2.1	1.0	1.2	1.0	1.7	0.7	1.6	1.2	1.7
Mar.	1.1	1.8	0.4	1.0	0.4	1.5	-0.1	1.2	0.6	1.5
Apr.	1.2	2.1	0.8	1.5	0.1	1.4	-0.2	1.3	0.6	1.7
May	0.8	1.9	0.0	1.2	-0.3	1.5	-0.9	0.9	0.0	1.5
June	0.6	1.7	0.0	1.2	-0.6	1.4	-1.0	0.8	-0.1	1.3
July	-0.1	1.3	-0.7	1.1	-0.8	1.4	-1.4	0.7	-0.7	1.2
Aug.	0.1	1.2	-0.1	1.2	-0.2	1.4	-0.8	0.5	-0.2	1.2
Sept.	0.4	1.5	-0.5	1.0	-0.4	1.2	-1.0	0.3	-0.3	1.1
Oct.	0.3	1.4	-0.1	1.1	-0.2	1.0	-0.6	0.2	-0.1	1.0
Nov.	0.8	1.4	0.3	1.0	0.5	1.0	0.4	0.4	0.5	1.0
Dec.	1.1	1.5	0.8	1.1	1.0	1.1	0.9	0.4	0.9	1.0
2010 – Jan.	1.3	1.4	0.8	0.8	1.2	0.9	0.7	-0.4	0.9	0.8
Feb.	1.1	1.2	0.5	0.7	1.4	1.1	0.4	-0.5	0.8	0.7
Mar.	1.4	1.4	1.2	0.9	1.7	1.0	2.7	1.6	1.6	1.1
Apr.	1.6	1.7	1.0	0.3	1.9	0.9	2.4	0.8	1.6	0.8
May	1.6	1.5	1.2	0.6	1.9	0.8	2.5	0.9	1.7	0.9
June	1.5	1.5	0.8	0.6	1.7	0.9	2.1	1.1	1.5	1.0
July	1.8	1.7	1.2	0.5	1.9	1.0	1.8	0.6	1.7	1.0
Aug.	1.8	1.7	1.0	0.6	1.6	0.8	1.6	0.7	1.6	1.0
Sept.	1.6	1.5	1.3	0.6	1.8	1.0	2.8	2.1	1.9	1.2
Oct.	2.0	1.7	1.3	0.7	1.8	1.0	2.5	1.4	1.9	1.1
Nov.	1.9	1.6	1.6	0.8	1.8	1.0	2.3	1.1	1.9	1.2
Dec.	2.1	1.5	1.9	0.7	2.0	0.9	2.9	1.3	2.2	1.1
2011 – Jan.	1.9	1.2	2.0	0.9	2.0	0.9	3.0	1.4	2.3	1.2
Feb.	2.1	1.3	2.2	0.9	1.8	0.7	3.4	1.6	2.4	1.1
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
Sept.	3.6	3.1	2.9	1.8	2.4	1.4	3.0	1.5	3.0	2.0
Oct.	3.8	3.0	2.9	1.7	2.5	1.6	3.0	1.6	3.0	2.0
Nov.	3.7	2.9	2.8	1.6	2.7	1.8	2.9	1.6	3.0	2.0

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

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 – 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
Q3	-8,209	-842	305	-3,062	-1,224	-3,385	-622	-100	-20	-503
2009 – 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	719	2,291	796	-801	-456	-1,111	-246	-73	-4	-168
Aug.	-4,980	-2,225	-589	-657	-415	-1,094	-244	-72	-4	-167
Sept.	-3,948	-908	98	-1,605	-352	-1,181	-132	46	-11	-167
Oct.	(-2,489)	(-1,018)	(-164)	(-931)	....	....	(122)	....	....	....

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	17.9	3.3
June	3.9	0.3	3.5	3.6	3.1	5.9	3.6	11.9	3.3
Sept.	1.5	0.8	2.8	3.3	0.5	2.6	3.6	11.9	2.6
Oct.	1.2	0.2	3.4	3.8	1.3	2.7	3.4	10.8	2.7
Nov.	0.1	-0.7	2.5	2.9	0.4	3.2	2.7	6.4	1.9
				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	1.2	1.8	-0.6	-0.1	5.6	0.9	3.3
June	2.0	-2.0	2.7	3.8	-0.5	-0.4	5.3	0.5	3.6
Sept.	1.6	-0.4	3.8	4.7	1.3	1.4	4.8	3.6	3.9
Dec.	0.9	-3.9	3.6	4.3	1.7	2.0	4.4	0.6	3.5
2011 – Mar.	-0.3	-7.3	4.2	5.0	2.0	2.1	4.3	3.9	3.6
June	3.8	-10.8	4.0	4.7	1.9	2.1	4.1	3.5	3.8
Sept.	1.7	-21.6	3.3	4.6	-0.1	0.3	4.0	2.3	3.0
Oct.	5.7	-22.1	3.7	4.8	0.5	0.9	3.7	1.5	3.5
Nov.	1.1	-23.3	2.8	3.6	0.4	1.0	3.1	1.8	2.4
				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	6.7	1.0	0.6	2.5	4.5	3.9	14.4	2.8
2011 – Mar.	2.9	2.1	3.4	3.5	2.9	4.9	3.8	16.2	3.4
June	3.9	0.0	3.6	3.8	2.9	5.0	3.7	10.9	3.4
Sept.	1.5	0.3	2.9	3.4	0.4	2.1	3.7	10.8	2.7
Oct.	1.6	-0.4	3.4	3.9	1.1	2.3	3.5	9.7	2.9
Nov.	0.2	-1.2	2.5	3.0	0.4	2.7	2.8	5.9	2.0

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

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)		Borrowing requirement	
		of which: PO funds					*of which:* change in deposits with the Bank of Italy and investments of liquidity (2)		*of which:* financed abroad
2008	4,224	-5,683	19,502	41,692	-1,132	-15,152	-10,611	49,134	-10,287
2009	8,487	-1,487	-7,405	93,774	2,814	-11,752	-11,399	85,919	-2,112
2010	57	-4,809	-10,103	87,920	962	-11,834	-11,518	67,002	443
2008 – Q1	1,313	-1,111	25,905	23,411	145	-33,225	-31,203	17,549	470
Q2	934	-1,266	8,186	-11,210	3,812	5,508	5,968	7,229	-5,668
Q3	-2,295	-947	-1,120	4,058	-5,584	15,700	17,012	10,758	-2,283
Q4	4,272	-2,360	-13,469	25,434	496	-3,134	-2,388	13,598	-2,805
2009 – Q1	3,034	-1,264	25,111	48,196	1,434	-47,149	-47,108	30,626	1,961
Q2	4,780	-247	5,769	-2,205	1,978	9,749	9,963	20,071	-1,620
Q3	-6,276	385	-9,480	50,557	502	-12,912	-12,676	22,392	-2,709
Q4	6,948	-361	-28,805	-2,773	-1,100	38,561	38,423	12,830	256
2010 – Q1	-3,196	-1,413	10,530	28,480	1,565	-9,651	-9,568	27,728	178
Q2	1,218	-929	-636	22,874	-948	-3,544	-3,474	18,965	1,095
Q3	-1,316	-1,219	-1,960	22,875	1,768	-2,247	-2,188	19,120	3,978
Q4	3,352	-1,247	-18,037	13,692	-1,424	3,608	3,712	1,190	-4,808
2011 – Q1	-2,134	-1,605	12,380	10,453	1,946	9,069	8,309	31,714	-2,022
Q2	1,292	-895	-5,607	32,874	459	-14,140	-15,502	14,878	-2,080
Q3	-3,701	-355	9,090	-23,064	-2,033	34,053	34,039	14,345	2,540
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	-803
Apr.	1,309	47	-1,510	13,260	2,499	403	433	15,960	843
May	-2,583	-507	-1,561	17,854	-556	-3,687	-3,696	9,467	-690
June	2,491	-470	2,436	-8,240	-2,890	-260	-211	-6,463	942
July	-2,929	-452	-3,782	21,279	942	-17,681	-17,637	-2,171	-767
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	-154
Nov.	2,745	-161	-864	-120	144	2,710	2,730	4,614	599
Dec.	1,607	-696	-17,340	-8,916	-1,452	15,465	15,529	-10,636	-5,253
2011 – Jan.	2,762	-812	8,290	24,134	641	-33,479	-33,424	2,349	468
Feb.	-5,995	-394	1,643	-3,374	1,659	16,235	15,455	10,168	-8
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	-68
May	-1,835	-987	-693	5,775	1,712	1,658	1,682	6,618	-1,659
June	3,168	-158	-4,440	6,042	-2,381	-3,991	-5,378	-1,601	-354
July	-2,572	-123	-1,378	14,379	-1,120	-13,291	-13,253	-3,982	-117
Aug.	-1,062	-165	-241	-10,757	-660	19,068	19,067	6,348	223
Sept.	-68	-67	10,708	-26,685	-253	28,276	28,224	11,979	2,433
Oct.	-894	-152	7,102	17,133	1,169	-21,560	-21,561	2,951	3,195
Nov.	183	-249	-3,635	-3,406	-100	15,395	14,853	8,437	-2,814

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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 and investments of liquidity (2)
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	1,554,868	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	1,554,868	43,249
2011 – Q1	153,664	23,590	142,246	1,430,790	135,136	6,180	1,868,016	2,730	1,566,633	34,940
Q2	154,956	22,696	136,638	1,466,875	135,594	7,542	1,901,606	2,656	1,601,159	50,442
Q3	151,254	22,341	145,736	1,445,228	133,562	7,556	1,883,336	2,848	1,578,192	16,403
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	1,541,439	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	1,426,925	134,642	5,484	1,868,455	3,016	1,564,583	58,778
Dec.	155,797	25,195	129,862	1,418,556	133,190	5,420	1,842,826	2,897	1,554,868	43,249
2011 – Jan.	158,560	24,384	138,152	1,443,831	133,831	5,365	1,879,740	2,833	1,579,723	76,673
Feb.	152,565	23,989	139,799	1,441,862	135,490	6,145	1,875,861	2,804	1,577,908	61,218
Mar.	153,664	23,590	142,246	1,430,790	135,136	6,180	1,868,016	2,730	1,566,633	34,940
Apr.	153,622	23,841	141,772	1,452,463	136,263	6,179	1,890,299	2,615	1,588,689	46,745
May	151,787	22,854	141,078	1,460,264	137,975	6,155	1,897,259	2,696	1,597,134	45,063
June	154,956	22,696	136,638	1,466,875	135,594	7,542	1,901,606	2,656	1,601,159	50,442
July	152,384	22,573	135,260	1,482,136	134,475	7,504	1,911,759	2,697	1,614,205	63,695
Aug.	151,322	22,408	135,019	1,471,876	133,815	7,504	1,899,537	2,661	1,604,373	44,627
Sept.	151,254	22,341	145,736	1,445,228	133,562	7,556	1,883,336	2,848	1,578,192	16,403
Oct.	150,360	22,189	152,845	1,463,704	134,731	7,558	1,909,198	2,740	1,596,975	37,964
Nov.	150,543	21,940	149,203	1,462,535	134,632	8,099	1,905,012	2,854	1,596,314	23,111

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