BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 65

July 2012

BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin

Number 65 July 2012

Other economic publications of the Bank of Italy:

Annual Report
Account of the main developments in the Italian and world economy during the year

Economic developments in the Italian regions
A series of reports on the regional economies

Working Papers (Temi di discussione)
A series of empirical and theoretical papers

Occasional Papers (Questioni di economia e finanza)
Miscellaneous studies of issues of special relevance to the Bank of Italy

New research at the Bank of Italy
A newsletter on recent research work and conferences

Economic History Working Papers (Quaderni di Storia Economica)
A series of papers on Italian economic history

These publications are available online at www.bancaditalia.it
and in hard copy from the Bank of Italy's library (Biblioteca, Via Nazionale 91, 00184 Rome - Italy)
and at the branches of the Bank

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

The English edition is translated from the Italian by the Secretariat to the Governing Board.

Address
Via Nazionale 91, 00184 Rome – Italy

Telephone
+39 0647921

Website
www.bancaditalia.it

ISSN 0393-7704 (print)
ISSN 2280-7640 (online)

Based on data available on 13 July 2012, unless otherwise indicated.

Printed by the Printing and Publishing Division of the Bank of Italy

CONTENTS

LIST OF BOXES

SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

The world economy slows; oil prices fall

The world economy continued to expand at a moderate pace in the first quarter of 2012, held back by the stagnation of activity in Europe and the slowdown in the United States and the emerging economies. In the spring quarter economic activity faltered; uncertainty over the evolution of the sovereign debt crisis in the euro area and fiscal policy in the United States continues to weigh on the prospects of recovery. Oil and other commodity prices fell sharply, reflecting the cyclical weakness of the world economy. Inflation diminished practically everywhere.

Sovereign debt market tensions flare up again from April

The tensions on the financial markets of the euro area, which had eased in the early months of the year, flared up again starting in April. The increase in risk aversion continued to push down the yields on securities issued by the reputedly soundest countries. Investors' concerns about the political situation in Greece and the implications of the difficulties experienced by the Spanish banking system were compounded by a perceived lack of cohesion among governments in shaping the reform of European governance and upgrading the crisis management mechanisms in the euro area.

The Euro Summit takes major decisions, which must be implemented

The summit of the heads of state or government of the euro-area countries and the European Council of 28 and 29 June took important decisions directed to breaking the vicious circle between sovereign debt crises, the fragility of banking systems and growth. The European Commission will present a set of proposals for an integrated system of European banking supervision. Financial assistance to the Spanish banking system will be provided initially by the EFSF and then taken over by the ESM, which will not enjoy privileged creditor status. The summit reaffirmed the commitment to safeguarding financial stability through efficient use of the instruments available to stabilize the financial markets of the countries that are abiding by their European commitments. Swift implementation of these decisions is essential.

Growth in the euro area comes to a halt; inflation is diminishing

Euro-area GDP stagnated in the first quarter of the year, with cyclical conditions continuing to differ significantly from country to country. The €-coin indicator calculated by the Bank of Italy, which estimates growth net of the most erratic components, was slightly negative in June, while consumer price inflation declined further to 2.4 per cent.

The ECB lowers interest rates and vigorously supports liquidity

In view of the stagnation of credit, the fall in inflation and the uncertain outlook for growth, the ECB further reduced official interest rates, lowering that on main refinancing operations to 0.75 per cent and that on the deposit facility to zero. It has continued to supply abundant liquidity. Refinancing will be at fixed rates and with full allotment at least until the middle of next January. The range of securities eligible as collateral has been widened further in order to improve banks' access to refinancing, counter the segmentation of markets and sustain the flow of credit to households and firms.

In Italy output continues to decline in the second quarter

According to our estimates, in the second quarter GDP continued to contract, by slightly more than half a percentage point compared with the previous period. The decline reflected the fall in domestic consumption and investment demand; factors in *this were the weakness of employment and real incomes, the fall in household confidence, and the only slight improvement in credit conditions. Foreign trade continued to sustain economic activity.*

Core inflation remains subdued

In Italy consumer price inflation remained stable in June, at just above 3.0 per cent. The growth in prices continues to be affected by last autumn's increase in indirect taxes, which accounts for about a percentage point. Core inflation, net of the more erratic components, remains below 2 per cent. Our estimates indicate that consumer price inflation will be 1.8 per cent in 2013.

Italian banks further strengthen their capital

The three-year refinancing operations of the Eurosystem have eliminated the risk of bank liquidity problems and of these triggering a systemic crisis. The tensions on the sovereign debt markets continue to affect Italian banks' wholesale funding, which is still diminishing. By contrast, their retail funding in the traditional forms from resident savers is expanding. The recession is affecting the quality of credit, but the Italian banking system's capital base has strengthened further.

The cost of credit falls but lending remains weak

The cost of loans to firms has gradually decreased since the beginning of the year. Surveys conducted in the spring point to an attenuation of the difficulties in accessing credit. The improvements remain tenuous, however; the amount of lending granted is still modest. The outlook for credit continues to reflect the persistent tensions on international financial markets and the difficult economic situation, which is affecting the demand of firms and households and the banks' assessments of their creditworthiness.

The outlook for growth is still conditioned by weak domestic demand

Compared with January's Economic Bulletin *we have revised our projections for GDP growth downwards. In 2012 and 2013 economic activity is again likely to be characterized by a pronounced weakness of domestic demand. The main positive contribution to GDP growth is expected to come from exports. Investment will suffer from the persistent tightness of credit conditions and from the situation of the property market. Household consumption is likely to contract significantly, reflecting the effects on disposable income of the public finance adjustment measures adopted last year and the uncertain outlook for employment. The external current account is expected to improve, moving towards balance.*

The recession should end next year

Overall, the recession is expected to continue in the second part of the year, but to be milder than in the first two quarters; it should end at the beginning of next year. The growth in output is likely to remain barely positive in 2013 but afterwards to gain strength. Assuming a yield spread between the ten-year BTP and the German Bund of around 450 basis points, GDP is projected to contract by an annual average of 2.0 per cent in 2012 and 0.2 per cent in 2013.

Employment declines this year

Employment is expected to fall by slightly more than 1 per cent this year and to stabilize in 2013. In a context of significant expansion of the labour force, already observed in the first part of this year, the unemployment rate is expected to exceed 11 per cent in 2013.

The pace of the recovery will depend on the cohesion shown by the EU and on the return to normal conditions in the financial markets

The uncertainty surrounding this scenario is considerable. The medium-term prospects of the Italian economy are closely related to the evolution of the sovereign debt crisis and its effects on credit, the confidence of households and firms, and the demand coming from our European partners. The ways in which the decisions of the Euro Summit of 28 and 29 June are implemented will be crucial for easing financial market tensions and restoring normal credit conditions, which would hasten recovery in Italy and the rest of the euro area. On 13 July Moody's, despite recognizing the strengths of the Italian economy and the progress made with structural reforms, downgraded Italy's sovereign debt. The decision, announced just before an auction of Italian government securities, did not have significant effects either on demand or on yields.

The structural reform measures adopted so far can improve the outlook for growth

The measures to review and reduce expenditure recently adopted by the Government are designed to avoid the depressive effect on consumption of the increase in VAT rates originally scheduled for September while keeping the level of services unchanged thanks to efficiency gains. Looking ahead, the spending review, together with the action to counter tax evasion, may allow a reduction in tax rates, especially on labour, thus assisting the recovery. The interventions to accelerate the payment of general government's trade payables should alleviate creditor firms' liquidity problems and provide support for demand. Taken together, the legislation adopted in the last few months for liberalization, economic stimulus and labour market reform has made structural changes that will have a positive impact on our economy's ability to grow, above all in the medium term.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

World economic growth accelerated in the first quarter of 2012 but at a moderate pace, held back by the stagnation of activity in Europe and the slowdown in the United States and the emerging economies; international trade showed some signs of recovery. From March economic activity slipped again. The fall in commodity prices helped to ease inflationary pressures. The continuing uncertainty over the sovereign debt crisis in the euro area and budgetary policy in the United States continues to weigh on the prospects of recovery over the next two years (Table 1).

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2011	2012	2013	2012	2013
GDP					
World	**3.9**	**3.5**	**3.9**	–	–
Advanced countries	**1.6**	**1.4**	**1.9**	–	–
Euro area	*1.5*	*-0.3*	*0.7*	*-0.5*	*0.5*
Japan	*-0.7*	*2.4*	*1.5*	*2.5*	*1.4*
United Kingdom	*0.7*	*0.2*	*1.4*	*0.1*	*1.6*
United States	*1.7*	*2.0*	*2.3*	*2.1*	*2.3*
Emerging countries	**6.2**	**5.6**	**5.9**	–	–
Brazil	*2.7*	*2.5*	*4.6*	*3.0*	*4.3*
China	*9.2*	*8.0*	*8.5*	*8.1*	*8.4*
India (1)	*7.1*	*6.1*	*6.5*	*6.6*	*7.3*
Russia	*4.3*	*4.0*	*3.9*	*3.8*	*3.8*
World trade (2)	**5.9**	**3.8**	**5.1**	–	–

Sources: IMF, *World Economic Outlook Update*, July 2012; *Consensus Economics*, July 2012 (for Brazil and Russia, June 2012); and national statistics.
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

Output trends diverge among the advanced countries in the first quarter ...

In the United States GDP growth slowed to a 1.9 per cent annual rate in the first quarter owing to the reduction in stock-building and the slowdown in investment, while consumption expanded beyond the rise in disposable income and net exports made a newly positive contribution. The contribution of public spending to GDP growth was negative. In Japan economic activity expanded sharply (4.7 per cent) owing above all to an upturn in consumption and strong recovery in public investment in connection with reconstruction work following the earthquake of March 2011. In the United Kingdom, GDP declined by a further 1.3 per cent as a result of the fall in private demand.

... while activity in the emerging economies weakens

The slackness of demand from the advanced countries caused economic activity to slow in the main emerging economies in the first quarter of 2012, partly in response to the restrictive policy measures adopted last year. In China growth dipped sharply (to 8.1 per cent with respect to the first quarter of 2011 from average growth of 9.2 per cent for the year 2011; Table 1), owing to the slowdown in domestic and foreign demand. The deceleration was similarly marked in India (to 5.6 per cent) and Brazil (to 0.8 per cent), especially in industry, while in Russia, by contrast, growth remained robust (4.9 per cent).

Activity appears to slow in the second quarter

According to the latest cyclical indicators, economic activity apparently slowed in the second quarter of 2012 in the leading advanced economies outside the euro area (Figure 1). In the United States growth continued at the same pace as in the first quarter; after the brief upturn that marked the beginning of the year, employment improved slightly but the rate of unemployment has stayed high (8.2 per cent in June), with a still substantial proportion of long-term unemployed. Conditions in the real-estate market remain uncertain, even if for the first time home prices rose a little from the lows recorded at the beginning of the year. The available data point to moderate GDP growth in Japan and a continued slackening in the United Kingdom.

In the emerging countries both industrial production indices and business surveys suggest a possible further slowdown. In particular, Chinese GDP growth slowed to 7.6 per cent in the second quarter, reflecting the decline in real-estate investment and the weakening of foreign demand.

World trade, which had picked up briefly in the first quarter owing to the recovery in Asia and North America, expanded at a very slow pace in the second quarter, reflecting flat demand in the main advanced countries.

Recovery is expected to be modest and uneven in 2012

According to the IMF projections in July, world economic growth will slow to 3.5 per cent in 2012 (from 3.9 per cent in 2011), owing to the contraction of activity in the euro area and slower growth in the emerging economies. Output is forecast to expand by around 2 per cent in the United States and by slightly more in Japan.

Against the background of a slow and continuing reduction of public and private debt in the advanced countries, the outlook for world economic growth remains clouded not only by uncertainty regarding timely implementation of the measures outlined at the last European Council to strengthen the institutional structure of the European Union and the mechanisms to limit tensions (see the box "Decisions of the Euro Summit and the European Council of 28 and 29 June 2012"), but also by the possibility of a considerable budget tightening in the United States (estimated at over 4 per cent of GDP). The latter risk could materialize from January of next year when, unless agreement is reached on a medium-term fiscal consolidation plan, several tax relief measures will simultaneously expire and the automatic public spending cuts agreed in August 2011 will come into effect.

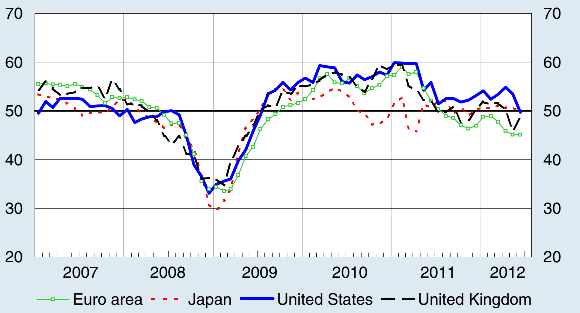
Oil prices fall sharply and futures contracts indicate they will stabilize

In the second quarter the prices of the main commodities began to decrease. The price of Brent grade crude oil fell brusquely by about 20 per cent with respect to the peak reached in March, driven down by the deterioration in the global economic outlook, despite persistent geopolitical tensions affecting supply. The futures contracts on Brent grade oil imply that its price, which was $99.5 a barrel in on 13 July (Figure 2), will stay around the current

Figure 1

Manufacturing Purchasing Managers Index in the main advanced countries (1)

(monthly data)

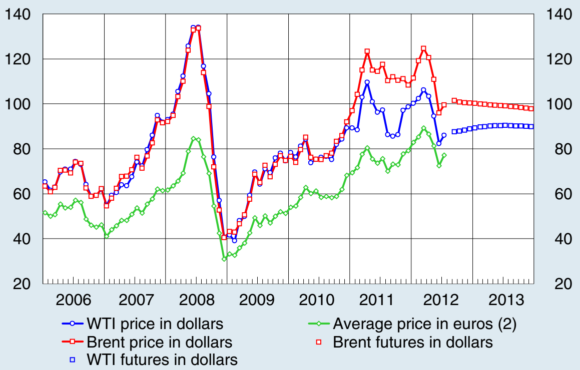


Sources: Markit and Thomson Reuters Datastream.
(1) Diffusion index of economic activity in the manufacturing sector, drawn from the assessment of purchasing managers.

Figure 2

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)



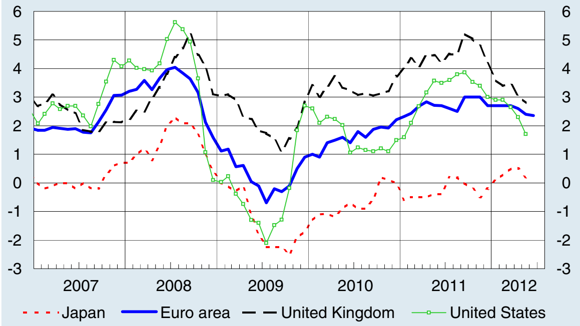
Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 13 July 2012. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

level over the next twelve months. The prices of non-energy commodities fell less sharply and in July were only slightly below the peaks recorded at the end of the first quarter.

Figure 3

Consumer price inflation in the main advanced countries (1)

(monthly data; 12-month percentage changes)



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

Inflation diminishes in the advanced and the emerging countries

Inflationary pressures have eased in response to the cyclical sluggishness of the economy and the decline in raw materials prices. The twelve-month rate of consumer price inflation in the United States fell to 1.7 per cent in May from 2.7 per cent in March (Figure 3) and core inflation, net of food and energy prices, was 2.3 per cent. In the United Kingdom inflation fell to 2.8 per cent from 3.5 per cent in March, owing to the decline of core inflation to 2.2 per cent. In Japan, the deflationary tendency continued; in May the twelve-month decline in the core price index was 0.6 per cent.

Monetary policies become still more expansive in the advanced economies ...

Given very substantial idle capacity, new downside risks to economic activity and low inflation expectations, the central banks of the advanced economies stepped up their use of unconventional measures. In June the Federal Reserve extended to the end of the year its portfolio-restructuring programme with a view to lengthening the average maturity of Treasury securities and continued to pursue its strategy of reinvesting the proceeds of redemptions of mortgage-backed securities in similar instruments. In April the Bank of Japan decided to extended its programme of financial asset purchases to June 2013. In July the Bank of England decided to further raise its target for financial asset purchases and announced the imminent launch of two new programmes to support lending to households and firms.

... and in the emerging countries

In response to the deteriorating economic situation and the easing of price tensions, the central banks of the main emerging countries have continued with their gradual relaxation of monetary conditions. In May the People's Bank of China lowered reserve requirements by a total of 50 basis points; in the last two months it has also lowered the reference rate on loans by a total of 66 basis points and that on deposits by 50 points, at the same time also giving the banks more flexibility in setting rates. The Central Bank of Brazil, citing serious concerns over the economic slowdown, has lowered its official rates by a total of 1.75 percentage points since March.

DECISIONS OF THE EURO SUMMIT AND THE EUROPEAN COUNCIL OF 28 AND 29 JUNE 2012

The summit meeting of euro-area heads of state or government and of the European Council on 28 and 29 June announced a set of important measures to ease financial market tensions and restore investor confidence, reaffirming the key priority of guaranteeing "strong, smart, sustainable and inclusive growth" in the EMU "based on sound public finances, structural reforms and investment to boost competitiveness".

The Euro Summit decisions. – The decisions responded chiefly to the need to break the vicious circle between sovereign debt crises and the fragility of banking systems and to stabilize markets in the short and medium term.

In line with the European Council's resolutions concerning the report drafted by the presidents of the European Council, the Commission, the Eurogroup and the European Central Bank, "Towards a Genuine Economic and Monetary Union", the need was emphasized to move swiftly to introduce a single banking supervisory system. The definition of the specific procedures for implementation was entrusted to the Commission, whose proposals will be evaluated by the Council of the EU before the end of the year. Once the European integration of banking supervision has been achieved, the European Stability Mechanism (ESM) will be able to recapitalize banks directly, with appropriate conditionality spelled out formally in a memorandum of understanding concerned, among other things, with state assistance.

The Summit also decided that the financial support mechanisms – the ESM and the European Financial Stability Facility (EFSF) – can be used in an efficient and flexible manner to stabilize the terms of finance to the member states that are exposed to sovereign debt strains, provided that they respect the country-specific recommendations drawn up for them and their other European commitments. The ECB will serve as the agent of the EFSF and the ESM in conducting market operations.

Finally, the Summit urged the rapid conclusion of a memorandum of understanding on financial support for the recapitalization of the Spanish banking system. The assistance, provided initially by the EFSF, will subsequently be supplied by the ESM, which will not enjoy privileged creditor status.

At its 9 July meeting the Eurogroup welcomed the Commission's intention to present proposals in early September for a single supervisory mechanism. It also put off until September technical discussions on the direct recapitalization of banks by the ESM.

With reference to the financial support mechanisms, the Eurogroup reaffirmed its commitment to do what is necessary to permit intervention in support of member states that are honouring their European commitments. It took note of the agreement between the EFSF and the ECB, whereby the latter becomes the agent for market operations (a similar agreement will be subscribed by the ECB and the ESM).

As regards Spain, the Eurogroup also reached a political agreement on the draft memorandum of understanding underlying the financial assistance for the recapitalization of financial institutions, deferring final approval to 20 July, and supported the Commission's recent recommendation to extend the deadline for Spain's correction of its excessive deficit by one year to 2014. As to other countries in difficulty, the Eurogroup announced that the Commission, together with the ECB and the IMF, will seek solutions to improve the sustainability of the "well-performing" Irish adjustment programme, and will work with the Portuguese authorities so as to ensure that the adjustment process remains on track. The group noted that a fully-fledged programme is expected to be negotiated with the authorities in Cyprus.

The decisions of the European Council. – As part of a pact for growth and employment, the EU members undertook to quickly mobilize €120 billion: €60 billion from the increased lending capacity of the European Investment Bank (by means of a €10 billion increase in its paid-in capital); €55 billion from the appropriation of additional structural funds for current growth-enhancing measures; and €4.5 billion from the immediate launch of the pilot phase of Project Bonds for additional investment in pilot projects in key transport, energy and broadband infrastructure.

In the medium and long term, the Council called for the rapid approval of the regulations proposed by the Commission in November, aimed at strengthening economic oversight on euro-area countries (the "two-pack"). [1]

[1] The "two-pack" consists of two regulations. One would reinforce macroeconomic and budgetary surveillance over countries in financial difficulty or that have requested assistance on a precautionary basis; the second would institute enhanced surveillance over budgetary planning documents and the correction of excessive deficits.

The Council committed the member states to completing the internal energy market by 2014 and the digital single market by 2015 and to deepening the single market (progress on which will be examined by the Council before the end of this year). It emphasized the need for action to reduce administrative and regulatory burdens, favour research and innovation, boost employment (especially for young people and the long-term unemployed) and facilitate labour mobility within the EU. As regards tax policy, the Council called for work and discussions on the Commission's proposals on energy taxation and the common consolidated corporate tax base. Recognizing that owing to the opposition of some countries a financial transaction tax will not be adopted "within a reasonable period," the Council noted that several member states will launch a request for enhanced cooperation in this area with a view to its adoption by December 2012.

The Council invited the presidents of the European Council, the Commission, the Eurogroup and the ECB, the authors of "Towards a Genuine Economic and Monetary Union," to develop, by the end of this year, a "specific and time-bound road map" for the achievement of the report's aims, including possible Treaty amendments. The report itself sets out "four essential building blocks" for the future EMU:

(a) an integrated financial framework, introducing a European system of banking supervision (with a dual-level mechanism, European and national) to ensure effective, uniform application of prudential rules, risk control and crisis prevention; the framework also provides for common bank resolution mechanisms and deposit insurance schemes, mainly financed by contributions from the banks themselves;

(b) an integrated budgetary framework: agreement at European level on national deficit ceilings and public debt limits, with the design of enforcement mechanisms in the event of overshoots; in the medium term, the issuance of common debt could be explored, possibly with the introduction of joint and several sovereign liabilities; the architecture of a future fiscal union for the euro area could be completed by a common "fiscal body" and central budget;

(c) an integrated economic policy framework to promote sustainable growth and employment, while at the same time safeguarding social cohesion, and to reduce macroeconomic imbalances, increase resilience to shocks and enhance competiveness;

(d) ensuring the necessary democratic legitimacy and accountability of decision-making within the EMU, with the active involvement of the European Parliament and national parliaments.

2.2 THE EURO AREA

Economic activity in the euro area has continued to be sluggish, although with significantly uneven trends from country to country. The economy has been affected by the uncertainty in connection with developments in the sovereign debt crisis. Inflationary pressures have eased, owing to falling raw materials prices, among other factors.

GDP stagnates in the first quarter ...

The GDP of the euro area remained unchanged in the first quarter of 2012 after declining by 0.3 per cent in the fourth quarter of 2011. Output was sustained by foreign trade, as exports grew by 1.0 per cent over the preceding quarter while imports stagnated. Meanwhile, demand declined, owing mainly to a drop of 1.4 per cent in gross fixed capital formation.

Cyclical developments in the main member countries continued to be highly uneven. Output expanded by 0.5 per cent in Germany, held steady in France, and contracted by 0.3 per cent in Spain and 0.8 per cent in Italy.

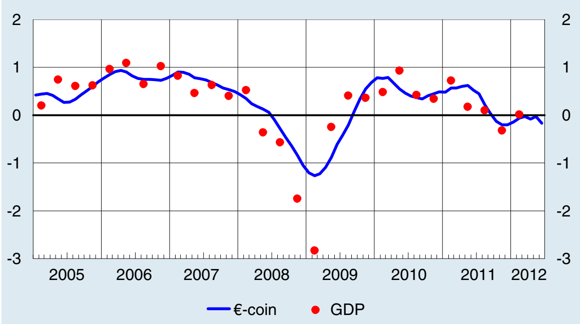
... and economic activity continues to be slack

In the second quarter economic activity remained weak. The €-coin indicator calculated by the Bank of Italy, which estimates growth net of the most erratic components, was slightly negative (Figure 4). A similar picture emerges from the recent deterioration in business sentiment in the area, as registered in the Purchasing Managers' Index and European Commission surveys.

According to the professional forecasters surveyed in July by Consensus Economics, euro-area GDP will decline by 0.5 per cent on average in 2012 and recover to growth of 0.5 per cent in 2013. The Eurosystem staff macroeconomic projections released in June put real GDP growth in a range between -0.5 and 0.3 per cent this year and 0.0 and 2.0 per cent in 2013.

Figure 4

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



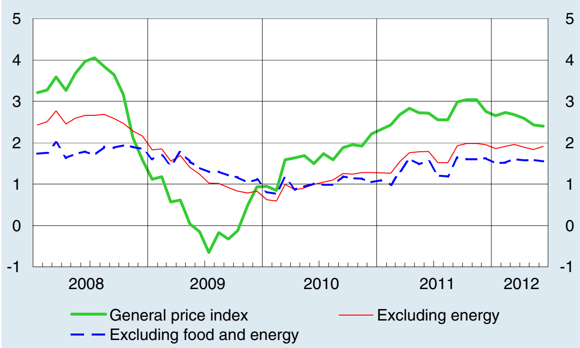
Sources: Bank of Italy and Eurostat.
(1) For the methodology used in constructing the indicator, see the box "The €-coin indicator and the economic situation in the euro area" in *Economic Bulletin*, July 2009. Details on the indicator are available at http://eurocoin.bancaditalia.it/. For GDP, quarterly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

Inflation is diminishing

Inflation in the euro area continued to abate through the spring, reaching 2.4 per cent in June (Figure 5). The deceleration can be ascribed to the most volatile components, in particular energy goods, whose rise was moderated by falling raw materials prices. Core inflation, as measured by the twelve-month rise in the harmonized index of consumer prices net of food and energy products, has been steady at 1.6 per cent since last autumn. Producer prices also decelerated, to 2.3 per cent in May. The latest business surveys do not indicate any plans for significant upward revision of prices. The analysts surveyed by Consensus Economics in July forecast average annual inflation in the euro area to decline to 2.3 per cent in 2012, from 2.7 per cent in 2011, and to 1.7 per cent in 2013. The latest projections of the Eurosystem experts put average price rises in a range of 2.3 to 2.5 per cent in 2012 and 1.0 to 2.2 per cent in 2013.

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.

Money supply growth is slow ...

The rate of expansion of M3 in the area has remained modest (2.9 per cent in the twelve months to May) but highly diversified between countries. There was a negative variation in the majority of the countries most directly affected by the sovereign debt strains, against expansion in the other main economies. The deposits included in the M3 contracted in Greece, Ireland, Portugal and Spain (by 18.6, 7.0, 5.4 and 1.2 per cent respectively), while in Italy they increased by 1.5 per cent.

... and credit to firms and households practically stationary

The seasonally adjusted, annualized rate of growth of credit to the non-financial private sector, adjusted for the accounting effect of securitizations, has been practically nil (a mere 0.2 per cent in the three months to May after a contraction of 0.7 per cent in February). The contraction of lending to firms observed late last year and in the early part of 2012 continued but at a more moderate pace (down 0.8 per cent in the three months ended in May). The growth in credit to households came to 1.0 per cent, the same as in February. Trends in lending to households and firms also vary greatly among countries, with sharply negative values in Greece, Ireland, Portugal and Spain. The average cost of bank loans, in both nominal and real terms, is higher for firms in the peripheral countries, reflecting the sovereign debt strains.

The responses to the quarterly euro-area bank lending survey indicate that the tightening of credit conditions, which was pronounced in the last quarter of 2011, moderated somewhat in the first quarter of this year, reflecting the improvement in banks' liquidity conditions following the ECB's three-year refinancing operations. However, the risks for lending conditions remain, in connection with the resurgence of financial market tensions.

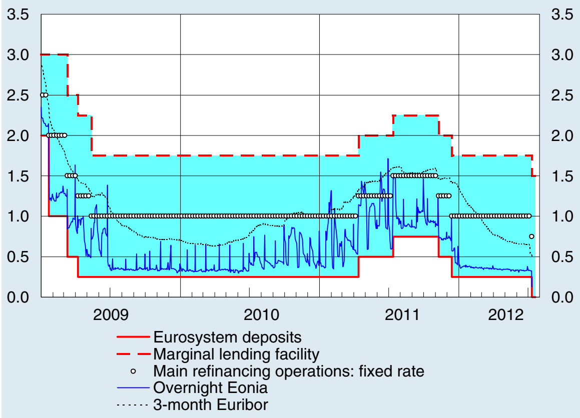
The ECB lowers interest rates and further improves access to liquidity ...

At its meeting at the start of July the Governing Council of the European Central Bank lowered its fixed rate on main refinancing operations by 0.25 per cent to 0.75 per cent, an all-time low. The rates on the marginal lending and deposit facilities were reduced by the same amount to 1.5 and 0.0 per cent respectively (Figure 6). At the start of June the Governing Council had announced that it would continue conducting its main refinancing operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until 15 January 2013. At its meeting of 20 June the Council broadened the scope of the measures to increase collateral availability, in order to improve banks' access to Eurosystem operations and further support the provision of credit to households and non-financial corporations.

Figure 6

Official interest rates and money market rates in the euro area

(daily data; percentages)



Sources: ECB and Thomson Reuters Datastream.

... which remains abundant

The Eurosystem has continued to supply abundant liquidity. Following its second three-year refinancing operation, conducted at the end of February, banks' recourse to the operations increased by around €130 billion and in mid-July totalled some €1.25 trillion. The bulk of this financing is at maturities of about three years. In the first few days of July, MROs with one-week maturity accounted for 13 per cent of the total funds allotted, three-month operations for 4 per cent.

Since mid-March, after narrowing since the start of the year, the spread between three-month unsecured loans (Euribor) and overnight indexed swaps of the same maturity has stabilized. This spread, which is a gauge of the risk premium in the interbank market, was around 40 basis points in mid-July.

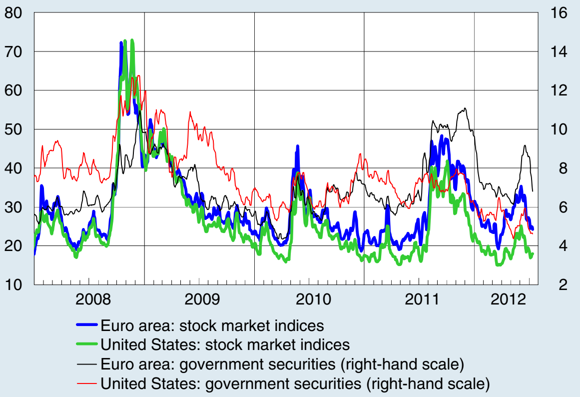
2.3 WORLD FINANCIAL MARKETS

After improving early in the year, the performance of the financial markets was characterized in the second quarter by a considerable increase in risk aversion. Volatility increased significantly in the government securities and equities segments, most markedly in the euro area (Figure 7). Worries

Figure 7

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

(percentage points)

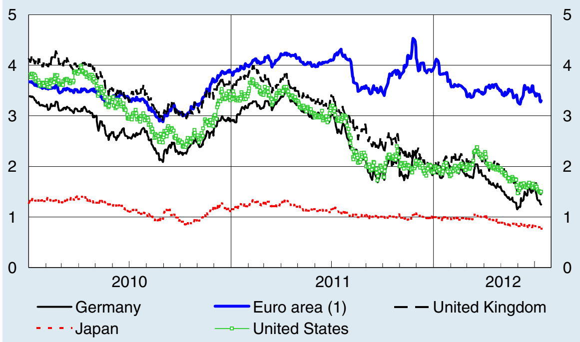


Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for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

Figure 8

Yield on ten-year government bonds

(daily data; percentages)

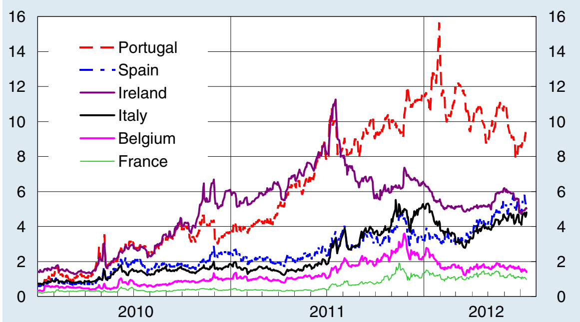


Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the ten-year government securities of the euro-area countries except Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

Figure 9

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

(daily data; percentage points)



Sources: Based on Bloomberg and Thomson Reuters Datastream data. The latest available data refer to 13 July.

about the political situation in Greece and about the banking sector in Spain contributed to this. The agreements reached in the European Council meeting of 28 and 29 June concerning possible interventions in the government securities markets of the countries with large spreads and the recapitalization of the banks temporarily allayed the tensions.

Long-term yields fall further in the reputedly low-risk countries ...

The yields on the ten-year government bonds of the countries deemed to be less risky, which in the first quarter had remained stable at the low levels reached at the end of 2011, fell further in the second quarter, and on 13 July stood at 1.5 per cent in the United States and the United Kingdom, 1.2 per cent in Germany and 0.8 per cent in Japan (Figure 8). This reflected both diminishing expectations of global economic growth and investors' preference for what they considered safer assets.

... while euro-area spreads with respect to Germany start to widen again

In the euro-area countries most exposed to the sovereign debt crisis yield spreads over the German Bund widened significantly, narrowing after the decisions of the European summit meeting of 28 and 29 June (Figure 9). Between the end of March and 13 July the spread on ten-year bonds increased in Greece, Spain and Italy. In Ireland it remained basically unchanged, partly owing to the expectations of a favourable revision of the conditions for the recapitalization of the banking system. In Portugal, while remaining large, it declined thanks to the progress of the adjustment programme. Prior to the summit, the political uncertainty in Greece, the state of the banking system in Spain and misgivings about the implications for the public finances of the financial support plan agreed at European level weighed on investors' expectations.

Risk premiums also increase for banks and non-financial firms

The tensions also affected banks' credit risk premiums. For a sample of large banks, the premiums on five-year credit default swaps rose by an average of 93 and 37 basis points respectively in the euro area and the United States, in part reflecting the rating downgrades of a number of banks. The risk premiums of non-financial companies came under more moderate upward pressure: the yield spread over what are considered the safest government securities increased by about 30 basis points for both euro- and dollar-denominated bonds (Figure 10).

Share prices fall ...

Since the end of March the stock markets of the main advanced countries have recorded declines, to a greater extent in Japan and the euro area. On 13 July the Dow Jones Euro Stoxx index of the largest euro-area listed companies and the S&P 500 in the United States were down by 9 and 4 per cent respectively from the end of March (Figure 11). The expected volatility implied by the prices of options on these indices, which had grown significantly though remaining below last autumn's peaks, began to decline in the last week of June.

... and capital flows to the emerging countries shrink

Financial conditions in the emerging countries have deteriorated, partly owing to the slowdown in Chinese economic growth. The balance on portfolio investment shows net outflows from equities, while for debt securities it has remained positive, though diminishing. The yield spreads of emerging countries' dollar-denominated long-term sovereign securities over US Treasury securities has widened since the end of March, as have their sovereign CDS spreads. Emerging country share prices in local currency have fallen by 7 per cent overall since the end of March.

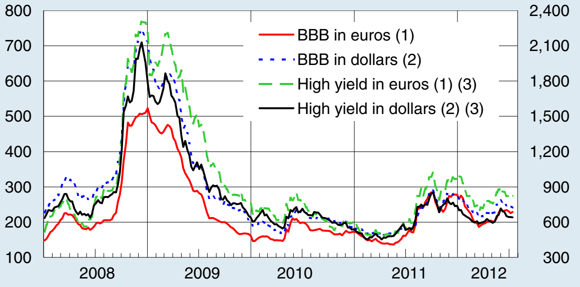
The euro depreciates

The euro weakened considerably against the other leading currencies from the end of March, reflecting the uncertainty over the course of the sovereign debt crisis in the euro area. In nominal effective terms the euro depreciated significantly,

Figure 10

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

(end-of-week data; basis points)

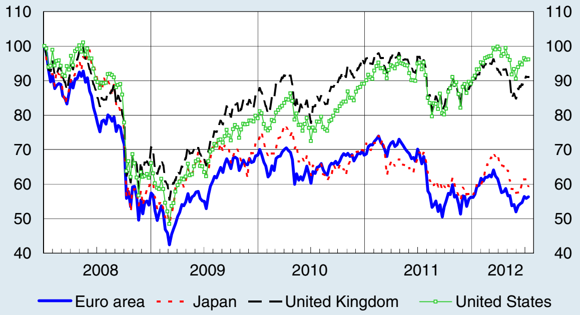


Source: Merrill Lynch.
(1) Fixed-rate bonds with a residual maturity of not less than one year issued in the Euromarket; yield spreads are calculated with respect to French and German government securities. – (2) Fixed-rate bonds with a residual maturity of not less than one year issued in the US domestic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

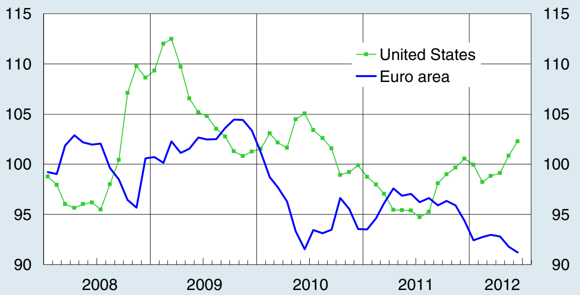


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 12

Nominal effective exchange rates (1)

(monthly data)



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

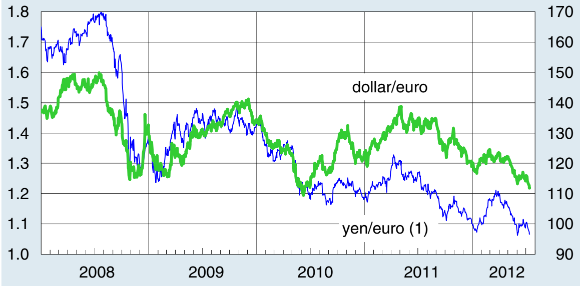
by 5 per cent (Figure 12). In bilateral terms it lost 9 per cent against the dollar and even more, 12 per cent, against the yen (Figure 13).

The Chinese renminbi depreciated moderately against the dollar, losing about 1 per cent, but in nominal effective terms it strengthened slightly as a consequence of the weakness of the euro. On 13 July the expectations implied by twelve-month non-deliverable forward contracts on the dollar pointed to a further slight depreciation of the renminbi in connection with the weakening of inflows of speculative capital and the signs of economic slowdown.

Figure 13

Bilateral exchange rates

(daily data)



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

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL PHASE

The decline in economic activity has continued in recent months, mainly reflecting the weakness of domestic demand, both consumption and investment. Factors in this were a reduction in households' disposable income, firms' pessimism about the short-term prospects and a fall in consumer confidence. Foreign trade has continued to sustain the economy.

GDP declines in the first quarter ...

In the first quarter of 2012 Italy's GDP diminished by 0.8 per cent on the previous period (Table 2). As in previous quarters, the contraction in output mainly reflected the decline in household consumption and the fall in investment, while foreign trade made a positive contribution to GDP of close to one percentage point (Figure 14), given a markedly larger fall in imports than in exports. Reductions in stocks continued to depress GDP growth. The decline in value added was concentrated in industry excluding construction (-1.6 per cent) and construction (-3.2 per cent) while value added in services remained virtually unchanged.

... and, according to our estimates, in the second

According to our estimates, industrial production declined by around 1.5 per cent on average in the second quarter of 2012 compared with the previous period; in the same period GDP contracted by slightly more than half a percentage point. The weakness of economic activity was also influenced by the earthquakes in some parts of the Emilia Romagna region, which affected 37 municipalities in the provinces of Bologna, Modena, Ferrara and Reggio Emilia. Firms working in these predominantly industrial areas account for around 1 per cent of national turnover and employ a similar share of workers. The impact of the earthquakes is still difficult to quantify but,

Table 2

GDP and its main components

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

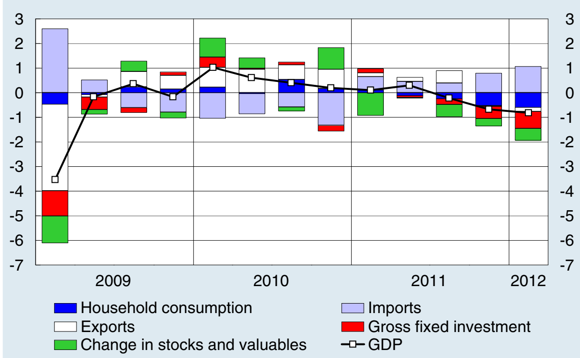
	2011			2012	2011
	Q2	Q3	Q4	Q1	(1)
GDP	0.3	-0.2	-0.7	-0.8	0.4
Total imports	-1.6	-1.3	-2.8	-3.6	0.4
National demand (2)	-0.3	-1.1	-1.4	-1.8	-0.9
National consumption	-0.3	-0.5	-0.8	-0.6	..
household spending	*-0.2*	*-0.4*	*-0.9*	*-1.0*	*0.2*
other (3)	*-0.4*	*-0.6*	*-0.5*	*0.4*	*-0.9*
Gross fixed investment	-0.4	-1.2	-2.6	-3.6	-1.9
construction	*-1.2*	*-1.2*	*-0.8*	*-3.3*	*-2.8*
other investment goods	*0.4*	*-1.1*	*-4.3*	*-3.9*	*-0.9*
Change in stocks and valuables (4)	..	-0.5	-0.3	-0.5	-0.5
Total exports	0.6	1.8	-0.1	-0.6	5.6

Source: Istat.
(1) Annual 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 14

GDP growth and contributions of its main determinants (1)

(percentage points)



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

according to preliminary estimates of the damage to production facilities, the negative effects on national GDP should be on the order of a tenth of a percentage point in 2012 as a whole.

Consumer price inflation remains stable in the second quarter

In the second quarter of 2012 inflation remained stable. Measured by the twelve-month change in the consumer price index for the entire economy, overall inflation was just over 3 per cent, about a percentage point of which can be explained by the increase in indirect taxes. Net of the more erratic components (energy and food prices), core inflation remained below 2 per cent. Consumer prices could decelerate in the second half of this year.

3.2 FIRMS

In the second quarter industrial production, which had been declining since the summer of 2011, dropped to a level only a little above the cyclical trough reached in the spring of 2009. Firms' assessment of the short-term outlook is still unfavourable, and their operating profitability has decreased.

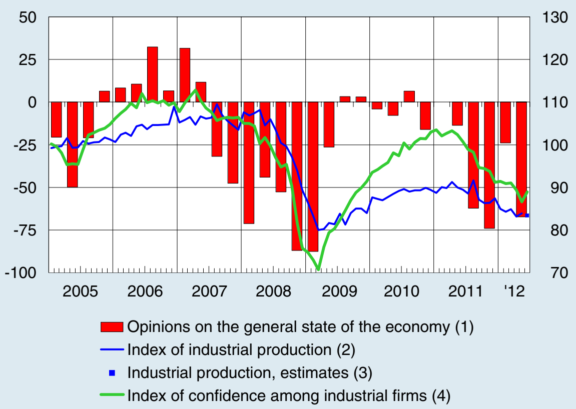
Industrial production declines in the second quarter

After falling sharply in April, by 2.0 per cent compared with March, industrial production made a partial recovery in May, when it rose by 0.8 per cent (Figure 15). Including our estimates for June, industrial production contracted by 1.5 per cent on average in the second quarter.

Figure 15

Industrial production and business confidence (1)

(monthly data)



Sources: Based on Istat, Terna and Bank of Italy data.
(1) Balance of responses to the question on the state of the economy in the June 2012 Bank of Italy–*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, June 2012; published in *Supplements to the Statistical Bulletin* 34, 2012; the data refer to industrial firms only; left-hand scale. – (2) Industrial production adjusted for seasonal and calendar effects; index, 2005=100. – (3) Based on electricity consumption and the indicators of Istat surveys of manufacturing firms. – (4) Average of the seasonally adjusted percentage balances of the responses to questions on firms' assessment of demand, production expectations and stocks of finished products; index, 2005=100.

Investment declines in industry ...

In addition to substantial margins of spare capacity and a weak outlook for demand, investment is being held back by the strains affecting firms' borrowing conditions, though these have eased compared with the closing months of 2011. In the first quarter of 2012 gross fixed investment fell by 3.6 per cent compared with the previous period; the contraction involved all the main branches of industry, and was especially marked for purchases of transport equipment, which fell by 12.5 per cent. In the quarterly survey conducted in June by the Bank of Italy and *Il Sole 24 Ore* about half the sample firms reported a deterioration in investment conditions in the second quarter.

... including in construction

In the first quarter of 2012 investment in construction fell by more than 3 per cent compared with the previous period, continuing the downward trend under way for a year. According to the Territory Agency, the number of sales of residential properties declined sharply, by 19.6 per cent compared with the first quarter of 2011. The short-term outlook for the sector appears poor. In the quarterly survey of estate agents conducted in April by the Bank of Italy, Tecnoborsa and the Territory Agency, about two thirds of the respondents expected prices to fall in the short term.

The qualitative indicators do not yet signal a cyclical turning point

The signals provided by the Purchasing Managers' Index and business confidence indices do not point to an upturn in the cycle in the coming months. A similar picture emerges from the quarterly survey conducted by the Bank of Italy and *Il Sole 24 Ore*: the negative balance between the percentages of firms expecting conditions in their market to improve/deteriorate has widened.

But price competitiveness improves

On the basis of preliminary assessments, in the second quarter of 2012 the price competitiveness of Italian firms and of the firms of the other leading euro-area countries, gauged by producer prices, improved, thanks chiefly to the decline in the euro's nominal effective exchange rate (Figure 16). In the first quarter of this year unit labour costs were unchanged compared with the first quarter of 2011 (Figure 17): the increase in hourly productivity, due mainly to the fall in hours worked, offset the rise in hourly earnings.

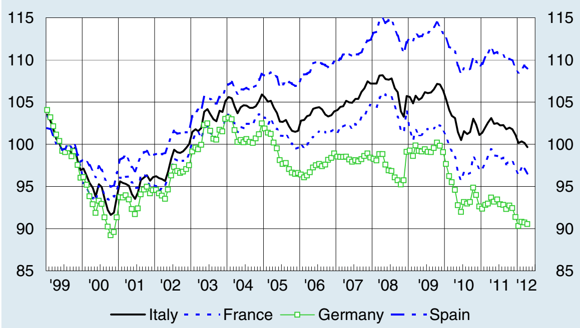
Firms' operating profitability declines

According to estimates based on national accounts data, in the first quarter of this year the operating profitability of non-financial corporations – measured as gross operating profit over value added with reference to the twelve months ending in March 2012 – continued to decline. Together with the increase in net financial costs, this trend caused firms' self-financing capacity to diminish in relation to value added. Firms' funding needs decreased compared with the previous quarter as a result of the fall in investment (including inventories and measured in relation to value added).

Figure 16

Indicators of competitiveness (1)

(indices, 1999=100)

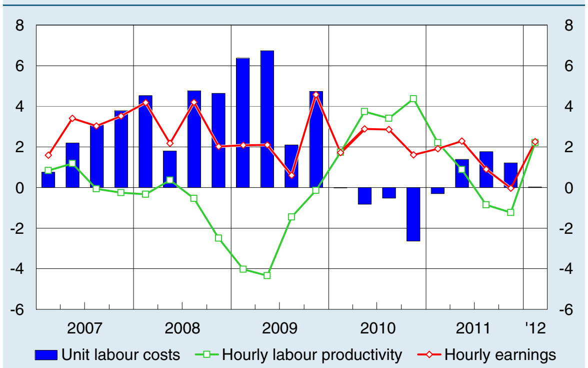


Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to April 2012.

Figure 17

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.

Bank lending to firms decreases

Firms have reduced their use of credit. The twelve-month rate of change in banks' lending to non-financial firms (net of bad debts and repos) was -2.8 per cent in May; at -1.2 per cent the annualized rate of change for the three preceding months was less marked, however (Figure 18). The recent contraction in bank lending affected firms of all sizes, but was most pronounced for small ones. It reflects the weakening of economic activity and banks' restrictive lending conditions, albeit easier than at the end of 2011. The total outstanding debt of firms remained basically unchanged in relation to GDP, at just below 80 per cent in March (Figure 19), more than 20 percentage points below the average for the euro area. Firms' leverage, defined as the ratio of financial debt to the sum of financial debt and equity at market prices, diminished slightly, to just below 48 per cent, about 4 percentage points above the euro-area average.

Bond fund-raising increases ...

The largest Italian non-financial corporations have increased their recourse to the financial markets. In the first quarter of 2012 net bond issues rose to about €4.5 billion, up from €1.9 billion in the previous quarter. The euro area as a whole also recorded an acceleration in net issues, which rose to over €31 billion. Provisional Dealogic data on gross issues indicate that placements by companies belonging to Italian groups amounted to about €3 billion in the second quarter of 2012.

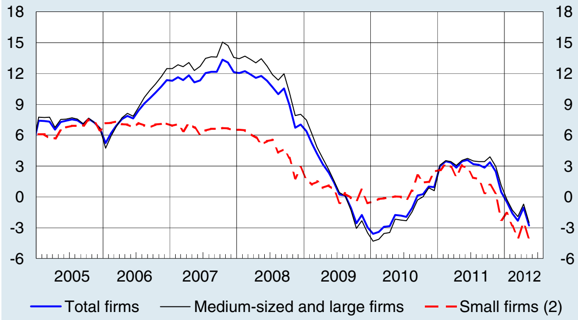
... while equity fund-raising is stable

Fund-raising on the equity market trended upwards from the end of 2011, remaining positive but at a low level in the first quarter. According to Thomson Reuters Datastream, in the first quarter of 2012 firms carried out 16 M&A transactions, compared with 23 in the previous quarter, while their value rose slightly, from €1.4 billion to €1.7 billion.

Figure 18

Bank loans to firms by size of firm (1)

(monthly data; twelve-month percentage changes)

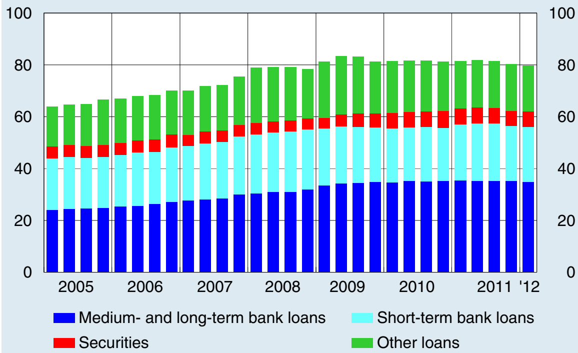


(1) Non-financial firms. Data adjusted for the accounting effect of securitizations. Loans exclude repos, bad debts and some minor items included in the Eurosystem harmonized definition of the aggregate. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

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. The data for the first quarter of 2012 are provisional.

3.3 HOUSEHOLDS

Household spending continues to be very weak, influenced by the contraction in disposable income and the deteriorating outlook for employment. Consumer confidence has fallen to very low levels.

Consumption declines in the first quarter ...

In the first quarter of 2012 household consumption continued to decline, falling by 1.0 per cent compared with the previous quarter. The fall in purchases of goods, and of durables in particular (down by 3.7 per cent), was accompanied by a slight contraction in spending on services, the first in almost a year. Consumption continued to be dampened by the decline in households' real disposable income, which declined by 1.0 per cent in the first quarter of 2012 compared with the previous quarter and by 1.7 per cent compared with the same period in 2011 (Figure 20). The saving rate remained unchanged at the level recorded at the end of 2011, 9.2 per cent.

... and the most recent signs do not point to a recovery

Household spending was also extremely cautious in the spring. Retail sales, already weak in the first quarter, fell in April by 1.6 per cent compared with March. In the second quarter new car registrations remained practically unchanged at the exceptionally low levels recorded in the first quarter. In June consumer confidence touched one of the lowest levels on record since the inception of the series in 1996, above all as a consequence of the worsening of households' assessment of the overall economic situation.

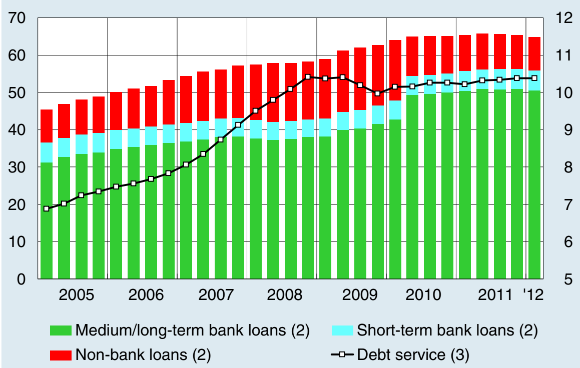
Figure 20

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

Source: Based on Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Annual data up to 2011; for 2012, percentage changes in the first quarter on the same period in 2011. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices: 2005=100. – (4) Monthly data; moving averages for the three months ending in the reference month.

Figure 21

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



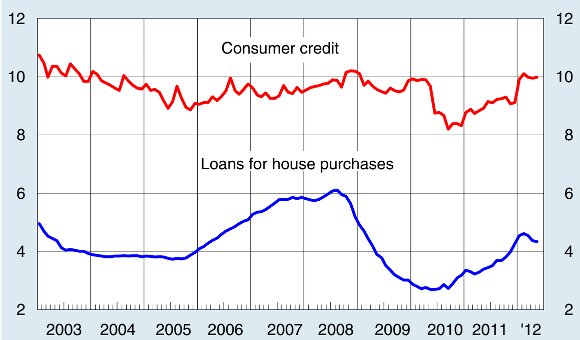
Sources: Based on Bank of Italy and Istat data.
(1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Data for the last period are provisional. Includes securitized loans. – (2) There is a break in statistics on the distribution between bank and non-bank loans for the second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

Household debt falls slightly; the cost of debt service remains stable

In the first quarter of 2012 the level of Italian household debt, already significantly lower than the euro-area average of about 100 per cent of disposable income, fell slightly to about 65 per cent (Figure 21). The burden of debt service (payment of interest and repayment of principal) remained basically stable at just over 10 per cent of disposable income. The interest rates on loans for house purchases and for consumer credit, which had been rising until February, subsequently declined slightly (Figure 22).

Figure 22

Interest rates on loans to households: APRC on new business (1)
(monthly data; percentages)



(1) The data on bank lending rates refer to euro transactions and are collected and processed using the Eurosystem's harmonized method. "New business" means contracts concluded during the reference period or contracts renegotiating previous terms and conditions. The APRC (annual percentage rate of charge) includes ancillary expenses (administrative expenses, loan examination fees and insurance) and is calculated as the average for the different maturities, weighted by loan size.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Foreign trade, which had been slowing down since the second half of 2011, fell in the first quarter of 2012, amid continued weakness in world demand and uncertainty about growth prospects in the major advanced economies. As a result of the fall in domestic demand, imports declined more than exports, leading to a further reduction in the current account deficit.

Exports fall in the first quarter of 2012 ...

In the first quarter of 2012, exports of goods and services decreased in volume by 0.6 per cent compared with the previous quarter. The decline in the services component was large (2.4 per cent) but that in goods was more limited (0.2 per cent), as the growth in exports going outside the EU offset the contraction in exports to other EU countries.

... but imports fall even more

During the same period, imports of goods and services shrank in volume terms by 3.6 per cent compared with the previous quarter, with the goods component recording a larger fall (4.0 per cent) than services (1.9 per cent). The reduction reflects the general decline in purchases from abroad in all sectors, with the exception of raw materials, and applies to trade both inside and outside the EU.

Exports are set to benefit from demand from outside the EU

Value data for April and May show signs of a pick-up in exports, supported by demand from non-EU countries, while imports are seen as continuing to suffer from weak domestic demand.

Current account deficit declines

In the first four months of 2012 the current account deficit decreased by €13.6 billion compared with the same period last year (Table 3). The decrease was mainly due to the sharp reduction of €12.1 billion in the goods deficit, despite the deterioration of €2.4 billion in the energy balance and, to a lesser extent, to the fall of €2 billion in the deficit on the income account. The deficit on the services account improved by €1 billion, reflecting the positive contribution of tourism and smaller outlays on other business services.

Outward foreign direct investment, which had recovered in 2011, amounted to €7.2 billion in the first four months of this year, about half the figure for the same period last year. Net inward investment also contracted sharply (from €5.8 billion to €1.4 billion), mainly reflecting smaller foreign investment in the equity of Italian subsidiaries and a transfer of liquidity from the latter to their parent companies.

Net portfolio sales continue

The net portfolio outflows, which began in the second half of 2011 and were related to tensions arising from the sovereign debt crisis, continued at a rapid pace in the first four months of this year. Non-residents' net disposals of Italian assets (especially medium- and long-term securities) amounted to €47.1 billion, while residents made net disposals of foreign assets amounting to €17.6 billion (chiefly by not rolling over bonds and money market instruments).

Target2 balance stabilises between April and June

"Other investment", mostly comprising deposits and loans, recorded an increase of €58.2 billion in new

Table 3

Italy's balance of payments (1)

(billions of euros)

	2010	2011	Jan.-Apr. 2011	Jan.-Apr. 2012
Current account	**-54.7**	**-51.5**	**-27.8**	**-14.2**
Goods	-20.9	-16.6	-13.0	-0.9
non-energy products (2)	*29.5*	*43.3*	*7.0*	*21.5*
energy products (2)	*-50.4*	*-59.9*	*-20.0*	*-22.4*
Services	-9.2	-7.0	-4.1	-3.1
Income	-8.3	-12.0	-3.2	-1.2
Current transfers	-16.3	-15.9	-7.5	-9.1
Capital account	**-0.6**	**0.4**	**-0.3**	**-0.4**
Financial account	**86.7**	**73.5**	**2.6**	**19.4**
Direct investment	-17.7	-13.1	-8.6	-5.8
Portfolio investment	38.5	-34.4	-3.0	-29.5
Financial derivatives	-4.7	7.5	3.6	-2.4
Other investment	71.8	114.4	9.9	58.2
Change in official reserves	-1.0	-0.9	0.6	-1.1
Errors and omissions	**-31.5**	**-22.4**	**25.5**	**-4.8**

(1) For April 2012, provisional data. – (2) Based on Istat foreign trade data.

foreign liabilities in the first four months of 2012, mainly relating to intra-Eurosystem operations carried out between the Bank of Italy and the European Central Bank on the Target2 account (see the box "Recent evolution of the balances of the TARGET2 payment system" in *Economic Bulletin*, January, 2012). The balance of the Bank of Italy at the ECB, which reached €270 billion in March, representing the contra-item to net outflows in the market for bank funding and government securities, remained stable at this level between April and June.

3.5 THE LABOUR MARKET

In the first quarter of 2012 the number of persons in work was down by 0.4 per cent (81,000) compared with a year earlier (Table 4). The unemployment rate rose from 8.6 to 10.9 per cent, driven in part by the significant expansion in the labour force (2.3 per cent or 565,000 persons), which in turn reflected the greater rate of participation among persons previously most distant from the labour market. Adjusted for seasonal effects the number of persons in work and the unemployment rate stabilized in the two months April-May; however, in June the hours of wage supplementation authorized began to increase significantly again and firms' expectations inferred from the quarterly surveys point to a further worsening of employment levels in the months to come (Figure 23). Real wages fell.

Employment in the non-farm private sector declines

The drop in employment recorded in the first quarter compared with a year earlier involved all areas of Italy; it was somewhat sharper in the Centre (0.7 per cent, as against 0.3 per cent in the North and 0.2 per cent in the South). The reduction reflects both the continuation, albeit at a slower pace than in the previous quarters, of the fall in employment in the construction sector (4.5 per cent) as well as contractions in industry excluding construction (0.7 per cent) and in private services (0.4 per cent excluding education and health), after four and five quarters of growth, respectively. The number of hours of wage supplementation authorized, which in the first five months as a whole was basically unchanged, rose by 16.2 per cent in June compared with the same period in 2011.

The fall is confined to the self-employed; the share of permanent full-time contracts declines significantly

The drop in employment was confined exclusively to the self-employed, whose numbers, already in decline in the previous quarters,

Table 4

Labour force status of the population in Italy

	Average 2010	Average 2011	Change (1)	2011 Q1	2012 Q1	Change (2)
			Thousands of persons			
Total persons in work	**22,872**	**22,967**	**0.4**	**22,874**	**22,793**	**-0.4**
Employees	17,110	17,240	0.8	17,054	17,087	0.2
of which:						
fixed-term	*2,182*	*2,303*	*5.5*	*2,131*	*2,232*	*4.7*
part-time	*2,715*	*2,825*	*4.1*	*2,751*	*3,009*	*9.4*
Self-employed	**5,763**	**5,727**	**-0.6**	**5,820**	**5,706**	**-2.0**
Labour force	**24,975**	**25,075**	**0.4**	**25,029**	**25,594**	**2.3**
men	*14,748*	*14,733*	*-0.1*	*14,717*	*14,877*	*1.1*
women	*10,227*	*10,342*	*1.1*	*10,313*	*10,716*	*3.9*
Population	**60,051**	**60,328**	**0.5**	**60,232**	**60,463**	**0.4**
			Per cent and percentage points			
Unemployment rate	**8.4**	**8.4**	**0.0**	**8.6**	**10.9**	**2.3**
men	*7.6*	*7.6*	*0.0*	*7.9*	*10.0*	*2.1*
women	*9.7*	*9.6*	*-0.1*	*9.6*	*12.2*	*2.6*
North	*5.9*	*5.8*	*-0.2*	*6.0*	*7.6*	*1.6*
Centre	*7.6*	*7.6*	*0.0*	*7.5*	*9.6*	*2.1*
South	*13.4*	*13.6*	*0.2*	*14.1*	*17.7*	*3.7*
Participation rate (age 15-64)	**62.2**	**62.2**	**0.1**	**62.2**	**63.6**	**1.4**
men	*73.3*	*73.1*	*-0.2*	*73.1*	*73.8*	*0.7*
women	*51.1*	*51.5*	*0.4*	*51.4*	*53.4*	*2.0*
North	*69.2*	*69.3*	*0.1*	*69.5*	*70.4*	*0.9*
Centre	*66.6*	*66.2*	*-0.4*	*66.1*	*67.2*	*1.0*
South	*50.8*	*51.0*	*0.2*	*50.6*	*52.7*	*2.1*
Employment rate (age 15-64)	**56.9**	**56.9**	**0.1**	**56.8**	**56.5**	**-0.2**
men	*67.7*	*67.5*	*-0.2*	*67.2*	*66.2*	*-0.9*
women	*46.1*	*46.5*	*0.4*	*46.4*	*46.9*	*0.5*
North	*65.0*	*65.2*	*0.2*	*65.3*	*65.0*	*-0.3*
Centre	*61.5*	*61.1*	*-0.4*	*61.1*	*60.6*	*-0.4*
South	*43.9*	*44.0*	*0.1*	*43.4*	*43.3*	*-0.1*

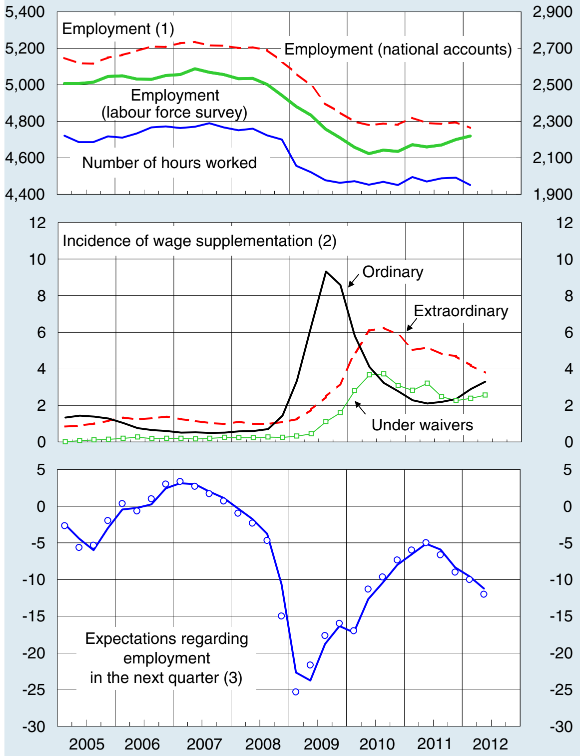
Source: Istat, labour force survey.
(1) Average 2011/average 2010; changes are in percentages for persons and percentage points for rates. – (2) 2011 Q1/2012 Q1; changes are in percentages for persons and percentage points for rates.

fell by a further 2.0 per cent. The growth of 0.2 per cent in payroll employment continued to reflect an increase in part-time and fixed-term contracts, which rose respectively by 9.4 and 4.7 per cent; the number of full-time permanent contracts as a share of total salaried workers fell to 72.9 per cent, from 74.6 per cent a year earlier. The number of hours worked under temporary contracts was basically unchanged.

Figure 23

Employment, wage supplementation and employment expectations in industry excluding construction

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



Sources: Based on Istat (NACE 2007), *Clima di fiducia delle imprese*, labour force surveys, quarterly economic accounts, and INPS data (statistical contribution code).
(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 was authorized in the quarter as a percentage of the number of full-time equivalent employees as defined in the quarterly economic accounts. – (3) Balance between percentages of manufacturing firms expecting to increase/decrease their workforce in the next three months. Single observations and 3-term moving averages, quarterly data.

Actual earnings increase more than contractual earnings, but fall in real terms

In the first quarter of 2012 contractual earnings recorded a twelve-month rate of growth of 1.3 per cent in the economy as a whole and of 1.9 per cent in the non-farm private sector alone. Actual earnings per full-time equivalent employee increased by 1.2 per cent and 2.1 per cent, respectively; as in 2011, part of the increase reflects the shift in the composition of the workforce towards occupational segments with higher average wages. The increase of 2.9 per cent in consumer prices led to a decline in real wages which, according to our estimates, will continue in the two years 2012-13, both in the private sector and, to a greater extent, in the public one.

The labour supply increases, resulting in a sharp rise in unemployment among women, young people, and residents in the South

The increase in the participation rate for persons aged 15-64 (from 62.2 to 63.6 per cent) was stronger for women, in the South, and among the younger and older segments of the population. As a result, the unemployment rate (referring to the population aged up to 74) increased more among women (2.6 percentage points), in the South (3.7 percentage points) and in the 25-34 age bracket (3.3 percentage points), while for older workers more than half of the increase in labour supply was absorbed by the market.

The number of those not available to work decreases

An analysis of the economically inactive population aged 15-64 suggests that those who are most distant from the labour market are gradually becoming active again: the number of persons who are not seeking employment and are not available to work fell by 749,000 (6.3 per cent), while the number of those who were not seeking jobs but were available to work increased by 139,000 (10.3 per cent). The reduction in the inactive population is ascribable to the decrease of 420,000 or 9.3 per cent in the number of persons inactive for age-related reasons or because they draw a pension, as well as to the reduction in those not working because they are studying or in professional training (124,000 or 2.9 per cent).

3.6 PRICE DEVELOPMENTS

The rate of consumer price inflation in Italy remained just over 3 per cent during the second quarter. The pressure from producer prices continued to abate.

Consumer price inflation is stable in the second quarter ...

Measured by the national consumer price index, inflation remained broadly stable during the second quarter. The overall CPI showed a twelve-month rise of 3.3 per cent in June; CPI inflation net of the most volatile components remained markedly lower, at 1.9 per cent (Table 5 and Figure 24). Fuel prices, which had risen constantly since autumn, declined in May and June in connection with the fall in oil prices.

... and continues to reflect higher indirect taxes

Price trends have continued to be affected by the indirect tax increases introduced since last summer. The overall effect of the measures can be estimated at about one percentage point. Nearly half of this is due to the raising of the standard VAT rate from 20 to 21 per cent, which went into effect in September, and the rest to the successive increases in the excise taxes on fuels enacted since July 2011.

Producer prices slow down

Producer price inflation has continued to abate, from a twelve-month rate of over 3 per cent in the first quarter to 2.3 per cent in May. The slowdown has chiefly involved intermediate goods and to a lesser extent consumer goods. The twelve-month rate of increase in energy prices, though easing since the beginning of the year, remains high.

In 2012 consumer price inflation is expected to average about 3 per cent

The professional forecasters surveyed by Consensus Economics in July expect consumer price inflation to be 3.0 per cent in 2012 and 2.0 per cent in 2013. The survey conducted by the Bank of Italy together with *Il Sole-24 Ore* indicates variations in firms' list prices of slightly over 1 per cent over the next twelve months. Purchasing managers' indices do not signal significant upward pressure on list prices.

Table 5

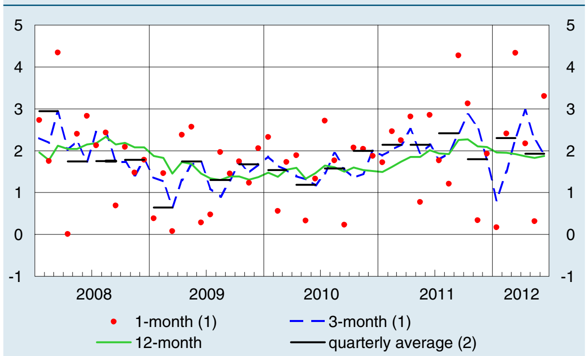
Indicators of inflation in Italy
(twelve-month percentage changes)

	HICP (1)		Overall index at constant taxation (4)	IPC (2)		IPP (3)	
	Overall index	Excl. energy and food		Overall index	at 1 month (5)	Excl. energy and food	Overall index
2007	2.0	1.8	2.1	1.8	–	1.5	3.3
2008	3.5	2.2	3.5	3.3	–	2.1	5.8
2009	0.8	1.6	0.8	0.8	–	1.5	-5.4
2010	1.6	1.7	1.6	1.5	–	1.5	3.1
2011	2.9	2.0	2.6	2.8	–	1.9	5.0
2011 – Jan.	1.9	1.1	1.9	2.1	0.4	1.5	5.3
Feb.	2.1	1.2	2.0	2.4	0.3	1.6	5.8
Mar.	2.8	2.1	2.7	2.5	0.4	1.7	6.2
Apr.	2.9	2.1	2.8	2.6	0.3	1.9	5.6
May	3.0	2.1	2.9	2.6	0.1	1.9	4.8
June	3.0	2.3	3.0	2.7	0.1	2.0	4.6
July	2.1	1.0	1.9	2.7	0.2	1.9	4.9
Aug.	2.3	1.2	2.1	2.8	0.2	1.9	4.8
Sept.	3.6	3.1	3.4	3.0	0.3	2.3	4.7
Oct.	3.8	2.7	3.0	3.4	0.5	2.3	4.7
Nov.	3.7	2.6	3.0	3.3	0.2	2.1	4.7
Dec.	3.7	2.6	2.9	3.3	0.3	2.1	3.9
2012 – Jan.	3.4	2.0	2.4	3.2	0.3	2.0	3.5
Feb.	3.4	2.0	2.4	3.3	0.4	2.0	3.2
Mar.	3.8	2.5	2.7	3.3	0.4	1.9	2.8
Apr.	3.7	2.3	2.7	3.3	0.3	1.9	2.5
May	3.5	2.2	2.5	3.2	..	1.8	2.3
June	3.6	2.3	2.5	3.3	0.2	1.9	....

Sources: Based on Istat and Eurostat data.
(1) Harmonized index of consumer prices. – (2) Consumer price index for the entire resident population; this differs from the harmonized index principally on account of the different method of recording the prices of pharmaceutical products and promotional sales. – (3) Index of producer prices of industrial products sold on the domestic market. – (4) Index calculated by Istat by subtracting from sales prices the impact of indirect tax changes, on the assumption that these were passed on immediately and in full. – (5) Overall index, seasonally adjusted.

Figure 24

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



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

3.7 BANKS

The second three-year Eurosystem refinancing operation carried out at the end of February averted the risk of a liquidity crisis for the banks; as a result credit access conditions appeared less unfavourable and the cost of borrowing showed signs of falling. The improvements remain fragile, however, and they depend on funding conditions, tensions on the sovereign debt markets, and the difficult economic situation. These factors affect the demand of firms and households as well as banks' assessments of their creditworthiness. The Italian banks have strengthened their capital.

External funding difficulties persist ...

Sovereign debt tensions have continued to impact on banks' wholesale funding. Non-residents' deposits and liability-side net repos with central counterparties, mostly international interbank funding, decreased by a further €8 billion in total between the end of February and the end of May, following a €32 billion contraction in the

Table 6

Main assets and liabilities of Italian banks (1)
(end-of-month stocks in millions of euros)

	2011		2012				
	May	December	January	February	March	April	May
Assets							
Loans to Italian residents (2)	1,938,514	1,948,770	1,946,889	1,940,148	1,948,824	1,948,912	1,946,005
of which: to firms (3)	*897,911*	*894,016*	*899,366*	*895,556*	*884,802*	*890,643*	*887,499*
to households (4)	*608,128*	*618,499*	*617,089*	*615,809*	*615,162*	*614,627*	*615,803*
Debt securities (5)	341,105	375,525	411,616	444,950	452,964	459,467	456,540
of which: securities of Italian general government entities	*206,989*	*224,114*	*252,223*	*281,710*	*304,886*	*309,239*	*316,819*
Claims on the Eurosystem (6)	20,006	33,887	16,918	10,818	16,779	20,257	17,352
External assets (7)	335,570	366,915	354,791	350,094	358,624	358,260	361,584
Other assets (8)	1,156,537	1,316,546	1,359,851	1,374,956	1,366,766	1,387,515	1,425,097
Total assets	**3,791,732**	**4,041,643**	**4,090,065**	**4,120,966**	**4,143,957**	**4,174,411**	**4,206,578**
Liabilities							
Deposits of Italian residents (2) (9) (10)	1,142,316	1,149,775	1,132,927	1,141,141	1,165,086	1,166,012	1,159,120
Deposits of non-residents (7)	460,761	394,566	389,684	384,495	364,674	366,144	373,541
Other forms of secured interbank funding (11)	64,640	47,380	50,858	65,988	56,101	58,852	70,720
Bonds (10)	630,083	619,226	612,354	608,228	609,840	598,856	597,632
Liabilities towards the Eurosystem (12)	34,337	215,544	210,028	202,377	274,662	275,233	276,093
Capital and reserves	373,877	379,776	390,794	392,762	394,662	383,400	370,432
Other liabilities (13)	1,085,718	1,235,376	1,303,420	1,325,975	1,278,932	1,325,914	1,359,040
Total liabilities	**3,791,732**	**4,041,643**	**4,090,065**	**4,120,966**	**4,143,957**	**4,174,411**	**4,206,578**

Source: Supervisory reports.
(1) The figures for May 2012 are provisional. – (2) Excludes operations with central counterparties. – (3) Harmonized definition; excludes producer households. – (4) Harmonized definition; includes producer households, non-profit social institutions and units not classified elsewhere. – (5) Excludes bonds of resident monetary financial institutions (MFIs), i.e. banks and money market funds. – (6) Current accounts with the Bank of Italy (including in connection with the reserve requirement), overnight deposits and other minor deposits with the Bank of Italy. – (7) In the period considered, these refer mainly to interbank transactions. – (8) Bonds issued by resident MFIs, loans to resident MFIs, asset-side repos with central counterparties, shares and other equity of resident companies, cash, money market fund units, derivatives, movable and immovable goods, and other minor items. – (9) Excludes deposits connected with securitizations. – (10) Excludes liabilities towards resident MFIs. – (11) Liability-side repos, net of asset-side repos, with central counterparties. – (12) Main refinancing operations, longer-term refinancing operations, marginal lending facility, fine-tuning operations, and other minor items. – (13) Bonds held by resident MFIs, deposits connected with securitizations, deposits of resident MFIs, money market fund units, derivatives, and other minor items. In order to square the amount of total liabilities with the amount of the component items, "Other liabilities" is increased by the amount of asset-side repos with central counterparties (see note 11).

three preceding months. In the same period the stock of bonds placed by Italian banks both through their branch networks and on the wholesale market, for which the residence of the holder is unknown, diminished by €11 million, in addition to the €13 billion decrease recorded in the previous three months.

... but retail funding remains strong

By contrast, Italian banks' retail funding in the traditional forms from resident savers has remained unaffected by the sovereign debt crisis. From end-February to end-May the stock of deposits held by residents increased by €18 billion, with a continuing shift from current accounts to other types of deposit carrying higher interest rates (Table 6).

The cost of deposits diminishes

The average interest rate on current accounts of firms and households has held virtually stable, standing at 0.5 per cent in May. The rate on households' new deposits with agreed maturity of up to one year was reduced by about half a percentage point with respect to February (2.7 per cent), while the average yield on the few new bond issues fell by eight-tenths of a point to 3.2 per cent.

The credit tightening eases

On the asset side, between the end of February and the end of May lending to the non-financial private sector continued to decline, albeit at a slower pace. In the three months to May, loans to firms, adjusted for the seasonal component and for the accounting effect of securitizations, decreased by 0.9 per cent on an annual basis, while loans to households remained virtually stationary. Total lending by the five largest banking groups declined compared with a year earlier, falling by 3.0 per cent in the twelve months to May against 2.8 per cent to February, net of repos and bad debts (Figure 25), while lending by smaller banks was up by 1.0 per cent.

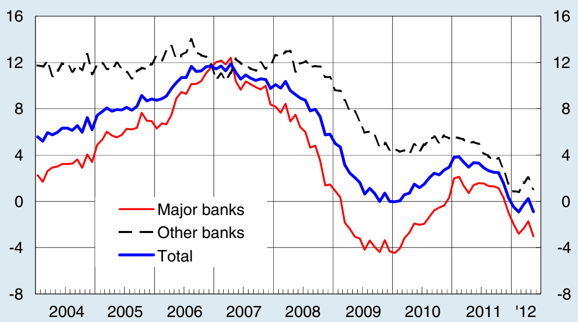
Tensions on the supply side diminish but uncertainty still prevails

In recent months, the performance of lending has been largely shaped by the weakness of demand, which in the case of firms has reflected the contraction in investment and the uncertainties regarding the outlook for economic growth and in the case of households the deteriorating property market and poor consumer confidence. According to the Italian banks participating in the quarterly euro-area bank lending survey conducted at the end of April, the tightening of lending standards, which had been substantial in the fourth quarter of 2011, was reduced considerably in the first quarter of this year thanks to the banks' improved liquidity position following the three-year refinancing operations carried out by the Eurosystem (see the box "Credit supply and demand in Italy"). However, later surveys of firms suggest that the more favourable trend has broken off in recent months with the renewed flare-up of tensions on the international markets.

Figure 25

Bank lending to the non-financial private sector by size class of bank (1)

(monthly data; twelve-month percentage changes)



Source: Supervisory reports.
(1) The percentage changes are calculated net of reclassifications. Includes an estimate of loans not recorded in banks' balance sheets because they are securitized. Loans exclude repos and bad debts, which are included instead in the Eurosystem harmonized definition. Major banks are those belonging to the following groups: UniCredit, Intesa Sanpaolo, Banca Monte dei Paschi di Siena, Unione di Banche Italiane and Banco Popolare. "Other banks" and "Total" do not include Italian branches of foreign banks.

Purchases of government securities continue

Between February and May Italian banks' purchases of securities issued by Italian general government entities amounted to €45 billion; the stock of securities in their portfolios grew by around €35 billion, partly as a result of price decreases. A considerable part of the short-term portion of these purchases appears to represent a form of liquidity risk protection for banks and could be disposed of to cover the very substantial redemptions of bonds maturing over the next few months if the unfavourable conditions of access to wholesale funding were to persist.

CREDIT SUPPLY AND DEMAND IN ITALY

The responses given by the Italian banks participating in the quarterly euro-area bank lending survey conducted at the beginning of April indicated that in the first quarter of 2012 the tightening of business lending criteria diminished considerably (Figure A).[1] The improvement concerned both the margins on loans and the size of loans granted and reflected the fewer difficulties in obtaining funding on the markets and the decreased perception of risk for the economic outlook.

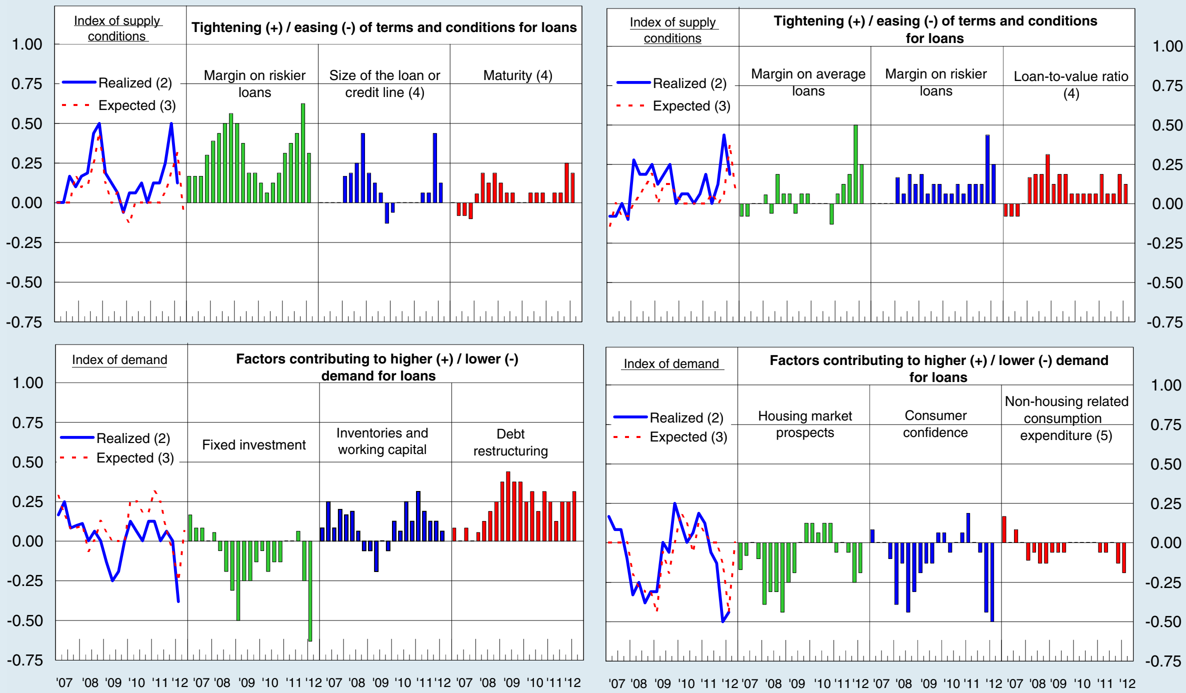
The banks reported a sharp slowdown in the demand for loans from businesses that was more marked than the one observed in the months following the collapse of Lehman Brothers; the trend reflected the large contraction in applications for loans to fund fixed investment. By contrast, demand connected with debt-restructuring operations remained strong.

At the time of the survey (early April) the banks interviewed expected that the tightening of credit supply would virtually come to an end in the second quarter of this year and that business

Figure A

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

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



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

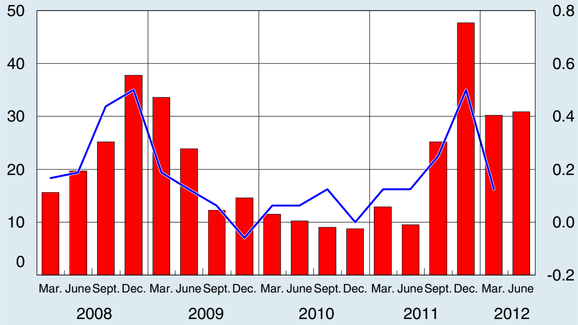
[1] Eight leading banking groups took part in the survey, which was completed on 4 April; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The responses concerning assessments for the second quarter of 2012 and expectations for the third quarter are not yet available and will be published on 25 July.

demand would become less weak. More recent assessments based on business surveys indicate that the improvement did not last, presumably owing to a new flare-up of tensions on the sovereign debt markets in recent months. According to the Bank of Italy – *Il Sole 24 Ore* quarterly survey, in June the net percentage of manufacturing firms reporting a tightening of credit access conditions was 30.9 per cent, against 30.2 per cent in March (47.7 per cent last December) (Figure B). The Istat monthly survey provides similar indications.

Regarding households, according to the April bank lending survey the tightening of credit supply conditions diminished considerably in the first quarter of the year as pressures on funding costs and balance-sheet constraints lifted somewhat, leading to less unfavourable cost conditions for customers.

Figure B

Indicators of credit access conditions for businesses in Italy (1)



(1) For the Bank of Italy – *Il Sole 24 Ore* survey, net percentages calculated as the difference between the percentages of replies indicating a tightening of lending criteria and the percentage of those indicating an easing. For the bank lending survey, see Figure A.

Households' demand for credit remained weak. Loans for house purchases continued to reflect the less favourable outlook for the property market and the deterioration of consumer confidence; the demand for consumer credit appears to have been adversely affected by the trend in spending on durables and household saving.

The banks surveyed expected the tightening of credit standards for mortgages to ease further in the second quarter of 2012 and a recovery in demand.

In response to specific questions concerning conditions of access to funding in the first quarter of 2012, the banks reported fewer difficulties in raising funds through issues of medium- and long-term debt instruments and in retail funding by means of instruments with a maturity of over one year.

The cost of finance for firms continues to fall slowly

In May the average cost of new loans to firms was down one tenth of a percentage point with respect to February, at 3.7 per cent (it was 4.2 per cent in December 2011) (Figure 26). The average rate on new loans of under €1 million, which proxies for the cost of credit to smaller businesses, fell by 0.3 points to 4.7 per cent, while that on larger loans held steady at 3.1 per cent. The cost of new mortgage loans to households fell by two tenths of a percentage point, to 3.8 per cent for variable-rate and 4.9 per cent for fixed-rate loans.

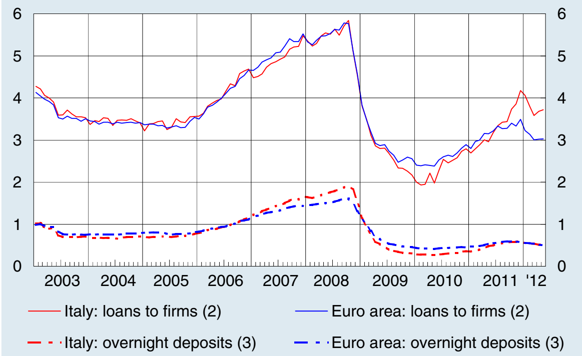
The recession is reflected in the flow of new bad debts

In the first quarter of 2012 the flow of new bad debts remained high in relation to outstanding loans,

Figure 26

Bank interest rates (1)

(monthly data; percentage points)



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 new loans to firms. – (3) Average rate on current accounts of households and firms.

equalling 1.9 per cent on an annualized, seasonally adjusted basis, close to the level recorded in the last quarter of 2011. The new bad debt ratio for loans to firms increased by 0.2 percentage points to 2.9 per cent, the highest level since the start of the crisis but by no means as high as at other times in the past. By contrast, the ratio for loans to households decreased from 1.4 to 1.2 per cent. Preliminary data indicate that in April and May the banks' seasonally adjusted exposure to borrowers newly reported as bad debtors remained unchanged from February and March. Loans to firms in temporary difficulty (substandard and restructured loans) increased from 6.6 per cent of total lending to businesses in February to 7.1 per cent in May.

The operating profitability of the five major banking groups is stable

According to their consolidated quarterly reports, in the first quarter of 2012 the operating profitability of the five largest banking groups was generally unchanged with respect to a year earlier; the return on equity was 5 per cent on an annual basis. Gross income increased by 6 per cent thanks to the income from trading, which more than offset the 5 per cent decline in net fee income. Net interest income was virtually unchanged. Operating profit increased by 14 per cent owing to the small reduction in operating expenses (-1.0 per cent). Allocations to provisions plus value adjustments increased by 12 per cent and the component of this aggregate connected with the deterioration in loan quality by 13 per cent. The improvement in operating profit was absorbed by higher taxes. Net profit was basically unchanged.

Capital is further strengthened

There was a new increase in the five largest banking groups' capital ratios in the first quarter of 2012 as a result of a further capital strengthening and to a smaller extent a decrease in risk-weighted assets. At the end of March their core tier 1 ratio averaged 10.0 per cent, up from 8.9 per cent at the end of 2011. The tier 1 ratio and the total capital ratio stood at 10.7 and 13.7 per cent respectively, against 10.0 and 13.3 per cent at the end of 2011. The leverage ratio, measured as total balance-sheet assets over tier 1 capital, was significantly lower than the average for a sample of large European banks.

3.8 THE FINANCIAL MARKETS

Italian government securities yields moved considerably upwards in the second quarter of 2012. Concurrent factors responsible for this were the uncertainty about the outcome of the general election in Greece, the worsening of the situation of the Spanish banking system (made evident by the need to recapitalize one of the country's largest banking groups) and, in June, the uncertainties surrounding the measures under discussion at European level to break the negative spiral between sovereign risk, banking system fragility and declining growth. The rise in risk premiums for Italian government securities was transmitted to bank and corporate bonds and was accompanied by a slump in share prices.

The strains lessened temporarily and both government securities and share prices staged a partial recovery following the European summit of 28 and 29 June, at which important decisions were taken regarding the integration of the European framework for banking supervision, financial assistance to the Spanish banking system and the commitment to safeguard financial stability.

Spreads on Italian government securities increase ...

Since the end of March the yield spread between the ten-year BTP and German Bund has increased by about 150 basis points (to 480 basis points), despite a temporary decline during the first few days of July. The increase partly reflected a reduction of 53 basis points in the yield on the Bund, probably caused by further shifts of investors' portfolios towards assets they consider safer. The yield on the ten-year BTPs, which had fallen to 5.6 per cent in the first week of July, stood at 6.0 per cent on 13 July.

On 13 July Moody's downgraded Italy's sovereign debt. The decision, announced just before an auction of government securities, had little effect on demand or on yields both in the secondary market and in the auction.

Liquidity conditions in the secondary market for Italian government securities remained good in the second quarter: bid-ask spreads were narrower on average than in the previous quarter.

... as do the credit risk premiums of Italian banks and firms

In the second quarter of 2012 the yield spreads between investment-grade bonds issued by non-financial corporations and the government securities deemed safest widened by 110 basis points in Italy and by 190 in Spain; the increase was smaller for French firms (20 basis points) and nil for German companies. The pressures on Italian government securities continued to have strong repercussions on the major Italian banks, whose CDS spreads grew by 190 basis points to 599 basis points; the gap with respect to the average CDS spreads for the main German and French banks increased by around 150 basis points (to 368 and 313 points respectively), moving back near the highest levels since November 2011.

Table 7

Net bond issues (1)

(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2010	-11,800	-36,458	12,382	-35,876
2011	66,330	-4,376	-274	61,680
2011 – Q1	25,567	-10,893	425	15,099
Q2	12,002	-11,967	-2,124	-2,089
Q3	15,663	-5,360	-485	9,818
Q4	13,098	23,844	1,910	38,852
2012 – Q1	84,907	-7,800	4,492	81,599
		Euro area		
2010	22,912	23,534	63,645	110,092
2011	144,354	-21,161	33,107	156,299
2011 – Q1	82,132	-51,427	6,814	37,519
Q2	50,735	-17,036	7,092	40,791
Q3	9,210	-19,099	2,607	-7,282
Q4	2,276	66,401	16,593	85,270
2012 – Q1	105,295	21,262	31,283	157,840

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.

Banks make massive net issues in the first quarter

In the first quarter of 2012 Italian banks made net bond issues amounting to €85 billion (Table 7), compared with about €20 billion by banks from the rest of the euro area. Non-financial corporations continued to make net issues both in Italy and in the rest of the area. According to preliminary Dealogic data limited to gross issues on the wholesale market, in the second quarter of 2012 placements by Italian banks plunged from €33 billion to €2 billion.

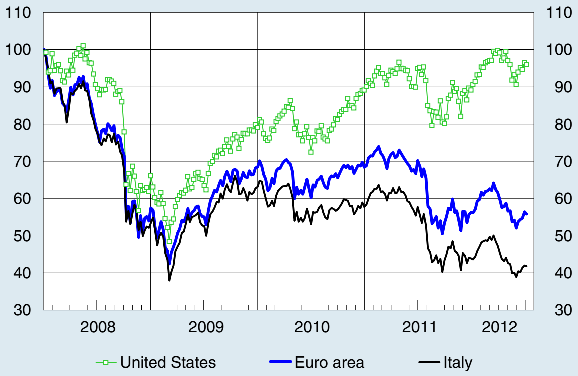
The Italian stock exchange index falls from April onwards ...

Since the end of March 2012 the new phase of tension on the euro-area sovereign debt markets has driven down share prices: as of 13 July the general index of the Italian stock exchange had lost 13 per cent, exceeding the declines recorded for the euro area as a whole and the United States (9 and 4 per cent respectively; Figure 27).

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.

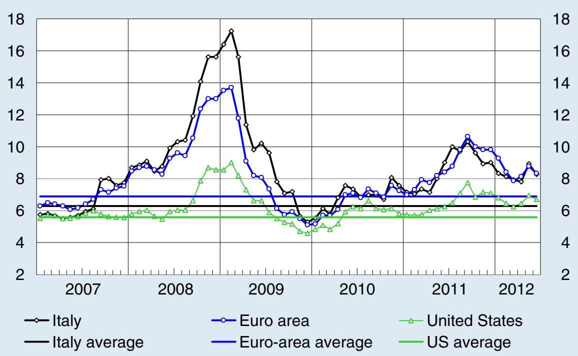
... mainly reflecting the fall in bank shares

Share prices fell on average in all the main segments of the Italian stock market. The largest declines were in the index of the banking sector and that of insurance shares (down 28 and 18 per cent respectively). Telecommunication and service companies' shares also fell steeply, losing 17 and 16 per cent respectively. The ratio of current earnings to prices rose by 1 percentage point as a consequence of the slump in stock market values, remaining well above its long-term average (Figure 28).

Figure 28

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

(end-of-month data; per cent)



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

Two initial public offerings were made in the second quarter of 2012: one on the MTA main share market and one on the AIM Italia alternative investment market. At the end of June the 285 Italian companies listed on Borsa Italiana had a total market value of €327 billion (equal to about 20 per cent of GDP).

Net outflows of savings from investment funds slow in the first quarter

The net outflow of savings from Italian open-end investment funds amounted to €2.3 billion in the first quarter of 2012, compared with €18.1 billion in the last quarter of 2011. At the end of March open-end Italian and foreign funds in Italy had total assets of €439 billion, up from €421 billion at the end of 2011. Italian harmonized funds recorded an average return of 4.2 per cent during the quarter.

3.9 PROJECTIONS

The continuation of the sovereign debt crisis is affecting the outlook for growth

Since January, when we published our last macroeconomic projections, economic activity has continued to suffer from the sovereign debt crisis. Italy's GDP contracted in the first quarter of this year at a slightly faster pace than in the last part of 2011. The yields on Italian government securities, after falling sharply between January and March, rose part of the way back in May and June: the hypothesis adopted in this scenario is that in 2012-13 the spread between the yields on ten-year BTPs and German Bunds will remain close to the values observed in the first half of July (see the box "Technical assumptions and the international context"). It is assumed that the difficulties households and firms face in obtaining loans will gradually be overcome, with the credit market returning to normal in 2013; the strained conditions prevailing at the beginning of the year will nonetheless have subtracted about half a percentage point from growth in 2012. According to the latest IMF estimate, the expansion in world trade expected next year is more than a percentage point lower than projected in the January *Economic Bulletin*, owing both to the continuation of the European crisis and to the slowdown of the emerging economies. The projections take account of the measures contained in the spending review decree (see the box "Measures enacted under the spending review of July 2012").

Italy's GDP will contract further in the second half of the year, albeit at a more moderate pace

In Italy it is expected that economic activity will continue to be marked by very weak domestic demand as a result of the worsening in credit conditions and the effects on disposable income of the measures adopted last year to consolidate the public finances. The recession is expected to continue, though easing in the second part of this year, and to end at the beginning of 2013. During that year, on the basis of the assumptions adopted in this bulletin, quarter-on-quarter growth will be only just positive; it could become more robust in 2014. In 2012 GDP appears set to contract by 2.0 per cent; in 2013, reflecting the previous year's contraction, year-on-year growth is likely to be still slightly negative (-0.2 per cent; Table 8).

The growth projections have been lowered

Our growth projections have been revised downwards compared with those presented in the January *Economic Bulletin*; to a large extent the revision reflects a less favourable outlook for domestic demand, for both investment and consumption, due to the deterioration in conditions in the labour market and the property market observed at the beginning of the year and the decline of confidence indices to low levels in the last few months. The effects of the recent earthquakes in some provinces of Emilia Romagna, although difficult to quantify, are estimated to contribute about a tenth of a percentage point to the contraction in GDP this year. The differences between the situation depicted here and that set out in last July's *Economic Bulletin* are larger; they are discussed in the box "Revision of the growth projections with respect to the pre-crisis estimates: the main determinants".

Table 8

Macroeconomic scenario in Italy
(percentage changes on previous year, unless otherwise indicated)

	2011	2012	2013
GDP (1)	0.5	-2.0	-0.2
Household consumption	0.2	-2.5	-0.9
Government consumption	-0.9	-0.9	-1.9
Gross fixed investment	-1.2	-8.2	-0.0
Exports	6.3	2.4	5.9
Imports	1.0	-4.5	4.1
Change in stocks and valuables (2)	-0.6	-0.7	0.1
HICP (3)	2.9	3.0	1.8
Export competitiveness (4)	0.3	4.0	-0.2

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.

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL CONTEXT

Our macroeconomic scenario is based on growth assumptions for GDP and world trade in line with those presented by the ECB in the June issue of its *Monthly Bulletin,* but updated to take account of the latest economic developments. World trade is expected to slow further in 2012, growing by 4 per cent and then by more than 5 per cent in 2013 – just below the average rate for the period 1999-2008. These assumptions are basically in line with the forecasts made recently by the main international organizations (the European Commission, the International Monetary Fund and the OECD).

The projections for oil prices, interest rates and exchange rates have been made on the basis of the prices recorded in the ten working days up to 13 July. On the basis of futures contracts, the price of a barrel of Brent crude oil is assumed to decline progressively over the forecasting horizon to $106.3 in 2012 and $97.5 in 2013.

Three-month interest rates, calculated on the basis of Euribor futures, are projected to fall below 1 per cent, both in 2012 and 2013; the average interest rates on twelve-month BOTs are expected to remain below 3 per cent. Long-term interest rates (corresponding to the yield on a basket of government securities with a duration of about six years) are expected to be close to 6 per cent on average in 2012-13 and the yield spread between the benchmark ten-year BTP and the corresponding German Bund to stay at around 450 basis points. On the currency markets, the assumption is that the bilateral exchange rates will remain unchanged at the average levels recorded in the ten working days up to 13 July; this implies an exchange rate of $1.27 to the euro on average in 2012, followed by a slight depreciation of the euro in 2013. Projections for Italy's public finances take account of the measures contained in the spending review decree passed at the beginning of July.

MEASURES ENACTED UNDER THE SPENDING REVIEW OF JULY 2012

Decree Law 95 of 6 July 2012 raises resources amounting to €4.4 billion in 2012, €10.3 billion in 2013 and €11.2 billion in 2014, almost wholly derived from expenditure cuts. These resources lower net borrowing in 2012 by around €0.6 billion, finance several unforeseen or non-deferrable expenses (including those related to the earthquake in Emilia-Romagna and, from 2014 onwards, the extension of exemptions from the pension reform) and offset the effects of the attenuation and postponement of the planned rise in VAT rates (€3.3 billion in 2012, €6.6 billion in 2013 and €9.9 billion in 2014). The decree lays down that the 10-per-cent and 21-per-cent rates will be raised by 2 points each starting in the third quarter of 2013 and then lowered by 1 point on 1 January 2014.

A first set of measures to curb spending aims to reduce inefficiencies in the procurement of goods and services by general government entities. Statistical analyses are used to estimate excess outlays by public entities, taking account of their special characteristics, and reference levels are assigned on the basis of which to make selective cuts in appropriations to them. For several categories of goods the obligation is established for government departments to make purchases using the instruments provided by the National Public Procurement Agency, Consip (via the regional purchasing centres); contracts stipulated in violation of this obligation are null, and the violation constitutes a disciplinary infraction and producing administrative liability.

A second set of measures concerns public sector employment. The decree envisages a reduction of at least 20 per cent in central government offices (excluding schools) and of at least 10 per cent in non-managerial staff. The possibility of receiving payment in lieu of untaken holidays is suspended. The maximum value of meal vouchers is reduced to €7.

Several measures aim to ensure more efficient use of public property and the lowering of rental costs. The State Property Agency will operate as a commissioning centre for the upkeep of State property. The size of public offices will be reduced through the introduction of reference parameters. A survey of the buildings of non-territorial public entities will be conducted to ascertain whether they can be utilized for central government purposes. The sale of lodgings owned by the Ministry of Defence will be accelerated. For the three years 2012-14 rents owed by government departments for existing contracts will not be updated based on the Istat price index; moreover, from 2013 these rents will be reduced by 15 per cent, without prejudice to the lessor's right of withdrawal.

Other measures concern public companies. Companies controlled directly or indirectly by general government entities that supply services almost exclusively to the same entities must be divested or wound up by end-2013. Measures are also introduced to limit direct procurement from publicly owned companies; in particular, starting in 2014, this will be permitted solely for purchases of goods and services for amounts of less than €200,000.

Also envisaged are significant expenditure cuts involving individual Ministries (around €1.5 billion in 2013 and in 2014), the endowments of several funds, and State transfers to local government entities (€2.3 billion in 2012, €5.2 billion in 2013 and €5.5 billion in 2014). The distribution of the cuts among the individual local government entities and the consequent changes to the Domestic Stability Pact targets must be agreed by 30 September; if no agreement is reached, the distribution will be made in proportion to the individual entities' expenditure on intermediate goods in 2011.

Provinces will be consolidated with the aim of cutting their number in half by end-2012. The criteria for the restructuring (relative to land area and population) must be fixed by the Council of Ministers within ten days after the decree's entry into force. The implementing provisions will be defined within the following forty days by the Council of Local Governments (or, failing which, by the regional bodies acting for or with local governments) in each ordinary statute region; the special statute regions will have six months to adapt to the decree. Finally, a legislative act proposed by the government will ratify the elimination and consolidation of the provinces. Until the restructuring process is complete, there will be a freeze on new permanent hires by the provinces. The decree transfers to the municipalities all the administrative functions currently assigned by law to the provinces and falling within the State's exclusive legislative competence. Once the consolidation procedure has been defined, the provinces' areas of competence shall be: 1) territorial planning; 2) environmental protection and utilization; 3) transport and roads. By 1 January 2014 ten metropolitan cities will be established (Rome, Turin, Milan, Venice, Genoa, Bologna, Florence, Bari, Naples and Reggio Calabria), and these ten provinces eliminated.

The decree also aims to limit outlays and curb spending inefficiencies in healthcare, including by fixing reference prices. In particular: following its entry into force, a 5 per cent reduction is envisaged in the prices and quantities of the goods and services purchased, excluding pharmaceutical products (for existing supply contracts, there is the possibility of renegotiation or withdrawal by the national health service in the event of deviations of more than 20 per cent between the prices applied and the reference prices). For pharmaceutical spending the obligatory discount for the national health service is increased, expenditure ceilings are lowered, and a levelling mechanism is introduced that distributes the cost of any overrunning on pharmaceutical expenditure by hospitals equitably between the regions and the pharmaceutical companies. It is expected that the share of expenditure on medical devices will be lowered to 4.9 per cent of the total allocation in 2013 and to 4.8 per cent in 2014; a reduction is imposed on purchases of healthcare services from accredited private entities in the form of a fixed percentage established by each region, in order to cut total annual expenditure by 1 per cent in 2012 and 2 per cent in 2013.

Effects of Decree Law 95 of 6 July 2012 on the general government consolidated accounts
(millions of euros)

	2012	2013	2014
SOURCES OF FUNDS	**4,392**	**10,330**	**11,234**
Revenue increases (A)	**600**	**1,200**	**1,500**
Changes to the Domestic Stability Pact – special statute regions	600	1,200	1,500
Expenditure cuts (B)	**3,792**	**9,130**	**9,734**
Changes to the Domestic Stability Pact – ordinary statute regions and local authorities	1,700	4,000	4,000
Rationalization and reduction of healthcare expenditure	900	1,800	2,000
Ministries	0	1,528	1,574
Other State departments and non-territorial entities	774	648	552
Purchases of goods and services	121	615	615
Reorganization of public sector workers	6	-202	144
Council of Ministers	25	50	50
Staff costs	88	25	480
Funding and elimination of public entities	175	463	463
Other	9	0	0
USES OF FUNDS	**3,789**	**10,314**	**11,207**
Revenue decreases (C)	**3,280**	**6,524**	**9,864**
Reduction of VAT	3,280	6,560	9,840
Other	0	-36	24
Revenue increases (D)	**509**	**3,790**	**1,343**
Extension of existing legislation and non-deferrable expenditure	509	2,740	103
Transfers to the Earthquake Reconstruction Fund	0	1,000	1,000
Safeguarding of workers from the effects of the pension reform	0	0	190
Other	0	50	50
Net change in revenue (E=A-C)	**-2,680**	**-5,324**	**-8,364**
Net change in expenditure (F=D-B)	**-3,283**	**-5,340**	**-8,391**
Change in net borrowing (G=F-E)	**-602**	**-16**	**-27**

Source: Based on official estimates in *Atti parlamentari*, Senato della Repubblica, No. 3396.

Exports will continue to sustain growth

Despite the slight downturn recorded in the first quarter of this year, exports are expected to grow again at a pace in line with that forecast for world trade; they stand to gain from an improvement in price competitiveness (more than 3.5 percentage points in the two years), which has benefited from the recent depreciation of the euro. Italy's sales abroad will be directed primarily to markets outside the EU, characterized by faster rates of growth.

Investment is held back by the weakness of demand and credit conditions

Investment activity will be affected by the still tight conditions in the credit market, although they are gradually improving, and the decidedly weak outlook for demand: investment in machinery and transport equipment is expected to fall by about 10 per cent this year, spending on construction by nearly 7 per cent. In 2013 spending on capital goods will again be held back by the high cost of financing and the decline in domestic demand. An important factor in the slowdown of investment will be the contraction of the residential construction market, marked by stagnant prices and a sharp drop in activity.

Consumption is dampened by households' declining disposable income and waning confidence

Households' spending will be braked by the effects of the fiscal adjustment packages on disposable income and the uncertain outlook for the labour market. Consumption is expected to contract significantly, by 2.5 per cent this year and almost 1 per cent next. Households will finance a part of their consumption this year by dipping into savings: the saving rate is expected to continue to decline on average in 2012-13.

REVISION OF THE GROWTH PROJECTIONS WITH RESPECT TO THE PRE-CRISIS ESTIMATES: THE MAIN DETERMINANTS

The spreading of the sovereign debt crisis to Italy since the summer of 2011 has resulted in a continual, significant downward revision of the growth forecasts for the current year. In our *Economic Bulletin* of July 2011 we projected an increase of 1.1 per cent in Italy's GDP in 2012, in line with the forecasts of private analysts and the main international organizations. The projection contained in this edition of the *Economic Bulletin* is therefore about 3 percentage points lower than the figure we gave back then.

The Bank of Italy's econometric model can be used to isolate the contribution of the different factors to the deterioration in the economic situation. The main factors are: (a) the higher financing costs for the private sector due to the widening of the spreads on government securities; (b) the more difficult access to credit for firms, stemming largely from the strains in banks' wholesale funding; (c) the direct effects of the public finance adjustment packages; (d) the worsening of international conditions; and (e) the repercussions on consumption of uncertainty and the decline in household confidence. The table specifies the impact on GDP of each of these factors, calculated on the basis of their divergence from the assumptions made in last July's projections.

According to the relations incorporated in the model, the worsening of the forecasting scenario is due largely to the rising cost and diminishing availability of credit, due in turn to the deepening of the sovereign debt crisis: if the yield spread of Italian over German government securities, bank interest rates and firms' conditions of access to credit had all remained at the levels obtaining last July, GDP growth would have been 1 percentage point better. The budgetary adjustment measures taken last year in order to avoid a further uncontrolled deterioration of conditions in the financial markets are estimated to have had a negative impact on demand amounting to 1 percentage point. An impact of 0.5 points is ascribable to the increase in uncertainty and the decline in household confidence, which amplified the fall in consumption. The slowdown in global economic activity and world trade is estimated to have subtracted another 0.5 percentage points from GDP growth.

The foregoing is an approximate breakdown and must in any case be interpreted with caution. The different channels considered separately here are, in reality, closely linked; moreover, by construction the exercise cannot take account of the events that would have occurred in the absence of the measures taken (the counterfactual scenario). For example, set against the direct effects indicated in the table, the fiscal adjustment measures probably helped to avert a widening of the spread on Italian government securities and a further restriction of credit availability, whose costs in terms of GDP would otherwise have been substantially greater. Likewise, the drop in consumption due to the fall in household confidence may also reflect the impact of other factors, such as the deterioration of the outlook for economic growth, the tightening of the financial constraints.

Projections of GDP growth in 2012: determinants of the revision between July 2011 and July 2012
(per cent and percentage points)

O.	**Projection, *Economic Bulletin*, July 2011**	**1.1**
A.	Increase in sovereign spreads	-0.4
B.	Firms' difficulty of access to credit	-0.6
C.	Public finance adjustment measures	-1.0
D.	Slowing of the world economy	-0.5
E.	Uncertainty and household confidence	-0.5
F.	Residual component	-0.1
G.	**Projection, *Economic Bulletin*, July 2012** ***(G=O+A+B+C+D+E+F)***	**-2.0**

Labour demand feels the recession

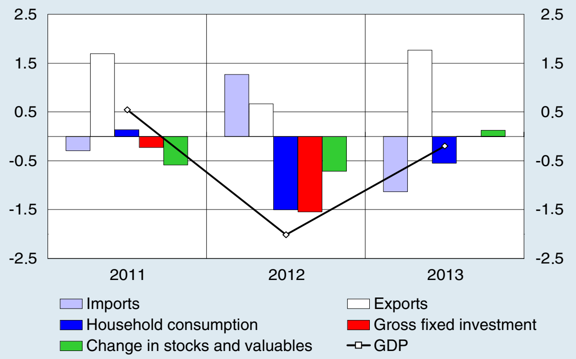
Labour demand, which grew slightly last year, is expected to begin to contract again, although less sharply than output. Employment will fall by just over 1 per cent in 2012 and then steady next year. Given significant expansion of the labour force, already observed in the first part of this year, the reduction in jobs will push up the unemployment rate, which is expected to exceed 11 per cent in 2013.

The external accounts will return to equilibrium ...

Imports look set to fall by 4.5 per cent this year, reflecting the decline in domestic demand and particularly the reduction in investment. They should begin to expand again in 2013, driven by the acceleration of exports. Net exports are projected to make a positive contribution of 2.5 percentage points to the growth of GDP in the two years 2012-13 (Figure 29). The deficit on the current account of the balance of payments, which exceeded 3 per cent of GDP last year, is expected to be cut by half in 2012 and to fall to 0.5 per cent in 2013; this trend should be favoured by the expected improvement in the terms of trade, thanks to the assumed decline in crude oil prices inferred from futures prices.

Figure 29

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



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

... and the public finance balances will continue to improve

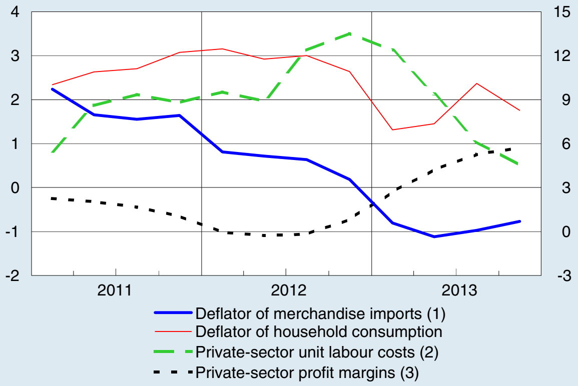
The fiscal consolidation measures are expected to boost the primary surplus, which is projected to be nearly 3 per cent of GDP in 2012 and about 1 percentage point higher than that next year. Net borrowing is expected to fall below the 3 per cent threshold this year, fulfilling Italy's European commitments, and to continue to decline next year. The public debt/GDP ratio is likely to rise in 2012, owing not only to the fall in GDP but also to the large outlays for the assistance programmes for other euro-area countries (amounting to €17 billion already in the first half of the year). The increase in the primary surplus will ensure that the debt ratio will be practically stable in 2013 and will come down in the following years.

Consumer price inflation will fall below 2 per cent next year

Inflation gauged by the harmonized index of consumer prices (HICP) is expected to rise to an average of 3 per cent this year (from 2.9 per cent in 2011) and then to fall below 2 per cent in 2013. Inflation during the current year will reflect the major impact of the increases in indirect taxes (accounting for nearly 1 percentage point) and the rise in crude oil prices at the start of the year. A factor in its projected decline in 2013 is the postponement, under the spending review decree, of the increase in VAT rates originally scheduled for this October. Domestic inflation, measured by the GDP deflator, is expected to be just below 2 per cent this year and marginally above that level in 2013. Nominal earnings in the private sector are expected to grow at an average rate of about 2 per cent in the two years. The normal procyclical performance of productivity will be reflected in the rate of growth in unit labour costs, which is likely to increase during the rest of the year and then to fall back below 2 per cent in 2013. Profit margins are likely to contract this year and then to start growing again in 2013 (Figure 30).

Figure 30

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).

Table 9

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

	GDP (1)		Inflation (2)	
	2012	2013	2012	2013
European Commission (May)	-1.4	0.4	3.2	2.3
OECD (May)	-1.7	-0.4	3.3	2.3
Consensus Economics (July)	-1.8	-0.2	3.1	2.2
IMF (July)	-1.9	-0.3	2.5	1.8

Sources: European Commission, *European Economic Forecast – Spring 2012*, May 2012; OECD, *Economic Outlook* No. 91, May 2012; Consensus Economics, *Consensus Forecasts*, July 2012; IMF, *World Economic Outlook Update*, July 2012.
(1) The growth rates given in the OECD forecasts are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

The differences with respect to other forecasters' assessments are modest

The growth and inflation forecasts recently published by the main international organizations do not differ substantially from those presented in this bulletin (Table 9). For the two years 2012-13 our projection for GDP is in line both with the average of the estimates by the private analysts polled by Consensus Economics in July and with that of the IMF, whose inflation forecast for this year, however, is more optimistic.

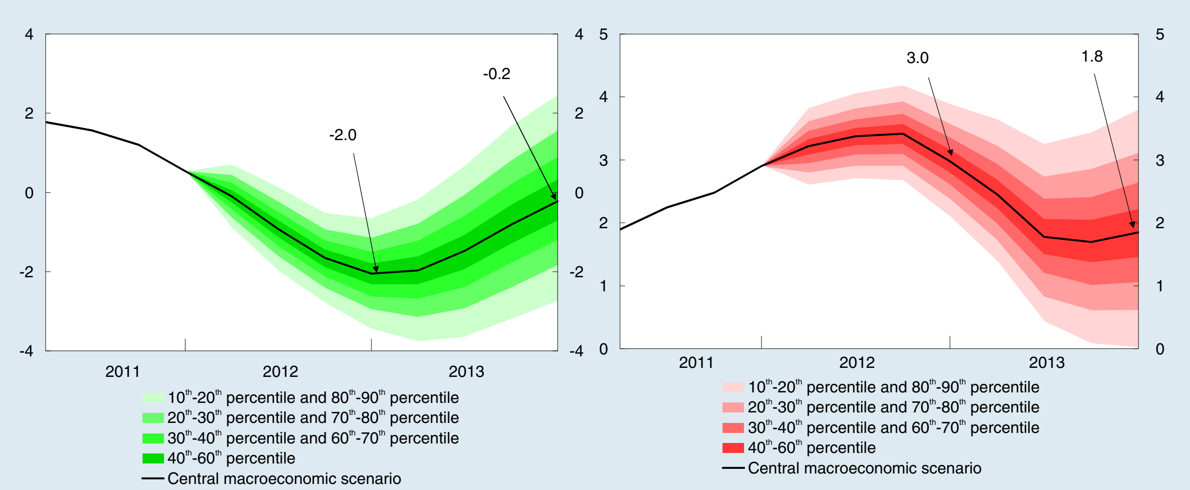
Favourable developments in managing the European crisis could help bring recovery

The uncertainty surrounding the medium-term prospects of the Italian economy is extraordinarily great (Figure 31) and is closely bound up with the developments of the sovereign debt crisis and its effects on interest rates, credit conditions, demand from Italy's European partners and the climate of confidence. Further progress in managing the crisis at European level and prompt implementation of the decisions taken to date could help relieve the tensions on the financial markets, facilitating the return of the credit market to normality and assisting recovery in Italy and

Figure 31

Distribution of probabilities of GDP and HICP projections (1)
(percentage changes on year-earlier period; 4-term moving average)

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



(1) The probability distribution is graphed, for percentile groups, by fan charts, based on stochastic simulations effected via random extractions from the shock distribution of the Bank of Italy quarterly econometric model. The figure shows year-on-year percentage changes of 4-term moving averages. The value corresponding to the fourth quarter of each year coincides with the average annual percentage change.

the rest of the area. Downside forecasting risks derive from the development of world trade, which has recently shown signs of slowing.

The macroeconomic scenario does not take account of the effects of the legislation for economic stimulus (the so-called growth decree) and for labour market reform. In our estimation, these chiefly structural measures can improve the outlook for growth mainly in the medium term.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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
2011	1.7	2.2	1.5	-2.1	-0.4	6.8	0.8	1.6	1.6	6.7	4.9	0.1	-0.2
2009 – 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	1.2	0.2	4.8	4.9	7.2	12.5	-1.0	3.1
Q2	3.8	2.9	2.1	3.7	0.8	19.5	2.1	5.6	5.7	10.0	21.6	-1.9	0.8
Q3	2.5	2.6	1.9	1.0	0.2	2.3	0.3	3.1	3.2	10.0	12.3	-0.7	0.9
Q4	2.3	3.6	2.5	-2.8	-0.6	7.5	0.9	0.9	0.9	7.8	-2.3	1.4	-1.8
2011 – Q1	0.4	2.1	1.5	-5.9	-1.2	1.2	0.2	0.7	0.7	7.9	8.3	-0.3	0.3
Q2	1.3	0.7	0.5	-0.9	-0.2	9.2	1.1	1.0	1.1	3.6	1.4	0.2	-0.3
Q3	1.8	1.7	1.2	-0.1	0.0	13.0	1.5	1.3	1.4	4.7	1.2	0.4	-1.4
Q4	3.0	2.1	1.5	-4.2	-0.8	6.3	0.8	3.1	3.3	2.7	3.7	-0.3	1.8
2012 – Q1	1.9	2.5	1.7	-4.0	-0.8	6.0	0.7	1.7	1.8	4.2	2.7	0.1	0.1

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2008	-1.0	-0.9	-0.5	-0.1	0.0	-4.1	-0.9	-1.3	-1.2	1.4	0.3	0.2	0.2
2009	-5.5	-0.7	-0.4	2.3	0.4	-10.6	-2.4	-4.0	-4.0	-24.2	-15.7	-1.5	-1.6
2010	4.4	2.6	1.6	2.1	0.4	-0.2	0.0	2.7	2.7	24.2	11.1	1.7	0.8
2011	-0.7	0.1	0.1	1.9	0.4	0.5	0.1	0.1	0.1	-0.1	5.9	-0.8	-0.5
2009 – Q2	6.4	6.7	4.0	2.5	0.5	-13.0	-3.1	-0.9	-1.0	43.6	-14.3	7.2	-2.3
Q3	0.0	0.4	0.2	4.8	0.9	-6.7	-1.4	-1.8	-1.8	41.7	22.7	1.8	-1.5
Q4	8.0	5.7	3.5	2.1	0.4	1.0	0.2	4.9	4.9	29.8	6.7	3.0	0.9
2010 – Q1	5.3	2.3	1.4	-2.0	-0.4	1.3	0.3	3.2	3.2	27.2	10.3	2.2	1.9
Q2	4.8	1.3	0.7	6.7	1.3	5.9	1.2	4.8	4.6	23.8	25.9	0.2	1.4
Q3	3.1	1.8	1.1	1.2	0.2	3.1	0.6	3.3	3.2	6.1	7.4	0.0	1.3
Q4	-0.1	0.9	0.5	1.6	0.3	-4.9	-1.0	0.2	0.1	-0.7	0.7	-0.2	0.3
2011 – Q1	-7.7	-5.9	-3.5	1.3	0.3	-3.5	-0.7	-6.9	-7.0	-1.8	4.8	-0.9	-2.9
Q2	-1.7	2.4	1.4	2.7	0.6	3.9	0.8	2.4	2.3	-22.9	0.6	-4.0	-0.4
Q3	7.8	4.3	2.6	0.9	0.2	2.1	0.4	4.6	4.5	39.6	14.8	3.1	1.4
Q4	0.1	2.9	1.7	1.6	0.3	13.0	2.5	3.0	3.0	-14.1	3.8	-2.9	-1.5
2012 – Q1	4.7	4.9	2.9	3.0	0.6	-2.9	-0.6	4.2	4.1	12.4	7.9	0.5	1.3

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

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
Chain-linked volumes									
2006	3.3	8.7	4.7	4.8	7.1	5.7	2.1	2.1	8.9
2007	3.0	6.2	3.9	2.2	8.2	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	-4.4	-11.5	-6.4	-9.4	-16.2	-12.4	-1.2	2.6	-12.7
2010	2.0	9.6	4.0	-4.5	6.1	..	0.9	0.7	11.2
2011	1.5	4.0	2.2	-0.4	3.7	1.4	0.2	-0.3	6.2
2010 – Q1	0.5	3.4	1.3	-1.9	2.3	-0.1	0.2	-0.4	3.0
Q2	0.9	4.3	1.9	1.6	2.8	2.1	0.2	0.2	4.6
Q3	0.4	1.5	0.7	-1.0	1.5	0.1	0.3	0.1	2.1
Q4	0.3	1.4	0.7	-2.1	1.4	-0.5	0.4	0.1	1.6
2011 – Q1	0.7	0.8	0.7	2.5	1.4	2.0	..	-0.4	1.4
Q2	0.2	0.6	0.3	-0.7	0.1	-0.4	-0.6	-0.1	1.1
Q3	0.1	0.7	0.3	-0.9	0.3	-0.3	0.4	-0.1	1.5
Q3	-0.3	-1.9	-0.8	-0.5	-0.7	-0.6	-0.5	-0.2	-0.6
2012 – Q1	..	-0.2	..	-1.1	-1.6	-1.4	..	0.4	1.0
Implicit prices									
2006	1.8	3.5	....	....	....	3.0	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	-6.2	....	....	....	-0.4	-0.4	2.1	-3.3
2010	0.7	5.0	....	....	....	1.0	1.7	0.8	2.7
2011	1.3	5.8	....	....	....	2.0	2.5	0.9	3.8
2010 – Q1	0.2	1.5	....	....	....	0.2	0.4	0.4	0.7
Q2	0.3	2.7	....	....	....	0.9	0.6	..	1.7
Q3	0.3	0.6	....	....	....	0.1	0.4	0.2	1.1
Q4	0.1	1.4	....	....	....	0.3	0.6	0.3	0.5
2011 – Q1	0.4	2.9	....	....	....	0.7	0.8	0.1	1.6
Q2	0.4	0.6	....	....	....	0.7	0.7	0.4	0.4
Q3	0.3	0.3	....	....	....	0.2	0.3	0.3	0.7
Q3	0.2	0.9	....	....	....	0.5	0.8	0.1	0.3
2012 – Q1	0.2	1.4	....	....	....	0.3	0.5	0.3	0.7

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					
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	-5.5	-13.4	-7.3	-8.8	-15.0	-11.7	-1.6	0.8	-17.5
2010	1.8	12.7	3.9	-4.8	10.4	2.1	1.2	-0.6	11.6
2011	0.4	0.4	0.4	-2.8	-0.9	-1.9	0.2	-0.9	5.6
2010 – Q1	1.0	4.2	1.6	-2.0	7.0	2.2	0.4	-0.6	3.3
Q2	0.6	3.2	1.1	..	0.5	0.2	-0.1	0.3	3.8
Q3	0.4	2.2	0.8	-0.2	1.4	0.6	0.9	-0.4	2.3
Q4	0.2	4.9	1.2	-1.9	-0.6	-1.2	0.3	-0.4	3.0
2011 – Q1	0.1	-1.8	-0.3	0.8	1.0	0.9	0.2	0.3	0.6
Q2	0.3	-1.6	-0.1	-1.2	0.4	-0.4	-0.2	-0.4	0.6
Q3	-0.2	-1.3	-0.5	-1.2	-1.1	-1.2	-0.4	-0.6	1.8
Q4	-0.7	-2.8	-1.1	-0.8	-4.3	-2.6	-0.9	-0.5	-0.1
2012 – Q1	-0.8	-3.6	-1.5	-3.3	-3.9	-3.6	-1.0	0.4	-0.6
				Implicit prices					
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	-0.1	2.1	-2.4
2010	0.4	6.7	1.7	2.1	0.2	1.2	1.5	1.5	2.6
2011	1.3	7.3	2.6	4.1	2.4	3.3	2.7	-0.1	4.1
2010 – Q1	..	3.9	0.9	-0.3	..	-0.2	0.4	1.0	1.0
Q2	0.6	3.1	1.1	2.3	0.4	1.4	0.5	0.9	1.6
Q3	-0.2	0.5	..	0.4	0.4	0.4	0.5	0.4	0.8
Q4	..	0.6	0.2	0.5	0.3	0.4	0.5	-0.1	0.4
2011 – Q1	0.8	4.6	1.6	2.4	1.2	1.8	0.8	-0.8	1.9
Q2	0.4	1.0	0.5	0.1	0.8	0.5	0.8	0.1	1.2
Q3	0.2	0.3	0.2	0.5	0.3	0.4	0.6	0.2	0.5
Q4	..	1.0	0.2	0.6	0.3	0.5	0.9	0.8	-0.1
2012 – Q1	0.2	2.8	0.8	1.0	0.5	0.7	0.6	0.1	1.1

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

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	3.7	-1.9	-2.3	-0.4	5.8
2009	4.1	-4.6	-13.2	-9.0	9.1
2010	0.9	7.4	6.8	-0.6	-6.0
2011	2.8	2.9	3.4	0.5	-0.1
2009 – Q1	4.8	-8.9	-16.0	-7.8	15.1
Q2	6.2	-6.2	-16.5	-11.0	13.2
Q3	3.7	-3.0	-12.9	-10.2	7.0
Q4	2.0	0.3	-6.7	-7.0	1.6
2010 – Q1	1.1	8.6	4.8	-3.4	-6.9
Q2	0.6	8.3	7.9	-0.4	-7.2
Q3	0.7	5.8	6.5	0.7	-4.8
Q4	1.1	6.3	7.2	0.9	-4.9
2011 – Q1	1.5	4.2	6.0	1.7	-2.6
Q2	3.5	4.3	4.4	0.1	-0.8
Q3	2.9	3.3	3.7	0.4	-0.4
Q4	2.6	0.6	0.4	-0.2	2.0
2012 – Q1	2.1	-0.7	-1.1	-0.3	2.9
Services					
2008	2.8	0.0	1.5	1.5	2.8
2009	3.0	-0.2	-1.9	-1.6	3.2
2010	1.0	0.8	1.5	0.7	0.1
2011	2.5	0.6	1.2	0.6	1.9
2009 – Q1	3.2	-1.3	-2.4	-1.1	4.5
Q2	3.4	-0.1	-2.2	-2.1	3.5
Q3	3.1	0.1	-1.8	-1.9	3.0
Q4	2.5	0.6	-0.8	-1.4	1.9
2010 – Q1	1.2	0.5	1.1	0.6	0.7
Q2	0.7	0.7	1.5	0.8	0.0
Q3	0.5	0.8	1.7	0.9	-0.3
Q4	1.2	1.1	1.5	0.4	0.1
2011 – Q1	1.2	0.8	1.6	0.8	0.4
Q2	2.0	0.8	1.3	0.4	1.2
Q3	1.9	0.4	1.1	0.7	1.5
Q4	1.8	0.5	1.0	0.5	1.3
2012 – Q1	1.7	0.6	0.5	-0.1	1.1
Total economy					
2008	3.2	-0.1	0.6	0.7	3.4
2009	3.4	-1.0	-4.4	-3.4	4.4
2010	1.0	2.0	2.1	0.1	-1.0
2011	2.7	1.4	1.5	0.1	1.3
2009 – Q1	3.8	-2.5	-5.4	-3.0	6.4
Q2	4.1	-1.2	-5.4	-4.2	5.4
Q3	3.3	-0.6	-4.4	-3.8	3.9
Q4	2.5	0.4	-2.3	-2.7	2.1
2010 – Q1	1.2	1.9	1.3	-0.6	-0.7
Q2	0.7	2.0	2.3	0.3	-1.2
Q3	0.6	1.7	2.2	0.5	-1.1
Q4	1.2	2.2	2.3	0.0	-1.0
2011 – Q1	1.2	1.6	2.3	0.7	-0.4
Q2	2.3	1.8	1.7	-0.1	0.5
Q3	2.0	1.3	1.4	0.2	0.8
Q4	2.0	1.0	0.8	-0.2	1.0
2012 – Q1	2.0	0.7	0.0	-0.7	1.3

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

Unit labour costs, per capita compensation and productivity: Italy (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	4.4	-1.3	-3.0	-1.6	5.9
2009	3.5	-5.3	-15.1	-10.3	9.3
2010	2.4	9.0	7.0	-1.9	-6.1
2011	2.2	0.4	1.2	0.9	1.8
2009 – Q1	3.0	-10.4	-18.2	-8.7	15.0
Q2	3.0	-9.1	-18.7	-10.6	13.4
Q3	-0.7	-3.7	-14.3	-11.0	3.1
Q4	8.2	2.4	-8.6	-10.8	5.6
2010 – Q1	2.1	9.6	5.1	-4.1	-6.9
Q2	4.0	11.7	7.9	-3.4	-6.9
Q3	3.9	7.7	7.1	-0.5	-3.5
Q4	0.8	7.4	6.8	-0.6	-6.1
2011 – Q1	1.8	1.9	3.1	1.2	-0.1
Q2	3.1	2.1	2.9	0.9	1.1
Q3	2.6	0.7	1.6	1.0	1.9
Q4	-0.3	-2.7	-0.7	2.0	2.5
2012 – Q1	1.8	-0.8	-3.1	-2.2	2.7
			Services		
2008	2.7	-0.6	-0.5	0.0	3.3
2009	1.4	-1.2	-2.7	-1.6	2.6
2010	1.6	1.3	1.4	0.1	0.4
2011	0.5	0.2	0.8	0.6	0.3
2009 – Q1	2.2	-1.7	-3.6	-2.0	3.9
Q2	-0.5	-2.3	-3.0	-0.8	1.8
Q3	2.2	-0.3	-2.3	-1.9	2.6
Q4	2.1	-0.1	-2.0	-1.9	2.2
2010 – Q1	0.8	-0.2	1.0	1.2	1.0
Q2	2.9	2.0	1.1	-0.9	0.9
Q3	1.3	1.6	1.3	-0.3	-0.3
Q4	1.7	2.0	2.0	0.0	-0.2
2011 – Q1	1.5	1.7	1.3	-0.4	-0.2
Q2	0.6	0.4	1.1	0.7	0.2
Q3	-0.3	-1.2	0.7	1.9	0.9
Q4	-0.3	-0.9	0.2	1.1	0.6
2012 – Q1	1.3	2.0	-0.3	-2.2	-0.7
			Total economy		
2008	3.2	-0.7	-1.1	-0.5	3.9
2009	2.0	-2.3	-5.6	-3.4	4.4
2010	1.9	2.6	2.1	-0.5	-0.7
2011	0.9	0.3	0.6	0.3	0.6
2009 – Q1	2.6	-3.7	-7.0	-3.4	6.5
Q2	0.5	-3.9	-6.7	-2.8	4.6
Q3	1.5	-1.3	-5.2	-3.9	2.9
Q4	3.4	0.0	-3.5	-3.6	3.4
2010 – Q1	1.0	1.3	1.3	0.0	-0.3
Q2	3.1	3.3	2.1	-1.2	-0.2
Q3	2.0	2.8	2.2	-0.6	-0.7
Q4	1.7	3.4	2.6	-0.8	-1.6
2011 – Q1	1.7	1.8	1.5	-0.3	-0.1
Q2	1.3	0.8	1.2	0.3	0.4
Q3	0.4	-0.8	0.5	1.3	1.2
Q4	-0.3	-1.0	-0.2	0.8	0.8
2012 – Q1	1.5	1.7	-1.2	-2.8	-0.1

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.

Harmonized index of consumer prices: main euro-area countries

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

	France		Germany		Italy		Spain		Euro area (2)	
	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products	Total	Total excl. energy and unprocessed food products
2008	3.2	2.3	2.8	1.8	3.5	2.8	4.1	3.2	3.3	2.4
2009	0.1	1.3	0.2	1.2	0.8	1.6	-0.2	0.9	0.3	1.3
2010	1.7	0.9	1.2	0.6	1.6	1.5	2.1	0.9	1.6	1.0
2011	2.3	1.3	2.5	1.5	2.9	2.2	3.1	1.6	2.7	1.7
2008 – Jan.	3.2	2.2	2.9	2.1	3.1	2.6	4.4	3.2	3.2	2.3
Feb.	3.2	2.3	3.0	2.2	3.1	2.5	4.4	3.3	3.3	2.4
Mar.	3.5	2.5	3.3	2.4	3.6	2.9	4.6	3.5	3.6	2.7
Apr.	3.4	2.5	2.6	1.8	3.6	2.7	4.2	3.2	3.3	2.4
May	3.7	2.4	3.1	1.8	3.7	2.8	4.7	3.3	3.7	2.5
June	4.0	2.5	3.4	1.8	4.0	3.0	5.1	3.4	4.0	2.5
July	4.0	2.4	3.5	1.8	4.0	2.7	5.3	3.5	4.0	2.5
Aug.	3.5	2.3	3.3	1.9	4.2	3.2	4.9	3.5	3.8	2.6
Sept.	3.4	2.3	3.0	1.7	3.9	3.0	4.6	3.4	3.6	2.5
Oct.	3.0	2.3	2.5	1.5	3.6	3.0	3.6	2.9	3.2	2.4
Nov.	1.9	2.1	1.4	1.4	2.7	2.8	2.4	2.7	2.1	2.2
Dec.	1.2	1.9	1.1	1.2	2.4	2.8	1.5	2.4	1.6	2.1
2009 – Jan.	0.8	1.6	0.9	1.2	1.4	2.0	0.8	2.0	1.1	1.8
Feb.	1.0	1.7	1.0	1.2	1.5	2.1	0.7	1.6	1.2	1.7
Mar.	0.4	1.5	0.4	1.0	1.1	1.8	-0.1	1.2	0.6	1.5
Apr.	0.1	1.4	0.8	1.5	1.2	2.1	-0.2	1.3	0.6	1.7
May	-0.3	1.5	0.0	1.2	0.8	1.9	-0.9	0.9	0.0	1.5
June	-0.6	1.4	0.0	1.2	0.6	1.7	-1.0	0.8	-0.1	1.3
July	-0.8	1.4	-0.7	1.1	-0.1	1.3	-1.4	0.7	-0.7	1.2
Aug.	-0.2	1.4	-0.1	1.2	0.1	1.2	-0.8	0.5	-0.2	1.2
Sept.	-0.4	1.2	-0.5	1.0	0.4	1.5	-0.9	0.3	-0.3	1.1
Oct.	-0.2	1.0	-0.1	1.1	0.3	1.4	-0.6	0.3	-0.1	1.0
Nov.	0.5	1.0	0.3	1.0	0.8	1.4	0.4	0.4	0.5	1.0
Dec.	1.0	1.1	0.8	1.1	1.1	1.5	0.9	0.5	0.9	1.0
2010 – Jan.	1.2	0.9	0.8	0.8	1.3	1.4	0.7	-0.4	0.9	0.8
Feb.	1.4	1.1	0.5	0.7	1.1	1.2	0.4	-0.5	0.8	0.7
Mar.	1.7	1.0	1.2	0.9	1.4	1.4	2.7	1.6	1.6	1.1
Apr.	1.9	0.9	1.0	0.3	1.6	1.7	2.4	0.8	1.6	0.8
May	1.9	0.8	1.2	0.6	1.6	1.5	2.5	0.9	1.7	0.9
June	1.7	0.9	0.8	0.6	1.5	1.5	2.1	1.1	1.5	1.0
July	1.9	1.0	1.2	0.5	1.8	1.7	1.8	0.6	1.7	1.0
Aug.	1.6	0.8	1.0	0.6	1.8	1.7	1.6	0.7	1.6	1.0
Sept.	1.8	1.0	1.3	0.6	1.6	1.5	2.8	2.1	1.9	1.2
Oct.	1.8	1.0	1.3	0.7	2.0	1.7	2.5	1.4	1.9	1.1
Nov.	1.8	1.0	1.6	0.8	1.9	1.6	2.3	1.1	1.9	1.2
Dec.	2.0	0.9	1.9	0.7	2.1	1.5	2.9	1.3	2.2	1.1
2011 – Jan.	2.0	0.9	2.0	0.9	1.9	1.2	3.0	1.4	2.3	1.2
Feb.	1.8	0.7	2.2	0.9	2.1	1.3	3.4	1.6	2.4	1.1
Mar.	2.2	1.0	2.3	1.0	2.8	2.1	3.3	1.6	2.7	1.5
Apr.	2.2	1.3	2.7	1.7	2.9	2.2	3.5	2.0	2.8	1.8
May	2.2	1.4	2.4	1.4	3.0	2.2	3.4	2.0	2.7	1.7
June	2.3	1.5	2.4	1.6	3.0	2.3	3.0	1.6	2.7	1.8
July	2.1	1.2	2.6	1.7	2.1	1.3	3.0	1.4	2.6	1.5
Aug.	2.4	1.4	2.5	1.6	2.3	1.5	2.7	1.3	2.5	1.5
Sept.	2.4	1.4	2.9	1.8	3.6	3.1	3.0	1.5	3.0	2.0
Oct.	2.5	1.6	2.9	1.7	3.8	3.0	3.0	1.6	3.0	2.0
Nov.	2.7	1.8	2.8	1.6	3.7	2.9	2.9	1.6	3.0	2.0
Dec.	2.7	2.0	2.3	1.6	3.7	2.9	2.4	1.4	2.7	2.0
2012 – Jan.	2.6	2.0	2.3	1.6	3.4	2.4	2.0	1.2	2.7	1.9
Feb.	2.5	1.9	2.5	1.8	3.4	2.3	1.9	1.1	2.7	1.9
Mar.	2.6	2.1	2.3	1.7	3.8	2.8	1.8	1.1	2.7	1.9
Apr.	2.4	1.9	2.2	1.7	3.7	2.6	2.0	1.1	2.6	1.9
May	2.3	1.9	2.2	1.7	3.5	2.6	1.9	1.2	2.4	1.8
June	2.3	1.9	2.0	1.4	3.6	2.6	1.8	1.3	….	….

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

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2008	-44,901	-2,129	-8,606	-19,353	-5,336	-9,476	-186	-1,044	..	858
2009	-30,173	823	-8,435	-10,406	-4,658	-7,496	-89	-578	-19	508
2010	-54,681	-20,918	-9,218	-8,289	-5,425	-10,831	-556	-706	-70	220
2011	-51,509	-16,612	-6,960	-12,001	-4,495	-11,441	424	-407	-53	884
2010 – Q2	-12,768	-4,463	-876	-4,225	-1,649	-1,555	-220	-227	-13	20
Q3	-11,188	-3,099	-1,376	-1,847	-1,305	-3,561	-68	-5	-4	-58
Q4	-12,719	-6,685	-3,356	-1,102	-1,455	-121	61	-233	-51	344
2011 – Q1	-22,955	-10,959	-3,698	-1,767	-536	-5,995	-166	-39	-15	-112
Q2	-12,985	-4,495	-631	-4,971	-1,706	-1,183	-766	-131	-2	-633
Q3	-9,550	-1,447	-188	-3,102	-1,239	-3,575	-348	-226	-21	-102
Q4	-6,020	289	-2,443	-2,162	-1,015	-689	1,705	-11	-15	1,730
2012 – Q1	-13,067	-1,483	-2,736	-1,106	-1,398	-6,344	-214	-147	-12	-55
2010 – Apr.	-2,728	-346	-485	-661	-555	-681	-50	-76	-4	31
May	-5,574	-1,385	-401	-3,012	-509	-268	-82	-68	-3	-12
June	-4,466	-2,732	10	-552	-585	-607	-88	-83	-6	..
July	491	2,343	49	-372	-350	-1,179	-63	-1	-1	-61
Aug.	-5,567	-2,499	-1,193	-437	-431	-1,007	13	-11	-1	24
Sept.	-6,112	-2,943	-233	-1,038	-523	-1,375	-18	6	-2	-22
Oct.	-2,751	-1,826	-888	-531	-533	1,028	154	-74	-11	239
Nov.	-4,907	-2,605	-1,355	-716	-421	190	110	-71	-13	194
Dec.	-5,061	-2,254	-1,114	145	-500	-1,339	-204	-88	-27	-89
2011 – Jan.	-9,060	-5,600	-1,361	-608	-199	-1,292	-7	41	-4	-44
Feb.	-6,633	-2,349	-1,247	-484	-80	-2,473	-45	6	-3	-48
Mar.	-7,262	-3,010	-1,090	-675	-257	-2,230	-115	-87	-8	-20
Apr.	-4,849	-2,066	-373	-1,404	-523	-483	-124	-57	-1	-66
May	-5,458	-1,433	-253	-3,050	-559	-164	-482	-41	-1	-440
June	-2,677	-996	-5	-517	-623	-536	-161	-33	-1	-127
July	244	2,169	603	-805	-471	-1,252	-76	-73	-6	3
Aug.	-5,346	-2,375	-757	-665	-424	-1,125	-196	-72	-6	-118
Sept.	-4,449	-1,241	-34	-1,632	-344	-1,197	-77	-80	-9	12
Oct.	-2,562	-476	-580	-883	-346	-277	627	22	-4	609
Nov.	-3,690	-969	-1,003	-1,224	-328	-166	607	27	-4	584
Dec.	232	1,734	-860	-55	-341	-246	471	-60	-7	538
2012 – Jan.	-7,273	-3,686	-953	-278	-460	-1,896	-42	-19	-3	-20
Feb.	-4,341	-479	-880	-374	-409	-2,199	-34	-6	-3	-25
Mar.	-1,454	2,682	-904	-454	-528	-2,250	-137	-122	-6	-9
Apr.	(-1,138)	(596)	(-316)	(-61)	….	….	(-182)	….	….	….

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				
2010 – Sept.	3.6	3.4	-0.5	-1.0	2.2	4.3	3.7	12.3	1.5
Dec.	4.0	7.2	0.5	0.1	2.6	5.3	3.8	16.2	2.6
2011 – Mar.	3.0	2.5	3.2	3.2	3.1	5.7	3.7	17.9	3.3
June	3.9	0.5	3.5	3.6	3.0	5.9	3.6	11.9	3.3
Sept.	1.5	1.0	2.7	3.2	0.5	2.6	3.6	11.9	2.6
Dec.	-1.0	-1.7	0.4	1.0	-2.4	-0.3	2.8	9.4	0.6
2012 – Mar.	2.6	4.4	-2.5	-2.1	-4.2	-2.0	1.8	5.5	0.0
May	1.5	4.3	-2.9	-2.6	-4.1	-2.4	0.9	5.8	-0.5
					South and Islands				
2010 – Sept.	0.7	-0.4	3.9	4.9	1.3	1.4	4.8	3.6	3.9
Dec.	0.1	-3.9	3.7	4.5	1.7	2.0	4.4	0.6	3.5
2011 – Mar.	-1.2	-7.3	4.4	5.2	2.0	2.1	4.3	3.9	3.6
June	3.9	-10.8	4.2	5.0	1.9	2.1	4.1	3.5	3.9
Sept.	1.8	-21.6	3.4	4.6	-0.1	0.3	4.0	2.3	3.1
Dec.	3.1	-19.8	1.0	1.9	-1.6	-1.2	2.9	2.4	1.7
2012 – Mar.	0.7	-17.6	-1.4	-0.7	-3.3	-3.0	1.5	-4.0	-0.3
May	-3.1	-16.4	-2.4	-2.0	-3.7	-3.5	0.3	-5.5	-1.6
					ITALY				
2010 – Sept.	3.3	3.3	0.1	-0.3	2.1	3.6	3.9	11.2	1.9
Dec.	3.6	7.0	0.9	0.6	2.4	4.5	3.9	14.4	2.7
2011 – Mar.	2.6	2.3	3.3	3.4	2.9	4.9	3.8	16.2	3.3
June	3.9	0.2	3.6	3.7	2.8	5.0	3.7	10.9	3.4
Sept.	1.5	0.5	2.8	3.4	0.4	2.1	3.7	10.8	2.7
Dec.	-0.6	-2.1	0.5	1.1	-2.2	-0.5	2.8	8.7	0.7
2012 – Mar.	2.4	3.9	-2.3	-1.9	-4.1	-2.3	1.8	4.5	0.0
May	1.0	3.9	-2.8	-2.5	-4.1	-2.6	0.8	4.6	-0.7

(1) Statistics for May 2012 are provisional. Loans do not include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations and reclassifications. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with less than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Table A10

Financing of the general government borrowing requirement: Italy

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans (1)	Other operations (1)	*of which:* change in deposits with the Bank of Italy	*of which:* investments of liquidity	Borrowing requirement	*of which:* financed abroad
2009	8,487	-1,487	-7,405	93,774	2,822	-11,786	-11,399	0	85,893	-2,112
2010	57	-4,809	-10,103	87,920	1,195	-11,852	-11,518	0	67,217	444
2011	-4,034	-3,116	1,363	44,086	-202	22,024	18,994	800	63,238	-4,620
2009 – Mar.	3,034	-1,264	25,111	48,196	1,434	-47,137	-47,108	0	30,638	1,965
June	4,780	-247	5,769	-2,205	1,982	9,738	9,963	0	20,064	-1,624
Sept.	-6,276	385	-9,480	50,557	502	-12,931	-12,676	0	22,373	-2,702
Dec.	6,948	-361	-28,805	-2,773	-1,096	38,544	38,423	0	12,817	249
2010 – Mar.	-3,196	-1,413	10,530	28,480	1,565	-9,644	-9,568	0	27,735	184
June	1,218	-929	-636	22,874	-943	-3,553	-3,474	0	18,960	1,090
Sept.	-1,316	-1,219	-1,960	22,875	1,859	-2,274	-2,188	0	19,183	3,981
Dec.	3,352	-1,247	-18,037	13,692	-1,286	3,619	3,712	0	1,339	-4,811
2011 – Mar.	-2,134	-1,605	12,380	10,484	1,232	9,092	8,309	0	31,055	-2,018
June	1,292	-895	-5,607	32,847	1,129	-14,140	-15,502	0	15,522	-2,085
Sept.	-3,701	-355	9,090	-23,064	-1,677	34,040	34,039	0	14,688	2,546
Dec.	509	-261	-14,500	23,819	-886	-6,968	-7,852	800	1,974	-3,063
2012 – Mar.	8,047	-1,236	31,498	317	-106	-2,205	-10,202	-5,556	37,551	335
2011 – Jan.	2,762	-812	8,290	24,134	572	-33,453	-33,424	0	2,305	468
Feb.	-5,995	-394	1,643	-3,374	1,631	16,235	15,455	0	10,140	-2
Mar.	1,099	-399	2,447	-10,276	-971	26,309	26,278	0	18,609	-2,484
Apr.	-42	250	-474	21,025	1,790	-11,807	-11,805	0	10,491	-67
May	-1,835	-987	-693	5,779	1,720	1,658	1,682	0	6,630	-1,659
June	3,168	-158	-4,440	6,043	-2,380	-3,991	-5,378	0	-1,600	-359
July	-2,572	-123	-1,378	14,384	-1,128	-13,294	-13,253	0	-3,988	-112
Aug.	-1,062	-165	-241	-10,762	-680	19,060	19,067	0	6,314	224
Sept.	-68	-67	10,709	-26,685	131	28,274	28,224	0	12,362	2,433
Oct.	-900	-152	7,102	17,200	723	-21,560	-21,561	100	2,566	3,195
Nov.	181	-249	-3,635	-3,402	340	15,374	14,853	-4,680	8,859	-2,819
Dec.	1,228	139	-17,967	10,021	-1,949	-783	-1,144	5,380	-9,451	-3,440
2012 – Jan.	-479	-483	17,977	18,767	-1,251	-31,696	-32,573	-5,655	3,319	-205
Feb.	-809	-102	8,533	-15,691	691	16,043	16,040	1,527	8,767	224
Mar.	9,334	-651	4,989	-2,760	454	13,449	6,331	-1,428	25,466	316
Apr.	-895	-115	6,045	-10,226	875	13,553	6,953	-4,253	9,352	2,445
May	-1,934	38	71	14,601	-16	-6,488	-8,277	2,724	6,233	-417

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

General government debt: Italy

(millions of euros)

	Currency and deposits		Short-term securities	Medium and long-term securities	MFI loans (1)	Other liabilities (1)	General government debt			*Memorandum item:* Deposits with the Bank of Italy and investments of liquidity	
		of which: PO funds						*of which:* in foreign currencies	*of which:* medium and long-term		*of which:* investments of liquidity
2009	155,740	30,005	139,966	1,329,958	131,322	5,737	1,762,723	2,746	1,466,835	31,731	0
2010	155,797	25,195	129,862	1,418,552	132,521	5,403	1,842,136	2,897	1,554,177	43,249	0
2011	151,763	22,080	131,226	1,474,133	132,320	8,434	1,897,875	2,926	1,606,557	24,255	0
2009 – Mar.	150,287	30,228	172,490	1,284,845	129,935	6,096	1,743,652	3,768	1,421,299	67,441	0
June	155,067	29,980	178,265	1,283,056	131,916	5,871	1,754,175	3,528	1,419,415	57,478	0
Sept.	148,792	30,366	168,776	1,333,201	132,419	5,617	1,788,805	2,731	1,470,196	70,155	0
Dec.	155,740	30,005	139,966	1,329,958	131,322	5,737	1,762,723	2,746	1,466,835	31,731	0
2010 – Mar.	152,544	28,592	150,496	1,358,047	132,889	5,662	1,799,636	2,932	1,494,737	41,299	0
June	153,762	27,662	149,865	1,382,081	131,947	5,582	1,823,237	3,179	1,516,508	44,773	0
Sept.	152,446	26,443	147,911	1,403,434	133,807	5,496	1,843,094	2,892	1,538,864	46,961	0
Dec.	155,797	25,195	129,862	1,418,552	132,521	5,403	1,842,136	2,897	1,554,177	43,249	0
2011 – Mar.	153,664	23,590	142,246	1,430,817	133,753	6,186	1,866,666	2,730	1,565,907	34,940	0
June	154,956	22,696	136,638	1,466,871	134,882	7,548	1,900,895	2,656	1,600,432	50,442	0
Sept.	151,254	22,341	145,736	1,445,109	133,206	7,549	1,882,854	2,848	1,577,273	16,403	800
Dec.	151,763	22,080	131,226	1,474,133	132,320	8,434	1,897,875	2,926	1,606,557	24,255	0
2012 – Mar.	159,810	20,844	162,727	1,475,053	132,213	16,431	1,946,235	2,844	1,607,592	34,457	5,556
2011 – Jan.	158,560	24,384	138,152	1,443,827	133,092	5,374	1,879,006	2,833	1,578,984	76,673	0
Feb.	152,565	23,989	139,799	1,441,858	134,724	6,155	1,875,100	2,804	1,577,147	61,218	0
Mar.	153,664	23,590	142,246	1,430,817	133,753	6,186	1,866,666	2,730	1,565,907	34,940	0
Apr.	153,622	23,841	141,772	1,452,459	135,542	6,184	1,889,579	2,615	1,587,949	46,745	0
May	151,787	22,854	141,078	1,460,261	137,262	6,160	1,896,549	2,877	1,596,399	45,063	0
June	154,956	22,696	136,638	1,466,871	134,882	7,548	1,900,895	2,656	1,600,432	50,442	0
July	152,384	22,573	135,260	1,482,134	133,754	7,507	1,911,039	2,697	1,613,475	63,695	0
Aug.	151,322	22,408	135,019	1,471,872	133,074	7,499	1,898,787	2,661	1,603,623	44,627	0
Sept.	151,254	22,341	145,736	1,445,109	133,206	7,549	1,882,854	2,848	1,577,273	16,403	800
Oct.	150,355	22,189	152,845	1,463,537	133,928	7,551	1,908,215	2,740	1,595,998	37,964	700
Nov.	150,536	21,940	149,203	1,462,363	134,269	8,072	1,904,442	2,854	1,595,325	23,111	5,380
Dec.	151,763	22,080	131,226	1,474,133	132,320	8,434	1,897,875	2,926	1,606,557	24,255	0
2012 – Jan.	151,285	21,596	149,204	1,493,956	131,069	9,310	1,934,824	2,876	1,625,231	56,828	5,655
Feb.	150,476	21,495	157,737	1,478,656	131,759	9,313	1,927,942	2,815	1,610,477	40,788	4,128
Mar.	159,810	20,844	162,727	1,475,053	132,213	16,431	1,946,235	2,844	1,607,592	34,457	5,556
Apr.	158,916	20,729	168,776	1,465,430	133,089	23,031	1,949,242	2,859	1,597,847	27,505	9,809
May	156,982	20,767	168,848	1,482,581	133,072	24,820	1,966,303	3,049	1,615,348	35,782	7,085

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