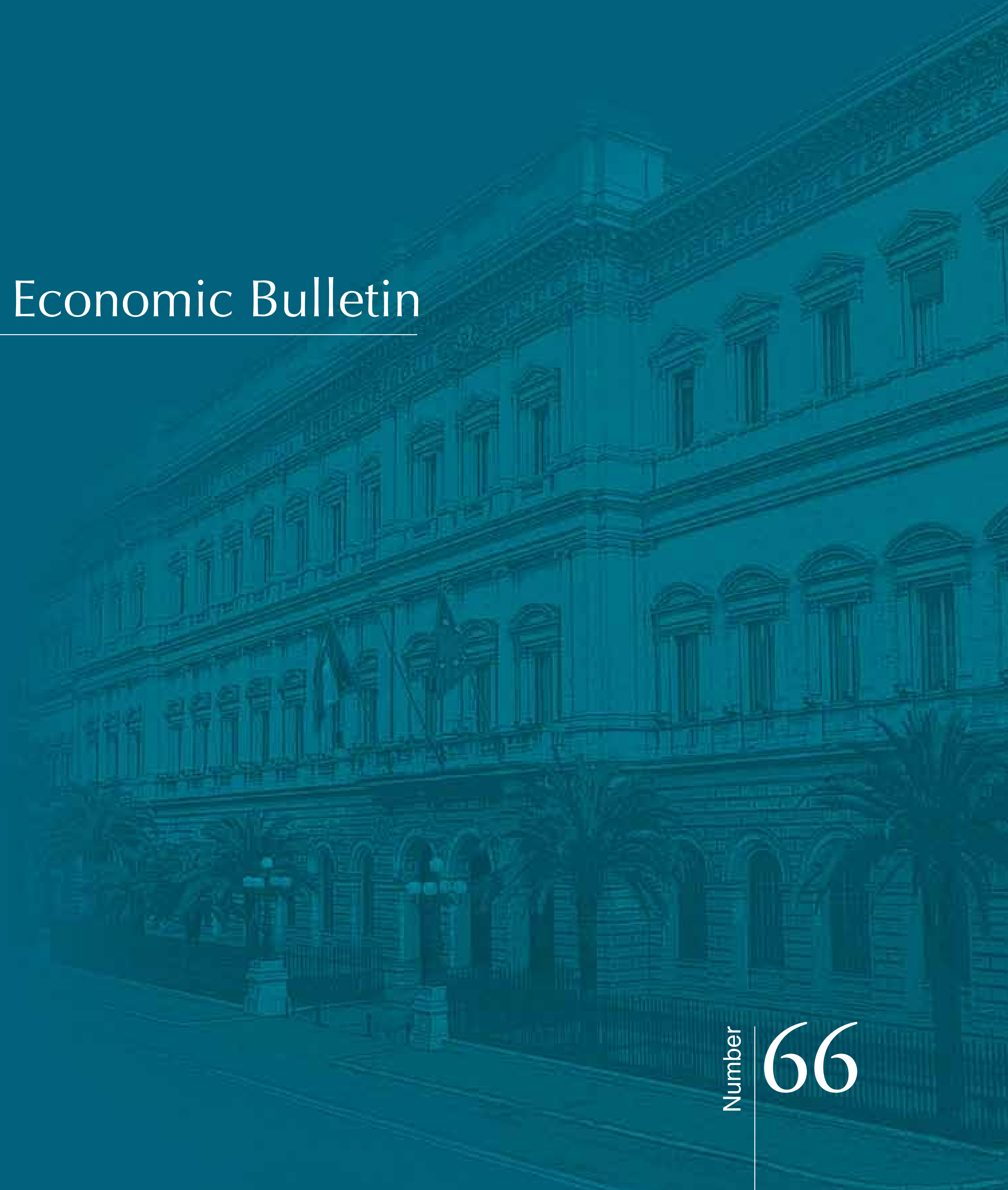
BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin



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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

World economic growth slows

World economic growth slowed in the second and third quarters, with a slackening of activity in the advanced and the emerging countries alike; world trade lost vigour. Growth expectations are weighed down by uncertainty over US budgetary policy, the performance of demand in the emerging countries and the sovereign debt crisis in the euro area. The main central banks have stepped up their expansive policy action.

In the euro area cyclical conditions weaken even in the strongest economies

The disparities in growth rates between different euro-area countries persist, but the slowdown has now spread even to the most robust economies. According to the €-coin coincident indicator, which estimates growth net of the most erratic components, economic activity remained weak in the summer months. Inflation has been fuelled by higher energy prices and by tax measures in some countries but should subside in the coming months.

The ECB acts to safeguard monetary policy transmission

In early August the Governing Council of the ECB reaffirmed the need to address the serious distortions of the bond markets, which are reflected in differences in monetary conditions between countries. It stressed that premiums related to fears of euro reversibility must be countered resolutely. At the start of September the Council announced the modalities for undertaking new outright purchases of government securities on the secondary market. These purchases will be subject to strict conditionality and will be focused on bonds with residual maturities of between one and three years; no temporal or quantitative limits have been set.

Financial tensions ease

The announcements made have attenuated the tensions on sovereign debt markets within the area, which had worsened again during the summer. Risk premiums declined everywhere, especially in the countries most exposed to the debt crisis, but financial market conditions nonetheless remain fragile.

The financial market climate improves but remains uncertain

The financial markets are being affected not only by the weakness of economic activity but also by uncertainty about the timing and method of possible requests for assistance by troubled euro-area countries, the conditions that will be attached to such assistance, and the state of some national banking systems. Social tensions could complicate the implementation of adjustment measures. It is essential to proceed resolutely and at all levels towards budgetary balance and the necessary structural reforms, as well as with the reform of the European institutional architecture. The creation of a European Banking Union must aim to sever the link between sovereign debt conditions and the state of national banking systems.

Italian economic activity slows down during the summer, with slightly less gloomy signs in September

Economic activity in Italy declined by 0.8 per cent in the second quarter, as in the first, and continued to contract in the summer months, though less sharply. The weakness of consumption and investment demand reflects still tense financial conditions, the effects of budget measures on disposable income, and the weak confidence of households and firms. Business surveys in September showed signs of a slight lifting of pessimism over the short-term outlook, but not enough to presage an immediate return to growth.

Exports to non-EU countries continue to buoy production

The performance of exports has been relatively good and made a positive, albeit limited, contribution to economic activity. The recovery in merchandise exports in the second quarter mainly involved markets outside the European Union; recent surveys indicate that exports are holding up. The deficit on the current account of the balance of payments has declined significantly, thanks in part to the fall in imports caused by the contraction in domestic demand.

The employment picture is still negative

Employment remained practically stable in the second quarter, but the increase in the labour force – concentrated among younger age groups, women and in the southern regions – drove the unemployment rate above 10 per cent. Gross earnings shrank in real terms. The most recent data and business surveys indicate that the employment outlook is still negative.

Inflation is expected to diminish in the final part of the year

The inflation rate stayed above 3 per cent in the third quarter, reflecting the rise in energy prices and the effects of the indirect tax increases decided in 2011; estimated at nearly 1 percentage point, these effects should run their course in the coming months. Price pressures are likely to subside, reflecting the weakness of demand. The differential vis-à-vis euro-area average inflation declined to 0.7 percentage points in September, nearly half of it ascribable to the effects of taxation.

The improvement in financial markets extends to Italy …

Net portfolio disposals of Italian securities by foreign investors ceased in the three months to July. Yields on government securities came down for all maturities in the third quarter; the decline gathered pace in September. The reduction also spread to the yields on bank and corporate bonds and was accompanied by an equity rally. Some Italian banks resumed bond issuance on foreign markets.

… and is reflected in credit conditions

The conditions of bank lending have benefited from the July reduction in official rates and, in the last few weeks, from the decline in sovereign spreads. Interest rates on loans to households and firms decreased in August; the standards for approving loans have become more favourable than the highly restrictive ones prevailing at the beginning of the year. Lingering tensions indicate that monetary policy transmission is still uneven; the cost of credit remains higher than the euro-area average.

Banks' retail funding remains solid; capital ratios improve

Italian banks' retail funding remains solid, but problems persist on the wholesale market. Credit quality and bank profitability have been hit by the deterioration in cyclical conditions, but the banks' capital base has strengthened further.

The public finances are set to improve in the next three years, despite the poor cyclical conditions

In September the Government updated its forecasts for the public finances. Net borrowing is expected to decline significantly both this year and the next, despite the weakening of the economy. In accordance with Italy's European undertakings, in 2012 the budget deficit should be below 3 per cent of GDP; for 2013, a start on lowering the ratio of debt to GDP is planned, and the structural budget is expected to be in balance (compared with a surplus of 0.2 per cent on a current legislation basis). In October the Government drafted the Stability Bill, setting out the measures to achieve the new planning objectives. The planned increase in VAT is to be scaled back and the income tax rates for the two lowest brackets reduced. Revenue increases are expected from the revision of tax deductions and credits and from measures on banking and insurance.

Implementation of the structural reforms remains a priority

Although the Government and the leading analysts expect Italian GDP to contract on average in 2013, their forecasts are consistent with the economy pulling out of recession during the year. A faster return to growth would be fostered by an improvement in credit conditions and in confidence. As part of the broad reform process under way to set Italy back on a high growth path, additional measures have been adopted in the last few weeks to improve the efficiency of the public administration and foster the development of innovative companies. Prompt and determined action to implement the measures adopted is crucial.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

World economic activity and international trade, which had been slowing in the second quarter, continued to lose strength during the summer. The pressure on consumer prices from rising raw materials prices was moderate overall. Forecasts for growth, revised downwards, continue to be affected by the uncertainty surrounding developments in the euro area and fiscal policy in the United States (Table 1).

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2011	2012	2013	2012	2013
GDP					
World	**3.8**	**3.3**	**3.6**	–	–
Advanced countries	**1.6**	**1.3**	**1.5**	–	–
Euro area	*1.4*	*-0.4*	*0.2*	*-0.5*	*0.2*
Japan	*-0.8*	*2.2*	*1.2*	*2.3*	*1.3*
United Kingdom	*0.8*	*-0.4*	*1.1*	*-0.2*	*1.2*
United States	*1.8*	*2.2*	*2.1*	*2.1*	*2.0*
Emerging countries	**6.2**	**5.3**	**5.6**	–	–
Brazil	*2.7*	*1.5*	*4.0*	*1.6*	*4.0*
China	*9.2*	*7.8*	*8.2*	*7.7*	*8.1*
India (1)	*6.8*	*4.9*	*6.0*	*5.8*	*6.8*
Russia	*4.3*	*3.7*	*3.8*	*3.8*	*3.7*
World trade (2)	**5.8**	**3.2**	**4.5**	–	–

Sources: IMF, *World Economic Outlook*, October 2012; Consensus Economics, October 2012 (for Brazil and Russia, September 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.

In the second quarter of 2012 GDP growth slows in the advanced countries ...

In the United States, GDP growth slowed sharply to an annualized rate of 1.3 per cent in the second quarter, from 2.0 per cent in the first. Contributory factors were the slackening of investment and the weakening of household consumption (especially spending on goods), which grew less than disposable income. In Japan, the rate of growth fell sharply, from 5.3 to 0.7 per cent, as public and private consumption stagnated and the contribution of net exports turned negative. In the United Kingdom, GDP contracted by 1.5 per cent, the third successive quarterly decline, reflecting the effects of the consolidation of the public accounts and the unfavourable evolution of the international context.

... and in the emerging economies

Activity also slowed in the main emerging economies, reflecting the weakness of demand in the advanced countries and the lagged effects of the restrictive policies put in place last year. In the second quarter GDP growth declined again in China (to 7.6 per cent on the year-earlier period, from 8.1 per cent in the first quarter; see the box “The growth slowdown in China and the economic policy response”), in India (to 3.9 per cent on an annualized basis compared with the previous quarter, from 5.6 per cent), and in Russia (from 4.9 to 4.0 per cent), while it picked up in Brazil (to 1.6 per cent, from 0.5 per cent).

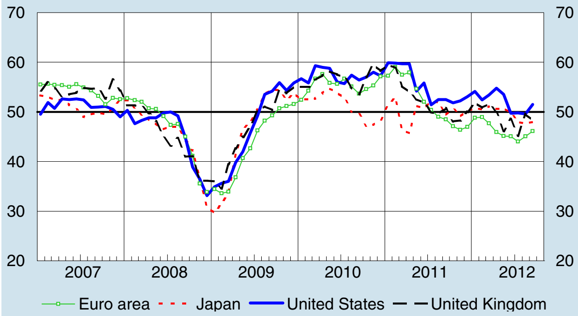
Activity appears to have remained weak in the summer

The cyclical indicators suggest that growth remained weak in the main advanced economies in the third quarter (Figure 1). In the United States, GDP is estimated to have expanded at about the same pace as in the second quarter. The expansion in employment was modest even after an upward revision. The unemployment rate (7.8 per cent in September) came down owing in part to the large drop in labour market participation, greater than that explained by demographic factors; long-term unemployment remained high as a share of total unemployment. A positive element in cyclical developments in the United States is the revival of activity in the property market, where prices have been rising since April. According to the data now available, economic activity stagnated in Japan, while in the United Kingdom it began to expand again.

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 assessments of purchasing managers.

Indices of industrial production and surveys of business opinion indicate that economic activity in the emerging countries continued to expand at moderate rates in the third quarter.

World trade, which had slowed in the second quarter as imports fell in Europe and Asia, appears to have slackened further in the third quarter, reflecting the worsening in global cyclical conditions.

THE GROWTH SLOWDOWN IN CHINA AND THE ECONOMIC POLICY RESPONSE

In recent months the Chinese economy, whose size and growth rate give it a potentially important role in sustaining global demand, has undergone a cyclical deterioration. The twelve-month GDP growth rate declined to 7.6 per cent in the second quarter, about two percentage points less than in the year-earlier quarter and the lowest since the start of 2009. The deceleration is due to both domestic and external factors. The domestic factors originated in the restrictive monetary policy measures adopted at the end of 2010 in response to rising property prices and the waning of the effects of the expansive fiscal measures taken in 2008 and 2009 to withstand the global recession. The main external factor was the contraction of foreign and especially European demand. These factors have undercut the two traditional engines of Chinese growth: investment and exports. In the first half of 2012 the contribution to growth made by investment was down to 3.9 percentage points, from 5.1 points in the previous year, while that of net exports was negative (-0.6 points, compared with -0.1 in the first half of 2011). The contribution of consumption was essentially unchanged (4.5 points).

So far, the measures taken by the Chinese Government to sustain economic activity have been of modest size, especially when compared with the spending programmes initiated in October 2008, which amounted to more than 13 per cent of GDP over two years. Recent decisions involve speeding up investments already planned, especially public housing construction, and new transport infrastructure projects in the provinces of the interior, for additional expenditure amounting to about 2 per cent of GDP (in a time frame yet to be defined). In June the Government also introduced new subsidies for durable goods purchases (equal to 0.1 per cent of GDP) and reinstated the incentives, which had expired at the end of 2011, for the scrapping of old and the purchase of new cars.

Starting in December the monetary policy stance has become expansive, favoured by the subsidence of inflationary pressures. The banks' compulsory reserve ratio was lowered three times to stand at 20 per cent in May for the largest banks. In June and July, for the first time since the autumn of 2008, the benchmark lending and deposit rates were also lowered (by a total of 50 basis points to 6.0 and 3.0 per cent respectively), and in August the injection of liquidity via reverse repos was stepped up. The monetary easing still appears to be cautious, however, by comparison with the actions taken in 2008-09, and credit growth, though picking up, remains moderate.

These interventions notwithstanding, the deceleration of output has continued, and cyclical indicators signal a further slowdown in the third quarter. The growth forecasts of the main private and institutional analysts have been revised downwards repeatedly since the start of the year. The IMF estimates released in October forecast GDP growth of 7.8 per cent in 2012 (more than one point less than the year-earlier forecast) and 8.2 per cent in 2013.

Given the absence of inflationary pressures, there is ample scope for expansionary economic policy measures. According to the IMF's estimates the budget deficit will remain below 1.5 per cent of GDP both this year and next and the public debt will come to about 22 per cent. Real interest rates and compulsory reserve ratios are still relatively high, and both have further scope for reduction.

There are a number of reasons for China's cautious economic policy to date. First of all, the current cyclical deterioration has been less severe and more gradual than that of 2008-09. Second, while the expansive budgetary policy of 2008-09 did put China back on a rapid growth path, at the same time it exacerbated internal imbalances, triggering an investment boom in construction and in some building-related sectors of heavy industry and creating the risk of a real-estate bubble. Consequently, by the spring of 2010 the authorities had already restricted credit to those sectors (see Banca d'Italia, *Abridged Annual Report for 2011*, Chapter 1, "Economic developments and policies in the main countries and areas"). At present the excess capacity resulting from the previous investment expansion and, more important, the threat of a renewed overheating in the property market have counselled greater caution in easing monetary and credit conditions.

Third, as the result of the economic stimulus enacted in 2008 local governments – involved in funding a substantial part of the public works planned – built up a large debt (mostly to banks), which official estimates put at 20 per cent of GDP. For this debt – only partially incorporated in the data for total public sector debt – the Government has created a repayment plan to be completed by the end of 2016, thus limiting the local authorities' ability to finance large new infrastructural projects.

Lastly, the very problems that the Chinese economy had to cope with following the collapse of world demand in 2008-09 appear to have strengthened the authorities' resolve, as stated in the 2011-15 five-year plan, to reduce China's dependence on foreign demand and shift the balance of domestic demand towards consumption (raising the share of private consumption by at least 5 percentage points to 40 per cent of GDP, still very low by international standards). Given the heavier incidence of investment (equal to nearly 50 per cent of GDP) and the Government's ability to affect investment expenditure directly, the shift in the composition of domestic demand is likely, at least in the short run, to mean a lower growth rate than the average for the last decade (of more than 10 per cent). Over the longer term other structural factors, including rapid population ageing, will inevitably bring a reduction in the growth rate. In March 2012 the Chinese authorities themselves lowered their minimum growth target for the year from 8.0 to 7.5 per cent. If the signs of slowdown intensify, the Government could opt for stronger measures to sustain investment and exports.

The forecasts for growth are dimmer

The forecasts for the growth of the world economy in the two years 2012-13 have been revised downwards. According to the IMF's latest projections, released in October, world GDP will expand by 3.3 per cent this year and 3.6 per cent next (compared with 3.8 per cent in 2011). The slowdown in 2012 will be largely due to the weakening of economic activity in the euro area and the emerging countries. Wide differences in GDP growth are expected to persist: in both years, GDP is forecast to expand at rates of less than 2 per cent in the advanced countries as a group and more than 5 per cent overall in the emerging countries (Table 1).

The world economic outlook is subject to considerable risks, in connection with the uncertainty regarding the euro area's sovereign debt crisis, the highly restrictive fiscal policy that would be triggered at the beginning of 2013 in the United States by the lapsing of a large number of tax reliefs and the entry into force of the spending cuts agreed in August 2011, and the severity of the slowdown in the emerging economies. Downside risks are posed by the possibility of a sharp increase in crude oil prices as a consequence of the mounting tensions in the Middle East.

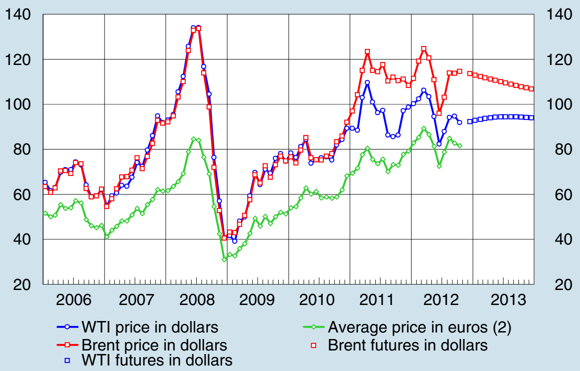
Oil prices head upwards again, but futures contracts point to a reduction

After declining in the second quarter, commodity prices increased in the third. The price of Brent grade crude oil, driven up by geopolitical tensions, rose by more than 20 per cent between June and August (though it remained below the level of last March); since then it has hovered above $110 a barrel. On the basis of futures contracts, the oil price – $115.7 a barrel on 12 October – is projected to come down by about 7 per cent over the next twelve months (Figure 2). The international prices of non-energy commodities also rose significantly owing to the effects of adverse weather on the prices of agricultural products and the impact of the announcement of infrastructural investments in China on the prices of metals.

Figure 2

Crude oil: spot and futures prices (1)

(dollars and euros per barrel)

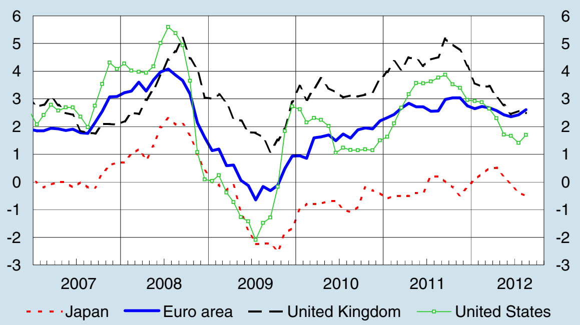


Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 12 October 2012. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

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 holds steady in the advanced countries

Despite the rise in commodity prices, inflation rates remained broadly unchanged in the advanced countries, reflecting the weak cyclical phase. In August, twelve-month consumer price inflation in the United States stood at 1.7 per cent, as at the end of the second quarter (Figure 3); net of the energy and food components, it declined from 2.2 to 1.9 per cent. In the same month, the inflation rate was 2.5 per cent in the United Kingdom and -0.4 per cent in Japan (compared with 2.4 and -0.2 per cent in June). Inflation moderated in Brazil and China but remained high in India and Russia.

Monetary policy becomes still more accommodating in the advanced economies ...

In September the advanced countries' central banks took stronger measures to counteract the weakness of economic activity. The US Federal Reserve announced a programme to purchase $40 billion worth of mortgage-backed securities (MBS) a month, effective immediately, without fixing the overall amount or the length of the programme. These purchases are over and above those already decided for the purpose of shifting the central bank's portfolio of government paper towards longer maturities and reinvesting the proceeds of MBS redemptions. In addition, the Federal Reserve indicated that a highly accommodating monetary policy stance will probably be necessary even after the economic recovery gains traction; in particular, it extended the period for which policy rates are expected to remain unchanged to at least the first half of 2015. The Bank of Japan expanded its programme of financial asset purchases by ¥10 trillion (to ¥80 trillion) and eliminated the minimum yield required for purchases of these assets.

... and the emerging ones

Faced with the deterioration in the cyclical situation, the monetary authorities of the main emerging countries also continued to make monetary conditions easier. In September the People's Bank of China stepped up injections of liquidity through reverse repos and the Reserve Bank of India reduced the required reserve ratio by 25 basis points, to 4.5 per cent, in order to attenuate the tensions on the interbank market. Between August and October the Central Bank of Brazil reduced the Selic reference rate by a total of 75 basis points and lowered the required reserve ratios. In Russia, however, the central bank raised the rate on refinancing operations by 25 basis points in order to counter inflationary pressures.

2.2 THE EURO AREA

Economic activity in the euro area contracted in the second quarter of 2012 and according to the available indicators remained weak in the third quarter; it continues to depend on the positive impetus of external trade. In view of the persistence of sovereign debt market tensions, the Governing Council of the ECB announced the modalities of the Outright Monetary Transactions (OMTs) aimed at safeguarding the correct working of the transmission of monetary policy and thereby supporting the economy. The European Stability Mechanism became formally operational on 8 October.

GDP diminishes in the second quarter ...

The GDP of the euro area, which had stagnated in the first quarter of the year, fell by 0.2 per cent in the second. Output was affected by the slackening of domestic demand caused by the contraction in households' consumption and in investment spending. Foreign trade again made a positive contribution to growth; exports increased by 1.3 per cent and imports by 0.6 per cent.

The growth gaps between the main euro-area countries remain considerable, even against the background of a generalized slowdown. While output contracted further in Spain and Italy (by 0.4 and 0.8 per cent respectively), it continued to stagnate in France. In Germany, GDP growth slowed to 0.3 per cent from 0.5 per cent in the first quarter.

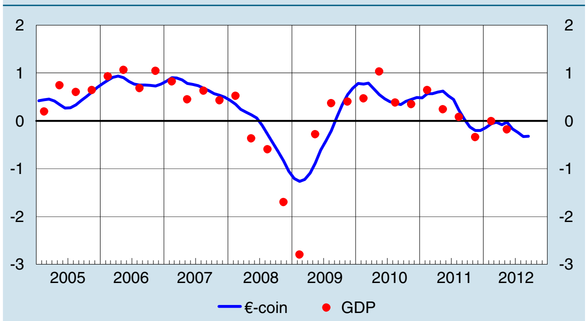
... and economic activity remains slack throughout the summer

Available information points to a continued weakness of economic activity in the third quarter. The €-coin indicator calculated by the Bank of Italy, which estimates growth net of the most erratic components, was unchanged in September from the negative value (-0.3 per cent) recorded in August (Figure 4). According to the European Commission business surveys and the purchasing managers' indices, sentiment among firms remains pessimistic: foreign demand reflects the slowdown in world trade, and domestic demand is dampened by the protracted rise in unemployment, which in August reached the highest level since the start

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.

of the EMU (11.4 per cent of the labour force). The signals coming from the qualitative indicators are not uniform but they do suggest that the cyclical weakness continues to affect the German economy as well.

The euro-area GDP growth forecasts of the professional forecasters surveyed in October by Consensus Economics confirmed a decline of 0.5 per cent on average in 2012; the projections for 2013 stabilized at 0.2 per cent, compared with 0.7 per cent in June. The Eurosystem experts' macroeconomic projections released in September put GDP growth in a range between -0.6 and -0.2 per cent this year and between -0.4 and 1.4 per cent in 2013.

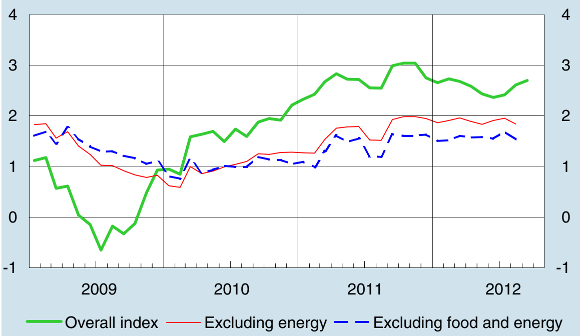
Core inflation is still moderate

Inflation in the euro area, which held at 2.4 per cent from May to July, rose to 2.6 per cent in August owing to the rise in energy prices. It increased further in September, reaching 2.7 per cent according to provisional data (Figure 5), mainly in response to the raising of VAT rates in Spain. Core inflation, as measured by the twelve-month rise in the harmonized index of consumer prices net of food and energy products, stayed below 2.0 per cent throughout the quarter. In August the twelve-month rate of growth in producer prices, which had been falling since the spring of 2011, was pushed back upwards by the acceleration in the energy component. The latest business surveys do not indicate any plans for a significant upward revision of firms' selling prices, however.

Figure 5

Inflation in the euro area (1)

(12-month percentage changes)



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

Inflation is projected to fall gradually to just below 2 per cent over the medium term, a level that is consistent with the Eurosystem's notion of price stability. According to the analysts surveyed by Consensus Economics in October, average annual inflation in the euro area will decline to 2.4 per cent in 2012 and to 1.9 per cent in 2013. The latest projections of the Eurosystem experts put average inflation in a range of 2.4 to 2.6 per cent this year and 1.3 to 2.5 per cent in 2013.

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 August). The growth in current accounts and deposits redeemable at notice has increased, reflecting a high liquidity preference in the present environment of very low interest rates and acute uncertainty. Changes in deposits included in M3 are still extremely uneven among the euro-area countries, with a negative variation in Greece, Ireland, Portugal and Spain and an expansion in the other main economies.

... and credit to firms and households is stagnating

The growth in credit to the non-financial private sector is practically nil, reflecting the stagnation in lending to firms and to households (-0.3 and 0.2 per cent respectively in the three months ending in August on a seasonally adjusted, annualized basis, adjusted for the accounting effect of securitizations). Developments in lending to households and firms also vary greatly between countries. The overall dynamics are affected by markedly negative twelve-month rates of change in Greece, Ireland, Portugal and Spain.

An increasingly important factor in the slack performance of bank loans is the drop in demand caused by the poor economic outlook and the adjustments firms and households are making to their balance sheets. Supply-side tensions remain, although they have been easing since the end of 2011 and are concentrated in a small number of countries. The responses to the July edition of the quarterly euro-area bank lending survey indicate that after an improvement in the first three months of the year the tightness of credit conditions for firms and households was unchanged in the second quarter. The remaining tensions are probably due to the new flare-up of the sovereign debt crisis since April and the perception of greater risks for firms' economic prospects.

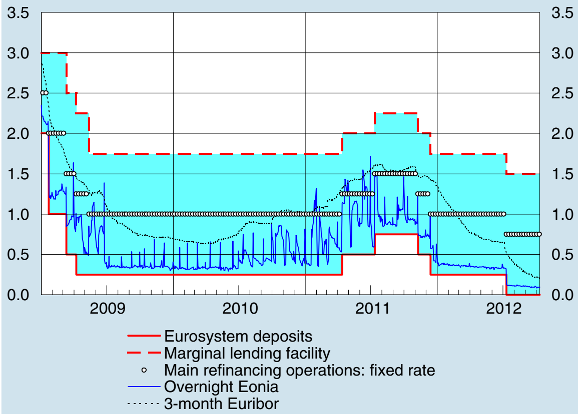
The ECB keeps official interest rates at an all-time low ...

At its meeting at the beginning of October the Governing Council of the ECB kept the rate on main refinancing operations unchanged at 0.75 per cent, the level reached following the last reduction decided in July and the lowest since the start of the EMU (Figure 6). Reflecting the lagged effect of that reduction, interest rates decreased on the interbank market. The Eonia and Euribor rates fell to 0.1 and 0.2 per cent respectively towards the middle of October, reaching an all-time low. There was a significant narrowing of the spread between three-month Euribor and overnight indexed swaps of the same maturity, which provides a gauge of the risk premium in the money market; this premium was around 10 basis points (compared with 40 in mid-July).

Figure 6

Official interest rates and money market rates in the euro area

(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

... and takes new steps to safeguard monetary policy transmission

The Governing Council of the ECB underscored the existence of a connection between the distortions on the markets for euro-area government securities and fears concerning the reversibility of the single currency, reasserting the need to safeguard the effectiveness and uniformity of monetary policy transmission. At its meeting at the beginning of September the Council announced the modalities for undertaking OMTs in the secondary market for government securities (see the box "The European Central Bank's Outright Monetary Transactions"). No limits have been fixed ex ante for OMTs in terms of either size or duration; they will also be subject to a strict conditionality for the countries concerned. With regard to the securities purchased, the Eurosystem will accept the same treatment as private or other creditors. As in the case of the Securities Markets Programme, which was terminated at the same time, the effects of these operations on liquidity will be sterilized.

In September the Governing Council also introduced new measures to preserve the availability of eligible collateral for Eurosystem refinancing operations. Specifically, it decided (a) to suspend the minimum rating threshold for securities issued or guaranteed by governments that the Council deems eligible for OMTs or by governments participating in an EU or IMF programme; and (b) to accept as eligible collateral for refinancing operations also dollar-, sterling- or yen-denominated debt instruments issued and held in the euro area.

Net balances in TARGET2 are virtually stable since July

The difficulty of bank funding eased following the adoption of monetary policy measures and outflows of capital from the countries worst hit by the crisis practically ceased. From July onwards the total liquidity supplied by the Eurosystem by means of refinancing operations was virtually unchanged at €1,200 billion. The divergent tendency of net balances, positive or negative, in TARGET2 among the euro-area countries came to a halt (see the box "Recent evolution of the balances of the TARGET2 payment system", *Economic Bulletin*, January 2012).

THE EUROPEAN CENTRAL BANK'S OUTRIGHT MONETARY TRANSACTIONS

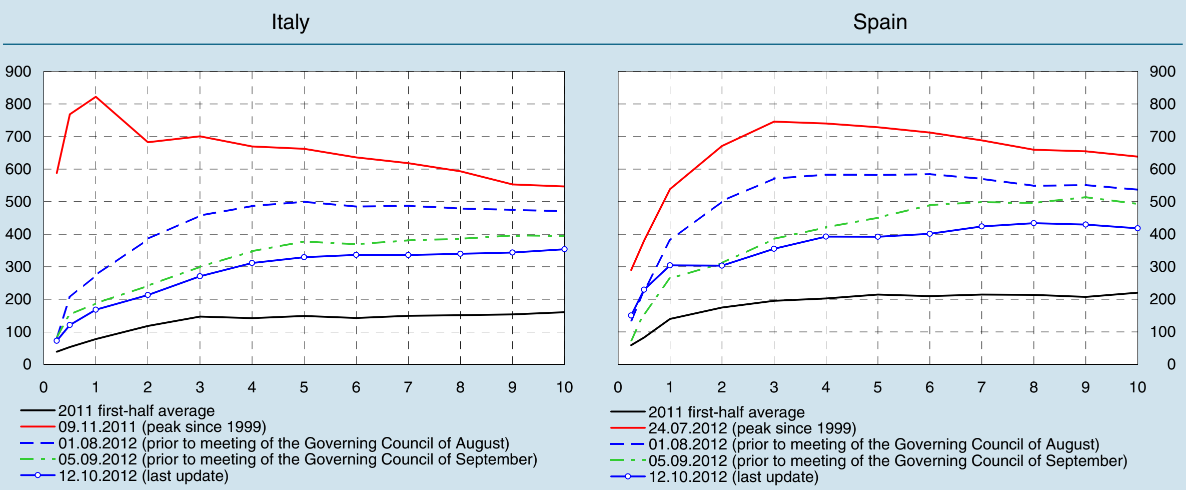
In August the Governing Council of the ECB held extensive discussions on the policy options to address severe malfunctioning in the bond markets of euro-area countries. The Council described the risk premiums related to fears over the reversibility of the euro as unacceptable and reiterated the need for a decisive response, with a view to ensuring proper monetary policy transmission within the area.

In its meeting of 6 September, the Governing Council decided on the modalities for undertaking Outright Monetary Transactions (OMTs); the transactions consist in bond purchases on the secondary market in order to preserve price stability in the euro area and, as such, are fully within the ECB's mandate.

The start of OMTs is subject to strict and effective conditionality for the countries involved, attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme. Such programmes can take the form of a macroeconomic adjustment programme or a precautionary programme (Enhanced Conditions Credit Line), provided that they include the possibility of EFSF/ESM primary market purchases. Decisions concerning the start, continuation and suspension of the OMTs are at the full discretion of the Governing Council and will be considered to the extent that they are warranted from a monetary policy perspective and as long as programme conditionality is respected. No ex ante temporal or quantitative limits have been set on the size of the transactions.

The Eurosystem will accept the same treatment as private creditors or other categories of creditor in respect of the bonds purchased. It was further decided that the transactions will focus on the shorter part of the yield curve and in particular on sovereign bonds with residual maturity of between one and three years. According to the Council, these securities are more strongly affected by tensions in the sovereign debt markets. The effects on the shorter part of the curve are expected to spill over to longer maturities as well.

Interest rate differentials between government bonds and corresponding German debt: maturity structure
(selected dates; basis points)



Source: Bloomberg.

The liquidity created through OMTs will be fully sterilized. To ensure the transparency of the transactions, aggregate OMT holdings and their market values will be published on a weekly basis, while the average duration of the holdings and a breakdown by country will be released on a monthly basis.

At the same time, the Governing Council decided to terminate the Securities Markets Programme (SMP). The OMTs differ from the SMP in several important respects which should enhance their effectiveness: the conditionality requirement, the absence of any temporal or quantitative limits, greater transparency, and the fact that the Eurosystem will not enjoy preferred creditor status.

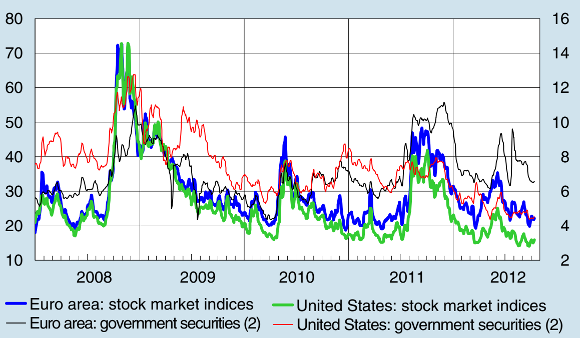
The announcement of fresh interventions helped ease conditions in the sovereign debt markets that were most under pressure; the improvement continued after the meeting of the Governing Council in early September, which defined the modalities for undertaking the OMTs. The spreads of the government securities of the countries worst hit by the crisis narrowed over benchmark German Bunds (see figure). The premiums on sovereign credit default swaps and the bid-ask spreads on government securities also narrowed. Other segments of the financial markets reacted positively to the ECB's decisions: share prices, especially in the banking sector, went up.

2.3 WORLD FINANCIAL MARKETS

Following the announcement of new methods of intervention by the ECB, the tensions in the euro-area government securities markets eased in August and September, with positive repercussions on all the main international financial markets. Share and bond prices rose and their expected variability declined (Figure 7), partly as a consequence of the dispelling of the uncertainty about the German constitutional court's decision on the European Stability Mechanism. There nonetheless continues to be concern about the severity of the global slowdown and the development of the crisis in the euro area. In particular, towards the end of September and in early October the difficulties of the Spanish banking system and regional finances weighed adversely, as did the uncertainty about the outlook for the EU's institutional architecture.

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. – (2) Right-hand scale.

Long-term interest rates fall in the reputedly low-risk countries and the euro area as a whole

With the worsening outlook for world economic growth and the increasingly expansionary stance of monetary policies, in the third quarter of this year long-term interest rates for ten-year maturities declined in Germany, the United Kingdom and Japan, by respectively 20, 12 and 9 basis points; in the United States they remained practically unchanged. On average the decline in the euro area was larger, 45 basis points (Figure 8).

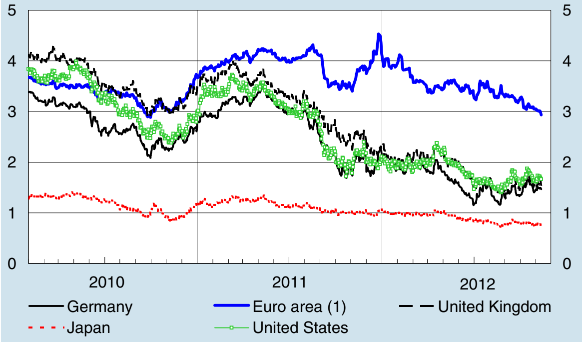
The spreads with respect to the German Bund narrow

Sovereign risk premiums in the euro area fell everywhere, and most sharply in the countries most exposed to the debt crisis; the announcements and decisions of the ECB during the summer made a substantial contribution. The yield differentials

Figure 8

Yields on ten-year government bonds

(daily data; per cent)

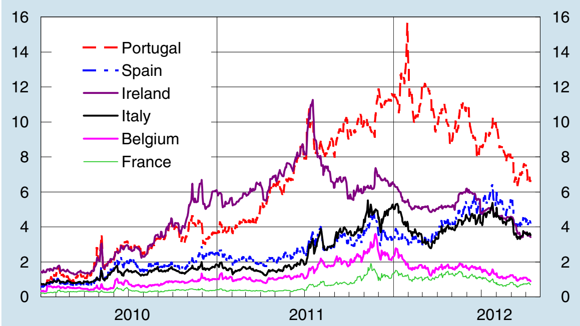


Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the ten-year government securities of the euro-area countries except Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

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 11 October 2012.

between ten-year government securities and the Bund narrowed in the third quarter in Ireland, Italy, Portugal and Spain (Figure 9). They also narrowed in France and the Netherlands. Since the end of July, rising yields on German securities have also contributed.

Uncertainty remains high

Between the end of September and the beginning of October tensions resurfaced, linked in large part to Spain's financial difficulties. On 10 October Standard & Poors revised Spain's rating downwards; spreads widened moderately. Looking ahead, market confidence will depend on several events, connected above all with decisions of a political nature. Specifically, they concern the timing and need for requests for outside help by some euro-area economies, the characteristics of possible support programmes and the continuation of budgetary adjustment in a context made more difficult by the heightening of social tensions in some countries.

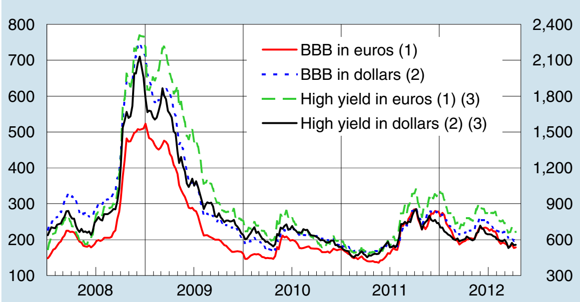
The risk premiums of banks and non-financial corporations also decrease

The premiums for the credit risk of banks have benefited from the easing of the tensions in sovereign debt markets. Considering a sample of large banks, five-year CDS spreads fell in the third quarter by 65 basis points in the euro area and by 73 basis points in the United States. The decrease in risk premiums also applied to non-financial corporate bonds, whose yield differentials with respect to the reputedly safest government securities dropped by 37 basis points for securities denominated in euros and by 34 basis points for those denominated in dollars (Figure 10).

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.

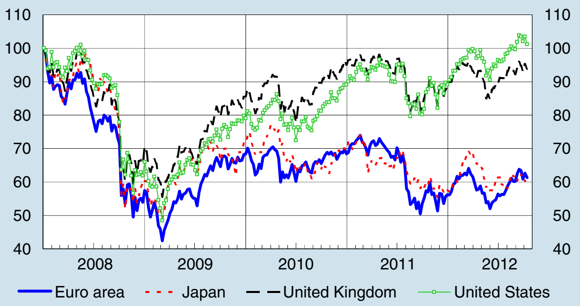
Share prices recover

Since the end of June the stock market indices of the main advanced countries, except Japan, have risen, with the largest gains in the euro area and the United States. On 12 October the Dow Jones

Figure 11

Stock market indices (1)

(end-of-week data; first week of January 2008=100)

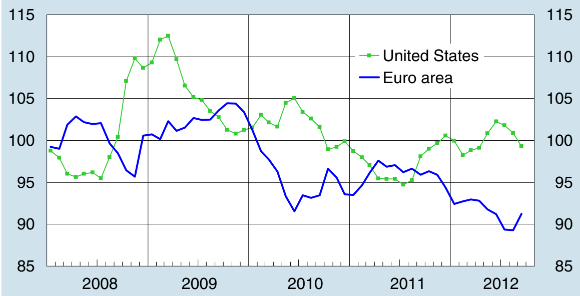


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 12

Nominal effective exchange rates (1)

(monthly data)



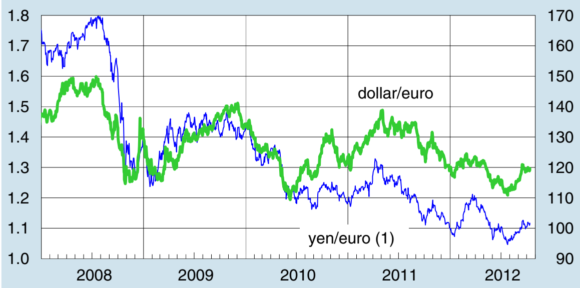
Sources: ECB and Federal Reserve.
(1) Indices, 2008=100. An increase implies an appreciation.

Euro Stoxx index of the largest euro-area listed companies and the S&P 500 in the United States were up from their end-June levels by almost 9 and 5 per cent respectively (Figure 11). The expected volatility implied by the prices of options on these indices decreased significantly.

Figure 13

Bilateral exchange rates

(daily data)



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

Capital flows to the emerging countries strengthen

Financial conditions in the emerging countries have improved, thanks to the attenuation of risk aversion. Portfolio investment turned positive for equities and accelerated for debt securities. The yield differentials between emerging countries' dollar-denominated long-term sovereigns and long-term US Treasuries have narrowed since the end of the second quarter, as have their sovereign CDS spreads. Emerging-country share prices in local currency have risen by around 5 per cent overall since the end of June.

The depreciation of the euro comes to a halt

In the third quarter the depreciation of the euro, under way since March, came to a halt. In nominal effective terms the European currency remained basically unchanged (Figure 12). In bilateral terms it gained 2.7 per cent against the dollar, while against the yen it stayed at its end-June level (Figure 13).

The Chinese renminbi appreciated slightly against the dollar (gaining 1.1 per cent in the course of the third quarter); the expectations implied by twelve-month non-deliverable forward contracts on the dollar point to a depreciation in connection with the signs of economic slowdown in China.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

Output in Italy has continued to decline in recent months; economic activity is still being sustained by foreign trade but is suffering from the very weak spending of households and firms. Economic agents' assessments of the short-term prospects remain unfavourable; in September, however, there were some signs that firms' pessimism was easing, above all following progress in action to counter the sovereign debt crisis.

GDP declines in the second quarter ...

In the second quarter of 2012 Italy's GDP diminished at the same pace as in the first, by 0.8 per cent on the previous period (Table 2); over one year, the contraction came to 2.6 per cent. Household expenditure and investment continued to decline, although not as rapidly as at the start of the year, above all in construction (Figure 14). The reduction in stocks virtually came to a halt. Foreign trade sustained economic activity: while the change in exports was barely positive, imports fell. Value added contracted in all the main sectors, most markedly agriculture and industry.

... and, according to our estimates, during the summer too

According to the available indicators, in the third quarter output fell again, but less steeply than in the first half of the year. In the qualitative surveys conducted in September, firms' pessimism moderated. The problems afflicting important industries, including the automobile industry and steel, continue to weigh on future prospects.

Inflation is expected to fall in the coming months

In the third quarter inflation (measured by the twelve-month change in the national consumer price index) remained at just over 3 per cent, nearly one percentage point of which reflects the

Table 2

GDP and its main components

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

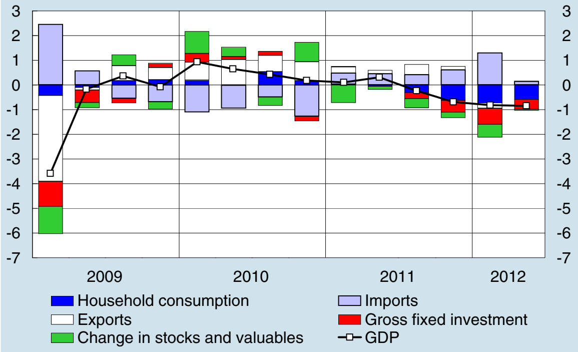
	2011		2011	2012	
	Q3	Q4	(1)	Q1	Q2
GDP	-0.2	-0.7	0.4	-0.8	-0.8
Total imports	-1.5	-2.1	0.6	-4.4	-0.5
National demand (2)	-1.1	-1.4	-1.0	-1.9	-1.0
National consumption	-0.5	-0.9	-0.1	-0.9	-0.7
household spending	*-0.5*	*-1.1*	*0.1*	*-1.2*	*-1.0*
other (3)	*-0.6*	*-0.5*	*-0.8*	*..*	*0.2*
Gross fixed investment	-1.3	-2.5	-1.8	-3.4	-2.1
construction	*-1.1*	*-0.7*	*-2.6*	*-3.2*	*-1.5*
other investment goods	*-1.4*	*-4.4*	*-1.0*	*-3.6*	*-2.9*
Change in stocks and valuables (4)	-0.4	-0.2	-0.5	-0.5	-0.1
Total exports	1.5	0.5	6.0	-0.8	0.1

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.

increases in indirect taxes introduced in 2011. Excluding energy, inflation fell to 2.0 per cent in September. As the effects of last year's increase in the ordinary VAT rate fade, in the next few months the inflation rate should gradually come down towards the euro-area average.

In 2013 analysts expect GDP to record another, modest decline

Growth estimates for 2012 and 2013 have been revised downwards; the expectations for average growth in 2013 remain consistent with an exit from the recession during the year. According to the recent update of the Economic and Financial Document 2012 issued by the Government, the change in GDP, equal to -2.4 per cent in 2012, will remain negative in 2013 (-0.2 per cent). The forecasts of the analysts polled in October by Consensus Economic and the recent projections of the IMF point to a decline that is essentially in line with the Government's expectations for 2012, but are more pessimistic for the following year (-0.7 per cent). These forecasts imply that, on a quarterly basis, GDP will cease to contract in 2013.

3.2 FIRMS

Bank of Italy estimates show industrial production to have declined in the third quarter. Firms' assessments improved slightly in September, but overall the indicators still do not suggest any imminent return to economic growth. Firms' profitability has diminished slightly.

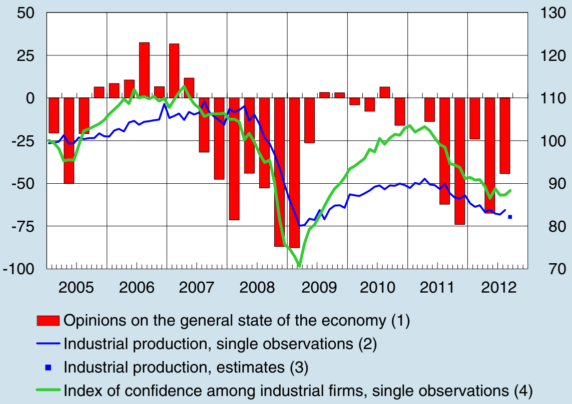
Industrial production diminishes over the summer

Industrial production was stable in July and scored a gain of 1.7 per cent in August (Figure 15). However, this increse needs to be treated with caution, given the pronounced instability that in recent years has characterized the seasonal component in the summer months. Our estimates indicate that activity began to contract again in September, registering an average decline of just over 0.5 per cent in the third quarter (compared with one of 1.6 per cent in the second quarter).

Figure 15

Industrial production and business confidence

(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 September 2012 Bank of Italy–*Il Sole 24 Ore* quarterly Survey on Inflation and Growth Expectations, available in Italian in *Supplementi al Bollettino Statistico,* 50, 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' assessments of demand, production expectations and stocks of finished products; index, 2005=100.

Investment continues to fall ...

Business investment fell by 2.1 per cent in the second quarter of 2012 compared with the first. The contraction was particularly sharp for investment in machinery and equipment (-2.8 per cent) and transport equipment (-3.0 per cent). According to the quarterly survey conducted in September by the Bank of Italy together with *Il Sole 24 Ore*, the percentage of firms that consider the conditions for investment to have worsened has decreased significantly in recent months. Nevertheless, investment plans remain very cautious, not least because of highly uncertain prospects (see the box "The findings of the Business Outlook Survey of Industrial and Service Firms").

THE FINDINGS OF THE BUSINESS OUTLOOK SURVEY OF ITALIAN INDUSTRIAL AND SERVICE FIRMS

Between 21 September and 12 October the Bank of Italy's branches conducted their usual Business Outlook Survey, interviewing a sample of firms in industry excluding construction and private non-financial services with 20 or more employees.

Table A

Main findings of the Business Outlook Survey of Industrial and Service Firms (1)
(frequency of replies; per cent)

	Industry excl. construction	Services	Total
	Turnover in the first three quarters of 2012 compared with the same period in 2011		
Lower	53.9	50.5	52.2
Virtually the same	20.7	27.1	23.9
Higher	25.5	22.4	23.9
	Investment expenditure in 2012 compared with planned investment at end-2011		
Lower	31.6	30.5	31.0
Virtually the same	57.0	60.1	58.5
Higher	11.4	9.4	10.4
	Planned investment for next year compared with 2012 planned investment		
Lower	28.3	29.8	29.0
Virtually the same	55.4	57.4	56.4
Higher	16.3	12.9	14.6
	Average workforce in 2012 compared with average in 2011 (2)		
Lower	33.7	33.0	33.3
Virtually the same	50.2	48.2	49.1
Higher	16.1	18.8	17.6
	Demand for bank loans in the first half of 2012 compared with the second half of 2011		
Lower	12.6	9.9	11.3
Virtually the same	61.2	67.3	64.2
Higher	26.2	22.8	24.5

(1) Sample consisting of firms with 20 or more employees in industry excluding construction (about 2,650 firms) and private non-financial services (retail, hotels and restaurants, transport and communications, other business services; about 1,100 firms). Percentages estimated net of replies "Don't know, not answering", weighting each firm with a coefficient that takes account, for each geographical area, size class and sector of activity, of the number of firms in the sample and in the universe. Standard errors of estimated percentages do not exceed 0.8 per cent, i.e. confidence intervals (at 95 per cent) do not exceed 1.6 percentage points. Calculations based on a sample of 97 per cent of the target sample. – (2) Weighted by number of workers.

The findings regarding turnover in the first nine months of the year are mostly negative: just over half of the firms interviewed reported lower levels than a year earlier, while almost a quarter estimated turnover had increased (Table A). Instead, in autumn 2011 a preponderance of firms reported higher turnover. Expectations for the next six months are that the situation on the domestic market will remain unstable, but with some signs of improvement for exporting firms in industry.

The propensity to invest remains low: almost 60 per cent of firms confirm that investment in 2012 is equal to the amount planned at the end of 2011, which envisaged a sharp reduction. About a third revised their initial expenditure programmes downwards. A contributory factor was the larger-than-expected deterioration in prospective demand for their products and the worsening of financing conditions. For 2013, 29.0 per cent of firms expect to cut back further on investment, while 14.6 per cent expect to increase it.

Table B

Industrial firms: production capacity in 2012 compared with the peak year (1)
(frequency of replies; per cent)

Year of peak output	Lower	Same	Higher	Total
2005-07	17.7	15.3	5.0	38.0
2008-09	10.1	14.3	5.6	29.9
2010-11	5.3	21.5	5.2	32.1
Total	33.1	51.1	15.8	100.0

(1) The reference is to the maximum production achievable making full use of the plant but without altering the shift arrangements. Sample consisting of firms with 20 or more employees in industry excluding construction (about 2,650 firms). Percentages estimated net of replies "Don't know, not answering", weighting each firm with a coefficient that takes account, for each geographical area, size class and sector of activity, of the number of firms in the sample and in the universe. Standard errors of estimated percentages do not exceed 0.9 per cent, i.e. confidence intervals (at 95 per cent) do not exceed 1.8 percentage points. Calculations based on a sample of about 95 per cent of the target sample.

The effects of the prolonged weakness of investment are reflected in the production capacity of industrial firms, i.e. the maximum production achievable making full use of the plant: a third of firms estimate it has decreased with respect to the most recent cyclical peak in their activity (Table B). The loss of production capacity is more widespread among firms whose production levels had peaked before the 2008-09 recession, notably those in the textile and other traditional italian products, but it has also spread among firms whose output picked up in the last two years. Around 16 per cent of firms report an increase in production capacity.

Assessments of labour market conditions remain negative, in line with the trend of output. About half of firms report that their workforce was generally stable compared with 2011, while most of the remainder say it decreased. Among exporting firms the balance between assessments of an increase and a decrease was positive.

The share of firms reporting an increase in demand for bank loans in the first half of 2012 (24.5 per cent) was greater than that reporting a decrease (11.3 per cent), but the balance was smaller than in the spring, pointing to a slowdown in credit demand.

... with construction no exception

Investment in construction continued to fall in the second quarter (-1.5 per cent on the previous period), albeit less sharply than in the first (-3.2 per cent). According to Territory Agency data, the number of house sales registered another large drop, declining by 25.3 per cent compared with the year-earlier period (Figure 16). Our estimates based on partial data indicate that house prices diminished slightly in nominal terms compared with the previous six months. No signs are discernible of a reversal of trend in this sector: the quarterly survey of estate agents, conducted in July by the Bank of Italy in cooperation with Tecnoborsa and the Territory Agency, found that agents expected conditions to worsen both in their own local markets and at national level.

Firms' assessments improve somewhat but remain consistent with a decline in activity

In September the index of manufacturing firms' confidence, though remaining at very low levels, recorded a slight upturn, ascribable to the improvement in production expectations and assessments of inventories. The quarterly sample survey of industrial and service firms conducted in the same month by the Bank of Italy with *Il Sole 24 Ore* found a reduction in the percentage of companies expecting business conditions to deteriorate in the final part of the year.

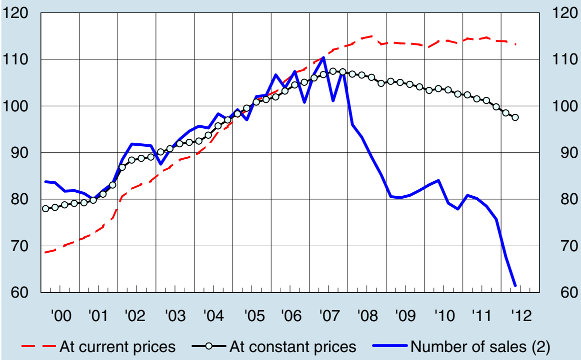
Price competitiveness improves

According to our estimates based on producer prices, Italian firms' competitive-

Figure 16

House prices and sales in Italy (1)

(quarterly data; indices, 2005=100)

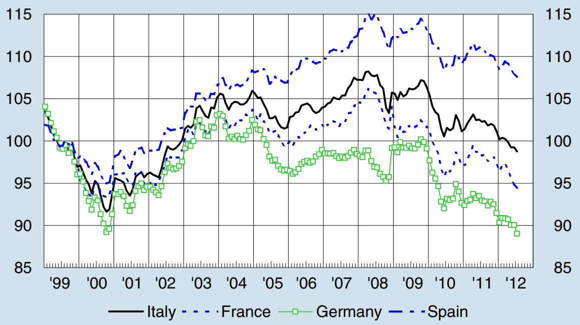


Sources: Based on Agenzia del Territorio, Bank of Italy, *Consulente Immobiliare* and Tecnoborsa data.
(1) Prices for the first half of 2012 are estimated on the basis of data for 25 cities. – (2) Adjusted for seasonal and calendar effects.

Figure 17

Indicators of competitiveness (1)

(indices, 1999=100)



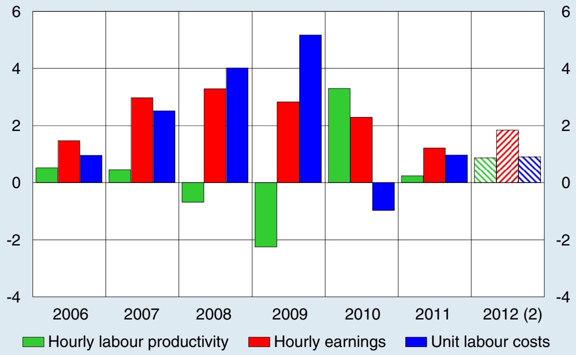
Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to July 2012.

ness continued to improve in July, benefiting from the euro's depreciation in nominal effective terms (Figure 17). However, the subsequent strengthening of the euro may have brought this trend to a halt. In the first half of 2012 the rate of increase in unit labour costs remained generally in line with that recorded last year, at approximately 1 per cent (Figure 18).

Figure 18

Labour costs and productivity in the private sector (1)

(percentage changes on year-earlier period)



Source: Based on Istat data.
(1) Based on hours actually worked. The private sector comprises agriculture, industry excluding construction, construction, wholesale and retail trade, lodging and catering, transport and communication, credit and insurance, real-estate and professional services. – (2) For 2012, the percentage changes refer to the first half of the year.

Firms' operating profitability declines slightly

According to estimates based on the national accounts, in the second quarter of the year the operating profitability of non-financial enterprises – measured as gross operating profit over value added with reference to the twelve months to June – diminished slightly. There was a further moderate reduction in firms' self-financing capacity in relation to value added, due mainly to an increase in net financial costs. Firms' funding needs decreased compared with the first quarter as a result of a larger decline in investment (including inventories and measured in relation to value added) than in self-financing.

Firms' debt decreases

Bank lending to firms continued to contract over the summer: in August the amount of outstanding loans to non-financial firms was down by 4.3 per cent from a year earlier (Figure 19). The reduction involved firms of all sizes, but it was sharpest for small ones. The total outstanding debt of firms diminished as a ratio to GDP in the second quarter, falling in June to 79.4 per cent (Figure 20), about 20 percentage points below the euro-area average.

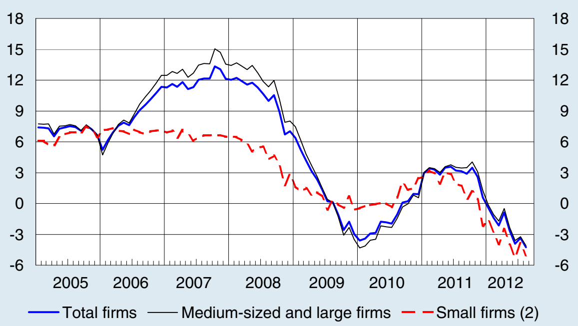
There are signs of a recovery in net bond issues

The largest Italian non-financial corporations made net bond redemptions of €1.5 billion in the second quarter, compared with net issues of €4.5 billion in the previous quarter (Table 7). In the euro area as a whole, the balance between issues and

Figure 19

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)

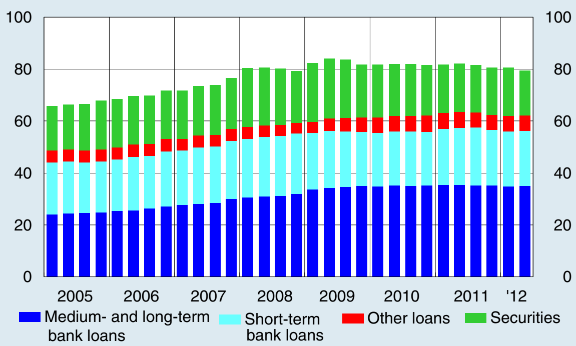


(1) Non-financial firms. Data adjusted for the accounting effect of securitizations. Loans exclude repos, bad debts and some minor items included in the Eurosystem harmonized definition of the aggregate. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal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

Figure 20

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 12 months ending in the reference quarter. Debt is net of intra-sector exposures and includes securitized loans. The data for the second quarter of 2012 are provisional.

redemptions remained positive but fell from €31 billion to €17 billion. According to provisional Dealogic data, gross issues by companies belonging to Italian groups amounted to about €3 billion in the third quarter; on the basis of the expected volume of redemptions, this indicates a swing back to net issues.

Equity fund-raising and M&A activity remain stable

Fund-raising on the equity market remained positive, but at a low level, in the second quarter of the year. According to Thomson Reuters Datastream data, firms carried out 16 M&A transactions in the second quarter, compared with 21 in the previous quarter, but the total amount involved remained unchanged at €1.6 billion.

3.3 HOUSEHOLDS

Household spending is dampened by the protracted loss of purchasing power and the present level of consumer confidence, which stabilized at very low levels in the summer months.

Consumption continues to decline ...

In the second quarter of 2012 household consumption registered a fifth consecutive decrease, falling by 1.0 per cent compared with the previous period. Spending on services contracted by a further 0.4 per cent. The decline in purchases of semi-durable goods accelerated, while that in spending on non-durables eased. Consumption of durables, which had been contracting rapidly since the spring of 2011, instead recorded a recovery (0.8 per cent).

... reflecting the fall in disposable income ...

Household consumption continued to be weighed down by the decline in real disposable income, which diminished further in real terms in the second quarter of 2012, contracting by 3.9 per cent on average in the first half of the year compared with the year-earlier period (Figure 21). The saving rate also decreased, to just over 8 per cent. This was probably due in part to households' determination to cut their spending only gradually.

... and still low level of consumer confidence

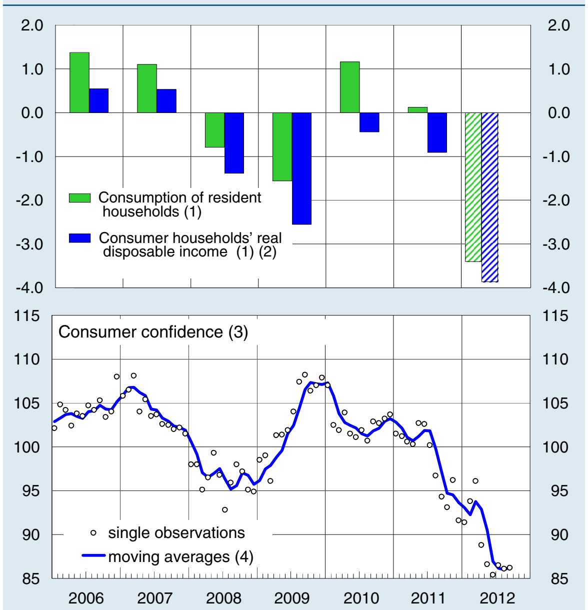
The index of consumer confidence halted its decline in the summer and then stabilized in September, although it remains at an extremely low level. The cyclical indicators do not show a recovery in consumption in recent months. New car registrations decreased in the third quarter and in September were around 25 per cent lower than a year earlier.

The cost of debt service for households remains stable

Italian household debt, which had been declining since the middle of 2011, remained stable in the second quarter of this year at about 65 per cent

Figure 21

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

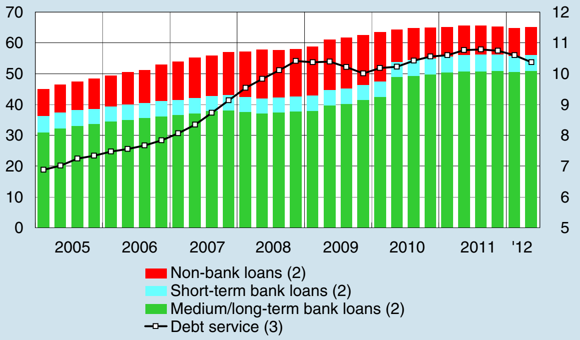


Source: Based on Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Annual data up to 2011; for 2012, percentage changes in the first half on the same period in 2011. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally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

Figure 22

Household debt (1)

(as a percentage of gross disposable income)

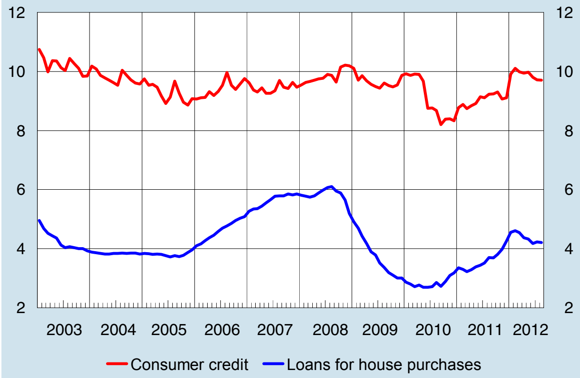


Sources: Based on Bank of Italy and Istat data.
1) End-of-quarter stocks and flows in the 12 months to the end of the quarter. Data for the last period are provisional. Includes securitized loans. – (2) There is a break in statistics on the distribution between bank and non-bank loans for the second 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.

Figure 23

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

(monthly data; per cent)



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

of disposable income (Figure 22). However, this level remains significantly lower than the euro-area average of about 100 per cent. The burden of debt service (payment of interest and repayment of principal) held basically stable at just over 10 per cent of disposable income. The interest rates on loans for house purchases and for consumer credit declined, continuing the trend which had begun in March (Figure 23).

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Despite the slowdown in world trade, Italian exports picked up slightly in the second quarter, while imports diminished further in response to the contraction in domestic demand. The balance on current account improved sharply. In the three months ending in July net sales of Italian portfolio securities appear to have halted.

Goods exports return to growth in the second quarter ...

Total exports of goods and services increased by 0.1 per cent in volume terms in the second quarter of 2012, but with a marked divergence between exports of goods, which grew by 0.7 per cent, and those of services, which fell for the second time (-2.8 per cent). As demand from euro-area countries weakened, the gain in goods exports involved sales to non-EU countries, chiefly the United States and OPEC. The most dynamic sectors were machinery and equipment, electrical equipment, clothing and leather goods, and other manufacturing products.

... while imports contract again

Continuing the decline under way for a year and a half now, Italy's imports of goods and services shrank by 0.5 per cent in volume terms during the second quarter of the year. The fall involved both services and goods. For the latter, most of the decrease was in purchases from outside the EU. The value of solar cell imports was down in the first half of 2012 by €2.9 billion (of which China accounted for nearly two thirds) by comparison with the year-earlier period.

The signs of future improvement are confirmed

The data for July and (for non-EU countries only) August confirm the improvement in the balance of trade, and on a seasonally adjusted basis point to recovery also in imports from outside the Union.

The current account deficit narrows further and the monthly balance goes into surplus in June

In the first seven months Italy's current payments deficit was €21.6 billion less than in January-July 2011 (Table 3) and equal to 0.8 per cent of GDP. The improvement basically reflected that in the balance on merchandise trade, which moved into surplus thanks to the substantial increase in the surplus on non-energy products. At the same time the deficit on services was reduced, although only by a limited amount, reflecting a generalized increase in credits and a reduction in debits.

Table 3

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

	2010	2011	Jan.-July 2011	Jan.-July 2012
Current account	**-54.7**	**-48.4**	**-33.9**	**-12.3**
Goods	-20.9	-16.6	-13.3	7.5
non-energy products (2)	*29.5*	*43.3*	*21.2*	*44.1*
energy products (2)	*-50.4*	*-59.9*	*-34.5*	*-36.6*
Services	-9.2	-7.0	-3.7	-1.1
Income	-8.3	-8.9	-5.8	-6.0
Current transfers	-16.3	-15.9	-11.1	-12.7
Capital account	**-0.6**	**0.5**	**-1.0**	**-0.4**
Financial account	**86.7**	**72.8**	**25.5**	**20.8**
Direct investment	-17.7	-13.9	-7.9	-19.3
Portfolio investment	38.5	-34.4	13.6	-1.3
Financial derivatives	-4.7	7.5	3.9	-0.5
Other investment	71.8	114.5	16.0	44.1
Change in official reserves	-1.0	-0.9	-0.2	-2.2
Errors and omissions	**-31.5**	**-24.9**	**9.4**	**-8.1**

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

There is a net decrease in foreign direct investment in Italy

The sovereign debt tensions and perceptions of high country risk were reflected in decreased foreign investment in Italian firms' equity and increased net outflows in the form of intra-group loans. In the seven months ending in July foreign direct investment in Italy turned negative by €1.6 billion. Italian residents' direct investment abroad remained substantial at €17.7 billion (€19.8 billion in the first seven months of 2011).

From May to July there are net foreign purchases of Italian portfolio securities

From January through July, Italian residents made net disposals of foreign assets totalling €41.6 billion, mostly medium- and long-term securities. Various resident sectors accounted for the disinvestment: banks and financial companies, insurance companies and households. Over the same period non-residents made net disposals of €74.8 billion in Italian medium- and long-term bonds, while making net purchases of short-term securities, shares and investment fund units totalling €31.9 billion. After a period of massive net sales of Italian portfolio securities, since May non-residents have been making modest net purchases again.

The TARGET2 balance stabilizes between July and September

The balance-of-payments item "other investment", mostly comprising deposits and loans, recorded €44.1 billion in new foreign liabilities in the first seven months of 2012, mainly relating to intra-Eurosystem operations carried out between the Bank of Italy and the ECB 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 rose in the first part of the year to reach €290 billion in July, has since stabilized in response to improving sovereign debt market and wholesale funding conditions.

3.5 THE LABOUR MARKET

Employment stagnated in the second quarter, remaining unchanged also with respect to the year-earlier quarter. The labour supply continued to expand, leading to an increase in the unemployment rate. Real gross wages declined. The trends registered in the summer months offer no prospect of improvement in the employment picture.

Employment in the non-farm private sector stagnates in the second quarter

According to Istat's labour force survey, the number of persons in work in Italy was 0.2 per cent lower in the second quarter than a year earlier (Table 4). On a seasonally adjusted basis, there was a slight pick-up during the quarter (0.1 per cent, or 31,000 persons). The employment rate was 57.1 per cent, 0.1 points lower than in the second quarter of 2011, reflecting a 1.1-point fall for men and a rise of 0.8 points for women. Women's employment was boosted by the positive contribution of foreigners, many of whom work in domestic service and personal care.

Employment shrinks most sharply in construction and in the South

The weak overall performance of employment reflects divergent trends both by sector and by region. The downswing in con-struction and in industry excluding construction continued in the second quarter, with job losses amounting to 5.1 and 2.2 per cent respectively compared with the second quarter of 2011. This was partly offset by gains in agriculture (6.2 per cent) and in the service sector (0.6 per cent). Most of the reduction in the number of persons in work with respect to the year-earlier period came in the South (37,000 persons).

Table 4

Labour force status of the population in Italy

	Avg. 2010	Avg. 2011	Change (1)	2011 Q2	2012 Q2	Change (2)
	Thousands of persons					
Total persons in work	**22,872**	**22,967**	**0.4**	**23,094**	**23,046**	**-0.2**
Employees	17,110	17,240	0.8	17,214	17,256	0.2
of which:						
fixed-term	*2,182*	*2,303*	*5.5*	*2,350*	*2,455*	*4.5*
part-time	*2,715*	*2,825*	*4.1*	*2,866*	*3,151*	*9.9*
Self-employed	**5,763**	**5,727**	**-0.6**	**5,880**	**5,790**	**-1.5**
Labour force	**24,975**	**25,075**	**0.4**	**25,041**	**25,751**	**2.8**
men	*14,748*	*14,733*	*-0.1*	*14,714*	*14,971*	*1.7*
women	*10,227*	*10,342*	*1.1*	*10,327*	*10,780*	*4.4*
Population	**60,051**	**60,328**	**0.5**	**60,309**	**60,505**	**0.3**
	Per cent and percentage points					
Unemployment rate	**8.4**	**8.4**	**0.0**	**7.8**	**10.5**	**2.7**
men	*7.6*	*7.6*	*0.0*	*6.9*	*9.8*	*2.9*
women	*9.7*	*9.6*	*-0.1*	*9.0*	*11.4*	*2.4*
North	*5.9*	*5.8*	*-0.1*	*5.2*	*7.3*	*2.1*
Centre	*7.6*	*7.6*	*0.0*	*6.6*	*8.9*	*2.3*
South	*13.4*	*13.6*	*0.2*	*13.1*	*17.1*	*4.0*
Participation rate (age 15-64)	**62.2**	**62.2**	**0.1**	**62.1**	**63.9**	**1.8**
men	*73.3*	*73.1*	*-0.2*	*73.0*	*74.2*	*1.2*
women	*51.1*	*51.5*	*0.4*	*51.4*	*53.7*	*2.3*
North	*69.2*	*69.3*	*0.1*	*68.9*	*70.4*	*1.5*
Centre	*66.6*	*66.2*	*-0.4*	*66.3*	*67.9*	*1.6*
South	*50.8*	*51.0*	*0.2*	*51.2*	*53.4*	*2.2*
Employment rate (age 15-64)	**56.9**	**56.9**	**0.1**	**57.3**	**57.1**	**-0.1**
men	*67.7*	*67.5*	*-0.2*	*67.8*	*66.8*	*-1.1*
women	*46.1*	*46.5*	*0.4*	*46.7*	*47.5*	*0.8*
North	*65.0*	*65.2*	*0.2*	*65.2*	*65.1*	*-0.1*
Centre	*61.5*	*61.1*	*-0.4*	*61.9*	*61.8*	*-0.1*
South	*43.9*	*44.0*	*0.1*	*44.4*	*44.2*	*-0.2*

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.

The share of permanent full-time jobs falls further

Given the highly uncertain economic outlook, firms continue to prefer flexible and part-time employment contracts. These were the only component to increase by comparison with the second quarter of 2011. Istat's labour force survey found that the reduction in self-employment and in permanent full-time payroll employment continued in the second quarter, the latter's share of total payroll employment falling to 71.6 per cent from 73.2 per cent a year earlier. According to the research centre of Ebitemp, a joint union-employer organization for temporary employment, after slowing in late 2011 temporary employment has returned to growth. In July these positions accounted for the equivalent of 179,000 full-time workers (27 million hours paid).

The outlook remains uncertain

The data available for July and August indicate substantial stagnation of employment. Provisional data from the labour force survey show that on average both the employment rate and the unemployment rate were about the same as in the second quarter. However, the seasonally-adjusted number of full-time equivalent workers for whom wage supplementation was authorized increased in the third quarter to an average of 10.7 per cent of the standard labour units employed in industry excluding construction. Looking ahead, the business surveys conducted in September by the Bank of Italy in cooperation with *Il Sole 24 Ore* and by Istat do not presage any improvement in labour market conditions (Figure 24).

The unemployment rate rises

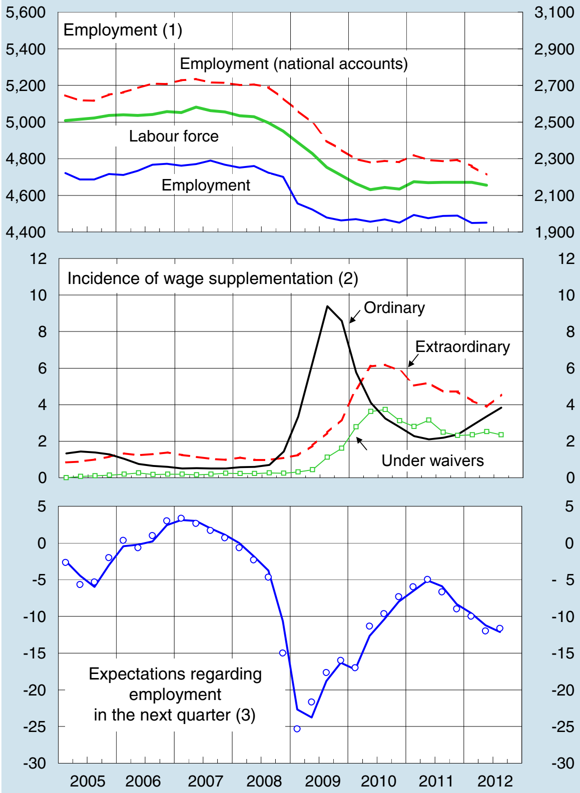
The number of job seekers continued to increase in the second quarter (up by 758,000 over the second quarter of 2011), bringing the unemployment rate to 10.5 per cent, nearly three percentage points higher than a year earlier. The deterioration was most severe among young people, and the unemployment rate of persons aged 15-24 rose by 6.6 points to 33.9 per cent. The increase was due in part to an expansion of the labour supply, involving above all young people, women and the South.

Meanwhile, labour demand contracted. The vacancy rate in the industrial and service sectors was 0.5 per cent, down 0.4 percentage points since the second quarter of 2011. In particular, firms reduced their demand for higher-grade employees (total managerial, supervisory and clerical staff declined by 4.0 per cent) while increasing that for manual workers (by 6.1 per cent), reversing the shift towards the higher skill levels that had been under way until the end of 2011. There was accordingly a sharp drop in the employment rate of university and upper-secondary graduates and of persons under 35, while the rates for the less well-educated and older workers remained broadly unchanged.

Figure 24

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 three-term moving averages, quarterly data.

Actual earnings rise less than contractual earnings and continue to fall in real terms

In the private non-farm sector actual earnings per employee labour unit were 1.1 per cent higher in the second quarter than a year earlier, while the harmonized index of consumer prices rose 3.6 per cent and contractual wages 2.0 per cent. The downward wage drift is consistent with the shift in the composition of the workforce towards low-paid jobs during the first half of the year. For the entire economy, the rise in actual earnings was even smaller (0.2 per cent), owing to the 1.2 per cent decline in the earnings of public service workers. According to our estimates actual per capita earnings will continue to be outpaced by consumer prices for all of 2012 and the next two years, driving real wages down still further.

3.6 PRICE DEVELOPMENTS

In recent months, the rate of consumer price inflation in Italy has remained above 3 per cent, reflecting increases in fuel commodity prices and the hike in indirect taxation in 2011. Excluding these factors, prices increased by less than 2 per cent. The gap in comparison with the euro-area average began to narrow and analysts expect it to shrink further in the course of 2013, partly owing to weak demand.

Consumer price inflation is fairly stable

In September, the national consumer price index (CPI) grew at a twelve-month rate similar to that observed at the start of the third quarter (3.2 per cent). Price trends were partly affected by an acceleration in the cost of energy products and the continuing effects of the raising of the standard rate of VAT in 2011, which should, however, dissipate over the next few months. CPI inflation net of the most volatile components declined to 1.6 per cent from 2.0 per cent in August (Table 5 and Figure 25).

The gap with the euro-area average shrinks

In the same month the harmonized index of consumer prices (HICP) increased slightly to 3.4 per cent (2.5 per cent if calculated at constant taxation). In the third quarter the gap in relation to the euro area began to narrow and was down to 0.7 percentage points in September from almost 1 point in the first half of the year.

Inflation is expected to decline in 2013

The professional forecasters surveyed by Consensus Economics in October expect consumer price inflation to be 3.2 per cent on average in 2012, falling to 2.3 per cent next year, just above the average level of 1.9 per cent forecast for the euro area.

Producer prices accelerate

The deceleration of producer price inflation that began in the second quarter of 2011 came to a halt in July. In August the twelve-month rate was 3.0 per cent compared with 2.2 per cent in June. This was caused by the energy component, which reflected recent increases in the price of crude oil, without which inflation would have basically remained stable at below 1 per cent.

Table 5

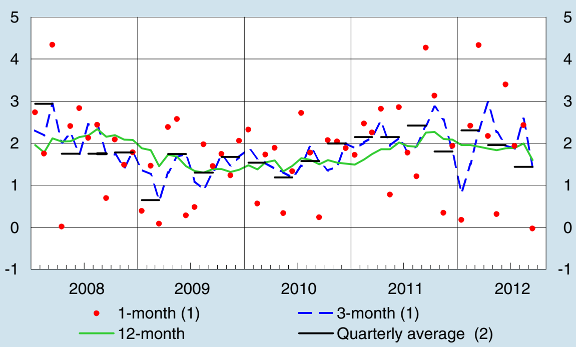
Indicators of inflation in Italy
(twelve-month percentage changes)

	HICP (1)		Overall index at constant taxation (4)	CPI (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
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	0.0	1.8	2.3
June	3.6	2.3	2.5	3.3	0.2	1.9	2.2
July	3.6	2.6	2.7	3.1	0.0	1.9	2.2
Aug.	3.3	2.0	2.4	3.2	0.2	2.0	3.0
Sept.	3.4	1.8	2.5	3.2	0.3	1.6	….

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 25

Core inflation in Italy
(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.

Weak demand counters upward pressure on prices

Looking ahead, pressures caused by input costs will probably be countered by persistently weak demand. The findings of the survey conducted by the Bank of Italy together with *Il Sole 24 Ore* indicates modest increases in firms' list prices.

3.7 BANKS

Until August the tensions on sovereign debt markets continued to affect banks' external funding, albeit to a lesser extent than in the last part of 2011. The terms on which corporate credit is supplied have improved slightly, benefiting both from the reduction in official rates in July and from the narrowing of the spreads on government securities that followed the ECB's announcement of new monetary policy measures. There nonetheless remain tensions, which indicate that the transmission of monetary policy in the euro area is still not uniform.

The tensions affecting government securities impinge on wholesale fund-raising until August

During the summer Italian banks' ability to raise funds on the wholesale markets continued to be under-mined by sovereign debt tensions. The improvement beginning in August allowed some banks to start issuing bonds again in September. Between the end of May and the end of August there was a reduction in non-residents' deposits and liability-side net repos with central counterparties, which mostly comprise international interbank funding. In the same period net bond fund-raising, excluding the interbank component, decreased by €11 billion, as against €13 billion in the three preceding months.

Retail funding continues to grow

This source of funds continues to be one of Italian banks' strengths. In the three months to the end of August the stock of deposits held by residents increased by €24 billion. Their twelve-month growth rose to 4.2 per cent in August, from

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)				12-month percentage changes (3)			
	2011		2012		2011		2012	
	May	December	May	August	May	December	May	August
Assets								
Loans to Italian residents (4)	1,938,514	1,948,770	1,946,110	1,932,953	4.5	2.1	0.8	0.0
to firms (5)	*897,911*	*894,016*	*887,499*	*875,930*	*4.9*	*2.6*	*-0.4*	*-1.9*
to households (6)	*608,128*	*618,499*	*615,127*	*610,266*	*5.2*	*3.4*	*1.3*	*0.4*
Debt securities (7)	341,105	375,525	455,120	472,205	-2.9	8.2	36.2	30.7
of which: securities of Italian general government entities	*206,989*	*224,114*	*316,819*	*330,394*	*0.2*	*12.1*	*57.3*	*45.0*
Claims on the Eurosystem (8)	20,006	33,887	17,352	30,186	-20.7	44.8	-13.3	113.4
External assets (9)	335,570	366,915	361,590	359,386	-0.7	9.4	7.0	3.8
Other assets (10)	1,156,537	1,316,546	1,427,039	1,432,847	-4.9	18.3	27.0	24.3
Total assets	**3,791,732**	**4,041,643**	**4,207,211**	**4,227,577**	**-0.1**	**8.4**	**12.4**	**11.1**
Liabilities								
Deposits of Italian residents (4) (11) (12)	1,142,316	1,149,775	1,159,133	1,183,127	-1.3	-0.6	1.2	4.2
Deposits of non-residents (9)	460,761	394,566	373,541	364,653	6.7	-9.7	-19.7	-16.9
Other forms of secured interbank funding (13)	64,640	47,380	70,720	71,575	19.8	-39.0	9.4	-12.3
Bonds (12)	630,083	619,226	596,140	584,376	4.6	2.7	-5.8	-6.3
Liabilities towards the Eurosystem (14)	34,337	215,544	276,093	283,767	9.5	317.9	704.1	220.1
Capital and reserves	373,877	379,776	370,432	371,906	4.7	7.4	1.3	-0.7
Other liabilities (15)	1,085,718	1,235,376	1,361,152	1,368,173	-6.7	17.6	30.8	28.2
Total liabilities	**3,791,732**	**4,041,643**	**4,207,211**	**4,227,577**	**-0.1**	**8.4**	**12.4**	**11.1**

Source: Supervisory reports.
(1) The figures for August 2012 are provisional. – (2) Millions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate variations. The changes in loans to firms and households are adjusted for securitizations. – (4) Excludes transactions with central counterparties. – (5) Harmonized definition; excludes producer households. – (6) Harmonized definition; includes producer households, non-profit social institutions and units not classified elsewhere. – (7) Excludes bonds of resident MFIs, i.e. banks and money market funds; includes securities deriving from securitized loans not cancelled. – (8) 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. – (9) In the period considered, these refer mainly to interbank transactions. – (10) 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. – (11) Excludes deposits connected with securitizations. – (12) Excludes liabilities towards resident MFIs. – (13) Liability-side repos, net of asset-side repos, with central counterparties. – (14) Main refinancing operations, longer-term refinancing operations, marginal lending facility, fine-tuning operations, and other minor items. – (15) 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 13).

1.2 per cent in May (Table 6), primarily as a result of the rapid growth in non-current-account deposits held by households and to a lesser extent by financial corporations.

The cost of the more stable forms of funding increases

The cost of fund-raising has increased slightly. In August the interest rate on households' new deposits with agreed maturity of up to one year was 2.8 per cent, up by 0.1 percentage points compared with May. The average interest rate on current accounts of firms and households held steady at 0.5 per cent. The yield on new bond issues rose to 4.2 per cent for fixed-rate securities but declined to 3.9 per cent for floating-rate securities.

The contraction in lending to firms and households continues ...

Between the end of May and the end of August lending to the non-financial private sector decreased (Figure 26). Adjusted for the seasonal component and for the accounting effect of securitizations, the decrease was equal to 1.1 per cent on an annual basis for firms and to 0.8 per cent for households.

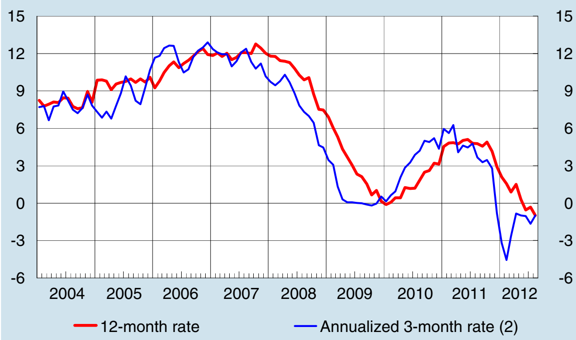
... even though credit conditions ease somewhat

The main factor affecting credit growth has been the weakness of demand in connection, for firms, with the downturn in investment and the unfavourable economic outlook and, for households, with the deterioration in consumer confidence and in the housing market. Supply conditions have eased compared with the sharp tightening at the beginning of the year; nonetheless, in July Italian banks' responses to the quarterly euro-area bank lending survey showed that there were still some tensions in the second quarter. The latest business surveys give ambiguous indications for recent months: overall, they find that firms are still having problems in obtaining credit and that these are more severe than prior to the aggravation of Italy's sovereign debt crisis (see the box "Credit supply and demand in Italy").

Figure 26

Bank lending to the non-financial private sector (1)

(monthly data; percentage changes)



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

CREDIT SUPPLY AND DEMAND IN ITALY

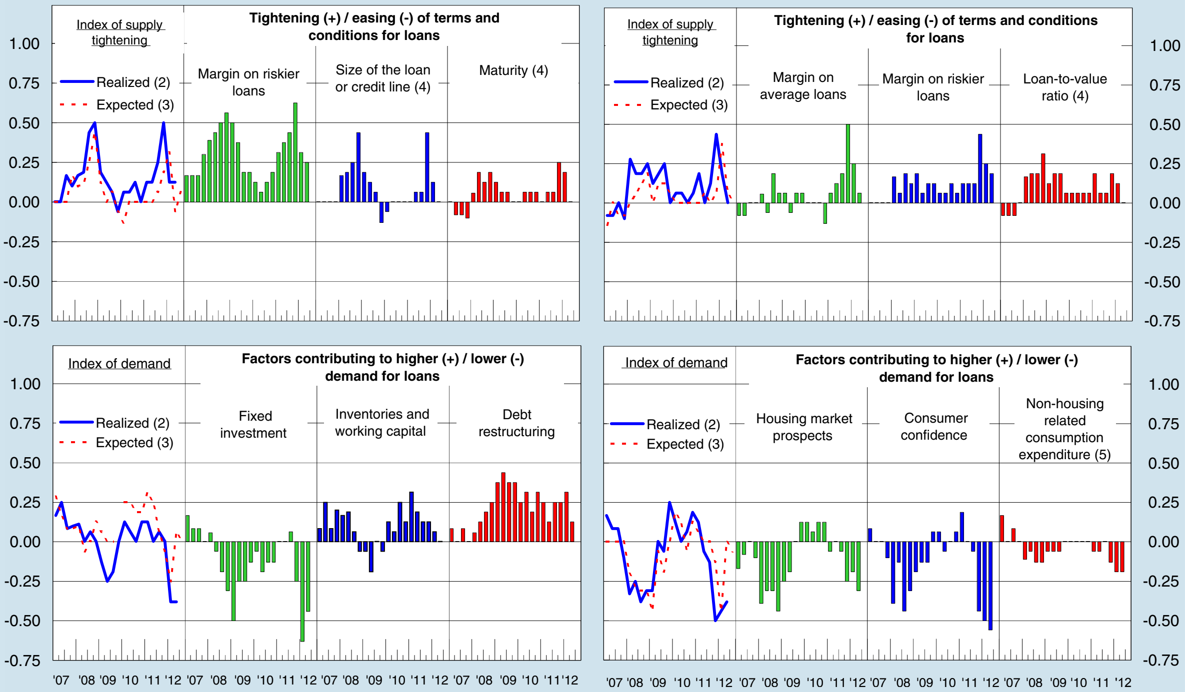
According to the responses given by the Italian banks participating in the quarterly euro-area bank lending survey completed on 5 July, in the second quarter of 2012 the degree of tightening of credit standards for loans to businesses remained unchanged, indicating residual supply-side strains, though far less severe than at the beginning of the year (Figure A).[1] The improvement relating to the cost of funding and to the balance-sheet constraint was offset by the increased perception of risk in connection with the outlook for economic activity. The banks still reported restrictive price conditions, though significantly easier by comparison with the peak reached in the fourth quarter of 2011, and an interruption in the tightening achieved by reducing the amount and length of loans. In their assessments, firms' demand for loans remained very modest, continuing to reflect the weakness of fixed investment. For the third quarter, the banks said they expected the tightening of credit standards basically to cease and demand to strengthen.

[1] Eight leading banking groups took part in the survey; 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 third quarter of 2012 and expectations for the fourth quarter are not yet available and will be published on 31 October.

Figure A

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

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



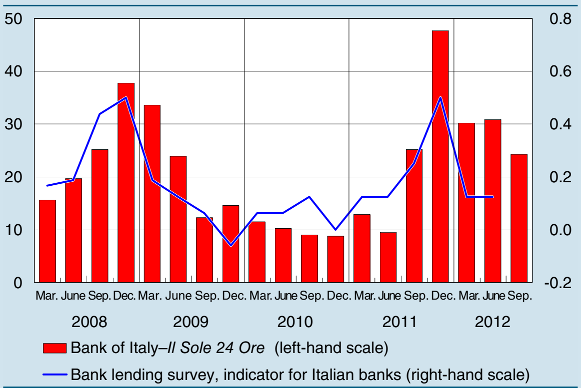
Source: *The euro area bank lending survey.*
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1 = tightened considerably, 0.5 = tightened somewhat, 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.

More recent data, drawn from business surveys, provide a contradictory picture of credit access conditions. According to the survey conducted in September by the Bank of Italy together with *Il Sole 24 Ore*, the net percentage of manufacturing firms reporting a worsening of credit access conditions in the third quarter fell to 24.3 per cent (from 30.9 per cent in June), still above the level recorded before the sovereign debt tensions intensified in Italy in June 2011 (Figure B). In the Istat monthly survey, instead, the net percentage of firms reporting a tightening rose to 28.2 per cent in September, from 24.5 per cent in August (it had been 27.2 per cent in June).

Regarding loans to households, according to the July bank lending survey the tightening of supply conditions for house-purchase loans

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.

ceased, leading to an improvement in all the main contractual terms. By contrast, a slight tightening of lending standards was reported for consumer credit.

According to the banks, households' demand for credit was heavily affected by the deterioration in consumer confidence; demand for house-purchase loans was probably also undermined by the worsening outlook for the housing market, while in the case of demand for consumer credit and other loans it is likely that the further weakening of spending on durable consumer goods was an additional factor.

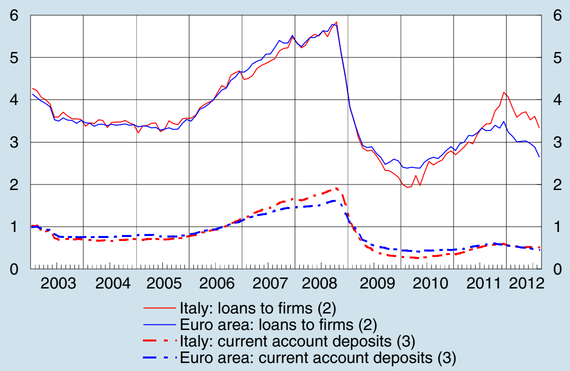
The cost of credit continues to fall ...

Benefiting from the effects of the reduction in official rates and the narrowing of spreads on the sovereign debt market following the ECB's announcement of new monetary policy measures, the decline in bank interest rates charged to firms and households continued and became more pronounced in August (Figure 27). Between the end of May and the end of August the average cost of new loans to firms came down by 0.4 percentage points, to 3.3 per cent (just above the level observed in June 2011, before the euro-area crisis worsened).

Figure 27

Bank interest rates (1)

(monthly data; per cent)



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.

... but remains above the euro-area average

In August the cost of credit to firms was nonetheless still about 70 basis points higher than the euro-area average, with which it had been constantly aligned from the start of monetary union until the worsening of the sovereign debt crisis in 2011. The persistent gap, which also characterizes the other countries exposed to financial tensions, shows that the transmission of monetary policy to the various euro-area countries is still not uniform.

The decline mainly applies to large firms

The decline in interest rates on lending to firms in Italy mainly reflected that of the average interest rate on new loans of more than €1 million, which fell to 2.7 per cent in August, while that on smaller loans, which proxies the cost of credit for smaller firms, declined only a little, to 4.6 per cent. The rate on new loans to households for house purchases dipped by 0.1 percentage points, to 3.7 per cent for variable-rate and 4.8 per cent for fixed-rate loans. The annual percentage rate of charge for consumer credit also continued to decline, falling by 0.3 percentage points to 9.7 per cent.

Credit quality is affected by the cyclical downturn

The ratio of new bad debts to outstanding loans rose in the second quarter to 2.1 per cent, on a seasonally adjusted annual basis, returning to the level recorded at the end of 2009. The increase was entirely due to the deterioration in the quality of credit with firms – for which the ratio rose by 0.3 percentage points to 3.2 per cent – especially in the construction industry. By contrast, the ratio for households remained at 1.2 per cent. Preliminary data indicate that in July and August the total exposure to borrowers reported as bad debts for the first time remained at the high level of the two previous months. Loans to firms in temporary difficulty (substandard and restructured exposures) rose from 7.1 per cent of total lending to business in May to 7.5 per cent in August.

The operating profitability of the five major banking groups diminishes slightly ...

According to their consolidated quarterly reports, in the first half of 2012 the profitability of the five largest banking groups, excluding extraordinary items connected with writedowns of goodwill, decreased slightly. Their ROE, calculated on an annual basis, declined by about 1 percentage point compared with a year earlier, to 3.7 per cent. The decrease in net interest income (-1.3 per cent) and net fee income was offset by the increase in revenue from trading, earned mainly in the first quarter. With gross income stable and a contraction of 2.4 per cent in operating costs, operating profit grew by 2.7 per cent. Allocations to provisions plus value adjustments, excluding writedowns of goodwill, increased by 22 per cent. In particular, the component related to the deterioration in loan quality rose by 28 per cent. Net of taxes and the extraordinary items connected with goodwill, net profit contracted by about one third.

... but capital is strengthened further

The capital ratios of the five largest banking groups continued to improve in the second quarter, primarily owing to a reduction in their risk-weighted assets. At the end of June the core tier 1 ratio of these groups averaged 10.5 per cent, up from 10.0 per cent in March. Their tier 1 and total capital ratios rose to respectively 11.3 and 14.2 per cent, from 10.7 and 13.7 per cent in March. The leverage ratio, measured as total balance sheet assets over tier 1 capital, remained significantly lower than the average for a broad sample of large European banks (19:1 against 27:1).

3.8 THE FINANCIAL MARKETS

Tensions in the euro-area sovereign debt markets have abated since the end of July, following the declarations by the President of the European Central Bank regarding possible interventions of a size adequate to avert the increase of spreads connected with the risk of euro reversibility and to repair the main transmission channels of monetary policy. The decline in sovereign risk premiums was consolidated at the beginning of September, after the ECB defined the details of its plan to conduct outright monetary transactions on the secondary market for government securities.

Spreads on Italian government securities narrow

After rising to above 530 basis points in July, the yield spread between the ten-year BTP and German Bund declined sharply, reaching 365 basis points at the end of September, 59 points less than at the end of June (Figure 9). The reduction in spreads was even more marked for shorter maturities. The announcement of new monetary transactions by the ECB contributed to these developments (see the box "The European Central Bank's Outright Monetary Transactions"), as did the favourable pronouncement by the German Federal Constitutional Court on the European Stability Mechanism. In the first ten days of October, on average, the spreads remained close to the levels recorded at the end of September, but displayed significant variability in the prevailing climate of acute uncertainty.

The credit risk premiums of Italian firms and banks also diminish

The private bond markets benefited from the easing of the sovereign debt strains. Since the start of July the yield spreads between investment-grade bonds issued by Italian non-financial corporations and the euro-area government securities considered safest narrowed by 101 basis points. For Spanish firms there was a similarly large fall of 197 basis points, while for those of France and Germany there were much more modest decreases of 27 and 12 basis points, respectively. The CDS spreads of the largest Italian banks fell by 89 basis points, to 470. This level is still well above the average CDS spreads of the main German and French banks (182 and 218 basis points, respectively).

Net bond redemptions continue in the second quarter, but banks return to the market in September

Italian banks' massive net bond issues in the first quarter were followed in the second by net redemptions amounting to €8 billion, compared with €21 billion in the euro area as a whole (Table 7). The balance between issues and redemptions was also negative for other financial corporations (€9 billion) and non-financial corporations (€2 billion). According to preliminary Dealogic data limited to gross issues on the wholesale market, in the third quarter of 2012 placements by Italian banks declined slightly (from €18 billion to €16 billion). In September, however, issues of uncollateralized securities staged a recovery, ascribable to placements totalling €3 billion by three large banking groups.

Over the summer the Italian stock exchange index rises ...

The general improvement in financial market conditions extended to equity markets. In the third quarter as a whole the general index of the Italian stock exchange rose by 9 per cent, outperforming the markets of the euro area on average and of the United States (with gains of 8 and 6 per cent respectively; Figure 28). The expected volatility of prices, inferred from the prices of stock index options, fell significantly. The ratio of current earnings to prices declined by around 1.5 percentage points (Figure 29), although it remained above its long-term average.

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	429	15,103
Q2	12,002	-11,967	-2,104	-2,069
Q3	15,663	-5,363	-480	9,821
Q4	13,098	23,884	1,961	38,943
2012 – Q1	84,907	-7,877	4,494	81,524
Q2	-7,847	-8,788	-1,545	-18,180
		Euro area		
2010	22,912	20,902	63,647	107,462
2011	143,705	-24,492	33,300	152,513
2011 – Q1	82,116	-51,793	6,912	37,235
Q2	50,439	-17,718	7,120	39,841
Q3	9,060	-19,841	2,732	-8,050
Q4	2,090	64,860	16,536	83,486
2012 – Q1	106,461	22,089	31,125	159,675
Q2	-21,131	-9,770	16,753	-14,148

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.

Figure 28

Share prices (1)

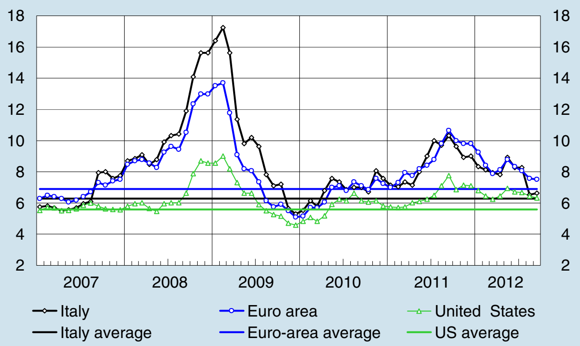
(end-of-week data; indices, 4 January 2008=100)

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

Figure 29

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

(end-of-month data; per cent)



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

... in part reflecting positive trends in the banking sector

Share prices rose in all the main segments of the Italian stock exchange. The index of the banking sector recorded a 9 per cent increase, similar to that in the general index. Commodity and service companies fared even better (with increases of 15 and 13 per cent respectively), while telecommunication and consumer goods' shares posted smaller gains (2 and 4 per cent respectively).

Two initial public offerings were made in the third quarter of 2012, both on the AIM Italia alternative investment market dedicated to small and medium-sized enterprises. At the end of September the 283 Italian companies listed on Borsa Italiana had a total market value of €345 billion (equal to about 21 per cent of GDP).

Net outflows of savings from Italian investment funds continue

Open-end investment funds recorded net redemptions of €1.2 billion in the second quarter of 2012, as a result of net outflows of €5.6 billion from Italian funds and net inflows towards foreign funds in Italy. The redemptions were concentrated primarily in equity funds, while there was a net inflow to bond funds. At the end of June, open-end Italian and foreign funds in Italy had total assets of €434 billion, down slightly from €440 billion at the end of March. In the second quarter, Italian harmonized funds recorded a negative return of 1.2 per cent, mainly owing to the fall in share prices during that period.

3.9 THE PUBLIC FINANCES

The Government has recently updated its forecasts for the public finances. Despite the cyclical deterioration, a significant improvement is expected in the budget balance this year and next. Italy's European undertakings would thus be fulfilled.

The EFD update assumes a more severe contraction in 2012 than was forecast in April ...

With the update of the Economic and Financial Document 2012 on 20 September the Government revised its forecasts for the public finances (Tables 8 and 9), taking the marked worsening of the economic picture into account. GDP is now expected to contract by 2.4 per cent in 2012, as against 1.2 per cent in the EFD released in April.

Table 8

Public finance objectives and estimates for 2012

(billions of euros and percentages of GDP)

	General government				*Memorandum item*: Real GDP growth rate (%)
	Net borrowing	Primary balance	Structural net borrowing	Debt (1)	
Objectives					
April 2011 (2)	44.9	39.2	....	....	1.3
as a % of GDP	*2.7*	*2.4*	*2.2*	*119.4*	
September 2011 (3)	25.3	60.5	....	....	0.6
as a % of GDP	*1.6*	*3.7*	*0.6*	*119.5*	
December 2011 (4)	....	....	....	....	-0.4
as a % of GDP	*1.2*	*4.6*	*0.1*	*120.1*	
Estimates					
April 2012 (5)	27.2	57.0	....	1,959.6	-1.2
as a % of GDP	*1.7*	*3.6*	*0.4*	*123.4*	
September 2012 (6)	41.2	44.9	....	....	-2.4
as a % of GDP	*2.6*	*2.9*	*0.9*	*126.4*	

(1) The estimates and objectives set out in the official documents are only partially consistent in that the way in which they account for the effects of financial support for countries in difficulty is not always uniform. – (2) *Economic and Financial Document 2011*. – (3) *Economic and Financial Document 2011 update*. – (4) *Report to Parliament 2011*. – (5) *Economic and Financial Document 2012*. – (6) *Economic and Financial Document 2012 update*.

Table 9

General government balances (1)

(millions of euros and percentages of GDP)

	2011	2012	2013	2014	2015
Net borrowing	61,758	41,213	25,417	25,108	24,318
as a % of GDP	*3.9*	*2.6*	*1.6*	*1.5*	*1.4*
Primary surplus	16,467	44,906	63,826	71,864	81,076
as a % of GDP	*1.0*	*2.9*	*4.0*	*4.4*	*4.8*
Interest payments	78,225	86,119	89,243	96,971	105,394
as a % of GDP	*5.0*	*5.5*	*5.6*	*6.0*	*6.3*
Structural net borrowing	....	....	....	....	....
as a % of GDP	*....*	*0.9*	*-0.2*	*0.2*	*0.5*
Debt	1,906,737	1,976,622	2,010,744	2,038,610	2,065,072
as a % of GDP	*120.7*	*126.4*	*127.1*	*125.1*	*122.9*
Debt net of support (2)	1,893,620	1,928,404	1,951,746	1,975,661	2,002,123
as a % of GDP	*119.9*	*123.3*	*123.3*	*121.3*	*119.1*

Sources: For the general government consolidated accounts for 2011, Istat; for 2012-15, *Economic and Financial Document update*.
(1) Rounding may cause discrepancies in totals. – (2) Net of loans to Greece, Italy's share of the loans disbursed by the European Financial Stability Facility and Italy's contribution to the European Stability Mechanism.

... but the budget improvement remains substantial

The estimate of general government net borrowing for 2012 has been revised from 1.7 to 2.6 per cent of GDP, still a considerable improvement on the deficit of 3.9 per cent in 2011. This means that the deficit will be brought below the 3 per cent threshold in accordance with the schedule agreed with the European Union. Structural net borrowing (i.e. cyclically adjusted and excluding one-off measures) should diminish from 3.6 per cent of GDP in 2011 to 0.9 per cent this year. The primary surplus will continue to grow, from 1.0 to 2.9 per cent. The public debt will rise from 120.7 to 126.4 per cent of GDP; about a third of the increase is due to Italy's support to the euro-area countries in difficulty.

Primary current expenditure, although remaining unchanged in nominal terms, is projected to increase from 42.5 to 43.0 per cent of GDP, while interest payments are forecast to rise from 5.0 to 5.5 per cent and revenue from 46.6 to 48.9 per cent.

Tax revenue increases

The available data on developments in the course of the year underscore the need for careful, constant monitoring of the accounts over the months to come. During the first three quarters State budget tax revenue increased by about 4 per cent compared with the first three quarters of 2011, or about €11 billion (Figure 30). The revenue gain stems mainly from the introduction of the municipal property tax (IMU), a portion of which goes to the State, and to the good performance of the excise taxes on energy, which were raised by the budget packages of the second half of 2011, and the tax on financial assets. However, VAT proceeds have fallen, as the economic recession has more than offset the effects of the raising of the ordinary VAT rate in September 2011.

The borrowing requirement decreases slightly

From January through August, the general government borrowing requirement, net of privatization receipts, came to €50.3 billion, €0.9 billion less than in the same period of 2011. The state sector requirement, which is calculated on the deficit formation side and does not include Italy's aid to other European countries through the EFSF, has performed better (Figure 31). The improvement in the borrowing requirement amounts to €1.9 billion excluding payments of €5.0 billion to Greece (made only in 2011), EFSF loans (Italy's quota of which rose from €2.2 billion to €17.1 billion) and the funds transferred by local authorities to the central treasury owing to the new rules on the single treasury account (about €9 billion in 2012).

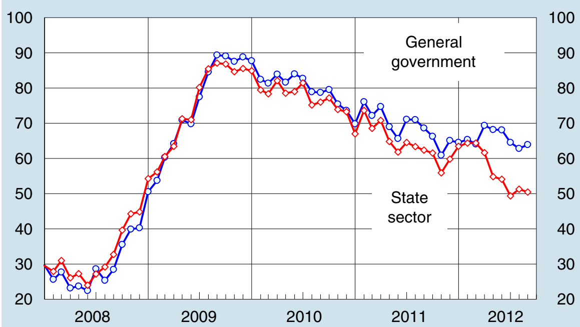
Figure 30

Tax revenue: rolling four-quarter totals (1)
(millions of euros)

Sources: For general government tax revenue, Istat; for the other variables, General Government Report and state sector budget.
(1) Starting September 2011, the data for the State budget do not include the revenue pertaining to the region of Trentino-Alto Adige or the autonomous provinces of Trento and Bolzano. For purposes of uniform comparison, the State budget is augmented by an estimate of the revenue pertaining to those authorities.

Figure 31

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



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

Over the first eight months general government debt increased by €68.9 billion, compared with €57.4 billion in the same period of 2011. In addition to the borrowing requirement, this mostly reflected the increase in the Treasury's assets with the Bank of Italy (€13.1 billion compared with €1.4 billion in January-August 2011).

Second-quarter net borrowing is down on the year-earlier period

Istat estimates that net borrowing was 5.0 per cent of GDP in the first half of 2012, the same as in the first half of 2011 (Table 10). However, the data show a tendency to improve: the second-quarter deficit was 2.8 per cent, compared with 3.2 per cent a year earlier. Nominal primary expenditure diminished slightly (as in 2010 and 2011), owing to the further significant fall in capital spending. Public employee compensation continued to decline and was 1.0 per cent less than in the first half of 2008.

Revenue increased by 1.5 per cent, rising from 43.0 to 44.0 per cent of GDP. Capital tax receipts plunged by 71.6 per cent mainly as a result of the termination of the withholding tax on leasing contracts.

Table 10

General government consolidated accounts
(millions of euros and per cent)

	H1 2011	H1 2012	Percentage changes on first half of previous year 2011	Percentage changes on first half of previous year 2012
TOTAL EXPENDITURE	**372,377**	**377,036**	**1.7**	**1.3**
Current expenditure, net of interest payments	311,832	314,736	0.7	0.9
of which: Compensation of employees	*79,179*	*78,088*	*-1.3*	*-1.4*
Intermediate consumption	*43,245*	*43,798*	*1.3*	*1.3*
Social benefits in cash	*142,980*	*146,519*	*2.8*	*2.5*
Interest payments	37,262	42,442	9.3	13.9
Capital expenditure	23,283	19,858	4.7	-14.7
of which: Gross fixed investment	*14,608*	*12,837*	*-0.2*	*-12.1*
TOTAL REVENUE	**333,553**	**338,668**	**1.7**	**1.5**
Current revenue	330,304	336,705	2.1	1.9
of which: Direct taxes	*96,383*	*97,817*	*1.9*	*1.5*
Indirect taxes	*109,889*	*115,489*	*1.7*	*5.1*
Social security contributions	*96,765*	*95,958*	*1.9*	*-0.8*
Capital revenue	3,249	1,963	-29.7	-39.6
of which: Capital taxes	*2,074*	*589*	*-14.7*	*-71.6*
NET BORROWING	**-38,824**	**-38,368**		
Primary balance	**-1,562**	**4,074**		
Memorandum item:				
GDP	776,378	769,114	2.4	-0.9

Source: Istat, General government quarterly consolidated accounts.

The Government projects structural budget balance in 2013

The Economic and Financial Document update projects a reduction of the budget deficit by 0.8 percentage points of GDP in 2013 and another 0.5 points over the following two years, lowering it to 1.3 per cent of GDP in 2015. In structural terms, budgetary balance will be achieved in 2013. The primary surplus will increase progressively to 4.8 per cent of GDP. The forecasting scenario laid out in the update differs only marginally from that on a current legislation basis; specifically, its estimate of net borrowing in 2013 is 0.2 percentage points higher, taking account of the measures planned to cope with the earthquake in Emilia Romagna and the poor state of the economy. The Government also plans asset disposals worth 1 percentage point of GDP in each of the three years from 2013 to 2015, which should make it possible to begin lowering the debt ratio as early as next year. In the current legislation scenario, which excludes these disposals, the debt ratio remains constant, excluding financial support to euro-area countries.

In October the Government approves the Stability Bill

The Government drafted the Stability Bill for 2013 in October, approving measures to attain the objectives set out in the EFD update while revising the composition of the budget.

As stated in the Government's press release of 9 October, the bill provides for additional measures beyond those taken in July (see the box "Measures enacted under the spending review of July 2012", *Economic*

Bulletin, July 2012). Additional resources are to be procured by tax measures involving banking and insurance and the introduction with other EU countries of a tax on financial transactions under the enhanced cooperation procedure. Finally, the bill revises some tax reliefs.

The resources procured are to be allocated to reducing from 2 to 1 percentage points the increase in the 10 and 21 per cent VAT rates scheduled for 1 July 2013, reducing the tax rate on the two lowest income tax brackets and increasing the funds for tax relief on productivity-based pay.

SELECTED STATISTICS

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

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Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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	-3.1	-1.9	-1.4	3.7	0.7	-19.0	-2.8	-4.0	-4.2	-9.1	-13.5	1.1	-0.8
2010	2.4	1.8	1.3	0.6	0.1	-0.2	..	2.8	2.9	11.1	12.5	-0.5	1.5
2011	1.8	2.5	1.8	-3.1	-0.7	6.6	0.8	1.7	1.7	6.7	4.8	0.1	-0.1
2009 – Q3	1.4	2.1	1.5	3.7	0.8	-3.1	-0.3	2.1	2.1	13.8	17.2	-0.7	0.2
Q4	4.0	..	..	1.1	0.2	-6.0	-0.7	4.0	4.1	24.0	19.3	-0.1	4.6
2010 – Q1	2.3	2.5	1.7	-3.1	-0.7	-0.9	-0.1	3.1	3.1	5.9	10.4	-0.8	2.2
Q2	2.2	2.6	1.8	2.8	0.6	14.5	1.6	3.9	4.0	9.6	20.2	-1.8	0.1
Q3	2.6	2.5	1.8	-0.3	-0.1	-1.0	-0.1	3.5	3.6	9.7	13.9	-1.0	2.0
Q4	2.4	4.1	2.8	-4.4	-0.9	7.6	0.9	1.1	1.2	10.0	..	1.2	-1.6
2011 – Q1	0.1	3.1	2.2	-7.0	-1.5	-1.3	-0.1	..	0.1	5.7	4.3	..	-0.5
Q2	2.5	1.0	0.7	-0.8	-0.2	12.4	1.4	1.9	2.0	4.1	0.1	0.5	..
Q3	1.3	1.7	1.2	-2.9	-0.6	15.5	1.8	1.2	1.3	6.1	4.7	..	-1.1
Q4	4.1	2.0	1.5	-2.2	-0.4	10.0	1.2	4.6	4.7	1.4	4.9	-0.6	2.5
2012 – Q1	2.0	2.4	1.7	-3.0	-0.6	9.8	1.2	1.8	1.9	4.4	3.1	0.1	-0.4
Q2	1.3	1.5	1.1	-0.7	-0.1	4.5	0.6	1.0	1.1	5.3	2.8	0.2	-0.5

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	..	-4.1	-0.9	-1.3	-1.2	1.4	0.5	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	4.5	2.6	1.6	2.2	0.4	0.1	..	2.8	2.8	24.3	11.2	1.7	0.8
2011	-0.8	0.1	0.1	2.0	0.4	0.8	0.2	0.1	0.1	-0.1	6.3	-0.9	-0.5
2009 – Q3	-0.3	0.4	0.3	4.9	1.0	-6.4	-1.4	-1.9	-2.0	40.6	22.7	1.7	-1.8
Q4	7.9	5.7	3.5	2.1	0.4	1.2	0.3	5.0	4.9	29.3	7.0	2.9	0.8
2010 – Q1	5.0	2.4	1.4	-1.8	-0.4	1.6	0.3	3.1	3.0	26.1	10.4	2.0	1.6
Q2	6.0	1.2	0.7	6.7	1.3	6.0	1.2	5.4	5.2	27.5	25.0	0.7	2.0
Q3	2.7	1.9	1.1	1.5	0.3	3.9	0.8	3.3	3.1	4.7	8.4	-0.4	1.0
Q4	..	1.0	0.6	1.8	0.3	-3.7	-0.7	0.4	0.4	-0.8	1.7	-0.4	0.2
2011 – Q1	-7.9	-5.9	-3.4	1.4	0.3	-3.2	-0.6	-7.0	-7.1	-1.5	6.1	-1.0	-3.1
Q2	-1.3	2.2	1.3	2.4	0.5	2.3	0.5	2.4	2.4	-21.4	0.1	-3.6	0.1
Q3	6.9	4.5	2.7	1.0	0.2	2.3	0.5	4.2	4.1	35.4	14.4	2.7	0.8
Q4	0.3	3.0	1.8	1.6	0.3	13.8	2.6	3.3	3.2	-13.9	4.0	-2.9	-1.5
2012 – Q1	5.3	5.0	3.0	4.4	0.9	-1.8	-0.4	4.7	4.6	14.3	9.1	0.6	1.2
Q2	0.7	0.5	0.3	0.6	0.1	5.8	1.2	1.0	1.0	5.0	6.7	-0.3	-0.6

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

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources		Uses						
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
2006	3.2	8.7	4.7	4.5	7.2	5.6	2.1	2.1	8.9
2007	3.0	6.3	3.9	3.0	8.1	5.2	1.7	2.2	6.6
2008	0.4	0.9	0.5	-2.9	0.7	-1.4	0.4	2.3	1.1
2009	-4.4	-11.1	-6.3	-9.9	-16.4	-12.7	-1.0	2.6	-12.4
2010	2.0	9.6	4.1	-4.3	5.7	-0.1	0.9	0.7	11.2
2011	1.4	4.1	2.2	-0.4	3.6	1.4	0.1	-0.1	6.3
2010 – Q2	1.0	4.1	1.9	1.2	2.7	1.9	0.2	0.1	4.5
Q3	0.4	1.5	0.7	-0.8	1.3	0.2	0.2	0.3	2.0
Q4	0.3	1.7	0.7	-2.0	1.0	-0.7	0.4	-0.1	2.0
2011 – Q1	0.6	1.2	0.8	2.5	1.5	2.0	..	-0.2	1.6
Q2	0.2	0.2	0.2	-0.8	0.6	-0.2	-0.4	0.1	0.6
Q3	0.1	0.4	0.2	-0.8	..	-0.4	0.2	-0.2	1.5
Q4	-0.3	-1.4	-0.6	-0.3	-0.9	-0.5	-0.5	..	-0.1
2012 – Q1	..	-0.2	-0.1	-0.9	-1.6	-1.2	-0.2	0.1	0.7
Q2	-0.2	0.6	..	-1.4	-1.5	-1.5	-0.4	..	1.3
				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	2.6	2.7	2.4
2009	0.9	-6.3	....	....	....	-0.4	-0.4	2.0	-3.5
2010	0.8	5.0	....	....	....	1.0	1.7	0.7	3.2
2011	1.2	5.7	....	....	....	2.0	2.5	0.8	3.6
2010 – Q2	0.3	2.6	....	....	....	0.6	0.6	..	1.8
Q3	0.3	0.7	....	....	....	0.3	0.6	..	0.9
Q4	0.1	1.2	....	....	....	0.4	0.6	..	0.6
2011 – Q1	0.4	2.9	....	....	....	0.8	0.7	0.6	1.6
Q2	0.3	0.5	....	....	....	0.4	0.6	0.1	0.4
Q3	0.3	0.4	....	....	....	0.5	0.5	0.2	0.4
Q4	0.2	0.7	....	....	....	0.3	0.7	0.2	0.3
2012 – Q1	0.4	1.4	....	....	....	0.5	0.6	0.4	0.8
Q2	0.3	-0.3	....	....	....	..	0.3	..	..

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

Sources and uses of income: Italy (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			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	12.5	3.9	-4.8	10.5	2.1	1.2	-0.6	11.4
2011	0.4	0.6	0.5	-2.6	-1.0	-1.8	0.1	-0.8	6.0
2010 – Q2	0.7	3.6	1.3	-0.1	1.4	0.6	..	0.3	4.1
Q3	0.4	1.9	0.7	-0.1	1.9	0.8	0.9	-0.4	2.6
Q4	0.2	4.7	1.1	-1.8	-0.3	-1.0	0.3	-0.4	2.9
2011 – Q1	0.1	-1.5	-0.2	1.0	-0.7	0.1	..	0.4	0.9
Q2	0.3	-1.6	-0.1	-1.3	1.3	..	-0.1	-0.4	0.5
Q3	-0.2	-1.5	-0.5	-1.1	-1.4	-1.3	-0.5	-0.6	1.5
Q4	-0.7	-2.1	-1.0	-0.7	-4.4	-2.5	-1.1	-0.5	0.5
2012 – Q1	-0.8	-4.4	-1.7	-3.2	-3.6	-3.4	-1.2	..	-0.8
Q2	-0.8	-0.5	-0.8	-1.5	-2.9	-2.1	-1.0	0.2	0.1
	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	1.6	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	7.5	2.7	4.2	2.4	3.3	2.8	-0.3	4.1
2010 – Q2	0.6	3.1	1.1	2.2	0.4	1.3	0.5	1.1	1.6
Q3	-0.2	0.6	..	0.5	0.3	0.4	0.6	0.4	0.7
Q4	..	0.6	0.2	0.7	0.4	0.5	0.5	-0.3	0.4
2011 – Q1	0.8	4.8	1.7	1.8	1.2	1.5	0.8	-1.1	1.9
Q2	0.3	1.0	0.5	0.8	0.8	0.8	0.8	0.5	1.3
Q3	0.3	0.3	0.3	0.7	0.3	0.5	0.7	0.1	0.5
Q4	0.1	0.8	0.3	0.7	0.3	0.5	0.9	0.6	-0.1
2012 – Q1	0.5	2.4	0.9	0.8	0.4	0.6	0.5	0.1	1.0
Q2	0.2	-0.7	..	0.5	0.1	0.3	0.6	-1.2	0.4

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

Table A5

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
		Total industry excluding construction			
2008	3.6	-1.9	-2.3	-0.4	5.6
2009	4.2	-4.6	-13.1	-9.0	9.2
2010	1.1	9.5	9.2	-0.3	-7.7
2011	2.3	2.5	3.4	0.9	-0.2
2010 – Q1	1.2	10.7	7.0	-3.3	-8.6
Q2	0.8	10.5	10.4	-0.1	-8.8
Q3	0.9	7.9	9.0	1.0	-6.5
Q4	1.4	8.4	9.7	1.3	-6.4
2011 – Q1	1.3	4.2	6.4	2.1	-2.8
Q2	3.2	3.8	4.4	0.6	-0.6
Q3	2.5	2.7	3.5	0.8	-0.2
Q4	2.3	0.1	0.2	0.0	2.2
2012 – Q1	1.7	-1.0	-1.2	-0.2	2.7
Q2	2.0	-1.2	-1.7	-0.5	3.2
			Services		
2008	2.9	0.1	1.5	1.4	2.8
2009	3.1	-0.4	-1.8	-1.4	3.4
2010	1.0	0.5	1.1	0.6	0.5
2011	1.7	0.6	1.3	0.7	1.1
2010 – Q1	1.0	0.1	0.6	0.5	1.0
Q2	0.9	0.5	1.2	0.7	0.4
Q3	0.7	0.6	1.4	0.8	0.1
Q4	1.3	0.8	1.1	0.4	0.6
2011 – Q1	1.3	0.8	1.6	0.8	0.5
Q2	2.0	0.8	1.3	0.6	1.2
Q3	1.9	0.4	1.2	0.8	1.5
Q4	1.8	0.5	1.1	0.6	1.3
2012 – Q1	2.0	0.7	0.6	-0.2	1.3
Q2	1.4	0.5	0.3	-0.2	1.0
			Total economy		
2008	3.3	0.1	0.6	0.5	3.2
2009	3.4	-1.2	-4.4	-3.2	4.7
2010	1.1	2.1	2.1	0.0	-0.9
2011	2.0	1.4	1.6	0.2	0.7
2010 – Q1	1.1	1.8	1.2	-0.6	-0.7
Q2	0.9	2.1	2.4	0.3	-1.2
Q3	0.9	1.9	2.3	0.4	-0.9
Q4	1.5	2.3	2.3	0.0	-0.8
2011 – Q1	1.5	1.6	2.3	0.7	-0.1
Q2	2.4	1.7	1.7	0.0	0.7
Q3	2.2	1.3	1.5	0.2	0.9
Q4	2.1	1.0	0.9	-0.1	1.1
2012 – Q1	2.2	0.8	0.0	-0.7	1.4
Q2	1.8	0.5	-0.3	-0.8	1.2

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	6.9	-1.9	-6.1
2011	2.2	0.4	1.2	0.9	1.8
2010 – Q1	2.1	9.6	5.0	-4.2	-6.8
Q2	3.8	11.6	7.9	-3.3	-6.9
Q3	3.9	7.7	7.2	-0.5	-3.6
Q4	1.0	7.4	6.8	-0.6	-6.0
2011 – Q1	1.8	2.4	3.6	1.2	-0.6
Q2	3.0	2.6	3.6	1.0	0.4
Q3	2.6	0.5	1.5	1.0	2.1
Q4	-0.2	-3.3	-1.5	1.9	3.2
2012 – Q1	1.9	-0.7	-2.9	-2.2	2.6
Q2	0.9	-4.5	-5.6	-1.2	5.6
		Services			
2008	2.7	-0.6	-0.5	0.0	3.3
2009	1.4	-1.2	-2.7	-1.6	2.6
2010	1.7	1.3	1.4	0.1	0.4
2011	0.3	0.1	0.7	0.6	0.2
2010 – Q1	0.7	-0.2	1.0	1.2	0.9
Q2	3.1	2.1	1.2	-0.9	0.9
Q3	1.3	1.7	1.4	-0.3	-0.4
Q4	1.6	1.8	1.8	0.0	-0.2
2011 – Q1	1.2	1.6	1.1	-0.4	-0.3
Q2	0.2	-0.1	0.8	1.0	0.3
Q3	-0.1	-1.2	0.6	1.9	1.1
Q4	-0.4	-0.6	0.4	1.0	0.2
2012 – Q1	1.6	2.0	-0.4	-2.4	-0.4
Q2	0.0	-0.1	-1.1	-1.0	0.1
		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	0.8	0.3	0.6	0.3	0.5
2010 – Q1	1.0	1.3	1.3	0.0	-0.3
Q2	3.2	3.3	2.1	-1.2	-0.1
Q3	2.1	2.9	2.3	-0.6	-0.8
Q4	1.7	3.3	2.5	-0.8	-1.6
2011 – Q1	1.5	1.8	1.5	-0.4	-0.3
Q2	0.9	0.6	1.1	0.5	0.3
Q3	0.5	-0.7	0.5	1.2	1.2
Q4	-0.3	-0.9	-0.2	0.7	0.6
2012 – Q1	1.8	1.8	-1.2	-2.9	-0.1
Q2	0.2	-0.6	-2.3	-1.7	0.8

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

Table A7

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
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	2.4	1.8
July	2.2	1.9	1.9	1.3	3.6	2.8	2.2	1.5	2.4	1.9
Aug.	2.4	1.8	2.2	1.2	3.3	2.2	2.7	1.4	2.6	1.7
Sept.	2.2	1.6	2.1	1.2	3.4	2.1	3.5	2.0	2.7	....

Source: Eurostat.
(1) Indices, 2005=100. – (2) Weighted average of the indices of the countries belonging to the euro area at the date indicated; for September 2012, provisional data.

Table A8

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2008	-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	-48,446	-16,612	-6,984	-8,915	-4,495	-11,440	486	-407	-53	946
2010 – 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	-22,184	-10,959	-3,698	-996	-536	-5,995	-166	-39	-15	-112
Q2	-12,238	-4,495	-631	-4,224	-1,706	-1,183	-766	-131	-2	-633
Q3	-8,754	-1,447	-188	-2,305	-1,239	-3,575	-344	-226	-21	-97
Q4	-5,270	289	-2,467	-1,389	-1,015	-688	1,763	-11	-15	1,788
2012 – Q1	-13,076	-1,483	-2,736	-1,114	-1,398	-6,344	-214	-147	-12	-55
Q2	-794	5,398	1,120	-4,054	-1,364	-1,893	-165	-84	-2	-80
2010 – 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.	-8,792	-5,600	-1,361	-340	-199	-1,292	-7	41	-4	-44
Feb.	-6,381	-2,349	-1,247	-232	-80	-2,473	-45	6	-3	-48
Mar.	-7,011	-3,010	-1,090	-424	-257	-2,230	-115	-87	-8	-20
Apr.	-4,637	-2,066	-373	-1,192	-523	-483	-124	-57	-1	-66
May	-5,200	-1,433	-253	-2,791	-559	-164	-482	-41	-1	-440
June	-2,401	-996	-5	-241	-623	-536	-161	-33	-1	-127
July	501	2,169	603	-548	-471	-1,252	-76	-73	-6	3
Aug.	-5,080	-2,375	-757	-399	-424	-1,125	-196	-72	-6	-118
Sept.	-4,175	-1,241	-34	-1,358	-344	-1,197	-72	-80	-9	17
Oct.	-2,320	-476	-588	-634	-346	-277	627	22	-4	609
Nov.	-3,438	-969	-1,011	-963	-328	-166	607	27	-4	584
Dec.	488	1,734	-868	208	-341	-245	529	-60	-7	596
2012 – Jan.	-7,276	-3,686	-953	-281	-460	-1,896	-42	-19	-3	-20
Feb.	-4,344	-479	-880	-377	-409	-2,199	-34	-6	-3	-25
Mar.	-1,457	2,682	-904	-457	-528	-2,250	-137	-122	-6	-9
Apr.	-806	495	32	-43	-404	-886	-71	-41	-1	-29
May	-1,256	1,840	288	-2,572	-485	-326	-58	-37	..	-21
June	1,268	3,063	800	-1,439	-475	-681	-36	-6	-1	-30
July	(1,594)	(3,590)	(552)	(-867)	....	....	(-9)	....	....	....

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

(twelve-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
				Centre and North					
2009 – Dec.	5.0	-6.2	-3.5	-4.1	-0.8	1.3	2.8	2.5	-1.2
2010 – Dec.	4.0	7.3	0.5	0.0	2.6	5.3	3.8	16.2	2.5
2011 – Mar.	3.0	2.6	3.1	3.1	3.1	5.8	3.7	17.9	3.3
June	3.9	0.5	3.5	3.6	3.1	5.9	3.6	11.8	3.3
Sept.	1.5	1.0	2.8	3.3	0.5	2.6	3.7	11.9	2.7
Dec.	-0.9	-1.7	0.5	1.1	-2.3	-0.3	2.8	9.5	0.6
2012 – Mar.	2.6	4.4	-2.3	-1.9	-4.1	-2.1	1.7	5.3	0.1
June	0.8	5.6	-4.0	-3.7	-5.5	-3.5	0.3	5.2	-1.2
July	3.1	6.5	-3.3	-3.2	-3.7	-2.6	-0.1	3.6	-0.5
Aug.	3.9	6.4	-4.2	-4.0	-5.0	-3.6	-0.2	2.1	-0.9
				South and Islands					
2009 – Dec.	8.0	-4.5	0.7	0.9	0.0	0.4	4.5	6.5	2.8
2010 – Dec.	0.0	-3.9	3.8	4.5	1.7	2.0	4.5	0.6	3.6
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	3.5	4.8	-0.1	0.3	4.0	2.3	3.1
Dec.	3.1	-19.8	1.3	2.2	-1.6	-1.2	2.9	2.7	1.8
2012 – Mar.	0.7	-17.6	-1.1	-0.4	-3.3	-3.0	1.4	-3.7	-0.2
June	-2.3	-16.3	-3.5	-3.1	-4.5	-4.2	-0.1	-6.7	-2.2
July	-6.3	-7.8	-3.7	-3.4	-4.6	-4.7	-0.4	-6.7	-2.7
Aug.	-4.0	-8.0	-4.8	-4.6	-5.1	-5.0	-0.6	-6.0	-3.0
				ITALY					
2009 – Dec.	5.3	-6.2	-3.0	-3.5	-0.6	1.1	3.2	3.0	-0.7
2010 – Dec.	3.6	7.0	0.9	0.6	2.4	4.5	3.9	14.3	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	0.3	3.6	3.8	2.8	5.0	3.7	10.9	3.4
Sept.	1.5	0.5	2.9	3.5	0.4	2.1	3.7	10.7	2.7
Dec.	-0.6	-2.1	0.6	1.3	-2.2	-0.5	2.8	8.8	0.8
2012 – Mar.	2.4	3.9	-2.1	-1.7	-4.0	-2.3	1.7	4.3	0.1
June	0.5	5.2	-3.9	-3.6	-5.3	-3.7	0.2	3.9	-1.3
July	2.1	6.2	-3.3	-3.2	-3.9	-3.1	-0.2	2.5	-0.9
Aug.	3.1	6.1	-4.3	-4.1	-5.1	-3.9	-0.3	1.2	-1.2

(1) Statistics for August 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 (1)

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other operations	*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	93,722	2,822	-10,741	-11,399	–	86,885	-2,110
2010	1,086	-4,809	-10,103	88,002	1,195	-10,336	-11,518	–	69,844	448
2011	-3,946	-3,116	1,319	43,101	-203	22,748	18,994	..	63,019	-4,629
2009 – Mar.	3,034	-1,264	25,111	48,190	1,434	-46,621	-47,108	–	31,149	1,940
June	4,780	-247	5,769	-2,302	1,982	9,821	9,963	–	20,050	-1,593
Sept.	-6,276	385	-9,480	50,602	502	-12,986	-12,676	–	22,362	-2,769
Dec.	6,948	-361	-28,805	-2,769	-1,096	39,046	38,423	–	13,324	311
2010 – Mar.	-3,196	-1,413	10,530	28,479	1,565	-10,057	-9,568	–	27,322	170
June	1,218	-929	-636	22,875	-943	-2,921	-3,474	–	19,593	1,136
Sept.	-1,316	-1,219	-1,960	22,908	1,859	-2,281	-2,188	–	19,209	3,944
Dec.	4,380	-1,247	-18,037	13,740	-1,286	4,923	3,712	–	3,719	-4,802
2011 – Mar.	-2,121	-1,605	12,380	10,484	1,232	8,632	8,309	–	30,607	-2,057
June	1,296	-895	-5,607	32,821	1,129	-13,621	-15,502	–	16,019	-2,040
Sept.	-3,694	-355	9,090	-23,064	-1,677	33,742	34,039	-800	14,396	2,473
Dec.	573	-261	-14,544	22,859	-887	-6,005	-7,852	800	1,996	-3,005
2012 – Mar.	8,035	-1,236	31,493	234	-105	-2,713	-10,202	-5,556	36,943	334
June	-3,925	470	-1,456	18,366	1,384	-3,131	-11,661	-2,382	11,239	-4,289
2011 – Jan.	2,780	-812	8,290	24,134	572	-33,642	-33,424	–	2,133	469
Feb.	-6,007	-394	1,643	-3,374	1,631	15,914	15,455	–	9,807	-65
Mar.	1,106	-399	2,447	-10,276	-971	26,360	26,278	–	18,667	-2,461
Apr.	-29	250	-474	21,025	1,790	-11,847	-11,805	–	10,463	-57
May	-1,837	-987	-693	5,779	1,720	1,608	1,682	–	6,577	-1,656
June	3,163	-158	-4,440	6,017	-2,380	-3,381	-5,378	–	-1,021	-328
July	-2,564	-123	-1,378	14,384	-1,128	-11,859	-13,253	–	-2,546	-173
Aug.	-1,053	-165	-241	-10,762	-680	18,314	19,067	–	5,578	214
Sept.	-77	-67	10,709	-26,685	131	27,287	28,224	-800	11,364	2,433
Oct.	-900	-152	7,102	17,200	723	-22,214	-21,561	100	1,911	3,196
Nov.	186	-249	-3,635	-3,397	341	15,125	14,853	-4,680	8,620	-2,764
Dec.	1,287	139	-18,012	9,056	-1,950	1,084	-1,144	5,380	-8,535	-3,437
2012 – Jan.	-469	-483	17,980	18,755	-1,250	-32,035	-32,573	-5,655	2,982	-210
Feb.	-815	-102	8,533	-15,769	691	15,899	16,040	1,527	8,539	228
Mar.	9,318	-651	4,980	-2,752	454	13,422	6,331	-1,428	25,422	316
Apr.	-896	-115	6,058	-10,117	875	13,346	6,953	-4,253	9,266	2,443
May	-1,938	38	66	14,481	-16	-6,113	-8,277	2,724	6,479	-397
June	-1,091	547	-7,580	14,002	525	-10,364	-10,337	-853	-4,506	-6,335
July	1,707	-1,007	-2,220	-3,521	-2,000	1,725	597	-10,951	-4,310	-1,187
Aug.	1,120	270	-1,412	-1,337	171	7,909	8,158	-6,890	6,449	-758

(1) For more information, see the Methodological Appendix in “The Public Finances, borrowing requirement and debt” Supplement to the Statistical Bulletin.

General government debt: Italy (1)

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other liabilities	General government debt	*of which:* in foreign currencies	*of which:* medium and long-term	*Memorandum item:* Deposits with the Bank of Italy and investments of liquidity	*of which:* investments of liquidity
2009	155,740	30,005	139,966	1,330,133	131,322	12,066	1,769,226	2,746	1,467,010	31,731	–
2010	156,826	25,195	129,862	1,418,760	132,521	13,248	1,851,217	2,897	1,554,385	43,249	–
2011	152,880	22,080	131,181	1,473,355	132,319	17,002	1,906,737	2,924	1,605,802	24,255	..
2009 – Mar.	150,287	30,228	172,490	1,284,844	129,935	11,895	1,749,451	3,768	1,421,298	67,441	–
June	155,067	29,980	178,265	1,283,185	131,916	11,753	1,760,186	3,528	1,419,544	57,478	–
Sept.	148,792	30,366	168,776	1,333,376	132,419	11,443	1,794,805	2,731	1,470,371	70,155	–
Dec.	155,740	30,005	139,966	1,330,133	131,322	12,066	1,769,226	2,746	1,467,010	31,731	–
2010 – Mar.	152,544	28,592	150,496	1,358,222	132,889	11,577	1,805,727	2,932	1,494,913	41,299	–
June	153,762	27,662	149,865	1,382,256	131,947	12,130	1,829,960	3,179	1,516,683	44,773	–
Sept.	152,446	26,443	147,911	1,403,642	133,807	12,037	1,849,842	2,892	1,539,072	46,961	–
Dec.	156,826	25,195	129,862	1,418,760	132,521	13,248	1,851,217	2,897	1,554,385	43,249	–
2011 – Mar.	154,705	23,590	142,246	1,431,025	133,753	13,571	1,875,300	2,730	1,566,115	34,940	–
June	156,001	22,696	136,638	1,467,054	134,882	15,452	1,910,027	2,656	1,600,617	50,442	–
Sept.	152,307	22,341	145,736	1,445,292	133,205	15,155	1,891,695	2,848	1,577,456	16,403	800
Dec.	152,880	22,080	131,181	1,473,355	132,319	17,002	1,906,737	2,924	1,605,802	24,255	..
2012 – Mar.	160,915	20,844	162,677	1,474,193	132,213	24,491	1,954,489	2,843	1,606,732	34,457	5,556
June	156,990	21,314	161,222	1,497,407	133,598	33,021	1,982,239	2,962	1,629,483	46,118	7,938
2011 – Jan.	159,605	24,384	138,152	1,444,035	133,092	13,030	1,887,915	2,833	1,579,192	76,673	–
Feb.	153,598	23,989	139,799	1,442,066	134,724	13,488	1,883,675	2,804	1,577,356	61,218	–
Mar.	154,705	23,590	142,246	1,431,025	133,753	13,571	1,875,300	2,730	1,566,115	34,940	–
Apr.	154,676	23,841	141,772	1,452,667	135,542	13,528	1,898,185	2,615	1,588,157	46,745	–
May	152,839	22,854	141,078	1,460,469	137,262	13,454	1,905,101	2,877	1,596,607	45,063	–
June	156,001	22,696	136,638	1,467,054	134,882	15,452	1,910,027	2,656	1,600,617	50,442	–
July	153,437	22,573	135,260	1,482,317	133,754	16,846	1,921,613	2,697	1,613,660	63,695	–
Aug.	152,384	22,408	135,019	1,472,055	133,074	16,093	1,908,625	2,661	1,603,808	44,627	–
Sept.	152,307	22,341	145,736	1,445,292	133,205	15,155	1,891,695	2,848	1,577,456	16,403	800
Oct.	151,407	22,189	152,845	1,463,720	133,928	14,502	1,916,402	2,740	1,596,181	37,964	700
Nov.	151,593	21,940	149,203	1,462,551	134,269	14,774	1,912,389	2,854	1,595,513	23,111	5,380
Dec.	152,880	22,080	131,181	1,473,355	132,319	17,002	1,906,737	2,924	1,605,802	24,255	..
2012 – Jan.	152,412	21,596	149,162	1,493,167	131,069	17,540	1,943,349	2,875	1,624,441	56,828	5,655
Feb.	151,597	21,495	157,695	1,477,788	131,759	17,400	1,936,240	2,814	1,609,609	40,788	4,128
Mar.	160,915	20,844	162,677	1,474,193	132,213	24,491	1,954,489	2,843	1,606,732	34,457	5,556
Apr.	160,019	20,729	168,739	1,464,680	133,089	30,885	1,957,411	2,858	1,597,096	27,505	9,809
May	158,081	20,767	168,806	1,481,711	133,072	33,048	1,974,718	3,048	1,614,478	35,782	7,085
June	156,990	21,314	161,222	1,497,407	133,598	33,021	1,982,239	2,962	1,629,483	46,118	7,938
July	158,697	20,306	159,000	1,494,051	131,598	34,149	1,977,494	3,030	1,623,865	45,521	18,889
Aug.	159,816	20,576	157,585	1,492,562	131,768	33,900	1,975,631	2,957	1,622,878	37,363	25,779

(1) For more information, see the Methodological Appendix in “The Public Finances, borrowing requirement and debt” Supplement to the Statistical Bulletin.