BANCA D'ITALIA
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Economic Bulletin

Number 67

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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

Cyclical conditions remain weak at global level …

The risks for the world economy have diminished following the accord reached in the United States to avert the fiscal cliff, the subsidence of financial tensions in the euro area and the improvement in the outlook in the emerging countries, but they have not vanished. Global economic activity remained slack in the second half of 2012, and the leading forecasters have trimmed their projections for the growth of world trade this year. They expect the expansion of world GDP to gain pace in 2014.

… and in the euro area …

Economic activity in the euro area continued to weaken in the last quarter of 2012. The consequences of the financial tensions that hit several euro-area countries during the year and the effects of the necessary fiscal consolidation measures have now also spread to what had been considered the more robust economies. The Eurosystem has lowered its growth projections for the current year significantly.

… but the tensions on financial markets are abating …

There was a sharp improvement in the state of the financial markets, whose deterioration had been an impediment to economic recovery in the area. Government securities yields came down in the countries that had suffered most from the tensions; capital began to flow again to some of the countries most severely affected by the sovereign debt crisis. The TARGET2 payment system balances, which reflect the disequilibria in private capital flows in the euro-area countries, showed signs of adjustment.

… as a consequence of monetary policy action, progress at European level and national measures

Contributions to these positive developments came from the effects of the ECB's announcement during the summer of Outright Monetary Transactions and, more recently, the decisions taken at European level. In particular, in November the Eurogroup renewed its support to Greece; the Greek government's buyback of bonds, which ended on 11 December, entails a reduction of about 10 percentage points in the debt-to-GDP ratio. In addition, the Council of Economic and Finance Ministers of the European Union countries reached an agreement on instituting a single supervisory mechanism for banks in order to break the vicious circle between sovereign debt and the state of the banking system. These advances were made possible by the credibility gained by national governments' policy action. However, market conditions remain uncertain; the commitment to move forward in adopting the measures necessary to guarantee the Union's cohesion must be confirmed.

The unevenness in monetary policy transmission is attenuated

The improvement of the sovereign debt markets had beneficial effects on monetary and financial conditions in the countries contending with the tensions, but divergences in bank lending rates persist, reflecting both the lags with which movements in government securities prices are transmitted to credit market conditions and the effect of the poor state of the economy on the creditworthiness of bank customers. In October the average cost of financing to households, firms and financial intermediaries was still about 110 basis points higher in Italy and Spain than in the countries spared by the crisis.

In Italy, the cyclical situation remains weak in the opening months of 2013 …

Domestic demand in Italy has yet to reach a turning point. According to the cyclical indicators, GDP growth was negative again in the fourth quarter of 2012 and is likely to remain weak in the current quarter. Modest *signs of stabilization can be seen nevertheless; the prolonged deterioration in firms' opinions of the general economic outlook has come to a halt.*

... while foreign trade continues to buoy economic activity

Foreign demand continues to provide support to economic activity. In recent months the expansion of exports has been sustained by sales to countries outside the EU. As a proportion of GDP, the deficit on the current account of the balance of payments came down by more than 2 percentage points between January and October compared with the same period of 2011 thanks to the improvement in the merchandise trade balance.

Employment is stable so far, but the number of job seekers and wage supplementation hours increase

The recession has not yet been reflected in a drop in employment. Rather, its effects have shown up mainly in greater recourse to wage supplementation and in an increase in the number of persons seeking work, which has driven up the unemployment rate, most notably among young people. In the third quarter of 2012 the youth unemployment rate was more than 6 percentage points higher than a year earlier.

Inflation declines

The gradual fall in consumer price inflation in the last few months (to 2.3 per cent in December) largely reflects the slackening pressure from oil prices and the fading impact of the indirect tax increases introduced in the autumn of 2011. The weakness of demand and lower cost pressures are likely to continue to moderate price inflation in 2013.

Credit conditions are still tight

The terms on which credit is offered benefited in the course of the year from the gradual removal of the liquidity constraints weighing on Italian banks, thanks largely to the policy measures taken by the Eurosystem. Lending nevertheless continues to be impeded by banks' perceptions of high credit risk in connection with the impact of the recession on companies' accounts. Non-performing loans have increased significantly.

Funding capacity and capital are strong

Positive signs have emerged, however. Retail funding is growing, liquidity conditions have improved, and some banks have resumed wholesale market issues. The core tier 1 ratio of the largest banking groups has risen further.

The improvement of the fiscal balances proceeds

The general government borrowing requirement, net of privatization receipts and the lending of the European Financial Stability Facility, can be estimated at 3 per cent of GDP in 2012, down from 3.9 per cent in 2011. Despite the cyclical weakness, the budgetary measures taken in the second half of 2011 will result in a further improvement in the balances this year and next. The debt-to-GDP ratio should begin to come down in 2014, thanks to further expansion of the primary surplus and the recovery in economic activity.

GDP contracts by an estimated 2 per cent in 2012

In the macroeconomic scenario set out in this Bulletin, Italy's GDP is estimated to have declined by just over 2 per cent for 2012 as a whole, essentially in line with the projection made in July. The estimate of the contraction in Italy's GDP for 2013 has been revised from 0.2 to 1.0 per cent as a consequence of the worsening international context and the persistent sluggishness of activity in recent months.

The decline in economic activity could come to an end in the second half of this year ...

The forecasting scenario nevertheless suggests the possible return to expansion in the second half of the year, albeit at a slow pace and subject to very considerable uncertainty. The cyclical upturn will depend on gradual recovery in investment once credit conditions return to normal and on a pick-up in demand in the euro area and some improvement in the climate of confidence. In this scenario GDP growth would still remain negative year-on-year in 2013 and be slightly positive in 2014.

... but forecasting risk is considerable

The main downside risks relate to domestic demand and credit conditions. The *return to positive investment growth rates could be delayed by less favourable developments in business expectations. The impact on banks' lending of a deterioration in their accounts and heightened borrower risk could be more persistent than expected. On the other hand, the further strengthening of the outlook for the euro area could result in more positive developments.*

The progress made must be consolidated

Improvements in credit supply, favourable conditions in the government securities market and a revival of confidence that allows the resumption of investment activity are all indispensable for a return to growth. It remains essential to ensure the durability of the progress that has been made in these areas thanks to combined national and European economic policy action. In Italy the adjustment of the public finances must be consolidated, while the reform effort aimed at boosting competitiveness and increasing the economy's growth potential needs to be intensified.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

World economic activity remained weak in the second half of 2012 and trade stagnated. Despite signs of strengthening in some emerging countries in the final months of the year, global growth prospects are still subject to considerable uncertainty, above all in connection with the course of the crisis in the euro area and the management of the fiscal imbalances in the United States, where risks remain even though the so-called fiscal cliff was avoided at the start of this year. During 2013 the recovery is likely to remain fragile and to be marked by wide differences between regions and countries; the consensus among analysts is that the world economic expansion will gain pace in 2014 (Table 1).

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	OECD			Consensus Economics	
	2012	2013	2014	2012	2013
GDP					
World	**2.9**	**3.4**	**4.2**	–	–
Advanced countries					
Euro area	*-0.4*	*-0.1*	*1.3*	*-0.5*	*-0.1*
Japan	*1.6*	*0.7*	*0.8*	*1.8*	*0.6*
United Kingdom	*-0.1*	*0.9*	*1.6*	*-0.1*	*1.1*
United States	*2.2*	*2.0*	*2.8*	*2.2*	*1.9*
Emerging countries					
Brazil	*1.5*	*4.0*	*4.1*	*1.1*	*3.4*
China	*7.5*	*8.5*	*8.9*	*7.7*	*8.1*
India (1)	*4.5*	*5.9*	*7.0*	*5.5*	*6.5*
Russia	*3.4*	*3.8*	*4.1*	*3.6*	*3.4*
World trade (2)	**2.8**	**4.7**	**6.8**	–	–

Sources: OECD, *Economic Outlook*, No. 92, November 2012; Consensus Economics, December 2012.
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

The third quarter sees uneven GDP results among the advanced countries ...

In the United States GDP grew by 3.1 per cent on an annualized basis in the third quarter, compared with 1.3 per cent in the second. The acceleration in investment in residential construction, together with the increase in public spending and stockbuilding, more than offset the fall in fixed investment and the slowdown in private consumption. Economic activity in the United Kingdom, driven by household consumption and exports, rebounded from a contraction in the second quarter to grow by 3.8 per cent; however, the underlying trend remains weak, since part of the growth came from temporary factors (the Olympics and the calendar effects connected with the Queen's Diamond Jubilee). In Japan output recorded a new, more marked decline of 3.5 per cent on an annualized basis in the third quarter (against a 0.1 per cent contraction in the second); the steep drop in exports and the fall in both business investment and private consumption were partly responsible.

... and a slackening of growth in the emerging countries

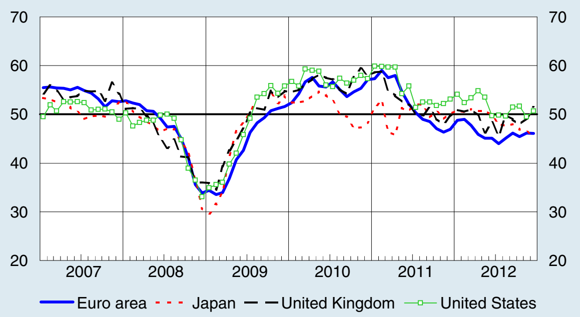
Economic activity in the main emerging economies continued to slow, reflecting the negative impact of global economic developments, in some cases partly offset by the resilience of domestic demand. The Chinese economy grew by 7.4 per cent in the third quarter year on year, compared with 7.6 per cent in the second, sustained by consumption and by infrastructure spending buoyed by government plans. In India the deceleration in activity was more pronounced (from 3.9 to 2.8 per cent). In Brazil the rate of GDP growth remained low but improved from 0.5 to 0.9 per cent thanks to higher net exports and consumption.

World trade stagnated in the third quarter under the impact of the sharp contraction of demand in Europe. The data currently available indicate that trade also remained weak in the final months of the year.

Figure 1

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

(monthly data)



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

In the fourth quarter output is estimated to expand only in the emerging countries

According to the most recent indicators, the state of the economy in the major advanced countries outside the euro area remained fragile in the fourth quarter, with differing results (Figure 1). Output continued to expand in the United States, although its pace slackened compared with the summer as the boost from stockbuilding dissipated. Labour market conditions are gradually improving: the unemployment rate came down again in December (to 7.8 per cent) and applications for unemployment benefits fell considerably, reaching a four-year low. The situation in residential construction also continues to improve, with prices showing another gain in October; futures on the Case-Shiller index of home prices in ten metropolitan areas point to a further increase in the coming months. Economic activity is estimated to have contracted in the United Kingdom and to have fallen still further in Japan, though by less than in the third quarter.

Indices of industrial production and surveys of firms suggest that economic activity accelerated slightly in China in the final part of the year. In Brazil the recovery also appears to have continued, reflecting the lagged effect of the expansionary measures put in place during 2012. In India there were incipient signs that growth was stabilizing at the low levels recorded in the third quarter.

The recovery is likely to remain fragile in 2013, with marked differences from country to country

According to the latest OECD estimates, after slowing to an average of 2.9 per cent in 2012, world GDP growth will pick up to 3.4 per cent this year (Table 1). Activity is projected to expand unevenly across the different economies. Growth is forecast at 2.0 per cent in the United States and at just under 1.0 per cent in Japan and the United Kingdom, while the euro area is expected to experience further stagnation. By contrast, in the main emerging economies the expansion should be brisker than in the advanced economies and stronger than last year. The world economic outlook remains subject to downside risks, particularly in connection with the management of imbalances and reforms in the euro area and with developments in the United States.

In the US, the fiscal cliff is avoided but risks for spending cuts and the debt ceiling remain

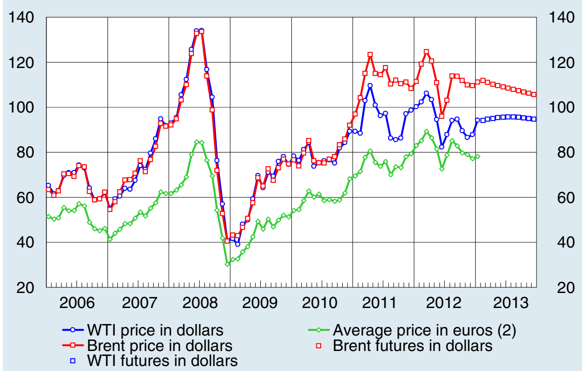
Worries about a drastic budgetary tightening that was to take place on a current legislation basis in the United States at the start of 2013 were assuaged by the compromise reached at the end of December. The agreement extends the tax cuts introduced in 2001 and 2003 except for persons with annual incomes above $400,000, for whom the marginal income rate was raised from 35 to 39.6 per cent and the tax on capital gains from 15 to 20 per cent. At the same time, however, it confirmed the abolition of the reductions on social security taxes paid by workers. On the spending side, long-term unemployment benefits were extended for a year, as were tax credits for businesses that invest in research and innovation and in renewable energies. Overall, these measures are expected to cut the budget deficit by 1.4 per cent of GDP in 2013, dampening GPD growth by between 1.0 and 1.5 percentage points this year. However, considerable risks persist: the question of the automatic cuts to spending programmes that would be triggered by failure to reach an agreement on equivalent deficit-reduction measures is still a matter of difficult negotiations to be concluded by the end of February. The deadline for raising the public debt ceiling also expires around the same date.

Oil prices have stabilized and futures prices point to a modest decline

The prices of Brent grade crude oil fluctuated between $106 and $116 a barrel in the last quarter of 2012: the downward pressures exerted by the weakness of the world economy were counterbalanced by the effects of renewed geopolitical tensions in the Middle East and, in the last few months, by the improvement in China's economy. On the basis of futures prices, the price of Brent, which stood at about $111 a barrel in mid-January, is projected to come down by about 6 per cent over the next twelve months (Figure 2). The prices of the leading non-energy commodities followed differing trends: the prices of agricultural commodities fell steeply in response to improving supply-side projections, while the prices of metals remained stable.

Figure 2

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



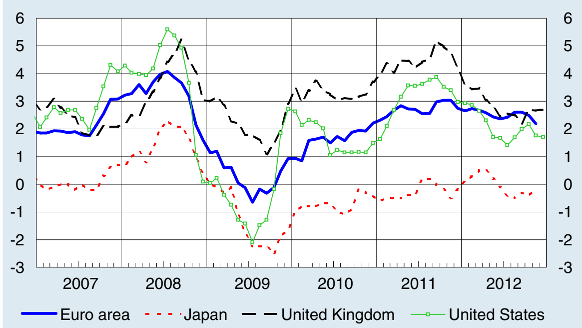
Sources: IMF and Thomson Reuters Datastream.
(1) Monthly averages for spot prices; the last data refer to 15 January 2013. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Inflation continues to be moderate in the advanced economies ...

Inflation remained moderate in the main advanced economies, reflecting the weakness of the cyclical situation (Figure 3). In December twelve-month inflation was equal to 1.7 per cent in the United States (1.9 per cent excluding energy and food products) and held at 2.7 per cent in the United Kingdom for the third consecutive month; in Japan the trend remains deflationary. Among the main emerging economies, inflation intensified in China and most notably Brazil; it eased in India, where it remained high nevertheless.

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.

... where monetary policies grow still more expansionary

In the major advanced economies the monetary policy stance continues to be strongly expansionary; new measures were introduced to support economic activity in the last quarter of 2012. In December the US Federal Reserve announced the launch, starting in January, of purchases of longer-term Treasury securities worth $45 billion a month to replace the maturity extension programme (so-called operation twist), which reached its end. The Fed also announced an important change to its communication strategy, tying the variation of official rates to predetermined levels of inflation and unemployment, consistently with its dual mandate. In particular, official rates will be held at their exceptionally low present levels as long as (a) the unemployment rate remains above 6.5 per cent; (b) inflation between one and two years ahead is forecast to be not more than half a percentage point above the target of 2 per cent; and (c) longer-term inflation expectations continue to be well anchored. In October and then again in December the Bank of Japan further increased the size of its programme of financial assets purchases by a total of ¥21 trillion, taking the overall total commitment to ¥101 trillion. In December the Bank of England decided to keep the amount of its holdings of financial assets unchanged at £375 billion and offered a positive assessment of the initial results of the Funding for Lending Scheme introduced last July to encourage lending to households and firms.

The monetary policy stance of the main emerging countries remained unchanged in the final part of 2012. The People's Bank of China refrained from further interventions on official rates, managing the liquidity requirement through reverse repos, while the Reserve Bank of India made no change either to its reference rate or to the compulsory reserve ratio, indicating that the persistent inflation was affecting consumer and business expectations. The Central Bank of Brazil, after cutting its benchmark Selic rate in October for the tenth consecutive time, reducing it to the historical low level of 7.25 per cent, expressly indicated that it intended to hold monetary conditions stable for a sufficiently long period.

Current account imbalances begin to shrink again

In the third quarter of 2012 balance-of-payment imbalances began to grow smaller. The US current account deficit fell to 2.7 per cent of GDP (from 3.0 per cent in the previous quarter), thanks mainly to the improvement in the trade balance, particularly for energy. In the countries in surplus, that of Japan declined significantly to 0.8 per cent of GDP, while China's increased to 3.6 per cent of GDP (in connection with the slowdown in imports).

2.2 THE EURO AREA

Economic activity in the euro area contracted in the summer for the second consecutive quarter, although less sharply than forecast; the contraction appears to have continued in the last quarter of the year, reflecting the weakness of domestic demand. After the ECB's announcement of Outright Monetary Transactions in the summer and the progress made at European level in managing imbalances and developing a single supervisory mechanism for banks, sovereign debt tensions subsided significantly, leading to easier monetary conditions. The reduction in the disequilibria brought about an improvement in the net balances in TARGET2 of the countries in financial difficulty, where credit growth remains nonetheless weak.

GDP contracts moderately in the third quarter of 2012 ...

The GDP of the euro area contracted by 0.1 per cent in the third quarter compared with the second, reflecting the poor performance of domestic demand, which had been falling since the middle of 2011. Gross fixed investment diminished by 0.6 per cent and households' consumption stagnated. Foreign trade continued to make a positive contribution to growth of 0.3 percentage points as a result of the 0.9 per cent rise in exports and an extremely small increase in imports.

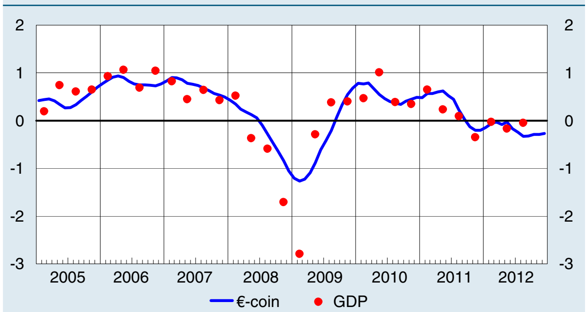
... but is estimated to have fallen more sharply in the final part of the year

Available information points to a further broadly based contraction in euro-area economic activity in the last quarter, most likely affecting the leading countries as well. The €-coin indicator, which estimates the three-month change in euro-area GDP net of the most erratic components, stood in December at the negative values recorded since the summer (around -0.3 per cent; Figure 4). The phase of weak domestic

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", *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.

demand persisted: new car registrations fell in the autumn and retail sales remained slack. On the supply side, industrial production contracted by 2.3 per cent on average in October and November, continuing the trend under way for about a year. Signals coming from recent business surveys are less negative, however: indicators of confidence in the industrial sector and the purchasing managers' indices in the service sector point to a slight improvement. The cyclical weakness overtook even the supposedly sturdiest economies; in France and Germany industrial production declined in October-November by an average of 1.7 and 2.7 per cent respectively.

The professional forecasters surveyed in December by Consensus Economics project a decline in euro-area GDP growth of 0.1 per cent on average in 2013, compared with that of 0.4 per cent in 2012; however, the dispersion of projections is very wide, confirming the uncertainty that looms over the economic outlook for the area. Broadly similar estimates were released in December by the Eurosystem experts, with GDP growth projected in a range between -0.9 and +0.3 per cent in 2013 (compared with -0.6 and -0.4 per cent in 2012).

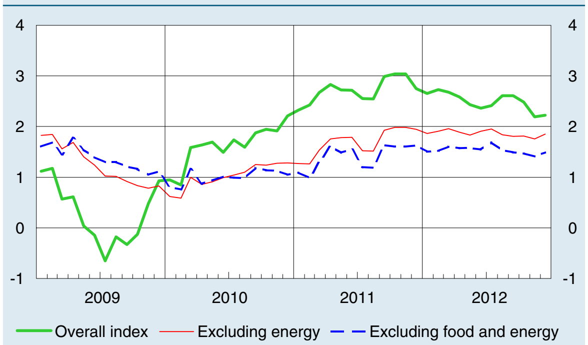
Inflation is falling and cost pressures are easing

Inflation in the euro area has fallen in recent months, to 2.2 per cent in December (Figure 5), thanks mainly to the sharp slowdown in energy prices. Core inflation, as measured by the twelve-month rise in the harmonized index of consumer prices net of food and energy products, held stable at around 1.5 per cent throughout the quarter. The latest business surveys report an easing of pressures on input costs and a moderation of firms' pricing policies. According to the analysts surveyed by Consensus Economics in December, average annual inflation in the euro area will be 1.9 per cent in 2013, down from 2.5 per cent in 2012. The latest projections of the Eurosystem experts also indicate a slowing of inflation this year, putting it in a range of 1.1 to 2.1 per cent.

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.

Money supply growth is still slow ...

The rate of expansion of euro-area M3 rose to 3.8 per cent in the twelve months to November, against 2.9 per cent in August. The acceleration was driven by current accounts and deposits, whose performance reflected an attenuation of the decline in deposits in some of the countries worst hit by the sovereign debt crisis, such as Greece, Ireland and Spain, and faster growth in deposits in other countries (including Germany and Italy).

... and credit is stagnating

The growth in credit to the non-financial private sector turned slightly negative, amounting to -0.8 per cent in the three months ending in November (on a seasonally adjusted, annualized basis, adjusted for the accounting effect of securitizations). This was mainly due to the sharp contraction in loans to non-financial corporations (-2.8 per cent), while lending to households continued to grow, albeit at a slow pace (1.0 per cent). Lending to firms continues to contract in the countries most directly affected by the tensions on the government bond markets; in recent months signs of a decline in credit have also appeared in France and Germany.

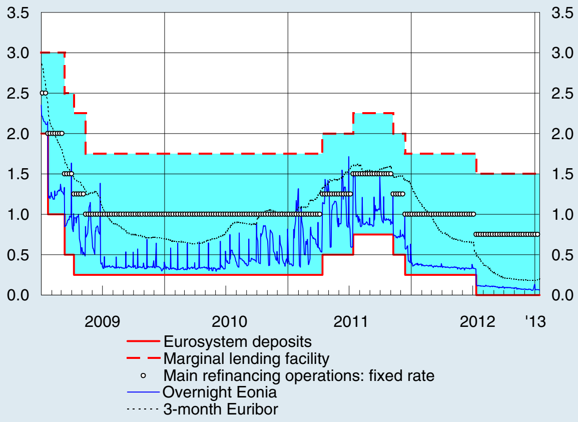
The trend in lending increasingly reflects the weakness of demand, but still relatively tight supply conditions as well. The responses to the quarterly euro-area bank lending survey indicate a slight tightening of lending standards for firms and households in the third quarter, mostly fuelled by pessimism regarding the economic outlook and particularly affecting banks in the Netherlands, Italy and to a lesser degree Germany.

After announcing the OMTs in September, the Eurosystem keeps official interest rates unchanged

After announcing the features of the Outright Monetary Transactions in September, the Governing Council of the ECB has kept the rate on main refinancing operations unchanged at 0.75 per cent (Figure 6). At its meeting at the beginning of December it also decided to continue conducting all refinancing operations as fixed rate tender procedures with full allotment for as long as necessary, and at least until the beginning of July 2013.

Figure 6

Official interest rates and money market rates in the euro area
(daily data; per cent)



Sources: ECB and Thomson Reuters Datastream.

The Eonia and Euribor rates remained at the unprecedentedly low levels of 0.06 and 0.2 per cent respectively. Risk premiums in the money market, gauged by the spread between three-month Euribor and overnight indexed swaps of the same maturity, were unchanged. The Eurosystem has continued to supply abundant liquidity through refinancing operations, recourse to which totalled €1,190 billion at the beginning of January. About 85 per cent of this financing was allotted at the auctions in December 2011 and February 2012 with a maturity of about three years.

The balances in TARGET2 of the countries in difficulty improved

The balances in the TARGET2 payment system of the central banks of the countries worst affected by the sovereign debt crisis – which reflect changes in the imbalances in private capital movements – continued to improve thanks to the partial resumption of capital inflows. From the end of September to the end of December Italy's negative balance shrank by €26 billion to €255 billion.

Work goes ahead on the single European supervisory mechanism for banks

On 12 December the Council of EU finance ministers agreed on the European Commission's proposal to establish a single supervisory mechanism (SSM) for the oversight of credit institutions. This is a key element in the EU's plan to establish a banking union, which in the medium term will include a common crisis resolution mechanism and harmonized deposit guarantee systems. When the SSM comes into operation the European Stability Mechanism will be ordinarily empowered to recapitalize banks directly rather than by means of loans to their home country.

The SSM will be composed of the ECB and national supervisory authorities of the member countries – those belonging to the euro area and other interested EU countries – and will oversee all the banks in those countries. The ECB will have direct oversight over all credit institutions of systemic importance or that have received funding from the EFSF or ESM. Supervisory duties and powers relating to other banks will be assigned to the national authorities. The ECB may take over supervision of an institution at any time. Negotiations are under way with the European Parliament to complete the legislative process; after approval the SSM will be phased in. The ECB will assume its supervisory tasks on 1 March 2014 or twelve months after the entry into force of the SSM.

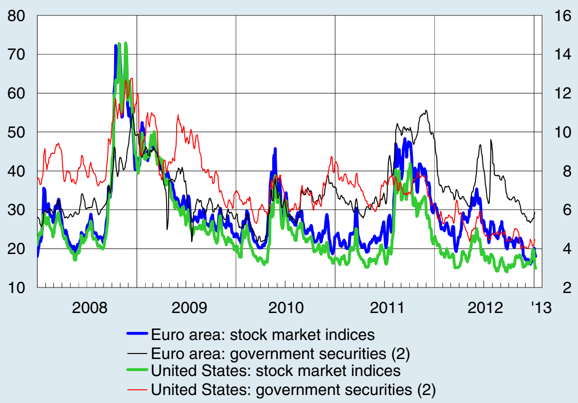
2.3 WORLD FINANCIAL MARKETS

Financial market conditions continued to improve in the last part of 2012 following the measures taken by the Eurosystem, the new agreements at European level, and international developments. Share prices rose, sovereign risk premiums for the euro-area countries most exposed to tensions declined, and expected volatility fell back in the equity and bond segments (Figure 7). Nevertheless, significant risks remain, above all in connection with the prospects for global growth and the ongoing correction of imbalances in Europe.

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 continue to fall in the euro area as a whole ...

Since the beginning of October 2012, yields on ten-year government bonds in the euro area have fallen by 33 basis points on average (Figure 8), owing chiefly to the large decline observed in the countries most exposed to the sovereign debt crisis. Long-term interest rates rose in the United Kingdom, the United States and Germany by 30, 20 and 11 basis points respectively, reflecting investors' renewed appetite for risky financial assets (the search for yield); in Japan rates remained unchanged.

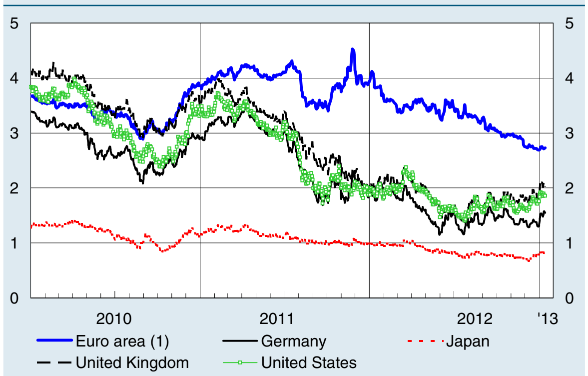
... resulting in a narrowing of spreads with respect to Germany

Sovereign risk premiums in the euro area continued to decline, most markedly in the countries hardest hit by the financial market tensions. The improvement was due to the effects of the ECB's announcement in the summer of Outright Monetary Transactions (see the box "The European Central Bank's Outright Monetary Transactions", *Economic Bulletin*, October 2012), the progress made by national fiscal consolidation policies, the decisions on financial support for Greece (see the box "The recent agreements on the second economic adjustment programme for Greece"), the steps towards the European Banking Union, and the compromise agreement for averting the fiscal cliff in the United States. Since the end of September, the spreads between ten-year government securities and the equivalent German Bund have narrowed in Portugal, Spain, Italy, and Ireland. They also narrowed in Belgium and France, but more moderately (Figure 9).

Figure 8

Yields on 10-year government bonds

(daily data; per cent)

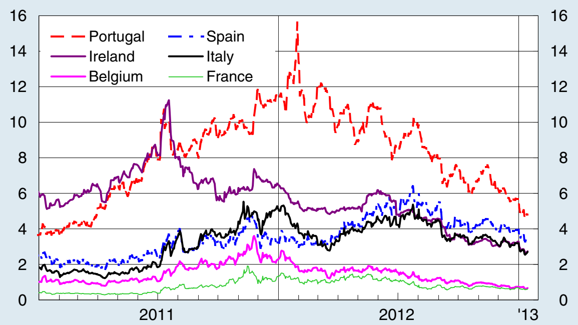


Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the 10-year government securities of the euro-area countries except Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

Figure 9

Yield spreads between 10-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 15 January 2013.

THE RECENT AGREEMENTS ON THE SECOND ECONOMIC ADJUSTMENT PROGRAMME FOR GREECE

Following the finalization of the second rescue package for Greece designed to bring the country's public debt back on a sustainable path (see the box "Private sector involvement in resolving the Greek crisis", *Economic Bulletin*, April 2012) the first tranche of financial support was disbursed between March and June 2012, amounting to €74 billion from the European Financial Stability Facility and €1.6 billion from the International Monetary Fund.

The deterioration in the economic situation, political uncertainty and delays in carrying out reforms prevented Greece from honouring its commitment to reduce the public debt, prompting the European Union, the European Central Bank and the IMF to postpone disbursement of the second tranche, originally scheduled for the second quarter of 2012.

On 27 November the Eurogroup set less ambitious targets for the public finances, postponing the achievement of a primary surplus of 4.5 per cent of GDP by two years, to 2016, and raising the debt-to-GDP ratio for 2020 from 120 to 124 per cent. It also drew up measures to cover the financial burden resulting from this decision and to ensure the reduction of the public debt. The main measures are (a) reducing by 100 basis points the interest rates on bilateral loans granted as part of the Greek Loan Facility; (b) lengthening the maturity of bilateral and EFSF loans by 15 years as well as extending interest payments on EFSF loans by 10 years; and (c) paying the Greek government a sum equal to the euro-area central banks' profits on the Greek bonds contained in the Securities Market Programme portfolio.[1]

At the same meeting the Greek Government agreed to a new debt buyback. The operation closed on 11 December 2012 and involved securities with a face value of €31.9 billion, which were bought back at an average of 33.8 cents on the euro. Investors were offered six-month EFSF securities amounting to €11.3 billion. According to official estimates, the package will contribute to achieving the 2020 target with a reduction of Greece's debt by some 10 percentage points of GDP.

Thanks to the success of the debt buyback, the EFSF has approved the disbursement of the second tranche of financial assistance, amounting to €49.1 billion. A total of €34.3 billion was made available in December (of which €16 billion to recapitalize the banks and €11.3 billion for the buyback); the remaining €14.8 billion will be released during the first quarter of 2013.

[1] The measures described under points (a) and (c) are not binding for the euro-area countries that have agreed a programme of financial assistance for the period in which they receive such assistance (at present Ireland and Portugal).

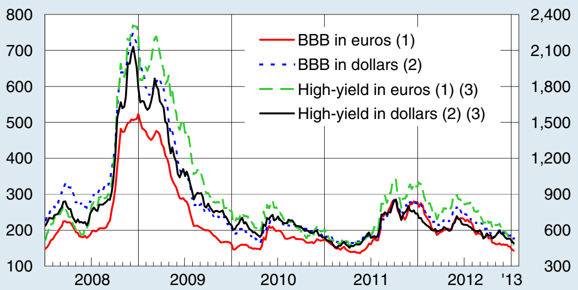
The risk premiums of banks and non-financial corporations also continue to decrease

The easing of the tensions affecting government securities favoured a further improvement in banks' funding conditions. Considering a sample of large banks, since the end of September five-year CDS spreads have narrowed by 113 basis points in the euro area and by 47 basis points in the United States. The decline in risk premiums also applied to non-financial corporations, whose yield differentials for bonds denominated in euros and in dollars fell by 44 and 27 basis points respectively (Figure 10).

Figure 10

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

(end-of-week data; basis points)



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

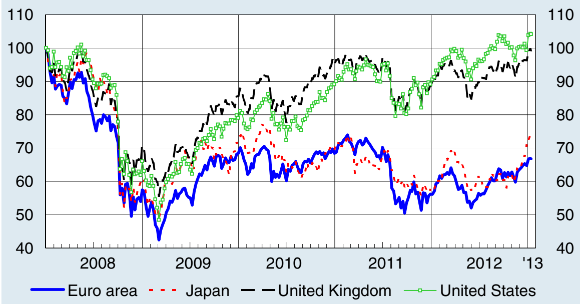
Share prices continue to rally

Stock market indices in the main advanced countries have risen, confirming the trend under way since the end of June (Figure 11). The largest gains were in Japan and in the euro area; in the United States strengthening economic data and the further easing of the monetary policy stance, together with the agreement on the federal budget, have driven the recovery in the indices in recent weeks. The Dow Jones Euro Stoxx index of the largest euro-area listed companies has risen by 9.5 per cent since the end of September, while thanks to the recovery under way since mid-November the S&P 500 in the United States has regained the levels that prevailed at the end of the third quarter. The expected volatility implied by the prices of options on these indices has continued to lessen, reaching its lowest levels since mid-2007.

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.

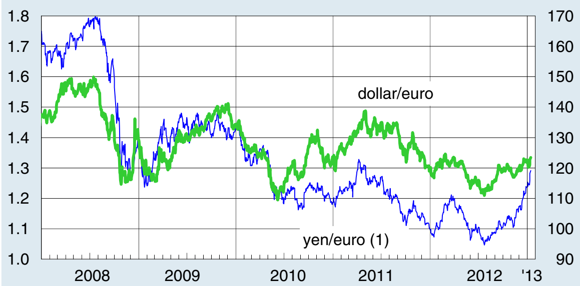
Capital flows to the emerging countries accelerate

Financial conditions in the main emerging countries have continued to improve, benefiting from China's stronger economic performance in the final part of the year; the yield differentials between emerging countries' dollar-denominated long-term sovereign bonds and long-term US Treasury securities fell to the lowest levels recorded since the start of 2011. Since the end of September emerging-country share prices in local currency have increased by 6.5 per cent overall. Portfolio investment in equities accelerated and that in bonds remained at the high levels recorded in the third quarter.

Figure 12

Bilateral exchange rates

(daily data)



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

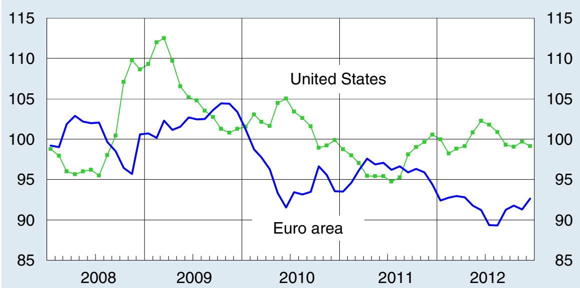
The euro strengthens

The euro strengthened with respect to the main currencies, reflecting the rapid attenuation of uncertainty over the solidity of EMU and the more expansionary monetary policy stance in the United States. Between the beginning of October and mid-January the euro gained 3.2 per cent against the dollar and 17.6 per cent against the yen (Figure 12). In nominal effective terms it appreciated by 3.2 per cent (Figure 13).

Figure 13

Nominal effective exchange rates (1)

(monthly data)



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

In the same period, the Chinese renminbi continued to appreciate, both in nominal effective terms (2.9 per cent) and against the dollar (1.1 per cent). The improved economic outlook favoured a partial scaling back of the expected depreciation of the renminbi implied by twelve-month non-deliverable forward contracts.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

The recession in the Italian economy stretched into the second half of last year, but became less severe. There are still no signs of a cyclical inversion in the early months of 2013; a return to modest growth rates is possible in the second half of the year (see the box "Estimating the probability of a cyclical upturn").

The decline in GDP slows in the summer months ...

In the third quarter of 2012 Italy's GDP diminished at a markedly more modest pace, by 0.2 per cent (Table 2), compared with the contraction of approximately one percentage point over the previous three quarters. Net foreign demand contributed 0.6 percentage points to sustaining GDP (Figure 14). Domestic demand contracted, reflecting the persistent weakness of household consumption and gross fixed investment.

... but continues until the end of 2012

The cyclical situation remained negative in the fourth quarter as well. The economic indicators show a further fall in GDP, the sixth in succession, of around half a percentage point; industrial output declined again. According to the information available, economic activity is likely to remain weak in the first quarter of 2013.

Inflationary pressures are reduced

In the fourth quarter inflation (measured by the twelve-month change in the national consumer price index) fell steadily to 2.3 per cent in December. The reduction in inflationary pressures reflected both the slowing down of energy prices and the dissipation of the impact of the indirect tax increases introduced in autumn 2011.

Table 2

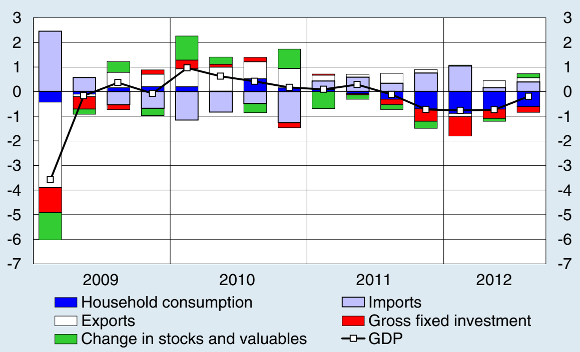
GDP and its main components
(chain-linked volumes; data adjusted for seasonal and calendar effects; percentage changes on previous period)

	2011 Q4	2011 (1)	2012 Q1	2012 Q2	2012 Q3
GDP	-0.7	0.4	-0.8	-0.7	-0.2
Total imports	-2.6	0.6	-3.5	-0.5	-1.4
National demand (2)	-1.6	-1.0	-1.7	-1.2	-0.8
National consumption	-1.0	-0.1	-1.1	-0.8	-0.8
household spending	*-1.2*	*0.1*	*-1.4*	*-1.2*	*-1.0*
other (3)	*-0.6*	*-0.8*	*-0.1*	*0.1*	*-0.3*
Gross fixed investment	-2.6	-1.8	-4.1	-2.0	-1.4
construction	*-0.7*	*-2.6*	*-3.6*	*-1.2*	*-1.4*
other investment goods	*-4.6*	*-1.0*	*-4.8*	*-2.9*	*-1.4*
Change in stocks and valuables (4)	-0.3	-0.5	..	-0.1	0.2
Total exports	0.5	6.0	-0.5	1.0	0.5

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.

3.2 FIRMS

Industrial production has continued to contract, although in the second half of 2012 as a whole the pace was slower. Firms' assessments still do not point to a return to growth in the early part of this year; the persistent weakness of domestic demand is a major factor. Firms' profitability has diminished slightly. Corporate bond issues have resumed.

Industrial production declines again in the last quarter of 2012 ...

From the summer onwards the index of industrial production fluctuated, largely owing to factors of a statistical nature linked to the instability of the seasonal component. Virtually stagnant in the third quarter, according to our estimates for December, industrial production contracted by about 2 per cent in the fourth (Figure 15). This weakness was common to all the main sectors, but it was particularly pronounced for durable consumer goods.

... and the leading indicators do not point to a recovery in the early months of this year

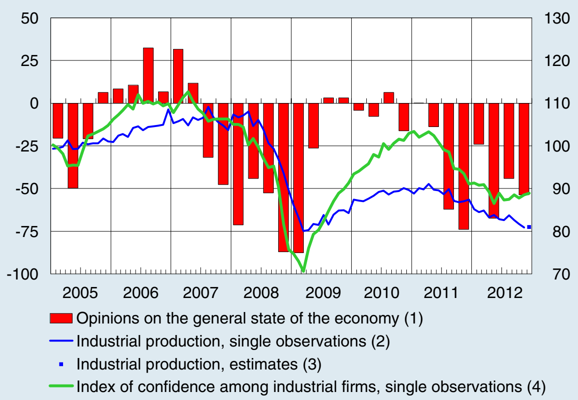
Recent business opinion surveys do not point to an upturn in industrial production in the first quarter of this year. The PMI indicators are still below the levels compatible with an expansion of production (Figure 16); the index of business confidence among manufacturing firms stopped falling several months ago but remains at a low level. According to the quarterly survey conducted in December by the Bank of Italy together with *Il Sole 24 Ore*, firms' opinions with regard to the short-term outlook deteriorated slightly compared with the September survey but were still better than at the beginning of the summer. Just under one third of firms expect a decrease in demand for their products in the early months of this year, against about 10 per cent that expect an increase.

The contraction in investment in capital goods slows

Business investment fell at a much slower pace in the third quarter of 2012 than in the first half, declining by 1.4 per cent compared with the second quarter and reflecting the smaller fall in spending on equipment, machinery, transport equipment and intangible goods. Investment is affected above all by the uncertain outlook for demand and by the substantial and growing margins of spare capacity.

Figure 15

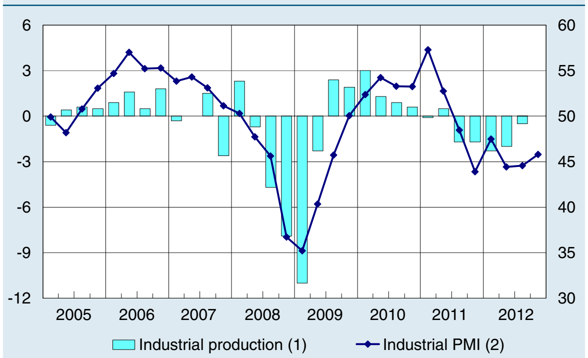
Industrial production and business confidence
(monthly data)



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 Bank of Italy-*Il Sole 24 Ore* quarterly "Survey on Inflation and Growth Expectations. December 2012", forthcoming in *Supplements to the Statistical Bulletin*, 2013; the data refer to industrial firms only; left-hand scale. – (2) Industrial production adjusted for seasonal and calendar effects; index, 2005=100. – (3) Based on electricity consumption and the indicators of Istat surveys of manufacturing firms. – (4) Average of the seasonally adjusted percentage balances of the responses to questions on firms' assessment of demand, production expectations and stocks of finished products; index, 2005=100.

Figure 16

PMI and industrial production
(quarterly data)



Sources: Based on Istat, Terna and Bank of Italy data.
(1) Percentage change on the previous quarter, left-hand scale. – (2) Right-hand scale.

According to the survey conducted by the Bank of Italy together with *Il Sole 24 Ore*, firms' opinions for 2013 as a whole are slightly less pessimistic than those for investment in 2012. About one third of firms are planning to reduce investment on average in 2013, while about 20 per cent expect an increase. The outlook improves in the second half of the year (see the box "The outlook for investment in Italy in the Survey on Inflation and Growth Expectations").

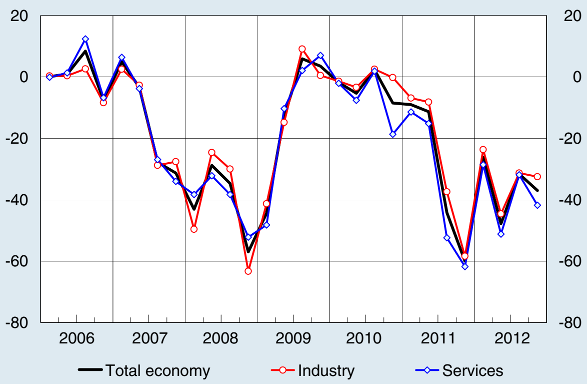
THE OUTLOOK FOR INVESTMENT IN ITALY IN THE SURVEY ON INFLATION AND GROWTH EXPECTATIONS

The period of contraction of investment in equipment, machinery, transport equipment and intangible goods, under way since the end of 2007 except for a partial recovery in 2010, has been reflected in a reduction in potential production. Indications in this sense emerged from the survey conducted by the Bank of Italy between September and October: one third of the firms reported a reduction in their production capacity compared with the most recent cyclical peak in their activity (see the box "Main findings of the Business Outlook Survey of Industrial and Service Firms", *Economic Bulletin*, October 2012). According to the qualitative surveys conducted by the European Commission, the substantial and prolonged fall in investment in the last few years has been mainly due to the weakness of demand and to financial factors; the proportion of total investment spending allocated to increasing production capacity appears to have fallen considerably.

The quarterly survey, conducted in December by the Bank of Italy together with *Il Sole 24 Ore* on a sample of firms with at least 50 workers in industry (excluding construction) and services, shows an outlook for investment that is still uncertain (see the figure). The percentage balance between responses indicating an improvement in conditions for investment in the fourth quarter of 2012 with respect to the previous period and those indicating a deterioration remained negative; it worsened slightly compared with the September survey but without regaining the very negative values recorded in June.

The latest edition of the survey focused on firms' investment intentions for this year (see the table). The assessments of the investment planned for 2013 reveal a situation that is moderately more favourable than that reported for 2012, even if expectations of a reduction in spending on a yearly basis continue to predominate: the gap

Assessment of the conditions for investing compared with the previous quarter (1)
(percentage points)



(1) Balance between expectations of an improvement and expectations of a deterioration compared with the previous quarter in "Survey on Inflation and Growth Expectations. December 2012", forthcoming in *Supplements to the Statistical Bulletin*, 2013. The survey is conducted on a quarterly basis by the Bank of Italy together with *Il Sole 24 Ore*.

Firms' expectations with regard to investment (1)
(percentages)

RESPONSES	Industry	Services	Total economy
Spending on investment in 2012 with respect to that in 2011			
Higher	24.5	21.4	23.1
About the same	36.5	37.6	37.0
Lower	38.9	41.0	39.9
Spending on investment planned for 2013 with respect to that incurred in 2012			
Higher	19.2	19.5	19.4
About the same	51.5	42.7	47.3
Lower	29.3	37.8	33.4
Expectations of spending on investment in the first half of 2013 with respect to that incurred in the second half of 2012			
Higher	19.6	19.0	19.3
About the same	46.7	44.0	45.4
Lower	33.7	37.0	35.3

(1) Percentages weighted by the number of firms. See "Survey on Inflation and Growth Expectations. December 2012", forthcoming in *Supplements to the Statistical Bulletin*, 2013.

between the proportion of firms intending to decrease their investment spending in 2013 and that of those planning an increase is 14 percentage points, while the gap with reference to the investment carried out in 2012 is about 17 percentage points. Moreover, according to the firms interviewed, the further fall in investment spending is likely to be concentrated in the first half of the year; this assessment is in line with the projections and the estimate of the probability of a turning point discussed in Chapter 3.10.

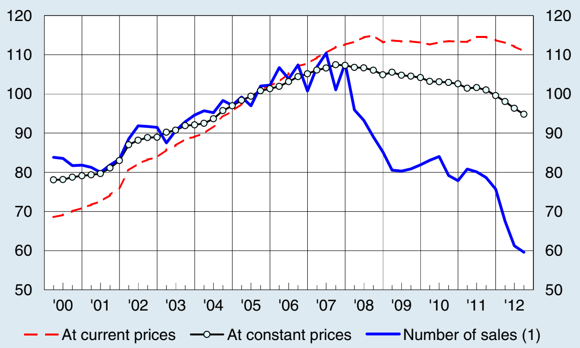
Conditions in the construction industry remain highly unfavourable

Investment in construction fell in the third quarter of 2012 at a pace in line with the average observed since the middle of 2011 (contracting by 1.4 per cent compared with the second quarter). Territory Agency data, adjusted for seasonal and calendar effects, show a further fall of 2.7 per cent in the number of sales of residential property compared with the previous quarter (Figure 17); this took the number to a new low for the last twenty years. In the same period the prices of houses bought by households decreased, according to preliminary Istat estimates, by 1.1 per cent in nominal terms, continuing the downward trend under way since the end of 2011. The quarterly survey of estate agents, conducted in October by the Bank of Italy in cooperation with Tecnoborsa and the Territory Agency, pointed to a continuation of unfavourable market conditions in the short term and a further fall in prices.

Figure 17

House prices and sales in Italy

(quarterly data; indices, 2005=100)



Sources: Based on Agenzia del Territorio, Bank of Italy, Istat and *Consulente Immobiliare* data.
(1) Adjusted for seasonal and calendar effects.

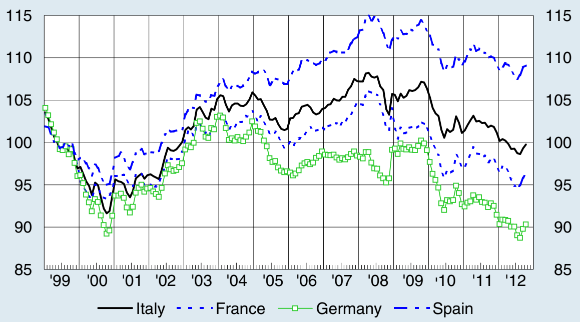
Price competitiveness reflects the fluctuations of the exchange rate

After improving over a long period, Italian firms' competitiveness decreased slightly from September onwards in terms of the producer prices of manufactures; this was in line with the performance of the other main euro-area countries and reflected the appreciation of the euro (Figure 18). Italian firms' level of competitiveness was nonetheless about 5 percentage points higher than at the end of 2009.

Figure 18

Indicators of competitiveness (1)

(indices, 1999=100)



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

Firms' operating profitability declines slightly ...

According to estimates based on the national accounts, in the third quarter of 2012 the operating profitability of non-financial enterprises – measured as gross operating profit over value added with reference to the twelve months to September – diminished slightly compared with the previous quarter. Firms' funding needs decreased owing to the contraction in investment (including inventories and in relation to value added). Firms' self-financing and net financial costs remained unchanged in relation to value added.

... and their debt increases marginally

Bank lending to firms continued to contract; in November the amount of outstanding loans to non-financial firms was down by about 6 per cent from a year earlier. The reduction involved both small firms and medium-sized and large ones (Figure 19). The total outstanding debt of firms rose slightly as a ratio to GDP in the third quarter of 2012, to stand at just under 80 per cent (Figure 20), about 20 percentage points below the euro-area average.

Net bond issues recover

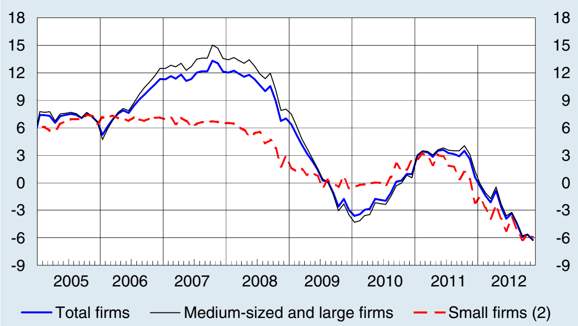
Italian non-financial corporations' recourse to the financial markets picked up: net issues amounted to €6.0 billion in the third quarter of 2012, compared with a contraction of €1.4 billion in the second (Table 7). The euro area as a whole also recorded an improvement: the balance between issues and redemptions rose to €40 billion. According to provisional Dealogic data, gross issues in the fourth quarter by companies belonging to Italian groups amounted to about €11 billion.

Fund-raising on the equity market also increased in the third quarter (rising to €2.2 billion from €0.2 billion in the second). According to Thomson Reuters Datastream data, firms carried out 11 M&A transactions in the third quarter, down from 21 in the second; the total amount involved was almost €600 million.

Figure 19

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)

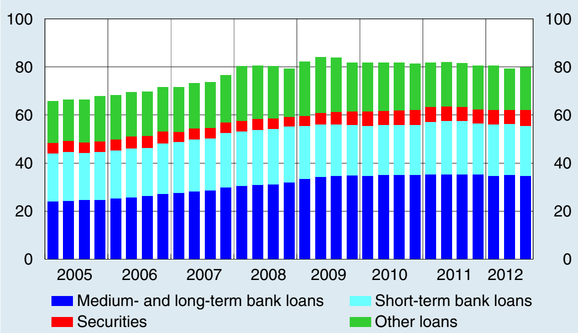


(1) Non-financial firms. Data adjusted for the accounting effect of securitizations. Loans exclude repos, bad debts and some minor items included in the Eurosystem harmonized definition of the aggregate. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal 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 third quarter of 2012 are provisional.

3.3 HOUSEHOLDS

Household consumption continued to contract, reflecting the prolonged fall in disposable income and pronounced uncertainty. Cyclical indicators suggest that it has also declined in recent months.

Private consumption continues to decline ...

In the third quarter of 2012 household consumption registered its sixth consecutive decrease. The decline, amounting to 1.0 per cent, extended to all components and was particularly sharp for durable goods (-2.0 per cent). Spending decisions reflected the prolonged weakness of purchasing power; over the first three quarters of 2012 households' real disposable income was 4.3 per cent lower on average than a year earlier (Figure 21). In the same period the propensity to save fell to 8.6 per cent.

... and there are no signs of it recovering

Consumption remained weak in the final months of 2012; retail sales and new car registrations continued to decline. The index of consumer confidence stabilized at historically low levels. Households' assessments are dampened by deep pessimism about general and personal economic prospects and by the deterioration of employment expectations. The latest data show that consumer behaviour is likely to remain depressed in the coming months.

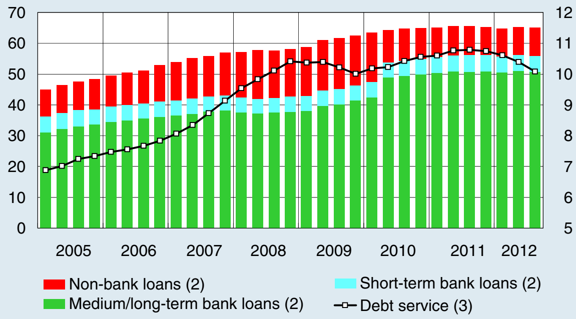
Figure 21

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. Up to 2011, annual data; for 2012, average percentage changes over the first three quarters compared with the same period in 2011. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices: 2005=100. – (4) Monthly data; moving averages for the three months ending in the reference month.

Figure 22

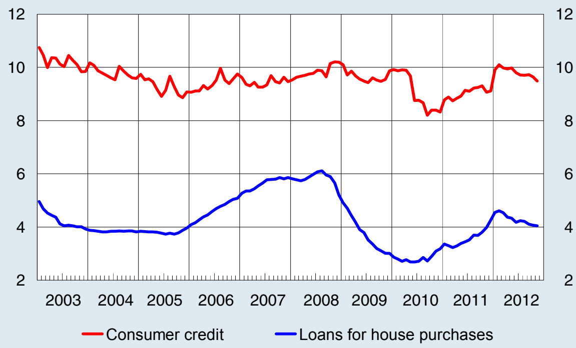
Household debt (1)
(as a percentage of gross disposable income)



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.

Household debt remains stable; debt service costs fall

The ratio of household debt to disposable income stayed at 65 per cent in the third quarter of 2012 (Figure 22), again well below the euro-area average, which is almost 100 per cent. In relation to disposable income, the debt servicing burden for Italian households (payment of interest and repayment of principal) fell further, by 0.3 percentage points, to 10.1 per cent. The decline in interest rates on house purchase loans and consumer credit, which began last March, continued over the quarter as a whole (Figure 23).

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

Foreign demand continued to make a positive contribution to GDP growth, thanks to the increase in exports and fall in imports. The improvement in the merchandise balance led to a sharp decline in the deficit on current account. In recent months inflows of foreign capital resumed, as indicated among other things by the reduction in the Bank of Italy's balance on the TARGET2 payment system.

Goods exports continue to grow ...

In the third quarter of 2012 exports of goods and services expanded by 0.5 per cent in volume terms, compared with 1.0 per cent in the second. The increase was concentrated in the goods sector and, in this phase, reflected the recovery in sales to EU countries, especially France and the United Kingdom, despite the slowdown in world trade. The volumes sold in non-EU markets, which had driven Italian exports in the early part of the year, remained virtually stationary: exports were buoyant in only a few markets (Switzerland, Turkey and several Asian economies), while sales to the United States and China declined. China, in particular, continued to reduce its purchases of Italian machinery, also owing to the slowdown in economic activity. At sector level, the expansion in sales abroad was primarily attributable to metal products (non-monetary gold in particular), chemicals and pharmaceuticals, food products, and machinery and equipment, while there were increasing difficulties in many of Italy's traditional export industries (especially textiles and non-metallic mineral processing).

... while imports contract again

The protracted weakness of domestic demand was reflected in a further fall in imports of goods and services in the third quarter (by 1.4 per cent in volume terms), the seventh in a row. The sharpest reductions involved transport equipment, owing to the falling demand for automobiles, and electronic products, including solar cells. Goods imports stagnated in almost all the other main sectors, including energy. Most of the decrease was in imports from outside the EU.

Sales to non-EU countries help sustain exports

In October exports remained stable; the fall in EU markets was offset by the recovery in sales to non-EU countries, which, based on the data by value, continued in November. Imports rose moderately in October before falling again, according to the data on non-EU trade only.

The current account improves by over two percentage points of GDP

In the first ten months of 2012 Italy's deficit on the current account of the balance of payments narrowed to €13.0 billion or 0.8 per cent of GDP, a marked decrease from 2.9 per cent during the same period in 2011 (Table 3). By historical standards the adjustment is striking, equal to two thirds of that recorded between 1992 and 1993 following the devaluation of the lira. It reflects the move to surplus of the merchandise balance, with the growing surplus on non-energy products offset by a modest widening of the energy deficit. The deficit on services was cancelled, thanks above all to the sales abroad of services for businesses; the travel balance also improved, boosted by the fall in holidays abroad by residents and the increase in the presence of foreign tourists in Italy.

Table 3

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

	2010	2011	Jan.-Oct. 2011	Jan.-Oct. 2012
Current account	**-54.7**	**-48.4**	**-45.5**	**-13.0**
Goods	-20.9	-16.6	-17.4	-12.6
non-energy products (2)	*29.5*	*43.0*	*31.7*	*64.8*
energy products (2)	*-50.4*	*-59.6*	*-49.0*	*-52.2*
Services	-9.2	-7.0	-5.1	0.9
Income	-8.3	-8.9	-8.2	-10.3
Current transfers	-16.3	-15.9	-14.9	-16.3
Capital account	**-0.6**	**0.5**	**-0.6**	**0.2**
Financial account	**86.7**	**72.8**	**58.6**	**24.9**
Direct investment	-17.7	-13.9	-10.7	-20.2
Portfolio investment	38.5	-34.4	6.5	24.8
Financial derivatives	-4.7	7.5	6.4	-1.0
Other investment	71.8	114.5	56.9	23.0
Change in official reserves	-1.0	-0.9	-0.4	-1.7
Errors and omissions	**-31.5**	**-24.9**	**-12.5**	**-12.1**

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

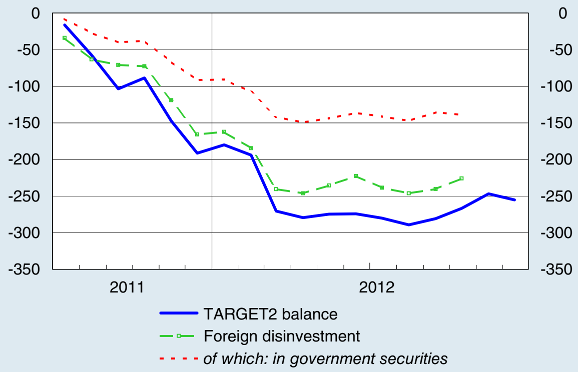
Foreign capital inflows recover and the TARGET2 balance declines

Improved conditions in the international financial markets from the summer onwards led to a resumption of government security purchases by foreign investors, who had drastically reduced their exposure to Italy in the early part of the year. The Bank of Italy's TARGET2 debit balance vis-à-vis the ECB recorded a sharp fall from September onwards, after stabilizing in the course of the spring and summer (Figure 24; see the box "Recent evolution of the balances of the TARGET2 payment system" in *Economic Bulletin*, January 2012 and the box "Non-residents' demand for Italian government securities" in *Financial Stability Report*, No. 4, April 2012).

Figure 24

Bank of Italy balances on TARGET2 and net foreign disinvestment (1)

(end-of-month balances and cumulative flows in billions of euros)



(1) Balance vis-à-vis the ECB and foreign disinvestment of Italian securities and of funds made available to resident banks in the form of loans and deposits. Foreign disinvestment is cumulative from July 2011 onwards.

Residents reduce their holdings of foreign securities

In the first ten months of 2012 portfolio investment recorded net inflows of €24.8 billion. On the assets side, Italian investors made massive net disposals of foreign securities (€53.8 billion), in particular bonds, confirming a trend towards the repatriation of capital under way since 2011 prompted both by financial market uncertainty and liquidity needs.

Foreign investors resume purchases of Italian securities in May

On the liabilities side, foreign investors changed course: between May and October non-residents made net purchases of Italian securities totalling €23.2 billion, following the net disposals made until April (€52.2 billion). Overall, in the first ten months of 2012 foreign investors made net disposals of Italian securities worth €28.9 billion; they reduced their exposure to medium- and long-term government bonds by €75.6 billion, confining net purchases to short-term government securities (€28.3 billion) and, to a lesser extent, shares and bonds issued by the private sector.

Foreign direct investment in Italy remains very modest

Foreign direct investment in Italy fell to €2.8 billion in the first ten months of 2012, from €21.8 billion in the same period in 2011. This reduction reflected that in corporate acquisitions by foreign investors and net outflows of intra-group loans. Outward FDI was more dynamic, but still down on 2011 (from €32.5 billion to €23.0 billion): investment in foreign companies' equity remained at the previous year's level, while loans by Italian parent companies to foreign subsidiaries slowed sharply, also owing to the utilization by several resident firms of liquidity generated abroad.

The balance-of-payments item "other investment", net of the change in the TARGET2 balance, recorded net outflows of €51.2 billion through October, concentrated in the first half of the year. These reflected both an increase in external assets, mainly attributable to the branches of foreign banks, and a reduction in liabilities determined by the difficulties Italian intermediaries experienced in raising funds on the international markets.

3.5 THE LABOUR MARKET

With the number of persons in work remaining basically unchanged, the expansion of the labour force continued to drive up the unemployment rate. Real earnings continued to decline, though more slowly than during the first half of 2012.

Employment is stable overall, with growth in services and contraction in industry ...

Employment remained practically unchanged in the third quarter of 2012 in relation both to the previous quarter (on a seasonally adjusted basis) and to the year-earlier period (a rise of scarcely 3,000 persons; Table 4). However, trends differed by geographical area and economic sector. By comparison with 2011, there was employment growth in the Centre and North but a contraction of 25,000 in the South; the increase of 230,000 in services, concentrated in trade and the hotel and restaurant sector, outweighed the loss of jobs in agriculture (38,000) and industry (189,000, including 107,000 in construction).

... and gains among women and older workers

The employment rate for the entire population of working age stabilized at 56.9 per cent (Table 4) after three quarters of decline. This was the result of an increase in the number of women in work and a decrease in that of men involving both Italian citizens and foreigners. Owing in part to the recent pension reform, which raised the age requirements, the only age group for which the employment rate increased was that of persons aged 55 to 64 (from 38.0 to 40.9 per cent).

Firms' demand for labour remains slack

The contraction in firms' demand for labour (a loss of 24,000 in payroll jobs in the third quarter of 2012 by comparison with the year-earlier quarter) almost entirely offset the gain of 27,000 in self-employment. In a cyclically depressed economy, firms continue to prefer temporary to permanent positions (which decreased by 107,000 or 0.7 per cent).

Table 4

Labour force status of the population in Italy (1)

	2011 Q3	2012 Q3	Change (2)
	Thousands of persons		
Total persons in work	**22,948**	**22,951**	**0.0**
Employees	**17,309**	**17,286**	**-0.1**
of which:			
fixed-term	*2,364*	*2,447*	*3.5*
part-time	*2,748*	*3,081*	*12.1*
Self-employed	**5,639**	**5,666**	**0.5**
Labour force	**24,848**	**25,432**	**2.4**
men	*14,670*	*14,847*	*1.2*
women	*10,178*	*10,585*	*4.0*
Population	**60,363**	**60,531**	**0.3**
	Per cent and percentage points		
Unemployment rate	**7.6**	**9.8**	**2.1**
men	*6.7*	*8.8*	*2.1*
women	*9.0*	*11.0*	*2.1*
North	*5.1*	*6.8*	*1.7*
Centre	*7.2*	*8.8*	*1.5*
South	*12.4*	*15.5*	*3.2*
Participation rate (age 15-64)	**61.7**	**63.1**	**1.5**
men	*72.8*	*73.6*	*0.8*
women	*50.6*	*52.7*	*2.1*
North	*68.7*	*70.0*	*1.3*
Centre	*65.7*	*66.8*	*1.1*
South	*50.4*	*52.2*	*1.8*
Employment rate (age 15-64)	**56.9**	**56.9**	**0.0**
men	*67.8*	*67.0*	*-0.8*
women	*46.1*	*46.9*	*0.8*
North	*65.1*	*65.1*	*0.0*
Centre	*60.9*	*60.9*	*0.0*
South	*44.1*	*44.0*	*-0.1*

Source: Istat, labour force survey.
(1) Not seasonally adjusted. – (2) 2012 Q3/2011 Q3; changes are in percentages for persons and percentage points for rates.

Hours worked fall, wage supplementation rises

The weak demand for payroll labour affected the number of hours worked, which declined by 1 per cent between the third quarter of 2011 and that of 2012; there was increased resort to part-time working, a reduction in overtime, and greater recourse to wage supplementation. In the third quarter of 2012 part-time positions accounted for 17.8 per cent of total payroll employment, nearly 2 percentage points more than a year earlier. In industrial and service firms with at least ten employees the incidence of overtime fell by 0.2 percentage points to 3.6 per cent of total working hours. The number of hours of wage supplementation authorized increased by 22.3 per cent. The latest data indicate that these trends continued in the fourth quarter. In industry excluding construction some 200 million hours of wage supplementation were authorized, equal to nearly 11 per cent of the sector's full-time equivalent workers (Figure 25).

The labour market outlook remains poor

The data available foreshadow a further contraction in the demand for labour over the next few months. The vacancy rate, already low, fell further in the third quarter, from 0.7 to 0.5 per cent of active employment positions, while the business surveys conducted in December by Istat and by the Bank of Italy in collaboration with *Il Sole 24 Ore* point to a further shedding of payroll jobs in the future.

The expansion of the labour supply, notably among young and older workers ...

Driven by the general rise in labour market participation (to 63.1 per cent of the working-age population in the third quarter from 61.7 per cent a year earlier), the labour force continued to grow, especially among the youngest and oldest age groups. Factors in the rise among persons aged 15-24 (from 26.6 per cent to 28.4 per cent) were declining school attendance and university enrolment rates and more intensive job search. Both the percentage of young people reporting inactivity for educational reasons and that of those saying they were not actively seeking work out of discouragement decreased. In the 55-64 age group the increase in the participation rate (from 39.3 to 42.9 per cent) was presumably due to the recent measures raising the age for pension eligibility; the increase was accompanied by a reduction of more than 360,000 in the number of respondents reporting that they were economically inactive due to retirement or age-related reasons.

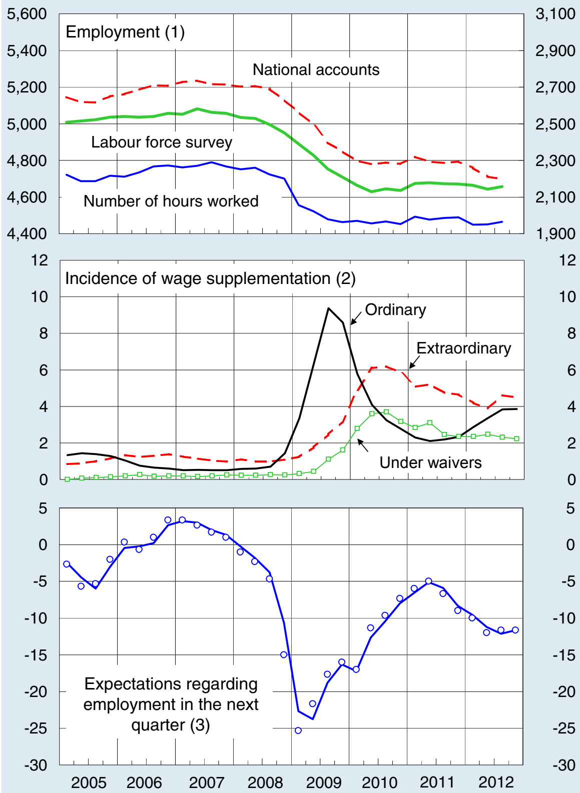
... fuels unemployment

The increase in the number of economically active persons in the course of the year was reflected almost entirely in an increase in unemployment. All age groups were affected, but the increase was again largest among young people. Based on non-seasonally adjusted data, the unemployment rate among persons aged 15-24 rose to 32.1 per cent in the third quarter of 2012 from 26.5 per cent a year earlier, outpacing the overall unemployment rate, which increased from 7.6 to 9.8 per cent (Table 4). On a seasonally adjusted basis the unemployment rate of the entire population rose to an average of 10.6 per cent in the third quarter and 11.1 per cent in November.

Figure 25

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 data from Istat (NACE 2007), *Clima di fiducia delle imprese*, labour force surveys, quarterly economic accounts, and INPS (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; for 2012 Q4, data partly estimated. – (3) Balance between percentages of manufacturing firms expecting to increase/decrease their workforce in the next 3 months. Single observations and 3-term moving averages, quarterly data.

The decline in real wages slows

The fall in real wages continued in the third quarter, but the pace of decline slowed. While there was a slight reduction in inflation (from an average of 3.6 per cent in the second quarter to 3.4 per cent in the third, as measured by the HICP), actual nominal earnings growth in the non-farm private sector accelerated from 1.2 to 2.5 per cent, coming practically back in line with contractual earnings (2.4 per cent). However, nominal wages in the public sector continued to fall (by 1.3 per cent), as the collective bargaining freeze remained in effect.

Industry-wide collective bargaining agreements were signed in the last few months of 2012 for the food-processing, chemical and pharmaceutical, and mechanical engineering and metalworking industries; they cover some 2.7 million workers, more than a quarter of private non-farm workers. Wage increases were broadly in line with the three-year forecast for Istat's collective bargaining reference benchmark (the HICP net of imported energy products). The chemical/pharmaceutical and metal workers' contracts also allow the increases to be postponed (by up to six months and up to one year, respectively) in response to firms' specific production necessities. Overall, according to our estimates, actual nominal earnings growth in the non-farm private sector will average just over 1.5 per cent per year in the next two years, in line with forecast inflation.

3.6 PRICE DEVELOPMENTS

Consumer price inflation came down in the closing months of 2012, as the effects of the indirect tax increases of the autumn of 2011 ceased and the pressure from oil prices eased. Producer prices also began to decelerate.

Inflation declines

In the fourth quarter of 2012 the twelve-month increase in the consumer price index (CPI) slowed to less than 3 per cent for the first time in more than a year, to stand at 2.3 per cent in December (Table 5). The attenuation was due to the brusque deceleration in energy prices (to a rise of 9.3 per cent in December from the peak of 15.9 per cent in September) and the end of the effects of the raising of the ordinary VAT rate in September 2011, which largely explains the reduction in core inflation. The CPI net of energy and food registered a twelve-month rise of slightly less than 1.5 per cent in the fourth quarter, about half a point less than in the first nine months of the year.

The gap with the euro-area average narrows

The harmonized index of consumer prices (HICP) rose by 3.3 per cent year-on-year in 2012, compared with 2.9 per cent in 2011. The differential with respect to the euro area came to 0.8 percentage points for the year but narrowed sharply to 0.3 points in the fourth quarter.

After the summer months, the subsidence of oil price pressures resulted in a decline in producer price inflation to 2.2 per cent in November. Net of food and energy, the twelve-month rise in the PPI was very moderate, below 1 per cent.

Price dynamics should ease further in 2013

In a context of moderating input costs and weak demand, the professional forecasters surveyed by Consensus Economics have revised their inflation expectations for 2013 in Italy downwards to 2.0 per cent, practically in line with those for the euro area as a whole. The businesses surveyed in December by the Bank of Italy together with *Il Sole 24 Ore* indicated that

Table 5

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

	HICP (1)		Overall index at constant taxation (4)	IPC (2)			IPP (3)
	Overall index	Excl. energy and food		Overall index	at 1 month (5)	Excl. energy and food	Overall index
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	3.3	2.0	....	3.0	_	1.7	....
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	0.3	2.0	3.0
Sept.	3.4	1.8	2.5	3.2	0.3	1.6	2.8
Oct.	2.8	1.4	2.3	2.6	-0.1	1.3	2.6
Nov.	2.6	1.4	2.2	2.5	0.1	1.3	2.2
Dec.	2.6	1.6	....	2.3	0.1	1.5	....

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.

list prices would be trimmed over the next twelve months, owing notably to the persistent contraction of consumer spending.

3.7 BANKS

The conditions for Italian banks' wholesale funding, while not yet back to normal, have improved somewhat, benefiting from the easing of the tensions in the sovereign debt markets. Residents' deposits have continued to expand strongly. The poor state of the economy is reflected in weak demand for credit on the part of firms and households and in supply-side strains in connection with deteriorating loan quality and banks' risk perceptions. The gap between the cost of credit in Italy and the euro-area average remains substantial.

Retail funding is still solid …

Between the end of August and the end of November the stock of residents' deposits with Italian banks increased by about €9 billion and its twelve-month growth rate rose from 4.2 to 6.8 per cent (Table 6). The acceleration reflected the growth in deposits of non-financial corporations and households.

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	2012		2012	
	August	November	August	November
Assets				
Loans to Italian residents (4)	1,932,900	1,930,104	0.0	-1.2
of which: to firms (5)	*875,944*	*873,949*	*-1.9*	*-3.4*
to households (6)	*610,259*	*611,178*	*0.4*	*-0.3*
Debt securities (7)	473,787	500,669	31.0	28.5
of which: securities of Italian general government entities	*330,624*	*358,320*	*45.0*	*48.2*
Claims on the Eurosystem (8)	30,186	35,439	113.4	12.3
External assets (9)	359,489	350,874	3.8	-1.5
Other assets (10)	1,432,508	1,429,521	24.3	16.0
Total assets	**4,228,870**	**4,246,607**	**11.1**	**7.1**
Liabilities				
Deposits of Italian residents (4) (11) (12)	1,183,201	1,192,529	4.2	6.8
Deposits of non-residents (9)	364,791	354,620	-16.9	-15.5
Other forms of secured interbank funding (13)	71,590	56,300	-12.3	-14.9
Bonds (12)	584,518	579,945	-6.4	-6.7
Liabilities towards the Eurosystem (14)	283,767	276,012	220.1	75.0
Capital and reserves	371,906	371,149	-0.7	-1.3
Other liabilities (15)	1,369,097	1,416,052	28.3	17.4
Total liabilities	**4,228,870**	**4,246,607**	**11.1**	**7.1**

Source: Supervisory reports.
(1) The figures for November 2012 are provisional. – (2) Millions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate variations. 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 uncancelled securitized loans. – (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).

... and wholesale funding conditions improve but remain tense

With the attenuation of the sovereign debt strains, Italian banks' conditions of access to wholesale funding markets have begun to stabilize. Some banks have made positive net issues. However, overall external funding remains negative. Between the end of August and the end of November liability-side net repos with central counterparties, which represent interbank transactions with foreign banks, were reduced by some €15 billion, while the deposits of non-residents shrank by €10 billion. In the fourth quarter, as in the third, Italian banks' recourse to ECB liquidity through refinancing operations was very modest.

The cost of the stabler forms of funding is unchanged

The average interest rate on the current accounts of firms and households – the main component of retail funding – was 0.5 per cent in November, the same as in August. The yield to households on new deposits with agreed maturity up to one year, which is highly sensitive to tensions in the wholesale funding market, declined by one tenth of a percentage point to 2.7 per cent. The yields on new bond issues fell by around a percentage point for both fixed-rate and variable-rate securities (to 3.3 per cent and 3.1 per cent respectively).

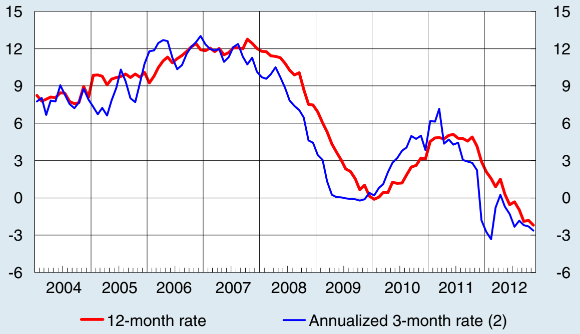
Lending to firms and households continues to contract

Bank lending to the non-financial private sector has slackened further. In the three months to November loans diminished by 2.6 per cent on a seasonally adjusted annual basis, adjusted for the accounting effects of securitizations (Figure 26). The contraction mainly involved loans to firms, which fell by 4.0 per cent, while those to households decreased by 0.8 per cent.

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 conditions are still restrictive

The trend in credit reflects the continuing, albeit attenuated, contraction of demand from firms and households in connection with the poor outlook for the economy and the worsening of the real-estate market, as well as supply conditions that are still restrictive. Qualitative information drawn from Italian banks' responses to the quarterly bank lending survey in October indicate that the terms of lending to firms were tightened slightly in the third quarter, reflecting increasing perceptions of risk in connection with the deterioration in the outlook for economic activity in general and in particular sectors (see the box "Credit supply and demand in Italy"). More recent business surveys reveal that the difficulty of access to credit has remained considerable, less pronounced than when the strains were most acute but still greater than before the crisis.

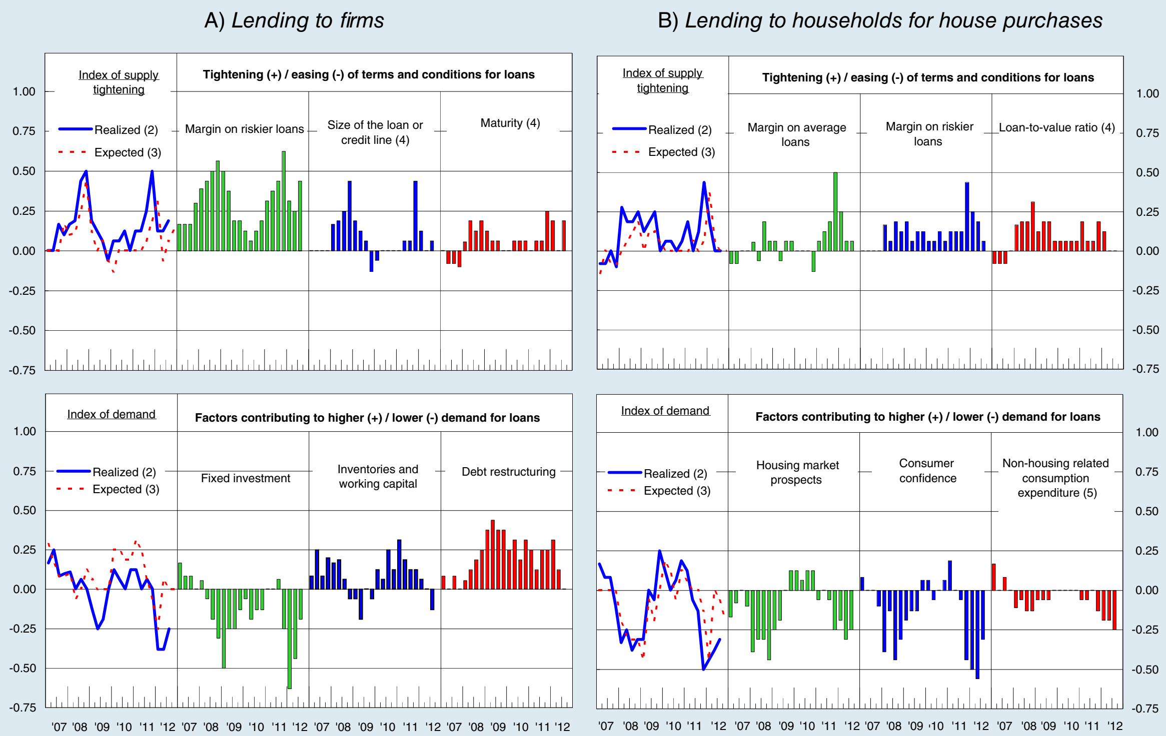
CREDIT SUPPLY AND DEMAND IN ITALY

According to the responses given by the Italian banks participating in the quarterly euro-area bank lending survey, in the third quarter of 2012 the degree of tightening of credit standards for loans to businesses increased slightly while remaining below the peak recorded at the end of 2011 (Figure A).[1]

[1] Eight leading Italian banking groups took part in the survey, which was completed on 9 October; 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 fourth quarter of 2012 and expectations for the first quarter of 2013 are not yet available and will be published on 30 January.

Figure A

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



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.

The worsening can be attributed to the increased perception of risk in connection with the outlook for economic activity in general and for specific sectors or firms. By contrast, the restrictive effects of factors connected with banks' balance sheet conditions and their fundraising capabilities eased further. The tightening of lending criteria was seen mainly in the less favourable price conditions for the riskiest loans and shorter repayment periods.

In their assessments, banks reported that the weakness of demand for loans by firms showed signs of attenuation, benefiting from a less negative trend in loan applications for fixed investments, even if the contribution of the other factors was modest overall.

While less negative than those observed at the end of 2011, the indications taken from the latest business surveys show a slight worsening of credit access conditions: the net percentage of firms reporting a tightening increased slightly in December (Figure B) both according to the quarterly Bank of Italy-*Il Sole 24 Ore* survey (to 27.3 per cent from 24.3 per cent in September) and according to Istat's monthly survey (to 30.1 per cent from 27.3 per cent in November).

Regarding loans to households, the bank lending survey indicates that lending criteria again remained unchanged in the third quarter, despite the banks' continuing to report, among the factors underlying supply policies, a still slightly restrictive contribution of expectations regarding the economy in general and, for mortgage loans, the outlook for the residential property market. Residual pressures were recorded on the margins applied by the banks to average loans and to the riskier ones.

While showing some signs of recovery, according to the banks surveyed, households' demand for credit was still weak, continuing to reflect low consumer confidence, poor prospects for the residential property market and the protracted weakening of spending on consumer goods.

Figure B

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

(1) For the Bank of Italy–Il Sole 24 Ore survey and for the Istat 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, over a sample of firms belonging to industry and services, and to manufacturing, respectively. For the bank lending survey, see Figure A.

The decline in the cost of credit halts for firms ...

The reduction in the cost of credit to firms recorded in the first half of the year ceased in the third quarter. Between the end of August and the end of November the average cost of new loans to firms rose slightly to 3.6 per cent (Figure 27). The rise mainly involved the rates charged on loans larger than €1 million. The banks' responses to the quarterly bank lending survey suggest that the increase was connected with the worsening of loan quality and with deepening worries over borrower risk. The differential between the average cost of credit to Italian and to German firms was 1.4 percentage points in November.

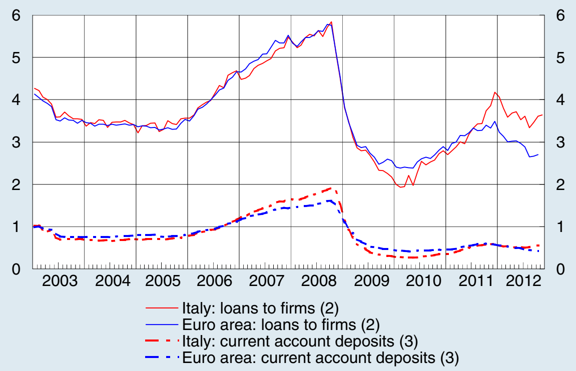
... while proceeding slowly for households

However, the cost of credit to households continued to ease. The rate on new variable-rate loans, which account for over two thirds of total disbursements, declined by 0.2 points to 3.5 per cent. The rate on fixed-rate loans remained unchanged at 4.8 per cent. Despite the attenuation of financial market strains, the diminution of interest rates has been impeded by banks' perceptions of high credit risk. The differential with respect to the corresponding German rate was one percentage point in both cases.

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.

Bank lending is weighed down by a deterioration in loan quality in connection with the cyclical slump

The flow of new bad debts rose to 2.2 per cent of outstanding loans in the third quarter, on a seasonally adjusted annual basis. The default rate for households remained relatively low at 1.4 per cent, the same as at the end of 2011, while for firms it reached 3.3 per cent and is expected to peak in mid-2013 before subsiding (See *Financial Stability Report*, No. 4, November 2012). Preliminary data suggest that in October and November the banks' total exposure to debtors newly reported in default increased still further. The share of lending to firms in temporary difficulty (substandard and restructured exposures) rose from 7.3 per cent of total lending to businesses in July to 7.9 per cent in October.

The operating profitability of the five major banking groups improves slightly

According to their consolidated quarterly reports, in the first nine months of 2012 the profitability of the five largest banking groups picked up slightly. Excluding extraordinary items connected with goodwill impairments, ROE rose by about 1 percentage point on an annual basis compared with the same period of 2011, to 3.3 per cent. Gross income grew by 1.6 per cent, as the decline in net interest and net fee income was more than offset by increased revenue from trading, earned mainly in the first quarter. Operating profit rose by 7.7 per cent, thanks in part to lower operating costs. The deterioration in loan quality continues to weigh on profit-and-loss accounts. Value adjustments to loan assets increased by 26 per cent.

Capital is strengthened further

The capital strengthening of Italian banks continued in the third quarter. At the end of September the core tier 1 ratio of the five largest groups reached an average of 10.8 per cent. Their tier 1 and total capital ratios rose to 11.5 and 14.3 per cent respectively. 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 as against 27).

3.8 THE FINANCIAL MARKETS

Tensions subsided further in the financial markets, continuing the phase that began last summer following the announcement of the ECB's new modalities of intervention on the government securities market. The progress made by the European Union on financial assistance to Greece and the agreement reached in the United States to avoid the fiscal cliff expected at the start of 2013 influenced these developments.

The spreads on Italian government securities continue to diminish ...

Between the end of September and the middle of January the yield spread between ten-year BTPs and German Bunds declined from 365 to 271 basis points (Figure 9); significant reductions were also recorded on shorter maturities. The main factors in this were the effects of the introduction of Outright Monetary Transactions by the ECB and the new decisions taken at European level regarding aid to Greece; the sharp decline in January also reflected the fiscal-cliff accord in the United States.

... as do the premiums on Italian corporate and bank bonds

The easing of the tensions on sovereign securities had a positive impact on the markets in private bonds. From the end of September the yield spreads between the bonds of Italian non-financial corporations and what are considered the safest euro-area government securities diminished by 77 basis points; by comparison, the improvement was larger for Spanish firms (143 basis points), smaller for French and German ones (29 and 14 basis points respectively). The average CDS spreads for the largest Italian banks came down by a significant 147 basis points, to 323 basis points, still well above the average CDS spreads for the main German and French banks (108 and 158 basis points respectively).

Banks return to the bond market, also with unsecured issues

In the third quarter net bond issues by Italian banks turned positive, amounting to €8 billion (Table 7). Italian non-financial corporations made sizeable net issues (€6 billion), taking advantage of investors' reawakened interest. According to preliminary Dealogic data on gross issues, overall placements by Italian banks fell in the fourth quarter compared with the third (from €16 billion to €10 billion), but issues of uncollateralized securities resumed and totalled €8 billion, all ascribable to the four largest banking groups.

Share prices rise ... The general index of the Italian stock exchange gained 13 per cent from the end of September, compared with an overall rise of 9 per cent for euro-area stock prices (Figure 28). The improvement in Italy was driven mainly by the decline in risk premiums, which more than made up for the negative effects of the reduction in listed companies' expected earnings. The expected volatility of share prices, inferred from the prices of stock index options, continued to diminish. The ratio of current earnings to share prices rose by 1 percentage point (Figure 29), remaining above its long-term average.

... in most sectors The rise in share prices involved all sectors except telecommunications and basic materials (down by 5 and 4 per cent respectively). The largest gains were recorded by bank and insurance shares (up by 29 and 22 per cent).

No initial public offering was made on the Italian stock exchange in the fourth quarter. At the end of December the 282 Italian companies listed on Borsa Italiana had a total market value of €365 billion (equal to about 23 per cent of GDP).

Investment funds in Italy return to a net inflow of resources After nearly two years of net outflows, the third quarter of 2012 saw open-end investment funds (Italian

Table 7

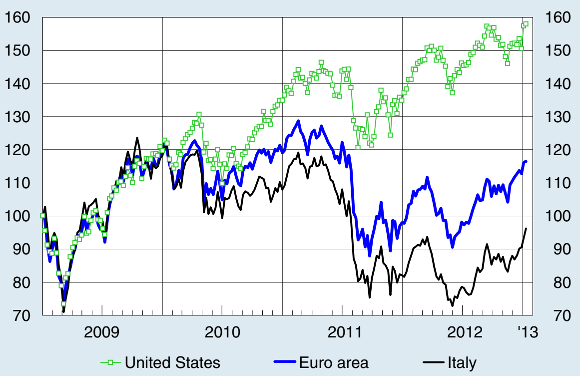
Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2010	-11,800	-36,458	12,365	-35,893
2011	66,330	-4,332	-120	61,878
2011 – Q1	25,567	-10,893	437	15,111
Q2	12,002	-11,967	-2,102	-2,067
Q3	15,663	-5,356	-420	9,888
Q4	13,098	23,884	1,964	38,946
2012 – Q1	84,907	-7,960	4,514	81,461
Q2	-7,847	-8,987	-1,443	-18,277
Q3	8,491	6,302	6,034	20,827
		Euro area		
2010	21,513	26,093	63,583	111,189
2011	143,547	-27,647	33,360	149,260
2011 – Q1	82,127	-52,918	7,238	36,447
Q2	50,636	-19,019	7,011	38,628
Q3	8,668	-20,489	2,572	-9,249
Q4	2,116	64,779	16,539	83,434
2012 – Q1	105,063	21,025	31,445	157,533
Q2	-22,922	-15,829	17,030	-21,721
Q3	-5,559	-50,447	39,859	-16,147

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

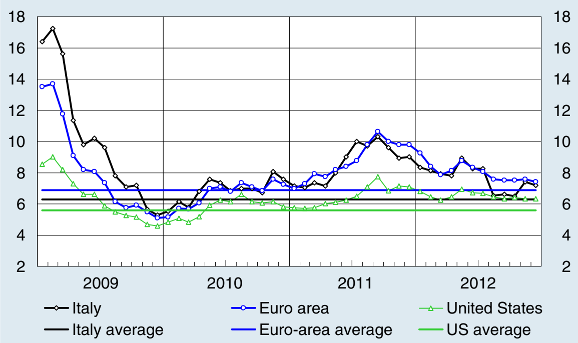
Share prices (1)
(end-of-week data; indices, 2 January 2009=100)



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.

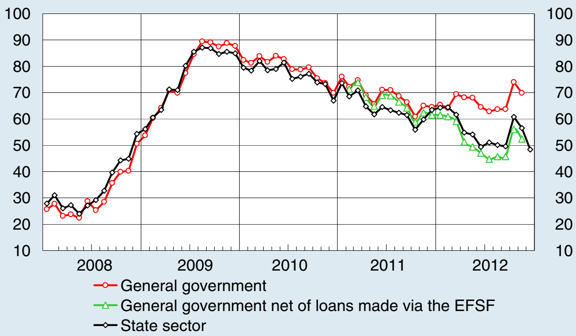
and foreign) placed in Italy record a net inflow of resources totalling €3 billion. Money market, equity and balanced funds continued to make net redemptions, while bond and flexible funds enjoyed substantial net subscriptions.

3.9 THE PUBLIC FINANCES

The state sector borrowing requirement diminished again in 2012. On the basis of the available data, general government net borrowing can be estimated to have been near the threshold of 3 per cent of GDP, down from 3.9 per cent in 2011. The ratio of debt to GDP rose by an estimated 6 percentage points; a third of this increase stemmed from Italy's financial support to euro-area countries in difficulty and its contribution to the capital of the European Stability Mechanism (ESM). In December Parliament passed the Stability Law for 2013 with some significant amendments to the Government's original bill. According to official estimates, the measure will increase net borrowing very slightly this year and have practically no effect in the next two years.

Figure 30

Rolling 12-month borrowing requirement (1)
(billions of euros)



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

The state sector borrowing requirement falls sharply in 2012

The state sector borrowing requirement net of privatization receipts came to €48.5 billion last year, or 3.1 per cent of GDP (Figure 30). This was €15.3 billion less than in 2011 but €3 billion more than projected by the Government in the September update to the 2012 Economic and Financial Document.

The general government borrowing requirement is projected at around 3 per cent of GDP

Through November the general government borrowing requirement – net not only of privatization receipts but also of Italy's quota of European Financial Stability Facility loans to euro-area countries in difficulty (€17.1 billion, included in the general government but not the state sector accounts) – was €1.3 billion less than that of the state sector. Assuming that this difference remained unchanged in December as well, the general government borrowing requirement for the year, net of privatization receipts and EFSF loans, would amount to about 3 per cent of GDP, compared with 3.9 per cent in 2011.

The data available – largely incomplete, to be sure – suggest that the results for net borrowing will be analogous. For 2012 as a whole the main factors other than EFSF loans that affected the borrowing requirement but not net borrowing were presumably more or less mutually offsetting in their effects. Specifically, the borrowing requirement was reduced by payments into the state treasury by other general government entities pursuant to the new rules governing the single Treasury account (about €10 billion); on the other hand the requirement was increased by the subscription of ESM capital quotas (€5.7 billion), a one-off interest payment upon the closure of several derivatives contracts at the decision of the counterparty (€2.7 billion), and the deferral from December 2011 to January 2012 of the payment of interest due to Cassa Depositi e Prestiti (CDP) of about €2 billion.

At the end of November general government debt amounted to €2,020 billion, an increase of €113.9 billion from the end of 2011 (€23 billion of it owing to aid to euro-area countries in difficulty and the underwriting of ESM capital). Apart from the borrowing requirement, the expansion of the debt reflects the Treasury's accumulation of liquid assets (€34.9 billion). By the end of the year the debt is estimated to have fallen below €1,990 billion thanks to the Treasury's substantial drawdown of liquidity (which amounted to about €34 billion by the end of the year, or €10 billion more than in 2011) and to the large surplus recorded in December. The debt figure for 2012 was reduced by the proceeds from the sale to CDP of the Treasury's holdings in SACE, Simest and Fintecna for a total of nearly €8 billion. CDP will make an additional payment of about €1 billion in 2013.

According to Istat estimates, in the first nine months of the year general government net borrowing amounted to 3.7 per cent of GDP, compared with 4.2 per cent in the same period of 2011 (Table 8). The primary surplus rose from 0.5 to 1.6 per cent of GDP. Non-interest expenditure remained practically unchanged, while revenue increased from 43.2 to 44.8 per cent of GDP, sustained by municipal property tax receipts. Interest outlays rose to 5.3 per cent of GDP from 4.5 per cent in the first three quarters of 2011.

Table 8

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

	January-September			
	2011	2012	Percentage changes on corresponding period of previous year	
			2011	2012
TOTAL EXPENDITURE	**553,512**	**561,007**	**0.9**	**1.4**
Current expenditure, net of interest payments	465,183	468,992	0.2	0.8
of which: Compensation of employees	*117,413*	*115,718*	*-1.3*	*-1.4*
Intermediate consumption	*65,103*	*66,123*	*0.4*	*1.6*
Social benefits in cash	*213,814*	*219,007*	*2.4*	*2.4*
Interest payments	54,254	60,837	8.7	12.1
Capital expenditure	34,075	31,178	-0.9	-8.5
of which: Gross fixed investment	*21,423*	*20,454*	*-5.3*	*-4.5*
TOTAL REVENUE	**504,725**	**518,335**	**1.4**	**2.7**
Current revenue	500,362	515,430	1.8	3.0
of which: Direct taxes	*148,570*	*152,711*	*1.1*	*2.8*
Indirect taxes	*163,990*	*174,945*	*2.3*	*6.7*
Social security contributions	*149,496*	*148,749*	*1.8*	*-0.5*
Capital revenue	4,363	2,905	-26.6	-33.4
of which: Capital taxes	*2,852*	*1,166*	*-10.8*	*-59.1*
NET BORROWING	**-48,787**	**-42,672**		
Primary balance	**5,467**	**18,165**		
Memorandum item:				
GDP	1,168,788	1,155,949	2.1	-1.1

Source: Istat, General government quarterly consolidated accounts.

In December Parliament passes the 2013 Stability Law ...

The Stability Law for 2013 was approved on 21 December. According to official estimates the effect on net borrowing will be broadly in line with the projected impact of the original bill presented by the Government in October (see "Audizione preliminare all'esame della Legge di stabilità 2013", testimony of Deputy Director General Salvatore Rossi before the Fifth Committees of the Senate and the Chamber of Deputies, 23 October 2012). The law will increase net borrowing slightly in 2013 and have practically no impact over the following two years. Nevertheless, there were several significant changes with respect to the original bill: (a) the lowering of some personal income tax rates was eliminated; (b) the limits placed on some tax deductions and credits were removed; and (c) the 10 per cent VAT rate was maintained, whereas the original bill would have raised it by one point in July 2013. Moreover, some tax reliefs were introduced: IRAP relief for firms that hire new permanent employees and for small businesses, as well as increased income tax deductions for dependent children. Finally, resources were allocated to some funds financing social welfare measures.

... and the law implementing the constitutional principle of the balanced budget

Also in December, Parliament passed the law implementing the amendments enshrining the balanced-budget principle in the Constitution (Constitutional Law 1/2012 of 20 April). The new norms require general government to achieve structural budget balance and to ensure that trends in the debt/GDP ratio and in public spending are in keeping with European rules. It is further established that deviations from the objective of structural balance can be authorized by Parliament, at the Government's request, only in the case of exceptional events, and that they must be accompanied by a plan for re-entry. In the absence of exceptional circumstances, the Government must specify measures such as to bring the structural balance back into line with the objective in the year following that in which the deviation is ascertained. Local authorities must have a non-negative budget balance on both cash and accrual basis. Finally, the law spells out the characteristics of an independent body under Parliament to monitor and analyse public finance developments and assess compliance with the budget rules (see "Indagine conoscitiva nell'ambito dell'esame della proposta di legge C.5603 per l'attuazione del principio del pareggio di bilancio", testimony of Daniele Franco before the Chamber of Deputies, 5 December 2012).

3.10 PROJECTIONS

The growth projections for Italy reflect the global economic slowdown ...

Compared with those published in July, the growth projections presented in this *Economic Bulletin* are based on a downward revision of the expansion in world trade, in line with the estimates of the leading professional forecasters (see the box "Technical assumptions and the international context"). The lowered expectations for world trade reflect the adjustment process under way in the euro area, the uncertainty that surrounded US fiscal policy until December – and which has still not been dispelled entirely – and the sharper than forecast slowdown in the emerging countries. Analysts are agreed, however, that world economic growth will gain strength in 2014.

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL CONTEXT

Our macroeconomic scenario is based on growth assumptions for world GDP and world trade in line with those underlying the projections for the euro area presented by the ECB in the December issue of its *Monthly Bulletin,* updated to take account of the latest cyclical developments. The estimates for the growth in world trade have been revised down for 2012 and for the current year with respect to those given in last July's *Economic Bulletin*; in the two years 2013-14 foreign demand is expected to expand by just over 5 per cent. In the emerging economies the pick-up in activity should be more robust than in the advanced economies, where the adjustment of financial imbalances is likely to brake GDP growth. These forecasts do not differ significantly from those made last autumn by the main international organizations (the OECD, the International Monetary Fund and the European Commission). The assumptions for exchange rates, interest rates and oil prices are updated on the basis of market data recorded in the ten working days up to 11 January. On the basis of futures contracts, the price of a barrel of Brent crude oil is assumed to decline slightly over the forecasting horizon to $107.5 this year and $102.2 in 2014. Three-month interest rates, calculated on the basis of Euribor futures, are expected to fall to an average of 0.2 per cent in 2013 and stay at roughly that level in 2014; the interest rate on twelve-month Italian Treasury bills is expected to be below 1.5 per cent on average over the two years. Long-term interest rates (corresponding to the yield on a basket of government securities with a duration of about six years) are expected to fall to about 4 per cent in 2013 and then rise to nearly 5 per cent in 2014. On the currency markets, the assumption is that the bilateral exchange rates will remain unchanged at the average levels recorded in the last two weeks, with a dollar-euro exchange rate of $1.31 over the entire forecasting horizon. Projections for Italy's public finances take account of the measures approved with the recent Stability Law.

... but they are sustained by the gradual improvement in financial market conditions

A positive contribution to the prospects for economic growth in Italy comes from the more favourable conditions regarding the yields on Italian government securities. Their reduction reflects the ECB's announcement of Outright Monetary Transactions, the progress made at European level in managing the sovereign debt crises and the Greek situation, as well as the credibility of national adjustment programmes. The yield on ten-year BTPs has fallen from around 600 basis points in July to below 450 points. The hypothesis adopted in this scenario is that these improvements will be consolidated and gradually spread to the credit market, which is expected to return slowly to normality during the course of this year.

2012 is expected to close in line with the July forecasts

According to our estimates, GDP contracted by 2.1 per cent on average last year, which is generally in line with the forecasts set out in the July *Economic Bulletin* (Table 9). GDP is projected to contract by 1.0 per cent on average this year and to resume growth in 2014 (0.7 per cent). The estimate for 2013 has been revised downwards by 0.8 percentage points with respect to the scenario presented in July, mainly to reflect the deterioration in the international economic situation as well as the effects of uncertainty and persistently tight credit conditions (for an analysis of the causes of the deterioration in the economic situation since the onset of the sovereign debt crisis see the box "The sovereign debt crisis and the revisions of the growth projections"). In this scenario, at the end of the forecasting period output will still be almost 7 per cent below the 2007 peak.

Table 9

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

	2012	2013	2014
GDP (1)	-2.1	-1.0	0.7
Household consumption	-4.1	-1.9	0.2
Government consumption	-1.0	-1.8	-0.4
Gross fixed investment	-8.9	-2.3	2.5
Total exports	1.8	2.2	4.7
Total imports	-8.1	-0.3	4.3
Change in stocks (2)	-0.5	0.1	0.0
HICP (3)	3.3	1.8	1.7
Export competitiveness (4)	4.0	-1.2	-0.2

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

THE SOVEREIGN DEBT CRISIS AND THE REVISIONS OF THE GROWTH PROJECTIONS

Over the last year and a half, as the sovereign debt tensions spread to Italy, several factors have contributed to the revision of the macroeconomic framework for the two years 2012-13.[1]

The table compares the projections contained in this issue of the Bulletin (row G of the Table) with those made in July 2011 (row O),[2] which can be taken as the baseline scenario in the absence of the sovereign debt crisis. In this scenario GDP was projected to grow by more than 1 per cent in each of the two years; the figures reported in this Bulletin are lower, by more than 3 percentage points for 2012 and more than 2 points for 2013. On the basis of the relationships incorporated in the Bank of Italy's econometric model, it is possible to identify five factors underlying these divergences: (a) higher financing costs for the private sector following the increase in the spreads on government securities; (b) the greater difficulty encountered by firms in obtaining credit; (c) the direct effects of the budgetary

Projections of GDP growth in 2012 and 2013: determinants of the revisions with respect to July 2011
(per cent)

	2012	2013
O. Projections made in July 2011	**1.1**	**1.3**
A. Sovereign interest rates and spreads	-0.4	0.2
B. Firms' difficulty in obtaining credit	-0.6	-0.2
C. Budgetary measures	-1.0	-1.1
D. Slowdown of the world economy	-0.6	-0.9
E. Uncertainty and confidence of households and firms	-0.5	-0.2
F. Residual component	-0.1	-0.1
G. Current projections (G=O+A+B+C+D+E+F)	**-2.1**	**-1.0**

[1] A first assessment referring only to 2012 was contained in the box "Revision of the growth projections with respect to the pre-crisis estimates: the main determinants" in *Economic Bulletin*, July 2012.

[2] The latter, in line with the assessments made by the main private analysts in the same period, coincide for 2012 with those published in *Economic Bulletin*, July 2011. For 2013 they are obtained on the basis of the same exogenous framework as was assumed in that Bulletin: the increase in world trade is taken to be the same as was assumed for 2012; the exchange rate, interest rates and the oil price are in line with their averages in June 2011; and the public finances reflect the measures approved up until the middle of July 2011.

measures to consolidate the public finances; (d) the slowdown in world trade; and (e) the impact on domestic demand of the increase in uncertainty and the related fall in confidence.

The deterioration in the 2012 macroeconomic framework was largely due to the increase in the cost of credit and its reduced availability as a consequence of the worsening of the sovereign debt crisis: if the yield spread between Italian and German government securities, bank interest rates and the conditions for firms to obtain credit had remained for the whole period at the favourable levels of July 2011, the growth in GDP would have been 1 percentage point higher (rows A and B of the table). There is also confirmation that the measures to consolidate the public finances adopted in the second half of 2011 with the aim of preventing an uncontrolled deterioration in the conditions on the financial markets had an adverse effect on demand equivalent to 1 percentage point of annual GDP growth (row C). The slowdown of the world economy and world trade lowered growth by 0.6 percentage points (row D); a further decrease of about half a percentage point was caused by the increase in uncertainty and the decrease in the confidence of households and firms, which depressed consumption and investment (row E).

For 2013 about 1 percentage point of the reduction in growth can be attributed to the slowdown of the world economy and the weakening of export demand; an equivalent reduction can be attributed to the budgetary measures adopted. The adverse effects of financial conditions and uncertainty are less pronounced: together with a reduction in the difficulty of obtaining credit, in 2013 the negative effect of interest rates will also disappear thanks to the narrowing of sovereign spreads. One of the factors contributing to the decrease in uncertainty is the stabilization in recent months, albeit at a low level, of the indices of firms' confidence.

The estimated impact of the budgetary measures on economic activity implies, ex post, a fiscal multiplier (defined as the cumulative effect on the level of GDP of a permanent increase in the budget surplus of 1 percentage point of GDP), of about 0.3 in the first year and 0.5 in the second. The value of the multiplier is not a fixed parameter in econometric models; its size as observed ex post depends on various factors, such as the historical elasticities of the macroeconomic aggregates with respect to various items of the public accounts, the composition of the budgetary measures, the phase of the economic cycle, and the liquidity constraints to which the private sector is subject. It has recently been argued[3] that in many advanced countries the decidedly weak economic conditions in which consolidation was implemented may have caused budgetary measures to have a greater effect on growth than on average in the past. However, the values close to zero of the residual component (row F of the table) appear to suggest that the fiscal multiplier in Italy is unlikely to deviate widely from the values mentioned, even though it is not possible to exclude the possibility that part of the effect of uncertainty reflects the budgetary consolidation measures. Furthermore, it must be remembered that budgetary adjustment created the conditions for the gradual return of the financial markets to normal from the peak level of tensions at the end of 2011. In a hypothetical counterfactual scenario the negative effect of interest rates and lending conditions would have been much greater.

[3] IMF, *World Economic Outlook*, October 2012.

The recession could come to an end in the second half of 2013

Economic activity continues to be braked by weak domestic demand; however, assuming a gradual increase in foreign orders and an easing of financial constraints, the recession should come to an end in the second half of this year (Figure 31). The turning point could be heralded by the return of investment to growth after seven consecutive quarters of contraction. This projection is consistent with the information coming from the leading indicators, which signal a gradually improving outlook despite the generally high degree of uncertainty (see the box "Estimating the probability of a cyclical upturn").

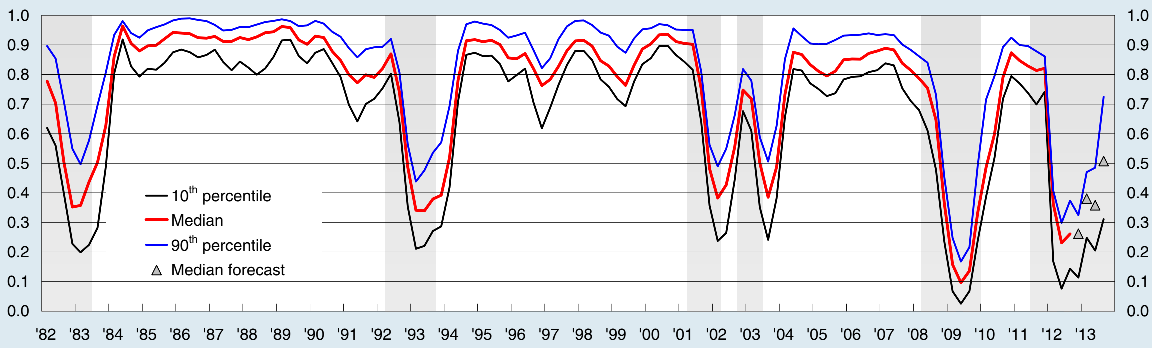
ESTIMATING THE PROBABILITY OF A CYCLICAL UPTURN

Predicting a turning point in economic activity (which we define here as the transition from an economic contraction lasting at least two quarters to an expansion of equal or greater duration) is typically subject to great uncertainty. In the present situation, characterized by a world economic slowdown but also by the mitigation of financial tensions, prediction is even harder. Our analyses put the probability of a return to growth in the second half of this year at about 50 per cent.

The figure shows the estimate of the probability of an upturn using a probit model, in which the data available in each quarter are used to evaluate the probability of being in an expansive phase two quarters later.[1] The probability of a cyclical inversion depends on a broad set of data, including financial variables, qualitative and confidence indicators, quantitative demand and supply indicators (industrial production, orders, turnover, retail sales, new car registrations), exchange rates, and indices of competitiveness. The chart summarizes the estimation of 40 versions of the model, each one selecting a different indicator according to its ability to anticipate the dynamics of economic activity two quarters in advance (the data range from the first quarter of 1982 to the third quarter of 2012).[2]

The shaded areas in the figure correspond to recessions. The chart plots the median, the 10th and the 90th percentiles of the empirical distribution of these 40 estimates in the sample period. At the end of the sample period, the triangles indicate the probability of a recovery in activity in the last quarter of 2012, the first quarter of 2013 and the two following ones. This likelihood is fairly low at the end of 2012 and increases gradually thereafter (in line with the assessments of businesses; see the box "The outlook for investment in Italy in the Survey on Inflation and Growth Expectations"). In terms of the median, for the third quarter of this year the probability of exit from the recession is estimated at around 50 per cent.[3] The main factor underlying the increased probability of a recovery in economic activity in the latter part of the year is the observed improvement in financial conditions and qualitative surveys in the last few months. On the whole these results are consistent with the macroeconomic scenario depicted in this Bulletin, according to which the current recession could become less severe in the course of the next few quarters and terminate in the second half of 2013. However, the results also point to the persistence of great uncertainty.

Estimate of the probability of a cyclical upturn



[1] The model is of the type $Prob\ (I_{t+2}=1|x_t, z_{it}\, I_t) = \Phi\ (\beta_0 + \beta_1 I_t + \beta_2 x_t + \beta_3 z_{it})$, where I_t is a binary indicator of the cyclical phase (equal to 0 in recessions, 1 in expansions), x_t is the rate of change in GDP in the current quarter, z_{it} is the contemporary value of a leading indicator of economic activity, and $\Phi(.)$ is the gaussian distribution function.

[2] We consider indicators whose correlation with GDP growth rates two quarters on is higher than 0.35.

[3] The last observation is obtained using a model calibrated to anticipate turning points by three quarters.

Economic activity will be sustained by the gradual recovery in investment ...

Total investment, which is forecast to decline on average in 2013, will resume growth in the final part of the year, however, and accelerate in 2014 in response to the recovery of investment in machinery and equipment, which will benefit from the improved outlook for demand and the easing of credit supply (Figure 32). Given the protracted weakness of the housing market and a further, slight, decline in house prices, construction investment will not turn back upwards until 2014.

... though not yet in consumption

Households' spending will again be dampened by the weak performance of disposable income, affected by the measures to consolidate the public finances introduced in the second half of 2011. Consumption is expected to contract further this year (by almost 2 per cent) before stabilizing in 2014. Given the deterioration in employment prospects and the uncertainty about the timing and intensity of the cyclical recovery, households' spending decisions are expected to remain cautious: after falling significantly in recent years, the private sector saving rate will return to growth in 2014.

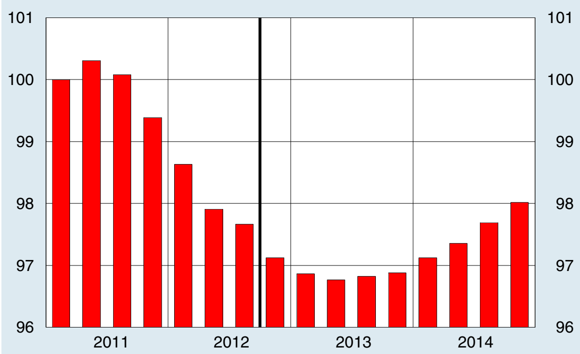
The labour market will not stabilize until 2014

The gradual recovery of productive activity should help the labour market to stabilize next year, although it will not yet produce a reversal of trend, partly because of the usual lag in the transmission of the economic cycle to labour demand. It is estimated that employment will fall this year by about 1 per cent on average and stagnate in 2014. The unemployment rate will rise, partly owing an increase in the number of job seekers, reaching 12 per cent in 2014.

Figure 31

GDP projections: quarterly profile (1)

(levels, Q1 2011=100)

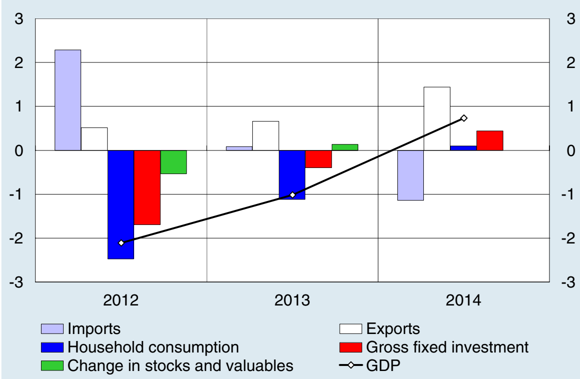


Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. Through Q3 2012, historical data; for subsequent quarters, projections.

Figure 32

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

(percentage points)



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

Exports will continue to be the main factor of growth

Exports are expected to strengthen further, growing by an average of 3.5 per cent per year; sales to markets outside the euro area will record the largest increase. Despite the improvement in competitiveness due to the past depreciation of the euro, Italy's export market share in value terms will decrease to 2.7 per cent in 2014, 0.2 percentage points down compared with 2011. This is mainly a composition effect, as most of Italy's exports have been directed, to date, to countries, such as those of the euro area, marked by slower rates of growth in the current phase.

The current account will return to surplus ...

Imports, which again fell in the second half of 2012, will gradually turn upwards, growing by about 2 per cent on average in 2013-14. The slower pace of expansion compared with exports will result in a positive contribution of foreign trade to

GDP growth, amounting to about 1 percentage point in the two years. This will benefit the current account of the balance of payments, which is expected to return to balance in 2013 and show a further improvement in 2014. A contribution will also come from the expected improvement in the terms of trade, thanks to the assumed gradual decline in crude oil prices implied by futures contracts.

The public finances will continue to improve

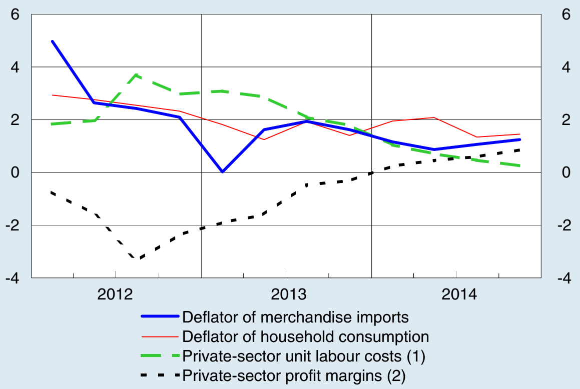
Despite the weak macroeconomic outlook, the measures passed since the summer of 2011 are expected to give a further boost to the primary surplus in 2013 and 2014. Net borrowing will diminish again this year (by about 1 percentage point of GDP in structural terms) and remain virtually stable the next. The public debt/GDP ratio is forecast to rise in 2013, owing to the very modest growth in nominal output, and to begin falling in 2014 thanks to the improvement in the primary surplus and the recovery in economic activity.

Consumer price inflation will fall below 2 per cent

Inflation, gauged by the harmonized index of consumer prices (HICP), is expected to fall back below 2 per cent in 2013-14 (Figure 33). The effects of the increase in the ordinary VAT rate scheduled for this July, which are estimated at around 0.2 percentage points in each of the two years, should be offset by the favourable trend in energy prices and by wage moderation. The cyclical improvement will be reflected in unit labour costs in the private sector, which are likely to slow to about 1 per cent on average, thanks to productivity increases and to annual wage growth of just over 1.5 per cent in the period. Domestic inflation, measured by the deflator of value added for the private sector, is expected to be between 1.0 and 1.5 per cent, partly owing to the moderation of profit margins, which are likely to remain unchanged over the two years.

Figure 33

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



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

The main forecasters also predict a recovery after the middle of 2013

These growth and inflation forecasts differ only marginally from those of the main international organizations (Table 10). For 2013, our projections are slightly less favourable than those of the leading forecasters, with the exception of the OECD. For 2014, we project a recovery of similar intensity to that forecast by the European Commission and slightly stronger than the estimates of the other organizations. According to all the forecasting scenarios, inflation is set to fall below 2 per cent in 2013; however, there are differences with respect to our projections for 2014, with the OECD and IMF forecasting a sharper fall in inflation.

Table 10

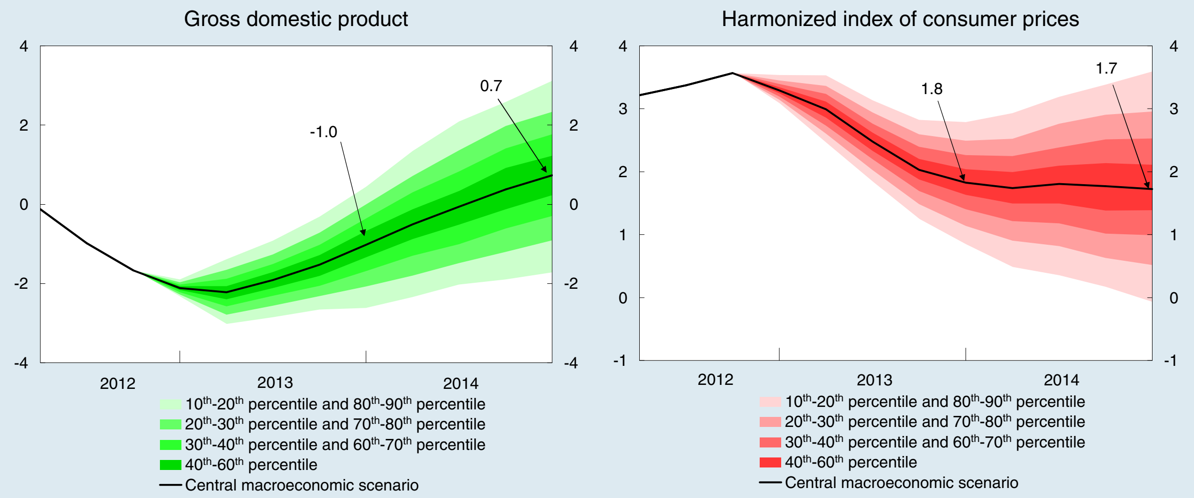
Other organizations' forecasts for Italy
(percentage changes on previous period)

	GDP (1)		Inflation (2)	
	2013	2014	2013	2014
IMF (October)	-0.7	0.5	1.8	1.0
OECD (November)	-1.0	0.6	1.9	0.9
European Commission (November)	-0.5	0.8	2.0	1.7
Consensus Economics (December)	-0.9	….	2.0	….

Sources: IMF, *World Economic Outlook*, October 2012; OECD, *Economic Outlook* No. 92, November 2012; European Commission, *European Economic Forecast* – Autumn 2012, November 2012; Consensus Economics, *Consensus Forecasts*, December 2012.
(1) The growth rates given in the OECD forecasts are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

Figure 34

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



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

Uncertainty continues to weigh heavily, with notable downside risks

Very considerable uncertainty surrounds the growth prospects of the Italian economy in 2013-14 (Figure 34). The greatest downside risks depend on domestic demand and credit conditions: a return to investment growth could be delayed by the substantial margins of idle capacity; despite the pronounced improvement in financial market conditions, the deterioration in the quality of banks' loan portfolios could have repercussions on the cost and availability of credit. In an unfavourable scenario – in which the yields on government securities rise back to the levels recorded in the first half of July and the loss of confidence among firms and households is similar to that observed at the beginning of 2012, while the supply of credit fails to expand – GDP growth could turn out to be around 0.7 percentage points lower than estimated, both this year and next. Our exit from the recession would be postponed. The outlook could become more favourable instead if there were an improvement in the prospects of the euro area, also as a consequence of further progress in the reform of governance.

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	Contribution	Change	Contribution	Change	Contribution	Change	Contribution	Change	Change	Contribution	Contribution
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	0.0	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
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	4.0	4.0	9.6	20.2	-1.8	0.1
Q3	2.6	2.5	1.8	-0.3	-0.1	-0.9	-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	0.0	1.2	-1.6
2011 – Q1	0.1	3.1	2.2	-7.0	-1.5	-1.3	-0.1	0.0	0.1	5.7	4.2	0.0	-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	0.0
Q3	1.3	1.7	1.2	-2.9	-0.6	15.5	1.8	1.2	1.3	6.1	4.7	0.0	-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	5.2	2.8	0.2	-0.5
Q3	3.1	1.6	1.1	3.9	0.8	0.9	0.1	2.6	2.7	1.9	-0.6	0.4	0.7

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contribution	Change	Contribution	Change	Contribution	Change	Contribution	Change	Change	Contribution	Contribution
2008	-1.0	-0.9	-0.5	-0.1	..	-4.1	-0.9	-1.3	-1.2	1.4	0.3	0.2	0.2
2009	-5.5	-0.7	-0.4	2.3	0.4	-10.6	-2.4	-4.0	-4.0	-24.2	-15.7	-1.5	-1.6
2010	4.7	2.8	1.7	1.9	0.4	-0.2	-0.1	2.9	2.9	24.4	11.1	1.7	0.9
2011	-0.6	0.5	0.3	1.5	0.3	1.1	0.2	0.3	0.3	-0.4	5.9	-0.9	-0.5
2010 – Q1	5.8	2.8	1.6	-2.4	-0.5	1.0	0.2	3.7	3.6	27.0	10.1	2.2	2.2
Q2	4.4	-0.1	..	6.1	1.1	4.3	0.8	4.3	4.1	23.0	24.3	0.3	2.1
Q3	5.5	5.5	3.2	0.9	0.2	4.7	0.9	5.6	5.3	8.4	8.9	0.1	1.1
Q4	-1.6	-1.3	-0.8	2.3	0.4	-4.0	-0.8	-1.2	-1.2	-1.9	1.1	-0.4	..
2011 – Q1	-7.3	-5.5	-3.2	0.2	..	-1.9	-0.4	-6.4	-6.4	-2.0	5.8	-1.1	-2.8
Q2	-2.8	3.5	2.1	1.6	0.3	-1.6	-0.3	1.1	1.1	-23.6	-1.3	-3.8	-1.0
Q3	10.4	5.7	3.5	0.6	0.1	6.8	1.3	7.2	7.0	40.0	14.9	3.2	2.2
Q4	0.3	2.0	1.2	1.8	0.4	19.1	3.6	3.3	3.3	-14.5	4.0	-3.0	-1.8
2012 – Q1	5.7	4.7	2.8	5.7	1.1	-0.7	-0.1	5.1	5.1	13.9	9.7	0.4	1.4
Q2	-0.1	0.3	0.2	1.9	0.4	6.0	1.2	0.6	0.6	3.3	7.4	-0.7	-1.2
Q3	-3.5	-1.7	-1.0	2.4	0.5	-5.6	-1.2	-0.7	-0.7	-18.9	-1.8	-2.8	1.0

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

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation: Construction	Gross fixed capital formation: Machinery, equipment, sundry products & vehicles	Gross fixed capital formation: Total	Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				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	6.2	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	-4.4	5.7	-0.1	0.9	0.7	11.2
2011	1.4	4.2	2.2	-0.4	3.8	1.5	0.1	-0.1	6.3
2010 – Q3	0.4	1.4	0.7	-0.7	1.5	0.3	0.2	0.3	2.0
Q4	0.3	1.7	0.7	-2.0	1.1	-0.6	0.5	-0.1	2.0
2011 – Q1	0.6	1.3	0.8	2.4	1.3	1.9	..	-0.1	1.6
Q2	0.2	0.1	0.2	-0.9	0.7	-0.2	-0.4	0.1	0.6
Q3	0.1	0.5	0.2	-0.8	0.2	-0.3	0.2	-0.3	1.4
Q4	-0.3	-1.4	-0.6	-0.2	-0.9	-0.5	-0.5	..	..
2012 – Q1	..	-0.3	-0.1	-0.8	-2.2	-1.4	-0.3	0.1	0.5
Q2	-0.2	0.6	0.1	-1.5	-1.8	-1.7	-0.5	-0.1	1.6
Q3	-0.1	0.3	..	-0.5	-0.8	-0.6	-0.1	-0.1	0.9
				Implicit prices					
2006	1.8	3.5	….	….	….	2.9	2.2	2.0	2.3
2007	2.3	1.2	….	….	….	2.5	2.2	1.8	1.6
2008	1.9	3.9	….	….	….	2.3	2.6	2.7	2.3
2009	1.0	-6.3	….	….	….	-0.3	-0.4	2.0	-3.5
2010	0.8	5.0	….	….	….	0.8	1.7	0.7	3.2
2011	1.2	5.6	….	….	….	2.0	2.5	0.8	3.6
2010 – Q3	0.3	0.8	….	….	….	0.3	0.6	..	0.9
Q4	0.1	1.1	….	….	….	0.5	0.6	..	0.7
2011 – Q1	0.4	3.0	….	….	….	0.8	0.7	0.5	1.6
Q2	0.3	0.6	….	….	….	0.3	0.6	0.2	0.4
Q3	0.4	0.2	….	….	….	0.5	0.5	0.3	0.4
Q4	0.2	0.7	….	….	….	0.3	0.7	0.2	0.3
2012 – Q1	0.4	1.5	….	….	….	0.5	0.6	0.5	0.8
Q2	0.3	-0.2	….	….	….	-0.1	0.3	-0.1	-0.1
Q3	0.4	0.2	….	….	….	0.3	0.4	0.3	0.6

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 – Q3	0.4	1.9	0.7	-0.1	2.0	0.9	0.9	-0.4	2.7
Q4	0.2	4.7	1.1	-1.8	-0.3	-1.1	0.2	-0.4	3.0
2011 – Q1	0.1	-1.2	-0.1	1.0	-0.6	0.2	0.1	0.4	0.9
Q2	0.3	-2.0	-0.2	-1.5	1.0	-0.3	-0.1	-0.4	0.4
Q3	-0.1	-1.2	-0.4	-1.0	-1.2	-1.1	-0.5	-0.6	1.5
Q4	-0.7	-2.6	-1.1	-0.7	-4.6	-2.6	-1.2	-0.6	0.5
2012 – Q1	-0.8	-3.5	-1.4	-3.6	-4.8	-4.1	-1.4	-0.1	-0.5
Q2	-0.7	-0.5	-0.7	-1.2	-2.9	-2.0	-1.2	0.1	1.0
Q3	-0.2	-1.4	-0.5	-1.4	-1.4	-1.4	-1.0	-0.3	0.5
				Implicit prices					
2006	1.7	5.6	2.5	3.3	1.9	2.6	2.6	2.5	2.3
2007	2.4	1.2	2.1	3.7	1.5	2.7	2.2	0.8	2.3
2008	2.5	5.1	3.1	3.4	2.5	3.0	3.1	3.4	2.9
2009	2.1	-7.7	..	1.1	0.8	1.0	-0.1	2.1	-2.4
2010	0.4	6.7	1.7	2.1	0.2	1.2	1.5	1.5	2.6
2011	1.3	7.5	2.7	4.2	2.4	3.3	2.8	-0.3	4.1
2010 – Q3	-0.2	0.7	..	0.5	0.3	0.4	0.5	0.4	0.8
Q4	..	0.6	0.2	0.7	0.4	0.5	0.5	-0.3	0.3
2011 – Q1	0.8	4.4	1.6	1.8	1.3	1.6	0.8	-1.1	1.9
Q2	0.3	1.5	0.5	0.7	0.8	0.7	0.8	0.5	1.3
Q3	0.4	0.2	0.4	0.7	0.2	0.5	0.6	0.2	0.5
Q4	..	0.7	0.1	0.6	0.2	0.4	0.9	0.5	-0.1
2012 – Q1	0.4	2.3	0.8	0.7	0.4	0.6	0.5	0.2	1.0
Q2	0.1	-0.7	-0.1	0.4	-0.1	0.2	0.6	-1.2	0.3
Q3	0.3	0.9	0.5	0.2	0.1	0.1	0.6	0.4	0.2

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	4.2	-4.6	-13.2	-8.9	9.2
2009	1.1	9.5	9.1	-0.3	-7.7
2010	2.3	2.4	3.4	0.9	-0.1
2011	1.2	10.8	7.0	-3.4	-8.7
2010 – Q1	0.8	10.5	10.3	-0.2	-8.7
Q2	0.9	7.9	8.9	1.0	-6.5
Q3	1.2	8.2	9.7	1.3	-6.5
Q4	1.0	4.0	6.4	2.3	-2.9
2011 – Q1	3.3	3.8	4.4	0.6	-0.5
Q2	2.5	2.5	3.4	0.9	0.0
Q3	2.7	0.2	0.1	-0.1	2.5
Q4	2.3	-0.4	-1.1	-0.8	2.7
2012 – Q1	2.8	-0.2	-1.4	-1.2	3.0
Q2	4.7	1.3	-1.7	-2.9	3.4
			Services		
2008	3.1	-0.3	-1.8	-1.4	3.4
2009	1.1	0.6	1.2	0.6	0.5
2010	1.7	0.6	1.3	0.7	1.1
2011	1.2	0.3	0.7	0.4	0.9
2010 – Q1	0.9	0.5	1.2	0.7	0.4
Q2	0.8	0.6	1.4	0.8	0.1
Q3	1.4	0.7	1.2	0.5	0.7
Q4	1.2	0.6	1.6	0.9	0.6
2011 – Q1	2.0	0.7	1.3	0.7	1.3
Q2	1.9	0.5	1.2	0.7	1.4
Q3	2.0	0.7	1.1	0.4	1.3
Q4	2.4	1.2	0.6	-0.6	1.2
2012 – Q1	2.0	1.2	0.2	-1.0	0.7
Q2	2.1	0.8	0.0	-0.8	1.3
			Total economy		
2008	3.4	-1.2	-4.4	-3.2	4.7
2009	1.2	2.1	2.1	0.0	-0.9
2010	2.1	1.4	1.6	0.2	0.7
2011	1.2	2.0	1.2	-0.7	-0.8
2010 – Q1	1.0	2.1	2.4	0.3	-1.1
Q2	1.0	1.9	2.3	0.4	-0.9
Q3	1.5	2.2	2.3	0.1	-0.7
Q4	1.4	1.6	2.3	0.8	-0.2
2011 – Q1	2.4	1.6	1.7	0.1	0.7
Q2	2.2	1.3	1.5	0.2	0.8
Q3	2.4	1.1	0.9	-0.3	1.2
Q4	2.6	1.2	0.0	-1.2	1.4
2012 – Q1	2.4	1.3	-0.3	-1.5	1.1
Q2	2.8	1.1	-0.5	-1.6	1.7

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.

Table A6

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					
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	2.0	9.7	5.0	-4.2	-7.0
Q2	4.0	11.7	8.0	-3.3	-6.9
Q3	4.5	7.6	7.1	-0.5	-2.9
Q4	0.4	7.4	6.8	-0.5	-6.5
2011 – Q1	1.2	2.4	3.7	1.2	-1.2
Q2	2.8	2.6	3.6	1.0	0.2
Q3	2.7	0.5	1.5	1.0	2.2
Q4	0.4	-3.4	-1.5	1.9	3.9
2012 – Q1	2.9	-0.4	-2.6	-2.2	3.3
Q2	1.1	-4.0	-5.3	-1.3	5.3
Q3	1.7	-2.9	-3.9	-1.1	4.6
Services					
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	0.9	0.0	1.1	1.1	0.9
Q2	3.0	1.9	1.2	-0.7	1.1
Q3	1.4	1.9	1.4	-0.4	-0.5
Q4	1.5	1.7	1.8	0.1	-0.2
2011 – Q1	1.3	1.4	1.0	-0.4	0.0
Q2	0.2	-0.3	0.7	1.1	0.5
Q3	-0.3	-0.9	0.7	1.7	0.7
Q4	-0.4	-0.5	0.5	1.0	0.1
2012 – Q1	1.4	2.2	-0.2	-2.3	-0.7
Q2	0.6	1.0	-0.8	-1.7	-0.4
Q3	0.7	-1.3	-1.3	0.0	2.0
Total economy					
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	1.1	1.5	1.4	-0.1	-0.3
Q2	3.1	3.2	2.1	-1.1	-0.1
Q3	2.2	2.9	2.3	-0.6	-0.7
Q4	1.5	3.2	2.5	-0.7	-1.7
2011 – Q1	1.4	1.7	1.4	-0.3	-0.3
Q2	0.9	0.5	1.1	0.6	0.5
Q3	0.5	-0.5	0.6	1.1	1.0
Q4	-0.2	-0.9	-0.1	0.7	0.7
2012 – Q1	1.8	2.0	-1.0	-2.9	-0.2
Q2	0.7	0.3	-1.9	-2.2	0.4
Q3	1.0	-1.0	-2.2	-1.2	2.0

Source: Based on Istat 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 unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products	Total	Total excl. energy and unproc-essed food products
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
2012	2.2	1.7	2.1	1.4	3.3	2.3	2.4	1.6	2.5	1.8
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	2.6	1.6
Oct.	2.1	1.5	2.1	1.2	2.8	1.6	3.5	2.5	2.5	1.6
Nov.	1.6	1.2	1.9	1.3	2.6	1.6	3.0	2.4	2.2	1.6
Dec.	1.5	1.2	2.0	1.5	2.6	1.7	3.0	2.3	2.2	1.6

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

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

(millions of euros)

	Current account						Capital account			
	Total	Goods	Services	Income	Current transfers		Total	Intangible assets	Capital transfers	
					Private	Public			Private	Public
2008	-44,901	-2,129	-8,606	-19,353	-5,336	-9,476	-186	-1,044	..	858
2009	-30,173	823	-8,435	-10,406	-4,658	-7,496	-89	-578	-19	508
2010	-54,681	-20,918	-9,218	-8,289	-5,425	-10,831	-556	-706	-70	220
2011	-48,446	-16,612	-6,984	-8,915	-4,495	-11,440	486	-407	-53	946
2010 – 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	-659	5,398	1,140	-4,051	-1,381	-1,766	-59	-84	-2	26
Q3	953	6,220	2,414	-3,066	-1,465	-3,150	148	51	-1	97
2010 – 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.	-710	495	38	-43	-408	-792	-36	-41	-1	6
May	-1,236	1,840	294	-2,572	-490	-308	-23	-37	..	15
June	1,287	3,063	808	-1,435	-483	-666	-1	-6	-1	5
July	4,265	5,227	1,287	-621	-494	-1,134	79	46	..	34
Aug.	-1,877	9	320	-706	-492	-1,008	46	14	..	32
Sept.	-1,436	984	807	-1,739	-480	-1,008	23	-8	..	32
Oct.	(-245)	(2,506)	(97)	(-2,043)	....	....	(318)	....	....	....

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

(twelve-month percentage changes)

	General government	Finance and insurance companies	Firms				Consumer households	Non-profit institutions and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
Centre and North									
2010 – Dec.	4.0	7.2	0.5	0.0	2.6	5.3	3.8	16.2	2.5
2011 – Mar.	3.0	2.5	3.1	3.2	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	-2.0	1.9	5.3	0.2
June	0.8	5.5	-4.0	-3.7	-5.4	-3.4	0.5	5.2	-1.2
Sept.	5.7	7.2	-6.0	-5.9	-6.3	-4.6	-0.3	2.4	-1.5
Oct.	5.7	5.0	-5.7	-5.7	-5.6	-4.3	-0.5	1.5	-1.6
Nov.	4.4	4.6	-6.2	-6.3	-5.8	-4.7	-0.7	0.0	-2.2
South and Islands									
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	3.2
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	-3.2	-3.0	1.6	-3.7	-0.1
June	-2.3	-16.3	-3.5	-3.1	-4.5	-4.1	0.0	-6.7	-2.2
Sept.	-3.9	-8.8	-5.2	-4.9	-6.0	-5.8	-0.9	-3.8	-3.4
Oct.	-4.4	-8.8	-5.6	-5.5	-5.8	-5.8	-1.3	-4.3	-3.8
Nov.	-2.7	-7.3	-6.3	-6.1	-6.6	-6.2	-1.7	-2.5	-4.1
ITALY									
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	2.9	8.8	0.8
2012 – Mar.	2.4	3.9	-2.1	-1.7	-3.9	-2.2	1.8	4.3	0.1
June	0.5	5.0	-3.9	-3.6	-5.2	-3.6	0.4	3.9	-1.3
Sept.	4.7	6.9	-5.9	-5.8	-6.3	-4.8	-0.5	1.7	-1.8
Oct.	4.6	4.8	-5.6	-5.6	-5.7	-4.7	-0.7	0.9	-1.9
Nov.	3.7	4.4	-6.2	-6.3	-5.9	-5.0	-0.9	-0.3	-2.5

(1) Statistics for November 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.

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 and investments of liquidity	*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	-1,518
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	-1,271
June	1,296	-895	-5,607	32,821	1,129	-13,621	-15,502	–	16,019	-669
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	-2,052
2012 – Mar.	8,035	-1,236	31,493	234	-105	-2,713	-10,202	-5,556	36,943	8,319
June	-3,933	470	-1,456	18,366	1,384	-3,131	-11,661	-2,382	11,230	4,311
Sept.	4,815	-1,243	5,026	3,642	-350	433	199	-22,727	13,566	-48
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	721
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	-11,848	-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	1,043
July	-2,564	-123	-1,378	14,384	-1,128	-11,859	-13,253	–	-2,545	-173
Aug.	-1,053	-165	-241	-10,762	-680	18,314	19,067	–	5,578	214
Sept.	-77	-67	10,709	-26,685	131	27,286	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	-2,189
Dec.	1,287	139	-18,012	9,056	-1,950	1,084	-1,144	5,380	-8,535	-3,059
2012 – Jan.	-469	-483	17,980	18,755	-1,250	-31,929	-32,573	-5,655	3,088	653
Feb.	-815	-102	8,533	-15,769	658	15,895	16,040	1,527	8,502	228
Mar.	9,318	-651	4,980	-2,752	486	13,321	6,331	-1,428	25,353	7,438
Apr.	-896	-115	6,058	-10,117	875	13,346	6,953	-4,253	9,266	9,047
May	-1,938	38	66	14,481	-16	-6,113	-8,277	2,724	6,479	1,406
June	-1,099	547	-7,580	14,003	525	-10,364	-10,337	-853	-4,515	-6,143
July	1,707	-1,007	-2,220	-3,521	-2,000	1,742	597	-10,951	-4,293	-689
Aug.	1,120	270	-1,412	-1,337	171	7,909	8,158	-6,890	6,450	-758
Sept.	1,989	-505	8,658	8,500	1,479	-9,217	-8,556	-4,886	11,410	1,398
Oct.	-1,448	-161	4,885	16,303	-184	-7,323	-6,971	7,501	12,232	-1,261
Nov.	-3,037	-264	1,970	5,626	822	-6,385	-6,235	5,805	-1,003	-85

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

Table A11

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 curren-cies	*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	1,608,913	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	1,566,900	34,940	–
June	156,001	22,696	136,638	1,467,054	134,882	15,452	1,910,027	2,656	1,602,774	50,442	–
Sept.	152,307	22,341	145,736	1,445,292	133,205	15,155	1,891,695	2,848	1,579,612	16,403	800
Dec.	152,880	22,080	131,181	1,473,355	132,319	17,002	1,906,737	2,924	1,608,913	24,255	..
2012 – Mar.	160,915	20,844	162,677	1,474,193	132,213	24,491	1,954,489	2,843	1,617,828	34,457	5,556
June	156,981	21,314	161,224	1,497,408	133,598	33,021	1,982,232	2,962	1,649,178	46,118	7,938
Sept.	161,796	20,071	166,248	1,500,595	133,248	33,255	1,995,143	2,884	1,652,053	45,919	30,665
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	1,578,141	61,218	–
Mar.	154,705	23,590	142,246	1,431,025	133,753	13,571	1,875,300	2,730	1,566,900	34,940	–
Apr.	154,676	23,841	141,772	1,452,667	135,542	13,528	1,898,185	2,615	1,588,942	46,745	–
May	152,839	22,854	141,078	1,460,469	137,262	13,454	1,905,101	2,877	1,597,393	45,063	–
June	156,001	22,696	136,638	1,467,054	134,882	15,452	1,910,027	2,656	1,602,774	50,442	–
July	153,437	22,573	135,260	1,482,317	133,754	16,846	1,921,614	2,697	1,615,817	63,695	–
Aug.	152,384	22,408	135,019	1,472,055	133,074	16,093	1,908,625	2,661	1,605,964	44,627	–
Sept.	152,307	22,341	145,736	1,445,292	133,205	15,155	1,891,695	2,848	1,579,612	16,403	800
Oct.	151,407	22,189	152,845	1,463,720	133,928	14,502	1,916,402	2,740	1,598,337	37,964	700
Nov.	151,593	21,940	149,203	1,462,551	134,269	14,774	1,912,389	2,854	1,598,245	23,111	5,380
Dec.	152,880	22,080	131,181	1,473,355	132,319	17,002	1,906,737	2,924	1,608,913	24,255	..
2012 – Jan.	152,412	21,596	149,162	1,493,167	131,069	17,646	1,943,455	2,875	1,628,417	56,828	5,655
Feb.	151,597	21,495	157,695	1,477,788	131,727	17,501	1,936,309	2,814	1,613,552	40,788	4,128
Mar.	160,915	20,844	162,677	1,474,193	132,213	24,491	1,954,489	2,843	1,617,828	34,457	5,556
Apr.	160,019	20,729	168,739	1,464,680	133,089	30,885	1,957,411	2,858	1,614,795	27,505	9,809
May	158,081	20,767	168,806	1,481,711	133,072	33,048	1,974,718	3,048	1,633,981	35,782	7,085
June	156,981	21,314	161,224	1,497,408	133,598	33,021	1,982,232	2,962	1,649,178	46,118	7,938
July	158,688	20,306	159,001	1,494,051	131,598	34,166	1,977,504	3,030	1,644,059	45,521	18,889
Aug.	159,808	20,576	157,586	1,492,562	131,768	33,917	1,975,641	2,957	1,643,071	37,363	25,779
Sept.	161,796	20,071	166,248	1,500,595	133,248	33,255	1,995,143	2,884	1,652,053	45,919	30,665
Oct.	160,348	19,910	171,134	1,517,245	133,064	32,903	2,014,693	2,881	1,668,649	52,890	23,164
Nov.	157,312	19,646	173,102	1,523,614	133,886	32,754	2,020,668	2,878	1,675,540	59,125	17,359

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