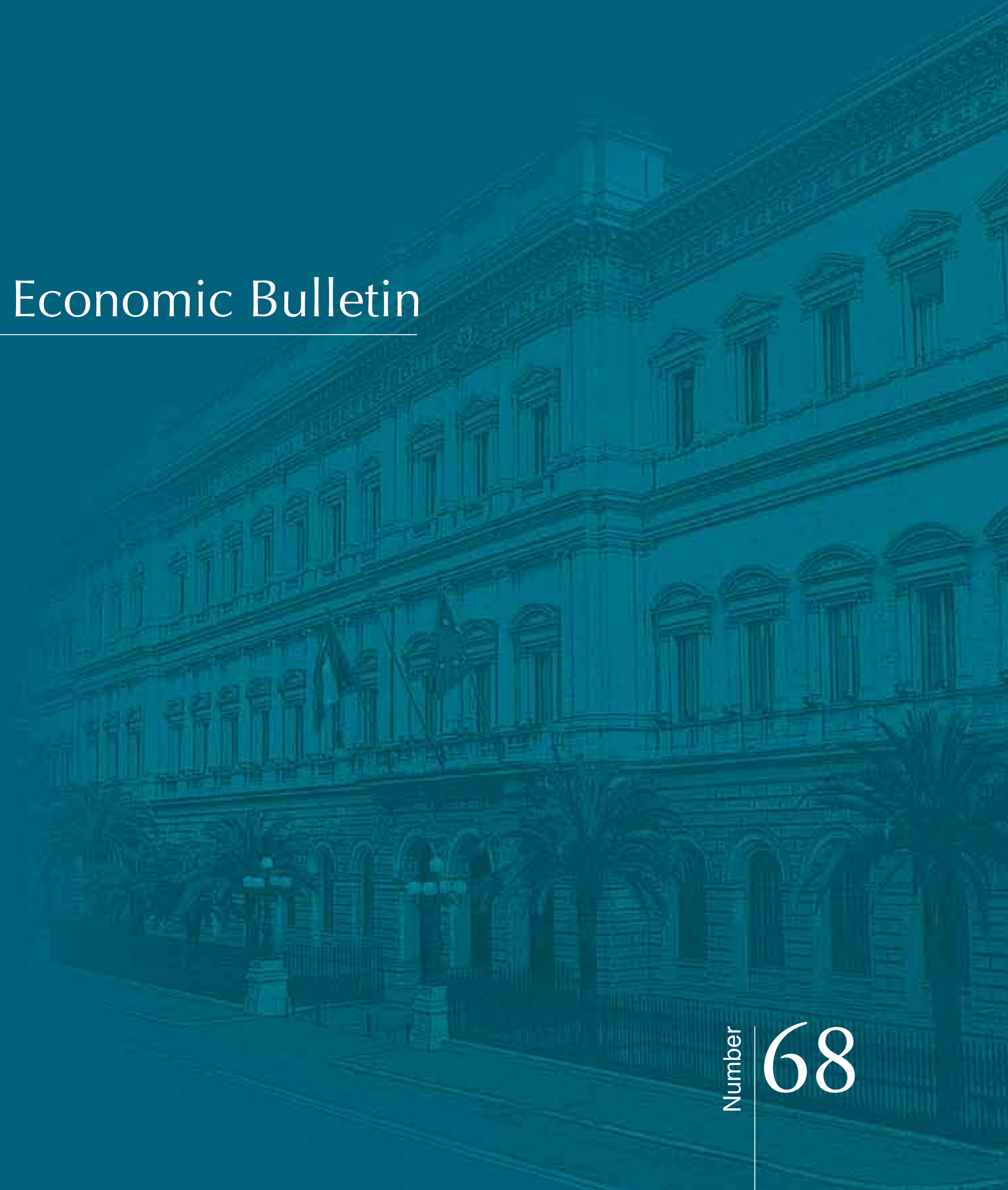
BANCA D’ITALIA
EUROSISTEMA

Economic Bulletin



April 2013

Number 68

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SYMBOLS AND CONVENTIONS

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

In the following tables:

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

1 OVERVIEW

The world economy shows signs of strengthening

Signs of a cyclical improvement in the United States and some emerging economies appeared in the first quarter. Overall, world output growth is expected to remain modest this year and then to gather strength in 2014. Uncertainty persists about US fiscal policy and the sovereign debt crisis in Europe.

In the euro area, economic activity remains weak

After the contraction of euro-area GDP in the fourth quarter of 2012, economic activity appears to have practically stabilized in the first three months of 2013. Domestic demand is still slack, however, even in countries not affected by the sovereign debt crisis. Inflation continues to decline; it has fallen below 2 per cent for the first time since 2010 and is expected to abate still further in the coming months. Its moderation is confirmed by firms' pricing intentions and households' expectations.

On the whole, financial market trends are positive ...

In the initial weeks of 2013 the financial markets of the euro area continued the improvement that had begun last summer. In the countries affected by the sovereign debt crisis, yields on government securities diminished in January. The TARGET2 balances, which reflect capital movements among the payment system's member countries, displayed an overall reduction in disequilibria.

... but tensions re-emerge

New tensions have arisen on European stock markets and sovereign debt markets in recent weeks, however, in connection with renewed uncertainty about economic growth, the outcome of the general election in Italy, and above all the deepening of the crisis in Cyprus, which spotlighted problems of coordination between European authorities and national governments. But the rise in government securities yields in the countries most exposed to the strains proved to be largely transitory.

Monetary policy remains expansive

The ECB's policy stance has remained expansive. The outstanding stock of liquidity supplied to banks by the Eurosystem has diminished as a result of voluntary early repayment of part of the funds obtained in the three-year refinancing operations of December 2011 and February 2012. The ECB Governing Council has reaffirmed that its monetary policy stance will remain accommodative for as long as necessary, with full allotment of the liquidity requested by banks. In early April it made clear that it stood ready to take further action, based on its assessment of incoming information.

The deterioration in the Italian financial markets is limited

The Italian financial markets have been affected by the political uncertainty to a limited extent. The spreads between Italian and German government securities have increased since the end of January but remain well below their 2011 peaks. The latest data on the TARGET2 payment system indicate a resumption of capital inflows to Italy. However, bank liabilities (shares, credit default swaps) have felt the effects of the way in which the crisis in Cyprus was handled.

The economic contraction in Italy eases ...

In Italy, after the further steep fall in GDP in the fourth quarter of 2012, the indicators for the first quarter suggest that output has continued to decrease, but less sharply. For the quarter as a *whole the decline in industrial production appears to have virtually ceased, thanks to the good performance of exports.*

... but financial conditions and business confidence remain uncertain

So far, cyclical surveys do not point to any significant change in the short-term outlook. The likelihood of an upturn continues to depend mainly on the evolution of business confidence and financial conditions over the next few months and their impact on investment. Firms' assessments do not indicate any improvement in the incentives to invest, but their expectations for foreign orders have improved modestly, albeit in a volatile context.

Commercial claims on general government affect firms' liquidity

The Government has drafted measures for the payment, within the next twelve months, of €40 billion in arrears owed by general government and tax refunds. The measure will improve firms' situation and will have a positive macroeconomic impact, whose magnitude will depend on the time frame of the action and how firms use the funds.

The current account is back in balance

The current account improved substantially in 2012 and was in surplus in the fourth quarter for the first time in seven years. The fall in domestic demand, which curbed imports, was a factor, but the growth of exports also contributed.

Employment continues to decline

Average employment diminished by 0.3 per cent in 2012 compared with 2011, while the labour force expanded rapidly. Developments in the first few months of 2013 indicate that the employment outlook remains poor. The unemployment rate rose to 11.6 per cent in February. Real per capita earnings fell faster in 2012 than they had in 2011 and are expected to continue to decline, even if more slowly, for the rest of this year.

Inflation slows further

With the end of the effects of past indirect tax increases and a sharp slowdown in energy prices, inflation continued to fall in Italy as elsewhere. In March the twelve-month growth in the harmonized index of consumer prices came to 1.8 per cent, barely above the euro-area average and in line with expectations for 2013 as a whole. Business surveys report plans for very modest price rises because of the weakness of domestic demand.

Credit conditions remain tight, reflecting the impact of the economic situation

Against a backdrop of progressively deteriorating credit quality, in the early months of this year lending to firms continued to decline, although not as fast as in the second half of 2012, and lending to households also diminished. After the slight increase in the fourth quarter, the cost of credit to firms has stabilized but remains about one percentage point higher than the euro-area average.

The banking system is well capitalized

At the end of 2012 the default rate on loans to firms was nearly as high as in the recession of the early 1990s. However, Italian banks' capital structure remains solid and is sufficient to withstand the poor cyclical conditions, as the IMF's Financial Sector Assessment Program recently confirmed. In December Italian banking groups had an average core tier 1 ratio of better than 10 per cent; for the five largest groups it was 10.9 per cent.

The public finances improve

General government net borrowing decreased in 2012 for the third consecutive year, falling to 3.0 per cent of GDP and thus foreshadowing the closure of the excessive deficit procedure opened against Italy in 2009. According to the Government's recent estimates, which factor in the effect (estimated at 0.5 percentage points) of the payment of part of general government bodies' commercial debts to firms, net borrowing will amount to 2.9 per cent of GDP this year. Net of interest expenditure, there was a budget surplus of 2.5 per cent of GDP in 2012. The further increase in the primary surplus expected for 2014 will permit the stabilization of the ratio of debt to GDP even if the latter's growth is modest.

Uncertainty must not be allowed to affect growth

The relative stability of conditions on the Italian financial markets reflects the improvement in the country's public finances as well as the credibility of the commitment of European institutions to sustain the Economic and Monetary Union. Nonetheless, it is necessary to continue with effective, credible economic policies that can break the recessionary spiral that has gripped Italy almost continuously since 2008. The uncertainty surrounding the domestic situation and the re-emergence of turmoil in the euro area must not be allowed to undermine the outlook for economic recovery.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

World economic activity showed signs of recovery in the first few months of the year, especially in the United States and some emerging economies, after its sluggishness in the fourth quarter of 2012. World trade strengthened, propelled by the expansion of trade among the emerging countries of Asia. According to the latest projections of the IMF, world GDP growth this year will be about the same as in 2012 and will accelerate in 2014. Although the short-term downside risks have lessened, fiscal policy developments in the United States remain uncertain. Raw materials prices trended downwards during the first quarter of 2013, thanks to more favourable supply conditions.

Economic activity is sluggish in the fourth quarter in the advanced countries ...

GDP growth in the United States slowed from an annual rate of 3.1 per cent in the third quarter to 0.4 per cent in the fourth, which was below expectations. The slowdown can be ascribed to transitory factors arising from the inventory cycle and public spending cuts, while consumption and investment both quickened. In the United Kingdom, after rebounding in the third quarter (to annualized growth of 3.9 per cent), economic activity contracted in the fourth (at a rate of 1.2 per cent), owing to the negative impact of net exports and inventories and the further decline in investment. In Japan, after slumping by 3.7 per cent in the third quarter compared with the second, GDP recovered to barely positive growth of 0.2 per cent in the fourth, thanks to support from household consumption and public spending.

... and uneven in the main emerging economies ...

Economic expansion continued to be uneven among the main emerging economies. In China, year-on-year GDP growth rose to 7.9 per cent in the fourth quarter (from 7.4 per cent in the third), benefiting from buoyant domestic demand and the recovery in export demand. In Brazil, output expansion, though strengthening thanks to the contribution of private consumption, remained modest (1.4 per cent). In India and Russia growth slowed further, to 4.5 and 2.1 per cent respectively.

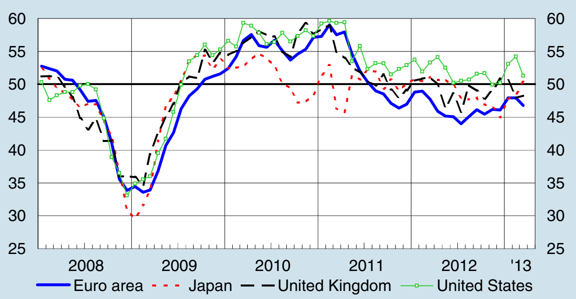
... but shows signs of strengthening in the first quarter of 2013

In the main advanced countries outside the euro area the economy shows signs of amelioration (Figure 1). In the United States, GDP growth is estimated to have picked up to nearly a 2 per cent annual rate in the first quarter. Labour market conditions have continued their gradual improvement, with employment growth better than expected and a further fall in the unemployment rate to 7.6 per cent in March; new applications for jobless benefits also declined. Residential construction activity remains positive, with the number of house sales

Figure 1

Manufacturing purchasing managers indices in the main advanced countries (1)

(monthly data)



Sources: Markit and Thomson Reuters Datastream.
(1) Diffusion indices of economic activity in the manufacturing sector, derived from the assessments of purchasing managers.

and prices rising. The data now available indicate that GDP expanded in the first quarter in Japan, albeit modestly, and stagnated in the UK.

The performance of industrial production and the findings of business surveys offer positive signs for India and Brazil but indicate a further weakening in Russia. In China, despite the difficulty in interpreting the first-quarter data owing to the effect of Chinese New Year, it appears that growth remains rapid.

World trade picks up towards the end of 2012

In the fourth quarter, world trade recovered to an annual growth rate of 3.5 per cent, from 0.6 per cent in the third quarter, thanks to the expansion of trade among the emerging economies of Asia, which more than offset a contraction in the advanced countries. Preliminary estimates suggest that trade continued to gain pace in the early months of 2013.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2012	2013	2014	2013	2014
GDP					
World	**3.2**	**3.3**	**4.0**	–	–
Advanced countries	**1.2**	**1.2**	**2.2**	–	–
Euro area	*-0.6*	*-0.3*	*1.1*	*-0.4*	*0.9*
Japan	*2.0*	*1.6*	*1.4*	*1.3*	*1.3*
United Kingdom	*0.2*	*0.7*	*1.5*	*0.7*	*1.6*
United States	*2.2*	*1.9*	*3.0*	*2.1*	*2.7*
Emerging countries	**5.1**	**5.3**	**5.7**	–	–
Brazil	*0.9*	*3.0*	*4.0*	*3.1*	*3.7*
China	*7.8*	*8.0*	*8.2*	*8.2*	*8.0*
India (1)	*4.0*	*5.7*	*6.2*	*6.1*	*6.8*
Russia	*3.4*	*3.4*	*3.8*	*3.3*	*3.8*
World trade (2)	**2.5**	**3.6**	**5.3**	–	–

Sources: IMF, *World Economic Outlook*, April 2013; Consensus Economics (April 2013 for the advanced countries, China and India, March 2013 for Brazil and Russia); and national statistics.
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

Output growth is expected to be modest this year and to accelerate in 2014

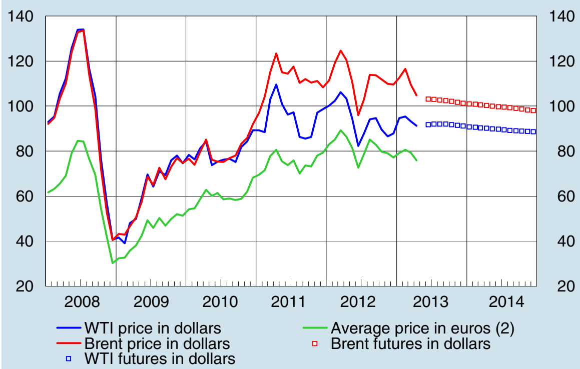
According to the latest IMF projections, the expansion of the world economy will continue to be moderate this year (3.3 per cent, compared with 3.2 per cent in 2012), despite some acceleration in the emerging economies (Table 1). In the advanced countries growth will pick up in the second half but overall will not exceed last year's levels, at 1.9 per cent in the United States, 1.6 per cent in Japan and just under 1 per cent in the United Kingdom. In the euro area activity is expected to be stagnant. The global upturn should gather momentum in 2014, with growth of 4.0 per cent. The world economic outlook continues to be weighed down by the uncertainty over future US budget policy and by the debt crisis in the euro area.

In the US there remain risks in connection with public spending cuts and the federal debt ceiling

In the United States, the sharp tightening of fiscal policy in 2013 is braking growth. Following the measures taken at the end of 2012 to avert the fiscal cliff, in March the so-called sequestration took effect, i.e. automatic cuts in public expenditure programmes for the next ten years. According to the estimates of the Congressional Budget Office, these two interventions could reduce growth by between 1.5 and 2.0 percentage points this year. There is also uncertainty over the reaching of agreement between the Administration and Congress on a medium-term fiscal consolidation plan and on raising the federal debt ceiling, which will be hit in the second half of May.

Figure 2

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



Sources: IMF and Thomson Reuters Datastream.
(1) For spot prices, monthly averages up to March 2013; the last data refer to 12 April 2013. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

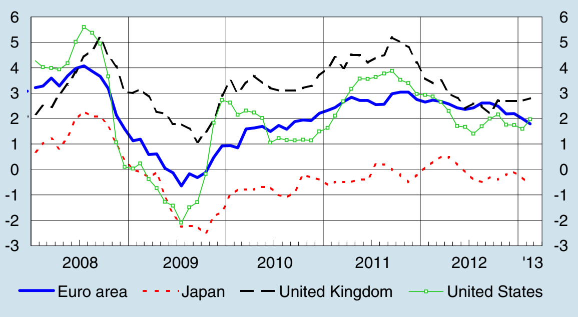
Oil prices hold stable while futures indicate only a modest easing

The price of Brent grade crude oil rose to $119 a barrel at the start of February, driven by growing Chinese imports (Figure 2). Subsequently, increased production by the main oil-exporting countries brought prices back down to their end-2012 levels. On the basis of futures, the price of Brent crude, which stood at around $105 a barrel in mid-April, is likely to slip to $100 over the next twelve months. The world prices of non-energy raw materials have fallen more significantly, as agricultural commodity prices were driven down by bumper crops and metals prices by slackening demand in the euro area and China.

Figure 3

Consumer price inflation in the main advanced countries (1)

(monthly data; 12-month percentage changes)



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

Inflation steadies at low levels in the advanced economies ...

Consumer price inflation remains low in the main advanced countries, reflecting persistently weak demand (Figure 3). The inflation rate in the United States rose to 2.0 per cent in February owing to a temporary increase in fuel prices, but net of food and energy products it was unchanged. It rose somewhat in the United Kingdom as well, to 2.8 per cent, while in Japan the deflationary trend deepened. Consumer price inflation intensified in all the main emerging economies, partly as a consequence of past rises in food prices.

... where monetary policies become even more accommodating

The central banks of the main advanced countries made their monetary policy stances still more expansive. The Federal Reserve decided to continue with its plan of outright purchases of mortgage-backed securities for $40 billion a month and of long-term Treasury securities for another $45 billion. It also kept the federal funds target rate unchanged at between 0.0 and 0.25 per cent and announced that the rate would be held exceptionally low as long as employment remains high and inflation expectations low. The Bank of Japan, after introducing an explicit price stability target of 2 per cent inflation in February, replacing the previous short-term reference inflation rate of 1.0 per cent, in April launched a large-scale new programme of quantitative easing designed to attain the inflation objective within two years. Under the new regime the monetary base – which now replaces the uncollateralized overnight rate as the monetary policy target – will be doubled in two years. Further, over that time span the volume of assets held by the Bank of Japan will be doubled and the average residual maturity of its government bond purchases more than doubled. The Bank of England, by contrast, has kept its stock of financial assets unchanged at £375 billion.

Nearly all the emerging-country monetary authorities kept their reference rates unchanged in the first few months of 2013. The exception was the Reserve Bank of India, which lowered both the repo rate and the reserve ratio. The Chinese government stiffened its real-estate market restrictions in order to counter the rise in house prices. The Central Bank of Brazil kept its Selic benchmark rate unchanged at the historic low of 7.25 per cent, although rising prices have led private analysts to anticipate a restriction as early as the first half of this year.

Current account imbalances shrink further

Global current account imbalances diminished somewhat in 2012. The US deficit fell to 2.9 per cent of GDP, while China's surplus came down to 2.3 per cent and Japan's to 1.0 per cent. The euro area's surplus, however, increased to 1.6 per cent. The IMF forecasts the imbalances to remain broadly unchanged this year.

2.2 THE EURO AREA

According to the indicators available, the cyclical weakness of economic activity in the euro area abated in the first quarter of this year. Household and business confidence picked up from the lows registered in the fourth quarter. But the outlook remains highly uncertain. The ECB has maintained an accommodative monetary policy stance. The early repayment of part of the funds provided to banks in the two three-year LTROs of December 2011 and February 2012 resulted in a diminution of the Eurosystem's overall supply of liquidity.

Euro-area GDP falls sharply in the fourth quarter ...

The euro area's GDP decreased substantially in the fourth quarter, falling by 0.6 per cent compared with the third quarter, when it had slipped by 0.1 per cent). The deterioration reflected the temporary eclipse of support from exports, which recorded their first quarterly decrease after three years of expansion. Domestic demand suffered from a further drop in household consumption and in gross fixed investment.

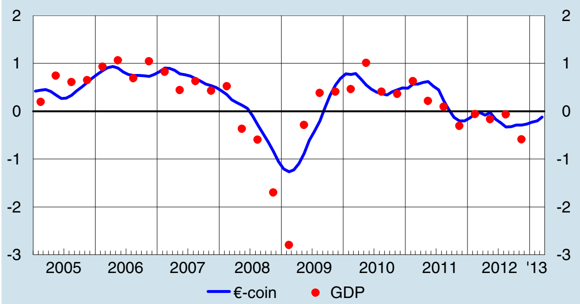
... followed by signs of stabilization, but activity remains sluggish

The data now available indicate that area-wide economic activity steadied in the first quarter of 2013. In January and February the average level of industrial production was barely below that of the fourth quarter, when it had declined by more than 2 per cent from the third. The Bank of Italy's €-coin indicator (which estimates the quarterly change in euro-area GDP net of the most erratic components) remained negative in March at –0.12 but nevertheless continued the modest progress of the preceding months (Figure 4). There are signs that the slowdown has now spread to the countries least affected by the sovereign debt crisis. In March the composite Purchasing Managers Index for manufacturing and service firms remained below 50 per cent (the conventional threshold value for an expansion of economic activity) for the area as a whole and for all the main countries except Germany, where the index nevertheless fell.

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.

Domestic demand is still weak

Notwithstanding a slight rebound in the confidence of households and firms from last autumn's lows, the cyclical data confirm the continuing weakness of domestic demand. Contributing factors are uncertainty over the economic outlook, the persistence of problems in access to credit in some countries, and – in the case of household consumption – the fall in real disposable income. New car registrations fell in January and February compared with the last two months of 2012, and retail sales remained weak. Export growth, though resuming after the halt in the fourth quarter, remained modest in the early months of this year, in line with the trend in world trade. The short-term outlook is still uncertain, as qualitative surveys on foreign orders indicate.

The professional forecasters surveyed by Consensus Economics in April predicted that euro-area GDP will decline by 0.4 per cent on average in 2013, which represents a downward revision from the forecast of broad stability made at the end of last year. These estimates are consistent with the projections of the ECB (released in March) for a contraction of between 0.1 and 0.9 per cent for this year.

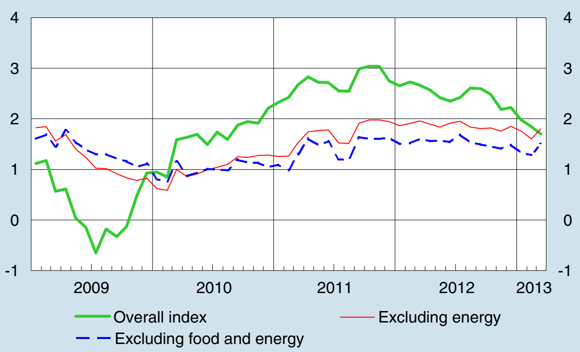
Consumer and producer price inflation both slow

Consumer prices continued to decelerate in the early months of the year. In February the inflation rate fell below 2 per cent for the first time since 2010; in March it was 1.7 per cent (Figure 5). The decline was due to the sharp deceleration in energy prices; core inflation net of food and energy prices has remained moderate, coming down marginally to 1.4 per cent in the first quarter from 1.5 per cent in December. Producer price inflation also slowed, from an average of 2.4 per cent in the fourth quarter to 1.3 per cent in February.

Business surveys signal a further easing of price pressures. The expectations of firms for their price lists and of households for retail prices have been gradually lowered. According to the professional forecasters surveyed by Consensus Economics in April, consumer price inflation in the euro area will average 1.7 per cent this year; according to the ECB projections released in March, it will range between 1.2 and 2.0 per cent.

Figure 5

Inflation in the euro area (1)
(monthly data; 12-month percentage changes)



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

Monetary growth slows down ...

The twelve-month rate of growth in M3 in the euro area eased to 3.1 per cent in February (from 3.5 per cent in November), reflecting among other things increasing liquidity preference. The contraction in the volume of negotiable instruments intensified, with a fall of 9.1 per cent, and the growth of non-overnight deposits slowed to 0.8 per cent. Overnight deposits accelerated to growth of 8.2 per cent. The change in overnight deposits remained positive in Italy and Spain, negative in Greece and Portugal.

... and credit shrinks

Lending to the non-financial private sector decreased further (by 0.9 per cent in the three months ending in February on a seasonally adjusted, annualized basis, adjusted for the accounting effect of securitizations); this was due almost entirely to lending to firms, which contracted by 1.9 per cent, while lending to households stagnated (down by 0.1 per cent). The fall in business loans was fastest in Spain and, to a lesser extent, Italy. Credit activity has remained sluggish in the other countries of the area, including Germany.

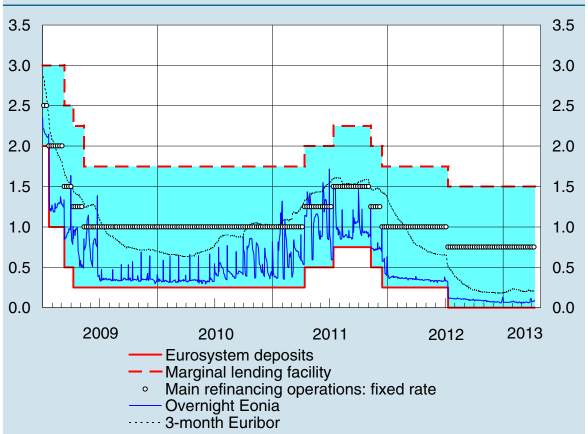
While credit demand remains slack, credit supply conditions are relatively tight. According to the quarterly bank lending survey for the area, the terms and conditions of lending to firms were kept practically unchanged in the fourth quarter, while those for households were tightened slightly.

The Eurosystem maintains an accommodative stance

Given the protracted cyclical weakness of the euro-area economy and the presence of inflation expectations in line with the definition of medium-term price stability, the ECB Governing Council maintained an accommodative monetary policy stance in the first three months of the year. While the fixed rate on main refinancing operations was held at 0.75 per cent (Figure 6), abundant excess liquidity kept the overnight rate (Eonia) and the unsecured three-month interbank rate (Euribor) at their respective historic lows of 0.06 and 0.2 per cent. Money market risk premiums, proxied by the spread between Euribor and overnight indexed swap rates, remained unchanged.

Figure 6

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



Sources: ECB and Thomson Reuters Datastream.

Liquidity remains abundant

Excess liquidity remains abundant, even though the total amount of funds supplied to banks by the Eurosystem through refinancing operations has been reduced by some €220 billion to €902 billion, as a result of the early repayment of part of the funds distributed in the two three-year LTROs of December 2011 and February 2012; the early repayment amounted to €264 billion, or about half the total funding provided by the LTROs net of maturing operations that were not rolled over. The ECB Governing Council reaffirmed that its monetary policy stance would remain accommodative with full allotment for as long as necessary. In early April it made clear that it stood ready to take further action, based on its assessment of incoming information.

The TARGET2 balances of the countries in difficulty improve

The easing of the strains within the euro area translated into a reduction in the disparities among the various central banks' TARGET2 balances, which reflect movements of private capital between their respective countries. Overall, the balances of the countries involved in the sovereign debt crisis showed further improvement, thanks largely to net inward portfolio investment. Spain's negative balance decreased significantly and Italy's also diminished, falling to around €240 billion in March.

The plan to support Cyprus is approved

The banking crisis in Cyprus turned acute in the second half of March. Already last June the country had officially requested financial support from the euro-area authorities. The first version of the rescue plan, agreed on 16 March by the euro-area finance ministers and the Cypriot government, was greeted by highly negative reactions. Among other things, it envisaged a tax on all bank deposits (of residents and non-residents alike). A second agreement, reached on 25 March, attenuated the uncertainty. It limited the sacrifices to shareholders, bondholders and depositors with more than €100,000 in Cyprus's two largest banks, which are to be restructured. The plan also provides for a set of budget measures, including higher taxes on companies and on interest income and a pledge by the Cypriot government to achieve a primary budget surplus of 4 per cent of GDP in 2018. For fear of capital flight, temporary controls on capital movements have been instituted.

2.3 WORLD FINANCIAL MARKETS

In the early months of 2013 global financial markets performed positively overall. Towards the end of March, however, fresh – although up to now relatively limited – tensions resurfaced in connection with doubts over growth in Europe, the banking crisis in Cyprus and political uncertainty in Italy. In the euro area the decline in the spreads with respect to Germany of the countries most exposed to the tensions came to a halt in February.

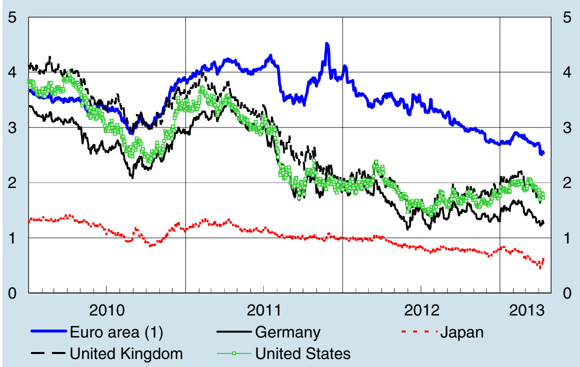
Long-term interest rates in the countries considered least risky decline further

As the expansionary stance of monetary policies was accentuated and investors showed greater preference for reputedly safer assets, in the first quarter yields on ten-year government bonds fell in the United Kingdom, Germany and the United States by 9, 4 and 3 basis points respectively (Figure 7). In Japan the marked easing of monetary conditions favoured a steeper fall in long-term interest rates, of 17 basis points.

Figure 7

Yields on 10-year government bonds

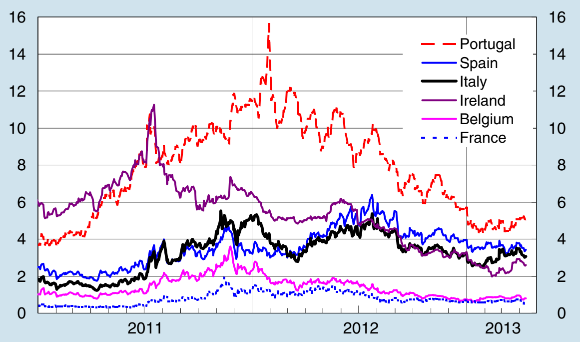
(daily data; per cent)



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 8

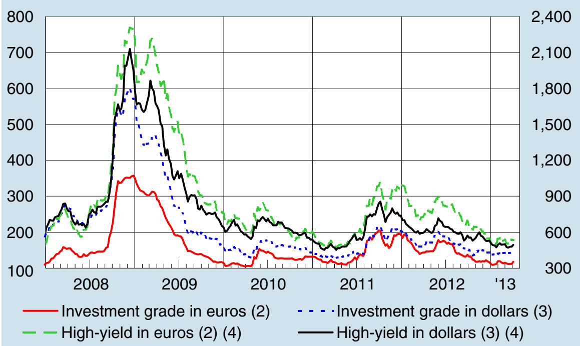
Yield spreads between 10-year government bonds and the German Bund
(daily data; percentage points)



Sources: Based on Bloomberg and Thomson Reuters Datastream data.

Figure 9

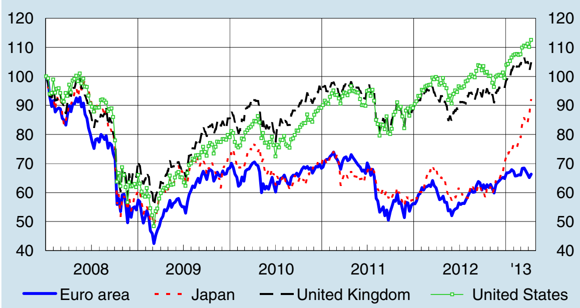
Yield spreads between bonds of non-financial corporations and government securities in dollars and euros (1)
(end-of-week data; basis points)



Source: Merrill Lynch.
(1) Investment grade bonds are those issued by firms with high credit ratings (not lower than BBB- or Baa3). High-yield bonds are those issued by corporations rated below those grades. – (2) Fixed-rate bonds with a residual maturity of not less than one year issued in the Euromarket; yield spreads are calculated with respect to French and German government securities. – (3) Fixed-rate bonds with a residual maturity of not less than one year issued in the US domestic market; yield spreads are calculated with respect to US Treasury securities. – (4) Right-hand scale.

Figure 10

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.

The deepening of the banking crisis in Cyprus has little effect on spreads with Germany

In January the improved climate of confidence on global markets favoured a further fall in sovereign risk premiums for the euro-area countries most exposed to the debt crisis (Figure 8). Since February, however, fresh tensions have emerged, generated by uncertainty over the result of the general election in Italy and developments in the Cyprus crisis, reflected in a generalized increase in yield spreads, which is nonetheless modest overall compared with the highs recorded in the past two years. The ten-year spread between Italy and Germany, which in January was at its narrowest since July 2011, widened again in March, while remaining well below the levels of November 2011.

The credit risk premiums of banks in the euro area begin to rise again

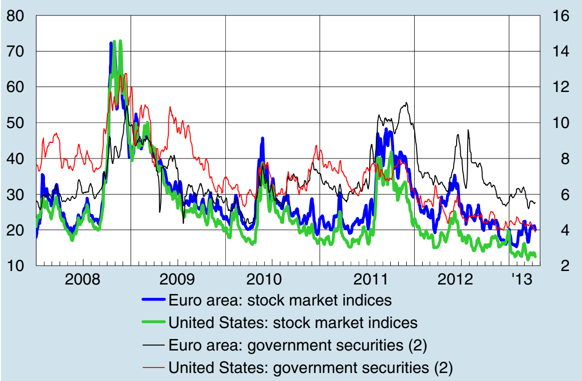
Since the start of the year the five-year CDS spreads of the main banks have widened by around 20 basis points on average in the euro area, while narrowing by around 20 basis points in the United States. The risk premiums of non-financial corporations remained virtually unchanged for bonds denominated in euros and in dollars (Figure 9).

Share prices continue their rally

Stock market indices in the main advanced countries posted gains, above all in Japan and in the United States (Figure 10), where prices hit new all-time highs in part thanks to the release of better-than-expected macroeconomic data. Since the start of the year the S&P 500 index in the United States has risen by 11.4 per cent, while the Dow Jones Euro Stoxx index has gained 2.2 per cent; the expected volatility implied by the prices of options on these indices was at its lowest in six years (Figure 11).

Figure 11

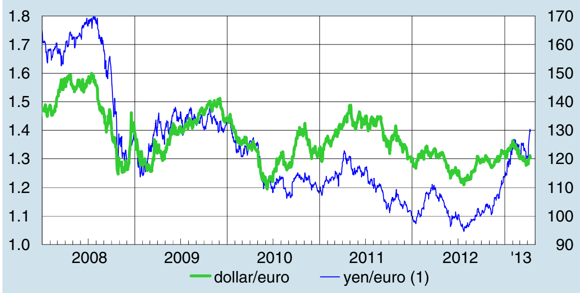
Implied volatility of stock market indices and government securities prices (1)
(percentage points)



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.

Figure 12

Bilateral exchange rates
(daily data)



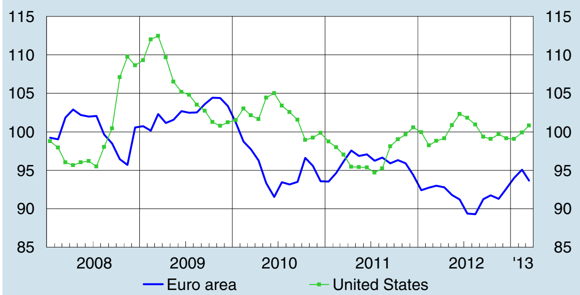
Source: ECB.
(1) Right-hand scale.

Financial conditions in the emerging countries reflect the general uncertainty

Following the marked improvement in the second half of 2012, in recent months financial conditions in the main emerging countries have been affected by persistent doubts over the strength of the economic upturn. The risk premiums on sovereign bonds have increased moderately, share prices have fallen overall, and portfolio investment has diminished.

Figure 13

Nominal effective exchange rates (1)
(monthly data; indices, 2008=100)



Sources: ECB and Federal Reserve.
(1) An increase implies an appreciation.

The appreciation of the euro stops

Since the beginning of the year the euro has depreciated by 1.1 per cent against the dollar, but has gained 14.0 per cent against the yen, following the further relaxation of monetary conditions in Japan (Figure 12); in nominal effective terms the upward trend of the euro that began last year continued (Figure 13).

Although it has ceased to strengthen against the dollar, in the same period the Chinese renminbi continued to appreciate in nominal effective terms (by 4.9 per cent), owing to the weakness of the other Asian currencies.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

Economic activity remained weak in Italy, but became less slack at the beginning of the year. Growth is being affected above all by the drop in households' disposable income and the uncertainty weighing on firms' investment decisions. Exports, however, appear to have picked up again after the sharp slowdown in the last quarter of 2012. The latest assessments by firms still show no sign of any immediate improvement in investment conditions.

GDP falls in the fourth quarter of 2012 ...

In the final quarter of last year GDP fell at a faster pace, by 0.9 per cent compared with the previous quarter (Table 2), pushed down by the 2.6 per cent drop in value added in industry excluding construction. On the demand side, weak household spending and investment contributed to the contraction; the change in stocks shaved 0.7 percentage points off growth (Figure 14). The support to growth provided by net foreign demand (0.4 percentage points) is attributable to a fall in imports and the still positive trend in exports. In 2012 as a whole, GDP contracted by 2.4 per cent with respect to the previous year.

... but the contraction eases at the beginning of the year

The latest data suggest that GDP declined in the first quarter of 2013, but at a slower pace, in part thanks to the improvement in foreign trade. Business surveys do not point to any imminent inversion of the cyclical phase; firms' assessments of economic conditions have not improved and consumers remain pessimistic.

Inflation is falling, to levels close to the euro-area average

In the early months of the year inflation (measured by the twelve-month change in the harmonized index of

Table 2

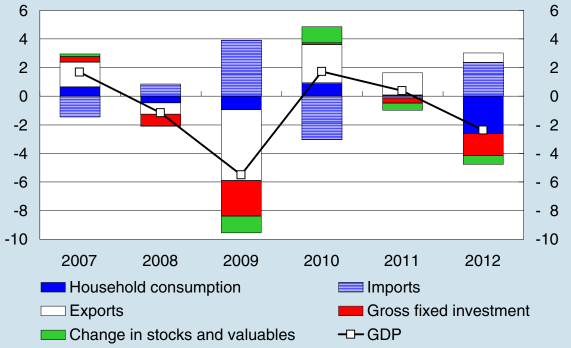
GDP and its main components (1)
(percentage changes on previous period)

	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2012 (2)
GDP	-0.9	-0.7	-0.2	-0.9	-2.4
Total imports	-3.6	-0.6	-1.7	-0.9	-7.7
National demand (3)	-1.9	-1.2	-1.0	-1.3	-5.3
National consumption	-1.6	-1.0	-0.9	-0.5	-3.9
household spending	*-1.5*	*-1.1*	*-1.1*	*-0.7*	*-4.3*
other (4)	*-1.8*	*-0.6*	*-0.1*	*0.1*	*-2.9*
Gross fixed investment	-3.7	-1.8	-1.2	-1.2	-8.0
construction	*-3.6*	*-1.0*	*-1.1*	*-1.1*	*-6.2*
other investment goods	*-3.8*	*-2.7*	*-1.3*	*-1.4*	*-9.9*
Change in stocks and valuables (5)	0.2	-0.1	-0.1	-0.7	-0.6
Total exports	-0.6	1.0	1.2	0.3	2.3

Source: Istat.
(1) Chain-linked volumes; data adjusted for seasonal and calendar effects. – (2) Data not adjusted for calendar effects. – (3) Includes the change in stocks and valuables. – (4) Expenditure of general government and non-profit institutions serving households. – (5) 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.

consumer prices) continued the downward trend under way since the end of the third quarter of 2012, reaching 1.8 per cent in March, barely above the euro-area average. The deceleration of prices is attributable above all to the end, in the autumn of 2012, of the impact of the indirect tax increases and the marked easing of pressures from energy goods, as well as the weakness of domestic demand. Producer price inflation remains moderate.

3.2 FIRMS

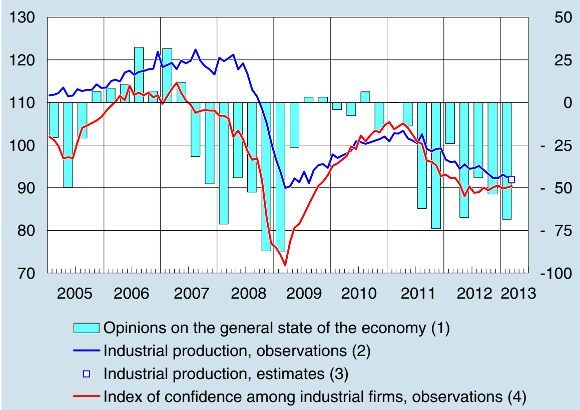
Industrial activity was stable in the early months of this year, interrupting the prolonged decline that began in mid-2011; business opinion surveys do not point to a significant upturn in the first half of the year. Capital spending is still restrained by the uncertain outlook for domestic demand and the ample margins of spare capacity.

Industrial production stabilizes in the first quarter of 2013

On the basis of our estimates for March, industrial production stabilized on average in the first three months of 2013 after slumping by 2.2 per cent in the fourth quarter of 2012 compared with the third (Figure 15). In 2012 as a whole the overall index fell by 6.1 per cent compared with the previous year; the decline was sharper for capital goods and intermediate goods (6.3 and 8.9 per cent respectively), more moderate for consumer goods (4.3 per cent).

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. March 2013", reported in Supplements to the *Statistical Bulletin*, No. 19, 2013; the data refer to industrial firms only; right-hand scale. – (2) Industrial production adjusted for seasonal and calendar effects; index, 2010=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, 2010=100.

The trend of new domestic orders in industry and the findings of business opinion surveys do not foreshadow a cyclical inversion in the short term. Surveys of service firms confirm the weakness of activity.

Investment is held back by slack demand

Capital expenditure continues to be affected by the uncertain outlook for domestic demand, low levels of capacity utilization and the conditions for obtaining credit. Over 2012 as a whole capital expenditure fell by 8.0 per cent, reflecting the nearly 10 per cent decline in investment in machinery, equipment and transport equipment. According to the quarterly survey of firms conducted in March by the Bank of Italy together with *Il Sole 24 Ore*, businesses, especially service firms, expect their spending on capital goods to decrease again this year, a view that reflects their still negative assessments of the conditions for investing (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 quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore*[1] in March found firms' assessments of the conditions for investing more unfavourable than those reported in December

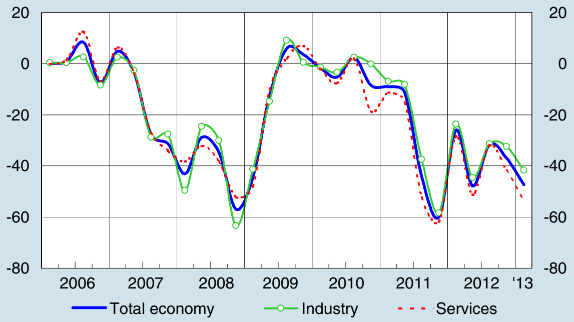
[1] The survey covers a sample of firms with 50 or more workers in industry excluding construction and private non-financial services.

(see the figure). The negative percentage balance between responses indicating improvement and those indicating deterioration worsened, returning to the levels recorded last summer.

Firms' expectations for investment spending in the first half of 2013 compared with the second half of 2012 were stable with respect to the December survey, with a gap of 16 percentage points between those expecting to lower and those expecting to increase investment (see the table). For 2013 as a whole, however, the balance between the share of firms expecting to cut back and those expecting to expand investment was more unfavourable than in the previous survey (about 19 percentage points, against 14 points in December).

The balance worsened more sharply for service firms, while in industry excluding construction the change was limited. Compared with the previous survey, the picture is relatively less unfavourable for investment by industrial firms that get a large part of their sales revenues from exports.

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, March 2013", Supplements to the *Statistical Bulletin*, No. 19, 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 2013 with respect to that in 2012			
Higher	25.3	16.2	20.9
About the same	37.6	41.0	39.3
Lower	37.1	42.8	39.8
Expectations of spending on investment in the first half of 2013 with respect to that incurred in the second half of 2012			
Higher	18.4	18.6	18.5
About the same	48.9	44.9	47.0
Lower	32.7	36.5	34.5

(1) Percentages weighted by the number of firms. See "Survey on *inflation and growth expectations,* March 2013", Supplements to the *Statistical Bulletin*, No. 19, 2013.

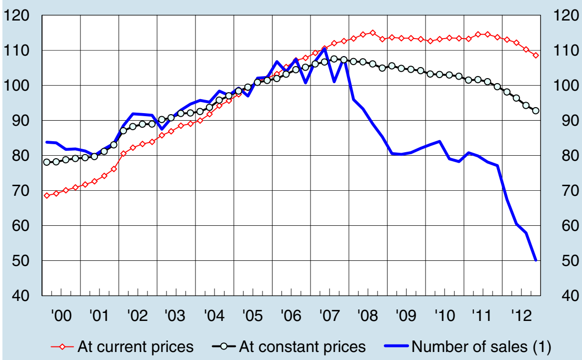
The cyclical phase in the construction sector remains negative

According to data from the Property Market Observatory of the Revenue Agency, the number of house sales fell by more than 25 per cent in 2012, to slightly above half the peak level registered five years earlier (Figure 16). House prices came down by 2.7 per cent, bringing the cumulative decline since the summer of 2011 to 5.2 per cent (8.7 per cent taking consumer price inflation into account).

The latest indicators suggest that the situation of the real-estate market remains difficult. According to the survey of the housing market conducted in January by the Bank of Italy together with Tecnoborsa and the Property

Figure 16

House prices and sales in Italy
(quarterly data; indices, 2005=100)



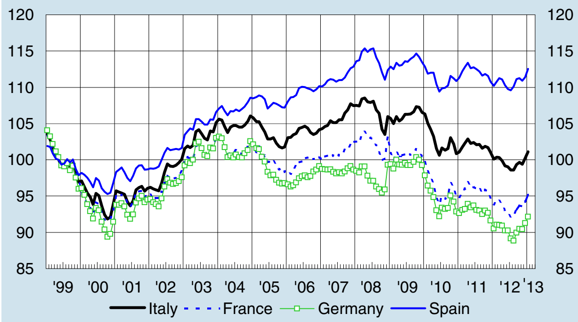
Sources: Based on data from the Revenue Agency's Property Market Observatory and Bank of Italy, Istat and *Consulente Immobiliare* data.
(1) Adjusted for seasonal and calendar effects.

Market Observatory, estate agents' short-term expectations continue to be negative, though with some signs of stabilization. The difference between asking prices and offer prices remains wide, as is shown by the further increase in the final discounts to owners' original asking prices.

Figure 17

Indicators of competitiveness (1)

(indices, 1999=100)



Sources: Based on IMF, OECD and Eurostat data.
(1) In relation to 61 competitor countries; based on producer prices of manufactured goods. An increase in an index indicates a loss of competitiveness. The latest data refer to January 2013.

Competitiveness gains are trimmed by the appreciation of the euro in the last few months

Italy's cumulative gain in competitiveness since 2010 (nearly 5 percentage points if measured by producer prices; Figure 17), together with the simultaneous decline in domestic demand, has helped to improve the external current account balance. To a similar extent as in France and Germany, that gain has been trimmed since last August by the nominal appreciation of the euro.

Firms' operating profitability remains low

According to estimates based on the national accounts, in the fourth quarter of 2012 non-financial firms' operating profitability – measured as gross operating profit over value added in the twelve months to December – stagnated at historically low levels. Self-financing and net financial costs were practically unchanged in relation to value added.

Liquidity conditions are still strained

Firms' liquidity conditions are exacerbated by their significant volume of claims on general government. Our latest estimates, based on data for the end of 2011, put these receivables at nearly 6 per cent of GDP.[1] The average payment time of general government (weighted by the amount of the claims) is 190 days, more than double the term envisaged by contractual agreements. The macroeconomic impact of the Government's recent measures could help restart investment (see the box "The macroeconomic impact of the unfreezing of general government debts"). The size of the effects will depend on the time taken to carry out the intervention, the procedure for dividing payments among creditor firms and the impact on firms' and financial markets' expectations.

[1] See D. Franco, "Audizione in merito all'esame della Relazione al Parlamento approvata dal Consiglio dei Ministri il 21 marzo 2013", testimony before the Chamber of Deputies, Rome, 28 March 2013.

THE MACROECONOMIC IMPACT OF THE UNFREEZING OF GENERAL GOVERNMENT DEBTS

At the beginning of the April, with a view to stimulating aggregate demand and hastening economic recovery, the Government approved a measure for the payment of a substantial portion of general government entities' debts.[1] The amount appropriated comes to €40 billion, over three quarters of which is allocated to speeding the payment of commercial debts[2] already

[1] Decree Law 35 of 8 April 2013 (Urgent provisions for the payment of general government's overdue debts, for the financial readjustment of local and regional authorities and concerning the payment of local authority taxes).

[2] See Table 3 in D. Franco, "Audizione in merito all'esame della Relazione al Parlamento approvata dal Consiglio dei Ministri il 21 marzo 2013", op. cit.

due at the end of 2012 and the rest mainly to tax refunds. Payments of €20 billion are to be made both in 2013 and in 2014.

The macroeconomic effect of the measure will depend on how firms make use of the amount they receive: for example, carrying out investment plans otherwise shelved for lack of funds, paying wages and salaries in arrears, or precautionary hoarding.

Each of these uses is associated with a different multiplier effect (a measure of the quantity of demand generated on average by each euro paid). On the basis of the estimates obtained using the Bank of Italy's models, which are consistent with the main results found in the economic literature, the multiplier is higher (close to 1) in the case of investment in machinery and working capital, while it is lower (equal to about 0.3) when the funds are used to pay wage and salary arrears and the impact on aggregate demand is transmitted via the increase in households' disposable income. The multiplier is still lower, almost nil, for the amounts that firms hold for precautionary purposes.

Forecasts of the Government measure's effects on growth are highly uncertain, since it is difficult to predict the relative importance of the different possible uses of funds. To offer an example, on the conservative assumption that the additional resources allocated to financing new investments in the two years 2013-14 amount to 12 per cent of the total[3] and that the remainder is employed in equal parts to finance working capital (e.g. to pay wage and salary arrears) and build a cushion for precautionary purposes, the measure could boost GDP growth by a total of between 0.5 and 0.7 percentage points in the two years 2013-14.

The estimates do not consider additional unquantifiable positive spillovers, tied to the effects of greater liquidity on firms' ability to repay outstanding loans. This could translate into a lowering of the default rate and a consequent reduction in the interest rates on new bank loans. Furthermore, payment of a substantial share of the debts within a short time could curb the death rate of enterprises, with a potentially significant impact on economic activity.

Positive effects will also derive from the full application of the European directive on public authorities' compliance with a definite and limited time frame for payment, which entered into force on 1 January of this year:[4] a lower degree of uncertainty about cash flows would make firms' financial planning more efficient, facilitating their investment decisions.

Overall, the macroeconomic impact of the payment of general government debts is certain to be positive. The size of the effects will also depend on a variety of additional factors, such as the time taken to carry out the intervention, the procedure for dividing the payments among creditor firms, each firm's particular conditions and the effects on firms' and financial markets' expectations. The implementation of the rules will need to be monitored and any changes required to ensure their effectiveness must be introduced.

[3] The estimate of the resources allocated to investment is consistent with the assumptions used to estimate the reduction in investment due to firms' difficulty in obtaining credit (see the box "The sovereign debt crisis and the revisions of the growth projections", *Economic Bulletin*, January 2013).

[4] Directive 2011/7/EU, transposed in Italy by Legislative Decree 192/2012, which governs its application to commercial transactions concluded from January 2013 onwards.

Financing problems increase, especially for small firms

Bank lending, net of repos and bad debts, has continued to contract for firms of all sizes (Figure 18). However, small firms are less able than larger ones to tap such alternative financing sources as the bond market, and are also faced with a higher cost of bank credit: the difference between the interest rate on loans of less than €250,000, which proxies the cost of credit for small firms, and that on loans above that threshold was 180 basis points in February, 60 basis points higher than before the sovereign debt crisis. According to the monthly Istat survey on business sentiment in the manufacturing sector, in March the net percentage of small firms reporting a worsening in their credit conditions was equal to 30.2 per cent, compared with 26.3 per cent for larger firms.

Firms' overall debt remained just below 80 per cent of GDP (Figure 19), some 20 percentage points lower than the average ratio in the euro area.

Net bond issues decline

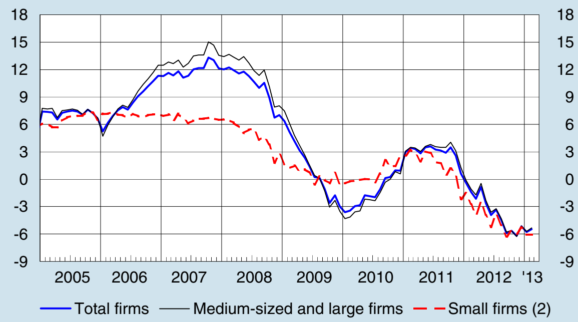
Italian firms' recourse to financial markets declined somewhat, with net bond issues amounting to €4.4 billion in the fourth quarter of 2012 compared with €6.0 billion in the third (see Table 7). According to provisional Dealogic data on gross issues, placements by companies belonging to Italian groups came to about €5 billion in the first quarter of 2013.

Fund-raising on the equity market fell to virtually nil in the fourth quarter of last year, from €2.2 billion in the third.

Figure 18

Firms' bank debt by size of firm (1)

(monthly data; 12-month percentage changes)

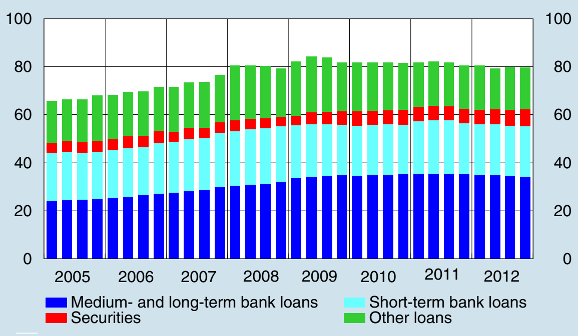


(1) Non-financial firms. Data adjusted for the accounting effect of securitizations. Loans exclude repos, bad debts and some minor items included in the Eurosystem harmonized definition of the aggregate, referred to in Figure 25. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Figure 19

Debt of non-financial firms (1)

(quarterly data; 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.

3.3 HOUSEHOLDS

Contracting income and great uncertainty about households' economic and employment prospects continue to weigh on consumption, which has been falling for nearly two years.

Consumption continues to contract, declining in the fourth quarter of 2012 ...

Private consumption fell by 0.7 per cent in the fourth quarter of 2012 compared with the third. The drop was sharper for purchases of durable and semi-durable goods, while spending on services turned slightly upwards. Since the middle of 2011 consumption has contracted by a total of more than 5 per cent, almost twice the decline recorded during the 2008-09 recession, though the latter was deeper in terms of lost output.

The fall in consumption reflected the reduction in disposable income (down by an average of 4.8 per cent in real terms in 2012), chiefly ascribable to the deterioration in labour market conditions and the increase in the tax burden (Figure 20). The saving rate was 8.3 per cent in the fourth quarter, compared with 8.5 per cent in the third, continuing the stabilization under way since the beginning of 2011.

... and probably again in the early months of 2013, as households' expectations remain fragile

Households' confidence remains tenuous: in March their assessments of their own current situation and that of the Italian economy stayed at historically low levels, though the leading indicators offer some signs of an abatement of pessimism.

The sharp contraction in retail sales and new car registrations continued, with the latter falling by 4.7 per cent in the first quarter.

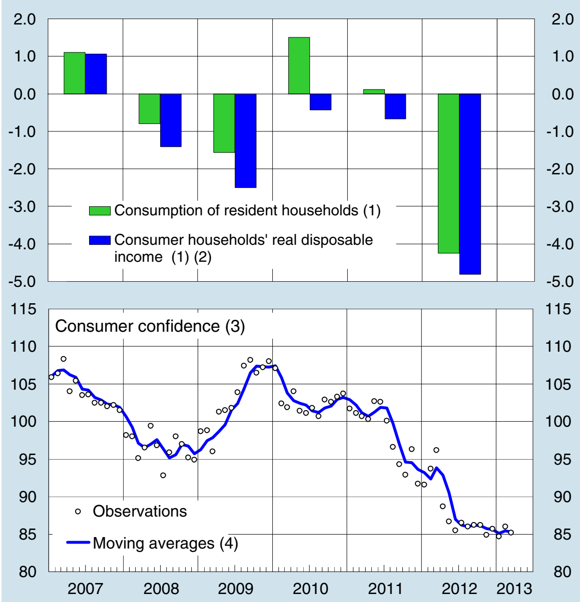
Household debt is still low; its cost holds stable

Household debt remained virtually unchanged in the fourth quarter of 2012, but its ratio to disposable income rose by 0.5 percentage points to 65.7 per cent because of the decline in the latter (Figure 21). Households' debt service burden (payment of interest plus repayment of principal) decreased by 0.3 percentage points to 9.8 per cent of disposable income. The decline in interest rates on loans for house purchase and consumer credit, which began in March 2012, continued over the quarter as a whole, but came to a halt in January of this year (Figure 22).

Figure 20

Consumption, disposable income and consumer confidence in Italy

(percentage changes and indices)

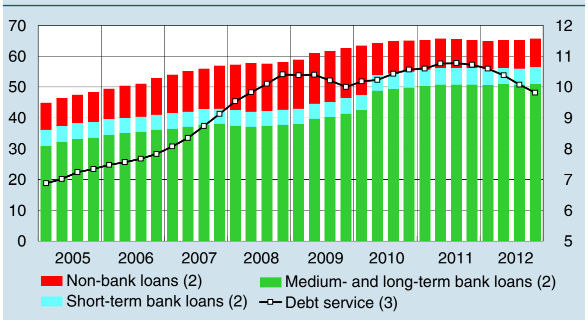


Source: Based on Istat data.
(1) Annual data; chain-linked volumes; percentage changes in relation to the previous year. – (2) Obtained using the consumption deflator for resident households. – (3) Seasonally adjusted monthly data. Indices, 2005=100. – (4) Monthly data; moving averages for the three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

Figure 21

Household debt (1)

(quarterly data; as a percentage of gross disposable income)

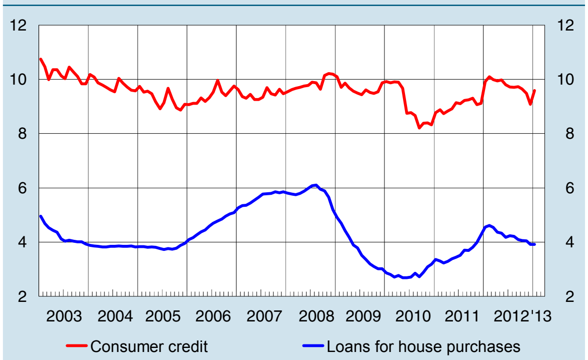


Sources: Based on Bank of Italy and Istat data.
1) End-of-quarter stocks and flows in the twelve months to the end of the quarter. Includes securitized loans. – (2) There is a break in the statistics on the distribution between bank and non-bank loans for the second quarter of 2010. For the methodology see the notice in "Monetary and Financial Indicators. Financial Accounts", Supplements to the *Statistical Bulletin*, No. 58, 2010. – (3) Right-hand scale. Estimated cost of debt service (payment of interest and repayment of principal) for consumer households only.

Figure 22

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.

3.4 FOREIGN DEMAND AND THE BALANCE OF PAYMENTS

In the last part of 2012 net foreign demand continued to make a positive contribution to GDP growth, thanks to the increase in exports and above all to the large fall in imports. The pronounced improvement in the merchandise balance, which was in surplus again from March 2012 onwards, took the current account back into surplus. Flows of foreign capital have seesawed, but in the last few months net purchases of Italian debt securities have resumed.

In the last quarter of 2012 exports of goods and services continue to grow ...

In the fourth quarter of 2012 exports of goods and services expanded by 0.3 per cent in volume compared with the previous quarter (as against 1.2 per cent in the third), benefiting from the acceleration in world trade. In contrast with the earlier pattern, exports to non-EU markets grew more slowly than those to EU countries. There was nonetheless an increase in exports to China. As regards EU markets, there was a significant contraction in exports to France and Germany, in line with the overall reduction in these countries' imports. At sector level, there was a further increase in exports of pharmaceutical products, accompanied by a decrease in sales of metal products and transport equipment. Turning to services, the growth in exports was driven by travel.

... while imports of goods contract further

The protracted weakness of domestic demand was reflected in the eighth successive quarterly contraction in imports of goods and services in volume (with a decrease of 0.9 per cent compared with the previous quarter), owing primarily to the large falls among imports of goods recorded by transport equipment (especially automobiles) and electronic products (solar cells).

In the first two months of 2013 Italy's trade balance with non-EU countries remained in surplus; in January the balance with EU countries was also in surplus, with imports decreasing more than exports.

The current account of the balance of payments continues to improve, moving into surplus in the last quarter of 2012

In the fourth quarter of 2012 the balance on Italy's external current account turned positive after seven years. Though there was still a deficit for the year as a whole (€11.6 billion), the balance improved by €36.7 billion or 2.3 per cent of GDP (Table 3). The merchandise balance swung from a deficit of €17.4 billion in 2011 to a surplus of €17.8 billion, the largest in the last ten years; the improvement was entirely due to the surplus on non-energy products. A positive contribution to the turnaround in the current account came from services, the deficit on which was virtually eliminated, thanks to the growth in sales abroad, with most components recording improvements, including financial services, insurance services, R&D and travel. The increase

Table 3

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

	2011	2012	Oct. 2011- Jan. 2012	Oct. 2012- Jan. 2013
Current account	**-48.3**	**-11.6**	**-12.3**	**-0.8**
Goods	-17.4	17.8	-3.5	7.2
non-energy products (2)	*42.4*	*79.4*	*18.3*	*26.7*
energy products (2)	*-59.7*	*-61.6*	*-21.8*	*-19.6*
Services	-5.7	-0.6	-2.5	-1.2
Income	-9.4	-13.2	-2.2	-4.3
Current transfers	-15.8	-15.6	-4.0	-2.4
Capital account	**0.6**	**3.8**	**2.1**	**2.6**
Financial account	**72.8**	**7.0**	**21.1**	**-3.0**
Direct investment	-13.9	-16.2	8.1	4.9
Portfolio investment	-34.4	29.2	-23.7	54.8
Financial derivatives	7.5	1.7	3.1	2.0
Other investment	114.5	-6.3	34.2	-64.3
Change in official reserves	-0.9	-1.5	-0.6	-0.4
Errors and omissions	**-25.2**	**0.7**	**-10.8**	**1.2**

(1) For January 2013, provisional data. – (2) Based on Istat foreign trade data.

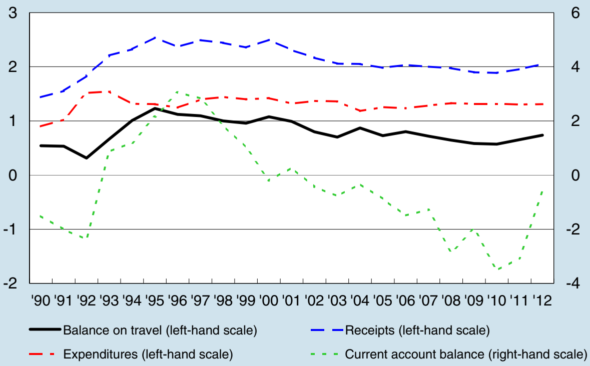
in the surplus on the latter appears to have halted the decrease under way since 2001 (see the box "Italy's balance on tourist expenditure"). The data for January 2013 point to the improvement continuing.

ITALY'S BALANCE ON TOURIST EXPENDITURE

In 2012 the balance on foreign travel (for both work-related and personal reasons) registered receipts of €32.1 billion and expenditure of €20.5 billion, resulting in a surplus of €11.5 billion, more than €1 billion better than in 2011; it is the only item of Italy's current account continuously in surplus for the entire period for which data are available (from 1970 onwards).[1]

Since the start of the last decade, however, the surplus on foreign travel has diminished as a proportion of GDP, declining from 1.0 per cent in 2001 to 0.7 per cent in 2012 (see the figure). Foreign travel accounted for a third of the deterioration in the current account balance over that period.

Foreign travel and Italy's current account
(annual data; as a percentage of GDP)



Sources: Based on Bank of Italy and Istat data.

The decline in the surplus is mainly attributable to the particularly weak performance of receipts, which shrank by an average of 1.3 per cent a year in real terms and declined from 2.3 to 2.0 per cent of GDP. The contraction in Italy's share of the world market (from 5.5 to 4.0 per cent at current prices and exchange rates) was slightly larger than that recorded for France but nearly twice that of Spain, Italy's two main competitors in Europe. One factor in the sluggishness of receipts was the decline in the share of visitors with high per capita expenditure (particularly Germans and Japanese), only partly offset by the expanding share of visitors from the EU countries of eastern Europe. With the notable exception of Russia, the BRIC countries – potentially the main expanding markets – still account for a limited, though growing, share of receipts: 3.5 per cent for Brazil, China and India combined; 3.7 per cent for Russia).[2]

The South of Italy continues to play a modest role, accounting for 13 per cent of total receipts from foreign travel in 2012. The ratio of receipts to GDP in the South is about half that in the rest of the country. Greater difficulty in reaching the South from abroad and, more generally, the South's dearth of infrastructure are among the causes of this lag.

[1] Foreign travel is included under services in the balance of payments. As part of its duties for compiling the statistics on the balance of payments, the Bank of Italy conducts a survey of international tourism at the country's main border points. Every year the survey polls some 140,000 travellers (both foreigners entering the country and Italians leaving). The survey micro data are available on the Bank's website at http://www.bancaditalia.it/statistiche/rapp_estero/turismo-int/microdati-turismo.

[2] Nevertheless, compared with France and Spain, Italy's specialization towards the BRIC countries is slightly greater: in 2011 Brazil, China and Russia (receipts from India are not available from all countries) accounted for 5.0 per cent of Italy's total receipts, 4.9 per cent of Spain's and 3.9 per cent of France's.

Net foreign purchases of Italian securities have increased in the last few months

After making very large sales of Italian securities in the early part of 2012, non-residents have been buying since last May. Their purchases have gathered pace in the last few months, rising from €11.2 billion in the fourth quarter of 2012 to €19.4 in January 2013, of which government securities accounted for €12.9 billion.

The debit balance on TARGET2 decreases in the first quarter of 2013

According to the latest data, the Bank of Italy's TARGET2 debit balance vis-à-vis the ECB contracted slightly in the first quarter of 2013 (Figure 23) as a consequence of the recovery in capital inflows, above all in the form of purchases of government securities by non-residents.

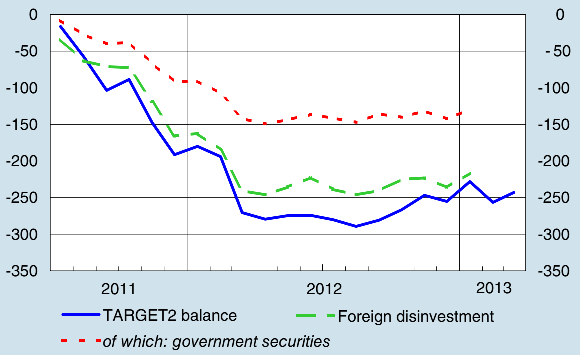
Direct investment slows

In 2012 direct investment was also depressed by the difficult cyclical conditions. Net foreign direct investment in Italy plummeted to €7.5 billion, from €24.7 billion in 2011, mainly owing to the decrease in corporate acquisitions (including reinvested profits); outward direct investment fell less, to €23.7 billion from €38.6 billion, above all because of the contraction in loans to foreign subsidiaries. The data for the fourth quarter of 2012 and January 2013 suggest a recovery in inward investment.

Figure 23

Bank of Italy balance on TARGET2 and foreign disinvestment (1)

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



(1) Balance vis-à-vis the ECB and foreign disposals of Italian securities and of loans and deposits vis-à-vis Italian resident banks. Foreign disinvestments: cumulative data from July 2011 onwards.

Italy's net external debt remains modest

At the end of 2012 Italy had €382 billion of net external debt; as a ratio to GDP it was 24.4 per cent, a relatively modest figure by comparison with the other main advanced countries. The increase compared with 2011 was largely due to the rise in the market value of Italian government securities in the fourth quarter of last year.

3.5 THE LABOUR MARKET

Employment in Italy diminished by an average of 0.3 per cent, or 69,000 persons, between 2011 and 2012 (Table 4), registering a progressive deterioration in the second half, while the labour force expanded significantly (by 2.3 per cent or 567,000 persons). The result was a sharp rise in the unemployment rate, which reached 11.2 per cent in December on a seasonally adjusted basis; the yearly average rose from 8.4 per cent in 2011 to 10.7 per cent in 2012. Actual per capita earnings decelerated again in nominal terms, from annual growth of 1.3 to 1.0 per cent, and in real terms they fell more sharply than in 2011. Developments in the first few months of 2013 indicate that the weak employment picture persists; according to our estimates, real earnings will continue to fall, although at a somewhat more moderate pace.

The contraction in industrial employment is only partially made good by the gain in the service sector

Total employment showed a decline of 0.6 per cent, or 148,000 persons, in the fourth quarter of 2012 compared with the year-earlier quarter, owing to contractions of 4.6 per cent in construction and 2.5 per cent in industry excluding construction, only partly offset by an increase of 0.5 per cent in service employment, mostly in the sectors of other personal and public services and accommodation and food services. Women's employment continued to grow, thanks exclusively to the contribution of foreigners. The number of persons in work declined in the North (partly owing to the earthquake in Emilia-Romagna in May; see the box) and in the South; it was broadly stable in the Centre.

The number of permanent jobs decreases

The fall in employment involved permanent payroll positions, which decreased by 1.0 per cent or 157,000, and continuous collaboration contracts, which fell by 4.8 per cent or 20,000. The numbers of fixed-term employees and self-employed workers remained roughly unchanged.

Table 4

Labour force status of the population (1)

	Average 2011	Average 2012	Change (2)	2011 Q4	2012 Q4	Changes (3)
			Thousands of persons			
Total persons in work	**22,967**	**22,899**	**-0.3**	**22,953**	**22,805**	**-0.6**
North	*11,932*	*11,901*	*-0.3*	*11,959*	*11,867*	*-0.8*
Centre	*4,819*	*4,818*	*0.0*	*4,780*	*4,788*	*0.2*
South	*6,216*	*6,180*	*-0.6*	*6,214*	*6,150*	*-1.0*
Employees	**17,240**	**17,214**	**-0.2**	**17,385**	**17,226**	**-0.9**
of which:						
fixed-term	*2,303*	*2,375*	3.1	*2,368*	*2,367*	*-0.1*
part-time	*2,825*	*3,107*	*10.0*	*2,937*	*3,187*	*8.5*
Self-employed	**5,727**	**5,685**	**-0.7**	**5,568**	**5,579**	**0.2**
Labour force	**25,075**	**25,642**	**2.3**	**25,382**	**25,793**	**1.6**
men	*14,733*	*14,909*	*1.2*	*14,831*	*14,943*	*0.8*
women	*10,342*	*10,733*	*3.8*	*10,551*	*10,850*	*2.8*
Population	**60,328**	**60,515**	**0.3**	**60,408**	**60,560**	**0.3**
			Per cent and percentage points			
Unemployment rate	**8.4**	**10.7**	**2.3**	**9.6**	**11.6**	**2.0**
men	*7.6*	*9.9*	*2.3*	*8.7*	*10.7*	*2.0*
women	*9.6*	*11.9*	*2.3*	*10.8*	*12.8*	*2.0*
North	*5.8*	*7.4*	*1.7*	*6.7*	*8.0*	*1.2*
Centre	*7.6*	*9.5*	*1.9*	*9.2*	*10.8*	*1.7*
South	*13.6*	*17.2*	*3.6*	*14.9*	*18.3*	*3.5*
Participation rate (15-64 years)	**62.2**	**63.7**	**1.4**	**63.0**	**64.1**	**1.1**
men	*73.1*	*73.9*	*0.9*	*73.5*	*74.1*	*0.6*
women	*51.5*	*53.5*	*2.0*	*52.5*	*54.1*	*1.5*
North	*69.3*	*70.3*	*1.0*	*70.1*	*70.5*	*0.4*
Centre	*66.2*	*67.5*	*1.3*	*66.7*	*68.0*	*1.4*
South	*51.0*	*53.0*	*2.0*	*51.7*	*53.6*	*1.8*
Employment rate (15-64 years)	**56.9**	**56.8**	**-0.2**	**56.9**	**56.6**	**-0.3**
men	*67.5*	*66.5*	*-0.9*	*67.0*	*66.1*	*-0.9*
women	*46.5*	*47.1*	*0.6*	*46.8*	*47.1*	*0.3*
North	*65.2*	*65.0*	*-0.2*	*65.3*	*64.8*	*-0.5*
Centre	*61.1*	*61.0*	*-0.1*	*60.5*	*60.6*	*0.1*
South	*44.0*	*43.8*	*-0.2*	*44.0*	*43.6*	*-0.3*

Source: Istat, labour force survey.
(1) Not seasonally adjusted data. – (2) Average 2012/average 2011; changes are in percentages for persons and percentage points for rates. – (3) 2012 Q4/2011 Q4; changes are in percentages for persons and percentage points for rates.

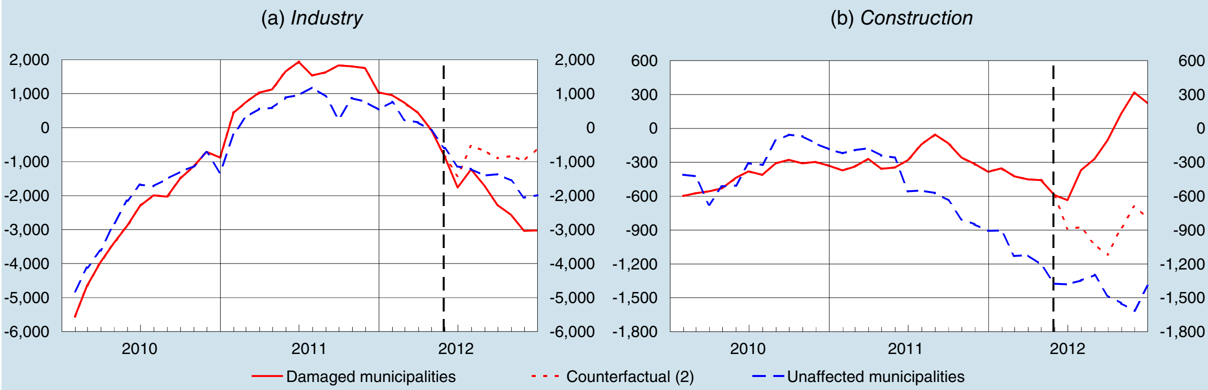
THE EFFECT OF THE EARTHQUAKE ON THE LABOUR MARKET IN EMILIA-ROMAGNA

A large area in Emilia-Romagna and the bordering parts of Veneto and Lombardy were hit by earthquakes on 20 and 29 May 2012. In Emilia-Romagna 53 municipalities were struck, most of them relatively small, with a total of 600,000 inhabitants (14 per cent of the regional and 1 per cent of the national population). The earthquake zone is characterized by a high concentration of industrial activity; over 2 per cent of all the employees in Italian industry live there, more than twice as many per square kilometre as in Italy overall.

The quake's impact on economic activity in Emilia-Romagna can be estimated, indirectly, by exploiting the monthly data issued by the computerized system for compulsory notification of hirings and terminations of payroll and assimilated workers. The methodology consists in comparing the variations in the number of these jobs in the municipalities affected by the earthquake with the variations in bordering, unaffected municipalities. In this way we can distinguish the effects of the earthquake from seasonal effects and other aggregate shocks.

The earthquake caused the loss of 2,400 industrial jobs in 2012 (20 per cent of the region-wide loss of industrial jobs). There was a sharp drop at the start of the summer, and the third and fourth quarters showed no signs of recovery (panel a in the figure). But thanks to the onset of rebuilding, the number of construction jobs increased by about 1,000 in the earthquake zone, compared with significant contraction in the adjoining municipalities and the rest of the region (panel b). The construction sector's support to employment faded in the fourth quarter, however. The earthquake's effects were also felt in wholesale and retail trade and in the restaurant sector, which shed a total of 1,100 jobs. Because of substantial collateral effects in other economic sectors, it is estimated that overall the damage caused by the earthquake led to the loss of 4,800 payroll jobs, or a third of the loss for the year in all of Emilia-Romagna.

Payroll positions (1)
(monthly data; 12-month changes)



Source: Based on data from Regione Emilia-Romagna, Servizio Lavoro.
(1) Twelve-month net balance between hirings and terminations in the reference month in the municipalities damaged and those not affected by the quake. Those damaged are the 53 municipalities identified in the decree of the Ministry for the Economy and Finance of 1 June 2012. Those unaffected are 72 municipalities that belong to the same local labour systems as those affected but that did not suffer earthquake damage. – (2) The counterfactual series is the estimated cumulative change in payroll jobs in the earthquake zone if there had been no earthquake, on the hypothesis – given their geographical proximity – that the quake itself is the sole determinant of the divergence in job trends between the two sets of municipalities.

Vacant jobs and hours worked both diminish

The poor employment picture in the fourth quarter was reflected in a decline in the number of vacancies and less intensive utilization of labour by firms. The job vacancy rate in industry and services fell to half that of a year earlier, from 0.6 to 0.3 per cent. Among firms with 10 or more employees the number of hours worked per capita fell by 1.9 per cent adjusted for calendar effects, the incidence of overtime slipped from 3.8 to 3.6 per cent, and wage supplementation rose from 30.4 to 42.1 hours for every thousand hours worked. While employment decreased, there was a pronounced and largely involuntary rise in part-time positions (by 7.9 per cent or 293,000 jobs).

The employment outlook is still poor

Provisional labour force survey data show a continuing decline in employment and a further rise in the jobless rate in the first two months of the year, although some movements in the opposite direction were observed in February. The number of wage supplementation hours authorized in the first quarter increased by 12.0 per cent year on year, despite the administrative freeze on the payment of benefits under waivers. According to business surveys conducted in March, firms expect a further loss of jobs in the second quarter (Figure 24).

The labour force continues to expand, especially among women and older workers

In the fourth quarter of 2012 the labour force continued to grow and was larger than in the year-earlier quarter by 1.6 per cent or 411,000 persons. The rise in the participation rate among persons aged 15-64 (from 63.0 to 64.1 per cent) involved all the main population groups except 15-24-year-old men (whose participation rate diminished by 0.4 percentage points). The increase in participation was particularly marked among women (from 52.5 to 54.1 per cent) and people aged 55-64 (from 40.8 to 43.5 per cent), presumably owing to the reform that raised the age requirements for pension eligibility.

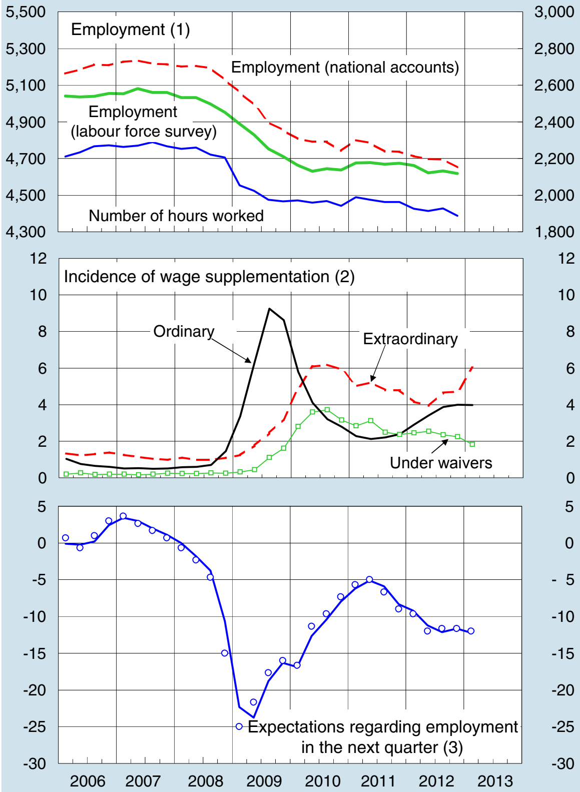
Unemployment increases, especially among young people

The unemployment rate rose to 11.6 per cent in the fourth quarter of 2012, two percentage points higher than a year earlier. Joblessness worsened most sharply among workers with little schooling (from 13.2 to 15.9 per cent among those with only elementary education; from 6.0 to 6.6 per cent among university graduates) and among young people. In the 15-24 age group the unemployment rate jumped from 32.6 to 39.0 per cent, the highest figure recorded since 1992, the first year for which data consistent with the new labour force survey are available; among young women in the South the rate exceeded 50 per cent.

Figure 24

Employment, wage supplementation and employment expectations in industry excluding construction

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



Sources: Based on Istat (NACE 2007), labour force surveys, quarterly economic accounts and business sentiment surveys, and INPS data (Statistical contribution code).
(1) Total employment (persons in work) as defined by the quarterly national economic accounts and the Istat labour force surveys (left-hand scale); millions of hours worked as defined in the quarterly economic accounts (right-hand scale), adjusted for calendar effects. – (2) Average number of full-time equivalent workers for whom wage supplementation was authorized in the quarter as a percentage of the number of full-time equivalent employees as defined in the quarterly economic accounts. – (3) Balance between percentages of manufacturing firms expecting to increase/decrease their workforce in the next three months. Single observations and three-term moving averages, quarterly data.

Actual per capita earnings continue to flag

On average for 2012, while consumer price inflation accelerated (from 2.9 to 3.3 per cent), the growth of nominal actual earnings per employee labour unit continued to slow, both in the economy as a whole (from 1.3 to 1.0 per cent) and in the non-farm private sector (from 2.0 to 1.6 per cent). In the fourth quarter the growth in actual earnings for the entire economy came to 1.0 per cent compared with a year earlier, 0.7 points less than the corresponding gain in contractual earnings. The difference was accounted for exclusively by public sector employees, while actual per capita earnings in the non-farm private sector rose at virtually the same pace as contractual earnings (2.1 and 2.3 per cent respectively).

3.6 PRICE DEVELOPMENTS

In the first quarter of the year consumer price inflation continued the downward trend that set in at the end of the summer of 2012, reaching levels just above the euro-area average. Contributory factors included the cessation, since last autumn, of the effects of past increases in indirect taxes, the weakness of domestic demand and the sharp deceleration in energy prices, which also attenuated pressures on producer prices.

In the early months of 2013 inflation falls below 2 per cent, back in line with the euro area

In March the twelve-month increase in the consumer price index (CPI) slowed to 1.6 per cent, down from 2.3 per cent in December (Table 5). Energy prices decelerated sharply (to 3.4 per cent in March, from over 11 per cent at the end of 2012); core inflation, measured net of the most volatile components, stood at just under 1.5 per cent. The gap between the growth of the overall index and that at constant taxation, equal to almost one percentage point on average in 2012, virtually closed, owing to the dissipation of the effects of the indirect tax increases enacted in 2011.

The differential between inflation in Italy and average inflation in the euro area (measured by the harmonized index of consumer prices) has progressively narrowed since last autumn. In 2012 as a whole it was 0.8 percentage points (0.2 in 2011), reflecting the impact of the fiscal measures; in March it was 0.1 percentage points.

Producer prices slow, reflecting the slowdown in energy prices and weak domestic demand

In February producer price inflation fell sharply, to 0.5 per cent from 2.4 per cent in December, above all owing to the end of the prolonged rise in energy prices. The industrial and service firms surveyed in March by the Bank of Italy together with *Il Sole 24 Ore* expected only very modest adjustments to list prices, reflecting feeble domestic demand. The purchasing managers indices in March gave similar indications regarding firms' assessments of their sales prices.

Inflation expectations improve

In April the inflation expectations of the professional forecasters surveyed by Consensus Economics came to 1.9 per cent on average for this year, revised down from the survey conducted in December.

Table 5

Indicators of inflation in Italy

(12-month percentage changes)

	HICP (1)			CPI (2)		PPI (3)
	Overall index	Excl. energy and food	Overall index at constant taxation (4)	Overall index	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	5.1
2012	3.3	2.0	2.5	3.0	1.7	4.1
2012 - Jan.	3.4	2.0	2.4	3.2	2.0	5.2
Feb.	3.4	2.0	2.4	3.3	2.0	5.2
Mar.	3.8	2.5	2.7	3.3	1.9	4.8
Apr.	3.7	2.3	2.7	3.3	1.9	4.6
May	3.5	2.2	2.5	3.2	1.8	4.4
June	3.6	2.3	2.5	3.3	1.9	4.2
July	3.6	2.6	2.7	3.1	1.9	3.8
Aug.	3.3	2.0	2.4	3.2	2.0	4.5
Sept.	3.4	1.8	2.5	3.2	1.6	4.2
Oct.	2.8	1.4	2.3	2.6	1.3	3.5
Nov.	2.6	1.4	2.2	2.5	1.3	2.8
Dec.	2.6	1.6	2.3	2.3	1.5	2.4
2013 - Jan.	2.4	1.7	2.2	2.2	1.5	0.7
Feb.	2.0	1.4	1.9	1.9	1.3	0.5
Mar.	1.8	1.5	1.7	1.6	1.3	….

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.

3.7 BANKS

With the economic outlook marked by great uncertainty, lending to firms and households continued to contract as a consequence of both weak demand and persistently tight supply conditions. The latter show the effects of the recession-induced deterioration in the quality of bank assets. The recession has hit Italian banks' profitability, but their capital structure has remained solid. Italian banks continue to enjoy robust retail funding; their fund-raising difficulties on international markets, while still not completely over, have abated.

Retail funding picks up ...

Between the end of November and the end of February the stock of resident customers' deposits with Italian banks expanded further, by about €38 billion. The twelve-month rate of growth rose from 6.8 to 7.9 per cent (Table 6). The acceleration reflects the pick-up in deposits of households.

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	November 2012	February 2013	November 2012	February 2013
Assets				
Loans to Italian residents (4)	1,930,099	1,911,883	-1.1	-1.1
of which: to firms (5)	*873,960*	*865,136*	*-3.4*	*-2.6*
to households (6)	*611,128*	*606,944*	*-0.3*	*-0.7*
Claims on central counterparties (7)	55,594	64,836	157.7	158.7
Debt securities excl. bonds of resident MFIs (8)	500,029	505,075	28.4	12.4
securities of Italian general government entities	*358,320*	*365,302*	*48.2*	*27.3*
Claims on the Eurosystem (9)	35,439	32,354	12.3	199.1
External assets (10)	350,877	347,604	-1.5	-0.5
Other assets (11)	1,374,174	1,352,315	13.5	4.3
Total assets	**4,246,212**	**4,214,067**	**7.1**	**3.7**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,192,925	1,231,115	6.8	7.9
Deposits of non-residents (10)	354,606	334,653	-15.5	-13.6
Liabilities towards central counterparties (7)	111,893	109,142	27.5	19.9
Bonds (13)	579,893	572,263	-6.7	-5.9
Liabilities towards the Eurosystem (14)	276,012	283,166	75.0	39.9
Liabilities connected with assignments of claims	146,145	147,625	-6.2	-13.4
Capital and reserves	371,258	385,352	-1.3	-1.8
Other liabilities (15)	1,213,481	1,150,751	18.0	7.1
Total liabilities	**4,246,212**	**4,214,067**	**7.1**	**3.7**

Source: Supervisory reports.
(1) The figures for February 2013 are provisional. – (2) Millions of euros. – (3) Adjusted for reclassifications, value adjustments and exchange rate variations. 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) Only includes repos. – (8) Excludes bonds of resident monetary financial institutions, i.e. banks and money market funds. – (9) 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. – (10) In the period considered, these refer mainly to interbank transactions. – (11) Bonds issued by resident MFIs, loans to resident MFIs, shares and other equity of resident companies, cash, money market fund units, derivatives, movable and immovable goods, and other minor items. – (12) Excludes liabilities connected with assignments of claims. – (13) Excludes liabilities towards resident MFIs. – (14) Main refinancing operations, longer-term refinancing operations, marginal lending facility, fine-tuning operations, and other minor items. – (15) Bonds held by resident MFIs, money market fund units, derivatives, and other minor items.

... but wholesale funding still shows strains

In the three months to February banks' net bond issuance continued to be negative, with net redemptions amounting to about €8 billion. Non-residents' deposits and liability-side net repos with central counterparties, which reflect interbank transactions with foreign banks, fell by €20 billion and €12 billion respectively.

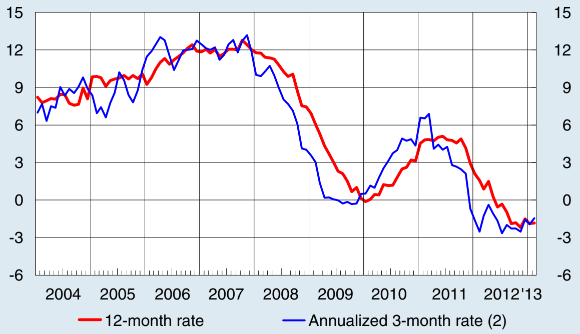
Lending to households and firms slackens further

Bank loans to the non-financial private sector continued to contract: in the three months to February they fell by 1.4 per cent on a seasonally adjusted annual basis, adjusted for the accounting effect of securitizations (Figure 25). Loans to firms declined by 1.8 per cent, those to households by 1.0 per cent.

Figure 25

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

(monthly data; percentage changes)



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

Credit demand remains weak and supply conditions tight

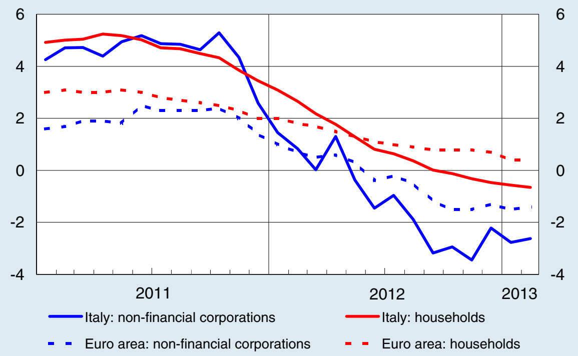
The pronounced uncertainty about the economic outlook continues to influence both credit demand and supply (see the box "Recent developments in the Italian credit market"). Requests by firms and households for bank loans show the effects, in particular, of the decline in business investment and pessimism about the prospects of the housing market. The bank lending survey for the fourth quarter of 2012 indicated that supply-side conditions remained tight, though a bit less so than in the previous quarter (see the box "Credit supply and demand in Italy"); surveys of firms report that the difficulty of access to credit remained acute in the first few months of this year.

RECENT DEVELOPMENTS IN THE ITALIAN CREDIT MARKET

In the last few months credit conditions have remained tight, both in the euro area as a whole and to a greater degree in Italy. Lending to non-financial corporations in Italy decreased, although at a slower pace; the contraction in lending to households continued (see the figure). The decline in the cost of credit over the first nine months of 2012 came to a halt.

Bank lending to non-financial corporations and households (1)

(monthly data; 12-month percentage changes)



(1) The percentage changes are calculated net of the effects of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. The data are adjusted for the accounting effects of securitizations.

These developments reflected only in part the weakness of the demand for credit due to the fall in investment and the deterioration in consumer confidence and the outlook for the property market. Another factor was the persistence of tight conditions on the supply side, owing above all to the effect of the economic cycle on banks' balance sheets and borrowers' creditworthiness, as well as the uncertainty about the future conditions for banks' funding.

The increase in credit risk is almost certainly the most important factor. The second recession in four years, together with the rise in interest rates caused by the sovereign debt tensions, has brought a considerable worsening in the quality of lending to firms, for which the ratio of new bad debts to outstanding loans rose at the end of 2012 to a level only just below the peaks of the early 1990s.[1] It is estimated that the cost of short-term loans to firms in the fourth quarter of last year was heavily influenced by the rise in the ratio of new bad debts to outstanding loans, which almost completely offset the positive effect of the narrowing of the yield spread between Italian and German government securities and the reduction in official rates decided by the Governing Council of the ECB last July.[2] As for the decline in the volume of lending, simple correlations suggest that it was most pronounced for the banks that had larger flows of new bad debts.

Despite the easing of the tensions on financial markets late in 2012 and early this year, the conditions for Italian banks to raise wholesale funds also remain difficult; this may have contributed to the adoption of more prudent criteria for granting loans. While there has been a reduction in the funds banks have raised on international markets, they continue to benefit from the funds obtained with the two three-year refinancing operations undertaken by the Eurosystem in December 2011 and February 2012, which are not a permanent resource, however. The uncertainty about future financing conditions may have encouraged banks to further rein in their lending.

[1] On the determinants of loan quality, see M. Bofondi and T. Ropele, "Macroeconomic determinants of bad loans: evidence from Italian banks", Banca d'Italia, Occasional Papers, No. 89, 2011.

[2] This assessment is based on the model in the work by U. Albertazzi, T. Ropele, G. Sene and F. M. Signoretti, "The impact of the sovereign debt crisis on the activity of Italian banks", Banca d'Italia, Occasional Papers, No. 133, 2012.

CREDIT SUPPLY AND DEMAND IN ITALY

The Italian banks responding to the quarterly euro-area bank lending survey reported that on the whole the tightening of lending conditions to firms was attenuated in the fourth quarter of 2012 (Figure A).[1] However, tensions continued to affect both interest rate margins and lending volumes, mainly in connection with perceptions of risk for certain sectors or firms and with expectations concerning economic activity in general.

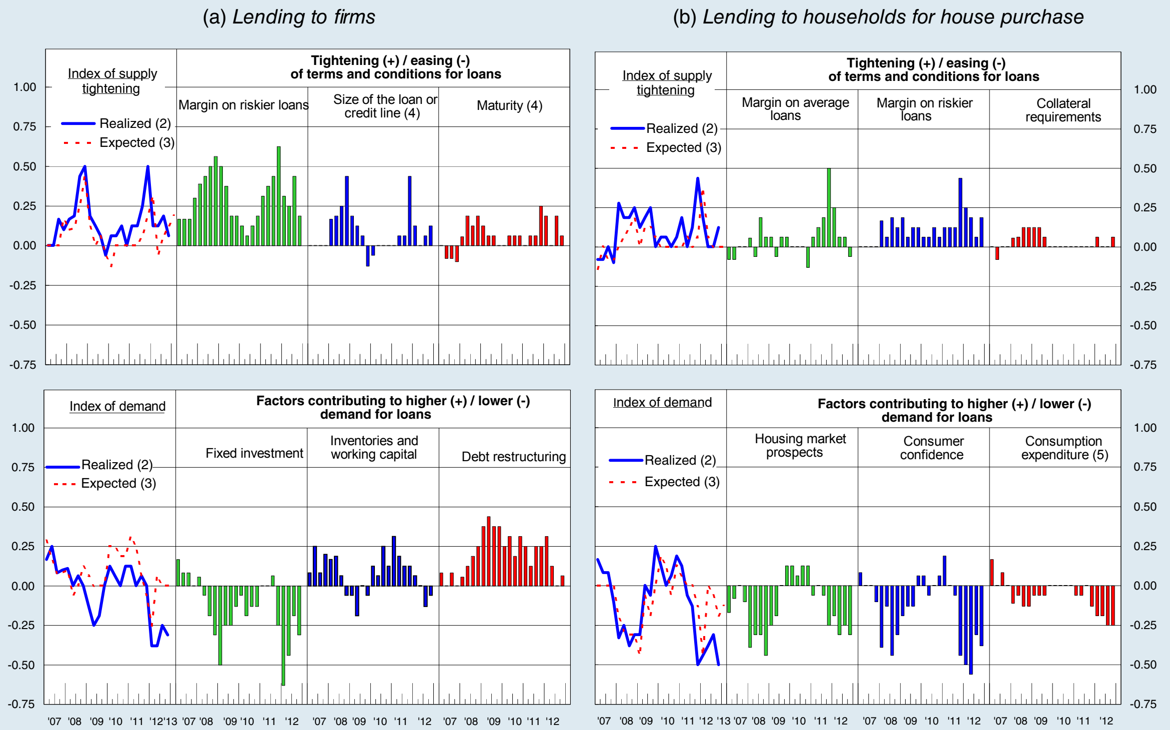
The most recent business surveys, while not unanimous, signal the continuation of tight conditions. The quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* found that in the first quarter the net percentage of firms reporting a tightening was roughly unchanged at 27.7 percentage points (Figure B), while according to Istat's monthly survey it came down from 29.6 points in February to 25.7 points in March (it had been 30.1 points in December).

In their assessments, banks indicated an overall contraction in firms' demand for loans during the fourth quarter; a slight increase in demand for debt restructuring loans was more than offset by a further decline in demand for credit to finance fixed investment.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 10 January; 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 first quarter of 2013 and expectations for the second quarter are not yet available and will be published on 24 April.

Figure A

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



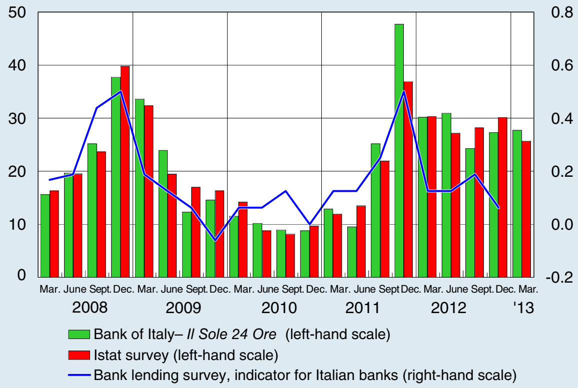
Source: *The euro area bank lending survey.*
(1) Positive values indicate supply restriction/demand expansion compared with the previous quarter. Diffusion indices are constructed on the basis of the following weighting scheme: for supply conditions, 1 = tightened considerably, 0.5 = tightened somewhat, 0 = 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 or long-term loans. – (5) Positive (negative) values indicate that the trend in consumer spending other than for house purchase had an expansive (restrictive) effect on the demand for mortgages.

For the fourth quarter of 2012 the bank lending survey had signalled a slight stiffening of lending criteria for households. In the case of loans for house purchase loans the tightening, due to the worsening outlook for economic activity and for the housing market, involved margins on riskier loans, collateral requirements and loan maturities. Households' credit demand also appears to have contracted, reflecting the deterioration in consumer confidence and the prospects for the real-estate market.

The conditions of banks' access to the wholesale funding market improved slightly during the fourth quarter, albeit only in the very-short-term money market and the short-term debt securities market.

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 percentage of replies indicating a tightening of lending criteria and the percentage of those indicating an easing, with reference to a sample of firms in industry and services and manufacturing, respectively. For the bank lending survey, see Figure A.

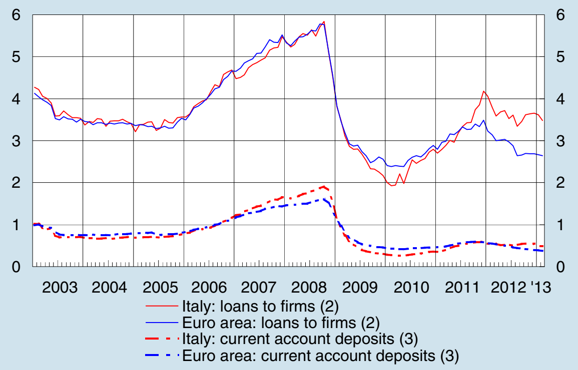
The cost of credit is stable for firms ...

The average cost of new loans to firms remained virtually unchanged from November, at 3.5 per cent (Figure 26); the interest rates on loans greater than €1 million and those on loans below that amount averaged 2.9 and 4.4 per cent respectively. The gap between the borrowing cost of Italian firms and their euro-area counterparts narrowed slightly, to 80 basis points in February.

Figure 26

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.

... and for households

The cost of new mortgage loans for households, in gradual decline from the start of 2012, was basically unchanged between November and February at 3.8 per cent. For variable-rate loans, which represent more than two thirds of the total amount, the rate held steady at 3.5 per cent, while for fixed-rate loans it came down by 0.2 percentage points to 4.6 per cent. Qualitative information supplied by banks suggests that the margins on riskier loans widened because of banks' heightened perception of credit risk.

The recession continues to erode the quality of bank assets

In the fourth quarter of 2012 the ratio of the flow of new bad debts to outstanding loans rose by 0.3 percentage points to 2.5 per cent on a seasonally adjusted annual basis. The default rate on loans to firms increased to 4.0 per cent, approaching the peaks recorded during the 1993 recession, while that on loans to households remained lower (1.4 per cent). Preliminary data indicate that the deterioration in the quality of loans to firms continued to be sharp in the first quarter of this year.

In 2012 the increase in loan losses dents banks' profitability ...

Italian banking groups' profitability worsened last year as value adjustments increased to reflect the deterioration in loan quality. Net of extraordinary items connected with goodwill impairments, ROE came down by about two percentage points to 0.6 per cent.

... but cost cutting continues ...

Gross income showed a slight increase of 1 per cent: the decline of 6 per cent in net interest income was offset by an increase of 10 per cent in other income, which benefited from trading profits booked in the first quarter of the year. Thanks in part to the reduction of 3 per cent in operating costs, operating profit rose by 7 per cent. The cost-income ratio improved by more than two percentage points, reaching 62 per cent. Supervisory action helped to determine a sharp increase in value adjustments to loans, which grew by nearly 60 per cent and absorbed almost all of the operating profit, compared with just under two thirds of it in 2011.

... and the capital position improves

Banks' capital strengthening continued in the fourth quarter of 2012. In March of this year the IMF found the Italian banking system to be well capitalized;[2] the banks should be able to withstand the current recession. At the end of December Italian banking groups' core tier 1 ratio had reached 10.2 per cent, up from 8.8 per cent in December 2011; the average core tier 1 ratio of the five largest groups was higher (10.9 per cent, up from 8.9 per cent).

[2] IMF, "Statement at the end of the IMF Financial Sector Assessment Program (FSAP) mission to Italy", March 2013.

3.8 THE FINANCIAL MARKETS

In the first quarter of 2013 conditions on the Italian financial markets were affected by the uncertainty prompted by the results of the general election held at the end of February and by the Cyprus crisis. Overall, however, the tensions so far have been modest, nowhere near as acute as in 2011. Since the beginning of April yields have fallen on all the financial markets in response to the expansive stance of monetary policies around the world, most notably in Japan.

Yield spreads on Italian government securities are affected by the heightened uncertainty ...

After narrowing further at the start of 2013, since the end of January the yield spread between Italian government securities and the corresponding German Bund has widened again, with pronounced fluctuations. The rise in the spread followed on the uncertain result of the general elections. The Cyprus crisis, which deepened from mid-March onwards, also contributed. However, since the start of April the ten-year spread with Germany has come back down to 307 basis points, 12 points less than at the end of 2012.

... but to a relatively limited extent so far

In the view of many operators, so far the effects of the political uncertainty in Italy have been mitigated by the progress made over the last year, in particular the attainment of the public finance objectives. The large and growing primary surplus is expected to permit the gradual reduction of the debt-to-GDP ratio, even in conditions of low growth.

The risk premiums of Italian banks turn upwards

The political uncertainties and the Cyprus crisis also had an impact on banks' risk premiums; the average CDS spreads for the largest Italian banks turned back upwards, rising by around 90 basis points since the turn of the year to stand at 445 basis points, well above the average for the main German and French banks (120 and 175 basis points respectively). By contrast the average yield spreads between the bonds of Italian corporations and German and French government securities have narrowed (by 12 basis points), like those for Spanish, French and German firms (by 25, 11 and 7 basis points respectively).

Bond issues return to growth in January, before coming to a halt

In the fourth quarter of 2012 Italian banks made modest net bond redemptions amounting to €2 billion, compared with substantial redemptions of €45 billion by banks in the euro area (Table 7), and in January Italian banks recorded net positive issues of €2 billion. However, provisional Dealogic data on gross issues indicate that placements virtually came to nil in February and March with

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2011	66,330	-4,329	-100	61,902
2012	83,153	-6,132	13,576	90,597
2011 – Q1	25,567	-10,893	437	15,111
Q2	12,002	-11,968	-2,102	-2,068
Q3	15,663	-5,356	-408	9,900
Q4	13,098	23,888	1,972	38,958
2012 – Q1	84,907	-7,960	4,514	81,461
Q2	-7,847	-8,985	-1,435	-18,266
Q3	8,491	6,292	6,046	20,828
Q4	-2,398	4,522	4,451	6,574
		Euro area		
2011	143,070	-27,282	33,286	149,074
2012	31,608	25,131	119,359	176,098
2011 – Q1	82,107	-49,306	7,192	39,993
Q2	50,636	-17,503	7,037	40,170
Q3	8,172	-21,538	2,539	-10,827
Q4	2,155	61,065	16,518	79,738
2012 – Q1	105,053	24,126	31,366	160,545
Q2	-22,771	-16,118	17,036	-21,853
Q3	-5,606	-51,454	39,804	-17,256
Q4	-45,068	68,577	31,153	54,662

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.

the resurgence of tensions in the sovereign debt markets. In the fourth quarter of 2012 net bond placements by non-financial corporations continued at a sustained pace (€4 billion).

The overall stock exchange index remains unchanged ...

Since the beginning of 2013 share prices have held practically steady in Italy, while in the euro area and in the United States they have risen by 2 and 11 per cent respectively (Figure 27). The expected volatility of share prices, inferred from the prices of stock index options, increased from February onwards, with abrupt surges coinciding with Italy's general election and the deepening of the Cyprus crisis. The ratio of current earnings to share prices fell by around half a percentage point (Figure 28), remaining somewhat above its long-term average.

... but bank shares fall

The Italian bank share index, which up to mid-March remained in line with the general index, suffered a sharp drop in the second half of the month (in part recouped in April), reflecting the tensions surrounding the Cyprus crisis. In the early months of 2013, bank shares depreciated by 7 per cent. Shares also fell markedly (6 and 7 per cent respectively) in the electricity and telecommunications sectors, but scored substantial gains in the consumer goods and software sectors (15 and 27 per cent respectively).

Investment funds in Italy continue to record net investment

In the fourth quarter of 2012 open-end investment funds recorded net inflows of resources amounting to €2 billion, down slightly from €3 billion in the previous quarter. There was considerable net investment in bond and flexible funds, while net disinvestments mainly involved equity and hedge funds.

Figure 27

Share prices (1)

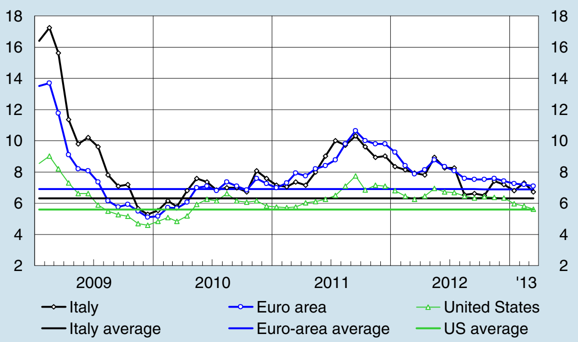
(end-of-week data; indices: 2 January 2009=100)

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 28

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

(end-of-month data; per cent)



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

3.9 THE PUBLIC FINANCES

In 2012 general government net borrowing diminished for the third successive year, falling to 3.0 per cent of GDP despite the latter's sharp contraction. This result reflects the exceptionally large adjustment measures approved in the second half of 2011 and should allow the excessive debt procedure opened against Italy in 2009 to be closed. Primary expenditure also decreased for the third successive year. The ratio of debt to GDP rose further.

Net borrowing decreases further in 2012

The outturn for general government net borrowing in 2012 amounted to 3.0 per cent of GDP (Table 8) and was larger than the forecast of 2.6 per cent published in the update of the 2012 Economic and Financial Document (Table 9), mainly owing to a smaller-than-expected increase in revenue. The primary surplus amounted to 2.5 per cent of GDP, up by 1.3 percentage points on 2011; according to the latest forecasts of the European Commission, Germany was the only other euro-area country to have recorded a comparable surplus (2.5 per cent), while the area as a whole recorded a deficit of 0.4 per cent.

The ratio of revenue to GDP rises to a new high

The rise in the ratio of the primary surplus to GDP was due to the growth in revenue in relation to GDP from 46.6 to 48.1 per cent, exceeding the 1997 peak of 47.4 per cent (Table 10). Social security contributions were basically stable in relation to GDP, while current tax revenue grew considerably, expanding by 1.7 percentage points, divided almost equally between direct and indirect taxes. This growth more than offset the decline in capital tax revenue from 0.4 to 0.1 per cent of GDP owing to the drying up of the one-off receipts of the taxes on property leases and the revaluation of corporate assets.

The rise in the ratio of direct taxes to GDP derived from the increases in regional personal income surtaxes and the reform of the taxation of income from financial assets. Contributions to the rise in the ratio of indirect taxes came from the new municipal property tax (1.5 per cent of GDP or nearly 1 percentage point more than the old tax had raised in 2011) and the increase in mineral oil excise duties.

Although primary expenditure fell further in nominal terms, it rose slightly in relation to GDP. Interest payments rose from 5.0 to 5.5 per cent.

Primary current expenditure decreases for the second successive year in nominal terms

Primary current expenditure decreased further in nominal terms, falling by 0.5 per cent (0.1 per cent in 2011). The decrease was mainly due to the contractions in compensation of employees of 2.3 per cent (1.6 per cent in 2011) and purchases of goods and services. Capital expenditure decreased by 0.6 per cent, above all owing to the 6.3 per cent fall in investment; excluding the proceeds of electromagnetic spectrum auctions in 2011, which are entered in the accounts as a reduction in capital expenditure, the contraction in this item was 7.9 per cent, compared with virtually no change in 2011.

Table 8

General government balances (1)
(millions of euros and percentages of GDP)

	2009	2010	2011	2012
Net borrowing	83,603	69,267	60,016	47,633
as a % of GDP	*5.5*	*4.5*	*3.8*	*3.0*
Primary balance	-12,740	1,886	18,335	39,084
as a % of GDP	*-0.8*	*0.1*	*1.2*	*2.5*
Interest payments	70,863	71,153	78,351	86,717
as a % of GDP	*4.7*	*4.6*	*5.0*	*5.5*
Debt	1,769,254	1,851,252	1,907,392	1,988,658
as a % of GDP	*116.4*	*119.3*	*120.8*	*127.0*
Debt net of support to EMU countries (2)	1,769,254	1,847,343	1,894,274	1,945,993
as a % of GDP	*116.4*	*119.0*	*120.0*	*124.3*

Source: For the general government consolidated accounts, based on Istat data.
(1) Rounding may cause discrepancies in totals. – (2) Net of loans granted to Greece and of Italy's share of the European Financial Stability Facility and the European Stability Mechanism.

Table 9

Public finance objectives and estimates for 2012
(billions of euros and percentages of GDP)

	General government			*Memorandum item:*
	Net borrowing	Primary surplus	Debt (1)	GDP growth rate
Objectives				
April 2011 (2)	44.9	39.2	….	1.3
as a % of GDP	*2.7*	*2.4*	*119.4*	
September 2011 (3)	25.3	60.5	….	0.6
as a % of GDP	*1.6*	*3.7*	*119.5*	
December 2011 (4)	….	….	….	-0.4
as a % of GDP	*1.2*	*4.6*	*120.1*	
Estimates				
April 2012 (5)	27.2	57.0	1.959.6	-1.2
as a % of GDP	*1.7*	*3.6*	*123.4*	
September 2012 (6)	41.2	44.9	….	-2.4
as a % of GDP	*2.6*	*2.9*	*126.4*	
Outturn (7)	47.4	39.1	1.988.7	-2.4
as a % of GDP	*3.0*	*2.5*	*127.0*	

(1) The estimates and objectives given in the official documents include, in a non-homogeneous manner, the effects of the financial support given to countries in difficulty and the Italian contribution to the ESM. – (2) *2011 Economic and Financial Document*. – (3) *Update of the 2011 Economic and Financial Document*. – (4) *Report to Parliament 2011*. – (5) *2012 Economic and Financial Document*. – (6) *Update of the 2012 Economic and Financial Document*. – (7) Net borrowing, primary surplus and GDP growth rate based on Istat data.

Table 10

General government expenditure and revenue

(millions of euros and percentage changes)

	2011	2012	% change on previous year			2011	2012	% change on previous year	
			2011	2012				2011	2012
EXPENDITURE					**REVENUE**				
Final consumption expenditure	322,465	314,200	-1.4	-2.6	Direct taxes	225,926	237,235	-0.1	5.0
of which:					Indirect taxes	222,080	233,554	1.9	5.2
compensation of employees	*169,209*	*165,366*	*-1.6*	*-2.3*	Social security contributions	216,963	216,669	1.7	-0.1
intermediate consumption	*91,222*	*89,068*	*1.2*	*-2.4*	Other current revenue	59,761	59,649	1.1	-1.0
social benefits in kind	*44,657*	*43,211*	*-2.0*	*-3.2*	**Current revenue**	**724,730**	**747,107**	**1.2**	**3.1**
					as a % of GDP	*45.9*	*47.7*		
Social benefits in cash	304,262	311,413	2.0	2.4					
Interest payments	78,351	86,717	10.1	10.7	**Capital revenue**	**11,334**	**6,342**	**58.9**	**-44.0**
Other current expenditure	42,886	40,925	-3.7	-4.6	of which: *capital taxes*	*6,981*	*1,375*	*99.6*	*-80.3*
Current expenditure	**747,964**	**753,255**	**0.9**	**0.7**					
as a % of GDP	*47.4*	*48.1*			**TOTAL REVENUE**	**736,064**	**753,449**	**1.7**	**2.4**
					as a % of GDP	*46.6*	*48.1*		
Current expenditure, net of interest payments	**669,613**	**666,538**	**-0.1**	**-0.5**	*of which:*				
as a % of GDP	*42.4*	*42.6*			*taxes and social security contributions*	*42,6*	*44,0*		
Investment (1)	31,175	29,199	-4.1	-6.3	**NET BORROWING**	**60,016**	**47,633**		
					as a % of GDP	*3.8*	*3.0*		
Investment grants	18,507	17,487	3.7	-5.5					
Other capital expenditure (2)	-1,566	1,141	-210.0	172.9	**Primary balance**	**18,335**	**39,084**		
					as a % of GDP	*1,2*	*2,5*		
Capital expenditure	**48,116**	**47,827**	**-7.1**	**-0.6**					
Total expenditure, net of interest payments	**717,729**	**714,365**	**-0.6**	**-0.5**	*Memorandum item:*				
as a % of GDP	*45.5*	*45.6*			GDP	1,578,497	1,565,916		-0.8
TOTAL EXPENDITURE	**796,080**	**801,082**	**0.4**	**0.6**					
as a % of GDP	*50.4*	*51.2*							

Source: Based on Istat data.
(1) Includes proceeds of property sales entered with a negative sign. – (2) Includes proceeds of the sale of broadband licences, with a negative sign.

Net of financial support to other EMU countries, the borrowing requirement decreases ...

In 2012 the general government borrowing requirement, net of privatization receipts, increased by €8.4 billion to €73.6 billion (Table 11 and Figure 29). Had it not been for Italy's financial support to other EMU countries (€9.2 billion in 2011 and €29.5 billion in 2012, of which €5.7 billion was the contribution of capital to the European Stability Mechanism), the requirement would have decreased by €11.9 billion to €44.0 billion.

... but the debt ratio rises

The ratio of general government debt to GDP rose from 120.8 to 127.0 per cent (Figure 30). More than one third of the €81.3 billion increase in the debt was due to the financial support given to other EMU countries (Table 12). As regards other asset transactions, the Treasury increased its liquid balances with the Bank of Italy from €24.3 billion to €34.4 billion, while selling its holdings in SACE, SIMEST and Fintecna to Cassa Depositi e Prestiti S.p.A. for nearly €8 billion, and general government deposits with the banking system decreased

Table 11

General government balances and debt
(millions of euros and percentages of GDP)

	2009	2010	2011	2012
Borrowing requirement	86,905	69,851	63,638	65,713
as a % of GDP	*5.7*	*4.5*	*4.0*	*4.2*
Net borrowing requirement (1)	87,703	69,859	65,198	73,587
as a % of GDP	*5.8*	*4.5*	*4.1*	*4.7*
Debt	1,769,254	1,851,252	1,907,392	1,988,658
as a % of GDP	*116.4*	*119.3*	*120.8*	*127.0*
Memorandum items				
Privatization receipts	798	8	1,560	7,874
as a % of GDP	*0.1*	*0.0*	*0.1*	*0.5*
Settlements of past debts	1,519	187	47	304
as a % of GDP	*0.1*	*0.0*	*0.0*	*0.0*

(1) Net of privatization receipts.

Table 12

Changes in general government debt and its components
(millions of euros)

	2009	2010	2011	2012
Change in the debt = (a)+(b)+(c)+(d)	**98.253**	**81.998**	**56.140**	**81.266**
(a) Total borrowing requirement	86.905	69.851	63.638	65.713
of which: support to EMU countries	*0*	*3.909*	*9.209*	*29.547*
(b) Change in Treasury deposits with the Bank of Italy and investment of liquidity	11.399	11.518	-18.994	10.138
(c) Issue discounts and premiums	56	372	11.341	5.792
(d) Change in foreign currency liabilities in euros	-106	257	154	-377

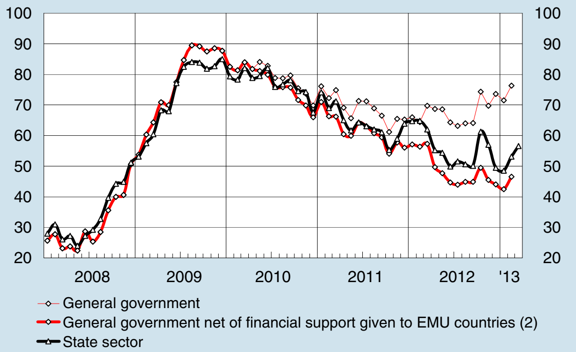
by €9.1 billion to €26.3 billion, mainly as a consequence of the application of a more rigorous treasury regime to many public bodies.

At the beginning of 2013 the borrowing requirement deteriorates in response to some temporary factors

In the first quarter of 2013 the state sector borrowing requirement amounted to €36.3 billion, €7.2 billion up on the year-earlier period. The deterioration reflected some temporary factors: the fact that government agencies did not deposit funds with the Treasury as they had in 2012 following the introduction of the new treasury regime under Decree Law 1/2012 (€4 billion); and the Treasury's subscription of shares of the European Investment Bank, as provided for in the Stability Law for 2013 (€1.6 billion) and securities issued by Banca Monte dei Paschi di Siena (€2.0 billion).

Figure 29

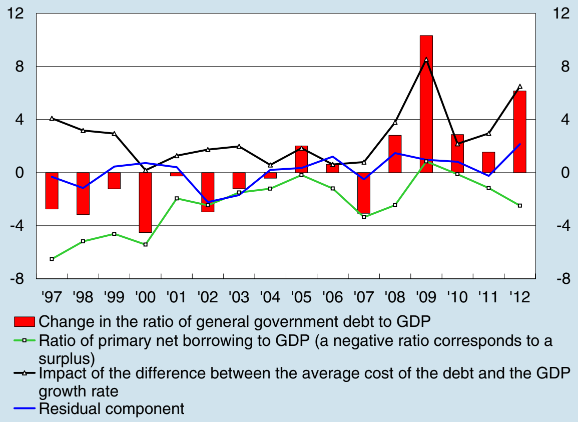
Rolling 12-month borrowing requirement (1)
(monthly data; billions of euros)



Source: For the state sector, Ministry for the Economy and Finance.
(1) Net of privatization receipts. – (2) Excluding liabilities in respect of loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.

Figure 30

General government debt: trend and determinants of its changes
(annual data; as a percentage of GDP)



In the first quarter central government tax receipts grew by €0.7 billion or 0.8 per cent compared with the corresponding period of 2012 (Figure 31). Direct taxes grew by €3.1 billion or 6.8 per cent, benefiting from the growth in the yield of the tax on managed savings from €0.1 billion to €1.5 billion and the increase of €1.0 billion or 2.7 per cent in the withholding tax on employee incomes. By contrast, indirect taxes contracted by €2.4 billion or 6.5 per cent, mainly as a consequence of the fall in VAT receipts of €1.6 billion or 7.3 per cent.

The Government projects structural budgetary balance from 2013 onwards ...

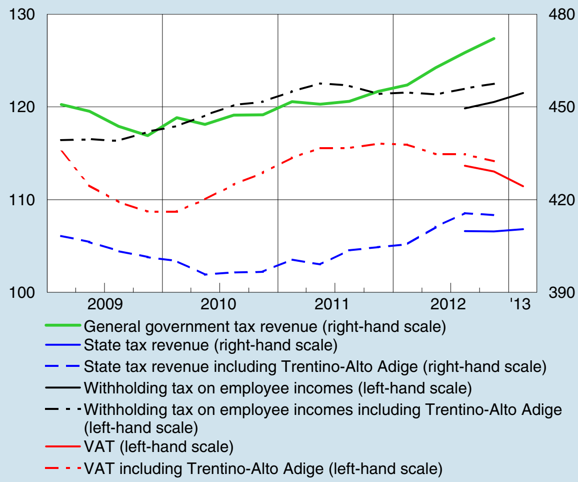
On 10 April 2012 the Government released the 2013 Economic and Financial Document, which includes the Stability Programme and the National Reform Programme. Net borrowing is expected to be 2.9 per cent of GDP in 2013 and 1.8 per cent in 2014, including the effects of the measures introduced in the decree law on the payment of general government debts and tax refunds worth €40 billion this year and next (estimated to be 0.5 percentage points of GDP in 2013 and nil in 2014; Table 13). The figure for net borrowing in 2013 is 1.1 percentage points higher than that indicated in the September update of the 2012 Economic and Financial Document, reflecting not only the effects of the decree on general government debts but also a larger-than-expected fall in GDP (1.3 per cent instead of 0.2 per cent). In structural terms (i.e. excluding the effects of the business cycle and one-off measures) the result is expected to be close to balance in 2013 and to show a small surplus in 2014. According to the latest European Commission forecasts, euro-area net borrowing will be 2.8 per cent of GDP in 2013 and 2.7 per cent in 2014.

According to the projections of the Economic and Financial Document based on current legislation (including that on municipal property tax), net borrowing will decline slightly in 2015-17. The Document considers that an annual adjustment of the order of 0.2 per cent of GDP will be necessary from 2015 onwards in order to maintain structural budgetary balance.

Figure 31

Tax revenue: rolling four-quarter totals (1)

(billions of euros)



Sources: Istat for general government tax revenue; *Rendiconto generale dell'amministrazione dello Stato* and state budget for the other variables.
(1) From September 2011 the state budget figures do not include the revenue pertaining to the Trentino-Alto Adige region or the autonomous provinces of Trento and Bolzano. For the sake of comparability the state budget figures are given both without these amounts (broken lines) and with estimates thereof going back to December 2012 (solid lines).

Table 13

Outturns and official objectives for the main general government balances (1)

(millions of euros and percentages of GDP)

	2012	2013	2014	2015
Net borrowing	47,663	45,408	28,474	....
as a % of GDP (2)	*3.0*	*2.9*	*1.8*	*1.5*
Primary surplus	39,084	38,484	61,903	....
as a % of GDP	*2.5*	*2.4*	*3.8*	*4.3*
Interest payments	86,717	83,892	90,377	....
as a % of GDP	*5.5*	*5.3*	*5.6*	*5.8*
Structural net borrowing	....	....	....	....
as a % of GDP	*....*	*0,0*	*0,4*	*0,0*
Debt	1,988,658	2,051,352	2,094,275	2,105,502
as a % of GDP	*127.0*	*130.4*	*129.0*	*125.5*
Debt net of financial support given to EMU countries (2)	1,945,993	1,995,916	2,032,816	2,043,870
as a % of GDP	*124.3*	*126.9*	*125.2*	*121.8*

Sources: Istat for the 2012 general government consolidated accounts; 2013 Economic and Financial Document for the years 2013-15.
(1)) Rounding may cause discrepancies in totals. – (2) Net of loans granted directly to Greece and of Italy's share of the European Financial Stability Facility and the European Stability Mechanism.

... and a fall in the ratio of debt to GDP from 2014 onwards

The Document expects the ratio of debt to GDP to rise by more than 3 percentage points this year, to 130.4 per cent. The deterioration reflects the financial support given to other EMU countries (0.8 percentage points) and the payment of general government commercial debts (1.3 points). On the other hand, both in 2013 and in the subsequent years annual property sales of the order of 1 percentage point of GDP are assumed. A first reduction in the debt ratio to 129 per cent is expected in 2014, and from 2015 onwards the Government's planning scenario indicates larger reductions, of the order of 4 percentage points of GDP each year, owing to lower net borrowing and the ending of the higher payments of general government commercial debts.

SELECTED STATISTICS

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

CONTENTS

Table A1

Sources and uses of income: United States (1)

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

	GDP	Resident households' expenditure		General government expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2008	-0.3	-0.6	-0.4	2.6	0.5	-7.1	-1.2	-1.5	-1.5	6.1	-2.7	1.2	-0.5
2009	-3.1	-1.9	-1.4	3.7	0.7	-19.0	-2.8	-4.0	-4.2	-9.1	-13.5	1.1	-0.8
2010	2.4	1.8	1.3	0.6	0.1	-0.2	..	2.8	2.9	11.1	12.5	-0.5	1.5
2011	1.8	2.5	1.8	-3.1	-0.7	6.6	0.8	1.7	1.7	6.7	4.8	0.1	-0.1
2012	2.2	1.9	1.3	-1.7	-0.3	8.7	1.1	2.1	2.2	3.4	2.4	..	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	-1.0	-0.1	3.5	3.6	9.7	13.9	-1.0	2.0
Q4	2.4	4.1	2.8	-4.4	-0.9	7.6	0.9	1.1	1.2	10.0	..	1.2	-1.6
2011 – Q1	0.1	3.1	2.2	-7.0	-1.5	-1.3	-0.1	..	0.1	5.7	4.3	..	-0.5
Q2	2.5	1.0	0.7	-0.8	-0.2	12.4	1.4	1.9	2.0	4.1	0.1	0.5	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	..	-1.1
Q4	4.1	2.0	1.5	-2.2	-0.4	10.0	1.2	4.6	4.7	1.4	4.9	-0.6	2.5
2012 – Q1	2.0	2.4	1.7	-3.0	-0.6	9.8	1.2	1.8	1.9	4.4	3.1	0.1	-0.4
Q2	1.3	1.5	1.1	-0.7	-0.1	4.5	0.6	1.0	1.1	5.3	2.8	0.2	-0.5
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
Q4	0.4	1.8	1.3	-7.0	-1.4	14.0	1.7	..	0.1	-2.8	-4.2	0.3	-1.5

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
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
2012	2.0	2.4	1.4	2.7	0.5	4.5	0.9	2.9	2.9	-0.3	5.3	-0.9	..
2010 – Q1	5.9	2.9	1.7	-2.2	-0.4	1.1	0.2	3.8	3.7	28.7	11.3	2.3	2.2
Q2	4.1	-0.2	-0.1	5.7	1.1	4.5	0.9	4.1	3.9	20.6	22.3	0.2	2.1
Q3	5.5	5.5	3.2	1.3	0.3	4.6	0.9	5.6	5.3	7.1	7.2	0.1	1.0
Q4	-1.5	-1.2	-0.7	1.9	0.4	-4.2	-0.8	-1.0	-1.0	0.2	3.4	-0.4	0.2
2011 – Q1	-7.0	-5.3	-3.1	0.6	0.1	-1.9	-0.4	-6.2	-6.3	-1.1	5.6	-0.9	-2.8
Q2	-3.4	3.3	1.9	1.2	0.2	-1.3	-0.3	0.7	0.7	-25.5	-2.0	-4.1	-1.1
Q3	10.6	5.6	3.4	1.1	0.2	6.9	1.4	7.2	7.0	39.4	13.7	3.3	2.2
Q4	0.4	2.1	1.2	1.2	0.2	18.6	3.5	3.4	3.3	-11.8	7.0	-2.9	-1.6
2012 – Q1	6.1	5.0	3.0	6.3	1.3	-0.7	-0.2	5.4	5.4	14.2	8.6	0.7	1.4
Q2	-0.9	-0.1	..	1.7	0.3	6.4	1.3	0.2	0.2	0.2	6.8	-1.1	-1.5
Q3	-3.7	-1.9	-1.1	1.6	0.3	-5.1	-1.1	-0.9	-0.9	-19.0	-1.9	-2.8	1.0
Q4	0.2	2.0	1.2	2.7	0.5	-0.1	..	0.7	0.8	-14.0	-9.0	-0.6	-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.

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
				Chain-linked volumes					
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	-4.3	5.0	-0.4	1.0	0.8	11.2
2011	1.4	4.2	2.2	-0.3	3.8	1.5	0.1	-0.2	6.3
2012	-0.6	-0.9	-0.7	-4.5	-3.6	-4.1	-1.3	-0.4	2.7
2010 – Q4	0.4	1.7	0.7	-1.8	1.0	-0.6	0.5	-0.1	2.0
2011 – Q1	0.6	1.3	0.8	2.4	1.4	1.9	..	-0.3	1.7
Q2	0.2	0.1	0.2	-0.8	0.5	-0.2	-0.5	..	0.5
Q3	0.1	0.5	0.2	-0.9	0.3	-0.4	0.3	-0.1	1.3
Q4	-0.3	-1.2	-0.6	-0.5	-0.6	-0.5	-0.7	..	..
2012 – Q1	-0.1	-0.4	-0.2	-1.6	-1.2	-1.4	-0.2	-0.1	0.5
Q2	-0.2	0.6	0.1	-1.8	-1.5	-1.6	-0.5	-0.3	1.7
Q3	-0.1	0.1	..	-0.4	-1.2	-0.8	-0.2	-0.1	0.9
Q4	-0.6	-0.9	-0.7	-1.1	-1.4	-1.2	-0.5	0.1	-0.8
				Implicit prices					
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	0.9	-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
2012	1.2	2.4	....	....	....	1.2	2.1	0.6	1.6
2010 – Q4	0.1	1.2	....	....	....	0.5	0.6	..	0.7
2011 – Q1	0.4	2.9	....	....	....	0.8	0.8	0.5	1.6
Q2	0.4	0.6	....	....	....	0.3	0.6	0.4	0.4
Q3	0.4	0.2	....	....	....	0.5	0.4	..	0.3
Q4	0.2	0.8	....	....	....	0.4	0.8	0.6	0.3
2012 – Q1	0.3	1.6	....	....	....	0.4	0.6	..	0.8
Q2	0.4	-0.3	....	....	....	-0.1	0.3	0.5	-0.1
Q3	0.4	0.3	....	....	....	0.3	0.4	0.1	0.6
Q4	0.2	0.1	....	....	....	0.2	0.5	-0.4	..

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					
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	-4.8	-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	1.7	12.6	3.8	-4.5	6.8	0.6	1.5	-0.4	11.4
2011	0.4	0.5	0.4	-2.6	-1.0	-1.8	0.1	-1.2	5.9
2012	-2.4	-7.7	-3.6	-6.2	-9.9	-8.0	-4.3	-2.9	2.3
2010 – Q4	0.2	4.9	1.2	-1.8	-0.4	-1.1	0.5	-0.2	3.3
2011 – Q1	0.1	-1.3	-0.2	1.0	-0.1	0.4	..	-0.4	0.6
Q2	0.3	-2.1	-0.3	-1.4	1.0	-0.3	-0.2	-0.5	0.4
Q3	-0.1	-1.1	-0.4	-1.1	-1.5	-1.3	-0.7	-0.4	1.2
Q4	-0.8	-2.4	-1.1	-0.7	-3.7	-2.1	-1.1	-0.4	0.9
2012 – Q1	-0.9	-3.6	-1.6	-3.6	-3.8	-3.7	-1.5	-1.8	-0.6
Q2	-0.7	-0.6	-0.7	-1.0	-2.7	-1.8	-1.1	-0.6	1.0
Q3	-0.2	-1.7	-0.5	-1.1	-1.3	-1.2	-1.1	-0.1	1.2
Q4	-0.9	-0.9	-0.9	-1.1	-1.4	-1.2	-0.7	0.1	0.3
				Implicit prices					
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	2.6	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	6.6	1.7	2.7	0.5	1.7	1.5	1.1	2.6
2011	1.3	7.6	2.7	4.2	2.4	3.3	2.9	-0.1	4.1
2012	1.6	3.1	1.9	2.2	0.3	1.3	2.8	0.4	1.9
2010 – Q4	0.1	0.6	0.3	0.7	0.4	0.5	0.5	0.3	0.3
2011 – Q1	0.3	4.4	1.2	1.7	1.3	1.6	0.9	-0.2	1.9
Q2	0.7	1.6	0.9	0.7	0.8	0.7	0.8	0.6	1.3
Q3	0.5	0.2	0.4	0.7	0.1	0.4	0.7	-0.7	0.5
Q4	0.3	0.7	0.3	0.5	..	0.3	1.0	0.1	..
2012 – Q1	0.1	2.2	0.6	0.7	0.1	0.4	0.6	0.5	1.0
Q2	0.9	-0.8	0.5	0.4	-0.3	0.1	0.6	0.5	0.4
Q3	0.2	0.9	0.3	0.2	-0.1	0.1	0.6	-0.5	0.2
Q4	0.4	-0.2	0.3	0.5	0.2	0.4	0.5	-0.4	-0.1

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

Table A5

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

(percentage changes on the year-earlier period)

	Hourly compensation	Hourly productivity			Unit labour costs
			Value added (2)	Hours worked	
Total industry excluding construction					
2009	4.1	-4.9	-13.4	-8.9	9.5
2010	1.2	9.3	8.8	-0.4	-7.4
2011	2.4	2.5	3.3	0.8	-0.1
2012	3.7	0.8	-1.4	-2.2	2.9
2010 – Q1	1.4	10.3	6.5	-3.4	-8.0
Q2	0.9	10.5	10.2	-0.2	-8.7
Q3	0.7	7.7	8.8	1.0	-6.5
Q4	1.5	8.0	9.2	1.1	-6.0
2011 – Q1	1.2	4.2	6.5	2.2	-2.9
Q2	3.2	3.5	4.1	0.6	-0.3
Q3	2.6	2.5	3.1	0.6	0.0
Q4	2.6	0.3	0.1	-0.2	2.3
2012 – Q1	2.5	0.1	-1.1	-1.2	2.4
Q2	4.2	1.1	-1.2	-2.3	3.1
Q3	4.1	1.1	-1.2	-2.4	3.0
Q4	4.4	1.3	-1.6	-2.9	3.0
Services					
2009	3.1	-0.3	-1.7	-1.4	3.4
2010	1.2	0.6	1.2	0.6	0.6
2011	1.7	0.6	1.3	0.7	1.1
2012	1.7	0.6	0.1	-0.5	1.2
2010 – Q1	1.3	0.5	0.8	0.3	0.7
Q2	1.0	0.5	1.2	0.7	0.5
Q3	0.8	0.6	1.4	0.8	0.2
Q4	1.4	0.7	1.2	0.5	0.7
2011 – Q1	1.3	0.5	1.5	0.9	0.7
Q2	2.0	0.8	1.4	0.7	1.2
Q3	1.9	0.6	1.3	0.8	1.3
Q4	2.0	0.6	1.1	0.5	1.4
2012 – Q1	2.3	1.0	0.6	-0.4	1.3
Q2	1.9	0.9	0.2	-0.7	1.0
Q3	1.8	0.2	-0.1	-0.3	1.6
Q4	1.2	0.4	-0.2	-0.6	0.8
Total economy					
2009	3.4	-1.2	-4.4	-3.2	4.7
2010	1.3	2.1	2.1	0.0	-0.8
2011	2.1	1.4	1.6	0.2	0.7
2012	2.4	0.8	-0.5	-1.2	1.6
2010 – Q1	1.3	2.1	1.2	-0.8	-0.7
Q2	1.0	2.1	2.3	0.2	-1.0
Q3	1.0	1.9	2.2	0.4	-0.9
Q4	1.6	2.2	2.2	0.1	-0.5
2011 – Q1	1.5	1.5	2.3	0.8	-0.1
Q2	2.4	1.7	1.7	0.1	0.8
Q3	2.2	1.4	1.5	0.1	0.8
Q4	2.3	1.0	0.9	-0.2	1.2
2012 – Q1	2.5	1.0	0.0	-1.0	1.5
Q2	2.6	1.1	-0.3	-1.4	1.5
Q3	2.5	0.6	-0.5	-1.1	2.0
Q4	2.1	0.7	-0.8	-1.5	1.4

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	3.1	8.2	6.0	-2.0	-4.8
2011	2.3	0.8	1.2	0.3	1.4
2012	2.9	-0.6	-3.5	-2.8	3.6
2010 – Q1	2.9	8.6	4.3	-4.0	-5.2
Q2	4.2	10.7	7.2	-3.2	-5.9
Q3	3.9	6.7	6.2	-0.4	-2.6
Q4	2.2	6.9	5.5	-1.3	-4.4
2011 – Q1	2.5	2.6	3.5	0.9	-0.1
Q2	2.8	2.4	3.2	0.8	0.4
Q3	2.6	1.4	1.2	-0.2	1.1
Q4	0.0	-2.2	-1.0	1.2	2.2
2012 – Q1	2.2	0.8	-2.3	-3.1	1.3
Q2	3.1	-1.6	-4.6	-3.1	4.8
Q3	3.1	-1.4	-3.2	-1.8	4.6
Q4	3.9	-0.2	-4.1	-3.9	4.1
			Servizi		
2009	1.4	-1.2	-2.7	-1.6	2.6
2010	2.1	1.2	1.1	-0.1	0.9
2011	0.3	-0.1	0.7	0.8	0.5
2012	0.3	-1.1	-1.2	-0.2	1.4
2010 – Q1	1.4	0.4	1.0	0.7	1.1
Q2	3.6	2.0	1.0	-0.9	1.6
Q3	1.9	1.5	1.0	-0.5	0.3
Q4	1.7	1.3	1.4	0.1	0.4
2011 – Q1	1.4	1.0	0.7	-0.2	0.5
Q2	0.0	-0.5	0.8	1.3	0.4
Q3	0.0	-0.8	0.9	1.7	0.8
Q4	-0.4	-1.0	0.4	1.3	0.6
2012 – Q1	1.1	1.1	-0.4	-1.5	0.0
Q2	-0.1	-0.4	-1.2	-0.8	0.3
Q3	-0.1	-3.1	-1.7	1.4	3.1
Q4	0.5	-1.6	-1.6	0.0	2.1
			Total economy		
2009	2.0	-2.3	-5.6	-3.4	4.4
2010	2.3	2.4	1.7	-0.7	-0.1
2011	1.0	0.2	0.5	0.3	0.8
2012	1.2	-0.6	-2.0	-1.4	1.8
2010 – Q1	1.7	1.6	1.2	-0.4	0.0
Q2	3.5	3.1	1.8	-1.2	0.4
Q3	2.4	2.5	1.8	-0.7	-0.1
Q4	2.0	2.7	1.9	-0.7	-0.6
2011 – Q1	1.8	1.4	1.1	-0.3	0.4
Q2	0.9	0.3	1.0	0.7	0.6
Q3	0.8	-0.3	0.6	0.9	1.0
Q4	-0.2	-1.0	-0.1	0.8	0.8
2012 – Q1	1.5	1.1	-1.2	-2.3	0.4
Q2	1.0	-0.3	-2.1	-1.9	1.2
Q3	0.9	-2.1	-2.4	-0.3	3.1
Q4	1.6	-0.9	-2.4	-1.6	2.5

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
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	1.5
Dec.	1.5	1.2	2.0	1.5	2.6	1.7	3.0	2.3	2.2	1.6
2013 – Jan.	1.4	1.0	1.9	1.3	2.4	1.8	2.8	2.3	2.0	1.5
Feb.	1.2	0.9	1.8	1.3	2.0	1.5	2.9	2.4	1.8	1.4

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
2009	-30,173	823	-8,435	-10,406	-4,658	-7,496	-89	-578	-19	508
2010	-54,698	-20,918	-9,218	-8,289	-5,425	-10,848	-556	-706	-70	220
2011	-48,259	-17,377	-5,671	-9,376	-4,549	-11,287	648	-407	-53	1,108
2012	-11,588	17,835	-589	-13,211	-5,360	-10,262	3,839	1,723	-95	2,211
2011 – Q1	-22,492	-11,420	-3,614	-954	-529	-5,975	-175	-39	-15	-121
Q2	-12,117	-4,708	-353	-4,186	-1,729	-1,141	-766	-131	-2	-633
Q3	-8,956	-1,670	-50	-2,468	-1,243	-3,526	-347	-226	-21	-100
Q4	-4,695	421	-1,654	-1,768	-1,048	-646	1,936	-11	-15	1,962
2012 – Q1	-13,909	-2,133	-2,593	-1,585	-1,241	-6,356	274	341	-12	-55
Q2	-1,430	5,395	958	-4,672	-1,319	-1,792	380	356	-2	26
Q3	-39	6,170	1,854	-3,505	-1,444	-3,114	656	563	-1	94
Q4	3,789	8,403	-808	-3,449	-1,357	999	2,529	463	-80	2,145
2011 – Jan.	-8,803	-5,663	-1,335	-322	-197	-1,287	-10	41	-4	-47
Feb.	-6,352	-2,362	-1,221	-224	-77	-2,468	-48	6	-3	-51
Mar.	-7,336	-3,395	-1,058	-409	-255	-2,220	-118	-87	-8	-23
Apr.	-4,578	-2,115	-281	-1,187	-529	-466	-124	-57	-1	-66
May	-5,155	-1,488	-166	-2,783	-566	-151	-482	-41	-1	-440
June	-2,385	-1,105	94	-216	-634	-524	-161	-33	-1	-127
July	341	1,943	658	-554	-469	-1,237	-76	-73	-6	3
Aug.	-5,111	-2,393	-713	-467	-428	-1,110	-196	-72	-6	-118
Sept.	-4,186	-1,220	5	-1,447	-346	-1,178	-75	-80	-9	14
Oct.	-2,232	-536	-333	-753	-356	-254	687	22	-4	669
Nov.	-3,331	-1,011	-747	-1,091	-339	-143	667	27	-4	644
Dec.	868	1,968	-574	76	-353	-249	582	-60	-7	649
2012 – Jan.	-7,625	-3,968	-889	-440	-436	-1,893	133	156	-3	-20
Feb.	-4,494	-584	-842	-518	-352	-2,197	180	209	-3	-25
Mar.	-1,790	2,419	-862	-627	-453	-2,266	-40	-25	-6	-9
Apr.	-1,029	405	-21	-243	-371	-799	33	27	-1	6
May	-1,739	1,650	231	-2,794	-507	-319	65	51	..	15
June	1,338	3,340	747	-1,635	-441	-673	282	278	-1	5
July	3,978	5,350	1,036	-781	-476	-1,151	279	245	..	34
Aug.	-2,197	16	149	-854	-489	-1,019	208	177	..	32
Sept.	-1,819	804	669	-1,871	-478	-943	170	141	..	29
Oct.	772	2,955	58	-2,216	-509	485	885	173	-21	733
Nov.	974	2,879	-591	-1,090	-427	203	890	168	-21	743
Dec.	2,043	2,569	-274	-142	-421	312	753	122	-38	669
2013 – Jan.	(-4,607)	(-1,241)	(-428)	(-852)	....	....	(78)	....	....	....

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	7.3	0.5	0.0	2.6	5.3	3.8	16.2	2.6
2011 – 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	-1.9	0.5	1.1	-2.3	-0.3	2.8	9.5	0.6
2012 – Mar.	2.6	4.2	-2.3	-1.9	-4.1	-2.0	1.9	5.3	0.1
June	0.8	5.3	-4.0	-3.7	-5.4	-3.4	0.5	5.2	-1.2
Sept.	5.7	7.0	-6.0	-5.9	-6.3	-4.6	-0.3	2.4	-1.5
Dec.	4.6	4.2	-5.0	-5.0	-5.0	-4.5	-0.9	-2.5	-1.6
2013 – Jan.	5.5	1.1	-5.7	-5.6	-5.8	-5.0	-1.1	-1.5	-2.2
Feb.	3.6	2.6	-5.3	-5.1	-5.7	-5.0	-1.1	-2.4	-2.1
				South and Islands					
2010 – Dec.	0.0	-3.9	3.8	4.5	1.7	2.0	4.5	0.6	3.6
2011 – 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	2.3	-1.6	-1.2	2.9	2.7	1.8
2012 – Mar.	0.7	-17.6	-1.1	-0.4	-3.3	-3.0	1.5	-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
Dec.	-1.8	-8.9	-6.0	-5.8	-6.6	-6.6	-1.8	-2.0	-3.9
2013 – Jan.	-2.7	-9.1	-6.4	-6.2	-7.0	-6.9	-2.0	-2.7	-4.3
Feb.	-3.1	-9.0	-6.8	-6.6	-7.3	-7.3	-2.1	-5.0	-4.5
				ITALY					
2010 – Dec.	3.6	7.0	0.9	0.6	2.4	4.5	3.9	14.3	2.7
2011 – 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	-2.3	0.6	1.3	-2.2	-0.5	2.9	8.8	0.8
2012 – Mar.	2.4	3.7	-2.1	-1.7	-4.0	-2.3	1.8	4.3	0.1
June	0.5	4.8	-3.9	-3.6	-5.3	-3.6	0.4	3.9	-1.3
Sept.	4.7	6.7	-5.9	-5.8	-6.3	-4.8	-0.5	1.7	-1.8
Dec.	4.0	4.0	-5.2	-5.1	-5.3	-5.0	-1.1	-2.5	-1.9
2013 – Jan.	4.7	1.0	-5.8	-5.7	-6.1	-5.4	-1.3	-1.6	-2.5
Feb.	2.9	2.4	-5.5	-5.3	-6.0	-5.5	-1.4	-2.6	-2.5

(1) Statistics for February 2013 are provisional. Loans do not include repurchase agreements and bad debts. The breakdown by geographical area is according to customers' place of residence. Net of the effects of securitizations and reclassifications. – (2) Limited partnerships and general partnerships with fewer than 20 employees. Informal associations, de facto companies and sole proprietorships with less than 20 employees. – (3) Informal associations, de facto companies and sole proprietorships with up to 5 employees.

Table A10

Financing of the general government borrowing requirement: Italy (1)

(millions of euros)

	Currency and deposits	Currency and deposits – *of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other operations	Other operations – *of which:* change in deposits with the Bank of Italy and investments of liquidity	*of which:* investments of liquidity	Borrowing requirement	Borrowing requirement – *of which:* financed abroad	Borrowing requirement – *of which:* in connection with financial support to EMU countries (2)
2010	1,093	-4,809	-10,103	88,002	1,195	-10,336	-11,518	..	69,851	448	3,909
2011	-3,635	-3,116	1,319	43,101	-203	23,057	18,994	..	63,638	-1,518	9,209
2012	6,977	-1,314	20,417	24,915	172	13,232	-10,138	..	65,713	14,637	29,547
2010 – Mar.	-3,192	-1,413	10,530	28,479	1,565	-10,057	-9,568	..	27,325	170	..
June	1,216	-929	-636	22,875	-943	-2,921	-3,474	..	19,592	1,136	2,922
Sept.	-1,315	-1,219	-1,960	22,908	1,859	-2,281	-2,188	..	19,210	3,944	987
Dec.	4,384	-1,247	-18,037	13,740	-1,286	4,923	3,712	..	3,723	-4,802	..
2011 – Mar.	-1,984	-1,605	12,380	10,484	1,232	8,632	8,309	..	30,744	-1,271	4,746
June	1,147	-895	-5,607	32,821	1,129	-13,421	-15,502	..	16,070	-669	1,371
Sept.	-3,693	-355	9,090	-23,064	-1,677	33,741	34,039	-800	14,397	2,473	1,006
Dec.	894	-261	-14,544	22,859	-887	-5,895	-7,852	800	2,427	-2,051	2,085
2012 – Mar.	8,028	-1,236	31,493	234	-105	-2,823	-10,202	-5,556	36,827	8,319	7,985
June	-3,934	470	-1,493	17,811	1,385	-3,131	-11,661	-2,382	10,638	4,301	8,599
Sept.	4,803	-1,243	5,063	4,197	-350	434	199	-22,727	14,147	-38	499
Dec.	-1,920	695	-14,645	2,672	-757	18,753	11,525	30,665	4,102	2,055	12,464
2012 – Jan.	-473	-483	17,980	18,755	-1,250	-32,030	-32,573	-5,655	2,983	653	863
Feb.	-817	-102	8,533	-15,769	691	15,623	16,040	1,527	8,261	228	..
Mar.	9,317	-651	4,980	-2,752	454	13,584	6,331	-1,428	25,583	7,438	7,122
Apr.	-896	-115	6,058	-10,117	875	13,346	6,953	-4,253	9,267	9,047	6,604
May	-1,933	38	66	14,481	-16	-6,113	-8,277	2,724	6,484	1,406	1,803
June	-1,106	547	-7,617	13,448	526	-10,364	-10,337	-853	-5,113	-6,153	192
July	1,705	-1,007	-2,183	-2,966	-2,001	1,742	597	-10,951	-3,703	-679	499
Aug.	1,120	270	-1,412	-1,337	171	7,909	8,158	-6,890	6,450	-758	..
Sept.	1,979	-505	8,658	8,500	1,479	-9,217	-8,556	-4,886	11,400	1,398	..
Oct.	-1,449	-161	4,885	16,303	-184	-7,321	-6,971	7,501	12,233	-1,261	5,732
Nov.	-3,402	-264	1,970	5,626	872	-6,223	-6,235	5,805	-1,157	-85	..
Dec.	2,931	1,120	-21,500	-19,257	-1,445	32,297	24,731	17,359	-6,974	3,401	6,732
2013 – Jan.	1,501	-1,356	6,549	28,069	-1,398	-33,846	-33,717	-13,033	857	-244	384
Feb.	-3,968	8	266	-2,194	26	18,971	18,461	-110	13,101	551	691

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" Supplement to the Statistical Bulletin. – (2) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.

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	*of which:* in connection with EFSF loans	General government debt	*Memorandum item:* Deposits with the Bank of Italy and investments of liquidity	*of which:* investments of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (2)
2010	156,861	25,195	129,862	1,418,760	132,521	13,248	..	1,851,252	43,249	..	35,688	3,909
2011	153,226	22,080	131,181	1,473,355	132,319	17,311	3,110	1,907,392	24,255	..	35,385	13,118
2012	160,203	20,765	151,600	1,503,684	132,490	40,682	26,925	1,988,658	34,394	..	26,279	42,665
2010 – Mar.	152,576	28,592	150,496	1,358,221	132,889	11,577	..	1,805,758	41,299	..	34,965	..
June	153,792	27,662	149,865	1,382,256	131,947	12,130	..	1,829,990	44,773	..	38,230	2,922
Sept.	152,477	26,443	147,911	1,403,642	133,807	12,037	..	1,849,873	46,961	..	36,568	3,909
Dec.	156,861	25,195	129,862	1,418,760	132,521	13,248	..	1,851,252	43,249	..	35,688	3,909
2011 – Mar.	154,878	23,590	142,246	1,431,025	133,753	13,571	786	1,875,472	34,940	..	35,794	8,655
June	156,025	22,696	136,638	1,467,054	134,882	15,652	2,157	1,910,250	50,442	..	36,526	10,026
Sept.	152,332	22,341	145,736	1,445,292	133,205	15,353	2,157	1,891,919	16,403	800	36,274	11,032
Dec.	153,226	22,080	131,181	1,473,355	132,319	17,311	3,110	1,907,392	24,255	..	35,385	13,118
2012 – Mar.	161,254	20,844	162,677	1,474,193	132,213	24,690	11,095	1,955,027	34,457	5,556	33,626	21,103
June	157,320	21,314	161,186	1,496,852	133,598	33,220	19,695	1,982,177	46,118	7,938	26,507	29,702
Sept.	162,123	20,071	166,248	1,500,595	133,248	33,454	20,193	1,995,668	45,919	30,665	25,380	30,201
Dec.	160,203	20,765	151,600	1,503,684	132,490	40,682	26,925	1,988,658	34,394	..	26,279	42,665
2012 – Jan.	152,753	21,596	149,162	1,493,167	131,069	17,854	3,974	1,944,005	56,828	5,655	35,783	13,981
Feb.	151,936	21,495	157,695	1,477,788	131,759	17,437	3,974	1,936,617	40,788	4,128	31,381	13,981
Mar.	161,254	20,844	162,677	1,474,193	132,213	24,690	11,095	1,955,027	34,457	5,556	33,626	21,103
Apr.	160,358	20,729	168,739	1,464,679	133,089	31,083	17,699	1,957,949	27,505	9,809	27,813	27,707
May	158,426	20,767	168,806	1,481,711	133,072	33,247	19,503	1,975,262	35,782	7,085	28,060	29,510
June	157,320	21,314	161,186	1,496,852	133,598	33,220	19,695	1,982,177	46,118	7,938	26,507	29,702
July	159,024	20,306	159,001	1,494,051	131,598	34,365	20,193	1,978,039	45,521	18,889	28,014	30,201
Aug.	160,144	20,576	157,586	1,492,562	131,768	34,116	20,193	1,976,177	37,363	25,779	27,907	30,201
Sept.	162,123	20,071	166,248	1,500,595	133,248	33,454	20,193	1,995,668	45,919	30,665	25,380	30,201
Oct.	160,674	19,910	171,134	1,517,244	133,064	33,104	20,193	2,015,219	52,890	23,164	28,314	35,933
Nov.	157,272	19,646	173,102	1,523,614	133,936	33,116	20,193	2,021,040	59,125	17,359	27,017	35,933
Dec.	160,203	20,765	151,600	1,503,684	132,490	40,682	26,925	1,988,658	34,394	..	26,279	42,665
2013 – Jan.	161,703	19,409	158,147	1,531,224	131,092	40,553	27,309	2,022,719	68,110	13,033	25,396	43,048
Feb.	157,735	19,417	158,413	1,529,233	131,118	41,063	27,999	2,017,562	49,650	13,143	25,721	43,739

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" Supplement to the Statistical Bulletin. – (2) Includes loans to other EMU countries, disbursed both bilaterally and via the European Financial Stability Facility, and the contribution of capital to the European Stability Mechanism.