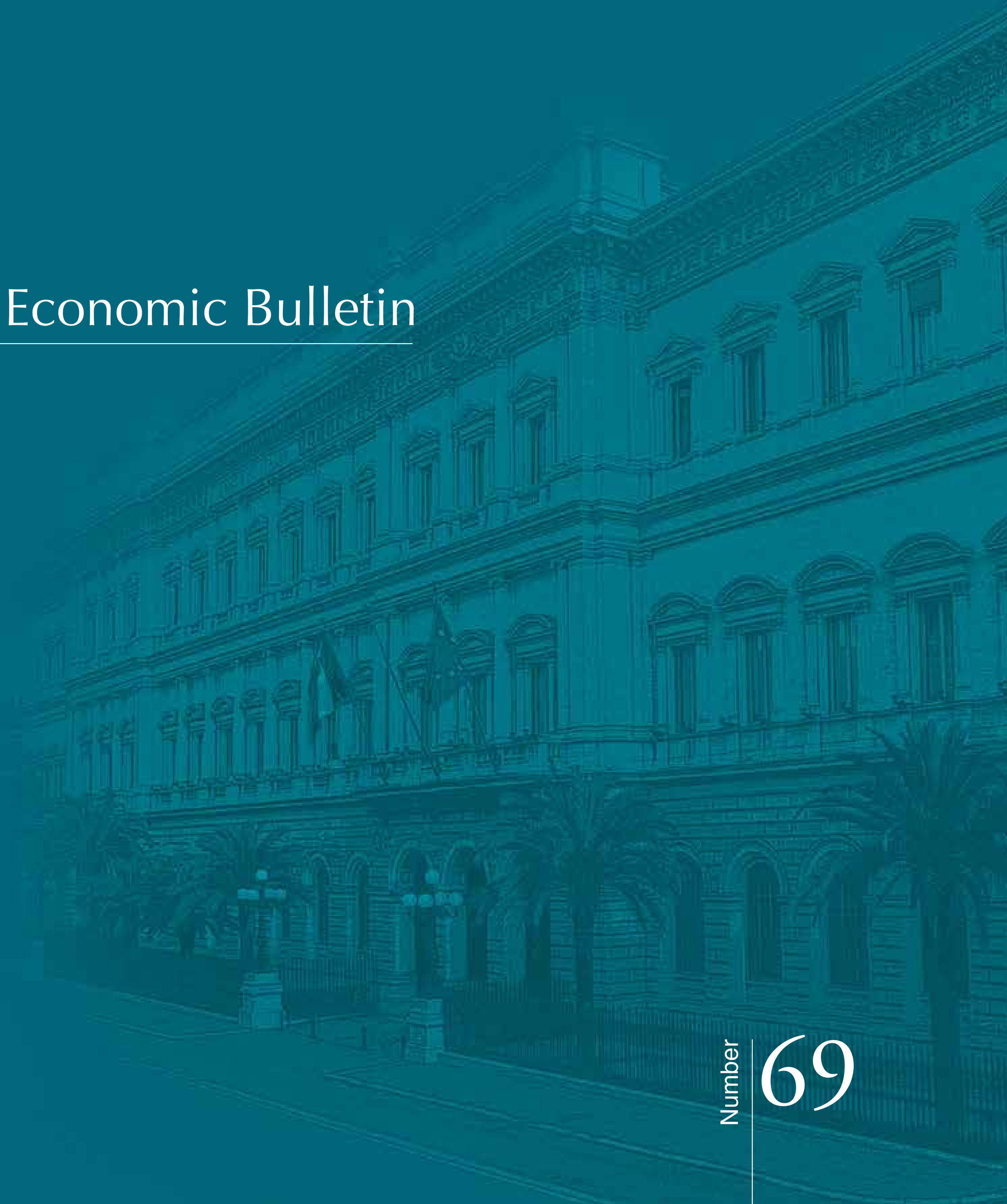
BANCA D'ITALIA
EUROSISTEMA

Economic Bulletin



Number 69

July 2013

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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

Growth strengthens globally but weakens in the emerging economies

The global economic expansion, which had gained pace in the first quarter thanks to stronger growth in several advanced countries, continued in the second quarter. However, the persistent sluggishness of activity in the euro area and a deceleration in the emerging economies of Asia kept the expansion of world trade at modest levels. The prices of energy and non-energy commodities declined, favouring a generalized fall in inflation.

Uncertainty about monetary policies induces market volatility

Conditions on world financial markets reflected investors' uncertainty about the duration of the policy of quantitative easing in the United States and the growing concern about credit conditions in China. The decline in prices mainly involved the emerging countries; it has been transmitted, if only to a limited extent, to the euro area, where government securities prices have also been affected by the political uncertainty in Portugal. The downgrading of Italy's sovereign debt by Standard & Poor's has had only limited effects on demand and yields.

In the euro area the recession moderates

In the euro area GDP contracted again in the first quarter, the decline spreading to the countries not directly exposed to the financial market strains. The latest cyclical indicators suggest a possible stabilization of economic activity, but at modest levels. The Eurosystem's June projections indicate a decline in GDP of 0.6 per cent this year, 1.5 percentage points worse than had been forecast last September.

The ECB Council indicates that official rates will remain low for an extended period

The ECB Governing Council, after reducing its main refinancing rate to an all-time low of 0.50 per cent in May, announced at the start of July that it expected its key rates to remain at present or lower levels for an extended period, given the subdued outlook for inflation, the broad-based weakness in the real economy and subdued monetary dynamics. At the same time, as announced in May, refinancing operations will be conducted at fixed rates with full allotment as long as necessary and at least until July 2014.

In Italy GDP declines more slowly

According to our estimates, GDP in Italy declined less steeply in the second quarter than in the first. The latest surveys suggest that firms' investment activity may stabilize in the second half of the year. The decline in industrial production appears to have halted in the last few months.

Inflation decreases again

Consumer price inflation, measured by the harmonized index, fell from 1.8 per cent in March to 1.4 per cent in June, mainly thanks to the decline in energy prices. According to our projections, which incorporate the technical assumption of the increase in VAT currently scheduled for October, inflation will continue to average around 1.5 per cent in 2013 and 2014.

Lending continues to contract ...

Credit market conditions remain tight. In the first four months of the year there was a more marked decline in lending to households and an even larger fall in lending to firms. The problems are universal but most pronounced for small and medium-sized *enterprises, which are less able to replace bank loans with other forms of finance.*

... partly as a result of the increase in credit risk

The decline in lending reflects the persistent weakness of the demand for credit but is also still influenced by the restrictive conditions on the supply side. Despite the abundance of liquidity, banks' lending policies are restrained by the heightened credit risk caused by the persistent recession. The greater riskiness of loans has affected the cost of credit, offsetting the favourable effects of the reductions in official rates and the easing of sovereign debt market tensions.

In the first quarter of 2013 the ratio of new bad debts to outstanding loans rose to 2.8 per cent; for firms alone, the ratio rose to 4.5 per cent. According to leading indicators, the flow of new bad debts is likely to remain high for the rest of the year. Nevertheless, the banks' capital base, which was strengthened during 2012, remains generally sound.

Our central GDP projection for 2013 reflects the slowdown in the first half of the year ...

Like other institutions' forecasts, this Bulletin's GDP projection for 2013 has been revised downwards by nearly 1 percentage point compared with the January figure (from -1.0 to -1.9 per cent, although this is subject to considerable uncertainty). The revision reflects the performance of GDP during the first half of the year, which proved to be worse than had been expected in January, above all owing to the slowdown in world trade and the persistent strains in the credit market, which have delayed the exit from the recession.

... followed by a stabilization late in the year and a recovery in 2014

Economic activity is expected to stabilize at the end of 2013, and the recovery should strengthen in 2014, with average growth of 0.7 per cent for the year, thanks to an acceleration in foreign trade and a gradual resumption of productive investment. The latter is likely to be assisted by the improvement in firms' liquidity when the payment of general government commercial debts is unfrozen.

Consumption continues to be slack and employment weak

Household spending, restrained by the performance of disposable income and by acute uncertainty regarding the labour market outlook, is expected to remain weak, however; after declining further this year, it appears set to stagnate in 2014. Conditions in the labour market, which typically react to changes in economic activity with a lag, are expected to continue worsening throughout this year. A timid employment recovery is expected only in the second half of 2014. The number of persons in work is projected to diminish by around 1.5 per cent in the two years 2013-14; the seasonally adjusted unemployment rate, which rose above 12 per cent in May, is likely to come close to 13 per cent in the course of 2014.

The external current account returns to surplus

The current account of the balance of payments is expected to swing into surplus by about 1 per cent of GDP in 2014, in response to slowing imports, growing exports, especially to markets outside the euro area, and falling oil prices.

Fiscal consolidation proceeds

The budget packages enacted in the second half of 2011 have enabled Italy to exit from the excessive deficit procedure opened in 2009. By our estimate, net borrowing will be practically unchanged this year in relation to GDP, despite the outlays in connection with the payment of general government commercial debts.

The timing of the recovery is subject to downside risks

The projected recovery in economic activity late this year is subject to downside risks, mostly in connection with the outlook for the world economy, firms' liquidity conditions and the terms of credit supply.

Foreign demand could prove to be weaker than projected if growth in the main emerging economies slows down and the cyclical weakness in Europe persists.

Our forecasting scenario also depends on the full implementation and effectiveness of economic policy measures. The provision for unfreezing general government commercial payments could be less effective than expected if the payment schedules are not met or if firms, given ample spare capacity and slack demand, set a substantial portion of the funds aside for precautionary purposes.

Finally, the timing and strength of the recovery could be jeopardized by an increase in spreads on Italian government securities, which owing to the size of the public debt and the poor prospects for economic growth remain sensitive to variations in investor confidence and the assessments of analysts. Achieving the fiscal adjustment objectives is a necessary condition for the containment of risk premiums, which must also be shielded from the possible adverse effects of uncertainties about the domestic situation. An increase in spreads would have repercussions on banks' funding and hence on the availability and cost of credit to firms and households.

2 THE WORLD ECONOMY

2.1 ECONOMIC DEVELOPMENTS

In the early months of 2013 global economic activity benefited from the strengthening of the recovery in the United States, where the repercussions of the budget measures were milder than feared, and from the expansion in Japan. In the main emerging economies, though growth remained rapid overall it nevertheless lost pace, especially in China. The decline in world raw materials prices fostered a lessening of inflation in the course of the second quarter.

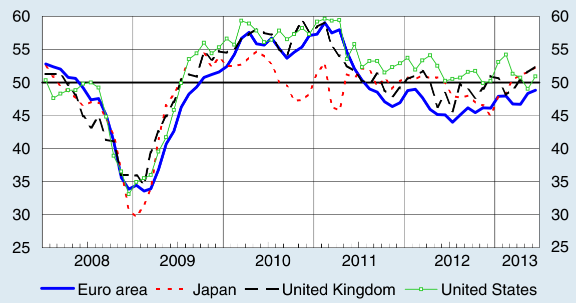
The upturn strengthens in the advanced countries ...

Economic growth in the United States accelerated to an annual rate of 1.8 per cent in the first quarter. The strengthening of activity reflected a pick-up in household consumption; the reduction in public spending affected output growth negatively, although to a lesser extent than in the previous quarter. Japan registered a marked acceleration in the rate of growth, from 1.2 to 4.1 per cent, thanks not only to the large rise in household consumption but also to the budget expansion and the recovery in exports. In the United Kingdom, after contracting in the fourth quarter of 2012, economic activity returned to growth (at a rate of 1.1 per cent), driven by the positive contribution of net foreign demand.

Going by the latest cyclical indicators, the upswing in the main advanced countries continued in the second quarter, if at a moderate overall pace (Figure 1). In the United States GDP growth is estimated at nearly 2 per cent on an annualized basis, despite the drag from the budget sequestration that took effect in March. Labour market conditions continue to improve, and the property market continues to recover. The Case-Shiller index of home prices in the ten largest metropolitan areas rose for the fifth consecutive month in April, and futures prices foreshadow a further rise in the months to come. According to the data now available, economic activity continued to expand in Japan at about the same pace as in the first quarter and strengthened somewhat in the United Kingdom.

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.

... but loses steam in the emerging economies

In the main emerging countries growth slowed in the first three months of the year. In China the growth rate came down to 7.7 per cent with respect to the year-earlier period (compared with 7.9 per cent in the fourth quarter of 2012), owing above all to the deceleration in investment. Output growth slowed further in Russia (to 1.6 per cent) and remained comparatively weak in India (4.8 per cent). The modest pick-up in Brazil, from 1.4 to 1.9 per cent, was due to a recovery in investment, sustained by tax incentives.

In the second quarter GDP growth slowed again in China (to 7.5 per cent) reflecting, among other factors, the renewed weakness of exports. Industrial production indices and business opinion surveys point to a further weakening of the expansion in the other main emerging countries as well.

World trade expands at a slow pace

World trade grew at an annual rate of 2.6 per cent in the first quarter, about the same as in the fourth quarter of 2012. While its expansion slowed in the emerging economies of Asia, Japan's foreign trade registered an upswing. The data available suggest that the growth of world trade remained moderate in the second quarter as well.

The downside risks remain

The latest International Monetary Fund projections put world economic growth at 3.1 per cent in 2013, the same as in 2012 (Table 1). This represents a slight downward revision from the April forecast, due chiefly to slower expected growth in the emerging economies and the protraction of the recession in the euro area. On the whole the growth outlook for the world economy is subject to downside risks. The attenuation of the uncertainties about the course of the crisis in the euro area and the handling of the budget imbalance in the United States has been offset by heightened doubts concerning growth in the main emerging countries.

Table 1

Selected macroeconomic projections
(percentage changes on the previous year)

	IMF			Consensus Economics	
	2012	2013	2014	2013	2014
GDP					
World	**3.1**	**3.1**	**3.8**	–	–
Advanced countries					
Euro area	*-0.6*	*-0.6*	*0.9*	*-0.6*	*0.8*
Japan	*1.9*	*2.0*	*1.2*	*1.9*	*1.5*
United Kingdom	*0.3*	*0.9*	*1.5*	*1.0*	*1.7*
United States	*2.2*	*1.7*	*2.7*	*1.8*	*2.7*
Emerging countries					
Brazil	*0.9*	*2.5*	*3.2*	*2.7*	*3.4*
China	*7.8*	*7.8*	*7.7*	*7.5*	*7.6*
India (1)	*3.2*	*5.6*	*6.3*	*5.9*	*6.6*
Russia	*3.4*	*2.5*	*3.3*	*2.6*	*3.3*
World trade (2)	**2.5**	**3.1**	**5.4**	–	–

Sources: IMF, *World Economic Outlook Update*, July 2013; Consensus Economics, July 2013 (for Brazil and Russia, June).
(1) The Consensus Economics forecasts refer to the fiscal year beginning in April of the year indicated. – (2) Goods and services.

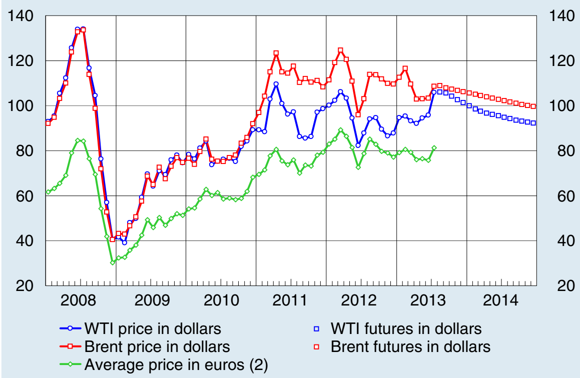
Oil prices come down

The price of Brent grade crude oil declined during the second quarter, reflecting uncertain trends in world demand and an increase in output, to stabilize at around $100 a barrel. In recent weeks the resurgent political turmoil in Egypt has contributed to a new rise in prices, which nearly regained their end-March levels ($109 a barrel; Figure 2). Futures contracts continue to indicate that the price of Brent grade crude will decline slightly over the next twelve months.

The prices of non-energy commodities, and metals in particular, fell more sharply in the second quarter.

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 June 2013; the last data refer to 12 July 2013. – (2) Average price per barrel of the three main grades (Brent, Dubai and WTI).

Inflationary pressures ease ...

Inflation pressures in the advanced countries have abated in recent months (Figure 3), owing in part to the decline in energy prices. In the United States, the inflation rate fell to 1.4 per cent in May (from 2.0 per cent in February). In the United Kingdom it diminished less sharply (from 2.8 to 2.7 per cent), while in Japan the deflationary trend persisted. Of the main emerging countries, inflationary pressures eased in China and India but remained strong in Russia and Brazil.

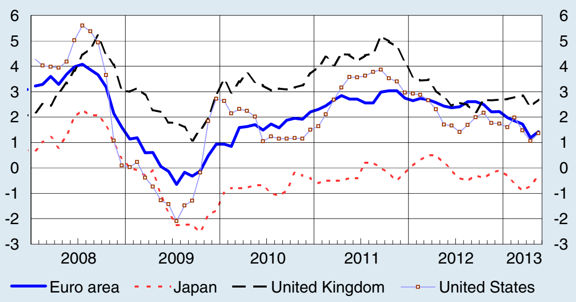
... and monetary policies remain accommodative

The monetary policy stance in the main advanced countries has remained expansionary, but uncertainty over future strategies has spread among market participants. The Federal Reserve has confirmed that official rates will be kept at today's levels as long as the unemployment rate stays high and inflation expectations remain well-anchored. It kept the scale of its purchases of mortgage-backed securities and long-term Treasury securities unchanged (a total of $85 billion a month). In June the Fed announced that if the data should confirm the recent improvement in the economic outlook it could begin tapering the rate of expansion of its balance sheet within the next few months with a view to phasing out the programme of purchases by the middle of 2014. In July, however, it reaffirmed that it would counter undesirable restrictions in financial conditions.

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.

The Bank of Japan, in order to attain its inflation target of 2 per cent, confirmed its programme of expansion of the money supply by between ¥60 trillion and ¥70 trillion a year, accompanied by purchases of long-term government bonds. The Bank of England and the British Treasury approved a one-year extension (to the end of January 2015) of the funding for lending programme designed to encourage credit to small and medium-sized enterprises. The Bank of England kept its stock of financial assets unchanged at £375 billion.

The policy measures taken by the monetary authorities of the main emerging countries have not been uniform. The Central Bank of Brazil, against a backdrop of mounting inflationary pressures, raised its benchmark Selic rate three times by a total of 125 basis points. The Bank of China adopted a more restrictive policy on liquidity supply; it then intervened in the second half of June to calm the strains that had arisen in the interbank market. The Reserve Bank of India lowered its repo rate by 25 basis points, taking advantage of the marked lessening of inflationary pressures in the context of weakening economic activity.

2.2 THE EURO AREA

In the euro area, following the continued weakening of GDP in the first quarter of this year, the economic indicators signalled some progress in the second; however, the levels are still low. In the last three months, consumer price inflation has fallen significantly, to 1.4 per cent on average. The European Central Bank expects the key ECB interest rates to remain at present or lower levels for an extended period of time, given the subdued outlook for inflation, the broad-based weakness in the real economy and subdued monetary dynamics.

The fall in GDP slows in the first quarter

In the first quarter of 2013 euro-area GDP fell for the sixth quarter running (-0.3 per cent compared with the previous period, against -0.6 per cent at end-2012), reflecting mainly the further contraction in investment. Household spending remained stable, however, interrupting the downward trend that began at the end of 2011. The reduction in exports (of about 1 per cent, the second consecutive decline), was offset by a slightly greater fall in imports. GDP diminished in all the leading economies, with the exception of a modest increase of 0.1 per cent in Germany, where the main impetus was a rise in household consumption.

The cyclical situation remains weak in the spring, although with some signs of improvement

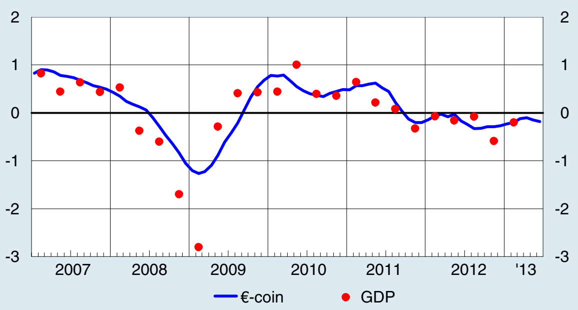
In the period April-May industrial output increased by better than half a percentage point compared with February-March. The composite Purchasing Managers Index (PMI) rose in June for the third consecutive month, although it was still below the threshold value compatible with an increase in economic activity. This trend was common to all the main economies, but only in Germany did the level of the indicator suggest the possibility of a slight increase in output in the second quarter. Again in June, the European Commission's Economic Sentiment Indicator showed an improvement across the euro area and the leading economies.

The €-coin coincident indicator produced by the Bank of Italy, which gives a monthly estimate of the quarterly changes in GDP in the euro area, smoothed for short-term fluctuations, showed another slight fall in June, to minus 0.18 per cent (Figure 4), as the recent tensions in the financial markets more than offset the improvement in the results of the household and business opinion surveys.

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.

The professional analysts surveyed by Consensus Economics in July and the expectations of the Eurosystem experts published in June forecast that euro-area GDP will decline by 0.6 per cent on average in 2013, similar to the previous year.

Domestic demand makes some headway

The latest indicators on euro-area household spending signal some improvement. In April-May, on average, the volume of retail sales and new car registrations increased slightly compared with the first quarter of this year. More encouraging signs also come from the further improvement in household confidence recorded in June, although the indicator for Italy was affected by methodological changes.

Over the three months ending in April, the euro area's merchandise exports (at current prices) increased in relation to the previous quarter; the main economies are still being affected by the weakness of trade within the area, while sales towards the rest of the world continue to increase. Indicators based on economic surveys provide conflicting signals on the short-term outlook for foreign orders: in June the European Commission's survey recorded an improvement in firms' opinions but the PMI fell back below the threshold value for an increase in orders.

Inflation declines again sharply

The rate of inflation is falling. In the second quarter of 2013 it came down to an average of 1.4 per cent compared with the year-earlier quarter (down from 1.9 per cent in the first quarter; Figure 5). In June the harmonized index picked up slightly to 1.6 per cent. Predicted by all the analysts for some time, this trend mainly reflects the negative comparison between the slight increase in energy prices compared with the previous month and the sharp fall observed twelve months earlier.

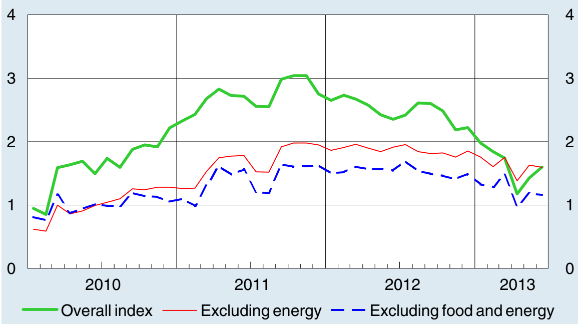
Core inflation, calculated net of food and energy prices, declined by 0.3 percentage points (to 1.1 per cent). Pressure from producer prices moderated further; in May the twelve-month rate of growth fell to -0.1 per cent, mainly as a result of the decline in energy prices.

Firms' pricing intentions indicate continuing moderation. Consumer price inflation in the euro area will average 1.5 per cent in 2013 according to the private forecasters surveyed by Consensus Economics in July and 1.4 per cent according to the June projections of the Eurosystem experts.

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 is slow

The twelve-month rate of growth in M3 remained low at 2.9 per cent in May. Set against the strong growth in overnight deposits (9.7 per cent), the fall in negotiable instruments became more marked (-15.7 per cent). Overnight deposits accelerated in most of the euro-area countries, including Italy and Spain; in Greece and in Portugal the contraction of these deposits moderated.

Credit continues to shrink

Lending to the non-financial private sector contracted again by 1.4 per cent in the three months ending in May on a seasonally adjusted, annualized basis, adjusted for the accounting effect of securitizations, compared with 1.0 per cent in February); this trend reflects the steepening of the contraction of lending to firms (from 1.9 to 3.3 per cent) and modest growth in loans to households (0.3 per cent). In the twelve months to May, the growth of business loans was positive in France and the Netherlands, nil in Germany and negative in the other main euro-area countries (Greece, Ireland, Italy, Spain and Portugal).

According to the quarterly euro-area bank lending survey, in the first quarter of 2013 firms' and households' demand for credit remained weak, continuing to be damped down by the negative trend in gross fixed investment, unfavourable prospects in the real-estate market and poor consumer confidence. Credit supply conditions remained slightly restrictive, owing in part to the persistent perception of high credit risk.

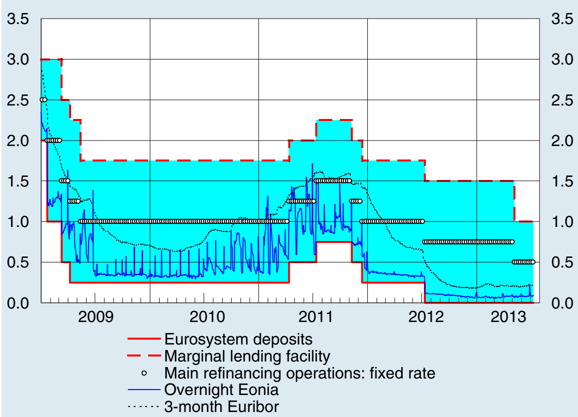
The ECB announces that its key interest rates will remain low for an extended period of time

In its meeting at the beginning of May, the ECB Governing Council reduced its fixed rate on main refinancing operations by 25 basis points to 0.5 per cent and that on the marginal lending facility by 50 basis points to 1.0 per cent; the rate on Eurosystem overnight deposits remained unchanged at 0.0 per cent (Figure 6). At the start of July, the Council announced that it expected the key ECB interest rates to remain at present or lower levels for an extended period of time, based on the overall subdued outlook for inflation, given the broad-based weakness in the real economy and subdued monetary dynamics. After this decision, forward interest rates fell sharply.

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

The early repayment of part of the funds distributed in the two three-year LTROs of December 2011 and February 2012 continued; between the start of April and the end of June around €70 billion was repaid (for a total of €307 billion since the repayments began at the end of January). Together with banks' reduced recourse to refinancing operations, this resulted in a reduction of excess liquidity in the system, which nevertheless remained abundant (about €260 billion at end-June). In May the Governing Council confirmed that the refinancing operations would continue by means of tender procedures with full allotment for as long as necessary and at least until July 2014.

The TARGET2 balances improve further

There was a further reduction in the disparities between the various euro-area central banks' TARGET2 balances, which reflect movements of private capital between their respective countries. The negative balances of the countries most exposed to the sovereign debt crisis improved again between March and June; in the case of Italy, there was a reduction of about €30 billion, to €223 billion at the end of June.

2.3 WORLD FINANCIAL MARKETS

Starting in May, there was a resurgence of financial market volatility triggered by market participants' growing concern about the possible early reduction of monetary stimulus in the United States and by uncertainty about the outlook for the world economy.

Long-term rates start rising again

The interest rates on ten-year US Treasury securities rose from the beginning of May, though remaining at historically low levels, amidst uncertainty as to the timing and method of the Federal Reserve's withdrawal from unconventional monetary policy measures; the increase compared with the end of March amounted to 75 basis points (Figure 7). A similar increase was recorded in the United Kingdom (74 basis points), while in Germany and Japan the rise was more limited (29 and 26 basis points respectively). In the euro area, the average increase came to 11 basis points.

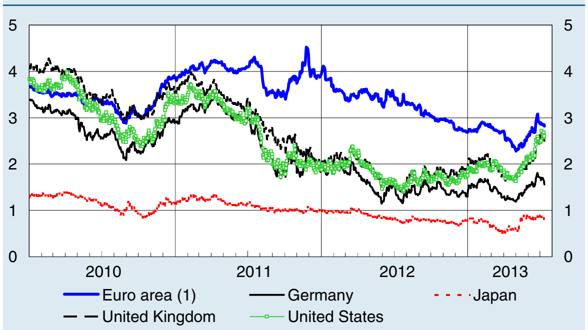
Sovereign risk premiums increase from mid-May ...

The yield spreads of ten-year euro-area government bonds over the equivalent German security had narrowed in April, benefiting from a broad improvement in financial market conditions – itself assisted by the launch of a further expansion of monetary policy in Japan – and from the attenuation of political uncertainty in Italy. From the middle of May they began to increase again,

Figure 7

Yields on 10-year government bonds

(daily data; per cent)

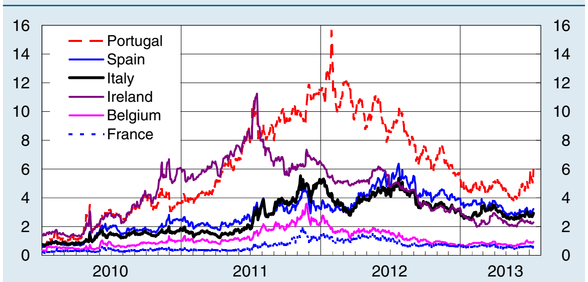


Source: Thomson Reuters Datastream.
(1) Average yields, weighted by 2010 GDP at constant prices, of the 10-year benchmark government securities of the euro-area countries except Cyprus, Estonia, Greece, Luxembourg, Malta, Slovakia and Slovenia.

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.

however, reflecting the uncertainty surrounding monetary policy developments in the United States and mounting fears of an economic slowdown in China. They began to come down again after the July meeting of the ECB Governing Council, but they were affected by the fears of a political crisis in Portugal. The spread on Italy's ten-year government bonds, which in April had fallen to end-of-January levels, rose to 292 basis points (Figure 8).

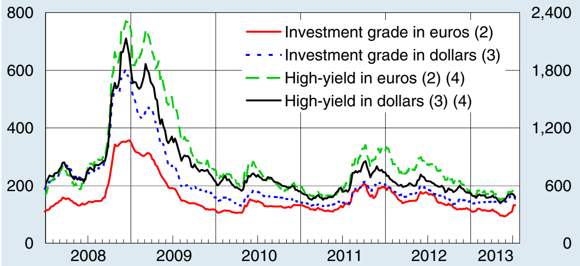
... as do those of banks and firms

During the second quarter the movements in sovereign credit risk premiums were reflected in those of banks' credit default swaps, which, after an initial decline, rose beginning in mid-May. Compared with the end of March, banks' CDS spreads were unchanged in the United States and declined by 17 basis points in the euro area. The rising tensions likewise affected corporate bonds from May onwards: compared with the end of March, the yield spreads between investment-grade corporate bonds and the corresponding government securities increased by 20 and 11 basis points respectively for bonds denominated in euros and dollars (Figure 9).

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) Fixed-rate bonds with a residual maturity of not less than one year. 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) Yield spreads are calculated with respect to French and German government securities. – (3) Yield spreads are calculated with respect to US Treasury securities. – (4) Right-hand scale.

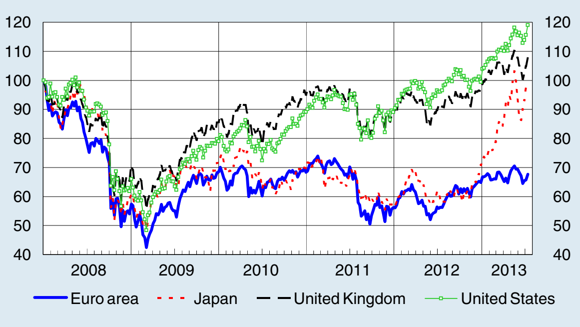
Share prices fluctuate widely

After recording sharp gains in the first few months of the year, stock market indices slumped from the second half of May but then largely recouped these losses in recent weeks. Compared with the end of March they were up by 17 per cent in Japan and 7 per cent in the United States; in the euro area the increase in share prices was smaller, amounting to 2 per cent (Figure 10). The volatility implied by stock index options, which increased most notably in the United States, continued to be relatively moderate by comparison with the summer 2012 peak (Figure 11).

Figure 10

Stock market indices (1)

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

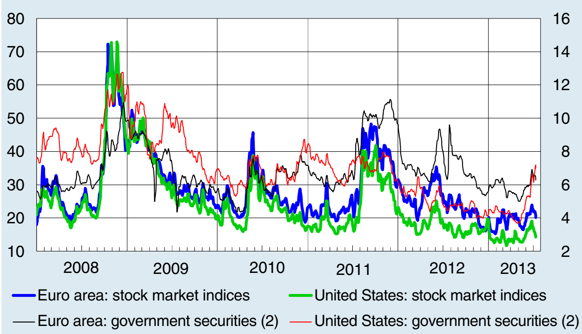


Source: Thomson Reuters Datastream.
(1) Dow Jones Euro Stoxx for the euro area, Nikkei 225 for Japan, FTSE All Share for the United Kingdom and Standard & Poor's 500 for the United States.

Figure 11

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

(daily data; percentage points)



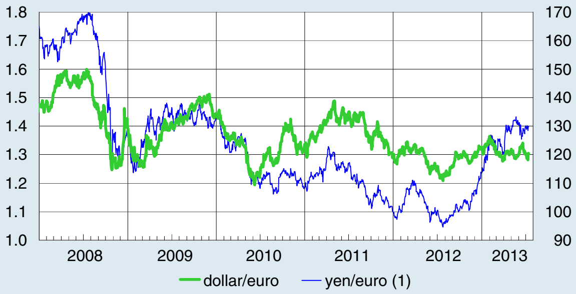
Source: Based on Thomson Reuters Datastream data.
(1) Moving averages over 5 days. Stock market indices: VSTOXX for the euro area and VIX for the United States. Government securities: volatility implied by the prices of options on futures on the German Bund for the euro area and on Treasury notes for the United States. – (2) Right-hand scale.

Financial conditions in the emerging countries worsen

Financial conditions in the main emerging countries worsened during the second quarter, as worries about a reduction of global liquidity and the persistent uncertainty regarding the growth outlook in China took their toll. The yield spreads between long-term dollar-denominated government securities and US Treasury securities widened and share prices fell (down by an average of 5 per cent for stock market indices in local currency).

Figure 12

Bilateral exchange rates
(daily data)



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

The performance of the euro reflects the stance of monetary policies

In the first part of the quarter, the relatively more expansionary stance of monetary policy in the United States and Japan fostered an appreciation of the euro against the dollar and the yen. Following the meetings of the Federal Open Market Committee in June and of the ECB Governing Council in July, the euro weakened against the dollar. In bilateral terms, from the end of March the euro appreciated by 2 per cent against the dollar and 5 per cent against the yen (Figure 12). In nominal effective terms, it gained 2 per cent.

In a context of growing international capital outflows, the main emerging-country currencies weakened against the dollar, most markedly in the case of the Indian rupee and the Brazilian Real, although the Chinese renminbi resumed strengthening against the US currency.

3 THE ITALIAN ECONOMY

3.1 THE CYCLICAL SITUATION

Following the decline in GDP in the first quarter of the year, industrial production in Italy fell again in April, before picking up slightly in May, possibly presaging a stabilization of economic activity in the third quarter. Firms' assessments, including of investment conditions, have shown some improvement in recent months. At the beginning of the year the prolonged decline in households' real disposable income came to a halt. However, the cyclical outlook reflects the uncertainty caused by the latest financial market tensions.

The recession is still under way at the beginning of 2013 ...

GDP continued to decline in the first quarter of the year, falling by 0.6 per cent compared with the previous quarter (Table 2). Domestic demand again contracted. Investment in construction, in particular, recorded the sharpest drop since the end of 2008: -3.9 per cent from the fourth quarter of 2012. Household consumption decreased further, albeit less markedly than in previous quarters. Exports also fell, by 1.9 per cent, for the first time since the second quarter of 2009, mainly owing to the contraction in demand from the other EU countries, and imports decreased by a similar amount. The change in stocks contributed 0.3 percentage points to GDP growth (Figure 13).

... but appears to ease in the second quarter

According to our estimates, GDP declined further in the second quarter of 2013, but at a slower pace; domestic demand remained weak. The performance of industrial production and new orders in recent months points to a possible stabilization during the third quarter. The assessments of households and firms have become less pessimistic.

Table 2

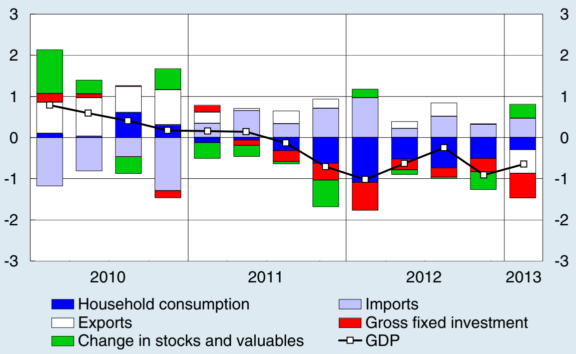
GDP and its main components (1)
(percentage changes on previous period)

	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2012 (2)
GDP	-0.6	-0.3	-0.9	-0.6	-2.4
Total imports	-0.7	-1.8	-1.1	-1.6	-7.7
National demand (3)	-1.0	-1.1	-1.3	-0.6	-5.3
National consumption	-0.8	-1.0	-0.6	-0.3	-3.9
household spending	*-0.9*	*-1.2*	*-0.8*	*-0.5*	*-4.3*
other (4)	*-0.5*	*-0.4*	*0.1*	*0.1*	*-2.9*
Gross fixed investment	-1.4	-1.2	-1.8	-3.3	-8.0
construction	*-0.8*	*-1.1*	*-1.4*	*-3.9*	*-6.2*
other investment goods	*-2.2*	*-1.3*	*-2.2*	*-2.7*	*-9.9*
Change in stocks and valuables (5)	-0.1	..	-0.4	0.3	-0.6
Total exports	0.6	1.1	0.1	-1.9	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 13

GDP growth and contributions of its main determinants (1)
(quarterly data; 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.

Inflation falls again

In the second quarter of the year inflation (measured by the twelve-month change in the harmonized index of consumer prices) fell sharply, to below the euro-area average (1.4 per cent in June). The decline in energy prices was a contributory factor, against a background of reduced profit margins and pronounced cost cutting. The raising of the ordinary VAT rate that was due to enter into force on 1 July was postponed to the beginning of October.

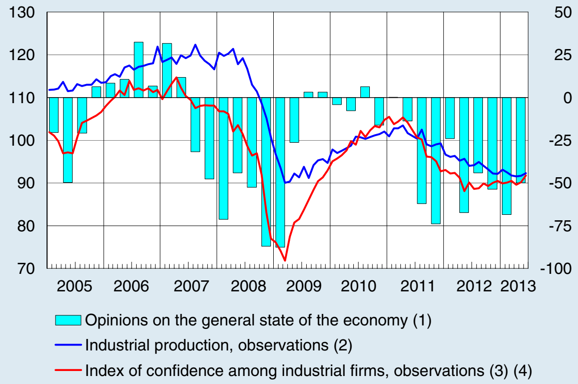
3.2 FIRMS

Industrial activity, after declining further at the start of the second quarter of this year, appears to have picked up slightly in recent months. Firms' assessments of the short-term outlook improved and our business opinion surveys suggest that investment spending will stabilize in the second half of the year.

Figure 14

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, June 2013", published in Supplements to the Statistical Bulletin, No. 34, 2013; the data refer to industrial firms only; right-hand scale. – (2) Industrial production adjusted for seasonal and calendar effects; index, 2010=100. For June 2013, estimated on the basis of electricity consumption and the indicators of Istat surveys of manufacturing firms. – (3) Average of the seasonally adjusted percentage balances of the responses to questions on firms' assessment of demand, production expectations and stocks of finished products; index, 2010=100. – (4) As of June 2013 a number of methodological innovations have been introduced relating to the sample and the reporting techniques; as a result the last figure is not directly comparable with the data for the previous months.

Industrial production picks up in May and June

After falling for three consecutive months, industrial production picked up slightly in May and, according to our estimates, in June as well; however, in the second quarter as a whole manufacturing output fell by more than 0.5 percentage points (Figure 14). Orders in industry have nonetheless begun to increase again in recent months thanks to exports, given the persistent slackness of domestic demand.

Firms' assessments are less pessimistic

The business opinion surveys conducted in June found a moderate improvement in industrial firms' assessments of current economic conditions and in their short-term expectations. However, some of these indications were registered before the recent financial market tensions.

Investment continues to decline, although there are signs of stabilization

In the first quarter of 2013 the decline in gross fixed investment steepened (-3.3 per cent on the previous period), with the construction industry recording the largest contraction since the end of 2008 (-3.9 per cent). According to the quarterly survey conducted in June by the Bank of Italy together with *Il Sole 24 Ore*, businesses judge the conditions for investing to be less unfavourable than three months ago and they expect their spending on capital goods to stabilize during the second half of the year. The Bank's survey of industrial and service firms found that over 2013 as a whole investment will decrease less than in 2012 (see the box "Investment in 2012 and 2013 according to the Bank of Italy's surveys").

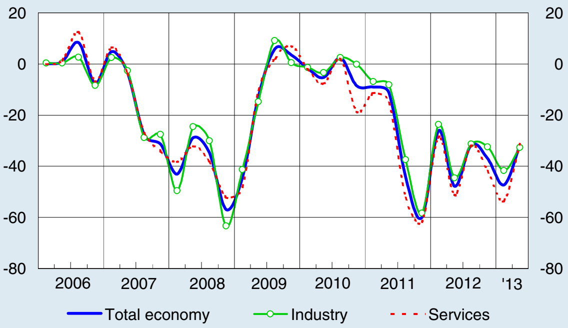
INVESTMENT IN 2012 AND 2013 ACCORDING TO THE BANK OF ITALY'S SURVEYS

The decline in gross fixed investment that began in the second quarter of 2011 continued through the early months of this year. In 2012 as a whole, the reduction in actual spending on investment in industry and non-financial private services (9.9 and 6.6 per cent respectively, according to national accounts data) was only slightly larger than projected in the preliminary plans reported in the Bank of Italy's survey of industrial and service firms. The gap between planned investment and actual investment was partly due to supply-side tensions in the credit market: the restrictions affected large production units and medium-sized and small ones to virtually the same extent.

Expectations for 2013 indicate a further reduction in investment over the year as a whole, albeit less sharp than in 2012 (-3.7 per cent in industry and -6.3 per cent in services).

According to the quarterly survey conducted in June this year by the Bank of Italy in collaboration with *Il Sole 24 Ore*, difficulties in accessing credit persist. However, compared with the previous survey, expectations regarding investment appeared generally less pessimistic: the balance between the share of firms forecasting a decrease and an increase in spending in 2013 narrowed from 18.9 to 13.3 percentage points. The proportion of negative assessments regarding the conditions for investing decreased (see figure), particularly in the service sector and among firms with 200 or more employees. Contributory factors were the improvement in expectations regarding the performance of demand and the general economic situation.

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



(1) Balance between expectations of an improvement and expectations of a deterioration compared with the previous quarter according to the quarterly "Survey on inflation and growth expectations, June 2013", conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore* and published in *Supplements to the Statistical Bulletin*, No. 34, 2013.

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

	Industry	Services	Total economy
Planned spending on investment in 2013 compared with actual spending in 2012			
Higher	24.3	19.4	21.9
About the same	42.0	43.8	42.9
Lower	33.7	36.8	35.2
Expected spending on investment in the second half of 2013 compared with the first half			
Higher	24.8	22.3	23.6
About the same	49.4	51.0	50.2
Lower	25.8	26.7	26.2

(1) Percentages weighted by the number of firms in the quarterly "Survey on inflation and growth expectations June 2013", conducted by the Bank of Italy in collaboration with *Il Sole 24 Ore* and published in *Supplements to the Statistical Bulletin*, No. 34, 2013.

In particular, there was an improvement in expectations regarding spending on investment in the second half of 2013. The balance between the share of firms that forecast a decrease with respect to the first half of the year and those that expected an increase was 2.6 percentage points (see table). In the previous survey, relating to the first half of this year, the balance was 16.0 percentage points.

The real-estate sector remains weak

According to data from the Property Market Observatory of the Revenue Agency, in the first quarter of 2013 the number of house sales fell by 14.2 per cent with respect to the year-earlier period (compared with a decline of 30.5 per cent in the fourth quarter of 2012). On a seasonally adjusted basis there were some signs of stabilization (Figure 15). House prices continued to drop, falling by 1.2 per cent on the previous quarter, compared with a decline of 2.2 per cent at the end of last year. The cumulative decline since the summer of 2011 thus rises to 6.9 per cent (10.2 per cent taking consumer price inflation into account).

According to the survey of the housing market conducted in April by the Bank of Italy together with Tecnoborsa and the Property Market Observatory, estate agents expected house prices to continue falling throughout the second quarter. However, the quarterly survey of firms conducted in the same month by the Bank of Italy together with *Il Sole 24 Ore* found that short-term expectations of businesses in the sector were less pessimistic than in the March survey; the medium-term outlook showed some improvement.

The decrease in price competitiveness comes to a halt

The progressive loss of price competitiveness of Italian firms and of the firms of the other leading euro-area countries since mid-2012 came to a halt in March, thanks chiefly to the nominal depreciation of the euro (Figure 16). The loss of competitiveness since August 2012, gauged by producer prices, came to 2.1 per cent for Italian firms and to 2.6 and 3.6 per cent for French and German ones. In line with the appreciation of the euro, provisional figures for May and June point to a slight deterioration in the indicators, bringing them back to levels close to those recorded at the beginning of the year.

Firms' operating profitability remains low

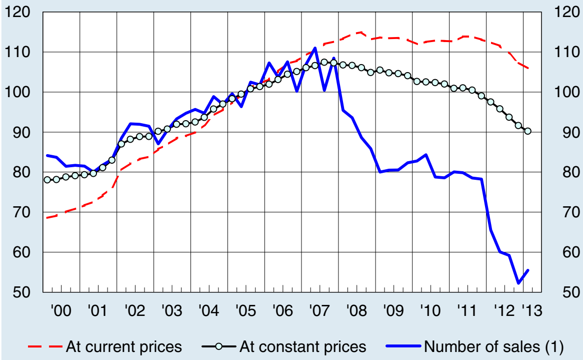
According to estimates based on the national accounts, non-financial firms' operating profitability – measured as gross operating profit over value added in the twelve months to March 2013 – remained low, again reflecting the adverse cyclical phase. Gross fixed investment (including stocks) and self-financing decreased in relation to value added; net financial costs were unchanged. The payment of outstanding trade debts by general government should help firms return to a balanced financial situation in the second half of the year.

Firms' debt remains stationary

Bank lending to firms continued to contract in the early months of the year for both medium-sized and large firms and for small businesses (from this edition of the Economic Bulletin on, the term "loans" will include repos and bad debts, in accordance with the harmonized Eurosystem definition). At the end of May loans were down by 3.6 per cent compared with twelve months earlier (Figure 17).

Figure 15

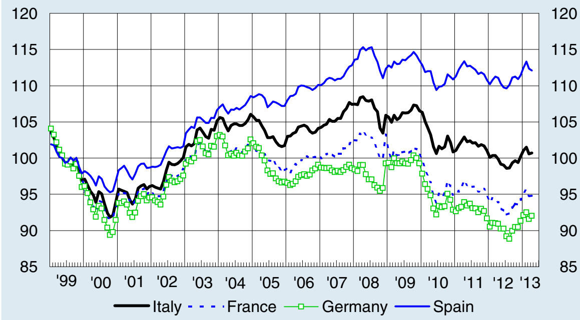
House prices and sales in Italy
(quarterly data; indices, 2005=100)



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

Figure 16

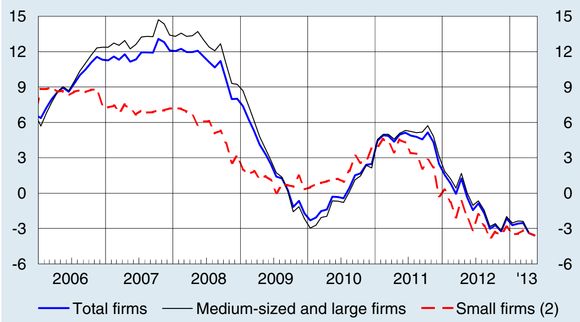
Indicators of competitiveness (1)
(monthly data; indices, 1999=100)



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

Figure 17

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 include repos and bad debts. The data are adjusted for reclassifications. – (2) Limited partnerships, general partnerships, informal partnerships, de facto companies and sole proprietorships with up to 19 workers.

Firms' overall debt remained virtually unchanged at 81 per cent of GDP (Figure 18).

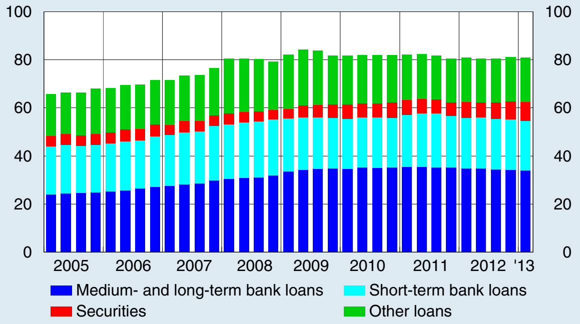
Recourse to financial markets diminishes

Italian firms' recourse to financial markets declined slightly, with net bond issues falling to €3.8 billion in the first quarter of 2013 from €4.5 billion in the fourth quarter of 2012 (Table 7). Fund-raising on the equity market was virtually nil. According to provisional Dealogic data on gross issues, placements by companies belonging to Italian groups came to €3 billion in the second quarter, compared with €5 billion in the first.

Figure 18

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. Data for the first quarter of 2013 are provisional.

3.3 HOUSEHOLDS

In the early months of 2013 households' spending continued to decline, but more slowly; the propensity to save increased slightly. The improved climate of confidence offers some positive signs for the future.

The decline in consumption eases in the first quarter of 2013

In the first quarter of 2013 private consumption fell by 0.5 per cent compared with the previous quarter; in the previous six quarters it had declined by over 1 per cent on average. The slight drop in spending on services, which had been stationary in the fourth quarter of 2012, was accompanied by a moderation of the slump in purchases of goods, especially durable and semi-durable goods.

In the same period the disposable income of consumer households recorded its first modest quarterly gain since the end of 2010, increasing by 0.5 per cent in real terms. Compared with same period in 2012 it was down by over 2 per cent (Figure 19). In the last four quarters the saving rate averaged 8.5 per cent, up slightly compared with the lows recorded in 2012.

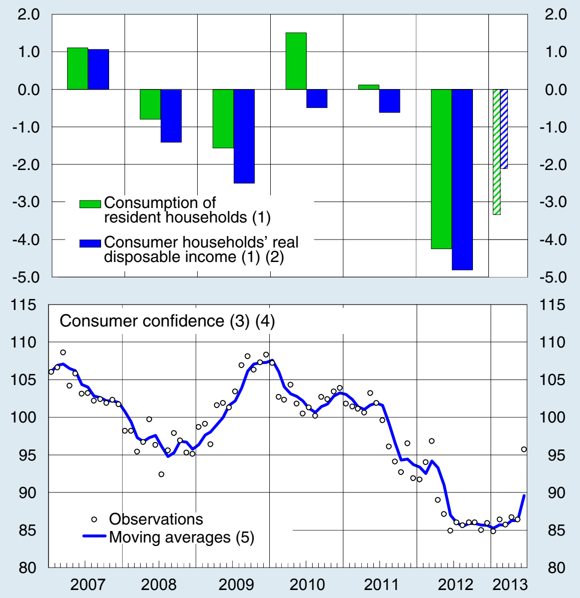
The improvement looks set to continue into the spring

New car registrations, which fell to record low levels at the beginning of the year, turned slightly upwards (by an average of 2.4 per cent in the second quarter compared with the first). In April the decline in the volume of retail sales was very moderate. The consumer confidence index showed

Figure 19

Consumption, disposable income and consumer confidence in Italy (1)

(percentage changes and indices)



Source: Based on Istat data.
(1) Chain-linked volumes; percentage changes in relation to the previous year. Up to 2012, annual data; for 2013, percentage changes in the first quarter compared with the same period in 2012. – (2) Obtained using the consumption deflator for resident households. – (3) Monthly data, seasonally adjusted. Indices, 2005=100. – (4) In June 2013 methodological changes were introduced to the sample and survey techniques which make the latest data not directly comparable with the previous months. – (5) Monthly data; moving averages for the three months ending in the reference month.

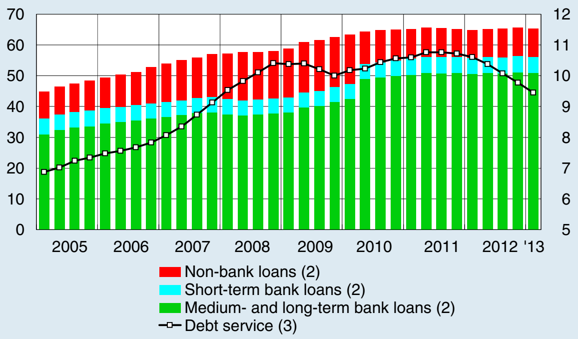
a gradual improvement in the first half of the year; the pronounced increase in June may have been influenced (to a non-quantifiable extent on the basis of the available information) by the introduction of methodological changes which make the latest data not directly comparable with the previous months.

Household debt and its cost fall

The ratio of household debt to disposable income fell slightly in the first quarter of 2013, to 65 per cent (Figure 20). This is still significantly below the euro-area average, which stands at just under 100 per cent. Households' debt service burden (payment of interest plus repayment of principal) fell from 9.8 to 9.5 per cent of disposable income. In the first five months of the year, the interest rates on new loans for house purchase and consumer credit were unchanged on average (Figure 21).

Figure 20

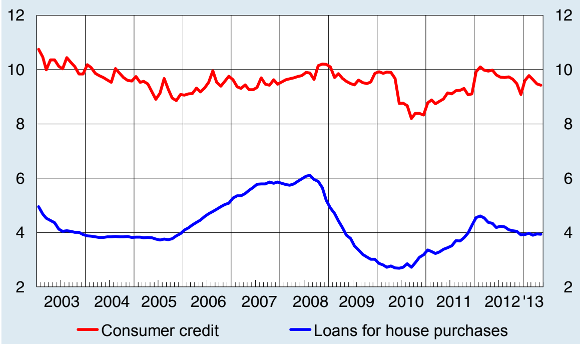
Household debt (1)
(quarterly data; as a percentage of gross disposable income)



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. Data for the last quarter are provisional. Includes securitized loans.– (2) In the second quarter of 2010, there is a methodological break in the computation of the statistics on the distribution between bank and non-bank loans. 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 21

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

Following more than three years of growth, in the first quarter of 2013 exports of Italian goods and services fell in volume, reflecting the contraction in demand in EU markets. However, the drop in imports led to a further improvement in the balance on current account on a seasonally adjusted basis, continuing the positive trend under way since 2011. Foreign investors continued to make net purchases of Italian debt securities.

In the first quarter of 2013 the growth in exports is interrupted ...

After three and a half years of growth, exports of goods and services fell in the first quarter of the year (down by 1.9 per cent in volume terms compared with the previous quarter). The contraction of 1.0 per cent in the goods component is entirely ascribable to exports to EU markets, notably Spain and, to a lesser extent, France and the United Kingdom. By contrast, exports to non-EU markets continued to grow, although at a slower pace than in the previous quarter. Foreign demand for Italian goods was sustained by the OPEC countries, Switzerland and the United States. At sector level, the contraction in exports was most pronounced for refined oil products, traditional Italian products and metal products.

... while imports continue to contract

The protracted weakness of consumption and investment continues to depress imports of goods, which shrank in volume for the ninth successive quarter (down by 0.5 per cent compared with the fourth quarter of 2012), with the energy and durable consumer goods sectors especially hard hit.

The data for April and May in value terms point to the growth of exports to non-EU countries and the stagnation of those to countries within the Union, while imports appear to have fallen further.

The current account balance improves again

In the first four months of the year the improvement in Italy's current account balance under way since mid-2011 continued; compared with the same period in 2012, the deficit fell by €9.7 billion (Table 3). The improvement was especially pronounced for the trade balance, which swung from a deficit of €1.7 billion to a surplus of €6.9 billion. Adjusted for seasonal effects, the surplus on current account reached its highest level since mid-1999.

Table 3

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

	2011	2012	Jan. 2012 Apr. 2012	Jan. 2012 Apr. 2012
Current account	**-48.3**	**-8.4**	**-14.7**	**-5.0**
Goods	-17.4	17.8	-1.7	6.9
non-energy products (2)	*42.4*	*79.4*	*21.0*	*25.2*
energy products (2)	*-59.7*	*-61.6*	*-22.8*	*-18.3*
Services	-5.7	-0.7	-2.6	-1.7
Income	-9.4	-10.1	-1.7	-2.9
Current transfers	-15.8	-15.5	-8.7	-7.3
Capital account	**0.6**	**3.8**	**0.3**	**-2.8**
Financial account	**72.8**	**7.7**	**2.5**	**1.1**
Direct investment	-13.9	-10.7	-4.6	1.1
Portfolio investment	-34.4	29.2	-42.6	25.7
Financial derivatives	7.5	-0.4	-3.0	-1.1
Other investment	114.5	-9.0	53.9	-23.3
Change in official reserves	-0.9	-1.5	-1.1	-1.2
Errors and omissions	**-25.2**	**-3.1**	**11.9**	**6.7**

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

In the first four months of the year the financial account registered net capital inflows of €1.1 billion. Outward direct investment, which in the second half of 2012 was already showing signs of a slowdown, diminished by €9.9 billion compared with the first quarter of last year. While investment capital flows in the form of equity and reinvested earnings of subsidiaries were largely stable, the amount of loans granted by foreign subsidiaries to Italian parent companies increased. Foreign direct investment in Italy declined by €4.2 billion, continuing a downward trend that began in the second half of 2012.

Foreign purchases of Italian securities increase

In the first four months of 2013 non-residents made very large net purchases of Italian government debt securities (€20.3 billion, three-quarters of it at medium and long term), coinciding with the abatement of the sovereign debt crisis in the euro area. Resident investors, meanwhile, continued to make net sales of foreign debt securities, only partially replaced by shares and units of foreign investment funds, thereby reducing their foreign portfolio assets by €4.8 billion.

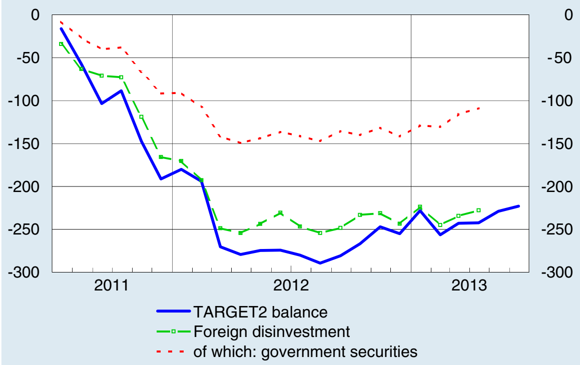
The TARGET2 balance reflects capital inflows

"Other investment" (mainly deposits and loans) recorded net outflows of €23.3 billion in the first four months of 2013. Almost half of this was accounted for by the reduction in the Bank of Italy's TARGET2 debit balance, reflecting the resumption of foreign capital inflows in the form of debt securities purchases (Figure 22). The remainder was attributable to the almost equal contribution of increased outward investment by resident banking and financial institutions (in the form of loans and deposits) and the lower levels of foreign funding obtained by Italian banks.

At the end of March Italy's net external debt amounted to €371 billion, about 24 per cent of GDP. The improvement since end-2012 (1.0 per cent of output) is due largely to the depreciation in the market value of Italian portfolio securities held by non-resident investors.

Figure 22

Bank of Italy balance on TARGET2 and foreign disinvestment (1)
(end-of-month balances and cumulative flows in billions of euros)



(1) Balance vis-à-vis the ECB and foreign disposals of Italian portfolio securities and bank loans and deposits vis-à-vis residents. Foreign disinvestments, cumulative data from July 2011 onwards.

3.5 THE LABOUR MARKET

In the first quarter of 2013 employment in Italy continued to contract. The national accounts show that on a seasonally adjusted basis the number of persons in work declined by 1.2 per cent compared with the previous quarter, while actual hours worked adjusted for calendar effects fell by 2.4 per cent (Figure 23). The weakness of labour demand was reflected in greater recourse to wage supplementation and in a decline in the vacancy rate and in hirings. While there was no change in the labour force, the seasonally adjusted unemployment rate rose from 11.5 to 11.9 per cent in the first three months of the year (12.8 per cent, not seasonally adjusted). In April and May the unemployment rate appeared to rise again. The purchasing power of gross earnings diminished further.

Employment falls

According to Istat's labour force survey, in the first quarter of the year employment fell by 1.8 per cent compared with the year-earlier quarter (a reduction of 410,000 persons; Table 4), with the South of Italy worse affected than the Centre and North. The contraction was especially pronounced in construction (11.4 per cent) and in industry excluding construction (2.5 per cent), sectors that have now recorded declines for ten and five successive quarters, respectively. The slight gain in employment in private services (0.5 per cent) was due to accommodation and food services, business services, and other personal and public services. In the prevalently public sector (general government, education and health), the downward trend under way since the beginning of 2012 intensified (-2.4 per cent).

The female employment rate falls

The overall employment rate fell by 1 percentage point compared with the year-earlier quarter, to 55.5 per cent. The decline involved not only men (whose rate fell by 1.6 percentage points) but also women, whose employment rate slipped by 0.4 percentage points after rising steadily over the previous two years. The decline was most pronounced among women aged 25-34 (1.3 percentage points).

The incidence of full-time work declines

The contraction in employment was sharper among the self-employed (2.9 per cent) than for payroll workers (1.4 per cent, with permanent and fixed-term positions falling in equal measure) while the number of part-time positions rose by 6.8 per cent with respect to the first quarter of 2012.

Vacancies and hirings diminish

Based on the compulsory notifications made by the eleven Italian regions that belong to the SeCO inter-regional network (Compulsory Statistics and Communications), the decline in employment was due more to the 7.1 per cent drop in hirings compared with the year-earlier quarter than to an increase in terminations. As a result the number of vacancies has also fallen, to 0.5 per cent of total working positions, 0.2 points less than the corresponding period of 2012.

Recourse to wage supplementation increases and hours worked decrease

The decline in total hours worked was even more pronounced. Hours worked per capita in the non-farm private sector (adjusted for calendar effects) fell by 0.6 per cent compared with 12 months earlier. Contributory factors included the increase in part-time work and the rise in the hours of wage supplementation actually utilized (17.2 per cent on the year-earlier period). The number of wage supplementation hours authorized also increased (13.2 per cent), driven by the ordinary and extraordinary components (32.1 and 43.8 per cent, respectively). Wage supplementation under waivers fell sharply (34.1 per cent) following the freeze on authorizations for applications made after 31 December 2012 determined by last year's legislative measures beginning with the labour market reform (Law 92/2012). The data available for the second quarter point to a sharp slowdown in the growth of authorized hours of ordinary and extraordinary wage supplementation (the increase with respect to the year-earlier quarter is estimated at 4.4 per cent, compared with 38.2 per cent in the first quarter).

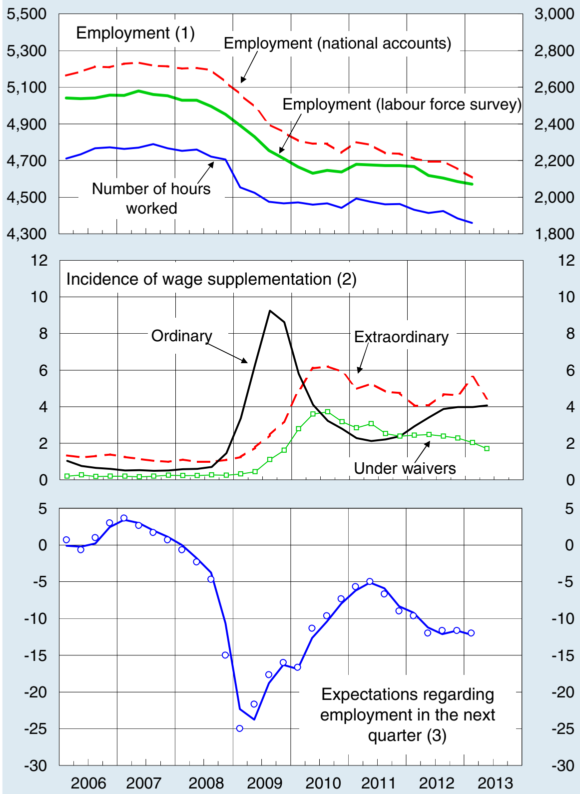
Labour supply stagnates

After more than one year of growth, the increase in the labour supply came to a halt. The participation rate among persons aged 15-64 was unchanged at 63.8 per cent; among adults it increased at a slower pace and among young people it declined (by 1.5 percentage points in the 15-24 and by 0.6 points in the 25-34 age group). By contrast, the number of discouraged workers increased by 6.7 per cent from the year-earlier quarter and their share in the total inactive population reached its highest level since the outbreak of the crisis (11.7 per cent).

Figure 23

Employment, wage supplementation and employment expectations in industry excluding construction

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



Sources: Based on Istat (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. Partial estimates for the second quarter of 2013. – (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.

The outlook remains negative, especially for the young

Provisional data from the labour force survey for April and May confirm the slowdown in firms' demand for labour. The unemployment rate rose by an average of 0.2 per cent compared with the first two months of the year, driven above all by a further fall in employment, and reached 12.2 per cent in May.

The business surveys conducted in March by Istat and by the Bank of Italy in collaboration with *Il Sole 24 Ore* do not point to any improvement in the outlook for employment in the second quarter of the year (Figure 23).

Table 4

Labour force status of the population (1)

	Average 2011	Average 2012	Changes (2)	2012 Q1	2013 Q1	Changes (3)
			Thousands of persons			
Total persons in work	**22,967**	**22,899**	**-0.3**	**22,793**	**22,383**	**-1.8**
North	*11,932*	*11,901*	*-0.2*	*11,893*	*11,724*	*-1.4*
Centre	*4,819*	*4,818*	*0.0*	*4,782*	*4,707*	*-1.6*
South	*6,216*	*6,180*	*-0.6*	*6,118*	*5,952*	*-2.7*
Employees	**17,240**	**17,214**	**-0.2**	**17,087**	**16,840**	**-1.4**
of which:						
fixed-term	*2,303*	*2,375*	3.1	*2,232*	*2,163*	*-3.1*
part-time	*2,825*	*3,107*	*10.0*	*3,009*	*3,215*	*6.8*
Self-employed	**5,727**	**5,685**	**-0.7**	**5,706**	**5,543**	**-2.9**
Labour force	**25,075**	**25,642**	**2.3**	**25,594**	**25,659**	**0.3**
men	*14,733*	*14,909*	*1.2*	*14,877*	*14,823*	*-0.4*
women	*10,342*	*10,733*	*3.8*	*10,716*	*10,836*	*1.1*
Population	**60,328**	**60,515**	**0.3**	**60,463**	**60,614**	**0.2**
			Per cent and percentage points			
Unemployment rate	**8.4**	**10.7**	**2.3**	**10.9**	**12.8**	**1.8**
men	*7.6*	*9.9*	*2.3*	*10.0*	*11.9*	*1.9*
women	*9.6*	*11.9*	*2.3*	*12.2*	*13.9*	*1.7*
North	*5.8*	*7.4*	*1.7*	*7.6*	*9.2*	*1.6*
Centre	*7.6*	*9.5*	*1.9*	*9.6*	*11.3*	*1.7*
South	*13.6*	*17.2*	*3.6*	*17.7*	*20.1*	*2.3*
Participation rate (15-64 years)	**62.2**	**63.7**	**1.4**	**63.6**	**63.8**	**0.2**
men	*73.1*	*73.9*	*0.9*	*73.8*	*73.6*	*-0.2*
women	*51.5*	*53.5*	*2.0*	*53.4*	*54.1*	*0.6*
North	*69.3*	*70.3*	*1.0*	*70.4*	*70.6*	*0.1*
Centre	*66.2*	*67.5*	*1.3*	*67.2*	*67.2*	*0.0*
South	*51.0*	*53.0*	*2.0*	*52.7*	*53.1*	*0.3*
Employment rate (15-64 years)	**56.9**	**56.8**	**-0.2**	**56.5**	**55.5**	**-1.0**
men	*67.5*	*66.5*	*-0.9*	*66.2*	*64.6*	*-1.6*
women	*46.5*	*47.1*	*0.6*	*46.9*	*46.5*	*-0.4*
North	*65.2*	*65.0*	*-0.2*	*65.0*	*64.0*	*-1.0*
Centre	*61.1*	*61.0*	*-0.1*	*60.6*	*59.5*	*-1.1*
South	*44.0*	*43.8*	*-0.2*	*43.3*	*42.3*	*-1.0*

Source: Istat, labour force survey.
(1) Not seasonally adjusted. – (2) Average 2012/average 2011; changes are in percentages for persons and percentage points for rates. – (3) 2013 Q1/2012 Q1; changes are in percentages for persons and percentage points for rates.

Measures to support employment are adopted

These projections did not take account of the possible effects of Decree Law 76/2013 approved at the end of June containing measures to support employment in the period 2013-16. In particular, the decree introduces contribution relief for the permanent hiring of young people in disadvantaged categories (those not in employment for six months or more, those with no high-school or professional diploma, and sole earners with dependents). The aggregate impact will presumably be curtailed by the limited resources available. The decree also removed a number of restrictions on the use of the flexible employment arrangements introduced by Law 92/2012 to combat the two-tier labour market.

Actual earnings fall in real terms

In the first quarter of 2013 nominal real earnings were 1.9 per cent higher than a year earlier (2.3 per cent in the non-farm private sector), a smaller increase than that in the harmonized index of consumer prices (2.1 per cent). Contractual earnings grew at an even slower pace (1.4 per cent for the economy as a whole, 1.9 per cent in the non-farm private sector alone). Based on our assessments, real earnings, held down also by the public sector collective bargaining freeze, will continue to decline in 2013, although at a much slower pace than in the previous two years, before turning slightly upwards again in 2014.

3.6 PRICE DEVELOPMENTS

In the second quarter consumer price inflation slowed sharply, benefiting inter alia from the fall in energy prices. The pressure on producer prices remained moderate.

Inflation slows in the spring

In June the twelve-month rate of increase in consumer prices, as measured by the harmonized index, fell to 1.4 per cent, or considerably less than in the winter months (Table 5).

The rapid reduction was mainly due to the twelve-month rate of change in energy prices, which, for the first time since the end of 2009, turned negative (averaging -1.2 per cent in the second quarter, compared with a rise of 4.6 per cent in the first). Core inflation was affected by the continued weakness of domestic demand and the moderate pressure on costs and slowed to 1.3 per cent, from 1.5 per cent in the first quarter.

Since May the harmonized index of consumer prices in Italy has been slightly below the euro-area average, the first time this has happened since August 2011.

The pressure on producer prices remains moderate

In May producer prices fell by 1.1 per cent on a twelve-month basis, after rising by 0.4 per cent on average in the first quarter; the index for final consumer goods rose by 1.5 per cent. The industrial and service firms surveyed in June by the Bank of Italy together with *Il Sole 24 Ore* expected to make only very small adjustments to list prices, in view of the persistent weakness of demand and the continued moderate increases in raw material prices; the European Commission's surveys of firms' sales price intentions produced similar results.

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	at 1 month (5)	Excl. energy and food	Overall index
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							
July	3.6	2.6	2.7	3.1	0.0	1.9	3.8
Aug.	3.3	2.0	2.4	3.2	0.3	2.0	4.5
Sept.	3.4	1.8	2.5	3.2	0.3	1.6	4.2
Oct.	2.8	1.4	2.3	2.6	0.0	1.3	3.5
Nov.	2.6	1.4	2.2	2.5	0.0	1.3	2.8
Dec.	2.6	1.6	2.3	2.3	0.1	1.5	2.4
2013							
Jan.	2.4	1.7	2.2	2.2	0.3	1.5	0.7
Feb.	2.0	1.4	1.9	1.9	0.0	1.3	0.5
Mar.	1.8	1.5	1.7	1.6	0.0	1.3	0.0
Apr.	1.3	1.2	1.1	1.1	-0.2	1.1	-1.1
May	1.3	1.4	1.1	1.1	0.1	1.3	-1.1
June	1.4	1.2	1.3	1.2	0.2	1.1	....

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

In July the forecasters surveyed by Consensus Economics expected average inflation in 2013 to decrease slightly (to 1.5 per cent); these expectations could come down further in the coming months in view of the postponement to the beginning of October of the increase in the ordinary VAT rate originally planned for 1 July.

3.7 BANKS

There was a further contraction of lending to firms and households, reflecting not only the persistence of weak demand for loans but also banks' perception of a high level of credit risk. The unfavourable cyclical conditions continued to have an adverse effect on the quality of banks' assets and their profitability. Their capital base, which was strengthened during 2012, remains sound.

Deposits grow

Between the end of February and the end of May the stock of resident customers' deposits with Italian banks expanded further, by about €11 billion. The twelve-month rate of growth was equal to 7.4 per cent (Table 6). After a long period of contraction, there were

Table 6

Main assets and liabilities of Italian banks (1)

	End-of-month stocks (2)		12-month percentage changes (3)	
	February 2013	May 2013	February 2013	May 2013
Assets				
Loans to Italian residents (4)	1,911,873	1,893,169	-1.1	-2.4
of which: to firms (5)	*865,144*	*848,352*	*-2.5*	*-3.6*
to households (6)	*606,940*	*606,849*	*-0.7*	*-0.9*
Claims on central counterparties (7)	64,836	73,959	158.7	126.4
Debt securities excluding bonds of resident MFIs (8)	505,069	551,688	12.3	16.1
Securities of Italian general government entities	*365,300*	*408,836*	*27.3*	*21.1*
Claims on the Eurosystem (9)	32,354	23,522	199.1	35.6
External assets (10)	347,560	331,351	-0.3	-7.6
Other assets (11)	1,352,028	1,326,196	4.6	-0.8
Total assets	**4,213,720**	**4,199,885**	**3.8**	**0.9**
Liabilities				
Deposits of Italian residents (4) (12) (13)	1,231,157	1,242,111	8.0	7.4
Deposits of non-residents (10)	334,653	346,307	-13.1	-7.6
Liabilities towards central counterparties (7)	109,142	141,129	19.9	36.5
Bonds (13)	572,163	541,670	-6.0	-9.0
Liabilities towards the Eurosystem (14)	283,166	261,885	39.9	-5.1
Liabilities connected with assignments of claims	147,655	150,457	-13.4	5.4
Capital and reserves	385,521	382,320	-1.8	4.0
Other liabilities (15)	1,150,263	1,134,006	7.3	-1.0
Total liabilities	**4,213,720**	**4,199,885**	**3.8**	**0.9**

Source: Supervisory reports.
(1) The figures for May 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.

also large inflows of non-residents' deposits and liability-side net repos with central counterparties, which reflect interbank transactions with foreign banks, amounting to €12 billion and €23 billion respectively. The growth in deposits offset the net redemptions of bonds.

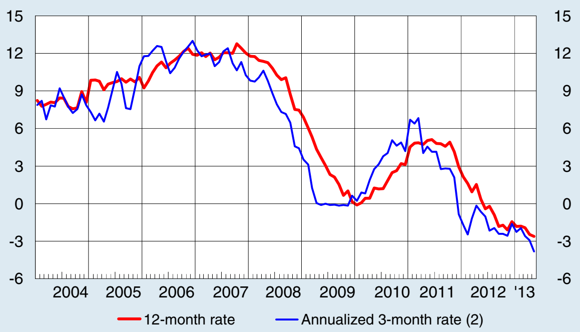
Lending to households and firms continues to decline

Bank loans to the non-financial private sector continued to contract, falling in May by 3.7 per cent on an annual basis compared with three months earlier (Figure 24). Loans to firms declined by 5.4 per cent, those to households by 1.6 per cent. For firms the contraction applied both to smaller firms (for which it accelerated from 3.9 per cent in the twelve months ending in February to 4.4 per cent in the twelve months ending in May) and medium-sized and large firms (for which it accelerated from 2.4 to 3.6 per cent).

Figure 24

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

(monthly data; percentage changes)



(1) Includes bad debts, repos and the loans not reported in banks' balance sheets because they have been securitized. The percentage changes are calculated net of reclassifications, exchange rate variations, value adjustments and other variations not due to transactions. – (2) Seasonally adjusted.

Larger firms have recourse to bond issues

The contraction in lending to larger firms was partly due to their replacing bank credit with bond issues, which, with tensions on sovereign debt markets easing, are an alternative source of finance, especially for listed companies. According to Dealogic data, gross issues on the international market since the beginning of 2013 amounted to €7.6 billion (€5.7 billion in the same period of 2012). For small and medium-sized enterprises recourse to bond issues continues to be negligible.

Credit demand remains weak and supply conditions tight

The bank lending survey for the first quarter of 2013 showed that lending continued to be affected by weak private-sector demand and by supply-side tensions connected with banks' perception of a high level of credit risk owing to the uncertain outlook for the economy (see the box "Credit supply and demand in Italy").

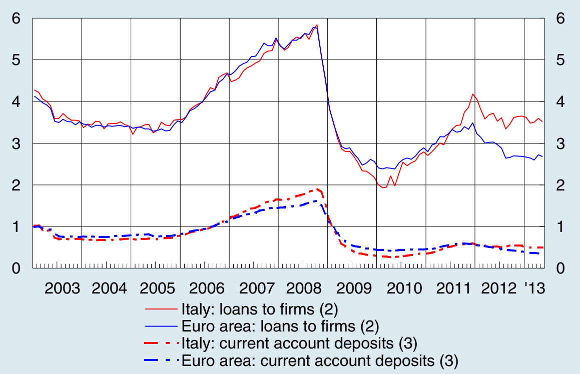
The cost of credit stays unchanged

In May the average cost of new loans to firms was unchanged from February at 3.5 per cent (Figure 25). The gap between the cost of new loans to Italian and euro-area firms is still about 80 basis points, after it had widened to 100 points at the end of 2012, as a consequence of the rise in sovereign spreads. In the most recent period the cost of credit has been affected by the increase in counterparty risk (see the box "Recent trends in the cost of credit to Italian firms and their main determinants"). The average cost of new mortgage loans to households was basically unchanged at 3.7 per cent. For variable-rate loans, which represent more than two thirds of the total amount, it was 3.5 per cent, while for fixed-rate loans it was 4.3 per cent.

Figure 25

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.

The deterioration in loan quality becomes more pronounced

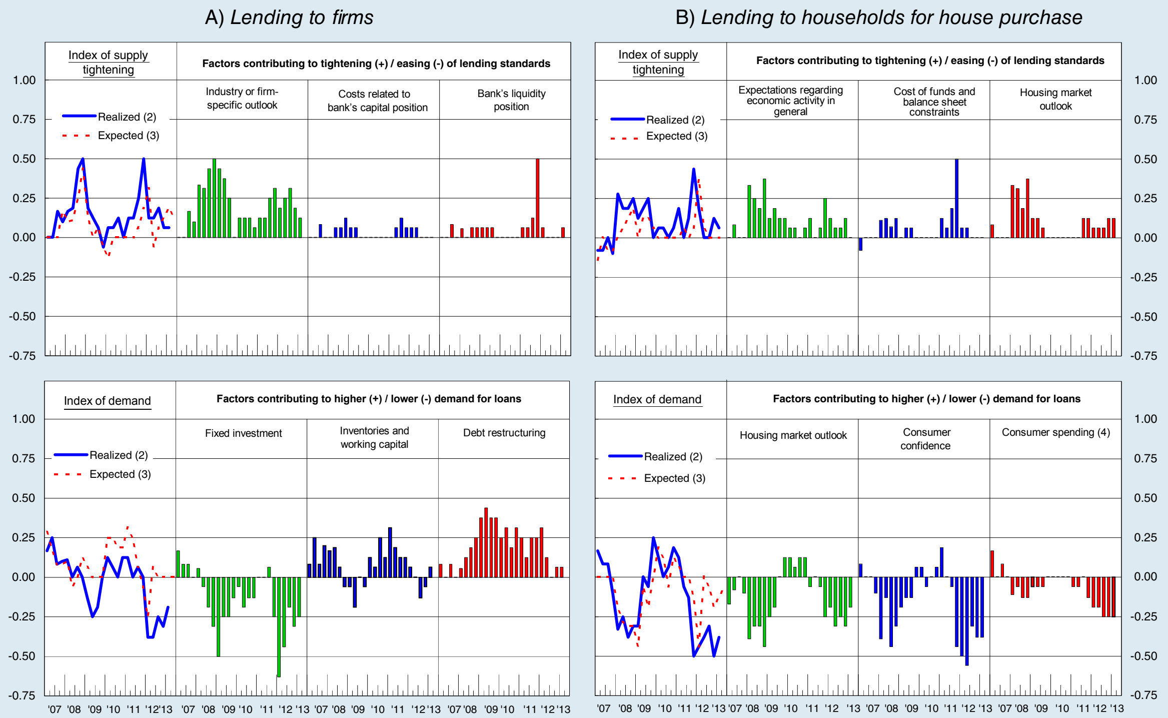
In the first quarter of 2013 the ratio of the flow of new bad debts to outstanding loans rose by 0.4 percentage points to 2.8 per cent on a seasonally adjusted annual basis, the highest value since the start of the crisis. The increase came mainly from lending to firms, for which the new bad debt ratio rose by 0.6 percentage points to 4.5 per cent. The new bad debt ratio for households rose by 0.1 percentage points to 1.5 per cent.

CREDIT SUPPLY AND DEMAND IN ITALY

The Italian banks responding to the quarterly euro-area bank lending survey reported that in the first quarter of 2013 lending conditions to firms were as restrictive as in previous quarter (Figure A),[1] reflecting mainly the perceptions of credit risk connected with cyclical conditions. By contrast, the degree of restriction in lending to households eased slightly both for house purchase loans and for consumer credit and other loans. For firms and households alike, the tightness of supply mainly concerned the interest rate margins on riskier loans.

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 that the trend in consumer spending not associated with the purchase of a house had an expansive (restrictive) effect on the demand for mortgage loans.

[1] Eight leading Italian banking groups took part in the survey, which was completed on 4 April; the results for Italy are available at www.bancaditalia.it and those for the euro area at www.ecb.int. The responses concerning assessments for the second quarter of 2013 and expectations for the third quarter are not yet available and will be published on 24 July.

In their assessments, banks indicated that the demand for loans remained very weak: business investment continued to be affected by the adverse cyclical situation while households' demand for credit was undercut by poor consumer confidence, the unfavourable housing market outlook and diminished spending on durable goods.

Regarding the second quarter of 2013, banks expected a tightening of lending criteria for firms and no change in the conditions offered to households.

The most recent business surveys confirm the continuation of tight credit supply conditions (Figure B). The quarterly survey conducted by the Bank of Italy together with *Il Sole 24 Ore* found that in the second quarter of 2013 the net percentage of firms reporting difficulties in accessing credit had fallen to about 23, still high compared with the period before Italy became involved in the euro-area sovereign debt market tensions. According to Istat's monthly survey for manufacturing firms, the figure was 34 points in June. This result may have been influenced by methodological changes that preclude direct comparison with previous periods.

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. The Istat result is taken from the end-of-quarter survey; in the month of June 2013 some changes were made to the sample and survey techniques, which preclude direct comparison with previous periods. For the bank lending survey, see Figure A.

In the first quarter of 2013 banks' profitability diminishes ...

On the basis of their consolidated quarterly reports, in the first quarter of this year the profitability of the five largest Italian banking groups worsened compared with the first quarter of 2012. Their annualized ROE fell by about 2 percentage points to 2.7 per cent. Gross income contracted by 13 per cent, mainly as a result of the fall in interest income, which was affected by the movement in market interest rates and the decrease in interest-earning assets. The absence of the trading profits recorded in the first quarter of 2012 was also a factor. The 5.1 per cent reduction in costs limited the fall in operating profit to 22.4 per cent, about 60 per cent of which was due to value adjustments, up by 3.8 per cent.

... but their capital position remains generally strong

In the first three months of 2013 the capital ratios of the five largest groups remained stable. At the end of March their average core tier 1 ratio was 10.8 per cent, their tier 1 ratio 11.5 per cent and their total capital ratio 14.4 per cent.

RECENT TRENDS IN THE COST OF CREDIT TO ITALIAN FIRMS AND THEIR MAIN DETERMINANTS

The interest rate on overdrafts and that on new loans to non-financial corporations have remained basically stable since July 2012 at around 5.2 and 3.6 per cent respectively.

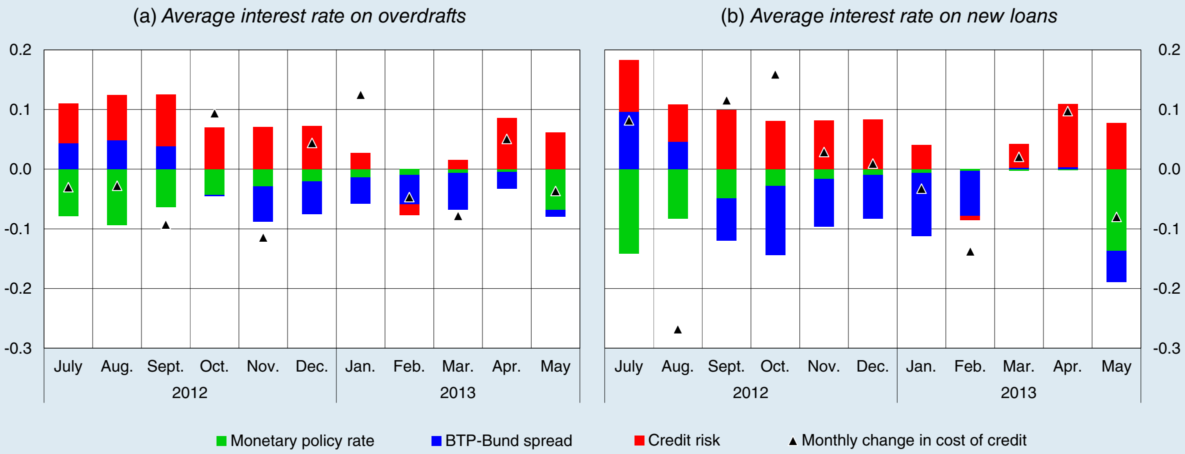
Going by past statistical regularities, an analysis of the econometric evidence[1] suggests that these developments are the result of countervailing pressures deriving from the subsidence of

[1] The analysis is based on the model presented in U. Albertazzi et al., "The impact of the sovereign debt crisis on the activity of Italian banks", Banca d'Italia, *Occasional Papers* No. 133, 2012.

tensions in the sovereign debt market on the one hand and the increase in credit risk borne by intermediaries on the other. In particular, the analysis uses monthly data to examine the interest rates on bank loans as a function of three main determinants: (a) the interest rate on Eurosystem main refinancing operations, taken as an indicator of monetary conditions; (b) the bank debt of firms reported in default for the first time in the reference month in relation to the stock of loans outstanding at the beginning of the month, as a measure of credit risk; and (c) the yield spread between ten-year BTPs and Bunds, which captures the effects of the sovereign debt market tensions on banks' funding costs.

The results are qualitatively similar for the two interest rates examined (see figure). The BTP-Bund spread, which in 2011 had caused the cost of credit to rise, explaining much of the differential with other countries recorded in 2012, exerted downward pressure on bank lending rates from the summer of 2012 onwards; this effect was attenuated in March and April 2013, when some volatility reappeared on the markets.

Changes in the cost of credit to firms in Italy: contributions of the main economic determinants (1)
(monthly data; percentage points)



(1) The figure breaks down the month-on-month changes in the interest rates on loans to firms (indicated by the symbol Δ) considering the contributions of three economic determinants: the monetary policy rate, the 10-year BTP-Bund spread and credit risk. The residual component is not shown as it is statistically not significant (except in September 2012 and January 2013 for the interest rate on overdrafts and in August 2012 for the average interest rate on new loans).

By contrast, the cost of loans was pushed up by the progressive worsening of credit risk and its impact on the quality of bank assets. In the period from July 2012 onwards, on a seasonally adjusted, annualized basis the indebtedness of the firms reported in default for the first time in relation to total outstanding loans to non-financial corporations was equal on average to more than double the average for the three years 2007-09. In the first four months of 2013 this effect is estimated to have practically offset that of the narrowing of the government bond yield spread.

The reduction in the rate on main refinancing operations decided by the ECB Governing Council in July 2012 had a beneficial effect on the cost of loans to firms. A similar effect is likely to have come from the reduction decided in May, although in this case its magnitude may have been curtailed by a more limited transmission to money market rates.

3.8 THE FINANCIAL MARKETS

Conditions on Italian financial markets improved slightly from the end of March. New tensions began to emerge in the middle of May in connection with the uncertainty surrounding US monetary policy, the strains on the Chinese interbank market and, in July, the fears of a political crisis in Portugal. The decisions taken by the ECB Governing Council at the beginning of July buoyed the markets.

Sovereign spreads decline ...

Compared with the end of March, the spread between ten-year Italian government bonds and the corresponding German securities has diminished by 55 basis points, to 292 basis points. However, this was the outcome of distinct phases: a decline up to mid-May, with the spread benefiting both from a reduction in domestic political uncertainty and from a temporary improvement in market confidence, followed by a rising phase. Among the factors behind this rise were the effects on global markets of worries about the possible tapering of the Federal Reserve's bond purchases, the state of the banking system in China and, in July, the political uncertainty in Portugal. The tensions abated in part after the ECB Governing Council's decisions at the beginning of July. On 9 July Standard & Poor's downgraded Italy from BBB+ to BBB, maintaining a negative outlook; the impact on the market was modest.

... as do Italian banks' risk premiums

Following the trend of the spreads on government securities, the average credit default swap spreads of the main Italian banks rose by 130 basis points from the May lows, to around 470 basis points, which was nevertheless about 20 points less than at the end of March. Italian banks' CDS spreads remain considerably higher than those of the main French and German banks. Over the period as a whole, the yield spreads on bonds issued by Italian non-financial corporations with respect to French and German government securities remained practically unchanged.

Net redemptions of bank bonds reach high levels

There were large volumes of net bond redemptions by Italian banks (€30 billion in the first quarter and €15 billion in April alone), a similar pattern to that in the euro area as whole (Table 7). For Italian banks the cost of wholesale bond fund-raising remains high, continuing to be affected by the fragmentation of the euro-area's financial markets. According to preliminary Dealogic data on gross issues, in May and June banks' placements were modest (€3 billion, of which €2 billion uncollateralized). Non-financial corporations continued to make net issues (€4 billion in the first quarter and €2 billion in April).

The Italian stock exchange index remains unchanged

Share prices remained practically unchanged with respect to March in Italy as in the euro area generally (Figure 26). From mid-May they fell sharply,

Table 7

Net bond issues (1)
(millions of euros)

	Banks	Other financial corporations	Non-financial corporations	Total
		Italy		
2011	66,330	-4,261	-170	61,899
2012	83,153	-4,857	13,333	91,628
2012 – Q1	84,907	-7,960	4,214	81,161
Q2	-7,847	-8,985	-1,431	-18,263
Q3	8,491	6,285	6,051	20,827
Q4	-2,398	5,802	4,499	7,903
2013 – Q1	-29,799	-3,200	3,773	-29,226
		Euro area		
2011	139,627	-26,991	33,089	145,726
2012	25,242	13,828	119,216	158,286
2012 – Q1	105,053	23,757	31,212	160,022
Q2	-22,621	-16,218	17,040	-21,799
Q3	-5,321	-51,721	39,423	-17,619
Q4	-51,869	58,010	31,541	37,682
2013 – Q1	-120,520	-33,987	18,193	-136,314

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

Figure 26

Share prices (1)

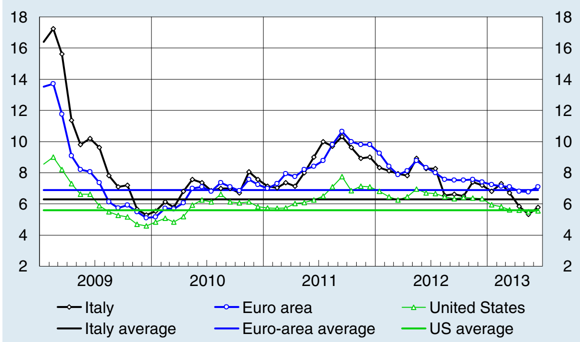
(end-of-week data; indices: 2 January 2009=100)

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 27

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.

reflecting the uncertainty about the continuation of the exceptionally expansionary monetary policy in the United States. The ratio of Italian listed companies' current earnings to their stock market value diminished by about 1 percentage point, falling below the long-term average (Figure 27). The sectoral share price indices for services, insurance, consumer goods and banking recorded large gains of 21, 14, 9 and 4 per cent respectively, while oil companies' fell steeply, shedding 13 per cent.

Investment funds continue to record net inflows

Italian open-end investment funds enjoyed net inflows of €14 billion in the first quarter, up sharply from €3 billion in the fourth quarter of 2012. Net fund-raising was especially strong for flexible and bond funds.

3.9 PROJECTIONS

First-half performance is reflected in the projections for the year ...

By comparison with last January's forecasts, this Bulletin's projections for 2013 have been affected by the trend in GDP during the first half of the year, which proved to be worse than expected in the light of the data for the first quarter and cyclical indicators for the second. The marked slowdown in world trade and the persistent strains in the credit market (see Chapter 2.1 and the box "Credit supply and demand in Italy") translated into a downward revision of the export and investment forecasts for the year and a one-quarter postponement of the projected exit from the recession.

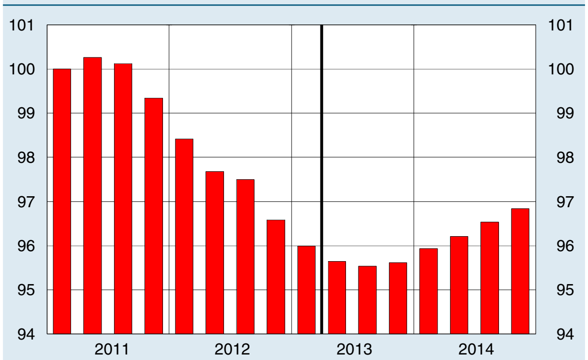
.... but economic activity will stabilize in the second half

The pace of economic activity is expected to steady in the second half of the year (Figure 28). Overall, given inertial effects, the estimate of GDP growth in 2013 has been revised downwards by nearly 1

Figure 28

GDP projections: quarterly profile (1)

(levels; 2011Q1=100)



Sources: Based on Bank of Italy and Istat data.
(1) Adjusted for seasonal and calendar effects. Through the first quarter of 2013, historical data; for subsequent quarters, projections.

percentage point compared with the January forecast. GDP is now expected to contract by 1.9 per cent on average this year and return to a moderate expansion of 0.7 per cent in 2014 (Table 8).

Output should return to growth in 2014 ...

The recovery is expected to strengthen gradually in the course of next year, thanks to a modest pick-up in investment and an acceleration in foreign trade, which will regain the average growth rates of the pre-crisis decade (see the box "Technical assumptions and the international context"). In this scenario productive investment should be favoured by the improvement in firms' liquidity (thanks to the payment of general government debts) and, to a lesser extent, by the additional measures taken by the Government at the end of June to sustain growth.

... assuming effective implementation of the policy measures already decided

According to our estimates the provision concerning general government commercial debts could, if implemented effectively, increase GDP growth by 0.1 percentage points this year and 0.5 points in 2014. However, these projections are subject to considerable uncertainty, given the difficulty of anticipating the way in which firms will use these funds and the possibility of delays in their actual payment (see the box "The macroeconomic impact of the unfreezing of general government debts", *Economic Bulletin,* April 2013).

Table 8

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

	2012	2013	2014
GDP (1)	-2.4	-1.9	0.7
Household consumption	-4.3	-2.3	-0.1
Government consumption	-2.9	-1.4	-0.2
Gross fixed investment	-8.0	-6.2	2.1
Total exports	2.2	0.2	3.9
Total imports	-7.8	-3.1	2.8
Change in stocks (2)	-0.6	-0.1	0.0
HICP (3)	3.3	1.5	1.5
Export competitiveness (4)	3.5	-2.2	-0.4

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

TECHNICAL ASSUMPTIONS AND THE INTERNATIONAL CONTEXT

Our macroeconomic scenario is based on growth assumptions for world GDP and world trade in line with those underlying the projections for the euro area presented by the ECB in the June issue of its *Monthly Bulletin,* updated to take account of the latest cyclical developments.

Foreign demand, weighted according to the outlet markets for Italian exports, is forecast to remain weak this year and to accelerate to growth of just over 4 per cent in 2014. The cyclical upswing is expected to be stronger in the economies outside the euro area, while growth within the area will be held back by the adjustment of budget imbalances in government and the private sector. These forecasts do not diverge significantly from the recent projections of the leading international organizations (OECD, IMF and European Commission).

The assumptions for exchange rates, interest rates and oil prices are updated in the light of the market data in the ten working days up to 10 July. On the basis of futures contracts, the price of a barrel of Brent crude oil is assumed to decline slightly over the forecasting horizon to $105 this year and $99 in 2014.

Three-month interest rates, calculated on the basis of Euribor futures, are assumed to fall to an average of 0.3 per cent in 2013 and come marginally back up in 2014; the interest rate on twelve-month Italian Treasury bills is set at just over 1 per cent on average over the two years. We hypothesize that long-term interest rates (corresponding to the yield on a basket of government securities with a duration of about six years) will fall to about 4 per cent in 2013 and then rise to nearly 5 per cent in 2014. For exchange rates the assumption is that the bilateral rates will remain unchanged at the average levels recorded in the last two weeks, with a dollar-euro exchange rate of $1.30 over the entire forecasting horizon.

The macroeconomic scenario incorporates the effects of the measures for the payment of past general government debts and the postponement of the rise in VAT rates to October 2013.

Foreign demand will sustain growth

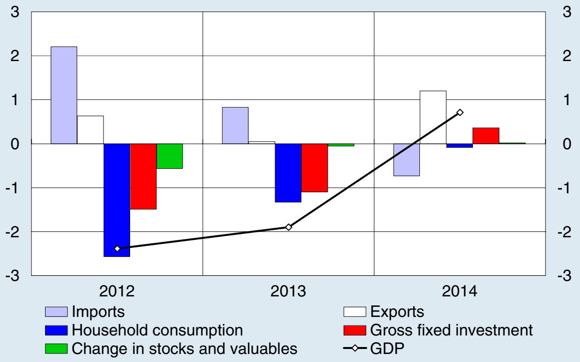
After the sudden decline of the first quarter, foreign sales will return to growth in line with the latest cyclical indicators and the expected expansion of world trade. Exports are forecast to be virtually stagnant for 2013 as a whole and to grow by nearly 4 per cent in 2014, driven above all by demand from outside the euro area. There will be a slight slippage in the market shares of Italian products, which will be penalized by the appreciation of the euro.

Firms could begin investing again in 2014

Investment, which was still contracting sharply in the first half of this year, is expected to stabilize in 2014, thanks above all to the injection of liquidity from the payment of general government commercial debts. On average for the year investment will record a contraction of about 6 per cent in 2013 and return to growth of around 2 per cent in 2014, thanks to the improved outlook for foreign demand and the stabilization of domestic demand (Figure 29).

Figure 29

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



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

The improvement in the credit market will be slow

Over our forecasting horizon, investment will be held back by persistent strains in the credit market. Our projections assume that the tightening of lending standards will ease in the course of 2013, but only gradually. The decline in lending to firms should continue this year at about the same pace as in 2012. Lending to households is forecast to diminish on average this year but less steeply. Lending rates are forecast to hold practically constant this year and next, as the effects of the narrowing of sovereign spreads will be largely offset by deterioration in private sector creditworthiness.

Consumer spending will remain weak

Household spending will continue to be weighed down by declining real disposable income and the great uncertainty surrounding the labour market, which will prompt precautionary saving. The forecast projects consumption to decline by just over 2 per cent this year and to stabilize in 2014, when a modest recovery in disposable income will be accompanied by a rise in the saving rate.

The labour market feels the effects of the recession

Conditions in the labour market are expected to continue to worsen throughout this year. A timid employment recovery, with the usual lag behind the upturn in economic activity, is expected in the second half of 2014. The number of persons in work will fall by around 1.5 per cent over the two years; given the expected modest expansion of the labour force owing to discouragement, the unemployment rate will continue to rise, reaching almost 13 per cent in 2014.

The external current account will return to surplus

The weakness of domestic demand will impact on imports, which are projected to fall by 3 per cent this year and to return to growth, albeit slower than that in exports, in 2014. The current account of the balance of payments should become positive this year and reach a surplus of about 1 per cent of GDP in 2014. One contributing factor will be the improvement in the terms of trade. The decline in oil prices and the appreciation of the euro should reduce the energy deficit by about 0.5 per cent of GDP.

Fiscal consolidation proceeds

The budget packages enacted in the second half of 2011 have enabled Italy to exit from the excessive deficit procedure opened in 2009. By our estimate, net borrowing will be practically unchanged this year in relation to GDP, despite outlays in connection with the payment of general government commercial debts valued at about half a percentage point of GDP.

Inflation will be well below 2 per cent

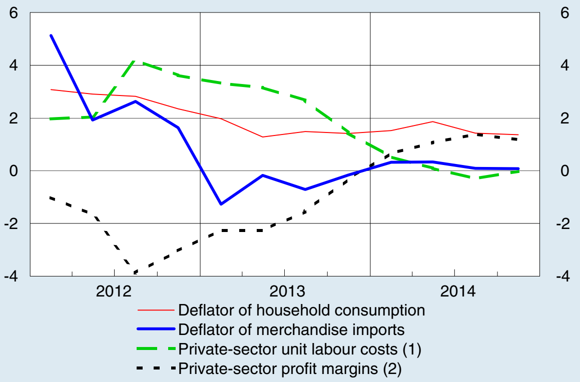
Inflationary pressures will ease further in the coming months and will remain modest next year, thanks in part to the decline in energy commodity prices. Inflation, gauged by the harmonized index of consumer prices (HICP), is expected to come down to 1.5 per cent on average in 2013 and to stay at that level in 2014. The forecasting scenario incorporates the rise in VAT rates now scheduled for 1 October, which would affect inflation by an estimated 0.1 percentage points this year and 0.3 points in 2014. Domestic inflation, proxied by the private sector value added deflator, is projected to come to around 1 per cent in 2013 and to rise slightly in 2014. The increase is expected to be due entirely to profit margins, which should begin to widen again towards the end of this year. Unit labour costs, by contrast, are forecast to slow down in the second half of 2013 and stagnate in 2014, thanks to the cyclical gain in productivity and the moderate rise in per capita earnings, which in the private sector will barely outpace inflation in 2014 (Figure 30).

The differences with respect to the other main forecasters are small

With respect to the average of the other main forecasters whose projections have been released in the last month, our estimates of economic activity are only marginally more negative for this year and slightly more optimistic for 2014 (Table 9).

Figure 30

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



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

Table 9

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

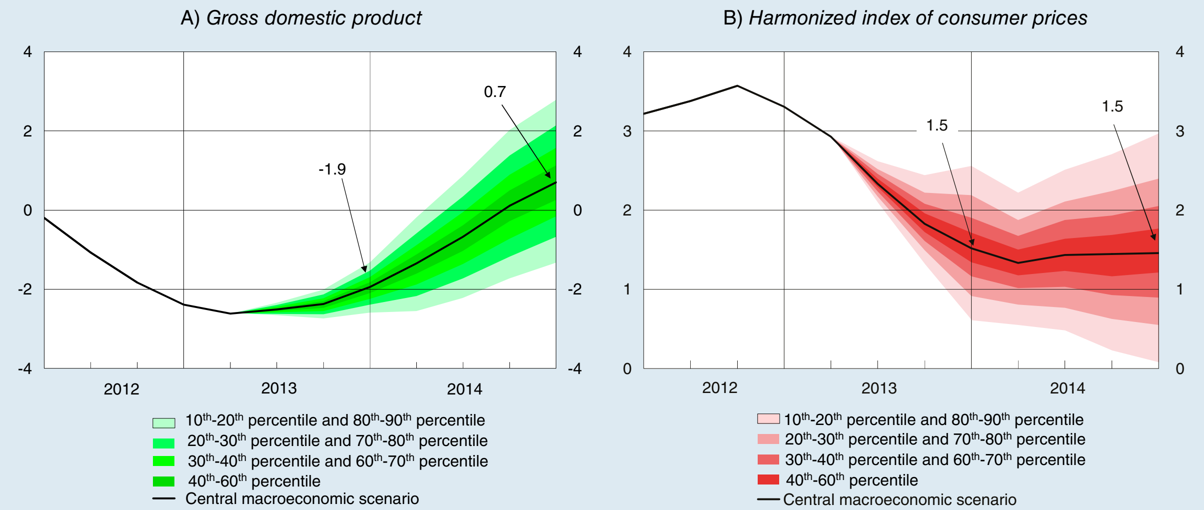
	GDP (1)		Inflation (2)	
	2013	2014	2013	2014
OECD (May)	-1.8	0.4	1.6	1.2
European Commission (May)	-1.3	0.7	1.6	1.5
IMF (July)	-1.8	0.7	2.0	1.4
Consensus Economics (July)	-1.8	0.4	1.5	1.6

Sources: OECD, *Economic Outlook*, May 2013; European Commission, *European Economic Forecast – Spring 2013*, May 2013; IMF, *World Economic Outlook Update*, July 2013, for GDP and *World Economic Outlook*, April 2013, for inflation; Consensus Economics, *Consensus Forecasts*, July 2013.
(1) The growth rates given in the OECD forecasts are adjusted for calendar effects; those of the European Commission and the IMF are not. – (2) HICP.

Figure 31

Distribution of probabilities of GDP and HICP projections (1)

(quarterly data; percentage changes on year-earlier period; 4-term moving average)



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

The difference with respect to the less recent forecasts for this year is more substantial and is due mainly to the inclusion of the GDP estimate for the first quarter published in June, which was worse than most analysts had expected. The difference as regards 2014, by contrast, depends largely on our more positive assessment of the impact of the unfreezing of general government payments. All the main forecasters predict a low-inflation scenario in 2013-14, well under the 2 per cent threshold.

The forecasting scenario is marked by considerable uncertainty

The macroeconomic scenario described here is surrounded by considerable forecasting uncertainty (Figure 31). The projected recovery in economic activity late this year or early next is subject to downside risks, mostly in connection with the outlook for the world economy, firms' liquidity conditions and the terms of credit supply. Foreign demand could prove to be weaker than projected if growth in the main emerging economies slows down and the cyclical weakness in Europe persists. Our scenario also depends on the full implementation and the effectiveness of economic policy measures. The provision for unfreezing the payment of general government commercial debts could be less effective than expected if the payment schedules are not met or if firms, given ample spare capacity and feeble demand, set a substantial portion of the funds aside for precautionary purposes. Finally, the timing and strength of the economic recovery could be jeopardized by an increase in spreads on Italian government securities, which owing to the scale of the public debt and the poor prospects for economic growth remain sensitive to variations in investors' confidence and the assessments of analysts. Achieving the fiscal adjustment objectives is a necessary condition for the containment of risk premiums, which must also be shielded from the possible adverse effects of uncertainties about the domestic situation. An increase in spreads would have repercussions on banks' funding and hence on the availability and cost of credit to firms and households.

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	-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
2009	2.4	1.8	1.3	0.6	0.1	-0.2	..	2.8	2.9	11.1	12.5	-0.5	1.5
2010	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
2011	2.2	1.9	1.3	-1.7	-0.3	8.7	1.1	2.1	2.2	3.4	2.4	..	0.1
2012	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
2010 – Q1	2.2	2.6	1.8	2.8	0.6	14.5	1.6	3.9	4.0	9.6	20.2	-1.8	0.1
Q2	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
Q3	2.4	4.1	2.8	-4.4	-0.9	7.6	0.9	1.1	1.2	10.0	..	1.2	-1.6
Q4	0.1	3.1	2.2	-7.0	-1.5	-1.3	-0.1	..	0.1	5.7	4.3	0.0	-0.5
2011 – Q1	2.5	1.0	0.7	-0.8	-0.2	12.4	1.4	1.9	2.0	4.1	0.1	0.5	..
Q2	1.3	1.7	1.2	-2.9	-0.6	15.5	1.8	1.2	1.3	6.1	4.7	0.0	-1.1
Q3	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
Q4	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
2012 – Q1	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
Q2	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
Q3	0.4	1.8	1.3	-7.0	-1.4	14.0	1.7	..	0.1	-2.8	-4.2	0.3	-1.5
2013 – Q1	1.8	2.6	1.8	-4.8	-0.9	3.0	0.4	1.8	1.9	-1.1	-0.4	-0.1	0.6

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

Table A2

Sources and uses of income: Japan (1)

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

	GDP	Resident households' expenditure		General government consumption expenditure		Investment		Domestic demand (2)		Exports	Imports	Net exports	Stocks
	Change	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Contri-bution	Change	Change	Contri-bution	Contri-bution
2008	-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
2009	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
2010	-0.6	0.4	0.3	1.4	0.3	1.1	0.2	0.3	0.3	-0.4	5.9	-0.9	-0.5
2011	1.9	2.3	1.4	2.4	0.5	4.4	0.9	2.8	2.8	-0.1	5.4	-0.9	..
2012	5.5	2.1	1.2	-2.4	-0.5	0.8	0.2	3.5	3.4	27.3	11.1	2.1	2.4
2010 – Q1	4.0	0.2	0.1	6.0	1.1	4.2	0.8	4.0	3.9	20.7	22.6	0.2	1.7
Q2	6.1	5.6	3.3	1.2	0.2	4.8	0.9	6.0	5.7	8.3	7.1	0.3	1.3
Q3	-1.2	-0.9	-0.5	1.9	0.4	-3.7	-0.7	-0.9	-0.9	0.6	3.2	-0.3	..
Q4	-7.9	-6.3	-3.7	0.3	0.1	-2.5	-0.5	-6.8	-6.9	-3.0	5.4	-1.2	-2.5
2011 – Q1	-3.3	3.8	2.2	1.4	0.3	-1.3	-0.3	0.8	0.8	-25.6	-1.6	-4.2	-1.4
Q2	11.2	5.8	3.5	0.9	0.2	7.0	1.4	7.5	7.3	42.2	13.7	3.6	2.5
Q3	0.8	2.7	1.6	1.2	0.2	19.6	3.7	3.8	3.7	-11.5	6.8	-2.9	-1.8
Q4	4.8	3.4	2.0	5.9	1.2	-1.8	-0.4	4.4	4.4	11.4	8.4	0.3	1.6
2012 – Q1	-0.6	0.8	0.5	0.8	0.2	6.1	1.3	0.6	0.6	-0.2	7.2	-1.2	-1.3
Q2	-3.6	-1.6	-1.0	1.4	0.3	-4.5	-1.0	-1.2	-1.2	-16.5	-1.2	-2.5	0.5
Q3	1.2	1.8	1.1	2.6	0.5	0.8	0.2	1.4	1.5	-11.3	-8.5	-0.3	-0.3
2013 – Q1	4.1	3.6	2.2	1.7	0.4	0.7	0.1	2.5	2.6	16.1	4.0	1.5	-0.1

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

Table A3

Sources and uses of income: euro area (1)

(percentage changes on the previous period)

	Sources			Uses					
	GDP	Imports	Total	Gross fixed capital formation			Resident households' consumption expenditure (2)	General government consumption expenditure	Exports
				Construction	Machinery, equipment, sundry products & vehicles	Total			
	Chain-linked volumes								
2007	3.0	6.2	3.9	3.0	8.2	5.2	1.7	2.2	6.6
2008	0.4	0.9	0.5	-2.9	0.8	-1.4	0.4	2.3	1.1
2009	-4.4	-11.1	-6.3	-9.9	-16.7	-12.7	-1.0	2.6	-12.4
2010	2.0	9.7	4.1	-4.3	5.5	-0.3	1.0	0.8	11.2
2011	1.5	4.2	2.3	-0.5	3.9	1.4	0.2	-0.1	6.3
2012	-0.6	-0.8	-0.7	-4.9	-3.6	-4.3	-1.3	-0.4	2.7
2011 – Q1	0.7	1.5	0.9	2.6	1.7	2.2	..	-0.2	1.8
Q2	0.2	-0.1	0.1	-1.1	0.4	-0.4	-0.5	..	0.5
Q3	0.1	0.5	0.2	-1.1	0.3	-0.5	0.3	-0.1	1.3
Q4	-0.3	-1.4	-0.6	-0.6	-0.5	-0.6	-0.8	0.1	..
2012 – Q1	-0.1	..	..	-1.5	-1.0	-1.3	-0.2	-0.1	0.8
Q2	-0.2	0.3	..	-2.0	-1.6	-1.8	-0.5	-0.3	1.5
Q3	-0.1	0.2	..	-0.6	-1.1	-0.8	-0.1	-0.1	0.8
Q4	-0.6	-1.2	-0.8	-1.5	-1.5	-1.5	-0.6	..	-0.9
2013 – Q1	-0.3	-1.2	-0.6	-1.8	-2.0	-1.9	..	-0.2	-0.9
	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	1.0	-6.3	....	....	....	-0.3	-0.4	2.1	-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	1.3	2.4	....	....	....	1.2	2.1	1.0	1.6
2011 – Q1	0.4	2.8	....	....	....	0.7	0.7	0.5	1.6
Q2	0.4	0.8	....	....	....	0.4	0.6	0.4	0.4
Q3	0.3	0.2	....	....	....	0.4	0.4	..	0.3
Q4	0.3	0.7	....	....	....	0.5	0.8	0.7	0.3
2012 – Q1	0.3	1.5	....	....	....	0.3	0.6	0.1	0.9
Q2	0.4	-0.1	....	....	....	..	0.3	0.5	-0.1
Q3	0.3	0.3	....	....	....	0.2	0.3	0.1	0.5
Q4	0.3	..	....	....	....	0.2	0.6	-0.2	-0.1
2013 – Q1	0.6	-0.5	....	....	....	0.1	0.1	1.1	-0.2

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
2011 – Q1	0.2	-1.2	-0.1	0.9	0.9	0.9	-0.2	-0.6	1.0
Q2	0.1	-2.2	-0.4	-1.7	0.4	-0.7	-0.1	-0.5	0.2
Q3	-0.1	-1.2	-0.4	-1.0	-1.7	-1.4	-0.5	-0.6	1.1
Q4	-0.7	-2.5	-1.1	-0.7	-3.7	-2.2	-1.0	0.2	0.8
2012 – Q1	-1.0	-3.3	-1.6	-3.6	-3.6	-3.6	-1.8	-2.0	..
Q2	-0.6	-0.7	-0.7	-0.8	-2.2	-1.4	-0.9	-0.5	0.6
Q3	-0.3	-1.8	-0.6	-1.1	-1.3	-1.2	-1.2	-0.4	1.1
Q4	-0.9	-1.1	-1.0	-1.4	-2.2	-1.8	-0.8	0.1	0.1
2013 – Q1	-0.6	-1.6	-0.9	-3.9	-2.7	-3.3	-0.5	0.1	-1.9
	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
2011 – Q1	0.4	4.4	1.3	1.8	1.3	1.5	0.8	-0.1	1.9
Q2	0.7	1.6	0.9	0.7	0.8	0.7	0.8	0.5	1.3
Q3	0.3	0.2	0.3	0.7	0.2	0.4	0.6	-0.7	0.5
Q4	0.3	0.7	0.4	0.5	..	0.3	1.0	0.2	-0.1
2012 – Q1	0.4	2.2	0.8	0.8	..	0.4	0.6	0.4	1.0
Q2	0.7	-0.7	0.3	0.4	-0.2	0.1	0.6	0.4	0.3
Q3	0.1	0.9	0.2	0.1	-0.1	..	0.6	-0.2	0.2
Q4	0.5	-0.3	0.3	0.4	0.2	0.3	0.5	-0.6	-0.1
2013 – Q1	0.4	-0.8	0.2	0.1	0.1	0.1	0.3	1.8	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		
2010	1.2	9.4	8.9	-0.4	-7.5
2011	2.4	2.5	3.4	0.9	-0.1
2012	3.6	0.9	-1.1	-2.0	2.6
2011 – Q1	1.3	4.5	6.8	2.2	-3.1
Q2	3.3	3.4	4.1	0.7	-0.1
Q3	2.6	2.4	3.2	0.7	0.2
Q4	2.6	0.3	0.2	-0.1	2.2
2012 – Q1	2.5	0.2	-0.8	-1.0	2.2
Q2	4.1	1.3	-1.0	-2.3	2.8
Q3	4.0	1.5	-0.8	-2.3	2.4
Q4	3.9	1.2	-1.3	-2.5	2.6
2013 – Q1	4.8	1.3	-2.1	-3.3	3.5
			Services		
2010	1.2	0.6	1.2	0.6	0.6
2011	1.6	0.5	1.4	0.9	1.0
2012	1.8	0.6	0.1	-0.6	1.1
2011 – Q1	1.1	0.4	1.5	1.1	0.7
Q2	1.8	0.6	1.5	0.9	1.1
Q3	1.7	0.5	1.4	0.9	1.2
Q4	1.7	0.5	1.2	0.6	1.2
2012 – Q1	2.2	0.9	0.6	-0.3	1.3
Q2	1.9	1.0	0.2	-0.8	0.9
Q3	2.0	0.2	-0.1	-0.4	1.7
Q4	1.4	0.5	-0.2	-0.8	0.8
2013 – Q1	2.4	1.0	-0.4	-1.3	1.4
			Total economy		
2010	1.2	2.1	2.1	..	-0.8
2011	1.9	1.3	1.7	0.3	0.6
2012	2.4	0.8	-0.5	-1.3	1.5
2011 – Q1	1.3	1.5	2.4	0.9	-0.2
Q2	2.3	1.6	1.8	0.3	0.7
Q3	2.1	1.3	1.6	0.3	0.7
Q4	2.1	1.0	0.9	-0.1	1.1
2012 – Q1	2.4	1.0	..	-0.9	1.4
Q2	2.6	1.2	-0.3	-1.5	1.3
Q3	2.6	0.6	-0.6	-1.2	1.9
Q4	2.1	0.7	-0.8	-1.5	1.4
2013 – Q1	3.1	1.2	-1.0	-2.2	1.9

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		
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
2011 – Q1	2.4	3.6	4.6	1.0	-1.1
Q2	2.8	2.0	2.8	0.8	0.8
Q3	2.7	1.3	1.0	-0.3	1.4
Q4	0.1	-2.4	-1.4	1.1	2.5
2012 – Q1	2.0	-0.1	-3.1	-3.0	2.1
Q2	3.1	-1.3	-4.4	-3.1	4.4
Q3	3.2	-1.0	-2.8	-1.8	4.3
Q4	4.1	0.1	-3.9	-4.0	4.0
2013 – Q1	4.7	0.5	-3.2	-3.8	4.1
			Services		
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
2011 – Q1	1.3	0.8	0.7	-0.2	0.5
Q2	-0.1	-0.4	0.9	1.3	0.3
Q3	0.1	-0.8	0.8	1.6	0.9
Q4	-0.3	-0.9	0.4	1.3	0.6
2012 – Q1	0.8	0.9	-0.4	-1.3	-0.1
Q2	..	-0.4	-1.1	-0.8	0.3
Q3	..	-3.0	-1.8	1.3	3.1
Q4	0.6	-1.4	-1.6	-0.2	2.1
2013 – Q1	1.7	-1.3	-1.4	-0.1	3.1
			Total economy		
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
2011 – Q1	1.7	1.5	1.3	-0.2	0.2
Q2	0.8	0.2	1.0	0.7	0.6
Q3	0.8	-0.3	0.5	0.8	1.1
Q4	-0.1	-0.9	-0.2	0.7	0.9
2012 – Q1	1.3	0.7	-1.4	-2.1	0.5
Q2	1.0	-0.2	-2.0	-1.9	1.2
Q3	1.0	-2.0	-2.3	-0.4	3.0
Q4	1.7	-0.7	-2.4	-1.7	2.4
2013 – Q1	2.6	-0.1	-2.0	-1.9	2.7

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

(indices, 2005=100; percentage changes on the year-earlier period)

	France		Germany		Italy		Spain		Euro area (1)	
	Total	Total excl. energy and unpro-cessed food products	Total	Total excl. energy and unpro-cessed food products	Total	Total excl. energy and unpro-cessed food products	Total	Total excl. energy and unpro-cessed food products	Total	Total excl. energy and unpro-cessed food products
2010	1.7	0.9	1.2	0.6	1.6	1.5	2.1	0.9	1.6	1.0
2011	2.3	1.3	2.5	1.5	2.9	2.2	3.1	1.6	2.7	1.7
2012	2.2	1.7	2.1	1.4	3.3	2.3	2.4	1.6	2.5	1.8
2010 – Jan.	1.2	0.9	0.8	0.8	1.3	1.4	0.7	-0.4	0.9	0.8
Feb.	1.4	1.1	0.5	0.7	1.1	1.2	0.4	-0.5	0.8	0.7
Mar.	1.7	1.0	1.2	0.9	1.4	1.4	2.7	1.6	1.6	1.1
Apr.	1.9	0.9	1.0	0.3	1.6	1.7	2.4	0.8	1.6	0.8
May	1.9	0.8	1.2	0.6	1.6	1.5	2.5	0.9	1.7	0.9
June	1.7	0.9	0.8	0.6	1.5	1.5	2.1	1.1	1.5	1.0
July	1.9	1.0	1.2	0.5	1.8	1.7	1.8	0.6	1.7	1.0
Aug.	1.6	0.8	1.0	0.6	1.8	1.7	1.6	0.7	1.6	1.0
Sept.	1.8	1.0	1.3	0.6	1.6	1.5	2.8	2.1	1.9	1.2
Oct.	1.8	1.0	1.3	0.7	2.0	1.7	2.5	1.4	1.9	1.1
Nov.	1.8	1.0	1.6	0.8	1.9	1.6	2.3	1.1	1.9	1.2
Dec.	2.0	0.9	1.9	0.7	2.1	1.5	2.9	1.3	2.2	1.1
2011 – Jan.	2.0	0.9	2.0	0.9	1.9	1.2	3.0	1.4	2.3	1.2
Feb.	1.8	0.7	2.2	0.9	2.1	1.3	3.4	1.6	2.4	1.1
Mar.	2.2	1.0	2.3	1.0	2.8	2.1	3.3	1.6	2.7	1.5
Apr.	2.2	1.3	2.7	1.7	2.9	2.2	3.5	2.0	2.8	1.8
May	2.2	1.4	2.4	1.4	3.0	2.2	3.4	2.0	2.7	1.7
June	2.3	1.5	2.4	1.6	3.0	2.3	3.0	1.6	2.7	1.8
July	2.1	1.2	2.6	1.7	2.1	1.3	3.0	1.4	2.6	1.5
Aug.	2.4	1.4	2.5	1.6	2.3	1.5	2.7	1.3	2.5	1.5
Sept.	2.4	1.4	2.9	1.8	3.6	3.1	3.0	1.5	3.0	2.0
Oct.	2.5	1.6	2.9	1.7	3.8	3.0	3.0	1.6	3.0	2.0
Nov.	2.7	1.8	2.8	1.6	3.7	2.9	2.9	1.6	3.0	2.0
Dec.	2.7	2.0	2.3	1.6	3.7	2.9	2.4	1.4	2.7	2.0
2012 – Jan.	2.6	2.0	2.3	1.6	3.4	2.4	2.0	1.2	2.7	1.9
Feb.	2.5	1.9	2.5	1.8	3.4	2.3	1.9	1.1	2.7	1.9
Mar.	2.6	2.1	2.3	1.7	3.8	2.8	1.8	1.1	2.7	1.9
Apr.	2.4	1.9	2.2	1.7	3.7	2.6	2.0	1.1	2.6	1.9
May	2.3	1.9	2.2	1.7	3.5	2.6	1.9	1.2	2.4	1.8
June	2.3	1.9	2.0	1.4	3.6	2.6	1.8	1.3	2.4	1.8
July	2.2	1.9	1.9	1.3	3.6	2.8	2.2	1.5	2.4	1.9
Aug.	2.4	1.8	2.2	1.2	3.3	2.2	2.7	1.4	2.6	1.7
Sept.	2.2	1.6	2.1	1.2	3.4	2.1	3.5	2.0	2.6	1.6
Oct.	2.1	1.5	2.1	1.2	2.8	1.6	3.5	2.5	2.5	1.6
Nov.	1.6	1.2	1.9	1.3	2.6	1.6	3.0	2.4	2.2	1.5
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	1.2	2.4	1.8	2.8	2.3	2.0	1.5
Feb.	1.2	0.9	1.8	1.3	2.0	1.4	2.9	2.4	1.8	1.4
Mar.	1.1	0.9	1.8	1.8	1.8	1.5	2.6	2.4	1.7	1.6
Apr.	0.8	0.6	1.1	0.8	1.3	1.3	1.5	2.0	1.2	1.1
May	0.9	0.7	1.6	1.2	1.3	1.4	1.8	2.1	1.4	1.3
June	1.0	0.7	1.9	1.4	1.4	1.2	2.2	2.1	1.6	1.3

Source: Based on Eurostat data.
(1) 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	-54,516	-20,918	-9,218	-8,289	-5,425	-10,666	-556	-706	-70	220
2011	-48,259	-17,377	-5,671	-9,376	-4,549	-11,287	648	-407	-53	1,108
2012	-8,428	17,835	-741	-10,065	-5,360	-10,096	3,839	1,723	-95	2,211
2011 – 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	-13,441	-2,133	-2,542	-1,206	-1,241	-6,319	274	341	-12	-55
Q2	-553	5,395	960	-3,835	-1,319	-1,754	380	356	-2	26
Q3	728	6,170	1,677	-2,615	-1,444	-3,061	656	563	-1	94
Q4	4,838	8,403	-836	-2,409	-1,357	1,038	2,529	463	-80	2,145
2013 – Q1	-5,831	4,457	-1,992	-1,837	-522	-5,937	-2,555	-2,559	-17	21
2011 – 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.	-7,486	-3,968	-854	-346	-436	-1,882	133	156	-3	-20
Feb.	-4,396	-584	-852	-423	-352	-2,185	180	209	-3	-25
Mar.	-1,560	2,419	-836	-437	-453	-2,253	-40	-25	-6	-9
Apr.	-1,277	405	-29	-495	-371	-786	33	27	-1	6
May	-1,187	1,650	240	-2,264	-507	-307	65	51	..	15
June	1,910	3,340	748	-1,076	-441	-661	282	278	-1	5
July	4,201	5,350	974	-523	-476	-1,123	279	245	..	34
Aug.	-2,040	16	30	-590	-489	-1,007	208	177	..	32
Sept.	-1,433	804	673	-1,501	-478	-931	170	141	..	29
Oct.	1,292	2,955	47	-1,698	-509	497	885	173	-21	733
Nov.	1,336	2,879	-601	-730	-427	215	890	168	-21	743
Dec.	2,210	2,569	-282	19	-421	326	753	122	-38	669
2013 – Jan.	-4,057	-1,008	-746	-689	-303	-1,312	-592	-607	-3	18
Feb.	-1,350	1,635	-511	-495	-127	-1,852	-632	-640	-4	11
Mar.	-425	3,830	-736	-654	-93	-2,773	-1,330	-1,312	-9	-9
Apr.	(854)	(2,489)	(262)	(-1,014)	....	....	(-283)	....	....	....

Table A9

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-classifiable and non-classified units	Total
				medium and large	small (2)				
						producer households (3)			
					Centre and North				
2010 – Dec.	4.3	8.4	2.0	1.5	3.9	6.4	4.6	15.7	3.7
2011 – Sept.	1.5	-0.6	4.4	5.0	2.0	4.0	4.4	11.5	3.5
Dec.	-0.9	-2.4	2.3	3.0	-0.6	1.3	3.7	9.8	1.7
2012 – Mar.	2.6	4.8	-0.3	0.2	-2.4	-0.5	2.8	5.7	1.4
June	0.9	6.6	-1.6	-1.2	-3.5	-1.7	1.4	5.9	0.3
Sept.	5.7	8.9	-3.3	-3.1	-4.2	-2.6	0.7	3.7	0.2
Dec.	4.6	4.4	-2.2	-2.0	-2.9	-2.4	0.2	-1.6	0.0
2013 – Mar.	0.3	1.3	-2.6	-2.5	-3.2	-2.6	-0.2	-0.9	-1.2
Apr.	-0.8	-0.6	-3.6	-3.6	-3.5	-2.7	-0.2	-2.1	-2.1
May	0.1	-1.6	-3.8	-3.7	-3.8	-2.9	-0.3	-5.1	-2.2
					South and Islands				
2010 – Dec.	1.9	-3.9	5.3	6.2	3.1	3.2	5.3	0.9	4.9
2011 – Sept.	1.8	-12.7	5.4	6.5	2.4	2.6	4.9	2.5	4.6
Dec.	3.0	-10.4	3.5	4.4	1.0	1.2	3.9	3.2	3.4
2012 – Mar.	0.7	-9.0	1.1	1.9	-1.0	-1.0	2.5	-3.4	1.5
June	-2.3	-7.6	-0.7	-0.2	-2.0	-1.9	1.0	-3.0	-0.2
Sept.	-3.8	-8.5	-1.7	-1.3	-2.7	-2.9	0.4	-1.4	-1.1
Dec.	-1.7	-4.5	-2.1	-1.8	-2.9	-3.2	-0.4	-0.8	-1.4
2013 – Mar.	-2.5	-4.3	-2.1	-1.8	-2.9	-3.0	-0.8	1.9	-1.6
Apr.	-3.0	-2.9	-2.2	-2.0	-2.9	-3.0	-0.9	2.4	-1.8
May	-2.2	-2.5	-2.7	-2.5	-3.2	-3.2	-1.1	-0.9	-2.0
					ITALY				
2010 – Dec.	4.1	8.1	2.5	2.1	3.8	5.6	4.8	13.8	3.8
2011 – Sept.	1.5	-0.8	4.6	5.2	2.1	3.7	4.6	10.4	3.7
Dec.	-0.5	-2.6	2.5	3.2	-0.2	1.3	3.7	9.1	1.9
2012 – Mar.	2.4	4.5	-0.1	0.4	-2.1	-0.6	2.7	4.7	1.4
June	0.5	6.3	-1.4	-1.0	-3.2	-1.8	1.3	4.9	0.3
Sept.	4.7	8.5	-3.0	-2.8	-3.9	-2.7	0.6	3.2	0.0
Dec.	4.0	4.2	-2.2	-2.0	-2.9	-2.6	0.0	-1.5	-0.2
2013 – Mar.	0.0	1.2	-2.5	-2.4	-3.2	-2.7	-0.4	-0.7	-1.3
Apr.	-1.0	-0.6	-3.4	-3.4	-3.3	-2.8	-0.3	-1.7	-2.0
May	-0.2	-1.6	-3.6	-3.6	-3.6	-3.0	-0.5	-4.7	-2.1

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

Table A10

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

(millions of euros)

	Currency and deposits	*of which:* PO funds	Short-term securities	Medium and long-term securities	MFI loans	Other operations	*of which:* change in Treasury's liquid balances (2)	*of which:* investments of liquidity	Borrowing requirement	*of which:* financed abroad	*of which:* in connection with financial support to EMU countries (3)
2010	1,093	-4,809	-10,103	88,002	1,195	-10,336	-11,518	0	69,851	448	3,909
2011	-3,635	-3,116	1,319	43,101	-203	23,057	18,994	0	63,638	-1,518	9,209
2012	6,965	-1,314	20,417	24,884	182	13,236	-10,138	0	65,683	14,630	29,547
2010 – Mar.	-3,192	-1,413	10,530	28,479	1,565	-10,057	-9,568	0	27,325	170	0
June	1,216	-929	-636	22,875	-943	-2,921	-3,474	0	19,592	1,136	2,922
Sept.	-1,315	-1,219	-1,960	22,908	1,859	-2,281	-2,188	0	19,210	3,944	987
Dec.	4,384	-1,247	-18,037	13,740	-1,286	4,923	3,712	0	3,723	-4,802	0
2011 – Mar.	-1,984	-1,605	12,380	10,484	1,232	8,632	8,309	0	30,744	-1,271	4,746
June	1,147	-895	-5,607	32,821	1,129	-13,421	-15,502	0	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.	-1,932	695	-14,645	2,641	-747	18,756	11,525	30,665	4,072	2,049	12,464
2013 – Mar.	239	-1,443	4,992	42,536	-769	-11,105	-11,463	-10,746	35,893	295	1,074
2012 – Jan.	-473	-483	17,980	18,755	-1,250	-32,030	-32,573	-5,655	2,983	653	863
Feb.	-816	-102	8,533	-15,769	691	15,623	16,040	1,527	8,261	228	0
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	0
Sept.	1,979	-505	8,658	8,500	1,479	-9,217	-8,556	-4,886	11,400	1,398	0
Oct.	-1,449	-161	4,885	16,287	-184	-7,321	-6,971	7,501	12,217	-1,261	5,732
Nov.	-3,414	-264	1,970	5,621	872	-6,223	-6,235	5,805	-1,174	-85	0
Dec.	2,931	1,120	-21,500	-19,267	-1,435	32,300	24,731	17,359	-6,971	3,395	6,732
2013 – Jan.	1,501	-1,356	6,549	28,069	-1,408	-33,865	-33,717	-13,033	846	-244	384
Feb.	-3,915	8	266	-2,194	26	19,042	18,461	-110	13,225	551	691
Mar.	2,654	-94	-1,823	16,660	613	3,718	3,793	2,397	21,822	-11	0
Apr.	-3,348	-218	3,050	6,495	622	3,893	3,894	-1,111	10,712	-47	2,866
May	584	-286	3,613	24,909	301	-17,901	-20,398	-90	11,506	3,270	2,883

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" *Supplement to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) 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.

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:* Treasury's liquid balances (2)	*of which:* investments of liquidity	Deposits with resident MFIs net of liquidity transactions	Financial support to EMU countries (3)
2010	156,861	25,195	129,862	1,418,760	132,521	13,248	0	1,851,252	43,249	0	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	0	35,385	13,118
2012	160,191	20,765	151,600	1,503,654	132,500	40,685	26,925	1,988,629	34,394	0	27,187	42,665
2010 – Mar.	152,576	28,592	150,496	1,358,221	132,889	11,577	0	1,805,758	41,299	0	34,965	0
June	153,792	27,662	149,865	1,382,256	131,947	12,130	0	1,829,990	44,773	0	38,230	2,922
Sept.	152,477	26,443	147,911	1,403,642	133,807	12,037	0	1,849,873	46,961	0	36,568	3,909
Dec.	156,861	25,195	129,862	1,418,760	132,521	13,248	0	1,851,252	43,249	0	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	0	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	0	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	0	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	1,995,669	45,919	30,665	25,380	30,201
Dec.	160,191	20,765	151,600	1,503,654	132,500	40,685	26,925	1,988,629	34,394	0	27,187	42,665
2013 – Mar.	160,430	19,323	156,590	1,544,965	131,731	41,042	27,999	2,034,758	45,856	10,746	24,615	43,739
2012 – Jan.	152,752	21,596	149,162	1,493,167	131,069	17,854	3,974	1,944,004	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	1,995,669	45,919	30,665	25,380	30,201
Oct.	160,674	19,910	171,134	1,517,228	133,064	33,104	20,193	2,015,203	52,890	23,164	28,314	35,933
Nov.	157,260	19,646	173,102	1,523,593	133,936	33,116	20,193	2,021,007	59,125	17,359	27,925	35,933
Dec.	160,191	20,765	151,600	1,503,654	132,500	40,685	26,925	1,988,629	34,394	0	27,187	42,665
2013 – Jan.	161,691	19,409	158,147	1,531,194	131,092	40,537	27,309	2,022,660	68,110	13,033	26,353	43,048
Feb.	157,776	19,417	158,413	1,529,203	131,118	41,118	27,999	2,017,628	49,650	13,143	25,768	43,739
Mar.	160,430	19,323	156,590	1,544,965	131,731	41,042	27,999	2,034,758	45,856	10,746	24,615	43,739
Apr.	157,082	19,105	159,640	1,551,168	132,353	41,042	27,999	2,041,285	41,963	11,857	26,762	46,605
May	157,666	18,819	163,253	1,577,568	132,654	43,538	30,883	2,074,680	62,361	11,947	26,706	49,489

(1) For more information, see the Methodological Appendix in "The Public Finances, borrowing requirement and debt" *Supplement to the Statistical Bulletin*. – (2) Treasury deposits held at the Bank of Italy and investment of liquidity with the banking system. – (3) 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.